

kcm Compass

Macro-Economic Analysis

April 2026



Introduction

- Introducing another edition of **kcmCompass**, series of publication from KCM, offering periodic economic updates. Through this series, we aim to offer a detailed analysis of the period gone by from a macro economic perspective; studying the performance of various important economic metrics, understanding the Government's policies around the same, and analysing the impact of both on people and business.
- What we will be talking about here are all everyday concepts that make it to the daily headlines – '**Inflation** surges to lowest', '**India's forex reserves** jump', '**India to be the fastest growing economy**', '**What the new consumption pattern** can mean for inflation', etc.
- However, through this publication, we aim to connect the dots between these otherwise abstract economic terminologies that have huge interdependencies and impact all our lives some way or the other. A business executive for instance might be concerned with income levels and consumption pattern in the economy to be able to forecast demand; while senior citizens would be worried about the inflation trends and rise in prices of essential commodities; working professionals on the other hand would look out for what is happening in the job market and what the Government is doing towards skill development and job creation.
- With that, we are pleased to present **kcmCompass**, covering the last **financial year 2025 - 26**. Since the budget has just come out, we would dedicate this publication to how the economy performed last year and how the budget has responded to it.



01

Major Changes FY26

What's new this time ...

Understanding The Base Year — Concept & India's adoption of 2022-23 as base year

What is Base Year ?

- A reference period assigned index value of 100, against which all subsequent economic data is measured & compared.
- Formula: $\text{Index} = (\text{Current Value} \div \text{Base Year}) \times 100$

What is Basket?

- A standardized set of goods and services used to measure changes in price levels.
- A basket is used to ensure a consistent and representative measure of price changes over time for accurately tracking inflation.

Why do we change base year & basket?

Update consumption basket weights

Reflect latest price structure and improves data accuracy and relevance

Remove obsolete items and incorporates new goods/services

Align with current economy structure

Why GDP based was revised?

OLD BASE: **2011-12** → **2022-23**

- Services sector now 55% + of GDP – old base severely underweighted it
- New economy sectors: fintech, gig economy, e-commerce was not captured in old base
- New base adopts SNA 2025 international standards
- Broader enterprise database – GSTN + MCA21 v3 + EPFO coverage

CPI

OLD BASE: **2012** → **2024**

- CPI basket items expanded from 299 to 358
- 2012 basket based on 2011-12 NSSO survey – 13 years stale
- Spending on health, education, transport risen sharply post-COVID
- New HCES 2022-23 survey data incorporated and refined rural/urban weights, critical for RBI 4% inflation target

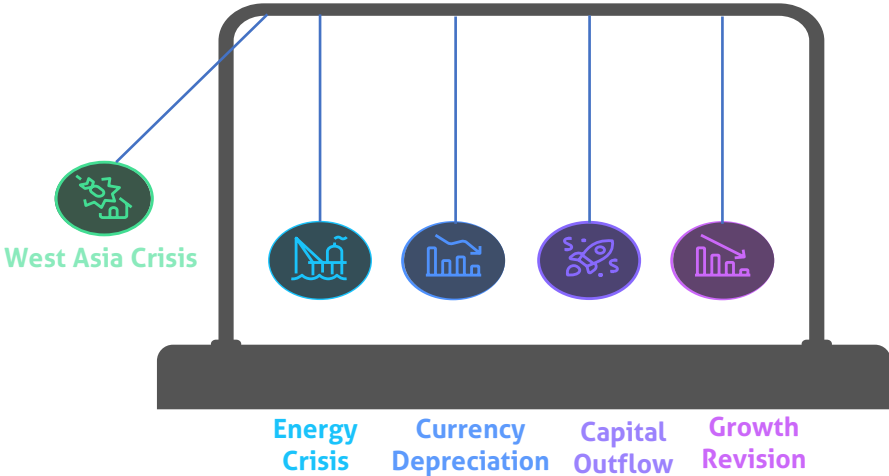
IIP & WPI

OLD BASE: **2011-12** → **2022-23**

- IIP basket to expand further from 809 items – new NIC 2025
- Manufacturing landscape transformed – EVs, semiconductors, drones
- WPI basket updated to reflect post-GST supply chain restructuring, material contributors such as PLI scheme industries

Tariffs, Turbulence and Tech- Global Shocks

- **Geopolitical Catalyst:** On February 28, 2026, the outbreak of hostilities between the United States, Israel, and Iran triggered the closure of the Strait of Hormuz. The closure of this critical chokepoint has resulted in a global oil production shortfall of approximately 20%, a disruption significantly larger than the 1990 Persian Gulf War. Along with this, Overall exports made by India to the following countries are also threatened: UAE, Saudi Arabia, Kuwait, Qatar, Iraq, Bahrain.
- **Massive Capital Outflow:** Driven by global "risk-off" sentiment, Foreign Portfolio Investors exited ₹ 70,990 crore (\$8.3 billion) in Indian equities within the first 17 days of March '26.
- **Currency Depreciation:** The Indian Rupee reached a historic low in March 2026, breaching the 93.92 mark against the U.S. Dollar.



Input Cost Surge
Manufacturing input costs reached a four-year peak in March 2026, driven by price hikes in chemicals, rubber, and energy.



U.S. Tariffs
New 10-15% US tariffs are stressing labor-intensive exports, like textiles and gems, as export orders drop.



Remittance Risks
India's \$137 billion annual remittance inflow is structurally vulnerable as the West Asia crisis jeopardizes the 40% share originating from GCC labor markets.



Critical Sectoral Impact



Component Shortages
AI chip prioritization is creating critical DRAM and NAND shortages for consumer electronics.



Logistics Vulnerability
Spiking fuel prices are inflating logistics expenses across trucking (65–70% of national freight) and aviation (ATF: 35–40% of costs), showing probable inflationary hikes.



Fertilizer Crisis
Delayed LNG shipments have restricted domestic urea production to 60% capacity.

Upcoming Industrial Impact and Growth Reversal

Industrial Impact



Fertilizers & Agriculture

Disruption of LNG and feedstock supply from the Middle East. This resulted in Urea plants to operate at 60% capacity and is estimated with production drop of 800,000 tonnes/month, ultimately decreasing net exports and private investment.



Manufacturing & Chemicals

Input costs for crude-oil derivatives (resins, solvents) are surging. This may lead to reduction in private consumption.



Consumer Electronics

"Double whammy" of currency depreciation and global component shortages. RAM and SSD costs up 25-40%; product price hikes of 3% to 30% projected. This may lead to reduction in private consumption and net exports.



FMCG

Rising logistics and petrochemical packaging costs are forcing giants like HUL and ITC to adopt "shrinkflation". This, alongside anticipated RBI 50-bps rate hikes, may squeeze household disposable income, reducing private consumption.



Gems, Jewellery & Textiles

New US global tariffs (10-15%) and export volatility. 22% drop in shipments to the US recorded in early 2026. A sudden slowdown in export orders is projected to trigger systemic loan stress within the banking sector, reducing net exports.

