

Economic Round-up:

The West Asia embroglio persisted with reports of fresh round of attack in Persian Gulf. Further, economic turmoil in Iran aggravated with inflation reaching 89.8% in Sep'26 and its currency got devalued significantly against the dollar. The political turmoil is aggravating economic situation with no signs of resolution of the conflict. Asset classes continued to bear the brunt of the war. Oil prices remained elevated at US\$ 101/bbl (average in Oct'26). Global central banks broadly remained hawkish with US Fed, ECB and BoJ all going for a rate hike in its Sep'26 policy. The narrative is also one of tightening. This is impacting global equity flows worldwide. This month Fed policy is crucial. However, going by the latest macro data of the region, a deferred hike in Dec'26 is likely. Domestically, high frequency indicators are performing better in Q2 compared to Q1, especially, GST collections, vehicle registrations, port cargo traffic, auto sales, bank credit and diesel consumption. Festival demand is also expected to provide further boost. RBI policy has been more hawkish than expected, especially the change in stance from neutral to calibrated tightening. Inflation trajectory is also likely to be steeper with FY27 forecast being revised upward by 20bps to 5.2% in FY27. However, on growth front RBI remained confident. Hence weighing all the factors, we expect 2 more rate hikes in FY27. The key thing to watch out for is the transmission to deposit rates amidst abundant system liquidity due to FCNR (B) inflows.

Global central banks: All major central banks in their Sep'26 policy decisions continue to highlight the growing risks of elevated inflation amidst persistent higher energy prices. Given the lingering West Asia conflict, central banks must manage inflation expectations before they become entrenched in the system. Based on the above, global central banks have begun the rate tightening cycle, with Fed hiking rates by 25bps as inflation is sticky and above the target mark. ECB also followed cues and raised rate once again by 25bps, second hike after Jun'26. Investors are pricing in 3-more hikes going forward. BoJ too hiked policy rate to its 30-year high at 1.25% to manage growing inflation risk. In contrast, BoE kept the benchmark rate on hold, though it is expected to raise rates in the near term given the inflation pressure is building up.

Key macro data releases: High frequency domestic data showed persistent momentum in India's growth with indicators like GST collections, vehicle registrations, port cargo traffic, auto sales, bank credit and diesel consumption improving in Q2 (available information till date) compared with Q1. PMI manufacturing and services data also showed buoyancy, led by pickup in new orders. However, input price pressure remained with firms pointing escalated cost impacting margins. RBI policy also highlighted elevated trajectory for inflation, revising upward FY27 headline CPI forecast by 20bps to 5.2%. Hence the rationale for change in policy stance from neutral to calibrated tightening. The policy tone has also been hawkish. So, it is important to see how the 25bps rate hike will be transmitted to real economy, especially at a time when festival demand is about to begin.

Macro developments

Volatility in global financial markets persists

The volatility in global markets continued with reports of Houthi attack in Saudi Arabia. Iran is facing economic turmoil with inflation hitting 89.8% in Sep'26. It has also devalued its currency significantly against the dollar. Even news reports indicated that there has been renewed attacks in Persian Gulf after weeks. The spillover was felt in major asset classes. Oil prices averaged at US\$ 101/bbl in Oct'26 (till date). This steepness in oil price trajectory has also kept global yields under pressure. However, some correction was seen in Oct'26 as markets had pared down rate hike expectation by Fed in the Oct policy. 10Y yields of major EMs such as India, Thailand, Indonesia remained elevated. Global central bank narrative of tightness under the current scenario is likely to manoeuvre their direction in the near term. The equity markets showed mixed performance. Stocks in the US got some relief from building expectation of postponement of rate hike in Oct by Fed. Asian stocks (except Nikkei) showed the impact of jittery geopolitical environment. Dollar continued to be sticky which will weigh on other currencies. Global equity outflow also continued. However, debt inflow maintained its momentum (Source: Bloomberg Data).

