

Navigating headwinds, harnessing reform: India's growth engine powers ahead

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- The background of the cover features a bar chart with blue bars and a green line graph. A magnifying glass is positioned over the chart, focusing on a specific bar. A black pen with a gold tip is resting on the chart, pointing towards the right. The chart has various numerical values labeled on top of the bars, such as 290, 320, 350, 295, 270, 325, 335, 285, and 205. The magnifying glass shows a close-up of a bar with the value 195. The overall theme is financial analysis and economic growth.
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Brickwork Research
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Executive summary

Q2 GDP at 8.2% lifts H1 growth to 8.0%; FY2026 forecast revised to 7.2%.

Headline inflation at 0.25% in Oct 2025—lowest in CPI series; Global commodity volatility remains the key risk to inflation trajectory.

Broad-based sectoral momentum with services, manufacturing, and infrastructure driving steady output growth.

Resilient growth supports revenues; sectoral gaps remain a challenge for ratings outlook.

Deposits steady; credit slows on weak demand and regulation—recovery expected in H2 FY2026.

US tariffs challenge exports and diplomacy—India must diversify and deepen trade engagement.

GST overhaul boosts consumption; RBI holds rates amid low inflation and credit revival prospects.

Outlook positive but watchful—domestic strength offset by global risks and external dependencies.

India's economy delivered a robust performance in H1 FY2026, with Q2 GDP growth at 8.2% lifting first-half expansion to 8.0% and prompting an upward revision of the full-year real GDP forecast to 7.2%. India's economy entered Q3 FY2026 amidst a complex global backdrop marked by rising US tariffs, visa fee hikes impacting the IT sector, and significant domestic policy adjustments. On this backdrop, we expect real GDP growth to ease to 6.4% and 6.3% in Q3 and Q4 FY2026, respectively. GST cuts provide partial relief but are insufficient to fully offset trade-related headwinds.

India's headline inflation fell to a record low of 0.25% in October 2025, driven by food price deflation, strong harvests, and GST-related relief. The decline boosted household purchasing power and policy flexibility, while easing input costs supported corporate margins and debt-servicing capacity. Although exceptionally low readings will create a base effect lifting inflation in Q4 FY2026, the near-term outlook remains moderate. Global commodity volatility is a key risk to the outlook.

India's sectoral performance remains broad-based, with services and manufacturing PMIs in expansionary territory and industrial output rebounding, led by steel, cement, and electricity. Industrial production grew steadily at around 4%, supporting manufacturing and infrastructure activity. However, the trade deficit widened sharply in Q2 FY2026 due to festive imports and elevated global prices, though forex reserves remained comfortably close to USD 700 billion reinforcing external stability amid strong services exports and remittances.

From a credit ratings perspective, India's robust sectoral momentum is bolstering macroeconomic resilience and strengthening fiscal revenues, though sectoral imbalances underscore the need for broader diversification to sustain investor confidence. Structural reforms—such as GST rationalization, targeted tax relief, and infrastructure-led public spending—are anchoring low inflation while enhancing fiscal efficiency and promoting inclusive growth, thereby reinforcing the foundations of sovereign credit stability and mitigating overall credit risk.

Deposit growth remained steady at ~10% year-on-year in FY2026, while credit growth slowed to 9.8%, reflecting weak demand and tighter regulations. A brief surge in credit in early September signalled shifting household savings toward non-bank instruments. Though current momentum is subdued, credit growth is expected to recover in H2 FY2026, supported by policy easing and improving consumption.

The recent escalation in US tariffs on select Indian exports—particularly in textiles, gems & jewellery, and electronics—poses a dual challenge. Economically, it threatens export competitiveness, especially in price-sensitive segments, potentially dampening volume growth and pressuring margins. Diplomatically, it underscores the need for renewed trade dialogue and strategic alignment with the US to safeguard market access. While India's diversified export base and ongoing reforms offer buffers, the tariff action highlights the importance of agile trade policy, deeper bilateral engagement, and accelerated market diversification to mitigate long-term risks.

September 2025 witnessed a major GST overhaul, simplifying slabs and reducing rates on over 90% of goods and services. This reform mainly aims to bolster demand while easing compliance burdens, though concerns on revenue sustainability persist. Concurrently, the Reserve Bank of India maintains a neutral monetary policy stance with the repo rate unchanged at 5.5%, supported by benign retail inflation forecasts around 1.8% in Q3 on average, and an accommodative policy environment that primes credit growth.

Looking ahead, the outlook remains optimistic but nuanced. While domestic demand and reform momentum provide a strong foundation, external risks—including tariff actions, global demand softness, and energy import dependence—require continued vigilance. This report offers a comprehensive analysis of macroeconomic trends, sectoral dynamics, and policy developments to help stakeholders interpret risks and opportunities in a rapidly evolving landscape.

Macroeconomic trend and outlook

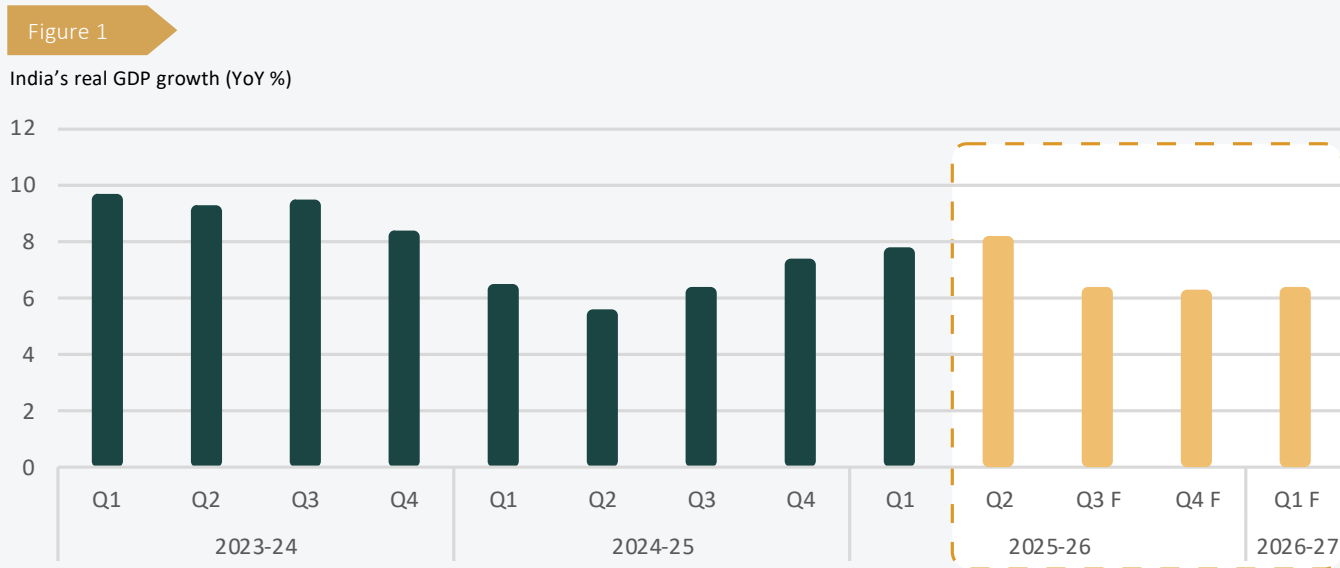
India's economy surged ahead in Q2 FY2026 with an 8.2% real GDP growth, lifting first half growth to 8%.

Strong performances in services, manufacturing, and construction sectors supported growth.

India's real GDP is estimated to expand by 7.2% in FY2026

India's economy surged ahead in Q2 FY2026 (July–September 2025) with a robust GDP growth of 8.2%, surpassing RBI's 7% forecast and lifting H1 FY2026 growth to 8.0%. Buoyant investment activity, festive season demand, sustained public expenditure, diversification efforts, a favourable monsoon, and the positive effects of GST reforms boosted economic activities in the first half of FY2026.

India's Q2 FY2026 GDP growth was broad-based, anchored by a strong 9.2% expansion in services, supported by trade, transport, communications, financial, and government activities. Public administration and financial services registered double-digit gains, reinforcing the sector's dynamism. Manufacturing (9.1%) and construction (7.2%) maintained solid momentum, driven by resilient demand and infrastructure investment. Agricultural growth moderated to 3.5%, compared with 3.7% in Q1 FY2026 and 4.1% in Q2 FY2025. Mining recorded a marginal contraction, while utilities rebounded to 4.4% from 0.5% in Q1, highlighting sectoral imbalances even as overall growth remained resilient.



