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Executive Summary	
	<ul style="list-style-type: none"> • GDP grew by 8.2% in Q2 (8% in H1), the fastest in 6 quarters, driven by manufacturing, consumer spending and GST rate cuts • IMA has raised its FY26 growth forecast to 7-7.3%. • Agri remains strong, manufacturing has surged but services truly powers growth • Inflation dropped to a record low of 0.25% in October, prompting the RBI to cut the Repo rate by 25 bps and lower its FY26 inflation targets • The external sector is a mixed bag: services exports are strong, but merchandise has slowed; imports are up sharply, as is the trade deficit; the rupee is down, weighed by FPI outflows and concerns over trade • The NDA won by a landslide in Bihar strengthening the BJP's hand at the Centre • A promised caste census and delimitation will be critical issues to watch in the coming months • The Centre pushed through 4 Labour Codes despite union resistance • Key legislation being considered in Parliament includes amendments to India's nuclear liability laws • Trade talks are progressing with the EU but likely to go down to the wire with the US • A short India visit by Vladimir Putin has reenergised Indo-Russian ties and tilted the focus of foreign policy away from the West • India continues to face complex regional dynamics, particularly involving Bangladesh, Nepal and China

This report provides an assessment of the operating environment in India. It examines the political scenario and the state of the Indian economy. The information in the following pages is intended to provide an indication of the way things are likely to evolve in the medium term. Whilst we have made efforts to ensure that the information contained in the following pages is accurate to the best of our knowledge and belief, IMA India cannot assume any liability or responsibility for the outcome of decisions taken as a result of this study. Moreover, the information may not be used to form the basis of strategic decisions that concern investments or any other commitments. This report is strictly for the use of members of IMA India's Chief Executive Officers' and Chief Financial Officers' Forums. Its contents may not be reproduced in whole or in part without the written consent of IMA India.

Bihar reshapes alliances; caste count and delimitation loom

The NDA won a landslide (202/243 seats) in Bihar's Assembly polls, helped by robust alliance management and heaps of populism. Meanwhile, the Congress slumped from 19 seats to just 6, further weakening its position within a fraying INDIA alliance. Notably, the BJP agreed to a recalibration within the ruling coalition: for the first time, it has taken charge of the Home Department while the JD(U) has reclaimed Finance, signalling a carefully balanced distribution of power as it looks ahead to a demanding electoral and policy calendar. The fallout from last quarter's voter-roll controversy continued, with the Supreme Court cautioning against deletions based solely on missing documents, a point the opposition claims vindicates its earlier protests. Meanwhile, two longer-term structural shifts have moved into the foreground. The Centre has formally approved a nationwide caste enumeration for the next Census (beginning in early 2027), which will trigger fresh debates on quotas and fiscal allocation. Second, posturing around a much-delayed delimitation exercise, set for 2026, has deepened: Southern states are signalling concern over potential seat losses, even as court rulings suggest limited space for a legal pushback. Together, these trends signal that the politics of identity, representation and federal balance will dominate the run-up to the next major electoral cycle.

Regulatory consolidation deepens; nuclear reforms move to break a logjam

Buoyed by the Bihar results, the Centre moved to implement the four, long-delayed Labour Codes, which consolidate 29 statutes and shift compliance onto a uniform national framework. By any measure, this is one of the NDA's most consequential policy reforms to date, prompting strident pushback from the trade unions. The onus will now shift to firms, who must decide whether to push for scale and formalisation as the states work to synchronise their rules. Ahead of Parliament's Winter Session, the government is pushing forward on amendments to the Civil Liability for Nuclear Damage Act, which would narrow supplier exposure, thus helping to unblock foreign technology flows that have been frozen since 2010. Simultaneously, a new Atomic Energy Bill proposes limited private entry across the fuel cycle. In parallel, the DPDP Act has been operationalised, activating the Data Protection Board and introducing a penalty-driven regime. However, its provisions overlap with certain banking, insurance and telecom rules, creating new enforcement-related uncertainties. Higher education reform is set to continue with the HECI Bill, which will consolidate authority under a single regulator. Finally, the government appointed the 8th Pay Commission in November, with clear terms of reference, setting the stage for public-sector pay and pension hikes, probably by early 2027.

