NIPFP

Indian Economy in a Turbulent Time

Mid-Year Macro Review: FY26

11 November 2025

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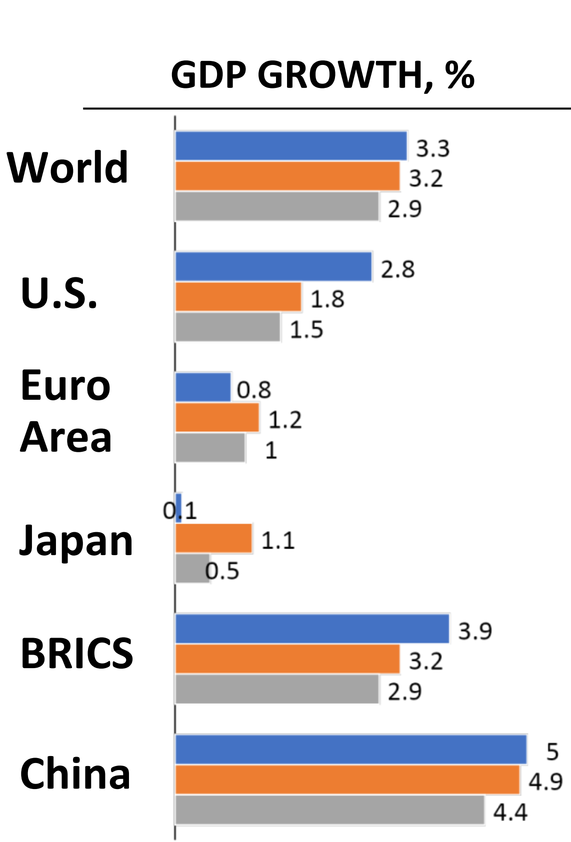
Global Developments

Global growth remained resilient in 2025, expected to moderate in 2026

GDP GROWTH, %



POSITIVE DRIVERS

- Front-loading in trade and production to pre-empt tariff hike
- Massive investment in AI technology in US, China, Japan
- Fiscal & monetary stimulus in many countries
- Successful trade diversification

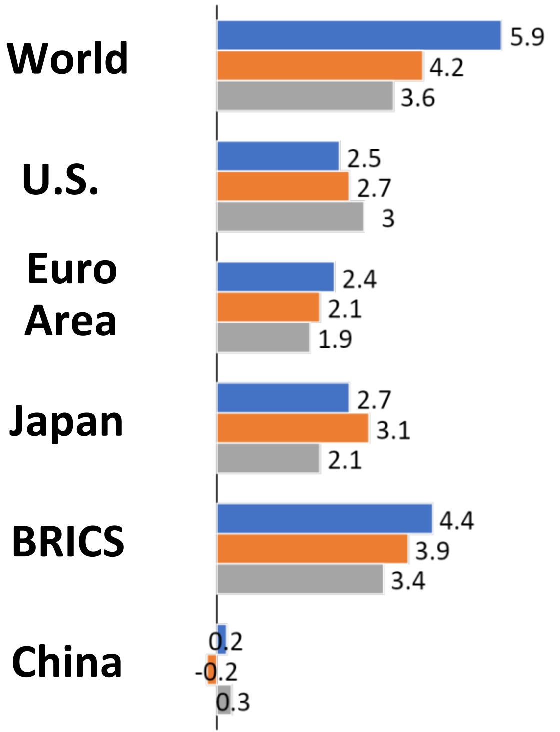
NEGATIVE DRIVERS

- US tariff shock
- War in Ukraine and Gaza
- Weakening consumption demand and low consumer confidence
- Continuing property sector crisis in China
- Unemployment rising in US, curtailed immigration

SOURCE: OECD, interim estimates, September 2025

World Inflation expected to decline driven by softening consumption and low energy prices

INFLATION % | **UPSIDE RISKS** | **DOWNSIDE DRIVERS**



UPSIDE RISKS

- Easing fiscal and monetary policies
- High tariffs
- Elevated food prices in some countries

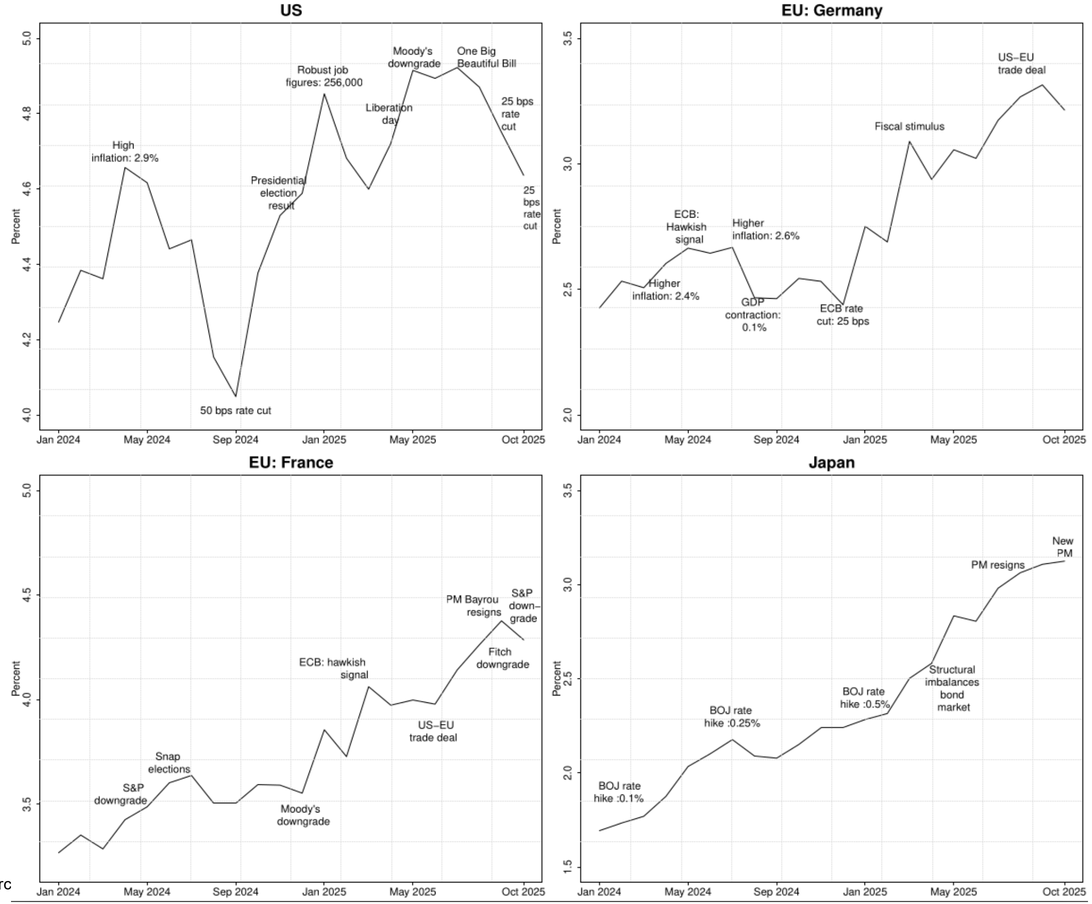
DOWNSIDE DRIVERS

- Low energy prices
- Weak consumption demand
- Property price softening

SOURCE: OECD, interim estimates, September 2025

Global Financial Developments

Rising fiscal concerns in advanced countries have hardened long-dated bond yields despite monetary easing



Sourc

- Rising fiscal concerns due to:
  - Increasing fiscal deficits to GDP and debt-to-GDP ratios in advanced nations
  - Elevated uncertainty due to tariff jitters
  - Political instability in countries like Japan, and France.
- Quantitative tightening by Central banks.
- Investors are now preferring short and medium-term securities over longer-dated ones.

Stock markets overall have retained positive returns amidst tariff jitters

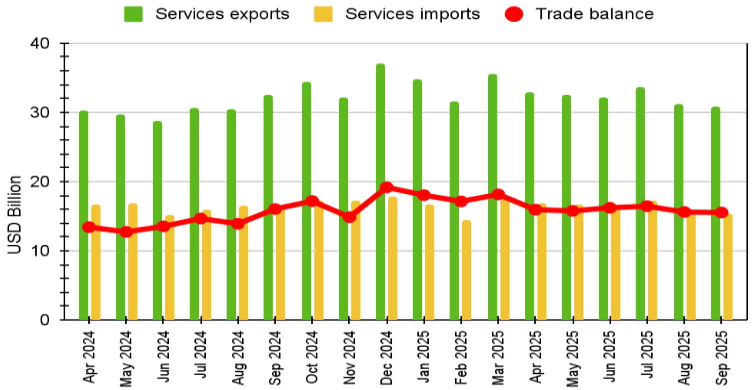
Monthly returns (in %)								
Country	Index	Apr 2025	May 2025	Jun 2025	Jul 2025	Aug 2025	Sep 2025	Oct 2025
USA	S & P 500	**-0.8**	6.2	5.0	2.2	1.9	3.5	2.3
Europe	STOXX 600	**-1.2**	4.0	**-1.3**	0.9	0.7	1.5	2.5
Japan	Nikkei 225	1.2	5.3	6.6	1.4	4.0	5.2	16.6
China	Shanghai Composite	**-1.7**	2.1	2.9	3.7	8.0	0.6	1.9

Source: investing.com, and Yahoo Finance

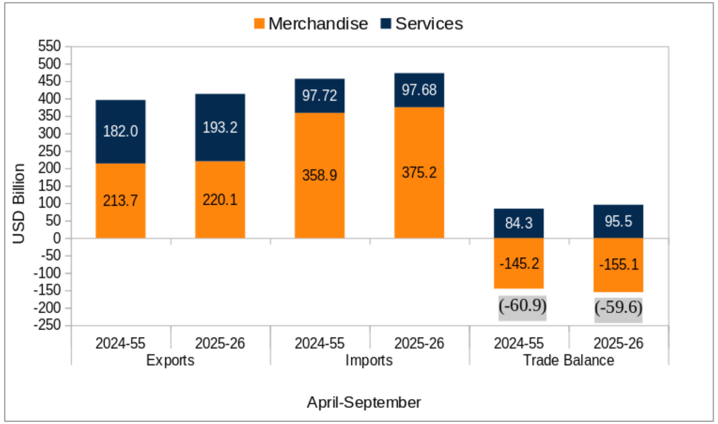
- **Post the reciprocal tariff jitters in April 2025, markets overall have realised gains.**
- **This is despite the fact that tariff jitters along with economic, trade and geopolitical uncertainty are still elevated.**
- **This reflects that:**
  - **Investors appear to be downplaying the potential effects of tariff on growth and inflation.**
  - **Investors expect tariff to be transitory in nature and would eventually be reversed.**

India: External Sector

Merchandise exports growth slowing down

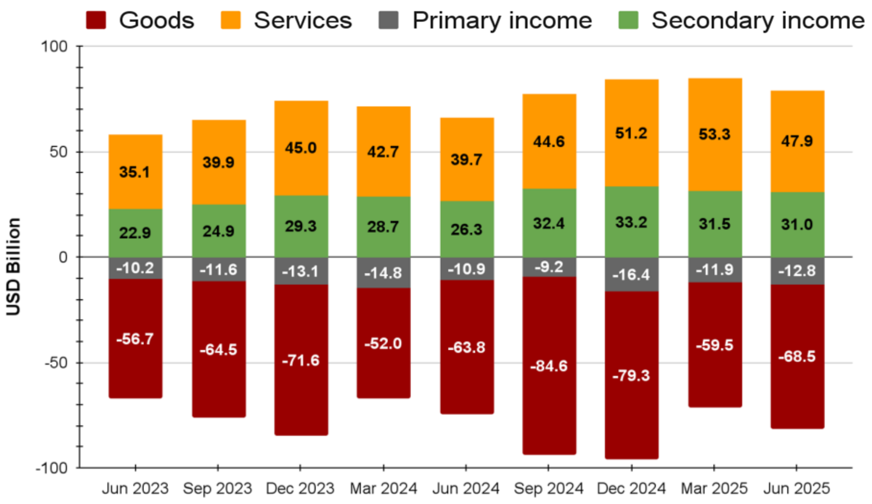


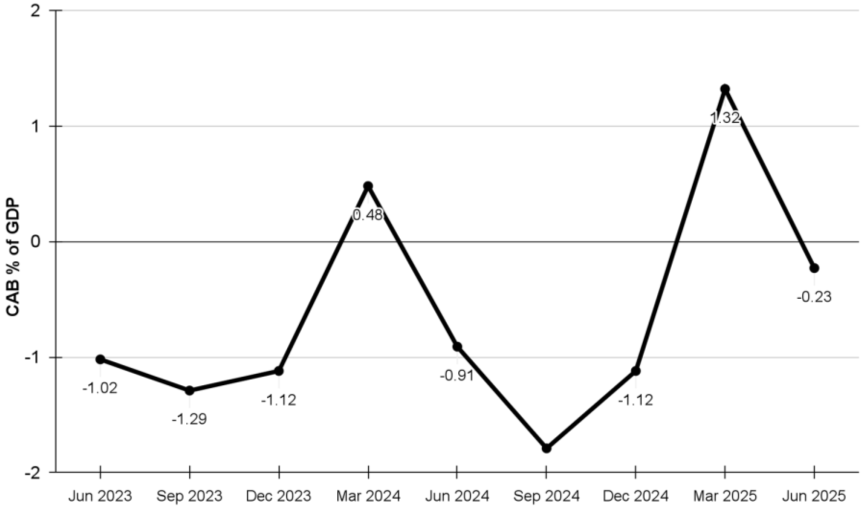
- In September 2025, growth in merchandise imports surpassed growth in exports.
  - Imports grew by around 16.6% (Y-o-Y) to USD 68.5 billion.
  - Exports rose by only around 6.7% to USD 36.4 billion.
- Services: Both imports and exports contracted, with the contraction in imports surpassing that of exports.
  - Services exports contracted by 5.4% in September to USD 30.8 billion.
  - Services imports contracted by 7.6% to USD 15.3 billion
- For April-September, India's total exports (goods and services) posted a growth of 4.43% while total imports registered a growth of 3.57%, entailing a contraction in trade deficit to USD 59.6 billion.



