CareEdge RATINGS

CareEdge

Economic Pathway

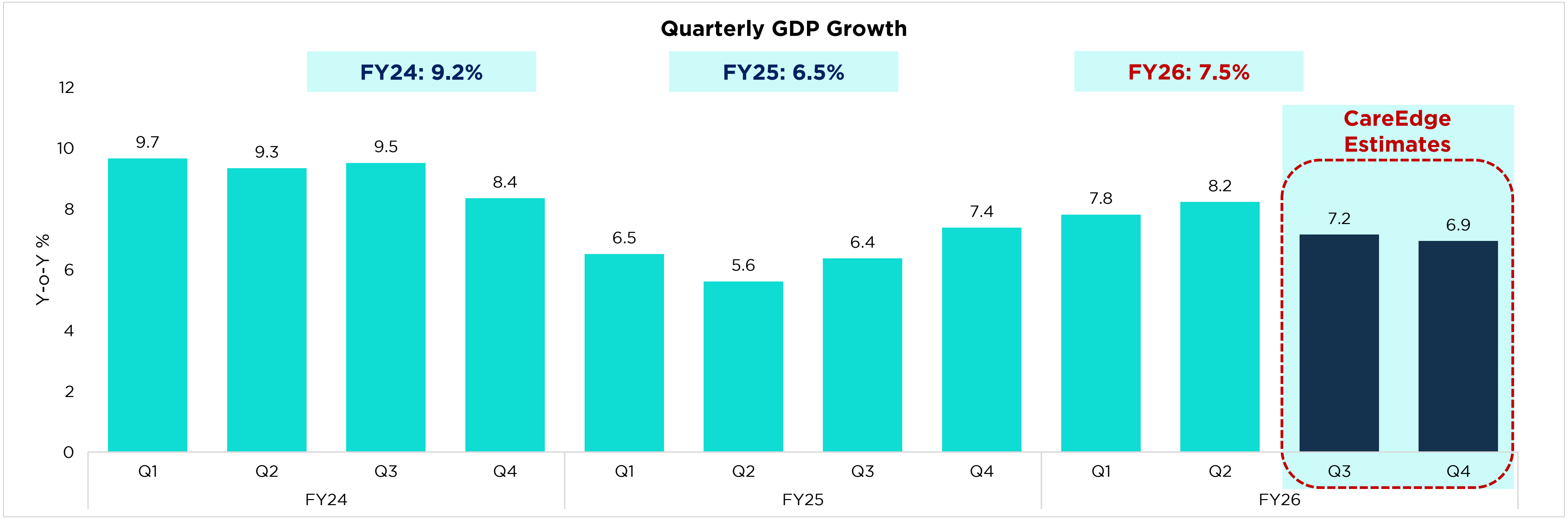
December 2025

List of Content

Economy Update

Economic Growth Momentum

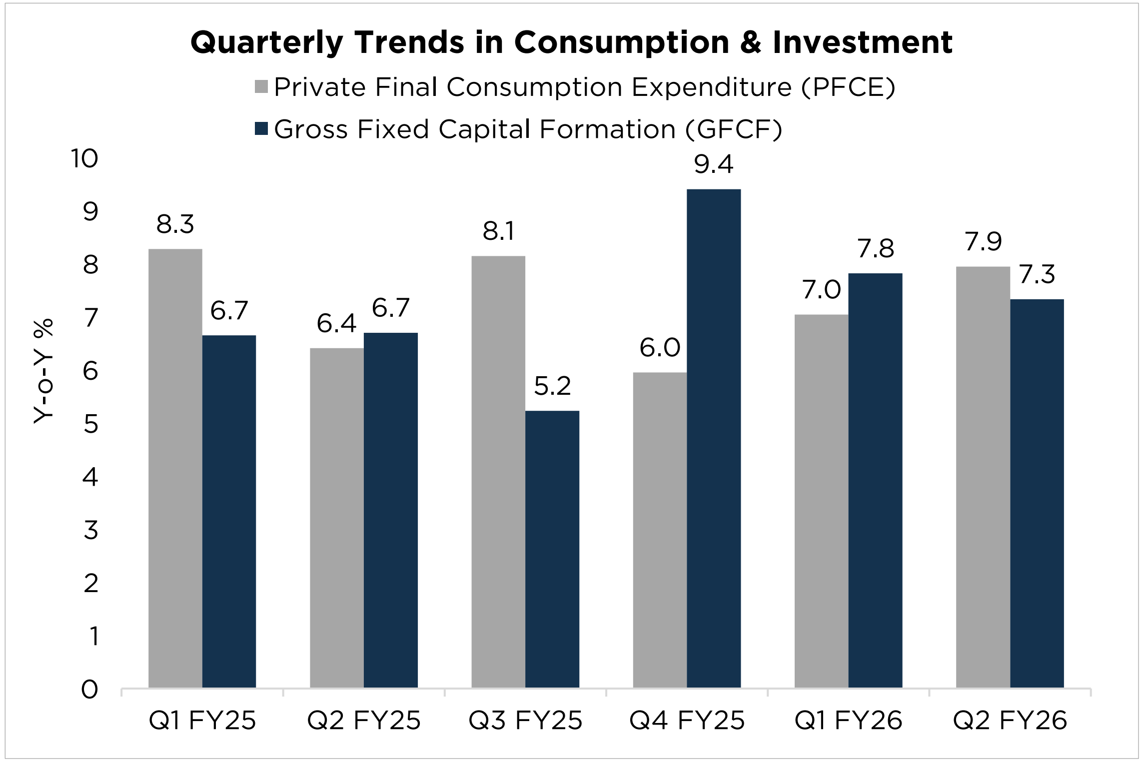
GDP Growth Accelerated to a Six-Quarter High in Q2 FY26



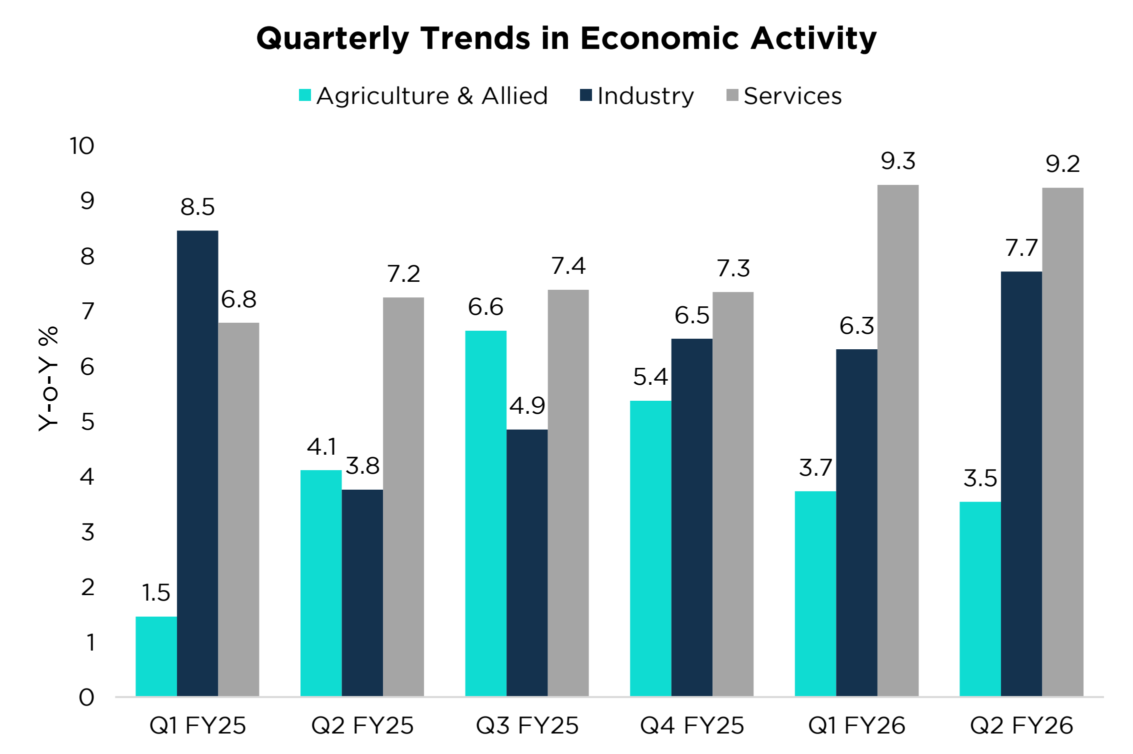
Source: CMIE, CareEdge

- Early festive season demand, income tax cuts, GST rate rationalisation, easing inflation and export front-loading supported the better-than-expected growth print.
- Low base of last year, and low deflator in this period were statistical factors, that pushed up the growth numbers in Q2.
- Looking ahead, we expect the GDP growth to moderate to ~7% in H2 from an average of 8% in H1.
- We estimate the economy to grow by 7.5% in FY26 and 7% in FY27.

Economic Growth Momentum
Underlying Factors Driving the GDP Growth Momentum



Source: MOSPI, CareEdge



Source: MOSPI, CareEdge

- Income tax cuts, GST rationalisation, early festive season and easing inflation supported the acceleration in PFCE (consumption) to 7.9% in Q2.
- Industrial growth witnessed a sharp uptick in Q2, led by the manufacturing sector, which recorded growth of 9.1% compared to 7.7% growth in Q1.
- GDP growth momentum is expected to moderate in H2 FY26, as the support from export front-loading, the festive season-led consumption boost, and the low base wanes.

