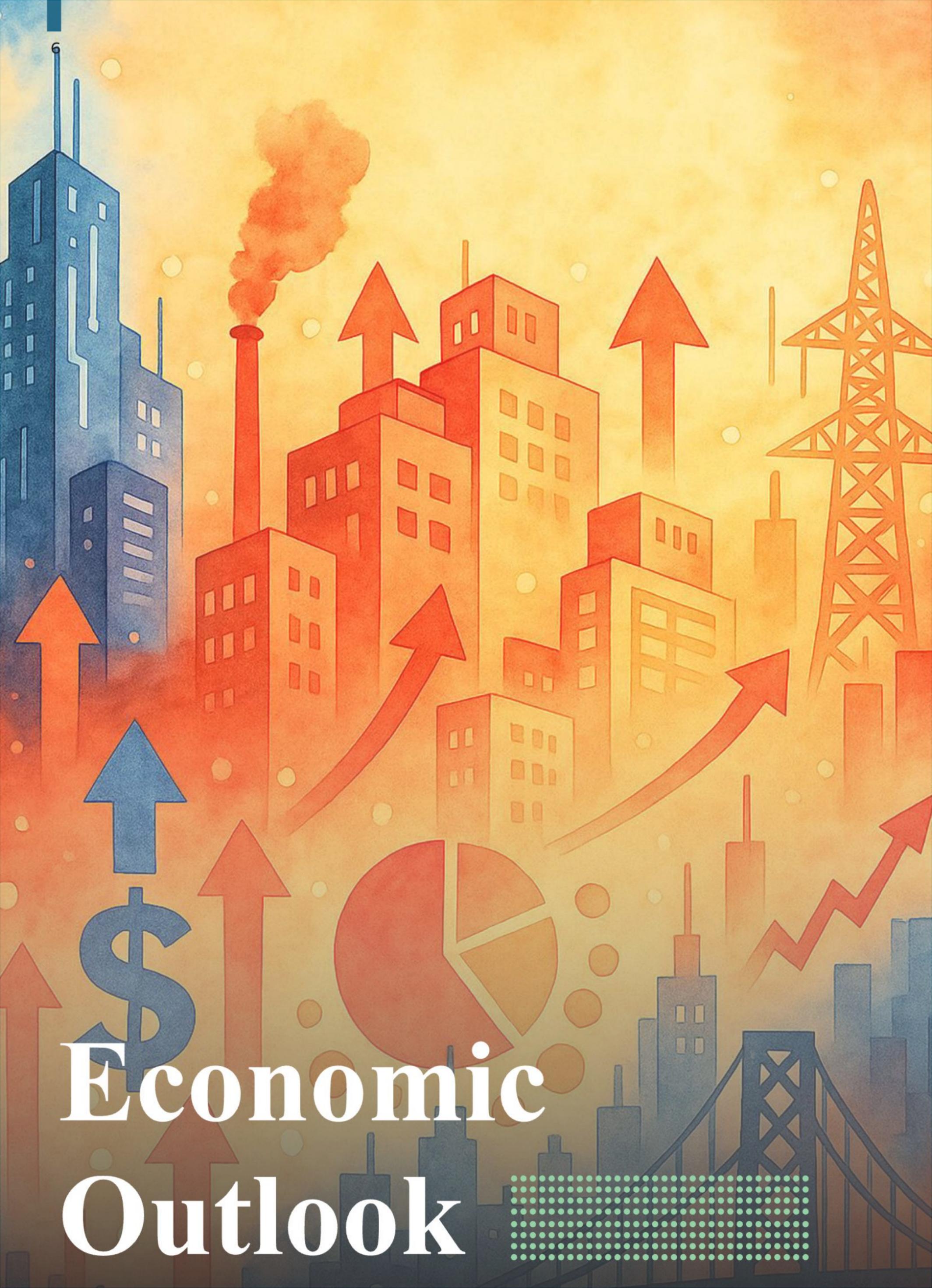


Economic Outlook



Indian Economy Overview

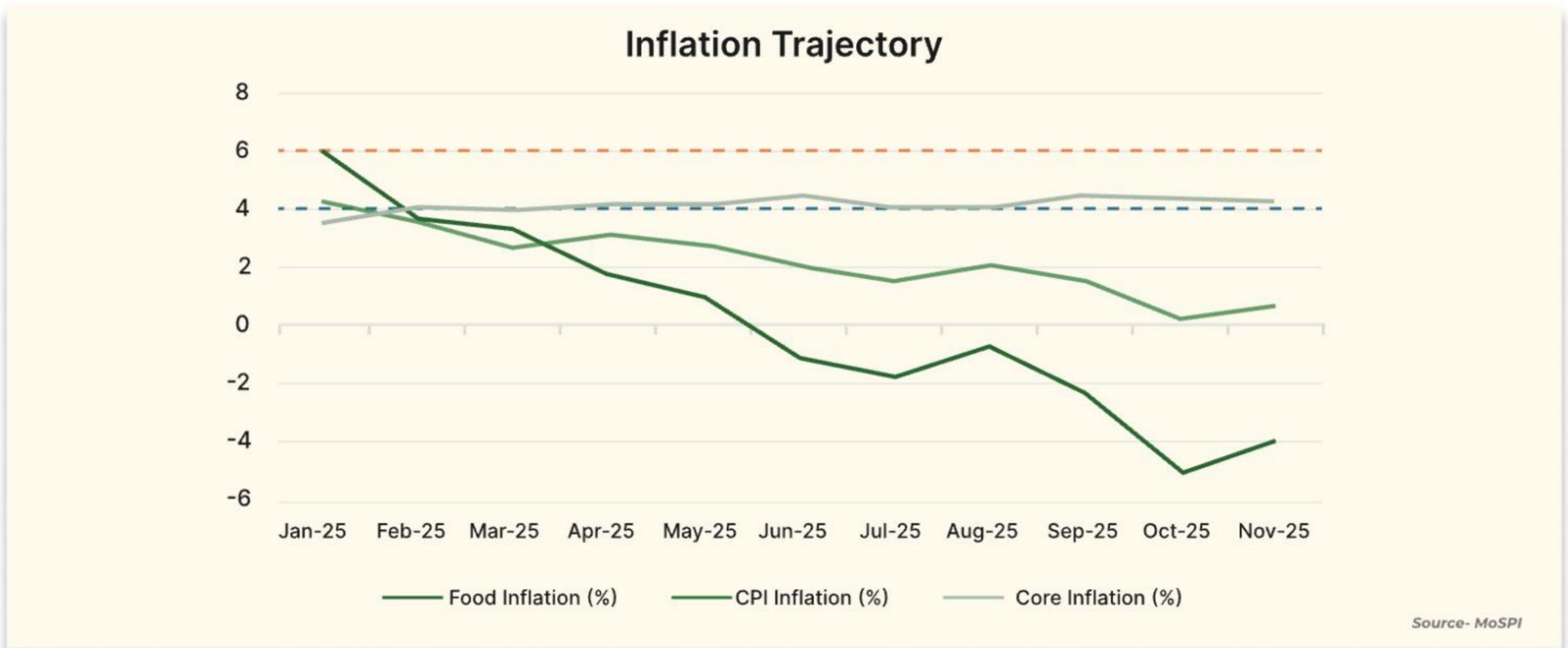
1. India's GDP grew **8.2% in Q2 FY26**, up from **5.6% in same quarter last year**.
2. **CPI Inflation is 0.71% in November 2025**, an increase of 46 basis points from October 2025, aided by base effects and moderating food inflation.
3. Fiscal deficit for the first 6 months of this fiscal year through September stood at **₹ 5.73 lakh crore or 36.5% of the annual estimate**.
4. Current account deficit eased to **1.3% of GDP** for Q2 FY26.
5. India's forex reserves rose to **USD 693.32 billion as on 26th December 2025**, after brief volatility in mid-FY due to capital outflows.
6. The rupee depreciated to fresh record lows, breaching the **₹90/USD** mark and averaging **₹90.01/USD** through December.
7. Net direct tax collections stood at **₹17.05 lakh crore as on 17 December 2025**, registering 8.00% gain over the same period last year.
8. Total Net GST Revenue stood at **₹1.46 lakh crore in November**, marking a **6.8% annual increase**.



