LETTER

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India's economic activity remains resilient in Q1; July indicators point to continued momentum: SBICAPS

India's economic activity remained resilient in the first quarter (Q1) of FY27, with high-frequency indicators suggesting that the momentum continued into July, according to a report by SBICAPS.

Industrial activity remained strong during the quarter, with railway freight volumes, diesel consumption, and automobile retail sales pointing to sustained momentum in July. However, SBICAPS cautioned that the Industrial Composite Indicator (ICI) appears stronger than before following the inclusion of iron ore, whose output has performed well in recent months.

Services activity also remained resilient, although the Purchasing Managers' Index (PMI) indicated a moderation in the pace of expansion. Petrol consumption surged in July, supported by increased travel amid an erratic monsoon and a favourable base from July 2025. Air travel, however, remained under pressure from elevated aviation turbine fuel (ATF) prices, while a decline in LPG consumption suggested that supply chains had yet to fully normalise.

Gross GST revenue growth has recovered over the past two months following six months of subdued growth, which was affected by GST rate rationalisation and the removal of cess. However, gross GST collections increased a moderate 3% year-on-year during the first four months of FY27.

Inflationary pressures remain elevated

Retail inflation rose to 4.38% year-on-year in June, while food inflation, measured by the Consumer Food Price Index (CFPI), stood at 5.32%.

Inflationary pressures were particularly pronounced in precious metals and select food items, including tomatoes. Prices of personal care products also surged 16.9%. Rural inflation outpaced urban inflation, while southern states generally recorded higher inflation.

Wholesale price inflation (WPI) was driven largely by fuel and power, whose prices increased 27.4% in June amid higher oil prices. Manufactured product prices rose 7.5%, led by chemicals, basic metals and textiles. WPI inflation stood at 9.4% year-on-year in Q1FY27, while output producer price inflation was 9.6% in June, partly reflecting a sharp increase in prices of other metallic minerals.

Power demand stays strong, coal inventories decline

Electricity supply increased 11.1% year-on-year, with demand particularly strong in northern and southern India as intense summer temperatures boosted the use of cooling appliances.

Despite a significant increase in coal supplies, inventories at power stations continued to decline. Coal's share in total power generation fell to a one-year low, supported by strong solar generation.

Meanwhile, draft regulations proposed by the Central Electricity Regulatory Commission (CERC) suggest that transmission charge waivers could be extended to renewable energy projects delayed because of unavailable transmission connectivity. The proposed relief would apply to projects that sign power purchase agreements of at least seven years by December 31, 2026.

Bank credit growth hits multi-year high

Non-food bank credit growth accelerated to a multi-year high, supported by strong lending to industry and micro, small and medium enterprises (MSMEs). Credit to large industries surged 16.6%.

The strongest credit offtake was recorded in petroleum, coal products and nuclear fuels, engineering, and gems and jewellery. Services credit growth stood at 21.4%, driven by strong demand from public financial institutions.
The Reserve Bank of India (RBI) issued final amendments to its directions on interest rates on deposits, allowing banks to offer differential rates on bulk deposits. The condition

relating to run-off rates for calculating the Liquidity Coverage Ratio has also been retained. The revised rules will take effect from October 1, 2026.

With deposit mobilisation becoming more challenging, the weighted average domestic term deposit rate for fresh deposits rose 16 basis points month-on-month in June. The one-year marginal cost of funds-based lending rate (MCLR) also increased 10 basis points in July as banks sought to protect their net interest margins.

RBI keeps rates unchanged

The Monetary Policy Committee unanimously maintained the status quo on policy rates while retaining flexibility for future action. The stance remained neutral.

SBICAPS said the next rate action could eventually be a hike, but the RBI Governor's statement appeared to push back the timeline for such a move. The probability of a rate hike in FY27 therefore remains low, with the central bank appearing more tolerant of inflation staying above its target.
RBI Governor Sanjay Malhotra also indicated that liquidity conditions could become less accommodative after September.

