BRICKWORK RATINGS

India's macroeconomic outlook: resilience amid global uncertainty

Structural resilience anchors stable sovereign stance

August 2026

Executive summary

Structural resilience anchors a Stable Credit Stance, even as external headwinds gather.

India enters FY27 on solid ground. Growth closed FY26 at a four-year high, banks are lending briskly, and services are running hot. But the external weather has turned: costlier, more volatile oil, a firmer dollar, a wider trade gap, and a softer rupee all weigh on the near term. Against these stand real buffers: deep foreign exchange reserves, steady fiscal consolidation, and a well-capitalised banking system. The structural story holds, and we keep a Stable Credit Stance.

Growth touched a four-year high in FY26 and stays strong, even as it eases in FY27.

Real GDP grew 7.7% in FY26, a four-year high, powered by manufacturing and services, both in double digits (secondary 8.8%, tertiary 9.3%). The RBI expects growth to ease to 6.7% in FY27 as costlier crude and supply-chain strains bite. Even so, India stays the fastest-growing major economy, cushioned by resilient services exports and steady public capex.

Inflation climbs on food and fuel, but the RBI holds rates and waits.

Headline CPI rose to an 18-month high of 4.38% in June 2026, up from 3.48% in April, on food and energy costs. With core inflation still soft, the RBI held the repo rate at 5.25% and kept a neutral stance, watching the inflation path before making any move.

Factories pick up and services stay strong, keeping activity broad-based.

Industrial output accelerated, with the IIP rising 7.3% in June 2026, a five-month high. The newly launched Index of Services Production showed double-digit gains in trade, telecom and hospitality. Manufacturing PMI eased to 54.5 as input costs rose, but services PMI held firm in the 57 to 59 range, keeping services the economy's steadiest support.

The trade gap widens and the rupee softens, but a deep reserve buffer holds firm.

The merchandise trade deficit widened to about USD 86.9 billion in Q1 FY27 as imports jumped nearly 20%, though a record services surplus of USD 49.4 billion narrowed the overall deficit to USD 37.4 billion. The rupee hit a record low near 96.8/USD in May before recovering to about 95.5 by end-July. Reserves rebounded to nearly USD 693 billion, over ten months of import cover.

Credit races ahead of deposits, tightening liquidity and squeezing margins.

Bank credit grew 19% against 13% deposit growth, lifting the credit-deposit ratio to a multi-decade high of 82.6%. With loans running well ahead of deposits, liquidity is tightening and net interest margins are under pressure.

A forward-looking provisioning regime will reshape bank economics from April 2027.

The bigger change lies ahead. From 1 April 2027, the RBI's new Expected Credit Loss framework overhauls how banks provide for bad loans. Rather than setting money aside only after a loan sours, banks must act as soon as credit risk rises, sorting exposures into three stages in line with global IFRS 9 norms. The shift can be sharp: a loan 60 days overdue, provisioned at just 0.40% today, would attract a 5% floor, more than tenfold higher. A glide path to March 2031, with the one-time hit charged to reserves rather than profits, softens the blow. Unsecured retail, credit cards and microfinance will feel it most, while secured housing loans are better placed. Over time, the regime should sharpen loan pricing and leave banks stronger.

Fresh trade and energy pacts widen India's external runway.

Two new agreements brighten the outlook. The India-UK trade deal, in force from July 2026, gives 99% of Indian exports tariff-free access, helping textiles, leather and engineering goods. A new India-Japan partnership (POWERR Asia) strengthens power, pharmaceutical and semiconductor supply lines.

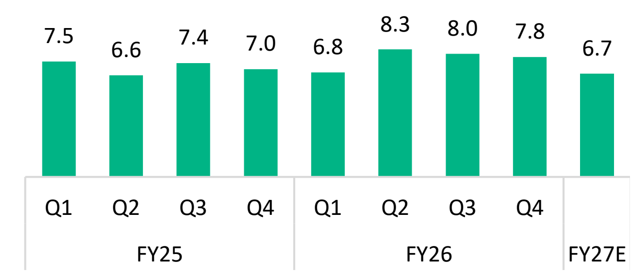
Key takeaways

Structural resilience anchors a Stable Credit Stance, even as external headwinds gather. India enters FY27 on solid ground, deep forex reserves, fiscal consolidation and a well-capitalised banking system offset costlier oil, a firmer dollar and a softer rupee.

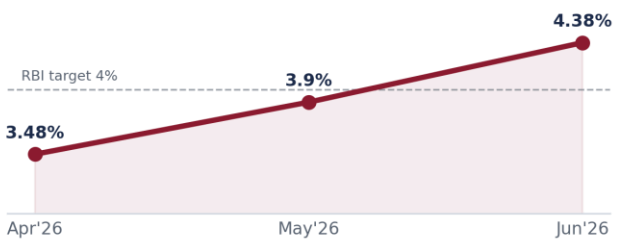
REAL GDP (FY26)	CPI INFLATION (JUN'26)	REPO RATE	BANK CREDIT GROWTH	CD RATIO	FOREX RESERVES
7.7%	**4.38%**	**5.25%**	**19.0%**	**82.6%**	**USD 693bn**
4-yr high	18-mo high	Held, neutral	YoY, Jun'26	Multi-decade high	>10 mo cover

Growth, Inflation and Credit - at a glance

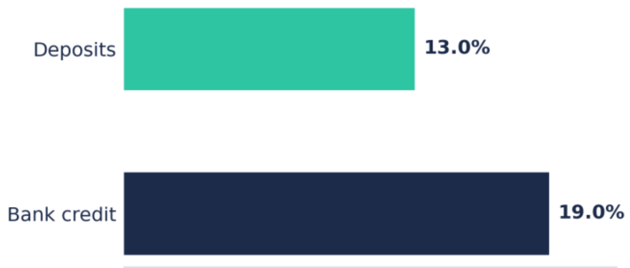
Real GDP growth (%, YoY)



Retail inflation — CPI (%, YoY)



Credit outpaces deposits (%, YoY, Jun'26)



Forex reserves (USD bn), FY27 Q1

- **Growth:** FY26 GDP grew 7.7% (Manufacturing +8.8%, services +9.3%); RBI pegs FY27 at 6.7% as costlier crude bites.
- **Inflation:** CPI at 4.38% in Jun'26 on food & fuel; core inflation soft at 4%, giving RBI room to hold.
- **Trade & currency:** Trade deficit widened to USD 37.4bn in Q1 FY27; INR recovered to ~95.5/USD after touching a record low of 96.8.
- **Banking:** Credit (19%) outpacing deposits (13%) has pushed the CD ratio to a multi-decade high of 82.6%, squeezing margins.

BWR View

Macro fundamentals stay supportive of ratings. Tightening system liquidity, elevated inflation and energy-price sensitivity are the key incremental risks to watch through H2 FY27.

Key takeaways

Policy and trade developments

RBI's Expected Credit Loss (ECL) framework - effective 1 April 2027

Forward-looking, stage-based provisioning (IFRS 9-aligned) replaces the incurred-loss model. A 60-day overdue loan provisioned at 0.40% today would attract a 5% floor, over 10x higher. Glide path to March 2031 cushions the transition; unsecured retail, cards and microfinance are most exposed. **Medium-term credit-positive for the system.**

India-UK CETA (in force 15 Jul 2026)

99% of Indian exports duty-free; +GBP 25.5bn trade, +GBP 5.1bn GDP p.a. Textiles, leather & marine gain most.

India-Japan POWERR Asia (1-3 Jul 2026 summit)

JBIC JPY 80bn HVDC financing; cooperation spans semiconductors, critical minerals, 6G and pharma APIs.

Sector credit outlook

● Consumer Goods **Positive**	● Healthcare Services **Positive**	● Automobiles & Ancillaries **Stable**	● Telecommunication **Stable**
● Textiles **Stable**	● Real Estate **Stable**	● Metal & Metal Products **Stable**	● Infrastructure — Roads **Stable**
● Chemicals **Stable**	● Hotel & Tourism **Stable**	● Mining **Stable**	● Construction Materials **Stable**
● Power Distribution **Negative to Stable**			

● Positive ● Stable ● Negative to Stable

Credit rating implications

Indicator	Current trend	Rating implication
Real GDP growth	FY26: 7.7%; FY27E: 6.7%	Supports stable sovereign outlook
Bank credit growth	19% YoY, Jun'26	Positive for growth; funding-cost pressure to monitor
Asset quality (GNPA)	Multi-decadal low of 1.8%	Supports banking sector ratings
Fiscal deficit	FY26 at 4.4% of GDP	Consolidation path supports sovereign ratings
Forex reserves	~USD 693bn (Jul 2026)	Strong positive for external ratings
G-sec yield (10Y)	~6.8% (Jul 2026)	Elevated yields raise borrowing costs

Macroeconomic trend and outlook

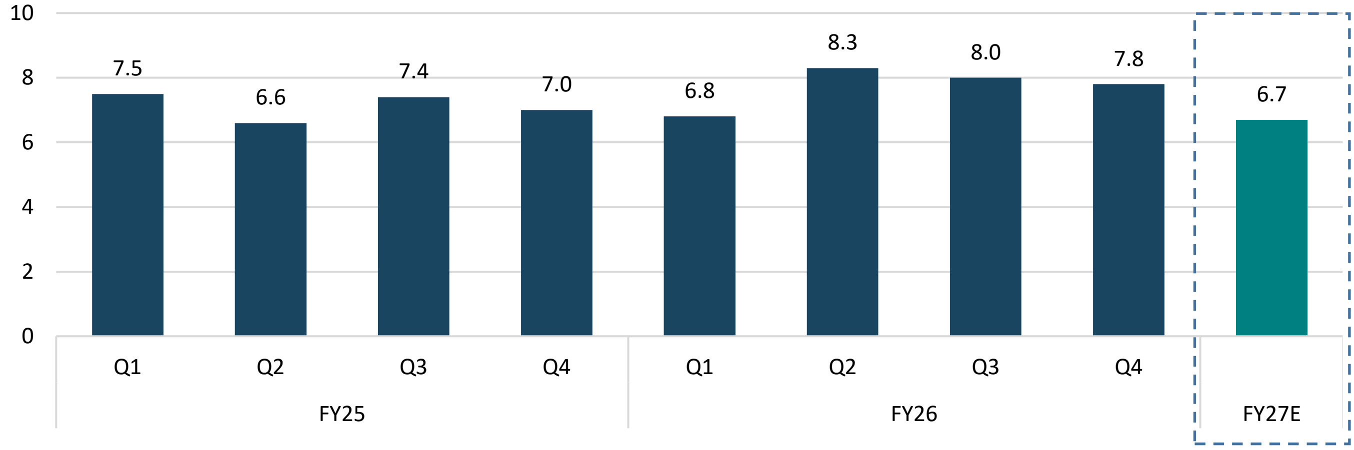
India powered to 7.7% growth in FY26; the real test now is holding the line at 6.7% against mounting global headwinds.

