

## EXPLORING INDIAN AND GLOBAL ECONOMIES & CLIMATE CHANGE WITH *InsPIRE*

*Volume II, Issue 11*



In sPIRE

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## EcoSphere

### *Exploring Indian and Global Economies and Climate Change with InsPIRE*

December 2025, Volume II, Issue 11

*EcoSphere is a monthly review providing insights into the Indian and Global economies, financial markets, climate change, and a digest of academic and policy research papers and articles. Designed to share information and ideas with professionals, researchers, and students, it is not intended as financial or investment advice. EcoSphere is compiled based on best efforts, utilizing information from diverse published sources. InsPIRE does not ensure the completeness or accuracy of this publication, nor does it guarantee the precision of future conditions based on its use.*

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## **Chairman's Reflections**



### ***Global Currents, Indian Momentum: Economic Insights and the Path to Sustainable Growth***

2025 has been a defining year for the Indian economy, a year where strong growth, easing inflation, and improving employment outcomes have converged to create what policymakers rightly describe as a rare “Goldilocks moment.” The economy is neither overheated nor anaemic, reflecting a carefully balanced growth trajectory underpinned by resilient domestic demand, credible policy frameworks, and rising global confidence. Against a backdrop of persistent global uncertainty, characterised by trade fragmentation, geopolitical tensions, and uneven recovery across regions, India has emerged as the world’s fastest-growing major economies. The country is steadily building on a tripod of growth momentum, macroeconomic stability, and institutional confidence, laying the foundation for its long-term ambition of achieving high middle-income status by 2047.

The Indian rupee’s journey in 2025 illustrates the complex interplay of domestic and global factors. When the rupee crossed the ₹90-per-dollar mark in early December, it triggered anxiety far beyond the currency markets. This psychological threshold was widely interpreted as a signal of deeper economic stress, reviving concerns about external vulnerabilities, policy credibility, and the costs of global uncertainty for households and businesses. Yet, by the final week of December, the rupee had consolidated just below ₹90, reflecting tentative signs of stabilisation. The arc, from sharp depreciation to cautious consolidation, underscores the multifaceted nature of India’s macroeconomic environment. The currency’s weakness is not the result of any single shock or policy misstep but emerges from a fractured international environment marked by geopolitical risk, punitive trade tariffs, volatile capital flows, and central

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banks' deliberate recalibration of currency management. Encouragingly, developments such as a softening US dollar, renewed foreign portfolio inflows, and targeted liquidity measures by the Reserve Bank of India (RBI) suggest that the narrative is no longer one-directional.

### **Monetary Policy and Macro-Balance**

December 2025's monetary policy review represents a rare and consequential moment in India's macroeconomic journey. The headline inflation fell below RBI's lower tolerance threshold even as real GDP growth accelerated to multi-quarter highs. In response, the RBI reduced the policy repo rate by 25 basis points to 5.25 percent while maintaining a neutral stance—a careful balancing act supporting growth without compromising credibility. This move reflects strategic recalibration in an unusually favourable domestic environment, rather than routine easing.

Alongside policy measures, India's ongoing revisions to the base years for GDP, CPI, and the Index of Industrial Production (IIP) mark a significant step in improving the accuracy and international comparability of its macroeconomic statistics. The proposed changes by the Ministry of Statistics and Programme Implementation are designed to reflect structural transformations in the economy, including rapid digitalisation, formalisation, expansion of services, changing consumption patterns, and the emergence of new industries. Updating weights, coverage, data sources, and estimation methodologies will strengthen the credibility of macroeconomic assessment and enhance policy formulation.

### **Inflation, Industrial Activity, and Trade**

Retail inflation increased marginally to 0.71 percent in November 2025, still well below the 4 percent medium-term target, reflecting favourable base effects, easing food prices, and subdued underlying demand. Wholesale price inflation (WPI) remained in negative territory at -0.32 percent, highlighting persistent disinflationary pressures across primary articles, fuel, and select manufactured goods. These trends illustrate the economy's current combination of price stability and gradual demand recovery.

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Industrial activity regained momentum, with the IIP recording a robust 6.7 percent year-on-year growth in November 2025, driven by manufacturing, post-monsoon recovery in mining, and sustained infrastructure-related output. The Index of Eight Core Industries (ICI) expanded by 1.8 percent, reflecting strong growth in cement, steel, and fertilizers, even as energy sectors faced lingering challenges.

Trade performance was another highlight of 2025. Total exports, including merchandise and services, rose to US\$ 73.99 billion, a 15.52 percent year-on-year increase, while imports declined marginally to US\$ 80.63 billion. Consequently, the trade deficit narrowed significantly to US\$ 6.64 billion. Broad-based gains in engineering goods, electronics, gems and jewellery, pharmaceuticals, and petroleum products underpinned merchandise exports, while services exports remained a stabilising force.

Strategic trade agreements further strengthened India's external engagement. The Comprehensive Economic Partnership Agreement (CEPA) with Oman and the Free Trade Agreement with New Zealand, coupled with the Trade and Economic Partnership Agreement with the European Free Trade Association (EFTA), reflect India's proactive approach to deepening trade, investment, and regulatory cooperation with global partners.

### **Fiscal Consolidation and Employment**

India's fiscal consolidation path faced pressures from front-loaded capital expenditure, softer tax collections, and rising subsidies, though strong non-tax revenues provided a buffer. By November 2025, the fiscal deficit stood at ₹9.76 trillion, accounting for 62.3 percent of the full-year estimate. In the labour market, data from the Periodic Labour Force Survey (PLFS) highlighted broad-based improvements in employment, labour force participation, and declining unemployment. Notably, rural employment and female participation continued to rise, reflecting a consolidating recovery.

The Viksit Bharat – Guarantee for Rozgar and Aajeevika Mission (Gramin) Act, 2025, replaced MGNREGA, signalling a strategic shift from wage support to asset creation,

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climate resilience, and decentralised development. By increasing statutory employment guarantees from 100 to 125 days and linking labour to productive public assets, the Act seeks to transform rural employment from a social safety net into an instrument of sustainable development.

**Banking, Financial Stability, and Insurance Reforms**

The RBI's *Report on Trend and Progress of Banking in India 2024–25* confirms the financial system's enhanced resilience amid global uncertainties. Sustained credit growth, improving asset quality, and robust regulation support systemic stability, even as emerging risks from rapid credit expansion and global spillovers require vigilance. The *Financial Stability Report (FSR), December 2025*, further reinforces the strength of India's banking institutions relative to global peers.

The passage of the Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Bill, 2025, represents a critical milestone in modernising India's insurance framework. By deepening coverage, easing business operations, strengthening oversight, and fostering financial resilience, the Bill positions insurance as a pillar of household and corporate financial security.

**Capital Markets and Securities Reform**

Indian equity markets navigated December 2025 amid volatility, ending the year on a steady note as investors balanced profit-booking with supportive domestic fundamentals. Recognising the fragmented evolution of India's capital market regulations, the Securities Markets Code Bill, 2025, seeks to consolidate three foundational statutes into a single framework. This landmark reform will simplify regulation, strengthen SEBI's governance, reduce uncertainty, and improve investor protection.

**Global Economy and Monetary Policy Trends**

Globally, the OECD Economic Outlook, December 2025, describes a stabilising economy with weak and uneven growth, even as inflation recedes. Advanced

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economies face sluggish expansion amid high interest rates and subdued investment, while emerging markets, led by India, continue to outperform due to strong domestic demand. China's growth slowed amid property stress, the US experienced deceleration from monetary tightening, and the euro area faced weak manufacturing and tight credit.

US monetary policy shifted with a 25-basis-point cut in the federal funds rate, signalling a cautious recalibration. Similarly, the Bank of England reduced its policy rate, while the ECB maintained rates amid a phase of consolidation. In Japan, the Bank of Japan raised short-term rates to the highest level in nearly three decades, reflecting a gradual move away from ultra-easy monetary policy. Globally, inflation trends moderated, with the FAO Food Price Index recording declines in dairy, meat, sugar, and oils.

**Global Financial Markets and Leadership Lessons**

While global equity markets reflected a year-end consolidation, Warren Buffett's retirement from day-to-day management of Berkshire Hathaway serves as a reminder that disciplined, long-term investing endures as a timeless principle. Global equity markets in December 2025 were shaped by monetary policy, earnings sustainability, and geopolitical risks, with the US and Europe consolidating near record highs and Asia-Pacific markets showing divergence influenced by domestic macro conditions and policy responses.

**Climate Change and Energy Transition**

India reclaimed third place in the global wind power market in 2025, achieving its highest-ever annual capacity additions. Renewable energy capacity reached 262.7 GW by November FY26, led by solar, though 40 GW of capacity lacks secured offtake. The government's 500 GW target emphasises hybrid projects, energy storage, and domestic manufacturing. Budget 2026 is expected to play a pivotal role in improving project viability through incentives, eased regulations, and targeted support for green hydrogen. Renewables are projected to supply over 35 percent of power by FY30, contingent on timely PPAs, transmission expansion, and policy coherence.

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The Sustainable Harnessing and Advancement of Nuclear Energy for Transforming India (SHANTI) Act, 2025, represents a decisive effort to modernise India's nuclear governance, aligning it with clean energy and energy security objectives.

An NBER study highlights the economics of climate innovation, demonstrating the role of incentives, market failures, and policy instruments in advancing clean technologies. The report underscores the need for cross-disciplinary collaboration spanning economics, engineering, political science, law, and behavioural sciences to accelerate the clean technology transition.

### **Concluding Reflections**

2025 has been a year where India's macroeconomic management, policy innovation, and strategic engagement with global partners converged to reinforce its position as a resilient, forward-looking economy. From robust industrial growth and trade expansion to financial system stability, fiscal prudence, employment reforms, and energy transition, the year stands as a testament to India's capacity to combine growth with structural transformation.

As we step into 2026, the challenges ahead are no less formidable—ensuring policy coherence, sustaining fiscal discipline, deepening reforms, and steering the energy transition remain critical imperatives. Yet, the foundations laid in 2025 inspire confidence that India is well-positioned to navigate global uncertainties while charting a path towards inclusive, sustainable, and resilient growth.

On behalf of InspIRE, I extend warm wishes for a prosperous and inspiring New Year to all our readers. May 2026 bring new opportunities, innovation, and collective progress for our nation and the world.



Dr Debesh Roy

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***Driving Policy, Empowering Progress*****Unit Conversion**

1 lakh = 100,000

1 crore = 10 million

100 crore = 1 billion

1 lakh crore = 1 trillion

**Currency Conversion**

USD (\$) 1 = INR (₹) 85.5814 (28 March 2025)

USD (\$) 1 = INR (₹) 89.9198 (31 December 2025)

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## COVER STORY

# INDIAN ECONOMY IN 2025

### A DEFINING MOMENT FOR INDIA'S ECONOMY: GROWTH MOMENTUM AMID GLOBAL UNCERTAINTY

2025 stands out as a defining year for the Indian economy—a period where strong growth, easing inflation and improving employment outcomes have converged to create what policymakers describe as a rare “Goldilocks moment”. Neither overheated nor anaemic, India’s macroeconomic conditions reflect a carefully balanced growth trajectory, underpinned by resilient domestic demand, policy credibility and rising global confidence.

At a time of persistent global uncertainty—marked by trade fragmentation, geopolitical tensions and uneven recovery across regions—India has emerged as one of the world’s fastest-growing major economies. With the national ambition of achieving high middle-income status by 2047, the country is building on a tripod of growth momentum, macroeconomic stability and institutional confidence.

#### **Growth Momentum Strengthens**

India’s growth performance in 2025 exceeded expectations. As per the IMF’s *World Economic Outlook* (April 2025), India surpassed Japan to become the world’s fourth-largest economy with a GDP of USD 4.18 trillion and is on course to overtake Germany within the next three years. By 2030, India’s GDP is projected to reach USD 7.3 trillion.

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Growth surprised on the upside in FY 2025–26, with real GDP expanding by 8.2 percent in Q2, a six-quarter high, up from 7.8 percent in Q1 and 7.4 percent in Q4 of the previous year. Real Gross Value Added (GVA) rose by 8.1 percent, driven by buoyant industrial and services activity. Crucially, this expansion was domestically driven, with robust private consumption, front-loaded government capital expenditure and improving investment sentiment offsetting global headwinds.

Reflecting these dynamics, the Reserve Bank of India revised its GDP growth forecast for FY26 upwards to 7.3 percent, citing strong demand conditions, GST and income tax rationalisation, benign crude prices, and supportive monetary and financial conditions.

### **Employment Outcomes Improve Sharply**

Employment has emerged as a critical bridge between growth and shared prosperity. With nearly a quarter of India’s population in the 10–24 age group, labour market outcomes are central to the sustainability of the growth process.

Data from the Periodic Labour Force Survey (PLFS) point to a decisive improvement in employment conditions in 2025. Unemployment rates declined steadily alongside rising labour force participation and worker population ratios—indicating not just more people seeking work, but more people finding it.

In November 2025, the unemployment rate (CWS) for persons aged 15 and above fell to 4.8 percent, the lowest since April 2025. The improvement was especially pronounced among women: rural female unemployment declined from 4.0 percent to 3.4 percent, while urban female unemployment fell from 9.7 percent to 9.3 percent. Rural unemployment touched a new low of 3.9 percent, while urban unemployment eased to 6.5 percent.

At the same time, labour force participation rose to 55.8 percent, a seven-month high, while the worker population ratio improved to 53.2 percent, reflecting broad-based strengthening of the labour market across rural and urban areas.

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## **Inflation Eases to Multi-Year Lows**

One of the most striking macroeconomic developments of 2025 was the sharp and sustained easing of inflation. Consumer price inflation, which stood at 4.26 percent in January, softened steadily through the year, reaching historic lows of around 0.25 percent in October, before edging up modestly to 0.71 percent in November.

The faster-than-expected disinflation was driven primarily by a correction in food prices, defying typical seasonal trends. Importantly, inflation remained well within the RBI's medium-term target band of  $4 \pm 2$  percent throughout the year, reinforcing the credibility of India's inflation-targeting framework.

Wholesale price inflation mirrored this moderation, turning mildly negative by November 2025. Against this benign inflation backdrop, the RBI reduced the policy repo rate by 25 basis points to 5.25 percent, maintaining a neutral stance that balances growth support with price stability.

## **Trade and External Sector Resilience**

India's external sector demonstrated notable resilience in 2025. Merchandise and services exports began the year strongly and maintained momentum despite global trade disruptions. By November, merchandise exports had risen to USD 38.13 billion, supported by engineering goods, electronics, pharmaceuticals, petroleum products and gems and jewellery.

Services exports remained a standout performer, expanding by 8.65 percent during April–November 2025 to USD 270 billion, reinforcing India's global competitiveness in IT and business services.

The external position remained comfortable. Foreign exchange reserves stood at USD 686.2 billion in late November, providing over 11 months of import cover. The current account deficit moderated to 1.3 percent of GDP, supported by strong services exports and a 10.7 percent increase in inward remittances.

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On capital flows, foreign direct investment showed renewed strength, with gross FDI rising by nearly 20 percent in the first half of FY26, while net FDI more than doubled, aided by lower repatriation.

### **A Broad-Based and Credible Growth Story**

India's economic outlook has received widespread international endorsement. The IMF, World Bank, OECD, Moody's, S&P, Fitch, ADB and others have either upgraded or reaffirmed India's growth projections, consistently ranking it as the fastest-growing major economy over the next two years.

Taken together, robust growth, falling unemployment, easing inflation and external sector resilience have reinforced confidence in India's macroeconomic fundamentals. The convergence of these forces marks 2025 as a pivotal year—one that strengthens the foundation for India's long-term development aspirations.

As the country advances towards its centenary milestone in 2047, this "Goldilocks moment" offers not just reassurance, but opportunity: to lock in reforms, expand productive employment, and translate macroeconomic stability into durable, inclusive prosperity.

## BEYOND THE ₹90 BARRIER: WHAT THE RUPEE'S SLIDE REVEALS ABOUT INDIA AND THE WORLD

*When the Indian rupee breached the ₹90-per-dollar mark in early December 2025, it triggered anxiety well beyond currency markets. The crossing of this psychological threshold was widely read as a signal of deeper economic stress—reviving concerns about external vulnerability, policy credibility, and the everyday costs of global uncertainty. Yet by the final week of December, the rupee had settled into a narrower range, trading just below ₹90 amid tentative signs of stabilisation.*

*This arc—from sharp depreciation to cautious consolidation—captures the complexity of the moment. The rupee's weakness in 2025 cannot be reduced to a single policy misstep or global shock. It is the outcome of a fractured international environment marked by geopolitical risk, punitive trade tariffs, volatile capital flows, and a deliberate recalibration of how central banks manage currency volatility. At the same time, recent developments—a softening US dollar, renewed foreign portfolio inflows, and targeted liquidity measures by the Reserve Bank of India—suggest that the narrative is no longer one-directional.*

*The debate, therefore, is no longer about whether the rupee has fallen, but what the fall signifies. Is it a market verdict on domestic fundamentals, a temporary adjustment to external headwinds, or a transition into a new exchange-rate regime shaped by global fragmentation and reduced capital abundance? Equally important is the question of who bears the cost of adjustment—markets, policymakers, or households.*

*Drawing on recent data, empirical research, and policy signals, this article examines the forces driving the rupee's decline, the limits of depreciation as a shock absorber, and the emerging contours of a possible recovery in 2026. In doing so, it places the currency at the intersection of macroeconomics and lived experience—where exchange rates translate into fuel prices, investment decisions, and financial security.*

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## **Introduction**

In early December 2025, the Indian rupee crossed a psychological and political Rubicon. On 3 December, it slipped past ₹90 per US dollar for the first time in history, touching an all-time low before staging a modest rebound. By 24 December, the currency had settled into a narrower trading range, closing marginally lower at ₹89.78 per dollar—down 0.1 percent on the day—after opening stronger at ₹89.65 and weakening through the afternoon session. The rupee ended the month at ₹89.92 per dollar.

This recent price action encapsulates the broader theme of the rupee's journey in 2025: heightened volatility within a shifting equilibrium. While the currency has depreciated by over 5 percent this year—making it the worst-performing major Asian currency—the balance of forces influencing its trajectory has begun to evolve.

## **A Distinct Phase in the Rupee's Long Arc**

According to SBI Research, the rupee's movement since 2008 can be divided into three phases. The current episode—beginning around September 2024—marks Phase III, characterised by the rare phenomenon of simultaneous depreciation of both the US dollar and the Indian rupee. Unlike earlier periods dominated by dollar strength or domestic macro stress, this phase is shaped primarily by geopolitical fragmentation, trade weaponisation, and capital flow uncertainty.

The imposition of a 50 percent US tariff on key Indian exports in April 2025 remains a defining shock. Even though the geopolitical risk index moderated after mid-2025, it continues to hover well above its long-term average, exerting persistent pressure on emerging market currencies, including the rupee.

## **Capital Flows: From Retreat to Tentative Return**

One of the most consequential shifts underlying the rupee's vulnerability has been the erosion of surplus global capital inflows. The era when abundant portfolio inflows cushioned India against external shocks has clearly passed. In 2025, foreign portfolio

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investors offloaded nearly \$17 billion in Indian equities, while FDI inflows and external commercial borrowings remained muted.

