India Economy Update: June 2025

India GDP: GDP growth surprises positively

- Q4 GDP surprised positively at 7.4% YoY (est: 7% YoY) led by subsidies (lower) and government capex. GVA too did better than estimate at 6.8% YoY (est: 6.4% YoY) led by agri and construction
- While Q4 GDP has driven FY25 growth to 6.5% YoY it is lower than last year (9.2% YoY). GVA growth now stands at 6.4% YoY which is again far below last year (8.6% YoY) and below potential
- There are a few one-offs which have supported growth in Q4. Government capex was concentrated in Q4 which supported GFCF at 9.4% YoY (FY25: 7.1% YoY) along with much lower subsidy payout. Imports in real terms too are sharply lower. Thus sustainable growth momentum is a tad lower
- Private consumption was lower in Q4 at 6% YoY (FY25: 7.2% YoY) with weak urban demand when rural is outperforming. Monetary easing by RBI and tax cuts should help in reviving urban demand
- Rural demand is getting a leg-up from buoyant food output and with an above normal monsoon projected this year, rural economy should do well. Construction activity too should remain buoyant on the back of higher government spending and real estate upcycle
- Lower energy prices and gradual improvement in corporate margins is also likely to support growth in FY26. On the other hand, weak external demand may impinge on exports, in particular goods exports to US which have grown by 27% YoY in April
- Given the one-off factors, it is best to look at growth over the year which at 6.5% is below potential. Even with positive factors outlined above, we expect FY26 growth at 6.4% YoY (6.2% ear lier)
- With fiscal consolidation continuing in FY26, monetary support (additional 50bps) would be an important driver of growth with message to do more if growth is impacted by external headwinds

FY25 growth at 6.5% YoY is in line with SAE

Yearly growth estimates (% YoY)	FY23	FY24	FY25 (SAE)	FY25	FY26 (F)
Agriculture	6.3	2.7	4.6	4.6	3.6
Industry	2.5	10.8	5.6	5.9	5.9
Services	10.3	9.0	7.3	7.2	7.2
GVA	7.2	8.6	6.4	6.4	6.3
GDP	7.6	9.2	6.5	6.5	6.4

Source: CEIC, ICICI Bank Research; Note: SAE: second advance estimates, FY26 (F): Forecast

Retail inflation: Softening food prices driving inflation lower

- CPI inflation fell to a 75-month low of 2.82% YoY in May (our est: 3.04%) from 3.16% YoY in Apr, driven by easing food inflation at 1.0% YoY (1.8% in Apr), while core inflation inched up to 4.2% YoY (4.1% in Apr)
- Within food, veggies (-35.5% CYTD) and pulses (-12.4% CYTD) are driving food inflation lower. Prices of cereals too have started to moderate. Only edible oils, fruits and sugar are seeing any significant upward pressure. In case of edible oils, reduction in custom duties should lead to reduction in prices
- Core inflation increased primarily because of elevated gold prices. Excluding gold, core inflation is far more benign and is symptomatic of weak urban demand as well as limited pricing power on the back of China's excess capacity
- Normal monsoon and thus higher food output bodes well for outlook on food inflation. Given the current trend of veggie prices, we have revised our inflation estimates lower to 3.3% in FY26 (3.6% earlier, RBI: 3.7%). But FY27 inflation goes up to 4.5% (same as RBI) due to unfavourable base
- Current trajectory implies significant undershoot on the inflation front during H1 led by lower vegetable and pulses prices. Heavier than usual rainfall during monsoon season can push prices of few food items higher. In addition, prices should discourage production and thus imply higher prices later
- Given a neutral stance, RBI is now data dependent and the current inflation trajectory is lower than projected by RBI. Low near-term prints are likely to drive inflation higher next year on the back of a low base and negative supply impulse. Given monetary policy is forward looking, a durable decline in inflation could open up room for limited easing later

