

KIRTANE & PANDIT

THE ECONOMIC

A Quarterly
Economic Review

March 2026



Positives

India remains the world's fastest-growing major economy, with the IMF projecting 7.3% for FY2025-26, a 70-bps upward revision. India's Q3 FY2025-26 GDP expands 7.8%, with full-year growth estimated at 7.6%, the highest in three years under the new 2022-23 base series.

Manufacturing PMI recovered to a 4-month high of 56.9 in February 2026, after a dip in December.

CPI inflation remains below the RBI's lower tolerance threshold of 2% for most of the second half of 2025, though it has risen above the threshold in recent months.

Fiscal consolidation is on track with the fiscal deficit at just 63% of the full-year target by January 2026, significantly lower than 74.5% at the same point last year.

Challenges

Global trade headwinds persist: protectionist policies, geopolitical uncertainty, and export market fragmentation weigh on India's goods export growth.

Merchandise trade deficit widened to an all-time high of US\$42 bn in October 2025, & Current account deficit persisted at 1.3-1.5% of GDP through H1 FY2025-26.

Net FDI turned negative for four consecutive months (September-December 2025), with Q3 FY2025-26 recording net FDI outflows of US\$3.8 bn, signalling cautious long-term investor sentiment.



Global GDP Estimates / Projections (%)

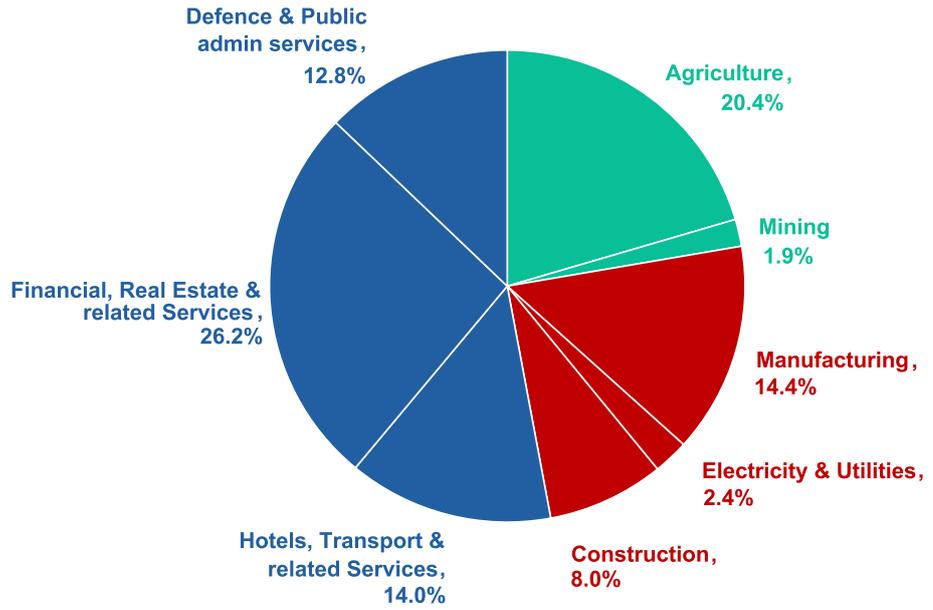
	2025 (E)	2026 (P)		2027 (P)	
		GDP Growth	Change from Q3	GDP Growth	Change from Q3
	3.3	3.3	0.2	3.2	0.0
Emerging Economies					
INDIA 	7.3	6.4	0.2	6.4	0.0
CHINA 	5.0	4.5	0.3	4.0	-0.2
RUSSIA 	0.6	0.8	-0.2	1.0	-0.1
NIGERIA 	4.2	4.4	0.2	4.1	0.1
BRAZIL 	2.5	1.6	-0.3	2.3	0.1
SAUDI ARABIA 	4.3	4.5	0.5	3.6	0.4
Advanced Economies					
SPAIN 	2.9	2.3	0.3	1.9	0.2
USA 	2.1	2.4	0.3	2.0	-0.1
CANADA 	1.6	1.6	0.1	1.9	0.0
UK 	1.4	1.3	0.0	1.5	0.0
FRANCE 	1.1	1.0	0.1	1.2	0.0
JAPAN 	1.1	0.7	0.1	0.6	0.0
GERMANY 	0.2	1.1	0.2	1.5	0.0



