BRICKWORK™ RATINGS

DRISHTIKONE REPORT

India’s growth momentum tested by inflation, oil and global uncertainties



November 2026

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Executive summary

India's growth momentum remains resilient, but inflation, oil and the rupee are key risks in the near term.

Robust domestic demand, strong industrial activity and healthy credit growth continue to support the economy. However, higher commodity prices, a weaker rupee and sticky inflation are emerging as the key headwinds in the near term.

Executive brief: Growth holds near 7%, while twin shocks test corporate margins and bank liquidity

India's macroeconomic momentum remained resilient through Q2 FY27, anchored by 7.8% Q1 real GDP growth (70 bps above the RBI's 7.1% full-year projection), 11.9% gross fixed capital formation, and 19.4% bank credit expansion as of end-September (19.3% average in Q2 FY27). However, the macro regime shifted decisively in October 2026: supply-driven food shocks pushed retail inflation to 6.09%, breaching the RBI's 6% upper tolerance band for the first time in two years, while wholesale inflation surged to 12.29% amid West Asian geopolitical disruptions and an October Brent crude average of USD 124.2/bbl.

In response, the RBI executed a 25-bps repo hike to 5.50% and pivoted to "calibrated tightening". Even with Brent retreating to USD 90.16/bbl by 10 November, an approximately USD 68.7 billion drawdown in forex reserves from September's peak, a narrowing credit-deposit growth gap (easing from a 390-bps Q2 average to 160 bps at end-September and 150 bps by mid-October), and approximately 7.3% 10-year G-sec yields signal tighter domestic liquidity and higher marginal funding costs ahead. Credit differentiation over H2 FY27 will hinge on pricing power to absorb the 620-bps WPI-CPI wedge, deposit franchise strength, and FX/interest-rate hedging discipline.

1 Macroeconomic indicators at a glance

7.8% Real GDP growth, Q1 FY27	7.0% BWR FY27 GDP forecast	6.8% IIP growth, H1 FY27 average	19.4% Bank credit growth, 30 Sep
6.09% CPI inflation, October	12.29% WPI inflation, October	5.50% Policy repo rate, October	~7.3% 10-year G-sec yield, 3 Nov
USD 124.2 Brent, avg. October (bbl)	INR 95.25 INR per USD, 30 October	USD 717.1 bn Forex reserves, 30 October	42.1% Fiscal deficit target used, H1

Note: Latest observations are based on data available up to 20 November 2026; where October data were unavailable, the latest published observation is used.

2 BWR'S Five Key Calls for lenders, investors and policymakers

1	**Growth should hold near 7%.** BWR projects quarterly GDP growth of 7.0%, 6.7% and 6.6% in Q2–Q4 FY27. The moderation is gradual driven by an unfavourable base effect, softer global demand, elevated crude oil & food prices, external uncertainties & higher loan rates.
2	**Inflation and crude are the principal near-term risks.** CPI breached the 6% mark to reach 6.09% in October 2026 and food inflation hit 8.94%, while Brent averaged USD 124.2/bbl in October before pulling back to USD 90.16/bbl by 10 November 2026
3	**The RBI's tightening cycle is expected to remain shallow.** The repo rate is 5.50%; BWR sees scope for one further 25-bp increase to 5.75%, followed by a pause, subject to inflation, oil and currency developments.
4	**Funding costs may rise even as credit demand remains firm.** Non-food bank credit grew 19.1% at end-September. Banks and NBFCs must manage deposit pricing, liquidity and refinancing as one-off foreign-currency inflows unwind and yields remain elevated.
5	**External buffers are adequate, but oil and trade flows need close monitoring.** Forex reserves were USD 717.06 bn on 30 October, below the early September peak. BWR expects a FY27 CAD of 1.2–1.5% of GDP; unhedged importers remain most exposed to sustained oil and rupee volatility.

Growth remains firm; inflation is projected to peak before easing

Figure 1: GDP growth: resilient, with gradual moderation

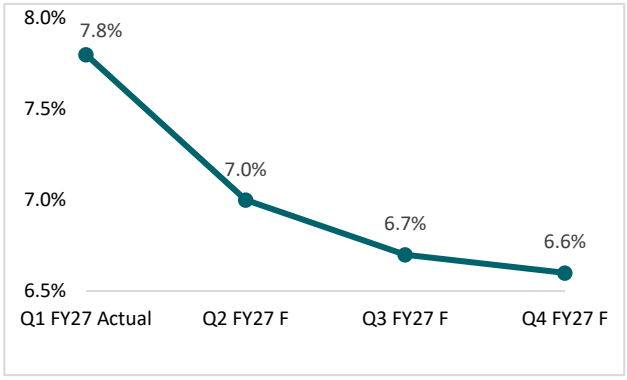
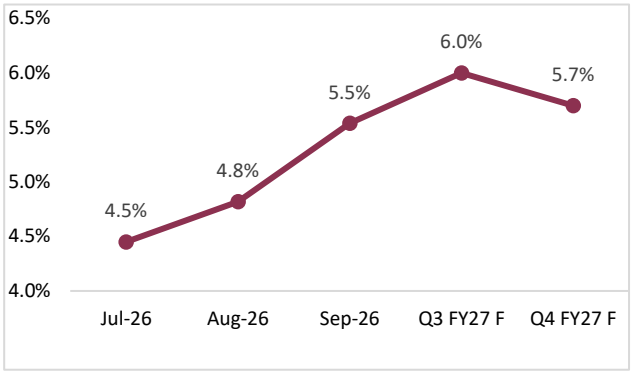


Figure 2: CPI inflation: near-term peak before gradual easing



Note: F: Forecast. Source: MoSPI; BWR Research.

Credit transmission

Table 1:
Where will the credit impact of macro headwinds, rate and trade policy shifts be felt?

Credit signal	Sectors	Transmission to borrowers	Key monitorables
Positive momentum	Capital goods, electrical equipment and infrastructure	Sustained public capex, private investment and resilient core-sector output support order books, utilisation and cash flows.	Capex execution; private order inflows; capacity utilisation; payment cycles
Selective upside	Construction, steel, paper and recycling	Duty-free access to selected New Zealand inputs, wood logs, coking coal and metal scrap, may lower landed costs; benefits depend on actual utilisation.	Input-cost savings; import utilisation; project execution
Cost pressure	Oil marketing, aviation, shipping and chemicals	Elevated crude, freight, insurance and imported feedstock costs can compress margins and increase working-capital needs.	Fuel-price pass-through; freight and insurance; feedstock costs; margins
Funding pressure	NBFCs, housing finance and real estate	Higher repo and sovereign yields raise borrowing and refinancing costs; ALM mismatches and affordability pressures warrant attention.	Funding spreads; liquidity buffers; ALM; housing sales; repayment trends
Demand sensitivity	Agriculture, food processing, rural FMCG and discretionary consumption	Food inflation of 8.94% in October 2026 may erode rural purchasing power, while higher rates could temper financed and discretionary purchases.	Food prices; rural wages; winter crop arrivals; retail registrations
Watch closely	Banks and export-facing sectors	Banks benefit from healthy credit demand but face deposit-cost and asset-quality monitorables. Exporters remain exposed to US trade-policy uncertainty; FTA gains are selective.	Deposit mobilisation; credit-deposit ratio; unsecured retail; tariff waivers; export orders

Note: For granular sector-by-sector credit assessments, policy drivers, and key monitorables, refer to Table 11 in Section 08.

Table 2:
Policy and structural developments | credit relevance

GST reforms	Faster refunds, wider input-tax-credit eligibility and procedural relief may reduce working-capital blockage and compliance costs. Benefits are positive but depend on implementation and eligible-claim utilisation.
RBI SA-CCR / CVA	Effective 1 April 2027, revised counterparty-risk rules improve exposure measurement and resilience. Banks with sizeable derivative books may face higher capital and implementation costs; corporates may see changes in derivative pricing and collateral terms.
IMF growth upgrade	The IMF raised its FY27 India growth forecast to 7.0%, reinforcing the relative strength of domestic demand and services; the upgrade supports the macro backdrop but does not remove external and inflation risks.
India–New Zealand FTA	Duty-free access, regulatory recognition and selected input concessions create opportunities for pharmaceuticals, services and input users. Near-term rating impact is limited; utilisation and rules-of-origin compliance will determine gains.

Table 3:
BWR FY27 base case | key forecasts and risk direction

Indicator	BWR FY27 view	Principal risk
Real GDP growth	**7.0%**	Downside
CPI inflation (average)	**5.2%**	Upside
Repo rate (end-March 2027)	**5.75%**	Upside
10-year G-sec yield	**7.2–7.5%**	Upside
INR per USD	**92.5–97**	Weaker
Current account deficit	**1.2–1.5% of GDP**	Wider
Fiscal deficit	**4.3–4.4% of GDP**	Wider
Bank credit growth	**16–17%**	Balanced
Brent (October 2026–March 2027 avg.)	**USD 90–100/bbl**	Upside

BWR View | FY27 growth is projected at 7.0%, with risks pivoting towards inflation, crude oil prices, external-sector pressures, and funding costs. Credit differentiation will hinge on pricing power, leverage, liquidity, hedging and sector-specific demand.

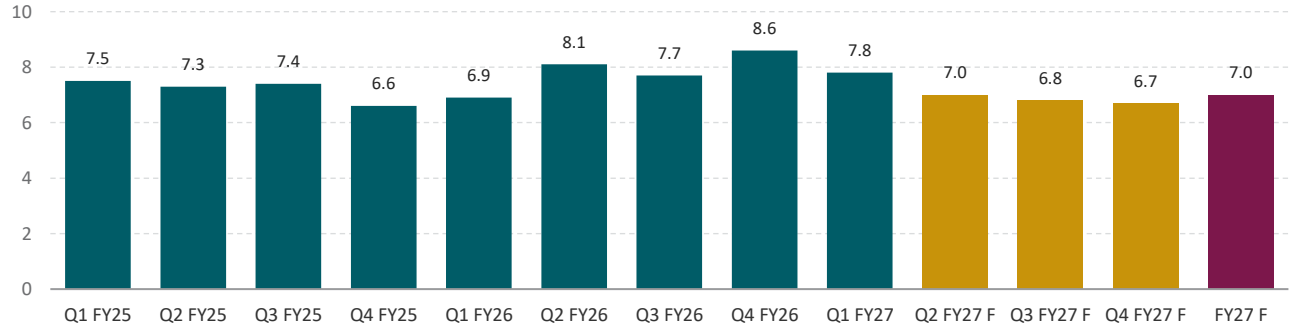
Growth and activity

India’s FY27 GDP growth projected at 7.0% on domestic demand and investment resilience amid global and margin headwinds

India’s FY27 growth remains resilient at 7.0%, driven by robust investment, domestic consumption and services, despite gradual moderation.

India's real GDP growth is expected to remain resilient at 7.0% in FY27, supported by domestic demand, investment activity and the continued strength of the services sector, although some moderation is anticipated over the remaining quarters. The economy recorded growth of 7.8% in Q1FY27, following 8.6% in Q4FY26, with investment emerging as the principal growth driver. Gross Fixed Capital Formation (GFCF) grew by 11.9% in Q1FY27, compared with 5.8% a year earlier, while Private Final Consumption Expenditure (PFCE) expanded by 7.1%. GDP growth is projected at 7.0% in Q2FY27, 6.7% in Q3FY27 and 6.6% in Q4FY27, translating into full-year growth of approximately 7.0%. The anticipated moderation reflects post-rebound normalisation rather than a significant weakening of underlying domestic fundamentals.

Figure 3:
Real GDP growth (% YoY): actuals and BWR forecasts



Source: MoSPI; BWR Research. F = BWR forecast; FY27 F is the average of the four quarters.

IMF upgrades FY27 forecast to 7.0% and endorses revised GDP series, reinforcing India’s global growth premium.

Reinforcing this growth outlook, the International Monetary Fund (IMF) raised India’s FY27 GDP growth forecast by 60 bps to 7.0% (from 6.4%) and projected 7.0% expansion in FY28—maintaining a wide premium over the 3.1% global average in 2026. The IMF credited robust household consumption, public infrastructure execution, and services resilience for offsetting global trade and energy headwinds. Alongside the upgrade, the IMF endorsed MoSPI’s February 2026 revised national accounts series (updating the base year from 2011–12 to 2022–23), noting that integrating the Producer Price Index (PPI), expanded double-deflation, real-time GST data, and comprehensive enterprise and employment surveys will strengthen economic measurement and policy formulation.

Elevated oil, inflation, and trade risks threaten corporate margins; growth durability hinges on investment, reforms, and rural demand.

Sustaining this momentum requires navigating volatile crude oil prices, geopolitical tensions, and global trade uncertainties. With the IMF projecting CPI inflation to climb from 2.0% in FY26 to 5.0% in FY27 and the current account deficit (CAD) to widen from 0.7% to 1.5% of GDP, higher energy and freight costs—compounded by rupee depreciation—could compress corporate margins through costlier imports. Ultimately, economic durability and balance sheet resilience depend on oil trajectories, sustained capex, structural reforms, and a rural consumption revival spurred by winter harvest arrivals.

Capex-linked industries and services bolster credit quality, while input costs test manufacturing margins.