However, recent weeks have offered early signs of reversal. As the rupee recovered from record lows and posted its biggest weekly gain in six months, foreign investors returned to Indian equities, with net FPI inflows of about \$644 million over the past week. This followed cumulative outflows of nearly \$1.8 billion over the preceding three weeks, underscoring how closely capital flows are now responding to currency stability and policy signals.

### **RBI's Strategy: Managing Volatility, Preserving Flexibility**

The Reserve Bank of India's approach in this cycle marks a notable departure from past episodes of heavy-handed defence. After selling nearly \$56 billion in 2024, RBI intervention in 2025 has been more calibrated, constrained partly by a large forward book and partly by a strategic preference for volatility management rather than level targeting.

This stance was reinforced in late December through a fresh set of liquidity measures. The RBI announced bond purchases through open market operations (OMOs) and a dollar–rupee buy-sell swap starting 13 January 2026. These measures are expected to inject rupee liquidity by absorbing excess dollars from the system, particularly at a time when GST payments, advance tax outflows, and currency leakage have tightened domestic liquidity.

Market participants estimate that the RBI sold over \$5 billion in recent weeks to keep the rupee within the ₹89–90 band, necessitating further liquidity support. As Madhavankutty G, Chief Economist at Canara Bank, noted, OMOs worth ₹2 lakh crore were essential to stabilise conditions without compromising monetary transmission.

RBI Governor Sanjay Malhotra has also sought to anchor expectations. Emphasising India's strong external position, he reiterated that the central bank does not target a

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specific exchange rate level but stands ready to intervene to curb excessive volatility—signalling continuity, credibility, and confidence.

### **The Dollar Turns from Headwind to Tailwind**

A critical external development supporting the rupee's near-term outlook is the weakening of the US dollar. By late December, the dollar index had slid to 97.7—its lowest level since October—reflecting growing expectations of at least two US Federal Reserve rate cuts in 2026 amid cooling inflation and slowing growth.

This shift matters. A softer dollar eases pressure on emerging market currencies, reduces imported inflation risks, and improves risk appetite for capital flows into economies like India. Together with RBI's liquidity actions, it has strengthened the case for a gradual rupee recovery in early 2026.

### **Trade, Commodities, and the Limits of Depreciation**

While depreciation has provided limited relief to exporters—India's goods exports rose sharply in November 2025—structural constraints remain. Elevated global metal and bullion prices continue to inflate the import bill, and India's dependence on crude oil, fertilisers, and electronic components limits the benefits of currency-led competitiveness.

Empirical evidence reinforces this view. SBI Research finds that although exports rise and imports fall in response to depreciation, the effects largely cancel out, leaving the trade balance relatively insensitive to exchange rate movements in the short run. A weaker rupee, therefore, cannot substitute for deeper productivity gains and diversification.

### **From Markets to Households**

Beyond charts and models, the rupee's weakness has tangible consequences. Fuel costs rise with a lag, imported consumer goods become more expensive, overseas education and travel strain household budgets, and firms dependent on imported inputs face

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margin pressure. Over time, these dynamics can dampen consumption, hiring, and income growth—turning exchange rate volatility into a social concern.

### **Outlook: Range-Bound with a Cautious Bias**

Market expectations now point to consolidation rather than free fall. Analysts suggest that as long as USD/INR holds above 88.80, the medium-term structure remains range-bound with a mild upward bias, shaped by global dollar trends and domestic flows. A sustained break above 90 could reopen the path to 91, but renewed foreign inflows, easing global conditions, or progress on trade negotiations could cap further depreciation.

SBI Research’s regime-switching analysis supports this assessment. While the rupee remains in a depreciation regime with high persistence, historical patterns suggest that such phases eventually give way to recovery. Under plausible scenarios, the rupee could appreciate by 6–7 percent over 2026, returning to the ₹87–88 range.

### **Conclusion**

The rupee’s journey through 2025 has been neither accidental nor apocalyptic. It reflects a world in transition—marked by geopolitical risk, tighter capital, and recalibrated policy priorities. While near-term volatility cannot be ruled out, recent signals—from a weakening dollar and renewed capital inflows to RBI’s liquidity support—suggest that the worst may be behind.

The lesson is clear: exchange rate stability cannot be engineered indefinitely through intervention alone. It must be earned through credibility, competitiveness, and resilience. As India navigates a more fragmented global economy, the rupee will remain not just a price—but a barometer of confidence in the country’s economic future.

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## **TARIFFS, TURMOIL AND INTERVENTION: DECODING THE RUPEE'S VOLATILE YEAR**

The year 2025 proved to be one of the most turbulent periods for the Indian rupee in recent memory. Marked by global trade disruptions, shifting US trade policy, sustained foreign portfolio outflows and active central bank intervention, the currency experienced wide swings before ending the year sharply weaker. From starting the year near ₹85 per US dollar, the rupee slid nearly 5 percent over the course of the year, touching an all-time low of 91.08 in mid-December, before staging a partial recovery toward the ₹89 level following strong intervention by the Reserve Bank of India (RBI).

The year began on a cautious note as the rupee weakened past the 86 mark in January amid growing uncertainty over US trade policy. President Donald Trump's announcement of impending tariffs on multiple countries triggered risk aversion across emerging markets, weighing on the Indian currency. This pressure intensified in February as the tariffs translated into action, foreign equity outflows accelerated, and the rupee slipped past 87, approaching 88 despite intermittent RBI support.

March offered temporary relief. Optimism that India might escape the harshest trade measures, combined with strong dollar sales by the RBI, fiscal year-end flows and exporter repatriation, helped the rupee recover to the mid-85 range. This stability carried into April, even as tariffs were imposed on several Asian economies. India's currency benefited from renewed foreign equity inflows, exporter dollar sales and positive signals from Washington that an India-US trade deal was progressing, allowing the rupee to briefly test the 84 level.

The strongest phase for the rupee came in May, when heavy foreign portfolio inflows pushed the currency to a record high near 83.78 per dollar. However, this rally proved short-lived. Renewed trade concerns with the US and rising geopolitical tensions between India and Pakistan reversed gains by month-end, pulling the rupee back into the 85 range.

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In June, markets were caught off guard by a surprise 50-basis-point rate cut by the RBI. While such a move typically weakens a currency, the rupee remained relatively stable around mid-85 levels, supported by softer global oil prices, a weaker dollar and RBI liquidity operations that absorbed excess cash from the banking system. The calm, however, did not last.

By July, stalled trade negotiations with the US and renewed foreign equity outflows pushed the rupee toward 86, before Trump's announcement of a 25 percent tariff and penalties on Indian imports triggered a sharper slide to 87. August saw further pressure as additional US tariffs linked to India's purchase of Russian crude oil were imposed, strong importer dollar demand emerged, and the rupee crossed the 88 mark. RBI intervention helped prevent disorderly movements but could not reverse the underlying trend.

Persistent tariffs exceeding 50 percent on Indian goods, rising H-1B visa costs, and continued foreign portfolio selling kept the rupee under pressure through September, with the currency largely anchored around 88. In October, the RBI stepped in more aggressively, selling dollars to prevent a breach of the psychologically important 89 level. Despite weak inflows and steady dollar demand, the central bank's actions ensured the rupee closed the month just below that threshold.

November marked a turning point as the rupee finally breached 89 amid fading hopes of an early India-US trade deal, renewed equity outflows and corporate dollar demand. RBI intervention continued at key levels, limiting sharper depreciation. December, however, brought extreme volatility. In early December, the rupee crossed both the 90 and 91 marks as panic dollar buying by importers, thin liquidity and delayed central bank intervention amplified losses. Heavy RBI dollar sales later in the month helped break speculative positions and restore some stability, allowing the currency to rebound toward 89.

By year-end, the rupee had recovered nearly 2 percent from its record low, supported by returning foreign inflows and RBI liquidity measures. Nevertheless, 2025 stands out

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as a year of pronounced depreciation, underscoring the rupee's vulnerability to global trade shocks and capital flow volatility.

Looking ahead, currency experts believe that improving trade numbers, resilient GDP growth and continued RBI intervention could support a gradual recovery. Policymakers have indicated that an India–US trade agreement may be finalised by March 2026, a development widely seen as a key catalyst for the currency. Most analysts expect the rupee to trade broadly around the 88 level in the first half of 2026, with its trajectory hinging critically on trade negotiations, global dollar movements and foreign capital flows.

After swinging from ₹85 to ₹91 per dollar and retreating below ₹90, the rupee enters 2026 with cautious optimism—but little room for complacency.

## SECTION 1

# INDIAN ECONOMY

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## SPECIAL FEATURE

### MONETARY POLICY

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#### INDIA'S GOLDBLOCKS MOMENT: MONETARY POLICY AT THE CROSSROADS OF LOW INFLATION AND HIGH GROWTH

The December 2025 monetary policy marks a rare and consequential moment in India's macroeconomic journey. For the first time since the adoption of flexible inflation targeting, headline inflation has fallen below the lower tolerance threshold, even as real GDP growth accelerates to multi-quarter highs. The Reserve Bank of India's (RBI) decision to cut the policy repo rate by 25 basis points to 5.25 percent, while retaining a neutral stance, reflects a careful balancing act—supporting growth without undermining credibility, and leveraging benign inflation while remaining alert to emerging risks.

This policy cycle is best understood not as routine easing, but as a strategic recalibration in response to an unusually favourable domestic configuration unfolding against a complex and uncertain global backdrop.

#### **A Goldilocks Phase in the Indian Economy**

The defining macroeconomic feature of 2025 has been the sharp and broad-based disinflation. Average headline CPI inflation dropped to 1.7 percent in Q2:2025–26, and further to an unprecedented 0.3 percent in October 2025. Food prices—typically a source of volatility—registered outright deflation, supported by higher kharif output, robust rabi sowing, ample reservoir levels and improved supply management.

Crucially, this is not a narrow or transient phenomenon. Nearly 80 percent of CPI items are now recording inflation below 4 percent, indicating a generalised easing of price

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pressures. Even core inflation, often considered stickier, has moderated when adjusted for precious metals.

Simultaneously, growth momentum has strengthened. Real GDP expanded by 8.2 percent in Q2, a six-quarter high, driven by resilient domestic demand, improved investment conditions, tax rationalisation, and front-loaded public capital expenditure. Consumption has benefited from festival spending and GST rate adjustments, while private investment is gaining traction amid high capacity utilisation and healthier corporate balance sheets.

Together, low inflation and high growth have created a rare “Goldilocks” phase—neither too hot nor too cold—providing the policy space for monetary support without stoking macroeconomic imbalances.

### **The Logic of the Rate Cut—and the Neutral Stance**

Against this backdrop, the MPC’s unanimous decision to reduce the repo rate by 25 bps appears both timely and measured. The easing is anchored in a clear assessment: inflation is likely to remain at or below the 4 percent target through the first half of 2026–27, while growth, though resilient, is expected to moderate gradually.

Yet, the decision to retain a neutral stance, despite exceptionally low inflation, is equally telling. It signals the RBI’s intent to preserve optionality in an uncertain environment. While domestic conditions are favourable, the external context remains fluid—marked by geopolitical tensions, volatile capital flows, divergent monetary paths among major central banks, and valuation concerns in global financial markets.

By holding the stance neutral, the RBI avoids pre-committing to a prolonged easing cycle, even as it supports growth in the near term. This reflects institutional learning from past cycles, where premature accommodation amplified vulnerabilities once global conditions turned adverse.

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## **Liquidity Management: Supporting Transmission Without Distortion**

Beyond the rate cut, the RBI has reinforced monetary transmission through proactive liquidity management. The announcement of ₹1 lakh crore in open market operations (OMO) purchases and a USD 5 billion 3-year USD/INR buy-sell swap underscores the central bank's commitment to providing durable liquidity.

Importantly, the RBI has drawn a clear distinction between durable liquidity (via OMOs) and transient liquidity (via LAF operations). This nuanced approach ensures that short-term money market rates remain aligned with the policy rate, while longer-term funding conditions support credit expansion and investment—without directly targeting government bond yields.

The results are already visible. Since the start of the easing cycle, lending rates on fresh loans have declined substantially, deposit rates have adjusted downward, and transmission has been broad-based across sectors.

## **Financial Stability as a Silent Strength**

One of the less dramatic but most significant aspects of the current policy environment is the strength of India's financial system. Banks and NBFCs enter this easing phase with strong capital buffers, low non-performing assets, and healthy profitability. Credit growth has picked up across retail, services, MSMEs and even large industry—suggesting that monetary easing is reinforcing, rather than compensating for, balance-sheet repair.

The total flow of resources to the commercial sector has risen sharply, aided by non-bank intermediation. This structural improvement allows monetary policy to operate more effectively, reducing the risk that lower rates simply inflate asset prices without translating into real activity.

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## **External Sector: Resilience with Caveats**

Externally, India remains relatively well-positioned. The current account deficit has moderated, supported by strong services exports and robust remittance inflows. Foreign exchange reserves remain ample, providing a buffer against volatility in capital flows.

However, merchandise exports face headwinds amid subdued global demand, and portfolio flows have been sensitive to global risk sentiment. These factors partly explain the RBI's caution in retaining a neutral stance despite ultra-low inflation.

## **Reading the Policy Signal**

The December 2025 policy is not merely about a 25-basis-point rate cut. It is a signal that India's macroeconomic framework—anchored in inflation targeting, supported by prudent regulation, and reinforced by structural reforms—has matured.

At the same time, it reflects a recognition that this favourable configuration may not last indefinitely. The RBI's approach blends confidence without complacency: using the inflation dividend to support growth, while keeping its guard up against global shocks and domestic excesses.

As India heads into 2026, monetary policy is no longer firefighting. It is quietly shaping conditions for sustained expansion—one cautious step at a time.

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## **RBI'S GOLDBLOCKS MOMENT: WHAT RBI'S DECEMBER MPC MINUTES REVEAL**

The December 2025 meeting of the Reserve Bank of India's Monetary Policy Committee (MPC) marks an important moment in India's monetary policy cycle. For the first time in several years, the debate within the MPC was not about containing inflation risks, but about responding to inflation that has fallen too far below the target. Against this backdrop, the MPC unanimously voted to reduce the policy repo rate by 25 basis points to 5.25 percent, while choosing to retain a neutral stance. The decision

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*Driving Policy, Empowering Progress*

reveals an RBI that is increasingly confident about inflation dynamics, yet deliberately cautious in signalling its future policy path.

Inflation provided the strongest and most unambiguous justification for action. Headline CPI inflation fell to an unprecedented low of 0.25 percent in October 2025, driven primarily by a sharp correction in food prices. More importantly, members noted that the disinflationary trend was no longer confined to a few volatile components. Core inflation, once adjusted for the surge in precious metals prices, has remained in the 2–3 percent range for an extended period, pointing to subdued underlying demand pressures. Inflation for the full year 2025–26 is now projected at just 2 percent, a full two percentage points below the formal target.

Several members went beyond the usual comfort with low inflation to argue that such persistently weak price pressures could themselves become a macroeconomic risk. Dr. Nagesh Kumar described the current situation as a rare “Goldilocks moment” of high growth and very low inflation, but cautioned that inflation breaching the lower tolerance band may reflect emerging demand weakness. Shri Saugata Bhattacharya similarly stressed that underlying inflation is likely to undershoot the target for several months, expanding the policy space for easing. Prof. Ram Singh was the most forceful, arguing that monetary policy must actively steer inflation back towards the target and that allowing inflation to remain too low for too long could undermine growth, profitability, and investment.

Dr. Poonam Gupta placed this argument squarely within the Flexible Inflation Targeting framework, emphasising that when inflation outcomes and forecasts are so far below target, they must carry decisive weight in policy deliberations. Shri Indranil Bhattacharyya reinforced this view by pointing to diffusion indices showing that inflation moderation has become broad-based across consumption items, aided in part by GST rationalisation. Governor Sanjay Malhotra, summing up the collective assessment, noted that both headline and core inflation—especially when precious metals are excluded—signal minimal demand pressures and justify a reduction in real interest rates.

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Growth considerations, while secondary to inflation in driving the decision, also played a significant role. The MPC acknowledged the strength of recent data, particularly the 8.2 percent real GDP growth recorded in the second quarter of 2025–26. Manufacturing-led expansion, resilient rural consumption, and improving investment conditions were all highlighted as positive developments. Yet beneath these strong headline numbers, members discerned signs of an inflection point. High-frequency indicators such as PMI readings, industrial production, electricity demand, and merchandise exports suggest that momentum may be moderating as the year progresses.

Dr. Nagesh Kumar pointed out that October data hinted at activity peaking in the second quarter. Saugata Bhattacharya and Indranil Bhattacharyya drew attention to the sharp contraction in merchandise exports and the drag from external demand. Prof. Ram Singh, however, cautioned against interpreting strong recent growth as evidence of overheating. He argued that structural changes—lower incremental capital-output ratios, productivity gains from digitalisation and infrastructure, and ongoing reforms—have likely raised India’s potential growth rate, implying that the output gap may still be negative. From this perspective, monetary easing would support growth without stoking inflation.

External risks loomed large in shaping the MPC’s communication strategy. Trade and tariff uncertainties, particularly those arising from US policy actions, were repeatedly cited as potential headwinds, especially for labour-intensive MSME sectors. Pressure on the rupee and portfolio outflows were acknowledged, although most members assessed that the risk of imported inflation remains limited given soft global commodity and oil prices. Prof. Ram Singh was the most relaxed on external vulnerabilities, arguing that India’s strong macroeconomic fundamentals would make exchange rate pressures self-limiting. Others, including the Governor, preferred to err on the side of caution.

This divergence explains the MPC’s decision to retain a neutral stance despite the rate cut. While Prof. Ram Singh explicitly called for a shift to an accommodative stance, the majority favoured preserving flexibility in an uncertain global environment. The

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neutral stance allows the RBI to respond nimbly to evolving data without pre-committing to a particular trajectory.

There was, however, broad comfort on the effectiveness of policy transmission. Members noted that lending rates have adjusted, liquidity conditions remain supportive, and credit flows—particularly to MSMEs—have strengthened. Shri Saugata Bhattacharya observed that transmission has now become sufficiently broad-based to justify further easing, even as he flagged possible longer-term implications for household savings.

Governor Sanjay Malhotra's concluding remarks encapsulated the institutional tone of the meeting. He acknowledged the resilience of domestic growth, recognised the likelihood of some moderation ahead, and expressed strong confidence that inflation will remain benign. At the same time, he underscored the importance of data dependence and policy agility in a volatile global environment.

Taken together, the December 2025 MPC minutes portray an RBI that is decisively moving towards supporting growth, not because inflation risks have disappeared, but because inflation has undershot by a wide margin. The central bank has chosen to ease policy with conviction, while signalling restraint through a neutral stance. It is, in essence, an MPC that is dovish in action, prudent in communication, and keenly aware that in the current cycle, the greater risk may lie not in doing too much, but in doing too little.

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#### **THE MONETARY POLICY PANEL FIRED A BAZOOKA IN SUPPORT OF GROWTH**

Mythili Bhusnurmath in *Mint* (08 December 2025) contrasts the relatively short-lived crisis faced by former RBI Governor D. Subbarao during the 2008 global financial meltdown with the far more prolonged and unpredictable challenges confronting the current Governor, Sanjay Malhotra. Appointed in December 2024, Malhotra has had to navigate an unusually turbulent global environment shaped by aggressive and erratic trade actions of US President Donald Trump, including sweeping tariffs, pressure on

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India's trade and oil imports, and scrutiny of exchange rate management. Yet, despite these external uncertainties, Malhotra's policy stance—reflected in his December 2025 Monetary Policy Committee (MPC) statement—projects striking calm and confidence, with no explicit reference to tariffs or global trade risks.