Source: Ministry of Statistics and Programme Implementation (MoSPI), Reserve Bank of India (RBI). F- Forecast

India's FY2026 GDP growth forecast has been revised up to 7.2%; US tariffs cloud India's H2 FY2026 growth outlook

Broad-based growth bolsters fiscal strength and corporate earnings, reinforcing sovereign stability.

Benign monsoons and strong harvests have kept inflation subdued despite August food price rise

India's GDP growth forecast for FY2026 has been revised upward to 7.2% from an earlier estimate of 6.8%, reflecting a strong H1 FY2026 performance and a gradual moderation ahead. We forecast Q3 and Q4 FY2026 real GDP growth to moderate to 6.4% and 6.3%, respectively, largely reflecting the impact of the 50% US tariffs with trade policy uncertainties expected to weigh more heavily on economic activity during this period. GST rate cuts will provide some relief but are unlikely to offset the adverse effects of US tariffs in the second half of FY2026.

From a credit ratings standpoint, the broad-based growth strengthens India's macroeconomic resilience. The strong Q2 outcome supports fiscal revenues and corporate earnings, enhancing sovereign credit stability. However, sectoral imbalances—particularly mining contraction and weak utilities—highlight the need for diversified growth drivers to sustain investor confidence amid global trade tensions and fiscal constraints.

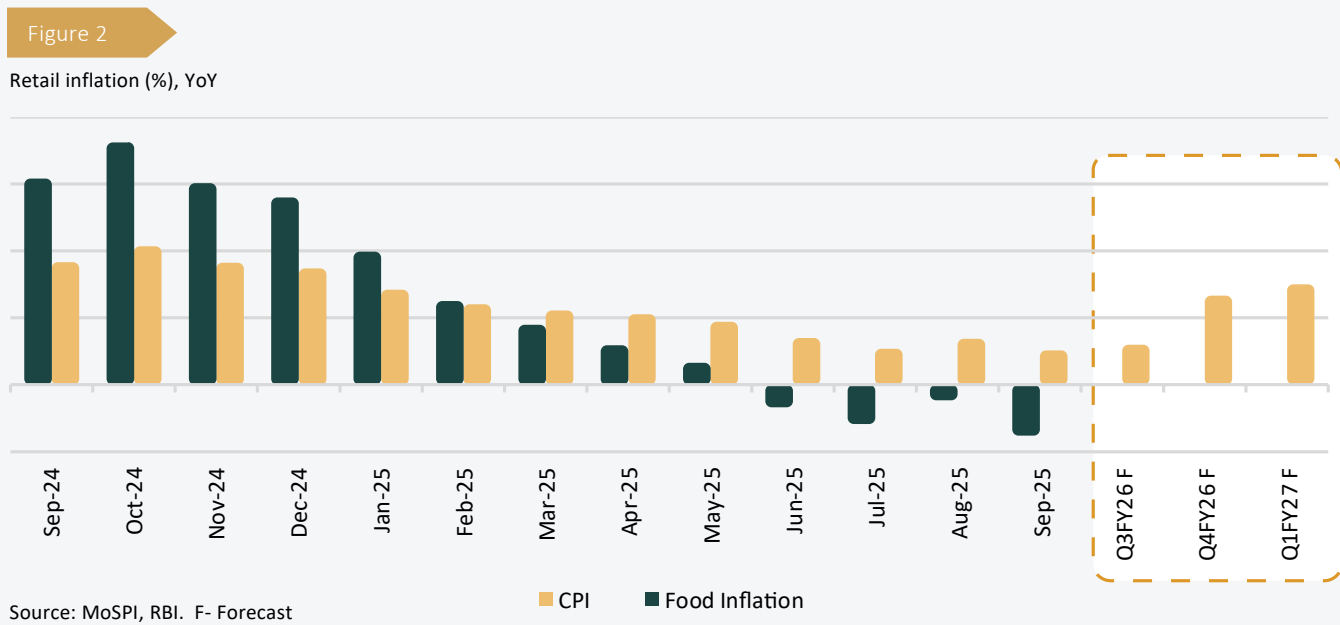
Inflation hits all-time low of 0.25% in October 2025 led by decline in food prices

India's headline inflation decelerated to the lowest level in the current CPI series to 0.25% in October 2025, easing from 1.44% in September, staying significantly below the RBI's target range of 2% to 6% (4% +/- 2%). Favourable base effects and a continued decline in food prices, supported by strong agricultural harvests and a benign monsoon, drove overall inflation down.

Macroeconomic trend and outlook

Food deflation and stable core inflation drive moderation amid global commodity calm

Food prices, a major component of CPI, contracted 5.02% year-on-year in October following a 1.58% decline in Q2 FY2026, mainly driven by the impact of GST decline, favourable base effect and a drop in prices of oil & fats, vegetable, fruits, cereal, transport & communication, etc. The negative food inflation provided relief to lower-income households, especially in rural areas where food constitutes a larger share of consumption. Having said that, a prolonged disinflation could weigh on rural incomes and demand, posing challenges for monetary policy calibration and overall growth sustainability.



Soft inflation boosts household spending and policy flexibility, though global risks loom

Softening inflation has strengthened household purchasing power, particularly among lower-income groups, leading to increased consumer spending while providing the Reserve Bank of India with the flexibility to pursue a data-driven accommodative monetary policy. While low inflation supports economic growth and capital formation, external risks, such as, global trade volatility and weather-related disruptions continue to cloud the inflation outlook. From a credit rating perspective, this disinflationary trend helps ease input cost pressures, supports corporate margins, and strengthens debt-servicing capacity.

Inflation expected to stay moderate, aided by food stability and easing core pressures; Global commodity volatility remains the key risk.

Looking ahead, these exceptionally low readings create a base effect that will mechanically lift headline inflation in Q4 FY2026 even if underlying price trends remain benign. Having said that, inflation over the next two to four quarters is expected to remain moderate, supported by food price stability and easing core pressures. Impact from GST rationalization and targeted rate cuts, although fading gradually, should reinforce fiscal efficiency and reduce indirect tax burdens, helping contain price pass-throughs over the next one to two quarters. Meanwhile, the Production-Linked Incentive (PLI) schemes are likely to boost domestic manufacturing capacity, easing supply-side bottlenecks and mitigating imported inflation. Together, these factors enhance policy flexibility, though global commodity volatility remains a key risk.

RBI kept repo rate unchanged at 5.5%; SDF 5.25%, MSF/Bank Rate 5.75%; neutral stance maintained

RBI kept repo rate unchanged in its 57th Monetary Policy Committee meeting

At its 57th Monetary Policy Committee (MPC) meeting held September 29–October 1, 2025, the Reserve Bank of India (RBI) unanimously voted to keep the repo rate unchanged at 5.5%, maintaining a neutral policy stance. The Standing Deposit Facility (SDF) remains at 5.25%, while the Marginal Standing Facility (MSF) and Bank Rate are steady at 5.75%. This decision reflects a cautious but confident approach, allowing the full impact of earlier rate cuts to filter through the economy.

Rate hold fosters stability, supports fiscal sustainability, and aligns with rating agency outlooks.

By holding rates steady, the RBI underscores confidence in inflation control and growth momentum, reinforcing macroeconomic stability—a critical factor for sovereign credit ratings. The neutral stance signals policy predictability, boosting credibility and aligning

Macroeconomic trend and outlook

RBI supports growth while safeguarding against external risks.

Rate hold signals confidence in inflation control and growth.

with rating agencies' views of India's resilience to global shocks. The upgraded growth forecast also supports fiscal health and debt sustainability, strengthening India's external position.

The RBI's cautious optimism reflects its dual mandate: sustaining domestic growth while guarding against external risks such as global trade disruptions, currency volatility, and geopolitical uncertainty. By maintaining flexibility, the central bank ensures resilience in the face of volatile global financial conditions while supporting India's medium-term growth trajectory.

