

# From resilience to recalibration: balancing growth amid global volatility

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Brickwork Research  
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# Executive summary

Real GDP growth for FY26 pegged at 7.4%, driven by firm demand, services, and sustained capex.

Benign inflation and stable rates strengthen corporate cash flows and credit outlook.

Manufacturing, services, and infra output signal sustained growth outlook.

India's trade softens sequentially amid a manageable deficit and rupee volatility

Softening crude, surging metals, resilient equities highlight balanced macro stability.

Davos spotlights India as global growth engine and a beneficiary of supply-chain diversification.

India–EU FTA signals structural shift in trade strategy; opens long-term growth opportunities across sectors

India–US trade pact slashes reciprocal tariffs to 18%

India's strong fundamentals and stable outlook anchor confidence, supporting credit quality across sectors.

India's macroeconomic momentum through Q3FY26 remained robust, supported by firm domestic demand, favourable inflation dynamics, and policy continuity, even as global uncertainties and geopolitical risks persisted. The National Statistical Office's first advance estimates peg real GDP growth at 7.4% in FY26, highlighting the economy's sustained expansion. Looking ahead, FY27 growth is projected in the 6.8–7.2% range, driven by consumption, infrastructure-led capex, and trade gains, though moderated by fiscal and external sector risks.

India's retail inflation followed a controlled disinflationary path, hitting a record low of 0.25% in October before rising to 1.33% in December, with core CPI at 4.6%. FY26 inflation is estimated at 2.1% within RBI's band, aided by benign commodities and oil prices, while FY27 may edge up to 4–5%. This stability strengthens sovereign credit profiles and corporate cash flows. The RBI maintained the repo rate at 5.25% in February 2026, signalling policy continuity.

Manufacturing and services PMIs stayed firmly expansionary in Oct–Dec 2025, averaging 56–58 and 58–60 respectively, supported by resilient demand and steady output. Industrial production strengthened, with IIP growth averaging 5–6% year-on-year, led by manufacturing and a gradual mining recovery. Core sector output expanded 7–8%, driven by steel, cement, coal, and refinery products. Together, these indicators signal robust industrial momentum, with near-term growth expected to remain positive, aided by government spending and improving capacity utilisation.

India's exports and imports moderated sequentially, with the trade deficit remaining manageable amid stable non-oil exports and softer commodity prices. Forex reserves strengthened between October 2025 and January 2026 (averaged around USD 660–724 billion during the quarter), providing a strong external buffer. The Indian rupee crossed the 92 per USD mark, pressured by persistent portfolio outflows, trade-related headwinds and a strong US dollar. Henceforth, the rupee is expected to remain volatile but broadly range-bound, supported by adequate reserves and the RBI's active liquidity and Forex management.

Brent crude prices softened through Oct–Dec 2025, averaging USD 63 before slipping to USD 61.3, then firmed modestly to USD 65–67 in January 2026. Gold and silver surged to historic highs on global risk aversion and currency dynamics, while copper hit multi-year peaks. Equity markets stayed volatile yet resilient, supported by domestic liquidity, earnings visibility, and improving macro stability.

At Davos 2026, global discussions reinforced India's role as a key growth engine and manufacturing hub. India was highlighted as a major beneficiary of supply-chain diversification, with its industrial base and resilient demand offering stability amid global uncertainty. Softer crude, strong precious metals, equity resilience, and India's rising global stature together signal a recalibration toward balanced growth and external stability.

The India-EU free trade agreement (FTA) marks a structural shift in India's external trade strategy, signalling deeper integration with advanced economies, diversification beyond traditional markets, and long-term opportunities across manufacturing, services, and green technologies.

India and the US announced a landmark interim trade deal in early February 2026, slashing reciprocal tariffs on Indian goods from 25% to 18% and eliminating punitive 25% levies imposed over Russian oil purchases. The pact targets USD 500 billion in bilateral trade by 2030, with India reducing tariffs on US industrial goods, agriculture (such as nuts, sorghum, soybean oil), and opening tech flows, including GPUs.

India enters the remainder of FY26 with solidified macro fundamentals, a balanced inflation-growth outlook, and strong external buffers. Despite global uncertainties and commodity price shifts, the medium-term outlook remains stable. This stability continues to anchor business confidence and support steady credit quality across all sectors.

# Macroeconomic trend and outlook

Real GDP estimated to expand by 7.4% in FY26.

Domestic demand anchors growth amid global headwinds.

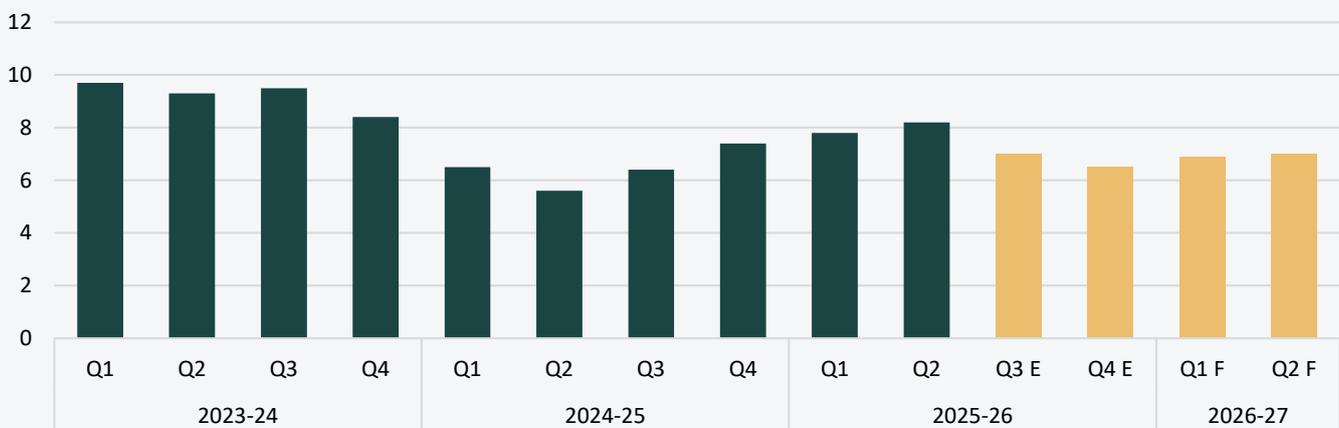
## India's real GDP estimated at 7.4% in FY26

The NSO's first advance estimates project real GDP growth at 7.4% and nominal GDP at 8.0%, underscoring a phase of sustainable expansion anchored in resilient domestic demand and coordinated policy support. This trajectory highlights India's divergence from global headwinds, pointing to a robust medium-term growth path reinforced by firm fixed capital formation and policy continuity.

At the core of these estimates lies private consumption, which remains the primary growth engine, supported by rising real disposable incomes that shield the economy from external pressures. Public capital expenditure amplifies this momentum, generating multiplier effects that enhance capacity utilization and crowd-in private investment. Together, resilient demand and policy-driven investment provide India with a structurally stronger footing, anchoring growth despite global volatility.

Figure 1

India's real GDP growth (%), YoY



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

FY27 real GDP growth 6.8–7.2%: domestic demand, capex, trade gains vs. global, fiscal risks

India's real GDP growth in FY27 is forecast in the upper range of 6.8–7.2%, sustaining its position as the fastest-growing major economy. Growth will be driven by resilient domestic consumption, strong infrastructure capex, and a revival in private investment. Recent trade agreements, including the India-EU FTA and the U.S. tariff cut on Indian goods to 18% from 50%, are expected to provide a significant boost to exports and manufacturing competitiveness. Key downside risks include global trade tensions, fiscal pressures from tax revenue shortfalls, and volatile capital flows, which could temper momentum if not managed effectively.

Strong growth reinforces sovereign credit profile.

From a credit rating perspective, India's growth estimates for the current and next financial year remain supportive of its sovereign profile. Projected real GDP expansion strengthens debt sustainability by improving the debt-to-GDP ratio and enhancing revenue buoyancy, thereby providing greater fiscal space to manage deficits. This resilience reinforces India's position as an outperformer among emerging markets, signalling both macroeconomic stability and credibility for the global investors.

