

BRICKWORK™

RATINGS

MONTHLY ECONOMY WRAP

Issue 47

BRICKWORK RESEARCH

June 2026

India macroeconomic overview

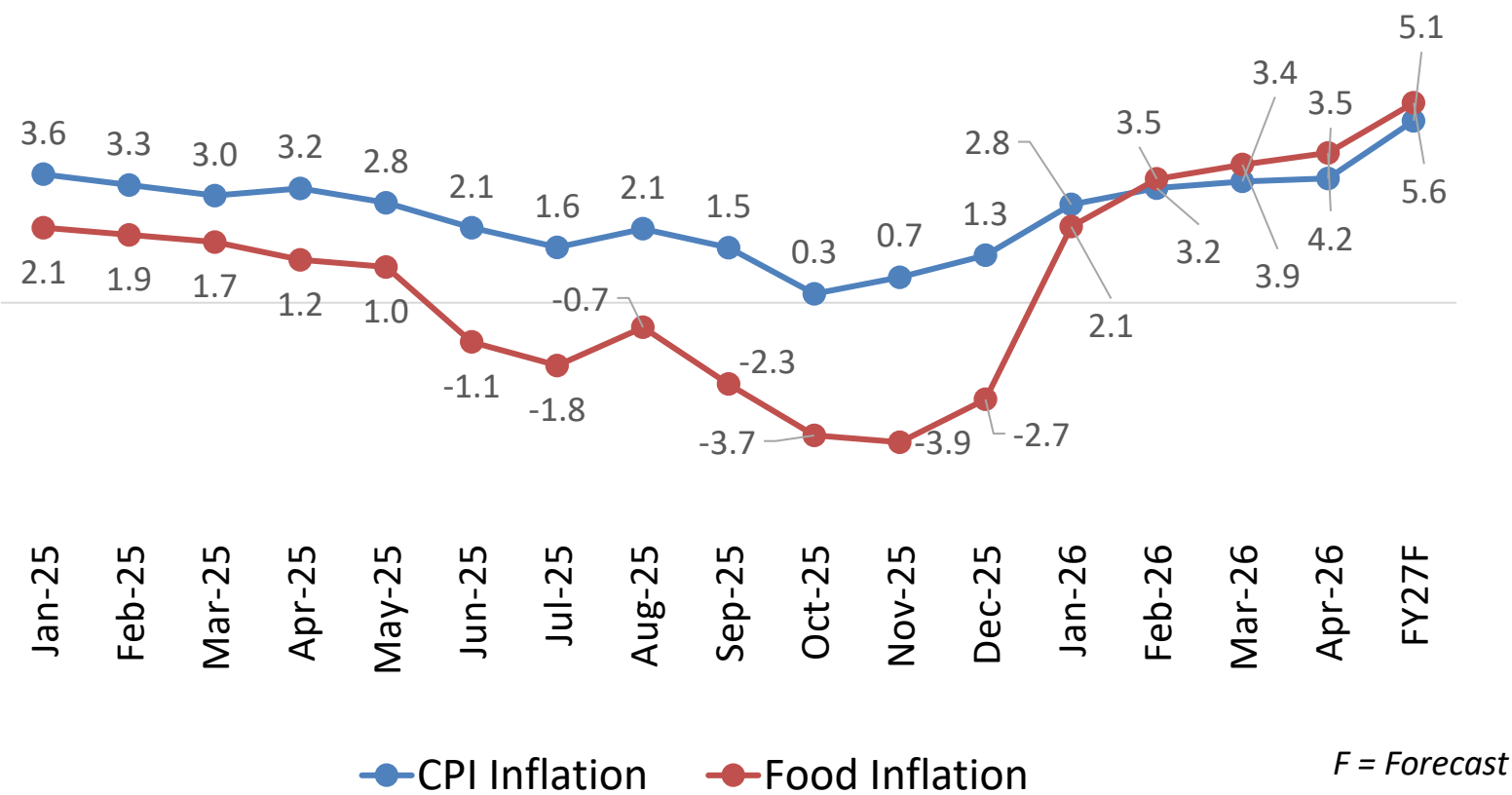
Macroeconomic updates – May 2026

- India's GDP accelerates to 7.7% in FY26, manufacturing leads the charge amid global headwinds** - India's economy grew by 7.8% in the January–March quarter of FY26. For the full year FY26, real GDP expanded 7.7%, up from 7.1% in FY25, cementing India's place among the world's fastest-growing major economies. This stronger than expected performance highlights the economy's resilience amid a difficult external backdrop including tariff uncertainties and geopolitical disruptions. Manufacturing was a standout, accelerating to 10.7% growth in FY26 from 9.3% a year earlier. However, earlier RBI in its annual report for 2025–26 had cautioned that escalating global uncertainties could exert increasing pressure on the economy. The primary risks identified in the report include geopolitical conflicts in West Asia, elevated commodity and energy costs, logistical disruptions in supply chains, and adverse weather events.
- India rises to become the world's fifth most digitalised economy** - India has climbed to fifth place on the connect, harness, innovate, protect, sustain (CHIPS) global index, driven by artificial intelligence integration, expanded digital public infrastructure, and growing online services. According to the 2026 state of India's digital economy (SIDE) report published by the Indian council for research on international economic relations (ICRIER). The Indo-Pacific is now a major counterweight to U.S. and European dominance, creating a new "tripolar" global digital landscape. The top five digitalised nations include three Indo-Pacific countries (China, Singapore, India) and two North Atlantic countries (U.S., UK).