FTA momentum builds; regional instability narrows India's room to manoeuvre

India's trade posture has become increasingly transactional, with Delhi and Washington signalling progress toward a limited FTA, though repeated slippages mean an expansive deal remains an upside scenario, not the baseline. Talks with the EU have intensified, helped by political alignment on supply-chain diversification even as disagreements on sustainability and market access persist. Despite courting western trade deals, Indo-Russia ties have not been abandoned. President Putin's December visit to New Delhi yielded a 2030 roadmap to raise bilateral trade to \$100 bn, expand defence and energy cooperation and reaffirmed Russia as a key supplier of fuel and nuclear-energy technology. In the wider neighbourhood, volatility has created new strategic dilemmas. Sheikh Hasina's sentencing in Bangladesh, combined with her continued exile in India, has forced Delhi to balance long-standing security cooperation with the optics of supporting a beleaguered ally. Meanwhile, renewed protests in Nepal and temporary border disruptions have underscored how quickly its domestic instability can spill into India's strategic calculus. Further afield, China's deepening engagement across South Asia is narrowing India's room for manoeuvre, even as limited cooperation in non-sensitive areas remains possible. Multilaterally, India has used both the Johannesburg G20 and COP-30 in Belém to reinforce its position as a leading voice on debt relief, climate finance and 'just transition'. While supportive of energy-transition goals, Delhi continues to resist prescriptive fossil-fuel timelines. This stance, paired with its trade diplomacy, signals a calibrated strategy aimed at maximising economic leverage while managing a more contested neighbourhood.

Growth surges to a 6-quarter high

The Indian economy grew by an unexpectedly-brisk 8.2% in Q2 (Jul-Sep), its fastest pace in 6 quarters, up from 7.8% in Q1 and 5.6% in the same quarter last year. Consequently, H1 (Apr-Sep) growth stood at 8%, compared to 6.1% a year ago. This growth acceleration was supported by strong manufacturing activity and firm consumer spending, aided to some degree by the late-September GST rate cuts and subdued retail inflation. Given the much-higher-than-forecast figures, IMA is revising its FY26 growth forecast to 7-7.3%.

Primary sector posts mixed performance

The primary sector – agriculture and mining – has shown mixed trends so far this year. Overall growth decelerated to 3.1% in Q2 (down from 3.5% a year ago) but was mildly up (2.9%, compared to 2.8%) on a half-yearly basis. Although agriculture moderated to 3.5% in Q2 (from 3.7% in Q1 and 4.1% a year ago), this was still high by historical standards – and made possible by a mix of robust kharif sowing and favourable monsoon conditions. (H1 farm-sector growth was 3.6%, up from 2.7%.) Conversely, the mining and quarrying sector ground to a near-standstill at 0.04% in Q2, even on the back of a weak 0.4% a year ago. This halved the H1 growth number to 1.8%, from 3.6% a year ago.

Secondary sector accelerates sharply

In sharp contrast, the secondary sector has shown exemplary growth, rising from 4% in the year-ago period to 8.1% in Q2. Manufacturing went from 2.2% to 9.1%, thanks mainly to strong festive-season demand following the announcement of GST cuts, as well as a frontloading of exports to the US ahead of tariff hikes. For H1, manufacturing growth almost doubled to 8.4%, from 4.8% in the same period in FY25. However, utilities– often regarded as a key barometer of economic activity– saw a milder pick-up, from 3% to 4.4%. Construction continued to grow handsomely (at 7.2%) in Q2, despite a high base effect running back three years. Its H1 growth, though, moderated to a still-robust 7.4%, from 9.3% last year.

Services continue to drive India's economic expansion

Services remained a pillar of growth in Q2, expanding by 9.2%, up from 7.2% YoY. Performance in the first half of FY26 displayed a similar trend, rising 9.3%, compared to 7% in the corresponding period of FY25. Much of this momentum came from financial, real estate and professional services, which grew 10.2% in Q2 – a 3 percentage-point (pp) rise over last year. H1 growth in this segment also strengthened by 3 pp to 9.9%. Activity in the trade, transport and communications accelerated as well, rising to 7.4% (from 6.1%). Meanwhile, spending on public administration, defence and other services remained firm at 9.7% (from 8.9%), despite more subdued government capital expenditure.

