Economic Outlook Survey

May 2025

HIGHLIGHTS

GDP growth estimated at 6.3 percent for 2025-26 & 6.8 percent for Q4 2024-25

CPI based inflation rate projected at 4.0 percent for 2025-26

- FICCI's latest Economic Outlook Survey puts forth an annual median GDP growth forecast for 2025-26 at 6.3 percent.
- The median growth forecast for agriculture and allied activities has been put at 3.8 percent for 2025-26; while industry and services sector are anticipated to grow by 5.7 percent and 6.8 percent, respectively.
- CPI based inflation has a median forecast of 4.0 percent for 2025-26, with a minimum and maximum range of 3.8 percent and 4.5 percent, respectively.
- Based on the responses of the participating economists, the median forecast for exports has been put at USD 450.0 billion and for imports at USD 741.1 billion in 2025-26.

Views of Economists

Monetary Policy Outlook

• The respondents unanimously agreed that the RBI is expected to implement another 25-basis point cut in June 2025, bringing the repo rate down to 5.75%.

• This anticipated move is widely viewed as a timely response considering escalating global uncertainties—including intensifying geopolitical tensions, evolving trade dynamics, and slowing global growth—all of which underscore the importance of maintaining domestic growth momentum.

• Favourable macroeconomic conditions—such as easing crude oil prices, and a multi-year low in headline inflation (April 2025)— reinforce the case for continued monetary accommodation. Regarding the outlook for the fiscal year 2025-26, participating economists expect that a normal monsoon and a strong Rabi harvest prospect should help sustain the eased inflationary pressures, creating room for further monetary easing.

• Majority of the participants expect a cumulative 50 basis point reduction in the repo rate over the remaining part of the fiscal year 2025-26, taking the repo rate to 5.5% by March 2026.

Consumption and Private Investment: Outlook and Policy Recommendations

• Participating economists expressed an optimistic outlook for near-term consumption, underpinned by improving capacity utilisation, uptick in rural demand and expected revival in urban demand. In addition, robust bank and corporate balance sheets are also expected to support recovery.

• Among the key drivers, economists cited the recent relief with respect to personal income tax under the new regime; enhanced allocations under key government schemes such as the Pradhan Mantri Awas Yojana (PMAY), Pradhan Mantri Gram Sadak Yojana (PMGSY), and continued support for MGNREGS; the anticipated rate cuts by the Reserve Bank of India (RBI) to reinforce consumption trends in FY 2025-26.

• Nonetheless, participating economists flagged downside risks which could weigh on consumer confidence – these included persistent global geopolitical uncertainty, external demand weakness, and potential weather-related disruptions.

• While Government's emphasis on public capital expenditure has played a critical role in driving growth post-pandemic, participating economists emphasised on the need to sustain momentum by continuing to undertake policy measures towards creating a conducive ecosystem for investors and sustaining household consumption. The following were the top five priorities indicated by the participants:

- **Enhancing the Effectiveness of Public Spending**: The participants stressed the need to fully utilise capital expenditure allocations in the budget to drive infrastructure development and crowd-in private investment. Economists highlighted the importance of accelerating project implementation, avoiding time and cost overruns, and building a robust pipeline of shovel-ready infrastructure projects.

- **Advancing State-Level Reforms**: Participating economists underscored the importance of advancing reforms at the state level. Many of the next generation reforms (land, labour) that lie in the state & concurrent domains and require consensus building need to be prioritised.

- **Strengthening Trade and Industrial Strategy**: Fast-tracking initiatives aimed at integrating India into global value chains, including the identification of priority sectors and export supply chains, is expected to enhance domestic manufacturing competitiveness. Also, strengthening Monitoring Systems to Mitigate Dumping Risks is important.

- **Revitalising Public Private Partnerships (PPPs)**: Participants advocated for improvements in project structuring, more balanced risk-sharing mechanisms, and efficient dispute resolution processes to attract greater private capital for large-scale infrastructure development.

