CareEdge
RATINGS

CareEdge

Economic Pathway

July 2025

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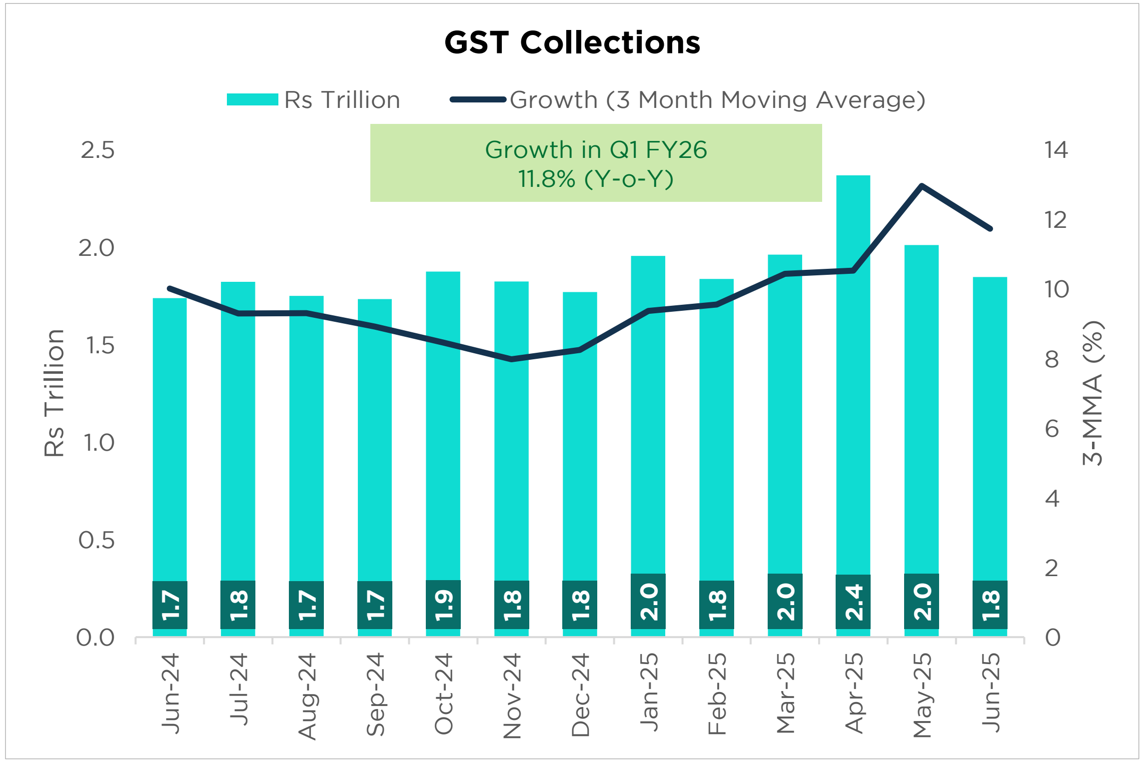
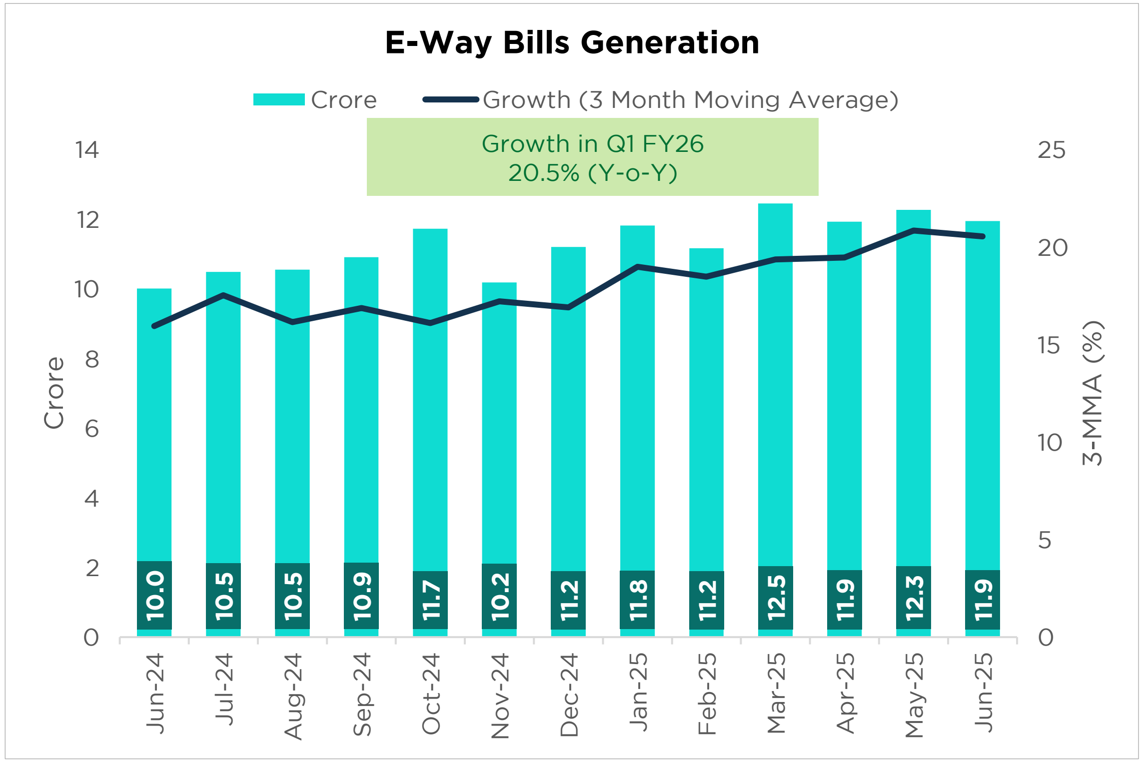
Economy Update

Economic Activity Update
GST, E-Way Bills & PMIs Stay Upbeat



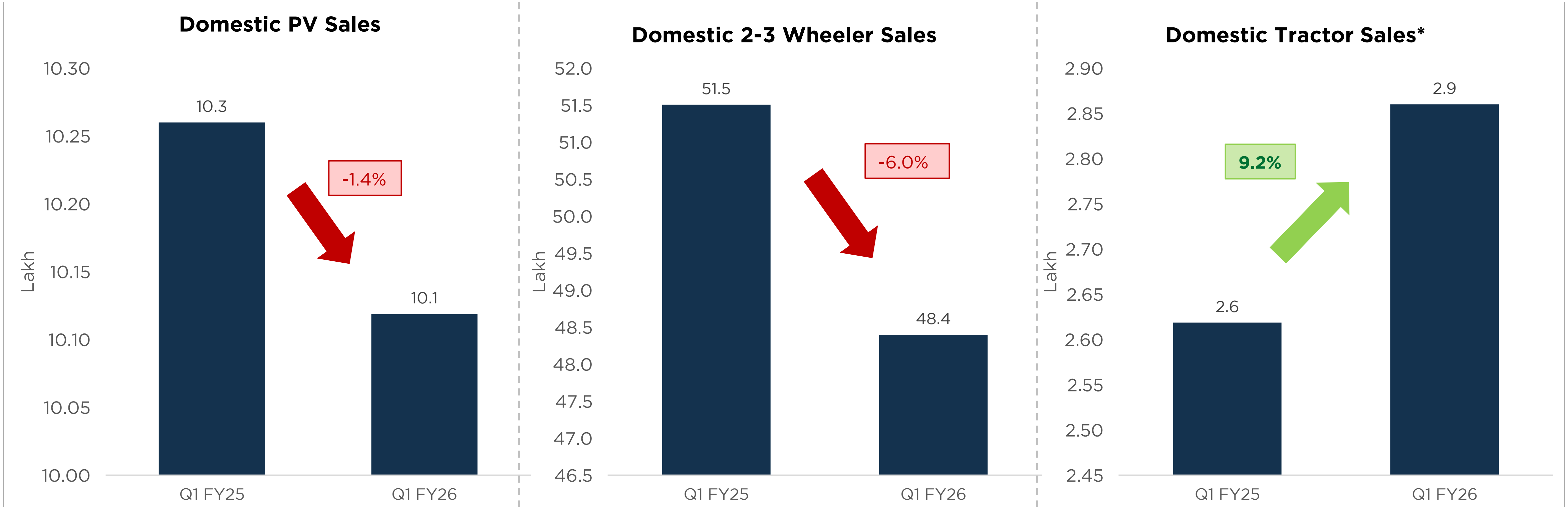
Source: CMIE



Source: CMIE

- GST collections and E-way bills generation have shown healthy growth in Q1 FY26, rising by 11.8% and 20.5%, respectively.
- India’s manufacturing PMI rose to 58.4 in June, marking a fourteen-month high. The Services PMI at 60.4 was recorded at its highest level in the last ten months.