Revised GDP Growth Rate Estimation



Goldman Sachs

Previous projections for '26 : 7.0 %
Revised projections for '26 : 5.9 %
Reason for Revision: Oil surge, Currency strain, Supply disruption



SBI

Previous projections for '26 : 7.6 %
Revised projections for '26 : 6.6 %
Reason for Revision: Sustained oil at \$100/bbl



Moody Analytics

Previous projections for '26 : 7.5 %
Revised projections for '27 : 6.2 %
Reason for Reduced Projections: Prolonged War



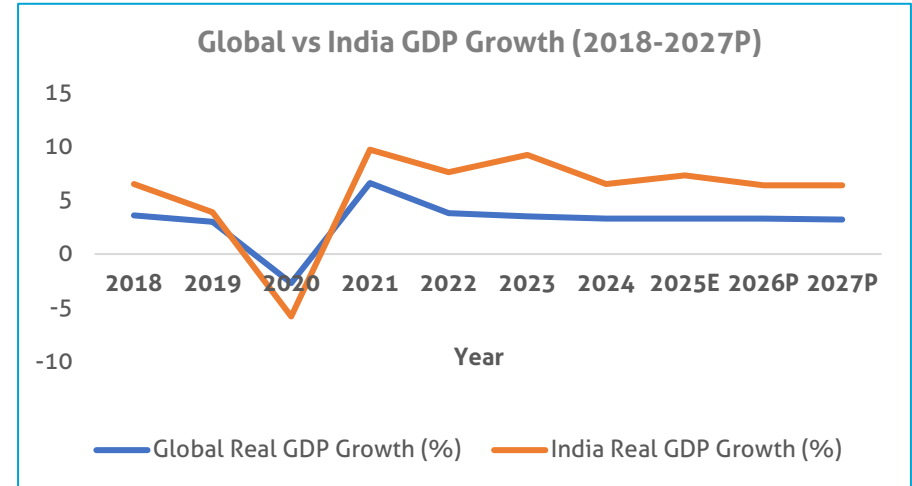
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Economic Overview FY26

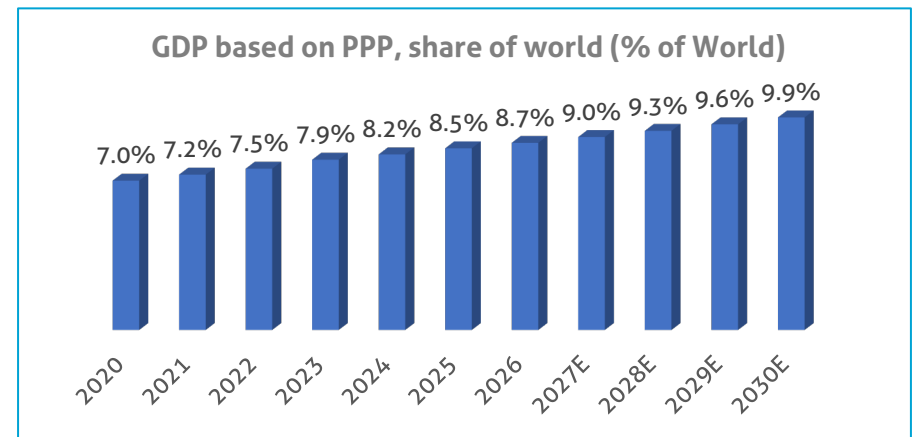
What has happened so far...

Global Context: GDP Growth & Inflation

- The global economy has experienced significant volatility over the past few years. After contracting sharply in 2020 due to the pandemic, global growth rebounded strongly in 2021 as economic activity resumed across major economies. However, since 2022, growth has moderated as central banks across the world tightened monetary policy to control inflation.
- While global GDP growth is expected to stabilise around 3.3% in the near term, inflation remains above pre-pandemic levels despite easing from its 2022 peak. The surge in inflation during 2021–22 was primarily driven by supply chain disruptions, geopolitical tensions and elevated commodity prices. Although inflationary pressures have moderated, tighter financial conditions continue to influence global economic activity.
- In contrast, India has consistently outperformed global growth trends, maintaining a growth trajectory well above the global average.
- India's share of global GDP (PPP based) has steadily risen from 6.97% in 2020 to 7.95% in 2023. This growth reflects robust economic expansion, deeper global integration, and strengthening domestic consumption.
- Projections show India's PPP (Purchasing Power Parity) share reaching nearly 10% by 2030. These gains underscore India's rising productivity and market scale. This trajectory positions India as a leading economic power, advancing the vision of Viksit Bharat by 2047.



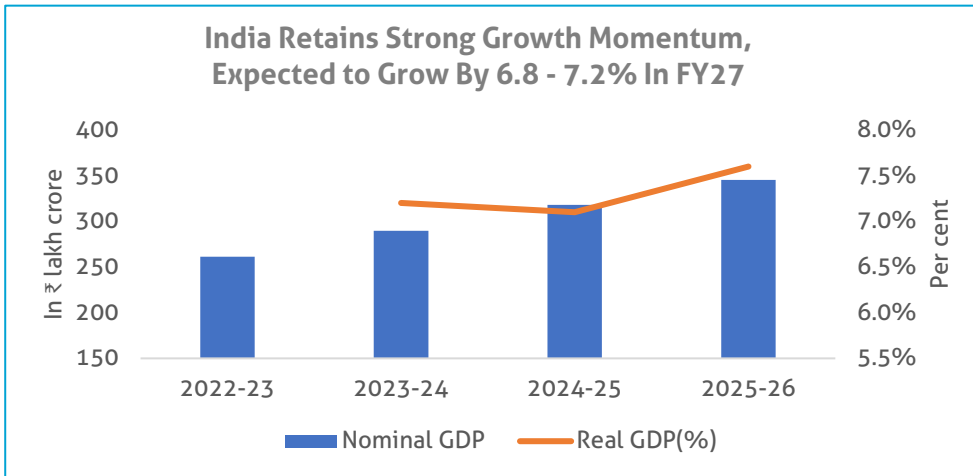
Source: IMF's World Economic Outlook (Jan 2026)



Source: IMF's World Economic Outlook (Jan 2026)

India's Growth Momentum Strengthens: A Broad-Based Economic Recovery

- The revision of base years for GDP (2022-23) and CPI (2023-24) modernizes economic signaling by integrating digital services and rural consumption while accurately reflecting a higher real growth trajectory.
- Under the revised base year of 2022–23, India's GDP shows a steady growth trajectory, with nominal GDP increasing from ₹261.2 lakh crore in 2022–23 to ₹345.5 lakh crore in 2025–26 (SAE), while real GDP growth remains relatively stable in the range of ~7–7.6%
- India's 7.6% FY26 GDP forecast is driven by ₹11.21 lakh crores public capex (+10%), 7.0% PFCE recovery, 8.2% services growth, and PLI manufacturing surge despite US tariffs.



Source: MoSPI, Government of India

GDP is a factor of four major components that we will discuss further:

- Private Final Consumption Expenditure (PFCE) (61.5%),
- Gross Fixed Capital Formation (GFCF) (30%),
- Government Final Consumption Expenditure (GFCE) (9.9%), and
- Net Exports (-2.2%).



