CareEdge RATINGS

CareEdge

Economic Pathway

February 2026

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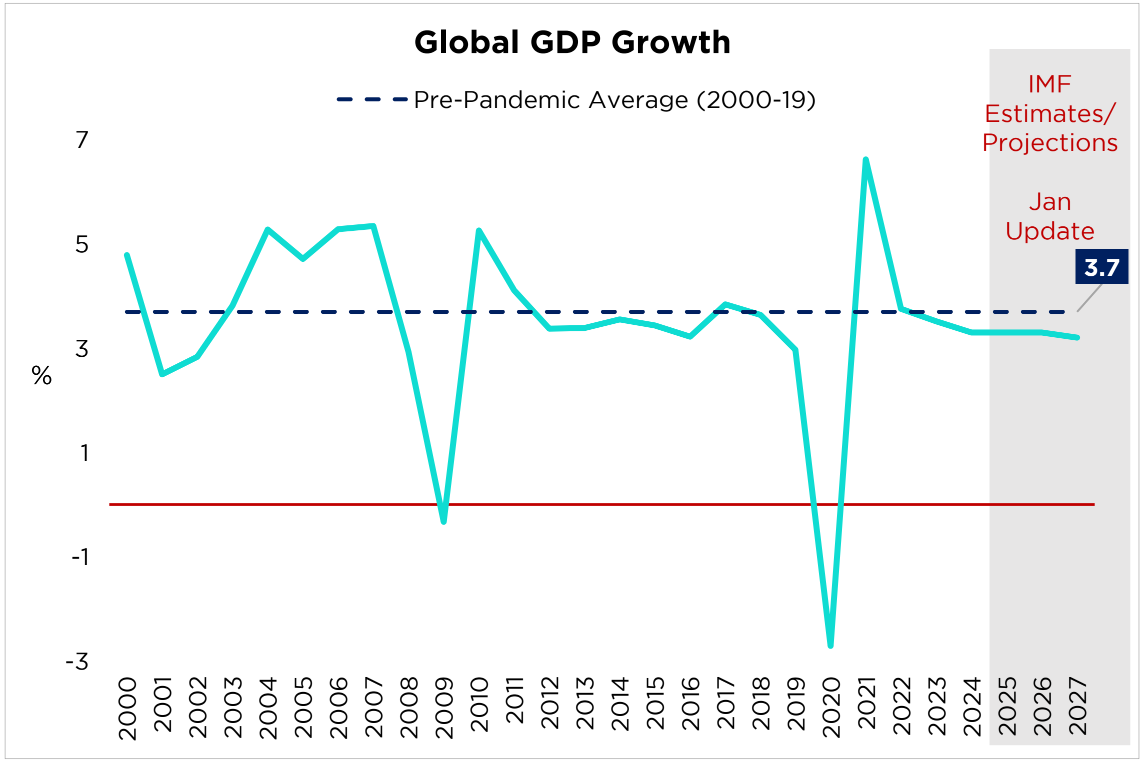
Global Economy Snapshot

Global Growth & Trade Outlook

Global Growth to Remain Steady; Global Trade Growth to Moderate

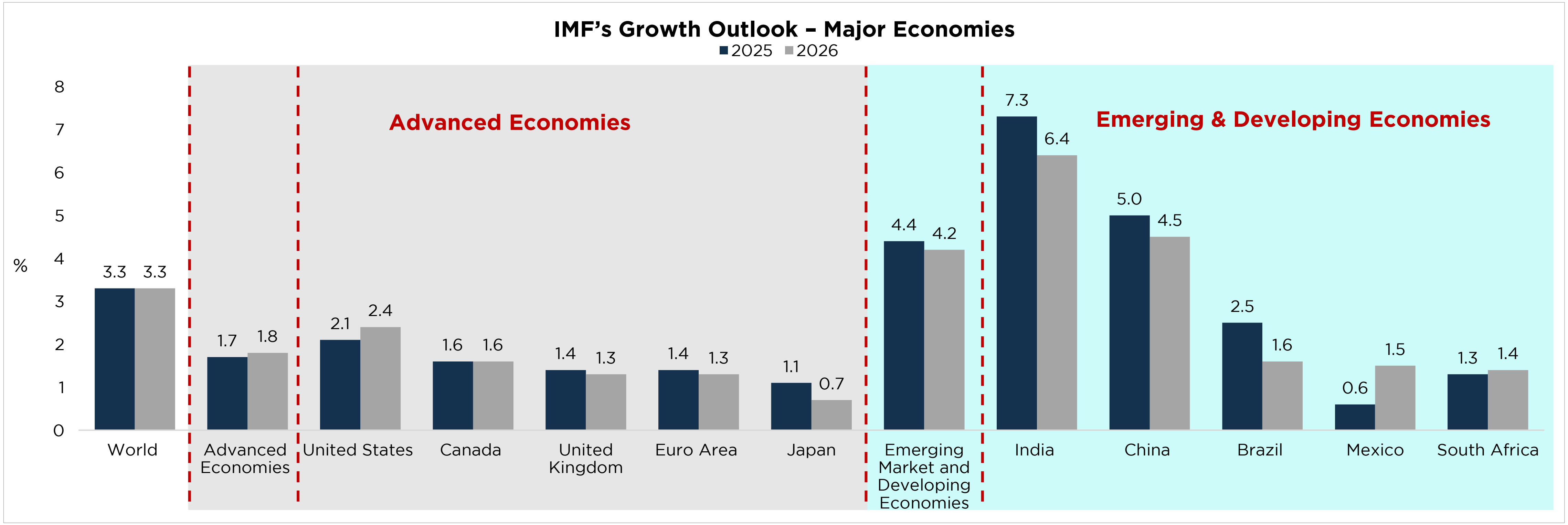


Source: IMF World Economic Outlook; Note: 2025 data is IMF estimate, 2026 and 2027 data are IMF Projections

- Global growth is projected to remain steady, rising by 3.3% in 2026 and 3.2% in 2027. However, this is below the pre-pandemic average growth of 3.7% (2000-19).
- Going forward, trade tensions, escalation in geopolitical conflicts, and fragilities in the financial market continue to pose risks for the global growth outlook.
- Global trade flows in 2025 gained from trade front-loading ahead of the US reciprocal tariffs.
- Looking ahead, global trade growth is projected to moderate to 2.6% in 2026 from 4.1% in 2025.

Growth Outlook Across Major Economies

2026 Growth Forecasts For Most Economies Upgraded Slightly; India Holds Steady

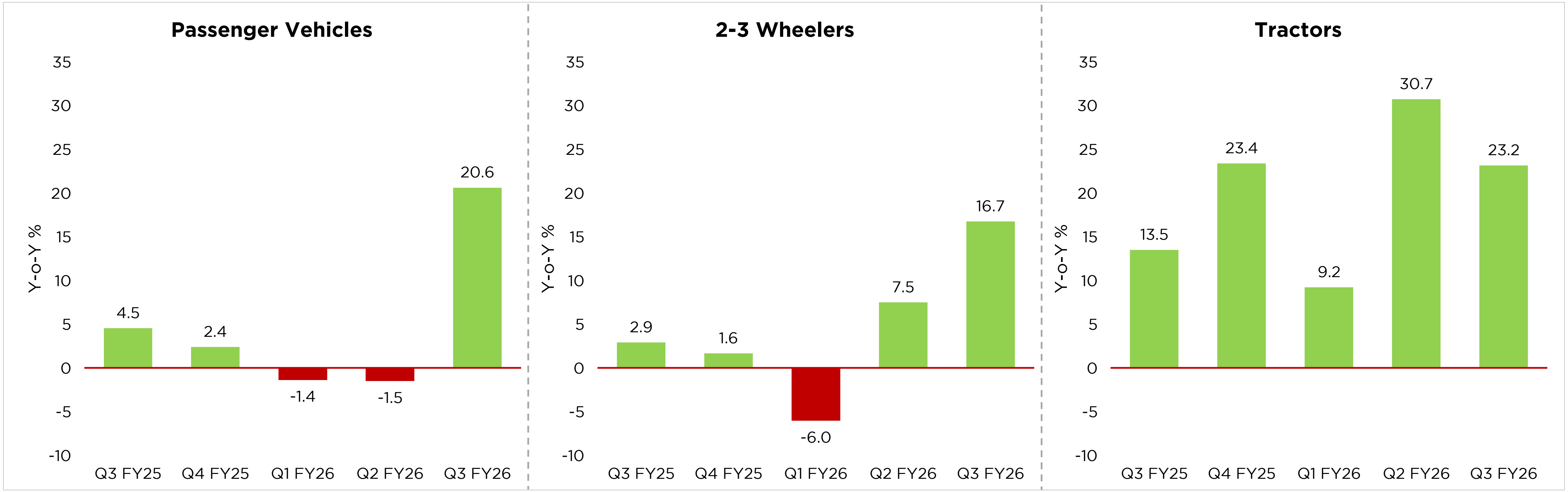


Source: IMF World Economic Outlook (January 2026 Update)

- India is expected to remain one of the fastest-growing major economies, with economic growth projected to hold up well at 6.4% in 2026.
- US growth to be marginally higher at 2.4% in 2026 Vs 2.1% in 2025, underpinned by lower policy rate, fiscal stimulus, and AI-related spending.
- China's economic growth is projected to slow to 4.5% in 2026 from 5% in 2025. The domestic economy remains under pressure, with subdued inflation and contracting fixed-asset investment. Lifting domestic demand remains a policy priority.

