



August
2025



Macro Pulse Report

Summary

Aug-25 began on an uncertain note for India as global trade tensions resurfaced. US President Trump imposed a 25% reciprocal tariff on India, followed by an additional 25% tariff as a penalty (for buying Russian crude despite sanctions). While the reciprocal tariff kicked in from early Aug 7th, the penalty will become applicable from Aug 27th. With the 6th round of trade negotiations between US-India (slated for 25th Aug) getting deferred, the situation remains fragile and uncertain, with material consequences for the domestic macroeconomy.

Some reprieve, however, came with S&P Global upgrading India's sovereign rating from BBB- to BBB with a stable outlook, marking the first upgrade in nearly 18 years. The agency cited India's robust growth trajectory, successful fiscal consolidation efforts, and credible monetary policy as reasons for the improved assessment. Importantly, S&P highlighted that despite the imposition of tariffs, India's long-term economic potential remains intact. In the wake of the announcement, sovereign bond yields eased, INR strengthened marginally, and equity benchmarks reflected renewed investor confidence. Optimism was further buoyed with PM Modi announcing sweeping GST reforms, expected to be rolled out in Oct-25. The proposed changes aim to rationalize the tax structure into 2 standard rates of 5% and 18%, while shifting almost all items currently under the 12% bracket to 5%, and reducing the burden on nearly 90% of goods taxed at 28%. While the cut is expected to galvanize domestic consumption and lower inflation, while taking a hit on the fisc, the exact magnitude of impact is somewhat indeterminable amidst a lack of details, for now.

Having said that, downside risk to inflation could nevertheless get broad-based post the GST rationalization – this puts 25 bps rate cut likelihood back on the table. The bond market appears to be concerned about tariff uncertainty (esp. the 25% penalty tariff), coupled with GST-related fiscal slippage risk. We believe the GST-led revenue loss in FY26 would not be big enough to derail the headline fiscal deficit target. As such, we maintain our Mar-26 10Y g-sec yield call of 6.20%. The tariff-related uncertainty would also weigh upon INR, though the pressure could now be buffered by India's sovereign rating upgrade. We maintain our call of moderate weakness in INR and project a level of 89.50 by Mar-26.

India long-term rating gets an upgrade

After a hiatus of 18 years, S&P upgraded the long-term sovereign credit rating of India to BBB from BBB-, with a stable outlook

Rating	Outlook	Date
BB	Stable	16th Dec-03
BB	Positive	23rd Aug-04
BB+	Stable	2nd Feb-05
BB+	Positive	19th Apr-06
BBB-	Stable	20th Jan-07
BBB-	Negative	24th Feb-09
BBB-	Stable	18th Mar-10
BBB-	Negative	15th Apr-12
BBB-	Stable	26th Sep-14
BBB-	Positive	29th May-24
BBB	Stable	14th Aug-25

The upgrade has been driven by underlying resilience in growth trajectory, improvement in quality of fiscal spending and fiscal consolidation, inflation targeting and comfortable external account. The move places India in the same rating category as countries like Mexico, Indonesia, and Greece.

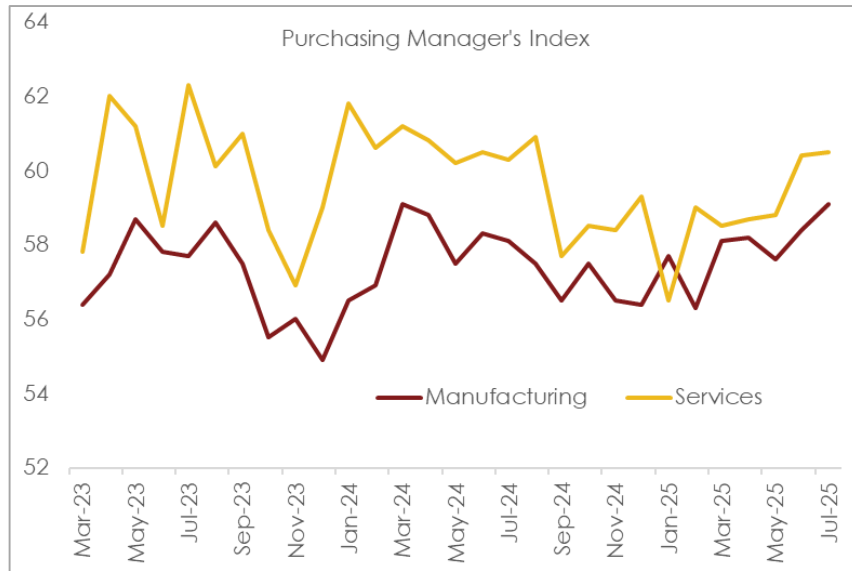
S&P also raised India's short-term sovereign rating to A-2 from A-3 and revised its transfer and convertibility assessment to A- from BBB+

S&P expects India to grow at 6.8% over the next 3 years

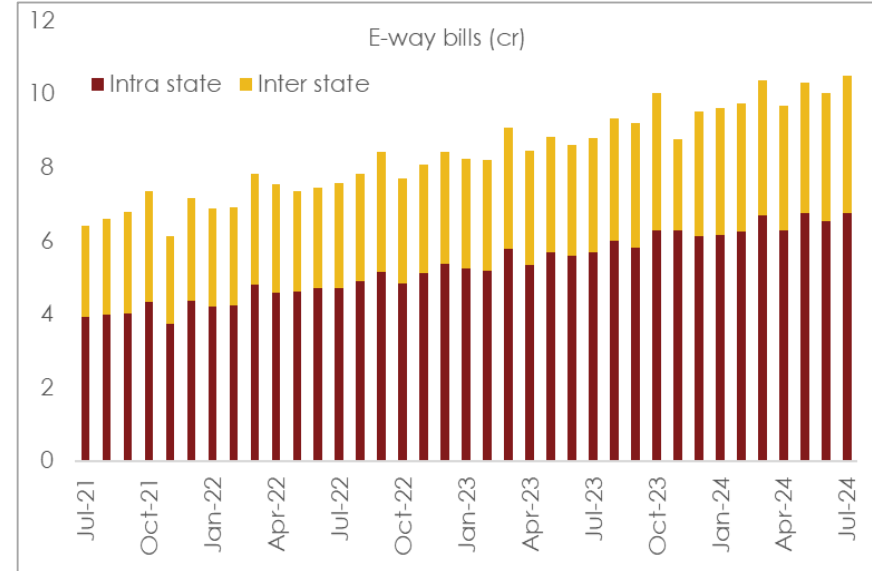
S&P maintained that the effect of US tariffs on the Indian economy will be manageable with the nation being relatively less reliant on trade and about 60% of its economic growth stemming from domestic consumption.

Domestic growth indicators paint a mixed picture (1)

High frequency lead indicators paint a mixed picture of the current state of the economy. PMI indices continued to move higher in Jul-25. Manufacturing PMI rose to a 16-month (59.1 vs. 58.4 in Jun-25) while services PMI rose to a 11-month (60.5 vs. 60.4 in Jun-25).

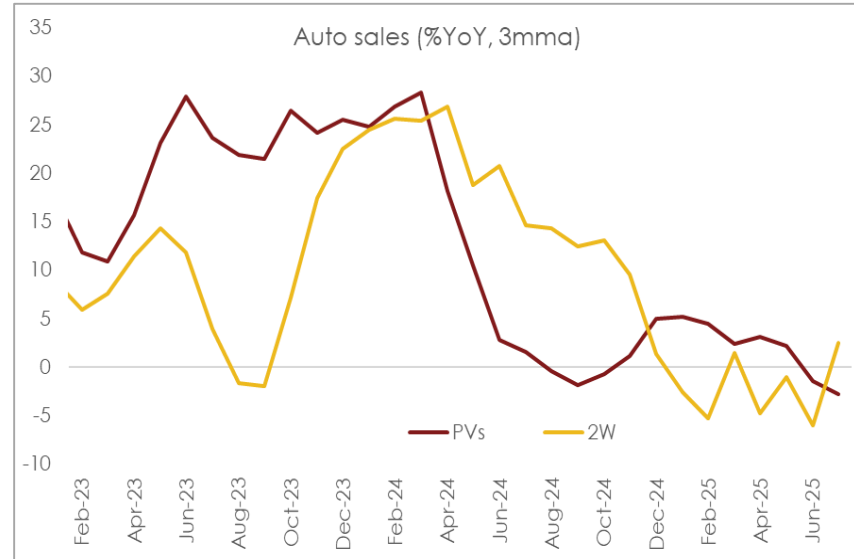


E-way bills registered in Jul-25 swelled to a record high of 13.2 lakh cr from 11.9 lakh cr in Jun-25, possibly reflecting rural demand uptick, festive season stocking and beating the tariff deadline.

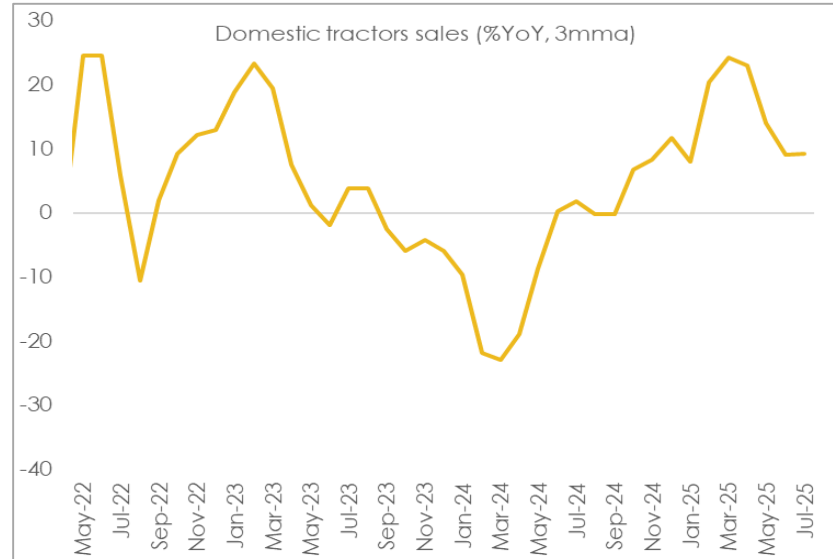


Domestic growth indicators paint a mixed picture (2)

Growth in auto sales continues to trend lower. Passenger vehicles sales growth, on trend, remained in contraction for the second consecutive month in Jul-25. Two-wheeler sales growth too has remained choppy and weak in recent months.



