

KIRTANE & PANDIT

June
2025

The Ecnknowmic™

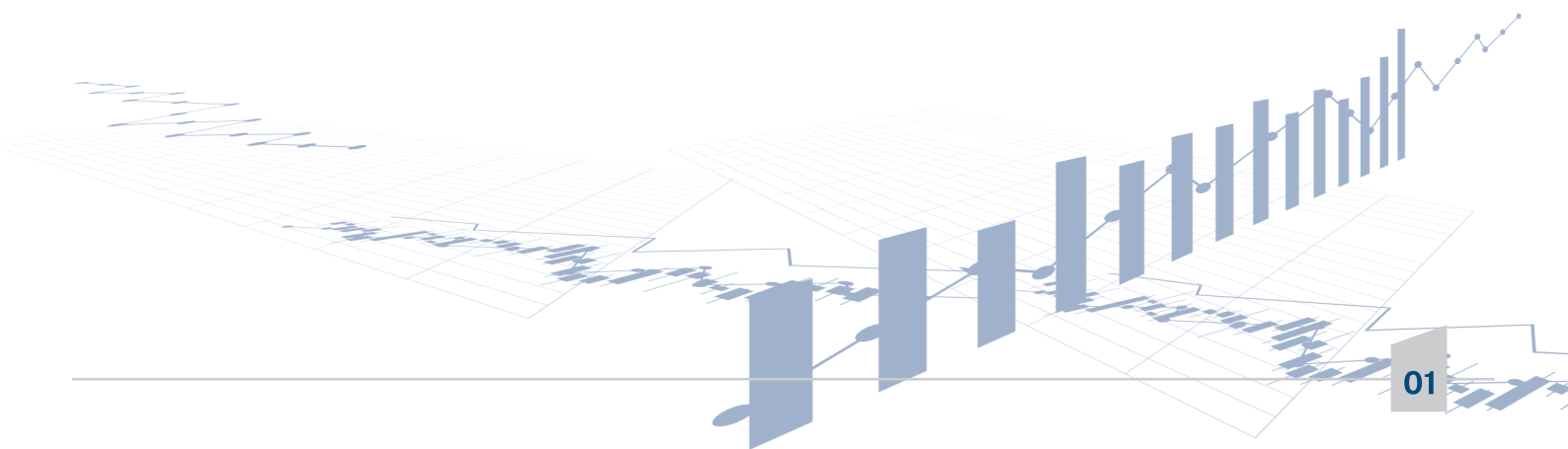
A Quarterly Economic Review



01. KEY INSIGHTS

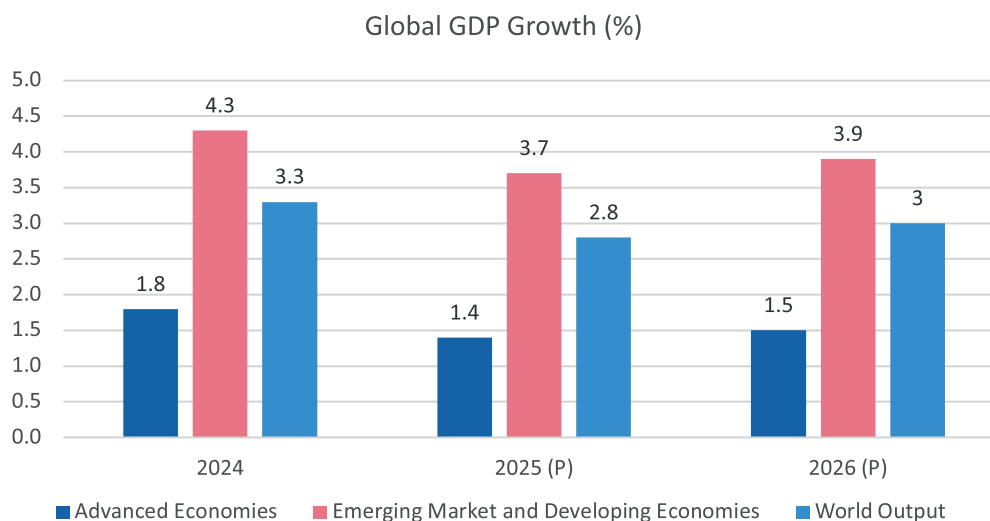


- The global economy is expected to grow at 2.8% in 2025 and 3% in 2026, representing a downgrade of 0.5% and 0.3% from the previous estimates, respectively. This downgrade primarily reflects global trade uncertainties resulting from the new tariff measures adopted.
- GDP growth in Q4 of 2024-25 came in at 7.4% y/y, the strongest quarterly growth of the fiscal year, indicating a widespread uptick in economic activity across sectors
- IIP was a mixed bag performance with improved performance of capital goods and consumer durables subdued by volatility in the mining and electricity sectors, and persistent weakness in consumer non-durables
- Inflationary pressures have greatly moderated in recent months, mainly led by the moderation of food inflation, coming in at 2.1% y/y in April.
- The RBI cut its policy rate by 25 basis points, bringing it down from 6.25% to 6.00% its second consecutive rate cut in April 2025, on sustained decline in inflationary pressure. It also changed its policy stance from 'neutral' to 'accommodative'.
- High imports, led by oil and gold, continue to weigh on the overall trade deficit despite the consistently credible performance of services trade.
- India's capital flows for Q4 of FY 2024-25 were characterised by contraction in net FDI inflows and volatility in portfolio flows.
- The Fiscal deficit for FY 2024-25 was successfully contained at 4.8% of GDP, meeting the revised budget estimates. For FY 2025-26, the government has set the target at 4.4% of GDP, reaffirmed the government's commitment to fiscal consolidation while maintaining growth-supportive expenditure.