Domestic Economy Update

Consumption Momentum
Domestic Auto Sales Record Bumper Sales in Q3 FY26

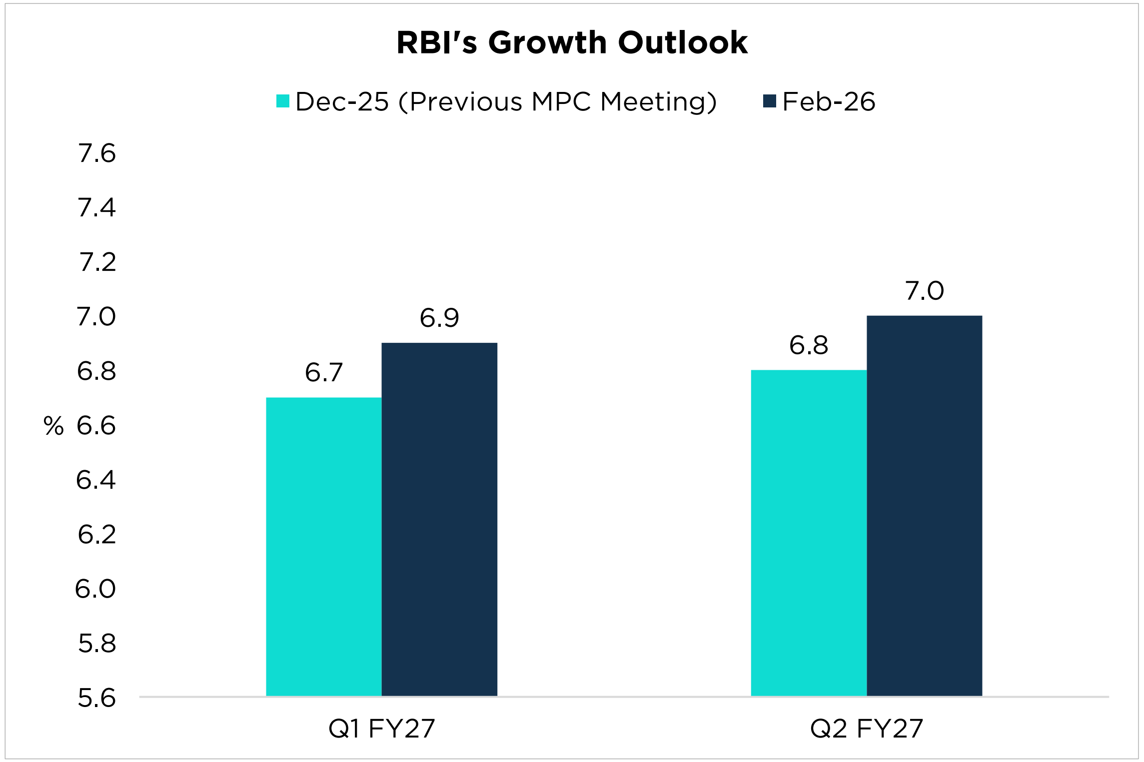


Source: CMIE, CareEdge

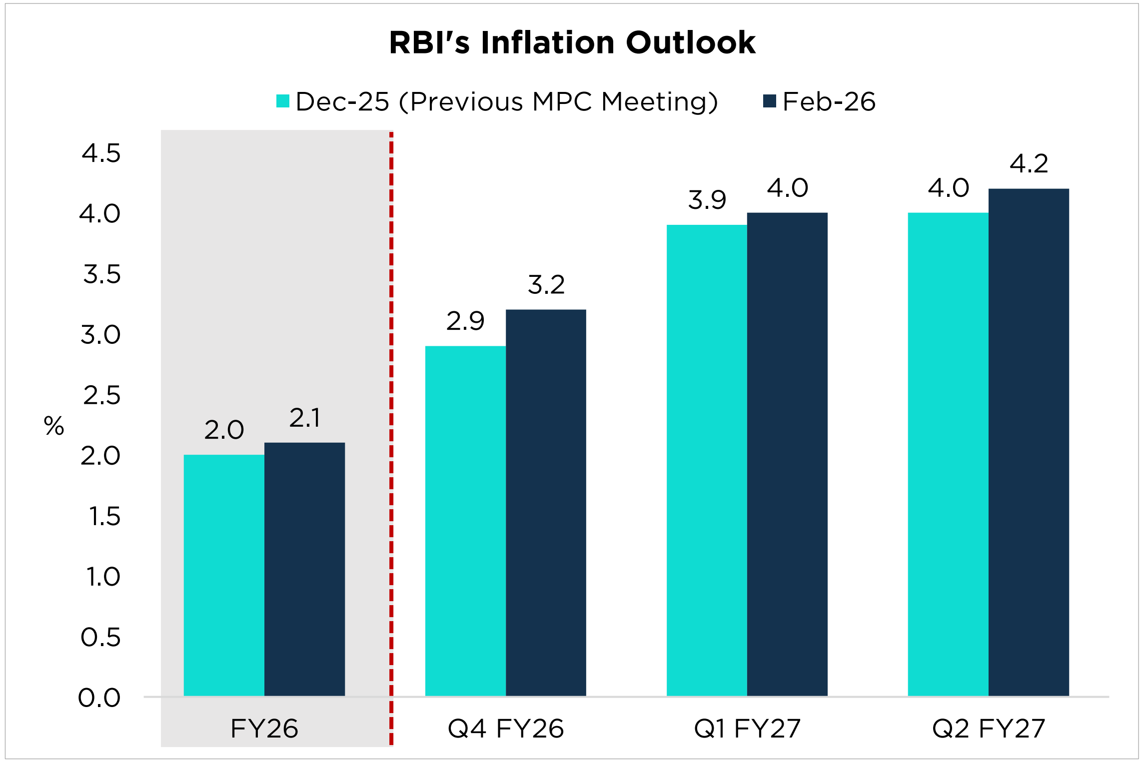
- Domestic auto sales recorded upbeat growth in Q3 FY26. Several factors, such as lower income tax burden announced in Budget FY26, GST rate rationalisation, contained inflation, and past RBI rate cuts, have played in favour of the consumption scenario.
- While tractor sales continued to record healthy growth, there was a notable acceleration in the growth for PVs and 2-3-wheeler sales.
- Going ahead, rural demand is expected to remain steady, buoyed by healthy agricultural activity, while urban demand is expected to show further signs of improvement.

RBI's Growth & Inflation Outlook

RBI Revised GDP & Inflation Forecast Higher



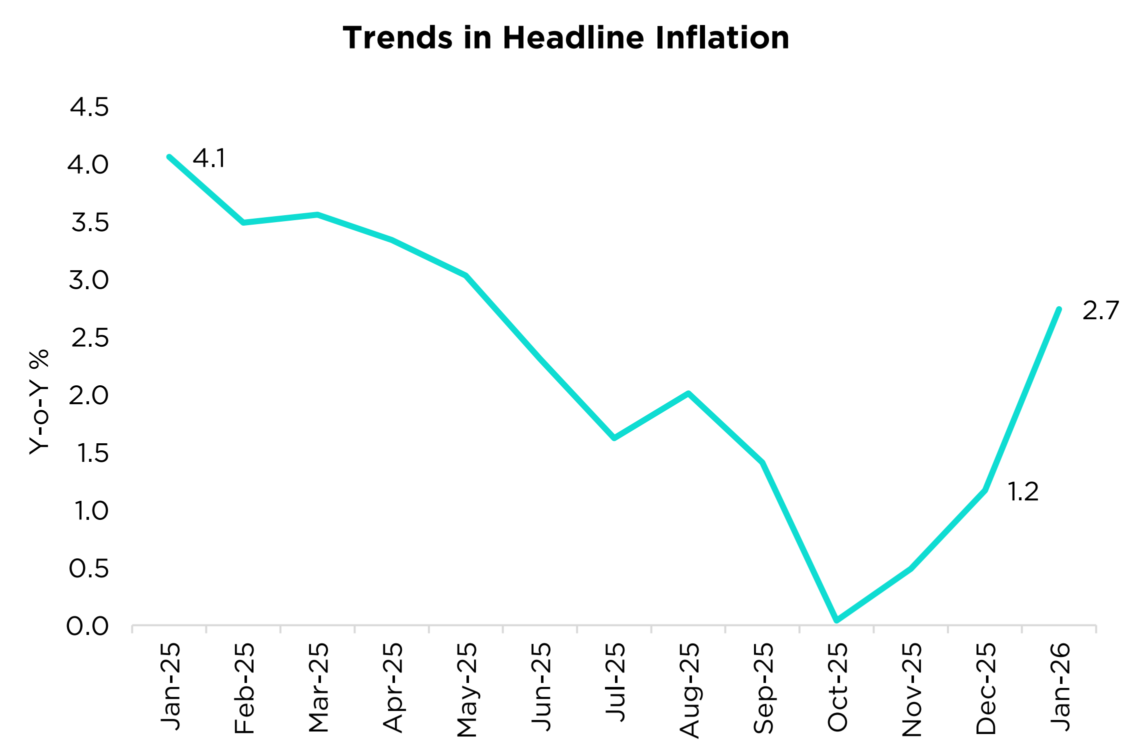
Source: RBI, CareEdge



Source: RBI, CareEdge

- RBI has revised its growth forecast for H1 FY27 marginally higher by 20 bps to 7%.
- With the recently announced India-US trade deal, we have revised our FY27 growth projection higher by 20 bps to 7.2%.
- The forthcoming new series for GDP will need close monitoring, as it could lead to minor revisions to our projections.
- The RBI has revised its Q4 FY26 inflation forecast to 3.2% from the earlier forecast of 2.9%.
- Furthermore, the RBI has revised its H1 FY27 inflation forecast slightly higher by 10 bps to 2.1%.

CPI Inflation
CPI Inflation at 2.75% in January as per the New 2024 Series



Source: MOSPI, CareEdge. Imputed from the new series using the linking factor.

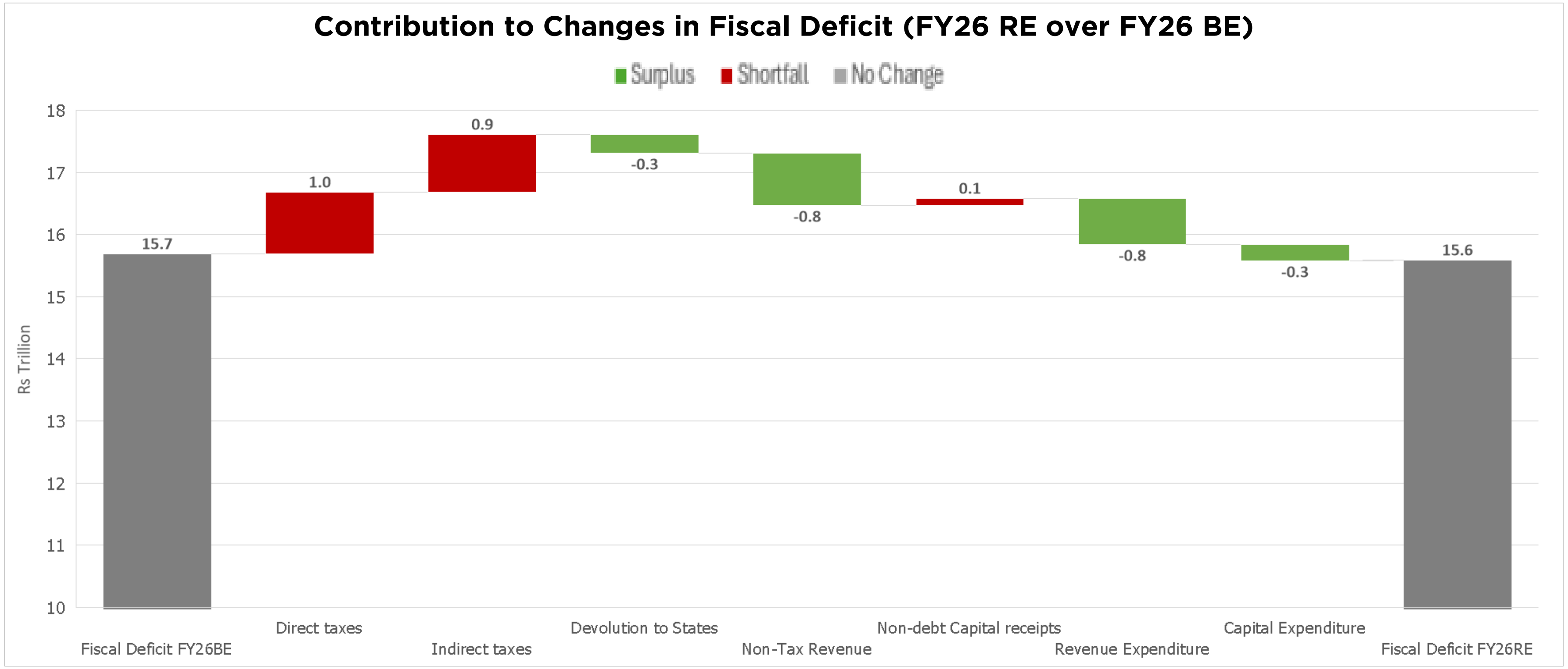
Headline & Division-Wise Inflation (Y-o-Y % - Jan-26)	CPI Inflation
Headline	**2.7**
Food and Beverages [36.8]	2.1
Housing, Water, Electricity, Gas and Other Fuels [17.7]	1.5
Transport [8.8]	0.1
Clothing and Footwear [6.4]	3.0
Health [6.1]	2.2
Personal Care, Social Protection and Miscellaneous Goods and Services [5.0]	19.0
Furnishings, Household Equipment and Routine Household Maintenance [4.5]	1.5
Information and Communication [3.6]	0.2
Restaurants and Accommodation Services [3.3]	2.9
Education Services [3.3]	3.4
Paan, Tobacco and Intoxicants [3.0]	2.9
Recreation, Sport and Culture [1.5]	2.3

