CareEdge Ratings

CareEdge

Economic Pathway

June 2025

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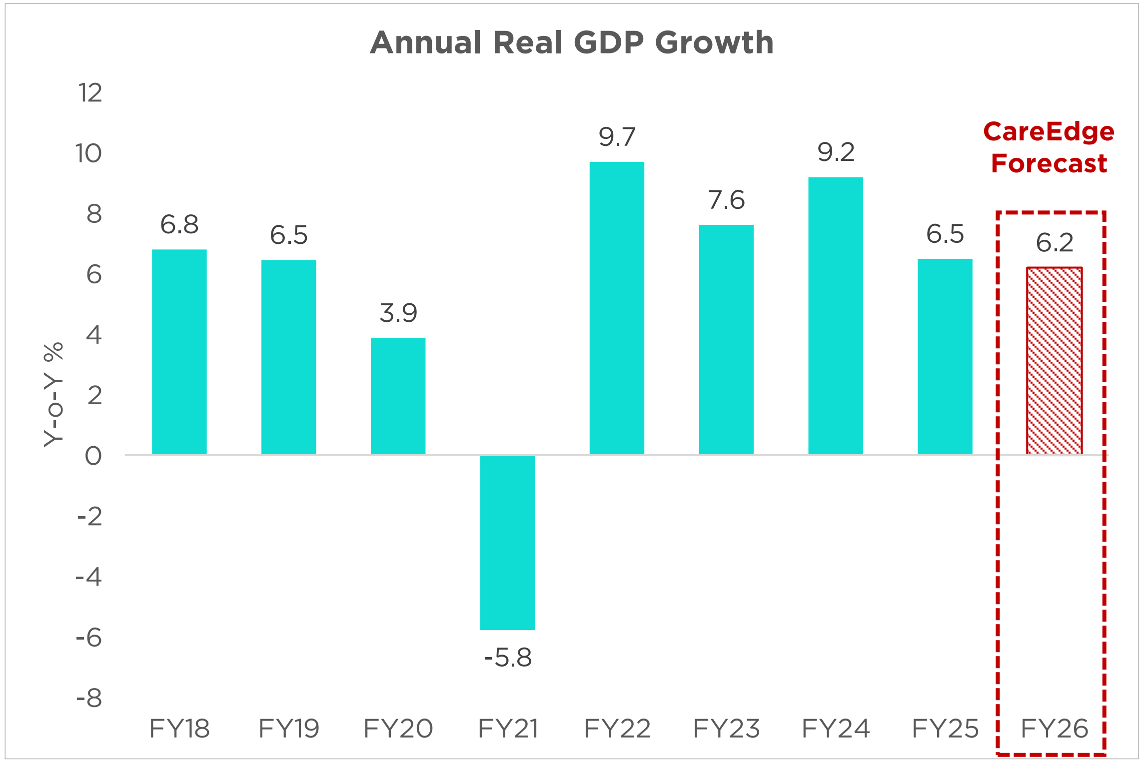
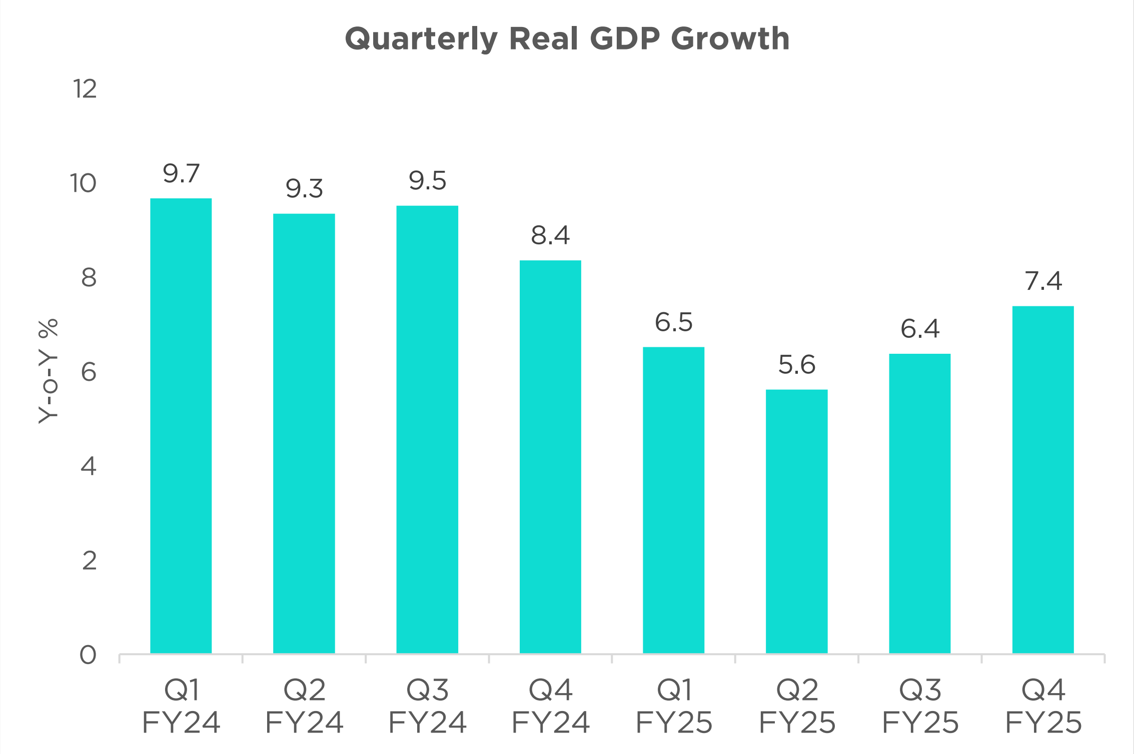
Economy Update

Economic Growth Momentum

GDP Growth Performs Better-than-Expected



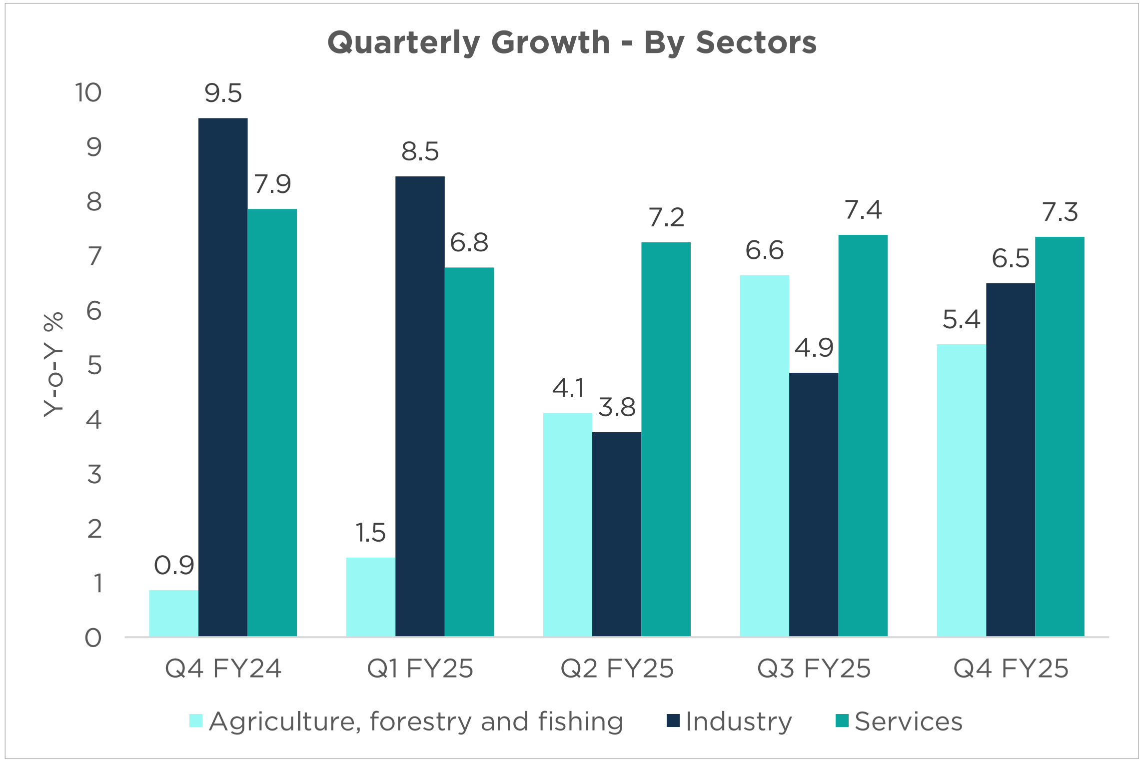
Source: CMIE, MOSPI



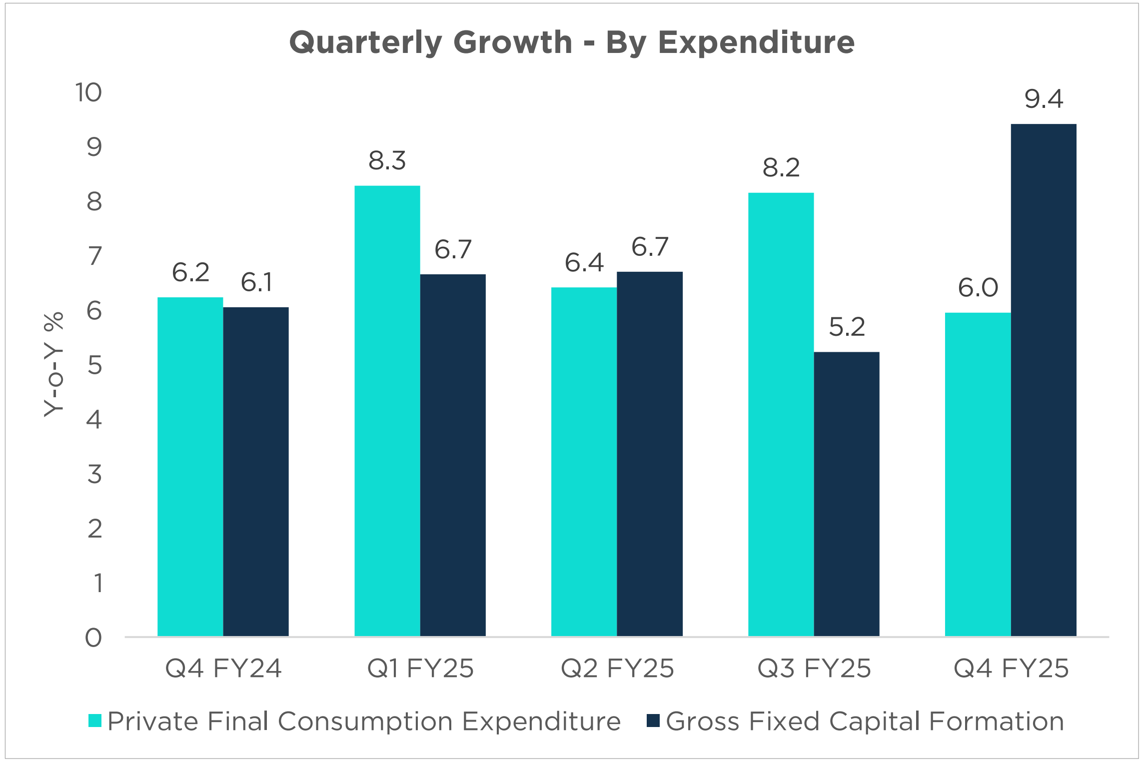
Source: CMIE, MOSPI

- India's GDP growth in the fourth quarter of FY25 came in at 7.4%, significantly exceeding expectations. This brings full year FY25 growth to 6.5%.
- GDP growth moderated in FY25 from an average of 8.4% in the previous two years.
- We expect GDP growth to be around 6.2% in FY26.

