



CareEdge

► Economic Pathway

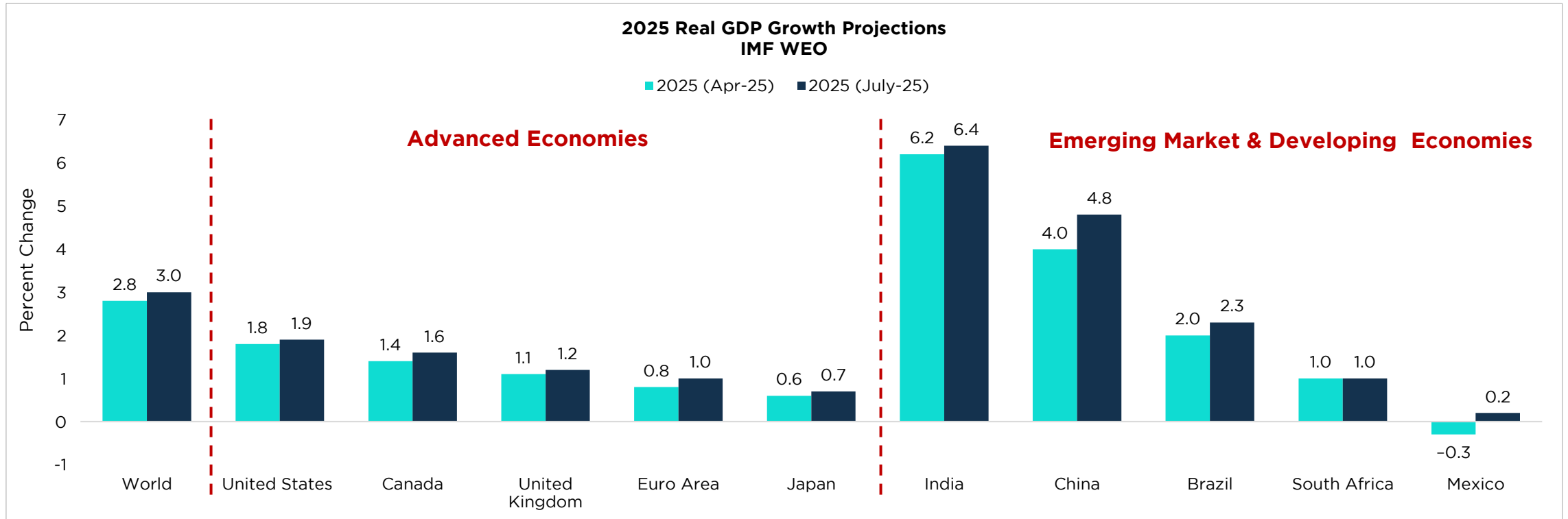
August 2025



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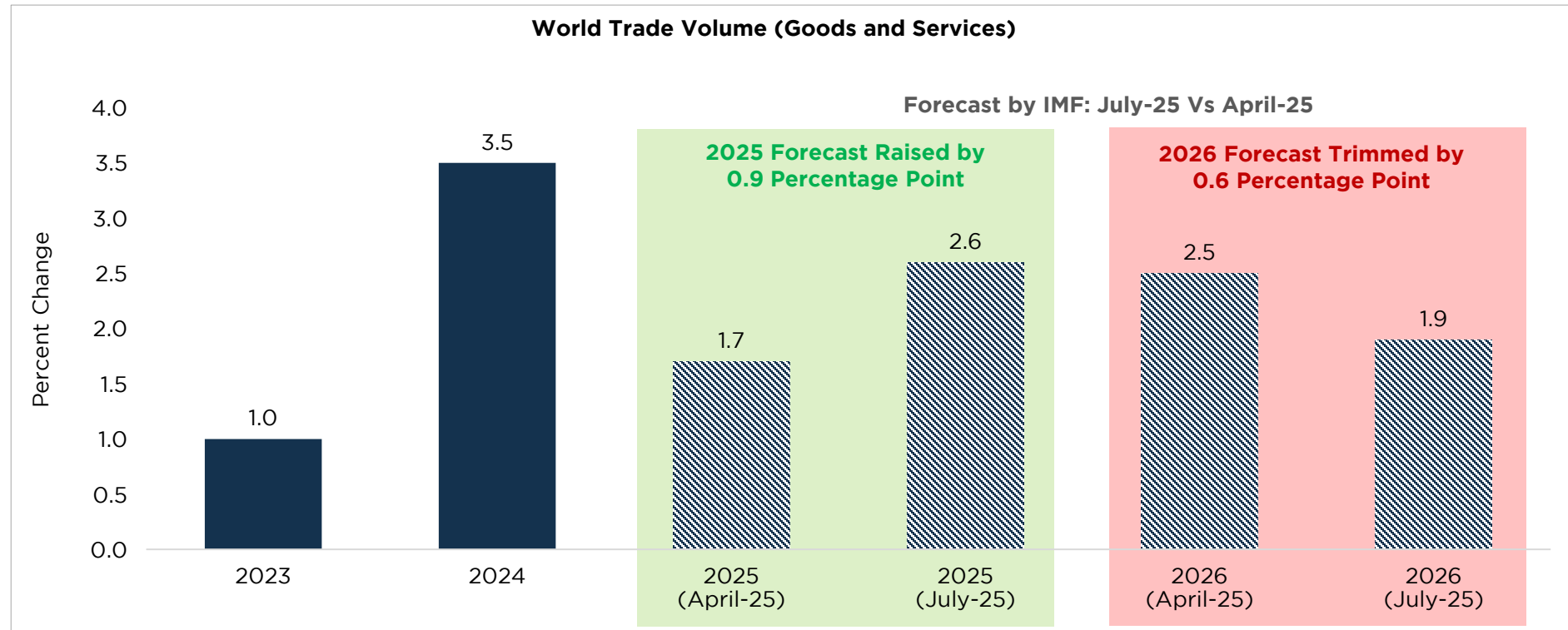
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≡ Economy Update



Source: IMF WEO, CareEdge; Note: For India, data is presented on a fiscal year basis

- Strong front-loading in international trade, lower worldwide effective tariff rates vis-à-vis April expectations and improvement in global financial conditions supported the upward revisions to the 2025 growth forecasts across economies.
- This front-loading is expected to unwind in the coming quarters, keeping the 2025 growth below the pre-pandemic historical average of 3.7%.

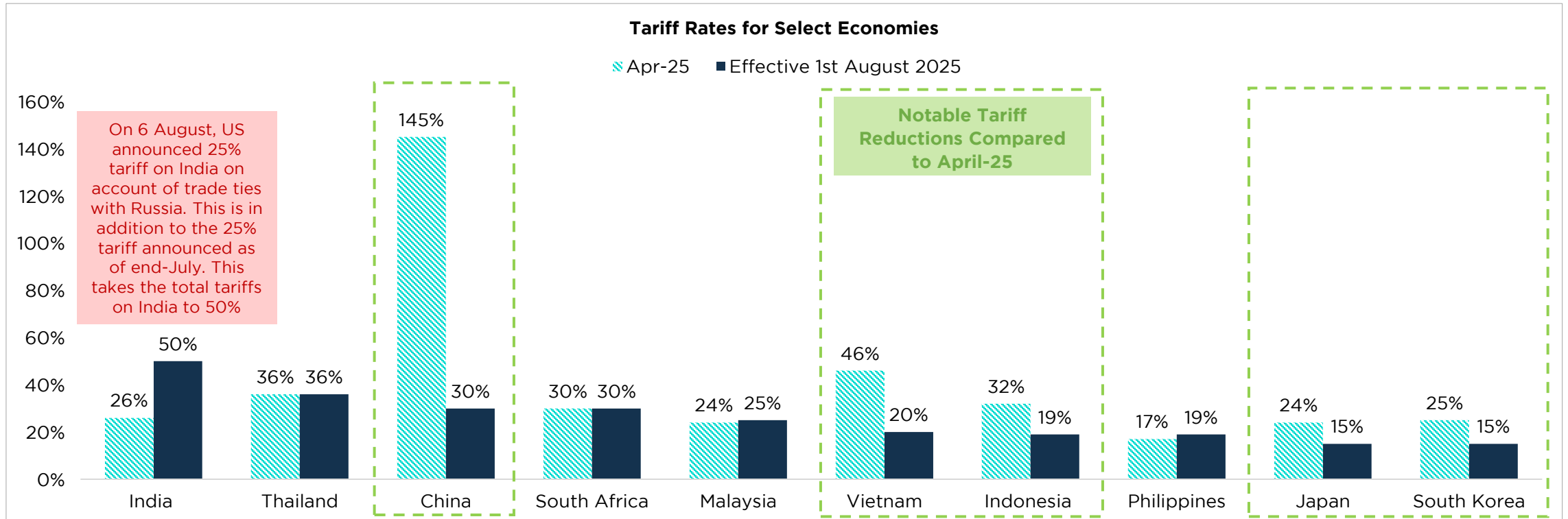


Source: IMF WEO, CareEdge; Note: Simple average of growth rates for export and import volumes (goods and services)

- Front-loading of some trade flows in anticipation of tighter trade restrictions provided a near-term offset. This is expected to fade in the second half of 2025.
- However, the 2026 trade growth forecast has been trimmed lower amid volatile global trade conditions.