Source: MOSPI, CareEdge. Weight in bracket

- As per the new 2024 series, India's CPI inflation was reported at 2.75% in January 2026, higher than 1.2% in December 2025 (imputed under the new series).
- Waning of a favourable base effect and a sharp rise in precious metal prices are expected to have resulted in higher inflation.
- We expect CPI inflation to average 3.2% in Q4 FY26, bringing full-year inflation to 2.1%.
- In FY27, assuming a normal monsoon, inflation is projected to rise to an average of 4.3%, as the favourable base effect fades.
- It will be important to closely monitor geopolitical tensions between the US and Iran, as they could affect energy prices.
- We expect the RBI to pause on both interest rates and its policy stance going forward, unless significant downside risks to growth materialise.

Union Budget Analysis

Centre Achieved its Fiscal Deficit-to-GDP Target in FY26



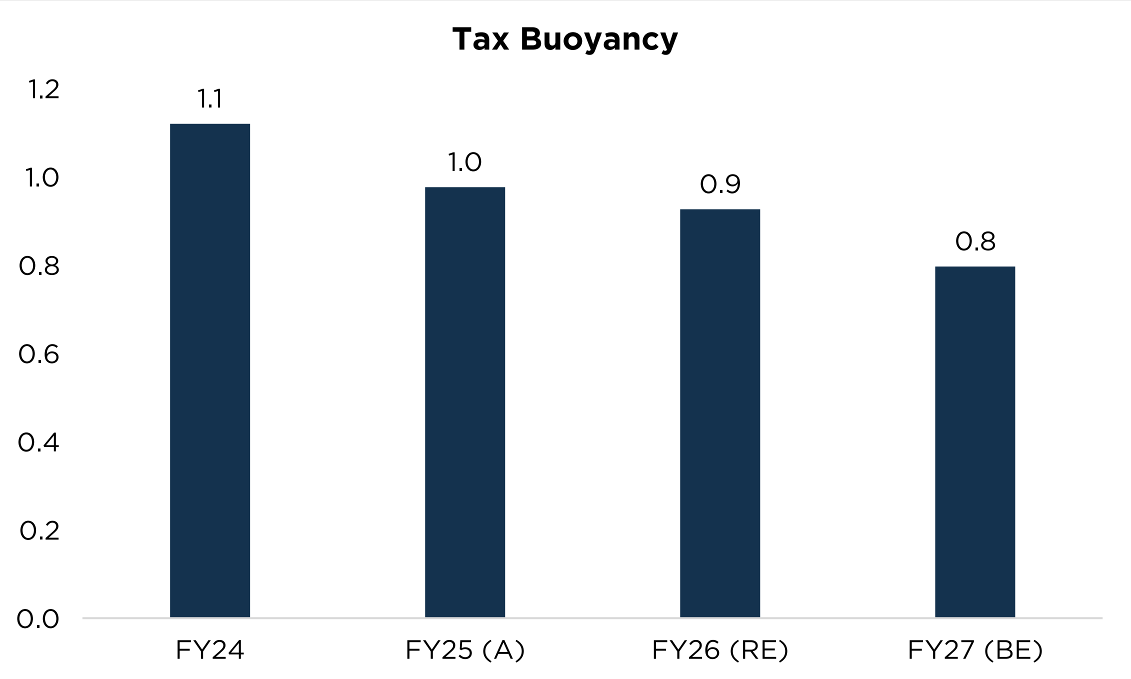
Source: Union Budget Documents; CareEdge; Note: (RE): Revised Estimate; (BE): Budget Estimate

- Despite weaker tax and subdued divestment in FY26, the Centre achieved its 4.4% fiscal deficit target due to lower spending and higher RBI dividend transfer.
- For more insights – See CareEdge Report on Union Budget Analysis FY27

Revenue Snapshot

	FY26 (RE)	FY27 (BE)	FY26 (RE)	FY27 (BE)
	Rs Trillion		Y-o-Y %	
Gross tax revenue	**40.8**	**44.0**	**7.4**	**8.0**
Direct taxes	**24.2**	**27.0**	**8.9**	**11.4**
Corporate tax	11.1	12.3	12.4	11.0
Income tax	13.1	14.7	6.2	11.7
Indirect taxes	**16.5**	**16.8**	**5.3**	**1.9**
Goods & service tax	10.5	10.2	1.9	-2.6
Customs	2.6	2.7	10.8	5.0
Union excise duty	3.4	3.9	12.1	15.6

Source: Union Budget Documents; CareEdge; Note: (A): Actuals; (RE): Revised Estimate; (BE): Budget Estimate



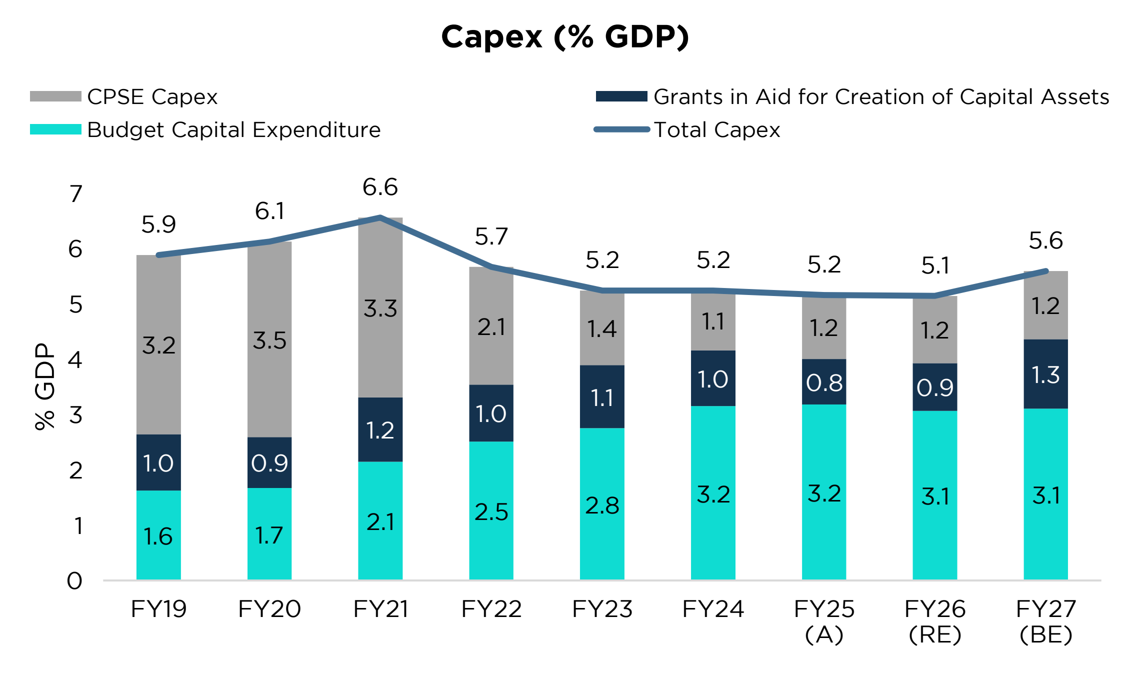
Source: Union Budget Documents; CareEdge; Note: (A): Actuals; (RE): Revised Estimate; (BE): Budget Estimate

- Gross tax revenue is budgeted to increase by 8% in FY27 from 7.4% in FY26 (lower than 10.8% budgeted last year).
- With a projected nominal GDP growth of 10% in FY27, gross tax buoyancy stands at 0.8. Overall, budgeted tax growth appears reasonable.
- Impact of GST rationalisation to spillover into the next fiscal year, as well, resulting in 2.6% contraction in revenues from GST.
- Centre has budgeted dividend receipts of Rs 3.2 trillion from the RBI and PSBs in FY27 (Vs Rs 3 trillion in FY26), implying elevated dividend from the RBI.
- Miscellaneous capital receipts (divestment and asset monetisation) budgeted significantly higher at Rs 800 billion in FY27 vs Rs 338 billion in FY26.