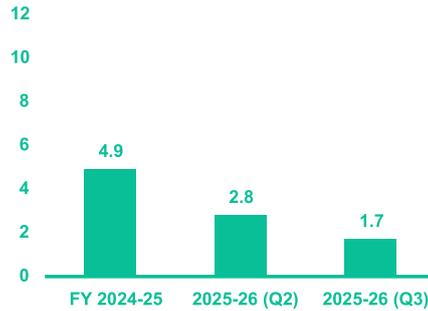
- Global GDP growth remains stable at around 3.3% in 2025 & 2026 and is expected to ease slightly to around 3.2% by 2027, indicating steady but moderate expansion amid tighter financial conditions and lingering policy uncertainty.
- Emerging economies are expected to continue driving global growth, with projections in the mid-4% range, supported by stronger domestic demand, infrastructure spending, and commodity-linked recoveries, though these may be subject to change amid evolving geopolitical conditions.
- India's GDP growth for 2025 has been revised upward to 7.3%, reflecting stronger-than-expected momentum in industrial activity and services. Growth is expected to moderate to around 6.4% in 2026 and 2027 as cyclical factors normalise, while remaining supported by resilient domestic demand and public investment.
- China's growth is expected to moderate from around 5% in 2025 to 4.5% in 2026 and about 4.0% in 2027, despite a short-term upward revision, reflecting a continued structural slowdown driven by property-sector weakness and softer external demand.
- Russia is expected to record subdued growth near 1%, with downward revisions signalling pressure from tighter policies, lower oil revenues, and weak domestic demand.
- Brazil is expected to slow sharply to around 1.6% in 2026 before recovering to above 2% in 2027, indicating near-term cyclical weakness followed by stabilisation. Mexico is expected to strengthen gradually above 2% in 2027, reflecting export resilience and US-linked demand.
- Among commodity exporters, Saudi Arabia is expected to record strong growth of around 4.5% in 2026 following a significant upward revision, supported by higher oil output and government spending, before growth moderates thereafter.
- Nigeria is also expected to maintain steady growth above 4%, aided by improving oil production and other macroeconomic adjustments.
- Advanced economies are expected to remain in the 1.7-1.8% growth range, reflecting tighter monetary policy transmission and slower productivity gains.
- The United States is expected to grow by around 2.4% in 2026, then ease to about 2.0%, reflecting cooling but resilient consumption.
- Spain is expected to sustain growth above 2% in 2026, supported by tourism and domestic demand. Germany is expected to rebound to around 1.5% growth by 2027 after earlier weakness, while France and the United Kingdom are projected to post modest growth near 1-1.5%.
- Japan is expected to remain among the slowest-growing advanced economies, with growth below 1%, reflecting demographic and structural constraints.

Data Sources

World Economic Forum, International Monetary Fund | Global Economic Prospects, World Bank



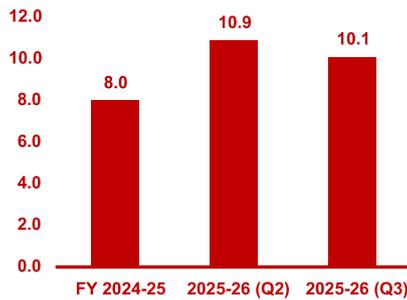
PRIMARY SECTOR



Agriculture accounted for 20.4% of nominal GVA in Q3, reflecting seasonal strength in agricultural activity. However, overall momentum remained on a downward slope, primarily due to underperformance in Agriculture, Livestock, Forestry & Fishing, which grew only by 1.4% in the third quarter of FY2025-26.



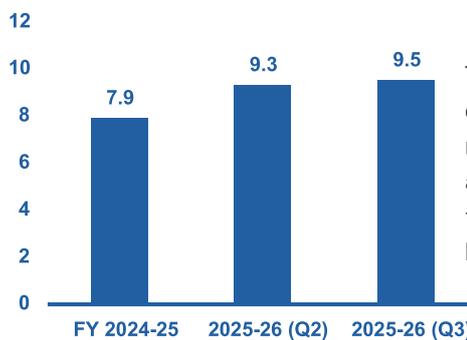
SECONDARY SECTOR



With Manufacturing contributing to 14.4% to nominal GVA, the secondary sector showed strong & stable performance during Q3. This offset the underperformance of the Utilities & Construction segments, which grew by 1.5% & 6.6%, respectively, in the latest quarter.

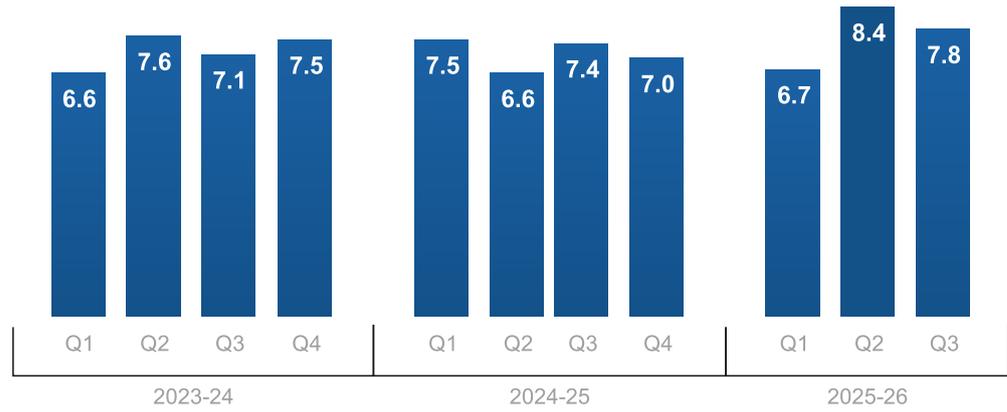


TERTIARY SECTOR



The services sector remained the dominant driver of economic activity in Q3. Financial, real estate and related services, along with the Hotels, transport and related services, grew by 11% or more, whereas the Defence and public administration services grew by 4.5% during the third quarter of FY2025-26.

QUARTERLY GDP RATES (%)



