



# Macro Pulse Report

September 2025



India-US relations are turning out to be highly mercurial. Post the imposition of the 50% tariff on India (25% reciprocal tariff + 25% penalty) which came into effect in late Aug-25 fully, there was some degree of thawing in ties in Sep-20. A crucial meeting between Indian and American trade counter-parts went on smoothly and productively after US Chief Negotiator Brendan Lynch arrived in New Delhi on 16th Sep-25. Both the sides described the meeting to be constructive and positive, fueling hopes of India renegotiating a possibly lower rate of tariff sooner than later. However, events took a turn for the worse, with US President Trump announcing a sudden and dramatic policy shift, by increasing the H-1B visa fee for new prospective applications, now set at an elevated USD 100,000, effective 21st Sep-25. The hike comes as a blow to Indian tech companies and could possibly unsettle the ongoing India-US trade negotiations, and remains a developing story on close watch.

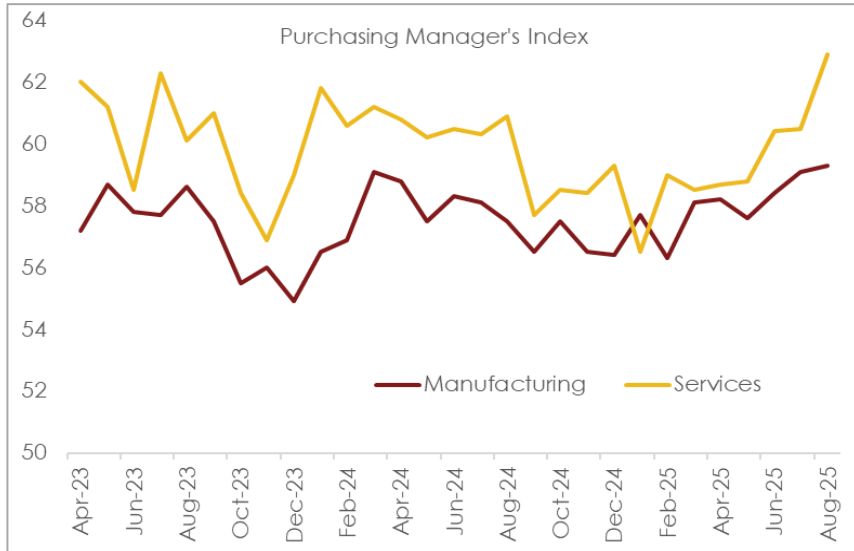
On the domestic front, growth story continues to remain underpinned by the GST rate reduction, now in effect. We estimate a disinflationary impact of close to 20 bps on headline CPI inflation (revised lower to 2.6% now) and 0.2-0.3% boost to GDP growth (unchanged at 6.4%) in FY26 on account of the policy measure. The timing of GST rate reductions, coinciding with the festive season, augurs well to trigger a more meaningful recovery especially in urban consumption.

The mixed macro narrative marked by the emergence of supportive domestic policy cushions amidst rising global geoeconomic and geopolitical adversity is creating an unstable backdrop for domestic financial markets, with frequently changing triggers. For bond markets, the fortuitous decline in food inflation juxtaposed with the GST revamp and a larger dose of Fed easing will keep expectations alive for one more rate cut by the RBI's MPC. We expect the 10Y g-sec yield to moderate towards 6.30% by Mar-26. Meanwhile, as the penalty tariff starts to bite, INR would remain on a slippery turf. We maintain our call for moderate weakness in INR and project a level of 89.50 by Mar-26, while closely monitoring the resumption of India-US trade negotiations.

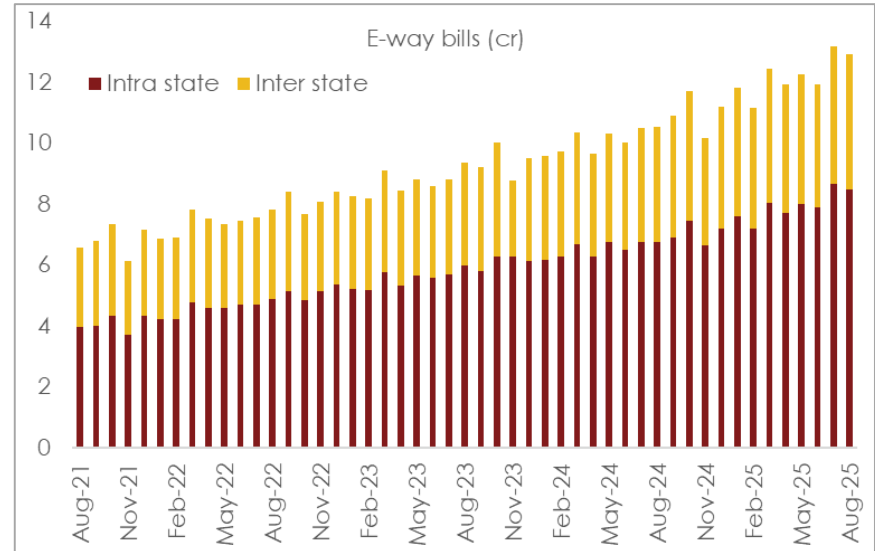
# Domestic growth sees an improved momentum

PMI indices moved higher in Aug-25, to touch multi-year highs

- Manufacturing PMI at 59.3 in Aug-25 vs. 59.1 in Jul-25, expanded at the fastest rate in 17-1/2 years propelled by a demand-driven rise in new orders and production
- Services PMI rose to 62.9 in Aug-25 vs. 60.5 in Jul-25, to mark the highest pace in nearly 15 years.

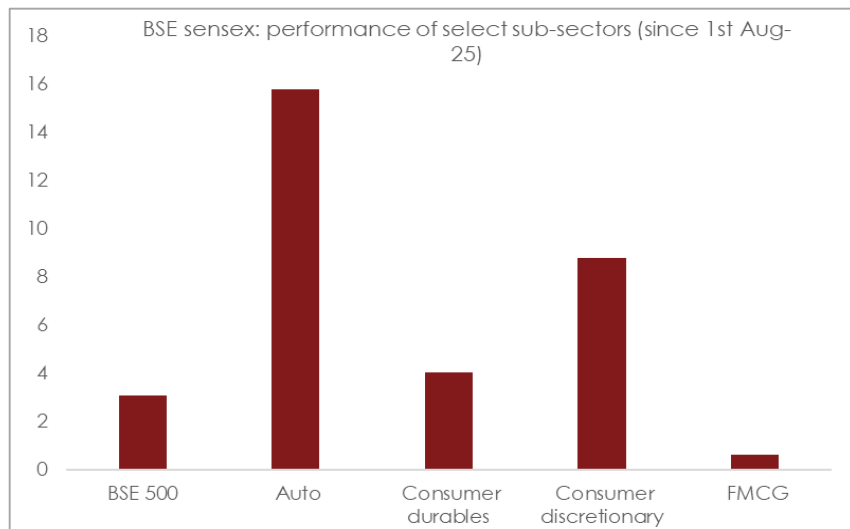


E-way bills registered in Aug-25 eased marginally to 12.9 lakh cr from a record high of 13.2 lakh cr. in Jul-25, albeit marking the second highest monthly pace on record. The strength possibly reflects rural demand uptick, festive season stocking and beating of the tariff deadline.

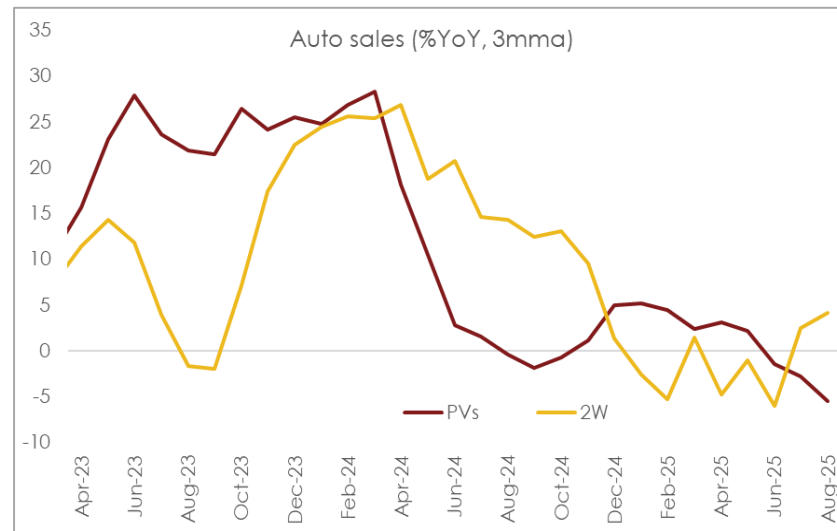


# GST revamp – much awaited

GST revamp that slashes tax rates on goods and services into a simplified two-slab structure, has led to sizeable boost to sentiment across both consumers and producers. This is seen to have spill-overed into domestic equity markets with sizeable gains in consumer-facing sectors.



However, car sales in India fell for the fourth straight month in Aug-25 by 8.8%YoY as automakers regulated dispatches to dealers ahead of the announcement of the revised GST rates. This is likely to normalize over the coming weeks, with auto sector being one of the biggest benefactors of GST rate reductions (see next slide).



# Pre-festive bonanza: GST cuts – deep dive

The GST council has approved rationalization of GST to a two-rate structure, with a higher 40% rate for ultra luxury and sin goods. The changed rates, coming into force on 22<sup>nd</sup> Sep-25, coincide with the timing of the festive season, and are expected to buoy domestic demand.

## 28% to 18%

- Cement, Wires, cables & other electrical fittings; Wooden articles including furniture, mattress, bedding; Suitcases, Detergents, Fans, Pumps, AC, TV, Compressors, Musical instruments, Chocolates etc.

## 18% to 12%

- Condensed milk, Pasta, Curry paste, Spectacle frames, Bamboo furniture, Medicinal grade oxygen, Handbags

## 12% to 5%

- Desiccated coconut, Idli dosa batter, Narrow woven fabric, Finished leather, Worn clothes, Butter, Ghee, Cheese, Namkeens etc.

