

Economy Watch

Monitoring India's
macro-fiscal performance

June 2025



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Highlights

1. As per national accounts data released on 30 May 2025, real GDP growth for 4QFY25 improved to a four-quarter high of 7.4% from 6.4% in 3QFY25. With this, the FY25 real GDP growth stood at 6.5%.
2. In May 2025, although manufacturing PMI eased to 57.6, it remained above its long-run average of 54.1. Services PMI continued to remain at a high level of 58.8.
3. IIP growth moderated to 2.7% in April 2025 owing to lower growth in manufacturing and electricity output.
4. CPI inflation eased to a 75-month low of 2.8% in May 2025 on account of lower food prices, whereas core CPI moderated marginally to 4.3% from 4.4% in April 2025.
5. WPI inflation eased to 0.4% in May 2025, its lowest level since May 2024, led by a fall in inflation in food items, metals and mineral oils.
6. Govt's gross tax revenues (GTR) grew by 9.5% in FY25 with a growth of 12.9% in direct taxes and 4.2% in indirect taxes.
7. Govt's total expenditure grew by 4.8% in FY25, with growth in revenue expenditure at 3.1% and that in capital expenditure at 10.8%. In April 2025, the first month of FY26, capital expenditure grew by 61%.
8. Govt's fiscal deficit stood at 4.8% of GDP, in line with the FY25 RE. Revenue deficit relative to GDP at 1.7% marked an improvement over 1.9% as per the FY25 RE.
9. Growth in gross bank credit fell to a three-year low of 11.3% in April 2025 from 12.1% in March 2025.
10. Net FDIs turned positive with inflows amounting to US\$3.9 billion while net FPIs witnessed outflows amounting to US\$3.1 billion in April 2025.
11. Owing largely to lower global crude prices, merchandise exports and imports showed a contraction of (-)2.2% and (-)1.7% in May 2025 as compared to growth rates of 9.0% and 19.1% in April 2025.
12. Merchandise trade deficit eased to US\$21.9 billion in May 2025 from a five-month high of US\$26.4 billion in April 2025.
13. In May 2025, average global crude price fell to US\$62.7/bbl., its lowest level since February 2021 amid escalating US tariffs and larger-than-expected OPEC+ output hikes. More recently, owing to the Israel-Iran conflict, daily Brent crude price peaked at US\$77.08/bbl. as on 19 June 2025.
14. The World Bank projected global growth at 2.3% in 2025 and India's FY26 growth at 6.3%.
15. For FY26, we expect that CPI inflation will remain in the range of 4-4.5% on average and real GDP growth is likely to remain in the range of 6.3-6.5%.

Foreword

Sustaining India's GDP growth under continuing global headwinds

The World Bank, in its June 2025 issue of Global Economic Prospects, has projected global growth at 2.3% in 2025. This is the slowest pace since 2008 aside outright global recessions, owing to the impact of higher trade barriers, elevated uncertainty, increased financial volatility, and weakened confidence. Global growth is expected to firm up to 2.5% in 2026 as trade flows continue adjusting to higher tariffs such that global trade edges up, while policy uncertainty moderates from record-high levels. Global growth projections for 2025 and 2026 reflect a downward revision of 0.4% points and 0.3% points respectively relative to the forecasts made earlier in January 2025, principally driven by advanced economies (AEs). With respect to India, despite a downward revision of 0.4% points, real growth is projected at 6.3% in 2025 (FY26), the fastest pace among the world's largest economies. Growth is forecasted to increase to 6.5% in 2026 (FY27) and further to 6.7% in 2027 (FY28) partly supported by robust services activity that may contribute to a pickup in exports.

As per NSO's May 2025 release, India's real GDP grew by 6.5% in FY25. With this, the average growth over the period FY23 to FY25 was at 7.8%, indicating a buoyant performance in the post COVID years despite continuing global economic headwinds. Over this period, the contribution of net exports to India's GDP growth has been 0.2% points, (-)2.8% points and 2.3% points respectively. Clearly, India's growth has been largely driven by domestic demand. Private final consumption expenditure (PFCE) grew by 7.2% in FY25. Gross fixed capital formation (GFCF) also grew in tandem at 7.1%. On the output side, real GVA growth was also robust at 6.4% in FY25 with agriculture showing a healthy growth of 4.6% along with construction at 9.4% and public administration, defence et al. at 8.9%. Only manufacturing growth, which has languished at 4.5%, is yet to improve.

A more recent development arising from the Israel-Iran conflict may add to ongoing global headwinds and put pressure on global crude prices which recently fell to a low of US\$64.3/bbl. on average in April and May 2025. As per an earlier RBI study (2021), with reference to a US\$75/bbl. benchmark, a US\$10/bbl. increase in the price of the Indian crude basket leads to a 0.3% points fall in real GDP growth and an increase of 0.4% points in CPI inflation. India may have to continue to rely on two major policy levers emanating from monetary and fiscal sides to maintain its growth momentum.

While much cannot be said about the way external demand might evolve, domestic private investment demand may be stimulated. In this context, monetary policy is of considerable importance since it affects cost of capital. The RBI, in its monetary policy review held on 6 June 2025, lowered the policy rate by 50 basis points to 5.5% with the objective of supporting growth. It projected real GDP growth at 6.5% in FY26 driven by private consumption and fixed capital formation. The RBI, however, changed its policy stance to neutral from accommodative. The frontloading of policy rate reduction is welcome. However, given the likely global growth slowdown and trade related uncertainties, the RBI may carry forward the momentum of the present interest rate reduction cycle at least until the policy rate reaches 5%. Conditions are ripe for maintaining this downward thrust since CPI inflation remains below the RBI's target of 4%. In fact, CPI inflation fell to 2.8% in May 2025, its lowest level since February 2019, as food inflation eased to a 43-month low of 1%, driven down by a contraction in vegetable prices at (-)13.7%. The RBI has also revised downwards its CPI inflation forecast for FY26 to 3.7% from 4.0% projected in April 2025. The ongoing rate reduction cycle may incentivize private investment and take India's potential growth closer to 7% in the next few years.

High-frequency indicators for May and June 2025 suggest the need for sustained policy support to maintain the growth momentum. Although manufacturing PMI fell from 58.2 in April 2025 to 57.6 in May 2025, it remained well above both the neutral benchmark of 50 and its long-run average of 54.1. Services PMI continued to remain at a high level of 58.8. Monthly gross GST collections in May 2025 at INR2.01 lakh crore remained above the INR2 lakh crore-threshold for the second successive month following the record high collections at INR2.37 lakh

crore in April 2025. Growth in retail sales of motor vehicles improved to 5.1% in May 2025 from 3% in April 2025. Alongside easing CPI inflation, WPI inflation also fell to a 14-month low of 0.4% in May 2025 on account of lower food and fuel prices. However, some indicators point towards a moderation in growth momentum. Growth in gross bank credit fell to a three-year low of 11.3% in April 2025 from 12.1% in March 2025. IIP growth moderated to 2.7% in April 2025 owing to lower growth in manufacturing and electricity output. Owing largely to lower global crude prices, merchandise exports and imports showed a contraction of (-)2.2% and (-)1.7% in May 2025 as compared to growth rates of 9.0% and 19.1% in April 2025.

Data from CGA for FY25 indicates that Gol's fiscal deficit target of 4.8% of GDP as per the revised estimates (RE) has been met. With continued reduction in revenue expenditure, the ratio of revenue deficit to fiscal deficit stands at 36% in FY25 as compared to its peak of 80% in FY21. In terms of tax revenue growth, the overall growth of 9.5% in Gol's GTR is composed of 12.9% of direct tax growth and 4.2% of indirect tax growth. It is the personal income tax (PIT) which was the mainstay of tax revenue growth in FY25 at 17.0%. In contrast, growth in corporate income tax (CIT) was 8.3% and that in GST was 7.2%. The revenues from Union excise duties (UED) and customs duties continued to contract at (-)1.7% and (-)0.1% respectively. In the context of government expenditures, revenue expenditure growth was limited to 3.1%. Capital expenditure growth, which was only 0.8% in the first 11 months of FY25, showed an annual growth of 10.8% because of a massive growth of 67.2% in the month of March 2025. Although a growth of 10.8% is lower than the average growth rate of government capital expenditure at 29.7% during FY21 to FY24, the restoration of its momentum is welcome for India's overall growth story. In fact, in two consecutive months of March and April 2025, Gol's capital expenditure has grown by 67.2% and 61% respectively.

India's medium-term growth prospects appear to be robust with sound fiscal management. Emphasis on government capital expenditure appears to be leading the growth story from the policy side with a healthy supporting growth in PFCE.

India is not only well on its way to becoming the fourth largest economy in the world at the end of FY26 as per the IMF data (April 2025) but has also shown considerable progress towards nearly eliminating extreme poverty and tangibly reducing income inequality. As per World Bank's Global Poverty Update released on 5 June 2025, which incorporates an increased threshold for measuring extreme poverty at \$3.0 per day in 2021 PPP terms, the number of extreme poor as percentage of total population was only 5.25% in 2022. In fact, if the older threshold of \$2.15 per day in 2017 PPP terms is used, this ratio is even lower at 2.35%. According to the World Poverty Atlas, a headcount ratio of the extreme poor below 3% amounts to elimination of extreme poverty. The World Bank estimates are based on FY23 household consumption expenditure survey using a recall method of Modified Mixed Reference Period. In fact, consumption expenditure undertaken by households understates the actual consumption of households since it does not capture subsidized provisions through various government welfare schemes like Ayushman Bharat and Sarva Shiksha Abhiyan. The profile of income inequality, as measured by the Gini coefficient, also shows clear improvement. Between FY12 and FY23, the Gini coefficient has fallen from 28.78 to 25.51. These are highly desirable characteristics of India's development path.

In this month's infocus, we have highlighted that India's defence expenditure as percentage of GDP has been falling in recent years on trend basis. We suggest as per the recommendations of the Standing Parliamentary Committee on Defence, defence expenditure may be benchmarked to 3% of GDP with a focus on defence capital expenditure along with private participation in the production of defence capital assets, create a non-lapsable fund for defence and internal security as part of the Viksit Bharat strategy.



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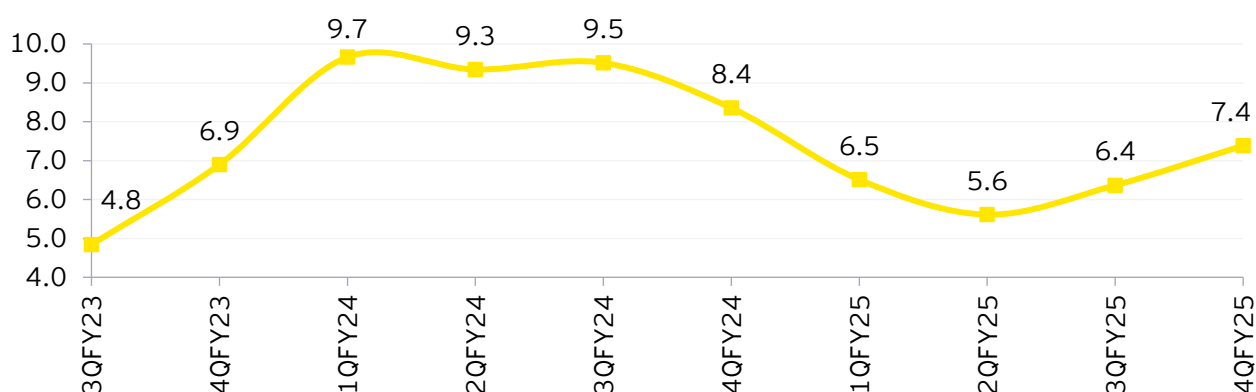
1.

Growth: Real GDP growth increased to 7.4% in 4QFY25

1.1. GDP and GVA: Grew by 7.4% and 6.8% in 4QFY25

- The national accounts data for the fourth quarter of FY25 released by MoSPI on 30 May 2025 showed that real GDP growth improved to a four-quarter high of 7.4% in 4QFY25 from 6.4% in 3QFY25 (Chart 1). The provisional estimates for FY25 pointed to a moderation in annual real GDP growth to 6.5%, falling from 9.2% in FY24.

Chart 1: Real GDP growth (% , y-o-y)



Source: MoSPI, GoI

- The strong GDP growth in 4QFY25 was supported by a higher growth in investment demand and a strong positive contribution of net exports to growth.
- Among the domestic demand components, the improvement was led by investment demand as measured by gross fixed capital formation (GFCF) which showed a robust growth of 9.4% in 4QFY25 (Table 1) and contributed 3.1% points to the overall GDP growth. A large part of this improved growth in GFCF may be attributable to higher growth in GoI's capital expenditure, particularly in the month of March 2025.
- Even with a lower growth of 6% in 4QFY25 as compared to 8.1% in 3QFY25, private final consumption expenditure (PFCE), the largest component of aggregate demand, with a share of close to 57% in overall GDP, contributed 3.2% points to the overall growth.
- Government final consumption expenditure (GFCE), however, contracted by (-)1.8% in 4QFY25, falling from a growth of 9.3% in 3QFY25. This is reflective of a moderation in the growth of GoI's revenue expenditure in the last quarter of FY25.
- With regard to external demand, with exports showing a growth of 3.9% in 4QFY25 and imports contracting sharply by (-)12.7%, the contribution of net exports to real GDP growth at 3.7% points was the highest among all the aggregate demand components.
- On the output side, real GVA grew by 6.8% in 4QFY25, increasing from 6.5% in 3QFY25. This was largely due to strong growth in construction, public administration, defence et al., financial, real estate, et al. and agriculture sectors.
- GVA growth in construction increased sharply to 10.8% in 4QFY25 from 7.9% in 3QFY25.

