



MACRO PULSE

REPORT

December 2025



Summary

Global economic conditions remained fluid over the past month, shaped by shifting policy signals and evolving trade dynamics. The resolution of the prolonged US government shutdown has helped restore data visibility for policymakers, even as growth likely took a temporary hit. Monetary policy expectations have turned more uncertain: while cooling inflation has kept the door open for further easing, the US Federal Reserve has highlighted persistent labour market tightness and inflation risks, leading markets to temper expectations of near-term rate cuts.

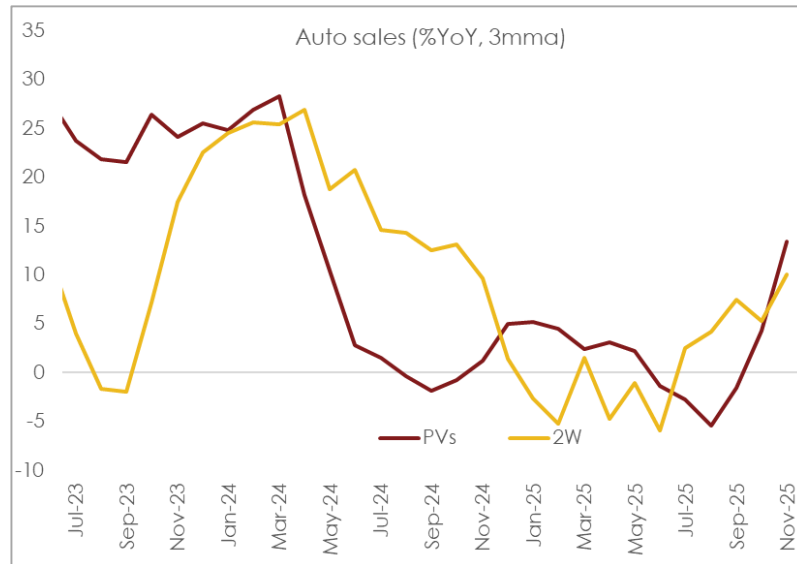
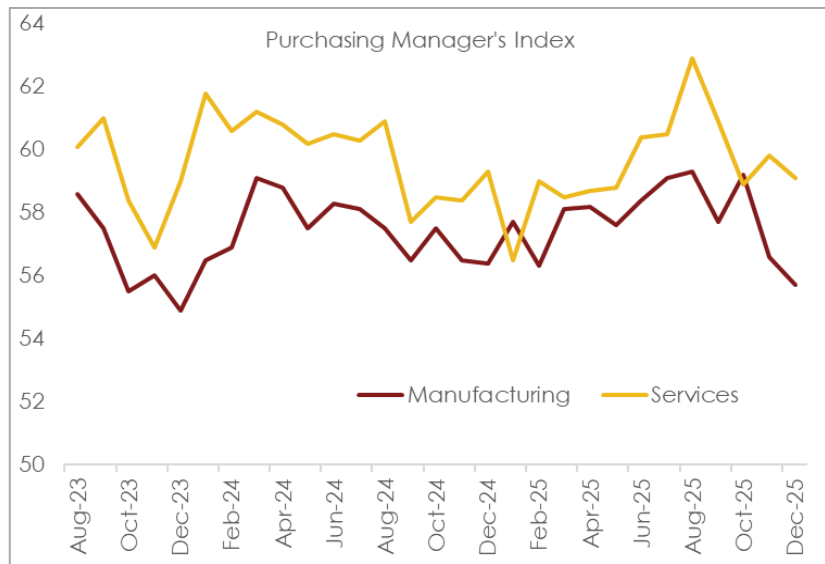
On the domestic front, economic activity presents a mixed but broadly supportive picture. Growth momentum has been underpinned by a strong rebound in consumption, led by festive demand amplified by GST rate cuts, even as high-frequency indicators such as PMIs point to moderation in momentum. Q2 FY26 GDP growth surprised on the upside, driven by strength in manufacturing and services, prompting an upward revision to the full-year growth outlook. Notwithstanding the rise in Nov-25, CPI inflation continues to remain exceptionally benign, aided by subdued food prices, GST-led disinflation and easing core-core inflation. Having said, early signs of a bottoming out of vegetable prices in Nov-25 warrant monitoring. On the external front, the trade deficit mean-reverted in Nov-25 after widening to a record high in Oct-25, with gold imports normalising and, importantly, exports to the US showing resilience in the face of tariffs.

Despite a supportive macro backdrop, India's bond yields and currency faced moderate pressure over the last month. Projection of a gradually rising inflation trajectory, market participants' expectation of a prolonged pause in monetary policy after the Dec-25 rate cut, and fiscal policy uncertainty for FY27 are seen as sentiment dampeners. We retain our 10Y g-sec yield forecast of 6.30% for Mar-26 but now attach an upside risk. Meanwhile, INR breached 90 on subdued capital flows amidst uncertainty in the announcement of the India-US trade deal. We retain our call of 89.50 for Mar-26, as post the recent adjustment, the risk now appears neutral. However, further delay in the announcement of the India-US trade deal could raise the risk of incremental weakness in INR.

Domestic growth momentum mixed in Q3 FY26

PMI manufacturing index decelerated to a 10-month low of 55.7 in Dec-25, amidst slowdown in new orders and hiring activity. On a quarterly basis, PMI manufacturing averaged at 57.2 in Q3 FY26, compared to 58.7 in Q2. In similar vein, services PMI too has seen a marked deceleration between Q2 and Q3 FY26.

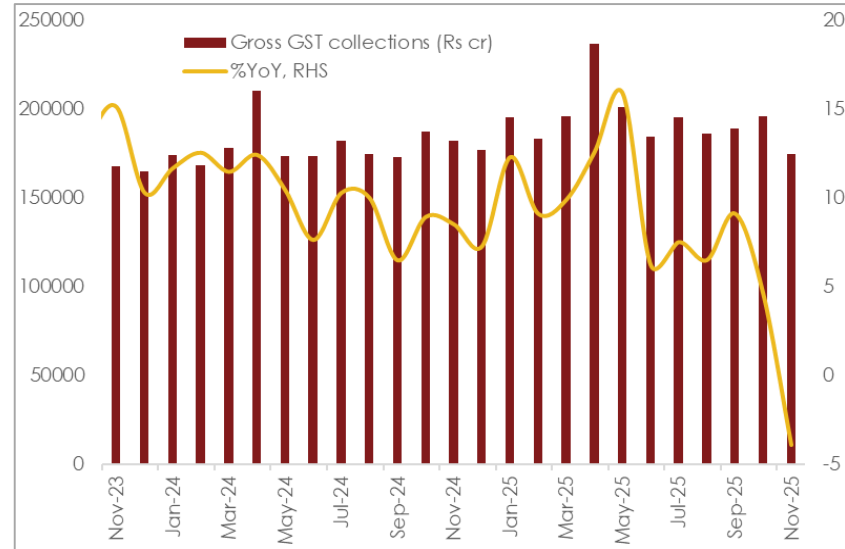
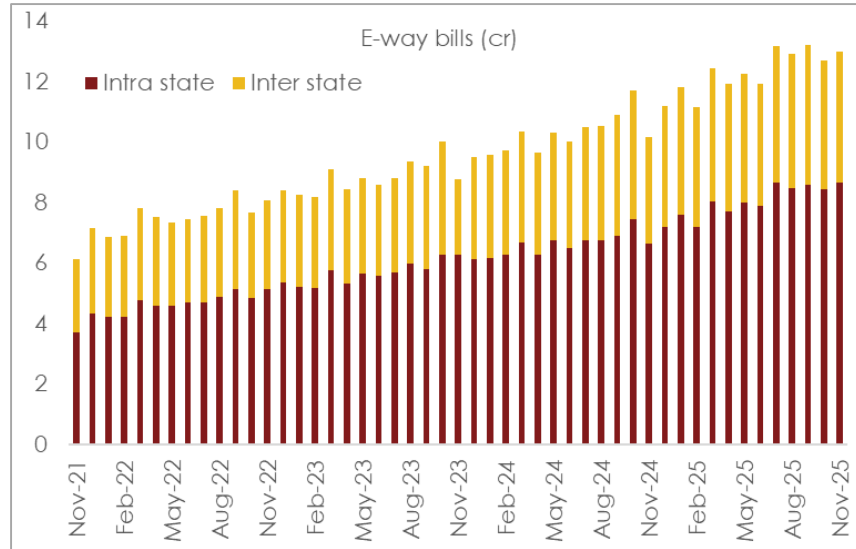
On a positive note, passenger vehicles and two-wheeler sales rose by 18.7%YoY (20-month high) and 21.2%YoY (17-month high) in Nov-25 respectively, underscoring strength in post festive auto demand reinforced by GST cuts.



E-way bills and GST collections fare better

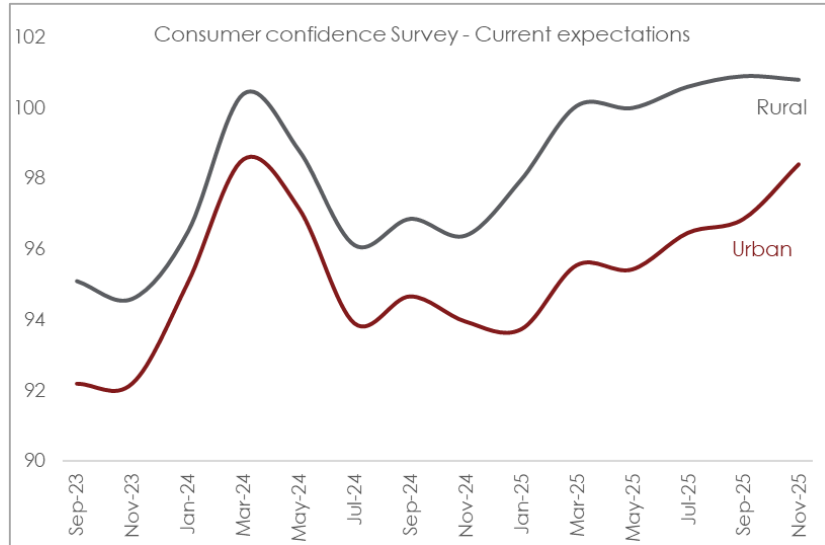
E-way bills rose a tad in Nov-25 to 13.0 cr (3rd highest on record) from 12.7 cr in Oct-25, reflecting an improvement in goods movement after a sizeable slippage in Oct-25.

This increase in the movement of goods suggests GST revenue collection could get a boost in Dec-25 after a modest 0.7% growth in Nov-25 to Rs 1.7 tn, owing to GST rate cuts that took effect from 22nd Sep-25.

