ISSUE NO. 02
Q2 FY2026–27
July–September 2026

India Macro Monitor

QUARTERLY ECONOMIC LETTER

7.2%	5.54%	$88.9bn	$721.0bn	5.50%
GDP GROWTH, Q2	HEADLINE CPI	TRADE DEFICIT	FX RESERVES	POLICY REPO RATE
RBI Projection · October 2026	Sep-26 · 23-month high	Merchandise · Q2 FY27	16 October 2026	25 bps hike · MPC, Oct-26

THE QUARTER IN BRIEF

India carried strong growth into Q2 FY2026–27, with Q1 GDP at 7.8% and the investment cycle still strengthening, but the quarter closed with retail inflation at a 23-month high, the RBI raising rates for the first time after 125 basis points of cuts, and a disrupted Strait of Hormuz keeping crude and the rupee under pressure, while a monsoon 13% below its long period average left the rabi season starting from a weak base.

Economic Activity — High Frequency Indicators

Shading is computed within each row: red indicates the weaker end of that indicator's own 12-month range, green the stronger end — it is a relative reference for this window only, not a judgement of what level is desirable.

INDICATOR	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26	Sep-26
GLOBAL												
PMI Composite	53	52.7	52	52.5	53.3	51	51.8	51.9	52	52.7	53.5	54.3
PMI Export Orders: Manufacturing	48.3	49.9	49.1	49.9	51.4	50	50.2	49.6	49.4	50	51.4	51.9
PMI Export Orders: Services	49.4	50.2	49.6	48.9	50.5	48.3	47.6	46.6	48.3	48.1	50.3	50.6
AGGREGATE DEMAND												
GST E-way bills (Volume)	8.2	27.6	23.5	15.8	18.8	12.9	11.8	10.9	14.5	6	7.7	7.2
Toll collection (Volume)	17.2	17.1	15.8	15.5	7.8	14.1	13.2	13.5	15.4	15.5	14.3	15.3
Petroleum consumption (Volume)	-1.5	0.6	4.5	0.3	4.5	3.2	-6.5	-8.1	-4.3	2.6	-2.8	3.4
GST revenue	7.6	0.7	6.1	6.2	8.1	8.8	8.7	3.2	13.9	15.4	14.8	14.7
Electricity demand (Volume)	-5.8	-0.6	5.8	3.8	1	0.8	3	10.8	10.8	9.8	12.8	11.3
URBAN DEMAND												
Domestic air passenger traffic	3.5	7	-4.9	3.3	-0.1	-1.3	-2.9	7.7	-1.2	-4.7	-6	-
Retail passenger vehicle sales	10.7	20.4	26.6	7.2	26.1	21.5	18.1	23.2	28.6	19.1	16.1	32.1
RURAL DEMAND												
Retail automobile sales	40.5	2.1	14.6	17.6	25.6	25.3	17.4	9.5	21.8	25.9	17.5	31.8
Retail tractor sales	14.2	56.5	15.8	22.9	36.4	10.9	28.7	11.2	25.3	28.1	0.8	13.7
Retail two-wheeler sales	51.8	-3.1	9.5	20.8	25	28.7	17.2	7.5	21.2	28.3	19.7	33.1
EMPLOYMENT												
Unemployment rate (PLFS: All-India)	5.2	4.7	4.8	5	4.9	5.1	5.2	5.5	5.5	5.1	5	5
Unemployment rate (PLFS: Rural)	4.4	3.9	3.9	4.2	4.2	4.3	4.6	5.1	5	4.5	4.1	4.2
Unemployment rate (PLFS: Urban)	7	6.5	6.7	7	6.6	6.8	6.6	6.4	6.6	6.7	6.8	6.9
Naukri JobSpeak Index	-9.3	23.5	13.2	3.4	11.9	9.2	5.8	1	6.1	5	13.7	1.7
INDUSTRY												
PMI Manufacturing	59.2	56.6	55	55.4	56.9	53.9	54.7	55	54.2	53.5	52.8	55.1
PMI Export order	54.7	54.1	54	54.1	53.2	55	56.3	53.7	52.1	54.3	53	53.8
IIP-Headline	-0.9	7	6.7	4.1	4.4	3	4.9	5	8.8	7.4	8	-
IIP capital goods	5.4	16.6	12.9	12.4	16.5	8.5	12	15.5	17.9	19	16.9	-
Import of capital goods (Value)	11.8	14.8	17.5	7.5	18.2	13.2	21.6	18.1	38.8	25.5	23.7	29.8
Index of Eight Core Industries	0.8	3.5	5.6	5.2	3.2	2.9	2.7	3.2	6	5	5.9	7.9
SERVICES												
PMI Services	58.9	59.8	58	58.5	58.1	57.5	58.8	59.8	57.4	53.3	54.1	55.2
International air passenger traffic	9.7	7.5	6	7.1	3	-18.5	-16.1	-9.1	-4.6	-4.6	-3.4	-
Hotel occupancy	0	3.8	-1.5	-8.5	1.2	-4	-1	9.9	5.5	2.8	-	-

Broad Economic Outlook

Economic activity remains resilient. Real GDP grew 7.8% in Q1 FY2026–27, while industrial production growth averaged 7.7% in July–August, compared with 6.2% in Q1. The Index of Eight Core Industries also accelerated to 7.9% in September. These indicators point to sustained economic momentum, although the durability of growth will depend on the evolution of domestic demand and external conditions.

Investment and consumption indicators remain supportive of domestic demand. Capital goods production averaged 18.0% growth in July–August, while capital goods imports grew 26.3% in Q2. Passenger vehicle sales increased 32.1% in September, alongside growth of 31.8% in overall automobile sales. GST revenue growth accelerated to 15.0% in Q2.

Latest Economic Developments

GLOBAL

The IMF's October WEO raised 2026 global growth to 3.1% from the 3.0% projected in July, with 3.4% for 2027, as AI-led investment offset part of the energy shock. Global inflation was revised up to 4.7% for 2026 before easing to 4.1% in 2027. India's growth was raised to 7.0% for both 2026 and 2027, upgrades of 60 and 30 bps over July update.

Following its 25 bps hike in September, the Fed held the federal funds rate unchanged at 3.75–4.00% in October, signalling a cautious approach amid resilient economic activity and persistently elevated inflation. The September payroll print of 29,000 jobs and an unemployment rate of 4.2% point to a labour market that has stabilised, reducing the immediate case for further tightening. The ECB, Bank of Japan and RBA also tightened in September, while Brazil continued cutting, suggesting that monetary policy trajectories are increasingly shaped by divergent inflation dynamics and energy-related supply pressures.

The Strait of Hormuz has been shut since 28 February and talks at Salalah in September failed to yield a breakthrough. Iran now links reopening to the lifting of the naval blockade of its ports and says the strait will not be managed the way it was before the war.

Gulf exports to the world have partly recovered through convoying and ship-to-ship transfers, which pulled Brent back to around $100 in early October, helped by a G7 decision to release up to 100 million barrels of strategic reserves including diesel. Prices turned again on 23 October, with Brent above $117 after attacks on Saudi facilities. Insurance and freight costs, not just barrels, are keeping the price elevated.

