KIRTANE & PANDIT

THE ECOKNOWMIC

A Quarterly Economic Review

September 2026

SUMMARY

Positives

- India remains one of the world's fastest-growing major economies, with GDP expanding 7.8% in Q1 FY2026-27, up from 6.9% a year earlier.
- Gross Fixed Capital Formation grew 11.9% at constant prices in Q1 FY2026-27, more than double the 5.8% recorded a year earlier, signalling an investment-led expansion.
- IIP growth accelerated sharply to 8.8% in June 2026, its strongest reading since July 2024, with the pickup broad-based across 19 of 23 manufacturing groups, with capital Goods printing a growth of 15.2% for Q1.
- Net FDI totalled US$6.95 bn in FY2025-26, over seven times the prior year, with April 2026 recording one of the largest single monthly inflows in recent months at US$6.6 bn.
- Total revenue receipts for the period Apr-Jul were 35.8%, up from 31.1% in the corresponding period last year, with tax revenue improving as well.
- Foreign exchange reserves recovered to an all-time high of US$740.8bn by the end of August, rising for nine consecutive weeks

SUMMARY

Challenges

- Global growth outlook moderated further, with the IMF revising 2026 world GDP down to 3.0%, likely impacting global demand.
- Manufacturing PMI eased for a third straight month to 52.8 in August, its lowest in seven months, while Services PMI lost even more ground, falling from a Q1 average of 58.7 to 53.3 in July before only a modest recovery to 54.1 in August.
- Mining slipped back into contraction in July, with Mining Quarrying GVA contracting 2.4% in Q1 and dragging primary sector growth down to 2.9% from 5.3% a year earlier.
- WPI remained elevated at 9.78% in July, with pressure broadening across Fuel Power, Primary Articles and Manufactured Products.
- CPI extended its steady rise to 4.45% in July, above the 4% RBI target, driven by food and transport
- The merchandise trade deficit widened sharply to US$31.98 bn in July, the widest since January, on record import growth.
- Portfolio investment recovered marginally in July, after three consecutive months of outflow, including a record US$13.1 bn outflow in March alone.
- The Indian Rupee faced continued depreciation pressure amid global risk-off sentiment and sustained emerging market portfolio outflows.

GLOBAL SCENARIO

Global GDP Estimates / Projections (%)

	2025 (E)	2026 (P) GDP Growth	2026 (P) Change from last Qtr	2027 (P) GDP Growth	2027 (P) Change from last Qtr
	3.5	3.0	-0.1	3.4	0.2
Emerging Economies					
INDIA	7.7	6.4	-0.1	6.7	0.2
CHINA	5.0	4.6	0.2	4.1	0.1
SAUDI ARABIA	4.6	1.7	-1.4	5.5	1.0
NIGERIA	4.0	4.1	0.0	4.3	0.0
BRAZIL	2.3	2.4	0.5	2.2	0.2
SOUTH AFRICA	1.1	1.1	0.1	1.3	0.0
RUSSIA	1.0	1.1	0.0	1.1	0.0
MEXICO	0.5	1.2	-0.4	1.9	-0.3
Advanced Economies					
SPAIN	2.8	2.1	0.0	1.8	0.0
USA	2.1	2.3	0.0	2.2	0.1
CANADA	1.9	1.1	-0.4	1.7	-0.2
UK	1.4	1.0	0.2	1.3	0.0
JAPAN	1.1	0.6	-0.1	0.7	0.1
FRANCE	0.9	0.6	-0.3	0.9	0.0
GERMANY	0.2	0.7	-0.1	1.0	-0.2