% YoY	weight	May-24	Apr-25	May-25	FYTD25	FYTD26
Headline	100.0	4.8	3.2	2.8	4.8	3.0
CPI: Food & Beverages	45.9	7.9	2.1	1.5	7.9	1.8
Cereals	9.7	8.7	5.3	4.8	8.7	5.1
Vegetables	6.0	27.4	-11.0	-13.7	27.6	-12.3
Protein items	13.0	6.7	0.2	-0.2	6.9	0.0
Oils & fats	3.6	-6.7	17.4	17.9	-8.1	17.7
Fruits	2.9	6.7	13.9	12.7	5.9	13.3
Sugar & confectionery	1.4	5.7	4.6	4.1	5.9	4.3
Spices	2.5	4.3	-3.4	-2.8	6.0	-3.1
Non-alcholic beverages	1.3	2.4	4.4	4.6	2.5	4.5
Prepared meals	5.6	3.3	4.4	4.4	3.4	4.4
CPI: Fuel & light	6.8	-3.7	2.9	2.8	-3.8	2.9
CPI: Core	47.3	3.1	4.1	4.2	3.2	4.1
Pan, tobacco & intoxicants	2.4	3.0	2.1	2.4	3.0	2.2
Clothing & footwear	6.5	2.7	2.7	2.7	2.8	2.7
Housing	10.1	2.6	3.1	3.2	2.6	3.1
Household goods & services	3.8	2.5	2.5	2.0	2.6	2.3
Health	5.9	4.2	4.3	4.3	4.2	4.3
Transport & communication	8.6	1.0	3.7	3.8	1.0	3.8
Recreation & amusement	1.7	2.6	2.5	2.4	2.6	2.5
Education	4.5	4.1	4.1	4.1	4.1	4.1
Personal care & effects	3.9	7.7	12.9	13.5	7.6	13.2

Note : Protein items includes meat and fish, eggs, milk and pulses; Source : CEIC, ICICI Bank Research

India trade: Lower imports driving deficit lower

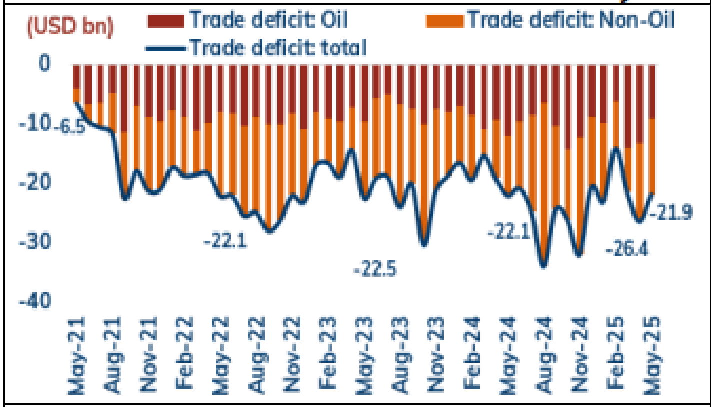
- India's goods exports fell by 2.2% YoY at USD 38.7bn in May, driven by a sharp fall in oil exports (-30% YoY), while non-oil exports expanded by 5.1% YoY. Net services exports were marginally lower at USD 15.3bn (USD 15.9bn in Apr)
- Exports to US grew by 17% YoY in May (front-loading), a trend seen over last three months, while that to non-US countries fell (-6.7% YoY) underscoring the impact of lower oil exports as well as weaker demand • Goods imports contracted by 1.7% YoY at USD 60.6bn in May, driven by lower oil imports (-26% YoY) and gold imports (-12.6% YoY). Non-oil non-gold imports rose signaling strong domestic demand (11.7% YoY). Goods deficit narrowed to USD 21.9bn (USD 26.4bn in Apr)
- While India has managed to grow its exports in the initial phase of trade war, lower global demand is a risk for goods exports. The escalation of Israel-Iran conflict is driving oil prices higher and may impact trade (exports and imports) with Middle East thus imparting uncertainty for India's external account
- We believe trade deficit should widen to around USD 300bn (7.1% of GDP) in FY26, while CAD could be manageable at USD 30bn (0.7% of GDP). However, a prolonged conflict could have an impact on goods trade as well as remittances from Middle East
- FPI outlook is likely to improve given improvement in India's growth in coming months assuming settling down of global uncertainties and India's domestic growth drivers (rural demand and policy stimulus). A significant pick-up in inflows to EMs could benefit EM currencies, including INR. For now, we believe higher oil prices should cap any upside for INR. Medium-term trajectory to be driven by DXY and movement of Yuan as well