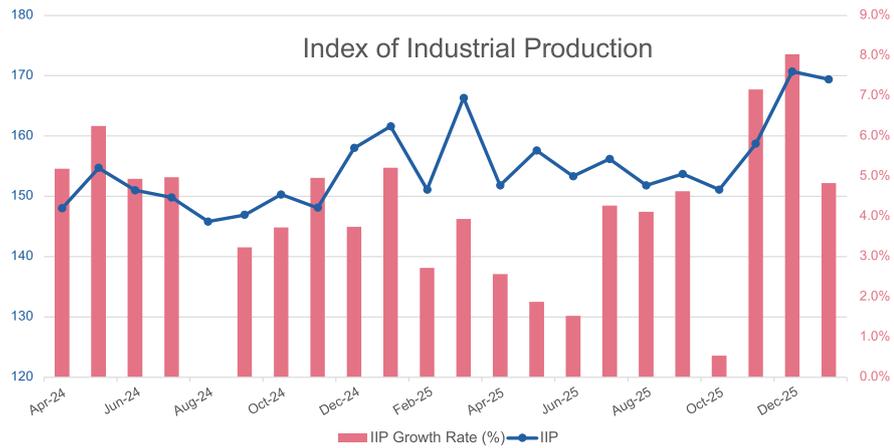
- In Q3 FY2025-26, India's GDP expanded 7.8%, the second-highest growth in the past eleven quarters (as evident from the New Series of Annual and Quarterly National Accounts Estimates with a base year of 2022-23), reflecting broad-based improvement across major sectors.
- Agriculture growth moderated to just 1.4% - the worst performance in the new series of Accounts - while Financial, real estate and related services posted the strongest performance with growth of 11.3% during the recent quarter. Manufacturing & Hotels, transport and related services remained strong with respective growth rates of 13.3% & 11%. Utilities & the Defence & public administration services relatively underperformed during the third quarter.

EXPENDITURE HIGHLIGHTS

- Private Consumption grew by 8.7% in the third quarter of FY2025-26, supported by steady urban demand and improved household spending during the festive quarter.
- Gross Fixed Capital Formation increased by 7.8%, reflecting sustained investment momentum and continued public infrastructure spending.
- Government Consumption growth moderated to 4.7% during the quarter, indicating relatively contained public spending, while overall growth remained supported by consumption and investment activity.

In line with international best practices, the Ministry of Statistics and Programme Implementation (MoSPI) has now released the New Series of Annual and Quarterly National Accounts Estimates with a base year of 2022-23, replacing the previous series with a base year of 2011-12. The FY2022-23 has been selected as the base year because it represents a recent normal year (after COVID) and provides robust, comprehensive data across sectors of the economy, making it an appropriate benchmark for the new series of Annual and Quarterly National Accounts Estimates.

INDUSTRY HIGHLIGHTS



- The Index of Industrial Production (IIP) strengthened in Q3 of FY2025-26, with growth rising sharply from 0.5% in October to 7.2% in November and 7.8% in December. This indicates a clear improvement in industrial momentum toward the end of the quarter, though it later moderated to 4.8% in January 2026.
- Manufacturing was the primary driver during Q3, recording strong expansion, particularly in November and December (around 8% growth in December), suggesting improved production activity and festive-season demand. Mining and electricity also rebounded in recent months after a weaker performance earlier in the year.
- PMI trends indicated some moderation, with Manufacturing PMI falling to a 2-year low in December before edging up slightly in January 2026. It further rose to 56.9 in February 2026 from 55.4 in January, as output growth accelerated, supported by stronger domestic demand, while new orders increased at the fastest pace since last November.
- In terms of use-based components, Infrastructure/Construction Goods led the growth, with 10%+ growth in 6 of the 7 most recent quarters. Even Consumer Durables showed significant growth in November & December 2025.

SERVICES HIGHLIGHTS

- The Services PMI remained firmly in expansionary territory during Q3 of FY2025-26, with values of 58.9 in October, 59.8 in November, and 58.0 in December, all well above the 50 threshold.
- Overall, Q3 trends suggest resilient services-sector momentum, supported by steady new orders and domestic demand, even as growth eased marginally toward the end of the quarter.
- In 2026, it edged down to 58.5 in January & 58.1 in February, pointing to a slightly slower but still strong expansion in services activity, with a notable acceleration in new export orders and international sales rising at the fastest pace since August 2025.



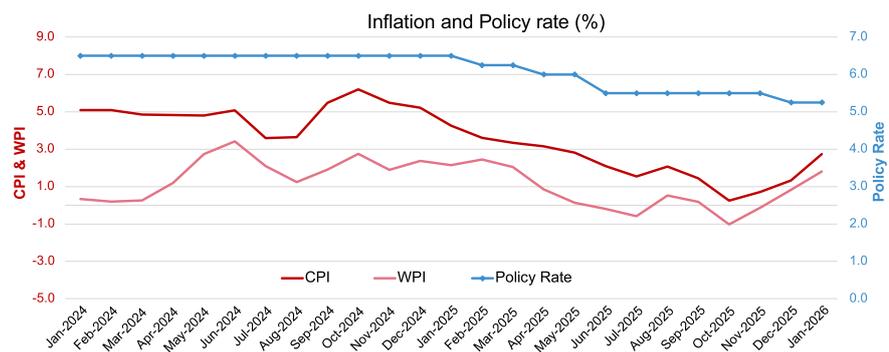
Data Sources
MOSPI | Purchasing Managers Index | Ministry of Commerce & Industry

CPI	Jan-Sept 2025 Avg	Oct-25	Nov-25	Dec-25	Jan-26 (2024 Series)
All Commodities	2.7	0.3	0.7	1.3	2.7
Consumer Food	1.1	(5.0)	(3.9)	(2.7)	2.1
Food and beverages	1.5	(3.7)	(2.8)	(1.7)	2.1
Pan tobacco & intoxicants	2.4	2.9	3.0	3.0	2.9
Clothing & footwear	2.6	1.7	1.5	1.4	3.0
Housing	3.0	3.0	3.0	2.9	1.5

WPI	Jan-Sept 2025 Avg	Oct-25	Nov-25	Dec-25	Jan-26
All Commodities	0.9	(1.0)	(0.1)	0.8	1.8
Primary Articles	(0.8)	(5.9)	(2.5)	0.2	2.2
Fuel & Power	(2.6)	(2.4)	(2.3)	(2.3)	(4.0)
Manufactured Products	2.5	1.7	1.5	1.8	2.9
Food	2.2	(5.0)	(2.5)	-	1.4

The Consumer Price Index (CPI) base has now been revised from 2012 to 2024, using the Household Consumption Expenditure Survey 2023-24, whereby 12 Divisions replace the earlier 6 Groups. New additions include rural housing, online media, dairy products, barley & barley products, pen drives & external hard disks, attendants, babysitters, & exercise equipment, etc. Whereas VCR/VCD/DVD players and charges, radio, tape recorders, second-hand clothing, audio/video cassettes, and coir/ropes are excluded.