RBI's decision to hold the repo rate at 5.5% with a neutral stance highlights confidence in India's inflation management and growth resilience. With CPI inflation at multi-year lows and GDP growth robust, the move reinforces a stable, predictable environment that supports fiscal sustainability and strengthens India's credit rating outlook.

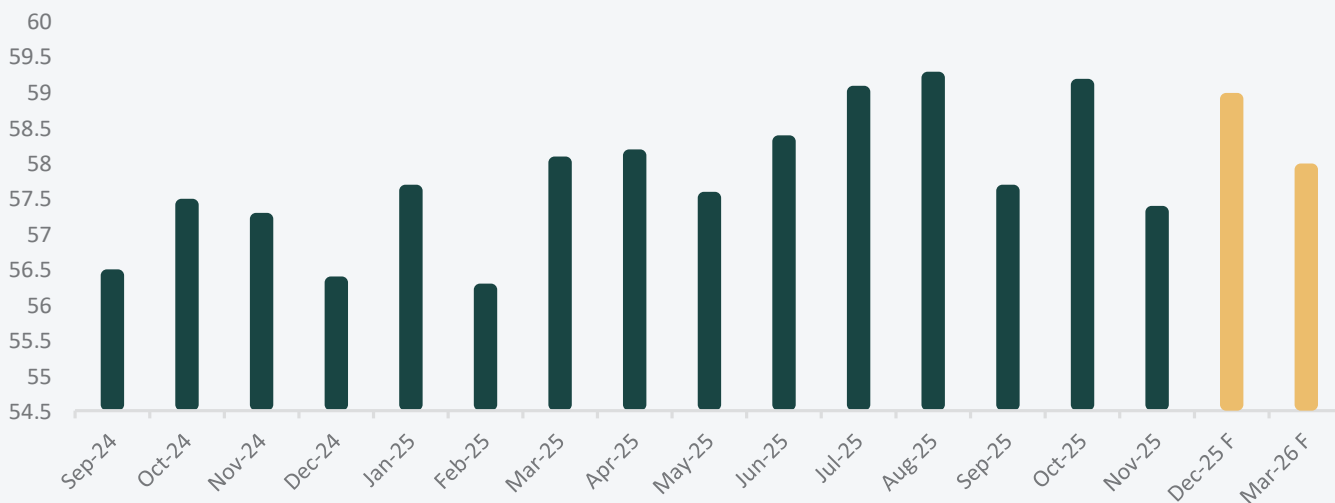
India's manufacturing PMI to remain above the long-term average in the coming quarters

India's manufacturing PMI slipped to 57.4 in November 2025.

India's Manufacturing Purchasing Managers' Index (PMI) slipped to 57.4 in November 2025 from 59.2 in October. Although the November data pointed to a further substantial expansion in private sector output across India, the rates of increase for both new orders and business activity retreated to their slowest since May. These developments, coupled with a lack of pressure on operating capacities, curbed job creation. Employment growth was the weakest in over 1.5 years.¹

Figure 3

India manufacturing PMI



Source: HSBC, Trading Economics, S&P global. F- Forecast

Domestic demand drives manufacturing momentum.

India's manufacturing PMI expected to remain above the long-term average

Despite the challenges posed by the US tariffs, manufacturing activities held firm mainly due to a strong domestic demand, supported by the reduced GST rates and boost from the festive demand. Firms reported strong order inflows, particularly from domestic clients. Manufacturers increased raw material purchases to rebuild inventories amid optimistic output expectations.

Manufacturing PMI is expected to remain above long-term averages over the coming quarters, supported by resilient domestic demand and firms' ability to pass through input costs. While sentiment around future growth remains optimistic, sustaining momentum will hinge on easing inflationary pressures, competitive dynamics, global growth trends, external tariffs, and supply chain stability. Supportive government policies, infrastructure investments, and robust consumption patterns are likely to cushion potential downside risks.

¹ HSBC Flash India PMI, HSBC, 21 November 2025

Macroeconomic trend and outlook

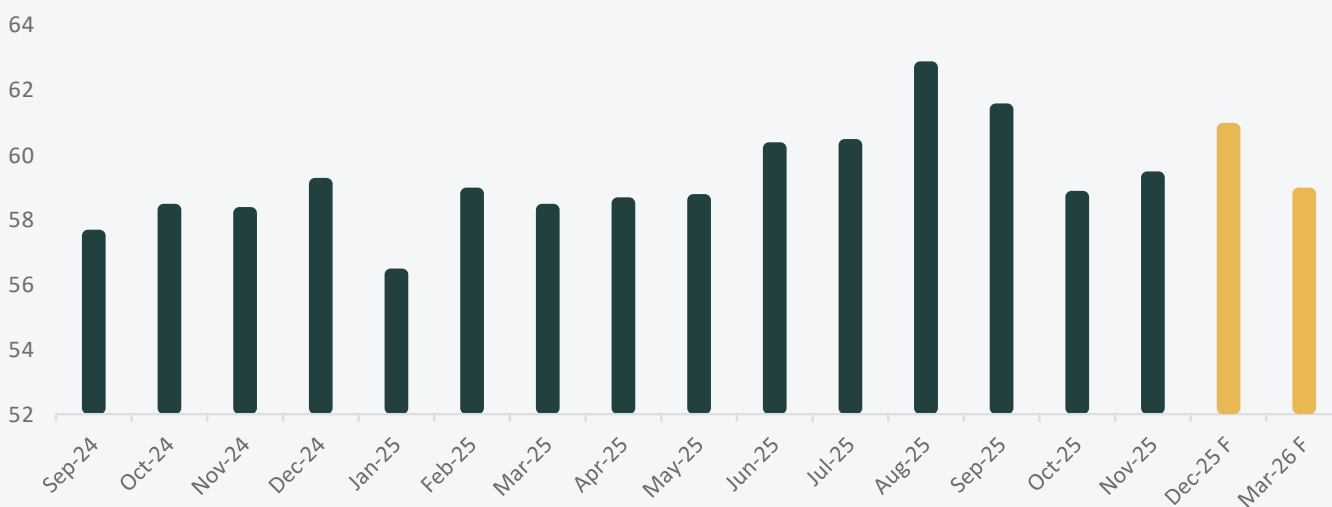
India services PMI hits 15-year peak in August 2025.

Services PMI remains in expansionary zone despite recent moderation

India's services sector demonstrated robust growth in November 2025, with the HSBC India Services PMI rising to 59.5, from 58.9 in October 2025. The expansion was driven by stronger output growth and higher new orders, while employment continued to increase despite a slower pace of job creation. The new export orders among service providers experienced a mild loss of growth momentum. On the price front, both input and output cost inflation moderated, providing relief to service providers. The reading remained well above the 50-mark threshold and the long-term average, indicating sustained expansion in India's dominant services sector.²

Figure 4

India services PMI



Source: HSBC, Trading Economics, S&P Global. F- Forecast

August services PMI touched all-time high; Domestic demand and export orders drove services growth in Q3 FY2026 - finance and insurance led.

Reforms and demand keep services PMI strong, though hiring and exports show caution.

India's industrial output rebounds, manufacturing and infrastructure lead Q2 FY2026.

India's services sector recorded exceptional momentum in Q2 FY2026, with the PMI surging from 60.5 in July to an all-time high of 62.9 in August—the fastest pace of expansion in 15 years and the highest since June 2010—before moderating slightly to a still-elevated level of 61.6 in September 2025. The growth was driven by robust domestic demand and a surge in export orders across key markets including Asia, Europe, the UAE, and the US. Finance and insurance led growth, outperforming real estate and business services, supported by targeted campaigns and strong client onboarding.

Looking ahead, the services sector is expected to anchor FY2026 growth. We expect India's services PMI to remain firmly in the expansionary territory through FY2026 and FY2027, supported by resilient domestic demand, policy reforms, and external sector buffers. PMI is likely to stay in the 55–60 range through rest of FY2026, reflecting moderate but sustained expansion. We expect PMI to remain comfortably above 55 in FY2027, with upside potential if domestic demand and IT exports sustain momentum. While the sector remains a key pillar of India's recovery, cautious hiring and softening export growth suggest the need for strategic recalibration.

