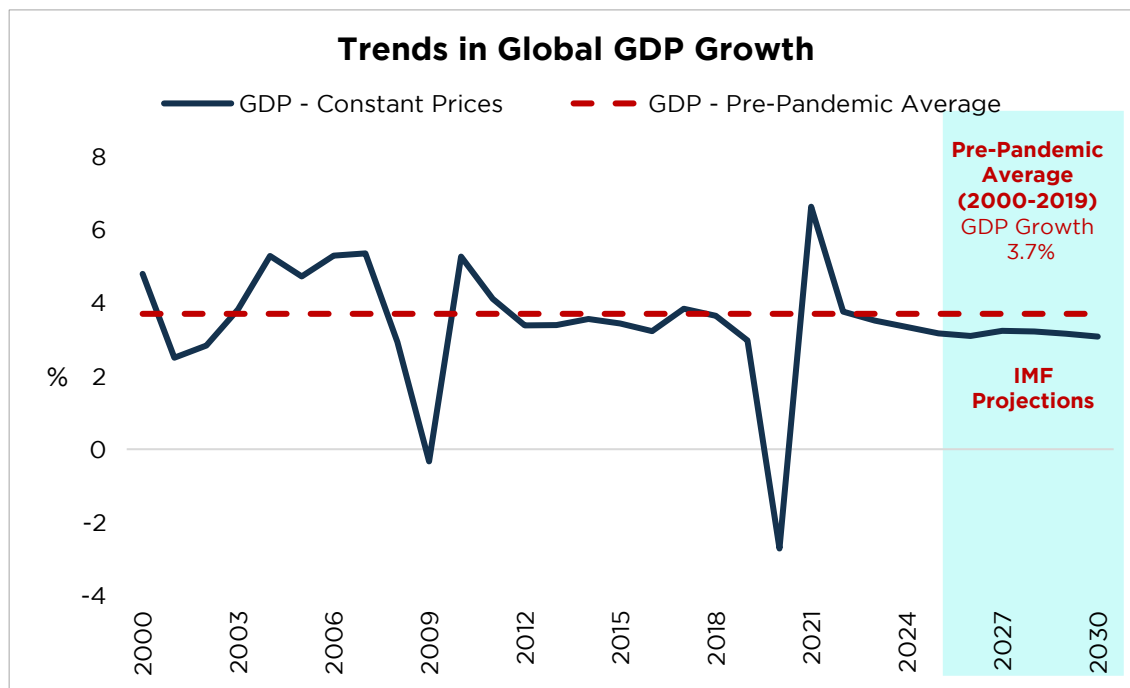


CareEdge

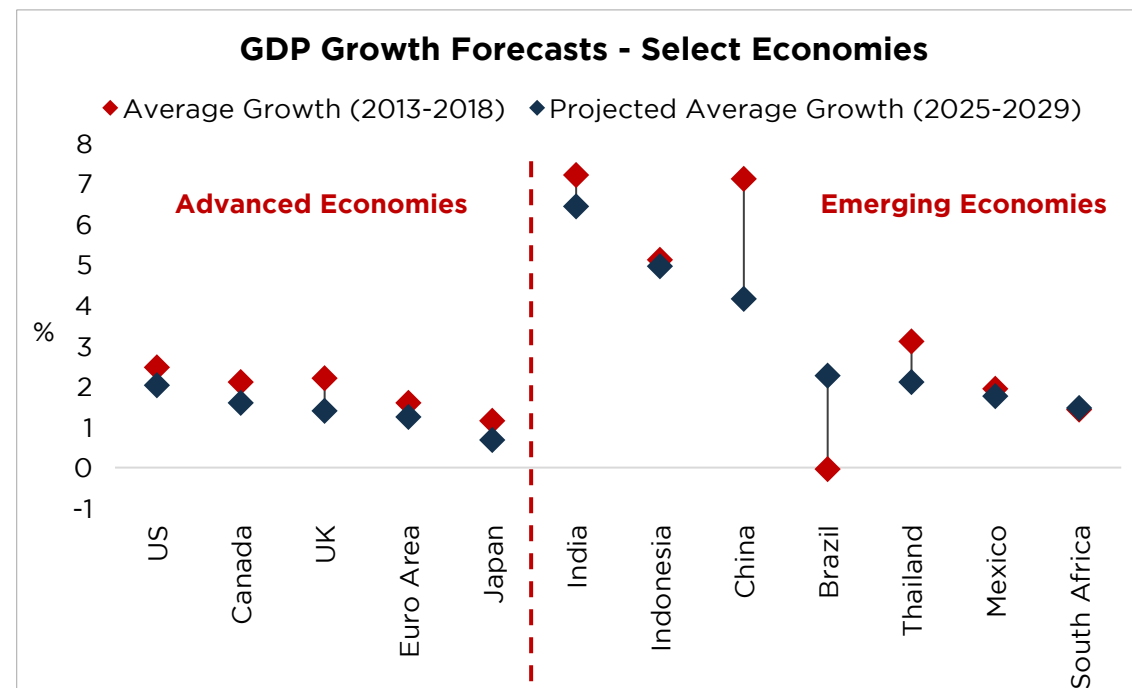
Outlook for the Indian Economy in 2026

Global Economy Navigating Turbulent Waters

Global Growth Below the Pre-Pandemic Average



Source: IMF, CareEdge



Source: IMF, CareEdge

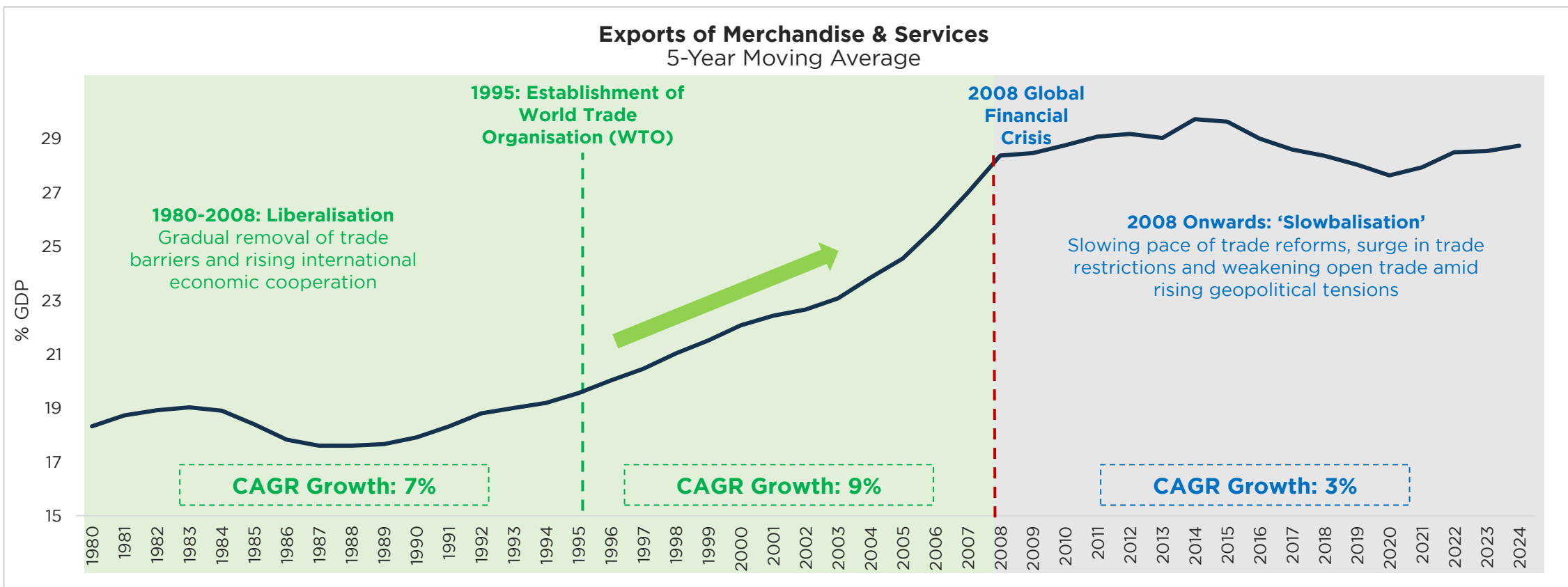
- Global growth is projected to average at 3.1% over the next five years, staying below the pre-pandemic average of 3.7%.
- In the next five years, growth in the US, UK, and the Euro Area is projected to be marginally below their historical averages, while China's growth is expected to undershoot its historical average by about 3 percentage points.
- However, India's growth is projected to hold up relatively well in comparison with other economies.

Global Growth Forecasts for 2026

Percent Change	IMF Projections Oct-25 (% growth)		Difference from July-25 Projections (percentage points)	
	2025	2026	2025	2026
World	3.2	3.1	0.2	0.0
Advanced Economies				
United States	2.0	2.1	0.1	0.1
Canada	1.2	1.5	-0.4	-0.4
United Kingdom	1.3	1.3	0.1	-0.1
Euro Area	1.2	1.1	0.2	-0.1
Japan	1.1	0.6	0.4	0.1
Emerging Market and Developing Economies				
India	6.6	6.2	0.2	-0.2
China	4.8	4.2	0.0	0.0
Brazil	2.4	1.9	0.1	-0.2
South Africa	1.1	1.2	0.1	-0.1
Mexico	1.0	1.5	0.8	0.1

Source: IMF WEO, CareEdge; Note: For India, data is presented on a fiscal year basis

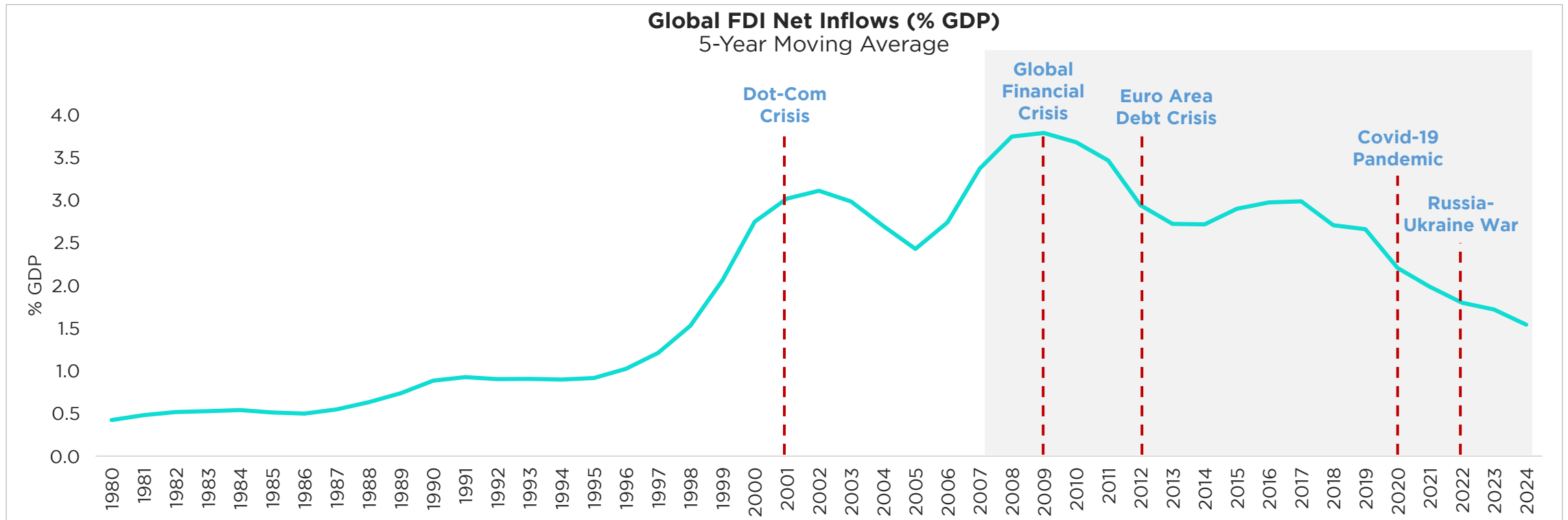
- 2026 growth in the US and Euro Area is expected to be broadly at the same level, while it is projected to fall in Japan and China.