The author questions this optimism, particularly the MPC's decision to cut the repo rate by 25 basis points and simultaneously announce large-scale liquidity injections, even as growth remains robust, inflation has undershot mainly due to transient food and fuel factors, and system liquidity is already in comfortable surplus. While the MPC argues that benign inflation has created space to support growth, the article contends that the more relevant question is whether such support is actually needed, especially when the cumulative impact of earlier rate cuts and reserve requirement reductions is yet to fully play out.

Concerns are raised that a weakening rupee could rekindle inflation, that core inflation remains close to the 4 percent target, and that excessive easing risks overshooting the RBI's primary mandate of price stability. The unanimity of the MPC's decision is seen as potentially reflecting groupthink rather than a genuine balance-of-risks assessment, with the author questioning whether policymakers may be overly aligned with market expectations. The article concludes by warning that while markets have welcomed the policy as "everything they wanted," the RBI must remain focused on the broader public interest, not just financial markets, especially amid deep global uncertainties.

*This is a summary of an article by Mythili Bhusnurmath in Mint on 08 December 2025.*

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## IN FOCUS

### RECALIBRATING INDIA'S ECONOMIC COMPASS: UNDERSTANDING THE PROPOSED BASE REVISION OF GDP, CPI AND IIP

#### Introduction

Periodic revision of base years for national accounts and price indices is a globally accepted statistical practice to ensure that macroeconomic indicators reflect structural changes in the economy. India's proposed revision of the base years for Gross Domestic Product (GDP), Consumer Price Index (CPI) and Index of Industrial Production (IIP) represents a significant step towards improving the relevance, accuracy and international comparability of its core macroeconomic statistics. The proposed changes by the Ministry of Statistics and Programme Implementation, Government of India<sup>1</sup>, seek to align India's statistical framework with evolving consumption patterns, production structures, technological shifts and updated international standards such as the System of National Accounts (SNA) 2008/2025 recommendations.

#### Rationale for Base Year Revision

The Indian economy has undergone profound transformation over the past decade, marked by rapid digitalisation, formalisation, expansion of services, changes in consumption baskets, and the emergence of new industries. Older base years increasingly fail to capture these shifts, leading to measurement biases in growth, inflation and industrial activity indicators. The proposed base revision aims to address these distortions by updating weights, coverage, data sources and estimation

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<sup>1</sup> "Proposed Changes in Base Revision of Gross Domestic Product, Consumer Price Index and Index of Industrial Production series" – Booklet published by the Ministry of Statistics and Programme Implementation, Government of India.

[https://www.mospi.gov.in/uploads/announcements/announcements\\_1766247401195\\_8eb491fa-2542-46fe-b99c-39affe421dda\\_Booklet\\_on\\_proposed\\_changes\\_in\\_GDP,\\_CPI\\_and\\_IIP\\_20122025.pdf](https://www.mospi.gov.in/uploads/announcements/announcements_1766247401195_8eb491fa-2542-46fe-b99c-39affe421dda_Booklet_on_proposed_changes_in_GDP,_CPI_and_IIP_20122025.pdf)

methodologies across GDP, CPI and IIP, thereby strengthening the credibility of macroeconomic assessment and policy formulation.

### **Proposed Changes in GDP Base Revision**

The proposed GDP base revision focuses on improving coverage, granularity and data robustness. A key feature is the greater use of administrative and corporate databases, including GST returns, MCA filings and other digital records, to better capture value addition in manufacturing, services and the informal sector. The revision also aims to refine sectoral classifications, especially in services such as digital platforms, financial services, logistics and gig-based activities, which have expanded significantly since the last base year.

Another important aspect is the rebalancing of sectoral weights to reflect the changing contribution of agriculture, industry and services to overall output. Improvements in deflators, benchmarking techniques and back-casting methods are expected to enhance the consistency of GDP series over time, thereby improving growth analysis and cross-country comparability.

### **Proposed Changes in CPI Base Revision**

The proposed CPI base revision seeks to realign the consumption basket with current household spending patterns, drawing on more recent household consumption expenditure data. Significant shifts in food consumption, rising expenditure on services such as health, education, transport and communication, and increased penetration of digital and energy-related goods necessitate an updated weighting structure.

The revision also proposes improved item coverage, rationalisation of product varieties, and refinement in price collection mechanisms. Enhanced geographical representation and better alignment between rural and urban consumption baskets are expected to improve the representativeness of inflation measurement. These changes will strengthen CPI's role as the primary nominal anchor for monetary policy under the inflation-targeting framework.

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## **Proposed Changes in IIP Base Revision**

The proposed IIP base revision aims to modernise the index by incorporating changes in industrial structure, product mix and technology adoption. This includes updating the item basket to reflect the emergence of new manufacturing activities, renewable energy components, electronics, pharmaceuticals and capital goods, while reducing the weight of declining or obsolete products.

Improved use of production and administrative data sources, along with better alignment with national accounts classifications, is expected to enhance the responsiveness of IIP to real-time industrial trends. The revision also seeks to reduce volatility and improve the lead-indicator properties of IIP for tracking cyclical movements in industrial output.

## **Implications for Macroeconomic Analysis and Policy**

The proposed base revisions will have important implications for growth, inflation and industrial activity assessment. Revised GDP series may alter historical growth rates and sectoral contributions, affecting medium-term growth narratives and fiscal planning. Changes in CPI weights could influence measured inflation trajectories and inflation persistence, with implications for monetary policy calibration. A more representative IIP would improve short-term monitoring of industrial momentum and investment cycles.

While transitional challenges such as data discontinuity and revision-related uncertainty are inevitable, the long-term gains in statistical accuracy and policy relevance outweigh these concerns.

## **Conclusion**

The proposed base revision of GDP, CPI and IIP marks a critical step in strengthening India's macroeconomic statistical architecture. By updating weights, expanding coverage and adopting improved data sources and methodologies, the revisions will ensure that key economic indicators better reflect the realities of a rapidly transforming

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economy. Over time, these changes will enhance the quality of economic analysis, improve policy effectiveness, and reinforce confidence in India's official statistics among domestic and international stakeholders.

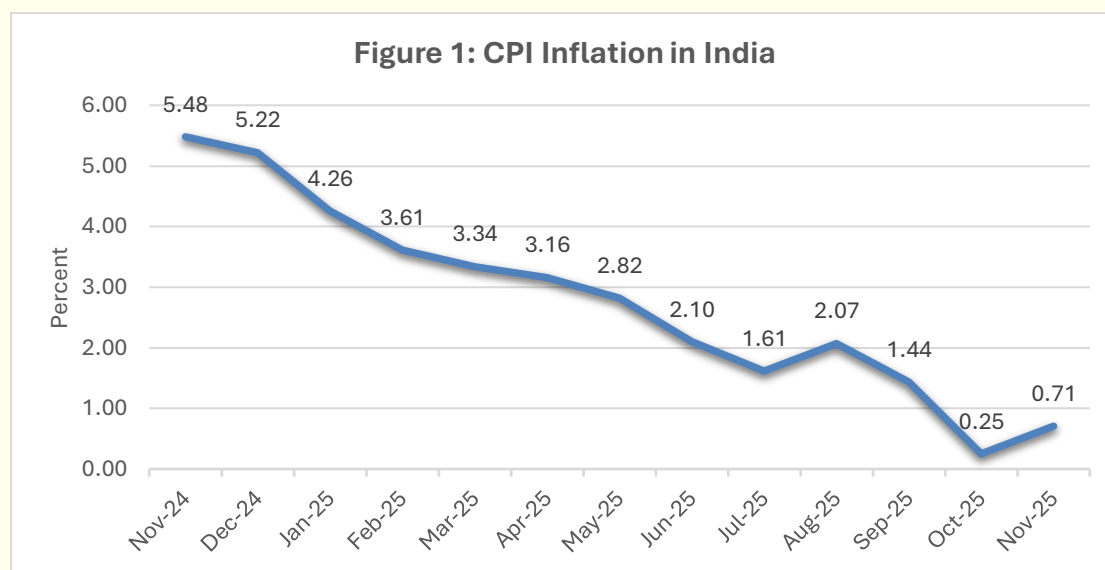
*The document can be accessed from: <https://shorturl.at/eoM74>*

## NAVIGATING MACROECONOMIC TRENDS

### INDIA'S CPI INFLATION IN NOVEMBER 2025: ASSESSMENT OF PRICE DYNAMICS AND POLICY IMPLICATIONS

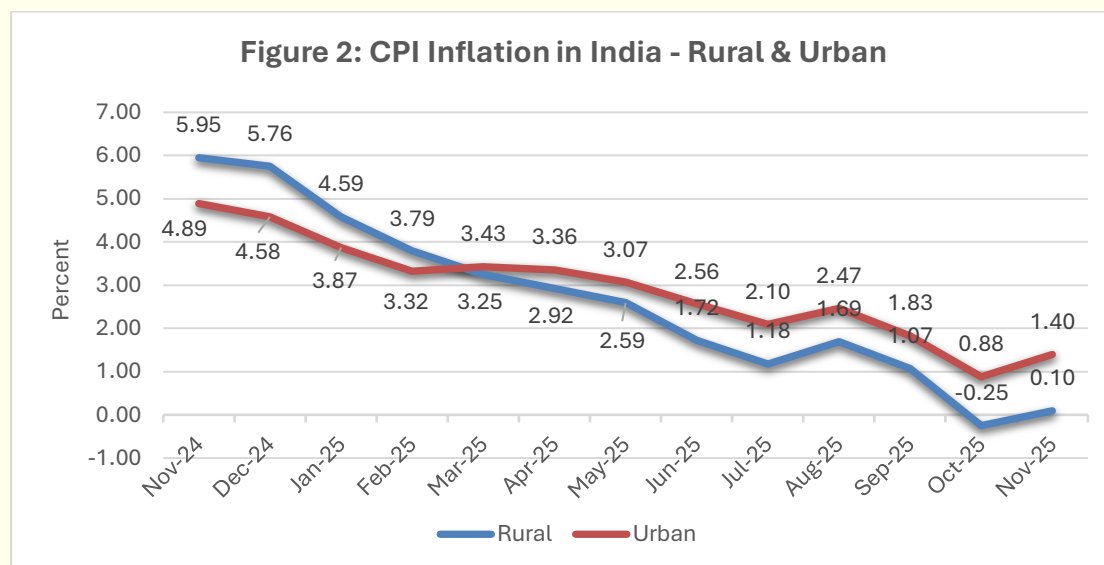
#### Introduction

Retail inflation in India increased marginally to 0.71 percent in November 2025, from 0.25 percent in the previous month (Figure 1). The inflation outturn was substantially lower than the medium-term target of 4 percent and underscored the combined impact of favourable base effects, easing food prices, and subdued underlying demand conditions.



Source: MoSPI, GoI

Rural inflation turned positive at 0.10 percent in November 2025, compared with –0.25 percent in October 2025 (Figure 2). In the urban sector, inflation also firmed up, rising from 0.88 percent in October 2025 to 1.40 percent in November 2025.



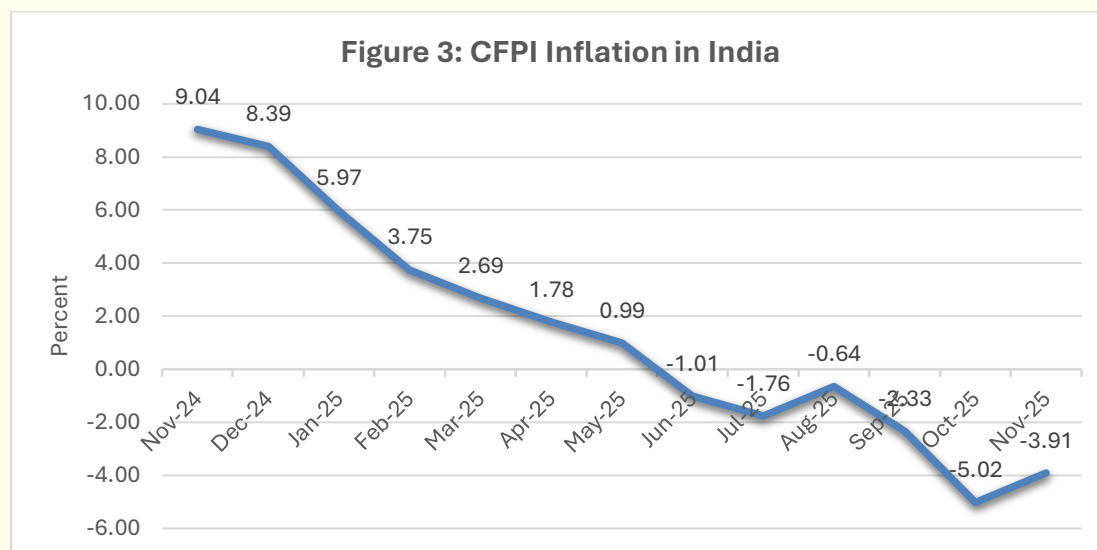
Source: MoSPI, GoI

## Food Inflation

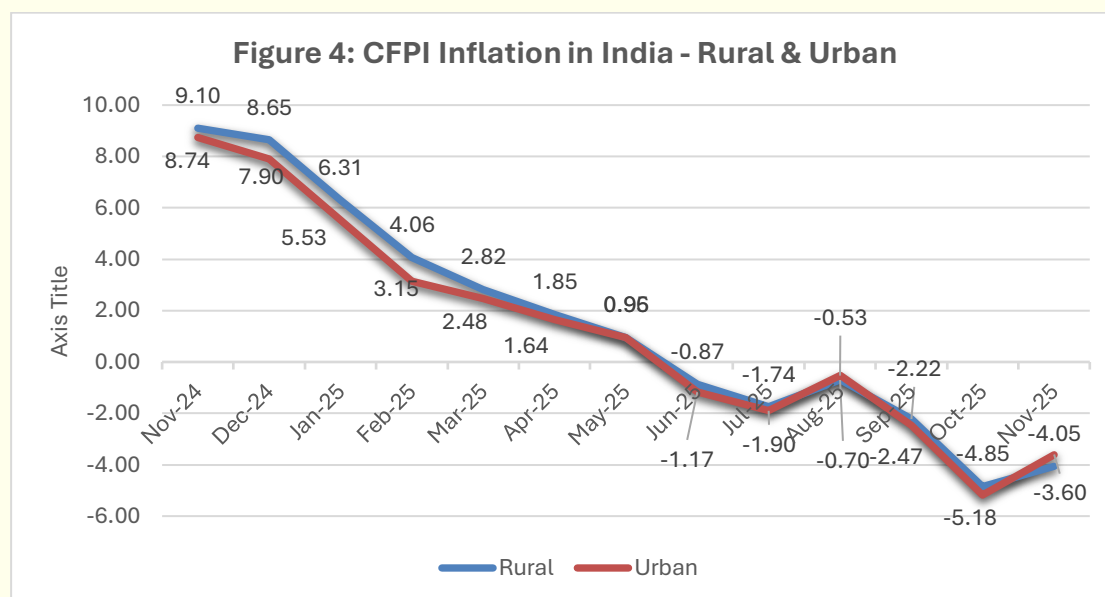
### Consumer Food Price Inflation (CFPI)

The year-on-year inflation rate based on the All-India Consumer Food Price Index (CFPI) remained in disinflationary territory at -3.91 percent in November 2025, compared with -5.02 percent in October 2025 (Figure 3). Although inflation stayed negative, the magnitude of deflation eased. In rural areas, food inflation increased from -4.85 percent in October to -4.05 percent in November, while in urban areas it rose from -5.18 percent to -3.60 percent over the same period (Figure 4), indicating a moderation in the pace of food price declines across both segments.





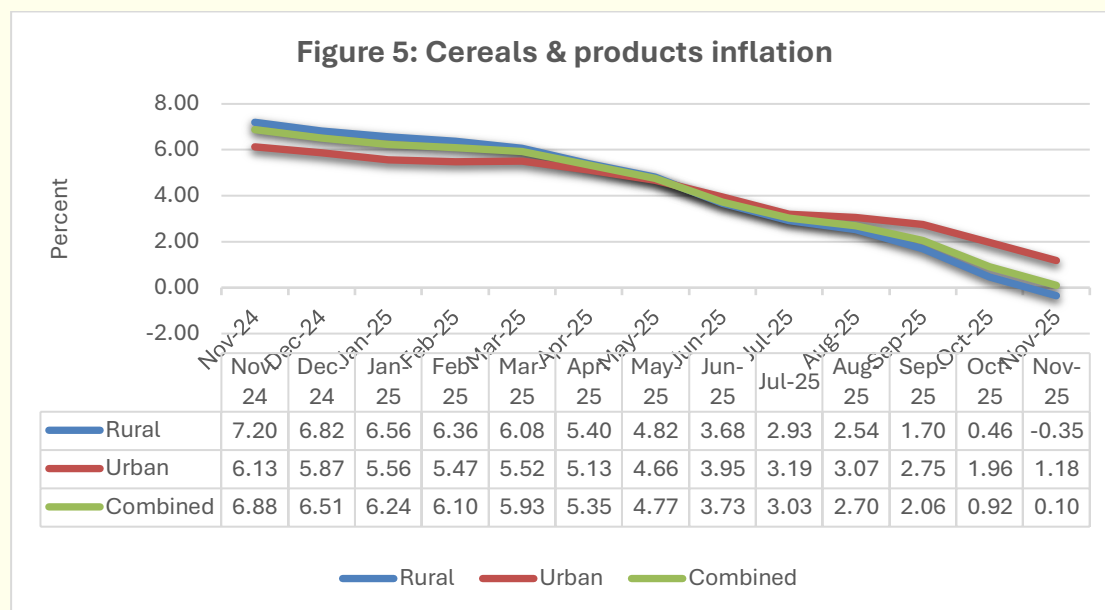
Source: MoSPI, GoI



Source: MoSPI, GoI

### Cereals and Products

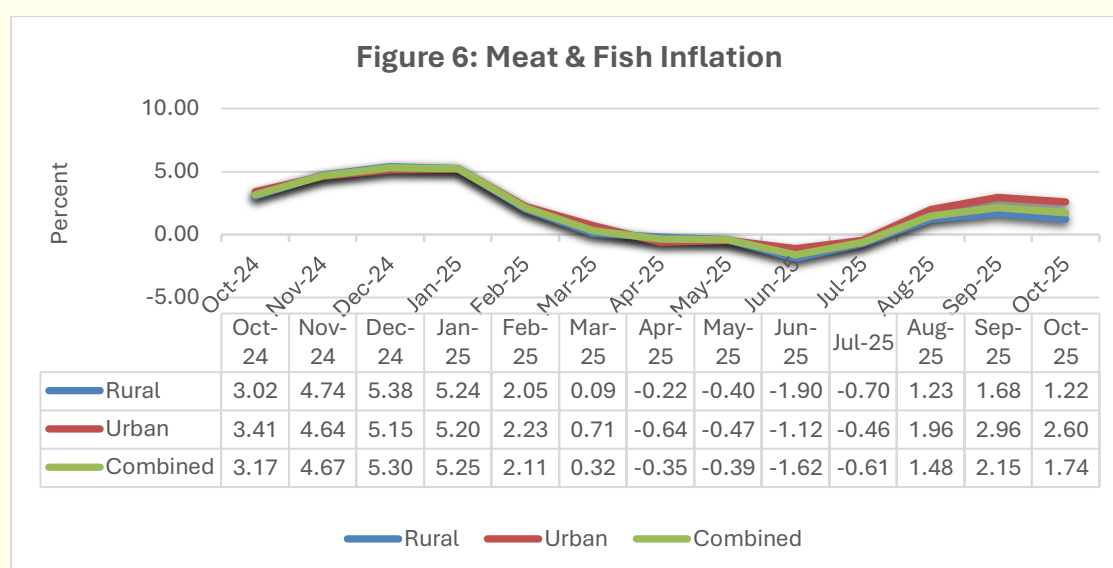
Cereals and cereal products inflation continued its declining trend and touched 0.1 percent, compared to 0.92 percent in October 2025 (Figure 5), supported by adequate availability and policy interventions aimed at stabilising prices. Rural inflation entered negative territory, touching -0.35 percent, compared to 0.46 in October 2025, and urban inflation fell to 1.18 percent from 1.96 percent.



