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ECONOMY OBSERVER



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Latest Economy Observer from Dun & Bradstreet highlights: Indian Economy Sustains Momentum While Rewiring Trade Strategy for Global Resilience

Dr. Arun Singh, Global Chief Economist, Dun & Bradstreet said, “India's industrial output shows healthy underlying economic momentum, and inflation remains comfortably within the central bank’s target range. The RBI maintained its status quo on rates and stance reflects cautious optimism. However, external vulnerabilities particularly tariff shocks and uneven export performance underscore the need for strategic recalibration. India is actively reshaping its global trade strategy through an ongoing push towards accelerating its trade diversification efforts. The India-EFTA trade pact is likely to boost market access for India’s textile and marine exports, thereby reducing dependence on traditional markets. An opportunity driven approach will be key to navigating a complex global economic landscape.”

POSITIVE

- GST 2.0 rollout on September 22, 2025, introduced a simplified two-slab structure (5% and 18%) with a 40% rate for luxury/sin goods, reducing compliance burdens and boosting MSME competitiveness.
- India’s Free Trade Agreement with the EFTA has become operational, effective 1 October 2025, unlocking \$100 billion in investment over 15 years and expanding market access for India’s exports of textiles, leather and food products.
- 91-day T-Bill auction on September 24 saw bids worth ₹44,390 crore against ₹10,000 crore notified amount, reflecting strong investor appetite and short-term liquidity comfort.
- Headline inflation in August 2025 rose to 2.07%, up from 1.55% in July, breaking a nine-month declining streak. Inflation, however, remains well within the RBI’s 2% to 6% target tolerance range.

NEGATIVE

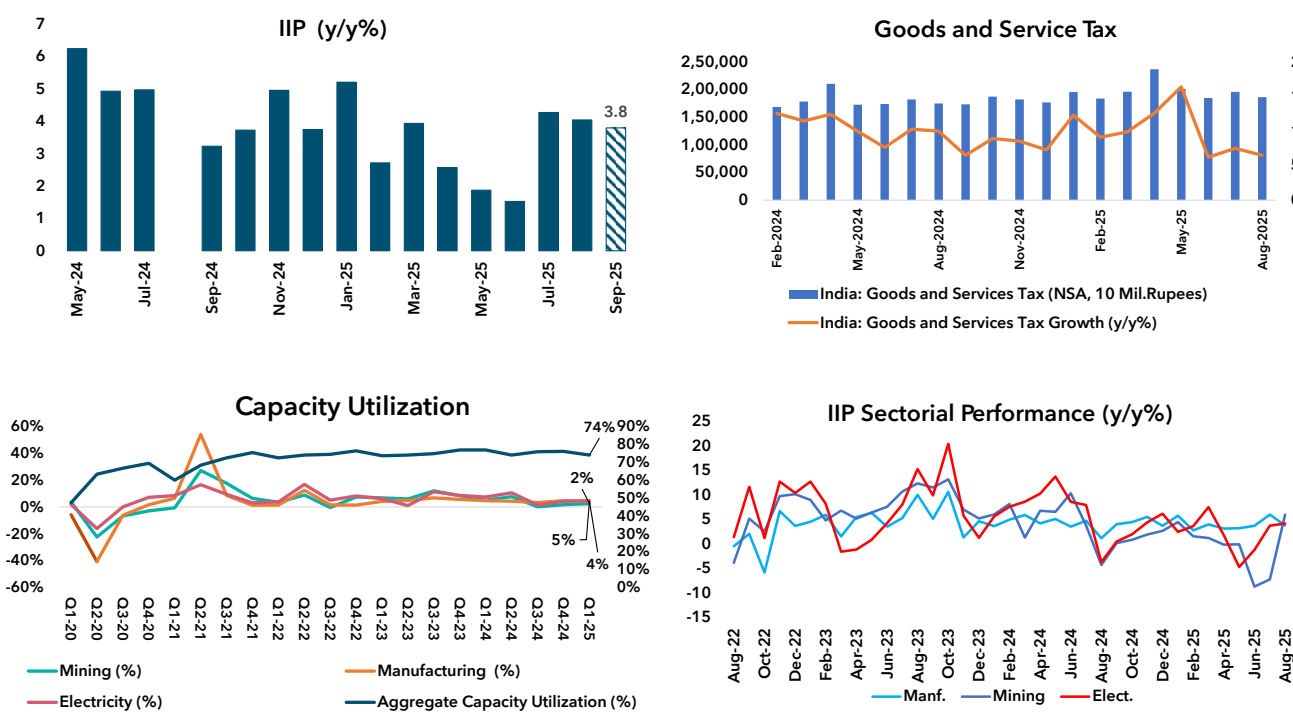
- The 50% tariff imposed by the US (effective end-August) will have a negative impact on India’s export volumes. Key sectors impacted include textiles and apparel (with US having accounted for 29% of the sector’s total exports in FY25) and gems and jewellery (33%).
- Manufacturing and consumer non-durables output showed signs of weakening in August, with the later potentially reflecting inventory management to avoid stranded taxes ahead of the GST rationalization.
- The Indian rupee faces the risk of further depreciation against a backdrop of elevated US-India tensions, elevated likelihood of sustained exodus of portfolio outflows, and a potential dip in remittances.
- FPIs have withdrawn \$17.3 bn from Indian equities over the January-September 2025 period having pulled out 2.7bn in September alone as concerns over US tariffs, elevated geopolitical tensions and slowing earnings weigh on sentiment.