- India-U.S. trade talks resume, Section 301 in focus** - India is likely to raise Washington's Section 301 investigation and possible tariff measures with U.S. trade officials as both sides work to finalise a trade deal. A U.S. delegation led by Brendan Lynch will hold three days of talks with Indian officials in New Delhi starting June 2, 2026, following an initial trade understanding reached in February 2026. Earlier the commerce minister Piyush Goyal indicated that India-U.S. trade deal to reflect Washington's tariff changes. On June 2, the USTR (Office of the United States Trade Representative) said India failed to ban forced-labour goods imports and proposed up to 12.5% Section 301 duties.
- Monsoon outlook** - The India meteorological department has lowered its monsoon forecast to 90% of the long-period average, citing the likely impact of El Nino. pulses and oilseeds, which are mostly grown in rain-fed areas, are seen as the most vulnerable crops, though high buffer stocks and strong reservoir levels provide some support, a sharp rainfall deficit could push up food inflation, weaken rural demand, and slow overall growth.

Indicator	Value	Period	Outlook
Real GDP growth	7.8%	Q4 FY26	FY27 growth is estimated at 6.6%, signalling an expected slowdown in activity following the strong FY26 showing.
Inflation (CPI)	3.48%	April 2026	Inflation is likely to rise in the near term due to the West Asia conflict and higher oil and energy prices.
Interest rate (Repo)	5.25%	June 2026	Neutral policy stance; low rates may persist to support growth.
Unemployment rate	5.2%	April 2026	Unemployment may remain elevated with persistent urban joblessness and softer hiring.
GST collections	INR 1.94 trillion	May 2026	GST collections are expected to stay robust, supported by steady economic activity and sustained consumption demand.
Manufacturing PMI	54.7	May 2026	Manufacturing PMI is likely to hold steady, supported by strong domestic demand but tempered by West Asia conflict.
Services PMI	57.9	May 2026	Services PMI is expected to moderate modestly from its six-month as input cost pressures may weigh on growth.

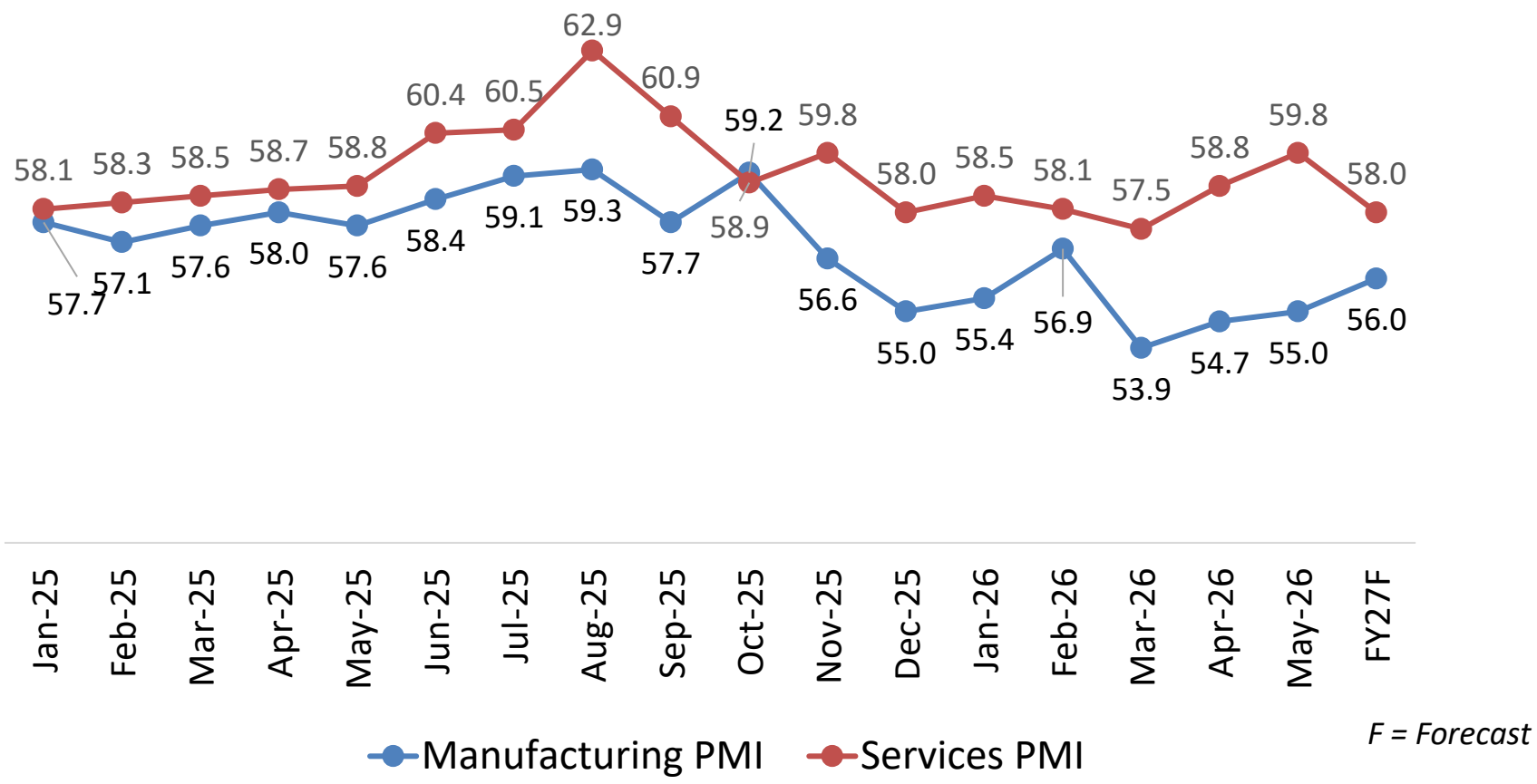
Domestic demand drives PMI expansion despite rising inflationary headwinds

