MONTHLY ECONOMY WRAP

Issue 43

BRICKWORK RESEARCH

February 2026

India macroeconomic overview

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Macroeconomic updates – January 2026

- **GDP growth outlook and forecast:** The Economic Survey 2025-26 estimates India's real GDP growth at 7.4% in FY26 (GVA: 7.3%) and raises medium-term potential growth to 7% from 6.5%. For FY27, growth is projected at 6.8 - 7.2%, underpinned by resilient domestic demand, strong investment, and structural reforms such as PLI and GST.
- **India-EU Free Trade Agreement:** India and the European Union (EU) concluded a Free Trade Agreement on January 27, marking a major step toward deeper geoeconomic cooperation. The pact is among the most comprehensive trade deals, covering nearly 99% of Indian exports to the EU and about 97% of European exports to India. Bilateral trade between India and the EU stood at USD 136.5 billion in the fiscal year through March 2025.
- **India-US trade deal:** On 2nd February 2026, India and the United States announced a landmark trade agreement, setting a goal to raise bilateral trade to USD 500 billion by 2030 from the USD 132 billion (goods and services) in FY25. The deal includes a reduction in US tariffs on Indian exports to 18%, enhancing India's export competitiveness.
- **Capital expenditure:** Public capital expenditure has been increased to INR 12.2 trillion for FY27, from INR 10.96 trillion (Revised Estimate) in FY26, underscoring the government's push for infrastructure-led growth across transport, logistics, energy and defence, while the fiscal deficit is targeted at 4.3% of GDP, reflecting a continued commitment to fiscal consolidation alongside growth support.
- **Monetary policy** - RBI has maintained the repo rate at 5.25% with a neutral policy stance reflecting confidence in India's macroeconomic stability, as growth remains robust and inflation stays comfortably subdued, with FY26 CPI inflation projected at 2.1%. GDP growth projections revised for early FY27 to 6.9% in Q1 and 7.0% in Q2.

Indicator	Value	Period	Outlook
Real GDP growth	8.2%	Q2 FY26	FY26 growth is estimated at 7.4%, reflecting resilient domestic demand.
Inflation (CPI)	1.3%	December 2025	RBI forecast CPI inflation at around 2.1% in FY26.
Interest rate (Repo)	5.25%	December 2025	Neutral policy stance; low rates may persist to support growth amid soft inflation.
Unemployment rate	4.8%	December 2025	India's unemployment rate is expected to decline as economic growth expand.
GST collections	INR 1.93 trillion	January 2026	GST revenue growth is expected to remain positive but moderate, expansion supported by strong economic activity.
Manufacturing PMI	55.4	January 2026	Estimated to stay above 50 driven by resilient domestic demand and faster output growth.
Services PMI	58.5	January 2026	Estimated to remain in the high-50s range, bolstered by trade deals enhancing export prospects.

Sources: Reserve Bank of India (RBI), Government of India, PIB, Economic Times, Ministry of Finance, HSBC, BWR Research.