- Public administration and defence et al. and financial, real estate, et al. sectors showed robust growth rates of 8.7% and 7.8% in 4QFY25 as compared to 8.9% and 7.1% respectively in 3QFY25.
- The agricultural sector continued to post a strong growth of 5.4% in 4QFY25, although moderating from 6.6% in 3QFY25.
- Although manufacturing GVA growth continued to remain low, it showed improvement for the second successive quarter, reaching 4.8% in 4QFY25 from its recent trough of 2.2% in 2QFY25.
- With nominal GDP growth at 10.8% in 4QFY25, marginally higher as compared to 10.3% in 3QFY25, the implicit price deflator (IPD)-based inflation was lower at 3.1% in 4QFY25 as compared to 3.7% in 3QFY25.

Table 1: Real GDP and GVA growth (% , annual)

Agg. demand	3Q FY23	4Q FY23	1Q FY24	2Q FY24	3Q FY24	4Q FY24	1Q FY25	2Q FY25	3Q FY25	4Q FY25	FY24	FY25
PFCE	2.4	2.1	7.4	3.0	5.7	6.2	8.3	6.4	8.1	6.0	5.6	7.2
GFCE	2.5	9.0	5.3	20.1	2.3	6.6	-0.3	4.3	9.3	-1.8	8.1	2.3
GFCF	6.7	5.6	8.4	11.7	9.3	6.0	6.7	6.7	5.2	9.4	8.8	7.1
EXP	8.2	9.4	-7.0	4.6	3.0	7.7	8.3	3.0	10.8	3.9	2.2	6.3
IMP	2.9	-1.8	18.0	14.3	11.3	11.4	-1.6	1.0	-2.1	-12.7	13.8	-3.7
GDP	4.8	6.9	9.7	9.3	9.5	8.4	6.5	5.6	6.4	7.4	9.2	6.5
Contr. NEXP (% pts)	1.1	2.5	-6.1	-2.6	-2.0	-0.7	2.1	0.4	2.8	3.7	-2.8	2.3
<i>Output side</i>												
Agr.	6.4	9.4	5.7	3.7	1.5	0.9	1.5	4.1	6.6	5.4	2.7	4.6
Ming.	2.6	4.6	4.1	4.1	4.7	0.8	6.6	-0.4	1.3	2.5	3.2	2.7
Mfg.	-4.3	1.5	7.3	17.0	14.0	11.3	7.6	2.2	3.6	4.8	12.3	4.5
Elec.	9.9	8.6	4.1	11.7	10.1	8.8	10.2	3.0	5.1	5.4	8.6	5.9
Cons.	9.1	7.1	9.2	14.6	10.0	8.7	10.1	8.4	7.9	10.8	10.4	9.4
Trans.	9.7	7.5	11.0	5.4	8.0	6.2	5.4	6.1	6.7	6.0	7.5	6.1
Fin.	9.4	10.9	15.0	8.3	8.4	9.0	6.6	7.2	7.1	7.8	10.3	7.2
Publ.	1.3	2.5	9.3	8.9	8.4	8.7	9.0	8.9	8.9	8.7	8.8	8.9
GVA	5.3	6.6	9.9	9.2	8.0	7.3	6.5	5.8	6.5	6.8	8.6	6.4

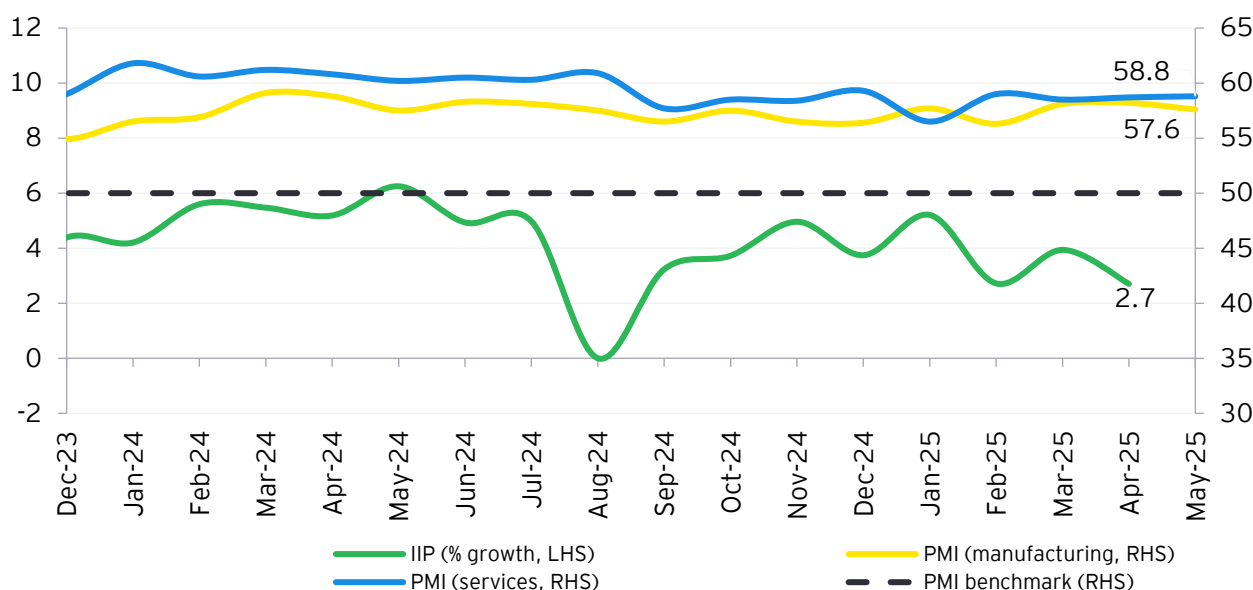
Source: MoSPI, Gol

1.2. PMI: At 57.6 and 58.8 in May 2025, both manufacturing and services PMI remained well above their long-run average

- Manufacturing PMI (seasonally adjusted or sa) fell from 58.2 in April 2025 to 57.6 in May 2025, its lowest level since February 2025. The headline figure, however, remained well above both the neutral benchmark of 50.0 and its long-run average of 54.1.
- Services PMI (sa) increased marginally to 58.8 in May 2025 from 58.7 in April 2025, remaining well above its long-run average at 54.2 (Chart 2). Activity in the services sector was driven by new export orders that witnessed one of the fastest increases in May 2025.
- Owing to an easing growth momentum in manufacturing and a marginal improvement in services sector activity, the composite PMI Output Index (sa) fell marginally to 59.3 in May 2025 from 59.7 in April 2025.

In May 2025, despite easing to 57.6, manufacturing PMI remained above its long-run average of 54.1. Services PMI continued to remain at a high level of 58.8.

Chart 2: PMI and IIP growth



Source: MoSPI and S&P Global.

1.3. IIP: Growth moderated to 2.7% in April 2025

- According to the quick estimates, IIP growth moderated to 2.7% in April 2025 from 3.9% (revised) in March 2025 (Chart 2) due to slower growth in manufacturing and electricity output.
- Growth in the output of the manufacturing sector fell to 3.4% in April 2025 from 4.0% in March 2025. Similarly, growth in the output of electricity fell to a seven-month low of 1.1% in April 2025 from 7.5% in March 2025. Output of mining, which is usually volatile, contracted by (-)0.2% in April 2025 as compared to a growth of 1.2% in March 2025.
- Within manufacturing, among the key sub-industries, output of other non-metallic mineral products (5.6%) and basic metals (4.9%) showed relatively lower growth rates while there was a contraction in the output of pharmaceuticals, medicinal products et al. ((-)3.9%), chemical and chemical products ((-)3.6%) and coke and refined petroleum products ((-)2.1%) during the month.
- Within the 'use-based' classification of industries, there was a slowdown in the growth of infrastructure/construction and consumer durables sectors to 4.0% and 6.4%, respectively, in April 2025 from 9.9% and 6.9% in March 2025. Output of consumer non-durables and primary goods, however, contracted by (-)1.7% and (-)0.4%, respectively, during the month. Growth in the output of capital goods, which is usually volatile, was at 20.3% in April 2025, largely owing to a favorable base effect.
- Growth in the output of eight core infrastructure industries (core IIP) fell to an eight-month low of 0.5% in April 2025 from 4.6% (revised) in March 2025. This was due to a sharp slowdown in the output growth of electricity (1.0%), steel (3.0%) and cement (6.7%) and a contraction in the output of petroleum refinery products ((-)4.5%) and crude oil ((-)2.8%) during April 2025.

IIP growth moderated to 2.7% in April 2025 owing to lower growth in manufacturing and electricity output.

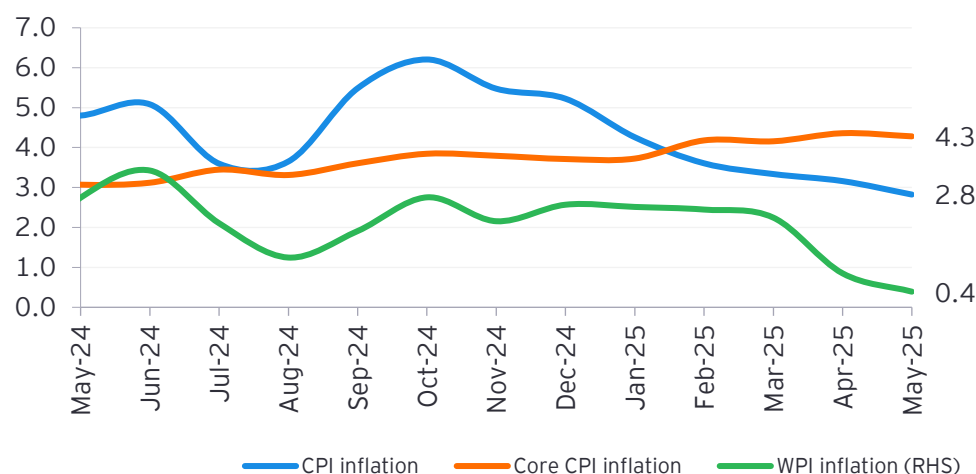
2.

Inflation: CPI inflation eased to a 75-month low of 2.8% in May 2025

2.1. CPI inflation

- CPI inflation moderated to 2.8% in May 2025 (Chart 3), its lowest level since February 2019, as consumer food price index-based inflation decelerated to a 43-month low of 1.0%.
- The pace of contraction in prices of vegetables increased to (-)13.7% in May 2025 from (-)11.0% in April 2025.
- Inflation in pulses saw a sequential decline for the 12th successive month to (-)8.2% in May 2025 from (-)5.2% in April 2025.
- Inflation in fuel and light was at 2.8% in May 2025, nearly stable as compared to 2.9% in April 2025.
- Inflation in clothing and footwear and housing remained low at 2.7% and 3.2% in May 2025 as compared to 2.7% and 3.1% respectively in April 2025.
- Core CPI inflation¹ declined slightly to 4.3% in May 2025 from 4.4% in April 2025, owing largely to lower inflation in household goods and services.

Chart 3: Inflation (y-o-y, in %)



CPI inflation eased to a 75-month low of 2.8% in May 2025 on account of lower food prices, whereas core CPI moderated to 4.3% from 4.4% in April 2025.

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: Eased to a 14-month low of 0.4% in May 2025

- WPI inflation moderated from 0.9% in April 2025 to 0.4% in May 2025, its lowest level since March 2024 (Chart 3), led by a fall in inflation in food items, metals and mineral oils.
- WPI food index-based inflation fell to 1.7% in May 2025, its lowest level since October 2023, driven by an increase in the pace of contraction in prices of vegetables to (-)21.6% in May 2025 from (-) 18.3% in April 2025. This was partly attributable to favorable base effects.
- Wholesale price of crude petroleum continued to show a contraction at (-)14.0% in May 2025, as compared to (-)19.8% in the previous month.
- Fuel and power inflation remained negative at (-)2.3% in May 2025, close to its level of (-)2.2% in April 2025, as the pace of contraction in mineral oils increased to (-)7.5% in May 2025 from (-)5.6% in April 2025.
- Inflation in manufactured products moderated to 2.0% in May 2025 from 2.6% in April 2025.
- Inflation in manufactured food products eased for the third successive month to an eight-month low of 8.4% in May 2025. Prices of manufactured basic metals continued to contract by (-)3.1% in May 2025, higher as compared to (-)0.6% in April 2025.
- Core WPI inflation eased to a five-month low of 0.8% in April 2025, reflecting sustained contraction in prices of manufactured basic metals and relatively lower inflation in manufactured food products.

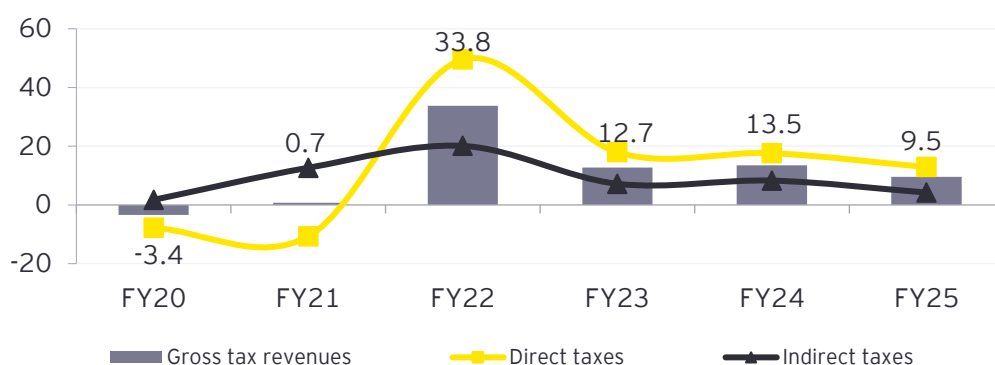
3.