State of the global economy

Macro data in the **US** showed mixed trends. GDP growth for Q2 2026, was revised upwards to 2.2% from 1.5% estimated earlier. The uptick was driven by consumer spending and AI related investments. However, Conference Board's consumer confidence index dipped to 81.9 in Sep'26-its weakest level since 2014. In Aug'26, consumer confidence index stood at 88.6. Consumers' assessment of current situation deteriorated due to concerns over price, particularly higher oil and gas prices. At the same time, consumers largely remained pessimistic about business and labour market situation. Separately, ISM's manufacturing PMI eased marginally to 54.5 in Sep'26 from 54.6 in Aug'26. While the sub-index for input prices picked up, the index for new orders eased. The sub-index for employment picked up. ISM non-manufacturing PMI index too moderated to 54.9 in Sep'26 from 55.4 in Aug'26. Sub-index for prices paid increased to 74.0 from 72.6 in Aug'26. However, the sub-index for new orders eased, while the employment index picked up to 50.1 from 47.8 in Aug'26. Labour market showed signs of softness with non-farm payrolls rising by only 29,000 in Sep'26, after increasing by 133,000 last month. Unemployment rate also edged up to 4.2% in Sep'26 from 4.1% in Aug'26. Inflation as measured by the core PCE index remained stable at 3% in Aug'26 on a YoY basis, unchanged from last month. CPI inflation also remained stable at 3.4% in Aug'26. However, PPI inflation accelerated to 5.4% in Aug'26 from 4.8% in Jul'26. Growth in industrial production eased to 0% in Aug'26, after increasing by 0.2% in Jul'26. The deceleration was largely driven by a 0.3% decline in manufacturing output in the same period. Housing market showed signs of recovery with new home sales increasing by 6.4% in Aug'26, reversing a decline of 4.3% in Jul'26. Pending home sales also rebounded to rise by 0.3% in Aug'26 following a decline of 2.6% last month.

The seasonally adjusted GDP rose at a faster pace in case of **Euro area** (by 1%) and **EU** (by 1.2%) as per flash estimates of Q2CY26 compared to 0.5% and 0.8%, respectively in Q1CY26 and 0.4% and 0.5% respectively, in Q2CY25. Among member States, Ireland recorded the highest increase followed by Lithuania and Sweden. As per flash estimates, Euro area annual inflation is expected to be 3.8% in Sep'26, up from 3.2% in Aug'26. The main contributing factor is expected to be energy, followed by services and food, alcohol & tobacco. The unemployment rate was stable at 6.4% for Euro area and at 6.1% for European Union. The manufacturing PMI rose to its 52-month high at 52.9 while the services PMI index rose to a 10-month high of 53 in Sep'26. For Germany as well, the same got reflected in terms of rising IFO Business Climate index (at 89.9 compared to previous level of 88.8) and

current assessment index (89.5 compared to previous level of 88.5). CPI data of Germany is also expected inch up to 0.6% as per the provisional estimate of Sep'26 compared to previous level of 0.2%. Elsewhere, debt concerns ruled in France amidst a volatile pre-election politics which has also impacted its 10Y benchmark yield (soared close to 5%-highest since 2022).

In **UK**, high frequency growth data showed buoyancy. Q2 final estimate of GDP inched up by 0.5% on QoQ basis compared to previous level of 0.4%. On a YoY basis, GDP inched up by 1.4% compared to 1.2% earlier. Private consumption demand was robust. Other indicators such as DMP 1-Year CPIU expectations remained elevated at 3.3% compared to previous level of 3.1%. Retail sales data including auto fuel rose on a sequential basis by 0.5%, even core retail sales picked up by 0.6%. New car registrations rose at a solid pace. CPI in Aug'26 was higher at 3.1%, core CPI was at 2.6%, on YoY basis. Services PMI also picked up to 52.1 from 51.7 earlier, however manufacturing softened a tad to 51.9 from 52.