Source: MoSPI, GoI

## Meat and Fish

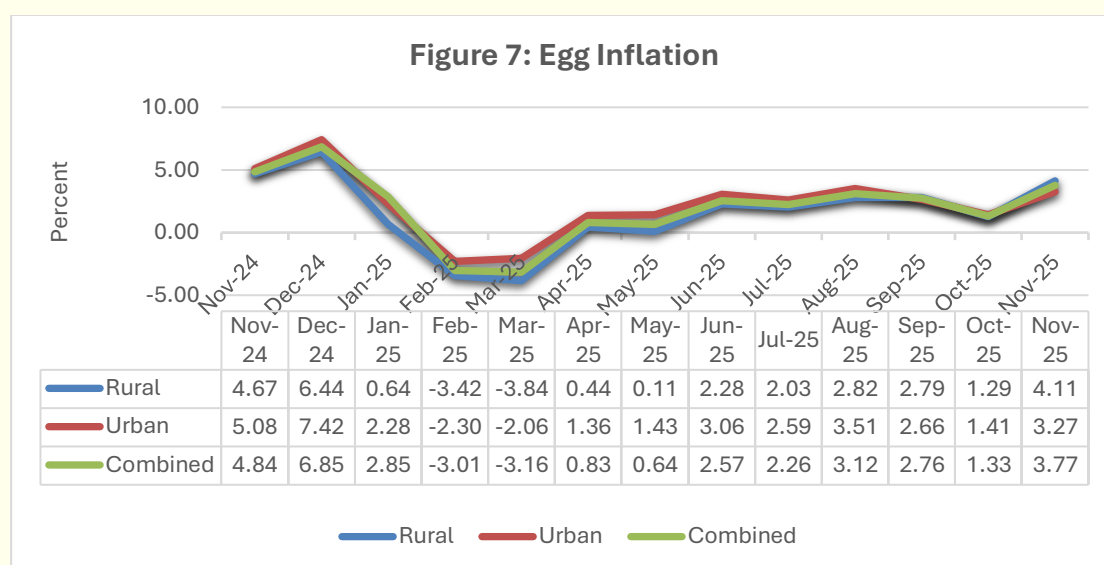
Inflation in meat and fish softened to 1.74 percent (from 2.15 percent) (Figure 6), reflecting improved supply conditions and easing input cost pressures. While rural inflation declined to 1.22 percent (from 1.68 percent), urban inflation eased to 2.6 percent (from 2.96 percent).



Source: MoSPI, GoI

## Eggs

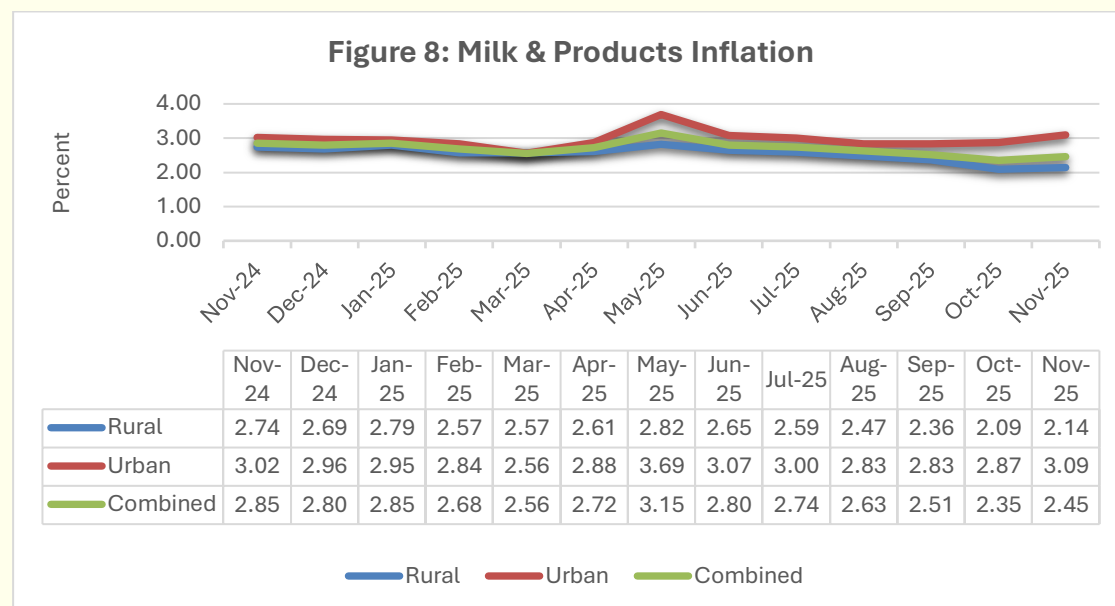
Egg prices, which had shown considerable volatility earlier in the year, increased to 3.77 percent during the month from 1.33 percent in October 2025 (Figure 7). While rural inflation increased to 4.11 percent from 1.29 percent, urban inflation rose to 3.27 percent from 1.41 percent.



Source: MoSPI, GoI

## Milk and Products

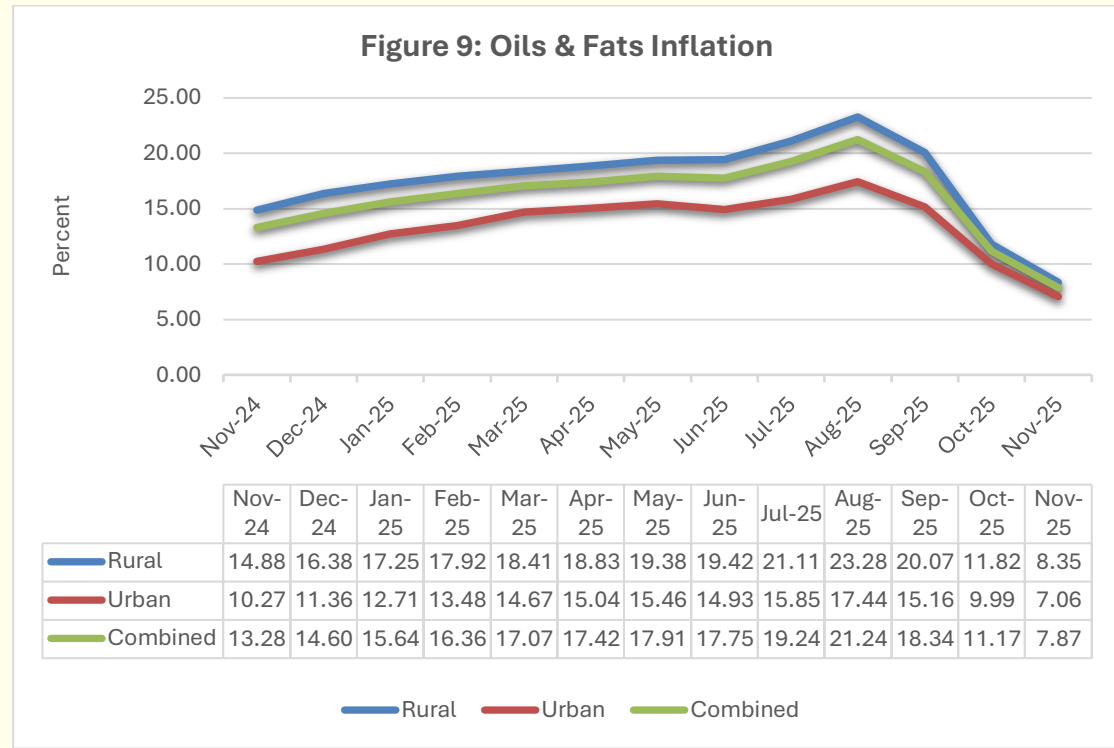
Milk and milk products inflation remained contained with a slight increase to 2.45 percent from 2.35 percent, with limited upward pressure across both rural (increased to 2.14 percent from 2.09 percent) and urban (increased to 3.09 percent from 3.09 percent) markets (Figure 8).



Source: MoSPI, GoI

## Oils and Fats

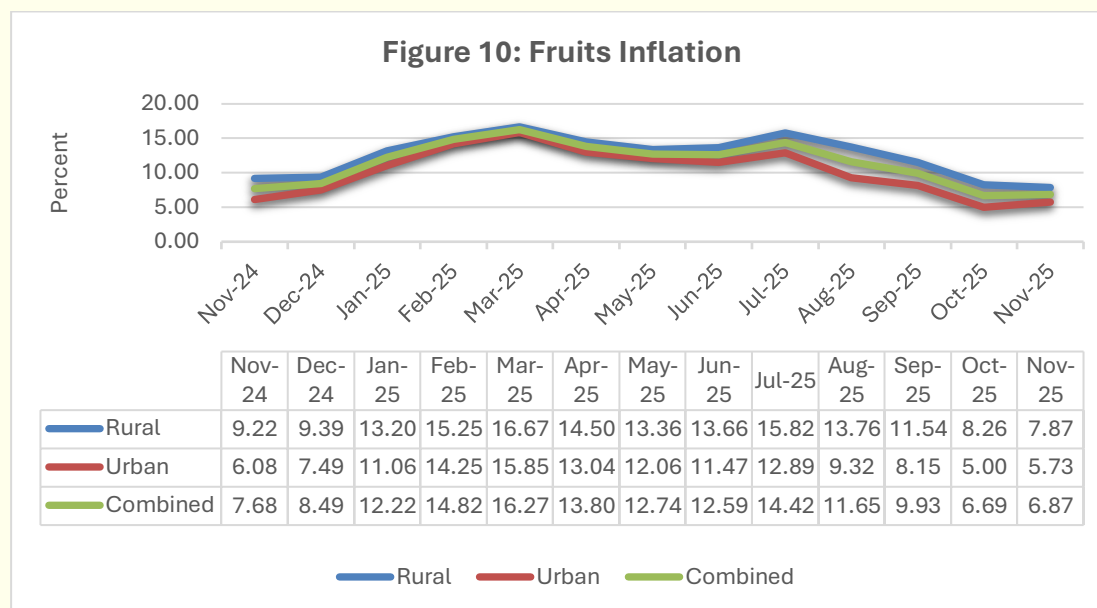
Prices of oils and fats continued to benefit from softer global edible oil prices, resulting in muted inflation in this category. Inflation, though still high, declined to 7.87 percent from 11.17 percent (Figure 9). While rural inflation fell to 8.35 percent from 11.82 percent, urban inflation eased to 7.06 percent from 9.99 percent.



Source: MoSPI, GoI

## Fruits

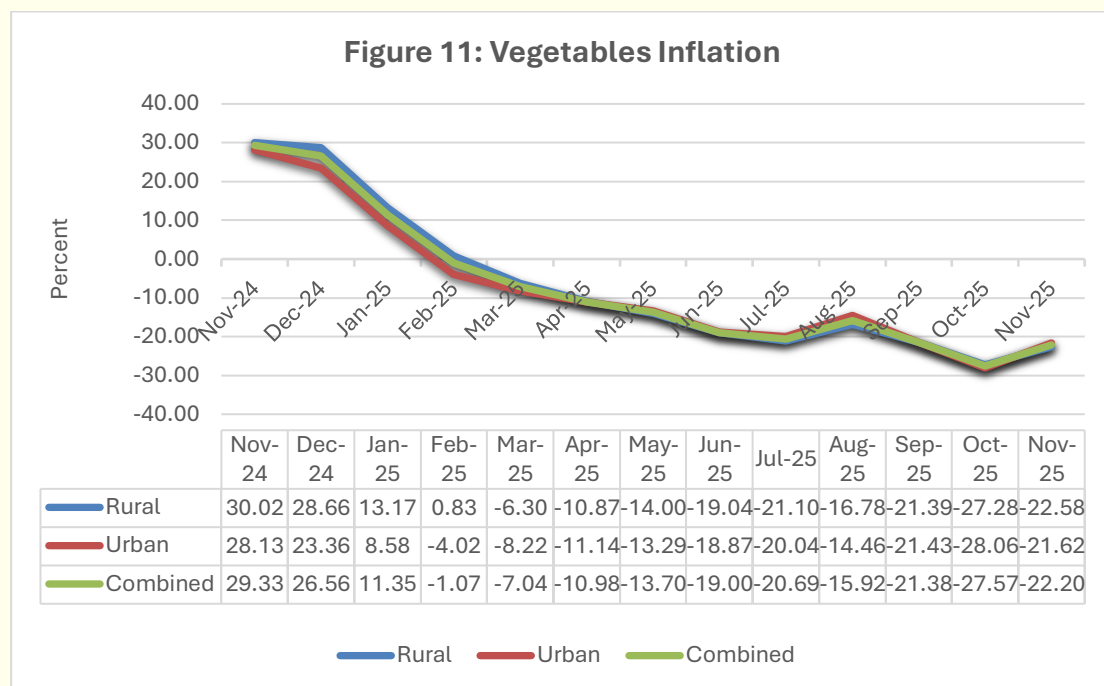
Fruit inflation increased marginally to 6.87 percent from 6.69 percent (Figure 10) While rural inflation declined to 7.87 percent from 8.26 percent, urban inflation increased to 5.73 percent from 5 percent.



Source: MoSPI, GoI

## Vegetables

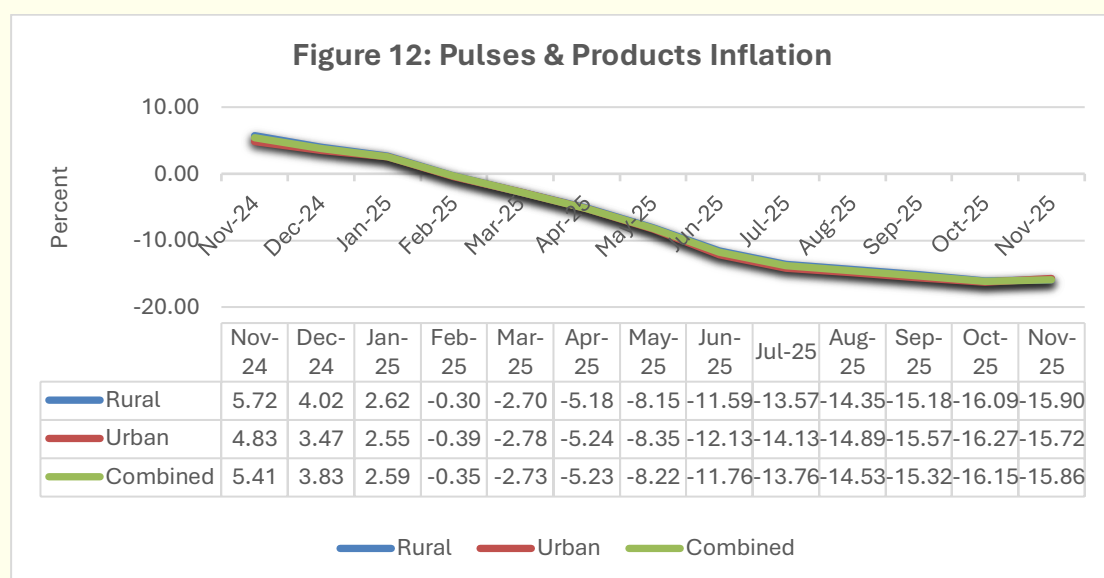
Vegetable prices declined significantly in November, exerting a strong downward pull on headline CPI inflation and accounting for a substantial part of the month's disinflation. Disinflation moved to -22.2 percent from -27.57 percent (Figure 11). While rural disinflation stood at -22.58 percent (-27.28 percent in the previous month), urban disinflation was at -21.62 percent (-28.06 percent).



Source: MoSPI, GoI

## Pulses

Pulses continued to be disinflationary for the tenth consecutive month (Figure 12), supported by adequate domestic stocks and stable import conditions.

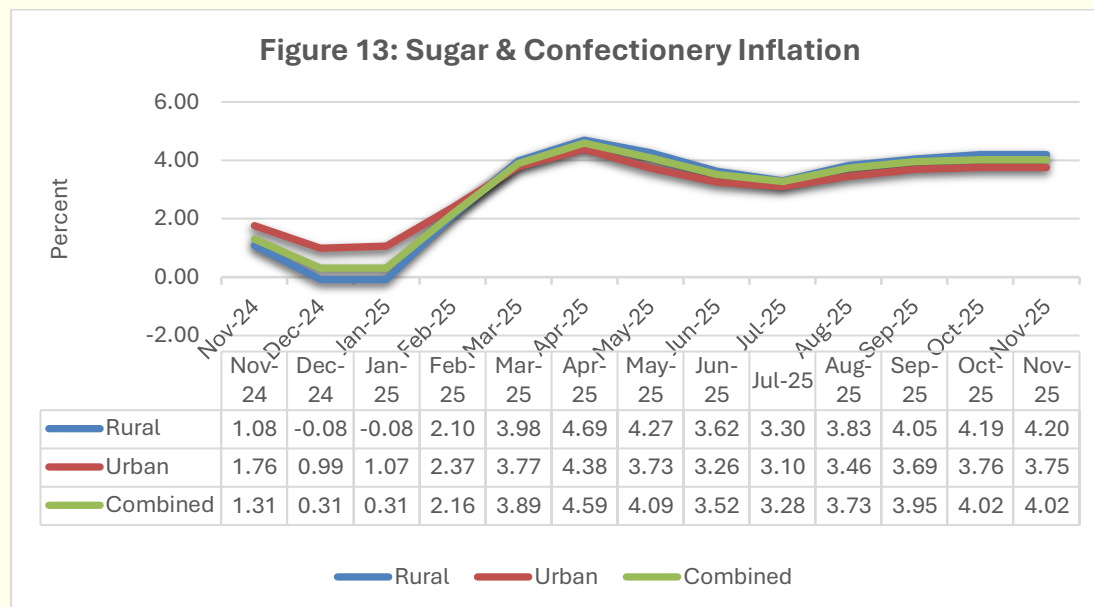


Source: MoSPI, GoI

Driving Policy, Empowering Progress

## Sugar and Confectionery

Prices in the sugar and confectionery group remained broadly stable at 4.2 percent (Figure 13), with limited price pressures.



