BRICKWORK RATINGS

Monthly Economy Wrap

August 2026

Macroeconomics update

Table 1

Key Macroeconomics Indicators – July 2026

Indicator	Value	Period	Outlook
Real GDP growth	**7.8%**	Q4 FY26	After logging a healthy 7.8% GDP growth last quarter, the 6.7% outlook for FY27, signals a calibrated normalization from FY26. Underlying momentum persists, but it is increasingly constrained by external shocks.
Inflation (CPI)	**4.38%**	June 2026	India's CPI trend is expected to remain elevated, driven by food and energy price pressures. Inflation outlook remains sensitive to commodity prices and weather-related risks in the near term.
Interest rate (Repo)	**5.25%**	Aug 2026	The RBI retained its neutral policy stance and upgraded its FY27 GDP growth forecast from 6.6% to 6.7%, signalling strong confidence in the domestic economy.
Unemployment rate	**5.5%**	June 2026	The labour market is expected to remain stable, supported by infrastructure spending and steady economic activity. Seasonal improvement in agricultural activity is likely to support employment in the coming months.
GST collections	**INR 2.11 trillion**	July 2026	The outlook remains positive, indicating sustained economic momentum and healthy domestic demand. GST collections are expected to remain strong, supported by sustained import-related inflows.
Manufacturing PMI	**53.5**	July 2026	Despite softer domestic demand and slower hiring cooling recent PMI growth, India's manufacturing outlook remains optimistic. Robust export orders, rapid supply chain improvements, and anticipated infrastructure investments promise to sustain the sector's future expansion.
Services PMI	**53.1**	July 2026	Business sentiment has weakened, pointing to a cautious near-term outlook as firms navigate sticky inflation and cooling economic momentum. Services outlook dims amid rising costs, slowing momentum.

Source: Reserve Bank of India; Ministry of Finance; Ministry of Statistics & Programme Implementation; HSBC.

Macroeconomics update

RBI holds rates steady, upgrades FY27 growth forecast.

RBI's Monetary Policy Committee, led by Governor Sanjay Malhotra, elected to maintain a neutral stance and keep the repo rate unchanged at 5.25%. Signaling strong confidence in domestic economic resilience, the central bank also upgraded its overall GDP growth forecast for FY27 from 6.6% to 6.7%, driven by upward revisions for the first quarter to 7% and second quarter to 6.4%, while holding its Q3 and Q4 projections steady at 6.5% and 6.8%, respectively.

New tax bill relaxes rules, boosting foreign investment.

Introduced in Parliament on August 4, the Taxation and Other Laws (Amendment) Bill, 2026 is designed to attract foreign investment and stimulate domestic manufacturing in key sectors like electronics and data centers. The legislation proposes amending the Payment and Settlement Systems Act of 2007, the Income-tax Act of 2025, and the Finance Act of 2026, while officially replacing the Income-tax (Amendment) Ordinance that was promulgated earlier on June 5. To further incentivize capital inflows, the Bill notably relaxes several regulatory hurdles for investment funds by eliminating the 25-investor minimum requirement, dropping the 10% single-investor participation cap, and removing the restriction that prevents funds from investing more than 25% of their corpus into a single entity.

Economy remains resilient despite conflict and monsoon risks.

In its July State of the Economy report, the Reserve Bank of India (RBI) emphasized that the domestic economy remains highly resilient and is successfully navigating external uncertainties, driven by healthy consumer demand and robust performance across both the industrial and services sectors. However, the central bank also cautioned that ongoing geopolitical tensions, specifically the conflict in West Asia involving Iran, along with the potential threat of a deficient monsoon, pose notable risks to this positive economic outlook.

Banks raise USD 32 billion, rupee policy unchanged.

RBI Governor Sanjay Malhotra announced that Indian banks have successfully raised close to USD 32 billion through dollar inflow schemes introduced in June 2026, largely driven by the foreign currency non-resident deposit scheme (FCNR), while recent tax changes have attracted an additional USD 7 billion in foreign portfolio investments into debt securities. Despite these significant inflows, rupee liquidity has not fully reflected the influx, partly due to an increase in government cash balances. Furthermore, the RBI emphasized that there has been no change in its policy regarding the rupee, noting that the central bank continues to intervene solely to curb excessive volatility.

