India Economy Update: December 2025

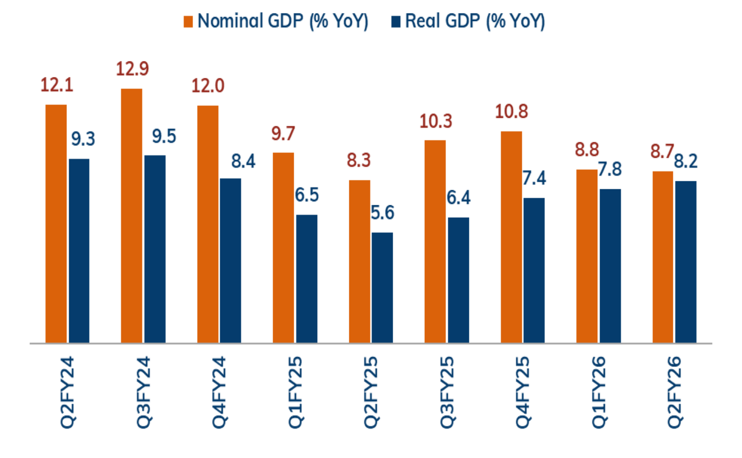
India GDP: Big positive surprise

- India's GDP and GVA growth surprised positively at 8.2% and 8.1% respectively. The upward surprise is attributable to stronger growth in manufacturing and services on the supply side and consumption on the demand side
- Growth narrative for Q3 is also supportive as seen in spill-over of demand from Q2 post reduction in GST with same visible in pick-up in credit growth, tax collections, non-oil-non-gold imports and auto sales. While exports and fiscal compression are headwinds to growth, as of now domestic consumption is seen to be outweighing impact of weaker exports and government spending
- Even as growth in H2 should slowdown to 7% from 8% in H1, it implies overall growth of 7.5% for FY26. Growth should slowdown in FY27 as positive impact of monetary and fiscal stimulus along with low deflator start to wane. However, by then exports along with private capex could start to see an uptick with trade agreements in place
- While there is an ongoing debate over nominal and real GDP, the economy is showing signs of pick-up. In the backdrop of 7.5% growth in FY26, we don't see need for cutting rates in December policy.While inflation and external headwinds have created space for lower rates, strong growth along with weaker BoP (financial stability) and limited scope for transmission (high loan deposit ratio) makes a case for a pause
- MPC can remain on dovish pause with space to cut which would also be contingent on new GDP and CPI series to be released in February with both witnessing a change in methodology

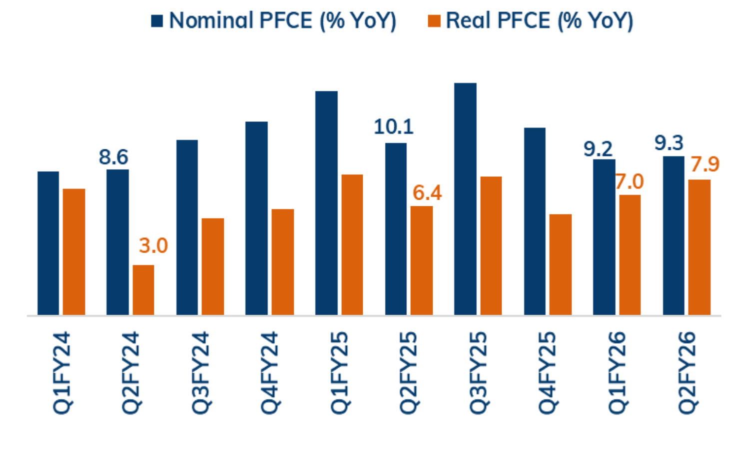
FY26 growth revised higher at 7.5% YoY (earlier at 7.0% YoY)

Yearly growth estimates (% YoY)	FY23	FY24	FY25	H1FY26	FY26 (F)	FY27 (F)
Agriculture	4.7	1.4	4.6	3.6	3.8	3.9
Industry	2.1	9.5	5.9	7.0	6.5	6.0
Services	10.0	7.6	7.2	9.3	8.7	7.6
GVA	6.7	7.2	6.4	7.9	7.3	6.5
GDP	7.0	8.2	6.5	8.0	7.5	6.5