FY26 GDP growth accelerated to 7.7%, broad-based and the fastest among major economies.

India closed FY26 on a note of striking strength. Provisional estimates released by the National Statistical Office on 5 June 2026 pegged real GDP growth at 7.8% in Q4, lifting full-year FY26 growth to 7.7%, a decisive acceleration from 6.5% in FY25 and comfortably the fastest among the world's major economies. Crucially, the expansion was broad-based rather than narrow: manufacturing and contact-intensive services such as trade, hotels and transport all delivered double-digit growth, with real GVA rising 7.9% in the fourth quarter. The economy, in short, entered FY27 with both momentum and breadth, the backdrop against which this edition of Drishtikone reads the quarter ahead.

Figure 1

India's real GDP growth (%), YoY



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

Manufacturing and services anchor FY26 growth, as PFCE share hits a multi-year high.

Underpinning this strong top-line momentum were the contributions from both the supply and demand sides of the economy. On the output front, the secondary and tertiary sectors remained the key growth engines, expanding by 8.8% and 9.3% respectively. On the expenditure side, private final consumption expenditure (PFCE) grew 7.7%, maintaining its GDP share above 61%, its highest level since FY12, supported by real income gains and price relief from GST rationalisation. Concurrently, gross fixed capital formation (GFCF) expanded by 8.2%, anchored by sustained government capital expenditure alongside a gradual revival in private corporate investment.

FY27 growth pegged at 6.7% amid rising crude and geopolitical headwinds.

Entering the new fiscal year, near-term growth is expected to moderate slightly amid mounting external headwinds. The Reserve Bank of India (RBI) has pegged its FY27 real GDP growth projection at 6.7%, reflecting an outlook tempered by elevated global crude oil prices near USD 95 per barrel and supply-chain disruptions tied to the Strait of Hormuz. Despite these pressures, proactive central bank liquidity management and resilient services exports continue to act as critical shock absorbers, safeguarding overall macroeconomic stability.

India's medium-term growth intact through FY30 on strong capex and domestic demand.

Looking beyond these immediate global headwinds, India's structural growth trajectory remains exceptionally robust through the end of the decade. The medium-term outlook through FY30 is underpinned by durable capex, rising productivity, and deep-rooted domestic demand. As public infrastructure spending continues and private investment gains momentum, accelerating formalisation and digitalisation are set to expand tax buoyancy and credit penetration. Together with strong services exports, these domestic fundamentals provide a solid foundation to navigate near-term external volatility and sustain healthy long-term expansion.

Macroeconomic trend and outlook

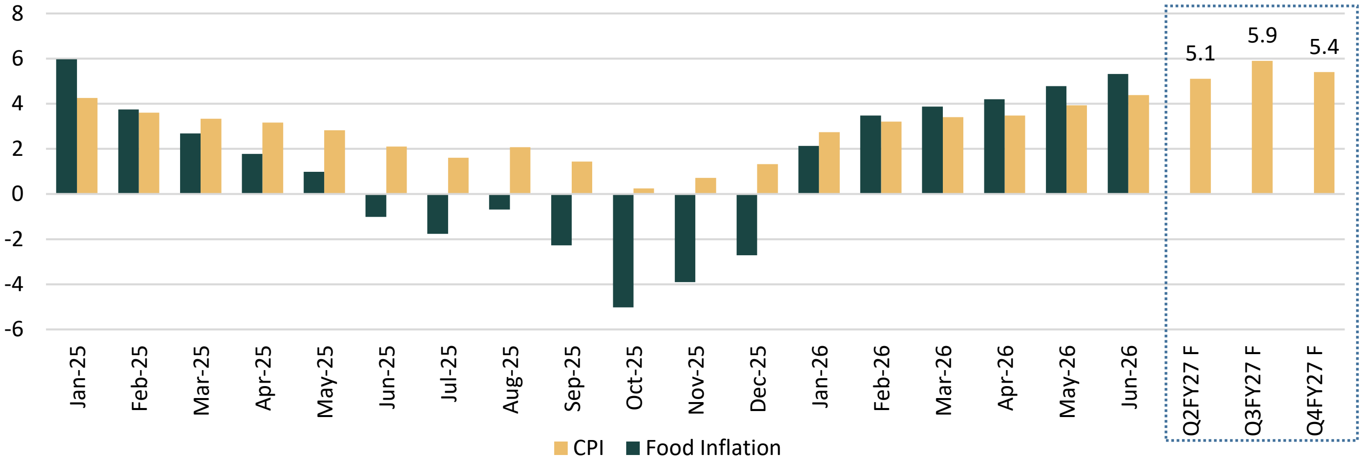
Retail inflation hits 18-month high in June 2026 amid rising food prices

Retail inflation surges to 18-month high of 4.4% as food and fuel costs spike

India's retail inflation saw a significant rise in Q1 FY27, after opening the financial year at a benign 3.5% in April 2026. Headline inflation accelerated to 3.9% in May before surging to an 18-month high of 4.4% in June 2026, driven by a sustained spike in food prices, which crossed 5.3% amid erratic early-monsoon weather and localized supply disruptions that spiked prices for perishables such as tomatoes and ginger. Compounding these agricultural shocks, the delayed pass-through of geopolitical tension and higher energy costs from West Asia drove transport inflation from flat levels in spring to over 4.3% by early summer.

Figure 2

Retail inflation (%), YoY



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

Low core demand gives RBI breathing room despite June inflation spike

Despite this mid-quarter escalation, macro-level stability buffers prevented any immediate monetary tightening. With the April-June average at 3.9%, inflation remaining comfortably below the RBI's 4% target and well within the 2%-6% tolerance band. Furthermore, with core demand pressures (excluding food and energy) remaining firmly contained at 4%, the RBI Monetary Policy Committee decided to hold the repo rate unchanged at 5.25%, choosing a cautious wait-and-watch approach.

CPI inflation likely to hover between 4% and 6% over the next two quarters; monsoon holds the key

Looking ahead, RBI projects inflation to hover around 4.7% in the second quarter and 5.9% in the third quarter of FY27, largely influenced by agricultural performance and global commodity trends. While short-term projections indicate pressure due to food challenges and monsoon delays, structural supports like healthy foodgrain reserves and an expected recovery in monsoon rainfall may reduce long-term risks. The outlook is finely balanced: favourable conditions, such as a well-distributed monsoon and lower global energy prices, could ease inflation, while adverse factors like El Niño-related rainfall variability, ongoing crude oil price fluctuations, or persistently high bullion prices could push headline inflation toward the higher end of the target range.

Rate pause amid external headwinds; balancing inflation and inflows

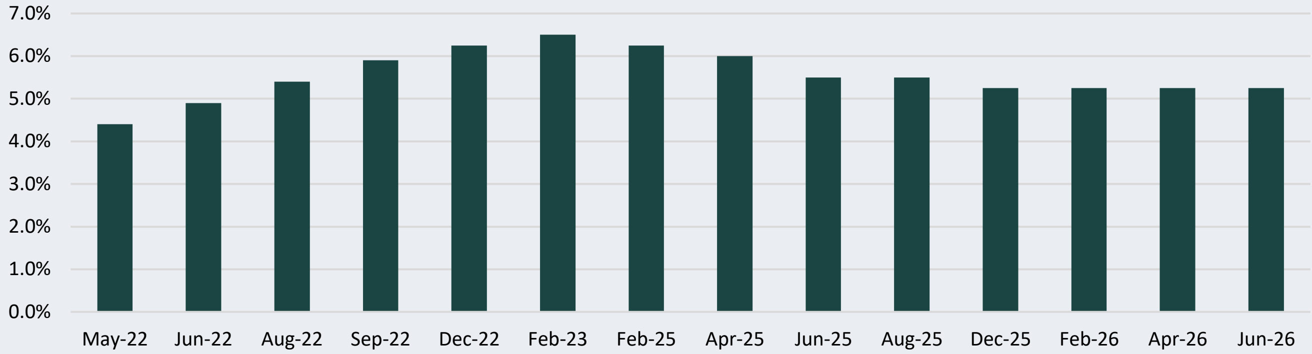
Repo rate held at 5.25%; neutral stance retained, awaiting inflation clarity.

