India Economy Update: July 2025

Retail inflation: Inflation at over six-year low

- CPI inflation softened to more than six-year low at 2.10% YoY in June from 2.82% in May. Food inflation contracted by 1.1% YoY (+1.0% in May), while core inflation inched up to 4.4% YoY (4.2% in May)
- Within food, veggies (-19.0% YoY), pulses (-11.8% YoY), spices (-3.0% YoY), meat and fish (-1.6% YoY), and cereals (3.7% YoY) are driving the softening trend. But edible oils (+17.8% YoY) and fruits (+12.6% YoY) are moving in the other direction
- Core inflation is driven by higher precious metals (35% YoY) with core excluding precious metals relatively muted at 3.4% YoY (3.3% in May). Even as core is ticking higher, weak global and urban demand implies it shouldn't go up much from here
- Normal rainfall and higher kharif acreage bodes well for food inflation outlook. While a skewed rainfall distribution could lead to a temporary spike in veggies prices, a favourable base (FY25: +20% YoY) should keep food inflation benign
- Inflation continues to undershoot RBI's trajectory, with Q1 inflation at 2.7% (RBI: 2.9%) and with next month's inflation print seen below 2%, it is likely to undershoot RBI trajectory till December and is likely to be lower than our estimate of 3.3% (RBI: 3.6%) in FY26
- However, inflation outcome for Q4FY26 and FY27 are likely to be very different on a low base thus ensuring inflation is around 4.5% in FY27 (RBI: 4.5%) driven by unfavourable base and agri supply response to low prices
- While near-term prints suggest room for easing, medium term trajectory points otherwise given that monetary policy is forward-looking. However, if growth is weaker than anticipated trajectory then room for further easing opens up. As of now, HFIs are showing weak growth, but front-loaded government spending should be supportive. RBI would know the impact of its front-loaded rate cut cycle with a lag in H2 via credit channel. If growth trajectory upto H2 and beyond is below RBI's baseline and Fed is also seen easing, it can open up room for another 25bps rate cut

% YoY	weight	Jun-24	May-25	Jun-25	FYTD25	FYTD26
Headline	100.0	5.1	2.8	2.1	4.9	2.7
CPI: Food & Beverages	45.9	8.4	1.5	-0.2	8.0	1.1
Cereals	9.7	8.8	4.8	3.7	8.7	4.6
Vegetables	6.0	29.3	-13.7	-19.0	28.2	-14.6
Protein items	13.0	6.1	-0.2	-1.4	6.6	-0.4
Oils & fats	3.6	-2.7	17.9	17.8	-6.3	17.7
Fruits	2.9	7.2	12.7	12.6	6.3	13.1
Sugar & confectionery	1.4	5.8	4.2	3.5	5.9	4.1
Spices	2.5	2.1	-2.8	-3.0	4.7	-3.1
Non-alcholic beverages	1.3	2.4	4.6	4.3	2.5	4.4
Prepared meals	5.6	3.4	4.4	4.3	3.4	4.4
CPI: Fuel & light	6.8	-3.6	2.8	2.6	-3.8	2.8
CPI: Core	47.3	3.1	4.2	4.4	3.2	4.3
Pan, tobacco & intoxicants	2.4	3.1	2.4	2.4	3.0	2.3
Clothing & footwear	6.5	2.7	2.7	2.6	2.8	2.6
Housing	10.1	2.7	3.2	3.2	2.6	3.2
Household goods & services	3.8	2.4	2.5	2.6	2.6	2.5
Health	5.9	4.1	4.3	4.4	4.2	4.3
Transport & communication	8.6	1.0	3.8	3.9	1.0	3.8
Recreation & amusement	1.7	2.3	2.4	2.5	2.5	2.5
Education	4.5	3.6	4.1	4.4	3.9	4.2
Personal care & effects	3.9	8.2	13.5	14.8	7.8	13.7

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

Wholesale price inflation: Primary articles, fuel drags WPI inflation to a 20-month low

- Wholesale inflation came in at -0.13% YoY in June 2025, the lowest print in twenty months. With this, average WPI inflation in Q1FY25 now stands at 0.4%
- Out of the three main components of the index, two components (viz. primary articles, and fuel and power) accounting for 35% of the basket continued to record deflation. Manufactured products prices rose by 2% YoY with core WPI increasing by 1% YoY
- Primary articles index deflated at 3.4% YoY with a similar decline seen around eight years back which was on the back of a high base. Within primary articles, veggie prices contracted -22.7% YoY, sharpest fall since December 2022
- Fuel and power inflation recorded third consecutive deflationary print of -2.7% YoY on the back mineral oils (-5.8% YoY). With oil prices stabilizing around USD 70/bbl in the near term, an uptick in fuel and power index is expected