Index of Industrial Production (IIP) grew steadily in Q2 FY2026; festive demand and policy push set stage for Q3

India's Index of Industrial Production (IIP) posted 4.1% year-on-year growth during the July–September 2025 quarter, marking a notable recovery from the 1.5% expansion recorded in June 2025. The growth in Q2 FY2026 was driven by a strong rebound in manufacturing, with notable increases in the output of steel, electrical equipment, and cement-based products. Infrastructure and construction goods sustained their double-digit growth, supported by robust public and private investment. Capital and intermediate goods also posted healthy gains, reflecting strong industrial input activity. Policy

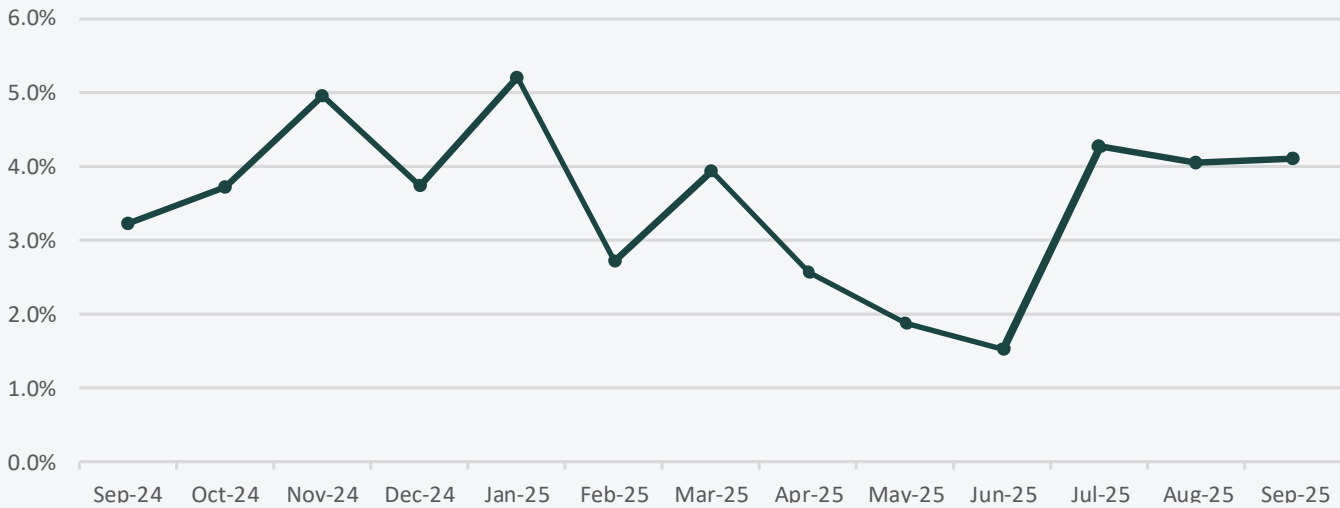
² India Services PMI, Trading Economics

Macroeconomic trend and outlook

measures—such as GST rationalization and continued monetary easing—further boosted investment and consumption demand.

Figure 5

Industrial production growth (IIP), YoY



Source: MoSPI. F- Forecast

Industrial momentum signals economic resilience despite mining challenges

The uptick in industrial activity underscores India’s economic resilience, despite ongoing challenges in the mining sector linked to resource constraints and regulatory issues. Manufacturing and infrastructure-led growth is reinforcing supply chain stability, enhancing export competitiveness, and supporting broader economic expansion. The sector’s performance signals potential for increased employment and investment, with IIP trends affirming the industrial base’s ability to absorb shocks and sustain momentum.

Infrastructure push and festive demand will support industrial activities in the second half of FY2026.

The outlook for H2 FY2026 remains positive, supported by infrastructure spending, manufacturing incentives, and a lift in consumer spending in Q3 due to festive season in India. Recovery in mining and electricity towards the end of 2025 is expected to support IIP growth. While global headwinds—especially weak demand in Europe and China and the US tariff—may weigh on exports, domestic resilience driven by government capex and digital manufacturing should sustain momentum. Continued policy support and close monitoring of global trends will be key to maintaining this trajectory.

July growth modest; steel and cement drive gains, energy weak.

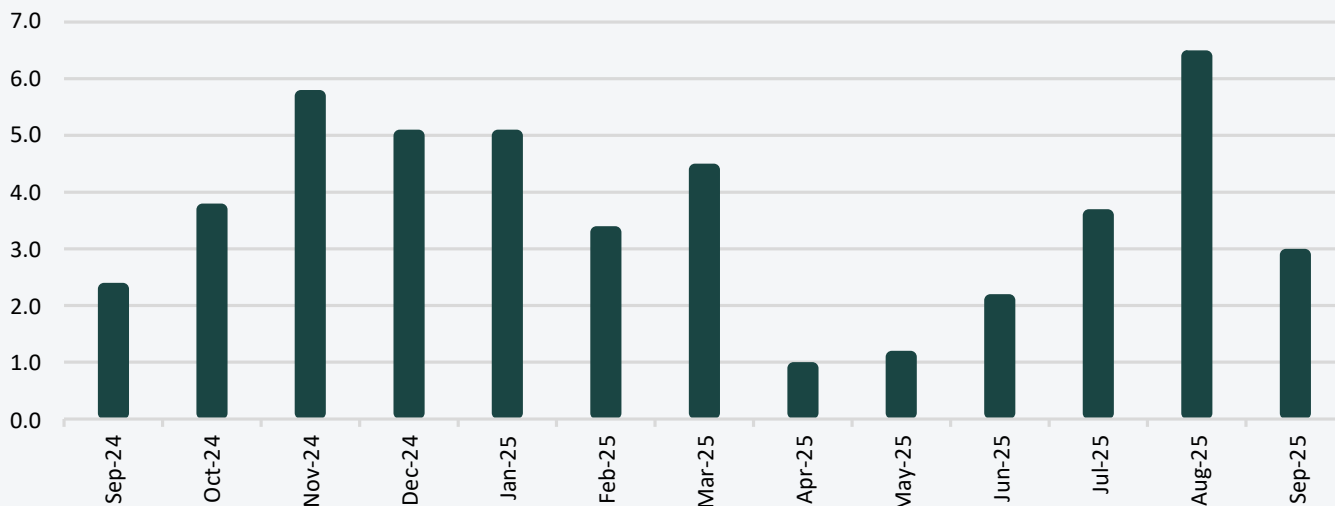
Core sector rebounds supported by investment push in Q2 FY2026

India’s core sector showed mixed but improving performance in Q2 FY2026, with growth accelerating in August. July saw moderate expansion of 3.7%, led by strong gains in steel (+16.6%) and cement (+11.6%), while fertilizers and electricity posted modest growth. However, coal, crude oil, natural gas, and refinery products contracted, weighing on the overall momentum.

Macroeconomic trend and outlook

Figure 6

Core sector growth rates (%) YoY



Source: Ministry of Commerce & Industry, Government of India. F- Forecast

August rebound: coal recovery, steel and cement sustain growth.

August marked a sharp rebound, with the core sector expanding 6.5% year-on-year, the strongest in over a year. Coal output growth recovered to 11.4%, steel rose 13.6%, and cement grew by 5.4%, while refinery products also turned positive. Fertilizers and electricity added further support, though the natural gas remained in decline. Early indicators suggest September sustained this momentum, reflecting stronger infrastructure activity and government-led capital expenditure.

Table 1

Sector-wise output growth

Sector	Sep-25 YoY growth	Aug-25 YoY growth	July-25 YoY growth	Cumulative Apr–Sep FY2026
Steel	+14.1%	+13.6%	+16.6%	+11.0%
Coal	-1.2%	+11.4%	-12.3%	-0.7%
Cement	+5.3%	+5.4%	+11.6%	+7.7%
Fertilizers	+1.6%	+4.6%	+2.0%	-0.4%
Electricity	+2.1%	+4.1%	+3.7%	+0.9%
Petroleum refinery	-3.7%	+3.0%	-1.1%	-0.3%
Crude oil	-1.3%	+2.4%	-1.3%	-1.1%
Natural gas	-3.8%	-2.2%	-3.2%	-2.9%

Source: Ministry of Commerce & Industry, Government of India

Macroeconomic trend and outlook

Infrastructure push and monsoon recovery underpin Q2 gains.

