



dun & bradstreet

ECONOMY OBSERVER

January 2026

January Economy Observer: Industrial Output Holds Firm Despite Ongoing Global Trade Policy Volatility

POSITIVE

- Real GDP growth in Q2 FY26 surged to 8.2% y/y, the highest in six quarters driven by robust services and manufacturing activity.
- India's Index of Industrial Production (IIP) rose sharply to 6.7% in November 2025, driven by manufacturing, infrastructure, mining and construction sectors, signalling healthy underlying growth momentum.
- SEBI's Fourth Amendment to Infrastructure Investment Trusts (InvIT) regulations expands investment frameworks for infrastructure, with an aim to attract private capital into key sectors including roads, power, and logistics, supporting long-term growth.
- Ministry of Labour signed an MoU with Microsoft to integrate global employers in the national career service portal and scale AI-enabled skilling programs in a bid to boost formal employment and digital capabilities in the workforce.

NEGATIVE

- Sustained US dollar strength, persistent capital outflows, and high interest-rate differentials continue to weigh on the rupee, with the rupee having depreciated to 90.1/USD in end-December, signalling external sector vulnerability.
- Mexico's steep import tariff hikes (up to 50%) on non-FTA partners including India, effective from 1 January 2026, cover 1,400+ product categories, posing significant risks to export competitiveness in autos, textiles, and metals sectors.
- Net FPI outflows of USD 5.7 bn in Q2 FY26 (July-September 2025) underscore heightened investor sensitivity to global financial conditions, driving up funding costs and adding pressure on INR volatility.

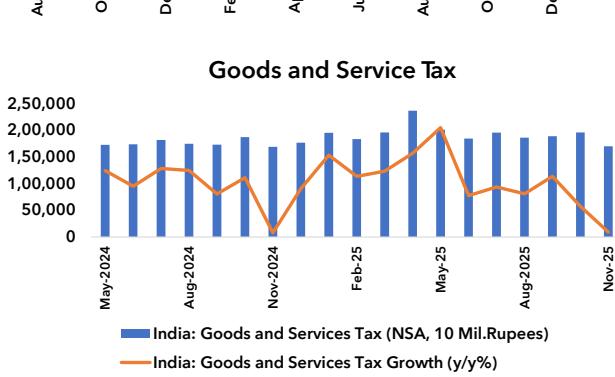
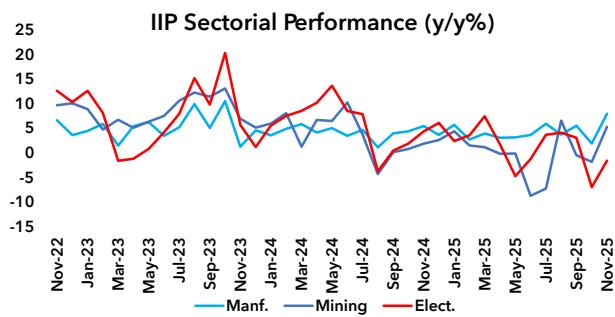
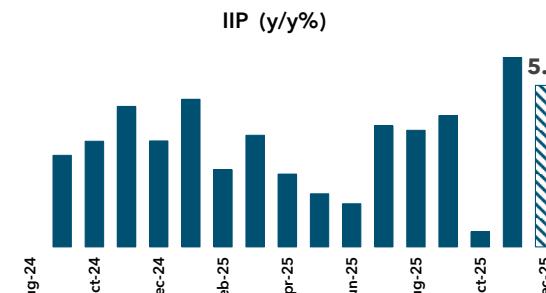
D&B's Economy Observer Forecast

Variables	Estimate**	Latest Period	Previous period
IIP Growth	5.7% Dec-25	6.7% Nov-25	0.5% Oct-25
Inflation WPI	0.6% Dec-25	(-0.3) % Nov-25	(-1.2) % Oct-25
CPI (Combined)	1.5% Dec-25	0.7% Nov-25	0.3% Oct-25
91 day T-Bills*	5.3% Dec-25	5.4% Nov-25	5.5% Oct-25
10 year G-Sec yield*	6.4% Dec-25	6.5% Nov-25	6.5% Oct-25
Bank Credit	15.0% Dec-25	11.5% Nov-25	11.2% Oct-25
Exchange Rate (INR/US\$)*	90.4 Jan-26	90.1 Dec-25	88.8 Nov-25