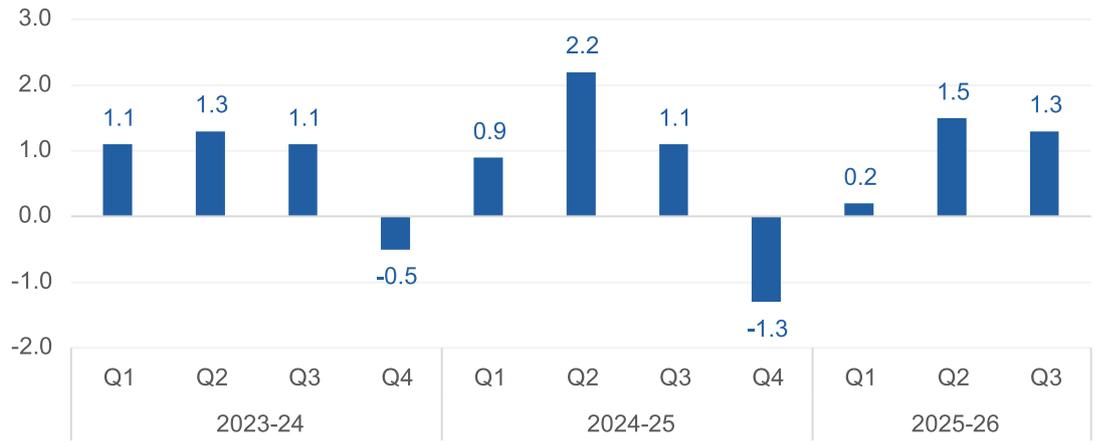
- Headline CPI inflation throughout at a historic low of 0.3% in October 2025, before normalising upward to 0.7%, 1.3% and 2.7% in the next three months. While it remained below the RBI's lower tolerance threshold of 2% during most of the second half of 2025, the trajectory signals a return above threshold levels rather than a sustained deflationary environment.
- Food inflation contributed most to keeping inflation below the threshold, with consumer food prices remaining in deflation through both the second & third quarters of FY2025-26. This reflected a sharp correction in vegetables and pulses, supported by favourable base effects and the normalisation of post-monsoon supply.
- Fuel & light inflation stayed positive but stable at close to 2% y/y during Q3, reflecting calibrated domestic retail price adjustments even as global crude prices remained largely subdued. Core inflation trends were mixed, with housing inflation broadly steady near 3% y/y, clothing and footwear moderating to around 1.5-2% y/y, and miscellaneous inflation remaining elevated at around 6% y/y, pointing to persistent services-led price pressures.



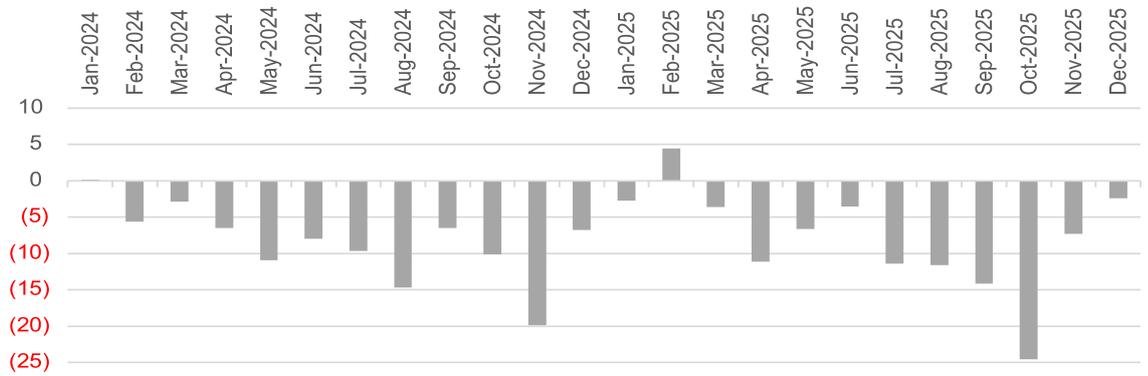
- WPI inflation remained in deflationary territory until November 2025, driven by continued contractions in Primary articles and Fuel & power, while inflation in Manufactured products remained positive throughout the year. Price rises in Primary articles & Manufactured products resulted in inflation of 0.8% & 1.8% in December 2025 & January 2026, respectively.
- As inflation rates reduced considerably, the Reserve Bank of India (RBI) reduced the repo rate by a cumulative 125 basis points from 6.5% (February 2025) to 5.25% (December 2025) through a series of four rate cuts, maintaining its overall stance unchanged - supportive but cautious.
- After a detailed assessment of the evolving macroeconomic and financial developments and the outlook in the latest Monetary Policy Committee meeting in February 2026, the RBI kept the policy repo rate unchanged at 5.25%, maintaining the neutral stance.

