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Economy Watch

Monitoring India's macro-fiscal performance

December 2025

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Prepared by Macro-fiscal Unit, Tax and Economic Policy Group, EY India

D.K. Srivastava, Chief Policy Advisor, EY: dk.srivastava@in.ey.com
Muralikrishna Bharadwaj, Senior Manager, EY: muralikrishna.b@in.ey.com
Tarrung Kapur, Senior Manager, EY: tarrung.kapur@in.ey.com
Ragini Trehan, Senior Manager, EY: ragini.trehan@in.ey.com

Highlights

1. Pointing to further improvement in India's growth momentum, real GDP and GVA showed higher growth rates of 8.2% and 8.1% in 2QFY26 compared to 7.8% and 7.6%, respectively, in 1QFY26.
2. Manufacturing PMI at 56.6 in November 2025 was at its lowest level since February 2025. On the other hand, services PMI increased to 59.8 during the month.
3. IIP growth moderated to a 14-month low of 0.4% in October 2025.
4. CPI inflation remained benign, although rising to 0.7% in November 2025 from 0.3% in October 2025, while core CPI inflation remained sticky at 4.3% during the month.
5. The pace of contraction in wholesale prices eased to (-)0.3% in November 2025 from (-)1.2% in October 2025, reflecting primarily a moderating pace of contraction in vegetable and fruit prices.
6. GoI's gross tax revenues (GTR) grew by 4.0% during April-October FY26 with a growth of 6.1% in direct taxes and 1.7% in indirect taxes.
7. GoI's total expenditure grew by 6.1% during April-October FY26, with a growth in revenue expenditure at 0.03% and that in capital expenditure at 32.4%.
8. GoI's fiscal and revenue deficits during April-October FY26 stood at 52.6% and 46.7% of their respective annual budget estimates.
9. The RBI lowered the repo rate by 25 basis points to 5.25% in its December 2025 monetary policy review from its earlier level of 5.5% while maintaining a neutral policy stance.
10. Growth in gross bank credit increased to a nine-month high of 11.3% in October 2025 from 10.4% in September 2025.
11. Despite an improvement in net invisibles, led by a sharp increase in net merchandise trade deficit, current account deficit widened to 1.3% of GDP in 2QFY26 from 0.3% in 1QFY26.
12. Merchandise trade deficit eased to a five-month low of US$24.5 billion in November 2025 from an unprecedented high of US$41.7 billion in October 2025.
13. Merchandise exports growth turned positive at a 41-month high of 19.4% in November 2025, led by a strong expansion in engineering goods exports, while merchandise imports growth fell by (-)1.9% owing to a sharp contraction in gold imports.
14. Average global crude price fell from US$63/bbl. in October 2025 to US$62.3/bbl. in November 2025, its lowest level since February 2021 on account of easing supply conditions.
15. OECD projected global growth at 3.2% in 2025 and 2.9% in 2026 with India's FY26 and FY27 growth rates forecasted at 6.7% and 6.2%, respectively.
16. With progressively lowered repo rate and continued fiscal consolidation, India appears to be in a position to maintain a medium-term growth of 6.5% or above on average.

Foreword

India's post-Covid growth momentum: balanced domestic growth drivers

Asian Development Bank (ADB) has raised India's FY26 real GDP growth forecast to 7.2%, an increase of 70 basis points from its previous forecast of 6.5% which was estimated in September 2025. This upward revision was largely due to the robust growth of 8% that India has achieved in 1HFY26. This is also in line with RBI's upward revision of FY26 real GDP growth to 7.3% in its December 2025 monetary policy review. Recent NSO data for 2QFY26 highlighted the sectorally balanced growth profile where both manufacturing and the services sectors showed near equal growth at 9.1% and 9.2%, respectively, leading to an overall real GDP growth of 8.2% in this quarter. Even on the demand side, growth was supported in a balanced way by private consumption and overall investment with PFCE and GFCF growing at 7.9% and 7.3%, respectively, in 2QFY6. The ADB has assessed that India is well placed to support the growth performance of Developing Asia and the Pacific region whose growth forecast for 2025 has been revised upwards by 30 basis points from 4.8% to 5.1%. Thus, Developing Asia in general and India in particular are placed as the key growth players in the global economy.

In the presence of continuing global headwinds, we expect the contribution of net exports to real GDP growth to remain negative and possibly increase in its magnitude. In 2QFY26, the negative contribution of net exports was (-)2.1% points, rising from (-)1.4% points in 1QFY26. This impact may continue till trade related uncertainties dissipate.

CPI inflation in India has remained benign during FY26. As per the latest available data, CPI inflation increased marginally to 0.7% in November 2025 after reaching a historic low (2012 base series) of 0.3% in October 2025. The RBI has assessed a CPI inflation of 2% for this fiscal which is the lower bound of the Monetary Policy Committee's (MPC's) inflation tolerance range. This low inflation had provided the room for a 25-basis point reduction in the repo rate which took effect in December 2025, thereby lowering it to 5.25%. This may have a positive impact on private investment.

With CPI as well as WPI inflation levels keeping low at 2.2% and 0.1%, respectively, in 1HFY26, nominal GDP growth for this period is estimated at 8.8%, implying a subdued IPD-based inflation of about 0.7%. The below-trend nominal GDP growth has significant implications for the fiscal aggregates.

This month's infocus section discusses the prospects for GoI's forthcoming Budget FY27. CGA data indicates GoI's gross tax revenue (GTR) growth of 2.8% in 1HFY26 and 4.0% in the first seven months of the fiscal year. For 1HFY26 the GTR buoyancy is only 0.32 as against a budgeted buoyancy assumption of 1.1. For meeting the budget target for GTR growth of 12.5% over FY25 CGA actuals, a growth of 22.3% would be required in the remaining five months of the current fiscal year. Part of this gap, however, would be made up because of a robust performance of non-tax revenues which grew by 22.5% during the first seven months of FY26. While the GoI has frontloaded capital expenditure which showed a growth of 32.4% during April-October FY26, it has so far successfully contained the growth of revenue expenditure to only 0.026% during this period. Thus, although there may be some revenue sacrifice linked to PIT and GST reforms during FY26, some unbudgeted additional receipts under non-tax revenues and some reduction in the budgeted magnitude of revenue expenditures may still enable the GoI to adhere to the budgeted targets of fiscal deficit and capital expenditure. Also, two revenue enhancing measures have recently been announced relating to excise duty on tobacco products and national security and public health cess.

High-frequency indicators for October and November 2025 suggest continuation of the ongoing growth momentum. Growth in gross bank credit increased to a nine-month high of 11.3% in October 2025 from 10.4% in September 2025. Growth in merchandise exports turned positive at a 41-month high of 19.4% in November 2025 led by a strong expansion in engineering goods exports, while merchandise imports growth fell by (-)1.9% owing to a sharp contraction in gold imports. Services PMI recovered some of the ground lost in October 2025, increasing from 58.9 to 59.8 in November 2025. Manufacturing PMI expanded by 56.6 in

November 2025, although lower than 59.2 in October 2025. IIP growth moderated to a 14-month low of 0.4% in October 2025. Monthly gross GST collections eased from INR1.96 lakh crore in October 2025 to INR1.70 lakh crore in November 2025, reflecting a y-o-y contraction of (-)6.6%. Data released by Federation of Automobiles Dealers Association (FADA), show that retail sales of motor vehicles grew by 9.4% during April-November FY26. Retail sales of two major vehicle segments, namely two wheelers and passenger vehicles, grew by 9.6% and 8.1%, respectively, during this period. Power consumption.

As per the OECD, prospects for global growth remain subject to potential downside risks. Rapidly changing trade barriers including broader tariff coverage and tighter controls on critical exports such as rare earth elements may weaken growth, heighten policy uncertainty, and disturb supply chains. Downside surprises in economic activity, lower-than-expected returns from AI-related investment, and renewed inflation pressures could trigger broad risk repricing amid elevated asset valuations. Insufficient progress in addressing fiscal vulnerabilities may place upward pressure on long-term sovereign yields, tighten financial conditions, and raise debt burdens, thereby weighing on growth. Conversely, a reversal of recent trade restrictions would support activity and ease inflation pressures, while stronger-than-expected adaptability by firms and faster diffusion of new technologies could deliver tangible upside to global growth prospects.

Thus, going forward, India may have to continue to rely on its resilient domestic demand to support growth. Along with RBI's growth-oriented policy, one can look forward to a complementary growth push through the Union Budget for FY27. In the medium term, India is slated to maintain a real GDP growth path of 6.2% in FY27, 6.4% in FY28 and 6.5% FY29 onwards up to FY31 as per the IMF. This appears feasible provided the fiscal policy emphasizes a sustained momentum of GoI's capital expenditure growth in the range of 15%-20% on an annual basis while adhering to the fiscal consolidation path. This would facilitate maintaining a robust medium-term growth profile with an average growth of 6.5% which would be further supported if domestic private investment growth also gathers momentum and global supply chain issues ease off.

D.K. Srivastava
Chief Policy Advisor, EY India

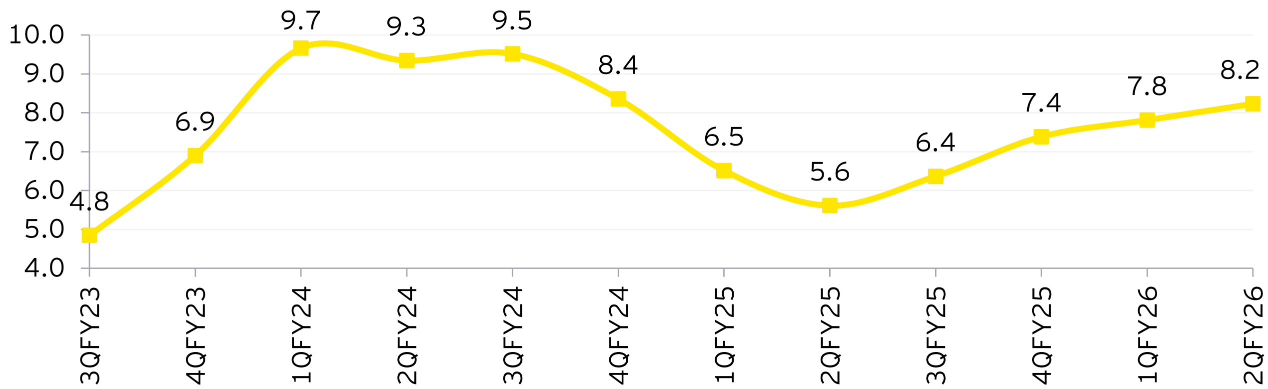
1.

Growth: Real GDP posted a robust growth of 8.2% in 2QFY26

1.1. GDP and GVA: Grew by 8.2% and 8.1%, respectively, in 2QFY26

- The national accounts data for the second quarter of FY26 released by MoSPI on 28 November 2025 showed further improvement in India's growth momentum as indicated by higher growth rates in real GDP and GVA at 8.2% and 8.1%, respectively, in 2QFY26 (Table 1 and Chart 1).
- Combining data for the first two quarters, the 1HFY26 real GDP and GVA growth was higher at 8.0% and 7.9%, respectively, compared to 6.9% and 6.6% in 2HFY25.

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



Source: MoSPI, GoI

- On the demand side, growth was driven by private consumption and investment.
- Private final consumption expenditure (PFCE), the largest demand segment with an average share of 56.9% in real GDP during FY23 to FY25, showed strong growth of 7.9% in 2QFY26, increasing from 7.0% in 1QFY26.
- Growth in investment demand, as measured by gross fixed capital formation (GFCF), also remained robust at 7.3% in 2QFY26 although falling marginally from 7.8% in 1QFY26 (Table 1). The growth in GFCF is largely attributable to GoI's frontloaded capital expenditure push which continued in 2QFY26.
- Government final consumption expenditure (GFCE) contracted by (-)2.7% in 2QFY26 as compared to a growth of 7.5% in 1QFY26.
- With growth of 5.6% in exports being lower than that in imports at 12.8% in 2QFY26, the negative contribution of net exports to real GDP growth increased to (-)2.1% points from (-)1.4% points in 1QFY26.
- Public administration, defence et al. and trade, transport et al. sectors posted strong growth rates of 9.7% and 7.4%, respectively, in 2QFY26, although marginally lower compared to their respective levels at 9.8% and 8.6% in 1QFY26.
- Growth in agricultural sector at 3.5% in 2QFY26 was lower compared to 3.7% in 1QFY26, showing a falling trend over the last three quarters.
- With nominal GDP growth at 8.7% in 2QFY26, close to its level of 8.8% in 1QFY26, the overall implicit price deflator (IPD)-based inflation was at a 40-quarter low of 0.6% in 2QFY26.

- In 1HFY26, nominal GDP growth was lower at 8.8% as compared to 10.5% in 2HFY25. This may have implications for GoI's fiscal aggregates. With a lower nominal GDP growth, the IPD-based inflation remained at an all-time low of 0.7% in 1HFY26 as per the 2011-12 series.

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

Agg. demand	1Q FY24	2Q FY24	3Q FY24	4Q FY24	1Q FY25	2Q FY25	3Q FY25	4Q FY25	1Q FY26	2Q FY26	2H FY25	1H FY26
PFCE	7.4	3.0	5.7	6.2	8.3	6.4	8.1	6.0	7.0	7.9	7.1	7.5
GFCE	5.3	20.1	2.3	6.6	-0.3	4.3	9.3	-1.8	7.5	-2.7	2.6	2.5
GFCF	8.4	11.7	9.3	6.0	6.7	6.7	5.2	9.4	7.8	7.3	7.4	7.6
EXP	-7.0	4.6	3.0	7.7	8.3	3.0	10.8	3.9	6.3	5.6	7.1	5.9
IMP	18.0	14.3	11.3	11.4	-1.6	1.0	-2.1	-12.7	10.9	12.8	-7.3	11.8
GDP	**9.7**	**9.3**	**9.5**	**8.4**	**6.5**	**5.6**	**6.4**	**7.4**	**7.8**	**8.2**	**6.9**	**8.0**
Contr. Net Exp. (% pts)	*-6.1*	*-2.6*	*-2.0*	*-0.7*	*2.1*	*0.4*	*2.8*	*3.7*	*-1.4*	*-2.1*	*3.2*	*-1.7*
Output side												
Agr.	5.7	3.7	1.5	0.9	1.5	4.1	6.6	5.4	3.7	3.5	6.0	3.6
Ming.	4.1	4.1	4.7	0.8	6.6	-0.4	1.3	2.5	-3.1	-0.04	2.0	-1.8
Mfg.	7.3	17.0	14.0	11.3	7.6	2.2	3.6	4.8	7.7	9.1	4.3	8.4
Elec.	4.1	11.7	10.1	8.8	10.2	3.0	5.1	5.4	0.5	4.4	5.2	2.4
Cons.	9.2	14.6	10.0	8.7	10.1	8.4	7.9	10.8	7.6	7.2	9.4	7.4
Trans.	11.0	5.4	8.0	6.2	5.4	6.1	6.7	6.0	8.6	7.4	6.4	8.0
Fin.	15.0	8.3	8.4	9.0	6.6	7.2	7.1	7.8	9.5	10.2	7.5	9.9
Publ.	9.3	8.9	8.4	8.7	9.0	8.9	8.9	8.7	9.8	9.7	8.8	9.7
GVA	**9.9**	**9.2**	**8.0**	**7.3**	**6.5**	**5.8**	**6.5**	**6.8**	**7.6**	**8.1**	**6.6**	**7.9**