Source: Ministry of Commerce & Industry

Current account balance turned negative due to rise in merchandise deficit

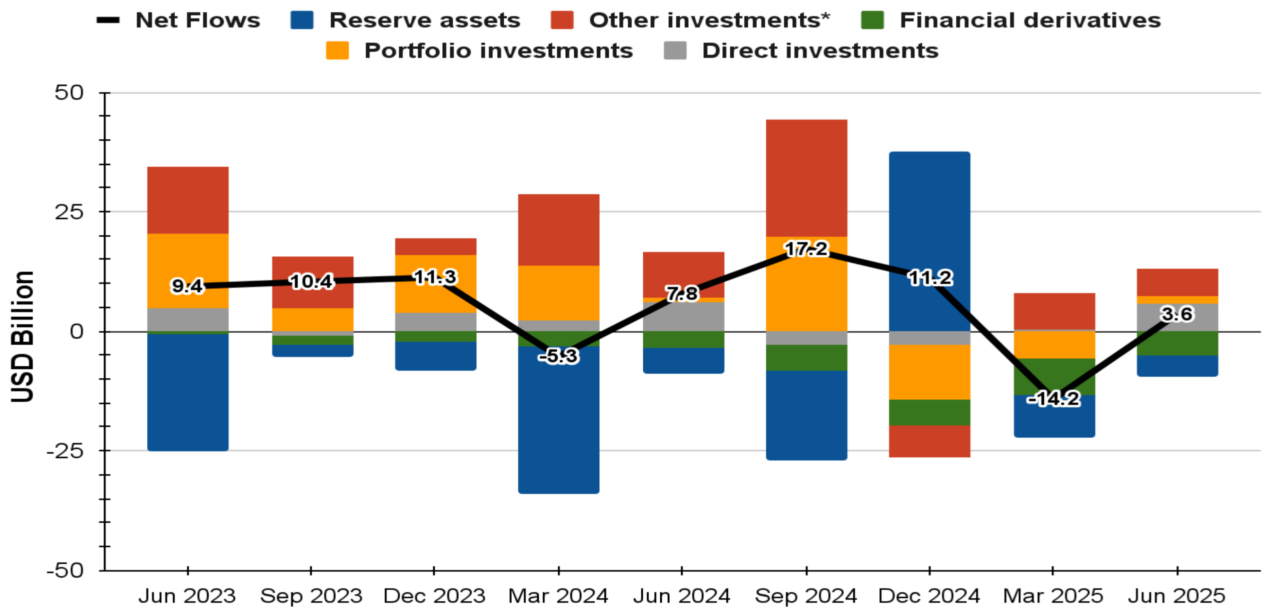




Source: RBI

- Merchandise trade deficit widened, due to higher imports in non-crude oil & non-gold & silver.
- Surplus on service trade improved.
- Secondary income improved due to higher remittances by Indians employed overseas.

Net flow has turned positive in financial account but remain moderated in Q1 FY26

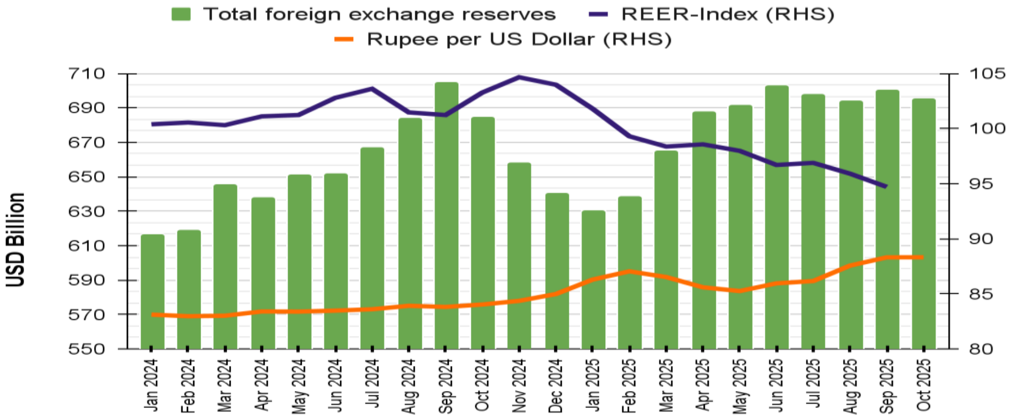


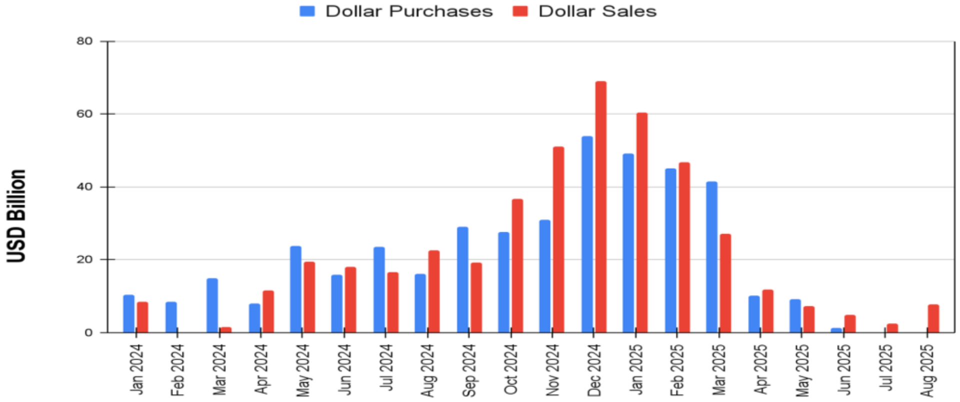
Source: RBI

*Includes ECB and NRI deposits

- Q1 FY 26 saw weaker capital flows due to decline in other investments, followed by direct and financial derivatives, when compared with Q1 FY 25.
- Portfolio investment saw a marginal improvement in Q1 FY 26 when compared with Q1 FY 25.

Rupee has weakened as RBI has reduced forex interventions, rising gold reserves





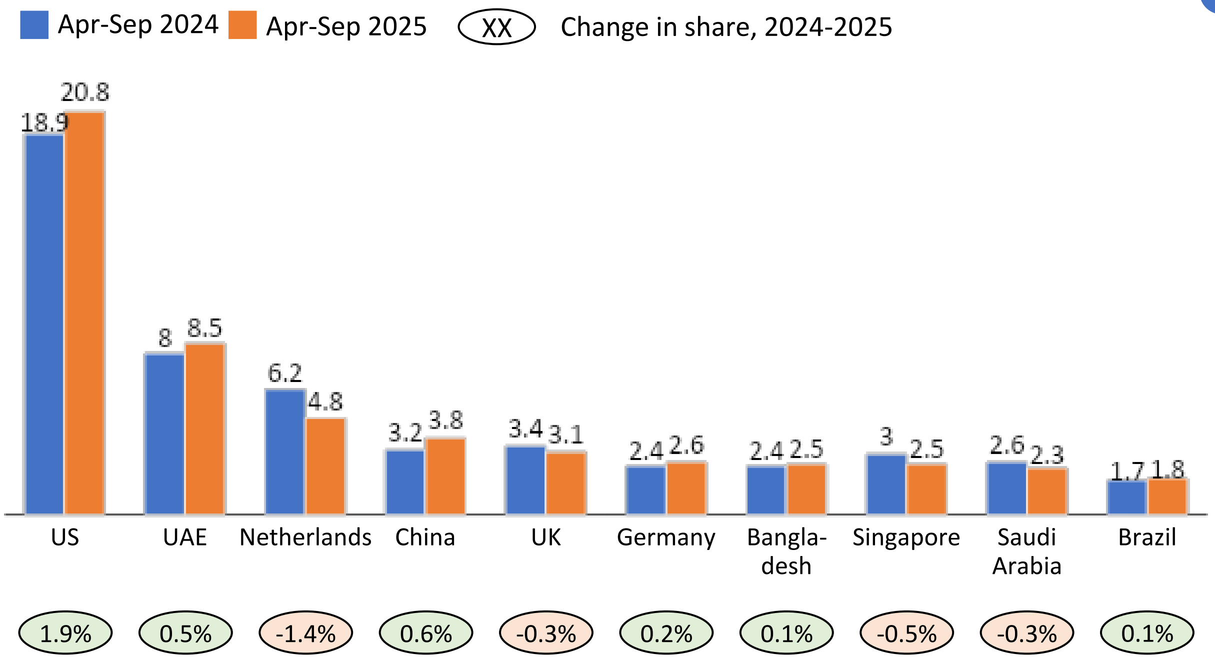
- Widening trade deficit, elevated US yields, and sustained capital outflows depreciating rupee
- RBI intervention in the forex market has also moderated
- Forex reserves have stayed around USD 700 billion.
- Increase in gold reserves from around USD 84 billion to USD 95 billion from April to Sep 2025

Source: RBI & BIS

Structure of India’s Foreign Trade

US continues to be India's largest export partner, holding a share of over 20% and growing

Share of Indian exports by major partners, %

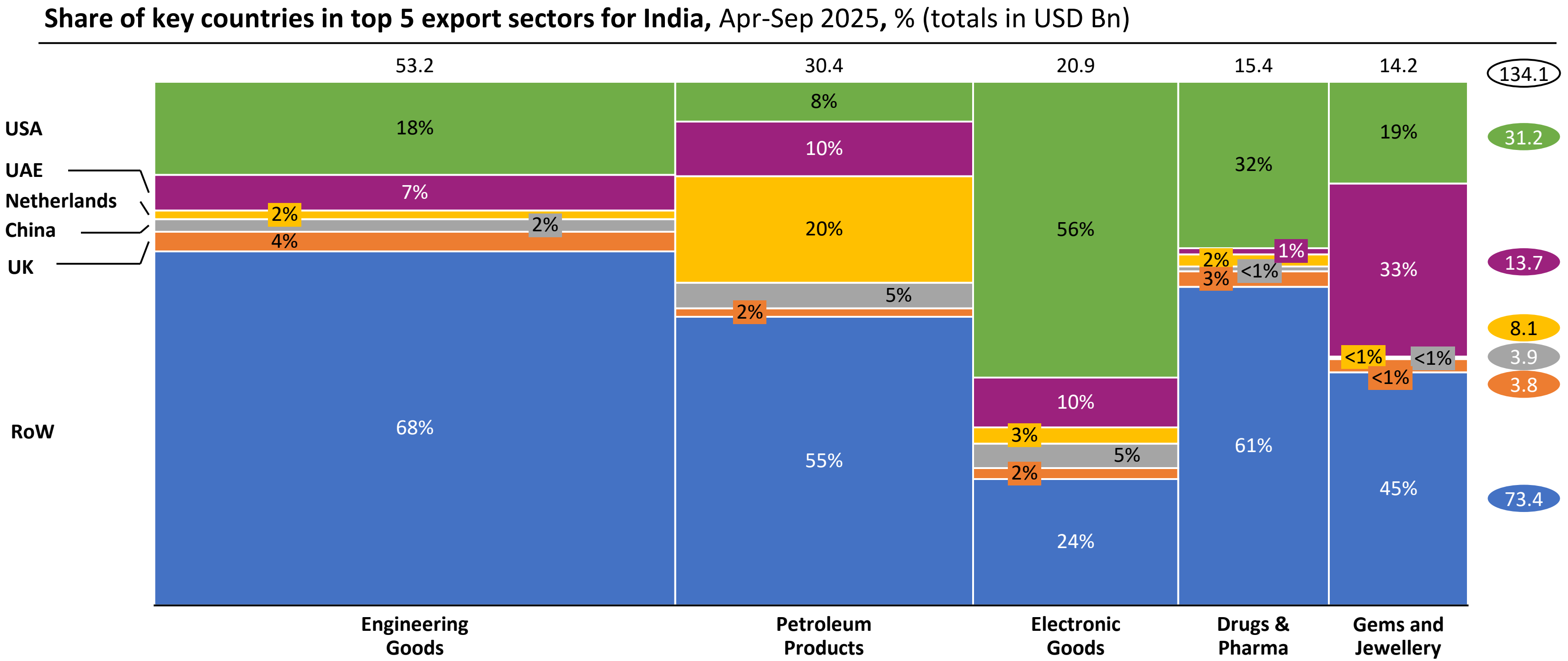


Key insights

- U.S. share has risen from 18.9% to 20.8.% in April-September 2025 compared to last year
- Despite US dominance, 80% of Indian exports remain unaffected by tariff hike
- Diversification remains modest despite government initiatives to diversify exports toward Africa, Latin America, and ASEAN

SOURCE: DGCSI

Much room for diversification of goods exports



- **Vulnerable sectors facing tariff from U.S. >=50% are engineering goods, drugs and pharma, gems and jewellery**
- **Textiles and marine products also highly exposed**

SOURCE: DGCSI

India has little leverage vis-à-vis U.S. and high services exposure

- **Most bilateral trade deals primarily benefit the U.S.**
- **Unlike some other countries, India holds very little leverage**
- **The 10-year defence pact is expected to boost U.S. weapon exports to India**
- **More than half of India's service exports is to U.S. (3% GDP)**
- **The U.S. has increased H-1B visa fees to USD 1,00,00**
- **The proposed HIRE Act seeks to impose a 25% outsourcing tax on the largely non-diversified Indian services sector**

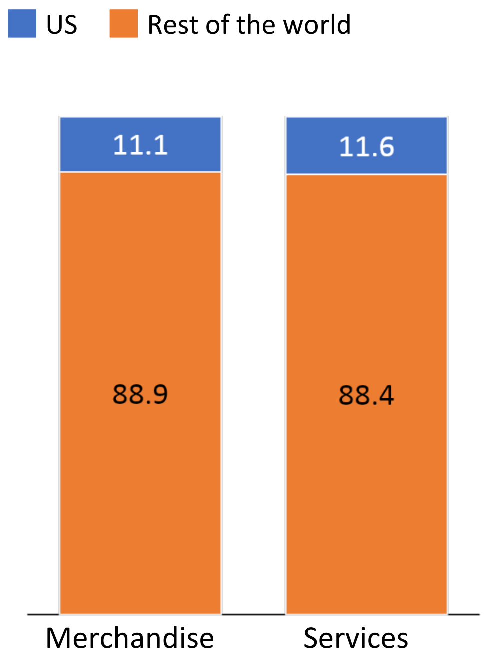
Diversification efforts so far….