## 18% to 5%

- Shampoo, Hair oil, Toothpaste, Puffed rice chikki, Chutney powder, Fly ash, Flour of potatoes

## 5% to nil

- Frozen/dried fish, Khandsari sugar, Gaur meal, Dried vegetables, Hop cone

Other special cases-

- Health & life insurance: 18% to nil
- Most large cars: 50% to 40%

## Impact on growth

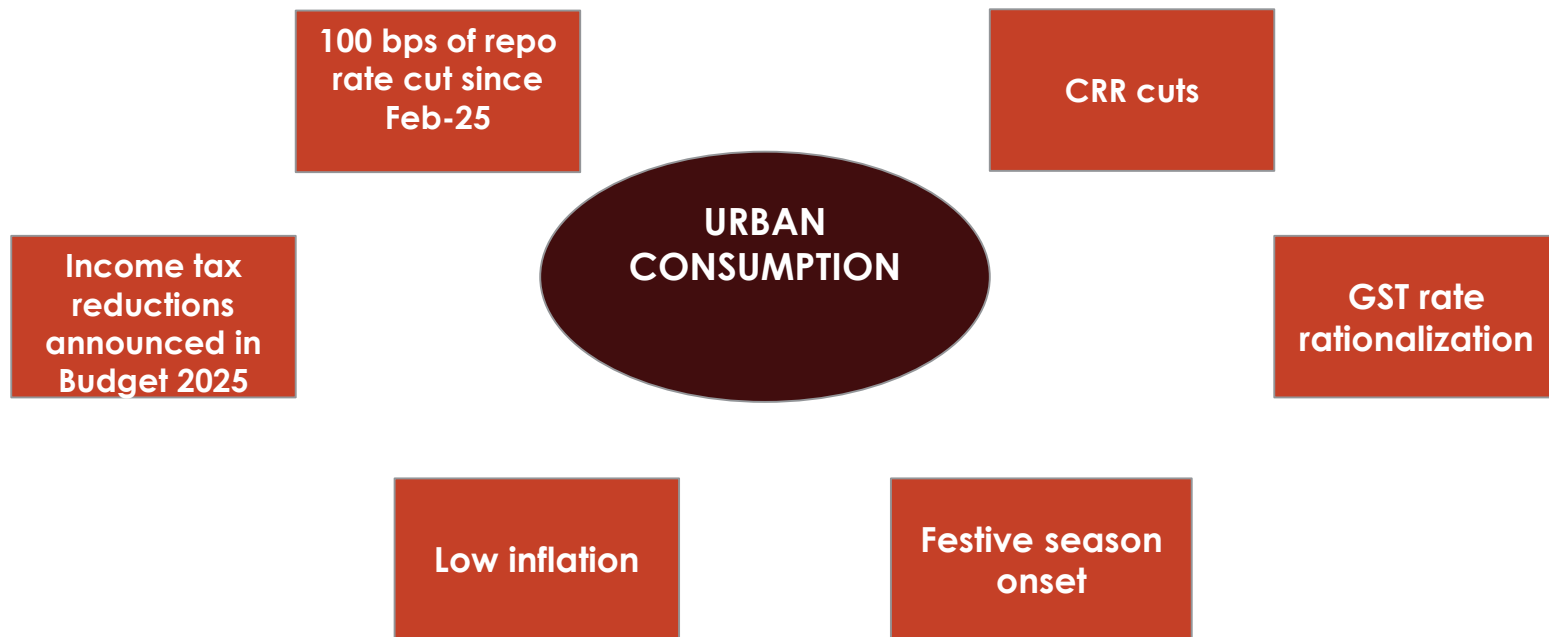
We estimate the GST rationalization to add 0.2-0.3% to GDP growth in FY26

## Impact on inflation

We expect a disinflationary impact to the tune of 60 bps on annualised CPI inflation, of which 20 bps could transpire in FY26

# Urban consumption upside – Can it last beyond Q3 FY25?

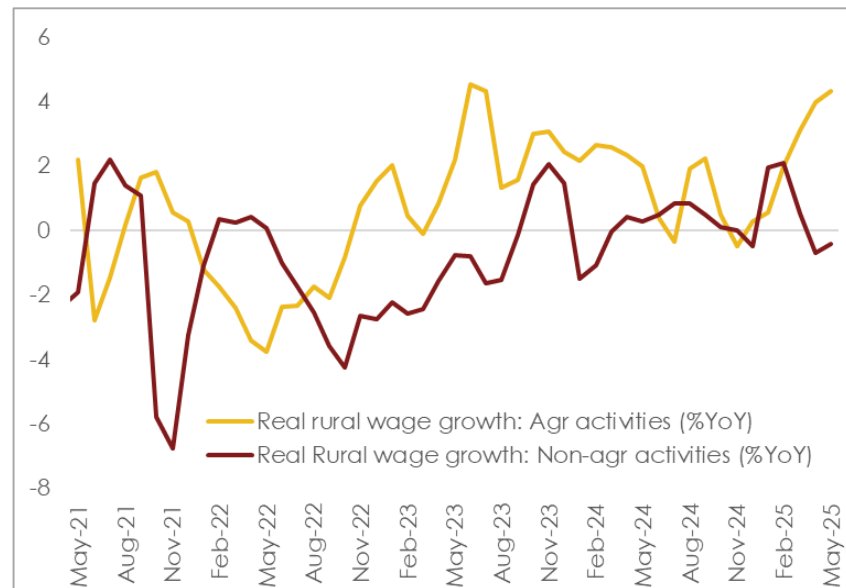
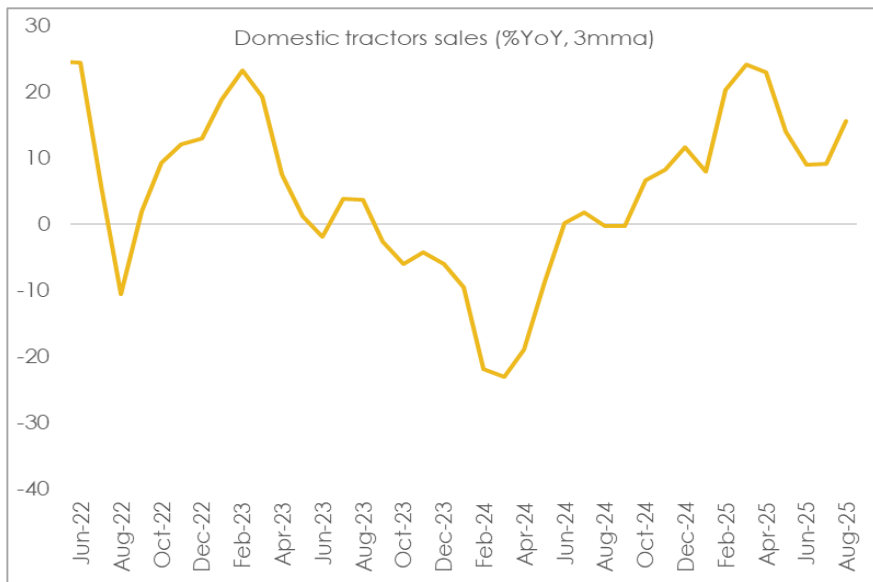
Several macroeconomic conditions are in support of a revival in urban consumption. The upcoming festive season, as such is likely to see a strong recovery of demand. Having said, the longevity of this consumption recovery into Q4 FY26, will be watched closely.



# Rural consumption recovery to broaden

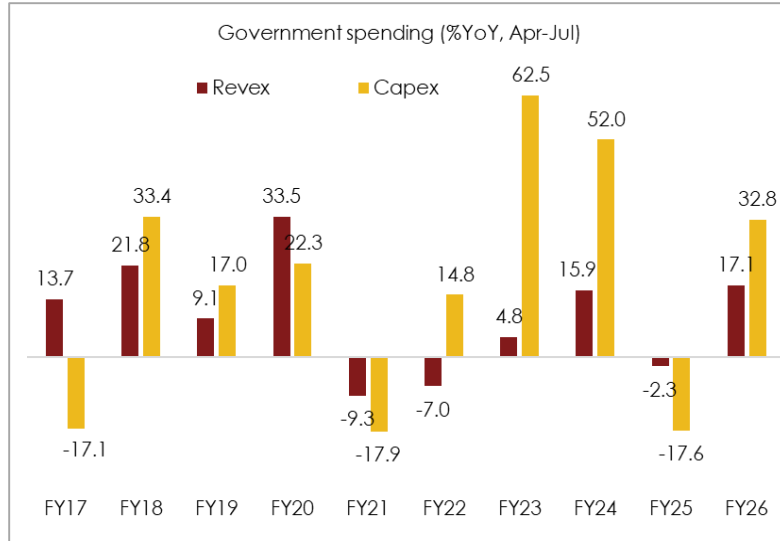
Rural consumption has continued to recover gradually albeit consistently over the last 4-6 quarters, to outpace its urban counterpart as seen in tractor and FMCG sales.

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

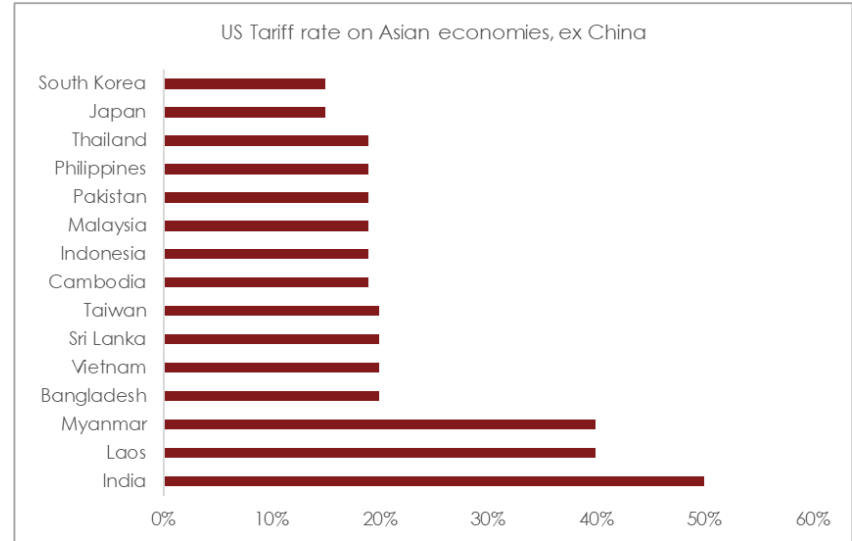


# Govt giveth, Trump taketh

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 Apr-Jul FY26, central government capex has grown by 33% on annualized basis, with rev-ex spend also up 17%YoY.



A crucial meeting between Indian and US trade counterparts went on smoothly and productively after US Chief Negotiator Brendan Lynch arrived in New Delhi mid Sep-25. However, the recent announcement of fee hike for H1-B category of visas could possibly unsettle India-US trade negotiations.





