

MACRO PULSE

REPORT

January 2026



Summary

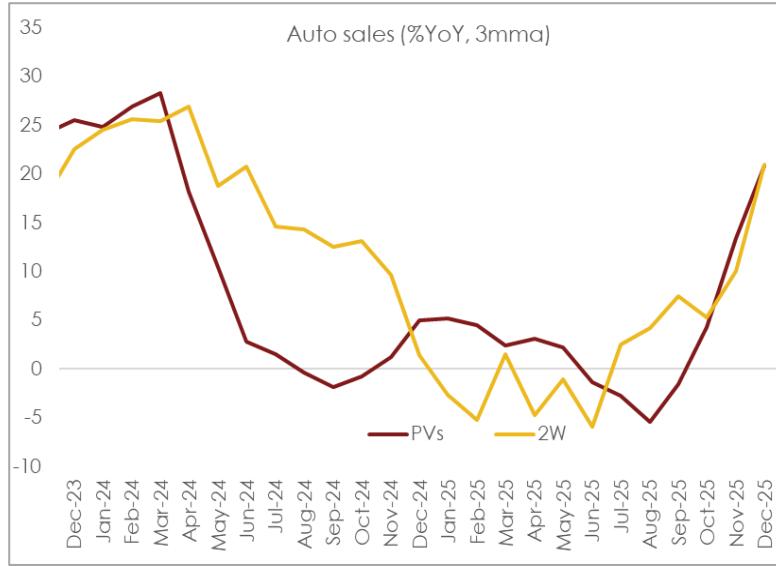
India's growth momentum remains steady. Consumption trends are being led by a strong recovery in rural demand - evident in robust tractor and FMCG sales, while urban consumption has benefited from tax cuts, easing inflation and lower interest rates. GST collections and E-way bill generation have reached record highs, underscoring the durability of domestic activity. However, leading indicators such as manufacturing and services PMIs point to a moderation in momentum, suggesting a gradual normalization rather than an overheating cycle. Government capex, after being front-loaded in FY26, is expected to taper in Q4 amid revenue constraints, placing a greater onus on private demand and exports to sustain growth.

Globally, the IMF's latest World Economic Outlook characterizes the world economy as resilient. While global growth is holding up, it is uneven amidst tighter financial conditions, trade frictions and geopolitical uncertainties. Advanced economies continue to see softening momentum, while emerging markets, particularly in Asia, remain the primary drivers of global expansion. The IMF underscores that easing inflation offers policy space, but cautions that downside risks persist from trade disruptions, fiscal constraints and divergent growth paths across regions. In this context, India stands out for its relative macro stability and diversified growth drivers, though sustaining momentum will require continued reforms, prudent fiscal management and stronger private investment to offset an increasingly challenging global environment. This sets the backdrop for the Union Budget FY27 to be presented on 1st Feb 2026.

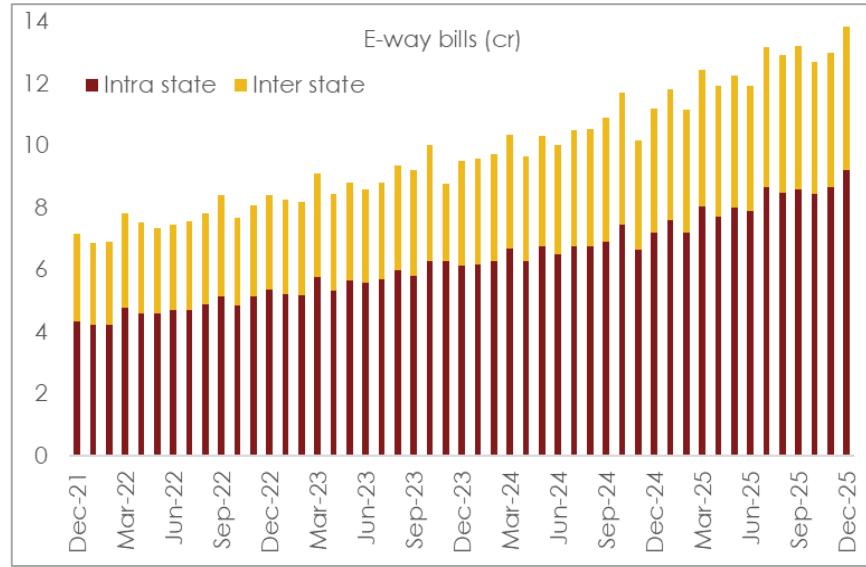
India's bond market will be glued to the upcoming budget announcement. While reforms of customs duties, trade facilitation, employment generation, etc. would be the focus, market participants would try to infer the signal from the anticipated fiscal pivot from 'deficit-targeting' to a 'debt-targeting' regime. Besides, there are critical trade deals in the offing – India-EU FTA (to be announced on Jan 27th) and India-US trade deal (could get announced by Mar-26). We revise our Mar-26 10Y g-sec yield forecast to 6.60% from 6.30% (with upside risks earlier). Our USDINR forecast for Mar-26 also stands revised to 90.5 from 89.5 earlier. Needless to say, global geo-economic and geopolitical uncertainties could provide risk to our forecasts.

Domestic growth momentum steady: Auto sales and GST collections fare better

Most high frequency indicators underpin momentum in economic activity continuing to remain strong up till the end of CY25. Sales of PVs and Two-wheelers soared to 28 month and 43 month high in Dec-25 respectively.



E-way bills generated in Dec-25, accelerated to an all time high of 13.8 cr. This marked a 6.5%MoM increase vis-à-vis Nov-25, as also a sizeable upside compared to previous high of 13.2 cr bills generated in Sep-25.

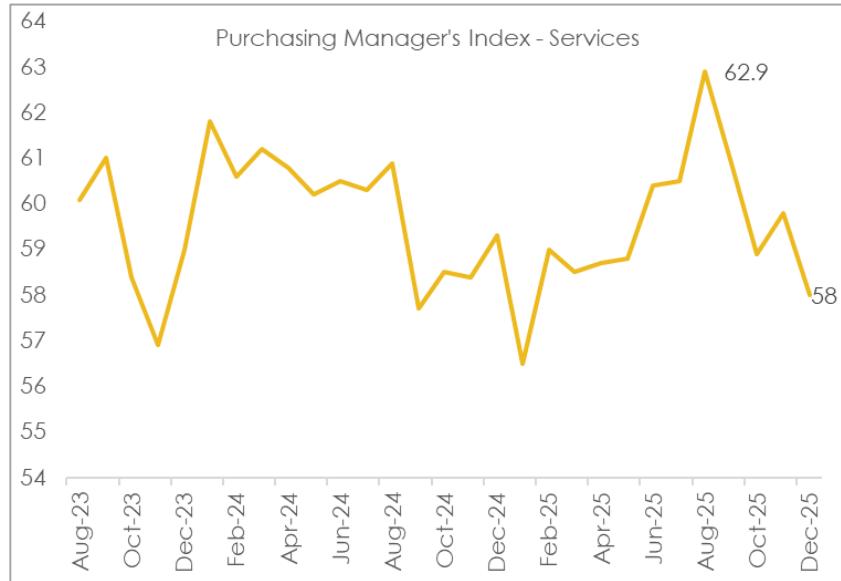


PMIs lose steam

India's PMI manufacturing index ended on a softer note, easing to a 24-month low in Dec-25. The index clocked 55.0 in Dec-25, down from the recent peak of 59.2 in Oct-25, reflecting slower momentum in new orders as well as export demand.



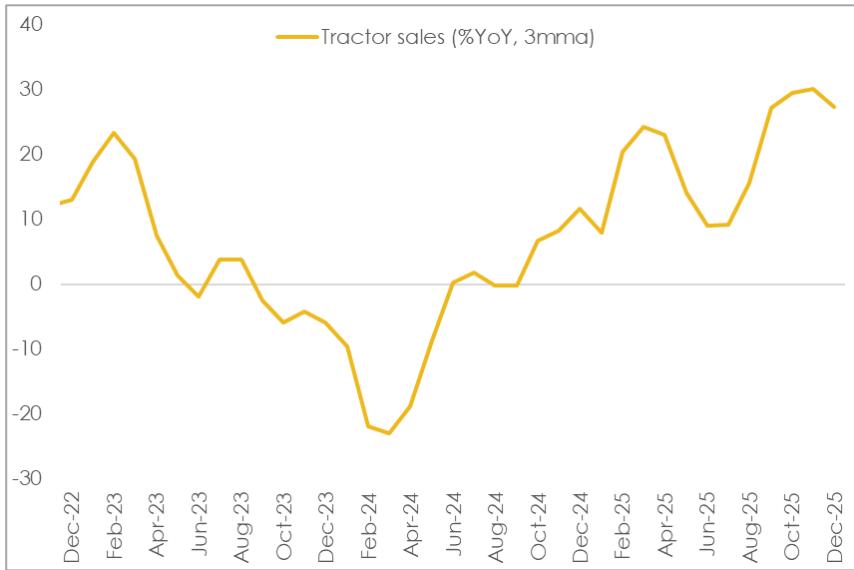
Services PMI too slipped to an 11-month low of 58.0 in Dec-25, compared to 59.8 in Nov-25 owing to weakness in both new business inflows and output growth, even as services exports momentum kept up pace.



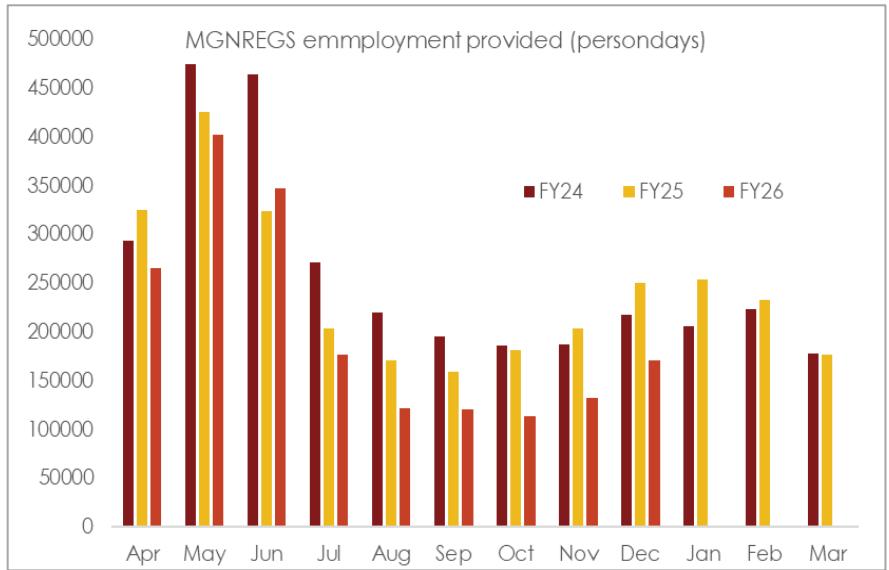
Rural consumption recovery steadfast



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 20.4% on FYTD26 basis (Apr-Dec), compared to 4.9% over the corresponding period in FY25.



