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Economy Watch

Monitoring India's
macro-fiscal performance

August 2025

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Highlights

1. In July 2025, manufacturing PMI rose to 59.1, a 16-month high, while the services PMI climbed to 60.5, its highest level in 11 months.
2. Led by slower growth in manufacturing and the contraction in the output of mining and electricity, IIP growth moderated to 2.0% in 1QFY26 from 4.0% in 4QFY25.
3. The RBI retained the repo rate at 5.5% in its monetary policy review held on 06 August 2025.
4. Led by an accelerated pace of contraction in food prices, CPI inflation moderated for the ninth successive month from 2.1% in June 2025 to 1.6% in July 2025, its lowest level since June 2017.
5. WPI inflation showed a contraction for the second consecutive month at (-)0.6% in July 2025 as compared to (-)0.1% in June 2025, attributable mainly to continued contraction in prices of food items led by favorable base effects.
6. GoI's gross tax revenue (GTR) grew by 4.6% in 1QFY26 with a contraction of (-)0.8% in direct taxes and a growth of 11.5% in indirect taxes.
7. GoI's total expenditure grew by 26% in April-June FY26, with growth in revenue expenditure at 20% and that in capital expenditure at 52%.
8. GoI's fiscal and revenue deficits during 1QFY26 stood at 17.9% and 6.4% of their respective annual BEs.
9. Growth in gross bank credit improved marginally to 10.4% in June 2025 from 9.9% in May 2025.
10. Net FDI inflows were significantly low at US$0.04 billion in May 2025, while net FPI inflows were relatively higher at US$1.55 billion during the month.
11. Merchandise exports and imports growth turned positive at 7.3% and 8.6% respectively in July 2025 from (-)0.1% and (-)3.7% in June 2025. Exports growth was led by non-oil goods while imports were led by growth in crude oil imports.
12. Global crude price increased to a four-month high of US$69.2/bbl. in July 2025.
13. The IMF (July 2025) projected global growth at 3.0% in 2025, with India's FY26 growth forecasted at 6.4%.
14. Beyond 2030, if India and the US maintain their average forecasted growth rates over the period 2028 to 2030 at 6.5% and 2.1% (IMF), respectively, India may surpass the US economy in PPP terms in 2038.

Foreword

Minimizing adverse impact of tariff uncertainties

The RBI, in its August 2025 Monetary Policy Review, retained the repo rate at 5.5% while continuing with a neutral policy stance. It also maintained its real GDP growth forecast for FY26 at 6.5%. In its assessment, domestic growth remains resilient, supported by (a) robust private consumption aided by rural demand, and (b) investment activity, underpinned by buoyant government capital expenditure. The RBI highlighted potential risks stemming from uncertainties in the external sector, particularly those linked to the ongoing US tariff announcements and trade negotiations, prolonged geopolitical tensions, persisting global uncertainties, and volatility in global financial markets.

On inflation, the RBI, in its August 2025 Monetary Policy Review, significantly lowered its CPI forecast for FY26 to 3.1% from 3.7% in its June 2025 review. This revision was mainly due to lower food inflation, aided by favorable base effects, steady progress of the southwest monsoon, healthy kharif sowing, adequate reservoir levels, and comfortable buffer stocks of foodgrains. On a quarterly basis, however, CPI inflation is projected to exceed 4% from 4QFY26 onwards.

The Prime Minister's Independence Day address included two important announcements with direct implications for the economy. First is a plan to implement substantive reforms to GST, including significant downward rate revisions and steps to reduce compliance costs. According to a Ministry of Finance document, the GST framework will now comprise a merit rate and a core rate, supplemented by a few special rates for selected items. Second, an ambitious employment promotion scheme has been proposed to support both employees and employers in the private sector. Together, these measures are expected to strengthen domestic demand—one through a price effect and the other through an income effect—helping offset potential adverse impacts of higher US tariffs.

The IMF, in its July 2025 update of the World Economic Outlook, projected India's growth at 6.4% in FY26 and FY27—the highest among major economies. These projections reflect upward revisions of 0.2 and 0.1 percentage points respectively from its April 2025 forecasts. In comparison, global GDP is projected to grow by 3.0% in 2025 and 3.1% in 2026. For advanced economies (AEs), the corresponding growth rates are 1.5% and 1.6%, while for emerging market and developing economies (EMDEs), they are 4.1% and 4.0%.

The Asian Development Bank, in its July 2025 Asian Development Outlook, also assessed India as one of the fastest-growing major economies, forecasting FY26 growth at 6.5%. This marks a downward revision from 6.7% projected in April 2025, largely due to the impact of US baseline tariffs and related policy uncertainty. Nonetheless, economic activity is expected to remain robust, supported by strong domestic consumption, particularly with rural demand revival. Services and agriculture are expected to be key growth drivers, with the latter benefiting from above-normal monsoon forecasts. The ADB also noted that the central government's fiscal position is likely to remain sound, aided by higher-than-expected RBI dividends, which should support the targeted reduction in the fiscal deficit-to-GDP ratio. For FY27, GDP growth is forecast to improve to 6.7%, driven by rising investments, under the assumption of reduced policy uncertainty and favorable financial conditions backed by recent reductions in the repo rate and cash reserve ratio by the RBI. Expectations of lower crude oil prices are also projected to support economic activity in FY26 and FY27. On CPI inflation, the ADB revised its FY26 forecast down to 3.8%, reflecting faster-than-expected moderation in food prices due to stronger agricultural output, while maintaining its FY27 forecast at 4%.

On 14 August 2025, S&P upgraded India's sovereign credit rating to BBB with a stable outlook, after a long period of maintaining a BBB- rating (the lowest investment grade). Announced on the eve of India's 79th Independence Day, this development is positive for both the government and corporates. The upgrade reflects India's consistent growth performance in the post-Covid years and its sustained efforts at fiscal consolidation after the fiscal deficit had peaked in FY21. According to the IMF, India's medium-term growth prospects are expected to average 6.5% up to 2030 (FY31). The rating upgrade should enhance India's attractiveness as an investment destination and may also help reduce international borrowing costs for corporates, despite uncertainties linked to US tariffs, given that India's growth is less dependent on net exports.

High-frequency indicators for June and July 2025 suggest positive growth momentum. Manufacturing PMI rose from 58.4 in June 2025 to 59.1 in July 2025 — its highest since March 2024. Services PMI also increased to an 11-month high of 60.5 in July 2025 from 60.4 in June 2025, driven by stronger export orders. Monthly gross GST collections grew from INR 1.84 lakh crore in June 2025 to INR 1.96 lakh crore in July 2025. Merchandise exports and imports growth turned positive at 7.3% and 8.6% respectively in July 2025 from (-)0.1% and (-)3.7% in June 2025. Exports growth was led by non-oil goods, while that in imports was led by growth in crude oil imports.

According to the CGA, GoI's GTR grew by 4.6% during 1QFY26, much lower than 23.7% in the corresponding period of FY25, mainly due to a (-)0.8% contraction in direct taxes. Both personal income tax (PIT) and corporate income tax (CIT) revenues contracted by (-)0.5% and (-)1.2% respectively during April–June FY26, compared to strong growth rates of 49.9% and 26.2% in the same period last year. Among indirect taxes, GST revenues registered robust growth of 16.1% during 1QFY26. Union excise duties (UED), after contracting for three consecutive years (FY23–25), posted a positive growth of 8.3% during 1QFY26. Customs duty revenues, however, contracted by (-)9.9% during this period. Non-tax revenues grew by 33.2%, primarily due to higher dividends from the RBI. On the expenditure side, capital expenditure was frontloaded, growing by 52% in 1QFY26, while revenue expenditure also registered double-digit growth of 20%. Consequently, the fiscal deficit stood at 17.9% of the FY26 BE, compared to 8.6% in the same period of FY25 (based on actuals), reflecting higher total expenditure alongside subdued GTR growth.

CPI inflation fell to a 97-month low of 1.6% in July 2025, led by contraction in food prices. Core CPI inflation moderated to 4.0% in July 2025, the lowest in last six months, creating conditions conducive for continuation of the policy rate reduction cycle in the coming months of FY26. WPI showed a contraction in prices at the wholesale level for the second consecutive month at (-)0.6% in July 2025 as compared to (-)0.1% in June 2025, mainly due to continued contraction in prices of food items.

Gross bank credit growth improved marginally to 10.4% in June 2025 from 9.9% in May 2025. However, industrial output growth moderated for the third successive month, with IIP rising by only 1.5% in June 2025 compared to 1.9% in May 2025. For 1QFY26, IIP growth averaged 2.0%, down from 4.0% in 4QFY25.

This month's *In-focus* examines the comparative economic profile of the five largest economies against the backdrop of US tariff uncertainties and global economic challenges. A meaningful comparison of economic size may be based on purchasing power parity (PPP, constant 2021 international dollars), rather than market exchange rates (US dollars). On this basis, India's GDP in FY25 is estimated by the IMF at PPP$14.2 trillion — around 3.6 times larger than when measured in market exchange rate terms. India is thus already the third-largest economy after China and the US. If beyond 2030, India and the US maintain average growth rates of 6.5% and 2.1%, respectively, during 2028–2030 (as per IMF forecasts), India may surpass the US economy in PPP terms by 2038. We also argue that with appropriate countermeasures, India can limit the adverse impact of higher US tariffs on selected Indian imports to about 10 basis points of real GDP growth. Such measures could include export diversification, reducing import dependence (particularly on the US), strengthening domestic consumption, and expanding the domestic production base.

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1.

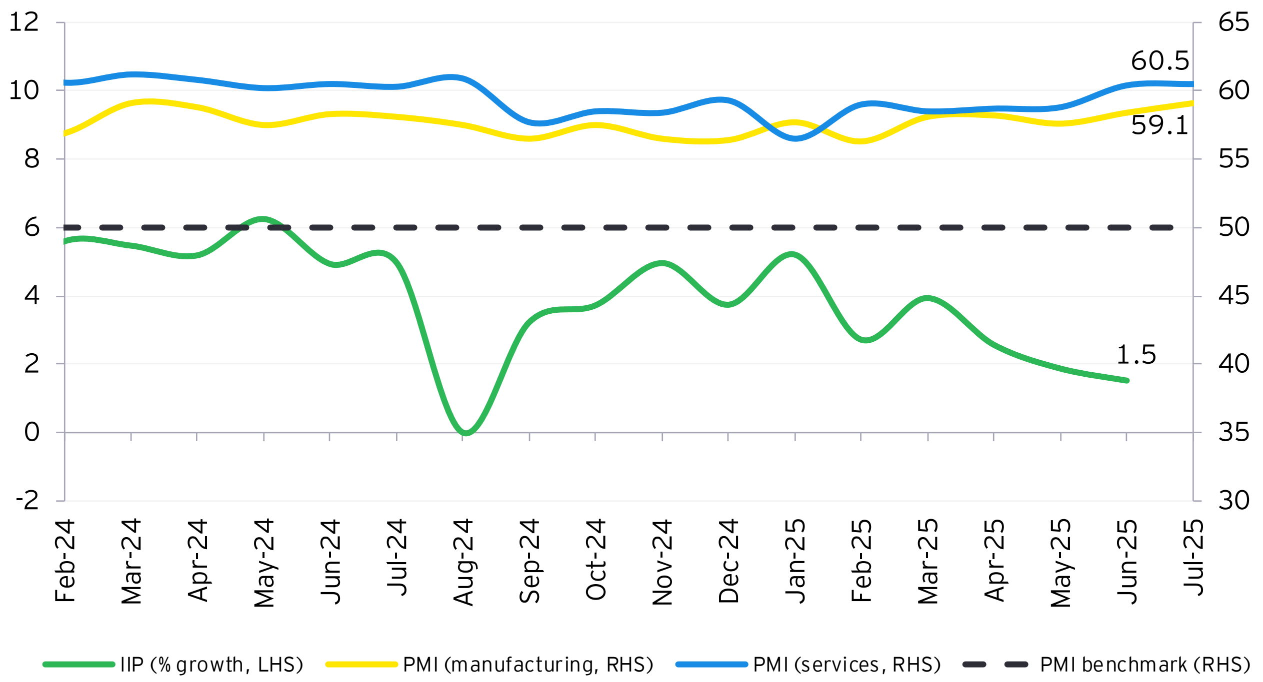
Growth: Manufacturing and services PMI rose to multi-month highs in July 2025

PMI: Manufacturing and services PMI increased to multi-month highs of 59.1 and 60.5 in July 2025

- Manufacturing PMI (seasonally adjusted or sa) increased from 58.4 in June 2025 to 59.1 in July 2025, its highest level since March 2024. This was led by strong growth in new orders and output. Granular data indicates that the acceleration was confined to the intermediate goods segment as rates of increase slowed elsewhere.
- Services PMI (sa) increased to an 11-month high of 60.5 in July 2025 from 60.4 in June 2025, led by a pickup in new export orders (Chart 1). The best performing sector was finance and insurance, while the slowest growth was registered in real estate and business services.
- Owing to an increase in both manufacturing and services PMI, the composite PMI Output Index (sa) increased from 61 in June 2025 to 61.1 in July 2025. The performance was supported by the strengthening demand for Indian goods and services.

In July 2025, manufacturing PMI increased to a 16-month high of 59.1. Services PMI also reached a 11-month high of 60.5 during the month.

Chart 1: PMI and IIP growth



Source: MoSPI and S&P Global.

1.1. IIP: Growth was at a 10-month low of 1.5% in June 2025

- According to the quick estimates, IIP growth fell for the third consecutive month to 1.5% in June 2025, down from 1.9% (revised) in May 2025 (Chart 1). In 1QFY26, led by slower growth in manufacturing output and contraction in the output of mining and electricity, IIP growth averaged lower at 2.0% as compared to 4.0% in 4QFY25.
- The moderation in IIP growth in June 2025 is attributable to a sharp contraction in the mining sector output at (-)8.7% in June 2025 even as the output of electricity continued to contract, although at a slower pace of (-)2.6% during the month. Growth in the output of the manufacturing sector, however, improved to 3.9% in June 2025 from 3.2% (revised) in May 2025.
- Within manufacturing, among the sub-industries, the output of fabricated metal products (15.2%), basic metals (9.6%), and coke and refined petroleum products (4.2%) showed higher growth rates in June 2025. Growth in the output of pharmaceuticals also improved by 2.1% in June 2025, following three successive months of contraction.
- The output of chemical and chemical products contracted at a slower pace of (-)3.6% in June 2025, marking its fifth consecutive decline. In May 2025, it contracted by (-)4.0%.
- Within the 'use-based' classification of industries, the output of infrastructure/construction continued to show a strong growth of 7.2% in June 2025, increasing from 6.7% in May 2025. Growth in the output of capital goods, which is usually volatile, moderated sharply to 3.5% in June 2025 from 13.3% in May 2025.
- Even though output of consumer durables showed a growth of 2.9% in June 2025, compared to a contraction of (-)0.9% in May 2025, it was significantly lower than its average growth of 6.6% over the previous 12 months. Output of consumer non-durables, however, contracted for the fifth successive month by (-)0.4% in June 2025.
- Growth in the output of eight core infrastructure industries (core IIP) remained low at 1.7% in June 2025, although improving marginally from 1.2% (revised) in May 2025. This may be attributed to improvements in the growth of steel (9.3%) and petroleum refinery products (3.4%). Meanwhile, contraction in the output of fertilizers and crude oil at (-)1.2% each, natural gas and electricity at (-)2.8% each was lower as compared to the previous month.
- On a quarterly basis, core IIP growth averaged lower at 1.3% in 1QFY26, compared to 4.3% in 4QFY25.

Led by slower growth in manufacturing and contraction in the output of mining and electricity, IIP growth moderated to 2.0% in 1QFY26, from 4.0% in 4QFY25.