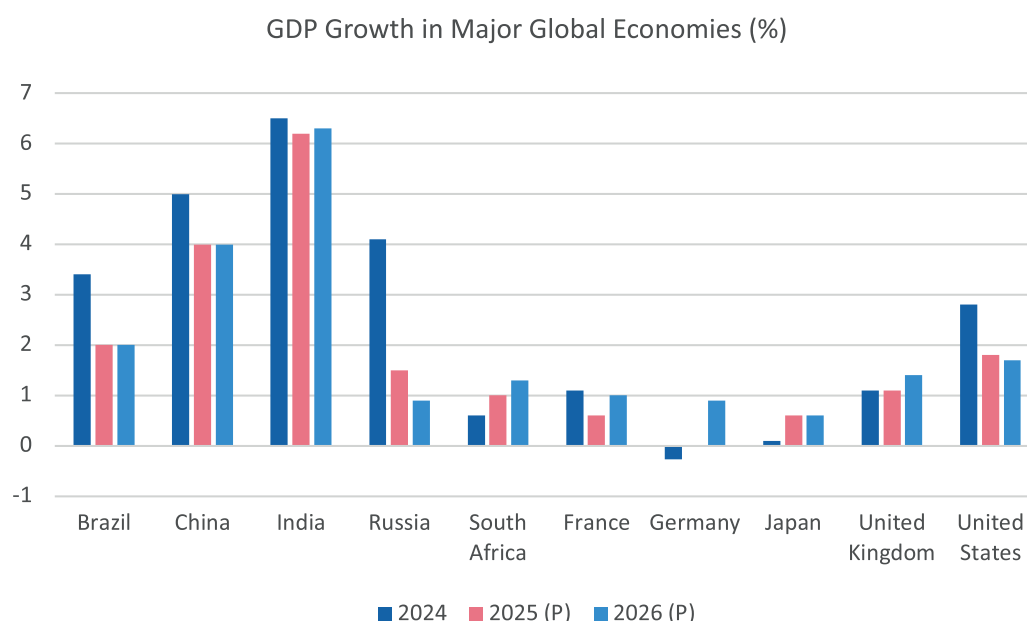
02. GLOBAL SCENARIO

The global economy stands at a pivotal crossroads as it seems to have entered a phase of fragile stabilization after a few volatile years marked by the COVID-19 pandemic, geopolitical turmoil, and inflation shocks. The global GDP is expected to grow at a modest 2.8% in 2025, with a slight rebound to 3.0% in 2026. These figures represent a downgrade of 0.5 percentage points in 2025 figures from the previous forecast in January 2025. A similar downgrade of 0.3 percentage points is seen in estimates for 2026. The global disinflation trend continues, but at a slower pace than previously expected. Headline inflation is projected to decline to 4.3% in 2025 and 3.6% in 2026, still above pre-pandemic levels. Advanced economies are expected to make more progress on disinflation than emerging markets, where inflation is likely to persist due to weaker currency positions, supply chain constraints, and higher pass-through of food and energy prices.



A major development in early 2025 has been the escalation in trade tensions, most notably the United States' imposition of near-universal tariffs in April, with retaliatory actions by major trading partners following swiftly. This has driven global tariff rates to their highest levels in a century. The recent tariff actions can act as a negative supply shock - raising input costs, disrupting global supply chains, and contributing to price volatility - ultimately dragging down global growth and trade.

Advanced economies are expected to grow at 1.4% in 2025, while developing economies are expected to average 3.7%, both subject to significant downside risks stemming from policy uncertainty, financial vulnerabilities, and a resurgence in global protectionism. Among advanced economies, the United States is forecasted to grow at 1.8% in 2025, which is a downgrade of 0.9 percentage points from the previous projection. Despite earlier signs of strength, the economy is now grappling with heightened trade uncertainty and weakening external demand. The Euro Area is expected to expand by 0.8% in 2025, reflecting a 0.2 percentage point downgrade, largely due to sluggish manufacturing output and policy uncertainty. Among the larger economies in the Euro Zone, economic activity in Germany is expected to stagnate with 0.0%, downgraded by 0.3% from the previous projection. France was downgraded 0.2 percentage points to an estimated growth of 0.6% in 2025. Persistent weakness in domestic demand and spillover effects from Germany are weighing on the outlook. France faces increased input costs and limited fiscal space to drive a recovery, with growth expected at 0.4%. Japan's growth forecast stands at 0.6% in 2025, a downgrade of 0.5 percentage points, amid stagnant domestic demand and weak external trade.



Among Emerging Market and Developing Economies (EMDEs), China's growth forecast for 2025 has been revised down by 0.6 percentage points to 4.0%. This reflects persistent challenges in the property sector, uncertainty from trade conflicts, and weaker global demand. India remains a global growth leader with projected GDP growth of 6.2%, although this too has been downgraded by 0.3 percentage points from earlier projections. Weaker global demand and a more uncertain external environment have led to Brazil's growth being downgraded by 0.2% from the previous projections to 2.0% in the latest estimates released in April 2025.

The global economy, in 2025, appears to have moved past the acute phase of recent crises but is far from being in the clear. Growth has stabilized but at subdued levels, inflation is easing unevenly, and a new wave of trade protectionism threatens to undercut progress. Diverging regional growth trends, persistent vulnerabilities in low-income countries, and an uncertain geopolitical climate present ongoing risk.