Global Tariff Developments

India's Relative Tariff Edge from April has now Reversed



Source: White House, Official Sources, CareEdge; Note: Data as of 6 August

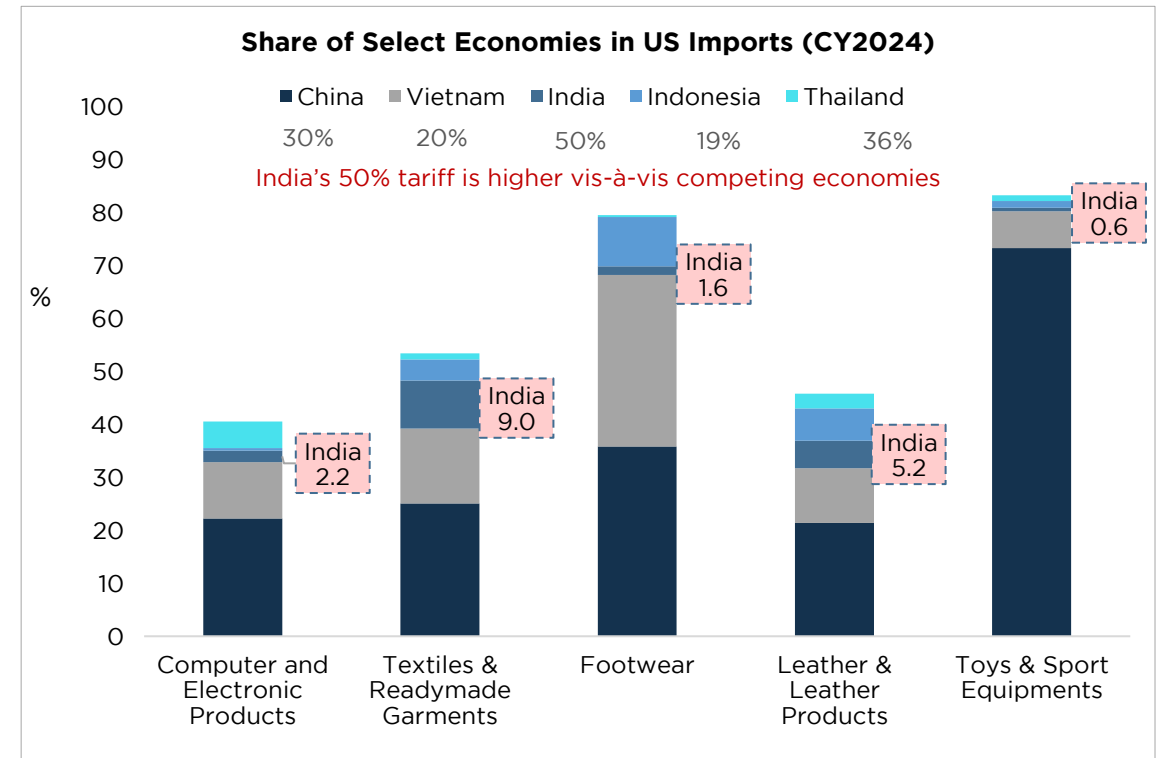
- Since August 1, 2025, the US has lifted the temporary pause on the reciprocal tariffs announced on multiple trading partners earlier this year.
- Several Asian economies (such as Vietnam and Indonesia) have announced trade deals with the US, thereby negotiating a lower level of reciprocal tariffs.
- In addition to the 25% tariff announced in July, India is expected to face a further 25% tariff from 27 August due to its trade ties with Russia.
- Thus, India's likely tariff rate at 50% is notably higher compared to its Asian peers, such as Vietnam (reciprocal tariff of 20%), Indonesia (19%) and South Korea (15%).

Impact of US Tariffs on India

Impact on Key Sectors

	% Share in India's Exports to the US	% Share of the US in India's Exports to the World
Electronic Goods	17.6	37.3
Pharma Products	11.8	35.1
Gems & Jewellery	11.5	33.3
Machinery & Instruments	8.8	19.6
Petroleum & Crude products	4.7	6.5
Agricultural & Allied Products	6.5	11.0
Readymade Garments	6.2	33.4
Textiles (Excluding RMG)	5.9	26.0
Ferrous and Non-Ferrous Metals	5.4	21.0
Transport Equipment	3.2	8.5
Inorganic/Organic/Agro chemicals	2.9	15.6

Source: Ministry of Commerce, CMIE, CareEdge

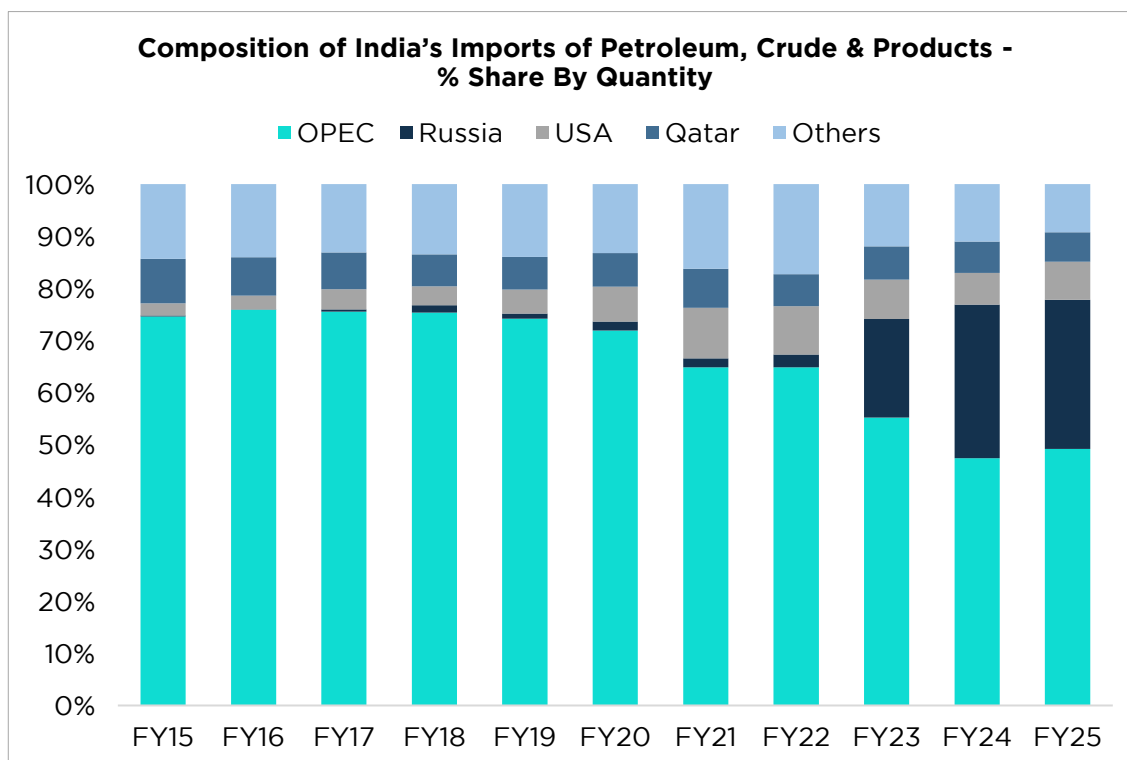


Source: International Trade Administration, CareEdge

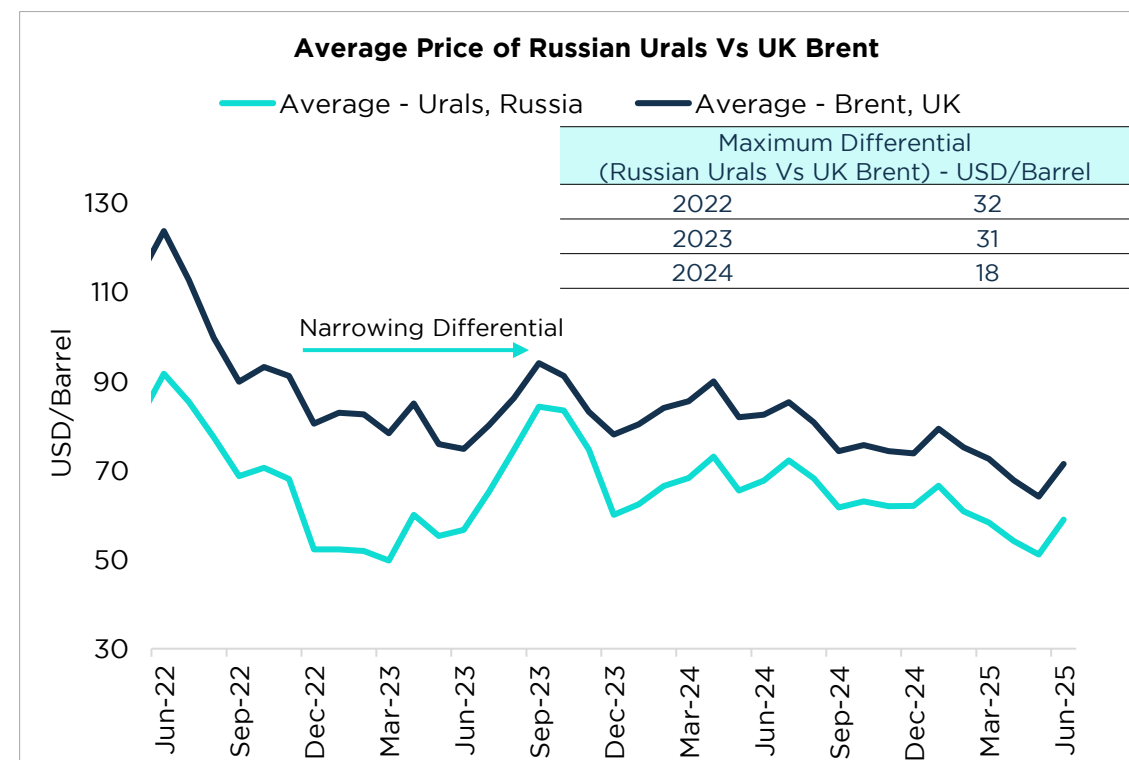
- India is a domestic-driven economy with a low share of goods exports to the US (at ~2% of GDP). This should provide some buffer to India.
- Given that India now faces higher tariffs compared to other economies, there is growing pressure on the country to negotiate a trade deal with the US.
- However, India is likely to remain cautious about opening up sensitive sectors such as agriculture and dairy, so the negotiations may take some time to conclude.
- Although pharmaceuticals and select electronics currently remain on the exemption list, the risk of tariffs being imposed on these sectors persists.
- Discretionary items like gems and jewellery may feel the heat of reciprocal tariffs. Furthermore, key US suppliers of footwear, textiles and leather, like Vietnam and Indonesia, could gain from lower US tariffs compared to India.