D&B's Economy Observer Forecast			
Variables	Forecast**	Latest Period	Previous period
IIP Growth	3.8% Aug-25	4.0% Aug-25	4.3% Jul-25
Inflation WPI	0.2% Sept-25	0.5% Aug-25	(-) 0.6% Jul-25
CPI (Combined)	1.8% Sept-25	2.1% Aug-25	1.6% Jul-25
91-day T-Bills*	5.5% Sept-25	5.5% Aug-25	5.4% Jul-25
10-year G-Sec Yield*	6.6% Sept-25	6.5% Aug-25	6.4% Jul-25
Bank Credit	9.7% Sept-25	10.0% Aug-25	10.0% Jul-25
Exchange Rate (INR/USD) *	88.20 Oct -25	88.32 Sept-25	87.5 Aug-25

Real Economy

- Dun & Bradstreet expects IIP growth to ease to 3.8% y/y in September. The moderation reflects weaker manufacturing output due to sustained weakness in manufacturing and non-durable consumer output, and as the first full-month feedthrough effect of U.S. tariffs on Indian exports takes hold.
- India's Index of Industrial Production (IIP) stood robust at 4.0% in August 2025, a slight moderation from the revised 4.3% in July 2025, driven by a strong rebound in the mining sector and improved electricity sector output.
- While US tariffs are expected to impact several key export-oriented sectors such as textiles and gems and jewelry the overall effect on India's GDP remains limited given ongoing export diversification efforts, and strong domestic market (especially strong rural demand) and a supportive policy environment.
- The RBI's September 2025 survey shows a slight improvement in consumer sentiment. Urban Current Situation Index (CSI) increased by 0.4% to 96.9, and Future Expectations Index (FEI) rose by 0.3% to 125.0, reflecting cautious optimism and expectations of easing inflation. Rural CSI increased by 0.3% to 100.9, and FEI also improved.
- From a policy standpoint, the rollout of GST 2.0 on September 22, 2025, marks a landmark reform. The new structure simplifies the tax system into two main slabs 5% for essentials and 18% for most other goods and services with a 40% rate for luxury and sin goods. The reform reduces compliance burdens, corrects inverted duty structures, and lowers input costs for MSMEs. It is expected to boost consumption, improve ease of doing business, and enhance competitiveness across sectors.