Economic Growth Momentum
GDP Growth Drivers



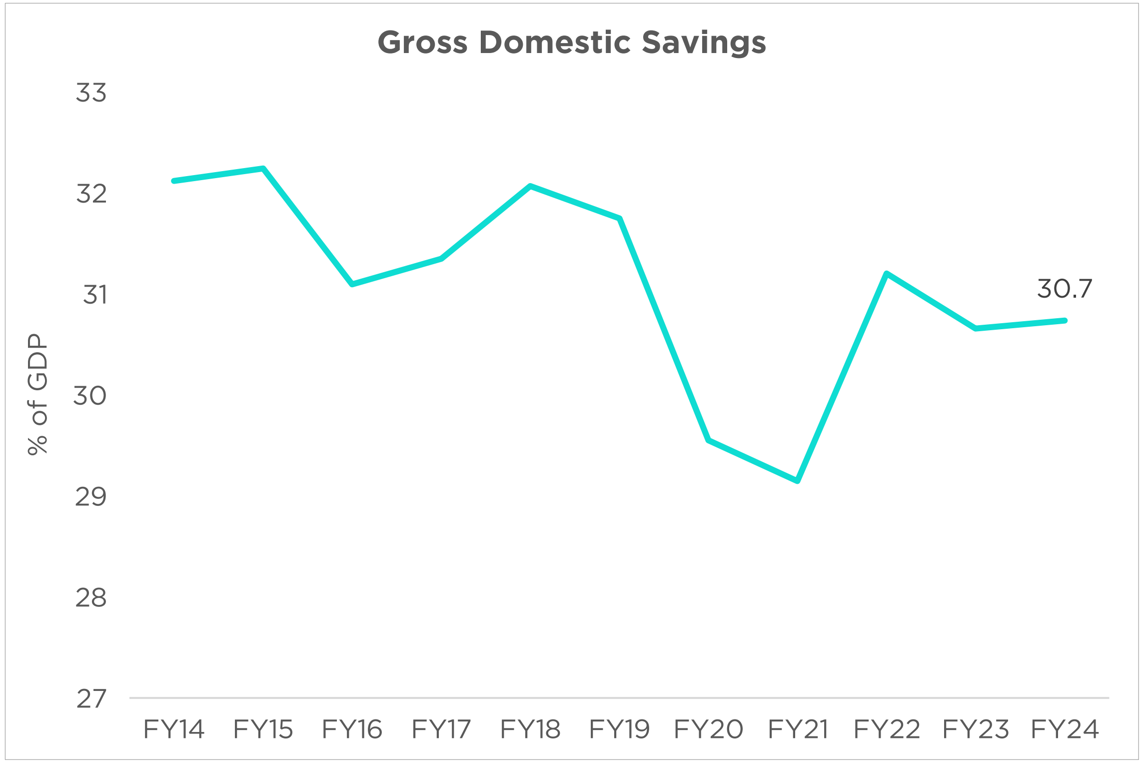
Source: CMIE, MOSPI



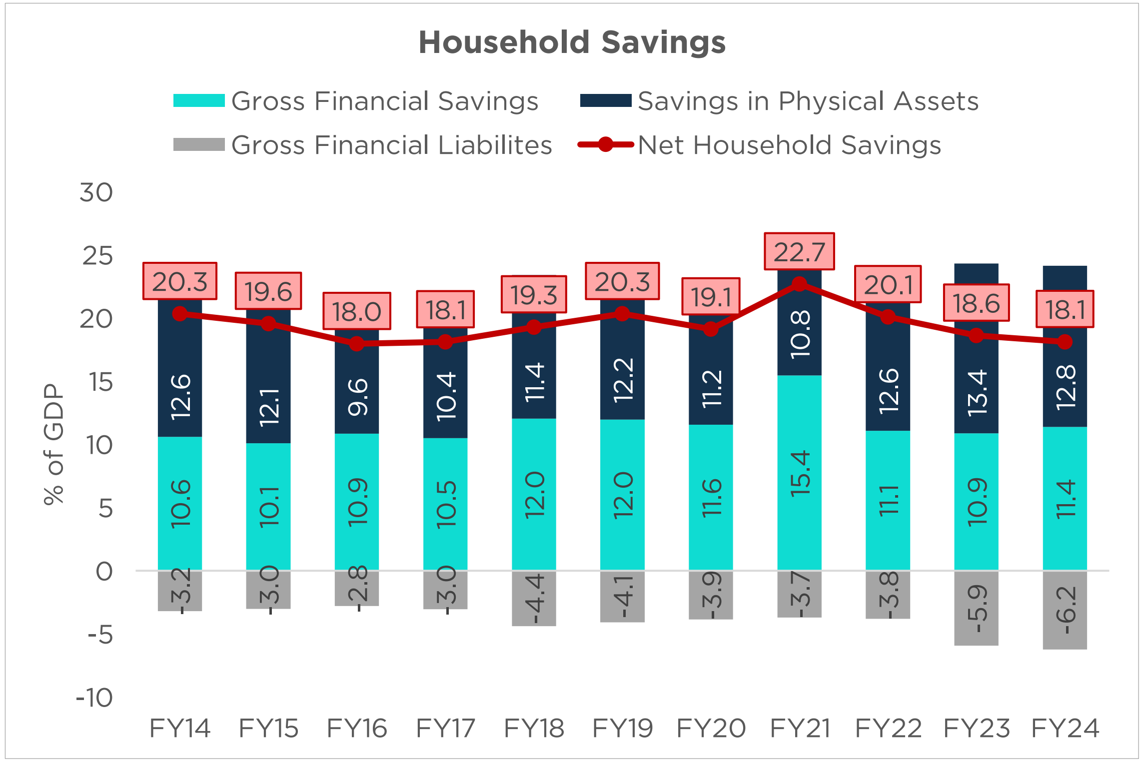
Source: CMIE, MOSPI

- Agricultural growth remained healthy.
- Feeble manufacturing growth, though improved in Q4. Construction activity jumped sharply to 10.8% in Q4.
- Financial, real estate, and professional services have supported the services sector growth.
- Private consumption growth moderated in Q4 FY25. Rural demand continues to hold up well, while urban demand remains mixed.
- GFCF growth jumped sharply to 9.4% in Q4. However, government final consumption expenditure contracted, limiting overall growth.

Domestic Savings Scenario
Declining Savings and Rising Household Leverage



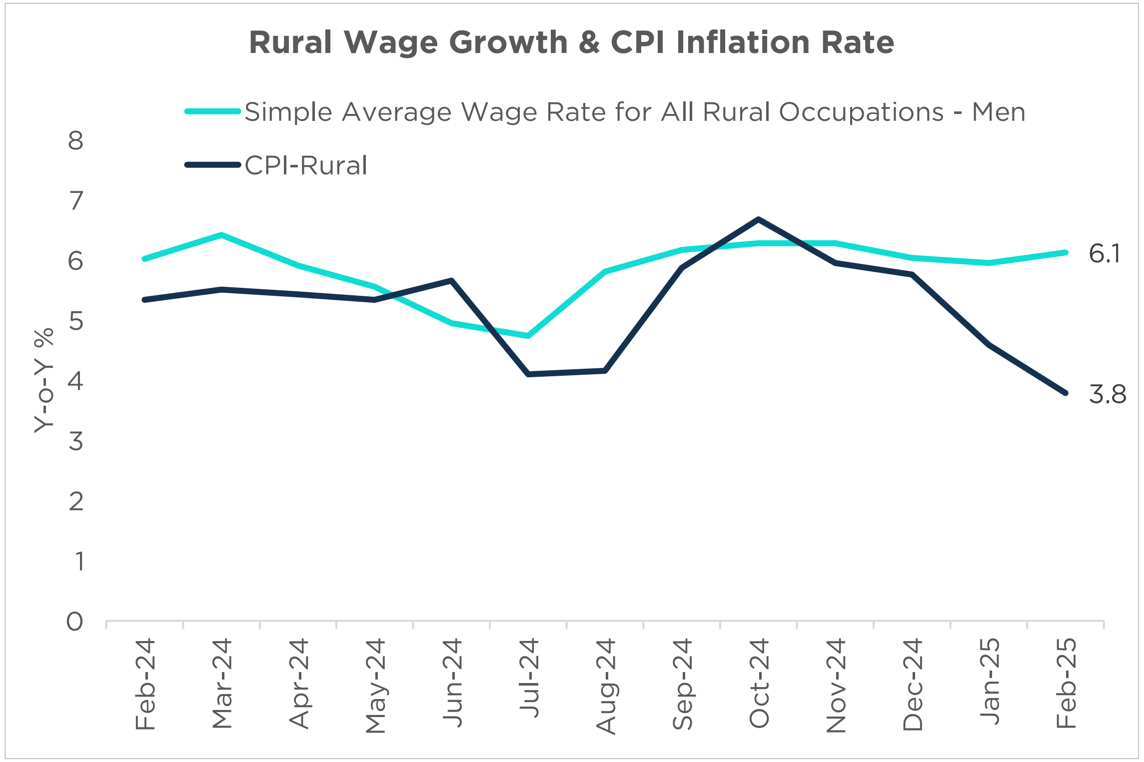
Source: MOSPI, CEIC, CareEdge



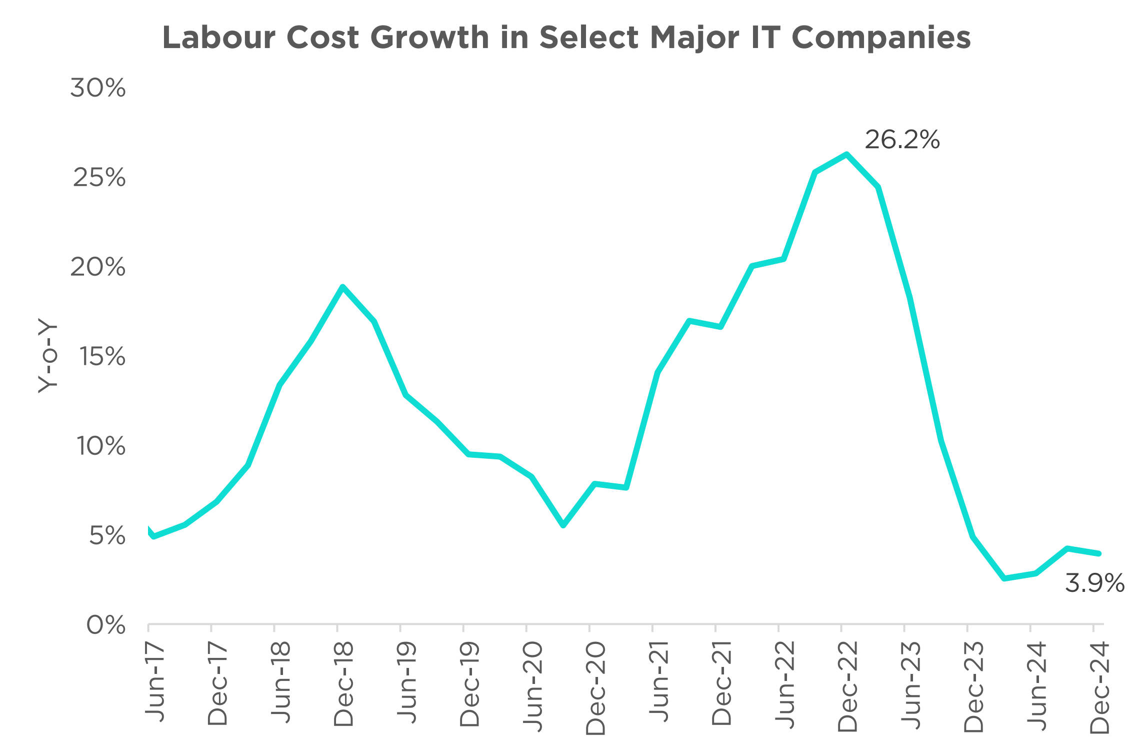
Source: MOSPI, CEIC, CareEdge

- Gross domestic savings declined to 30.7% of GDP in FY24 from 32.2% in FY15.
- Household savings fell for the third consecutive year, reaching 18.1% of GDP in FY24.
- Gross financial liabilities of households rose sharply to 6.2% of GDP in FY24, nearly doubling over the past decade.