03

Breaking Down GDP

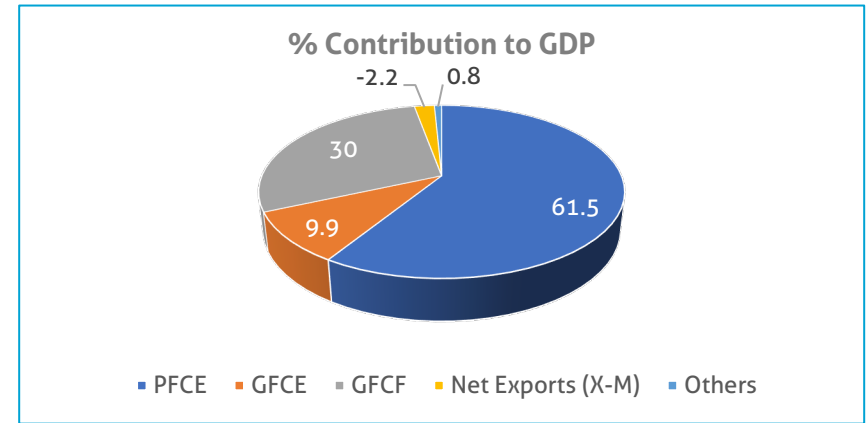
The Four Pillars of Growth

Domestic Demand Remains the Backbone of India's Growth

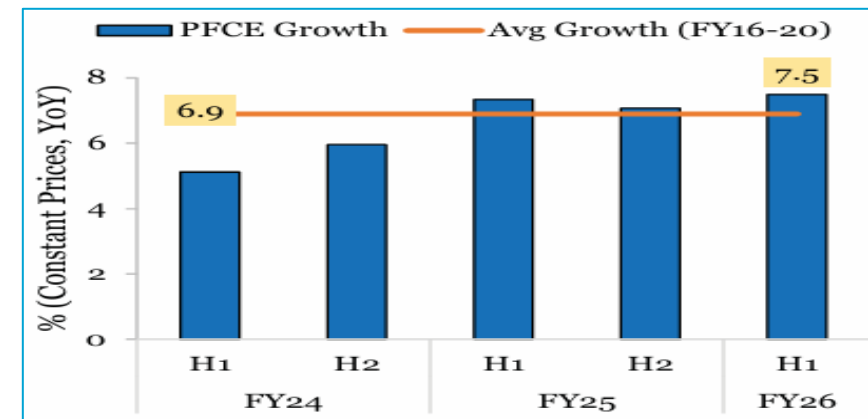
- Domestic demand continues to underpin India's growth momentum in FY26. According to the First Advance Estimates (FAE), the share of Private Final Consumption Expenditure (PFCE) in GDP increased to 61.5% in FY26, the highest level since FY12.
- Growth in automobile sales, tractor sales, UPI transactions, and air passenger traffic reflects robust urban and rural consumption activity. Additionally, the NABARD Rural Economic Conditions and Sentiments Survey (Nov 2025) reports that **79.2% of rural households experienced increased consumption** over the past year, with the share of income spent on consumption rising to **around 67%**, the highest since the survey began.

Our Take

- India's growth is powered by everyday aspirations, seen in rising vehicle sales and UPI volumes that signal a broad-based domestic recovery. With the GST cuts and Income Tax reforms, it is expected that a surge in domestic consumption could be seen in FY27, incentivizing a private CAPEX push by the domestic industry, triggering a faster economic growth.
- However, the West Asia crisis could push oil prices up by ~40% to \$105–\$115 per barrel. This kind of energy shock would drive cost-push inflation, reducing rural purchasing power and putting pressure on FMCG and agriculture demand.



Source: Economic Survey 2025-26



Source: Economic Survey 2025-26

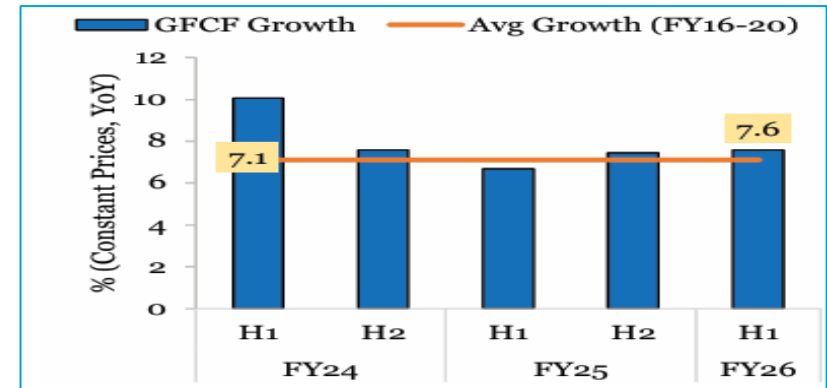
India's Investment Resilience Amidst Emerging Economic Headwinds

- Alongside consumption, investment activity continued to support economic growth in FY26, with the share of Gross Fixed Capital Formation (GFCF) estimated at 30% of GDP. Investment strengthened during the first half of the year, with GFCF expanding by 7.6% in H1 FY26, exceeding the pace recorded in the corresponding period last year with average growth of 7.1%.
- This momentum was supported by sustained public capital expenditure and a revival in private investment activity, reflected in rising corporate investment announcements.
- Government's 89% capex CAGR (FY22-26) single handedly rebuilt infrastructure, while private investment limped at 23.9% CAGR questioning corporate risk appetite despite PLIs and tax breaks.

Our Take

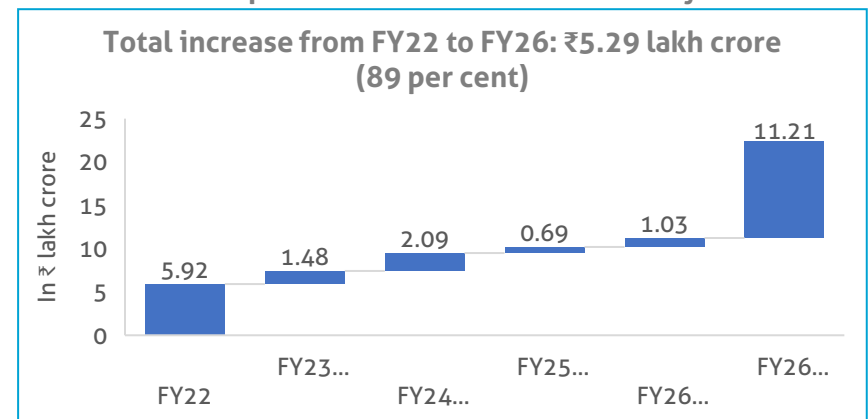
- The continued rise in non-food bank credit, strong capital goods imports and above-trend capacity utilization indicate that firms are gradually expanding productive capacity. However, sustaining the investment cycle will depend on continued policy support, stable financial conditions, and stronger private sector capex, particularly in manufacturing and infrastructure sectors.
- Government has taken some substantial measures such as easing QCOs, reducing regulatory compliances and boosting consumption through GST cut which would incentivize the private CAPEX push. However, supply chain disruptions due to the war and increasing input costs can impact the CAPEX revival.
- Further, currency depreciation could raise the cost of imported capital goods, increasing project costs and limiting real investment growth, ultimately only increasing the investment through prices.

