

*November 2025*

IMA

# **Macroeconomic Review**

## **H2 FY26**

IMA India

# Q1 exceeds expectations; FY26 revised upwards to 6.5-6.8%

- Q1 FY26 GDP rose 7.8% YoY, a five-quarter high, up from 6.5% last year.
- Growth was led by services and manufacturing, supported by robust domestic demand and higher government spending.
- Nominal GDP grew 8.8% (a 3-quarter low), only 1 pp above real GDP, implying an unusually low deflator (~0.9%), unlikely to sustain.
- Growth over the next 3–4 quarters will hinge on external headwinds and policy measures.
- Tariffs imposed by the Trump administration could trim growth by 30–50 bps, while domestic consumption support via GST cuts may offset part of the impact.
- IMA estimates FY26 GDP growth at 6.5–6.8%, factoring in rate cuts and limited tariff-related headwinds, up from 6.0–6.3% in the previous edition.
- Q2 expected to remain strong, followed by a mild dip in Q3 and stabilisation in Q4.

# Key indicators and forecasts

## Indicators and forecasts at a glance

	FY23	FY24	FY25	FY26*
<b>Economic growth (% , 2011-12 prices)</b>				
GDP	7.6	9.2	6.5	6.5-6.8
Agriculture <sup>^</sup>	6.3	2.7	4.6	3.5-3.7
Manufacturing <sup>^</sup>	-1.7	12.3	4.3	5.7-6.3
Services <sup>^</sup>	9.5	9.0	7.3	6.9-7.1
<b>Inflation</b>				
CPI (% , average)	6.7	5.4	4.6	4.0-4.5
WPI (% , average)	9.6	-0.7	2.3	2.8-3.3
<b>Public finance</b>				
Government borrowings, Rs tr	17.4	16.5	15.6	15.6**
Receipts net of borrowings, Rs tr	27.2	27.8	31.4	34.9**
Expenditure, Rs tr	41.9	44.4	47.1	50.6**
Fiscal deficit (% of GDP)	6.4	5.6	4.8	4.4**
<b>External sector</b>				
INR/USD (end of period)	80.5	82.8	85.5	88-90
Trade deficit USD bn	264.9	241.2	282.8	290-320
Current account balance (% of GDP)	(-) 2.0	(-) 0.7	(-) 1.1	(-) 1.0-1.2

\*IMA India forecasts unless otherwise indicated; \*\*Government estimates; ^ GVA at basic prices (2011-12 base)

Source: CSO, RBI, DGCI&S, Ministry of Finance and CEIC

# Agriculture rebounds; steady manufacturing and strong services lift growth



## Agriculture

- Expanded 3.7% YoY in Q1 (vs 1.5% YoY); nominal growth slowed to 3.2% (from 7.5% in FY25) amid weak farm-gate prices and a low deflator.
- Unseasonal rains in the north damaged crops and disrupted harvests, but above-normal rainfall elsewhere (~109% of LPA) should replenish reservoirs and support sowing in other regions.
- Most agencies project FY26 agricultural GVA between 3.5–4 %, below FY25's 4.6%

## Manufacturing & Construction

- Manufacturing held firm at 7.7%, nearly flat vs 7.6% last year; nominal growth at 10.1% widened the real-nominal gap to 2.4 pp, signalling softer input costs and muted pricing power.
- Utilities slowed sharply to 0.5% (vs 10.2%), as heavy rains and cooler weather curbed demand.
- Construction moderated to 7.6% (vs 10.1%), weighed down by seasonal delays, input-cost pressures and steel import dynamics.

## Services

- Services surged 9.3% in Q1 (vs 6.8%), led by public administration & defence (9.8%) and financial, real estate & professional services (9.5%, up from 6.6%).
- Trade, hotels, transport & communication climbed to 8.6% (from 5.4%), nearing double-digit growth seen two years ago.
- Growth was base-effect driven, signalling normalisation, not a structural uptrend; real expansion may be revised lower.