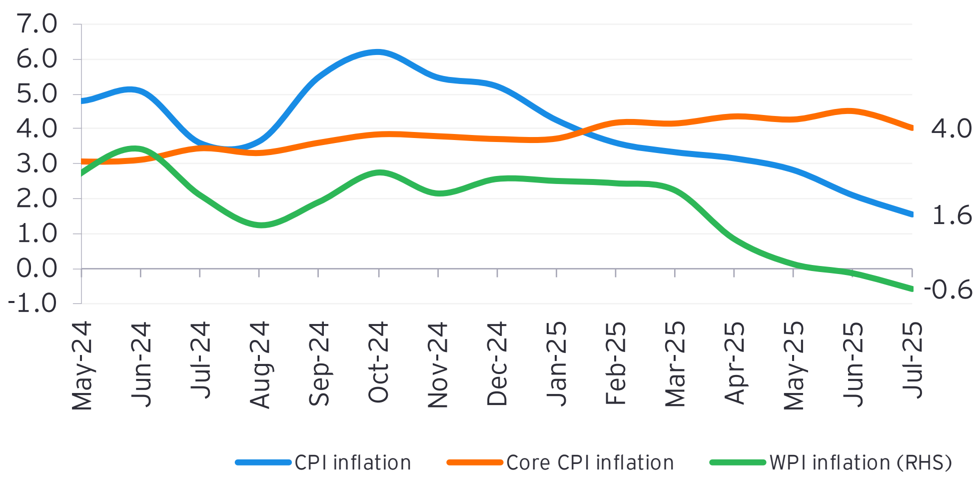
2.

Inflation: CPI inflation fell to a 97-month low of 1.6% in July 2025

2.1. CPI inflation

- Led by an accelerated pace of contraction in food prices, CPI inflation moderated for the ninth successive month from 2.1% in June 2025 to 1.6% in July 2025 (Chart 2), its lowest level since June 2017.
- Consumer food prices contracted for the second successive month at (-)1.8% in July 2025 as compared to 1.1% in June 2025, led by favorable base effects accompanied by strong monsoon rains and a robust harvest season.
- Prices of vegetables declined by (-)20.7% in July 2025, the highest pace of contraction since September 2021. The pace of contraction in pulses and products quickened to an 89-month high of 13.8% in July 2025.
- Inflation in fuel and light remained low at 2.7% in July 2025, marginally higher than 2.6% in June 2025.
- Housing-based inflation remained stable for the third consecutive month at 3.2% in July 2025.
- Inflation in clothing and footwear eased slightly to 2.5% in July 2025 from 2.6% in June 2025.
- Inflation in transportation and communication services fell from 3.9% in June 2025 to 2.1% in July 2025, recording its lowest level since June 2024, reflecting base effects arising from higher crude prices in the previous year.
- Personal care and effects inflation increased from 14.8% in June 2025 to a 149-month high of 15.1% in July 2025 on account of rising inflation in gold.
- Core CPI inflation[1] eased to 4.0% in July 2025, its lowest in the last six months, from 4.5% in June 2025, led by a lower inflation in transportation and communication services.

Chart 2: Inflation (y-o-y, in %)



CPI inflation moderated for the ninth successive month from 2.1% in June 2025 to 1.6% in July 2025, its lowest level since June 2017, while core CPI inflation eased to a six-month low of 4.0%.

Source: MoSPI, Office of the Economic Adviser, Government of India (GoI)

[1] Core CPI inflation is measured as CPI inflation excluding food and beverages, pan, tobacco and intoxicants, and fuel and light.

2.2. WPI inflation: remained negative for the second successive month at (-)0.6% in July 2025

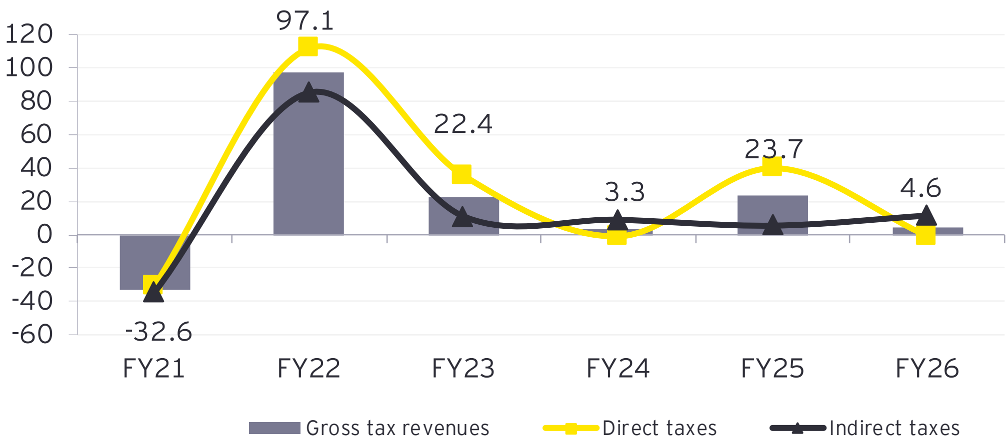
- WPI reflected a contraction in prices at the wholesale level for the second consecutive month at (-)0.6% in July 2025 as compared to (-)0.1% in June 2025, attributable mainly to continued contraction in prices of food items led by favorable base effects. This was the highest pace of contraction in WPI since July 2023.
- WPI food index-based inflation was negative for the second successive month at (-)2.1% in July 2025, as compared to (-)0.3% in June 2025, driven by an accelerated pace of contraction in prices of fruits and vegetables to (-)20.4% in July 2025 from (-)13.5% in June 2025.
- Prices of vegetables contracted for the sixth successive month at (-)29.0% in July 2025, led by a favorable base effect and a good harvest due to above normal monsoons.
- In July 2025, the inflation rate for pulses was negative at (-)15.1%, marking the steepest decline in prices since February 2025, when the contraction trend first began.
- The wholesale price of crude petroleum and natural gas continued to contract on a year-over-year basis, reaching (-)11.1% in July 2025, slightly less than the (-)12.3% recorded in June 2025. This contractionary trend in crude and natural gas prices has been ongoing since September 2024.
- Fuel and power inflation remained negative for the fourth successive month at (-)2.4% in July 2025 as compared to (-)2.7% in June 2025, as inflation in electricity and coal was offset by a contraction in prices of mineral oils.
- Inflation in manufactured products remained stable at a nine-month low of 2.0% in July 2025.
- Inflation in manufactured food products eased for the fifth successive month to a 10-month low of 6.7% in July 2025.
- Core WPI inflation remained low at 1.1% in July 2025, close to its level of 1.0% in the previous month, led by a contraction in prices of manufactured basic metals at (-)2.3% in July 2025.

3. Fiscal: GoI's capital expenditure grew by 52% during 1QFY26

3.1. Tax and non-tax revenues

- As per the CGA, GoI's GTR[b] showed a growth of 4.6% during 1QFY26, much lower than 23.7% witnessed during the corresponding period of FY25 (Chart 3).
- GoI's GTR during 1QFY26 stood at 20.4% of FY26 (BE), close to the average ratio of 20.9% for the last three years (FY23 to FY25) based on actual data.
- While direct taxes[a] showed a contraction of (-)0.8% during April-June FY26 as compared to a double-digit growth of 39.9% during the corresponding period of FY25, growth in indirect taxes[a] at 11.5% during 1QFY26 was higher than 5.5% in 1QFY25.
- Both PIT and CIT revenues contracted by (-)0.5% and (-)1.2% respectively during April-June FY26 as compared to strong growth rates of 49.9% and 26.2% in the corresponding period of FY25.
- Among indirect taxes, GoI's GST revenues showed a strong growth of 16.1% during April-June FY26, higher than 9.1% during the corresponding period of FY25.
- Union excise duties (UED), which had shown a contraction for three successive years of FY23, FY24 and FY25, showed a growth of 8.3% during 1QFY26.
- There was a contraction in customs duties at (-)9.9% during April-June FY26 as compared to (-)4.3% during April-June FY25.

Chart 3: Growth in central gross tax revenues during April-June (%, y-o-y)



GoI's GTR grew by 4.6% in 1QFY26 with a contraction of (-)0.8% in direct taxes and a growth of 11.5% in indirect taxes.

Source: Monthly Accounts, CGA, Government of India
Notes: (a) Direct taxes include personal income tax (excluding STT) and corporation tax, and indirect taxes include union excise duties, arrears of service tax, customs duty, and GST (comprising CGST, UTGST IGST and GST compensation cess) (b) Other taxes (securities transaction tax, wealth tax, fringe benefit tax, banking cash transaction tax, etc.) are included in the GoI's GTR along with direct and indirect taxes.

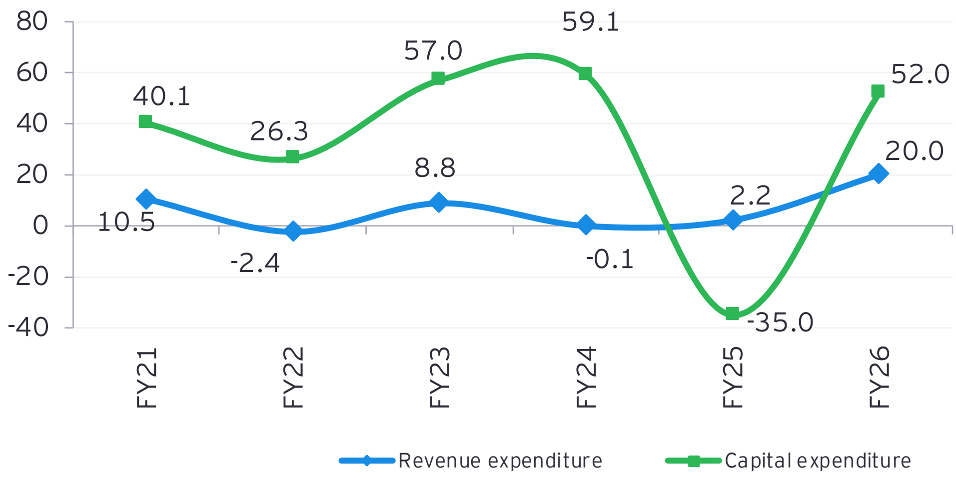
- GoI's non-tax revenues showed a high growth of 33.2% during 1QFY26, owing to substantially higher dividends by the RBI. Dividends and profits of the GoI during the first three months of FY26 stood at 87% of the FY26 (BE) at INR3,25,000 crore.

- Non-debt capital receipts of the GoI during 1QFY26 stood at 36.9% of the annual FY26 (BE), higher than the corresponding three-year average ratio at 22.5% based on actual data.
- As per the Department of Investment and Public Asset Management (DIPAM)[2], GoI's disinvestment receipts as of 25 August 2025 were at INR3,673.42 crore, amounting to 7.8% of the FY26 BE at INR47,000 crore.

3.2. Expenditures: Revenue and capital

- Growth in GoI's total expenditure was at 26% during 1QFY26 compared to a contraction of (-)7.7% during the corresponding period of FY25 (Chart 4).
- GoI's total expenditure during 1QFY26 stood at 24.1% of the FY26 (BE), slightly higher than the average ratio of 22.4% for the last three years (FY23 to FY25) based on actual data.
- GoI's revenue expenditure growth was at 20% during the first three months of FY26, much higher than 2.2% during the corresponding period of FY25, mainly attributable to a high growth in interest payments.
- GoI's capital expenditure has been frontloaded, showing strong growth of 52% during 1QFY26 as compared to a contraction of (-)35% during the corresponding period of FY25.

Chart 4: Growth in central expenditures during April-June (%, y-o-y)



Source (basic data): Monthly Accounts, CGA, Government of India

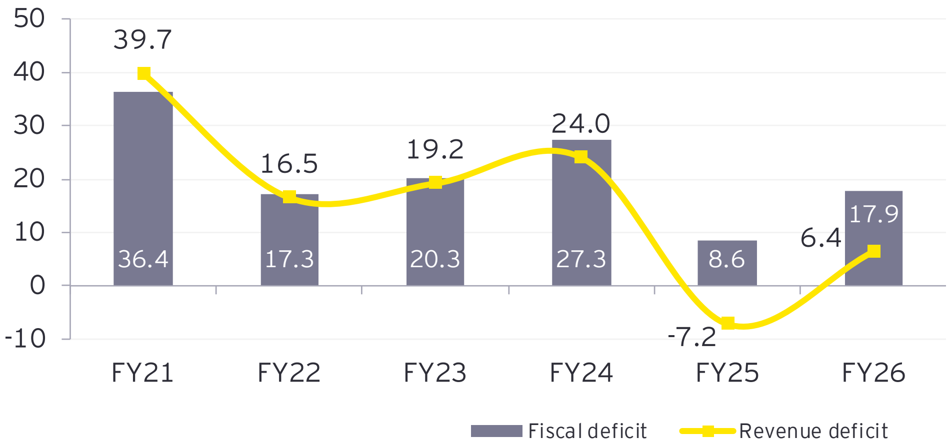
GoI's total expenditure grew by 26% in April-June FY26, with growth in revenue expenditure at 20% and that in capital expenditure at 52%.

[2] https://dipam.gov.in/

3.3. Fiscal imbalance

- GoI's fiscal deficit during 1QFY26 was at 17.9% of the FY26 (BE), higher than 8.6% in the previous fiscal year (based on actual data) owing to relatively high total expenditure of the GoI accompanied by a subdued growth in GTR.
- GoI's revenue deficit during 1QFY26 stood at 6.4% of the FY26 (BE) as compared to a surplus of (-)7.2% during 1QFY25 based on actual data.

Chart 5: Fiscal and revenue deficit during April-June as a percentage of annual actuals (BE for FY26)



Source: Monthly Accounts, CGA, Government of India and MoSPI

GoI's fiscal and revenue deficits during 1QFY26 stood at 17.9% and 6.4% of their respective annual BEs.

4.

Comparative trends: OECD assesses India to remain the fastest growing major economy in 2025 and 2026

4.1. GDP growth

- The OECD (Economic Outlook, June 2025) has projected global growth to slow from 3.3% in 2024 to 2.9% in 2025 and in 2026, on the technical assumption that tariff rates as of mid-May 2025 are sustained despite ongoing legal challenges. The slowdown is assessed to be concentrated in the US, Canada and Mexico, with China and other economies expected to see smaller downward adjustments.

- The US economy grew at a robust pace of 2.8% in 2024, driven largely by private consumption and government spending. Growth is expected to slow markedly to 1.6% in 2025 and 1.5% in 2026 reflecting the substantial increase in the effective tariff rate on imports and retaliation from some trading partners, high economic policy uncertainty, a significant slowdown in net immigration, and a sizeable reduction in the federal workforce.

Table 1: Real GDP growth (%, annual)

Country	2023	2024	2025(f)	2026(f)	Avg (2013-2019)
World	**3.4**	**3.3**	**2.9**	**2.9**	**3.4**
US	2.9	2.8	1.6	1.5	2.5
UK	0.4	1.1	1.3	1.0	2.1
Euro area	0.5	0.8	1.0	1.2	1.9
Japan	1.4	0.2	0.7	0.4	0.8
Brazil	3.2	3.4	2.1	1.6	-0.4
Russia	4.1	4.3	1.0	0.7	1.0
India*	9.2	6.2	6.3	6.4	6.8
China	5.4	5.0	4.7	4.3	6.8
S. Africa	0.7	0.6	1.3	1.4	1.3

Source: OECD Economic Outlook, June 2025; *Data pertains to fiscal year; '(f)' implies forecasts

- In the UK, GDP growth is projected to reach 1.3% in 2025 before slowing to 1.0% in 2026, dampened by heightened trade tensions, tighter financial conditions, and elevated uncertainty.

- Growth in the Euro area is projected to strengthen to 1% in 2025 and 1.2% in 2026 as foreign demand recovers. Private consumption is likely to remain strong, supported by sustained growth in real disposable incomes. Private investment may benefit from improved financing conditions, though high uncertainty could weigh on momentum. Further, public investment is expected to be supported by the Recovery and Resilience Facility funds.

- In Japan, real GDP is projected to grow by 0.7% and 0.4% in 2025 and 2026, respectively, driven by domestic demand. However, higher trade restrictions, weaker global demand and elevated uncertainty about trading partner trade policies may weigh on exports, moderating growth.

