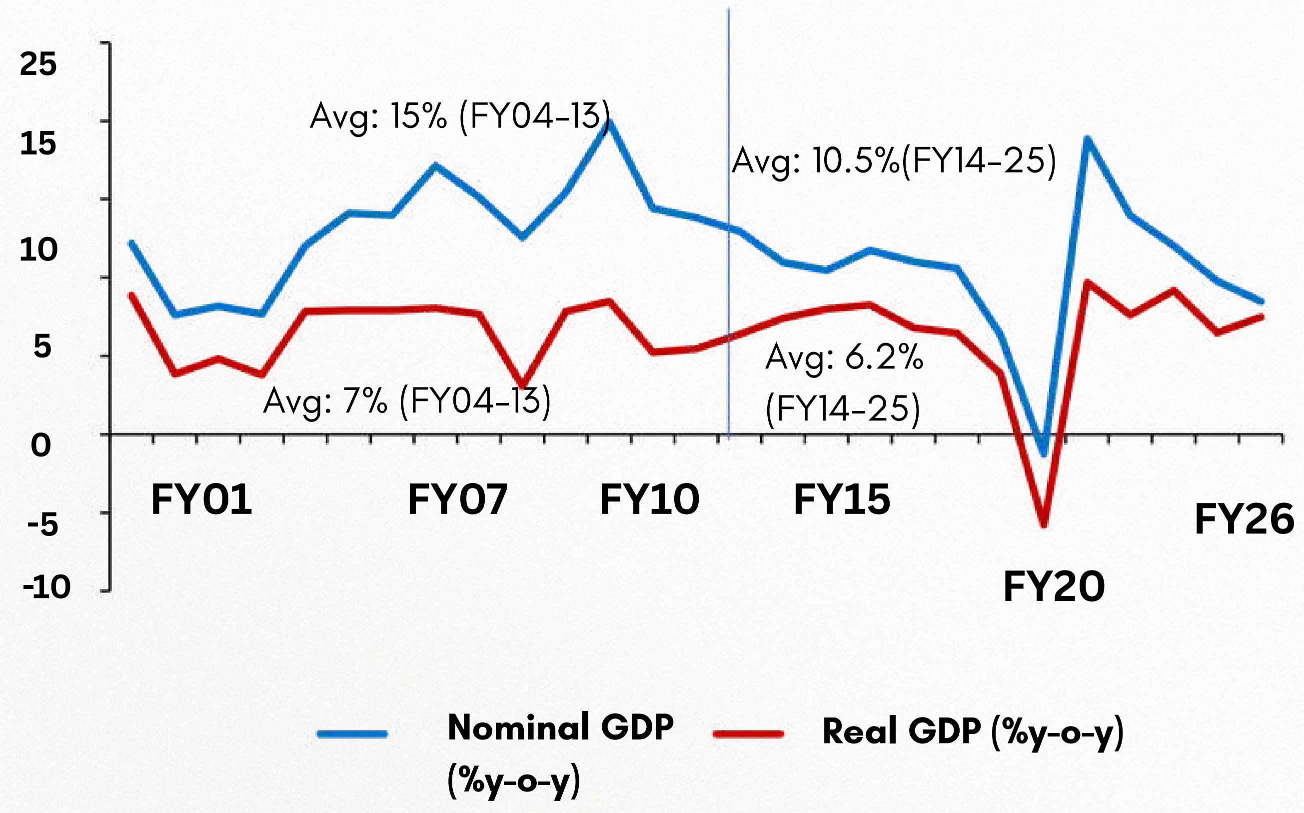
MONTHLY MARKET OUTLOOK:

India’s Economic Snapshot:

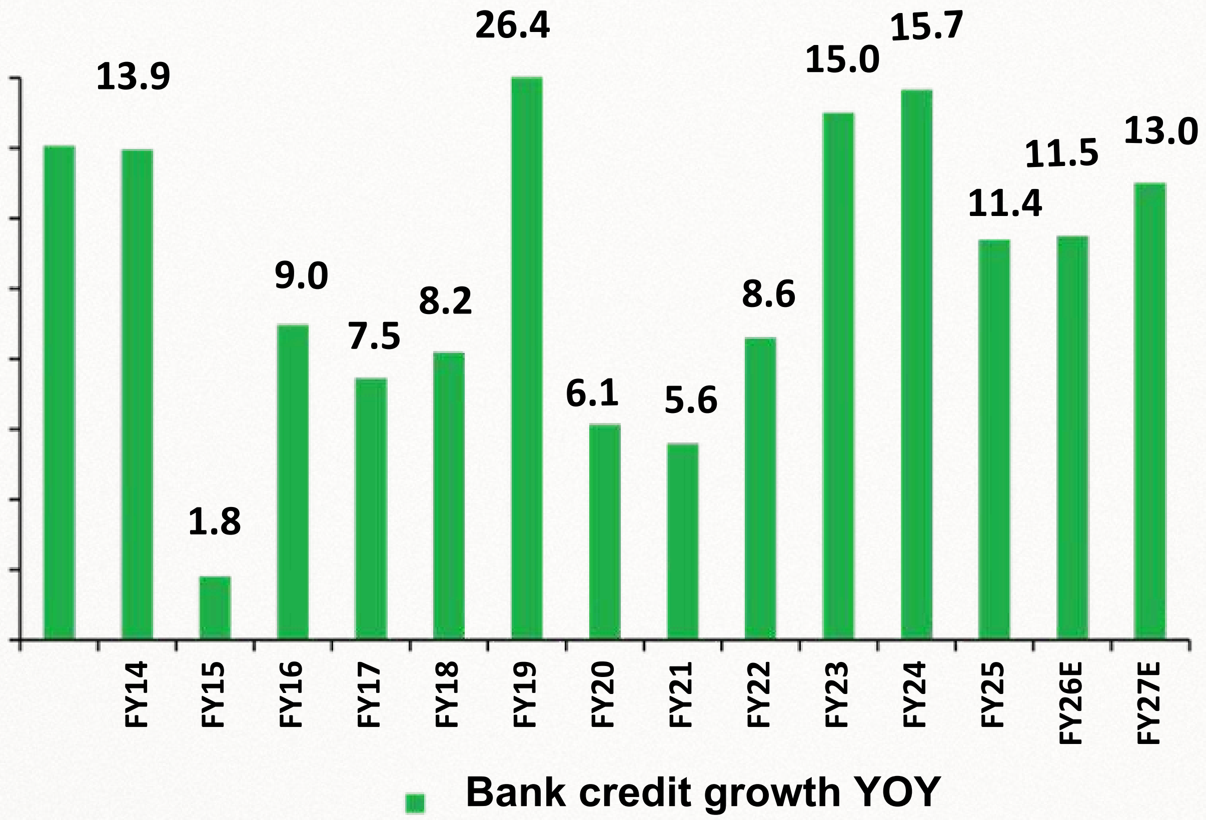
India’s Growth Journey: A Decade of Resilience and Recovery

Supported by favourable GDP deflator dynamics, FY26 real GDP growth is expected to remain robust at around **7.5% YoY**, even as nominal GDP growth remains relatively subdued at ˜**8–8.5%**, reflecting the unusually low inflation environment through much of 2025. India’s nominal GDP has crossed approximately USD **4.5 trillion**, underpinned by strength in services, manufacturing and steady capital expenditure, although muted pricing power has constrained corporate revenue growth and tax buoyancy. Looking ahead to FY27, as low-inflation tailwinds fade and price pressures normalise, real GDP growth may moderate slightly to around **7.2%,** but nominal GDP growth is expected to accelerate meaningfully to around 11%, creating a more favourable environment for corporate earnings, credit growth and fiscal dynamics. Investors should also remain mindful of the forthcoming GDP, CPI and IIP base revisions by the Ministry of Statistics, which may lead to temporary distortions in headline macro data and warrant a greater focus on underlying trends during the transition period.