## Domestic Tailwinds



**Urban consumption** – GST cuts to add 0.2-0.3% to GDP growth in FY26

**Government capex** – likely to remain supportive, though pace of growth to ease

**Rural consumption** - Monsoon push and Government cash transfers to add to momentum

## External headwinds



**US imposition of 50% tariff/H1-B visa fee hike**

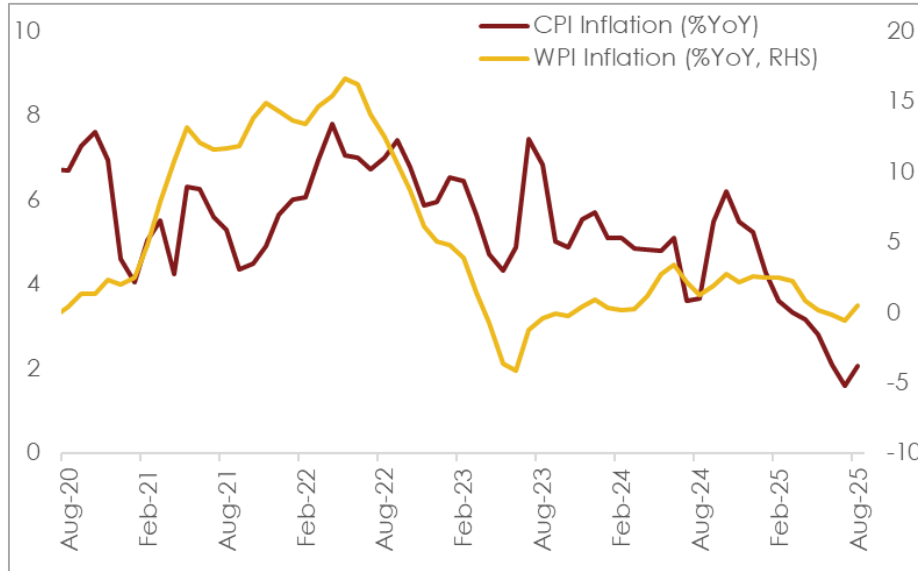
**Slowing global economy**

**Trade re-groupings**

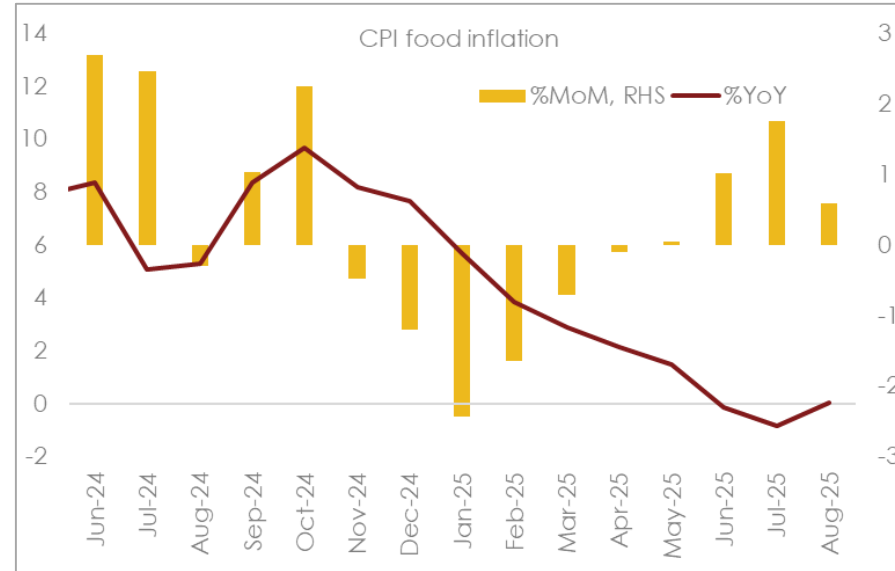
Given the continuing uncertainty on the tariff front is likely to get offset by impact of GST rate reductions, we hold on to our FY26 GDP growth forecast of 6.4%.

# CPI inflation: Past its trough

CPI inflation moved up in Aug-25 to 2.07%YoY compared to a near 8-year low of 1.61% in Jul-25 (revised upwards from 1.55%). The acceleration was in line with market expectations, with Aug-25 marking the seventh consecutive CPI inflation reading of below 4.0% target.

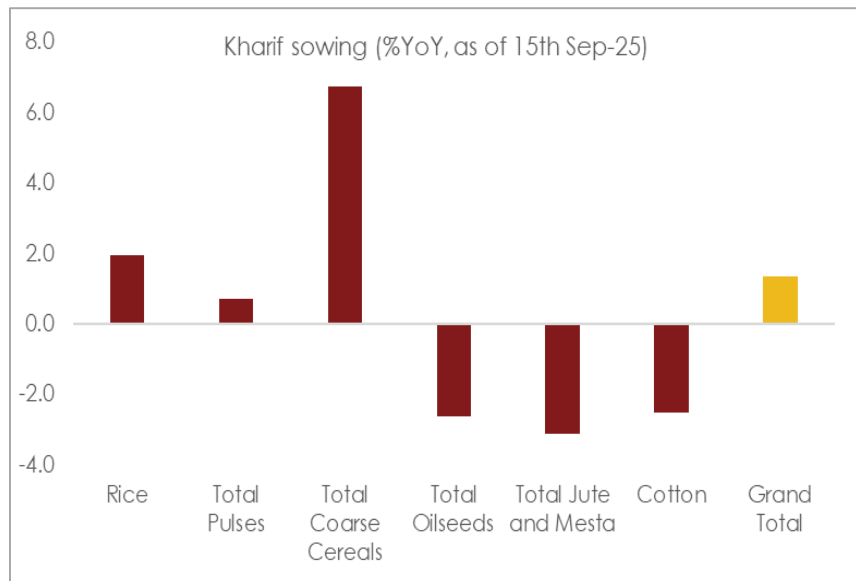


Annualised food inflation moved into positive territory in Aug-25 after a gap of two months, coming in at 0.05%YoY. Notwithstanding the sequential increase in food prices, overall food inflation remained extremely benign.

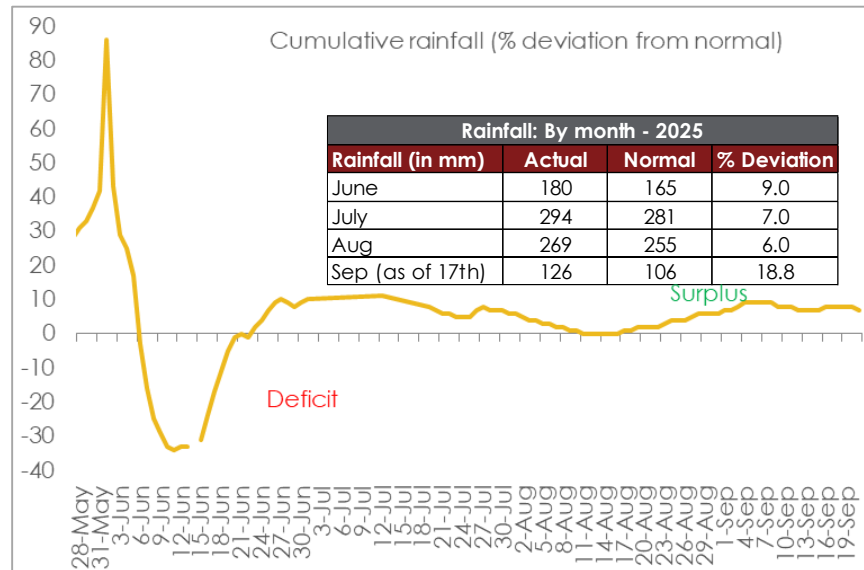


# A good monsoon season

Area sown under Kharif crops as of 15th Sep-25, has recorded an increase of 1.4%YoY, led by Paddy and Coarse cereals. Having said, assessing the extent of crop damage owing to excessive rains in some parts of the country in Sep-25, will be on close watch.



So far, the season has recorded a cumulative rainfall surplus of 8% above LPA. However, Southwest monsoon has started to withdraw from western Rajasthan since 14th Sep-25, i.e., three days ahead of the normal date of 17th Sep – marking the earliest commencement of withdrawal in the last 10 years.



# Deflationary impact: GST and MSP

The overhaul in GST is likely to impart a strong disinflationary impulse to CPI inflation over H2 FY26 and H1 FY27. We estimate the impact to be over 100 bps on annualized basis, but the actual passthrough could be much lower as

- Producers let go current inventory procured at higher GST rates at discounted pricing, thus bearing some losses
- Vantage price points such as Rs 5/10/20 packs may be retained by producers, especially in FMCG sector.
- Price reduction in unorganized sectors may be more gradual and also harder to track.

As such, the disinflationary impact in FY26 could be to the tune of 20 bps.

## Food & Beverages

- Weight: 45.8%

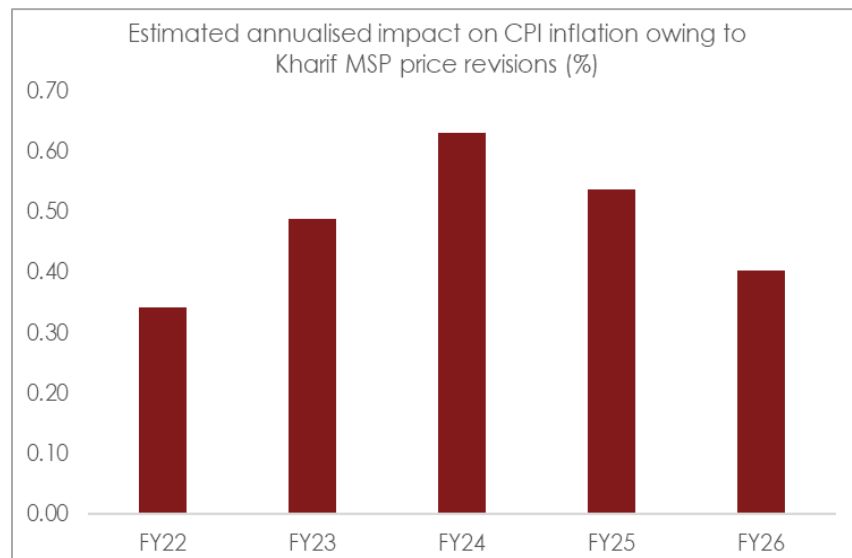
## Health

- Weight: 5.9%

## Personal care

- Weight: 3.9%

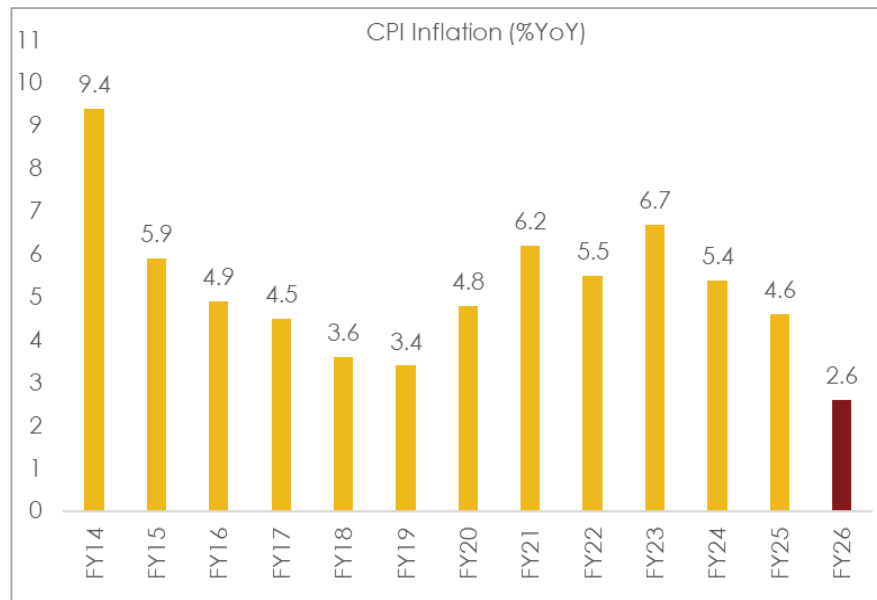
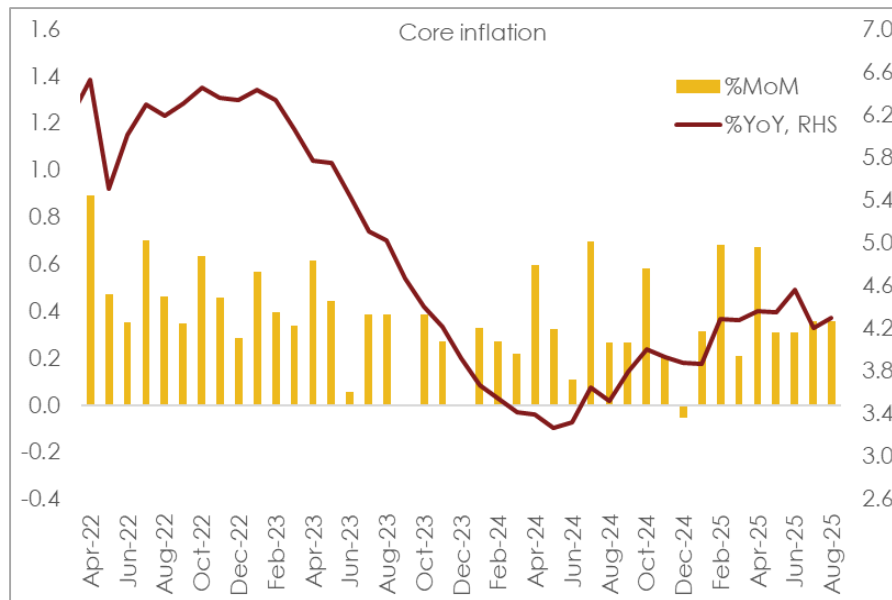
A restrained increase in the Kharif MSP this year, as per our estimates is likely to impart a 10 bps disinflationary impulse at the headline CPI inflation.