Wage Growth Scenario
Rural Wage Growth Outpaces Inflation; Urban Wage Growth Remains Subdued



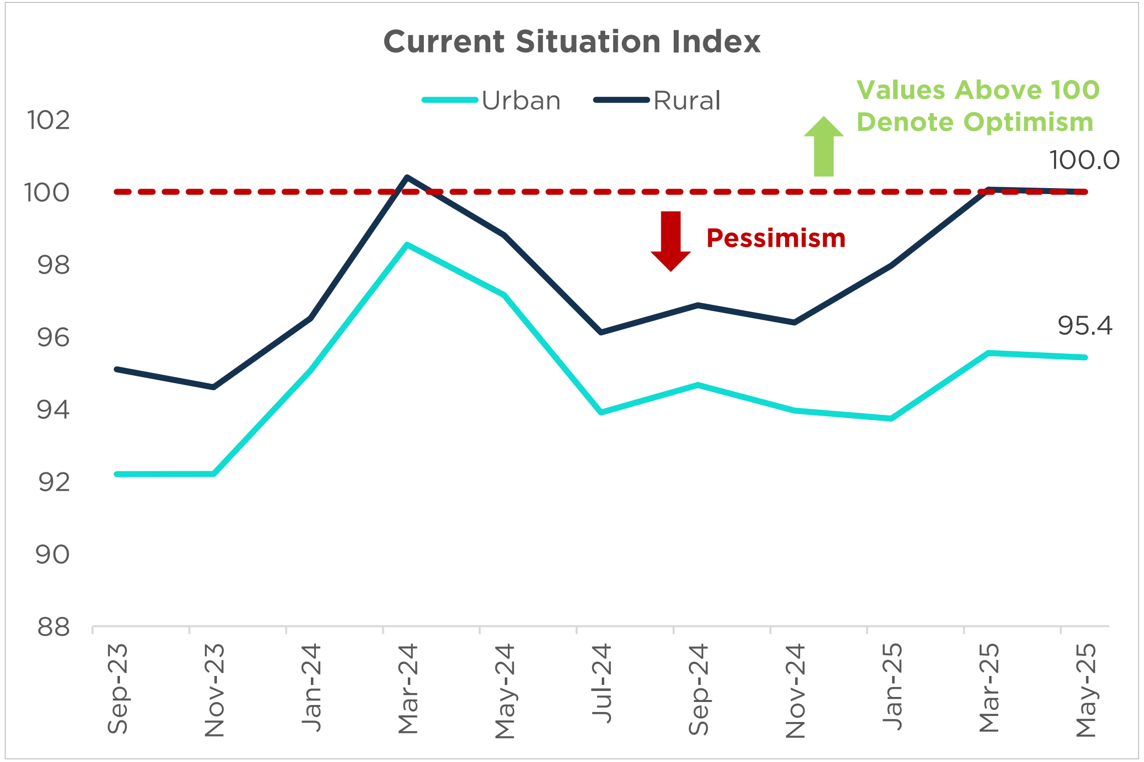
Source: Labour Bureau, Ministry of Labour & Employment; MOSPI



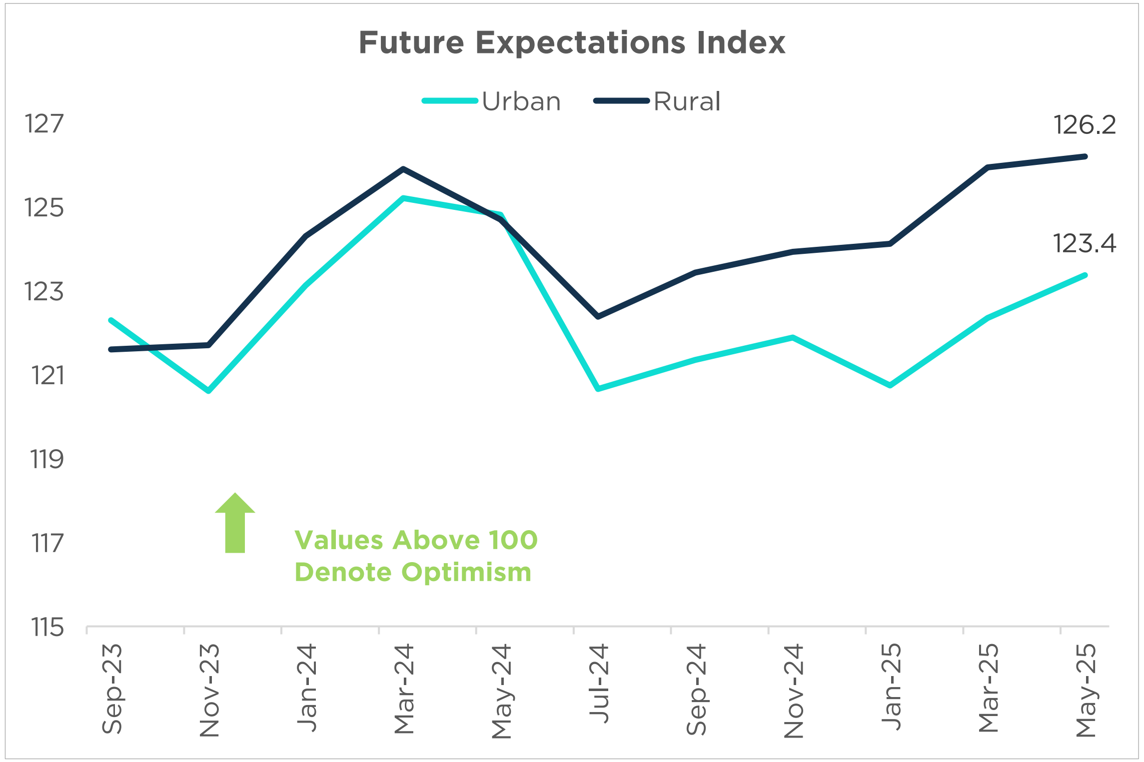
Source: Refinitiv

- The simple average wage rate for all rural occupations (men) increased by 6.1% (Y-o-Y) in February, consistently outpacing the rural inflation for four consecutive months.
- Growth in the cumulative labour cost of select major Indian IT companies fell to around 4% (Y-o-Y) in Q3 FY25 from a peak of 26% in Q3 FY23.

Consumer Confidence Indices
Rural Consumer Confidence Strengthens While Urban Sentiment Lags



Source: RBI Rural & Urban Confidence Surveys

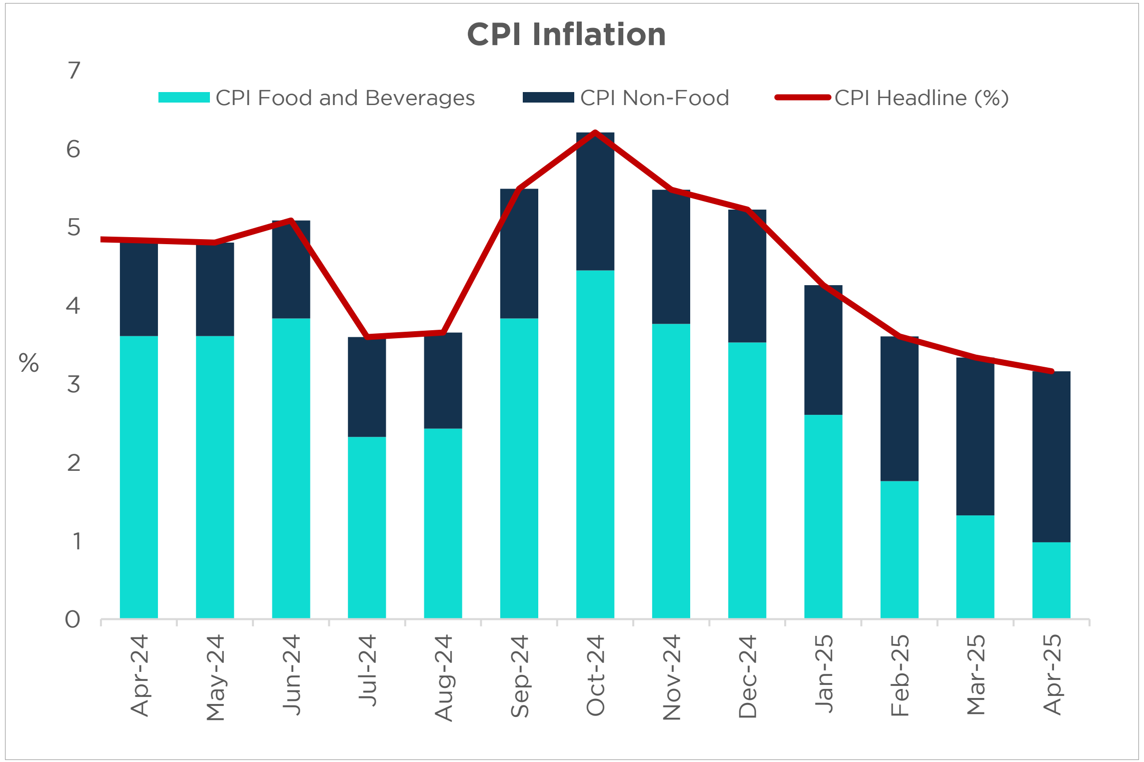


Source: RBI Rural & Urban Confidence Surveys

- Rural consumer confidence for the current period hovered around the threshold of 100, while urban consumer confidence lagged, remaining in the pessimistic zone.
- Consumer confidence for the year ahead remained optimistic for both rural and urban consumers, though urban confidence continued to trail behind.
- Favourable agricultural prospects, easing food inflation and upbeat rural wage growth have aided the rural demand scenario.
- Going ahead, RBI policy rate cuts, lower tax burden and continued easing of price pressures remain key tailwinds for the broad-based demand recovery.

Inflationary Scenario

Easing Retail Inflation a Bright Spot for the Domestic Economy



Source: MOSPI, CareEdge

Trajectory of Inflation in Food & Its Sub-Groups (Y-o-Y %) – Last 6 Months								
	Weight*	**Apr-24**	**Nov-24**	**Dec-24**	**Jan-25**	**Feb-25**	**Mar-25**	**Apr-25**
Total Food Inflation	**39.1**	**8.7**	9.0	8.4	6.0	3.8	2.7	1.8
Cereals and Products	9.7	8.6	6.9	6.5	6.2	6.1	5.9	5.4
Milk and Products	6.6	3.0	2.9	2.8	2.9	2.7	2.6	2.7
Vegetables	6.0	27.8	29.4	26.6	11.4	-1.1	-7.0	-11.0
Egg, Fish and Meat	4.0	8.1	4.7	5.5	4.8	1.6	0.0	-0.3
Oils and Fats	3.6	-9.4	13.3	14.6	15.6	16.4	17.1	17.4
Fruits	2.9	5.2	7.7	8.6	12.2	14.8	16.3	13.8
Spices	2.5	7.8	-7.4	-7.4	-6.9	-5.9	-4.9	-3.4
Pulses and Products	2.4	16.8	5.4	3.8	2.6	-0.4	-2.7	-5.2
Sugar and condiments	1.4	6.0	1.3	0.2	0.3	2.2	3.9	4.6

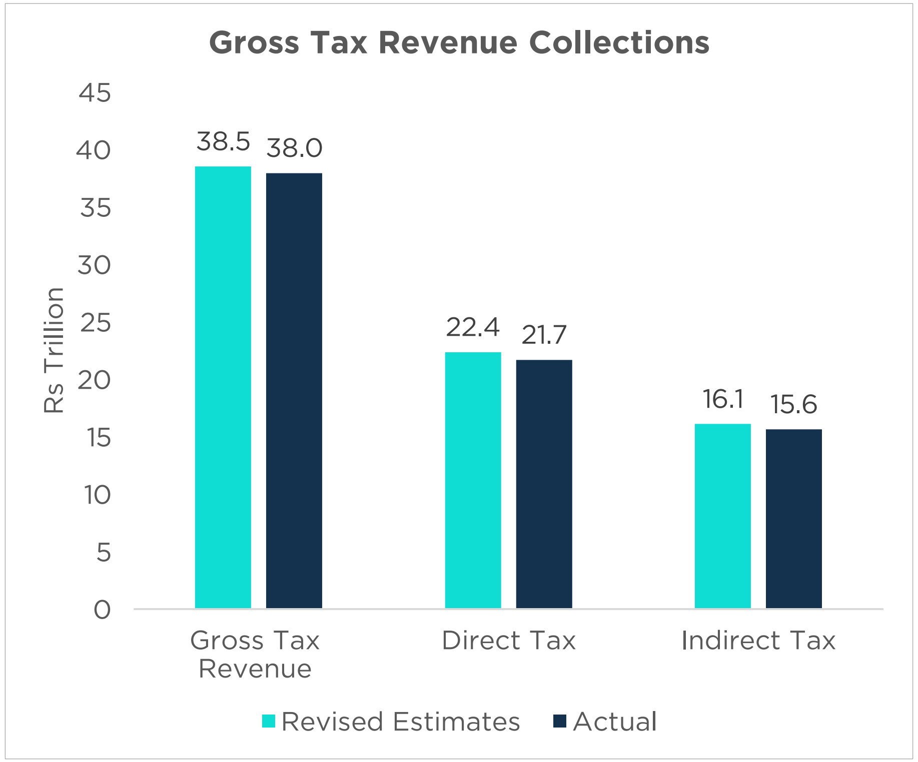
Source: MOSPI; *Weights in the overall CPI inflation

- CPI Inflation moderated to 3.2% in Apr-25, marking the lowest inflation reading since Aug-19.
- However, elevated inflation of edible oils (17.4%) and fruits (13.8%) continues to restrict a further easing in the overall food inflation.
- Arrival of Rabi harvests, comfortable reservoir levels, and projections of above-normal rainfall are positives for food inflation.
- However, the distributional aspect of monsoon must be monitored.
- We project CPI inflation to moderate to an average of 4% in FY26 from 4.6% in FY25.

