



dun & bradstreet

ECONOMY OBSERVER



July 2025

India's IIP: Recent Trends and the Road Ahead

India's latest IIP print for May 2025 showed a modest 1.2% y/y expansion, down from 2.6% the previous month. While industrial output has cooled, it hasn't derailed—we expect a sharper rebound in June, with growth likely to pick up to around 5%. Importantly, capital goods continued to register double-digit growth, reinforcing the view that investment demand remains healthy even as consumption lags.

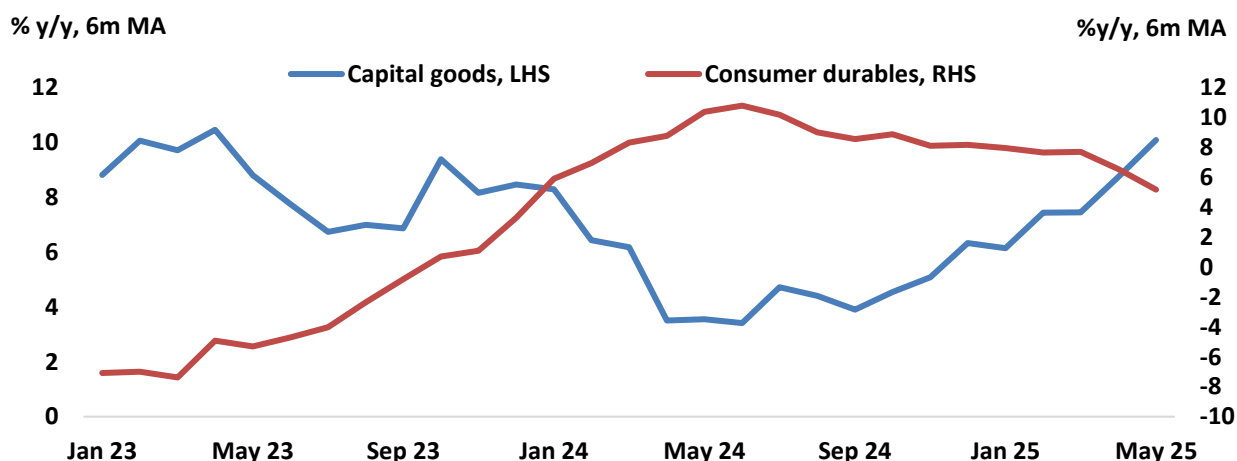
This monthly dip comes against a broader backdrop of cautious optimism. A business survey for Q3 2025 conducted by Dun & Bradstreet shows growing confidence in the domestic economy, despite a more pessimistic view of global conditions. Notably, more than half of respondents cited India as their top fallback destination in the event of worsening trade frictions. That's a strong signal of how India's internal market and policy environment are being perceived—as a hedge against rising global unpredictability. Yet nearly half also expect trade tensions to escalate or remain unchanged, underlining the persistent uncertainty firms are navigating.

And that global unpredictability isn't abstract. Recent weeks have seen a tightening of raw material supply chains, most visibly in rare-earth magnets—where export controls from the Chinese Mainland forced several Indian and global manufacturers to scramble for alternative sources. The disruption even briefly impacted Indian EV production schedules. Meanwhile, conflicts in the Middle East nudged up oil prices and reminded industries of the fragility of energy security. While the domestic economy has absorbed these shocks relatively well, they underscore how vulnerable parts of Indian industry still are to imported risks.

The policy response has been broadly aligned with the needs of the moment. The RBI's 50bps rate cut in June, alongside a phased 100bps CRR reduction, has decisively pivoted monetary policy in support of growth. With headline inflation now running below 3%, well within the central bank's comfort zone, there is room for further accommodation. We expect at least one more 25bps rate cut before the end of the year. This would help sustain financial conditions conducive to capex and working capital, particularly for mid-size firms that are still grappling with higher costs and tighter margins.

Fiscal and industrial policy, too, have shown a degree of agility. The government has put in measures to incentivize domestic rare-earth production and re-evaluate supply chains, especially in high-dependency sectors like electronics, autos, and clean energy. The convergence of industrial policy and macro support is encouraging schemes like PLI and the increase in focus on infrastructure continue to work in tandem with monetary easing, helping capital-intensive sectors maintain momentum. But gaps remain. While capex-heavy segments are outperforming, consumer-facing industries—especially consumer durables and non-durables—remain weak. A more targeted policy approach is needed to stimulate household consumption, especially in rural and semi-urban markets. Here, micro-credit access, logistics investment, and GST simplification could all help revive demand at the bottom of the pyramid.

Chart: Capital-intensive manufacturing outpacing consumer-driven segments



Source: MOSPI, Haver analytics

There is also a broader point: India's current industrial phase is being supported more by investment than by broad-based consumption or exports. That leaves the cycle somewhat vulnerable to either global shocks or a slowdown in public infrastructure spending. For the recovery to sustain and broaden, it must be underpinned by stronger domestic demand and deeper supply-side reforms—particularly in areas like land, labor, and logistics. Still, the direction of travel is reassuring. Industrial growth may be uneven, but it is not stalling. The investment cycle appears to be intact, policy is countercyclical, and business sentiment remains broadly constructive. If external shocks are managed and consumer demand revived, India could move toward a more balanced industrial recovery in the coming quarters.

Latest Economy Observer report reveals improvements across industrial activity, cooling inflation, and improving borrowing

Dr. Arun Singh, Global Chief Economist, Dun & Bradstreet said, “India’s economy is building momentum, and there is much to be optimistic about. Manufacturing is expected to strengthen, driven by resilient domestic demand and government incentives in place. Inflationary pressures are also easing, due to favorable food supply dynamics, proactive government interventions, and stable energy costs. Monetary policy remains supportive, with recent rate cut and easing measures to enhance credit flow and reduce borrowing costs, particularly for small businesses and consumers. Financial markets are stable, reflecting improved investor sentiment and liquidity conditions. On the external front, conditions remained comparatively stable, underpinned by strong services exports and sustained capital inflows, despite global uncertainties. Together, these dynamics reflect a resilient macroeconomic foundation, with domestic demand and supportive policies poised to drive near-term growth.”