DOMESTIC

Retail inflation rose to 5.5% in September from 4.8% in August, a 23-month high, with rural inflation at 6.1% against urban 4.9%. This was the eleventh straight month of rising inflation. Food did the heavy lifting at 7.7% against 6.0%, with onion inflation at 108%.

WPI inflation entered double digits for the first time in the current series, WPI core rose to a record 9.9%, and the new Output Producer Price Index rose to a record 11.39% in September from 9.81% in August. This suggests that CPI could rise further as additional pass-through materialises.

The MPC raised the repo rate by 25 bps to 5.50% on 7 October, unanimously, and shifted the stance from neutral to calibrated tightening. It projects Q4 FY27 inflation at 5.7%.

Q1 FY27 real GDP grew 7.8% against 6.9% a year earlier. Services grew 10% and gross fixed capital formation 11.9%, more than double last year's 5.8%, while agriculture, mining and quarrying managed only 2.9%.

The rupee came within 0.2% of its May record low of 96.97 in early October under elevated crude, rising global yields and portfolio outflows. RBI responded on 10 October with measures to curb speculative dollar demand, including a special window for state oil companies.

On trade, the India–New Zealand FTA entered into force on 20 October, with New Zealand removing tariffs on 100% of tariff lines covering Indian exports. The India–US agreement is still unsigned, with both sides saying only a handful of issues remain after the Rubio–Jaishankar meeting on 20 October. Exports to the US nonetheless rose 11.1% to $50.81 billion in April–September, led by electronics, petroleum products and engineering goods.

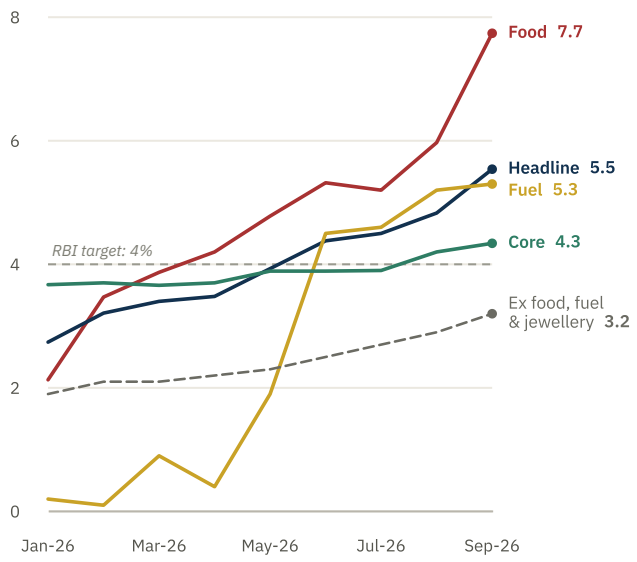
On the policy side, the Cabinet raised the EPFO mandatory wage ceiling from ₹15,000 to ₹25,000 a month and approved Green Energy Corridor Phase-III at about ₹1.86 lakh crore, including ₹50,000 crore for 50 GWh of battery storage. Wheat MSP rose by just 1%, below food inflation. This could weaken farm terms of trade following a monsoon that delivered 87% of the long-period average rainfall.

Inflation

Headline inflation crossed 5% in September for the first time since December 2024, driven primarily by food prices. Core inflation also firmed for a second consecutive month.

Headline CPI rose to **5.5%** in September from 4.8% in August, the highest reading in 23 months. Food inflation jumped 177 basis points to **7.7%**. Core rose to 4.3%, and the measure excluding food, fuel and precious jewellery rose to 3.2% from 1.9% in January, so the firming in core is not a gold and silver story, anymore.

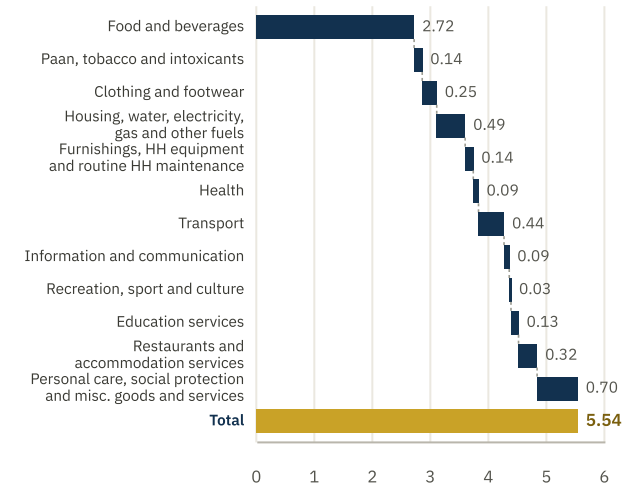
CPI inflation by component, YoY (%)



Source: MoSPI.

September inflation was driven primarily by food and fuel-intensive components. Food and beverages contributed **2.7 percentage points** to headline CPI inflation of 5.5%, while housing, water, electricity, gas and other fuels contributed a further 0.5 percentage points and transport 0.4 percentage points. Together, food and these fuel-sensitive components accounted for approximately two-thirds of headline inflation.

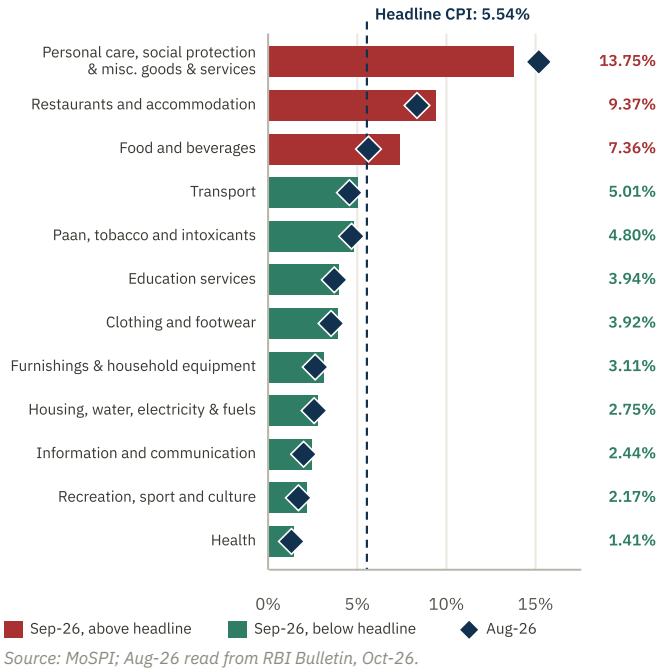
Contribution of divisions to headline CPI, September 2026 (percentage points)



Source: MoSPI.

Eleven of twelve divisions recorded higher inflation in September. Restaurants and accommodation at **9.37%** points to food costs feeding into downstream services.