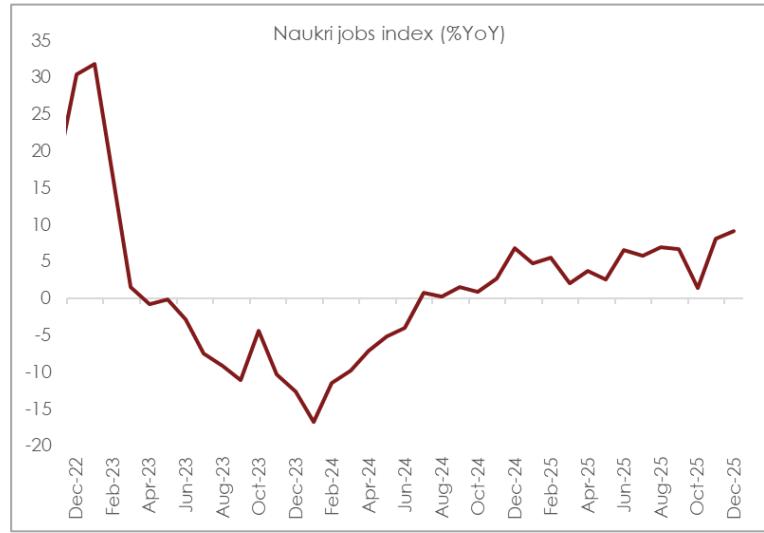
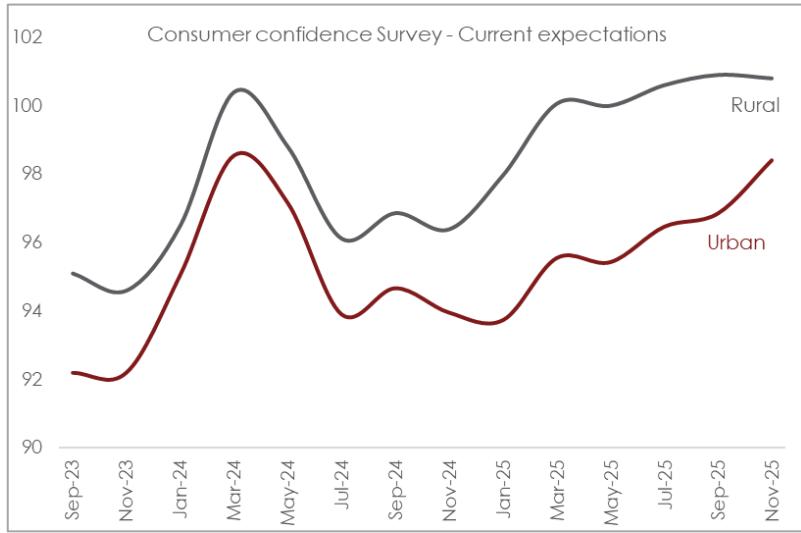
In another tell tale sign of rural economy faring better, is the low utilization of MGNREGS (henceforth renamed as VB-G RAM G) indicating lower dependence of rural working population on the Government's guaranteed employment scheme.



GST boost to urban demand

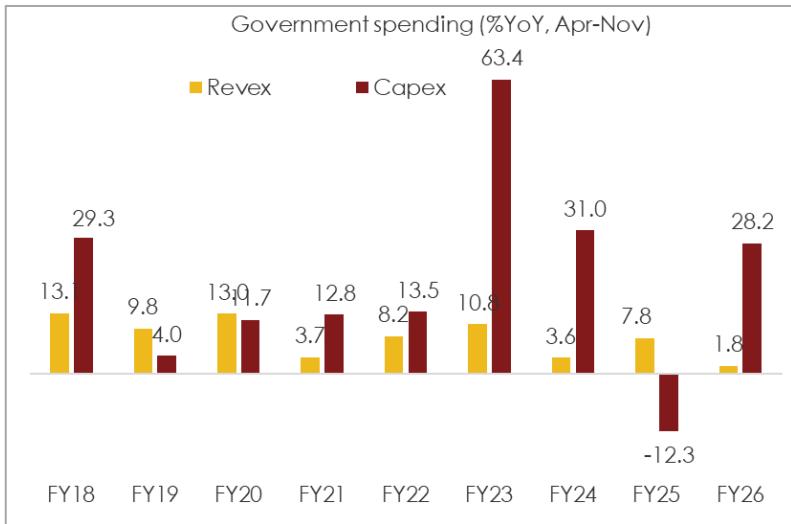
Urban consumer confidence has seen a sizeable upshift since the beginning of FY26, as per RBI's Consumer Confidence Survey. In comparison, rural consumer confidence, though higher, has plateaued in the last few survey rounds.

The urban push to consumption has been steered by the cut in taxes (both direct and indirect) as well as reduced interest rates and softer inflation. However, urban jobs growth (proxied by job opening) has remained lackadaisical through the last 1 year. Having said, the benefit of tax cuts on urban consumption is likely to continue into 2026.



Government capex to taper, Exports hold fort

After a backloaded support to growth in FY25, Finance Ministry front loaded their capital expenditure in FY26. On FYTD basis (Apr-Nov), central government capex has grown by 28%YoY. Having said, amidst deceleration in pace of tax revenue growth, the pace of capex expenditure is likely to moderate in Q4 FY26, in a bid to meet the budgeted target (which may undergo some marginal pruning)



While India's export growth to US was nearly zero over Sep-Nov-25, that to ROW (rest of the world) has grown by 4.6%. Notably, efforts to diversify products and geographies is serving India well. The recently signed FTAs (UK, Oman, NZ and soon to be announced with EU) should augur well for India's trade positioning in 2026.

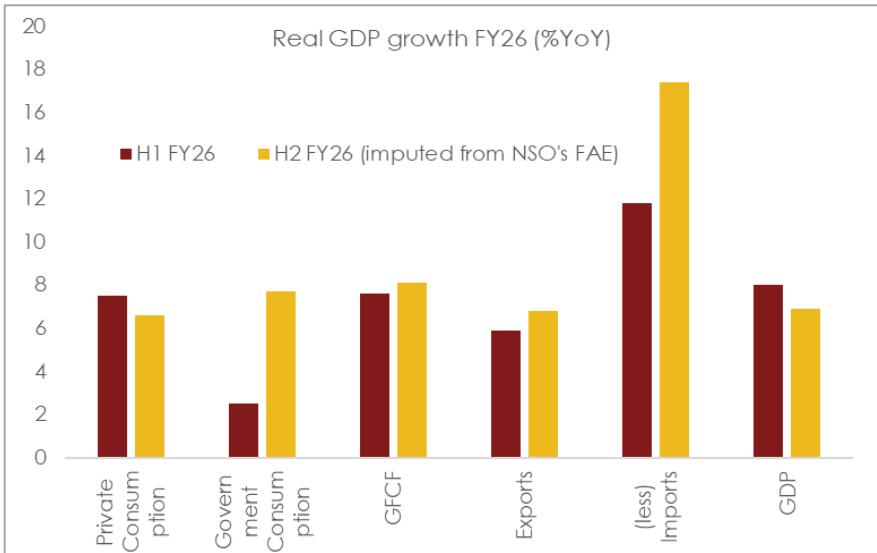
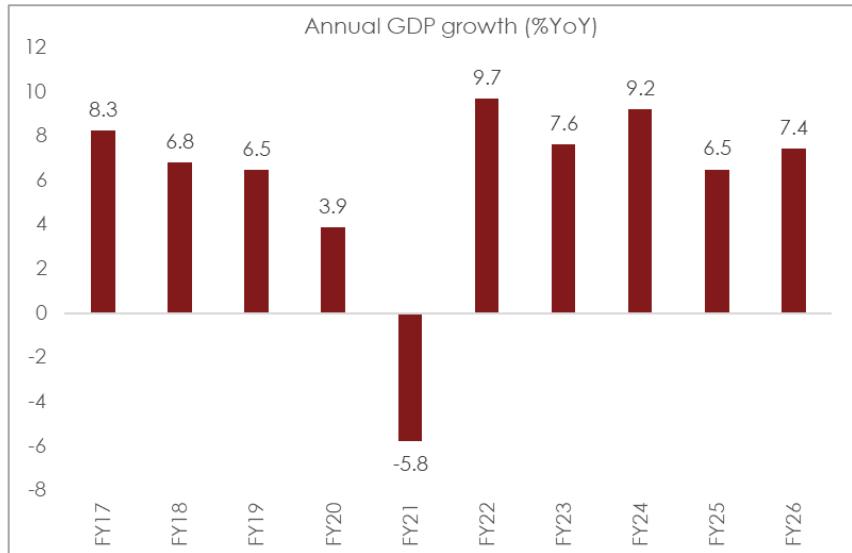


Advance estimates peg FY26 growth at 7.4%



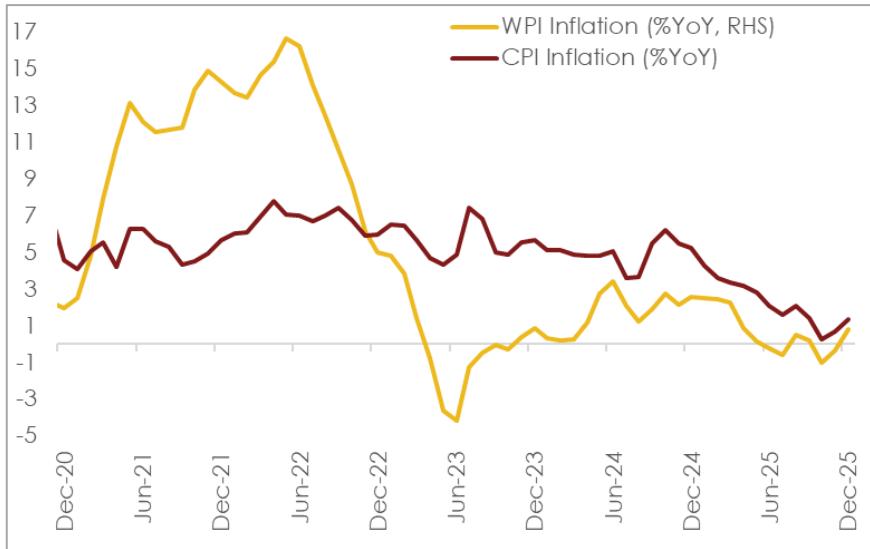
NSO's first advance estimate pegged has FY26 real GDP growth at 7.4%YoY, with nominal GDP close on its heels at 8.0%. This stands marginally higher than our estimate of 7.2%.

