

LETTER

CONFEDERATION OF INDIAN TEXTILE INDUSTRY

29th

August

2026



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NATIONAL

India's GDP likely grew 7.3% in June quarter despite West Asia crisis: Moneycontrol poll

India's economy likely expanded 7.3 percent in the first quarter of FY27, extending its run of above-7-percent growth to a fourth consecutive quarter despite disruptions caused by the West Asia crisis, according to a Moneycontrol poll of 17 economists.

The estimates for the June quarter ranged from 6.6 percent to 8 percent. SBI offered the most optimistic forecast, while Dun & Bradstreet projected the slowest expansion.

The median forecast was slightly lower than the 7.8 percent growth recorded in the fourth quarter of FY26.

Government will release GDP numbers for the first quarter on August 31.

Economists said strong domestic demand, government capital expenditure, manufacturing activity and services growth helped India withstand the impact of elevated energy prices, trade disruptions and global uncertainty.

"Growth in Q1FY27 has held up, with consumers largely protected from the fuel price shock," said Gaura Sengupta, chief economist at IDFC First Bank, which estimated growth at 7.4 percent.

India's ability to diversify its crude oil and liquefied natural gas supplies helped avert shortages, Sengupta said. Although higher raw-material costs affected the margins of listed companies, stronger sales limited the slowdown in profit growth.

Domestic activity cushions external shock

High-frequency indicators covering industrial production, credit growth, automobile sales, goods and services tax collections and exports pointed to healthy economic activity during the quarter.

CareEdge, another rating agency, estimated GDP growth at 7.3 percent and gross value added growth at 7.4 percent. It expects utilities, manufacturing, mining, construction and financial, real estate and professional services to support growth.

“Construction activity is expected to strengthen in Q1 FY27, supported by robust government capital expenditure. Manufacturing also remained a key growth driver, supported by stronger IIP growth, improving GST collections, robust automobile demand, and a sharp recovery in non-oil, non-gold exports,” said Rajani Sinha, chief economist at CareEdge Group.

Radhika Rao, senior economist at DBS Bank, said the economy appeared to have weathered geopolitical disruptions better than initially expected.

The services sector remained supportive, reflected in robust bank credit expansion, purchasing managers’ indices staying in expansionary territory, higher e-way bill generation and resilient exports, Rao said. However, the higher oil import bill weighed on the merchandise trade balance and rising energy prices hurt the profitability of oil-marketing companies.

ICICI Securities Primary Dealership, which expects growth of 7.5 percent, said the economy performed better than feared despite the energy shock and weak exports to Gulf Cooperation Council countries.

“Only a partial burden of the shock was passed on to consumers, and domestic demand stayed strong nonetheless, reflecting upbeat sentiment,” said Abhishek Upadhyay, economist at ICICI Securities PD.

Growth may moderate after Q1

The median growth forecast for the full financial year stood at 6.8 percent, based on estimates from 16 economists. Forecasts ranged from 6.4 percent to 7.6 percent.

Economists expect growth to moderate in the coming quarters as an unfavourable base, higher inflation and the delayed transmission of external shocks weigh on consumption and corporate profitability.

HDFC Bank expects the economy to grow 6.9 percent in FY27 after expanding an estimated 7.5 percent in the first quarter.

“Beyond Q1, we expect GDP growth to be pulled down by a high base effect from last year,” said Sakshi Gupta, principal economist at HDFC Bank.

Sequential momentum could nevertheless hold up as the economy enters the festive season, Gupta said. Improved monsoon progress and a recovery in the area under cultivation have also reduced the risk of a sharp drag from uneven rainfall.

ICRA forecast Q1 GDP growth of 7 percent, Aditi Nayar chief economist of the ratings agency noted that healthy industrial and services data belied fears over the fallout from higher commodity prices. It expects gross value added growth to ease to 7.2 percent from 7.9 percent in the preceding quarter, with weaker net indirect taxes keeping GDP growth below GVA growth.

Dun & Bradstreet was more cautious, projecting first-quarter growth of 6.8 percent.

Its estimate reflects the impact of geopolitical tensions, trade disruptions, higher logistics and commodity costs, and an uneven recovery in private consumption, said Arun Singh, global chief economist at Dun & Bradstreet. Investment and infrastructure spending, however, continued to provide support.

Inflation risks persist

The median forecast for retail inflation in FY27 was 5 percent, based on projections from 12 economists. Estimates ranged from 4.7 percent to 5.2 percent.

Economists flagged elevated energy prices, uncertainty over transit through the Strait of Hormuz and uneven rainfall as the principal risks to inflation.

CareEdge expects consumer inflation to peak in the third quarter and average about 5 percent during FY27. While improving sowing activity and ample cereal stocks could provide some relief, weaker pulses sowing and India's dependence on imported edible oils remain concerns.