- It is notable that in all advanced economies (AEs), growth forecasts for 2025 and 2026 are tangibly lower than the corresponding average growth rates witnessed during the period 2013 to 2019.

- In Brazil, growth is projected to ease from 3.4% in 2024 to 2.1% in 2025, and 1.6% in 2026, driven by a slowdown in domestic demand. Household consumption is expected to soften due to higher inflation and weaker consumer confidence. After a strong rebound in 2024, private investment is likely to become weaker over 2025 and 2026 due to softening external demand and the impact of higher interest rates.

- GDP growth in China is projected to slow to 4.7% in 2025 and weaken further in 2026 to 4.3%. Consumption is expected to remain subdued due to elevated precautionary savings from the pandemic's scarring effect and the ongoing real estate correction. Further, exports are likely to be curbed due to the tariffs on trade with the US, while imports are likely to fall due to continued localization of production.

- In South Africa, GDP is projected to increase by 1.3% in 2025 and 1.4% in 2026. High uncertainty and declining confidence are expected to weigh on domestic demand, though easing monetary policy is likely to provide support.
- India is forecasted to remain the fastest growing major economy with its real GDP expected to grow by 6.3% in FY26 (2025) and 6.4% in FY27 (2026) led by a strengthening of private consumption driven by rising real incomes that are helped by moderate inflation. Investment would also be supported by declining interest rates and substantial public capital spending.

4.2. CPI inflation

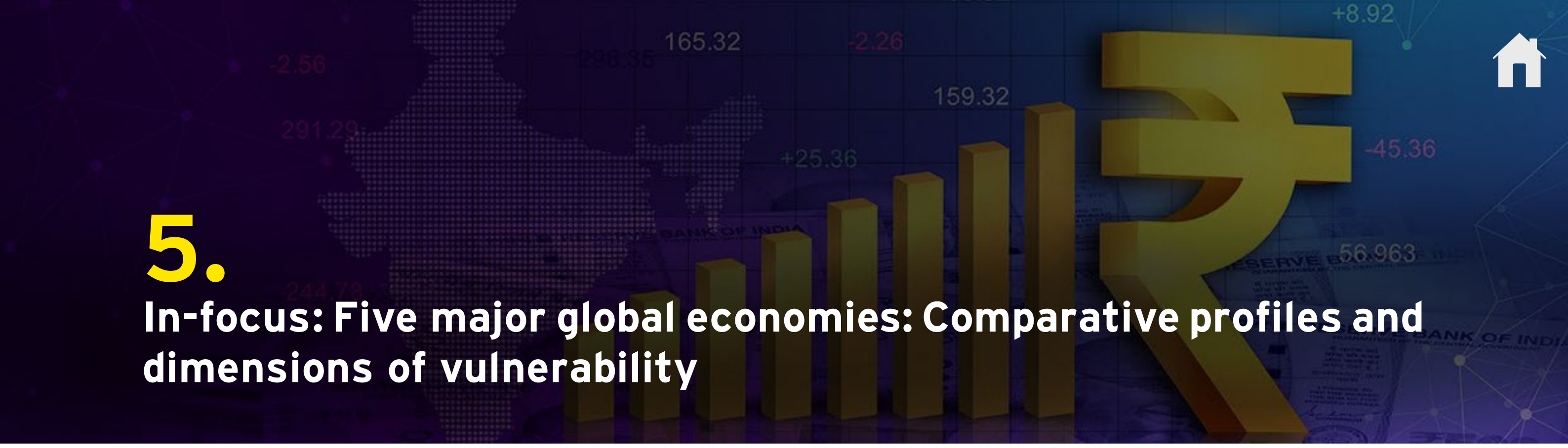
- According to the OECD, although CPI inflation has recently declined in most countries, service price inflation remains sticky, and goods price inflation has increased slightly in many countries due to rising food prices. Protectionism is adding to these inflationary pressures, and inflation expectations have risen substantially in several countries. Against this backdrop, CPI inflation is expected to align with central bank targets by 2026 in most countries, though the adjustment will take time. In economies more exposed to tariffs, inflation may initially rise before easing.
- In the US, CPI inflation is forecasted to pick up to 3.6% in 2025 due to higher import prices but is expected to ease in 2026, aided by moderate GDP growth and higher unemployment.
- Similarly, in the UK, inflationary pressures are expected to initially linger, due to higher import prices and robust wage growth in 2025, but subside over 2026, as spare capacity emerges, and the labor market loosens.
- In the Euro area, CPI inflation is expected to return to its target of 2% by 2026 as wage growth eases gradually. Similarly, in Japan, the target of 2% is expected to be met in 2026 after a surge in 2025 due to higher food prices.

Table 2: CPI inflation (%, annual)

Country	2023	2024	2025(f)	2026(f)	Avg (2013-2019)
US	4.1	3.0	3.6	3.1	1.6
UK	7.3	2.5	3.1	2.3	1.7
Euro area**	5.4	2.4	2.2	2.0	--
Japan	3.3	2.7	2.8	2.0	0.8
Brazil	4.6	4.4	5.7	5.0	5.9
Russia	5.9	8.5	9.7	6.1	6.9
India*	5.4	4.6	4.1	4.0	5.2
China	0.3	0.2	-0.1	1.4	2.1
South Africa	5.9	4.4	3.2	4.2	5.2

Source: OECD Economic Outlook, June 2025; *Data pertains to fiscal year; '(f)' implies forecasts; **Harmonized index of consumer prices excluding food, energy, alcohol and tobacco

- Among key emerging market economies (EMEs), inflation in Brazil is projected to remain above the 3% target throughout both 2025 and 2026, driven predominantly by inflation in the services sector.
- In China, declining food prices are expected to keep CPI inflation below zero in 2025. However, increased trade costs and recent increases in global food prices are expected to push inflation up in 2026 from its low level in 2025.
- CPI inflation in South Africa is projected to fall to 3.2% in 2025 from 4.4% in 2024 following the decline in global oil prices. However, it is expected to increase during the second half of 2025 and in 2026, as economic activity strengthens.
- The OECD assesses CPI inflation in India to remain contained at around 4% in 2025 and 2026 as economic activity grows around trend. However, a less benign monsoon season or higher global commodity prices could drive up food prices and inflation.



5.

In-focus: Five major global economies: Comparative profiles and dimensions of vulnerability

Introduction

Recent tariff-related uncertainties emanating from the US may trigger responses by many countries. Consequently, economic and strategic alignments across the globe could undergo major shifts once these trade uncertainties settle. At the same time, discussions have emerged around which economies are more dynamic and which are relatively static. In this context, it is worthwhile to examine the dynamics of major economies and their evolving role in the global economy over the medium to long term. This write-up examines the economic, demographic and fiscal contours of the world's five largest economies—United States, China, Germany, Japan and India.

Relative size of leading economies

The usual discourse in comparing the relative size of different economies is to first make their GDPs comparable by converting these into a common currency such as the US dollar using market exchange rates. But relative to other currencies, the market exchange rates indicate an overvalued US dollar. A better comparison of the relative size of the economies can be made by converting GDPs denominated in domestic currencies into GDP measured in terms of purchasing power parity (international dollar). We have two options here, namely in current and constant terms. The appropriate comparison is with respect to constant PPP conversion rates. We have utilized the constant 2021 PPP international dollar from the IMF[3].

Table 3 shows that the size of the US economy in real PPP terms in 2024 is 25.7 trillion whereas that of India is 14.2 trillion international dollars. By 2030, this difference of 11.5 trillion international dollars is projected to come down significantly, with the US and Indian economies growing respectively to 28.9 and 20.7 trillion respectively.

Table 3: Size of economy in PPP and market exchange rate terms

Year	PPP terms (constant 2021 international dollar trillion)					Market exchange rates (current US$ trillion)				
	US	China	India	Germany	Japan	US	China	India	Germany	Japan
2011	18.8	15.3	6.6	4.7	5.3	15.6	7.6	1.82	3.82	6.2
2012	19.2	16.5	7.0	4.7	5.3	16.3	8.7	1.83	3.60	6.3
2013	19.6	17.8	7.4	4.7	5.4	16.9	9.8	1.86	3.81	5.2
2014	20.1	19.1	8.0	4.8	5.5	17.6	10.7	2.04	3.97	4.9
2015	20.7	20.5	8.6	4.9	5.5	18.3	11.3	2.10	3.42	4.4
2016	21.1	21.9	9.3	5.0	5.6	18.8	11.4	2.29	3.54	5.0
2017	21.6	23.4	10.0	5.2	5.7	19.6	12.5	2.65	3.76	4.9
2018	22.2	25.0	10.6	5.2	5.7	20.7	14.1	2.70	4.05	5.0
2019	22.8	26.5	11.0	5.3	5.7	21.5	14.6	2.84	3.96	5.1
2020	22.3	27.1	10.4	5.1	5.5	21.4	15.1	2.67	3.94	5.1
2021	23.7	29.4	11.4	5.2	5.6	23.7	18.2	3.17	4.35	5.0
2022	24.3	30.3	12.3	5.3	5.7	26.0	18.3	3.35	4.17	4.3
2023	25.0	32.0	13.4	5.3	5.7	27.7	18.3	3.64	4.53	4.2

[3] IMF provides GDP per capita measured in PPP terms at constant 2021 international dollars. This has been converted to GDP magnitudes using country-wise population data sourced from the IMF.

Year	PPP terms (constant 2021 international dollar trillion)					Market exchange rates (current US$ trillion)				
	US	China	India	Germany	Japan	US	China	India	Germany	Japan
2024	25.7	33.6	14.2	5.3	5.7	29.2	18.7	3.91	4.66	4.0
2025	26.1	34.9	15.1	5.3	5.8	30.5	19.2	4.19	4.74	4.2
2026	26.6	36.3	16.1	5.3	5.8	31.7	20.4	4.60	4.91	4.4
2027	27.1	37.8	17.1	5.4	5.8	32.9	21.7	5.07	5.08	4.5
2028	27.7	39.3	18.2	5.5	5.9	34.3	23.1	5.58	5.25	4.7
2029	28.3	40.8	19.4	5.5	5.9	35.7	24.5	6.15	5.42	4.8
2030	28.9	42.2	20.7	5.6	5.9	37.2	25.8	6.77	5.58	5.0
	% share in global GDP (PPP constant 2021 international dollar)					% share in global GDP (current US$ at market exchange rate terms)				
2011	16.5	13.4	5.8	4.1	4.6	21.0	10.3	2.5	5.2	8.4
2015	15.9	15.8	6.6	3.8	4.3	24.2	15.0	2.8	4.5	5.9
2020	15.3	18.6	7.1	3.5	3.7	24.9	17.6	3.1	4.6	5.9
2025	14.7	19.7	8.5	3.0	3.3	26.8	16.9	3.7	4.2	3.7
2030	14.0	20.4	10.0	2.7	2.9	25.7	17.9	4.7	3.9	3.5

Source (basic data): IMF World Economic Outlook April 2025
Note: Magnitudes and shares 2025 and beyond are projections; for India data pertains to fiscal year

In terms of the relative shares, while using market exchange conversion, the US economy appears to be accounting for nearly one-fourth of the world output. In terms of the PPP comparison, the share of the US economy is projected at 14.7% in 2025. Looking at the IMF projections up to 2030, we find that India is projected to account for 10.0% of world output (FY31), only 4% points below that of the US. Germany and Japan are projected to account for relatively lower shares in global output of 2.7% and 2.9%, respectively in 2030. These shares are more than 7% points lower than the projected share of India in the world economy.

In terms of growth, the Indian economy is the most dynamic, leading the world economy and all other major economies by a significant margin. Its growth is 2.3 times that of the US in 2024 (Table 4). In subsequent years, however, India's growth is projected to be in the range of 3.1 to 3.6 times that of the US. If beyond 2030, India and the US maintain average growth rates of 6.5% and 2.1%, respectively, during 2028 to 2030 as forecasted by the IMF[4], India may surpass the US economy in terms of 2021 PPP-based international dollars in 2038. In that year, India's GDP is projected at 34.2 trillion international constant PPP dollars (2021). Even in market exchange terms, the Indian economy is projected to become the fourth largest overtaking the Japanese economy in 2025 (FY26) and further surpass Germany to become the third largest in 2028 (FY29). However, some downside risks emanate from the recently announced high US tariff rates for India and various other countries.

The US tariff's impact on India may depend, among other factors, on the share of exports in India's real GDP (22.2% average over FY23 to FY25), share of exports of goods to US in India's total exports of goods and services (10.2%), share of India's exports to US affected by the higher tariffs (approximately 40.1%)[5], the extent to which India is able to diversify these exports to other countries and the extent to which additional demand for these goods is created within India. Thus, nearly 0.9% of India's GDP may be affected by the US tariffs. The actual impact may depend on the elasticity of demand for Indian exported goods in the US. Assuming that about one-third of the impact results in a fall in demand; the overall impact is estimated at 0.3% of India's GDP. This can be neutralized through countermeasures such as reducing overall imports and boosting domestic demand for goods that are currently exported. With suitable policies, the US tariff impact can be reduced to about 0.1% of GDP, implying at best, a reduction of 10 basis points in India's expected growth of 6.5% in FY2026. So, India's average growth may be reduced at best to 6.4% in the medium term on account of the US tariffs. On the other hand, the growth rate of the US GDP may be impacted by the corresponding actions by countries that are likely to be affected by the tariff actions. Some

[4] April 2025 World Economic Outlook
[5] EY estimates using https://economictimes.indiatimes.com/news/economy/foreign-trade/extra-tariff-to-hit-55-of-indian-exports-to-us-mos-for-finance/articleshow/123239860.cms and Around $30-35 billion of India's merchandise exports to America at risk from Trump's tariffs, says UBS Chief India Economist | Business News - The Indian Express

analysts indicate that the US may go into a recession[6]. Assuming that the negative impact may be in the range of 30 to 50 basis points for the US growth rate[7], we can calibrate the future levels of GDP measured in 2021 PPP international dollars. With these reduced US growth rates, India may surpass the US GDP measured in 2021 PPP international dollars around 2037 to 2038. At that time, the GDP levels in both countries may be around PPP$32 trillion to PPP$33 trillion. Thus, it may be only a matter of a decade before India becomes the second-largest economy in the world. The projected growth rates for the intervening years up to 2030 are shown in Table 4.

Table 4: Annual growth in PPP, 2021 international dollars (%)

Country	United States	China	India	Germany	Japan	World	India/US
2011	1.6	9.5	5.2	3.8	0.0	3.8	3.4
2012	2.3	7.8	5.5	0.5	1.4	3.2	2.4
2013	2.1	7.8	6.4	0.4	2.0	3.3	3.0
2014	2.5	7.5	7.4	2.2	0.3	3.5	2.9
2015	2.9	7.0	8.0	1.7	1.6	3.4	2.7
2016	1.8	6.8	8.3	2.3	0.8	3.2	4.5
2017	2.5	6.9	6.8	2.7	1.7	3.8	2.8
2018	3.0	6.8	6.5	1.1	0.6	3.9	2.2
2019	2.6	6.1	3.9	1.0	-0.4	3.4	1.5
2020	-2.2	2.3	-5.8	-4.1	-4.2	-2.6	2.7
2021	6.1	8.6	9.7	3.7	2.7	7.1	1.6
2022	2.5	3.1	7.6	1.4	0.9	3.5	3.0
2023	2.9	5.4	9.2	-0.3	1.5	3.4	3.2
2024	2.8	5.0	6.5	-0.2	0.1	3.2	2.3
2025	1.8	4.0	6.2	0.0	0.6	2.8	3.4
2026	1.7	4.0	6.3	0.9	0.6	2.9	3.6
2027	2.0	4.2	6.5	1.5	0.6	3.2	3.3
2028	2.1	4.1	6.5	1.2	0.6	3.2	3.1
2029	2.1	3.7	6.5	1.0	0.5	3.1	3.1
2030	2.1	3.4	6.5	0.7	0.5	3.1	3.1

Source (basic data): IMF World Economic Outlook April 2025
Note: Magnitudes and shares 2025 and beyond are projections; for India data pertains to fiscal year

Structure of demand

The top five economies exhibit distinct characteristics as far as the structure of their aggregate demand is concerned. In terms of final expenditure comprising both private and government expenditure, all four countries covered in Table 5 (corresponding data for China is not available) have a ratio of final consumption to GDP, which is higher than 70%.