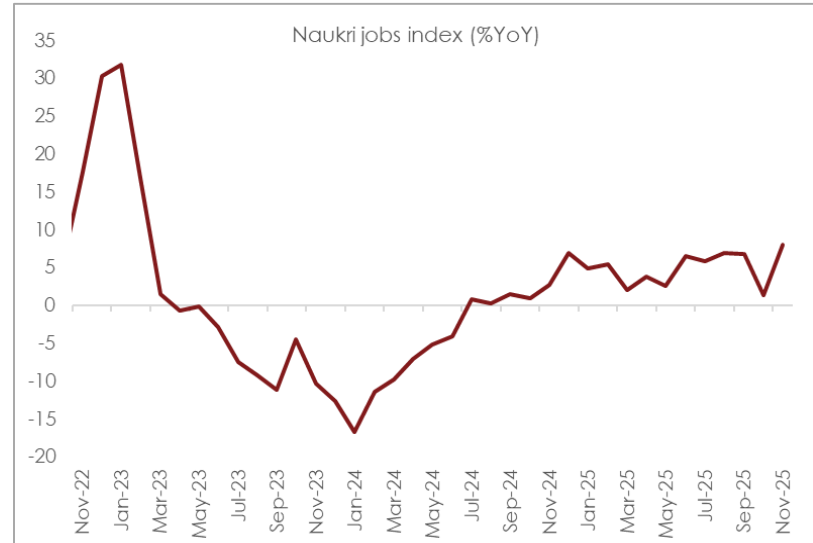


Urban demand gets a short term boost

Urban consumer confidence has seen a sizeable upshift since the beginning of FY26, as per RBI's Consumer Confidence Survey. In comparison, rural consumer confidence, though higher, has plateaued in the last few survey rounds.

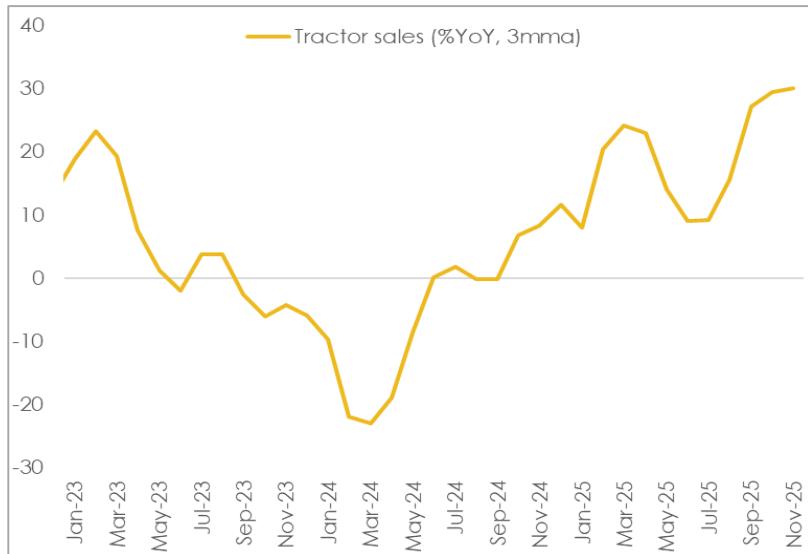


The urban push to consumption has been steered by the cut in taxes (both direct and indirect), higher borrowing as well as reduced interest and softer inflation. However, urban jobs growth (proxied by job opening) has remained lackadaisical through the last 1 year. It remains to be seen if policy driven impetus to urban consumption lasts into Q4 FY26

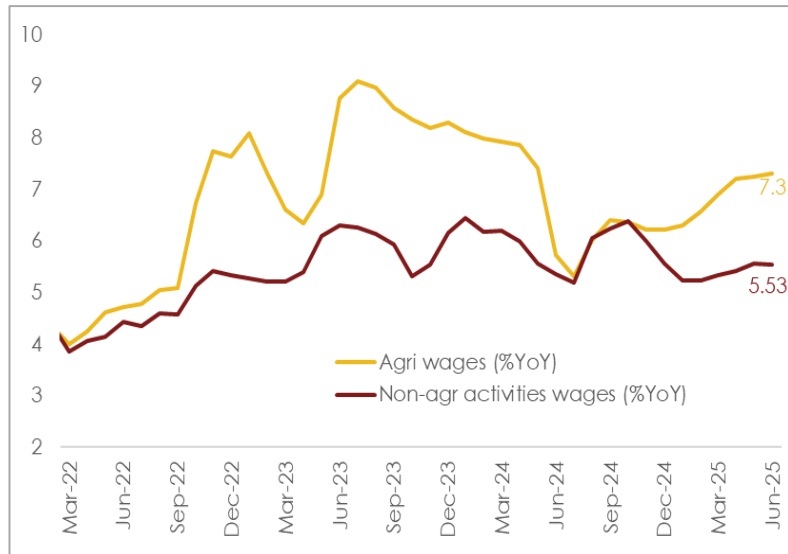


Rural consumption recovery steadfast

Rural consumption has continued to recover gradually over the last few quarters, to outpace its urban counterpart as seen in tractor and FMCG sales. Domestic tractor sales have maintained a high growth of 19.4% on FYTD26 basis (Apr-Nov), compared to 4.3% over the corresponding period in FY25.

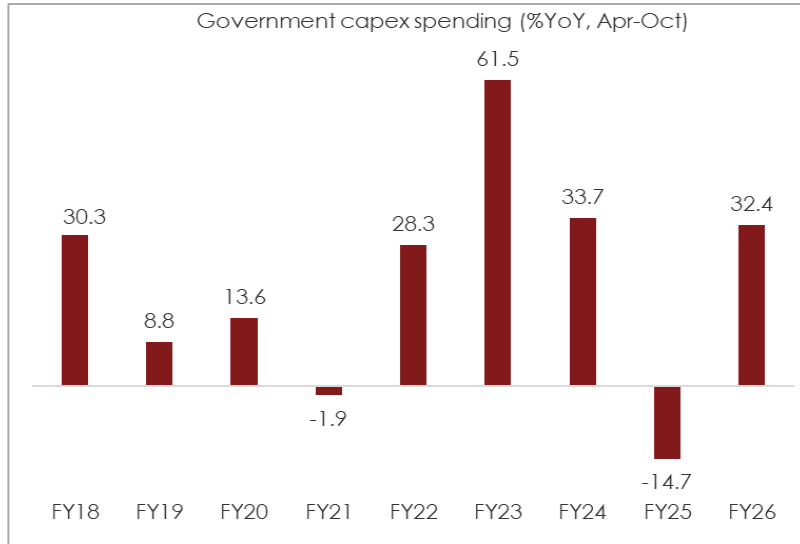


An improvement in wages for agriculture activities, has been aided by a decline in CPI rural inflation to spur demand. An above normal Southwest monsoon, roll-out of income transfers at the state level and subdued food inflation – are factors that are likely to keep rural demand buoyed well into H2 FY26.

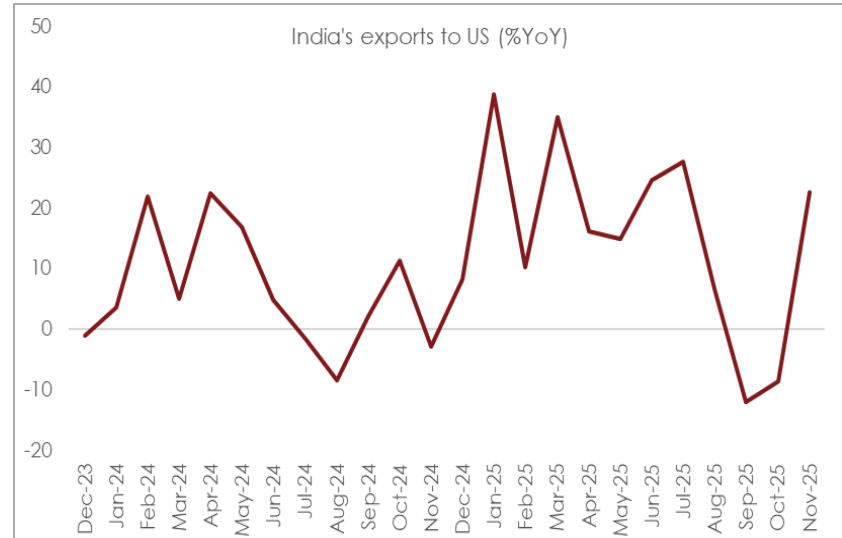


Government capex to taper, Exports hold fort

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. On FYTD basis (Apr-Oct), central government capex has grown by 32% on annualized basis. Having said, amidst deceleration in pace of tax revenue growth, the pace of capex expenditure is likely to moderate, more so in Q4 FY26.

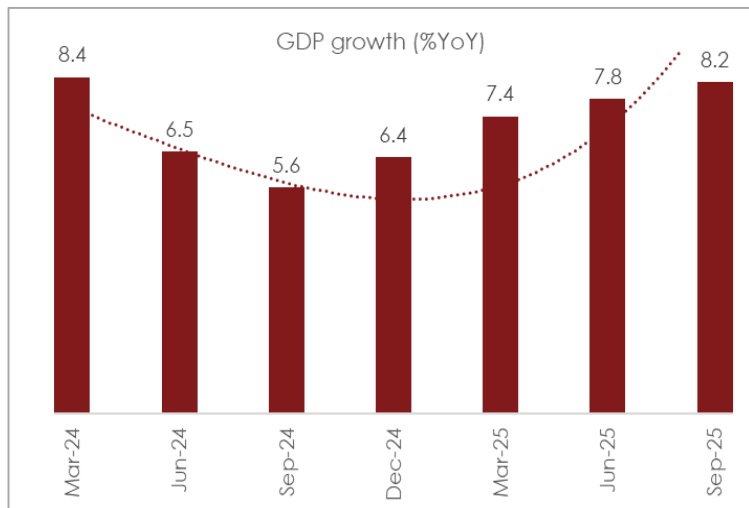


Outbound merchandise shipments to US recovered in Nov-25, rising by 22.6%YoY compared to an aggregate decline of 10.2% over the months of Sep-Oct-25, despite Nov-25 marking the third full month of the 50% tariff by the US. The resilience in exports to US possibly reflects the partial absorption of tariff pressures by domestic producers in a bid to withhold their market share.



Q2 GDP growth resets FY26 growth outlook

Q2 FY26 GDP growth, far exceeded expectations to record a 2-year high of 8.2%. While the buoyancy was anticipated despite several headwinds*, the strength in Manufacturing and Finance, real estate & professional services led the upside. Front loading of exports to US as well as inventory build-up ahead of GST rate rationalization, supported real growth along with a weak GDP deflator.



Taking into account the positive surprise in the GDP data along with lower-than-expected inflation in recent months, we mark up our FY26 GDP growth estimate to 7.2% from 6.6% earlier (vs. RBI's estimate of 7.3%).