Domestic Macro Indicators

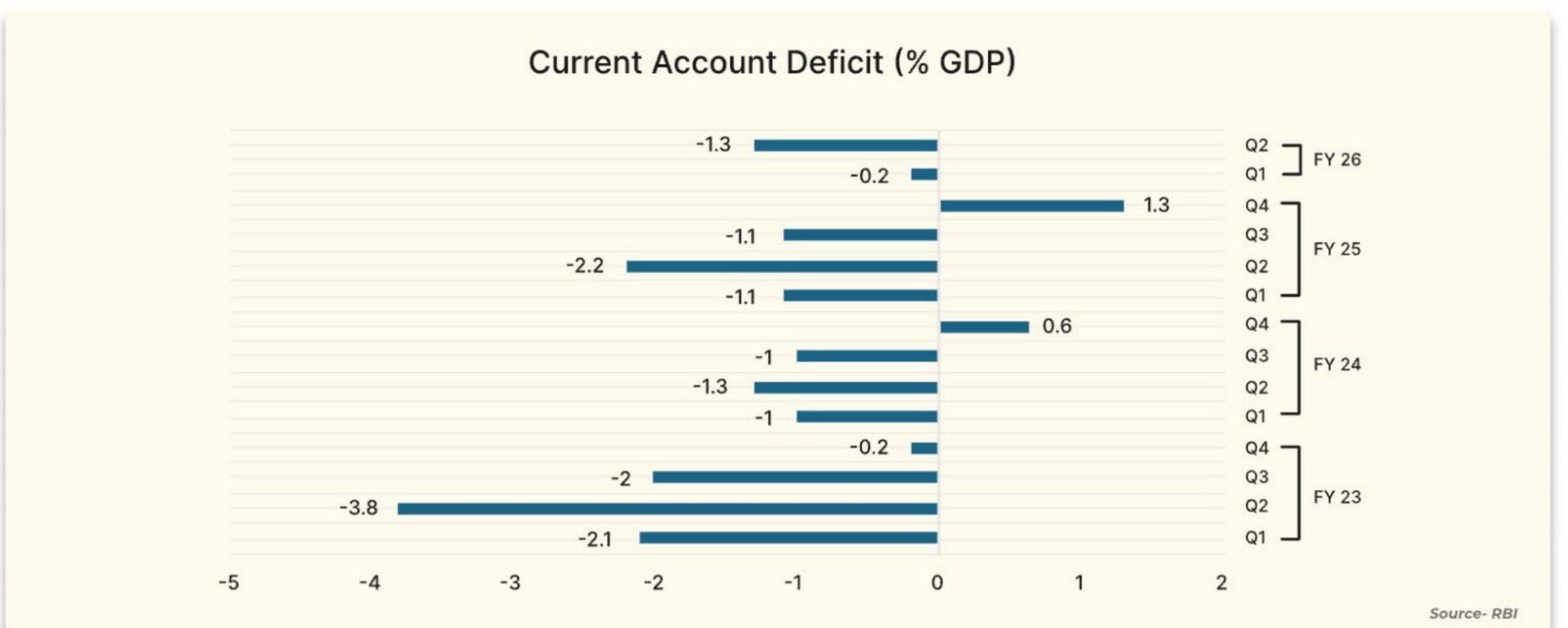
FY	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25	Current
Real GDP Growth (%)	8.0	8.3	6.8	6.5	3.9	-5.8	9.7	7.6	9.2	6.5	8.2
Average CPI Inflation (YoY%)	4.9	4.5	3.5	3.4	4.7	6.1	5.5	6.6	5.6	4.6	0.7
Forex Reserves (USD billion)	356	370	424	413	490	579	606	579	648	676	693.3
Currency (USD-INR)	66	64	66	70	75	74	77	82	83	86	89.9
Net Direct Tax Collections	7.4	8.5	10.0	11.3	10.5	9.4	14.1	16.1	15.8	22.2	17.0
Current Account (%GDP)	-1.1	-0.6	-1.9	-2.4	0.1	-0.2	-1.5	-2.2	0.7	-1.1	1.3
Fiscal Deficit (%GDP)	3.9	3.5	3.5	3.4	4.6	9.3	6.7	6.4	5.6	4.8	4.4 (Target)