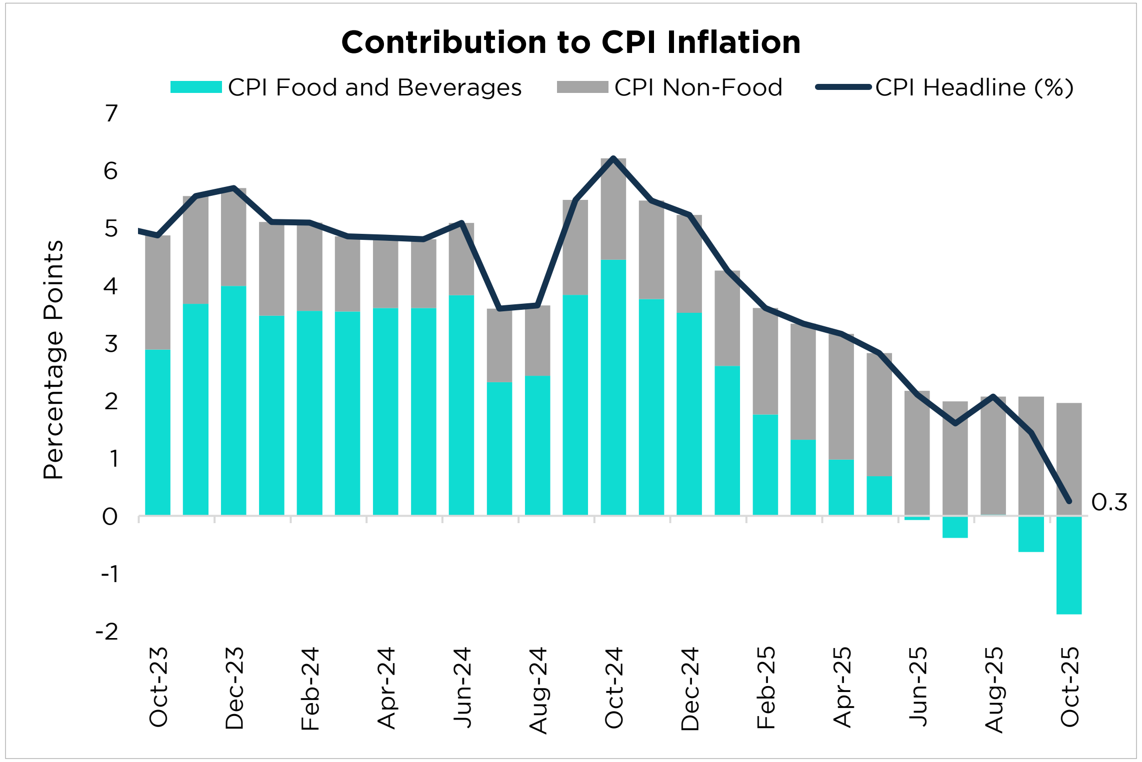
Economic Activity
Performance in High Frequency Indicators

		Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25
Manufacturing PMI	Index	58.2	57.6	58.4	59.1	59.3	57.7	59.2	56.6
Services PMI	Index	58.7	58.8	60.4	60.5	62.9	60.9	58.9	59.8
Goods & Services Tax Collections	Y-o-Y%	12.6	16.4	6.2	7.5	6.5	9.1	4.6	0.7
E-Way Bills Generation	Y-o-Y%	23.4	18.9	19.3	25.8	22.4	21.0	8.2	
Petroleum Consumption	Y-o-Y%	0.2	1.1	0.5	-4.4	4.8	7.6	-0.4	
Power Consumption	Y-o-Y%	2.2	-4.9	-1.5	2.1	4.3	3.2	-6.0	-0.8
Index of Industrial Production (IIP)	Y-o-Y%	2.6	1.9	1.5	4.3	4.1	4.6	0.4	
Consumer Durables Output - IIP	Y-o-Y%	6.2	-0.9	2.8	7.3	3.5	10.0	-0.5	
Consumer Non-Durables Output - IIP	Y-o-Y%	-2.7	-1.0	-0.9	0.5	-6.4	-0.3	-4.4	
Air Passenger Traffic	Y-o-Y%	10.3	3.0	3.7	-1.0	1.0	-0.7	4.7	
Domestic Sales of Passenger Vehicles	Y-o-Y%	5.5	0.8	-6.3	1.5	-9.1	-0.9	15.8	
Domestic Sales of 2-3 Wheelers	Y-o-Y%	-16.3	2.0	-3.1	9.1	7.2	6.6	2.3	
Domestic Tractor Sales	Y-o-Y%	7.7	9.1	10.5	8.0	28.3	45.4	14.8	
MGNREGS-Persons Work Demanded	Y-o-Y%	-9.7	1.1	3.6	-11.5	-25.4	-26.9	-35.7	-31.8
Gross Bank Credit: Industry	Y-o-Y%	6.6	4.8	5.9	6.0	6.5	7.3	10.0	
Gross Bank Credit: Services	Y-o-Y%	10.5	8.7	9.2	10.6	10.6	10.2	13.0	
Gross Bank Credit: Personal Loans	Y-o-Y%	11.9	11.1	11.7	11.9	11.8	11.7	14.0	
Digital Payments Volume	Y-o-Y%	30.0	29.2	28.3	30.9	31.1	28.1	21.5	
Digital Payments Value	Y-o-Y%	18.5	12.6	17.4	16.6	5.4	13.4	8.8	

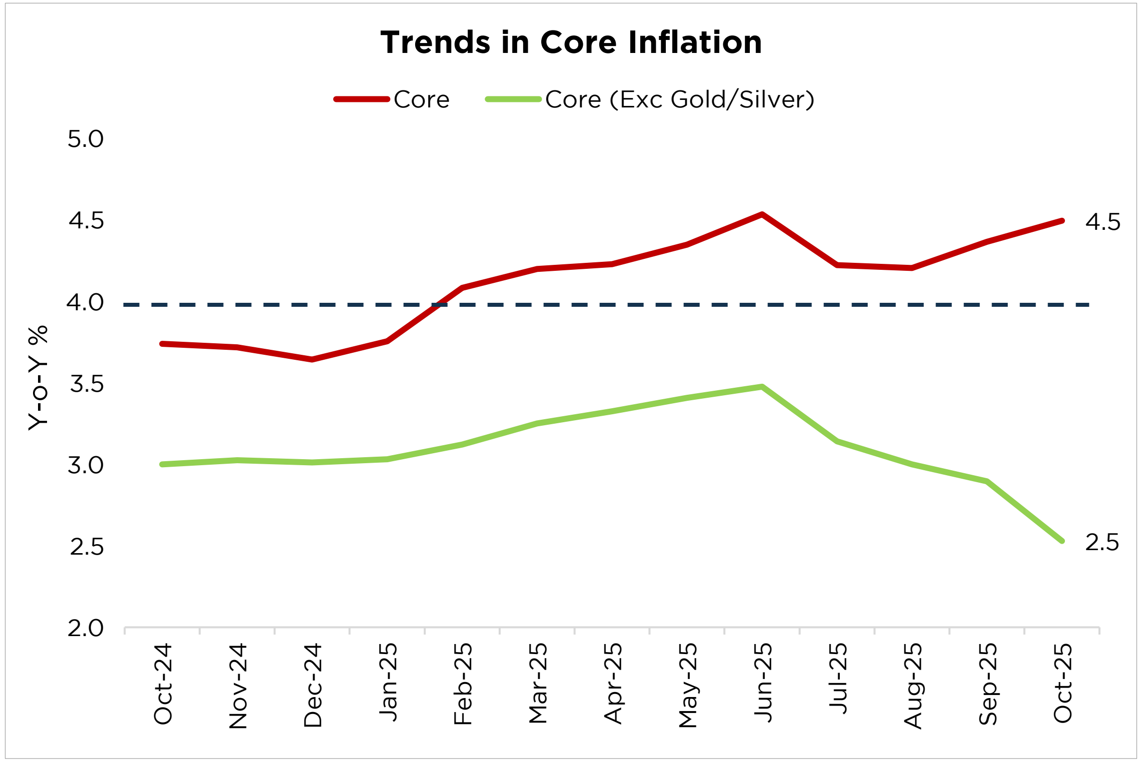
Source: CEIC, CMIE, CareEdge

- India's manufacturing PMI eased in Nov as new export orders moderated to a 13-month low and business confidence moderated amid the ongoing tariff concerns.
- GST growth moderated in Nov, reflecting the impact of the GST rate rationalisation. IIP growth weakened in Oct, partly due to fewer working days due to multiple festivals.
- Meanwhile, other indicators such as bank credit growth accelerated in Oct; Auto sales, digital payments continued to hold up well.