High-frequency indicators are emitting mixed signals

India's lead macroeconomic indicators have bounced around lately. GST collections slowed to a 12-month low of Rs 1.7 tr in November, down from Rs 1.96 tr in the previous month, as businesses adjusted to the recent rate-rationalisation move. Year-on-year, gross domestic GST collections dipped by 2.3% in November, although cumulative Apr-Oct revenues were up by a solid 9%, underscoring a resilient base supported by firm consumption and improved compliance. e-Way bill generation fell nearly 4% MoM in October (~127 mn) after touching a record high in September. This appears to signal a stabilisation in goods movement following tax-related adjustments; even so, year-on-year issuances grew by 8.2%. Also sounding a note of caution around general business sentiment, IMA's Business Confidence and Performance Index (BCPI) edged down by 2 points, to 58.1, between July and October.

Services PMI holds firm even as manufacturing softens

On the flip side, services activity remains robust, with the HSBC India Services PMI surging to 59.8 in November after a dipping in previous months (58.9 in October and 60.9 in September), reflecting strong new business inflows and marking the 52nd consecutive month of expansion. Manufacturing growth, however, dropped to a 9-month low, with the PMI decelerating to 56.6 in November, from 59.2 the previous month. The drop is attributed to the 50% US tariff, dragging down exports. On the other hand, non-food credit, previously on a steady downtrend, has been moving up since June, touching 12.2%

Capex steadies despite softer utilisation

in October, up from 11.5% a year earlier. (Credit flows to both industrial and services firms has remained on an upward trajectory for most of this fiscal year.) Rounding out the list of indicators, vehicle sales grew strongly in October, owing to the festive month with 2-wheeler sales jumping 52.4%, a strong indicator of rural demand. Commercial and passenger vehicles echoed the positive sentiment, increasing by 19.4% and 13%, respectively.

Capex momentum moderated slightly in Q2, with Gross Fixed Capital Formation (GFCF) expanding by 7.3%, compared to 7.8% in Q1 and 6.7% a year earlier. Even so, H1 growth strengthened to 7.6%, an improvement over the 6.7% seen in the same period last year. The RBI's Q1FY26 OBICUS survey points to a seasonal easing of manufacturing activity, with capacity utilisation slipping to 74.1% (from 77.7% in the previous quarter) as firms reported softer seasonal demand despite continued moderation in input costs. Government Final Consumption Expenditure (GFCE) also weighed on headline growth, contracting 2.7% in Q2 after expanding 7.4% in the preceding quarter. Nevertheless, GFCE still recorded a 2.5% rise in H1, up from 1.9% in the corresponding period last year.

Consumption rises as rural demand leads

Private consumption strengthened further, to 7.9% in Q2, from 7% in Q1 and 6.4% a year ago. Its share in nominal GDP held largely steady at 62.5% in Q2, reflecting both firm rural demand and improving urban spending, supported in part by the recent GST cuts. According to data from Nielsen, FMCG value growth moderated to 12.9% in Q2, from 13.9% in Q1, while volume growth eased to 5.4% from 6%. Despite this softening, rural markets continued to outperform, expanding 7.7%, almost twice the 3.7% growth seen in urban areas. This marks the 7th consecutive quarter of rural outperformance. Nielsen cites a deflationary trend in key raw materials – prices of palm oil, crude oil and wheat each declined by 10-18% YoY – as an important contributing factor.

Inflation eases sharply, prompting RBI cuts

Headline CPI inflation has been on the decline for 12 months, reaching a record low at 0.25% in October, down from 1.4% in September. In the near term, the continued decline can be attributed to a sharp drop in vegetable prices (down 28% YoY) as well as a high base effect from a year ago. Recent GST cuts have also started to have an impact, and are likely to pull down the headline numbers in the coming months. This prompted the RBI to revise its FY26 inflation target to 2%, down from 2.6% in October, on the basis of strong kharif (summer) crop production, healthy rabi (winter) sowing and adequate reservoir levels. It also revised its estimates for Q3 (0.6%, down from 1.8%) and Q4 (2.9%, down from 4%). Consequently, at its early-December Monetary Policy Committee meeting, the central bank cut the Repo rate by 25 bps, to 5.25%, its first cut in 6 months, while maintaining its overall 'neutral' stance.