Growth Forecast: Quarterly basis

Quarter	RBI estimate
Q3 FY26	7.0%
Q4 FY26	6.5%
Q1 FY27	6.7%
Q2 FY27	6.8%

*episodes of excessive rainfall, imposition of a 50% tariff by the US on select Indian exports, and demand deferment in certain sectors ahead of anticipated GST rate reductions in late Sep-25.

H2 FY26 growth momentum to ease



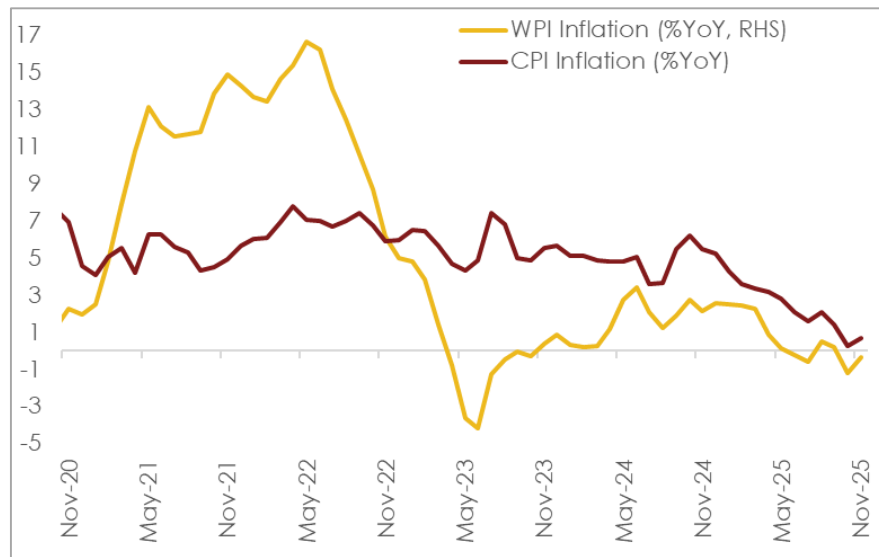
Urban consumption – GST cuts add to growth momentum in Q3 FY26, effect to fade in Q4

Government capex – likely to remain supportive, though pace of growth to ease in H2 FY26 (esp. Q4 FY26)

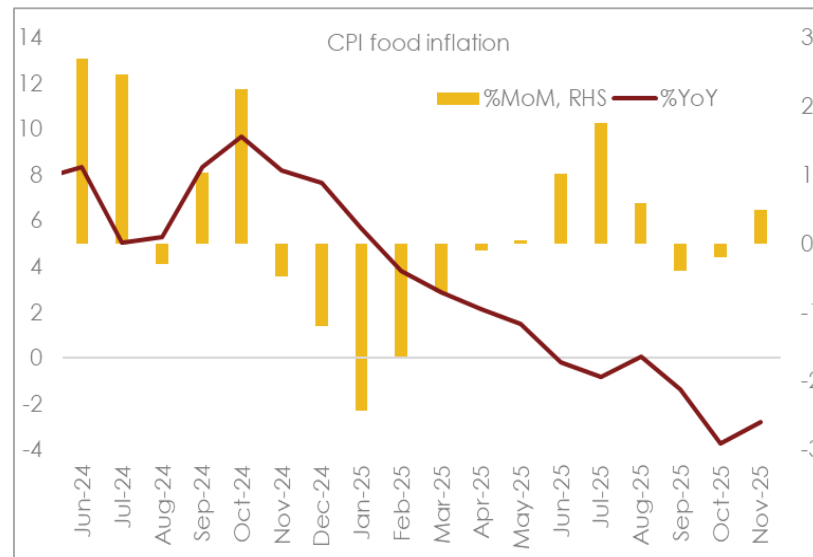
External economy – US imposition of 50% tariff along with slowing global growth momentum

CPI inflation: Lifts from the bottom

India's CPI inflation rose to 0.71%YoY in Nov-25 from a record low of 0.25% in Oct-25, broadly in line with expectations. With this, CPI in Nov-25 marked below the lower threshold of inflation band for the third consecutive month and below the 4.0% target for the tenth consecutive month.

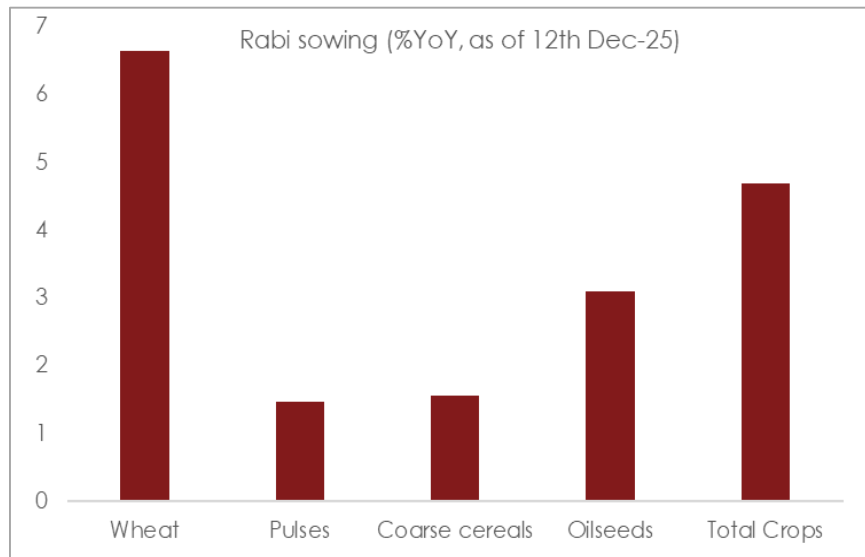


On a sequential basis, CPI posted a marginal increase of 0.30% MoM, slightly softer than the series median increase of 0.41% MoM usually seen in the month of November. The annualised Food & Beverages inflation continued to contract, albeit at a lower pace of -2.78% in Nov-25 from a record low of -3.72% in Oct-25.

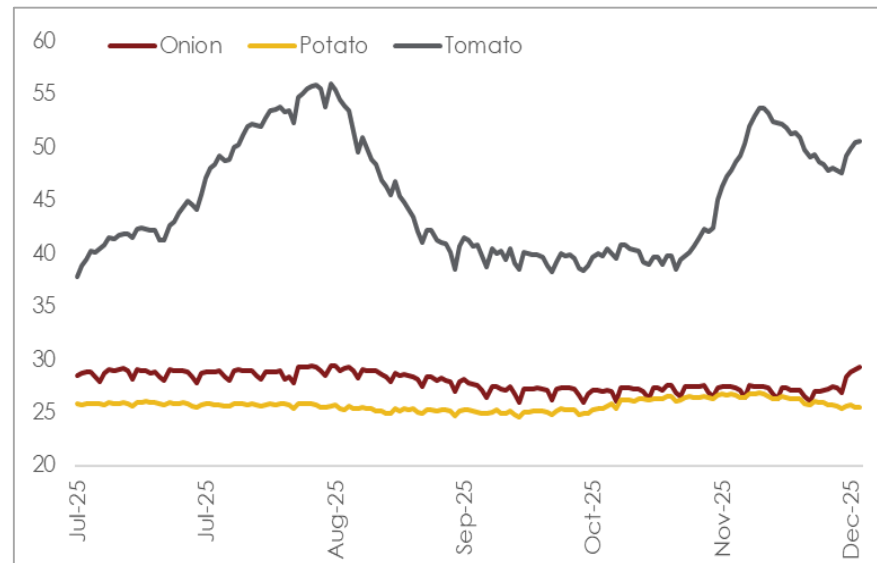


A robust start to Rabi sowing

Rabi sowing has begun this year on a strong note. As of 12th Dec-25, total area sown under Rabi crops was ~5.0% higher on an annualized basis, led by Rabi season's staple crop of wheat. A good Rabi crop for wheat, could possibly force the Government to review the ban on wheat exports in 2026.

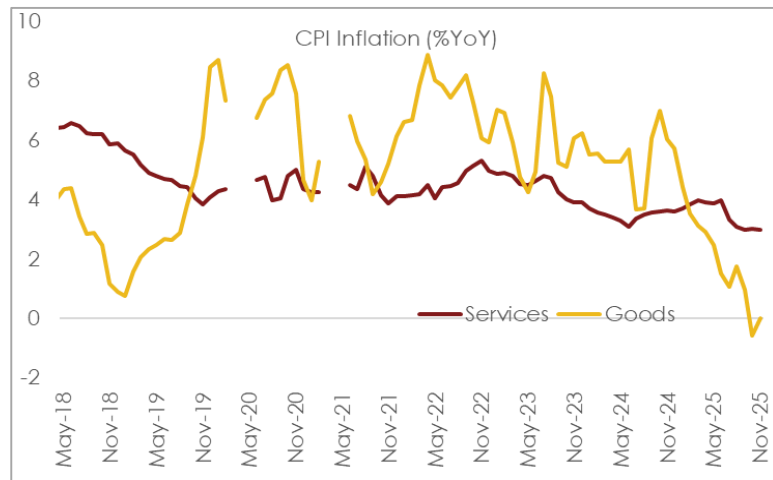


Meanwhile, prices of vegetables appear to have bottomed out. Tomato prices have risen by a cumulative 24% over Nov-Dec-25. Nevertheless, price pressures continue to remain fairly contained.

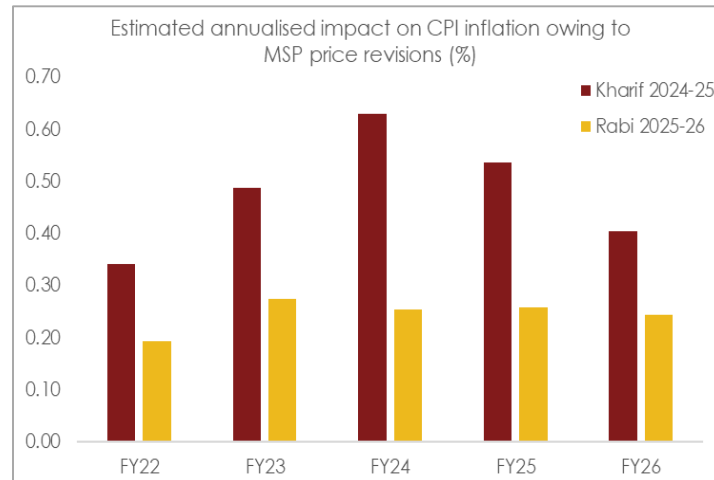


Deflationary impact: GST and MSP

The impact of GST price cuts has been pronounced on goods rather than services inflation. Having said, the magnitude of price moderation appears to be waning now. This can be attributed to various reasons – post festive season realignment in demand as well inventory, as also some impact of Rupee depreciation on imported items. As such, we continue to maintain that despite GST led annualized disinflationary impulse of ~130 bps, the actual impact will be much lower at about 60-70 bps.