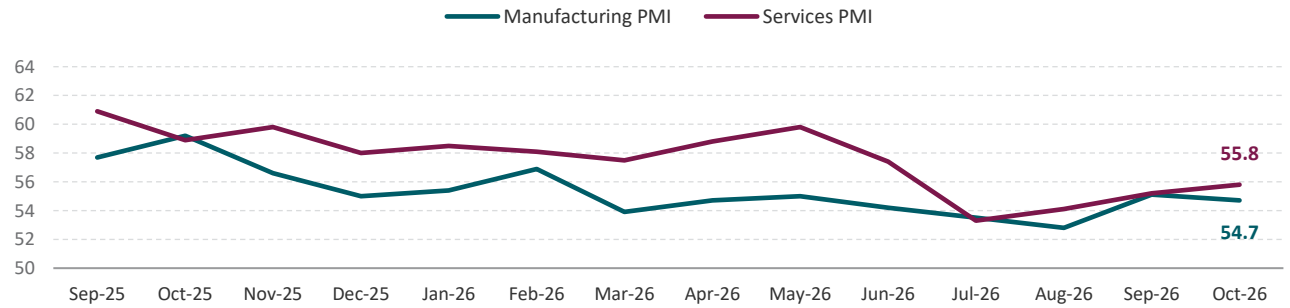
The growth environment is anticipated to produce positive but varied sectoral outcomes, primarily driven by investment-linked industries and services. Government infrastructure spending and rising private capital expenditure are likely to bolster construction and capital goods industries. The services sector is expected to maintain its growth momentum, supported by stable household consumption and favorable agricultural trends. However, manufacturing may encounter margin pressures due to high input costs and global trade uncertainties. Sustained economic activity is expected to enhance corporate revenues, cash flows, and credit growth; however, improvements in asset quality will depend on borrowers' ability, especially in energy-intensive industries, to manage increased operational costs.

Domestic demand anchors late-Q2 FY27 PMI rebound amid external softness

Late-quarter rebound lifts Composite PMI to a three-month high of 55.9 following mid-quarter moderation.

India's manufacturing and services sectors recorded a modest overall expansion in Q2 FY27, characterized by mid-quarter deceleration followed by a sharp September recovery. Growth softened early in the quarter as August manufacturing PMI slipped to 52.8, a multi-year output low accompanied by minor job shedding, while services moderated amid slower export growth. Momentum rebounded strongly in September, however, as manufacturing PMI climbed to 55.1 on faster new orders and factory output, and services PMI rose to 55.2 on firmer domestic demand, lifting the Composite PMI to a three-month high of 55.9. Now, India's private sector carried its late-Q2 FY27 momentum into the start of Q3 FY27, with the Composite PMI output index rising to a four-month high of 56.2 in October 2026.

Figure 4:
Manufacturing and services PMI (index; 50 = no change)



Source: HSBC.

Domestic order books and easing input inflation offset a nearly three-year low in export order growth

The underlying dynamics behind this quarterly trend reflect a mix of domestic resilience and external pressure. Manufacturing firms benefited from accelerating domestic order books, encouraging manufacturers to ramp up material procurement and rebuild finished-goods inventories at the fastest pace in nearly 12 years. In contrast, service providers relied primarily on domestic consumer and financial activity to offset weakening international demand, as export order growth slowed to nearly three-year lows. Input cost inflation across both sectors continued to ease, allowing businesses to adjust selling prices modestly while supporting job creation in manufacturing, even as hiring growth in services saw a slight moderation.

Private-sector activity remains steady in FY27, though weakening confidence, constrained pricing power, and uneven exports pressure margins.

Through the remainder of FY27, India's private-sector activity is projected to sustain a steady, measured pace, with Q3 FY27 manufacturing PMI expected approximately 54-56 and services in the 56-58 range. However, sentiment indicators warrant caution: 12-month business confidence weakened across both manufacturing and services in October, falling below long-run averages in both sectors. Coupled with constrained selling-price power and uneven export momentum, where factory overseas orders are recovering while services exports lag, corporate revenue and margin growth will likely remain selective across domestic- versus export-oriented segments.

Industrial output stays strong in Q2 FY27, averaging 6.8% growth led by robust manufacturing and double-digit electricity surge

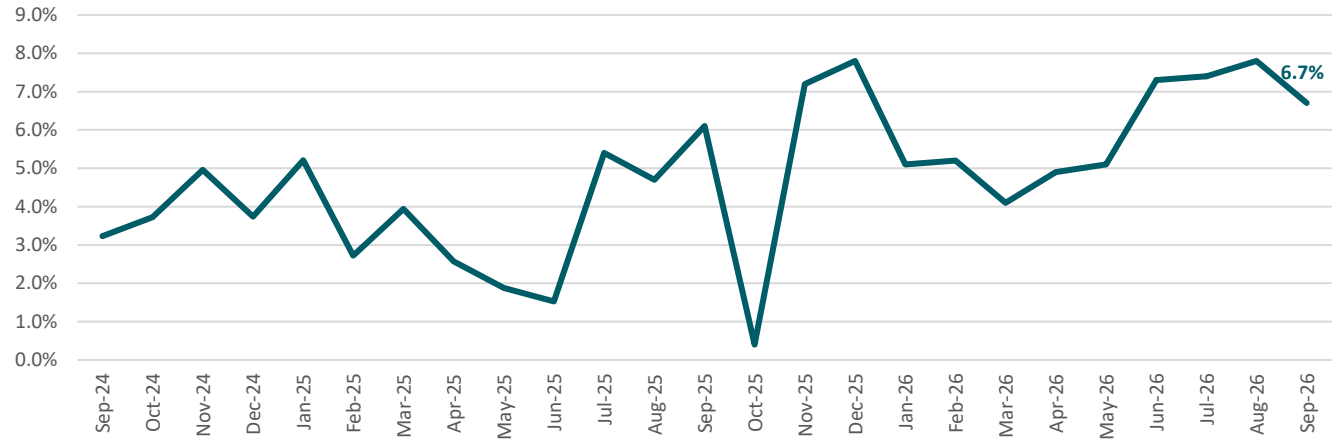
IIP touches peak expansion in August (7.8%) before moderating to 6.7% in September on monsoon-led mining drag.

India's industrial production expanded at a healthy pace during Q2 FY27 with monthly growth rates of 7.4% in July and 7.8% in August, before easing to a four-month low of 6.7% in September 2026 due to a high-base effect and monsoon-related disruptions in mining and quarrying, which contracted by 6.2%. Consequently, industrial growth averaged 6.8% in H1 FY27, significantly higher than 4.4% in the corresponding period last fiscal year. The expansion was primarily driven by robust manufacturing growth of 7.6%, alongside double-digit growth in electricity generation, which rose 11.2% in September following 12.3% in August.

Strong investment-linked goods offset mining weakness, anchoring resilient industrial momentum ahead of the festive season.

On the use-based front, sustained double-digit expansion in capital and intermediate goods reflected healthy investment activity and demand for industrial inputs. Despite weather-related weakness in mining and some moderation in headline growth, underlying industrial activity remained resilient. The continued strength in investment-linked segments ahead of the October 2026 festive season indicates sustained domestic demand and capacity creation, providing a positive impetus to industrial growth in the near term.

Figure 5:
Index of Industrial Production growth (IIP)



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

Strong domestic demand, government capex, and pre-festive inventory building offset global cost pressures, maintaining corporate margins and output.

Underlying industrial resilience reflects sturdy domestic demand, sustained government capital expenditure, and proactive inventory building. Public infrastructure spending has buoyed construction and demand for inputs, while Production-Linked Incentive (PLI) schemes have benefited high-value sectors such as electrical equipment and motor vehicles. Manufacturing and power generation have effectively mitigated the impacts of global commodity price changes, and increased factory dispatches positioned enterprises for higher festive consumer demand. High-capacity utilization and effective public sector execution have contributed to steady corporate operating margins, despite international trade frictions and input cost pressures.

Looking ahead to H2 FY27: Festive order replenishment and infrastructure push set to rebound IIP

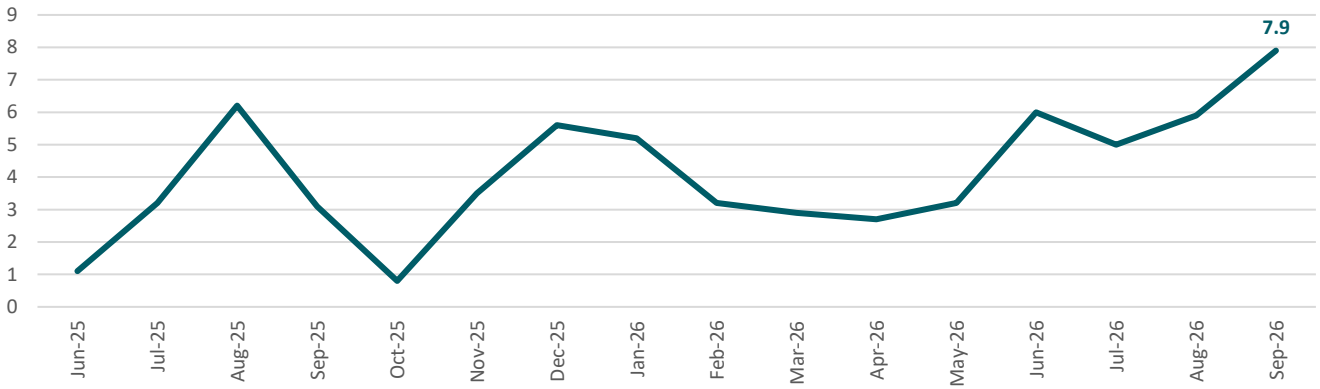
Looking ahead through H2 FY27, industrial growth is projected to accelerate into an 8.0%–9.0% range, underpinned by festive consumption, elevated capacity utilization, and continued public infrastructure execution. Retail inventory depletion during the holiday season is expected to trigger fresh replenishment orders across manufacturing supply chains, keeping factory dispatches firm. While geopolitical tensions and global commodity price swings remain key monitorables that could drive sub-sectoral divergence, the broader industrial growth trajectory remains firmly positive.

Core sector growth gains momentum in Q2FY27, supported by stronger infrastructure-linked activity

Core sector growth accelerates through Q2 FY27, led by electricity, coal, and construction inputs despite upstream energy contraction.

India's core industries gained steady momentum during Q2 FY27, with y-o-y growth accelerating from 5.0% in July to 5.9% in August and a quarterly peak of 7.9% in September 2026. Consequently, cumulative H1 FY27 (April–September) expansion more than doubled to 5.1% from 2.5% a year earlier, signaling firmer industrial and infrastructure activity. September's surge was anchored by double-digit gains in electricity (11.4%), coal (10.7%), and refinery products (10.3%), alongside strong cement (9.8%) and steel output. However, recovery remained uneven as upstream crude oil, natural gas, and fertiliser production stayed in contraction.

Figure 6:
Index of Core Industries growth rate (%)



Source: Ministry of Commerce and Industry.

Infrastructure-led demand bolsters cash flows in construction inputs, while upstream energy and fertilisers face operational headwinds.

Sustained public infrastructure outlays and construction activity drove healthy capacity utilization and operating performance across cement, steel, and power utilities. Conversely, persistent contraction in upstream oil, gas, and fertilisers underscores structural supply-side constraints and sub-sectoral divergence. From a credit standpoint, strong infrastructure-linked order books will reinforce corporate cash flows and debt-servicing capacity in metals, cement, and power, whereas persistent weakness in upstream energy and subsidy-dependent fertiliser players warrants close credit monitoring.

FY27 core growth projected at 5.0%-6.0% on sustained public capex, tempered by crude oil and input cost risks.

Looking ahead, core sector growth is projected to expand by 5.0%–6.0% in FY27, up significantly from 3.0% in FY26, though monthly prints are likely to moderate from September's peak as base effects normalize. Continued government capital expenditure across roads, railways, power, and urban infrastructure, alongside private manufacturing capacity additions, will sustain demand for cement, steel, and electricity. Nonetheless, elevated crude oil prices pose upside risks to energy and logistics costs, potentially squeezing margins in energy-intensive segments alongside commodity volatility and weather disruptions.

India's labour market remains resilient, driven by rural gains and rising participation in Q2FY27

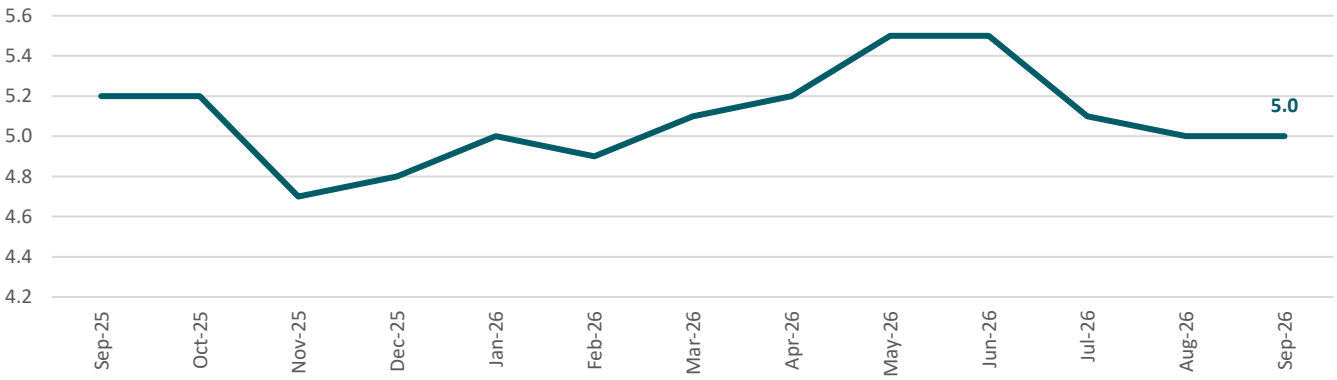
Headline unemployment declines to 5.1% as kharif activity and female workforce participation lift overall engagement.

India's labour market strengthened in Q2 FY27, supported by a strong rural rebound and rising female workforce participation. According to the Periodic Labour Force Survey (PLFS), overall unemployment (ages 15+) declined to 5.1% from 5.4% in Q1 FY27—stabilizing at 5.0% in August and September—while the Labour Force Participation Rate (LFPR) rose to 55.5% and the Worker Population Ratio reached 52.7%. Kharif agricultural activity anchored rural momentum, lowering rural unemployment to 4.3% and lifting rural LFPR to 58.1%, alongside an increase in female LFPR to 34.7%.

Urban unemployment remains sticky at 6.8% amid volatile white-collar hiring trends.