Inflationary Scenario
India's CPI Inflation Eased to an All-Time Low in October



Source: MOSPI, CareEdge

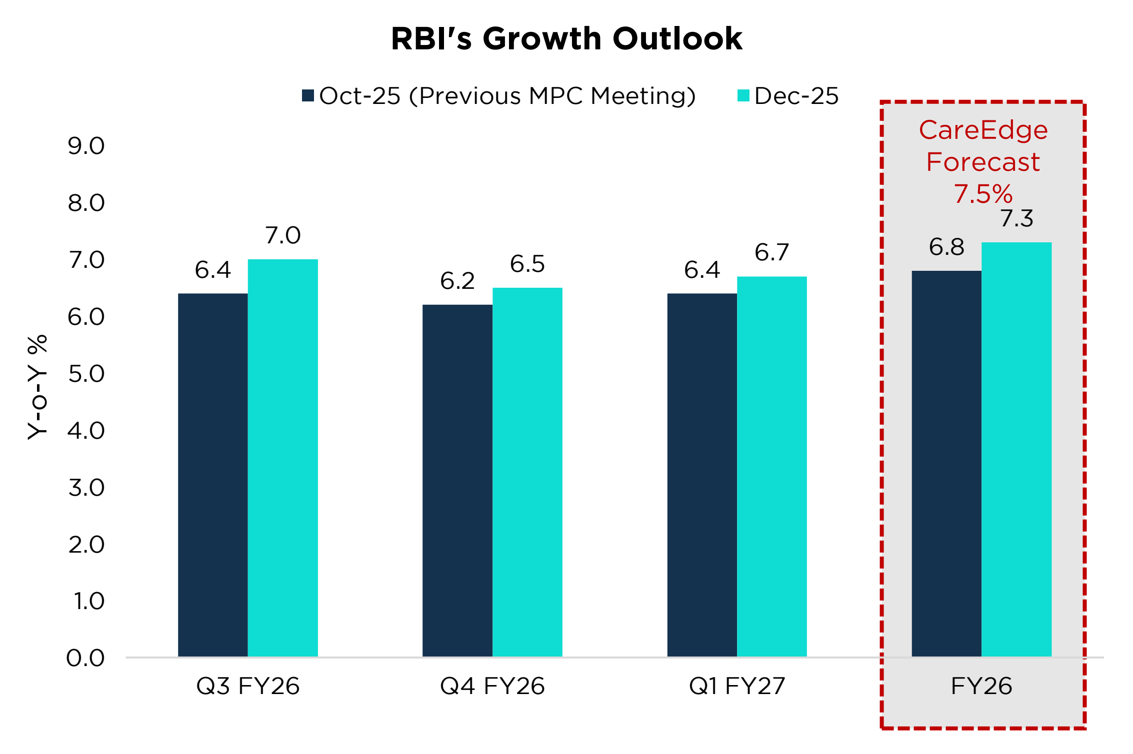


Source: MOSPI, CareEdge

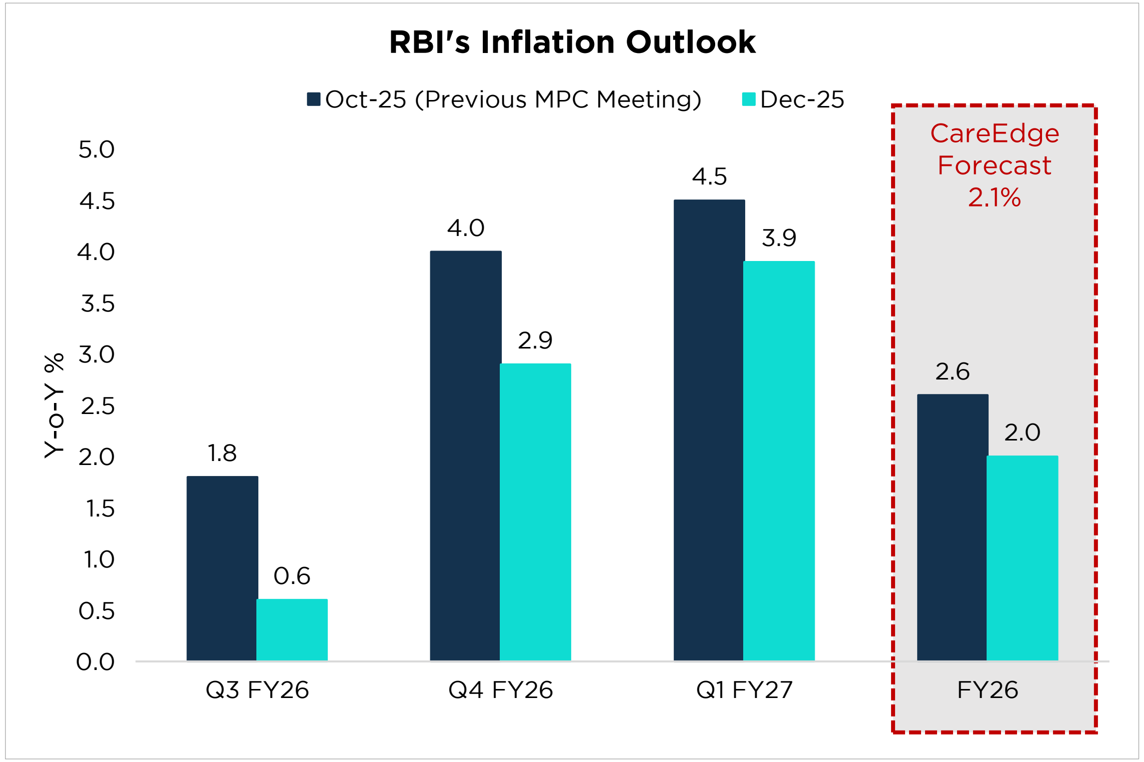
- CPI inflation eased to an all-time low of 0.3% in Oct, aided by the positive impact of the GST rationalisation and deflation in the food and beverages category.
- Core CPI rose to 4.4%, amid double-digit inflation seen in precious metals. Excluding the precious metals, core CPI inflation was benign at 2.5%.
- Inflation has likely bottomed out in Oct, but we estimate it remains benign, averaging 0.9% in Q3, before rising to an average of 3.1% in Q4 FY26.
- We project an average inflation rate of 2.1% for FY26 and 4% in FY27.
- Taking comfort from very low inflation, the RBI has slashed the policy repo rate by 25 bps to further stimulate the growth momentum.

RBI Outlook of Growth & Inflation

RBI Upgrades GDP Forecast & Lowers Inflation Forecast for FY26



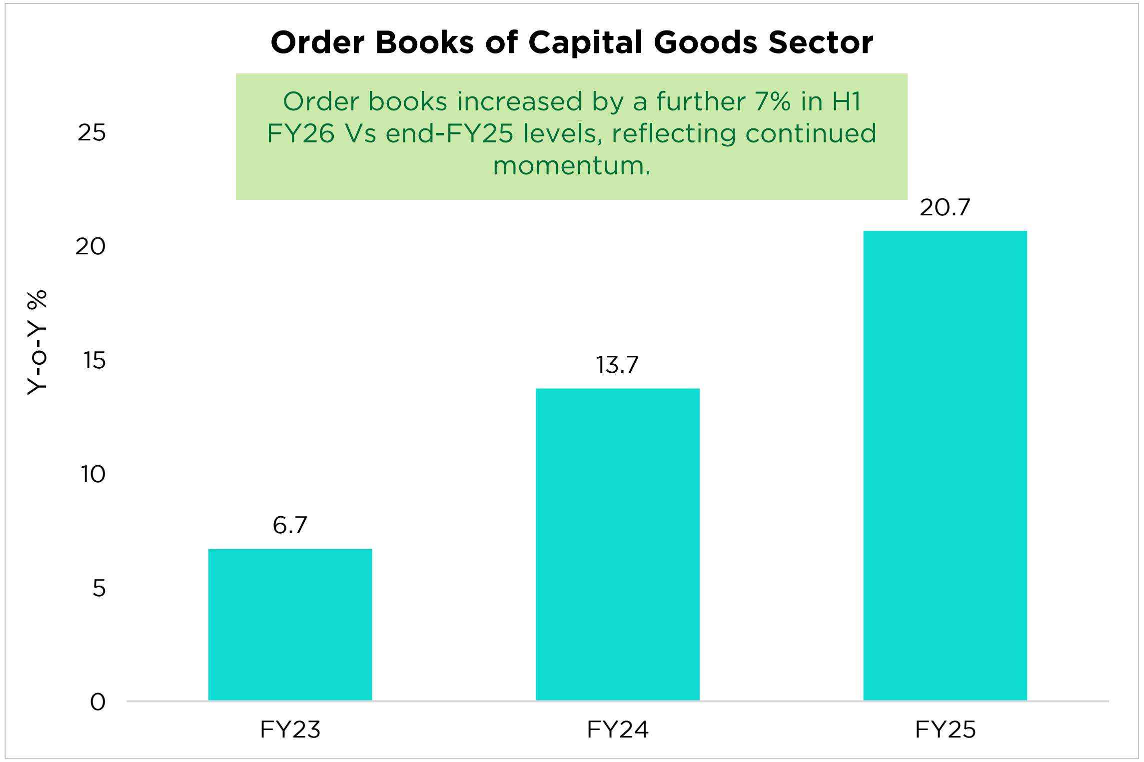
Source: RBI, CareEdge



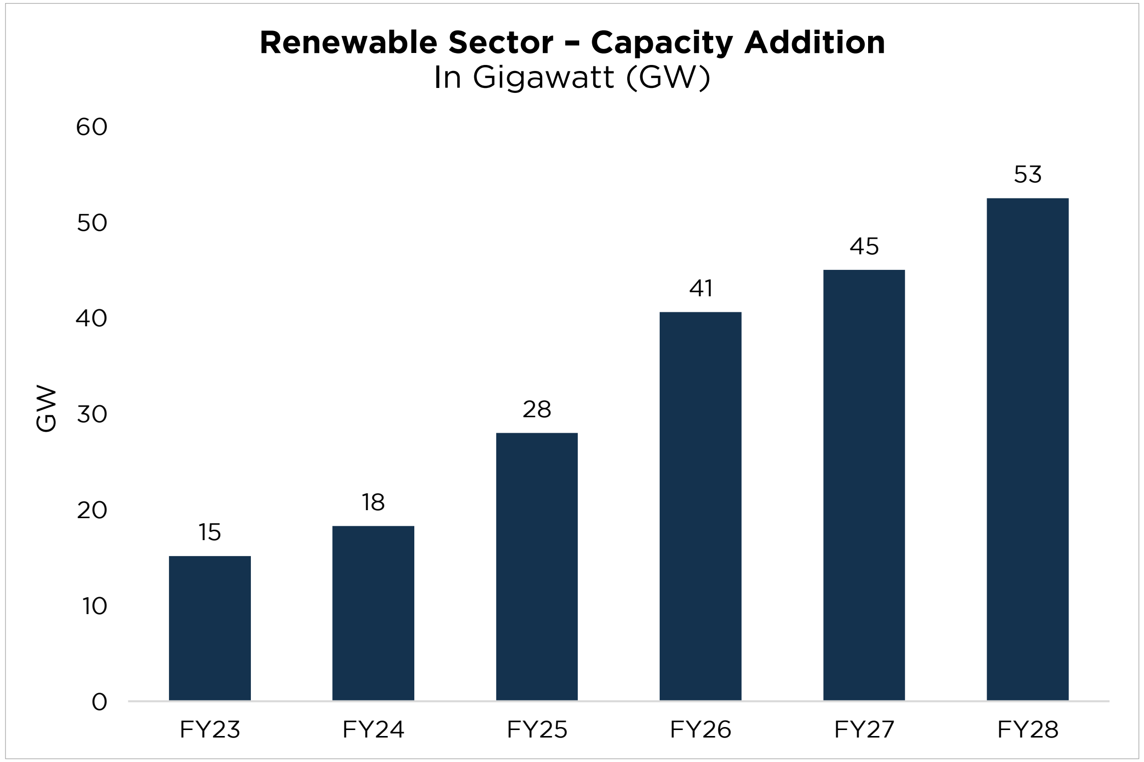
Source: RBI, CareEdge

- RBI lifted its FY26 GDP growth forecast by 50 bps to 7.3% following the economy's upbeat growth performance in H1.
- Amid sustained easing in inflation and favourable food price outlook, the RBI has revised its full-year inflation forecast to 2% from the earlier forecast of 2.6%.
- We maintain our growth and inflation forecast at 7.5% and 2.1%, respectively for FY26.

