Vivriti Capital
Ambitions Unleashed

THE PULSE

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INSIGHTS ON KEY MACROECONOMIC DATA AND EVENTS

India's financial institutions will continue to ride the country's good economic growth momentum. These entities will benefit from their domestic focus and structural improvements in the system such as in the recovery of bad loans.

S&P Global Ratings

EXECUTIVE SUMMARY

Tariffs news continued in the US with the court's ruling against tariffs, bringing fiscal worries to the forefront. While this will likely be appealed in a higher court, sentiment remains wobbly. In addition, questions around the US Fed's independence are keeping the market on its toes. While the Fed chair Powell is expected to continue till his term expires next year, the firing of a Fed governor and the chair's Jackson Hole speech, indicating a possible dovish Fed in the September meeting, pose concerns about the Fed's independence. The US government has been pushing for lower rates; however, with inflation projections still higher than the Fed's target of 2%, aggressive cuts are likely to be taken negatively by markets. The curve is already very steep, with 30-year bonds still hovering closer to 5%. Elsewhere, debt markets in general face pressure as well on ultra long-term yields with fiscal worries in the UK and France, pushing yields higher with a rub-off effect to the rest of the Euro area.

On the domestic front, a 50% tariff came into effect; however, the street widely expects this to be lowered. Meanwhile, the Centre came up with GST reforms, rationalising GST rates with a two-slab structure (plus a higher rate on a smaller pool of sin and luxury items), aiming to reduce tax incidence on essentials. Effective tax on several FMCG goods will be lowered, and higher elasticity of demand in this segment is likely to boost consumption, pushing growth higher. GST rate cut impact is also likely to be disinflationary, though the pass-through of cuts is expected to be lower with a likely price rise to preserve margins. On the fiscal front, GST amendments are expected to cost INR 48,000 crore, on a net basis, to the government coffer, and with the recent sovereign rating upgrade, it is unlikely that the government will compromise on fiscal discipline.

On the markets front, domestic bond markets are a little distorted with significant selloffs from June lows. Weaker inflation and higher GDP soften the case for a further rate cut. The tax cuts raise the possibility of increased borrowing, dampening sentiment for the longer end of the curve. Currency took a beating too as FPI outflows continue; however, with sufficient foreign exchange reserves, we expect the central bank to smoothen any sharp depreciation pressures on the domestic currency.

DOWNWARD TRAJECTORY IN INDIA'S INFLATION CONTINUES; CPI AT 8-YEAR+ LOW, WPI REMAINS IN DEFLATION

India's retail inflation, which is measured by the change in the Consumer Price Index (CPI), eased to 1.55% YoY in July, the lowest since June 2017, giving consumers the continued boost in purchasing power. The retail inflation has been steadily declining over the past nine months and fell below the RBI's medium-term target of 4% in February and further below the lower end of the 2%-6% range in July. With this, the average inflation in FY26 till date stood at 2.4% which is almost the half of what it was during the same time last year (4.5%).