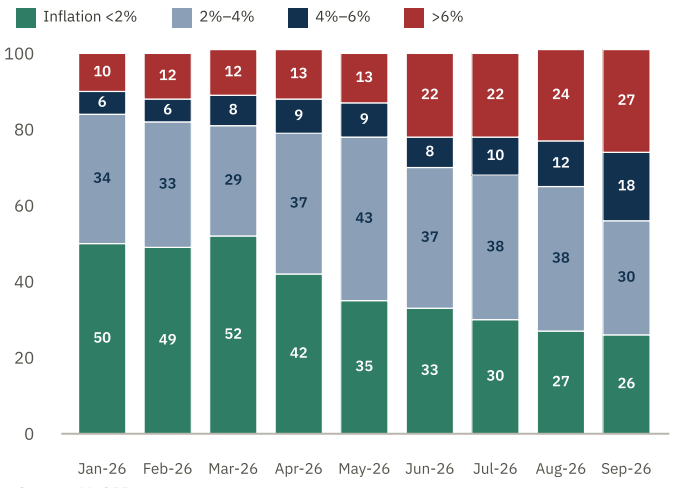
All-India divisionwise inflation, YoY (%)



Source: MoSPI; Aug-26 read from RBI Bulletin, Oct-26.

Breadth of inflation analysis points to a significant shift towards higher price pressures in Q2 FY27. In April, 13% of CPI divisions, on a weighted basis, recorded inflation above 6%, rising to 22% in June and **27% by September**. Meanwhile, the share of divisions with inflation below 2% fell from 42% in April to 26% in September. The increase in the share of divisions experiencing high inflation, alongside the contraction in the low-inflation category, indicates that price pressures have become more broad-based over the quarter.

Share of the CPI basket by inflation band, weighted basis (%)



Source: MoSPI.

The RBI raised its policy rate by 25 basis points to **5.50%** in October and moved its stance from neutral to calibrated tightening. It lifted its FY27 CPI projection to 5.2% from 5.0%, with the quarterly path now at 6.0% for Q3 FY27 and 5.7% for Q4. That places inflation at or near the upper tolerance band through the second half of the year.

Three El Niños, and the Weakest Starting Position Yet

India has seen three El Niño monsoons in the past twelve years: 2015, 2023 and now 2026. On almost every measure that matters for food prices, the current episode enters the rabi season in worse shape than either of the earlier two.

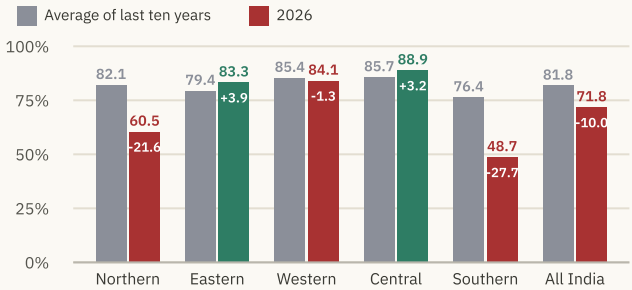
	FY16 (2015)	FY24 (2023)	FY27 (2026)
Monsoon rainfall, deviation from long-period average (LPA)	-14%	-6%	**-13%**
Kharif rice acreage, YoY	+0.2%	+2.7%	**-3.5%**
Total kharif acreage, YoY	+1.3%	+0.3%	**-1.1%**
Food price build-up by September	6.1%	6.9%	**7.2%**

FY27 total kharif acreage computed across the six major crops; Price build-up is the cumulative rise in the food price index from its March level. Sources: IMD, Ministry of Agriculture and Farmers' Welfare, NSO.

The 2026 monsoon finished **13% below** its long period average, close to the 14% shortfall of 2015 and more than twice the 6% of 2023. It opened 42% below long-period average (LPA) at the end of June and never fully closed the gap, against above-normal seasons in 2024 and 2025.

Water buffers went into the post-monsoon season depleted. All-India reservoir storage stood at **71.8%** of live capacity, ten percentage points below the decadal average. The shortfall is regionally concentrated: northern storage is 21.6 points below its average and southern storage 27.7 points below, covering the wheat belt and the southern rice and sugarcane tracts.

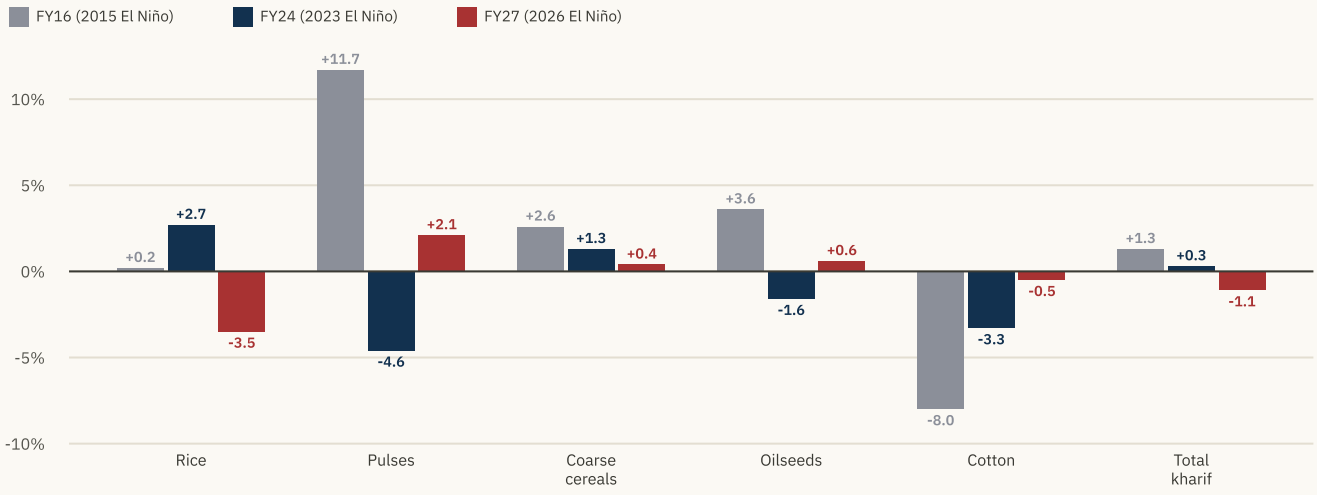
Post-monsoon reservoir storage by region, % of live capacity at full reservoir level



Source: Central Water Commission.

The crop mix is where FY27 separates from the earlier episodes. Kharif rice acreage fell **3.5%**, against gains of 0.2% in FY16 and 2.7% in FY24. This is the first of the three episodes with an outright rice contraction, and the first with total kharif acreage down.

Kharif sown area, YoY change by crop, across the three El Niño episodes

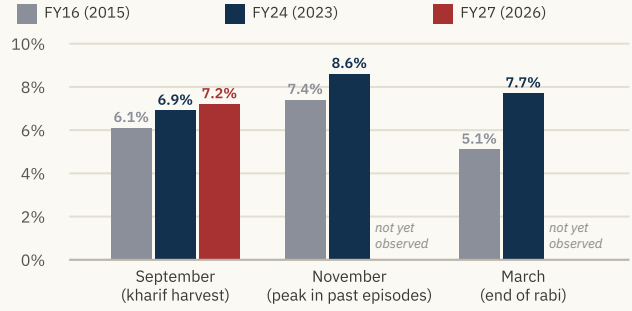


Source: Ministry of Agriculture and Farmers' Welfare.