Update on Central Government Finances
FY25 Fiscal Deficit Maintained at 4.8% of GDP

	FY25 (Rs Trillion)		% of Actuals to Revised Estimates
	Revised Estimates	Actuals	
Total Receipts	**31.5**	**30.8**	**98%**
Revenue Receipts	**30.9**	**30.4**	**98%**
Tax Revenue (Net)	25.6	25.0	98%
Non-Tax Revenue	5.3	5.4	101%
Non-Debt Capital Receipts	**0.6**	**0.4**	**71%**
Total Expenditure	**47.2**	**46.6**	**99%**
Revenue Expenditure	37.0	36.0	97%
Capital Expenditure	10.2	10.5	103%
Fiscal Deficit	**15.7**	**15.8**	**101%**
% GDP	4.8	4.8	

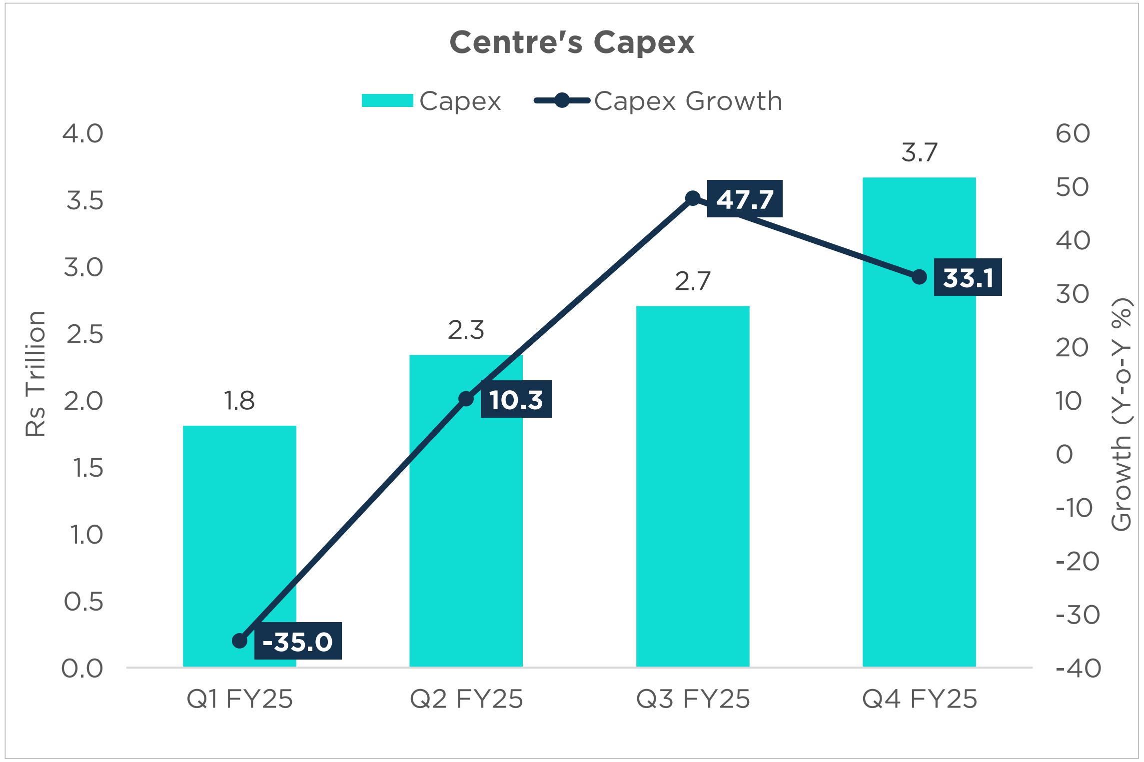
Source: CGA



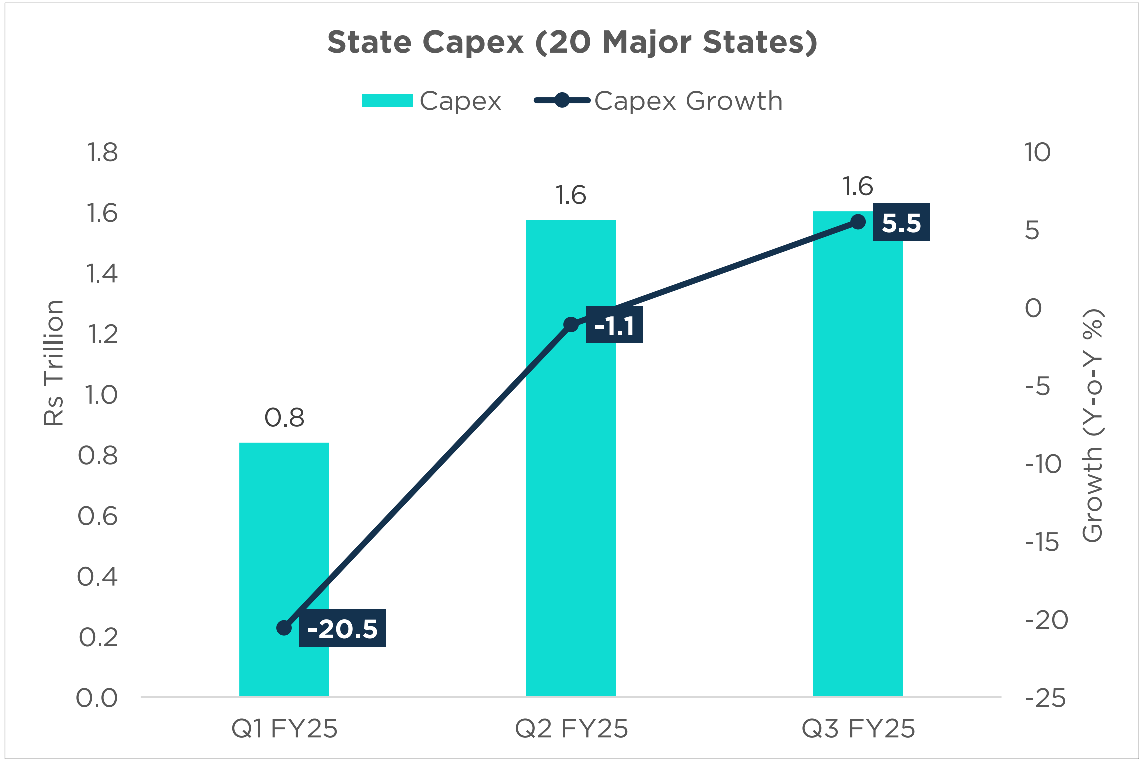
Source: CGA & CareEdge

- Centre's FY25 fiscal deficit was marginally higher at Rs 15.8 trillion compared to the revised estimate. However, it was maintained at 4.8% of the GDP.
- Direct tax collections undershot the revised estimates on account of lower income tax collections, while corporate tax collections outperformed the revised target.
- Within indirect taxes, GST collections were lower at Rs 10.3 trillion compared to the target of Rs 10.6 trillion.
- Lower revenue expenditure helped partially offset the slippage in total receipts, thereby containing the fiscal deficit.