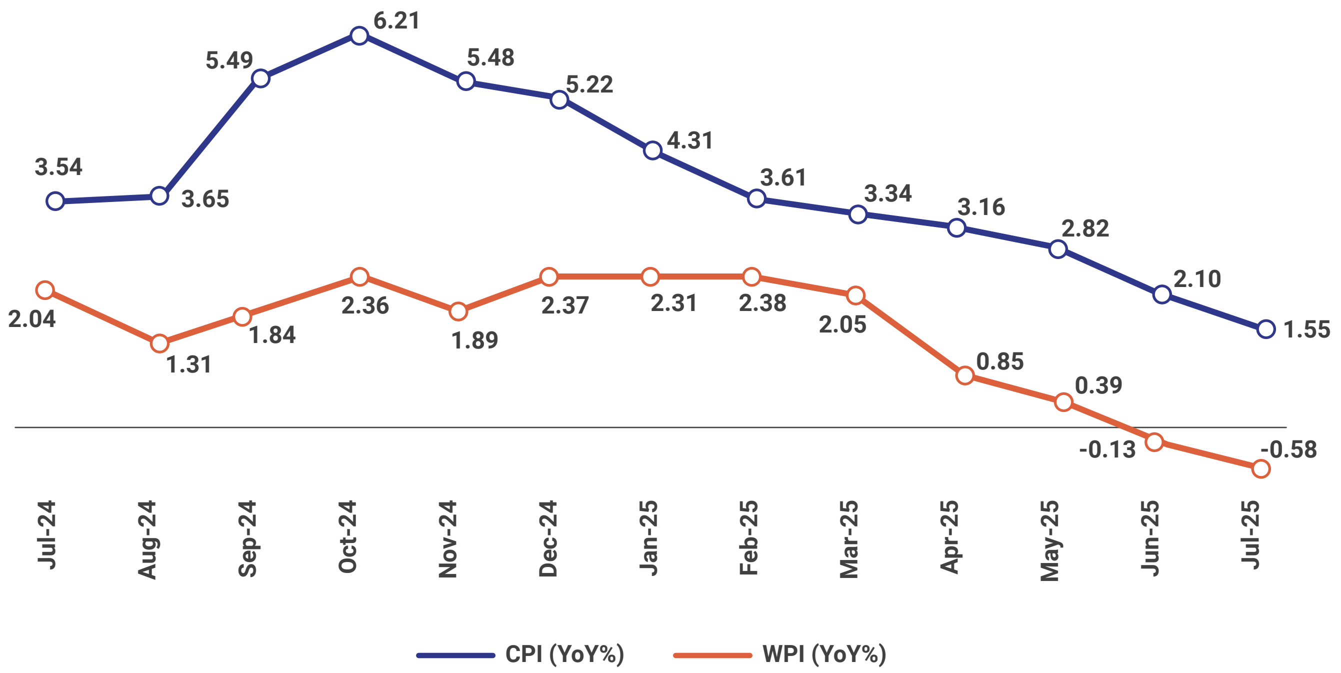
Food inflation, measured by the Consumer Food Price Index (CFPI), remained the driving force behind the fall. It fell to a 6.5-year low of -1.76% YoY in July (a decline of 75 bps MoM), marking the second consecutive month of deflation. Within the food basket, vegetables (-20.6% YoY), pulses (-13.7% YoY), spices (-3.1% YoY), sugar (3.3% YoY), cereals (3.0% YoY), milk (2.7% YoY), and eggs (2.3% YoY) are contributing towards the moderation in inflation. Core inflation, which excludes volatile prices of food and energy, eased to 4.1% YoY in July from 4.4% in June. The Reserve Bank of India, in its recent monetary policy meeting, indicated that inflation is likely to edge up above 4% in the fourth quarter and beyond due to unfavourable base effects and rate cut actions. However, the rationalisation of GST and its complete pass-on to consumers is expected to be a tailwind.

The deflation in wholesale prices basket intensified, for the second consecutive month at 0.58% YoY in July (from 0.13% YoY in June), marking the worst drop in the index since July 2023. The decline can be attributed to deceleration in inflation of Primary articles (22.62% weight) index to a 4-month low of -4.95% YoY led by a sharp drop in vegetable prices, specifically onions and potatoes. Fuel and Power inflation (13.15%) also decelerated to a 12-month low of -2.43% YoY in July. This more than offset the 2.05% inflation in manufactured products, the largest component in the WPI with 64.2% weight. The inflation in manufactured products is driven by apparel, leather, non-metallic mineral products, and cement & plaster. The overall food index declined -2.1% YoY in July, contracting for the second month in a row, leading to overall deflation in the wholesale prices basket.

The central bank has reduced the repo rate by 50 bps in FY26 till date. While inflation continues to slow down, the Reserve Bank of Inda, in its third bi-monthly meeting of monetary policy committee, unanimously decided to keep the policy rate unchanged at 5.5% in August citing above-normal monsoon, benign inflation, and increased capacity utilisation of industries supporting the domestic economic activity.