US Doubled Tariffs on India on account of Oil Imports from Russia

Role of Russia in India's Oil Imports



Source: CMIE, CareEdge

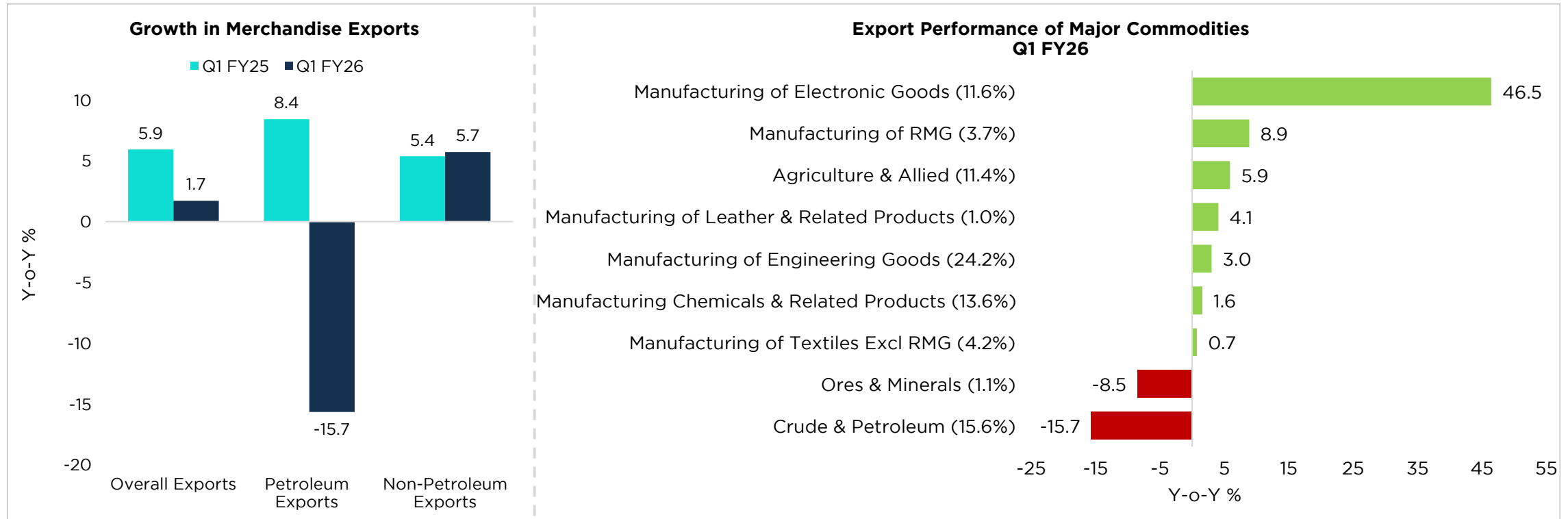


Source: CEIC, CareEdge

- Share of OPEC countries in India's total imports of petroleum, crude and products has declined successively from ~75% a decade ago to 50% in FY25.
- Subsequently, there has been an increase in the share of imports from Russia (29% share in FY25 from 0.2% in FY15) and the USA (7% in FY25 from 2% in FY15).
- Latest data suggests that the price differential between Russian Ural and Brent Crude has further narrowed to around USD 3 per barrel as of early August.
- Thus, any diversification in India's oil imports away from Russia is expected to have a minimal impact on India's oil import bill. However, such diversification away from Russian oil by other countries could add to the upward pressures on global crude oil prices.

India's Trade Update – Q1 FY26

Non-Petroleum Exports Held Up Relatively Well; Electronic Exports Lead

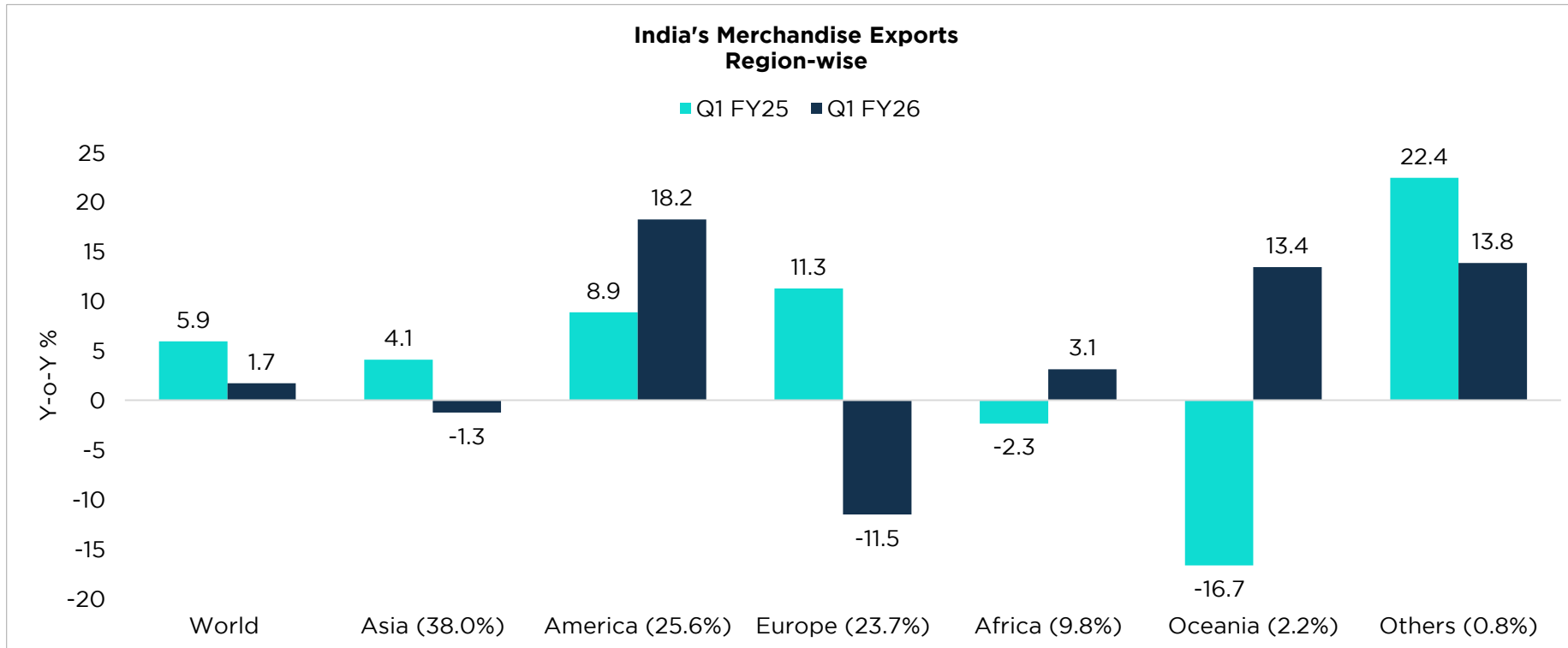


Source: CMIE, CareEdge; Note: Figures in bracket represent percentage share in total merchandise exports; Total shared might not add up to 100% due to exclusion of other goods and other manufacturing goods.

- While India's non-petroleum exports held up relatively well, rising by 5.7% (y-o-y) in Q1 FY26, a sharp contraction in petroleum exports weighed on the overall exports.
- Among major categories, exports of electronic goods were seen at USD 13 billion in Q1 FY26, 46.5% higher compared to the same quarter last year.
- India's overall imports remained relatively resilient, rising by 4.2% in Q1 FY26 (Vs 7.6% last year), with non-petroleum imports rising by a strong 7.9%.
- We project India's merchandise exports to contract by ~4% in FY26, led by a 15.5% drop in petroleum exports, while non-petroleum exports are expected to dip just 0.8%.
- Overall imports are projected to rise by 0.5% in FY26 (With petroleum imports declining by 12.9% and non-petroleum imports growing by 6.8%).

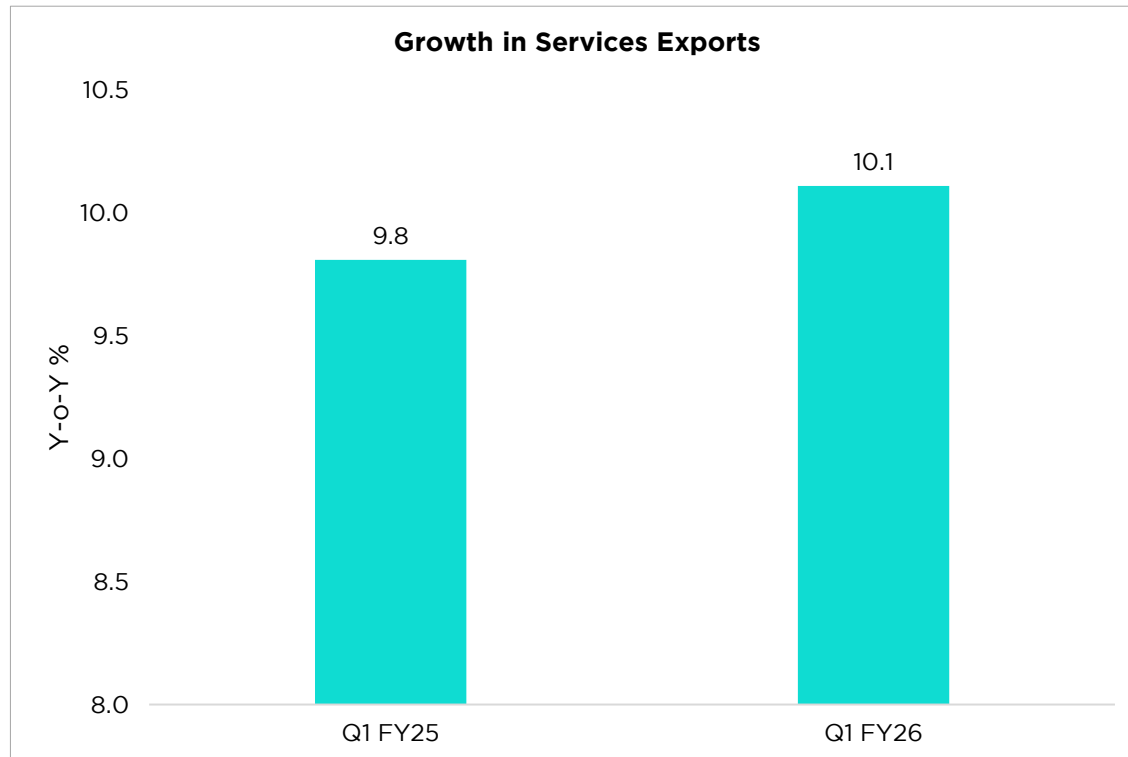
India's Trade Update – Q1 FY26

India's Region-wise Merchandise Export Performance

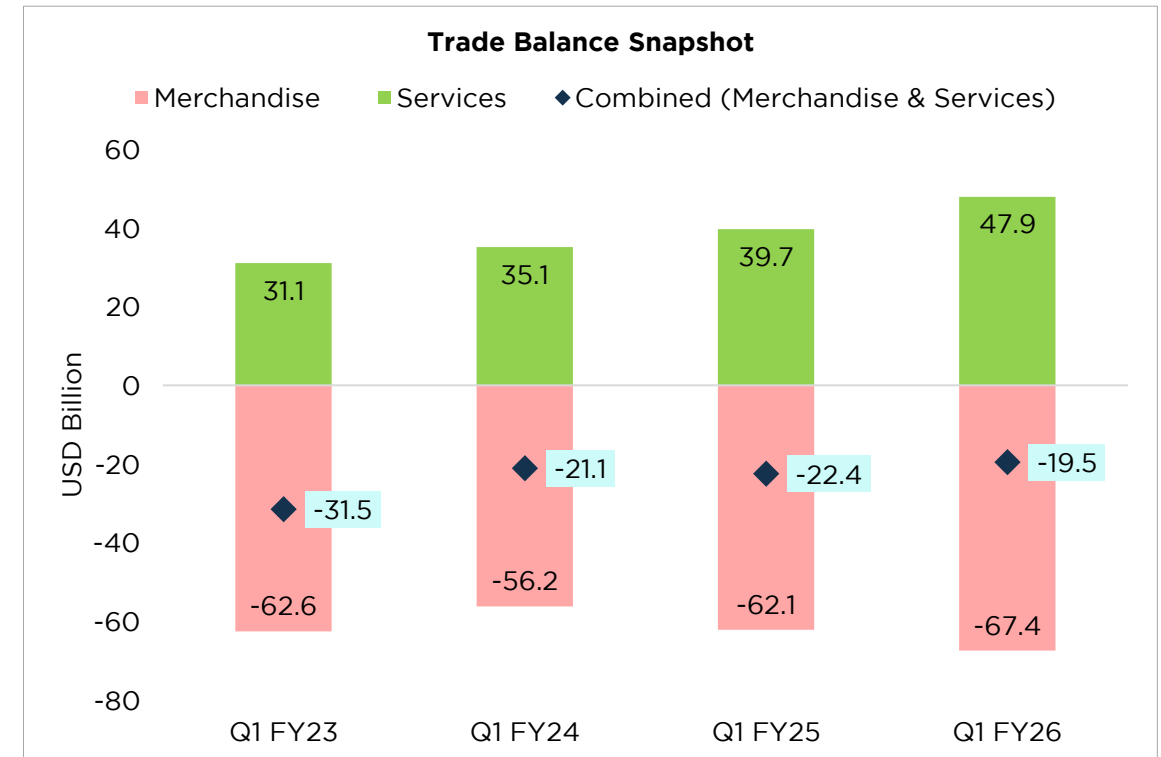


Source: CMIE, CareEdge; Note: Percentage share of regions in India's total exports is for FY25