Fiscal: Govt met its FY25 fiscal deficit target of 4.8% of GDP

3.1. Tax and non-tax revenues

- As per the CGA, Govt's GTR^(b) showed a growth of 9.5% in FY25, lower than the double-digit growth witnessed during the previous three fiscal years (Chart 4).
- With a nominal GDP growth of 9.8%, the buoyancy of Govt's GTR is estimated at 1.0 in FY25, slightly lower than 1.1 in FY24.
- Direct taxes^(a) showed a growth of 12.9% while indirect taxes^(a) grew by 4.2% in FY25, lower than the corresponding growth rates in FY24 at 17.6% and 8.3%, respectively.
- Within direct taxes, PIT revenues posted a double-digit growth of 17% while CIT revenues experienced a relatively lower growth of 8.3% in FY25. The FY25 growth rates for both PIT and CIT revenues were lower as compared to the corresponding growth rates of 25.1% and 10.3%, respectively in FY24.
- Among indirect taxes, Govt's GST revenues grew by 7.2% in FY25, down from 12.7% in FY24.
- Union excise duties (UED) showed a contraction for the third successive year at (-)1.7% in FY25 following (-)18.4% and (-)4.3% in FY23 and FY24, respectively.
- Customs duties also showed a contraction of (-)0.1% in FY25 as compared to a growth of 9.3% in FY24.
- In the first month of FY26, Govt's GTR showed a growth of 6.5% with direct taxes witnessing a contraction of (-)3.0% and indirect taxes showing a growth of 17.4%. The contraction in direct taxes was an outcome of a sharp negative growth of (-)40.7% in CIT revenues largely owing to refunds.

Chart 4: Growth in central gross tax revenues (% , y-o-y)



Govt's GTR grew by 9.5% in FY25 with a growth of 12.9% in direct taxes and 4.2% in indirect taxes.

Source: Monthly Accounts, CGA, Government of India

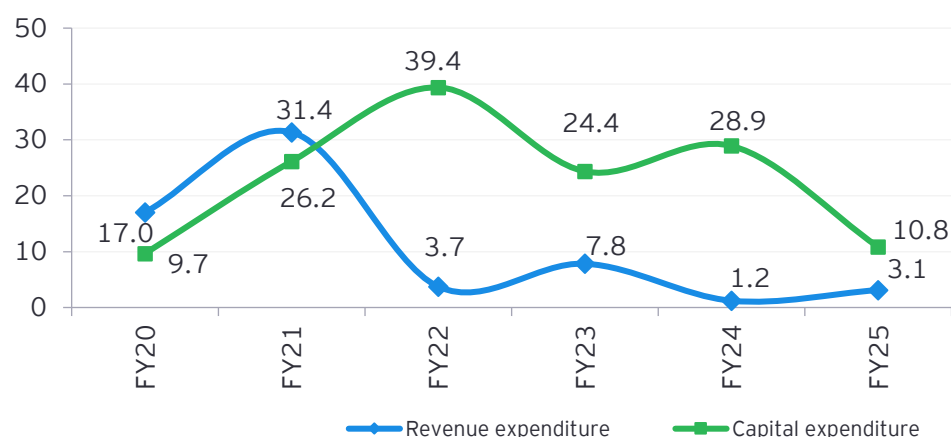
Notes: (a) Direct taxes include personal income tax (excluding STT) and corporation tax, and indirect taxes include union excise duties, arrears of service tax, customs duty, and GST (comprising CGST, UTGST IGST and GST compensation cess) (b) Other taxes (securities transaction tax, wealth tax, fringe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

- Gol's non-tax revenues showed a high growth of 33.8% in FY25, owing to substantially higher dividends by the RBI. Dividends and profits of the Gol in FY25 exceeded the annual revised estimate (RE) by INR19,138 crore.
- Non-debt capital receipts of the Gol stood at 70.9% of the annual RE marking a shortfall of INR17,182 crore from the FY25 RE. This was due to a shortfall in Gol's disinvestment receipts amounting to INR22,459 crore.
- As per the Department of Investment and Public Asset Management (DIPAM)², Gol's disinvestment receipts as of 24 June 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 Gol's total expenditure was lower at 4.8% in FY25 as compared to 6.1% in FY24 largely due to a slowdown in the growth of capital expenditure.
- Gol's revenue expenditure growth was limited at 3.1% in FY25, although higher as compared to 1.2% in FY24.
- Gol's capital expenditure had shown a subdued growth of 0.8% during April-February FY25. Considering the full year, growth picked up to 10.8% although remaining tangibly below the average growth seen during the last four years at 29.7%.

Chart 5: Growth in central expenditures (% , y-o-y)



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

Gol's total expenditure grew by 4.8% in FY25, with growth in revenue expenditure at 3.1% and that in capital expenditure at 10.8%.

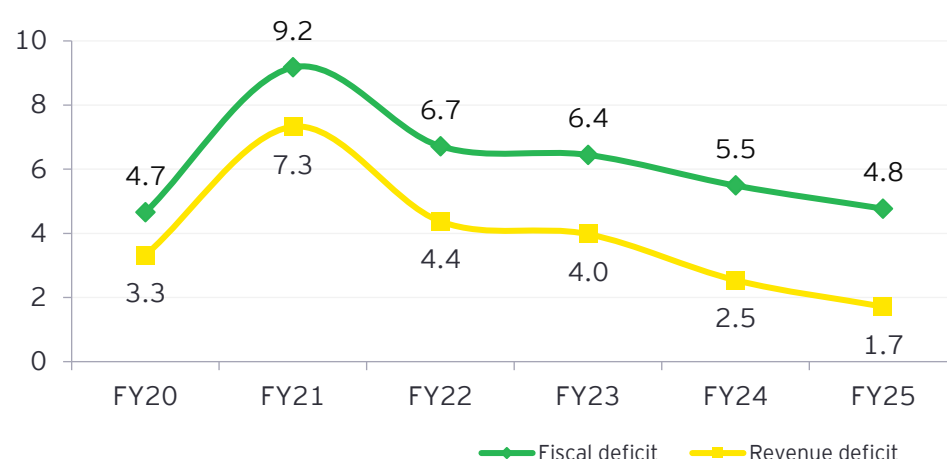
- In April 2025, Gol's total expenditure grew by 10% with revenue expenditure contracting by (-)5.7% and capital expenditure showing a strong growth of 61%.

² <https://dipam.gov.in/>

3.3. Fiscal imbalance

- Gol's fiscal deficit was at 4.8% of GDP in FY25, in line with the RE spelt out in the FY26 Union Budget presentation (Chart 6). Gol's fiscal deficit relative to GDP has seen a falling trajectory in each year after peaking at 9.2% in FY21.
- Gol's revenue deficit at 1.7% of GDP in FY25 was an improvement over 1.9% as per the FY25 RE. Similar to the trend in fiscal deficit, Gol's revenue deficit as percentage of GDP has also fallen year after year from its peak of 7.3% in the COVID year of FY21.
- The quality of fiscal deficit as measured by the ratio of revenue deficit to fiscal deficit has also shown considerable improvement with its level falling to 36% in FY25 from its peak of 80% in FY21.

Chart 6: Fiscal and revenue deficit as a percentage of GDP



Gol's fiscal deficit stood at 4.8% of GDP, in line with the FY25 RE. Revenue deficit relative to GDP at 1.7% marked an improvement over 1.9% as per the FY25 RE.

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

- In April 2025, Gol's fiscal deficit stood at 11.9% of the FY26 BE, higher than 8.6% which is the average during the corresponding period of the previous three years (FY23 to FY25) based on actual data.
- Gol's revenue deficit in April 2025 stood at 9.4% of the FY26 BE, slightly higher than the three-year average ratio at 9% during the corresponding period of the previous three years based on actual data.

4.

Comparative trends: IMF projected India's FY26 general government debt at 80.4% of GDP

4.1. General government fiscal deficit

- According to the IMF (April 2025), global fiscal deficit increased by 0.1% point, reaching an average of 5.0% of GDP in 2024 reflecting ongoing legacies of high subsidies, social benefits, other current spending from the COVID-19 pandemic, and rising net interest expenses. Global fiscal deficit is expected to widen further in 2025 before falling to 4.5% by 2027 (Table 2).
- The global fiscal outlook is expected to be shaped by multiple factors including increased economic and policy uncertainty, rising yields in key economies, and widening spreads in Emerging Market and Developing Economies (EMDEs), coupled with higher defence spending particularly in Europe and a challenging foreign aid landscape.
- Governments in advanced economies (AEs) on average are expected to tighten fiscal policy in 2025 and 2026 and, to a lesser extent, in 2027.
- In the US, general government fiscal deficit was elevated at 7.3% of GDP in 2024, primarily due to a large increase in net interest expenses. It is projected to decrease to 6.5% in 2025 contingent on higher tariff revenues. Without significant policy changes, fiscal deficit is projected to drop to 5.6% of GDP in the medium term, fueled by a 0.7%-point rise in revenues.
- In the UK, general government fiscal deficit is expected to fall from a high level of 5.7% of GDP in 2024 to 2.3% by 2030, and that in Euro area and Japan is projected to increase to 3.7% and 5.3%, respectively, by 2030.
- Within the Euro area, the primary deficit in Germany is expected to widen by about 1% point of GDP by 2030 relative to 2024 (*not shown here*) with the increase driven primarily by higher defence spending and public investment. This is assumed to generate spillovers to France, Italy, and Spain.

Table 2: General government net lending/borrowing (% to GDP)

Country	2024	2025(f)	2026(f)	2027(f)	2028(f)	2029(f)	2030(f)
World	-5.0	-5.1	-4.7	-4.5	-4.5	-4.5	-4.6
AEs	-4.7	-4.3	-3.9	-3.8	-3.9	-3.9	-4.0
US	-7.3	-6.5	-5.5	-5.4	-5.6	-5.5	-5.6
UK	-5.7	-4.4	-3.7	-3.1	-2.8	-2.6	-2.3
Euro area	-3.1	-3.2	-3.4	-3.5	-3.5	-3.6	-3.7
Japan	-2.5	-2.9	-3.1	-3.3	-4.0	-4.6	-5.3
EMDEs	-5.5	-6.1	-5.9	-5.5	-5.4	-5.3	-5.3
Brazil	-6.6	-8.5	-7.7	-6.3	-5.2	-4.9	-4.7
Russia	-2.2	-1.0	-1.2	-1.1	-1.1	-1.2	-1.3
India*	-7.4	-6.9	-7.2	-7.1	-7.0	-6.8	-6.7
China	-7.3	-8.6	-8.5	-8.1	-8.1	-8.0	-8.1
South Africa	-6.1	-6.6	-6.1	-5.9	-5.8	-5.7	-5.6

Source: World Economic Outlook, April 2025 and Fiscal Monitor, April 2025; *Data pertains to fiscal year; '(f)' implies forecasts

Note: -ve implies deficit and +ve implies surplus; data incorporates information up to 04 April 2025

- In the EMDEs, general government fiscal deficit relative to GDP is projected to widen in 2025 followed by fiscal tightening starting in 2026.

- China's fiscal deficit increased by 0.6% points of GDP in 2024, reaching a high level of 7.3%, primarily due to a fall in tax revenues although it was partially neutralized by buoyant non-tax revenues. China's fiscal stance is expected to remain expansionary in 2025 with the deficit projected to further increase to 8.6% of GDP. This increase is driven by lower non-tax revenues, and policies announced in the 2025 budget aimed at a modest boost to consumption and strengthening social safety nets.
- In other EMDEs including India, general government fiscal deficits relative to GDP are projected to gradually reduce during the forecast period mainly through spending cuts.

4.2. General government gross debt

- Global public debt is projected to rise by an additional 2.8% points of GDP by 2025 and approach 100% of GDP by the end of the decade, surpassing the pandemic peak (Table 3).
- The IMF asserted that the fiscal projections are subject to considerable uncertainty given the swift escalation of trade tensions and high levels of policy ambiguity. It assesses that in a severe adverse scenario, global public debt is likely to soar to around 117% of GDP by 2027, marking levels not seen since World War II and about 20% points above projections for that year.
- For AEs, general government debt to GDP ratio is projected to increase from 108.5% in 2024 to 113.3% by 2030, an increase of 4.8% points. The increase is primarily driven by the US whose government debt to GDP ratio is projected to rise by 7.4% points during this period.
- In the UK and the Euro area, the increases in the government debt to GDP ratios are relatively mild at 4.9% points and 5.2% points respectively considering the period from 2024 to 2030.
- In Japan, government debt relative to GDP is forecasted to fall by 5.0% points from 2024 to 2030. However, in comparison to other major economies, Japan's general government debt remains at a considerably high level of above 200% of GDP.

Table 3: General government gross debt (% to GDP)

Country	2024	2025(f)	2026(f)	2027(f)	2028(f)	2029(f)	2030(f)	2030 minus 2024 (% pts)
World	92.3	95.1	96.7	97.5	98.2	98.9	99.6	7.3
AEs	108.5	110.1	110.9	111.5	112.0	112.6	113.3	4.8
US	120.8	122.5	123.7	124.9	125.9	127.0	128.2	7.4
UK	101.2	103.9	105.4	106.1	106.5	106.5	106.1	4.9
Euro area	87.7	88.7	89.7	90.4	91.1	91.9	92.9	5.2
Japan	236.7	234.9	233.7	232.1	231.2	231.1	231.7	-5.0
EMDEs	69.5	73.6	76.7	78.4	79.7	80.9	82.0	12.5
Brazil	87.3	92.0	96.0	98.1	99.1	99.4	99.4	12.1
Russia	20.3	21.4	22.5	23.7	24.7	25.9	27.2	6.9
India*	81.3	80.4	79.6	78.8	77.9	76.9	75.8	-5.5
China	88.3	96.3	102.3	105.9	109.2	112.6	116.0	27.7
South Africa	76.4	79.6	81.7	83.7	85.5	87.1	88.7	12.3

Source: World Economic Outlook, April 2025 and Fiscal Monitor, April 2025

*Data pertains to fiscal year; '(f)' implies forecasts

- In the EMDEs, general government debt to GDP ratio is projected to increase from 69.5% in 2024 to 82% in 2030, an increase of 12.5% points. This is driven mainly by China where government debt to GDP ratio is projected to increase by 27.7% points during this period. In fact, it is expected to cross 100% in 2026.
- Barring India, in the other selected EMDEs, government debt relative to GDP is projected to gradually increase during the period from 2024 to 2030. The quantum of increase is the highest in South Africa at 12.3% points, followed by Brazil at 12.1% points and Russia at 6.9% points.
- In India, with considerable focus on fiscal consolidation particularly by the central government, the general government debt relative to GDP is projected to fall from 81.3% in 2024 to 75.8% in 2030, a fall of 5.5% points. However, even in 2030, the level of general government debt to GDP ratio is expected to remain above the FRBM (2018) target at 60%.