Retail inflation rebounded from record lows, staying below RBI's tolerance band.

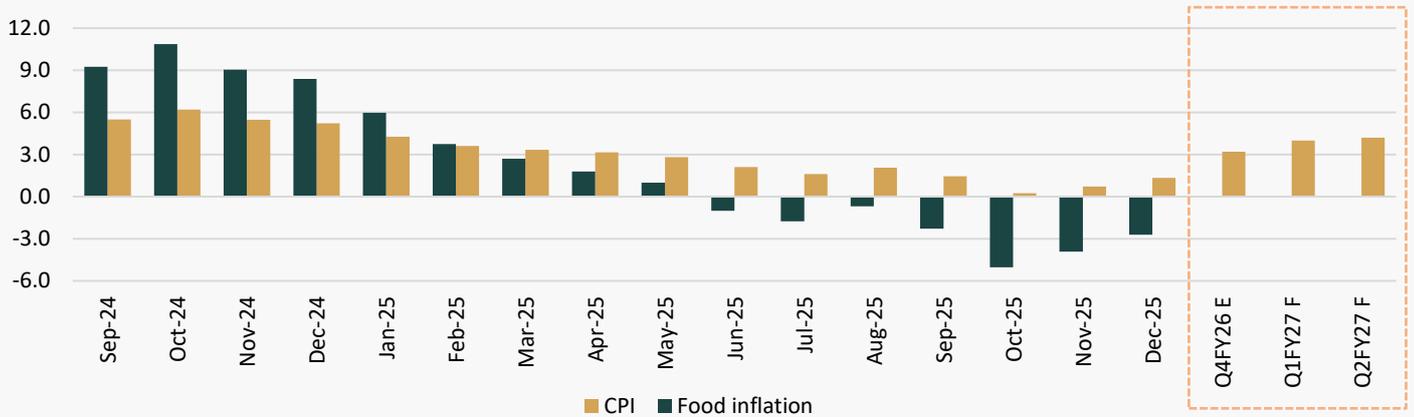
## A stable inflation path supporting growth and credit strength

India's retail inflation in the last quarter reflected a controlled disinflationary trajectory, moving from historic lows toward a modest recovery while staying below the RBI's tolerance band. October marked a record low of 0.25%, driven by food deflation and GST cuts that sharply reduced consumer costs, fueling expectations of policy easing. Inflation edged up to 0.71% in November as housing and services showed early signs of demand revival. By December, headline inflation rose further to 1.33%, supported by festive spending and stabilizing commodity prices, with core CPI strengthening to 4.62%. Food prices stayed soft but less deflationary, allowing discretionary categories to exert mild upward pressure.

# Macroeconomic trend and outlook

Figure 2

Retail inflation (%), YoY



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

Inflation is estimated at 2.1% in FY26, at the lower end of the RBI's target band, aided by base effects and benign commodity trends.

FY27 CPI to edge up to 4–5%, staying within RBI's target band.

Stable inflation strengthens sovereign credit profile.

RBI signals policy continuity amid stable growth and easing inflation.

Inflation is projected to stabilise near 2.1% in FY26, anchoring within the RBI's target band thanks to favourable base effects and subdued global commodity prices. This disinflationary trend is fortified by benign oil prices and improved supply-side management, though food prices remain a primary volatility risk. The observed disinflationary trend has served as a macroeconomic stabiliser, enhancing real household income and neutralising imported inflation. This benign inflation environment allowed the RBI to pivot toward an accommodative stance, cutting the repo rate to 5.25%.

India's CPI inflation outlook for FY27 points to a modest rise to around 4-5% in early quarters, stabilising within the RBI's 2-6% target band. This uptick stems from waning base effects, alongside lingering volatility in food prices despite improved supply chains. Benign global commodity trends, including stable oil, continue to anchor headline pressures, while core inflation remains subdued. Upside risks from precious metals and potential trade disruptions could challenge stability, but robust domestic buffers support a neutral trajectory overall.

From a credit-rating perspective, low and stable inflation fortified India's macroeconomic stability, enhancing cash flow predictability for sovereign and corporate borrowers. The RBI's adept management of a moderate trajectory improved policy flexibility and eased debt-servicing costs through accommodative rates. This growth inflation balance, evidenced by upgraded IMF FY26 GDP forecasts, has strengthened sovereign risk profiles and corporate credit quality in credit assessments.

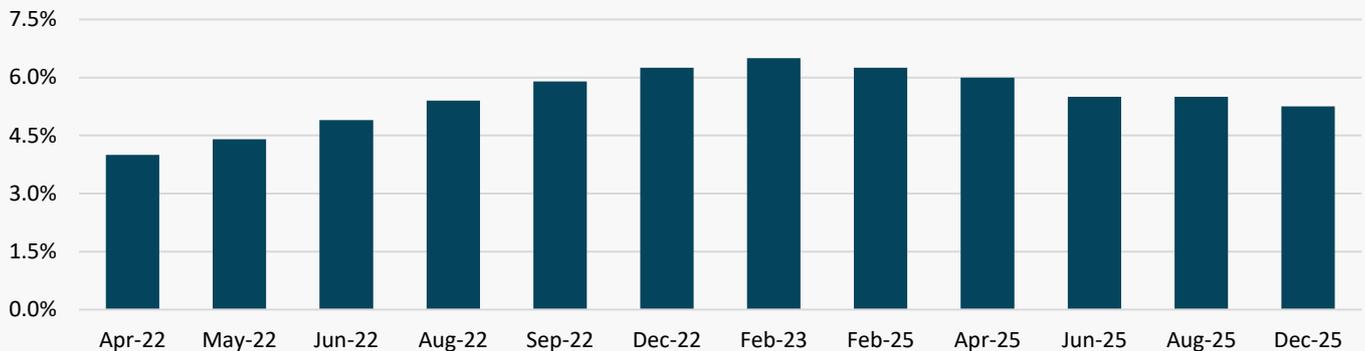
## RBI holds repo rate at 5.25% and maintains neutral stance

The RBI, in its Monetary Policy Committee (MPC) meeting in February 2026, maintained a status quo on policy rates, opting for continuity over pre-emptive easing. By holding the repo rate steady at 5.25% and Marginal Standing Facility (MSF) at 5.50%, while maintaining a neutral stance, the RBI prioritised macroeconomic stability and the durable anchoring of inflation expectations.

# Macroeconomic trend and outlook

Figure 3

RBI repo rate trend



Source: Reserve Bank of India.

RBI's February 2026 MPC highlights global geopolitical tensions as one of the key risks.

The MPC identified geopolitical tensions, volatile oil/commodity prices, and capital flow volatility as primary threats to inflation and growth. Energy spikes and weather could push FY26 inflation and FY27 early quarters higher, despite stable core trends. These external risks justify the neutral stance at 5.25% repo rate, preserving policy flexibility amid robust domestic buffers that partially offset pass-through to food and trade.

Policy trajectory hinges on inflation durability and growth sustainability.

The MPC's policy trajectory hinges on two critical variables: 1) the durability of disinflation, and 2) the sustainability of growth momentum. A clearer and sustained alignment of inflation towards the 4% target, particularly with reduced food price volatility, would be a necessary precondition for any shift in stance. Conversely, any resurgence in inflationary pressures could prolong the current pause.