Source: MoSPI

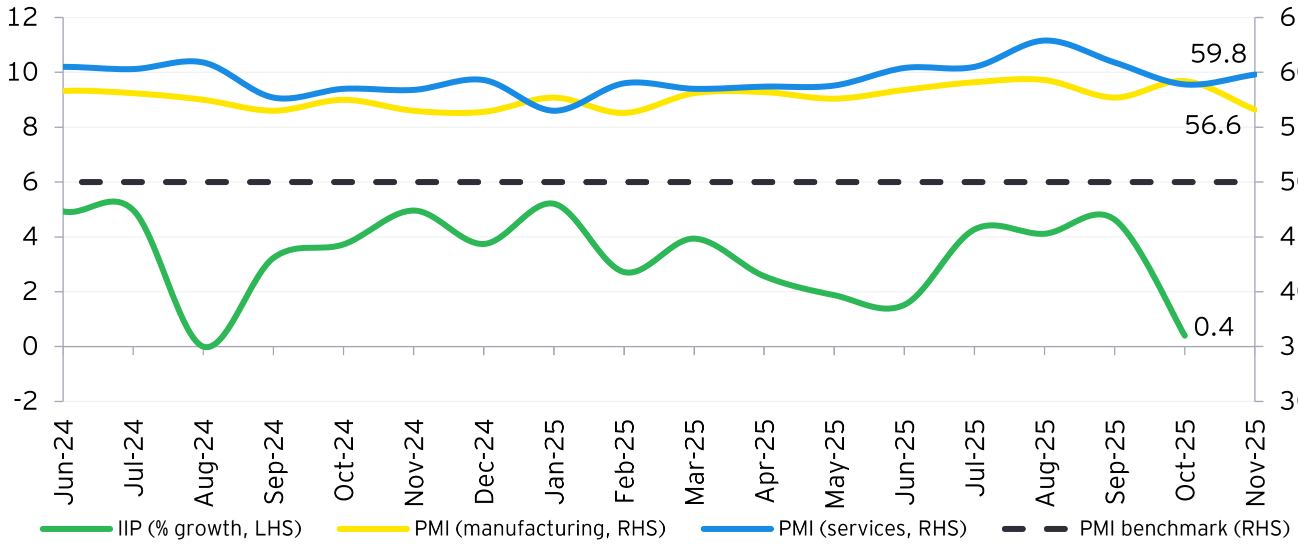
1.2. PMI: While manufacturing PMI fell to 56.6, services PMI increased to 59.8 in November 2025

- Manufacturing PMI (seasonally adjusted or sa) fell from 59.2 in October 2025 to 56.6 in November 2025, its lowest level since February 2025 (Chart 2). This was mainly because of weakness in new export orders, which fell to a 13-month low, affected by the high US tariffs. However, the November 2025 headline level remained comfortably above the neutral mark of 50 as well as the long-run average of 54.2.
- After falling to 58.9 in October 2025, services PMI (sa) increased to 59.8 in November 2025, driven by robust new business intakes that fueled output growth. However, international sales' expansion was at an eight-month low due to fierce overseas competition.

Manufacturing PMI at 56.6 in November 2025 was at its lowest level since February 2025. On the other hand, services PMI increased to 59.8 during the month.

- Despite an uptick in services PMI, reflecting a fall in the growth momentum of manufacturing PMI, the composite PMI Output Index (sa) fell from 60.4 in October 2025 to 59.7 in November 2025, its slowest pace of expansion since May 2025.

Chart 2: PMI and IIP growth



Source: MoSPI and S&P Global.

1.3. IIP: Grew by 0.4% in October 2025

- Owing to broad based moderation in the growth across major sub-industries, overall IIP growth fell to a 14-month low of 0.4% in October 2025 from 4.6% (revised) in September 2025 (Chart 2).
- Manufacturing output, with a weight of 77.6% in overall IIP, grew by 1.8% in October 2025, its lowest growth since August 2024. The output of electricity sector contracted sharply by (-)6.9% in October 2025 following a growth of 3.1% in September 2025. Output of mining contracted for the second successive month by (-)1.8% in October 2025 as compared to (-)0.4% in September 2025.

IIP growth moderated to a 14-month low of 0.4% in October 2025.

- Within manufacturing, among the key sub-industries, output of basic metals (6.6%), motor vehicles, trailers and semi-trailers (5.8%), and other non-metallic mineral products (3.7%) witnessed sharp moderation in their respective growth rates in October 2025. Further, output of food products ((-)8.0%), chemical and chemical products ((-)2.8%), pharmaceuticals et al. ((-)1.8%), and other machinery and equipment ((-)0.3%) contracted during the month.
- Output of coke and refined petroleum products, however, posted a strong growth of 6.2% in October 2025, improving from 0.2% in September 2025.
- Within the 'use-based' classification of industries, output of infrastructure/construction grew at a slower pace of 7.1% in October 2025 as compared to 10.6% in September 2025. Similarly, growth in the output of capital goods also moderated to 2.4% in October 2025 from 5.4% in September 2025.
- Output of consumer durables and primary goods contracted by (-)0.5% and (-)0.6%, respectively, in October 2025 from 10.0% and 1.3%, respectively, in September 2025. Contraction in the output of consumer non-durables increased to (-)4.4% in October 2025 from (-)0.3% in September 2025.
- Owing to unfavorable base effects, output of eight core infrastructure industries (Core IIP) witnessed stagnation with 0% growth in October 2025, its lowest since August 2024. Among the key sub-industries, growth in the output of steel (6.7%), cement (5.3%), and petroleum refinery products (4.6%) supported growth in core IIP during the month. However, these gains were almost fully offset by contractions in the output of coal ((-)8.5%), electricity ((-)7.6%), natural gas ((-)5.0%), and crude oil ((-)1.2%).

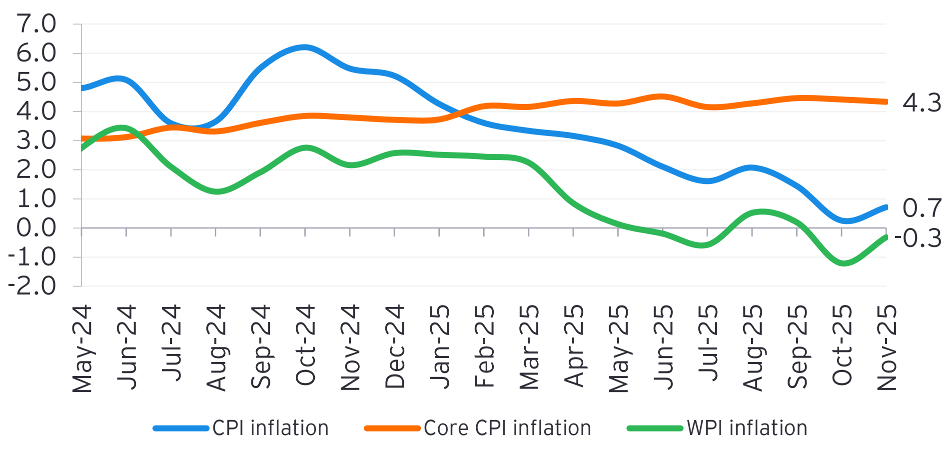
2.

Inflation: CPI inflation remained subdued at 0.7% in November 2025

2.1. CPI inflation

- CPI inflation was benign, although increasing to 0.7% in November 2025, from a historic low of 0.3% in October 2025 (2012 base series), remaining below the lower end of RBI's target band for the third consecutive month.
- The increase is primarily attributable to a moderation in the pace of contraction in prices of vegetables from an unprecedented high of (-)27.6% in October 2025 to (-)22.2% in November 2025. The easing pace of contraction in vegetable prices is partly on account of a favorable base effects waning.
- Inflation in oils and fats declined to 7.9% in November 2025, its lowest level since September 2024. Pulses and products showed a contraction of (-)15.9% in November 2025, close to the level of (-)16.2% in October 2025.
- Overall, even as consumer food prices continued to show a contraction for the sixth successive month, the pace of contraction eased to (-)3.9% in November 2025 from an unprecedented level of (-)5.0% in October 2025.
- Inflation in fuel and light remained benign, although showing a slight uptick to a three-month high of 2.3% in November 2025.
- Housing-based inflation remained stable at 3.0% in November 2025, its lowest level since February 2025.
- Inflation in miscellaneous items remained elevated at 5.6% in November 2025, close to 5.7% in October 2025, as inflation in silver and gold reached historic (2012 base series) high levels of 65.5% and 58.5% respectively.
- Inflation in transportation and communication services was stable at 0.9% in November 2025, its lowest level since October 2019, reflecting moderating crude prices.

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



CPI inflation remained benign, although rising to 0.7% in November 2025 from 0.3% in October 2025, while core CPI inflation remained sticky at 4.3% during the month.

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

- Core CPI inflation[1] remained significantly higher than CPI inflation at 4.3% in November 2025, easing only marginally from 4.4% in October 2025. The sharp divergence of core CPI inflation from headline CPI is mainly on account of the impact of higher inflation in gold and silver.
- November CPI data reinforces a benign inflation environment, with food prices continuing to play a key disinflationary role. However, core CPI inflation remained sticky owing to rising prices of precious commodities.

2.2. WPI inflation was at (-)0.3% in November 2025

- The pace of contraction in wholesale prices eased to (-)0.3% in November 2025 from (-)1.2% in October 2025, reflecting primarily a moderating pace of contraction in vegetable and fruit prices.
- The pace of contraction in prices of vegetables moderated to (-)20.2% in November 2025 from (-)35.0% in October 2025, led by a waning of favorable base effects. On similar lines, contraction in prices of fruits declined to (-)0.9% from (-)7.0% over the same period.
- WPI food index-based inflation remained negative, although showing an easing pace of contraction at (-)2.6% in November 2025 as compared to (-)5.0% in October 2025.
- The wholesale price of crude petroleum and natural gas contracted for the fifteenth successive month by (-)8.7% in November 2025 compared to (-)7.5% in October 2025, reflecting a continued fall in global crude prices on y-o-y basis.
- The pace of contraction in fuel and power prices moderated to (-)2.3% in November 2025 from (-)2.6% in October 2025. A higher pace of contraction in mineral oil prices at (-)3.4% was partly offset by a reduced pace of contraction in electricity prices at (-)0.9%.
- Inflation in manufactured products moderated to a 14-month low of 1.3% in November 2025 led by an easing pace of inflation in manufactured food products at 0.6%, its lowest since February 2024. Inflation in manufactured basic metals continued to remain negative at (-)1.2% in November 2025.
- Core WPI inflation remained stable at 1.5% in November 2025 mainly owing to a sustained contraction in prices of manufactured basic metals.

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

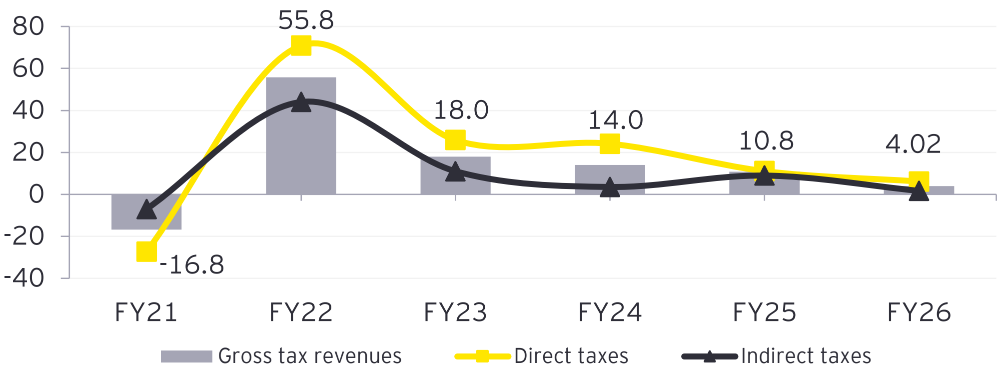
3.

Fiscal: GoI's capital expenditure grew by 32.4% during April-October FY26

3.1. Tax and non-tax revenues

- As per the CGA, GoI's GTR[(b)] showed a growth of 4.0% during April–October FY26, much lower than 10.8% during the corresponding period of FY25. This was on account of a subdued growth in both direct and indirect taxes (Chart 4).
- An estimated growth of 22.3% (y-o-y) is required during the remaining five months in order to achieve the budget target of GTR at INR42.7 lakh crore.
- In 1HFY26, with GoI's GTR growth at 2.8% and nominal GDP growth at 8.8%, tax buoyancy is estimated at only 0.32 as compared to 1.3 in 1HFY25 and 1.4 in 1HFY24.
- During April-October FY26, direct taxes[(a)] grew by 6.1% compared to a double-digit growth of 11.1% during the corresponding period of FY25. Growth in indirect taxes[(a)] was also subdued at 1.7% during the first seven months of FY26 compared to 9.0% during the corresponding period of FY25.
- PIT revenues showed a growth of 6.9% during April–October FY26 compared to a strong growth rate of 20.2% in the corresponding period of FY25. This may partly be due to PIT rate rationalization measures announced in the FY26 Budget.
- CIT revenues grew by 5.2% during the first seven months of FY26 compared to 1.2% during the corresponding period of FY25.
- Among indirect taxes, GoI's GST revenues[2] posted a subdued growth of 1.2% during April–October FY26, much lower than 12.0% during the corresponding period of FY25. Excluding GST compensation cess, GoI's GST revenues showed a growth of 2.6% during April-October FY26 compared to 13.0% during the corresponding period of the previous year.

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



GoI's GTR grew by 4.0% during April-October FY26 with a growth of 6.1% in direct taxes and 1.7% in indirect taxes.

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

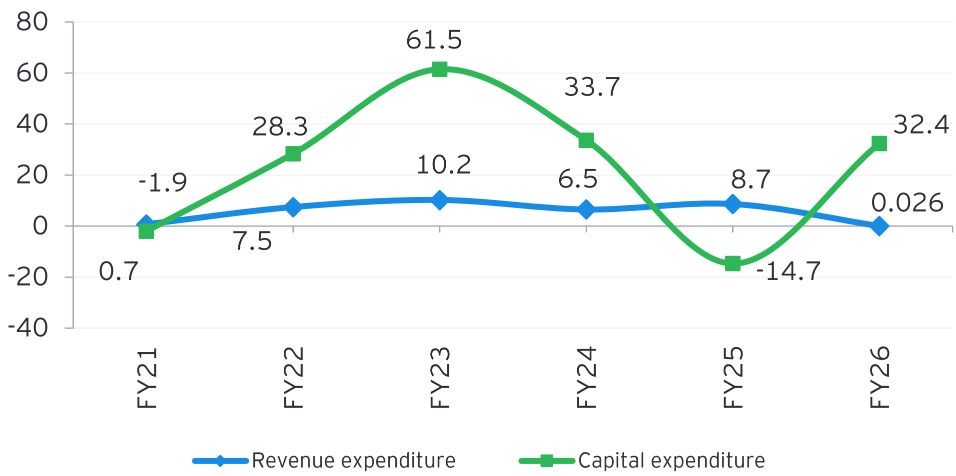
[2] Effective 22nd September 2025, the GST compensation cess was discontinued for all goods except tobacco and related products, namely cigarettes, pan masala, gutkha, chewing tobacco, zarda, unmanufactured tobacco, and bidi (PIB release dated 03 September 2025)

- Union excise duties (UED) showed a growth of 7.9% during the first seven months of FY26, higher than 0.6% during the corresponding period of the previous year.
- There was a contraction in customs duties at (-)2.5% during April-October FY26 compared to a growth of 6.2% during April-October FY25.
- GoI's non-tax revenues showed a growth of 22.5% during April–October FY26 compared to 50.2% during the corresponding period of the previous year. Within non-tax revenues, the budgeted target for dividends and profits of the GoI at INR3,25,000 crore has been achieved.
- GoI's non-tax revenues during the first seven months of FY26 stood at 83.9% of the FY26 budget target compared to the three-year average at 67.6% during FY23 to FY25 based on actual data.
- Non-debt capital receipts of the GoI during April-October FY26 showed a substantially high growth of 97.2% owing to other miscellaneous capital receipts to the tune of INR18,837.42 crore that were not budgeted for in the FY26 Union Budget.
- As a proportion of the annual budget target, GoI's non-debt capital receipts during April-October FY26 stood at 48.8%, slightly higher than the three-year average at 44.3% during FY23 to FY25 based on actual data.
- As per the Department of Investment and Public Asset Management (DIPAM)[3], GoI's disinvestment receipts as of 16 December 2025 were at INR7,348.66 crore, amounting to 15.6% of the FY26 BE at INR47,000 crore.