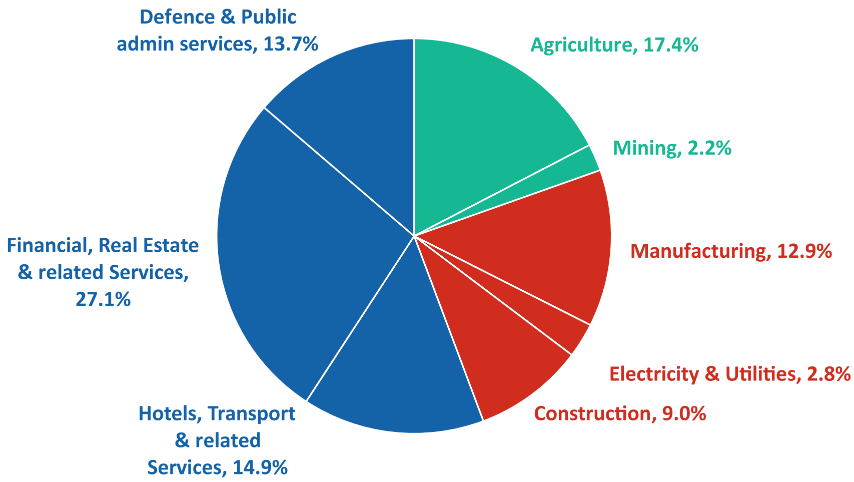
GLOBAL SCENARIO

ECONOMIC HIGHLIGHTS

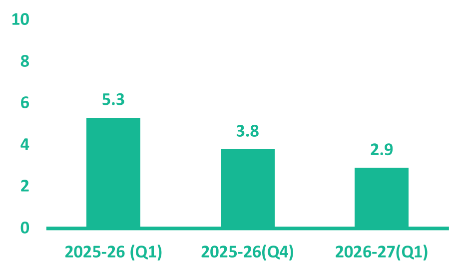
- World GDP is projected to grow at 3.0% in 2026, a downward revision of 0.1% from the previous projections, before improving to 3.4% in 2027, pointing to a subdued near-term outlook due to the effects of the war in the Middle East, with recovery expected through accelerated demand-driven momentum in AI adoption.
- India continues to lead among major economies, with growth projected at 6.4% in 2026, trimmed by 0.1%, and strengthening to 6.7% in 2027 underpinned by strong momentum in private consumption and services activity.
- In this round, the growth revisions for 2026 have been highly divergent across economies rather than broad-based, with Brazil, China, the UK and South Africa upgraded, while Saudi Arabia, Mexico, Canada and France faced downgrades.
- Advanced economies remain comparatively weak and mixed, with the United States unchanged at 2.3% for 2026, the United Kingdom revised up 0.2%, and Canada, France and Germany all facing downward revisions for the year.
- The 2027 outlook offers a more constructive signal than 2026, with global growth expected to rise to 3.4% and a sharp rebound projected for Saudi Arabia, alongside upgrades for China and India, suggesting that the current cyclical weakness is not expected to persist into the medium term, despite downgrades in Mexico, Canada and Germany.

Data Sources:
IMF World Economic Outlook, July 2026

Sectoral Composition of Nominal GVA for Q1 FY2026-27

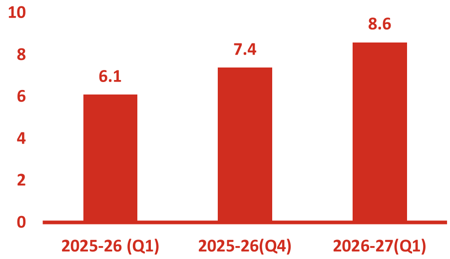


PRIMARY SECTOR



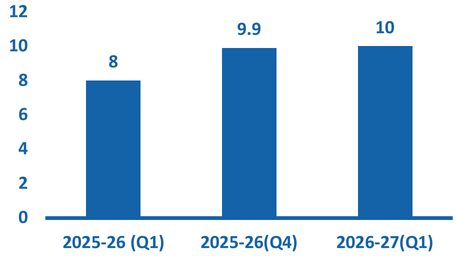
Agriculture, Livestock, Forestry & Fishing grew 3.6% at constant prices, reflecting a strong kharif season. Overall momentum in the Primary sector nonetheless weakened to 2.9% from 5.3% a year earlier, held back by Mining & Quarrying, which contracted 2.4% in real terms, impacted by weaker fuel-mineral output and an adverse base effect, after growing 12.4% in Q1 FY2025-26.

SECONDARY SECTOR



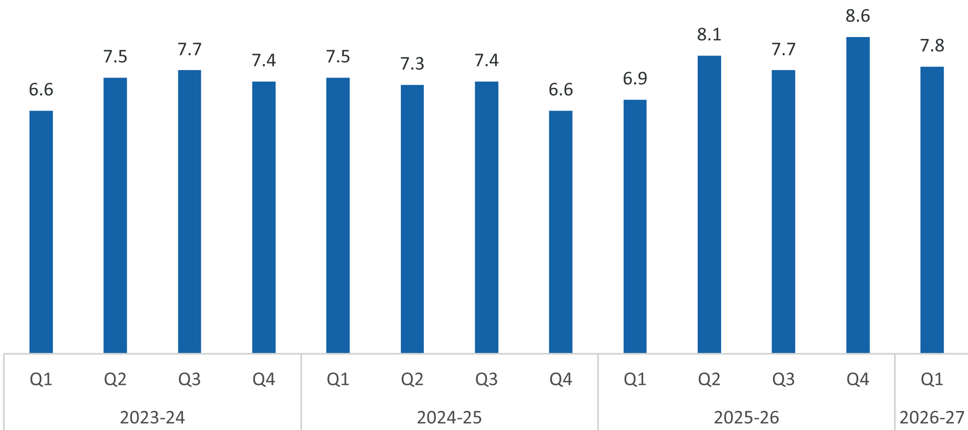
With Manufacturing contributing 13.0% to nominal GVA and growing 9.2% at constant prices, the secondary sector accelerated to 8.6% in Q1 FY2026-27 from 6.1% a year earlier. Electricity, Gas, Water Supply & Other Utility Services swung to 8.9% growth after contracting 1.8% in Q1 of FY 2025-26, with construction printing 7.7% growth in Q1 of FY 2026-27, reflecting a broad-based pickup in the secondary sector.

TERTIARY SECTOR



The services sector remained the dominant driver of economic activity, growing 10.0% in Q1 of FY 2026-27, up from 8.0% a year earlier. Financial, Real Estate, Ownership of dwelling, IT & Professional Services led at 12.1% and accounted for 27.1% of nominal GVA. Growth of Trade, Hotels, Transport, Communication & Services related to Broadcasting, Storage moderated to 8.5% from 9.8%, while Public Administration, Defence & Other Services fared at 7.5%.

