India's Macro Pulse: Strong GDP, Export Dynamics, and Cooling Inflation

Recent Data Releases: Growth, Inflation, and Trade

Between early August and mid-September, three official data releases have shaped the assessment of India's economy. The **consumer price index for July**, released on 1 August, showed headline inflation easing to **1.55%**, a six-year low, as food prices turned negative. On 30 August, the **Q1 FY26 GDP estimates** reported growth of **7.8% in real terms**, confirming that the economy is expanding at a healthy pace with support from manufacturing and services. Most recently, the **trade figures for August 2025**, published on 15 September, showed exports rising by 6.7% year-on-year and the merchandise deficit narrowing, even as global trade conditions remain uncertain.

Taken together, these developments present a clear picture. Growth is strong and increasingly broad-based, inflation has cooled sharply, and the external balance is temporarily more comfortable. At the same time, slower nominal GDP growth and the impact of new tariffs on exports highlight challenges that will require careful monitoring in the months ahead.

➢ *Q1 FY26 GDP: A Broader, More Balanced Expansion*

India's GDP expanded by **7.8% year-on-year in real terms** in Q1 FY26, while nominal GDP grew by **8.8%**. The results confirm that growth has broadened beyond the government's infrastructure spending and is now supported by both industry and services.

Equally important is the performance of **Gross Value Added (GVA)**, which captures sectoral activity. Real GVA rose by **7.6%** to ₹44.64 lakh crore, while nominal GVA grew by **8.8%** to ₹78.25 lakh crore (MoSPI, 30 August 2025).

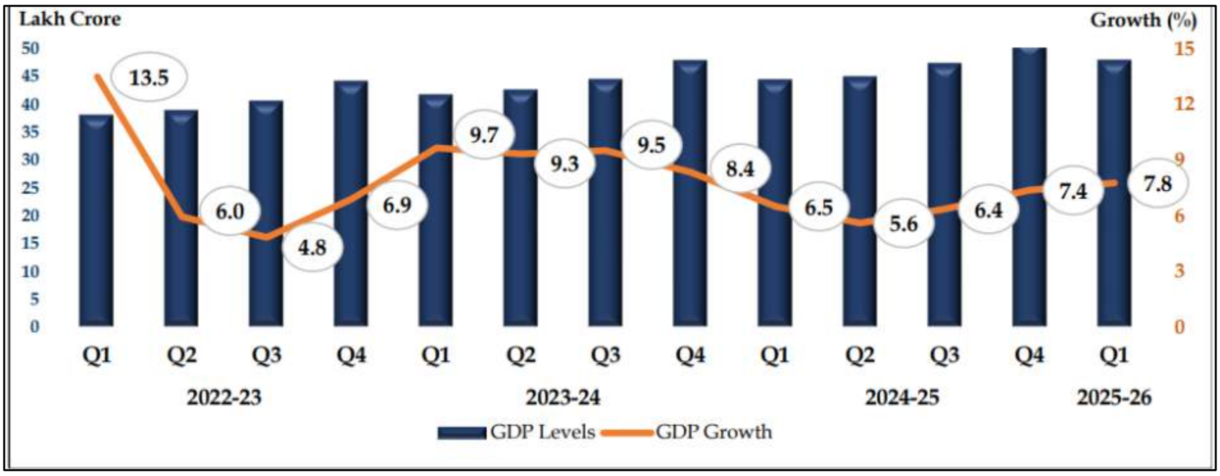
- **Primary sector GVA** grew by **2.8%**, with agriculture and allied activities expanding by **3.7%**, while mining contracted by **3.1%**.
- **Secondary sector GVA** rose by **7.0%**, led by **manufacturing (+7.7%)** and **construction (+7.6%)**, though electricity and utilities were subdued at **0.5%**
- **Tertiary sector GVA** grew strongly by **9.3%**, up from 6.8% in Q1 last year, supported by trade, transport, financial services, and public administration

Looking at the production side, **manufacturing output rose sharply by 10.1%**, supported by lower input costs, stronger demand for consumer durables, and benefits from Production-Linked Incentive (PLI) schemes. **Construction activity** grew by about 7%, reflecting sustained housing demand and public investment. The **services sector** expanded by more than 11%, led by trade, transport, communication, financial, and real estate services. While agriculture provided stability with growth of 3.7% supported by favourable monsoons, while mining contracted by 3.1%, reflecting sector-specific constraints.

On the expenditure side, **private consumption** increased by around **7%**, underpinned by steady household demand. **Gross fixed capital formation (investment)** rose by nearly **8%**, supported by infrastructure projects and corporate investments. **Government consumption** made a modest contribution, while valuables and inventories added little, suggesting that growth was driven by real demand rather than temporary statistical adjustments.