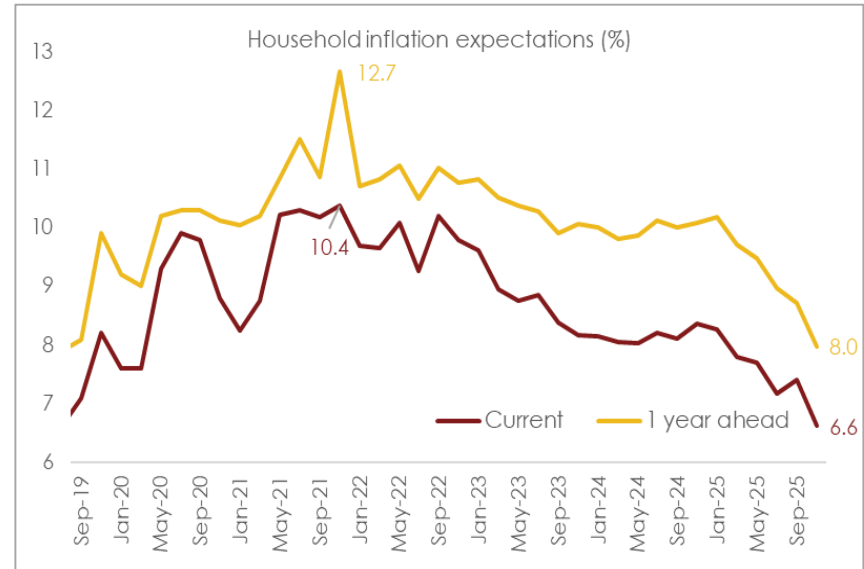
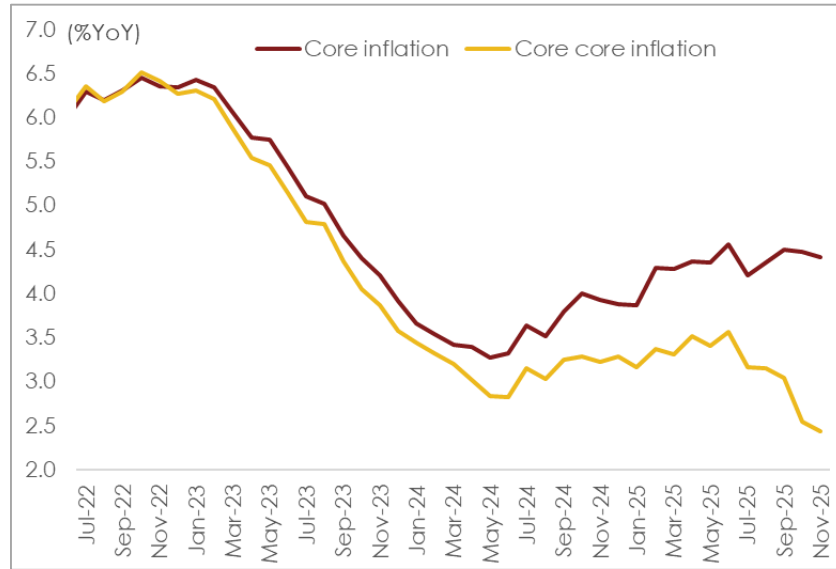
A restrained increase in the Kharif MSP for Agriculture Year (A.Y.) 2024-25, as per our estimates is likely to impart a 10 bps disinflationary impulse at the headline CPI inflation. Impact of Rabi MSP for A.Y 2025-26 on the other hand is estimated to be neutral on inflation.



Core-core CPI and inflation expectations turn more benign

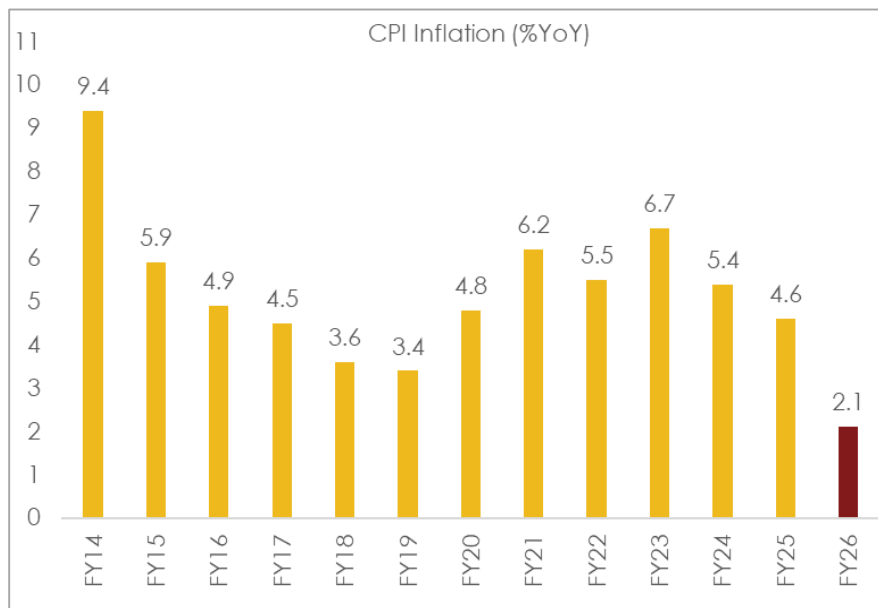
Core CPI inflation eased marginally to 4.4% YoY, compared with 4.5% in Oct-25. In comparison, Core-Core CPI inflation declined further to a fresh record low of 2.4% YoY from 2.6% previously – widening the gap between the two metrics.

Adapting to the benign inflation, median household inflation expectations, fell to 6.6% as per the latest RBI round in Nov-25, to mark the lowest level in last 6 years.



FY26 CPI forecast held at 2.1%

After incorporating the recent downside in food prices and the impact of GST rate cuts, we had further revised lower our FY26 CPI inflation forecast to 2.1%. We hold on to this view. Recall, RBI too in its Dec-25 policy had cut its CPI inflation forecast to 2.0%.



Some upside risks on watch

oCore inflation pressures as recovery in domestic consumption gathers pace, led by urban consumption.

Imported inflation stemming from rupee weakness. As a thumb rule, a 5% depreciation in Rupee could add 20-25 bps to headline inflation over the course of 1 year.

oPrice of precious metals could remain firm amidst heightened and continuing geopolitical and geo-economic uncertainty.

Snapshot of Apr-Oct FY26 fiscal performance

The cumulative fiscal deficit for the period Apr-Oct FY26 stood at 52.6% of the budget estimate, higher than 47.6% of actuals in the corresponding period in FY25. This is due to relatively lower realization of tax revenues amidst a relatively higher pace of capex disbursement.

Key Fiscal Variables (Cumulative position, as of October)				
	% of FY Actual/Target		%YoY	
	FY25 YTD	FY26 YTD	FY25 YTD	FY26 YTD
Revenue Receipts	56.1	51.6	8.7	3.5
Net Tax	52.2	44.9	0.2	-2.4
Non-Tax	74.3	83.9	50.2	22.5
Non-Debt Capital Receipts	45.0	48.8	-18.2	97.2
Total Receipts	56.0	51.5	8.3	4.5
Revenue Expenditure	55.7	50.9	8.7	0.0
of which, Interest Payments	53.4	52.8	9.4	13.0
of which, Major Subsidies	64.9	66.1	7.3	1.9
Capital Expenditure	44.3	55.1	-14.7	32.4
Total Expenditure	53.1	51.8	3.3	6.1
Fiscal Deficit	47.6	52.6	-6.6	9.9

FY26 receipts buoyed by non-tax revenue, but tax revenue showing signs of pressure

Except for excise duty collection, all other components of gross tax collections are running at a slower pace vs. their respective budgeted targets. The annualized contraction in net tax collection reflects higher FYTD refunds so far. The reduction in GST rates from Sep 22nd will further compound the pressure in the near term (although there will be some offsetting impact from potentially higher volumes).

Growth in key tax categories	Apr-Oct FY25 (% YoY)	Apr-Oct FY26 (% YoY)	FY26 BE (% change)
Gross Tax	10.8	4.0	12.5
Corporate Tax	1.2	5.2	9.7
Income Tax	20.2	6.9	16.4
Customs	6.2	-2.5	3.1
Excise	0.6	7.9	5.6
GST	12.0	1.2	14.2
Net Tax	0.2	-2.4	13.5

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

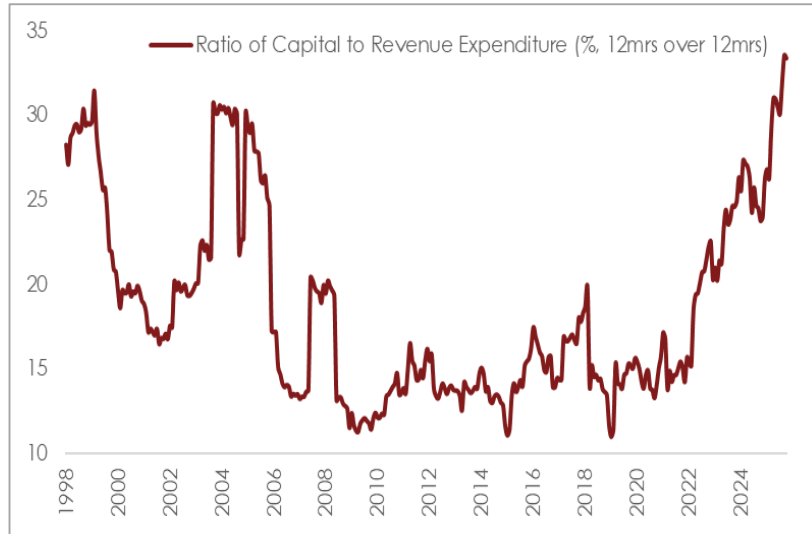
However, record high dividend payment by the RBI has helped to offset the mild moderation in tax collections.

Key non-tax category collections (Rs bn)	Apr-Oct FY24	Apr-Oct FY25	Apr-Oct FY26
Non-Tax Revenue	2,658	3,993	4,891
Dividends and Profits	1,245	2,643	3,242
of which, RBI dividend	874	2,109	2,686
of which, PSU dividend	371	534	556
Others	1,413	1,350	1,649

Note: Non-tax revenue is budgeted to grow by ~8.5% in FY26. Even if non-tax revenue shows zero growth between Nov-Mar, it would still generate an additional revenue of Rs 443 bn in FY26 vs. the budgeted target of Rs 5830 bn.

Expenditure quality remains healthy; Nominal GDP on watch

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 ever.