Measured consistently across episodes, food prices have already risen **7.2%** from their March level by September, ahead of 6.9% in FY24 and 6.1% in FY16 at the same point. In both earlier episodes the build-up continued into November before easing. FY27 is therefore running ahead of both, from a weaker water and acreage position.

What follows in rabi is the open question. FY16 saw rabi acreage contract 2.9%, with wheat down 4.4% and rice down 8.2%. FY24 held flat in aggregate but still lost 3.7% in pulses and 2.7% in rice. FY27 enters rabi with less stored water than either, which makes a repeat of the FY16 pattern the more relevant precedent.

Cumulative rise in the CPI food price index from its March level (%)

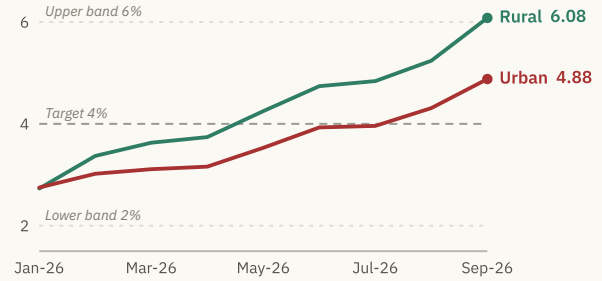


Source: NSO.

The cost is falling on rural households. Rural inflation reached **6.08%** in September, while urban inflation was 4.88%. Food and beverages account for 47.04% of rural consumption expenditure, compared with 39.68% in urban areas, according to HCES 2023–24. RBI estimates put agriculture and allied GVA growth at -1.1% on average in seasons with a deficit above 10%, against 5.9% for non-agricultural rural activity. Thus, farm incomes weaken at the same time.

Sources: MoSPI (CPI, CFPI, divisionwise and rural-urban series); RBI (October 2026 Monetary Policy Statement; rainfall sensitivity estimates); IMD (monsoon end-of-season reports, 2015, 2023 and 2026); Central Water Commission (reservoir storage); Ministry of Agriculture and Farmers' Welfare and PIB (kharif and rabi sown area); authors' calculations.

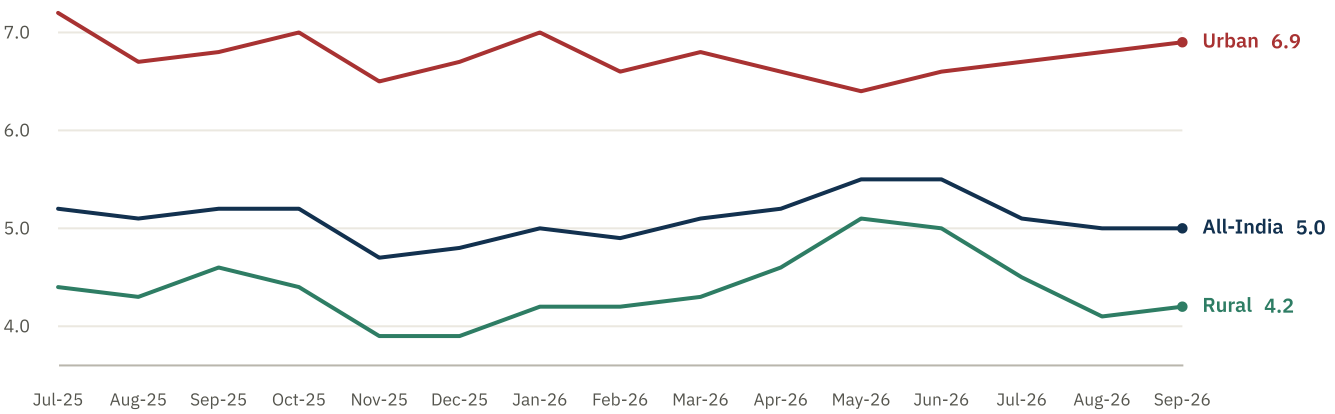
Rural and urban CPI inflation, YoY (%)



Source: MoSPI.

Labour Market

Unemployment Rate (%) – Current Weekly Status (age 15+)

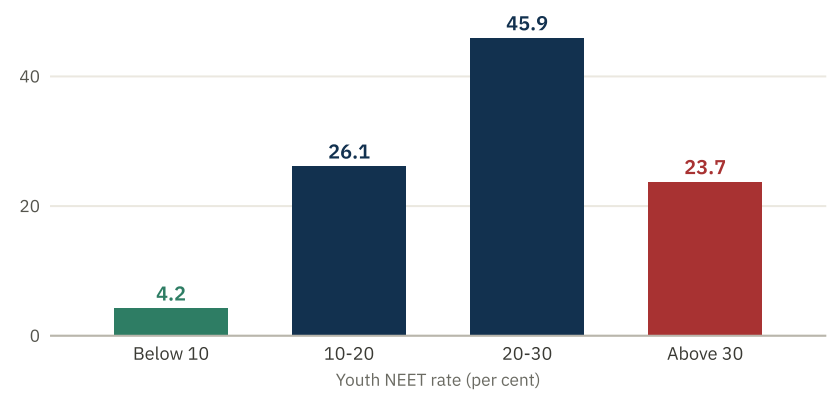


Source: PLFS Monthly Bulletins, MoSPI.

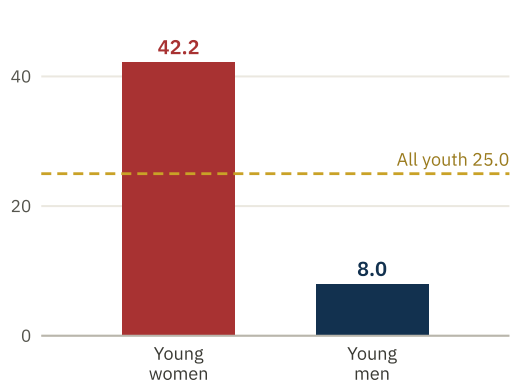
The all-India unemployment rate averaged **5.0 per cent** in Q2 FY2026–27, down from 5.4 per cent in Q1. The entire decline came from rural areas, where the rate fell to 4.3 per cent from 4.9 per cent, while the urban rate edged up to 6.8 per cent from 6.5 per cent. The rural-urban gap is back to 2.5 percentage points after narrowing to 1.6 points in the previous quarter.

On 18 September 2026 the NSO released the **Labour Market Snapshot of Selected Districts**, the first district-level estimates from the Periodic Labour Force Survey (PLFS), covering 584 districts and district groups. The NEET rate measures young people (ages 15-29) who are not in employment, education or training. It captures a different dimension of labour-market exclusion from unemployment, which counts only those in the labour force who are without work.

a. Share of districts (per cent)



b. NEET rate, ages 15-29 (per cent)



Source: NSO, Labour Market Snapshot of Selected Districts, 18 September 2026; PLFS Annual Report 2025.

- **Youth NEET remains a significant concern:** Nearly one in four districts (23.7%) have youth NEET rates above 30%, while only 4.2% have rates below 10%, indicating that a substantial share of districts face high levels of youth exclusion from employment, education and training.
- **The gender gap in youth NEET is stark:** The NEET rate is 42.2% among young women aged 15 to 29, compared with just 8.0% among young men, a gap of 34.2 percentage points.