Source: World Bank; CareEdge; Note: Compound Annual Growth Rate (CAGR) growth is calculated for value of global exports of merchandise and services

- Maturing global value chains and inward-looking policies resulted in stalling globalisation in the last 10-15 years.
- Global exports (% GDP) have broadly flattened post the Global Financial Crisis (2008).

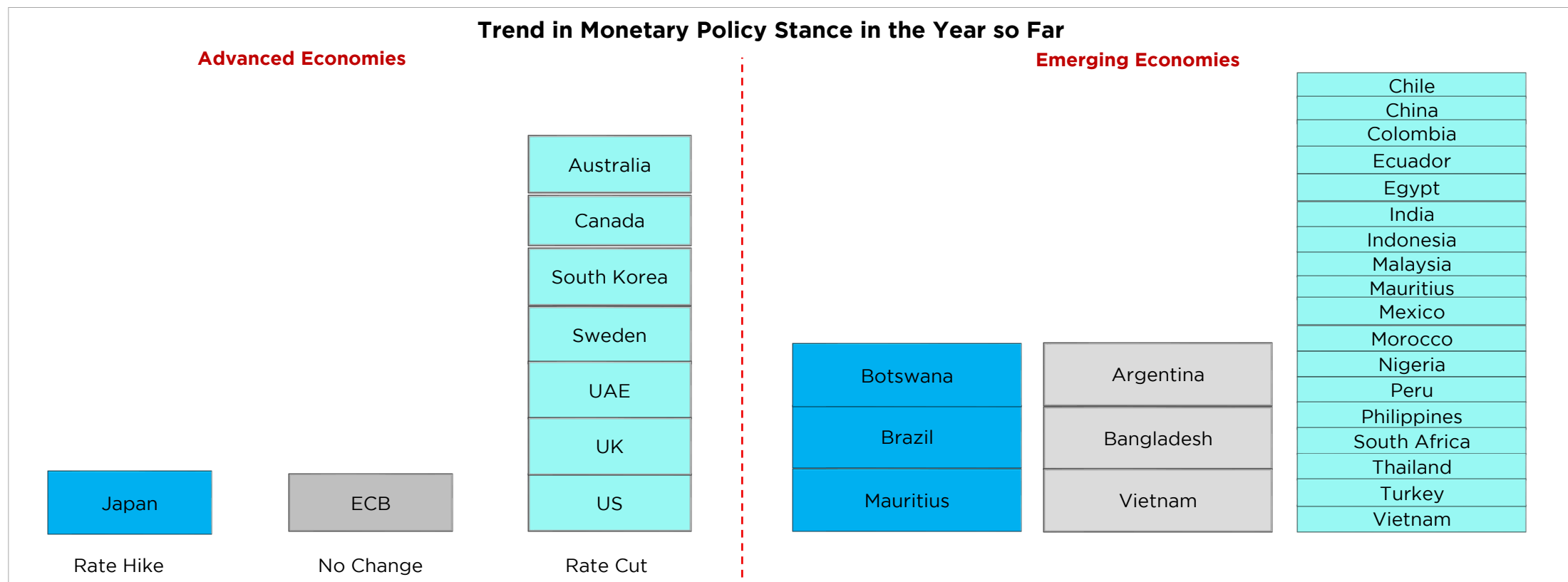
Global FDI Losing Steam



Source: World Bank, CareEdge; Note: FDI net inflows represents new investment inflows less disinvestment in the reporting economy from foreign investors

- Global FDI net inflows as a percentage of GDP have declined since the Global Financial Crisis, with subsequent shocks adding further pressure.

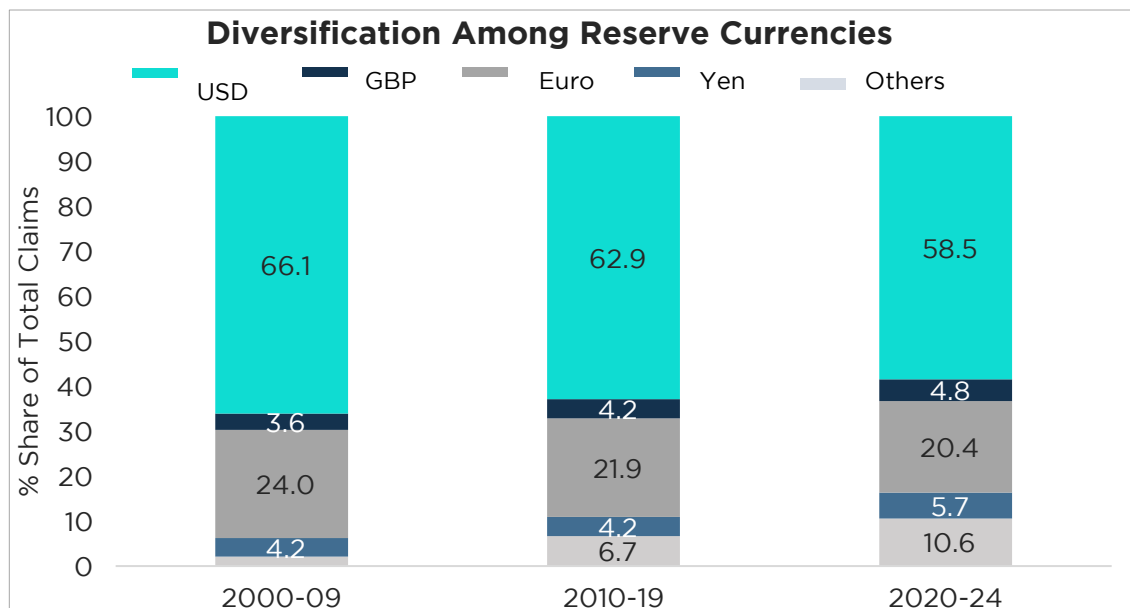
Monetary Easing Underway, with Few Exceptions



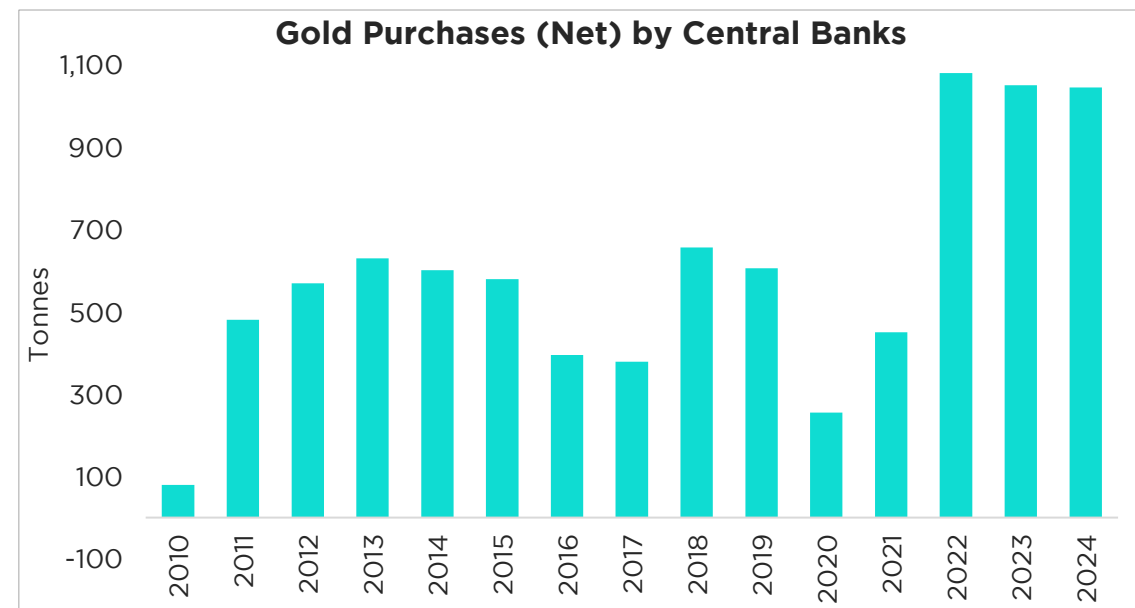
Source: CEIC, CareEdge

- With moderating inflation, the interest rate-cutting cycle is underway in most developed and emerging economies.
- Meanwhile, policy rates were cut in the UK and the US despite inflation remaining above the Central Banks' target, given the growth concerns.
- Bank of Japan in its December meeting raised the interest rate by 25bps to 0.75%, highest level in three decades, marking a shift away from its ultra-loose policy stance.

Diversification Away from the US Dollar



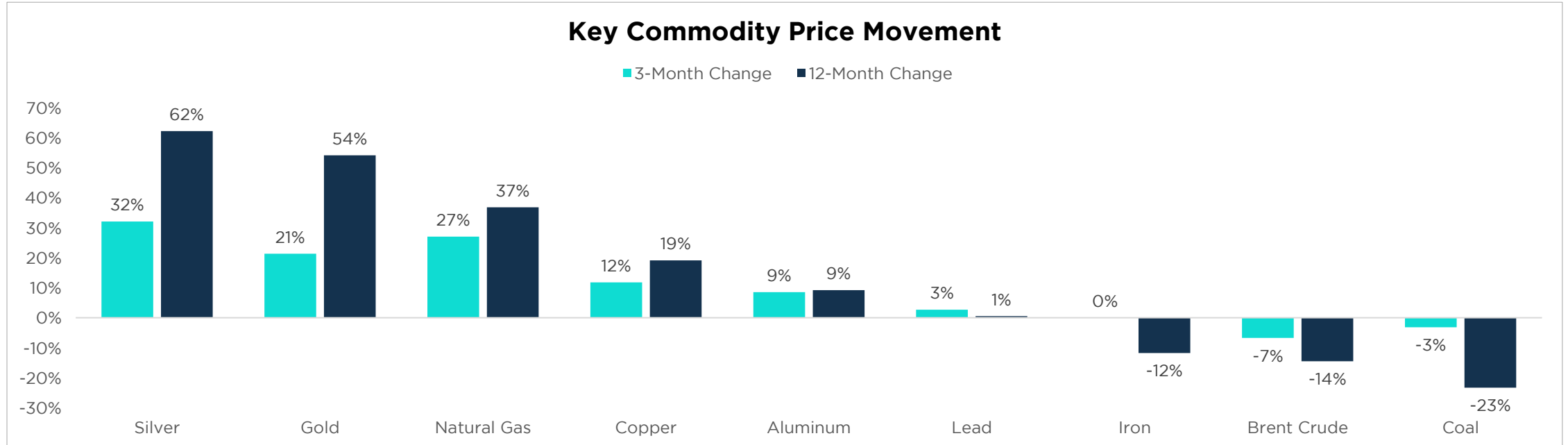
Source: IMF COFER, CareEdge



Source: World Gold Council, CareEdge

- Share of the US Dollar and the Euro in the global central bank reserves has been steadily declining. However, the shares of GBP, Yen, and CNY have increased.
- Furthermore, the sharp rise of central banks' net purchases of gold is indicative of a shift toward asset safety and hedging against uncertainty.
- However, the US dollar continues to shine as a unit of account and exchange in the global financial system, with its share in international payments having risen from ~32% in 2010 to 47% in 2024.
- Despite emerging challenges and growing concerns over the reliability of the US dollar as a store of value, it continues to dominate the global macroeconomic and financial landscape. Nonetheless, there are indications of a gradual but undeniable shift away from dollar dependency.
- Read our research for more insights - [Dollar Is Facing Challenges, but De-dollarisation Remains Gradual](#)

Precious Metals See a Sharp Rally

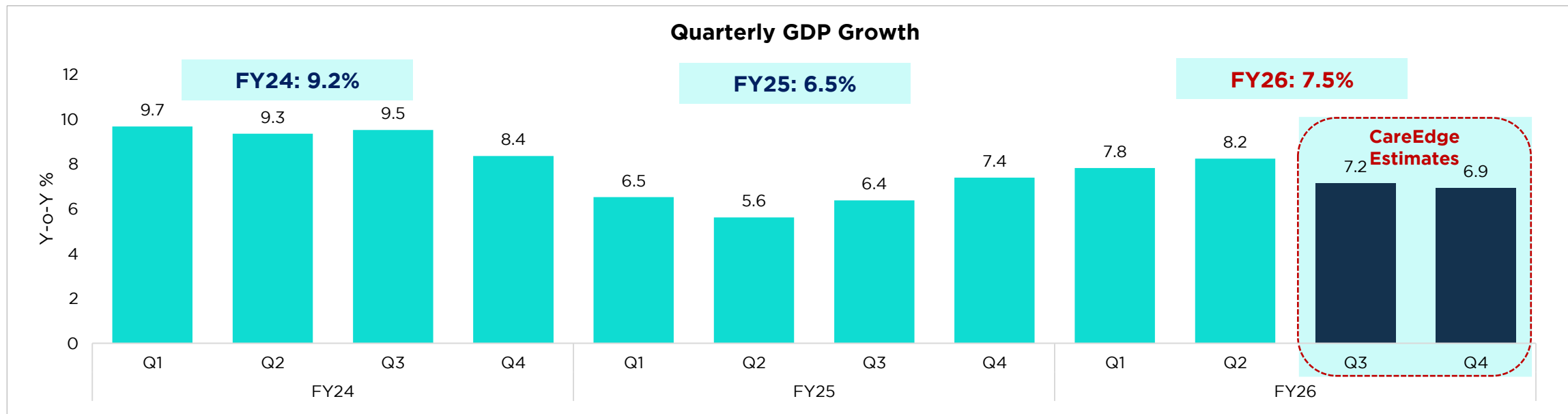


Source: CEIC, CareEdge. Data as of end-Nov. Coal prices track Australian coal price, and iron prices track coal-based Indian sponge iron price

- Several base metals—such as copper and aluminium—have experienced sharp price increases, alongside precious metals such as gold and silver.
- This surge in base metals has been driven by strong industrial demand from the renewable energy and AI, US Fed rate cuts, and expectations of fiscal stimulus in China.
- However, the rise in prices of these base metals has been counteracted by subdued prices of steel and iron amidst excess supply from China.
- Within the energy basket, Brent crude oil and coal prices remain subdued, while natural gas prices have seen an uptick.

