Economic Outlook

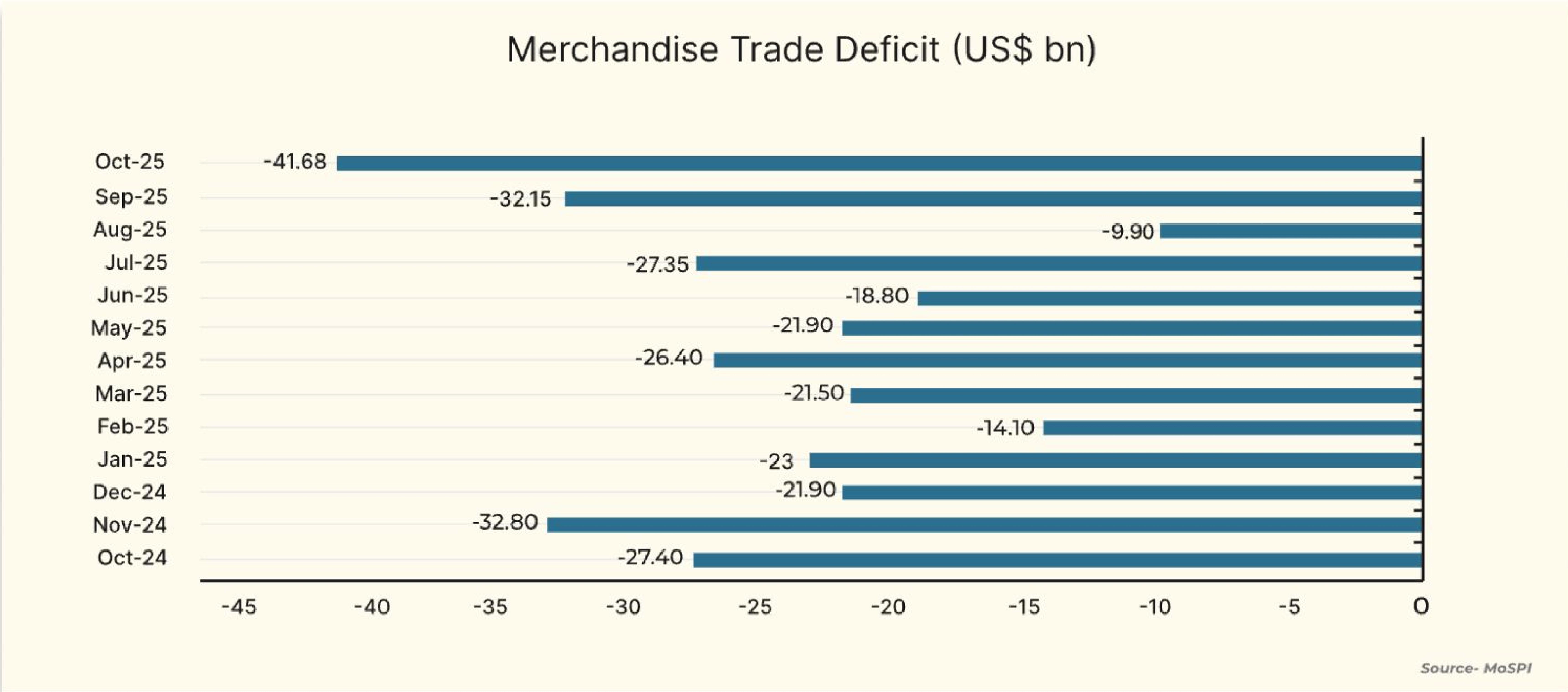
Indian Economy Overview

1. India's GDP grew **8.2% in Q2 FY26**, up from **5.6% in same quarter last year.**
2. **Headline Inflation cooled to 0.25% in October 2025**, making a sharp 119 bps decline from September 2025, aided by high 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 686.25 billion as on 5th 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 ₹89.8/USD through November.
7. Net direct tax collections stood at **₹12.92 lakh crore as on 10 November 2025**, registering **7.0% gain** over the same period last year.
8. Total Net GST Revenue stood at **₹1.52 lakh crore in November,** marking a **1.3% 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	0.25
Forex Reserves (USD billion)	356	370	424	413	490	579	606	579	648	676	686.2
Currency (USD-INR)	66	64	66	70	75	74	77	82	83	86	88.8
Net Direct Tax Collections	7.4	8.5	10.0	11.3	10.5	9.4	14.1	16.1	15.8	22.2	12.9
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)