In **Japan**, Tokyo CPI data was elevated at 2.7% in Sep'26 compared to previous reading of 1.9%, on YoY basis. Core CPI (excluding fresh food) was also elevated at 2.7%. Tankan large manufacturing index inched up and there was improvement in manufacturing outlook. Retail sales on other hand softened on a sequential basis in Aug'26. Exports grew at a faster pace by 19.3%, on YoY basis, imports also remained buoyant growing by 28% in Aug'26. This led to a widening trade balance of -¥1105.6bn in Aug'26.

In **China**, RatingDog manufacturing PMI shows that activity improved in Sep'26, with the index rising to 52.1 from 51.5 in Aug'26, led by revival in both domestic and foreign demand. This was on the back of building safety stockpiles, leading to new orders index rising to its highest since Feb'26. Consumer goods sectors recorded sharpest pickup in new orders and output. Price pressures also remain with input price index rising to 4-month high, which in turn has led to slight rise in output and export prices marginally. The pressure comes mainly from metal and oil prices. In Aug'26 as well, China's industrial production growth had accelerated to 5.2% (YoY) from 4.5% in Jul'26, supported by 6.1% rise in manufacturing production, specifically led by 17.2% rise in production of computers, and other electrical equipment. However, domestic demand remains a concern as retail sales rose by mere 0.4% (YoY) in Aug'26 (est.: 0.8%), slowing down from 0.6% in Jul'26. Investment activity also remains muted with FAI growth contracting by (-) 7.2% between Jan-Aug'26 versus (-) 6.7% between Jan-Jul'26. Unemployment also ticked up tad in Aug'26 to 5.3% from 5.2% in the month before. However, PMI data indicates that employment gathered momentum in Sep'26 as companies hired to fulfil surge in orders. This is likely to get reflected in Sep'26 unemployment data.

Indian economy: High frequency indicators signal resilience

India's manufacturing PMI shows recovery in growth momentum as the index rose to 55.1 in Sep'26 from 52.8 in Aug'26, led by sharp uptick in new orders index. This was on account of improved demand in sectors such as electronics, food, pharmaceuticals and textiles. New export orders also accelerated, driven by demand from Brazil, Europe, UAE and the US. Demand for intermediate goods rose the most. As a result, job creation also improvement and employment index rose to its highest since May'26. However, firms also reported of input price pressures, particularly in case of consumer goods and intermediate goods segment. Product-wise, electronic components, pharmaceutical items, steel prices have pushed costs the most. Services activity has also picked up pace with the index rising to 55.2 in Sep'26 from 54.1 in Aug'26. New orders rose at the fastest pace in 3 months, supported by foreign demand from Germany, UK, UAE and the US. Despite this, change in employment was only marginal. Output prices reportedly increased the most in consumer services, transport and information & communication

sectors. Other high frequency indicators are signalling pickup in activity in Q2FY27 (Jul-Sep). Indicators like GST collections (up by 10% YoY in Q2), vehicle registrations (26%), port cargo traffic (8.6% between Jul-Aug'26), auto sales, bank credit (18.8% till mid-Sep'26), diesel consumption (7.5%) have improved considerably compared with Q1. However, air passenger traffic (-5.3%) is still reeling under pressure from rising oil prices. In Sep'26 alone oil prices rose by ~16% (MoM basis) and are therefore expected to have a spillover effect on other components of services sector—trade, hotels, restaurant, and transportation services.