Compared to H1 FY26 real GDP growth of 8.0%, H2 is estimated to see growth slip to 6.9% - owing to slower pace of expansion of manufacturing, construction and trade, hotels & communication services on the supply side, and private consumption on the supply side

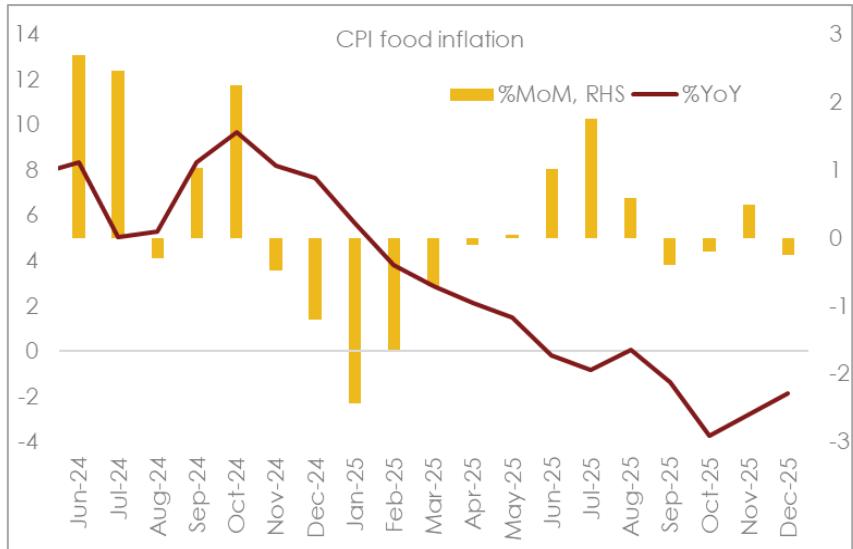


CPI inflation: Moves a tad higher

India's CPI inflation rose further to 1.33%YoY in Dec-25 from 0.71% in Nov-25 after having touched a record low of 0.25% in Oct-25. With this, Dec-25 marks inflation remaining below the lower threshold of 2% for the fourth consecutive month and below the 4.0% target for the eleventh consecutive month.

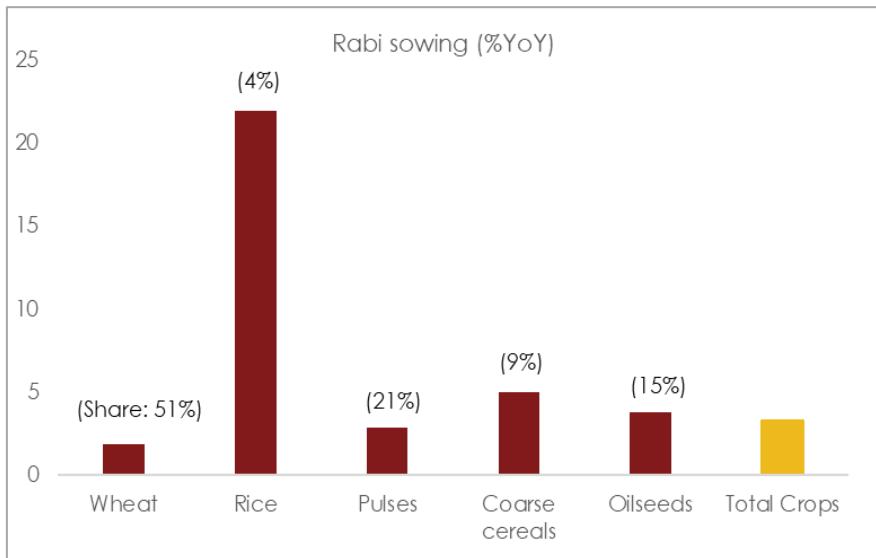


On a sequential basis, CPI posted an increase of 0.05% MoM, in contrast to the series median contraction of -0.45% MoM usually seen in the month of December. Annualised Food & Beverages inflation continued to contract, albeit at a slower pace of -1.85% in Dec-25 from -2.78% in Nov-25.

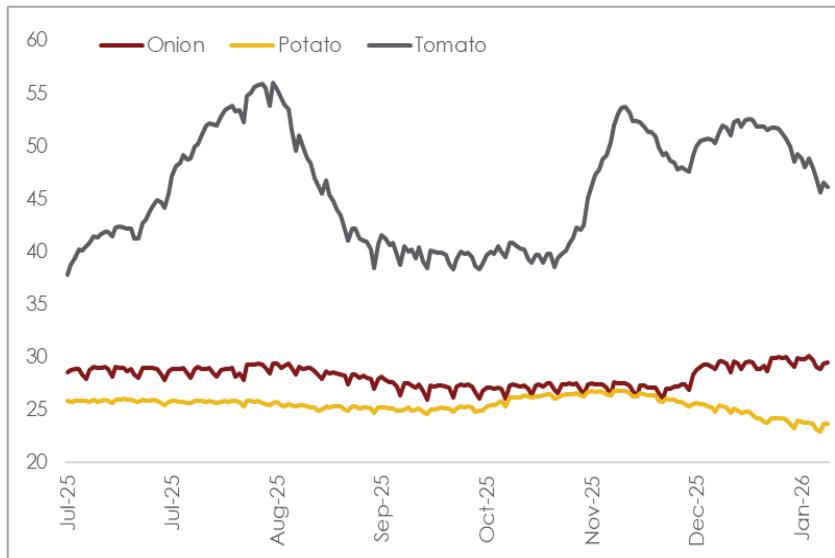


Food outlook remains comfortable

Rabi sowing has been healthy so far in the season. As of 16th Jan-26, total area sown under Rabi crops stands ~4.0% higher on an annualized basis. Comparing historically, the area sown as of now already stands at 106% of normal area sown over the full season.

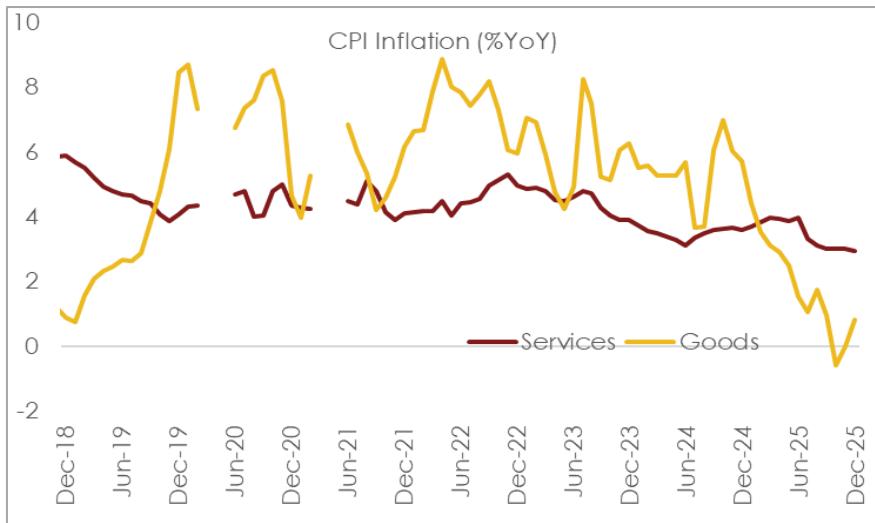


Price of vegetables have corrected over the last few weeks, owing to winter seasonality setting in. Vegetable prices eased by 2.8%MoM in Dec-25 (though much lower than historical trends) and are likely to see further downside in Jan-26, led by tomato prices.



Deflationary impact from GST waning

Inflation has continued to draw support from GST-rationalization led price cuts for the third consecutive month in Dec-25. However, the pace of downward price adjustments has tapered considerably. This likely reflects a combination of post-festive normalisation in demand and inventories, alongside emerging pass-through from rupee depreciation to imported items.

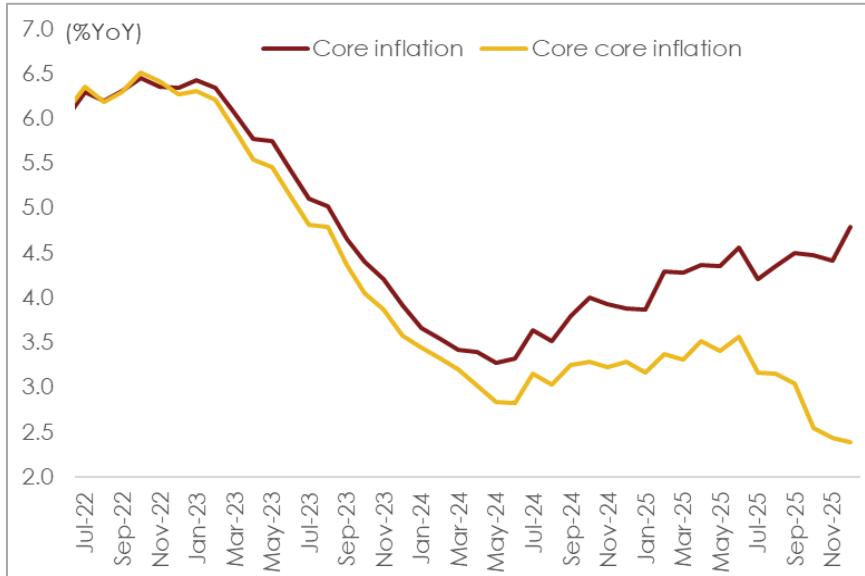


The impact of GST cuts has been more pronounced on goods than services. Consequently, while GST changes imply an annualised disinflationary impulse of ~130 bps, we expect the realised impact on CPI to be more modest, in the range of 60–70 bps.