Energy shortfalls sustain import reliance; policy focus needed.

Capex and reforms to drive H2 growth; risks from global volatility.

Government initiatives such as PM Gati Shakti boosted demand for steel and cement, while coal production rebounded after monsoon disruptions, easing power shortages. Fertilizer output benefited from favourable rainfall, and refinery products stabilized, reversing earlier declines. Together, these factors lifted Q2 performance above subdued Q1 levels.

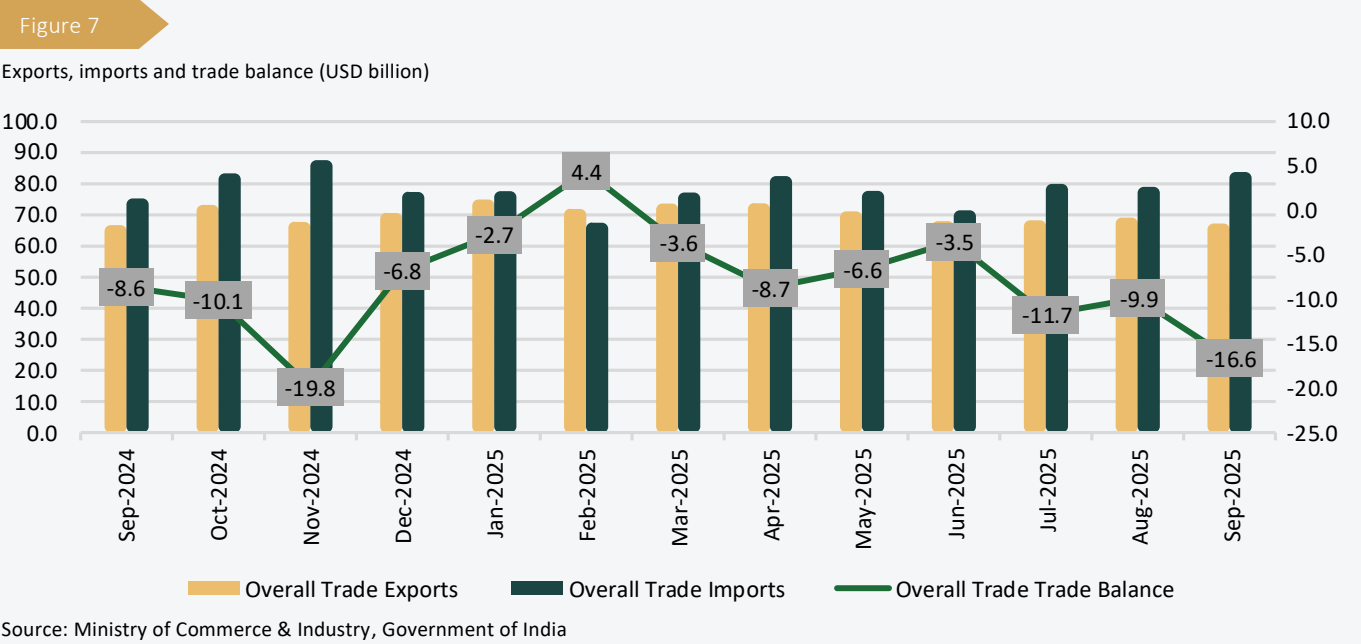
The rebound strengthened industrial output and GDP prospects, but continued declines in crude oil and natural gas highlight persistent energy challenges. Import dependence remains high, exposing India to global price volatility. Addressing upstream production gaps is critical for reducing vulnerability and supporting industrial job creation.

The core sector is poised for strong growth in H2 FY2026, supported by sustained capex, policy incentives, and rising demand in construction, real estate, and capital goods. Energy reforms—focused on efficiency, renewables, and clean energy—will balance growth. Despite global risks and raw material volatility, steady infrastructure investment and private sector participation are expected to anchor industrial momentum and reinforce India’s competitiveness.

Trade deficit widens sharply on festive imports and global price pressures.

India’s external trade outlook faces headwinds from US tariff uncertainty

Overall trade deficit widened to USD 38.2 billion in Q2 FY2026, from USD 18.9 billion in Q1 FY2026, mainly driven by increase in merchandise trade deficit, which widened sharply in the second quarter of FY2026. The merchandise trade deficit widened to USD 87 billion in Q2 FY2026, from USD 68.8 billion in Q1 FY2026, mainly driven by a sharper increase in import bills as well as a decline in exports.



Crude, gold, and copper drive import surge; fuels make up over a quarter of total imports.

Modest export growth in Q2 FY2026

India’s overall import bills increased by 4.8% QoQ, and merchandise imports 8.5% QoQ, during the second quarter of FY2026, driven by strong domestic consumption, festive season stocking, and infrastructure-led demand. Gold imports almost doubled in September 2025, despite record high prices, mainly driven by festive-season demand. This surge in precious metal imports was complemented by increases in imports of silver, fertilizers, machinery, and pearls/precious stones, reflecting robust domestic demand. Non-petroleum, non-gems, and jewellery imports grew significantly as well, indicating strong economic activity in these segments.

Macroeconomic trend and outlook

Services surplus cushions current account; IT and travel exports remain resilient.

Policy focus on diversification and competitiveness to counter external risks and inflation pressures

India’s foreign exchange reserves crossed USD 700 billion in Q2 FY2026.

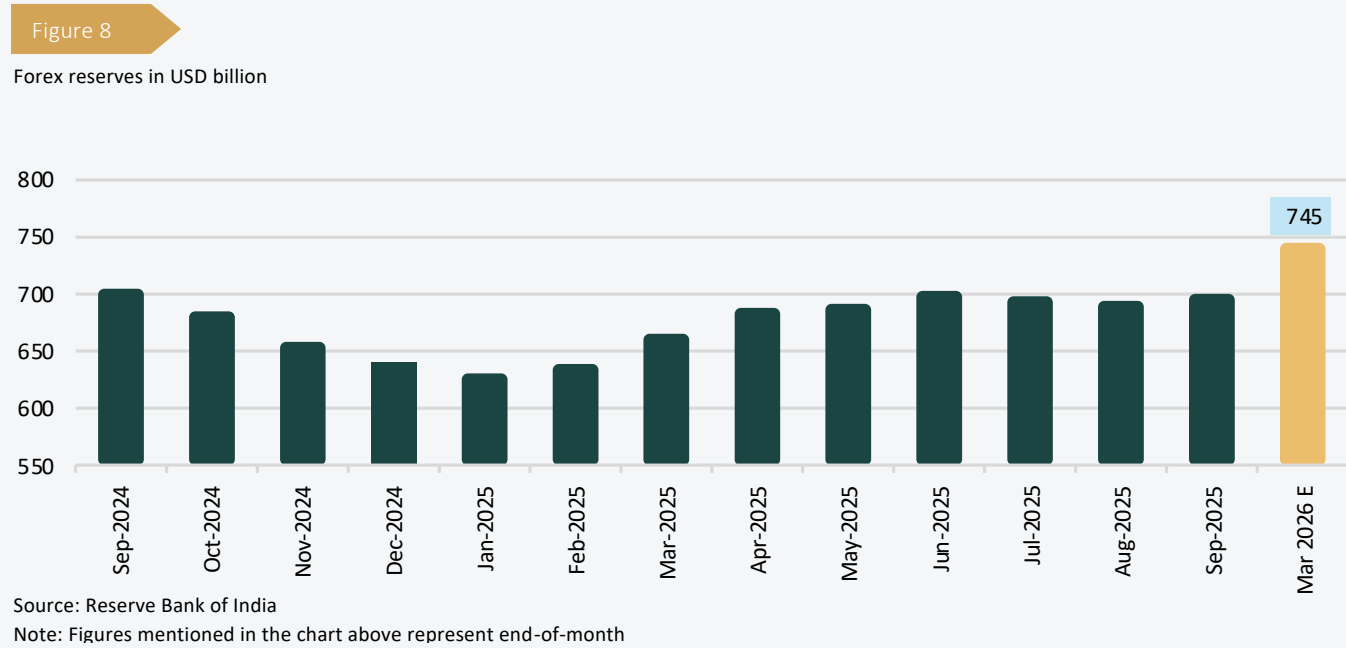
Overall exports contracted by 3.9% QoQ in Q2 FY2026, mainly driven by a strong double-digit contraction in petroleum products, electronic goods and readymade garments. On a year-on-year (YoY) basis, exports grew modestly by 4.8% as exporters front-loaded shipments to the US and China ahead of anticipated tariff hikes.