Inflation Trajectory Throughout 2025



Inflation remained benign through most of CY2025, with headline inflation (CPI) staying below the **RBI's flexible inflation targeting (FIT)** band, driven primarily by moderation in food prices. Food inflation turned disinflationary in the second half of the year, supported by healthy buffer stocks, favorable monsoon and strong base effects. **Core inflation, however, remained sticky, hovering around 4% despite the broader CPI moderation**, largely due to a sharp surge in precious metal prices. Gold and silver prices rose by approximately 72% and 171% year-to-date (YTD), respectively, keeping core inflation elevated. However, excluding precious metals, core inflation hovered around 2% for most of the period.

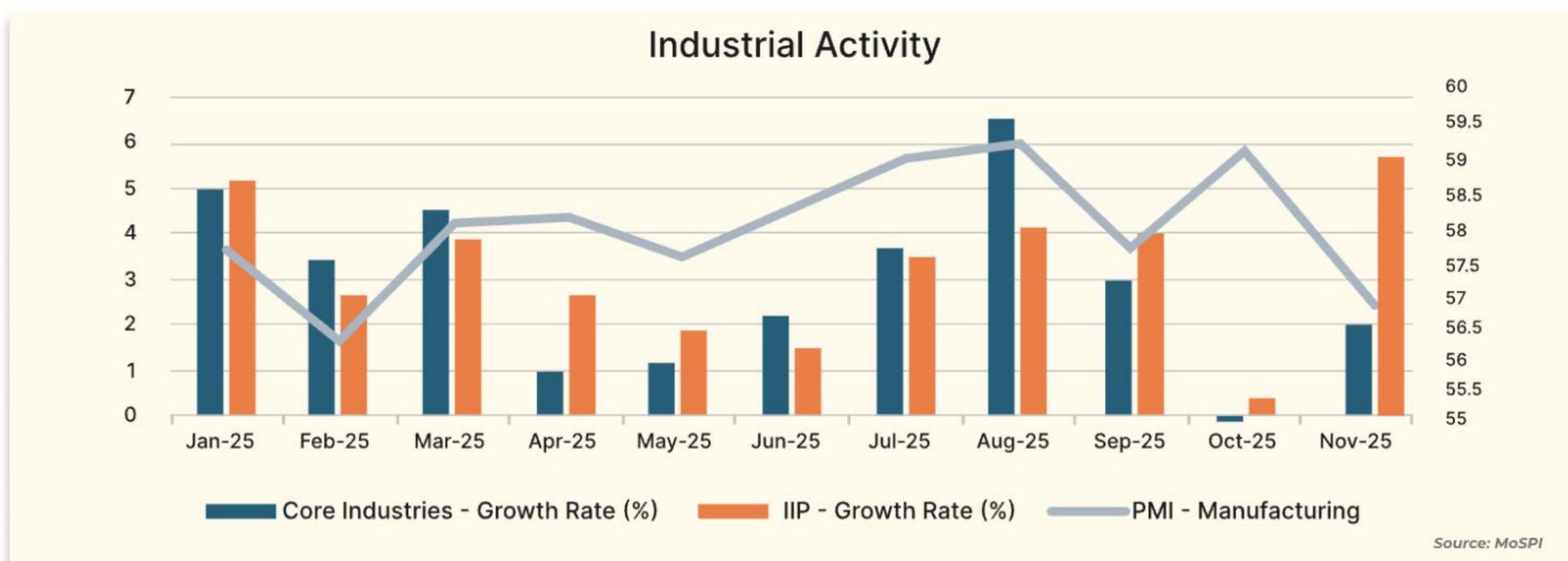
Current Account Deficits Hold Strong



India's current account position remained manageable through CY2025, despite quarterly volatility. The current account swung into a surplus of **~1.3% of GDP (\$13.5 bn)** in the March 2025 quarter, supported by strong services exports, aided by front-loading of exports ahead of anticipated tariff actions.

In Q2 FY26, the current account deficit moderated to \$12.3 bn (-1.3% of GDP), reflecting a narrower merchandise trade deficit. Tariff pressures weighed on the external balance, with labour-intensive exports showing stress: gems and jewelry fell 15.6%, textiles 9.5%, and readymade garments remained weak in the past 2 months. This decline was partially offset by increased shipments to UAE, Hong Kong and China. The impact on the current account was further cushioned by the resilience of the services sector, with services exports growing 8.2% during the first seven months of FY26. However, policy headwinds particularly higher H-1B visa fees and the proposed HIRE Act pose a risk to services exports.

Industrial Activity Shows Mixed Signals