Among these economies, the US is the most consumption-oriented economy, with its final consumption expenditure to GDP ratio being higher than 80%. In India, the final consumption expenditure to GDP ratio has also been quite high (71.4% to 72.7%) during the four years FY20 to FY23. India has the highest investment ratio as measured by gross capital formation (GCF) which has been in excess of 30% except in FY21, which was the Covid year. The US has the lowest GCF to GDP ratio. As far as the external sector is concerned, exports constitute the least share for the US followed by Japan. India has an export to GDP ratio that has varied between 18.7% to 23.3% in recent years. Germany has the highest share of goods and services exports relative to GDP in the range of 43.5% to 50.9%. Thus, it is the most vulnerable to global trade uncertainties. The US is not so heavily dependent on the export of goods and services. India's position in this respect is comfortable, with about one-fifth of the GDP being accounted for by exports.

[6] https://www.businessinsider.com/stagflation-us-economy-outlook-tariffs-inflation-job-market-hiring-slowdown-2025-8; https://abcnews.go.com/Business/us-headed-recession-experts-weigh/story?id=124407347
[7] https://budgetlab.yale.edu/research/state-us-tariffs-july-28-2025; OECD Economic Outlook June 2025

Table 5: Share of GDP components (%): Germany, Japan, US and India (nominal terms)

Component	2019	2020	2021	2022	2019	2020	2021	2022
	Germany				Japan			
Final consumption expenditure	72.2	72.2	71.4	73.0	74.5	75.0	74.8	77.2
Gross capital formation	21.9	22.0	23.2	25.0	25.8	25.2	25.7	26.6
Exports of goods and services *of which*	**47.1**	**43.5**	**47.3**	**50.9**	**17.5**	**15.5**	**18.1**	**21.5**
Goods	37.7	34.9	37.7	40.4	13.6	12.5	14.9	17.6
Services	9.4	8.5	9.5	10.5	3.9	3.1	3.2	3.9
Imports of goods and services *of which*	**41.2**	**37.7**	**41.9**	**49.0**	**17.8**	**15.8**	**18.6**	**25.3**
Goods	31.4	29.4	32.5	37.6	13.6	11.9	14.6	20.5
Services	9.8	8.3	9.4	11.3	4.2	3.9	4.1	4.8
	United States				India			
Final consumption expenditure	81.0	81.5	82.3	81.9	71.9	72.7	71.4	71.7
Gross capital formation	21.7	21.4	21.4	21.9	30.4	28.2	32.4	32.6
Exports of goods and services *of which*	**11.8**	**10.1**	**10.8**	**11.6**	**18.7**	**18.7**	**21.4**	**23.3**
Goods	7.6	6.7	7.4	8.0	11.1	11.0	13.4	13.5
Services	4.2	3.4	3.4	3.6	7.5	7.7	8.0	9.7
Imports of goods and services *of which*	**14.5**	**13.0**	**14.4**	**15.4**	**21.2**	**19.1**	**24.0**	**26.8**
Goods	11.7	10.8	12.0	12.7	16.7	14.7	19.4	21.4
Services	2.8	2.2	2.4	2.7	4.5	4.4	4.6	5.4

Source: OECD (Annual GDP and components - expenditure approach) and MoSPI for India

Comparative saving and investment rates

Table 6 shows the saving and investment rates of these five major economies measured in their respective local currencies as a percentage of their respective nominal GDPs. With respect to savings rate, the lowest is that of the US and the highest is that of China throughout the period under review. India has maintained a saving rate, which is the second highest, although it has come down from a peak of 35.4% in FY12 (2011) to 32.6% in FY25 (2024). In case of the US and India, investment rates are higher than corresponding saving rates, indicating the presence of a current account deficit.

Table 6: Nominal saving and investment rates (% of GDP)

Year	Saving rate (%)					Investment (GCF) rate (%)				
	US	China	India	Germany	Japan	US	China	India	Germany	Japan
2011	16.2	48.3	35.4	27.6	25.6	19.0	46.6	39.6	21.3	23.5
2012	18.3	48.2	33.5	26.7	25.0	20.0	45.8	38.3	19.5	24.0
2013	18.5	47.3	32.3	26.5	25.3	20.4	45.7	34.0	19.8	24.4
2014	19.6	47.4	33.0	27.4	25.8	20.9	45.2	34.3	20.2	25.0
2015	19.6	45.2	31.1	27.6	28.2	21.4	42.6	32.1	19.5	25.2
2016	18.5	43.8	29.5	28.6	28.8	20.9	42.2	30.2	19.7	24.8
2017	18.9	44.2	29.1	28.6	29.3	21.2	42.7	31.0	20.5	25.2
2018	19.1	43.6	30.2	29.9	29.2	21.6	43.4	32.3	21.5	25.6
2019	19.3	43.3	29.2	29.2	29.2	21.7	42.6	30.1	21.3	25.8
2020	18.2	43.9	29.8	28.0	28.2	21.4	42.3	28.9	21.7	25.2
2021	17.6	44.6	30.9	29.4	29.7	21.3	42.7	32.1	22.5	25.8
2022	18.3	44.8	31.6	26.9	28.9	22.0	42.4	33.6	23.0	26.8
2023	17.4	42.6	32.6	27.2	29.9	21.5	41.1	33.4	21.7	26.2
2024	17.3	42.7	32.6	26.8	31.0	21.7	40.4	33.4	21.0	26.2
2025	17.8	42.4	32.4	26.2	29.8	21.5	40.5	33.4	21.0	26.4
2026	18.4	42.4	32.0	26.0	29.6	21.6	40.7	33.4	21.0	26.3
2027	18.7	42.8	31.8	26.2	29.6	21.7	41.1	33.4	21.3	26.3
2028	19.1	43.1	31.6	26.1	29.5	21.8	41.6	33.5	21.5	26.2
2029	19.3	43.4	31.4	26.0	29.3	21.9	41.9	33.5	21.5	26.1

Year	Saving rate (%)					Investment (GCF) rate (%)				
	US	China	India	Germany	Japan	US	China	India	Germany	Japan
2030	19.5	43.5	31.2	25.9	29.0	21.9	42.0	33.5	21.5	26.0
Average (2022 to 2024)	*17.7*	*43.4*	*32.3*	*27.0*	*30.0*	*21.7*	*41.3*	*33.5*	*21.9*	*26.4*
Memo item										
Average real GCF rate (2021 to 2023)						*22.0*	*NA*	*35.5**	*21.4*	*24.9*

Source (basic data): IMF World Economic Outlook April 2025; OECD; MoSPI
Note: Magnitudes and shares 2025 and beyond are projections; for India data pertains to fiscal year
*The corresponding ratio for India during FY2023-25 is 35.1%

In the case of China, Germany and Japan, investment rates are lower than corresponding saving rates, indicating a current account surplus.

There is a difference in India's nominal and real ratios of gross capital formation with respect to GDP. It is higher in real terms. For 2022 to 2024, in nominal terms, it averages 33.5%, whereas in real terms, it is higher at 35.1%. This difference is due to differential price deflators of consumption goods or overall GDP vis-à-vis that of investment goods.

The implicit Incremental Capital Output ratios (ICORs)[8] are nearly twice as high in the US and China as in India. In the case of Japan and Germany, these are even higher, indicating that all four major economies other than India are highly capital intensive and they may require much higher increases in investment rates to achieve a corresponding increase in their real GDP growth rates.

World's major economies: dimensions of vulnerability

There are two dimensions of vulnerability that we consider in this section, namely ageing population and government indebtedness.

Ageing populations

Among the five largest economies, the median age of India is 28.8 years in 2025, which is nearly 10 years younger than that in the US at 38.5 years. The median ages in China, Germany and Japan are even higher. In fact, Japan's median age is already touching nearly 50 years. It is projected to reach a level of 53.1 years by 2060. By that time, India's median age is also projected to increase to 41.3 years.

Table 7: Country-wise median age (years)

Year	US	China	India	Germany	Japan
2010	35.9	34.1	23.6	43.3	44.2
2015	36.4	35.7	25.3	44.8	45.8
2020	37.2	37.5	27.0	44.9	47.7
2025	38.5	40.1	28.8	45.5	49.8
2030	39.6	42.9	30.8	46.3	51.5
2035	40.5	45.8	32.7	47.1	52.5
2040	40.8	48.6	34.7	48.1	53.1
2045	41.2	50.6	36.5	48.3	53.0
2050	41.9	52.1	38.3	47.9	52.8
2055	42.6	53.4	39.9	47.1	52.8
2060	43.1	54.7	41.3	46.6	53.1

Source (basic data): UN World Population Prospects 2024

Government indebtedness

Among the five major economies included in this analysis, India's general government debt is the lowest along with that of Germany. In Japan's case, it was 236.7% of GDP, whereas in China, it was 88.3% and, in the US, it was already 120.8% in 2024. Further, India is the only case where the government debt-GDP ratio

[8] ICOR is defined as the additional investment required to generate one additional unit of GDP.

is projected to fall from a level of 81.3% in 2024 to 75.8% in 2030, according to the IMF. In the case of Germany, the US and China, however, it is projected to increase. In Japan's case, it falls but only marginally.

Table 8: General government debt levels of selected countries (% to GDP)

Year	US	China	India	Germany	Japan
2011	99.7	33.2	68.6	78.5	219.2
2012	103.2	33.8	68.0	79.8	226.1
2013	104.5	36.4	67.7	77.4	229.5
2014	104.4	39.3	67.1	74.5	233.3
2015	104.9	40.8	69.0	71.2	228.3
2016	106.8	49.7	68.9	68.3	232.4
2017	105.7	53.9	69.7	64.0	231.3
2018	107.0	55.6	70.4	60.8	232.4
2019	108.2	59.4	75.0	58.7	236.4
2020	132.0	69.0	88.4	68.0	258.4
2021	124.7	70.1	83.5	68.1	253.7
2022	118.8	75.5	82.2	65.0	248.3
2023	119.0	82.0	81.2	62.9	240.0
2024	120.8	88.3	81.3	63.9	236.7
2025	122.5	96.3	80.4	65.4	234.9
2026	123.7	102.3	79.6	67.0	233.7
2027	124.9	105.9	78.8	68.5	232.1
2028	125.9	109.2	77.9	70.4	231.2
2029	127.0	112.6	76.9	72.5	231.1
2030	128.2	116.0	75.8	74.9	231.7

Source (basic data): IMF World Economic Outlook April 2025
Note: Magnitudes and shares 2025 and beyond are projections; for India data pertains to fiscal year

In fact, the sustainability of government debt should be judged in terms of the differential of the growth rate vis-à-vis the interest rate. The nominal growth rate in India is projected in the range of 10.2% to 10.8% till 2030.

Table 9: Growth in nominal GDP in local currency (%, annual)

Year	Nominal GDP growth (%)					Effective interest rate (%)				
	US	China	India	Germany	Japan	US	China	India	Germany	Japan
2011	3.7	18.5	14.4	5.0	-1.6	2.41	1.45	6.42	2.46	0.58
2012	4.2	11.2	13.8	1.9	0.6	2.22	1.45	6.35	2.34	0.56
2013	3.9	10.6	13.0	2.4	1.6	1.91	1.49	6.71	1.80	0.50
2014	4.3	8.5	11.0	4.1	2.0	1.88	1.50	6.64	1.59	0.48
2015	3.9	7.1	10.5	3.4	3.7	1.76	1.28	6.74	1.45	0.45
2016	2.8	8.0	11.8	3.6	1.2	1.89	1.64	6.66	1.31	0.47
2017	4.3	11.1	11.0	4.2	1.6	1.89	1.49	6.86	1.22	0.40
2018	5.3	10.5	10.6	3.0	0.6	2.11	1.47	6.75	1.13	0.34
2019	4.3	7.8	6.4	3.0	0.2	2.13	1.51	6.67	0.97	0.29
2020	-0.9	3.5	-1.2	-2.4	-3.3	1.90	1.58	7.47	0.79	0.27
2021	10.9	12.6	18.9	6.6	2.5	1.72	1.29	5.86	0.68	0.23
2022	9.8	5.1	14.0	7.5	1.3	2.24	1.31	6.09	0.83	0.16
2023	6.6	4.9	12.0	5.9	5.6	2.71	1.21	6.00	0.99	0.09
2024	5.3	4.2	9.8	2.9	3.0	3.11	1.16	6.25	1.36	0.16
2025	4.5	3.7	10.2	2.3	2.5	3.18	1.40	6.49	1.29	0.17
2026	4.0	4.7	10.5	3.0	2.3	3.28	1.56	6.61	1.50	0.28
2027	3.9	5.8	10.7	3.6	2.6	3.21	1.73	6.52	1.68	0.46
2028	4.3	6.0	10.7	3.4	2.6	3.13	1.88	6.46	1.86	0.64
2029	4.0	5.6	10.7	3.1	2.5	3.10	1.98	6.39	2.04	0.79
2030	4.0	5.4	10.8	2.9	2.5	3.02	2.00	6.38	2.26	0.90

Source (basic data): IMF World Economic Outlook April 2025; EY estimates

Note: Magnitudes and shares for 2025 and beyond are projections; for India data pertain to the fiscal year. The effective interest rate is estimated as the ratio of net interest payments in the current year to the previous year's general government debt.

The dynamics of growth of government debt to GDP ratio is such that it depends on the profile of annual fiscal deficits and the nominal growth. In fact, the change in the debt-GDP ratio in period t compared to t-1 can be given by:

$$b_t = f_t + b_{t-1}.\{\frac{1}{(1+g_t)}\}$$

Table 10: Projected debt-GDP ratio under specified assumptions (%)

Year	US	China	India	Germany	Japan
2030	128.2	116.0	75.8	74.8	231.7
2031	129.2	119.7	74.6	77.1	232.2
2032	130.3	123.2	73.5	79.4	232.8
2033	131.2	126.5	72.6	81.5	233.3
2034	132.2	129.7	71.7	83.6	233.8
2035	133.1	132.7	70.9	85.7	234.3
2036	134.0	135.6	70.1	87.7	234.8
2037	134.8	138.4	69.5	89.6	235.3
2038	135.7	141.0	68.9	91.5	235.7
2039	136.4	143.5	68.3	93.3	236.2
2040	137.2	145.8	67.8	95.1	236.6
Assumptions					
Annual fiscal deficit to GDP ratio	6.0	9.2	6.0	4.4	6.2
Nominal growth rate	4.0	5.0	10.5	2.9	2.5

Source (basic data): EY estimates

Table 10 presents projected debt levels of the five major economies up to 2040, based on assumptions about their annual fiscal deficit-to-GDP ratio and nominal GDP growth rates as given in the last two rows. India's position is projected to improve, while the debt outlook for the other four major economies may weaken over time. In the case of the US, debt levels could turn out higher than projected if the current trend of reduced demand for US treasuries and other government debt persists, as this may result in higher refinancing costs.

Relative position of reserve currencies

Table 11, based on the IMF data, shows that the share of the US dollar in global foreign exchange reserves has declined from 71.5% in 2001 to 57.8% in 2024, a fall of 13.7 percentage points. The euro continues to hold a significant share of nearly 20%, although this is lower than its peak of 24.5% in 2011. Compared to 2011 levels, the shares of the Japanese yen and the pound sterling have increased marginally. While the US dollar remains the dominant reserve currency, its share has been gradually trending down. Among the five major global economies, the Indian rupee is the only currency that has not yet been adopted as a reserve currency. This is partly linked to India's policy approach toward currency convertibility and reserve management. However, with intra-BRICS trade increasingly being settled in local currencies, the potential demand for the INR as a reserve asset could rise over time.