Economic Activity Update
Domestic Auto Sales Picture Mixed

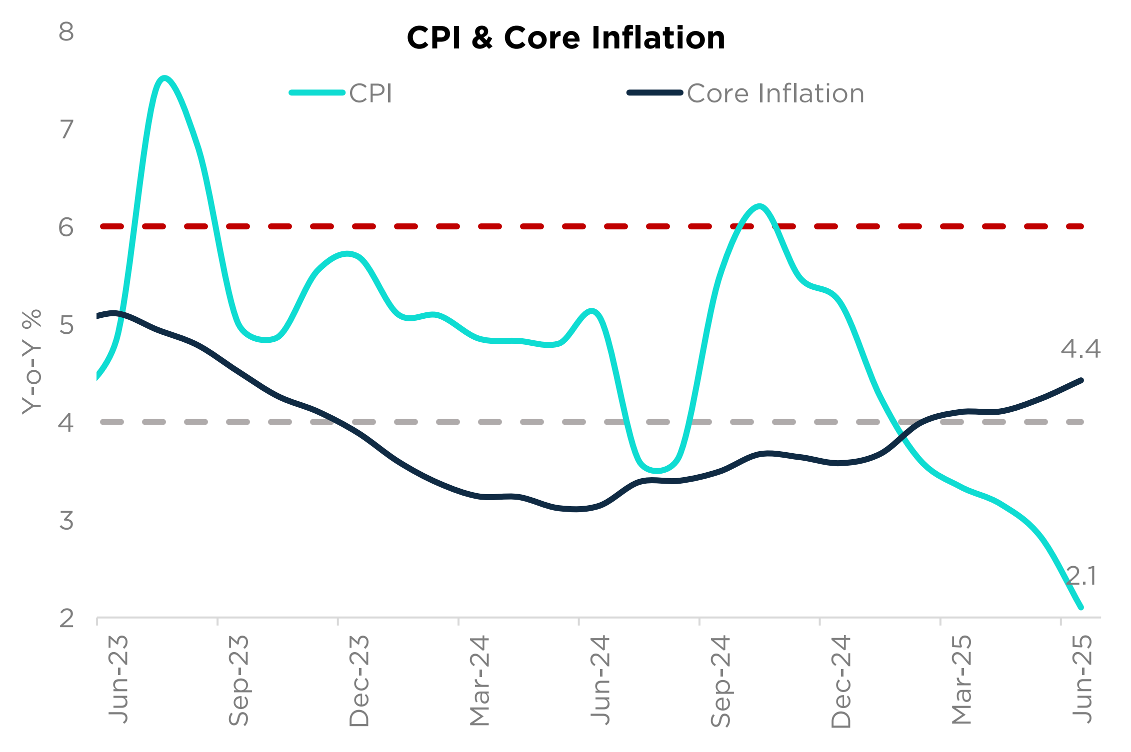


Source: CMIE; *Excludes Exports

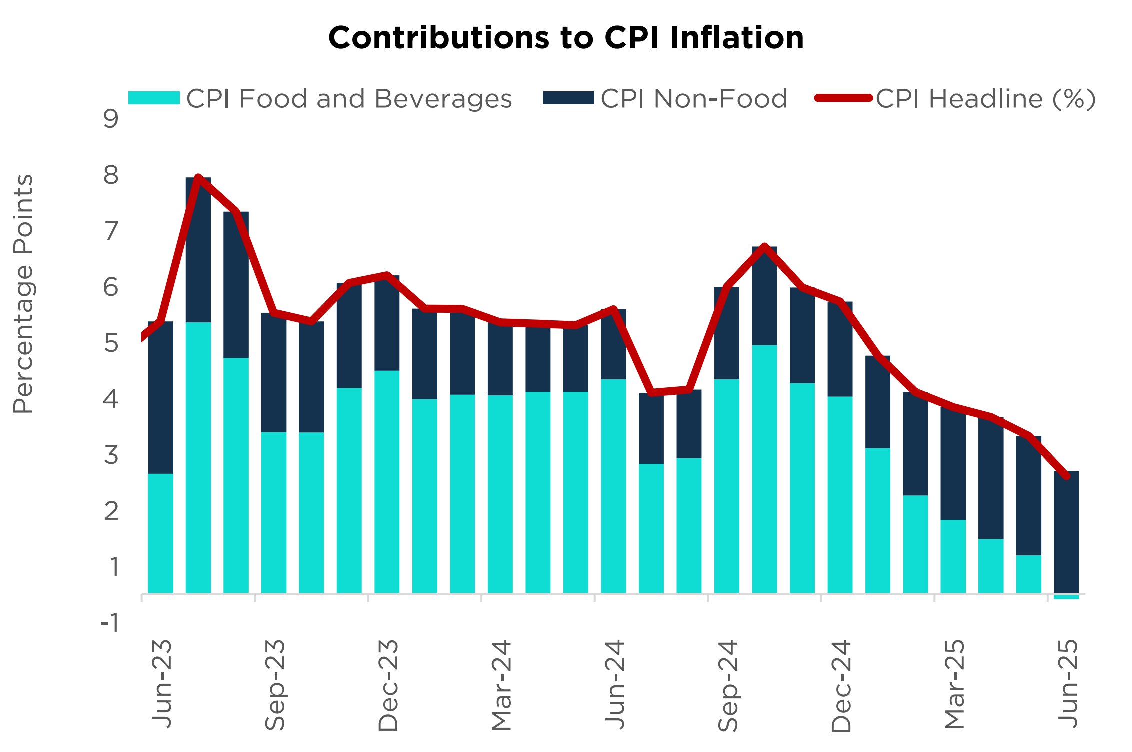
- Domestic sales of passenger vehicles contracted by 1.4% (y-o-y) in Q1 FY26 reversing from a 2.4% growth in Q4 FY25.
- 2-3 wheelers sales also weakened, contracting by a sharp 6% (y-o-y) as against 1.6% growth in the previous quarter.
- In contrast to the performance in sales of PVs and 2-3 wheelers, tractor sales continued to record an encouraging growth.
- Overall, some weakening in auto sales was visible in the first quarter of FY26. This trend needs monitoring going forward.

Inflation Scenario

CPI Inflation Continues on a Downward Trajectory



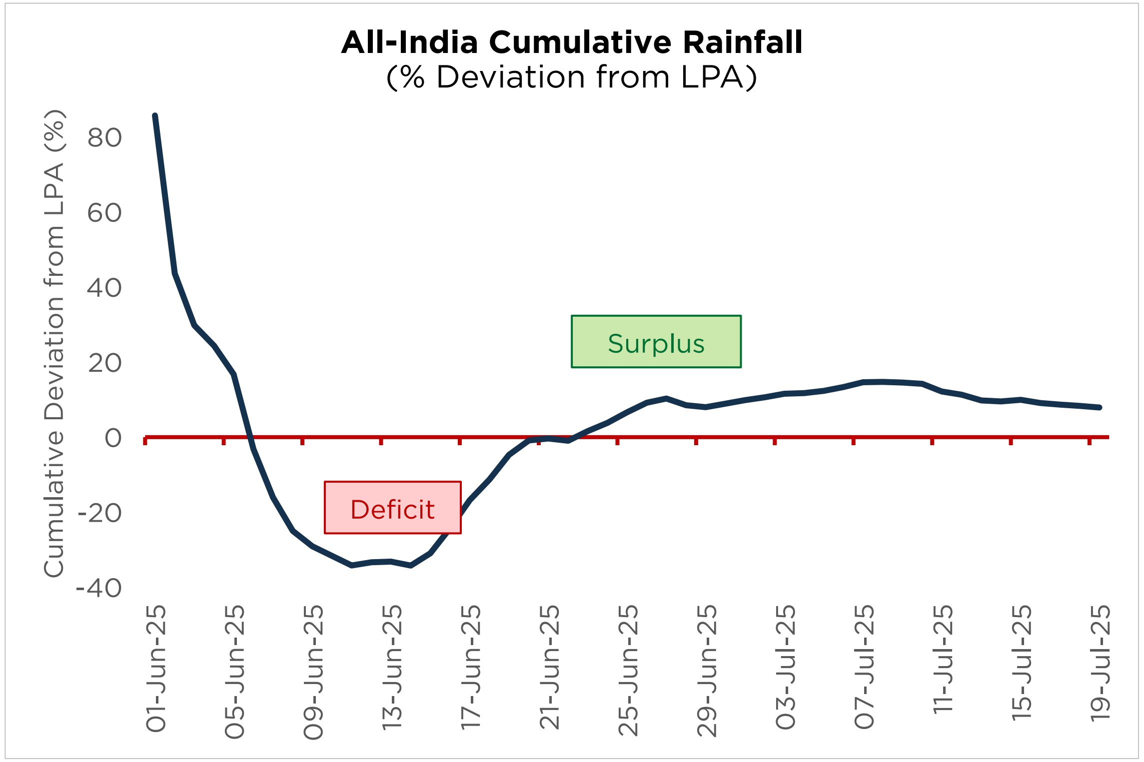
Source: MOSPI, CareEdge



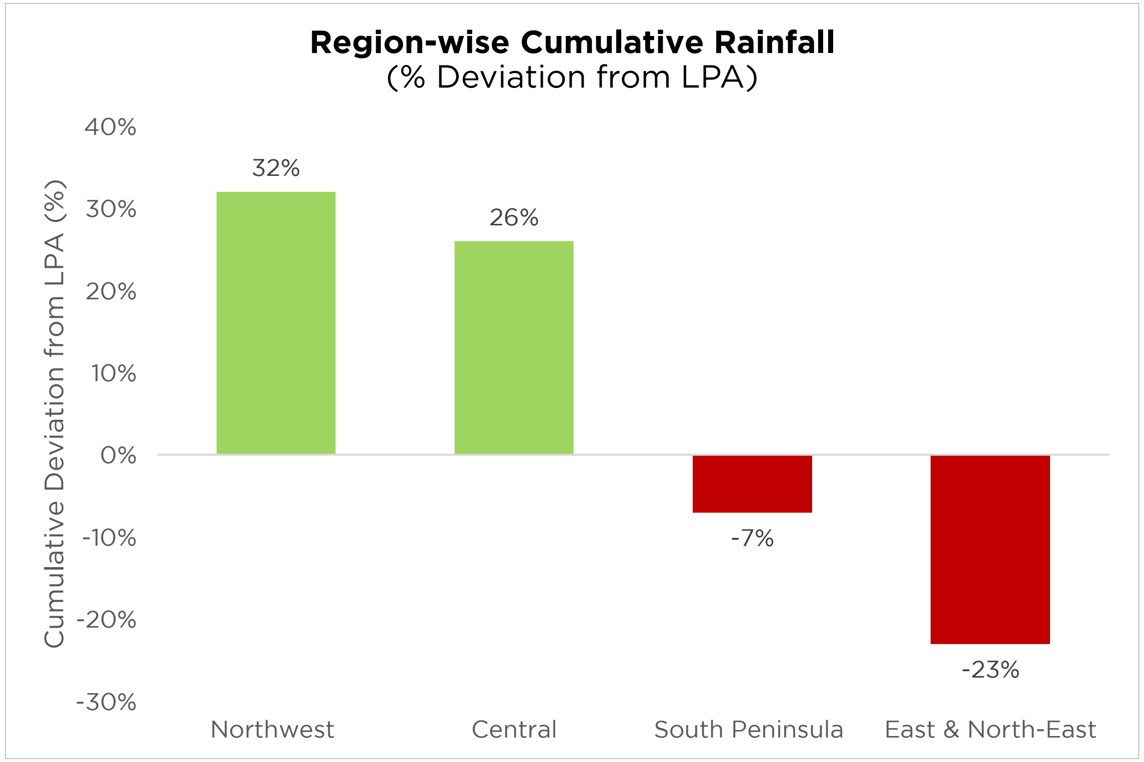
Source: MOSPI, CareEdge

- Sustained easing in CPI inflation was primarily driven by moderation in food inflation and a favourable base effect.
- The 4rise 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
Cumulative Rainfall 8% Above the LPA



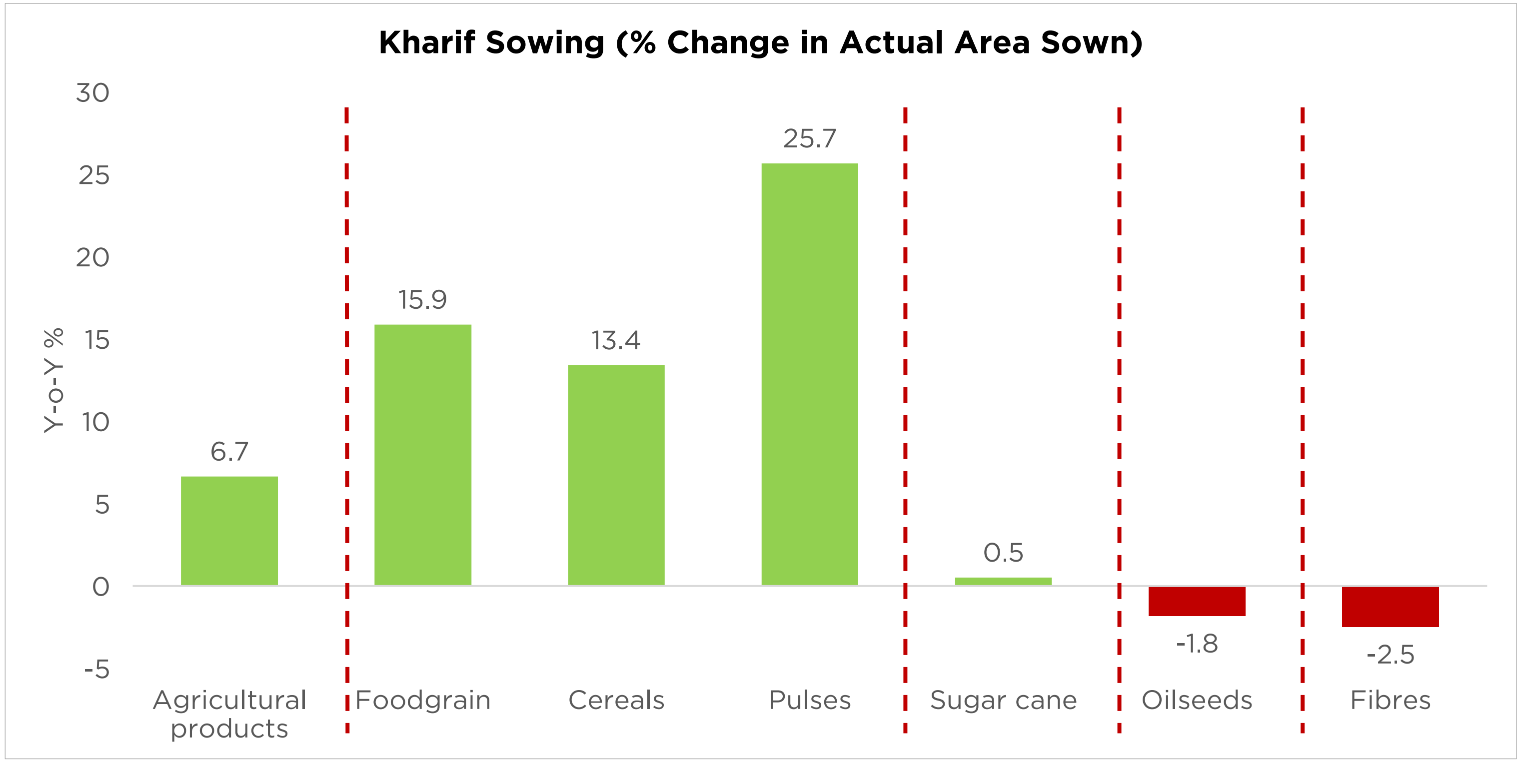
Source: IMD, CMIE; Note: Data as of 19 July 2025



Source: IMD, CMIE; Note: Data as of 19 July 2025

- Southwest monsoon has been 8% above the Long Period Average (LPA) as of 19 July 2025.
- Furthermore, normal to excess rainfall was seen in 66% of the country's subdivisions.
- With rainfall projected to be above normal in July, the prospects for the rural economy and agricultural output remain favourable.