India Trade: May 2025

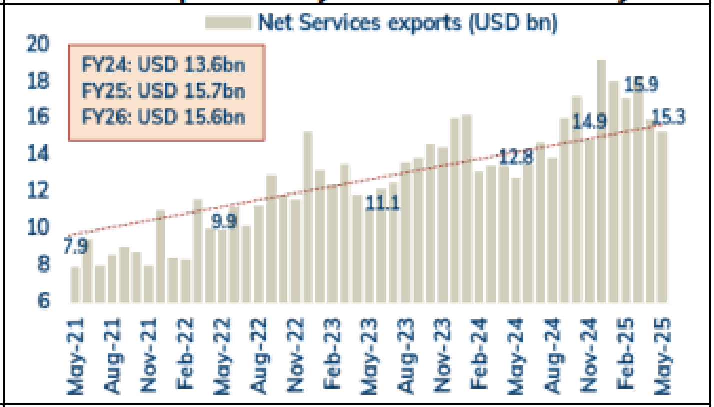
(USD bn)	May-24	Apr-25	May-25	(% YoY)	(% MoM)	FYTD25	FYTD26	Growth (%)
Exports	39.6	38.5	38.7	-2.2	0.6	74.9	77.2	3.1
Of which								
Oil	8.1	7.4	5.6	-30.4	-23.6	15.1	13.0	-14.0
Non-oil	31.5	31.1	33.1	5.1	6.4	59.8	64.2	7.4
Imports	61.7	64.9	60.6	-1.7	-6.6	116.2	125.5	8.1
of which								
Oil	20.0	20.7	14.8	-26.1	-28.8	36.5	35.5	-2.8
Gold	2.9	3.1	2.5	-12.6	-17.7	5.9	5.6	-3.8
Non-oil non-gold	38.8	41.1	43.3	11.7	5.4	73.8	84.4	14.3
Trade Deficit	-22.1	-26.4	-21.9			-41.3	-48.3	

Source: CEIC, PIB press release, ICICI Bank Research

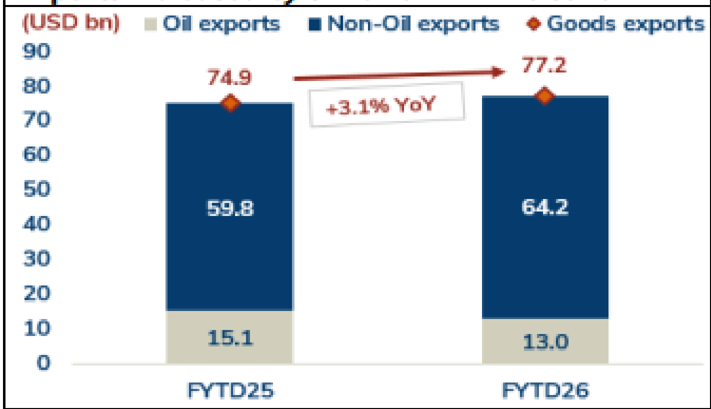
Goods deficit narrowed to USD 21.9bn in May



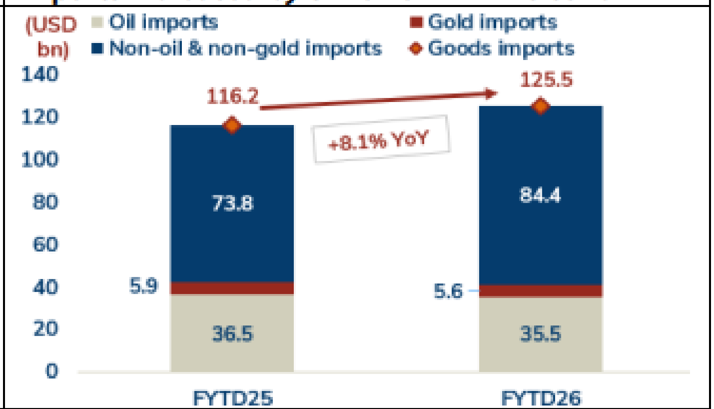
Services surplus steady at USD 15.3bn in May



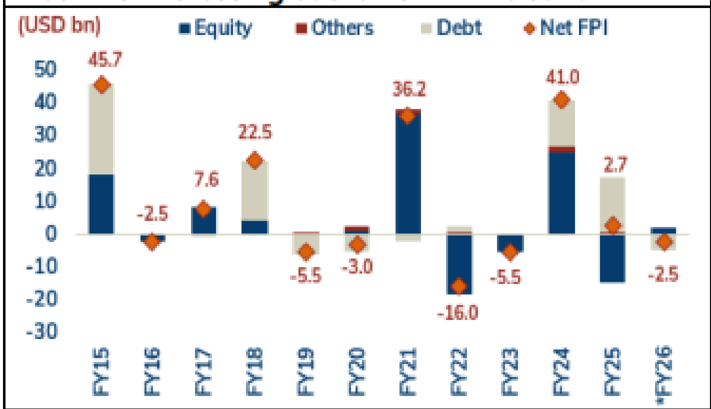
Exports increased by 3.1% YoY in FY26 so far