CPI inflation %



- India's consumer price inflation rose to 3.48% in April 2026, up from 3.40% in March, marking the sixth consecutive month of increase.
- This upward trend was heavily driven by food inflation, which jumped to 4.2% from March's 3.87%, exacerbated by unpredictable weather and supply chain disruptions.
- April's inflation number is still below the Reserve Bank of India's 4% medium-term target even as West Asia conflict-led inflationary pressures build up.
- Inflationary pressures are expected to build further due to the ongoing conflict in West Asia, increasing non-food prices, and a fading base effect.

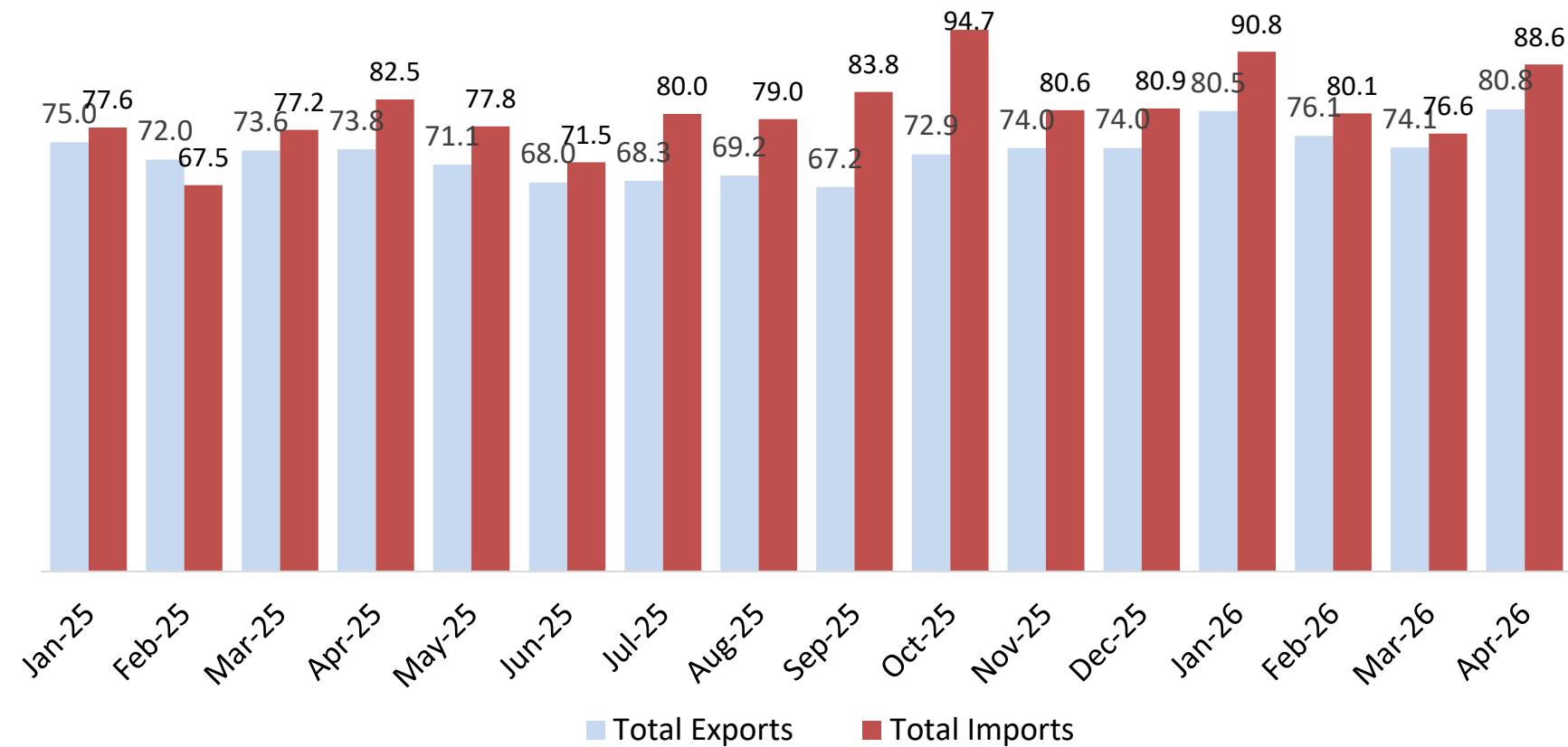
Manufacturing and services PMI



- India's Manufacturing PMI rose to 55.0 in May 2026 from 54.7 in April. Growth mainly driven by domestic demand, with new orders increasing at