QUARTERLY GDP RATES (%)



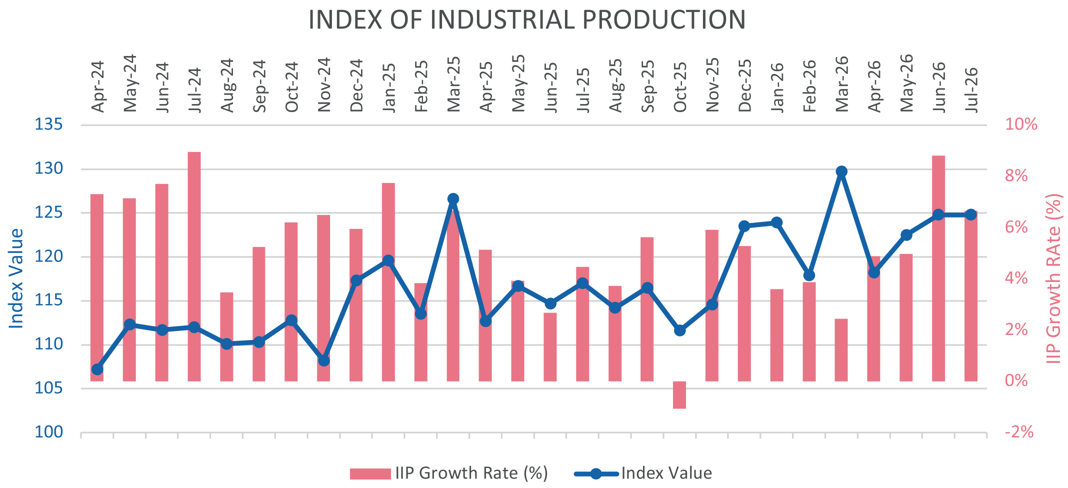
- India's Real GDP expanded 7.8% in Q1 of FY 2026-27, up from 6.9% in Q1 of FY 2025-26, sustained by broad-based improvement across major sectors, though it slowed from a high of 8.6% in the preceding quarter.
- Contracting Mining Quarrying sluggish growth in Agriculture led the Primary sector to print the weakest growth rate of the three broad sectors at 2.9%.
- Positive developments in all three major categories in the secondary sector, namely, Manufacturing, Utilities Construction, on the back of stronger industrial activity, a sharp recovery in electricity generation combined with a low-base effect resulted in growth of 8.6% in the secondary sector.
- The Tertiary sector remained a consistent pillar of growth, with Financial, Real Estate, and IT Professional Services posting the strongest performance at double-digit growth, buoyed by strong financial activity, IT/professional services, and real-estate-related activity.

EXPENDITURE HIGHLIGHTS

- Private Final Consumption Expenditure grew 7.1% at constant prices in Q1 of FY 2026-27, up from 6.8% a year earlier, and accounted for 55.6% of nominal GDP, reflecting resilient consumer demand.
- The most encouraging sign for this quarter was that Gross Fixed Capital Formation increased 11.9%, against 5.8% in Q1 of FY 2025-26, reflecting a strong investment cycle in productive fixed assets - machinery, equipment, buildings, infrastructure, etc.
- Government Final Consumption Expenditure grew a modest 4.3% in Q1 of 2026-27, down from 4.5% in the corresponding quarter last year, suggesting lower reliance on government consumption and a greater role for private demand and investment in driving growth.
- Exports of Goods and Services grew 12.0% at constant prices while Imports contracted 1.1%.
- In line with international best practices, MoSPI released the New Series of Annual and Quarterly National Accounts Estimates with a base year of 2022-23, replacing the previous series with a base year of 2011-12; this recent normal year (post-COVID) provides robust, comprehensive data across sectors.

Data Sources :
MOSPI | PIB | Ministry of Commerce & Industry

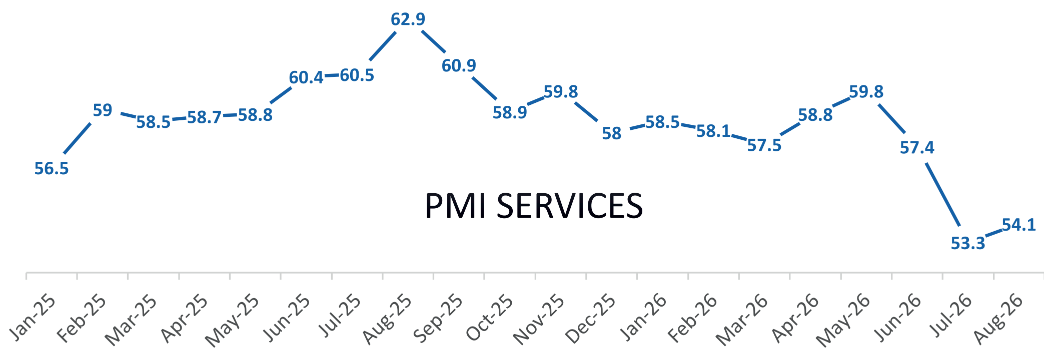
INDUSTRY HIGHLIGHTS



- IIP growth jumped to 8.8% in June from 5.0% in May, the strongest reading since July 2024. The June uptick was led by performance in manufacturing, electricity, and capital goods, as well as a favourable base effect. July IIP eased to 6.7%, although manufacturing and electricity remained strong.
- Manufacturing accelerated through the quarter, averaging 6.7%, supported by growth in sectors such as electrical equipment, motor vehicles and food products.
- Electricity stayed positive all quarter on stronger industrial and commercial power demand, reversing eight straight months of contraction through March.
- Mining contracted 3.8% in April before a marginal 1.6% gain in June, its first positive print since December 2025.
- IIP growth was led by Capital Goods, up 15.2% in Q1 2026-27, indicating increased investment. Strong performance in intermediate and infrastructure goods supports economic activity, but subdued consumer durables growth is a concern.
- Manufacturing PMI eased for a third straight month to 52.8 in August, consecutively declining from 55.0 in May, its lowest level in five years.
- Although still above the 50.0 mark, the recent decline reflects softening of domestic demand and new-order growth, with slower export-order growth likely contributing to the decline.