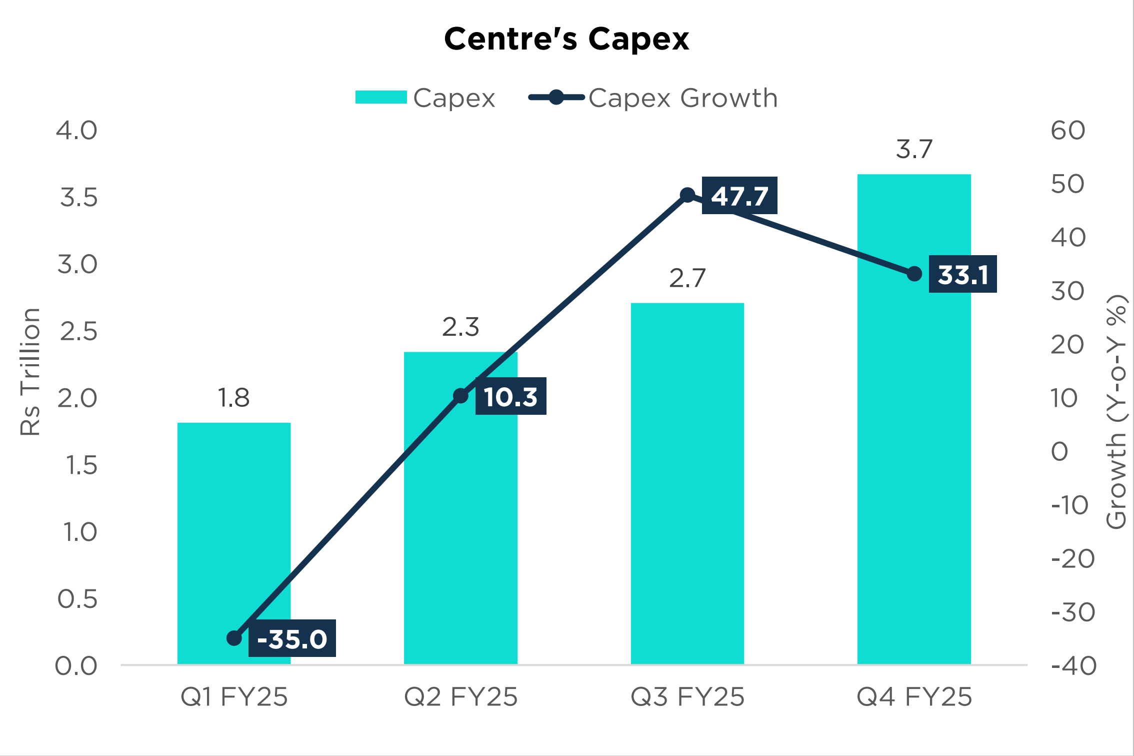
Sowing Update
Good Progress in Kharif Sowing Continues



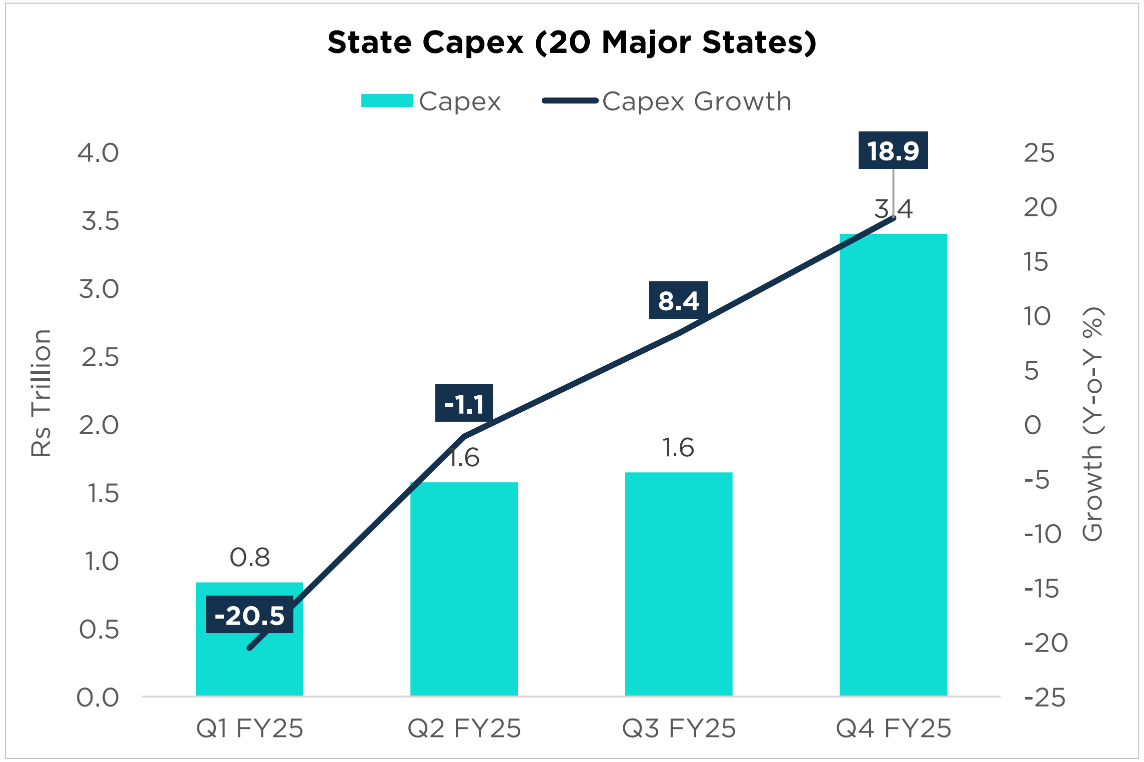
Source: Ministry of Agriculture & Farmers Welfare, CMIE; Note: Data as of 11 July 2025

- Total sown area has increased by 6.7% (y-o-y) as of 11 July 2025. Despite some slowdown in sowing, the overall sowing progress remains upbeat.
- Sowing of foodgrains was buoyed by a strong increase in sowing of both pulses (by 25.7%) and cereals (by 13.4%).
- Sowing of oilseeds was seen contracting by 1.8% as of July 11, 2025, reversing from the improvement seen in the earlier week.

Public Capex Scenario
Public Capex Remains Encouraging



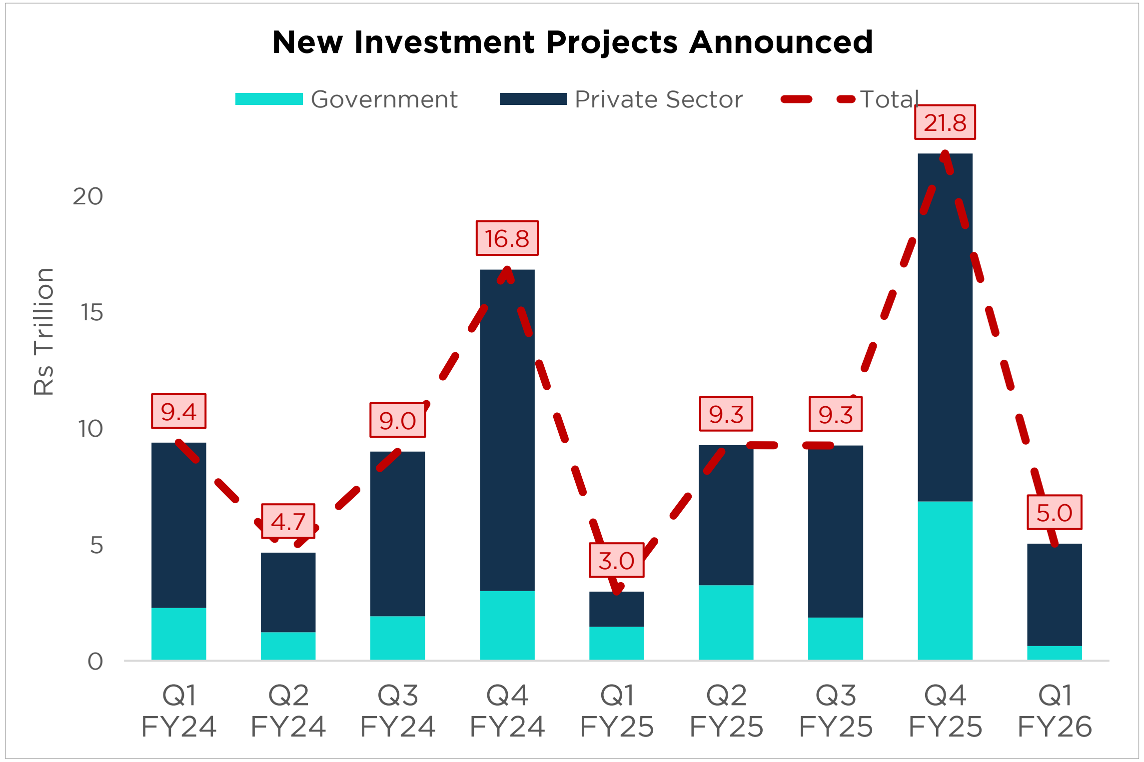
Source: CMIE



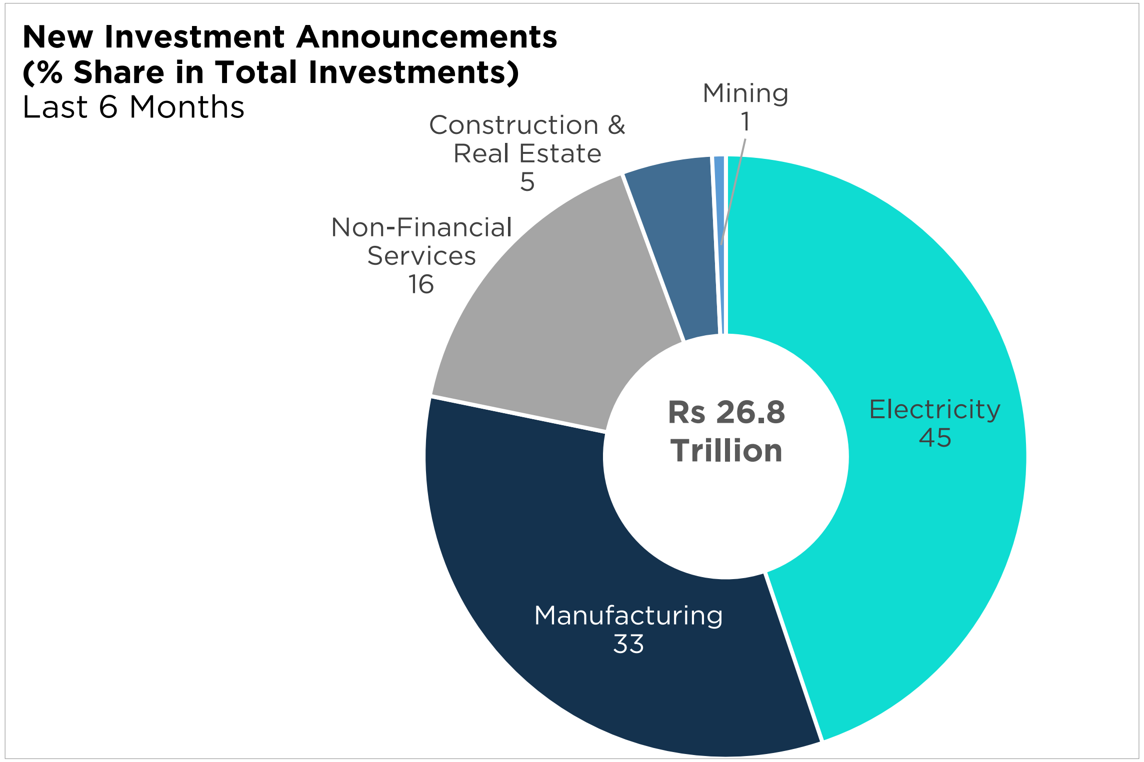
Source: CEIC

- Both Centre and state (20 major states) capex have been showing encouraging trends since H2 FY25.
- During the first two months of FY26, Centre's capex logged a strong start, having met 20% of the budget estimate (higher than 13% in the same period last year).
- While public capex remains strong, private investment scenario is likely to be clouded by an uncertain global economic outlook.