WPI: Component-wise inflation

(% YoY)	Weight	May-24	Jun-24	May-25	Jun-25
Headline	100.0	2.74	3.43	0.39	-0.13
Primary articles	22.6	7.4	9.2	-2.0	-3.4
of which					
Food		*9.9*	*11.1*	*-1.6*	*-3.7*
Non food		*-3.9*	*-1.0*	*1.5*	*2.3*
Minerals		*5.7*	*10.7*	*0.4*	*0.8*
Crude petroleum & natural gas		*9.8*	*12.6*	*-12.4*	*-12.3*
Fuel & Power	13.2	*1.0*	*0.5*	*-2.3*	*-2.7*
Manufacturing	64.2	1.0	1.5	2.0	1.97
Food index	24.4	7.8	8.9	1.7	-0.3
WPI Core	54.2	0.5	0.9	0.8	1.0

India trade: Goods deficit narrowed due to weak imports

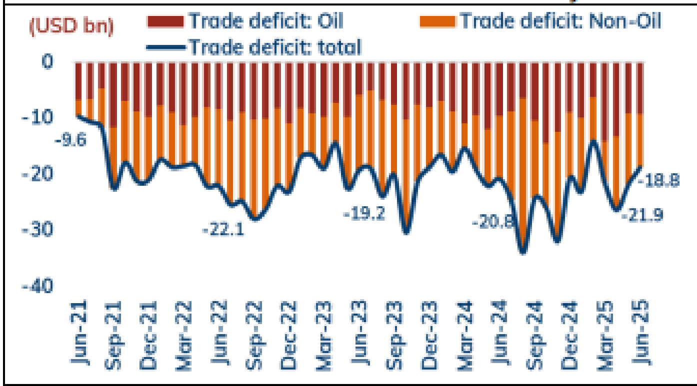
- India's goods exports were largely flat YoY at USD 35.1bn, driven by lower oil exports (-16% YoY), while non-oil exports were higher (2.9% YoY). Net services exports were marginally lower at USD 15.3bn (USD 15.8bn in May)
- Exports to US grew by 24% YoY in June and 22% YoY in Q1FY26 but exports to other countries were lower (-5.6% YoY in June and -2.7% YoY in Q1FY26) underscoring the impact of lower oil exports as well as weaker demand
- Goods imports fell by 3.7% YoY at USD 53.9bn, driven by lower gold imports (-26% YoY) and oil imports (-8.4% YoY) when non-oil non-gold imports were flat (-0.5% YoY). Thus, goods deficit narrowed to a 4-month low of USD 18.8bn (USD 21.9bn in May)
- Global demand is likely to remain sluggish on the back of US tariffs now close to those announced in April. Even services exports could face headwinds from a slowing world and US economy
- We see goods deficit expanding to USD 300bn, with CAD at USD 30bn (0.7% of GDP) in FY26 from 0.6% of GDP in FY25. While current account deficit is manageable, capital inflows into India are muted. While buoyant equity markets are driving FDI outflows because of repatriation, equity and debt FPI inflows are not meaningfully improving. As a result, INR is likely to see limited appreciation bias, and could remain range-bound even when Dollar could be weakening