Union Budget Analysis
Focus on Capex Continues

	FY25 (A)	FY26 (RE)	FY27 (BE)	FY26 (RE)	FY27 (BE)
	Rs Trillion			Y-o-Y %	
Budget Capital Expenditure	10.5	11.0	12.2	4.2	11.5
Grants in Aid for Creation of Capital Assets	2.7	3.1	4.9	13.0	59.9
Effective Capital Expenditure	**13.2**	**14.0**	**17.1**	**6.0**	**22.1**
Resources of Public Enterprises (CPSE Capex)	3.8	4.3	4.8	13.5	11.5
Total Capex (Effective + CPSE Capex)	**17.1**	**18.4**	**22.0**	**7.7**	**19.6**

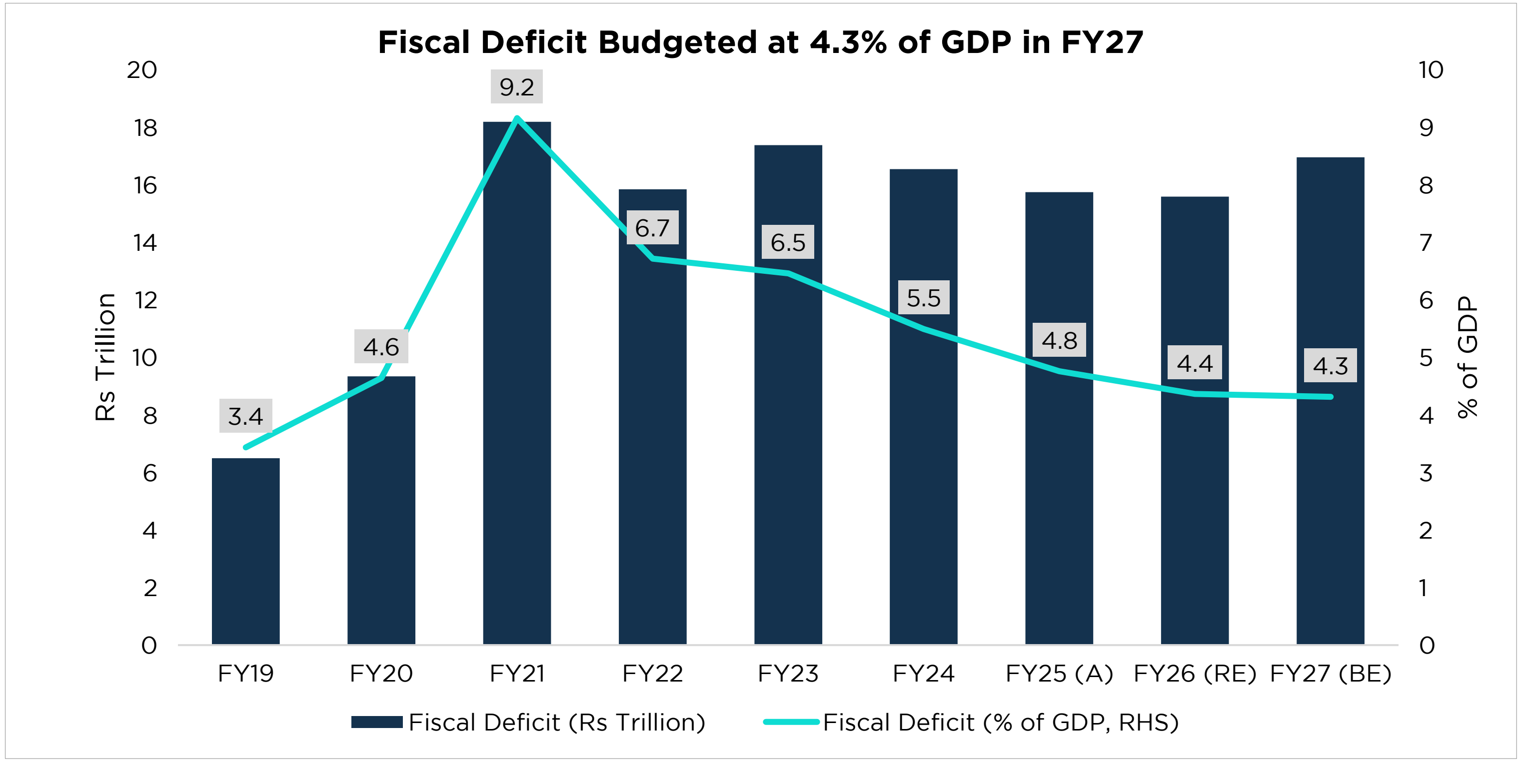
Source: Union Budget Documents, CEIC; CareEdge; Note: (A): Actuals; (RE): Revised Estimate; (BE): Budget Estimate



Source: Union Budget Documents, CEIC; CareEdge; Note: (A): Actuals; (RE): Revised Estimate; (BE): Budget Estimate

- With continued capex momentum, Centre's capex is budgeted to rise by a healthy 11.5% to Rs 12.2 trillion in FY27.
- Grants in aid for creation of capital assets are budgeted to rise notably in FY27, translating into a 22.1% growth in the Centre's effective capex.
- CPSE capex is budgeted to rise to Rs 4.8 trillion in FY27, the highest level in the last five years.
- The total capex (effective + CPSE capex) is seen rising by a strong 19.6% in FY27.
- Overall, total capex (% GDP) is budgeted to rise to 5.6% in FY27, supported by higher grants in aid for the creation of capital assets.

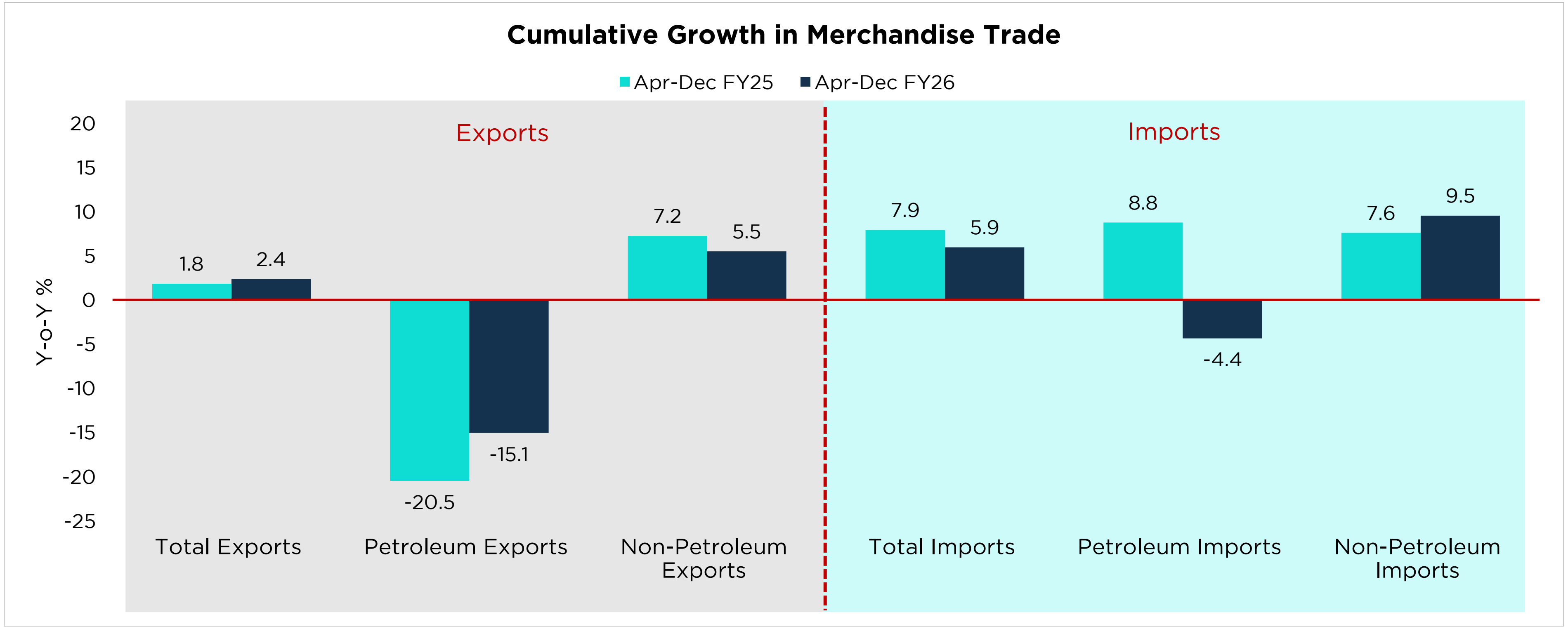
Centre's Commitment to Fiscal Consolidation Continues



Source: Union Budget Documents; CareEdge; Note: (A): Actuals; (RE): Revised Estimate; (BE): Budget Estimate

- The budgeted fiscal deficit of 4.3% in FY27 is expected to reduce the Centre's debt-to-GDP ratio to 55.6% in FY27 from 56.1% in FY26 (RE).
- The Centre targets to reduce its debt to GDP ratio to reach 50 (+/-1) % by end-FY31.

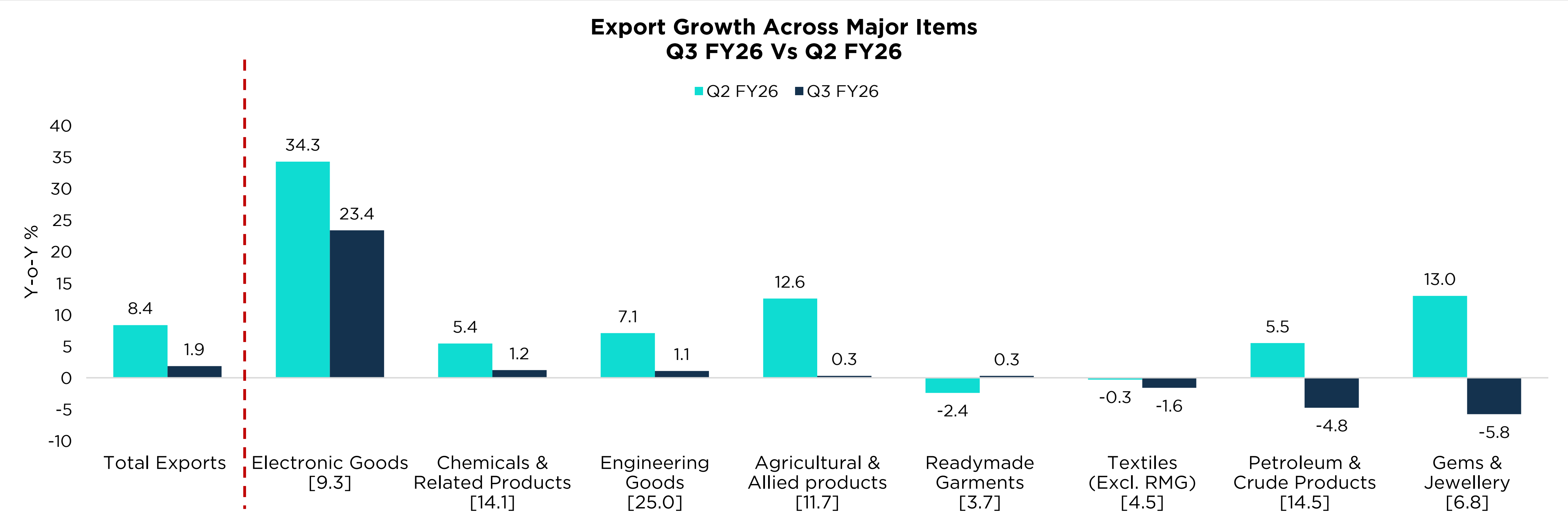
Foreign Trade Performance
Merchandise Trade Growth



Source: CMIE, CareEdge

- India's petroleum exports contracted by 15.1% in 9M FY26, on account of lower export volume (down 6.1%) and lower export prices.
- Non-petroleum exports held up relatively well, rising by 5.5% during 9M FY26, albeit slower compared to 7.2% growth in the same period last year.
- Though petroleum imports contracted by 4.4% in 9M FY26, import quantity remained healthy, rising by 7.9% in the same period, reflective of healthy domestic activity.
- Non-petroleum imports grew by 9.5% during 9M FY26 compared to 7.6% growth last year.