Real Economy

- India's Index of Industrial Production (IIP) rose sharply to 6.7% in November 2025, driven by manufacturing, mining, infrastructure and construction sectors, signalling healthy underlying growth momentum. Dun & Bradstreet estimates IIP growth to have eased to 5.7% in December 2025, reflecting inventory adjustments, cautious production planning, and evolving external demand dynamics.
- India's real GDP growth for Q2 FY 2025–26 (July–September 2025) officially accelerated to 8.2% year-on-year, marking a six-quarter high. The strong performance was primarily driven by a robust 9.2% expansion in the services sector, led by double-digit growth in financial and professional services (10.2%), and a strong 8.1% surge in the industrial sector, with manufacturing output jumping to 9.1%. Resilience in domestic demand was evident as private consumption grew by 7.9%, supported by recent GST rate rationalisations and lower food inflation.
- SEBI issued its Fourth Amendment to InvIT regulations on 11 December 2025, aimed at expanding investment frameworks for infrastructure projects. The move aims to attract private capital towards roads, power, and logistics sectors, supporting long-term industrial growth.
- The Ministry of Labour signed an MoU with Microsoft to integrate 15,000 global employers on the national career service portal and scale AI-enabled skilling programs under Digi-Saksham, a digital public infrastructure (DPI) policy. This initiative aims to boost formal employment and digital skills in the workspace.

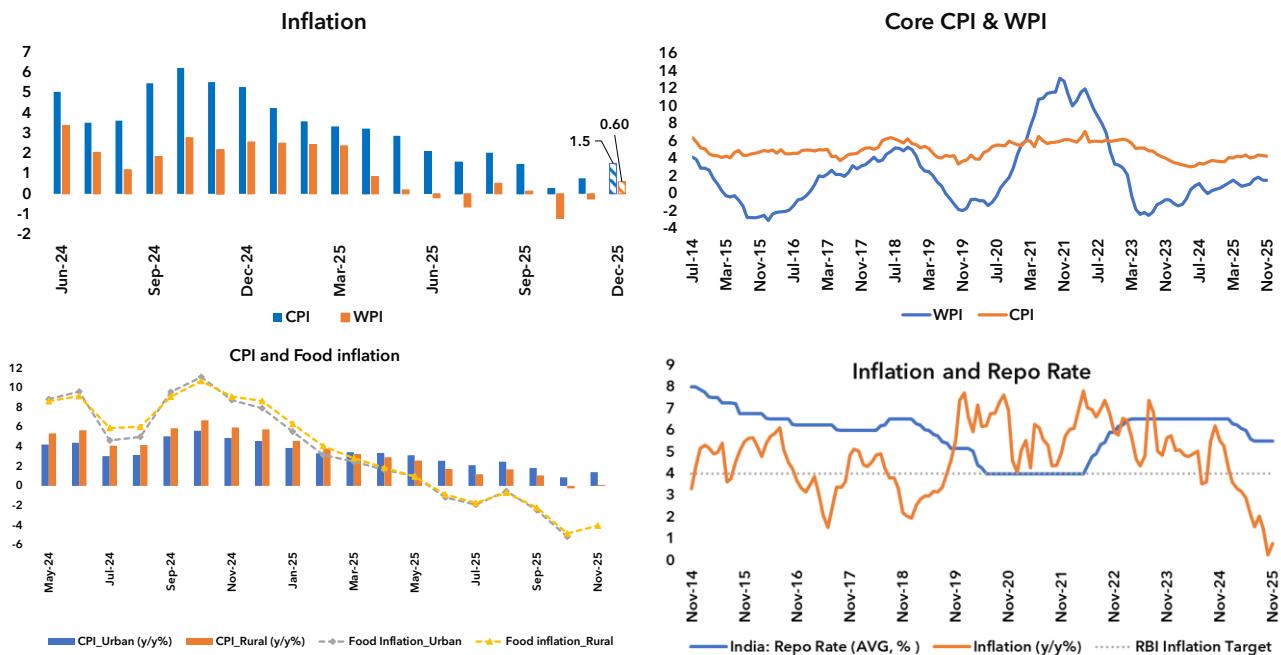
India's real economy continues to show steady momentum, supported by strong industrial activity, infrastructure expansion, and targeted reforms such as the rollout of GST 2.0, production-linked incentive (PLI) schemes across key sectors, the national manufacturing mission, and skill India initiatives. Labour and investment measures are unlocking liquidity and capacity, pointing to a cautiously optimistic outlook shaped by sectoral shifts and productivity gains.