India’s Merchandise Trade Deficit Widens



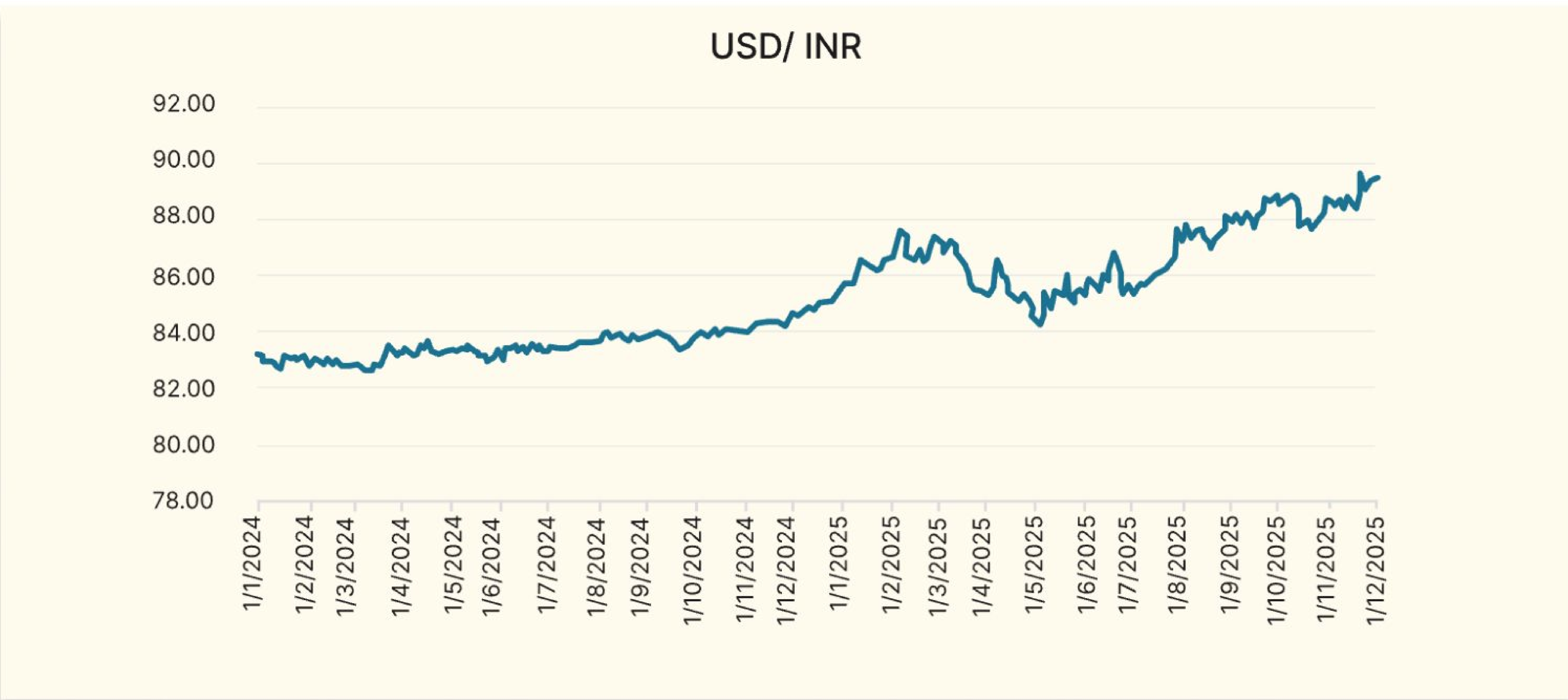
India’s merchandise trade deficit widened to a **record $41.68 billion in October**, as exports fell **11.80% to $34.38 billion** while imports rose **16.60% to $76.06 billion**. Gold imports surged nearly 200% to $14.72 billion on festive-season demand and elevated prices, while silver imports jumped six-fold to **$2.72 billion.**

Export performance weakened across major partners: shipments to the U**.S. (-8.70%), UAE (-10.20%), Netherlands (-22.75%), and UK (-27.16%) all declined**, driven partly by high base effects and tariff-related pressures on labour-intensive sectors.

On the services side, exports rose **11.90% to $38.52 billion**, with the services surplus of **$19.88 billion** continuing to cushion the merchandise gap though not enough to offset the record goods deficit.