POSITIVE

- Revival in manufacturing and capital goods expected to be supported by tax exemptions and consumer demand.
- India’s foreign exchange reserves reached \$645 billion, providing a strong buffer against external shocks.
- Services exports hit a record \$387.5 billion in FY25, led by strong growth in IT and professional services.
- Launch of E-Way Bill Portal 2.0 and GSTR-3B reforms enhanced tax compliance and digital governance.
- Wholesale inflation (WPI) dropped to 0.1% in June, reflecting soft input costs.
- RBI extended call money market hours to improve liquidity access and operational flexibility.

NEGATIVE

- India’s merchandise trade deficit widened to \$283 billion in FY25, driven by gold and crude oil imports.
- IIP growth slowed to 1.2% y/y in May 2025, signaling a muted industrial activity.
- RBI’s shift to a “neutral” policy stance from “accommodative” signals a moderation in easing monetary conditions
- Rising industrial metal prices (e.g., copper, aluminum) pose risks to input costs and margins.
- Urban inflation outpaced rural inflation in May, indicating uneven cost pressures across regions.
- Imports continue to outpace exports, especially from FTA partners like UAE and China.

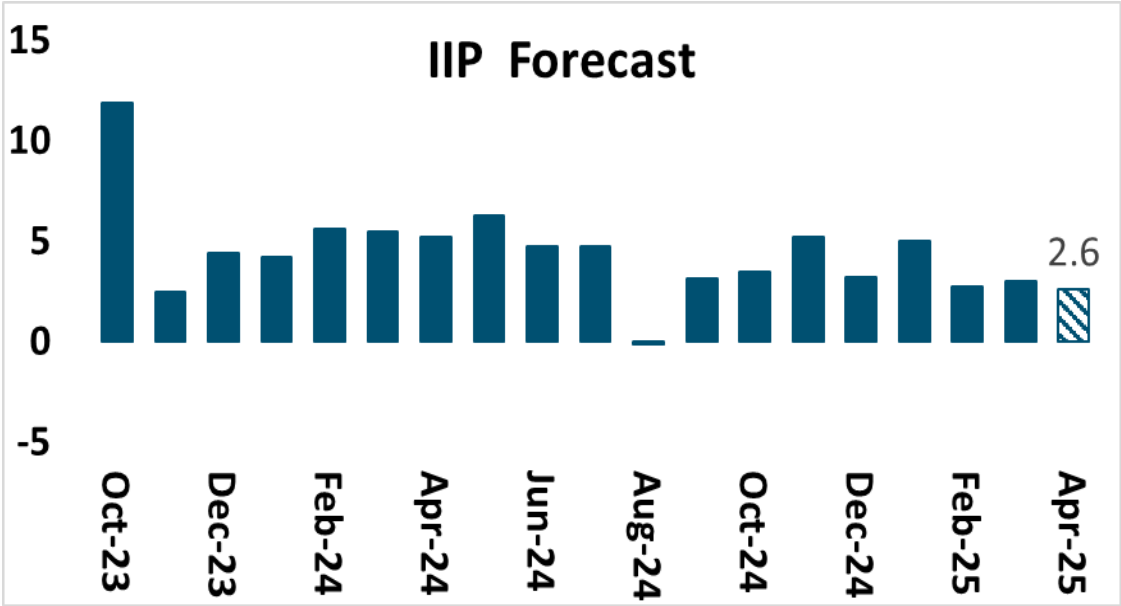
D&B's Economy Observer Forecast			
Variables	Forecast**	Latest Period	Previous period
IIP Growth	5.0% (June 25)	1.2%(May-25)	2.7% (April-25)
Inflation WPI	0.1% (June 25)	0.4% (May 25)	0.9% (April 25)
CPI (Combined)	1.6% (June 25)	2.8% (May-25)	3.2% (April-25)
91-day T-Bills*	5.6% (June 25)	5.8% (May-25)	6.0% (April-25)
10-year G-Sec Yield*	6.2% (June 25)	6.3% (May-25)	6.5% (April-25)
Bank Credit	9.6% (June 25)	9.0% (May-25)	11.6 % (April-25)
Exchange Rate (INR/USD) *	86.0 (July 25)	85.9 (June-25)	85.2 (May-25)

