



2025: A Defining Year for India's Growth

India's Goldilocks Moment: High Growth, Low Inflation

December 29th, 2025

Key Takeaways

- India's **real GDP grew 8.2% in Q2 FY 2025-26**, up from 7.8% in Q1 and 7.4% in Q4 of FY 2024-25.
- **In November 2025**, the unemployment rate reduced to 4.7% vs. 5.2% in October 2025, making it the lowest level since April 2025 (5.1%).
- **CPI inflation** progressively softened to 0.71% in November 2025 from 4.26% in January 2025
- **Merchandise exports** expanded to **US\$ 38.13 billion in November, 2025 compared to US\$ 36.43 billion** in January 2025.

Growth, Stability, Confidence: The Tripod Stand of Indian Economy

India is among the **world's fastest-growing major economies** and is well-positioned to sustain this momentum. With the ambition of attaining **high middle-income status by 2047**- the centenary year of its independence- the country is building on strong foundations of economic growth, structural reforms, and social progress.

As per IMF's World Economic Outlook Report of April 2025, India with a GDP of USD 4.18 had surpassed Japan to become the world's fourth-largest economy and is poised to displace Germany from the third rank in the next 2.5 to 3 years with projected GDP of USD 7.3 trillion by 2030. The growth momentum further surprised on the upside, with **GDP expanding to a six-quarter high in Q2 of 2025-26**, reflecting India's resilience amid persistent global trade uncertainties. Domestic drivers-led by robust private consumption-played a central role in supporting this expansion.

High-frequency indicators point to sustained economic activity: inflation remains below the lower tolerance threshold, unemployment is on a declining trajectory, and export performance continues to improve. Furthermore, **financial conditions have stayed benign**, with strong credit flows to the

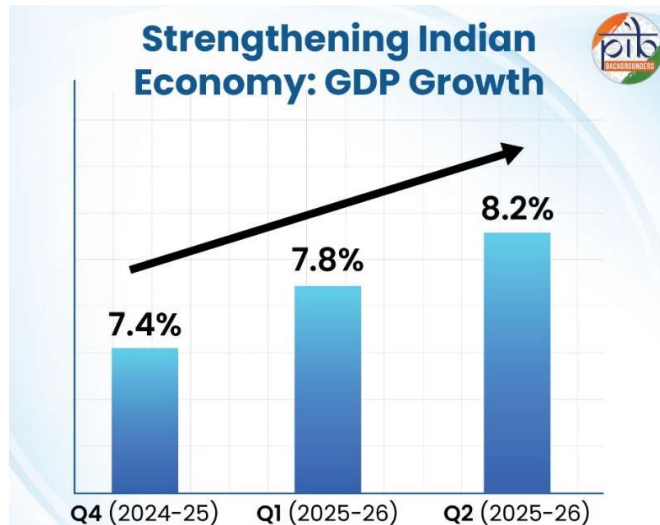
commercial sector, while demand conditions remain firm, supported by a further strengthening of urban consumption.

Growth Momentum Strengthening

India's **real GDP grew 8.2% in Q2 FY 2025-26**, up from 7.8% in the previous quarter and 7.4% in Q4 of 2024-25, led by resilient domestic demand amidst global trade and policy uncertainties. **Real gross value added (GVA) expanded by 8.1%**, catalysed by buoyant industrial and services sectors.

The RBI revised India's GDP growth forecast for FY 2025-26 upwards to 7.3% from the earlier estimate of 6.8%.

India's domestic growth is on an upward trajectory owing to multiple factors such as- robust domestic demand, income tax and goods and services tax (GST) rationalisation, softer crude oil prices, front-loading of Government capital expenditure (CAPEX), along with facilitative monetary and financial conditions, supported by benign inflation.



Source: Ministry of Statistics and Program Implementation

Looking ahead, **domestic drivers**- favourable agricultural prospects, the sustained effects of GST rationalisation, benign inflation, and the strong balance sheets of corporates and financial institutions- coupled with supportive monetary and financial conditions, **are expected to continue bolstering the economic activity**. **External factors** such as services exports are projected to remain robust, while the swift conclusion of current trade and investment negotiations offers additional upside potential. Ongoing reforms are **likely to further enable growth prospects**. Present macro-economic situation presents a rare **"goldilocks period"** of high growth and low inflation.