Inflation remains benign while growth momentum stays intact

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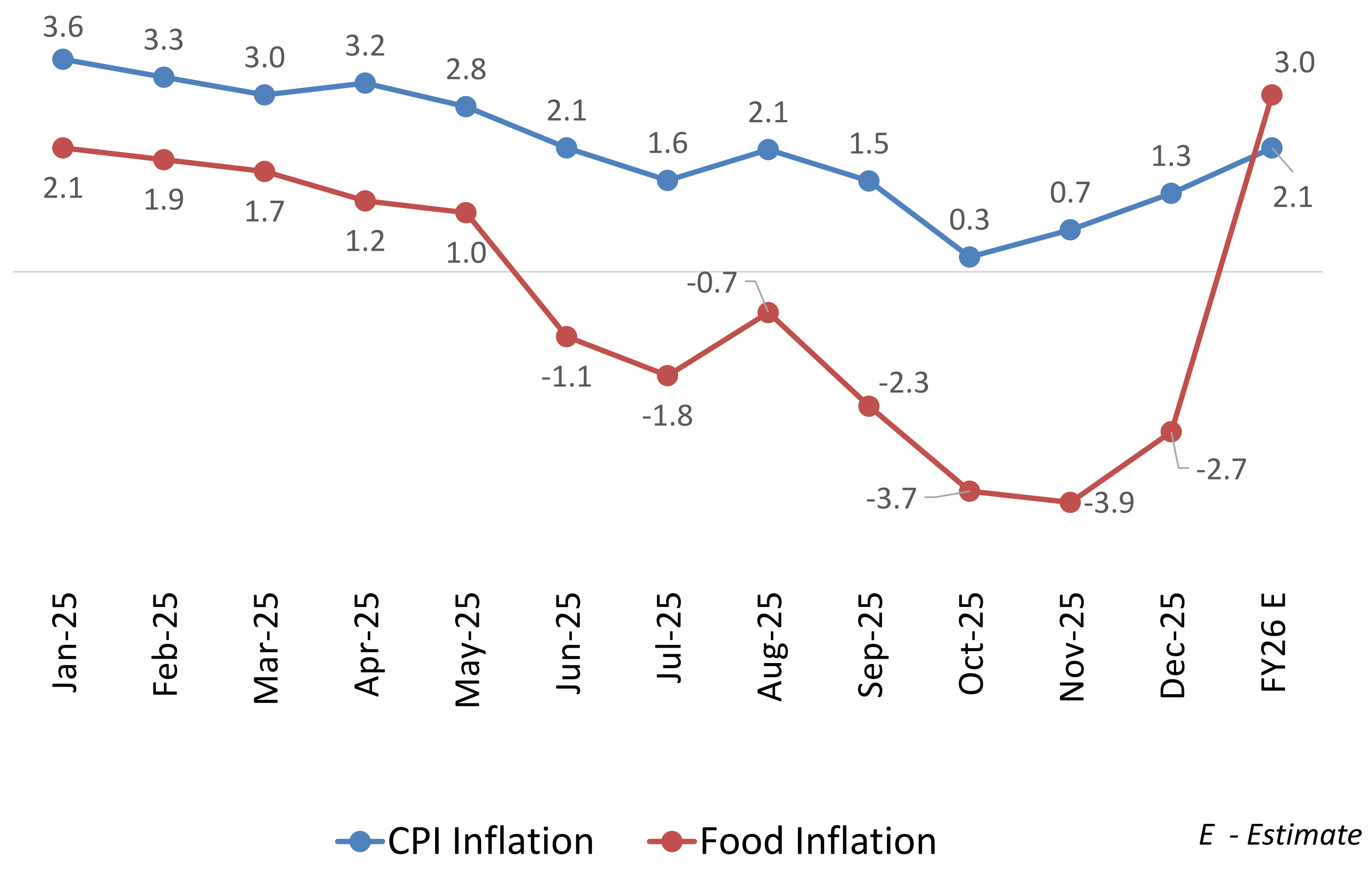
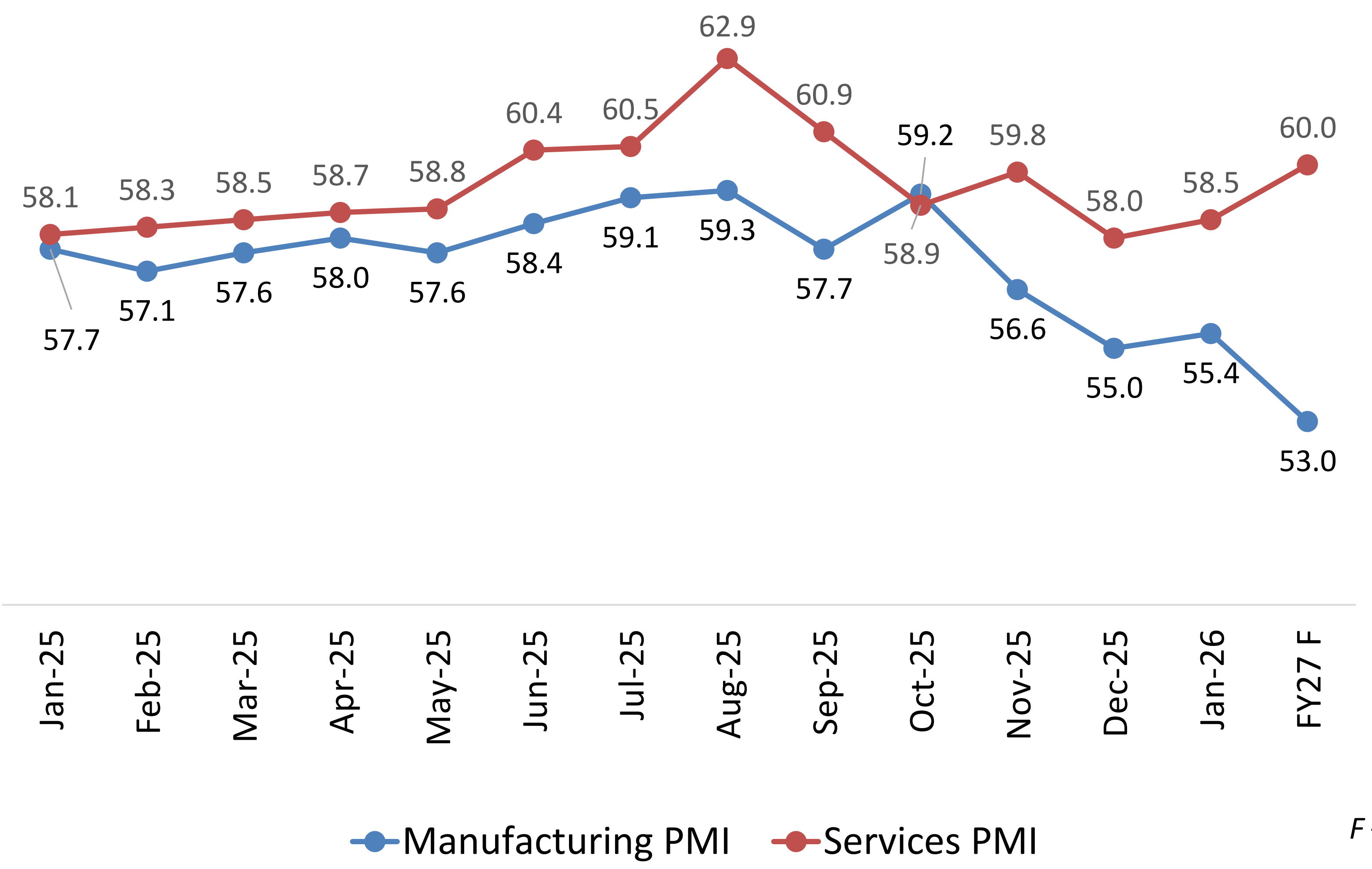
CPI inflation %