The Reserve Bank of India's Monetary Policy Committee, at its 62nd meeting held from August 3 to 5, 2026, voted unanimously to keep the policy repo rate unchanged at 5.25 per cent and retained the neutral stance. The standing deposit facility stays at 5.00 per cent, while the marginal standing facility rate and Bank Rate remain at 5.50 per cent. The decision reflects a considered wait-and-watch approach, with the committee seeking greater clarity on the inflation path and its composition before committing to any policy action.

Macroeconomic trend and outlook

Figure 3

RBI repo rate trend



Source: Reserve Bank of India (RBI)

Note: The above graph only plots data when repo rate changed with relevant dates and omits MPCs when repo rates were held constant

Extended pause likely; monsoon and commodity risks limit near-term easing space.

The MPC looks set to stay on hold for now, and the neutral stance keeps its options open on either side. A rate cut in the near term looks unlikely. An uneven monsoon under El Niño conditions, swings in crude oil prices, and high bullion prices could nudge headline inflation toward the higher end of the projected range, keeping the committee watchful through the peak-inflation quarter. The good news is that these pressures are coming from the supply side, not from demand, and core inflation excluding precious metals remains soft. If food inflation eases in a sustained way from the fourth quarter and the monsoon recovers, the door could open for a small rate cut in early 2027-28.

For deeper insights on the analysis, please refer to Brickwork Ratings report titled “RBI monetary policy meet outcome - August 2026” dated 11 August 2026, https://tinyurl.com/4ebffmfw

FCNR(B) rate liberalisation: Policy shift and credit outlook

FCNR(B) deposits: RBI lifts rate ceiling to draw NRI inflows

FCNR(B) deposits let NRIs/PIOs/OCIs hold fixed deposits in India in foreign currency, insulated from rupee depreciation risk. In June 2026, RBI lifted the rate ceiling on fresh 3–5 year deposits and began absorbing banks' hedging costs through 30 September 2026. This step is to encourage FCNR(B) deposit net inflows, which was weakened sharply during FY26 to USD 946 million from USD 7.1 billion in FY25.

Deposit rates rise Sharply as hedging burden shifts to RBI

Rate ceiling withdrawn for 3-5 year tenor and one year lock-in period, with free pricing till 30 Sep 2026. Hedging cost now absorbed via RBI's swap window instead of banks. This cost saving has been passed through to depositors, pushing indicative USD rates from 3-4% to 6-7.1% p.a. The repricing makes FCNR(B) markedly more competitive interest rates by the banks as against comparable NRI deposit avenues, positioning it to capture long-tenor foreign-currency inflows.

Rate ceiling removal reshapes FCNR(B) pricing landscape

The withdrawal of RBI's rate ceiling, paired with hedging-cost absorption, has enabled a sharp re-pricing of FCNR(B) deposits from 3-4% to 6-7.1% per annum. This is expected to meaningfully boost NRI foreign-currency inflows and support forex reserve accretion over the window's duration.

Time-bound window mirrors 2013 swap, carries rollover risk

The measure mirrors the 2013 taper-tantrum swap window, aimed at shoring up forex reserves and rupee stability. Being time-bound, it introduces rollover and re-pricing risk once the facility lapses. Banks and depositors will need to watch the 30 September 2026 sunset closely, as any lapse without extension could trigger a sharp reversal in deposit pricing and inflow momentum. From a credit standpoint, the window is modestly positive for bank funding profiles and system liquidity in the near term, but the temporary nature of the relief limits its impact on long-term credit metrics and could pressure NIMs once banks resume absorbing hedging costs.

Macroeconomic trend and outlook

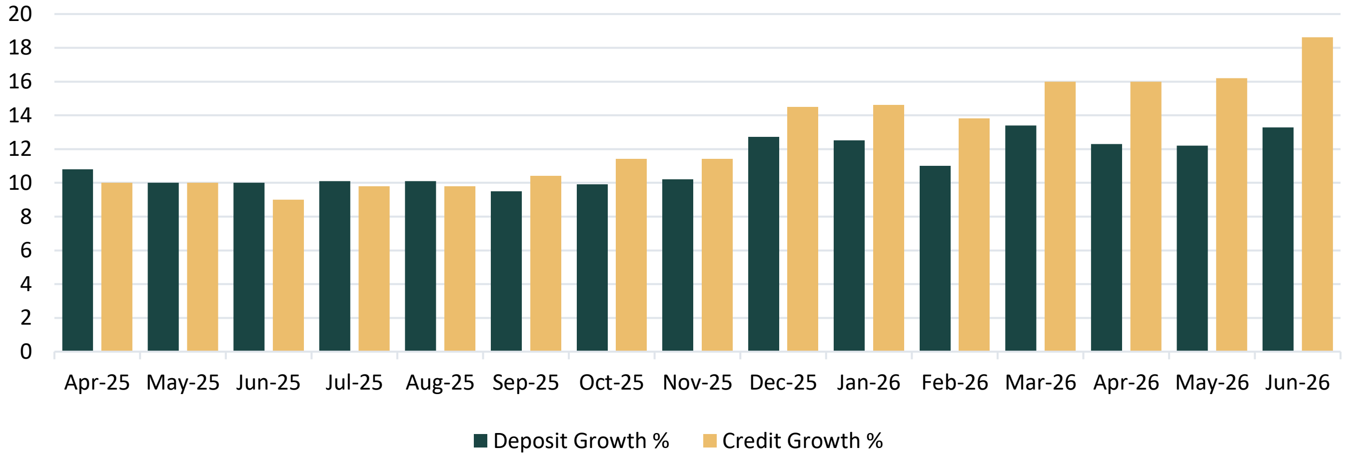
Strong credit momentum continues to support economic activity, led by retail and corporate demand

Credit growth continued to outpace deposit growth, widening the funding gap.

The Indian banking sector continued to experience divergence in Q1 FY27 as credit growth outpaced deposit mobilization. Driven by persistent credit demand, total outstanding bank loans expanded sequentially from INR 212 trillion in April to reach INR 219 trillion in June 2026, reflecting robust 19% YoY growth. Aggregate deposits grew at a slower pace than credit, registering 13% YoY growth over the same period.

Figure 4

Deposit and Credit growth (%) YoY



Source: Reserve Bank of India. E - Estimates

Banking credit-deposit ratio hits multi-decade high of 82.6%.

This growing mismatch steadily depleted surplus liquidity and pushed the banking system's overall credit-deposit (CD) ratio to a multi-decade high of 82.6% by the end of June 2026. The widening gap between credit and deposit growth points to banks increasingly drawing down excess liquidity and investment portfolios to fund credit expansion, rather than relying solely on incremental deposit growth.

Retail and corporate credit remain buoyant even as deposit growth trails.

Retail credit stayed robust on steady housing, vehicle and personal loan demand, while corporate borrowing strengthened alongside infrastructure financing and improving capacity utilisation. Deposit growth, however, continued to lag credit expansion, as household savings increasingly rotated towards higher-yielding financial assets such as mutual funds and equities despite competitive term-deposit rates.

Credit growth is expected to stay resilient, with deposit mobilisation gradually catching up.

Credit growth is likely to remain healthy through the rest of FY27, supported by sustained investment activity and steady consumption demand, while deposit growth should gradually converge as banks recalibrate deposit rates and household savings preferences stabilise. Overall system liquidity and funding conditions are expected to remain manageable, aided by the RBI's proactive liquidity management and banks' diversified funding base.

Manufacturing momentum moderates, services drive resilience; cautious optimism ahead

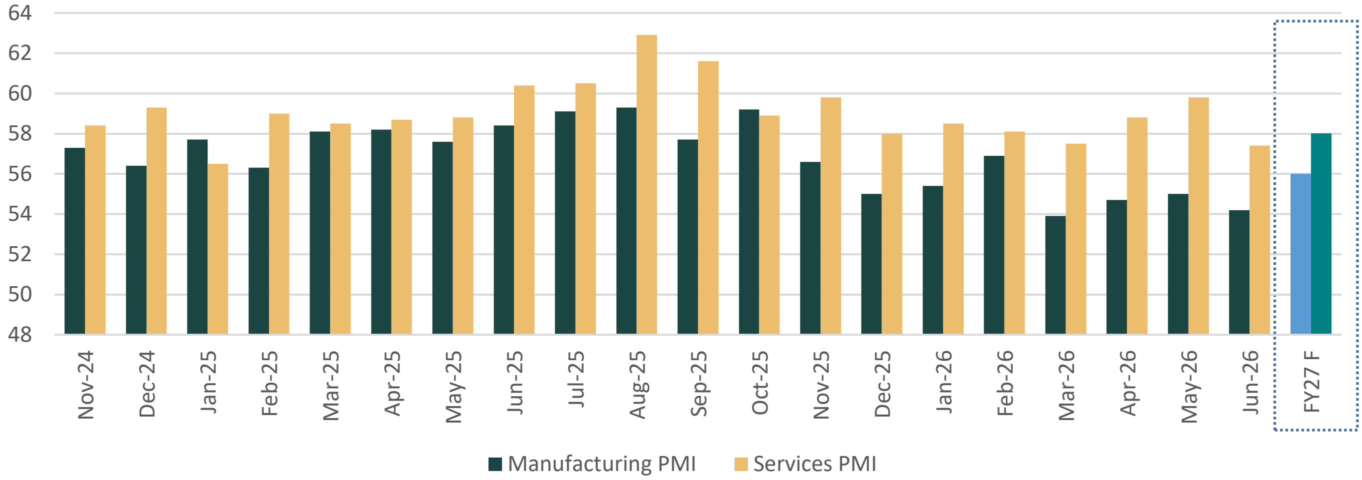
Manufacturing and services grew through Q1 FY27 but lost momentum as the quarter progressed.