Partner/Bloc	Countries	Type of agreement	Current status	Key beneficiary sectors
Chile	Chile	CEPA	3rd round concluded in October 2025	Pharmaceuticals, Textiles, Engineering Goods, and Processed Foods, Digital Services, MSME sector
Eurasian Economic Union	Armenia, Belarus, Kazakhstan, Kyrgyz Republic, Russia	FTA	ToR signed in August 2025; negotiations initiated	Pharma, Textiles, Engineering goods, IT services and Agri products
European Union	27 EU countries	TEPA	14th round concluded in October 2025; deal expected Dec 2025	Pharma, Textiles, Engineering goods, IT services and Agri products
Gulf Cooperation Council (GCC)	Qatar (UAE concluded in 2022)	CEPA	Negotiations ongoing; agreement expected mid-2026	Iron & Steel, Rice, Jewellery, Vehicles, Petroleum, Electronics, Buffalo meat and Sugar
New Zealand	New Zealand	FTA	4th round of negotiation in November 2025; deal expected soon	Defence, Education, Tourism, and Aerospace, Agriculture, and Food Processing
Peru	Peru	CEPA	9th round of negotiation in November 2025; talks to resume in January 2026	Critical Minerals, Pharmaceuticals, Automobiles, Textiles and Food Processing, Digital Services, MSME sector
United Kingdom	United Kingdom	CETA	Concluded in July 2025; further engagements ongoing	Agriculture, Marine, Textiles, Gems & jewellery, Footwear, Pharma and Engineering goods, IT/ITes, Financial & Professional services

SOURCE: Ministry of Commerce and Industry, GOI

Key Insights from India's Trade Story

Global trade, %



Key insights

- Almost 90% of global trade is independent of U.S.
- Almost 80% of Indian exports independent of U.S.
- U.S. Imports from India highly concentrated in few sectors: Electronics, Drugs & Pharma, Textiles
- Policy Priority : diversification
- Merchandise Exports important, but real risk is high exposure of services sector to U.S.
- Services export diversification most urgent

Growth

Aggregate demand growth in Q1 2025-26 has been broad based

Demand components	2023-24 YoY (%)	2024-25 YoY (%)	2024-25 Q1 YoY (%)	2025-26 Q1 YoY (%)
Aggregate demand (GDP)	9.2	6.5	6.5	7.8
Govt. Final Consumption Exp. (GFCE)	8.1	2.3	-0.3	7.4
Private Final Consumption Exp. (PFCE)	5.6	7.2	8.3	7.0
Gross Fixed Capital Formation (GFCF)	8.8	7.1	6.7	7.8
Trade Deficit	384.8	-71.5	-32.6	34.0

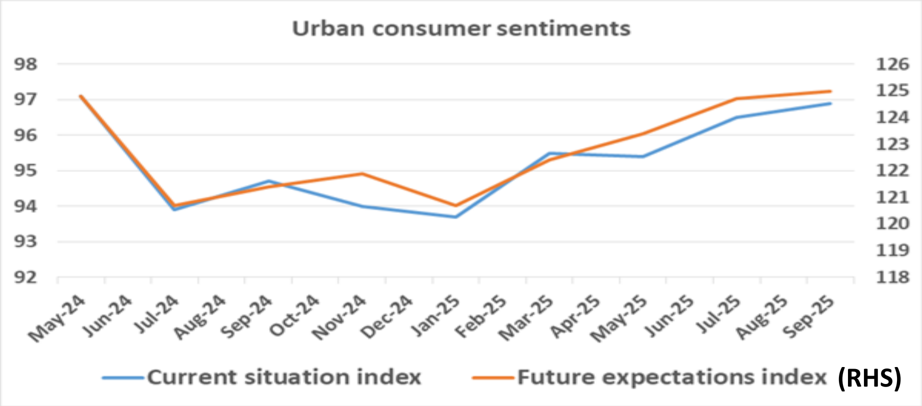
Source: CSO, MOSPI

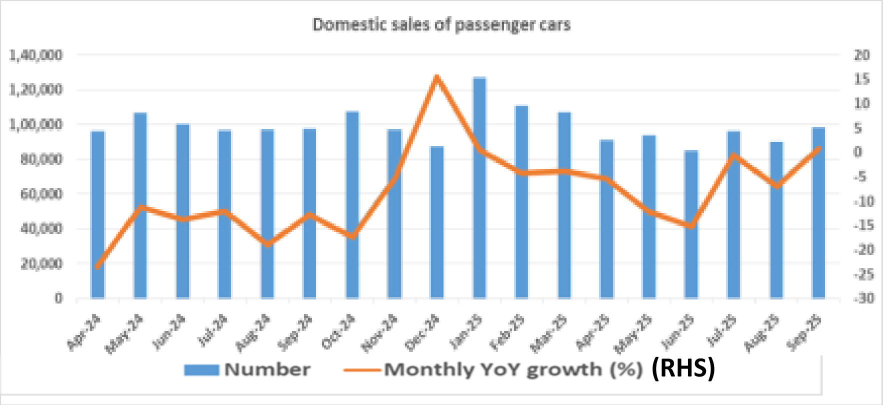
GVA growth in Q1 2025-26 improved compared to Q1 2024-25 due to services and agricultural growth

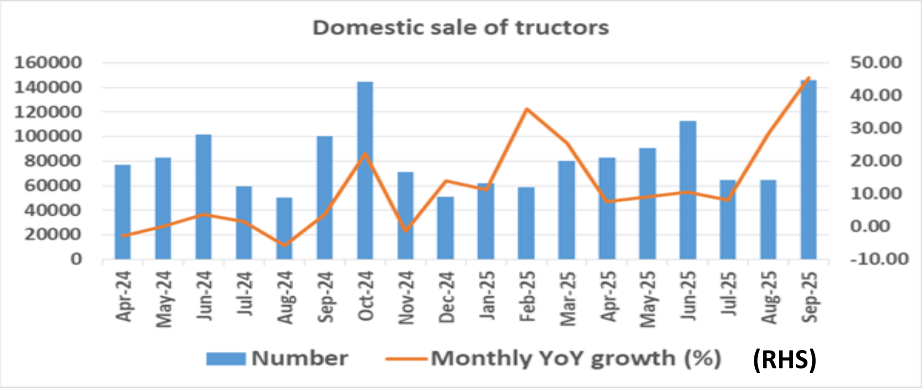
Sector	2023-24 YoY (%)	2024-25 YoY (%)	2024-25 Q1 YoY (%)	2025-26 Q1 YoY (%)
GVA	8.6	6.4	6.5	7.6
1. **Agriculture, forestry and fishing**	2.7	4.6	1.5	3.7
2. **Industry**	10.8	5.9	8.5	6.3
2.1 Mining & Quarrying	3.2	2.7	6.6	-3.1
2.2 Manufacturing	12.3	4.5	7.6	7.7
2.3 Electricity, gas, water & other utilities	8.6	5.9	10.2	0.5
2.4 Construction	10.4	9.4	10.1	7.6
3. **Services**	9.0	7.2	6.8	9.3
3.1 Trade, hotels, transport, communication, broadcasting (TRC)	7.5	6.1	5.4	8.6
3.2 Financial, real estate and professional services (FIN)	10.3	7.2	6.6	9.5
3.3 Public administration, defense and other services (PAD)	8.8	8.9	9.0	9.8

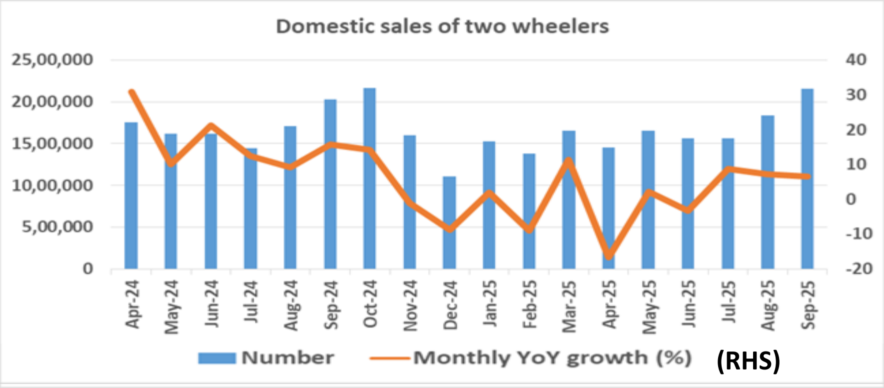
Source: CSO, MOSPI

Domestic consumption demand, both urban and rural, continue to improve



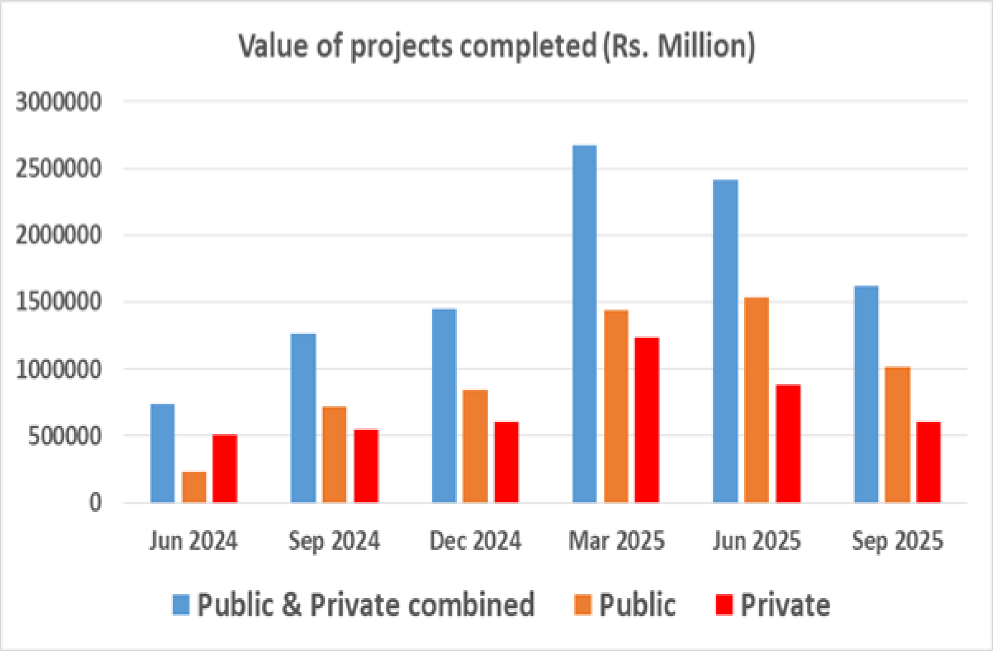






Source : RBI, CMIE

Growth mainly driven by robust public sector investment



Source: CMIE CAPEX

Year/ Quarter	Public and Private Combined	Public	Private
2024-25 Q1	-55.2	-63.0	-50.3
2024-25 Q2	-32.2	-50.2	30.2
2024-25 Q3	-27.1	-42.6	16.6
2024-25 Q4	-33.6	-39.3	-25.5
2025-26 Q1	**224.5**	**551.6**	**73.3**
2025-26 Q2	**27.9**	**41.2**	**10.2**

Baseline Scenario (without GST restructuring & trade shock impacts) GDP growth forecast at 7.1% for FY 25-26