E - Estimate

Manufacturing and services PMI



F – Forecast

- Headline CPI inflation increased to 1.3% in December 2025, driven by a moderation in food price declines and firmer prices in select non-food items, while still remaining well below the RBI's comfort range.
- The rise in headline and food inflation in December 2025 primarily reflects increased inflation in personal care and effects, vegetables, meat and fish, eggs, spices, and pulses and their products.
- The RBI's recent monetary policy indicates that the inflation outlook remains benign, with FY26 CPI inflation projected at 2.1%.

- India's Manufacturing PMI rose to 55.4 in January, indicating a rebound in factory activity, driven by stronger new orders, output and employment. Input cost pressures remained moderate, while softer growth in factory-gate prices resulted in mild margin compression.
- Services PMI rose to 58.5 in January, signaling sustained momentum, driven by strong output growth and steady new orders, including higher international demand.
- Policy support (e.g., increased infrastructure and capex focus in the 2026-27 budget) may provide additional stimulus to manufacturing activity in the near term.

Sources: Reserve Bank of India (RBI), MoSPI, Government of India, PIB, Economic Times, Ministry of Finance, HSBC, S&P Global, BWR Research.

Trade deficit contained amid resilient exports and services strength

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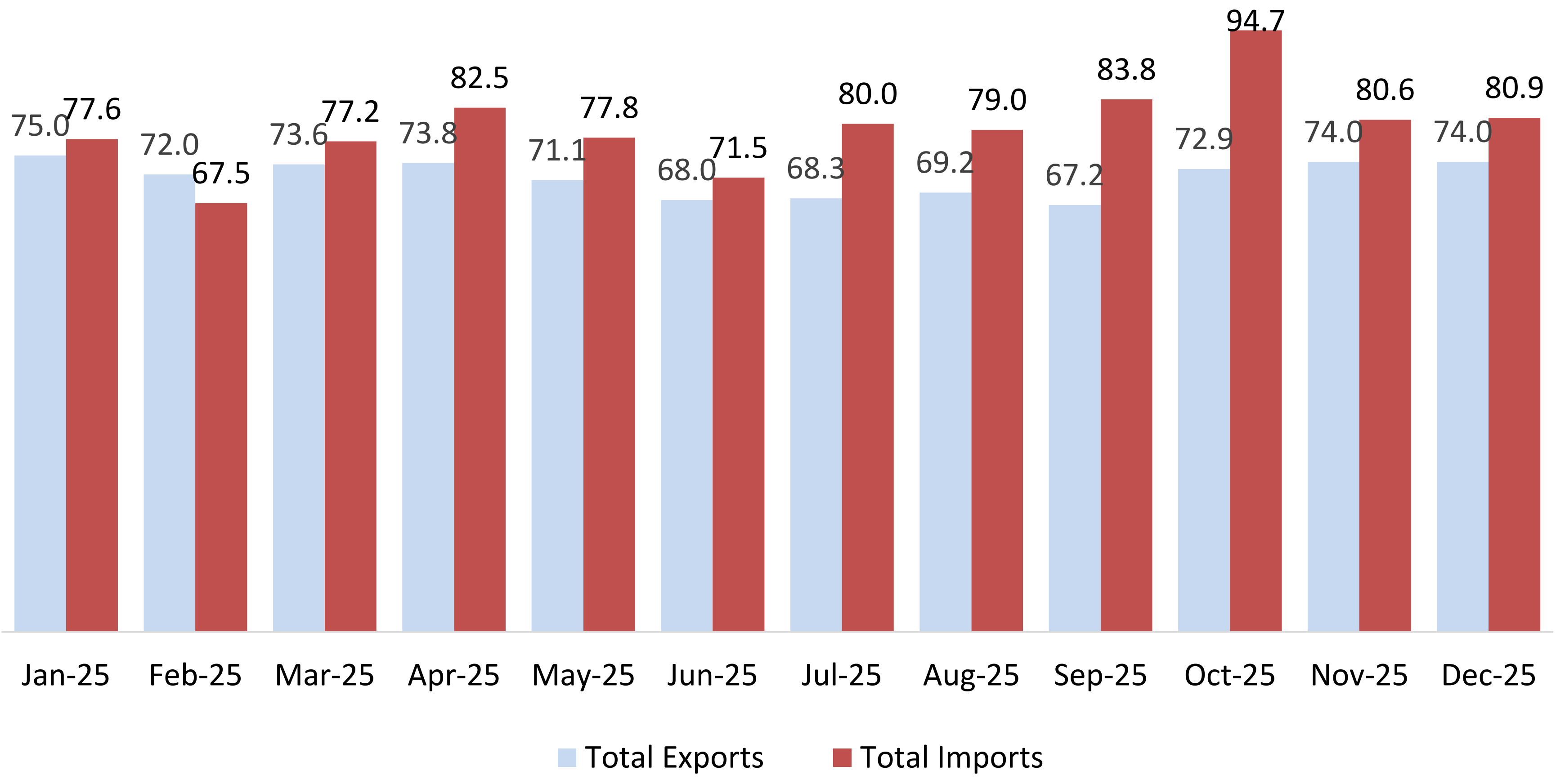
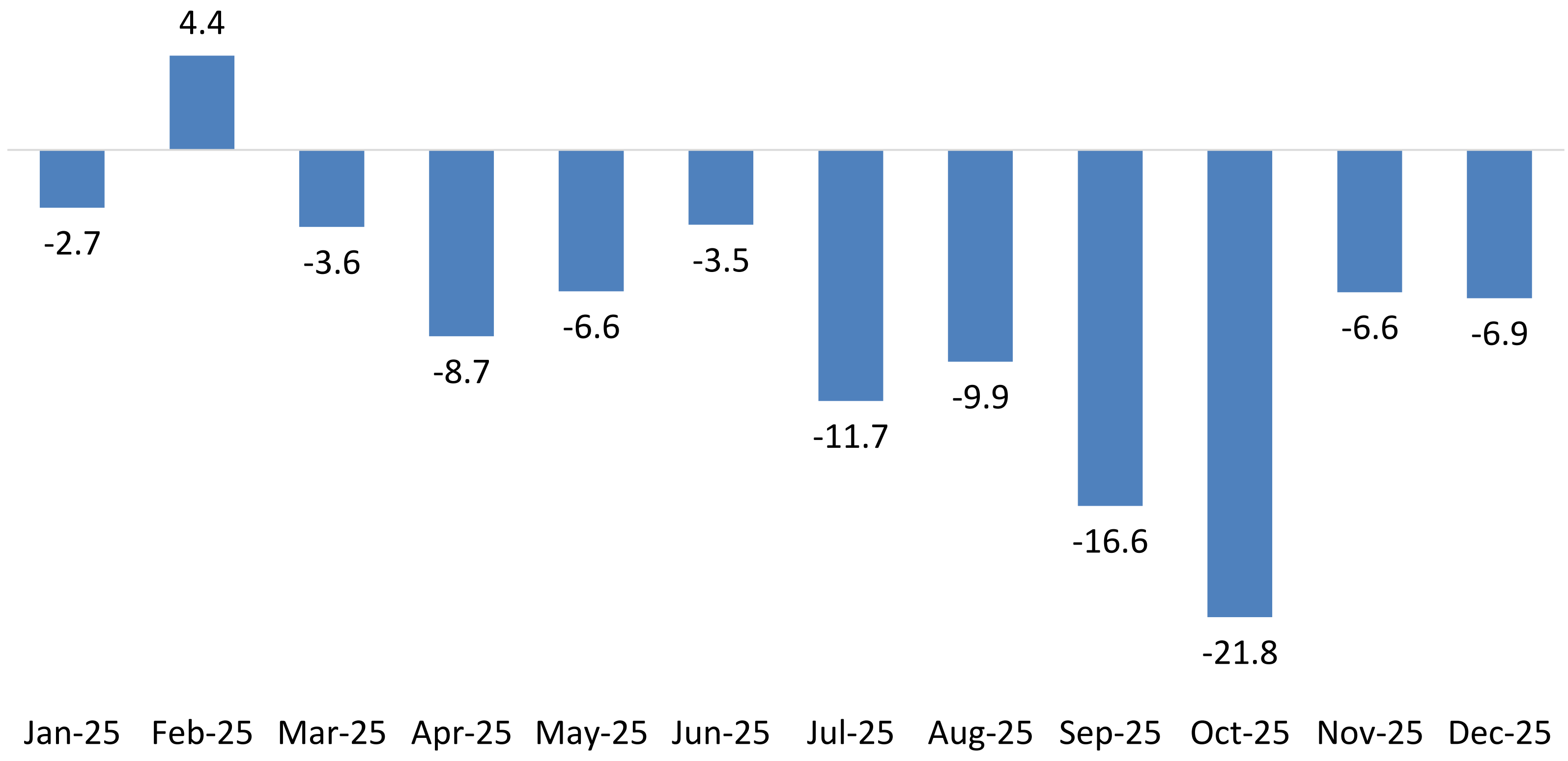
Exports and imports (USD billion)