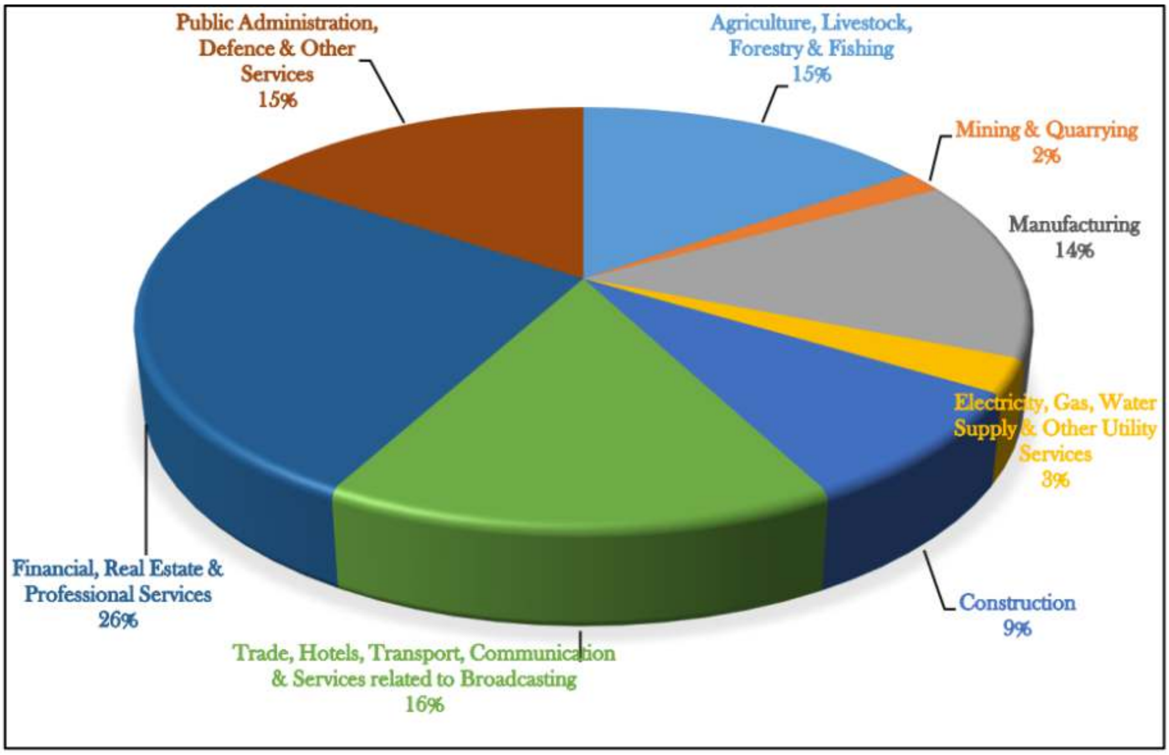
The combined GDP and GVA data highlight the balanced nature of India's growth in Q1. Agriculture provided stability, industry registered broad-based expansion despite weaker utilities, and services delivered strong momentum. The overall message is that the economy is more diversified than in the past, no longer reliant only on government spending but supported by manufacturing, services, and investment together. A note of caution, however, is that nominal GDP growth at 8.8% fell short of the 10.1% assumption in the Union Budget, raising potential challenges for fiscal consolidation unless revenue collections remain strong.

Figure 1: Quarterly Real GDP Estimates (in Rs. Lakh Crore) and Y-o-Y Growth Rates (%)



Source: Press Note dated 29 August 2025, MOSPI

Figure 2: Sectoral Composition of Nominal GVA in Q1 of FY 2025-26



Source : Press Note dated 29 August 2025, MOSPI

➢ *August 2025 Trade: A Narrower Deficit, with Front-Loaded Exports*

India's trade data for August 2025 reflected a narrowing of the deficit. **Merchandise exports rose 6.7% year-on-year to $35.1 billion**, while **imports contracted by 10.1% to $61.6 billion**, reducing the merchandise deficit to $26.5 billion. Including services, total exports were **$69.2 billion**, against imports of $79 billion, resulting in a combined deficit of $9.9 billion.

A key factor behind the export increase was the timing of shipments. With the United States set to implement higher tariffs on Indian goods from September, many exporters advanced consignments in August to avoid higher duties. This front-loading effect partly explains the strong export performance.

At the same time, structural drivers also supported exports. **Electronics** continued to expand rapidly, reflecting new production capacities and global supply-chain integration. **Engineering goods** benefited from steady overseas demand. **Gems and jewellery** rebounded with seasonal orders, while **petroleum products** gained from favourable refining margins. **Pharmaceuticals** sustained steady growth through strong demand for generics.
On the import side, declines were most visible in gold, silver, coal, and project goods, helping to reduce the deficit. The **services surplus** added further stability, with exports estimated at **$165 billion during April–August**, up from $149 billion last year, generating a surplus of more than $80 billion.

The export outlook in the coming months will depend on how firms adjust to new tariff structures. While some moderation is expected after the August front-loading, the continued strength of electronics, engineering, and pharmaceuticals suggests that India's export base is becoming more resilient.

