

- 01 Macroeconomics update
- 03 Pricing and business activity
- 04 Industrial output
- 04 External trade
- 05 Fiscal revenue and reserves
- 06 Banking

Monthly Economy Wrap

September 2026

Macroeconomics update

Table 1

Key macroeconomics indicators - August 2026

Indicator	Value	Period	Outlook
Real GDP growth	7.8%	Q1 FY27	Strong; beating consensus forecasts on robust private domestic demand. Full-year FY27 growth is projected to normalize toward 6.9% amid global and monsoon risks.
Inflation (CPI)	4.45%	July 2026	Elevated with upward pressure: Headline CPI (4.45%, July 2026) reflects a sharp sequential surge from the recent 3%-4% baseline, driven by food price pressure. Inflation is expected to peak at approximately 5.9% in Q3 FY27 before cooling toward 5.0%, staying within the RBI's band but requiring heightened vigilance.
Interest rate (Repo)	5.25%	August 2026	Neutral stance; central bank balancing liquidity with inflation containment. RBI is expected to hold rates steady to keep long-term inflation expectations anchored.
Unemployment rate	5.1%	July 2026	Positive; improving labor force participation and lower overall urban/rural joblessness.
GST collections	INR 2.00 trillion	August 2026	Strong revenue growth: Collections expanded 14.8% YoY (reaching INR 1,998.53 billion), supported by high import activity and stable domestic consumption.
Manufacturing PMI	52.8	August 2026	Expansionary; slight moderation from previous peak but output remains healthy. Output cools to a 5-year low amid weak demand, but benefits from improved supply chain efficiency and reduced input costs.
Services PMI	54.1	August 2026	Accelerating; solid international demand and continuous service sector expansion. Driven by stronger output, new business growth, and job creation reaching a 15-month high.

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

Macroeconomics update

Capex-led surge drives India's Q1 FY27
GDP growth to 7.8%

India's real GDP expanded by a robust 7.8% year-on-year in Q1 FY27 to reach INR 81.36 trillion, beating the Reserve Bank of India's 7.0% estimate primarily through aggressive capital expenditure, with Gross Fixed Capital Formation rising 11.9%. Growth was well-rounded on the demand side, supported by a 7.1% increase in private consumption and a 12.0% surge in exports. Backed by corporate resilience, low non-performing assets, and strong tax collections, India's medium-term trajectory remains solid, though full-year growth is projected to normalize toward 6.9% as base effects taper and risks around monsoon performance, global commodity volatility, and trade protectionism persist.

India's forex reserves hit record USD 740.8 billion after rbi swap facility triggered inflow

India's foreign exchange reserves scaled an all-time record of USD 740.80 billion in late August 2026, marking a dramatic rebound from earlier dips with a nearly USD 75 billion accumulation over the period. This unprecedented expansion was catalyzed by the Reserve Bank of India's special FCNR(B)/ECB swap facility, which attracted a massive USD 136 billion in inflows and triggered an early closure of the program after smashing liquidity targets. By absorbing currency depreciation risk through this mechanism, the RBI effectively insulated depositors while fortifying the nation's balance sheet, raising import coverage past 11 months, strengthening the Rupee against global volatility, and cementing a formidable macroeconomic shield against trade and geopolitical shocks through late 2026.

RBI holds rates steady, upgrades FY27 growth forecast and maintained a neutral stance.

In its August 2026, the Reserve Bank of India (RBI) unanimously held the benchmark repo rate unchanged at 5.25% for a fourth consecutive session, maintaining a "Neutral" stance to balance steady domestic growth against global uncertainties. Upgrading the FY27 real GDP growth projection to 6.7% highlights robust domestic economic momentum. Concurrently, the slight downward revision of the CPI inflation forecast to 5.0% indicates underlying disinflationary trends, even though temporary supply-side shocks, primarily in food and energy, are anticipated to push headline inflation to 5.9% in Q3 FY27. External sector resilience remains supported by strong capital inflows, evidenced by USD 30.7 billion in gross FDI during Q1 FY27, alongside daily systemic liquidity surplus averaging INR 1 trillion. However, exogenous risks such as West Asian geopolitical conflict, crude oil price swings, and El Nino climate disruptions necessitate a cautious, data-dependent approach to future policy adjustments.

India surpassed 300 GW of non-fossil energy capacity, fulfilling over 60% of its 2030 target.

India achieved a major clean energy milestone on July 31, 2026, by crossing 300 GW of installed non-fossil fuel electricity generation capacity, which accounts for over 54% of its total 552 GW capacity and fulfills more than 60% of its 500 GW target for 2030. This landmark transition is primarily driven by massive expansions in solar power at 164.59 GW and wind energy at 58.14 GW, complemented by hydro (57.24 GW), bio-power (11.75 GW), and nuclear energy (8.78 GW). To sustain this momentum, the country installed a record 55.29 GW of non-fossil capacity in 2025-26 alone, propelling annual renewable energy generation to 477.79 billion units, underscores accelerating investment cycles in low-carbon infrastructure.

