Domestic Economic Perspective

Trade Deal Delay - No Stress On Macros So Far

CENTRUM GALAXC

January 2026

Inflation and High Frequency Data

India's retail inflation rose to 1.33% in December 2025 from 0.71% in the previous month. Higher food prices primarily drove the uptick in inflation. Headline inflation increased 0.76% in the rural sector and 2.03% in urban areas in December. However, fuel and light inflation rate eased at 1.97%, lower than the 2.32% print in November. The Reserve Bank of India expects consumer inflation to be 2% for the fiscal year ending March 2026, down from a 2.6% forecast made in October. The central bank estimated inflation at 2.9% for the three months to March, rising to 4.0% for the quarter ending September 2026.

High-frequency data is holding up post the festive season strength. Vehicle registrations (proxy for retail sales) accelerated in December, with growth in passenger vehicles at 16.7% YoY, outpacing two-wheelers at 6.8% YoY (impacted by base effect). Manufacturing PMI slowed to 55 in December, its lowest since January 2024, from 56.6 in November while Services PMI softened to 58 in December from 59.8 in the previous month.

RBI Monetary Policy

The RBI's Monetary Policy Committee (MPC) voted unanimously to reduce the policy repo rate by 25 bps to 5.25% in the December 2025 meeting. The MPC statement noted that headline inflation has eased significantly and is likely to be softer than earlier projections, primarily due to exceptionally benign food prices. It also highlighted that underlying inflation pressures are even lower than suggested by the headline and core inflation prints, as rising precious metal prices have lifted these. The RBI also announced a liquidity infusion of ₹1.45 trillion in December 2025 to facilitate monetary transmission.

RBI on Growth and Inflation. Record-low inflation in 2025 slowed nominal GDP growth, raising concerns among policymakers and investors. India released an early estimate last week projecting real GDP growth of 7.4% for fiscal year 2026 and nominal GDP growth of 8.0%. This was sharply lower than the 10.1% nominal GDP growth forecast in the Union Budget for the same year.

Government Revenue and Expenditure

During April-November 2025, direct tax collections recorded a muted expansion of 7.2% YoY, on account of 7.8% YoY growth in corporation tax. Income tax collections grew at a comparatively weaker 6.8% YoY. Indirect tax collections witnessed a contraction of 1.0% YoY. Non-tax revenues grew 20.9% YoY, driven by the higher RBI dividend of Rs 2.69 tn. Disinvestment proceeds were also higher, at Rs 237 bn, compared with Rs 89 bn in the same period last year. Total expenditure grew by 6.7% YoY, led by a 28.2% YoY rise in capital expenditure.

Credit growth increased to 12.0% YoY in mid-December 2025 from 11.5% in November. Deposit growth, on the other hand, decreased to 9.4% from 10.2% during the same period on account of RBI's FX interventions and advance tax collections.

Trade and Forex

India's merchandise trade deficit narrowed sharply to a five-month low of USD 24.5 bn in November vs USD 41.7 bn deficit in October, driven by normalization in gold imports post the festive season as well as an increase in exports. Exports to the US reported a surprisingly strong growth of 23% YoY in November, after declining by 10% during September and October. Overall exports grew by 19.4% YoY, driven by non-oil exports growing by 20.3% and oil exports growing by 11.6%. Imports de-grew by 1.9%, driven by gold imports (59.2% de-growth). Non-oil non-gold imports grew by 16.8% YoY, whereas oil imports declined by 11.3% YoY. The trade deficit was partly offset by net services exports of USD 19.8 bn, higher than USD 17.4bn in the previous month. FX reserves increased during the month to USD 696 bn, vs USD 686 bn reported at the end of previous month. Over the medium term, the outcome of trade deal negotiations with US will remain a key parameter for the merchandise trade deficit.

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