3.2. Expenditures: Revenue and capital

- Growth in GoI's total expenditure was 6.1% during April-October FY26, lower than 3.3% during the corresponding period of FY25 (Chart 5).
- As a proportion of FY26 BE, total expenditure in the first seven months stood at 51.8%, close to the three-year average ratio at 52.7% during FY23 to FY25 based on actual data.
- There was near-zero growth in GoI's revenue expenditure during April-October FY26 compared to 8.7% during the corresponding period of FY25.
- GoI's capital expenditure continued to show a strong growth of 32.4% during April-October FY26 compared to a contraction of (-)14.7% during the corresponding period of FY25.

Chart 5: Growth in central expenditures during April–October (%, y-o-y)



GoI's total expenditure grew by 6.1% during April-October FY26, with a growth in revenue expenditure at 0.03% and that in capital expenditure at 32.4%.

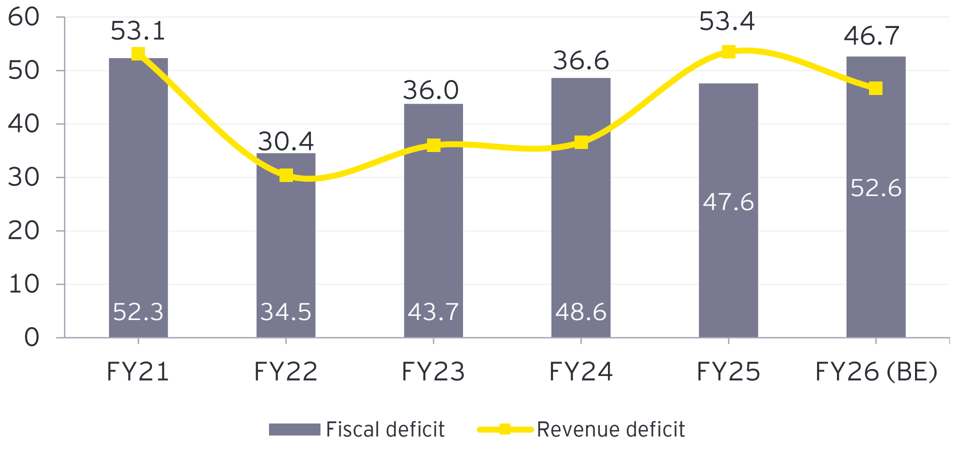
Source (basic data): Monthly Accounts, CGA, Government of India

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

3.3. Fiscal imbalance

- GoI's fiscal deficit during April-October FY26 was at 52.6% of FY26 (BE), higher than the corresponding ratios in the last five years based on actual data (Chart 6). This may be attributable to a low growth in GTR accompanied by a high growth in capital expenditure during this period.
- GoI's revenue deficit during the first seven months of FY26 stood at 46.7% of the FY26 (BE) compared to 53.4% during the corresponding period of FY25 based on actual data.

Chart 6: Fiscal and revenue deficit during April-October as a percentage of annual actuals (BE for FY26)



GoI's fiscal and revenue deficits during April-October FY26 stood at 52.6% and 46.7% of their respective annual budget estimates.

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

4.

Comparative trends: IMF projected average growth in India's export volume at 3.8% during FY27-31

4.1. Volume of exports of goods and services

- As per the IMF (World Economic Outlook - WEO, October 2025), growth in the volume of global exports of goods and services is expected to remain robust at 3.6% in 2025 mainly driven by strong growth in exports from Asia and the Euro area to the US because of front-loading in anticipation of higher tariffs. In 2026, this growth is projected to fall to 2.3% before improving to an average of 3.1% during 2027 to 2030 **(Table 2).**
- A similar pattern is visible in the growth of export volumes considering AEs and EMDEs as groups. However, country-wise variations persist.
- In the US, growth in the volume of exports of goods and services is forecasted to fall in 2025 and 2026 before recovering to an average of 2.2% during 2027 to 2030. This fall in the near term may be attributable to the adverse impact of the US tariffs on manufacturing inputs, thereby increasing the cost of production in the US. Further, trade policy uncertainty and global economic slowdown are also likely to have a negative impact on growth in export volumes.
- While exports of goods from major European economies to the US fell notably in 2025 after the imposition of tariffs, total Euro area exports remained relatively resilient supported by larger trade flows within Europe. This trend is expected to continue through the projection period.
- In Japan, growth in export volumes is estimated to remain relatively high at 2.9% in 2025 propelled by strong automobile exports.

Table 2: Volume of exports of goods and services (% change)

Country	2024	2025	2026	2027	2028	2029	2030
World	3.6	3.6	2.3	3.0	3.2	3.1	3.0
AEs	1.8	2.1	1.7	2.3	2.7	2.5	2.4
US	3.6	1.1	0.5	2.0	2.7	2.2	2.0
UK	-1.2	0.8	1.2	1.3	1.2	1.1	1.1
Euro area	0.3	1.2	1.3	2.2	2.5	2.5	2.4
Japan	1.1	2.9	0.9	1.4	1.6	1.5	1.4
EMDEs	6.5	5.9	3.3	4.1	4.1	4.0	3.8
Brazil	-0.3	3.0	2.5	3.5	4.0	4.0	2.5
Russia	-1.9	2.7	2.5	2.7	2.6	2.6	2.6
India*	5.4	1.3	2.2	3.8	4.5	4.4	4.1
China	12.6	10.2	2.2	3.2	3.2	3.2	3.2
S. Africa	-2.8	-2.0	2.5	3.0	3.0	3.0	3.0

Source: IMF World Economic Outlook, October 2025; *Data pertains to fiscal year

- Among EMDEs, in China, in 2025, the decline in exports to the US has been partly offset by higher exports to the Euro area and countries in the Association of Southeast Asian Nations (ASEAN), in part supported by the depreciation of the Renminbi against most currencies (excluding the US dollar). Further, in early 2025, there has been a frontloading ahead of the US tariffs. However, during the forecast period from 2026 to 2030, export growth is projected to average only 3%.

- Growth in India's volume of goods and services exports is forecasted to fall from 5.4% in 2024 (FY25) to 1.3% in 2025 (FY26) reflecting a sharp escalation in tariff rates to 50% by the US effective 27 August 2025. This is expected to weigh heavily on key export sectors such as textiles, readymade garments, jewelry, shrimp and chemicals. However, services exports are expected to remain strong. Average export growth in the subsequent period from 2026 (FY27) to 2030 (FY31) is estimated at 3.8%.

4.2. Volume of imports of goods and services

- Similar to the trend in the growth of export volumes, growth in the volume of imports of goods and services is also estimated to reach a local trough in 2026 at the global level as well as for AEs and EMDEs considered as a group after which some recovery is forecasted **(Table 3)**.
- With respect to the US, after the front-loading in 2025, a contraction of (-)1.8% is projected in the volume of imports of goods and services of the US in 2026 as major trading partners including Canada, India and Brazil adjust their exports to the US.
- Affected by a growth slowdown along with global trade policy uncertainty, growth in the volume of imports of goods and services is forecasted to remain subdued in the medium term for the US, the UK and Japan.
- In the Euro area, the IMF predicts a relatively better growth in import volumes after 2026 as domestic demand would be helped by supportive fiscal and monetary policies.

Table 3: Volume of imports of goods and services (% change)

Country	2024	2025	2026	2027	2028	2029	2030
World	3.4	3.6	2.3	3.1	3.3	3.1	3.1
AEs	2.1	3.1	1.3	2.2	2.5	2.4	2.4
US	5.8	3.5	-1.8	1.2	1.5	1.4	1.4
UK	2.7	2.0	1.4	1.3	1.1	1.1	1.1
Euro area	-0.7	2.3	1.8	2.4	2.8	2.7	2.6
Japan	1.0	3.6	1.8	1.6	1.6	1.3	1.3
EMDEs	5.6	4.3	4.0	4.7	4.6	4.2	4.2
Brazil	10.0	4.2	0.7	2.1	2.1	2.5	0.9
Russia	17.1	-5.4	-0.3	3.9	3.7	1.2	3.6
India*	5.3	3.5	4.2	5.4	5.8	5.9	6.0
China	6.0	3.6	4.5	4.0	3.8	3.3	3.3
S. Africa	-6.4	-1.0	3.3	3.7	3.6	3.4	3.3

Source: IMF World Economic Outlook, October 2025; *Data pertains to fiscal year

- Among EMDEs, growth in import volumes for China is projected to fall from 6% in 2024 to 3.6% in 2025 mainly affected by lower import volumes of key industrial and energy inputs such as iron ore, crude oil, and coal, and transport services, signaling continued weakness in domestic demand. Further, retaliatory tariffs by China are also expected to have an adverse impact on Chinese imports from the US. Import volumes are projected to show only a slight pick-up during 2026 to 2030, averaging 3.8%.
- In India's case, supported by an ongoing improvement in domestic consumption demand, growth in import volumes is projected to increase from a low of 3.5% in 2025 (FY26) to 4.2% in 2026 (FY27). The average growth during FY27 to FY31 is projected at 5.5%, higher than that of all the selected EMDEs considered here as also the EMDE group average (2026-2030).

5.

In-focus: Economy and Union finances - mid-year review and annual prospects

5.1. Introduction

GoI is expected to present its annual financial statement, i.e., the Budget for FY27, in about six weeks. This Budget will be prepared in the background of an impressive growth performance of the economy in the first half of FY26 with an average real GDP growth of 8.0%. On the fiscal side, one major tax reform which ushered in GST 2.0, was implemented nearly in the middle of the fiscal year. On the international trade front, global supply chain issues have continued along with the tariff related constraints for the Indian economy. In this writeup, we examine the economic and fiscal performance and prospects for India for the current fiscal year as well as in the medium term.

5.2. India's recent growth performance and outlook

Led by a sharp increase in manufacturing growth to 9.1% in 2QFY26, a multi quarter high, India has shown a remarkable real GDP growth of 8.2% in this quarter. Table 4 gives details of sectoral growth performance in the second quarter of FY26. Apart from mining and quarrying and electricity, gas and water supply, all other sectors have performed well. A 3.5% growth for agriculture can also be considered robust. However, it is the three service sectors, together accounting for an average share of 54.6% (FY23-25), that showed a weighted growth of 9.2% in 2QFY26. Thus, both from the industrial side considering manufacturing, mining, electricity, gas et al. and construction and from the services side, there has been a major push to growth with the former showing an average growth of 7.7% in 2QFY26. The best performing sector was financial, real estate et al. services with a robust growth of 10.2%, followed by public administration, defence et al. at 9.7%. There is thus a balanced profile of sectoral growth in 2QFY26.

Table 4: Output sectors (annual and quarterly real growth rates, % change y-o-y)

Fiscal year/quarter	Output: Major sectors								
	GVA	Agr.	Ming.	Mfg.	Elec.	Cons.	Trans.	Fin.	Publ.
FY22	9.4	4.6	6.3	10.0	10.3	19.9	15.2	5.7	7.5
FY23	7.2	6.3	3.4	-1.7	10.8	9.1	12.3	10.8	6.7
FY24	8.6	2.7	3.2	12.3	8.6	10.4	7.5	10.3	8.8
FY25	6.4	4.6	2.7	4.5	5.9	9.4	6.1	7.2	8.9
1QFY25	6.5	1.5	6.6	7.6	10.2	10.1	5.4	6.6	9.0
2QFY25	5.8	4.1	-0.4	2.2	3.0	8.4	6.1	7.2	8.9
3QFY25	6.5	6.6	1.3	3.6	5.1	7.9	6.7	7.1	8.9
4QFY25	6.8	5.4	2.5	4.8	5.4	10.8	6.0	7.8	8.7
1QFY26	7.6	3.7	-3.1	7.7	0.5	7.6	8.6	9.5	9.8
2QFY26	8.1	3.5	0.0	9.1	4.4	7.2	7.4	10.2	9.7

Source: National Accounts Statistics, MoSPI

On the demand side, support for growth came from PFCE which grew at 7.9% in 2QFY26 (Table 5). GFCF also showed a robust growth of 7.3% largely driven by frontloading of GoI's capital expenditure. However, negative contribution of net exports to GDP growth increased to (-)2.1% points in 2Q as compared to (-)1.4% points in 1Q, reflecting the impact of the tariff related constraints and other global uncertainties. In 2QFY26, the investment rate as measured by the ratio of GFCF to GDP, in constant prices, was at a relatively elevated level of 34.4%. This ratio has remained relatively stable over the last three years, averaging 33.6% during FY23-25. It may be noted that the corresponding ratio in nominal terms is lower at 30.5%. The higher investment rate, when it is considered in real terms, is due to the differential deflator-based inflation pertaining to overall GDP vis-vis that for investment goods. This aspect is discussed further in the next section.

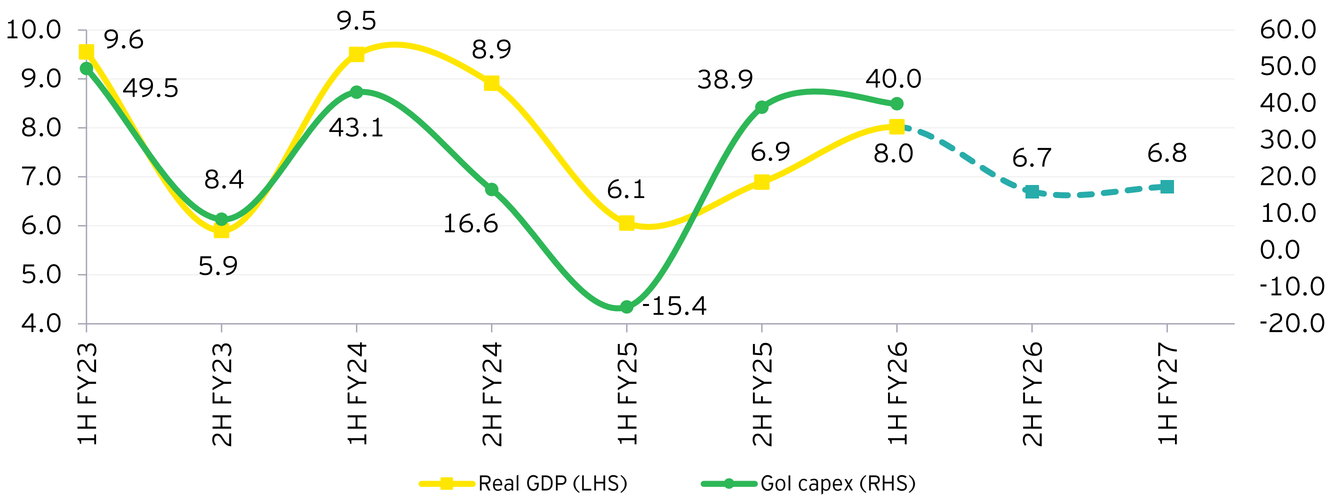
Table 5: Components of expenditure (annual and quarterly real growth rates, % change y-o-y)

Fiscal year/quarter	Expenditure components					
	GDP	PFCE	GFCE	GFCF	EX	IM
FY22	9.7	11.7	0.0	17.5	29.6	22.1
FY23	7.6	7.5	4.3	8.4	10.3	8.9
FY24	9.2	5.6	8.1	8.8	2.2	13.8
FY25	6.5	7.2	2.3	7.1	6.3	-3.7
1QFY25	6.5	8.3	-0.3	6.7	8.3	-1.6
2QFY25	5.6	6.4	4.3	6.7	3.0	1.0
3QFY25	6.4	8.1	9.3	5.2	10.8	-2.1
4QFY25	7.4	6.0	-1.8	9.4	3.9	-12.7
1QFY26	7.8	7.0	7.5	7.8	6.3	10.9
2QFY26	8.2	7.9	-2.7	7.3	5.6	12.8

Source: National Accounts Statistics, MoSPI

Taking a slightly longer perspective, Chart 7 shows a steady growth momentum after 1HFY25. In fact, after Covid, there have been two half-years in which growth had fallen to levels of 5.9% (2HFY23) and 6.1% (1HFY25). We notice that the half-yearly troughs in real GDP growth in 2HFY23 and 1HFY25 coincide with below trend growth of GoI's capital expenditure. In fact, in 1HFY25, it was (-)15.4%. This pattern highlights the critical role that GoI's capital expenditure has played in the post-Covid phase of India's growth. As per the December 2025 Monetary Policy Statement, the RBI has projected real GDP growth rates of 6.7% and 6.8% for the second half of FY26 and the first half of FY27, respectively.