Exports steady but CAD widens

India's external sector presents a mixed picture. Cumulative exports (goods and services) grew by 4.8% over Apr-Oct, totalling to \$492 bn, from \$469 bn a year ago. On the surface, this signals steady momentum amidst a volatile trade environment. However, growth has been highly uneven across categories. Merchandise exports grew by just 0.6% (to \$254 bn) with growth concentrated in only a few categories, including electronic goods (38%), cashew (28%), cereals (26%), meat and dairy (24%) and marine products (16%). Services exports, in comparison, grew 9.8% to \$ 238 bn, driven by sustained growth in computer and business services. This gap goes to underline how India's external balances are increasingly reliant on the services sector amidst trade disruptions. With imports continuing to outpace exports, the current account deficit (CAD) widened to \$12.3 bn (1.3% of quarterly GDP) in Q2, up from \$2.8 bn (0.3% of GDP) in Q1. However, this is still significantly better than the deficit of \$20.8 bn (2.2% of GDP) recorded in the same quarter last year. For the Apr-Oct period, total imports rose by 5.7%, to \$570 bn, including \$451 bn on the merchandise side. The overall trade deficit widened from \$70 bn to \$78 bn during this period.

New pressures on the capital-account side

Worryingly, India's capital account surplus fell to just \$0.6 bn (0.1% of GDP), from \$8 bn in Q1. While gross FDI inflows grew by a healthy 16% over Apr-Sep, to \$50.4 bn, net FDI more than doubled, to \$7.6 bn, driven by higher equity inflows and lower repatriation. However, this was more than offset by volatile foreign portfolio investment (FPI) flows, with investors shifting repeatedly between risk-off selling and brief recovery phases. The year opened with heavy withdrawals, as FPIs sold an estimated \$9 bn in January, \$2.8 bn in February and \$2.3 bn in April amid uncertainty over US tariff policy and global risk sentiment. This weakness extended well into Q2, with Jul-Sep witnessing cumulative outflows of \$4.4 bn. October and November saw a temporary reprieve, with steadier global conditions and firm domestic earnings drawing net inflows of \$4.3 bn, but early December saw the trend reverse (-\$1.5 bn). On a year-to-date basis, foreign investors have withdrawn \$17.7 bn from Indian equities, and \$9 bn from the market overall (debt inflows remain positive at \$7.8 bn), making India one of the most affected emerging markets in terms of FPI flows. Looking ahead, the uncertainty is likely to continue, with flows remaining volatile on account of uncertainties around US monetary and trade policy.

Rupee hits record lows despite supportive outlook

Weighed down by a rising CAD, volatile FPI flows and a lack of clarity on US-India trade talks, the rupee breached the psychological 90/\$ mark for the first time, slipping to a record low. This has made it Asia's worst-performing major currency so far in 2025, down more than 5% against a generally-weakening dollar. Looking ahead, market sentiment will remain fragile, guided by India-specific rather than dollar-related factors. However, given that the rupee is now in its longest depreciating stretch in 7 years, the currency may soon find a floor, as it tends to do after such phases. Much will depend on how the RBI manages expectations, the pace of capital flows and the resolution of ongoing trade frictions. On net, the downside may be capped at another 1-2/\$ of slippage through March, followed by stabilisation and even an appreciating bias. Indicatively, Fitch projects a gradual recovery, with the rupee strengthening to around 87/\$ by end-2026 on the back of strong macroeconomic fundamentals.

Indicators and forecasts at a glance

	FY23	FY24	FY25	FY26*
Economic growth (% , 2011-12 prices)				
GDP	7.6	9.2	6.5	7.0-7.3
Agriculture [^]	6.3	2.7	4.6	3.5-4.0
Manufacturing [^]	-1.7	12.3	4.3	7.5-8.0
Services [^]	9.5	9	7.3	8.5-9.0
Inflation				
CPI (% , average)	6.7	5.4	4.6	1.8-2.3
WPI (% , average)	9.6	-0.7	2.3	0.3-0.8
Public finance				
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**
External sector				
Rs/\$ (end of period)	80.5	82.8	85.5	90-92
Trade deficit USD bn	264.9	241.2	282.8	300-320
Current account balance (% of GDP)	(-) 2.0	(-) 0.7	(-) 1.1	(-) 1.0-1.4

*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

High Frequency Indicators

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

	FY24	FY25	FY26 YTD#	Latest quarter#	Trend
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Industrial/business performance

BCPI weakened by 2 points in October while the PMIs have pulled in different directions