the strongest pace since February 2026; Export orders maintained strong growth. Manufacturing output picked up, recording its fastest three month gain.
- India's services PMI climbed to 59.8 in May 2026, a six-month high, signalling stronger expansion in services activity. Robust domestic demand, particularly for freight, digital solutions, e-commerce, entertainment and IT, supported the fastest growth in new business in May 2026.
- The services sector is growing strongly, driven by domestic client acquisition with firms expecting favourable demand throughout the year. Manufacturing is expanding steadily, but the near-term outlook reflects strong domestic consumption tempered by geopolitical supply chain concerns.

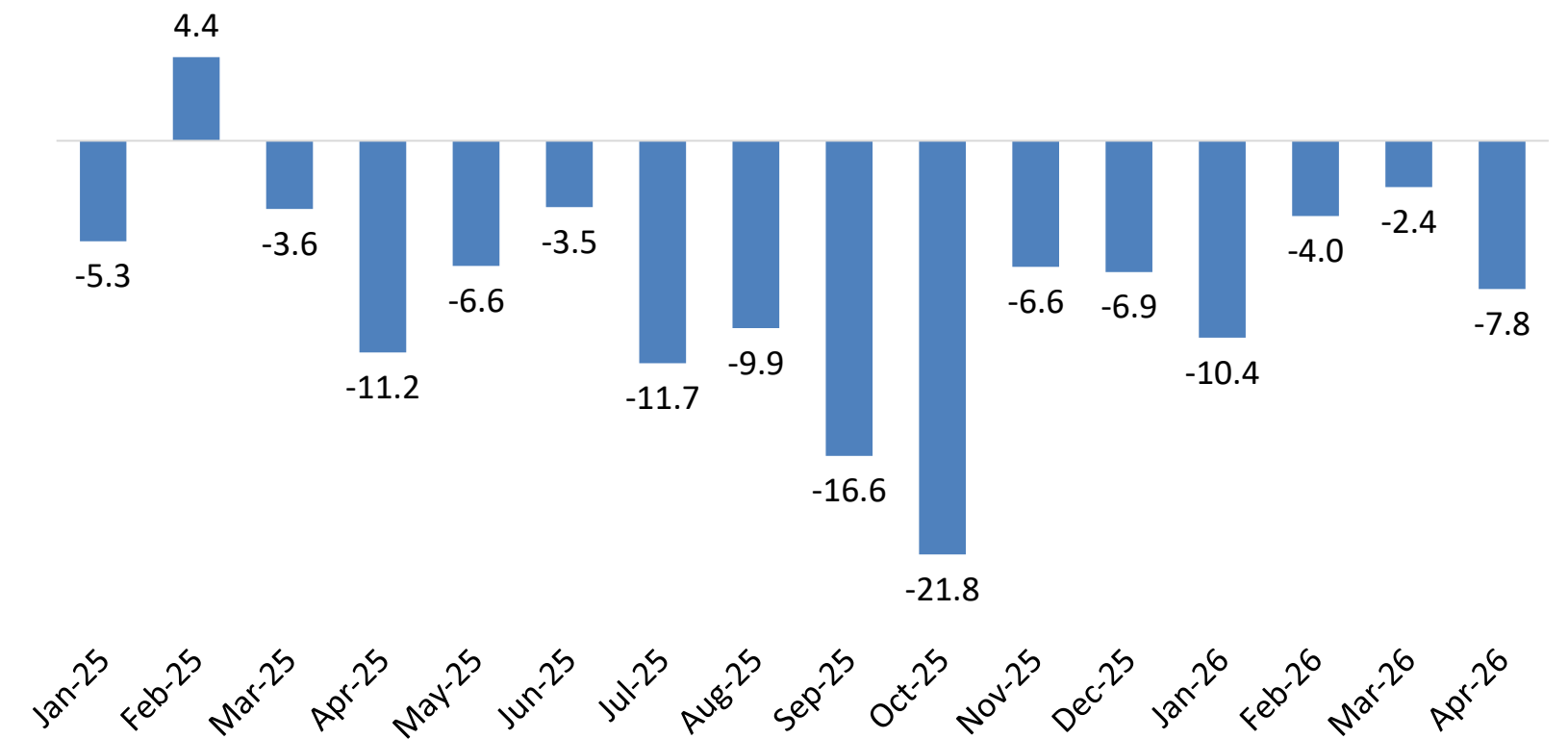
Merchandise exports surge as diversification counters West Asia trade headwinds