	Y/Y Growth Projections in Apr 2025 (%)		Difference from Jan 2025 Projections (%)	
	2025	2026	2025	2026
World Output	2.8	3.0	-0.5	-0.3
Spain	2.5	1.8	0.2	0.0
China	4.0	4.0	-0.6	-0.5
United Kingdom	1.1	1.4	-0.5	-0.1
India	6.2	6.3	-0.3	-0.2
Japan	0.6	0.6	-0.5	-0.2
Russia	1.5	0.9	0.1	-0.3
Saudi Arabia	3.0	3.7	-0.3	-0.4

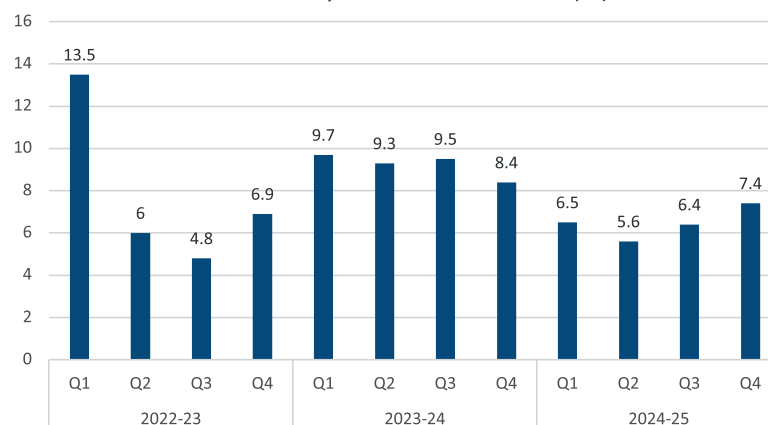
Data Sources
World Economic Forum, International Monetary Fund | Global Economic Prospects, World Bank

03. INDIA GDP

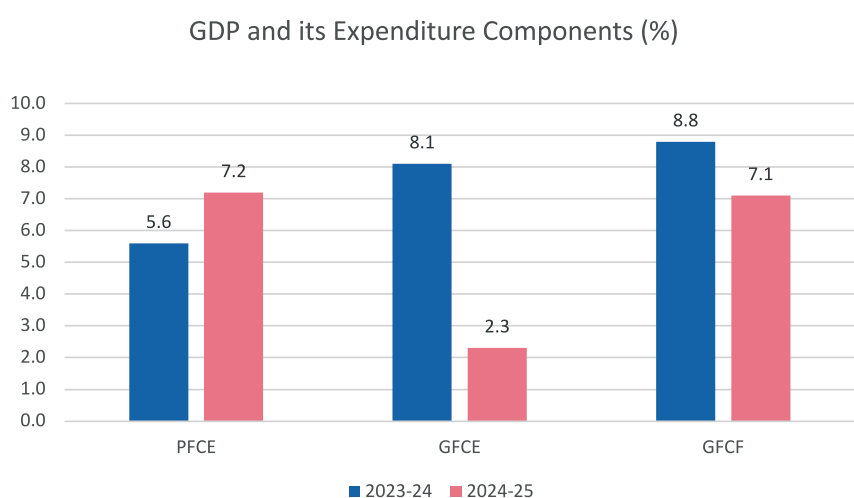
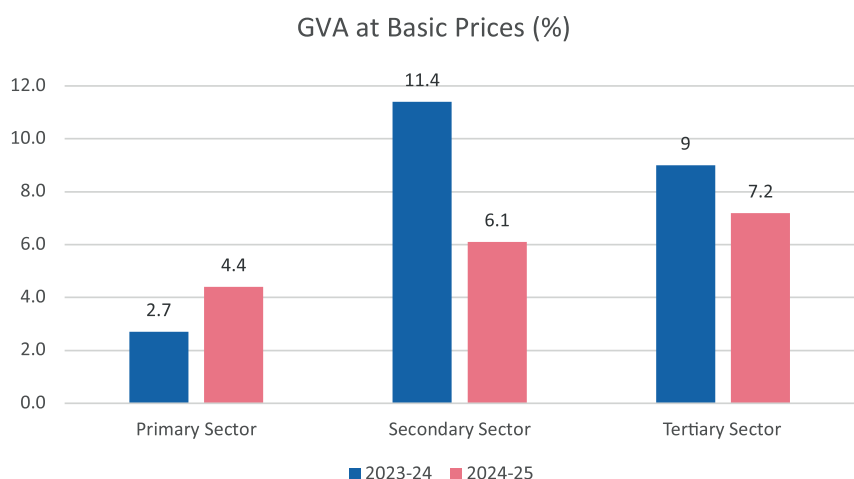
India's economy has remained resilient in FY2024–25, registering a real GDP growth of 6.5% as per the latest data released by the Ministry of Statistics and Programme Implementation (MoSPI). This performance, though a moderation from the 9.2% growth recorded in FY2023–24, once again positions India as the fastest-growing major economy globally. The decline in GDP as compared to the previous year can be attributed to the fact that the growth rate for FY 2023-24 was driven by strong base effects and post-pandemic recovery momentum. Looking at the latest quarterly numbers, India's GDP expanded by 7.4% y/y in Q4 of 2024-25, down from 8.4% y/y in Q4 of 2023-24. Although lower than the previous year, this is the strongest quarterly growth of the fiscal year and does reflect a widespread uptick in economic activity across sectors. The construction and Public Administration, Defence & Other services sectors particularly stood out, while agriculture posted a strong recovery.

Looking at the sectoral performance, the Primary sector (Including Agriculture & Mining Activities) recorded a strong 5.0% growth in Q4, up from just 0.8% in the same period last year. For the full year, the sector grew by 4.4%, a notable acceleration from 2.7% in FY2023–24. This rebound was supported by a normal monsoon, higher rabi output, and better terms of trade for farmers. The resilience of this sector always plays a key role in supporting rural incomes and demand. The manufacturing sector showed signs of recovery in Q4, growing by 4.8%, up from 3.6% in Q3. However, annual growth slowed to 4.5% in FY2024–25 from 12.3% in FY2023–24. The sector faced headwinds in the form of input cost pressures, soft global demand, and elevated borrowing costs. One of the standout performers of the year, the construction sector grew by 10.8% in Q4 and recorded a full-year growth of 9.4%. This was driven by increased public infrastructure spending, higher private sector investment in real estate, and continued progress in urban development projects. Services grew by 7.2% in FY2024–25, down slightly from 9.0% in the prior year. Public Administration, Defence & Other services led the way, supported by sustained demand in Financial, real estate, and professional services. In Q4, the services sector grew by 7.3%, reinforcing its role as a stabilizing force amid global headwinds. Tourism, retail, and digital services also gained momentum post-pandemic.