# Muted investment, rural-led consumption rebound

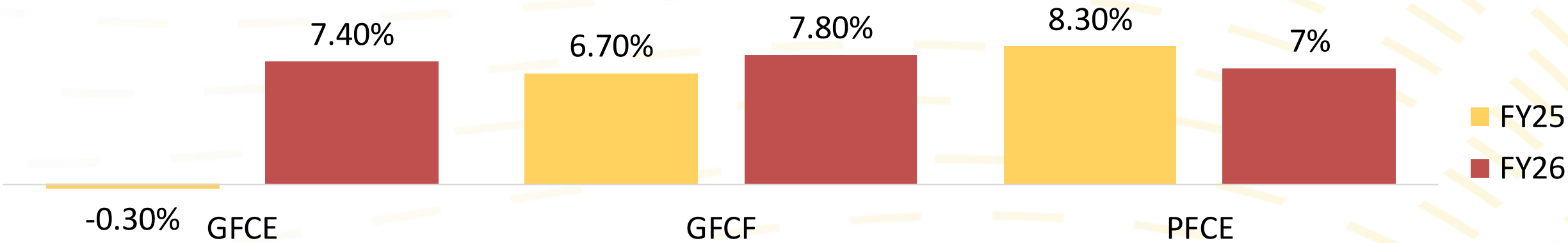
## Investment – Capital formation driven by the public sector

- Government Final Consumption Expenditure (GFCE) grew 7.4% in real terms (vs –0.3% last year); nominal growth rose to 9.7%, up 5.7 pp YoY
- Gross Fixed Capital Formation (GFCF) rose 7.8% in real terms and 8.3% in nominal terms, showing limited private sector participation
- Investment remains infrastructure- and renewables-led, with new manufacturing proposals constrained by high input costs and global uncertainty.

## Consumption - Rural Strength, Urban Lag

- Private Final Consumption Expenditure (PFCE) grew 7% in real terms (down 1.3 pp YoY); nominal growth slowed to 9.2%, well below the 12–13% decade-average.
- According to NielsenIQ, rural FMCG demand rose 8.4%, outpacing urban growth of 4.6%, though the gap is narrowing as smaller towns recover faster than metros.
- GST rate cuts could lower retail prices by 60–80 bps over the next year, giving festive-season consumption a temporary boost.

Q1 (Apr- June 2025) estimates of key expenditure components of GDP



# Lead indicators a mixed bag, tilting mildly towards the downside

- **GST collections** hit a record Rs 2.4 tn in April, before softening to Rs 1.9 tn in September (+9.1% YoY), indicating a moderation in momentum.
- **e-Way bill issuances** remained steady at ~132 mn (Jul–Sep), suggesting stable goods movement but limited spillover to GST receipts.
- **Non-food credit growth** eased to 9.9% YoY in August (vs 13.4% last year), wherein personal loans lead and industry and services lending lags
- **Auto sales** declined through Apr–Aug, before a festive- and GST-driven rebound in September, likely plateauing in October.
- **Manufacturing PMI** dipped to 57.7 in September (from 59.3), the weakest since May yet firmly expansionary.
- **Services PMI** moderated to 60.9 (from 62.9), still signalling a strong upturn on new orders and policy support.
- **Business confidence (IMA's BCPI)** fell 2 points to 58.1 in October 2025, reflecting a more cautious outlook after last quarter's rebound

# Inflation at a multi-year low; repo rate at 5.5%

- **Consumer price index (CPI)** slipped to 1.55% in July and remained in ~2% range by September, driven by food deflation but raising concerns for farm incomes.
- RBI now projects FY26 CPI at ~2.6%, down from earlier 3.1%.
- **Wholesale price index (WPI)** turned negative in July and stayed soft into September, helping push the **GDP deflator** to ~0.9% in Q1. Such ultra-low readings are unlikely to persist.
- The RBI's **repo rate** remains at 5.50%, with further cuts on hold until external risks (US tariffs, global trade) clarify and the effects of the 100 bps cuts are assessed.
- **Brent crude prices** have softened from \$80/barrel in March to ~\$64, easing import costs and containing inflation.
- Russian crude imports continue to underpin energy security, even as US shipments fell 38% YoY in July; the government has reiterated that energy security remains a priority amid geopolitical strains.

- **Exports** rose just 0.8% YoY in September 2025 to \$67.20 bn, while **imports** jumped 11.3% to \$83.82 bn, signalling export fatigue and stronger import growth.
- Merchandise exports were \$36.38 bn in September, up ~6.8% YoY, but imports surged to \$68.53 bn, pushing the monthly **merchandise trade deficit** to \$32.15 bn, a 13-month high.
- The **current account deficit (CAD)** is set to widen, with a large trade gap and weaker export momentum, estimates suggest it could double to ~1.2% of GDP in FY26 (from ~0.6% in FY25).
- Capital flows: **FDI** remains steady (~\$15.9 bn in Apr-May 2025), but **FPIs** have seen net outflows (~\$3 bn+ since April), adding pressure to the external balance.
- The **rupee** touched Rs 88.3/USD in late August, losing ~3% YTD and becoming one of Asia's weakest currencies, pressure likely to persist near-term until trade standoff eases.