Chart 7: Half-yearly growth in GoI's capital expenditure and real GDP



Source: National Accounts, MoSPI

5.3. Inflation trends and subdued GDP deflator

Corresponding to a robust growth performance, inflation trends in India have also remained benign in recent quarters. From 1QFY25 to 2QFY26, CPI inflation has ranged between 1.7% and 5.6% (Table 6). In fact, from the last peak of 5.6% in 3QFY25, it has consistently fallen on a quarterly basis, remaining below the MPC's target of 4%. On an annual basis, we notice that CPI inflation has remained within the tolerance range of 2%-6% during FY24 and FY25 after having exceeded it in FY23. Core CPI inflation has remained stable although this also exceeded the level of 6% in two consecutive years. WPI inflation has, however, been relatively more volatile. In fact, GDP deflator, which is a weighted average of CPI and WPI, has shown relatively low levels FY23 onwards. It has consistently fallen from a peak of 3.7% in 3QFY25. One interesting feature of the IPD-based inflation profile is that consumption goods (PFCE+GFCE) deflator has exceeded investment goods (GFCF) deflator FY24 onwards. It is the differential inflation rates that account for the excess of real investment rate over nominal investment rate.

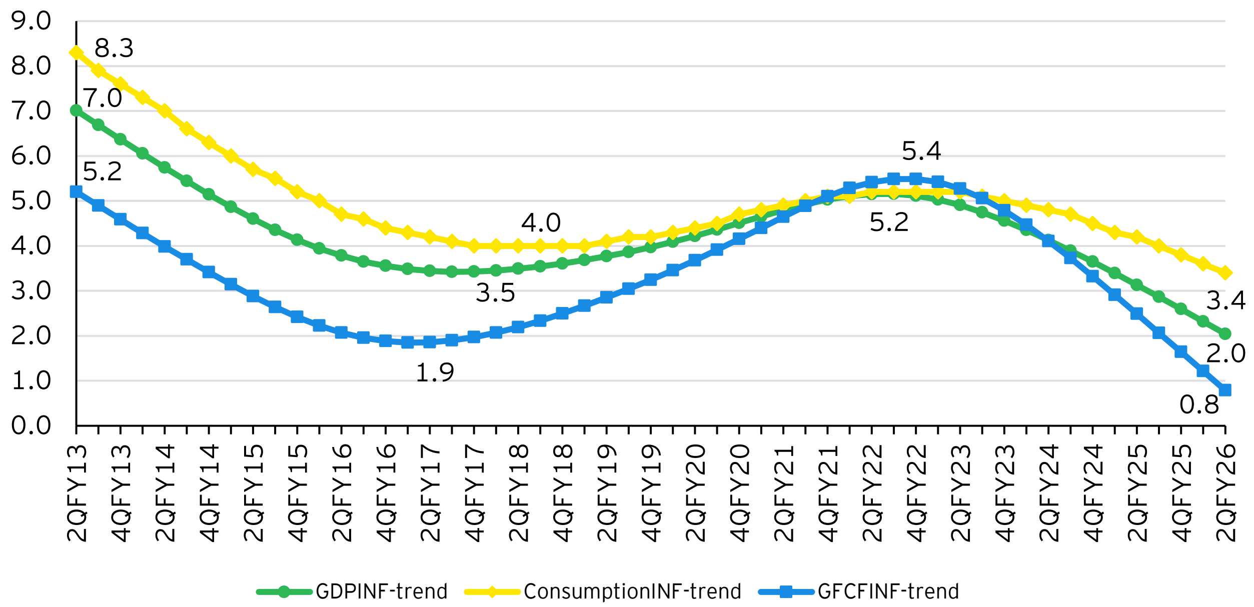
Table 6: Inflation trends: Annual and quarterly

	CPI	Core CPI	WPI	IPD- based inflation			CONS-IPD inflation minus GFCF-IPD inflation (% pts)	Ratio of CONS-IPD to GFCF-IPD
				GDP	Consumption* (CONS)	GFCF		
FY20	4.8	4.0	1.7	2.4	3.9	1.6	2.4	1.19
FY21	6.2	5.3	1.3	4.8	4.7	2.1	2.6	1.22
FY22	5.5	6.1	13.0	8.4	6.3	9.5	-3.2	1.19
FY23	6.7	6.3	9.4	5.9	6.9	10.9	-4.0	1.14
FY24	5.4	4.4	-0.7	2.6	3.9	0.3	3.6	1.18
FY25	4.6	3.6	2.3	3.1	4.4	0.7	3.6	1.23
1QFY25	4.9	3.1	4.9	3.0	4.5	1.5	2.9	1.2
2QFY25	4.2	3.5	4.2	2.5	3.5	0.6	2.9	1.3
3QFY25	5.6	3.8	5.6	3.7	5.0	0.3	4.7	1.3
4QFY25	3.7	4.0	3.7	3.1	4.5	0.6	3.9	1.2
1QFY26	2.7	4.4	2.7	0.9	2.0	0.4	1.6	1.2
2QFY26	1.7	4.3	1.7	0.5	1.3	0.8	0.5	1.3

Source (basic data): MoSPI, Office of the Economic Adviser, Government of India (GoI)
*Consumption refers to domestic consumption expenditure which is the sum of PFCE and GFCE

Chart 8 shows the time profile and movement of IPD-based inflation rate in the context of consumption and investment goods deflator. After 3QFY23, it is notable that consumption deflator-based inflation has remained higher than GFCF deflator-based inflation on trend basis.

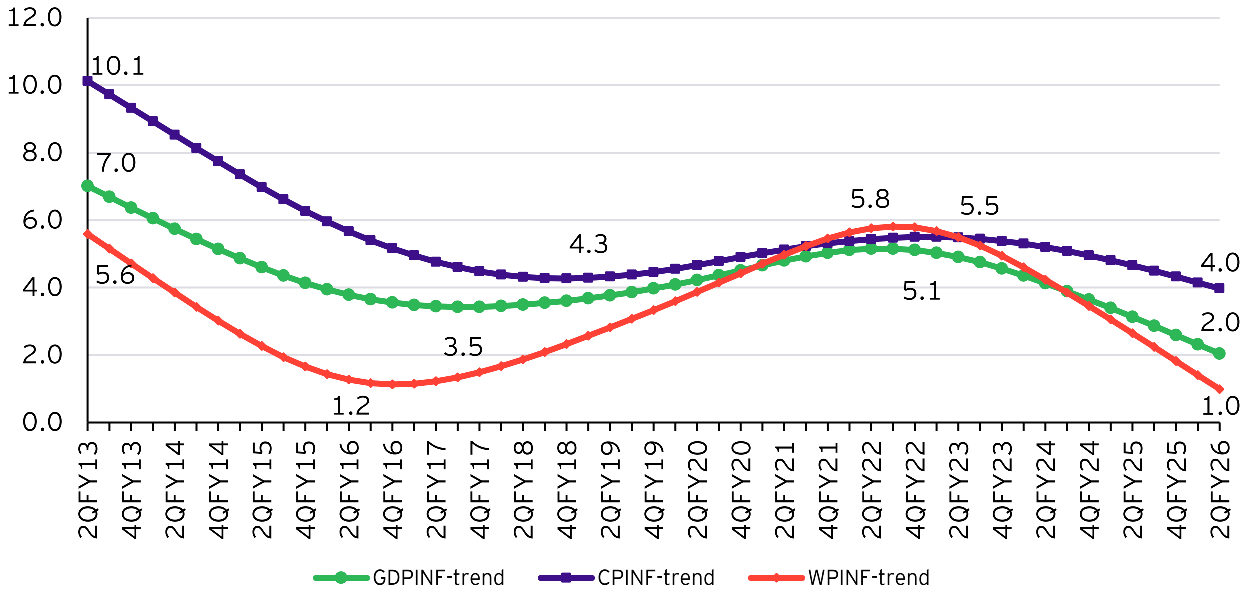
Chart 8: IPD-based trend inflation rates



Source (basic data): MoSPI, Government of India (GoI)
Note: Consumption refers to domestic consumption expenditure which is the sum of PFCE and GFCE

In Chart 9, we put together IPD-based inflation along with CPI and WPI inflation on trend basis. IPD-based inflation is estimated as the weighted sum of the CPI inflation and WPI inflation. CPI inflation has always remained above IPD-based inflation. IPD-based inflation has exceeded WPI inflation 3QFY24 onwards.

Chart 9: IPD-based trend inflation rates



Source (basic data): MoSPI, Government of India (GoI)

The difference between GDP growth in nominal and real terms is accounted for by the movement of IPD-based inflation (Table 7). The higher the IPD-based inflation, higher is the margin by which the nominal growth exceeds the real GDP growth. Nominal GDP magnitudes are important since many of the fiscal aggregates are also specified in nominal terms while providing estimates of the budgetary aggregates.

Table 7: Real and Nominal GDP growth rates

	Real GDP growth	Nominal GDP growth	Difference
(1)	(2)	(3)	(4) = (3)-(2)
FY22	9.7	18.9	9.2
FY23	7.6	14.0	6.3
FY24	9.2	12.0	2.8
FY25	6.5	9.8	3.3
1QFY25	6.5	9.7	3.1
2QFY25	5.6	8.3	2.7
3QFY25	6.4	10.3	3.9
4QFY25	7.4	10.8	3.4
1QFY26	7.8	8.8	1.0
2QFY26	8.2	8.7	0.5

Source (basic data): MoSPI

5.4. GoI's revenue performance: First seven months of FY26

Table 8 gives tax-wise revenue trends for the GoI. GTR has shown a volatile performance over the years. It showed a low growth of 0.7% in the Covid year of FY21. But even prior to that, it had shown a contraction primarily because of extensive CIT reforms in FY20. Before that, partly in FY18 and fully in FY19, there was the impact of GST implementation. FY22 shows a high growth rate in GTR because of the base effect relative to the Covid year. GTR revenues showed a growth of 12.7% in FY23, but the corresponding buoyancy was 0.9 because nominal GDP growth was high at 14.0%. It was in FY24 that GTR growth at 13.5% was associated with a buoyancy higher than 1 at 1.1. Looking at individual taxes, there was a contraction in CIT, PIT and custom duties revenues in FY20. In the post-Covid years, there has been a recovery in PIT, and in GST to some extent. In FY25, only PIT showed a noticeably robust performance with a growth of 17.0%. Data for the first seven months of FY26 shows a profile of relatively low growth rates with respect to major taxes. CIT shows a growth of 5.2%, PIT a growth of 6.9%, and GST a growth of 1.2%[4]. These low growth rates are on account of PIT reforms in Union Budget FY26, GST reforms after presentation of Budget and in the case of CIT, the impact of rate reductions in the CIT reforms of FY20.

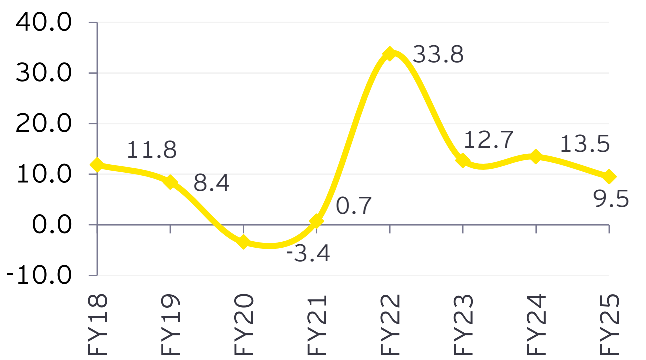
Table 8: Tax-wise growth and buoyancy

Year	GTR	CIT	PIT	GST	UED	Customs	Non-Tax Revenues	Non-debt capital receipts
Growth								
FY18	11.8	17.8	19.9	--	-32.0	-42.7	-31.6	83.7
FY19	8.4	16.2	13.1	31.5	-10.7	-8.7	25.5	-6.4
FY20	-3.4	-16.1	4.0	2.9	3.7	-7.3	38.3	-39.1
FY21	0.7	-17.9	-2.3	-8.4	62.6	23.4	-36.2	-16.0
FY22	33.8	55.7	43.5	27.4	0.3	48.2	75.5	-31.7
FY23	12.7	16.0	20.0	21.6	-18.4	6.8	-21.6	83.3
FY24	13.5	10.3	25.1	12.7	-4.3	9.3	40.4	-17.2
FY25	9.5	8.3	17.0	7.2	-1.7	-0.1	33.8	-30.0
Memo								
Apr-Oct FY26	4.0	5.2	6.9	1.2	7.9	-2.5	22.5	97.2
Buoyancy								
FY18	1.1	1.6	1.8	--	-2.9	-3.9	--	--
FY19	0.8	1.5	1.2	3.0	-1.0	-0.8	--	--
FY20	-0.5	-2.5	0.6	0.5	0.6	-1.2	--	--
FY21	-0.6	14.4	1.9	6.7	-50.5	-18.9	--	--
FY22	1.8	3.0	2.3	1.5	0.02	2.6	--	--
FY23	0.9	1.1	1.4	1.5	-1.3	0.5	--	--
FY24	1.1	0.9	2.1	1.1	-0.4	0.8	--	--
FY25	1.0	0.8	1.7	0.7	-0.2	-0.01	--	--
Memo								
1HFY25	1.3	0.3	2.8	1.2	0.3	0.7	--	--
1HFY26	0.3	0.1	0.5	0.4	0.9	-0.6	--	--

Source (basic data): CGA
*negative buoyancy should not be interpreted

Chart 10 shows considerable volatility in GoI's GTR growth profile. GTR-GDP ratio, however, shows a balanced performance in the range of 11.4% to 11.5% in the years from FY22-25 (Table 9).

Chart 10: Growth in GoI's GTR (%)



Source (basic data): CGA

Table 9: GoI's GTR to GDP ratio (%)

Year	GTR (INR lakh crore)	GTR/GDP (%)
FY18	19.2	11.2
FY19	20.8	11.0
FY20	20.1	10.0
FY21	20.2	10.2
FY22	27.1	11.5
FY23	30.5	11.4
FY24	34.7	11.5
FY25	38.0	11.5

Source (basic data): CGA and MoSPI

[4] Effective 22nd September 2025, the GST compensation cess was discontinued for all goods except tobacco and related products, namely cigarettes, pan masala, gutkha, chewing tobacco, zarda, unmanufactured tobacco, and bidi (PIB release dated 03 September 2025). Excluding GST compensation cess, GoI's GST revenues showed a growth of 2.6% during April-October FY26 compared to 13.0% during the corresponding period of the previous year.