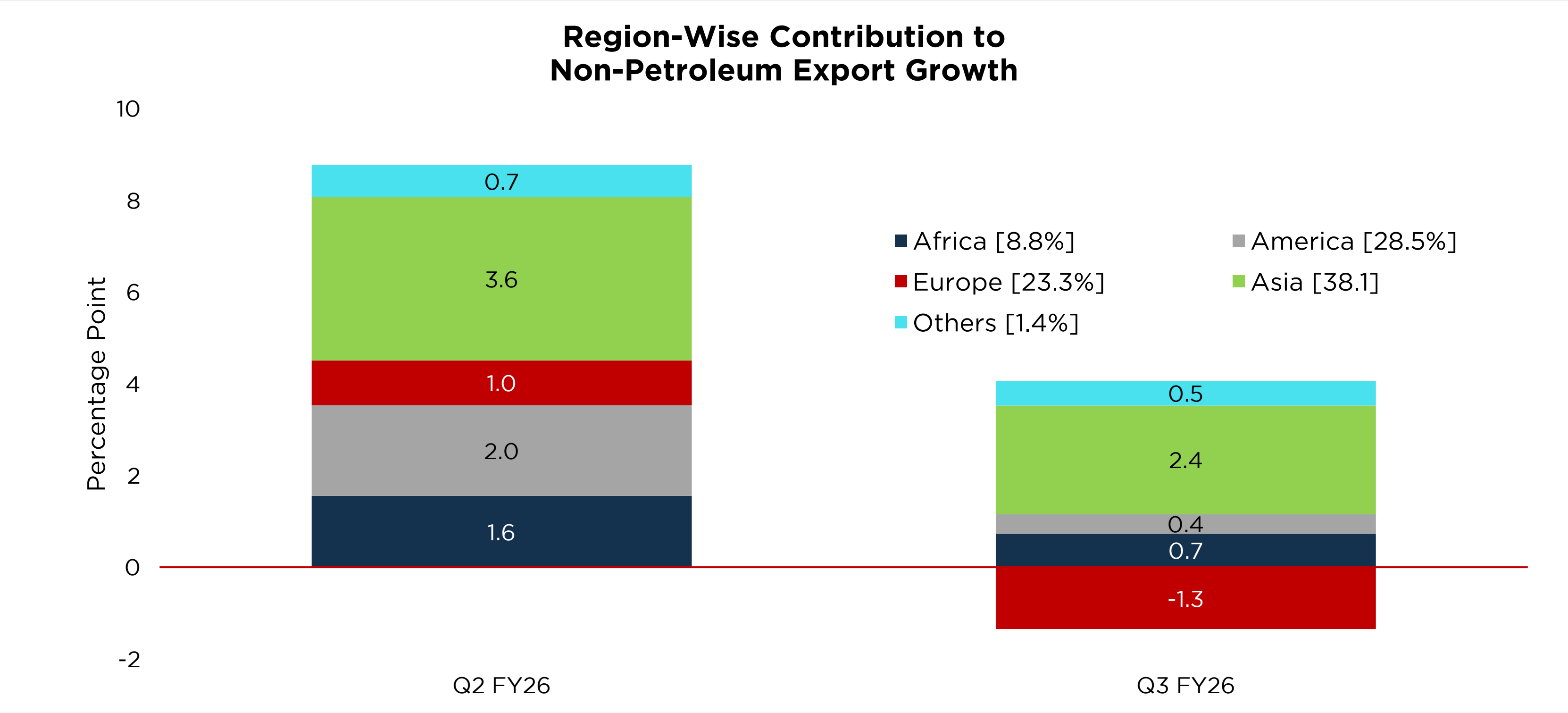
Foreign Trade Performance
Growth Across Most Major Export Items Decelerated in Q3 FY26



Source: CMIE, CareEdge; Note: Figures in bracket represent percentage share in total merchandise exports in FY25

- Petroleum exports fell 4.8% (y-o-y) in Q3 FY26 as against 5.5% growth in Q2 FY26. Non-Petroleum export growth moderated to 2.7% in Q3 FY26 Vs 8.8% in Q2 FY26.
- Exports of all major items except RMG witnessed moderation in Q3 FY26 on a year-on-year basis compared to the previous quarter.
- However, electronic goods continued to hold up relatively well with a growth of 23.4% in Q3 FY26 from 34.3% in Q2 FY26.
- Exports of labour-intensive items such as gems & jewellery and textiles contracted by 5.8% and 1.6%, respectively in Q3 FY26.

Foreign Trade Performance
Region-Wise Export Performance of Non-Petroleum Items

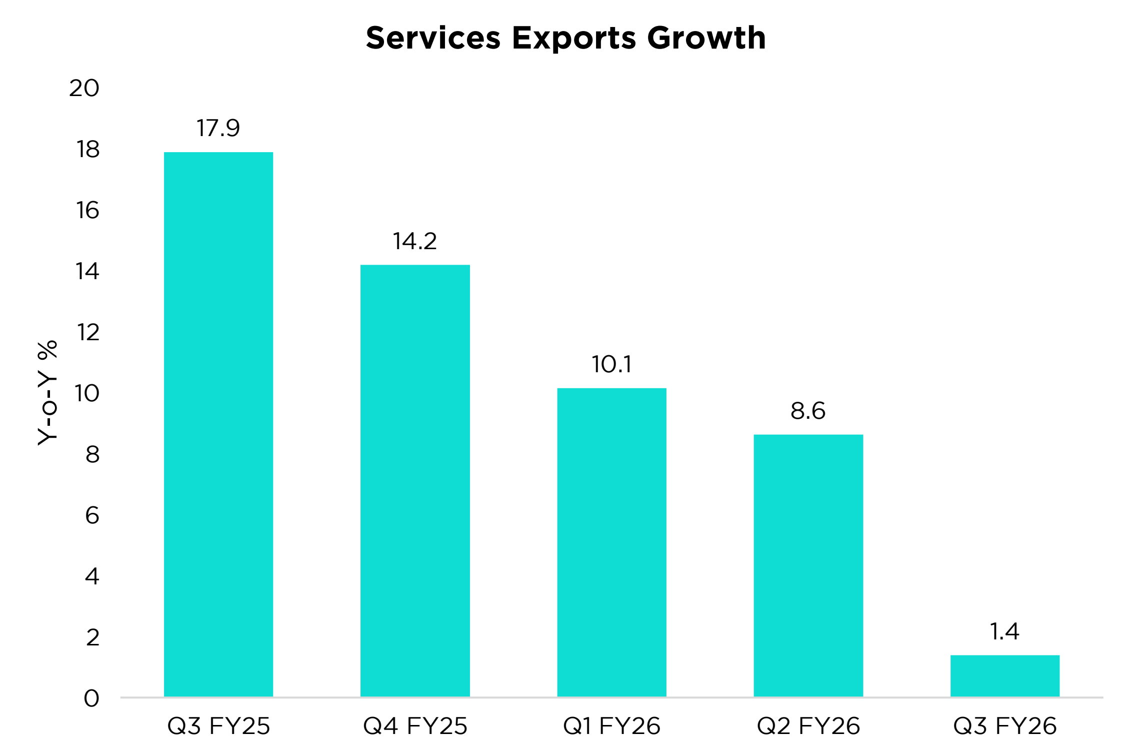


Source: CMIE, CareEdge; Note: Figures in bracket represent percentage share in total non-petroleum exports in FY25

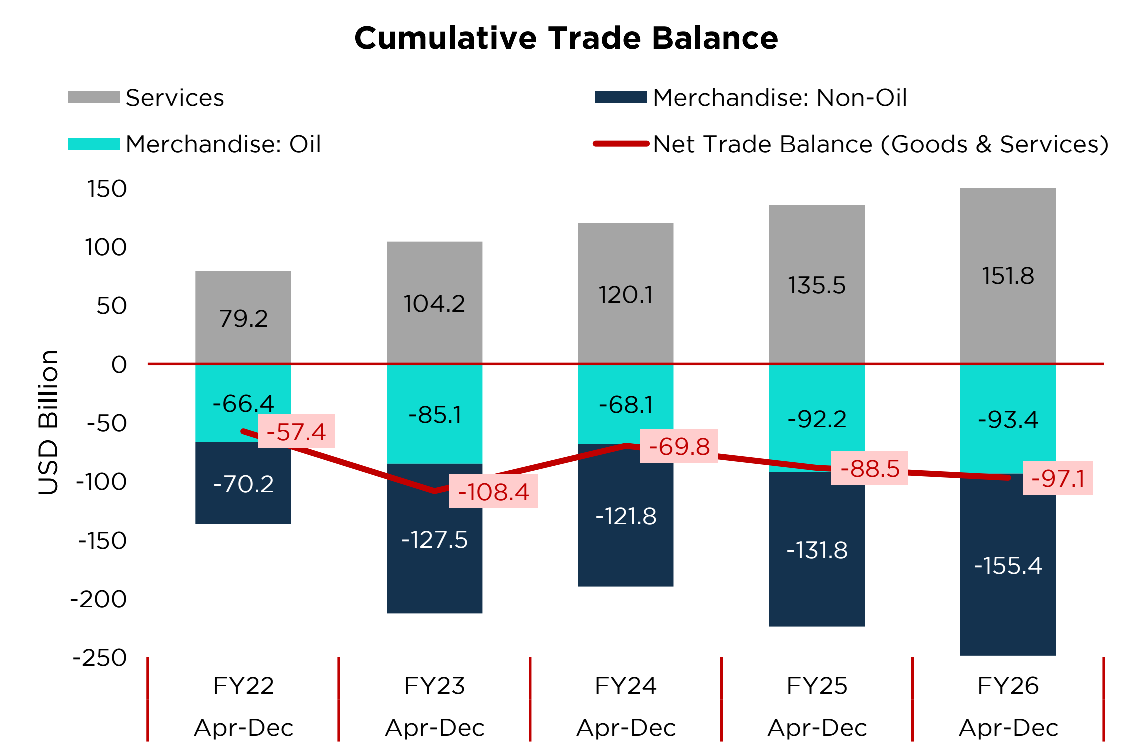
- Lower export growth in Q3 FY26 was on account of a broad-based moderation in growth contributions across regions.
- Contribution from America was down sharply to 0.4 percentage points in Q3 FY26 from 2.0 percentage points in the previous quarter.
- India's export growth to the US (22% share in total non-petroleum exports) moderated to 1.2% in Q3 FY26 from 6.6% in Q2 FY26.
- Europe's contribution to export growth turned negative to 1.3 percentage points from a positive contribution of 1.0 percentage points in the previous quarter.
- Among top European export destinations, India's exports to the Netherlands and Italy witnessed a contraction in Q3 FY26.
- However, export contribution of Asia held up relatively well, supported primarily by exports to China.