Despite broad rural gains, urban labour conditions remained comparatively uneven, with urban unemployment holding sticky at 6.8% even as urban LFPR edged up to 50.4%. Simultaneously, organized white-collar recruitment tracked by the Naukri JobSpeak Index showed sharp monthly volatility, expanding 5% y-o-y in July and 14% in August before moderating to 2% in September, with hiring concentrated in AI/ML, automotive, healthcare, and Global Capability Centres (GCCs).

Figure 7:
India's Periodic Labour Force Survey - Unemployment rate (%)



Source: Ministry of Statistics and Programme Implementation.

H2 FY27 outlook: Domestic and seasonal demand support hiring, though AI adoption tempers formal IT headcount growth.

Looking ahead, India's H2 FY27 employment outlook remains cautiously positive, underpinned by domestic economic momentum, public infrastructure execution, and festive and wedding demand. Expansion across e-commerce, travel, hospitality, retail, and manufacturing is expected to drive hiring in gig, engineering, and construction roles. However, rapid generative AI adoption in IT and business services is prompting selective hiring freezes and rationalization of routine roles, restraining net headcount growth despite strong demand for specialized AI talent. Ultimately, sustaining organized urban salaried employment alongside rural income gains will be critical to supporting household cash flows, retail credit quality, and discretionary consumption.

Prices and policy

Retail inflation breaches the RBI's 6% upper tolerance band, hitting a two-year high of 6.09% in October 2026

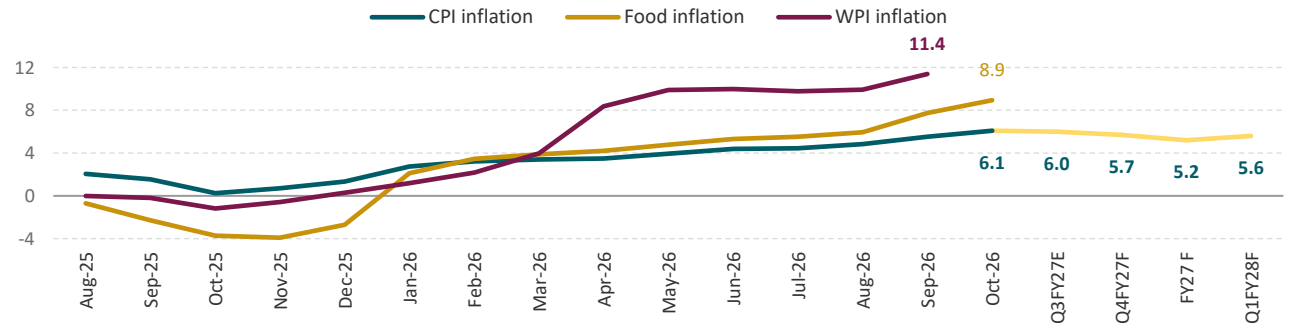
After averaging 4.9% in Q2 FY27, headline CPI crossed the 6% threshold in October, propelled by surging food prices and broad-based core pass-through.

India's retail inflation, measured by the Consumer Price Index (CPI), extended its upward trajectory into Q3 FY27. Following a steady acceleration across Q2 FY27, from 4.45% in July to 4.83% in August and 5.54% in September (averaging ~4.9% for the quarter), headline inflation rose another 55 bps to 6.09% (provisional) in October 2026. This marks the highest reading in two years and breaches the upper limit of the Reserve Bank of India's (RBI) 2%–6% tolerance band for the first time since October 2024.

Weather-driven supply shocks pushed October food inflation to 8.94%, led by triple-digit onion price surges.

Acute food price pressures remained the primary catalyst, with Consumer Food Price Index (CFPI) inflation climbing 120 bps from 7.74% in September to 8.94% in October. Erratic weather, late-monsoon disruptions, and crop diseases severely constrained supplies of key kitchen staples, driving triple-digit inflation in onions (116.22%) alongside sharp increases in garlic (60.74%), ginger (48.32%), and lemons (47.30%), which more than offset y-o-y declines in potatoes (-14.24%) and cauliflower (-10.57%).

Figure 8:
CPI, food and WPI inflation (% YoY)



Source: MoSPI (CPI, base 2024=100 from January 2026); Office of the Economic Adviser, DPIIT (WPI, base 2022-23=100). Note: The two readings span different CPI base-year series (2012=100 vs. 2024=100). October 2024 was measured on the old 2012=100 base, whereas October 2026 (6.09%) is on the new 2024=100 base.

Elevated crude prices, freight costs, and rupee depreciation have broadened price pressures across non-food and services categories.

October's CPI print confirms that price pressures have spilled over beyond perishables into core goods and services. Driven by elevated global crude prices amid West Asian tensions, higher freight rates, and rupee depreciation, annual inflation accelerated across nearly all major divisions relative to September. Personal care and miscellaneous goods (10.14%) and restaurants and accommodation (10.06%) led the rise, while energy costs lifted transport inflation to 5.84% (from 5.01%), alongside firmer prints in clothing and footwear (4.96%) and furnishings (3.94%). Simultaneously, WPI inflation surged to 12.29%, creating a wide 620 bps wholesale–retail wedge that signals acute input cost pressures for manufacturers and retailers.

Near-term trajectory remains elevated at approximately 6.0% in Q3 FY27 before moderating in Q4, subject to winter crop arrivals and crude stability.

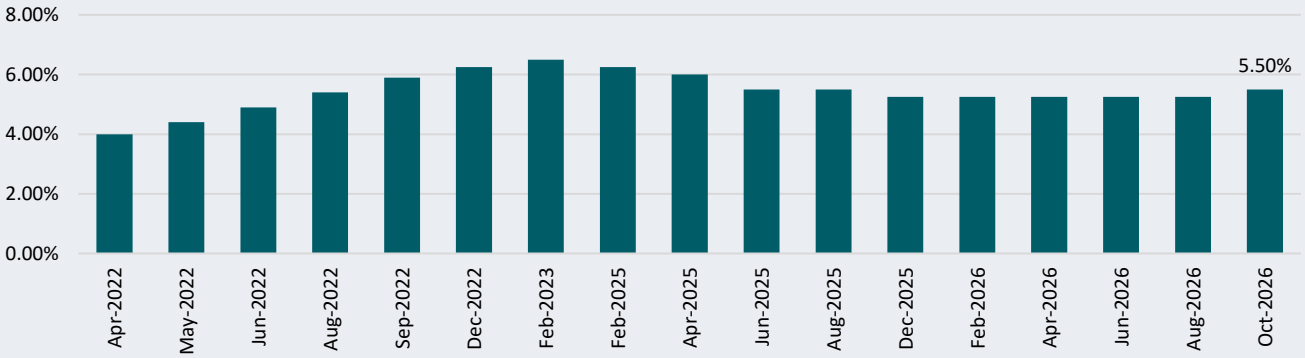
Looking ahead, retail inflation is projected to peak near BWR's 6.0% estimate in Q3 FY27 before easing toward 5.7% in Q4 FY27 to average 5.2% for full-year FY27. Achieving this disinflation path hinges on timely kharif harvest arrivals, favorable rabi sowing, and containment of geopolitical shocks in global energy markets. In the immediate term, however, the breach of the statutory 6% ceiling, marking a fifth consecutive month above the 4.0% target, alongside firming underlying categories strengthens the case for a final 25 bps repo rate hike to 5.75% at the RBI's December 2-4, 2026 MPC review under its "calibrated tightening" stance.

RBI's policy pivot: A calibrated hike by RBI amid robust growth and supply shocks

The RBI raised the repo rate to 5.50% to curb inflation & stabilize the rupee, and shifts stance to 'Calibrated Tightening'

In its October 2026 Monetary Policy Committee (MPC) review, the Reserve Bank of India (RBI) raised the benchmark repo rate by 25 basis points to 5.50%, its first-rate increase in nearly four years, while shifting its policy stance from "neutral" to "calibrated tightening". The rate action was primarily triggered by elevated food prices and higher kharif Minimum Support Prices (MSP), which lifted projected Q3 FY27 headline CPI inflation to 6.0% and heightened risks of second-round commodity spillovers. External dynamics also weighed on the decision, as a tight US Federal Reserve stance amid persistent services and energy inflation required containing interest rate differentials to mitigate capital outflows and stabilize the rupee. Resilient domestic growth, 7.8% in Q1 FY27 and an upgraded full-year projection of 7.1%, provided policy headroom to prioritize price stability without derailing economic momentum.

Figure 9:
Policy repo rate at each change, April 2022 to October 2026 (%)



Source: Reserve Bank of India.

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

Shallow tightening cycle likely to peak at 5.75% in December, boosting bank margins while squeezing NBFCs and oil-sensitive sectors

Looking ahead, a short and shallow tightening cycle is anticipated, with at most one additional 25 bps hike to 5.75% in December 2026 followed by an extended pause. While relatively low real interest rates and healthy bank credit growth will sustain overall credit availability, sectoral outcomes will diverge. Corporates with strong pricing power and low leverage are well-positioned to absorb higher borrowing costs, whereas oil-sensitive industries, including logistics, aviation, and chemicals, and wholesale-funded NBFCs face tighter margins from elevated input and funding costs.

For deeper insights on the analysis, please refer to Brickwork Ratings report titled "RBI monetary policy meet outcome -October 2026" dated 09 October 2026, https://tinyurl.com/2u3cd5va

BWR Credit Lens: The 620-bps WPI-CPI wedge and lending rate transmission

Corporate margin compression: Wholesale inflation (12.29%) outpaced retail inflation (6.09%) by 620 basis points in October 2026, amplified by a sharp spike in fuel and power prices alongside an unfavourable statistical base from late 2025. While consumer-facing sectors with strong brand equity can pass through input costs, mid-sized manufacturers in energy- and commodity-intensive segments—such as chemicals, packaging, and auto ancillaries—face 100–150 bps EBITDA margin compression over Q3–Q4 FY27 unless crude and freight costs sustain their early-November retreat.

Asymmetric rate transmission: With approximately 55–60% of scheduled commercial bank floating-rate loans linked to external benchmarks (EBLR), the October 25-bps hike, and a likely 25-bps follow-on hike in December 2026, will pass through immediately to MSME and retail borrowers. Delayed deposit repricing provides banks a 1-2 quarter NIM cushion, whereas wholesale-funded NBFCs face immediate 25-40 bps spread widening in commercial paper and NCD markets.

External sector and the rupee

Combined exports hit all-time quarterly high of USD 243.57 billion in Q2 FY27 despite monthly volatility

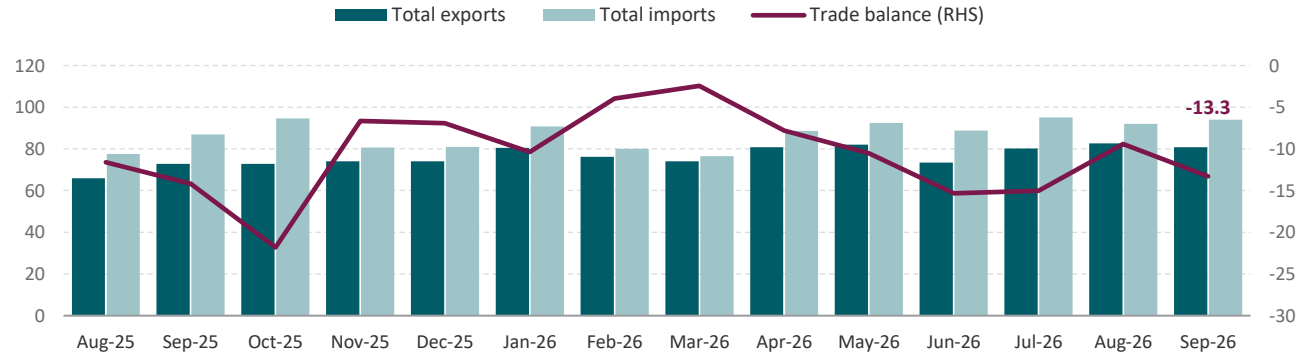
Record quarterly exports outpace import growth in Q2 FY27, cushioning monthly trade volatility.

India's external trade reached a new milestone in Q2 FY27 (July–September 2026), with combined merchandise and services exports climbing 16.3% y-o-y to an all-time quarterly high of USD 243.57 billion, surpassing the previous peak of USD 232.63 billion in Q1 FY27, while total imports rose 14.1% to USD 281.30 billion. Monthly trends showed sharp swings: after a USD 15.03 billion deficit in July (exports up 13.31% to USD 80.14 billion; imports up 15.83% to USD 95.16 billion), trade performance strengthened markedly in August as exports surged 25.41% to USD 82.68 billion on robust electronics, petroleum, engineering, and chemical shipments, narrowing the combined trade deficit to USD 9.41 billion. Growth moderated in September (total exports up 10.99% to USD 80.75 billion; total imports up 8.19% to USD 94.05 billion), widening the total monthly gap (Merchandise +Services combined) to USD 13.30 billion.

Heavy import intensity drives India's high merchandise trade deficit, though a strong services surplus partially offsets the gap.

Despite robust export growth, India's trade profile continues to reflect high import dependence, particularly for crude oil, electronic components and gold. In Q2 FY27, merchandise exports stood at USD 132.45 billion, against imports of USD 221.50 billion, resulting in a deficit of USD 89.05 billion. This was partly offset by a services trade surplus of USD 51.31 billion, underscoring the stabilising role of IT and digital services. During April–September FY27, exports grew by 13.84% to USD 476.20 billion, while imports increased at a faster pace of 15.68% to USD 551.13 billion, widening the overall trade deficit to USD 74.93 billion. The merchandise deficit of USD 177.64 billion was partly cushioned by a services surplus of USD 102.71 billion.

Figure 10:
Exports and imports of goods and services, and trade balance (USD billion; balance on RHS)



Source: Ministry of Commerce and Industry. Services figures for recent months are estimates.

Cautiously optimistic FY27 outlook: Manufacturing and tech exports drive growth, though commodity and import risks keep deficits elevated.