5.5. Budgetary balance and prospects of maintaining fiscal deficit target

In Table 10, we bring together the budget estimates for FY26 along with progress in the first seven months in regard to major fiscal aggregates of the GoI. We have given all these magnitudes in terms of INR lakh crore. The difference between GoI's GTR and net tax revenues (NTR) shows estimates of budgeted transfers to states in the form of sharable tax revenues. This difference for FY26 (BE) is INR14.2 lakh crore. Out of this, INR8.3 lakh crore have already been transferred. A balance of INR5.9 lakh crore is budgeted to be transferred in the remaining five months. The ratio of GoI's NTR to GTR was budgeted at 66.4% for FY26. This implies a ratio of assignment to states to GoI's budgeted GTR of 33.3%. If GTR falls short of the budget estimates, GoI may need to transfer a lower amount to the states when the full year is taken into account. Some of the GTR shortfall, if any, may be accommodated as the NTR shortfall is likely to be lower than the GTR shortfall in the remaining five months of FY26. However, some additional revenues may accrue to the GoI through two revenue enhancing measures relating to excise duty on tobacco products and national security and public health cess that have been recently announced.

Considering the expenditure side of the Budget, against an estimated full year revenue expenditure of INR39.4 lakh crore, only INR20.1 lakh crore has been spent during April-October FY26. This is 50.9% of the budget estimate. As far as capital expenditure is concerned, out of a budgeted amount of INR11.2 lakh crore, GoI has spent INR6.2 lakh crore. A supplementary demand amounting to additional expenditure of INR41,455.4 crore may also have to be accommodated[5].

In order to adhere to the fiscal deficit target of 4.4% of GDP in the backdrop of some shortfall expected in GTR and net tax revenues, the GoI may spend less than the budgeted amount as far as revenue expenditure is concerned. With respect to capital expenditure, GoI may endeavor to meet the budget target.

Table 10: Key fiscal aggregates

Item	FY25 (CGA)	FY26 BE	Apr-Oct FY26	Nov-Mar FY26 (balance required)	Growth (FY26 BE over FY25 CGA)
	INR lakh crore				*%*
GoI's GTR	38.0	42.7	21.1	21.6	12.5
GoI's net tax revenue (NTR)	25.0	28.4	12.7	15.6	13.5
Non-tax revenue	5.4	5.8	4.9	0.9	8.5
NDCR	0.4	0.8	0.4	0.4	81.7
GoI's total resources	**30.8**	**35.0**	**18.0**	**17.0**	**13.6**
Total Expenditure	**46.6**	**50.7**	**26.3**	**24.4**	**8.8**
Revenue *of which:*	36.0	39.4	20.1	19.4	9.5
Interest	11.2	12.8	6.7	6.0	14.3
Capital	10.5	11.2	6.2	5.0	6.6
Fiscal deficit	**15.8**	**15.7**	**8.3**	**7.4**	
Memo					
Nominal GDP	**330.7**	**357.0**	**--**	**--**	**8.0**
Buoyancy	1.0	1.6	--	--	--
Nominal GDP growth	9.8	8.0	--	--	--
Growth in GoI's GTR	9.5	12.5	4.02	22.3	--
Assignment to states	12.9	14.2	8.3	5.9	

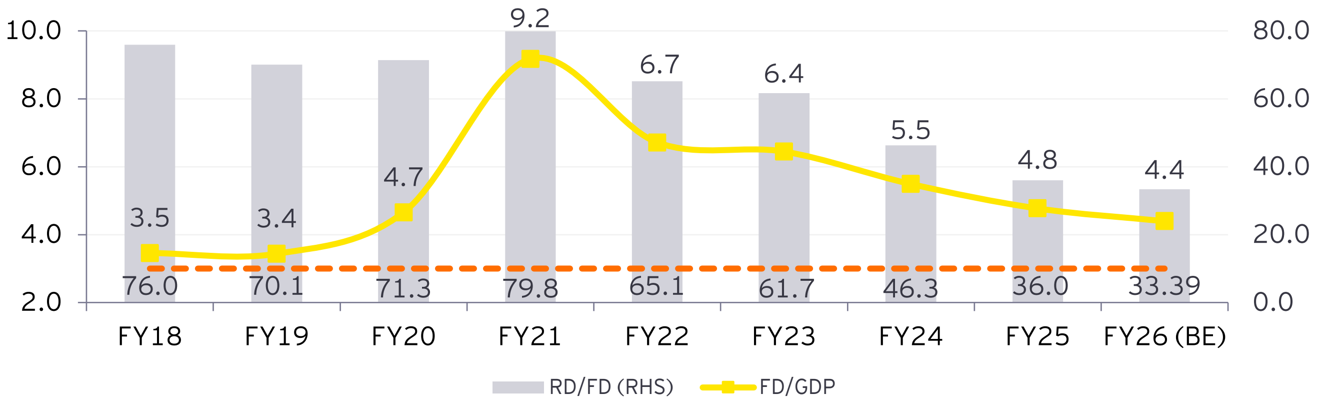
Source (basic data): Union Budget, CGA and MoSPI

5.6. Balance between fiscal consolidation and growth stimulus

Chart 11 shows the steady but incremental adjustment in the fiscal deficit to GDP ratio after it had reached a sudden peak at 9.2% of GDP in the Covid affected year of FY21. Pursuing this path further, say, by margins of 0.4% points per year, implies a time path of 4%, 3.6% and 3.2% in the next three years, reaching close to the FRBM 2018 (amendment) target of 3% of GDP by FY29.

[5] https://dea.gov.in/files/budget_division_documents/First%20batch%20of%20Supplementary%20Demands%20for%20Grants%202025-26.pdf

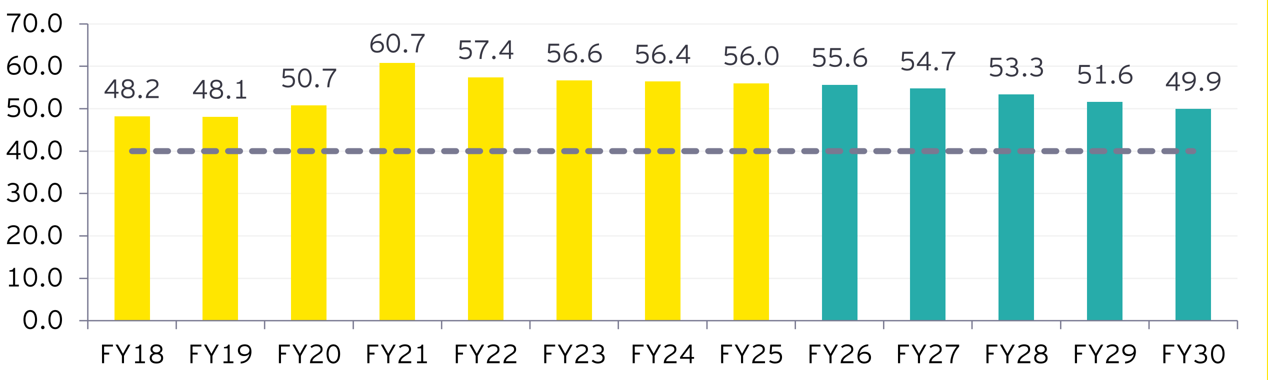
Chart 11: GoI's fiscal deficit to GDP ratio (%) and quality of fiscal deficit



Source: Union Budgets, MoSPI, CAG

Chart 12 shows a path of GoI's debt-GDP ratio where it is progressively falling relative to GDP FY26 onwards, by incremental reduction in fiscal deficit of 40 basis points per year. It is shown that the debt-GDP ratio falls to 50.0% or less by FY30 under the assumption that the nominal GDP shows an annual growth of 9.0% in FY26, 9.5% in FY27 and 10.0% thereafter with fiscal deficit gradually narrowing to 3.0% by FY30. Following this path of fiscal consolidation, GoI's debt-GDP ratio shows a progressive annual fall. However, the achievement of the FRBM target of 40% of GDP appears to be at some distance.

Chart 12: GoI's debt to GDP ratio (%): History and projections

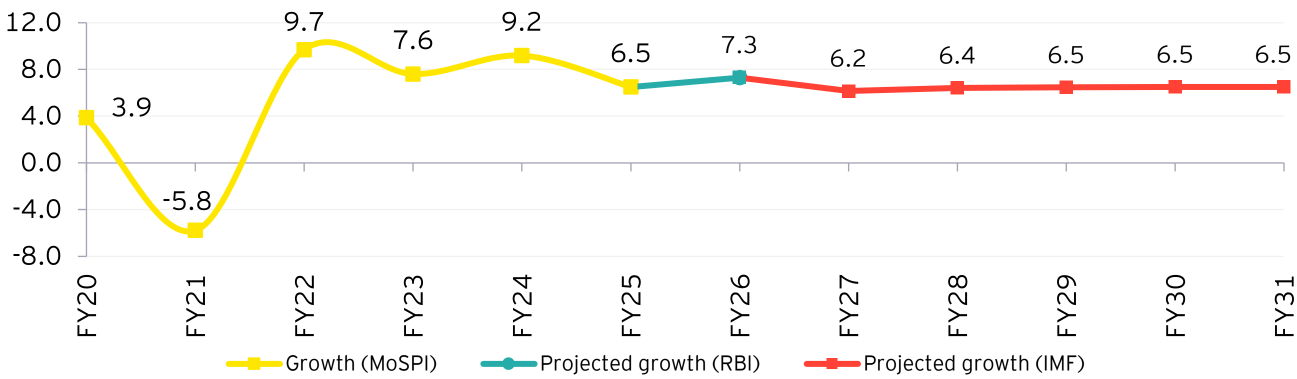


Source: Union Budgets, RBI, and MoSPI
Note: EY projections beginning FY26 onwards; Nominal GDP growth is assumed at 9.0% for FY26, 9.5% for FY27 and 10.0% thereafter; fiscal deficit is assumed at 4.4% for FY26, 4.0% for FY27, 3.6% for FY28, 3.2% for FY29 and 3.0% for FY30

5.7. Fiscal strategy for medium term growth

According to the IMF, India is slated to maintain a real GDP growth path of 6.2% in FY27, 6.4% in FY28 and 6.5% FY29 onwards up to FY31 (Chart 13).

Chart 13: Real GDP growth

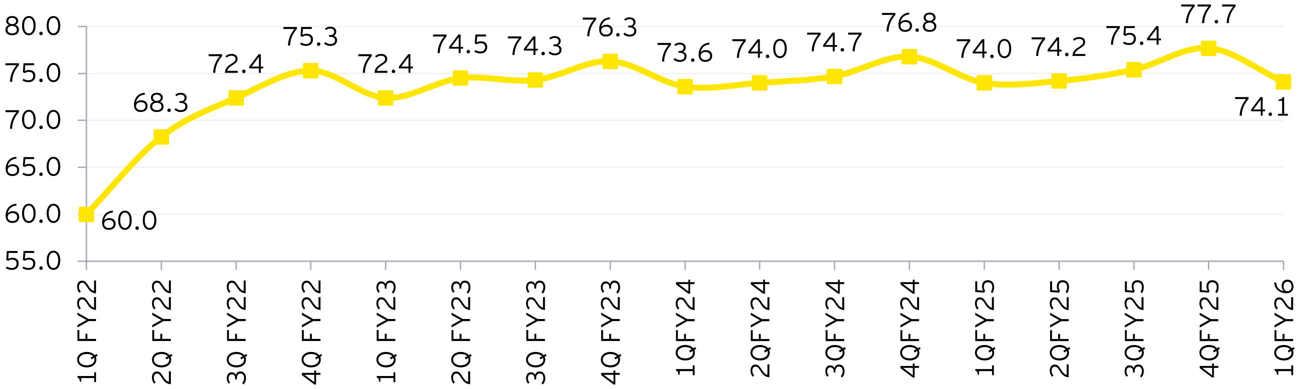


Source: MoSPI, RBI December 2025 Monetary Policy Statement, IMF WEO October 2025

On the whole, an average growth of 6.5% appears to be feasible. However, for this purpose, a sustained momentum of GoI's capital expenditure growth in the range of 15%-20% on an annual basis requires to be maintained while adhering to the fiscal consolidation path. It would facilitate maintaining a robust medium-term growth profile which would further be supported if domestic private investment growth also gathers momentum and global supply chain issues ease off.

It may be noted that the prospect of private investment expenditure picking up momentum may become visible after capacity utilization ratio reaches back to a threshold of 75% and above. Recent data released by RBI shows that capacity utilization rate was at 74.1% during 1QFY26 (Chart 14). The increase in capacity utilization may be facilitated by a continuing domestic demand push and an improvement in export growth.

Chart 14: Capacity utilization rate



Source (basic data): RBI

Table 11 shows that household investment rate had fallen marginally from 14.0% to 13.6%, comparing FY23 to FY24. Between these two years, private corporate investment had fallen by a higher margin of 1% point. In fact, public sector is the only one where there has been an increase in the investment rate in FY24 compared to FY23. Thus, the two private segments of investment, namely private corporate and household sectors, have shown a fall from their respective recent peaks and may require to increase their investment rates.

Table 11: Disaggregated time profile of investment (real GFCF) in India

	% to GDP				% share in total GFCF			
	Public	Private corporate	Household	Total	Public	Private corporate	Household	Total
FY12	7.3	11.2	15.7	34.3	24.3	36.9	38.8	100.0
FY13	7.1	12.3	14.7	34.1	21.4	32.7	45.9	100.0
FY14	7.3	12.6	12.6	32.6	20.8	36.1	43.0	100.0
FY15	7.3	11.5	12.3	31.1	22.5	38.8	38.8	100.0
FY16	8.0	12.7	10.0	30.7	23.3	37.1	39.6	100.0
FY17	7.6	12.0	11.2	30.8	26.0	41.3	32.7	100.0
FY18	7.3	11.3	12.5	31.1	24.6	38.9	36.5	100.0
FY19	7.6	11.4	13.4	32.4	23.5	36.3	40.2	100.0
FY20	7.1	12.0	12.5	31.6	23.5	35.2	41.3	100.0
FY21	7.4	11.6	12.1	31.2	22.6	37.9	39.5	100.0
FY22	7.2	12.3	13.8	33.4	23.9	37.3	38.8	100.0
FY23	7.1	12.5	14.0	33.6	21.6	37.0	41.4	100.0
FY24	8.4	11.5	13.6	33.5	21.1	37.3	41.6	100.0

Source (basic data): MoSPI

5.8. Concluding observations

Led by a sharp increase in manufacturing growth to 9.1% in 2QFY26, a multi quarter high, India has shown a remarkable real GDP growth of 8.2% in this quarter. There has been a major push to growth both from the industrial side considering manufacturing, mining, electricity, gas et al. and construction and from the services side, with the former showing an average growth of 7.7% and the latter of 9.2% in 2QFY26. On the demand side, support to growth came from PFCE, which grew at 7.9% in 2QFY26. GFCF also showed a robust growth of 7.3%, largely driven by frontloading of GoI's capital expenditure.

The difference between GDP growth in nominal and real terms is accounted for by the movement of IPD-based inflation. The higher the IPD-based inflation, higher is the margin by which the nominal growth exceeds the real GDP growth. Nominal GDP magnitudes are important since many of the budgetary aggregates are also specified in nominal terms. One interesting feature of the IPD-based inflation profile is that consumption goods deflator has exceeded investment goods deflator, FY24 onwards. It is the differential inflation rates that account for the excess of real investment rate over nominal investment rate.