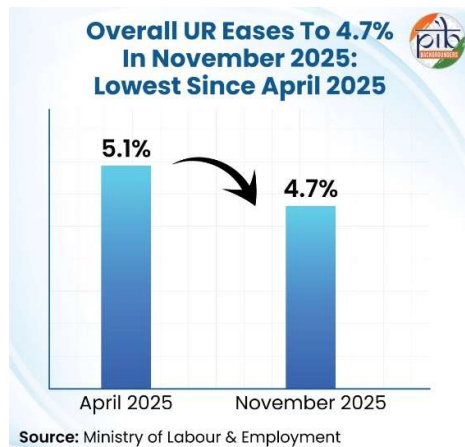
Falling Unemployment Rates

Employment is the critical bridge between growth and prosperity. In India, where ~26% of the population is aged 10–24, this demographic moment presents a once-in-a-generation opportunity. As one of the world's youngest nations, India's growth story is being shaped by its ability to generate quality employment that productively absorbs its expanding workforce and delivers inclusive, sustainable growth.

Tracking employment trends is central to effective policymaking. To this end, the National Statistics Office launched the **Periodic Labour Force Survey (PLFS)** in 2017–18, offering timely insights into key labour indicators such as **Labour Force Participation Rate (LFPR)**, **Worker Population Ratio (WPR)**, and **Unemployment Rate (UR)**. Notably, the 2025 PLFS shows a sharp decline in unemployment alongside marked improvements in participation and worker population ratios, signalling strengthening employment conditions.

Unemployment on a Downward Trajectory

Declining unemployment trends have persisted in India, indicating stronger workforce absorption into productive employment.



Unemployment rate (UR) is the proportion of the labour force that does not have employment and is seeking and/or available for work.

Unemployment closely mirrors the pace of economic activity- two sides of the same coin.

As growth accelerates, higher production of goods and services creates greater demand for labour, leading to more job opportunities and lower unemployment. In this context, **India's declining unemployment reflects the strength of its economic momentum.** With growth set to remain robust, India's improving employment outcomes underscore the virtuous cycle between sustained growth and job creation.

- **In November 2025**, the UR for persons aged 15 and above (following CWS) reduced to 4.8% vs. 5.4% in October 2025, making it the lowest level since April 2025 (5.1%). The decline is largely driven by a sharp fall in UR among women. UR among urban women declined from 9.7% to 9.3% while for rural women, it declined from 4.0% to 3.4%.
- Overall, Rural UR fell to a new low of 3.9%, while the urban UR decreased to 6.5%.

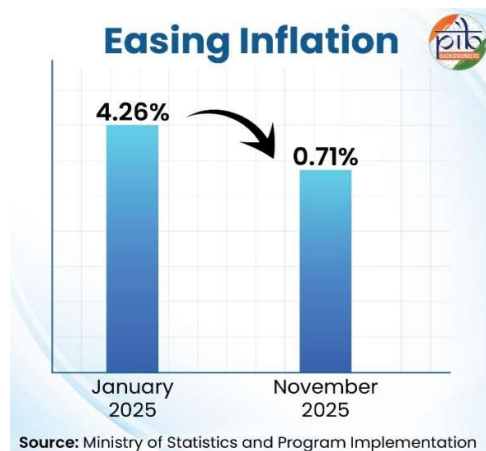
Rising Labour Force and Worker Participation

With unemployment levels at record lows, the other two major indicators- LFPR & WPR (following CWS) also show promise of a strengthening and inclusive labour market.

- **LFPR** is the percentage of persons in labour force (i.e. working or seeking or available for work) in the population. **A rising LFPR signals improving labour market engagement**, as more people are entering the workforce. The overall LFPR for persons aged 15 & above rose to a seven-month high of 55.8% in November 2025 (54.2% in June 2025).
- **WPR** is the percentage of employed persons in the population. **An increasing WPR is a key indicator of how many people are actually working and not unemployed.** The overall WPR for persons aged 15 & above improved to 53.2% in November 2025, up from 52.5% in October and 51.2% in June 2025.

These trends indicate strengthening labour market conditions, supported by gains in rural employment, rising female participation, and a gradual recovery in urban labour demand.