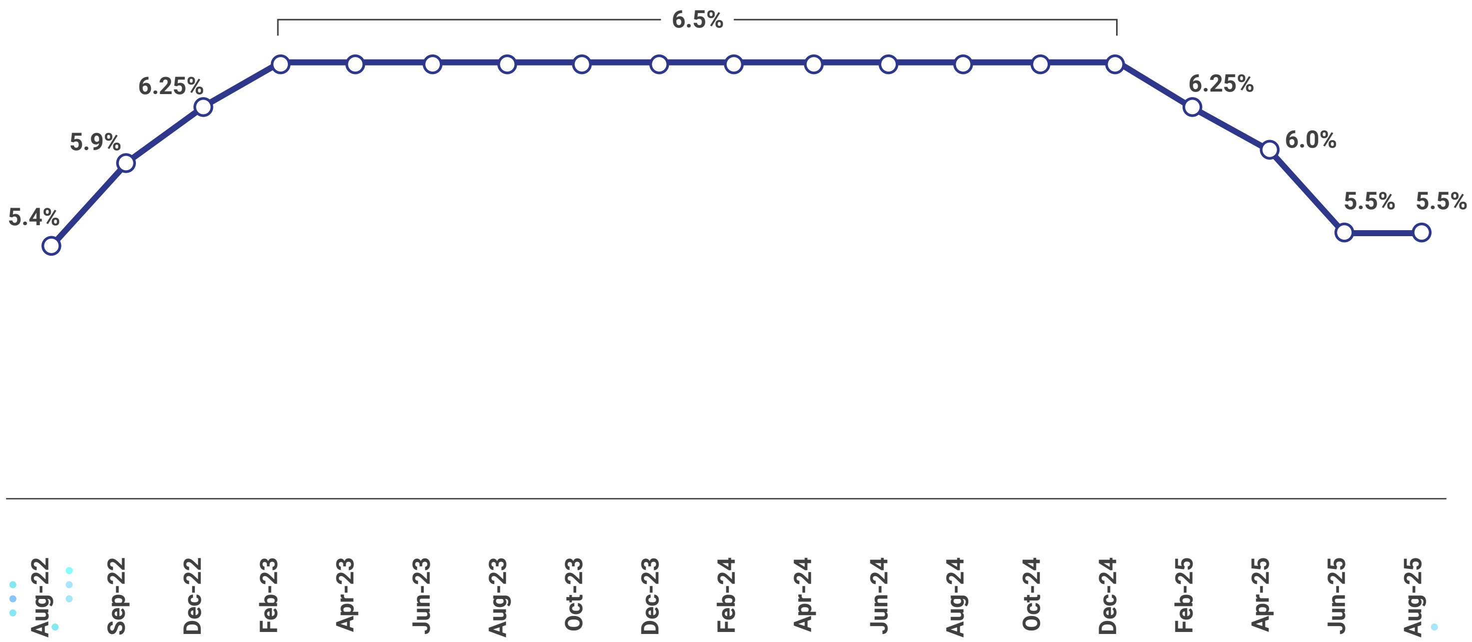
The central bank has retained the GDP forecast for FY26 at 6.5%. When asked about the impact of US tariffs on the economic growth, RBI governor, Sanjay Malhotra said, “On growth, you are very well aware that we had already reduced our forecast, which was earlier, 6.7% to 6.5%, so some of the global uncertainties have already been factored in the revised growth forecast.”