Trade balance (USD billion)



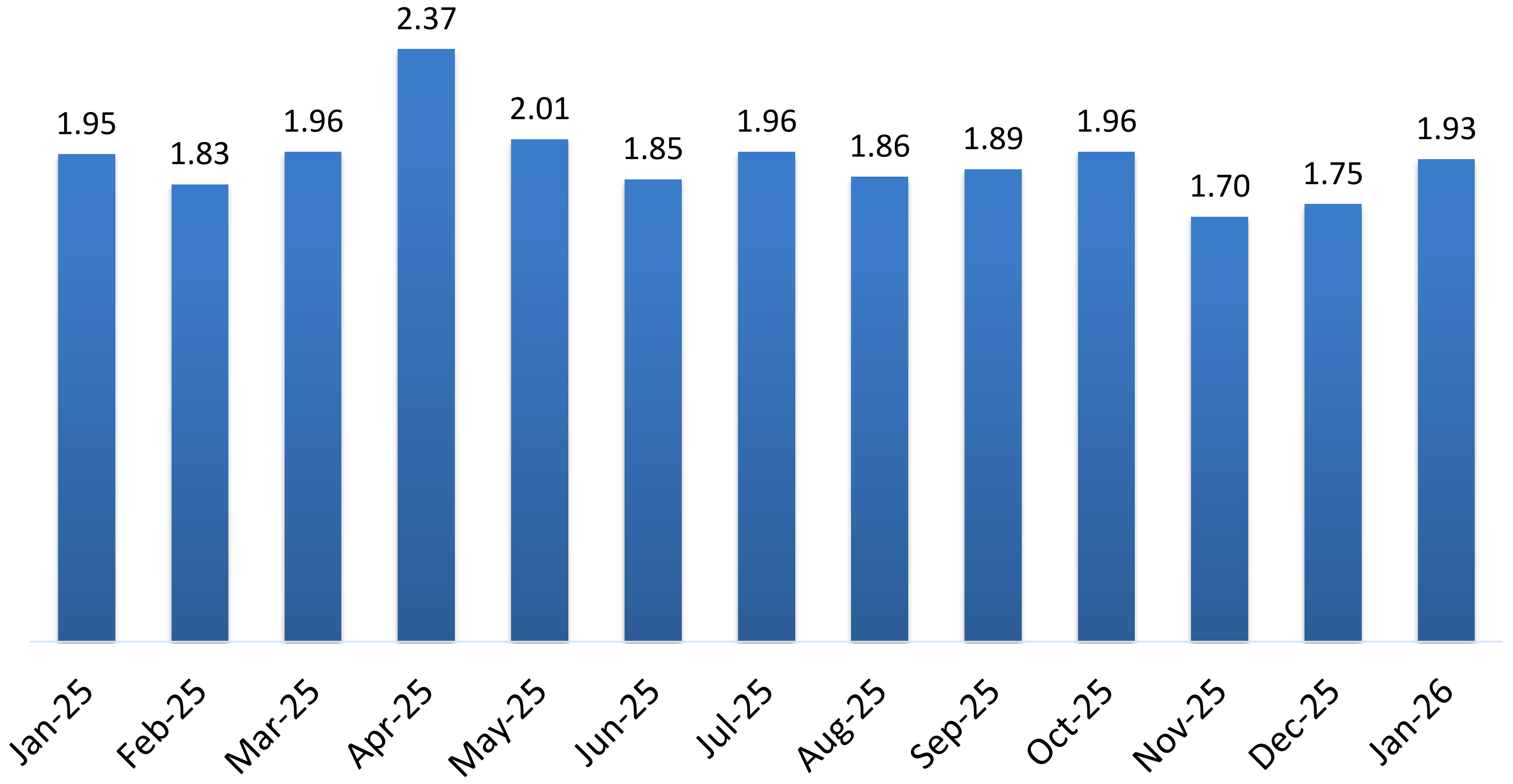
- India's total exports remained steady at USD 74 billion in December 2025, underpinned by merchandise exports rising to USD 38.5 billion from USD 38.1 billion in November 2025.
- India's total imports increased marginally to USD 80.9 billion in December 2025, driven by merchandise imports at about USD 63.6 billion, up from USD 62.9 billion in November 2025.
- India's export growth is expected to accelerate, supported by structural diversification and recent trade deals.