Exports and imports (USD billion)



- India's total exports increased to USD 80.80 billion in April 2026, driven by merchandise exports increasing to USD 43.56 billion from USD 38.92 billion in the month of March.
- India's total imports increased to USD 88.61 billion in April 2026, driven by increase in merchandise imports at about USD 71.94 billion, from USD 59.59 billion in the month of March.
- Even with trade challenges stemming from the West Asia crisis, India's merchandise exports surged by almost 14% to reach USD 43.6 billion in April 2026. This growth was driven both by higher global prices and Indian exporters successfully branching out into new markets.

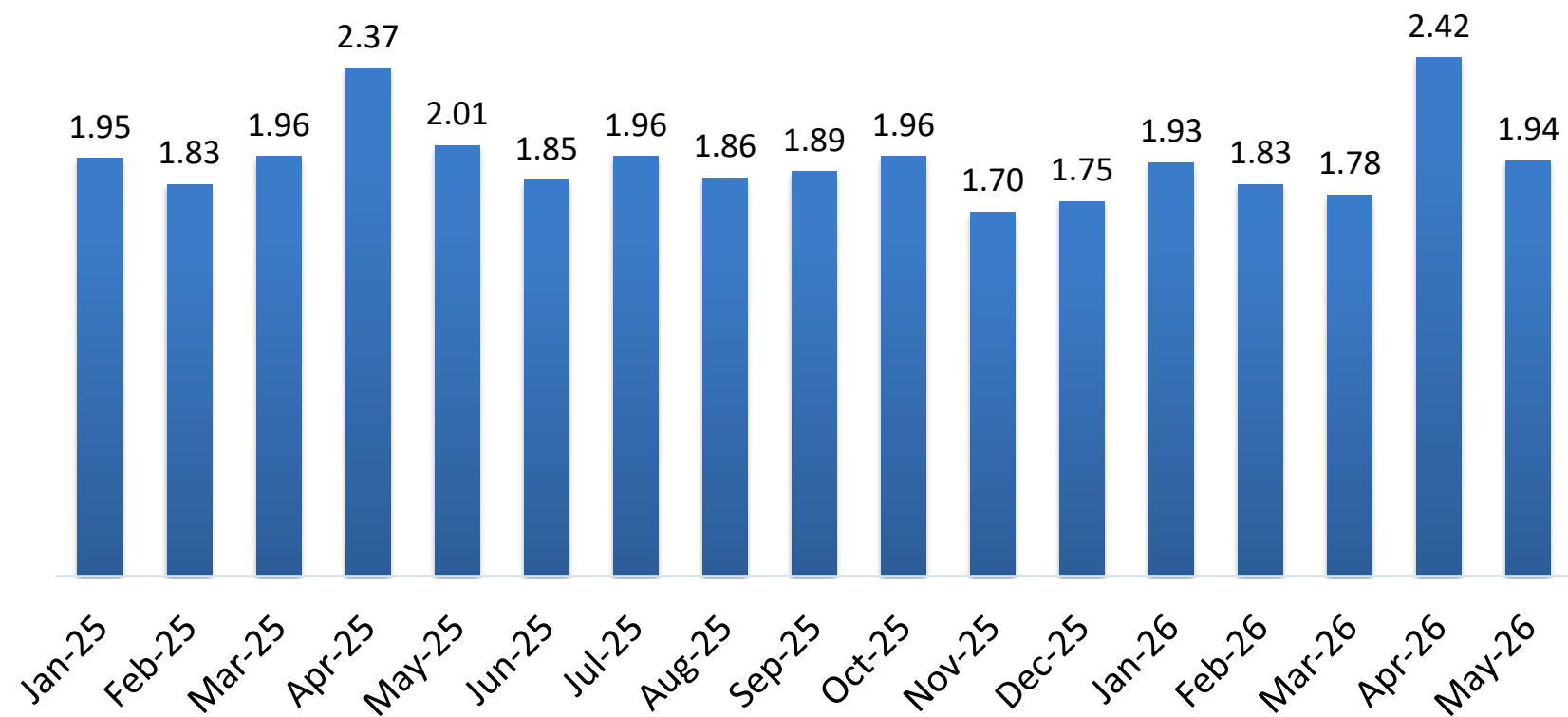
Trade balance (USD billion)



- The overall trade deficit stood at USD -7.8 billion in April 2026.
- While exports to West Asia continued their downward trend from March into April 2026, the rate of decline has softened to 28%, dropping from USD 5.78 billion in April 2025 to USD 4.16 billion in April 2026. Merchandise imports from the region also saw a steep decline, falling 31.6% from USD 15.3 billion last April to USD 10.5 billion this year.
- To counterbalance these regional headwinds, India's export growth in April 2026 largely driven by unprecedented surges in non-traditional markets. Merchandise exports to Tanzania soared by 158% to reach USD 1.2 billion, while other historically smaller destinations including Sri Lanka (215%), Singapore (179%), Bangladesh (64%), and Vietnam (53%) also recorded exceptionally strong growth.