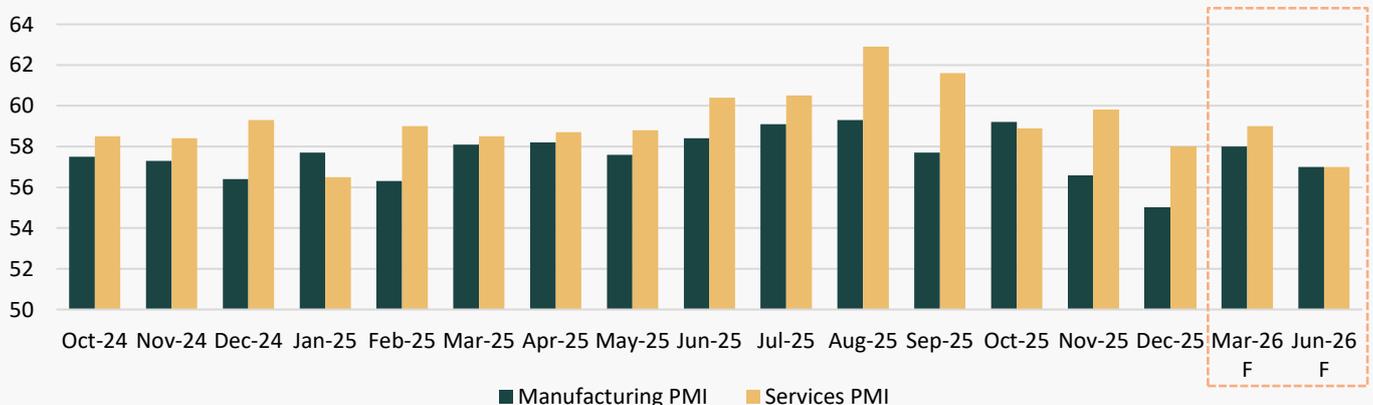
## Purchasing Managers' Index (PMI): Manufacturing peaks, services steer through last quarter divergence

India's PMI trends signal resilient growth: Manufacturing strength offsets services normalisation, anchoring GDP momentum

India's PMI in late 2025 showed manufacturing peaking at 59.2 in October 2025 before easing to 55.0 in December 2025 while services stayed resilient, moderating from 58.9 to 58.0, keeping the Composite PMI at 57.8 with services anchoring growth. Despite this cooling, both sectors remain comfortably in expansionary territory, with services acting as the primary macroeconomic anchor.

Figure 4

India manufacturing and services PMI



Source: HSBC; Trading Economics. F- Forecast

# Macroeconomic trend and outlook

Sectoral divergence is expected to narrow gradually.

India's PMI showed a sectoral divergence with moderating manufacturing amid softer output and slower capex, while resilient services sustained consumption, jobs, and credit transmission. This divergence is expected to narrow as financial conditions ease, credit transmission improves, and government-led capital expenditure gains traction, boosting the manufacturing activity. At the same time, services are likely to remain resilient, supported by urban consumption, digitalisation, and expanding service exports.

Manufacturing recovery hinges on global stability.

The services PMI is projected to hover around 59.0, buoyed by digital exports and domestic resilience, potentially lifting composites toward 58 in early FY27. Manufacturing faces a tougher path, forecasted around 55-58 amid US tariff uncertainties and global demand volatility, but policy tailwinds could spark a mid-year rebound.

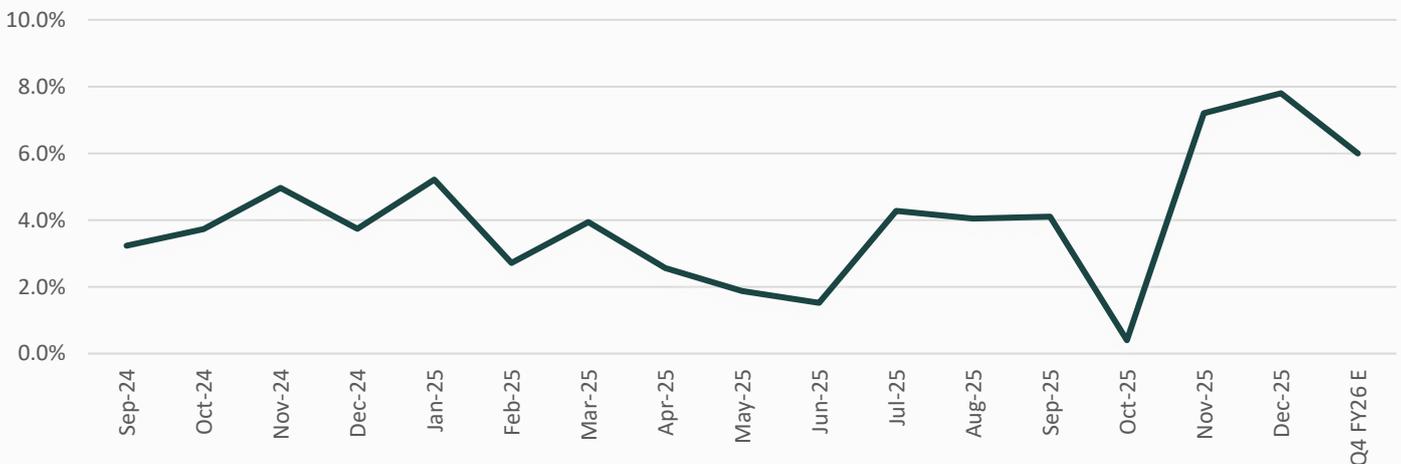
## India's industrial production regains momentum; Manufacturing-led recovery drives industrial output to multi-year highs

From festival-hit slowdown to recovery in motion: India's industrial resilience takes shape; manufacturing, mining, and electricity lead industrial revival

India's industrial production followed a V-shaped recovery in Q3 FY26, overcoming a sharp October 2025 slowdown where IIP growth dipped to 0.4% due to transitory seasonal factors. The sector rebounded to 7.2% in November 2025, led by capital goods demand and manufacturing normalization. By December 2025, the expansion culminated in a 7.8% surge a two-year high reflecting broad-based growth across manufacturing, mining, and electricity. This cyclical upturn, reinforced by structural reforms and robust domestic absorption, signals a transition toward a more sustainable and balanced industrial upcycle.

Figure 5

Index of industrial production (IIP), YoY



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

Structural resilience underpins industrial and economic growth.

This trajectory underscores structural resilience via policy tailwinds like PLI schemes, GST rationalisation, and logistics reforms; firming domestic demand offsetting US tariffs/global headwinds. Balanced recovery across capital goods, durables, and intermediates, and sustained GDP momentum complemented by exports, services, and core infra growth.

Steady momentum ahead: Industrial growth poised for sustainable expansion in 2026

The 2026 industrial trajectory remains cautiously constructive, with strong December momentum expected to drive continued expansion. While growth may naturally moderate as festive demand normalizes and base effects inflate, resilient domestic consumption and sustained infrastructure spending provide a solid buffer against external risks. Structural reforms like GST rationalisation and enhanced IIP data transparency will further sharpen policy calibration and business decision-making.

# Macroeconomic trend and outlook

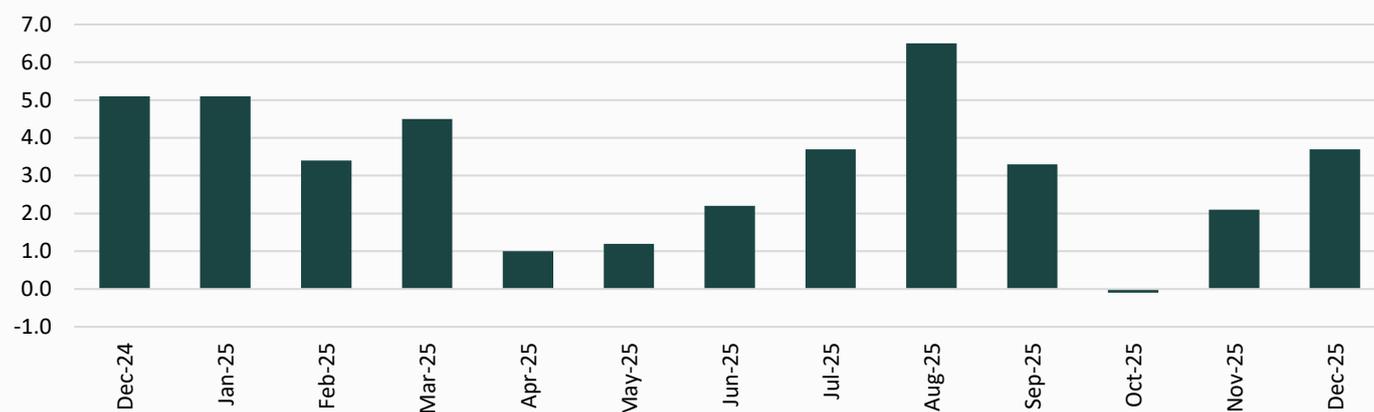
## Core sectors: Construction led recovery amid energy stagnation

Core sector shifts from stagnation to recovery.