# Core benign, FY26 CPI revised lower

Core CPI inflation posted a modest increase to 4.3% YoY from 4.2% (revised up from 4.0% computed earlier) in Jul-25.

Keeping in mind the recent downside in food prices and the impact of GST rate cuts, we reduce our FY26 CPI inflation forecast by 40 bps to 2.6% now.



# 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. Depreciation in Rupee could intensify if tariffs are not negotiated at lower levels comparable to most peers.

oPrice of precious metals could remain firm amidst heightened geopolitical and geoeconomic uncertainty.

# Snapshot of Apr-Jul FY26 fiscal performance

The cumulative fiscal deficit for the period Apr-Jul FY26 stood at 29.9% of the budget estimate, higher than 17.6% of actuals in the corresponding period in FY25. This is due to relatively higher expenditure disbursement amidst a moderation in net tax revenue collection.

Key Fiscal Variables (Cumulative position, as of July)				
	% of FY Actual/Target		%YoY	
	FY25 YTD	FY26 YTD	FY25 YTD	FY26 YTD
<b>Revenue Receipts</b>	33.5	31.1	33.6	4.8
Net Tax	28.6	23.3	22.8	-7.5
Non-Tax	56.1	69.2	68.8	33.7
<b>Non-Debt Capital Receipts</b>	15.3	39.2	-53.4	366.5
<b>Total Receipts</b>	<b>33.2</b>	<b>31.3</b>	<b>32.0</b>	<b>7.0</b>
<b>Revenue Expenditure</b>	28.8	30.8	-2.3	17.1
of which, Interest Payments	29.4	35.0	9.3	36.2
of which, Major Subsidies	32.8	29.6	-10.9	-9.6
<b>Capital Expenditure</b>	24.8	30.9	-17.6	32.8
<b>Total Expenditure</b>	<b>27.9</b>	<b>30.9</b>	<b>-5.8</b>	<b>20.2</b>
<b>Fiscal Deficit</b>	<b>17.6</b>	<b>29.9</b>	<b>-54.3</b>	<b>69.1</b>

# FY26 receipts buoyed by non-tax revenue, but tax revenue is 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. Reduction in GST rates from Sep 22<sup>nd</sup> will further compound the pressure in the near-term.

Growth in key tax categories	Apr-Jul FY25 (% YoY)	Apr-Jul FY26 (% YoY)	FY26 BE (% change)
Gross Tax	21.3	0.8	12.5
Corporate Tax	4.8	7.6	9.7
Income Tax	53.4	-9.9	16.4
Customs	3.8	-10.4	3.1
Excise	0.8	9.3	5.6
GST	9.5	9.8	14.2
Net Tax	22.8	-7.5	13.5

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

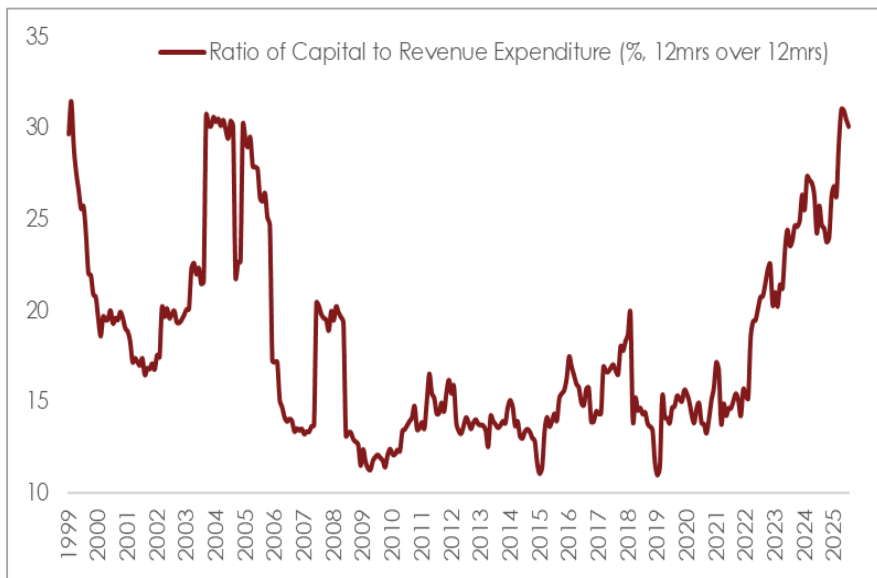
However, record high dividend payment by the RBI has helped to offset the mild moderation in tax collections.

Growth in key tax categories	Apr-Jul FY24	Apr-Jul FY25	Apr-Jul FY26
Non-Tax Revenue	1,788	3,345	4,036
Dividends and Profits	1,039	2,397	2,936
of which, RBI dividend	874	2,109	2,686
of which, PSU dividend	165	288	250
Others	749	948	1,100



# Expenditure quality continues to be healthy, 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 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 with adequate levers for management.

## 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

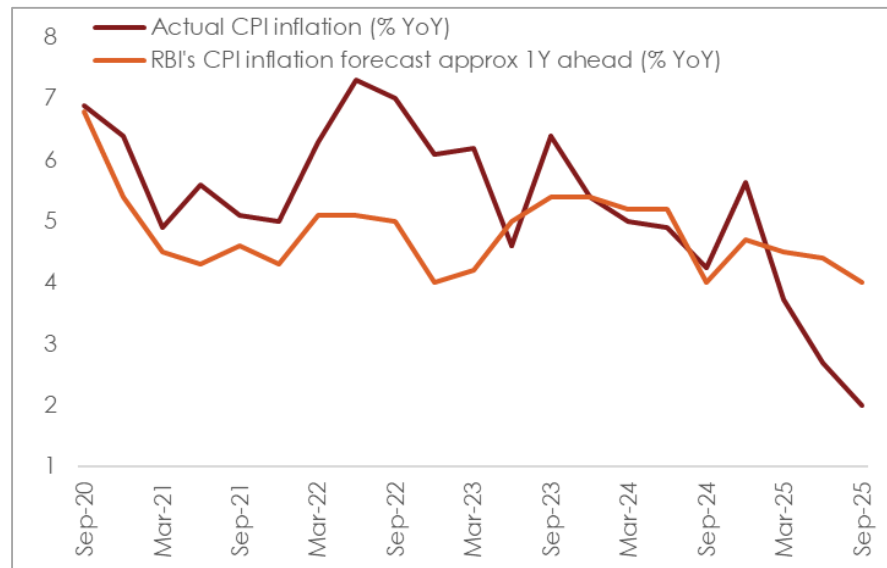
Note: (1) Market consensus is represented by the median value from RBI's SPF (Survey of Professional Forecasters); (2) The FY26 Union Budget was based on the assumption of a 10.1% growth in Nominal GDP. We expect FY26 Real GDP growth at 6.4%, CPI inflation at 2.6%, and WPI inflation at 0.7%. This is likely to result in a FY26 Nominal GDP growth closer to 8.0%.

# G-sec yields witness some respite...

India's 10Y g-sec yield has moderated by ~12 bps since its Aug-25 peak of 6.63%.



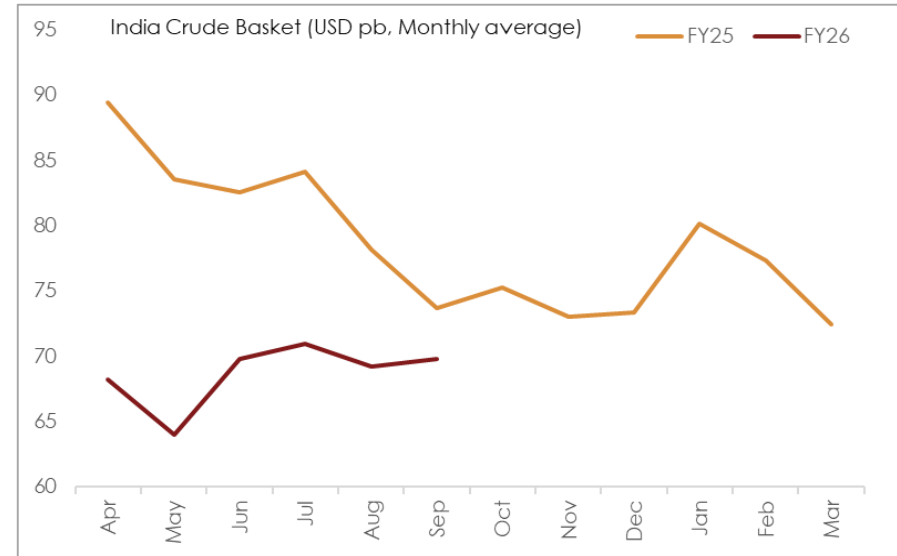
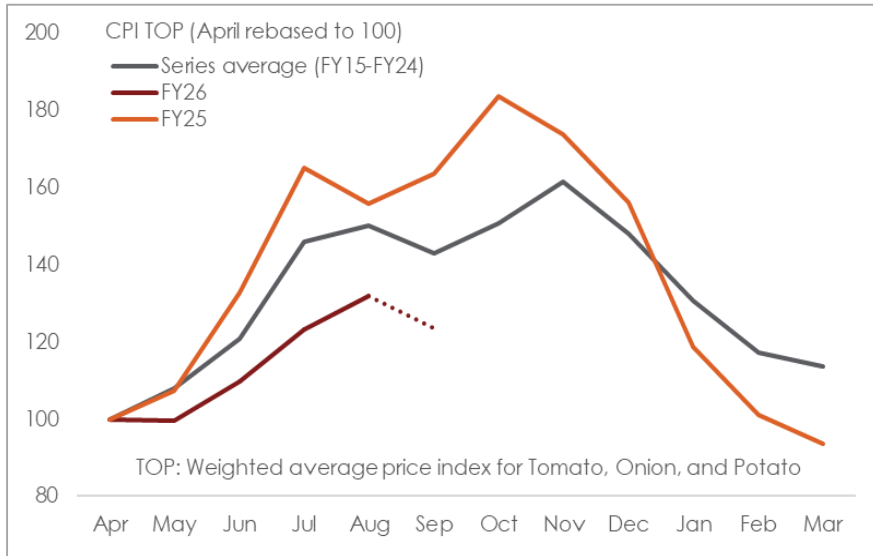
India's CPI inflation has been undershooting the RBI's 1-year ago forecasts by a wide margin. There is a strong likelihood that CPI inflation will continue to remain below the 4% target for the next three quarters, after having logged sub 4% prints in Q4 FY25 and Q1 FY26.