Looking ahead, India's trade outlook remains cautiously optimistic, underpinned by resilient domestic manufacturing, expanding electronics and engineering shipments, and deeper global supply-chain integration. Export diversification initiatives and trade agreements should further bolster AI-linked electronics and semiconductor exports. Against the WTO's 3.9% global merchandise trade growth projection for 2026, India's combined exports are estimated at USD 950–975 billion in FY27 against imports of USD 1.10–1.13 trillion, implying an overall trade deficit of USD 125–180 billion. While geopolitical friction, protectionism, and sustained domestic demand for gold and capital goods could limit trade-balance gains, robust services receipts will remain a critical stabilizer for India's external accounts.

Forex reserves hit record USD 785.71 billion in Q2 FY27 on concessional swap window inflows; Projected within USD 700–740 billion in FY27

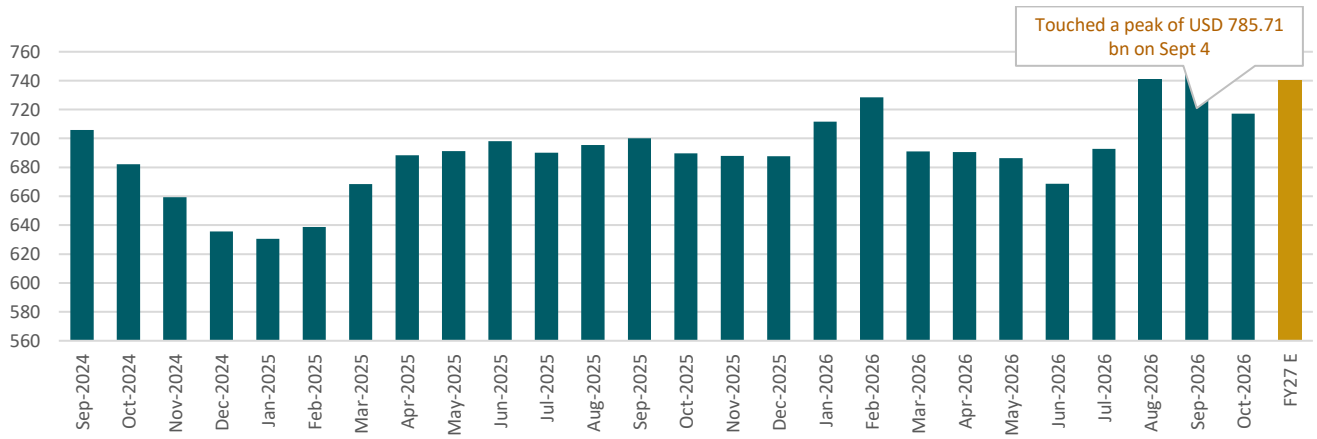
India's forex reserves hit a record USD 785.7 billion in September 2026 before moderating to USD 717.06 billion by October 30, 2026, maintaining a strong external buffer

India's foreign exchange reserves rose significantly in Q2 FY27, climbing from USD 674.19 billion at the start of July to an all-time peak of USD 785.71 billion by September 4, before finalizing the month at USD 747.56 billion on September 25. The reserves increased steadily in July and accelerated sharply in August, primarily driven by the RBI's concessional swap window for diaspora deposits, which facilitated nearly USD 133 billion in bank fundraising. Consequently, reserves registered a historic weekly increase of USD 44.90 billion in the week ended September 4. The subsequent moderation toward the end of September reflected a partial reversal from this peak.

RBI dollar interventions against October capital outflows lowered reserves, yet annual external buffers remain resilient.

While Q2 reserve accumulation reinforced domestic market confidence, the trajectory reversed in October 2026 as escalating geopolitical tensions in West Asia, higher crude oil prices, and rising US Treasury yields triggered emerging-market capital outflows and rupee depreciation pressures. Consistent with its mandate to curb excessive volatility rather than defend a specific exchange rate, the RBI intervened via substantial dollar sales to maintain orderly market conditions. Reserves eased to USD 719.75 billion by October 23 and dipped another USD 2.69 billion in the final week to close at USD 717.06 billion on October 30, marking a cumulative drawdown of roughly USD 68.7 billion from the September 4 peak. Despite this pullback, India's external buffer remains resilient, standing USD 25.95 billion above end-March 2026 levels on the back of broader annual gold valuation gains.

Figure 11:
Forex reserves in USD billion



Source: Reserve Bank of India, E- Estimate
Note: Figures mentioned in the chart above represent end-of-month values

India's FY27 forex reserves expected to stabilize around USD 700–740 billion, with oil prices and capital flows determining RBI intervention and external resilience.

Going forward, India's foreign exchange reserves are expected to remain within USD 700-740 billion for the remainder of FY27, although persistent crude oil price pressures and capital outflows could push them towards the lower end. Conversely, easing oil prices, improved global risk appetite and stronger capital inflows could support a recovery towards USD 750-760 billion. Elevated US interest rates, sustained foreign portfolio outflows and higher import-related dollar demand may necessitate further RBI intervention. However, FCNR(B) deposit mobilisation, stronger foreign investment and external commercial borrowings, alongside softer commodity prices, could support reserve accretion. Despite the recent drawdown, reserves provide a meaningful external buffer, with adequacy, capital flow sustainability, RBI intervention and balance-of-payments trends remaining key monitorables for lenders and corporates.

Rupee under pressure: Persistent FII outflows and energy costs challenge USD/INR despite intermittent RBI support

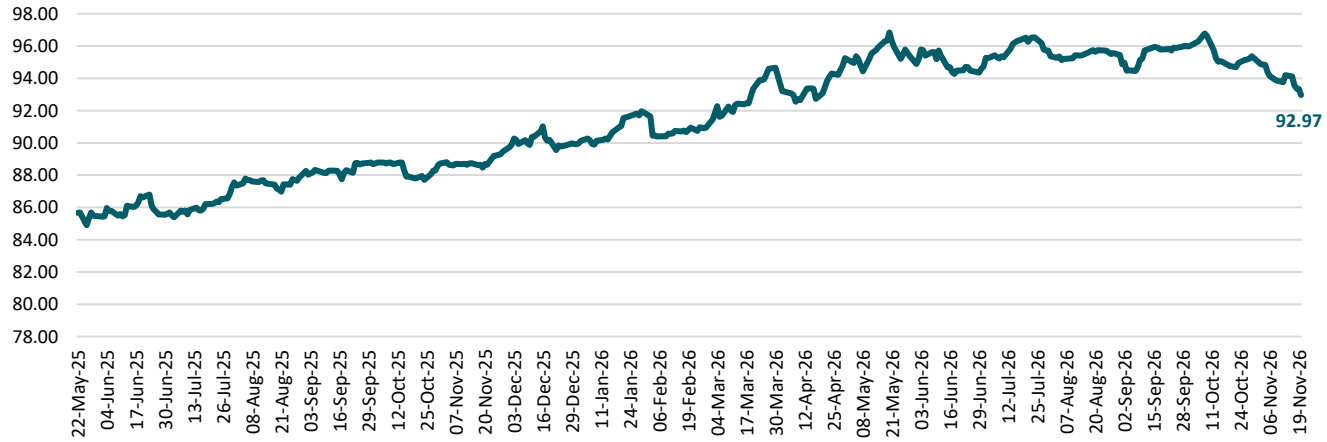
Aggressive RBI intervention and temporary IPO inflows cushioned the volatile rupee

The Indian Rupee remained under sustained depreciation pressure during Q2FY27, with significant volatility persisting between July and October 2026 amid mounting external and macroeconomic headwinds. Elevated US interest rates, net Foreign Portfolio Investor (FPI) outflows exceeding USD 4 billion[1] across domestic equity and debt markets, rising global crude oil prices and a widening monthly merchandise trade deficit of over USD 30 billion[2] in September 2026 collectively intensified pressure on the domestic currency. These factors weakened foreign capital inflows, increased dollar demand and heightened exchange rate volatility. In response, the Reserve Bank of India (RBI) actively intervened in the foreign exchange market through spot dollar sales and adjustments to its forward positions, including an increase in its net forward short position, to contain excessive volatility and moderate the pace of rupee depreciation.

Rupee rebounds from October to reach around INR 92.97/USD in November on softer crude and FPI inflows

Entering October 2026, the rupee remained under pressure from equity outflows but witnessed temporary relief mid-month, supported by RBI policy adjustments, targeted capital flow measures, and sizeable foreign inflows from high-profile IPOs such as Jio Platforms, briefly strengthening to approximately INR 94.30–94.40 per USD. However, persistent trade imbalances, elevated energy costs, and renewed dollar demand reversed those gains, pushing the currency toward INR 95.25 per USD by end-October. After trading near INR 94.73 per USD at the start of November, the rupee appreciated steadily through mid-month, breaking past the INR 93.00 mark on November 20 to reach around INR 92.97/USD. This rally was directly fuelled by softer crude oil prices, with Brent retreating near USD 92.5/bbl from October highs, alongside heavy FPI inflows exceeding USD 12 billion into Indian equities so far in November and anticipated passive inflows from MSCI index inclusions.

Figure 12:
Indian rupee (INR) per US dollar (USD) performance



Source: Reserve Bank of India.

Rupee projected to trade 92.5-97/USD range as global headwinds counter domestic support

Going forward, the Indian Rupee is projected to trade within an INR 92.50–97 per USD band over the remainder of FY27, reflecting the lower November spot floor alongside persistent medium-term external pressures. While softer crude prices and intermittent portfolio inflows provide near-term support, active RBI dollar purchases aimed at rebuilding forex reserves and unwinding its sizeable net short forward position, combined with hawkish US Federal Reserve commentary and elevated 10-year US Treasury yields (approximately 5.15%), are likely to cap further appreciation. Consequently, structural import dependence, trade deficits, and global rate differentials are expected to steer USD/INR gradually back toward the upper end of the INR 92.50–97 range by March 2027, though calibrated RBI interventions and comfortable reserve buffers should ensure the trajectory remains orderly

[1] FPI Net investment details, National Securities Depository Limited (NSDL)
[2] Ministry of Commerce and Industry, India's Foreign Trade: September 2026, 15 October 2026

Geopolitical supply disruptions drive crude prices sharply higher in Q2FY27; supply recovery to determine price trajectory ahead

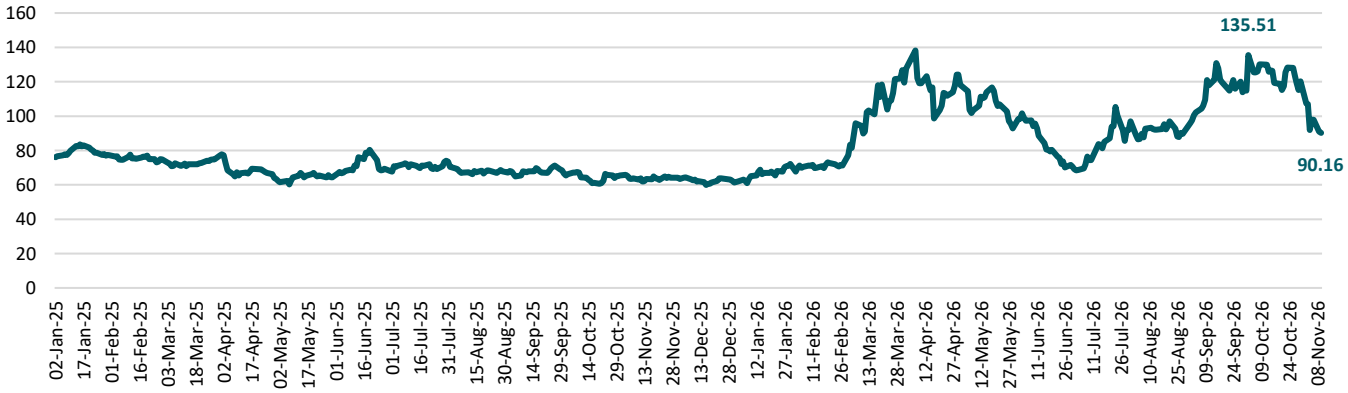
Brent crude surged amid West Asian geopolitical tensions and supply disruptions, intensifying imported inflation and cost pressures.

Brent crude oil prices rallied sharply during Q2FY27, driven by escalating geopolitical tensions in West Asia and disruptions to key global supply routes. Prices increased from an average of USD 83.8/barrel in July to USD 91.1/barrel in August and USD 114.2/barrel in September, peaking at USD 130.8/barrel following attacks on Middle Eastern energy infrastructure, including Saudi Arabia's East-West pipeline. Concerns over shipping disruptions through the Strait of Hormuz and Red Sea further tightened physical supplies and elevated geopolitical risk premiums.

Shipping disruptions drove October Brent highs, before diplomatic progress and restored supply sparked November's pullback.

The rally extended into October 2026, with Brent climbing to an intraday high of USD 135.51/barrel on October 2 and averaging approximately USD 124.2/barrel for the full month, representing an 8.8% month-on-month increase (after averaging USD 124.8/barrel through October 27, up 9.3% MoM). While renewed Houthi activity and shipping attacks kept prices elevated through most of October, intermittent diplomatic progress and a partial restoration of Middle Eastern output triggered a sharp reversal in early November. Spot prices retreated from USD 120.15/barrel on October 30 to USD 90.16/barrel by November 10.

Figure 13:
Brent crude spot price in USD per barrel



Source: U.S. Energy Information Administration.

Low commercial inventories sustain near-term volatility, though rising US and Middle Eastern output should ease tightness.

Near-term crude prices are likely to remain volatile amid lingering geopolitical risks and tight commercial buffers, underscored by US commercial crude inventories falling to a 12-year October low of 410 million barrels. Over the medium term, however, recovering Middle Eastern production, record US crude output (projected at 13.9 million barrels per day (bpd) in 2026 and 14.3 million bpd in 2027), and softer global fuel demand are expected to gradually rebalance the market.

Rebuilding inventories should soften Brent prices through 2027, though Gulf geopolitical risks threaten sharp spikes.