Private Investment Scenario
Private Investments Yet to Show a Meaningful Pick-Up



Source: CMIE; Data extracted on 17 July 2025

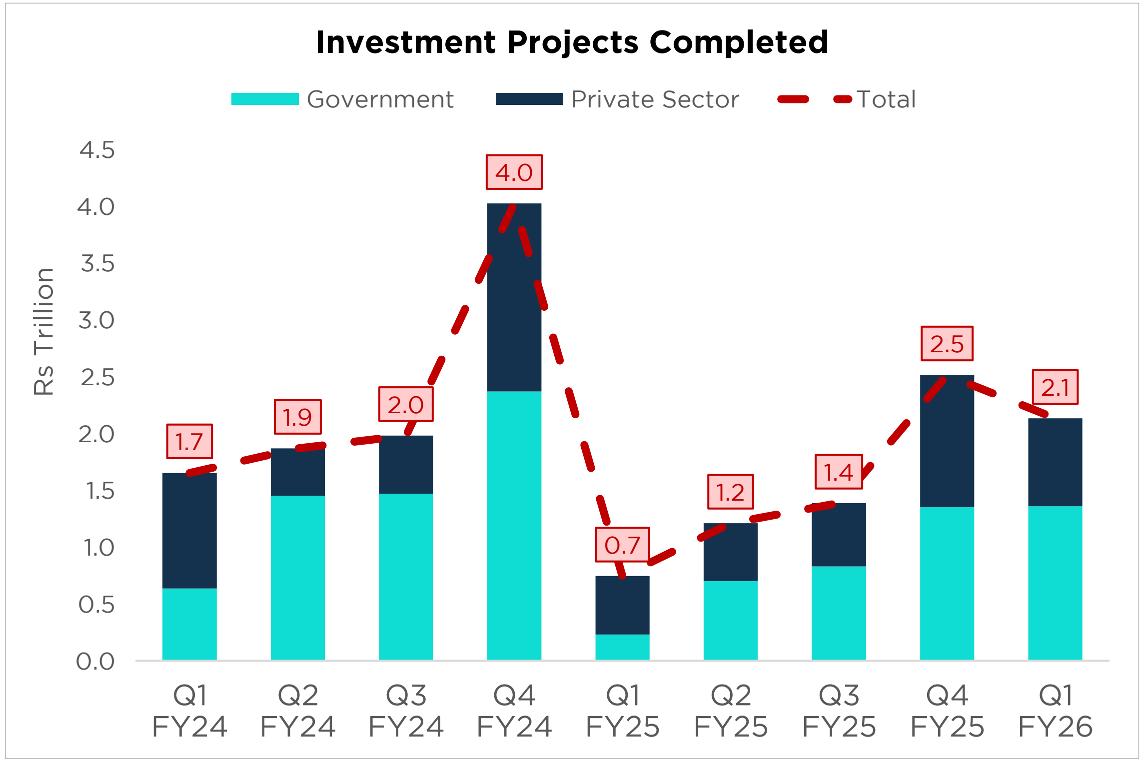


Source: CMIE; Data extracted on 17 July 2025; Note: Figures represent percentage share in total investments; Data excludes irrigation and financial sector

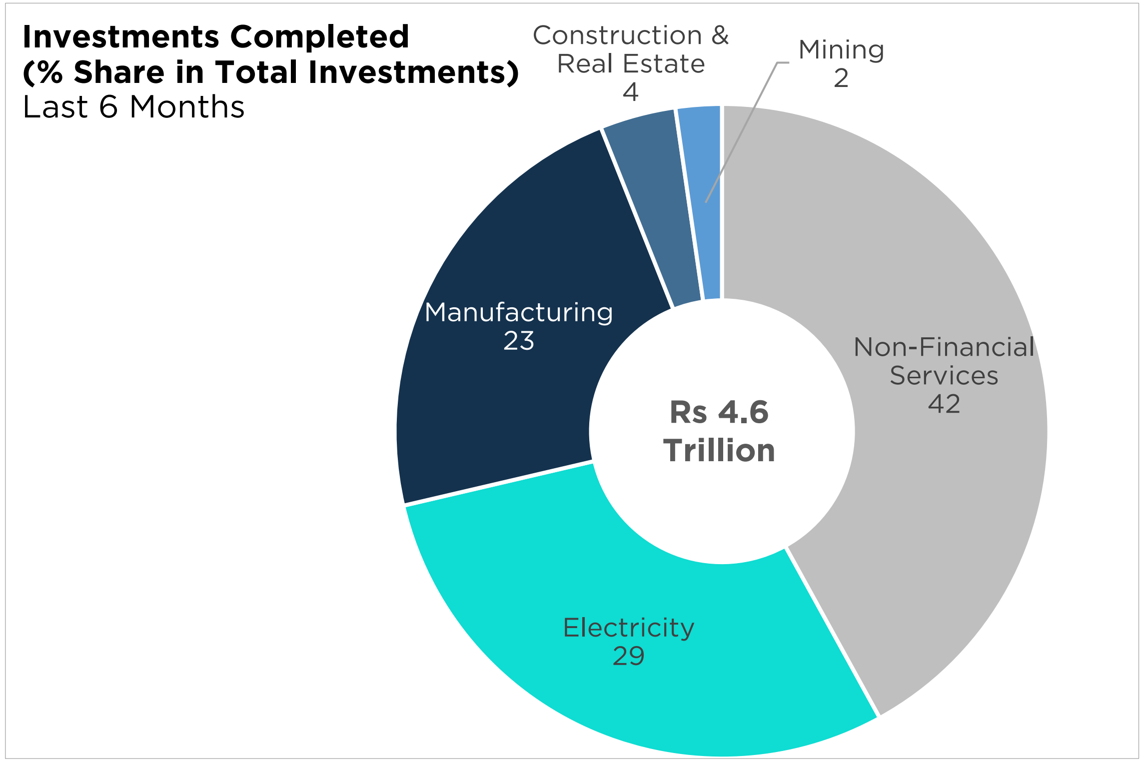
- New investment announcements continue to be driven largely by the private sector.
- Electricity and manufacturing sectors accounted for 78% of the total new investments announced.
- Within manufacturing, the announcements were focused on metals & products (13% share in total announcements), chemicals (8%) and machinery (6%).

Private Investment Scenario

Private Investments Yet to Show a Meaningful Pick-Up



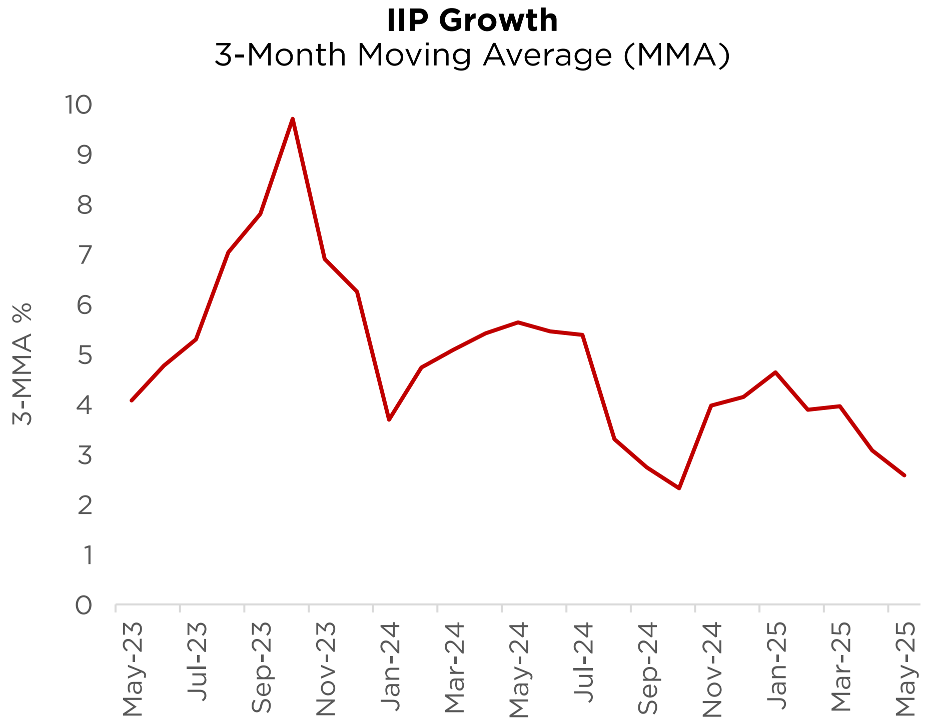
Source: CMIE; Data extracted on 17 July 2025

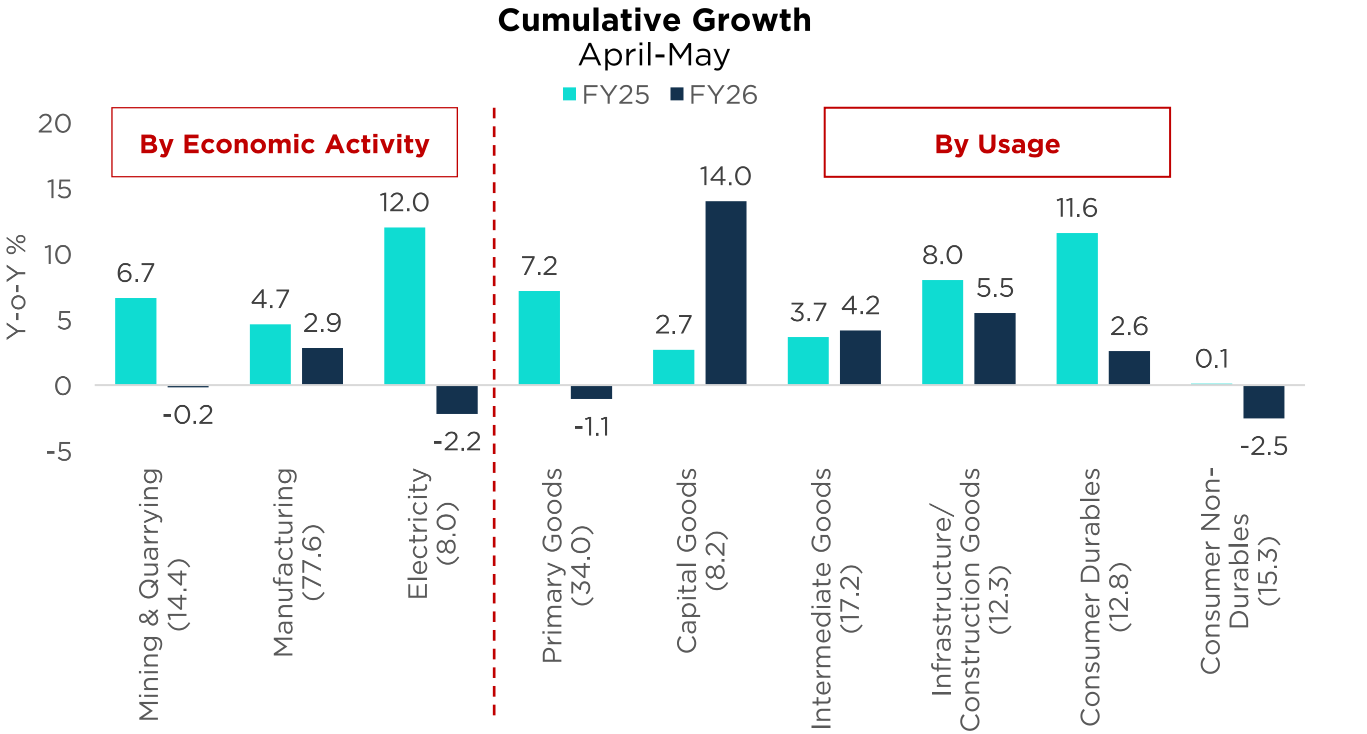


Source: CMIE; Data extracted on 17 July 2025; Note: Figures represent percentage share in total investments; Data excludes irrigation and financial sector

- Government remained at the forefront of investment completions. Total investment completions stayed above the Rs 2 trillion mark for the second consecutive quarter.
- 71% of the investment completions were concentrated in the non-financial services and electricity sectors.
- Transport services (which includes roads) led the investment completions in the non-financial services.