India passed the 2026 Mineral Amendment Bill, limiting state taxes to boost investment, lower costs, and secure resources.

India's Parliament passed the Mines and Minerals (Development and Regulation) Amendment Bill, 2026, delivering a structural reform that stabilizes raw material supply chains and accelerates industrial growth. By introducing Section 9D, the bill eliminates uncoordinated state-level mineral taxation and extinguishes legacy tax disputes, sharply reducing regulatory friction. This fiscal alignment lowers input costs for key downstream industries like steel and cement while preserving baseline state royalties. Crucially, by balancing cooperative fiscal federalism with national strategic priorities, the framework mitigates investment risks, boosts global industrial competitiveness, and fortifies India's long-term reliance on domestic resources.

MeitY notified a INR 625 billion mobile manufacturing scheme to boost domestic production, R&D, and indigenous brands by 2027.

The Ministry of Electronics and Information Technology (MeitY) has notified the Mobile Phone Manufacturing Scheme (MPMS) with a INR 625.00 billion outlay for FY27 to FY31, succeeding the catalytic PLI-LSEM scheme to sustain India's momentum as the world's second-largest mobile manufacturer. Offering production incentives up to 5%—alongside bonus top-ups for domestic R&D, local components, and Indian-owned brands—the initiative aims to launch India's first flagship indigenous mobile brand by mid-2027. By deepening local value addition, the scheme is set to unlock ₹39 trillion in cumulative output, create 60,000 direct jobs, and aggressively scale exports to dominate global electronics supply chains.

Pricing & business activity

India's Q1 FY27 GDP grew a robust 7.8%, beating RBI estimates on strong capex.

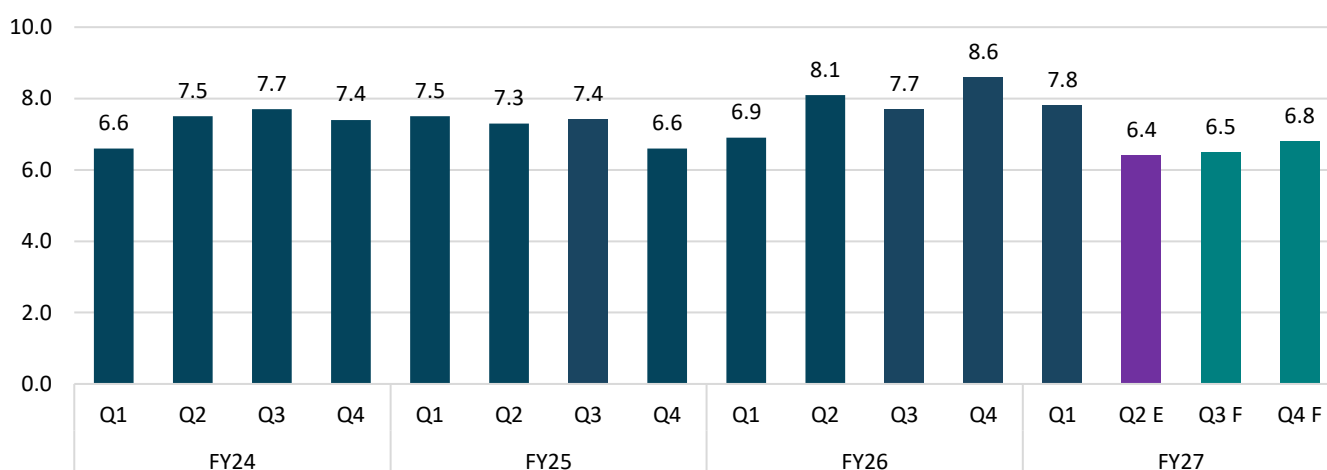
Full-year FY27 growth is projected to normalize toward 6.9% amid global and monsoon risks.

India's real GDP expanded by 7.8% in Q1 FY27 led by capex expansion and strong GVA

India's real GDP registered robust growth of 7.8% year-on-year (reaching INR 81.36 trillion) in Q1 FY27, up from 6.9% in Q1 FY26 and beating the Reserve Bank of India's 7.0% estimate by 80 basis points. Growth was primarily propelled by capital deployment with Gross Fixed Capital Formation (GFCF) expanding 11.9% in real terms to account for 34.4% of nominal GDP, underlining high capex productivity and corporate balance sheet resilience. Demand side dynamics were further supported by steady private consumption (+7.1%) and a 12.0% surge in real exports driven by capital goods demand. On the production side, real Gross Value Added (GVA) expanded by 8.2%, led by financial, real estate, and professional services (+12.1%) alongside a recovery in manufacturing (+9.2%) and utilities (+8.9%). However, primary sector GVA grew by a modest 3.6%, weighed down by a 2.4% contraction in mining activity.