India's manufacturing and services sectors delivered resilient but decelerating growth between April and June 2026. Early in the quarter, strong domestic orders and precautionary stockpiling supported manufacturing, while services drew on healthy consumer demand that encouraged hiring and capacity expansion. Momentum faded as the quarter progressed, with manufacturing new orders and output slipping to multi-year lows and services softening on easing domestic consumption.

Macroeconomic trend and outlook

Figure 5

India manufacturing and services PMI



Source: HSBC; Trading Economics. F- Forecast

Weaker capital goods, softer European exports, and cooling demand dragged confidence to a five-month low.

The moderation reflected several overlapping factors. Weaker capital goods demand and softer export orders from Europe slowed business activity across both sectors. Higher energy and material costs continued to pressure margins, and while input cost inflation eventually eased, this signalled cooler demand rather than genuine strength. Business confidence fell to a five-month low, dragging employment growth in manufacturing to its slowest pace and reversing recent hiring gains in services.

June PMIs stayed in expansion; growth likely holds but turns more measured and uneven.

These trends were visible in the June PMIs. Manufacturing eased from 55 in May to 54.5 but held comfortably above the 50-mark, while services proved more resilient, aided by stronger foreign sales and urban demand. Looking ahead, manufacturing is likely to hold around 54-55 in Q2 FY27 and services in the 57-59 range, though softening new orders and cautious sentiment point to a more measured, and increasingly uneven, pace of expansion.

IIP momentum accelerates: Manufacturing and capital goods power Q1 FY27 rebound

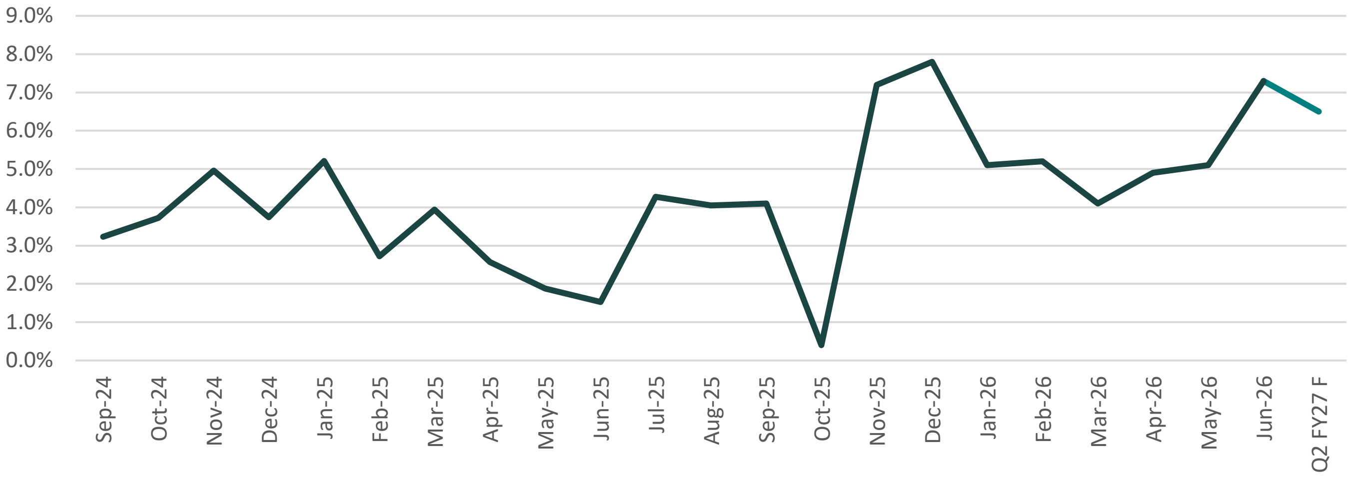
IIP accelerated to a five-month high of 7.3% in June, led by broad-based manufacturing gains.

India's industrial production began FY27 on a firm footing, with IIP growth rising from 4.9% in April 2026 to 5.1% in May and accelerating to 7.3% in June, a five-month high that signals strengthening momentum. The gains were led by manufacturing, the largest component of the index, which grew 7.8% in June on the back of capital goods, consumer durables, and intermediate goods. The electricity and gas sector added support, with output up 6.2% on higher power demand. The revival was broad-based, with 15 of 23 industry groups reporting growth.

Macroeconomic trend and outlook

Figure 6

Index of Industrial production growth (IIP),



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

Infrastructure spending, PLI schemes, and easing input costs fuelling industrial momentum.

The pickup reflects targeted policy support, sustained public investment, and easing cost pressures. Higher government infrastructure spending lifted demand for core inputs such as steel and cement, while production-linked incentive (PLI) schemes and improved capacity utilisation boosted value-added sectors like automobiles, electronics, and pharmaceuticals. Softer crude oil prices and stable financial conditions eased input costs, helping firms rebuild inventories and expand employment.

Q2 FY27 growth seen at 5.5%-6.5%; geopolitical and commodity risks could cause uneven performance.

Looking ahead to Q2 FY27, industrial growth is likely to hold within a 5.5%-6.5% range, anchored by a favourable monsoon, continued public capex, and firmer consumer demand. Geopolitical friction and commodity price volatility remain the key risks, and could drive uneven performance across sub-sectors even as the broader trajectory stays positive.

India launches the Index of Services Production (ISP): A new lens on India's services sector

MoSPI launched the ISP; 14 of 19 sub-sectors grew double-digit in April 2026.

The Ministry of Statistics and Programme Implementation (MoSPI) launched the Index of Services Production (ISP) on July 14, 2026, India's first high-frequency indicator for short-term volume changes in the formal services sector. With 2024-25 as the base year, it tracks 19 sub-sectors representing about 60% of the services economy. In April 2026, the trial series covers 19 sub-sectors representing about 60% of the services economy. In its debut reading, 14 of the 19 sub-sectors posted double-digit year-on-year growth in April 2026, led by accommodation and food services (37.2%), retail trade (30.8%), and telecommunications (22.8%). This performance highlights the services sector's essential role in India's growth, contributing over half of India's Gross Value Added and about 30% of employment.

ISP uses GST and survey data with WPI/CPI deflators to measure real services output monthly.

To translate nominal revenue into real, volume-based output, the ISP applies deflators such as the Wholesale Price Index and Consumer Price Index, drawing on GST returns, administrative records, and annual survey data. Designed by a Technical Advisory Committee and aligned with international statistical practice, it fills a long-standing gap in India's monthly data, with releases carrying a roughly 60-day lag.

Coverage set to widen to 85-90%, sharpening GDP estimates and India's economic monitoring.

India's rollout of the ISP is a significant step in aligning its statistical ecosystem with advanced economies. The index will expand to include health services and ownership of dwellings, potentially lifting it to 85-90% of the formal sector. By sharpening GDP and GVA estimates and enabling timelier business-cycle analysis, the ISP marks a meaningful upgrade to India's economic monitoring toolkit.

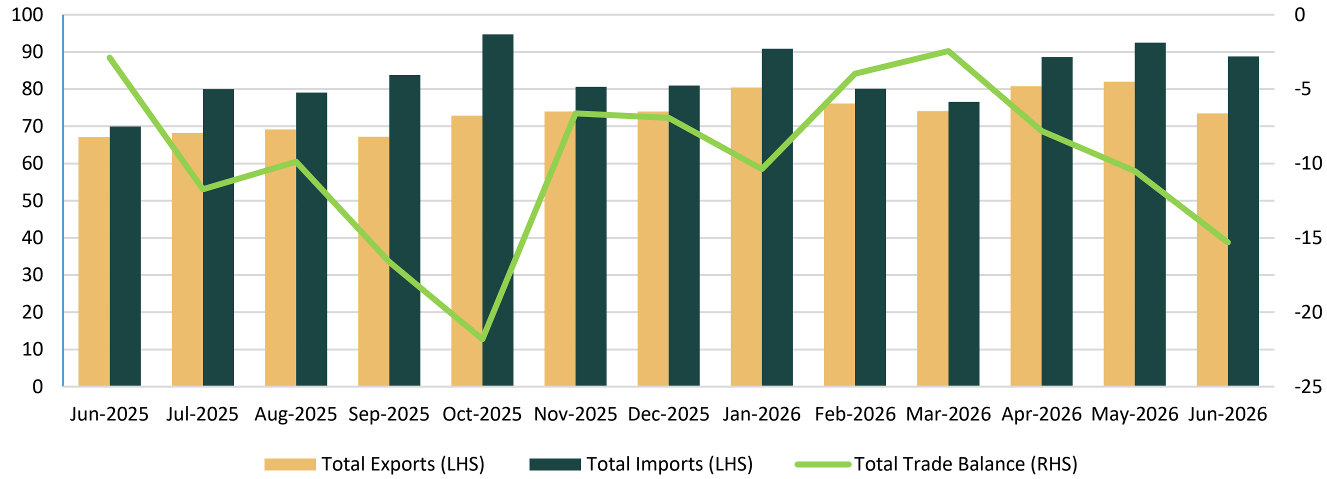
Macroeconomic trend and outlook

Trade deficit widens amid strong domestic demand and imports growth despite export resilience

India's trade deficit widens to USD 37.4 billion despite record Q1 FY27 exports

India's overall trade deficit widened sharply to USD 37.4 billion in Q1 FY27 (April-June 2026), as a rapid surge in imports outpaced strong export gains. Merchandise exports reached a record first-quarter high of USD 129.3 billion, representing a 15.9% year-on-year increase driven by strong momentum in engineering goods, chemicals, and high-value sectors. Merchandise imports climbed nearly 20% to USD 216.2 billion over the same period, swelling the merchandise trade deficit to USD 86.9 billion, up from USD 68.8 billion a year earlier. This divergence between export growth and import expansion highlights the growing pressure on India's external trade balance.