- **Monetary Easing:** Further rate reductions by the RBI during FY2025-26 could lower financing costs, support corporate access to bond markets, and stimulate private sector capital formation.

<u>Impact of U.S. Tariff Policies on the Indian Economy: Implications and Way Forward</u>

• The recent announcement by the United States to impose reciprocal tariffs—potentially including a 26% duty on Indian goods— signals a significant shift towards global trade protectionism. In this context, the participating economists were invited to assess the potential implications of this move by the United States on India.

• While the immediate impact on India's exports is likely to be contained due to the deferral and the possibility of a rollback in future—the economists did flag underlying risks. The foremost concern is the likely moderation in global growth, which could weigh heavily on external demand for Indian goods and services. Another critical concern is the potential trade diversion. As access to the U.S. market becomes increasingly restricted for several economies, surplus goods may be redirected to alternative destinations, including India.

• On the FY26 GDP outlook in light of the proposed U.S. tariff policy, participating economists noted that India retains significant buffers owing to its domestic growth drivers. However, the participants also cautioned that prolonged global headwinds—including softer external demand and persisting trade uncertainty—are expected to weigh on exports and delay investment decisions. As a result, India's GDP growth in FY26 may witness a downward revision of 10–20 basis points, depending on how the external environment evolves.

• Despite the challenges, the evolving global trade landscape presents opportunities for India. Industries such as electronics, textiles, and toys are witnessing increased interest from global players. India's large domestic market, a growing manufacturing base, and targeted policies—particularly Production-Linked Incentive (PLI) schemes— reinforces its position to capitalize on these shifts.

• **Strategic Policy Priorities: Short to Medium Term**

1. Trade Engagements and Market Access: In the short term, India must fast-track the conclusion of a focused Free Trade Agreement (FTA) with the United States. Additionally, India should explore U.S. market opportunities traditionally dominated by Chinese exporters.

At the same time, India must continue to deepen its broader trade engagement. The conclusion of the India–UK FTA, progress in discussions with the EU, and countries including Chile and New Zealand reflect a strategic effort to diversify trade ties and build resilience against external shocks.

2. Supply Chain Security and Import Substitution: India must reduce critical import dependencies, especially in sectors vulnerable to global price shocks and policy shifts (e.g. electronic components, semiconductors, chips, critical minerals, etc.). This can be done by promoting domestic manufacturing as well as diversifying its sourcing strategies.

3. Structural Reforms to Boost Competitiveness: To build long-term resilience against trade disruptions and tariff volatility, India must address structural inefficiencies. Significant measures have been taken to align India's trade policy with global value chain – such as cutting import duties on critical inputs like EV components, and semiconductors. This balanced approach, which supports high-potential sectors while selectively easing access to global supply chains, marks a forward-looking shift in India's trade framework.

The participating economists are of the view that boosting India's export performance will require a comprehensive strategy:

- Modernizing of domestic industries with international certifications, global branding, and skill development, while also integrating MSMEs into global value chains.
- Promoting sector-specific clusters to enhance scale and readiness.
- Expanding credit guarantee schemes and reducing working capital costs for exporters.
- Improving port infrastructure, reduce turnaround times, and implement paperless customs to facilitate smoother trade.

Structural and institutional reforms must be prioritised. Key priorities include reducing the cost of doing business, simplifying the GST structure, and enhancing investment in skill development/education.

The budgetary announcement to establish a Deregulation Commission and the launch of the National Manufacturing Mission—focused on ease of doing business, skilling, MSME revitalization, technology adoption, and global competitiveness—are timely and necessary steps. Implementation of these initiatives must be expedited to improve Indian industry's competitiveness.

Survey Profile

The present round of FICCI's Economic Outlook Survey was conducted in the month of May 2025 and drew responses from leading economists across industry, banking and financial services sectors. The participating economists were asked to provide forecast for key macro-economic variables for the year 2025-26, along with estimates for the quarters and Q4 (January-March) of FY25 and Q1 (April-June) of FY26.