Quarterly GDP Growth Rates (%)

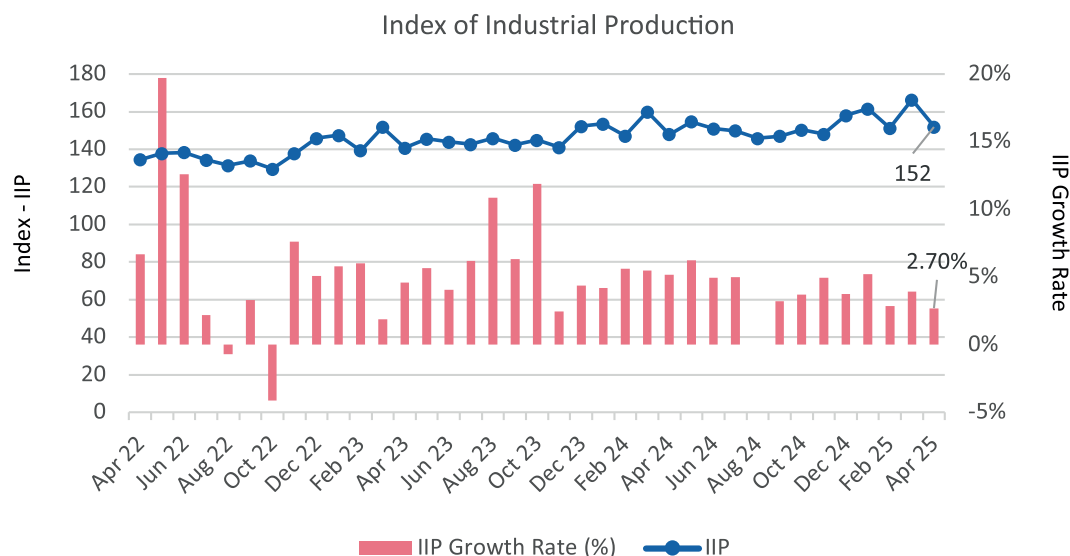


Looking at the expenditure side, Private consumption rose by 7.2% in FY2024–25, compared to 5.6% in FY2023–24. This rebound indicates improving consumer confidence, greater rural spending capacity, and a strong festive season. In Q4, PFCE remained firm with a growth rate of 6%, supported by a moderation in food inflation, rising employment in services, and recovery in urban discretionary spending. Gross Fixed Capital Formation grew by 7.1% in FY2024–25, with a strong 9.4% rise in Q4. This reflects higher public sector capital outlays and improving private investment sentiment, indicating sectors such as transport, renewables, and manufacturing attracting significant capex. While lower than the 8.9% growth in FY2023–24, the annual figures remain healthy and reflect an investment-driven recovery phase. Government expenditure rose by 4.1% in FY2024–25, up from 2.5% in FY2023–24, highlighting higher central and state-level spending. Much of the increase was observed in the first half of the fiscal year, aligned with welfare disbursements, rural support schemes, and election-related expenditure.



India's economic performance in FY2024–25 highlights a critical shift from recovery post the pandemic to resilience in a tumultuous global market. Despite a slowdown from the previous year, the economy registered one of the highest growth rates among major economies. With macroeconomic stability largely intact and reforms underway, India remains well-positioned to maintain its growth trajectory in the near and medium term.

The Index of Industrial Production (IIP) has painted a mixed picture in the last three months from February to April 2025. Despite some bright spots in capital goods and consumer durables, headline growth has moderated due to volatility in the mining and electricity sectors, persistent weakness in consumer non-durables, and a sharp deceleration in primary goods output. After two consecutive months of growth of 2.86% y/y and 3.94% y/y in February 2025 and March 2025, respectively, driven by stronger electricity generation and higher output in the manufacturing sector, IIP growth eased to 2.70% y/y, reflecting a broad-based deceleration across sectors.



Among the three major sectors, growth in manufacturing has been steady but has been slowing down in recent months. After growing at 3.97% in March 2025, it declined to 3.39% in April 2025. The drop in April is reflective of easing external demand and a dip in inventory restocking post the financial year. However, manufacturing sub-sectors such as electronics, pharmaceuticals, and automobiles have remained relatively stable. In contrast, the mining sector has witnessed a faltering performance in the last three months, with the growth in the index declining from 1.57% y/y in Feb 2025 to 1.22% y/y in March 2025 and a contraction of -0.23% y/y in April 2025. This steady decline suggests operational bottlenecks, especially around coal and mineral dispatches. Seasonal transitions and weather disruptions likely affected excavation rates. The electricity sector has been quite volatile, growing at 3.63% & 7.49% y/y respectively in February & March 2025, to then declining to 1.13% y/y in April 2025. This fluctuation could be a combination of increased cooling demand during high temperatures and then a normalization of demand. A cause of concern has been the consistent contraction in the index for consumer non-durables, which typically include items such as food products, toiletries, etc. This persistent decline could suggest continued weakness in rural consumption due to factors such as inflationary fatigue, low agricultural realization.