Inflation Eases Significantly in 2025



Consumer price index (CPI) is the change in the price of a basket of goods and services that are typically purchased by specific groups of households. In 2025, India experienced an overall **benign inflation environment**. CPI inflation at the starting of the year was 4.26% in January and progressively softened through mid-year, before easing further to multi-year lows in the second half of the year. In June, CPI inflation was reported at 2.10%, well within the RBI's medium-term inflation target of 4% Consumer Price Index (CPI), with a tolerance band of $\pm 2\%$. Headline CPI tracked a downward trajectory and reached historic lows around

0.25% in October. The faster than anticipated decline in inflation was led by correction in food prices¹⁵, contrary to the usual trend witnessed during the months of September-October. **By November, CPI inflation edged up to 0.71%, underscoring sustained price stability across broad consumption baskets.**

RBI has also lowered its CPI inflation forecast for FY 2025–26 to 2.0%, down from 2.6%.

CPI inflation for FY 2025-26 is projected at 2%, comfortably within the RBI's target range of 2–6%. The quarterly inflation path for FY26 indicates 0.6% in Q3 followed by 2.9% in Q4. For FY27, it is projected at 3.9% in Q1 and 4.0% in Q2.

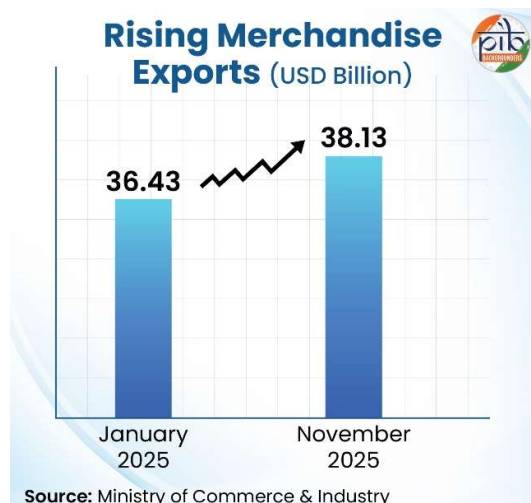
In the backdrop of evolving macroeconomic and financial developments, RBI has reduced **the policy repo rate by 25 basis points to 5.25% with a neutral stance**. It signals growth-inflation balance, owing to a benign inflation outlook on both headline and core level, that continues to provide the policy space to support the growth momentum. The overall inflation path in 2025 reaffirmed the effectiveness of India's inflation-targeting framework, with CPI outcomes remaining comfortably within the RBI's prescribed band throughout most of the year.

Wholesale price dynamics in 2025 also mirrored this trend of moderated inflation. The **WPI inflation** which is a measure of average wholesale price movement for the economy, started the year positively at 2.31% in January, supported by higher prices of manufacture of food products, food articles, other manufacturing, non-food articles and manufacture of textiles etc. From April's low inflation of 0.85%, WPI inflation oscillated between mild positive readings, culminating in a provisional **-0.32% annual WPI inflation rate in November 2025**. **These developments underscore the overall softening of price pressures at both retail and wholesale levels, contributing to a conducive macroeconomic environment for policy calibration and growth.**

Trade Performance Improves

In **January 2025**, India's foreign trade started the year on a solid footing with total exports (merchandise and services combined) estimated at **US\$ 74.97 billion**, registering a growth of **9.72%**

over January 2024. By **June 2025**, cumulative exports (April-June 2025) reached **US\$ 210.31 billion** (up 5.94%), while non-petroleum exports also maintained a positive momentum. These early and mid-year trends demonstrated steady export expansion and diversified external demand. By **November 2025**, the year's trade trajectory reflected sustained external sector engagement.



India's **merchandise export performance in 2025** strengthened across major product groups and global markets. In the beginning, with exports valued at **US\$ 36.43 billion in January 2025**, Indian exporters built on diversified demand conditions to sustain outward shipments throughout the year. Supported by strong contributions from sectors such as **engineering goods, electronic goods, pharmaceuticals, gems & jewellery, and petroleum products**, merchandise exports maintained a positive momentum, reflecting competitiveness of Indian manufacturing and trade linkages with global value chains. By **November 2025**, merchandise

export value rose to **US\$ 38.13 billion**, illustrating a consistent uptrend in external sector performance even during global trade disruptions.