Growth in GFCF remains robust



Source: Economic Survey 2025 26

Government Capex has continued to rise steadily since FY22



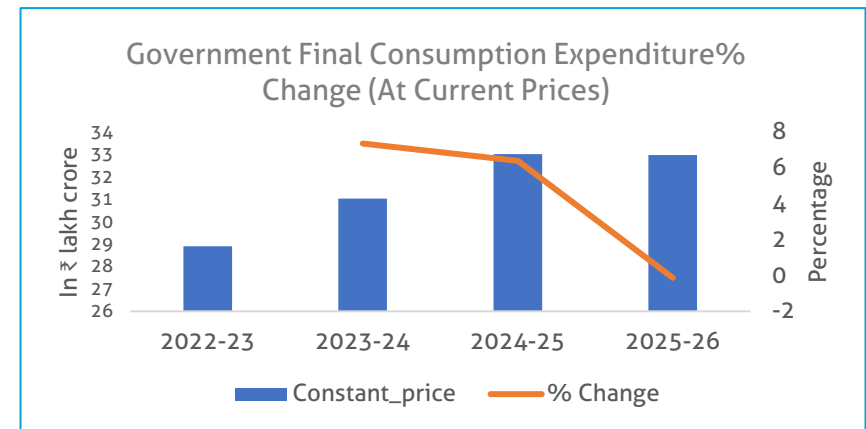
Source: Economic Survey 2025 26

Government Spending: Fiscal Support Moderating

- GFCE growth decelerated significantly to -0.13% in FY26, compared to 6.4% in FY25, indicating a pullback in government spending and reduced fiscal support to aggregate demand.
- GFCE accounts for 9.9% of India's GDP, acting as a stabilizer during periods of weak private demand. Government spending has gradually shifted from revenue consumption to capital expenditure, prioritizing infrastructure, logistics, and manufacturing competitiveness.
- Fiscal consolidation remains underway with the fiscal deficit targeted to fall toward 4.4% of GDP, limiting large expansions in consumption spending. Consequently, government consumption growth is stabilizing, while policy emphasis increasingly shifts toward public investment-led growth.

Our Take

- As GFCE remains a counter-cyclical buffer and as it can be clearly seen that Government demand is no longer the primary growth engine, future growth may rely more on private consumption recovery and corporate capex rather than fiscal spending.
- However, global price shocks may escalate fertilizer and fuel subsidies and mandate household gas rationing. Further, our all-time rivalry with Pakistan and China, may lead to further increase in budget of defence and government spending.
- These pressures, along with a 42.8% rise in rural employment allocations and interest payments claiming 26% of total spending, may impact the measures to meet the fiscal deficit targets, leading to further borrowings.



Source: FAE of Annual GDP for FY 2025-26; MoSPI, Government of India

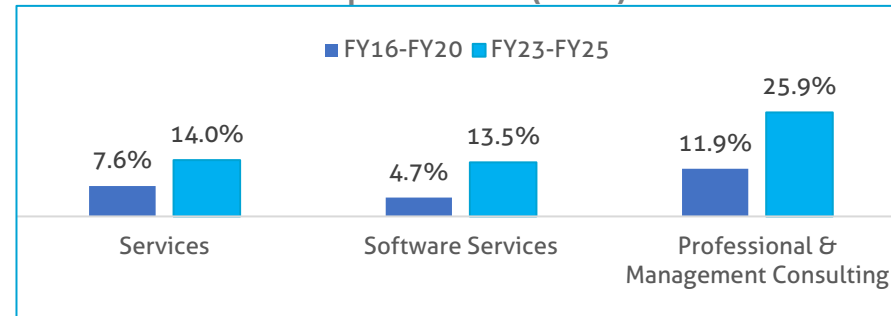
India's Export Flywheel: Services Leading Growth

- Over the period from FY23 to FY26, both exports and imports show a steady upward trajectory.
- The export of goods grew by 5.9% in H1 of FY26 from same period in last year, while services exports saw strong acceleration, with CAGR rising from 7.6% (FY16–FY20) to 14.0% (FY23–FY25). Within services, professional & management consulting grew the fastest from 11.9% to 25.9%, followed by software services increasing from 4.7% to 13.5%.
- The data reflects a clear shift toward higher value, knowledge-driven service exports.
- However, there is progressive narrowing of the net trade (exports-imports), from -7 lakh crore in FY23 to -5 lakh crore in FY26. This indicates a structural shift in India's external sector, where services are emerging as the primary growth engine.

Our Take

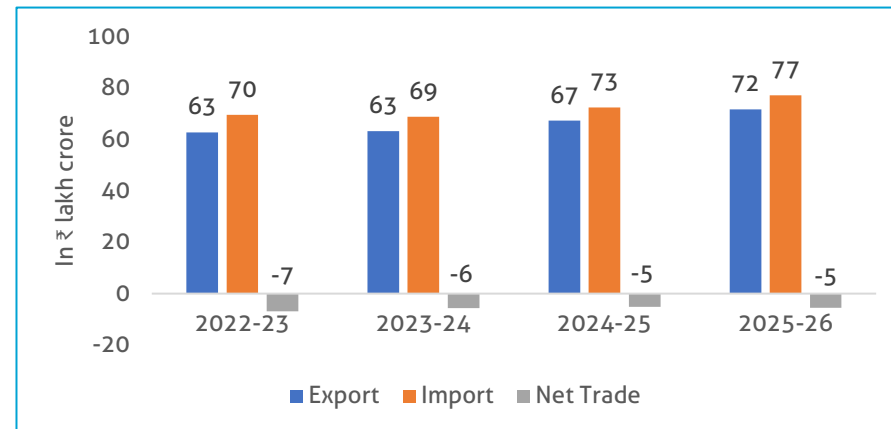
- India's services exports grew 7% to \$387.5 billion, but this momentum may be partly offset by an estimated \$30 billion decline in merchandise exports—particularly in steel and heavy goods—due to carbon regulations and a sharp 170% rise in freight costs.
- Traditional IT faces near-term pressure from rapid AI adoption, yet the sector is pivoting toward a higher-value model; while AI may displace 92M jobs, it is projected to create 170M new roles in data automation and consulting, likely pushing total services exports past \$400B in FY26. Further, India's exports are getting a strong boost from its \$178.6B trade partnership with GCC countries and new agreements like FTA and CEPA.
- From a net exports perspective, the combined impact of weaker goods exports and moderating IT services growth may limit overall export gains in the near term.

Exports Growth (CAGR)