India's manufacturing momentum showed signs of moderation in December, with the *HSBC India Manufacturing PMI* easing to **55** from **56.5** in November, marking a **38-month low**. While new business continued to expand at a healthy pace, the rate of growth slowed to its weakest since **December 2023**. Export demand also lost some momentum, with **international orders rising at the slowest rate in 14 months**, with resilient demand from **Asia, Europe, and the Middle East**.

In contrast, IIP growth remained robust. India's **industrial output rose 6.7% year-on-year in November, the strongest reading in 25 months and the highest so far in FY26**, driven by a sharp acceleration in manufacturing and a rebound in consumer demand, even as electricity generation contracted for the second consecutive month. Manufacturing output, which accounts for nearly **78% of the IIP basket**, expanded **8% YoY**, a 25-month high, compared with **2% in October and 4.4% over April–November**.

Monitory Policy Committee Actions - 2025

RBI's Meeting Schedule (CY 2025)		
Meeting Dates	Action	Stance
February 5-7	Rate cut by 25 bps	Neutral
April 7-9	Rate cut by 25 bps	Accommodative
June 4-6	Rate cut by 50 bps	Neutral
August 4-6	Hold	Neutral
September 29 - October 1	Hold	Neutral
December 3-5	Rate cut by 25 bps	Neutral

Throughout CY2025, the Reserve Bank of India's MPC eased monetary policy in response to subdued inflation and evolving growth dynamics. The year began with a **25-bps repo rate cut in February, lowering it to 6.25%** as inflation moderated and growth recovery remained tentative. In June 2025, the MPC delivered a larger **50 bps reduction**, bringing the repo rate to **5.50%** and **shifting its policy stance from accommodative to neutral to balance growth support and provide the economy with the required cushion to face the upcoming tariff pressures**. After holding the easing the cycles for two consecutive meetings the central bank in **December 2025**, amid exceptionally low inflation and strong growth indicators, **the central bank cut the repo rate by another 25 bps to 5.25% while retaining a neutral policy stance**, citing the need to support demand even as price pressures remained benign. Over the year, **cumulative cuts amounted to 125 bps**, reflects a clear pivot toward growth support while keeping a watchful eye on inflation.