Lower GDP deflator boosted GDP growth higher…



…private consumption picked up on the back of robust rural consumption



Source: MoSPI, CEIC, PIB press release, ICICI Bank Research

Retail inflation: Benign inflation trajectory to continue

- CPI inflation saw a marginal pick-up to 0.71% YoY (our est: 0.66%) from a series low of 0.25% in Oct led by food prices showing a lower decline in the month at -3.9% YoY (-5.0% YoY in Oct). Core inflation was steady at 4.3% (similar to last month)
- Within food, a number of food items have recorded a positive momentum led by veggies (+2.6% MoM), eggs (+5.2% MoM), meat and fish (0.5% MoM), spices (+0.4% MoM), pulses, milk, and cereals (+0.1% MoM each). Given rabi sowing, food prices should remain benign in near-term
- Core inflation excluding precious metals remained moderate at 2.4% YoY with core goods inflation at 1.9% YoY (2.1% YoY in Oct) and core services inflation at 3.1% YoY (same as Oct). Soft goods inflation is also attributable to reduction in GST
- A weaker rupee and higher industrial metal prices should lead to higher inflation in future. However, lower energy prices and China's excess capacity is exerting downward pressure on goods prices globally. In addition, the impact of GST reductions which are yet to be seen should also drive inflation lower in near-term
- From 2.1% YoY in FY26, we expect headline inflation to inch towards 4.1% YoY in H1FY27 on the back of higher food inflation (on a low base). This implies limited room for any further rate cuts. A new revised series to be released in Feb will give a better insight into next year's inflation trajectory

% YoY	weight	Nov-24	Oct-25	Nov-25	FYTD25	FYTD26
Headline	100.0	5.5	0.3	0.7	4.9	1.8
CPI: Food & Beverages	45.9	8.2	-3.7	-2.8	7.6	-0.6
Cereals	9.7	6.9	0.9	0.1	7.8	2.8
Vegetables	6.0	29.4	-27.6	-22.2	26.2	-18.9
Protein items	13.0	4.0	-1.5	-1.0	5.4	-0.9
Oils & fats	3.6	13.3	11.2	7.9	0.6	16.4
Fruits	2.9	7.7	6.7	6.9	6.6	11.1
Sugar & confectionery	1.4	1.3	4.0	4.0	4.4	3.9
Spices	2.5	-7.4	-3.3	-2.9	-1.5	-3.1
Non-alcholic beverages	1.3	2.7	3.5	2.9	2.5	4.1
Prepared meals	5.6	3.9	4.0	3.7	3.6	4.2
CPI: Fuel & light	6.8	-1.8	2.0	2.3	-3.4	2.4
CPI: Core	47.3	3.6	4.4	4.3	3.4	4.3
Pan, tobacco & intoxicants	2.4	2.3	2.9	3.0	2.8	2.6
Clothing & footwear	6.5	2.7	1.7	1.5	2.7	2.3
Housing	10.1	2.9	3.0	3.0	2.7	3.1
Household goods & services	3.8	2.8	2.3	2.0	2.6	2.4
Health	5.9	4.0	3.8	3.6	4.1	4.2
Transport & communication	8.6	2.7	0.9	0.9	2.1	2.4
Recreation & amusement	1.7	2.6	1.5	1.3	2.4	2.1
Education	4.5	3.9	3.5	3.4	3.9	3.8
Personal care & effects	3.9	10.4	23.9	24.0	8.8	17.5

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

Source: CEIC, PIB press release, ICICI Bank Research

Wholesale price inflation: Food and energy prices driving deflation

- Wholesale inflation came in at -0.3% YoY (-1.2% YoY in Oct) led by contraction in food prices. However, pace of deflation is now lower than October which explains the lower pace of contraction
- In the current financial year, primary articles index has been in deflation on the back of cheaper food and fuel prices. Within food, apart from protein based items, all other segments are in deflation
- One of the primary cause of deflation in WPI is fuel index which has been contracting since Aug 2024 given lower oil prices. Given benign global oil prices, upward pressure on energy prices is unlikely
- Manufactured products inflation too fell to a 14-month low of 1.3% YoY mainly on the back of lower manufactured food prices. Core WPI inflation is flat at 1.5% YoY with a weaker currency likely to impart upward pressure
- Average WPI index for Apr-Nov 2025 stands at -0.1% and given muted food inflation outlook, we expect it to remain benign. However, index has bottomed out and it should start to gradually inch up