- In Q1 FY26, India's exports to Asia and Europe (together constituting 62% of India's total exports) witnessed a year-on-year contraction.
- The US (accounting for a 19.8% share in total exports) witnessed a growth of 22% (y-o-y) in Q1 FY26. Exports to China also rose by 17.8%.
- Exports to the US were buoyed by upbeat performance in electronic goods (30% share in total exports to the US), which rose by 138% (y-o-y) in Q1 FY26.
- Front-loading of exports and tariff exemptions to key exports (pharma and electronics) likely supported India's Q1 exports to the US.



Source: CMIE, CareEdge

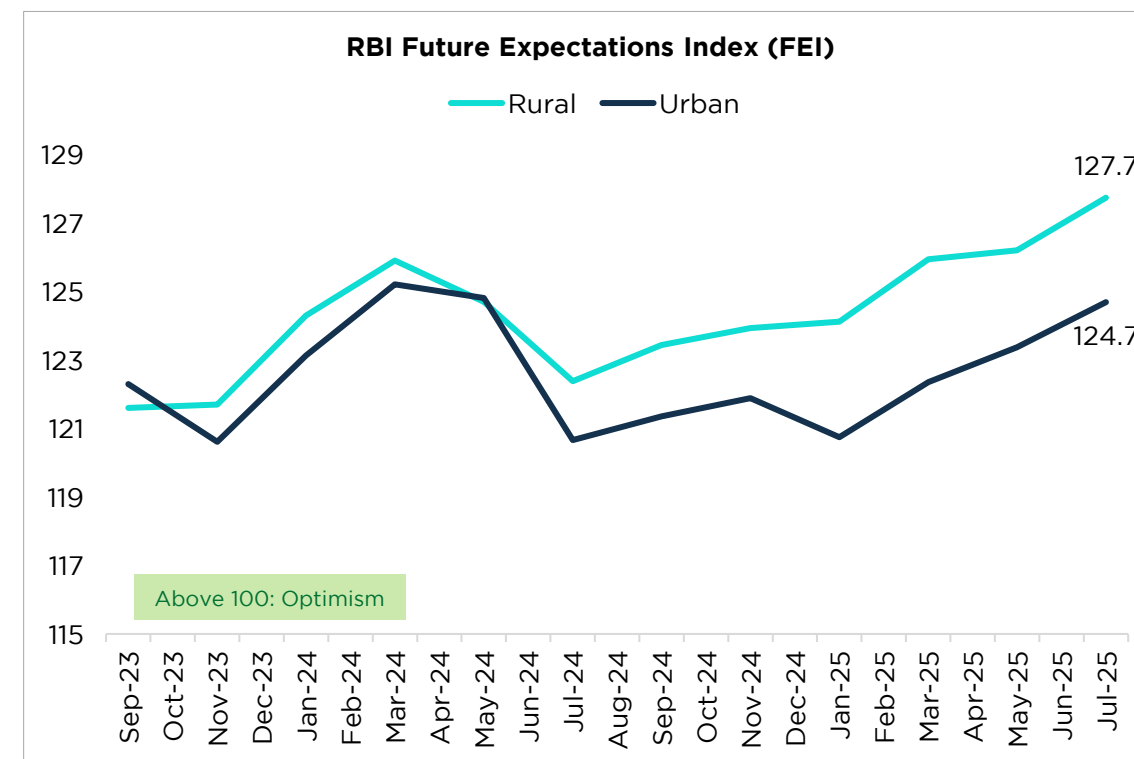
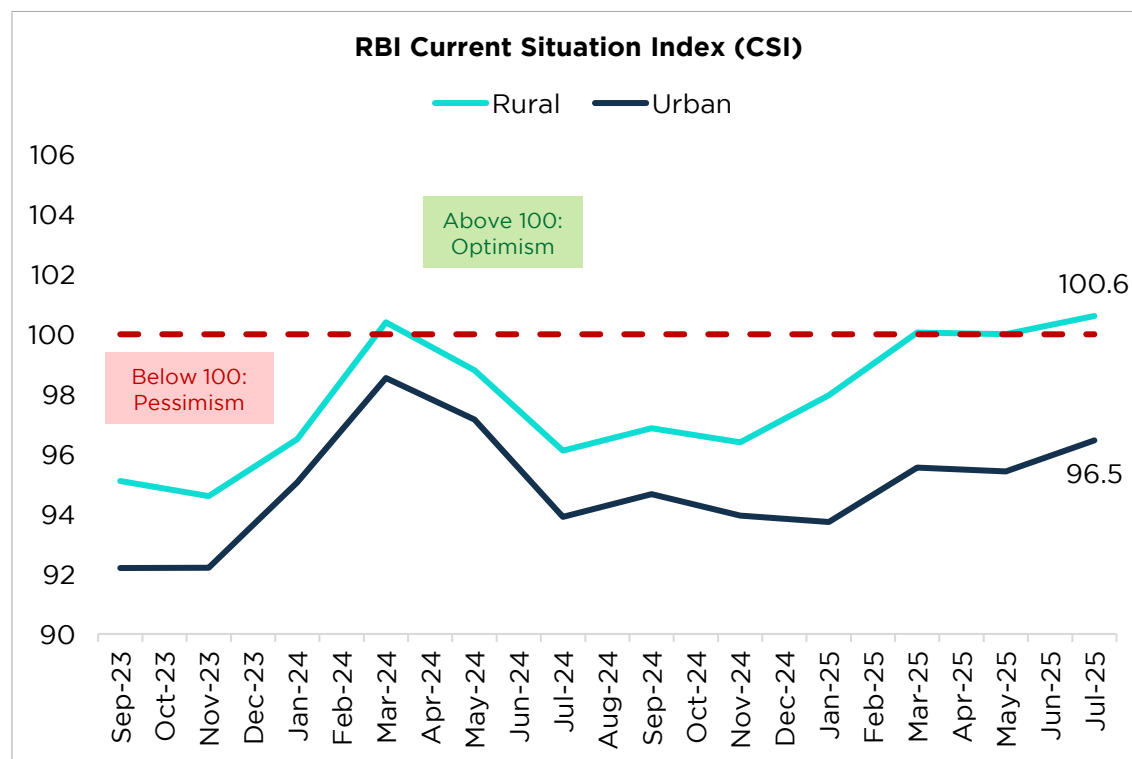


Source: CMIE, CareEdge

- India's services exports stayed largely resilient, rising by 10% in Q1 FY26. Full-year growth in services exports is projected at ~8%.
- The combined trade deficit (merchandise & services) was contained at USD 19.5 billion in Q1 FY26, the lowest in the last three years, backed by healthy services exports.
- India's services exports remain outside the scope of US tariffs and should continue to support the external sector.
- However, the escalation in US-India tariff tensions remains the critical monitorable for India's trade picture going ahead.

Domestic Consumer Confidence Indices

Urban Sentiments Trail Rural Despite Signs of Recovery

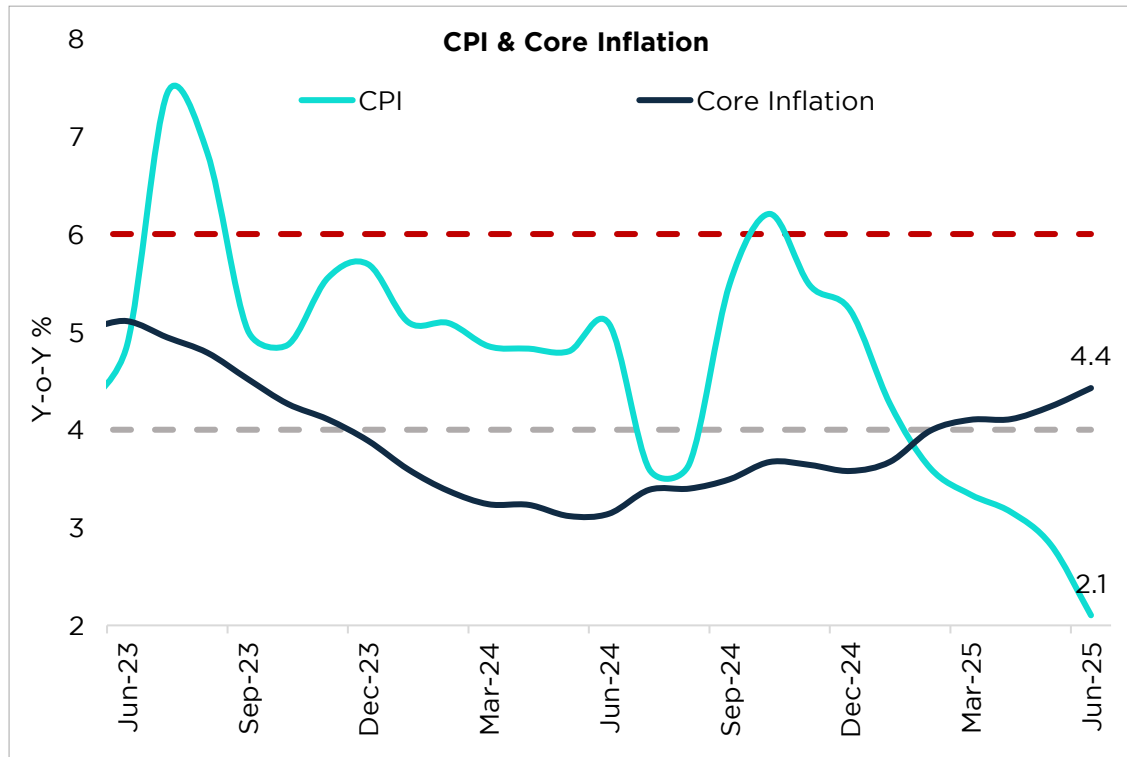


Source: CSI and FEI are compiled with the net responses on five survey parameters viz., general economic situation, employment, income, price level and spending, for the current period (as compared with one year ago) and a year ahead, respectively. CSI and FEI = 100 + Average of Net Responses of the above parameters. Index value greater than 100 indicates optimism and value less than 100 indicates pessimism.