Investment Scenario
Capex Shows Green Shoots; Outlook Remains Cautious



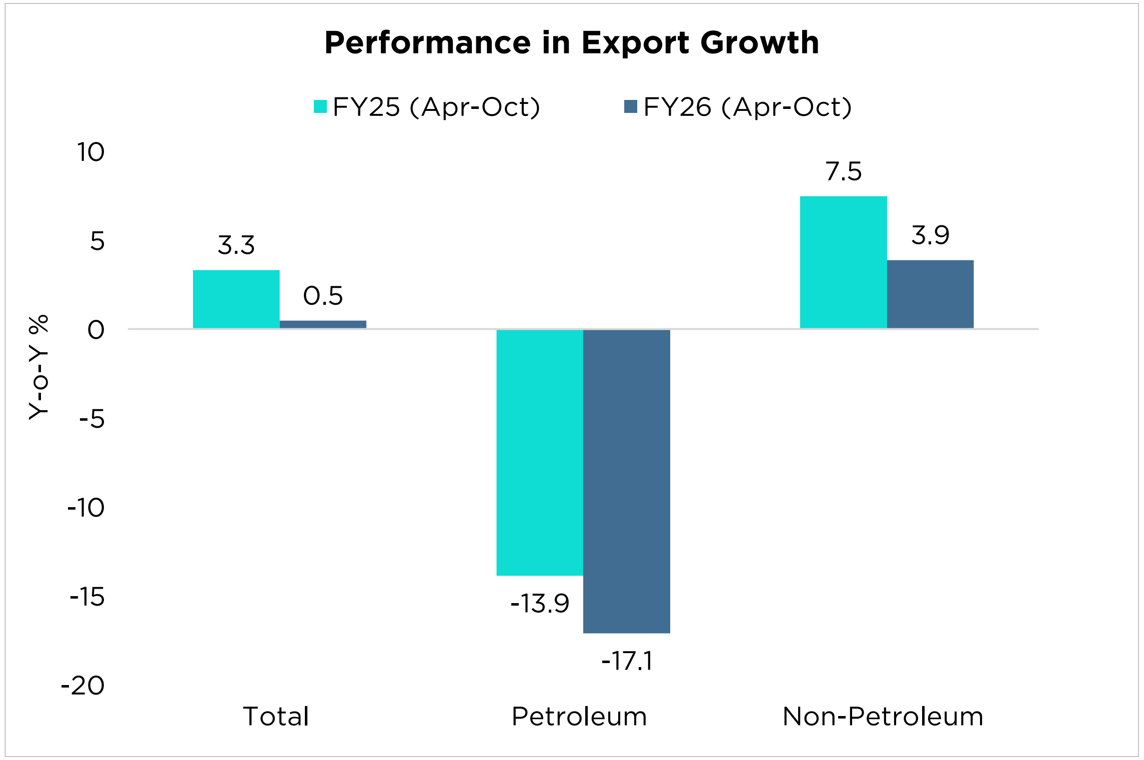
Source: Annual Reports of representative sample of companies and their information available with stock exchanges, CareEdge estimates



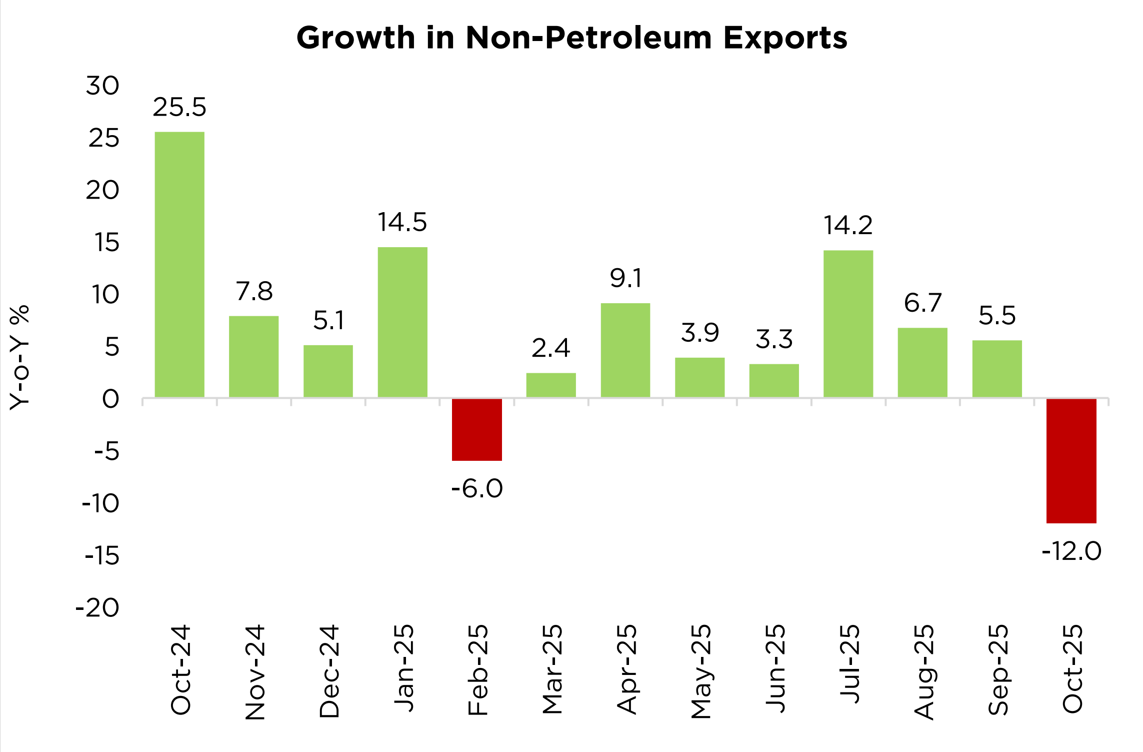
Source: CareEdge

- Our analysis showed that the aggregate capex of Indian corporations increased by 11% (y-o-y), rising to Rs 9.4 trillion in FY25.
- Top sectors of India Inc's capex were oil & gas (19% share), power (15%), telecom (10%), automobile & ancillaries (9%), iron & steel (7%) and non-ferrous metals (5.5%).
- Order books for a sample of capital goods companies rose by 20.7% (y-o-y) in FY25, reflecting an optimistic outlook for capex in the economy.
- Our estimate suggests that the capex for the power generation sector (listed and unlisted companies) will likely grow at a CAGR of 8% over FY26 to FY28.
- Within the power generation sector, capex in the renewable sector (including storage) is expected to grow at a CAGR of 13% over FY26 to FY28.

India’s External Position
Cumulative Exports Hold Up Well; But Exports Growth Softened in the Recent Months



Source: CMIE, CareEdge

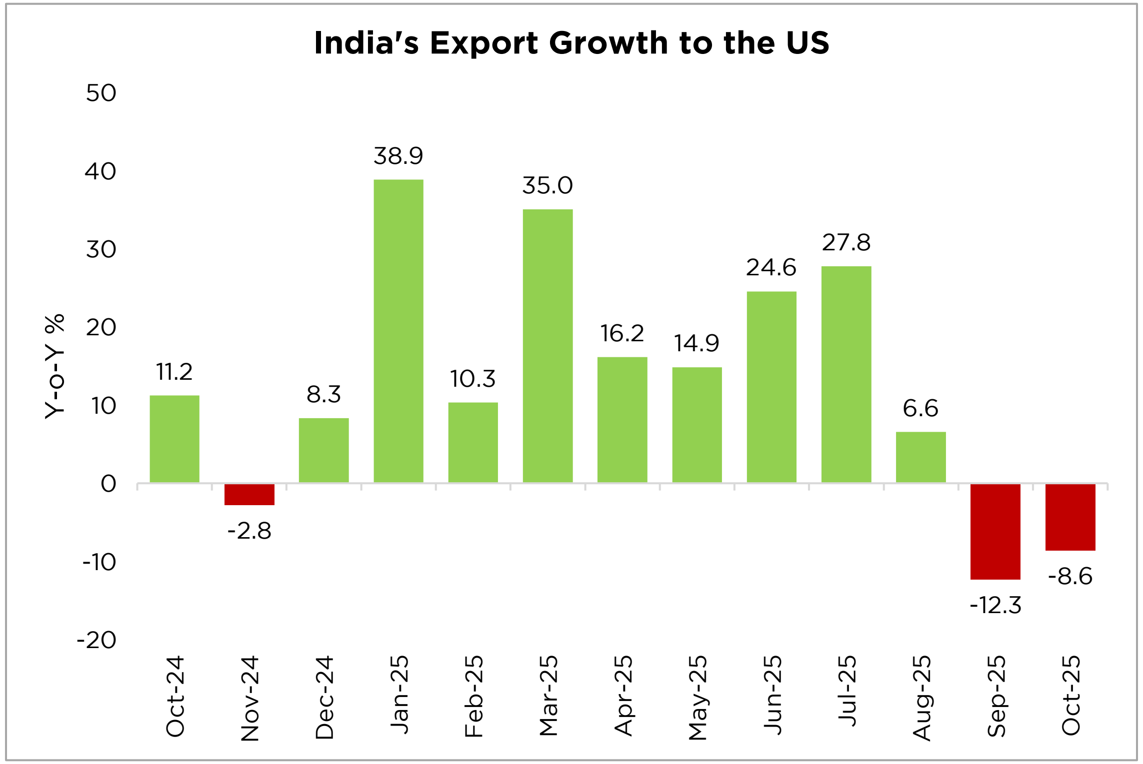


Source: CMIE, CareEdge

- Export front-loading in the early months of the fiscal year, undertaken ahead of the US tariff imposition, lent some support to the non-petroleum export growth.
- However, growth in the non-petroleum exports during the last two months (Sep-Oct) contracted by 3.9%, as against the 7.3% growth seen in the preceding five months.
- While an adverse base influenced the sharp year-on-year contraction in the Oct export figures, the potential early signs of export weakness cannot be dismissed, especially with the 50% US reciprocal tariffs having taken effect from end-Aug.

India's External Position

Most Export Categories See a Decline in India's Shipments to the US



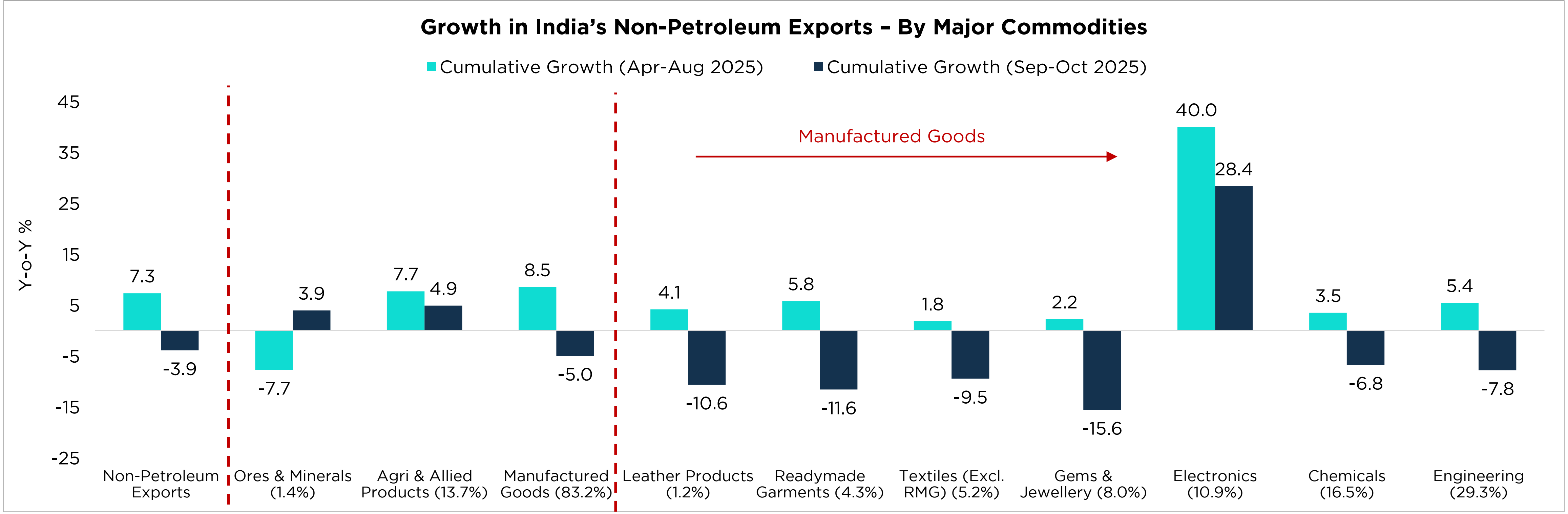
Source: CMIE, CareEdge

	% Share in India's Exports to US	Cumulative Growth (Y-o-Y %)	Cumulative Growth (Y-o-Y %)
	FY25	Apr-Aug 2025	Sep-Oct 2025
All commodities	**100.0**	**17.8**	**-10.3**
Engineering Goods	20.5	11.2	-11.2
Electronic Goods	17.5	131.9	121.8
Chemicals & Related Products	17.4	7.1	-16.5
Gems & Jewellery	11.5	-33.9	-69.7
Agricultural & Allied Products	6.5	8.2	-32.4
Readymade Garments	6.2	5.6	-22.3
Textiles (Excl. RMG)	5.9	-1.2	-31.1
Petroleum & Crude Products	4.7	-19.7	46.7