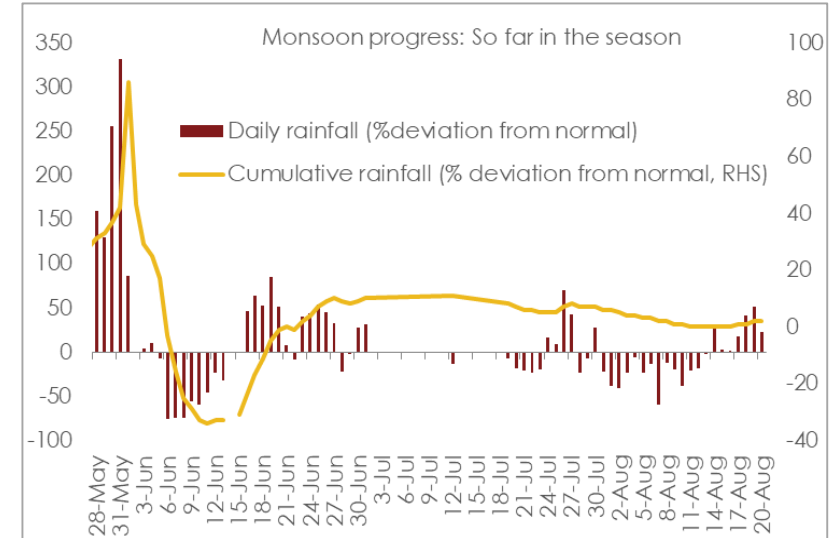
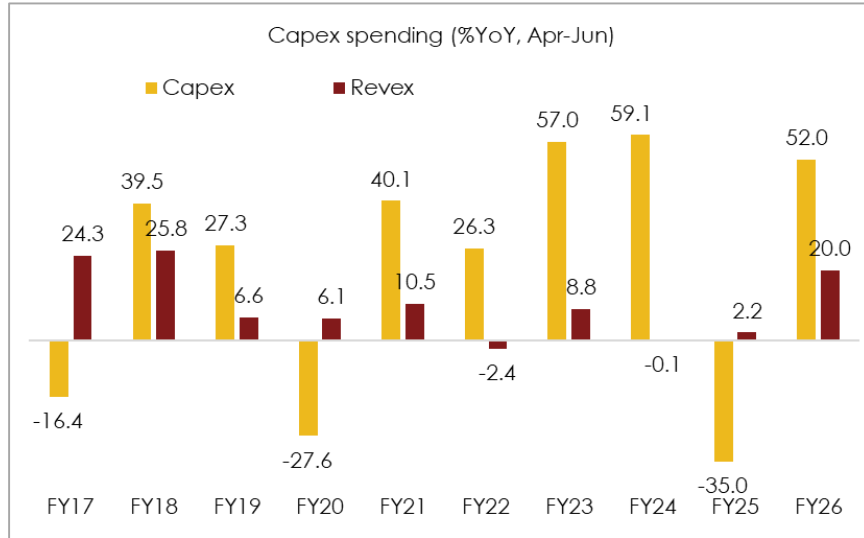
In comparison, tractor sales (rural demand indicator) remain healthy, clocking near double-digit expansion since the beginning of CY25. Back-to-back robust Kharif and Rabi crop (A.Y 2024-25) along with timely onset of Southwest monsoon in 2025 and its near normal performance so far, have buoyed the demand.



Support from Government spending and normal monsoon

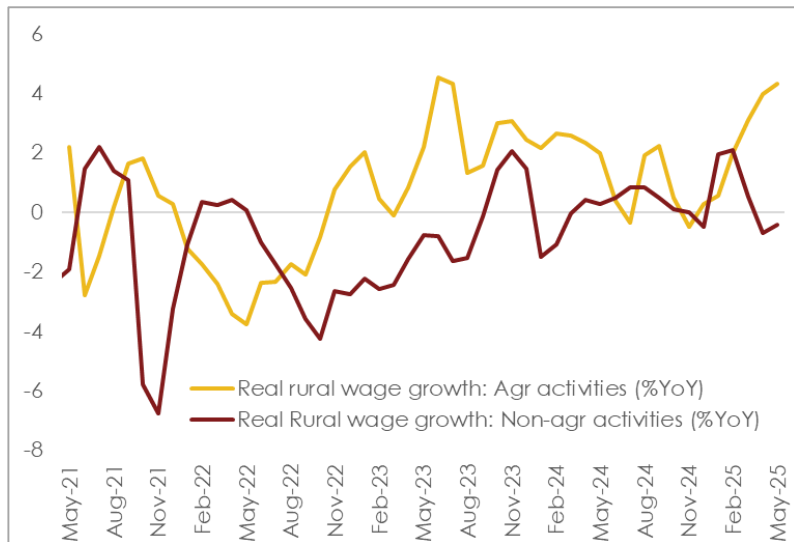
After a backloaded support to growth in FY25, Finance Ministry has sounded out various ministries and departments to front-load their capital expenditure in FY26. For the Q1 FY26, central government capex has grown by 52% on annualized basis, with revex spend also up 20%YoY.

Southwest monsoon rainfall continues to remain normal (at 1% above LPA as of 18th Aug-25, on a cumulative basis), despite the country-wide intensity easing off in Aug-25 so far. A normal monsoon augurs well for rural demand recovery to galvanize further.

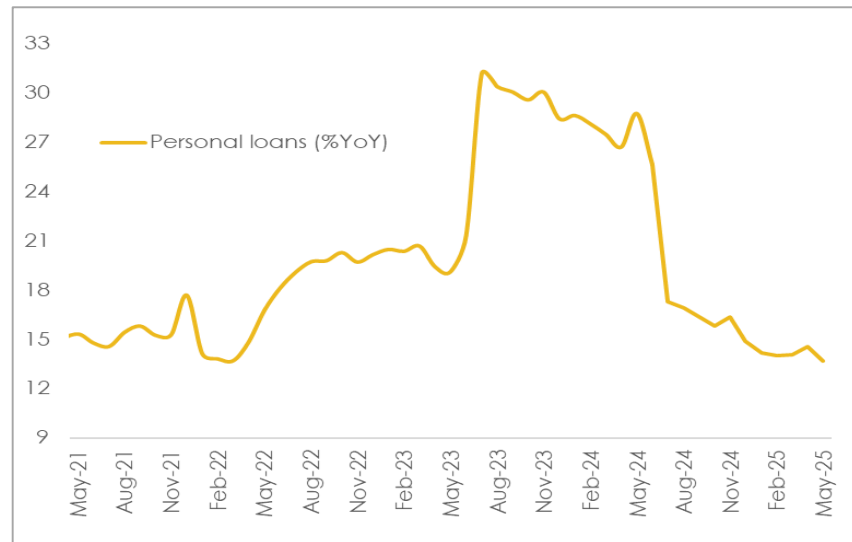


Consumption recovery to broaden

The improvement in real wages for agriculture activities, has been amplified by the decline in CPI rural inflation. In addition to a normal monsoon, roll-out of income transfers at the state level, low food inflation – are all factors that are likely to keep rural demand buoyed.



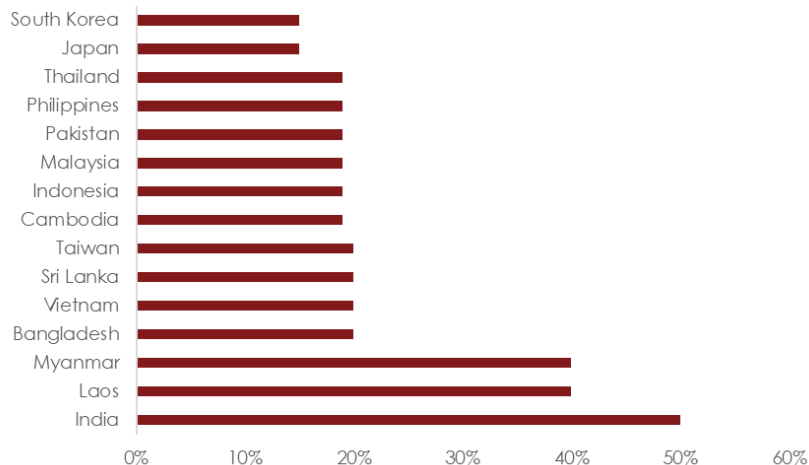
On the other hand, urban consumption has been lackluster so far in the year (as seen in low credit growth, contracting auto sales etc.). Having said, the transmission of 100 bps reduction in policy rate, reduction in personal income tax rates, imminent cut in GST rate and reduction in CRR being timed around the festive season should spur urban consumption.



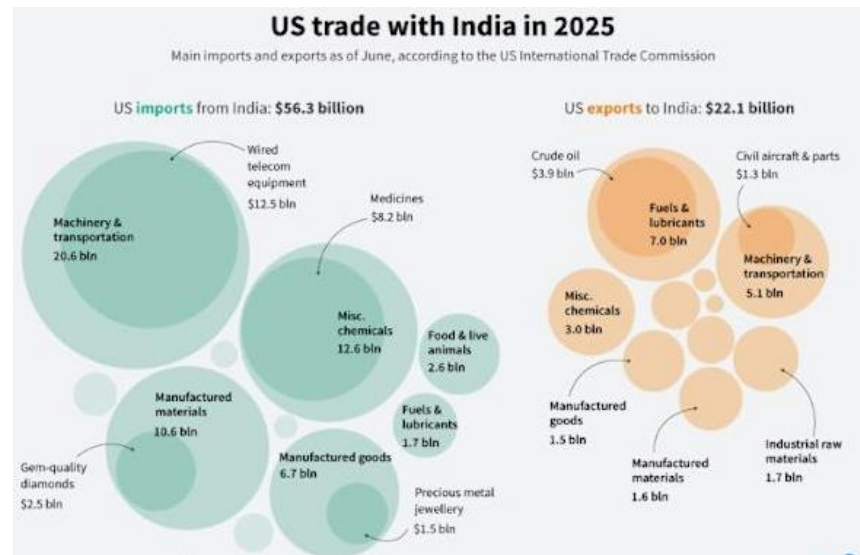
Tariff uncertainty looms large

India's tariff rate at 50% (25% basic +25% penalty) makes India the highest tariffed country among its Asian peers. With the 6th round of trade negotiations between US-India getting deferred – situation remains fragile and uncertain; with material consequences for domestic macroeconomy.

US Tariff rate on Asian economies, ex China



Even if the tariff impact is absorbed at the economy level, several sectors could face a larger brunt – traditional manufacturing esp. textiles, auto, chemicals among others.

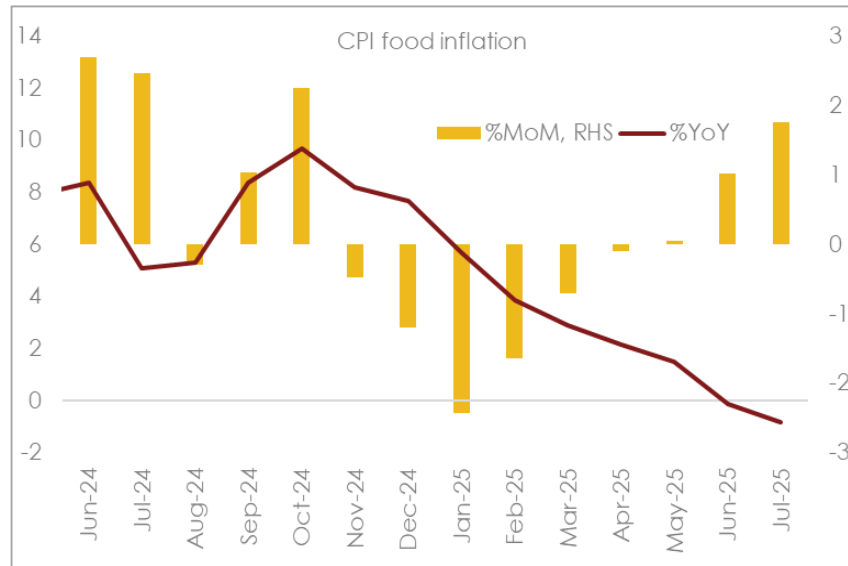
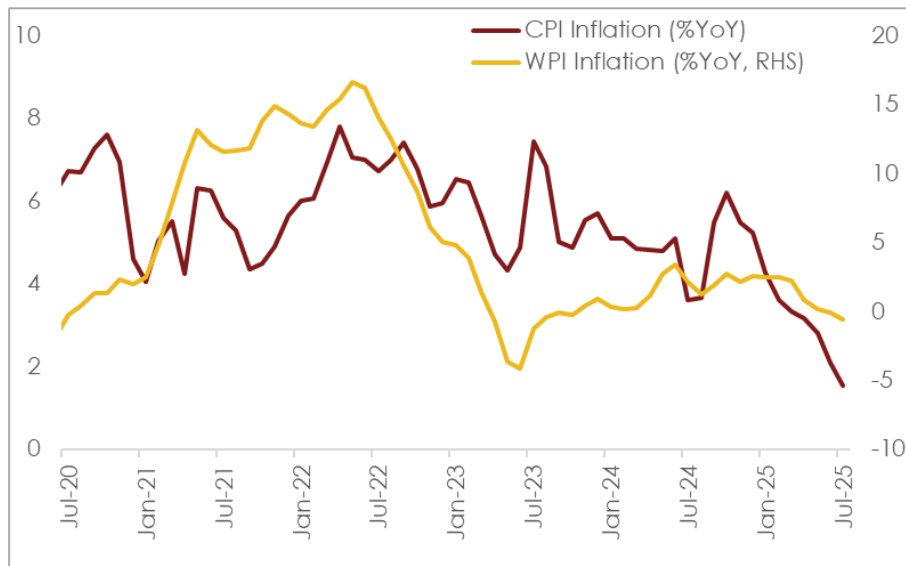


Given the continuing uncertainty on the tariff front and its final shape, we hold on to our FY26 GDP growth forecast of 6.4% for now.