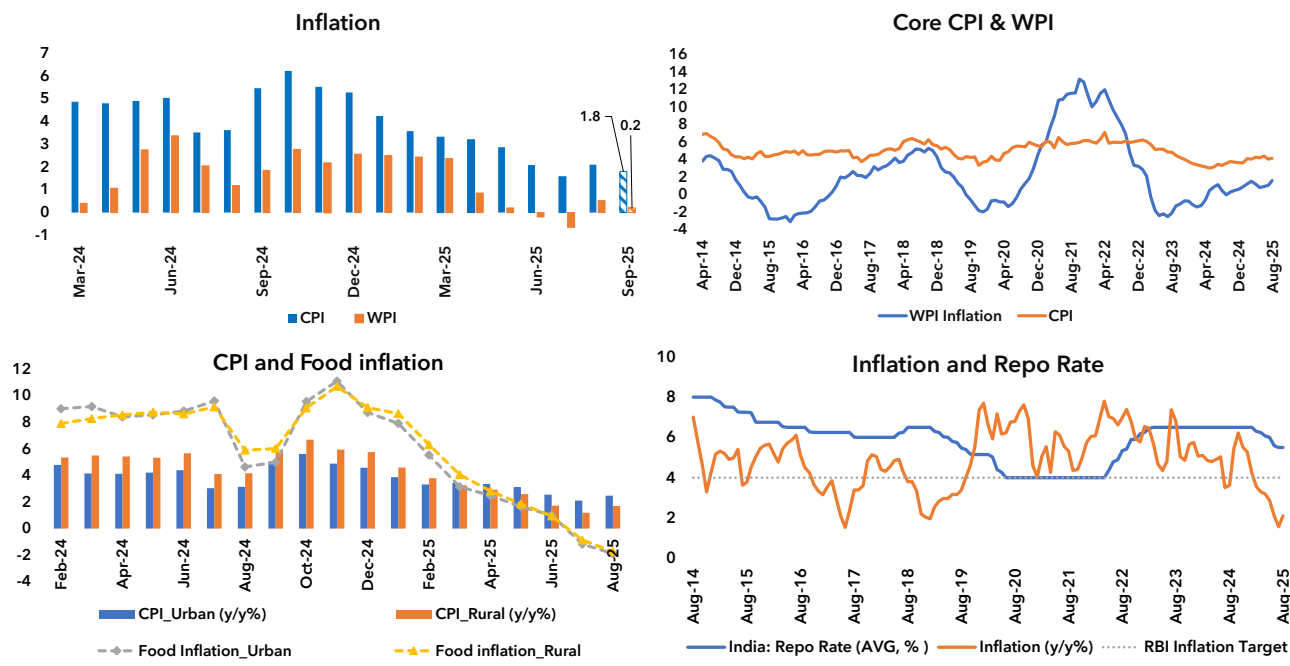
India's near-term industrial outlook remains cautiously optimistic. While external shocks and trade headwinds pose risks, resilient domestic demand, targeted policy support, and strategic reforms continue to underpin growth. The convergence of fiscal, trade, and digital reforms reinforces investor confidence and strengthens the foundation for long-term economic resilience.



Price Scenario

- Dun & Bradstreet forecasts CPI inflation to moderate to 1.8% y/y in September 2025, after rising to 2.07% y/y in August, the first increase in ten months, driven by fading base effects and higher prices of vegetables, edible oils, and protein-rich items such as meat and fish.
- Despite the uptick, CPI remains subdued and well within the RBI's target threshold of 2% to 6%, supported by stable agricultural output and declining global oil (a key import) prices. In August 2025, rural inflation rose to 1.69%, while urban inflation increased to 2.47%, YoY--driven by increases in services-related segments, including health, education, and housing. On the whole, food inflation remained negative territory for both segments at -0.70% (rural) and -0.58% (urban). margins.
- On the wholesale front, WPI inflation rose to 0.5% y/y in August 2025, reversing two months of deflation. Dun & Bradstreet forecasts WPI inflation to ease to 0.2% in September, driven by stabilizing food prices and subdued input costs.
- Moderate food prices are being supported by above-normal monsoon rainfall and the completion of robust kharif sowing, with total acreage rising from 109.6 million hectares in 2024 to 111.15 million hectares in 2025 a 1.4% year-on-year increase. These favorable supply-side conditions have helped keep food inflation in negative territory, and an expected strong harvest (despite crop damage in certain states due to rains) will likely sustain price stability.
- The rise in WPI was led by increases in price of vegetables (especially tomatoes) and manufacturing products alongside a weakening of favorable base effects, while fuel prices continued to decline.