EXTERNAL SECTOR

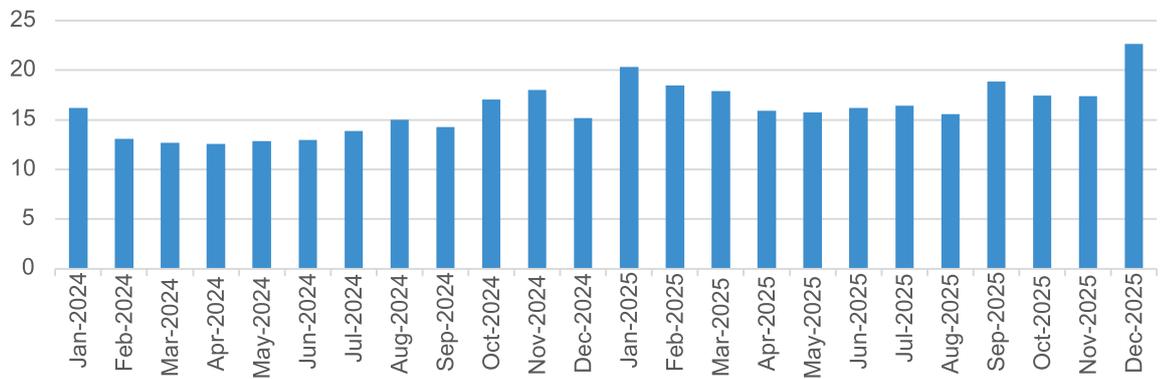
CURRENT ACCOUNT DEFICIT (% OF GDP)



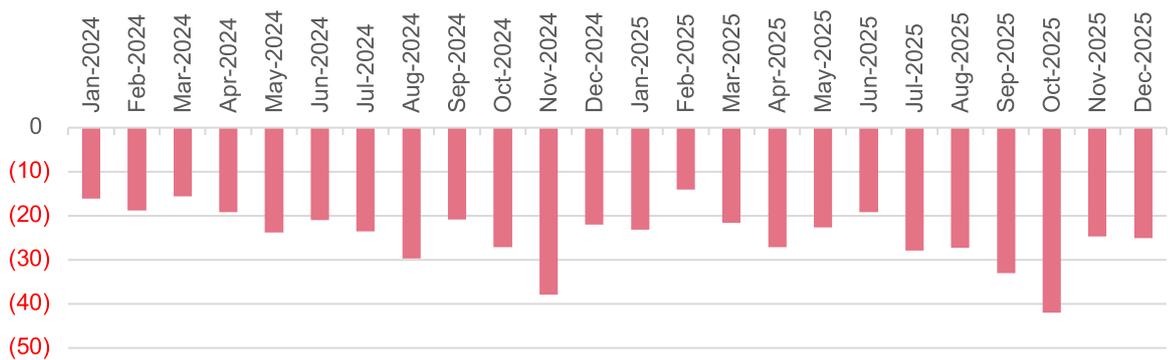
NET FOREIGN TRADE (US\$ Bn)



NET SERVICE TRADE (US\$ Bn)



NET MERCHANDISE TRADE (US\$ Bn)

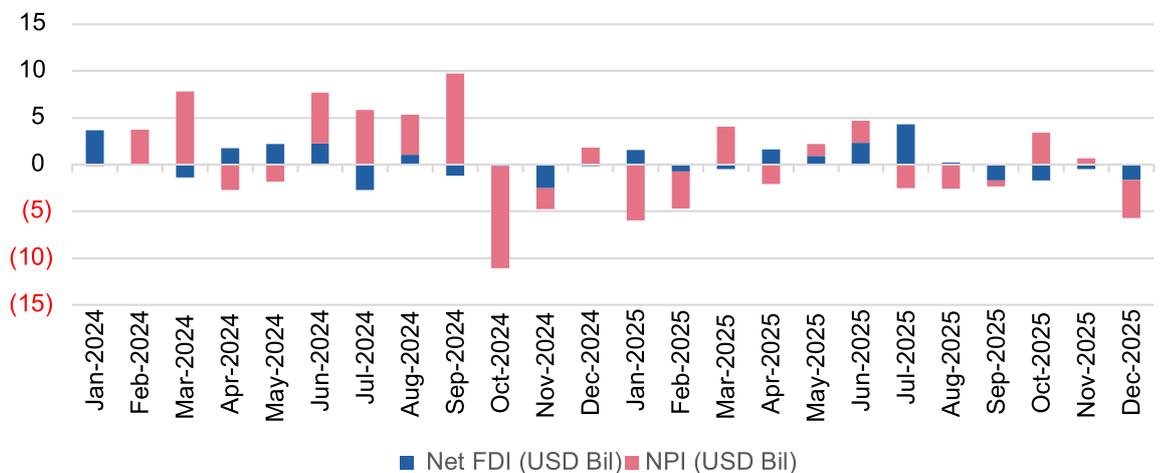


HIGHLIGHTS OF FOREIGN TRADE

- After a surplus of 1.3% in Q4 of FY2024-25, India's current account swung to a deficit of 0.2%, 1.5% & 1.3% of GDP, respectively, in the first three quarters of FY2025-26. The current account deficit for Q2 of 2025-26 was revised upward from US\$ 12.3 bn (1.3% of GDP) to US\$ 14.1 bn (1.5% of GDP) due to an upward revision to imports in Customs data. It was estimated at 1.3% of GDP (US\$ 13.2 bn) in Q3 of FY2025-26, up from 1.1% of GDP (US\$ 11.3 bn) in Q3 of FY2024-25.
- India's merchandise trade balance remained in deficit during the quarter, peaking at US\$ 42 bn in October, reflecting strong import demand & tepid export opportunities. The subsequent 2 months saw a significant reduction in imports, resulting in a monthly deficit of around US\$ 25 bn.
- Services trade continued to provide a cushion for the external sector, with the net services surplus remaining strong at around US\$ 17 bn in October-November 2025, rising to US\$ 22.7 bn in December 2025.
- Consequently, the overall trade deficit remained significantly contained despite the large merchandise gap, with total trade deficit reducing to US\$ 2.4 bn in December, the best performance in the recent 10 months.
- Overall, the fluctuations reflect the combined impact of global uncertainty, import rebalancing, and seasonal variations in export demand, with services exports partially offsetting the merchandise deficits.