CPI inflation eases to a 97-month low

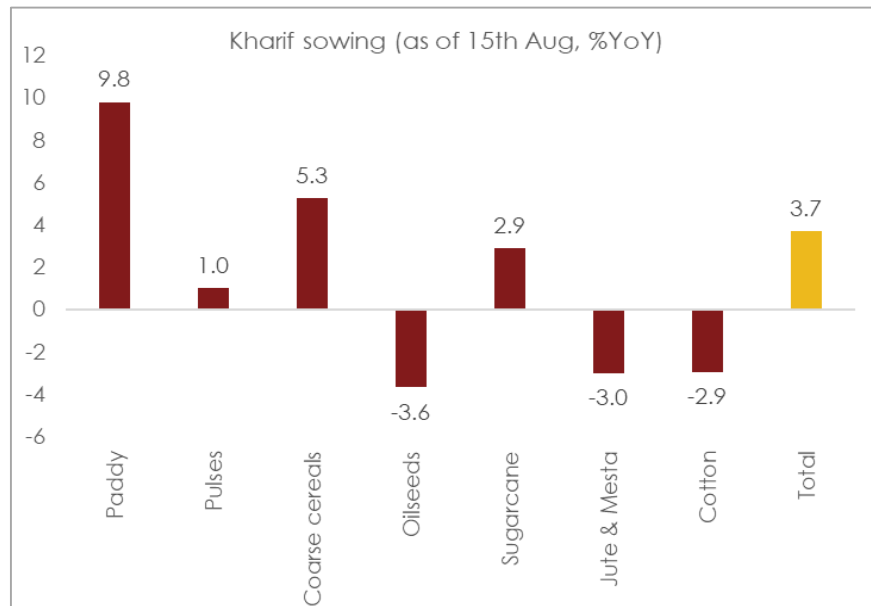
India's CPI inflation decelerated to a 97-month low of 1.55%YoY in Jul-25 from 2.10% in Jun-25. This marks the sixth consecutive instance of undershooting the 4% target.

The food disinflation momentum remains strong amidst satisfactory overall progress of the south-west monsoon season and a restrained MSP hike for kharif crops this year.



Kharif sowing on track

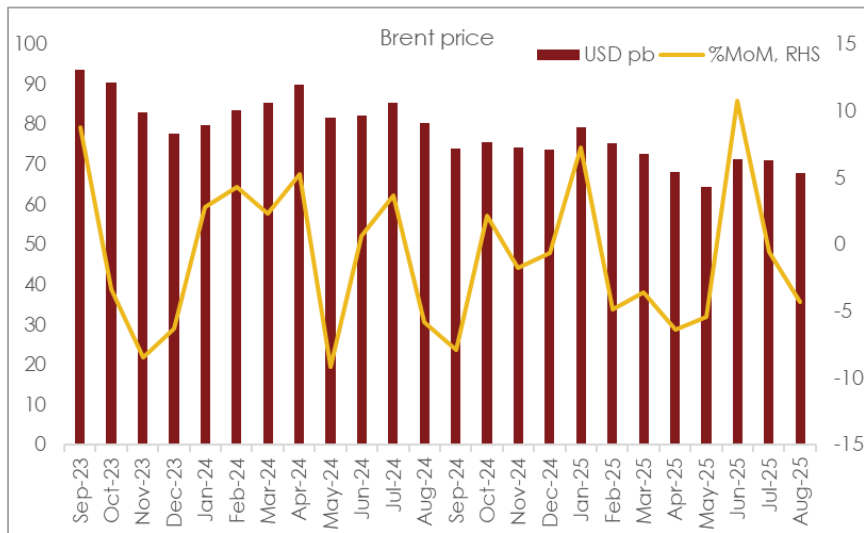
Area sown under Kharif crops as of 15th Aug-25, has recorded an increase of 3.7%YoY, led by Paddy and Coarse cereals. 90% of the sowing stands complete.



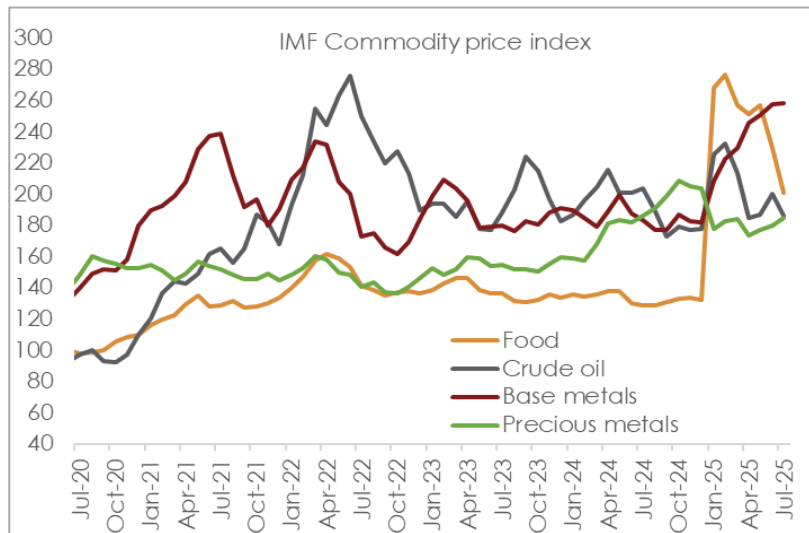
Sowing Progress of Kharif crops (as on 15th Aug, in lakh ha)				
Crop	Normal Area	2024	2025	%YoY
Paddy	401.6	362.9	398.6	9.8
Pulses	136.0	108.4	109.5	1.0
Arhar	45.6	43.5	40.9	-6.2
Kulthi*	36.8	0.2	0.2	0.0
Urad	37.0	19.9	20.2	1.3
Moongbean	1.9	32.8	33.2	1.4
Other pulses	10.3	3.3	3.2	-2.4
Moth bean	4.5	8.7	9.1	4.1
Coarse cereals	180.9	173.2	182.3	5.3
Jowar	16.0	14.0	13.7	-1.9
Bajra	72.6	65.9	64.9	-1.5
Ragi	11.0	6.3	4.4	-30.0
Maize	4.5	83.0	91.9	10.8
Others	77.0	4.1	3.9	-5.8
Oilseeds	190.2	185.4	178.6	-3.6
Groundnut	45.3	46.1	43.2	-6.2
Sesamum	123.0	10.1	8.9	-12.2
Sunflower	1.4	0.7	0.6	-10.3
Soybean	10.3	124.6	119.5	-4.1
Niger	1.2	0.3	0.1	-48.1
Castor	9.1	3.6	3.2	-10.9
Other Oilseeds	0.0	0.1	0.1	-28.6
Sugarcane	51.2	55.7	57.3	2.9
Jute & Mesta	6.7	5.7	5.5	-3.1
Cotton	129.3	111.1	107.9	-2.9
Total	1095.8	1002.4	1039.8	3.7

Commodities – a mixed bag

Price of Brent crude has continued to ease, declining by 4.3%MoM sequentially so far in Aug-25, amidst weaker Chinese economic data and possibly a resolution to Russia-Ukraine war. In addition, US EIA cut its Brent spot average crude oil price forecast for 2025 and 2026 to USD 67.22 per pb this year and USD 51.43 pb respectively (from USD 69.89 pb and USD 58.48 pb earlier).



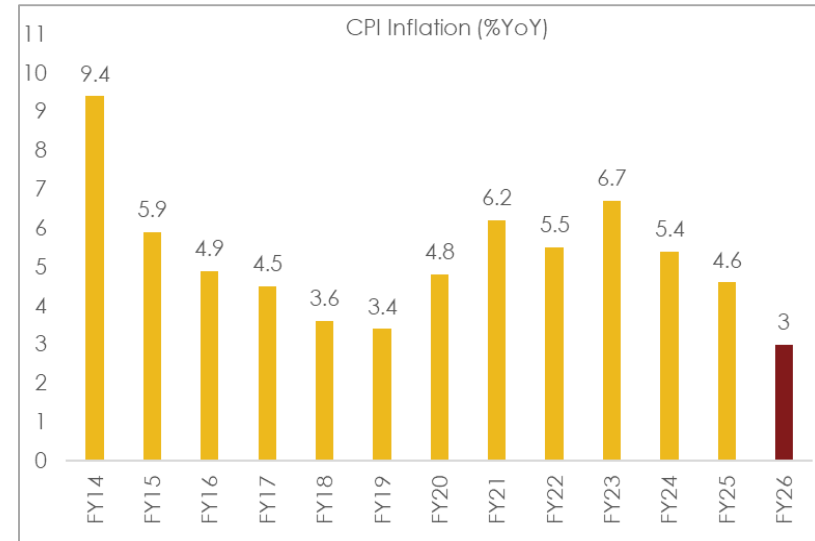
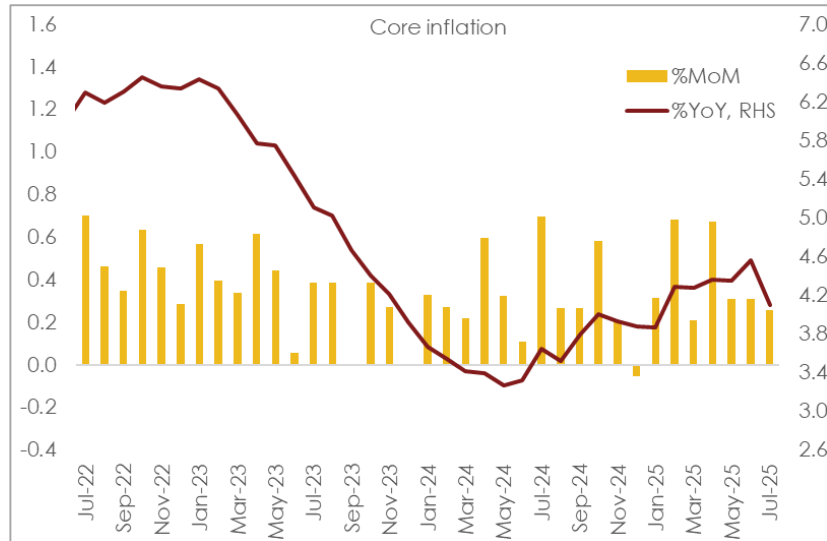
Commodities as a basket has been mixed. While food and crude have offered comfort, base metals (led by copper owing to tariffs) and precious metals (led by gold, owing to safe haven demand) have kept prices elevated.



Core inflation offers comfort, FY26 CPI outlook benign

Core CPI inflation moderated to a 6-month low of 4.0% YoY from 4.6% in Jun-25, with the moderation having gotten amplified by a favourable statistical base – recall, these charges had witnessed a coordinated hefty upward revision by all major telecom service providers a year ago in Jul-24.

Keeping in mind the recent downside in food prices and expectations of an above normal monsoon, we hold on to our FY26 CPI inflation forecast of 3.0%. Having said, we would remain watchful of near-future weather-related developments as also global developments with respect to tariff related uncertainties and commodity prices.



Snapshot of Apr-Jun FY26 fiscal performance

The cumulative fiscal deficit for the period Apr-Jun FY26 stood at 17.9% of the budget estimate, higher than 8.6% of actuals in the corresponding period in FY25. This is predominantly on account of relatively higher expenditure disbursal. A minor slowdown in tax collection also played a role.