Global economy shows mixed signals

Global markets remained volatile amid shifting developments in the West Asia conflict. Brent crude prices rose month-on-month as the anticipated peace process faltered, while major agencies expect supply constraints to persist through 2026.
The Indian rupee appreciated against the US dollar, although gains were limited as the dollar index strengthened 1.1% month-on-month. The Japanese yen continued to weaken sharply, prompting coordinated intervention by the US and Japan. Concerns over a potential AI bubble and currency depreciation also triggered periodic sell-offs in Asian markets, including Japan's Nikkei and South Korea's Kospi.
Global economic activity, however, remained resilient. The Global Composite PMI rose to a five-month high of 52.6, with services and manufacturing recording readings of 52.5 and 52.7, respectively. The US services PMI surged to 54.6 in July from 51.2 in June, lifting the US Composite PMI to 54.5, its highest level since October 2025. Global manufacturing PMI also rose to 52.1.

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India's cotton sowing reaches 103.54 lakh hectares, down 2.4% YoY

Cotton sowing in India reached 103.54 lakh hectares as of July 31, 2026, down 2.52 lakh hectares, or about 2.4 per cent, from 106.06 lakh hectares during the corresponding period last year, according to the latest weekly kharif sowing data from the Ministry of Agriculture and Farmers Welfare. State-wise data show that the decline was led by Maharashtra, Rajasthan, Haryana, and Karnataka, while increased planting in Telangana and Andhra Pradesh provided a significant offset.

The current acreage is also below India's five-year normal cotton area of 125.51 lakh hectares, based on the average for 2020-21 to 2024-25. However, the area could rise further as sowing activities are still underway. India's final cotton area in 2025 stood at 115.20 lakh hectares, considerably higher than the 106.06 lakh hectares reported at the comparable stage last year.

Among the states, Maharashtra recorded the largest year-on-year reduction of 1.22 lakh hectares. Cotton cultivation in large parts of the state is rain-fed, making the timing and distribution of monsoon rainfall important for planting decisions.

The northern cotton-growing states also contributed substantially to the national decline. Cotton acreage was lower by 0.95 lakh hectares in Rajasthan, 0.90 lakh hectares in Haryana and 0.43 lakh hectares in Punjab. Together, the three states recorded a decline of 2.28 lakh hectares from the corresponding period last year. Weather conditions, irrigation availability, and competition from alternative kharif crops remain important factors influencing acreage decisions in the region.

Karnataka recorded another sizeable reduction of 0.82 lakh hectares, while Gujarat's cotton area was lower by 0.16 lakh hectares. The relatively small decline in Gujarat contrasts with the sharper reductions seen in Maharashtra and parts of the northern cotton belt.

Southern India provided the major offset. Telangana's cotton acreage increased by 1.34 lakh hectares, exceeding Maharashtra's 1.22-lakh-hectare decline. Andhra Pradesh added another 0.38 lakh hectares compared with the corresponding period last year.

The six states reporting lower acreage, Maharashtra, Rajasthan, Haryana, Gujarat, Karnataka, and Punjab, together recorded a decline of 4.48 lakh hectares. This was partly offset by a combined increase of 1.72 lakh hectares in Telangana and Andhra Pradesh. The remaining cotton-growing states together contributed a small net increase, resulting in the all-India decline of 2.52 lakh hectares.

With cotton sowing at 103.54 lakh hectares by July 31, the year-on-year acreage gap remains relatively modest at around 2.4 per cent. However, the geographical composition of the decline warrants attention, particularly the lower planting in Maharashtra and the northern cotton belt.

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Parliament clears taxation bill, Sitharaman says UPI transactions to remain free

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Terms of trade pact with S Africa union likely this week

India and the five-nation South African Customs Union (SACU) are expected to sign the Terms of Agreement (ToR) for the proposed Preferential Trade Agreement (PTA) on Wednesday, sources said.

The PTA is less ambitious than a traditional Free Trade Agreement (FTA) but more focused. A PTA gives lower duties on a specific "positive list" of items and rarely includes services, investments, or rules on intellectual property.
The ToR establishes the scope, objectives, procedural framework, and boundaries for trade negotiations between countries. The signing of the ToR comes at a time when South Africa, India's biggest trade partner in the region, has proposed an increase in duties on automobiles from India and China to 50% from 25%. Automobiles are the single biggest export from India to the region at $ 1.7 billion in 2025-26.

SACU comprises South Africa, Botswana, Namibia, Lesotho, and Eswatini (formerly Swaziland). On Saturday Commerce and Industry Minister Piyush Goyal had met South Africa's Minister of Trade and Industry Parka Tau on the sidelines of the BRICS Trade and Industry Ministers' Conference in Jaipur.