HIGHLIGHTS OF FOREIGN INVESTMENTS

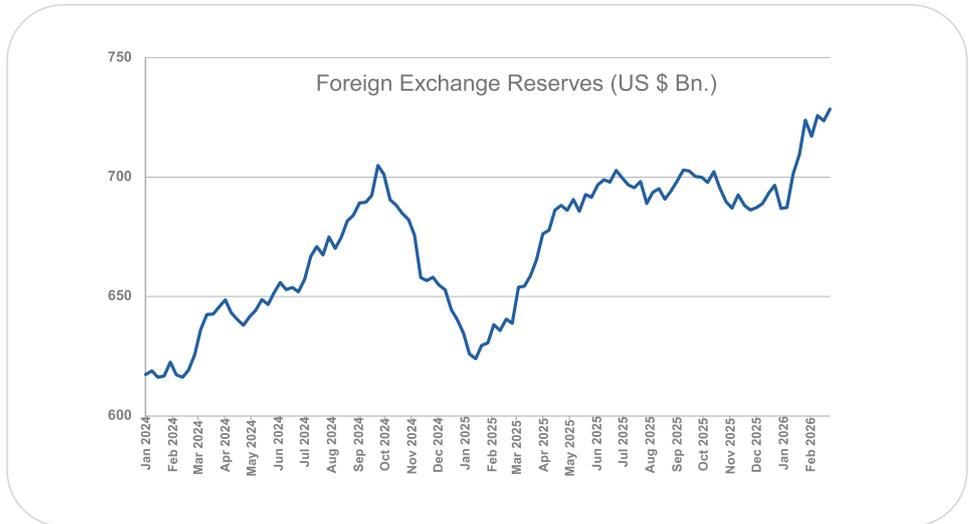
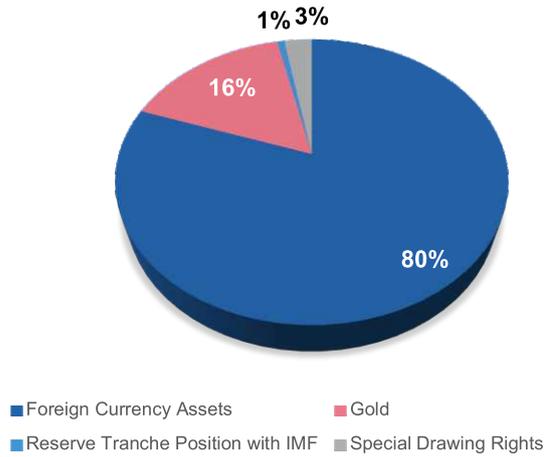
Foreign Investments in India



- Net FDI inflows weakened during the quarter, with net outflows of US\$ 3.8 bn, indicating subdued long-term investment sentiment. The net outflow of US\$ 1.6 bn in December 2025 marks the fourth consecutive month of negative foreign direct investment.
- Net portfolio investment (NPI) flows remained volatile, recording net inflows of US\$ 3.4 bn in October and US\$ 0.7 bn in November, before reversing to net outflows of US\$ 4.1 bn in December 2025. The sharp portfolio outflow in December primarily reflects global risk-off sentiment, elevated US Treasury yields, and broader reallocation of institutional capital toward high-growth technology markets.

- Relative to Q2 of FY2025-26, Q3 witnessed weaker FDI performance and increased volatility in portfolio flows, particularly towards the end of the quarter.
- India's foreign exchange reserves rose during January–February 2026, increasing from US\$ 686.8 bn in early January to US\$ 725.7 bn by mid-February, reversing the December decline.
- Reserves remained well diversified, dominated by foreign-currency assets, with gold, SDRs, and the IMF reserve position broadly stable. The reserve level continues to provide comfortable import cover of around 11 months, supporting external-sector stability for now.

