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GEOPOLITICS, TRUMP 2.0, AND INDIA: WHAT LIES AHEAD?

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The Global Context: Geopolitics and Volatility

Despite the apparent ceasefire, the Iran-Israel conflict has shaped again the geopolitical landscape, involving U.S. actions under President Donald Trump influencing potential future trajectories. The conflict, which escalated in June 2025, began with Israel launching a surprise air campaign on June 13, targeting Iran's nuclear facilities, military infrastructure, and leadership, citing an imminent nuclear threat. Iran retaliated with missile and drone strikes, leading to a 12-day air war.

The U.S. entered the conflict directly on 21 June'25, with strikes on three Iranian nuclear sites, namely- Fordow, Natanz, and Isfahan, using B-2 bombers, though a U.S. intelligence assessment suggests these strikes only set Iran's nuclear program back by months, not destroying core components.

Trump announced a 12-hour ceasefire on 23 June'25, claiming both Israel and Iran sought peace. While he has taken credit for de-escalation, his profanity-laced criticism of both nations for alleged violations has drawn mixed reactions. On the other hand, tensions between all sides remain high, indicating that Trump might has his work cut out if he wants to maintain a longer-term truce.

At the initiation of the war between Iran-Israel, and as per subsequent developments, the trajectory of oil prices was expected to be skyrocketing. However, after briefly surging past $80 per barrel on 23 June'25 in response to US strikes on Iran's nuclear facilities, Brent crude prices had plunged to below $66 later after the ceasefire has been confirmed, implying threats to oil exports from the region have subsided for now.

On the other hand, markets remain in a bit jittery, and the dollar weakened following a Wall Street Journal (WSJ) report that Donald Trump is considering an early announcement of his pick for Fed Chair.[1]

India: Opportunity & Challenges

In the week ended 13th June'25, the markets overturned the positive sentiment witnessed in the previous week. The optimism generated by the US-China trade agreement, as well as the more-than-expected RBI rate cut, was overshadowed by rising tensions in the Middle East which sparked a risk averse sentiment globally. Despite the initial bearish sentiment, the market rallied on 26 June'25 due to optimism regarding easing of Iran-Israel tensions and cooling oil prices.

Growth Outlook

Despite the global doldrums, India remains one of the fastest growing economies. India's economy is expected to maintain a growth rate of 6.3% to 6.8% over the next 12 to 18 months, aided by resilient consumption and government spending. Government spending, especially on infrastructure is expected to be the key driver of the economic growth supported by the buoyant consumption expenditure. Early kharif sowing data remains favourable which indicates an increase in the area of major crops. Though the monsoon remains approving, the global climate change issues remain challenging, hence the growth of agricultural sector would crucially depend on the weather-related factors.

According to the provisional estimates released by the National Statistical Office (NSO) on 30th May 2025, real GDP growth in Q4:2024-25 has been positioned at 7.4 per cent as against 6.4 per cent in Q3. On the supply side, real gross value added (GVA) increased by 6.8 per cent in Q4:2024-25. For 2024-25, real GDP growth was placed at 6.5 per cent, while real GVA recorded a growth of 6.4 per cent.[2]

However, spillovers emanating from protracted geopolitical tensions, and global trade and weather-related uncertainties pose downside risks to growth.

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[1] The Federal Reserve kept the federal funds rate unchanged at 4.25-4.50% for a fourth consecutive time at the Federal Open Market Committee (FOMC) meeting in June. The unanimous policy decision, along with the policy statement and Chair Powell's press conference, reinforced the Fed's wait-and-see approach amid a cloudy economic outlook.

[2] MOSPI Press Release 30th May 2025.

The Oil Price Outlook

Crude oil prices faced upward pressure as the conflict between Iran and Israel escalates. The Strait of Hormuz (handling a third of the global maritime oil trade) which is a critical passage for global oil trade is experiencing navigation issues due to the ongoing hostilities. Potential fear of closing the chokepoint by Iran further escalated the prices, though this is less likely due to heavy US military presence and this could be an extreme step for Iran causing also damages for the country. Potential U.S. involvement in the conflict, as suggested by President Trump's statements, as well as Iran's possible retaliatory strikes on US military interests in the Middle East if Trump decides on an offensive campaign have further fuelled the volatility and upward trend of oil prices.

The initial turmoil in the global oil market was started after Israel launched a series of air strikes on targets in Iran on 13 June'25 and Tehran retaliated. The current conflict is somewhat different and more severe than previous conflicts, with energy infrastructure also targeted for the first time.