SERVICES HIGHLIGHTS

- Services PMI fell 4.1 points to 53.3 in July, its lowest reading in the series since early 2022, before recovering only modestly to 54.1 in August.
- Services PMI has lost momentum in recent months, likely due to slower international demand and fewer new customer enquiries.



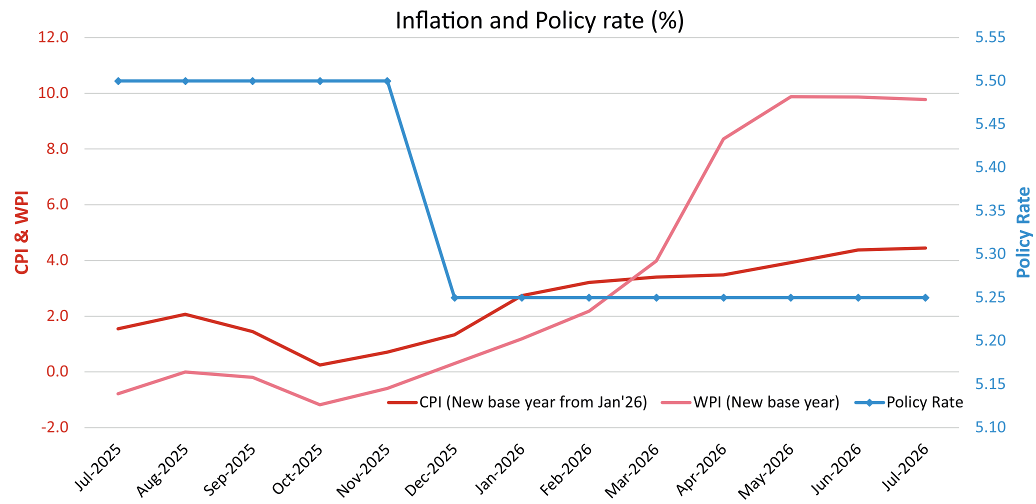
INFLATION & MONETARY POLICY

CPI	Jan-26	Feb-26	March-26	April-26	May-26	June-26	July-26
All Commodities	2.74	3.21	3.40	3.48	3.93	4.38	4.45
Food and beverages	2.11	3.35	3.71	4.01	4.55	5.05	5.24
Housing, Water, Electricity, Gas & Other Fuels	1.53	1.52	1.97	1.71	1.73	1.99	2.16
Transport	0.09	-0.05	0.00	-0.01	1.75	4.31	4.43
Clothing & Footwear	2.98	2.81	2.75	2.80	2.98	3.23	3.38
Health	2.19	1.90	1.75	1.64	1.49	1.42	1.34
Personal Care, Social Protection & Misc Goods & Services	19.02	19.64	18.65	17.66	18.46	16.72	14.8

WPI	Jan-26	Feb-26	March-26	April-26	May-26	June-26	July-26
All Commodities	1.19	2.18	3.98	8.36	9.88	9.87	9.78
Primary Articles	-0.09	1.64	2.58	3.96	5.26	7.00	8.52
Fuel & Power	-3.83	-3.37	3.20	25.00	30.80	27.41	20.05
Manufactured Products	2.82	3.61	4.80	6.68	7.68	7.48	8.29

- CPI rose every month through the calendar year, from 2.74% in January to 4.45% in July, a 1.71-point pick-up, a sustained rather than episodic acceleration.
- Food and Beverages was the main driver, led by rising vegetable prices, with onion prices jumping to 22.54% and ginger to 83.62% in July 2026, while potatoes, tomatoes, peas and ladyfinger stayed negative amid weak monsoon rainfall.
- Transport was another major driver, rising from near zero in the first four months of 2026 to 4.31% and 4.43% in June July, respectively, underpinned by petrol and diesel price hikes on the back of higher crude prices linked to the West Asia conflict.
- Personal Care, Social Protection Miscellaneous, though with very low weight, stayed highest at 14.77% but eased from a February peak of 19.64%, driven almost entirely by precious metals.
- Headline WPI surged from 1.19% in January to 9.78% in July, with most of the jump concentrated in April alone (3.98% to 8.36%).
- Fuel & Power drove that surge on higher crude and mineral oil prices linked to the West Asia conflict alongside the base effect from last year's low readings.
- Even with Fuel Power easing in July, WPI held near 9.78% as Primary Articles (8.52%) and Manufactured Products (8.29%) firmed up, broadening pressure across all three groups.
- The CPI-WPI relationship flipped, with WPI running 1.55 points below CPI in January but 5.33 points above it by July. This widening gap points to significantly stronger upstream price pressures, which, if they persist, could either weigh on producer margins or gradually transmit into retail prices, depending on firms pricing power and demand conditions.