- The overall trade deficit stood at USD 6.9 billion in December 2025.
- Exports are expected to stay resilient supported by steady services demand and the ongoing diversification of goods exports, with sectors like electronics, engineering, and pharmaceuticals showing resilience, although downside risks persist from softer global demand.
- Export diversification and services-led growth continue to cushion external pressures, even as strong domestic demand keeps imports elevated.

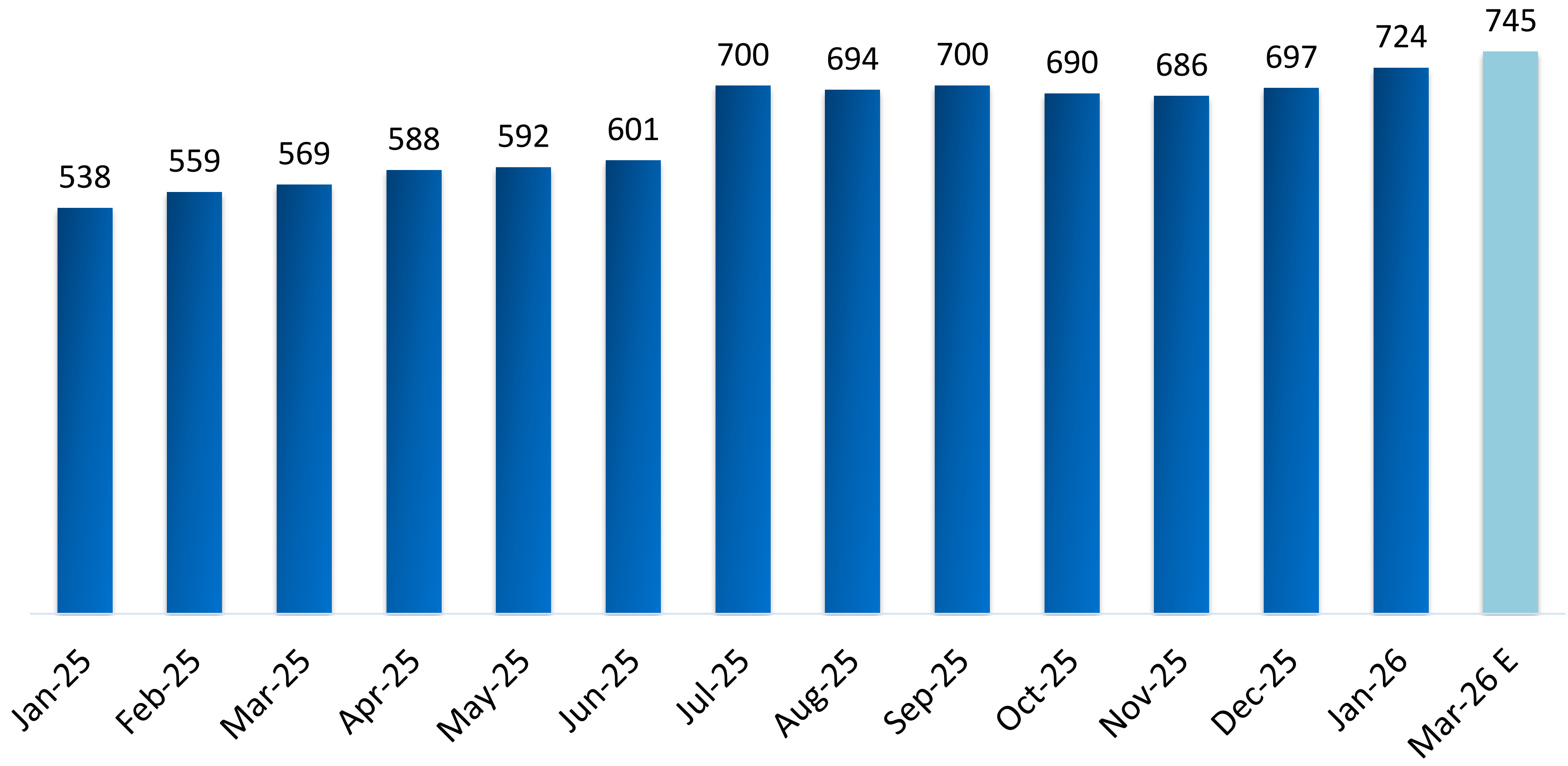
Sources: PIB, Ministry of Commerce & Industry, BWR Research.

Strong GST collections and rising reserves underscore macro resilience

GST collections (INR trillion)



Forex reserves (USD billion)



E - Estimates

- The GST collections continued to grow even after the GST rate rationalization in September 2025, signaling resilient consumer demand, sustained economic momentum, and an underlying pick-up in consumption activity.
- Domestic GST revenues recorded steady expansion, increasing 4.8% YoY to INR 1.41 trillion.
- Import-related GST collections remained robust, with gross import revenues rising 10.1% YoY to INR 0.52 trillion in January 2026.