Policy developments: Union Cabinet has approved Rs 10,000 crore fund for equity investments in SMEs. Also, an Integrated Transport & Logistics Authority (ITLA) SPV has been approved to strengthen research and impact assessment in this domain. This Fund was mentioned in the Union Budget 2026 and is part of the measure of the government to support small companies offering equity support and providing liquidity measures. On monetary policy front, the RBI has proposed a regulatory measure to implement interoperability among the NBFC-AA (account aggregator), with the aim to enhance customer convenience. Through this, the customers will be able to access and share financial information through any aggregators of their choice. Next, depositories regulated under SEBI can be facilitated to include information related to bank deposit accounts in consolidated account statement (CAS) through NBFC-AA. This will help depositors in accessing information pertaining to both demat and bank deposit account at one place itself in CAS. It has also been decided to form a technical consultative committee for financial markets. The forum will serve as a place for structured engagement with market participants and stakeholders from RBI on policy, government securities and foreign exchange market.

Monsoon: India's Southwest monsoon (Jun-Sep'26) on a cumulative basis was below normal with rainfall at 13% below LPA by the end of the season. This is lowest rainfall level since 2015. The sown area of kharif crops this year has been lower this year compared with last year. Rice, cotton and sugarcane have registered lower acreage, while coarse cereals, pulses and oilseeds sowing have improved. Out of 36, 18 subdivisions received normal rainfall, 17 sub-divisions (42% of the country) have received deficient rainfall with 316 districts in the deficient zone for the same period. Only 1-subdivision, Odisha (5% share) has received excess rainfall for the same period. Region-wise, a deviation has been noted across all the regions. East and Northeastern reported deficient rainfall (-26%), followed by Southern Peninsula (-24%) while Northwestern (-6%) and central region (-3%) have reported normal rainfall.

RBI's rate hike cycle begins

RBI raised its policy repo rate and changed its stance from neutral to calibrated tightening. The rationale behind calibrated tightening was clear signalling of the fact that inflation is no longer going to be benign. Governor's statement also indicated necessity of curtailing second round effects of inflation. Governor clearly communicated that rate cut is off the table and the current stance would signal only rate hike and pause. The duration of the cycle would depend on the growth-inflation powerplay. On inflation front, the trajectory has been steeper. RBI expects inflation to average higher at 5.2% in FY27, up by 20bps from RBI's Aug'26 estimate and core inflation is projected at 4.4%. This is primarily due to higher-than-expected inflation in Q2 (4.9% versus 4.7% estimated by RBI) and possibility of Q3 inflation also coming in higher by 10bps at 6%. Projection for Q4 have also been pegged higher at 5.7% (+20bps higher than last estimate). In Q1 next year, inflation is likely to inch up further to 5.6% up by 30bps. RBI has flagged that inflationary pressures have become broad based apart from the usual deficient South-West monsoon and volatility in international oil prices. On growth front, RBI remained affirmative. FY27 GDP growth forecast has been revised upward to 7.1% from 6.7% projected earlier in the Aug'26 policy. The 40bps upward revision is mainly on account of revisions to Q2 and Q3 numbers. Numbers for H2FY27 have also been revised higher by 20bps from last policy. MPC members agreed that despite facing global headwinds, the Indian economy

continues to remain resilient as has been noted in Q1 growth which was higher than expected at 7.8%. This was led by strong investment, private consumption along with buoyancy in services exports.

Global central bank actions

US Fed has raised the rate by 25 bps which now stands at 3.75%-4%. The rationale was: 1) inflation is well above the target rate and quite sticky. 2) Growth is buoyant. 3) Spending is resilient. 4) Productivity is up. 5) Capital investment looks good and 6) Jobs increasing and unemployment rate at 4.1% which is below the mark of 4.6%. This has prompted Fed to go for its first rate hike since Jul'23. FOMC forecast also shows a steeper Fed Fund rate trajectory. 16 FOMC members now expect another 25bps rate hike in CY26, where in Jun'26 only six members were expecting the same. The FOMC projections show a higher federal fund rate at 4.1% for both CY26 and CY27 compared to 3.8% and 3.6%, projected in its Jun'26 forecast. Real GDP is projected to be higher at 2.3% and 2.4% respectively, in CY26 and CY27 compared to 2.2% and 2.3%, respectively in Jun'26 forecast. For PCE, the forecast has been revised upward to 3.7% in CY26 while for CY27, it was retained at 2.3%. However, recent macro data has trimmed down rate hike expectations in the Oct policy with a probability of 17.7% currently as per CME Fedwatch tool compared to a week earlier probability of 37.6%. However, rate action is likely in Dec'26. Recent commentaries of Fed officials (Dallas Fed President Lorie Logan, Fed Governor Lisa Cook, Fed Chair for Supervision Michelle Bowman) all hinted at the same. The recent Fed minutes also showed that all 19 Fed officials backed for a rate hike and as per the assessment of the economy.