Looking ahead, full-year GDP growth is expected to normalize toward 6.9% as base effects taper. Sustained machinery imports, strong IIP capital goods growth, robust tax collections, and low bank NPAs maintain a positive medium-term trajectory and support sovereign credit stability. Primary downside risks include volatile global commodity prices, maritime trade protectionism, and monsoon-dependent agricultural performance.

Figure 1:
India's real GDP growth (%), YoY



Source: Ministry of Statistics and Programme Implementation; Reserve Bank of India. E = Estimate, F = Forecast.

Retail inflation hits 19-month high of 4.45% in July 2026 amid food and transport cost surge

India's July 2026 CPI inflation hit a 19-month high of 4.45% on sticky food prices.

India's retail inflation, measured by the Consumer Price Index (CPI), rose to a 19-month high of 4.45% year-on-year in July 2026 (up from 4.38% in June), driven by localized supply interruptions and higher global transport expenses. Food inflation accelerated to 5.52%, reflecting weather-related supply bottlenecks across essential commodities like onions, pulses, and edible oils. Concurrently, transportation and communication inflation reached 4.43%, absorbing elevated international energy and freight costs. The cost pressures fell disproportionately on rural households, where CPI reached 4.84%, compared to an urban print of 3.96%. Despite these cost-push drivers, core inflation remained largely contained.

July's CPI surge reflects delayed consumer pass-through from months of high wholesale inflation.

The July CPI surge represents a delayed pass-through of upstream cost pressures that built up in the Wholesale Price Index (WPI) over preceding months. Wholesale inflation maintained elevated levels throughout Q1 FY27, rising from 8.26% in April 2026 to 9.68% in May and holding near 9.87% in June and 9.78% in July 2026. Due to the typical 1-to-2-month lag before wholesale price increases fully filter down to retail pricing, these earlier cost hikes in fuel, primary articles, and basic commodities are now being reflected in consumer-level CPI data.

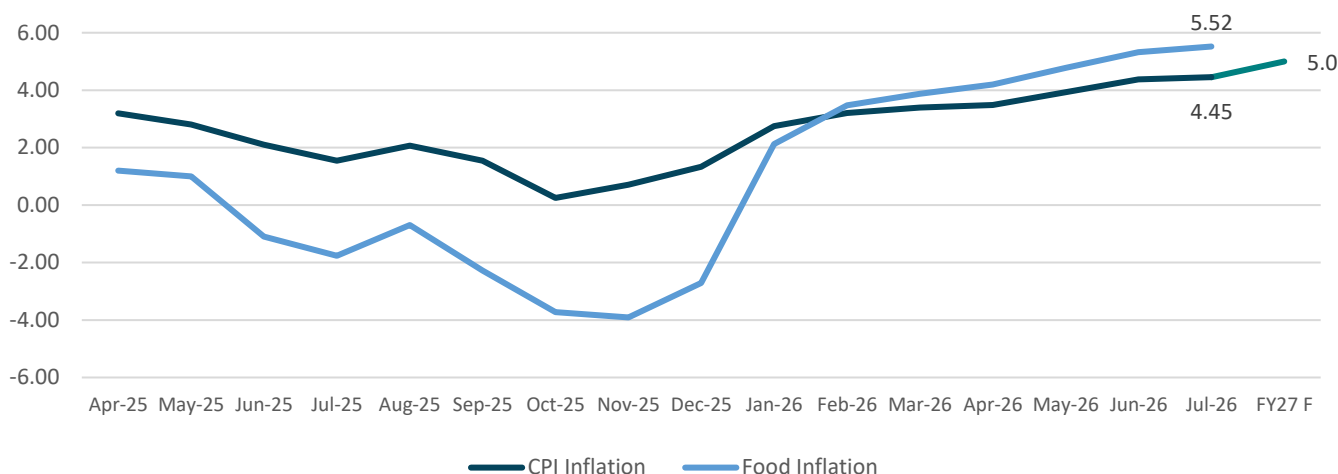
Pricing & business activity

FY27 inflation is projected to peak at 5.9% in Q3 before cooling toward 5.0%.

Looking ahead headline retail inflation is projected to peak approximately 5.9% in Q3 FY27 before moderating toward the full-year forecast of approximately 5.0%. Although projected inflation remains within the Reserve Bank of India's 6% upper threshold, near-term price pressures persist due to uneven monsoon distribution and global crude oil volatility. As a result, the RBI is expected to keep policy interest rates steady to maintain anchored long-term inflation expectations.

Figure 2:

CPI inflation (%)



Source: Ministry of Statistics and Programme Implementation; Reserve Bank of India. F = Forecast.

India's August 2026 manufacturing PMI dropped to 52.8, marking a five-year low amid weak demand.