India Trade: June 2025

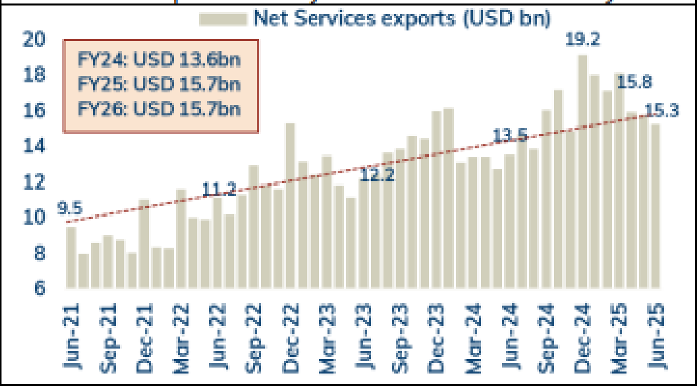
(USD bn)	Jun-24	May-25	Jun-25	(% YoY)	(% MoM)	FYTD25	FYTD26	Growth (%)
Exports	35.2	38.7	35.1	-0.1	-9.3	110.1	112.4	2.1
Of which								
Oil	5.5	5.6	4.6	-16.0	-18.3	20.6	17.6	-14.6
Non-oil	29.7	33.1	30.5	2.9	-7.7	89.4	94.7	5.9
Imports	56.0	60.6	53.9	-3.7	-11.0	172.2	179.4	4.2
of which								
Oil	15.1	14.8	13.8	-8.4	-6.4	51.5	49.3	-4.4
Gold	2.5	2.5	1.8	-25.7	-27.9	8.3	7.5	-10.3
Non-oil non-gold	38.5	43.3	38.3	-0.5	-11.6	112.3	122.7	9.3
Trade Deficit	-20.8	-21.9	-18.8			-62.1	-67.1	

Source: CEIC, PIB press release, ICICI Bank Research

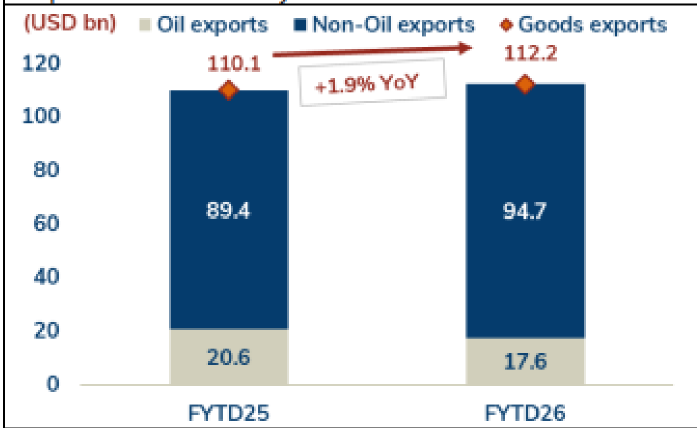
Goods deficit narrowed to USD 18.8bn in June



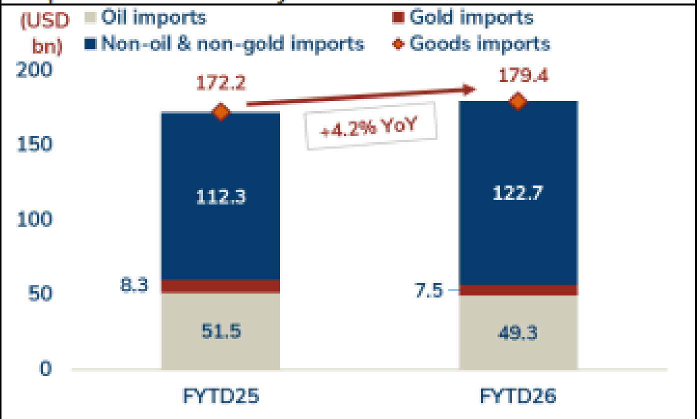
Services surplus steady at USD 15.3bn in May



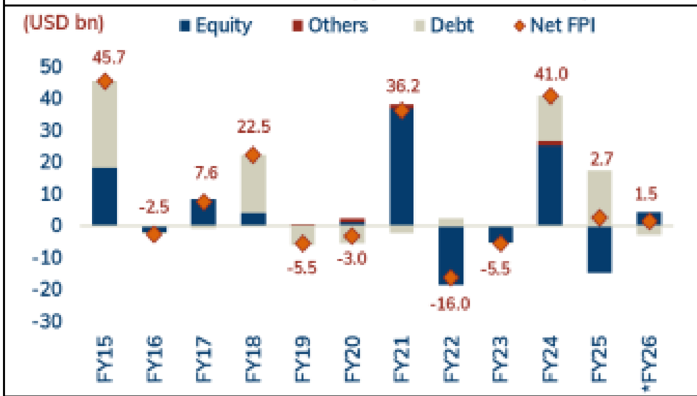
Exports increased by 1.9% YoY in FY26 so far