Foreign Trade Performance

Services Exports Decelerated in Q3 FY26; CAD Projected ~1% of GDP



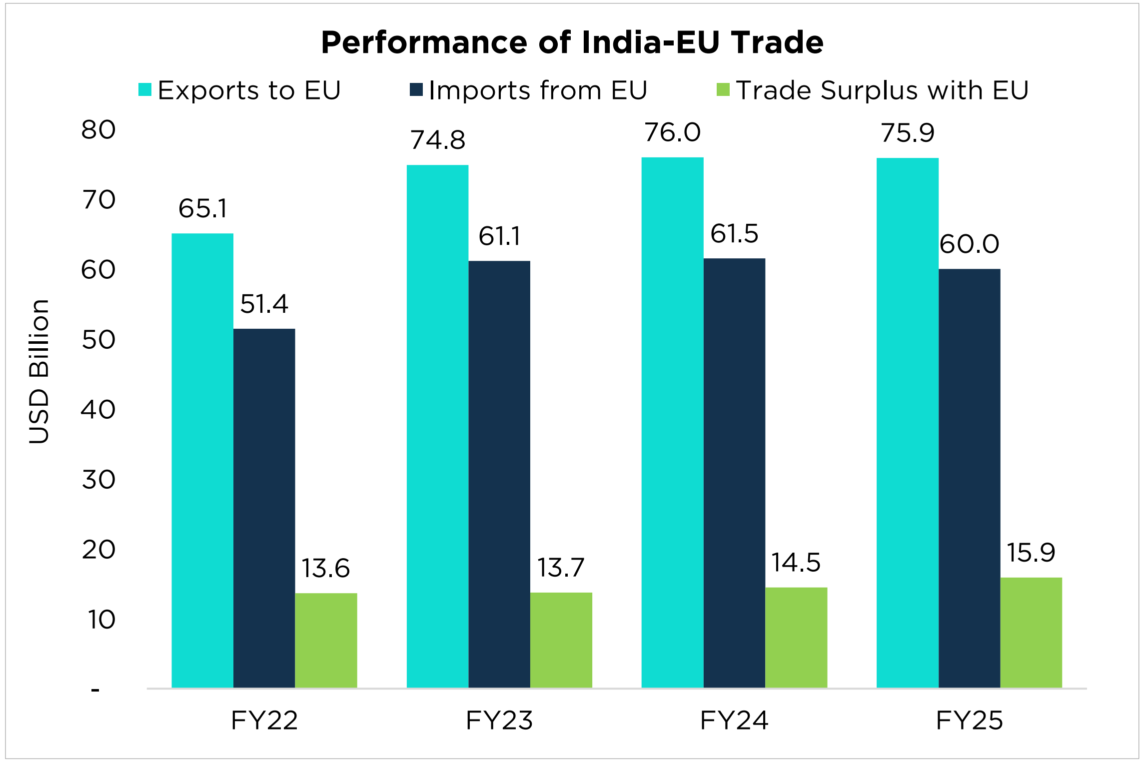
Source: CMIE, CareEdge

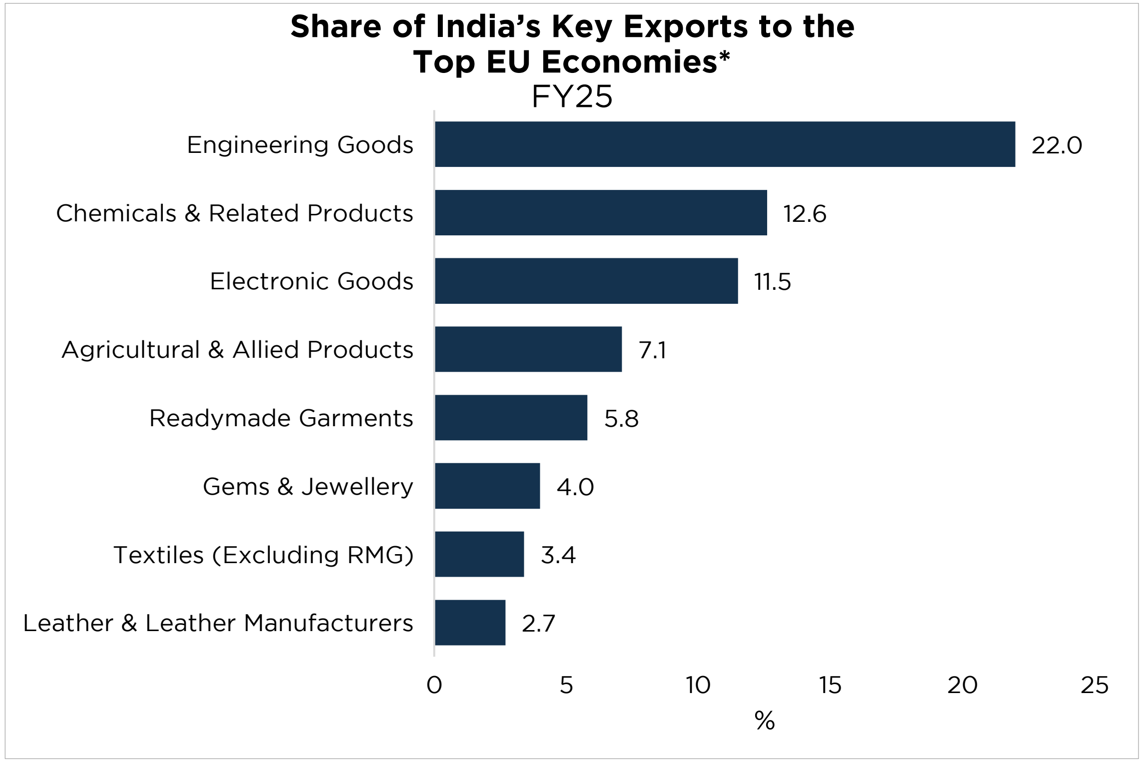


Source: CMIE, CareEdge

- While India's services exports have risen by 6.5% (y-o-y) during 9M FY26, quarterly growth numbers point towards deceleration.
- Services exports growth moderated sharply to 1.4% in Q3 FY26 from 8.6% in Q2 FY26. The trends in the coming months warrant close monitoring.
- The overall trade deficit (goods + services) was seen at USD 97.1 billion in 9M FY26, higher than USD 88.5 billion in the same period last year.
- Widening in Apr-Dec FY26, mainly because of a sharp increase in the non-oil trade deficit, even though the services trade surplus increased in this period.
- Overall, we project the current account deficit (CAD) to be at ~1% of GDP in FY26 and FY27, supported by a healthy services trade surplus and benign crude oil prices.

Recently Announced Trade Deals Boost Sentiments
India-EU Trade Agreement: A Quick Take

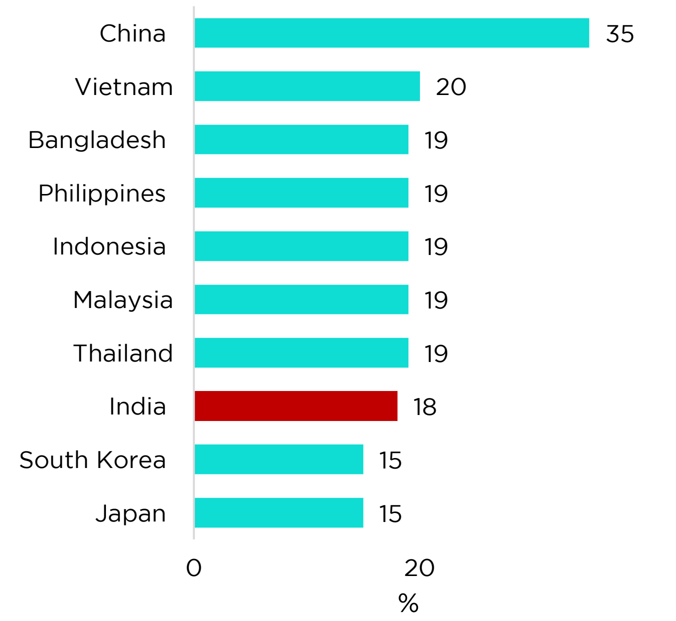


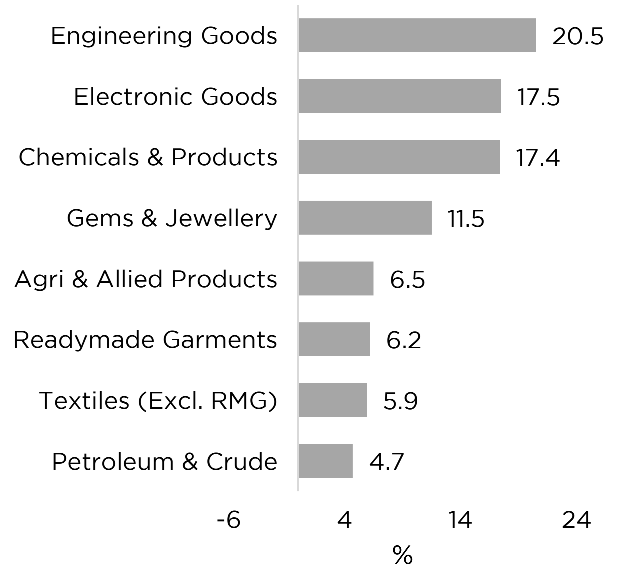


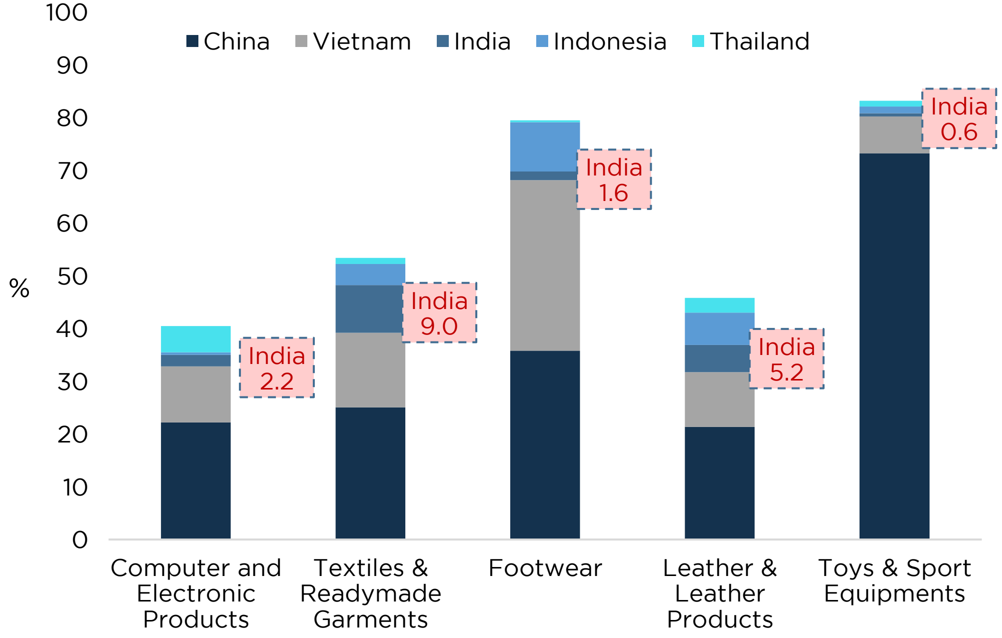
Source: CMIE, CareEdge; * We have considered the top EU economies - the Netherlands, Germany, France, Italy, Belgium and Spain - representing 79% of India's exports to the EU

- As per the trade deal, engineering goods, which currently face tariffs as high as 22%, are set to gain from the preferential market access.
- The trade deal also ensures zero duty on 97.5% of India's chemical export basket by value, eliminating duties of up to 12.8%.
- Among labour-intensive exports, jewellery exports, currently subject to tariffs of up to 4%, are set to gain preferential access to 100% of trade value.
- Textiles and clothing exports are set to gain zero-duty access across all tariff lines, reducing tariffs by up to 12%.
- Overall, while implementation and ratification may take time, the deal is expected to cushion the domestic economy against growing global protectionism and rising external headwinds over the medium to long term. See our report on India-EU Trade Deal for more insights.