Services rebounds to 54.1 while manufacturing cools to 5-year low of 52.8

India's manufacturing sector saw a significant slowdown in August 2026, with the Manufacturing PMI dropping to 52.8 from 53.5 in July, its lowest growth in five years. This decline was attributed to weakened demand and lower appetite for certain goods, resulting in reduced growth in output, domestic orders, and international sales. This contraction in output growth and new order flows forced firms to scale back capital commitments, reflected in input purchasing reaching a 62-month low and pre-production inventory accumulation slowing markedly. Most notably, factory-floor employment contracted for the first time in 30 months. On the pricing front, the deceleration in input cost inflation to a six-month low provided necessary margin relief, enabling producers to pass on minimal price hikes, the slowest pace of output price inflation in 45 months, in an effort to stimulate lagging demand.

Services PMI recovered modestly to 54.1, boosting job creation to 15-month high.

In contrast to industrial cooling, the service sector demonstrated modest structural resilience as the Services PMI activity index ticked up to 54.1 in August 2026, supported by expanding domestic demand and strengthening international trade links across key corridors like the UAE, Singapore, Japan, and Canada. This uptick in service activity catalyzed labor absorption, pushing job creation to a 15-month high as roughly 11% of surveyed service firms expanded their payrolls. However, the sector's expansion velocity remains constrained below its historical benchmark of 54.5, reflecting drag from intense domestic price competition, transport bottlenecks, and softer booking volumes. Furthermore, service providers faced accelerating input cost inflation, forcing a sharper upward adjustment in final service pricing to preserve operating margins.

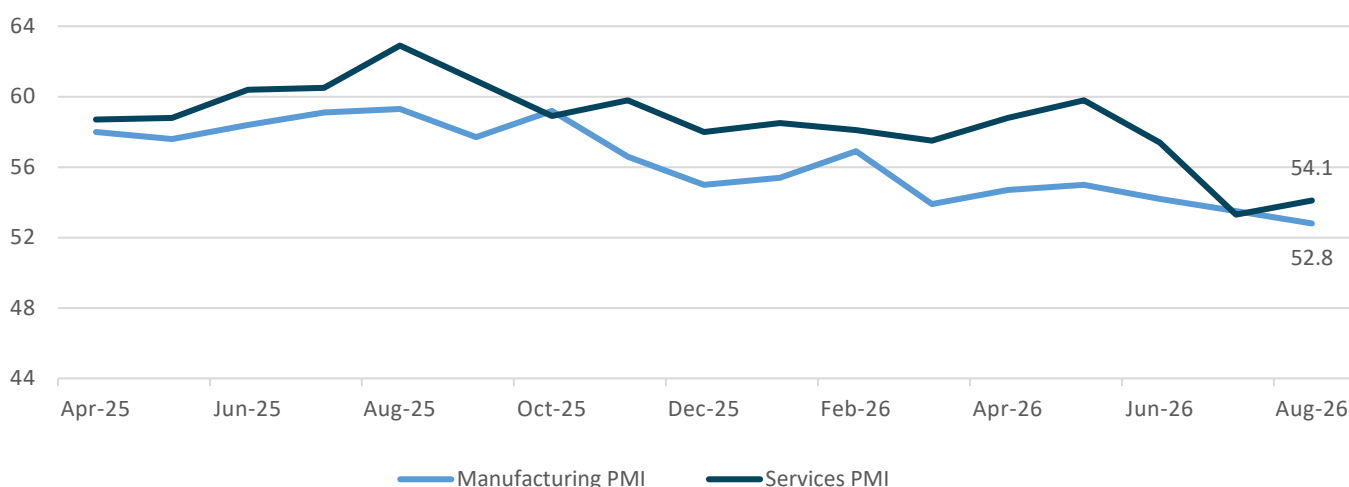
India's manufacturing and services sectors face cautious, steady growth amid fierce domestic market competition.

Looking ahead, both India's manufacturing and services sectors reflect a path of cautious, near-trend expansion while adjusting to evolving domestic and external conditions. Manufacturing performance remains heavily contingent on supply-chain efficiencies and disinflationary cost pass-through to clear accumulated inventory and reignite order volumes. Meanwhile, the service sector relies on rapid digital technology adoption, service export diversification, and steady enterprise spending. However, overall private sector capital deployment and output growth will likely follow a measured trajectory as firms navigate tight domestic market competition, cautious consumer sentiment, and broader global trade uncertainties.

Industrial output

Figure 3

Manufacturing and services PMI



Source: HSBC.