Nominal growth in FY26 is likely to be sharply lower than budget estimates, on account of much lower CPI and WPI inflation. This would not just weigh upon tax revenue, but it would also reduce the base for fiscal deficit computation. Nevertheless, we expect the government to meet the FY26 headline fiscal deficit target by rationalizing the pace of its expenditure disbursement in Q4.

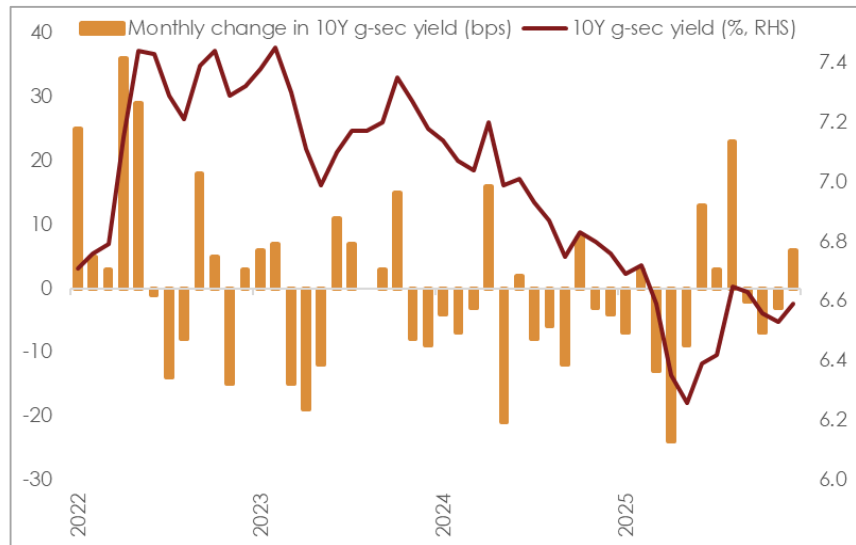
Market consensus forecast for deriving FY26 Nominal GDP growth

	Feb-25 SPF	Dec-25 SPF
FY26 Real GDP growth	6.5	7.5
FY26 CPI inflation	4.3	2.1
FY26 WPI inflation	3.1	0.2

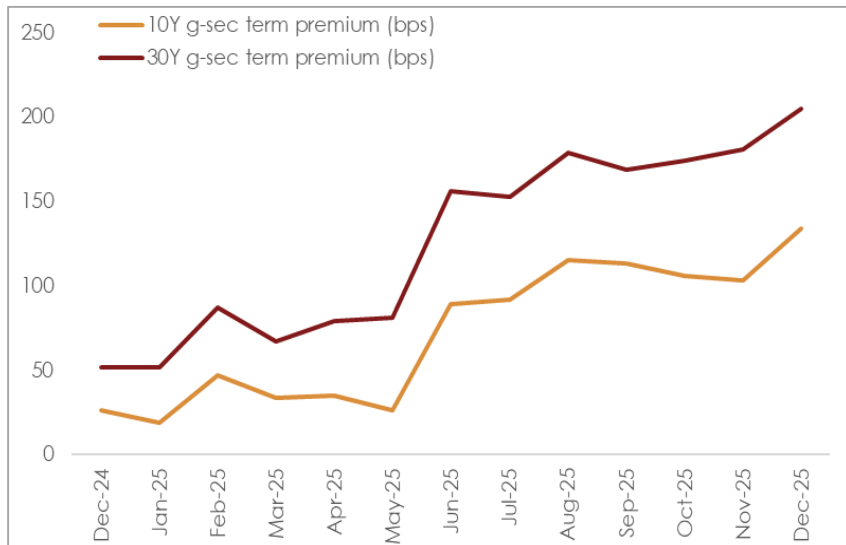
Note: (1) Market consensus is represented by the median value from RBI's SPF (Survey of Professional Forecasters); (2) The FY26 Union Budget was based on the assumption of a 10.1% growth in Nominal GDP. We expect FY26 Real GDP growth at 7.2%, CPI inflation at 2.1%, and WPI inflation at 0.0%. This is likely to result in a FY26 Nominal GDP growth in the 8.0-8.5% range.

G-sec yields inch up...

G-secs gave up gains in Dec-25 (so far) after registering three consecutive monthly gains. The 10Y benchmark yield is up 6 bps this month at 6.59%, the highest in the last 3 months.

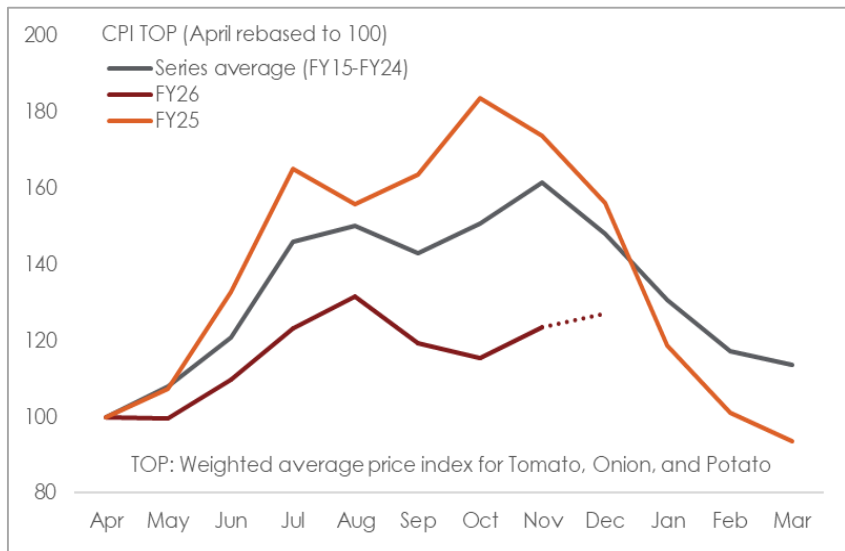


Notwithstanding the 125 bps cut in the repo rate over the last year, the g-sec term premium remains elevated, and hardening further in Dec-25.

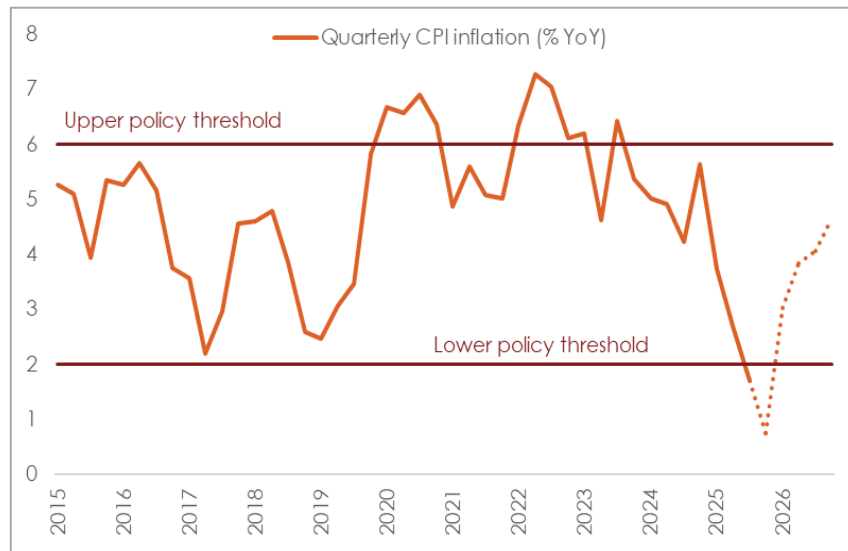


...as inflation bottoms out...

Key domestic food prices have started to reverse their recent decline. This is likely to push CPI inflation to 1.0-1.5% in Dec-25.

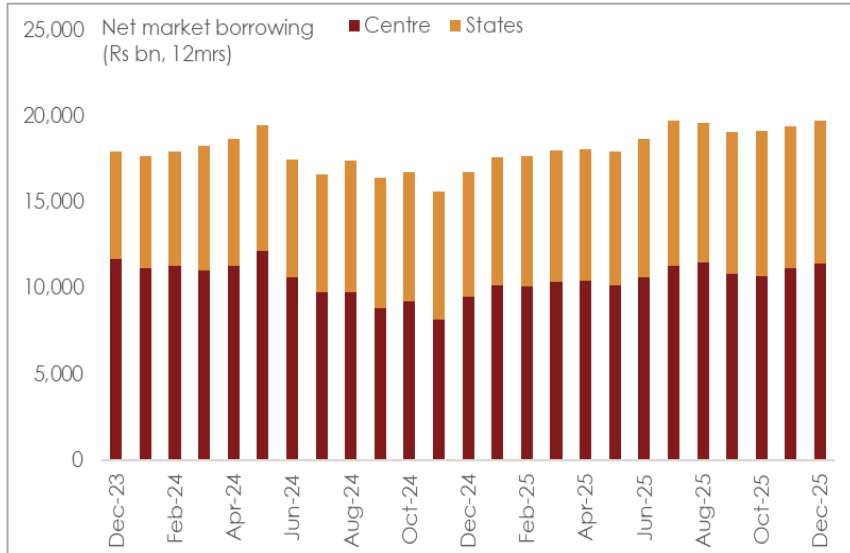


On a quarterly basis, CPI inflation is projected to bottom out during Q3 FY26. We estimate it at 0.7% YoY, 10 bps higher than the RBI's forecast. Going forward, we project CPI inflation to align with its target in Q1 FY27, and thereafter move higher towards 4.5-5.0% range in Q3 FY27.

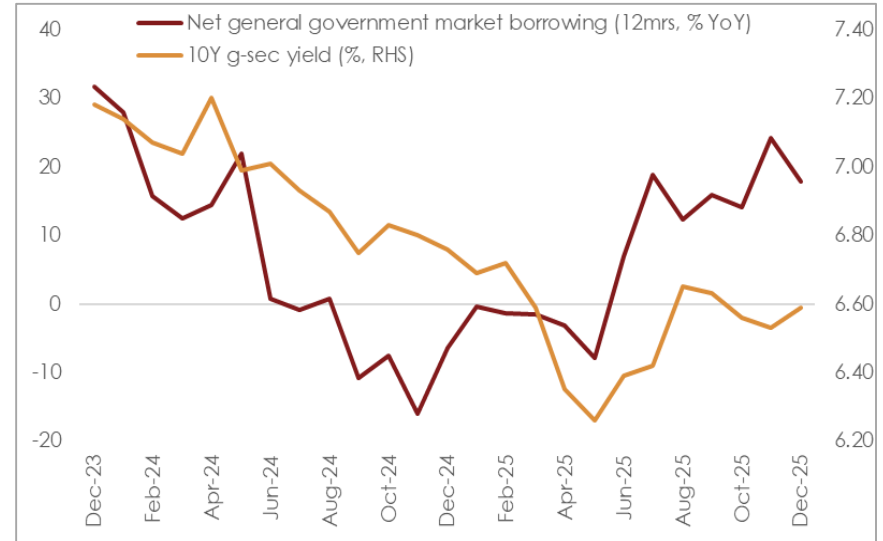


...amidst firm supply pressure

The quantum of annualized net market borrowing for the central and state governments has inched up from Rs 9.5 tn and Rs 7.3 tn as of Dec-24 to Rs 11.4 tn and Rs 8.3 tn as of Dec-25, respectively.