GoI's fiscal data for the first seven months of FY26 show a profile of relatively low growth rates with respect to major taxes. CIT shows a growth of 5.2%, PIT of 6.9%, and GST of 1.2%. Although there may be some revenue sacrifice linked to PIT and GST reforms during FY26, some unbudgeted additional receipts under non-tax revenues and some reduction in the budgeted magnitude of revenue expenditures may still enable the GoI to adhere to the budgeted targets for fiscal deficit and capital expenditure. Also, two revenue enhancing measures have recently been announced relating to excise duty on tobacco products and national security and public health cess.

In the medium term, India is slated to maintain a real GDP growth path of 6.2% in FY27, 6.4% in FY28 and 6.5% FY29 onwards up to FY31 as per the IMF. This appears feasible provided the fiscal policy emphasizes a sustained momentum of GoI's capital expenditure growth in the range of 15%-20% on an annual basis while adhering to the fiscal consolidation path. This would facilitate maintaining a robust medium-term growth profile which would be further supported if domestic private investment growth also gathers momentum and global supply chain issues ease off.

6.

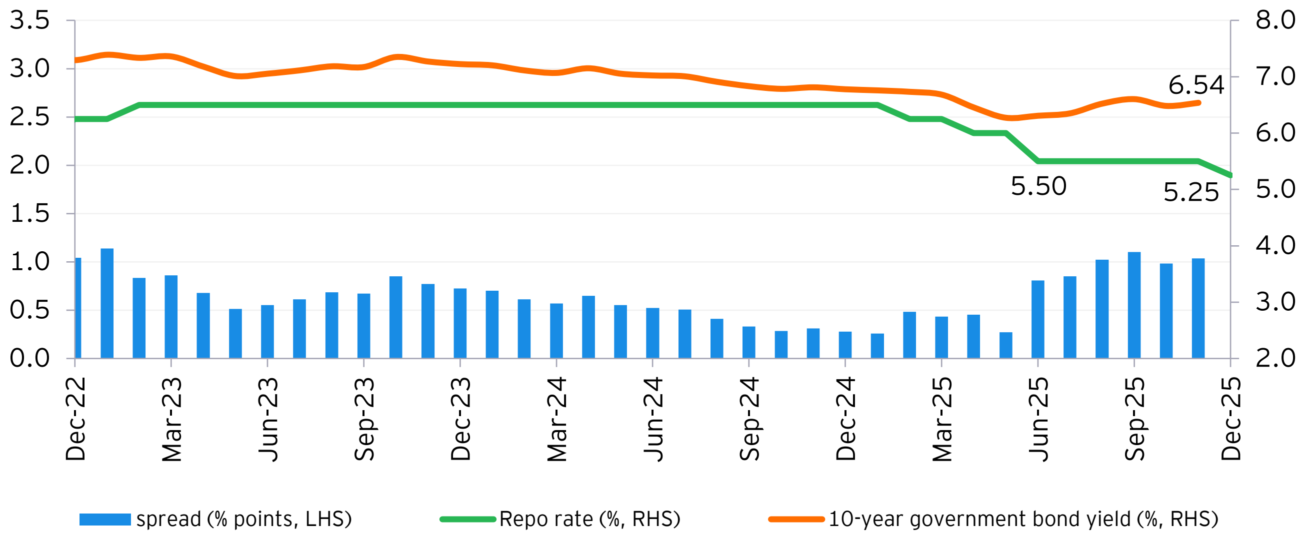
Money and finance: Repo rate lowered by 25 basis points to 5.25% in December 2025

6.1. Monetary sector

Monetary policy

- In its monetary policy review held on 5 December 2025, the MPC unanimously voted to lower the repo rate by 25 basis points to 5.25% from its earlier level of 5.5% and maintained a neutral policy stance (Chart 15).
- The MPC observed that headline inflation has eased significantly due to benign food prices, leading to downward revisions in inflation forecasts for FY26 and early FY27, with both headline and core inflation expected to stay close to the 4% target.
- The MPC noted that, despite some expected softening in growth, the favorable inflation outlook provided sufficient policy space to support ongoing growth momentum.

Chart 15: Movements in the repo rate and 10-year government bond yield



Source: Database on Indian Economy, RBI

Money stock

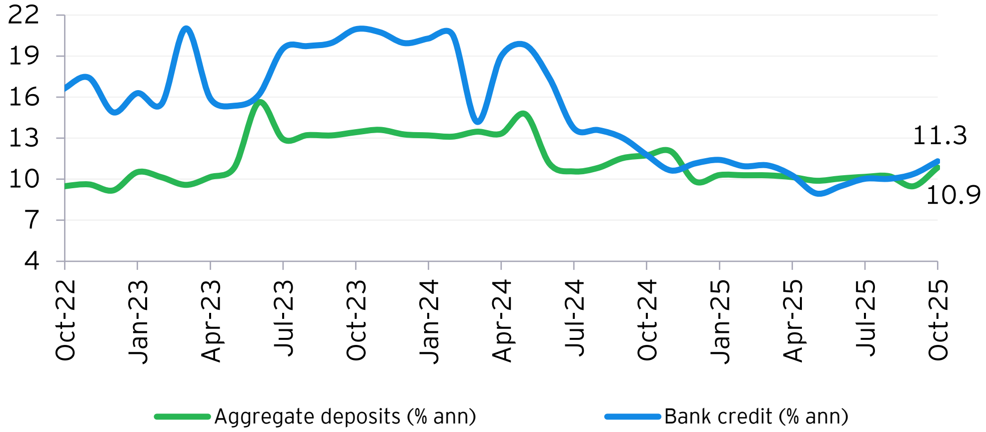
- Broad money stock (M3)[6] grew by 9.9% in November 2025, improving from 9.2% in October 2025 as growth in M1 and time deposits improved during the month.
- Growth in time deposits, the largest component of M3, increased to 9.1% in November 2025 from 8.3% in October 2025.
- Growth in narrow money (M1) was marginally higher at 12.5% in November 2025 as compared to 12.3% in October 2025. This increase was due to higher growth in demand deposits at 16.2% in November 2025 compared to 16.0% in October 2025. Growth of currency with the public, however, increased to 9.5% in November 2025 from 9.2% in October 2025.

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

Aggregate credit and deposits

- Growth in gross bank credit[7] increased to a nine-month high of 11.3% in October 2025 from 10.4% in September 2025 **(Chart 16)**.
- Non-food credit also showed a higher growth of 11.1% in October 2025, increasing from 10.2% in September 2025.

Chart 16: Growth in credit and deposits



Growth in gross bank credit increased to a nine-month high of 11.3% in October 2025 from 10.4% in September 2025.

Source: Database on Indian Economy, RBI

- Among the key segments of non-food credit, personal loans (share of close to 30% in total non-food credit) showed the highest growth of 14.0% in October 2025, increasing from 11.7% in September 2025. Among its sub-components, growth in housing loans recovered to an eight-month high of 11.0% in October 2025 from 10.1% in September 2025. Vehicle loans also showed a strong growth of 12.7% in October 2025, its highest level since September 2024. Following a contraction for seven successive months since March 2025, loans for consumer durables showed a growth of 1.0% in October 2025.
- Growth in credit to services sector, with an average share of about 27% in total non-food credit (last five years) increased to a 13-month high of 13.0% in October 2025 from 10.2% in September 2025.
- Outstanding credit to industries, having a share of about 25% on average in total non-food credit (last five years), increased from 7.3% in September 2025 to 10.0% in October 2025, its highest growth since July 2024.
- Within industrial credit, among major segments, growth in credit to infrastructure, having the largest share in industrial credit, increased for the fourth successive month to 4.6% in October 2025 from 3.7% in September 2025. Credit to iron and steel showed a robust growth of 8.0% in October 2025 compared to 4.0% in September 2025. Similarly, growth in credit to textiles increased to 9.1% in October 2025 from 7.1% in September 2025.
- Credit to agricultural sector grew by 8.9% in October 2025, close to its level of 9.0% in September 2025.
- Growth in other non-food credit, i.e., non-food credit excluding credit to agriculture, industry, services and personal loans, contracted sharply by (-)5.5% in October 2025 compared to a growth of 17.4% in September 2025.
- Growth in aggregate deposits increased to an 11-month high of 10.9% in October 2025 from 9.5% in September 2025.

[7] The RBI has stopped publishing data on bank credit and aggregate deposits excluding the impact of merger of a non-bank with a bank since July 2025. Hence, bank credit and aggregate deposits data analyzed here includes the impact of merger of a non-bank with a bank.

6.2. Financial sector

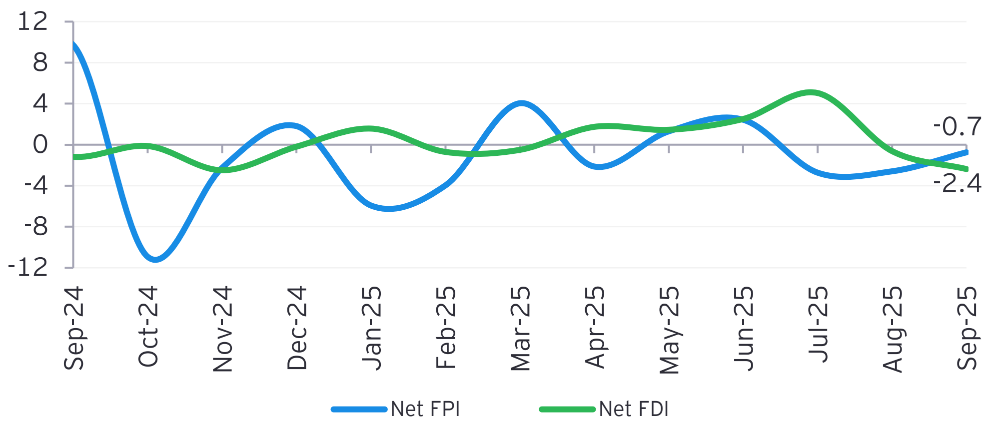
Interest rates

- As per the data released by the RBI in the first week of December 2025, the yield on 10-year government bonds (benchmark) increased marginally to 6.54% in November 2025 from 6.48% in October 2025 **(Chart 15)**.
- The average interest rate on term deposits with a maturity period of more than one year was maintained for the third consecutive month at 6.23% in November 2025, with actual rates ranging between 5.85% and 6.60%.
- The average MCLR fell for the seventh successive month to 7.88% in November 2025 from 7.90% in October 2025, with the actual MCLR ranging between 7.80% and 7.95% during the month.
- WALR on 'Fresh Rupee Loans' (FRL) by SCBs increased by 14 basis points to 8.64% in October 2025 from 8.50% in September 2025.

FDI and FPI

- As per provisional data released by the RBI on 24 November 2025, overall foreign investments (FIs) remained negative for the second consecutive month with outflows amounting to US$3.1 billion in September 2025 as compared to US$3.2 billion in August 2025.

Chart 17: Net FDI and FPI inflows (US$ billion)



Net FDI outflows were higher at US$2.4 billion in September 2025 compared to US$0.6 billion in August 2025. Net FPI outflows were lower at US$0.7 billion compared to US$2.6 billion over the same period.

Source: Database on Indian Economy, RBI

- Net FDI outflows increased to US$2.4 billion in September 2025 from US$0.6 billion in August 2025 **(Chart 17)**. This is attributable to increased repatriation/disinvestment and FDI by India, together amounting to US$9.0 billion in September 2025 compared to US$6.7 billion in August 2025. However, gross FDI inflows were higher at US$6.6 billion in September 2025 as compared to US$6.0 billion in August 2025.
- On a cumulated basis, during 1HFY26, net FDI inflows were higher at US$7.6 billion as compared to US$3.4 billion during the corresponding period of FY25. Similarly, during April-September FY26, gross FDI inflows were also higher at US$50.4 billion as compared to US$43.4 billion during the corresponding period of FY25.
- Net FPI witnessed outflows for the third successive month although at a lower level of US$0.7 billion in September 2025 as compared to US$2.6 billion in August 2025.
- During April-September FY26, on a cumulated basis, net FPI outflows amounted to US$4.5 billion as compared to net inflows amounting to US$20.8 billion during the corresponding period of FY25.

7.

Trade and CAB: Current account deficit widened to 1.3% of GDP in 2QFY26 from 0.3% in 1QFY26

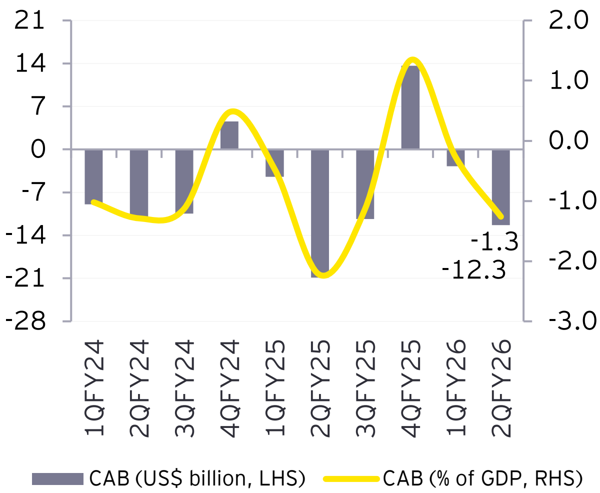
7.1. CAD widened to 1.3% of GDP in 2QFY26 from 0.3% in 1QFY26

- Led by a sharp increase in net merchandise trade deficit by 2.1% points of GDP accompanied by a 1.1% points improvement in net invisibles, current account deficit expanded to 1.3% in 2QFY26 from 0.3% of GDP in 1QFY26 (**Table 12 and Chart 18**).
- Net merchandise trade deficit widened to 9.0% of GDP in 2QFY26 from 6.8% in 1QFY26 (Table 12), as merchandise imports increased to a four-quarter high of 20.2% of GDP while merchandise exports remained stable at 11.2%. The increase in merchandise imports is primarily attributable to higher petroleum and fertilizer imports partly owing to higher prices of global commodities vis-à-vis 1QFY26.
- Net invisibles amounted to 7.7% of GDP in 2QFY26, its highest level since 2QFY09. Net invisibles were driven by both an increase in net services exports and net transfers.
- Over the first and second quarters of FY26, net services exports widened to 5.2% of GDP from 4.8% and net transfers to a 53-quarter high of 3.7% from 3.1%.
- Net income outflows remained nearly stable at (-)1.2% relative to GDP in 2QFY26 as compared to (-)1.3% in 1QFY26.