Economists were also invited to share their perspectives on key topical issues. Participants provided their assessment of the potential impact of U.S. tariff policies on the Indian economy and outlined short- to medium-term strategies to mitigate any adverse effects. Insights were also gathered on the likely stance of monetary policy in June 2025, as well as on trends in consumption and private investment, with accompanying policy recommendations.

Survey Results: Part A
Projections – Key Economic Parameters

National Accounts

GDP growth (Base year: 2011-12 prices)

	Annual 2025-26			Q4 FY25			Q1 FY26		
Growth (in %)	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**
GDP@ market prices	**6.3**	6.0	6.5	**6.8**	5.9	7.6	**6.4**	5.7	7.0
GVA@ basic prices	**6.2**	6.0	6.5	**6.5**	6.2	6.9	**6.4**	5.9	6.7
Agriculture & Allied activities	**3.8**	3.2	4.8	**5.5**	4.0	5.7	**4.5**	3.0	4.9
Industry	**5.7**	5.2	6.6	**5.6**	5.1	6.0	**6.0**	5.6	7.3
Services	**6.8**	6.3	7.6	**7.7**	6.1	7.9	**7.0**	6.3	7.7

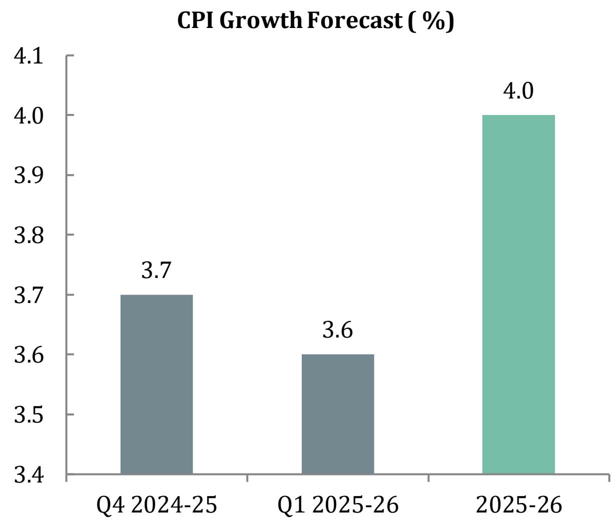
The latest round of FICCI's Economic Outlook Survey pegs India's GDP growth at a median forecast of 6.3% for 2025–26, with projections ranging between 6.0% and 6.5%. The estimate is lower than the 6.5% GDP growth estimate put out in the RBI's April 2025 Monetary Policy Statement.

While elevated global uncertainty—stemming from ongoing geopolitical tensions and tariff-related disruptions – has raised concerns, India's macroeconomic fundamentals remain strong and are expected to cushion these external headwinds. As such, Indian economy is likely to retain its position of being amongst the fastest-growing major economy in the world.

By sector, the agricultural and allied activities are expected to grow at a median rate of 3.8% in FY26. The industry and services sectors are projected to expand by 5.7% and 6.8%, respectively, in the current fiscal.

Improved rural demand, better consumer sentiment following budgetary personal income tax relief, a strong rabi harvest, and sustained momentum in the services sector are expected to support growth in the final quarter of FY25. GDP growth for Q4 FY25 is estimated at 6.8%—the highest quarterly print for the fiscal—following growth of 6.5%, 5.6%, and 6.2% in the first three quarters. For Q1 FY26, GDP growth is projected at 6.4%.

Consumer Price Index (CPI)

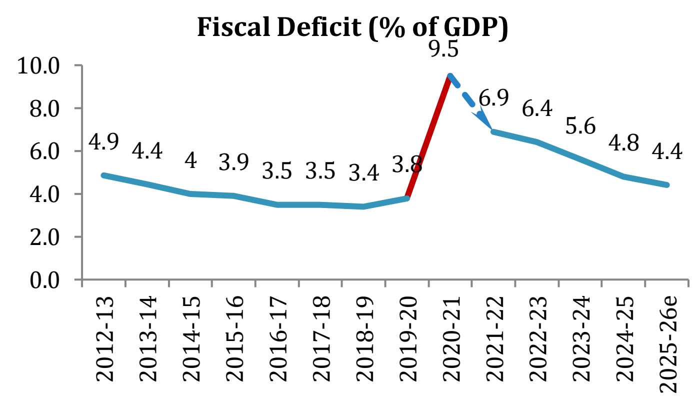


CPI based inflation has a median forecast of 4.0 percent for 2025-26, with a minimum and maximum range of 3.8 percent and 4.5 percent, respectively. This is in line with RBI's projection indicated in the latest monetary policy announcement in April 2025.