India's factory output growth moderates to 6.7% in July 2026 as base effect kicks in

Manufacturing and electricity power July IIP growth as mining sector contracts

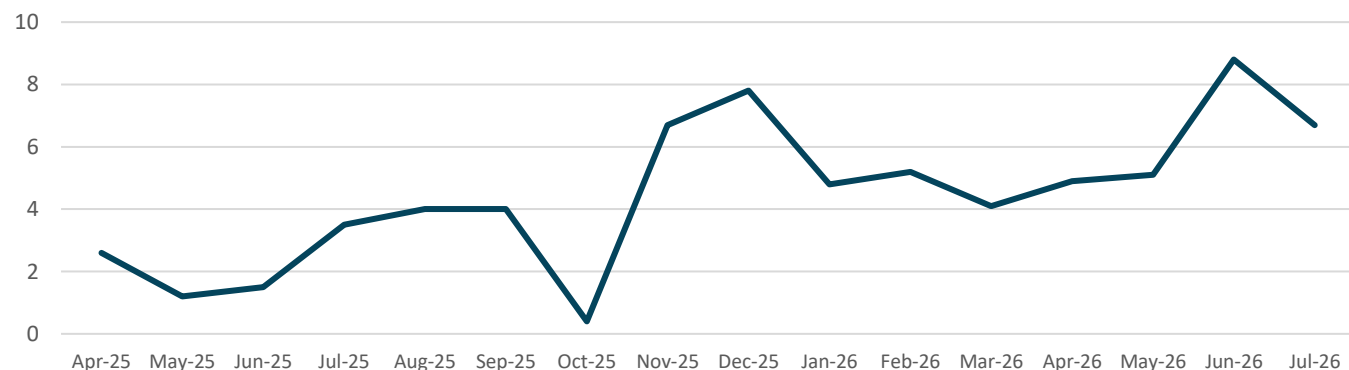
India's Index of Industrial Production (IIP) expanded by 6.7% year-on-year in July 2026, moderating from an upwardly revised 8.8% in June. Growth remained heavily driven by the manufacturing sector, which rose 7.3%, supported by double-digit surges in key sub-sectors like motor vehicles, electrical equipment, and machinery. Electricity and utilities also provided strong momentum with an 8.7% jump. In contrast, the mining and quarrying sector posted a minor contraction of 0.9%, weighed down by heavy monsoon rains and high prior-year base comparisons. From a use-based perspective, capital goods led the charge with a 16.1% expansion alongside robust performance in consumer durables (10.5%), while consumer non-durables saw a slight decline of 1.0%.

India's factory output projected to maintain steady 5% to 7% growth momentum

The near-term outlook for Indian factory output appears positive yet cautious. Government capital expenditure and robust growth in capital goods indicate strong private investment. The festive season is likely to boost urban consumer durables and manufacturing demand. Challenges remain in rural consumption and global uncertainties affecting exports. Overall, IIP growth is anticipated to maintain a steady pace of 5% to 7% driven by domestic demand and stable infrastructure activity.

Figure 4

Industrial production (IIP) growth (%)



Source: Ministry of Statistics and Programme Implementation

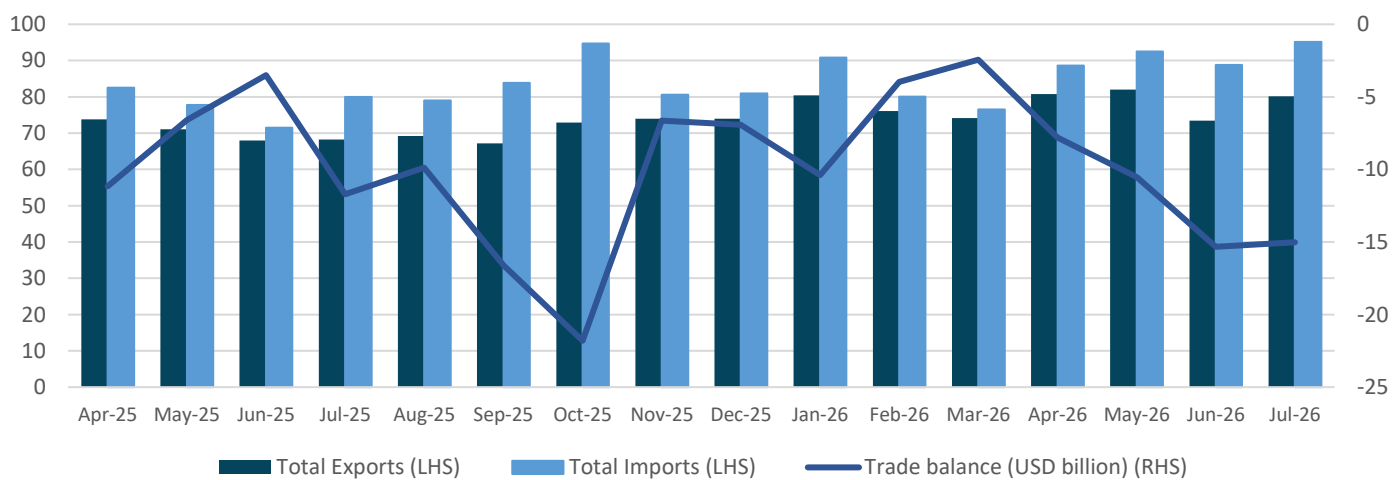
External trade

India's July 2026 total exports grew 13.31% led by electronics and petroleum

India's foreign trade crosses USD 80 billion mark in July 2026, but widening deficit reaches USD 15 billion