External Sector

Export growth outpaced imports for the first time in over a year, narrowing the September trade deficit. Foreign exchange reserves hit a record US$785.7 billion on 4 September, driven by inflows through the RBI's swap window. Portfolio flows remained negative through the quarter.

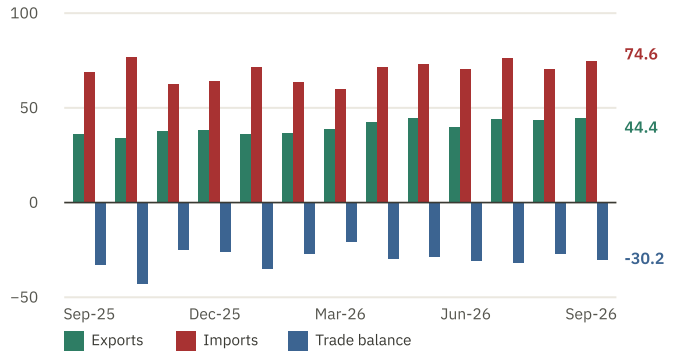
KEY EXTERNAL INDICATORS

a. Export growth overtook import growth (y-o-y, per cent)



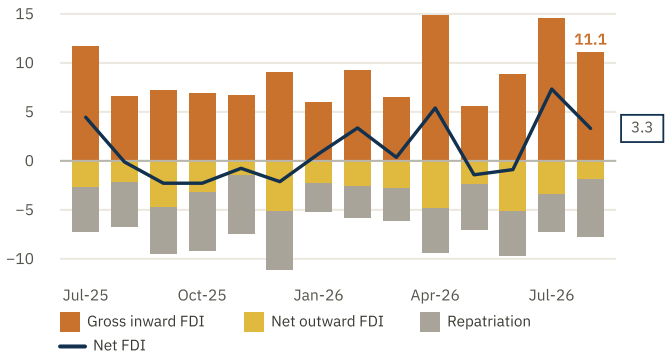
Source: DGCI&S; PIB.

b. Trade deficit (US$ billion)



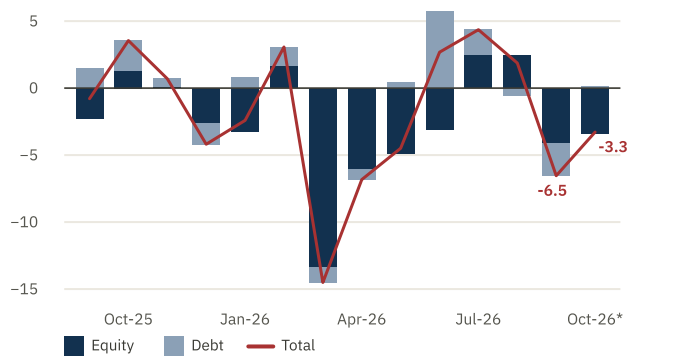
Source: DGCI&S; PIB.

c. Foreign direct investment (US$ billion)



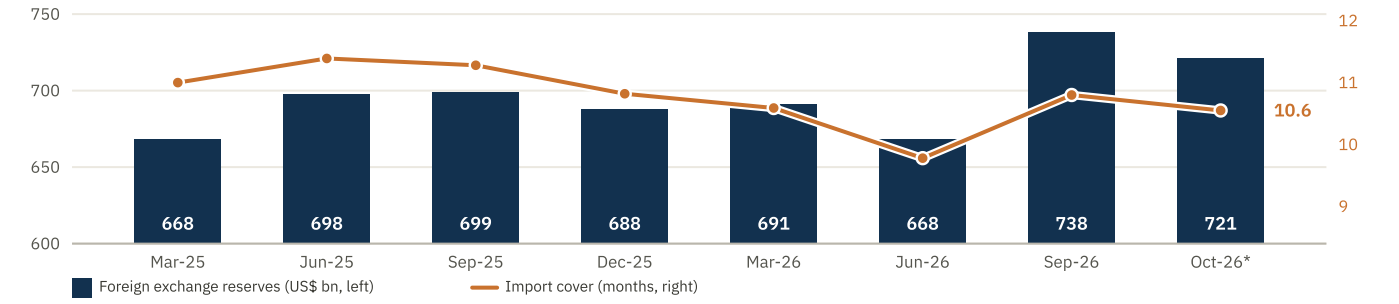
Source: RBI.

d. Net FPI flows (US$ billion)



Source: NSDL. *Oct-26 up to 16 October.

e. Foreign exchange reserves and import cover (US$ billion, left scale; months, right scale)



Source: RBI. *As on 16 October 2026.

Export growth overtook import growth through the quarter. Merchandise exports grew 22.9 per cent year on year in Q2 FY2026–27 against 8.2 per cent a year earlier, while imports grew 13.0 per cent against 4.9 per cent. September was the sixth consecutive month of double-digit export growth, at US$44.4 billion against US$36.1 billion a year earlier.

Precious metals drove the slowdown in import growth. Gold imports contracted 81.3 per cent and silver imports 49.1 per cent in September, which is why import growth of 8.0 per cent was the lowest so far this fiscal year. Petroleum imports grew 30.8 per cent and electronic goods imports 51.5 per cent. The electronics trade deficit widened to US$9.6 billion from US$6.7 billion a year earlier, roughly a third of the month's total deficit.

Export strength is concentrated and increasingly US-facing. Electronic goods exports grew 70.4 per cent in September, petroleum products 31.9 per cent, engineering goods 20.9 per cent, gems and jewellery 19.0 per cent and ready-made garments 13.7 per cent. Exports to the United States grew 48.0 per cent, after 12.8 per cent in July and 21.8 per cent in August.

Services exports and remittances cushioned the external account. Net services exports grew 6.0 per cent to US$16.5 billion in August and rose to US$85.5 billion from US$79.9 billion over April to August. Net transfer receipts over the same period rose 20.1 per cent to US$66.8 billion. The monthly current account deficit narrowed to US$5.2 billion in August from US$6.1 billion a year earlier.

The Rupee: A Large Defence for A Small Effect

The rupee has depreciated about **6 per cent** against the dollar so far in 2026, from around 89.97 at the start of January to 95.41 on 28 October. At its record low of 96.97 on 20 May it was down 7.8 per cent. The Reserve Bank has intervened periodically to smooth volatility in the exchange rate.

However, each time the rupee stabilised it gave back the ground. The shape of the response is the same in all three episodes. The rupee gains for **eight or nine sessions**, and then it turns.