Wholesale inflation fell by -0.3% YoY

(% YoY)	Weight	Oct-24	Nov-24	Oct-25	Nov-25
Headline	100.0	2.8	2.2	-1.2	-0.3
Primary articles	22.6	8.3	5.5	-6.2	-2.9
of which					
Food		**13.5**	**8.5**	**-8.3**	**-4.2**
Non food		**-1.3**	**-0.6**	**1.5**	**2.3**
Minerals		**4.5**	**6.3**	**5.6**	**10.4**
Crude petroleum & natural gas		***-11.8***	***-7.7***	***-7.5***	***-8.7***
Fuel & Power	13.2	**-4.3**	**-4.0**	**-2.6**	**-2.3**
Manufacturing	64.2	1.8	2.1	1.5	1.3
Food index	24.4	12.1	8.9	-5.0	-2.6
WPI Core	54.2	0.3	0.6	1.5	1.5

Source: CEIC, PIB press release, ICICI Bank Research

India trade: Exports hold up in November

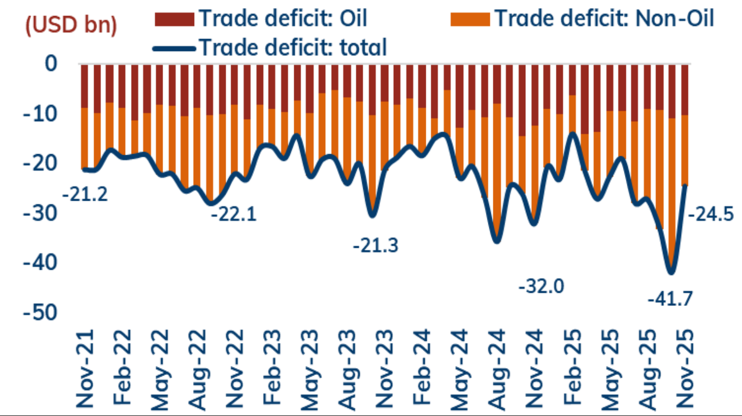
- India's goods exports surprised positively rising by 19% YoY at USD 38bn, driven by both oil (12% YoY) and non-oil exports (20% YoY). Net service exports up by 20% YoY at USD 17.9bn in Nov
- Exports to the US saw a rebound at 23% YoY, after two consecutive months of weak growth (avg: -10% YoY). Even exports to the non-US countries accelerated (19% YoY)
- Goods imports fell by 2.0% YoY at USD 62.7bn, led by lower gold (-59% YoY) and oil imports (-11% YoY). Non-oil non-gold imports were higher (17% YoY), underscoring the strong domestic demand led by festive season and GST cuts
- Thus, goods deficit narrowed to a 5-month low of USD 25bn from the record high of USD 42bn in Oct. With this, goods deficit now stands at USD 223bn in the year so far (USD 203bn in same period last year)
- Positive traction in goods exports along with stronger services exports imply downward bias to CAD to ~0.9% to 1.0% of GDP now (earlier: 1.2% of GDP). For FY27, CAD is seen ~1.0% of GDP
- Despite a low CAD, INR is under pressure because of capital outflows seen in equity markets and muted net FDI inflows. Till such time narrative doesn't change, INR should continue to see a depreciation bias

India Trade: November 2025

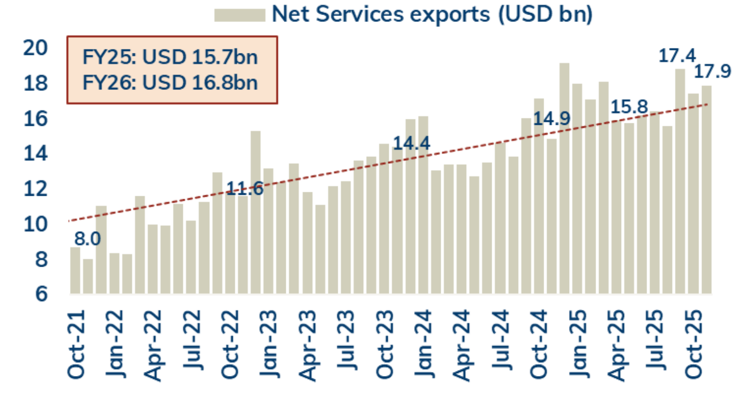
(USD bn)	Nov-24	Oct-25	Nov-25	(% YoY)	(% MoM)	FYTD25	FYTD26	Growth (%)
Exports	31.9	34.4	38.1	19.4	10.9	284.6	292.1	2.6
Of which								
Oil	3.5	4.0	3.9	11.6	-0.5	44.6	38.0	-14.7
Non-oil	28.4	30.4	34.2	20.3	12.4	240.0	254.1	5.9
Imports	63.9	76.1	62.7	-2.0	-17.6	487.9	515.2	5.6
of which								
Oil	15.9	14.8	14.1	-11.3	-4.6	127.8	121.0	-5.3
Gold	9.8	14.7	4.0	-59.2	-72.7	43.8	45.3	3.3
Non-oil non-gold	38.2	46.5	44.5	16.6	-4.3	316.2	348.9	10.3
Trade Deficit	-32.0	-41.7	-24.5			-203.3	-223.1	