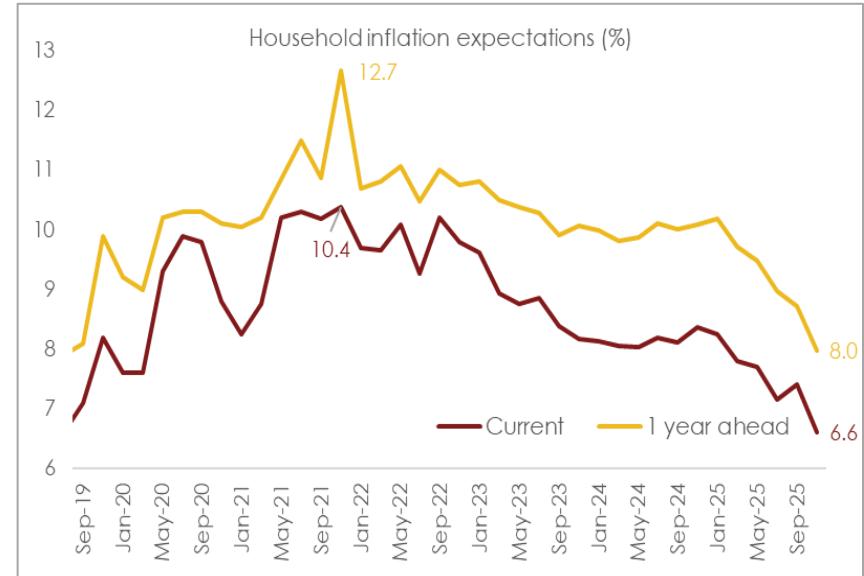
Time	MoM % change in CPI	
	Services	Core Goods
FY25	0.33	0.21
Apr-Aug FY26	0.34	0.28
Sep-Nov FY26	0.19	-0.16

Core-core CPI and headline inflation expectations turn more benign

Core CPI inflation rose to a 28-month high of 4.8% YoY, compared with 4.4% in Nov-25. Having said, Core-Core CPI inflation (represented by the exclusion of gold and silver indices from Core CPI) remained flat at a series low of 2.4% YoY in Dec-25.



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.

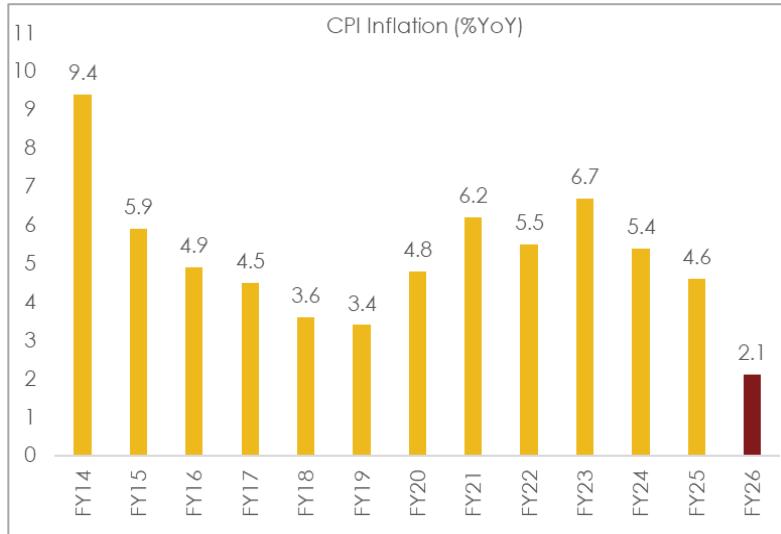


FY26 CPI forecast held at 2.1%



We hold on to our FY26 CPI inflation forecast of 2.1%. Having said, we will keep a close watch on upside risks stemming from recent depreciation in Rupee, surge in price of precious as well as base metals and strength in domestic consumption recovery.

More importantly, a new CPI series is expected in Feb-26. The revised series will adopt the HCES 2023–24 as its base year, featuring a refreshed item basket, expanded market coverage, and finer granularity. A possibly lower food and beverages weightage and a higher miscellaneous component may alter inflation dynamics somewhat going forward, however, limited back-series availability is likely to constrain immediate comparability with the existing CPI framework.



Snapshot of Apr-Nov FY26 fiscal performance



The cumulative fiscal deficit for the period Apr-Nov FY26 stood at 62.3% of the budget estimate, higher than 53.7% of actuals in the corresponding period in FY25. This is due to relatively lower realization of tax revenues and non-debt capital receipts amidst a relatively higher pace of capex disbursal.

Key Fiscal Variables (Cumulative position, as of November)				
	% of FY Actual/Target		%YoY	
	FY25 YTD	FY26 YTD	FY25 YTD	FY26 YTD
Revenue Receipts	61.6	55.9	8.7	2.1
Net Tax	57.8	49.1	0.5	-3.4
Non-Tax	79.4	88.6	50.2	20.9
Non-Debt Capital Receipts	57.3	51.2	-5.9	62.5
Total Receipts	61.5	55.7	8.5	2.1
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Revenue Expenditure	61.8	57.5	7.8	1.8
of which, Interest Payments	59.0	58.4	8.3	13.3
of which, Major Subsidies	72.8	75.2	15.0	3.3
Capital Expenditure	48.8	58.7	-12.3	28.2
Total Expenditure	58.9	57.8	3.3	6.7
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Fiscal Deficit	53.7	62.3	-6.6	15.4

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 clocking 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-Nov FY25 (% YoY)	Apr-Nov FY26 (% YoY)	FY26 BE (% change)
Gross Tax	10.7	3.3	12.5
Corporate Tax	-0.5	7.8	9.7
Income Tax	23.5	6.8	16.4
Customs	8.7	-7.3	3.1
Excise	-0.6	9.3	5.6
GST	9.8	-2.0	14.2
Net Tax	0.5	-3.4	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.

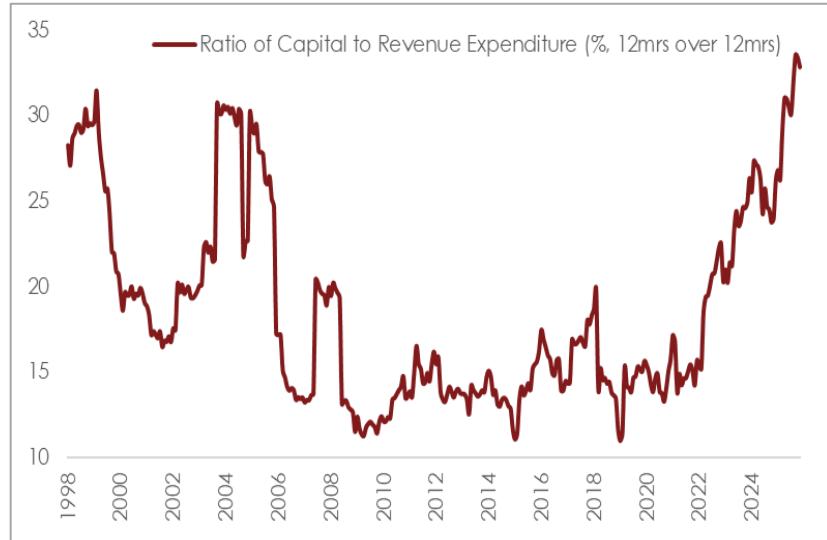


Key non-tax category collections (Rs bn)	Apr-Nov FY24	Apr-Nov FY25	Apr-Nov FY26
Non-Tax Revenue	2,844	4,270	5,164
Dividends and Profits	1,311	2,791	3,395
of which, RBI dividend	874	2,109	2,686
of which, PSU dividend	437	682	709
Others	1,533	1,479	1,769

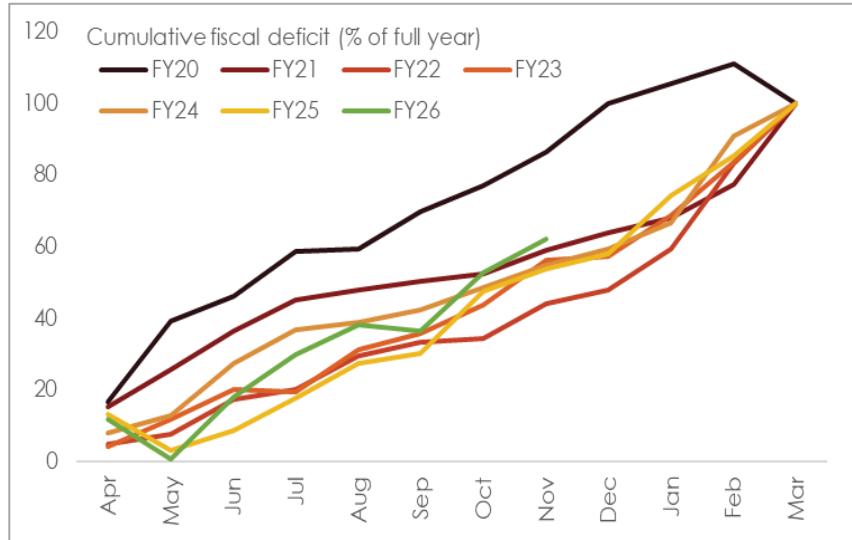
Note: Non-tax revenue is budgeted to grow by ~8.5% in FY26. Even if non-tax revenue shows zero growth between Dec-Mar, it would still generate an additional revenue of Rs 439 bn in FY26, over and above the budgeted target of Rs 5830 bn.

Expenditure quality remains healthy; headline fiscal deficit target to be met

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.



The pace of FYTD accretion to fiscal deficit is running at 62.3% of the full-year target – this is the highest in the last 6 years. Nevertheless, we expect the headline target to be maintained by rationalizing expenditure disbursement in Q4 FY26.

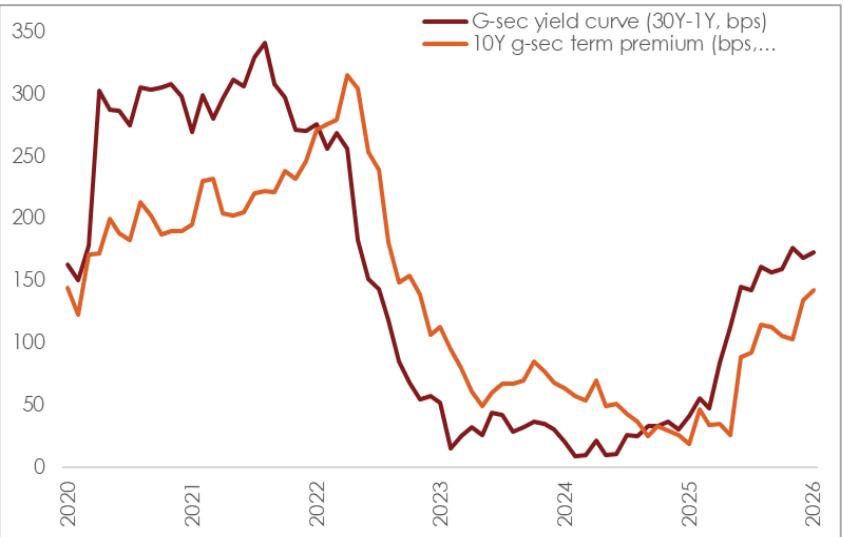


G-sec yields giving up their recent gains

G-secs have nearly given up their annualized gains. The 10Y benchmark yield is currently trading at 6.67% in Jan-26 (so far), down just 2 bps vis-à-vis Jan-25 levels.