Table 12: Components of CAB (in US$ billion)

Fiscal year	CAB as % of nominal GDP	CAB	Merchandise net	Invisibles* net
FY22	-1.2	-38.8	-189.5	150.7
FY23	-2.0	-67.1	-265.3	198.2
FY24	-0.7	-26.1	-244.9	218.8
FY25	-0.6	-23.1	-286.9	263.9
3QFY25	-1.1	-11.3	-79.3	68.0
4QFY25	1.3	13.6	-59.3	72.9
1QFY26	-0.3	-2.7	-68.9	66.1
2QFY26	-1.3	-12.3	-87.4	75.1

Chart 18: CAB



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

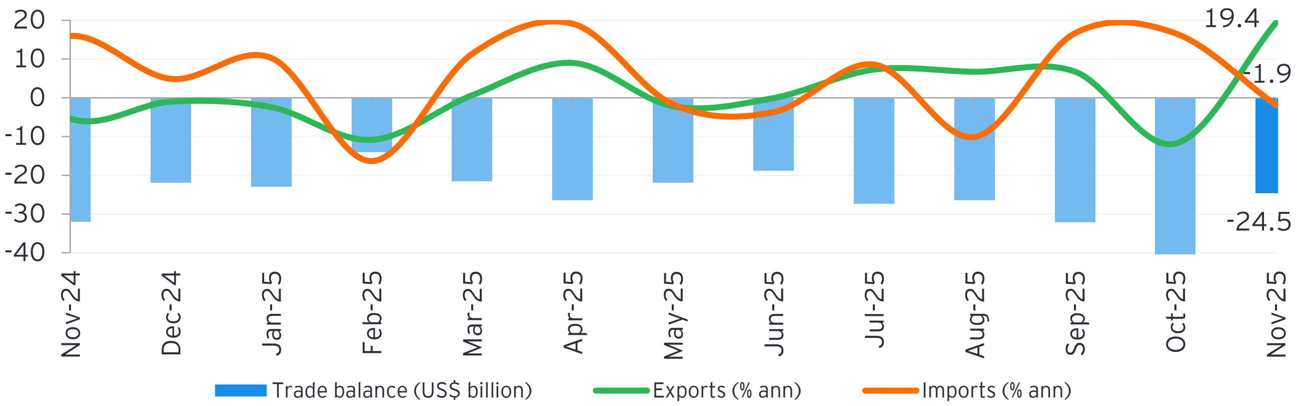
- Compared to 2QFY25, current account deficit in 2QFY26 eased to 1.0% from 2.2%, supported by robust expansion in services and merchandise exports and strong remittances receipts.

7.2. Merchandise trade and exchange rates

Merchandise exports growth turned positive at a 41-month high of 19.4% in November 2025 led by a strong expansion in engineering goods exports, while merchandise imports growth fell by (-)1.9% owing to a sharp contraction in gold imports.

- Merchandise exports were driven by exports of engineering goods, chemicals, electronic goods, gems and jewelry and petroleum products which saw growth rates of 23.8%, 18.5%, 39.0%, 27.8% and 11.7%, respectively, in November 2025 compared to (-)16.7%, (-)21.0%, 19.1%, (-)29.5%, and (-)10.5%, respectively, in October 2025.
- Exports to the US, which is a major destination for exports of engineering goods, electronic goods and chemicals, showed strong growth of 22.5% during November 2025, led by favorable base effects and partly reflecting restocking ahead of the holiday season.
- The growth in oil exports and moderation in contraction of oil imports was partly attributable to a moderation in crude prices during the month.
- The contraction in merchandise imports growth was driven by a sharp decline in gold imports by (-)59.2% in November 2025 compared to a growth of 199.2% in the previous month, reflecting favorable base effects.
- The sharp contraction in gold imports was partly offset by a moderation in the pace of contraction in crude imports to (-)11.3% from (-)21.7% in the previous month, as well as a pick-up in imports of pearls, precious and semi-precious stones whose growth turned positive at 90.6%.
- Exports excluding oil/coal, gold/silver and jewelry grew by 19.7% in November 2025 compared to a contraction of (-)10.2% in October 2025. Growth in imports of the same category increased to 14.8% in November 2025 from 8.9% in October 2025.

Chart 19: Developments in merchandise trade



Source: Ministry of Commerce and Industry, GoI

- Merchandise trade deficit eased to a five-month low of US$24.5 billion in November 2025 from an unprecedented high of US$41.7 billion in October 2025 **(Chart 19)**.
- Services trade surplus was at US$17.4 billion in October 2025, lower than US$18.8 billion in September 2025 as services exports eased to US$35.2 billion from a nine-month high of US$36.7 billion in September 2025.
- The goods and services trade deficit expanded to an unprecedented high of US$24.2 billion in October 2025 on account of a widening of merchandise trade deficit.
- The Indian Rupee depreciated to INR88.8/US$ (average) in November 2025 from INR88.4/US$ in October 2025 led by persistent foreign portfolio outflows, trade-related uncertainties, and strong global dollar demand amidst risk-off sentiment favoring safe-haven demand.

8.
Global growth: OECD projected global growth at 3.2% in 2025 and 2.9% in 2026

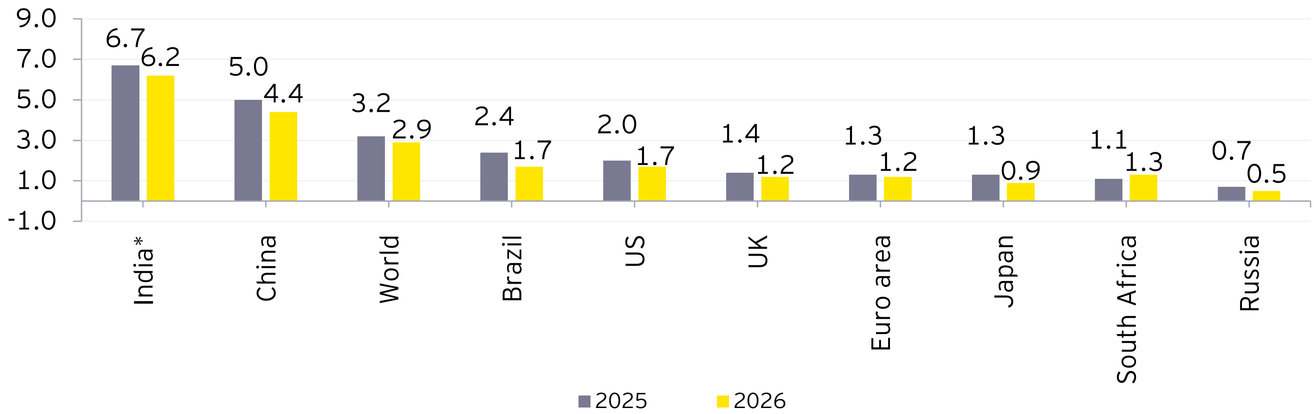
8.1. Global growth

- As per the OECD (Economic Outlook, December 2025), global growth is estimated to be resilient at 3.2% in 2025 owing to front-loading of production and trade, strong AI-related investment, and supportive fiscal and monetary policies (Chart 20). Growth is projected to soften to 2.9% in 2026 as front-loading activity unwinds and higher effective tariff rates on imports to the US and China pass through further into business costs and final goods prices, dampening investment and trade growth[8]. Further, elevated geopolitical and policy uncertainty is likely to weigh on domestic demand in many economies.
- In the US, growth is forecasted to ease from 2% in 2025 to 1.7% in 2026 owing to the effects of substantially higher effective tariff rates on imports, cuts to the federal government workforce and a drop in net immigration.

OECD projected global growth at 3.2% in 2025 and 2.9% in 2026 with India's FY26 and FY27 growth rates forecasted at 6.7% and 6.2%, respectively.

- Growth in the Euro area is projected to ease modestly from 1.3% in 2025 to 1.2% in 2026, with increased trade frictions being offset by improved financial conditions, ongoing capital spending from Recovery and Resilience Facility funds and resilient labor markets.
- In the UK, fiscal consolidation and uncertainty are expected to weigh on the pace of expansion, with real GDP growth projected to ease from 1.4% in 2025 to 1.2% in 2026.
- Real GDP growth in Japan is projected to moderate from 1.3% in 2025 to 0.9% in 2026 on account of subdued external demand amid new trade restrictions and elevated trade policy uncertainty despite expansionary fiscal policy supporting domestic demand.
- In China, the unwinding of front-loading of exports, the imposition of higher tariff rates on exports to the US, continuing adjustment in the real estate sector and the fading of fiscal support is expected to lower growth from 5.0% in 2025 to 4.4% in 2026.

Chart 20: Global growth projections (% annual)



Source: OECD Economic Outlook (December 2025)
*data pertains to fiscal years

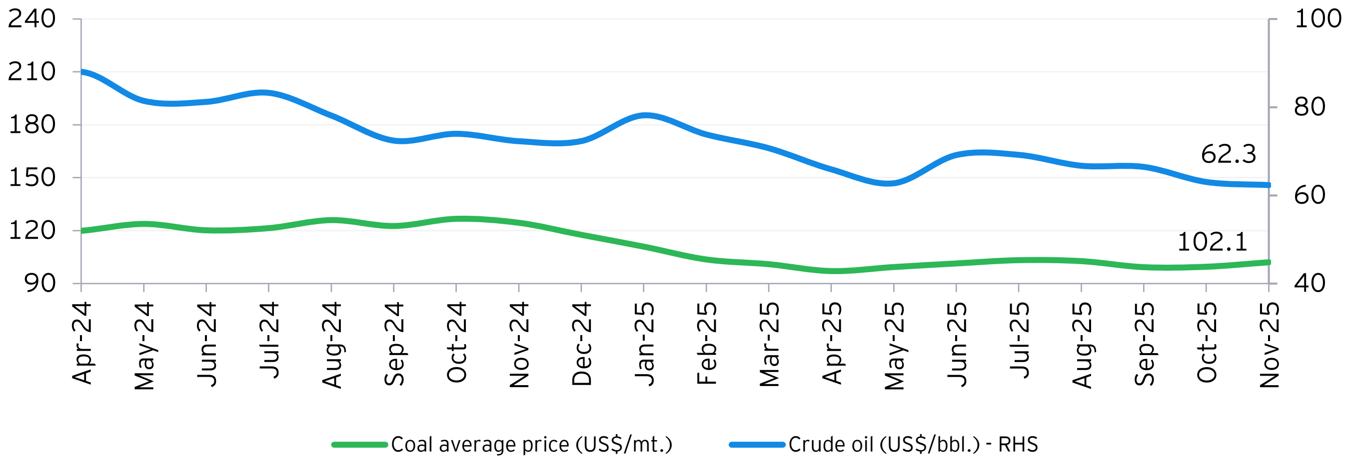
[8] The projections are based on a technical assumption that the bilateral tariff rates announced by mid-November 2025 persist through the rest of the projection period, despite ongoing legal challenges in the US.

- In India, growth is anticipated to be supported by rising real incomes, monetary policy easing and strong growth in public capital spending. However, higher tariff rates on many exports to the US are likely to weaken export growth, with real GDP projected to grow by 6.7% in 2025 (FY26) and 6.2% in 2026 (FY27).

8.2. Global energy prices: Global crude price at US$62.3/bbl. in November 2025 was at its lowest level since February 2021

- Average global crude price[9] fell for the fourth consecutive month from US$63/bbl. in October 2025 to US$62.3/bbl. in November 2025, its lowest level since February 2021 **(Chart 21)**. This may be attributable to the growing supplies of crude oil that outweighed uncertainties related to the effect of new rounds of sanctions on Russia's oil sector. The US Energy Information Administration (EIA) projects that growing global oil production and the transition to the low point of seasonal demand over the winter is expected to accelerate the growth in global oil inventories, causing crude oil prices to continue to fall in the coming months[10]. It forecasted Brent crude price to average US$54/bbl. in 1Q of 2026 with the annual average for 2026 at US$55/bbl.
- Average global coal price[11] increased from US$99.5/mt. in October 2025 to US$102.1/mt. in November 2025 driven by increased demand before the onset of winter[12] and lower exports from Australia and Indonesia[13].

Chart 21: Global crude and coal prices



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

[9] Simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh
[10] US EIA Short-term energy outlook, November 2025; https://www.eia.gov/outlooks/steo/report/global_oil.php
[11] Simple average of Australian and South African coal prices.
[12] https://thecoalhub.com/coal-prices-strengthen-across-key-markets-as-demand-rises-before-winter.html#:~:text=Here%20are%20some%20coal%20price%20developments:%20*,*%20**Traders%20are%20reluctant%20to%20offer%20discounts**
[13] https://blogs.worldbank.org/en/opendata/global-coal-markets-at-a-crossroads--soft-demand--resilient-supp

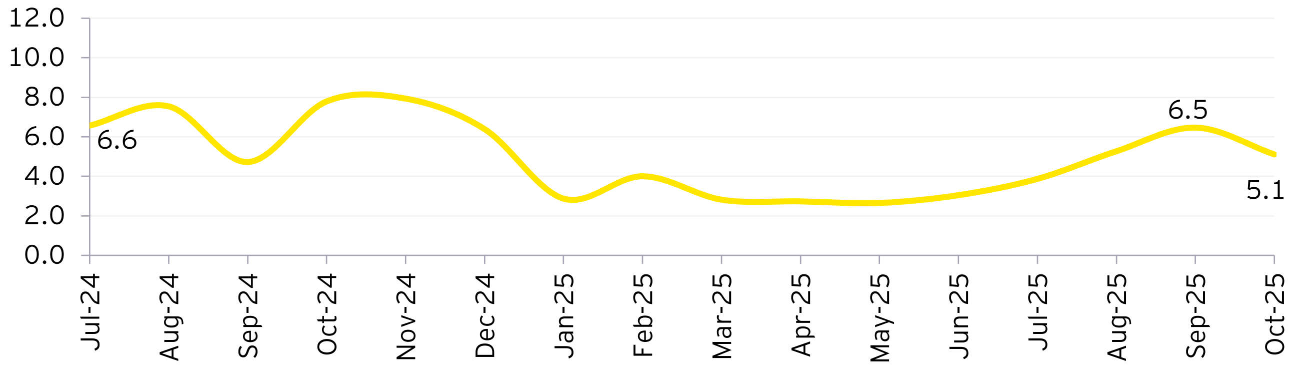
9.

Index of Aggregate Demand (IAD): IAD grew by 5.1% in October 2025

9.1. IAD continued to show a healthy growth at 5.1% in October 2025

- IAD[14] continued to show a healthy growth of 5.1% in October 2025 although lower compared to 6.5% in September 2025. The fall in IAD may be largely attributable to a moderation in demand conditions in the services sector during the month **(Chart 22 and Table 13).**
- Demand conditions in the services sector eased marginally in October 2025 as reflected by PMI services (sa), which expanded by 58.9 during the month, moderating from 60.9 in September 2025.
- In the manufacturing sector, however, demand conditions improved during the month as indicated by a higher value of PMI manufacturing (sa) at 59.2 in October 2025 compared to 57.7 in September 2025.
- Demand conditions in the agricultural sector remained strong and stable as reflected by a robust growth in agricultural credit at 9.0% (sa) in October 2025, similar to its level in September 2025.

Chart 22: Growth in IAD (%, y-o-y)



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

Table 13: IAD

Month	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25
IAD	181.6	182.6	183.3	183.2	185.8	187.2	190.7	189.2	189.1
Growth (% y-o-y)	4.0	2.8	2.7	2.7	3.0	3.9	5.3	6.5	5.1
Growth in agr. credit	11.4	10.5	9.1	7.4	6.7	7.3	7.6	9.0	9.0
Mfg. PMI**	6.3	8.1	8.2	7.6	8.4	9.1	9.3	7.7	9.2
Ser. PMI**	9.0	8.5	8.7	8.8	10.4	10.5	12.9	10.9	8.9

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 (sa).