Recently Announced Trade Deals Boost Sentiments
India-US Trade Agreement

US Tariffs on Select Economies


Share of India's Key Exports to US - FY25


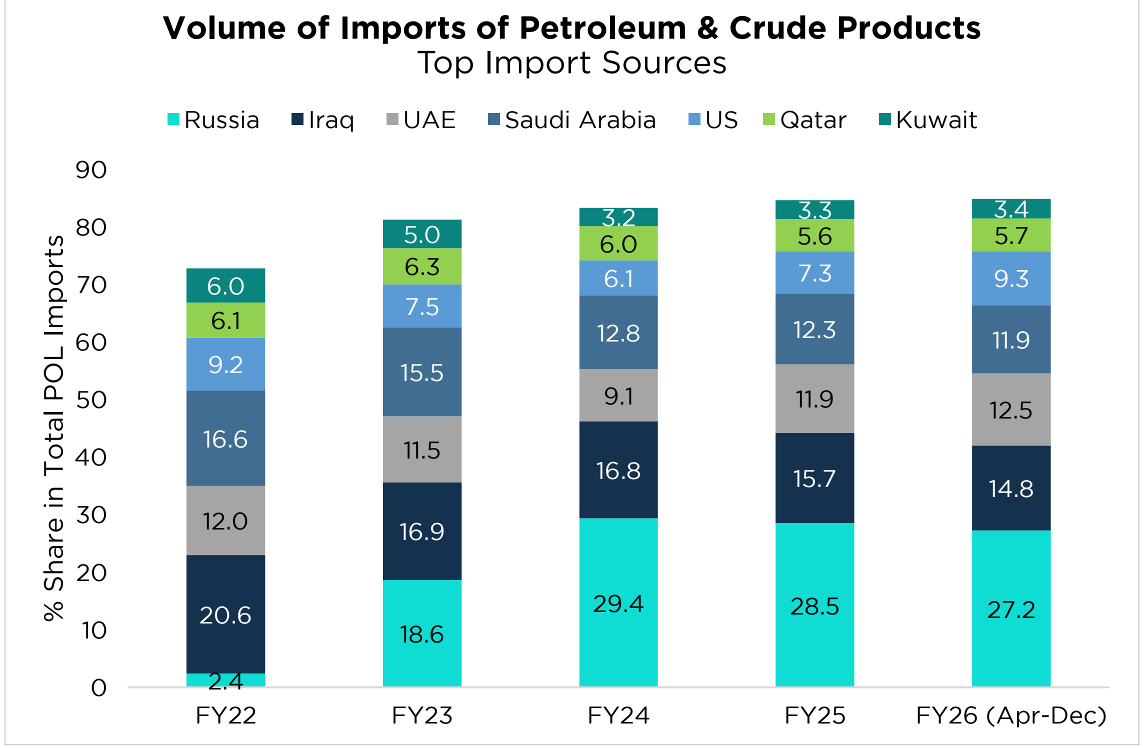
Share of Select Economies in US Imports (CY2024)


Source: CMIE, International Trade Administration, PIB, CareEdge

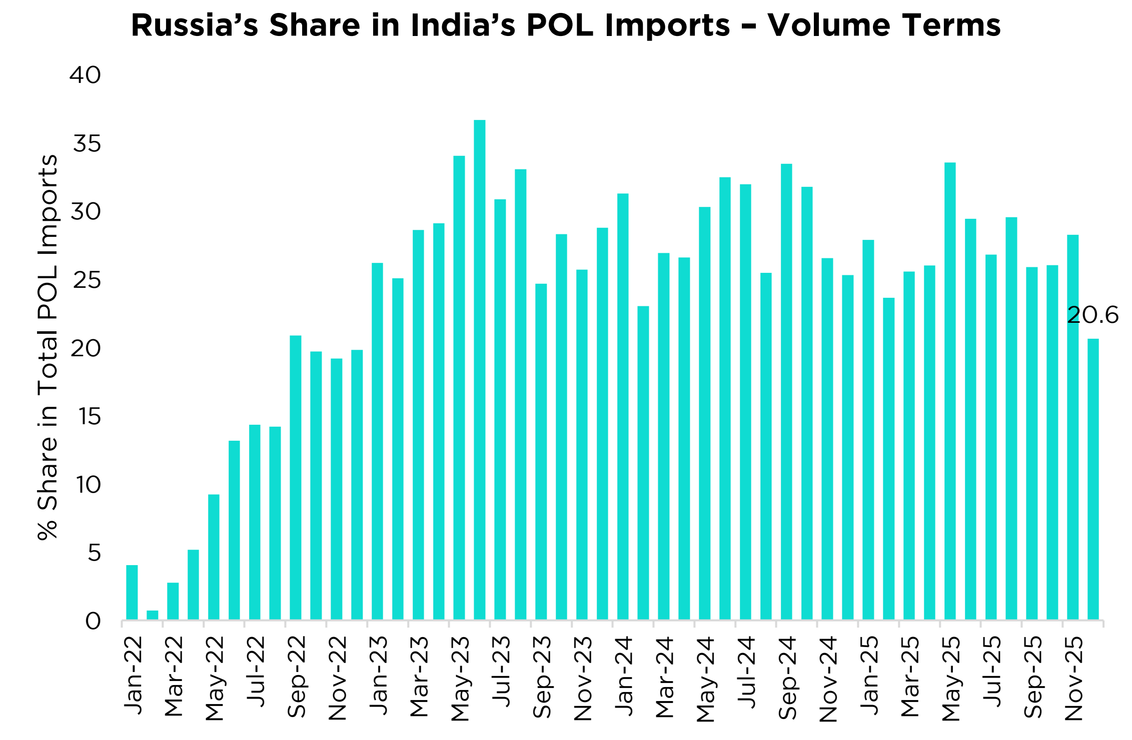
- In FY25, India's total exports to the US stood at USD 87 billion while imports were at USD 45 billion. Following the India-US trade deal, we have revised our GDP growth projection by 20 bps to 7.2% for FY26. The deal lowers tariffs on key sectors - textiles, leather & footwear, gems & jewellery, toys, machinery and parts, etc., from 50% to 18%.
- Tariff cuts in these sectors, coupled with India's comparative tariff advantage over competing economies, create an opportunity to expand India's market share in the US for products like textiles, leather goods and toys. The deal also safeguards highly sensitive sectors such as agriculture, dairy, meat, etc.
- However, the continuation of tariffs on automobiles (at 25%) and steel (at 50%) continues to pose a headwind for these sectors, and related developments remain a key monitorable going ahead.
- India's non-petroleum export growth to the US moderated to 1.2% in Q3 FY26 from 6.6% in Q2 FY26, with a sharp contraction seen in exports of gems & jewellery, RMG, textiles, etc. India's exports to the US are expected to improve going forward.