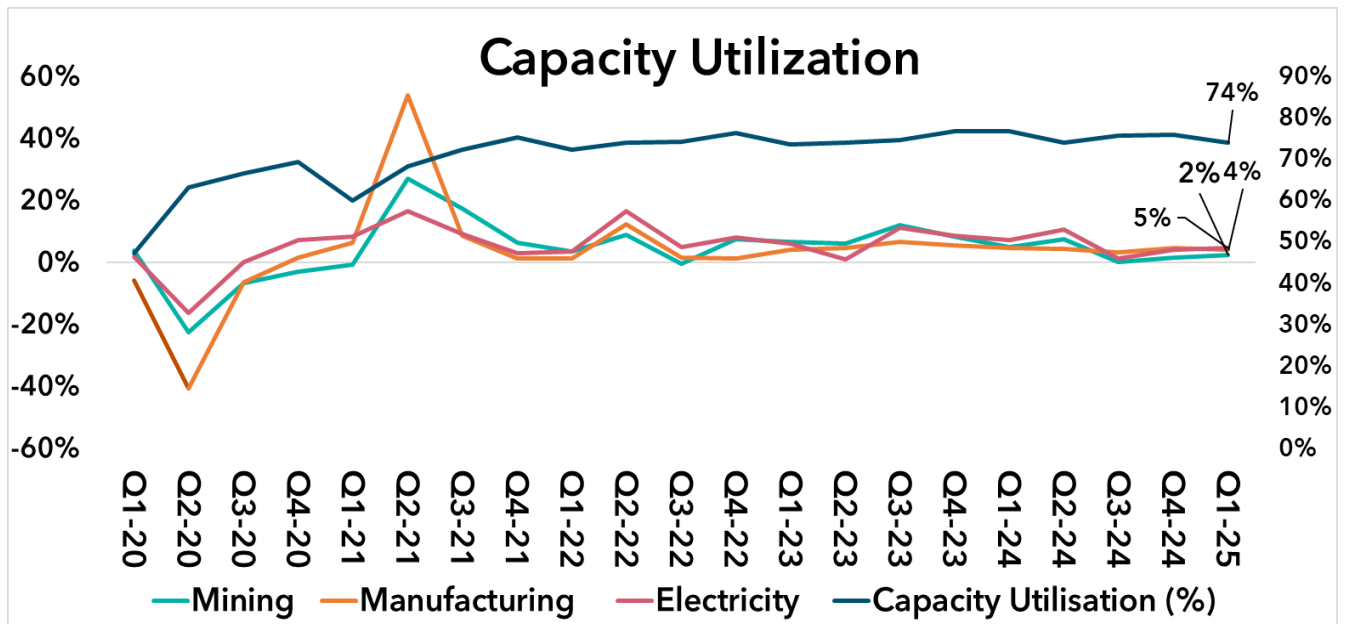
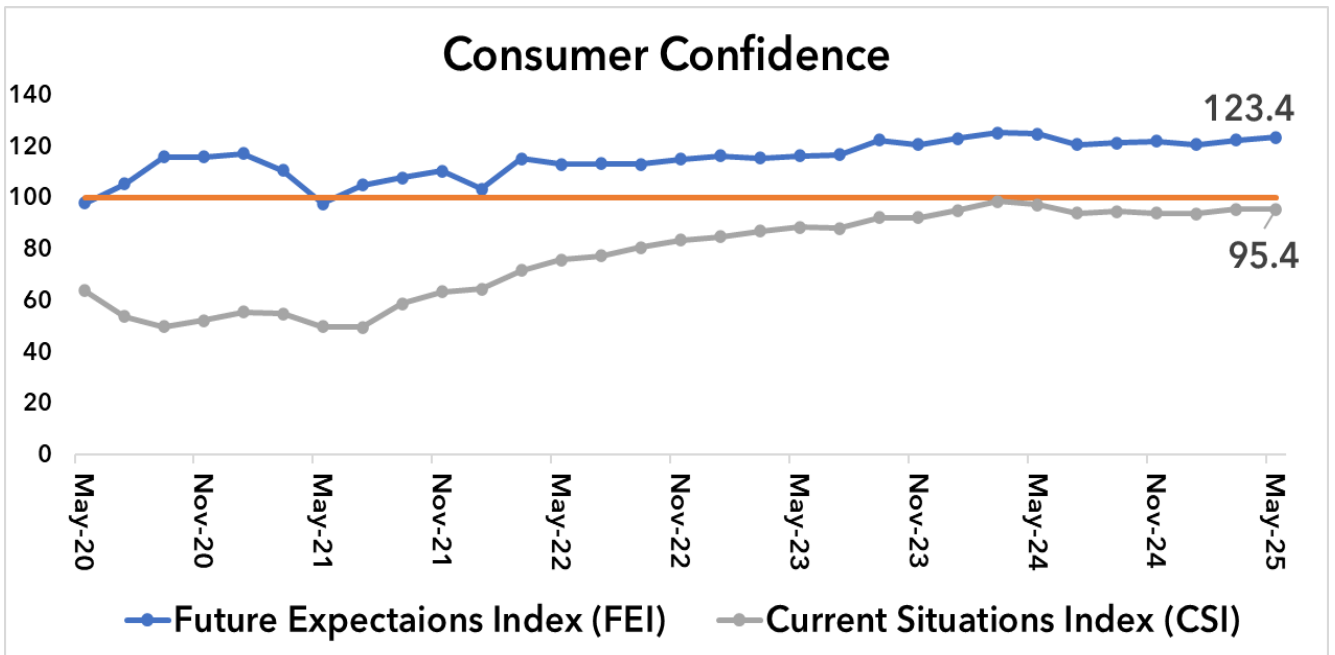
*Weekly Average ** Dun and Bradstreet Forecast

Real Economy

- Dun & Bradstreet indicates an acceleration in the Index of Industrial Production (IIP), expected to have risen by 5.0% y/y in June 2025, following an increase of 1.2% y/y in May. This surge is expected to be led by strong performance in manufacturing and coal production sectors.
- The manufacturing sector is being buoyed by rising consumer demand, tax exemptions introduced in April 2025, and a revival in key segments such as consumer durables and capital goods.
- Coal output has seen a substantial increase, supported by improved logistics and proactive restocking by core industries to meet the growing needs of industrial activity.
- Urban consumption is rebounding in July 2025, driven by a surge in discretionary spending especially on electronics, apparel, and travel fueled by seasonal demand and improved consumer sentiment in metro cities
- From an economic governance perspective, the rollout of non-editable GSTR-3B returns and the three-year filing cut-off rule from July and August 2025 respectively, signal a push toward greater tax compliance and transparency. These reforms are expected to reduce tax evasion, improve GST collections, and enhance fiscal space for public investment.
- The launch of E-Way Bill Portal 2.0 on July 1, 2025, marks a significant step forward in India’s digital public infrastructure. With real-time integration, enhanced API access, and improved logistics tracking, the upgrade aligns with the broader Digital India vision of streamlining compliance and reducing manual intervention.

India’s near-term industrial outlook is gaining momentum despite recent volatility. June reflects the resilience of domestic demand and the effectiveness of recent policy measures. As global supply chains continue to shift, India remains well-positioned to benefit from diversification trends, with increased manufacturing activity and sector-specific recoveries reinforcing the broader growth narrative. The latest tax and digital reforms further strengthen the institutional framework, supporting investor confidence, formalization, and long-term economic resilience.