Bank of England (BoE) had held its policy rate steady at 3.75% in its Sep'26 meeting, in contrary to Fed, ECB and BoJ. Thus, making it an outlier among major global peers. However, the policy document signalled rising inflationary pressure building up cases for sooner rate hike in the near term. BoE Governor highlighted that the pass through of elevated energy cost from Middle East crisis is yet limited in terms of spiralling of prices and wages. The minutes of the monetary policy meeting showed that considerable upside risks to inflation remain through the channel of import prices. The minutes also signalled that households' inflation expectations had remained elevated and have reacted significantly to fluctuations in energy prices. Further, ambiguity with regard to future trajectory of oil prices may lead to more de-anchoring of inflation expectations and this might feed into higher wage settlements. The Bank staff's short-term inflation projection suggested that CPI to be higher at slightly above 4% in early CY27. Going by the inflation forecast, market is anticipating a higher probability of rate hike by BoE in Nov'26.

The ECB again went ahead of the curve and raised its policy rate by 25bps. This is the second hike by ECB after the Jun'26 hike, amounting to total 50bps hike in the current cycle. The path is likely to be steeper to get inflation under control, with market anticipation of another three rate hikes, going forward. It is to be noted that ECB started the rate hike cycle much earlier compared to major global central banks. One of the Governing Council members (Olli Rehn) even hinted that the spillover of energy shocks to wages and prices cannot be ruled out. The baseline projection for headline inflation is expected to average at 3.0% in CY26 (unchanged from Jun'26 projection), 2.5% in CY27 and 2.1% in CY28. The inflation projection for CY27 & CY28 have inched up compared to Jun'26 projection. For inflation excluding energy and food, it is expected to be 2.5% in CY26, 2.6% in CY27 and 2.3% in CY28. GDP is expected to grow by 0.9% for CY26, 1.4% for CY27 and 1.5% for CY28. The projection for both 2026 and 2027 have been revised upward compared to Jun'26 forecast, mainly reflecting buoyancy in demand conditions. Now for ECB, the main area of concern can be the surging debt cost of France. Reports have also indicated likely intervention by ECB in the near term.

Bank of Japan rose its benchmark policy rate to the highest level in past 30-years to 1.25% in its Sep'26 meeting. The minutes were even more hawkish as it hinted at faster pace of interest rate increases to combat mounting inflationary risks. Members remained affirmative on economic activity, albeit some weakness visible due to the impact of the situation in the Middle East. Members specifically acknowledged that private consumption demand had been resilient. On inflation front, members shared that the pass through of higher wages to selling prices is expected to continue and the lack of clarity on Middle East situation is aggravating risks. For business-to-business transactions, members recognised that PPI had recently peaked out, and there is some visibility of midstream price increases to downstream. Majority of members acknowledged increase in prices of petroleum products and of chemicals and related products, semiconductor memory chips and nonferrous metals due to the no clear sign of resolution of the Middle East. Inflation expectations especially medium to long term for both households and firms as per Tankan data also showed some de-anchoring.