Figure 7
Exports, imports and total trade balance (USD billion)



Source: Ministry of Commerce & Industry, Government of India.

India's trade deficit widens under dual weight of global costs and domestic growth

This widening gap in India's trade balance is attributed to external cost pressures and strong domestic economic activity. Elevated global energy prices and geopolitical uncertainties have pushed up the national oil import bills, compounded by higher imports of gold and electronics. At the same time, robust domestic consumption and infrastructure spending have lifted demand for capital goods, which has widened the merchandise deficit even as the export base continues to broaden. The resilient services sector, however, cushioned the overall trade balance, generating a surplus of USD 49.4 billion during the quarter.

Cautious optimism: Geopolitical risks and Chinese imports challenge India's trade balance

Looking ahead, India's trade outlook remains cautiously optimistic. Exports are expected to stay strong, supported by IT services, engineering goods, and expanding electronics manufacturing, while imports likely remain elevated on firm domestic demand. As a result, the trade deficit is projected to stay in the USD 25-30 billion range unless crude oil prices ease significantly. Managing this gap will depend heavily on the stability of global energy prices, calibrated reliance on key import sources such as China, and mitigating currency volatility to protect export competitiveness.

India's foreign exchange reserves weather global volatility; ends July stronger

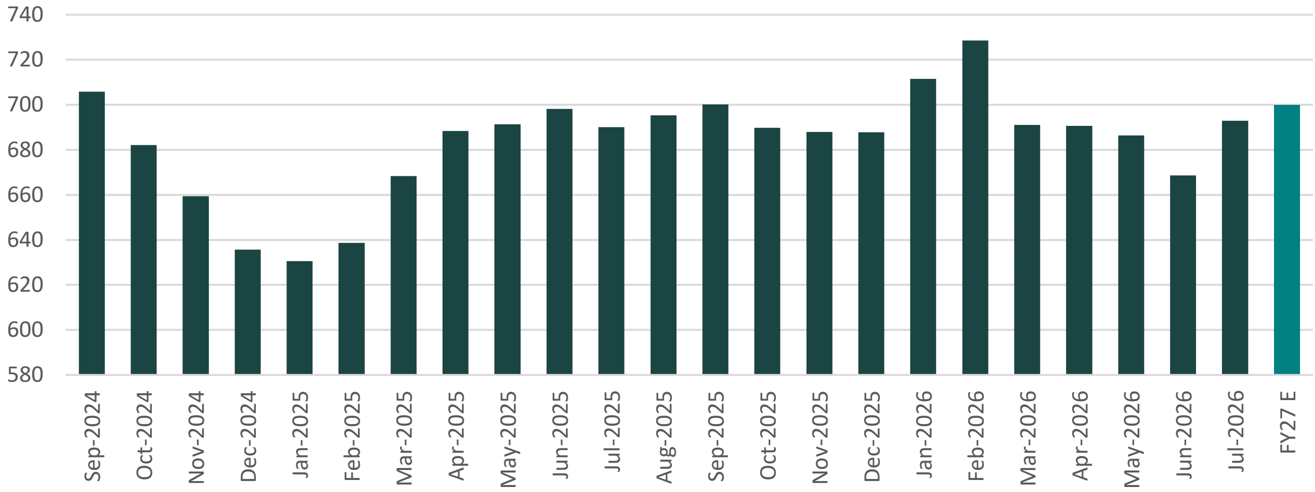
Forex reserves rebounded sharply after RBI intervention and strong external inflows.

India's foreign exchange reserves saw a volatile first quarter of FY27. From earlier peaks above USD 700 billion, they fell to about USD 667 billion in June, as the RBI sold dollars to defend the rupee against the oil-price surge and foreign portfolio outflows, before recovering to around USD 676 billion by mid-July and USD 693 billion by end-July. Resilient services exports and steady remittances cushioned the rupee, while the RBI's June foreign-currency deposit drive, which drew about USD 36.7 billion by end-July, aided the rebound. Import cover stayed comfortable at over ten months.

Macroeconomic trend and outlook

Figure 8

Forex reserves in USD billion



Source: Reserve Bank of India, E- Estimate

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

Reserves expected to stay near USD 675-725 billion but remain vulnerable to external shocks and policy shifts.

Looking ahead, reserves are likely to hold broadly within a USD 675-725 billion range through the rest of FY27, supported by steady FDI and services inflows and continuing FCNR accretion. The near-term path, however, will hinge on external conditions. Renewed geopolitical tensions, fresh crude spikes, or rupee pressure from shifts in global monetary policy could draw down the buffer and prompt further RBI intervention, whereas a calmer external backdrop would let reserves rebuild. Maintaining a deep buffer will remain central to India's external stability and its capacity to absorb future shocks.

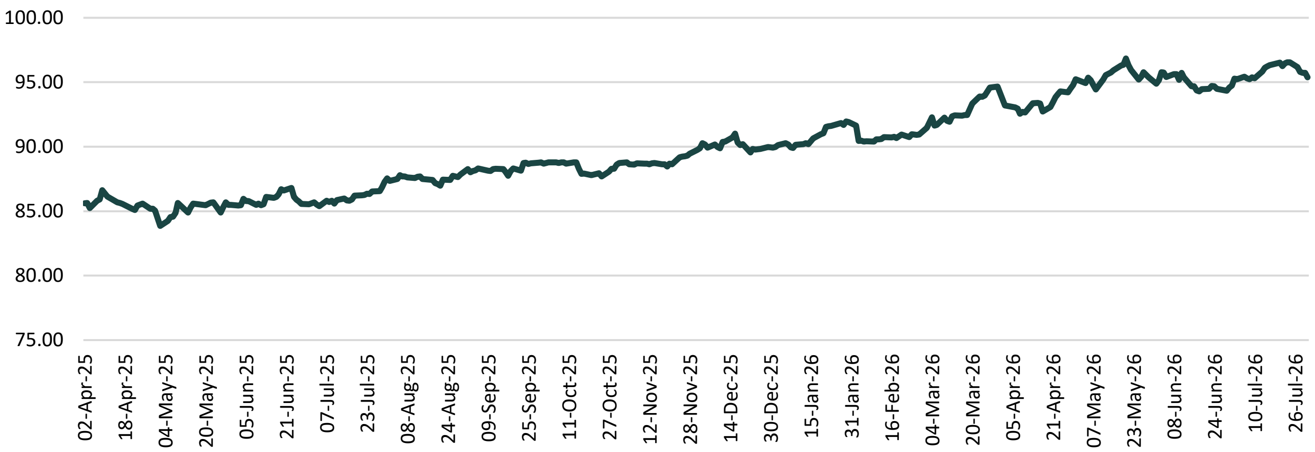
Indian Rupee slips toward 96/USD amid global pressures despite RBI support

Rupee dipped to INR 96.8 before stabilising near 95.5 on RBI support.

The Indian rupee remained under sustained pressure through Q1FY27, weakening from around INR 94/USD in early April 2026 to a record low near INR 96.8 on 20th May, before recovering to about INR 95.5 by end-July. The slide was driven by higher crude prices amid West Asia tensions, which widened the trade deficit, a firm US dollar on a hawkish Federal Reserve, and foreign portfolio outflows. RBI intervention in the spot and forward markets, aided by strong FCNR inflows, helped arrest the fall and steady the currency.

Figure 9

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



Source: Reserve Bank of India

Macroeconomic trend and outlook

Rupee likely holds in the INR 95-97 range but stays externally sensitive.

Looking ahead, the rupee is likely to trade in a broad INR 95-97/USD range through Q3 FY27, taking its cues from crude oil prices, US monetary policy, and geopolitical developments. The near-term bias stays soft, with fresh oil spikes or renewed capital outflows the main downside risks. These are cushioned by a deep reserve buffer offering over ten months of import cover, resilient services and remittance inflows, and the RBI's FCNR-boosted dollar liquidity. A calmer external backdrop could allow modest appreciation. Over the medium term, steady FDI, a healthy external position, and the expanding use of local-currency trade settlement should anchor broad stability.

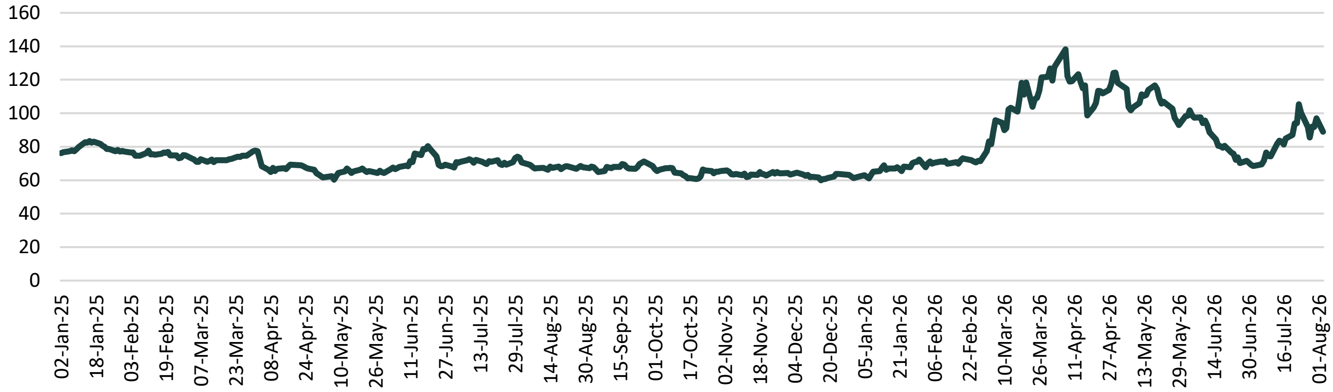
Brent crude defies early volatility to regain stability by July 2026

Geopolitics and supply shifts drive Brent crude volatility in Q2 2026.