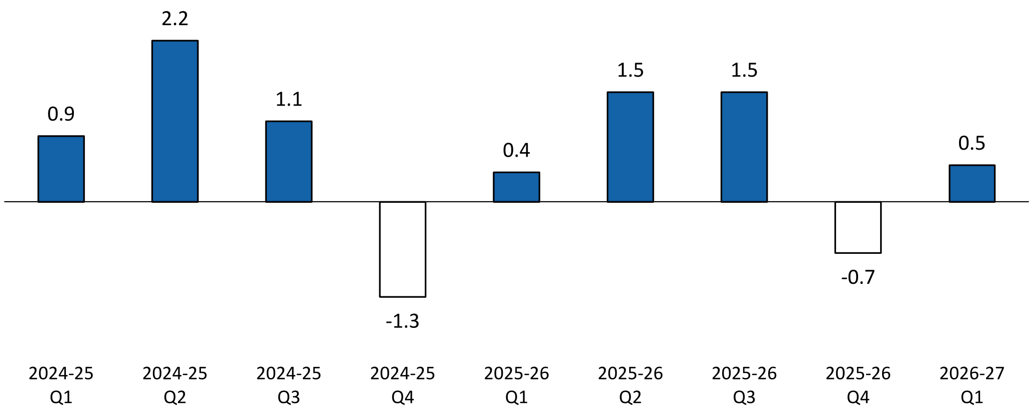
INFLATION & MONETARY POLICY



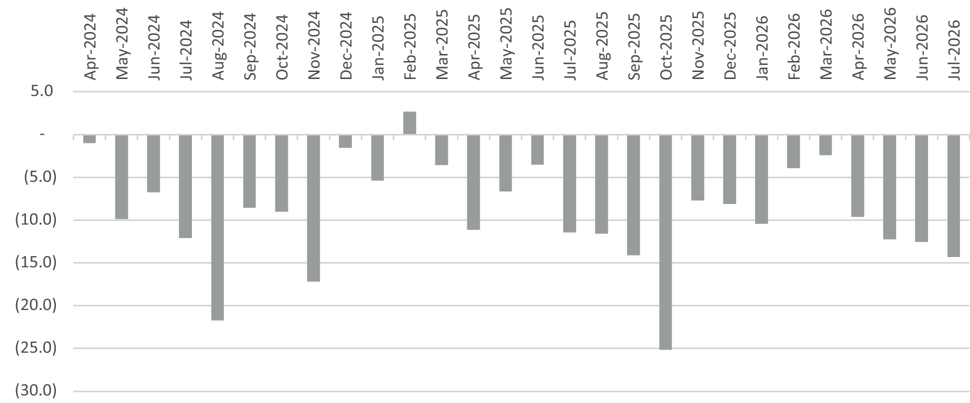
- The policy rate stayed unchanged at 5.25% through January–July 2026, 125 basis points below January 2025's 6.50%.
- At its 3–5 August meeting, the MPC held rates for a fourth straight time on a unanimous vote, keeping a neutral stance while citing global uncertainty from the West Asia conflict, crude price volatility and weather-related supply risks.
- It raised its FY27 growth forecast to 6.7% and lowered its inflation projection to 5.0%. With real policy rate near zero against CPI and negative against WPI, the case for additional cuts could depend on inflation showing clearer signs of peaking.

Data Sources
MOSPI|PIB| Ministry of Commerce & Industry | RBI

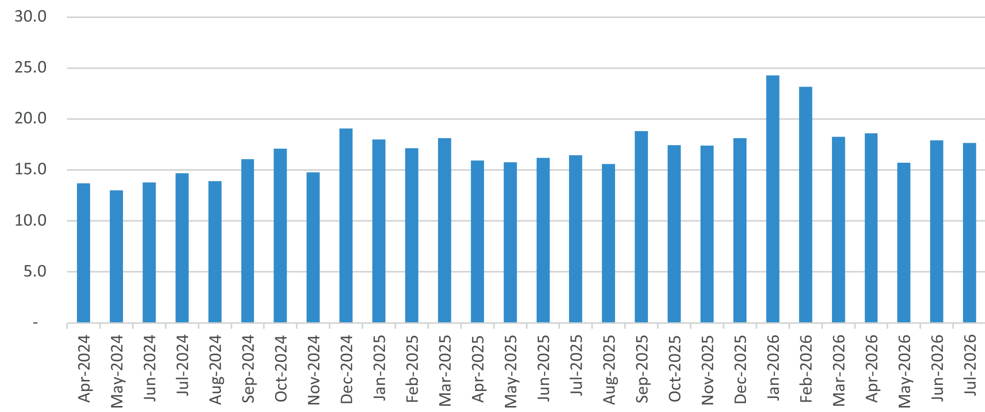
CURRENT ACCOUNT DEFICIT (% of GDP)



NET FOREIGN TRADE (US$ Bn)



NET SERVICE TRADE (US$ Bn)

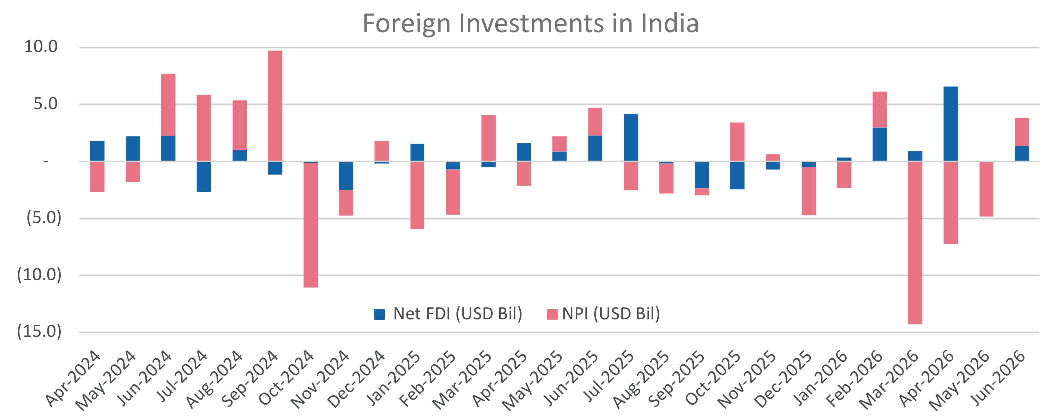


NET MERCHANDISE TRADE (US$ Bn)