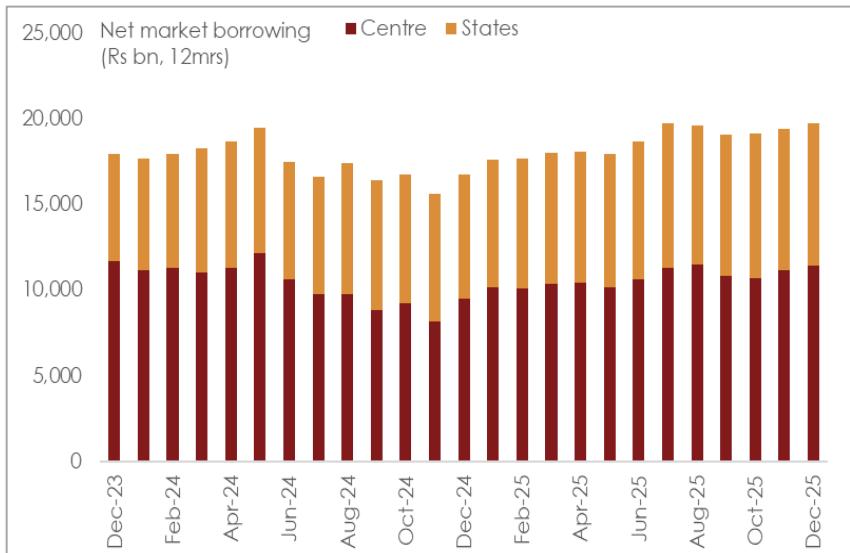


Bulk of the upward move in yields happened during Jun-25, Aug-25, Dec-25 and Jan-26. This is probably on account of (i) front-loaded rate cuts by the MPC, resulting in market participants bringing forward their expectation of an extended pause, (ii) push back by Fed chief on aggressive rate cut expectations in the US, and (iii) increasing supply pressure, esp. from SDLs.

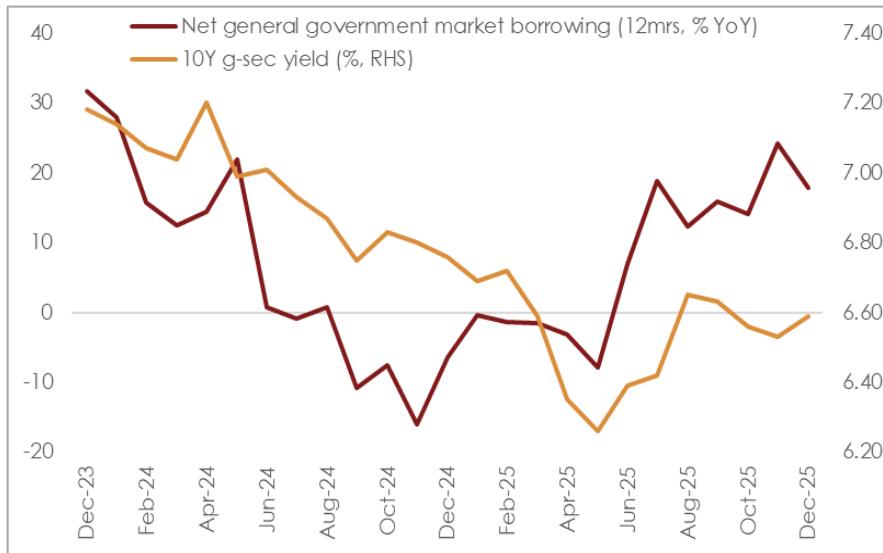


Supply pressure remains firm

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 11.1 tn and Rs 8.2 tn as of Dec-25, respectively.

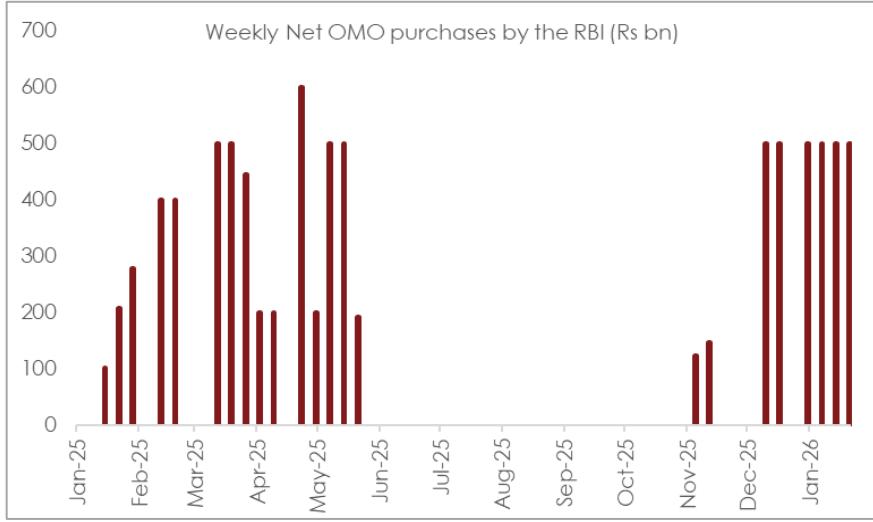


The increase in net market borrowing pressure since Jun-25 has weighed upon the bond market sentiment, despite a favourable monetary policy backdrop.

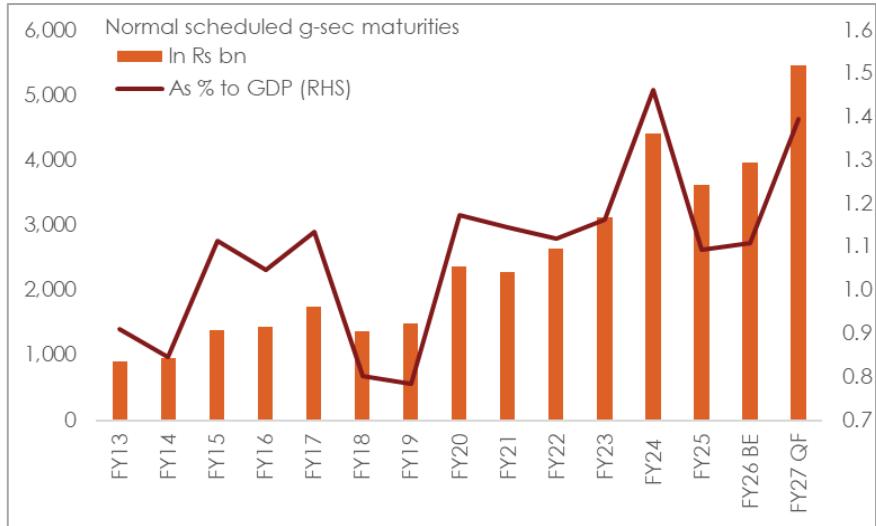


While RBI is soothing nerves, the fisc is throwing a curve ball

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 2.8 tn conducted over Nov-24 and Jan-25 so far).

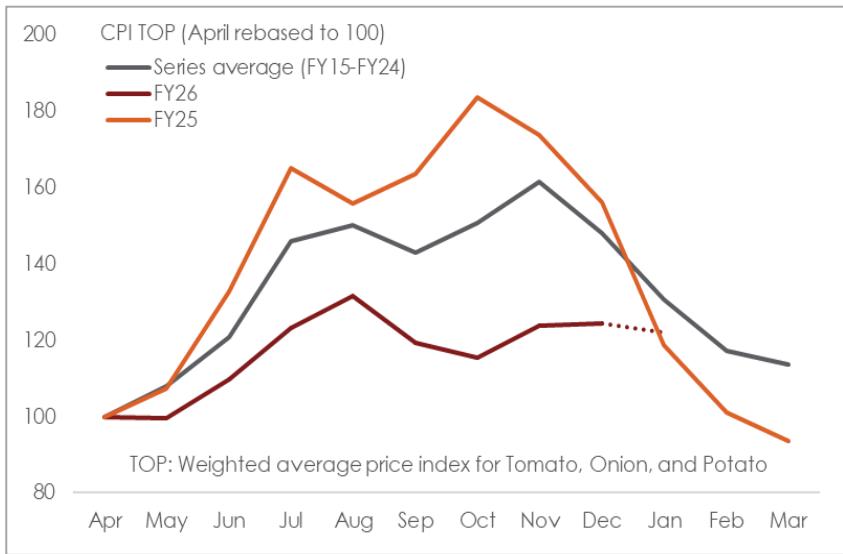


While the restarting of OMO purchases by the RBI has been helpful, the market participants are now (i) expecting monetary policy to be on pause mode, for now, and (ii) be watchful of the upcoming record high redemption of g-secs in FY27 (pegged at Rs 5.5 tn), which will inflate the gross borrowing requirement.



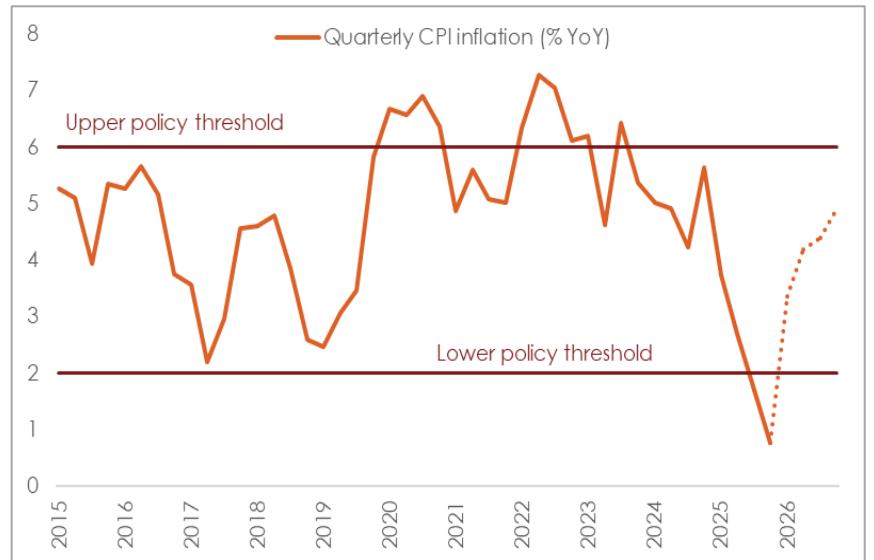
Meanwhile, inflation has bottomed out

High-frequency *mandi* prices indicate that key vegetable prices could finally be in positive territory in Jan-26 on an annualized basis. This could potentially end the spate of deflation in food prices observed in 6 of the last 7 months.