India's core sector maintained consistent momentum in Q3 FY26, quickly navigating a minor 0.1% contraction in October to achieve a 1.8% expansion by November. This trajectory strengthened into a 3.7% peak in December, driven by high-performance gains in steel, cement, and coal. This steady growth now serves as a vital multiplier effect for the broader manufacturing and mining industries heading into 2026.

Figure 6

Core sector growth rates (%), YoY



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

Core sector revival spurs broader industrial growth

The revival in core sector output has catalysed broader industrial activity, optimizing capacity utilization and operating leverage. Robust steel and cement gains signal a capex recovery, with manufacturing projected to exceed 8%.<sup>1</sup> However, persistent energy output gaps highlight structural import dependency and exposure to global volatility. This sectoral divergence underscores that while manufacturing has gained a firm footing, long-term stability hinges on addressing energy security to insulate domestic growth.

Core sector outlook remains cautiously constructive

Looking ahead, the outlook for the core sector remains cautiously constructive: growth may moderate marginally due to base effects and demand normalisation, but sustained infrastructure spending, resilient domestic consumption and improving data transparency are expected to anchor the core industries as a stabilising force for India's industrial growth as the economy moves deeper into 2026.

Table 1

Sector-wise output growth

| Sector             | Dec-25 Y-o-Y growth | Nov-25 Y-o-Y growth | Oct-25 Y-o-Y growth | Cumulative Apr–Dec FY26 |
|--------------------|---------------------|---------------------|---------------------|-------------------------|
| Steel              | +6.9                | +6.7                | +5.9                | +9.5                    |
| Coal               | +3.6                | +2.1                | -8.5                | -0.7                    |
| Cement             | +13.5               | +14.6               | +5.2                | +8.8                    |
| Fertilizers        | +4.1                | +5.6                | +7.4                | +1.7                    |
| Electricity        | +5.3                | -1.5                | -6.9                | +0.3                    |
| Petroleum refinery | -1.0                | -0.9                | +4.6                | +0.1                    |
| Crude oil          | -5.6                | -3.2                | -1.2                | -1.9                    |
| Natural gas        | -4.4                | -2.5                | -5.0                | -3.2                    |

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

<sup>1</sup>Minister of Commerce and Industry, Government of India

# Macroeconomic trend and outlook

## India's trade deficit deepens amid global headwinds

Trade deficit widens sharply on festive imports and global price pressures.

India's quarterly trade performance reflected a widening imbalance, though with some areas of resilience. October 2025 marked a sharp setback, as weak global demand and tariff hikes drove an unprecedented USD 41.7 billion trade deficit. November brought partial relief, with softer commodity prices narrowing the gap, while December highlighted a fragile balance as rising imports outpaced the services surplus. Overall, the quarter reflected the push-and-pull between strong domestic demand and external pressures, leaving the outlook caught between structural challenges and scope for adjustment.

Figure 7

Exports, imports and trade balance in USD billion



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

### Widening trade deficit spurred rupee (INR) volatility

A widening trade deficit has heightened rupee (INR) volatility, underscoring India's structural exposure to commodity cycles. In response to tariff shocks, policymakers have pivoted strategically toward Asian and African markets, leveraging services exports as a key countercyclical buffer. Over the long term, external stability will hinge on sustained market diversification to rebalance the trade account against global headwinds.

### Export diversification supports external sector stability

India's external trade outlook pivots on a multi-pronged strategy to sustain export momentum through deeper penetration into non-traditional markets like China. The historic India-EU FTA serves as a strategic catalyst, dismantling barriers to recalibrate trade balances in India's favour. Domestically, import substitution via "Make in India" and energy diversification aim to narrow the current account deficit over the medium term. While these structural shifts strengthen resilience, the trajectory demands continued vigilance against geopolitical frictions and global demand volatility.

### India's forex reserves navigate volatility and recovery; rebound to USD 724 billion

## India's forex reserves hover near USD 700 billion, slip on currency asset weakness

India's forex reserves maintained a resilient trajectory throughout Q3 FY26, navigating a minor dip in October 2025 before embarking on a sustained climb. Following this brief pressure, reserves strengthened through November and December 2025, eventually surging by over USD 27 billion to exceed USD 724 billion by mid-January 2026. This growth, underpinned by gains in currency assets and gold, underscores a period of robust external stability and healthy capital inflows.

# Macroeconomic trend and outlook

Figure 8

Forex reserves in USD billion



Source: Reserve Bank of India. E- Estimate

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

## India's reserves expected to stay above USD 700 billion

India's forex reserves are projected to stabilize above USD 700 billion, serving as a formidable liquidity buffer against external shocks. While RBI interventions to curb rupee volatility may cause periodic drawdowns, structural drivers like resilient remittances and services exports provide a significant offset. Diversification into assets like gold further bolsters sovereign creditworthiness despite a wide merchandise trade deficit. Ultimately, this robust position secures macro-fiscal stability, allowing for judicious defence against exchange-rate fluctuations.

## Rupee weakens past 90/USD on persistent outflows and trade headwinds - extending depreciation as foreign selling and global dollar strength pressured the INR

### Indian rupee (INR) slips to 92-mark; Over USD 700 billion reserves to curb persistent volatility

The Indian rupee faced persistent pressure from October 2025 to January 2026, dropping to INR 85.50 and INR 86.20 due to trade deficits and U.S. tariffs. High dollar demand pushed it to INR 87.80 in December, eventually crossing INR 92 by early January. To manage this, the RBI used its USD 700 billion reserves to maintain economic balance, providing a competitive edge for exporters despite higher import costs.

Figure 9

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



Source: Reserve Bank of India.

# Macroeconomic trend and outlook

India's exports projected to reach USD 850 billion

According to India's Commerce Ministry's projection, India's overall exports-merchandise and services combined- will touch USD 850 billion<sup>2</sup> by the end of FY26. This ambitious target reflects resilience in services exports and selective strength in sectors like electronics, engineering goods, and pharmaceuticals, even as global headwinds weigh on traditional merchandise flows. A stronger export performance provides a natural cushion for the rupee, helping offset pressures from high import costs and volatile capital flows.

Rupee expected to trade between 90–93 per USD

Looking into late FY26 and FY27, the rupee may trade between 90–93 per USD, supported by EU/UK FTAs, forex buffers above USD 700 billion, and RBI guidance. Risks from U.S. tariffs, oil volatility, and global rate shifts may cause temporary depreciation, but calibrated RBI interventions and sustained export momentum are expected to keep the rupee broadly stable and India's external position strong.

Global oversupply pressures push Brent prices lower

## Brent dips to USD 60s level amid excess supply

Brent crude prices trended toward the USD 60s per barrel in late 2025, driven by a pronounced global supply glut. Record output from non-OPEC+ nations primarily the US, Brazil, and Guyana overshadowed voluntary production cuts, leading to substantial inventory accumulation. Compounded by weak demand in China and Europe, prices averaged USD 65 by year-end before stabilizing near USD 66 in early 2026. This bearish fundamental shift currently offsets geopolitical risk premiums, keeping the market floor pressured despite regional tensions.

Figure 10

Brent crude spot price in USD per barrel



Source: U.S. Energy Information Administration.

Softer crude reduces trade deficit pressures; bolster forex reserves and policy flexibility

Oil prices remain a pivot for India's macroeconomic stability, with a late-January rebound to USD 66-68 failing to disrupt the broader cooling trend. This disinflationary windfall eases the import bill and stabilises the rupee, while curbing trade deficit pressures and industrial input costs. With the EIA projecting a USD 56 average for 2026, India is set to capture a favourable terms-of-trade shift, strengthening forex reserves and RBI policy flexibility. Ultimately, despite suppressed petrochemical export gains, the subdued pricing regime provides a structural cushion for domestic growth.