Source: Economic Survey 2025-26

Exports, Imports & Net Trade



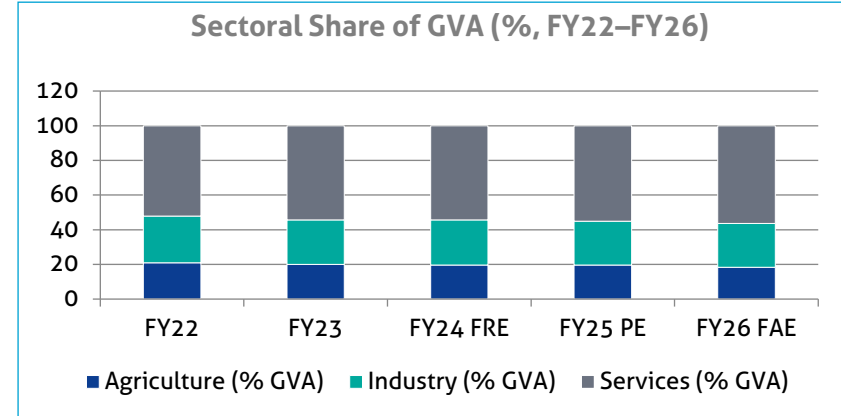
Source: MoSPI, Government of India

Sectoral Composition: Service, Agriculture & Industry

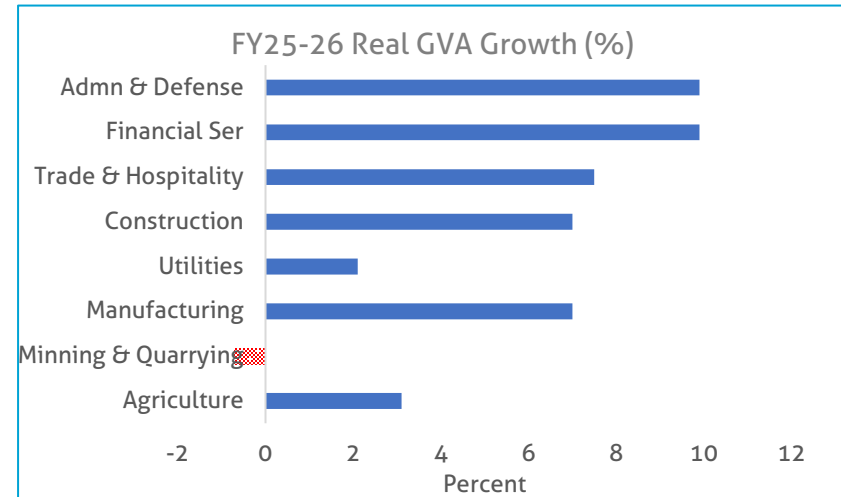
- In FY 2025–26, growth moderated as agriculture and allied activities recorded around 3.1 percent real GVA growth, reflecting subdued commodity prices despite generally favorable monsoon conditions, while the sector contributed around 17.1 % to India's GDP. While mining sector contracted by 0.7% partly due to disruptions caused by excessive rainfall.
- Services** lead GVA growth at 56%, driven by Financial, Real Estate & Professional Services (expanding 9.9%) and Public Administration & Defence (9.9%). Growing at 6.5%, services exports act as a "stable anchor" against merchandise trade volatility. **Agriculture's** relative importance has declined to 17.1%, marked by high YoY variability and low productivity gains. **Industry** remains stable at 25% (manufacturing at 17-18% in real terms; yet faces a bottleneck in low innovation. India's "modest" R&D investment limits the sector's capacity to move up the value chain and achieve "strategic indispensability."
- Should India risk sidelining its primary sector still employing 45% of workers while shrinking to 17.1 % GVA as rural India bears the brunt of its stagnation.
- Rural Demand Signal: Agri growth deceleration (3.1% FY26 vs 4.6% FY25) correlates with rural consumption stalling at 3.8% vs urban's 6.2% hammering FMCG (+1.2%).

Our Take

- Growth Constraint:** Without agricultural productivity (TFP) rising meaningfully beyond ~1.8%, India's 7%+ growth ambition will continue to face rural drag. While PM-KISAN and MSP support incomes and output, a decisive productivity push is imperative.
- Structural Imbalance:** The growing divergence between a robust services sector and a lagging agri-industrial base highlights deep structural gaps—requiring urgent focus on technology adoption and R&D-led growth to sustain long-term economic resilience.



Source: Press Note on Provisional Estimates of Annual GDP for 2025 26



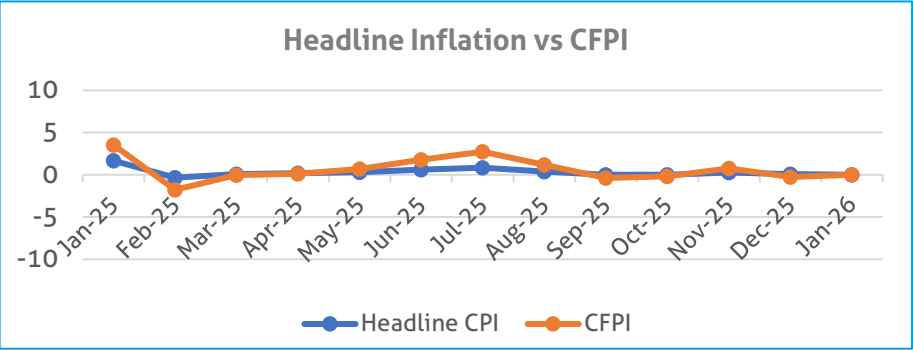
Source: Economic Survey 2025 26

Navigating Disinflationary Trends and Emerging Energy Risks

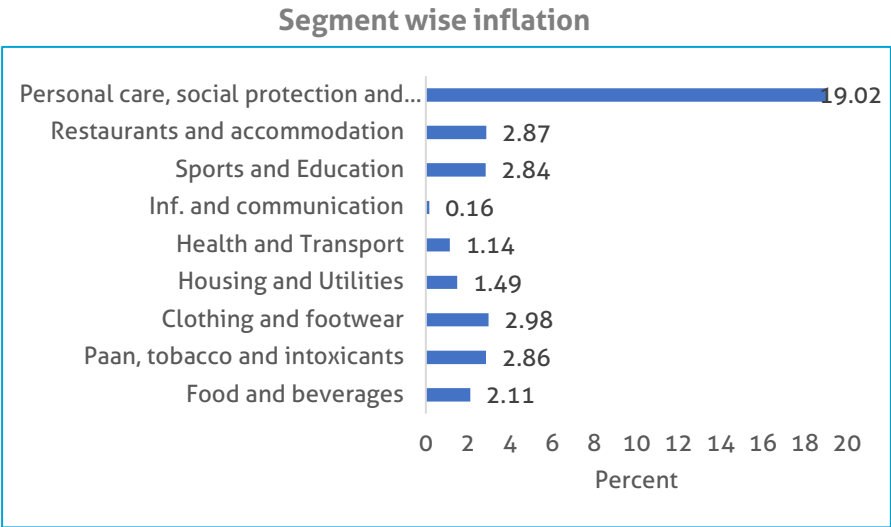
- Inflationary pressures moderated significantly through FY25–FY26, with headline CPI inflation declining sharply over the year. Headline inflation fell from 1.67% in January 2025 to 0.08% in December 2025, remaining below the Reserve Bank of India’s lower tolerance band of 2% for the year. This decline was primarily driven by a sharp moderation in food prices.
- Food inflation turned negative during the year, with Consumer Food Price Index (CFPI) inflation at –0.34% in December 2025, marking the **third consecutive month of negative food inflation**. The correction in food prices, particularly vegetables and other perishables, significantly eased overall inflationary pressures.
- Personal care and effects recorded the highest inflation at 19.02%, while housing (1.49%), clothing and footwear (2.98%), education(2.84%) and miscellaneous services (6.17%) registered moderate price increases. Sectoral trends also indicate some divergence between rural and urban inflation, with urban headline inflation at 2.77% compared to 2.73% in rural areas in January 2026.

Our Take

- FY26’s record-low 1.7% inflation boosted household purchasing power and enabled a strategic RBI rate cut to 5.25%. The updated CPI basket’s reduced food weight suggests future growth cycles may be more resilient to volatile commodity price shocks, ultimately reducing RBI’s inflation range below 2%.
- Rising oil and gas prices may drive cost-push inflation and pressure margins, especially in agriculture and FMCG. While fuel duty cuts could offer partial relief, elevated energy costs are likely to keep cost structures strained in the near term.