	FY 24-25	FY 25-26	Q1 25-26	Q2 25-26	Q3 25-26	Q4 25-26
Actual (CSO)	6.5		7.8			
NIPFP	6.2	7.1		7.0	6.6	7.2
RBI	6.5	6.8		7.0	6.4	6.2
IMF	7	6.6				
World Bank	7	6.5				

Source: : MOSPI; Bhattacharya, Chakravartti and Mundle (2023); Bhattacharya, Bhandari and Mundle (2023)

Alternative growth Scenarios for FY 26 (with GST restructuring & tariff shock impacts)

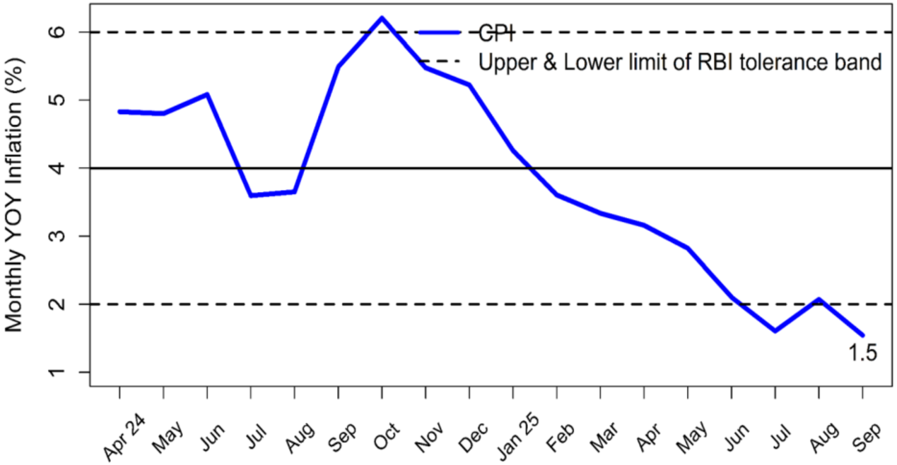
GDP growth forecast at 6.0—8.8% for FY 25-26

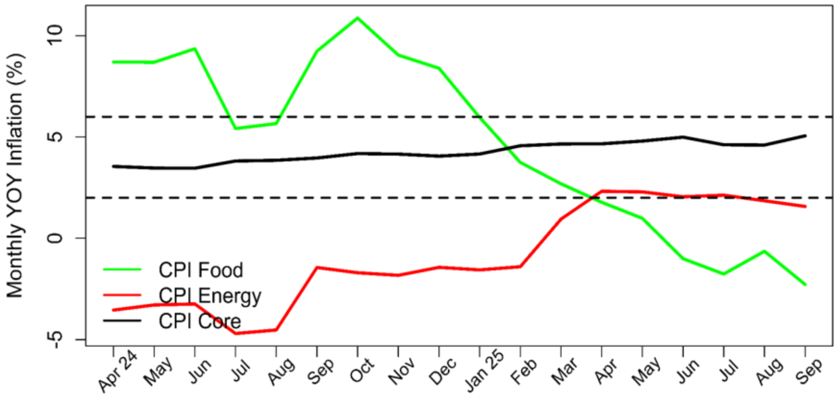
Baseline	Optimistic View: Effective GST rate declines by 1%; US output 1% above potential	Pessimistic View: Effective GST rate declines by 1%; US output 1% below potential	Effective GST rate declines by 1%; US output near the potential
7.1	8.8	6	7.4

Source: : Authors' estimates

Inflation

Headline inflation well below 4% target on account of moderating food and energy inflation, while core inflation rising

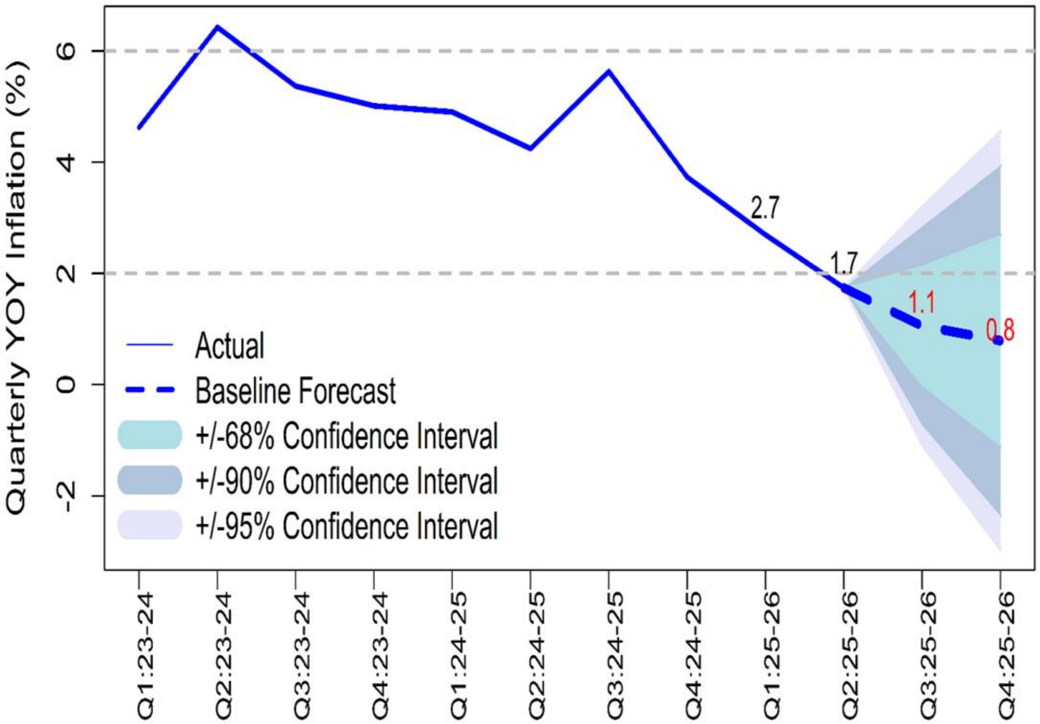




Source: CSO

- **CPI food inflation moderating due to deflation in most of food items, mainly on account of Vegetable and Pulses prices, while Edible oil inflation is high.**
- **CPI Core inflation on rise due to high and rising inflation rates in gold and silver prices.**

Inflation forecast for FY 26 benign at 1.6%

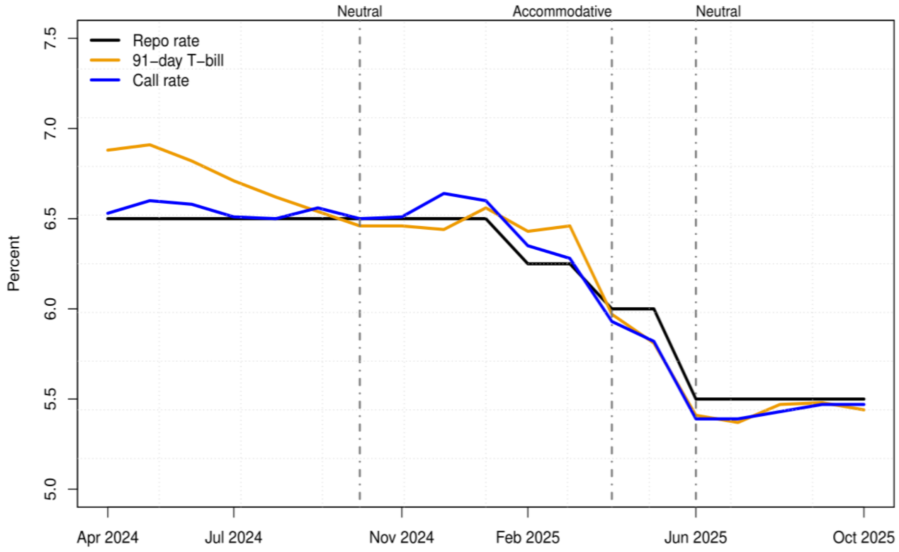


Source: CSO, Bhattacharya & Kapoor, 2020

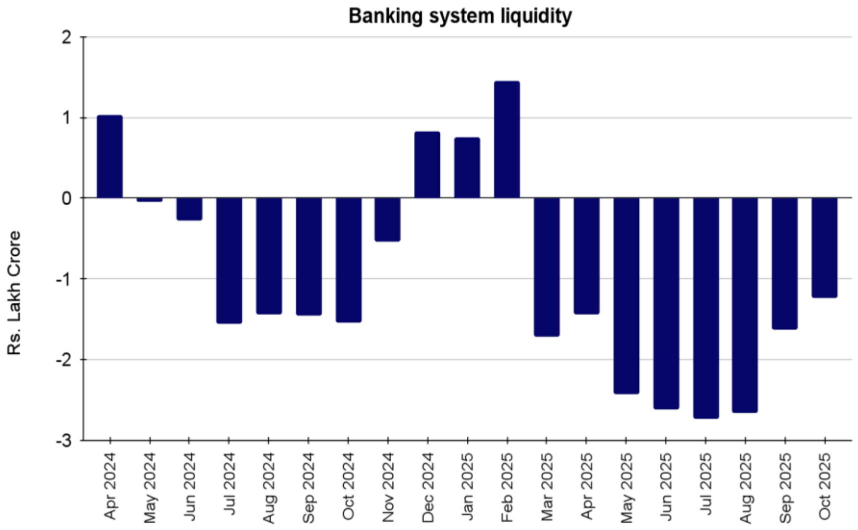
- Our inflation projection for 2025-26 is 1.6%
    - 1.1% in Q3, 0.8% in Q4
- Upside risk: Buoyant domestic demand propelled by GST rate restructuring
- Downward factor: Trump shock to act as a negative demand shock, & moderating energy inflation
- RBI forecasts: FY 2025-26: 2.6%, 1% higher than ours;
    - RBI forecasts: FY 2025-26: 2.6%, 1% higher than ours;
    - 1.8% & 4% for FY26 Q3 and Q4

Monetary Policy

Policy rate maintained after significant reduction, stance changed to neutral, call rates inch lower

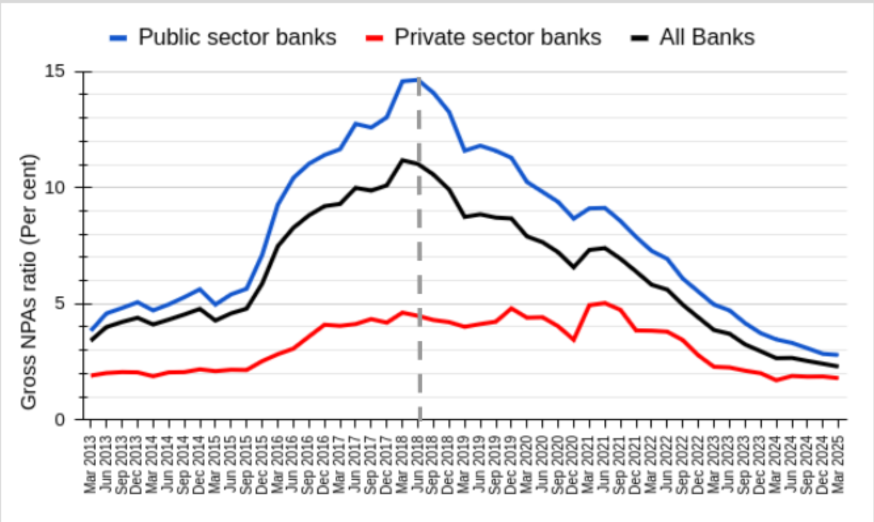


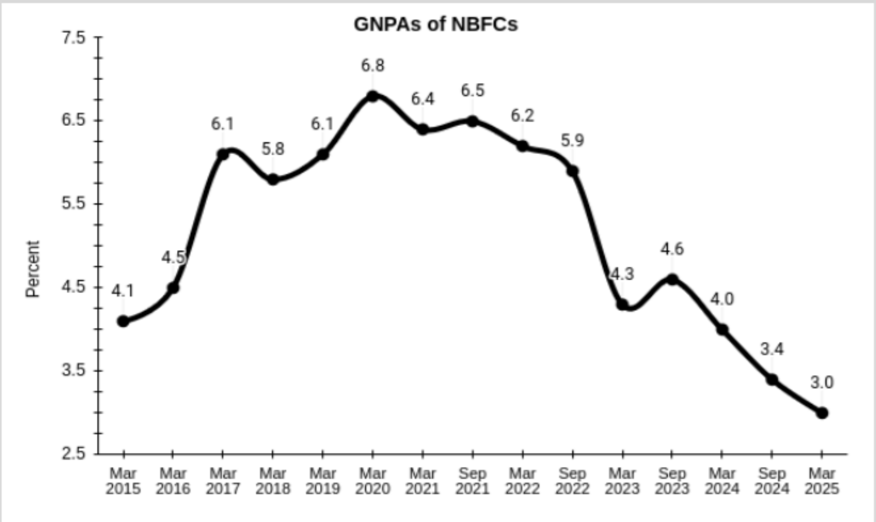
Source: RBI



- **Policy rates reduced by 100 basis points since February 2025.**
- **Cash Reserve Ratio (CRR) is also being reduced by 100 basis points in four tranches.**
- **Short-term rates has fallen to below the repo rate.**
- **With banking system liquidity in surplus, inter-bank call rates are hovering lower than the repo rate.**

Public and Private sector banks NPAs continue declining and converging, NBFC NPAs also declining





Source: RBI

- Gross non-performing assets (GNPA) ratio of banks continued to decline, falling to **2.3% in March 2025** from 11.2% GNPA ratio in March 2018.
- Public sector banks' GNPA ratio declined from 14.6% in June 2018 to **2.8% in March 2025**.
- Private sector banks' GNPA ratio declined from 5% in June 2021 to **1.8% in March 2025**.
- NPAs in the NBFC segment have also declined from 6.8% in March 2020 to **3% in March 2025**.

