BRICKWORK RATINGS

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Monthly Economy Wrap

July 2026

Macroeconomics update

Table 1

Key Macroeconomics Indicators – June 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%**	June 2026	RBI will likely maintain a cautious, data-dependent stance to balance inflation risks and economic growth as CPI exceeds the 4% target.
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 1.95 trillion**	June 2026	GST collections are expected to remain steady, supported by sustained import-related inflows and resilient domestic demand. Near term growth is likely to stay firm, aided by continued economic activity and stable consumption trends.
Manufacturing PMI	**54.2**	June 2026	Growth remains solid, though incremental output and new orders cooled slightly. Firms are recalibrating inventory cycles, leading to slower but steady expansion.
Services PMI	**57.4**	June 2026	The dominant services sector remains a primary growth engine, easing to a 17-month low of 57.4 but still reflecting robust business activity. While domestic demand has seen a slight softening, sectors like IT, finance, and logistics continue to support sustained optimism.

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

Macroeconomics update

India records current account surplus of USD 4.7 billion.

According to preliminary RBI data, India's external sector demonstrated a strong turnaround in April 2026 by recording a current account surplus (CAS) of USD 4.7 billion, reversing a USD 4.8 billion deficit from the previous year (YoY). This was primarily driven by robust services exports, a significant surge in remittance inflows to USD 16 billion, and a narrowed net income deficit. Additionally, signalling renewed long-term investor confidence despite domestic market volatility, capital inflows strengthened remarkably, with net FDI increased to USD 7.4 billion in April 2026 from USD 1.6 billion in the same period last year, while gross FDI inflows more than doubled to USD 11.4 billion from USD 5 billion, indicating renewed investor confidence in India's long term growth prospects.

RBI says Indian economy and financial system show remarkable resilience amid external shocks.

According to the RBI's Financial Stability Report, the Indian economy and financial system demonstrate exceptional resilience to external shocks, underpinned by strong growth, low inflation, and robust macroeconomic fundamentals. This stability is further reinforced by the healthy balance sheets of financial and non-financial institutions, with Scheduled Commercial Banks (SCBs) displaying strong capital buffers, improved asset quality, and stable profitability. However, the RBI cautions that despite this overall strength, underlying vulnerabilities, specifically elevated public debt, bond market fragilities, and stretched asset valuations, remain key risks that could amplify the impact of future economic shocks.

S&P cuts India FY27 growth forecast to 6.6% on energy stress, weak monsoon.

S&P Global Ratings expects India's real GDP growth to moderate to 6.6% in FY27, down from 7.7% in FY26 and 7.1% in FY25, citing headwinds from energy stress, a likely sub-par monsoon, and slowing global growth. The agency noted that external and domestic pressures are expected to weigh on economic momentum in the near term. The S&P GDP growth forecast for FY27 is closely aligned with the Reserve Bank of India's estimate of 6.6% and Brickwork Ratings' forecast of 6.7%, indicating a consensus view of gradual moderation from the recent high growth phase.

India, Japan sign pacts on artificial intelligence, metals, and energy after Modi-Takaichi talks.

Following talks between Prime Ministers Narendra Modi and Sanae Takaichi, India and Japan agreed to deepen cooperation in artificial intelligence, metals, energy, and defence, and create a joint economic security roadmap. This mutually complementary partnership builds on Japan's previous pledge to invest over USD 61 billion in India over the next decade, reinforced by FY26 bilateral trade of USD 27.5 billion and recent Japanese investments totalling USD 3.2 billion.