5.

In-focus: Budgeting for defence expenditures

Introduction

As per Schedule 7 of the Constitution of India, defence is an exclusive responsibility of the Gol. Defence is mentioned under items 1 and 7 in the Union List of the Seventh Schedule as follows:

"1. Defence of India and every part thereof including preparation for defence and all such acts as may be conducive in times of war to its prosecution and after its termination to effective demobilisation.

7. Industries declared by Parliament by law to be necessary for the purpose of defence or for the prosecution of war."

Further, under Article 355 relating to emergency provisions it is mentioned, *"it shall be the duty of the Union to protect every state against external aggression and internal disturbance and to ensure that the government of every state is carried on in accordance with the provisions of this Constitution"*.

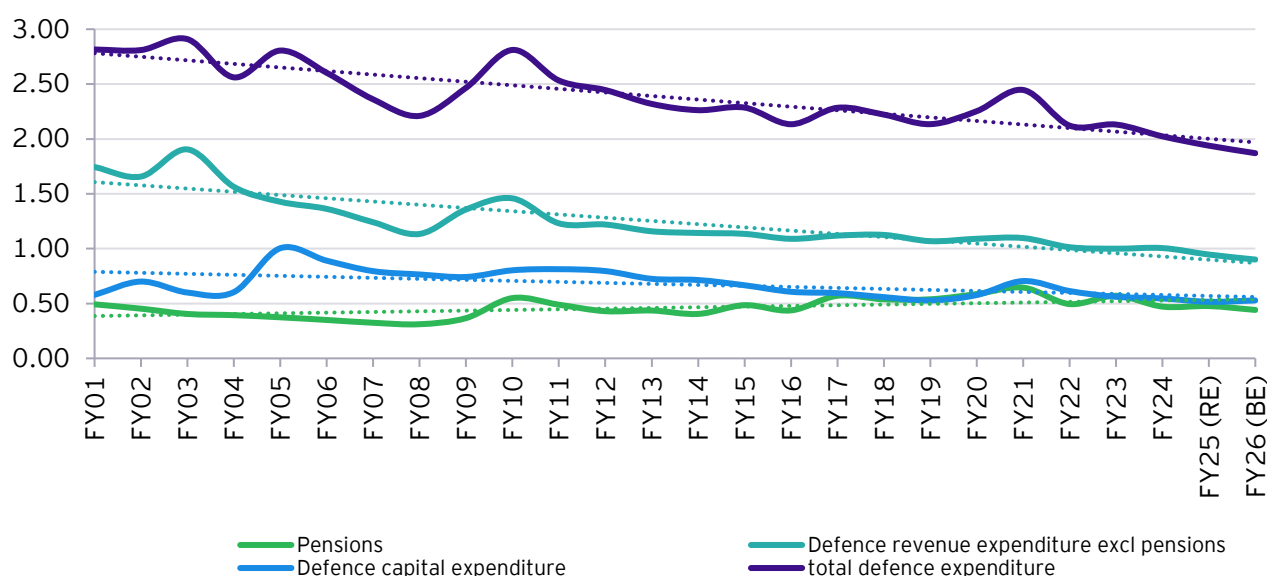
India's external environment, especially in its neighborhood, poses continuous defence challenges. There may be a need to examine whether defence expenditure has remained adequate in the context of the responsibilities of the Gol as enunciated in the Constitution. For this purpose, it is important to examine whether defence expenditure has remained adequate in the context of requirements for a Viksit Bharat.

Trends in defence expenditures

As Chart 7 shows, total defence expenditure as percentage of GDP at current prices has been falling on trend basis over time. This pattern is reflected in defence revenue expenditures as well as in defence capital expenditure. The only component of defence expenditure which shows a somewhat stable and marginally rising pattern in more recent years is that of defence pensions. The most serious feature of this time pattern of the relative shares of different components of defence expenditure is the steady fall in defence capital expenditure. Any restructuring of defence expenditure should provide for a rising share of defence capital expenditure given the fast-evolving technological changes in defence³. Given the prevailing trends in the size and composition of defence expenditure, important concerns may be highlighted as below:

1. The falling share of defence expenditures in GDP might need to be arrested and reversed.
2. Within total defence expenditure, the falling share of defence capital expenditure needs to be reversed.
3. The increasing share of defence pension expenditure appears to be unavoidable. However, it may be useful if it is stabilized as a percentage of total defence expenditure.

³ In a blog post in 2022, Bharat Karnad, a well-known defence analyst writes '...in the classified report on defence expenditure as Adviser, defence expenditure I had prepared for the 10th Finance Commission... I had flagged the issue of pension costs soon outpacing the combined military modernization costs on capital account and the running/maintenance costs on revenue account...'; <https://bharatkarnad.com/2022/06/01/the-armys-right-sizing-dilemma/>

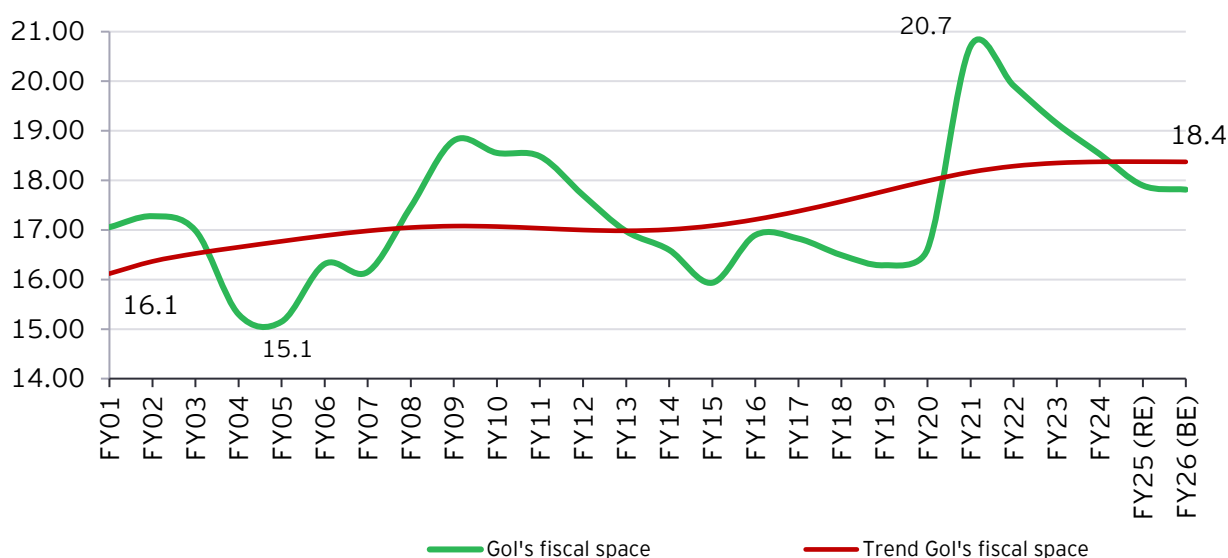
Chart 7: Center's defence expenditure relative to nominal GDP

Source (basic data): Union budget documents of various years, MoSPI

Causes of relative decline in share of defence expenditure in Gol's total expenditure

Evolution of Gol's fiscal space: Aggregate expenditure plus tax devolution

One way of looking at Gol's total fiscal space is its total expenditure plus tax devolution financed by total resources raised by the Gol consisting of its gross central taxes, non-tax revenues, non-debt capital receipts and its annual borrowing. This implies that total transfers to states, consisting of tax devolution and Finance Commission (FC) and non-FC grants, are included as part of Gol's total fiscal space. Chart 8 shows the evolution of this fiscal space as percentage of GDP at current prices. This space has ranged between 15.1% and 20.7% of nominal GDP. On a trend basis, it shows a marginal increase of 2.3% points from a level of 16.1% in FY01 to 18.4% in FY26 (BE).

Chart 8: Evolution of Gol's fiscal space: FY01 to FY26 (BE) (% to nominal GDP)

Source (basic data): Union budget documents of various years, MoSPI

Note: Gol's fiscal space is measured as the sum of its total expenditure and tax devolution; Trend values have been estimated using Hodrick-Prescott filter in EViews-13.

Crowding out of defence expenditures

At the level of broad fiscal aggregates, two important claims on Gol's total expenditure arise from net interest payments and transfers to states. Gol's net interest payments have remained stable in the range of 18.1% to 18.5% of Gol's total fiscal space over the recommendation period covered by FC12 to FC15, considering FC period averages. The share of transfers to states, on the other hand, shows a bulge in the recommendation period of FC14 at 35.9%, rising from a corresponding average of 25.4% in the FC11 period. In fact, the share of transfers to states has steadily risen from this level through FC12 and FC13 periods at 28.8% and 29.0%, respectively. Eventually, in the period covered by FC15, some ground was recovered when the share of transfers to states came down to 32.4%. This downward adjustment was primarily because of a lower share of tax devolution which fell to 19.4% from 22.4% during the FC14 period. This fall was mainly due to the narrowing of the divisible pool of central taxes because of increased non-sharable cesses and surcharges.

Table 4: Trends in shares of key fiscal aggregates in Gol's fiscal space (%)

FC	Year	Net interest payment	Total defence expenditure	Total transfers to states	Tax devolution	Total grants to states
FC11	2000-01	19.9	16.5	24.6	14.2	10.3
	2001-02	19.8	16.3	24.0	13.3	10.6
	2002-03	20.8	17.1	23.5	13.3	10.2
	2003-04	22.3	16.7	27.1	15.8	11.3
	2004-05	21.5	18.5	27.8	16.6	11.2
FC12	2005-06	20.2	16.0	28.6	16.2	12.4
	2006-07	20.0	14.6	30.9	17.8	13.1
	2007-08	18.0	12.7	30.6	18.0	12.7
	2008-09	17.4	13.1	27.6	15.6	12.0
	2009-10	17.1	15.2	26.2	14.2	11.9
FC13	2010-11	15.8	13.7	27.0	15.8	11.1
	2011-12	17.0	13.8	28.2	16.8	11.5
	2012-13	18.0	13.7	28.0	17.4	10.5
	2013-14	19.6	13.6	27.7	17.3	10.4
	2014-15	19.8	14.3	33.9	17.2	16.8
FC14	2015-16	18.6	12.6	35.4	22.0	13.4
	2016-17	18.3	13.6	34.8	23.7	11.0
	2017-18	18.5	13.5	37.4	24.0	13.4
	2018-19	18.7	13.1	37.0	24.8	12.2
	2019-20	18.1	13.6	35.2	19.6	15.7
FC15	2020-21	16.4	11.8	28.6	14.6	14.0
	2021-22	17.0	10.7	32.4	19.3	13.1
	2022-23	17.8	11.1	31.2	18.6	12.7
	2023-24	18.8	10.9	33.6	20.4	13.2
	2024-25 (RE)	18.6	10.8	35.0	21.9	13.1
	2025-26 (BE)	19.7	10.5	33.5	21.9	11.6
	FC11	20.9	17.0	25.4	14.6	10.7
	FC12	18.5	14.3	28.8	16.4	12.4
	FC13	18.1	13.8	29.0	16.9	12.1
	FC14	18.4	13.3	35.9	22.8	13.1
	FC15	18.1	11.0	32.4	19.4	13.0
	FC15 minus FC11	(-)2.8	(-)6.0	7.0	4.8	2.3

Source (basic data): Union budget documents of various years

Note: Gol's fiscal space is measured as its total expenditure plus tax devolution financed by total resources raised by the Gol consisting of its gross central taxes, non-tax revenues, non-debt capital receipts and its annual borrowing.

Further, it may be noted that the share of defence expenditure steadily fell from 17.0% in FC11 period to an average of 11.0% during the FC15 period. This fall amounting to 6% points of Gol's total fiscal space almost mirrors the rise in the share of transfers to states during the corresponding period which amounts to 7.0% points.

Structure of defence expenditure

At a broad level, defence expenditure may be decomposed into the following categories: pensions, revenue expenditure other than pensions, and defence capital expenditure. The trends in these heads, as percentage of total defence expenditure, from FY01 onwards, are summarized in Table 5.

Table 5: Structure of defence expenditure: Relative shares in total defence expenditure of Gol (%)

FC	Year	Pensions	Defence revenue expenditure excl. pensions	Defence capital expenditure
FC11	2000-01	17.5	61.9	20.6
	2001-02	16.1	59.0	24.9
	2002-03	13.9	65.5	20.6
	2003-04	15.4	61.0	23.6
	2004-05	13.3	50.9	35.8
FC12	2005-06	13.4	52.3	34.2
	2006-07	13.7	52.6	33.7
	2007-08	14.1	51.3	34.6
	2008-09	14.9	55.0	30.1
	2009-10	19.6	51.9	28.6
FC13	2010-11	19.3	48.6	32.1
	2011-12	17.6	49.9	32.5
	2012-13	18.8	49.9	31.3
	2013-14	17.9	50.5	31.6
	2014-15	21.2	49.6	29.1
FC14	2015-16	20.5	51.1	28.4
	2016-17	25.0	49.0	26.0
	2017-18	24.2	50.6	25.1
	2018-19	25.2	50.0	24.7
	2019-20	26.0	48.4	25.6
FC15	2020-21	26.4	44.8	28.8
	2021-22	23.3	47.8	28.9
	2022-23	26.8	46.9	26.3
	2023-24	23.3	49.7	27.0
	2024-25 (RE)	24.6	48.8	26.6
	2025-26 (BE)	23.6	48.2	28.2
	FC11	15.2	59.7	25.1
	FC12	15.1	52.6	32.2
	FC13	19.0	49.7	31.3
	FC14	24.2	49.8	26.0
	FC15	24.7	47.7	27.6
	FC15 minus FC11 (% points)	9.4	-12.0	2.6

Source (basic data): Union budget documents of various years

Table 5 shows that pension expenditure has claimed a progressively increasing share in total defence expenditure whereas total defence revenue expenditure excluding pensions has been adjusted downwards.