Transmission of Monetary Policy

Transmission more effective for fresh deposits than loans

Months	MPC decision	Weighted Average Lending Rate (WALR; Percent per annum)		Weighted Average Domestic Term Deposit Rate (WADTDR; Percent)		Spread (Percent)	
		Public sector banks	Private sector banks	Public sector banks	Private sector banks	Public sector banks	Private sector banks
Feb 2025	25 basis points cut	8.68	10.24	7	6.73	1.68	3.51
Mar 2025		8.66	10.32	7.01	6.9	1.65	3.42
Apr 2025	25 basis points cut	8.46	10.08	6.73	6.56	1.73	3.52
May 2025		8.38	10.15	6.59	6.29	1.79	3.86
Jun 2025	50 basis points cut	7.82	9.74	6.23	5.92	1.59	3.82
Jul 2025		8.13	9.58	6.06	5.71	2.07	3.87
Aug 2025	Status quo	8.06	9.44	6.01	5.71	2.05	3.73
Sep 2025		7.8	9.34	6.04	5.74	1.76	3.6
Total moderation (Basis points)	**100 basis point cut**	**88**	**90**	**96**	**99**		

Source: RBI

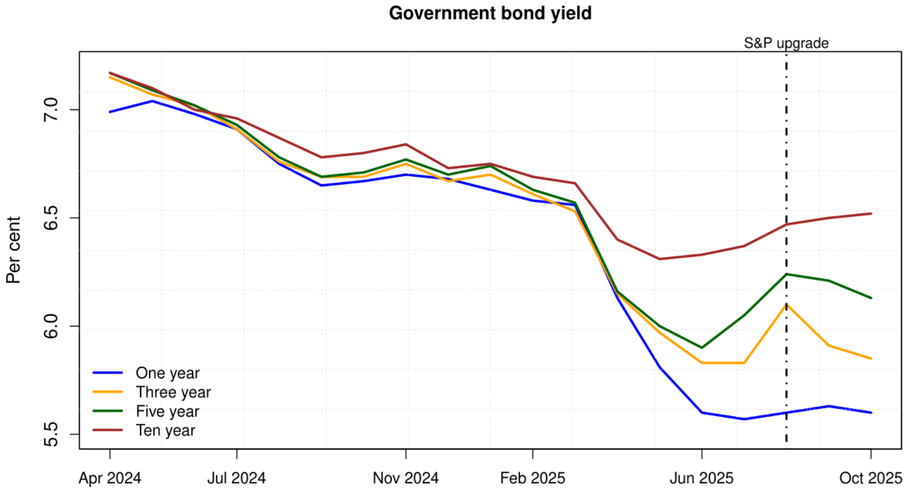
- Transmission to deposit rates is complete while it remains partial for lending rates.
- Lending rates of banks linked to External Benchmark Lending rate (EBLR) has meant faster transmission of policy rate changes.
- Spread indicates that bank margins have remained excessive

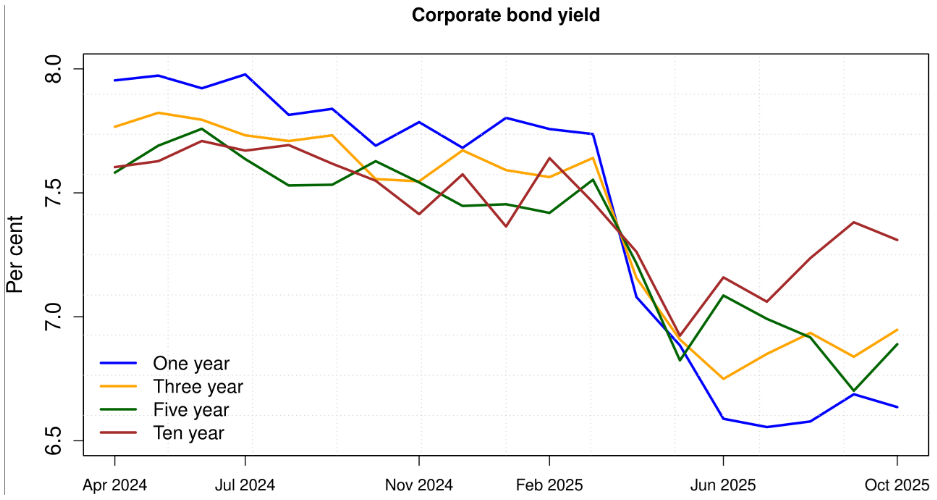
Transmission more effective for outstanding loans than deposits

Months	MPC decision	Weighted Average Lending Rate (WALR; Percent per annum)		Weighted Average Domestic Term Deposit Rate (WADTDR; Percent per annum)	
		Public sector banks	Private sector banks	Public sector banks	Private sector banks
Feb 2025	25 basis points cut	9.1	10.8	7.16	7.15
Mar 2025		9.09	10.76	7.16	7.16
Apr 2025	25 basis points cut	9.02	10.63	7.15	7.21
May 2025		9	10.65	7.12	7.19
Jun 2025	50 basis points cut	8.76	10.43	7.07	7.1
Jul 2025		8.73	10.32	6.99	7.03
Aug 2025	Status quo	8.7	10.22	6.95	6.98
Sep 2025		8.63	10.17	6.91	6.91
Total moderation (Basis points)	**100 basis point cut**	**47**	**63**	**25**	**24**
Source: RBI					

- Transmission of policy rate cuts towards loans has been better than on deposits.
- Faster pace of transmission is on account of floating lending rates increasingly being linked to EBLR.
- Higher transmission in private sector banks is on account of almost 88% of total outstanding floating rate rupee loans being linked to EBLR.
- Lower transmission towards lending rates in the public sector banks is due to the fact that only 47% of total outstanding floating rate rupee loans are linked to EBLR.

Bond yields have eased overtime but yield curve has steepend

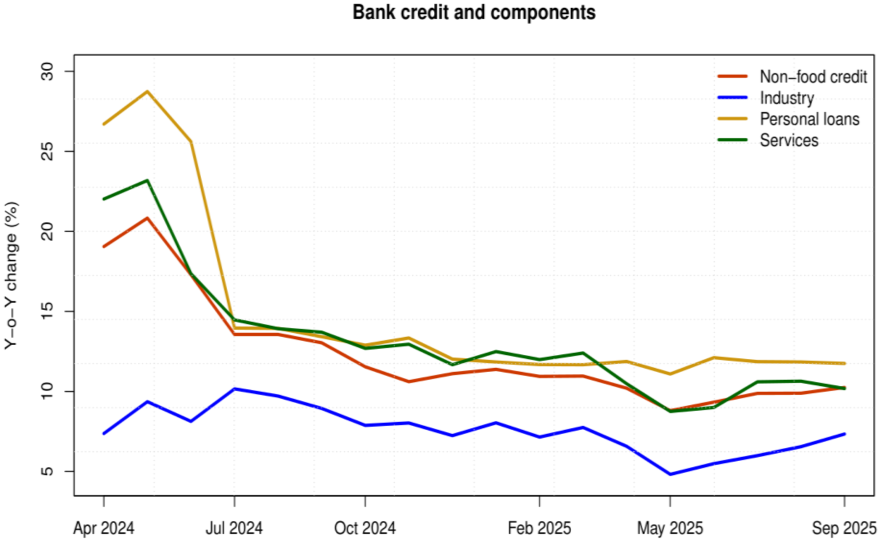




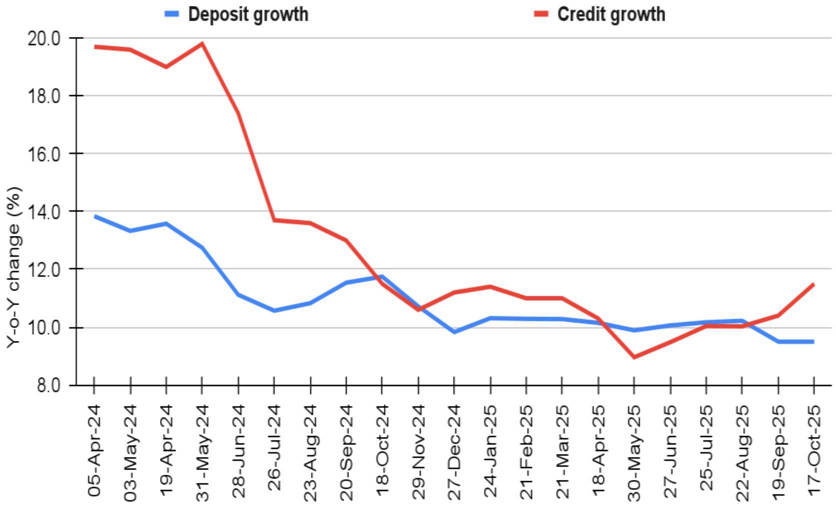
- **From April till June 2025, bond yields across maturities trended downwards.**
- **In July and August, change in stance back to neutral, GST rejig, and tariff imposition led to the hardening of the government bond yields.**
- **In September and October, short-term yields moderated tracking lower inflation print.**
  - **While 10-year yields hardened tracking increase in the supply of 10-year government securities in the second half of FY26, as highlighted by the borrowing calendar.**
- **Overall term spread has widened tracking shift in investor preference towards equity and corporate bonds.**
- **Corporate bonds yields have mirrored the trend in government bond yields.**

Bank credit

Revival of credit growth in festival season; deposit growth trailing credit growth



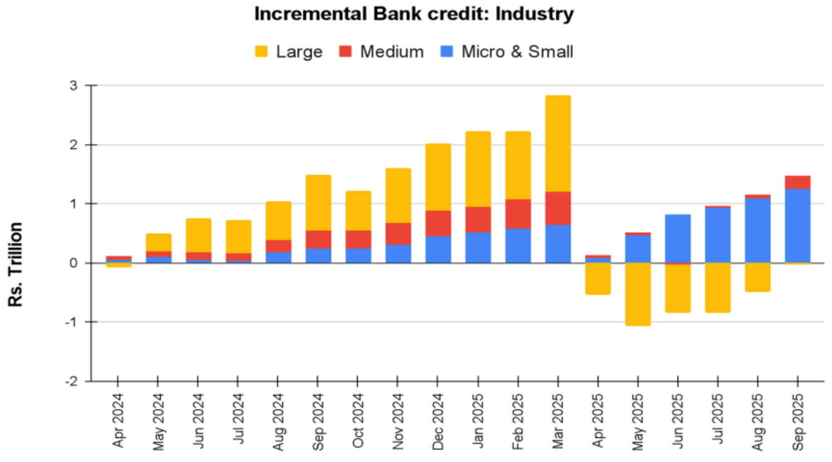
Source: RBI

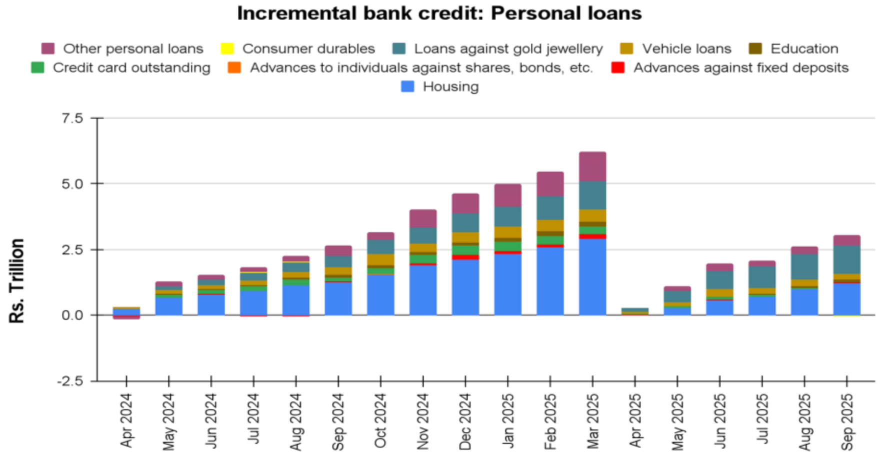


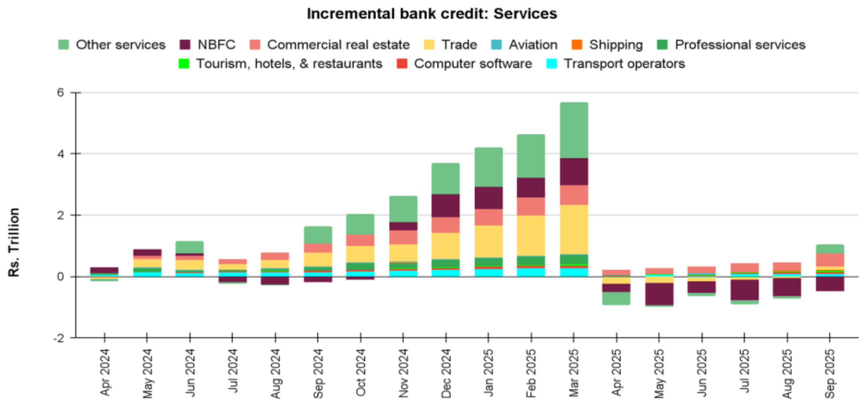
*Including the HDFC merger impact

- Festival season led to a marginal improvement in bank credit in September to 10.25% from 9.89% in August, primarily tracking a rebound in bank credit to industry.
- However, when compared with the growth rate same month in 2024 of around 13%, the growth rate in September 2025 is lower, given the fact that monetary policy has been eased within 2025.
- The slowdown is broad based amongst the three components when compared with 2024.
- Post the month of August, deposit growth has been trailing behind credit growth