The following Table provides future oil prices outlook under normal (base case), less than worst case, and worst-case scenario of geopolitical developments:

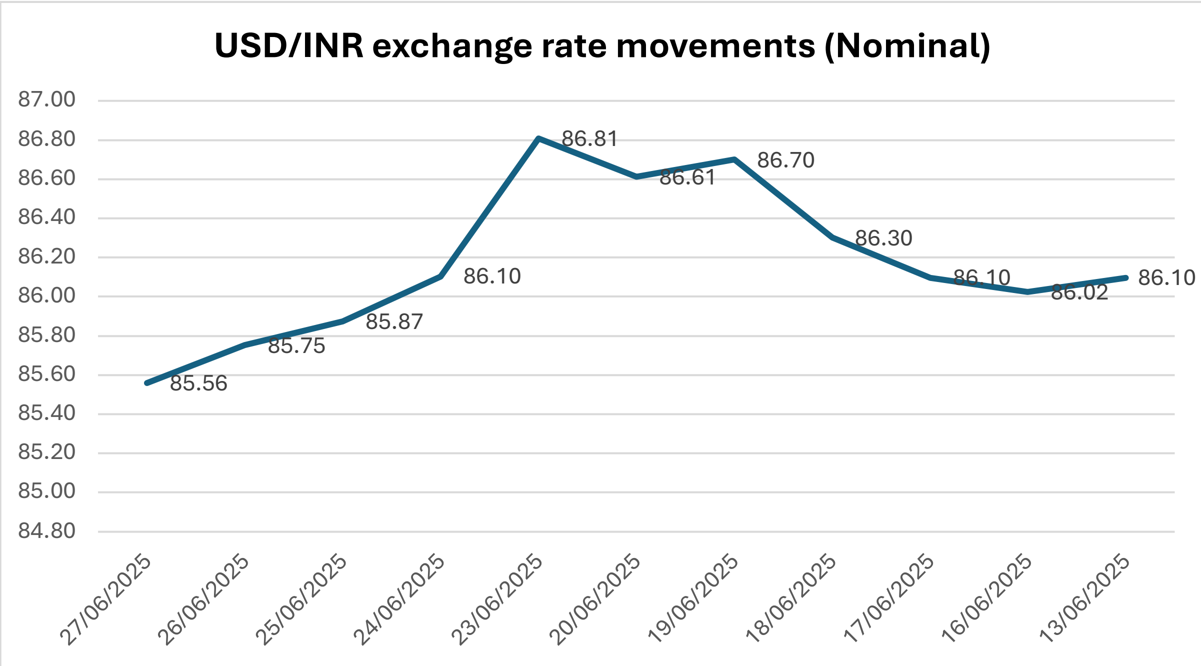
Situations	Oil prices ($/bbl) in 2025
Normal	$60~$66**
Severe but less than worst case scenario	$74~$90
Worst case geopolitical tensions	$90~$120

***Under the ceasefire, the oil prices are likely to be range bound.*

INR Outlook

In the second week of June 2025, the Indian Rupee (INR) recorded a significant depreciation against the US Dollar (USD). INR breached the ₹86 per USD level on 13June'25, marking a decline of 0.7 per cent in a day. The drop in the INR (₹) was primarily driven by an escalation in the Israel-Iran conflict. Additionally, the rising tensions also triggered increased volatility in the exchange rate. The one-month forward premia dropped sharply to 1.4 per cent in the week ended 6th June'25, compared to two per cent observed in the previous week. The decline follows narrowing of the interest rate gap between India and the US, as the RBI cut the policy rate by a substantial 50 basis points in its June'25 monetary policy.

Post-ceasefire, a strong revival in the domestic equity markets prevented steep losses in the local unit. At the interbank foreign exchange, the rupee opened at ₹86.00 against the US dollar and traded in the range of ₹85.79-86.14 before settling at ₹86.07 (provisional), down 2 paise from its previous close, and further strengthened between the range ₹85.56~₹85.87 during 24~27 June'25.



Source: FBIL, RBI, Reference Rate Archive.

DIIs sustain the momentum, easing tensions boosted stock market

Signs of stability in West Asia has boosted the stock market, while the BSE Sensex surged on 27 June'25 at 83,912.42 an increase of 19 per cent. The Domestic Institutional Investors (DIIs) have permeated ₹3.5 trillion into Indian equities during the first half on 2025 (H1CY25). Despite the recent comeback of FIIs due to easing of geopolitical tensions, they remain net sellers up to 26 June'25 they sold ₹25,040 crore in the debt segment (general, VRR, FAR), while they sold ₹1747 crore in equities.