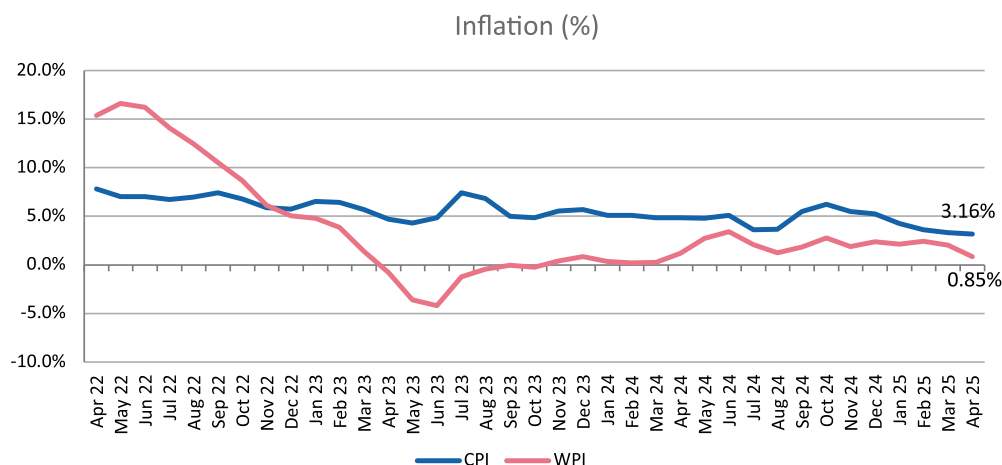
Over the past three months, India's manufacturing and services sectors have exhibited sustained growth, as reflected in the PMI readings. Manufacturing PMI for the month of March surged to 59.1, up from 56.9 in February, driven by strong production and sales, with new export orders increasing at the fastest pace since May 2022. The Manufacturing PMI eased to 58.2 in April and further down to 57.6 in May. The manufacturing sector continued to benefit from strong domestic and international demand, with new business inflows and exports hitting a one-year high. However, this upturn seems to have been curbed by cost pressures, close competition and the India-Pakistan conflict. High export orders also suggest a shift in production to India amid global trade changes and U.S. tariffs. Services PMI, similar to Manufacturing PMI, experienced accelerated growth over the past three months, coming in at 57.7 in March, 58.7 in April and 58.8 in May. The growth was supported by robust new business inflows and a positive outlook among service providers.

Data Sources :
 Ministry of Statistics and Programme Implementation | Purchasing Managers Index | Ministry of Commerce & Industry

04. INFLATION & MONETARY POLICY



After a slight spike towards the end of the previous calendar year, CPI has been on a consistent downward trajectory in the initial months of the current calendar year. In Q4 of 2024-25, CPI averaged at 3.75% y/y as compared to 5.63% y/y in the previous quarter. The current decline is underpinned by easing headline inflation, subdued core pressures and food price normalization. From the recent highs of 10.87% y/y in October 2024, food inflation has declined to 1.78% y/y in April 2025, a level not seen since October 2021. Food inflation has averaged at 2.74% y/y in the last three months (Feb-Apr). A steep decline in vegetable prices due to good monsoon in the previous year, improved supply in the Rabi season, and better logistics have greatly contributed to the decline in the overall food inflation. Vegetable prices have been declining in the last three months, but this number seems to be exaggerated due to the high base for these months in the previous year. This sharp moderation is significant, especially for rural India, where food dominates household expenditure. This trend is expected to provide substantial relief in real income and would improve consumption capacity. There has, however, been a reversal in the trend for fuel prices. After contracting for more than a year, fuel prices rose by 1.42% y/y in March 2025 and 2.92% y/y in April 2025. This spike could be attributed to the overall increase in global crude prices due to geopolitical tensions and OPEC+ production cuts, along with the seasonal rise in electricity tariffs anticipating summer demand. Based on RBI estimates, core inflation has also been on a declining trend, which is significant since core components are relatively insulated from transient shocks (like monsoon or oil spikes), and the trend provides strong evidence of subdued domestic inflationary momentum.



The WPI has experienced a downward trend in the last three months (Feb-Apr), declining from 2.45% y/y in February 2025 to 0.85% y/y in April 2025, which is the lowest since March 2024. This decline can be attributed to negative food price inflation, easing supply-side cost pressures as well as overall subdued demand for goods. Food articles prices have been declining in the last three months (Feb-Apr), witnessing a contraction of 0.86% y/y in April 2025. The steep drop in prices for onions and tomatoes due to Rabi oversupply and softening prices of pulses and cereals, due to increased procurement, have led to the overall decline in food inflation. Fuel inflation for WPI shows a divergent trend, as compared to CPI, contracting by -0.97% y/y in February 2025, with a slight spike of 0.2% y/y in March 2025 and a contraction of -2.18% y/y in April 2025. The steep decline in April was led by the WPI for Crude Petroleum & Natural Gas contracting to -15.55% y/y. This deflation in energy costs is a boon for heavy industry and logistics, potentially boosting profit margins in sectors like cement, steel, and transportation. Wholesale price levels for manufactured goods have experienced a downward trajectory in the last three months, mainly underpinned by ongoing margin compression. Sectors like fabricated metal products, rubber, plastics, and machinery have reported low pricing momentum, even as production costs eased.

In its first meeting for the new financial year, convened from April 7 to 9, 2025, the Monetary Policy Committee (MPC), made several pivotal decisions. The MPC unanimously decided to cut the policy repo rate by 25 basis points, bringing it down from 6.25% to 6.00%, its second consecutive rate cut, following a similar reduction in February 2025. It also changed its policy stance from 'neutral' to 'accommodative', signalling the RBI's readiness to ease monetary policy further if necessary to support economic growth. Further, the Standing Deposit Facility (SDF) rate was reduced to 5.75% while the Marginal Standing Facility (MSF) rate and the Bank Rate were both adjusted to 6.25%. The MPC cited that a sustained decline in inflationary pressure with easing of vegetable prices have led to the current inflationary levels being well below the RBI's 4% medium-term target, due to which the central bank found room to ease monetary policy.