The merchandise commodities which contributed to the resilient export growth in 2025 were cashew, marine products, other cereals, electronic goods, engineering goods and petroleum products, experiencing more than 10% growth in 11 years.

Merchandise Export Growth in 2025 (In USD Million)			
Commodities	Jan'2025	Nov'2025	Growth
Cashew	34.93	57.42	64.39%
Marine Products	540.75	877.65	62.30%
Other Cereals	28.36	37.53	32.33%
Electronic Goods	4105.46	4813.66	17.25%
Engineering Goods	9418.06	11012.20	16.93%
Coffee	115.73	134.83	16.50%
Petroleum Products	3561.76	3931.52	10.38%
Ceramic Products and Glassware	326.43	355.17	8.80%
Spices	343.01	358.46	4.50%
Fruits and Vegetables	303.16	314.47	3.73%

By strengthening trade partnerships with the **United Kingdom, Oman, and New Zealand** in 2025, India broadened its global export footprint and enhanced access to emerging markets for its exports. Since January, 2025 India boosted its trade with **China, Hong Kong, Brazil, Italy, France, Australia, United Arab Emirates, Belgium, Germany** and many others, while focusing on trade diversification.

Services exports remained a major pillar of resilience, expanding by **8.65%** to an estimated USD 270.06 billion in April-November 2025 from USD 248.56 Billion in April-November 2024, underscoring India's growing global competitiveness in computer services and business services. Overall, **the export sector continues to reinforce India's economic stability and growth outlook.**

External Sector Shows Resilience

India's external sector remains resilient. With robust services exports and strong remittances, the **current account deficit (CAD) moderated from 2.2% of GDP in Q2: FY 2024-25 to 1.3% in Q2:2025-26.** Additionally, inward remittances increased by 10.7% (y-o-y) in Q2:2025-26. The positive outlook of services exports coupled with rising inward remittances are expected to keep CAD modest during 2025-26.

As on November 28, 2025, India's foreign exchange reserves stood at US\$ 686.2 billion, providing a robust import cover of over 11 months.

On the external financing side, Foreign Direct Investment (FDI) captured great momentum during the first half of the year. For the time frame April to September 2025-26 vis-à-vis the same period a year ago; while **Gross FDI grew by 19.4% to US\$ 51.8 billion from US\$ 43.4 billion, Net FDI increased by 127.6% to US\$ 7.7 billion from US\$ 3.4 billion.** The significant increase is attributed to a decline in repatriation, despite a rise in outward FDI.

Foreign portfolio investment (FPI) to India recorded net outflows of US\$ 0.7 billion in 2025-26 so far (April-December 03), due to outflows in the equity segment.

Besides, **flows under external commercial borrowings and non-resident deposit accounts moderated** to US\$ 6.2 billion during April-October 2025-26 from US\$ 8.1 billion a year ago. Non-resident deposits recorded net inflows of US\$ 6.1 billion in April-September 2025-26, lower than US\$ 10.2 billion in the same period last year.

Broad-Based Momentum Reinforces India's Growth Story

India's growth outlook remains buoyant, with global and domestic institutions upgrading their assessments on the back of strong economic fundamentals. Reflecting broad-based momentum across key sectors, the **Reserve Bank of India revised its GDP growth projection** for FY 2025–26 upward from 6.8% to 7.3%.

International agencies have echoed this optimism: the **World Bank** projects 6.5% growth in 2026; **Moody's** expects India to remain the fastest-growing G20 economy with growth of 6.4% in 2026 and 6.5% in 2027; the **IMF** has raised its projections to 6.6% for 2025 and 6.2% for 2026; the **OECD** forecasts 6.7% growth in 2025 and 6.2% in 2026; **S&P** anticipates growth of 6.5% in the current fiscal and 6.7% in the next; the **Asian Development Bank** has lifted its 2025 forecast to 7.2%; and **Fitch** has raised its FY26 projection to 7.4% on stronger consumer demand.

Together, sustained international confidence along with robust domestic demand, falling unemployment, and easing inflation, position the country well to advance steadily towards its **2047 development goals.**

PIB Research

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