Credit offtake to Large Industry and Services sector has moderated



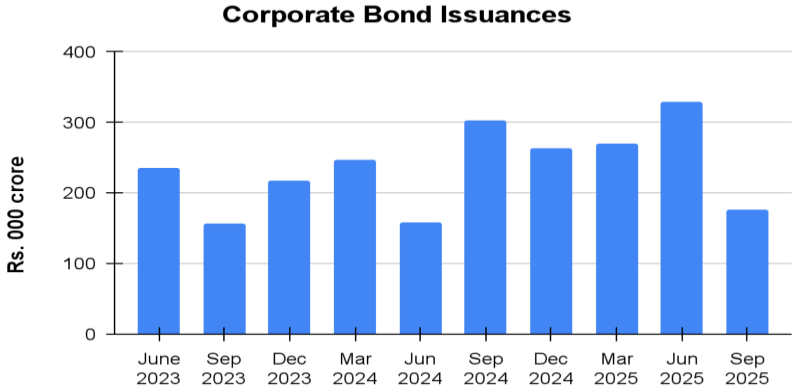


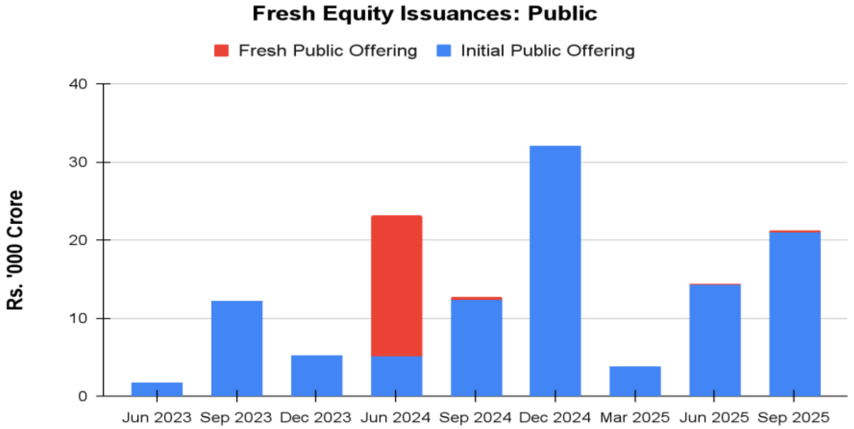


- Large industries and NBFCs have been deleveraging throughout the first half of FY26.
- Micro and Small enterprises have considerably increased their bank credit demand.
- Personal loans, have marginally improved despite roll back of the higher risk weights.

Source: RBI

Corporates are increasingly tapping into the capital market for funds





- Faster monetary policy transmission in bond markets
- Within FY26, June quarter saw maximum amount being raised through corporate bonds.
- Almost all of these were raised through private placement route.
- Equity issuances particularly in the form of Initial Public Offerings have also increased within this year.
  - Small and Medium enterprises also increasing participating, along with large corporates.
- September 2025 quarter saw record number of corporates raising funds through IPOs to the tune of around Rs. 210 billion.
  - Large wave of listings since December 1996.
  - IPOs were dominated by corporates from the manufacturing and non-financial services sectors.
  - A total of 136 companies raised funds through the equity market in September

Source: SEBI, and CMIE

Fiscal Outlook: Central and State governments

Sharp decline in central tax revenue growth mainly due to fall in growth of income tax & CGST

- Gross tax revenue growth fell to 2.8% during Apr-Sep 2025 with sharp fall in Income tax growth (4.7%) & CGST tax growth (5.8%)
  - Corporation tax growth (1.1%) also declined
- However, excise duty growth rose to 8% probably due to increase in excise duty on petrol & diesel
- Very high non-tax revenue growth at 30.5% during FY 2025 (Apr-Sep), mainly due to enhanced dividend (Rs. 2.69 trillion) from RBI
- In 2025-26 budget, government increased the exemption threshold for personal income tax
- It rationalized GST rates of around 450 goods and services from 22 Sep 2025
- Both these measures to adversely impact revenues
- We quantify the impact of these on revenues and expenditure of central government

Indicators	Y-o-Y growth (%)			Change over 2024-25 RE (%)	
	2024-25 Apr-Sep	2025-26 Apr-Sep	2025-26 BE over 2024-25 RE	Optimistic	Pessimistic
Nominal GDP	12.0	9.8	8.0	10.4	7.6
Centre's Net Revenue*	16.1	4.5	10.8		
Gross Tax Revenue (GTR)	12.0	2.8	10.8	0.0	-0.2
Corporation Tax	2.3	1.1	10.4		
Income tax	25.0	4.7	14.4		
Union Excise duties	3.0	8.1	3.9		
CGST	10.8	5.8	11.3		
Customs duty	6.4	-5.2	2.1		
Non-Tax Revenue (NTR)	50.9	30.5	9.8		

Note: * net of states' share in central taxes & collections under NCCD.

High total expenditure growth attributed to sharp increase in capital expenditure (capex) growth

- Sharp increase in capex growth (40%) during Apr-Sep 2025 vis-à-vis sharp contraction (-15.4%) Apr-Sep 2024
- Revenue expenditure growth fell to 1.5%
  - Contraction in subsidies (-5.7%) compared to a modest growth (4%) in 2024-25
- For FY 2025-26, capex budgeted to increase by 10%, revenue expenditure by 6.7%
- Major subsidies budgeted to remain at 2024-25RE level
- 2025-26 FD target set at 4.4%, lower than earlier FD reduction goal of 4.5% by 2025-26
  - Possible if capex contracts in H2-2025-26 & offsets loss in revenue due to GST reforms & increase in income tax exemption threshold

Indicators	Y-o-Y growth (%)			Change over 2024-25 RE (%)	
	2024-25 Apr-Sep	2025-26 Apr-Sep	2025-26 BE over 2024-25 RE	Optimistic	Pessimistic
Revenue Expenditure	4.2	1.5	6.7		
Capital Expenditure	-15.4	40.0	10.1		
Total Expenditure	-0.4	9.1	7.4	2.8	2.8
Major Subsidies	4.0	-5.7	0.0		

- Govt. announced fiscal consolidation roadmap for 2026-27 to 2030-31 with debt-GDP ratio as the new fiscal monitoring target
  - Provides more elbow room for increasing capex and having higher FD to revive growth

State Finances: Decline in own revenue growth offset by increase in growth of central transfers

- Total revenue receipt (all-states) grew at 6% during Apr-Aug 2025, similar to that during Apr-Aug 2024
- Own revenues receipts accounted for 68% of TRR, central transfers share only 32% during Apr-Aug 2025
- Growth of own tax revenue (OTR), which accounts for 89% of ORR fell from 9.2% to 6.1%
- Large inter-state variations in OTR growth, ranging from (-)3.7% (Tripura) to 31% (Jharkhand)
- Central transfers (CT) grew by 6.3%
- Assumptions for state projections optimistic
    - ORR growth 5.9% to 14.5%
    - OTR growth 6.1% to 14.1%
    - ONTR growth 4.4% to 16.9%
    - GSDP growth projection also optimistic at 12%

Indicators	Y-o-Y growth (%)		
	2024-25 Apr-Aug	2025-26 Apr-Aug	2025-26 BE
Total Revenue Receipt (TRR)	6.0	6.0	12.0
Own Revenue Receipt (ORR)	7.4	5.9	14.5
- Own Tax Revenue (OTR)	9.2	6.1	14.1
- Own Non-Tax Revenue (ONTR)	-4.9	4.4	16.9
Central Transfers (CT)	3.1	6.3	8.7
- Devolution	19.9	13.2	10.4
- Grants-in-aid	-29.9	-17.3	5.1
GSDP	11.9	10.9	12.0

- OTR and ORR likely to be adversely impacted by GST rate rationalization
- Fall in central revenues on account of GST reforms to adversely impact transfers to states

Revenue expenditure growth has moderated but still high, capex growth very high

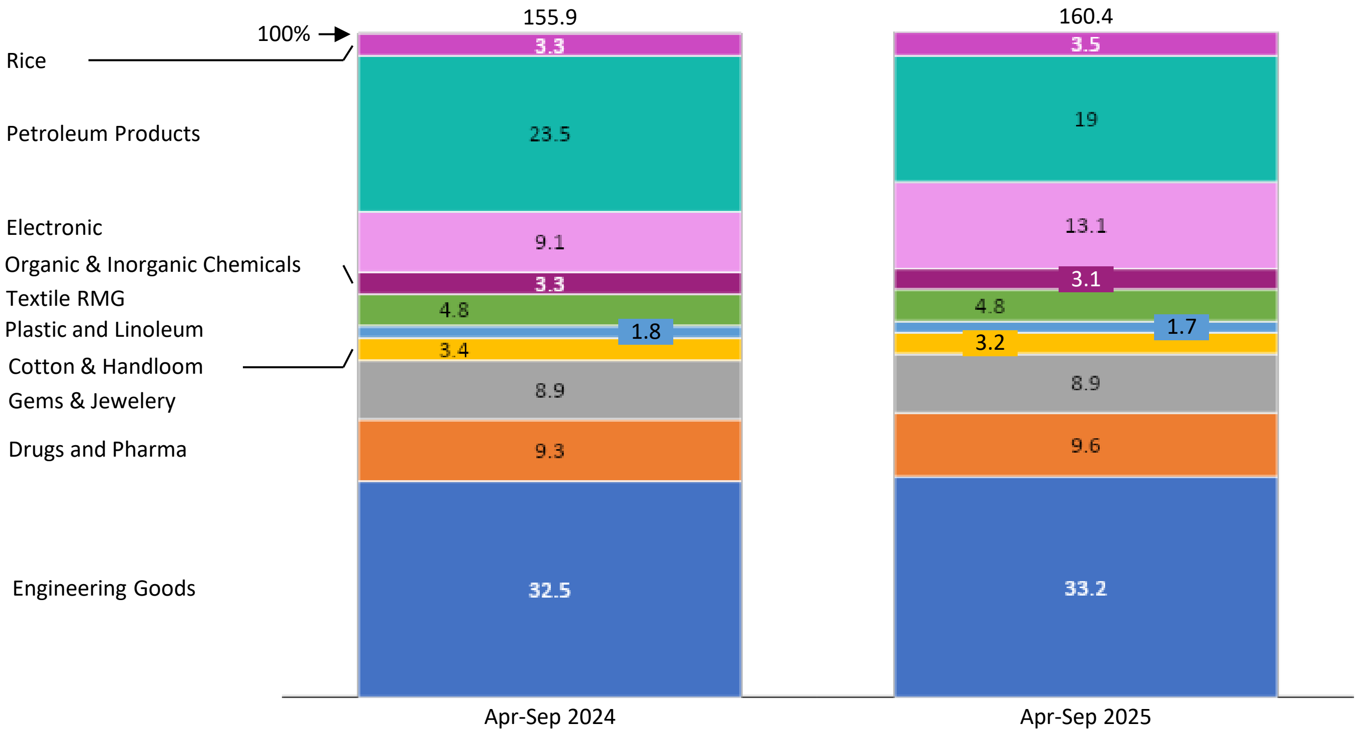
- During Apr-Aug 2025 combined capex of states increased by 14% as compared to contraction of (-6.8%) in 2024-25
- All-state capex is projected to grow at 15% in 2025-26
- Revenue expenditure growth (8.8%) during Apr-Aug 2025 is lower than that in 2024-25 (10.1%)
- For 2025-26 all-states revenue expenditure budgeted to grow by 9.2%, total expenditure by 10.1%.
- In 2025-26BE, states in aggregate have budgeted FD to be around 3.2% of GSDP as compared to 15th FC target of 3%.