# High-Frequency Indicators (1/2)



▲ = demand rising/stress falling; ▼ = demand falling/stress rising; ◀▶ = steady

	FY23	FY24	FY25 YTD#	Latest quarter#	Trend
<b>Industrial/business performance</b>					
<b>BCPI rebounded by 5.2 points in June, while PMI indices surged to an all-time high</b>					
IIP index <sup>^</sup>	6.0%	4.1%	2.4% (Jul)	2.0% (Jun)	▼
IIP – capital goods <sup>^</sup>	6.5%	5.7%	8.8% (Jul)	10.1% (Jun)	▲
IIP – ‘core’ sector <sup>^</sup>	6.9%	4.5%	1.6% (Jul)	1.5% (Jun)	▼
Of which – Cement <sup>^</sup>	9.2%	6.3%	9.0% (Jul)	8.1% (Jun)	▲
HSBC India Manufacturing PMI <sup>§</sup>	59.1	58.1	59.3 (Aug)	58.4 (Jun)	▲
HSBC India Services PMI <sup>§</sup>	61.2	58.5	62.9 (Aug)	60.4 (Jun)	▲
IMA’s BCPI index <sup>§</sup>	62.1	58.8	60.1 (Jun)	60.1 (June)	▲
Naukri Job Speak (new job listings) <sup>^</sup>	-9.1%	1.6%	-0.1% (Aug)	6.6% (Jun)	▼
<b>Banking, finance, monetary policy</b>					
<b>Inflation has eased further, prompting a cut in policy rates</b>					
Non-food credit growth <sup>^</sup>	19.3%	13.6%	9.9% (Jul)	10.5% (Jun)	▼
CPI Inflation (Period avg)	5.4%	6.0%	2.4% (Jul)	2.7% (Jun)	▲
WPI Inflation (Period avg)	-0.7%	2.3%	0.1% (Jul)	0.3% (Jun)	◀▶
Repo Rate <sup>§</sup>	6.5%	6.3%	5.5% (Jul)	5.5% (Jun)	▲
1-Year MCLR (Min/Max) <sup>§</sup>	7.9/8.5	8.1/8.5	8.2/8.0 (Aug)	8.3/8.2 (Jun)	▲
10-Year Gov’t bond yield <sup>§</sup>	7.1%	6.7%	6.6% (Aug)	6.3% (Jun)	▲

# Dates in parentheses refer to the month/quarter for which data is reported; <sup>^</sup> YoY for FY18 and FY19 and absolute returns/change/amount over the period for fiscal YTD, latest month, and latest quarter; <sup>§</sup> refer to end points; IMA’s BCPI (Business Confidence and Performance Index) is based on a quarterly survey of IMA’s Forum member companies