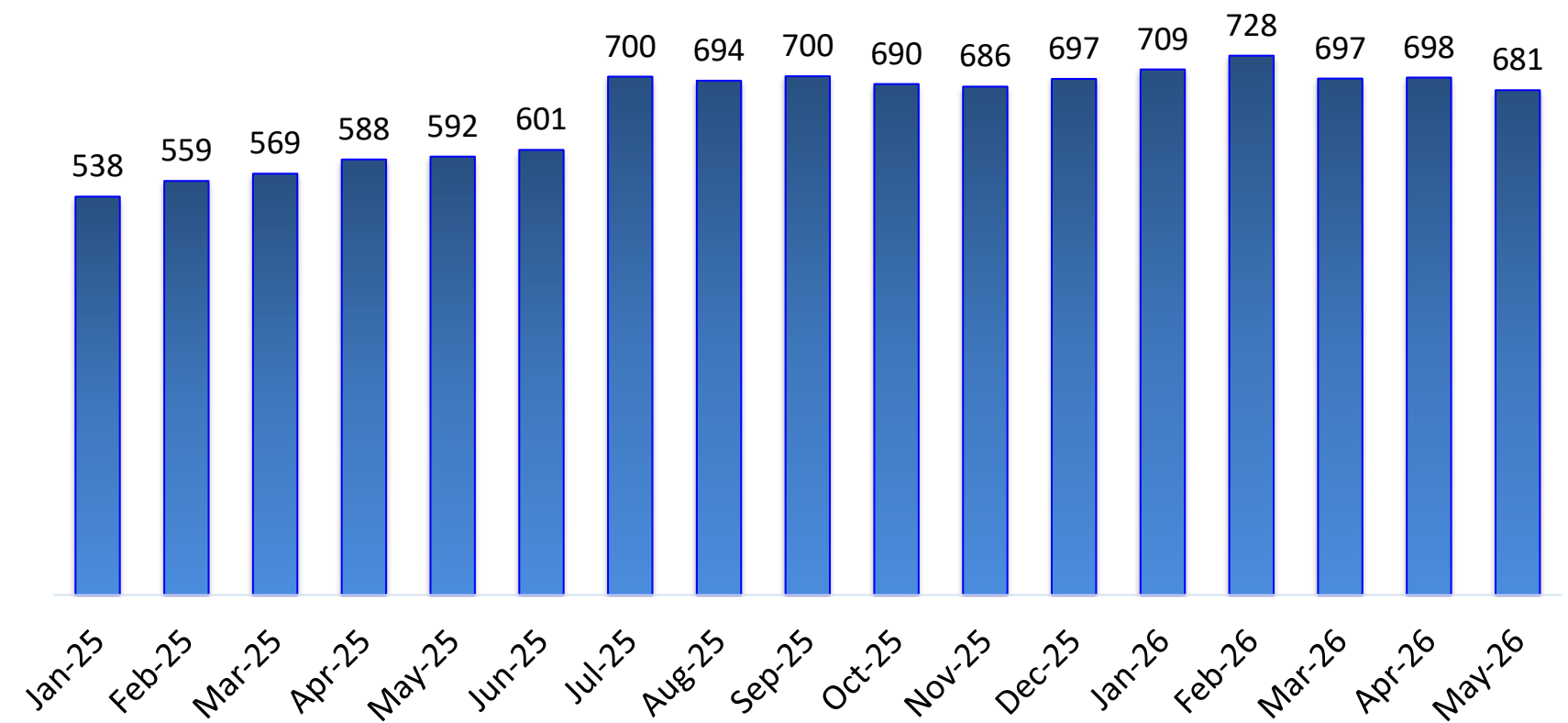
GST collections moderate while RBI interventions impact forex reserves

GST collections (INR trillion)



- India's GST collections for May 2026 moderated to INR 1.94 trillion after hitting record high of INR 2.42 trillion in April.
- GST collections continued to be driven by imports. Gross GST revenue from imports rose 19.1% YoY to INR 596.54 billion in May 2026, while gross domestic revenue declined 2.6% to INR 1.35 trillion.
- The May 2026 figures indicate sustained revenue buoyancy, although growth is becoming increasingly uneven across regions and sectors. Karnataka +11%, Maharashtra +8%, Andhra Pradesh +11%, Uttar Pradesh +9%, Kerala +19%, and Gujarat +3%. In contrast, Delhi fell sharply by 36%, while Tamil Nadu and Rajasthan contracted modestly.