Domestic Economy Remains on a Resilient Footing

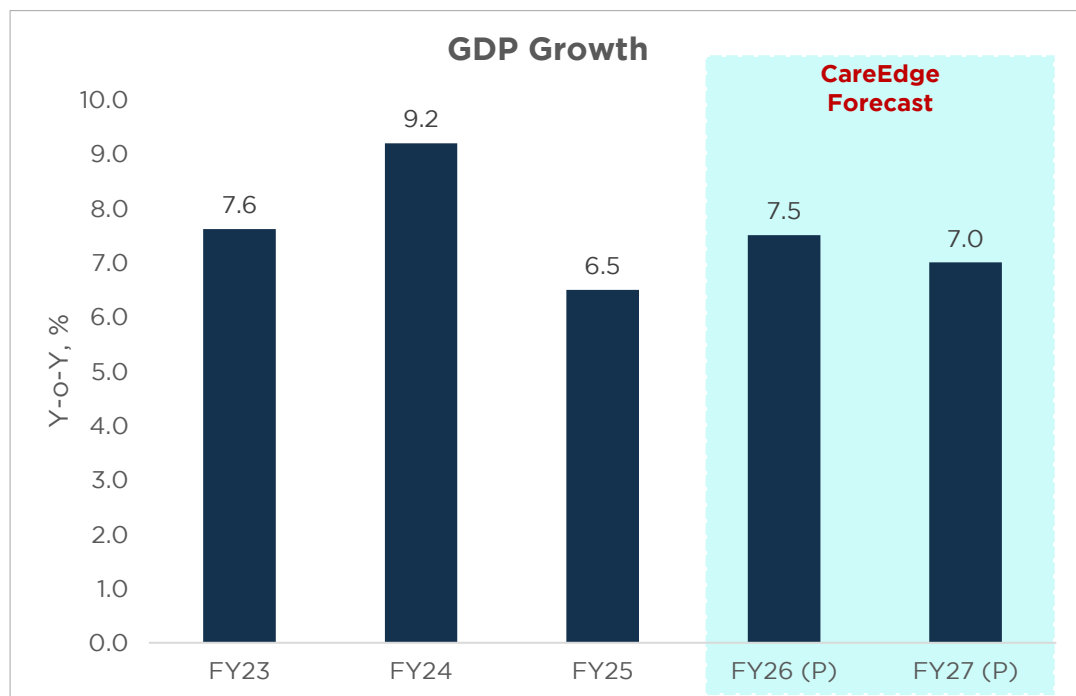
GDP Growth Projected at 7.5% in FY26



Source: CareEdge Projections, CMIE

- Healthy agricultural activity, reduced income tax burden, rationalisation of GST rates, RBI rate cuts, festive demand, and front-loading of exports supported growth in H1 FY26.
- We expect the GDP growth to moderate to around 7% in H2 as the impact of front-loading of exports fades and consumption demand moderates post-festival season.
- By the fourth quarter of FY26, the low base effect will wane, and the deflator will also increase from the current low level.
- **We project GDP growth at 7.5% for FY26.**
- **With low inflation, the nominal GDP growth for FY26 is projected to be lower at 8.3%.**

Growth Momentum to Remain Healthy in FY27



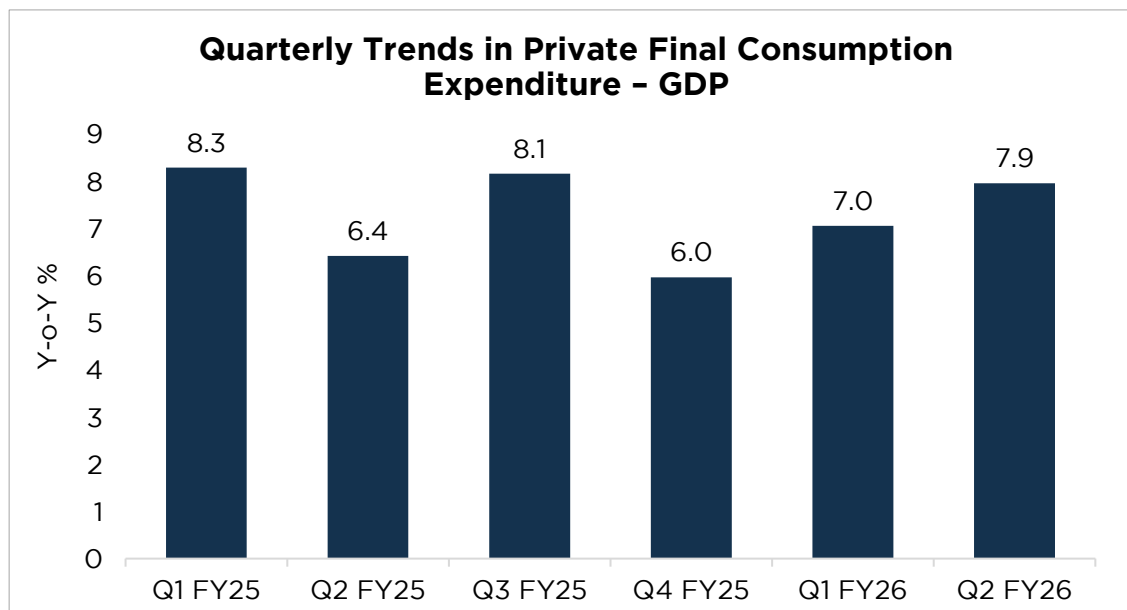
Source: CareEdge Projections, CEIC

	Q3 FY26 (P)	Q4 FY26 (P)	FY26 (P)	FY27 (P)
Growth (Y-o-Y %)				
By Sector				
Agriculture	3.2	3.0	3.3	3.3
Industries	6.6	6.4	6.7	7.2
Services	9.0	8.7	9.0	7.7
GVA	7.3	7.1	7.5	7.0
By Expenditure				
Consumption	7.5	7.1	7.4	7.3
Investment	7.3	7.0	7.3	6.9
Government Expenditure	7.4	6.8	4.8	7.2
GDP	7.2	6.9	7.5	7.0

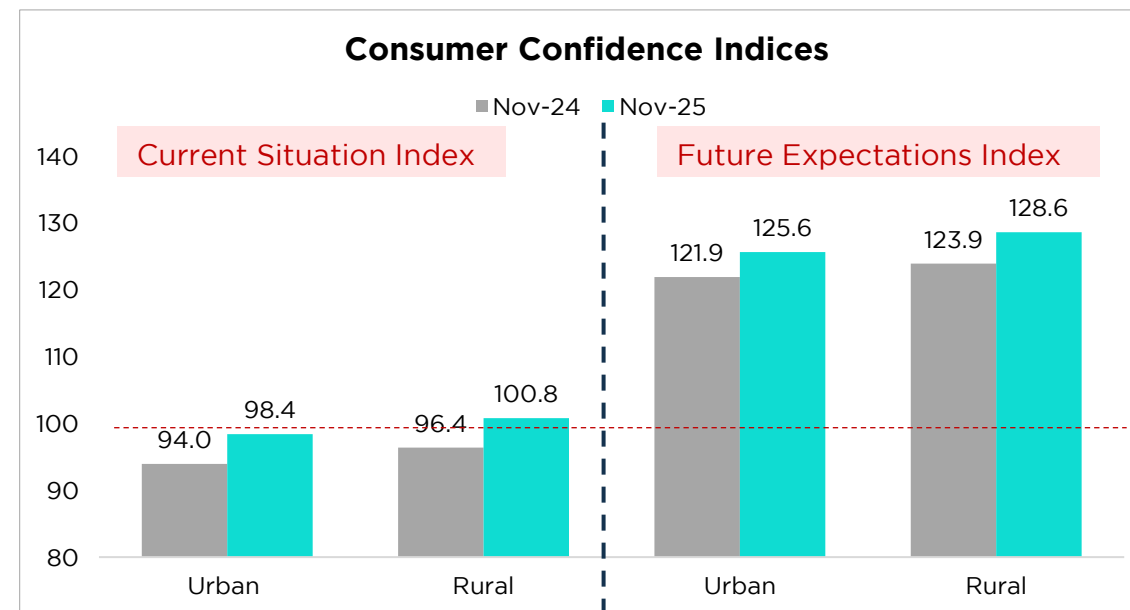
Source: CareEdge Projections, CEIC

- Even with the trade-related uncertainties lingering, **we expect healthy GDP growth at around 7% in FY27.**
- The possibility of the US-India trade deal, low inflation being supportive of consumption, low interest rates and the lower tax burden are positives for the FY27 growth outlook.
- Furthermore, the optimistic capex outlook, as evidenced by the strong order books of the capital goods companies, also bodes well for the investment scenario in the economy.
- **Nominal GDP growth rate for FY27 is projected at 10.1%.**