Composition of Forex Reserves



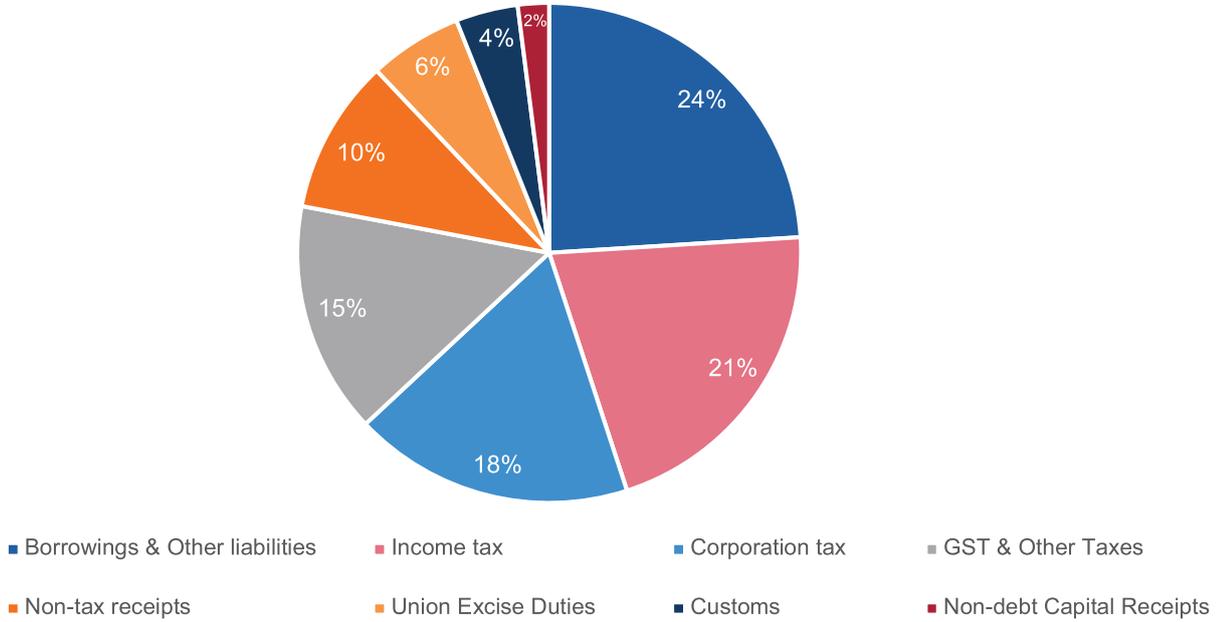
Data Sources
Ministry of Finance | Ministry of Commerce & Industry | Reserve Bank of India



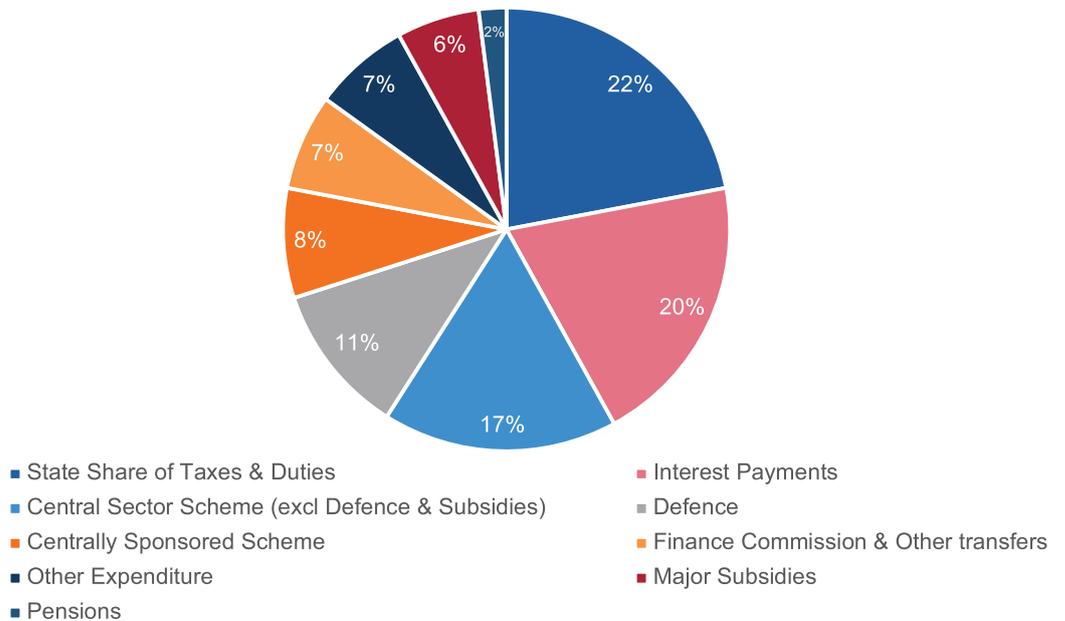
BUDGET ESTIMATES

- The fiscal deficit target for FY2026-27 (BE) has been further lowered to 4.3% of GDP. This continues the steady downward trajectory from 4.8% in FY2023-24 and 4.4% in FY2024-25, signalling a long-term commitment to bringing the deficit closer to the historical target of 3% through disciplined fiscal management.