Source: CMIE; CareEdge

- Following the imposition of 50% US reciprocal tariffs from end-Aug, India's exports to the US have declined across major categories, reversing the gains seen in the preceding five months.
- Exports of electronic goods and petroleum exports have been the exceptions to this trend. Currently, these items are exempt from the US reciprocal tariff.
- Labour-intensive sectors such as gems and jewellery, textiles and ready-made garments showed a sharp contraction in exports in the last two months.

India's External Position
Labour-Intensive Exports Under Pressure

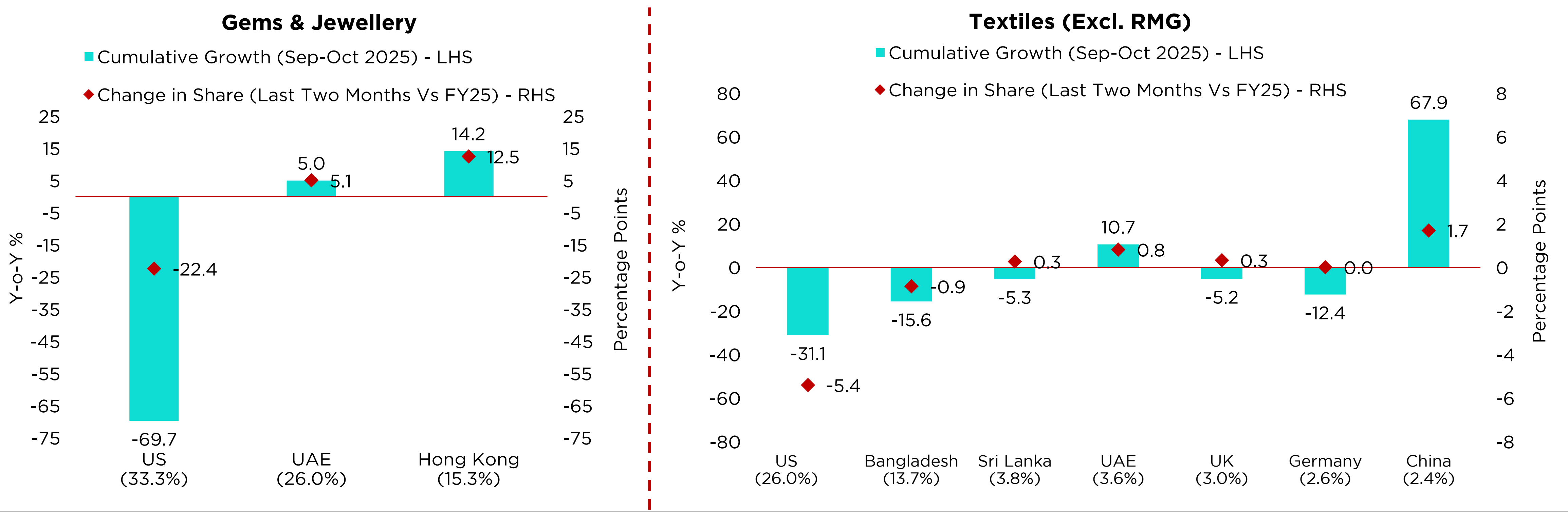


Source: CMIE; CareEdge; Note: Figures in bracket represent percentage share in India's total non-petroleum exports (FY25)

- Cumulative export across all major manufacturing goods have contracted over the last two months, with the exception of electronic goods.
- Items like gems & jewellery, agri and allied products, textiles have specifically seen sharp contraction in exports in the last two months.

India's External Position

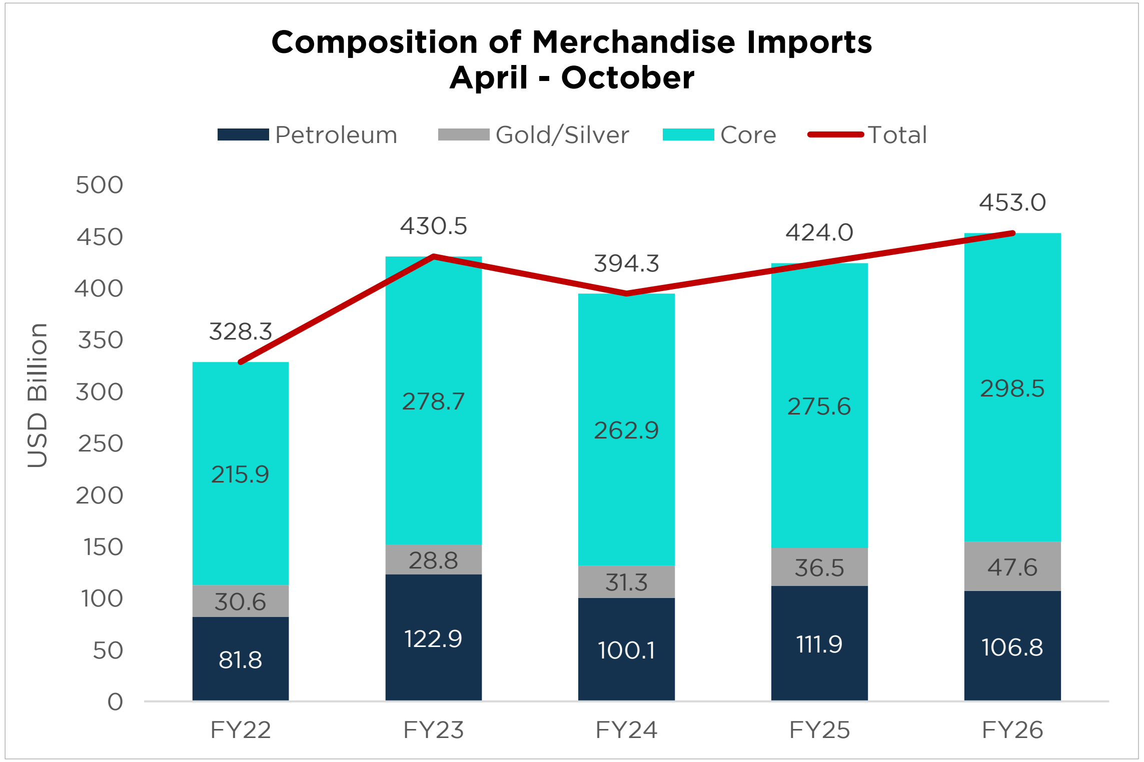
Growth and Market Share Shifts in India's Top Export Destinations of Select Commodities



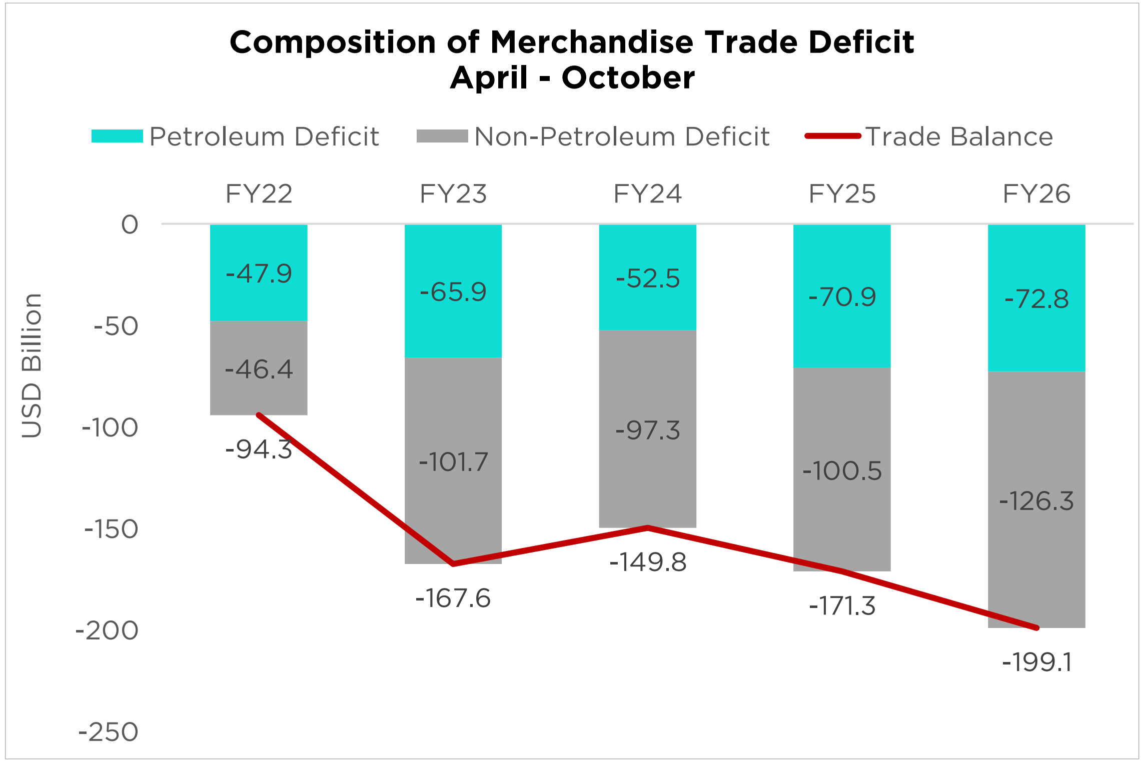
Source: CMIE, CareEdge; Notes: Figures in bracket represent percentage share in India's total exports of the item (FY25)

- Gems and jewellery exports fell by 15.6% during the last two months. While exports to the US declined sharply, the impact was slightly cushioned by healthy export growth to UAE and Hong Kong.
- Exports of textiles (excl. RMG) dipped to -9.5% over the last two months. While exports to the US declined by 31%, the downside was moderated by strong gains in shipments to the UAE (10.7%) and China (67.9%).
- While it is too early to confirm a structural reorientation toward non-US markets, these emerging trends will be important to monitor in the coming months.