Source: CEIC, PIB press release, ICICI Bank Research

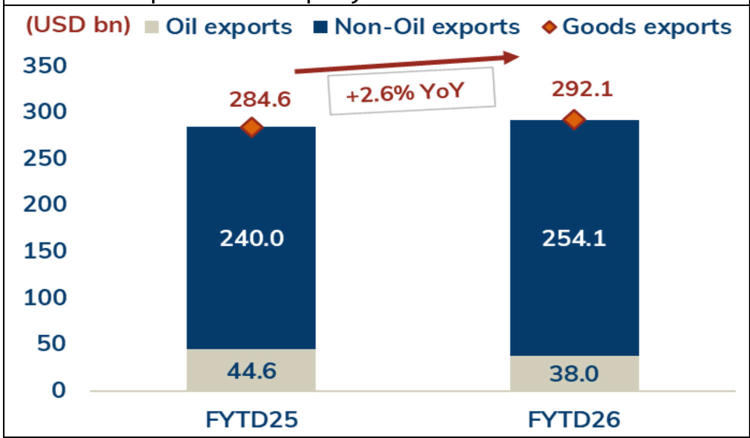
Goods deficit narrowed to USD 24.5bn in Nov



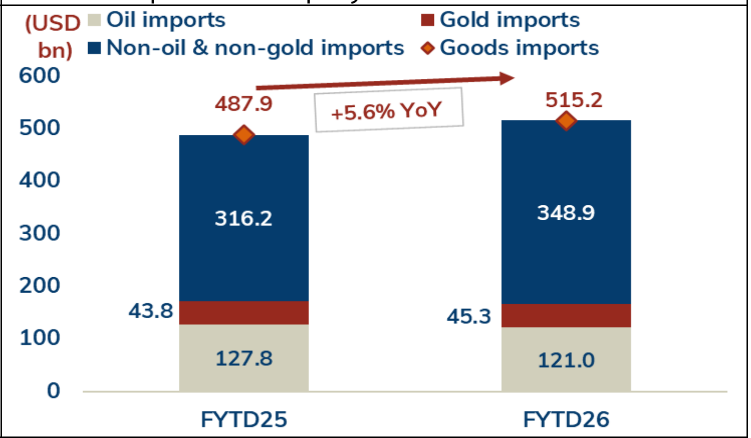
Services trade surplus steady at USD 17.9bn



Goods exports are up by 2.6% in FY26 so far



Goods imports are up by 5.6% YoY in FY26 so far



Source: CEIC, PIB press release, ICICI Bank Research

India BoP: Higher services exports and remittances ensure moderate CAD

- India's current account deficit (CAD) stood at USD 12.3bn (1.3% of GDP) as against a deficit of USD 2.7bn in Q1, driven by wider goods deficit of USD 87bn (USD 69bn in Q1)
- However, invisible receipts have maintained upward momentum at USD 75bn (USD 66bn in Q1) which is up by 11% YoY led by 14% YoY increase in services exports and 11% YoY increase in remittances
- Capital account surplus moderated to USD 0.6bn in Q2 due to foreign investment outflows of USD 2.9bn. Commercial borrowing inflows also moderated as domestic demand for credit has seen a pick-up
- Given higher US tariffs (50%) on India and resilient domestic demand, we see CAD expanding to 1.2% of GDP this year but should moderate next year as tariff settles to a lower level and invisible receipts continues to see a strong momentum
- A lower CAD along with improvement in capital inflows into India should change the BoP picture from a large deficit this year to a mild surplus next year. This should ensure a milder depreciation for the currency next year compared with this year when it has fallen by 4.9% against the Dollar. Nonetheless, weaker INR is positive for competitiveness and exports over the medium-term