Indicators	Y-o-Y growth (%)		
	2024-25 Apr-Aug	2025-26 Apr-Aug	2025-26 BE
Total expenditure	7.9	9.3	10.1
Revenue expenditure	10.1	8.8	9.2
Capital expenditure	-6.8	14.0	15.1

Appendix

Change in share of Top 10 export sectors between Apr-Sep 2024 and 2025

USD bn



SOURCE: DGCSI

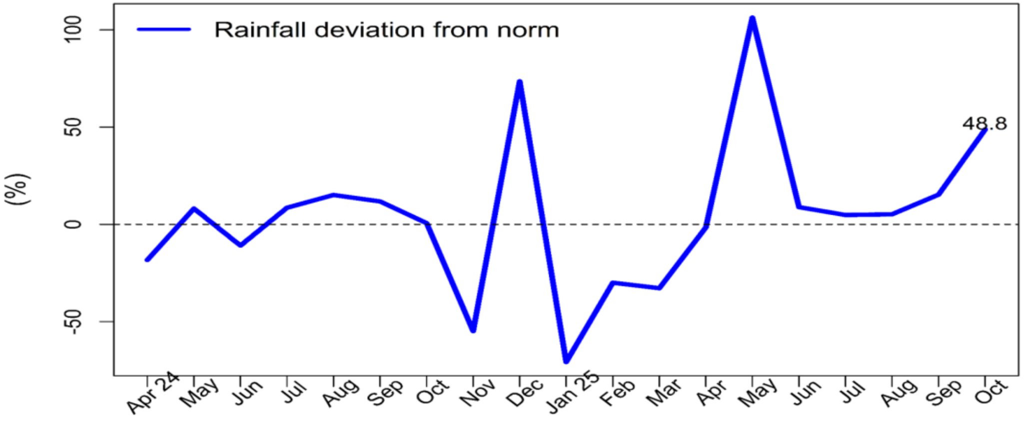
Export share for India’s top 10 sectors by destination

Apr-Sep 2025, USD Bn

Country	Engineering Goods	Petroleum Products	Electronic Goods	Drugs & Pharma	Gems & Jewellery	Textiles (RMG)	Rice	Cotton & Handloom		Plastics & Linoleum
USA	18%	8%	56%	32%	19%	33%	3%	25%	16%	16%
UAE	7%	10%	10%	1%	33%	8%	4%	2%	3%	6%
Netherlands	2%	20%	3%	2%	0%	5%	1%	1%	4%	1%
China	2%	5%	5%	1%	0%	0%	1%	2%	6%	4%
UK	4%	2%	2%	3%	3%	9%	2%	2%	1%	3%
RoW	68%	55%	24%	61%	45%	44%	88%	67%	69%	70%

SOURCE: DGCSI

Outlook for Kharif crop in 2025-26 optimistic

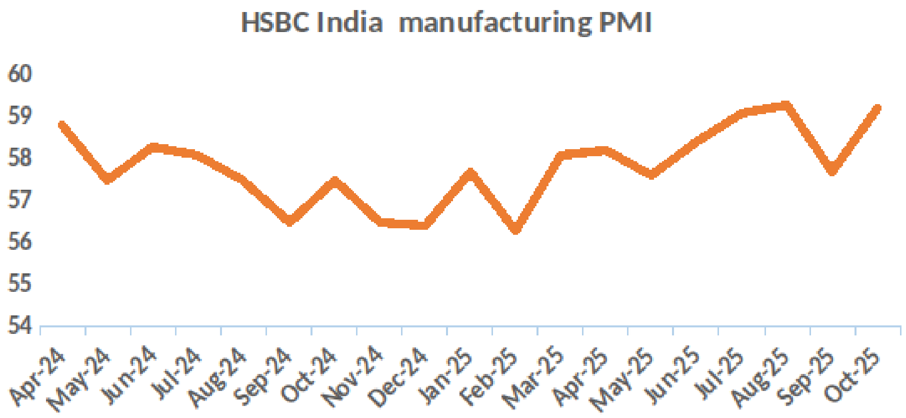


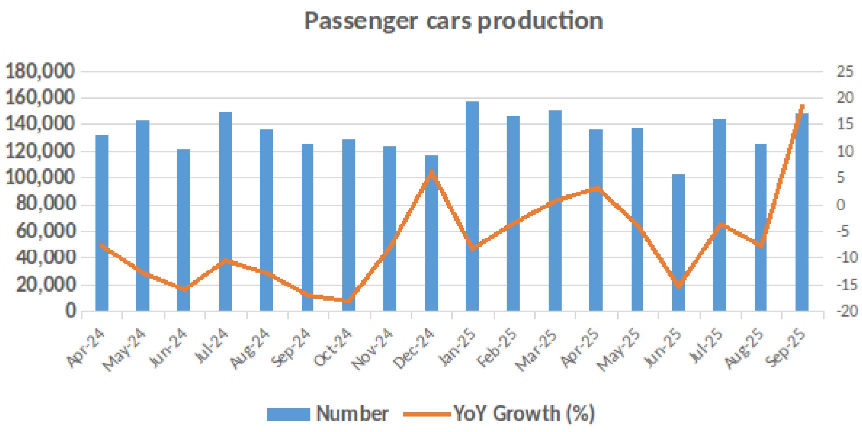
Actual gross area sown under Kharif crops (Million Hectare)				
Year	Foodgrain	Cereals	Pulses	Major Oilseeds
2024	73.8	61.9	11.9	20.1
2025	75.7	63.6	12.0	19.0
YoY Growth (%)	2.5	2.8	1.2	-5.3

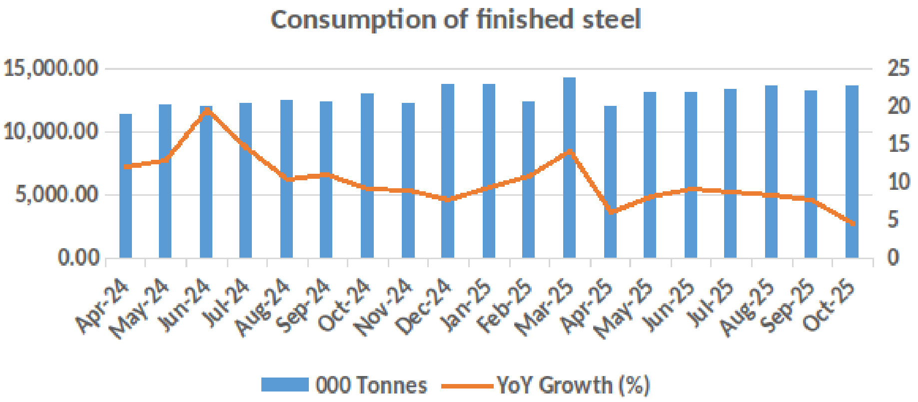
Source: CMIE, Ministry of Agriculture & Farmers Welfare

- Kharif crop performance in FY 26 exceeded Govt.'s target of 171.39 million
- Contributing factors:
  - Timely monsoon support: Rainfall on average 16.6% above the normal level
  - Significant increases in Minimum Support Prices (MSP) for several crops, including Jowar, Bajra, Ragi, Cotton, Oilseeds
  - Increased area coverage: Kharif area sown under foodgrains expanded by 2.5%
- However excessive localised rainfall may have some adverse impact on kharf harvests

Industrial performance outlook mixed for FY 26

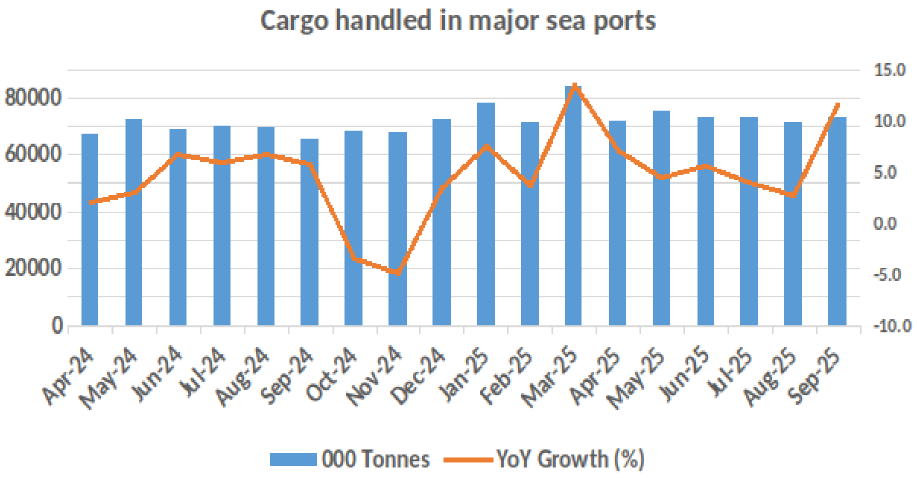


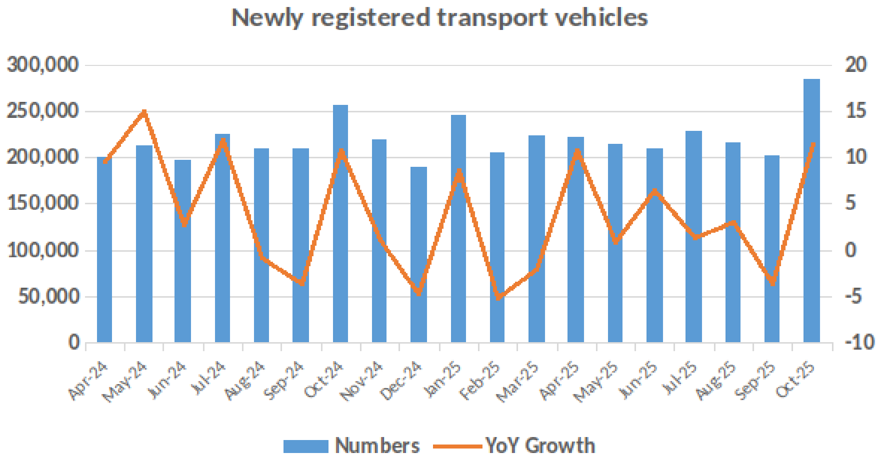


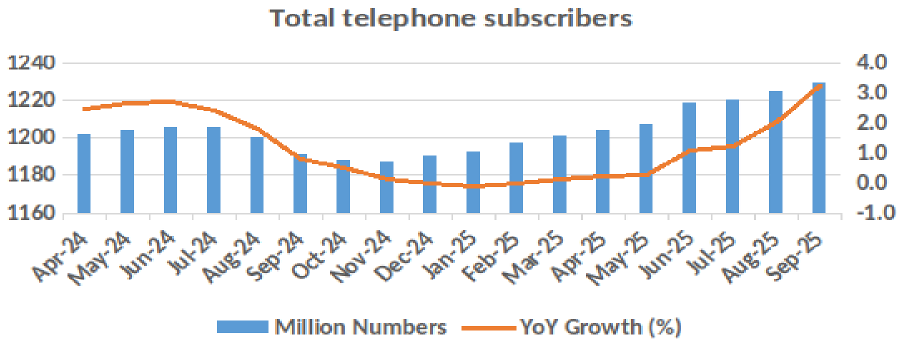


- Performance of passenger cars sector picked up in pre-festive time
- Construction sector growth moderated in the beginning of H2 FY26
- 57% growth in Value of new orders for machineries, while it contracted by 11% in infrastructure sector

Trade and transport services growth deteriorated in Jul-Sep FY 26 due to trade related uncertainties, while telecom and mutual fund growth improved

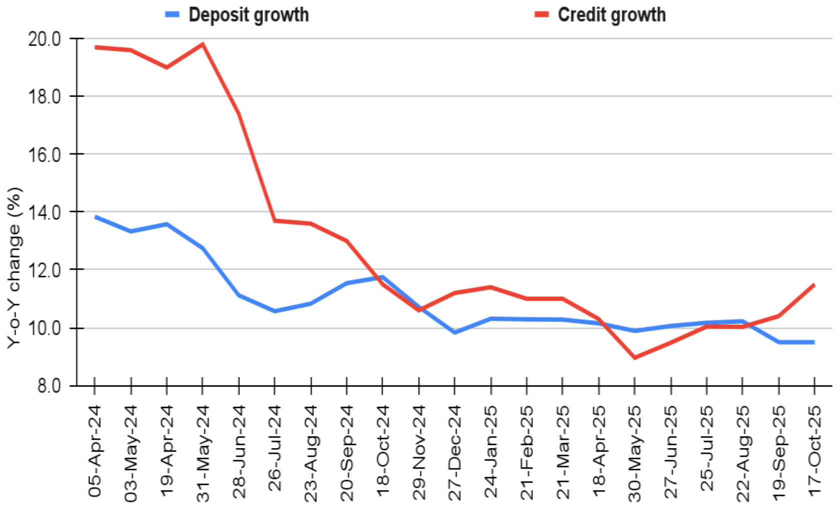




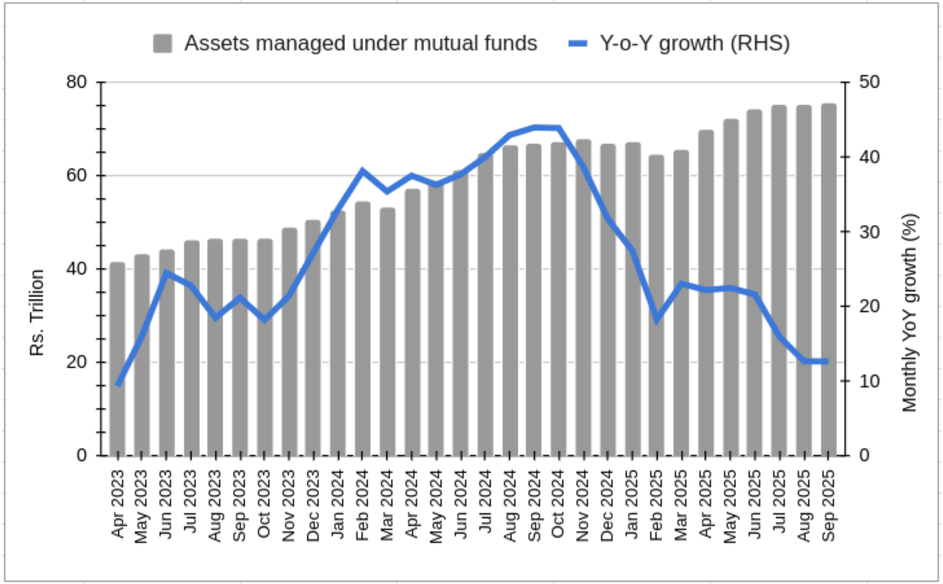


Trade and transport services growth improved in October FY 26 due to front-loading before tariff hike