- India's foreign exchange reserves climbed to a record high of USD 723.8 billion as of January 2026. Increase comes despite RBI's foreign exchange interventions to support the rupee.
- India's foreign exchange reserves provide import cover of over 11 months, signaling a strong and comfortable external sector position.
- Reserve accretion has been driven largely by a sharp rise in global gold prices and valuation gains on non-dollar assets.
- The RBI's gold holdings are now valued at around USD 137.7 billion, underscoring the growing role of gold in strengthening reserve buffers.

Sources: Reserve Bank of India (RBI), Government of India, PIB, Economic Times, Ministry of Finance, Business Standard, BWR Research.

Industrial activity strengthens while credit growth remains robust

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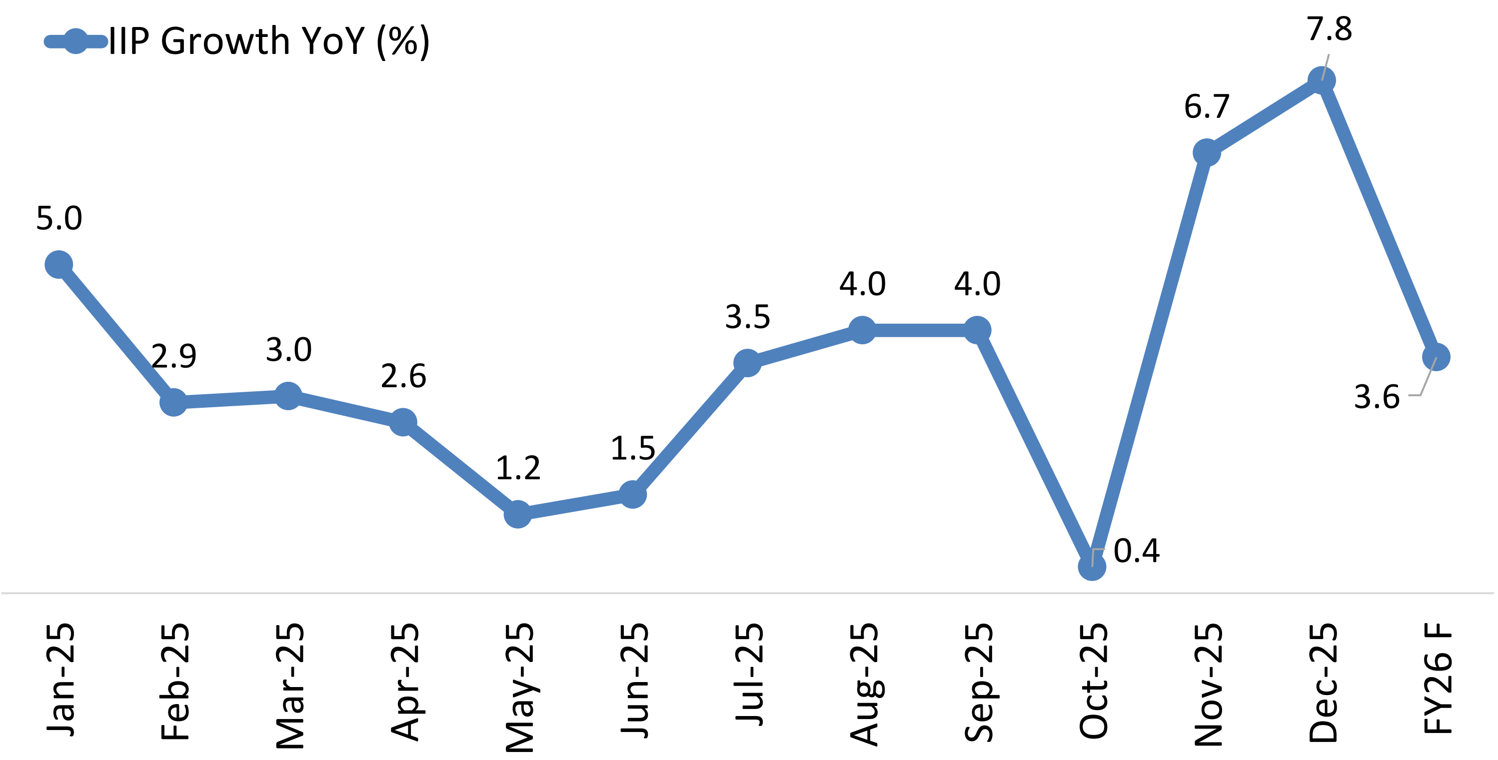
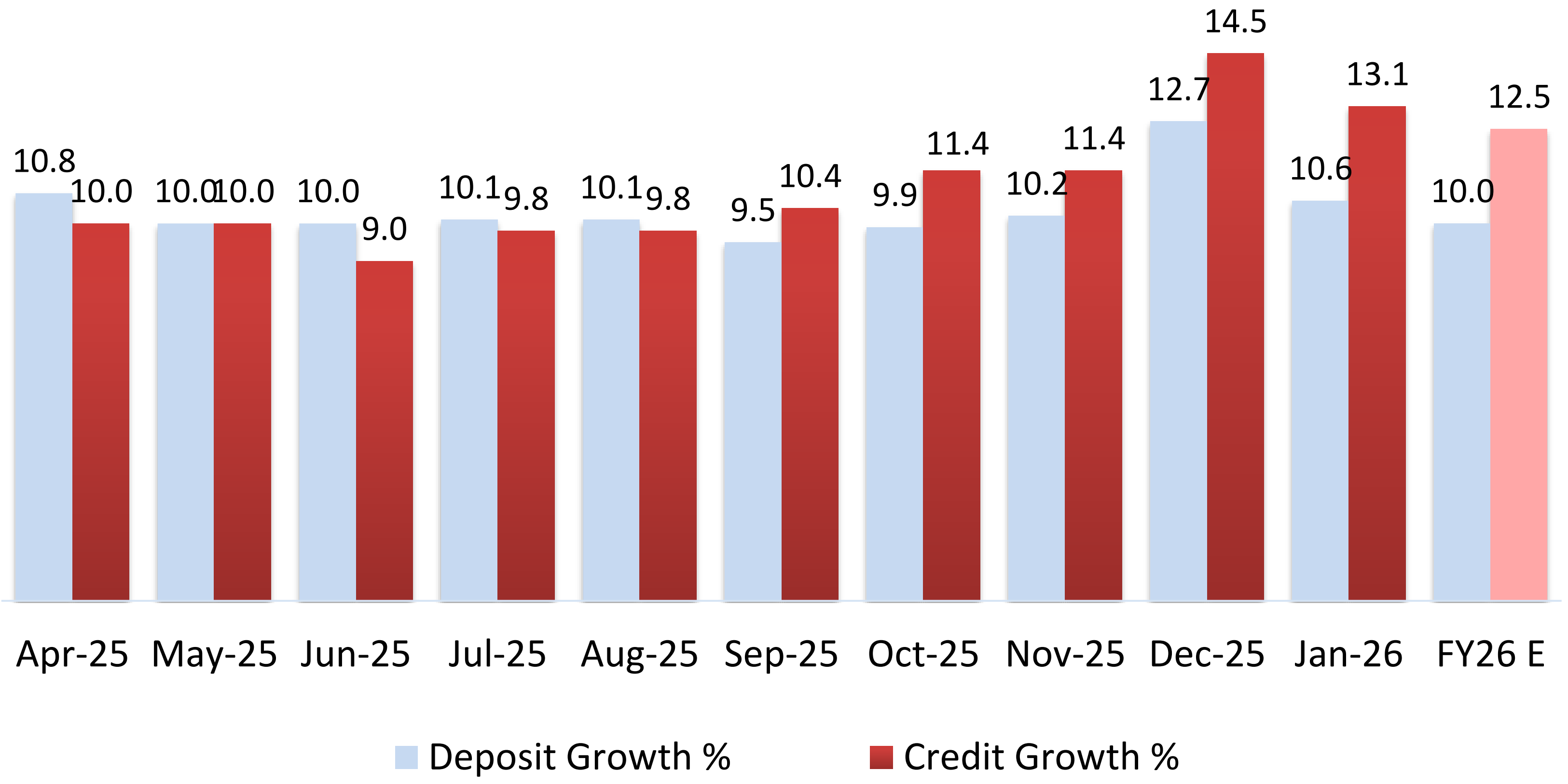
Industrial production (IIP) growth in %