Table 11: Share in global foreign exchange reserves (%)

Currency	2001	2011	2015	2020	2021	2022	2023	2024
US dollar	71.52	62.70	65.75	58.92	58.80	58.52	58.42	57.79
Euro	19.18	24.45	19.15	21.29	20.59	20.37	19.95	19.84
Japanese yen	5.04	3.61	3.75	6.03	5.52	5.54	5.69	5.81
Pound sterling	2.70	3.84	4.72	4.73	4.81	4.90	4.86	4.73
Other currencies	1.31	5.32	2.82	2.65	3.09	3.48	3.87	4.65
Canadian dollar	--	--	1.78	2.08	2.38	2.39	2.59	2.77
Chinese yuan renminbi	--	--	0.00	2.29	2.80	2.61	2.29	2.18
Australian dollar	--	--	1.77	1.83	1.84	1.97	2.14	2.06
Swiss franc	0.25	0.08	0.27	0.17	0.17	0.23	0.19	0.18

Source: COFER database, IMF (https://data.imf.org/en/datasets/IMF.STA:COFER)

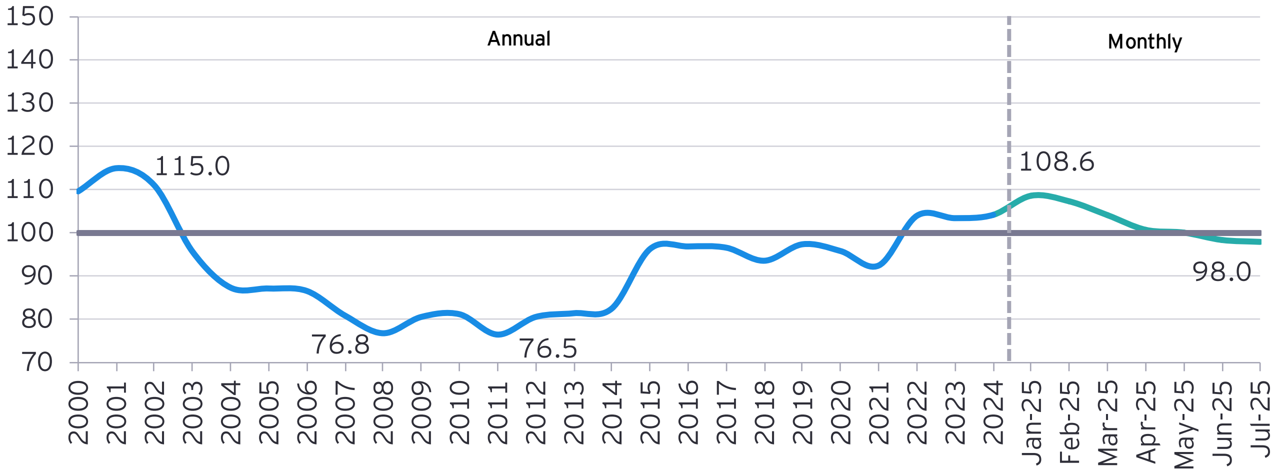
The US dollar index (DXY) reflects the US dollar's strength or weakness against a basket of key global currencies. This index has a bearing on global trade, investment flows, commodity prices, and monetary policies. The index was created in 1973, after the arrival of the petrodollar and the dissolution of the Bretton Woods Agreement. The DXY is calculated by taking a weighted geometric mean of the exchange rates between the US dollar and six major currencies (weights): (1) the Euro (57.6%), (2) Japanese yen (13.6%), (3) British pound (11.9%), (4) Canadian dollar (9.1%), (5) Swedish krona (4.2%), and (5) Swiss franc (3.6%)[9]. Presently, most of these currencies are linked to the US' largest trade partners.

The DXY is calculated using the formula: $USDX = 50.14348112 * EURUSD^{-0.576} * USDJPY^{0.136} * GBPUSD^{-0.119} * USDCAD^{0.091} * USDSEK^{0.042} * USDCHF^{0.036}$

A rising DXY implies the US dollar is strengthening against other major currencies (DXY>100) while a falling DXY indicates weakening (DXY<100).

Chart 6 shows the annual and monthly levels of the DXY. Its historical trends during 2001-11 indicate a potential sharp fall in the DXY in the near future. After falling to a trough of 76.5 in 2011, the DXY recovered, but has started falling again in recent years. Within a short span of seven years, from 2001 to 2008, the annual fall was at the rate of 5.5 points per year. In recent months, the DXY has been falling, and in the period from January 2025 to July 2025, that is, over a six-month period, it fell by a margin of 10.6 points. This rate may be further accelerated given the ongoing trade uncertainties.

Chart 6: Trends in DXY: annual and monthly (Baseline index value = 100)



Source (Basic data): Refinitiv

[9] https://www.ice.com/publicdocs/data/ICE_FX_Indexes_Methodology.pdf

We have data regarding the maturity structure of US government debt pertaining to the outstanding amount of close to US$30 trillion from the U.S. Treasury Monthly Statement of the Public Debt for July 2025. Table 12 shows that nearly 70% of this debt is due for repayment by 2030, which is likely to be recycled by the US government at higher interest rates, given the present trends. This may make the effective cost of interest payments substantially higher than at present.

Table 12: Maturity structure of US government debt (July 2025)

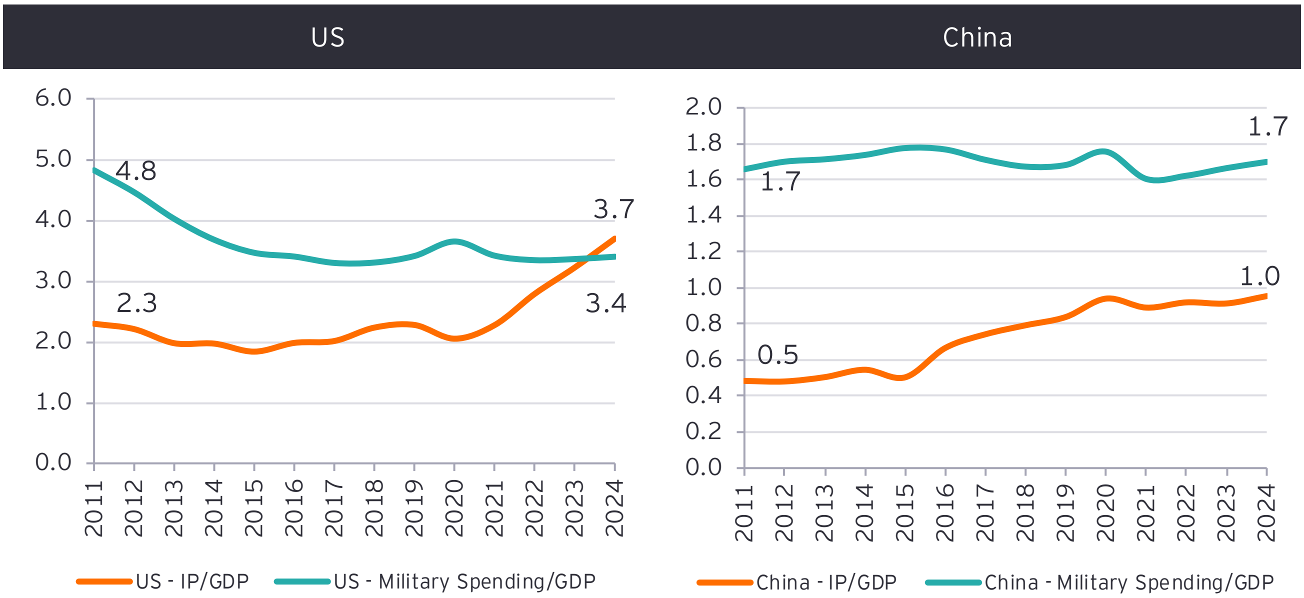
Year/Period	Outstanding amount (US$ trillion)	Share in total (%)	Cumulative share (%)
2025	6.46	22.3	22.3
2026	4.18	14.4	36.7
2027	3.19	11.0	47.7
2028	2.46	8.5	56.2
2029	2.00	6.9	63.1
2030	1.63	5.6	68.7
2031	1.24	4.3	73.0
2032	0.96	3.3	76.3
2033	0.56	1.9	78.3
2034	0.63	2.2	80.4
2035 to 2055	5.67	19.6	100.0
Total	28.98	100.0	

Source (basic data): U.S. Treasury Monthly Statement of the Public Debt; https://fiscaldata.treasury.gov/datasets/monthly-statement-public-debt/detail-of-treasury-securities-outstanding

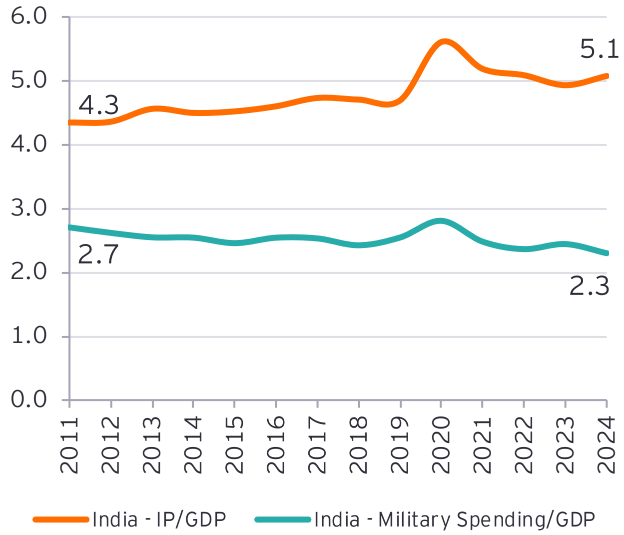
Trends in interest payment and defence expenditure relative to GDP

Analysts often consider the point when the interest payment on government debt to GDP ratio crosses the corresponding ratio for defence spending as a warning signal. It begins to denote that a country has to allocate higher and higher resources for committed interest payments, thereby crowding out other strategic expenditures such as defence expenditures. It is one indicator of fiscal vulnerability.

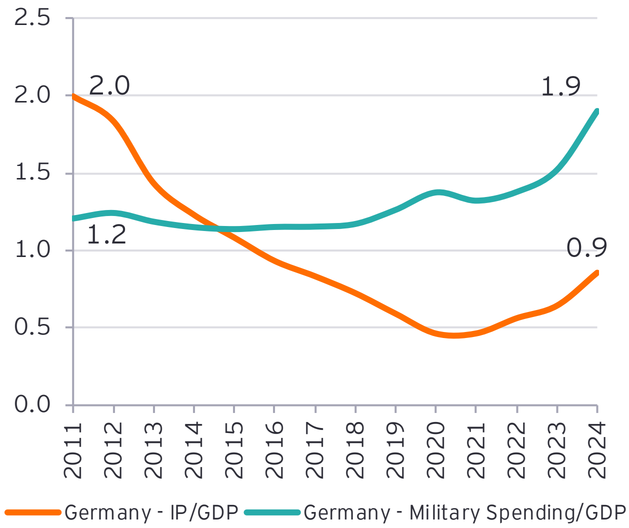
Chart 7: Interest payment to GDP ratio and military spending to GDP ratio – selected economies



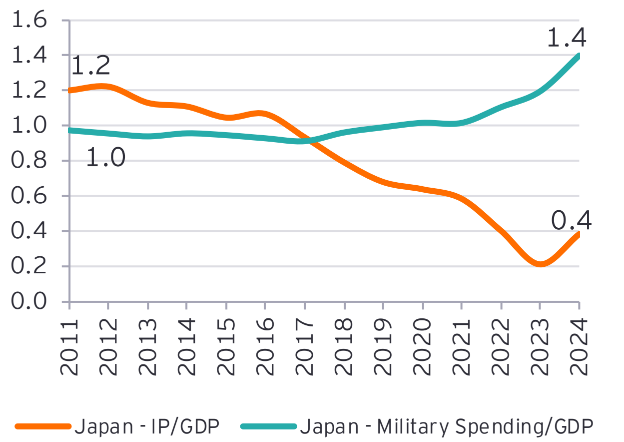
India



Germany



Japan



Source (basic data): IMF – WEO April 2025 and World Bank, Stockholm International Peace Research Institute (https://www.sipri.org/sites/default/files/2025-04/2504_fs_milex_2024.pdf)

In the US, this point was crossed in 2024. In India's case, the interest payment to GDP ratio on the combined account has remained above the defence spending to GDP ratio. This is partly due to the relatively high interest rates at which the government can borrow and the comparatively low level of defence spending. It is also important to note that most of India's government debt is domestic, with only a small share accounted for by external debt. In the cases of China, Germany and Japan, the effective interest rate of government debt is relatively low and defence spending is relatively high, when measured with respect to GDP. As a result, both the US and the Indian economies may need to be mindful of the fiscal sustainability of their government debt, as well as the allocation of funds for defense.

Concluding observations

In this writeup, we have examined critical economic parameters with respect to the five largest economies in the world, namely the US, China, Germany, Japan and India. In the context of tariff-related uncertainties, all these economies, including the US itself, may be impacted unless corrective actions are taken.

For measuring the relative size of these economies, among the alternatives available, it is appropriate to use constant PPP international dollars. In these terms, the Indian economy is already the third largest after China and the US. Based on IMF's projections up to 2030 and assuming the given growth rates beyond 2030, India may surpass the US around 2038. Even after applying more conservative growth rate assumptions for both India and the US, this crossover may occur around 2037 or 2038.

Our estimate suggests that the impact of US tariff increases on India may not be much more than 10 basis points of GDP, while the US could potentially face a larger effect. The US economy faces challenges from its high government debt-to-GDP ratio, with a significant portion maturing in the next two to three years. This may require refinancing at higher interest rates, potentially increasing the burden of interest payments. On the other hand, India's relative strengths lie in its lower export-to-GDP ratio, higher investment-to-GDP ratio and lower incremental capital-output ratio.

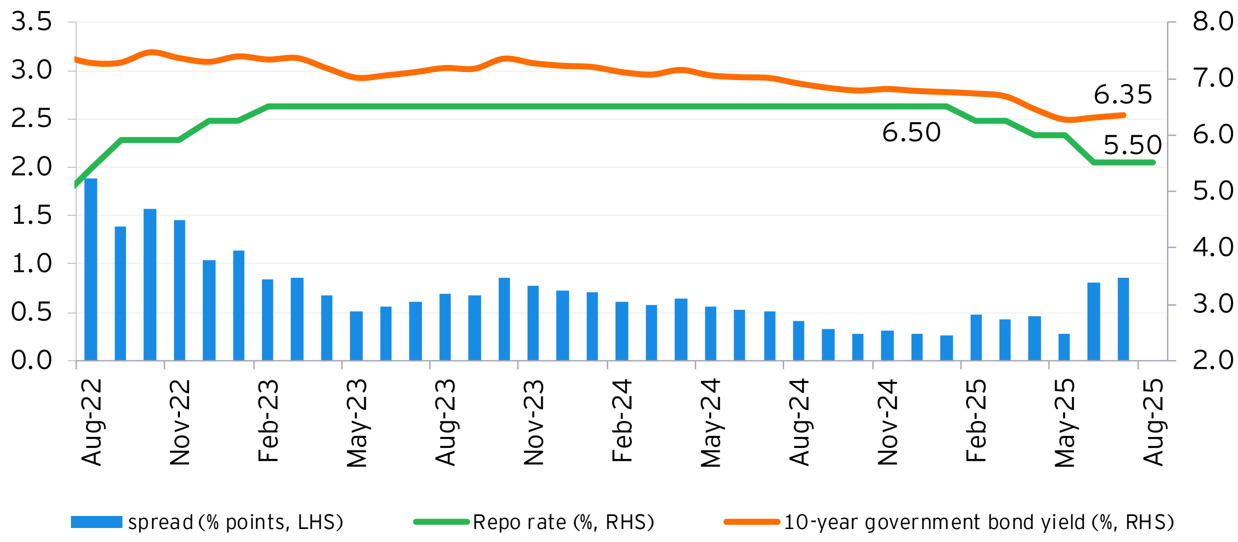
6.
Money and finance: Repo rate kept unchanged at 5.5% in August 2025

6.1. Monetary sector

Monetary policy

- The Monetary Policy Committee (MPC) unanimously voted to retain the repo rate at 5.5% in its monetary policy review held on 06 August 2025 **(Chart 8)**. The policy stance was also maintained as neutral. In its statement, the MPC noted that it would wait and observe the transmission of the earlier front-loaded rate cuts to the credit markets and the broader economy before considering any further changes.
- As per the RBI's assessment, the CPI inflation outlook for FY26 is likely to be more benign than what was expected in its June 2025 review, largely owing to moderation in food prices. The moderation in food inflation is largely attributable to favorable base effects combined with steady progress of the southwest monsoon, healthy kharif sowing, adequate reservoir levels and comfortable buffer stocks of food grains.