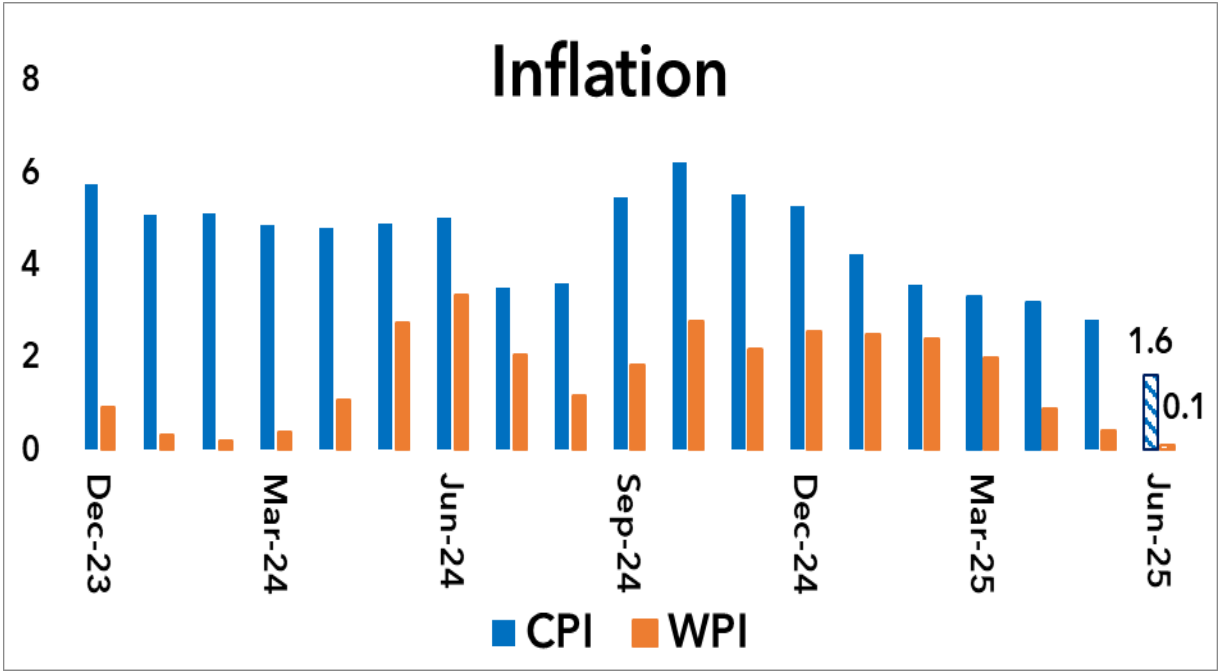


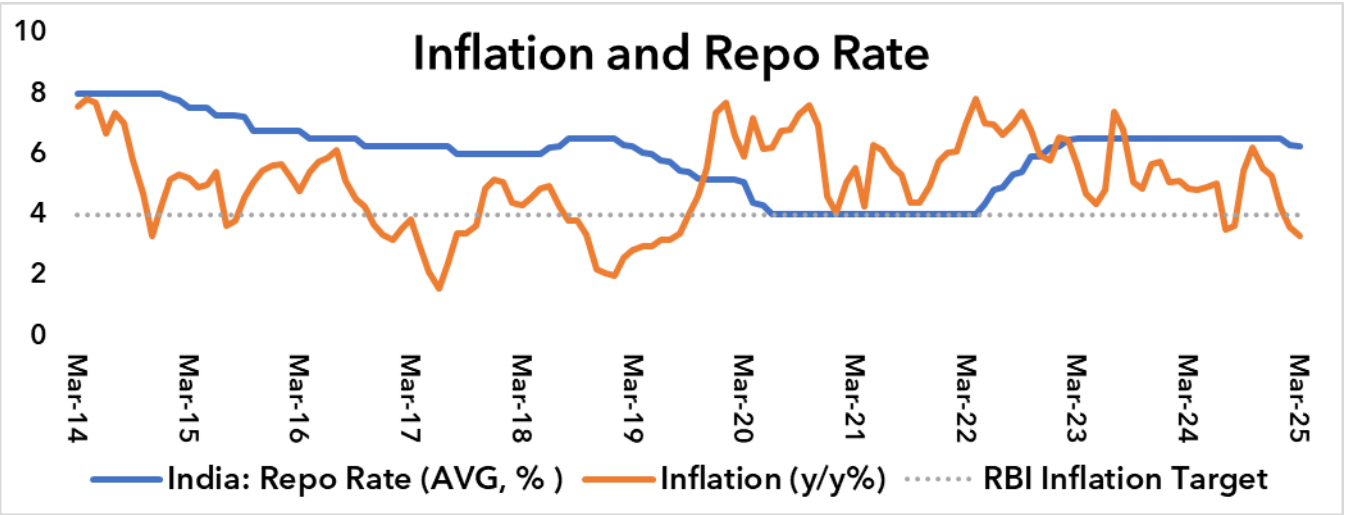
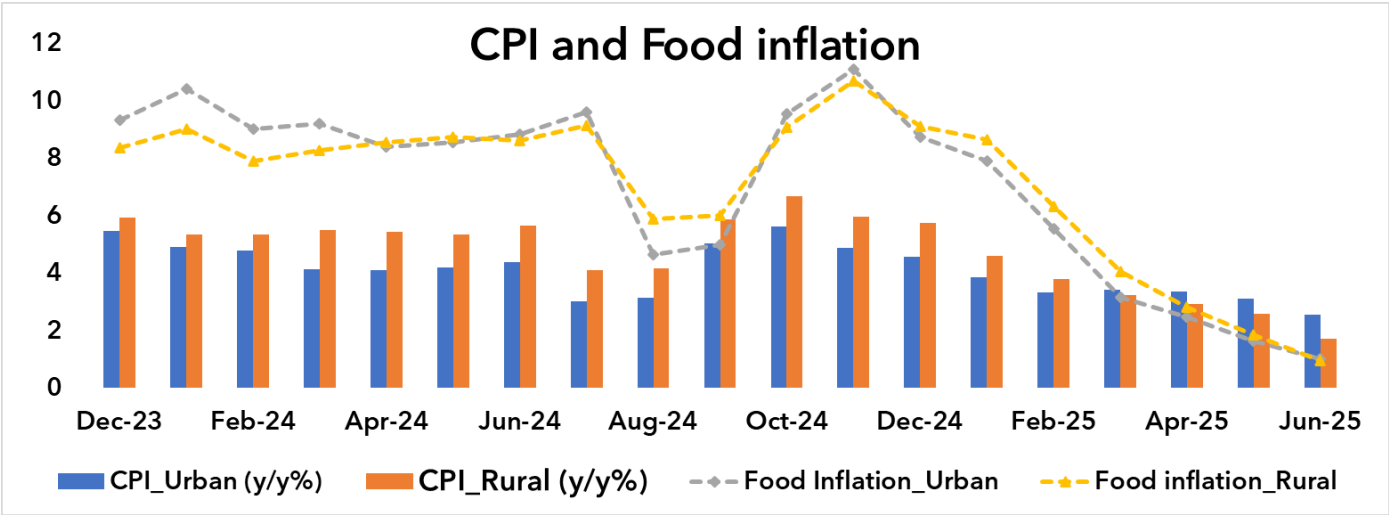


Price Scenario

- Dun & Bradstreet projects retail inflation (CPI) to decline to 1.6% y/y in June 2025, down from 2.8% y/y in May, driven by a consistent decline in food prices.
 - Dun & Bradstreet forecasts wholesale inflation (WPI) to ease to 0.1% y/y in June, from 0.4% y/y in May, reflecting persistent softness in input costs, subdued global commodity prices, and easing transportation charges.
 - A decline in the headline and food inflation in month of May can be seen due to decrease in inflation of pulses and products, vegetables, fruits, cereals and products, household goods and services, sugar and confectionery, and eggs, along with a favorable base effect.
 - The year-on-year inflation rate based on the All-India Consumer Food Price Index (CFPI) stood at 0.99% y/y in May 2025, with rural and urban food inflation at 0.95% y/y and 0.96% y/y, respectively.
 - Key risks include potential spikes in industrial metal prices (copper, aluminum) and supply chain disruptions arising from geopolitical tensions.
- Urban inflation outpaced rural inflation in May 2025, with the Consumer Price Index (CPI) for urban areas at 3.07% y/y and for rural areas at 2.59% y/y.