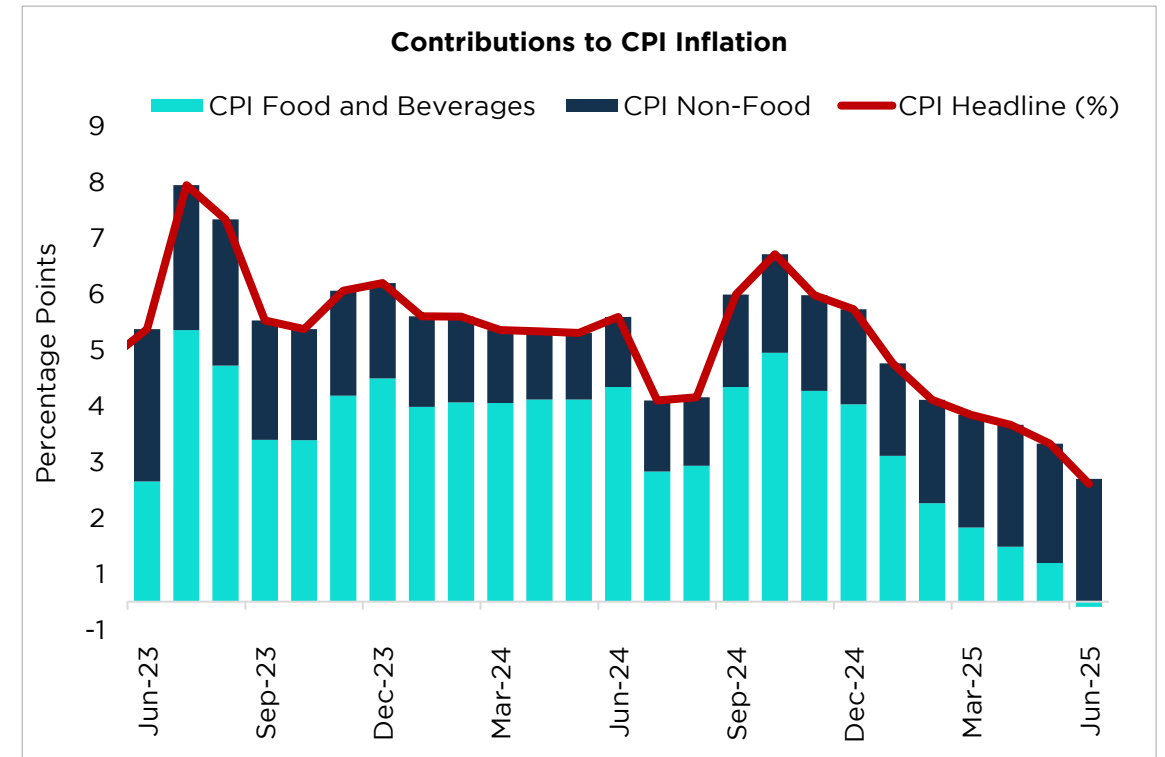
- Improvement across most survey parameters supported the improvement in current perceptions as well as future expectations for both the rural and urban segments.
- The rural current situation index breached the threshold of 100, staying in the optimistic zone for three successive survey rounds. However, the urban sentiments continued to stay in the pessimistic zone.
- A broad-based recovery in the consumption scenario remains critical, especially given the weakness in the urban demand scenario.

Domestic Inflationary Scenario

CPI Inflation Continues on a Downward Trajectory



Source: MOSPI, CareEdge

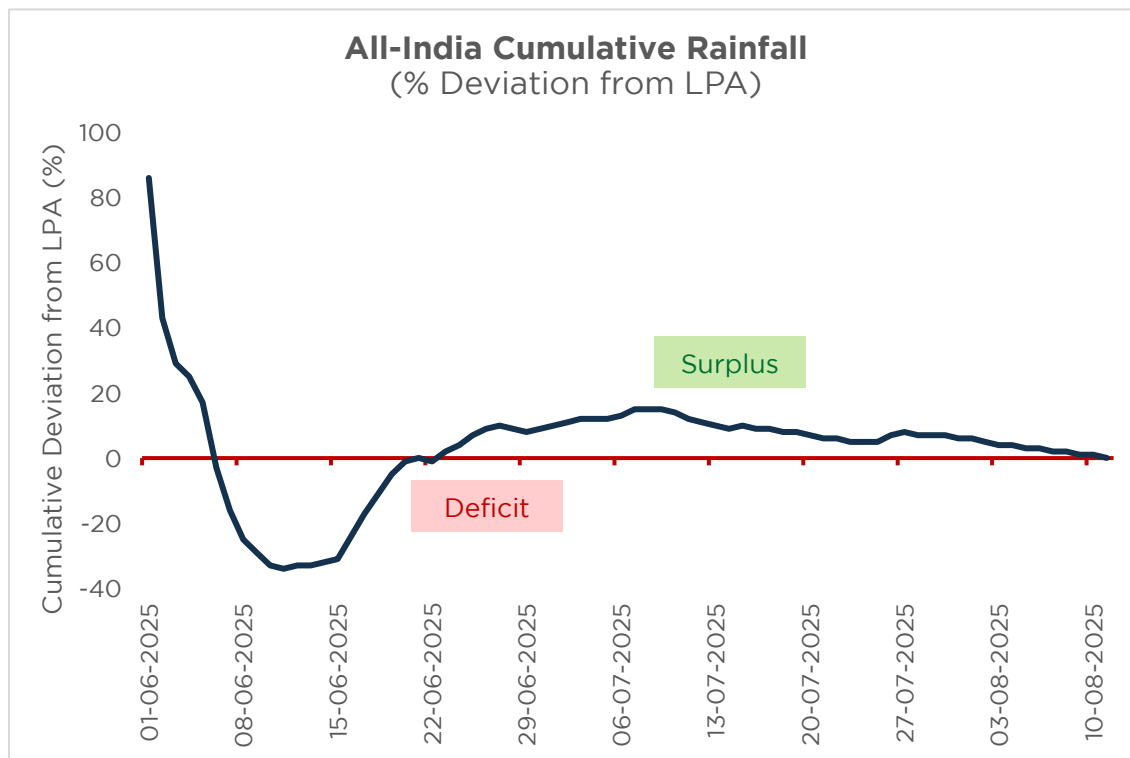


Source: MOSPI, CareEdge

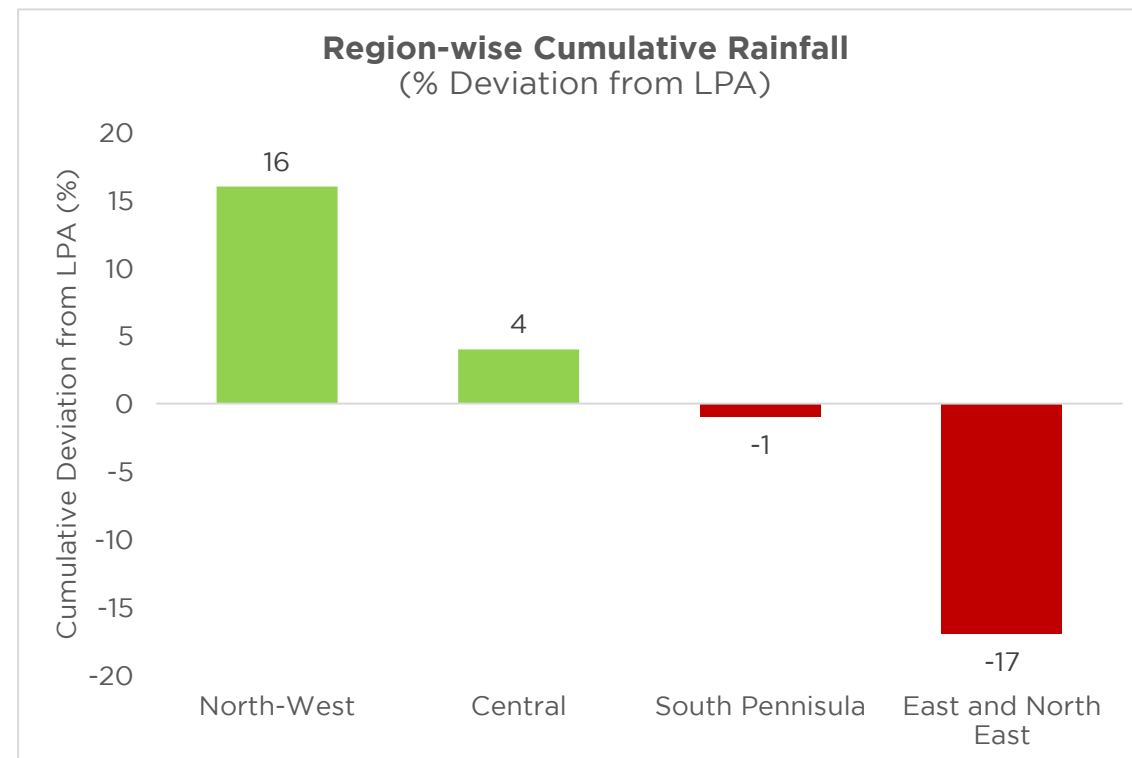
- Sustained easing in CPI inflation was primarily driven by a moderation in food inflation and a favourable base effect.
- The rise in core CPI is not broad-based and is mainly attributed to double-digit inflation in precious metals.
- Downward trajectory of CPI inflation and favourable prospects for monsoon and agriculture remain positives for the rural demand outlook.