IIP index [^]	6.0%	4.1%	2.8% (Oct)	4.3% (Sep)	▼
IIP – capital goods [^]	6.5%	5.7%	7.0% (Oct)	5.5% (Sep)	▲
IIP – ‘core’ sector [^]	6.9%	4.5%	2.3% (Oct)	3.9% (Sep)	▼
Of which – Cement [^]	9.2%	6.3%	7.4% (Oct)	7.4% (Sep)	▲
HSBC India Manufacturing PMI [§]	59.1	58.1	56.6 (Nov)	57.7 (Sep)	◀▶
HSBC India Services PMI [§]	61.2	58.5	59.8 (Nov)	60.9 (Sep)	▲
IMA’s BCPI index [§]	62.1	58.8	58.1 (Oct)	58.1 (Oct)	▲
Naukri Job Speak (new job listings) [^]	-9.1%	1.6%	11.7% (Nov)	6.8% (Sep)	▲

Banking, finance, monetary policy

Inflation has eased significantly and policy rates are coming down

Non-food credit growth [^]	20.2%	11.0%	12.2% (Oct)	10.2% (Sep)	▲
CPI Inflation (Period avg)	5.4%	4.6%	1.9% (Oct)	1.7% (Sep)	▲
WPI Inflation (Period avg)	-0.7%	2.3%	-0.04% (Oct)	0.02% (Sep)	▲
Repo Rate [§]	6.5%	6.3%	5.25% (Dec)	5.5% (Sep)	▲
1-Year MCLR (Min/Max) [§]	8.0%/8.6%	8.2%/8.5%	7.8%/8.0% (Nov)	7.8%/8.1% (Sep)	▲
10-Year Gov’t bond yield [§]	7.1%	6.7%	6.6% (Nov)	6.6% (Sep)	▲

External sector

The trade deficit has widened further and the rupee has weakened while FII inflows strengthen

Exports (% change) [^]	-3.1%	0.1%	0.6% (Oct)	8.7% (Sep)	▼
Imports (% change) [^]	-5.9%	6.9%	6.4% (Oct)	4.3% (Sep)	▼
Trade balance USD bn [§]	-236.9	-282.7	-196.8 (Oct)	-86.4 (Sep)	▼
INR/USD (% change) [^]	-1.9%	-2.5%	-4.5% (Nov)	-3.8% (Sep)	▼
Net FII inflows (USD bn) [^]	41.0	2.7	1.3 (Nov)	-4.4 (Sep)	◀▶
Inbound FDI (USD bn) [^]	71.3	80.6	50.4 (Sep)	23.8 (Sep)	▲
Foreign reserves net change [^] USD bn	19.8	56.8	22.7 (Nov)	34.8 (Sep)	▼

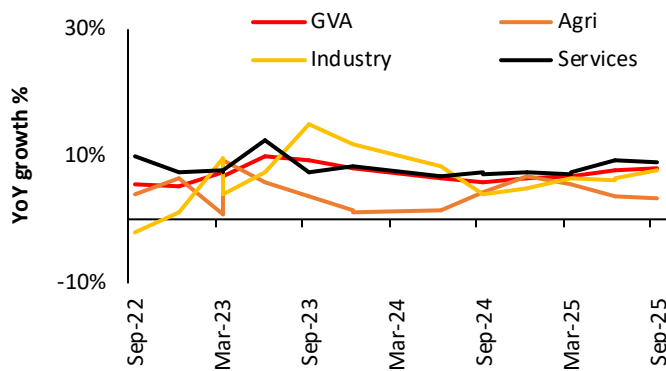
Demand indicators

PV, 2-wheeler and tractor sales have strengthen; air traffic has seen a sequential recovery

Passenger vehicle sales [^]	5.6%	3.7%	7.0% (Oct)	6.8% (Sep)	▲
Two-wheeler sales [^]	9.4%	7.8%	12.8% (Oct)	0.9% (Sep)	▲
Tractor sales [^]	-8.3%	8.4%	17.9% (Oct)	30.7% (Sep)	▲
Domestic air traffic [^]	13.5%	9.1%	2.1% (Oct)	-1.8% (Sep)	◀▶
International air travel [^]	22.3%	11.1%	6.6% (Oct)	6.8% (Sep)	◀▶
Credit card usage [^]	27.8%	15.2%	14.5% (Oct)	16.4% (Sep)	▼