Source: MoSPI, GOI, First Press release on CPI, on base 2024=100



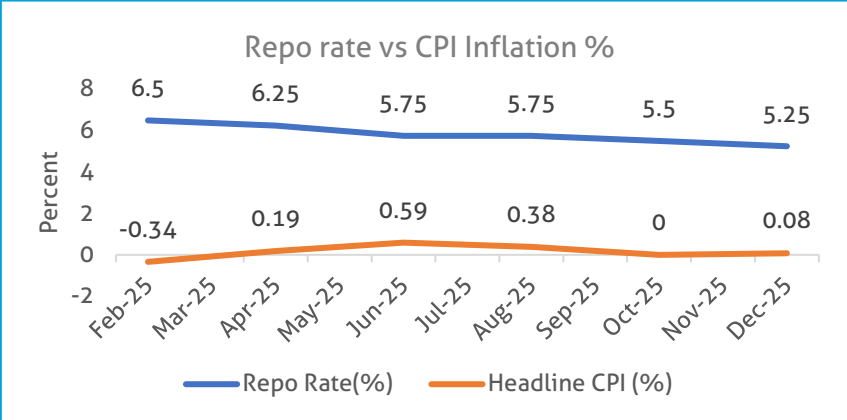
Source: MoSPI, GOI, First Press release on CPI, on base 2024=100

Monetary Policy Overview

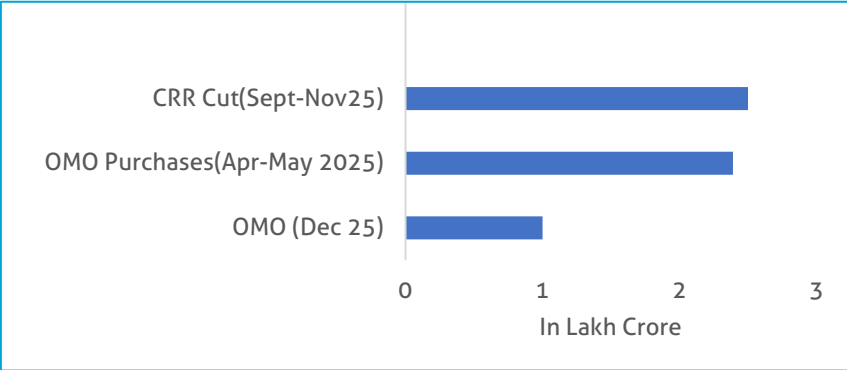
- In FY 2024–25, the RBI held the repo rate at 6.50%, focusing on controlling inflation while supporting growth. The policy stance gradually moved towards neutral, with liquidity managed carefully to keep financial conditions stable.
- By FY 2025–26, the RBI gradually reduced the repo rate to around 5.25%, as inflation moderated to around 2–2.1 percent and growth momentum remained resilient. With price pressures easing, the urgency for further rate cuts diminished, allowing the RBI to prioritize liquidity transmission and financial stability.
- A key step came with the 100 basis point CRR reduction between September and November 2025, releasing roughly ₹2.5 lakh crore into the banking system and strengthening credit availability.
- Liquidity support continued through OMO purchases of ₹2.39 lakh crore during April–May 2025, followed by ₹1 lakh crore in December, alongside a USD 5 billion three-year USD/INR swap, reinforcing market confidence.

Our Take

- Going forward, the RBI signals flexibility rather than haste. With inflation cooling globally and domestically, the next phase of monetary policy could gradually tilt toward growth support while safeguarding financial stability.
- Despite slowing manufacturing momentum, elevated oil prices and currency pressure limit RBI’s room for rate cuts. The policy stance is likely to remain neutral, with liquidity management taking precedence over immediate rate action.



Source: Economic Survey 2025-26



Source: Economic Survey 2025-26

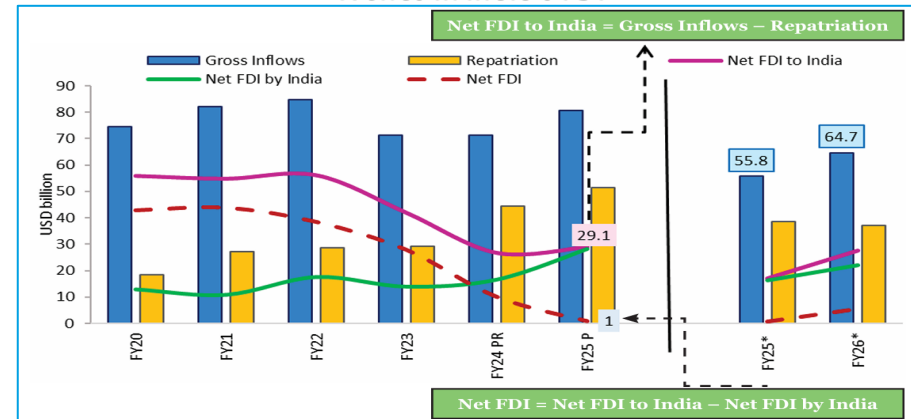
FDI Surges, FII Stumbles — But India's Capital Story Stays Intact

- According to RBI data, Gross FDI rose 13% to USD 81.0 billion in FY25 from USD 71.3 billion in FY24, reflecting global confidence despite net FDI moderation driven by rising investor repatriation and Indian firms' outward global expansion.
- In April-November 2025, gross FDI strengthened further to USD 64.7 billion from USD 55.8 billion in the same period of 2024, signaling renewed interest in digital services, infrastructure, and manufacturing.
- The second chart shows that net FDI is acting as a stable long-term foreign capital inflows that partially finance India's CAD, even during phases of rupee depreciation due to its resilient, growth-driven nature.
- During the April-December 2025 period of FY26, volatile FPI/FII shifted to net equity outflows as investors became net sellers of Indian securities, reallocating toward debt due to global trade uncertainty and AI-focused capital diversion to the US, Taiwan, and Korea.

Our Take

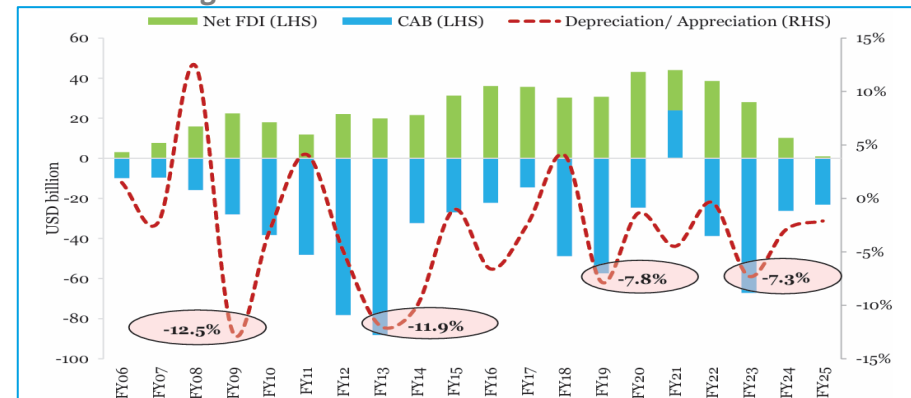
- Elevated US bond yields, a weakening rupee, and the West Asia conflict have triggered a classic risk-off exit from Indian equities. Nearly ₹71,000 crore walked out in just 17 days of March 2026. This is cyclical noise, not a structural verdict on India. Further, improved domestic consumption, private CAPEX and regulatory reforms by government would boost foreign investment in long run.
- India earns USD 135 billion annually in remittances — 40% from Gulf countries. A prolonged West Asia conflict threatening GCC employment is a bigger current account risk than any FPI swing.