Credit Growth Accelerates, Setting the Stage for Higher Nominal Growth

Credit growth has continued to improve, with bank credit rising from **~9% YoY** in May 2025 to around **11.5%** by November 2025, and is expected to strengthen further to 13-14% in FY27. Including other funding avenues such as NCDs, CPs and ECBs, aggregate credit growth is likely to improve to **~12%** in FY27, compared with **~10.5-11%** in FY26. This acceleration in credit should support higher nominal GDP growth of 1**0-11%** in FY27, with household credit expected to outpace corporate credit as corporate balance sheets remain healthy and profit accruals strong. Unlike FY23-FY24, when rapid personal loan growth largely offset COVID-related income stress, the current cycle is supported by a healthier income backdrop, contained inflation and supportive government measures, increasing the likelihood that incremental credit translates into stronger consumption, benefiting credit-sensitive and discretionary sectors in FY27.



% CAGR	FY20-22	FY23-24	FY25 (y-o-y)	FY26 (y-o-y)(Till Oct)
Bank Credit	7	18	11	12
Non-Food Credit	7	18	11	12
Agriculture and allied activities	10	18	10	9
Industry	4	7	9	11
Micro & small	15	14	10	27
Medium	33	13	19	19
Large	0	5	8	6
Services	10	21	11	12
Personal Loans	15	24	12	14
Consumer durables	37	15	-2	0
Housing (Including PSL)	14	25	11	11
Advances against fixed deposits(FCNR(Banks), NRI Non-Repatriable deposits etc.)	-1	22	13	18
Advances to individuals against share, bonds,	2	12	19	10
Credit card outstanding	21	29	11	8
Education	3	19	15	15
Vehicle loans	12	21	6	10
Loans against gold jewellery	45	17	101	119
Other personal loans	18	24	11	13

Break-up of bank credit

Rupee Under Pressure Amid Global Headwinds and Capital Outflows

The Indian rupee remained under sustained pressure through late-December 2025 and into early-January 2026, continuing to trade around—and at times below—the **₹90** per US dollar mark, reflecting a combination of external shocks and domestic flow imbalances. Persistent foreign portfolio investor (FPI) outflows, particularly from debt and select equity segments, alongside strong import-driven dollar demand for crude oil, gold and industrial inputs, kept pressure on the currency. At the same time, **global dollar strength**, elevated US bond yields and cautious risk sentiment toward emerging markets reduced capital inflows into India, while uncertainty around US-India trade negotiations added to near-term volatility by clouding export visibility. Although the Reserve Bank of India actively intervened in the foreign exchange market to curb excessive fluctuations and prevent disorderly moves, these actions could only slow—not reverse—the trend, as the structural gap between India's import demand and export momentum continued to dominate currency dynamics, leaving the rupee vulnerable as the economy entered 2026.

Indigo Disruption

Background	DGCA's revised FDTL norms (effective Nov 1) tightened pilot rest (48 hours) and cut night landings (2/week). IndiGo failed to fully align crew planning despite two-year notice
Dec 2	Flight delays and cancellations begin across major metros due to pilot shortages
Dec 2 to 9	IndiGo cancels ~4.5 k flights; worst day Dec 5 with ~1.6 k cancellations; OTP drops to 8.5%
Impact	With IndiGo holding ~60-65% market share, disruptions spill over; airfares surge, some nearing ₹100 k
Regulatory action	DGCA grants temporary FDTL exemptions till Feb 10, 2026
Airline response	IndiGo revises schedules, refunds ₹8.3 bn (mid-Dec), announces higher pilot allowances from Jan 1, 2026
Market fallout	IndiGo stock falls ~15% (~₹0.4 tn) during the crisis window
Competition push	Govt clears Al Hind Air and FlyExpress, alongside Shankh Air (expected 2026),to improve market resilience

92.2% and Rising: Private Sector Drives India’s New Projects

India’s investment landscape continues to shift decisively toward the private sector. According to CMIE data, private players accounted for a record **92.2%** of new project investments in the October-December quarter of FY26, the highest share ever recorded.