Central Bank of China (PBOC) has recently cut its pledged supplementary lending rate by 25bps, bringing down 1Y rate to 1.5% from 1.75% earlier. In addition to this, the central bank has also expanded the PSL facility to support investments in water, power-grid, computing, communications, urban pipeline and logistics networks. This signals government's intent to provide cheaper capital to private sector for investments, which in turn will help spur growth. To revive the real estate sector, the central bank has announced that it will provide subsidy for interest payments for commercial mortgages to 1st time buyers from 1 Oct 2026 onwards (1pp for upto 5 years). Subsidy will be capped at 1mn Yuan per household.

Indian Economy (For detailed reports refer to <https://bankofbaroda.bank.in/economic-scenario>)

Investment climate in India

In tune with the high GDP growth registered in Q1 of this year at 7.8% which was accompanied by growth in nominal gross fixed capital formation by 20.4%, overall investment climate looks very positive through the second quarter too. This is reflected in the investment announcements made by various companies in the first half of the year. CMIE's data on investment announcements point to a distinct robustness on this front. The first half of the year has displayed positive signs on both growth and investment as borne out by bank credit which grew by 18.1% by September 15th, 2026, compared with 10.4% during the same period of last year. There was admittedly some switch from the bond market to banks as the issuances were lower at Rs 5.47 lakh crore during the first 6 months of 2026 as against Rs 6.66 lakh crore during the same period of last year. Yet the fact that bank credit to large corporates has also been rising indicates that investment is taking pace at a steady pace which corroborates with credit flow being high to sectors like metals, power etc. After being watchful in 2023 and 2024, investment announcements increased sharply in 2025 to Rs 22.56 lakh crore from Rs 15.94 lakh crore in 2023 which is an increase of 45.6%. This was bettered in 2026 with growth of 34.7%. There are hence signs of rising investment in the coming months as these plans fructify. Data on investment intentions by ownership group for H1 show that the private sector dominates with Rs 26.23 lakh crore of the Rs 30.38 lakh crore at the aggregate level. This is 86.3% of the total which is quite impressive. Within the private sector 90% came from the Indian companies with the balance 10% by MNCs. This does show that not only has the investment cycle turned very positive but also that the private sector's involvement has been high. Among major sectors, the electricity sector has continuously shown high investment, and this is in the areas of both conventional and renewable. Investment in manufacturing showed a differential pattern. However, what was noticeable was that metals, machinery and chemicals were the industries which witnessed higher investment if cumulated over this period. All these are linked more to infrastructure, which is significant given that there is frontend spending by the government.

Does policy rate follow Taylor's Rule or not?

Monetary policy discussions often centre around what the factors or choice variables are that influence policy decision. To answer the same, one such simplified rule-based formula i.e. Taylor's rule is widely used to explain the dynamics of monetary policy. In simple words Taylor's rule is an algebraic formula showing the responsiveness of policy rate to deviations in inflation and output from its potential/targeted level. It has its own set of limitations, especially for India, since there are no official estimates of potential GDP and equilibrium real interest rate. However, the simple formula makes it appealing. In this exercise, we try to calculate Taylor's rule-based rate discounting the complexities of rigorous research and see how its trajectory has evolved compared to actual policy repo rate. The exercise is done post the adoption of flexible inflation targeting framework, as India adopted a formal inflation target. The results are interesting. It shows there exists directional convergence between Taylor's rule-based rate and actual policy rate. In fact, Taylor's rule-based rate is more responsive to inflationary shocks. On the other hand, actual policy rate incorporates a wider set of information in its reaction function and hence is more calibrated.