Meanwhile, the widening trade deficit and the recent rupee depreciation tend to feed into each other: a larger deficit raises dollar demand, while the weaker rupee sliding from **₹87-88/USD in October to around ₹89.90/USD in late November** i**nflates import bills,** especially for commodities, further deepening the imbalance. *The deficit is expected to moderate in the coming months as gold imports ease post–festive season and export momentum gradually improves.*

Rupee Slides to Fresh lows

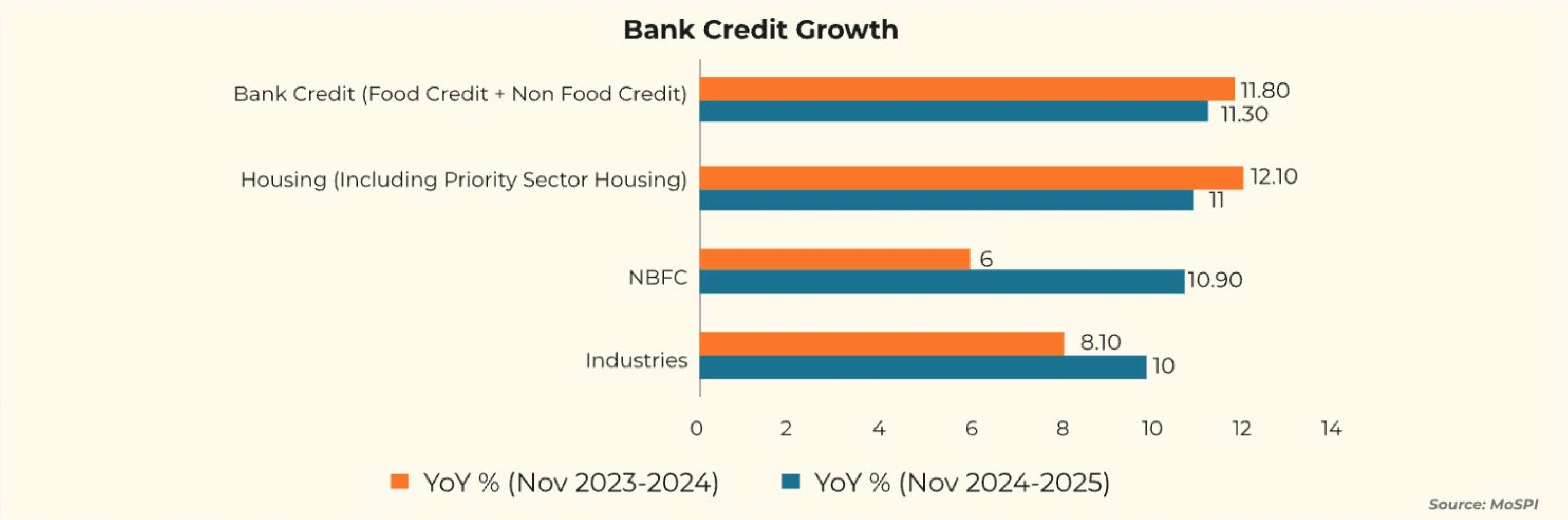


The rupee has been under pressure in recent weeks, touching new lows around **₹90.2 per dollar** and emerging as one of Asia's weaker currencies this year. **The pressure is driven by a persistently wide merchandise trade deficit that has kept dollar demand elevated, and foreign investors pulling out amid attractive U.S. yields. Recent India–U.S. trade frictions have also added to cautious sentiment.**

On the domestic front, **India's heavy reliance on imports particularly oil, gold and electronics, which don't respond quickly to price changes has amplified the impact of a weaker rupee on overall import bills.** The RBI has been intervening and using forward positions to manage volatility, but a more sustained improvement will likely hinge on import demand cooling, the trade gap narrowing, and greater clarity on foreign capital inflows.

The rupee is expected to remain volatile in the near term, with limited scope for sharp gains. Over the medium term, easing global dollar strength, improved export momentum, or progress on trade negotiations could support gradual stabilization.