Balance of payments (USD bn)	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25	Q1 FY26	Q2 FY26	H1FY26
Trade Balance	-60	-89	-79	-59	-69	-87	-156
Trade Balance (% of GDP)	-6.3	-9.5	-7.9	-5.8	-6.8	-9.0	-7.9
Exports	115	101	110	116	113	109	222
Oil	**24**	**12**	**13**	**14**	**17**	**13**	**30**
Non-oil	**90**	**87**	**96**	**101**	**95**	**95**	**189**
Imports	175	189	189	176	182	197	378
Oil	**52**	**42**	**48**	**44**	**49**	**43**	**92**
Gold	**8**	**21**	**19**	**10**	**7**	**19**	**27**
Non-oil non-gold	**115**	**127**	**121**	**122**	**125**	**135**	**260**
Invisibles	55	68	68	73	66	75	141
Services	40	44	51	53	48	51	99
Transfers	26	32	33	32	31	36	67
Income	-11	-9	-16	-12	-13	-12	-25
Current Account	-4.5	-20.9	-11.3	13.6	-2.7	-12.3	-15.1
Current Account (% of GDP)	-0.5	-2.2	-1.1	1.3	-0.3	-1.3	-0.8
Foreign Investment	7.2	17.0	-14.2	-5.5	6.5	-2.9	3.6
Foreign Direct Investment	6.2	-2.8	-2.8	0.4	4.9	2.9	7.7
Portfolio Investment	0.9	19.9	-11.4	-5.9	1.6	-5.7	-4.1
Loans	5.1	9.5	9.1	5.7	5.2	3.4	8.6
Commercial Borrowings	1.5	2.0	4.4	8.0	4.6	0.0	4.5
Banking Capital	2.9	6.1	-9.8	-9.0	-1.6	1.9	0.3
Other Capital	-6.2	7.3	-11.7	3.2	-2.1	-1.8	-3.9
Capital Account	8.9	39.9	-26.6	-5.6	8.0	0.6	8.6
Overall Balance	5.2	18.6	-37.7	8.8	4.5	-10.9	-6.4

Balance of payments (USD bn)	FY24	FY25	FY26 E		FY27 E
			25% Tariffs	50% Tariffs	
Trade Balance	-245	-287	-330	-341	-358
Trade Balance (% of GDP)	-6.7	-7.3	-8.1	-8.3	-8.3
Exports	441	442	437	428	457
Oil	84	63	56	56	58
Non-oil	353	374	379	369	398
Imports	686	729	767	769	815
Oil	179	186	179	179	187
Gold	46	58	60	60	63
Non-oil non-gold	454	485	527	527	565
Invisibles	219	264	293	293	314
Services	163	189	208	208	225
Transfers	106	123	138	138	144
Income	-50	-48	-53	-53	-55
Current Account	-26	-23	-37	-48	-44
Current Account (% of GDP)	-0.7	-0.6	-0.9	-1.2	-1.0
Foreign Investment	54	5	14	14	24
Foreign Direct Investment	10	1	13	13	14
Portfolio Investment	44	4	1	1	10
Loans	7	30	23	23	31
Banking Capital	41	-10	-4	-4	-10
Other Capital	-12	-7	-5	-5	1
Capital Account	90	17	27	27	46
Overall Balance	64	-5	-10	-20	3

Source: CEIC, Reserve Bank of India, ICICI Bank Research

MPC Review: Benign inflation gives MPC room to push growth

- MPC reduced repo rate to 5.25% with stance maintained at 'neutral'. While the decision on repo rate was unanimous, one external member (two previously) wanted to change stance to 'accommodative'
- Growth forecast for FY26 now stands at 7.3% (6.8% earlier) with H2FY26 and H1FY27 growth at 6.7%. The upward revision in growth forecast is because of much stronger domestic demand outlook
- Inflation projections have been revised lower for FY26 at 2% (2.6% earlier) led by benign food and core inflation excluding precious metals. Even for H1FY27 inflation is projected at 4% (4.5% earlier)
- Despite volatility seen in INR, MPC went ahead with a rate cut given a low current account deficit outlook. Moreover, despite expected uptick in imported inflation because of weaker currency, headline inflation is estimated to remain benign given higher weight of food inflation
- RBI announced durable liquidity infusion of INR 1.5tn with OMO purchase of INR 1tn and USD 5bn in via buy-sell swap in December itself. We expect even more durable liquidity infusion in Q4 given demand for currency and maturity of forward short positions
- Is there room for any more rate cuts? While policy undertone is dovish, from a real rate point of view, real rate is now estimated at 1.3% for H1FY27 which is at the lower end of the RBI's real rate framework of 1.4-1.9%. Hence, if inflation surprises on the downside room may open up
- MPC would also want to look at new GDP and CPI series with methodology undergoing a significant change before it makes up its mind on the future growth-inflation trajectory