IIP Update
Growth in Industrial Output Remains Lacklustre

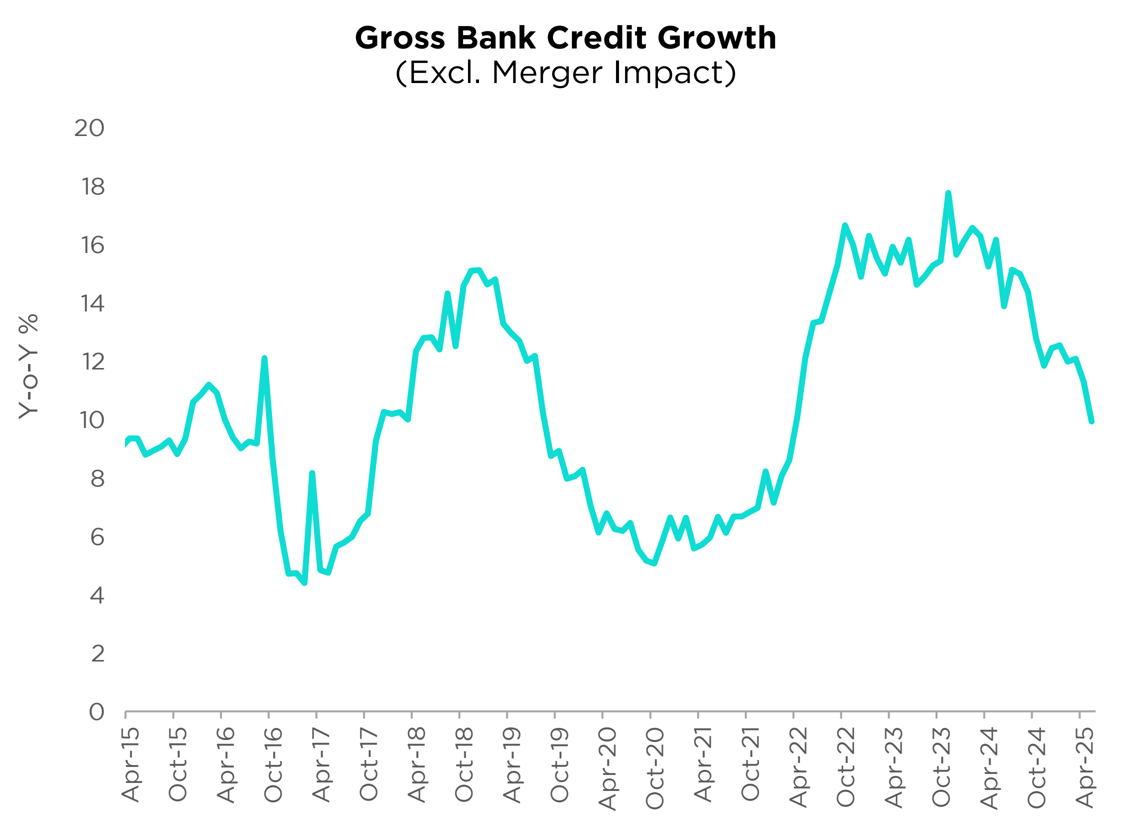




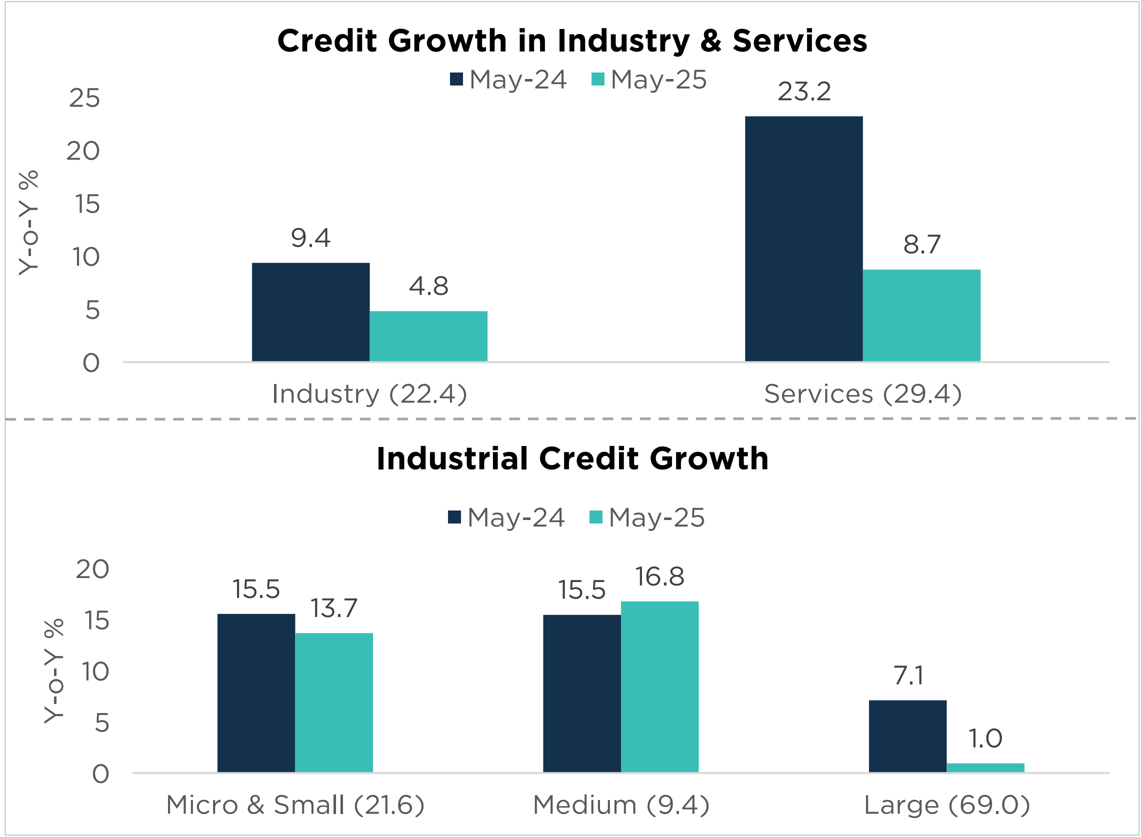
Source: MOSPI, CMIE; Note: Figures in bracket represent weights in overall IIP

- Growth in India's industrial production has shown a subdued performance, rising by 1.9% during April-May in FY26 as against 5.7% in the same period last year.
- Contraction in both electricity and mining sectors, along with moderation in manufacturing sector growth, weighed on the overall IIP growth.
- Within the use-based classification, output of consumer goods continued to exhibit weakness. However, growth in infra and capital goods remains encouraging.
- Overall, the domestic demand and investment situation remains to be monitored going forward while the external environment is likely to remain volatile.

Bank Credit Update
Bank Credit Offtake Comes Off a High



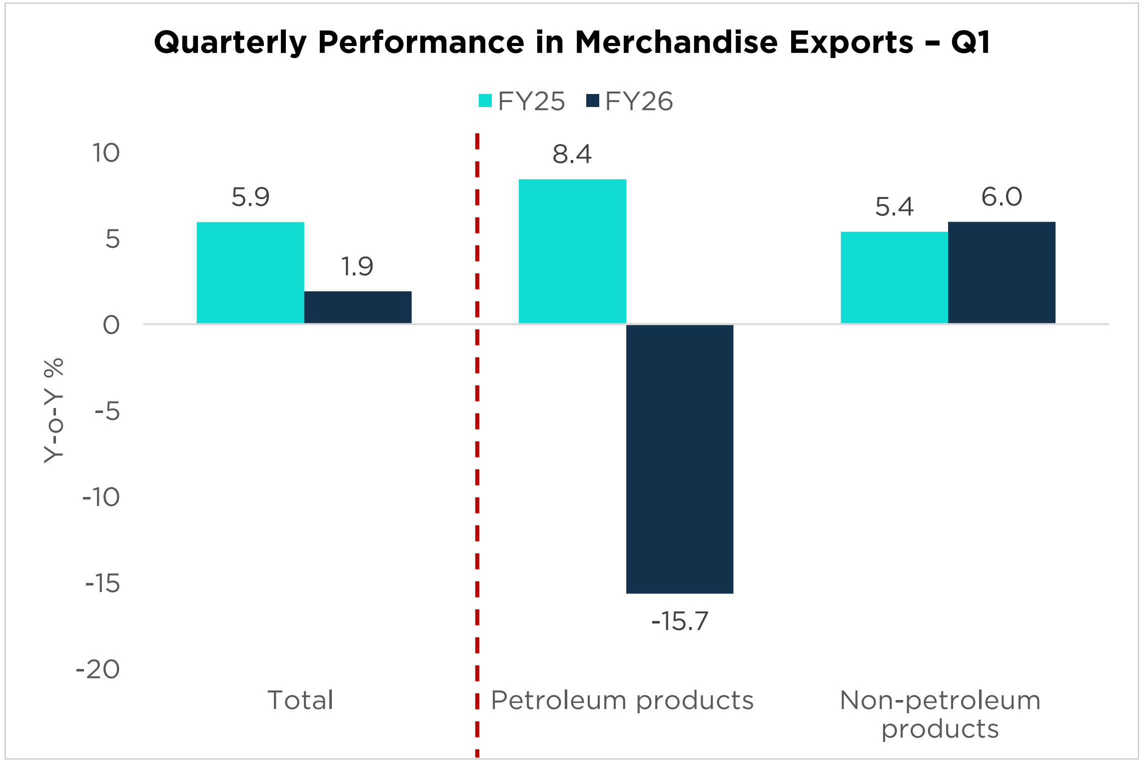
Source: RBI, CEIC; Note: Growth since July-23 excludes the impact of the merger of a non-bank with a bank



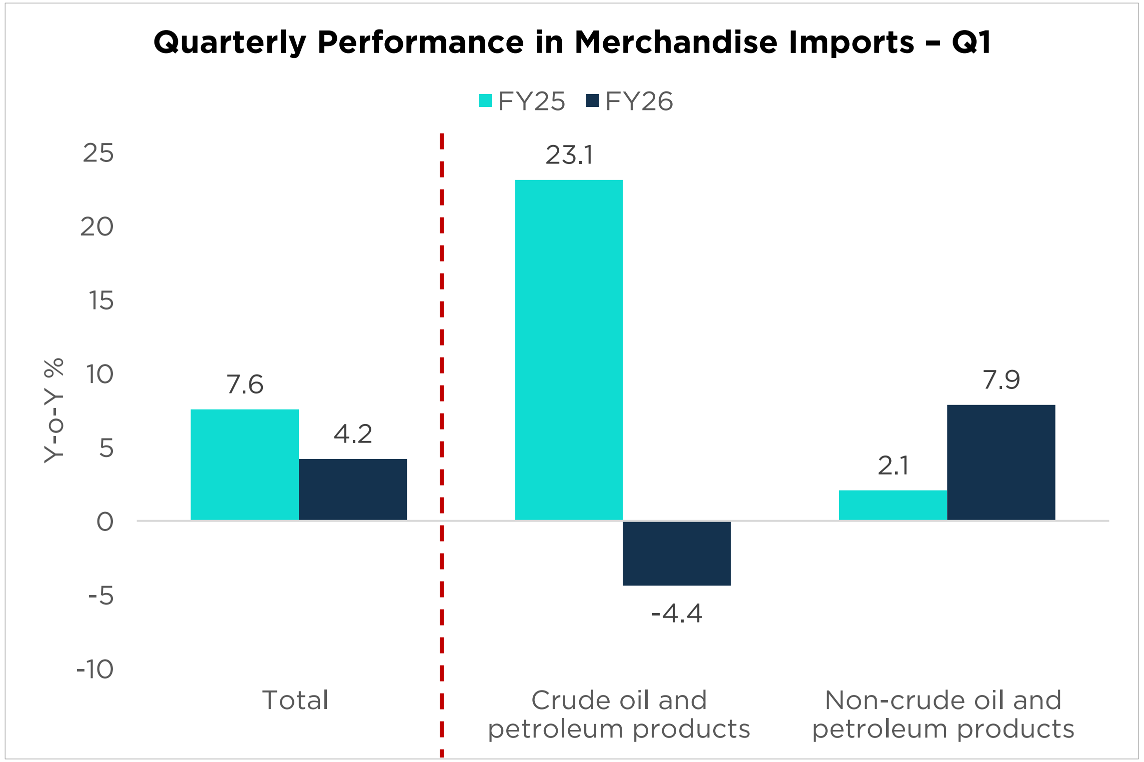
Source: RBI; Note: Figures in bracket represent % share in overall (industrial) bank credit; Bank credit growth data includes the impact of the merger of a non-bank with a bank

- Overall bank credit offtake moderated to 9.9% (y-o-y) as of May-25, as compared to 16.2% as of May last year.
- This moderation can be attributed to an unfavourable base, subdued momentum, preference for bond issuances and focus on managing the Credit-to-Deposit (CD) ratio.
- Muted capex activity on the corporate side amid uncertainties around the tariff situation has also contributed to the subdued loan demand.
- Credit growth to large industries and services moderated to 5.9% as of May-25 compared to 16.8% last year.