EXTERNAL SECTOR

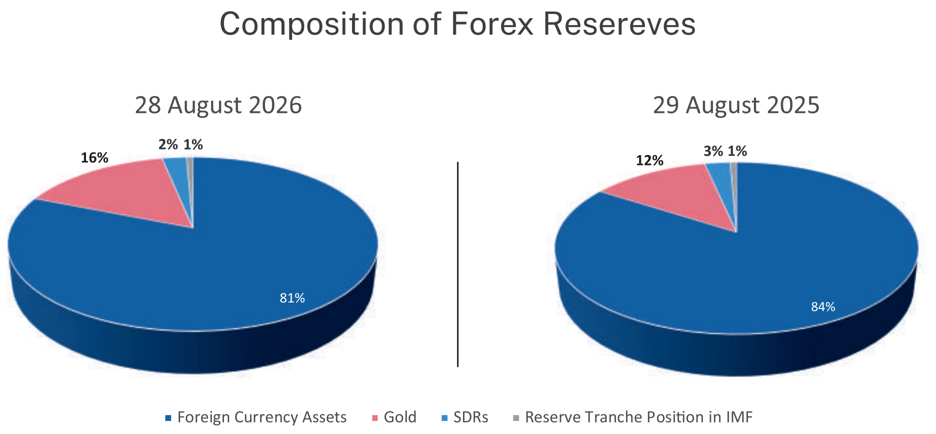
Highlights of Foreign Trade

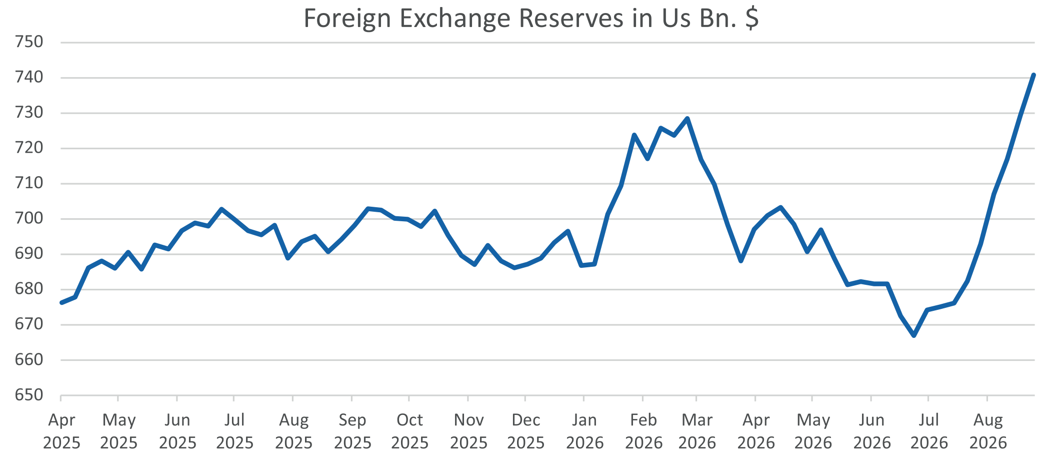
- The CAD/GDP widened to 0.5% of GDP in Q1 of 2026-27 after posting a surplus of 0.7% in the previous quarter.
- The slight widening in CAD in Q1 was primarily driven by a higher merchandise trade deficit, coming in at US$ 86.1bn compared to US$ 68.9bn in Q1 of 2025-26. High imports of gold, petroleum products, electronics and other industrial/capital goods drove the merchandise trade deficit.
- However, stronger earnings from services, with net receipts coming at US$ 51.6bn in Q1 of 2026-27 as compared to $47.9 billion a year earlier, and higher remittance receipts did partly offset the impact of the merchandise trade deficit.
- Data from the last two quarters indicate some external-sector resilience, with the CAD contained at 0.5% of GDP despite a sharply wider merchandise trade deficit, thanks to robust services earnings and remittance inflows.
- Merchandise trade deficit widened to US$31.98 bn in July from around US$28 bn in April-May, the widest since January, driven mainly by import growth rather than weak exports.
- July imports rose 17.5% to a record US$76.22 bn on higher crude prices and freight rates linked to the West Asia conflict, with electronic goods imports up by over 57% and along with growth of iron ore imports at around 78%, even as exports hit a record July level of US$44.24 bn.
- The services surplus fell for three months to US$15.11 bn in May, the lowest in the calendar year, from a January peak of US$24.30 bn; it recovered to US$17.6 bn in July, still short of the January peak.