India eases FDI rules to boost local exports.

The Indian government has relaxed its Foreign Direct Investment (FDI) regulations for the e-commerce sector through Press Note 3 of 2026, aiming to boost the export of domestically made products and expand global market access for local sellers. Under the revised policy, foreign-funded e-commerce platforms are now exempt from previous restrictions on business-to-consumer (B2C) sales and can operate an inventory-based model, provided these operations are used exclusively for exporting goods manufactured or produced in India.

Extreme heat threatens Indian economy; adaptation creates jobs.

According to a World Bank report, extreme heat has emerged as a severe structural threat to India's economic growth, urbanization, and infrastructure by drastically reducing labor productivity. In 2024 alone, rising temperatures cost the country an estimated USD 194 billion in potential income and 247 billion labor hours, disproportionately impacting the agriculture and construction sectors, which accounted for 66% and 20% of the lost hours, respectively. However, the report emphasizes that implementing robust climate adaptation measures could mitigate these detrimental impacts, safeguard economic progress, and generate millions of new jobs.

Pricing & business activity

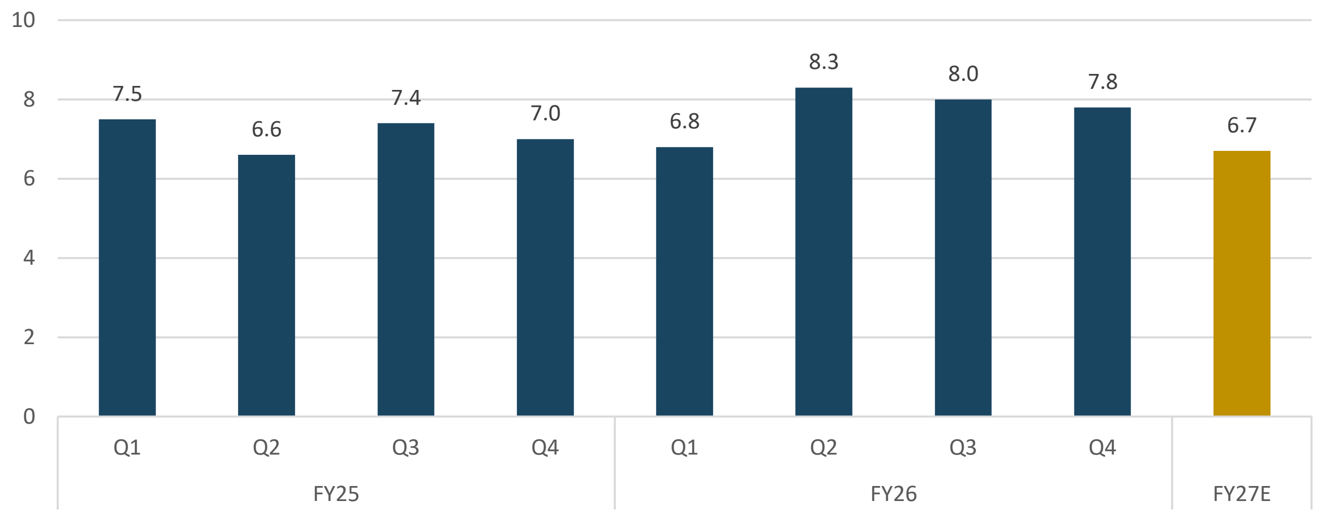
Domestic demand shields India's growth amid global macroeconomic headwinds.

Real GDP expanded by 7.6% in FY26, with FY27 expected to ease to 6.7%

India's economy continued to display strong resilience, with real GDP growing 7.8% in Q4 FY26 and lifting full-year growth to 7.6%. Looking ahead to FY27, the growth is expected to moderate to 6.7%. Despite persistent global headwinds and geopolitical tensions, the outlook remains supported by firm domestic demand, a resilient services sector and a gradual recovery in rural consumption.