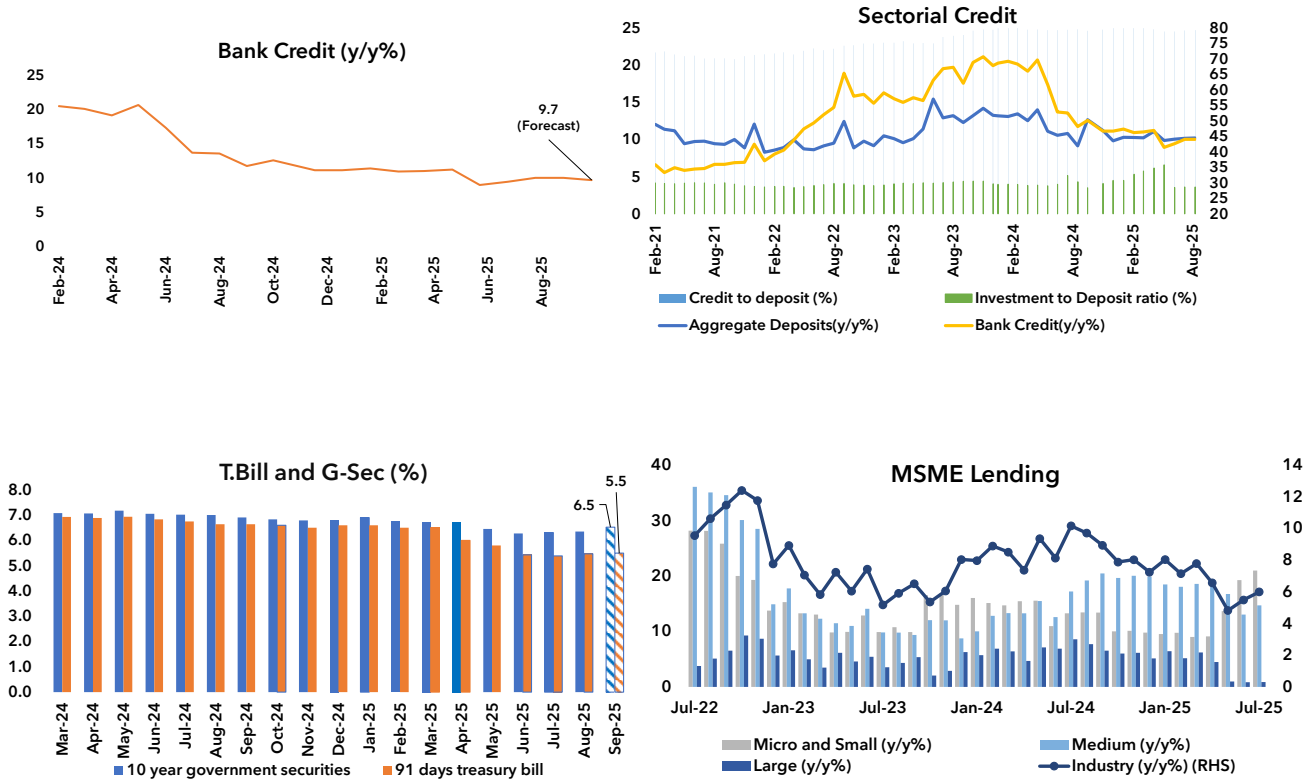
Despite a marginal uptick in August, India's inflation trajectory remains broadly subdued and comfortably within the RBI's target range of 2% to 6%. Improved agricultural productivity and favorable monsoon patterns have kept food inflation in negative territory, while easing input costs are benefiting industrial sectors, particularly export-oriented manufacturers. Over the medium term, headline inflation is expected to stay well within the RBI's target band, aided in part by the disinflationary impact of GST rate rationalization. This provides policymakers with the flexibility to sustain a neutral monetary stance. The RBI's calibrated approach to liquidity management and interest rates will remain critical in anchoring inflation expectations amid global uncertainties.