Precious Metals & Core Imports Rise, Pushing Up the Merchandise Trade Deficit



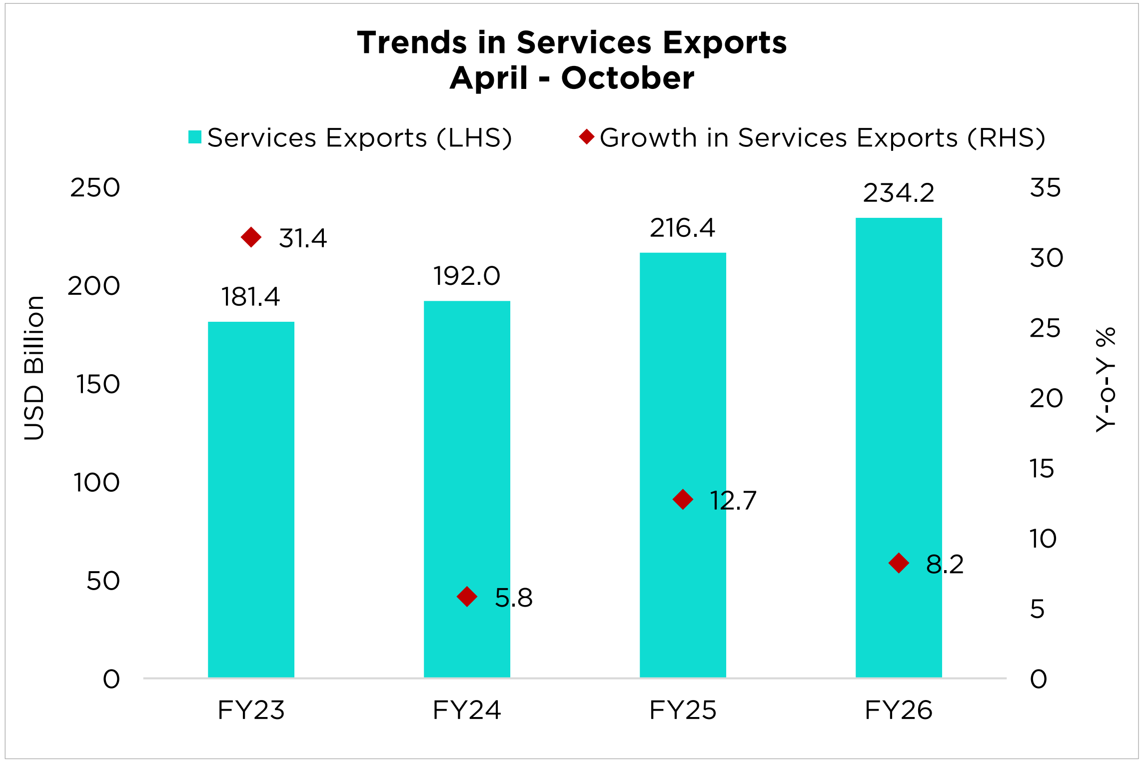
Source: CMIE, CareEdge



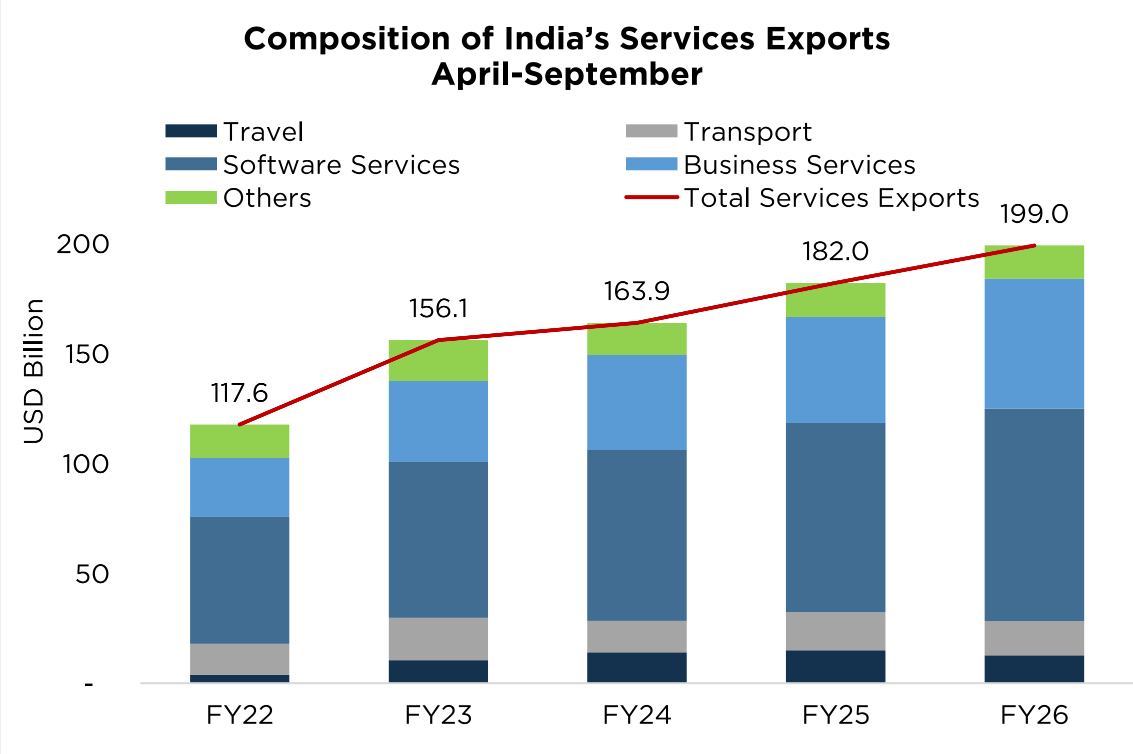
Source: CMIE, CareEdge

- During the 7M FY26, merchandise imports have logged a healthy growth of 6.8% on account of robust growth in gold/silver imports as well as the core imports.
- Value of India's gold/silver imports rose 30.5% in 7M FY26, highest level in recent years, driven by higher import volumes and elevated prices of these precious metals.
- Subdued export growth and higher imports have translated into an overall merchandise deficit of USD 199 billion, highest level seen in the recent years.

India's External Position
Services Exports Continue to Hold Up Well Despite External Headwinds



Source: CMIE, CareEdge

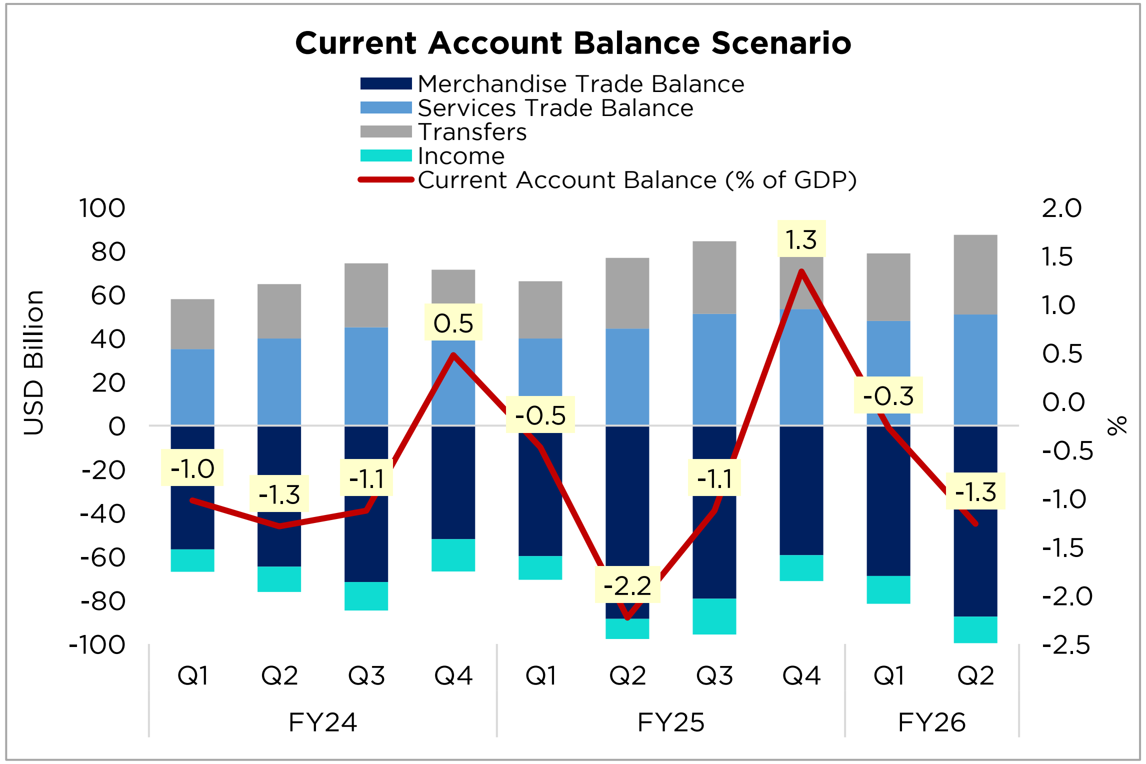


Source: CMIE, RBI, CareEdge; Note: Exports of other business services include (1) R&D services (2) Professional and management consulting services and (3) Technical, trade-related, and other business services