Dates in parentheses refer to the month/quarter for which data is reported; ^ YoY for FY23 and FY24 and absolute returns/change/amount over the period for fiscal YTD, latest month, and latest quarter; § refer to end points; IMA’s BCPI (Business Confidence and Performance Index) is based on a quarterly survey of IMA’s Forum member companies

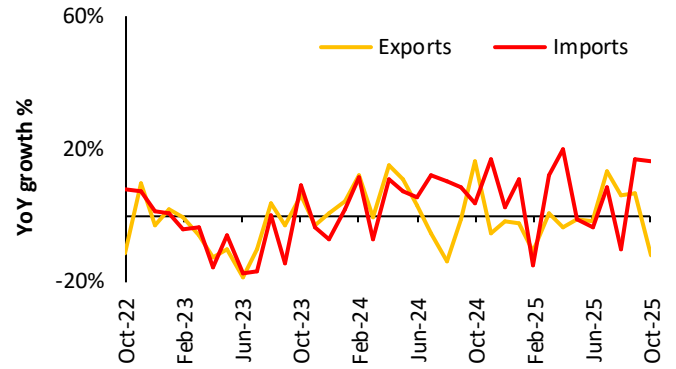
GVA (YoY change): 8.1% in Q2



Source: CSO

Industry was up strongly while agriculture and services moderated slightly

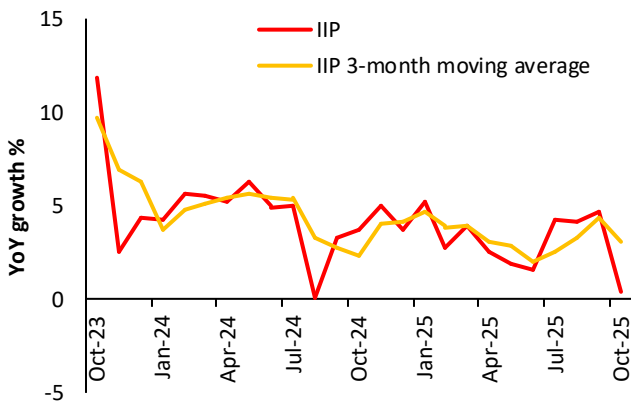
Merchandise trade: Uneven recovery



Source: Ministry of Commerce and Industry

Exports dipped sharply in October after a brief recovery, while imports remained strong

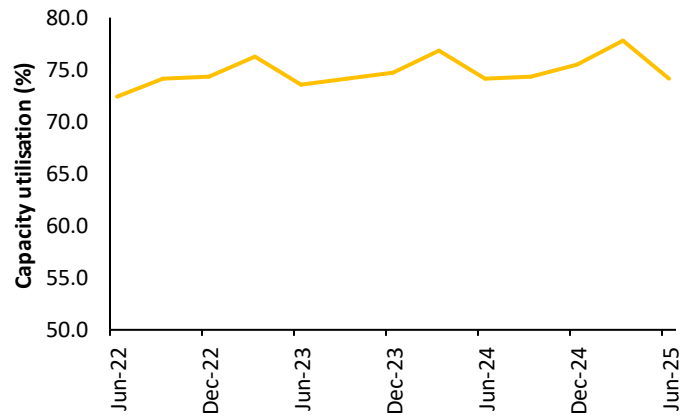
IIP (YoY change): Growth loses steam



Source: CSO

After a steady pick-up through July–September, IIP growth fell sharply to 0.4% in October