Pricing & business activity

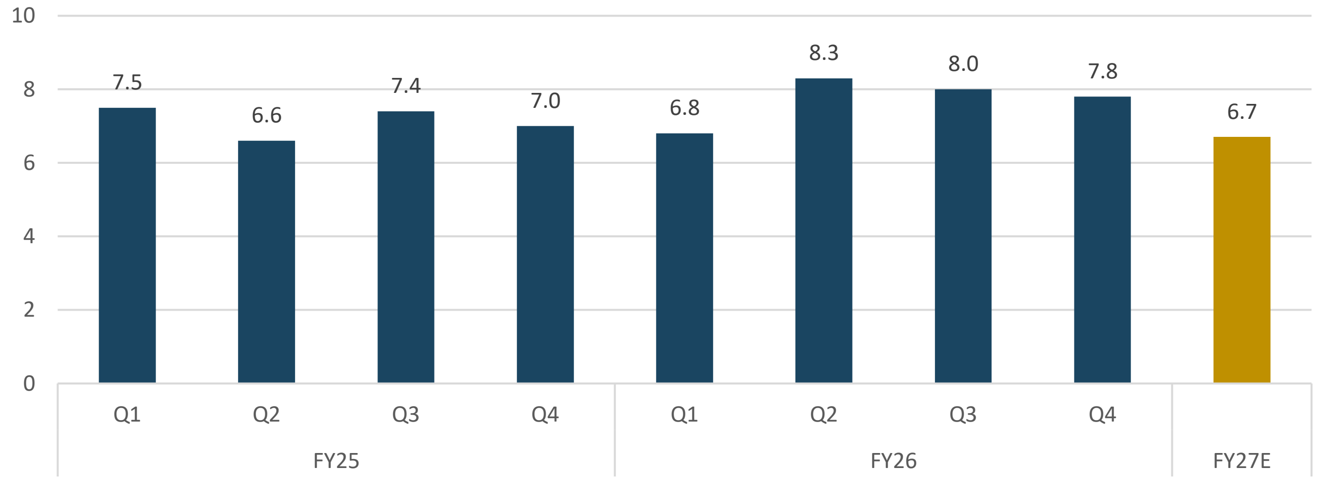
Domestic demand shields India's growth amid global macroeconomic headwinds.

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.

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

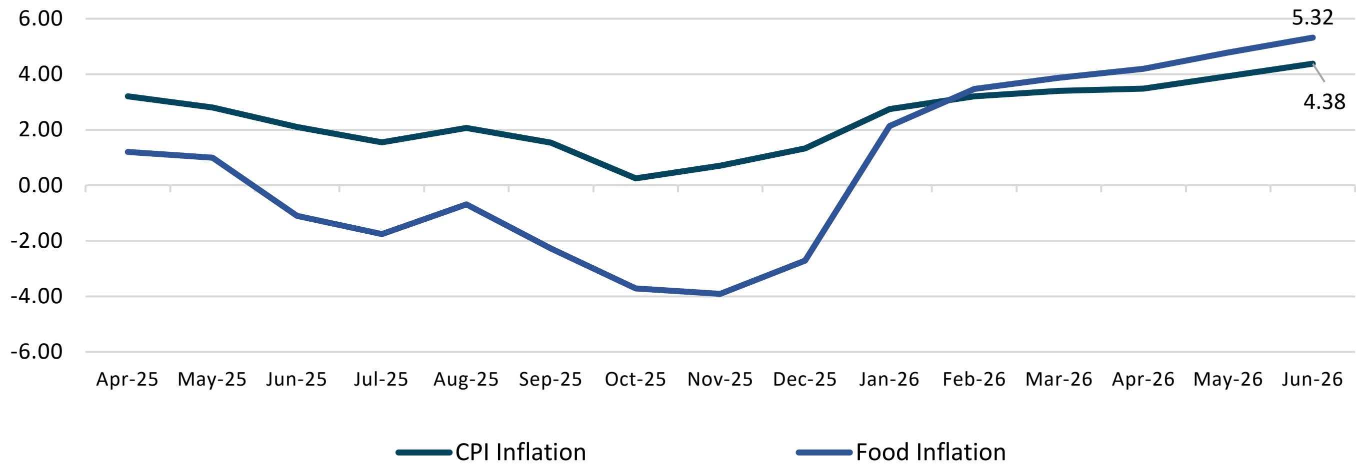
Rising food and fuel prices push inflation higher, limiting the RBI's policy flexibility.

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 next monetary policy cycle.

Pricing & business activity

Figure 2

CPI inflation (%)



Source: Ministry of Statistics and Programme Implementation.

Business activity moderates as manufacturing and services growth slows.

Manufacturing momentum softened as new orders and exports weakened amid global demand pressures.

India's manufacturing PMI eased to 54.2 in June 2026, marking its second weakest improvement since mid-2022. Although the sector remains in expansionary territory, this moderation was driven by softer growth in new orders and output, alongside the slowest increase in export orders since March 2023 amid subdued global demand and competitive pressures.