In its November 2026 Short-Term Energy Outlook (finalised prior to the 10 November spot retreat), the U.S. Energy Information Administration (EIA) projected Brent spot prices to average USD 104/barrel in November and USD 99/barrel in December 2026, before moderating to USD 87/barrel in Q2 calendar year (CY) 2027 and USD 77/barrel by Q4 CY27 (averaging USD 86/barrel across 2027) as inventories rebuild. Accounting for the sharper early-November pullback to USD 90.16/barrel, BWR expects Brent to average within a slightly lower USD 90–100/barrel band between October 2026 and March 2027. While renewed Gulf infrastructure attacks or Strait of Hormuz blockades could push prices back above USD 120/barrel, sustained de-escalation could accelerate a decline toward USD 85-90/barrel, a trajectory that would significantly ease India's import bill, inflation pressures, and input costs across energy-intensive sectors.

Fiscal, banking and markets

India's fiscal deficit widened during H1FY27, although the pace of deficit accumulation remained within the budgeted trajectory

Rising expenditure and subsidy commitments widened fiscal deficit, underscoring revenue mobilisation and expenditure discipline amid robust capital investment.

India's fiscal deficit widened significantly in H1FY27, increasing by 25% year-on-year to INR 7.14 trillion, which is 42.1% of the FY27 Budget Estimate of INR 16.96 trillion. This rise is due to a 10.7% increase in total expenditure to INR 25.50 trillion, surpassing the 6.1% growth in non-debt receipts. Net tax collections grew by 3.8% to INR 12.76 trillion, with total receipts at INR 18.35 trillion, indicating a 50.3% achievement of annual estimates. Capital expenditure rose by 12.7% to INR 6.55 trillion, highlighting an emphasis on infrastructure investment. However, increased subsidy costs, particularly for food and fertilizers, which reached INR 2.23 trillion (up 10.1%), intensified the expenditure burden. The situation emphasizes the need for expenditure discipline as revenue growth lags behind spending commitments.[3]

Fiscal deficit likely to remain contained at 4.3–4.4% of GDP in FY27, supported by revenue mobilisation and expenditure discipline.

Looking ahead, the Central Government is projected to maintain its fiscal consolidation glide path, keeping the FY27 fiscal deficit within a 4.3–4.4% of GDP range against its target of 4.3% (INR 16.96 trillion). While a first-half deficit utilisation of 42.1% provides initial headroom alongside expected momentum in tax and non-tax revenues, anticipated higher spending in the second half could exert pressure on the fiscal balance. Achieving the full-year target will depend on sustaining infrastructure-led capital expenditure while enforcing discipline on revenue spending, particularly given downside risks from slower tax collections, rising subsidies, and elevated commodity prices.

GST collections maintain strong momentum in Q2FY27, supported by robust import revenues

GST collections sustain the INR 2 trillion threshold, reflecting resilient economic activity

India's Goods and Services Tax (GST) collections remained robust in Q2FY27, averaging over INR 2 trillion monthly, with September collections rising 14.7% year-on-year to reach INR 2.04 trillion. September's growth was primarily driven by import-related revenues, which surged 25.9% to INR 655.25 billion, compared with 10.1% growth in domestic collections to INR 1.38 trillion. Across the full quarter (Q2FY27), gross collections rose 15.0% to INR 6.15 trillion, underpinned by a 27.9% jump in import-related revenues (Table 4). This indicates relatively stronger revenue contribution from imports, while domestic tax buoyancy remained moderate. Meanwhile, the taxpayer base expanded to approximately 17 million,

Table 4:
GST collections

Indicator	Q2FY27	YoY Growth
Gross GST collections	INR 6.15 trillion	15.0%
Net GST collections (after refunds)	INR 5.26 trillion	14.0%
Domestic gross GST revenue	INR 4.20 trillion	9.8%
Import-related GST revenue	INR 1.95 trillion	27.9%

Note: Cumulative H1 FY27 (April-September 2026) gross GST collections stood at INR 12.46 trillion (+11.6% YoY). Source: Ministry of Finance.

GST collections expected to sustain healthy growth in H2FY27, supported by festive demand, domestic consumption and tax reforms.

Going forward, GST collections are expected to maintain healthy momentum in H2FY27, with monthly gross receipts projected at INR 1.95-2.15 trillion during non-peak months, potentially rising to INR 2.25–2.40 trillion during festive-season settlements and Q4 year-end reconciliations. Driven by wider e-way bill formalisation, stronger MSME digital compliance, and steady urban discretionary demand, this revenue trajectory is expected to anchor the government's fiscal consolidation target while strengthening macroeconomic stability, corporate capital expenditure execution, and overall credit quality. However, net fiscal realisations and revenue buoyancy remain subject to downside risks from sticky core inflation, a sluggish rural demand recovery, geopolitical supply disruptions, and elevated refund outflows.

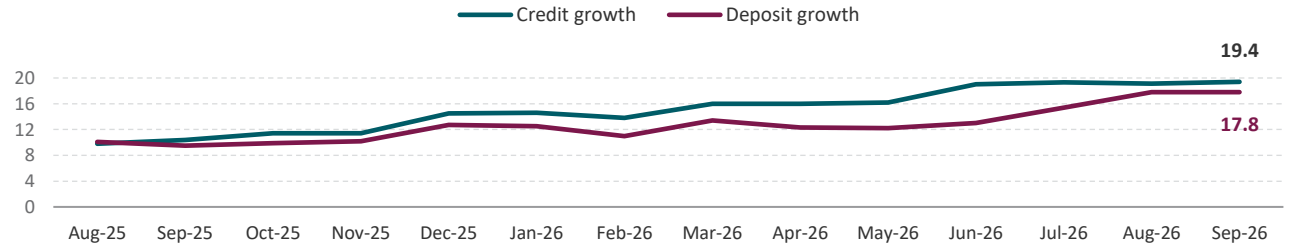
[3] Controller General of Accounts, *Union Government Accounts, April-September 2026*, 30 October 2026; GST Network, *GST Collection Statistics, September 2026*, 1 October 2026.

Bank credit growth remains robust in Q2FY27, while improving deposit mobilisation and external funding inflows provide some relief to banks' funding requirements

Bank credit and deposit growth remained robust in Q2FY27, though October moderation suggests easing momentum, with credit continuing to outpace deposits.

The Indian banking system recorded robust credit growth of 19.3% year-on-year in Q2FY27, while deposit growth stood at 15.4%, reflecting a 390-basis-point gap. Credit growth moderated marginally to 19.1% in August 2026 before accelerating to 19.4% in September, while deposit growth improved to 17.8%. In absolute terms, aggregate bank credit increased from INR 220.8 trillion at end-July to INR 229.9 trillion at end-September, while deposits rose from INR 269.4 trillion to INR 284.0 trillion, indicating healthy incremental mobilisation. Although deposit accretion gained traction, credit expansion continued to outpace deposit growth, sustaining funding pressures. However, by October 15, 2026, credit and deposit growth moderated to 18.2% and 16.7%, respectively. The decline in absolute balances largely reflects normal reporting fluctuations rather than any structural weakening in banking activity.

Figure 14:
Bank credit and deposit growth (% YoY)



Source: Reserve Bank of India.

BWR Banking and Debt Market Monitor: Managing the credit–deposit divergence

Liquidity and credit-to-deposit (CD) ratio watch: Bank credit growth (19.3% YoY in Q2 FY27) continues to outstrip deposit growth (15.4%), keeping incremental CD ratios elevated. As the RBI's USD 68.7 billion forex intervention drains durable rupee liquidity and one-off FCNR(B) swap inflows normalise, banks will increasingly rely on high-cost Certificates of Deposit (CDs) and bulk term deposits, capping NIM expansion by Q4 FY27.

Corporate bond and credit spreads: Elevated sovereign yields (approximately 7.3% on the 10-year G-sec) and tighter liquidity have pushed AAA corporate bond spreads wider, prompting higher-rated corporates to favour bank working-capital lines over market issuances. Lower-rated (A and below) issuers face heightened refinancing scrutiny and should lock in medium-term bank facilities ahead of the December MPC meeting.

Bank credit and deposit growth are expected to remain healthy at 16-17% and 12.5–14.0% in FY27, respectively, though funding pressures may weigh on NIMs.

Going forward, bank credit growth is projected to remain healthy at 16-17% in FY27, moderating slightly from Q2FY27 peaks as earlier rate-cut tailwinds fade and lending rates edge higher, and consumption-led demand normalise. This expansion will be anchored by sustained retail and MSME financing, rising working capital needs, infrastructure investments, and corporate preference for bank loans over market-based funding. Meanwhile, deposit growth is estimated at 12.5-14.0%, supported by retail deposit mobilisation, competitive term deposit rates, and incremental FCNR(B) inflows. However, the persistent lag between deposit and credit growth risks pushing the credit-deposit ratio higher, forcing banks to rely on costlier term deposits and alternative funding. Consequently, rising funding costs may compress net interest margins (NIMs), warranting close monitoring of banks' liquidity profiles and overall profitability.

Nifty 50 witnessed a significant correction during Q2FY27 amid sustained outflows, elevated crude oil prices and weakening global risk appetite

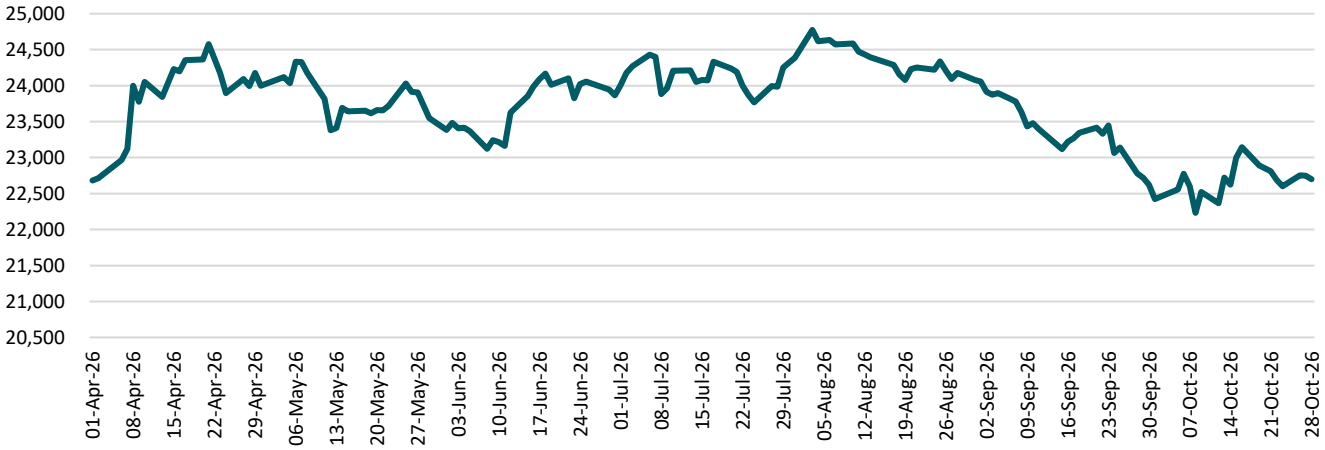
In Q2FY27, Nifty 50 fell 5.2% due to global headwinds and FII selling, before stabilizing slightly in October.

The Indian equity market witnessed heightened volatility in Q2FY27, with the NSE Nifty 50 declining 5.2% from 23,865.75 at end-June to 22,620.45 at end-September 2026. After gaining 2.17% in July, the index fell 1.2% in August before a sharper 6.1% correction in September, driven by foreign investor outflows, rising crude oil prices and global financial uncertainties. In October, the index gained 1.91% to close at 23,053.10 supported by financial services and FMCG stocks. However, geopolitical risks continue to weigh on sentiment. Foreign institutional investors (FIIs) sold equities worth INR 440.13 billion in September, partly offset by domestic institutional investor (DII) purchases of INR 760.30 billion. Broader markets also remained under pressure, with the Nifty Midcap 100 and Smallcap 100 declining 3.88% and 4.04%, respectively.

Despite USD 18 billion DII inflows, macroeconomic headwinds depressed equities, but low valuations and projected 27% earnings growth signal stabilization.

Despite sustained macroeconomic headwinds and foreign investor outflows, domestic institutional investors (DIIs) provided a significant liquidity cushion, investing approximately USD 18 billion in Indian equities during July–September 2026, compared with just USD 0.7 billion from foreign institutional investors (FIIs). However, domestic inflows remained insufficient to reverse the broader market correction. Nevertheless, improving corporate fundamentals and relatively attractive valuations could support market stabilisation. Q2FY27 Nifty 50 corporate earnings were projected to grow 27%[4] year-on-year, while the index traded nearly 18%[5] below its long-period average on a 12-month forward price-to-earnings basis, providing potential headroom for valuation recovery, subject to sustained earnings delivery and improved investor sentiment.

Figure 15:
NSE Nifty index (Daily closing values)



Source: NSE India.

Nifty 50 outlook remains cautiously optimistic, supported by earnings and domestic demand, despite global uncertainties and volatile foreign inflows.

Going forward, the Nifty 50 is expected to witness a gradual and selective recovery, supported by improving corporate earnings, resilient domestic demand, infrastructure and manufacturing investments, and sustained DII participation. The October rebound indicates some improvement in investor sentiment; however, elevated crude oil prices, geopolitical uncertainties, higher global bond yields and volatile FPI flows could constrain market gains. Accordingly, the index is expected to trade within the 22,000-24,500 range in the near term, with potential upside towards 24,500-25,000 under favourable conditions and downside risks towards 21,500–22,000 amid adverse global developments or earnings disappointments. Financials and select consumption sectors may remain relatively resilient. Overall, the medium-term outlook remains cautiously optimistic, contingent on sustained earnings growth, commodity price stabilisation and renewed foreign investment inflows.