Source: MoSPI, GoI

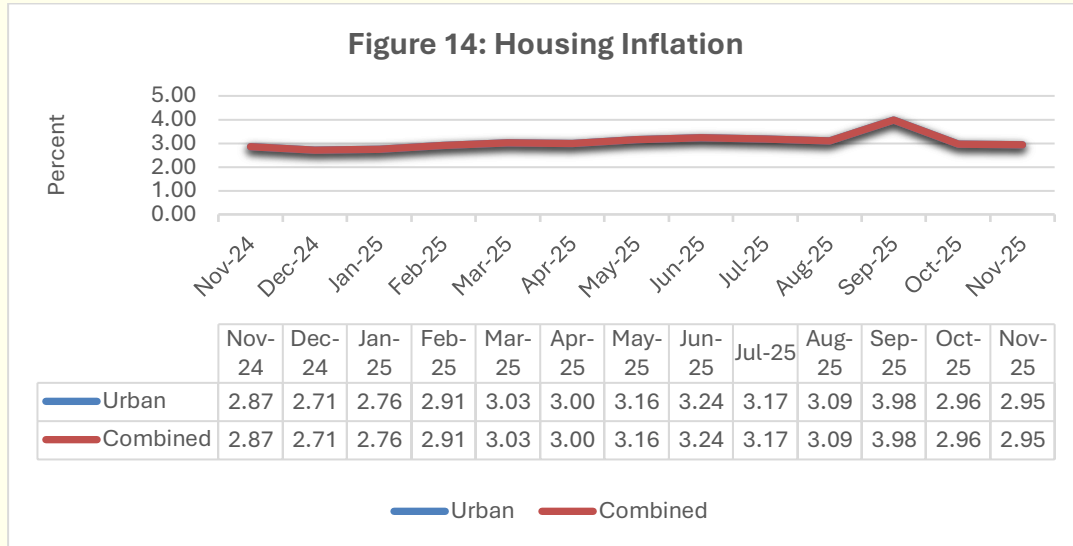
## Non-Food Inflation

Non-food inflation remained largely subdued in November 2025, indicating the absence of broad-based demand-side pressures.

## Housing

Housing inflation remained contained, reflecting stable rental conditions and limited cost pass-through in urban housing markets. The year-on-year housing inflation rate stood at 2.95 percent in November 2025, marginally lower than 2.96 percent recorded in October 2025 (Figure 14).

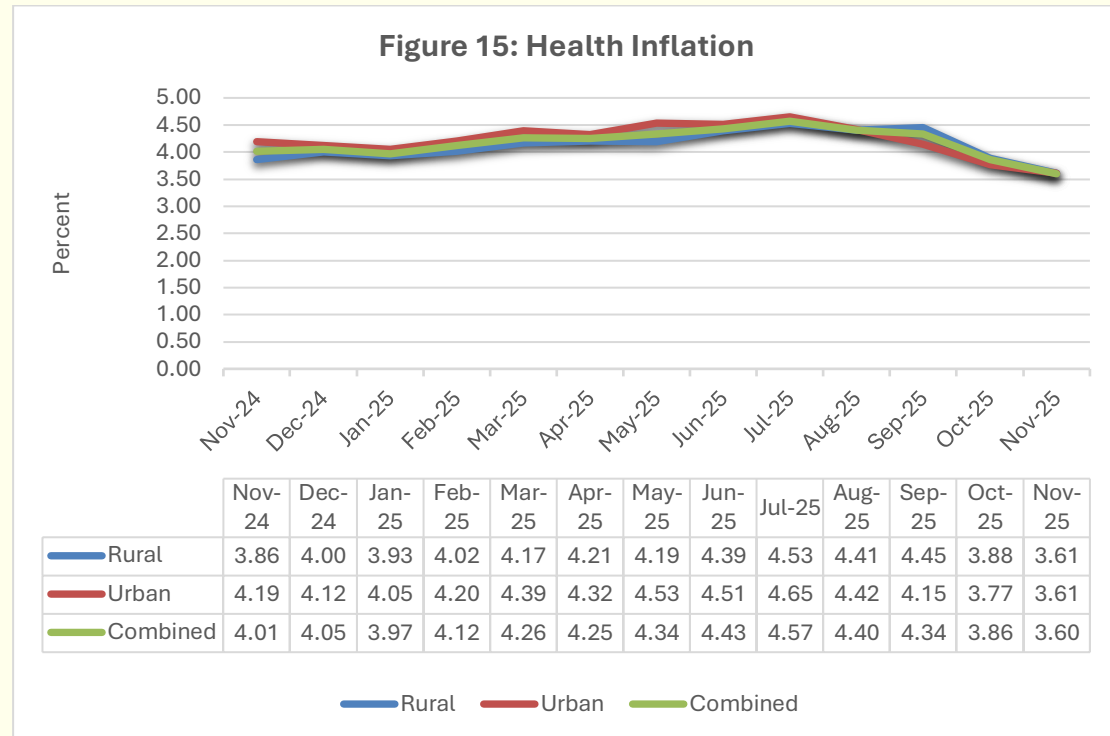




Source: MoSPI, GoI

## Health

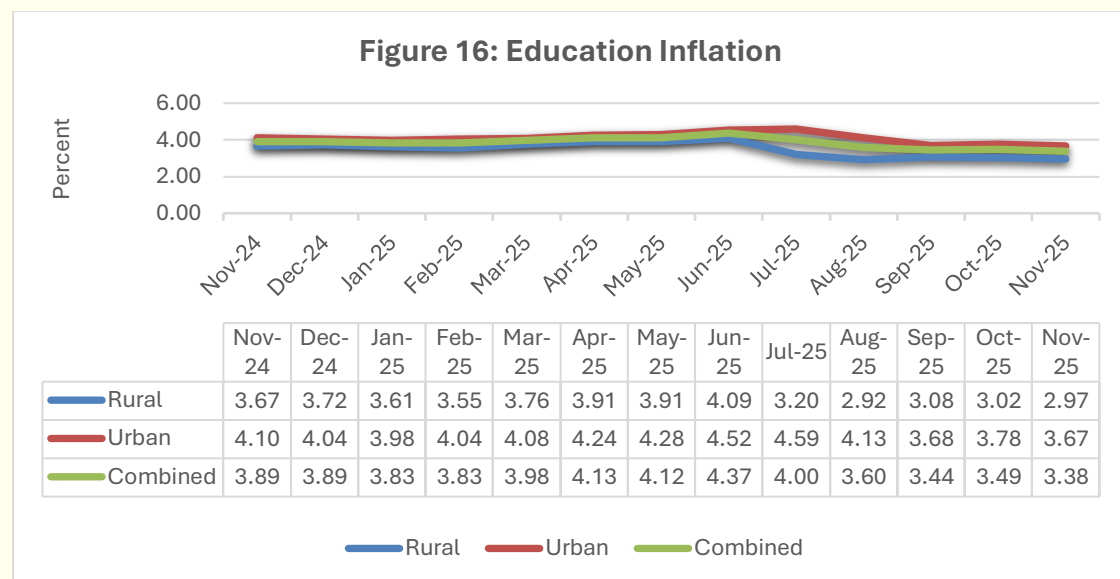
Health inflation stayed moderate, with price increases largely reflecting structural cost trends rather than cyclical demand pressures. The inflation rate moderated to 3.60 percent in November 2025, down from 3.81 percent in October 2025 (Figure 15).



Source: MoSPI, GoI

## Education

Education inflation rate eased to a provisional 3.38 percent in November 2025, compared to 3.54 percent in October 2025 (Figure 16).

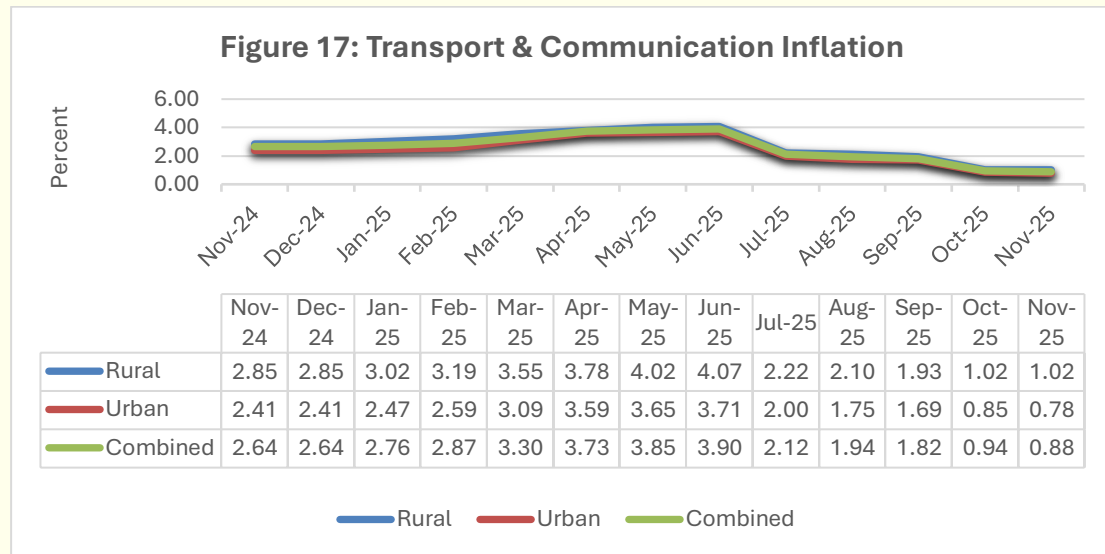


Source: MoSPI, GoI

*Driving Policy, Empowering Progress*

## ***Transport and Communication***

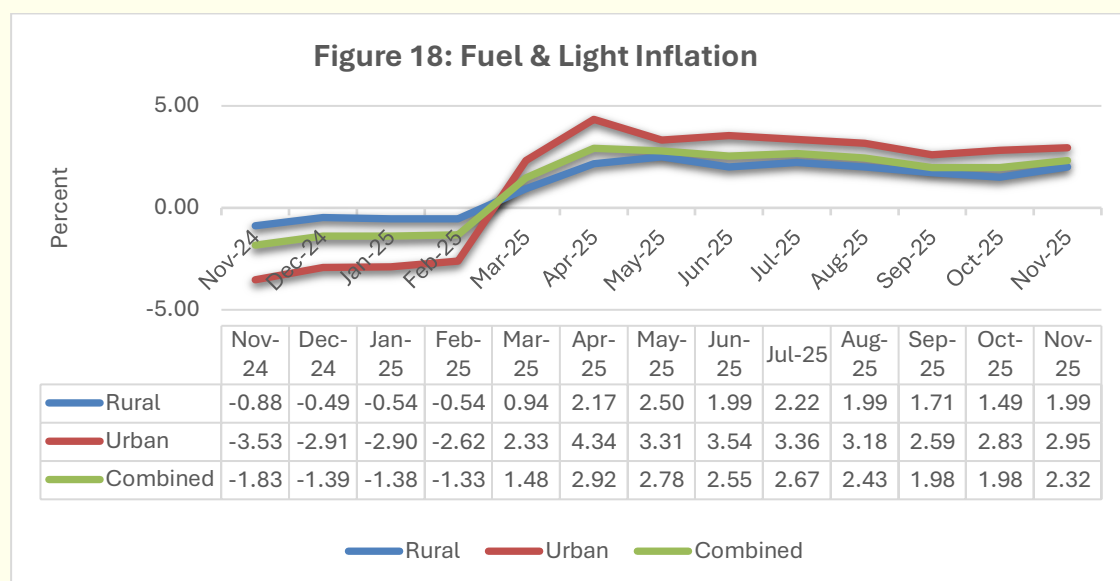
Transport and communication prices softened, aided by easing fuel costs and stable service charges. The inflation rate moderated to 0.88 percent in November 2025, from 0.94 percent in October 2025 (Figure 17).



Source: MoSPI, GoI

## ***Fuel and Light***

Fuel and light inflation rate rose to 2.32 percent in November 2025, from 1.98 percent in October 2025 (Figure 18).



Source: MoSPI, GoI

State-level inflation data indicate that the moderation in inflation was widely distributed across regions. Most states recorded significantly lower inflation compared to earlier months, and the dispersion across states narrowed, suggesting improved supply conditions and reduced regional price pressures.

## Key Insights

- Headline CPI inflation moderated sharply to 0.71 percent, reflecting a pronounced disinflationary impulse.
- The easing was broad-based, with food inflation playing a central role.
- Non-food inflation remained muted, pointing to limited demand-side pressures.
- Regional inflation disparities narrowed, indicating more uniform price moderation.

## Inflation Outlook

Looking ahead, the inflation trajectory is expected to remain benign in the near term, supported by favourable base effects, easing food prices, and subdued underlying demand conditions. The moderation in food inflation, particularly in vegetables and other perishables, is likely to impart continued downside to headline CPI in the coming

months, assuming normal supply conditions prevail. However, risks to the inflation outlook remain two-sided. Adverse weather events, renewed volatility in global commodity prices, and uncertainties surrounding geopolitical developments could exert upward pressure on food and fuel prices. Core inflation is expected to remain moderate, reflecting muted demand and stable input costs, though persistence in certain services categories warrants close monitoring. The durability of the current disinflationary phase will therefore hinge on the evolution of food price dynamics and the extent to which recent moderation is sustained beyond base effects.

### **Policy Implications**

The November 2025 inflation print provides substantial comfort on the inflation front. The sharp moderation well below the target level suggests that price pressures are currently well-anchored. However, given the historical volatility of food prices and the role of base effects, sustained disinflation will need to be assessed over subsequent months. From a monetary policy perspective, the data warrant a calibrated and data-dependent approach, with continued vigilance against potential upside risks.

### **Conclusion**

CPI inflation in November 2025 reflects a phase of pronounced disinflation, driven by easing food prices and muted non-food inflation. While the current inflation environment appears benign, maintaining price stability will depend on the durability of favourable food price dynamics and the evolution of global and domestic supply conditions.

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## **WPI INFLATION IN NOVEMBER 2025: DISINFLATION PERSISTS DESPITE SIGNS OF PRICE STABILISATION**

### **Introduction**

India's wholesale price inflation (WPI) remained in negative territory in November 2025, underscoring the persistence of disinflationary pressures in the economy. The annual WPI inflation stood at -0.32 percent, following a sharper contraction of -1.21

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percent in October 2025 (Figure 19). The moderation in deflation was driven by a month-on-month increase in prices, even as year-on-year inflation continued to reflect weak price pressures across primary articles, fuel, and select manufactured goods. The negative WPI print highlights the role of falling food prices, subdued energy costs, and soft global commodity trends, even as manufactured products provided some countervailing support.

### **Primary Articles**

Primary articles continued to exert significant downward pressure on headline WPI inflation. The year-on-year inflation for this group stood at –2.93 percent in November, though it improved from –6.18 percent in October. This moderation reflects a partial recovery in prices on a month-on-month basis, with the index rising by 2.07 percent in November.

Within this category, food articles remained deeply deflationary, registering an annual inflation of –4.16 percent, driven primarily by sharp price declines in vegetables, pulses, and onions. Vegetables alone recorded a year-on-year contraction of over 20 percent, with onions and potatoes witnessing particularly steep declines. Pulses also remained under significant price pressure, reflecting improved supply conditions. In contrast, milk, eggs, meat and fish continued to show positive inflation, indicating divergent trends within the food basket.

Non-food articles showed a modest positive inflation of 2.27 percent, supported by higher prices of oilseeds. Minerals recorded strong positive inflation, while crude petroleum and natural gas prices remained sharply negative, reflecting weak global crude prices. Overall, while month-on-month price recovery suggests some stabilisation, primary articles continue to be a major source of disinflation at the wholesale level.

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## **Fuel & Power**

Fuel and power inflation remained negative at –2.27 percent year-on-year in November 2025, marginally improving from October. The index increased by 1.03 percent on a month-on-month basis, driven largely by a sharp rise in electricity prices.

Despite the monthly uptick, the annual deflation in this group reflects continued softness in energy prices. Prices of mineral oils declined on a month-on-month basis, while coal prices remained unchanged. Petroleum products such as petrol and high-speed diesel continued to record negative annual inflation, consistent with subdued international crude prices. Liquefied petroleum gas (LPG) inflation remained strongly negative, exerting additional downward pressure on the group.

The fuel and power component thus continues to reinforce disinflationary trends in WPI, even as short-term price adjustments point to some volatility within the energy basket.

## **Manufactured Products**

Manufactured products, which account for over 64 percent of the WPI basket, provided the main source of positive inflation in November 2025. Year-on-year inflation for this group stood at 1.33 percent, although it has been on a declining trajectory from earlier months. On a month-on-month basis, prices declined marginally by 0.07 percent, indicating muted pricing power in the manufacturing sector.

Within manufactured products, price pressures remained uneven. Food products saw a sharp deceleration in inflation, reflecting pass-through of lower primary food prices. Basic metals and fabricated metal products continued to record negative inflation, mirroring weak global demand and excess capacity conditions. Chemicals and chemical products also showed near-zero inflation.

In contrast, textiles, wearing apparel, machinery and equipment, and electrical equipment recorded modest price increases, suggesting selective demand resilience.

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Overall, the manufacturing sector continues to face cost compression and weak pricing power, consistent with broader trends of low wholesale inflation.

### **WPI Food Index**

The WPI Food Index, which combines food articles and manufactured food products, recorded a year-on-year inflation of  $-2.60$  percent in November, improving from  $-5.04$  percent in October. The index increased sharply on a month-on-month basis by  $1.56$  percent, reflecting seasonal price firming.

The improvement in food inflation was driven primarily by a moderation in the pace of deflation in vegetables and fruits, even though prices remained significantly lower than a year ago. Manufactured food products also contributed to easing deflation, indicating partial normalisation along the food value chain. Nevertheless, the food index continues to remain a key driver of negative WPI inflation.

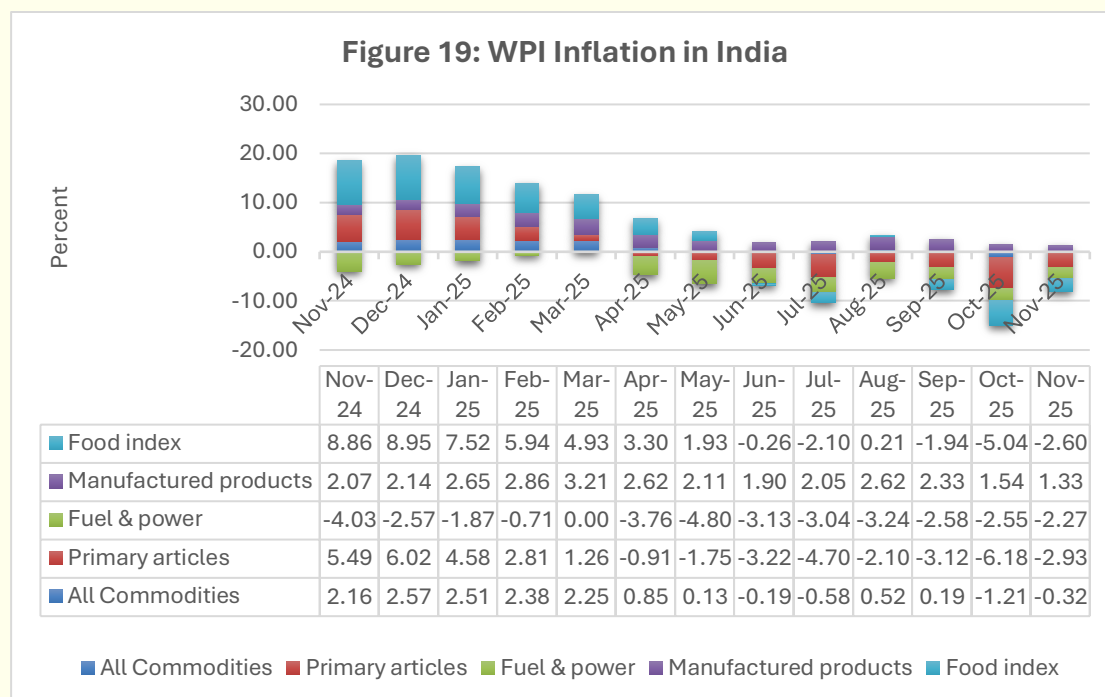
### **Conclusion**

India's WPI inflation in November 2025 presents a picture of persistent wholesale-level disinflation, albeit with early signs of stabilisation. While the month-on-month increase in prices across major groups suggests some recovery, the year-on-year numbers continue to reflect weak demand conditions, ample supply of food items, and subdued global commodity prices.