This surge came even as overall investment proposals declined **6%** year-on-year, largely due to a sharp drop in government-led project announcements. While public sector investment activity moderated during the quarter, private corporates maintained strong momentum, highlighting sustained confidence in long-term growth prospects.

The data underscores a clear trend: India’s capex cycle is increasingly being driven by private enterprises, even amid selective caution in government spending.

Record UPI Activity Signals Strong Digital Payments Momentum

India’s digital payments ecosystem continued its strong growth momentum as UPI recorded a historic **21.6 billion** transactions worth **₹28 trillion** in December, marking its highest-ever monthly performance.

For the full calendar year 2025, UPI processed a total of **228.3 billion** transactions, underlining the rapid adoption of digital payments across consumers and businesses. The sustained rise in both transaction volume and value reflects growing trust in UPI, wider merchant acceptance, and increasing use cases ranging from retail payments to financial services.

UPI’s performance further cements its position as the backbone of India’s digital economy and a key enabler of financial inclusion.

India's Manufacturing Growth Slows to Two-Year Low in December 25

India's manufacturing expansion slowed to a two-year low in December 2025, with softer growth across new orders, output, and employment, according to the HSBC India Manufacturing PMI survey. The **PMI** slipped to **55.0 from 56.6** in November, its lowest level since December 2023, though it remained well above the expansion threshold.

The survey pointed to weaker demand conditions and rising competitive pressures, with new work orders growing at the slowest pace in two years and output expanding at its weakest rate since October 2022. Employment growth also moderated, rising at the slowest pace in nearly 22 months.

Export demand softened further, as new export orders increased at the slowest rate in 14 months, with fewer firms reporting higher overseas sales. While manufacturers continue to expect higher output in 2026, overall business confidence eased to a multi-year low, signalling a more cautious outlook.

India's Coal Power Capacity Additions Jump 60% in FY26

India has added **7.2 GW** of coal-based power capacity year-to-date in FY26, representing a **60%** year-on-year increase compared with the same period last fiscal. The faster pace of additions marks a clear acceleration after several years of muted thermal capacity expansion.

The increase comes against the backdrop of strong electricity demand growth, rising peak load requirements, and concerns around grid reliability during high-demand periods. Coal capacity additions are being prioritised to provide base-load stability, especially as renewable energy generation —while expanding rapidly—remains intermittent.

Despite India's long-term transition toward cleaner energy, the data highlights coal's continued importance in the near-term power mix, particularly for meeting demand during peak consumption cycles and ensuring energy security.

CAPEX UPDATE

Public Spending Surge: Centre's Aggressive Capex Fuels Economic Growth:

- India imposed 5 year ADD of up to **$5,251** per tonne on refrigerant gas from China guarantee, and RBI's 4-month moratorium.
- Cabinet approves **₹120 bn** Delhi Metro expansion: 16 km, 13 new stations, network to cross 400 km in 3 years .
- Govt allows coal linkage holders to export coal up to **50%** of their coal linkage capacity.
- Cabinet cuts royalty rates for graphite, caesium, rubidium & zirconium to 1-4% from 12%.
- Govt to launch low-interest Micro Credit Card for small firms by Jan, offering ₹0.5 mn limit and up to 50% lower borrowing costs.
- Cabinet clears bill opening nuclear power plants to private firms, capping operator accident liability at ₹30 bn .
- India raises tobacco taxes from Feb 1, 2026: cigarettes to pay 40% GST plus ₹2,050-₹8,500 excise per 1,000 sticks; bidis taxed at 18% GST.