Moderating Financial Services Growth

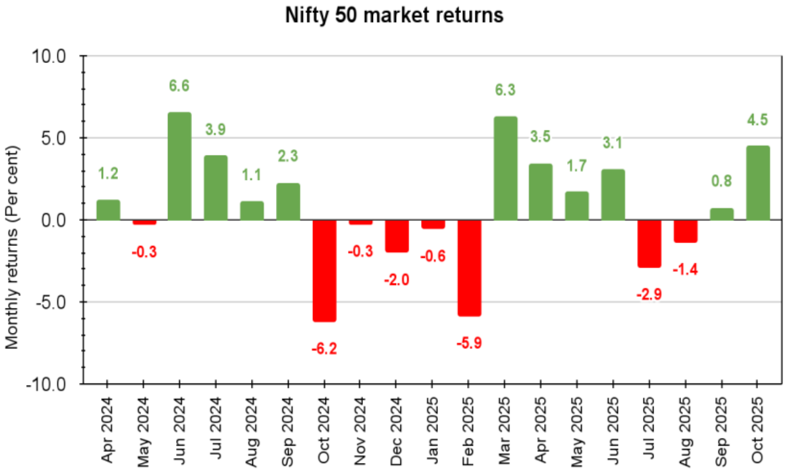


*Including the HDFC merger impact

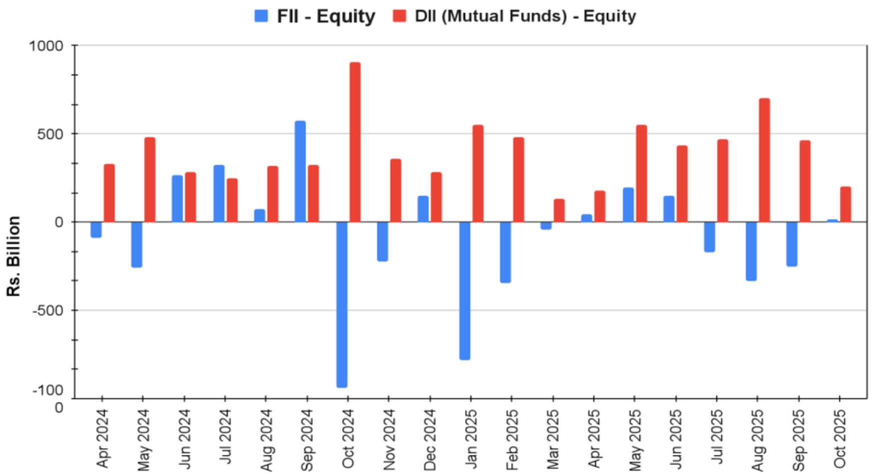


Source: RBI and Association of Mutual Funds of India

Tariff announcements have tempered capital market returns



Source: NSE



Source: NSDL & SEBI

- In the first three months of FY 2026 equity markets remained buoyant tracking pause in US reciprocal tariffs, record surplus transfer by the RBI to the government, ceasefire between India-Pakistan, and front-loading of the rate cuts.
- The markets turned negative in the months of July and August tracking tariff announcements and lack of US-India trade deal.
- The markets rebounded in September tracking robust GDP growth for Q1 FY 26, strong manufacturing and services PMI, optimism around US-India trade deal and increasing bets around rate cuts by Federal reserve.
- However, in October the investor sentiments dampened tracking Federal Reserves cautious outlook on interest rate cuts in December.
- FPIs, in FY26, for the most part, have been net sellers.
- The momentum in the equity markets has mostly been maintained by Domestic Institutional Investors.

Meaning of Banking System Liquidity

System liquidity = Net borrowing under LAF - Excess reserves maintained by banks

Net borrowing under LAF = Total of all Repo/MSF/SDF borrowings - Total of all Reverse-repo deposits

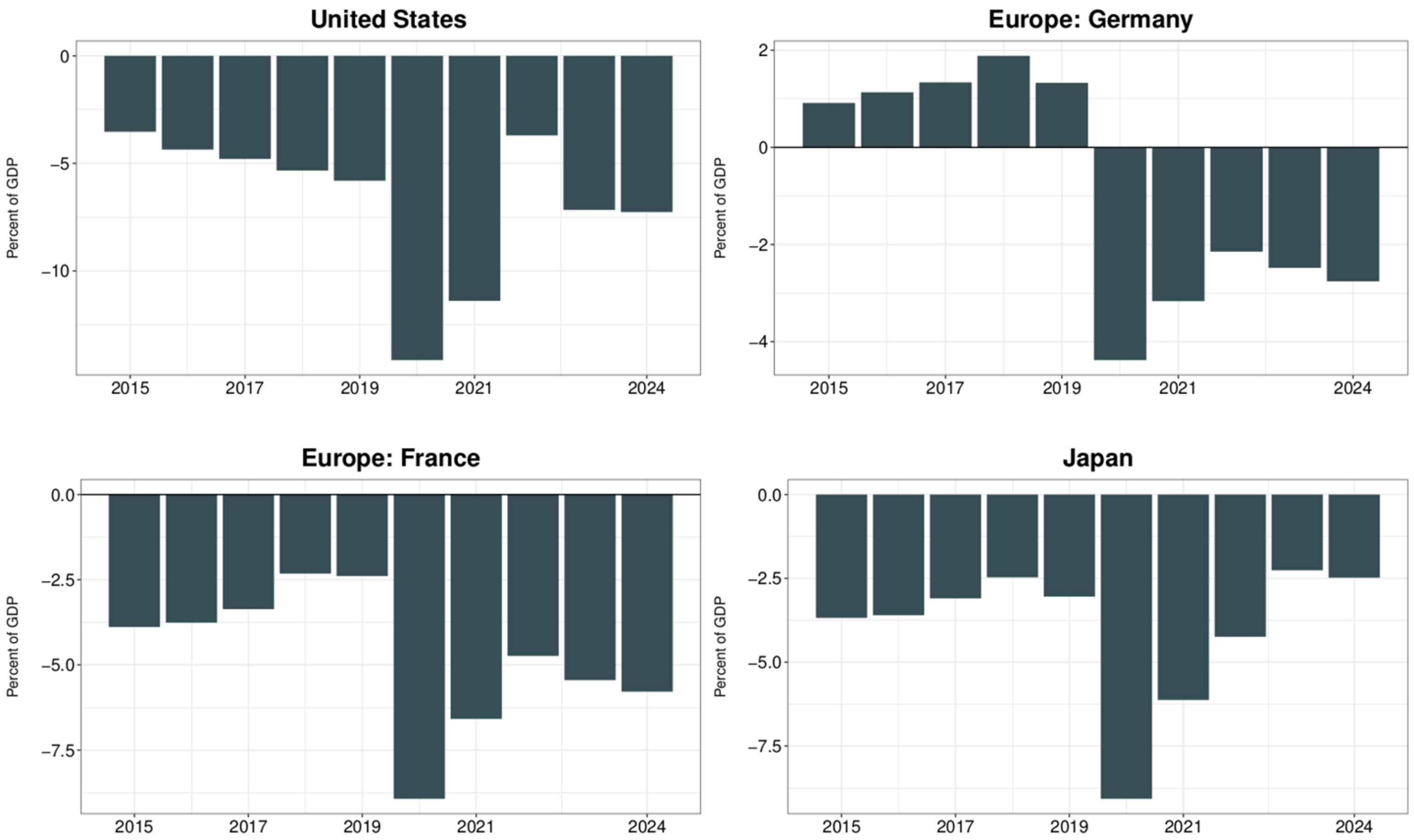
Excess reserves maintained by banks = Actual reserves maintained by banks - Required reserves

- If the banking system is a net borrower from Reserve Bank under LAF, the system liquidity is in deficit (i.e., system demand for borrowed reserves is positive). RBI conducts VRR auctions.
- If the banking system is a net lender to the Reserve Bank, the system liquidity is in surplus (i.e., system demand for borrowed funds is negative). RBI conducts VRRR auctions.

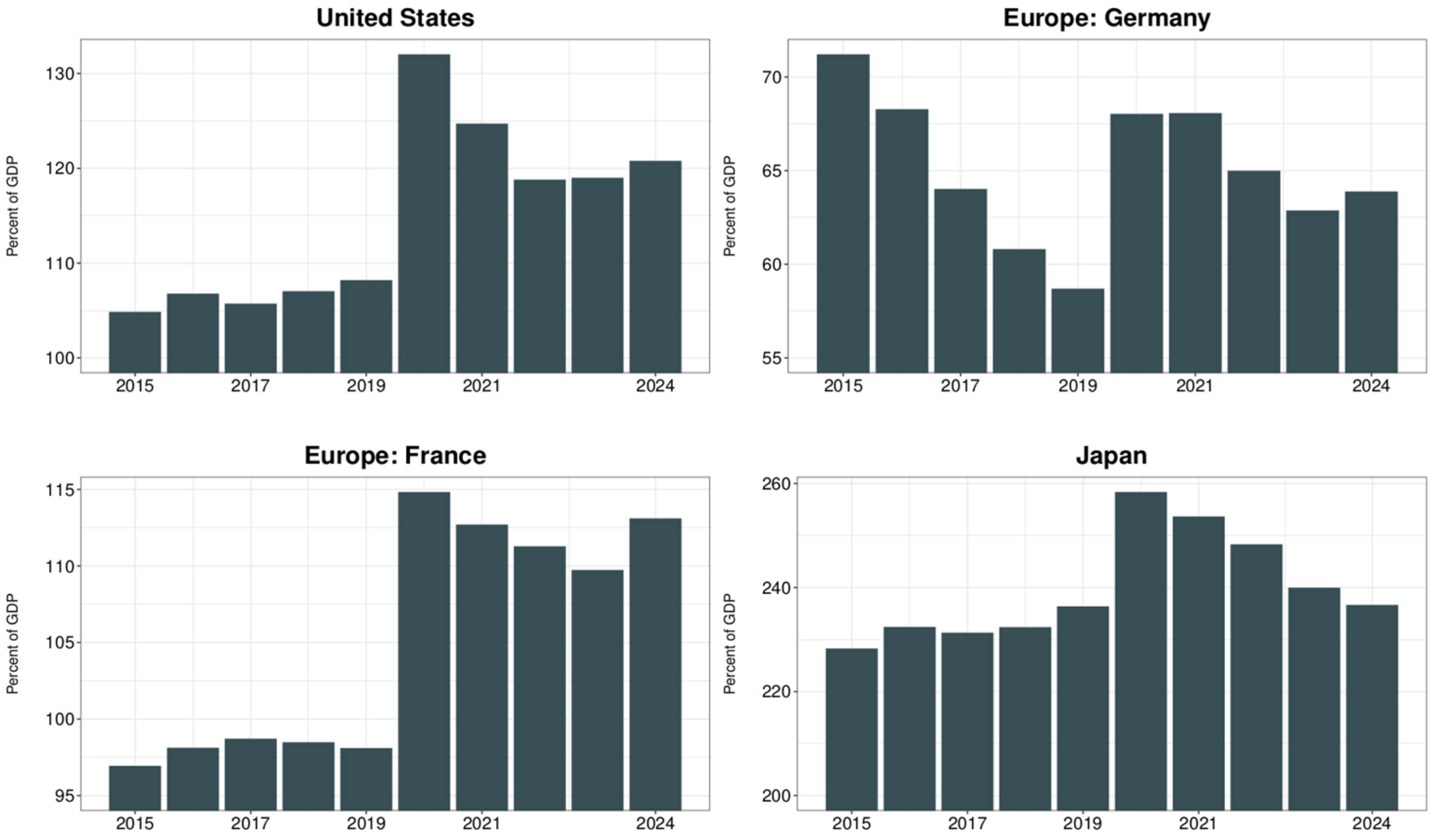
RBI in it's October policy announced measures to increase credit flow

1. To expand the scope of capital market lending by banks, it was proposed to provide an enabling framework for banks to finance acquisitions by Indian corporates.
2. It proposed to : -
   a. Remove the regulatory ceiling on lending against the listed debt securities
   b. Enhance limits for lending by banks against shares from Rs. 20 lakh to Rs. 1 crore, and for IPO financing from Rs. 10 lakh crore to Rs. 25 lakh crore per person.
3. It proposed to withdraw the framework introduced in 2016 that disincentivised lending by banks to specified borrowers (with credit limit from banking system of Rs. 10,000 and above).
4. To reduce the cost of infrastructure financing by NBFCs, it is proposed to reduce the risk weights applicable to lending by NBFCs to operational, high quality infrastructure projects.
5. Licensing of new Urban Co-operative banks.

Fiscal balance to GDP



Debt to GDP


United States
Europe: Germany
Europe: France
Japan
Percent of GDP
130
120
110
100
70
65
60
55
115
110
105
100
95
260
240
220
200
2015
2017
2019
2021
2024