Primary articles and fuel remain the principal sources of deflation, while manufactured products offer limited inflationary support amid soft pricing power. The persistence of negative WPI inflation has important macroeconomic implications, particularly in the context of easing monetary policy, low CPI inflation, and concerns around demand strength. Going forward, the trajectory of food prices, energy markets, and global growth conditions will remain critical in determining whether wholesale prices move decisively out of deflationary territory or remain subdued in the near term.

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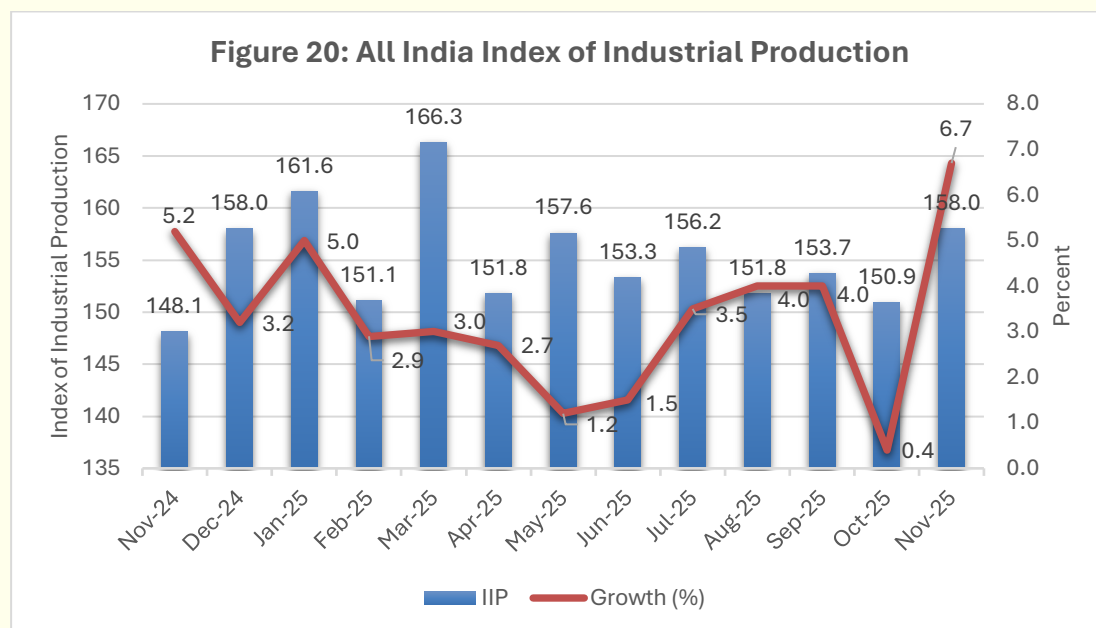


Source: Office of Economic Adviser, Department for Promotion of Industry and Internal Trade, GoI

## IIP NOVEMBER 2025: MANUFACTURING AND INFRASTRUCTURE POWER INDIA'S INDUSTRIAL REBOUND

### Introduction

India's industrial activity regained momentum in November 2025, with the Index of Industrial Production (IIP) recording a robust 6.7 percent year-on-year growth, a sharp improvement over the marginal expansion seen in October (Figure 20). The rebound reflects a strong revival in manufacturing output, a post-monsoon recovery in mining, and sustained momentum in infrastructure-related industries. While electricity generation moderated, the overall picture suggests improving industrial demand conditions and strengthening investment-led growth impulses.



Source: Press Release dated 29 December 2025, MoSPI, Government of India

## Sectoral Performance

### Manufacturing

Manufacturing emerged as the principal driver of industrial growth, expanding by 8.0 percent in November 2025 (Figure 21). Notably, 20 out of 23 manufacturing industry groups recorded positive growth, underscoring the breadth of the recovery. The strongest contributors were basic metals, pharmaceuticals, and motor vehicles, reflecting healthy demand from infrastructure, healthcare, and mobility segments. The performance of fabricated metal products, electrical equipment, and machinery further points to an upswing in investment and construction-linked activity.

### Electricity

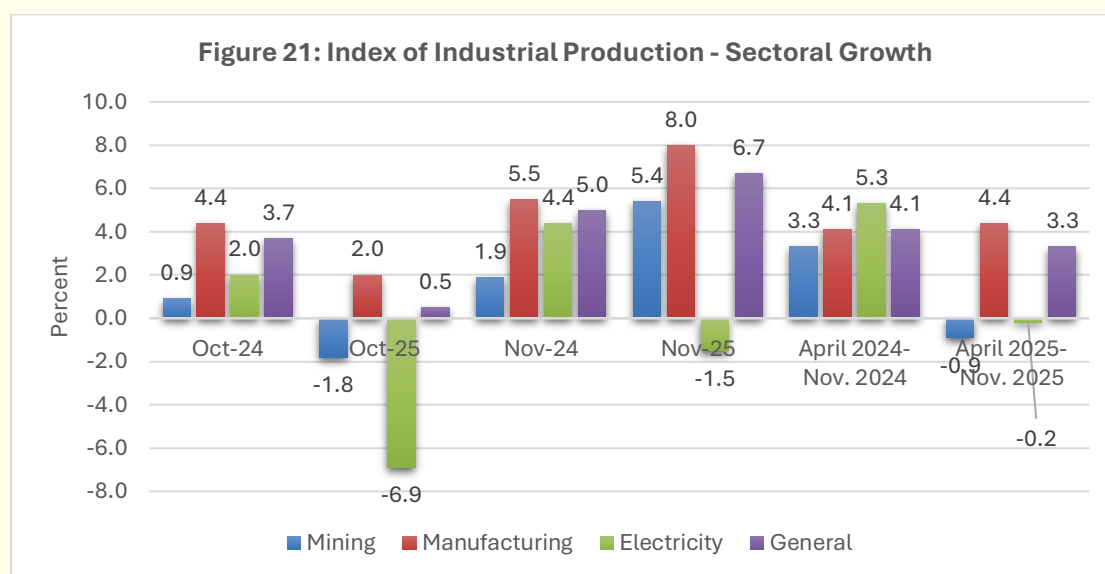
In contrast, electricity generation contracted by 1.5 percent year-on-year (Figure 21). This decline partly reflects base effects and moderation following strong output in the previous year, as well as weather-related demand fluctuations. While electricity remains volatile month-to-month, the subdued performance serves as a reminder that industrial expansion has not been uniform across sectors.

## Mining

The mining sector grew by 5.4 percent (Figure 21), rebounding after monsoon-related disruptions. Strong output of metallic minerals, particularly iron ore, supported the recovery. Mining activity has benefited from higher infrastructure spending and improved operational conditions in the post-monsoon period.

### General IIP

The General IIP index grew by 6.7 percent (Figures 20 & 21) to 158.0, compared to 148.1 in November 2024 (Figure 20), confirming a clear acceleration in industrial activity. The turnaround from October's near-stagnation highlights the role of seasonal normalization and strengthening domestic demand.



Source: Press Release dated 29 December 2025, MoSPI, GoI

## Use-based Classification

### Primary Goods

Output of primary goods increased by 2.0 percent (Table 1), indicating modest growth in resource-based industries. While positive, the relatively subdued pace suggests that

raw material extraction and processing are expanding more slowly than downstream manufacturing.

### ***Capital Goods***

Capital goods production surged by 10.4 percent (Table 1), signalling a strong revival in investment activity. This sharp growth points to rising demand for machinery and equipment, consistent with capacity expansion in manufacturing and infrastructure sectors.

### ***Intermediate Goods***

Intermediate goods grew by 7.3 percent (Table 1), reflecting healthy production across supply chains. This trend supports the view that industrial recovery is broad-based rather than confined to final demand alone.

### ***Infrastructure / Construction Goods***

The standout performer was infrastructure and construction goods, which expanded by 12.1 percent (Figure 1). This reinforces evidence of sustained public investment in roads, railways, housing, and urban infrastructure, and highlights the multiplier effects of capital expenditure on industrial output.

### ***Consumer Durables***

Consumer durables registered a strong 10.3 percent growth (Table 1), indicating resilient urban demand for automobiles, appliances, and electronics. This suggests improving consumer confidence and steady discretionary spending.

### ***Consumer Non-Durables***

Consumer non-durables grew by 7.3 percent (Table ), supported by stable demand for essentials. This segment continues to provide a steady base for industrial growth, particularly amid uneven rural income conditions.

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**Table 1: IIP Growth - Use-based Classification**

	Oct. 2024	Oct. 2025	Nov. 2024	Nov. 2025	April- November 2024-25	April- November 2025-26
	( percent)					
Primary goods	2.5	-0.6	2.7	2.0	4.0	0.3
Capital goods	2.9	2.1	8.9	10.4	4.4	7.2
Intermediate goods	4.8	2.5	4.8	7.3	4.3	5.3
Infrastructure/ Construction goods	4.7	7.1	8.0	12.1	6.1	9.0
Consumer durables	5.5	-1.3	14.1	10.3	8.8	4.6
Consumer non-durables	2.8	-5.2	0.6	7.3	-0.5	-1.0

Source: NSO, MoSPI, GoI

## Policy and Structural Implications

The November IIP data reinforces the importance of public capital expenditure and investment-led growth in sustaining industrial momentum. Strong performance in capital goods and infrastructure-related output validates the government's emphasis on infrastructure spending. However, the contraction in electricity generation highlights the need for better alignment between industrial expansion and energy supply planning. The data also underscores the growing role of manufacturing diversification, particularly in pharmaceuticals, electronics, and automotive sectors, in strengthening industrial resilience.

## Outlook

Looking ahead, industrial activity is likely to remain supportive in the near term, driven by continued infrastructure spending, easing input constraints, and improving corporate investment sentiment. However, sustaining momentum will depend on demand conditions, energy availability, and global economic developments. The durability of growth in capital goods will be a key indicator of whether the current recovery transitions into a sustained investment cycle.

## **Conclusion**

The IIP performance in November 2025 marks a clear improvement in India's industrial trajectory, led by manufacturing strength and infrastructure-driven demand. While sectoral divergences persist, the overall expansion points to a broad-based recovery with encouraging signals from investment and consumption-linked segments. Maintaining this momentum will require consistent policy support, energy-sector coordination, and continued focus on strengthening industrial competitiveness.

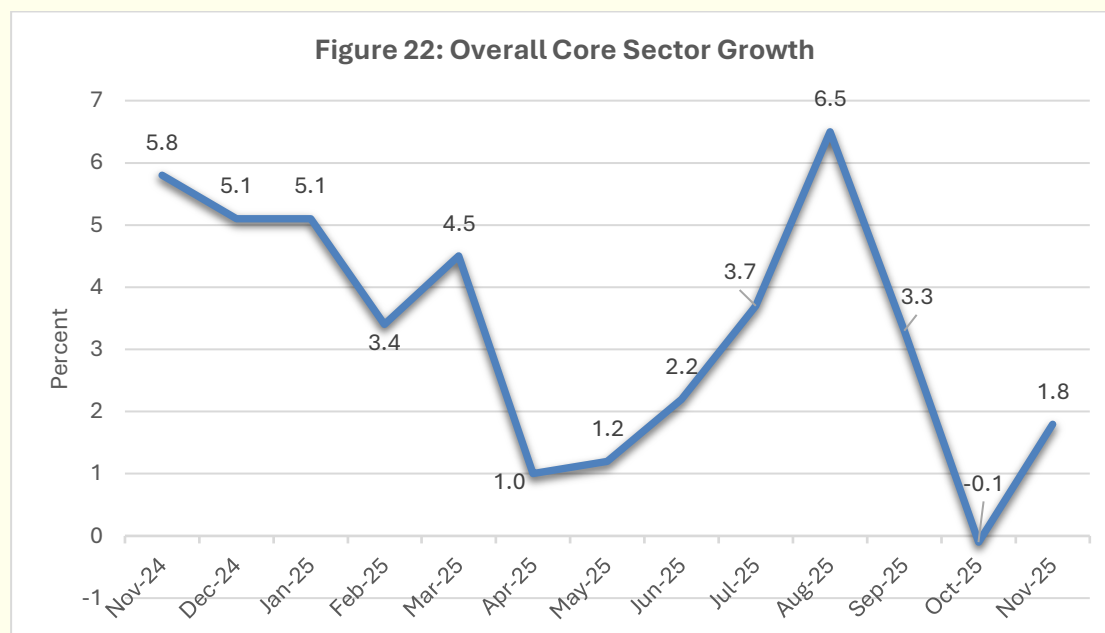
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### **INDIA'S CORE SECTOR GROWS 1.8 PERCENT IN NOVEMBER 2025: MANUFACTURING STRENGTH OFFSETS ENERGY WEAKNESS**

## **Introduction**

India's Index of Eight Core Industries (ICI) recorded a growth of 1.8 percent (provisional) in November 2025 compared to November 2024, marking a recovery from the marginal contraction of (-) 0.1 percent observed in October 2025 (Figure 22). The improvement was driven primarily by robust expansion in key manufacturing-linked sectors—particularly cement, steel and fertilizers—even as parts of the energy sector continued to exhibit weakness. The eight core industries together account for 40.27 percent of the weight in the Index of Industrial Production (IIP), making their performance a crucial leading indicator for overall industrial activity.

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Source: Office of Economic Adviser, DPIIT, Ministry of Commerce & Industry, GoI

## Energy Sector Performance

### Electricity

Electricity generation declined by 2.2 percent in November 2025 on a year-on-year basis, following a sharper contraction of 6.9 percent in October (Figure 23). The cumulative electricity index during April–November 2025–26 also showed a marginal decline of 0.3 percent, indicating subdued power demand, possibly reflecting softer industrial activity and base effects from high generation levels in the previous year

### Refinery Products

Petroleum refinery production fell by 0.9 percent in November 2025, reversing earlier modest gains (Figure 23). Despite the monthly contraction, refinery output showed marginal cumulative growth of 0.2 percent during April–November 2025–26, suggesting relative stability over the course of the financial year. Given its large weight of 28.04 percent in the ICI, even small fluctuations in refinery output significantly influence overall core sector performance.

## ***Natural Gas***

Natural gas production declined by 2.5 percent year-on-year in November 2025 (Figure 23). The cumulative index for natural gas contracted by 3.0 percent during April–November 2025–26, highlighting persistent structural and operational challenges in domestic gas production.

## ***Crude Oil***

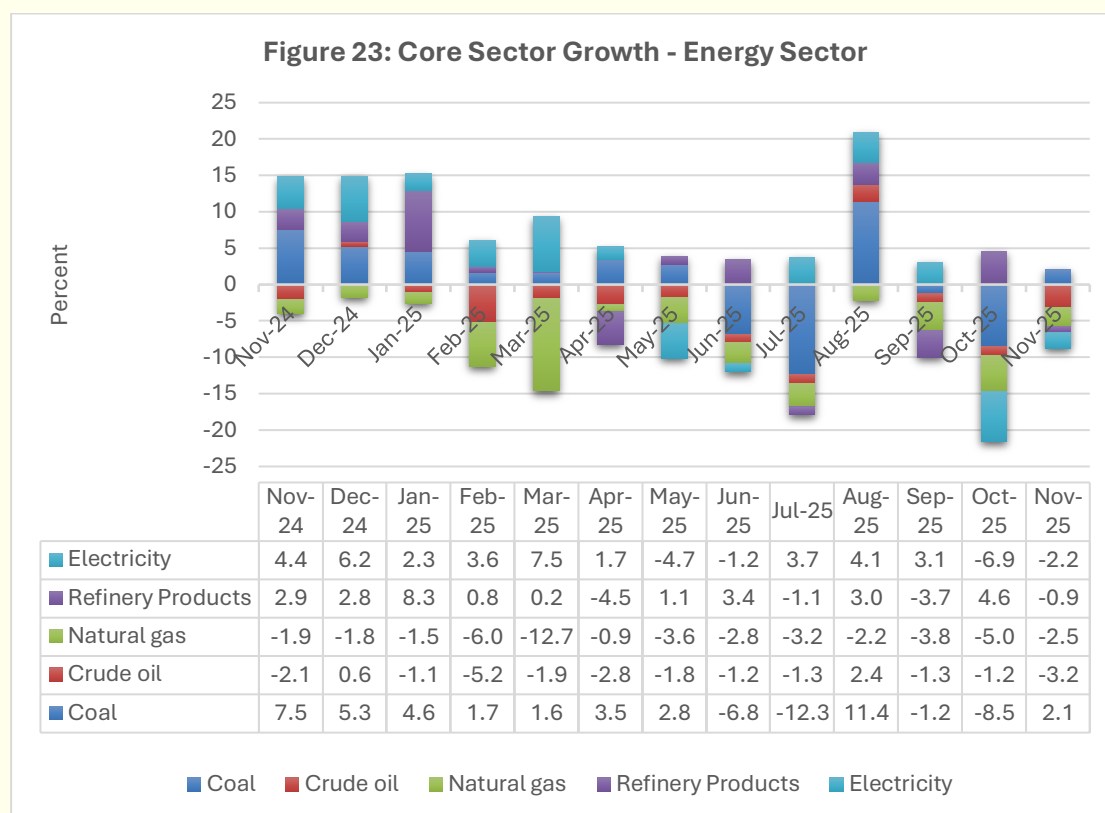
Crude oil output continued to contract, falling by 3.2 percent in November 2025 (Figure 23). The cumulative crude oil index declined by 1.3 percent during April–November 2025–26, reinforcing the longer-term downward trend in domestic crude production amid ageing fields and limited new discoveries.

## ***Coal***

Coal production increased by 2.1 percent in November 2025 (Figure 23), providing some support to the energy basket. However, the cumulative coal index during April–November 2025–26 declined by 1.4 percent, indicating uneven output trends despite policy emphasis on domestic coal availability.