India's overall foreign trade (exports of merchandise and services combined) reached USD 80.14 billion in July 2026, a 13.31% year-on-year expansion, driven by significant strength in high-value merchandise sectors, including petroleum products (+67.64%), electronics (+57.40%), and engineering goods, alongside resilient service exports of USD 35.89 billion. However, the total trade deficit widened to USD 15.03 billion in July 2026 as overall imports (up 15.8% YoY) outstripped export growth (up 13.3%). The standalone merchandise trade deficit hit a six-month high of USD 31.98 billion, reflecting an elevated crude oil import bill of USD 18.31 billion and strong domestic absorption of foreign industrial capital goods, electronics, and machinery.

Figure 5
Exports and imports (USD billion)



Source: Ministry of Commerce & Industry.

Strong domestic momentum and services surpluses shield India's trade outlook despite high imports.

Look ahead, India's trade trajectory is set to remain anchored by strong domestic momentum and expanding high-value exports, with substantial services surpluses continuing to cushion the overall balance of payments. Looking ahead to the near-to-medium term, merchandise imports are expected to stay elevated due to ongoing industrial capacity expansion and vulnerability to volatile global crude oil prices. Maintaining future macroeconomic stability and exchange rate resilience will ultimately depend on sustaining double-digit export growth, deepening domestic value chains to reduce import intensity, and navigating geopolitical headwinds and supply chain risks.

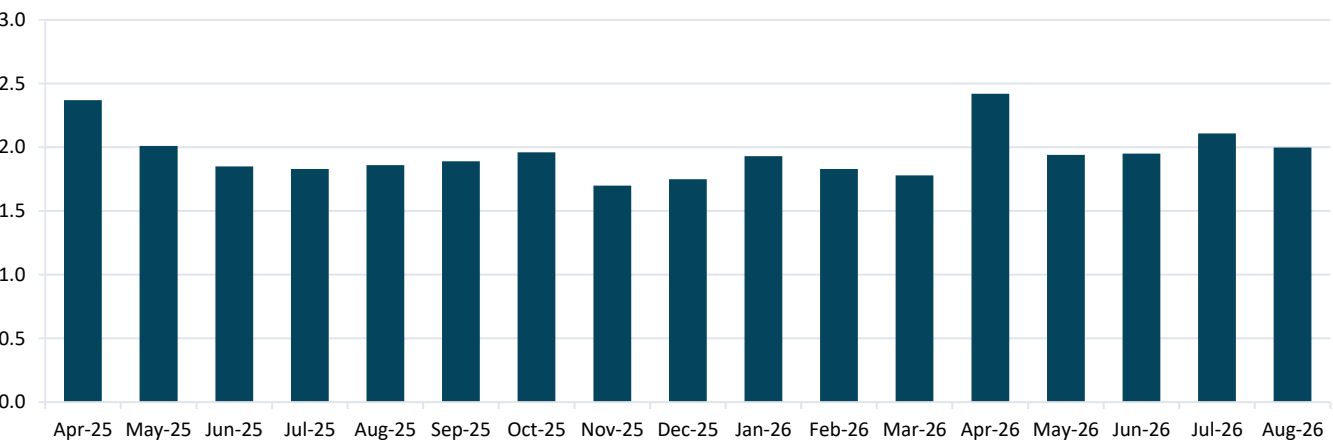
Fiscal revenue and reserves

India's August 2026 gross GST jumped 14.8% to INR 1.99 trillion on import surge.

India's August GST revenue soars 14.8% YoY to near INR 2 trillion led by import revenue spike

India's gross Goods and Services Tax (GST) revenue recorded strong performance in August 2026, reaching INR 1,998.53 billion (USD 23.8 billion approximately). This marks a notable 14.8% year-on-year jump compared to the INR 1,741.16 billion collected in August 2025. The robust increase was primarily driven by gross import revenues, which surged 29% to INR 626.04 billion, while domestic transaction revenues grew steadily by 9.3% to INR 1,372.49 billion. However, refund disbursements also saw a massive rise of 67.9% year-on-year to INR 317.95 billion, largely driven by domestic duty structure adjustments, bringing total net GST revenue to INR 1,680.57 billion, an 8.3% increase over the previous year.

Figure 6
GST collections (INR trillion)



Source: Ministry of Finance.

India's forex reserves reach historic high of USD 740.8 billion in August 2026

India's forex reserves hit high of USD 740.8 billion in August led by special FCNR(B) inflows

India's foreign exchange reserves posted a historic performance in August 2026, surging to an all-time record high of USD 740.80 billion for the week ended August 28. This capped off a remarkable ninth consecutive weekly increase, expanding the country's reserve pile by nearly USD 75 billion over that span. The single-week jump of USD 11.48 billion in late August was heavily catalyzed by the Reserve Bank of India's special FCNR(B)/ECB swap facility, which attracted massive capital inflows, over USD 136 billion in total, leading the central bank to close the window a month ahead of schedule after exceeding target liquidity expectations.