Brent crude oil prices experienced significant volatility between April and July 2026, declining from highs of USD 138 per barrel in early April 2026 to around USD 69 in early July, before rebounding to USD 86-94 by late July 2026. The fluctuations were influenced by geopolitical tensions, supply adjustments, and demand shifts. Initially, prices surged due to Middle East stability issues before correcting as OPEC+ supply adjustments took effect.

Figure 10

Brent crude spot price in USD per barrel



Source: U.S. Energy Information Administration

Brent likely stays volatile but mostly within USD 75-85, with geopolitics driving risks.

Looking ahead, Brent is likely to stay volatile but broadly range-bound in a USD 75-85 band through H2 FY27. The US EIA projects an average near USD 74 for the third quarter of 2026, with rising global inventories and OPEC+ supply weighing on prices, while unresolved Hormuz risks keep an upside premium in place. For India, the sharp first-half spike had widened the import bill and lifted inflation risks, so the subsequent softening is a clear relief; sustained prices below USD 80, and ideally in a USD 65-75 range, would ease external and price pressures materially. The balance of risks remains firmly tied to geopolitics.

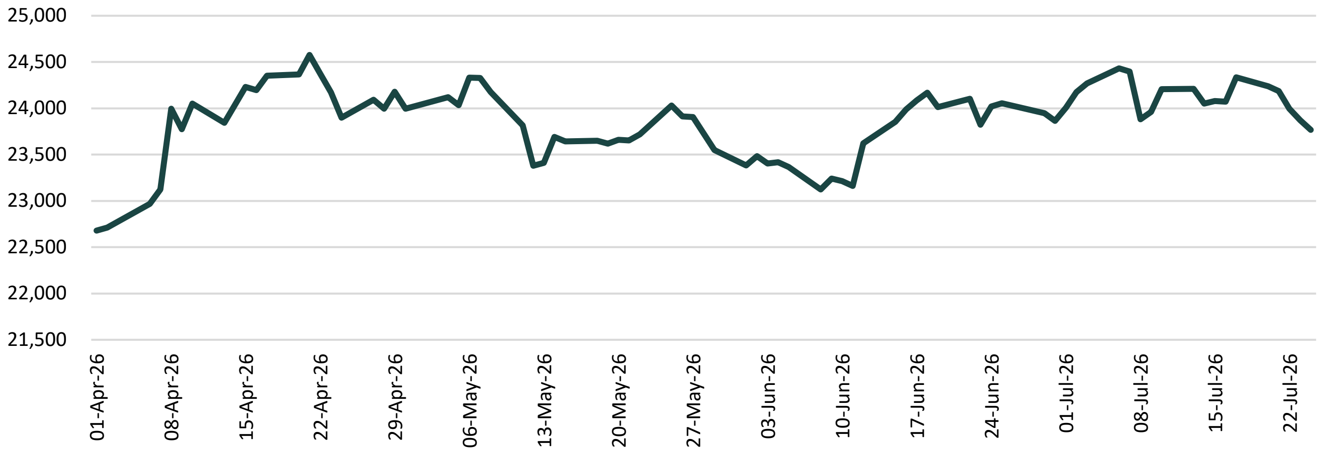
NSE Nifty defies global volatility with resilient domestic momentum

Steady amid uncertainty: Nifty 50 holds 23,500-24,400 band on earnings and institutional support

The NSE Nifty exhibited a resilient performance between April and July 2026, navigating a challenging global backdrop to maintain its broader upward trajectory. Following an initial rebound in April 2026, the index faced a brief setback in May 2026 due to heightened crude oil volatility and external headwinds from a hawkish US Federal Reserve. However, it swiftly regained strength by June 2026, closing near 23,865 (+1.4%), aided by strong corporate earnings and a stable banking sector. As July progressed, focus firmly shifted back to India’s domestic fundamentals, allowing the index to outperform many global peers.

Macroeconomic trend and outlook

Figure 11
NSE Nifty index, end of period



Source: National Stock Exchange (NSE)

Crude oil, Fed hawkishness weigh on sentiment, but domestic fundamentals hold ground

This structural outperformance was primarily driven by strong domestic fundamentals that effectively absorbed heavy Foreign Institutional Investor (FII) selling. While rising oil prices and foreign outflows created persistent market friction, strong local institutional inflows, robust credit growth, steady IT demand, and sustained government spending provided a crucial buffer. Although sector leadership varied, with banking and financials leading gains while IT faced persistent headwinds, investors consistently bought into dips. As July 2026 progressed, domestic growth confidence increased, supported by GDP expectations and strong local institutional inflows, which helped absorb FII selling.

Nifty outlook: Cautious optimism amid global crosscurrents

Looking ahead, the Nifty is expected to consolidate within the 23,500-24,500 range, with potential for a breakout toward 24,800-25,000 if energy prices stabilize and global risks subside. Conversely, sudden global monetary tightening or energy shocks pose downside risks that could test support levels near 23,000-23,200. The broader outlook remains one of cautious optimism, anticipating a gradual, large-cap-led recovery supported by stable inflation and strong corporate earnings momentum. While near-term volatility is likely to persist due to global factors, the overall trend remain bullish contingent on macroeconomic stability and sustained earnings momentum.

Reserve Bank of India's (RBI) expected credit loss (ECL) framework

RBI's expected credit loss framework: An economic and credit assessment

RBI's ECL framework realigns provisioning norms with global standards, effective April 2027.

The Reserve Bank of India issued its Expected Credit Loss (ECL) [1]framework on 27 April 2026, replacing the current incurred-loss, overdue-ageing-based provisioning model with a forward-looking, probability-based approach effective 1 April 2027. The framework requires banks to classify financial assets into Stage 1, 2 or 3, with Stage 1 for performing assets with no significant credit deterioration, Stage 2 for assets showing a significant increase in credit risk, and Stage 3 for credit-impaired or defaulted assets, thereby aligning India's provisioning norms with global standards under IFRS 9.

ECL classification is driven by credit risk migration rather than payment delinquency.

Loss provisions are measured at 12-month expected credit losses for Stage 1 assets where credit risk has not increased significantly since origination, and at lifetime expected credit losses for Stage 2 and Stage 3 assets, requiring banks to hold forward-looking, probability-weighted reserves well before an asset becomes credit-impaired, a structural correction to the incurred-loss model's inherent misalignment between the timing of provisioning and the timing of underlying credit risk.

Forward-looking provisioning reshapes bank economics and credit pricing.

The shift to forward-looking provisioning is likely to compress near-term bank profitability and prompt tighter underwriting, more risk-sensitive loan pricing and closer covenant monitoring. The change is material at the account level: a 60-day overdue exposure, still treated as a standard asset today with a provision of around 0.40%, would migrate to Stage 2 under the new regime and attract the RBI's 5% prudential floor, a more than tenfold increase.[2] The impact is cushioned, however, by the RBI's glide path to 31 March 2031 and by the transition-date adjustment being charged to opening reserves rather than the profit and loss account, which spreads the effect across the transition window rather than concentrating it in the first year.

Differentiated pricing will widen, favouring stronger borrowers over weaker profiles.

For borrowers, the consequences will diverge. Those with weaker or more volatile credit profiles could face a higher cost of credit or reduced access, while well-rated borrowers stand to benefit from more differentiated and potentially more competitive pricing.

Unsecured retail and microfinance portfolios face the steepest provisioning increase under ECL.

Expected credit losses are estimated using three core parameters: Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), calibrated separately across asset classes. Given elevated PD and LGD typically associated with unsecured exposures, asset classes such as personal loans, credit cards and microfinance loans are expected to see the sharpest rise in provisioning requirements, while secured retail segments such as housing loans, backed by stronger collateral cover, are comparatively better placed to absorb the transition.

Table 1
Asset classification: incurred-loss approach versus expected-credit-loss approach

Category	Types of asset	Before-Incurred loss approach	After-Expected credit loss approach
1	Standard Asset	No overdue / performing Provision: 0.25%-1.00%	No SICR since origination 12-month ECL
2	Sub-standard asset	NPA ≤ 1 year (90+ DPD) Provision: 15%-25%	SICR: 30/60+ DPD or watchlist Lifetime ECL facility level
3	Doubtful	NPA > 1 year Provision: 25%-100%	Credit-impaired / default (90+ DPD) Lifetime ECL borrower level
4	Loss asset	Uncollectable Provision: 100% (write-off)	Stage 3 (credit-impaired/default) Min. 6-month monitoring in Stage 2 before return to Stage 1

Source: Reserve Bank of India; Basel Committee on Banking Supervision (BCBS)

[1] Applicable to Scheduled Commercial Banks (excluding Small Finance Banks, Payments Banks, Local Area Banks and RRBs), corresponding New Banks, SBI, and All India Financial Institutions.

[2] Subrata Panda, "Reserve Bank of India finalises ECL norms, rollout set for April 2027", *Business Standard*, 27 April 2026.