The share of defence capital expenditure has increased marginally over time. In the FC15 period it averaged 27.6%, which is 2.6% points higher than the corresponding average over the FC11 period. In fact, this share had increased to 32.2% in the FC12 period and has fallen since that time. This fall was the sharpest in the FC14 period when the share of transfers to states from the Gol's aggregate expenditure including tax devolution (total fiscal space) was raised significantly as discussed in detail in the previous section.

Looking at the composition of defence capital outlay, the largest share excluding 'other equipment' in defence capital expenditure relates to aircraft and aeroengines followed by naval fleet (Table 6). In both cases, the respective shares have fallen over time. The row of 'other equipment' which has the highest share covers the equipment needs of all wings of the military, namely Army, Navy and Airforce. A positive feature of the composition of defence capital outlay is that the share of 'Research and Development' has increased over time.

Table 6: Composition of defence capital outlay

Categories	FY16	FY20	FY21	FY22	FY23	FY24	FY25 (RE)	FY26 (BE)
INR crore								
Other equipment	23,776	40,310	45,151	42,170	51,706	71,907	46,589	63,099
Aircrafts and Aeroengines	24,723	28,999	48,336	39,374	35,010	24,981	46,592	48,614
Naval Fleet	10,765	16,002	20,198	24,928	23,483	24,647	25,605	24,391
Research and Development	NA	8,693	7,724	10,263	11,498	68	13,667	14,924
Construction Works	8,642	9,166	6,343	8,083	8,496	8,993	10,562	11,452
Naval Dockyard/projects	778	4,337	3,433	4,047	4,364	5,222	5,418	4,500
Heavy and Medium Vehicles	1,581	969	1,405	1,616	2,043	1,755	4,093	3,651
Joint Staff	721	918	584	572	869	904	2,465	2,353
Technology	NA	48	106	1,391	146	12,724	407	2,037
Special Projects	292	607	450	668	957	1,034	1,151	1,732
Land	163	55	71	442	476	366	843	1,021
Others	233	989	505	4,432	3,891	1,655	2,109	2,227
Grand total	71,675	1,11,092	1,34,305	1,37,987	1,42,940	1,54,256	1,59,500	1,80,000
% share of total								
Other equipment	33.17	36.28	33.62	30.56	36.17	46.62	29.21	35.06
Aircrafts and Aeroengines	34.49	26.1	35.99	28.53	24.49	16.19	29.21	27.01
Naval Fleet	15.02	14.4	15.04	18.07	16.43	15.98	16.05	13.55
Research and Development	NA	7.83	5.75	7.44	8.04	0.04	8.57	8.29
Construction Works	12.06	8.25	4.72	5.86	5.94	5.83	6.62	6.36
Naval Dockyard/projects	1.09	3.9	2.56	2.93	3.05	3.39	3.4	2.5
Heavy and Medium Vehicles	2.21	0.87	1.05	1.17	1.43	1.14	2.57	2.03
Joint Staff	1.01	0.83	0.43	0.41	0.61	0.59	1.55	1.31
Technology	NA	0.04	0.08	1.01	0.1	8.25	0.26	1.13
Special Projects	0.41	0.55	0.33	0.48	0.67	0.67	0.72	0.96
Land	0.23	0.05	0.05	0.32	0.33	0.24	0.53	0.57
Others	0.33	0.89	0.38	3.21	2.72	1.07	1.32	1.24
Grand total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Union budget documents, *including naval fleet, naval dockyard/projects, research and development

Multiplier effects of increase in defence expenditure

There are several studies that have estimated the multiplier effects of an increase in defence expenditure in different empirical contexts. These are summarized in Table 7. In general, these multiplier values are less than 1. It is only in some contexts pertaining to developed countries that the multiplier effects of defence expenditure is higher than 1. In India, not many multiplier estimates pertaining specifically to defence expenditure are available.

Table 7: Summary of estimates of multipliers associated with defence expenditure: selected studies

Study/Model	Type of Shock	Multiplier (1-yr)	2-yr / Peak	Comments
Sheremirov & Spirovska (2019)	Military shock	0.75-0.85	~1 cumulative	Multiplier is larger in developed countries than in developing countries, under a fixed exchange rate than under a floating regime, in recessions than in expansions, and in closed economies than in open economies. Multiplier is marginally higher for non-large arms importers.
Barro (Harvard)	Temporary defence	0.4-0.5	0.6-0.7	
Goldman Sachs (2025)	Europe defence increase	–	0.5 over 2 yrs	The forecast is based on the assumption that imports of military supplies gradually decrease (and are substituted with domestic products) and that the higher spending initially focuses on equipment and infrastructure.
Luetticke (2025)	Structural modeling (USA)	impulse peaks >1	model-dependent	
RePEc DSGE 1939-2014 (2018)	U.S. DSGE model	>1 at peaks 1939-54	otherwise ≈0	

Source (basic data): Author's compilation⁴

A number of studies on the short and long run impact of increasing defence expenditure on increasing economic growth in India have also been undertaken in recent years. Their general findings are that increasing defence expenditure is likely to have a positive impact on economic growth, although in terms of the quantitative impact, their findings differ. Some of the main findings are summarized in Table 8.

Table 8: Summary of estimates of impact of defence expenditure on real GDP growth in India: selected studies

Authors name and year of publication	Key results
Tiwari and Shahbaz (2013)	<ul style="list-style-type: none"> 1% increase in military spending correlates with a 4.40% rise in economic growth. However, they establish a critical threshold (INR 36.59 defence spending per capita) beyond which increased military expenditure begins to negatively affect growth. Defence spending initially has a positive and statistically significant long-run impact on economic growth.
Mohanty, Panda, and Bhuyan (2020)	<ul style="list-style-type: none"> Defence expenditure positively affects economic growth both in long run and short run (<i>long-run coefficient: 0.191 at 10% significance, short-run coefficient: 0.069 at 5% significance</i>) Capital defence spending has a positive and significant effect on economic growth in both short run and long run (<i>long-run coefficient: 0.078 at 10% significance, short-run coefficient: 0.026 at 5% significance</i>) Revenue defence expenditure does not have any significant effect on economic growth in the long run and short run

Source (basic data): Author's compilation

It may be noted that multiplier effects are likely to be lower in a country where most of the procurement of defence capital goods is from abroad. However, the magnitude of defence capital expenditure multiplier can be increased if defence capital assets are produced domestically and when private sector participation is encouraged. Since India has now embarked upon an Aatmanirbhar strategy and is also expanding the role of private sector in the production of defence capital assets, we may expect increasing income and employment multipliers associated with defence capital expenditure.

⁴ <https://www.bostonfed.org/publications/research-department-working-paper/2019/fiscal-multipliers-in-advanced-and-developing-countries.aspx>; <https://www.adb.org/sites/default/files/publication/28276/economics-wp232.pdf>; https://www.ralphluetlicke.com/files/ALM_May2025.pdf; https://mpra.ub.uni-muenchen.de/86911/1/MPRA_paper_86911.pdf

Financing of defence expenditure: Need for creating a non-lapsable fund

In terms of growth of different items of defence expenditure, we notice a discontinuous pattern (Table 9) indicating that for various reasons, growth in defence expenditure tends to be lumpy in some years and quite low in some years.

Table 9: Annual variation in growth of components of defence expenditure (%)

FC	Year	Pensions	Defence revenue expenditure excl pensions	Defence capital expenditure	Total defence expenditure
FC11	2000-01	-0.5	2.8	30.9	8.0
	2001-02	-3.8	23.7	-7.7	11.5
	2002-03	9.0	-8.0	12.8	-1.4
	2003-04	8.4	4.2	89.7	25.0
	2004-05	6.7	8.8	1.1	5.8
FC12	2005-06	8.6	6.7	4.6	6.2
	2006-07	10.4	5.2	10.7	7.8
	2007-08	32.7	34.7	9.2	25.6
	2008-09	73.0	24.1	24.9	31.6
	2009-10	6.7	1.2	21.4	8.0
FC13	2010-11	0.6	13.4	12.0	10.5
	2011-12	15.4	8.1	3.7	7.9
	2012-13	4.9	11.5	11.3	10.2
	2013-14	32.9	10.2	3.6	12.1
	2014-15	-0.4	6.1	0.6	3.1
FC14	2015-16	45.8	14.8	9.4	19.6
	2016-17	4.8	11.6	4.3	8.0
	2017-18	10.6	5.0	4.6	6.3
	2018-19	15.8	8.6	16.3	12.3
	2019-20	8.7	-0.7	20.6	7.2
FC15	2020-21	-8.8	9.8	3.5	3.1
	2021-22	31.3	12.4	4.2	14.5
	2022-23	-7.4	12.7	9.1	6.4
	2023-24	11.0	3.3	3.6	5.2
	2024-25 (RE)	2.0	4.8	12.8	6.3
	2025-26 (BE)	3.3	5.7	31.4	10.8
	FC11	26.3	15.9	10.1	15.4
	FC12	12.1	8.9	10.4	9.8
	FC13	15.3	9.2	7.0	9.9
	FC14	6.1	7.1	9.0	7.1
	FC15	2.9	1.4	-22.4	-3.7
	FC15 minus FC11 (% points)	-0.5	2.8	30.9	8.0

Source (basic data): Union Budget Documents, various years

This volatile profile of growth of defence expenditure may be overcome by creating a non-lapsable fund so that budgetary expenditure allocated for defence does not lapse on account of some in-built volatility

associated with procurement processes in the case of defence capital expenditure and other reasons for lumpy growth in defence revenue expenditure. This issue was recognized by the GoI earlier and an additional Terms of Reference (ToR) was given to FC15 in this context. This ToR is stated as follows:

“9A. The Commission shall also examine whether a separate mechanism for funding of defence and internal security ought to be set up, and if so, how such a mechanism could be operationalised.”

In this ToR, the reference is for creation of a non-lapsable fund for ‘defence and internal security’ and the method of financing it. The implicit suggestion is that such financing mechanism may be additional to normal budgetary allocation, possibly through an earmarked cess. There is also a possibility of inviting private contributions to such an earmarked fund.

From the viewpoint of economic theory, defence and internal security can be considered as examples of a pure public good, satisfying the criteria of non-excludability and non-rivalry in consumption or use. As such, individual consumers cannot be excluded from the benefit of the service of defence and internal security provided by the government. The property of non-rivalry means that the consumption of the concerned good or service by one individual does not reduce its availability for another. This happens for jointly consumed goods or services. Such services should be financed by taxation. If it is a subject belonging to the Union government alone, then it should be financed by a tax listed under the Union List. However, after the 80th amendment to the Constitution, there is no Union tax except the taxes listed under articles 268 and 269 with the exception of 269A, that are not sharable with the states. The relevant share of the sharable taxes are required to be decided on the basis of the recommendations of the FC. The main exceptions to this rule are cesses and surcharges. Surcharges and cesses can be levied as additional levy on a mother tax. However, they should be earmarked for a specific purpose. Proceeds of cesses and surcharges are not sharable with the states and the divisible pool is determined after excluding these proceeds from gross central taxes.

Since defence and internal security expenditure is a large expenditure, financing it exclusively through a cess implies excluding a large amount from the divisible pool. Further, the additional ToR number 9A does not mention financing of these expenditures. Rather, it talks about a funding mechanism implying that the FC may consider whether a ‘Defence and Internal Security Fund’ should be created and if so, whether it should be permanent and non-lapsable or for a finite period. Once a fund is created, the Commission may also consider whether it should be financed through a distinct cess or directly from the divisible pool by earmarking a proportion of the pool for such expenditure. In the discussions preceding the issuance of the ToR, the term “Rashtriya Suraksha Nidhi” was referred to in various places⁵. It is also possible that the proposed fund may not necessarily cover all defence expenditure but only a portion of it, including certain specified purposes.

In the history of FC recommendation-based funding mechanisms, there is only one instance that is comparable. This relates to the funding of expenditure relating to natural calamities. This fund is called National Calamity Contingency Fund (NCCF), which was created on the basis of the recommendations of the FC11. The Commission had also recommended its financing mechanism in the form of a cess, called as National Calamity Contingent Duty⁶. However, the Union and state governments can spend on natural calamities beyond the finances that become available through this fund. The main considerations that justified the creation of the NCCF may be listed as follows:

1. Inadequacy of normal budgetary allocation
2. Unanticipated shocks subject to expenditure shocks
3. Shared responsibility of GoI and states
4. Need for constant replenishment of funds
5. Non-lapsable nature of need

In the case of defence and internal security, it is easily seen that these conditions are met to different degrees. In the case of defence, there are unanticipated shocks that arise from time to time due to the occurrence of wars and conflicts arising from external sources. It is also difficult to anticipate the expenditure requirements when such shocks arise.