Both sides discussed signing the ToR of the India-SACU PTA and early conclusion of negotiations, Goyal posted on X after the meeting. Discussions also focussed on strengthening the India-South Africa trade engagement and opportunities for cooperation in critical minerals, pharma and manufacturing.

Seeking Tariff Relief

In the agreement India would seek duty concessions for major export sectors—including automobiles and auto components, pharmaceuticals, machinery, electrical equipment, organic chemicals, and textiles.

India also aims to ensure a stable supply of key industrial inputs from SACU nations, such as diamonds , platinum group metals, manganese, vanadium, and copper to support domestic manufacturing and green transition goals.

India’s total exports to the SACU region stood at $ 7.5 billion in 2025-26 while imports were at $ 9.2 billion. South Africa is the biggest trade partner of India in the region with exports of $ 7.0 billion and imports of $ 8.5 billion.

South Africa is followed by Namibia with exports of $ 349 million and imports of $ 243 million, and Botswana with exports at $ 167 million and imports at $ 446 million. Exports to Swaziland were at $ 11 million and imports were also $ 11 million. Lesotho bought $ 8 million worth of goods from India and exported $ 0.14 million.

India’s exports to SACU are dominated by petroleum products ($2.1 billion) automobiles ($ 1,7 billion), pharma ($ 763 million) and engineering goods and machinery.
The biggest imports by India from SACU include $ 3.0 billion worth of gold, $ 2.8 billion worth of coal and coke, $ 638 million in minerals and ores, $ 887 million worth of precious and semi-precious stones $ 887 million and copper at $ 376 million.

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Bangladesh pushes for EU trade deal, RCEP entry

Bangladesh is preparing to launch formal negotiations for a free trade agreement with the European Union while pressing ahead with its bid to join the Regional Comprehensive Economic Partnership (RCEP), as the country steps up its efforts.

The dual push marks a significant step for the country. With chief negotiators appointed and diplomatic groundwork laid, Dhaka is positioning itself to cement formal trade ties with two of the world's most powerful economic blocs.

Formal steps for the EU trade negotiations are expected to begin next month. Commerce Minister Khandakar Abdul Muktadir confirmed that an initial exchange of formal letters with the EU has already taken place, agreeing to enter negotiations for a free trade agreement (FTA).

“We are hopeful that we will get the date of engagement for the negotiation with the EU after August,” Muktadir told The Daily Star.

An additional secretary from the Ministry of Commerce has been named Bangladesh's chief negotiator, while the EU has similarly appointed its lead trade representative.

The EU remains Bangladesh's largest export destination. According to European Commission data, Bangladesh was the EU's 35th-largest trading partner in 2025, accounting for 0.5 percent of total EU trade in goods. Conversely, the EU was Bangladesh's largest trading partner, capturing a 21.5 percent share of the country's global merchandise trade.

Bilateral trade in goods reached €23.3 billion in 2025, leaving the EU with a €19.1 billion trade deficit in Bangladesh's favour. EU imports from Bangladesh are overwhelmingly dominated by textiles, which comprised nearly 94 percent of total shipments in 2025.

Furthermore, Bangladesh is the largest beneficiary of the EU's Everything But Arms (EBA) arrangement, with €19 billion worth of exports benefiting from these duty-free preferences in 2024 at a 96 percent utilisation rate.

EU foreign direct investment stock in Bangladesh stood at €2.5 billion in 2024, while Bangladesh's FDI in the EU totalled €86 million.

Parallel to the European talks, Commerce Secretary Md Ataur Rahman Khan is currently visiting Australia and New Zealand to rally support for Bangladesh's accession to RCEP.

The 15-nation free trade agreement in the Asia-Pacific region -- comprising the ten ASEAN members alongside Australia, China, Japan, New Zealand, and South Korea -- encompasses 30 percent of global GDP and represents a $32 trillion economic zone.

Muktadir expressed confidence in Bangladesh's prospects for joining RCEP, noting that the country has satisfied foundational criteria, such as submitting formal applications, and holds an advantage due to existing bilateral trade pacts with members Japan and South Korea.

However, the minister did not say exactly when Bangladesh may gain RCEP accession.