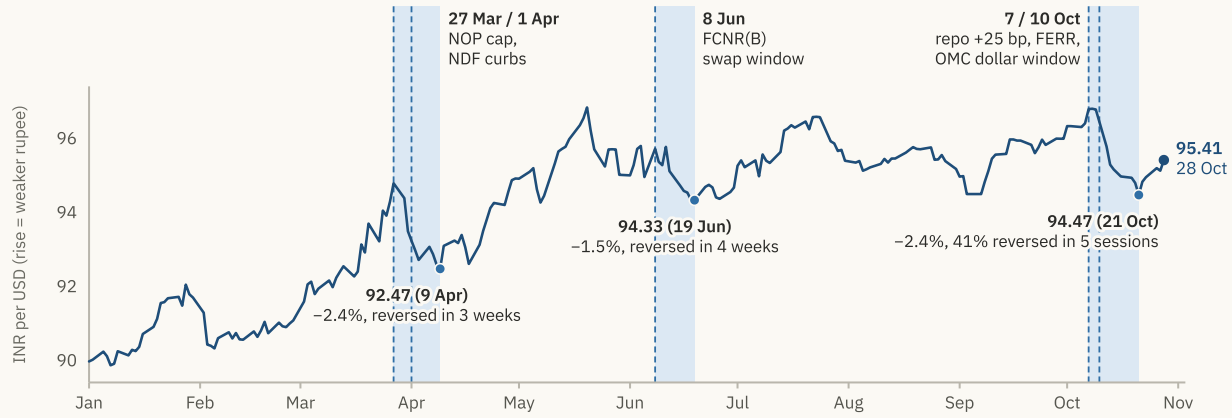
The rupee gained 2.4 per cent in the nine sessions after the March cap, 1.5 per cent in the nine sessions after the June swap window, and 2.4 per cent in the eight sessions after the October package. The first two gains were fully reversed within three and four weeks. The third is five sessions old and **41 per cent** of it has already gone.

Table 1: Rupee support measures, 2026

Date	Measure
March 27, 2026	Banks' net open rupee positions capped at USD 100 million.
April 1, 2026	Restrictions on non-deliverable derivatives
	Ban on rebooking cancelled contracts (partly reversed Apr-20th).
June 8, 2026	Concessional USD-INR swap window for FCNR(B) deposits, external borrowings.
October 7, 2026	Repo rate raised by 25 bps to 5.50%, stance shift to "calibrated tightening"
October 10, 2026	Special dollar window opened for public oil companies
	Cut threshold for undocumented hedges (to USD 5mn from USD 100mn)
	20% Foreign Exchange Risk Reserve (FERR) imposed on importer hedges
	Daily CRR minimum raised to 99% from 90%, Rs 25,000 crore of OMO sales.

Source: RBI notifications and Kohli (Oct, 26).

Figure 1: USD/INR daily closing rate and the measures of Table 1.



Source: Daily USD/INR closing rate (Investing.com); RBI notifications and press releases. Closes shown; the 20 May record low of 96.97 was intraday.

The floor also keeps moving. The strongest level the rupee reached after each defence was 92.47 in April, 94.33 in June and 94.47 in October. Each round of support bought back less ground than the one before it.

March and April: capping the position

On 27 March the RBI capped each authorised dealer bank's net open rupee position at $100 million a day, overriding the board-set limit of 25 per cent of capital, and on 1 April it shut the offshore derivative route through which the same positions could be rebuilt. A bank holding a long dollar position gains when the rupee falls, so the cap forced dollar selling across the system, with compliance due by 10 April.

The rupee gained 2.4 per cent, from 94.78 on 27 March to 92.47 on 9 April, one day before that deadline. It was back past 94.78 on 29 April, and the RBI partly reversed the ban on rebooking cancelled contracts on 20 April, three weeks after imposing it.

June: paying for dollars to come in

The rupee had hit its record low of 96.97 on 20 May, with Brent near $110 and talks between the United States and Iran deadlocked. On 8 June the RBI opened a concessional swap window for FCNR(B) deposits and external commercial borrowings, taking on the costs of hedging against currency fluctuations. The intent was to pull dollars in through the capital account.

The rupee gained 1.5 per cent, from 95.71 on 8 June to 94.33 on 19 June. It was back past 95.71 by 14 July and reached 96.58 on 23 July, as the crude basket averaged about $110.

October: the largest package so far

The RBI raised its repo rate by 25 basis points on 7th October, the first in nearly four years. The rupee weakened 0.4 per cent on the day, from 96.40 to 96.79, possibly because 25 basis points may not change the comparison with global yields at multi-year highs.

The measures of 10 October were different in kind (Table 1). The oil company window takes the largest and least price-sensitive block of dollar demand out of the market, the hedging threshold and the 20 per cent FERR raise the cost to importers of buying dollars early, and the CRR increase and OMO sales make a short rupee position costlier to fund.

The rupee gained 1.0 per cent after the measures on 10 October and kept gaining to reach 94.47 on 21 October, 2.4 per cent stronger than on 9 October. Oil rose again from 22 October, importer demand returned, and the rupee closed at 95.41 on 28 October, two-fifths of the gain gone in five sessions.

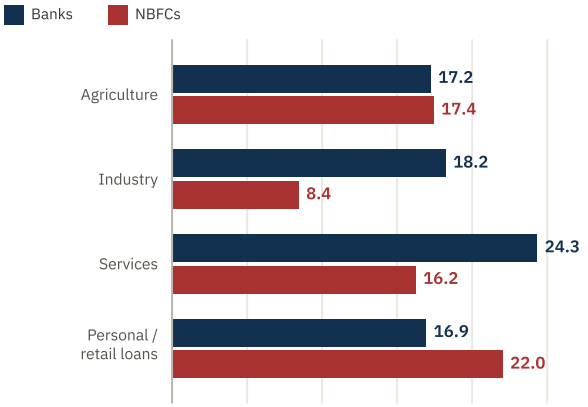
Part of the depreciation is an adjustment that an oil-importing economy must make, especially when the real effective exchange rate was already high before the shock. The exchange rate data show that the impact of these measures to smoothen the volatility has been short-lived. The initial effect lasts eight or nine sessions, before the rupee resumes its earlier trajectory. Each episode also begins from a weaker exchange rate than the previous one. **Without an improvement in the external deficit and capital flows, pressure on the rupee is likely to persist.**

Financial Markets

Domestic financial markets saw mixed movements amid global uncertainty. The Monetary Policy Committee raised the policy repo rate by 25 basis points to 5.50 per cent in its October review and shifted its stance from neutral to calibrated tightening. The benchmark 10-year G-sec yield reached a three-year high, short-term money market rates hardened following the rate hike, and the liquidity surplus narrowed. Bank credit growth, however, remained resilient at above 19 per cent.

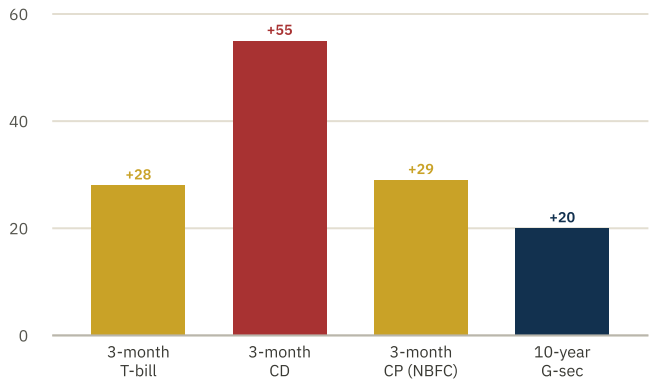
5.50% POLICY REPO RATE Raised 25 bps · MPC, Oct-26	**7.39%** 10-YEAR G-SEC YIELD 19-Oct · three-year high	**₹3.60 lakh cr** SYSTEM LIQUIDITY Daily avg net LAF absorption · Oct	**19.4%** SCB CREDIT GROWTH 30-Sep · y-o-y
17.8% SCB DEPOSIT GROWTH 30-Sep · y-o-y	**16.9%** MONEY SUPPLY, M3 30-Sep · y-o-y	**8.11%** AAA BOND YIELD, 3-YR 16-Oct · +26 bps over 30-Sep	**86.9** INCREMENTAL C-D RATIO 30-Sep · rose from August