[4] India Strategy Q2FY27 preview by Motilal Oswal Financial Services; Business Standard, "Nifty earnings seen jumping 27% in Q2FY27; India stocks face a 'heavy lift'", 08 October 2026

[5] ETNOW, "Are Indian stocks finally getting cheaper? Two-thirds of Nifty companies trade below historical valuations", 02 October 2026

RBI's revised SA-CCR and CVA framework

Revised RBI framework to strengthen counterparty risk assessment and capital adequacy

RBI modernizes bank risk rules: RBI issues new SA-CCR and CVA risk norms to replace legacy framework by April 2027

On October 7, 2026, the Reserve Bank of India (RBI) issued revised regulatory guidelines introducing the Standardised Approach for Counterparty Credit Risk (SA-CCR) and an updated Credit Valuation Adjustment (CVA) risk framework to strengthen banking sector resilience and risk transparency. Effective April 1, 2027, the framework aligns domestic prudential norms more closely with Basel standards, enhancing the measurement of derivative exposures and counterparty default risks. Under SA-CCR, banks will assess exposures through Replacement Cost (RC), capturing current exposure, and Potential Future Exposure (PFE), accounting for potential increases arising from future market movements, thereby improving risk measurement and capital adequacy.

New counterparty credit risk rules target banks with derivative books of INR 250 billion+

The exposure calculation will incorporate an alpha multiplier of 1.4 times the combined RC and PFE, while recognising eligible collateral and legally enforceable netting arrangements. The revised framework will be mandatory for banks with an international presence or consolidated group-wide derivative outstanding book value of at least INR 250 billion. Other commercial banks may retain the flexibility to adopt either the existing Current Exposure Method (CEM) or SA-CCR.

Capital requirements and derivative pricing to emerge as key transmission channels

SA-CCR implementation will increase capital requirements for unhedged OTC derivatives, while active collateral management offers regulatory capital relief.

The revised SA-CCR and CVA frameworks are likely to have a differentiated impact across banks, depending on their derivatives exposure and risk management practices. Banks with sizeable non-centrally cleared derivative portfolios may face higher capital requirements due to enhanced exposure and counterparty risk recognition. However, eligible collateral, enforceable netting arrangements and qualifying CVA hedges could help contain incremental capital consumption.

CVA capital flexibility may influence derivative pricing, collateral requirements and banks' counterparty risk appetite for corporates.

Under the revised CVA framework, eligible banks with group-wide non-centrally cleared derivative notionals of up to INR 10 trillion may adopt an alternative capital treatment, subject to supervisory approval, linking CVA capital requirements to 100% of counterparty credit risk capital. For corporates with significant foreign currency borrowings, overseas operations or hedging requirements, this may influence derivative pricing, collateral obligations and banking relationships. Banks are also expected to strengthen counterparty assessments, with greater emphasis on credit quality, collateral availability and transaction profitability. Overall, the framework should improve risk measurement and ensure regulatory capital more closely reflects underlying derivative exposures.

Medium-term credit outlook remains positive, subject to capital absorption capacity

Banks face near-term implementation costs, while preparedness, collateralisation and hedging will determine capital efficiency under revised regulations.

Going forward, with the April 2027 implementation deadline approaching, banks will need to upgrade risk systems, strengthen counterparty-level data and reassess derivative portfolios and capital allocation. The transition is likely to increase near-term investments in technology, risk analytics, collateral management and regulatory reporting. Banks with complex derivative exposures may face greater pressure on capital efficiency and operating costs, while those with robust collateralisation, netting and hedging arrangements are likely to be better positioned to manage implementation challenges.

The framework is expected to strengthen banking resilience, although capital pressures and higher hedging costs may constrain benefits.

From a credit perspective, the revised framework is expected to strengthen banks' risk management, transparency and resilience over the medium term. However, higher capital requirements could weigh on profitability and lending capacity, depending on banks' ability to absorb them. For corporates, increased derivative transaction costs and collateral requirements may raise treasury expenses and influence hedging strategies.

India's INR 100 billion SME growth fund

Beyond bank credit: Bridging India's SME financing gap

India approved a INR 100 billion SME fund providing equity capital to scale small businesses.

On October 6, 2026, the Union Cabinet approved a INR 100 billion sovereign commitment to establish the SME Growth Fund, announced in the Union Budget 2026-27. The fund aims to provide direct, patient equity capital to high-potential SMEs, addressing the 'missing middle' financing gap. By offering non-debt growth capital, the initiative seeks to support mature SMEs in scaling operations, strengthening competitiveness and transitioning into larger mid-sized enterprises, while reducing dependence on debt financing.

This sovereign AIF anchors daughter funds to crowd in private capital for high-growth, strategic sectors.

The INR 100 billion sovereign commitment is expected to operate through a Mother-Daughter Alternative Investment Fund (AIF) structure, with government capital serving as anchor funding to attract private, institutional and venture capital. Under this framework, the mother fund would support empanelled daughter funds, leveraging additional private investments to multiply overall capital deployment. The structure will facilitate targeted equity and quasi-equity funding for high-growth sectors, including manufacturing, deep-tech, export-oriented services and strategic industrial supply chains, supporting enterprise expansion and competitiveness.

Pending operational rules, India's sovereign AIF will likely appoint empanelled private managers for commercial SME equity.

While the October 6, 2026 Cabinet approval establishes the INR 100 billion commitment under a SEBI-regulated Alternative Investment Fund (AIF) structure, the government has not yet officially notified the designated Investment Manager or formal selection rules. Based on India's established sovereign AIF precedent, such as the SIDBI Venture Capital-managed Self-Reliant India (SRI) Fund, the government typically appoints a sovereign development institution's asset-management arm as the nodal Mother Fund manager, which then selects and empanels SEBI-registered private and institutional Daughter Funds through a formal Request for Proposal (RFP) and investment-committee screening process based on track record, governance, and co-investment capacity. Once operational guidelines are issued, Udyam-registered SMEs will not apply to the government directly; instead, these empanelled Daughter Fund managers will source and evaluate enterprises through commercial due diligence, prioritizing manufacturing units in Tier-II and Tier-III clusters, to provide direct equity or quasi-equity infusions alongside board-level oversight and defined medium-term exit pathways such as SME exchange listings or secondary sales.

The SME fund boosts enterprise balance sheets and exports, creates high-value jobs, and drive long-term GDP growth.

The fund is expected to strengthen recipient enterprises' balance sheets by augmenting net worth, reducing leverage and debt-servicing pressures, and potentially improving credit profiles and borrowing costs. Enhanced capital availability will enable mid-tier enterprises to scale R&D, adopt advanced technologies, secure global quality certifications and deepen integration into global value chains. Over the medium to long term, the initiative could accelerate SME formalisation and expansion, strengthen domestic supply chains and improve export competitiveness. Further, the transition of fragmented SMEs into resilient mid-sized enterprises is expected to support high-value non-farm employment, expand industrial capacity and contribute to sustained economic growth.

Credit and Treasury takeaway: INR 100 billion SME growth fund

De-leveraging and debt-service cushion: By injecting patient sovereign-anchored equity and quasi-equity into Udyam-registered small and medium manufacturers, the fund directly lowers Debt-to-Equity ratios and improves Interest Coverage Ratios (ICR), enabling beneficiary SMEs to unlock incremental bank working-capital limits without stretching balance-sheet leverage.

57th GST council meeting outcome

Process reforms to strengthen ease of doing business, improve working capital and enhance tax compliance

India's 57th GST Council meeting shifted focus to structural compliance reforms, establishing a "Next-Gen" automated, efficient tax framework.

The 57th GST Council meeting, held on October 8, 2026, marked a shift in India's GST reform agenda towards simplifying tax administration, improving input tax credit (ITC) availability and reducing compliance-related bottlenecks. The reforms assume significance as the taxpayer base expanded from 6 million in 2017 to 17 million by September 2026. Against the backdrop of INR 12.46 trillion in cumulative H1 FY27 (April–September 2026) gross GST collections, registering 11.6% YoY growth, with Q2 contributing INR 6.15 trillion, the Council recommended widening ITC eligibility by removing restrictions on specified expenditures, potentially reducing tax costs for businesses. Further, permitting ITC refunds on input services and capital goods under specified conditions is expected to ease working capital constraints, particularly for manufacturing and infrastructure companies, while improving operational efficiency and investment capacity.

Faster, risk-based GST refunds are expected to ease working capital constraints, reduce borrowing costs and improve business liquidity.

The Council also proposed measures to streamline GST administration, reduce litigation and release funds locked in procedural delays, improving business liquidity. The two-phase refund mechanism envisages system-based processing, reducing the acknowledgement period from 15 to 10 days and providing risk-based sanction of 90% of eligible refunds for zero-rated supplies and inverted duty structure claims. These measures could particularly benefit exporters and manufacturers by accelerating cash flows, reducing working capital borrowing requirements and lowering associated interest costs, while strengthening financial discipline.

Table 5:
Key GST recommendations and their direct business implications

Key recommendation	Important numbers/timeline	Expected business impact
Refund of ITC on input services under IDS	From November 1, 2026	Lower working capital blockage
Refund of ITC on capital goods	From April 1, 2027; spread over 60 months	Improved recovery of eligible capital-related tax credits
Automated provisional refunds	90% of eligible claims	Faster cash conversion and reduced borrowing needs
Faster refund acknowledgement	15 days to 10 days	Reduced procedural delays
Wider ITC eligibility	Specified business expenditure	Lower cascading tax costs

Source: Ministry of Finance, recommendations of the 57th GST Council meeting, BWR Research.

Compliance and dispute resolution: Moving towards a more facilitative tax regime

Reduced penalties, simplified compliance and clearer ITC provisions are expected to ease regulatory burdens and benefit businesses and financial institutions.

To reduce compliance burdens and litigation, the Council recommended completely withdrawing departmental arrest powers by omitting Section 69 of the CGST Act and raising the statutory prosecution threshold under Section 132 from INR 10 million (INR 20 million for non-fake-invoicing offences) to INR 50 million, giving statutory force to existing administrative guidelines, while lowering the maximum general penalty from INR 25,000 to INR 10,000 and capping pre-deposits at INR 400 million for penalty-only appeals. Simplified registration for small e-commerce sellers and an optional quarterly payment framework for eligible B2C businesses with turnover up to INR 50 million could ease compliance for MSMEs and retailers. Further, clearer ITC provisions for banks, NBFCs and financial institutions, alongside the Input Service Distributor framework, are expected to reduce interpretational disputes and improve tax-credit administration.

Table 6:
Compliance and procedural reforms - Quantifying the regulatory relief

Parameter	Existing provision	Recommended change	Implication
Arrest powers (Section 69)	Commissioner empowered to authorise arrests for specified offences	Complete withdrawal (omission of Section 69 of the CGST Act)	Eliminates threat of departmental arrest in tax disputes; restricts criminal action to court complaints
Prosecution threshold (Section 132)	INR 10 million (INR 20 million for non-fake-invoicing offences; INR 50 million via CBIC administrative instructions)	INR 50 million	Lower prosecution exposure for smaller-value cases
Maximum general penalty	INR 25,000	INR 10,000	Reduced compliance-related financial burden
Minimum show-cause notice threshold	No proposed threshold under the existing framework	INR 10,000	Fewer low-value disputes
Penalty in specified non-fraud cases	10% of tax or INR 10,000, whichever is higher	5%, subject to prescribed conditions	Incentive for early settlement
Pre-deposit for penalty-only appeals	No proposed INR 400-million ceiling	INR 400 million	Greater predictability in appeal-related liquidity requirements
Goods interception	Existing transit enforcement framework	Specific intelligence and senior-officer authorisation	Lower logistics disruption

Source: Ministry of Finance, recommendations of the 57th GST Council meeting. Proposed changes are subject to statutory amendments and prescribed conditions, BWR Research.

Outlook: Positive implications for corporate credit profiles, subject to implementation

Timely implementation of GST reforms could enhance tax transparency, reduce compliance costs and support investment, manufacturing and export competitiveness.

Going forward, the impact of the 57th GST Council recommendations will depend on timely implementation, regulatory clarity and businesses' readiness to adapt compliance systems. Improved return reconciliation, correction of tax liability and ITC mismatches, and return amendments from April 2027 are expected to strengthen transparency, streamline credit flows and reduce litigation. From a macroeconomic perspective, faster refunds, lower tax cascading and reduced compliance costs could support business formalisation, investment activity, domestic manufacturing and export competitiveness, while improving operational efficiency and working capital management, particularly for MSMEs and manufacturing enterprises.

Marginally positive credit outlook, contingent on implementation, improving liquidity, working capital efficiency and tax certainty.

From a credit perspective, reforms are projected to positively impact credit in the medium term, especially for exporters, manufacturers, MSMEs, and capital-intensive sectors through enhanced liquidity and lower working capital needs. Banks may experience stronger cash flows and fewer tax disputes, though benefits will differ by sector due to varying ITC exposure and implementation timelines. Long-term gains in corporate profitability and credit profiles hinge on effective execution and stable tax administration.

Table 7:
Sector-wise implications and credit outlook

Sector / stakeholder	Key transmission channel	Expected credit implication
Textiles, pharmaceuticals and chemicals	Improved ITC refunds under IDS	Positive - lower working capital blockage
Infrastructure and capital-intensive manufacturing	Refund of eligible capital-goods ITC	Positive over the medium term
Exporters	Faster refunds and wider zero-rating benefits	Positive - improved liquidity
MSMEs and e-commerce sellers	Simplified registration and compliance	Positive - improved formalisation and business scalability
Logistics and transportation	Reduced transit inspections	Positive - improved operational efficiency
Banks and NBFCs	Clarification of ITC treatment and improved borrower liquidity	Positive - lower tax-related uncertainty
Corporates with significant GST disputes	Higher prosecution threshold and lower penalties	Positive - reduced regulatory and litigation exposure

Source: BWR Research, Analytical assessment based on the GST Council's recommendations; the magnitude of the credit impact will vary by company and sector.

India-New Zealand free trade agreement

New market access to drive export opportunities, investment and trade integration

The agreement is in force; the hard part-implementation-begins now.