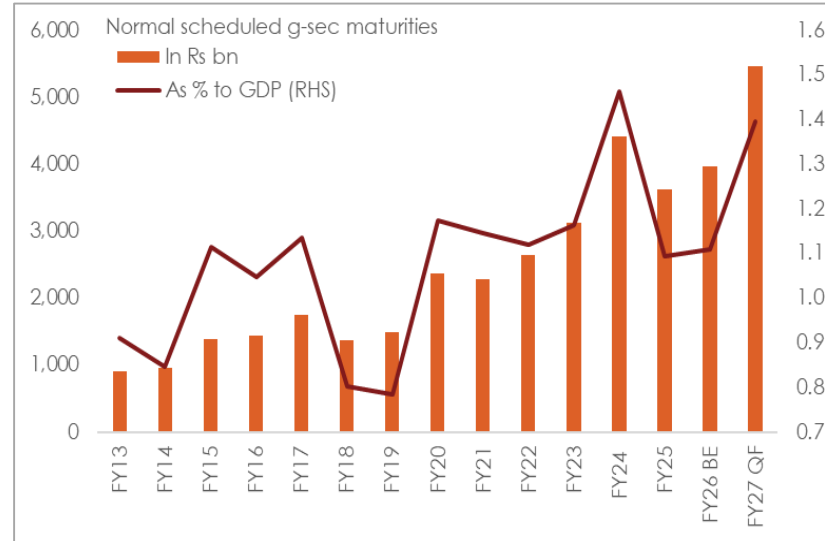
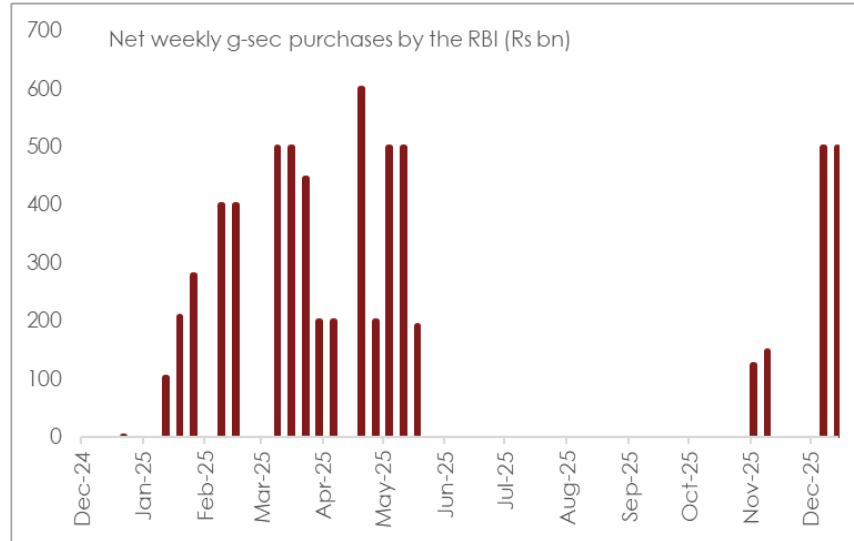
The increase in net market borrowing pressure since Jun-25 has weighed upon the bond market sentiment, despite a favourable monetary policy backdrop.



While RBI is soothing nerves, fiscal policy remains on watch

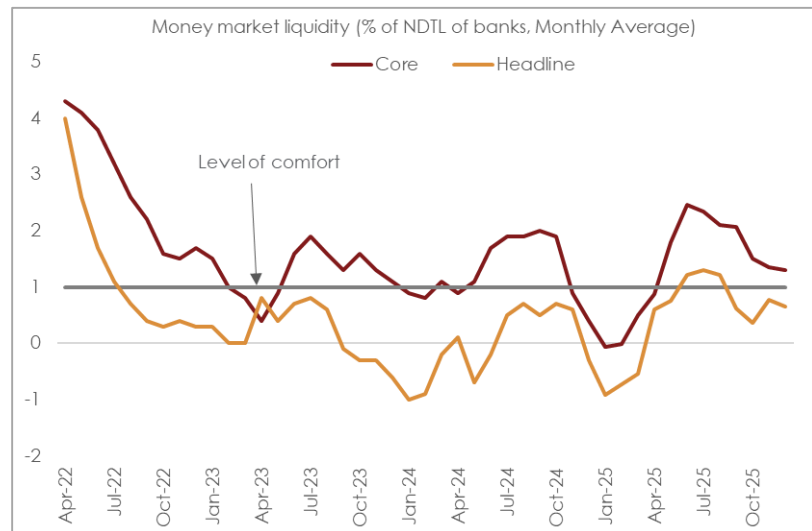
Amidst the recent phase of INR depreciation, the RBI has upped its act of curbing FX volatility by stepping up the sale of foreign currency assets since Aug-25. To sterilize its FX operations, the central bank has restarted g-sec purchases (Rs 1.3 tn conducted over Nov-Dec 2025 so far).

While the restarting of OMO purchases by the RBI has been helpful, the market participants are now (i) expecting monetary policy to be on pause mode, for now, and (ii) be watchful of the upcoming record high redemption of g-secs in FY27 (pegged at Rs 5.5 tn), which will inflate the gross borrowing requirement.

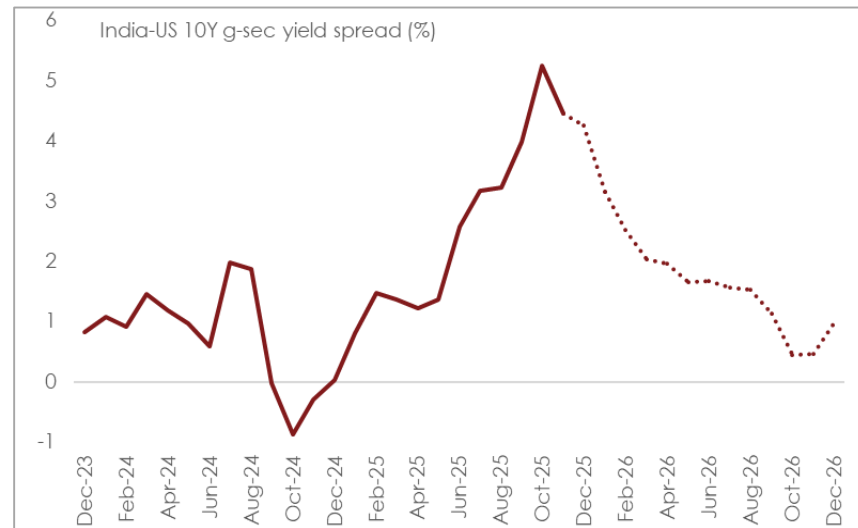


Rates outlook

The headline and core liquidity have averaged 0.7% and 1.3% of NDTL in Dec-25 so far. However, with the RBI running down its FX assets to curb INR volatility, the domestic liquidity surplus has moderated. This could prompt further sterilization efforts in the form of OMOs/ FX Swaps.



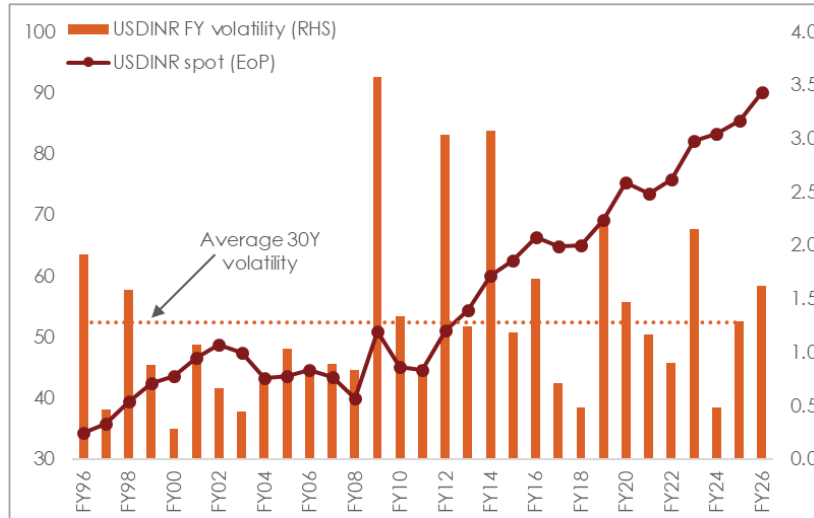
Basis the projected inflation trajectories for India and the US, the real yield spread is likely to compress over 2026. This could pose challenges for attracting FPI flows. However, India's bond index inclusion (by Bloomberg in their EM index) could enhance FPI interest towards Indian g-secs.



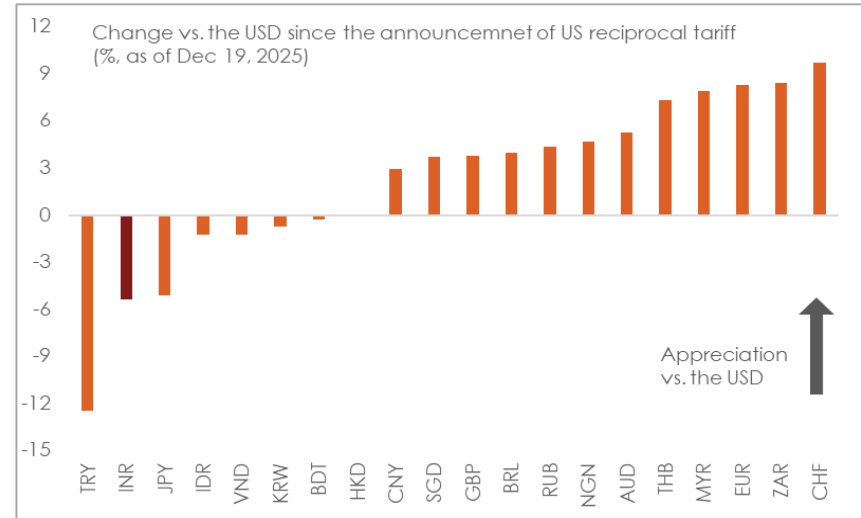
While we retain our Mar-26 10Y g-sec yield forecast of 6.30%, we now attach an upside risk. The US tariff situation remains a risk to watch.

INR breaches 90...