# High-Frequency Indicators (2/2)

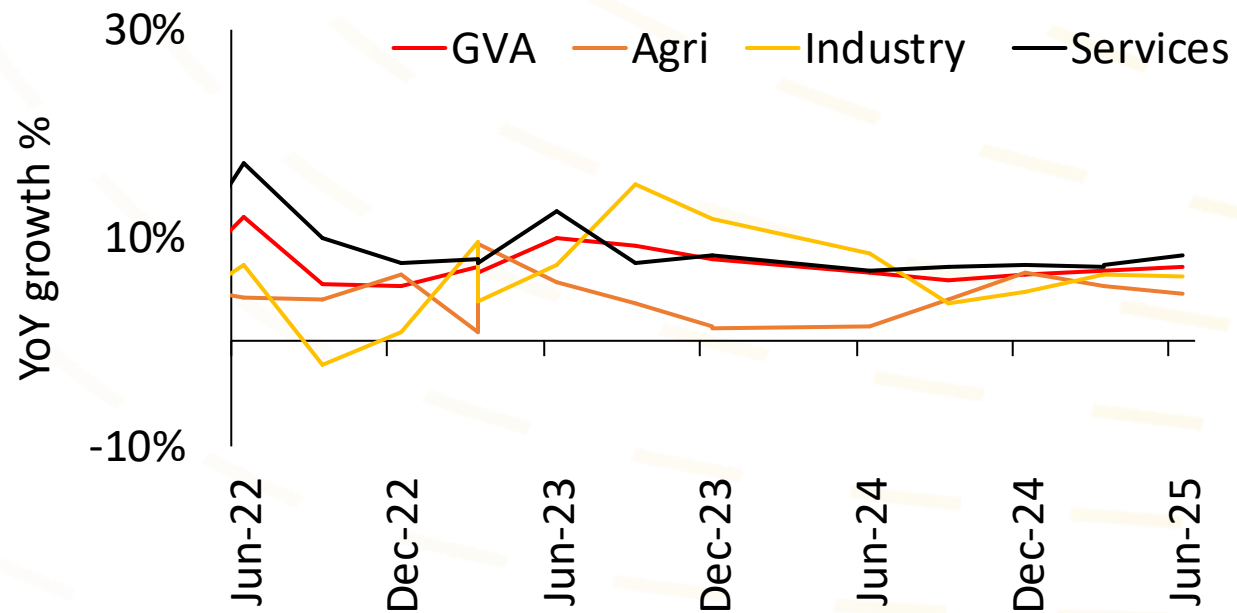


▲ = demand rising/stress falling; ▼ = demand falling/stress rising; ◀▶ = steady

	FY23	FY24	FY25 YTD#	Latest quarter#	Trend
<b>External sector</b>					
<b>The trade deficit has widened and the rupee has weakened while FII outflows persist</b>					
Exports (% change)^	2.1%	0.1%	3.2% (Jul)	1.9% (Jun)	▼
Imports (% change)^	-5.3%	6.2%	5.3% (Jul)	4.2% (Jun)	▼
Trade balance USD bn <sup>\$</sup>	-241.1	-282.8	-50.4 (Jul)	-23.1 (Jun)	▼
INR/USD (% change)^	-1.9%	-2.5%	-2.7% (Aug)	0.0% (Jun)	▼
Net FII inflows (USD bn)^	41.0	2.7	-2.6 (Aug)	1.3 (Jun)	▼