# ...as inflation remains benign...

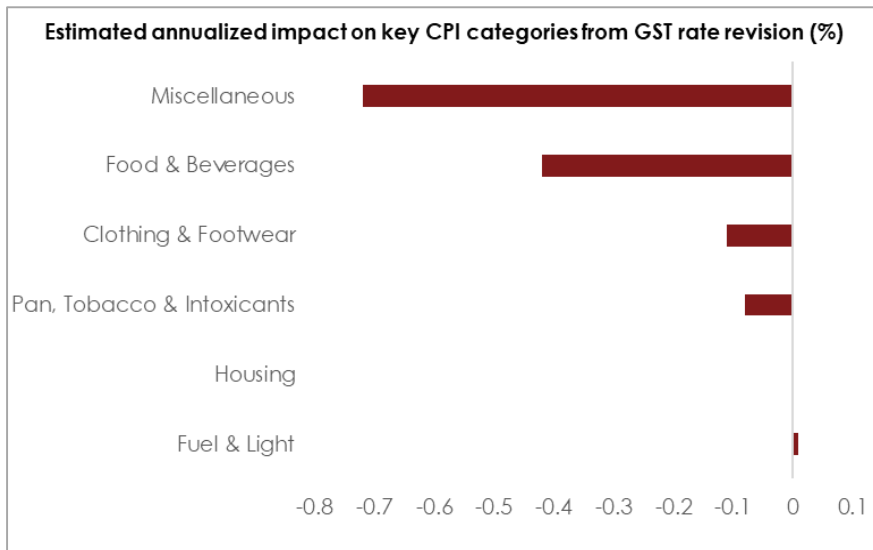
High frequency indicators for Sep-25 points towards the likelihood of a seasonal decline in key vegetable prices. With statistical base effect working in favor, this could pull down headline CPI inflation in Sep-25.

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



# ...while GST revamp provides comfort

The GST rate rationalization effective from Sep 22<sup>nd</sup> will impact several consumer essentials, durables, and some key services favourably. We estimate the potential annualized impact to be around ~130 bps on CPI inflation.



Note: The actual pass-through will be lower depending upon the treatment of inventories and input tax credit, and usual transmission losses associated with tax cuts.

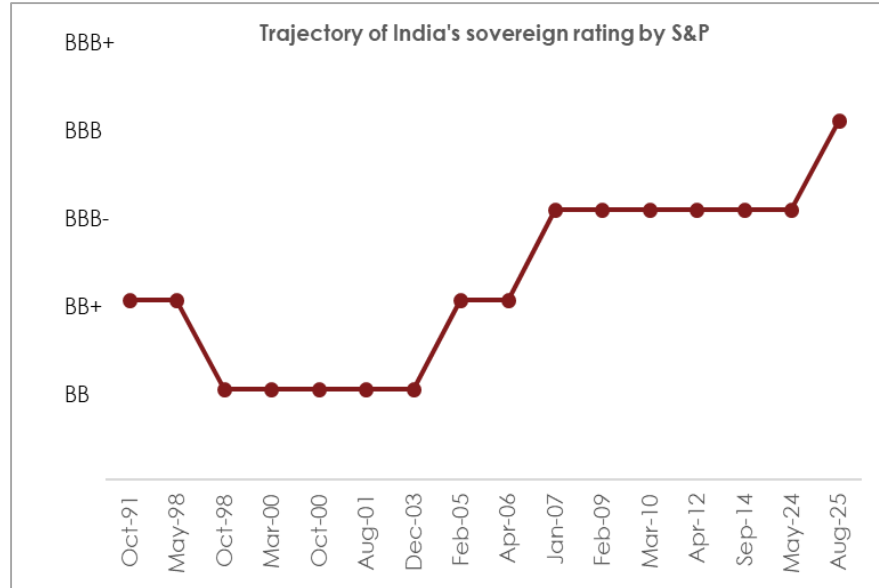
As per government estimates, the annualized revenue forgone on account of GST rejig will be approximately Rs 550-600 bn (on a net basis) on FY26 base. This could potentially get offset by the likelihood of a surplus generation under non-tax revenue.

	Non-Tax Revenue	Change	Non-Tax Revenue ex RBI Dividend	Change
	(Rs bn)	(%)	(Rs bn)	(%)
Apr-Jul FY24	1788	99.6	914	54.2
Apr-Jul FY25	3018	68.8	909	-0.6
Apr-Jul FY26	4036	33.7	1350	45.8

Note: Non-tax revenue is budgeted to grow by ~8.5% in FY26. Even if non-tax revenue shows zero growth between Aug-Mar, it would still generate an additional revenue of Rs 564 bn in FY26.

# Ratings upgrade could turn out to be promising in the long run

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.



Bloomberg is exploring increasing the share of INR FAR (fully accessible route) bonds in its Global Aggregate Index. If accepted, this could result in a potential inflow of USD 21 bn.

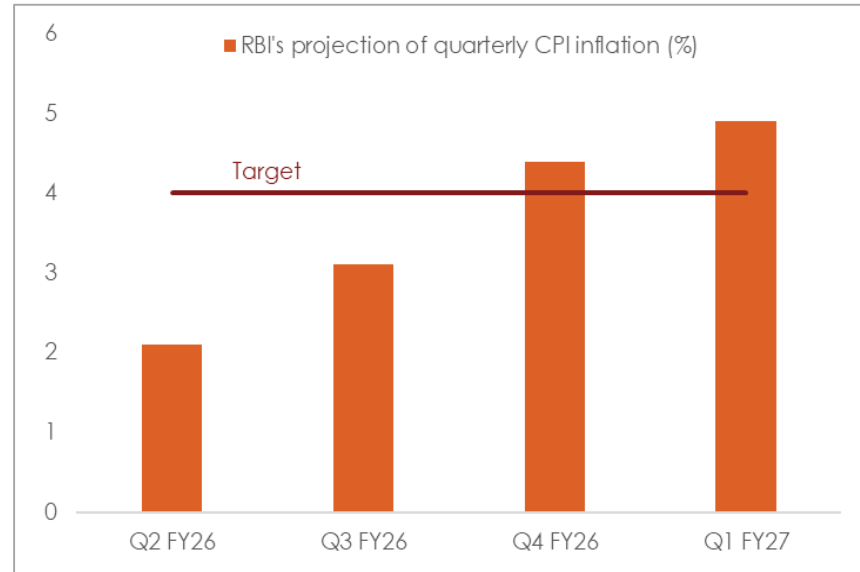
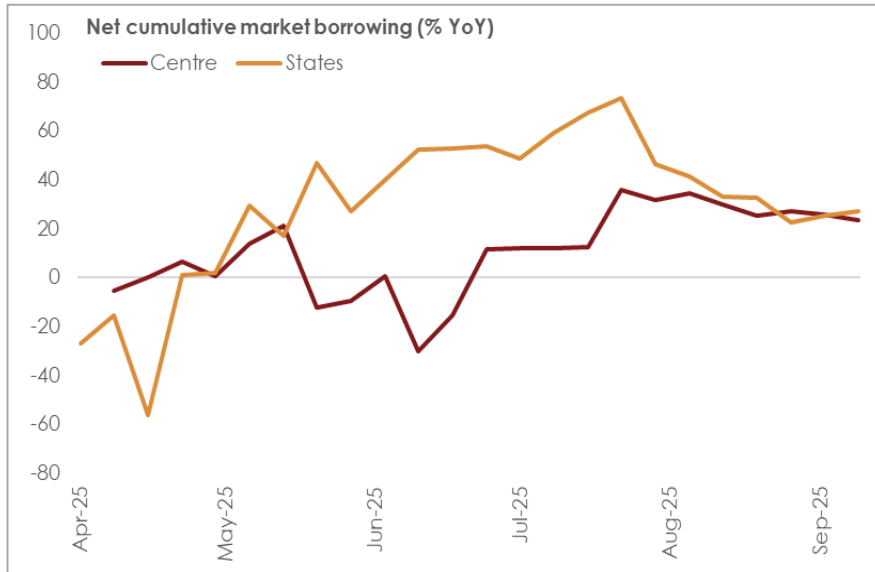
Top 10 Currency Bonds in Bloomberg's Global Aggregate Index (as of Aug 29, 2025)			
Currency	Bond Count	Market Value of Bonds	Weight in Total
	(Number)	(USD bn)	(%)
USD	17,271	32,822	44.4
EUR	7,677	17,095	23.1
CNY	328	7,160	9.7
JPY	957	6,546	8.9
GBP	1,272	2,902	3.9
CAD	1,729	1,976	2.7
AUD	609	1,042	1.4
KRW	181	856	1.2
<b>INR</b>	<b>41</b>	<b>502</b>	<b>0.7</b>
CHF	493	421	0.6

Note: The inclusion of India FAR bonds in the Bloomberg EM Local Currency Indices that began in Jan-25 will conclude in Nov-25 with 41 FAR bonds with a total amount outstanding of USD 490 bn as of August 29, 2025. If all 41 were to enter the Global Aggregate as of Aug-25, the FAR bonds would represent USD 502 bn in market value, 0.7% in weight, and be the 9th largest currency by market value of the 26 currencies, in the Global Aggregate Index.

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

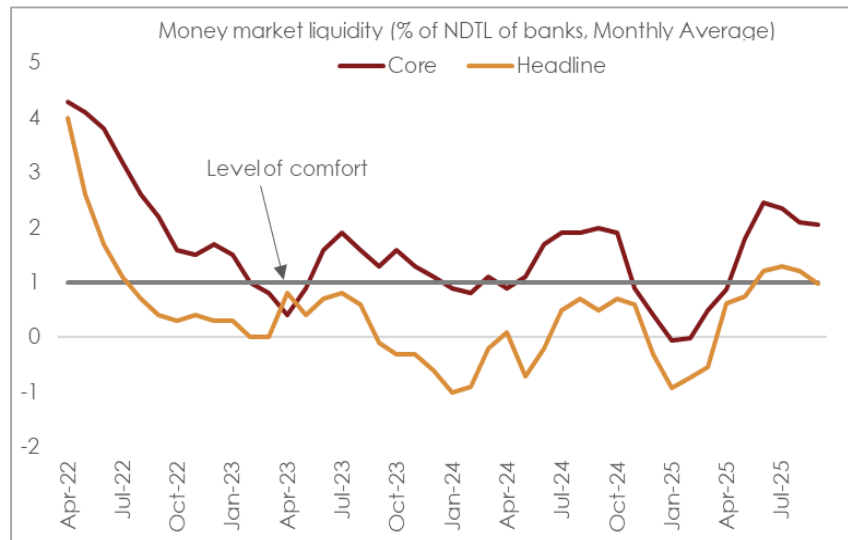
Net g-sec issuances adjusted for RBI OMOs have risen sharply to Rs 3.2 lakh cr. in Q2 FY26, after remaining nearly flat in the previous two quarters. The pickup in SDL issuances is comparatively higher.