Note: The NSO will release a revamped CPI series from Feb-25 with 2022-23 as the base year, which is expected to see a reduction in the weight of food items.

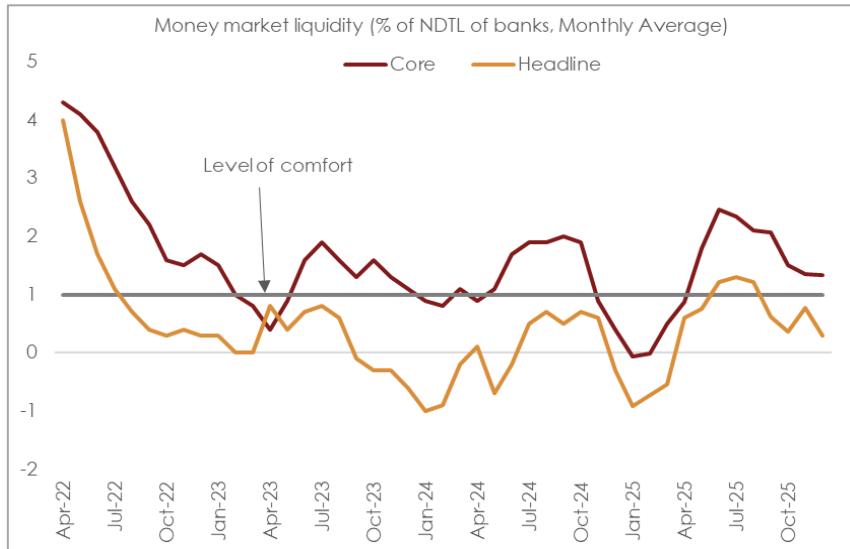
On a quarterly basis, CPI inflation has bottomed out at 0.8% (higher than RBI's forecast of 0.6%) in Q3 FY26. Going forward, we project CPI inflation to align with its target in H1 FY27, and thereafter move higher towards the 4.5-5.0% range in Q3 FY27.



Note: A similar trend is observed in the case of WPI. After bottoming out at -0.2% in Q3 FY26, it is likely to accelerate towards 4.0% in Q3 FY27.

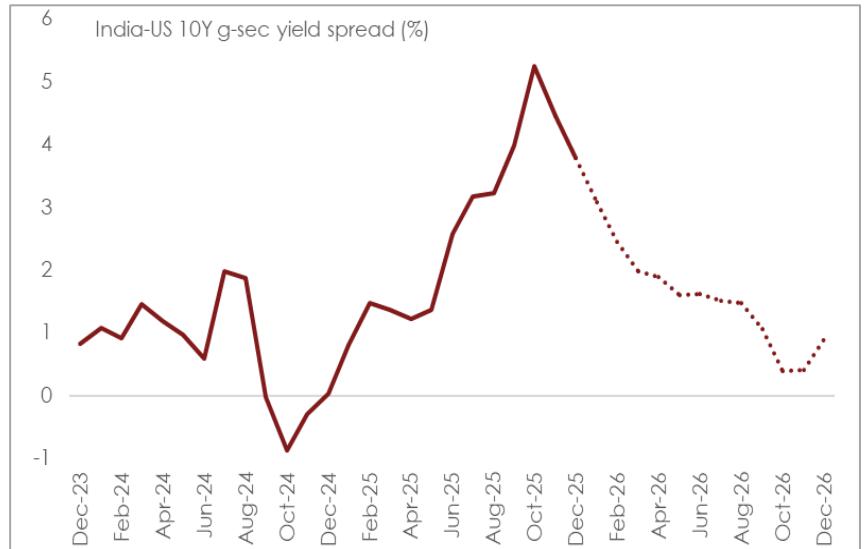
Rates outlook

The headline and core liquidity averaged at 0.3% and 1.3% of NDTL in Dec-25. 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.



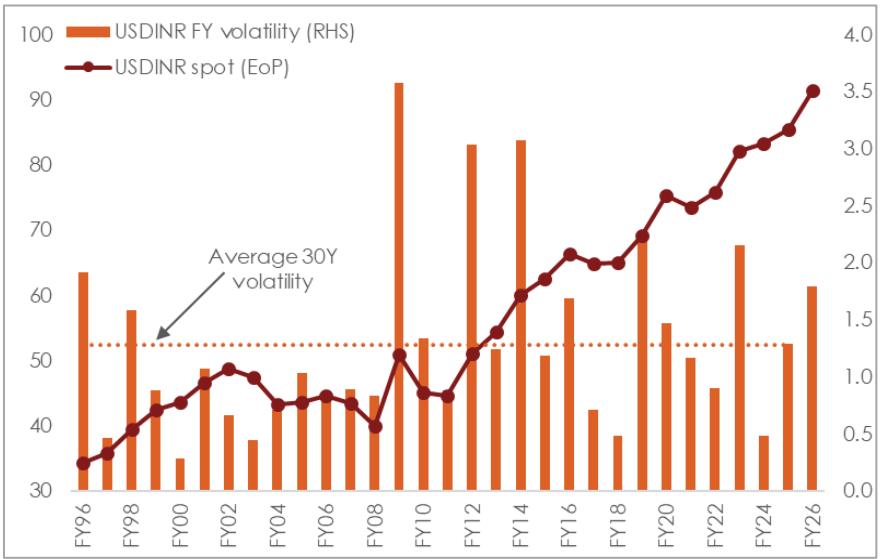
We revise up our forecast for the 10Y g-sec yield to 6.60% for Mar-26 from 6.30% with an upside risk earlier. The US tariff situation remains a risk to watch.

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.

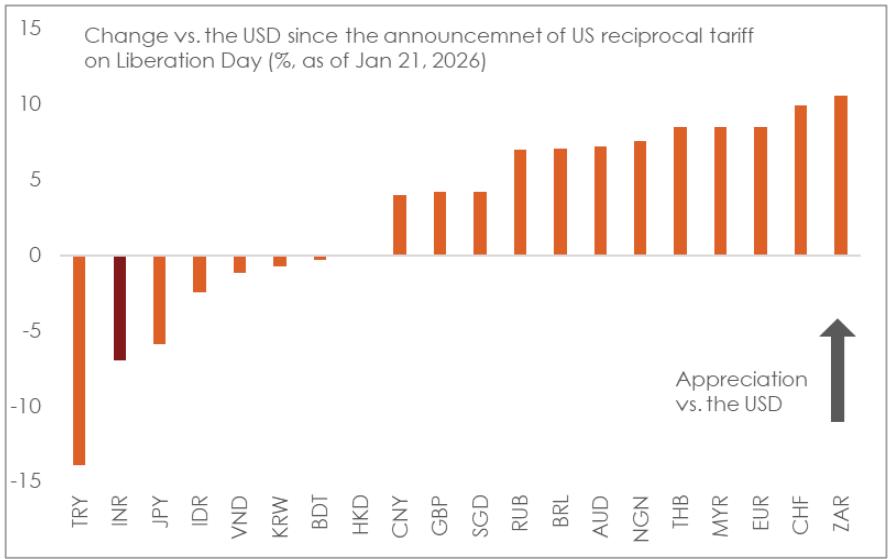


INR breaches 91...

The INR scaled a fresh record low by breaching the 91 level in Jan-26 (currently trading close to 91.5 levels). The accompanying volatility has seen an increase vis-à-vis the long-period average.

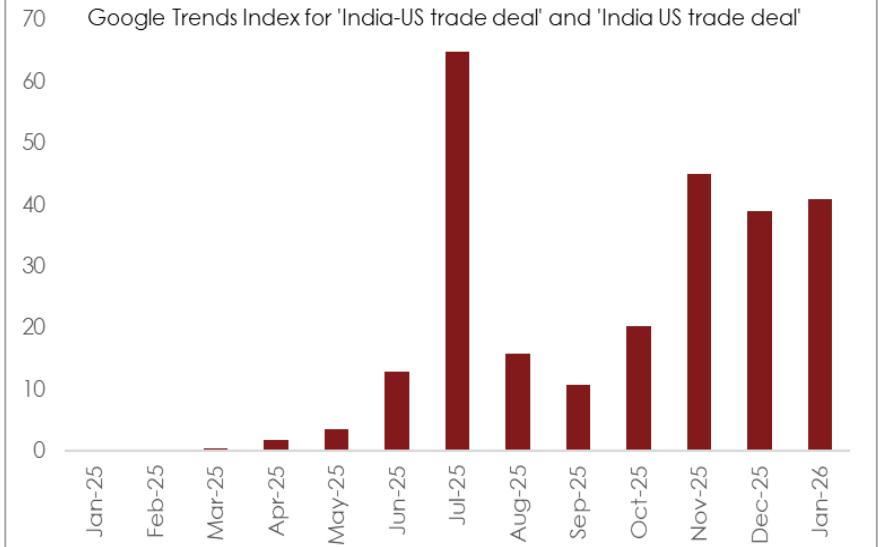


On a FYTD basis, the INR has weakened by 7.0% against the USD. Notably, this has transpired at a time when the DXY Index has lost 5.2% in the corresponding period. As such, this has put INR as one of the major underperformers in the FX market.



...with US tariff uncertainty continuing to weigh...

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.



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

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.

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.

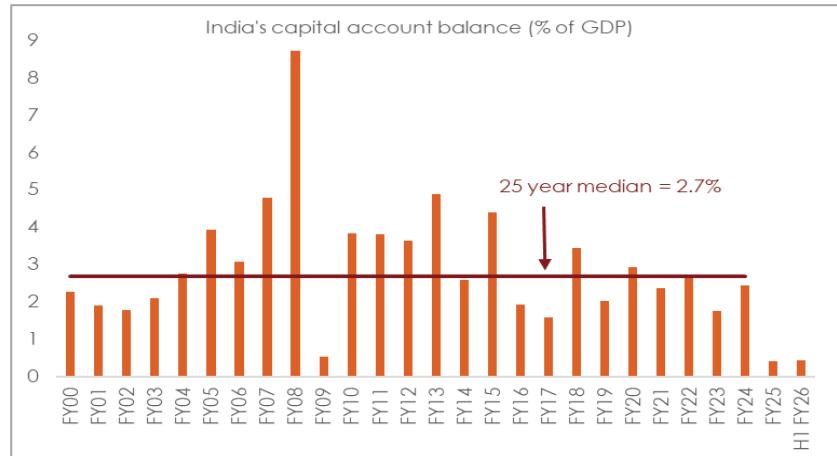
...while the capital account remains worrisome

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.