Key Fiscal Variables (Cumulative position, as of Apr-Jun)				
	% of FY Actual/Target		%YoY	
	FY25 YTD	FY26 YTD	FY25 YTD	FY26 YTD
Revenue Receipts	27.3	26.7	41.0	10.1
Net Tax	22.0	19.0	26.8	-1.7
Non-Tax	52.1	64.0	80.7	33.2
Non-Debt Capital Receipts	10.8	36.9	-57.8	519.9
Total Receipts	27.1	26.9	39.2	12.9
Revenue Expenditure	21.9	24.0	2.2	20.0
of which, Interest Payments	23.7	30.2	8.3	46.2
of which, Major Subsidies	23.5	21.8	3.6	-7.3
Capital Expenditure	17.2	24.5	-35.0	52.0
Total Expenditure	20.8	24.1	-7.7	26.0
Fiscal Deficit	8.6	17.9	-69.9	106.9

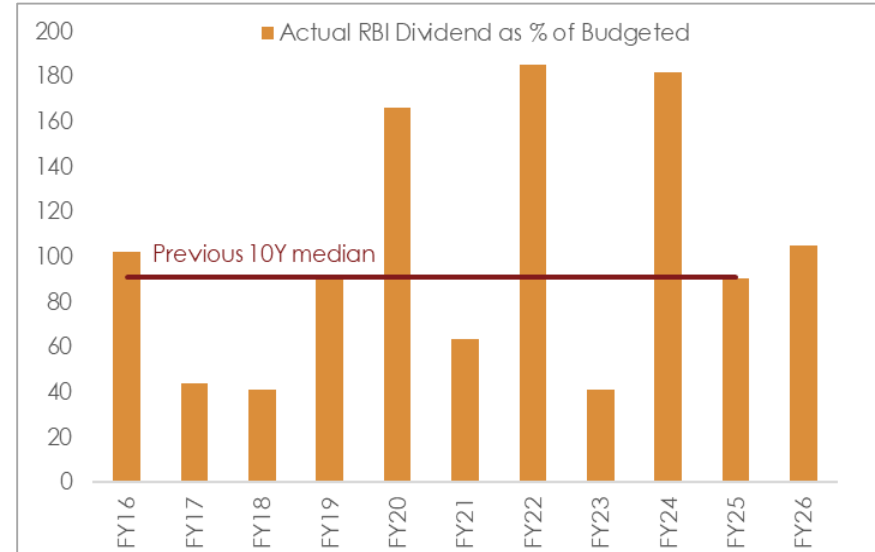
FY26 receipts appear to be on track for now; all eyes on the proposed GST rejig

Gross tax collections have shown a moderation (on account of Customs, Corporate tax, and Income tax). The annualized contraction in net tax collection reflects higher FYTD refunds so far. The GST rejig announced by PM Modi is expected to be formalized by the GST Council by Sep-25. This will provide cues for H2 FY25.

Growth in key tax categories	Apr-Jun FY25 (% YoY)	Apr-Jun FY26 (% YoY)	FY26 BE (% change)
Gross Tax	23.7	4.6	12.5
Corporate Tax	26.2	-1.2	9.7
Income Tax	49.9	-0.5	16.4
Customs	-4.3	-9.9	3.1
Excise	-0.9	8.3	5.6
GST	9.1	16.1	14.2
Net Tax	26.8	-1.7	13.5

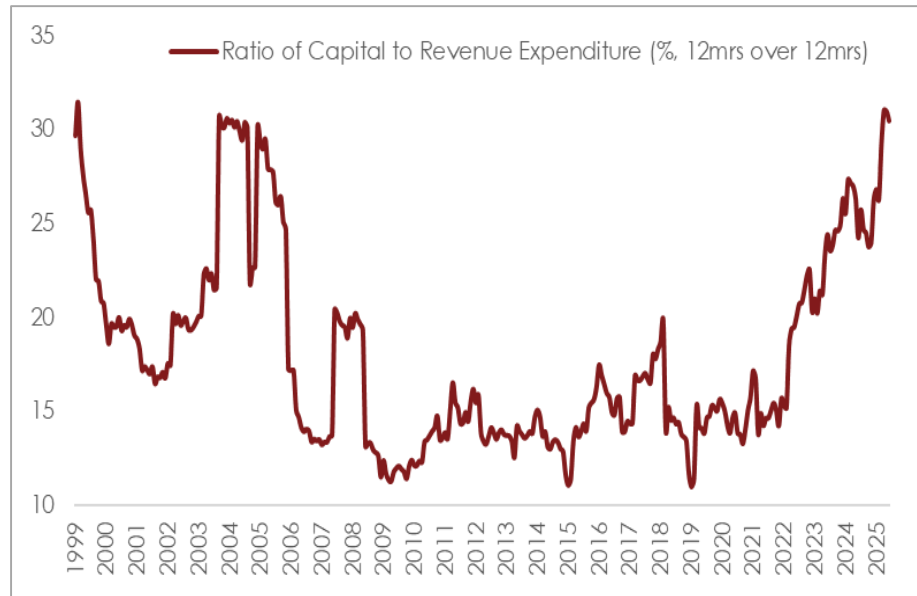
Note: The FY26 budgeted growth rates are over FY25 provisional numbers rather than the FY25 revised estimates.

However, record high dividend payment by the RBI has helped to offset the mild moderation in tax collections.



Expenditure quality continues to improve; keeping an eye on Nominal GDP

The quality of central government spending on annualized basis continues to improve – the ratio of capex to revex is currently close to its highest level since 1999.



Nominal growth in FY26 is likely to be sharply lower than budget estimates – this is going to be largely on account of much lower CPI and WPI inflation. This would not just lower the growth in tax revenue, but it would also reduce the base – which in turn could have a mild impact on the fiscal ratios. Nevertheless, we expect the government to meet the FY26 headline fiscal deficit target.

Market consensus forecast for deriving FY26 Nominal GDP growth

	Feb-25 SPF	Aug-25 SPF
FY26 Real GDP growth	6.5	6.4
FY26 CPI inflation	4.3	3.1
FY26 WPI inflation	3.1	1.0

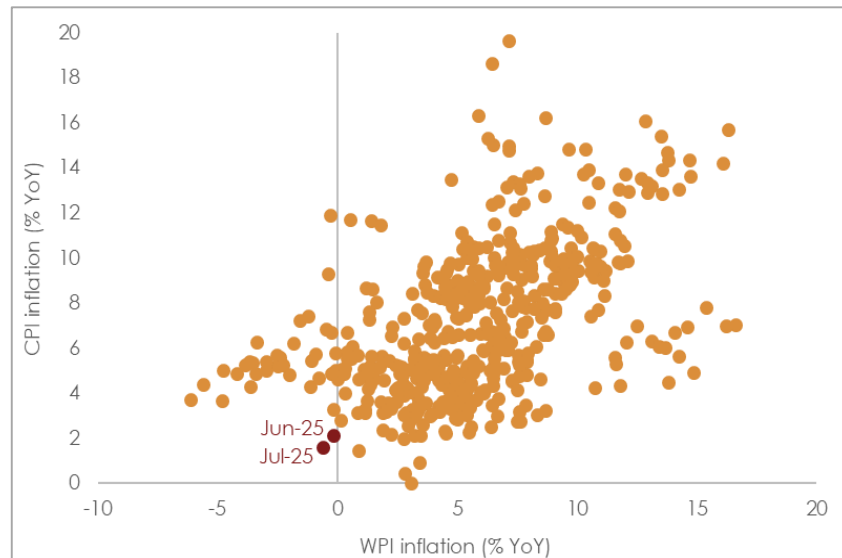
Note: (1) Market consensus is represented by the median value from RBI's SPF (Survey of Professional Forecasters); (2) The FY26 Union Budget was based on the assumption of a 10.1% growth in Nominal GDP. We expect FY26 Real GDP growth at 6.4%, CPI inflation at 3.0%, and WPI inflation 1.0%. This is likely to result in a FY26 Nominal GDP growth range of 8.0-8.5%.

G-sec yields harden despite...

India's 10Y g-sec yield has been gradually rising since the monetary policy review in Jun-25. It is currently at 6.52%, a level last seen in Mar-25.



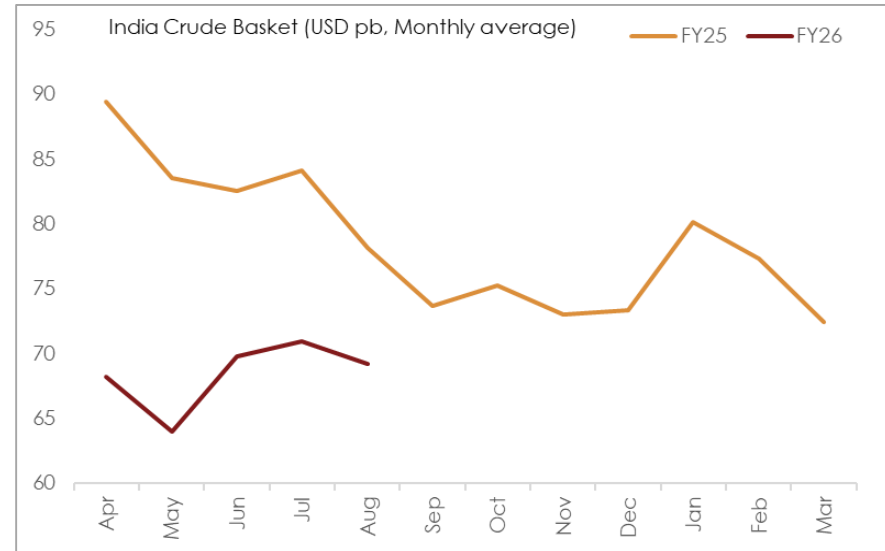
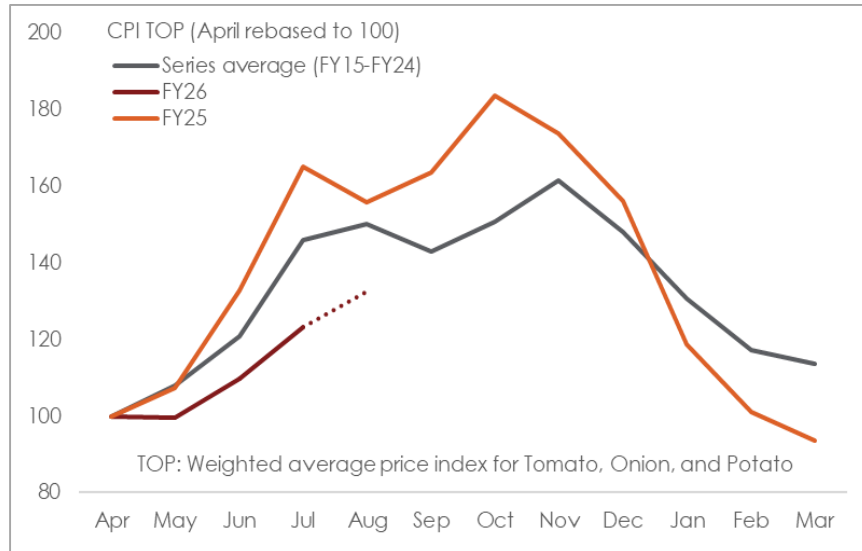
Bonds have ignored the record low levels of CPI and WPI inflation in the last two months.



...a benign inflation outlook...

High frequency indicator for Aug-25 points towards the likelihood of the seasonal rise in key vegetable prices remaining weak. This could keep headline CPI inflation at subdued levels (notwithstanding the likelihood of an up move in Aug-25 on account of adverse statistical base effect).