Consumption Shows Signs of Improvement



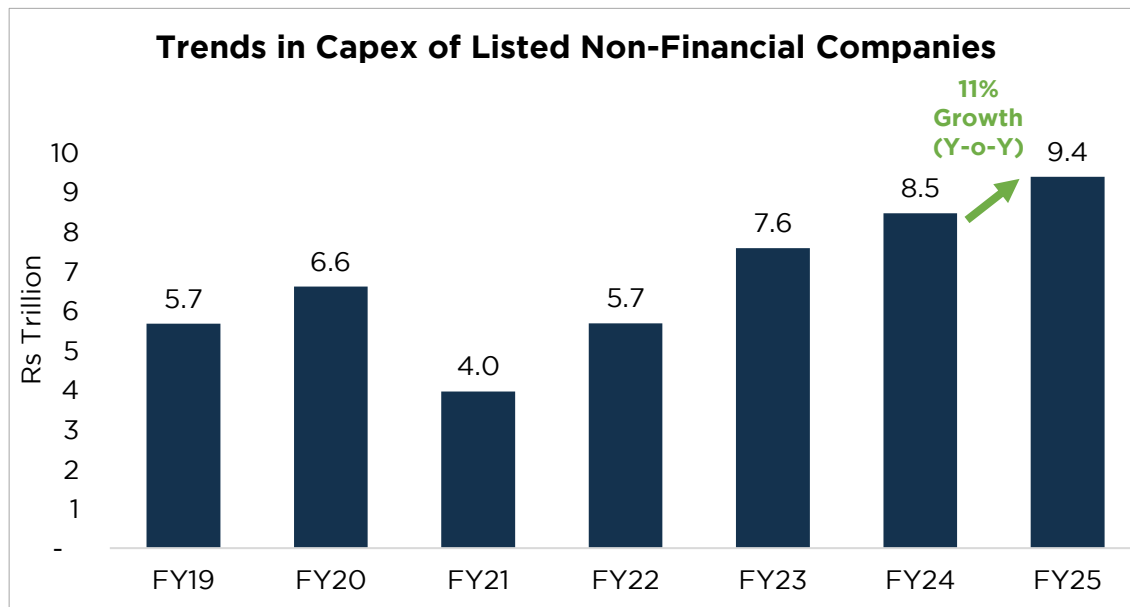
Source: CMIE, CareEdge



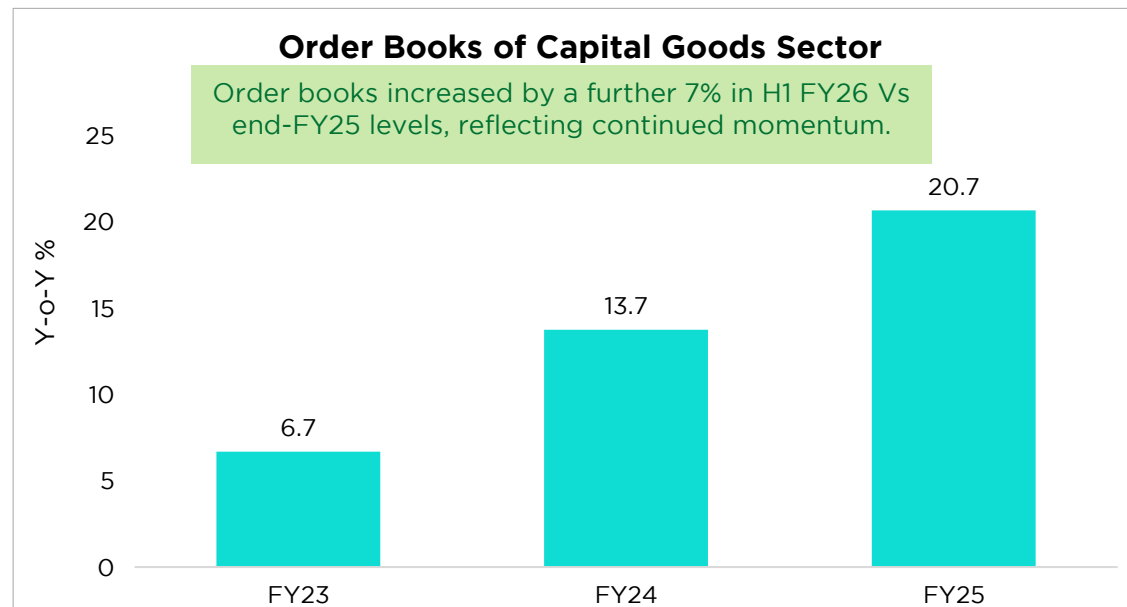
Source: RBI, CareEdge; Note: CSI/FEI = 100 + Average of Net Responses of (General Economic Situation, Employment Scenario, Price Level, Household income and Overall Spending); Any value greater than zero indicates expansion/ optimism and values less than zero indicate contraction/ pessimism

- Income tax cuts, GST rationalisation, early festive season and easing inflation supported the acceleration in PFCE (consumption) to 7.9% in Q2 FY26.
- Consumer confidence for the current period for the rural segments hovered over the 100 mark since March 2025, signalling optimism.
- However, consumer confidence for the current period for the urban segments, though improving, stayed slightly under 100 in the pessimistic zone.
- The one-year-ahead outlook, as captured by the Future Expectations Index, continued to improve and remained highly optimistic across the urban and rural segments.

Capex Shows Green Shoots; Outlook Cautious



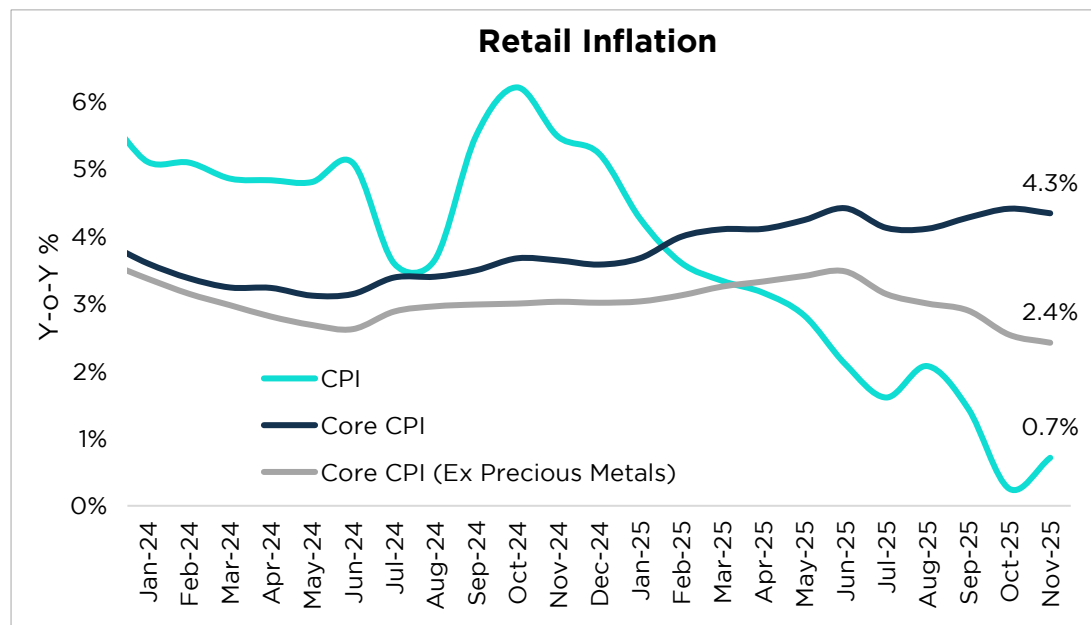
Source: Ace Equity, CareEdge based on the analysis of 1,899 non-financial companies



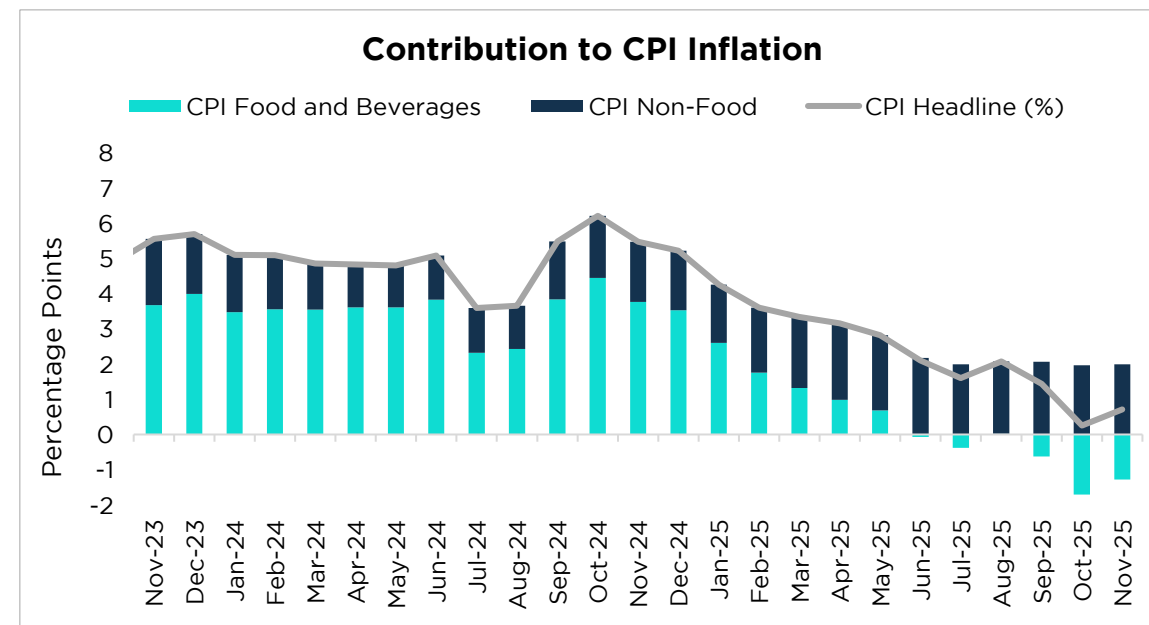
Source: Annual Reports of representative sample of companies and their information available with stock exchanges, CareEdge estimates

- Aggregate capex of Indian corporations increased by 11% (y-o-y), rising to Rs 9.4 trillion in FY25. The top sectors were oil & gas (19% share), power (15%), telecom (10%), automobile & ancillaries (9%), iron & steel (7%) and non-ferrous metals (5.5%).
- Order books for a sample of capital goods companies rose sharply by 20.7% (y-o-y) in FY25, and the momentum has continued in H1 FY26.
- We estimate capex for the power generation sector (listed and unlisted companies) to grow at a CAGR of 8% over FY26 to FY28. Within the power generation sector, capex in the renewable sector (including storage) is expected to grow at a CAGR of 13% over FY26 to FY28.
- Private sector investment announcements (CMIE data) rose to a high of Rs 14.2 trillion in H1 FY26, led by the manufacturing sector.
- Read our research for more insights – [India's Capex Story Shows Revival Signs](#)