	FYTD 2024-25	FYTD 2025-26
FDI ¹	0.8	5.6
FPI ²	10.6	-3.9
ECBs ³	3.5	4.5
NRI Deposits ³	10.2	6.1

Note: 1: Covers Apr-Nov period, 2: Covers Apr-Dec period, 3: Covers Apr-Sep 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, Hong Kong, Vietnam, UAE, Belgium, and Germany) amidst tariff uncertainties. Moreover, the services trade surplus now funds a somewhat greater extent of the merchandise trade deficit.

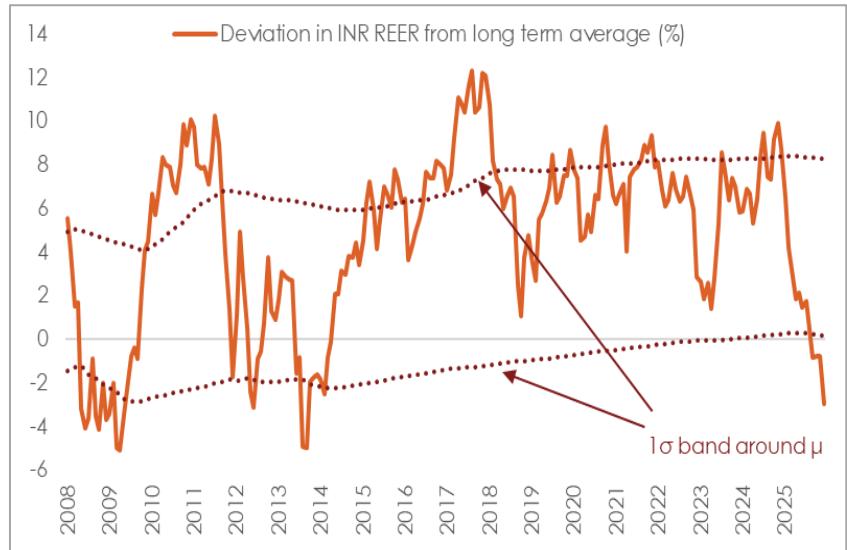
Annualized growth in India's merchandise exports (%)

	To US	To Other Countries	All Destinations
Apr-Aug FY26	17.8	-1.6	2.1
Sep-Dec FY26	-0.8	3.7	2.9

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

Apr-Dec FY25	60.5
Apr-Dec FY26	61.1

Based on the REER metric, we estimate INR to be ~3% undervalued in Dec-25 vs. the long-period average. This is the first episode of INR undervaluation seen in over 11 years and increases its attractiveness for long-term foreign investors.

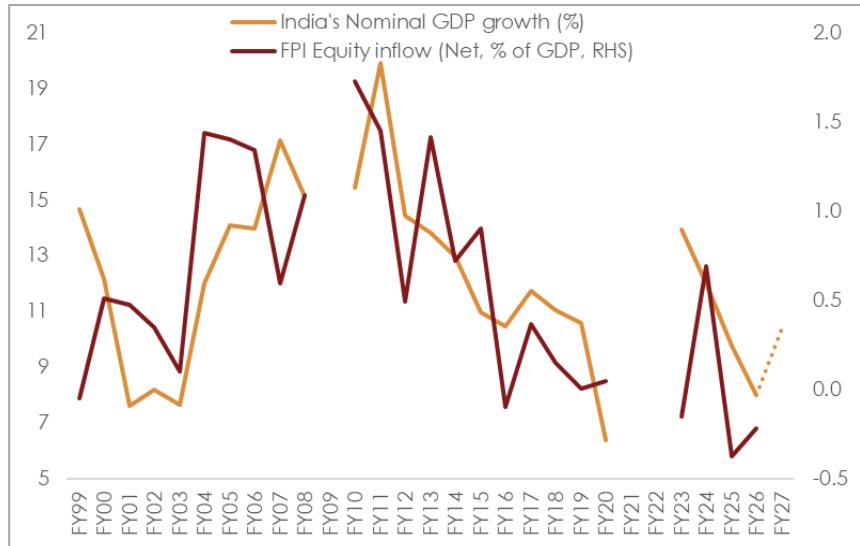


Announcement of the India-US trade deal can provide a pivot

The share of the US in India's imports is now mimicking that of Russia, as the latter's share has come off due to reduced oil purchases. Meanwhile, India 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.



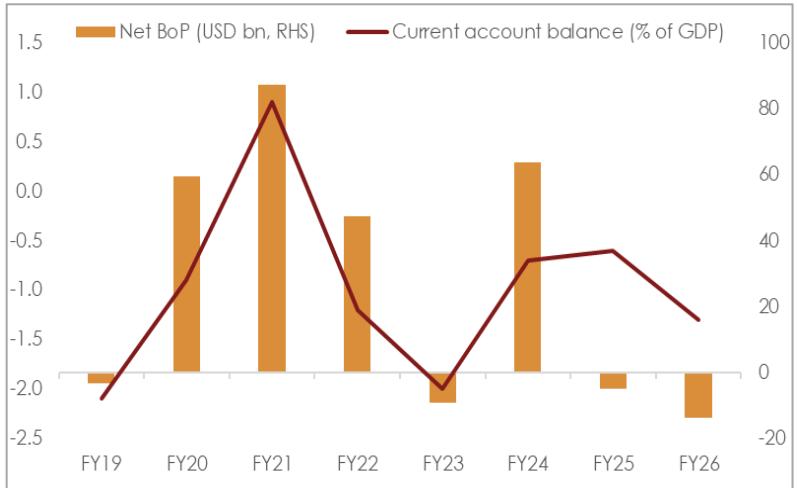
As per market consensus expectations, India's Nominal GDP growth is likely to accelerate to 10.0-10.5% in FY27 from 8.0% in FY26. This could help attract equity portfolio flows.



Note: The chart skips global crisis years like FY09, FY21, and FY22

Rupee outlook

With multiple and divergent 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). The BoP deficit is projected to worsen to USD 14 bn in FY26 from USD 5 bn in FY25.



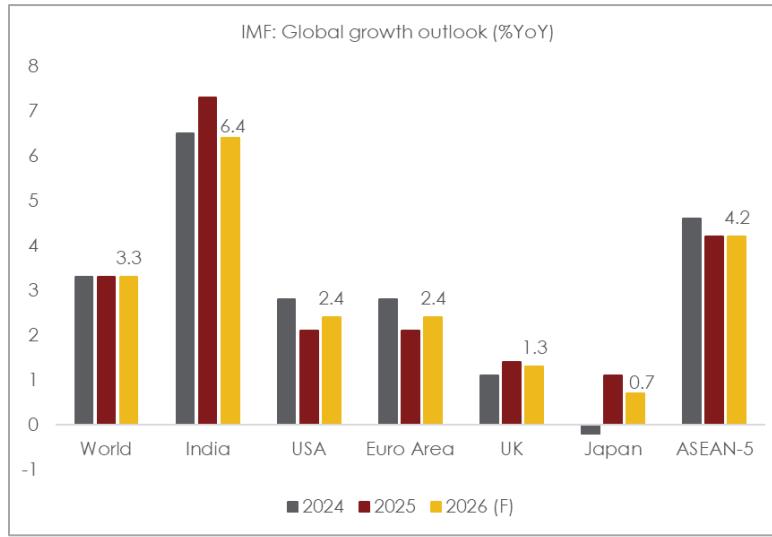
Considering the known-unknown geopolitical and geoeconomic risks, we revise our USDINR call to 90.5 for Mar-26 from 89.5 earlier. Any delay in announcement of the India-US trade deal could raise the risk of further weakness in INR.

India's total merchandise import cover basis its total foreign currency assets, is estimated at 7.8 months (for Dec-25), lower than the long-period average of 9-10 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.

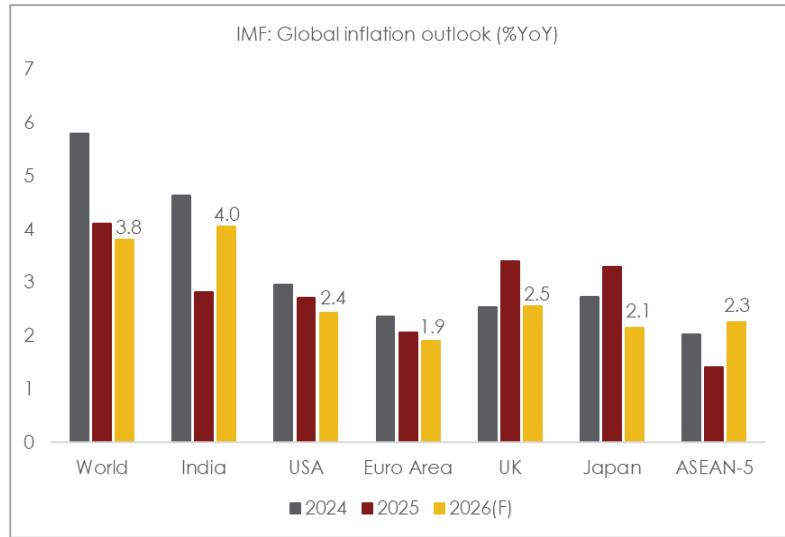


Global Economic Outlook for 2026

Global growth outlook is projected to hold steady at 3.3% in 2026 with India as the world's growth engine. Notwithstanding the surge in AI-led tech investments in North America and Asia, which is acting as a critical counterweight to growth headwinds, sustained stability remains contingent on AI productivity gains as trade tensions, geopolitical uncertainty and global debt burdens intensify, as per IMF's World Economic Outlook report.