Private Capex in Focus: A Tale of Caution and Strategic Investment:

- Shree Cement to set up **2 MTPA** cement plant in Maharashtra with ₹20 bn investment.
- Haier India plans ₹35 bn expansion, targets **₹145 bn** topline in 2026.
- HD Hyundai plans **$2 bn** shipyard in Thoothukudi, Tamil Naidu.
- ArcelorMittal to invest **$900 mn** for 1 GW of solar and wind capacity.
- ReNew to build India's first integrated **6 GW** solar ingot-wafer plant in Andhra for ₹39.9 bn.

GLOBAL MARKET OUTLOOK:

U.S. Economy Shows Moderate Growth Amid Sticky Inflation

The U.S. economy continues to show moderate resilience, with growth supported by consumer spending and investments in technology and AI, though risks remain elevated. Inflation is still above the Federal Reserve's **2%** target, with headline CPI hovering around **2.6–2.7%,** reflecting sticky price pressures in services and housing. The labour market is gradually cooling, marked by uneven hiring, slower job creation, and rising unemployment trends, adding to uncertainty around future demand. Against this backdrop, the Federal Reserve is expected to hold interest rates steady after modest cuts in late 2025, while major global banks have pushed expectations for further easing to mid-to-late 2026 or beyond. Financial markets remain highly sensitive to macro data, policy signals, and geopolitical developments, with episodes of volatility across equities and renewed demand for safe-haven assets such as gold. Political and policy risks—including concerns over central bank independence and ongoing trade frictions—continue to influence market sentiment, reinforcing a cautious outlook as investors balance slowing growth, persistent inflation, and delayed monetary easing.

Slower U.S. growth, sticky inflation, and a cautious Fed may lead to a stronger dollar and tighter global liquidity, which can put pressure on emerging markets like India through higher import costs and capital outflows. Indian exports to the U.S. could be affected if consumer demand softens, while equity and currency markets may see heightened volatility. At the same time, stable U.S. growth supports tech and IT exports, and low-to-moderate inflation globally can help India maintain manageable import costs.

India–New Zealand Move Closer to Comprehensive Free Trade Agreement

India and New Zealand have reached an agreement in principle on a Free Trade Agreement (FTA) that will significantly enhance bilateral trade and investment ties. Under the pact, all Indian goods will receive duty-free access to the New Zealand market, improving export competitiveness across manufacturing and services-linked sectors.

India, in turn, will eliminate or reduce tariffs on around **95%** of New Zealand's exports, with over half of these products becoming duty-free from day one. However, India has excluded dairy and other sensitive agricultural products from market access to protect domestic farmers. Beyond trade, New Zealand has committed to investing **USD 20 billion** in India over the next **15 years**, providing a strong boost to long-term capital flows and strategic collaboration. The agreement is expected to be formally signed in the first half of 2026, marking a major step forward in India's global trade integration.