India’s services exports remained robust in Q2 FY2026 with IT, business services, and travel driving a steady surplus. This resilience helped partly offset widening merchandise trade imbalances, providing crucial support to the overall current account and reinforcing the external sector’s stability amid global headwinds.

India’s trade outlook faces mounting risks as a widening trade deficit and elevated oil prices heighten currency and inflation pressures, complicating the monetary policy landscape. Export momentum remains vulnerable to tariff uncertainties—particularly from the US and EU—and subdued demand in key markets like China and Europe. In response, the government is advancing a four-pillar strategy focused on export promotion, enhancing competitiveness, diversifying markets, and encouraging import substitution to mitigate external vulnerabilities and support macroeconomic stability.

India’s foreign exchange reserves crossed the USD 700 billion

India’s foreign exchange reserves crossed the USD 700 billion mark in Q2 FY2026, driven by gains in foreign currency assets and rising gold valuations. By end-September 2025, reserves covered over 11 months of merchandise imports and 95.4% of external debt, reinforcing India’s external stability amid global uncertainty.



Foreign currency assets lead growth; IMF and gold add diversification.

Diversified reserves to support FY2026 growth amid global risks

Foreign currency assets remained the main growth driver, rising to USD 585.9 billion by mid-August. SDRs and IMF positions added modest support, while gold reserves recovered after mid-quarter volatility, highlighting a diversified reserve build-up. Gold reserves rose to USD 95 billion by September, up from USD 84.5 billion in July, supported by valuation gains and safe-haven demand. RBI’s holdings reached 880.18 metric tonnes, with additions in June and September, reaffirming gold’s role as a stabilizing asset in volatile conditions.

Looking ahead, India’s forex reserves are expected to remain robust through FY2026, supported by trade diversification, foreign investment inflows, and prudent reserve management. The Reserve Bank of India’s (RBI) diversification strategy—including higher gold allocation—will continue to shape reserve composition. With stable external fundamentals and proactive policy support, India is well-positioned to navigate global financial volatility and sustain growth.

Macroeconomic trend and outlook

Rupee breaches INR 88.8/USD; trade gap and global risks deepen depreciation

Rupee hits record low amid global and domestic pressures

The Indian Rupee (INR) fell to a record low of INR 88.8/USD in Q2 FY2026, marking its steepest decline since early 2025. The depreciation was driven by rising US yields, strong US dollar demand from importers, and persistent geopolitical tensions. Domestically, a widening trade deficit and sustained foreign portfolio outflows added to the pressure, amplifying currency weakness across emerging markets.

Figure 9

Indian rupee (INR) versus US dollar (USD) performance



Source: Reserve Bank of India

Note: Figures mentioned in the chart above represent end-of-month

RBI steps in to stabilize rupee; manages volatility through spot and forward operations.

Weaker rupee lifts import costs; inflation pressures intensify across sectors.

Rupee may stabilize below INR 90/USD, but the trajectory hinges on inflation, tariffs, and RBI strategy.

Brent slides on oversupply; non-OPEC output and OPEC+ rollback deepen downward trend.

The RBI responded with active forex market interventions, selling net dollars to curb excessive volatility. While some depreciation was tolerated to preserve export competitiveness, RBI's calibrated approach helped maintain relative stability amid global uncertainty and elevated oil prices.

The Indian Rupee slide raised import costs—especially for crude oil—fuelling inflationary pressures across key sectors. Exporters saw mixed outcomes, with improved price competitiveness offset by tariff risks and subdued global demand. Currency weakness also increased hedging and operational costs for trade-linked businesses.

The Indian Rupee is likely to remain volatile in the near term, driven by global monetary tightening, trade frictions, and evolving inflation dynamics. The RBI will likely maintain its strategic interventions while allowing controlled depreciation to balance currency stability with export competitiveness. With easing dollar strength and supportive domestic policies, the rupee may stabilize below INR 90/USD, helping preserve external sector resilience.

Brent crude oil prices drift lower in Q2 FY2026 amid rising supply concerns

Brent crude prices remained under pressure in Q2 FY2026, fluctuating between USD 65–72 per barrel. Despite brief spikes driven by geopolitical tensions, the overall trend was bearish, with prices falling to USD 64.5 by early October—a 17.3% year-on-year decline. Oversupply concerns dominated, fuelled by rising inventories and increased output from non-OPEC producers such as the US, Brazil, and Canada. The rollback of OPEC+ production cuts further intensified downward pressure.

Macroeconomic trend and outlook

Figure 10

Brent crude spot price in USD per barrel



Source: U.S. Energy Information Administration

Note: The values represent end of the month price.

Inventory build and weak demand outweigh geopolitical risks; sentiment remains bearish.

Global oil inventories rose sharply, with July alone adding 26.5 million barrels and cumulative gains reaching 187 million barrels since January. OPEC+ increased output by 1.1 million barrels per day in August–September, reinforcing oversupply fears. While geopolitical events—such as Iran’s IAEA obstruction and strikes on Russian refineries—triggered temporary price spikes, they failed to shift market sentiment. China’s refinery activity offered limited support, but weak demand indicators kept investor outlook cautious.

Crude oil may recover in late FY2026; outlook hinges on supply discipline and demand revival.

Crude oil (Brent) is projected to average USD 59 per barrel in Q4 FY2026, with the EIA forecasting a further decline to USD 51 per barrel in 2026. A late-year recovery may emerge as supply cuts and inventory drawdowns take effect. OPEC+ may opt for modest production curbs, though its focus appears to be on market share retention. Near-term stabilization around USD 66 per barrel will depend on geopolitical developments, production adjustments, and global demand trends.

NIFTY posts 4% quarterly decline in Q2 FY2026

Index down 4%; FIIs sell, tariffs weigh on export sectors.

The Nifty 50 slipped about 4% between July–September 2025, falling from 25,500 in early July to around 24,600 by quarter-end. The decline was driven by persistent foreign institutional investor (FII) selling, concerns over U.S. tariffs on Indian exports, and mixed corporate earnings. Export-oriented sectors such as gems, pharmaceuticals, textiles, and auto components were hit hardest, while overall sentiment remained cautious.

Macroeconomic trend and outlook

Figure 11

NSE Nifty index, end of period



Source: National Stock Exchange (NSE)

Note: The index values are as on last trading day of the month.

Global risks and weak IT earnings drive volatility; FIIs remain net sellers.

Geopolitical tensions, inflationary pressures, and a stronger U.S. dollar amplified volatility, pushing investors toward defensive stocks and safe-haven assets. FIIs offloaded over INR 420 billion in July alone, reflecting risk-off sentiment. Weak earnings from IT majors further dampened confidence, while the India VIX rose steadily, signalling elevated market volatility.

Rural recovery may aid demand; global cues to guide Nifty's trajectory.