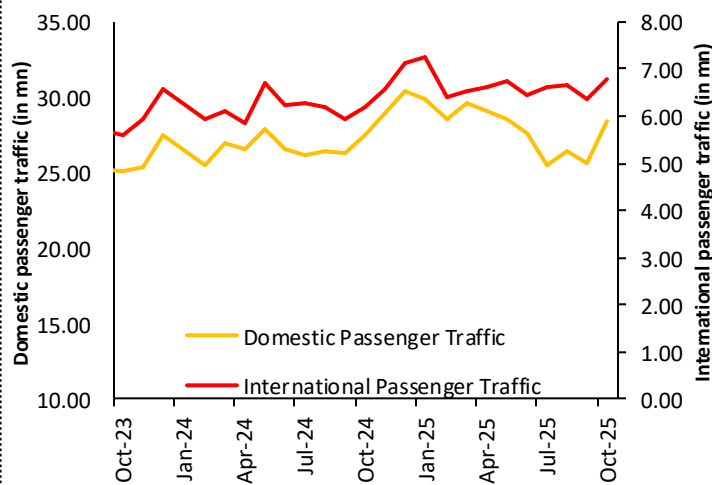
Capacity utilisation rates: Normalising



Source: OBICUS Survey, RBI

Capacity utilisation eased back to ~74% in June after a March peak of 77%

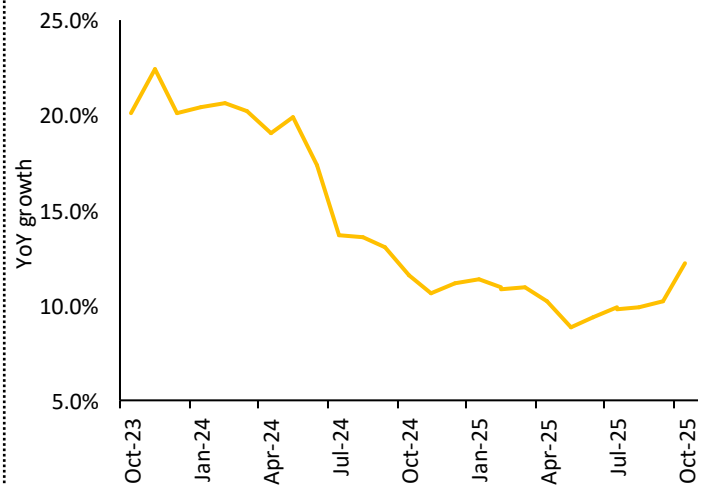
Air Passenger Traffic: Sequential Recovery



Source: Airport Authority of India

Both domestic and international passenger traffic rebounded in October after a soft Q3

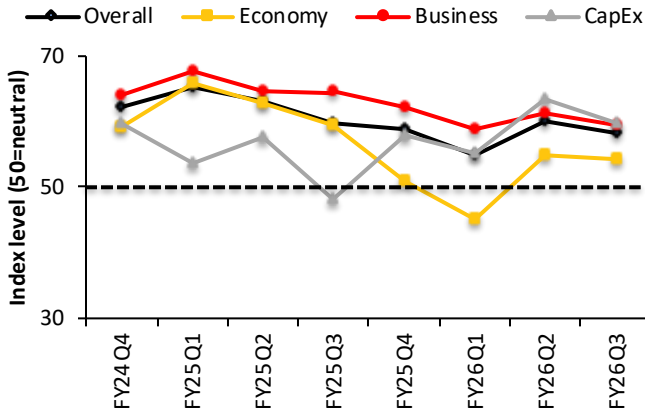
Non-food credit (YoY growth): Picking up



Source: RBI

Bank credit growth rose to 12.2% in October, the highest level so far in FY26

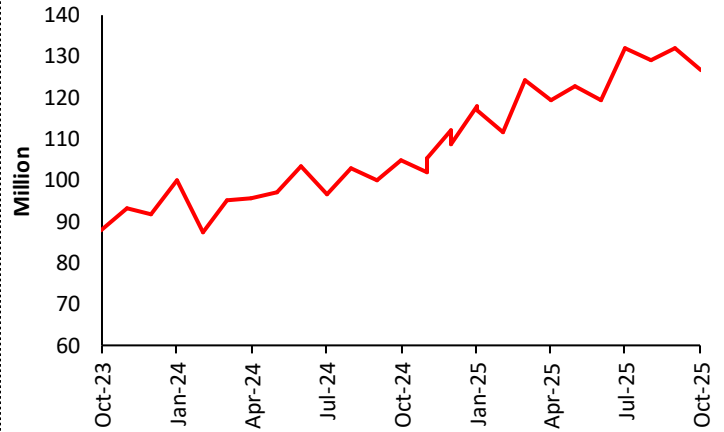
BCPI: Weakens in Q3



Source: IMA India's Q3 FY26 BCPI Survey

IMA's BCPI index weakened, down 2 points in Q3; with broad-based cooling across all parameters