Retail and Wholesale Inflation



Source: CPI – MOSPI; WPI - Ministry of Commerce and Industry

RBI Repo Rate Trajectory



Source: Minutes of monetary policy committee meetings, RBI

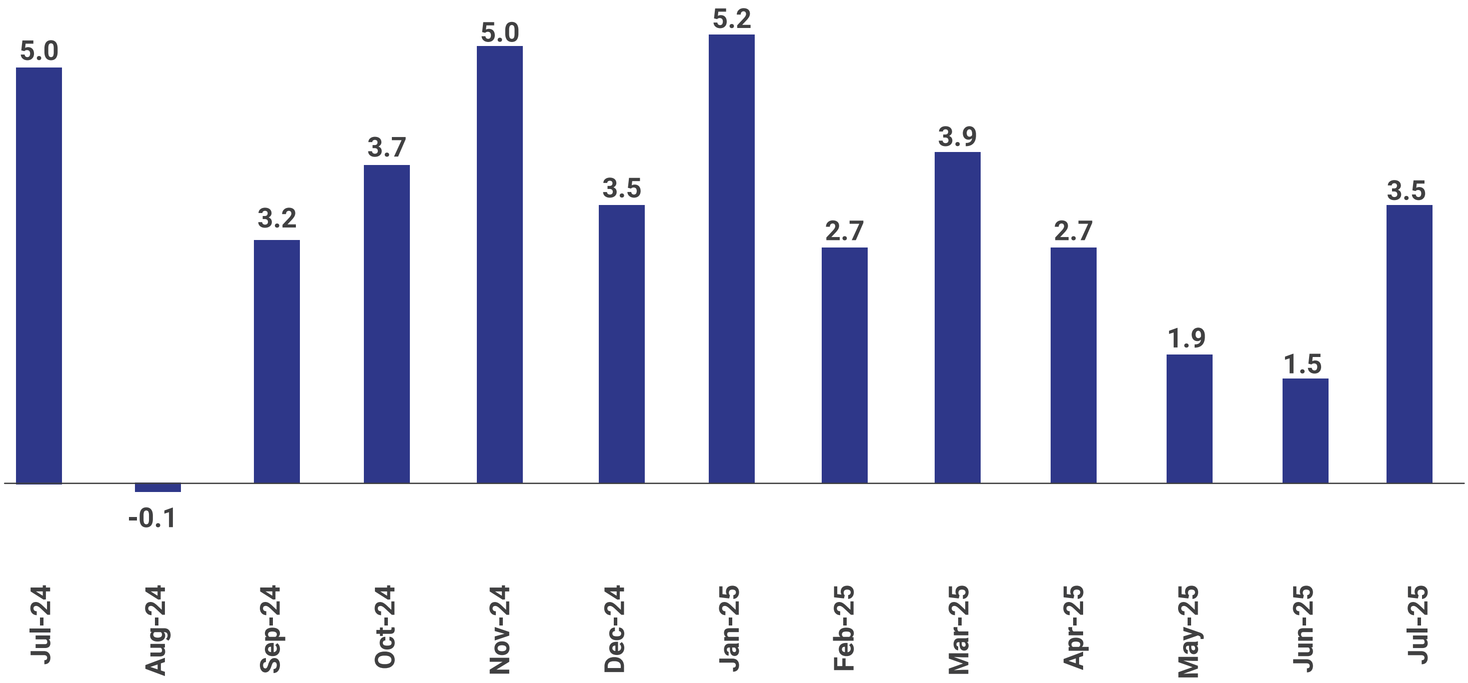
INDUSTRIAL OUTPUT GROWTH RECOVERS TO 4-MONTH HIGH, MANUFACTURING SECTOR SHINES

India's industrial output, which is measured by the Index of Industrial Production (IIP), rose to a 4-month high of 3.5% YoY in July driven by the growth in manufacturing sector, the largest component (77.6%) in the IIP basket. Manufacturing sector grew to a 6-month high of 5.4% in July. With this, the industrial output growth averaged 3.9% in FY26 to date. Within the sector, 14 of the 23 industry groups showed an increase in output. The top contributors to this growth were basic metals (12.7% YoY), fabricated metals (10% YoY), wood products (17.3% YoY), electric equipment (15.9% YoY) and non-metallic mineral products (9.5%). Manufacturing output in the coming month could potentially be impacted by trade and tariff uncertainty as it would make Indian goods more expensive, reducing demand and causing manufacturers to cut down production in labour-intensive sectors like textiles, apparel, and gems/jewellery.

Electricity sector output, after contracting for two consecutive months, grew marginally to 0.6% YoY in July but the growth was significantly lower than 7.9% in July last year. This decline can be attributed to early monsoons in 2025. Mining sector, however recorded the negative growth for the fourth consecutive quarter at 7.2% YoY in July due to subdued demand.

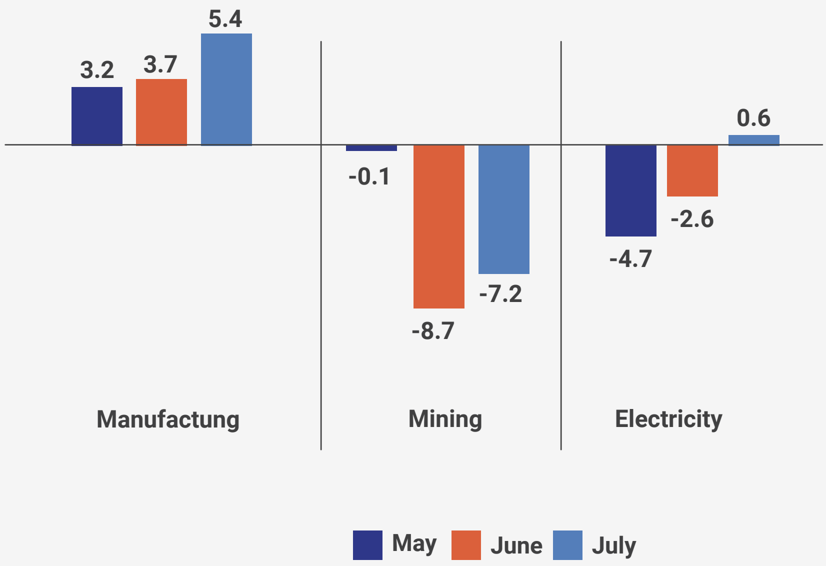
As per the use-based classification, the top two contributers to the IIP growth were consumer durables, which recorded a 7.7% rise in production in July, the highest since Dec 2024, versus 2.8% in June. The infrastructure/construction goods production grew steeply to a 21-month high of 11.9% in July (versus 6.7% in June). The on set of festive season and the GST rationalisation could drive the momentum of IIP in upcoming months.