	Monthly FPI Net Investments (Calendar Year - 2025) – [INR Crores]											
Month	**Equity**	**Debt**			**Hybrid**	**Mutual Funds**					**(AIFs)**	**Total**
	Equity	**Debt-General Limit**	**Debt-VRR**	**Debt-FAR**	**Hybrid**	**Equity**	**Debt**	**Hybrid**	**Solution Oriented**	**Other**	**AIF**	
January	-78027	-3424	-4197	8192	206	101	-121	-5	0	63	0	-77211
February	-34574	-5508	1531	14494	-318	-82	367	6	0	-216	0	-24301
March	-3973	9711	-966	29044	-15	-68	-877	-57	0	182	0	32981
April	4223	-13314	-5649	-5421	-388	98	314	-88	0	33	0	-20190
May	19860	19615	1899	-9359	-689	-428	-52	65	0	38	0	30950
June **	-1747	-6520	-6034	-12486	130	425	-168	-2	0	30	0	-26374
Total - 2025	**-94238**	**560**	**-13416**	**24464**	**-1074**	**46**	**-537**	**-81**	**0**	**130**	**0**	**-84145**
**** up to 26 Jun 2025**												

Source: NSDL.

NRI Deposits remain robust

Non-Resident Indian (NRI) deposits showed a marginal year-on-year(yoy) uptick of 0.46 percent in April 2025, with total outstanding balances rising to $165.43 billion from $164.68 billion in April 2024, according to the RBI's June 2025 bulletin. Non-resident deposits recorded a higher net inflow of US$ 16.2 billion in 2024-25 than US$ 14.7 billion a year ago.

NRI Deposits Inflow (USD Million)

Scheme	**Outstanding**				**Flows**	
	2024-25	**2024**	**2025**		**2024-25**	**2025-26**
		Apr.	**Mar.**	**Apr. (P)**	**Apr.**	**Apr.(P)**
1 NRI Deposits	**164677**	**153009**	**164677**	**165432**	**1078**	**751**
1.1 FCNR(B)	32809	26216	32809	33081	483	272
1.2 NR(E)RA	100733	99229	100733	101112	564	376
1.3 NRO	31135	27564	31135	31239	31	103

P=Provisional; Source: RBI June Bulletin 2025.

FDI inflows remains healthy

Adjusting for $3190 million FDI by India towards other countries from the gross FDI inflows of $7135 million, the net FDI inflows in India remains at $3945 million during April'25. According to the RBI June'25 Bulletin, Gross foreign direct investment (FDI) inflows remained strong, rising by around 14 per cent to US$ 81.0 billion in 2024-25 from US$ 71.3 billion a year ago. However, net FDI inflows moderated to US$ 0.4 billion in 2024-25 from US$ 10.1 billion a year ago. Net inflows under external commercial borrowings (ECBs) to India increased to US$ 18.7 billion during 2024-25 as compared with US$ 3.6 billion a year ago. In April 2025, net ECB to India increased to US$2.8 billion from US$0.5 billion compared to the same period of the previous year.

Private Sector Capex outlook

According to the first round of the Forward-Looking Survey on Private Sector Capex Investment on 29th April 2025 by the Ministry of Statistics and Programme Implementation (MoSPI), there is an overall increase of 66.3 per cent in aggregate capex over the four-year period from FY22 to FY25.[3] Sales of manufacturing sector companies rose by 6.0 per cent during 2024-25 as compared to 3.5 per cent growth in

[3] Monthly Economic Report (April 2025), DEA, MoF, GoI. Link: https://dea.gov.in/monthly-economic-report-table

the previous year, mainly led by automobiles, electrical machinery, food & beverages and pharmaceuticals industries.

On the other hand, among the major industries, petroleum and iron & steel industries recorded contraction in their sales during 2024-25. However, manufacturing companies' expenses on raw material rose by 6.6 per cent during 2024-25; raw material to sales ratio increased to 55.7 per cent in 2024-25 from 54.2 per cent a year ago, pointing to input cost pressure.

With increase in the input costs, operating profit growth of manufacturing companies moderated to 6.0 per cent during 2024-25 from 12.4 per cent in the previous year; within services sector, profit growth moderated to 15.9 per cent in 2024-25 for the non-IT services companies, while it inched up to 6.1 per cent for IT companies.[4]

Despite challenges like geopolitical tensions and high borrowing costs, about 30 per cent of firms planned to invest in upgradation in FY25, supporting the sharp increase of 55.5 per cent in capex for that year. The slightly lower intended CAPEX for FY26, though still above FY24 levels, reflects cautious planning.

In FY25, among the sectors, manufacturing enterprises account for the largest share in capex spending at 43.8 per cent, followed by those in 'Information and Communication Activities' (15.6 per cent) and 'Transportation and Storage Activities' (14 per cent).

RBI's Order Books, Inventories, and Capacity Utilisation Survey (OBICUS) showed that capacity utilisation in the manufacturing sector increased to 75.4 per cent in Q3:2024- 25 from 74.7 per cent in the same quarter of the previous year. Seasonally adjusted capacity utilisation at 75.3 per cent was well above the long-term average of 73.8 per cent.

According to the CMIE Capex database, during Q4 of FY25, high-frequency indicators like domestic production of capital goods and infrastructure/ construction goods registered a growth of 6.6 per cent and 7.6 per cent, respectively. Among the coincident indicators of construction activity, both steel consumption and cement production reverted to double-digit growth in Q4 of FY25.