India's inflation is broadly benign, strengthening the case for continued policy support to growth. Improved agricultural productivity, favorable weather conditions, and robust Agri infrastructure investment have stabilized food prices, easing pressure on consumer inflation. Industrial sectors are benefiting from softening input costs which is helping manufacturers, particularly in export-oriented industries. Nonetheless, vulnerabilities remain—rising volatility in industrial metal prices and the risk of global supply chain disruptions could introduce fresh inflationary pressures. Over the medium term, headline inflation is projected to stay well within the RBI's target range, offering policymakers the strategic flexibility to sustain favorable policy stance without destabilizing price stability. The RBI's careful calibration of liquidity and interest rates will be crucial to managing inflation expectations amid a still-uncertain global environment.



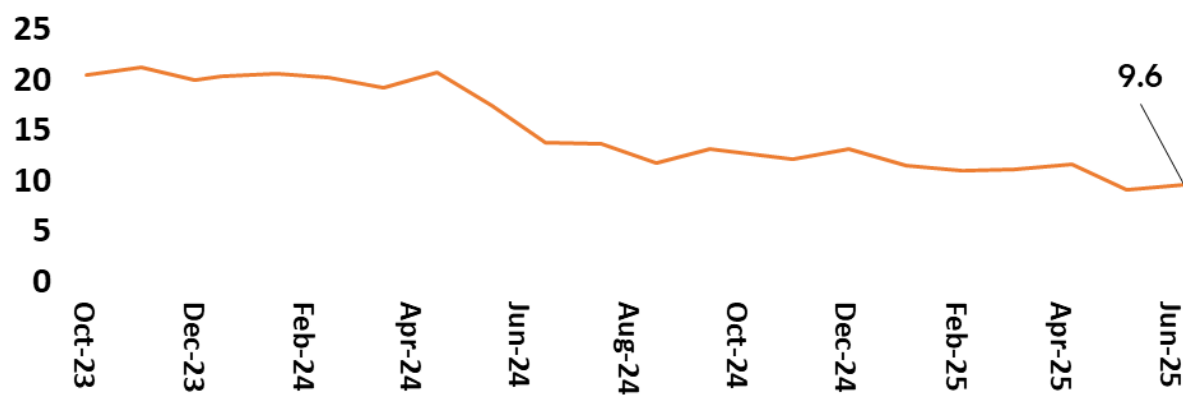


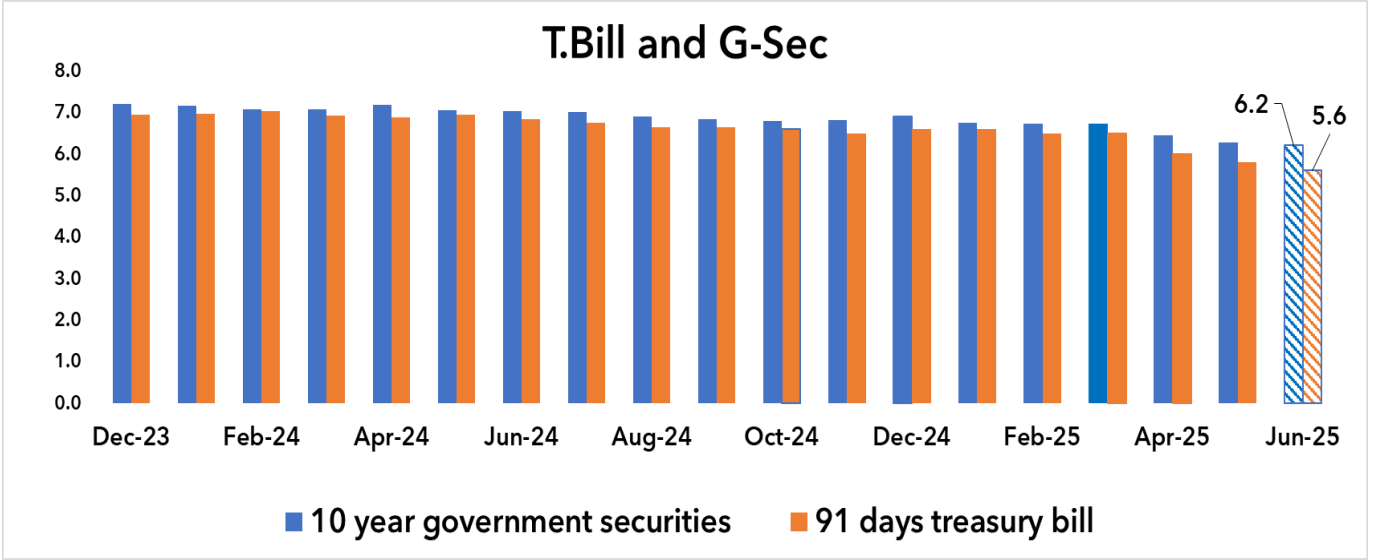
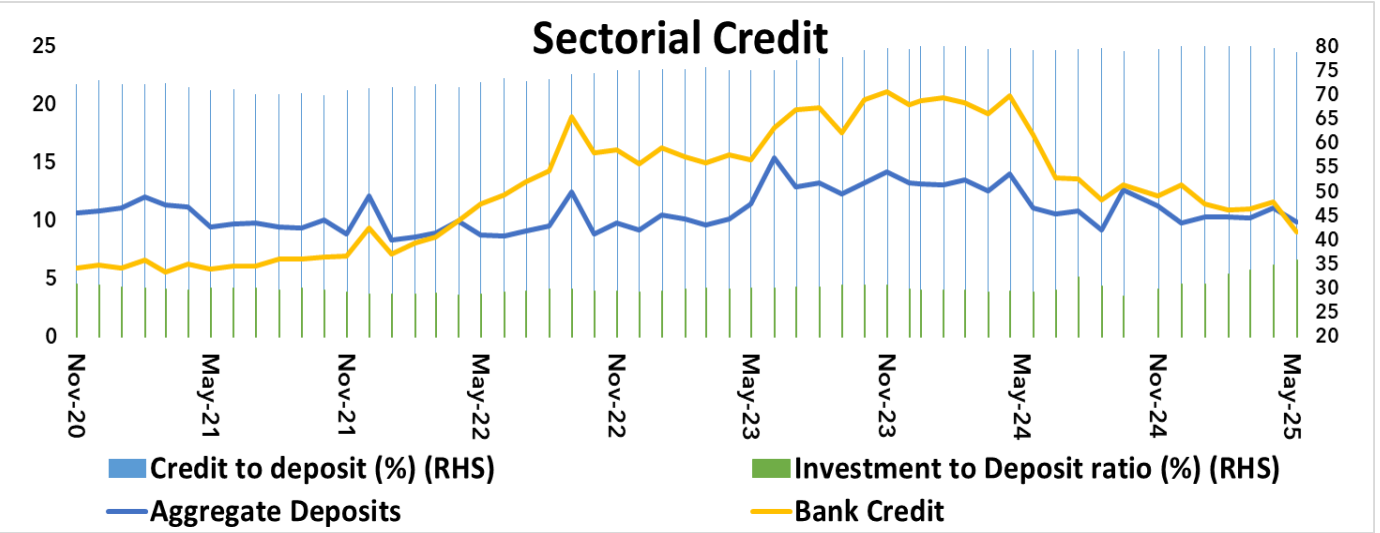
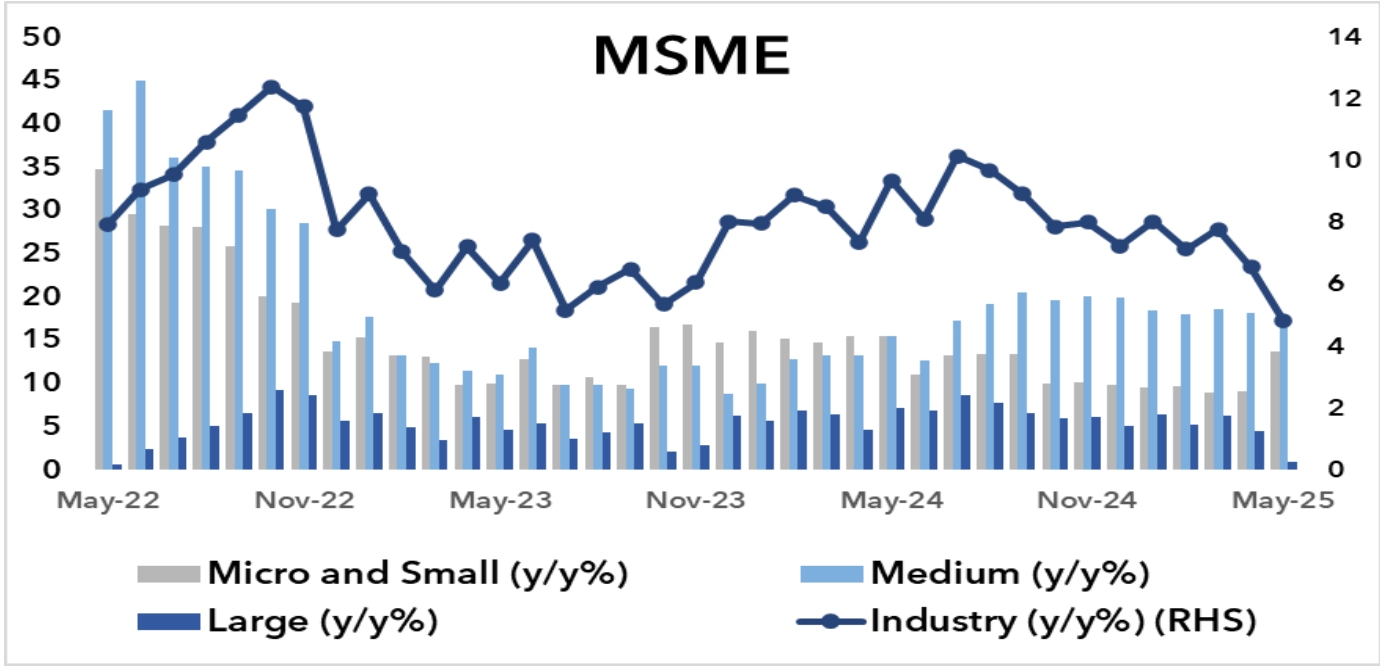
Money Market

- Dun & Bradstreet forecasts the 10-year G-Sec yield to ease to 6.2% in June 2025, down from 6.3% in May 2025, and the 91-day T-Bill yield to decline to 5.6%, reflecting improved investor sentiment and reduced borrowing cost pressures.
- According to Dun & Bradstreet, bank credit growth has picked up modestly to 9.6% in June 2025, suggesting a gradual revival in credit demand, particularly from MSMEs and retail borrowers, amid improving consumption trends
- The RBI’s recent 50 basis point repo rate cut will support lower funding costs and encourage lending, contributing to improved credit conditions and financial market stability.
- Ongoing digital infrastructure upgrades and enhanced regulatory oversight continue to strengthen the financial ecosystem, reinforcing market confidence and operational resilience.
- The Reserve Bank of India (RBI) extended the trading hours of the call money market from 9:00 AM–5:00 PM to 9:00 AM–7:00 PM. This move is aimed at enhancing liquidity access and operational flexibility for banks and primary dealers. It is expected to improve overnight liquidity management, especially during periods of tight banking system liquidity, and reflects the RBI’s commitment to deepening market efficiency.
- In a significant liquidity-boosting measure, the RBI announced a phased 100 basis point cut in the Cash Reserve Ratio (CRR) during its June 2025 policy review, expected to inject ₹2.5 lakh crore into the banking system. This complements the repo rate cut and is designed to ease funding constraints, particularly for MSMEs and infrastructure sectors.
- The RBI also shifted its policy stance from “accommodative” to “neutral,” signaling a more balanced approach going forward. While the central bank remains supportive of growth, it is also preparing for flexibility in response to evolving inflation and macroeconomic conditions.