Inbound FDI (USD bn)^	71.3	81.0	18.0 (Jun)	18.0 (Jun)	◀▶
Foreign reserves net change^ USD bn	67.1	56.8	28.8 (Jul)	37.4 (Jun)	◀▶
<b>Demand indicators</b>					
<b>PV, 2-wheeler and tractor sales are stabilising; air traffic has moderated</b>					
Passenger vehicle sales^	5.6%	3.7%	3.2% (Jul)	2.8% (Jun)	◀▶
Two-wheeler sales^	9.4%	7.8%	2.3% (Jul)	5.0% (Jun)	◀▶
Tractor sales^	-7.4%	7.3%	9.0% (Jul)	9.2% (Jun)	▲
Domestic air traffic^	13.5%	9.1%	3.4% (Jul)	5.3% (Jun)	▼
International air travel^	22.3%	11.1%	5.4% (Jul)	3.1% (Jun)	▼

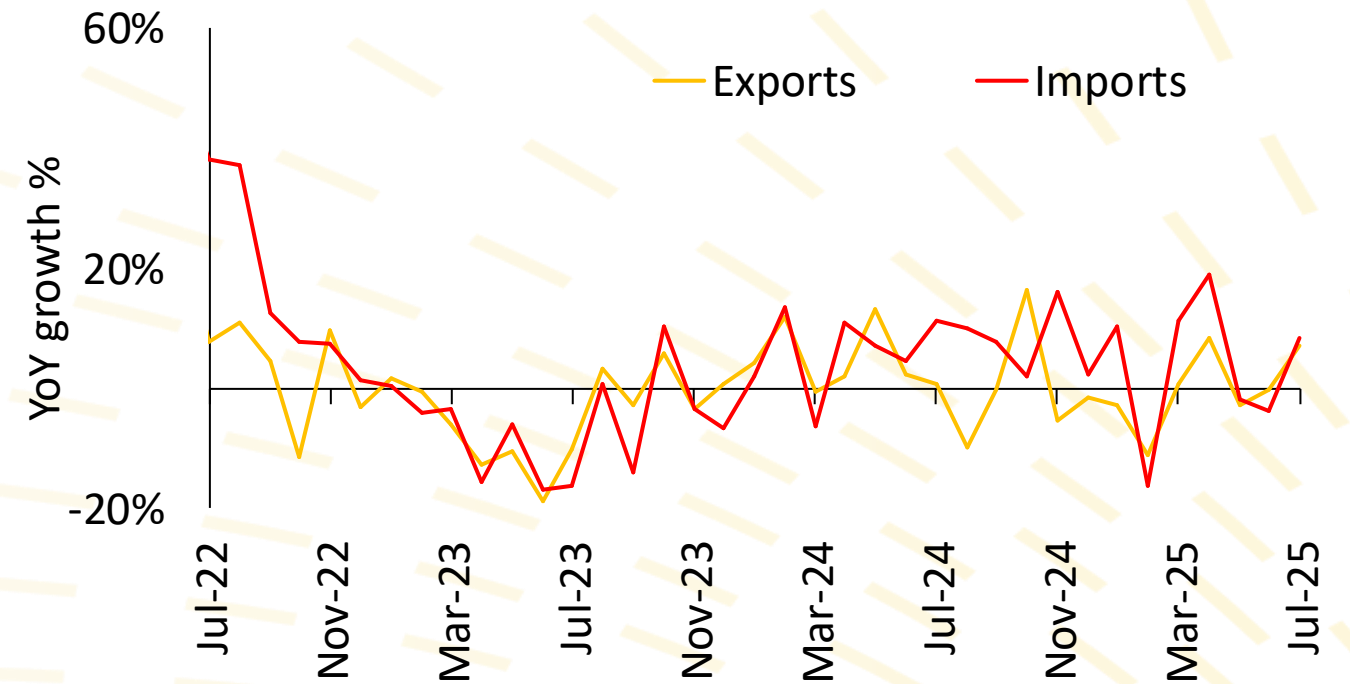
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**GVA (YoY change): 7.6% in Q1**