Merchandise Trade Update
Non-Petroleum Exports Improve; Imports Show Healthy Growth in Q1



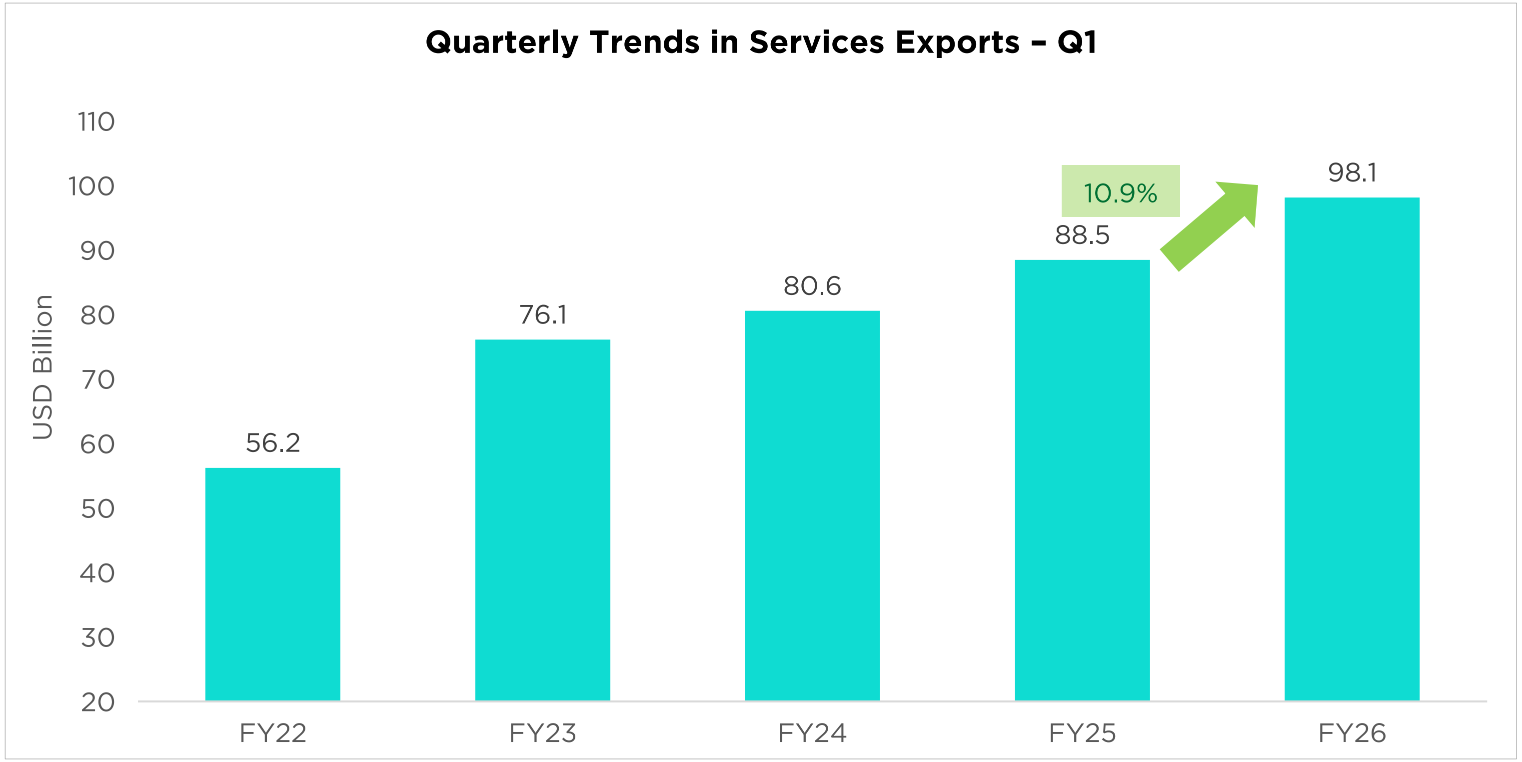
Source: CMIE



Source: CMIE

- Non-petroleum exports performed fairly well in Q1 FY26 logging a 6% growth.
- However, sharp contraction in petroleum exports (at 15.7%) kept the overall merchandise exports growth muted at just 1.9% in Q1.
- Non-oil imports have shown an improvement in Q1, rising by a strong 7.9% as against 2.1% growth in the same quarter a year ago.

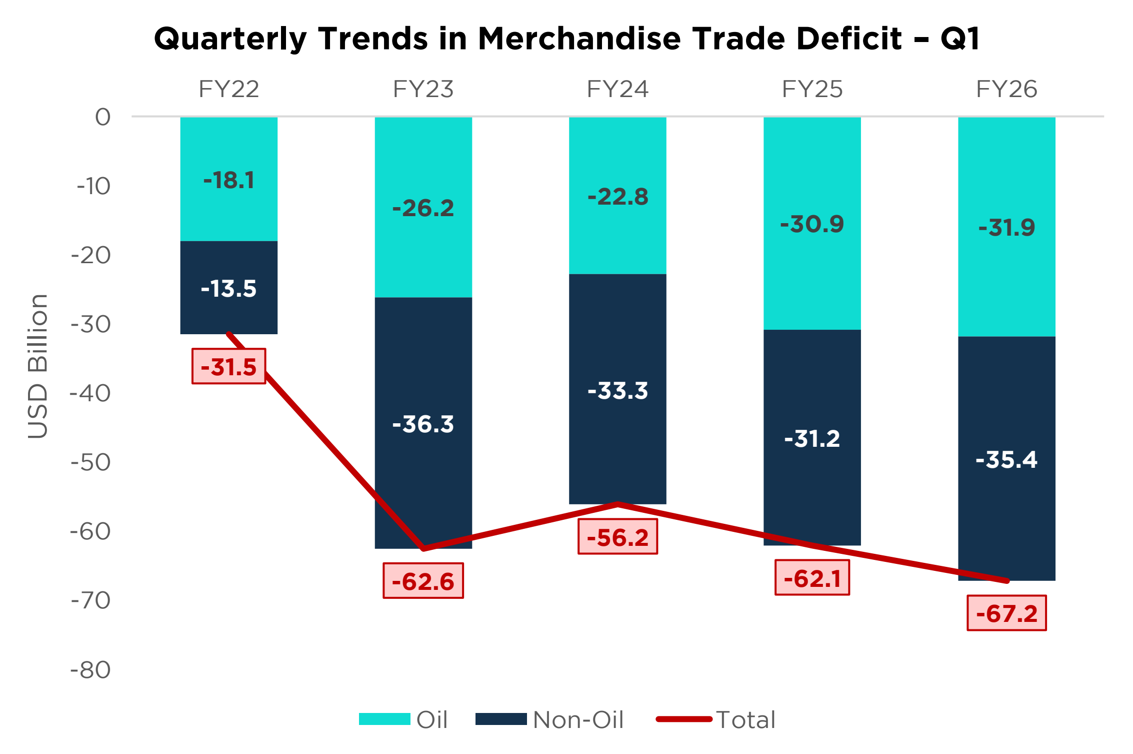
Services Trade Update
Services Exports Continue to Shine



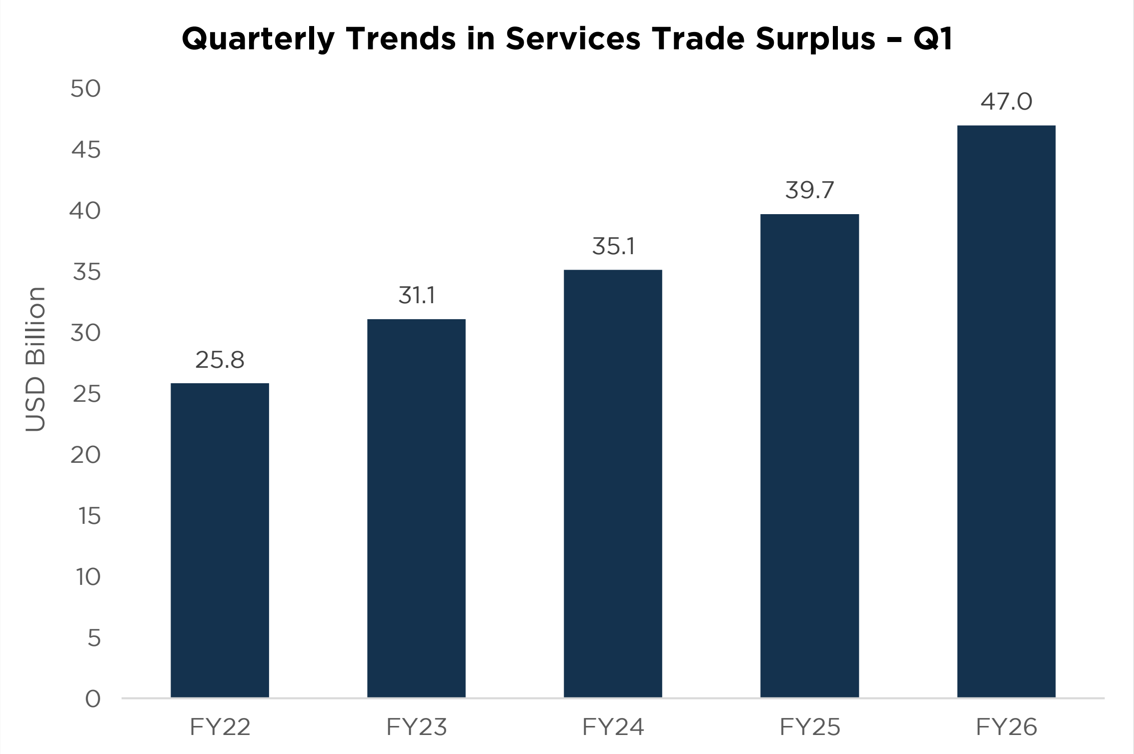
Source: CMIE

- India's services exports continued to show a healthy performance, rising by a strong 10.9% in Q1 FY26 despite global economic headwinds.
- Given this resilience, we expect India's services exports to grow by 8% in FY26.