India’s money and bond markets are adjusting to a lower interest rate environment, supported by easing inflation and proactive Reserve Bank of India (RBI) measures. In its June 2025 monetary policy, the RBI cut the repo rate by 50 basis points to 5.50%, citing broad-based disinflation and the need to support growth momentum. The Standing Deposit Facility (SDF) and Marginal Standing Facility (MSF) rates were adjusted to 5.25% and 5.75%, respectively. The RBI continues to manage liquidity through daily operations, with a focus on ensuring smooth policy transmission. Sustained financial momentum will depend on the pace of credit revival, the government’s borrowing program, and evolving global monetary conditions.

Bank Credit Forecast

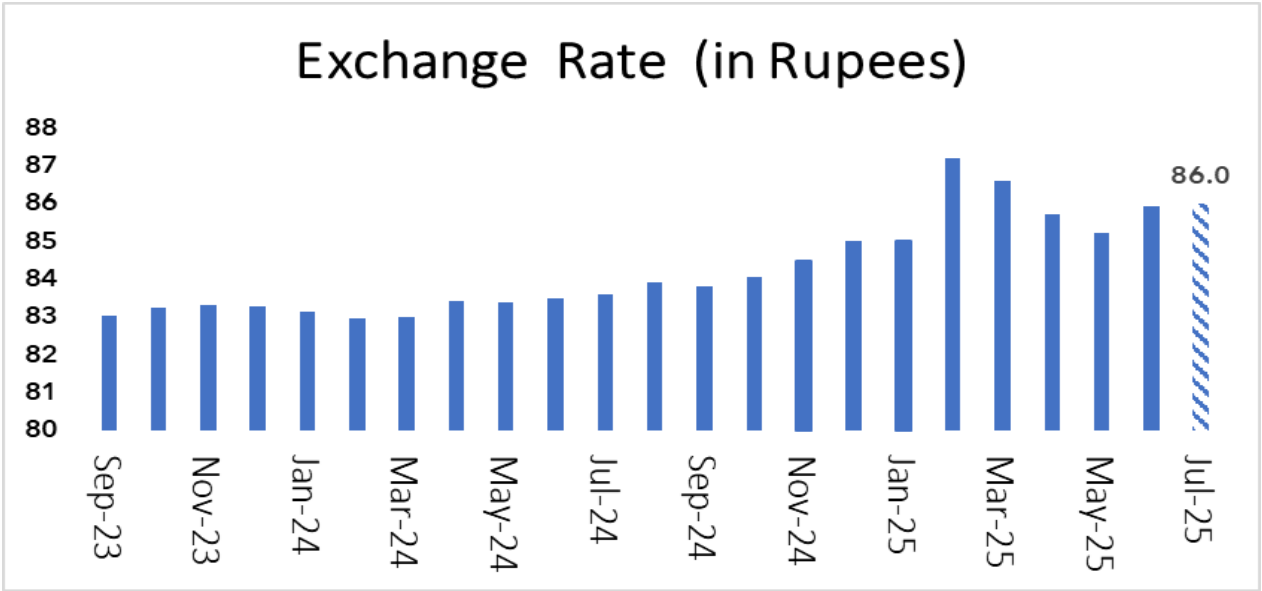




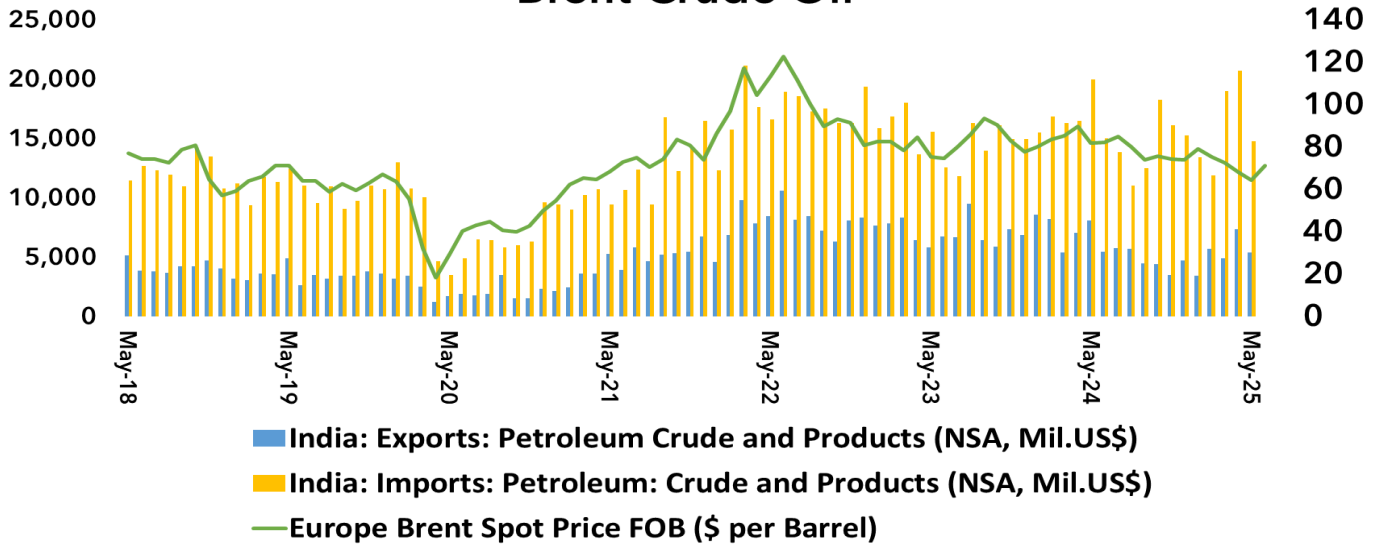
External Scenario

- Dun & Bradstreet forecasts the Indian Rupee to average ₹86.0/USD in July 2025.
- Services exports remain a key pillar of resilience, with India’s services exports reaching a record \$387.5 billion in FY25, led by robust growth in IT, consulting, and professional services.
- Foreign exchange reserves provide a strong buffer, standing at approximately \$645 billion as of July 2025, helping India absorb external shocks and maintain macroeconomic stability.
- Merchandise trade deficit has widened significantly, reaching \$283 billion in FY25, up from \$241 billion the previous year, largely due to a sharp rise in gold and crude oil imports. Gold imports surged amid festive and investment demand, while oil imports remained elevated due to price volatility and increased energy needs.
- Recent trade developments show mixed momentum, with a marginal uptick in exports in June and early July, particularly in electronics and agricultural goods. However, imports continue to outpace exports, especially from FTA partners like the UAE and China. Notably, India’s merchandise trade deficit with FTA partners rose to \$26 billion, and a potential trade facilitation agreement with the EU is under discussion, aimed at improving market access and reducing tariff barriers.