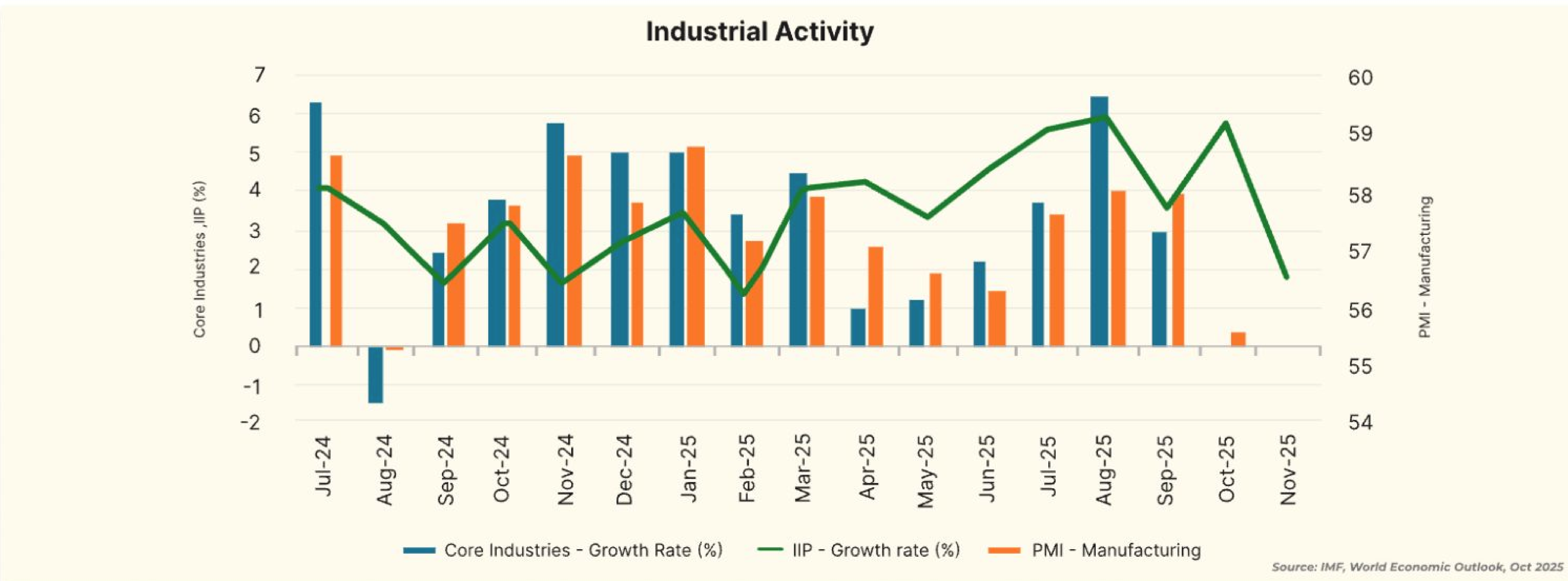
Bank Credit Growth stays strong



Bank credit continued to expand at a steady pace, rising **11.40% YoY** as of mid-November, supported by deposits growing **10.20% YoY**. Non-food credit also maintained momentum, up ~11.10%, with sectoral flows improving industry credit rising **10% (vs 8.10% last year).** Within retail credit, category-wise trends were mixed but largely positive: **consumer durables up 1.00% YoY, credit cards up 7.70% YoY, vehicle loans up 12.50% YoY, and other personal loans up 9.90% YoY.**

The most striking rise is in loans against gold jewellery, which jumped 128.50%, sharply higher than the 65% increase seen last year, reflecting households' growing preference for gold-backed liquidity amid a sustained surge in gold prices. Overall, the data underscores a broad-based expansion in credit, with stable deposits and diversified retail demand keeping the credit cycle firm and supportive of consumption and investment.

Industrial Activity Softens



India's industrial momentum has cooled in recent weeks, with both manufacturing and core-sector indicators signalling a moderation in activity. **The HSBC India Manufacturing PMI fell to 56.6 in November 2025 from 59.2 in October, marking the slowest expansion in factory output and new orders in nine months**. While production and new orders remained in expansion territory, growth slowed to the lowest pace so far this year, with hiring trends softening and overall business confidence easing. Input-cost pressures continued to ease, as input-price inflation fell to one of its lowest readings in recent months and firms moderated selling-price increases.

Similarly, the **Index of Eight Core Industries (ICI)**, which tracks critical sectors, **recorded 0.0% year-on-year growth in October 2025**, its weakest print in 14 months. Within the ICI basket, performance was bifurcated. Energy-related components contracted sharply coal down ~8.50% YoY, natural gas ~5.00% YoY, electricity generation ~7.60% YoY, and crude oil ~1.20% YoY.

Overall **IIP growth** slowed sharply to **0.40% in October 2025 from 4.60% in September and 3.50% a year ago. Manufacturing showed modest resilience (+1.80%), while mining (-1.80%) and electricity (-6.90%) contracted. On a use-based basis, growth was driven by Infrastructure/Construction Goods (+7.10%), Capital Goods (+2.40%), and Intermediate Goods (+0.90%), offsetting declines in Primary Goods (-0.6%), Consumer Durables (-0.50%), and Consumer Non-Durables (-4.40%).** The moderation largely reflected seasonal factors, including fewer working days during Dussehra, Diwali, and Chhath, as well as lower electricity demand amid extended rainfall and comfortable temperatures.

Looking ahead, industrial activity is expected to gradually stabilise as seasonal disruptions fade, electricity demand normalises, and domestic and export demand picks up.