Update on Public Capex
Public Capex Picked Up in H2 FY25



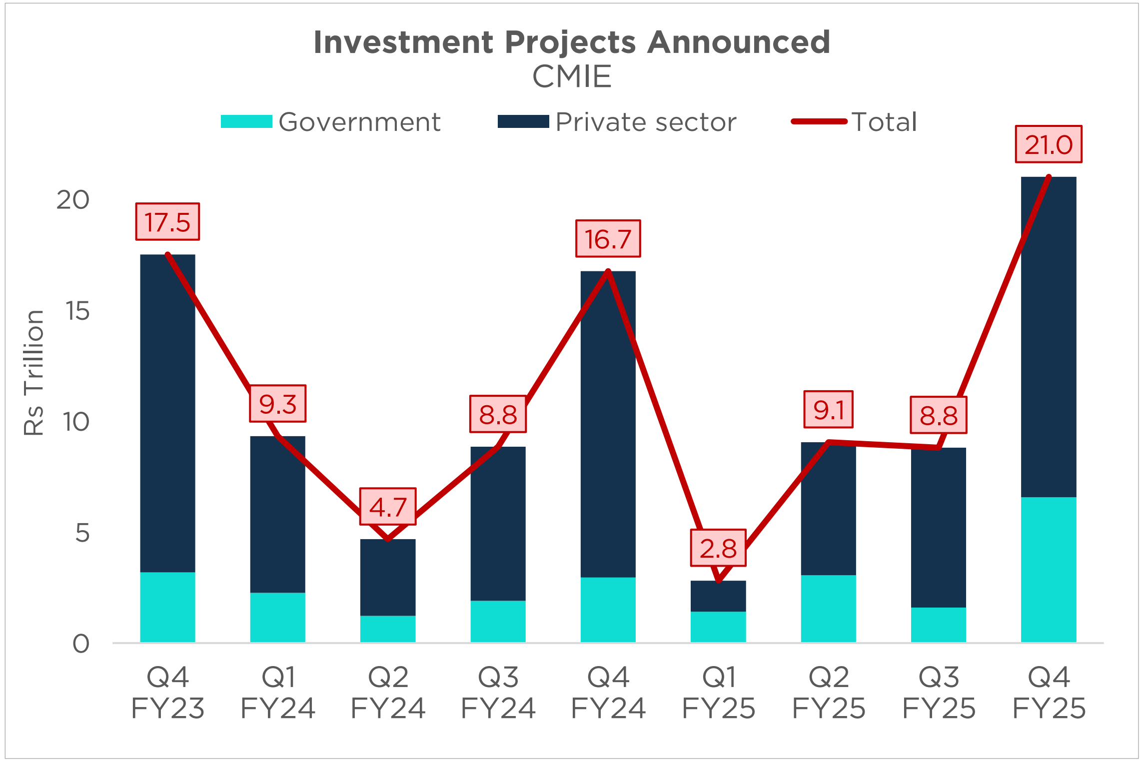
Source: CMIE



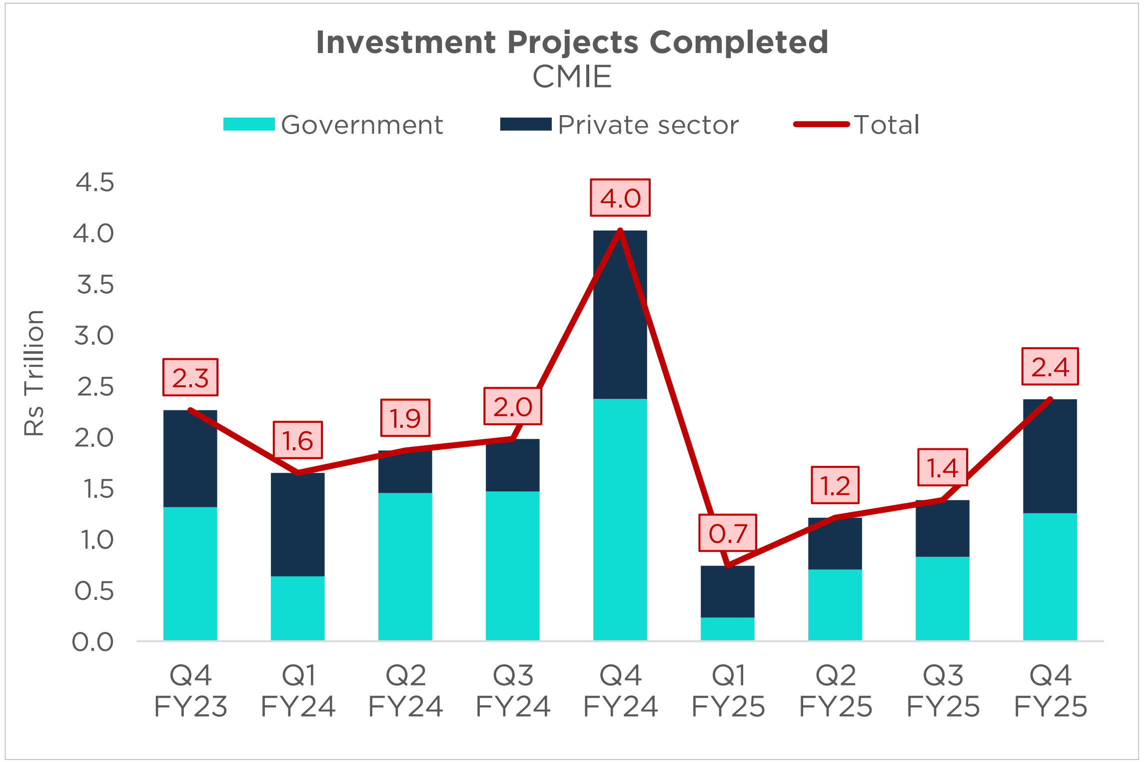
Source: CEIC

- Centre's capex at Rs 10.5 trillion in FY25 was seen surpassing the revised estimate of Rs 10.2 trillion.
- Both Centre and state (20 major states) capex picked up in H2 following the contraction seen in H1 FY25.
- Latest data suggests that Centre's capex in FY26 was off to a strong start having met 14.3% of the budget estimate in April (higher than 8.9% in the same month last year).
- The encouraging trends in public capex remain positive for the investment scenario in the economy.

Investment Scenario
Investment Announcements & Completions Showed an Uptick in Q4 FY25



Source: CMIE; Note: Data extracted on 10th June 2025

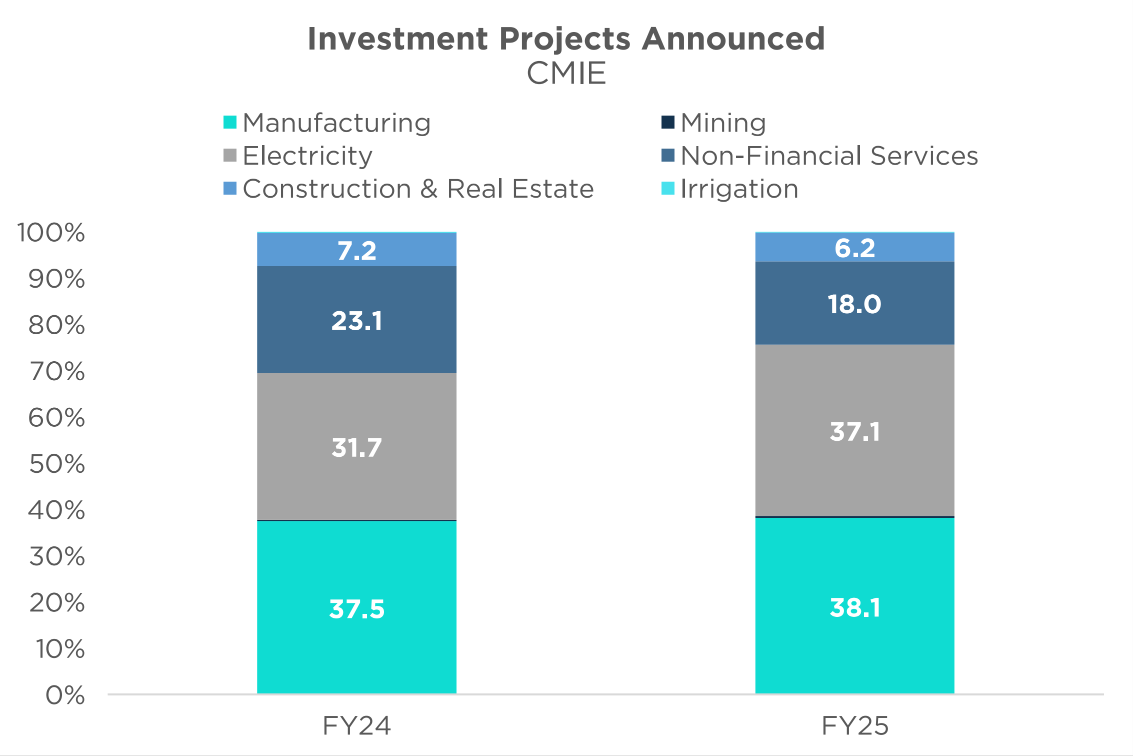


Source: CMIE; Note: Data extracted on 10th June 2025

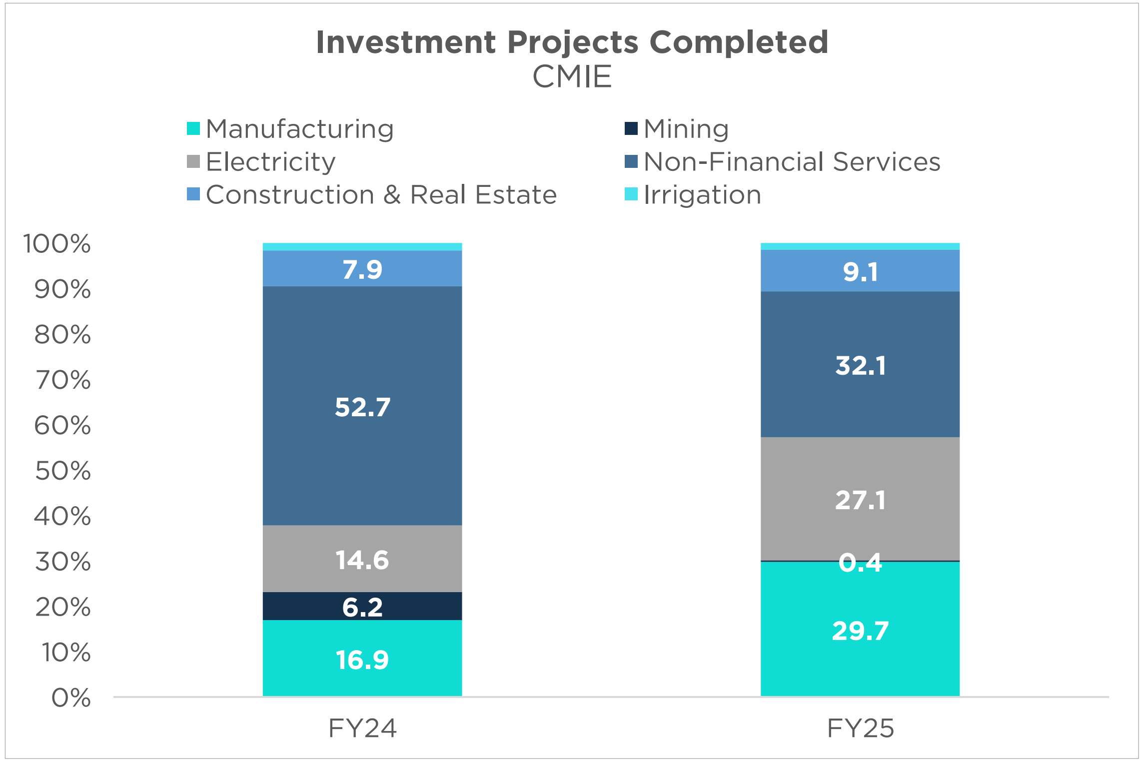
- CMIE investment announcements and completions witnessed a sharp uptick in the last quarter of FY25 following a slow start in H1 FY25.
- Investment announcements continued to be driven by the private sector, while the government led the investment completions.