The India-New Zealand free trade agreement entered into force on 20 October 2026, immediately eliminating tariffs across all 8,284 New Zealand tariff lines for 100% of India's merchandise exports. In turn, India extended tariff concessions across 70.03% of its tariff lines, covering roughly 95% of New Zealand's current bilateral export value, with 57% receiving immediate duty-free entry on day one and the balance phasing in over up to ten years. To protect domestic producers, India excluded about 30% of tariff lines, including sensitive agricultural sectors like dairy, sugar, edible oils, and most meats, while offering selective tariff quotas, seasonal windows, and minimum entry pricing for apples, kiwifruit, and Manuka honey.

Beyond modest trade volume, the pact delivers major regulatory, industrial, and mobility gains.

While direct two-way merchandise trade sits at a modest baseline of roughly USD 1.16 billion in FY26, the strategic and non-tariff gains outweigh the immediate headline trade volume. Key structural advantages include New Zealand's regulatory recognition of pharmaceutical inspection approvals from authorities such as the US FDA, EMA, UK MHRA, and Health Canada, substantially lowering time-to-market and audit burdens for Indian drug and device makers. Concurrently, Indian domestic industries (such as construction, paper, steel, and recycling) benefit from reduced landed input costs via duty-free imports of New Zealand wood logs, coking coal, and metal scrap. On services and mobility, the pact establishes long-term channels through commitments across roughly 118 sub-sectors, 5,000 temporary-employment visas, 1,000 working-holiday slots annually, and uncapped student mobility with extended post-study work rights.

Immediate credit impact is negligible; long-term value depends on actual trade execution.

From a credit and macroeconomic outlook perspective, the immediate impact of the India–New Zealand agreement is negligible. Rather than driving instant sovereign growth, the pact serves primarily as a template for broader trade negotiations, such as those with the EU and Oman. Furthermore, given New Zealand's minimal historical FDI in India, the USD 20 billion investment target represents long-term optionality rather than guaranteed inflows. Ultimately, the treaty's value depends on private-sector utilization, rules-of-origin compliance, and expanding services and people-to-people trade toward the NZD 7 billion target under the 2030 Roadmap.

Table 8:
Five things that change on day one

1	**Tariffs flip to zero for India.** All 8,284 of New Zealand's tariff lines (100% of India's exports) become duty-free immediately. India opens ~70% of its tariff lines (~95% of bilateral import value), granting immediate zero-duty access to 57% of New Zealand's shipments on day one with the rest phasing in over up to ten years.
2	**Pharma clears a regulatory hurdle, not just a tariff.** New Zealand now accepts inspection approvals from the US FDA, EMA, UK MHRA and Health Canada, cutting duplicate audits and shortening time-to-market for Indian drug and device makers, worth more than the duty saved.
3	**Inputs get cheaper for domestic industry.** Zero duty on New Zealand wooden logs, coking coal and metal scrap lowers landed input costs for construction, paper, steel and recycling, a margin tailwind that is easy to overlook.
4	**Services and mobility open a long-dated channel.** Commitments across about 118 sub-sectors, 5,000 temporary-employment visas, 1,000 working-holiday places a year and uncapped student mobility with post-study work rights build a people-and-services pipeline that compounds slowly.
5	**Protections held, but new frictions appear.** Dairy, sugar, edible oils and most meat stay excluded; in exchange, New Zealand apples, kiwifruit and Manuka honey enter India under quotas with minimum prices and seasonal windows, and benefits now hinge on rules-of-origin compliance.

Source: BWR Research.

For deeper insights on the analysis, please refer to Brickwork Ratings report titled "India-New-Zealand Free Trade Agreement - October 2026" dated 23 October 2026, https://tinyurl.com/bdkpcfep

US sanctions on Russia: The Graham Act and India

The Graham sanctioning Russia and Iran act: An impact and sectoral assessment for India

US enacts the Lindsey O. Graham Sanctioning Russia and Iran Act to tighten pressure on Russia's energy revenues.

The Lindsey O. Graham Sanctioning Russia and Iran Act, signed on 18 September 2026, authorises tariffs of up to 100% on all goods from the five largest importers of Russian crude oil or natural gas that knowingly make fresh purchases from 18 October 2026. It also provides for duties of up to 500% on Russian goods and sanctions on Russia's energy sector, shadow fleet and financial institutions, and it replaces the 500% secondary tariff in the earlier 2025 bill with a lower ceiling.

High dependence on Russian crude leaves India exposed to latent, waiver-contingent tariff risk.

India's exposure to the Act is concentrated in crude oil. Russian crude accounted for about 45% of India's crude imports in August 2026, having exceeded half in July, which places India among the five largest importers likely to fall within the Act's covered set. Unlike natural gas, crude carries no exemption for modest or declining purchases. The executive waiver defers the tariff risk without removing it, as it remains open-ended and reversible, leaving import sourcing and bilateral trade negotiations subject to policy uncertainty. A forced realignment of sourcing would likely narrow import discounts and raise the import bill, with implications for the current account and refining margins. While active executive waivers keep near-term credit conditions stable for most exporters, Table 9 differentiates between immediate operating pressures in oil refining and latent, policy-contingent tariff risks across US-bound export sectors.

Table 9:
BWR sector impact monitor, Lindsey O. Graham sanctioning Russia and Iran act, 2026

Sector	What moved this month	Near-term impact	What we watch
Oil refining	Heavy reliance on discounted Russian crude; no crude exemption in the Act	**Negative**	Crude sourcing mix, import discounts, refining margins
US-exposed merchandise exporters *(Textiles, Gems & Jewellery, Engineering, Auto Components, Pharma, Electronics)*	Exposure to up to 100% US tariffs on all Indian goods if the executive waiver lapses and India is designated.	**▲▼ Watch / Waiver-Contingent**	Waiver status, United States Trade Representative (USTR) monitoring, US order flows, PLI-linked shipments.
Shipping & Marine Insurance	Shadow fleet and reflagged tanker curbs raise freight and insurance costs	**► Neutral**	Tanker freight rates, insurance premiums, rerouting
Banks	Sanctions on Russian financial institutions complicate settlement of Russia-linked trade	**► Neutral**	Rupee-ruble/third-country settlement channels, compliance costs, refiner credit exposure.

Note: Near-term impact covers the next three to six months and assumes the current US executive tariff waiver remains active; it reflects operating and credit conditions and is not a rating action. Reversal or non-renewal of the waiver would immediately shift export-oriented sectors to Negative. US Congress; Office of the United States Trade Representative (USTR); Ministry of Commerce and Industry; RBI; BWR Research.

Macro and credit risks from the Graham Act remain contained while the waiver holds.

With the tariff provisions waived, the Act's near-term macroeconomic impact is contained, though the open-ended waiver leaves a latent risk to the import bill, the current account and the rupee, should sourcing be forced to realign. From a credit perspective, the risk is concentrated in oil refiners, whose margins depend on discounted crude, and in thin-margin, US-dependent exporters, which would have limited capacity to absorb a tariff if the waiver lapses.

Credit rating implications

Growth resilience amid emerging risks: Assessing India's credit environment

Robust growth and credit expansion support creditworthiness, while inflation, tighter rates and external vulnerabilities pose emerging risks.

India's credit profile continues to be supported by robust economic growth, resilient domestic demand, healthy bank credit expansion and improving asset quality. However, the recent rise in food and headline inflation, tighter monetary policy, elevated government bond yields and external pressures from high crude oil prices and currency volatility warrant monitoring. The following indicators capture the key channels through which macroeconomic and financial-sector developments could influence sovereign and corporate creditworthiness over the near term.

Table 10:
Credit rating implications

Key indicator	Current trend	Near-term outlook	Credit rating implication
Real GDP growth	Real GDP grew 7.8% y-o-y in Q1 FY27, supported by manufacturing, services and domestic demand. IMF's FY27 growth projection is 7.0%.	Growth is expected to remain firm, although high energy costs, global trade uncertainty and tighter financial conditions may moderate momentum.	Strong growth supports revenue generation, debt-servicing capacity and fiscal receipts, strengthening sovereign and corporate credit profiles. Risks remain for externally exposed and cyclical sectors.
Industrial production	IIP grew 6.7% y-o-y in September 2026, easing from 7.8% in August. Manufacturing grew 7.6%, while mining contracted 6.2%.	Manufacturing and electricity generation should support output; mining weakness and input-cost pressures may keep the recovery uneven.	Healthy industrial activity supports capacity utilisation, cash flows and repayment ability across manufacturing-linked borrowers. Sectoral divergence warrants differentiated assessment.
Core sector output	Core industries grew 7.9% y-o-y in September; cumulative growth during April-September FY27 was 5.1%. Electricity, coal and refinery products were key contributors.	Infrastructure-led demand and power consumption are likely to support activity, while weak crude oil, natural gas and fertiliser output could constrain the overall mix.	Growth in steel, cement, electricity and refinery activity is supportive for infrastructure and industrial borrowers; input and production constraints may weigh on select sectors.
CPI inflation	Headline CPI inflation increased to 6.09% in October 2026 from 4.83% in August, (breaching the upper 6% tolerance limit).	Food and energy prices, geopolitical disruptions and pass-through of higher input costs may keep inflation elevated and limit monetary easing.	Persistent inflation could raise borrowing costs and operating expenses, pressuring margins and household purchasing power. A sustained moderation would support credit conditions.
Food inflation	Food inflation rose to 8.94% in October 2026 from 5.97% in August, with sharp increases in select items, including onion.	Food prices remain vulnerable to weather-related supply disruptions and seasonal volatility; a favourable harvest and improved supply could ease pressures.	Elevated food inflation can weaken discretionary consumption and increase working-capital needs for food processors and retailers, while affecting rural demand and borrower repayment capacity.
Repo rate	The RBI raised the policy repo rate by 25 bps to 5.50% in October 2026 and shifted its stance to calibrated tightening.	Further policy action will depend on the persistence of inflation, currency pressures and growth-inflation trade-offs. BWR expects a short cycle of repo rate increase.	Higher rates may increase borrowing and refinancing costs, particularly for highly leveraged and floating-rate borrowers. Banks could benefit from repricing, though asset quality and demand need monitoring.
System liquidity	Banking-system liquidity remained in surplus, although RBI operations and forex intervention have absorbed liquidity at times.	The surplus is expected to moderate as one-off foreign-currency inflows unwind and the RBI manages durable and frictional liquidity.	Adequate liquidity supports funding access and credit transmission. A sustained tightening could raise short-term funding costs and constrain liquidity-sensitive borrowers.

Key indicator	Current trend	Near-term outlook	Credit rating implication
G-sec Yields	The 10-year government security yield was approximately 7.3% on 3 November 2026, compared with 7.18% at end-September, reflecting upward pressure during October.	Yields may remain sensitive to inflation, government borrowing, global rates, crude prices and RBI liquidity operations.	Higher sovereign yields can raise benchmark borrowing costs for corporates and mark-to-market risks for lenders and investors, while increasing the government's interest burden over time.
Bank credit growth	Non-food bank credit grew 19.1% y-o-y as of 30 September 2026, with strong growth in agriculture and industry.	Credit demand is likely to remain supported by economic activity and working-capital requirements, though higher rates and deposit mobilisation costs may moderate growth.	Healthy credit growth supports investment and business expansion. Rapid growth should be assessed against underwriting standards, funding costs and sectoral concentration to avoid future asset-quality stress.
Asset quality (GNPA)	Scheduled commercial banks' GNPA ratio moderated to a multi-decadal low of 1.8% in March 2026, reflecting sustained improvement in banking-sector asset quality, as per the latest available data	Asset quality is expected to remain broadly stable, supported by recoveries and provisioning, although rapid credit growth and stress in select borrower segments require monitoring.	Low NPAs and strong provisioning support bank capital, profitability and credit supply. Any reversal in asset-quality trends could increase credit costs and weaken lenders' financial profiles.
Fiscal deficit	The Centre's fiscal deficit reached INR 7.14 trillion, or 42.1% of the FY27 budget target, during April-September 2026. The full-year target is 4.3% of GDP.	Revenue mobilisation and expenditure discipline will be important to meet the annual target, particularly as capital expenditure remains a policy priority.	Adherence to fiscal consolidation supports sovereign credibility and macro stability. Slippage could increase borrowing requirements, crowd out private investment and exert pressure on yields.
Debt-to-GDP	The Union Budget estimates central government debt and liabilities at INR 214.8 trillion at end-March 2027, up from INR 197.2 trillion a year earlier.	The debt burden is expected to remain high in absolute terms; sustained nominal growth and fiscal consolidation are key to improving the debt trajectory.	A credible medium-term reduction in the debt ratio would strengthen sovereign flexibility. High debt and interest payments continue to constrain fiscal space and shock-absorption capacity.
Current account deficit (CAD)	CAD stood at USD 4.2 billion, or 0.5% of GDP, in Q1 FY27, compared with 0.4% of GDP a year earlier. The merchandise trade deficit widened, partly offset by services receipts.	Elevated crude prices and merchandise imports may widen the deficit, while resilient services exports and remittances should provide a buffer.	A manageable CAD limits external financing vulnerability and supports sovereign stability. A sustained widening could increase dependence on capital inflows and expose the rupee to volatility.
Forex reserves	Foreign exchange reserves were USD 717.06 billion as of 30 October 2026, down from the early September peak of USD 785.7 billion.	Reserves may fluctuate with RBI intervention, capital flows and valuation changes; the stock remains a substantial external liquidity buffer.	Strong reserve cover supports external debt-servicing capacity and confidence. A persistent decline alongside wider external deficits could weaken the external credit assessment.
Indian rupee movement	The rupee closed at approximately INR 95.25 per US dollar on 30 October, weakening during the month as a temporary mid-October recovery reversed amid persistent trade imbalances, elevated crude oil prices, and FPI outflows, despite RBI interventions.	Currency movement will remain sensitive to oil prices, portfolio flows, dollar strength and RBI intervention.	A stable rupee limits imported inflation and foreign-currency debt-servicing pressures. Depreciation could affect unhedged borrowers and import-intensive sectors, while exporters may benefit.
Crude oil prices	Brent spot prices averaged USD 124.2/bbl in October 2026 before retreating to USD 90.16/bbl on 10 November 2026, amid Middle East disruptions and elevated shipping and supply risks.	Prices are likely to remain volatile; any easing in geopolitical disruption could soften prices, while renewed supply constraints pose upside risks.	High crude prices can widen the trade and current account deficits, raise fuel and logistics costs and pressure margins in oil-sensitive sectors. Upstream producers may benefit, subject to realisations and policy measures.