India Ratings' chief economist Devendra Kumar Pant said higher inflation could erode household purchasing power and weigh on consumption. It also expects the effects of the previous year's GST rationalisation to continue influencing demand during the first half of FY27.

RBL Bank projected the highest full-year inflation rate of 5.2 percent.

"Inflation expected to rise to 6% in Q4, as weather and geo-political shocks drive 2nd order effects to inch up inflation," said Anitha Rangan, chief economist, RBL Bank.

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India cotton production forecast at 24.5 million bales in 2026/27: USDA

Following are selected highlights from a report issued by the U.S. Department of Agriculture's Foreign Agricultural Service (FAS) post in New Delhi:

"India's 2026/27 (Oct-Sept) cotton production is forecast at 24.5 million 480-lb bales from 11.5 million hectares. Yields are forecast 2% lower at 464 kg per hectare due to forecasts for below-normal rainfall through August–September, with western and central India at greatest risk of extended dry spells. Although the cumulative monsoon deficit narrowed to 12% below normal by August 12, planting remains 2% behind last year, while reservoir storage is at 60% of capacity."

"Domestic mill use forecast is raised to 26.2 million 480-lb bales, driven by textile and apparel export orders. Higher minimum support prices and tighter crop prospects are expected to support firm lint prices, prompting mills to bridge fiber shortages through higher imports using duty-free export mechanisms if the general tariff exemption expires after October 31. As a result, raw cotton exportable surplus will remain constrained as available fiber is directed toward higher-value downstream manufacturing."

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Industrial output growth eases to 6.7% in July as three sectors slow

India's industrial output growth moderated by 210 basis points (bps) to 6.7 per cent in July, easing from an upwardly revised 8.8 per cent in June as three of the four sectors recorded a deceleration compared with the previous month, according to data released by the National Statistics Office (NSO) on Friday.

The headline Index of Industrial Production (IIP) held steady at 124.8 in July, while up from 117 a year earlier. Three of the four broad sectors — manufacturing, electricity and gas supply, and water supply, sewerage and waste management — recorded positive growth, while mining and quarrying slipped back into contraction after recording positive growth in June.

Growth in manufacturing, which carries the largest weight in the index, moderated to 7.3 per cent during the month from 9.5 per cent in June. Within the sector, 19 of the 23 industry groups at the two-digit level expanded compared with a year earlier.

The manufacture of electrical equipment led the gains with a 28.3 per cent expansion, followed by motor vehicles, trailers and semi-trailers (22.2 per cent) and machinery and equipment not elsewhere classified (12.1 per cent). Beverages (21.9 per cent) and other transport equipment (22 per cent) also posted strong double-digit growth.

The four industry groups that contracted were pharmaceuticals (-5.6 per cent), tobacco products (-12.2 per cent), chemical products (-2.7 per cent) and wearing apparel (-0.6 per cent).

Electricity and gas supply remained the fastest-growing segment, expanding 8.7 per cent, but down from the 11.3 per cent growth recorded in June.

Within it, electricity generation from non-renewable sources rose 12.5 per cent and the electricity sub-component grew 9.3 per cent, while renewable generation increased 3.2 per cent and gas supply edged down 1 per cent.

Water supply, sewerage and waste management grew 7.4 per cent. Mining and quarrying, however, contracted 0.9 per cent, reversing the previous month's gain, dragged down by non-metallic minerals (-12.5 per cent) and fuel minerals (-1.3 per cent). Metallic minerals, however, bucked the trend with 24.3 per cent growth.

Under the use-based classification, five of the six segments, excluding consumer durables, recorded slower growth in July compared with the preceding month. Notably, consumer non-durables contracted 1 per cent, reversing strong growth of 5.6 per cent in the previous month.

AEPC urges Commerce Minister to consider measures to regulate cotton yarn export

The Apparel Export Promotion Council (AEPC) has urged Union Minister of Commerce and Industry Piyush Goyal to consider taking suitable measures to regulate the export of cotton yarn, particularly of 20s count and above.

This is due to the sharp increase in yarn prices and the growing pressure on the competitiveness of India's apparel export industry.

Cotton yarn prices have increased by around 60 per cent, from approximately ₹250 per kg in early 2026, to around ₹400 per kg now, further increasing pressure on the apparel manufacturing value chain. Rising costs of other raw materials and fuel are also aggravating the situation, said the council's Chairman A Sakthivel in a letter to the Minister.

The council has also sought the intervention and support of Union Minister of Textiles Giriraj Singh. The council also highlights that a substantial quantity of cotton has moved from farmers to traders, contributing to hoarding and speculative practices in the market.

US restrictions

Sakthivel also highlighted the increase in exports of Indian cotton and cotton yarn to apparel-producing countries such as Bangladesh and Vietnam, following restrictions by the US on the use of Chinese cotton under the Uyghur Forced Labour Prevention Act. This has added to the pressure on raw material prices across the garment value chain.