E – Estimates; F - Forecast

- IIP growth accelerated to 7.8% YoY in December 2025, the strongest reading in over two years.
- Growth surpassed November's 6.7% growth and exceeded market expectations, pointing to a broad-based industrial recovery.
- The recovery was broad-based across all major sectors, with manufacturing output rising about 8.1% YoY, mining expanding by around 6.8%, and electricity generation increasing nearly 6.3%, together driving the sharp improvement in overall IIP.

Deposit and credit growth in %



- Bank credit growth in January 2026 moderated to 13.1%. Strong corporate and retail loan demand continues to sustain credit momentum. Even with some moderation, credit expansion remains robust compared with historical trends.
- Gold loans remained the fastest-growing retail segment, surging 127.6% YoY to INR 3.82 trillion. Overall retail credit expanded 14.4% YoY to INR 68.48 trillion.
- Deposit competition is emerging as a key challenge. While loans and deposits are expected to grow broadly in tandem, banks are likely to face rising competition for deposits amid shifting savings preferences.
- Bank credit to the industry also improved, which grew by 13.3% as compared to 7.5% a year ago. Credit growth in FY26 is projected at 12.5%, while slower deposit growth may increase banks' reliance on CDs and other market funding.

Sources: Reserve Bank of India (RBI), Government of India, Reuters, Economic Times, Ministry of Finance, BWR Research.

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ABOUT BRICKWORK RATINGS

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

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