The RBI's FCNR(B) swap structure protects foreign depositors from Rupee volatility while rebuilding reserves.

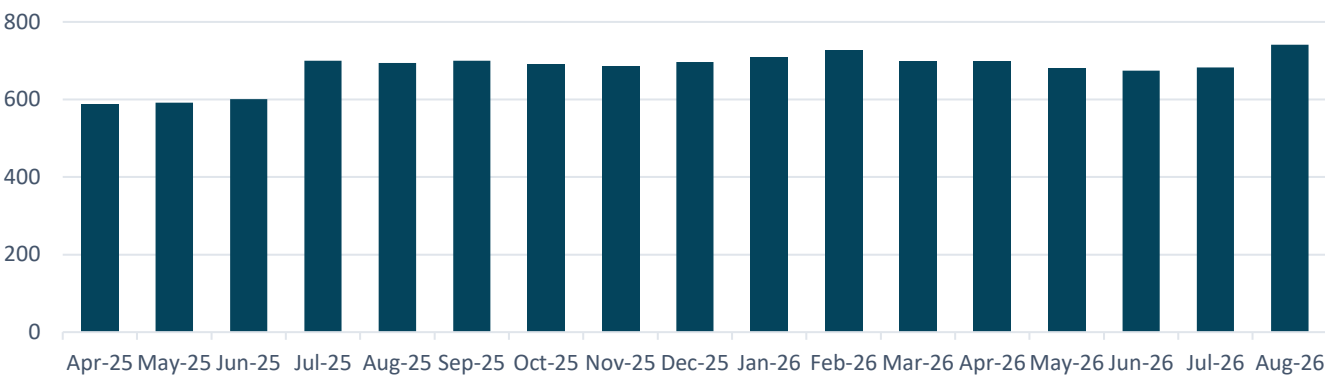
This sharp turnaround follows a brief period earlier in the year when reserves dipped under pressure from elevated crude oil import costs, geopolitical volatility, and central bank intervention to defend the Rupee. Under the FCNR(B) scheme, currency depreciation risk is insulated through a specialized structure where the RBI acts as the ultimate swap counterparty, effectively providing insurance against Rupee volatility to participating commercial banks. This setup guarantees foreign currency returns for non-resident depositors without exposing them to exchange-rate fluctuations, while commercial banks absorb the operational and credit risks.

Strong reserves cushion India against trade disruptions and geopolitical risks

Looking ahead, the expanded reserve chest provides India with a formidable buffer equivalent to over 11 months of import coverage. Sitting alongside core macroeconomic indicators like stable GDP growth and the repo rate, these record reserves give the RBI significant firepower to shield the economy from global market turbulence and trade disruptions. Even as capital inflows stabilize following the closure of the swap facility, India's balance sheet remains well-positioned to maintain currency stability through the end of 2026.

Banking

Figure 7
Forex reserves (USD billion)



Source: Reserve Bank of India

India’s bank credit surge: Non-food credit surges 19.1% YoY to INR 220.8 trillion in July 2026

India Bank credit growth hits 19.1% in July 2026, outpacing deposits at 15%

In July 2026, India's banking sector demonstrated strong expansion, rose 19.3% YoY, driven by robust broad-based credit demand that continued to outpace deposit mobilization. Non-food bank credit grew by 19.1% year-on-year (YoY) to reach an outstanding of INR 220.8 trillion as of the fortnight ended July 31, 2026, nearly doubling the 9.9% growth recorded in July 2025. Acceleration was led by the services sector (up 22.9% YoY) and industrial lending (up 20% YoY), supported by substantial demand from NBFCs, commercial real estate, engineering, and infrastructure. While agriculture and core personal loans like housing and vehicles registered steady double-digit gains, unsecured retail categories such as credit card debt experienced slight moderation. Meanwhile, total bank deposits grew by 15% YoY to INR 269.4 trillion, narrowing the credit-deposit growth gap to 4 percentage points compared to 6 percentage points in June.

Regional Rural Banks expanded rural credit to INR 5.78 trillion, easily exceeding RBI priority lending targets.