Chart 1: MPC lowered Q3, Q4 inflation forecasts

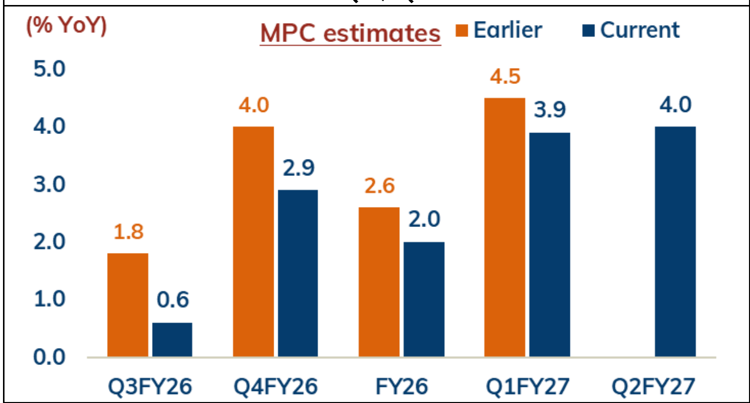


Chart 2: It now sees CPI at 2% in FY26

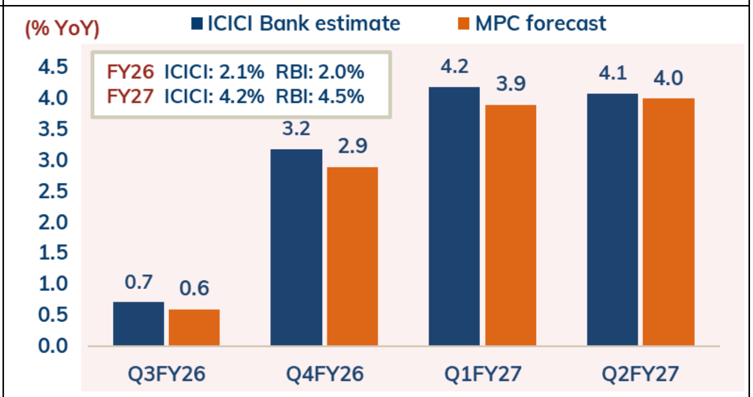


Chart 5: RBI to inject ~INR 1.5tn of liquidity in December

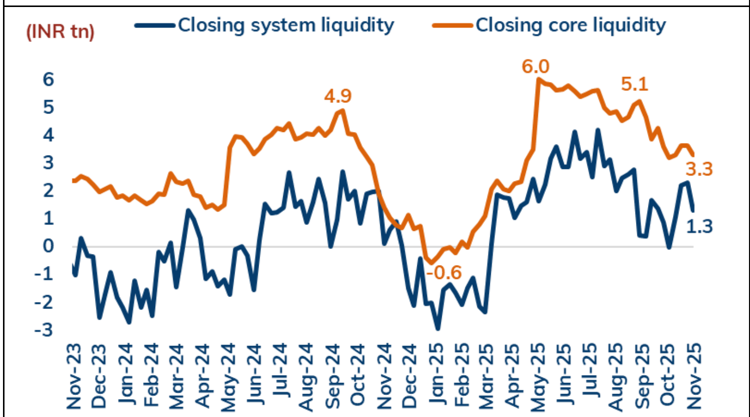
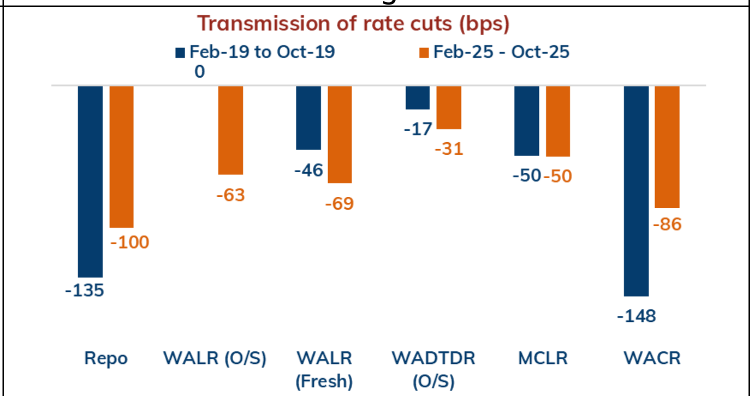


Chart 6: Two-third of the cumulative rate cuts have been transmitted to lending rates



Source:PIB, ICICI Bank Research

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