Data Sources

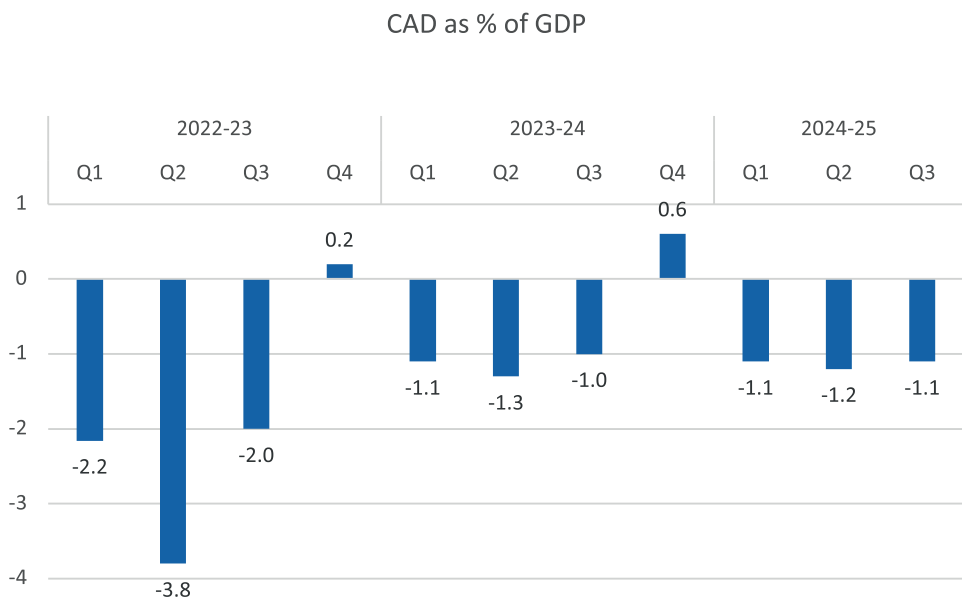
Reserve Bank of India | Office of the Economic Adviser, Ministry of Commerce & Industry



05. THE EXTERNAL SECTOR

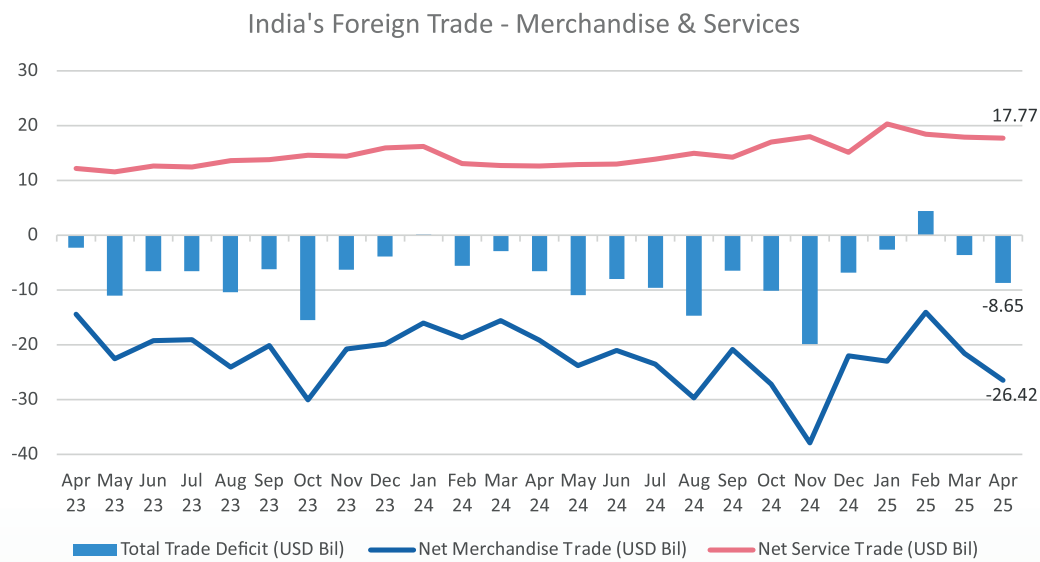


India's current account position has seen moderate pressure in FY25 so far, with the CAD to GDP ratio remaining in a tight range across the first 3 quarters of FY 2024-25. While net services exports and remittances remain robust, the persistent merchandise trade deficit continues to exert pressure on the external account. In Q3, the trade deficit reached \$79.2 billion, weighing heavily on the current account despite strength in services. Nevertheless, the CAD remains comfortably ranged, and the overall balance of payments (BoP) remains in surplus.