Money Market

- Dun & Bradstreet expects the 10-year G-Sec yield to have risen marginally to 6.6% in September 2025, while the 91-day T-Bill yield is expected to remain unchanged at 5.5%. Our forecast reflects expectations of strong economic momentum and sustained strong demand in RBI's auctions, signaling investor confidence in short-term instruments amid comfortable liquidity.
- The RBI's 91-day T-Bill auction held on September 24 saw bids worth ₹44,390 crore against a notified amount of ₹10,000 crore, confirming robust investor interest and surplus liquidity.
- Bank credit growth is projected at 9.7% in September, slightly down from 10.0% in August and July 2025, indicating a measured lending approach and evolving credit conditions.
- In the latest MPC held in October, the RBI maintained a neutral policy stance and retained its repo rate at 5.50%, marking the second consecutive pause following a cumulative 100 basis point cut earlier in the year.
- Liquidity remained in surplus, with ₹31,986 crore net liquidity injected into the system as of September 22, 2025, through various RBI operations including repo, reverse repo, MSF, and SDF.

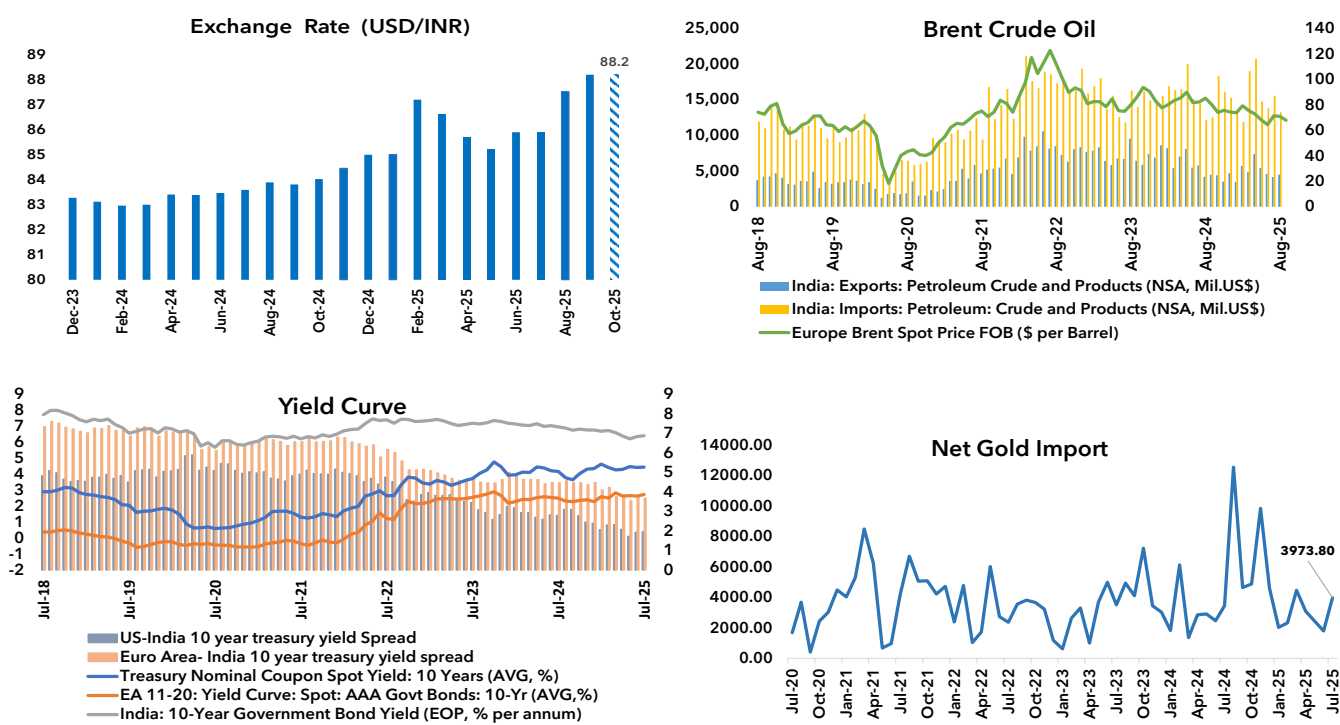
India's monetary and financial environment in September 2025 reflects a phase of cautious stability, supported by surplus liquidity and a neutral policy stance. Investor interest in short-term instruments remains strong, as evidenced by robust demand in treasury auctions, while long-term yields have edged up slightly in response to sustained economic momentum. Credit growth has moderated, suggesting a more measured lending approach amid evolving financial conditions. The RBI's calibrated liquidity operations continue to ensure adequate system-level liquidity. Overall, while monetary conditions are supportive, investor sentiment remains mixed, tempered by trade tensions, fiscal risks, and cautious global cues.