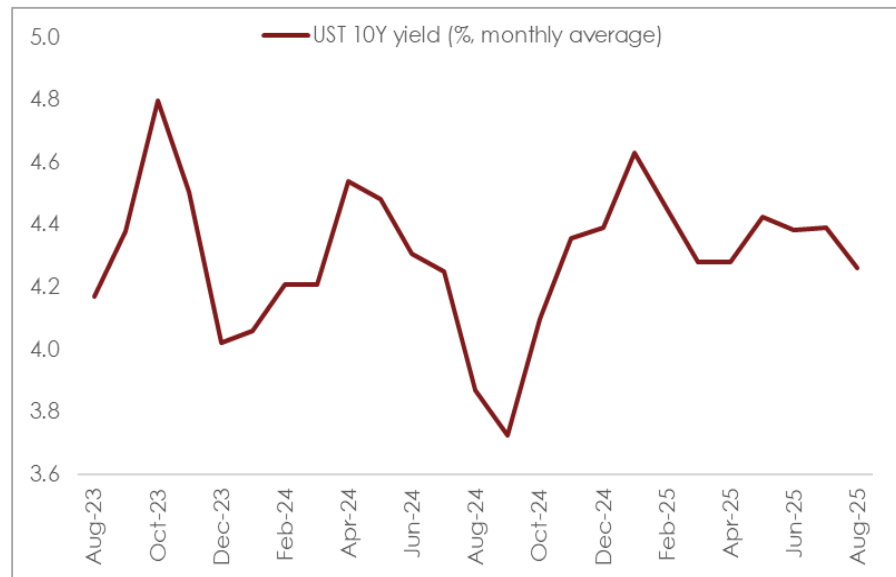
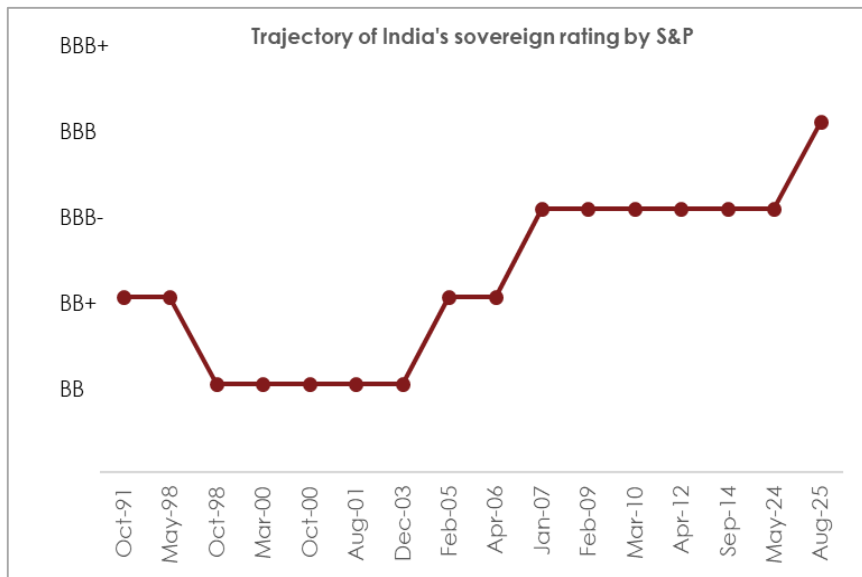
Notwithstanding the firmness in crude oil prices since Apr-May 2025 on account of geopolitical instability, they remain lower compared to last year. This will provide a disinflationary impulse to global inflation.



...and a favorable backdrop provided by ratings action and global rates sentiment

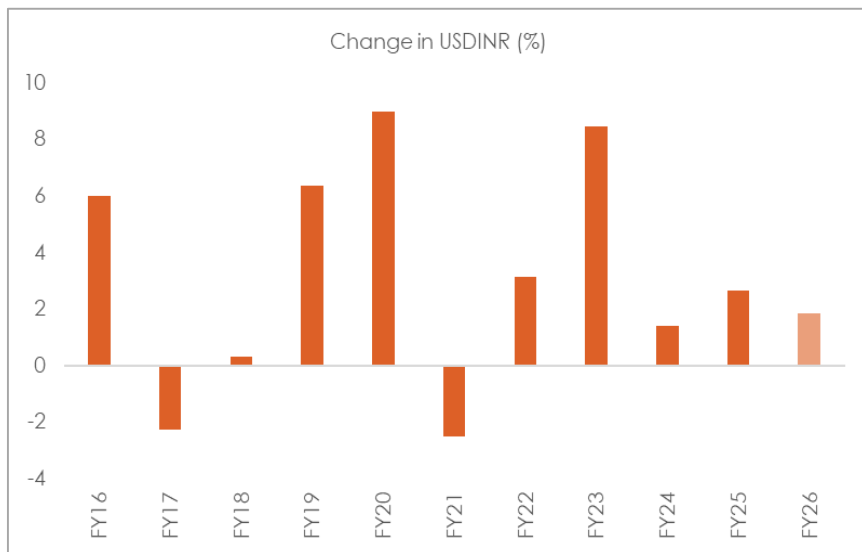
India's sovereign rating received an upgrade by the S&P to BBB with a stable outlook from BBB- with a positive outlook earlier. This is India's first upgrade in 18 years and its best since the 1991 economic reforms. This will boost India's credit profile in the eyes of international investors.

US rates have remained broadly stable in the last two months, with a mild bias for softness.



Sentiment turning cautious on tariff uncertainty and GST related fiscal slippage

The US tariff uncertainty for India has started to weigh upon the INR. While the currency has weakened by ~1.9% in FYTD26, it could potentially face further pressure if the cumulative 50% tariff applicable on India from Aug 27th sticks for a while.



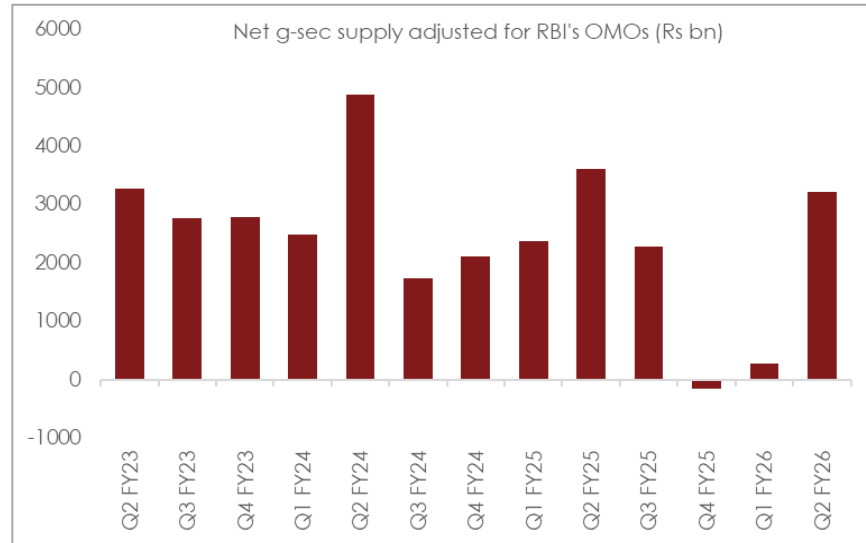
PM Modi's announcement of GST reforms, while desirable from a growth perspective, could potentially result in annualized revenue foregone of nearly Rs 0.9-1.0 lakh cr, divided almost equally between the central and state governments. If implemented from Oct-25, this could lead to Rs 200-250 bn shortfall in GST revenue for the central government. We believe this will not result in headline fiscal slippage in FY26, with no impact on the dated market borrowing plan.

Composition of GST revenue across GST rates in FY24

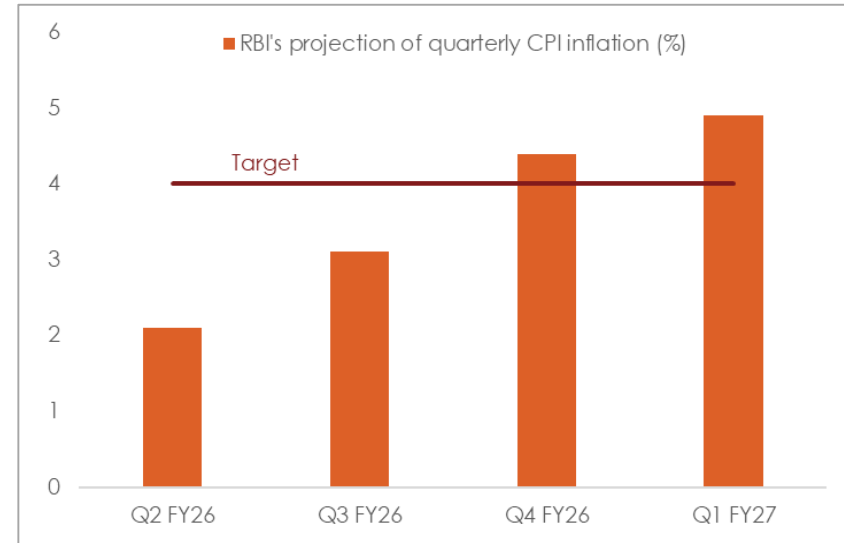
Rate Slab	Percentage Share
5%	6-8%
12%	5-6%
18%	70-75%
28%	13-15%
Others	1-2%

Meanwhile, supply pressure has risen while RBI remains focused on 4q ahead inflation

Net g-sec issuances adjusted for RBI OMOs have risen sharply to Rs 3.2 lakh cr in Q2 FY26, remaining nearly flat for the previous two quarters. The pickup in SDL issuances is comparatively higher.

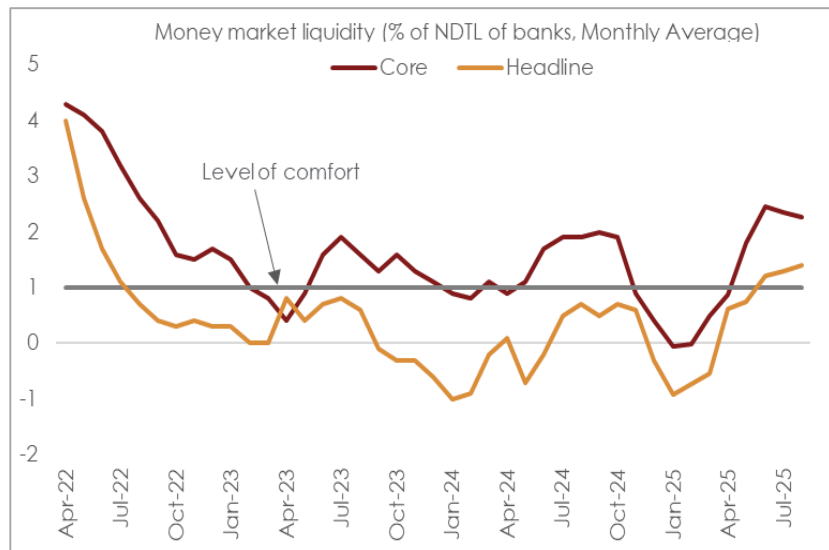


The MPC's shift in policy stance to 'neutral' and its emphasis on the 4q ahead projected inflation breaching the target is leading market participants to price in a prolonged pause on the repo rate.

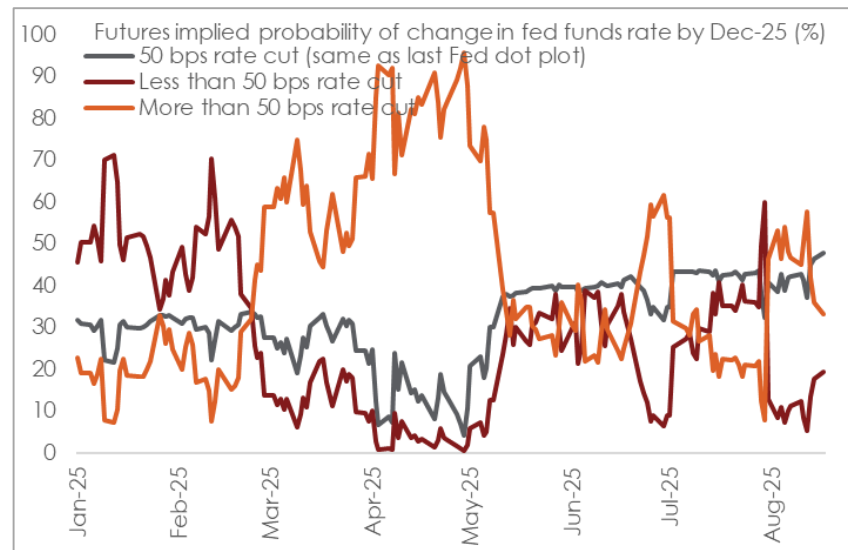


Rates outlook

The headline and core liquidity have averaged 1.4% and 2.3% of NDTL in Aug-25 so far. This should hasten policy transmission and keep short-end rates anchored.