Figure 1

India's real GDP growth (%), YoY



Source: Ministry of Statistics and Programme Implementation. E = Estimate.

Rising food and fuel prices push inflation higher, limiting the RBI's policy flexibility

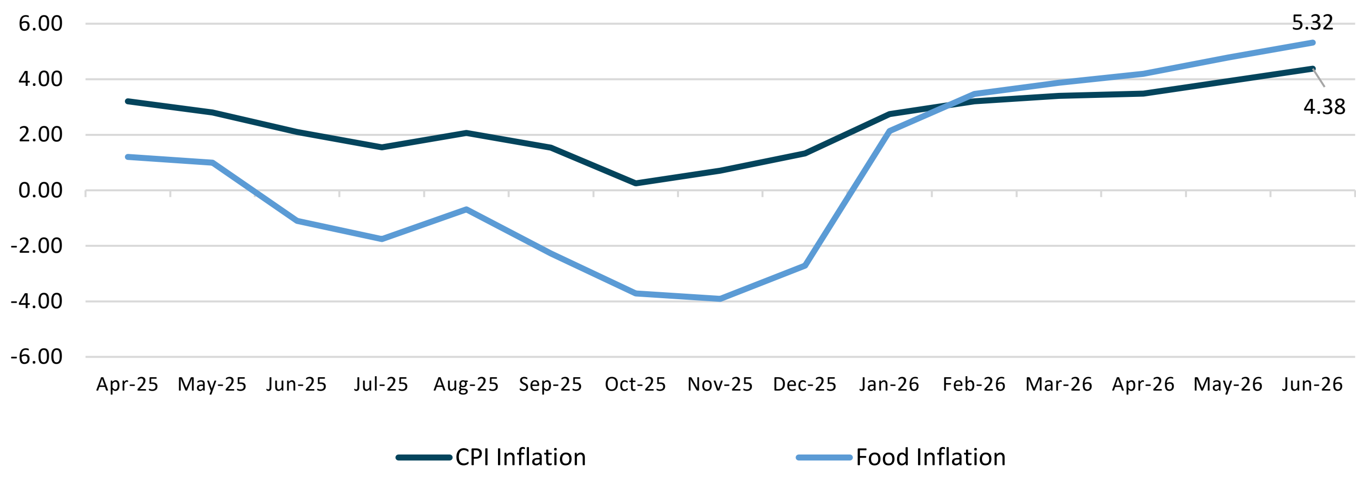
CPI rose to 4.38% in June 2026, driven by food inflation at 5.32% and energy pressures.

India's retail inflation (CPI) accelerated to 4.38% in June 2026, crossing the Reserve Bank of India's 4% medium-term target for the first time in 17 months. This upward shift from May's 3.93% was primarily driven by a significant surge in food costs and crude & energy costs, with the consumer food price index (CFPI) climbing to 5.32%. Rural food inflation notably outpaced urban areas, reaching 5.45% compared to 5.09%. Although overall inflation remains within the RBI's 2-6% statutory tolerance band, the steady upward trajectory highlights broadening price pressures across commodities and regions, a trend that sets the stage for a likely rate hike in the current monetary policy cycle.

Pricing & business activity

Figure 2

CPI inflation (%)



Source: Ministry of Statistics and Programme Implementation.

Manufacturing and services growth moderates

Manufacturing PMI cools to 53.5; expansion continues.

India's manufacturing PMI dipped to 53.5 from June's 54.2, indicating a slight moderation in the sector. This marks the weakest expansion rate since August 2021, reflecting a cooling in momentum due to softer domestic demand and challenging, highly competitive market conditions and geopolitical tensions. Despite this slowdown, the sector remained solidly in expansion territory (above the 50-mark) for the 57th consecutive month, bolstered by resilient export orders from markets like Canada, the UAE, and South Africa. Companies responded to the environment with cautious optimism, evidenced by continued but slower hiring the weakest pace in over two years and strategic stockpiling of inputs and finished goods to buffer against potential supply chain disruptions linked to geopolitical tensions and transport cost pressures.