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Source: Office of Economic Adviser, DPIIT, Ministry of Commerce & Industry, GoI

## Manufacturing Sector Performance

### Cement

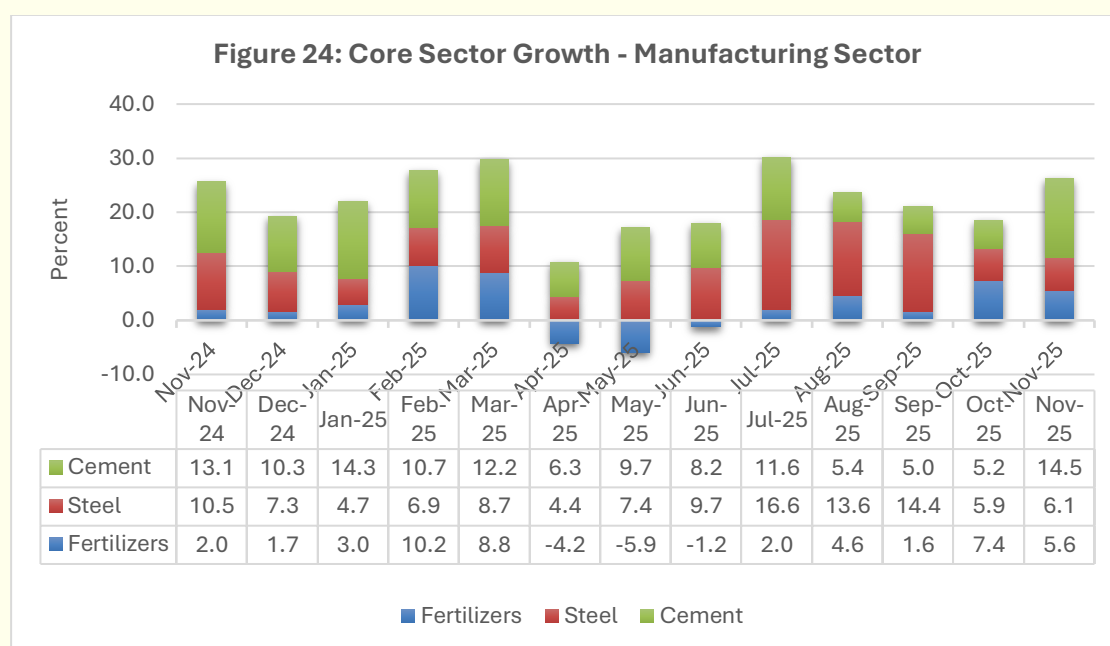
Cement production emerged as the standout performer, expanding sharply by 14.5 percent in November 2025 (Figure 24), the highest growth among all core industries. Cumulatively, cement output rose by 8.2 percent during April–November 2025–26, reflecting sustained momentum in construction activity, infrastructure projects and housing demand.

### Steel

Steel production grew by a strong 6.1 percent in November 2025 (Figure 24), continuing its robust expansion. The cumulative steel index recorded a notable growth of 9.7 percent during April–November 2025–26, underscoring resilient demand from infrastructure, capital goods and manufacturing sectors.

## Fertilizers

Fertilizer production increased by 5.6 percent in November 2025 (Figure 24), reversing some of the volatility seen earlier in the year. On a cumulative basis, fertilizer output rose by 1.3 percent during April–November 2025–26, supported by stable agricultural demand and timely availability ahead of the rabi season.



Source: Office of Economic Adviser, DPIIT, Ministry of Commerce & Industry, GoI

## Annual Core Sector Growth

On a cumulative basis, the Index of Eight Core Industries expanded by 2.4 percent during April–November 2025–26, compared with the corresponding period of the previous year (Table 2). This represents a moderation from the 4.4 percent growth recorded during April–November 2024–25. The divergence between manufacturing strength and energy-sector weakness continues to shape the aggregate outcome, with steel and cement providing the primary growth impulse.

**Table 2: India's Annual Core Sector Growth**

	Overall Core Sector	Energy Sector					Manufacturing Sector		
		Coal	Crude Oil	Natural Gas	Refinery Products	Electricity	Fertilizers	Steel	Cement
2012-13	3.8	3.2	-0.6	-14.4	7.2	4.0	-3.3	7.9	7.5
2013-14	2.6	1.0	-0.2	-12.9	1.4	6.1	1.5	7.3	3.7
2014-15	4.9	8.0	-0.9	-5.3	0.2	14.8	1.3	5.1	5.9
2015-16	3.0	4.8	-1.4	-4.7	4.9	5.7	7.0	-1.3	4.6
2016-17	4.8	3.2	-2.5	-1.0	4.9	5.8	0.2	10.7	-1.2
2017-18	4.3	2.6	-0.9	2.9	4.6	5.3	0.03	5.6	6.3
2018-19	4.4	7.4	-4.1	0.8	3.1	5.2	0.3	5.1	13.3
2019-20	0.4	-0.4	-5.9	-5.6	0.2	0.9	2.7	3.4	-0.9
2020-21	-6.4	-1.9	-5.2	-8.2	-11.2	-0.5	1.7	-8.7	-10.8
2021-22	10.4	8.5	-2.6	19.2	8.9	8.0	0.7	16.9	20.8
2022-23	7.8	14.8	-1.7	1.6	4.8	8.9	11.3	9.3	8.7
2023-24	7.6	11.8	0.6	6.1	3.6	7.1	3.7	12.5	8.9
2024-25	4.5	5.1	-2.2	-1.2	2.8	5.2	2.9	6.8	6.3
April- Nov.	4.4	6.4	-2.3	1.1	2.8	5.3	1.6	6.7	3.1
2024-25									
April – Nov.	2.4	-1.4	-1.3	-3.0	0.2	-0.3	1.3	9.7	8.2
2025-26									

Source: Office of Economic Adviser, DPIIT, Ministry of Commerce & Industry, GoI

## Conclusion

The performance of India's core industries in November 2025 reflects a modest but meaningful recovery, led decisively by manufacturing-linked sectors. Strong growth in cement and steel points to continued traction in infrastructure and construction activity, offering support to industrial momentum. At the same time, persistent contraction in crude oil, natural gas and electricity generation highlights underlying structural challenges in the energy segment.

Going forward, sustaining core sector growth will depend on the durability of infrastructure spending, revival in energy output, and broader improvements in industrial demand. With the core industries acting as a bellwether for the IIP, their

evolving trajectory will remain central to assessing the strength and balance of India's industrial recovery.

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## SERVICES STRENGTH AND MANUFACTURING MOMENTUM SHAPE INDIA'S TRADE PERFORMANCE IN NOVEMBER 2025

### Introduction

India's trade data for November 2025 points to a phase of resilient export performance amid global uncertainty, supported decisively by services exports and a strong showing in select manufacturing segments. Total exports (merchandise and services combined) rose sharply to US\$ 73.99 billion, registering a 15.52 percent year-on-year growth, while total imports declined marginally to US\$ 80.63 billion (Table 3). As a result, the overall trade deficit narrowed significantly to US\$ 6.64 billion, compared to US\$ 17.06 billion a year earlier. This improvement reflects both export dynamism and a moderation in imports, especially of petroleum and gold, even as cumulative trade data highlight persistent structural challenges on the merchandise front.

### Merchandise Trade

Merchandise exports recorded a strong rebound in November 2025, rising to US\$ 38.13 billion from US\$ 31.94 billion in November 2024 (Table 3). This expansion was broad-based and driven by high-growth sectors such as engineering goods, electronic goods, gems and jewellery, drugs and pharmaceuticals, and petroleum products.

Engineering goods exports grew by nearly 24 percent, reflecting robust global demand and improved competitiveness. Electronic goods exports surged by almost 39 percent, underscoring the growing role of electronics manufacturing and export-oriented production under domestic manufacturing initiatives. Gems and jewellery and pharmaceuticals also recorded healthy double-digit growth, reinforcing India's position in traditional and knowledge-intensive export segments.

On the import side, merchandise imports declined marginally to US\$ 62.66 billion, aided by a sharp contraction in gold imports (–59 percent) and reduced imports of crude

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petroleum and petroleum products. This moderation in imports played a critical role in narrowing the merchandise trade deficit for the month. However, despite the strong monthly performance, cumulative merchandise imports for April–November 2025 increased faster than exports, resulting in a widening merchandise trade deficit over the period.

### Services Trade

Services trade remained the principal stabilising force in India’s external sector. Services exports in November 2025 are estimated at US\$ 35.86 billion, up from US\$ 32.11 billion (Table 3) a year earlier, while services imports rose modestly to US\$ 17.96 billion.

**Table 3: Trade During November 2025**

		November 2025 (US\$ Billion)	November 2024 (US\$ Billion)
Merchandise	Exports	38.13	31.94
	Imports	62.66	63.87
Services	Exports	35.86	32.11
	Imports	17.96	17.25
Total Trade	Exports	73.99	64.05
	Imports	80.63	81.11
	<b>Trade Balance</b>	<b>-6.64</b>	<b>-17.06</b>

Source: Ministry of Commerce and Industry, Government of India <https://www.commerce.gov.in/trade-statistics/latest-trade-figures/>

### Cumulative Trade: April–November 2025 Trends

During April–November 2025, India’s total exports stood at US\$ 562.13 billion, reflecting a 5.43 percent increase over the corresponding period of the previous year (Table 4). Total imports amounted to US\$ 651.13 billion, growing by about 5 percent, resulting in an overall trade deficit of US\$ 89.0 billion, marginally higher than last year.

Merchandise exports grew modestly by 2.62 percent to US\$ 292.07 billion, while merchandise imports rose more sharply to US\$ 515.21 billion, widening the merchandise trade deficit to over US\$ 223 billion. In contrast, non-petroleum exports and non-petroleum, non-gems and jewellery exports posted healthier growth, suggesting gradual diversification away from commodity-dependent trade. The cumulative data thus reveal a dual picture: resilience in total exports led by services and select manufacturing segments, alongside continued pressure from import-intensive merchandise trade.

For the cumulative period April–November 2025, services exports reached US\$ 270.06 billion, registering an impressive growth of 8.65 percent over the previous year (Table 4). Services imports increased at a much slower pace, resulting in a robust services trade surplus of US\$ 134.13 billion. This surplus continues to offset a substantial portion of the merchandise trade deficit, highlighting the structural importance of IT services, business services, and other knowledge-based exports in India’s trade balance.

**Table 4: Trade During April–November 2025**

		<i>April–November 2025 (US\$ Billion)</i>	<i>April–November 2024 (US\$ Billion)</i>
<i>Merchandise</i>	<i>Exports</i>	292.07	284.60
	<i>Imports</i>	515.21	487.93
<i>Services</i>	<i>Exports</i>	270.06	248.56
	<i>Imports</i>	135.93	132.21
<i>Total Trade</i>	<i>Exports</i>	562.13	533.16
	<i>Imports</i>	651.13	620.14
	<b><i>Trade Balance</i></b>	<b>-89.00</b>	<b>-86.98</b>

Source: Ministry of Commerce and Industry, Government of India <https://www.commerce.gov.in/trade-statistics/latest-trade-figures/>

## **Product and Market Diversification**

A notable feature of India's trade performance in November 2025 is the breadth of product-level export growth. Beyond engineering and electronics, strong growth was recorded in iron ore, oil meals, cereals, coffee, marine products, handicrafts, ceramics, chemicals, and textiles. This indicates a widening export base that extends across agriculture, manufacturing, and value-added segments.

Market diversification has also improved. The United States, China, Spain, the UAE, and Tanzania emerged as key export destinations showing strong growth during November, while similar trends were visible on a cumulative basis for the April–November period. On the import side, higher sourcing from China, the United States, Hong Kong, the UAE, and Ireland reflects both supply-chain realignments and rising domestic demand for intermediates and capital goods.

## **Conclusion**

India's trade performance in November 2025 underscores a phase of external sector resilience anchored by services exports and competitive manufacturing segments, even as merchandise trade continues to face structural constraints. The sharp narrowing of the trade deficit in November reflects favourable import compression and export momentum, but cumulative data point to the need for sustained efforts to boost merchandise export growth and reduce import dependence.

Going forward, strengthening manufacturing competitiveness, deepening export diversification, and leveraging services-led surplus will remain central to managing India's trade balance in an uncertain global environment. The November 2025 data suggest that while challenges persist, India's external sector is adapting with increasing flexibility and resilience.

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## **INDIA–OMAN CEPA: A STRATEGIC TRADE PACT ANCHORING INDIA’S GULF AMBITIONS**

India and Oman took a significant step forward in deepening their economic partnership with the signing of a Comprehensive Economic Partnership Agreement (CEPA) on 18 December 2025. The agreement, concluded after nearly two years of negotiations, marks India’s first trade pact with a Gulf nation since the India–UAE CEPA in February 2022 and reflects New Delhi’s broader strategy of strengthening economic and strategic ties across the Gulf region.

Under the agreement, India has secured zero-duty access for 98.08 percent of Oman’s tariff lines, covering an estimated 99.38 percent of India’s shipment value to the country. For India, this translates into immediate tariff elimination on exports worth about \$3.64 billion that currently face duties of around 5 percent in Oman. In return, India has offered tariff liberalisation on 77.79 percent of its tariff lines, covering 94.81 percent of imports from Oman by value, while carefully ring-fencing sensitive sectors.

The pact was signed in Muscat by Commerce and Industry Minister Piyush Goyal and Oman’s Minister of Commerce, Industry and Investment Promotion, Qais Mohammed Al Yousef, in the presence of Prime Minister Narendra Modi and Sultan Haitham bin Tarik. Describing the agreement as a “historic step forward”, Prime Minister Modi said the CEPA would energise bilateral ties in the 21st century and open new opportunities across trade, investment and employment, particularly for the youth of both nations.

From India’s perspective, the agreement delivers substantial gains for labour-intensive export sectors. Full tariff elimination is expected to benefit industries such as gems and jewellery, textiles, leather and footwear, plastics, furniture, agricultural products, engineering goods, pharmaceuticals, medical devices and automobiles. These sectors have been central to India’s export-led growth strategy and stand to gain from improved price competitiveness in the Omani market.

At the same time, India has adopted a calibrated approach to market opening for sensitive imports from Oman. Liberalisation for products such as dates, polyethylene

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and polypropylene intermediates, select medical devices, electronics and automobile components has been offered largely through tariff-rate quotas, allowing limited quantities at concessional rates while retaining higher tariffs beyond the quota. Several highly sensitive items—including dairy products, tea, coffee, rubber, tobacco, bullion, jewellery, footwear, sports goods and base-metal scrap—have been placed in the exclusion list to safeguard domestic producers.

Beyond goods trade, the CEPA places strong emphasis on services and mobility, areas of growing importance in India's external economic engagement. Oman has committed to broad market access across 127 services sub-sectors, including legal and accounting services, architectural and engineering services, healthcare, audio-visual services, tourism and travel-related services. Importantly, the agreement significantly expands entry and stay rights for Indian professionals. The cap on intra-corporate transferees has been raised from 20 percent to 50 percent of a firm's total workforce, enabling companies to deploy a larger share of managerial, executive and specialist personnel—an access commitment that exceeds those secured by India in several other trade agreements.

Trade data underline both the opportunity and the imbalance the CEPA seeks to address. In FY25, India exported goods worth \$4.1 billion to Oman while importing \$6.6 billion, resulting in a trade deficit of \$2.5 billion. Enhanced market access for Indian exports, combined with stronger integration into Oman's logistics and supply chains, could help narrow this gap over time.

Negotiations for the agreement formally began in November 2023, with most chapters concluded by January 2024. However, delays arose due to Oman's demand for wider access in petrochemical products and India's concerns over Oman's localisation policies aimed at replacing foreign workers with nationals. The eventual compromise underscores the strategic intent on both sides to prioritise long-term economic and geopolitical alignment over short-term frictions.

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Analysts view the CEPA as strategically significant rather than merely transactional. Ajay Srivastava of the Global Trade Research Initiative noted that the agreement strengthens India's presence at the mouth of the Gulf, deepens Indian firms' role in regional logistics and energy corridors, and consolidates India's influence in a critical maritime region. Exporters have also welcomed the pact, with industry bodies highlighting Oman's role as a gateway to the Gulf and Africa and its potential to help Indian firms integrate more effectively into regional value chains.

Once operational—expected within three months after completion of customs and procedural formalities—the India–Oman CEPA is likely to serve as a key pillar of India's evolving engagement with the Gulf Cooperation Council. While not a dramatic trade breakthrough, the agreement locks in market access, enhances mobility for Indian professionals, and reinforces India's economic and strategic footprint in a region central to its trade, energy security and connectivity ambitions.

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#### **A NEW TEMPLATE FOR TRADE: INVESTMENT, SERVICES AND MOBILITY AT THE HEART OF THE INDIA–NEW ZEALAND FTA**

India's recent spate of free trade agreements with key strategic partners reflects a renewed momentum in the country's trade diplomacy and a clear resolve to integrate more deeply with global markets. While free trade agreements often serve as a quick lever for market diversification, their most significant gains typically unfold over the long term through investments, services, technology transfer and mobility. In 2025 alone, four major FTAs have either been implemented, signed, or successfully concluded, all of which go well beyond conventional tariff liberalisation and signal a qualitative shift in India's trade strategy.

Among these, the India–New Zealand Free Trade Agreement, concluded on 22 December 2025, stands out as a forward-looking pact that reflects this new generation of trade agreements. Coming close on the heels of the Trade and Economic Partnership Agreement (TEPA) with the European Free Trade Association (EFTA), the India–New

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Zealand FTA embeds investment, services, regulatory cooperation and mobility directly into the core architecture of the agreement.

A defining feature of the agreement is its strong investment orientation. New Zealand has committed to facilitating long-term investments of USD 20 billion into India over a 15-year period, targeted at manufacturing, infrastructure, innovation and job creation. These commitments align closely with India's development priorities, particularly in high-value sectors such as renewable energy, digital services and modern infrastructure. By embedding investment commitments within the FTA itself, the agreement provides greater predictability and confidence for long-term capital flows, reinforcing India's position as an attractive destination for global investors.

On market access, the agreement offers significant opportunities for Indian exporters. New Zealand has extended 100 percent duty-free access across all tariff lines, making Indian products fully competitive in the New Zealand market. Labour-intensive sectors such as textiles and apparel, leather goods, ceramics and carpets are expected to be among the major beneficiaries. By eliminating tariffs on all Indian exports, the FTA directly supports workers, artisans, women entrepreneurs, youth and MSMEs, enabling their deeper integration into global value chains.

The agreement also delivers important gains for India's pharmaceutical and medical devices sectors. New Zealand has agreed to accept Good Manufacturing Practice (GMP) and Good Clinical Practice (GCP) inspection reports from comparable advanced regulators. This provision reduces duplicative inspections, lowers compliance costs and expedites product approvals, thereby facilitating smoother market entry and enhancing export competitiveness for Indian pharma and medical device manufacturers.

India, for its part, has liberalised nearly 70 percent of its tariff lines for New Zealand exports while carefully preserving policy space for sensitive sectors. Dairy and key agricultural products remain excluded from tariff reductions, ensuring that domestic

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producers are shielded from adverse impacts. This calibrated approach reflects India's broader trade philosophy of balancing openness with domestic sensitivities.

An innovative dimension of the FTA lies in agricultural cooperation. New Zealand will support Agriculture Productivity Action Plans for kiwifruit, apples and honey, aimed at improving productivity, quality and sectoral capabilities. These initiatives include the establishment of Centres of Excellence, access to improved planting material, capacity building, collaborative research and technical support across orchard management, post-harvest practices, supply chains and food safety. If effectively implemented, these measures could contribute to higher yields, better quality standards and increased farm incomes in India.