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

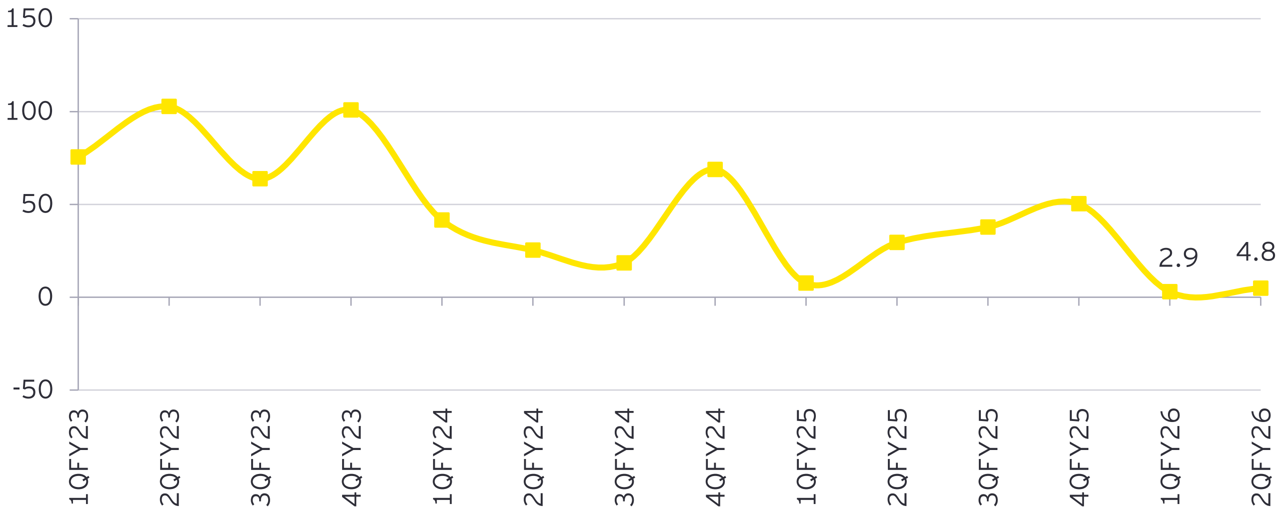
10.

Index of Macro Imbalance (IMI): pointed to sustained low level of imbalance in 2QFY26

10.1. The level of IMI remained low at 4.8 in 2QFY26

- Index of Macro Imbalance (IMI)[15] remained low at 4.6 in 2QFY26, although increasing marginally from 2.9 in 1QFY26 **(Chart 23)**. This increase was attributable to slightly higher fiscal deficit in this quarter.
- CPI inflation fell to 1.7% in 2QFY26, its historic low level under 2011-12 base, and was well below its benchmark value of 4%. Thus, CPI inflation did not contribute to macro imbalance during the quarter.
- Despite current account showing a relatively higher deficit of 1.26% of GDP in 2QFY26 compared to 0.27% of GDP in 1QFY26, the CAB did not contribute to the macro imbalance during the quarter as its value was lower than the corresponding benchmark value of 1.30% of GDP[16].
- GoI's fiscal deficit to GDP ratio increased marginally to 3.4% in 2QFY26 from 3.3% in 1QFY26 and was 0.4% points above the benchmark value of 3%, thereby contributing marginally to the macro imbalance during the quarter.

Chart 23: Index of Macro Imbalance (IMI; quarterly)



Source (Basic data): RBI, MoSPI and EY estimates

[15] The IMI is obtained by adding the percentage deviation of inflation rate (based on new CPI 2012 = 100), fiscal deficit (as a percentage of GDP) and current account deficit (as a percentage of GDP) from their respective benchmarks of 4%, 3% of GDP and (-)1.3% of GDP (Rangarajan 2016). All three components of IMI have been given equal weightage (33.33%). The state of balance is judged by a value of 0. An index value greater than zero indicates the presence of an imbalance in the economy. While considering the percentage deviation of each of the indicators from its selected norm, only the positive deviations are taken. Negative deviations are equated to zero to ensure that the negative and positive deviations across indices are not canceled out.

[16] Rangarajan, C (2016): "Can India grow at 8 to 9 per cent?" The Hindu, (http://www.thehindu.com/opinion/lead/can-india-grow-at-8-to-9-per-cent/article8596824.ece, Accessed on 17 May 2016.)

11.
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
3QFY25	4.1	1.8	4.5	4.1	4.9	3QFY25	56.8	58.7
4QFY25	4.0	2.4	4.2	4.6	4.3	4QFY25	57.4	58.0
1QFY26	2.0	-3.0	3.3	-1.5	1.5	1QFY26	58.1	59.3
2QFY26	4.3	-0.5	5.1	3.7	4.5	2QFY26	58.7	61.4
Jul-25	4.3	-7.2	6.0	3.7	3.7	Aug-25	59.3	62.9
Aug-25	4.1	6.6	3.8	4.1	6.5	Sep-25	57.7	60.9
Sep-25	4.6	-0.4	5.6	3.1	3.3	Oct-25	59.2	58.9
Oct-25	0.4	-1.8	1.8	-6.9	0.0	Nov-25	56.6	59.8

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
3QFY25	5.6	9.4	-1.6	3.8	2.5	10.0	2.0	-3.6	0.5
4QFY25	3.7	4.1	-0.5	4.0	2.4	6.2	3.0	-1.0	1.4
1QFY26	2.7	0.6	2.8	4.4	0.3	1.6	2.2	-3.9	1.0
2QFY26	1.7	-1.6	2.3	4.3	0.0	-1.3	2.3	-3.0	1.5
Aug-25	2.1	-0.6	2.3	4.3	0.5	0.2	2.6	-3.2	1.7
Sep-25	1.4	-2.3	2.0	4.5	0.1	-2.0	2.3	-2.6	1.9
Oct-25	0.3	-5.0	2.0	4.4	-1.2	-5.0	1.5	-2.6	1.5
Nov-25	0.7	-3.9	2.3	4.3	-0.3	-2.6	1.3	-2.3	1.5

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	
Mar-25	9.5	8.3	17.0	12.9	4.2	100.5#	92.9#
Apr-25	6.5	-40.7	10.8	-3.0	17.4	11.9	9.4
May-25	12.1	-0.8	6.4	5.0	19.4	0.8	-34.9
Jun-25	4.6	-1.2	-0.5	-0.8	11.5	17.9	6.4
Jul-25	0.8	7.6	-9.9	-4.3	6.9	29.9	28.9
Aug-25	0.8	2.1	-2.5	-1.0	2.9	38.1	37.9
Sep-25	2.8	1.1	4.7	3.1	2.8	36.5	5.2
Oct-25	4.0	5.2	6.9	6.1	1.7	52.6	46.7

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
Mar-25	78,843	1,230	4,613	12,179	96,865
Apr-25	78,240	119	31,097	12,696	1,22,152
May-25	76,744	372	2,333	12,310	91,759
Jun-25	76,739	288	-6,118	13,319	84,228
Jul-25	79,902	336	-15,405	11,980	76,813
Aug-25	78,877	372	-11,537	11,655	79,367
Sep-25	76,234	529	-9,208	11,212	78,767
Oct-25	86,871	522	-20,968	7,331	73,756

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

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

Fiscal year/ month	Repo rate (end of period)	Fiscal year/ quarter/ month	Bank credit	Agg. deposits	Net FDI	Net FPI	Fiscal year/ quarter/ month	M1	M3	10-year govt. bond yield	FX reserves
	%		% change y-o-y		US$ billion			% change y-o-y		%	US$ billion
Jan-25	6.50	FY22	7.0	9.7	38.6	-16.8	FY22	10.7	8.8	6.40	617.6
Feb-25	6.25	FY23	14.4	9.5	28.0	-5.2	FY23	6.9	9.0	7.35	578.4
Mar-25	6.25	FY24	15.7	13.0	10.1	44.1	FY24	7.3	11.1	7.16	645.6
Apr-25	6.00	FY25	13.6	11.3	2.3	2.7	FY25	7.8	9.6	6.88	665.4
May-25	6.00	3QFY25	11.2	11.2	-2.8	-11.4	3QFY25	6.0	9.0	6.79	640.3
Jun-25	5.50	4QFY25	11.1	10.3	0.4	-5.9	4QFY25	7.9	9.4	6.72	665.4
Jul-25	5.50	1QFY26	9.6	10.0	5.7	1.6	1QFY26	12.1	9.5	6.34	702.8
Aug-25	5.50	2QFY26	10.1	10.0	1.9	-6.1	2QFY26	11.4	9.2	6.49	700.2
Sep-25	5.50	Jul-25	10.0	10.2	5.0	-2.7	Aug-25	12.7	9.8	6.52	694.2
Oct-25	5.50	Aug-25	10.0	10.2	-0.6	-2.6	Sep-25	11.4	9.2	6.60	700.2
Nov-25	5.50	Sep-25	10.4	9.5	-2.4	-0.7	Oct-25	12.3	9.2	6.48	689.7
Dec-25	5.25	Oct-25	11.3	10.9	--	--	Nov-25	12.5	9.9	6.54	686.2

Source: Database on Indian Economy - RBI

External trade indicators (annual, quarterly and monthly growth rates)								
Fiscal year/ quarter/ month	Exports	Imports	Trade balance	Ex. rate (avg.)	Crude prices (avg.)	Coal prices (avg.)	Calendar year	DXY
	% change y-o-y		US$ billion	INR/US$	US$/bbl.	US$/mt.		
FY22	44.8	56.0	-191.0	74.5	78.4	164.8	2021	92.5
FY23	6.0	16.8	-268.5	80.4	92.7	283.4	2022	104.0
FY24	-2.3	-5.3	-241.1	82.8	81.1	126.4	2023	103.4
FY25	0.1	6.2	-282.8	84.6	77.1	118.2	2024	104.2
3QFY25	3.4	8.0	-81.0	84.5	72.9	122.9	4QCY24	105.4
4QFY25	-4.2	1.2	-58.6	86.7	74.2	105.2	1QCY25	106.7
1QFY26	2.1	4.2	-67.1	85.6	65.9	99.3	2QCY25	99.7
2QFY26	6.9	4.3	-86.0	87.3	67.5	101.8	3QCY25	98.0
Aug-25	6.7	-10.1	-26.5	87.5	66.7	102.7	Aug-25	98.3
Sep-25	6.8	16.7	-32.1	88.3	66.5	99.3	Sep-25	97.8
Oct-25	-11.8	16.6	-41.7	88.4	63.0	99.5	Oct-25	99.0
Nov-25	19.4	-1.9	-24.5	88.8	62.3	102.1	Nov-25	99.7

Source: Ministry of Commerce and Industry and Refinitiv

Table A6: Global growth

Calendar year	Growth (annual)			
	World GDP	Adv. econ.	Emer. econ.	India#
	% change y-o-y			
2019	2.9	1.9	3.7	3.9
2020	-2.7	-4.0	-1.7	-5.8
2021	6.6	6.0	7.0	9.7
2022	3.6	2.9	4.1	7.6
2023	3.5	1.7	4.7	9.2
2024	3.3	1.8	4.3	6.5
2025*	3.2	1.6	4.2	6.6
2026*	3.1	1.6	4.0	6.2
2027*	3.2	1.7	4.2	6.4
2028*	3.2	1.7	4.1	6.5
2029*	3.2	1.6	4.1	6.5
2030*	3.1	1.5	4.0	6.5

Source: IMF WEO October 2025; * indicates projections # data is on fiscal year basis

Table A7: 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
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
1QFY26	7.6	3.7	-3.1	7.7	0.5	7.6	8.6	9.5	9.8	1.0
2QFY26	8.1	3.5	0.0	9.1	4.4	7.2	7.4	10.2	9.7	0.6

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 provisional estimates released on 31 May 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
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
1QFY26	7.8	7.0	7.5	7.8	6.3	10.9	0.9
2QFY26	8.2	7.9	-2.7	7.3	5.6	12.8	0.5

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 provisional estimates released on 31 May 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

Sr. no.	Abbreviations	Description
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
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	n.i.e	Not indicated elsewhere
58	NEXP	Net exports (exports minus imports of goods and services)
59	NSO	National Statistical Office
60	NSSO	National Sample Survey Organisation
61	NPA	Non-performing assets
62	OECD	Organization for Economic Co-operation and Development
63	OPEC	Organization of the Petroleum Exporting Countries
64	PFCE	Private final consumption expenditure
65	PIT	Personal income tax
66	PMI	Purchasing Managers' Index (reference value = 50)
67	PoL	Petroleum oil and lubricants
68	PPP	Purchasing power parity
69	PSBR	Public sector borrowing requirement
70	PSU/PSE	Public sector undertaking/public sector enterprises
71	RE	Revised estimates
72	REE	Rare earth elements

Sr. no.	Abbreviations	Description
73	RBI	Reserve Bank of India
74	sa	Seasonally adjusted
75	SLR	Statutory Liquidity Ratio
76	Trans.	trade, hotels, transport, communication and services related to broadcasting
77	US$	US Dollar
78	UNCTAD	United Nations
79	UTGST	Union Territory Goods and Services Tax
80	WALR	weighted average lending rate
81	WHO	World Health Organization
82	WPI	Wholesale Price Index
83	y-o-y	year-on-year
84	1HFY20	first half of fiscal year 2019-20, i.e., April 2019-September 2019

Our offices

Ahmedabad
22nd Floor, B Wing, Privilon
Ambli BRT Road, Behind Iskcon Temple
Off SG Highway
Ahmedabad - 380 059
Tel: + 91 79 6608 3800

8th Floor, Building No. 14A
Block 14, Zone 1
Brigade International Financial Centre
GIFT City SEZ
Gandhinagar - 382355, Gujarat
Tel +91 79 6608 3800

Bengaluru
12th & 13th Floor
"UB City", Canberra Block
No.24 Vittal Mallya Road,
Bengaluru - 560 001
Tel: + 91 80 6727 5000

Ground & 1st Floor
11, 'A' wing
Divyasree Chambers
Langford Town,
Bengaluru - 560 025
Tel: + 91 80 6727 5000

3rd & 4th Floor
MARKSQUARE
#61, St. Mark's Road
Shantala Nagar,
Bengaluru - 560 001
Tel: + 91 80 6727 5000

1st & 8th Floor, Tower A
Prestige Shantiniketan
Mahadevapura Post
Whitefield,
Bengaluru - 560 048
Tel: + 91 80 6727 5000

Bhubaneswar
8th Floor, O-Hub, Tower A
Chandaka SEZ, Bhubaneswar,
Odisha - 751024
Tel: + 91 674 274 4490

Chandigarh
Elante offices, Unit No. B-613 & 614
6th Floor, Plot No- 178-178A
Industrial & Business Park, Phase-I
Chandigarh - 160 002
Tel: + 91 172 6717800

Chennai
6th & 7th Floor, A Block,
Tidel Park, No.4, Rajiv Gandhi Salai
Taramani, Chennai - 600 113
Tel: + 91 44 6654 8100

Delhi NCR
Aikyam
Ground Floor
67, Institutional Area
Sector 44w, Gurugram - 122 003
Haryana
Tel: + 91 124 443 4000

3rd & 6th Floor, Worldmark-1
IGI Airport Hospitality District
Aerocity, New Delhi - 110 037
Tel: + 91 11 4731 8000

Hyderabad
THE SKYVIEW 10
18th Floor, "SOUTH LOBBY"
Survey No 83/1, Raidurgam
Hyderabad - 500 032
Tel: + 91 40 6736 2000

Jaipur
9th floor, Jewel of India
Horizon Tower, JLN Marg
Opp Jaipur Stock Exchange
Jaipur, Rajasthan - 302018

Kochi
9th Floor, ABAD Nucleus
NH-49, Maradu PO
Kochi - 682 304
Tel: + 91 484 433 4000

Kolkata
22 Camac Street
3rd Floor, Block 'C'
Kolkata - 700 016
Tel: +91 33 6615 3400

6th floor, Sector V,
Building Omega, Bengal Intelligent
Park, Salt Lake Electronics Complex,
Bidhan Nagar, Kolkata - 700 091
Tel: +91 33 6615 3400

Mumbai
14th Floor, The Ruby
29 Senapati Bapat Marg
Dadar (W), Mumbai - 400 028
Tel: + 91 22 6192 0000

5th Floor, Block B-2
Nirlon Knowledge Park
Off. Western Express
Highway,Goregaon (E),
Mumbai - 400 063
Tel: + 91 22 6192 0000

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

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

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

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

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