- Net FDI came in at US$7.8bn during Q1 of 2026-27, higher than US$4.7bn in Q1 of the previous year, supported by stronger equity inflows and lower repatriation in April, although gross inflows more than halved in May, causing a marginal net outflow.
- Portfolio flows remained weak in April and May, with continued equity outflows amid rupee depreciation, weak earnings growth and global uncertainty, before turning positive in June as easing geopolitical tensions and policy measures attracted renewed foreign portfolio investment.
- Continued portfolio outflows in Q1 of 2026-27, alongside a wider merchandise trade deficit, reduced the cushion from capital inflows and increased pressure on the rupee and foreign-exchange reserves.

EXTERNAL SECTOR





- Forex reserves hit a record US$740.8bn by August 28, rising nearly US$75bn over nine consecutive weeks, strengthening India's external buffer amid heightened geopolitical and energy-market risks

- Reserve accumulation has been supported by foreign-currency inflows and RBI's liquidity and foreign-exchange operations, providing an important buffer against volatile portfolio flows and elevated energy-market risks.

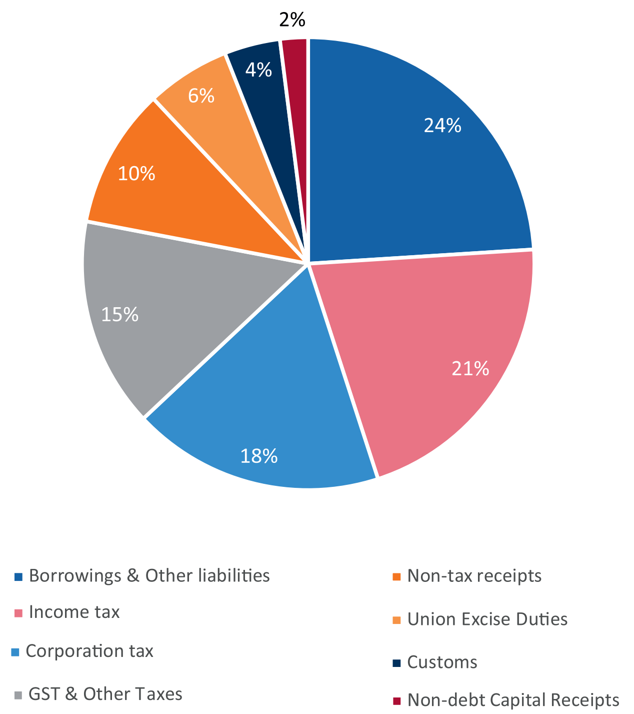
Data sources
Ministry of Finance | Ministry of Commerce & Industry | Reserve Bank of India

FISCAL SCENARIO

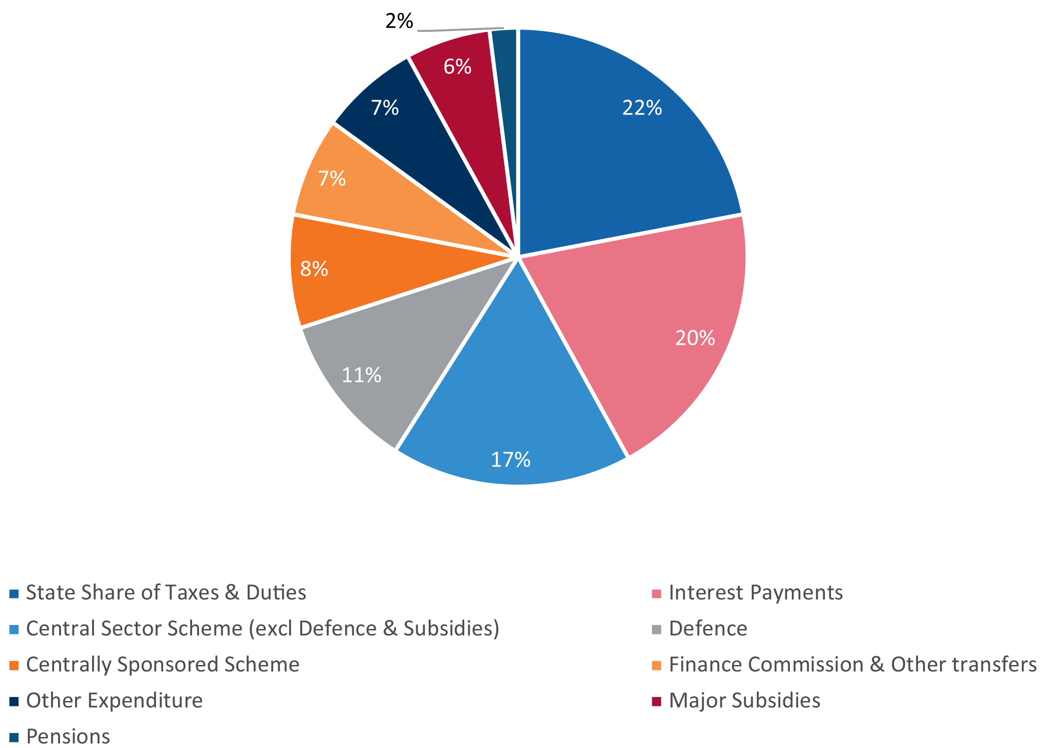
Budget Estimates (FY2026-27)

- The fiscal deficit target for FY2026-27 (BE) has been set at 4.3% of GDP, continuing the consolidation path from 4.4% in FY2025-26 (RE) and 4.8% in FY2024-25 actuals.
- While Income tax & Corporate tax contribute significantly to government revenue, Interest and central sector scheme payments are important applications of these funds.