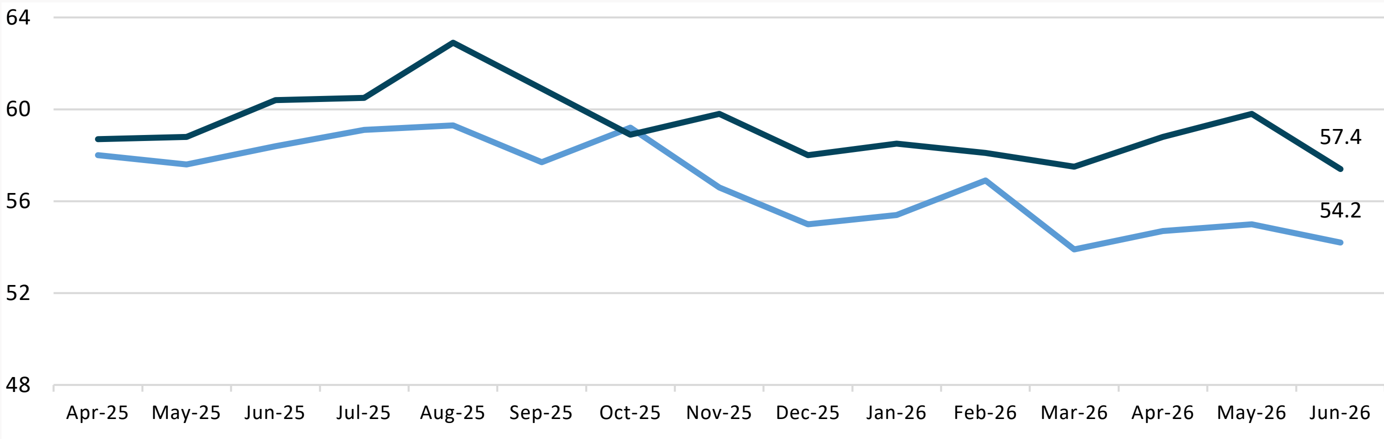
Services growth softened sharply as weak demand and hiring dragged PMI to a 17-month low.

India's services sector expanded at a slower pace in June 2026, with the HSBC India Services PMI dropping to a 17-month low of 57.4. Although the sector remains in expansionary territory, growth was significantly constrained by softer domestic demand, stagnant hiring, and the weakest new business inflows in over two and a half years. While factors like competitive pricing, strong ecommerce demand, and improved local tourism provided some support, challenging market conditions continued to weigh on overall expansion.

External trade

Figure 3

Manufacturing and services PMI



Source: HSBC.

Trade deficit widens as imports outpaces 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 26.9% 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.

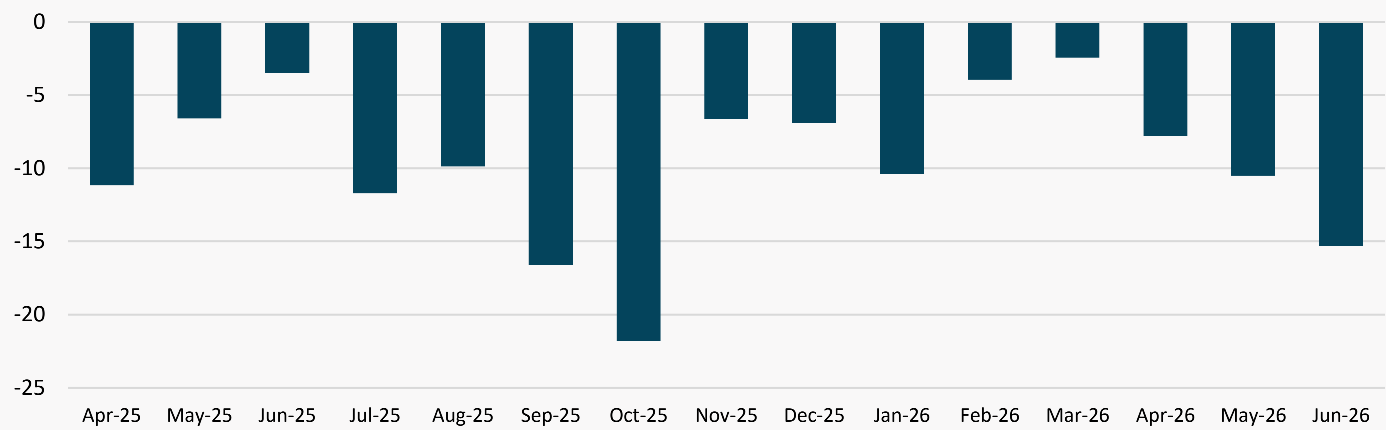
Fiscal revenue & reserves

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.