Nonetheless, the bottlenecks were due to multiple factors- demand challenges in fiscal 2024-25 by listed companies, lack of project completions, Fiscal 2025-26 poses new challenges post tariff wars and uncertainties on global trade and supply chains. Financial statements of the first nearly 315 listed companies indicate that the corporate sector experienced significant slowdown of its business in the quarter ended March 2025.

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[4] **"Performance of Private Corporate Business Sector during 2024-25" (26 June'25) RBI Press Release: 2025-2026/596 [https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=60711].**

Government Infrastructure push is expected to be robust

In line with the vision of Viksit Bharat @ 2047, the Union Budget 2025-26 allocates ₹11. 21 lakh crore for the infrastructure sector, compared to ₹11.11 lakh crore in the budget estimates for FY2024-25. Nonetheless, the actual capex is likely to fall short of its budgeted capex target for FY25 by ₹93,000 crore (US$ 10.67 billion), with the revised estimate at ₹11,11,000 crore (US$ 127.45 billion).

Balancing such substantial capex requirements with fiscal discipline is a challenging task. Nonetheless, the GOI has maintained its fiscal balance robust. The government aims to reduce the fiscal deficit to 4.4% of GDP in FY 26, whereas for FY25, the Revised Estimate (RE) remains at 4.8%. The fiscal consolidation path and maintaining range-bound public debt are crucial for India's sovereign rating aspect.

It is praiseworthy that from a fiscal deficit as high as 9.2% in the Covid period in FY21, it remains gradually towards consolidation, for instance it brough down from 6.7% in FY22 to 6.4% in FY23 and further at 5.6% in FY24. The range-bound sovereign yield would also help in reasonably lower spread in domestic bonds helping corporates raising funds in easier terms. Effectively, there would be a 'crowding-in' instead of 'crowding-out' impact.

The debt reduction strategy is more evolved way of fiscal consolidation, whereas according to media reports the government plans to reduce by 2031 at least in the range of 49%-51%.[5] This path would be conditioned by both India's economic performance and devoid of any severe external shock. The gross market borrowings (GMB) are estimated at ₹14.82 lakh crore, whereas the net market borrowings from dated securities are estimated at ₹11.54 lakh crore.

The Reserve Bank of India (RBI) has announced a record-breaking ₹2.69 lakh crore dividend to be given to the central government for the financial year 2024-25, which is 27% higher compared to the ₹2.11 lakh crore dividend given last year, as well as remains the highest dividend transfer from RBI to the GOI so far.

The GST revenue also reached a record-breaking ₹2.37 lakh crore in Apri'25, indicating a12.6 % year on year (YOY) increase.

Concluding Remarks

India's macro fundamentals remain strong amid global volatility and uncertainty. The growth-inflation dynamics is also in expected lines. For 2024-25, real GDP growth was placed at 6.5 per cent, while real GVA recorded a growth of 6.4 per cent. India's 14 production linked incentives (PLI) schemes attracted ₹1.76 lakh crore worth of investments.

[5] In other words, it is (50+-1%)

Cumulative incentive amount of ₹21,534 crore has been disbursed under PLI schemes for 12 sectors including Large-Scale Electronics Manufacturing (LSEM), IT Hardware, Bulk Drugs, Medical Devices, Pharmaceuticals, Telecom & Networking Products, Food Processing, White Goods, Automobiles & Auto components, Specialty Steel, Textiles and Drones & Drone Components.

The year-on-year (YOY) bank credit in 2025 remains healthy, overall bank credit in 2025 has shown a 10.3 per cent YOY growth. However, while agricultural sector credit disbursements have experienced 9.2 per cent YOY growth in 2025, the industry offtake remains somewhat muted at 6.6 per cent growth. The services sector growth remains at 10.5 per cent whereas the personal loans have seen the highest growth at 11.9 per cent during 2025 so far.[6]

The private capex has seen some challenges like demand challenges in fiscal 2024-25 by listed companies, lack of project completions, Fiscal 2025-26 poses new challenges post tariff wars and uncertainties on global trade and supply chains. Financial statements of the nearly 315 listed companies indicate that the corporate sector experienced significant slowdown of its business in the quarter ended March 2025. Trade policy uncertainty continues to weigh on merchandise exports prospects.

Nonetheless, going forward, the economic activity continues to maintain the momentum in 2025-26, supported by private consumption and adhesion in fixed capital formation. The sustained rural economic activity bodes well for rural demand, while expansion in services sector is expected to support the urban demand. Investment activity is expected to increase in line with higher capacity utilization (thus also reducing the output gap), and government's capital expenditure push.

[6] "No. 15: Deployment of Gross Bank Credit by Major Sectors" (June 2025) RBI Bulletin.