Brent softness supports rupee and trade balance

Brent's trajectory from October 2025 shifted toward soft pricing relief, stabilising the rupee and curbing trade deficits for importers like India. With the EIA projecting Brent to average USD 56 in 2026, oversupply-driven softness eased inflationary pressures despite a late-January rebound to USD 66-68. This subdued pricing bolsters forex reserves and enhances the RBI's policy flexibility by reducing external vulnerability. Ultimately, while

<sup>2</sup> Economic Times: Exports likely to grow by 3% to \$850 billion

# Macroeconomic trend and outlook

geopolitical risks persist, India remains poised to benefit from lower input costs and sustained fiscal capacity.

## NIFTY consolidates amid global volatility; registers 6% gains in Q3 FY26

Nifty's Oct-Jan rollercoaster: Recovery highs to volatility pullback

NSE Nifty showed resilience in Q3 FY26, posting around 6% gains despite global market volatility from factors like US Fed policy shifts and trade tensions. The index closed Q3 FY26 at approximately 26,129, recovering prior losses through steady buying in domestic-focused sectors. This marked a V-shaped rebound, with consolidation amid broader swings rather than speculative surges.

Figure 11

NSE Nifty index



Source: National Stock Exchange.

Domestic fund flows support market upside

October 2025 ignited a rally with a 4.5% surge, record GIFT Nifty turnover, and a decisive breach of 26,000, fuelled by robust domestic liquidity. While November sustained gains through resilient retail inflows, December shifted into sectoral divergence and consolidation. Despite a renewed breakout above 26,300 in early January 2026, a sharp 4% correction ensued due to rupee weakness and global risk-off sentiment. This period underscores a transition toward secular growth, where strong domestic fundamentals provide a structural cushion against FPI volatility.

Table 2

NSE Nifty index performance

| Period   | Index level          | Trend         | Key notes                               |
|----------|----------------------|---------------|---|
| Oct 2025 | Around 23,800–24,200 | Uptrend       | Festive demand, strong Q2 FY26 earnings |
| Nov 2025 | Around 24,500–25,000 | Breakout      | Banking & IT led gains                  |
| Dec 2025 | Around 25,200–26,300 | Peak          | All-time high; FII inflows surged       |
| Jan 2026 | Around 25,000–25,300 | Consolidation | Profit booking, global uncertainty      |

Source: National Stock Exchange.

# Macroeconomic trend and outlook

Moderating inflation and policy support strengthen sentiment

Q3 FY26 equity markets<sup>3</sup> were anchored by robust domestic liquidity and systemic credit growth exceeding 15% Y-o-Y, sustaining earnings despite crude volatility. Sentiment was bolstered by 125 bps in cumulative RBI rate cuts and consumption tailwinds from GST rationalisation. While record SIP inflows drive sectoral rotation, stretched valuations with the Nifty PE crossing 23x require a cautious balance between growth and inflationary risks. Ultimately, these drivers signal a transition from a cyclical bounce toward a secular growth trajectory.

Nifty trajectory hinges on earnings momentum

The Nifty 50's path hinges on profitability catalysts to justify valuations, with the index consolidating within the 25,000–27,000 range. Backed by FY27 Budget tailwinds, banking and IT expansion fuel cautious optimism despite potential valuation-led corrections. This transition marks an earnings-driven phase where secular growth outweighs short-term noise.

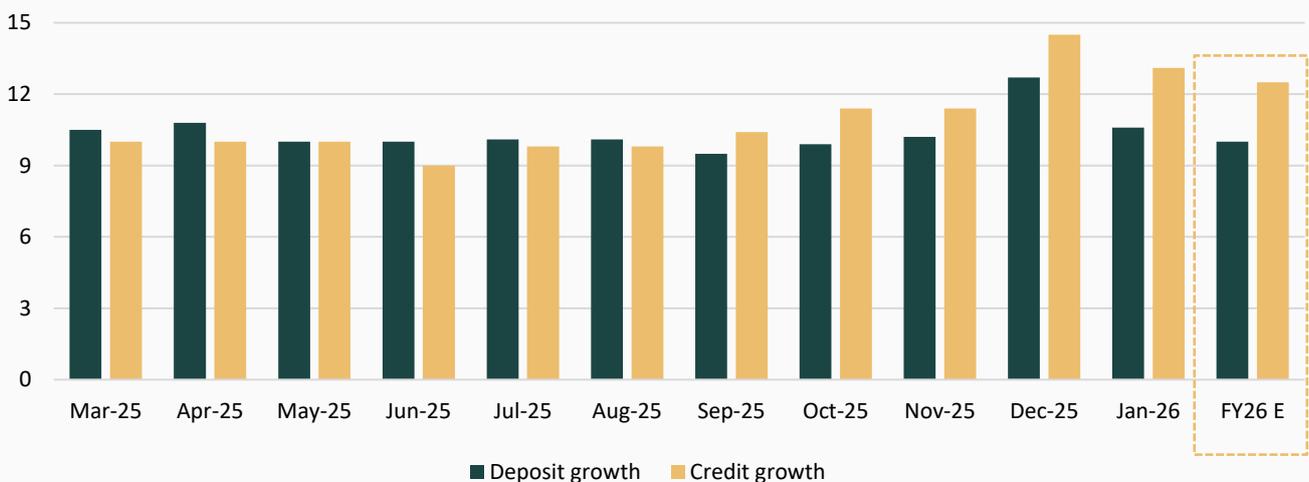
Credit growth accelerates to 12.5% in FY26, driven by consumption and policy support

## Credit growth to remain strong; deposit growth to gradually improve

Credit growth was driven by festive-related consumption and GST rate rationalisation, supported by sustained traction in retail and MSME segments and stable lending to housing, infrastructure, and working capital needs, providing breadth to overall credit expansion. As a result, system-level credit growth accelerated, with full-year FY26 growth estimated at around 12.5%.

Figure 12

Deposit and Credit growth (%), YoY



Source: Reserve Bank of India.

E - Estimates

Deposit growth is healthy but trails credit expansion

Deposit growth remained healthy but lagged credit expansion, reflecting steady household and corporate savings mobilisation. As per a recent report from Brickwork Ratings, deposit growth is projected at approximately 9-11% CAGR over the next five years, broadly tracking nominal GDP and credit expansion while remaining below the high-teens growth seen in earlier years. Credit-to-deposit ratios are likely to remain in the high 70s to low 80s range unless a major structural shift occurs. System level CASA ratios have remained in the high-30s range, but the mix is likely to gradually tilt further towards term deposits, pressuring funding costs and net interest margins unless banks ramp up fee income and operating efficiency.<sup>4</sup>

<sup>3</sup> Business Standard, Q3 FY26 Equity Markets

<sup>4</sup> Banking Sector in India, Brickwork Ratings, January 2026.

# India's Union Budget-2026-27 Outcome

India's Union Budget 2026–27 anchors growth amid structural transition

India targets fiscal deficit of 4.4% of GDP in budget 2025-26, marking continued consolidation

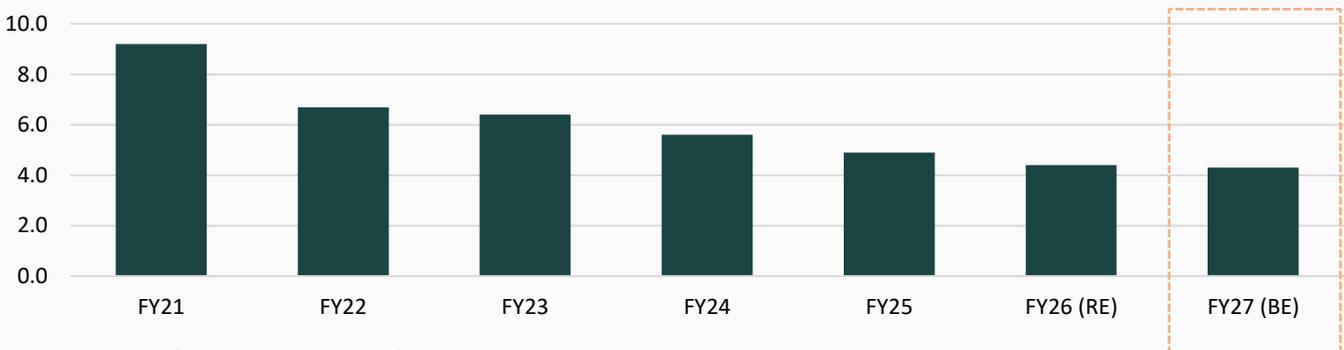
## Anchoring fiscal credibility while sustaining growth momentum

Presented on February 1, 2026, India's Union Budget 2026-27 marks a strategic pivot from recovery to institutionalized economic resilience. Amid steady private investment and a stabilizing global environment, the Budget anchors a calibrated equilibrium between fiscal consolidation and growth imperatives. The overarching narrative emphasizes policy predictability and credibility, reinforcing macroeconomic stability while nurturing structural, medium-term growth drivers.