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.

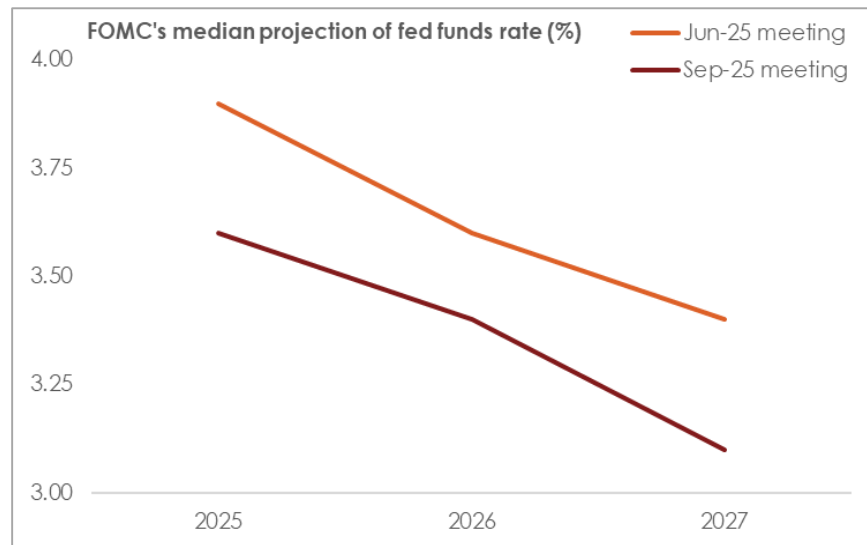


# Rates outlook

The headline and core liquidity have averaged 1.0% and 2.1% of NDTL in Sep-25 so far. This should hasten policy transmission and keep short-end rates anchored.



Possibility of a larger dose of monetary policy easing by the Fed – 75 bps on a cumulative basis in 2025 (vs. 50 bps earlier) – should provide confidence to the RBI's MPC to lower repo rate by another 25 bps in Oct-25 policy review.

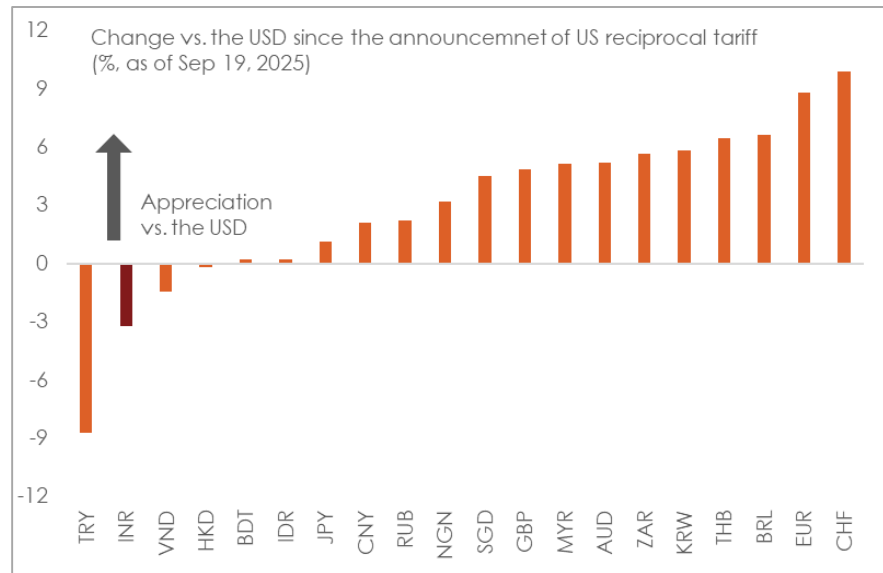
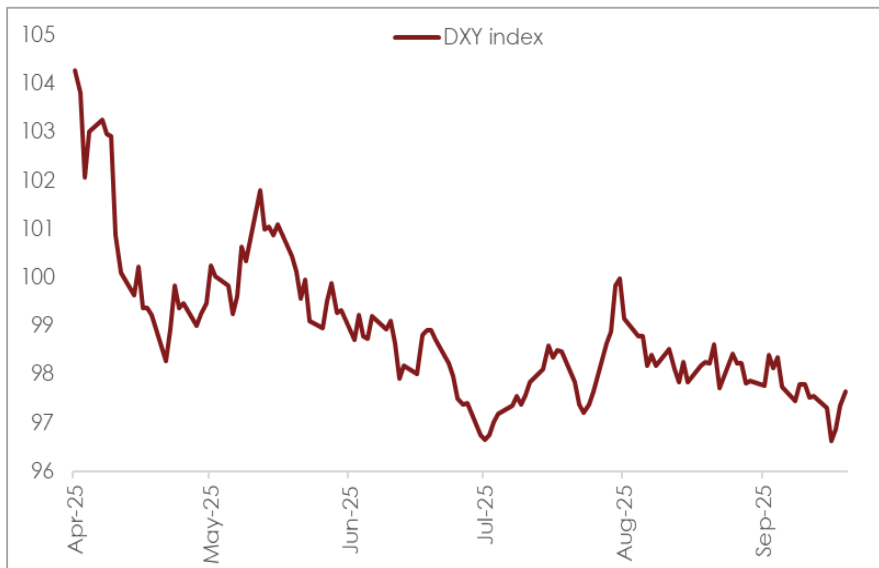


**We expect g-sec yields to start moderating amidst downside inflation surprises and limited fiscal risks. We expect 10Y g-sec yield to moderate towards 6.30% by Mar-26. The US tariff situation remains an unpredictable and currently unquantifiable risk.**

# INR facing depreciation pressure despite dollar weakness

The US dollar has weakened by 6.3% since President Trump announced universal reciprocal tariffs in Apr-25.

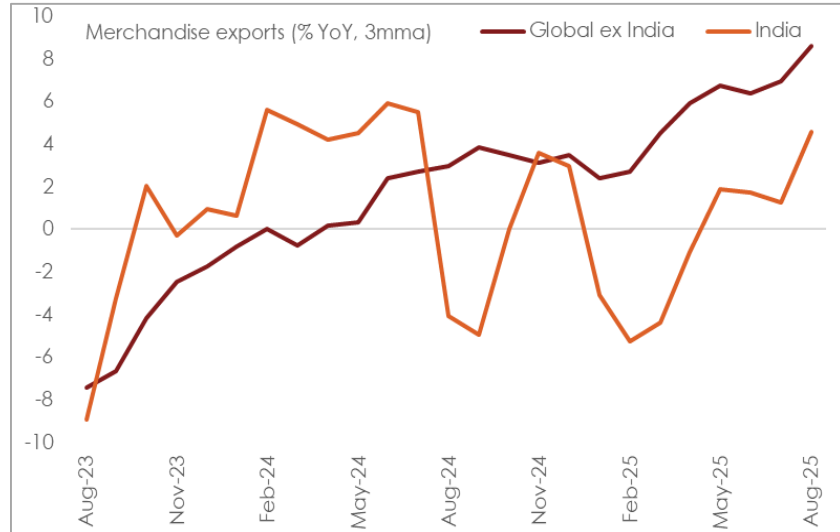
Amongst key trading peers, excluding TRY, the INR has weakened the most since the announcement of US reciprocal tariffs on Apr 2<sup>nd</sup>.



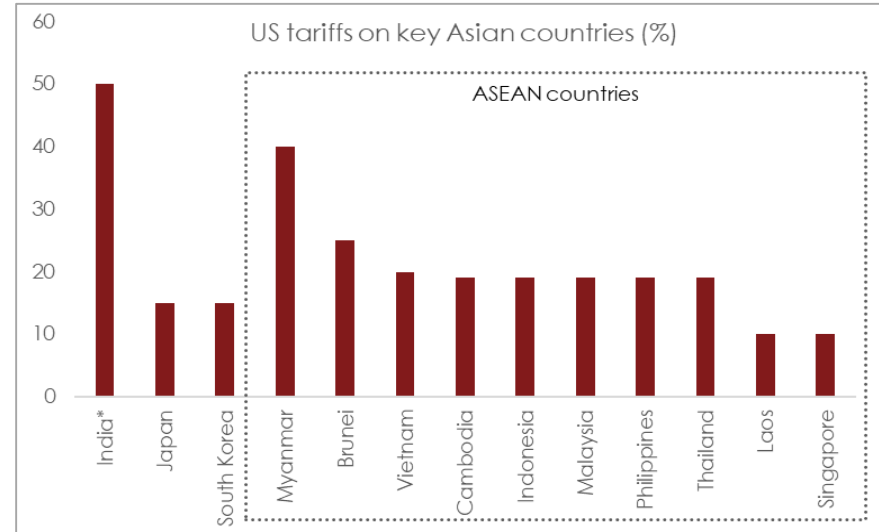


# India's exports on a slippery terrain

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

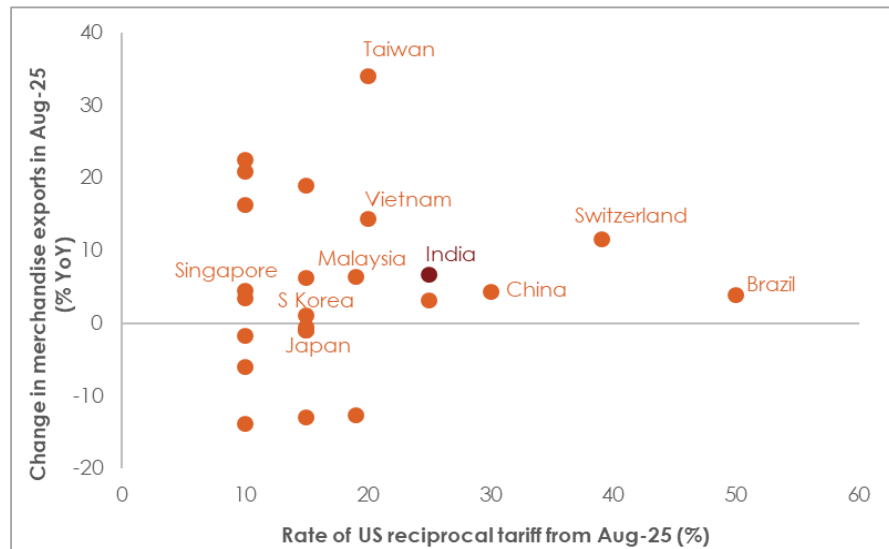


The US has imposed a 25% reciprocal tariff on India. In addition, there is an ad valorem levy of 25% acting as a penalty tariff for purchasing oil from Russia. The cumulative tariff of 50% puts India as one of the most tariffed nations. If sustained, this would weigh upon India's export performance from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