Source: Reserve Bank of India; MoSPI; PIB; Ministry of Finance, Government of India; Ministry of Commerce and Industry, Government of India; NSE; Economic Times; The Times of India; BWR Research. Data reflect the latest releases available as of 12 November 2026; where October data are not yet published, the latest available observation is used.

Sectoral impact

Inflation, high rates, and currency pressure squeeze import-sensitive sectors, while capex and FTAs boost industrials.

Macroeconomic shifts indicate a divergent sectoral credit outlook over the next three to six months. Despite Brent crude easing to USD 90–98/bbl, geopolitical tensions, shipping disruptions, and rupee depreciation (INR 95.2/USD) keep input and working-capital costs elevated for chemicals, fertilisers, shipping, and aviation, while modestly relieving oil marketing companies. Domestically, 6.09% retail inflation, a 5.50% repo rate, and 7.3% G-sec yields dampen rural spending, discretionary demand, and funding spreads for NBFCs and real estate. Conversely, public infrastructure spending supports capital goods and construction, while duty-free inputs from the India-New Zealand FTA benefit steel, paper, and recycling, offsetting US tariff risks.

Table 11:
BWR sector impact monitor, October 2026

Sector	Primary driver	Q2 FY27 / October 2026 developments	Near-term impact	What we watch
Capital goods, electricals & infrastructure	Public capex & core output	Strong public infrastructure execution, 11.9% Q1 GFCF growth, and 7.9% September core-sector output bolster order books.	▲ Positive	Government capex execution, private order inflows, capacity utilisation, payment cycles.
Construction, steel, paper & recycling	India–NZ FTA & domestic capex	Duty-free access to NZ wood logs, coking coal, and metal scrap (effective 20 Oct 2026) lowers landed input costs alongside steady domestic demand.	▲ Positive	FTA import utilisation, rules-of-origin compliance, landed input savings, project execution.
Oil marketing & aviation	Crude volatility & FX	Brent averaged USD 124.2/bbl in Oct before easing to USD 90.16/bbl by 10 Nov; retail fuel price freezes, Nov ATF hikes, and INR weakness (~95.25/USD) weigh on margins.	► Neutral	Retail fuel-price adjustments, marketing under-recoveries, refining & ATF margins.
Banks	Rates & liquidity	Non-food credit grew 19.1% YoY (end-Sep); surplus liquidity is moderating as one-off FCNR(B) inflows unwind and RBI FX interventions absorb rupee liquidity.	► Neutral	Deposit mobilisation & pricing, incremental CD ratio, unsecured retail asset quality.
Automobiles & consumer discretionary	Rates & food inflation	Festive-season activity supports near-term volumes, but higher lending rates, 8.94% food inflation, and the fading base effect of last year's GST 2.0 auto rate cuts temper financed demand.	► Neutral	Retail vehicle registrations, rural two-wheeler demand, auto-loan rates, dealer inventory.
Textiles, gems, engineering & auto components	US sanctions & GST reforms	Latent risk of up to 100% US tariffs if the Graham Act waiver lapses; partially cushioned by faster 90% automated GST refunds for exporters.	◆ Watch / Contingent	US waiver status, USTR reviews, US order flows, GST refund turnaround times.
Pharmaceuticals & electronics	US policy watch, PLI & India–NZ FTA	Exposed to US tariff-waiver uncertainty, but NZ FTA regulatory recognition (US FDA/EMA/MHRA) and zero-duty access create selective export upside.	◆ Watch / Contingent	US tariff treatment, US generics pricing, NZ regulatory approvals, PLI export orders.
Shipping & marine insurance	Geopolitics & sanctions	West Asian supply-route disruptions and Graham Act shadow-fleet curbs drive freight volatility, higher insurance premiums, and rerouting delays.	▼ Negative	Tanker freight rates, marine insurance premiums, Red Sea/Hormuz route stability.
Chemicals, fertilisers & paints	Wholesale inflation & crude	The 620-bps WPI–CPI wedge (12.29% WPI) and high feedstock/energy costs squeeze margins; uneven fertiliser output partially offset by 57th GST Council IDS refunds	▼ Negative	Imported feedstock & energy costs, pricing pass-through, fertiliser subsidy releases.
NBFCs, housing finance & real estate	Monetary tightening	Repo hike to 5.50%, ~7.3% 10-year G-sec yields, and expectations of a 25-bps Dec hike widen wholesale funding spreads and pressure affordability.	▼ Negative	CP/NCD funding spreads, ALM buffers, housing sales velocity, borrower repayment trends.

Note: Near-term impact covers the next three to six months and reflects operating and credit conditions; it is not a rating action. Sector assessments are based on developments discussed in this report. Export-oriented sectors remain under Watch/Contingent assuming the US executive tariff waiver under the Graham Act stays active (see Table 9, Section 06). Source: MoSPI; Ministry of Commerce and Industry; RBI; Ministry of Finance; BWR Research.

Outlook: the BWR view

BWR expects 7.0% growth, CPI near 6% in Q3 and a repo peak of 5.75%.

BWR expects India's real GDP growth of approximately 7.0% in FY27, supported by domestic demand, investment and services, although quarterly growth is likely to moderate from the 7.8% recorded in Q1 as higher borrowing costs and food and energy prices weigh on consumption. CPI inflation is projected to average 5.2%, with a peak of about 6.0% in Q3 before falling to 5.7% in Q4, influenced by food-price normalization and global commodity prices. Following a rise to 5.50%, the RBI may increase the repo rate to approximately 5.75%. The external economic position will be sensitive to crude prices and capital flows, but strong services exports and foreign-exchange reserves offer some protection. Implications for various stakeholders are detailed in Table 13.

Table 12:
BWR forecasts for FY27 against the RBI and official targets

Indicator	Latest	BWR FY27	RBI / official	Risk to BWR view
Real GDP growth (%)	7.8 (Q1)	**7.0**	7.1	▼ Downside
CPI inflation, FY27 average (%)	6.09 (Oct)	**5.2**	5.2	▲ Upside
Repo rate, end-March 2027 (%)	5.50	**5.75**	n.a.	▲ Upside
10-year G-sec yield (%)	Approximately 7.3 (3 Nov)	**7.2-7.5**	n.a.	▲ Upside
INR per USD	Approximately 95.25 (30 Oct)	**92.5-97**	n.a.	▼ Weaker
Current account deficit (% of GDP)	0.5 (Q1 FY27)	**1.2-1.5**	n.a.	▲ Wider
Fiscal deficit (% of GDP)	42.1% of FY27 target (Apr-Sep)	**4.3-4.4**	4.3 (budget)	▲ Wider
Bank credit growth (% YoY)	19.4 (30 Sep)	**16-17**	n.a.	► Balanced
Brent, October 2026-March 2027 average (USD/bbl)	124.2 (Oct avg.) / 90.16 (10 Nov)	**90-100**	n.a.	▲ Upside

Note: BWR views reflect the forecasts and assessments presented in this report. Latest observations are based on the data available up to 12 November 2026; where October data are not yet available, the latest published observation is used. Risk denotes the principal direction of risk to the BWR view. Source: RBI; MoSPI; Ministry of Finance; BWR Research.

Table 13:
What BWR outlook means for each audience

Audience	What matters and what to do now
Banks	Manage liquidity normalisation as the USD 133 billion diaspora swap inflows unwind and RBI's ~USD 68.7 billion forex reserve drawdown from the September peak tightens rupee liquidity; defend current account and savings account (CASA) franchises against rising deposit costs and stress-test unsecured retail and rate-sensitive loan books amid higher lending rates[6]
NBFCs and housing finance companies	Diversify borrowing away from wholesale market funding as higher repo rates and sovereign yields widen funding spreads; tighten ALM buffers and recalibrate underwriting for affordable housing and rural borrowers hit by higher food inflation and elevated EMIs.
Bond investors	Position cautiously on duration as West Asia tensions, elevated crude prices, and RBI dollar sales keep domestic liquidity tight and yields elevated; closely track 8.94% food inflation and H2 borrowing calendars for rate-cut timing delays.
Equity investors	Overweight domestic capex and infrastructure plays backed by 5.0–6.0% core sector growth and public capex; underweight import-heavy, energy-intensive, and rural FMCG firms vulnerable to crude/freight spikes and higher food inflation, as well as traditional IT firms facing AI-led hiring/revenue restructuring.
Corporates and importers	Hedge unhedged FX payables amid rupee depreciation pressures and volatile USD 700–740 billion forex reserves; lock in working-capital limits to absorb higher crude, freight, and imported feedstock costs, while mid-sized firms can tap AIF equity under the INR 100 billion SME Growth Fund to deleverage.

[6] Reserve Bank of India (RBI) — RBI Monthly Bulletin (October 2026) & FCNR(B) special forex swap facility data (launched June 8, 2026; closed Aug 31, 2026).

Audience	What matters and what to do now
Exporters	Build on the Q2 FY27 record USD 243.6 billion export momentum by diversifying beyond markets exposed to US tariff uncertainty; actively operationalise duty-free tariff lines and rules-of-origin compliance under the New Zealand FTA and other bilateral pacts [7]
Policymakers	Protect public infrastructure capex (which is anchoring approximately 7% GDP and 5–6% core growth) while containing supply-side food inflation and energy pass-through; expedite empanelment of Daughter Funds to deploy the INR 100 billion SME Growth Fund into Tier-II/III manufacturing.[8]
Media and journalists	Track the interplay between RBI's FX intervention (USD 68.7 billion drawdown) and domestic liquidity, the divergence between AI/ML hiring and traditional IT layoffs, and how 8.94% food inflation and crude prices transmit into corporate margins and rural demand.[9]

Source: BWR Research

The balance of risks will depend heavily on crude prices, food inflation and the durability of domestic demand.

An easing of geopolitical tensions and shipping disruptions could lower crude and freight costs, moderate imported inflation and ease pressure on the current account and corporate margins. A favourable harvest, steady infrastructure execution and sustained services exports would further support the growth outlook. Conversely, a prolonged period of elevated crude prices or renewed supply disruptions could widen the trade and current account deficits, intensify currency volatility and keep inflation and bond yields higher for longer. This would increase funding and working-capital requirements, particularly for import-dependent, highly leveraged and rate-sensitive borrowers, while potentially constraining discretionary consumption. The key test for the base case is whether domestic investment and services activity can offset these external and cost-side pressures without a material deterioration in corporate cash flows or asset quality.

Table 14:
What to watch before the next edition

Date	Release or event	Key monitorables
27-Nov-26	GDP Outturn (Q2 FY27 - July to September)	Official MoSPI release verifying whether gross fixed capital formation and services sustained BWR's projected ~7.0% quarterly growth baseline.
02–04 Dec 2026	RBI Monetary Policy Committee (MPC) meeting	Decision on a potential final 25-bps repo hike to 5.75% under the "calibrated tightening" stance following October's 6.09% CPI breach, alongside updated inflation and growth projections.
08–09 Dec 2026	US Federal Reserve (FOMC) meeting	Interest rate decision and updated Summary of Economic Projections (dot plot) to gauge US yield differentials, capital flows, and INR/USD stability.
14–15 Dec 2026	CPI, WPI & Merchandise/Services trade (November 2026)	Signs of food-price moderation from winter harvest arrivals, wholesale input-cost pass-through, and the impact of lower November crude prices on the trade deficit.
31-Dec-26	Current Account Deficit / Balance of Payments (Q2 FY27)	RBI release assessing the widening merchandise trade gap, services surplus buffer, and capital-account flows during Q2 FY27.
07-Jan-27	First Advance Estimates of FY27 GDP	MoSPI's official full-year real and nominal GDP growth estimates ahead of the Union Budget exercise.
12–15 Jan 2027	CPI, WPI, IIP and Trade data (December 2026 / November IIP)	Year-end inflation trajectory toward Q4 FY27 moderation targets, post-festive industrial output, and Q3 external trade balance.
26–27 Jan 2027	US Federal Reserve (FOMC) Meeting	First US policy decision of 2027 and guidance on rate trajectory amid global growth and energy price trends.
29–31 Jan 2027	Economic Survey 2026–27	Government's official macroeconomic review, medium-term growth outlook, and structural policy priorities ahead of the Budget.
01-Feb-27	Union Budget 2027–28	FY28 fiscal consolidation roadmap, public capital expenditure allocation, borrowing calendar, and sector-specific tax or credit measures.
03–05 Feb 2027	RBI Monetary Policy Committee (MPC) meeting	Policy rate decision (assessing whether the RBI holds at 5.75% or pauses), liquidity management stance, and initial FY28 growth and inflation projections.

Source: RBI; MoSPI; Ministry of commerce and industry, India; Federal Reserve; BWR Research.

[7] Ministry of Commerce & Industry (DGCI&S) & RBI (services trade estimates) — India's Foreign Trade Press Release for September / Q2 FY27.

[8] Reserve Bank of India (RBI) — Weekly Statistical Supplement (WSS) for historical reserve figures; BWR Research for the FY27 projection range.

National Statistical Office (NSO), Ministry of Statistics and Programme Implementation (MoSPI) — Consumer Food Price Index (CFPI) Press Release for September 2026 (published Oct 12, 2026 via PIB). (Note: MoSPI released October 2026 data on Nov 12, 2026 showing food inflation rose further to 8.94%—you may optionally update 7.74% to 8.94% if your inflation chapter is also being updated).

[9] Reserve Bank of India (RBI) - Weekly Statistical Supplement (WSS) for historical reserve figures; BWR Research for the FY27 projection range.

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