Southwest Monsoon Progress

IMD Predicts Above Normal Rainfall During August-September



Source: IMD, CEIC, CareEdge. Data as of 11 August

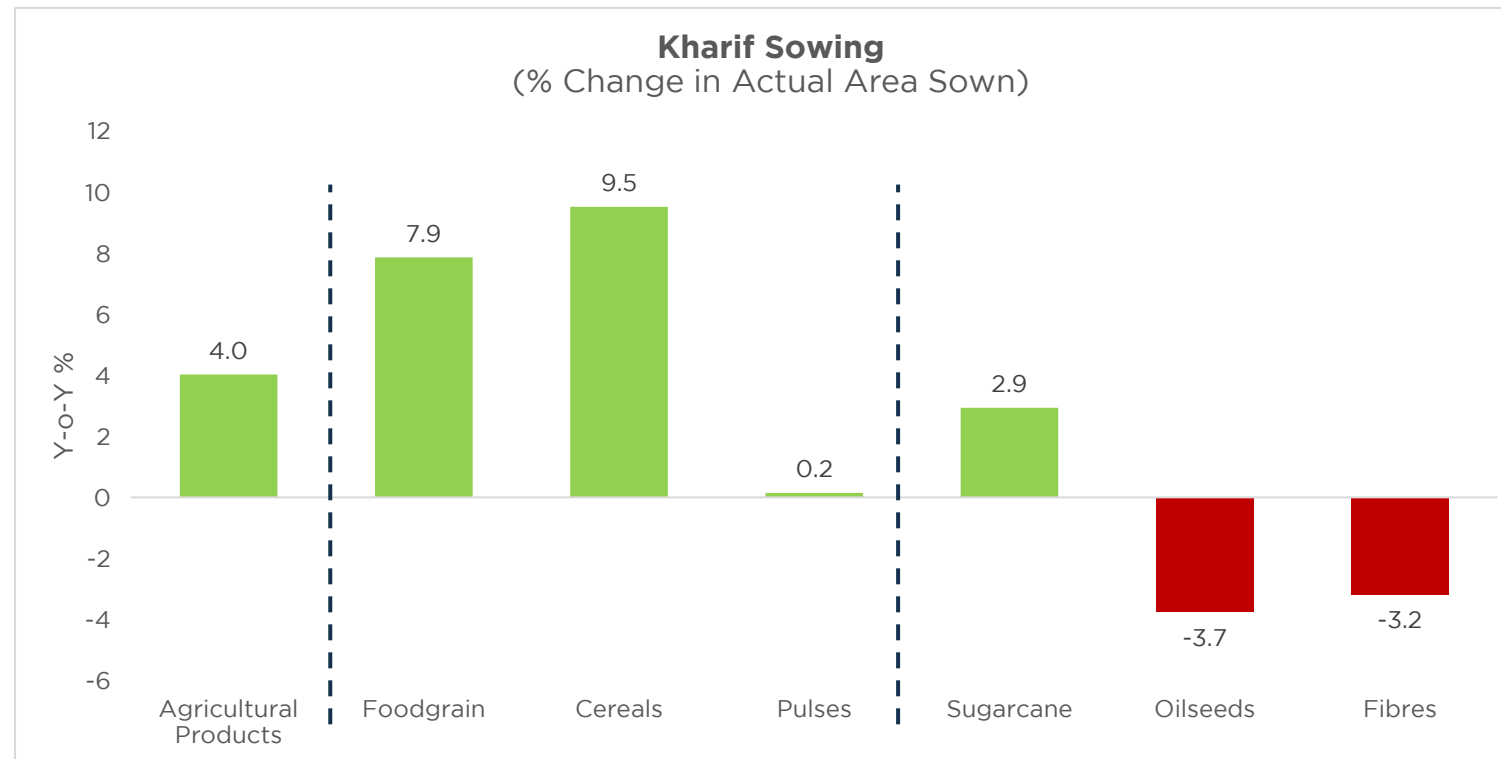


Source: IMD, CEIC. CareEdge Data as of 11 August

- Southwest monsoon remains close to the Long Period Average (LPA) as of 11 August 2025.
- Monsoon distribution remained skewed with above LPA rainfall recorded in North-west and Central India, while East and North-East India lagged.
- The IMD has predicted above normal rainfall over the country during the second half of the Southwest monsoon season (August to September 2025).
- Thus, overall prospects for the rural economy and agricultural production remain favourable.

Kharif Sowing Progress

Kharif Sowing Reaches 91% of Normal Area



Source: Ministry of Agriculture & Farmers Welfare, CMIE, CareEdge; Note: Data as of 8 August

- Progress in sowing remained encouraging with total sown area up by 4% (y-o-y) as of 8 August 2025.
- Higher sowing of cereals was supported by upbeat sowing of rice (up 12% y-o-y) while sowing of pulses was only marginally higher (by 0.2% y-o-y).
- Sowing of oilseeds was lower by 3.7% (y-o-y). The weak sowing progress in oilseeds is concerning, given the consistent double-digit inflation in domestic edible oil prices.

Union Finances Update – Q1 FY26

Sluggish Direct Tax Collections Weighed on the Q1 FY26 Tax Revenue

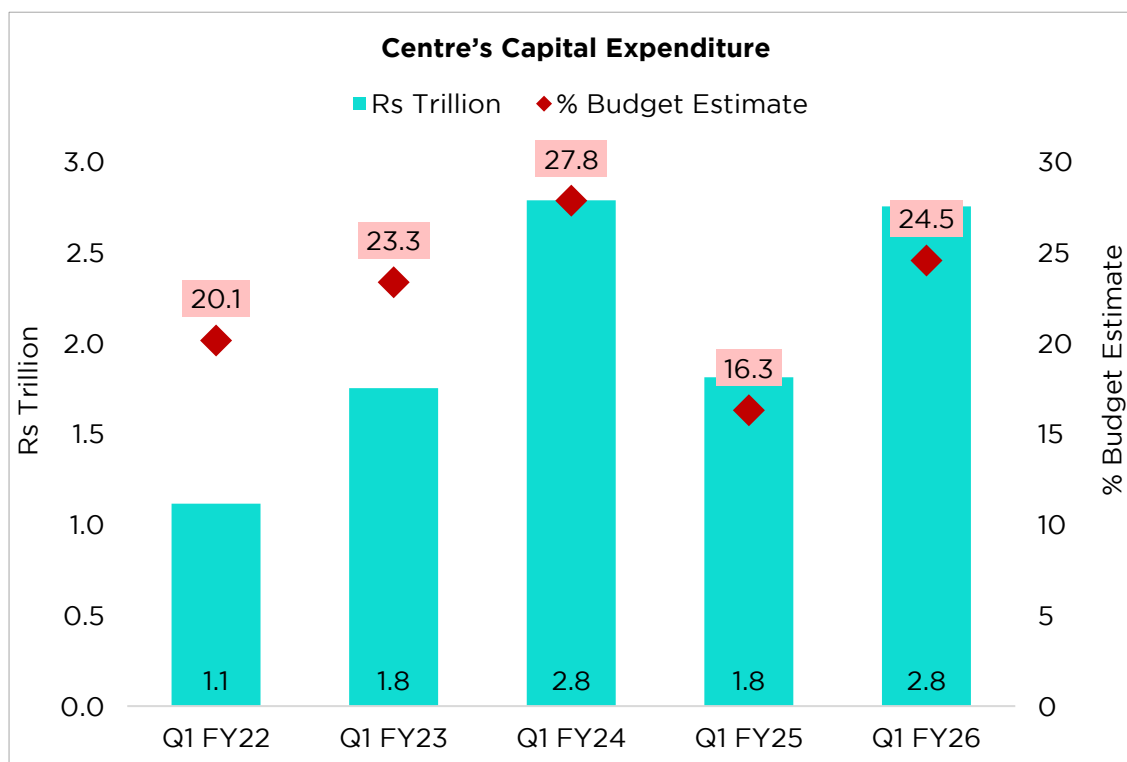
Centre's Tax Collections			
	Q1 FY26 Absolute	Q1 FY26 Growth	Budgeted Full-Year Growth
	Rs Trillion	%	%
Net Tax Revenue	5.40	-1.7	13.5
Gross Tax Revenue	8.69	4.6	12.5
Direct Tax	4.59	-0.8	16.1
Corporate Tax	1.73	-1.2	9.7
Income Tax	2.86	-0.5	21.6
Indirect Tax	3.96	11.5	10.9
GST	2.98	16.1	14.2
Customs	0.42	-9.9	3.1
Union Excise Duties	0.56	8.3	5.6

Source: CEIC, Union Budget Documents, CGA, CareEdge; Note: Budgeted full-year growth: Growth in FY26 (Budget estimate) over FY25 (Provisional data)

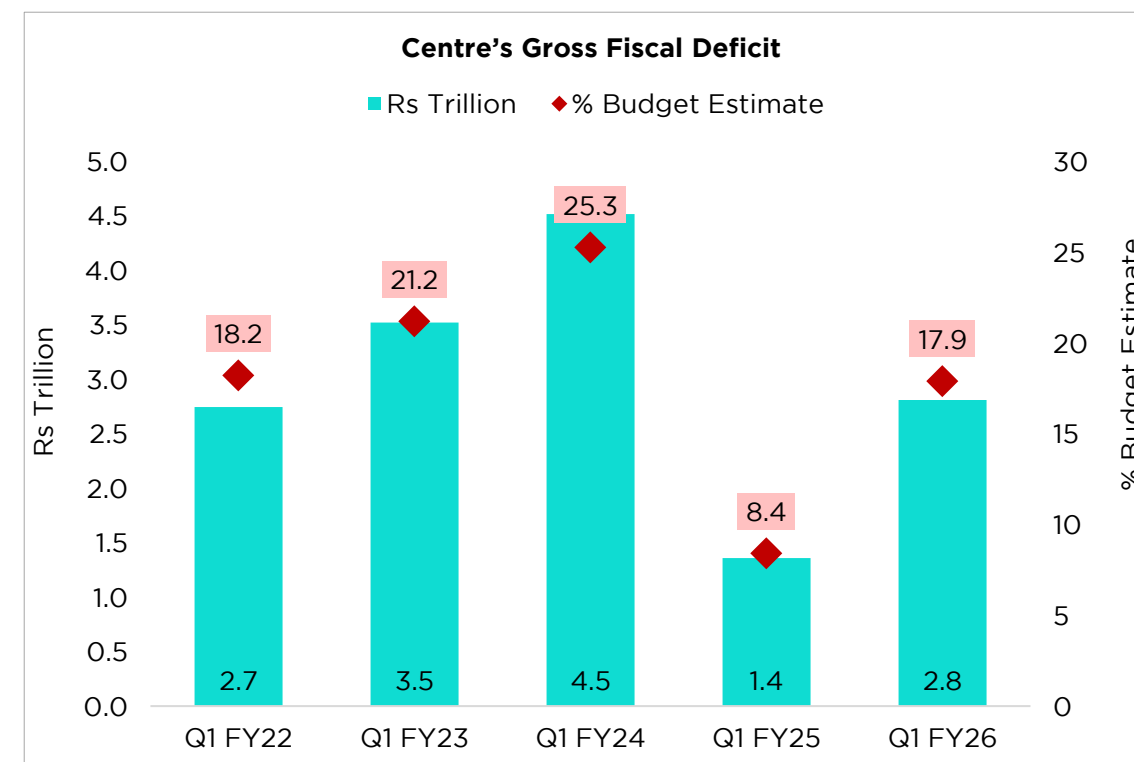
- Gross tax collections rose by 4.6% in Q1 FY26, supported by healthy indirect taxes (up 11.5%) while direct tax collections remained lacklustre (down 0.8%).
- Net tax revenue contracted by 1.7% amid sluggish direct tax collections and higher tax devolution to the states (up 17%).
- However, overall revenue receipts increased by 10% supported by healthy growth in non-tax revenue collections (up 33%).
- Non-tax revenue was buoyed by upbeat RBI dividend transfer of Rs 2.7 trillion, marginally above the budgeted amount of Rs 2.6 trillion expected from the RBI, nationalised banks and financial institutions collectively.