Investment Scenario

Investments in Manufacturing & Electricity Gained Ground in FY25



Source: CMIE; Note: Data extracted on 10th June 2025

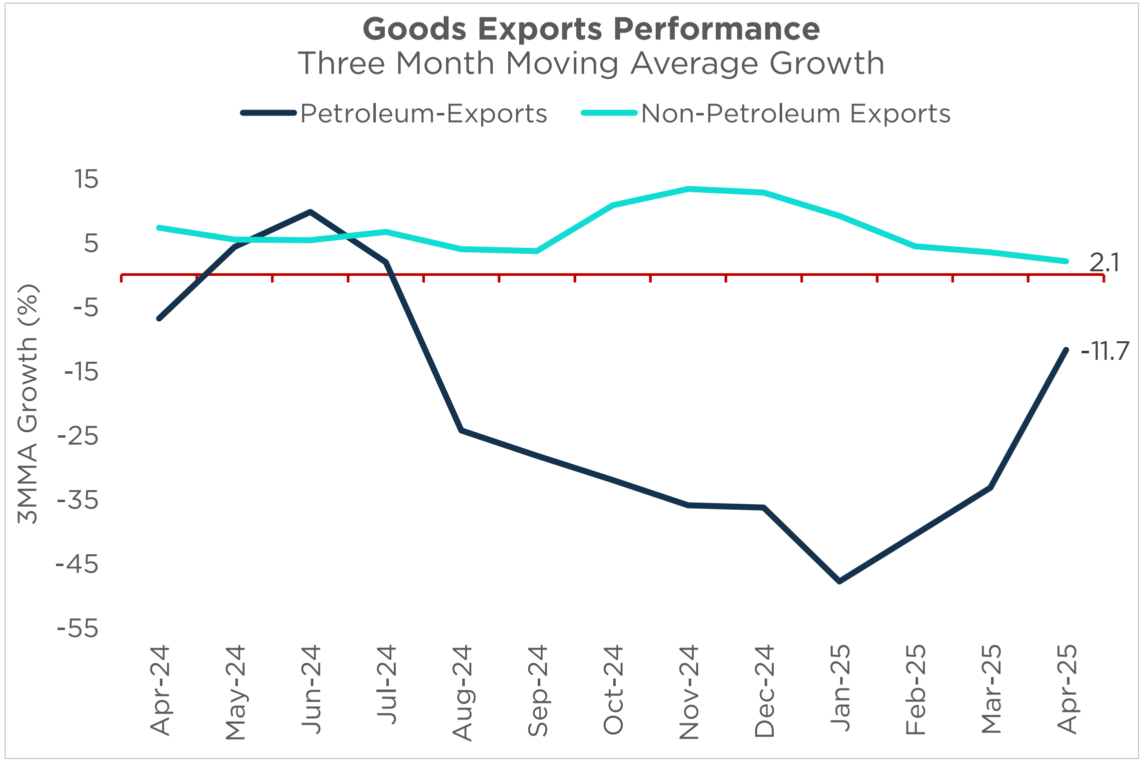


Source: CMIE; Note: Data extracted on 10th June 2025

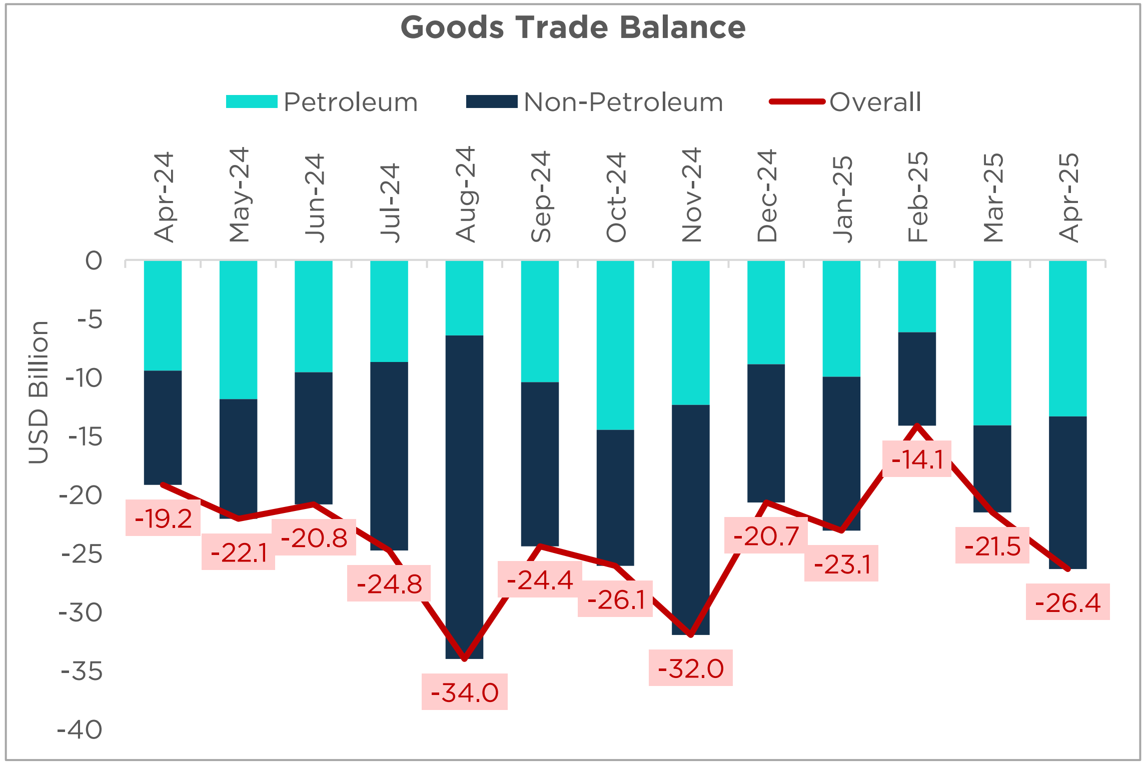
- Share of electricity in investment announcements rose to 37% in FY25 from 32% in FY24; share of non-financial services declined.
- The manufacturing and electricity share in investment projects completed was nearly doubled in FY25 vs FY24.

Goods Trade Scenario

Non-Petroleum Exports Growth Remains In the Positive Territory



Source: CMIE & CareEdge

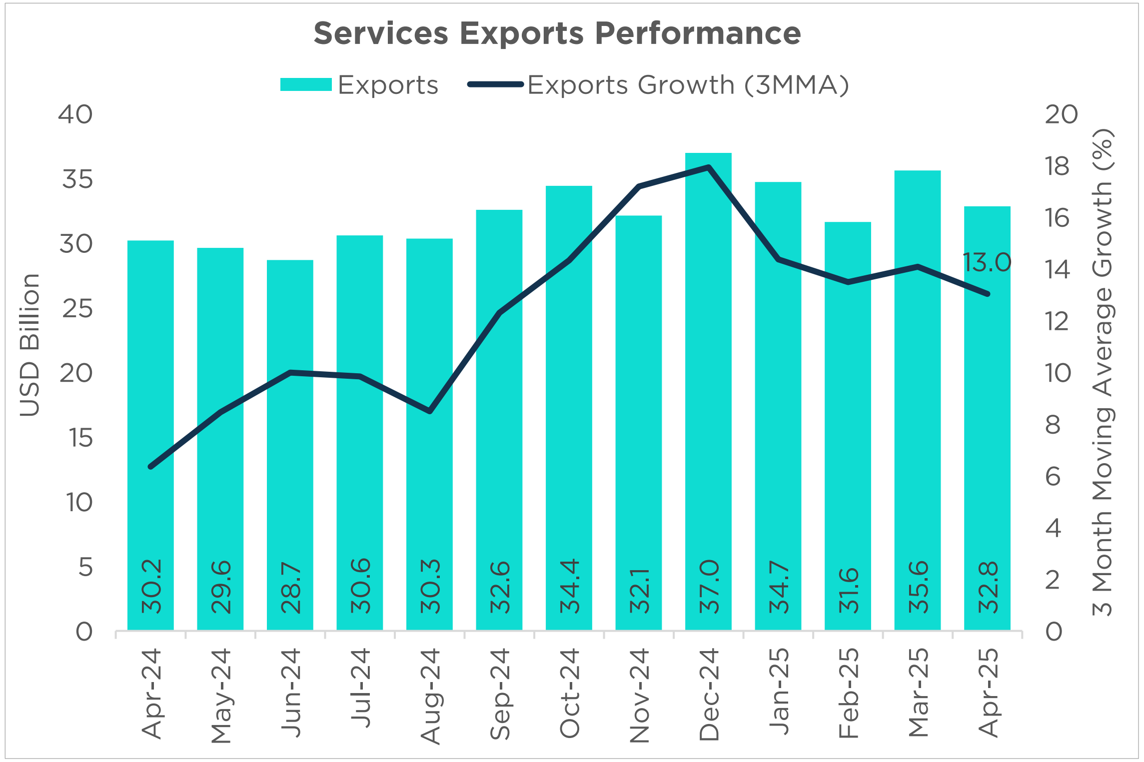


Source: CMIE & CareEdge

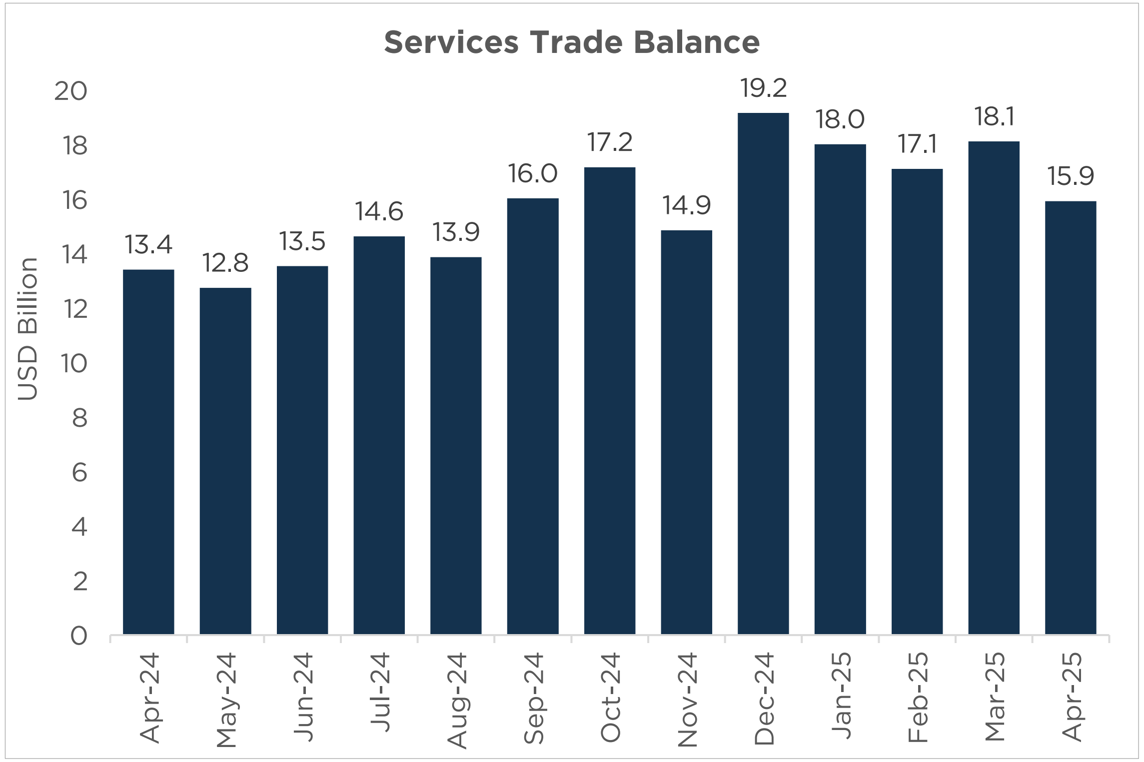
- India's non-petroleum goods exports growth has remained feeble but in the positive territory.
- Petroleum exports growth has continued to contract amid lower oil prices.
- Goods trade deficit widened to a 5-month high in April amid a surge in imports.
- Going ahead, we project non-petroleum exports to contract by 0.8% (Y-o-Y) in FY26, after growing 6.1% in FY25.

Services Trade Scenario

Services Trade Outlook Remains Relatively Resilient



Source: CMIE & CareEdge

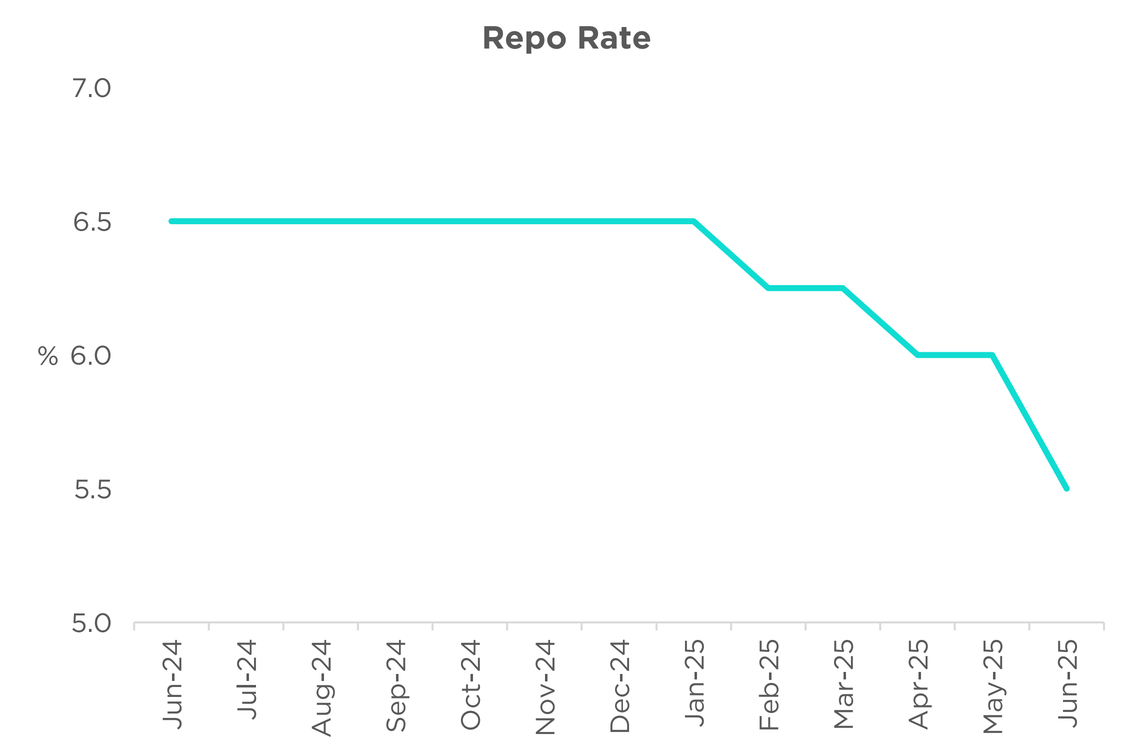


Source: CMIE

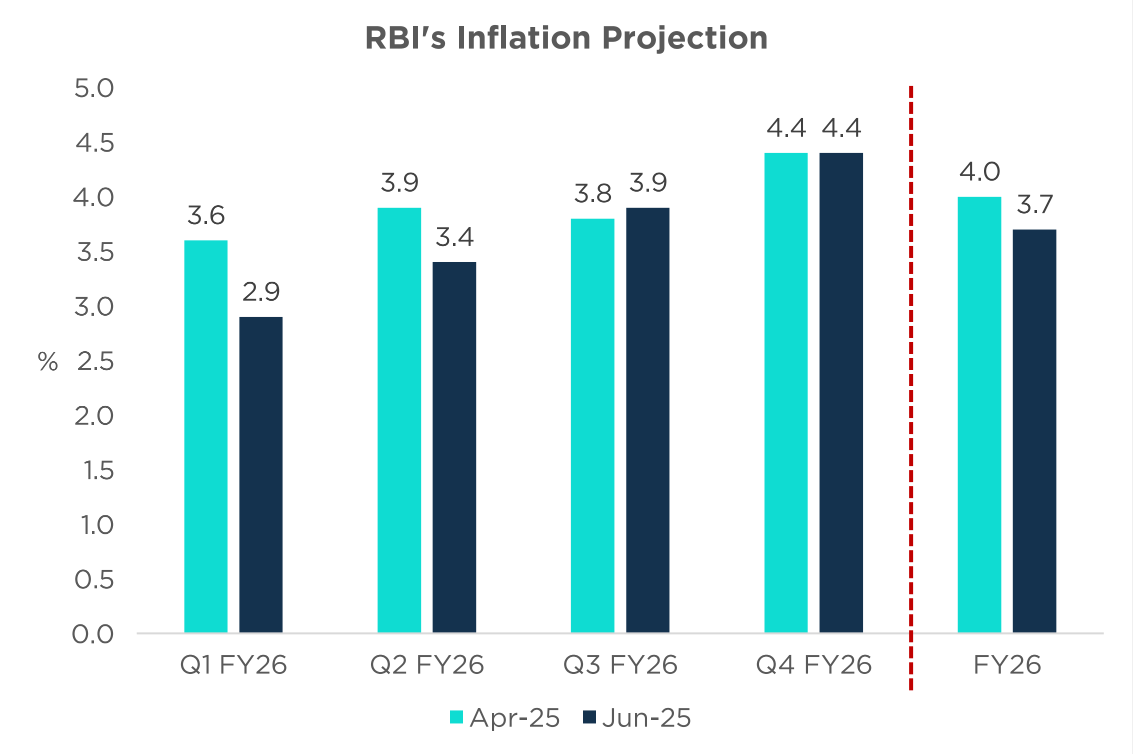
- India’s services exports have been holding up well, logging encouraging growth.
- We project India’s services exports to rise by 8% (Y-o-Y) in FY26.