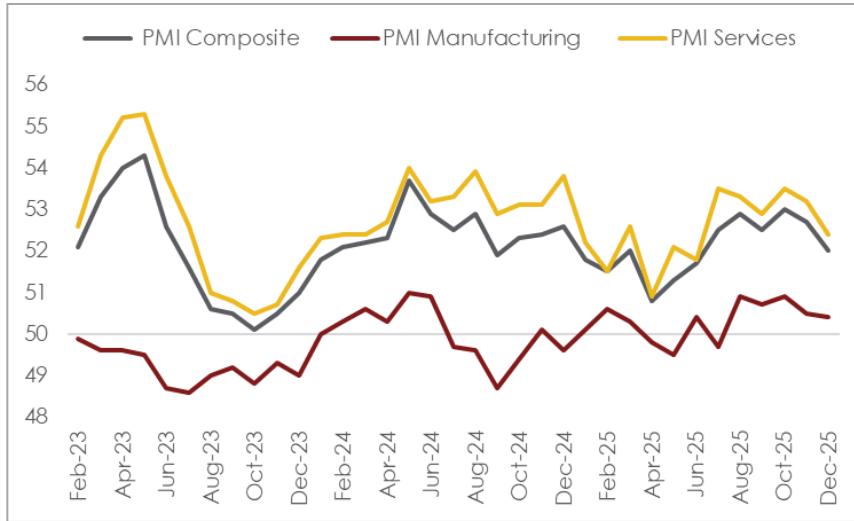


Global disinflation is set to continue, amid softening demand and lower energy prices. A weakening labour market in the UK should help price pressures ease. The Euro area inflation is expected to settle near 2%, while the US inflation may take longer to cool due to the lagged impact of tariff pass-through.

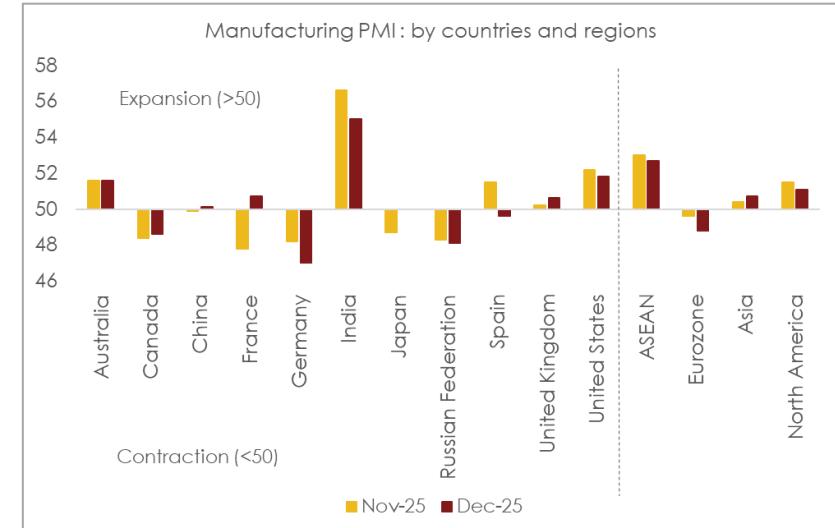


Global PMI: Expansion Continues, but Momentum Softens

Global Composite PMI in Dec-25 eased to 52.0, marking the softest pace of expansion since Jun-25. While Manufacturing PMI dipped further to 50.4 (the weakest print in the ongoing 5-month expansion phase), services PMI saw a sharper moderation, slipping by 0.8 pts to 52.4 in Dec-25.

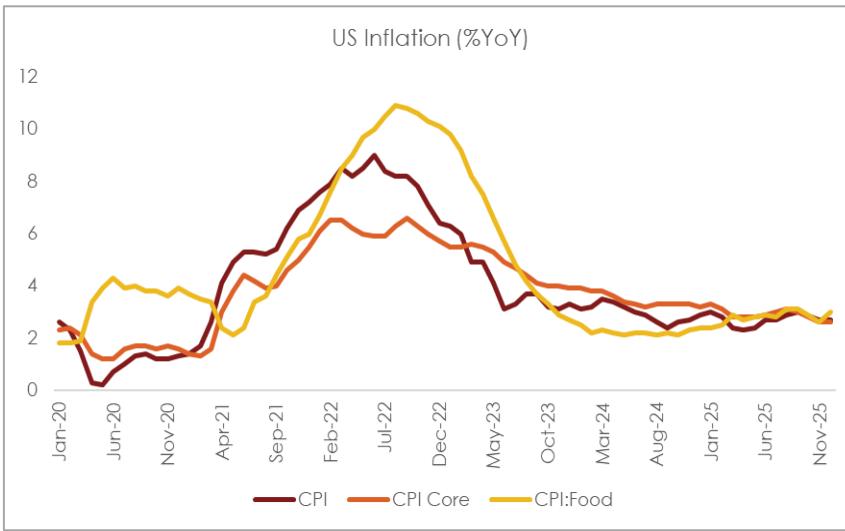


Geographically, manufacturing activity remained sharply divergent. While India continued to lead all major economies, alongside a firm expansion in the ASEAN, advanced economies were mixed - the US, Australia and the UK stayed in expansion zone, Japan stalled at being in neutral zone, while Canada and the Eurozone moved deep into contraction.

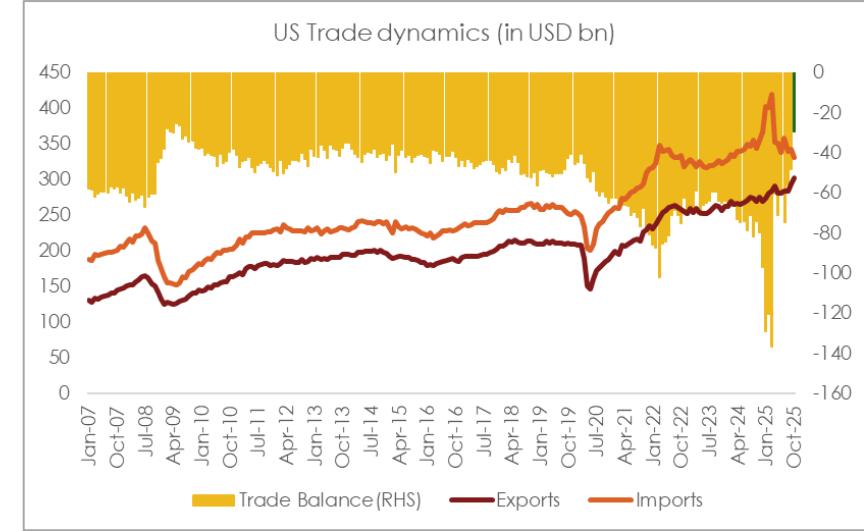


US Economy: Tariffs aid trade with Inflation contained

Inflation in the US remains benign so far (although above the Fed's target), with headline CPI at 2.7% YoY and core CPI (excl food & energy) at 2.6% YoY in Dec-25. Despite concerns of an inflationary surge owing to tariffs, prices over Jan-Dec CY25 eased, with food and apparel inflation down by -5.8% YoY & -8.4% YoY resp, suggesting incomplete pass-through as retailers likely absorbed part of the tariff-shock.



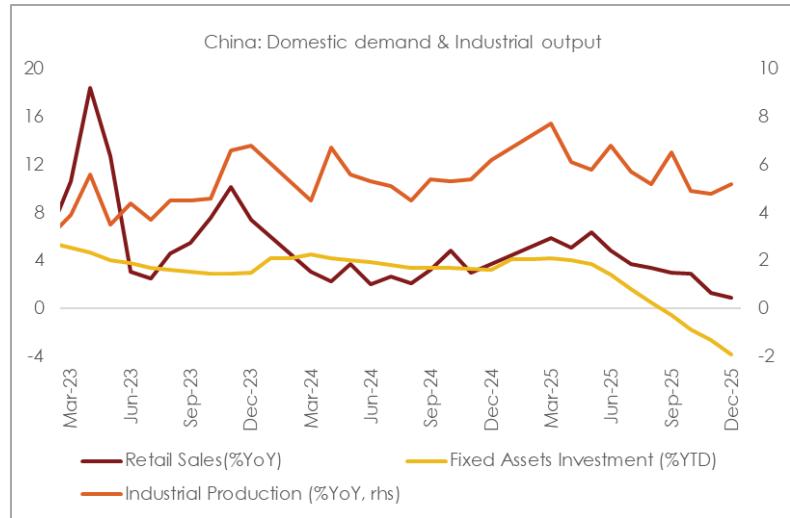
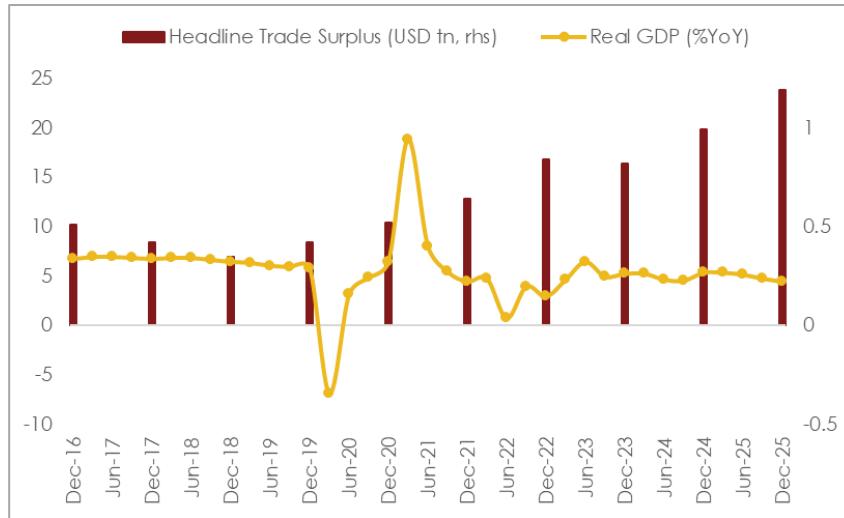
The US trade deficit narrowed sharply to USD 29.4 bn in Oct-25, its lowest level in over 16 years (since Jun-09). Over Apr-Oct-25, the cumulative deficit fell 24.6%, driven by a 6.7% jump in exports while imports stayed broadly flat, suggesting that Trump's push to tilt global trade outcomes in the US's favour are beginning to gain traction for now.



China's paradox: External boom, domestic gloom

Notwithstanding a 5.5% YTD rise in exports that helped offset tariff headwinds and lift the trade surplus to a record USD 1.19 tn in Dec-25, China's GDP growth at 4.5% in Dec-25 (a 3-year low) has plateaued at below pre-COVID levels.

This reflects domestic structural imbalances weighing on its external buffer. While industrial production rose ~5.9% YoY in CY25, domestic demand remains subdued- with retail sales slowing to 0.9% YoY in Dec-25, and fixed-asset investment falling further to -3.8% YTD in CY25.



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