Retail inflation eased to a six-year low of 3.2 percent in April, driven by a sustained decline in the prices of cereals, pulses, and vegetables. Expectations of a normal monsoon, favourable kharif crop prospects, and subdued crude oil prices are likely to keep inflationary pressures under check for the current fiscal.

Fiscal Deficit

The median fiscal deficit to GDP ratio has been put at 4.4 percent for the fiscal year 2025-26 by the participants. This is in line with the targeted fiscal deficit for 2025-26 announced in the budget earlier this year in February.



*e- expected

Money & Banking

The Reserve Bank of India is projected to reduce the policy repo rate by 50 basis points to 5.50 percent by the end of fiscal year 2025-26. With inflationary pressures easing and global uncertainties—stemming from geopolitical tensions and trade disruptions—weighing on economic sentiment, the central bank appears inclined to adopt further rate cuts to sustain growth momentum.

	Q1 FY 26 (End, June 2025)	**2025-26 (End, March)**
Repo Rate	**5.75%**	**5.50%**

External Sector

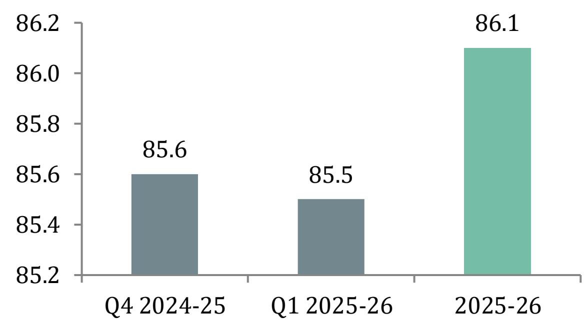
2025-26	Export	Import
USD billion	450.0	741.1
Growth (in %)	2.9	2.7

CAD as % of GDP	**End of 2025-26**
	1.1%

Based on the responses of the participating economists, the median forecast for exports has been put at USD 450.0 billion and for imports at USD 741.1 billion in 2025-26. CAD as percent of GDP is projected at 1.1% for the current fiscal year.

The participants expect the USD/INR exchange rate at 86.1 by the end of the current financial year.

USD/INR Exchange Rate



* end period

Survey Results: Part B
Views of Economists

Monetary Policy Outlook – June 2025 and Remainder of FY2025-26

The Reserve Bank of India (RBI) has cumulatively reduced the repo rate by 50 basis points so far this year (February 2025/ April 2025) and shifted its monetary policy stance from neutral to accommodative. Against this backdrop, participating economists were asked to share their outlook for the June 2025 policy review and the scope for further rate cuts over the remainder part of the current fiscal year.

There was unanimous agreement among respondents that the RBI is expected to implement another 25-basis point cut in June 2025, bringing the repo rate down to 5.75%. This anticipated move is widely viewed as a timely response considering escalating global uncertainties— including intensifying geopolitical tensions, evolving trade dynamics, and slowing global growth—all of which underscore the importance of maintaining domestic growth momentum.

Economists highlighted the back-to-back rate reductions in February and April 2025, along with the shift in policy stance, as a signal of the central bank's pro-growth intent. The recent communication from the Monetary Policy Committee (MPC) has been notably dovish, suggesting an emphasis on continuing a supportive stance as long as inflation remains within the target range.