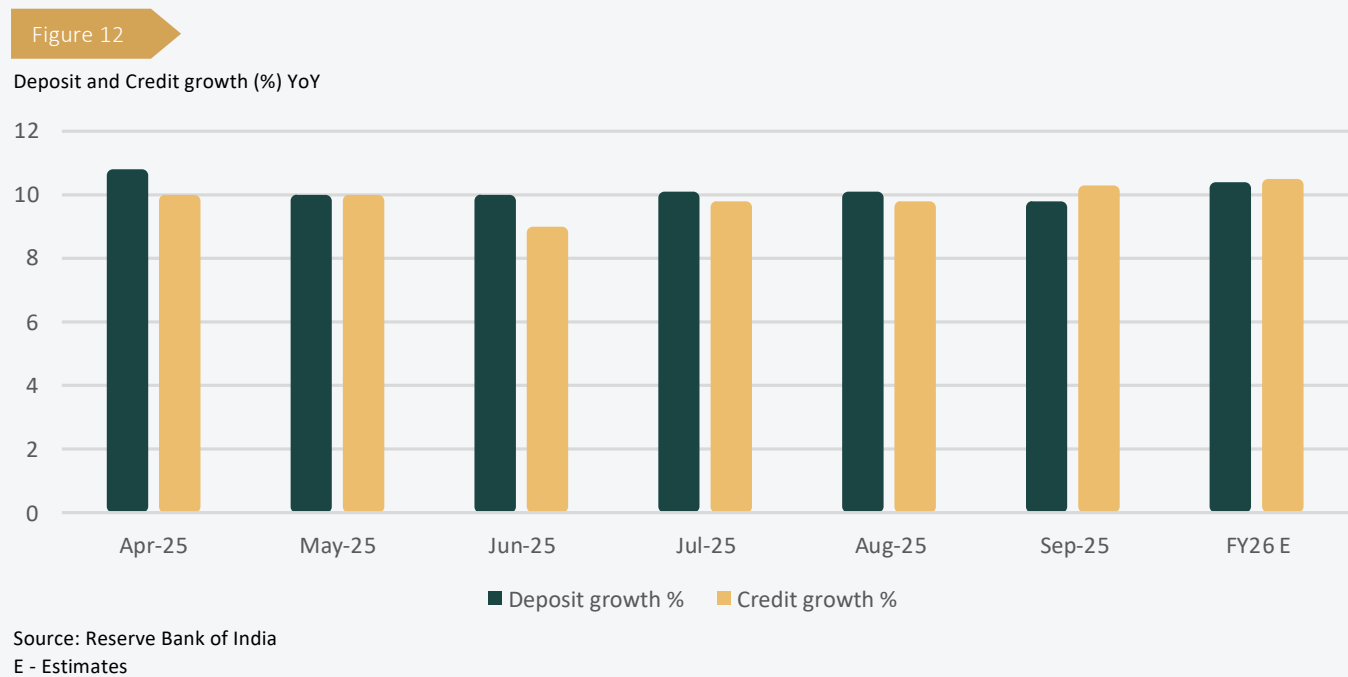
Near-term prospects remain mixed. Improved monsoon forecasts and a potential rebound in rural consumption could support demand recovery, benefiting Auto and FMCG sectors. However, global policy shifts—particularly U.S. trade actions—will continue to shape investor sentiment. Moderate volatility is expected as markets await Q3 earnings and key global macro data.

Policy support and demand revival will likely support credit growth in the second half of FY2026

Deposits steady at ~10%; credit growth slows sharply on weak demand and tighter regulation.

Bank deposits in India grew at a steady ~10% year-on-year in FY2026, reaching INR 235.5 trillion by September 2025, slightly below last year's 11.6% pace. Credit growth slowed to 9.8%, down from double-digit levels in FY2025, with mid-May figures showing credit at INR 182.3 trillion. Recent fortnightly data highlighted further weakness, with fortnightly growth slipping to 1.4% year-on-year, the slowest in recent periods, reflecting subdued corporate demand, weaker housing and consumer loan uptake, and tighter regulations for NBFCs and retail segments.

Macroeconomic trend and outlook



Credit briefly outpaces deposits; household savings shift outside banks.

Credit growth likely to recover in H2 FY2026 with policy support and demand revival.

In early September 2025, however, credit growth (+10.3% year-on-year) briefly outpaced deposits (+9.8% year-on-year), signalling a shift in household savings toward non-bank financial instruments. While deposit growth continues to provide liquidity support, the slowdown in credit poses risks to economic activity.

Looking ahead, credit momentum is expected to improve in H2 FY2026, supported by RBI’s recent rate cuts, GST reforms boosting consumption, and stronger business confidence. Calibrated policy measures will be key to sustaining credit flow while managing liquidity risks.

US tariff on Indian exports: Economic and diplomatic implications

US tariff shock alters trade dynamics; 55% of exports face cost disadvantage.

Exports to US fell 12% in September; Labour-intensive sectors most vulnerable to margin squeeze and displacement.

The introduction of a 50% tariff by the United States on a broad spectrum of Indian exports, effective August 27, 2025, has markedly altered India's trade dynamics and exposed structural vulnerabilities across several sectors. Approximately 55% of India's shipments to the U.S., valued at nearly USD 48 billion, now face a pronounced cost disadvantage relative to competitors from Vietnam, China, and Bangladesh.³

India's merchandise exports to its largest market contracted by 12% year-on-year in September 2025, falling to USD 5.43 billion. Within this, engineering goods exports declined by about 10%, underscoring the breadth of the disruption. The sectors most affected are labour-intensive industries such as textiles, leather, gems and jewellery, and marine products, where thin operating margins amplify the adverse effects of tariff-induced cost escalation and intensify risks of competitive displacement.⁴

Table 2

Impact of US tariffs on key and most impacted sectors in India

Sector	Tariff (Aug 27, 2025)	Share of exports to the US	Impact assessment
Textiles & Apparel	50%	34.4%	Indian textile hubs such as Tirupur, Noida, and Surat face the steepest tariff shock. The 50% duty on garments has eroded competitiveness against Bangladesh and Vietnam. With Micro, Small & Medium Enterprises (MSMEs) contributing over 70% of output, the sector is struggling with unsold inventory, cash flow stress, and rising loan default risks.
Gems & Jewellery	50%	33.3%	Exporters in this sector, responsible for over USD 10 billion in shipments to the US (around 30% of total industry output), now face sharp erosion of their international competitiveness. The labour-intensive nature of the industry, with MSMEs playing a pivotal role, exacerbates the vulnerability, potentially leading to widespread layoffs and business closures if relief is not forthcoming.
Leather & Footwear	50%	20.7%	Like textiles, the leather and footwear industries are highly exposed. The 50% tariff pushes Indian export prices out of reach for many US buyers, resulting in order cancellations and surplus inventory.
Marine Products	50%	37.8%	The seafood export segment, traditionally a robust earner due to US demand for Indian shrimp and fish, faces immediate contraction. Early industry data shows order volumes for shrimp and other shellfish are down considerably.
Chemicals	50%	14.6%	Chemicals is another sensitive sector, with nearly 40% of MSME share in exports and broader exposure to incremental cost pressures. The value chain is affected by both direct tariffs and indirect competitiveness losses as buyers seek alternative suppliers, particularly in ASEAN nations.
Automobiles & Auto Parts	50%	11.4%	Auto components and machinery, largely serving non-passenger vehicle segments, face partial impact. Niche suppliers in gearboxes and transmission equipment have reported revenue stress.
Machinery & Engineering Goods	50%	28.5%	Engineering goods account for roughly a quarter of India's merchandise exports to the US, making this decline a significant blow to national export earnings.

Sources: The New Indian Express; Global Trade Research Institute (GTRI); BWR Research.

³ India approves \$5.1 billion package for exporters after US tariffs hit, *Reuters*, 12-November-2025

⁴ *ibid*

US tariff on Indian exports: Economic and diplomatic implications

Export Promotion Mission and USD 5.1 billion relief package targeted to support vulnerable sectors.

Exporters seek faster refunds, MSME relief, FTAs, and stronger PLI support to offset for loss in global competitiveness.

Challenging FY2026 outlook for MSMEs; Export sustainability hinges on diversification, FTAs, and stronger domestic capacity.

The Indian government has launched a INR 251 billion “Export Promotion Mission”, consolidating and expanding support schemes for affected exporters, prioritizing credit guarantees, export insurance, and supply chain finance. An additional USD 5.1 billion package was approved to cushion the impact, with targeted relief for the most vulnerable sectors—textiles, gems and jewellery, leather, and marine products.

Exporters are lobbying for accelerated duty drawback and GST refund schemes, loan moratoriums for MSMEs, and expedited trade negotiations with the EU, UK, and comprehensive FTAs to open alternative markets. There is also renewed pressure on the government to advance the Product Linked Incentive (PLI) schemes for high-potential export sectors and to improve infrastructure for global competitiveness.

The outlook for FY2026 remains challenging, especially for MSMEs and labour-intensive industries, demanding both immediate relief and long-term strategic recalibration. India’s relatively low export-to-GDP ratio (about 20%) mitigates some growth risks, but prolonged headwinds risk derailing sectoral recovery and capital investment plans. Strengthening ties with high-growth regions, upgrading domestic manufacturing capabilities, and strategically leveraging the current situation to finalize favourable FTAs are essential pivots for sustaining export momentum.