Inflation Moderates Supported by Food Deflation



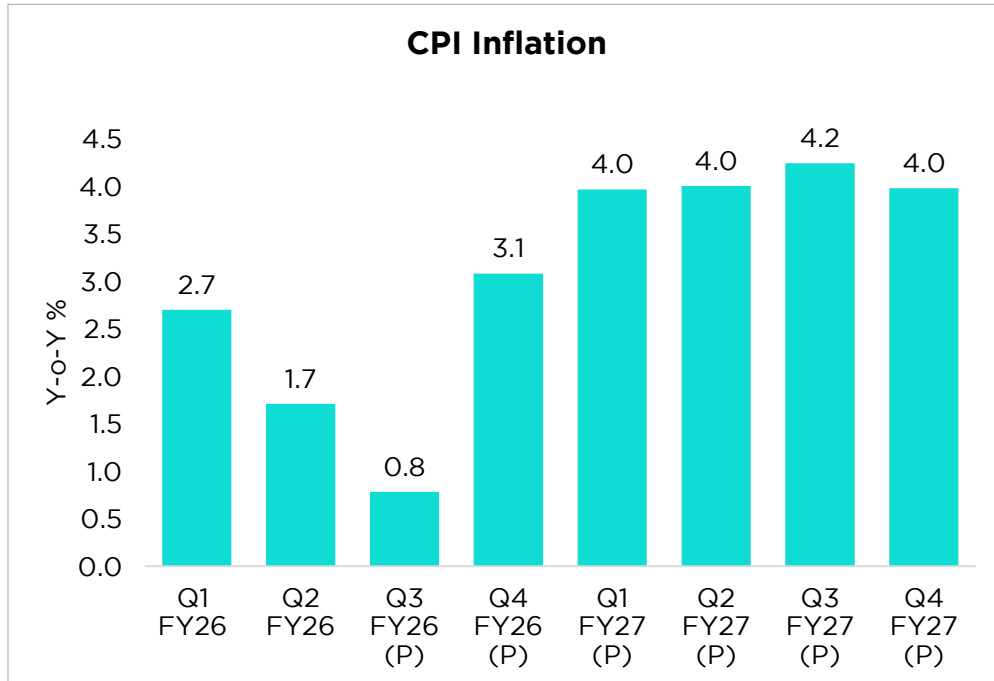
Source: CEIC, CareEdge



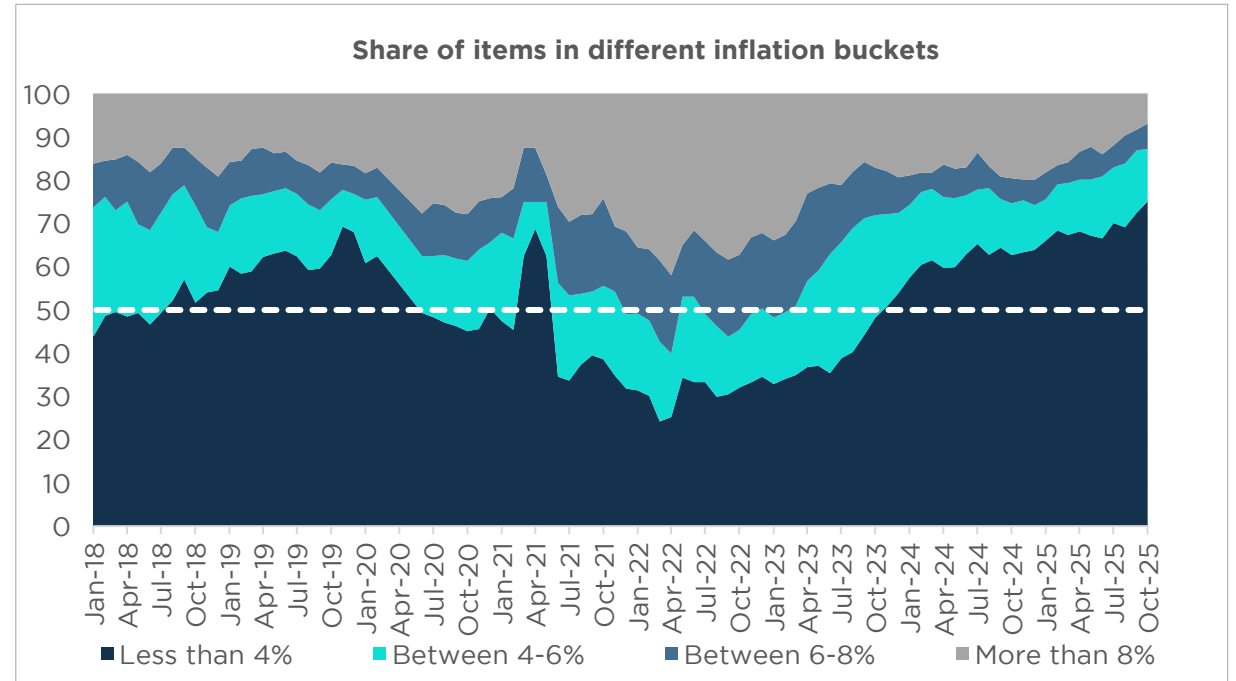
Source: CEIC, CareEdge

- CPI inflation rate for November increased to 0.7%, up from 0.3% in October.
- The uptick can be attributed to the fading favourable base from last year and a seasonal rise in prices of certain food items.
- Overall, food inflation has been in deflation for the past few months. A brighter prospect of agricultural activity should keep food prices comfortable.
- Higher prices of precious metals kept the core inflation elevated. Excluding precious metals, core inflation stood at 2.4% in November.

CPI Inflation to Remain Benign



Source: CEIC, CareEdge



Source: CEIC, CareEdge

- CPI inflation stayed on a downward trajectory with 75% of the items in the CPI basket witnessing inflation below 4%, thereby implying broad-based moderation in inflation.
- Good monsoon, benign commodity prices and GST rationalisation are positives for inflation. However, elevated prices of precious metals and edible oil remain key monitorables.
- Inflation has bottomed in October and is expected to rise to around 3% in Q4 FY26.
- **We expect CPI inflation to average 2.1% in FY26. With the low base of FY26, we expect inflation to rise to average of 4% in FY27.**
- **Wholesale price index is projected to remain flat in FY26 and is expected to grow by 2.5% in FY27.**

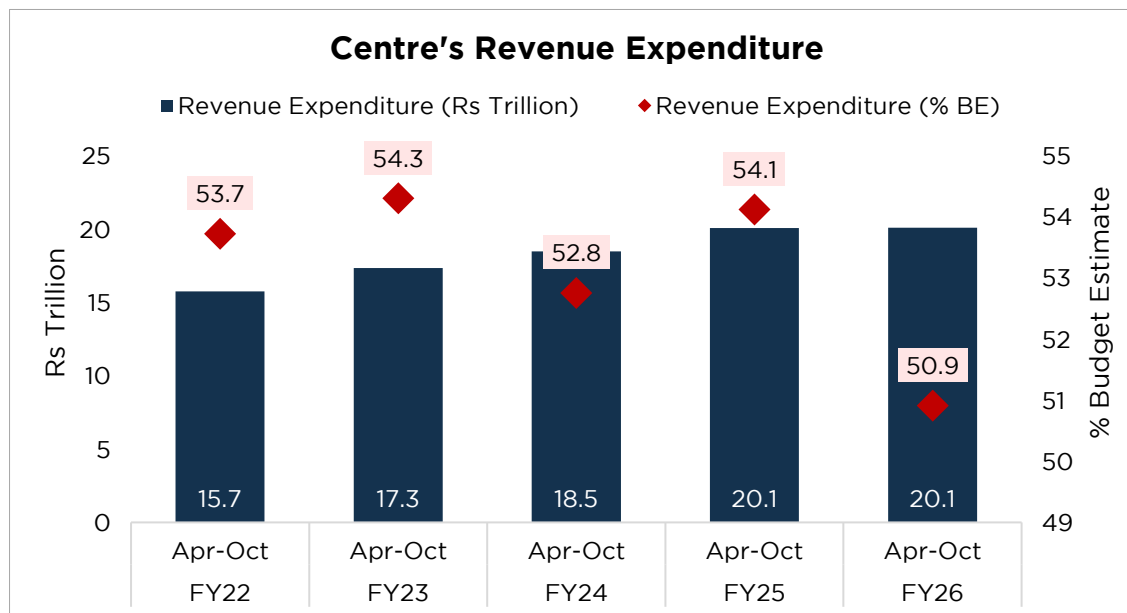
Centre's Tax Collections Moderate So Far in FY26

Revenue Receipts – Major Heads	Apr-Oct FY26	Apr-Oct FY26	Budgeted Growth
	% BE	% Growth	%
Gross Tax Revenue	49.5	4.0	12.5
Direct Tax	46.9	6.1	16.1
Corporate Tax	47.4	5.2	9.7
Income Tax	46.6	6.9	21.6
Indirect Tax	51.7	1.7	10.9
GST	51.5	1.2	14.2
Customs	53.7	-2.5	3.1
Union Excise Duties	51.5	7.9	5.6
Non-Tax Revenue	83.9	22.5	8.5

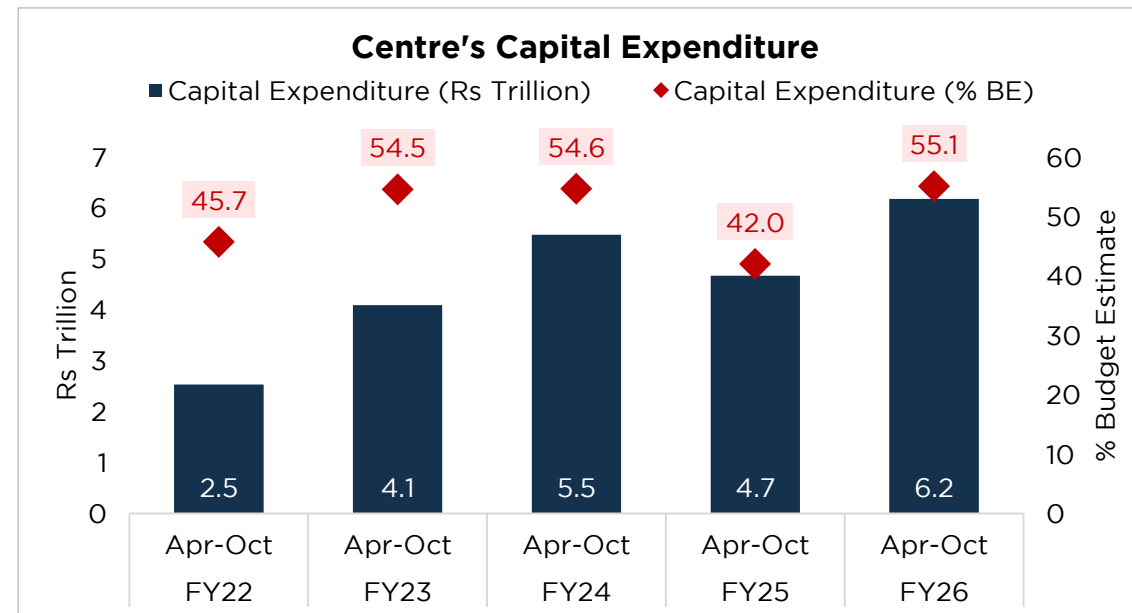
Source: CEIC, CareEdge

- Centre's gross tax collection has grown by 4% (y-o-y) in 7MFY26, lower than the budgeted growth of 12.5%.
- Direct tax collections have lagged in the year so far, with growth in corporate and income tax collections being lower than the budgeted annual growth.
- However, income tax collections have improved in the latest months, recording healthy double-digit growth since August, which is a positive.
- GST collections rose 1.2% in 7MFY26 Vs the budgeted annual growth of 14.2%; Going forward, GST collections could see some moderation due to GST rate rationalisation.
- While tax collections have been weak, the non-tax revenue has risen by 22.5% in 7MFY26, aided by the higher-than-budgeted RBI dividend transfer.
- Non-debt capital receipts remain broadly on track to meet its full-year target on the assumption of likely IDBI and LIC stake sale in FY26