Reserve Bank of India’s (RBI) expected credit loss (ECL) framework

Table 2
Key changes: RBI’s ECL framework

Category	Key changes
ECL modelling requirements	Homogeneous segmentation of the loan portfolio for ECL estimation. Forward-looking ECL computation using appropriate weights for macroeconomic variables (MEVs). Historical data requirement to be assessed on a portfolio basis. Regulatory PD floor of 0.03 per cent. Regulatory backstop LGD of 30 per cent, 65 per cent or 70 per cent where sufficient data is unavailable.
Prudential floors	Minimum provisioning for ECL estimates, computed for Stage 1 and Stage 2 at a product level as a regulatory backstop. Provisioning floor for Stage 3 at account level, based on NPA vintage, product and portfolio (secured/unsecured). Additional provisioning prescribed for wilful defaulters.
Significant increase in credit risk (SICR) criteria	Indicative triggers prescribed as part of the regulations. Forward-looking indicators to be used in assessment. Upgrade from Stage 3 to Stage 1 permitted only after a minimum 6-month cure/monitoring period in Stage 2, once irregularities are rectified Rebuttable presumption of 30/60 days past due. Stage 3 classification at borrower level; Stage 2 at facility level.
Default / NPA classification	Day-end process for identifying borrower accounts overdue. Cross-default applied across facilities and investments. Same borrower-level classification across REs (Regulated Entities) in cases of co-lending

Source: Reserve Bank of India; Basel Committee on Banking Supervision (BCBS).

Credit outlook diverges by asset quality, with unsecured and microfinance exposures facing the greatest strain.

Among banks, those with a higher share of unsecured retail, credit card and microfinance exposure are likely to see the sharpest deterioration in near-term earnings and capital metrics, while banks with predominantly secured, well-collateralised portfolios, such as housing finance, MSME-secured lending and large corporates with strong credit histories, are better placed to absorb the transition. NBFCs, having provisioned on an expected-credit-loss basis under Ind AS 109 since FY2018-19, face no comparable transition, though the direction of the change brings bank provisioning closer to the NBFC approach.

Forward-looking risk metrics are set to anchor future credit assessments

The shift to ECL is likely to necessitate a corresponding evolution in credit assessment methodology, with greater weight placed on Stage 2 migration trends, PD/LGD model assumptions and provisioning coverage ratios, rather than reliance on reported NPA ratios alone as an indicator of asset quality. Movement into Stage 2 typically precedes an actual default by a considerable margin, offering a more forward-looking view of a lender's underlying credit quality; assessment frameworks that overlook stage-wise migration may therefore underestimate emerging asset-quality pressures, particularly in the early phase of an economic downturn, when Stage 2 exposures tend to rise well before any visible increase in reported NPAs.[3]

System-wide credit stability improves as provisioning turns forward-looking

Over the medium term, the framework is expected to be credit-positive for the banking system as a whole, as earlier recognition of stress reduces the likelihood of sudden, large provisioning shocks in future downturns, even though the transition itself may weigh modestly on reported earnings and capital ratios in the near term.

[3] Exposures showing a significant increase in credit risk since origination but not yet in default, requiring lifetime expected credit loss provisioning at the facility level.

India-UK trade deal

The India-UK CETA: An Assessment of trade and sectoral implications

India-UK Comprehensive Economic and Trade Agreement (CETA) comes into effect after a decade of negotiations

The India-UK Comprehensive Economic and Trade Agreement (CETA), one of the most significant trade deals of the current decade, entered into force on 15 July 2026, covering bilateral trade worth GBP 48 billion in 2025. Under the agreement, 99% of Indian goods entering the UK and 90% of UK goods entering India will be duty-free or subject to reduced tariffs, marking an immediate structural shift in market access for both economies.

Tariff liberalisation under CETA extends across manufacturing, consumer goods and services

The agreement extends benefits across a wide range of sectors on both sides, including automotive, manufacturing, consumer goods, creative industries and medical technology, marking the most significant milestone in the bilateral economic partnership to date. Tariff elimination is expected to particularly favour India's textiles, leather, marine products and engineering goods exporters, while UK exporters gain enhanced access in automotive, whisky and professional services.

Table 3
India-UK CETA -Sectoral impact analysis and tariff comparisons

Sector	Tariff	New deal tariff	Impact assessment
Textiles & Apparel	Up to 12%	0%	**High benefit:** immediate price competitiveness against Bangladesh and Vietnam.
Leather & Footwear	Up to 16%	0 %	**High benefit:** strengthens exporter base in UP, Tamil Nadu and Agra.
Marine Products	Up to 21.5%	0%	**High benefit**: boosts seafood exports, supports fisherfolk livelihoods.
Engineering goods & auto components	Up to 18%	0%	**Growth:** cost advantage for auto ancillaries, machinery and industrial exporters.
Chemicals & pharmaceuticals	Up to 8% + regulatory friction	0%	**Growth:** improved cost competitiveness; regulatory alignment aids market entry.
IT & professional services	Visa/regulatory friction	Enhanced market access + DCC (5-year exemption)	**Indirect benefit:** covers 137 sub-sectors; mobility pathways for professionals.
Steel	Exposed to safeguard duties: despite CETA cover.	Protected via CSQ/residual quota/AUS	UK's steel safeguard measure limits near-term volume gains despite CETA cover, though 85% of exports remain unaffected via CSQ, residual quota and AUS access.
Agricultural Products (Excluding dairy)	Varied	Calibrated access	Neutral/positive: tea, spices and processed foods gain enhanced access, supporting India's agri-export base.

Sources: Press Information Bureau; Ministry of Commerce & Industries, Government of India; Department of Business and Trade, United Kingdom.

CETA outlook: deal projected to boost trade and GDP, anchoring India's Viksit Bharat 2047 vision.

The agreement is projected to boost bilateral trade by GBP 25.5 billion and Indian GDP by GBP 5.1 billion annually, while significantly enhancing export competitiveness across key sectors. Expanded market access for labour-intensive industries such as textiles, leather and marine products is expected to generate employment gains across MSMEs and grassroots production hubs, with bilateral trade targeted to reach USD 100 billion by 2030 from approximately USD 48 billion currently.

CETA anchors India’s post-2025 trade diversification push

Within India's expanding FTA architecture, CETA stands alongside the India-EU FTA (concluded January 2026, India's largest trade agreement by volume) and the India-New Zealand FTA (one of India's fastest-concluded pacts) as a cornerstone of the country's post-2025 trade diversification strategy. From a credit perspective, improved export realisations and order visibility should support working-capital cycles and margin stability for exposed exporters, particularly in the textiles, leather and marine segments.

Anchoring the India-Japan economic security cooperation

India-Japan economic security cooperation: energy resilience under POWERR Asia

POWERR Asia anchors India-Japan energy resilience within the broader economic security partnership.

The India-Japan Partnership on Wide Energy and Resources Resilience (POWERR Asia) was formalised at the 16th India-Japan Annual Summit, held from 1-3 July 2026, as a regional energy resilience initiative integrated into the two countries' broader economic security cooperation. The framework is designed to upgrade industrial energy systems, diversify energy supplies, and drive clean energy investment between the two economies.

HVDC financing and clean energy transition define core actions.

The framework's core actions span high-voltage financing, with Japan Bank for International Cooperation (JBIC) signing a JPY 80 billion loan with Power Grid Corporation of India Limited to strengthen renewable integration through High-Voltage Direct Current (HVDC) transmission, alongside joint investments across the maritime energy transport value chain and clean energy initiatives such as the India-Japan Cooperative Biogas for Growth Initiative targeting 1,000 biogas plant.

Economic security cooperation spans semiconductors, critical minerals, ICT and pharmaceuticals

Unveiled alongside the Joint Declaration on Economic Security Cooperation at the 16th India-Japan Annual Summit, the framework complements wider bilateral collaboration across five core sectors, including joint semiconductor supply chain development, multilateral alignment on critical minerals through the Quad, next-generation telecom cooperation under Bharat 6G alignment, and diversified supply tracks for pharmaceutical active ingredients (APIs).

Table 4
India-Japan economic security cooperation - sectoral pillars and impact on India

Sector	Key initiatives	Impact on India
Semiconductors	Joint supply chain development and talent mapping	Strengthens India's semiconductor ecosystem and skilled talent base, supporting its broader manufacturing push.
Critical Minerals	Multilateral alignment via the Quad; bilateral processing networks	Improves India's access to processed critical minerals, reducing exposure to concentrated global supply chains.
ICT & digital infrastructure	Next-gen telecom cooperation; Bharat 6G alignment	Accelerates India's 6G readiness and positions it within a trusted, allied digital technology ecosystem.
Pharmaceuticals	Alternative API supply tracks	Reduces India's reliance on a narrow set of API sources, strengthening domestic pharmaceutical resilience.
Energy (POWERR Asia)	JBIC financing, HVDC transmission, biogas initiative	Provides concessional capital for grid modernisation and supports India's renewable energy integration targets.

Sources: Press Information Bureau; Ministry of External Affairs, Government of India; Brickwork Research.

POWERR Asia positions India-Japan ties as a model for allied economic security cooperation.

As financing and sectoral initiatives under POWERR Asia are implemented, India stands to benefit from strengthened grid infrastructure through HVDC-led renewable integration, deeper semiconductor and ICT collaboration that supports domestic manufacturing and 6G readiness and diversified pharmaceutical and critical mineral supply chains that reduce dependence on any single source. Together, these gains position India to build a more resilient, technologically advanced and energy-secure economy, reinforcing its broader Viksit Bharat ambitions.