For deeper insights on the impact of US tariffs on India, please refer to BWR report titled ‘From disruption to diversification: India’s path through 100 days of tariff shocks’ dated 27 November 2025, <https://tinyurl.com/yky82u5f>

H-1B visa fee hike: margin pressures loom for the Indian IT sector

US hiked H-1B visa fee to USD 100,000 for new petitions.

The US administration's steep increase in H-1B visa fees to USD 100,000 for new applications (September 2025) marks a major shift in global skilled talent flows. With Indian professionals accounting for 71% of H1B visas and the IT-BPM industry generating USD 283 billion annually, the move has significant implications. Renewals remain unaffected, with exemptions for healthcare, engineering, and national interest cases.

Table 3

Sectoral impact and credit rating implications of H-1B visa fee hike

Sector	Impact channel	Credit rating implications
IT & software services	High exposure due to on-site delivery models and bulk H-1B usage	Margin pressure, delivery risk; mid and small-sized firms may see ratings downgrade
Engineering & R&D	Project delays in automotive, aerospace, and industrial design	Cost overruns, execution delays; ratings sensitive to client mix
Pharma & life sciences	Slower cross-border collaboration in clinical research and filings	Limited direct impact; ratings impact depends on global diversification
Financial services & consulting	Talent rotation and global delivery models disrupted	Operational cost rise; ratings outlook stable for diversified firms
Startups & tech services	Higher entry barriers for US expansion, fundraising challenges	Liquidity strain; ratings depend on scalability and investor backing

Source: BWR Research

Visa fee hike squeezes margins; mid-tier firms face heightened downgrade risk.

Indian IT firms, deriving 50–60% of revenues from the U.S., face sharp margin pressures. Export growth could slow to below 4%, with leading firms like TCS, Infosys, and Wipro most exposed. Mid-tier and smaller firms, heavily reliant on onsite delivery, risk credit rating downgrades due to higher costs and weaker profitability.

India faces slower exports; U.S. risks talent shortages and wage pressures.

For India, slower onsite placements may reduce remittances and dampen consumption, though offshoring could rise. For the U.S., reduced access to skilled foreign workers risks shortages in tech, healthcare, and STEM, with mid-sized firms and universities most affected. Wage pressures may intensify as local hiring substitutes global talent.

India pivots to GCCs and remote delivery; digital momentum cushions long-term demand.

The fee hike accelerates India's IT pivot toward remote delivery, local innovation, and Global Capability Centres (GCCs), strengthening domestic employment and innovation hubs. While margins face short-term stress, structural drivers—digital transformation, cloud, AI, and cybersecurity—remain intact. Large IT majors, with diversified offshore models and strong reserves, are better positioned to absorb shocks, while smaller firms remain vulnerable.

For further details, please refer to BWR report titled 'H-1B visa fee hike: Margin pressures loom for the Indian IT sector' dated 29 September 2025, <https://tinyurl.com/3j9fz5h5>

India rationalizes GST rates; moves to simplified GST structure

GST council overhauls tax structure with simplified 4-slab system to boost economy from September 2025

The GST Council meeting on September 3, 2025, simplified the GST rate structure. Key changes include the introduction of 0%, 5%, 18%, and a new 40% “sin/luxury goods” slab, rationalizing and consolidating earlier tax brackets. The simplification aims to reduce complexity, offer relief to households and small businesses, boost consumption, and support key sectors like healthcare, agriculture and manufacturing

Table 4

Macroeconomic and sectoral impact

Macroeconomic indicators	Impact
Consumption and GDP	The rationalization is expected to significantly boost consumption demand across multiple sectors, particularly consumer goods, auto, construction, and insurance. As per various estimates, an increase of 30 to 70 basis points in GDP is expected in FY 2026, offsetting most of the impact from the US tariff.
Inflation	Overall inflation could drop by 20-110 basis points, depending on the extent of price pass-through The largest benefits occur in food, daily essentials, household items, and electronics, where GST rates were slashed from 12%/18%/28% to 5% or 18%. This will directly lower the cost of living, especially for middle- and low-income households.
Government revenue	The government anticipates a short-term revenue loss of about INR 480 billion (0.15% of GDP), but expects this to be offset by consumption stimulus, buoyant tax collections and broader economic growth
External trade	<i>Global competitiveness:</i> By slashing domestic tax costs, India seeks to compensate for loss of price advantage abroad due to recent tariffs, thus cushioning export volumes and supporting economic stability. Together, these affect about USD 48 billion in annual outbound shipments based on 2024 trade volumes.
Sectors	Impact
Consumer staples	Companies such as Colgate, Britannia, Nestlé, Hindustan Unilever, Dabur, Marico, and Patanjali stand to benefit from volume growth due to lower GST on daily-use products.
Infrastructure and real estate	The GST cut on cement and construction-related services from 28% and 12% to 18% should lower construction costs and encourage higher volumes in real estate and infrastructure.
Automobile industry	Reduced GST rates on vehicles (two-wheelers, small cars, SUVs) are anticipated to reduce on-road prices by 6-8%, stimulating demand, benefiting manufacturers like Maruti, TVS, Mahindra & Mahindra, Hero MotoCorp, and Bajaj Auto
Insurance sector	GST exemption on life and health insurance premiums will reduce costs for policyholders, potentially increasing insurance penetration and affordability
Inflation and fiscal measures	The GST cut, combined with RBI rate cuts and income tax rebates, is expected to ease inflationary pressures while supporting consumer spending and business ease
Sin goods taxation	The introduction of a steep 40% GST slab on sin goods aims to continue curbing consumption of harmful products while generating higher government revenues

Sources: Ministry of Finance; PIB; Economic Times; CNBC; SBI Research; BWR Research.

For further details, please refer to BWR report titled ‘India Rationalizes GST Rates; Moves to simplified GST structure’ dated 10 September 2025, <https://tinyurl.com/ymm6xzhk>

Appendix

Table 5

Key macroeconomic indicator (India)

Indicator		Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25	Q1 FY26	Q2 FY26
GDP growth rate	YoY, %	8.6	7.8	6.7	5.4	6.2	7.4	7.8	8.2
Retail inflation (CPI)	YoY, %	5.37	5.01	4.91	4.24	5.63	3.73	2.69	1.74
Wholesale inflation (WPI)	YoY, %	0.33	0.27	2.45	1.75	2.49	2.4	0.26	0.02
Index of industrial production (IIP)	Index (2011-12=100)	146.1	153.6	151.2	147.5	152.1	159.7	154.2	153.6
Core sector index	Index (2011-12=100)	156.0	166.0	164.3	158.0	162.6	172.9	166.9	165.2
Manufacturing PMI	Index	55.5	57.5	58.2	57.4	56.8	57.4	58.1	58.7
Services PMI	Index	58.1	61.2	60.5	60.5	58.7	58.1	59.3	61.7
Trade balance	USD billion	-70.6	-51.4	-62.1	-87.1	-78.7	-58.7	-68.8	-86.3
Exports	USD billion	105.5	120.4	110.1	99.6	108.7	115.2	111.5	108.6
Imports	USD billion	176.1	171.8	172.2	186.7	187.4	173.9	180.3	194.9
Exchange rate	INR/USD	83.3	83.0	83.4	83.8	84.5	86.6	85.6	87.3
Total external debt	USD billion	635.0	648.0	664.0	682.0	712.0	718.0	736.0	747.0
Foreign exchange reserves	USD billion	623.2	645.6	651.9	704.9	640.3	665.4	702.8	700.2
Repo rate	%	6.5	6.5	6.5	6.5	6.5	6.3	5.8	5.5
Bank credit	INR trillion	470.1	486.8	501.6	508.8	524.9	541.1	549.6	560.5
GST collections	INR trillion	5.04	5.21	5.56	5.3	5.46	5.76	6.22	5.71
Crude oil production	Metric ton ('000)	7341	7338	7255	7123	7183	7141	7115	7032
Natural gas production	MMSCM#	9335	9224	9056	9055	9148	8803	8781	8786
Electricity production	GWH (in '000)	364.2	376.7	421.1	396.2	373.1	384.2	398.1	397.6

#Million Standard Cubic Meter

Sources: Ministry of Finance, Government of India; Trading Economics; MoSPI; Ministry of Commerce and Industry; BWR Research.

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