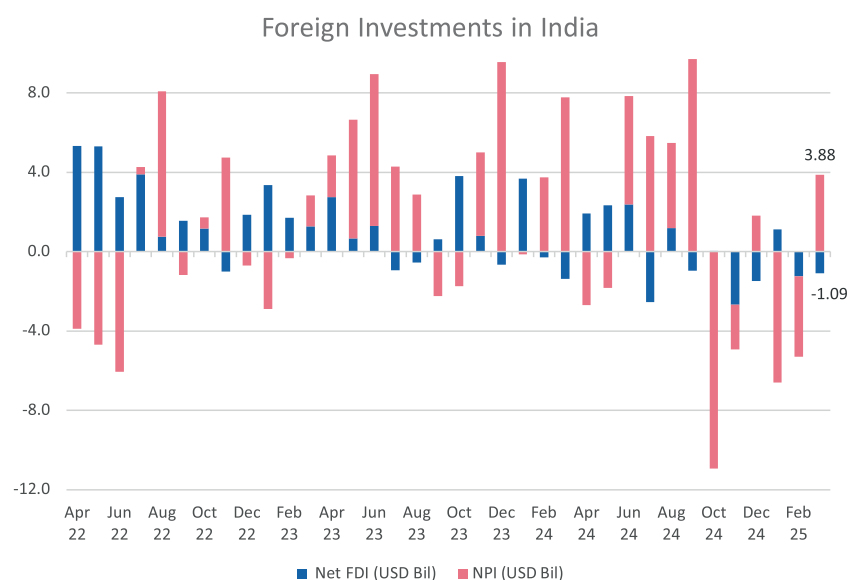
India's net merchandise trade deficit widened sharply over the three months, growing from \$14.05 billion in February to \$26.42 billion in April. High imports of crude and energy products greatly contributed to the increase in the merchandise trade deficit. The firming up of global crude oil prices due to recent geopolitical developments, along with higher volumes of imports and rupee depreciation, all contributed to the higher value of oil imports. Gold imports have been another factor that has consistently contributed to the high merchandise trade deficit. Along with heightened oil and gold imports, however, imports for machinery, telecom, electrical equipment, steel, copper and construction material continued to rise in March and April, reflecting ongoing infrastructure activity, manufacturing investment, and rising project implementation under both government and private sector capex cycles. Merchandise exports continued to remain subdued in the last three months (Feb-Apr), adding to the trade deficit woes. Exports for commodities such as Engineering goods, apparel, and chemicals suffered from weak global demand. Pharmaceutical exports stagnated in key markets while exports for gems and jewellery declined alongside reduced discretionary spending globally. Exports for other commodities such as coffee (47.85% growth), Electronic Goods (39.51% growth), Fruits & Vegetables (30.72% growth) in the month of April did soften the blow a little for the overall declining merchandise exports.

India's services trade continued to act as a resilient buffer for the external sector between February and April 2025, posting consistently strong surpluses. There are, however, some early signs of moderation, especially in the months of March and April, as global demand for outsourcing, travel, and transport services softened slightly. While remaining historically high, the net surplus in services trade declined marginally over the three months. The largest contributor for services trade surplus continues to be IT and Software Services. While growth has plateaued in key sectors like software and travel, the services sector continues to act as India's strongest external sector pillar, significantly mitigating the widening merchandise trade deficit.

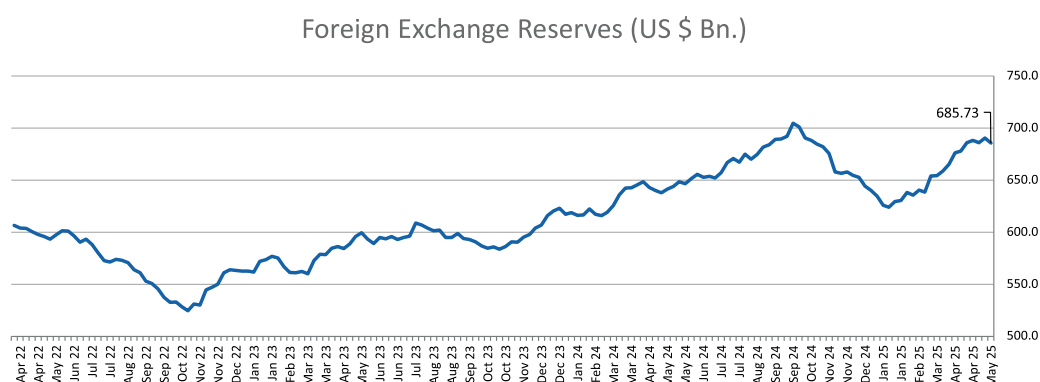


India's external sector witnessed notable volatility in capital flows during the final quarter of FY25. After a turbulent start to the year with net outflows across both direct and portfolio investment segments in January and February, March saw a sharp rebound in portfolio inflows, though FDI continued to show structural weakness. The year began on a cautious note. In January, while India attracted \$1.13 billion in net FDI, portfolio investors withdrew a staggering \$6.59 billion, driven by a strengthening US dollar and rising Treasury yields, and overall geopolitical uncertainty. Investor sentiment weakened further in February, with both FDI and NPI staying in negative territory, with the total outflow of \$5.29 billion, primarily stemming from profit repatriation and fewer equity approvals, trimmed exposures by FPIs amid global volatility.





March brought some relief. Net portfolio investment reversed direction with a positive 3.88 billion inflow, buoyed by softening US rate expectations, weaker dollar outlook and increased allocations to Indian debt and select equity segments. However, FDI outflows persisted at $-\$1.09$ billion, reinforcing concerns that long-term investor appetite remains tepid, possibly linked to regulatory uncertainties and slower project approvals.



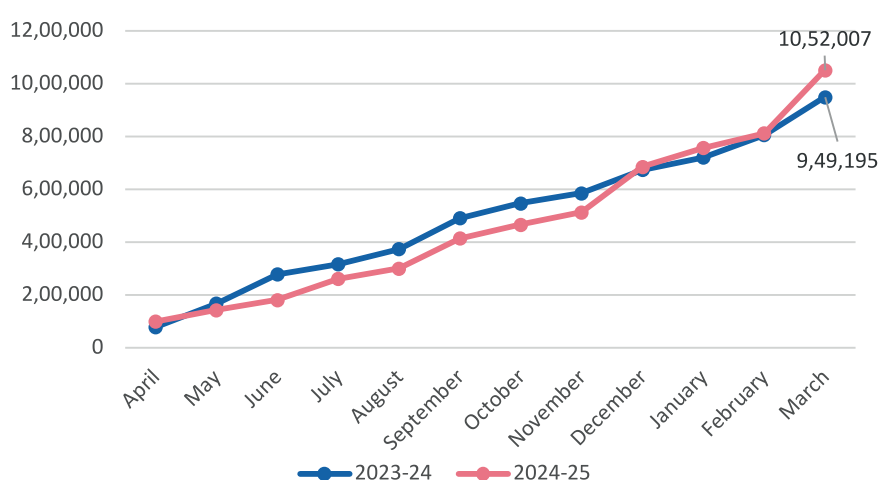
India's foreign exchange reserves rose sharply from around USD 620 billion in the early days of 2025 to USD 685.73 billion by mid-May 2025, reflecting external sector resilience. The gains reflect a combination of renewed capital inflows and current account stability. With reserves near USD 690 billion, India holds an import cover of ~ 10 months, which would bolster investor confidence amid a volatile external backdrop.