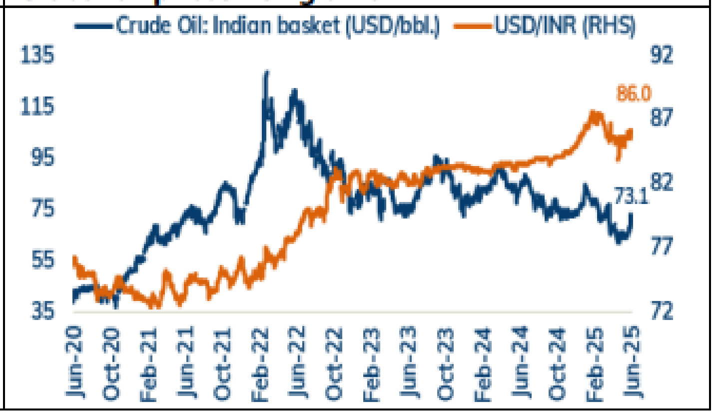
Imports increased by 8.1% YoY in FY26 so far



Net FPIs witnessing outflows in FY26 so far



Global oil prices rising a risk

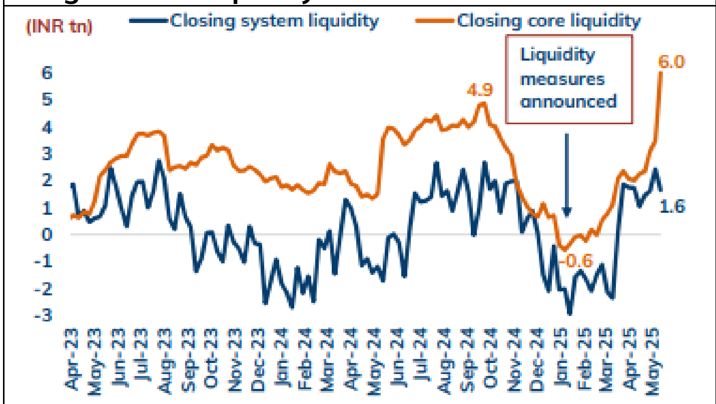


Source: CEIC, ICICI Bank Research

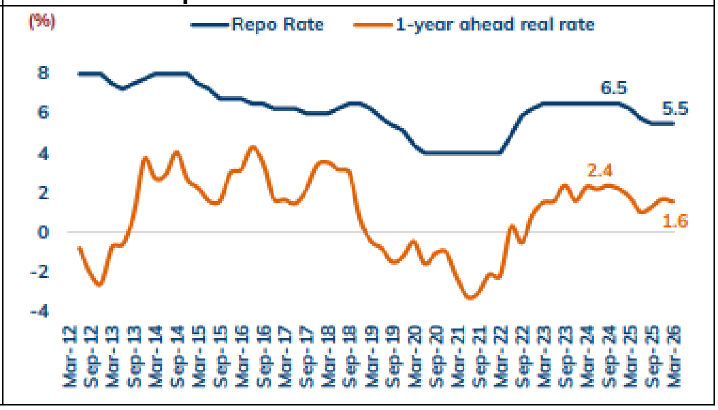
MPC Review: Full of surprises and growth supportive

- MPC surprised with a jumbo rate cut of 50bps (5:1 majority) with one external member voting for a 25bps cut. Stance too was changed to neutral from accommodative. For supporting transmission, CRR was cut by 100bps to 3% which will inject INR 2.5tn of durable liquidity (Sep onwards)
- Growth projections for the year (6.5%) and each quarter are unchanged given favourable domestic factors (monsoon, rural demand, tax cuts, services exports, travel demand, monetary easing)
- However, FY26 inflation estimate was revised lower to 3.7% (4% in April). Lower-than-expected food prices have resulted in downward revision of near-term projections (H1FY26: 3.2% vs 3.8% earlier). Q4 inflation estimate has not been revised lower from 4.4% and FY27 inflation projection is now around 4.5%
- The current growth and inflation trajectory explains the rationale behind moving stance to neutral from accommodative. In a data dependent stance, a positive surprise on inflation and/or negative surprise on growth can lead to further monetary easing
- With a CRR cut from September, ceterus paribus, the requirement of OMO purchases to inject durable liquidity is limited in H2. However, foreign inflows and extent of reduction in RBI's forward short position would determine the room for OMO purchases to inject durable liquidity
- RBI has now turned data dependent and we don't see any rate move in next policy. Growth trajectory and external factors (US Fed, trade negotiations) would determine the policy response beyond this

RBI measures and record dividend have led to a surge in core liquidity



Given inflation at 4.5 from Q4 onwards, real rate of ~1.6% implies limited room for cuts



Source : CEIC, RBI, ICICI Bank Research

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