⁵ Article titled ‘Central funds to states may be cut to create internal security fund’, published on 23 September 2019 in The Economic Times; <https://economictimes.indiatimes.com/news/defence/nk-singh-headed-finance-commission-working-on-proposal-cabinet-cleared-enabling-approvals-on-july-17/articleshow/70384389.cms>

⁶ National Calamity Contingent Duty (NCCD) is levied on specified goods, primarily tobacco products like cigarettes, beedis, chewing tobacco, and gutkha.

In terms of internal security, joint involvement of GoI and states may be of considerable practical value and therefore, some of the spending from the proposed fund may be through the state governments.

Lapsability is also a significant issue in the case of defence expenditure, particularly for defence capital expenditure, where due to various procedural rigidities, the allocated budgeted expenditure remains unspent and eventually may be released for other ministries. There may thus be a case for creating a non-lapsable funding mechanism for expenditure on defence and internal security. However, there is no need for such a fund to meet all the requirements of defence and internal security. Some expenditure items may easily be kept out, such as defence pensions and possibly defence salaries. Such a fund may be the most relevant for purchase and maintenance of defence capital goods and for research and innovation.

This matter was considered in detail by FC15. They had recommended that:

"The Union Government may constitute in the Public Account of India, a dedicated non-lapsable fund, Modernisation Fund for Defence and Internal Security (MFDIS), to bridge the gap between projected budgetary requirements and budget allocation for defence and internal security. This may be called Rashtriya Suraksha Naivedyam Kosh or any other appropriate name. The proceeds of the fund are to be utilised for the following three purposes:

- a. Capital investment for modernization of defence services;
- b. Capital investment for Central Armed Police Forces and modernization of state police forces as projected by Ministry of Home Affairs
- c. A small component as welfare fund for our soldiers and para-military personnel.

The fund shall have the standard notified rules for its administration, public reporting, and audit by the CAG."

The FC15 also recommended that this fund have four specific sources of incremental funding namely:

- a. Transfers from the Consolidated Fund of India
- b. Disinvestment proceeds of Defence Public Sector Enterprises
- c. Proceeds from the monetization of surplus defence land, including realization of arrears of payment for defence land used by State Governments and for public projects and cost recovered of encroached land
- d. Proceeds of receipts from defence land likely to be transferred to state governments and for public projects in future.

In fact, even private contributions may be allowed for this purpose. Further, FC15 assessed the total estimated indicative size of the proposed 'Modernisation Fund for Defence and Internal Security' over the period 2021-26 at INR2,38,354 crore. However, annually, in the fund, a non-lapsable amount of INR51,000 crore may be kept. Any amount exceeding this amount was recommended to be deposited into the Consolidated Fund which was to be maintained in the Public Account.

In the Action Taken Report of the GoI, with reference to FC15 recommendations, the GoI stated: *"The Government has accepted in-principle the creation of non-lapsable fund for Defence in the Public Account of India. Sources of funding and modalities will be examined in due course."* However, this fund has not been operationalized yet. It is time to re-examine the issue, recognizing that defence needs arise suddenly and in unanticipated ways and call for steady and assured buildup of capacities over time. In the context of India's current situation and needs, the creation of a non-lapsable fund for defence expenditure appears to be critical and the matter may be re-examined.

Benchmarking defence expenditure to GDP

In order to ensure adequate allocation for defence purposes, the idea of benchmarking its allocation to nominal GDP has been suggested, time to time. Such benchmarking is likely to protect budgetary allocation for defence, and the FC may have to allow for the earmarked share for defence in their projections for central government's expenditures. In this context, the Parliamentary Standing Committee on Defence had, in its 35th Report (2022-23), recommended a benchmark of 3% of nominal GDP⁷ for defence expenditure. They suggested this as based on the 'global ideal' for defence expenditure. The report also highlighted concerns regarding the capacity of the defence establishment to expand their expenditure to fully absorb

⁷ https://eparlib.nic.in/bitstream/123456789/1470732/1/17_Defence_35.pdf

allocations up to 3% of GDP. However, in the context of Viksit Bharat and contemporary global challenges, it is important to prioritize defence expenditure by benchmarking its allocation up to 3% of GDP and focusing on modernization and technological advancement of defence assets in a fast-changing global environment.

Table 10 summarizes the share of military (defence) expenditure as percentage of GDP for selected countries. It may be noted that Russia and the US have consistently allocated a share higher than 3% of their respective GDPs. India came close to this benchmark but has fallen well below it in recent years. Even though India's share is close to the world average, it has remained below the benchmark of 3%. In fact, India's average share of expenditure on defence in GDP has steadily fallen from 2.8% during the FC11 recommendation period to 2.1% during the FC15 period (Chart 7).

Table 10: Military expenditure as percentage of GDP: Selected countries

	2000	2005	2010	2015	2016	2017	2018	2019	2020	2021	2022	2023
Russia	3.31	3.33	3.59	4.87	5.43	4.25	3.72	3.86	4.17	3.61	4.69	5.86
United States	3.11	4.09	4.90	3.46	3.40	3.30	3.30	3.41	3.65	3.42	3.34	3.36
India	2.95	2.91	2.89	2.46	2.54	2.53	2.42	2.55	2.81	2.48	2.36	2.44
United Kingdom	2.37	2.42	2.57	2.05	1.98	1.95	1.94	1.99	2.16	2.07	2.07	2.26
France	2.09	2.02	1.97	1.87	1.92	1.91	1.84	1.84	2.00	1.91	1.93	2.06
China	1.84	1.87	1.73	1.78	1.77	1.71	1.67	1.68	1.76	1.61	1.62	1.67
Italy	1.74	1.60	1.50	1.21	1.33	1.36	1.36	1.31	1.74	1.68	1.69	1.61
Germany	1.36	1.07	1.27	1.14	1.15	1.15	1.17	1.26	1.37	1.32	1.38	1.52
Canada	1.11	1.11	1.19	1.15	1.16	1.35	1.32	1.28	1.40	1.27	1.20	1.29
Japan	0.92	0.92	0.95	0.95	0.93	0.91	0.96	0.99	1.02	1.02	1.11	1.20

Source: World Bank; <https://data.worldbank.org/indicator/MS.MIL.XPND.GD.ZS>

Conclusion

We have noted that India's defence expenditure except for the component of pensions, has been falling over time as percentage of GDP. It was close to 3% of GDP in the initial years of the decade of 2000s. At its peak, it amounted to 2.91% in FY03. However, this share has steadily fallen to 1.87% as per FY26 (BE). There are also large annual variations in the pattern of growth of different components of defence expenditure. To ensure a minimum budgetary allocation for defence, it may be earmarked to 3% of GDP on an annual basis and this may be accounted for by the FC while determining the share of states in Gol's divisible pool of taxes. Further, given the lumpy and volatile nature of some dimensions of defence expenditure, it may be best to supplement this benchmarked defence allocation in the central Budget with the mechanism of a non-lapsable fund. A recommendation to this effect was already made by FC15. This matter may be re-examined in the context of requirements for a Viksit Bharat.

6.

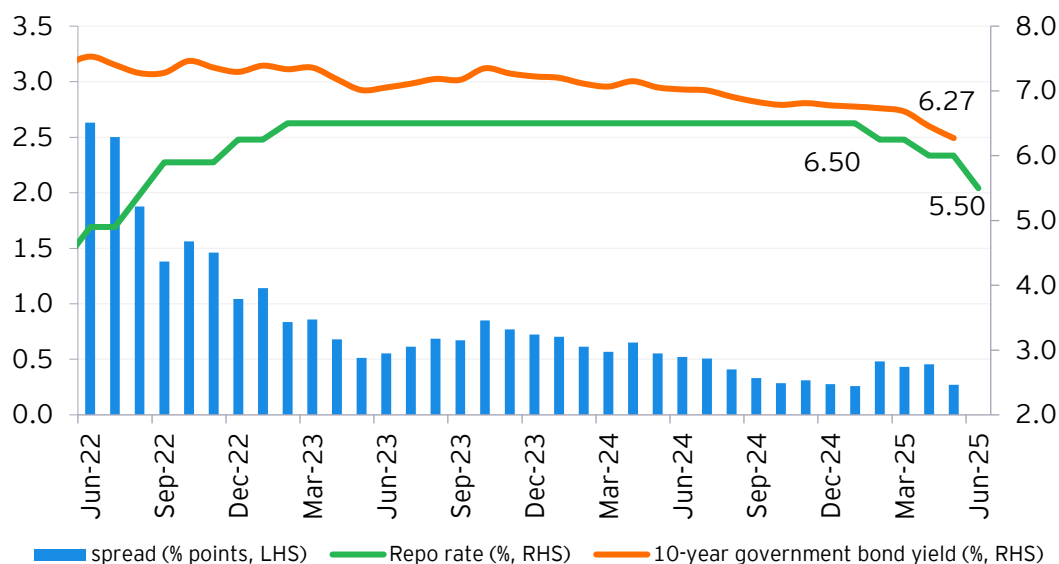
Money and Finance: RBI lowers repo rate by 50 basis points to 5.5% in June 2025

6.1. Monetary sector

Monetary policy

- The monetary policy committee lowered the repo rate by 50 basis points (bps), taking the repo rate from 6.0% to 5.5% in its monetary policy review held on 06 June 2025 (**Chart 9**). Given the need to stimulate domestic private consumption and investment amid changing growth-inflation dynamics, the RBI, by frontloading the rate cuts, has signaled its commitment to supporting growth.
- Following a cumulative reduction of the repo rate by 100 bps between February 2025 and June 2025, the RBI emphasized that, going forward, monetary policy has very limited room to support growth, leading to a shift in its policy stance from accommodative to neutral.
- To provide sufficient liquidity in the banking system, the RBI has announced a reduction in the CRR by 100 bps to 3% of net demand and time liabilities. This reduction will be implemented in a staggered manner, in four equal tranches of 25 bps each on 06 September 2025, 04 October 2025, 01 November 2025 and 29 November 2025. These reductions in CRR are expected to infuse primary liquidity on a cumulated basis of about INR2.5 lakh crore into the banking system by December 2025.

Chart 9: Movements in the repo rate and 10-year government bond yield



The RBI lowered the repo rate by 50 basis points in June 2025, taking the repo rate to 5.5% from 6.0%.

Source: Database on Indian Economy, RBI

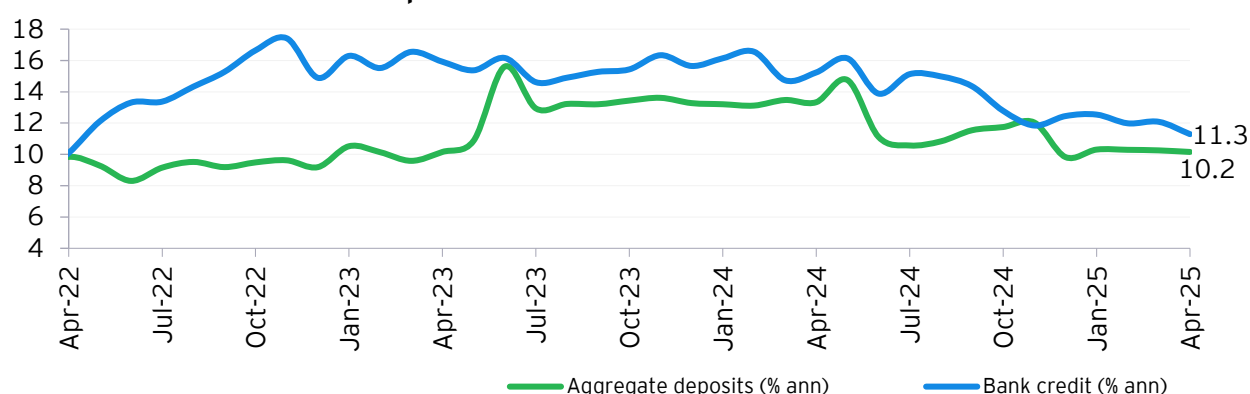
Money stock

- Growth in broad money stock (M3)⁸ at 9.5% in May 2025 was marginally lower than 9.6% in April 2025.
- Time deposits, the largest component of M3, showed a lower growth of 8.6% in May 2025, its slowest pace since August 2022, falling from 10.4% in April 2025.
- This was nearly counterbalanced by a robust growth in narrow money (M1) which increased to a 41-month high of 12.3% in May 2025 from 7.0% in April 2025. This strong growth is attributable to a sharp pick-up in the growth of demand deposits from 6.7% in April 2025 to 18.1% in May 2025. Growth in currency with the public also improved to 7.7% in May 2025 from 6.9% in April 2025.

Aggregate credit and deposits

- Growth in gross bank credit fell to a three-year low of 11.3% in April 2025 from 12.1% in March 2025 (Chart 10).

Chart 10: Growth in credit and deposits



Source: Database on Indian Economy, RBI

- Non-food credit growth also fell to a three-year low of 11.2% in April 2025 from 12% in March 2025, led by a moderation in the growth of credit across major sectors of the economy.
- Growth in outstanding credit to industries, having a share of about 25% on average in total non-food credit (last five years), fell from 8.0% in March 2025 to 6.7% in April 2025, its lowest level since November 2023. Within industrial credit, among major segments, growth in credit to iron and steel and textiles increased to 11.1% and 8.5%, respectively, in April 2025 from 9.6% and 8.3% in March 2025. However, credit to chemical and chemical products showed a lower growth of 6% in April 2025 as compared to 7.4% in March 2025. Credit to infrastructure, having the largest share in industrial credit, showed a contraction of (-)0.8% in April 2025 as compared to a growth of 1.4% in March 2025.
- Growth in credit to the services sector, with an average share of about 27% in total non-food credit (last five years) moderated from 13.4% in March 2025 to 11.2% in April 2025, its lowest level since February 2022.
- Growth in agricultural credit, showing a sequential fall since July 2024, reached a 47-month low of 9.2% in April 2025 from 10.4% in March 2025.
- Personal loans (share of close to 30% in total non-food credit) showed a robust growth of 14.5% in April 2025, improving marginally from 14.0% in March 2025. Among the sub-components of personal loans, growth in loans to individuals against shares and bonds, and fixed deposits increased to 23.8% and 17.8%, respectively, in April 2025 from 18.7% and 12.7% in March 2025. Vehicle loan growth improved marginally to 8.8% in April 2025 from 8.6% in March 2025. However, growth of housing loans moderated to 14.7% in April 2025 from 15.3% in March 2025 while loans for consumer durables continued to contract for the second successive month by (-)1.3% in April 2025.