Union Finances Update – Q1 FY26

Centre's Capex Push Continues in Q1 FY26



Source: CEIC, Union Budget Documents, CGA, CareEdge



Source: CEIC, Union Budget Documents, CGA, CareEdge

- In Q1 FY26, Centre's capital expenditure stayed upbeat at Rs 2.8 trillion, rising by a strong 52% (y-o-y) and meeting 24.5% of the full-year budget estimate.
- Meanwhile, revenue expenditure was seen at Rs 9.5 trillion, up 20% (y-o-y) and at 24% of the budget estimate.
- Slow direct tax collections and accelerated spending translated into a widening of the fiscal deficit to Rs 2.8 trillion (17.9% of the budget estimate).

≡ Debt & FX Update

RBI Monetary Policy Outcome

RBI Holds Policy Rate Steady After Three Consecutive Cuts

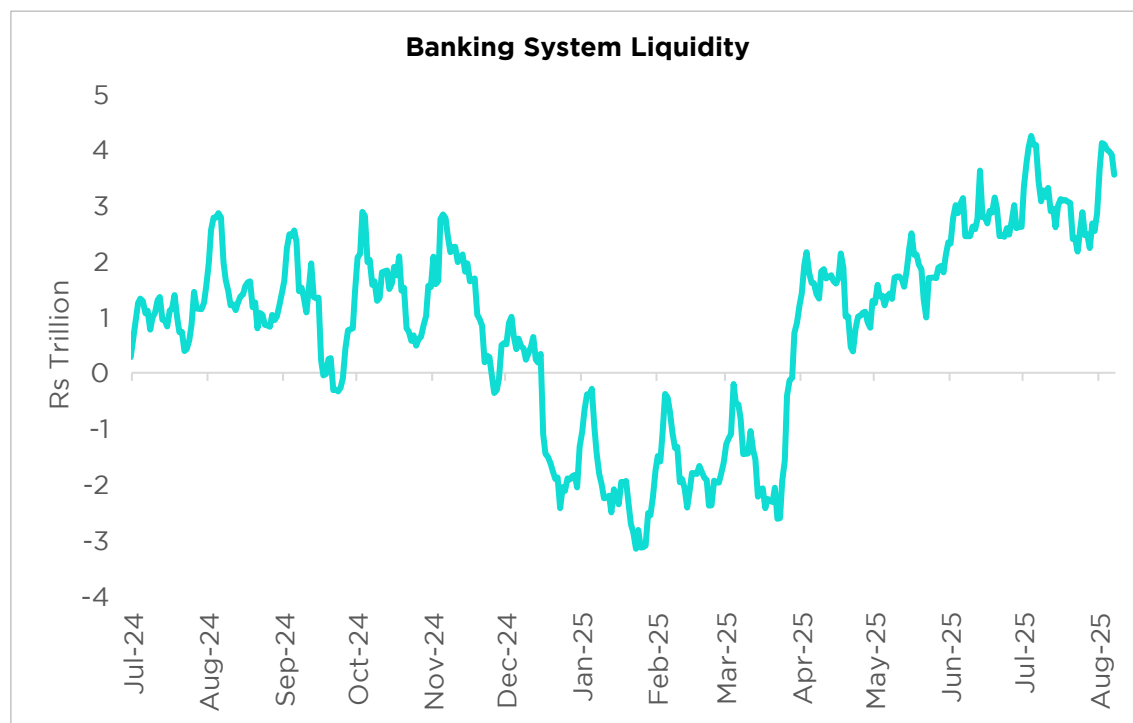
		RBI's Projections					
		FY26	Q1 FY26	Q2 FY26	Q3 FY26	Q4 FY26	Q1 FY27
Growth	Aug-25	6.5	6.5	6.7	6.6	6.3	6.6
	Jun-25 (Previous MPC Meeting)	6.5	6.5	6.7	6.6	6.3	-
Inflation	Aug-25	3.1	2.7 (A)	2.1	3.1	4.4	4.9
	Jun-25 (Previous MPC Meeting)	3.7	2.9	3.4	3.9	4.4	-

Source: RBI. CareEdge; Note: (A) stands for actual

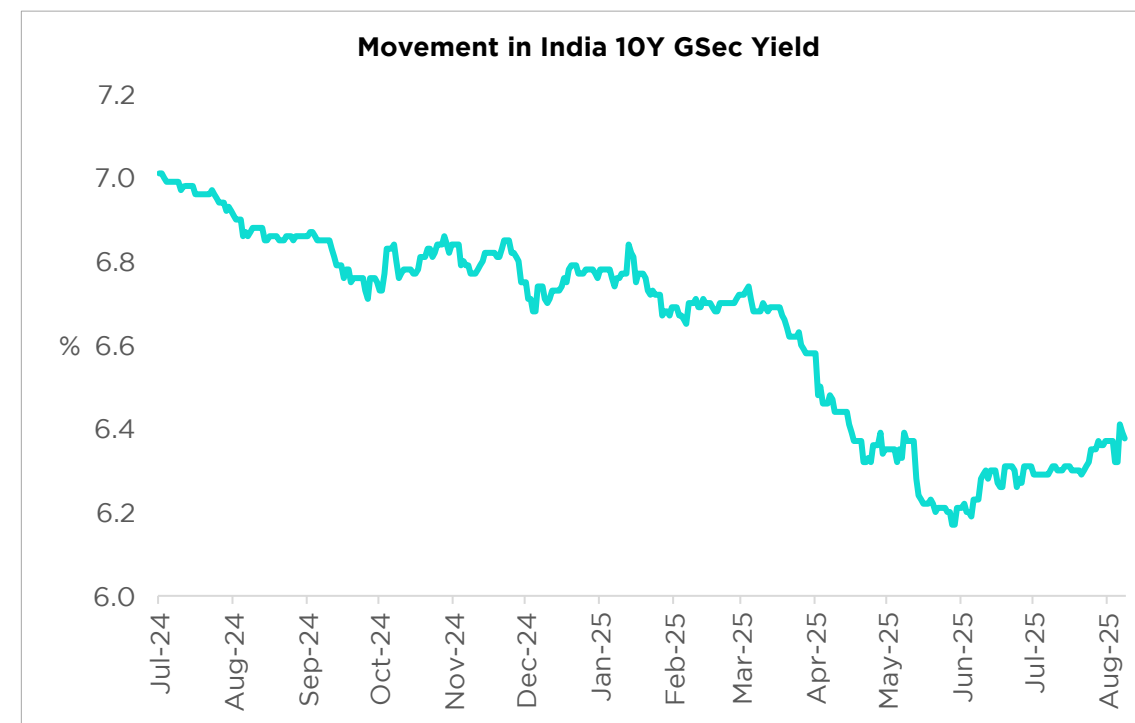
- RBI’s MPC unanimously held the repo rate at 5.50% and maintained a neutral stance in its August meeting. The policy tone was mildly hawkish.
- RBI kept its FY26 growth forecast at 6.5% and lowered inflation projection to 3.1%, though inflation is expected to exceed the 4% target from Q4 due to reversal of base effect.
- We project FY26 GDP growth at 6.4% and CPI inflation at 3.1%.
- We do not expect further rate cuts in this cycle unless downside risks to growth materialise.
- We expect CPI inflation to average more than 4.5% in 2026 as the low base of 2025 kicks in. This suggests a real interest rate of around 1% or even lower in 2026, limiting the case for additional cuts. Moreover, the growth outlook remains firm, and with monetary policy transmission still incomplete, there is no urgency to ease further.

Liquidity & G-Sec Yield Update

Comfortable Liquidity; 10Y GSec Yield Rises



Sources: RBI, CEIC, CareEdge; Data as of 07 Aug
Positive values denote liquidity surplus.