India-US Interim Trade Agreement

India To Scale Back Oil Imports from Russia



Source: CMIE, CareEdge

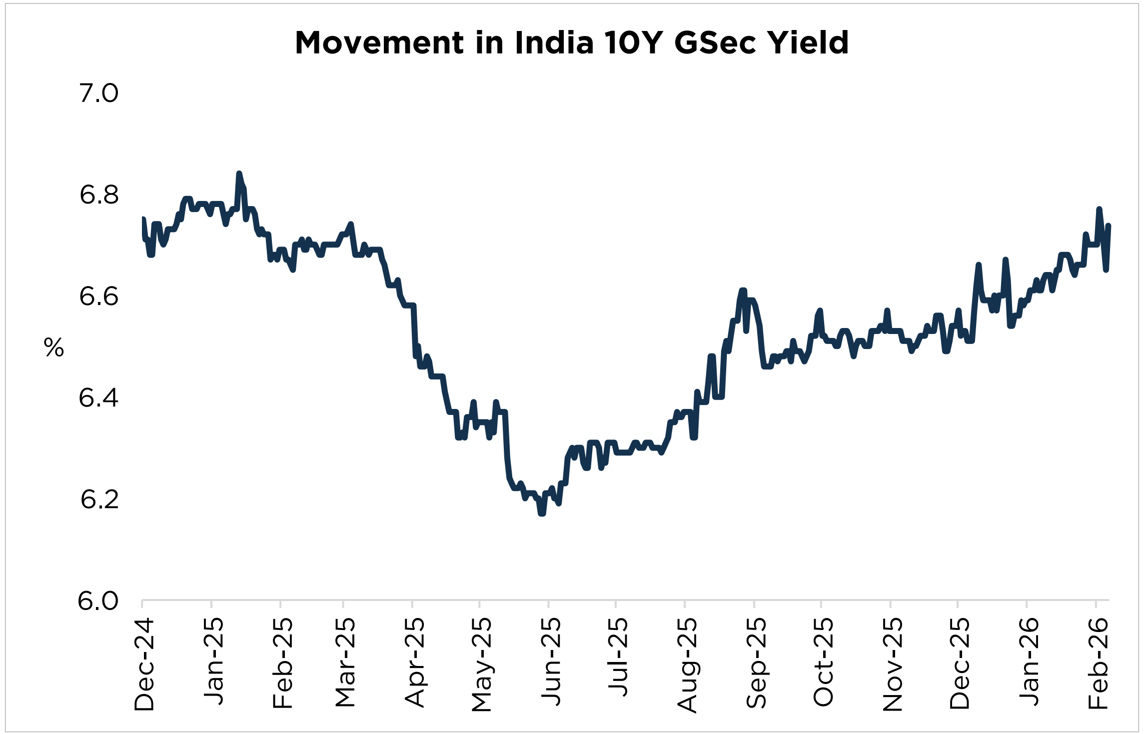


Source: CMIE, CareEdge

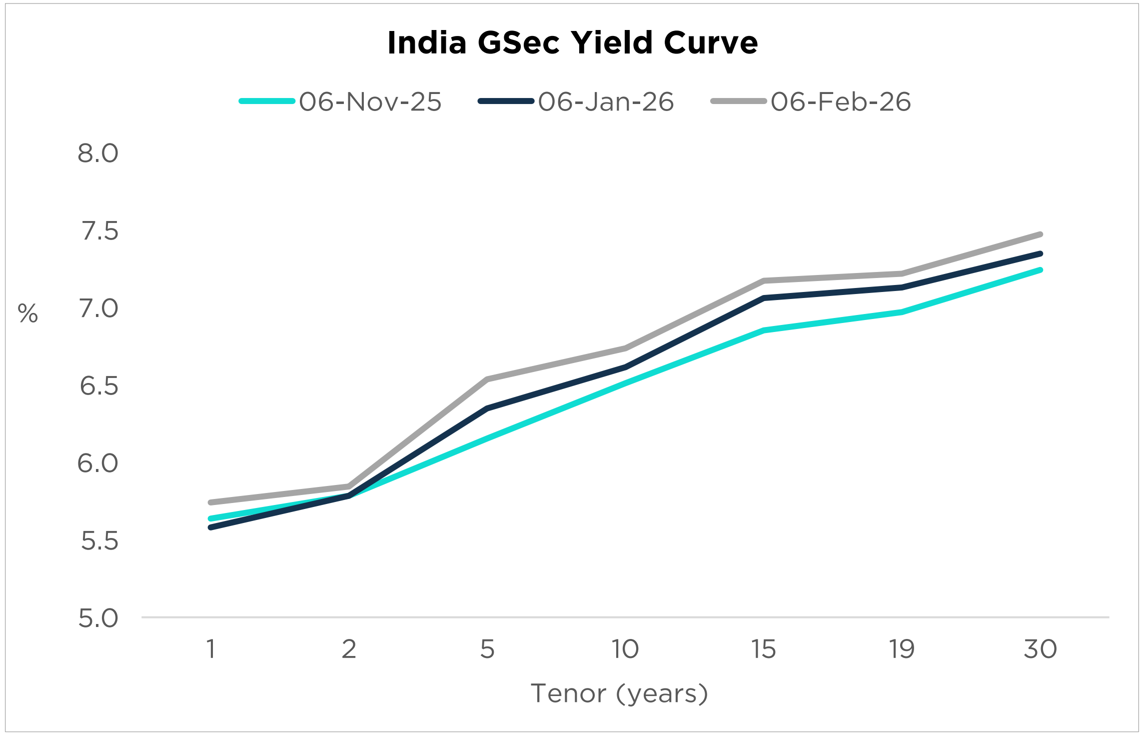
- Russia's share in India's oil imports (in volume terms) dipped to a 36-month low of 6.2 million tonnes in December 2025.
- During 9M FY26, the share of Russia in India's oil imports (volume terms) was at 27.2%, lower than 28.5% in FY25. Share of US rose to 9.3% in 9M FY26 from 7.3% in FY25.
- In January 2026, the discount on Russian oil over Brent widened to 29 (USD/bbl) after staying rangebound between 12-14 (USD/bbl) for most of 2025.
- This widening differential comes against the backdrop of rising sanctions on Russian oil imports.
- As India scales back Russian oil imports, the benign global crude oil prices are expected to remain supportive of India's import bill and current account position.

Debt & FX Update

10Y G-Sec Yield Remains Elevated



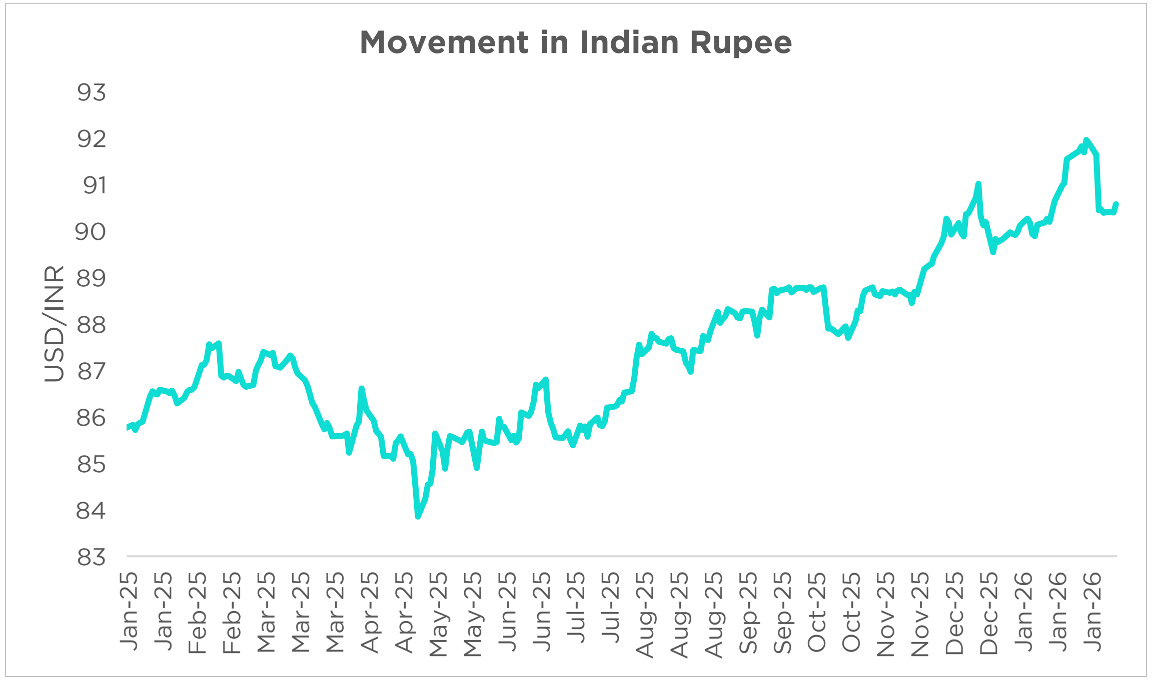
Source: Refinitiv, CareEdge. Data as of 6 Feb



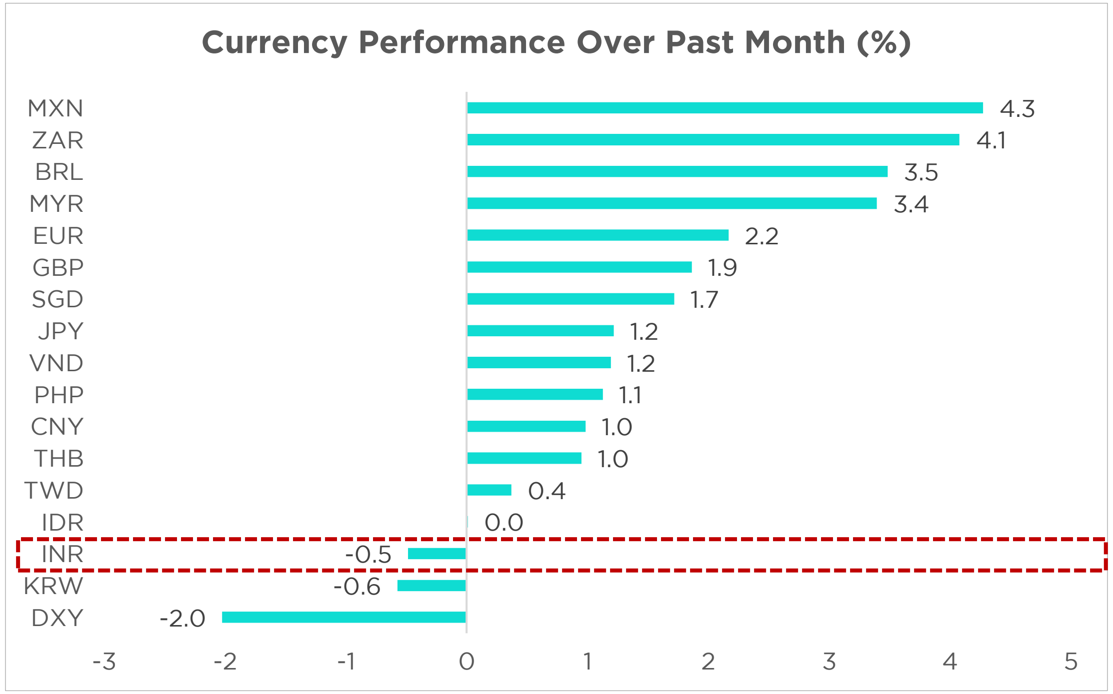
Source: Refinitiv, CareEdge

- India's 10Y G-Sec yield increased by 8 bps since 1st January amid concerns over government borrowing and global uncertainties.
- The yield curve steepened as yields for higher tenors increased. No further rate cuts from RBI expected unless tail risks to growth materializes. RBI to support liquidity conditions via OMOs which will also help long terms yields.
- A stable rupee, following recent trade deals would allow RBI to scale back its forex interventions.. This in turn will support domestic rupee liquidity.
- This headroom created by a stable rupee is important as the RBI prepares to manage a sizeable central government borrowing of Rs 17.2 trillion in FY27.
- State government borrowing also remains elevated. State Government borrowing is expected at Rs 12.5 tn in FY26, 16.6% higher than Rs 10.7 tn in FY25.
- We maintain our expectation that the 10-year G-sec yield will hover in the 6.4-6.6% range by end-FY26.

Rupee Appreciates After Trade Deals



Source: CEIC, CareEdge. Data as of 10 February



Source: Haver, CareEdge; Data as of 10 February. 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

- The USD/INR strengthened from recent lows of around 92 to approximately 90.6 (as of 15th Feb) following the trade deal with the US and the FTA with the European Union.
- Despite this recovery, the rupee remains about 0.5% weaker against the dollar compared to its level a month ago.
- Easing trade uncertainties are likely to support a revival in foreign investment inflows, providing greater stability to the rupee.
- This could allow the RBI to scale back its forex interventions, which had intensified over the past few month.
- Weakness in dollar index continued amid rising expectation of Fed rate as inflation slowed sharply in January to 2.4% from 2.7% in the previous two months.
- We maintain our FY27-end USD/INR forecast at 89–90, underpinned by a softer dollar and a manageable CAD.

CareEdge Eco Research Round-up

From the Economics Desk @ CareEdge	
CPI Inflation – December 2025	Read Here
IIP Growth – December 2025	Read Here
Debt & Forex Market Update – January 2026	Read Here
Economic Survey FY26 – Key Highlights	Read Here
Union Budget Analysis FY27	Read Here
India-EU Trade Agreement – A Quick Take	Read Here
Monetary Policy Preview	Read Here
Monetary Policy Outcome	Read Here

CareEdge Forecasts

Economic Growth
GDP growth projected at **7.4%*** in FY26 and **7.2%** in FY27

Inflation
Average CPI inflation projected at **2.1%** in FY26 and **4.3%** in FY27

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

Fiscal Deficit
Fiscal deficit (as % of GDP) budgeted at **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

* As per the First Advance Estimate

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