Debt & FX Update

RBI MPC Prioritises Growth Amidst Easing Inflation Concerns



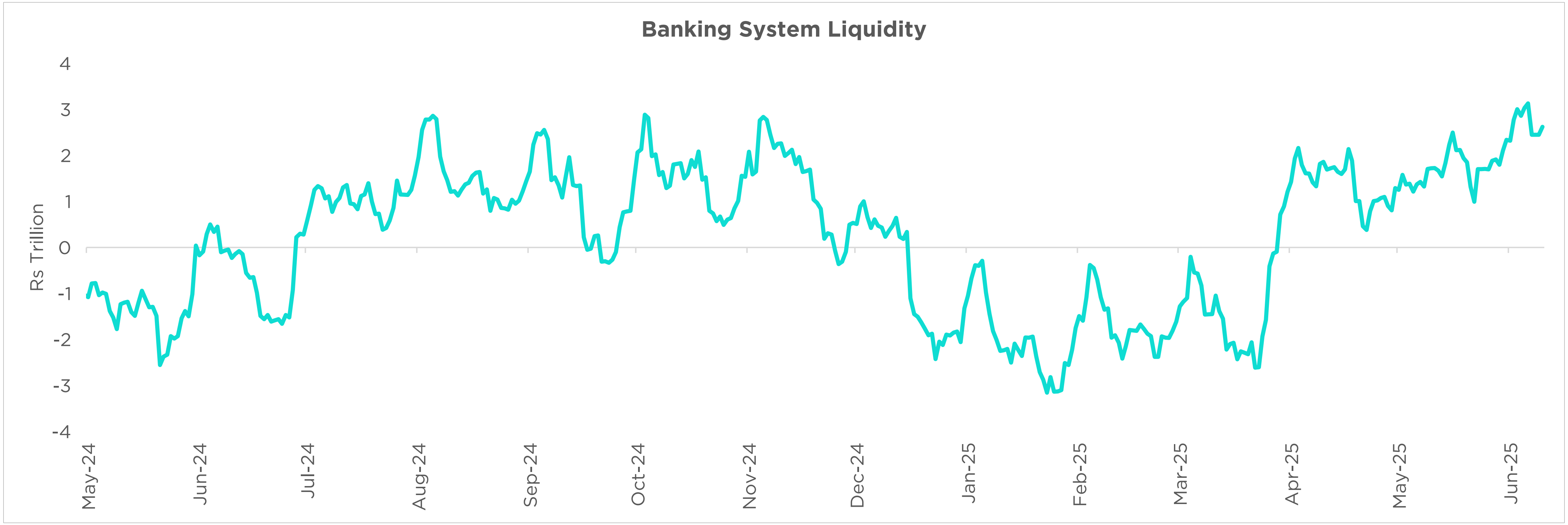
Source: CMIE, RBI



Source: RBI

- RBI MPC delivered a larger-than-expected 50 bps repo rate cut in June, lowering the repo rate to 5.5% and front-loading easing for the year.
- Policy stance shifted from accommodative to neutral, indicating that the room for further easing may be limited.
- RBI also announced a phased 100 bps CRR cut beginning September, which is expected to inject about Rs 2.5 trillion of durable liquidity into the system by December 2025.
- For FY26, RBI retained the GDP growth forecast at 6.5%; CPI inflation projection lowered to 3.7% from 4%.
- We do not expect further rate cuts from the RBI unless downside risks to growth materialise.

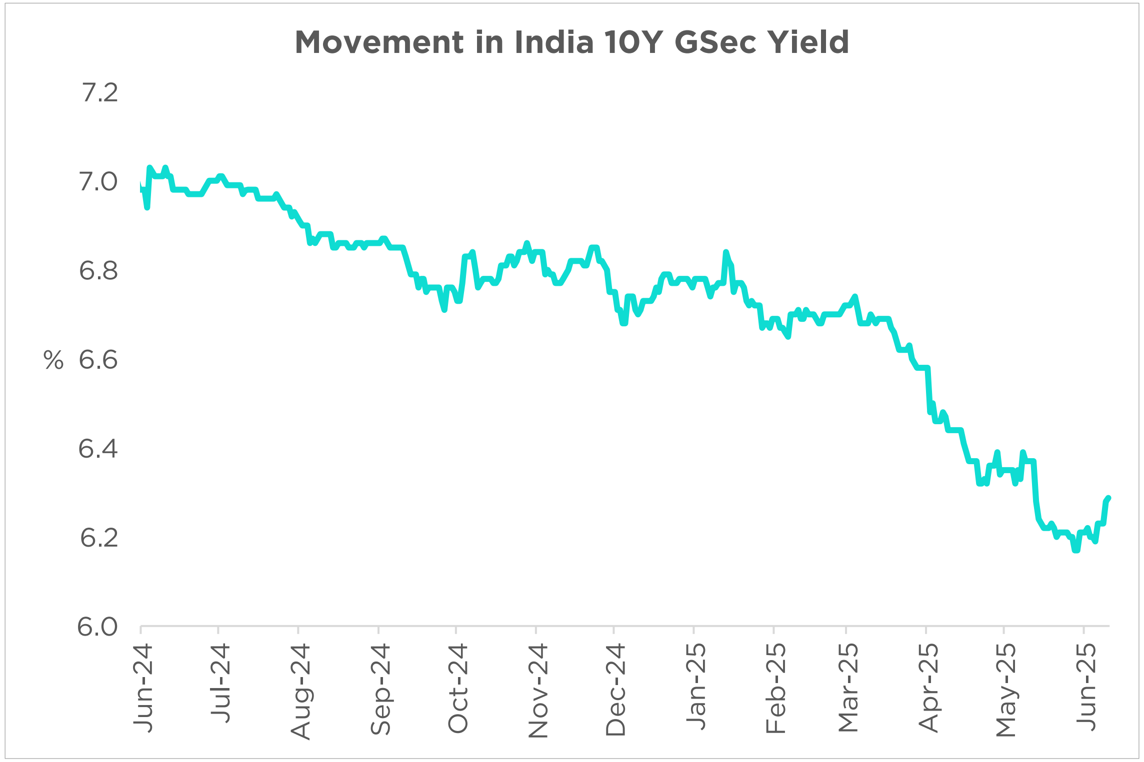
Liquidity Surplus Increases Further



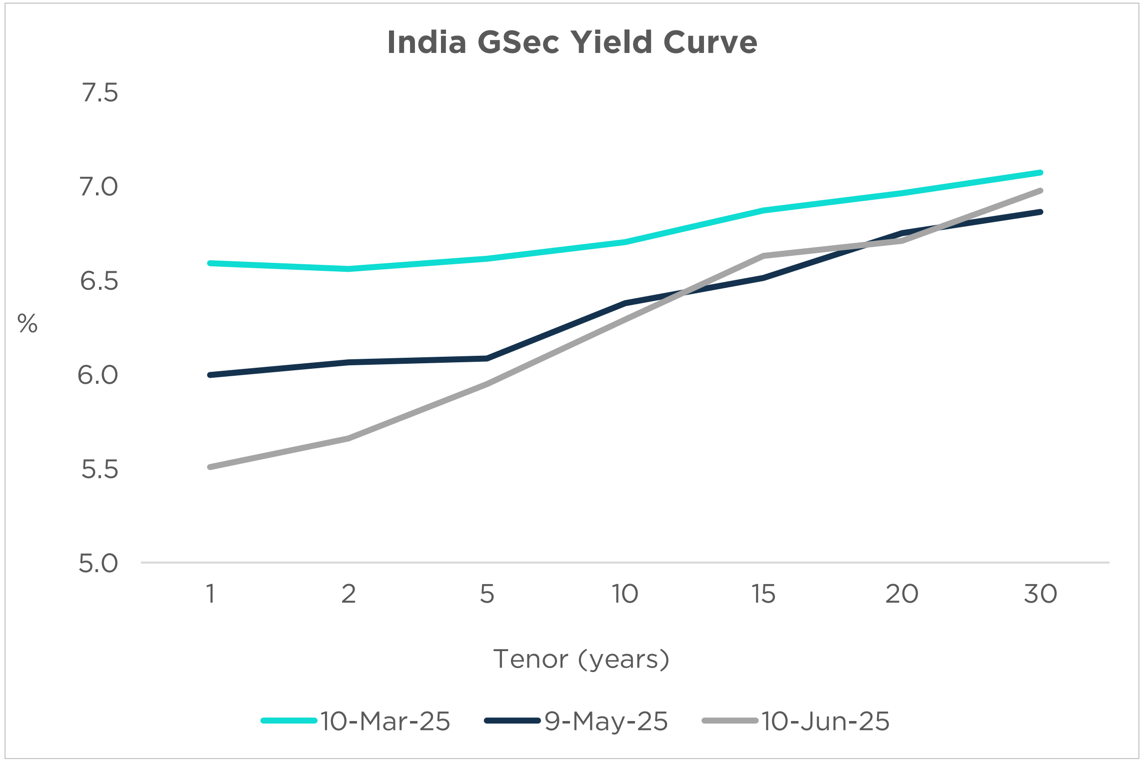
Source: CEIC. Data as of 10 June. Note: Positive values denote liquidity surplus

- Average banking system liquidity surplus rose to Rs 2.7 trillion in June (up to 10 June) from Rs 1.7 trillion in May, supported by month-end government spending and GSec buybacks.
- RBI's record Rs 2.7 trillion dividend transfer and the announced CRR cut are big positives for liquidity conditions.
- Amidst the liquidity surplus, the RBI discontinued the daily VRR auctions from 11 June.