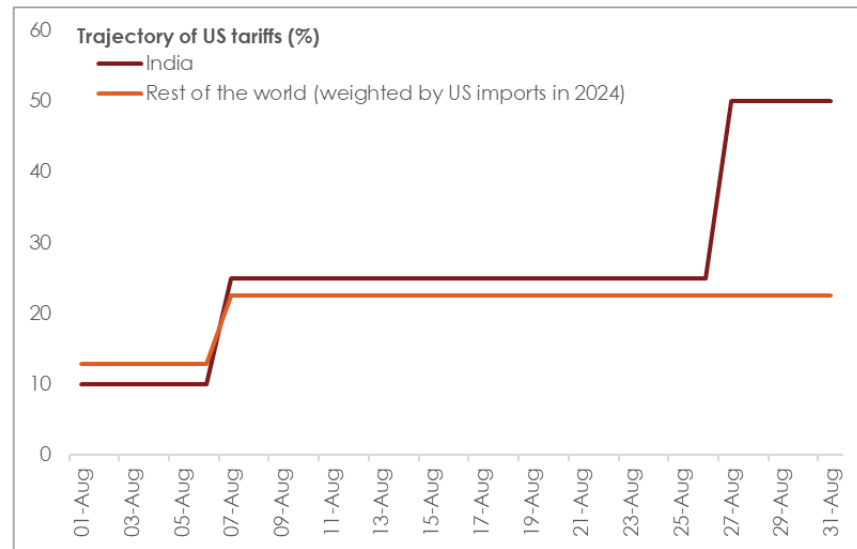


# August trade data does not capture the adverse tariff impact

India's merchandise exports clocked 6.7% YoY expansion in Aug-25. There is a mixed trend in the export performance of countries that have so far released their data for Aug-25.

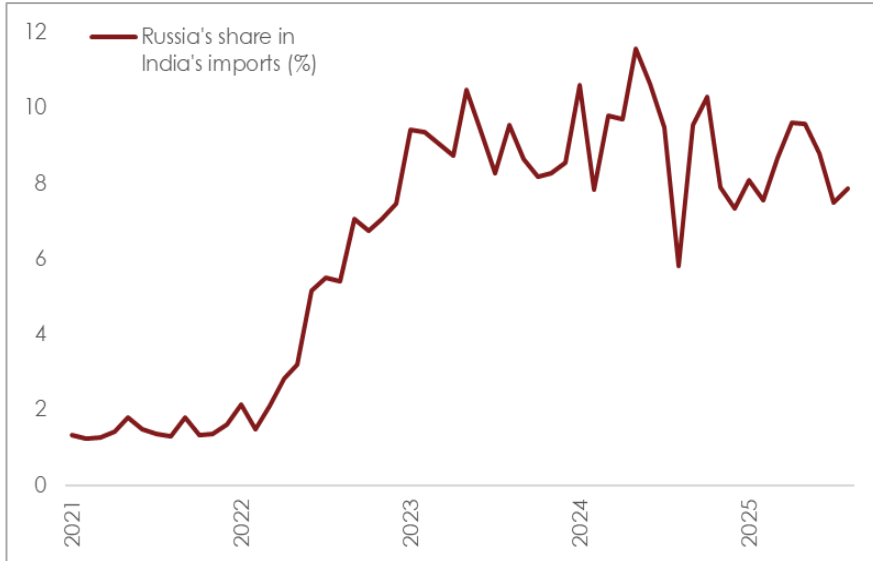


India likely avoided any major adverse impact on export performance in Aug-25 by front-loading shipments to the US. However, with a cumulative tariff rate of 50% becoming effective from Aug 27<sup>th</sup>, the adverse impact could become palpable from Sep-25 onwards.

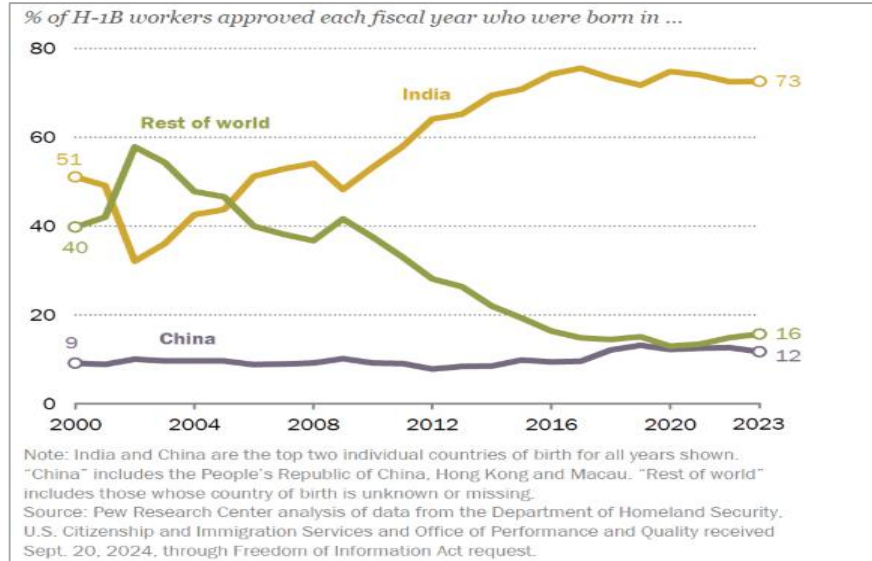


# US is widening the scope of pressure tactics for negotiations with India

Despite the imposition of an exclusive 25% penalty tariff, Russia's share in India's merchandise import basket saw a marginal increase to 7.9% in Aug-25 from 7.5% in the previous month. India has chosen to maintain its independence on strategic decisions like energy procurement.

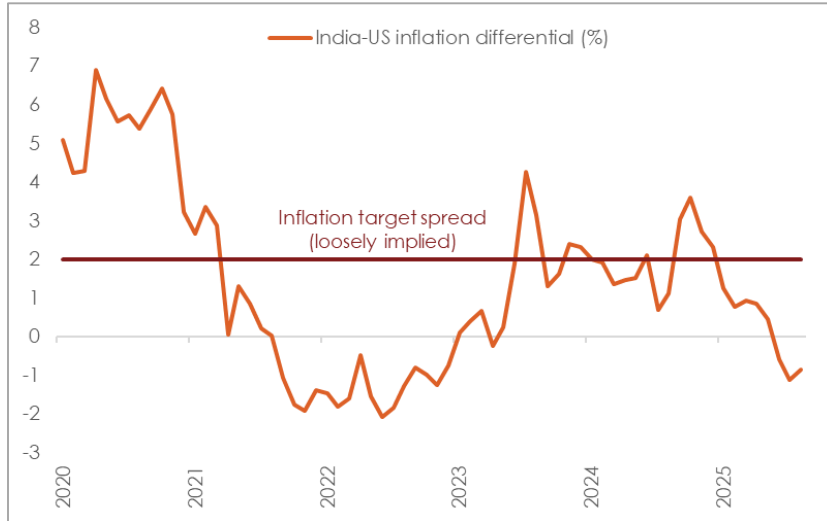


In a latest salvo, US President Trump has raised the fee for H-1B visas to USD 100,000 annually from USD 2000-5000 currently. Since Indians accounted for the largest share (above 70%) of H-1B visa holders, incrementally, it will have an adverse impact on remittances (if implemented).

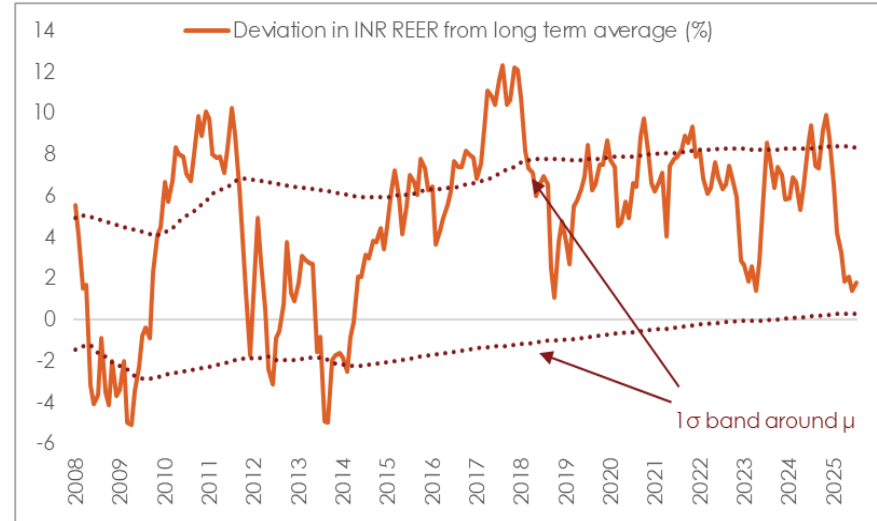


# INR remains supported by fundamentals

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-Aug 2025. Notably, the inflation spread turned in favor of India since Jun-25.



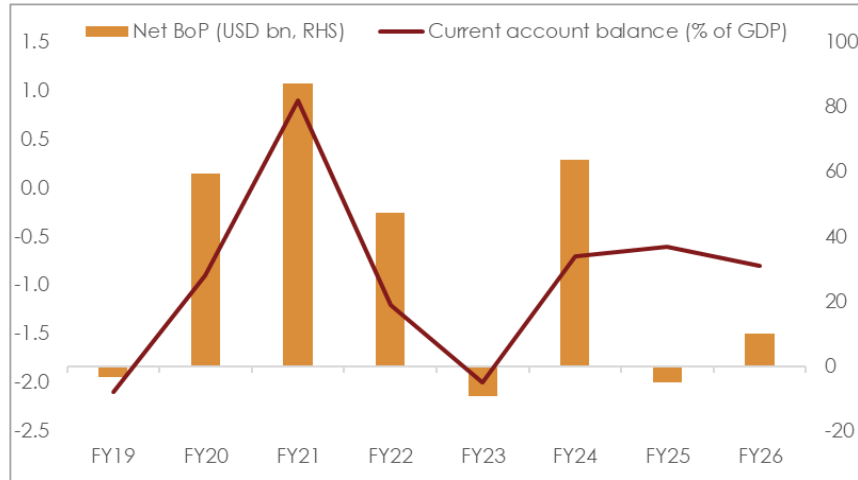
Basis REER, we estimate INR to be ~2% overvalued (as of Jul-25) vis-à-vis its long-period average. INR overvaluation levels have dropped considerably in the last 6 months and now no longer give the impression of being stretched. This will curb excessive incremental pressure for INR weakness.



# Rupee outlook

We expect FY26 current account deficit at 0.8% of GDP, accompanied by a moderate BoP surplus of USD 10 bn. However, if the 25% penalty tariff by the US stays for an extended period, then FY26 CAD could be around 1.1-1.2% of GDP, accompanied by a BoP deficit of USD 10-20 bn.