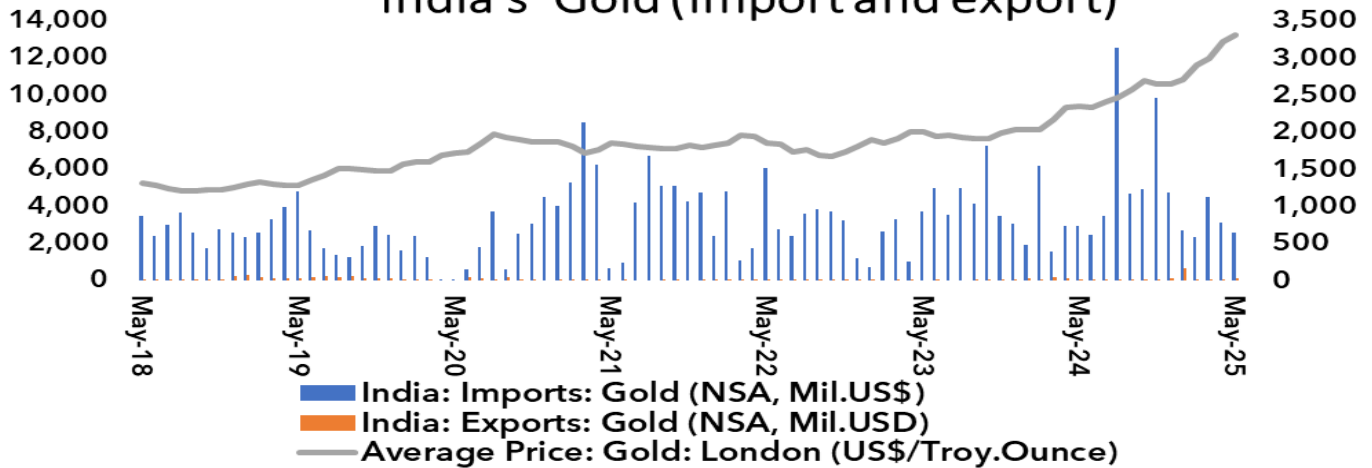
India’s external sector continues to navigate a complex global landscape marked by volatile commodity prices and shifting trade dynamics. While the services sector and forex reserves offer resilience, the growing merchandise trade deficit driven by surging oil and gold imports remains a key vulnerability. With trade negotiations underway and policy buffers in place, India is actively recalibrating its external strategy to balance growth ambitions with macroeconomic stability.



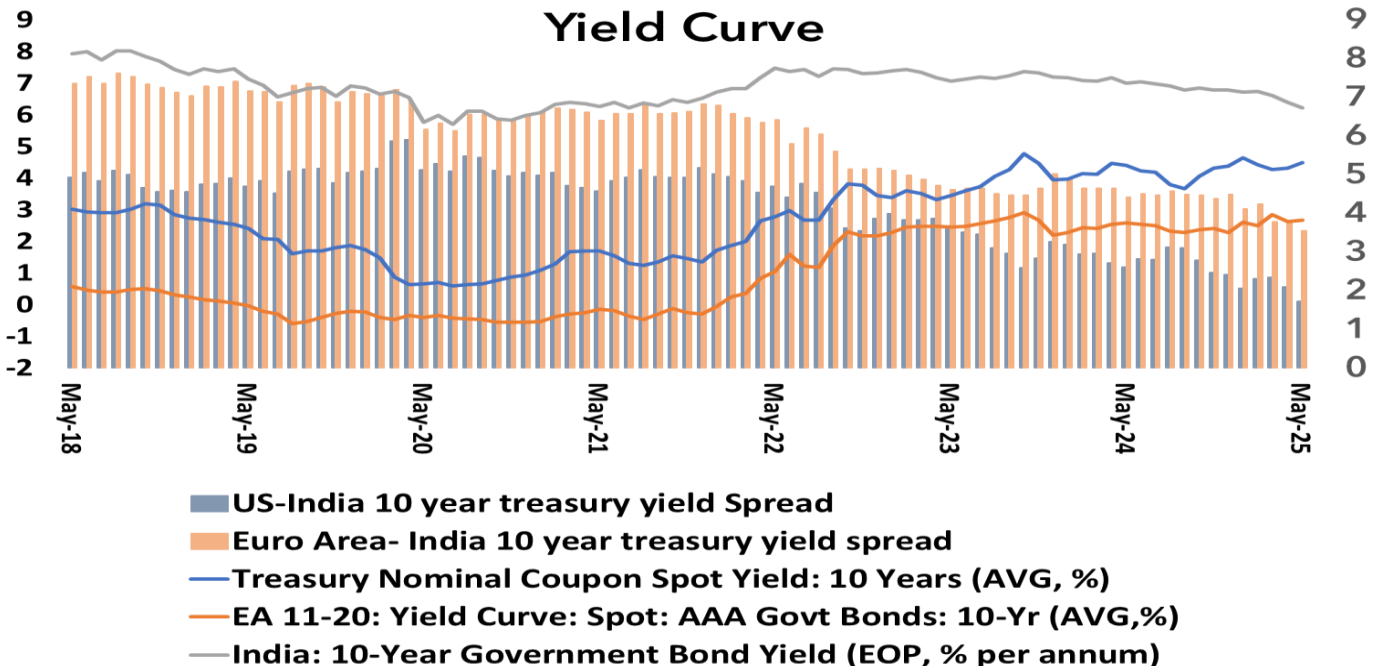
Brent Crude Oil



India's Gold (import and export)



Yield Curve



Economy Observer is a monthly report that shares an in-depth analysis on key macroeconomic developments in India and provides a monthly forecast of key economic indicators, providing insight into the expected direction of the Indian economy.

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