Trends in India's FDI



Source: Economic Survey 2025-26

Exchange rate movements in relation to the CAB & net FDI



Source: Economic Survey 2025-26

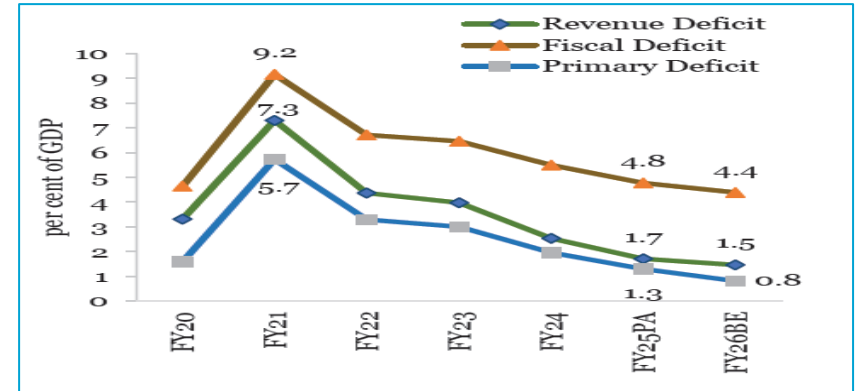
Advancing Fiscal Discipline Amidst Shifting Revenue Dynamics

- In FY 2024–25, the Union government revised the fiscal deficit to 4.8 percent of GDP, lower than the budget estimate of 4.9 percent and 5.6 percent in FY24, supported by robust revenue performance.
- For FY 2025–26, the government continues a deficit target of 4.4% of GDP, with a target to decline the same to around 4.3 percent of GDP by FY27.
- The share of direct taxes has risen from 51.9% pre-pandemic to 58.8% in FY25, reflecting stronger tax buoyancy. This growth is driven by a wider tax base (returns rising from 6.9 crore to 9.2 crore) and improved compliance through technology-led measures like the NUDGE approach.
- Furthermore, GST has strengthened the economy by increasing formalization, with taxpayers rising from ~60 lakh in 2017 to over 1.5 crore. Collections have hit record highs in FY26, and recent GST 2.0 reforms have made the tax system simpler and more efficient.

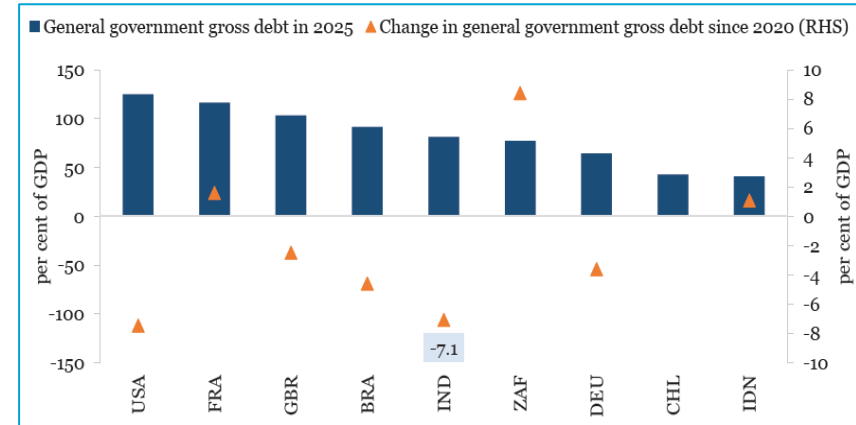
Our Take

- Rising reliance on direct taxes reflects improving income formalization and a strengthening middle-class base. Further, through recent 'GST 2.0' reforms, high tax collections recorded in FY26, ultimately set to boost consumption. Yet declining corporate tax share from 56% to 44% raises sustainability questions, especially as the government balances fiscal consolidation with the need to support private capex.
- Elevated crude prices could increase subsidy burdens on fertilizers and LPG, strain oil marketing companies (OMCs) financially, while also prompting duty cuts on petrol and diesel and higher rural spending. These combined pressures may challenge the government's fiscal consolidation path, making deficit targets harder to achieve in the near term.

Trends in deficit indicators of the Centre



Source: Economic Survey 2025-26



Source: Economic Survey 2025-26



03

Policy Response: Union Budget 2026–27

Government's response through the budget

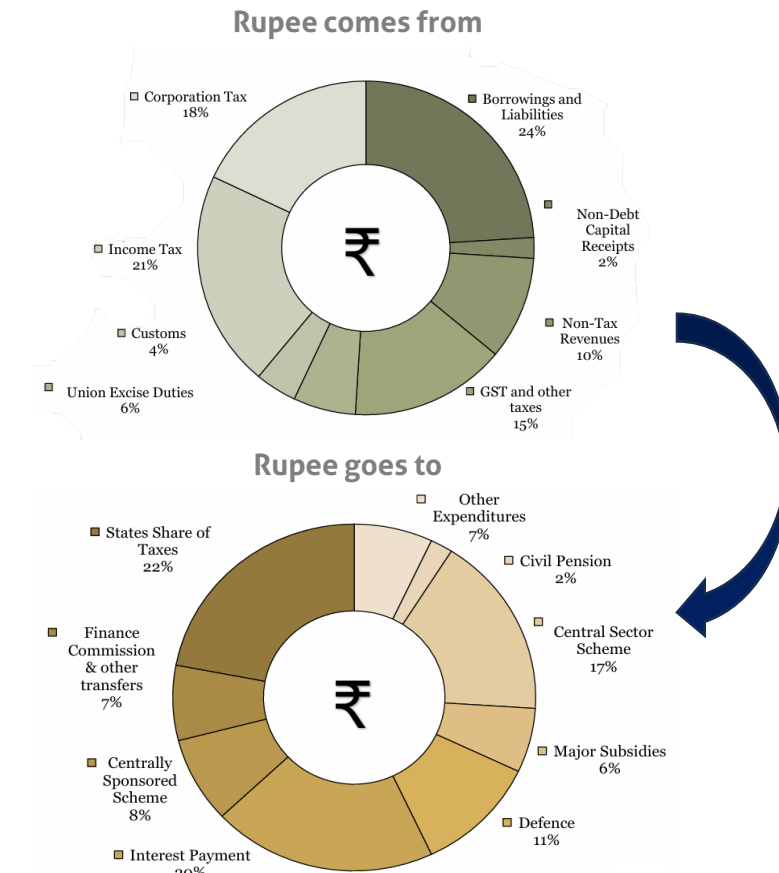
Budget 2026–27 Insights

Policy Push for Investment and Industrial Capacity :

- Effective capital expenditure increases from ₹14.0 lakh crore (FY26 RE) to ₹17.1 lakh crore (FY27 BE). Further, total revenue expenditure rises to ₹41.3 lakh crore (FY27 BE), with ₹2 lakh crore support to states under SASCI.
- Infrastructure focus: Expanded Dedicated Freight Corridors, 20 new National Waterways, and coastal cargo targeted to rise from 6% to 12% by 2047.
- Industrial initiatives: India Semiconductor Mission 2.0, Electronics Components Scheme, 3 Chemical Parks, and 200 legacy cluster revivals. India is shifting toward a capacity-building growth model, prioritizing logistics and infrastructure.