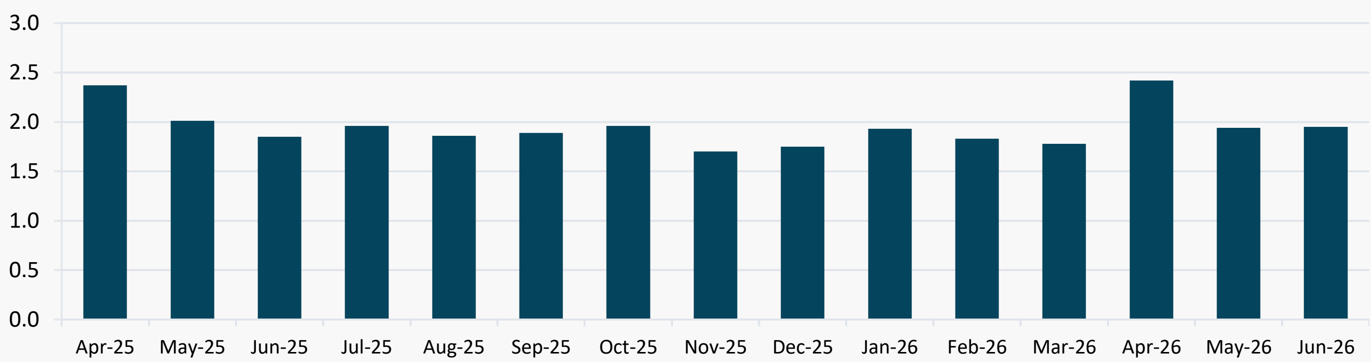
GST collections remain stable, supported by strong import driven growth.

GST collections rose 13.9% YoY, driven mainly by strong import revenues.

India’s gross GST collections remained stable at INR 1.95 trillion in June 2026 compared with May 2026, while registering a 5.4% YoY increase. Growth was primarily driven by a sharp rise in import-related revenues, which significantly outpaced the 6.5% expansion in domestic collections. Net GST collections, after adjusting for refunds, rose 11.2% to INR 1.62 trillion. At the state level, Uttar Pradesh led domestic GST growth at 19%, followed by strong performances from Assam and Punjab.

Figure 6

GST collections (INR trillion)



Source: Ministry of Finance.

Industrial output & banking

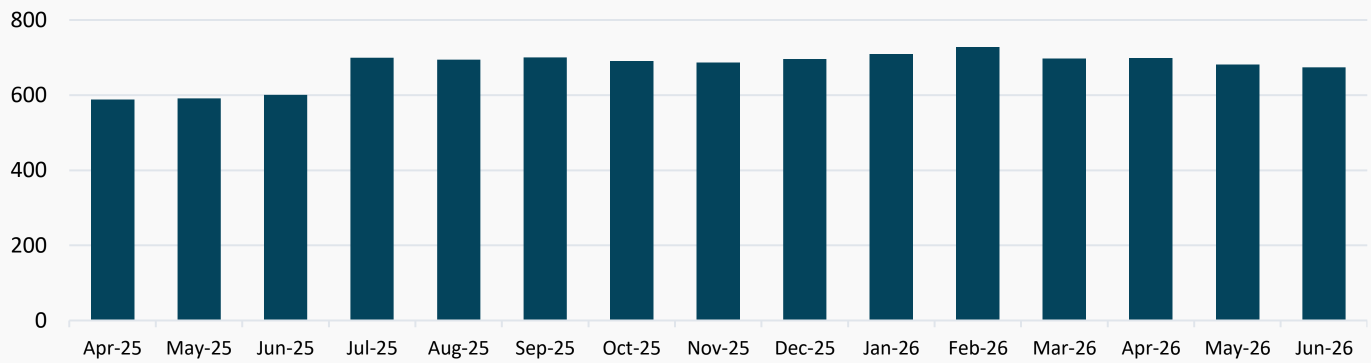
Reserves moderate as RBI intervention and global volatility weigh on levels.

Forex reserves rose USD 7.3 billion to USD 674.2 billion, driven by gains in FX and gold assets.

India's foreign exchange reserves increased by USD 7.3 billion to reach USD 674.2 billion for the week ended July 3, 2026, reversing a recent decline and reinforcing the country's external buffers. This broad-based recovery was driven by a USD 4.5 billion rise in foreign currency assets, which make up the largest component, alongside a notable USD 2.7 billion jump in gold reserves to USD 105.2 billion. While current reserves remain below the all-time high of USD 728.5 billion recorded in February 2026 before the Middle East conflict.

Figure 7

Forex reserves (USD billion)



Source: Reserve Bank of India.

Industrial output gains momentum driven by manufacturing and electricity.

Industrial output rose 5.1% in May, led by 5.5% manufacturing growth.

India’s industrial output growth accelerated to 5.1% in May 2026, up from 4.9% in April, reflecting resilient domestic demand for investment, infrastructure and consumer durables despite external headwinds. The expansion was led by a 5.5% rise in manufacturing, supported by strong performances in electrical equipment, motor vehicles and basic metals. A sharp pickup in electricity and gas supply, which increased by 10 to 11%, added meaningful momentum and helped offset the continued drag from mining.