Bank and NBFC credit growth by sector (% YoY, Aug-26)



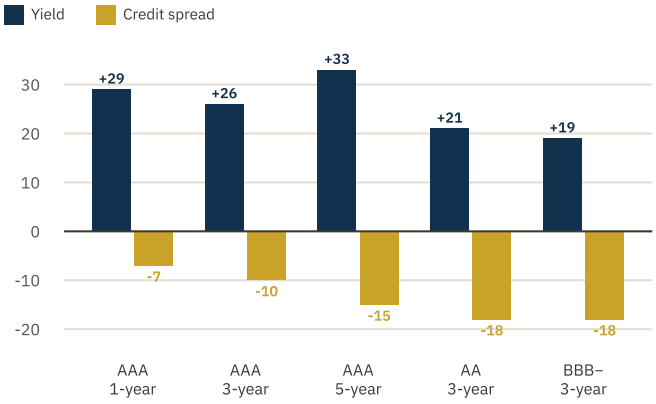
Source: RBI; National Housing Bank.

Change in market rates, October over September 2026 (bps)



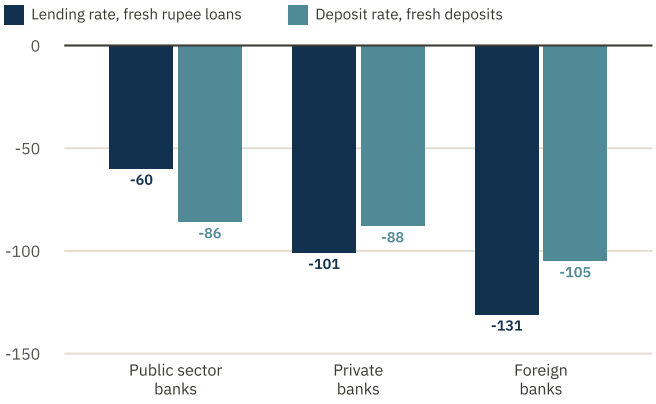
Source: RBI.

Corporate bond yields and spreads, 30 Sep to 16 Oct 2026 (bps)



Source: FIMMDA.

Policy transmission across bank groups, Feb 2025 to Aug 2026 (bps)



Source: RBI.

Liquidity stayed in surplus but narrowed. Daily average net absorption under the Liquidity Adjustment Facility (LAF) fell to ₹3.60 lakh crore in October (to the 19th) from ₹7.8 lakh crore in September, after open market sales of ₹1.25 lakh crore across the two months. The minimum daily CRR balance was raised from 90 to 99 per cent of the requirement from the fortnight beginning 16 October, which moved the weighted average call rate into the upper half of the policy corridor.

Corporate bond yields rose while spreads compressed. Yields rose by 19 to 33 basis points across tenors and the rating spectrum between 30 September and 16 October, while spreads over the corresponding risk-free rate narrowed by 7 to 18 basis points, with the largest compression at the lower end of the rating curve. Issuance stayed subdued at ₹3.26 lakh crore during April–August 2026–27 against ₹3.96 lakh crore a year earlier.

Short-term rates repriced faster than the long end. Three-month certificate of deposit rates rose 55 basis points in October over September, against 28 basis points for the 91-day Treasury bill and 29 for three-month NBFC commercial paper. The spread between three-month CP and the 91-day Treasury bill widened to 147 basis points from 145.

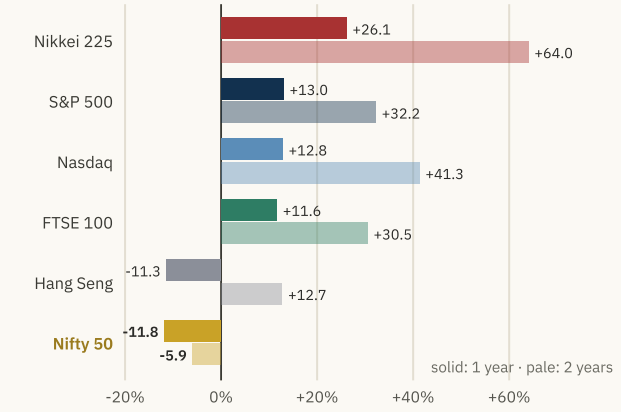
Credit growth remained the strongest part of the picture. Services led at 24.3 per cent in August and industry at 18.2 per cent. NBFC credit grew 15.8 per cent on retail loans at 22.0 per cent, while NBFC lending to industry slowed to 8.4 per cent. Equity markets stayed bearish through September and October, with FIIs net sellers and domestic institutions net buyers.

Nifty 50: Low Volatility, Lowest Return

Nifty 50 fell **11.8 per cent** in the year to 26 October 2026, the lowest return of the selected six major indices. Hang Seng fell 11.3 per cent. The other four gained: Nikkei 225 by 26.1 per cent, S&P 500 by 13.0 per cent, Nasdaq by 12.8 per cent and FTSE 100 by 11.6 per cent. The two-year window gives the same ranking. Nifty lost 5.9 per cent over two years while the other five were positive.

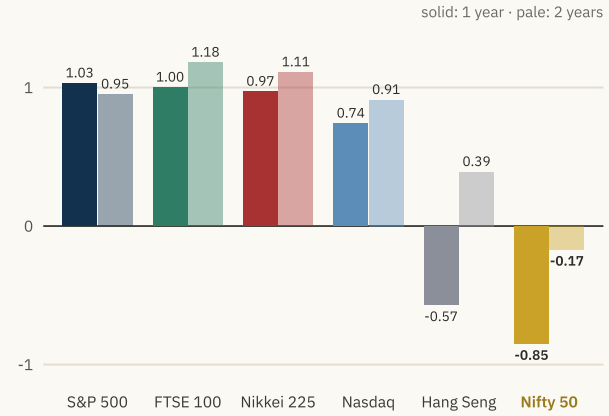
Nifty's annualised volatility over the year was 13.9 per cent, third lowest of the six. The risk-adjusted ratios follow from those two figures. Nifty's Sharpe ratio was **−0.85** over one year and −0.17 over two years, last of the six on both windows (1 year and 2 years), and its Sortino and Calmar ratios were negative on both. Hang Seng was the only other index below zero over one year, at −0.57, and it recovered to 0.39 over two years.

Price return in local currency, one year and two years to 26 October 2026



Source: Bloomberg; Investing.com; authors' calculations.