The INR scaled a fresh record low by breaching the 90 level in Dec-25 (currently trading close to 89.7 levels). While the move caught market participants off guard, the accompanying volatility has seen a minor increase vis-à-vis the long-period average.



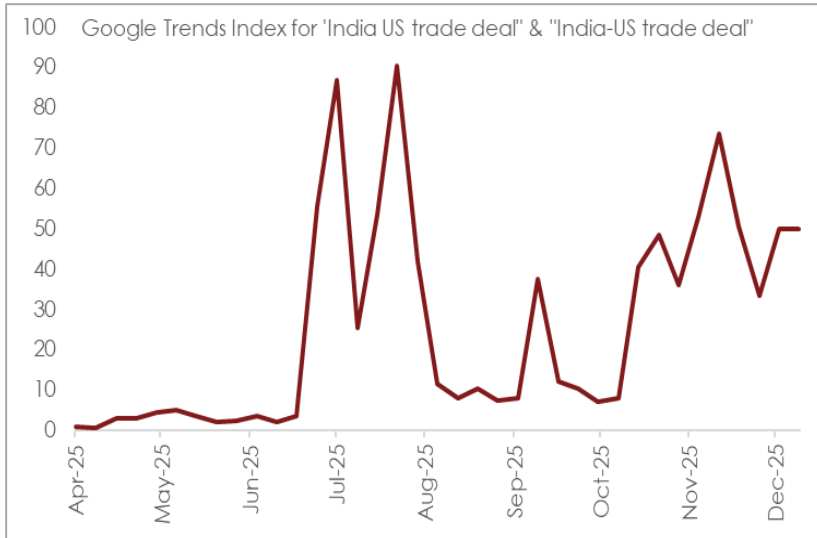
On a FYTD basis, the INR has weakened by 5.4% against the USD. Notably, this has transpired at a time when the DXY Index has lost 5.4% in the corresponding period. As such, this has put INR as one of the major underperformers in the FX market.



...as US trade policy uncertainty weighs...

Exceptionally high country-level US tariffs on India (at 50% cumulatively) have been a bane for INR in recent months. Despite guarded optimism with respect to progress on India-US trade negotiations, the final announcement remains elusive.

The US is looking to extend protectionist policies to its services sector. From India's perspective, the importance of the US for services is relatively higher. As such, developments on this front need a close watch.



Note: Data represents the average of Google Trends Index for "India US trade deal" and "India-US trade deal".

Importance of the US for India's services exports and remittances

Share of US in India's service exports	55.7%
Share of US in India's inward remittances	27.7%
India's share in issuance of US H-1B visas	71.0%

Note: All data pertains to FY24.

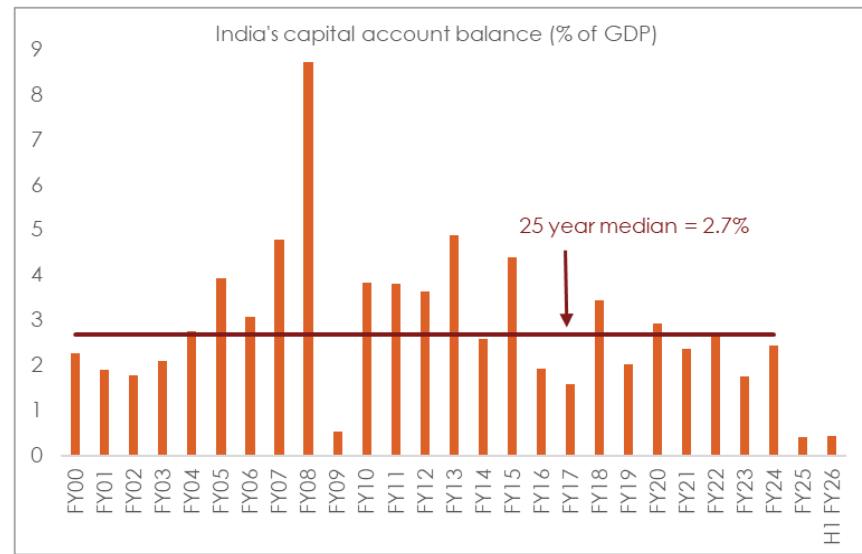
...while the capital account remains subdued

Key components of capital inflows have shown moderation this year on account of elevated global uncertainties and interest rate volatility in advanced economies. Among major components, while FDI flow momentum has shown improvement, it nevertheless remains subdued compared with the medium-term trend. However, the announcement of key M&A deals (esp. in the financial sector) this year offers encouragement.

Net capital flows: Key components (USD bn)		
	H1 FY25	H1 FY26
FDI	3.4	7.7
FPI	7.5	0.4
ECBs	3.5	4.5
NRI Deposits	10.2	6.1

Note: Data for FPI flow covers Apr-Nov period.

India's capital account balance printed at 0.4% of GDP in FY25, the lowest in 43 years. The capital account balance has been range-bound at 0.4% of GDP in H1 FY26, significantly below its long-term trend.



However, fundamentals remain in favour

Indian exporters have begun diversifying to non-US countries (like Spain, China, Vietnam, Hong Kong, and Brazil) amidst tariff uncertainties. Moreover, the services trade surplus now funds a somewhat greater extent of the merchandise trade deficit.

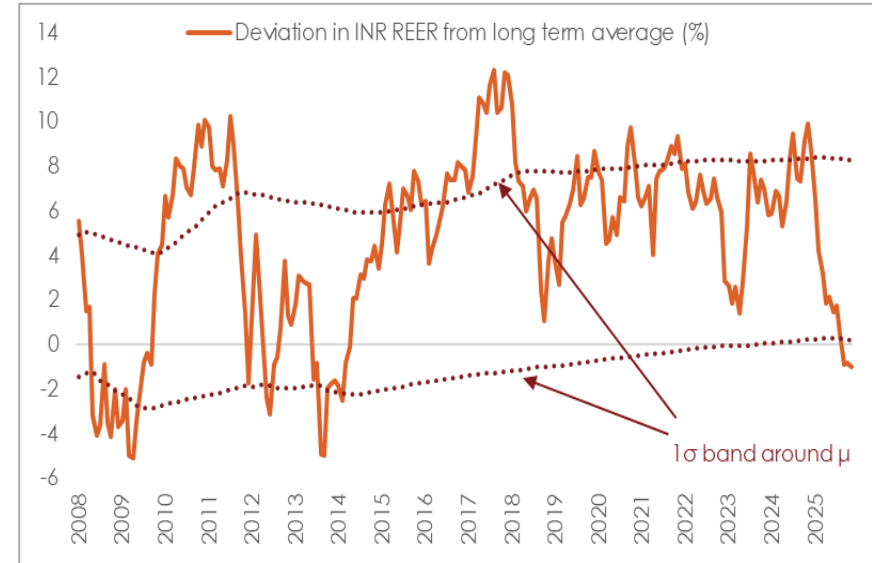
Based on the REER metric, we estimate INR to be ~1% undervalued in Nov-25 vs. the long-period average. This is the first episode of INR undervaluation seen in over 11 years and increases its attractiveness to long-term foreign investors.

Annualized growth in India's merchandise exports (%)

	To US	To Other Countries
Apr-Aug FY26	17.8	-1.6
Sep-Nov FY26	-0.5	4.4

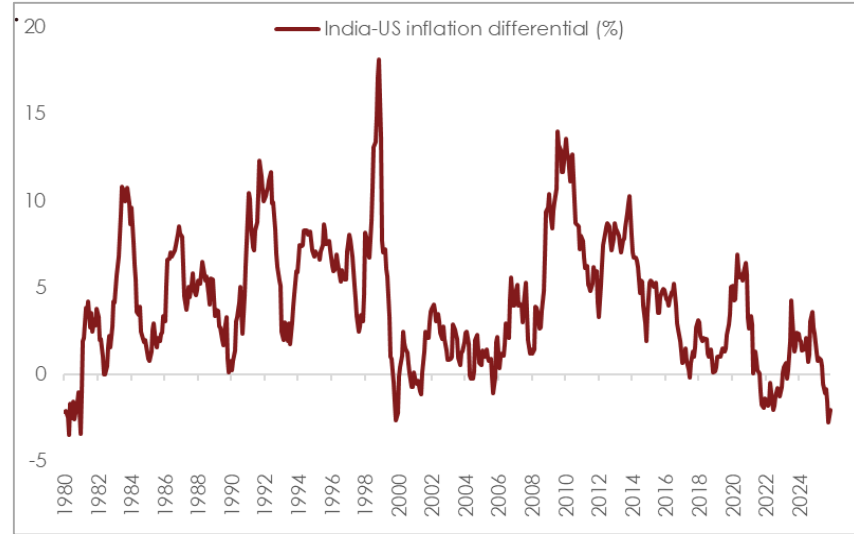
Share of India's services trade surplus to merchandise trade deficit (%)

Apr-Nov FY25	57.2
Apr-Nov FY26	60.1



Announcement of the India-US trade deal can provide a pivot

The CPI inflation spread between India and the US has been under 2 percentage points since Jan-25. This is bound to improve INR's fundamental attractiveness.

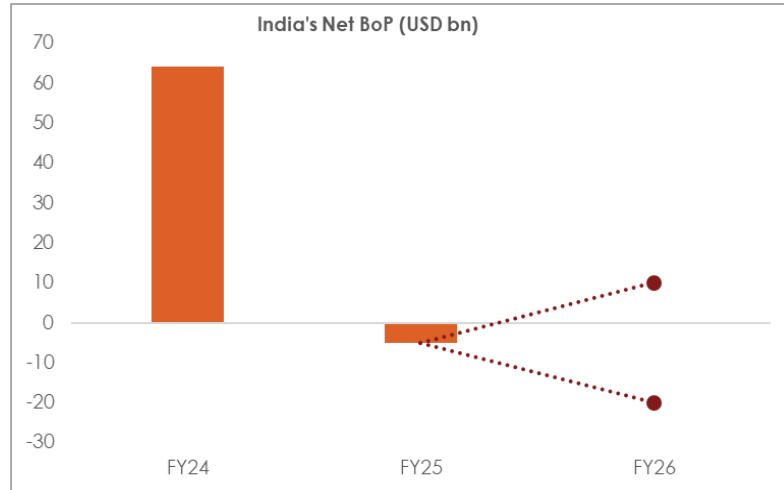


The share of the US in India's imports has exceeded that of Russia as India moderates its high import dependency on Russia for oil, while it has forged long-term energy and defence contracts with the US. While this is not a sufficient condition for the India-US trade deal, it definitely ticks off as one of the necessary ones.



Rupee outlook

With multiple factors at play, we maintain our call of India's FY26 current account deficit at 1.3% of GDP (up from 0.6% in FY25).