Services PMI drops to 53.1 amid rising costs.

India's services sector saw its expansion soften considerably, with Services PMI dropping to 53.1 from 57.4 in June. This marks the weakest pace of growth in 53 months (since February 2022) as momentum in both output and new orders retreated sharply. While foreign sales growth accelerated and employment saw a modest uptick after declining the previous month, businesses faced intensifying cost pressures; input inflation quickened due to rising fuel, labor, and transportation expenses, pushing output prices higher. This cooling trajectory mirrored the broader private sector slowdown, leading to weakened business sentiment moving forward.

Revenue growth eclipsed by severe margin compression.

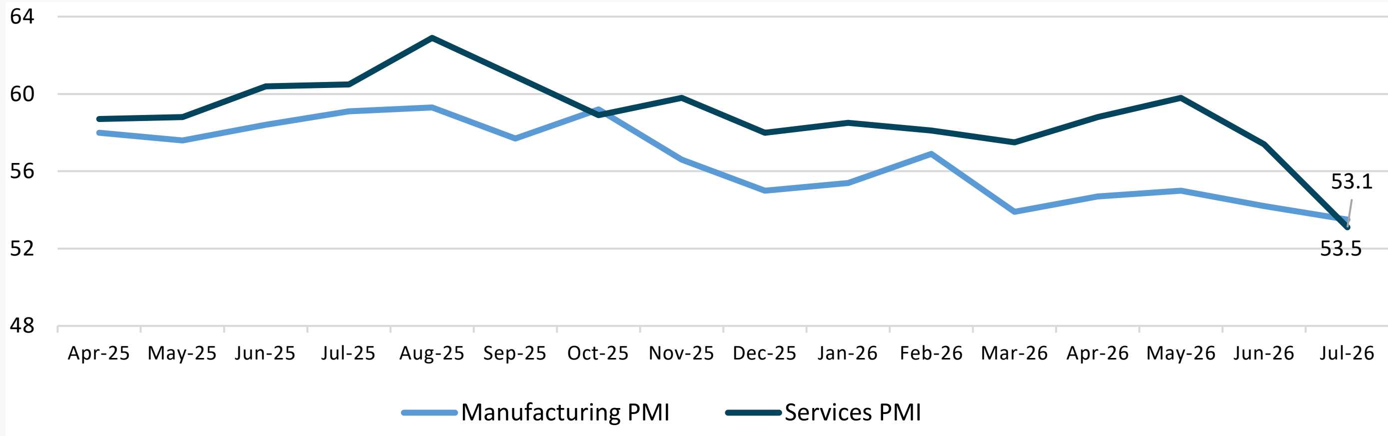
On the surface, Q1 FY27 delivers robust performance, marked by a 16.3% YoY revenue jump across 741 companies that announced Q1 FY27 earnings, but aggregate profit growth remains sluggish at just 2.5%. The glaring disconnect between sales volume and net earnings emphasizes how heavily rising operational expenses are weighing on corporate balance sheets.

BRICKWORK RATINGS

External trade

Figure 3

Manufacturing and services PMI



Source: HSBC.

Trade deficit widens as imports outpace export gains

Imports rose 24.1% to USD 88.8 billion, widening India's trade deficit to USD 15.3 billion.

