

India Outlook 2025: Turbulence globally but drivers remain local

While current global growth forecasts show stability, possible policy shifts in the US starting 20-Jan cloud visibility. Uncertainty in global trade and financial markets may remain elevated; we also expect higher global rates and USDINR volatility. However, the growth rebound we expect for India, with an above-consensus forecast of 7% in FY26, is primarily dependent on local policies. The 1HFY25 slowdown was driven by unintended fiscal and credit tightening: fiscal spending is already rising, and the CRR cut should ease growth headwinds due to shortage of money. Tailwinds from back-ended fiscal spending in FY25 and some further macro-prudential easing to help credit growth should help.

Exhibit: FY26E: India growth accelerates to 7%; inflation moderates to 4.5%

Key macro indicators	FY22	FY23	FY24	FY25E	FY26E
GDP growth (%)	9.7	7.0	8.2	6.6	7.0
Average CPI inflation (%)	5.5	6.7	5.4	4.8	4.5
Current account deficit % of GDP	1.2	2.0	0.7	0.8	1.1
Fiscal deficit (Gen. Govt.) % of GDP	8.7	8.8	8.0	7.3	7.0
Repo rate year-end	4.0	6.5	6.5	6.5	6.5
USD/INR year-end	75.81	82.22	83.37	85.5	86.5
10Y G-sec yield year-end	6.9	7.3	7.1	6.6	6.5

Source: Axis Bank Business and Economic Research

Turbulent global economic environment; domestic political stability

Global growth in CY25e is currently projected to be unchanged from CY24 at 3.2%, ~30-40 bps below pre-Covid levels. Under the new US President, with a mandate to course-correct (or disrupt) on trade, taxes, regulations, immigration and energy among others, possible policy pronouncements after 20-Jan-25 cloud visibility, as outcomes remain uncertain. Trade tariffs may be ineffective in isolation (fiscal deficits, FX, industrial policy matter too), but can disrupt, as nearly all trade growth post-2016 has been US (imports) & China driven (exports). In India, a nearly empty state-election calendar provides a window to push reforms.

Financial uncertainty, higher rates, USDINR volatility

Neutral rates have risen by 1pp+ across developed economies and may remain well above those seen last decade (more US tax cuts likely; rising supply of longer-term paper). In India, we do not see inflation easing quickly: over the longer term, core and food price indices move by similar quanta. Food relative to core and vegetables relative to food are both at cyclical highs currently, but the supply response may remain deficient given a demand boost from income-transfer schemes. GSec demand-supply should help reduce yields. We expect USDINR volatility to rise, though it would be unwise to expect USD strength to last the year.

Cyclical rebound to push growth back to trend

The 1H FY24 loss in momentum for the Indian economy, in our view, is cyclical, and due to unintended fiscal and monetary tightening; the latter due to a focus on macro stability risks which hurt credit growth. Fiscal spending is already rising and the CRR cut should ease growth headwinds due to shortage of money. We maintain that potential growth is 7%, with capital formation boosted by the restart of the capex cycle. We forecast an above-consensus 7% growth in FY26, with the tailwinds from back-ended fiscal spending in FY25, and some further macro-prudential easing to help re-accelerate credit growth.

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