Index of Industrial Production, IIP (YoY %)



Source: MOSPI

IIP - Core sectors



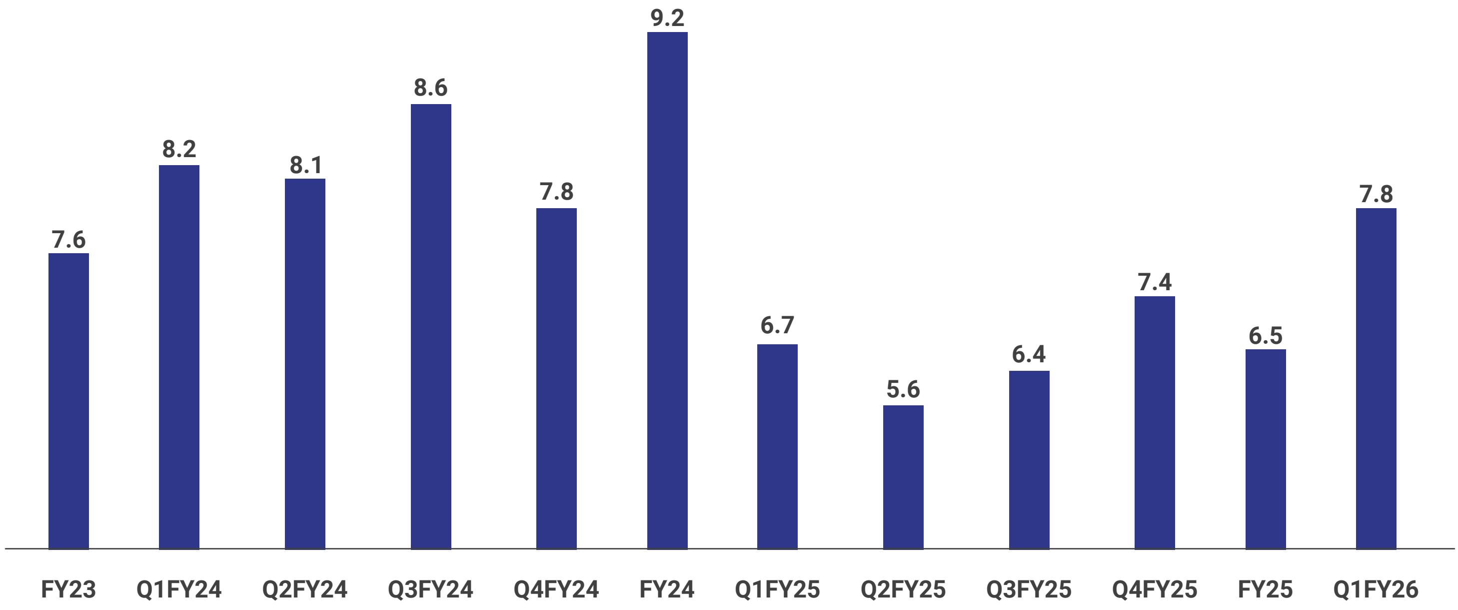
Source: MOSPI

INDIA RECORDS THE STRONGEST GDP GROWTH IN FIVE QUARTERS

India's real GDP growth accelerated to a 5-quarter high of 7.8% YoY in Q1FY26, significantly above the market estimates and RBI's projection of 6.5%. The Gross Value Added (GVA), which measures the contribution of a producer, industry, sector, or region, grew at the strongest pace of 7.6% YoY in Q1FY26 since Dec 2023. The above-expected growth is attributed to services sector, which recorded its strongest growth in 8-quarters at 9.3% YoY in the last quarter. Despite muted industrial activity, manufacturing sector growth surged to a 5-quarter high of 7.7% YoY in Q1FY26.