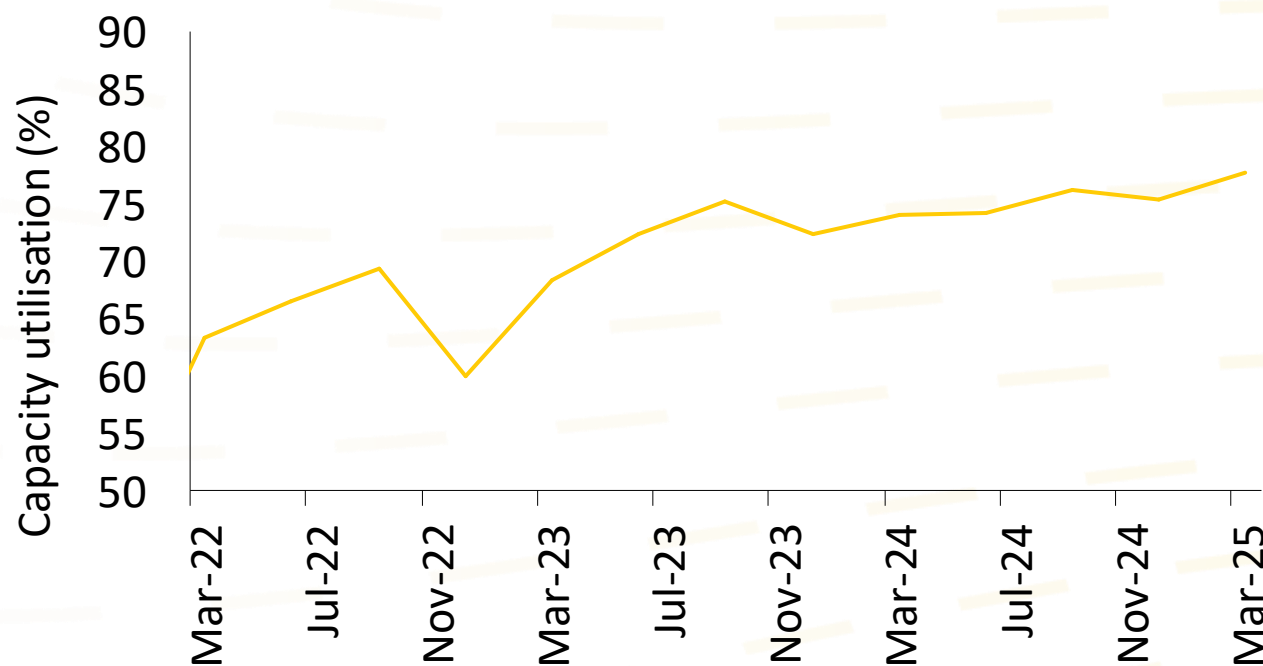
Source: CSO

**Merchandise trade: Rebounding**



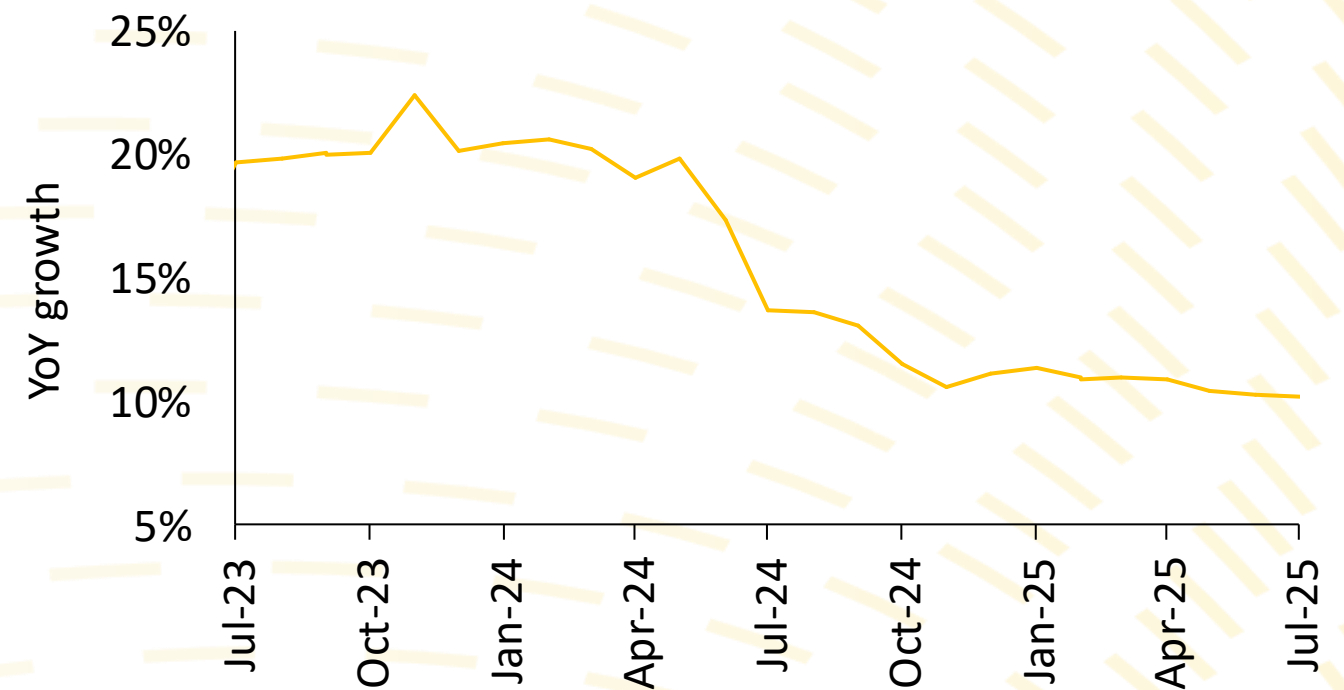
Source: Ministry of Commerce and Industry