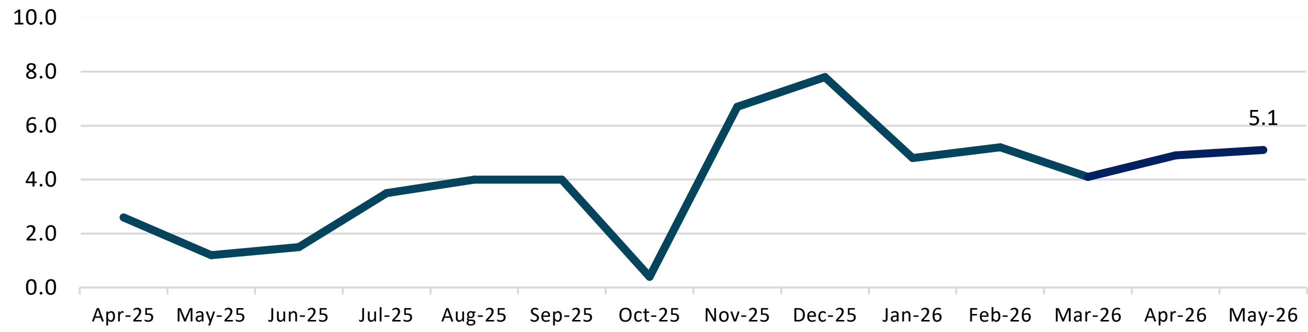
Manufacturing held a steady 5.5% growth, with 16 of 23 industries expanding.

Manufacturing, which accounts for roughly three-quarters of the IIP basket, remained steady at about 5.5% growth, confirming that core factory-sector momentum has not softened materially. Within this segment, 16 of 23 two-digit NIC industry groups recorded growth over May 2025, highlighting broad-based industrial resilience.

Industrial output & banking

Figure 8

Industrial production (IIP) growth (%)



Source: Ministry of Statistics and Programme Implementation.

Investment and retail lending drive continued credit growth.

Credit growth surged on strong domestic demand, far outpacing slower deposit mobilisation.

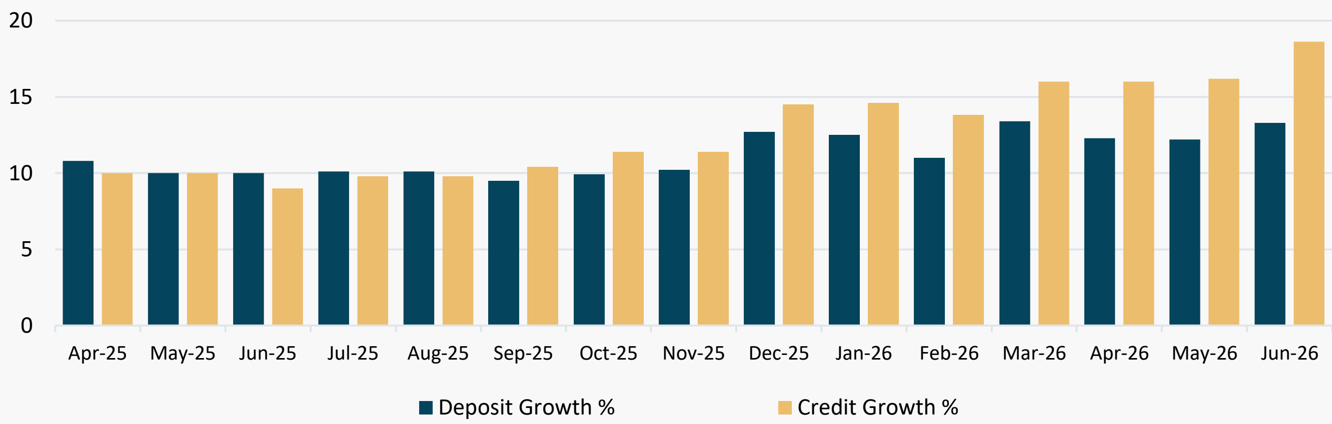
India's banking system recorded robust credit momentum in June 2026, with non-food bank credit rising 18.6% YoY, far outpacing deposit growth of 13.3%. This expansion was supported by resilient domestic demand, sustained government infrastructure spending, and improving private investment, which collectively drove strong lending across the services, retail, and industrial sectors.

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

Retail credit remained buoyant, underpinned by steady demand for housing, vehicle, and personal loans. Corporate borrowing also strengthened as businesses financed infrastructure projects and higher capacity utilisation. Deposit growth continued to lag credit despite banks offering attractive term-deposit rates, as household savings increasingly shifted toward higher-yielding financial assets such as mutual funds and equities.

Figure 9

Credit and deposit growth (%)



Source: Reserve Bank of India.

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