Chart 8: Movements in the repo rate and 10-year government bond yield



Source: Database on Indian Economy, RBI

Money stock

- Growth in broad money stock (M3)[10] remained nearly stable at 9.6% in July 2025 as compared to 9.5% in June 2025.
- Time deposits, the largest component of M3, showed a relatively lower growth of 8.9% in July 2025, although improving marginally as compared to 8.6% in June 2025.
- Growth in narrow money (M1) moderated to 11.9% in July 2025 from 12.1% in June 2025. This fall is attributable to a relatively lower growth in demand deposits of 16.7% in July 2025 as compared to

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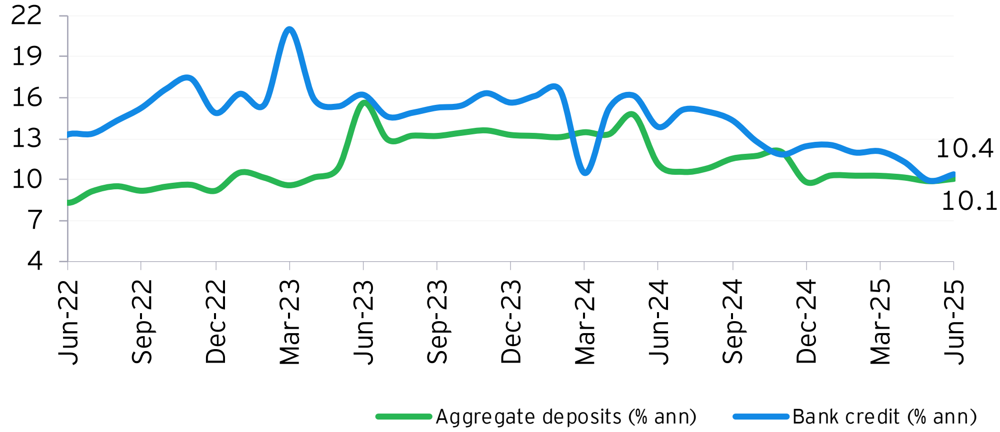
[10] The RBI has stopped reporting data on '*Money Stock: components and sources*' excluding the impact of merger of a non-bank with bank from 11-July-2025. Therefore, we have used M3 data that includes the impact of merger of a non-bank with a bank as reported by the RBI.

17.1% in June 2025. Growth of currency with the public, however, improved to 8.2% in July 2025 from 8.0% in June 2025.

Aggregate credit and deposits

- Growth in gross bank credit[11] improved marginally to 10.4% in June 2025 from 9.9% in May 2025, although remaining below its five-year average growth of 11.5% **(Chart 7).** On a quarterly basis, gross bank credit grew at a slower pace of 10.5% in 1QFY26 as compared to 12.2% in 4QFY25.

Chart 9: Growth in credit and deposits



Gross bank credit grew by 10.4% in June 2025, increasing marginally from 9.9% in May 2025.

Source: Database on Indian Economy, RBI

- Non-food credit growth also increased to 10.2% in June 2025 from 9.8% in May 2025, as there was an improvement in the growth of credit to major sectors excluding agriculture.
- Growth in outstanding credit to industries, having a share of about 25% on average in total non-food credit (last five years), increased to 5.5% in June 2025 from 4.9% in May 2025. Within industrial credit, among major segments, growth in credit to iron and steel and textiles recovered to 7.0% and 8.6% respectively in June 2025 from 6.5% and 6.8% in May 2025. Growth in credit to chemical and chemical products also increased to 6.3% in June 2025 from 4.7% in May 2025. Credit to infrastructure, having the largest share in industrial credit, however, continued to contract for the third successive month, although at a slower pace of (-)0.5% in June 2025 as compared to (-)2.5% in May 2025.
- Credit to the services sector, with an average share of about 27% in total non-food credit (last five years) grew by 9.6% in June 2025, only marginally higher as compared to 9.4% in May 2025.
- Growth in agricultural credit fell to a 66-month low of 6.8% in June 2025 as compared to 7.5% in May 2025. In fact, credit to the agricultural sector has shown a sequential fall since August 2024.
- Personal loans (share of close to 30% in total non-food credit) continued to show a strong growth of 14.7% in June 2025, increasing from 13.7% in May 2025. Among the sub-components of personal loans, growth in loans to individuals against shares and bonds recovered to 5.7% in June 2025 from 1.6% in May 2025. Growth of housing and vehicle loans also increased to 14.4% and 10.8% respectively in June 2025 from 13.8% and 8.7% in May 2025. However, growth in loans against fixed deposits moderated to 15.0% in June 2025 from 15.5% in May 2025, while loans for consumer durables continued to contract for the fourth successive month by (-)3.1% in June 2025.
- Growth in other non-food credit, that is, non-food credit excluding credit to agriculture, industry, services and personal loans, improved to 16.3% in June 2025 from 15.7% in May 2025.
- Growth in aggregate deposits recovered to 10.1% in June 2025 from 9.9% in May 2025. In 1QFY26, deposit growth averaged 10.0%, close to its level of 10.3% in 4QFY25.

[11] The data on bank credit and aggregate deposits exclude the impact of merger of a non-bank with a bank.

6.2. Financial sector

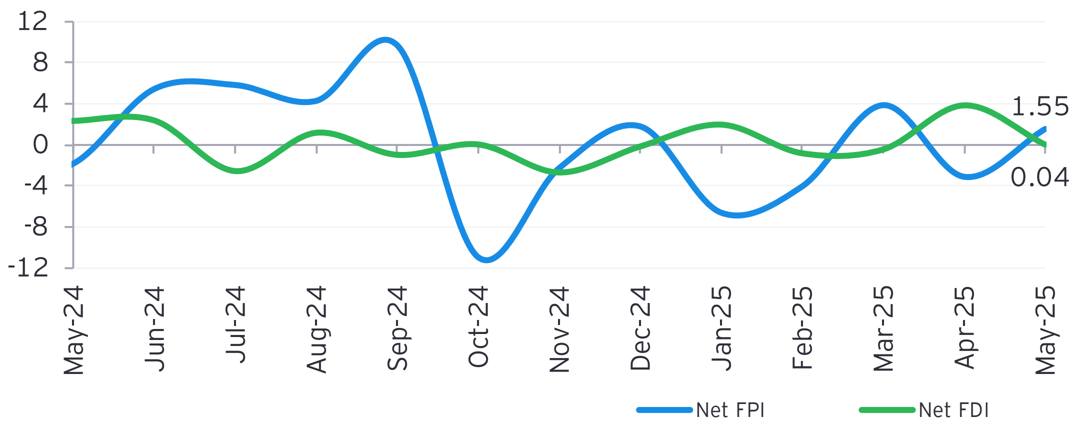
Interest rates

- As per the data released by the RBI in the second week of August 2025, the yield on 10-year government bonds (benchmark) increased marginally for the second straight month to 6.35% in July 2025 from 6.31% in June 2025 **(Chart 6)**. During April-July FY26, the benchmark bond yield averaged lower at 6.35% as compared to 7.06% during the corresponding period of FY25.
- The average interest rate on term deposits with a maturity period of more than one year was lowered for the fourth successive month to 6.28% in July 2025 from 6.35% in June 2025, with actual rates ranging between 5.85% and 6.70%.
- The average MCLR moderated for the third successive month to 8.08% in July 2025 from 8.18% in June 2025, with the actual MCLR ranging between 7.95% and 8.20% during the month.
- WALR on 'Fresh Rupee Loans' (FRL) by SCBs moderated for the fourth consecutive month to a 33-month low of 8.62% in June 2025 from 9.20% in May 2025. WALR-FRL averaged lower at 9.03% in 1QFY26 from 9.36% in 4QFY25.

FDI and FPI

- As per provisional data released by the RBI on 23 July 2025, overall foreign investments (FIs) registered higher inflows amounting to US$1.59 billion in May 2025 as compared to inflows amounting to US$0.8 billion in April 2025 as net FPI's witnessed relatively higher inflows during the month **(Chart 8)**.

Chart 10: Net FDI and FPI inflows (US$ billion)



Net FDI inflows were significantly low at US$0.04 billion in May 2025, while net FPI inflows were relatively higher at US$1.55 billion during the month.

Source: Database on Indian Economy, RBI

- Net FPIs witnessed inflows amounting to US$1.55 billion in May 2025 as compared to outflows amounting to US$3.1 billion in April 2025.
- Net FDI inflows were significantly low at US$0.04 billion in May 2025 as compared to US$3.9 billion in April 2025. Gross FDI inflows were also lower at US$7.2 billion in May 2025 as compared to US$8.7 billion in April 2025.
- During April-May FY26, net FDI inflows amounted to US$3.9 billion, close to the inflows amounting to US$4.0 billion seen in April-May FY25. Net FPIs, however, registered outflows amounting to US$1.5 billion during April-May FY26, lower as compared to US$4.5 billion outflows during the corresponding period of FY25.

7.

Trade and CAB: Merchandise exports and imports growth turned positive in July 2025

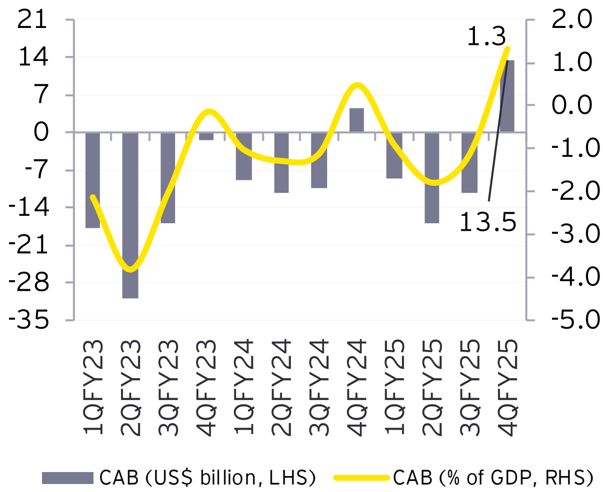
7.1. CAB showed a surplus of 1.3% of GDP in 4QFY25 as compared to (-)1.1% in 3QFY25

- Led by a sharp moderation in net merchandise trade deficit to 5.8% of GDP in 4QFY25, the current account reflected a surplus for the first time since 4QFY24 **(Chart 9)**. Merchandise imports eased to 17.3% of GDP, their lowest level since 4QFY21, partly on account of lower global crude prices, while merchandise exports improved to 11.4% of GDP in 4QFY25 from 10.9% in 3QFY25.
- Net invisibles, which amounted to 7.2% of GDP in 4QFY25, also contributed significantly to the overall current account surplus. The surplus in invisibles was driven by services, which reached an all-time high of 5.2% of GDP in 4QFY25. Net transfers were at 3.1% of GDP, slightly lower than 3.3% in 3QFY25.

Table 13: Components of CAB (in US$ billion)

Fiscal year	CAB as % of nominal GDP	CAB	Merchandise net	Invisibles* net
FY22	-1.2	-38.8	-189.5	150.7
FY23	-2.0	-67.1	-265.3	198.2
FY24	-0.7	-26.1	-244.9	218.8
FY25	-0.6	-23.4	-287.2	263.8
1QFY25	-0.9	-8.7	-63.8	55.1
2QFY25	-1.8	-16.8	-84.6	67.8
3QFY25	-1.1	-11.3	-79.3	68.0
4QFY25	1.3	13.5	-59.5	72.9

Chart 11: CAB



Source: Database on Indian Economy, RBI; Note: (-) deficit; (+) surplus; *invisibles include services, current transfers and income components

- On an annual basis, the current account deficit was subdued at (-)0.6% relative to GDP in FY25 (Table 8), marginally lower than (-)0.7% in FY24, led by a rising invisibles surplus, the highest since FY09, which offset an expanding net merchandise trade deficit.

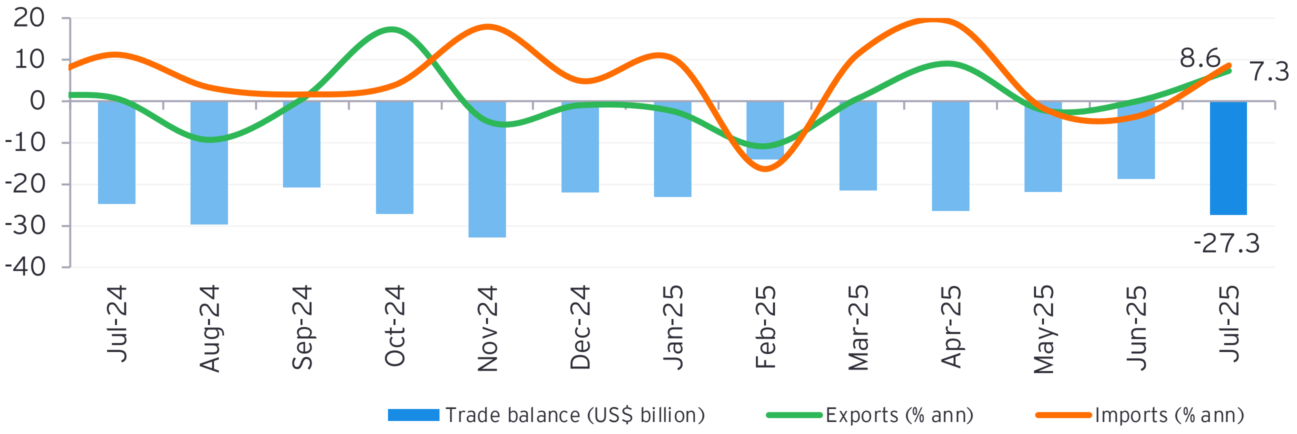
7.2. Merchandise trade and exchange rates

Merchandise exports and imports growth turned positive at 7.3% and 8.6% respectively in July 2025 from (-)0.1% and (-)3.7% in June 2025. Exports growth was led by non-oil goods, while imports were led by growth in crude oil imports.

- Exports of engineering goods grew by 13.8% in July 2025, its highest level since October 2024. Gems and jewelry exports showed robust growth of 28.9%, a 45-month high.

- Growth of exports excluding oil, gold/silver and jewelry improved to an eight-month high of 12.7% in July 2025, while imports of the same category increased to 6.9% from 0.1% in June 2025.
- Electronic goods exports continued to show robust growth of 33.9% in July 2025, although lower than 46.9% in June 2025, while growth in imports of the same category grew by 12.8% in July 2025 as compared to 9.4% in June 2025. Exports of electronic goods have shown an average growth of 44.5% during October 2024 to July 2025.
- Machinery goods imports grew by 20.0% in July 2025, higher than 8.5% in the previous month.

Chart 12: Developments in merchandise trade



Source: Ministry of Commerce and Industry, GoI

- Because of the relatively higher growth in merchandise imports, the merchandise trade deficit widened to US$27.3 billion in July 2025, its highest level since November 2024 **(Chart 10)**.
- The goods and services trade deficit fell for the second successive month to US$2.6 billion in June 2025 from US$6.1 billion in May 2025 and US$10.5 billion in April 2025 as merchandise trade deficit eased while services trade surplus expanded to US$16.2 billion in June 2025.
- The Indian Rupee depreciated to INR86.1/US$ (average) in July 2025 from INR85.9/US$ in June 2025, driven by a combination of US tariff uncertainty, continued foreign portfolio outflows, and lack of strong capital inflows.