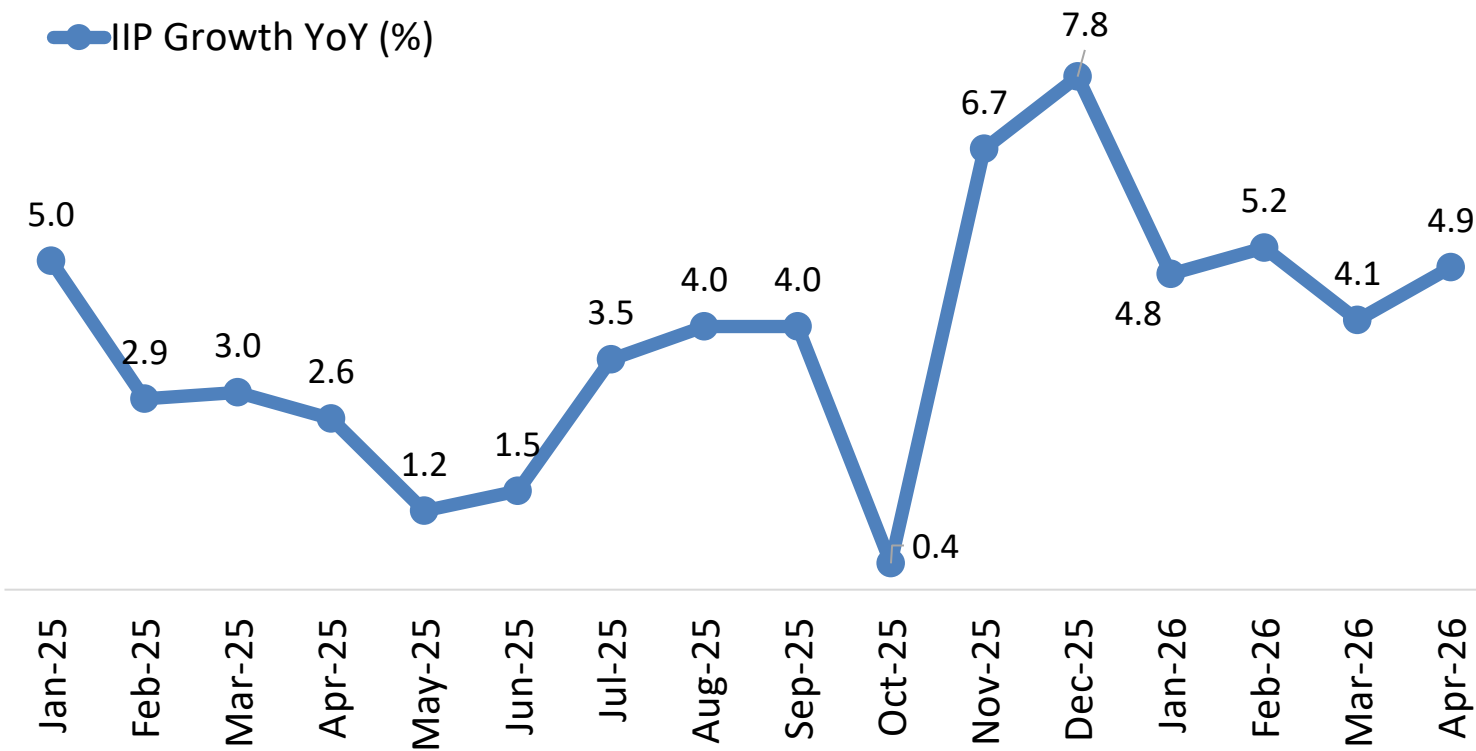
Forex reserves (USD billion)