Trade Deficit Position
Merchandise Trade Deficit Widens; Services Trade Surplus Remains Upbeat



Source: CMIE

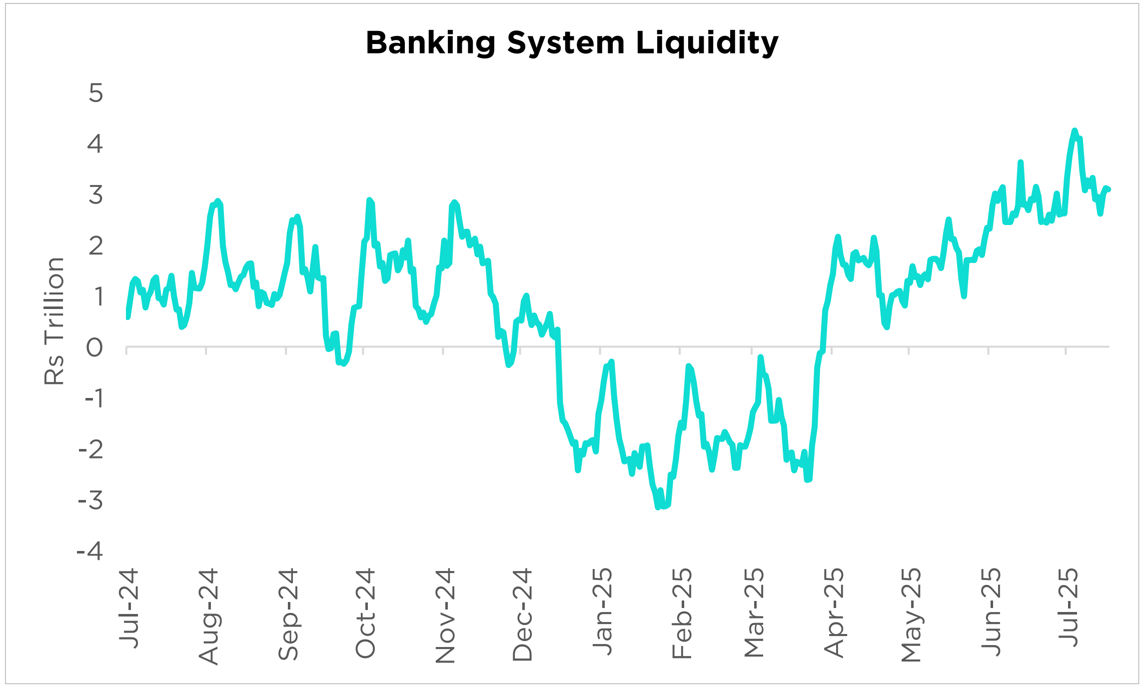


Source: CMIE

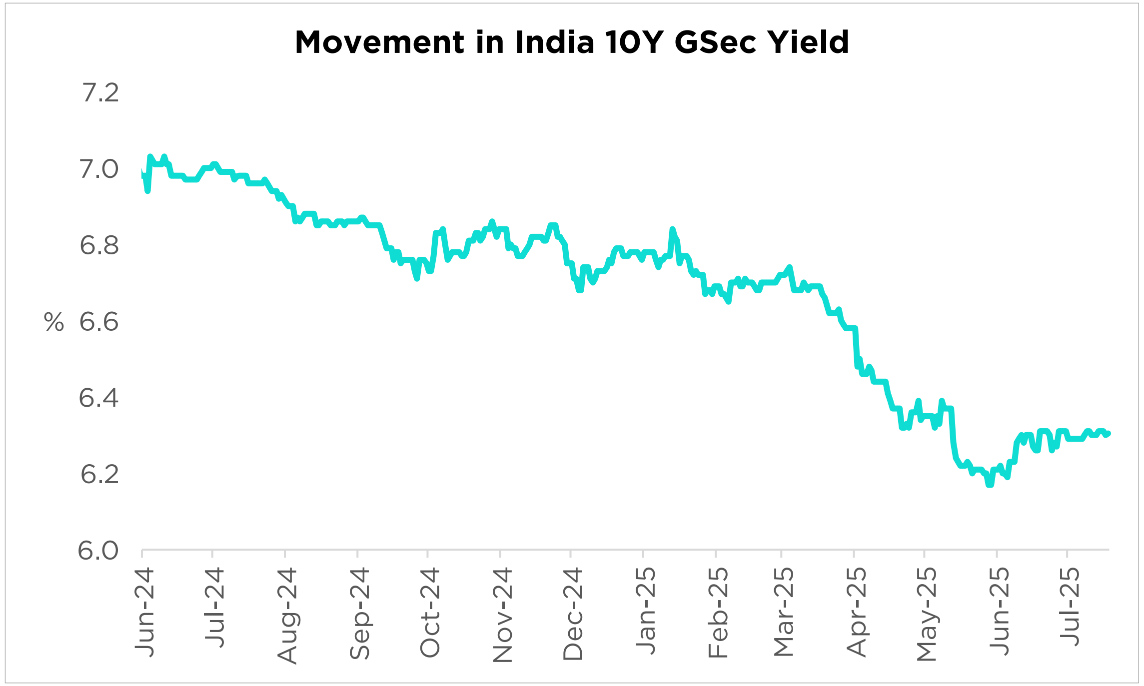
- India's merchandise trade deficit widened to USD 67.2 billion in Q1 FY26, mainly on account of higher non-oil deficit.
- Upbeat services trade surplus recorded in Q1 FY26 helped cushion the higher deficit on the merchandise trade front.
- As a result, India's overall deficit (factoring merchandise & services trade balance) was seen at USD 20.3 billion in Q1 FY26, lowest in the last three years.

Debt & FX Update

Comfortable Liquidity; 10Y GSec Yield Inches Up



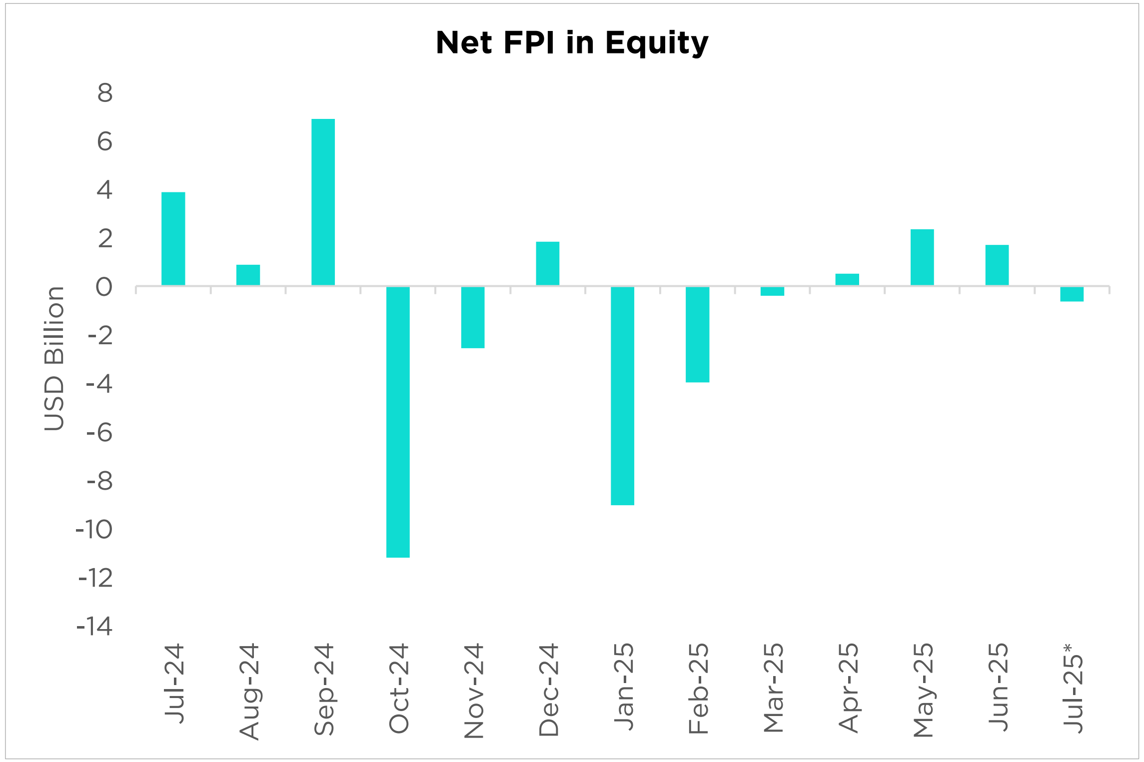
Source: CEIC. Data as of 17 July. Note: Positive values denote liquidity surplus



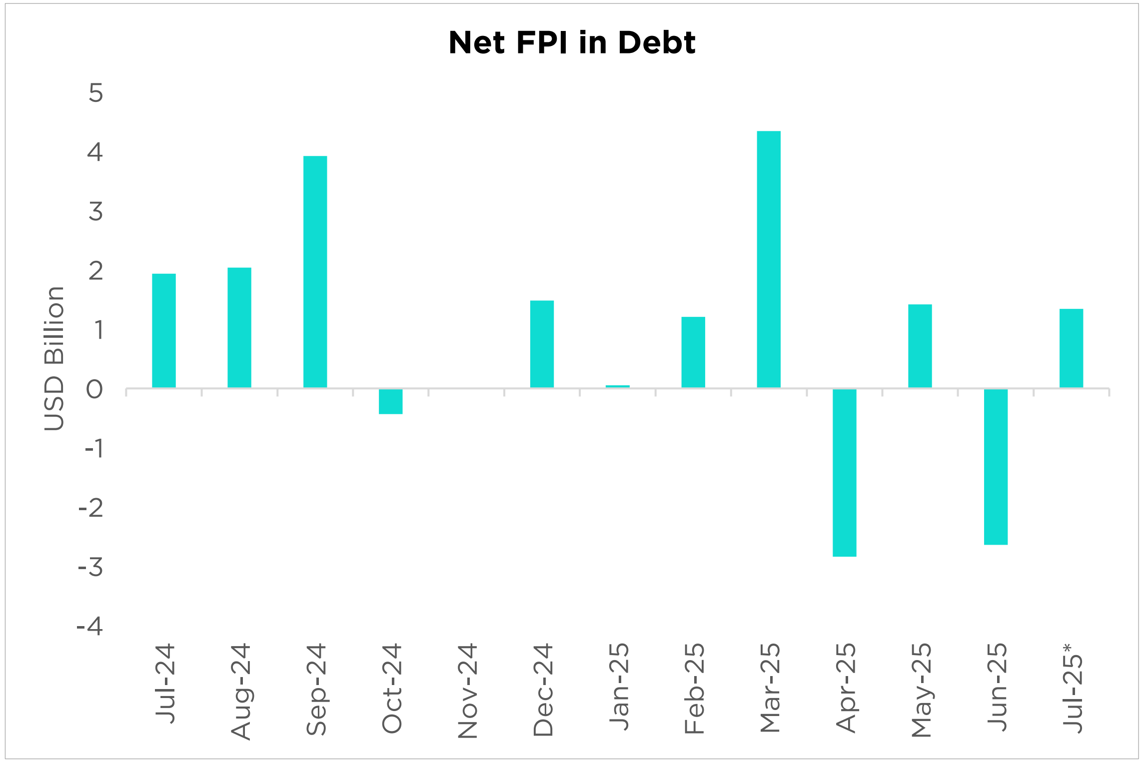
Source: Refinitiv. Data as of 18 July

- Average banking system liquidity surplus stood at Rs 3.4 trillion in July (up to 17 July).
- On average, the WACR was 24 bps below the policy rate in July, but it may rise with the VRRR auctions.
- RBI's record dividend transfer and CRR cut are positives for liquidity conditions. However, some of this injection may be offset by a reduction in RBI's net short forward book.
- India 10Y GSec yield has risen by around 9 bps since June. Nonetheless, it remains around 28 bps below end-March level.
- RBI MPC front-loaded easing with a larger-than-expected 50 bps repo rate cut in June. We do not expect further rate cuts unless downside risks to growth materialize.