**Capacity utilisation rates: Edging up**



Source: OBICUS Survey, RBI

**Non-food credit (YoY growth): Trending down**

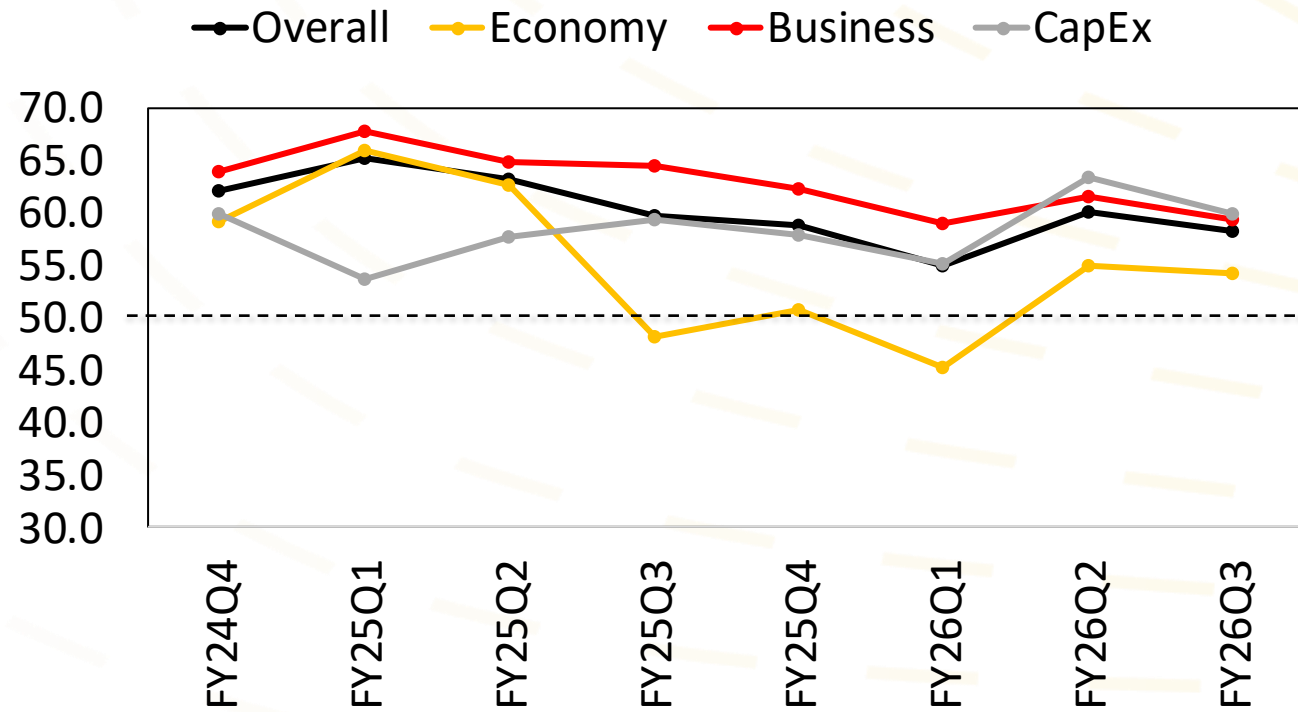


Source: RBI

# Key Charts (2/2)

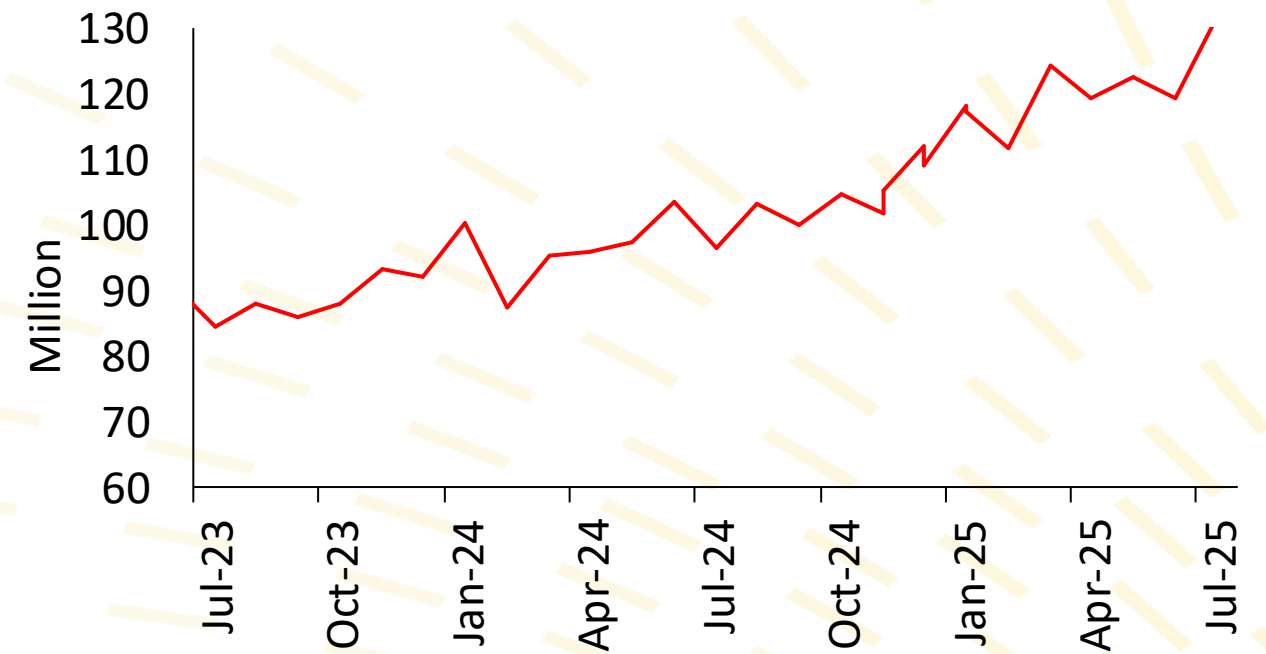


## BCPI: Drops further in Q1 FY26



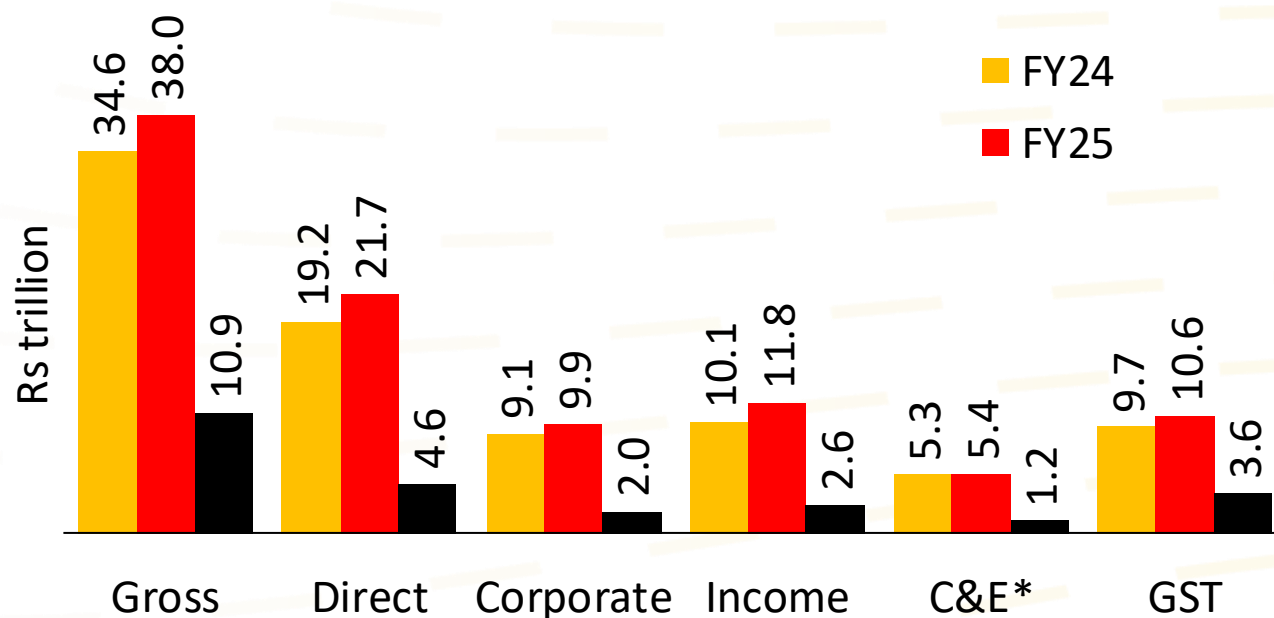