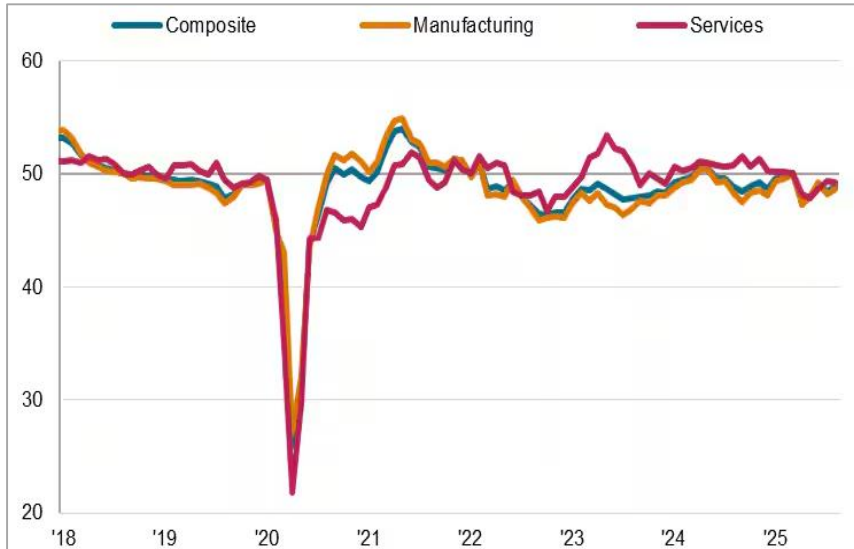
India's total import (merchandise + services) cover basis central bank's holding of total foreign currency assets is currently under 7 months. The RBI is likely to build reserves at every strategic opportunity. As such, annualized appreciation for INR (on the back of USD weakness) carries a low likelihood.



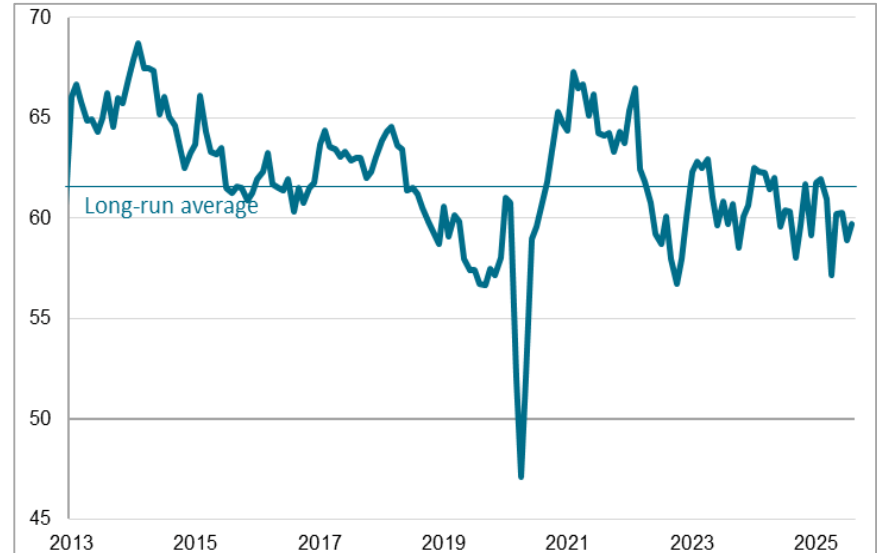
**Considering the known-unknown geopolitical and goeconomic risks, we maintain our USDINR call of 89.5 before end FY26.**

# Global trade: Navigating a tariff tsunami

Global PMI survey indicates that global trade conditions remain in a flux, with PMI New Export Orders Index, posting 48.9 in Aug-25, vs. 48.5 in Jul-25 - the fifth straight month of below 50.0 neutral mark to signal an ongoing contraction of trade activity.

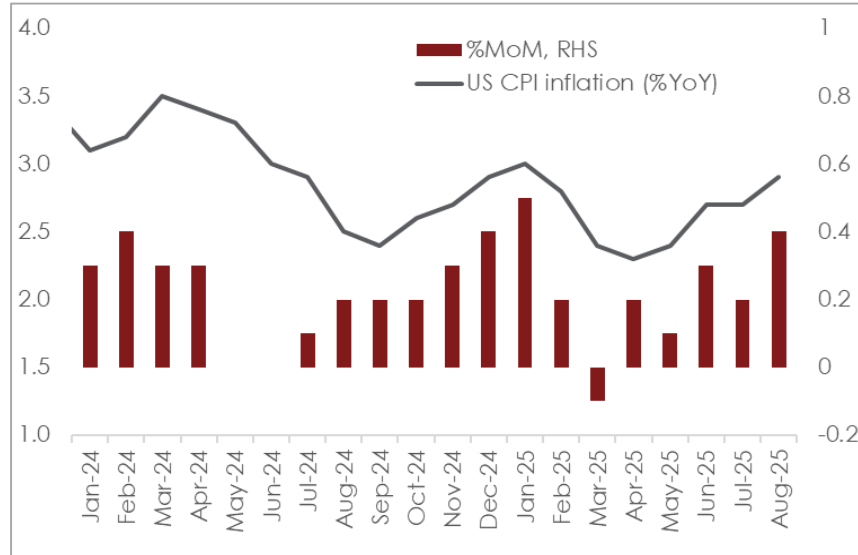


The Future Output Index, which assesses business expectations of production trends in the next 12 month, remained at one of the lowest levels seen since the pandemic as goods producers cited concerns over the geopolitical landscape and the outlook for trade.

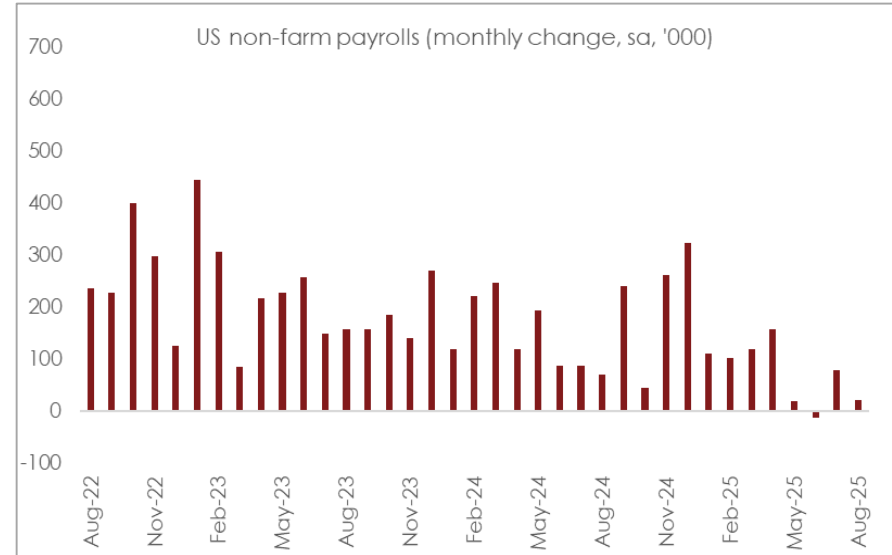


# US economy: Inflation higher, jobs additions lower...

US CPI inflation came in above expectations in Aug-25, at 2.9%YoY on the back of sequential 0.4% uptick in the index, led by prices of apparel and used vehicles. The metric has steadily moved higher since bottoming at 2.3% in Apr-25.

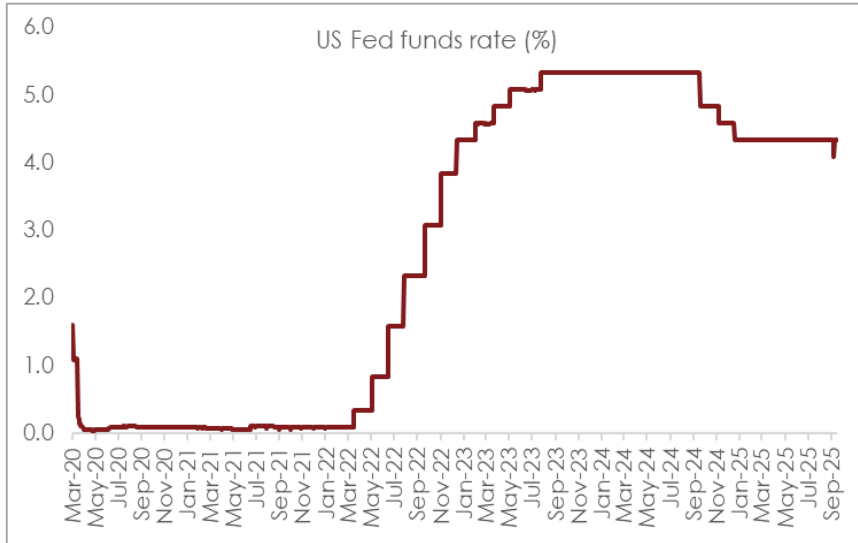


US labor market has displayed material signs of deterioration, with the economy adding 911K fewer payrolls from Apr-24 to Mar-25 than previously estimated. This underscores a slowdown in labor market since the start of the year, with the latest 3m average job gain stands at a paltry 29.3K as of Aug-25.

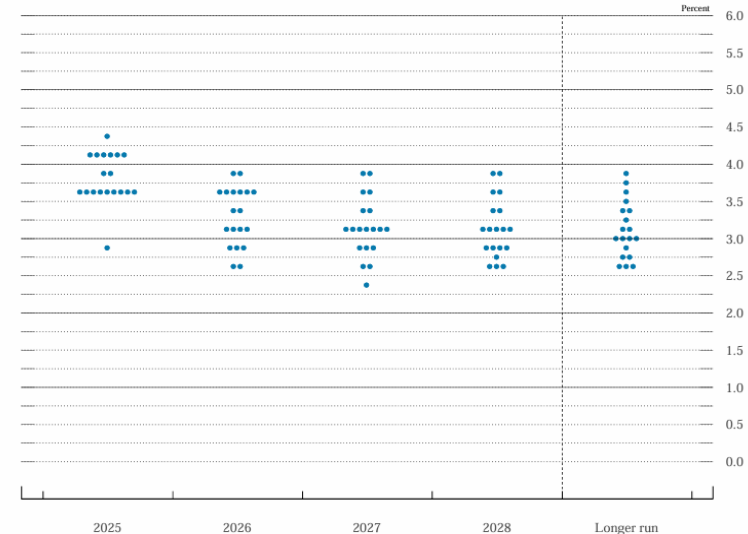


# ...propels Fed to deliver a 25 bps cut; more on anvil.

US Federal Reserve cut policy rate by 25 bps at its Sep-25 policy. Newly installed member Stephen Miran was the only policymaker voting against the 25 bps move, instead advocating for a 50 bps cut



The “dot plot” of individual member expectations points to two more cuts before the end of 2025. The grid, however, showed a wide level of disparity – 9 of the 19 participants indicated just one more reduction this year, while 10 saw two, which would indicate moves at the Oct-25 and Dec-25 meetings. The plot indicated one cut in 2026, significantly slower than current market pricing of three.





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