At the core of the Budget is a steadfast commitment to fiscal consolidation, targeting a deficit of 4.3% of GDP for FY27, a marginal compression from the 4.4% revised estimate for FY26. While the consolidation pace has moderated post-pandemic, the glide path remains intact, reflecting a calibrated equilibrium between fiscal prudence and growth imperatives. This disciplined trajectory strengthens sovereign credibility and anchors investor confidence in India's long-term macroeconomic stability.

Figure 13

Fiscal deficit as a percentage (%) of GDP



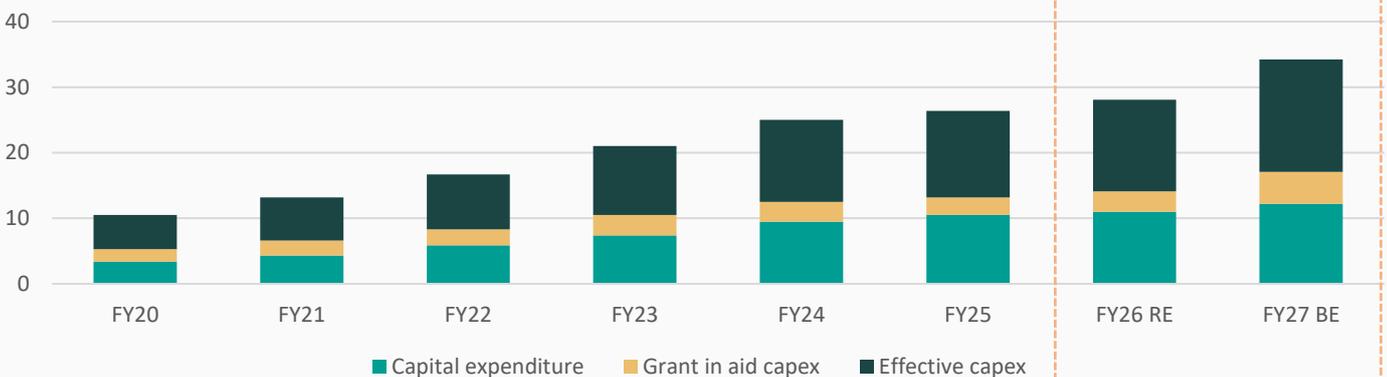
Source: Ministry of Finance, Government of India.  
BE - Budget Estimates; RE- Revised Estimates

FY27 budget balances growth and fiscal prudence; capital outlay raised to INR 12.2 trillion

The FY27 Budget adopts a growth-centric fiscal strategy, scaling total expenditure to INR 53.5 trillion while directing a record INR 12.2 trillion toward capital outlay of 9-12% increase. Supported by INR 36.5 trillion in non-debt receipts, this capex push aims to crowd in private investment across railways, logistics, and the energy transition. Balanced by a INR 17.2 trillion borrowing programme, the plan reduces the debt-to-GDP ratio to 55.6%, signalling strict adherence to the FRBM glide path. Ultimately, tax policy stability and compliance rationalization preserve macro-fiscal credibility, anchoring consumption and long-term productive capacity.

Figure 14

Capital expenditure (INR trillion)



Source: Ministry of Finance, Government of India  
BE - Budget Estimates; RE- Revised Estimates

# India's Union Budget-2026-27 Outcome

## Debt sustainability reinforces fiscal consolidation path

The Union Budget 2026–27 delivers a pragmatic fiscal framework, anchoring India's macroeconomic stability through trend-based revenue projections and a record INR 12.2 trillion capex push. By reducing the fiscal deficit to 4.3% and targeting a 55.6% <sup>5</sup>debt-to-GDP ratio, the budget reinforces a rule based, predictable regime that strengthens investor confidence. This disciplined expenditure management secures a structural glide path for consolidation while sustaining growth momentum in strategic sectors. Ultimately, the budget's focus on revenue quality and infrastructure-led development ensures a resilient transition toward a stronger medium-term growth trajectory.

*For deeper insights on the analysis of Budget, please refer to BWR report titled "India's Union Budget 2026-27: Balancing fiscal prudence and investment-led growth" dated 05 February 2026, <https://tinyurl.com/yky82u5f>*

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<sup>5</sup> Union Budget 2026-27 Analysis (PRS India, February 2026)

# India-US trade deal

Tariff cap at 18% anchors stability, fuels USD 500 billion bilateral trade ambition and rupee resilience.

## Broad-based tariff relief for Indian exports

The India-US trade agreement serves as a strategic realignment, capping reciprocal tariffs at 18% to shield labour-intensive sectors and revitalise export competitiveness. By targeting USD 500 billion in bilateral trade and halting Russian crude in favour of a USD 100 billion US energy and tech commitment, the deal secures preferential access while narrowing the current account deficit. Structurally, this pivot accelerates FDI inflows and integrates MSMEs into global supply chains, reinforcing the Indian rupee's global positioning. Ultimately, the pact bolsters sovereign resilience, anchoring domestic demand and cementing India's role as a critical partner in the global economic framework.

Table 3

Provisions of the India-US Trade Deal

| Feature              | Details of the agreement                                    |
|----------------------|---|
| US reciprocal tariff | Reduced from 25% to 18% and 25% punitive tariffs eliminated |
| Energy commitment    | USD 100 billion purchase of US energy & tech                |
| Russian oil          | India to halt purchases of Russian crude                    |
| Trade target         | Aiming for USD 500 billion in bilateral trade by 2030       |

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

Tariff liberalization strengthens IT, pharma, auto ancillaries; energy mix diversifies with US LNG.

The India-US trade deal serves as a structural pivot, optimizing sectoral outcomes through enhanced market accessibility and supply-chain realignment. IT Services and Pharmaceuticals are primary beneficiaries, leveraging strengthened bilateral frameworks and tariff liberalization to capture higher-margin market share. The Energy sector faces a transformative shift as India redirects procurement toward US LNG and coal, effectively diversifying its energy mix and mitigating geopolitical supply risks. While Auto Ancillaries gain through deeper integration into North American Global Value Chains (GVCs), the Agricultural impact remains nuanced; the deal balances import-led competition with essential protectionist measures for domestic dairy, preserving rural income stability.

Table 4

Sectoral Impact Analysis

| Sector           | Expected impact   | Primary reason   |
|------------------|-------------------|--|
| IT Services      | Positive          | Stronger bilateral ties and economic stability                       |
| Pharmaceuticals  | Positive          | Lower tariffs and easier market access                               |
| Textile          | Moderate positive | Improved competitiveness from lower US tariff; trade diversification |
| Auto ancillaries | Moderate positive | Integration into US automotive supply chains                         |
| Energy           | Transformative    | Massive shift toward US LNG and Coal                                 |
| Agriculture      | Neutral/Positive  | Protection of domestic dairy; more US imports                        |

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

Tariff gains and US tech integration drive long-term credit strength.

This agreement represents a pivotal shift in New Delhi's economic strategy, moving beyond simple transactional trade to a deeper geopolitical alignment with Washington. By securing access to US technology and energy, India is effectively leveraging the deal to fuel the next phase of its industrial modernisation. The outlook suggests that while immediate gains will come from tariff reductions, long-term growth will be driven by the absorption of the advanced US tech sector into Indian manufacturing, potentially moving Indian industries up the value chain while integrating India's Silicon Valley with the US tech, strengthening the Indian employment and labour sector.