With the inflationary threat to the US economy from tariffs still somewhat unpredictable, the Fed is likely to remain cautious and stick to its projection of 50 bps incremental easing in 2025.

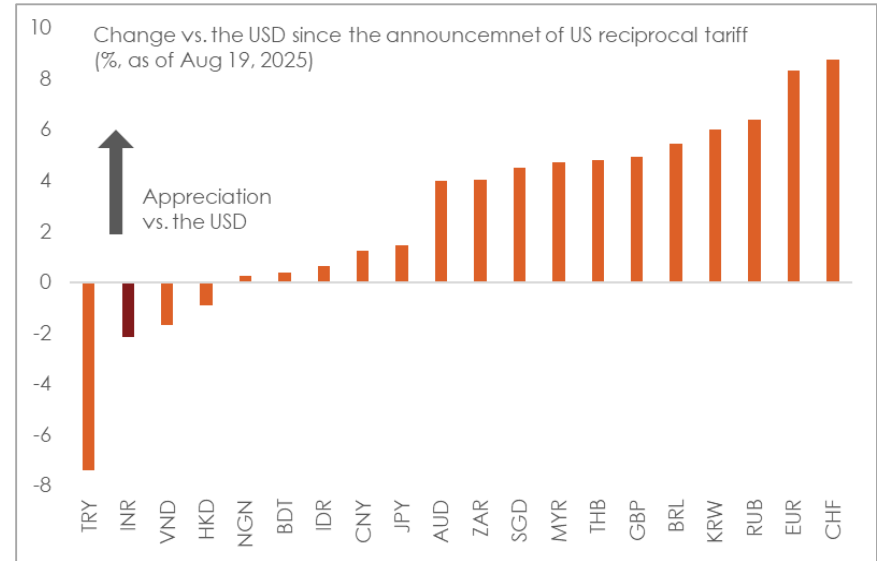
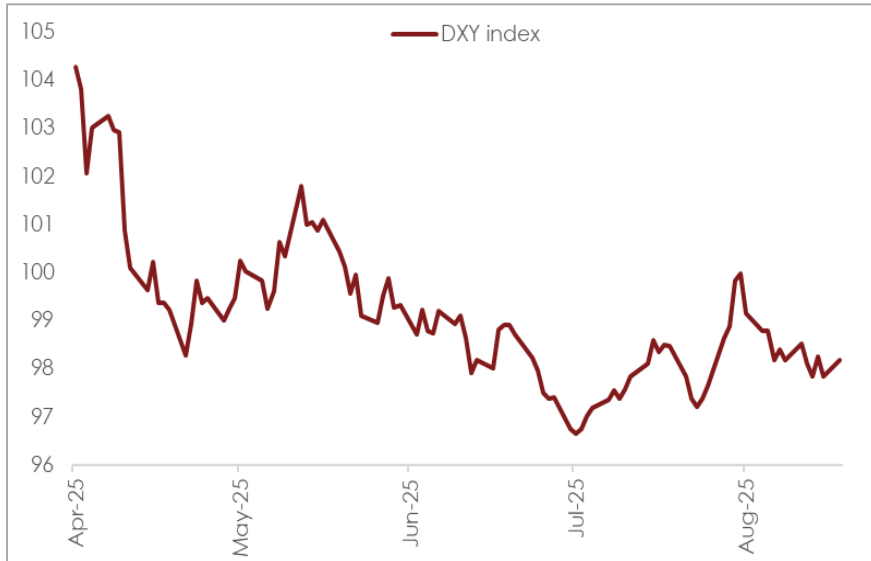


Despite the recent hardening, we expect g-sec yields to start moderating amidst downside inflation surprises and limited fiscal risks. We maintain our 10Y g-sec yield forecast of 6.20% by Mar-26. The US tariff situation is an unpredictable risk.

INR facing depreciation pressure despite dollar weakness

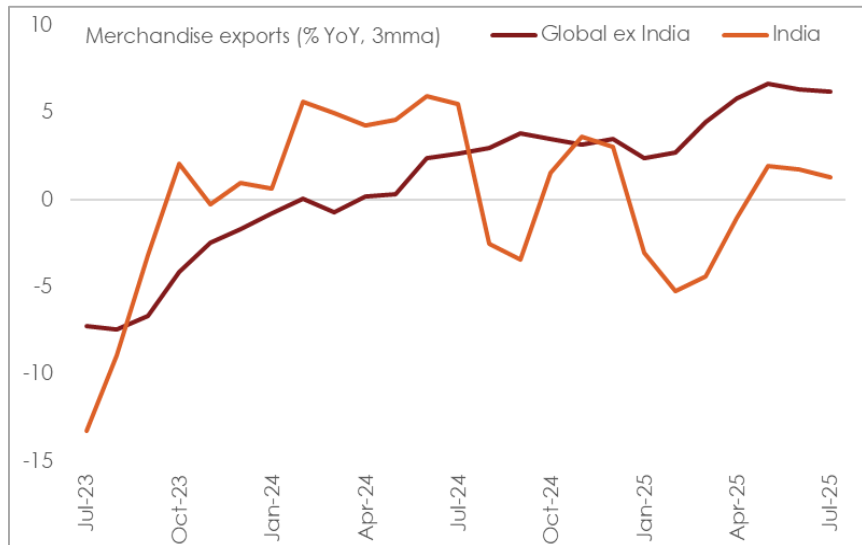
On a trend basis, the US dollar has weakened (by 5.8%) since President Trump announced universal reciprocal tariffs in Apr-25.

Amongst its key trading peers, excluding TRY, the INR has weakened the most since the announcement of US reciprocal tariffs on Apr 2nd.

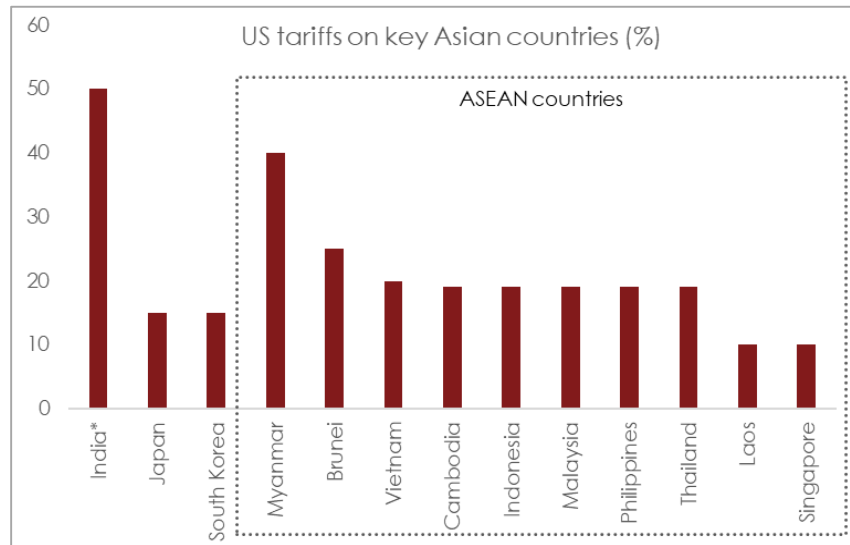


India's exports on a slippery terrain

Notwithstanding some improvement, India's merchandise exports have been trailing the global trend in the last few months.

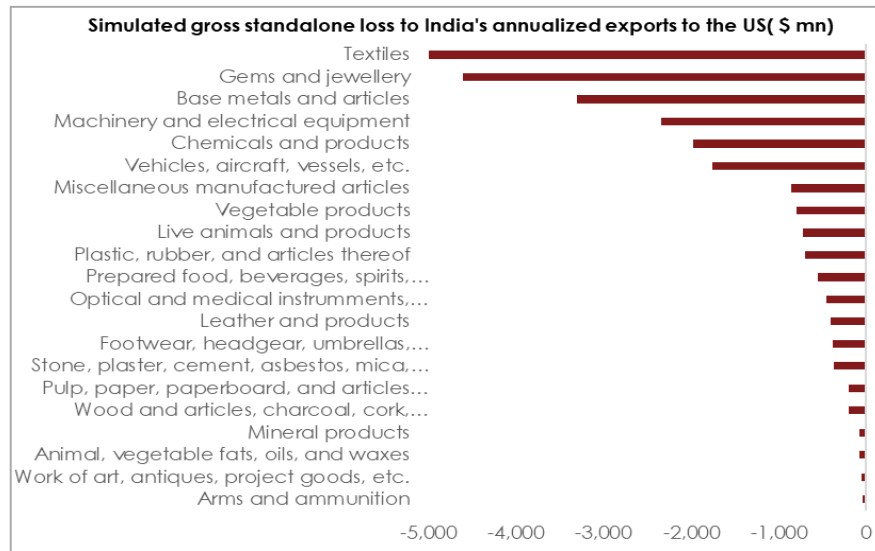


The US has imposed a 25% reciprocal tariff on India. In addition, there is an ad valorem levy of 25% acting as a penalty tariff for purchasing oil from Russia despite sanctions. The cumulative tariff of 50% puts India as one of the most tariffed nations. If sustained, this would weigh upon India's export performance from Sep-25 onwards.

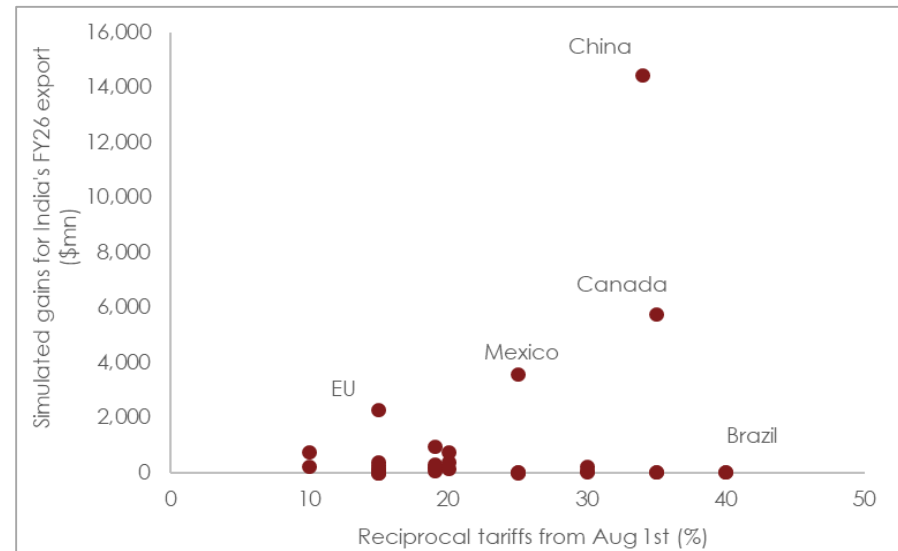


Assessing the preliminary impact of 25% reciprocal tariff

On a gross standalone basis, India could potentially see an annualised reduction in its exports to the US by about USD 31 bn. Textiles, Gems and jewellery, Base metals, Machinery and electrical equipment, Chemicals, Automobile components, etc. could bear the major brunt.



India also stands to gain a potential export market share of about USD 29 bn due to tariffs imposed on other countries. As such, on a net cumulative basis, India could potentially lose USD 2 bn worth of annualised exports to the US.