Credit profiles across power, pharma and semiconductors stand to improve

The POWERR Asia framework carries constructive credit implications, particularly for the power transmission sector, where JBIC's concessional financing to Power Grid Corporation of India Limited lowers the cost of capital and improves debt servicing metrics for HVDC-led grid expansion. Pharmaceutical companies could see credit support from reduced supply chain concentration risk as API sourcing diversifies, while semiconductor and telecom players stand to gain from improved access to technology partnerships and benefit from enhanced access to structured financing that supports debt-servicing capacity and strengthens their overall credit profile

Credit rating implications

Resilient growth anchors India’s credit profile despite tightening liquidity and inflation headwinds

India's credit profile remains anchored by resilient GDP growth (7.7% in FY26, 6.4-6.8% projected for FY27) and adequate external buffers, even as a hawkish inflation trajectory and tightening system liquidity mark a more cautious turn this quarter. Bank credit growth of 19.0% YoY in June 2026 has sharply outpaced deposits at 13.0%, pushing the credit-deposit ratio to a multi-decade high of 82.6%, while the forthcoming ECL framework adds a forward-looking dimension to provisioning. Overall, macro fundamentals remain supportive of ratings, but tighter liquidity, elevated inflation, and energy-price sensitivity stand out as the key incremental risks.

Table 5
Credit rating implications

Key indicator	Current trend	Near-term outlook	Credit rating implication
Real GDP growth	FY26 at 7.7%; FY27 projected around 6.7%	Moderately positive, supported by CAPEX continuity and services led expansion	Supports stable sovereign outlook; resilience offsets external risks
Industrial production	Accelerated to 7.3 % in June 2026	Steady 5.5-6.5% expected in Q2 FY27, anchored by capex and monsoon	Sectoral credit risk elevated in energy-intensive industries
Core sector output	Rose to 5.0 % in June 2026	Likely to hold near 4-5%, led by cement, electricity, iron ore	Mixed impact: infra-linked corporates positive, energy-linked sectors face margin stress
CPI inflation	Surged to 4.8% in June 2026; FY27 projected at 5.1%	Expected to be within RBI’s 2-6% band, elevated risks in food prices due to sub-optimal monsoon	Stable inflation outlook supports ratings; energy risks warrant close monitoring food and
Food inflation	Around 5.32% in June 2026 effect of southwest monsoon	Stable to elevated due to monsoon and el-nino effect	Renewed pressure on household purchasing power weighs on consumption-linked credit.
Repo rate	Held at 5.25% in August 2026 (neutral stance)	Pause likely until inflation trajectory stabilizes	Predictability supports financial stability; neutral stance balances growth vs inflation
System liquidity	Adequate, RBI proactive in interventions	Neutral to slightly tight amid global volatility	Liquidity management cushions systemic risk
G-sec Yields	Around 6.8 % in July 2026 (10Y benchmark)	Range-bound; energy prices and fiscal risks may push higher	Elevated yields increase borrowing costs; fiscal credibility key
Bank credit growth	Grew 19 % Y-o-Y in June 2026 driven by retail and MSME, retail driven loans	Strong momentum in retail, infra, NBFC segments	Positive for growth; funding cost pressures need monitoring
Asset quality (GNPA)	GNPA reached multi-decadal low of 1.8% across SCB’s in early July 2026	Stable, aided by credit growth and recoveries	Supports banking sector ratings and regulatory compliance ;resilience in asset quality
Fiscal deficit	FY26 at 4.4% of GDP	Consolidation path toward 4.3% in FY27	Discipline supports sovereign ratings; crude-driven risks remain
Debt-to-GDP	Around 56% (FY26 RE)	Stable but high; gradual consolidation expected	Elevated debt burden constrains rating headroom
Current account deficit (CAD)	Widened to USD 15.3 billion or 1.5% of GDP in Q3 FY26	expected to widen with energy prices and global uncertainties	Increase in reserves and fiscal discipline will support if risk of oil prices persist
Forex reserves	Around USD 693 billion (July 2026)	Expected to stabilise at USD 675-725 billion through FY27, supported by steady FDI and services inflows.	Strong positive for external ratings; intra-quarter volatility is a new watch point

Credit rating implications

Indian rupee movement	Depreciated ~4% since West Asia conflict; now 95/USD	Will stabilise if energy and capital inflows tends to be balanced	Volatility raises external risk; RBI intervention cushions
Crude oil prices	Brent averaged ~USD 84/bbl in July 2026 (down from around 85/bbl in June and USD 107 in May)	Stabilised due to subsided west Asia conflict;	Import bill eases as crude stabilises, though volatility persists

Sources: Reserve Bank of India; MoSPI; PIB; Ministry of Finance, Government of India; NSE; The Times of India; Brickwork Research.

Sector outlook

Table 6
Sector credit outlook

Sectors	Credit outlook	Key drivers and support
Automobiles & Ancillaries	Stable	Supported by a 16% surge in passenger vehicle exports and 12.66% growth in the SUV segment.
Telecommunication	Stable	Driven by ARPU expansion to INR 220 and robust traction in 5G Fixed Wireless Access (FWA) segments.
Consumer Goods	Positive	Driven by structural changes in digital finance (BNPL/UPI credit) and rising consumer confidence in Tier-II/III cities.
Food & Agro-based Products	Stable	Anchored by high demand for seafood exports and healthy cash flows in the dairy and basmati rice segments.
Chemicals	Stable	Leverages strategic diversification into specialised products and strong backward linkages with petroleum refining.
Textiles	Stable	Supported by consistent 10% to 12% domestic market growth and a strategic pivot toward technical textiles.
Metal & Metal Products	Stable	Bolstered by crude steel production reaching 168.4 million tonnes in FY26 and domestic HRC prices rebounding to INR 53,800/mt.
Mining	Stable	Strengthened by the MMDR Amendment Act 2026 and NMDC's 100.3% Q4 FY26 net sales surge on record 53 million tonnes production, alongside 20% YoY growth in base metals like zinc.
Healthcare Services	Positive	Supported by recovery in medical tourism and a strategic focus on high-value elective procedures and speciality bed expansions.
Hotel & Tourism	Stable	Driven by Average Room Rates (ARR) rising toward INR 8,800 and strong occupancy from the premium wedding and MICE segments.
Paper, Newsprint	Stable	Anchored by robust packaging demand and capacity utilisation exceeding 95% in high-margin packaging lines.
Construction Materials	Stable	Supported by a 12.5% surge in high-performance glass and aluminium demand and domestic realisation improvements via QCOs.
Infrastructure Roads	Stable	Supported by an INR 400 billion InvIT-led asset monetisation plan and a shift toward HAM/BOT contracts, with inflation-linked toll revenues offsetting high corporate debt and cost overruns.
Real Estate	Stable	Bolstered by a 31% YoY surge in residential sales and a shift toward higher-margin commercial segments like data centers.
Power Distribution	Negative to Stable	Driven by structural improvements in AT&C losses (record low 15.02%) and the rollout of smart meters.

Source: Company disclosures; TRAI, Ministry of Textiles, Government of India; Ministry of Steel, Government of India: Ministry of Mines, Government of India; Ministry of Coal, Government of India; Federation of Hotel & Restaurant Associations of India; Ministry of Tourism, Government of India; Department of Tourism; Ministry of Road Transport and Highway, Government of India; National Highways Authority of India Brickwork Research

For deeper insights on the analysis, please refer to Brickwork Ratings report titled "India's sectoral credit outlook-2026" dated 1st July 2026, https://tinyurl.com/2wjmsj69

Appendix: Macroeconomic indicators

Table 7
Key macroeconomic indicator (India)

Economic Indicator	Value	2024-25			2025-26				2026-27
		Q2 FY25	Q3 FY25	Q4 FY25	Q1 FY26	Q2 FY26	Q3 FY26	Q4 FY26	Q1 FY27
GDP	YoY, %	5.4	6.2	7.4	7.8	8.2	7.8	7.5	6.6
Retail inflation (CPI)	YoY, %	4.24	5.63	3.73	2.69	1.74	0.76	3.11	3.93
Wholesale inflation (WPI)	YoY, %	1.75	2.49	2.4	0.26	0.02	-0.17	2.56	9.3
Index of industrial production (IIP)	Index (2011-12=100)	147.5	152.1	159.7	154.2	153.9	160.2	167.3	121.57
Core sector index	Index (2011-12=100)	158	162.6	172.9	166.9	165.2	167.3	177.2	168.6
Manufacturing PMI	Index	57.4	56.8	57.4	58.1	58.7	56.9	55.4	54.63
Services PMI	Index	60.5	58.7	58.1	59.3	61.7	58.9	58	58.67
Trade balance (Merchandise)	USD billion	-87.1	-78.7	-58.7	-68.8	-86.3	-91.3	-82.5	-86.86
Exports	USD billion	99.6	108.7	115.2	111.5	108.6	111	112.1	129.32
Imports	USD billion	186.7	187.4	173.9	180.3	196.1	202.3	194.5	216.18
Exchange rate	INR/USD	83.8	84.5	86.6	85.6	87.3	89.2	91.4	94.61
Total external debt	USD billion	682	712	718	736	747	766	763	NA
Foreign exchange reserves	USD billion	704.9	640.3	665.4	702.8	700.2	696.6	688	667
Repo rate	%	6.5	6.5	6.3	5.8	5.5	5.4	5.25	5.25
Bank credit	INR trillion	508.8	524.9	541.1	549.6	560.5	592.4	625.2	646.6
GST collections	INR trillion	5.3	5.46	5.76	6.22	5.71	5.5	5.8	6.32
Crude oil production	MMT	7.12	7.18	7.14	7.13	7.07	6.98	6.78	6.85
Natural gas production	BCM	9.1	9.2	8.8	8.8	8.8	8.8	8.4	NA
Electricity production	GWH (in '000)	396.2	373.1	384.2	398.1	397.3	358.1	383.4	NA

*Estimates
#Million Standard Cubic Meters
Sources: Ministry of Finance, Government of India; Trading Economics; MoSPI; Ministry of Commerce and Industry; BWR Research.

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