Favourable macroeconomic conditions—such as easing crude oil prices, and a multi-year low in headline inflation (April 2025)— reinforce the case for continued monetary accommodation. Regarding the outlook for the fiscal year 2025-26, participating economists expect that a normal monsoon and a strong Rabi harvest prospect should help sustain the eased inflationary pressures, creating room for further monetary easing.

A majority of the participants expected a cumulative 50 basis point reduction in the repo rate over the remaining part of the fiscal year 2025-26, taking the repo rate to 5.5% by March 2026.

Consumption and Private Investment: Outlook and Policy Recommendations

With industrial production growth easing to a six-month low of 2.7% in February 2025, participating economists were asked to share their near-term outlook on consumption and recommend policy measures to revive household spending and private investment.

Outlook for Consumption

Participating economists expressed an optimistic outlook for near-term consumption, underpinned by encouraging domestic indicators as evidenced in healthy Purchasing Managers' Indices (PMIs) across manufacturing and services sector, improving capacity utilisation, uptick in rural demand and expected revival in urban demand. In addition, robust bank and corporate balance sheets are also expected to reinforce recovery.

Among the key drivers expected to support household consumption in FY2025-26, economists cited the recent restructuring of personal income tax under the new regime, which is likely to lift disposable incomes, particularly for middle-income households. While a portion of this additional income may be channelled towards savings or debt repayment, economists believed the net impact is likely to be supportive of consumption in FY2025-26.

Enhanced allocations under key government schemes such as the Pradhan Mantri Awas Yojana (PMAY), Pradhan Mantri Gram Sadak Yojana (PMGSY), and continued support for MGNREGS are also expected to stimulate consumption in the rural sector. Moreover, expectations of normal monsoon will help ensure good agriculture growth and contain food inflation.

The anticipated rate cuts by the Reserve Bank of India (RBI) were cited as another supportive factor by the participants. Lower borrowing costs would support consumer demand for housing, automobiles as well as consumer durables.

Nevertheless, economists also flagged downside risks which could weigh on consumer confidence – these included persistent global geopolitical uncertainty, external demand weakness, and potential weather-related disruptions.

Policy measures to revive Consumption and Investment

While Government's emphasis on public capital expenditure has played a critical role in driving growth post-pandemic, participating economists emphasised on the need to sustain momentum by continuing the policy measures towards creating a conducive ecosystem for investors and sustaining household consumption. The following were the top five priorities indicated by the participants:

1. Enhancing the Effectiveness of Public Spending: Economists stressed the need to fully utilise the capital expenditure allocations in the budget to drive infrastructure development and crowd-in private investment. Economists highlighted the importance of accelerating project implementation, avoiding time and cost overruns, and building a robust pipeline of shovel-ready infrastructure projects. Additionally, passing on the benefit of declining global crude oil prices to domestic consumers through excise duty cuts would help lower fuel prices for consumers and give a boost to demand.

2. Advancing State-Level Reforms: Participating economists underscored the importance of advancing reforms at the state level, particularly in areas such as land acquisition, labour law flexibility, and further simplification of ease of doing business measures to facilitate private sector investments. Many of the next generation reforms that lie in the state & concurrent domains and require consensus building need to be prioritised.

3. Strengthening Trade and Industrial Strategy: Fast-tracking initiatives aimed at integrating India into global value chains, including the identification of priority sectors, is expected to enhance domestic manufacturing competitiveness. Respondents also underscored the importance of a predictable regulatory environment and the removal of sector-specific bottlenecks to strengthening investor confidence/unlocking investments. Also, strengthening Monitoring Systems to Mitigate Dumping Risks is important.

4. Revitalising Public Private Partnerships (PPPs): Strengthening the Public–Private Partnership (PPP) framework was deemed critical. Economists advocated for improvements in project structuring, more balanced risk-sharing mechanisms, and efficient dispute resolution processes to attract greater private capital for large-scale infrastructure development.

5. Monetary Easing: Further rate reductions by the RBI during FY2025-26 could lower financing costs, support corporate access to bond markets, and stimulate private sector capital formation. In the current environment of easing inflation, additional monetary accommodation could complement fiscal and structural measures to drive investment and growth.