Fiscal Discipline and Financial System Deepening :

- Fiscal deficit maintained at 4.4% of GDP in FY26 RE, declining to 4.3% in FY27 BE.
- Government targets debt-to-GDP ratio of ~50±1% by 2030.
- Debt expected to decline from 56.1% in FY26 to 55.6% of GDP in FY27.
- The budget introduces measures to deepen capital markets and improve credit access:
 - Market-making framework for corporate bond markets and total return swaps on corporate bonds.
 - Review of FEMA (Non-debt investment rules). Incentives of ₹ 100 Cr for single issuance of municipal bonds above ₹1,000 crore. Current scheme under AMRUT will continue.



Source: Budget Highlights, 2026

The government is targeting towards capacity building model, through effective capital to ₹17.1 lakh crore to modernize strategic industrial and logistics infrastructure. However, due to current geopolitical tensions, the capex infusion may not be effective in the short run. Hence, this may increase fiscal deficit rather than reducing it to 4.3% in FY27 BE, potentially crowding out private investment, raising borrowing costs, pressuring sovereign ratings, and ultimately moderating overall economic growth in the short run. However, the long term benefit of the same over the next decade would be substantial.

Structural Reforms for Global Competitiveness & Financial Depth

Trade & Logistics Acceleration

- Operationalizing **20 new Waterways**, Dankuni-Surat DFC which is Backed by ₹12.2 lakh crore capex, for a high-capacity, low-cost logistics backbone.
- **7 High-Speed Rail corridors**, factory-to-ship clearance and **30-day duty deferrals** for trusted importers, moving towards **digital-first governance**.

Potential Impact:

Investment ↑
Export cycle Protection ↑

Global Value Chain (GVC) Integration

- **ISM 2.0, Biopharma SHAKTI schemes** and **Electronics schemes** move India into high-value GVC production tiers.
- **Tax exemptions, safe harbour** and Incentives for non-residents encourage hubbing component processing in India.

Potential Impact:

Net Exports ↑
Current Account Deficit (CAD) ↓

Financial Markets & Banking Deepening

- Banking-growth alignment and bond market-making deepen liquidity. Municipal incentives mobilize **long-term capital for infrastructure**.
- **FEMA reviews and PROI equity access** attract global capital. STT hikes prioritize long-term investment over speculative trading.

Potential Impact:

Stabilized and sustainable Growth ✓
FDI ↑ ⇒ Investment ↑

MSME Ecosystem Expansion

- A ₹10,000 crore **SME Growth Fund** and SRI Fund top-up provide critical and affordable compliance.
- Mandating TRoDS for CPSEs and linking it with GeM and Removing the ₹10 lakh **courier export cap** boosts MSME liquidity.

Potential Impact:

Employment ⇒ Consumption Creation ↑
Export Cap. ✗ ⇒ Net Exports ↑

India's multi-sector structural reforms—spanning high-capacity logistics, GVC integration, and deep financial market maturity—are fundamentally lowering the cost of business while attracting high-quality global capital. This strategic shift will likely transform India into a premier, self-sustaining global production hub, shielding the economy from external shocks and ensuring a decade of robust, technology-led growth.

Abbreviations

Slide 4:

GDP- Gross Domestic Product
CPI- Consumer Price Index
IIP- Index of Industrial Production
WPI- Wholesale Price Index
SNA 2025- System of National Accounts 2025
GSTN- Goods and Services Tax Network
MCA21 v3- Ministry of Corporate Affairs 21st Century e-Governance Project (Version 3)
EPFO- Employees' Provident Fund Organisation
NSSO Survey- National Sample Survey Office Survey
HCES 2023- Household Consumption Expenditure Survey 2023
PLI- Production Linked Incentive Scheme

Slide 5:

GCC- Global Capability Centre

Slide 8:

PPP- Purchasing Power Parity

Slide 9:

Real GDP- Gross Domestic Product adjusted without inflation
Nominal GDP- Gross Domestic Product at current market prices (with inflation)

Slide 11:

FAE- First Advance Estimates (of National Income)
NABARD- National Bank for Agriculture and Rural Development

Slide 12:

QCOs- Quality Control Orders

Slide 14:

FTA- Foreign Trade Agreement
CEPA- Comprehensive Economic Partnership Agreement

Slide 15:

GVA- Gross Value Added
TFP- Total Factor Productivity
MSP- Minimum Support Price

Slide 16:

Headline CPI- Measures overall retail inflation, including food and fuel prices.
Inflation- General rise in price levels
CFPI- Consumer Food Price Index

Slide 17:

Monetary policy- Central bank actions controlling money supply
OMO- Open Market Operations
CRR- Cash Reserve Ratio
Repo rate- Rate for RBI-bank loans

Slide 18:

FDI/ FII- Foreign Direct Investment / Foreign Institutional Investor
FPI- Foreign Portfolio Investment
CAB/ CAD- Current Account Balance / Current Account Deficit

Slide 19:

OMCs- Oil Marketing Companies

Slide 21:

RE/ BE- Revised Estimates / Budget Estimates
SASCI- Scheme for Special Assistance to States for Capital Investment
AMRUT- Atal Mission for Rejuvenation and Urban Transformation
FEMA- Foreign Exchange Management Act

About **kcmCompass**

kcmCompass is a special publication prepared by the Strategic Advisory team at K C Mehta & Co LLP. This publication is intended to offer periodic economic updates and an overview of policy changes introduced during the period. The idea is to analyze the movement and trends amongst various economic metrics, understand the Government's policies around the same, and analyze the impact of both on business.. This would act as a reckoner for businesses, helping them gauge the direction of the economy and accordingly take necessary action in their decision making.

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Locations

Ahmedabad

Arpit Jain

Level 11, Tower B,
Ratnaakar Nine Square,
Vastrapur, Ahmedabad
- 380 015

Phone: + 91 79 4910 2200

arpit.jain@kcmehta.com

Bengaluru

Dhaval Trivedi

4/1, Rudra Chambers, First
Floor, 4th Main, B/W 8th &
9th Cross Road,
Malleshwaram, Bengaluru -
560 003

Phone: +91 99983 24622

dhaval.trivedi@kcmehta.com

Mumbai

Bhadresh Vyas

315, The Summit Business
Bay, Nr. WEH Metro Station,
Gundavali, Andheri East,
Mumbai 400 069

Phone: +91 22 2612 5834

bhadresh.vyas@kcmehta.com

Vadodara

Milin Mehta

Meghdhanush,
Race Course, Vadodara -
390 007

Phone: +91 265 2440 400

milin.mehta@kcmehta.com

Dubai

Suril Mehta

Dubai, United Arab
Emirates

Phone: +971 55 509 2621

suril.mehta@kcmehta.com