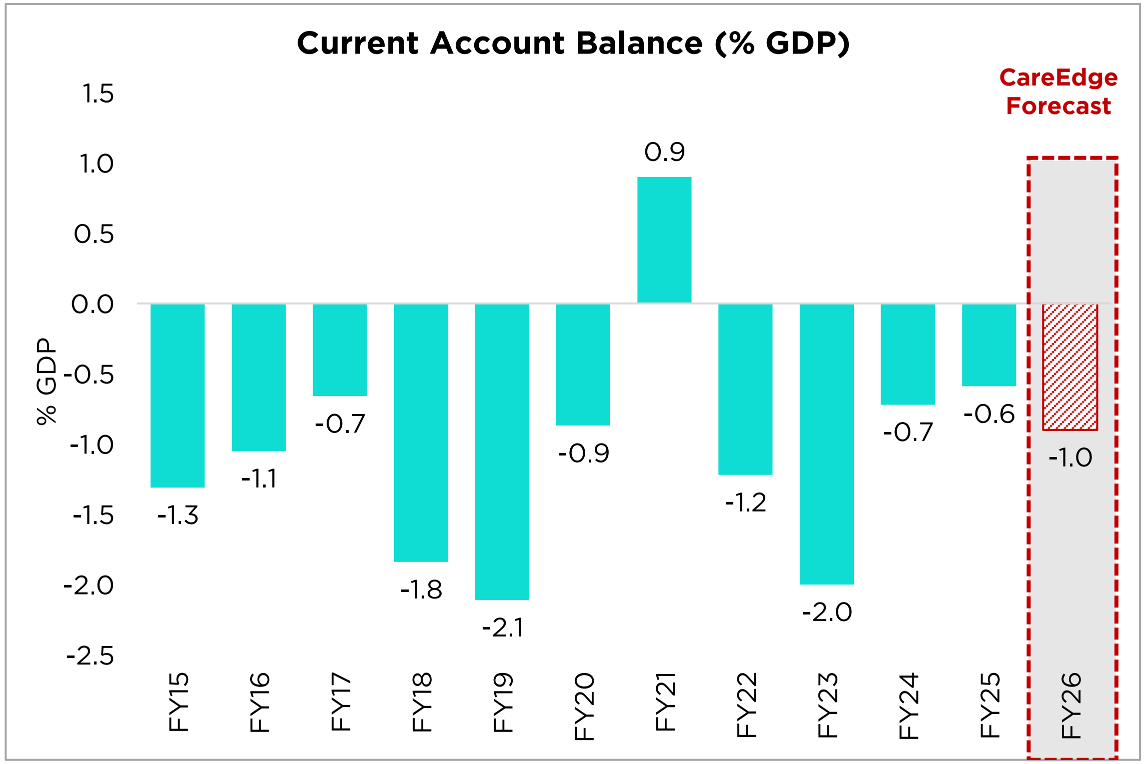
- India's services exports have held up well rising by 8.2% during 7M FY26, compared to 12.7% growth seen in the corresponding period last year.
- The services exports growth continued to be driven by software services and business services, logging an upbeat growth of 12.5% and 22.4%, respectively during H1 FY26.
- The software services have traditionally driven India's services exports (average share of ~45%), share of other business services has risen to 28% in FY25 from 19% in FY18.
- The services exports have remained outside the scope of tariff disruptions and have been critical in supporting the India's overall current account position.
- Going forward, the potential impact of recent increase in H-1B visa fees and the proposed HIRE Act remain a key monitorable.

India's External Position

India's CAD Projected to Remain Manageable at 1% of GDP in FY26



Source: CEIC, CareEdge

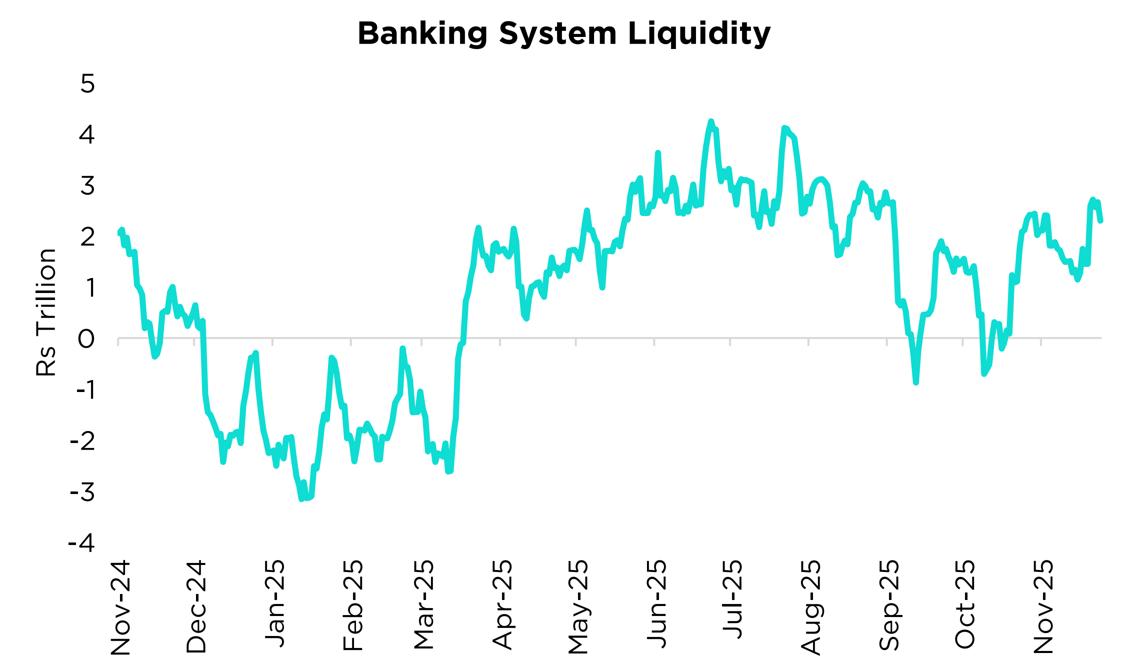


Source: RBI, CMIE, CareEdge

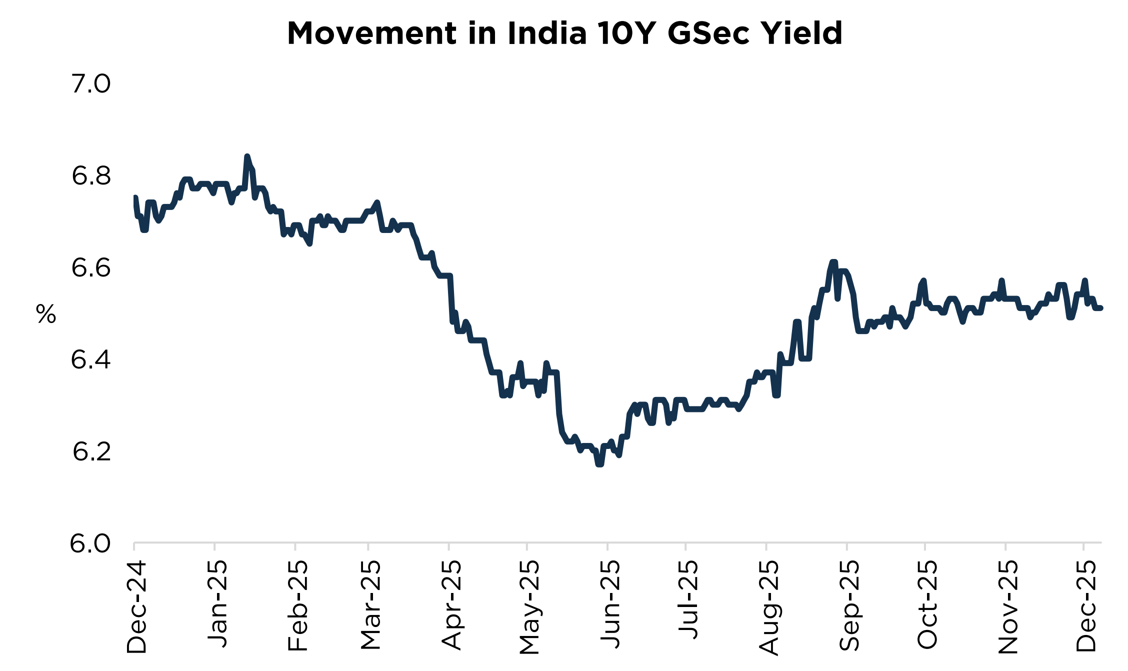
- India's current account deficit (CAD) widened to USD 12.3 billion in Q2 FY26 (1.3% of GDP), compared with USD 2.7 billion (0.3% of GDP) in the previous quarter.
- We project India's overall merchandise exports to contract by around 1% in FY26; Healthy economic momentum is expected to keep the import growth strong at 5% in FY26.
- Encouraging performance in services exports projected to grow at 8.5% in FY26 and will continue to support the current account position.
- We expect CAD to remain manageable at 1% of GDP in FY26.

Debt & FX Update

Liquidity & G-Sec Yield Update
Liquidity Continues to be Comfortable; 10Y Gsec Remains Stable



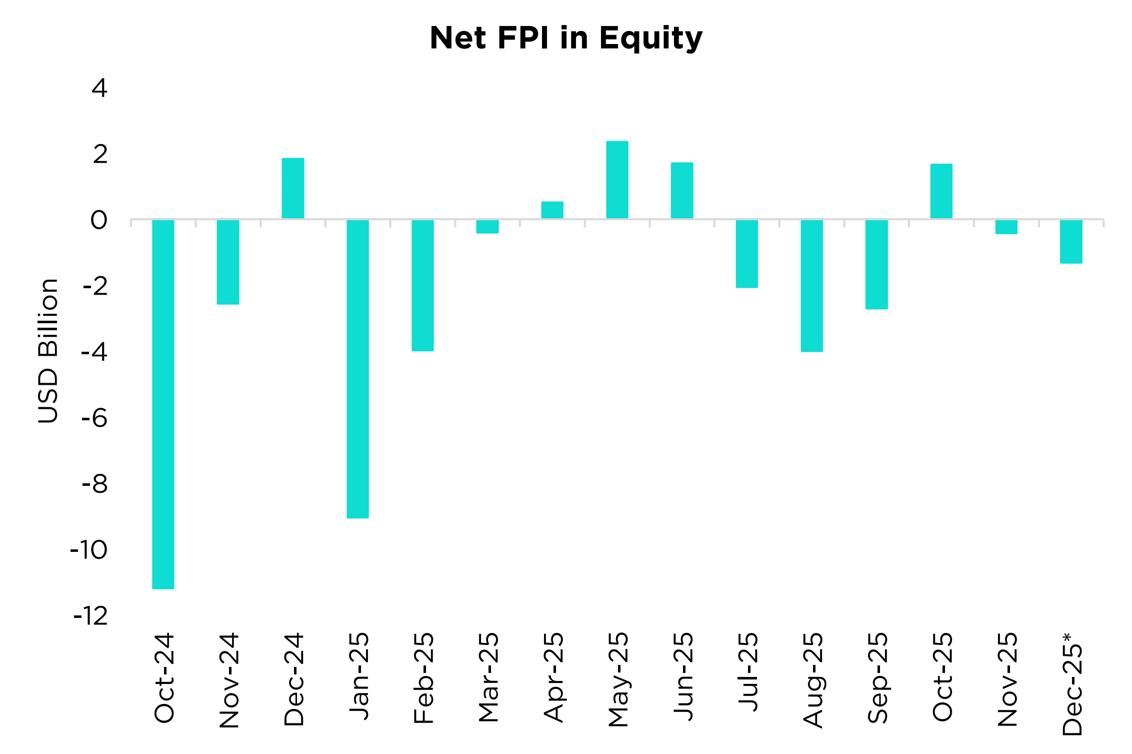
Sources: RBI, CEIC, CareEdge; Data as of 05 December; Positive values denote liquidity surplus