Raw cotton fetches approximately ₹275 per kg, while cotton converted into yarn fetches around ₹325 per kg. In comparison, a kilogram of garments, after value addition, can fetch between ₹800 and ₹1,200.

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Realistic estimates, fiscal discipline to mark Budget FY28

The government will kick-start internal consultations for the Union Budget 2027-28 on October 12 and the process will extend to mid-November. The meetings, chaired by Expenditure Secretary V Vualnam, will review expenditure requirements, receipts, scheme approvals and fiscal priorities before final allocations are determined.

Inputs gathered via these interactions with ministries and departments will be critical for fixing Budget Estimates (BE) 2027–28 and Revised Estimates (RE) for 2026–27 later.

The West Asia conflict provides additional context for this year's exercise. Prolonged supply chain issues are already significantly impacting various receipts and expenditure components for the current year despite a recent let-up; these issues could potentially spill over to the next year.

Strict Timelines

Financial Advisers (FAs) have been asked to ensure that all necessary information is correctly entered in the Union Budget Information System (UBIS) by October 6, 2026, sources said.

This year's Budget exercise places particular emphasis on realistic and accurate projections. A "realistic projection for Revised Estimates (RE) 2026–27 and Budget Estimates (BE) 2027–28 is a pre-requisite" for sound fiscal management, according to the Budget Circular issued by the Budget Division of the Department of Economic Affairs.

Submission of information relating to non-tax revenue, interest receipts, loan recoveries, capital receipts, interest payments and loans to employees is due by October 6, 2026, followed by estimates of tax receipts by October 15, 2026. Disclosure statements under the FRBM framework are to be submitted by November 6, 2026. Data entry in the UBIS relating to RE/BE ceilings is required within 7 days of completion of the pre-Budget meetings.

The final ceilings will reflect on UBIS by the end of December 2026, with the Detailed Demand for Grants (DDG) to be finalised within one week of the final ceilings being intimated through UBIS. Notes on Demand for Expenditure are to be submitted within one day of filing the DDG (Final) in UBIS, while material for statements to be appended to the

Demands for Grants and Expenditure Profile, as well as the Output-Outcome Monitoring Framework, is due within three days of filing the DDG (Final). The estimates of GDP from the CSO are expected by 7 January 2027.

Ministries and Departments have been advised to estimate expenditure carefully so as to avoid routine or frequent mid-year reappropriations. "Minimal mid-year additional resource requirements/mid-year reappropriations reflect good budgeting," according to the circular. While preparing estimates, priority must first be given to committed and continuing expenditure before provisions are made for new schemes or expenditure items.

The preparation of estimates is expected to take into account actual expenditure up to September 30, 2026, expenditure during the corresponding period of the previous year, and actual expenditure for the entire preceding financial year.

For various schemes, balances under Central Nodal Agencies (CNA), Single Nodal Agencies (SNA), unspent Treasury Single Account (TSA) assignments and unused Mother Sanctions should similarly be reflected in the estimates.

The guidelines further stress fiscal discipline and efficient utilisation of allocated resources. Ministries and Departments are expected to avoid surrender of funds at the close of the financial year, particularly in view of repeated concerns raised by Parliamentary Committees regarding large savings in Grants.

The pre-Budget meetings will broadly examine the status of scheme appraisal and approval for the XVI Finance Commission cycle, fund requirements across expenditure categories, departmental receipts and non-tax revenues. Ministries and autonomous bodies are also expected to review opportunities to increase user charges to recover the current cost of services with a reasonable return on capital investment. The exercise will also capture efforts to recover non-tax revenue arrears and compliance with the applicable dividend policy by CPSEs will also be reviewed.

Macroeconomic Headwinds

The West Asia crisis and reduction in the size of gross domestic product (GDP) as per the new series may lead to some recalibration of key fiscal targets including reduction of debt-to-GDP and fiscal deficit target for FY27 and FY28. A reduction in GDP size has automatically made fiscal deficit target from 4.3% to 4.5% for FY27. However, the actual

outcome would depend on to the extent additional fertiliser subsidies are required for fertiliser and cooking gas and revenue performance.

The Centre's debt-to-GDP ratio will also likely rise to around 57% in FY27, compared with the Budget target of 55.6%. In the Budget for 2025, the Centre committed to calibrating annual fiscal deficits in a manner that ensures a steady downward trajectory in the debt ratio, to reach around 50% of GDP, plus or minus one percentage point, by March 31, 2031. This may need some recalibration.

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Euro area M3 growth rises to 3.4% in July 2026

Euro area broad money growth edged up in July 2026, while credit to non-financial corporations also strengthened, giving textile exporters, apparel importers and sourcing teams another indicator to track financing and demand conditions across the region.