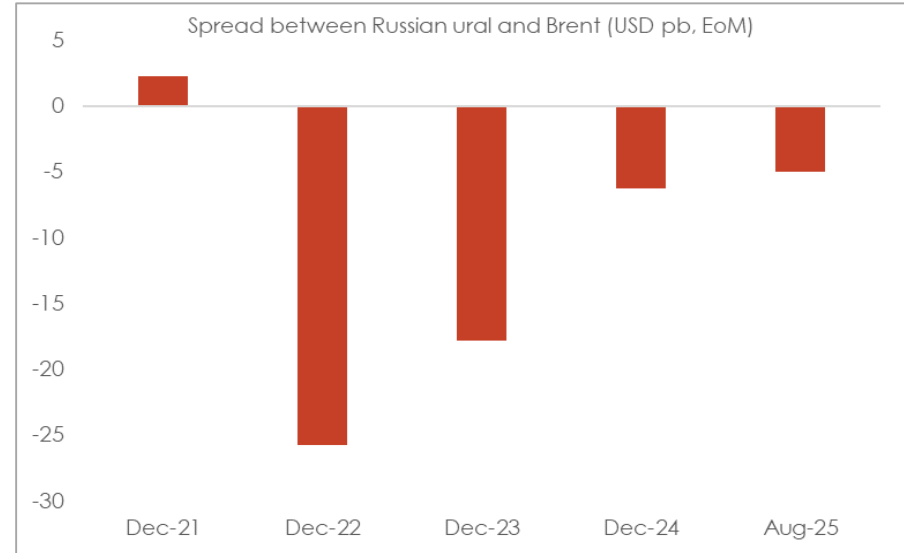
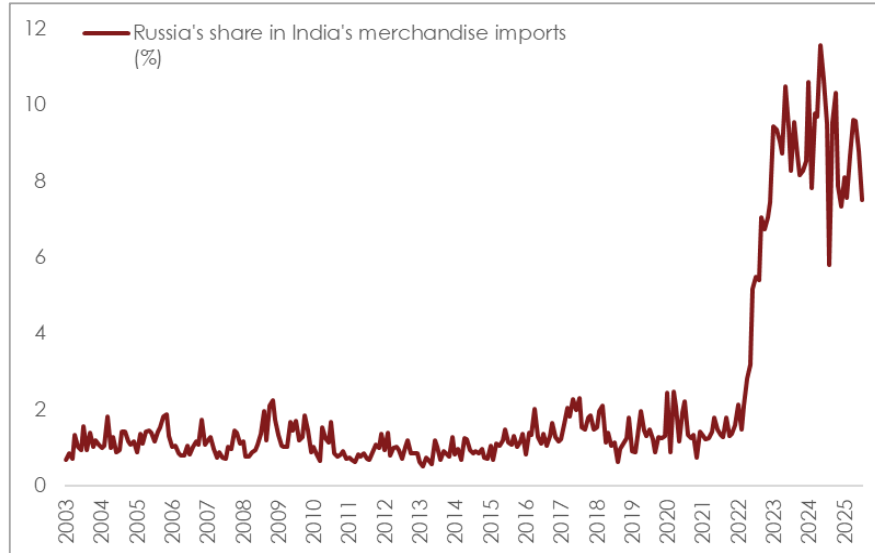


Note: (i) Loss imputation is on a gross basis, assuming 25% tariff on India and none for other countries. Pharmaceutical and energy products have been excluded. (ii) Gross export gains for India have been imputed assuming Aug 1st level of tariff for peer countries and none for India.

US is putting pressure on India to lower its reliance on Russia

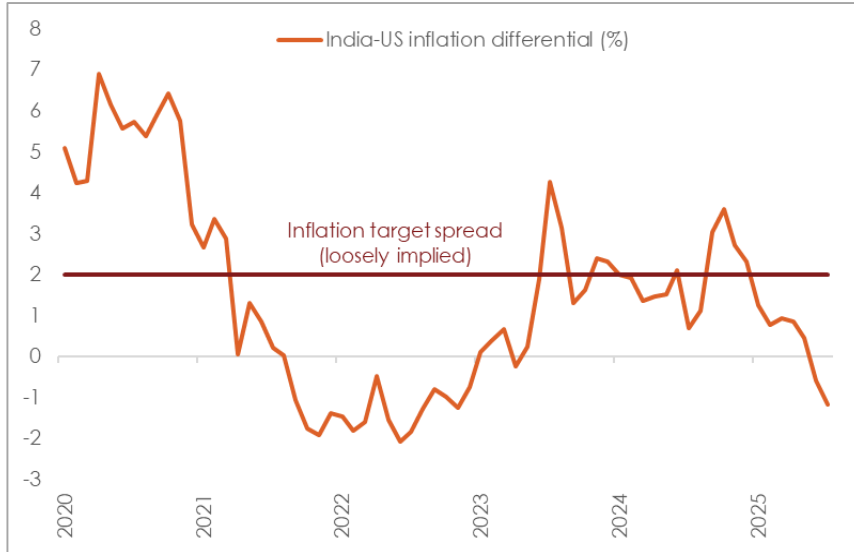
Russia's 12m trailing share in India's merchandise import basket stood at 8.4% as of Jul-25 vs. 1.5% before the start of the Ukraine war. Bulk of this is on account of India increasing its oil imports from Russia to take advantage of the price differential that existed between Russian Ural and the Brent.

However, the price arbitrage between Russian Urals and Brent has seen a significant compression over the last 1 year. Hence, if India normalizes its oil imports (to avoid the 25% penalty tariff imposed by the US) to pre-Ukraine war levels, the hit to its import bill is unlikely to be significant.

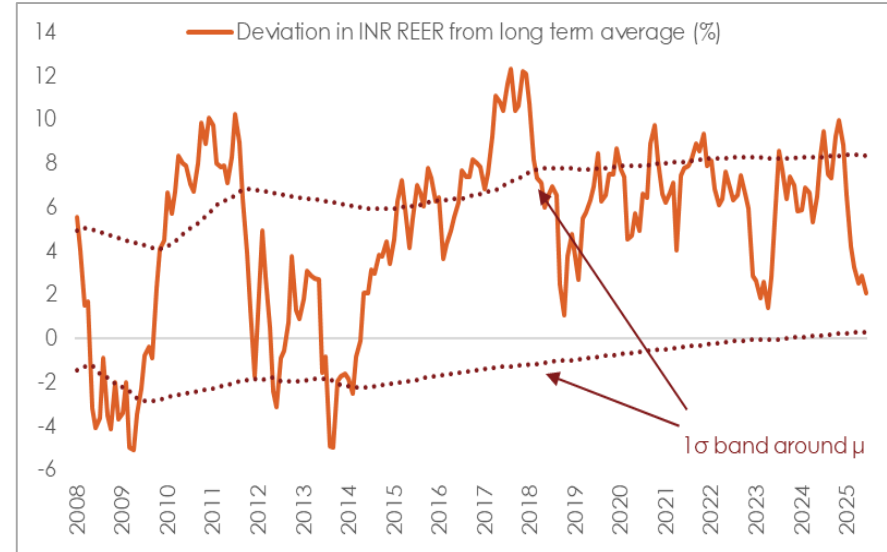


INR remains supported by fundamentals

Fast deceleration in India's inflation compared to the US has turned the inflation spread in favor of India. CPI inflation spread between India and the US has been under 2 percentage points over Jan-Jul 2025. Notably, the inflation spread turned in favor of India since Jun-25.

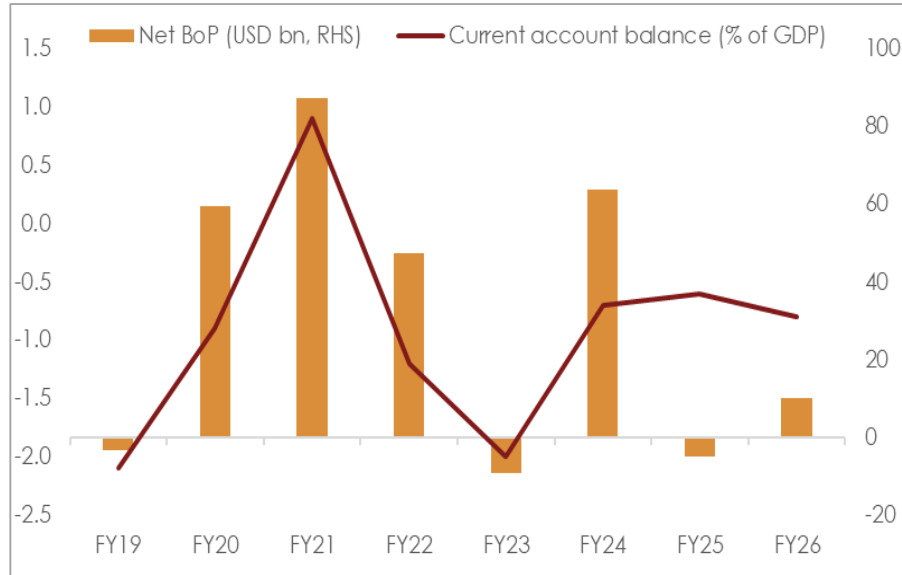


Basis REER, we estimate INR to be ~2% overvalued (as of Jun-25) vis-à-vis its long-period average. INR overvaluation levels have dropped considerably in the last 5 months and now no longer give the impression of being stretched. This will curb excessive incremental pressure for INR weakness.

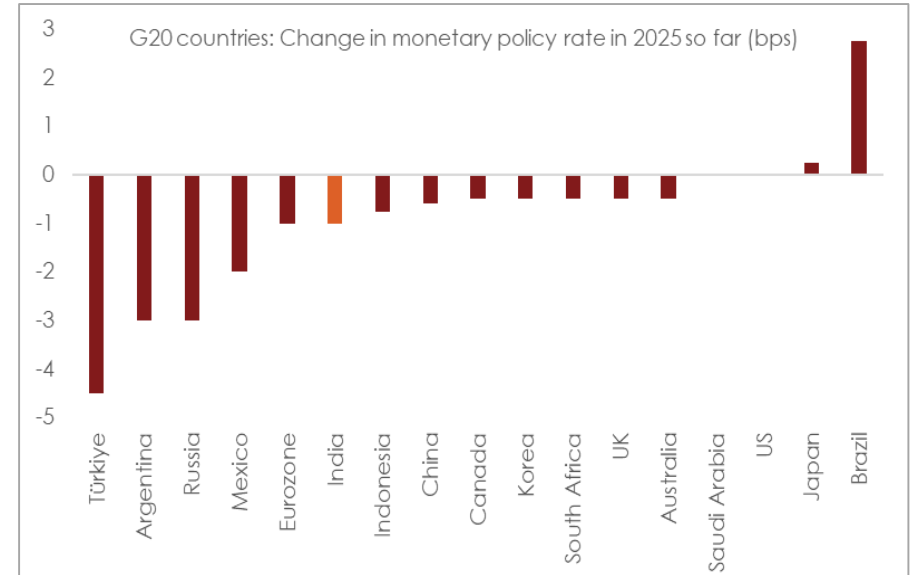


Rupee outlook

We expect FY26 current account deficit at 0.8% of GDP, accompanied by a moderate BoP surplus of USD 10 bn (0.2% of GDP) – at this level of moderate BoP surplus, the INR has never seen appreciation on annual basis.