⁸ The data on M3, demand and time deposits and bank credit exclude the impact of merger of a non-bank with a bank.

- Growth in other non-food credit, that is, non-food credit excluding credit to agriculture, industry, services and personal loans, increased to 17.3% in April 2025 from 14.2% in March 2025.
- Growth in aggregate deposits remained broadly stable at 10.2% in April 2025 as compared to 10.3% in March 2025.

6.2. Financial sector

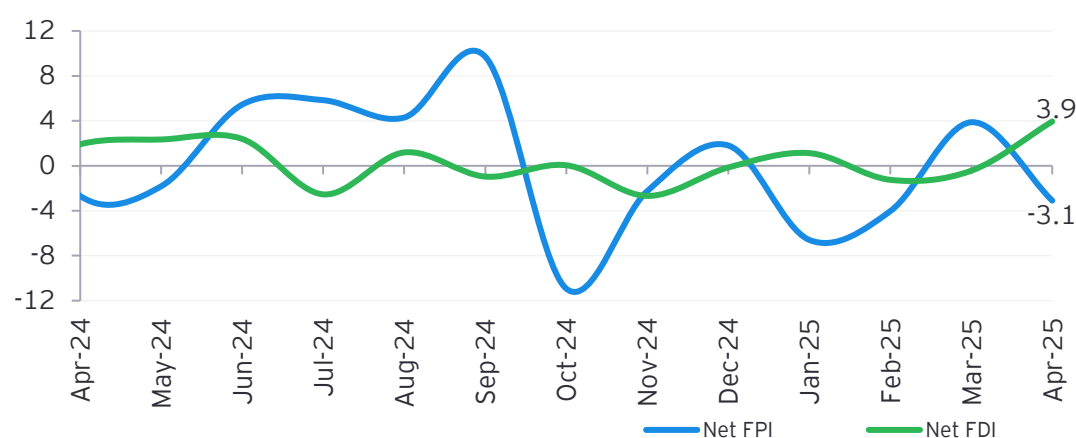
Interest rates

- As per the data released by the RBI in the first week of June 2025, the yield on 10-year government bonds (benchmark) eased by 18 basis points to a 44-month low of 6.27% in May 2025 from 6.46% in April 2025 (**Chart 9**). Bond yields were influenced by a sustained fall in CPI inflation and increased prospects of further rate reduction by the RBI.
- The average interest rate on term deposits with a maturity period of more than one year was lowered for the second straight month to 6.52% in May 2025 from 6.61% in April 2025, with actual rates ranging from 6.00% and 7.03%.
- The average MCLR also moderated marginally to 8.22% in May 2025 from 8.30% in April 2025, with the actual MCLR ranging between 8.15% and 8.28% during the month.
- WALR on 'Fresh Rupee Loans' (FRL) by SCBs moderated for the second successive month to average 9.26% in April 2025 from 9.35% in March 2025.

FDI and FPI

- As per the provisional data released by the RBI on 25 June 2025, overall foreign investments (FIs) inflows fell to US\$0.8 billion in April 2025 from US\$3.4 billion (revised) in March 2025 (**Chart 11**) as net FPI's witnessed significant outflows during the month.

Chart 11: Net FDI and FPI inflows (US\$ billion)



Net FDIs turned positive with inflows amounting to US\$3.9 billion while net FPIs witnessed outflows amounting to US\$3.1 billion in April 2025.

Source: Database on Indian Economy, RBI

- Net FPIs witnessed outflows amounting to US\$3.1 billion in April 2025 as compared to inflows amounting to US\$3.9 billion in March 2025.
- Net FDIs on the other hand turned positive and registered inflows amounting to US\$3.9 billion in April 2025 as compared to outflows of US\$0.4 billion (revised) in March 2025. Gross FDI inflows were at an eight-month high of US\$8.8 billion in April 2025 as compared to US\$5.9 billion in March 2025.

7.

Trade and CAB: Merchandise trade deficit narrowed to US\$21.9 billion in May 2025

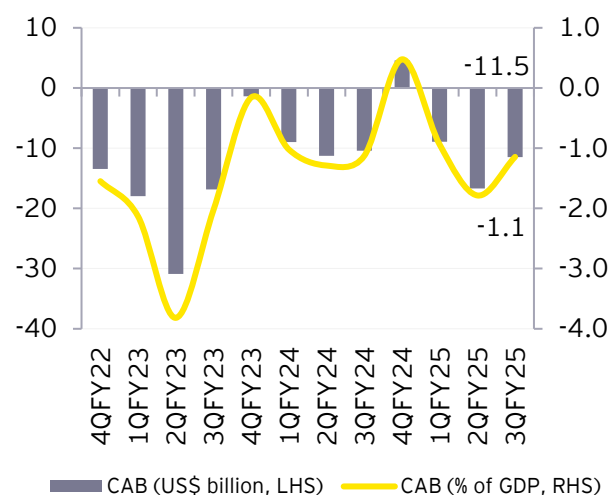
7.1. CAB moderated to (-)1.1% of GDP in 3QFY25 from (-)1.8% in 2QFY25 (Chart 12)

- Net merchandise trade deficit eased to 7.9% of GDP in 3QFY25 from 9.0% in 2QFY25 as merchandise imports fell to 18.8% from 20.2% of GDP over the same period while merchandise exports moderated only marginally to 10.9% from 11.2% of GDP.
- Surplus on account of net invisibles narrowed to 6.7% of GDP in 3QFY25 from 7.2% in 2QFY25 (Table 11) as deficit on income account deteriorated to a historic high of 1.7% of GDP. Net services surplus was also at an unprecedented high of 5.1% of GDP in 3QFY25 while net private transfers moderated to 3.3% of GDP from 3.5% in the previous quarter.

Table 11: Components of CAB (in US\$ billion)

Fiscal year	CAB as % of nominal GDP	CAB	Merchandise net	Invisibles* net
FY21	0.9	23.9	-102.2	126.1
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
4QFY24	0.5	4.6	-52.0	56.6
1QFY25	-0.9	-8.9	-63.8	54.9
2QFY25	-1.8	-16.7	-84.3	67.6
3QFY25	-1.1	-11.5	-79.2	67.7

Chart 12: CAB



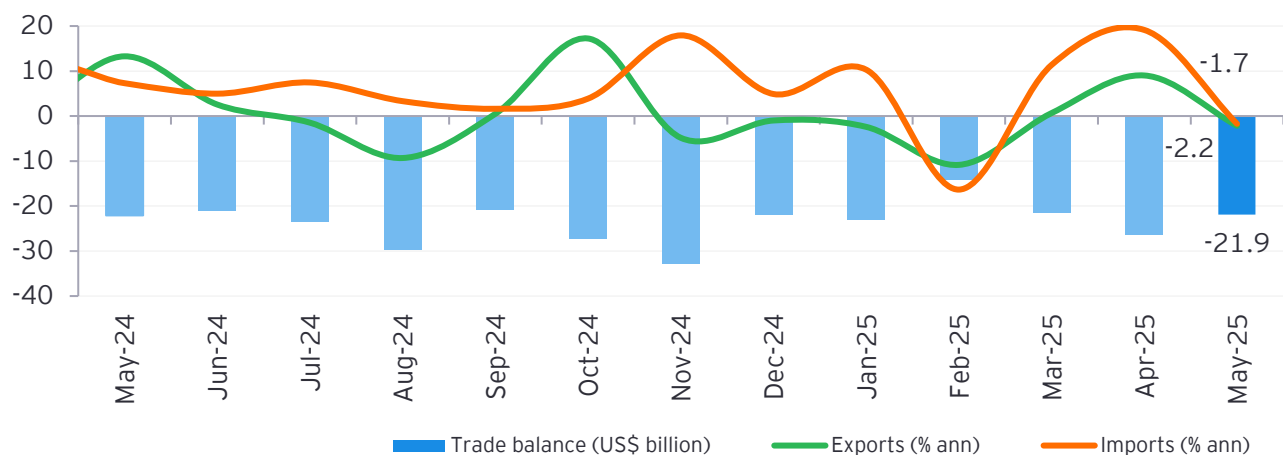
Source: Database on Indian Economy, RBI; Note: (-) deficit; (+) surplus; *invisibles include services, current transfers and income components

7.2. Merchandise trade and exchange rates

Owing largely to lower global crude prices, merchandise exports and imports showed a contraction of (-)2.2% and (-)1.7% in May 2025 as compared to growth rates of 9.0% and 19.1% in April 2025.

- Oil exports and imports growth turned negative at (-)30.3% and (-)26.1% in May 2025 from 4.7% and 25.6% in April 2025, reflecting a significant moderation in average global crude prices which fell from US\$70.7/bbl. in March 2025 to US\$62.7/bbl. in May 2025.
- Growth of exports and imports excluding oil, gold/silver and jewelry eased but remained positive at 6.9% and 11.9% in May 2025 from 10.0% and 18.1%, respectively, in April 2025.
- On the exports side, engineering goods showed a contraction of (-)0.8% in May 2025 as compared to a growth of 11.3% in April 2025. Growth in chemical and electronic goods exports, however, showed strong growth rates of 16.0% and 54.1% in May 2025 as compared to (-)9.1% and 39.5%, respectively, in April 2025.
- Within imports, transport equipment showed an increasing pace of contraction at (-)28.2% in May 2025, higher than (-)3.2% in April 2025. Growth in chemical material and products, and electronic goods imports remained strong at 260.1% (10-year high) and 27.2% in May 2025 as compared to 115.8% and 31.2% in April 2025.

Chart 13: Developments in merchandise trade



Source: Ministry of Commerce and Industry, GoI

- Merchandise trade deficit eased to US\$21.9 billion in May 2025 from a five-month high of US\$26.4 billion in April 2025 (**Chart 13**).
- Goods and services trade deficit increased to a five-month high of US\$10.5 billion in April 2025 from US\$3.4 billion in March 2025 on account of a surge in merchandise trade deficit in April 2025 accompanied by a falling services trade surplus.
- The Indian Rupee appreciated for the third successive month to INR85.2/US\$ (average) in May 2025 from INR85.6/US\$ in April 2025. This was attributable partly to a sluggish economic outlook in the US and lower crude prices accompanied by a fall in the merchandise trade deficit.

8.

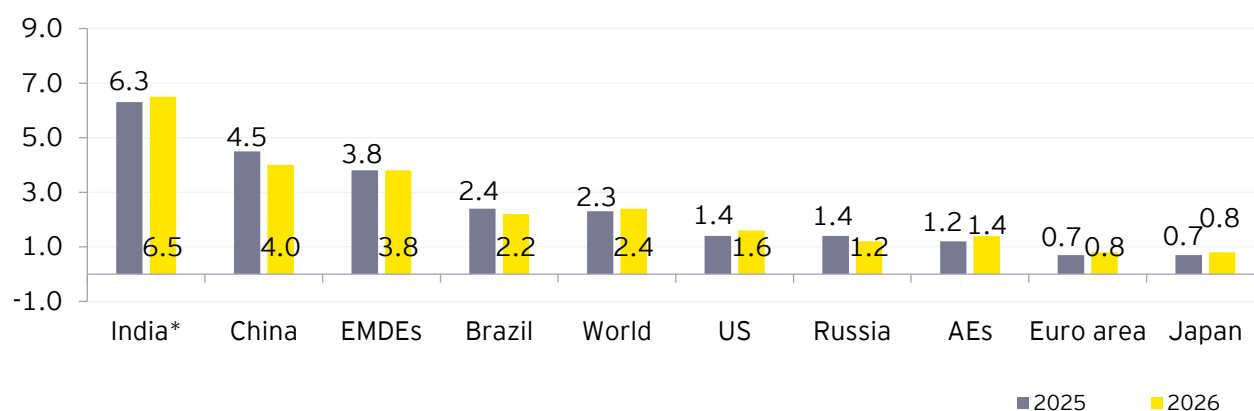
Global growth: World Bank projected global growth to fall from 2.8% in 2024 to 2.3% in 2025

8.1. Global growth

- The World Bank, in its June 2025 issue of Global Economic Prospects, has projected global growth at 2.3% in 2025, its slowest pace since 2008 aside outright global recessions, owing to the impact of higher trade barriers, elevated uncertainty, increased financial volatility, and weakened confidence (**Chart 14**). Global growth is expected to firm up to 2.5% in 2026 as trade flows continue adjusting to higher tariffs such that global trade edges up, while policy uncertainty moderates from record-high levels.
- Global growth projections for 2025 and 2026 reflect a downward revision of 0.4% points and 0.3% points, respectively, relative to the forecasts made in January 2025. This is principally driven by moderation of growth prospects in advanced economies (AEs).
- Growth in AEs is revised downward by 0.5% points to 1.2% in 2025 and 0.4% points to 1.4% in 2026. The downward revisions in emerging market and developing economies (EMDEs) are milder at 0.3% points and 0.2% points in 2025 and 2026, respectively, taking the growth rates to 3.8% in both years.
- Among AEs, growth in the US is forecasted to be subdued at 1.4% in 2025 as rising trade barriers, heightened uncertainty, and the spike in financial market volatility are expected to weigh on private consumption, international trade, and investment. In 2026, growth is anticipated to edge up to 1.6% as the economy adjusts to higher trade barriers and policy uncertainty gradually declines.
- In the Euro area, growth is projected at 0.7% in 2025 and 0.8% in 2026, remaining lower than its trend at 1%. This is attributable to a combination of higher U.S. tariffs on imports from the EU, heightened uncertainty and financial market volatility, and weaker external demand, which are expected to more than offset newly legislated fiscal spending on defence and infrastructure—particularly in Germany.