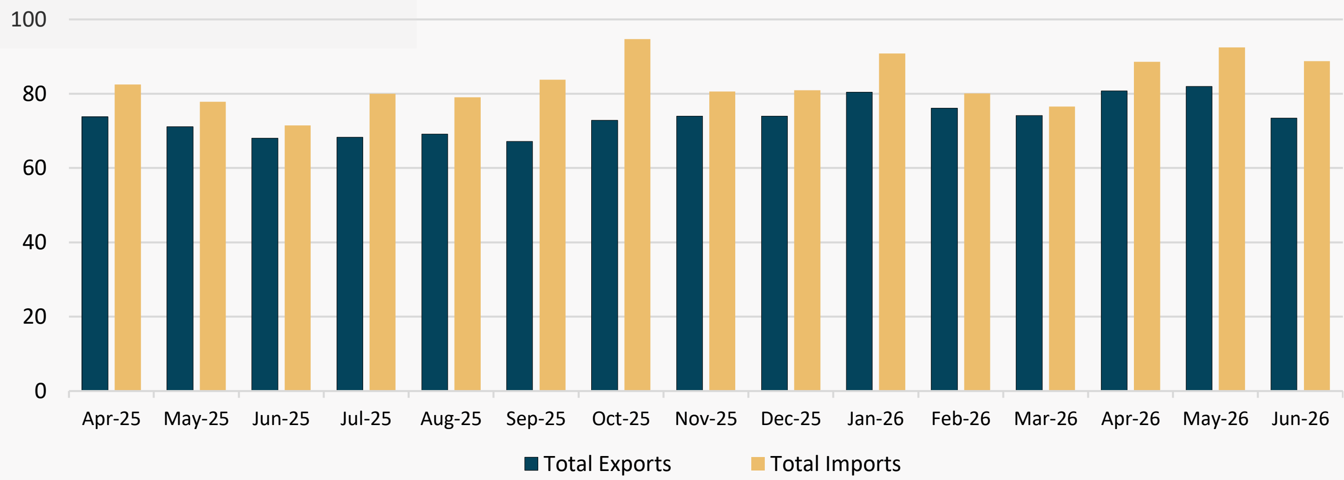
India's combined merchandise and services exports grew 8.0% YoY to an estimated USD 73.5 billion in June 2026, supported by broad-based strength across engineering goods, pharmaceuticals, and agricultural shipments. In contrast, total imports increased 24.1% YoY to USD 88.8 billion, driven by a sharp 31% rise in merchandise imports, reflecting firm domestic demand and higher inbound shipments of crude, electronics, and capital goods. This divergence pushed the monthly trade deficit to USD 15.3 billion, marking a notable widening in the external gap.

Record quarterly exports underscore resilient demand, led by the US, UAE and Singapore.

India's export performance remained resilient, with the April-June 2026 quarter registering the highest-ever overall exports. The United States continued to be India's largest export destination, followed by the UAE and Singapore, underscoring stable demand conditions in key partner economies.

Figure 4

Exports and imports (USD billion)



Source: Ministry of Commerce & Industry.

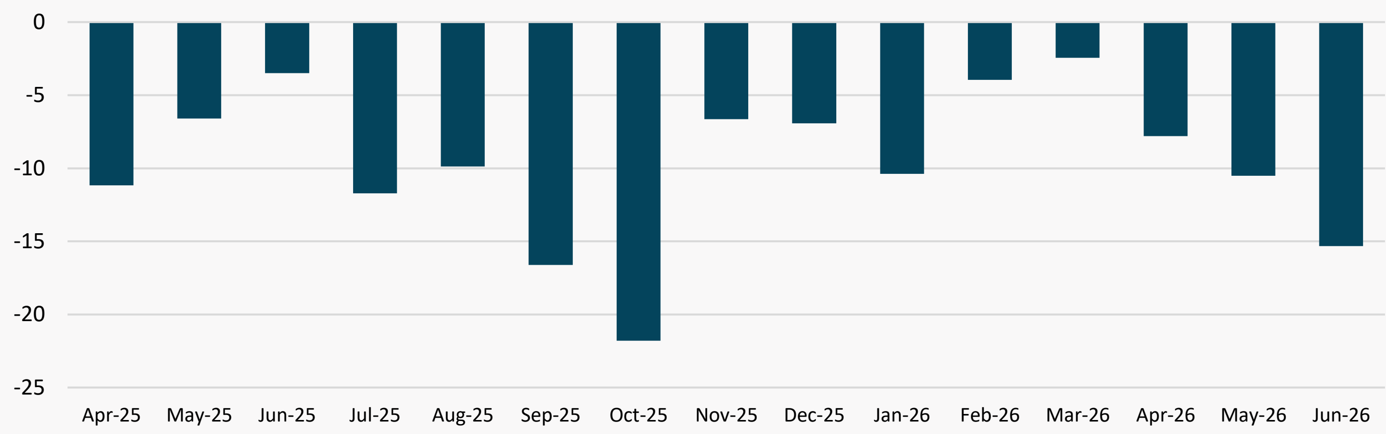
Fiscal revenue & reserves

Imports surged 31% to USD 70.8 billion, widening India’s trade deficit to USD 30.4 billion.