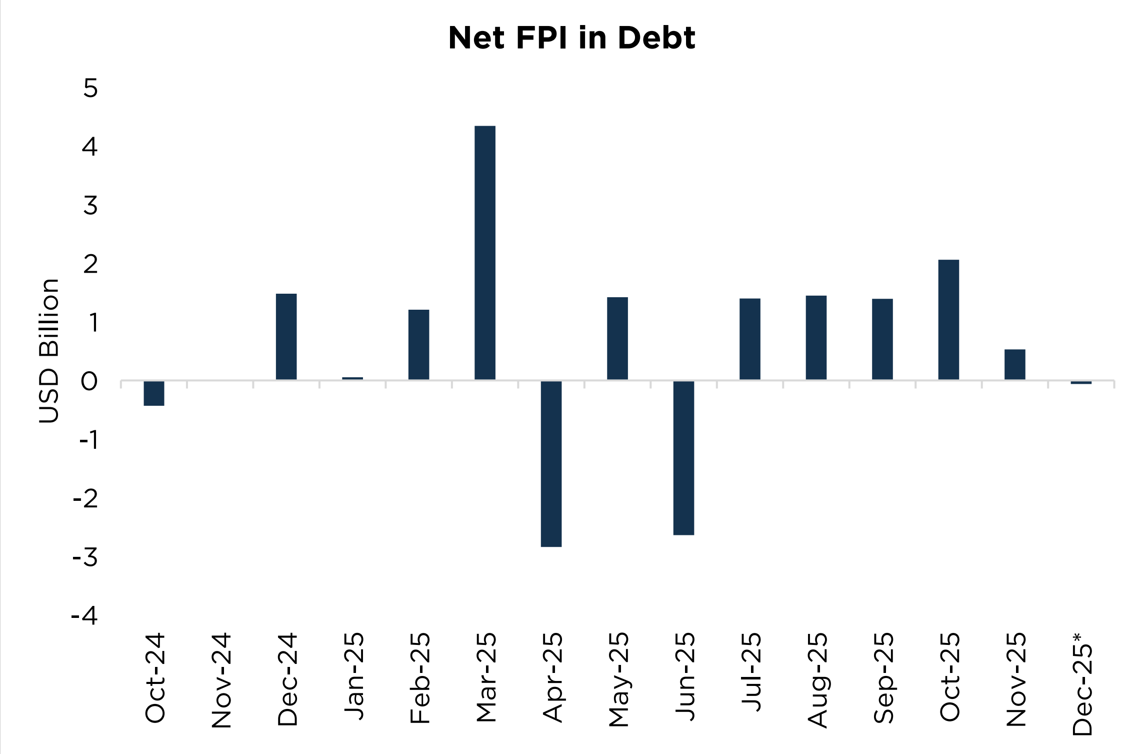
Source: Refinitiv. CareEdge; Data as of 05 December

- The banking system liquidity remained comfortable at an average of Rs 1.8 trillion in the month of Nov.
- Liquidity conditions have benefited from the final tranche of the CRR cut (injecting ~Rs 600 billion in end Nov) and recent OMO purchases.
- RBI announced liquidity measures this month, including Rs 1 trillion in OMO purchases and a three-year USD/INR buy-sell swap worth USD 5 billion, to keep liquidity comfortable and support policy transmission.
- Even though there is scope for another 25 bps rate-cut based on the inflation projection, we expect the MPC to pause and preserve the policy space for a future rate-cut only if the growth outlook worsens.
- India's 10Y G-sec yield remained broadly stable over the past month but edged lower after the RBI MPC's December announcements.
- We maintain our view of 10-year G-sec yield at 6.3-6.5% by end-FY26.

Trends in FPI
FPI Inflows Continue



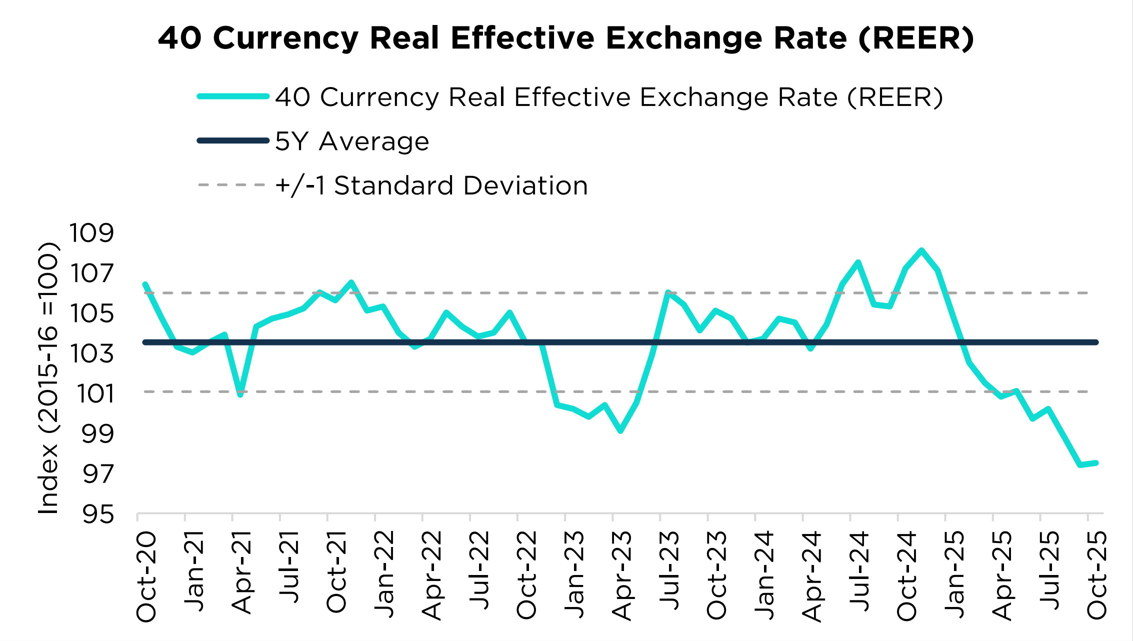
Source: NSDL, CareEdge. *Data as of 05 December



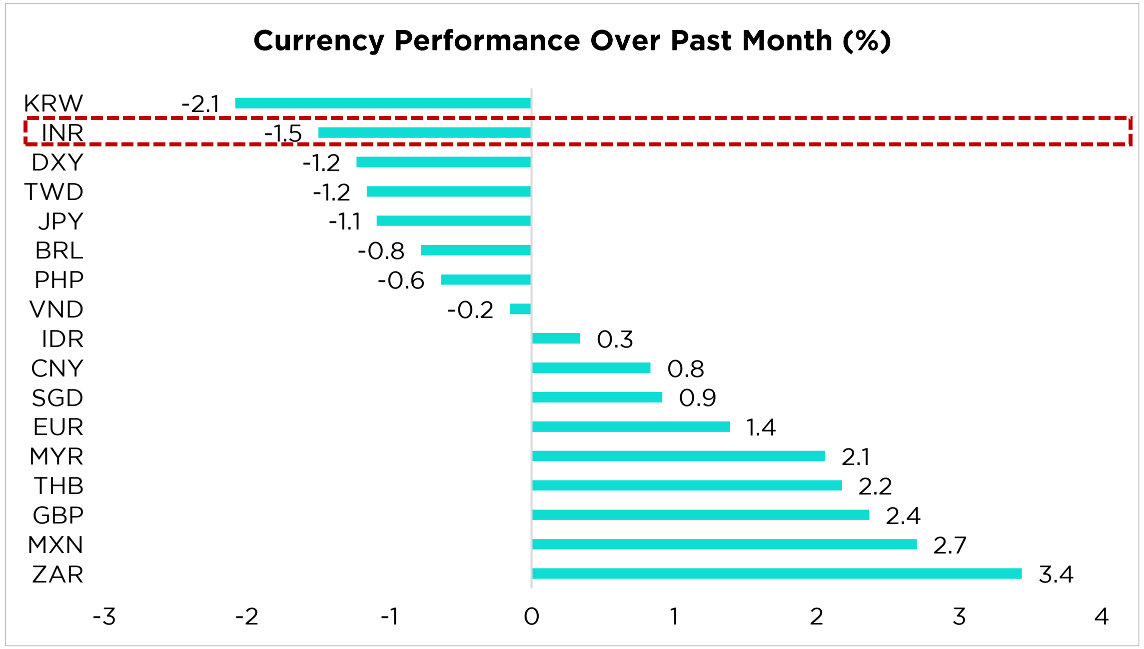
Source: NSDL, CareEdge. *Data as of 05 December

- Nov recorded a net FPI inflow of USD 0.3 billion (equity + debt), reversing the trend seen in the first half of the month, amidst dovish commentary by Fed members raising the expectations of US rate cut.
- On a CYTD basis, net FPI outflows stood at USD 8.9 billion, led by equity outflows of USD 17.7 billion, partly offset by debt inflows of USD 8.3 billion.
- Expectation of a Fed rate cut and the prospects of Indian bonds being included in the Bloomberg Global Aggregate Index should support portfolio flows in the near term.

Currency Update
Rupee Reached Record Low



Source: CMIE, CareEdge



Source: Refinitiv, CareEdge; Data as of 05 December. 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

- The rupee depreciated by 1.5% against the dollar over the past month to a record low, primarily due to a widening trade deficit in Oct, subdued investment inflows, and negative sentiment arising from delays in the India–US trade deal.
- RBI has reduced its FX interventions recently, allowing a gradual depreciation, though it is still expected to curb excessive volatility.
- On a REER basis, the rupee remains undervalued.
- We expect the rupee to move towards 87 by end-FY26, supported by a softer dollar, a stronger yuan, a manageable CAD and progress on the US–India trade deal.
- We expect the Fed to cut rates by 25 bps in Dec and a continued medium-term decline in the dollar index, given twin US deficit concerns and expectations of Fed rate cuts, which should be supportive of the rupee.

CareEdge Forecasts

Economic Growth
GDP growth projected at **7.5%** in FY26

Inflation
Average CPI inflation projected at **2.1%** in FY26

Current Account Deficit
CAD (as % of GDP) projected at **1%** 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 **6.3%-6.5%** by end-FY26

Currency
USD/INR projected to trade **~87** by end-FY26

CareEdge Eco Research Round-up

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India's Capex Story Shows Revival Signs	Read Here

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