Data Sources
Ministry of Finance | Ministry of Commerce & Industry | Reserve Bank of India

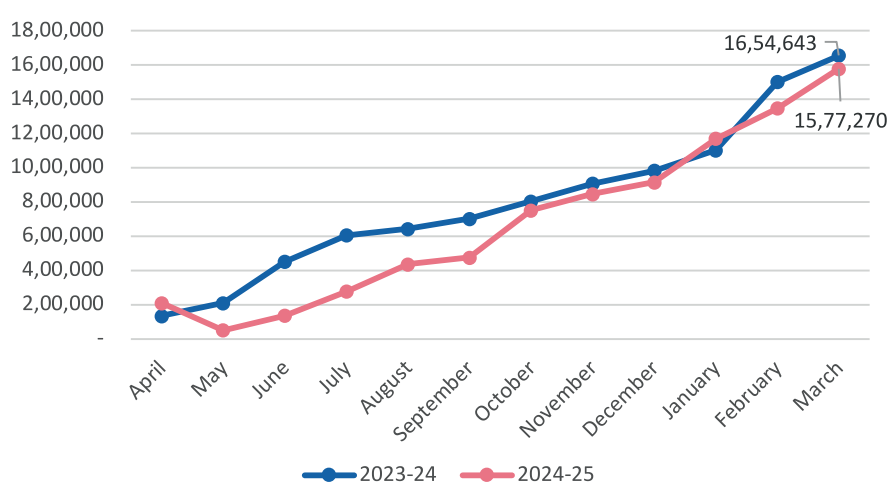
06. FISCAL SCENARIO

The Government, in its Union budget for FY 2025-26, set the target for fiscal deficit at 4.4% of GDP, down from 4.8% of GDP in the previous financial year, reaffirming its commitment to fiscal consolidation while maintaining growth-supportive expenditure.

Cumulative Trend of Capex (Rs. Crs)

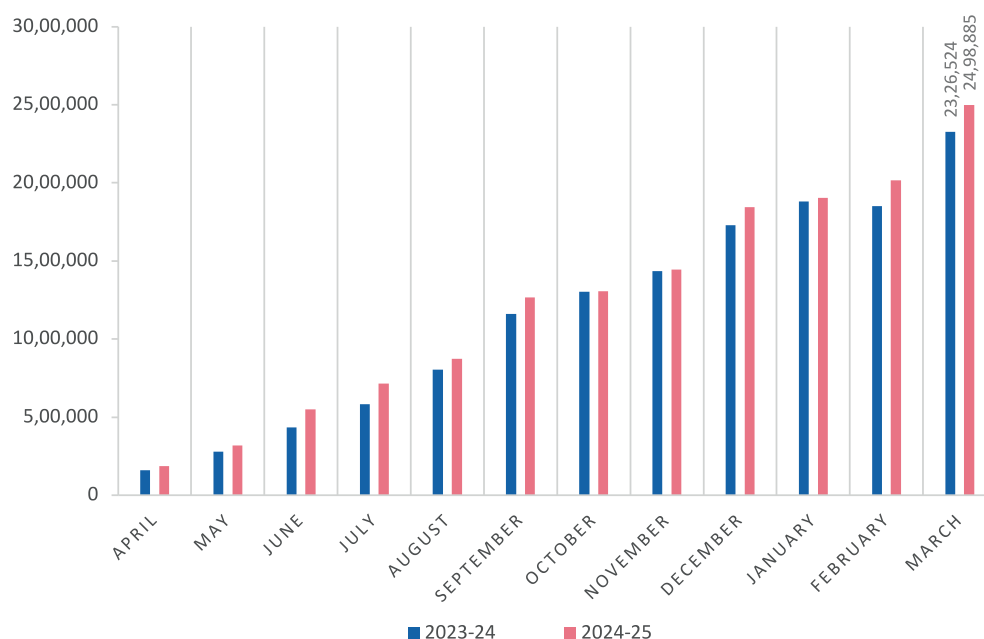


Cumulative Trend of Fiscal Deficit (Rs. Crs)



For FY 2024-25, the fiscal deficit was successfully contained at 4.8% of GDP, meeting the revised estimate reflecting improved revenue buoyancy and spending discipline. The central government's fiscal deficit stood at Rs 15.77 lakh crore, or 100.5% of the revised annual target, compared with 95.4% a year before. Capital expenditure, mainly targeted at infrastructure development, overshot to 103% of the yearly estimates. Total expenditure stood at INR 46.56 lakh crore, which is around 98.7% of the revised target.

Monthly Tax Collection Revenue (In INR Crore)



On the revenue front, tax revenue came in at 97.7% of the revised estimate target as compared to 100.1% of the budget target in the previous year. This shortfall was due to lower-than-expected collections from GST and income tax. Non-tax revenue, however, came in at 101.2% of revised budget estimates, exceeding its target. Although tax revenue fell short of the Budget Estimates, the government did receive a big boost as the RBI transferred its highest ever dividend of Rs 2.69 lakh crore to the Government of India for the financial year 2024–25. This is 27.4 % higher than previous year's dividend of 2.11 lakh crore, indicating improved performance of the central bank.

Maintaining the current path towards adhering to the fiscal consolidation roadmap is crucial for sustaining macroeconomic stability, supporting growth, and ensuring that India remains on track toward a sustainable fiscal and developmental trajectory.

Data Sources
Union Budget | Ministry of Finance



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