Centre's Revenue Spending Flat; Capex Stays Upbeat



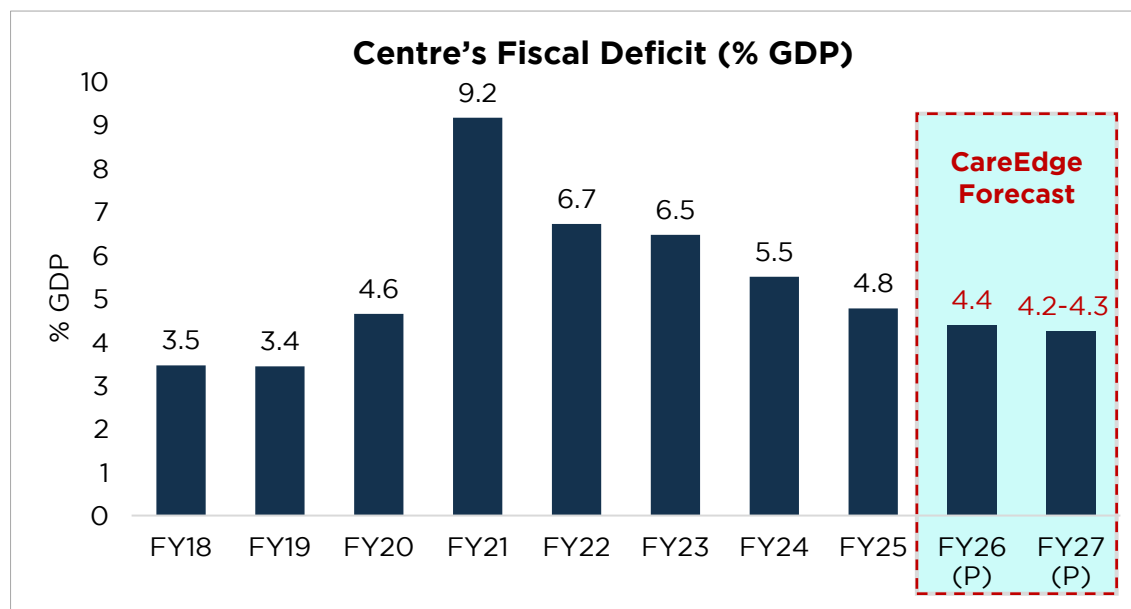
Source: CEIC, CareEdge



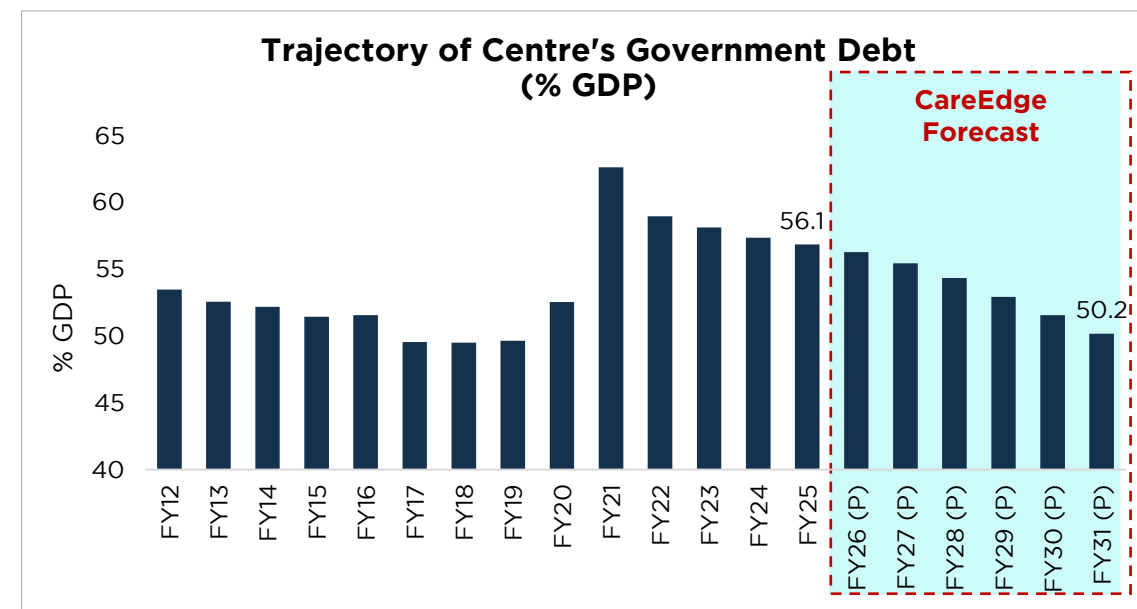
Source: CEIC, CareEdge

- Revenue expenditure has shown a flat growth in 7MFY26. The first batch of Supplementary Demands for Grants entail an additional spending of Rs 41,455 crore in FY26.
- Capex has been upbeat, logging double-digit growth (of 32.4%) in the fiscal year so far.
- There was a large capex outlay of Rs 500 billion towards the Department of Food & Public Distribution Vs Rs 13.5 billion last year.
- Centre's capex, adjusted for disbursements to the Department of Food and Public Distribution, has still risen by a healthy 22% in the fiscal year so far.
- Roads and railways remained the top two areas of capex, with outlay towards these having risen by 20.7% and 4.4%, respectively, during 7MFY26 on a y-o-y basis.
- Overall, revenue shortfall from slower growth in tax collections is expected to be offset by RBI's higher dividend transfer and lower revenue spending.
- We estimate that the government will meet its fiscal deficit target of 4.4% in FY26.**

Centre To Stay on the Fiscal Consolidation Path



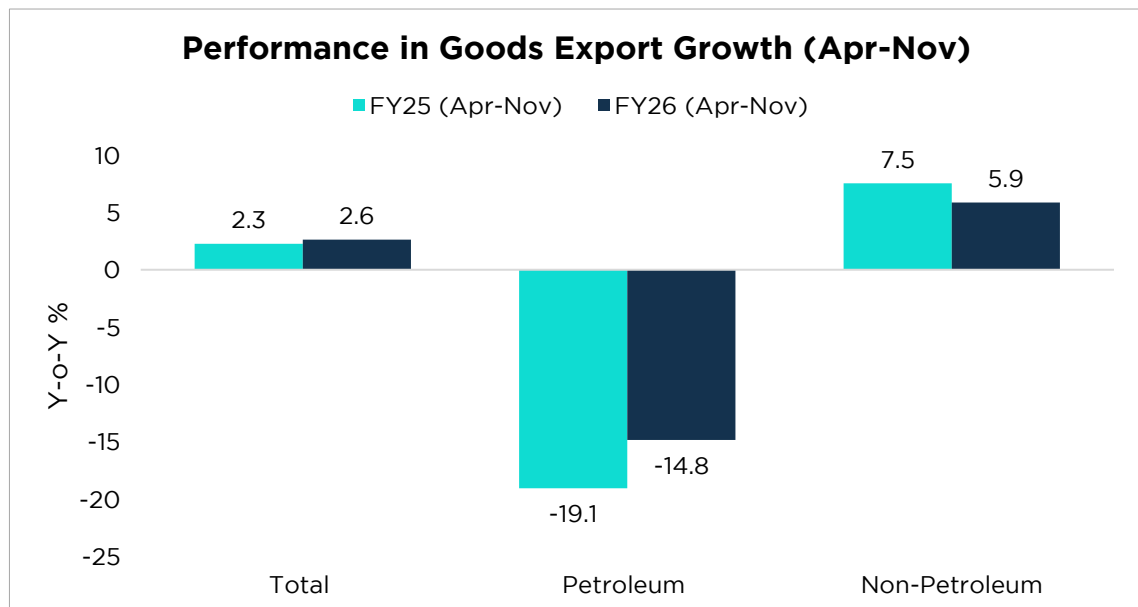
Source: CEIC, CareEdge



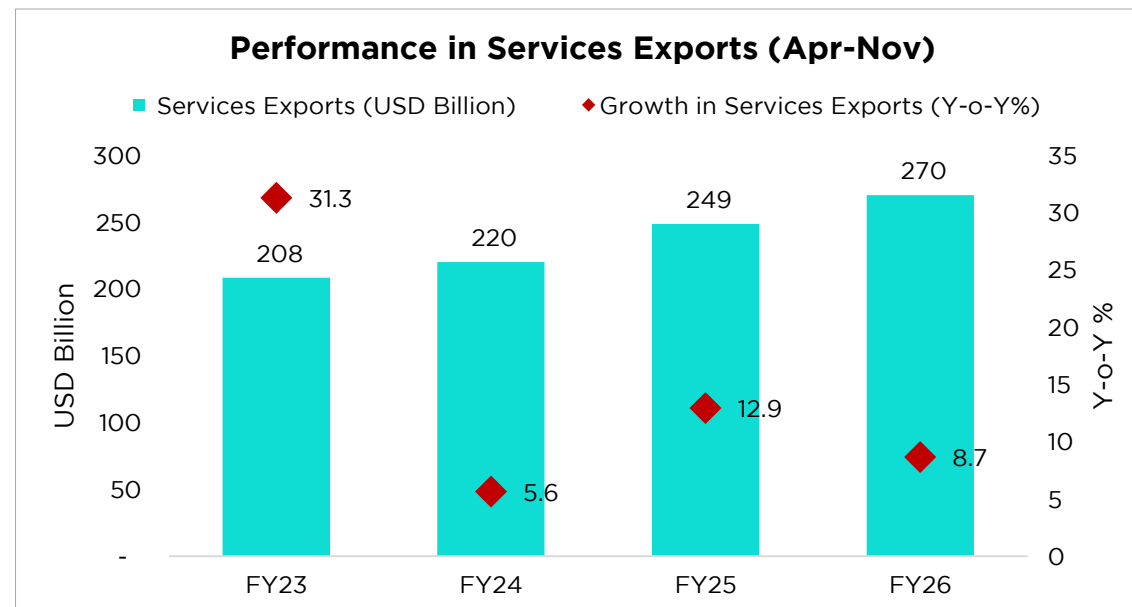
Source: CEIC, CareEdge

- We feel that the Centre will be able to bring down the debt to around 50 (+/- 1%) by the end of FY31 from the estimated 56.1% in FY25.
- We have based this on the assumption of nominal GDP growth averaging around 10.7% in the next five years.
- Laying a debt trajectory will give the Government the flexibility to manoeuvre the fiscal deficit target for each year, depending on the growth prospects.
- **The Government may go a little slower on fiscal consolidation, with the fiscal deficit to GDP likely to be budgeted at 4.2-4.3% in FY27.**

Goods Exports Subdued; Services Exports Stay Healthy



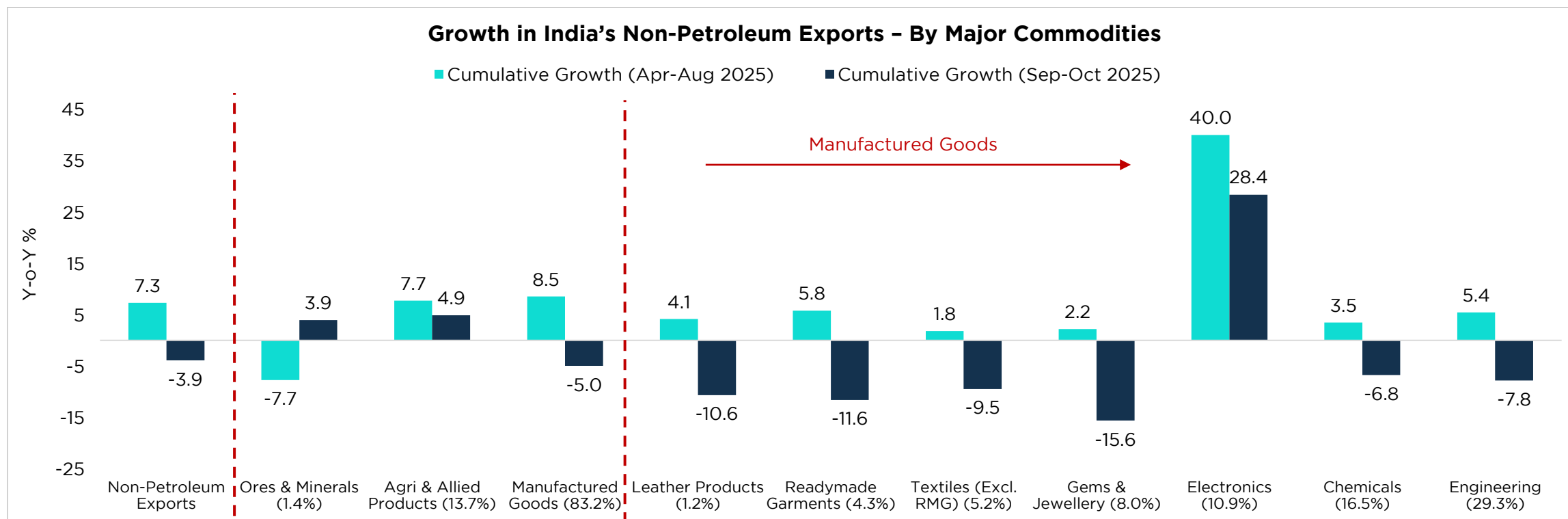
Source: CMIE, CareEdge



Source: CMIE, CareEdge

- Following the imposition of US tariffs, goods exports have shown weakness in the recent months, while services exports continued to hold up well.
- Services exports have remained resilient, driven by exports of software and business services.
- **We project India's goods exports to contract by around 1% in FY26 as against a growth of 0.1% in FY25.**
- **Encouraging performance in services exports is likely to continue with a projected growth of 8.5% in FY26 (Vs 13.6% in FY25).**

Labour Intensive Exports Under Pressure



Source: CMIE, CareEdge; Note: Figures in bracket represent percentage share in India's total non-petroleum exports (FY25)

- Cumulative export across most manufacturing goods have contracted over the last two months (since the additional US reciprocal tariff became effective) with the exception of electronic goods.
- Items like gems & jewellery, agri and allied products, textiles have specifically seen sharp contraction in exports in the last two months.