Sources of Funds

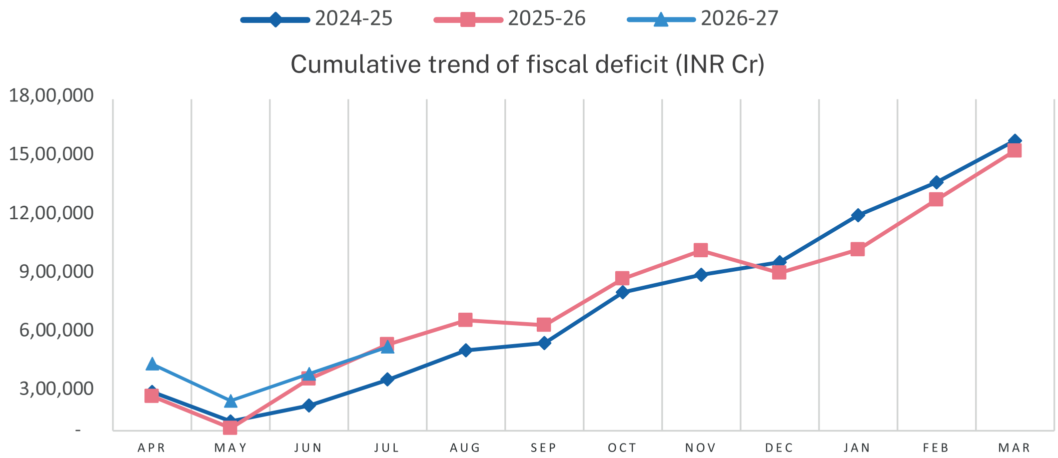


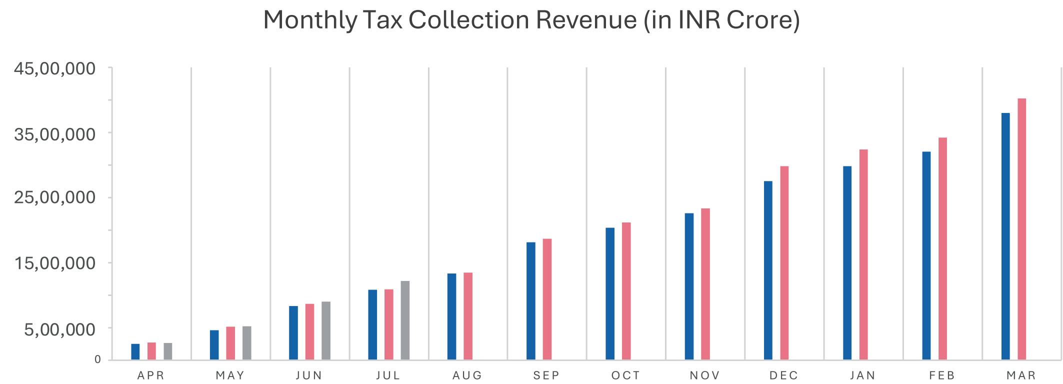
Use of Funds

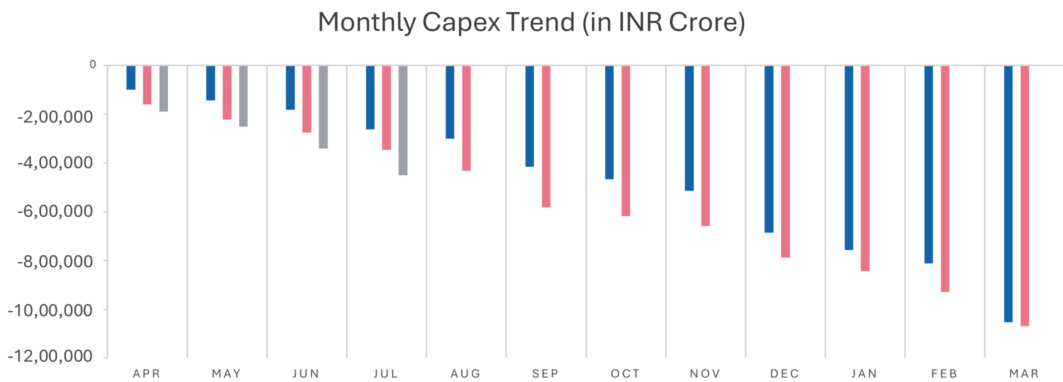


FISCAL SCENARIO

FISCAL PERFORMANCE (FY2026-27)







- Total receipts for Apr-Jul are at 35.8% of budget estimates (BE), up from 31.3% in the corresponding period of the previous year, driven by strong growth in net tax and non-tax revenue.

- At ₹4.23 lakh crore, non-tax receipts, aided by a record RBI dividend of ₹2.86 lakh crore and other non-tax inflows, are still lower at 63.5% of BE as compared to 69.2% during the corresponding period in the previous year.

- Capital expenditure for the Apr-Jul period came in at 36.9% of BE for 2026-17, higher than 30.9% in the corresponding period in the previous year, reflecting continued government spending on infrastructure and asset creation.

- At ₹4.55 lakh crore, the overall fiscal deficit is 26.8% of BE, down from 29.9% in the corresponding period last year, and has stayed within range so far, indicating a favourable fiscal position.

- However, the picture will depend on whether the strong pace of revenue collection is sustained, as expenditure typically accelerates later in the financial year.

Data sources:
Union Budget | Ministry of Finance

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