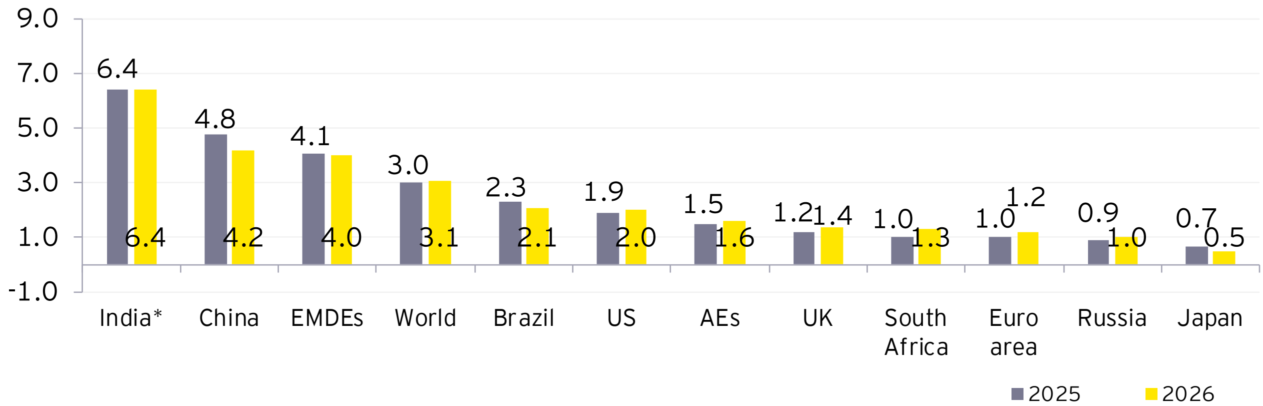
8.
Global growth: IMF projected global growth at 3.0% in 2025 and 3.1% in 2026

8.1. Global growth

- The IMF, in its July 2025 update of the World Economic Outlook, has projected global growth to ease from 3.3% in 2024 to 3.0% in 2025 and 3.1% in 2026. However, its projections for 2025 and 2026 have been revised upward from April 2025 World Economic Outlook, reflecting front-loading of demand ahead of tariffs, lower effective tariff rates, better financial conditions, and fiscal expansion in some major jurisdictions.
- Growth in AEs is projected at 1.5% in 2025 and 1.6% in 2026. In the US, with tariff rates settling at lower levels than those announced on 2 April 2025 and looser financial conditions, the economy is projected to grow by 1.9% in 2025, 0.1 percentage points higher than the April 2025 forecast. Growth is projected to pick up slightly to 2.0% in 2026, with a near-term boost from the One Big Beautiful Bill Act (OBBBA) kicking in primarily through tax incentives for corporate investment.
- In the Euro area, growth is expected to accelerate to 1.0% in 2025 and to 1.2% in 2026. This is an upward revision of 0.2 percentage points for 2025, but it is largely driven by the strong GDP outturn in Ireland in the first quarter of 2025, although Ireland represents less than 5% of Euro area GDP. The forecast for 2026 is unchanged from that in April 2025, with the effects of front-loading fading and the economy growing at potential.
- In EMDEs, growth is expected to fall from 4.3% in 2024 to 4.1% in 2025 and 4.0% in 2026. Relative to the forecast in April 2025, growth in 2025 for China is revised upward by 0.8 percentage points to 4.8% reflecting stronger-than-expected activity in the first half of 2025 and the significant reduction in US-China tariffs. Growth in 2026 is also revised upward by 0.2 percentage points to 4.2%, again reflecting the lower effective tariff rates.
- In India, growth is projected at 6.4% in 2025 (FY26) and 2026 (FY27), with both numbers revised slightly upward, reflecting a more benign external environment than assumed in the April 2025 reference forecast.

The IMF projected global growth at 3.0% in 2025, with India's FY26 growth forecasted at 6.4%.

Chart 13: Global growth projections (%)

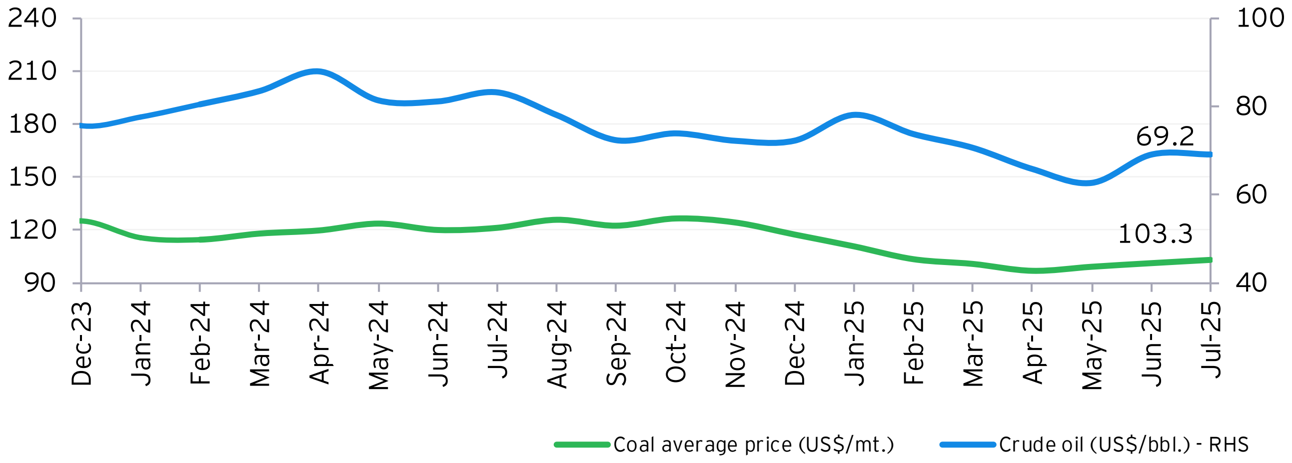


Source: IMF World Economic Outlook Update (July 2025)
*data pertains to fiscal year

8.2. Global energy prices: Global crude price increased to a four-month high of US$69.2/bbl. in July 2025

- In July 2025, average global crude price[12] increased to a four-month high of US$69.2/bbl. although the rise was fractional when compared to US$69.1/bbl. in June 2025 **(Chart 12)**. This was largely driven by the possibility of new US sanctions on Russia[13].
- Driven by weather-related demand in Asia particularly in the developed economies of North Asia, average global coal price[14] increased to a five-month high of US$103.3/mt. in July 2025 from US$101.4/mt. in June 2025[15].

Chart 14: Global crude and coal prices



Source (basic data): World Bank Pink Sheets, August 2025

[12] Simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh
[13] https://www.reuters.com/business/energy/oil-rises-over-1-investors-weigh-trumps-russia-stance-tariff-threats-2025-07-30/
[14] Simple average of Australian and South African coal prices.
[15] https://www.reuters.com/markets/commodities/asia-thermal-coal-imports-rise-july-japan-south-korea-buy-2025-08-05/

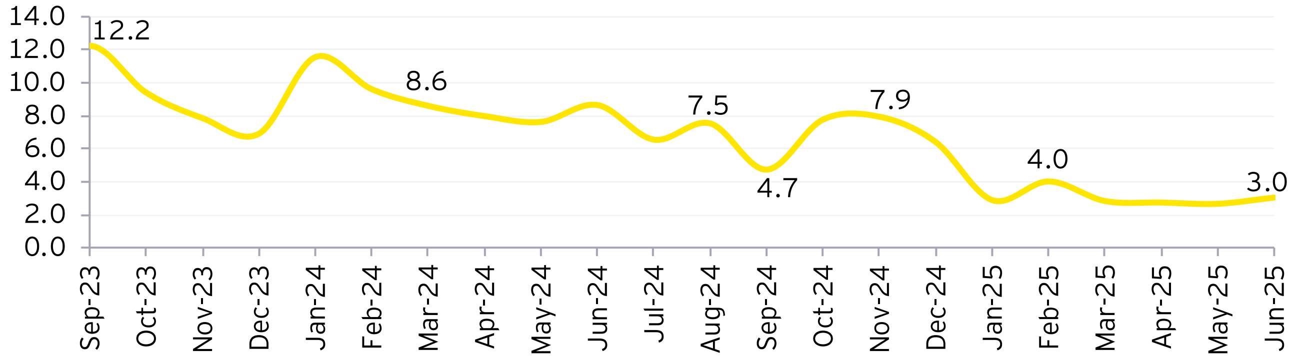
9.

Index of Aggregate Demand (IAD): Growth improved marginally to 3.0% in June 2025

9.1. Growth in IAD remained positive, but low in June 2025

- Owing to unfavorable base effects, IAD[16] showed low growth for the fourth consecutive month at 3.0% in June 2025, although improving marginally from 2.7% in May 2025 **(Chart 13 and Table 9).**
- The manufacturing sector saw improved demand conditions in June 2025, with the PMI manufacturing rising to 58.4 from 57.6 in May 2025.
- The services sector also witnessed significant improvement in demand conditions during the month as shown by the PMI services (sa), which expanded to 60.4 in June 2025 as compared to 58.8 in May 2025.
- Demand conditions in the agricultural sector showed a sequential moderation as indicated by a sustained fall in the growth of agricultural credit. Growth in credit to agriculture fell to a 66-month low of 6.6% in June 2025 from 7.4% (sa) in May 2025.

Chart 15: Growth in IAD (%, y-o-y)



Source (Basic data): S&P - IHS Markit PMI, RBI and EY estimates

Table 14: IAD

Month	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25
IAD	179.8	180.1	180.8	179.9	181.7	182.7	183.3	183.2	185.7
Growth (% y-o-y)	7.8	7.9	6.4	2.9	4.0	2.8	2.7	2.7	3.0
Growth in agr. credit	15.7	15.4	12.6	12.1	11.5	10.5	9.1	7.4	6.6
Mfg. PMI**	7.5	6.5	6.4	7.7	6.3	8.1	8.2	7.6	8.4
Ser. PMI**	8.5	8.4	9.3	6.5	9.0	8.5	8.7	8.8	10.4

Source (basic data): S&P Global, RBI and EY estimates; **Values here indicate deviation from the benchmark value of 50. A positive value indicates expansion in demand while a negative value implies contraction in demand; PMI for Manufacturing and Services are seasonally adjusted.

[16] EY has developed an Index of Aggregate Demand (IAD) to reflect the monthly combined demand conditions in the agriculture, manufacturing, and services sectors. It considers the movements in PMI for manufacturing and services, both measured in seasonally adjusted (sa) terms, tracing the demand conditions in these sectors. Movements in the monthly agricultural credit off-take (sa) capture the demand conditions in the agricultural sector.

10.
Capturing macro-fiscal trends: Data appendix

Table A1: Industrial growth indicators (annual, quarterly, and monthly growth rates, y-o-y)

Fiscal year/ quarter/ month	IIP	Mining	Manufacturing	Electricity	Core IIP	Fiscal year/ quarter /month	PMI mfg.	PMI ser.
	% change y-o-y							
FY22	11.4	12.2	11.8	7.9	10.4	FY22	54.0	52.3
FY23	5.2	5.8	4.7	8.9	7.8	FY23	55.6	57.3
FY24	5.9	7.5	5.5	7.1	7.6	FY24	57.2	60.3
FY25	4.0	2.9	3.9	5.1	4.4	FY25	57.4	59.2
2QFY25	2.7	-0.1	3.3	1.4	2.4	2QFY25	57.4	59.6
3QFY25	4.1	1.8	4.5	4.1	4.9	3QFY25	56.8	58.7
4QFY25	4.0	2.4	4.2	4.6	4.3	4QFY25	57.4	58.0
1QFY26	2.0	-3.0	3.4	-1.9	1.3	1QFY26	58.1	59.3
Mar-25	3.9	1.2	4.0	7.5	4.5	Apr-25	58.2	58.7
Apr-25	2.6	-0.2	3.1	1.7	1.0	May-25	57.6	58.8
May-25	1.9	-0.1	3.2	-4.7	1.2	Jun-25	58.4	60.4
Jun-25	1.5	-8.7	3.9	-2.6	1.7	Jul-25	59.1	60.5

Source: MoSPI, Office of the Economic Adviser, Ministry of Commerce and Industry and S&P Global

Table A2: Inflation indicators (annual, quarterly, and monthly growth rates, y-o-y)

Fiscal year/ quarter/ month	CPI	Food Price Index	Fuel and light	Core CPI	WPI	Food Price Index	Mfg. products	Fuel and power	Core WPI
	% change y-o-y				% change y-o-y				
FY22	5.5	3.8	11.3	6.1	13.0	6.8	11.1	32.5	11.0
FY23	6.7	6.6	10.3	6.3	9.4	6.3	5.6	28.1	5.8
FY24	5.4	7.5	1.2	4.4	-0.7	3.2	-1.7	-4.7	-1.4
FY25	4.6	7.3	-2.5	3.6	2.3	7.3	1.7	-1.3	0.7
2QFY25	4.2	6.8	-4.1	3.5	1.8	5.5	1.2	-0.9	0.5
3QFY25	5.6	9.4	-1.6	3.8	2.5	10.0	2.0	-3.6	0.5
4QFY25	3.7	4.1	-0.5	4.0	2.4	6.2	3.0	-1.0	1.4
1QFY26	2.7	0.5	2.8	4.4	0.3	1.6	2.2	-3.7	1.0
Apr-25	3.2	1.8	2.9	4.4	0.9	3.3	2.6	-3.8	1.3
May-25	2.8	1.0	2.8	4.3	0.1	1.9	2.1	-4.8	0.9
Jun-25	2.1	-1.0	2.6	4.5	-0.1	-0.3	2.0	-2.7	1.0
Jul-25	1.6	-1.8	2.7	4.0	-0.6	-2.1	2.0	-2.4	1.1

Source: Office of the Economic Adviser, Ministry of Commerce and Industry and MoSPI
Note: The CPI for April and May 2020 has been imputed. Core CPI inflation is measured in different ways by different organizations/agencies. Here, it has been calculated by excluding food, and fuel and light from the overall index

Table A3: Fiscal indicators (annual growth rates, cumulated monthly growth rates, y-o-y, unless otherwise specified)

Fiscal year/month	Gross tax revenue	Corporate tax	Income tax	Direct taxes*	Indirect taxes**	Fiscal deficit % of GDP	Revenue deficit % of GDP
FY22	33.7	55.6	42.9	49.0	20.2	6.7	4.4
FY23	12.7	16.0	19.7	17.8	7.2	6.4	4.0
FY24	13.5	10.3	25.4	17.9	8.5	5.6	2.6
FY25 (RE over act.)	11.2	7.6	20.3	14.4	6.8	4.8	1.9
FY26 (BE over RE)	10.8	10.4	14.4	12.7	8.3	4.4	1.5
	Cumulated growth (%, y-o-y)					% of budgeted target	
Nov-24	10.7	-0.5	23.5	12.1	7.6	52.5	61.5
Dec-24	10.8	2.7	22.2	12.2	7.4	58.2#	42.0#
Jan-25	10.3	-0.6	22.0	10.7	8.5	74.5#	72.4#
Feb-25	10.9	1.9	22.0	12.4	7.9	85.8#	93.8#
Mar-25	9.5	8.3	17.0	12.9	4.2	100.5#	92.9#
Apr-25	6.5	-40.7	10.8	-3.0	17.4	11.9	9.4
May-25	12.1	-0.8	6.4	5.0	19.4	0.8	-34.9
Jun-25	4.6	-1.2	-0.5	-0.8	11.5	17.9	6.4

Source: Monthly Accounts, Controller General of Accounts, Government of India, Union Budget documents; # indicates that the values as percent of revised estimates; annual data is sourced from Union budget documents.
* Includes corporation tax and income tax
** Includes customs duty, excise duty, service tax, CGST, UTGST, IGST and GST compensation cess