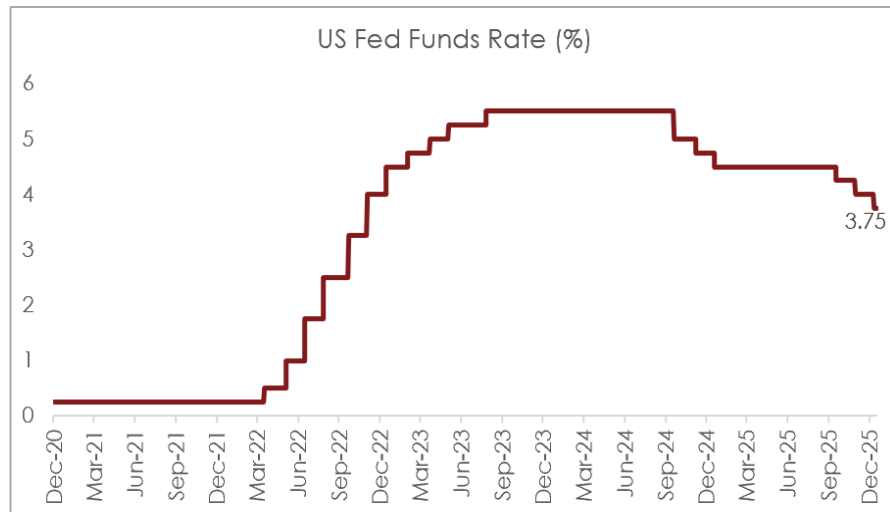
India's total merchandise import cover basis its total foreign currency assets, is estimated at 7.8 months (for Nov-25), lower than the long-period average of 10-11 months. This will prompt the RBI to rebuild reserves – a knee-jerk INR appreciation on the likely announcement of the India-US trade deal could be one such opportunity in the near term.



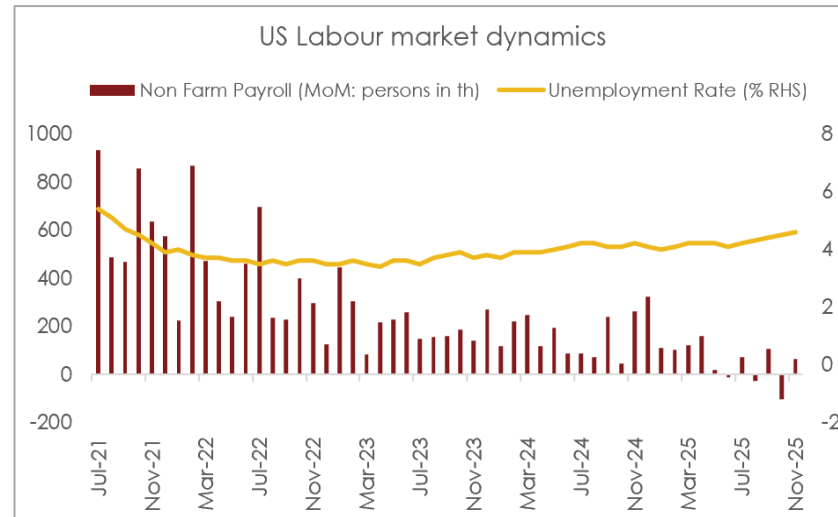
Considering the known-unknown geopolitical and geoeconomic risks, we maintain our USDINR call of 89.5 for Mar-26. Any delay in announcement of the India-US trade deal could raise the risk of further weakness in INR.

Fed continues policy easing in Dec-25

The US Federal Reserve delivered a 25 bps rate cut at its Dec-25 FOMC meeting, lowering the policy rate to 3.50–3.75% and marking the third consecutive cut since Sep-25, in line with market expectations.



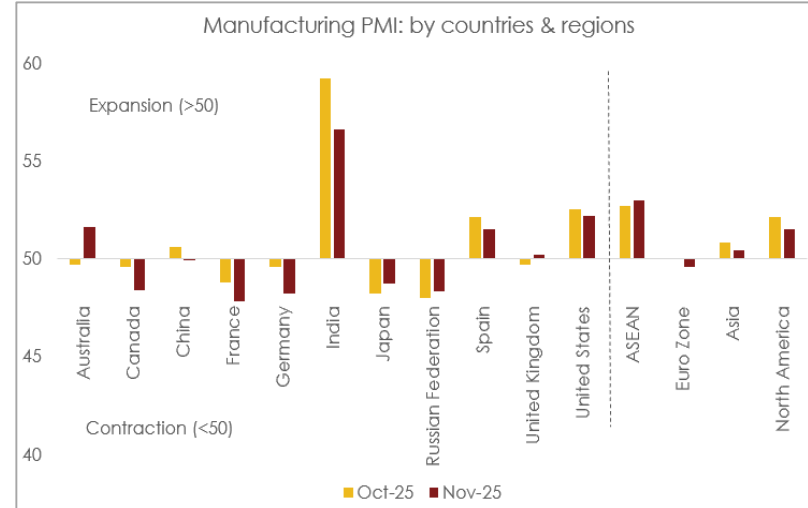
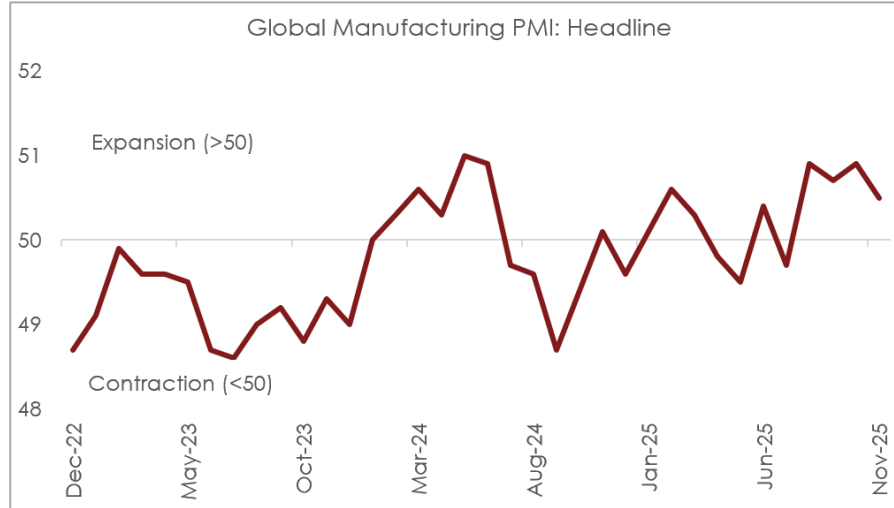
Following the reopening after the 43-day government shutdown, the US labour market data showed noticeable signs of weakening in Nov-25, with payroll growth remaining subdued at 64k jobs - a modest recovery from the decline of 105k in Oct-25. Alongside, the unemployment rate rose to the highest level of 4.6% since the post-COVID period.



Global manufacturing PMI: Expansion continues, but momentum softens

Global manufacturing PMI eased to 50.5 in Nov-25 from 50.9 in Oct-25, marking the weakest reading in the last four-months of expansion phase indicating continued, albeit moderating global manufacturing activity which remains uneven across regions.

India led the expansion alongside the US, Spain and the ASEAN region, while several advanced economies including the Euro Zone, Canada and Japan continue to signal contraction.

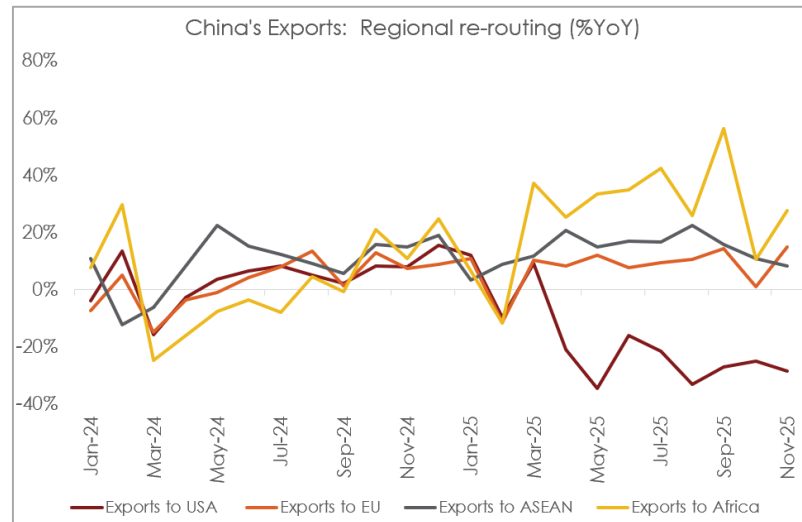
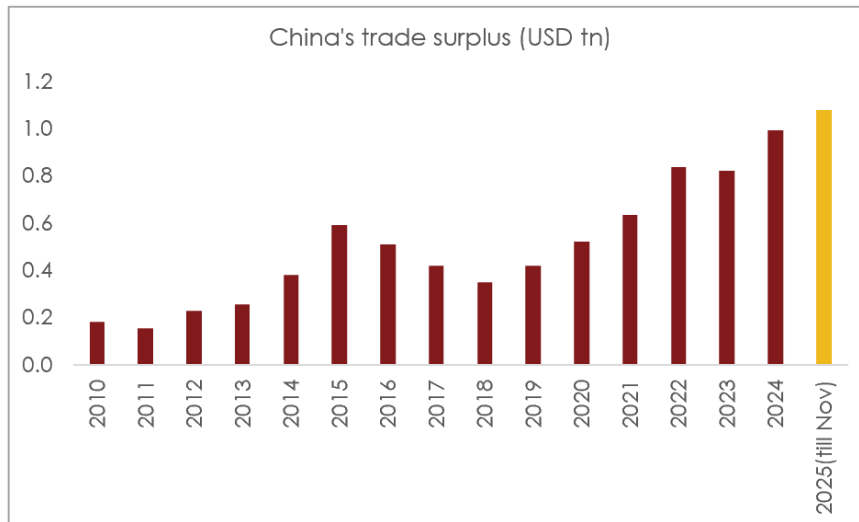


China's trade surplus breaks all records

A widening export-import gap drove China's trade surplus to a record high of USD 1.08 tn on a YTD basis as of Nov-25, with exports rising by 5.4% even as imports contracted (-0.6%) through the year.

After a modest contraction in Oct-25 (-1.2% YoY), China's exports rebounded in Nov-25r (5.9% YoY), lending additional near-term support to its external surplus.

This export resilience has been supported by re-orientation of trade flows. On a YTD basis, China's exports to the US have contracted by ~19%, while those to the EU and ASEAN have expanded by 8.2% and 13.7%, respectively. Notably, exports to Africa have grown at a healthy pace (up 26% YTD), highlighting robust non-US demand that has largely offset the tariff-induced downturn in US-bound shipments.



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