Figure 3: Trade during April -August 2025

		April-August 2025 (US$ Billion)	**April-August 2024 (US$ Billion)**
Merchandise	Exports	184.13	179.60
	Imports	306.52	300.12
Services	Exports	165.22	149.43
	Imports	84.25	81.18
Total Trade (Merchandise + Services)	Exports	349.35	329.03
	Imports	390.78	381.30
	Trade Balance	-41.42	-52.27

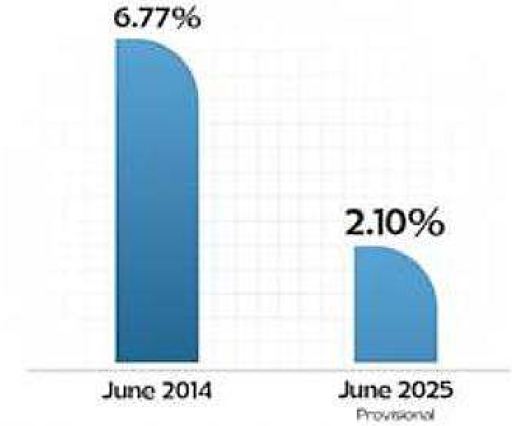
Source: Press release dated 18th September 2025, PIB

➢ *Inflation and Policy: A Sharp Cooling*

The inflation print for July showed a CPI headline at **1.55% year-on-year**, the lowest since 2017. Food inflation turned negative, while non-food categories also recorded subdued price increases. Retail inflation has therefore fallen below the RBI's 2–6% target band, giving policymakers greater room to manage growth risks.

The decline in inflation eases pressure on households and improves real incomes, while also reducing cost pressures for firms. For monetary policy, this creates space to respond if growth slows or external conditions deteriorate. The challenge, however, is that **nominal GDP growth of 8.8% in Q1** is below the Budget assumption of 10.1%, which could complicate fiscal planning unless tax revenues remain buoyant.

Figure 4: All India Y -o-Y CPI Inflation (Base 2012 =100)



Source: MOSPI

➢ ***Industrial Output and Investment Pulse***

The **Index of Industrial Production (IIP)** increased by **3.5% in July**, driven by **5.4% growth in manufacturing**. Mining contracted by more than 7% due to seasonal and operational factors, while electricity output was flat. For the April–July period, IIP growth averaged just over 2%, indicating steady but uneven performance.

Investment activity remains encouraging. Gross fixed capital formation grew nearly 8% in Q1, reflecting both public infrastructure spending and a gradual rise in private investment. Financial flows remain supportive, with domestic institutions and foreign investors net buyers of Indian equities, and foreign exchange reserves briefly crossing $700 billion earlier this quarter. Manufacturing's strong contribution to GDP indicates that policy measures aimed at industrial growth are beginning to deliver results.

Outlook Ahead of the RBI's MPC Meeting

The latest figures on GDP, GVA, inflation, trade, and industrial output will guide monetary policy decisions at the upcoming Monetary Policy Committee (MPC) meeting scheduled for 29 September to 1 October 2025. In its August meeting, the RBI kept the repo rate unchanged at 5.5% after three consecutive cuts earlier this year, citing the need to weigh falling inflation against external uncertainties. The central bank maintained its growth projection for FY26 at 6.5%, while revising its inflation forecast down to 3.1%. With retail inflation at a six-year low and food prices in deflation, monetary conditions have turned more restrictive in real terms.

At the same time, U.S. tariff uncertainty poses a downside risk to exports, while the U.S. Federal Reserve's 25 bps rate cut on 17 September 2025 has eased global financial conditions. Together, these developments create a mixed backdrop for the RBI: external trade risks argue for caution, but looser global liquidity strengthens the case for a more accommodative stance. The upcoming MPC meeting will therefore be closely watched to see whether the RBI holds its ground or signals readiness to adjust policy if growth momentum weakens.

Risks, Opportunities, and Concluding Outlook

Four factors stand out in shaping India's near-term trajectory. The first is the impact of U.S. tariffs on exports, which lifted August shipments through front-loading but may lead to moderation in subsequent months. The second is nominal GDP growth, which expanded by only 8.8% in Q1 FY26 against the Union Budget's assumption of 10.1%. This shortfall, driven by disinflation and softer price momentum, could weigh on tax revenues and complicate fiscal consolidation, even as expenditure pressures persist. The third factor is the rollout of GST 2.0 from September 2025, a structural reform expected to simplify compliance, rationalise rates, and strengthen both consumption and production, particularly for MSMEs. Finally, the U.S. Federal Reserve's 25 bps rate cut on 17 September 2025, its first this year, has eased global liquidity conditions and reduced risks of currency volatility, giving India greater monetary space at a time of trade-related uncertainty.

Taken together, these dynamics reflect a mixed but manageable environment. External headwinds and fiscal pressures remain live risks, yet three positives stand out—low inflation, structural tax reform, and supportive global financial conditions. Combined with resilient domestic demand and investment, these provide India with a unique opportunity to sustain growth. The upcoming RBI meeting at the end of September will therefore be critical in setting the policy tone. If managed carefully, India can maintain its position as one of the few large economies combining high growth, low inflation, and ongoing structural reforms in Fy26.