10Y Yield Rises Post-Policy; Yield Curve Steepens



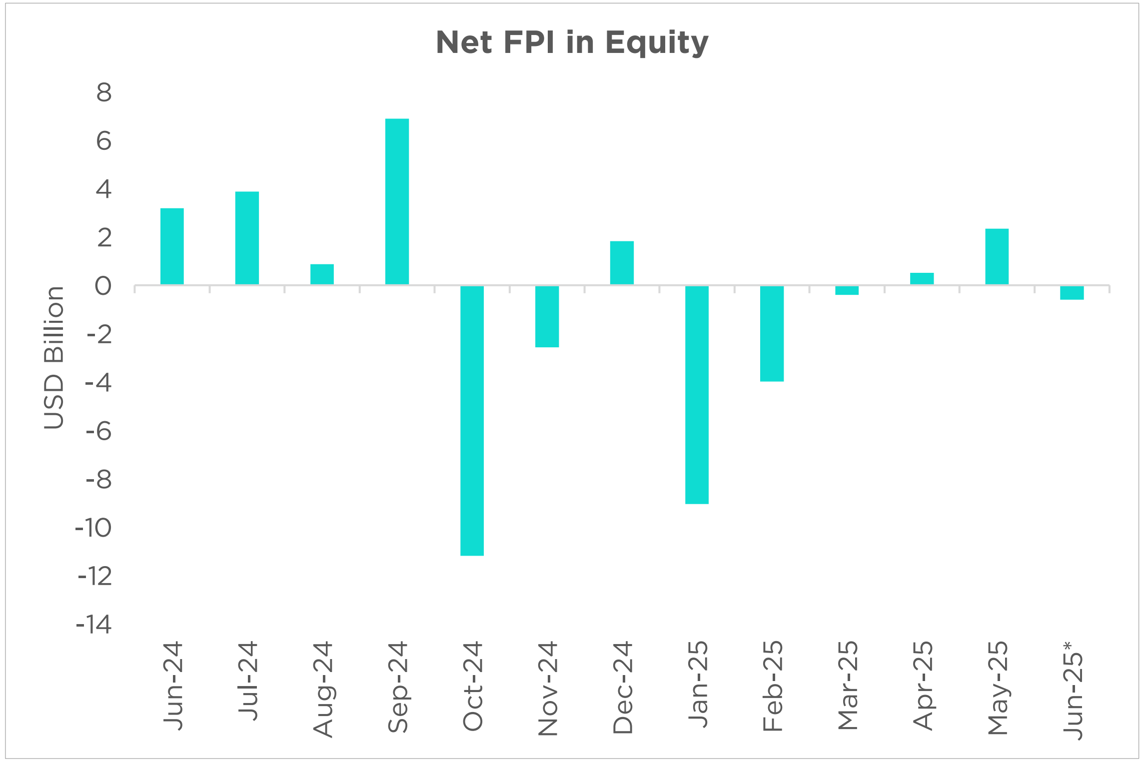
Source: Refinitiv. Data as of 10 June



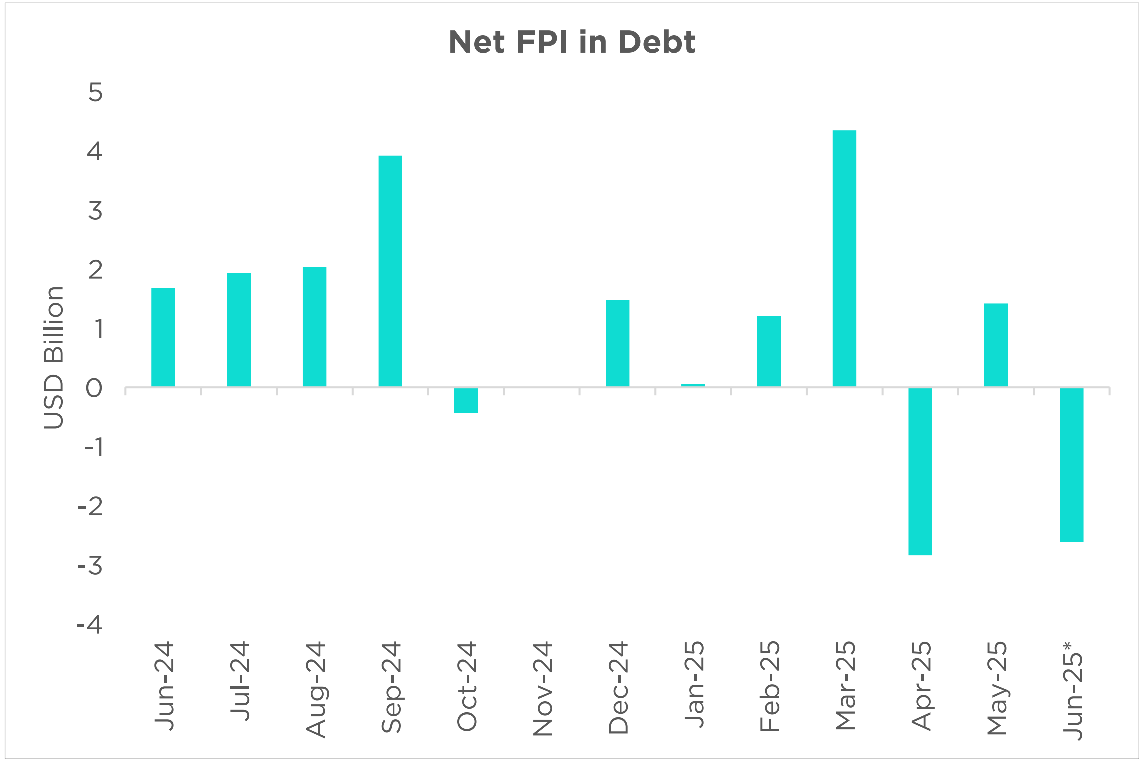
Source: Refinitiv

- India 10Y GSec yield rose by around 10 bps post-RBI policy, as the change in stance reduced expectations of further rate cuts and the CRR cut announcement diminished the need for OMO purchases. Still, the yield remains low at 6.29%, 30 bps below end-March.
- The yield curve has steepened, mainly with short-end yields falling on improved liquidity.

FPI Flows Remain Volatile



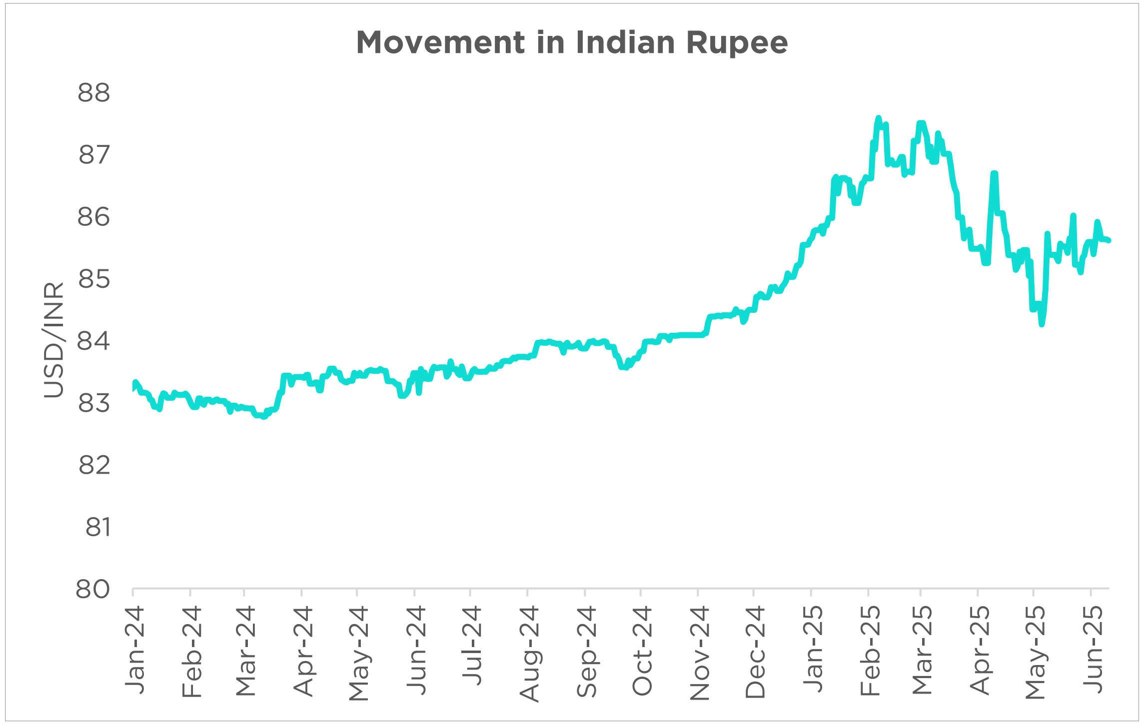
Source: NSDL. *Data as of 10 June



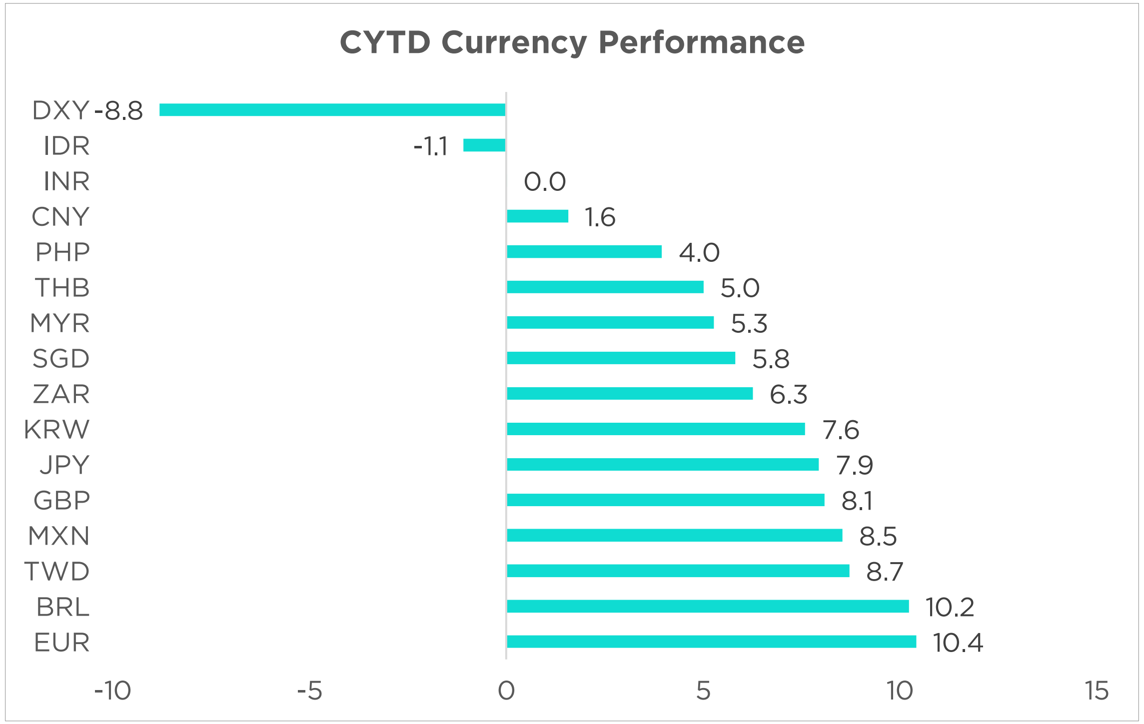
Source: NSDL. *Data as of 10 June

- Net FPI outflows (debt + equity) of USD 3.2 billion were recorded in June (up to 10 June), reversing inflows of USD 3.6 billion in May.
- CYTD net FPI outflows (debt + equity) stood at USD 9.8 billion, driven by USD 11.2 billion in net equity outflows, while debt saw net inflows of USD 1.6 billion.
- FPI flows are expected to remain volatile in FY26.

Rupee Weaker Since May, But Stronger than February Lows



Source: Refinitiv. Data as of 10 June



Source: Refinitiv. Data as of 10 June. 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 rupee has depreciated by 1.6% since early May, amidst rising crude oil prices and volatile FPI flows. On a CYTD basis, it remains broadly flat, while most other currencies have gained against USD.
- However, the rupee is still 2.3% stronger from its February lows, supported by a weaker dollar.
- The Fed is expected to hold rates in June, but markets are pricing in two rate cuts in 2025 (September and December).
- FPI flows may remain volatile amidst global uncertainties and US fiscal and trade policy risks. Developments around the US-India trade deal will be critical to monitor.

CareEdge Eco Research Round-up

From the Economics Desk @ CareEdge	
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IIP Growth – April 2025	Read Here
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RBI Policy Preview	Read Here
RBI Policy Outcome	Read Here
CareEdge Economic Meter & Q4 FY25 GDP Preview	Read Here
Q4 GDP Growth Update	Read Here
Shifting Tides in Currency Markets	Read Here
RBI Dividend Transfer to the Centre	Read Here
Analysis of State Finances	Read Here

CareEdge Forecasts

Economic Growth
GDP growth projected at **6.2%** in FY26

Inflation
Average CPI inflation projected at **4.0%** in FY26

Current Account Deficit
CAD (as % of GDP) projected at **1.0%** in FY25 and **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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