Sources of Funds



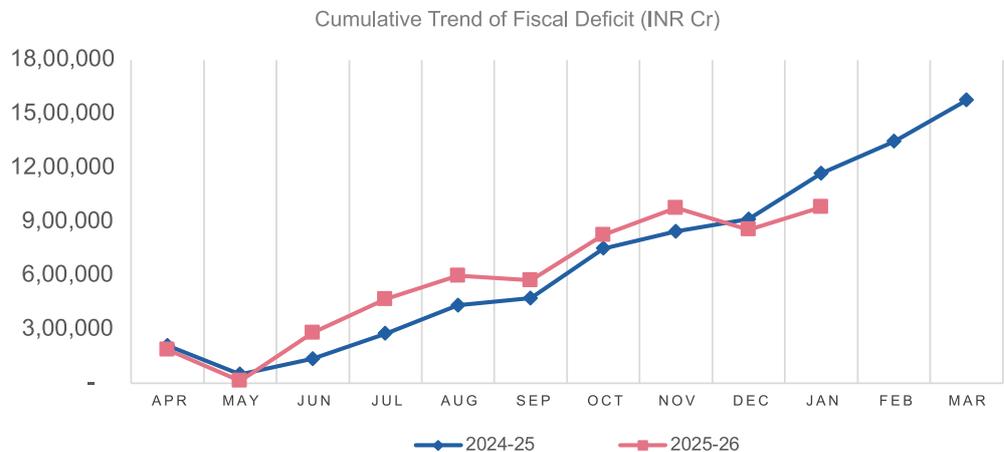
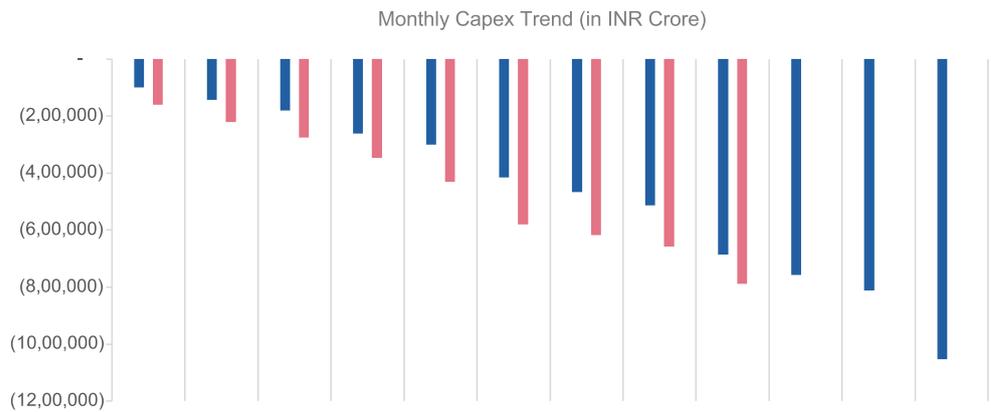
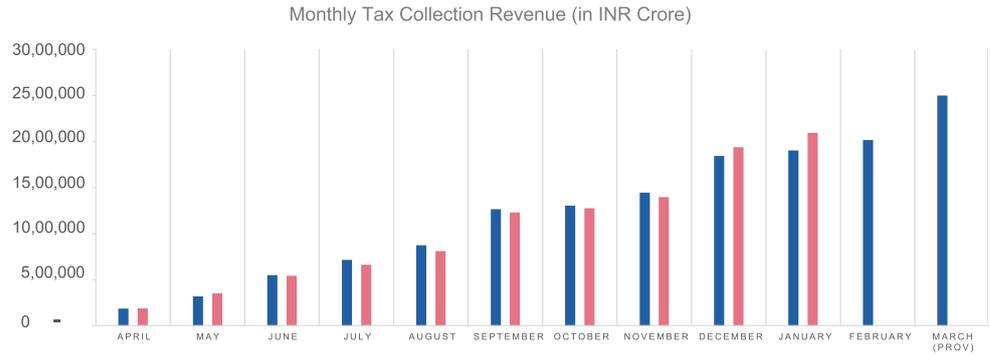
Use of Funds



- By the end of January 2026, the fiscal deficit had reached just 63% of the full-year target, significantly lower than 74.5% in the same period last year. This is primarily due to better tax collections & lower revenue expenditure compared to last year.

FISCAL PERFORMANCE (FY 2025-26)

- The sharp rise reflects a ~32% year-on-year increase in capital expenditure, driven by front-loaded spending on infrastructure, railways, defense, and urban development.



- Net tax revenues remained steady during Q3 FY2025-26, supported by seasonal buoyancy. While cumulative collections through November 2025 remained below last year's levels, the subsequent two months showed a significant recovery with tax revenue growth of 10% over the last year.
- Capital expenditure remained elevated, reflecting continued front-loaded spending on infrastructure and allied sectors. Overall, the first 10 months of Fy2025-26 saw a more than 10% year-on-year increase in capex, reflecting the government's sustained infrastructure push.
- The fiscal deficit widened during the quarter due to higher expenditure, with financing largely met through domestic sources, especially market borrowings. Despite the widening during this quarter, overall deficit levels remained well within the budget estimates.
- Overall, fiscal performance in Q3 indicates a growth-supportive stance, with higher capital spending aligned with the medium-term consolidation path.



KIRTANE & PANDIT

Pune

5th Floor, Wing A, Gopal House, S.No. 127/1B/ 11,
Plot A1, Kothrud,
Pune – 411 038, India
Contact no : +91 20 67295100 / 25433104
E -mail : kpcapune@kirtanepandit.com

Mumbai

601, 6th Floor, Earth Vintage, Senapati Bapat
Marg, Dadar West,
Mumbai- 400 028, India
Contact no : 022 69328846 / 47
E -mail : kpcamumbai@kirtanepandit.com

New Delhi

272, Rajdhani Enclave, Pitampura,
Delhi-110034, India
Contact no : +91-96438 74488
E -mail : kpcadelhi@kirtanepandit.com

Bengaluru

No. 63/1, I Floor, Makam Plaza, III Main Road,
18th Cross, Malleshwaram, Bengaluru – 560
055, India
Contact no : 080 23443548 / 23461455
E -mail : kpcabengaluru@kirtanepandit.com

Nashik

Gajra Chambers, Second Floor,
Kamod Nagar, Indira Nagar,
Nashik – 422009, India
Contact no. : +91 253-2386644
E - mail : kpcanashik@kirtanepandit.com

Hyderabad

401 to 405, 4th Floor, Sanatana Eternal,
3-6-108/1, Liberty Road, Himayatnagar,
Hyderabad - 500 029, India
Contact no : +91 99127 41089 / 94400 55917 /
98480 44743 / 98480 46106
E -mail : kpcahyderabad@kirtanepandit.com

Chennai

No. 128, Old No. 34, Unit No. 1, 6th Floor,
Crown Court, Cathedral Road Gopalapuram
Chennai 600086
Contact no : 044 47990259
E -mail : kpcachennai@kirtanepandit.com

Follow Us On:  

 kpcapune@kirtanepandit.com

 www.kirtanepandit.com

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KP Knowledge Management Group

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