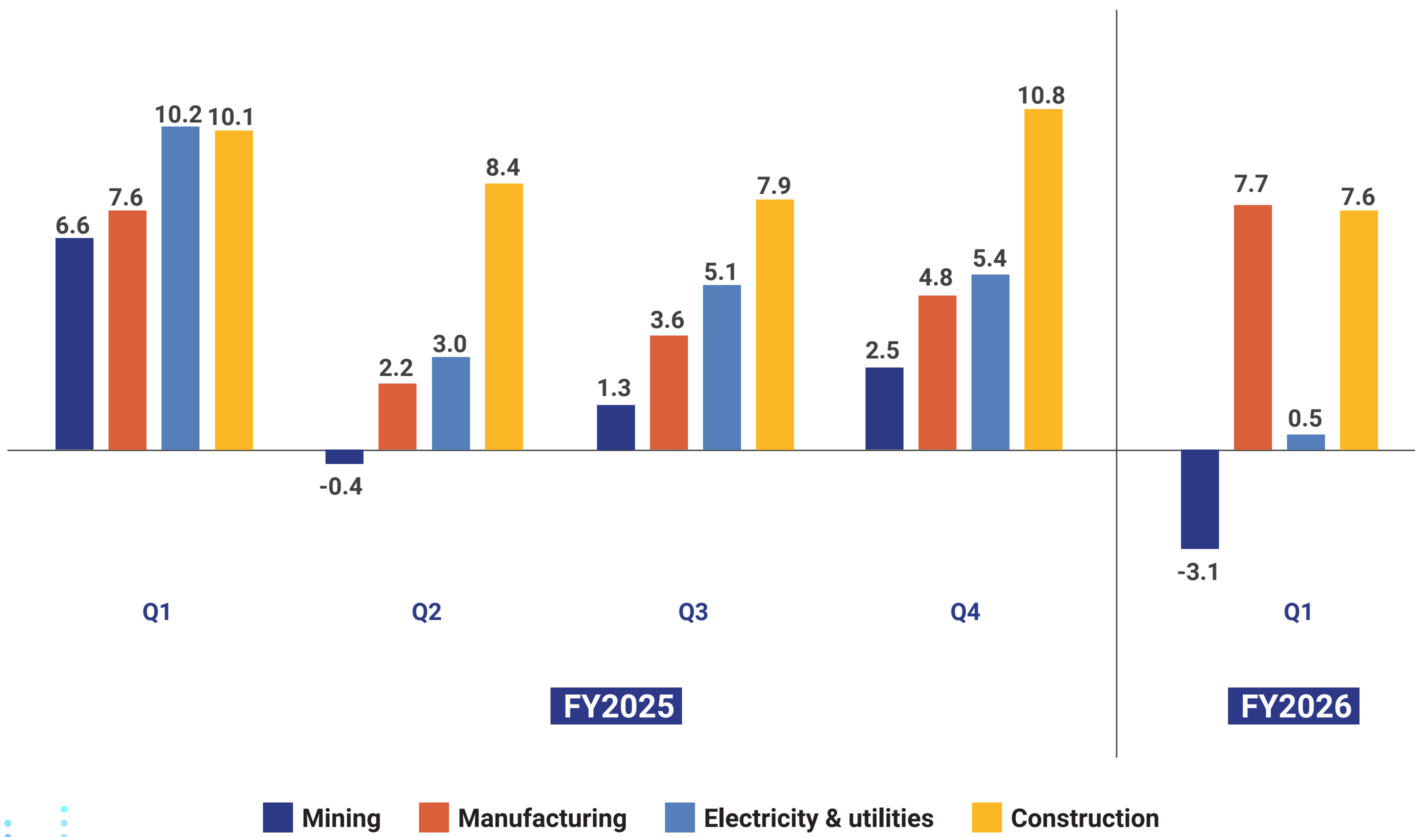
The growth in private consumption accelerated to a 3-quarter high of 7% YoY driven by strong rural demand and the Government Final Consumption Expenditure (GFCE) grew 7.4% YoY in Q1FY26 compared to a contraction of 0.3% in Q1FY25. With the rationalisation in GST, GDP growth outlook for the second half of the year is positive due to the expected boost in private consumption while external demand owing to higher tariffs remains a headwind.