FPI Flows Remain Volatile



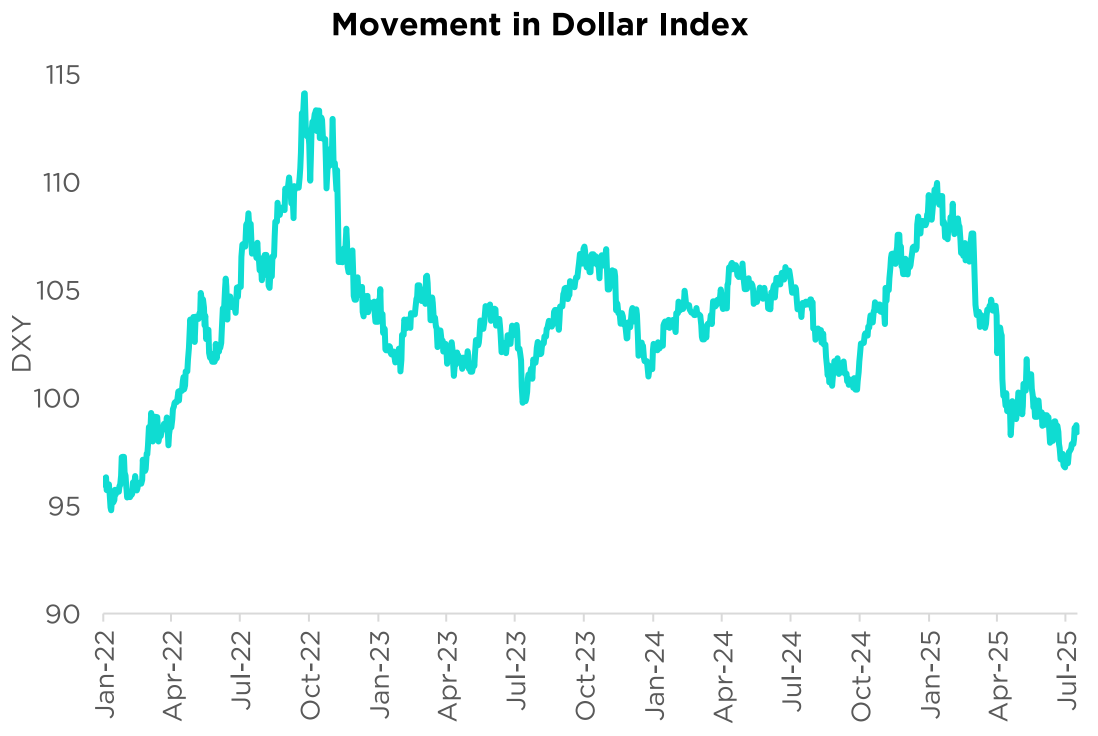
Source: NSDL. *Data as of 18 July



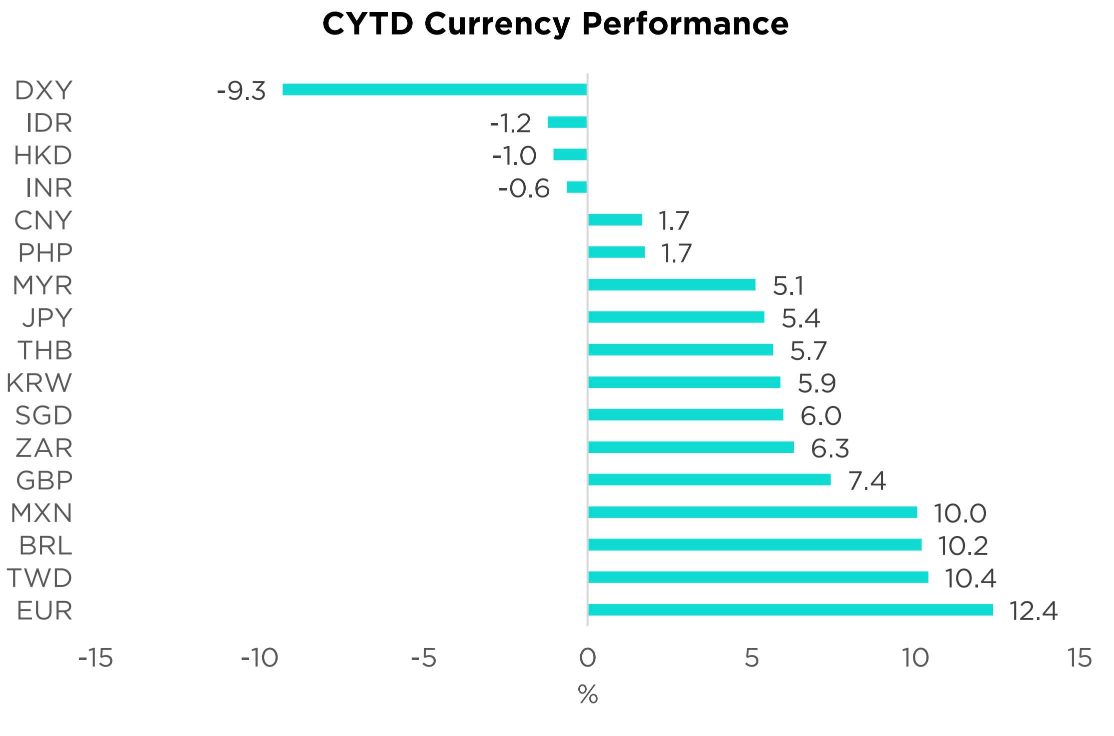
Source: NSDL. *Data as of 18 July

- CYTD net FPI outflows (equity + debt) stood at USD 6.8 billion, driven by USD 9.5 billion in net equity outflows, while debt saw net inflows of USD 2.9 billion.
- FPI flows are likely to stay volatile in FY26 amidst heightened global uncertainties.

Several Currencies Strengthen Amidst a Weaker Dollar



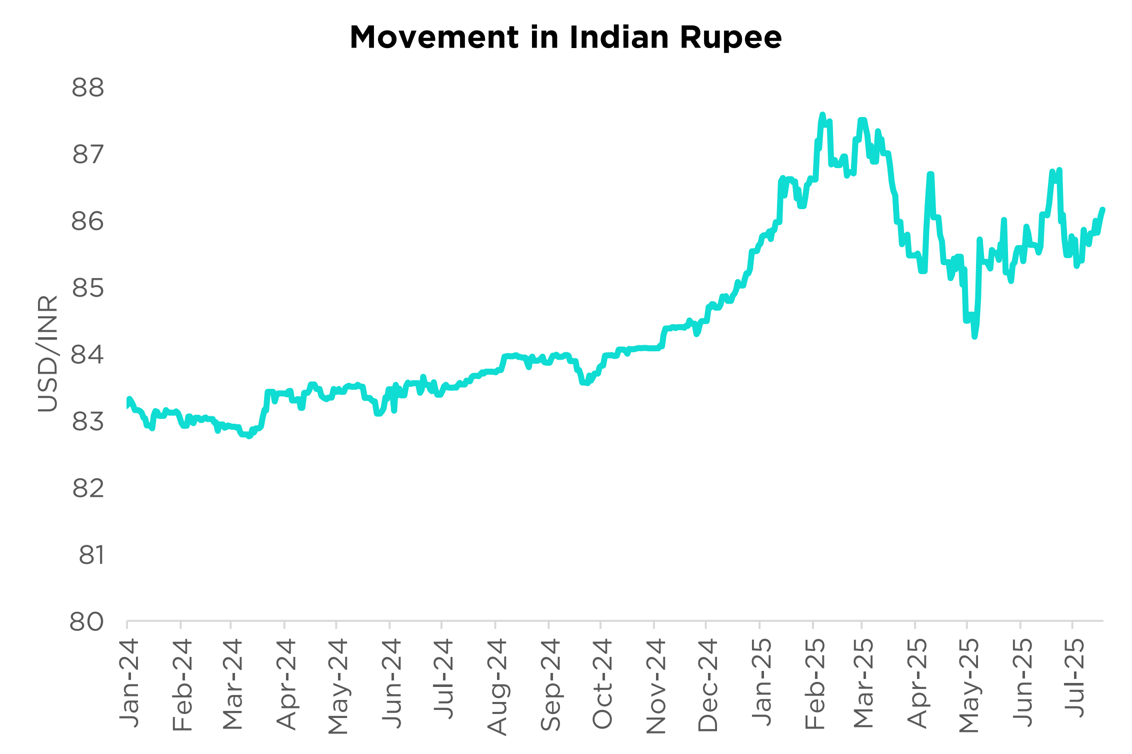
Source: Refinitiv. Data as of 18 July



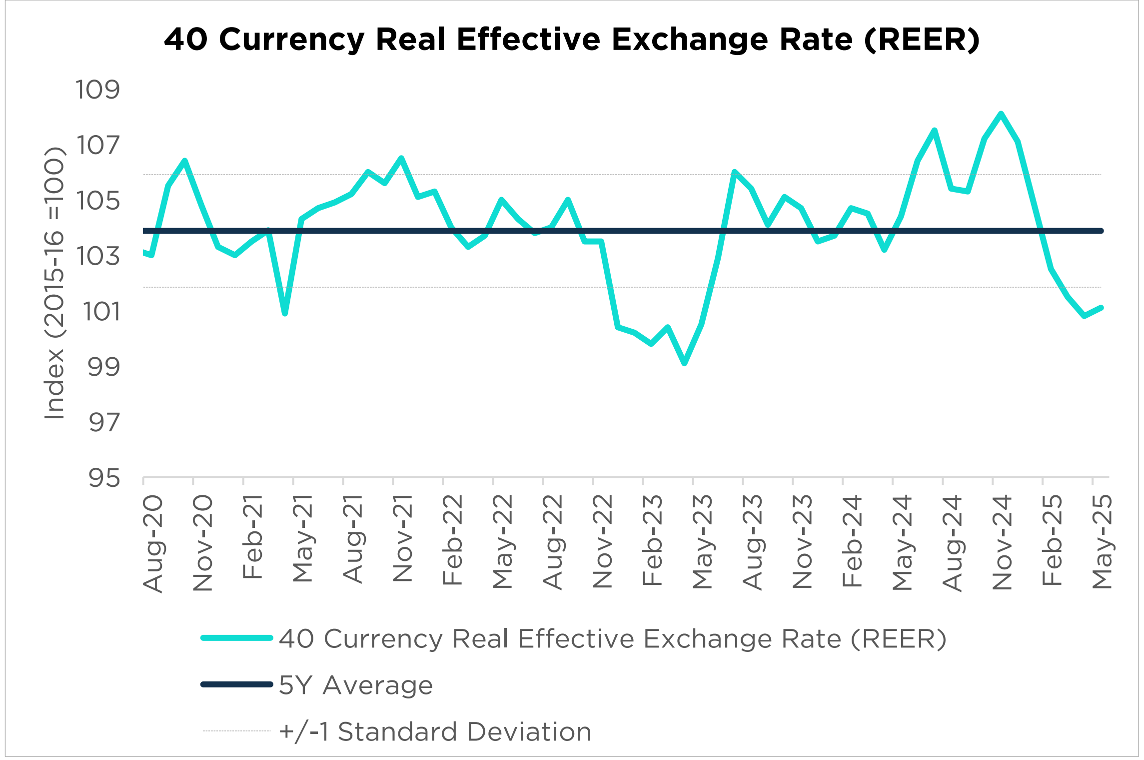
Source: Refinitiv. Data as of 18 July. Note: Negative values imply currency has weakened. DXY measures the dollar's performance against a basket of currencies, while other currencies' performance is measured against the USD.

- The US Dollar Index (DXY) has weakened 9.3% CYTD due to rising US fiscal and trade policy risks.
- The CNY has appreciated by 1.7%. However, the INR has weakened marginally by 0.6%.

Rupee Weakens Slightly; Valuation Concerns Ease



Source: Refinitiv. Data as of 18 July



Source: CMIE

- The rupee has depreciated by around 2.3% against the dollar since early May. However, it is still 1.6% stronger than its February lows.
- India’s forex reserves remain a key buffer, standing at USD 697 billion and providing a comfortable import cover.
- We expect USD/INR to stay rangebound at 85-87 by end-FY26, supported by a weaker dollar, stronger CNY and manageable CAD, though FPI flows may remain volatile.
- Developments around the US-India trade deal will be key to watch for its potential impact on market sentiment and capital flows.

CareEdge Eco Research Round-up

From the Economics Desk @ CareEdge	
CPI Inflation – June 2025	Read Here
IIP Growth – May 2025	Read Here
Debt & Forex Market Update	Read Here
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FOMC Policy Outcome	Read Here
Monsoon & Sowing Update	Read Here
Monitoring Factors Impacting Income Growth Critical to Spur Consumption	Read Here
India’s Current Account Deficit Projected at 0.9% of GDP in FY26	Read Here

CareEdge Forecasts

Economic Growth

GDP growth projected at **6.4%** in FY26

Inflation

Average CPI inflation projected at **3.5%** 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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