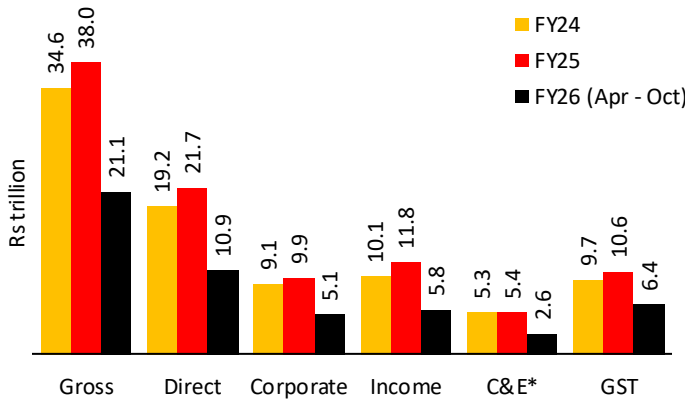
Monthly e-Way bill issuances: Down in Oct



Source: Goods and Services Tax

e-Way bill issuances dipped to 126.9 mn in October

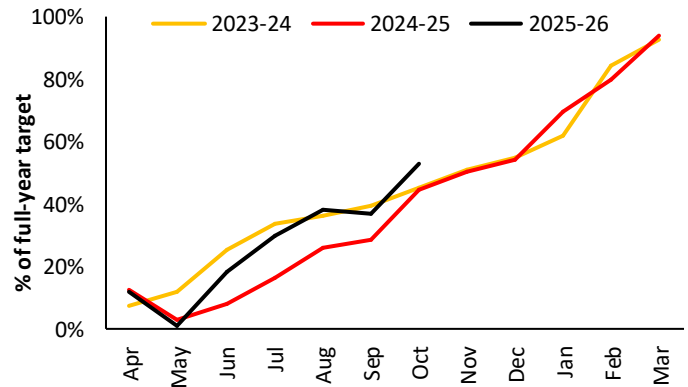
Tax Revenue: Softer than expected



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

Tax revenues have reached ~50% of full-year target, putting pressure on H2 collections

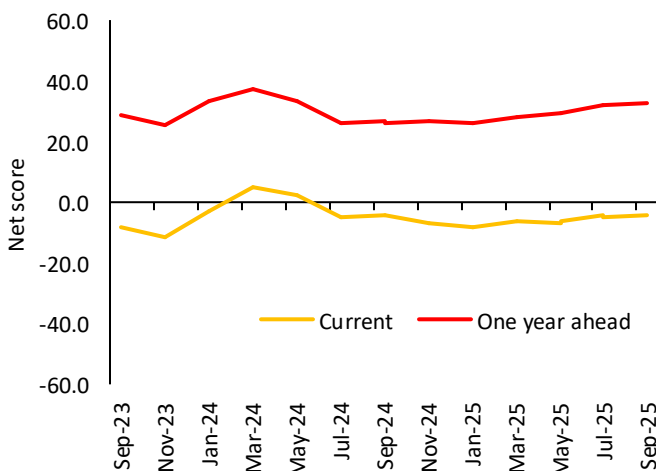
Fiscal Deficit (% of target): On track



Source: Ministry of Finance

The fiscal deficit stood at ~53% of the FY26 estimate in October

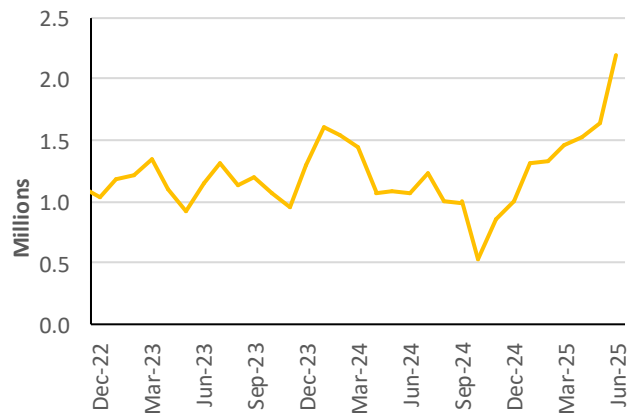
Consumer Confidence Index: Continued recovery



Source: RBI

Consumers continue to show signs of improvement amid employment and economic fluctuations

EPFO enrolment (3-month avg): A new high



Source: EPFO

Monthly EPFO enrollments at 2.1 mn in July