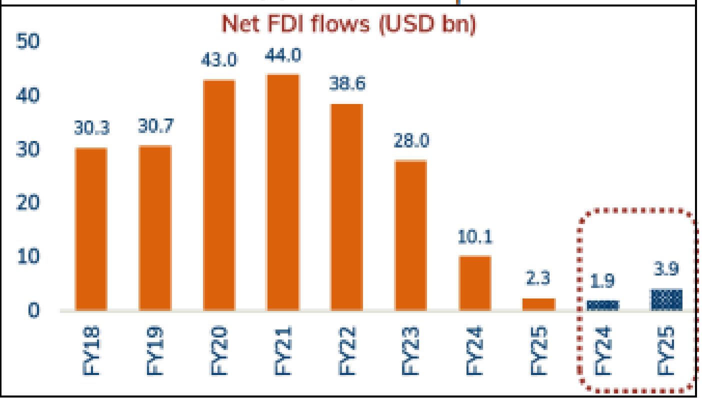
Imports increased by 4.2% YoY in FY26 so far



Net FPI inflows stood at USD 1.5bn in FY26 so far



Net FDIs stood at USD 3.9bn in Apr



Source: CEIC, ICICI Bank Research

India BoP: Current account registers a surplus led by lower goods deficit

- India's current account deficit recorded surplus of USD 13.5bn (1.3% of GDP) in Q4FY25 as against a deficit of USD 11.3bn (1.1% of GDP) in Q3, led by lower trade deficit at USD 59bn (USD 79bn in Q3) and higher invisible receipts at USD 73bn (USD 68bn in Q3)
- Services exports (net) rose by 25% YoY at USD 53bn (USD 51bn in Q3), while remittances increased by 9.7% YoY at USD 32bn in Q4 (USD 33bn in Q3). Services exports are expected to stabilize given weaker global growth outlook, in particular US
- Capital account recorded deficit of USD 5.6bn (deficit of USD 26.6bn in Q3), driven by muted foreign investments. Banking capital outflows of USD 9.0bn (USD 9.8bn in Q3) added to pressure on BoP. However, ECB inflows remained positive at USD 5.5bn (USD 9.1bn in Q3) along with other capital inflows of USD 3.4bn (-USD 11.7bn in Q3)
- Trade deficit widened to USD 287bn in FY25 (USD 245bn in FY24) driven by higher imports (+6.2% YoY). Global trade uncertainties and lower oil prices to weigh on this year's exports as well. But imports should remain stronger due to relatively stronger domestic growth
- We see goods deficit widening to USD 300bn (7.0% of GDP) in FY26. But steady inflows in case of services exports and remittances should ensure a CAD of USD 30bn (0.7% of GDP). More importantly, FPI and FDI inflows should see improvement as the domestic growth cycle is improving. Overall BoP to see a mild surplus

Balance of payments (USD br	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25	FY25
Trade Balance	-52.0	-63.8	-84.6	-79.3	-59.5	-287
Trade Balance (% of GDP)	-5.4	-6.7	-9.0	-7.9	-5.8	-7.9
Exports	121.6	111	105	110	116	442
Oil	**22.2**	**21**	**16**	**13**	**14**	**63**
Non-oil	**98.2**	**89**	**88**	**96**	**101**	**374**
Imports	173.6	175	189	189	176	729
Oil	**48.8**	**52**	**42**	**48**	**44**	**186**
Gold	**9.6**	**8**	**21**	**19**	**10**	**58**
Non-oil non-gold	**113.5**	**115**	**127**	**121**	**122**	**485**
Invisibles	56.6	55	68	68	73	264
Services	42.7	40	45	51	53	189
Transfers	28.7	26	32	33	32	123
Income	-14.8	-11	-9	-16	-12	-48
Current Account	4.6	-8.7	-16.8	-11.3	13.5	-23.4
Current Account (% of GDP)	0.5	-0.9	-1.8	-1.1	1.3	-0.6
Foreign Investment	13.7	7.2	17.0	-14.2	-5.5	4.5
Foreign Direct Investment	2.3	6.2	-2.8	-2.8	0.4	1.0
Portfolio Investment	11.4	0.9	19.9	-11.4	-5.9	3.6
Loans	3.9	5.1	9.4	9.1	5.5	29.2
Banking Capital	6.9	2.9	6.1	-9.8	-9.0	-9.8
Other Capital	1.1	-2.0	3.3	-11.7	3.4	-7.1
Capital Account	25.5	13.1	35.9	-26.6	-5.6	16.8
Overall Balance	30.8	5.2	18.6	-37.7	8.8	-5

Source : CEIC, RBI, ICICI Bank Research

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