India's Shipments to the US See a Decline



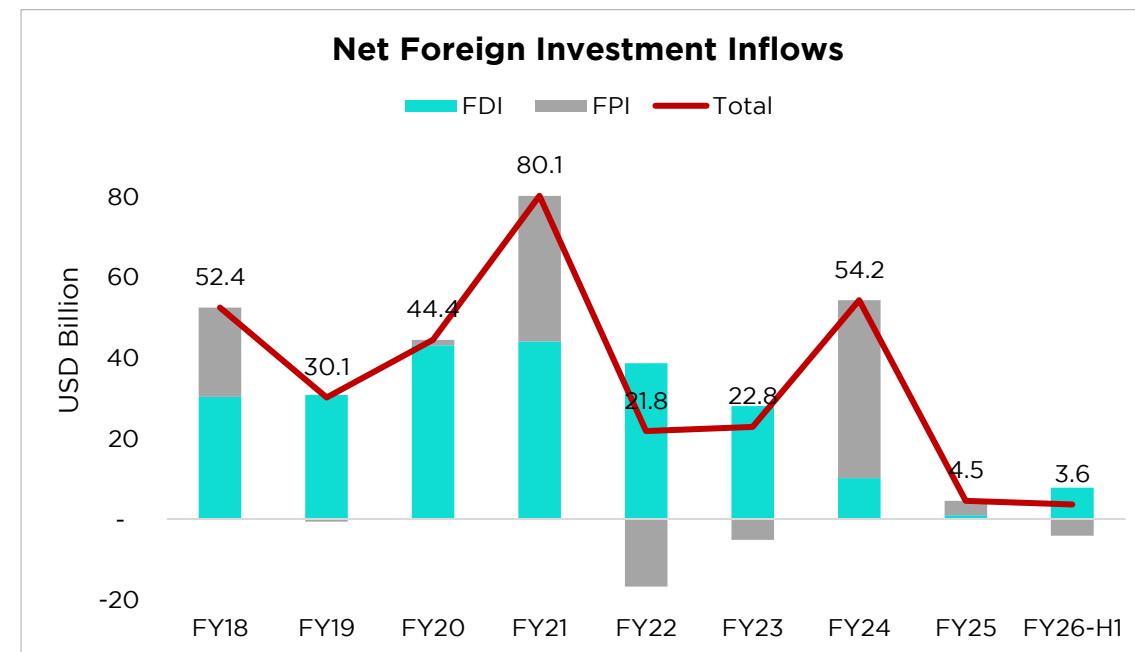
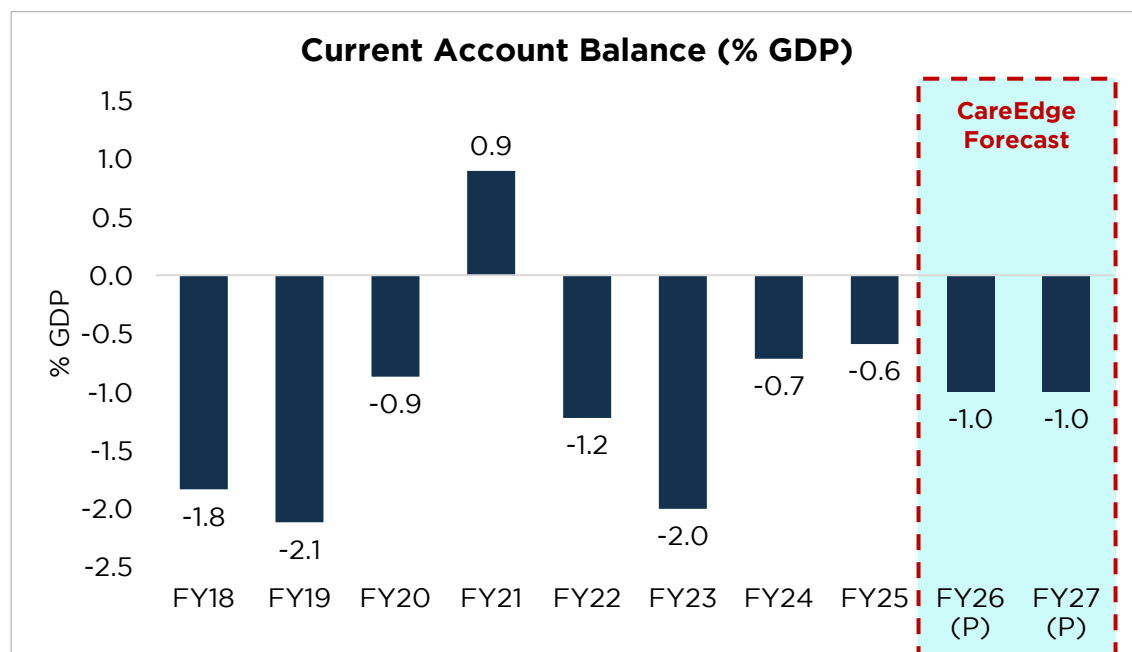
Source: CMIE, CareEdge

	% Share in India's Exports to US	Cumulative Growth (Y-o-Y %)	Cumulative Growth (Y-o-Y %)
	FY25	Apr-Aug 2025	Sep-Oct 2025
All commodities	100.0	17.8	-10.3
Engineering Goods	20.5	11.2	-11.2
Electronic Goods	17.5	131.9	121.8
Chemicals & Related Products	17.4	7.1	-16.5
Gems & Jewellery	11.5	-33.9	-69.7
Agricultural & Allied Products	6.5	8.2	-32.4
Readymade Garments	6.2	5.6	-22.3
Textiles (Excl. RMG)	5.9	-1.2	-31.1
Petroleum & Crude Products	4.7	-19.7	46.7

Source: CMIE, CareEdge

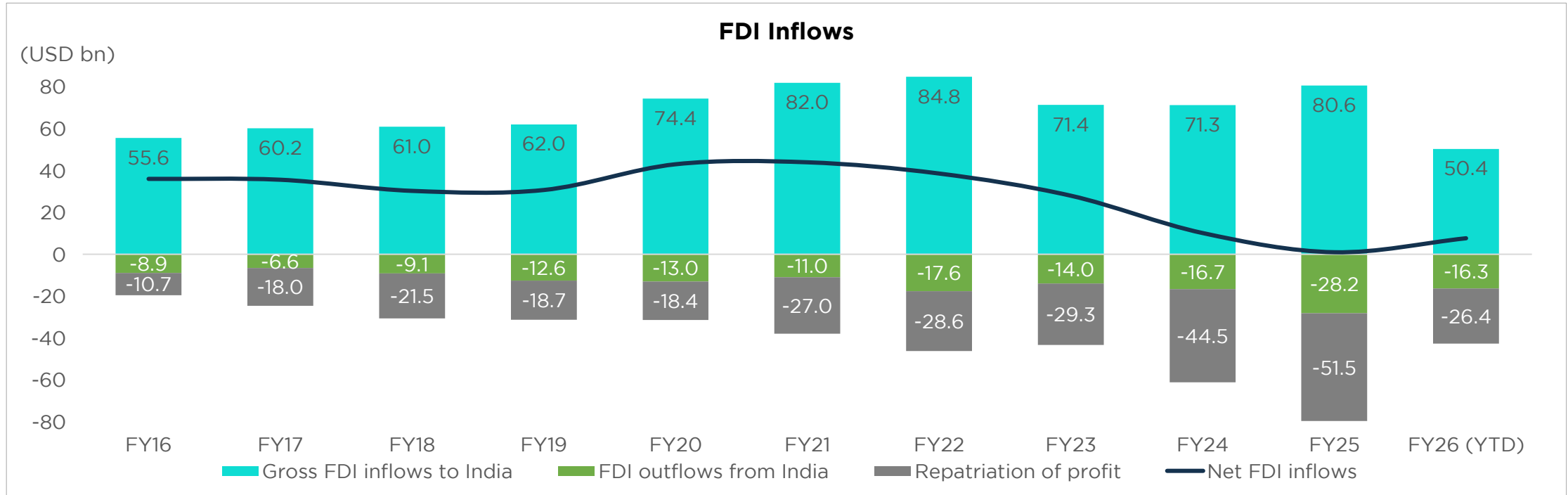
- Following the imposition of 50% US reciprocal tariffs from end-Aug, India's exports to the US have declined across major categories.
- Labour-intensive sectors such as gems and jewellery, textiles and ready-made garments showed a sharp contraction in exports in the last two months.
- While exports to the US have fallen sharply, the overall decline in exports was less pronounced amid offsetting gains from exports to other markets.
- Market shares for the UAE and Hong Kong have risen in India's gems & jewellery exports, while the UAE and China have gained share in India's textile exports.
- There are early indications of rising market share of exports to other destinations; Shifts in export market dynamics remain a key monitorable going ahead.
- Read our research for more insights - [India's CAD To Stay Manageable Despite Some Turbulence in Exports](#)

CAD Projected To Remain Manageable



- While merchandise exports continue navigating a challenging environment, we expect healthy performance in services trade surplus and transfers to continue.
- **We expect CAD to remain manageable at around 1% of GDP in FY26 and FY27.**
- Net FDI inflows (Gross inflows – Repatriation – FDI by India) rose to USD 7.7 billion in H1FY26, compared to USD 1 billion in FY25.
- We have seen FPI outflows in 2025, but the prospects of Indian bonds being included in the Bloomberg Global Aggregate Index could support the FPI flows next year.
- **Overall, we expect the balance of payments to post a deficit in FY26, followed by a marginal surplus in FY27.**

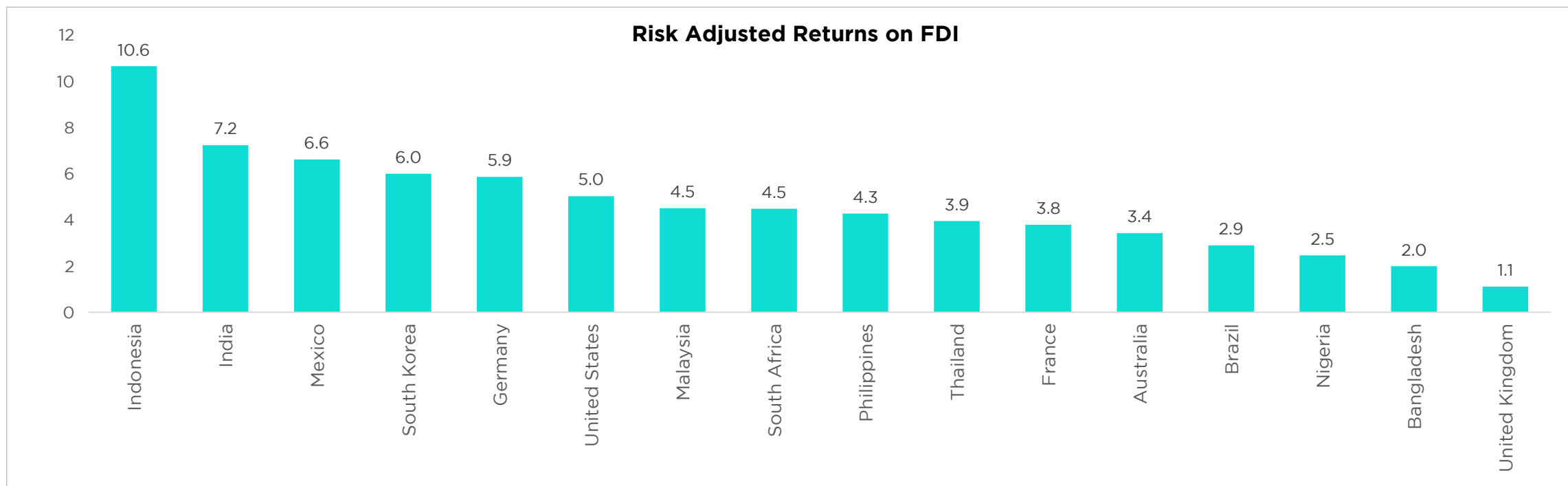
Gross FDI Inflows Remain Healthy



Source: RBI, CEIC, CareEdge. FY26 YTD data as of Sep-2025

- While gross inflows have improved over the past year, higher repatriation of profits and increased FDI outflows from India have weighed on net FDI inflows.
- Strong growth witnessed in investments in greenfield projects in sectors such as semiconductors, electronics, electrical equipment, EV components, and basic metals.
- Outward FDI from India averaged USD 22 billion in FY24-FY25, a 58% increase from the average of USD 14 billion recorded during the previous three years (FY21-FY23).
- Indian firms expanded globally, particularly in Europe, South America, and Africa, investing in sectors like telecom, automotive, energy, defence, pharma, ports, and steel.