Fiscal year/month	CGST	UTGST	IGST	GST compensation cess	Total GST (GoI)
	INR crore				
FY25 (RE)	9,08,459	-	0	1,53,440	10,61,899
FY26 (BE)	10,10,890	-	0	1,67,110	11,78,000
Nov-24	82,274	480	-17,406	13,116	78,464
Dec-24	69,383	269	-3,736	11,958	77,874
Jan-25	79,258	864	3,980	13,415	97,517
Feb-25	77,623	304	-9,998	13,356	81,285
Mar-25	78,843	1,230	4,613	12,179	96,865
Apr-25	78,240	119	31,097	12,696	1,22,152
May-25	76,744	372	2,333	12,310	91,759
Jun-25	76,739	288	-6,118	13,319	84,228

Source: Monthly Accounts, Controller General of Accounts, Government of India, Union Budget documents
Note: IGST revenues are subject to final settlement

Table A4: Monetary and financial indicators (annual, quarterly, and monthly growth rates, y-o-y)

Fiscal year/ month	Repo rate (end of period)	Fiscal year/ quarter/ month	Bank credit	Agg. deposits	Net FDI	Net FPI	Fiscal year/ quarter/ month	M1	M3	10-year govt. bond yield	FX reserves
	%		% change y-o-y		US$ billion			% change y-o-y		%	US$ billion
Sep-24	6.50	FY22	7.0	9.7	38.6	-16.8	FY22	10.7	8.8	6.40	617.6
Oct-24	6.50	FY23	14.4	9.5	28.0	-5.2	FY23	6.9	9.0	7.35	578.4
Nov-24	6.50	FY24	15.7	13.0	10.1	44.1	FY24	7.3	11.1	7.16	645.6
Dec-24	6.50	FY25	13.6	11.3	2.3	2.7	FY25	7.8	9.6	6.88	665.4
Jan-25	6.50	2QFY25	14.8	11.0	-2.3	19.9	2QFY25	9.2	10.8	6.92	704.9
Feb-25	6.25	3QFY25	12.4	11.2	-2.8	-11.4	3QFY25	6.0	9.3	6.79	640.3
Mar-25	6.25	4QFY25	12.2	10.3	0.7	-6.8	4QFY25	7.9	9.6	6.72	665.4
Apr-25	6.00	1QFY26	10.5	10.0	--	--	1QFY26	12.1	9.6	6.34	702.8
May-25	6.00	Mar-25	12.1	10.3	-0.4	3.9	Apr-25	7.0	9.4	6.46	688.1
Jun-25	5.50	Apr-25	11.3	10.2	3.9	-3.1	May-25	12.4	9.3	6.27	691.5
Jul-25	5.50	May-25	9.9	9.9	0.04	1.6	Jun-25	12.1	9.5	6.31	702.8
Aug-25	5.50	Jun-25	10.4	10.1	--	--	Jul-25	11.9	9.6	6.35	698.2

Source: Database on Indian Economy - RBI

Table A5: External trade and US Dollar Index (DXY)

External trade indicators (annual, quarterly and monthly growth rates)								
Fiscal year/ quarter/ month	Exports	Imports	Trade balance	Ex. rate (avg.)	Crude prices (avg.)	Coal prices (avg.)	Calendar year	DXY
	% change y-o-y		US$ billion	INR/US$	US$/bbl	US$/mt.		
FY22	44.8	56.0	-191.0	74.5	78.4	164.8	2021	92.5
FY23	6.0	16.8	-268.5	80.4	92.7	283.4	2022	104.0
FY24	-2.3	-5.3	-241.1	82.8	81.1	126.4	2023	103.4
FY25	0.1	6.2	-282.8	84.6	77.1	118.2	2024	104.2
2QFY25	-3.6	4.1	-73.9	83.8	77.9	123.4	3QCY24	102.7
3QFY25	3.6	8.6	-81.9	84.5	72.9	122.9	4QCY24	105.4
4QFY25	-4.2	1.2	-58.6	86.7	74.2	105.2	1QCY25	106.7
1QFY26	2.1	4.2	-67.1	85.6	65.9	99.3	2QCY25	99.7
Apr-25	9.0	19.1	-26.4	85.6	65.9	97.1	Apr-25	100.7
May-25	-2.2	-1.7	-21.9	85.2	62.7	99.4	May-25	100.1
Jun-25	-0.1	-3.7	-18.8	85.9	69.1	101.4	Jun-25	98.4
Jul-25	7.3	8.6	-27.3	86.1	69.2	103.3	Jul-25	98.0

Source: Database on Indian Economy - RBI, Pink Sheet - World Bank; E = estimates; and *projections as given in April 2025 issue of the IMF WEO.

Table A5: Global growth

Growth (annual)				
Calendar year	World GDP	Adv. econ.	Emer. econ.	India#
	% change y-o-y			
2019	2.9	1.9	3.7	3.9
2020	-2.7	-4.0	-1.7	-5.8
2021	6.6	6.0	7.0	9.7
2022	3.6	2.9	4.1	7.6
2023	3.5	1.7	4.7	9.2
2024**	3.3	1.8	4.3	6.5
2025**	3.0	1.5	4.1	6.4
2026**	3.1	1.6	4.0	6.4
2027*	3.2	1.7	4.2	6.5
2028*	3.2	1.7	4.1	6.5
2029*	3.2	1.7	4.1	6.5
2030*	3.1	1.7	4.0	6.5

Source: IMF WEO; **projections as given in July 2025 IMF WEO update; *projections as given in April 2025 issue of the IMF WEO # data is on fiscal year basis

Table A6: Macroeconomic aggregates (annual and quarterly real growth rates, % change y-o-y)

Fiscal year/quarter	Output: major sectors									IPD inflation
	GVA	Agr.	Ming.	Mfg.	Elec.	Cons.	Trans.	Fin.	Publ.	GVA
FY22	9.4	4.6	6.3	10.0	10.3	19.9	15.2	5.7	7.5	8.6
FY23	7.2	6.3	3.4	-1.7	10.8	9.1	12.3	10.8	6.7	6.3
FY24 (1st RE)	8.6	2.7	3.2	12.3	8.6	10.4	7.5	10.3	8.8	2.5
FY25 (PE)	6.4	4.6	2.7	4.5	5.9	9.4	6.1	7.2	8.9	2.9
4QFY23	6.6	9.4	4.6	1.5	8.6	7.1	7.5	10.9	2.5	2.4
1QFY24	9.9	5.7	4.1	7.3	4.1	9.2	11.0	15.0	9.3	1.1
2QFY24	9.2	3.7	4.1	17.0	11.7	14.6	5.4	8.3	8.9	2.5
3QFY24	8.0	1.5	4.7	14.0	10.1	10.0	8.0	8.4	8.4	3.3
4QFY24	7.3	0.9	0.8	11.3	8.8	8.7	6.2	9.0	8.7	2.9
1QFY25	6.5	1.5	6.6	7.6	10.2	10.1	5.4	6.6	9.0	2.8
2QFY25	5.8	4.1	-0.4	2.2	3.0	8.4	6.1	7.2	8.9	2.3
3QFY25	6.5	6.6	1.3	3.6	5.1	7.9	6.7	7.1	8.9	3.9
4QFY25	6.8	5.4	2.5	4.8	5.4	10.8	6.0	7.8	8.7	2.6

Source: National Accounts Statistics, MoSPI

*Growth numbers for FY23 pertain to final estimates while that for FY24 pertain to first revised estimates as per the National statistics released on 28 February 2025. Growth numbers for FY25 are based on second advance estimates released on 28 February 2025.

Fiscal year/quarter	Expenditure components						IPD inflation
	GDP	PFCE	GFCE	GFCF	EX	IM	GDP
FY22	9.7	11.7	0.0	17.5	29.6	22.1	8.4
FY23	7.6	7.5	4.3	8.4	10.3	8.9	5.9
FY24 (1st RE)	9.2	5.6	8.1	8.8	2.2	13.8	2.6
FY25 (PE)	6.5	7.2	2.3	7.1	6.3	-3.7	3.1
4QFY23	6.9	2.1	9.0	5.6	9.4	-1.8	1.9
1QFY24	9.7	7.4	5.3	8.4	-7.0	18.0	1.2
2QFY24	9.3	3.0	20.1	11.7	4.6	14.3	2.5
3QFY24	9.5	5.7	2.3	9.3	3.0	11.3	3.1
4QFY24	8.4	6.2	6.6	6.0	7.7	11.4	3.4
1QFY25	6.5	8.3	-0.3	6.7	8.3	-1.6	3.0
2QFY25	5.6	6.4	4.3	6.7	3.0	1.0	2.5
3QFY25	6.4	8.1	9.3	5.2	10.8	-2.1	3.7
4QFY25	7.4	6.0	-1.8	9.4	3.9	-12.7	3.1

Source: National Accounts Statistics, MoSPI

* Growth numbers for FY23 pertain to final estimates while that for FY24 pertain to first revised estimates as per the National statistics released on 28 February 2025. Growth numbers for FY25 are based on second advance estimates released on 28 February 2025

List of abbreviations

Sr. no.	Abbreviations	Description
1	AD	aggregate demand
2	AEs	advanced economies
3	Agr.	agriculture, forests and fishing
4	AY	assessment year
5	Bcm	billion cubic meters
6	bbl.	barrel
7	BE	budget estimate
8	CAB	current account balance
9	CGA	Comptroller General of Accounts
10	CGST	Central Goods and Services Tax
11	CIT	corporate income tax
12	Cons.	construction
13	CPI	Consumer Price Index
14	COVID-19	Coronavirus disease 2019
15	CPSE	central public-sector enterprise
16	CRAR	Credit to Risk- weighted Assets Ratio
17	Disc.	discrepancies
18	ECBs	External Commercial borrowings
19	Elec.	electricity, gas, water supply and other utility services
20	EMDEs	Emerging Market and Developing Economies
21	EXP	exports
22	FAE	first advance estimates
23	FC	Finance Commission
24	FII	foreign investment inflows
25	Fin.	financial, real estate and professional services
26	FPI	foreign portfolio investment
27	FRBMA	Fiscal Responsibility and Budget Management Act
28	FRL	Fiscal Responsibility Legislation
29	FY	fiscal year (April–March)
30	GDP	Gross Domestic Product
31	GFCE	government final consumption expenditure
32	GFCF	gross fixed capital formation
33	GoI	Government of India
34	G-secs	government securities
35	GST	Goods and Services Tax
36	GVA	gross value added
37	IAD	Index of Aggregate Demand
38	IBE	interim budget estimates
39	ICRIER	Indian Council for Research on International Economic Relations
40	IEA	International Energy Agency
41	IGST	Integrated Goods and Services Tax

Sr. no.	Abbreviations	Description
42	IIP	Index of Industrial Production
43	IMF	International Monetary Fund
44	IMI	Index of Macro Imbalance
45	IMP	imports
46	INR	Indian Rupee
47	IPD	implicit price deflator
48	MCLR	marginal cost of funds-based lending rate
49	Mfg.	manufacturing
50	MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
51	Ming.	mining and quarrying
52	m-o-m	month-on-month
53	Mt	metric ton
54	MoSPI	Ministry of Statistics and Programme Implementation
55	MPC	Monetary Policy Committee
56	MPF	Monetary Policy Framework
57	NEXP	net exports (exports minus imports of goods and services)
58	NSO	National Statistical Office
59	NPA	non-performing assets
60	OECD	Organization for Economic Co-operation and Development
61	OPEC	Organization of the Petroleum Exporting Countries
62	PFCE	private final consumption expenditure
63	PIT	personal income tax
64	PMI	Purchasing Managers' Index (reference value = 50)
65	PoL	petroleum oil and lubricants
66	PPP	Purchasing power parity
67	PSBR	public sector borrowing requirement
68	PSU/PSE	public sector undertaking/public sector enterprises
69	RE	revised estimates
70	REE	Rare earth elements
71	RBI	Reserve Bank of India
72	SLR	Statutory Liquidity Ratio
73	Trans.	trade, hotels, transport, communication and services related to broadcasting
74	US$	US Dollar
75	UTGST	Union Territory Goods and Services Tax
76	WALR	weighted average lending rate
77	WHO	World Health Organization
78	WPI	Wholesale Price Index
79	y-o-y	year-on-year
80	1HFY20	first half of fiscal year 2019-20, i.e., April 2019-September 2019

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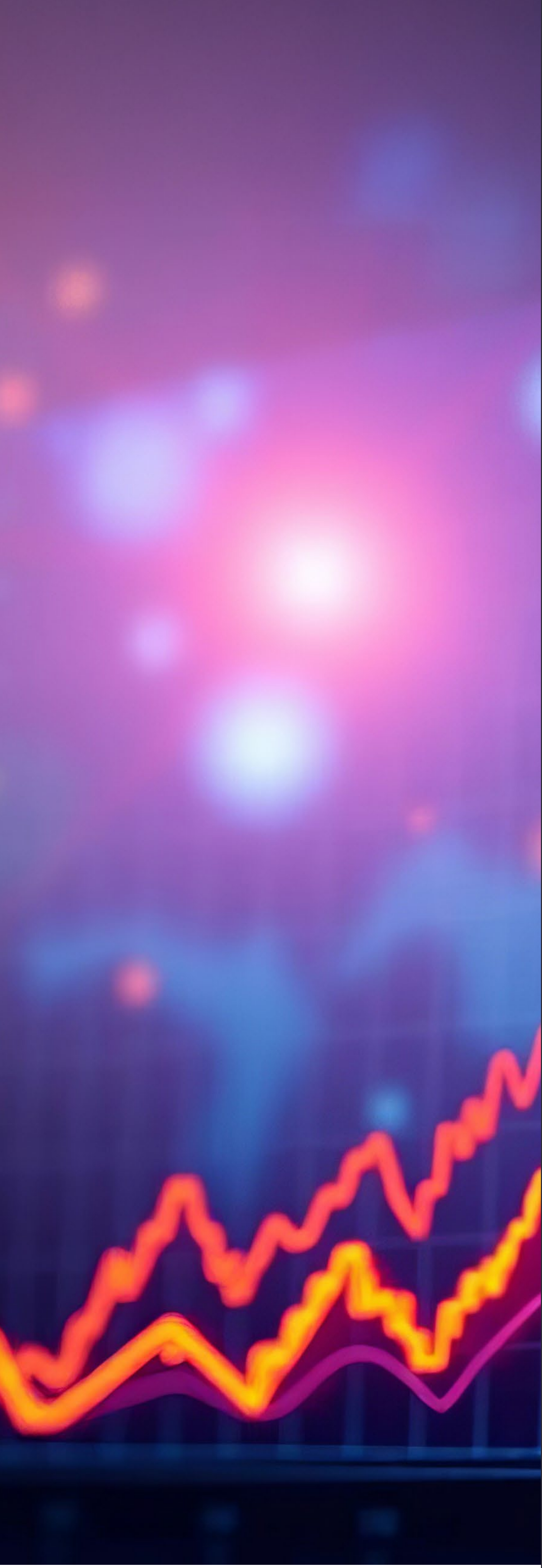
Highway,Goregaon (E),
Mumbai - 400 063
Tel: + 91 22 6192 0000

3rd Floor, Unit No.301
Building No.1, Mindspace-Gigaplex
IT Park, MIDC, Plot No. IT-5
Airoli Knowledge Park
Airoli West, Navi Mumbai - 400 708
Tel: + 91 22 6192 0003

Altimus, 18th Floor
Pandurang Budhkar Marg
Worli, Mumbai - 400 018
Tel: +91 22 6192 0503

Pune
C-401, 4th Floor
Panchshil Tech Park, Yerwada
(Near Don Bosco School)
Pune - 411 006
Tel: + 91 20 4912 6000

10th Floor, Smartworks
M-Agile, Pan Card Club Road
Baner, Pune - 411 045
Tel: + 91 20 4912 6800



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