Price Scenario

- November 2025's negative WPI was driven by falling prices of food articles, mineral oils, crude petroleum and natural gas, basic metals, and electricity. WPI is estimated to return to positive territory (0.6%) in December, from a negative 0.3% in November, as producers pass higher input costs into industrial goods, signalling stabilising wholesale price trends.
- Moreover, Dun & Bradstreet estimates CPI to have risen to 1.5% in December from 0.7% in November, driven by a broad-based pick up in food prices.
- The all-India consumer food price index for December 2025 contracted by 2.7% y/y on a provisional basis (with rural and urban rates at – 3.08% and –2.09%, respectively). Despite this year-on-year moderation, food inflation rose by 120 bps compared to November 2025 (m/m), driven by higher prices of meat, fish, eggs, and spices, among others, signalling emerging price pressures on consumption and retail margins.
- Government approval of Rabi 2026–27 MSPs (e.g., wheat at Rs 2,585/quintal) and continued push for expanded procurement will ensure farm-gate price certainty during the November–April season, while adequate buffers and stable supply conditions limit inflationary risks.

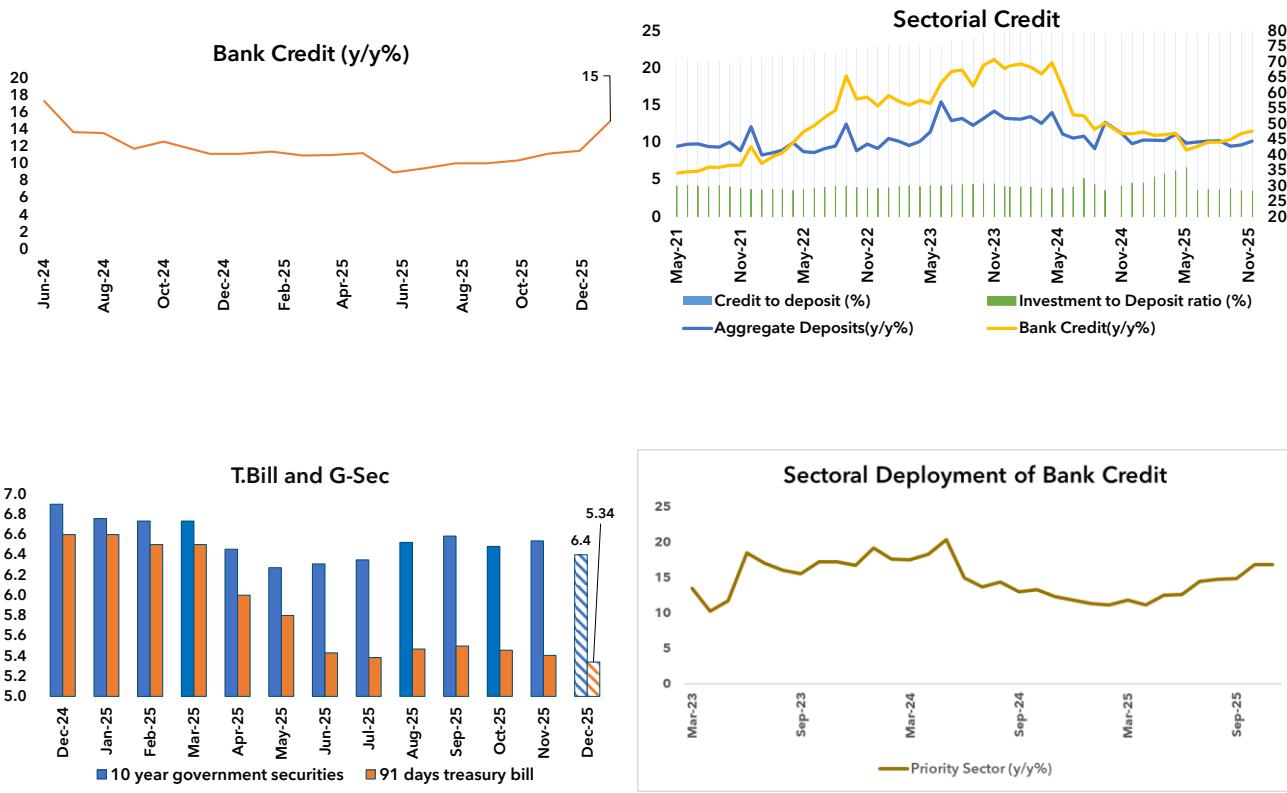
November's easing inflation across key food categories and negative wholesale readings indicate supply normalisation and limited cost pass-through. A modest uptick is expected in December due to fading base effects and seasonal factors, though favourable agricultural conditions, alongside expanded buffer stock operations, should limit risks of a sharp rebound.