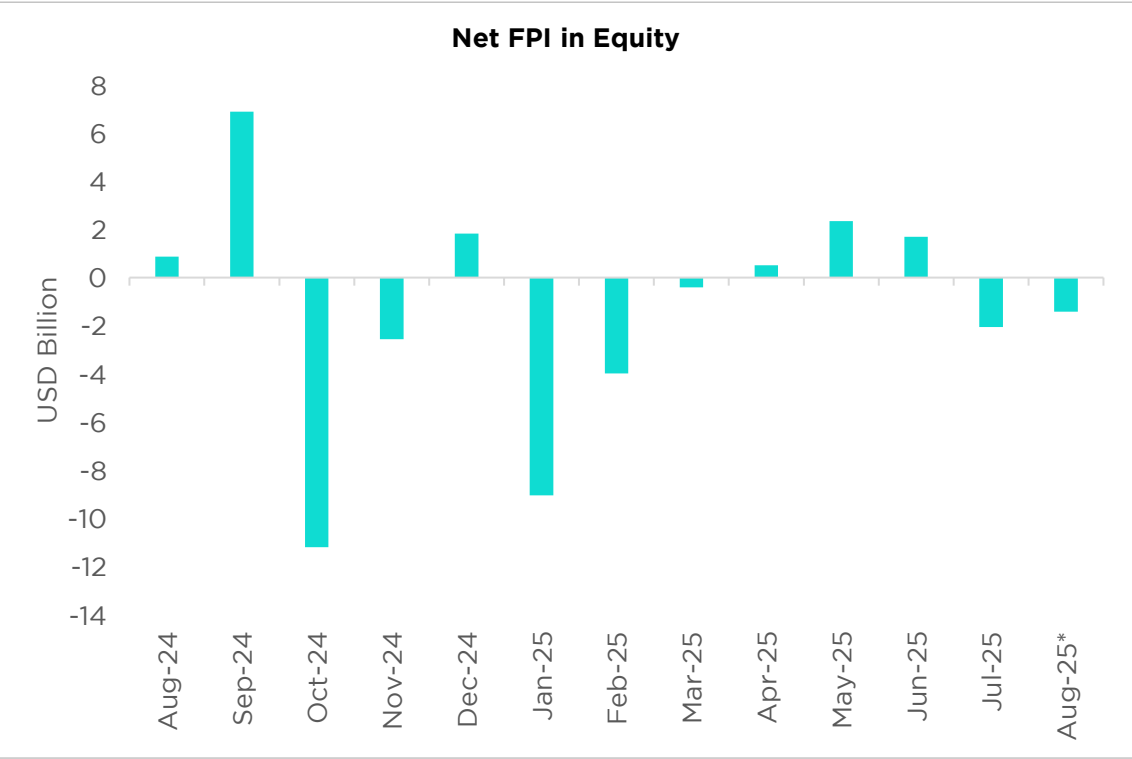


Source: Refinitiv, CareEdge; Data as of 08 Aug

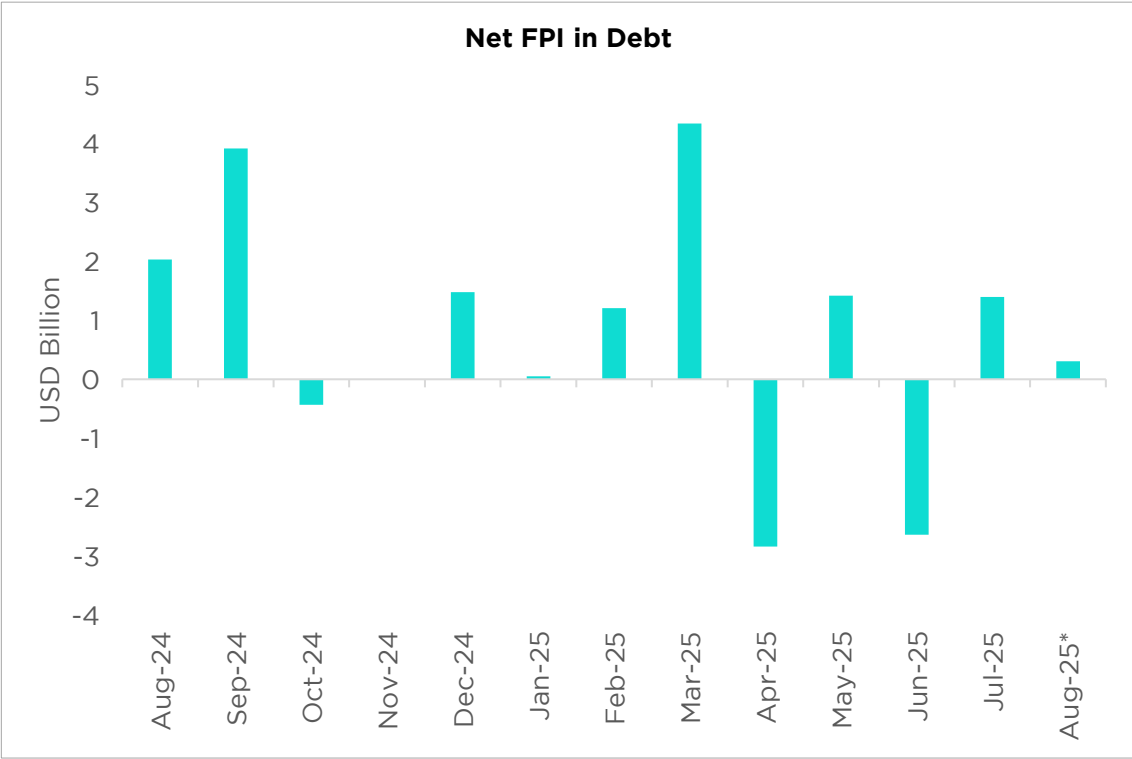
- Banking system liquidity remains in comfortable surplus at Rs 3.5 trillion (as of 7 Aug), with the WACR averaging 15 bps below the repo rate over the past month.
- An IWG review of the RBI's Liquidity Management Framework recommends retaining the overnight WACR as the operating target.
- The phased 100 bps CRR cut from September is expected to inject Rs 2.5 trillion by December. While some offset may come from any RBI FX intervention and unwinding of its net short forward book, we expect overall liquidity conditions to remain comfortable, supporting policy transmission.
- India 10Y GSec yield has risen by 8 bps over the past month, partly reflecting the RBI's hawkish tone.

Trends in FPI

FPI Outflows Continue



Source: NSDL, CareEdge; *Data as of 07 Aug

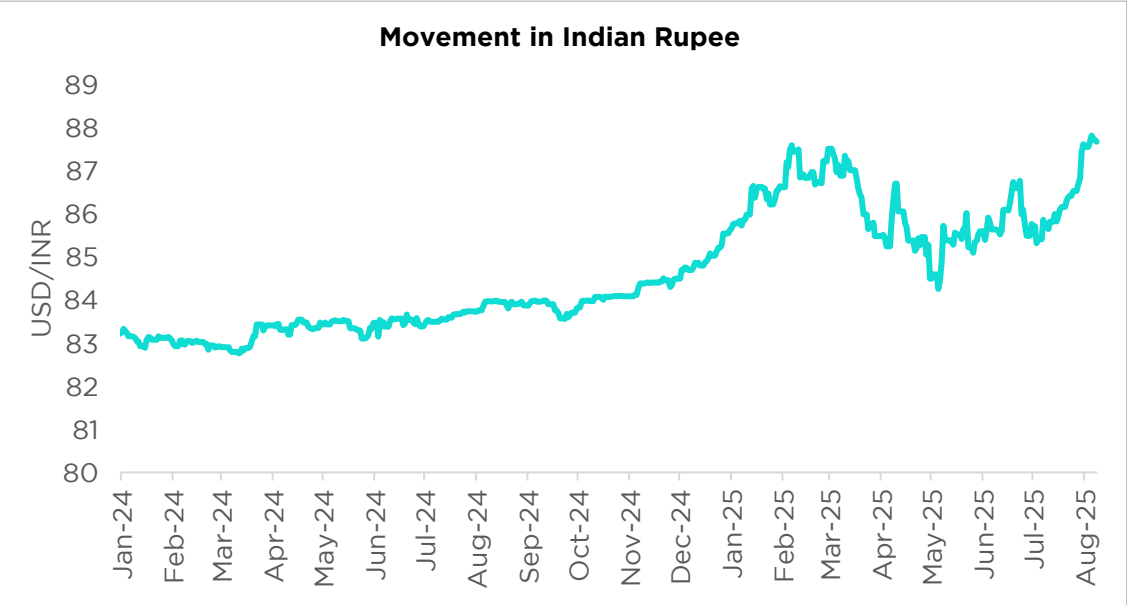


Source: NSDL, CareEdge; *Data as of 07 Aug

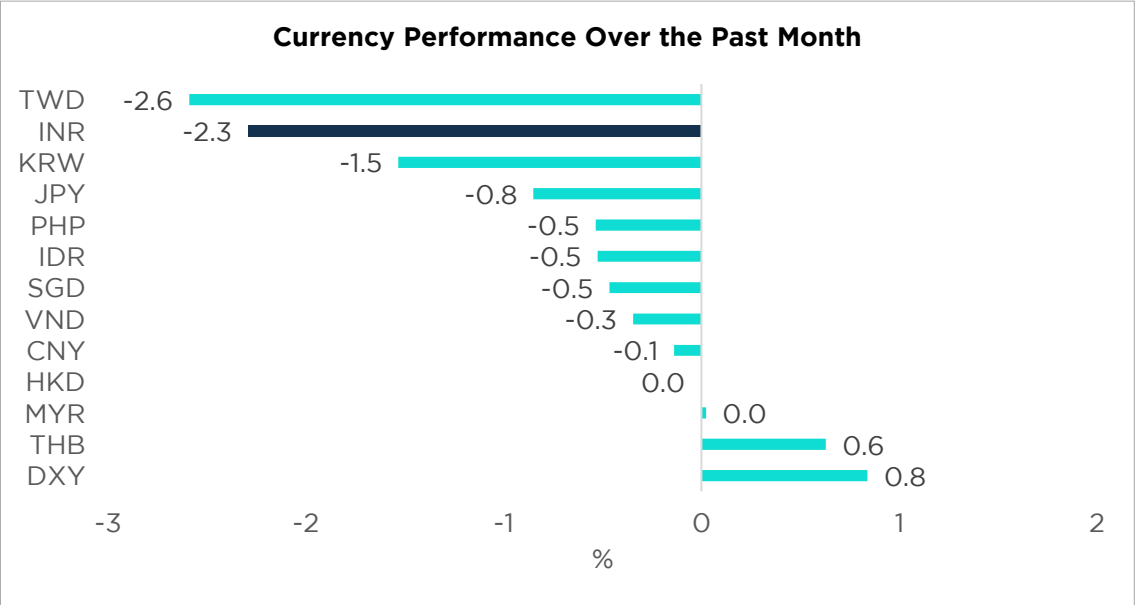
- Net FPI outflows (equity + debt) of USD 0.6 billion were recorded in July, following outflows of USD 0.9 billion in June.
- August so far has seen around USD 1 billion (up to 07 Aug) in outflows.
- US-India trade deal progress will be key for market sentiment and FPI flows.

Currency Update

Rupee Among Asia's Worst Performers



Source: Refinitiv, CareEdge; Data as of 08 Aug



Source: Refinitiv, CareEdge; Data as of 08 Aug. Note: Negative values imply currency has weakened. DXY measures the dollar's performance against a basket of currencies, while the performance of other currencies is measured against the USD

- Indian rupee has depreciated by around 2% against the dollar over the past month to near record lows, pressured by US tariff announcements and continued FPI outflows.
- We expect it to stay under pressure in the near term, hovering around 87.5-88, though RBI intervention should cap volatility.
- We retain our FY26-end forecast of 85–87 for USD/INR, supported by a softer dollar outlook, firm yuan and a manageable current account deficit.
- While US tariffs disadvantage India relative to peers, they appear to be a negotiation tool. With implementation not immediate, there is scope for a more favourable deal, which could ease pressure on the rupee.
- Brent crude oil prices remain around comfortable levels but risks persist from US secondary sanctions on Russian oil buyers. Although OPEC is raising output and has spare capacity, any shift in global oil dynamics could have implications for the rupee.

CareEdge Eco Research Round-up



From the Economics Desk @ CareEdge

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IIP Growth – June 2025	Read Here
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Debt & Forex Market Update – July 2025	Read Here
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US Tariff Impact on India	Read Here
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RBI Policy Preview	Read Here
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RBI Policy Outcome	Read Here
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CareEdge Forecasts



Economic Growth

GDP growth projected at
6.4% in FY26



Inflation

Average CPI inflation projected at
3.1% in FY26



Current Account Deficit

CAD (as % of GDP) projected at
0.9% in FY26



Fiscal Deficit

Fiscal deficit (as % of GDP) budgeted
at **4.4%** in FY26



Interest Rates

10-Year G-Sec Yield to range
between **6.0%-6.2%** by end-FY26



Currency

USD/INR projected to trade
between **85-87** by end-FY26

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