Bolstered by recovering shipments to West Asia and robust demand across other Asian and African markets, India's merchandise exports grew by 15.5% to USD 40.4 billion in June. However, this growth was eclipsed by a massive 31% surge in imports to USD 70.8 billion, pushing the trade deficit higher. This widening gap was driven by sharp increases in key import categories, including a 40% jump in crude oil to USD 19.3 billion, a 59% surge in electronic goods to USD 13.3 billion, and a 31% rise in machinery imports to USD 5.8 billion.

Figure 5

Trade balance (USD billion)



Source: Ministry of Commerce & Industry.

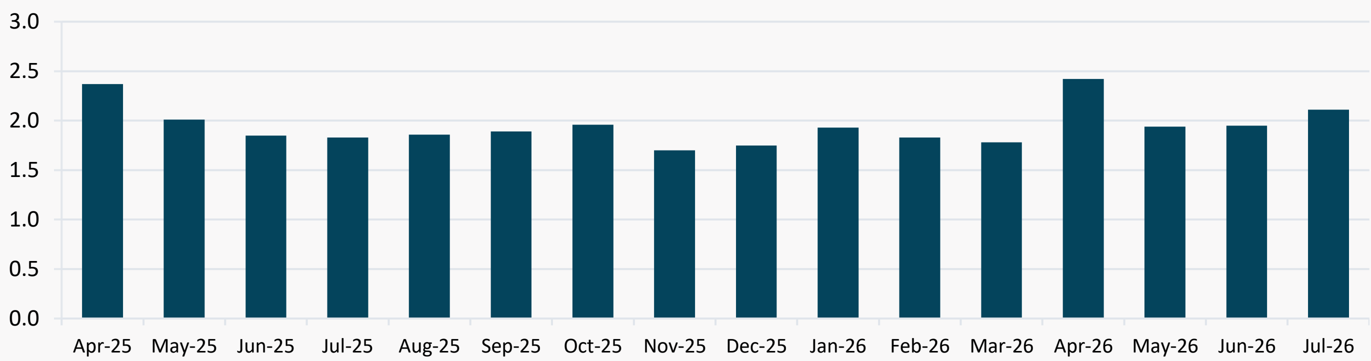
Surging imports propelled India's GST collections to a 15.4% growth in July 2026

28.8% growth in import tax, driving robust GST collection.

India's gross GST collections reached INR 2.11 lakh crore in July 2026, marking a robust 15.4% YoY growth compared to Rs 1.83 lakh crore in July 2025. The most significant driver of growth was a remarkable 28.8% leap in import tax collections, which reached INR 665.11 billion, domestic GST revenue still saw a healthy 10.1% increase, totaling INR 1.45 lakh crore. At the state level, Haryana led domestic GST growth at 25%, followed by strong performances from Gujarat and Telengana at 19%.

Figure 6

GST collections (INR trillion)



Source: Ministry of Finance.