# India-US trade deal

Navigating energy and trade risks, India validates global investor confidence.

The long-term success hinges on navigating critical implementation risks, particularly the inflationary challenge of replacing Russian oil with US energy and addressing non-tariff barriers in future negotiations. Ultimately, the deal serves as a robust indication for global investors, validating the supply chain diversification, promising sustained export growth and currency resilience through structural integration with Western markets.

*For further details, please refer to BWR report titled “India-US Trade Deal: Analysis & Implications” dated 13 February 2026, <https://tinyurl.com/244jjsh7>*

# WEF Davos 2026: Global risk assessment and policy direction- implications for India

WEF underscores geo-economic fragmentation, rising risk premiums, and slower but stabilising global growth.

Fragile global growth shapes 2026 outlook; trade disruptions and debt weigh on growth

Davos signals India's rise, backed by DPI and major state-level investment pledges.

Davos 2026 signals mainstream digital asset adoption.

The 56th World Economic Forum (WEF) highlighted a landscape of geo-economic fragmentation and critical debt thresholds, signalling slower but stabilising growth. Rising risk premiums and the energy transition are driving sectoral credit differentiation, favouring digital infrastructure over high-carbon industries. Amidst these headwinds, India remains a macroeconomic outlier, sustained by robust domestic demand and policy continuity. While commodity volatility persists, India's medium-term growth outlook remains fundamentally intact, bolstered by structural stability.

The 2026 outlook warns that trade disruptions and critical debt thresholds heighten sovereign credit risks. AI acts as a dual-force productivity engine, necessitating reskilling to mitigate labour market volatility. Simultaneously, the green transition drives credit differentiation, rewarding supply-chain diversification and fiscal flexibility in a fragmented global landscape.

India's Davos 2026 presence solidified its path toward the world's third-largest economy, anchored by structural reforms and digital public infrastructure (DPI). Strategic investment pledges, including INR 3 trillion<sup>6</sup> for Uttar Pradesh and INR 290 billion<sup>7</sup> for Telangana, signal a robust innovation ecosystem in AI and clean energy. By scaling semiconductors and AI, India is bolstering its sovereign credit profile, compressing risk premia, and enhancing global productivity.

Davos 2026 marked a pivotal shift for digital assets, as tokenization and stablecoins transitioned into mainstream financial infrastructure to drive trillion-dollar efficiency gains. From a credit perspective, moving Real-World Assets (RWAs) on chain enhances financial intermediation and expands credit access, though it necessitates robust regulatory frameworks to mitigate systemic risks. Ultimately, integrating blockchain plumbing with traditional finance will reshape global capital flows and bolster medium-term productivity.

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<sup>6</sup> Uttar Pradesh investment figure, "UP bags investment proposals worth nearly ₹3 lakh crore at Davos", Economic Times, January 2026

<sup>7</sup> "Telangana secures investment commitments worth ₹29,200 crore at Davos", Economic Times, January 2026

# India-European Union free trade agreement - a structural shift in India's external trade strategy

India–EU seal landmark free trade agreement

In January 2026, India and the European Union (EU) announced a landmark trade deal widely heralded as the “Mother of All Deals”, concluding nearly two decades of protracted negotiations. Covering 1/3<sup>rd</sup> of the global GDP, the pact liberalises trade through tariff elimination and regulatory alignment, signalling a strategic pivot toward deeper economic integration. This partnership secures new export destinations for India and provides the EU with deeper market penetration, fostering bilateral investment and supply chain resilience.

Near-total tariff removal expands India-EU trade and strengthens sectoral market access.

The pact targets near-total tariff elimination, covering 96.6% of EU exports and 99.5%<sup>8</sup> of Indian exports, significantly enhancing market access for textiles, chemicals, and engineering. By deepening services liberalisation and regulatory convergence, the agreement aims to drive global value chain integration and FDI inflows. Although phased implementation through 2027 implies gradual initial gains, the strategic pivot toward supply chain diversification ensures a transformative, rules-based trade architecture.

Trade pact enhances growth and credit demand, with risks from CBAM and supply chains.

The India-EU FTA carries significant strategic credit implications, strengthening the nation's economic health through export diversification and long-term GDP growth. While textiles and chemicals gain revenue resilience, auto components and carbon-intensive exporters face adjustment costs and ‘Carbon Border Adjustment Mechanism (CBAM)’ compliance challenges. Ultimately, rising trade volumes will drive credit demand and GVC integration, requiring robust risk management of currency and supply chain exposures.

Transformative gains expected from FY27 as tariff cuts deepen and competitiveness rises.

In a prospective scenario, the India-EU FTA is poised to reshape trade architecture by reducing concentration risks and diversifying exports. While near-term gains will be modest, transformative benefits are anticipated from late FY27 as tariff reductions deepen. This alignment will facilitate deeper integration into global value chains, allowing textiles, chemicals, and pharmaceuticals to leverage price competitiveness and economies of scale for a more resilient economy.

FTA impact modest initially but credit-positive over time.

From a rating perspective, the India-EU FTA is assessed as moderately credit-positive over the medium term. Benefits are expected to outweigh risks, though the impact will materialise gradually and remain sector- and issuer-specific.

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<sup>8</sup> India-EU FTA: India's Competitiveness, Prospects, and Global Bargaining Power (D&B Whitepaper, January 2026)

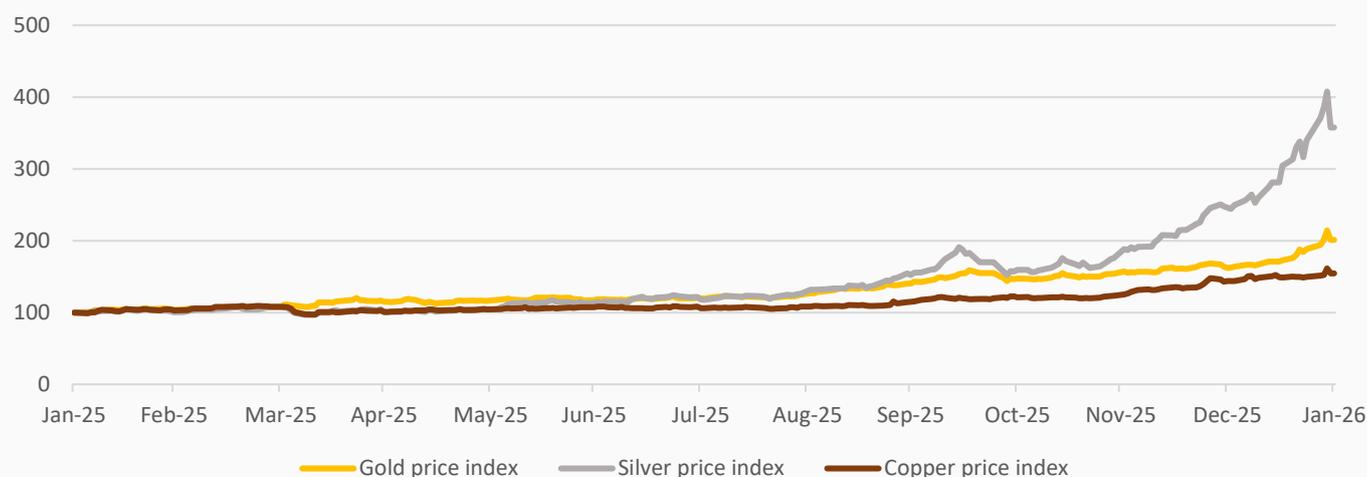
# The synchronized rally in gold, silver, and copper: driven by safe-haven flows and industrial demand

Safe-haven demand drives historic gold highs amid inflation easing and tensions.

As the global economy stepped into 2026 balancing easing inflation with persistent geopolitical tensions and supply chain disruptions, gold peaked at USD 5,500/ounce (MCX: INR 1,83,000/10g) as moderating real yields and a softer USD reduced the opportunity cost of non-yielding assets. Driven by central bank reserve diversification and geopolitical risk, this surge reflects a broader macro realignment toward safe-haven and industrial metals.

Figure 15

Precious metal price index (01-Jan-2025 = 100)



Source: Multi-Commodity Exchange.