Money Market

- Indian financial markets remain cautiously optimistic, shaped by broadly stable yields and supportive liquidity conditions. Dun & Bradstreet estimates the 10-year G-Sec yield to have moderated to 6.4% in December 2025, while the 91-day T-Bill yield is estimated at 5.34%, reflecting investor confidence in short-term instruments amid comfortable liquidity.
- The RBI cut the repo rate by 25 bps to 5.25% while maintaining a neutral stance in its December policy review, citing benign inflation and resilient growth. Liquidity briefly tightened due to GST outflows and year-end balance sheet adjustments, prompting the RBI to use variable-rate repo and reverse-repo operations to keep money-market rates stable.
- In late December and early January, the RBI committed to Rs 2 trn in OMO purchases of Government of India securities across four tranches of Rs 50,000 cr each, conducted on December 29, January 5, January 12, and one will be conducted on January 22, to inject durable liquidity amid festive/GST-related outflows.
- Dun & Bradstreet estimates bank credit growth to have accelerated to 15.0% in December 2025, compared to 11.5% in November, driven by year-end working-capital drawdowns (corporates/MSMEs), seasonal and festive retail demand, feedthrough effects of monetary easing, and GST rationalisation on credit off take.

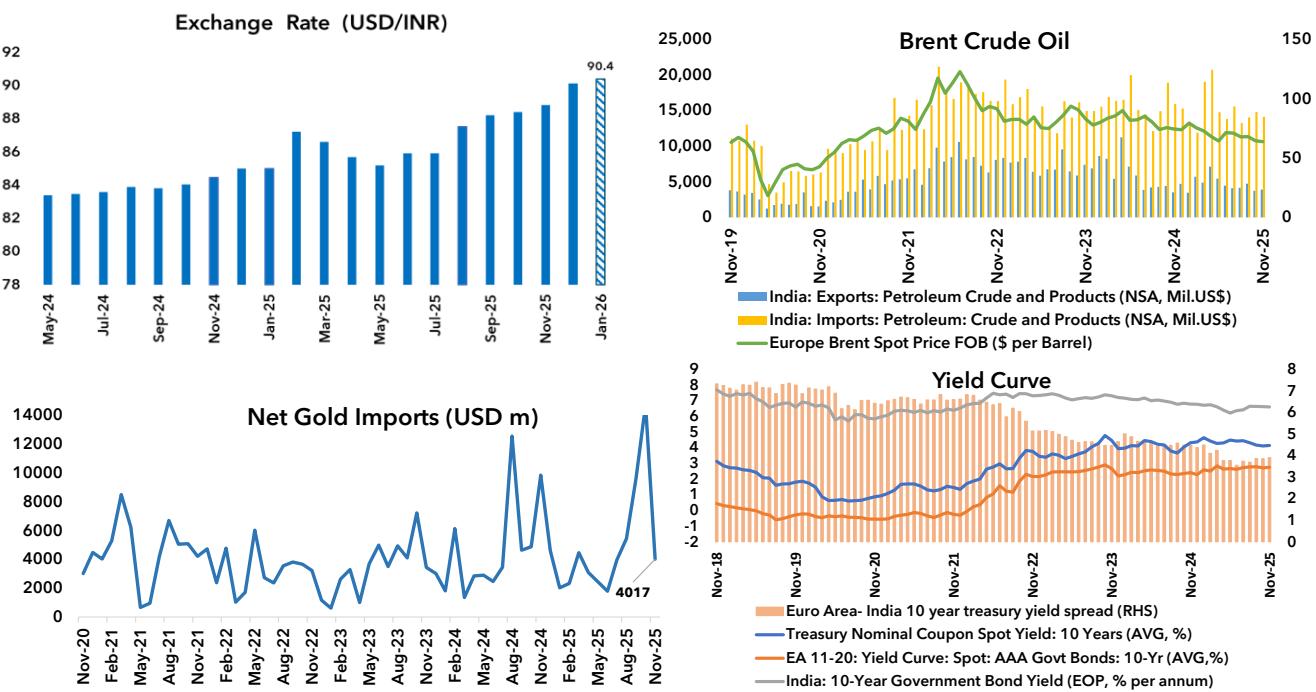
Indian financial markets remain stable, supported by comfortable liquidity and anchored inflation expectations. The RBI presently maintains a neutral stance and continues deploying targeted liquidity measures to keep conditions orderly, while durable injections through OMOs and swaps are cushioning festive and year-end outflows.



External Sector

- Dun & Bradstreet forecasts the rupee to average Rs 90.4/USD in January 2026, depreciating from 90.1/USD in December 2025, reflecting persistent US dollar pressure, foreign portfolio investor outflows, and a continuing interest-rate differential favouring the US.