Industrial output & banking

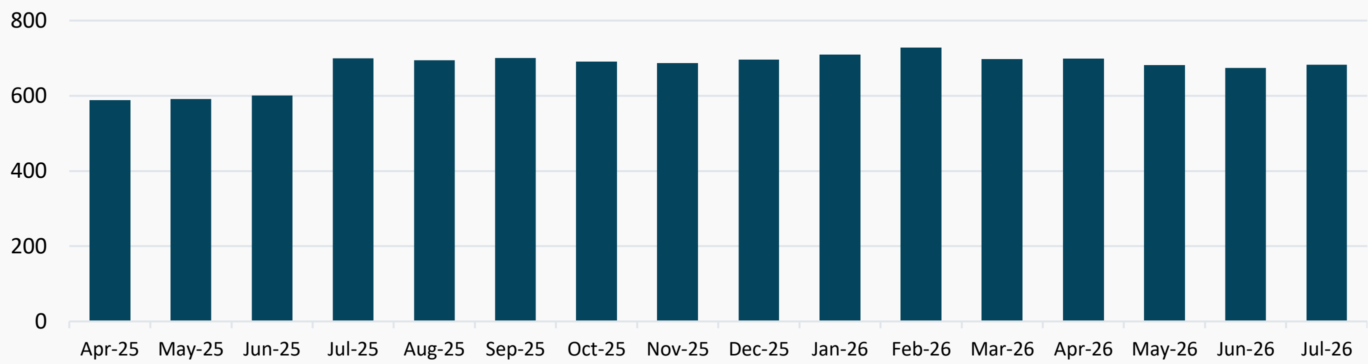
RBI swap facility fuels rebound in India's foreign exchange reserves

Indian forex reserves rebound amid strong foreign inflows.

India's foreign exchange reserves rebounded to USD 682.35 billion, led by a surge in Foreign currency assets (FCA) which alone increased by USD 4.8 billion to hit USD 555.93 billion. Gold reserves also registered a healthy increase, rising by USD 1.3 billion to reach USD 103.05 billion. This steady overall recovery follows a noticeable dip from February's record peak of over USD 728 billion, which resulted from the RBI's aggressive interventions to stabilize the Rupee amid Middle East conflict. To successfully replenish these crucial economic buffers, the central bank introduced a concessional forex swap facility in June that quickly attracted over USD 40 billion in new foreign inflows.

Figure 7

Forex reserves (USD billion)



Source: Reserve Bank of India.

Manufacturing drives India's IIP to a 23-month high of 7.3%

Indian industrial output surges on robust manufacturing growth.

India's industrial output experienced a remarkable surge in June 2026, registering a 7.3% YoY growth. This acceleration, representing a 23-month high, was primarily driven by a robust performance in the manufacturing sector, which accounts for the largest weight in the index. Manufacturing expanded by an impressive 7.8%, with 19 out of 23 industry groups within the sector recording positive growth.

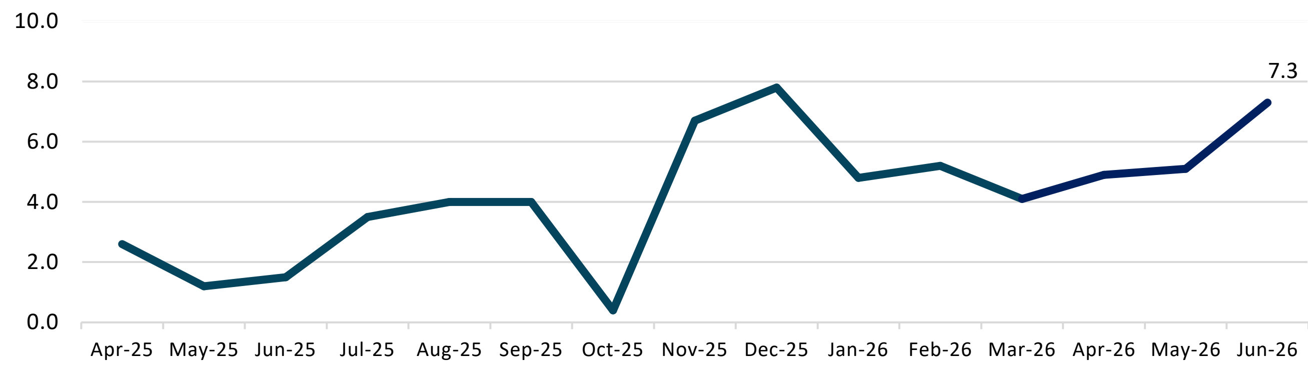
Electrical, automotive, and power sectors drive manufacturing surge.

Key contributors to this manufacturing boom included the production of electrical equipment, which saw a massive 34% increase, and motor vehicles and trailers, which grew by 17.5%. Furthermore, the electricity and gas supply segment also played a crucial role in the overall IIP surge, posting a strong 10.6% growth, likely fueled by increased industrial and commercial power demand during the summer months.