India–Oman Agreement Expands Trade, FDI and Services Access

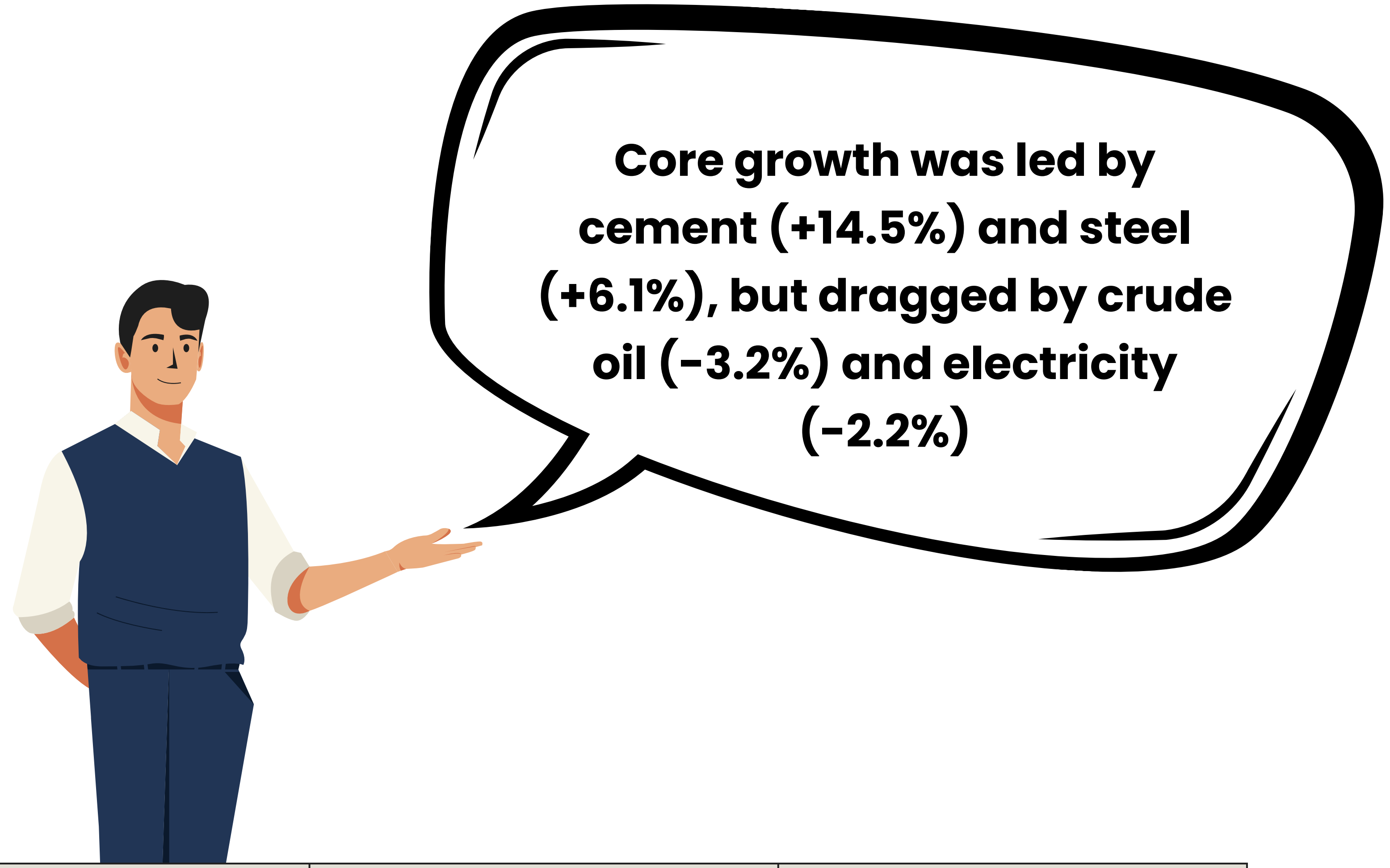
India and Oman have significantly deepened their economic partnership through a comprehensive trade and investment agreement. Oman has granted duty-free access to Indian exports across **98%** of its tariff lines, covering **99%** of India's exports by value, substantially improving market access for Indian manufacturers and exporters.

India, in return, has opened **78%** of its tariff lines to Oman, accounting for **95%** of Oman's exports by value. A major highlight of the agreement is the liberalisation of services, with 100% FDI now permitted for Indian companies in key Omani services sectors, alongside market access across **127** service sub-sectors, including IT, healthcare, and education.

The pact also facilitates the easier movement of Indian professionals, with higher visa quotas and longer permitted stays, strengthening people-to-people and services trade links.

INDIA ECONOMIC DATA

Economic Indicator	NOV'25	Oct'25	Nov'24
WPI inflation (in%)	-0.3	-1.2	2.2
CPI inflation (in%)	0.7	0.3	5.5
Trade Deficit (in bn$)	24.5	41.7	31.9



Economic Indicator	Dec'25	Nov'25	Dec'24	MoM	YoY
GST Collection (in tn)	1.7	1.7	1.6	2.50%	6.10%
AVG USD INR	90	88.9	85	1.30%	5.90%
Forex Reserves ($ bn)	696.6	686.2	640.3	1.50%	8.80%