- Mexico has imposed steep tariffs - up to 50% - on imports from non-FTA partners, including India, effective 1 January 2026. The duties target sectors such as autos, textiles, and metals. In response, India's Commerce Ministry is considering a fast-track Preferential Trade Agreement (PTA) to cushion affected industries. While a PTA could offer temporary relief, Mexico's protectionist stance leaves limited room for immediate mitigation.
- India's cumulative exports for April-November 2025 rose 5.43% y/y to an estimated USD 562.13 bn, driven by strong services exports (USD 270.06 bn, up 8.65% y/y) while merchandise exports grew more modestly by 2.62% to USD 292.07 bn. This performance suggests that while robust services anchor growth, merchandise remains vulnerable to external headwinds, highlighting the ongoing importance of policy levers like PLIs and trade finance to maintain momentum.
- Net outflows of USD 5.7 bn in Q2 FY26 (July-September 2025), reversing from USD 19.9 bn inflows in Q2 FY25, underscore heightened investor risk aversion amid persistent global monetary tightening. Continued portfolio volatility is driving up funding costs and INR vulnerability, highlighting external sector risks despite improving CAD and FDI trends.
- India's CAD moderated to USD 12.3 bn (1.3% of GDP) in Q2 FY26 from USD 20.8 bn (2.2% of GDP) a year earlier, supported by strong services exports and remittances. FDI inflows rebounded to USD 2.9 bn in Q2 FY26 from a net outflow of USD 2.8 bn in Q2 FY25. While a lower CAD and rising FDI point to improving external stability, persistent portfolio volatility and global tightening underscore lingering risks.

India's external sector is navigating a mixed landscape, strong services exports and rising FDI inflows are cushioning the impact of persistent FPI outflows and currency pressures. While CAD moderation offers some relief, global tightening and protectionist trade measures underscore the need for proactive policy support.



Economy Observer is a monthly report that shares an in-depth analysis on key macroeconomic developments in India and provides a monthly forecast of key economic indicators, providing insight into the expected direction of the Indian economy.

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