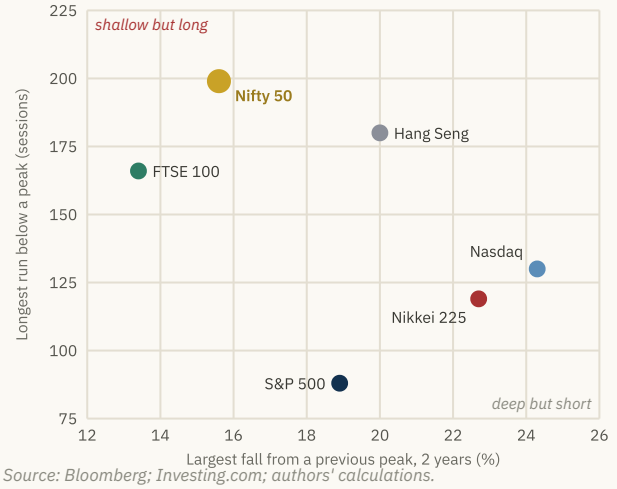
Sharpe ratio over one year and two years, zero risk-free rate



Source: Bloomberg; Investing.com; authors' calculations.

Volatility measures the size of the daily moves. Drawdown measures how far the index fell from its own peak and how long it stayed there. Nifty's largest fall from a previous peak was 15.6 per cent on both windows, the second smallest of the six, with Nasdaq at 24.3 per cent and Nikkei at 22.7 per cent. However, **on duration Nifty ranks first**.

Largest fall from a previous peak against the longest unbroken run below a previous peak, two years



Source: Bloomberg; Investing.com; authors' calculations.

Thus, it was the **persistence of underperformance**, rather than a single sharp correction, that set the Nifty 50 apart from its global peers. Four factors help explain this pattern.

First, corporate earnings growth slowed. Profit growth estimates for FY27 were cut to 13 to 14 per cent from 18 to 19 per cent just a quarter earlier. At the same time, MSCI India's forward price-to-earnings ratio fell to around 18.5 times by early October 2026, its lowest level in six years. This suggests that investors were becoming less optimistic about both future earnings and the prices they were willing to pay for them.

Second, foreign investors pulled out substantial amounts of capital. Foreign portfolio investors sold about ₹3.07 lakh crore of Indian equities in calendar 2026 up to late October, compared with ₹1.66 lakh crore during all of 2025. High US 10-year bond yields, above 5 per cent, also made US assets more attractive relative to emerging-market equities.

Third, India benefited less from the global AI-driven rally. Markets such as Japan, the US, Taiwan and South Korea gained from investor enthusiasm for artificial intelligence and semiconductors. India's exposure to this trend was more limited. In 2025, the Nifty IT index fell 10 per cent, while the Philadelphia Semiconductor Index rose 40.5 per cent. This difference in sector composition contributed to the gap in market performance.

Fourth, higher crude oil prices and a weaker rupee added to the pressure. Brent crude traded around and above $100 a barrel through 2026, while the rupee weakened beyond ₹96 to the dollar. Since India imports most of its crude oil, these movements raise import costs and can put pressure on corporate profit margins and domestic inflation.

The market, therefore, saw a sustained decline with relatively limited volatility. Domestic institutional investors purchased about ₹6.83 lakh crore of Indian equities in calendar 2026, partly absorbing the selling by foreign investors. India VIX, a measure of expected market volatility, also fell to record closing lows during the period. In effect, domestic buying provided a steady source of demand even as foreign investors continued to sell. This may have limited sharp daily swings without reversing the broader downward trend. The result was a gradual and prolonged decline, rather than a sudden market correction, consistent with the drawdown pattern observed in the data.

Quarterly Outlook

OUTLOOK

Growth is likely to remain supported by investment and domestic demand, though some moderation is likely. Strong capital goods activity and automobile sales provide support, while weaker manufacturing output expectations and slowing services activity point to softer growth momentum. The RBI's October projection places FY27 growth at 7.1 per cent.

Inflation is the principal near-term risk. A deficient monsoon, depleted reservoir storage and lower kharif acreage leave food prices vulnerable through the rabi season. With the RBI projecting inflation of 6.0% in Q3 and 5.7% in Q4 FY27, there are expectations of further tightening.

Oil prices and capital flows remain the key external risks. Prolonged disruption around the Strait of Hormuz could raise import costs, inflation and pressure on the current account and fiscal balance. Services exports and remittances provide a buffer, but persistent portfolio outflows and reserve accumulation linked to the RBI's swap window mean that external resilience will depend on sustained capital inflows.

SUPPORTING TRENDS

Investment activity remains supported by strong capital goods production and imports. Capital goods production averaged 18.0% growth in July–August, while capital goods imports grew 26.3%, compared with 11.7% and 13.1%, respectively, a year earlier. However, this strength largely reflects public investment, with private investment yet to show a broad-based recovery.

Industrial activity has strengthened: Headline IIP growth averaged 7.7% in July–August, up from 6.2% in Q1. The Index of Eight Core Industries accelerated to 7.9% in September, while manufacturing PMI remained firmly in expansion territory.

Domestic consumption remains resilient: Retail passenger vehicle sales grew 32.1% and overall automobile sales 31.8% in September. Two-wheeler sales also strengthened to 33.1%, indicating continued momentum in domestic demand.

Merchandise exports have accelerated: Exports grew 22.9% year on year in Q2, compared with 8.2% in the corresponding quarter last year. The monthly trade deficit narrowed in September relative to a year earlier, although the quarterly deficit remained broadly unchanged.

Services and remittances continue to support external resilience: Net services exports reached US$16.5 billion in August, while net transfer receipts increased 20.1% over April–August. Net FDI inflows also improved, providing some offset to persistent portfolio outflows.

EMERGING PRESSURES

Inflationary pressures are becoming more broad-based: Headline CPI rose to 5.54% in September, with food inflation at 7.74%. Eleven of twelve CPI divisions recorded higher inflation, while rising wholesale and producer prices point to further pipeline pressures.

Services activity has lost momentum: Services PMI averaged 54.2 in Q2, down from 58.7 in Q1. Domestic air passenger traffic contracted by 4.7% in July and 6.0% in August, indicating weakness in an important segment of domestic services demand.

Labour market conditions remain uneven: Overall unemployment fell to an average of 5.0% in Q2 from 5.4% in Q1, driven by an improvement in rural areas. Urban unemployment, however, increased to 6.8% from 6.5%, while youth exclusion from employment, education and training remains substantial.

External vulnerabilities persist despite stronger exports: The merchandise trade deficit remained high at US$88.9 billion in Q2. Petroleum imports grew 30.8% and electronic goods imports 51.5% in September, widening the electronics trade deficit to US$9.6 billion.

Financial conditions have tightened and portfolio flows remain weak: The October repo rate increase, higher government bond yields and a narrowing liquidity surplus have tightened financial conditions. Persistent foreign portfolio outflows and continued rupee weakness add to the pressure on domestic financial markets.

SOURCES & NOTES

MoSPI, DPIIT, RBI, S&P Global PMI, NPCI, PLFS, Naukri JobSpeak Index, IMF, PIB, Investing.com, FBIL, Bloomberg, FIMMDA, Author's calculations.

Note to Readers: This is the second issue of the ICRIER Macro Monitor, which is intended as a recurring publication. The framework, indicators and visualisations will continue to evolve as we incorporate new data and feedback. We would greatly appreciate any comments or suggestions to improve future editions.

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