India's Real GDP Growth (YoY, %)



Source: MOSPI

Growth Components of Quarterly GDP



Source: MOSPI

S&P UPGRADES INDIA'S RATINGS TO BBB AFTER 18 YEARS STRENGTHENING INVESTOR CONFIDENCE

The US-based credit rating entity S&P Global upgraded India's long-term sovereign credit rating from BBB- to BBB, citing he country's robust and sustained economic growth, highly effective monetary policy, and clear path towards fiscal consolidation. A sovereign credit rating is an independent assessment of a country's creditworthiness and helps investors determine the risk associated with investing in that country's debt. A BBB rating is considered investment grade, implying that the country is capable of maintaining its financial commitments. S&P also upgraded India's short-term rating from A-3 to A-2, indicating that the country's obligations are satisfactory and are likely to be met. The global rating entity last upgraded India to 'BBB-' in January 2007.

S&P noted that India remained one of the best-performing economies in the world, showing strong recovery since the COVID-19 pandemic, with real GDP growth averaging 8.8% between fiscal 2022-24 - the highest in the Asia-Pacific region. It projected India's annual GDP growth at 6.8% for the next three years, supporting a moderation in the government debt-to-GDP ratio.

Secondly, S&P Global identified India's gradual path towards fiscal consolidation and projected its general government deficit (central and state deficits), which defines the gap between government spending and revenue, to decline from 7.3% of GDP in fiscal 2026 to 6.6% by fiscal 2029. Thirdly, S&P noted India's highly effective monetary policy in managing the inflation trajectory. The retail inflation, measured by the consumer price index, averaged 5.5% over the last three years, despite volatile crude oil prices, and stayed near the lower end of the Reserve Bank of India's medium-term target of 2–6% in the recent period.

The upgraded rating is expected to result in a higher inflow of foreign capital into Indian bonds and lower borrowing costs for the Indian government. It would lead to a favourable environment for financing in public and private sector projects, boosting the country's infrastructure development, employment generation, and broad-based economic growth.

Sovereign Credit Ratings

Developing countries	Rating	Developed countries	Rating
India	BBB	United States	AA+
Brazil	BB	Germany	AAA
Mexico	BBB	Japan	A+
China	A+	United Kingdom	AA
Egypt	B-	Canada	AAA
Malyasia	A-	Australia	AAA
Philippines	BBB+	Ireland	AA
Saudi Arabia	A+	Switzerland	AAA
South Africa	BB-	Singapore	AAA
Vietnam	BB+	Italy	BBB+

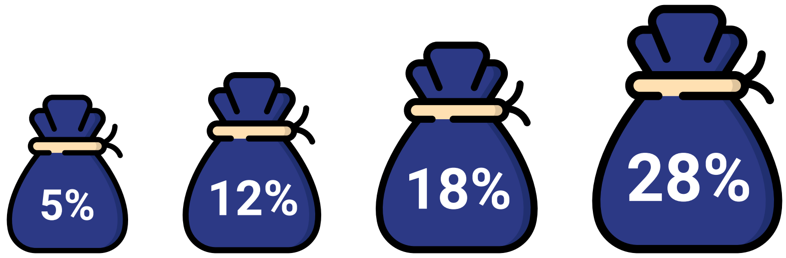
Source: S&P Global

INDIA'S GST REJIG COULD BOOST CONSUMPTION-LED GROWTH, LOWER INFLATION

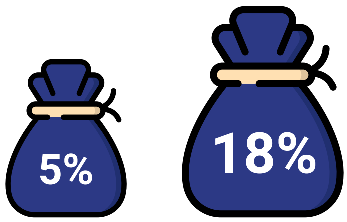
The Centre has announced an overhaul of India's Goods and Services Tax (GST) structure from four-tiered (5%, 12%, 18%, 28%) to two-tiered (5% and 18%) in order to reduce the tax burden on essential goods, thereby relieving Indian citizens. Effective from September 22, the proposed structure will shift 99% of items in the 12% slab to the 5% rate, and 90% of goods and services in the 28% bracket to 18%. There won't be any cess of any kind over and above the GST rates. The Centre has scrapped the 0.25% and 3% slab (for diamonds, semi-precious stones, jewellery, precious metals) and shifted items to a new slab of less than 1%. It also proposed a high rate of 40% for sin goods (such as tobacco-based products, cigarettes, sugary & carbonated drinks, etc.) and luxury items (such as hybrid cars, premium motorcycles above 350 CC, etc.).