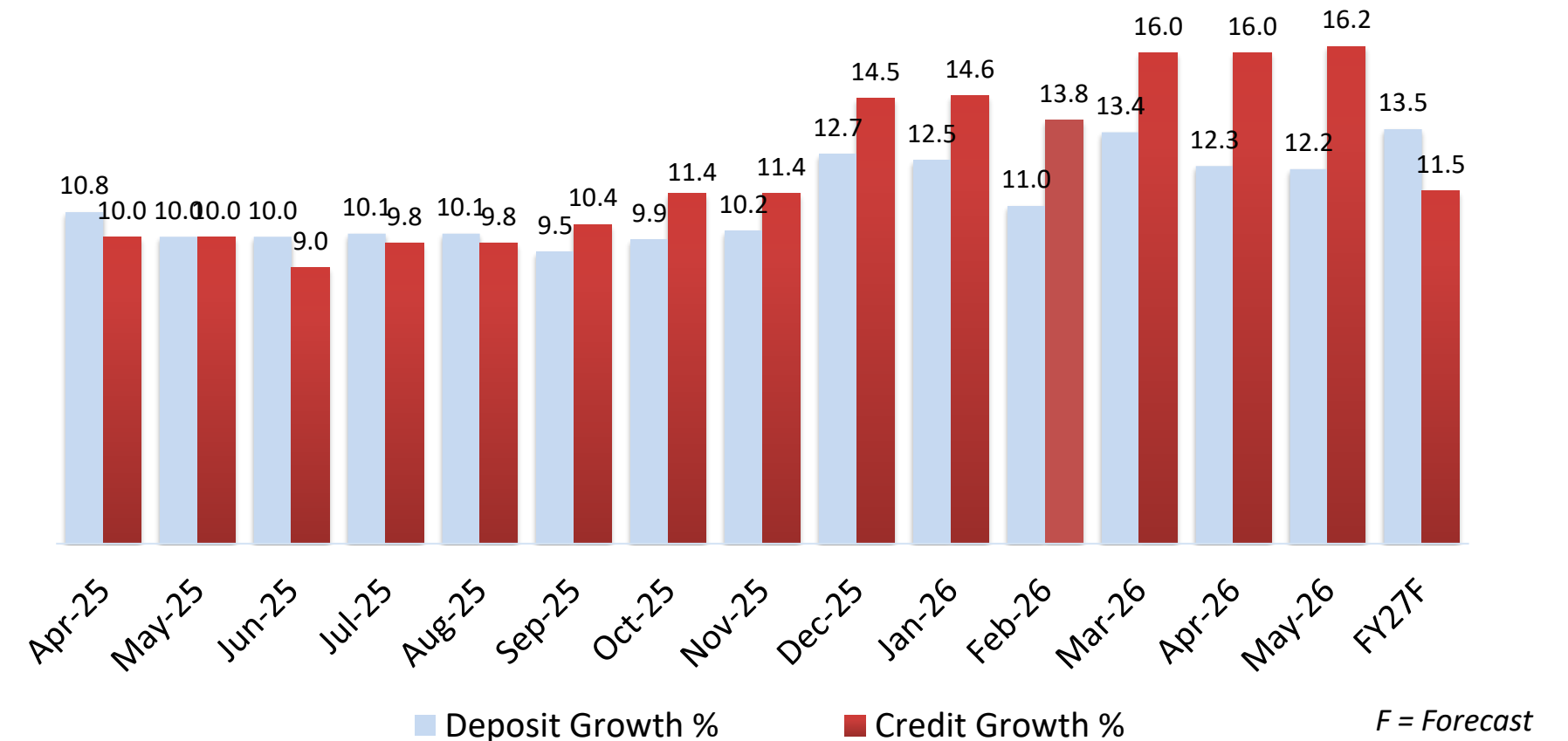
- India's foreign exchange reserves dip to USD 681 billion in May 2026, with declines in foreign currency assets (FCAs) and gold reserves.
- The decline is primarily driven by a fall in FCAs, which form the largest share of the country's reserves. FCAs had decreased by USD 6.48 billion to stand at USD 545.90 billion. RBI sold dollars to stabilize the beleaguered rupee. Gold reserves recorded a sharper decline, dropping USD 4.53 billion to USD 114.78 billion.
- Total reserves have fallen about USD 47 billion over three months, dropping from a recent peak of USD 728.49 billion on February 27, 2026, just before the West Asia war began. The drawdown is partly due to the central bank's active currency market intervention to curb rupee depreciation.

Manufacturing sector drives IIP growth, Bank credit growth outpaces deposits

Industrial production (IIP) growth in %



Deposit and credit growth in %



- India's IIP recorded a growth of 4.9% in April 2026, 2026 based on a new series with an updated base year, with the base year revised to 2022–23 (previously 2011–12). This is the first data point released after the series was updated with a revised base year.
- Manufacturing grew by 6.2%, and two newly included sectors (sewerage and waste management, and gas supply distribution) expanded by 6.6% and 4.9%, respectively. Although mining contracted by 5.1%, this decline was offset by the manufacturing sector, where 17 out of 23 groups posted positive growth.
- The rebasing is expected to give a more representative view of industrial activity by reflecting structural shifts in manufacturing, the adoption of new technologies, and the rising role of infrastructure-linked services.

- Bank credit growth remained resilient at 16.2% in May 2026 despite prevailing geopolitical uncertainties, while deposits grew 12.2%.
- Industrial credit growth accelerated to 15.1% YoY from 7% a year ago, supported by stronger lending across segments. Among major sectors, credit growth remained strong in infrastructure, metals, engineering, petroleum products and chemicals.
- Retail loan growth stood at 16% YoY, driven largely by gold loans, which recorded growth of more than 120%.
- Deposit growth, meanwhile, moderated slightly, Time deposits remained the primary driver of deposit mobilisation. Time deposits accounted for 87.7% of total deposits. the moderation in demand deposits reflected the normalisation of low-cost deposit growth and customers' preference for term deposits.

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The editorial deadline for this study was 08 June 2026.

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