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Labour compliance puts Bangladesh garment exporters under pressure

Bangladeshi ready-made garment exporters are facing a shift in buyer and regulatory expectations, with labour compliance moving beyond an audit requirement to become a factor that can influence market access, shipment clearance and sourcing decisions in the European Union (EU) and the United States (US).

Bangladesh's ready-made garment sector remains the country's main export earner and has historically relied on low labour costs, a large workforce and preferential market access, according to a policy paper titled 'From Compliance to Competitiveness: The Growing Importance of Labour Issues for Bangladeshi Exporters in the European Union and the United States,' authored by economist Selim Raihan, executive director of the South Asian Network on Economic Modeling (Sanem), and published this month.

The paper said the EU and the US are Bangladesh's two largest apparel export destinations. The EU accounts for about half of the country's apparel exports under duty-free, quota-free access through the Everything But Arms (EBA) scheme, while the US is the largest single-country market but does not provide comparable tariff benefits.

Bangladesh's export model is coming under pressure as Western markets tighten labour and supply-chain rules, while the country's graduation from least developed country (LDC) status is expected to reduce some tariff advantages. Labour standards are now linked not only to domestic or ethical concerns but also to buyer decisions and export competitiveness, the paper mentioned.

For EU-bound shipments, exporters face new requirements covering corporate due diligence, sustainability reporting and forced labour. The EU Forced Labour Regulation, due to apply from December 2027, could prevent goods made with forced labour at any stage of production from entering the EU market.

Bangladesh is expected to retain benefits equivalent to the EBA scheme for three years after its LDC graduation but could lose them around the end of 2029. Under the revised EU Generalised Scheme of Preferences (GSP), Bangladesh may need to qualify for GSP+ to retain wider duty-free access after the transition period, as per the paper.

In the US market, compliance pressure comes through customs enforcement and private buyer requirements. US law prohibits imports made wholly or partly with forced labour. As many Bangladeshi garment factories use cotton, yarn or fabric sourced from China, exporters may need to provide documentation showing that restricted inputs have not entered their supply chains.

Large US buyers also require suppliers to comply with codes covering child labour, forced labour, worker rights and factory safety. Weak traceability, it warned, could result in shipment delays or buyers cancelling orders.

As requirements widen, Bangladeshi exporters may need to maintain detailed information on workers, subcontractors and the origin of inputs. Buyers may increasingly seek visibility beyond garment factories to the sources of fabric, yarn and other raw materials.

The adjustment burden is expected to be heavier for small and medium-sized factories and subcontractors. Larger exporters are better positioned to invest in digital records, traceability tools and worker grievance systems, while smaller units often continue to rely on paper-based documentation.

This capacity gap could strengthen the position of larger exporters while putting smaller factories and subcontractors at risk of losing orders and employment, The paper warned. At the same time, factories with stronger labour and safety systems could benefit from more stable buyer relationships, fewer disruptions and better access to demanding sourcing programmes.

Strong labour inspections, faster dispute settlement, shared digital compliance systems and greater support for smaller exporters are needed. Industry associations should develop common traceability platforms, pooled training programmes and systems to reduce repeated audits. Exporters should integrate labour compliance into their production strategies rather than treating it as a pre-audit exercise. This includes mapping suppliers and subcontractors, improving record-keeping and traceability, and strengthening worker grievance and participation mechanisms, the paper recommended.

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Dhaka plans initiative to expand trade, investment with New Zealand

To further strengthen bilateral trade and investment relations, Bangladesh recently discussed with New Zealand Trade and Enterprise (NZTE) an initiative to expand cooperation in several sectors, including green energy, leather, jute and sustainable textiles.

Bangladesh highlighted opportunities for joint investment, business-to-business (B2B) linkages and export expansion in these sectors at a meeting with NZTE representatives.

It sought NZTE's cooperation in expanding its non-garment exports to New Zealand to make bilateral trade more balanced and diversified, Bangladesh's Commerce Ministry said in a press release.

Drawing attention to over 650,000 skilled technology professionals available in the country, Bangladesh proposed developing business partnerships with New Zealand technology companies in software, fintech and digital services.

The two sides agreed to set up a bilateral business council and organise and participate in trade fairs. Bangladesh also invited companies from the other side to invest in the country's special economic zones.

Bilateral trade between both sides stands at around $450 million annually now. The former's exports to the latter are worth around $147 million, with readymade garments accounting for a major share.

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