The revised rates are expected to boost domestic consumption as most of the essential goods and everyday food products would fall into the lower bracket (5%), while some essential food items will remain tax-free. With this, the effective tax rate of GST will fall below the estimated ~11%. With new rates, India's FY26 retail inflation is expected to go down to a certain extent, with most of the decline taking effect in FY27. Notably, the Reserve Bank of India, in its recent monetary policy committee meeting, lowered its headline inflation forecast to 3.1% for FY26 (from 3.7% in June). However, it expects retail inflation to increase to 4.9% in FY27, breaching the target.

Current GST Structure

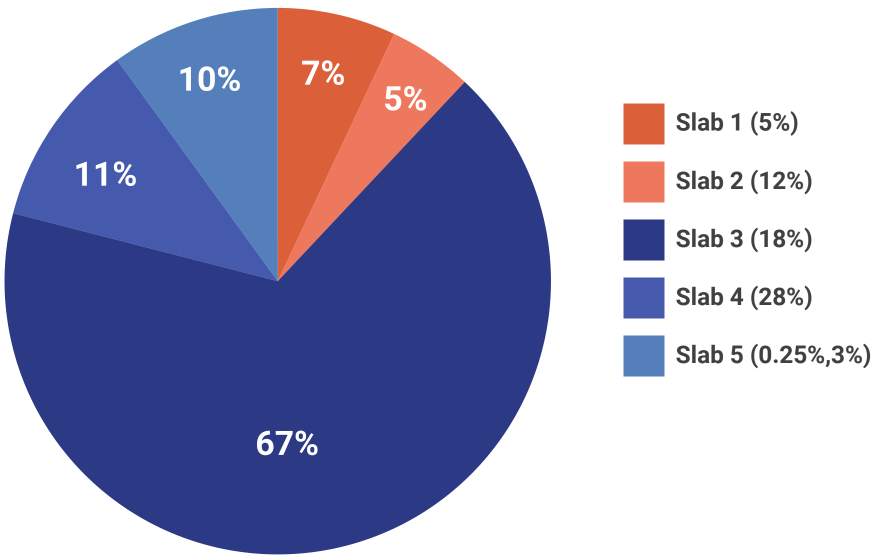


Revised GST Structure*



*Also includes 40% slab for sin goods and luxury items

GST Revenue Mix by Slabs



Source: The Hindu

Purchasing Manager's Index

Manufacturing:

Countries	July 2025	June 2025
India	59.1 ↑	58.4
US	49.8 ↓	52.6
UK	48.0 ↑	47.7
Eurozone	49.8 ↑	49.5
China	49.5 ↓	50.4
Japan	48.9 ↓	50.1

Note: A reading below 50 indicates contraction and above indicates expansion in output.

Services:

Countries	July 2025	June 2025
India	60.5 ↑	60.4
US	55.7 ↑	52.9
UK	51.8 ↓	52.8
Eurozone	51.0 ↑	50.5
China	52.6 ↑	50.6
Japan	53.6 ↑	51.7

Note: A reading below 50 indicates contraction and above indicates expansion in output.

Monthly Data Snapshot

Currencies

	29-Aug	31-Jul
EUR/USD	1.17	1.14
GBP/USD	1.35	1.32
USD/INR	88.14	87.50
USD/CNH	7.12	7.21
1y Forward Premia (%)	2.19	1.98

US Bond Yields (%)

	29-Aug	31-Jul
US 30-yr Treasury	4.92	4.89
US 10-yr Treasury	4.23	4.36
US 2-yr Treasury	3.62	3.95

Commodities (US$)

	29-Aug	31-Jul
Crude Oil (per barrel)	68.12	72.53
Natural Gas (per MMBtu)	2.88	2.99
Gold (per ounce)	3,447	3,290
Silver (per ounce)	39.67	36.76
Copper (per pound)	4.50	4.38

Source: Refinitiv