The World Bank projected global growth at 2.3% in 2025, with India's FY26 growth forecasted at 6.3%.

Chart 14: Global growth projections (%)



Source: World Bank Global Economic Prospects (June 2025)

*data pertains to fiscal year

- In Japan, growth is expected to firm from 0.2% in 2024 to 0.7% in 2025, underpinned by a rebound in consumption and the reopening of automobile plants after longer-than-expected shutdowns last year.

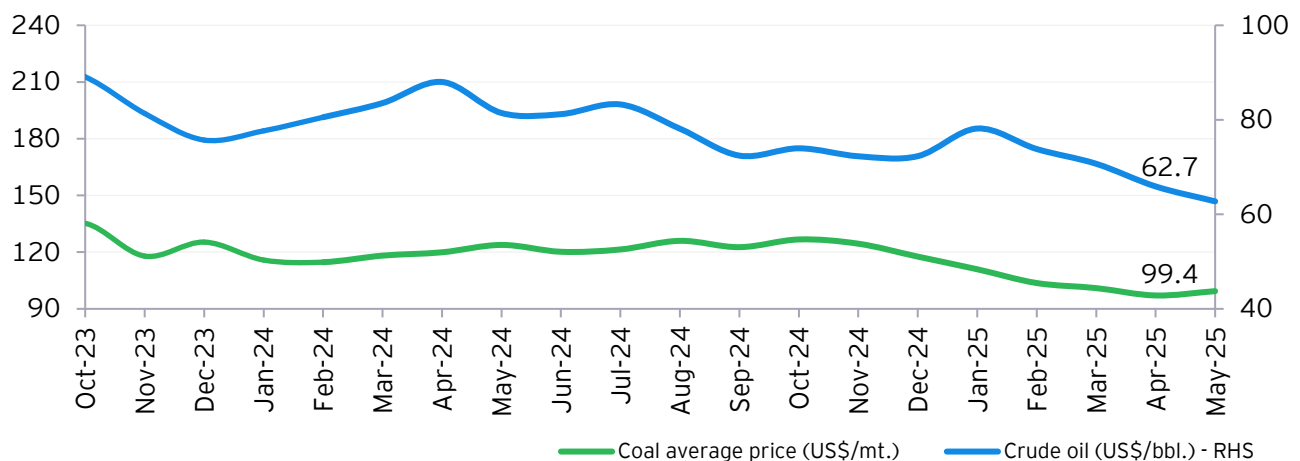
However, this growth outlook has been downgraded by 0.5% points relative to the January 2025 projection largely due to slowing external demand amid increased trade barriers and weaker-than-expected real wage growth owing to elevated food inflation. In 2026, Japan is forecasted to grow by 0.8%, reflecting a slow but continued recovery in consumer spending and capital investment.

- In China, growth is forecasted to slow from 5% in 2024 to 4.5% in 2025 – in line with January 2025 projections, as the impact of higher trade barriers and weaker external demand is assumed to be offset by the boost from additional fiscal policy support. Growth is projected to slow to 4% in 2026 as the growth of potential output decelerates, reflecting the effects of slowing productivity growth, an aging population, and high debt levels.
- India is projected to maintain the fastest growth rate among the world's largest economies, at 6.3% in FY26. Nevertheless, this marks a downward revision of 0.4% points relative to January 2025 projections, with rising global trade barriers and exports dampened by weaker activity in key trading partners. Growth is forecasted to recover to 6.5% in FY27, partly supported by robust services activity that may contribute to a pickup in exports.

8.2. Global energy prices: Global crude price at US\$62.7/bbl. in May 2025 fell to its lowest level since February 2021

- In May 2025, average global crude price⁹ fell to US\$62.7/bbl., its lowest level since February 2021 (US\$60.5/bbl.) amid escalating US tariffs and larger-than-expected OPEC+ output hikes¹⁰ (**Chart 15**).
- According to the IEA Oil Market Report (May 2025), despite the US reaching a trade deal with the UK on 8 May 2025, and a 90-day accord with China on 12 May 2025, increased trade uncertainty is expected to weigh on the world economy and, by extension, oil demand.
- However, more recently, owing to the Israel-Iran conflict, daily Brent crude price peaked at US\$77.08/bbl. as on 19 June 2025.
- Although rising from US\$97.1/mt. in April 2025 to US\$99.4/mt. in May 2025, average global coal price¹¹ remained at one of its lowest levels since April 2021 when it was at US\$90.7/mt.

Chart 15: Global crude and coal prices



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

⁹ Simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh

¹⁰ <https://www.iea.org/reports/oil-market-report-may-2025>

¹¹ Simple average of Australian and South African coal prices.

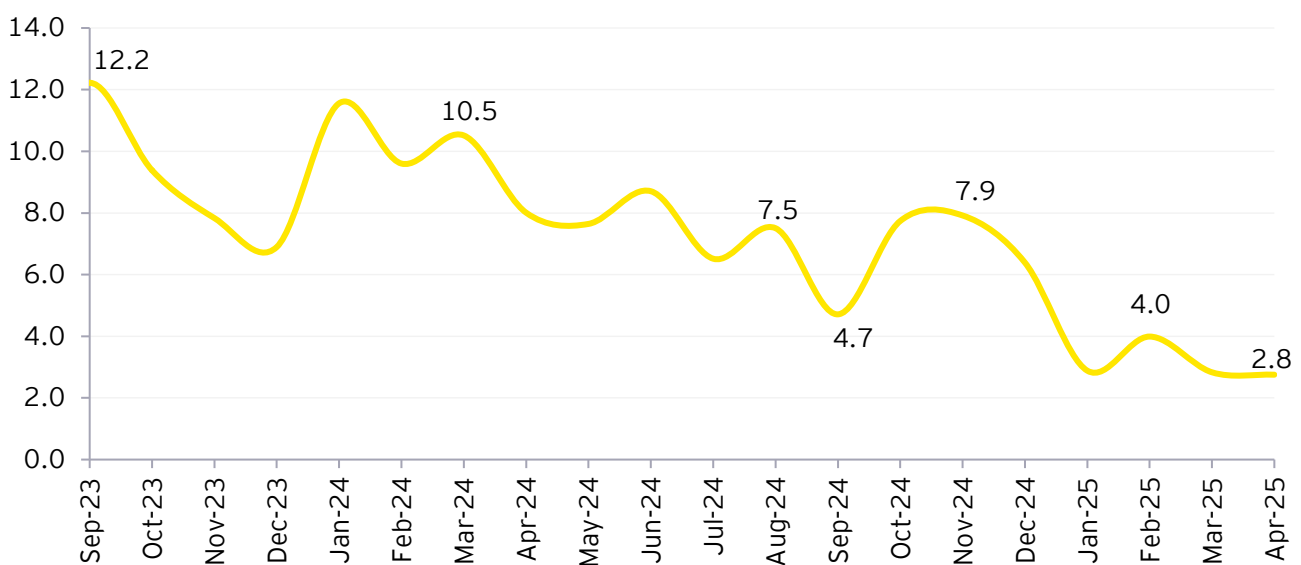
9.

Index of Aggregate Demand (IAD): Growth remained low at 2.8% in April 2025

9.1. Growth in IAD remained low but stable at 2.8% in March and April 2025

- Growth in IAD¹² continued to remain subdued at 2.8% in April 2025, similar to its level in March 2025, partly due to an unfavorable base effect (**Chart 16 and Table 12**). Additionally, demand conditions in agricultural sector experienced weakening momentum.
- Demand conditions in the agricultural sector showed a sequential moderation as indicated by a sustained fall in the growth in agricultural credit which moderated to a 50-month low of 9.1% in April 2025 from 10.5% (sa) in March 2025.
- In the services sector, demand conditions recovered marginally during the month as reflected by PMI services (sa), which expanded by 58.7 in April 2025 as compared to 58.5 in March 2025.
- Demand conditions in the manufacturing sector also witnessed marginal improvement during the month, with PMI manufacturing expanding at 58.2 in April 2025 as compared to 58.1 in March 2025.

Chart 16: Growth in IAD (% , y-o-y)



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

¹² 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.

Table 12: IAD

Month	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25
IAD	181.0	177.6	179.7	179.9	180.7	179.8	181.9	182.9	183.6
Growth (% y-o-y)	7.5	4.7	7.7	7.9	6.4	2.9	4.0	2.8	2.8
Growth in agr. credit	17.7	16.4	15.7	15.3	12.6	12.1	11.4	10.5	9.1
Mfg. PMI**	7.5	6.5	7.5	6.5	6.4	7.7	6.3	8.1	8.2
Ser. PMI**	10.9	7.7	8.5	8.4	9.3	6.5	9.0	8.5	8.7

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.

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
1QFY25	5.5	7.9	4.3	10.8	6.3	1QFY25	58.2	60.5
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	4.4	4QFY25	57.4	58.0
Jan-25	5.2	4.4	5.8	2.4	5.1	Feb-25	56.3	59.0
Feb-25	2.7	1.6	2.8	3.6	3.4	Mar-25	58.1	58.5
Mar-25	3.9	1.2	4.0	7.5	4.6	Apr-25	58.2	58.7
Apr-25	2.7	-0.2	3.4	1.1	0.5	May-25	57.6	58.8

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
1QFY25	4.9	8.9	-3.8	3.1	2.4	7.6	0.8	0.2	0.3
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
Feb-25	3.6	3.7	-1.3	4.2	2.4	6.2	3.0	-1.0	1.3
Mar-25	3.3	2.7	1.4	4.2	2.2	4.9	3.2	0.0	1.7
Apr-25	3.2	1.8	2.9	4.4	0.9	2.5	2.6	-2.2	1.3
May-25	2.8	1.0	2.8	4.3	0.4	1.7	2.0	-2.3	0.8

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	
Sep-24	12.0	2.3	25.0	13.6	8.4	29.4	12.8
Oct-24	10.8	1.2	20.2	11.1	9.0	46.5	52.2
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

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
Sep-24	69,998	338	1,600	11,861	83,797
Oct-24	80,379	323	-9,602	12,159	83,259
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

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 reserve s
	%		% change y-o-y		US\$ billion			% change y-o-y		%	US\$ billion
Jul-24	6.50	FY22	7.0	9.7	38.6	-16.8	FY22	10.7	8.8	6.40	617.6
Aug-24	6.50	FY23	14.4	9.5	28.0	-5.2	FY23	6.9	9.0	7.35	578.4
Sep-24	6.50	FY24	15.7	13.0	10.1	44.1	FY24	7.3	11.1	7.16	645.6
Oct-24	6.50	FY25	13.6	11.3	2.3	2.7	FY25	7.8	9.6	6.88	665.4
Nov-24	6.50	1QFY25	15.1	13.0	6.6	0.9	1QFY25	8.5	10.9	7.08	652.0
Dec-24	6.50	2QFY25	14.8	11.0	-2.3	19.9	2QFY25	9.2	10.8	6.92	704.9
Jan-25	6.50	3QFY25	12.4	11.2	-2.8	-11.4	3QFY25	6.0	9.3	6.79	640.3
Feb-25	6.25	4QFY25	12.2	10.3	-1.2	-6.8	4QFY25	7.9	9.6	6.72	665.4
Mar-25	6.25	Jan-25	12.5	10.3	1.1	-6.6	Feb-25	6.4	9.6	6.73	638.7
Apr-25	6.00	Feb-25	12.0	10.3	-1.2	-4.0	Mar-25	7.9	9.6	6.68	665.4
May-25	6.00	Mar-25	12.1	10.3	-0.4	3.9	Apr-25	7.0	9.6	6.46	688.1
Jun-25	5.50	Apr-25	11.3	10.2	3.9	-3.1	May-25	12.3	9.5	6.27	691.5

Source: Database on Indian Economy - RBI

Table A5: External trade and global growth

External trade indicators (annual, quarterly and monthly growth rates)							Global growth (annual)			
Fiscal year/ quarter/ month	Exports	Imports	Trade balance	Ex. rate (avg.)	Crude prices (avg.)	Coal prices (avg.)	Calendar year	World GDP	Adv. econ.	Emer. econ.
	% change y-o-y		US\$ billion	INR/US\$	US\$/bbl	US\$/mt.		% change y-o-y		
FY22	44.8	56.0	-191.0	74.5	78.4	164.8	2015	3.4	2.3	4.3
FY23	6.0	16.8	-268.5	80.4	92.7	283.4	2016	3.2	1.8	4.4
FY24	-2.3	-5.3	-241.1	82.8	81.1	126.4	2017	3.8	2.5	4.8
FY25	0.1	6.2	-282.8	84.6	77.1	118.2	2018	3.6	2.3	4.6
1QFY25	4.3	7.6	-63.9	83.4	83.6	121.3	2019	2.8	1.7	3.6
2QFY25	-3.6	4.1	-73.9	83.8	77.9	123.4	2020	-2.8	-4.2	-1.8
3QFY25	3.6	8.6	-81.9	84.5	72.9	122.9	2021	6.3	5.6	6.9
4QFY25	-4.2	1.2	-58.6	86.7	74.2	105.2	2022	3.5	2.6	4.1
Feb-25	-10.9	-16.3	-14.1	87.1	73.8	103.7	2023	3.3	1.7	4.4
Mar-25	0.7	11.4	-21.5	86.6	70.7	101.0	2024 (E)	3.3	1.8	4.3
Apr-25	9.0	19.1	-26.4	85.6	65.9	97.1	2025*	2.8	1.4	3.7
May-25	-2.2	-1.7	-21.9	85.2	62.7	99.4	2026*	3.0	1.5	3.9

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 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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