For manufacturers, retail buyers and supply-chain decision-makers exposed to euro area trade, the latest monetary and lending data offer a read on liquidity and credit trends across households and businesses.

The annual growth rate of the broad monetary aggregate M3 stood at 3.4 per cent in July 2026, after 3.3 per cent in June, and averaged 3.2 per cent in the three months up to July, the European Central Bank (ECB) said.

The narrower aggregate M1, comprising currency in circulation and overnight deposits, decreased to 3.1 per cent in July from 3.5 per cent in June, with the June figure revised from 3.4 per cent.

Among M3 components, the ECB said the annual growth rate of short-term deposits other than overnight deposits, or M2-M1, increased to 3.8 per cent in July from 2.8 per cent in June. The annual growth rate of marketable instruments, or M3-M2, decreased to 4.2 per cent from 4.4 per cent.

Looking at contributions to annual M3 growth, M1 contributed 2.0 percentage points in July, down from 2.2 percentage points in June. Short-term deposits other than overnight

deposits contributed 1.1 percentage points, up from 0.8 percentage points, while marketable instruments contributed 0.3 percentage points, unchanged from the previous month.

Among deposit-holding sectors in M3, the annual growth rate of deposits placed by households stood at 2.6 per cent in July, compared with 2.7 per cent in June. Deposits placed by non-financial corporations grew 5.3 per cent, unchanged from the previous month, while deposits placed by investment funds other than money market funds increased to 1.8 per cent from 1.6 per cent.

In the counterparts of M3, claims on the private sector contributed 3.3 percentage points to annual M3 growth in July, up from 3.0 percentage points in June. Net external assets contributed 2.2 percentage points, down from 2.3 percentage points; claims on general government contributed -0.2 percentage points, down from 0.1 percentage points; longer-term liabilities contributed -1.7 percentage points, down from -1.6 percentage points; and the remaining counterparts of M3 contributed -0.2 percentage points, up from -0.5 percentage points.

The annual growth rate of total claims on euro area residents stood at 2.4 per cent in July 2026, compared with 2.3 per cent in June. Claims on general government decreased to -0.5 per cent from 0.3 per cent, while claims on the private sector increased to 3.5 per cent from 3.2 per cent.

Adjusted loans to the private sector, adjusted for loan transfers and notional cash pooling, increased to 4.1 per cent in July from 3.8 per cent in June. Within the non-financial private sector, adjusted loans to households stood at 3.1 per cent, compared with 3.0 per cent in June, while adjusted loans to non-financial corporations increased to 4.4 per cent from 4.0 per cent.

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ADB approves \$400 mn plan to improve Central Asia trade links

The Asian Development Bank (ADB) has approved a \$400 million regional financing facility to modernise border crossing points, lower transport and logistics costs, and improve the movement of people and goods across the Central Asia Regional Economic Cooperation (CAREC) region.

The Border Upgrades for Integration, Logistics, and Development (BUILD) facility will support priority investments to modernise border crossing points and strengthen

connectivity and competitiveness across CAREC, a development relevant to exporters, importers, manufacturers and retail sourcing teams using regional trade corridors.

Despite recent progress in trade and transport connectivity, border crossing points remain bottlenecks across CAREC corridors because of growing trade volumes, infrastructure and capacity constraints, and the need for further modernisation of border management systems and procedures, the Asian Development Bank said in a release.

Leah Gutierrez, director general for Central and West Asia, Asian Development Bank said, "Borders are not just checkpoints. These are gateways to create jobs, regional markets, and income opportunities. Through the BUILD Facility, ADB will help CAREC countries create faster, smarter, and more connected borders, cut inefficiencies by bringing economies closer, expanding cross-country markets and economic corridors, thereby improving the lives of millions of people across the region."

ADB said these constraints create economic losses and hardships for transport operators, traders and passengers, and increase risks linked to human trafficking, environmental issues and public health concerns.

BUILD will finance priority border investments across CAREC countries, including upgrades to rail and road border crossing points. It will also support modern infrastructure, digital systems, high-tech inspection and screening equipment, and more efficient and harmonised border procedures to reduce border crossing times and costs, according to ADB.

The facility will strengthen institutional capacity, support transport and logistics reforms, and promote greater private sector participation. ADB said it will also create private-sector investment opportunities and build the capacity of micro, small and medium-sized enterprises, which it described as major players in agriculture, tourism and transport services, to participate in regional trade.

The CAREC Program comprises Afghanistan, Azerbaijan, China, Georgia, Kazakhstan, the Kyrgyz Republic, Mongolia, Pakistan, Tajikistan, Turkmenistan and Uzbekistan working with development partners to promote sustainable development and economic growth through regional co-operation. ADB hosts the CAREC Secretariat.

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