Equity market in 5M-FY27

There has been a lot of optimism in the capital market as reflected by the equity issuances in the first five months of the year. This is notwithstanding the global environment which is typified by uncertainty and volatility. Some of the largest IPOs have been lined up in the coming months which means that the appetite is high. In this context, it is compelling to look at how the equity issuance market has performed during the last 5 months. To get a fair picture of the equity issues during the year, one could look at the division of the same into different buckets. Total issuances could be fresh issuances where capital is added to the balance sheet of the company and OFS (offer for sale) where the existing shareholders are selling the stake. The latter is significant because this also is a measure of investors cashing out from the company and earning a profit. When the entities involved are foreign, then it corresponds with a FDI outflow. FY27 has witnessed the highest equity issuances in the last 5 years with Rs 2.36 lakh crore being raised in the market. Of this Rs 0.70 lakh crore is through OFS which is also the highest during this period and a little over half of what was raised in FY26. Total fresh issuances were Rs 1.65 lakh crore and comprised interestingly of private placements which accounted for 80% of the total. Hence only 20% of the total fresh issuances came to the market in the form of public issues or rights. Again, within the OFS issues, only 38% came into the public domain. Therefore, in sum, around Rs 0.60 lakh crore or 25% of total issuances were for the public.

India's Housing Price Index (HPI) steady in Q1FY27

The aftermath of the West Asia conflict weighed on global growth as it pushed commodity prices higher and disrupted supply chains. In India too, inflation surged in Q1FY27. The impact of higher inflation was noted across industries. Despite this, Housing price Index rose at similar pace as last year signalling stability. The study captures how each of the variables, such as HPI, inflation and sectoral credit, has performed during this time frame. India's Housing Price Index, published by RBI, which covers 18-cities rose at a slower pace of 3.6% in Q1FY27 against 4.5% growth noted in Q4FY26. Interestingly, it has grown at same pace as it did back in Q1FY26. - Top cities that contributed to growth in Q1FY27 included the following Chandigarh (49.6%), Jaipur (36.4%), Kanpur (27.5%), Lucknow (17.7%) and Thiruvanthapuram (16.3%). - The price appreciation in Chandigarh is due to recent revision in the collector rate, applicable from April 1, 2026. Additionally, unavailability of new land pockets has also pushed prices higher in recent times. - On the other hand, cities such as Delhi (-1.2%), Kolkata (-31.5%), Mumbai (2.8%) and Hyderabad (-0.8%) have decline or grown at a much slower pace in Q1FY27.

Industrial production remains at a healthy level

Industrial production registered a robust growth of 8% in Aug'26 from 4.7% growth noted in Aug'25. Compared with previous year (Aug'25), higher growth was noted primarily in manufacturing and electricity generation. Mining growth and water supply, sewage output noted deceleration. Manufacturing growth came in at 9%, supported by manufacture of motor vehicles and electric equipment. Within electricity, higher growth was noted under non-renewable sources (12.3% from 1% in Aug'25). On the other hand, water supply output noted moderation with 4.5% growth in Aug'26 against 6.9% growth last year for the same period. In comparison with last year, output of capital, intermediate and consumer goods performed much better in Aug'26. The overall sector has registered a strong performance, however there are downside risks to growth due to geopolitical tensions. The ongoing stalemate in US-Iran peace talks has raised concerns which might pose some challenges in terms of intensifying price pressure. However, given the situation remain fluid, careful monitoring is required.

Current account deficit

India's current account deficit increased to US\$ 11.2bn in Apr-Jul'26 compared with US\$ 6.6bn in the same period last year. The increase was led by higher merchandise trade deficit which increased to US\$ 117.8bn in FYTD 27, compared with US\$ 97.1bn in FYTD26. However, this was offset by higher net transfers (US\$ 53.9bn versus US\$ 43.3bn) and services surplus (US\$ 69.3bn versus US\$ 64.3bn). India's capital account surplus surged to US\$ 23.9bn in FYTD27 versus US\$ 11.4bn in the same period. This was led by a surge in banking deposits (increase of US\$ 16.7bn) and FDI inflows (increase of US\$ 3.7bn). The increase in banking deposits was largely due to the RBI's concessional swap window for FCNR (B) deposits. On the other hand, both FPIs and ECBs were lower. As a result, India's overall BoP surplus improved to US\$ 12.7bn compared with US\$ 4.8bn in FYTD26.

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