Industrial output & banking

Figure 8

Industrial production (IIP) growth (%)



Source: Ministry of Statistics and Programme Implementation.

India's bank credit outpaces deposit growth with 18.6% surge in June 2026

Bank credit growth outpaces deposits amid strong demand.

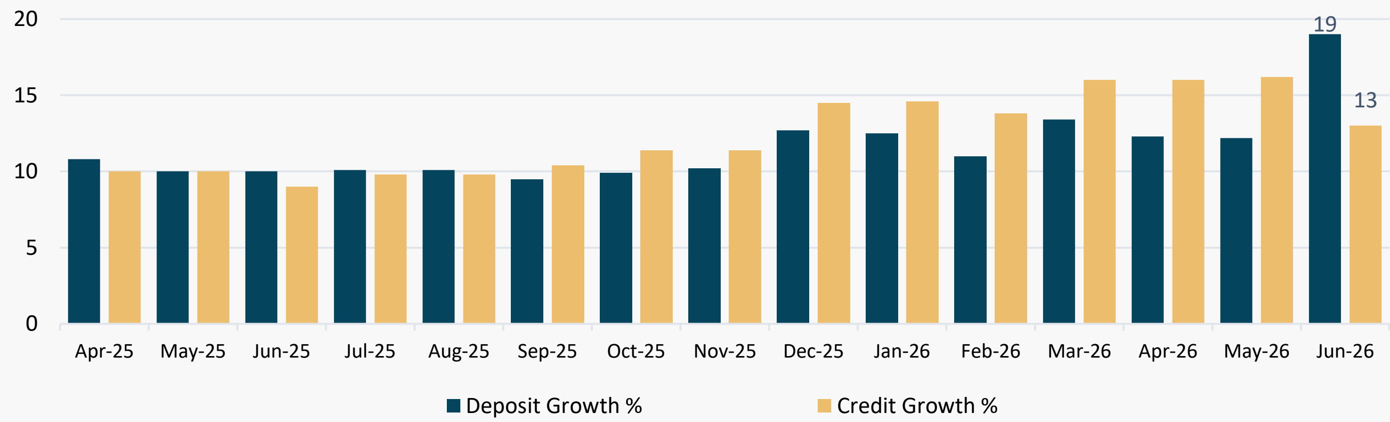
India's banking sector demonstrated robust credit momentum in June 2026, with overall bank credit surging 18.6% YoY. This expansion significantly outpaced deposit growth, which registered at just 13%, as shifting consumer saving patterns continued to constrain deposit mobilization. The widening gap was primarily driven by sustained demand across retail segments and substantial credit flows directed toward non-banking financial companies (NBFCs) and the commercial real estate (CRE) sector.

Retail and corporate credit stayed strong even as deposits lagged amid shifting savings.

Sectoral data highlights a broad-based and resilient credit expansion. Retail lending grew by 15.8% YoY, underpinned by steady demand for housing, vehicle, jewelry, and education loans. The services sector witnessed a remarkable 21.4% YoY credit increase, heavily fueled by a 32% surge in lending to NBFCs, which now account for nearly 10% of total bank credit. Furthermore, commercial real estate lending accelerated by 22% YoY. Industrial credit also maintained healthy momentum with a 19.2% YoY growth, supported by a robust 23% YoY expansion in credit extended to micro and small enterprises.

Figure 9

Credit and deposit growth (%)



Source: Reserve Bank of India.

Author:
Girish Basantani

Editor:
Vikrant Chaturvedi

Managing editor:
Rajeev Sharan

Published by:
Brickwork Ratings India Private Limited
Telephone +91 80 4040 9999
Email research@brickworkratings.com

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Brickwork Ratings India Private Limited
3rd Floor, Raj Alkaa Park
Kalena Agrahara, Bannerghatta Main Rd
Bengaluru, Karnataka 560076

Telephone: +91 80 4040 9999
research@brickworkratings.com