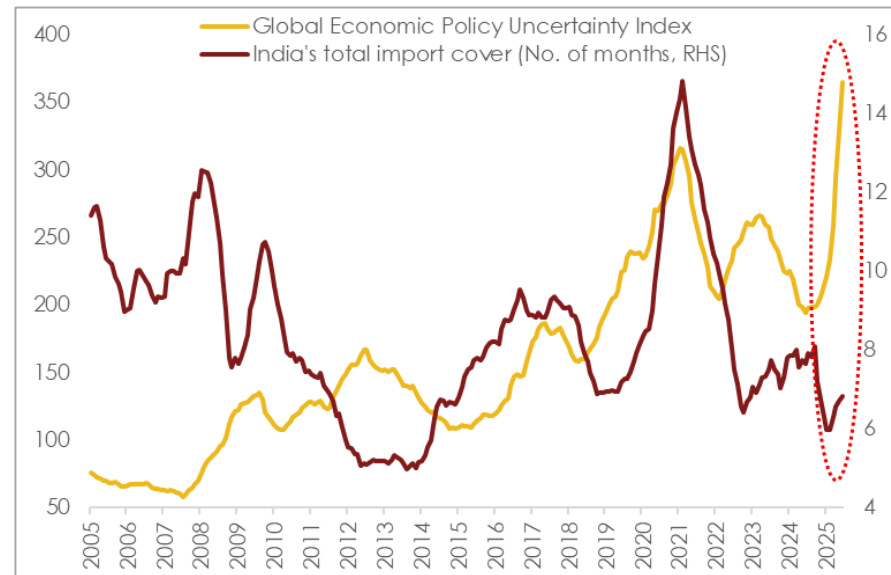
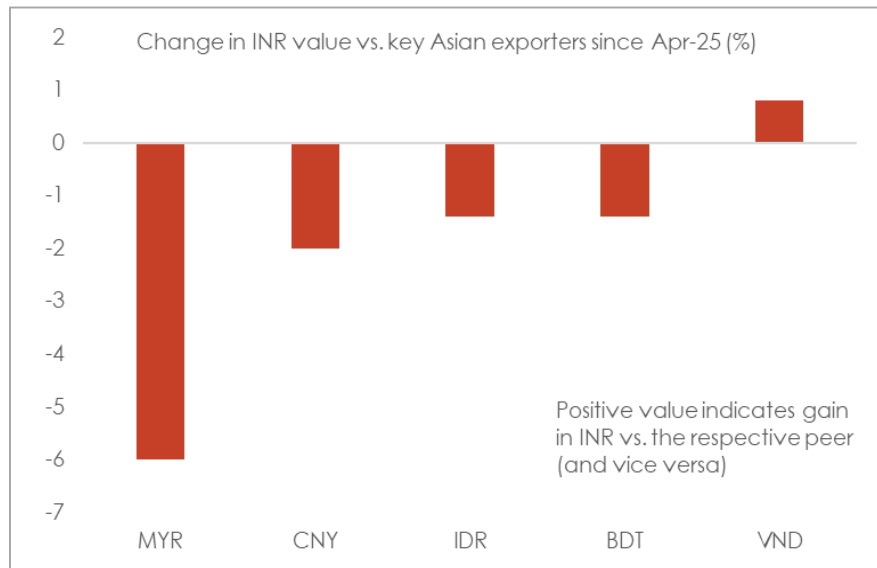
Amongst G20 economies, US is one of the prominent countries that has not eased monetary policy in 2025 yet. Fed's caution could provide a minor tailwind to the USD in the near term.



Rupee outlook (cont'd)

While INR has weakened against most of the currencies of labour-oriented export countries like China, Bangladesh, Malaysia, etc., the tariff disadvantage for India remains significant for now.

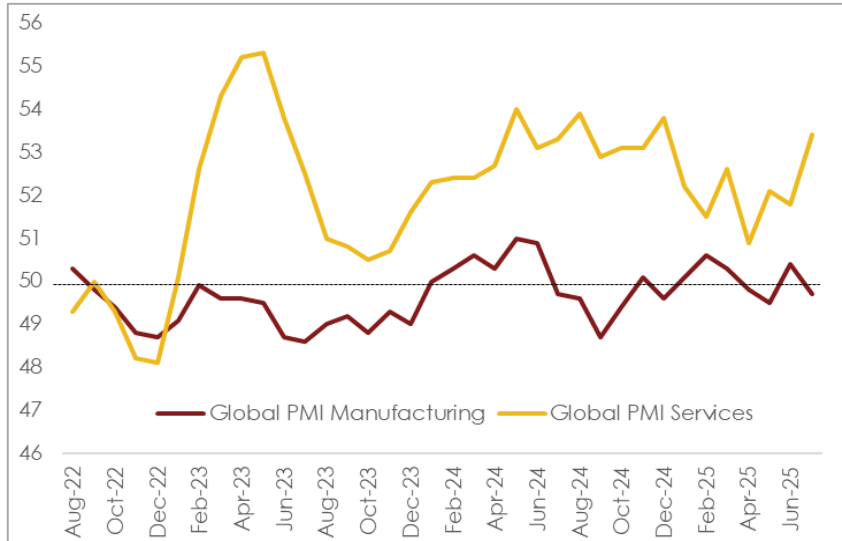
With global policy uncertainty likely to remain elevated, it would be prudent to replenish and reassess India's FX reserve cover. This would call for resistance in real appreciation of the INR.



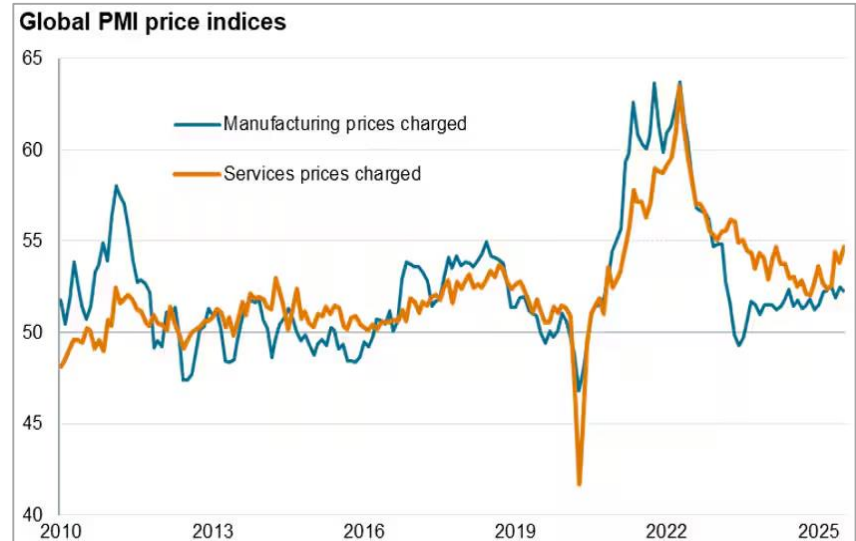
Considering the known-unknown geopolitical and gaeonomic risks, we maintain our USDINR call of 89.5 before end FY26.

Global economy: Navigating a tariff tsunami

Global PMI composite output Index rose to 52.4 in Jul-25 from 51.7 in Jun-25, marking the highest reading seen since last Dec-24. Jul-25 PMI data indicated that the acceleration in global growth was attributed solely to rising services activity as manufacturing output returned to contraction (with tariff driven front-loading fading out)

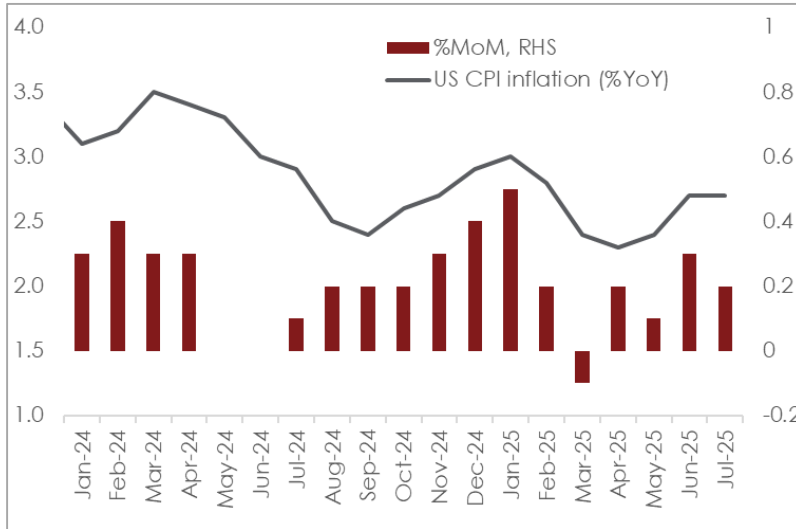


Further, the global PMI surveys indicated rising global price pressures in Jul-25, with Global Prices Charged Index rising from 53.5 in Jun-25 to 54.1 to signal the steepest rise in prices since May-23.



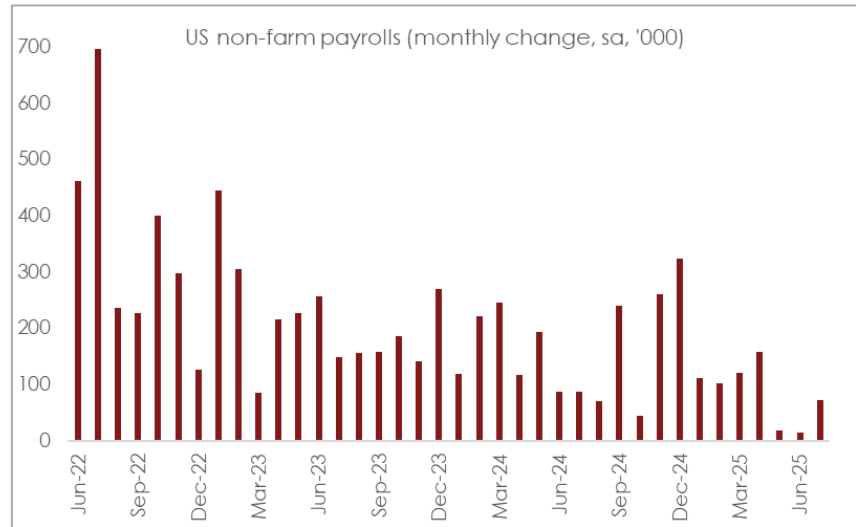
US economy: Inflation sticky, jobs lose momentum

Jul-25 US CPI inflation remained unchanged at 2.7%YoY, with prices rising 0.2%MoM. Looking at momentum, it appears that costs are not fully being passed on with firms possibly absorbing the costs of tariffs up to this point as indicated by a sharp rise in PPI



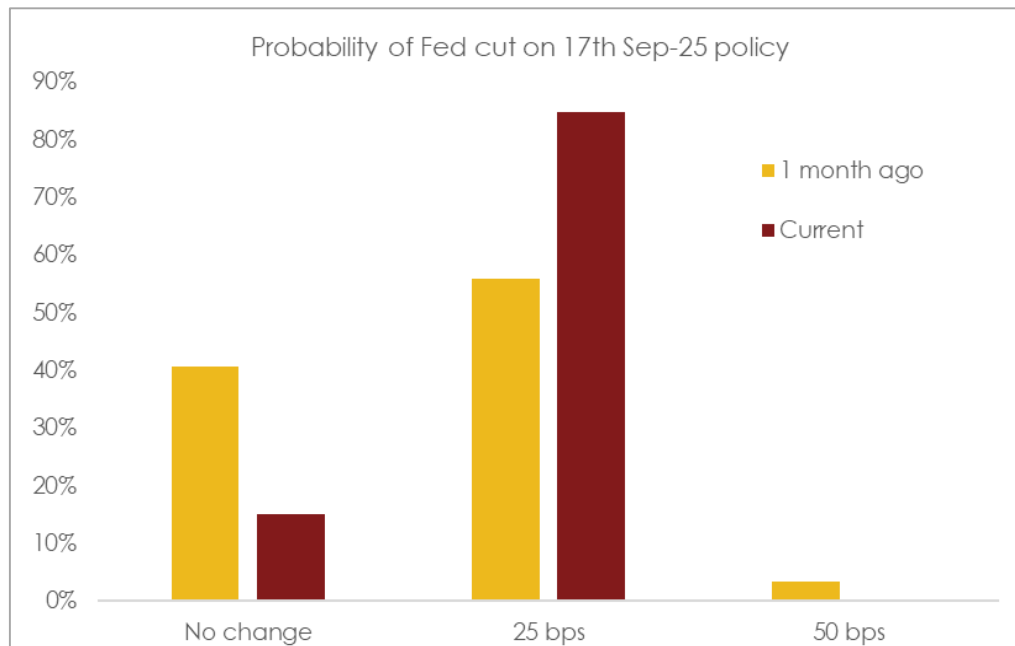
On the jobs front, US economy added only 73k jobs in Jul-25, lower than consensus expectations of 104k. What was more striking was the downward revision to past two months of data by a sizeable 258k

- Jun-25 job gains, which were originally 147k now stand revised lower to just 14k
- In similar vein, May-25 initially reported gain of 144k is now 19k.



US Federal Reserve: Rate cut is coming

The unchanged 2.7% CPI inflation reading in Jul-25, accompanied by the huge downward revisions suggest that the jobs market has lost momentum earlier than thought. As such, the pressure from the President for Fed action is likely to intensify after this. Market participants are now beginning to pencil in a rate cut of 25 bps on 17th Sep-25, with a probability of 85% attached to it. All eyes on Jackson Hole meeting this week for further cues.



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