External Scenario

- Dun & Bradstreet forecasts the rupee to remain range bound and average ₹88.20/USD in October, after having averaged ₹88.32/USD in the previous month.
- The U.S. announced a 100% tariff on branded and patented pharmaceutical products, effective October 1, 2025, unless the exporting company is actively building a manufacturing facility in the U.S. Although the US is the single largest destination for Indian pharmaceutical exports (having accounted for 35% of total exports in FY 25), the sector presently remains largely insulated given that India's pharma exports to the US mostly comprise of generics drugs and active pharmaceutical ingredients (APIs), which are not covered under the tariff.
- Despite tariff headwinds from the US, strong services exports and strong forex reserves (which stood at USD700.2bn as of 26 September) continue to anchor external sector stability.
- The Indian government has accelerated its export market diversification efforts to mitigate risks from geopolitical tensions and US tariffs. Short-term efforts focus on scaling trade with the EU, UK, UAE, and Japan, while long-term plans target new markets in Latin America, Africa, and East Asia.
- India's Free Trade Agreement with the European Free Trade Association (EFTA) comprising Switzerland, Norway, Iceland, and Liechtenstein kicked in, effective October 1, 2025. The agreement includes a \$100 billion investment commitment over 15 years and expanded market access for Indian services across 128 sub-sectors, including IT and business services. India has offered tariff concessions on 82.7% of product categories, while securing duty-free access for key exports, including of textiles, leather and food products.
- India's merchandise trade deficit narrowed, from \$27.35 bn in July to \$26.49 bn in August, as a steeper decline in imports help offset the impact of easing exports. On an annualized basis, however, exports rose by 6.7% driven by increases in electronics and engineering goods, while imports declined by 10.1%.
- FPIs have withdrawn \$17.3 bn from Indian equities over the January-September 2025 period having pulled out 2.7bn in September alone as concerns over US tariffs, elevated geopolitical tensions and slowing earnings weigh on sentiment.

India's external sector remains broadly resilient despite global and tariff-related headwinds. The government is actively diversifying trade markets and leveraging policy buffers like strong forex reserves, robust services exports, and the new EFTA trade agreement. The recent U.S. tariff on branded pharma products has limited impact due to India's focus on generics and APIs.



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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India is also the home to **Dun & Bradstreet Technology & Corporate Services LLP**, which is the Global Capabilities Center (GCC) of Dun & Bradstreet supporting global technology delivery using cutting-edge technology. Located at Hyderabad, the GCC has a highly skilled workforce of over 500 employees, and focuses on enhanced productivity, economies of scale, consistent delivery processes and lower operating expenses.

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