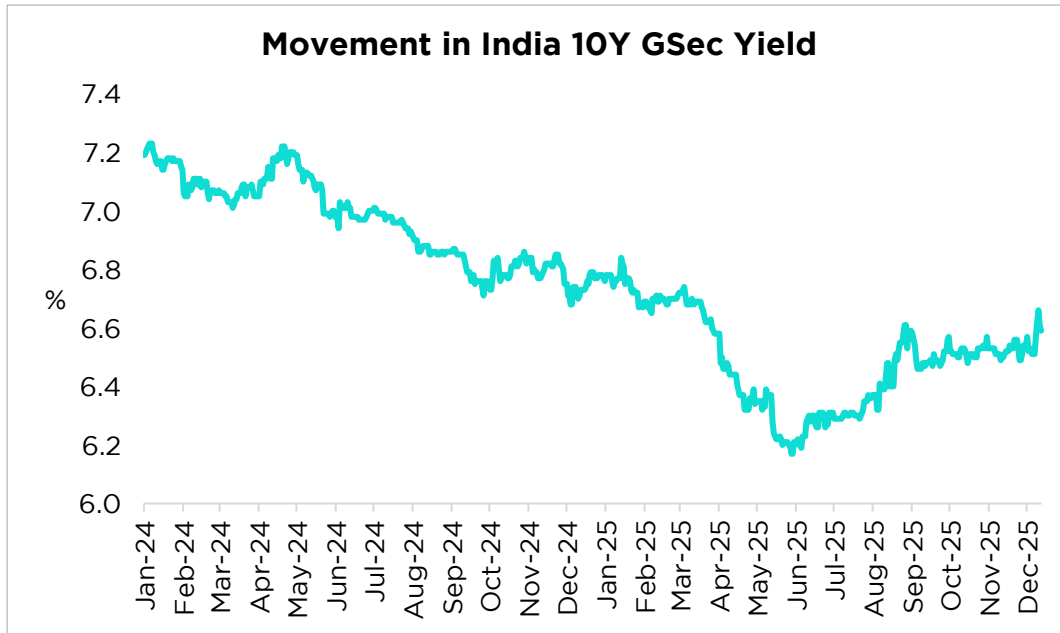
India Remains an Attractive FDI Destination



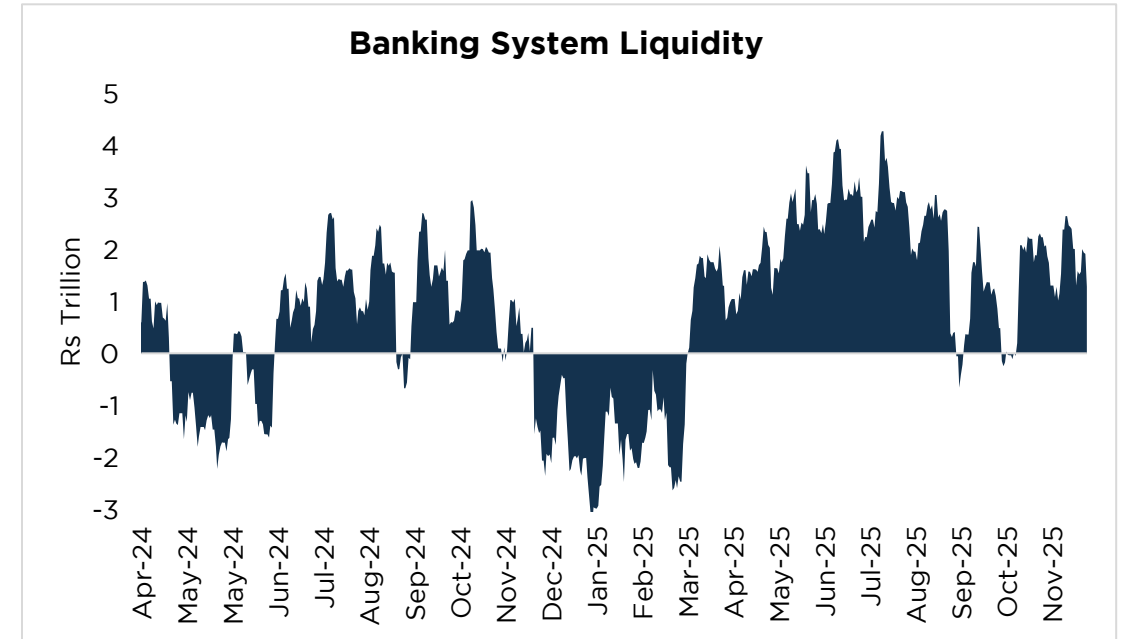
Source: CareEdge Estimates, CEIC, IMF. *Risk-Adjusted Return = 10y Average Return divided by Standard Deviation. FDI Return (t) = Direct Investment Income (t) ÷ Inward FDI Stock (t-2)

- India's risk-adjusted return on inward FDI remains robust at 7.2%. On a risk-adjusted basis, India ranks second only to Indonesia among the major countries analyzed.
- Lower volatility in India's FDI return makes it less risky.

10Y Yields To Remain Stable



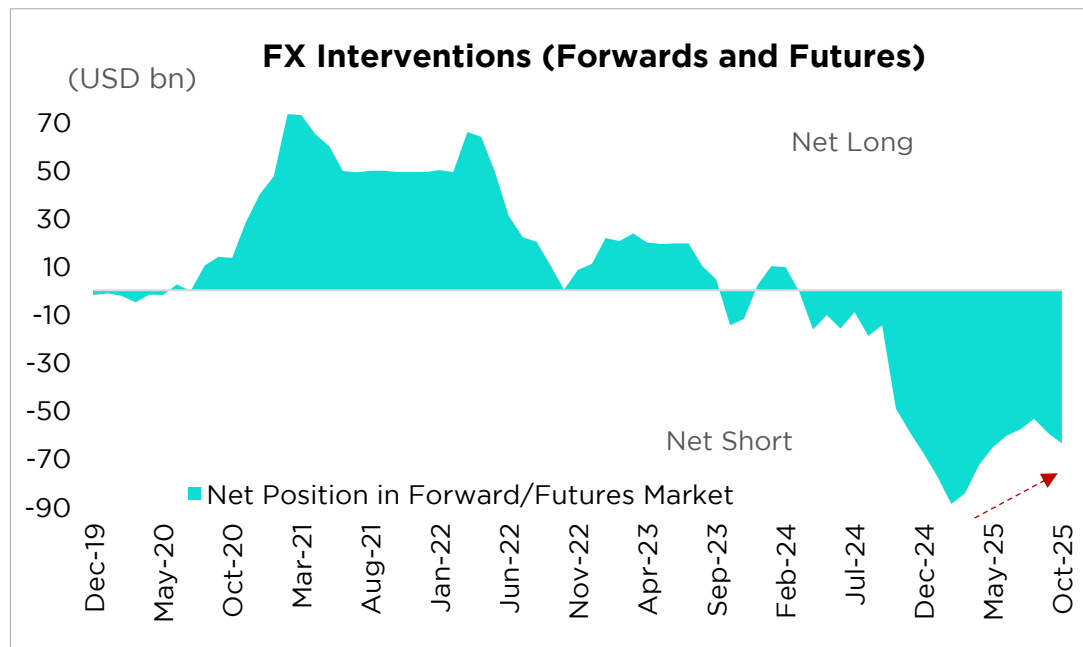
Source: Refinitiv, CareEdge. Data as of 12 December



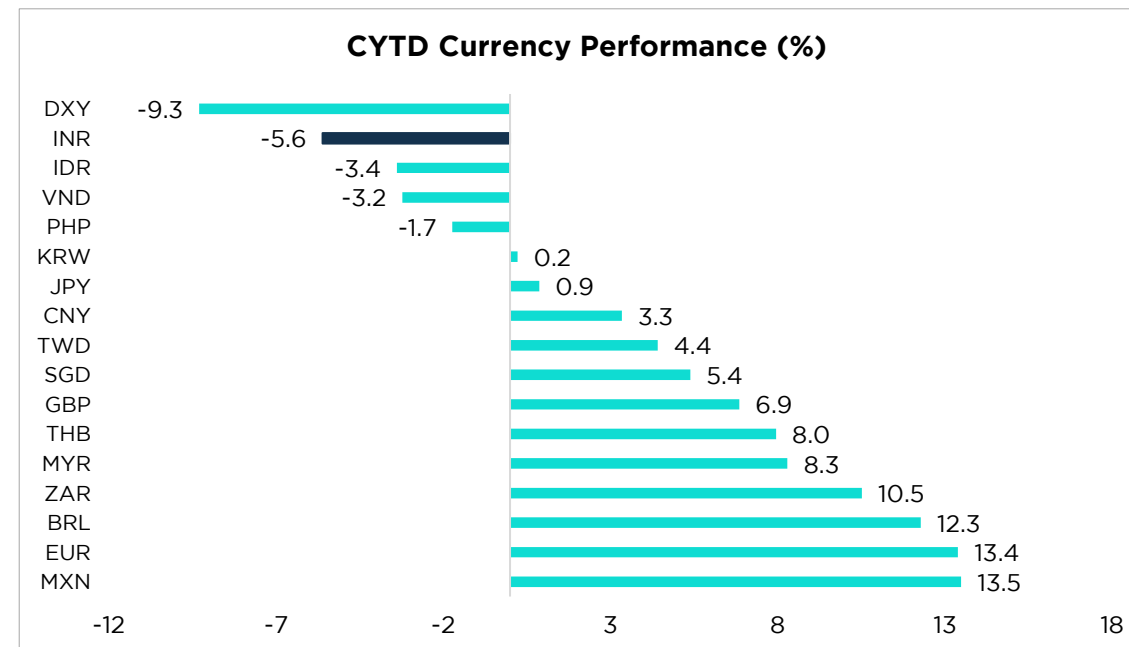
Source: CEIC, CareEdge. Data as of 15 December

- Even though there is scope for another 25-bps rate cut, we expect MPC to pause and preserve the policy space unless growth worsens.
- We expect average inflation at 4% in FY27, implying the real rate of interest of around 1.25%, roughly at the mid-point of the neutral range of 1-1.5%.
- G-sec yield is likely to be supported by RBI's OMOs and expected USD 20-25 billion passive inflows from Bloomberg's Global Aggregate Index.
- RBI will ensure adequate liquidity to support the money market conditions and ensure smooth transmission. It should keep liquidity -Rs 2-4 trillion (1-1.5% of NDTL).
- **We maintain our view of 10-year G-sec yield at 6.4-6.6% by end-FY26.**

Indian Rupee Remains Volatile



Source: RBI, CEIC, CareEdge



Source: Refinitiv, CareEdge. Data as of 12 December

Note: Negative values imply currency has weakened. DXY measures the dollar's performance against a basket of currencies, while the performance of other currencies is measured against the USD

- Rupee depreciated against dollar amidst widening trade deficit, subdued investment inflows, and negative sentiment from delays in the India-US trade deal.
- RBI has reduced its FX interventions recently, allowing a gradual depreciation, though it is still expected to curb excessive volatility.
- On a REER basis, the rupee remains undervalued by 3% (as of end-October).
- **In FY27, we expect USD/INR around 89-90 levels.**
- Expectations of Fed rate cuts, softer dollar, manageable CAD, expectation of trade deal with US and potential inflows from inclusion in Bloomberg Global Aggregate Index should support rupee in FY27.

India has been navigating a challenging external environment through a sustained reform agenda. Key reforms undertaken in 2025 include:

- **Boosting Consumption:** Income tax reductions and rationalisation of GST rates to support household demand.
- **Factor Market Reforms:** Implementation of labour codes to simplify compliance, expand social security coverage, and enable faster resolution of industrial disputes.
- **Aligning Social Safety Nets with Macroeconomic Realities:** Reforms to the MNREGA program to better support the rural economy while improving fiscal efficiency.
- **Reducing Red Tape:** Liberalisation of foreign investment and greater private sector participation in sectors such as nuclear energy (Shanti Bill) and insurance (Sabka Bima Sabki Raksha Bill).
- **Improving Ease of Doing Business:** Budget 2025-26 introduced tax relief, compliance simplification, targeted incentives for MSMEs, streamlined regulations, and reforms in TDS/TCS to ease business operations.
- **Sectoral Modernisation:** Enactment of the Merchant Shipping Act and the Indian Ports Act, 2025, replacing outdated laws and modernising maritime governance across ports.

The reform momentum is expected to continue in 2026, with key focus areas likely to include:

- Deepening social sector reforms, particularly in health and education.
- Advancing further deregulation to enhance efficiency and competitiveness.

CareEdge Projections

CareEdge Forecasts



Economic Growth

GDP growth projected at
7.5% in FY26 and **7%** in FY27



Inflation

Average CPI inflation projected at
2.1% in FY26 and **4%** in FY27



Current Account Deficit

CAD (as % of GDP) projected at
~**1%** in FY26 and FY27



Fiscal Deficit

Fiscal deficit (as % of GDP) to be at
4.4% in FY26 and between **4.2-4.3%**
in FY27



Interest Rates

10-Year G-Sec Yield to range
between **6.4%-6.6%** by end-FY26



Currency

USD/INR projected to trade
around **89-90** by end-FY27

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