Silver outpaces gold, driven by AI, photovoltaics, and clean-energy demand.

As gold set the tone, Silver outpaced gold, breaching INR 0.4 million/kg on the MCX by straddling the line between a precious metal and an industrial input. Beyond safe-haven flows, the rally was driven by a tightening supply-demand balance linked to AI data centres and photovoltaics, transforming silver into an active leader. This surge reflects investors' positioning for a clean-energy transition, where silver's industrial indispensability magnifies price movements as financial flows accelerate.

Supply tightness and strategic demand propel copper upward

While gold and silver reflect defensive positioning, copper tells a predictive story. Copper reached a historic USD 14,500/ton, acting as a pro-cyclical barometer of global industrial health. This rally reflects tightening fundamentals as secular drivers like electrification transition copper into a strategic resource. Persistent supply-side constraints and underinvestment have intensified scarcity premiums, signalling market confidence in long-term infrastructure demand despite uneven macroeconomic momentum.

Macro uncertainty, geopolitics, and central bank buying underpin gold

Gold is projected to maintain its elevated trajectory through 2026, sustained by persistent macroeconomic shocks, geopolitical risk, and robust central bank accumulation. Silver's outlook remains characterized by volatility, contingent on the interplay between safe-haven flows and cyclical industrial demand from green technologies. Copper remains structurally supported by secular trends in electrification, though near-term pricing remains highly sensitive to global demand cycles and policy signals.

# Credit rating implications

Resilient growth and strong output bolster sovereign and corporate credit profiles.

India's macroeconomic backdrop remains broadly supportive of credit ratings, with resilience in growth and stability in key indicators. GDP growth, though moderating slightly, continues to provide revenue visibility for sovereign and corporate issuers. Industrial production and core sector output are strengthening, improving capacity utilization and bolstering infrastructure-linked credit profiles.

Stable inflation and liquidity conditions reinforce manageable borrowing costs.

Inflation remains contained, with CPI stable, reducing risks to monetary policy credibility. However, food inflation volatility poses downside risks to rural demand and corporate margins, a factor rating committees will monitor closely. Monetary conditions are neutral: repo rates, liquidity, and G-sec yields are stable, ensuring refinancing and borrowing costs remain manageable.

Table 5

Credit rating implications

| Key indicator                 | Current trend                | Near-term outlook | Credit rating implication         |
|-------------------------------|------------------------------|-------------------|-----------------------------------|
| GDP growth                    | Resilient, slight moderation | Stable            | Supports revenue visibility       |
| Industrial production         | Improving                    | Positive          | Better capacity utilization       |
| Core sector output            | Strong infra-led growth      | Positive          | Strengthens infra credit profiles |
| CPI inflation                 | Contained                    | Stable            | Neutral for interest rates        |
| Food inflation                | Volatile                     | Upside risk       | Impacts rural demand & margins    |
| Repo rate                     | Stable                       | Neutral           | Supports refinancing              |
| System liquidity              | Calibrated                   | Neutral           | Stable funding conditions         |
| G-sec Yields                  | Range-bound                  | Neutral           | Borrowing cost stable             |
| Bank credit growth            | Healthy                      | Positive          | Strong lending momentum           |
| Asset quality (GNPA)          | Improving/Stabilizing        | Positive          | Lower credit cost risk            |
| Fiscal deficit                | Consolidation path           | Stable            | Sovereign stability               |
| Debt-to-GDP                   | Gradual moderation           | Stable            | Rating supportive                 |
| Current account deficit (CAD) | Manageable                   | Stable            | Limited external stress           |
| Forex reserves                | Adequate buffer              | Positive          | Strong external cushion           |
| Indian rupee movement         | Mild volatility              | Stable            | Contained currency risk           |
| Crude oil prices              | Stable to soft               | Upside risk       | Input cost sensitivity            |

Source: Brickwork Research.

Improving asset quality and fiscal consolidation strengthen credit outlook

Bank credit growth is healthy, while asset quality is improving, lowering credit cost risks for banks and supporting financial sector ratings. Fiscal consolidation and gradual moderation in debt-to-GDP reinforce sovereign stability, while manageable current account deficits and strong forex reserves provide external buffers. INR volatility is contained, limiting currency risk exposure.

Energy and food price vigilance needed amid stable credit outlooks.

The main vulnerability lies in the volatile commodity prices, which could pressure input costs and, thus, the profit margins. Overall, the outlook is stable to positive: sovereign and corporate ratings benefit from strong fundamentals, though vigilance is required on food inflation and energy price risks.

# Appendix

Table 6

## Key macroeconomic indicator (India)

| Indicator                            |                     | Q4 FY24 | Q1 FY25 | Q2 FY25 | Q3 FY25 | Q4 FY25 | Q1 FY26 | Q2 FY26 | Q3 FY26 |
|--------------------------------------|---------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| GDP growth rate                      | Y-o-Y, %            | 7.8     | 6.7     | 5.4     | 6.2     | 7.4     | 7.8     | 8.2     | n.a.    |
| Retail inflation (CPI)               | Y-o-Y, %            | 5.01    | 4.91    | 4.24    | 5.63    | 3.73    | 2.69    | 1.74    | 0.76    |
| Wholesale inflation (WPI)            | Y-o-Y, %            | 0.27    | 2.45    | 1.75    | 2.49    | 2.4     | 0.26    | 0.02    | -0.17   |
| Index of industrial production (IIP) | Index (2011-12=100) | 153.6   | 151.2   | 147.5   | 152.1   | 159.7   | 154.2   | 153.9   | 160.0   |
| Core sector index                    | Index (2011-12=100) | 166.0   | 164.3   | 158.0   | 162.6   | 172.9   | 166.9   | 165.3   | 166.8   |
| Manufacturing PMI                    | Index               | 57.5    | 58.2    | 57.4    | 56.8    | 57.4    | 58.1    | 58.7    | 56.9    |
| Services PMI                         | Index               | 61.2    | 60.5    | 60.5    | 58.7    | 58.1    | 59.3    | 61.7    | 58.9    |
| Trade balance                        | USD billion         | -51.4   | -62.1   | -87.1   | -78.7   | -58.7   | -68.8   | -86.3   | -91.4   |
| Exports                              | USD billion         | 120.4   | 110.1   | 99.6    | 108.7   | 115.2   | 111.5   | 108.6   | 110.7   |
| Imports                              | USD billion         | 171.8   | 172.2   | 186.7   | 187.4   | 173.9   | 180.3   | 194.9   | 202.1   |
| Exchange rate                        | INR/USD             | 83.0    | 83.4    | 83.8    | 84.5    | 86.6    | 85.6    | 87.3    | 89.2    |
| Total external debt                  | USD billion         | 648.0   | 664.0   | 682.0   | 712.0   | 718.0   | 736.0   | 747.0   | n.a.    |
| Foreign exchange reserves            | USD billion         | 645.6   | 651.9   | 704.9   | 640.3   | 665.4   | 702.8   | 700.2   | 696.6   |
| Repo rate                            | %                   | 6.5     | 6.5     | 6.5     | 6.5     | 6.3     | 5.8     | 5.5     | 5.4     |
| Bank credit                          | INR trillion        | 486.8   | 501.6   | 508.8   | 524.9   | 541.1   | 549.6   | 560.5   | n.a.    |
| GST collections                      | INR trillion        | 5.21    | 5.56    | 5.3     | 5.46    | 5.76    | 6.22    | 5.71    | 5.5     |
| Crude oil production                 | Metric ton ('000)   | 7338    | 7255    | 7123    | 7183    | 7141    | 7115    | 7032    | n.a.    |
| Natural gas production               | MMSCM#              | 9224    | 9056    | 9055    | 9148    | 8803    | 8781    | 8786    | n.a.    |
| Electricity production               | GWH (in '000)       | 376.7   | 421.1   | 396.2   | 373.1   | 384.2   | 398.1   | 397.6   | 358     |

#Million Standard Cubic Meter

Sources: Ministry of Finance, Government of India; Trading Economics; Ministry of Statistics and Programme Implementation; Ministry of Commerce and Industry; Brickwork Research.

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