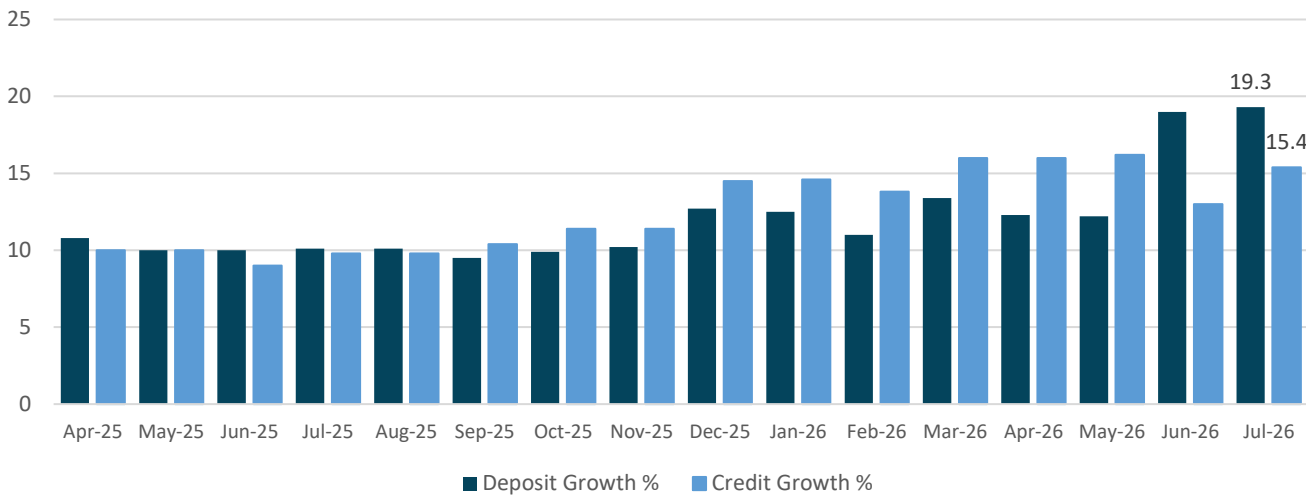
Complementing this macro-level expansion, Regional Rural Banks (RRBs) significantly advanced financial inclusion across the rural economy. In FY26, RRBs grew their gross loans outstanding by 10.3% YoY to INR 5.78 trillion. Furthermore, they comfortably exceeded the Reserve Bank of India’s 75% Priority Sector Lending (PSL) target by achieving an average performance of 91.7% of Adjusted Net Bank Credit. This momentum was primarily driven by INR 3.78 trillion allocated to agriculture and allied activities, alongside substantial deployments toward micro-enterprises and weaker sections.

Tight liquidity to force banks into higher deposit rates through FY27

Looking ahead through FY27, the persistent gap between credit expansion and deposit mobilization is set to keep system liquidity tight. While strong corporate demand, capital expenditure, and retail consumption will sustain double-digit credit growth, commercial banks will be forced to keep term deposit rates high to attract savings. As a result, banks face rising cost-of-funds pressure and Net Interest Margin (NIM) compression as they compete with alternative non-bank investment avenues.

Banking

Figure 8
Credit and deposit growth (%)



Source: Reserve Bank of India.

Author:

Abhishek Das

Editor:

Pranjal Ghatge
Mukesh Mahor

Managing editor:

Rajeev Sharan

Published by:

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

About the company

Brickwork Ratings (BWR) is a registered credit rating agency by Securities and Exchange Board of India (SEBI) and a recognised External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI) to carry out credit ratings in India. Established in 2007, BWR provides rating services for bank loan, NCD, commercial paper, bonds, securitised paper etc. It also provides investors and lenders timely and in-depth research across the structured finance, public finance, financial institutions, project finance and corporate sectors. BWR has Canara Bank, a leading public sector bank, as its promoter and strategic partner. BWR has its corporate office in Bengaluru and a country-wide presence, with offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi, along with representatives in 150+ locations.

For more information on Brickwork Ratings, please visit www.brickworkratings.com. More information on Canara Bank is available at www.canarabank.com. BWR Rating Criteria are available at <https://www.brickworkratings.com/ratingscriteria.aspx>.

Disclaimer:

Although all the information used in this study was taken from reliable sources, Brickwork Ratings does not accept any responsibility for the accuracy or comprehensiveness of the information given or forward-looking statements made. The information provided and forward-looking statements made are for informational purposes only and in no way constitute or should be taken to reflect Brickwork Ratings' position, in particular, in relation to any ongoing or future dispute. In no event shall Brickwork Ratings be liable for any loss or damage arising in connection with the use of this information and readers are cautioned not to place undue reliance on forward-looking statements. Brickwork Ratings undertakes no obligation to publicly revise or update any forward-looking statements, whether as a result of new information, future events or otherwise.

The entire content of this study is subject to copyright with all rights reserved. The information may be used for private or internal purposes, provided that any copyright or other proprietary notices are not removed. Electronic reuse of the data published in this study is prohibited. Reproduction in whole or in part or use for any public purpose is permitted only with the prior written approval of Brickwork Ratings India Private Limited. and if the source reference "*Monthly Economy Wrap*, September 2026, Brickwork Ratings" is indicated.

The editorial deadline for this study was 07 September 2026.

© 2026 Brickwork Ratings. All rights reserved.

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