Source: Source: IMA India's Q1 FY26 BCPI Survey

## Monthly e-Way bill issuances: Steady



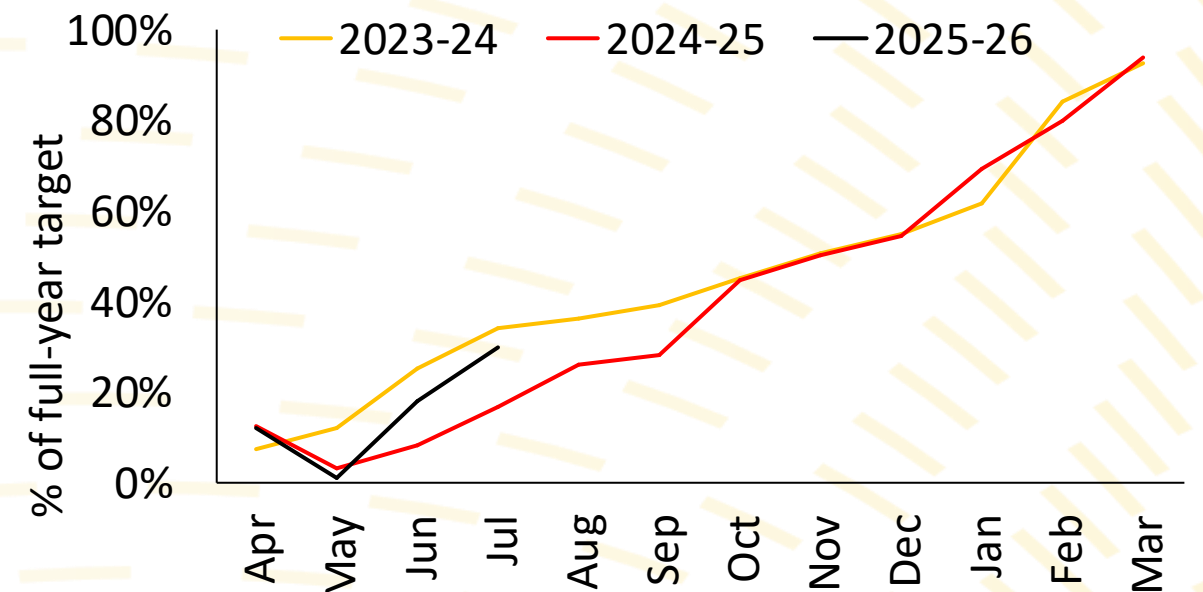
Source: Goods and Services Tax Network

## Tax Revenue: Softer than expected



Source: Ministry of Finance \*C&E - Commerce and Excise

## Fiscal Deficit (% of target): On target



Source: Ministry of Finance