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India # Economic Momentum # Indian Economy # Global Headwinds

CareEdge Ratings

While global trade faces a tariff-led slowdown, India's domestic consumption, liquidity conditions, and growth projections for FY26 remain encouraging

Despite escalating global uncertainties, India's economic outlook remains relatively stable, supported by resilient services exports, moderating inflation, and improving liquidity, according to a report by CareEdge Ratings. The global economy is projected to slow to 2.8 per cent in 2025, down from 3.3 per cent last year, primarily due to the ripple effects of heightened trade policy tensions.

Major economies, including the United States, China, and Mexico, have seen downward growth revisions. However, India's forecast remains robust at 6.2 per cent for FY26, aided by rising rural consumption and easing retail inflation.

India's merchandise exports remained flat in FY25, with non-oil exports showing a modest 6.1 per cent increase. Imports rose 6.2 per cent, leading to a wider trade deficit of USD 282.5 billion. CareEdge expects a 1.7 per cent contraction in exports in FY26 due to global uncertainties, but notes that lower oil prices—forecast to average USD 61.9 per barrel—will help contain the trade gap.

By contrast, services exports surged 13.6 per cent in FY25, contributing to a services trade surplus of USD 188.8 billion. This growth is driven by India's dominance in digitally delivered and commercial services. Although moderation is anticipated, CareEdge forecasts 6.5 per cent growth in services exports for FY26, offering a vital cushion against global trade headwinds.

Headline CPI inflation eased to 3.2 per cent in April 2025—its lowest level since August 2019. Food inflation decelerated sharply due to falling vegetable prices and stable milk and cereal costs, despite elevated edible oil and fruit inflation. With normal monsoons forecasted and reservoir levels comfortable, CareEdge projects CPI inflation to average 4.2 per cent in FY26, down from 4.6 per cent in FY25.

This inflation moderation, coupled with rural wage growth and recent RBI rate cuts, is expected to support broader consumption recovery. Rural indicators such as two-wheeler and tractor sales have picked up, while urban demand remains a key monitorable. Air passenger traffic also saw a gradual rebound in H2 FY25.

A recent NSO survey flagged cautious sentiment among private firms towards capital expenditure in FY26 amid global volatility. However, there is a visible shift towards manufacturing-led investment, while transport and storage sectors may witness reduced capex.

Meanwhile, banking system liquidity moved from a deficit in March to a surplus of Rs 1.4 lakh crore in April, aided by RBI's open market operations and forex interventions. The 10-year government bond yield fell to 6.24 per cent—its lowest level in nearly three years—reflecting easing inflation and a dovish policy stance.

CareEdge projects India's fiscal deficit at 4.4 per cent of GDP, the current account deficit at 1.1 per cent, and expects the RBI to cut rates further by 50 basis points during the year. The USD/INR is projected to trade between 88–89 by end-FY26.

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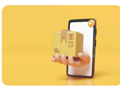

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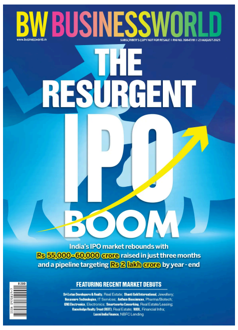

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