Impact of U.S. Tariff Policies on the Indian Economy: Implications and Way Forward

The recent announcement by the United States to impose reciprocal tariffs—potentially including a 26% duty on Indian goods— signals a significant shift towards global trade protectionism. Although the implementation has been deferred by 90 days and will be applicable from 9th July, the move has added uncertainty into international trade dynamics and amplified global market volatility. In this context, the participating economists were invited to assess the potential implications of this move by the United States on India.

While the immediate impact on India's exports is likely to be contained due to the deferral and the possibility of a rollback in future—the economists did flag underlying risks. The foremost concern is the likely moderation in global growth, which could weigh heavily on external demand for Indian goods and services. In fact, reflecting on these concerns, the International Monetary Fund (IMF) has recently revised its global GDP growth projection downward by 50 basis points to 2.8% for 2025, citing weaker trade prospects and policy uncertainty.

Another critical concern is the potential for trade diversion. As access to the U.S. market becomes restricted for several nations, surplus goods may be redirected to alternative destinations, including India. This influx could heighten competition, compress margins, and exert pressure on domestic manufacturers. Additionally, rising investor caution, increased capital flow volatility, and greater exchange rate fluctuations could further complicate India's macroeconomic management, reinforcing the need for calibrated and forward-looking policy responses.

India's Growth Outlook: Resilience with Caution

On the FY26 GDP outlook in light of the proposed U.S. tariff policy, participating economists noted that India retains significant buffers owing to its domestic growth drivers. Factors such as easing inflation, personal income tax relief, and continued emphasis on public capital expenditure are expected to help sustain economic momentum.

However, economists also cautioned that prolonged global headwinds—including softer external demand and persisting trade uncertainty—are expected to weigh on exports and delay investment decisions. As a result, India's GDP growth in FY26 may see a marginal downward revision of 10–20 basis points, depending on how the external environment evolves.

Opportunities Amid Shifting Trade Dynamics

Despite the challenges, the evolving global trade landscape presents opportunities for India.

Industries such as electronics, textiles, and toys are witnessing increased interest from global players. India's large domestic market, a growing manufacturing base, and targeted policies—particularly Production-Linked Incentive (PLI) schemes— reinforces its position to capitalize on these shifts.

Strategic Policy Priorities: Short to Medium Term

1. Trade Engagements and Market Access: In the short term, India must fast-track the conclusion of a focused Free Trade Agreement (FTA) with the United States. Ongoing negotiations aim to finalize the agreement by Fall 2025, with an emphasis on securing duty concessions in key export sectors such as textiles, garments, gems and jewelry, leather goods, chemicals, and marine products.

At the same time, India must continue to deepen its broader trade engagement. The conclusion of the India–UK FTA, progress in discussions with the EU, and with countries including Chile and New Zealand reflect a strategic effort to diversify trade ties and build resilience against external shocks.

2. Supply Chain Security and Import Substitution: India must reduce critical import dependencies, especially in sectors vulnerable to global price shocks and policy shifts (e.g. electronic components, semiconductors, chips, critical minerals, etc.). This can be done by promoting domestic manufacturing as well as diversifying its sourcing strategies.

3. Structural Reforms to Boost Competitiveness: To build long-term resilience against trade disruptions and tariff volatility, India must address structural inefficiencies. Significant measures have been taken to align India's trade policy with global value chain – such as cutting import duties on critical inputs like EV components, and semiconductors. This balanced approach, which supports high-potential sectors while selectively easing access to global supply chains, marks a forward-looking shift in India's trade framework.

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Structural and institutional reforms must be prioritised. Key priorities include reducing the cost of doing business, simplifying the GST structure, and enhancing investment in skill development/education.

The budgetary announcement to establish of a Deregulation Commission and the launch of the National Manufacturing Mission—focused on ease of doing business, skilling, MSME revitalization, technology adoption, and global competitiveness—are timely and necessary steps. Implementation of these initiatives must be expedited to improve Indian industry's competitiveness.

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