Perhaps the most transformative elements of the agreement are found in services and mobility. The FTA secures market access commitments in around 118 services sectors, including computer-related services, professional services, telecommunications, construction, education, financial services and tourism, alongside Most-Favoured-Nation commitments in 139 sub-sectors. This significantly expands India's opportunities to diversify and scale up services exports in advanced markets.

Mobility provisions under the agreement are unprecedented. For the first time, New Zealand has created a dedicated pathway for student mobility with India, removing numerical caps on Indian students and guaranteeing work rights during study along with extended post-study work options. The agreement also introduces a new Temporary Employment Entry visa for 5,000 Indian professionals, covering a wide spectrum of occupations ranging from IT, engineering and healthcare to AYUSH practitioners, yoga instructors, chefs and music teachers. In addition, enhanced youth mobility is facilitated through multiple-entry Working Holiday Visas for 1,000 young Indians annually.

While bilateral trade between India and New Zealand is currently modest, at around USD 2.4 billion, the potential for expansion is considerable. New Zealand's total import market stands at nearly USD 47 billion for merchandise and USD 24 billion for

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services, yet India's current market share remains low at 1.6 percent and 2.6 percent, respectively. In services such as IT and computer services, which account for nearly 11.5 percent of New Zealand's total services imports, India's share is only 5.3 percent. Other business services, including professional and management consulting, also offer substantial headroom for growth.

Concluded in a relatively short span of nine months and expected to be signed soon, the India–New Zealand FTA exemplifies the government's proactive and pragmatic approach to trade negotiations. The agreement lays out a wide array of opportunities for Indian industry, and if leveraged effectively, it has the potential to significantly strengthen trade, investment and economic relations between the two countries, while reinforcing India's broader strategy of deeper and more diversified global economic integration.

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#### **INDIA'S FISCAL POSITION IN FY26: CAPEX PUSH, TAX SOFTNESS AND THE CUSHION OF NON-TAX REVENUES**

India's fiscal consolidation path in FY 2025–26 is being tested by a combination of front-loaded capital expenditure, softer tax collections, and rising subsidy pressures, even as robust non-tax revenues have provided a crucial buffer. Data released by the Controller General of Accounts (CGA) shows that the Centre's fiscal deficit during April–November 2025 stood at ₹9.76 trillion, accounting for 62.3 per cent of the full-year budget estimate, compared to ₹8.5 trillion (52.5 per cent) in the corresponding period last year.

The higher deficit reflects a deliberate policy choice to prioritise growth-supportive spending, particularly capital expenditure, amid a benign inflation environment and moderate global growth conditions. Total government expenditure during the eight-month period reached ₹29.25 trillion, while total receipts stood at ₹19.49 trillion, of which ₹19.10 trillion were revenue receipts.

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## **Non-Tax Revenues Provide a Strong Cushion**

A standout feature of FY26 so far has been the exceptionally strong performance of non-tax revenues, which rose to ₹5.16 trillion, equivalent to 88.6 per cent of the full-year target. This marks a sharp improvement over ₹4.27 trillion collected during the same period last year.

The surge was led by higher-than-budgeted dividend payouts from public sector undertakings, public sector banks, and the Reserve Bank of India. Dividend receipts alone amounted to ₹3.39 trillion, exceeding the budget estimate of ₹3.25 trillion. This windfall has played a critical role in stabilising the Centre's fiscal arithmetic at a time when tax revenues have underperformed.

## **Tax Revenues Under Pressure**

Gross tax collections during April–November stood at ₹13.9 trillion, or just 49 per cent of the full-year estimate, compared to ₹14.43 trillion in the year-ago period. Several tax heads—including customs duty, GST, compensation cess and securities transaction tax (STT)—registered year-on-year declines.

Analysts attribute this moderation to a mix of policy and structural factors. The income-tax rebate announced in the February 2025 Budget, which effectively eliminated tax liability for individuals earning up to ₹12 lakh annually, reduced direct tax inflows. Simultaneously, GST rationalisation measures dampened indirect tax growth in the short term. According to ICRA, net tax revenues contracted by 3.4 per cent, prompting expectations of a ₹1.5 trillion shortfall in gross tax collections relative to the FY26 Budget Estimates.

## **Capex-Led Spending Strategy**

Despite recent month-on-month moderation, the Centre's capital expenditure remains a defining feature of FY26 fiscal policy. Capex rose by a robust 28 per cent year-on-year during April–November, reaching 59 per cent of the annual target, significantly higher than 49 per cent achieved in the same period last year.

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That said, capex contracted for the second consecutive month in November, declining by 21 per cent during October–November after a strong 31 per cent expansion in the September quarter. This suggests tactical expenditure smoothing in the second half of the year to manage deficit pressures without compromising the annual capex target.

### **Subsidies: Mixed Trends**

Total subsidy expenditure reached ₹2.88 trillion, or 75 per cent of the annual provision, slightly higher than last year. While food subsidy outgo declined to ₹1.37 trillion from ₹1.51 trillion, spending on fertiliser and petroleum subsidies increased sharply, reflecting global price volatility and domestic support priorities.

Nutrient-based fertiliser subsidies rose by 24 per cent, urea subsidies by 14.2 per cent, and petroleum subsidies by nearly 42 per cent, underscoring persistent fiscal sensitivities in energy and agriculture-related support.

### **Fiscal Path Remains Intact—For Now**

The Centre has budgeted a fiscal deficit of 4.4 per cent of GDP (₹15.69 trillion) for FY26, continuing the medium-term consolidation roadmap after achieving 4.8 per cent in FY25—better than the revised estimate of 4.9 per cent.

While the higher deficit ratio in the first eight months warrants close monitoring, strong non-tax revenues, controlled revenue expenditure growth, and calibrated capex deployment provide confidence that the full-year target remains achievable. The key challenge ahead lies in balancing growth imperatives with revenue mobilisation, especially as tax buoyancy adjusts to recent policy reforms.

Overall, FY26 so far reflects a pragmatic fiscal strategy—one that prioritises investment-led growth while relying on dividend windfalls and expenditure discipline to stay aligned with consolidation goals.

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## EMPLOYMENT

### INDIA'S LABOUR MARKET STRENGTHENS AS UNEMPLOYMENT HITS NEW LOWS IN NOVEMBER 2025

#### Introduction

India's labour market continued to strengthen in November 2025, according to the latest Periodic Labour Force Survey (PLFS) Monthly Bulletin released by the National Statistics Office. The data reveal a broad-based improvement across key labour market indicators—labour force participation, employment, and unemployment—making November one of the strongest months since the introduction of monthly PLFS estimates in 2025. Rising rural employment, sustained gains in female participation, and a sharp decline in unemployment together point to a consolidating recovery in labour market conditions.

#### Labour Force Participation: Sustained Upward Momentum

A notable feature of the November data is the continued rise in labour force participation. The overall Labour Force Participation Rate (LFPR) for persons aged 15 years and above increased to 55.8 percent, the highest level recorded since April 2025. This increase was primarily driven by rural areas, where LFPR rose to 58.6 percent, reflecting improved employment opportunities and possibly seasonal demand for labour.

In contrast, urban LFPR remained broadly stable at 50.4 percent, suggesting that the recovery in urban labour markets continues to be gradual. The divergence between rural and urban trends highlights the uneven nature of labour market recovery across regions.

#### Female Participation: Rural Areas Lead the Gains

Female labour force participation remains one of the most encouraging trends in the November data. Overall female LFPR rose steadily from 32.0 percent in June 2025 to



35.1 percent in November 2025. This increase has been driven overwhelmingly by rural women, with rural female LFPR climbing to 39.7 percent, continuing a consistent upward trajectory observed since mid-2025.

Urban female LFPR, however, remained broadly unchanged at around 25.5 percent, underlining persistent structural constraints such as limited formal employment opportunities, care responsibilities, and skill mismatches. Nevertheless, the sustained rise in rural female participation represents a significant improvement in labour market inclusiveness.

### **Employment Outcomes: Rising Worker Population Ratio**

Employment indicators strengthened alongside participation. The Worker Population Ratio (WPR) for persons aged 15 years and above increased to 53.2 percent in November, up from 52.5 percent in October and 51.2 percent in June 2025. This indicates that rising participation has been matched by employment creation rather than an expansion of unemployment.

Rural WPR rose to 56.3 percent, while urban WPR remained largely stable. Female employment showed particularly strong gains: rural female WPR increased to 38.4 percent, lifting the overall female WPR to 33.4 percent. Male WPR also improved modestly, especially in rural areas, reflecting broad-based employment gains across genders.

### **Unemployment Trends: New Lows Recorded**

The most striking development in November 2025 is the sharp decline in unemployment. The overall Unemployment Rate (UR) for persons aged 15 years and above fell to 4.7 percent, the lowest level since April 2025. Rural unemployment declined to a new low of 3.9 percent, while urban unemployment eased to 6.5 percent, matching its earlier low recorded in April.

The decline in unemployment was evident across both genders. Female unemployment fell to 4.8 percent from 5.4 percent in October, driven by reductions in both rural and

urban female unemployment rates. Male unemployment also declined to 4.6 percent, indicating improved labour absorption across sectors.

### **Trends Over April–November 2025: Broad-Based Improvement**

Viewed over the period from April to November 2025, labour market conditions show a clear and sustained improvement. Labour force participation and employment ratios have trended upward, while unemployment has declined steadily across rural and urban areas and for both men and women. The improvement has been more pronounced in rural areas, though urban labour markets have also shown gradual recovery towards the latter part of the period.

### **Conclusion**

The November 2025 PLFS data suggest that India's labour market is entering a phase of consolidation. Rising labour force participation—especially among rural women—alongside higher employment and falling unemployment reflects strengthening labour demand and improved job absorption. While urban labour markets and urban female participation continue to lag, the overall trends are positive and supportive of income growth and consumption. Sustaining these gains will require targeted policy efforts to expand quality employment, particularly in urban areas, and to convert rising participation into stable, productive jobs across sectors.

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## DEBATE OF THE MONTH: RURAL EMPLOYMENT GUARANTEE

### BEYOND MGNREGA: HOW THE VIKSIT BHARAT–GRAMIN ACT RESETS INDIA’S RURAL DEVELOPMENT STRATEGY

The *Viksit Bharat – Guarantee for Rozgar and Aajeevika Mission (Gramin) Act, 2025* marks a decisive inflection point in India’s rural employment and livelihoods framework. By replacing the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), 2005, the new legislation seeks not merely to expand employment guarantees but to reposition wage employment as a strategic lever for durable asset creation, climate resilience, and decentralised development aligned with the vision of *Viksit Bharat @2047*.

#### From Welfare to Developmental Architecture

At its core, the Act retains the rights-based foundation of its predecessor while consciously reorienting rural employment from a standalone social safety net to an integrated development instrument. The enhancement of the statutory employment guarantee from 100 to 125 days per rural household strengthens income security and predictability, particularly for landless labourers and marginal households vulnerable to seasonal shocks. Importantly, this expansion is not framed as a fiscal handout but as an investment in productive capacity, linking labour inputs to the creation of long-term public assets.

The thematic focus on water security, core rural infrastructure, livelihood-related infrastructure, and climate risk mitigation reflects a clear attempt to align short-term employment generation with long-term growth and resilience outcomes. In policy terms, this marks a shift from “work for wages” to “work for transformation”.

#### Balancing Agricultural Cycles and Employment Security

A notable innovation is the provision allowing states to notify an aggregated pause period of up to 60 days during peak agricultural seasons. This acknowledges a long-standing criticism of MGNREGA—that it competes with agriculture for labour during

sowing and harvesting. By institutionalising flexibility while preserving the full 125-day entitlement outside the pause window, the Act attempts a calibrated balance between farm productivity and worker security.

However, the effectiveness of this provision will depend critically on state capacity to time pauses accurately and ensure compensatory employment during the remaining period. Poorly sequenced pauses could inadvertently compress employment into fewer months, undermining income smoothing for rural households.

### **Decentralised Planning with Centralised Convergence**

The Act deepens decentralised planning by vesting primary responsibility for work identification and prioritisation in Gram Panchayats through Viksit Gram Panchayat Plans (VGPPs), approved by Gram Sabhas. This reinforces the constitutional mandate of Panchayati Raj Institutions and preserves local agency in development choices.

Simultaneously, the digital integration of these plans with national platforms such as PM Gati Shakti introduces a new layer of convergence. Unlike earlier centralisation concerns, this integration focuses on visibility, coordination, and avoidance of duplication rather than top-down control. If implemented well, it could enable saturation-based planning—an important shift from fragmented asset creation to comprehensive rural infrastructure coverage.

### **Fiscal Architecture and the Question of Risk Transfer**

One of the most consequential changes lies in the restructured financial architecture. By converting the programme into a centrally sponsored scheme with a 60:40 Centre–State cost-sharing ratio (90:10 for North Eastern and Himalayan states), the Act introduces greater fiscal discipline and predictability through normative state-wise allocations.

Yet, the provision requiring states to bear expenditure beyond the normative allocation raises concerns. In fiscally constrained states, this could weaken incentives to fully honour employment demand during distress years unless normative allocations are

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sufficiently responsive to local labour market conditions. The preservation of the statutory right to employment and unemployment allowance mitigates this risk in principle, but its effectiveness will hinge on enforcement and Centre–State coordination.

### **Governance, Technology, and Accountability**

The enhancement of the administrative expenditure ceiling from 6 percent to 9 percent is a tacit recognition that governance quality—not merely funding—determines outcomes. Better staffing, training, and technical support can improve planning, measurement, and supervision at the field level.

Technology-enabled transparency—through biometric authentication, geo-tagging, and real-time dashboards—is positioned as an enabler rather than a gatekeeper. Crucially, the Act strengthens social audits by Gram Sabhas, preserving community oversight as a counterbalance to technology-driven exclusion risks. The challenge will be to ensure that digital systems complement, rather than substitute, local accountability.

### **Conclusion: A Strategic Reset with Implementation Risks**

The Viksit Bharat–G RAM G Act, 2025 represents a strategic reset of India’s rural employment policy. By expanding statutory guarantees, embedding decentralised planning, and aligning employment with productive and climate-resilient asset creation, it aspires to move beyond consumption smoothing towards structural rural transformation.

Its success, however, will depend on three critical factors: the adequacy and flexibility of normative allocations, the capacity of Panchayats to undertake integrated planning, and the ability of technology systems to enhance inclusion rather than erect new barriers. If these conditions are met, the Act has the potential to redefine rural employment as a cornerstone of India’s long-term development trajectory under *Viksit Bharat @2047*.

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## **VB-G RAM G ACT, 2025 EXPLAINED<sup>2</sup>: WHAT WILL CHANGE FOR RURAL EMPLOYMENT AFTER MGNREGA?**

While the new law raises the annual guaranteed employment entitlement from 100 to 125 days per rural household, it marks a significant shift away from MGNREGA's rights-based, demand-driven model toward a more centrally administered and outcome-oriented approach.

Under the new framework, wage employment will be linked explicitly to the creation of durable rural assets, prioritising water security, core infrastructure such as roads and connectivity, livelihood-related infrastructure, and climate resilience works. Planning remains decentralised through Gram Panchayat plans but will be integrated with national platforms like PM Gati Shakti, and all assets will be recorded in a national rural infrastructure database.

A key change relates to funding. Unlike MGNREGA, which was effectively fully funded by the Centre, the new scheme will operate as a centrally sponsored programme with a 60:40 Centre–state cost-sharing arrangement for most states, a 90:10 ratio for northeastern and Himalayan states, and full central funding for Union Territories without legislatures. Crucially, the Centre will determine state-wise annual allocations in advance, ending the earlier legal obligation to meet additional demand for work. Any expenditure beyond allocated limits will have to be borne by states.

The Bill also introduces a provision to suspend public works for up to 60 days during peak sowing and harvesting seasons, while retaining the overall annual entitlement. Wages are to be paid weekly or within a fortnight, and the unemployment allowance provision remains in place if work is not provided on time. Administrative expenditure ceilings have been raised to strengthen field-level capacity, and monitoring will rely heavily on digital attendance, biometric authentication, geo-tagging, real-time dashboards and mandatory social audits.

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<sup>2</sup> This is a summary of an article published in the *Economic Times* on 19 December 2025.

The government argues that the new framework aligns rural employment policy with evolving economic conditions and the *Viksit Bharat 2047* vision, improves accountability, and enhances infrastructure outcomes. Critics, however, contend that by diluting the unconditional, justiciable right to work and shifting financial responsibility to states, the new law weakens a critical safety net that had supported rural incomes, strengthened labour bargaining power, and cushioned households during economic shocks, especially in poorer and fiscally constrained states.

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**NEW JOB LAW IS NOT A RETREAT FROM SOCIAL PROTECTION. IT AIMS TO REFORM**

In his Indian Express article, Union Agriculture Minister Shivraj Singh Chouhan situates the *Viksit Bharat–Guarantee for Rozgar and Ajeevika Mission (Gramin)* (VB-G RAM G) within a legitimate and necessary public debate on welfare reform. He acknowledges that apprehensions about replacing MGNREGA stem from genuine fears of dilution of worker rights, given the historic role of employment guarantees in rural India. However, he argues that these concerns arise largely from assumptions rather than a careful reading of the Bill, which, in his view, strengthens rather than weakens the rural employment framework.

A central pillar of the proposed legislation is a statutory legal guarantee of at least 125 days of wage employment per rural household per year, exceeding the earlier benchmark. Importantly, the Bill restores the unemployment allowance as a meaningful statutory right, payable if employment is not provided within 15 days of application. By removing MGNREGA-era disqualification provisions that often resulted in workers being denied wages or compensation, the framework seeks to correct structural flaws that undermined the credibility of the earlier regime. Enhanced transparency norms, mandatory social audits, and time-bound grievance redressal mechanisms are positioned as core elements that make the employment guarantee enforceable in practice, rather than merely aspirational.

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Responding to the criticism that VB-G RAM G undermines the demand-driven nature of rural employment, Chouhan points to explicit statutory obligations in the Bill requiring the government to provide guaranteed employment to any rural household whose adult members volunteer for unskilled manual work. By expanding guaranteed days and embedding accountability mechanisms, the right to demand work, he argues, is strengthened rather than curtailed.

The article also addresses concerns that the reform prioritises asset creation at the expense of employment. Chouhan contends that this presents a false dichotomy. The Bill enshrines a livelihood guarantee while explicitly linking employment to the creation of productive, durable and climate-resilient public assets. Works are organised around four thematic domains—water security, core rural infrastructure, livelihood-supporting infrastructure, and climate and extreme weather mitigation—ensuring that wage employment contributes simultaneously to immediate income support and long-term rural productivity and resilience.

On governance, the Minister rejects claims of centralisation. Planning and execution are anchored in Viksit Gram Panchayat Plans, prepared at the village level and approved by gram sabhas. While the Bill introduces a national infrastructure stack to aggregate works and improve coordination, authority over planning, implementation, and monitoring remains distributed across panchayats, programme officers, and district administrations. The intent, he argues, is not to centralise decision-making but to address fragmentation, enhance visibility, and improve coherence across schemes.

The Bill also explicitly addresses concerns over agricultural labour shortages during peak sowing and harvesting seasons. It empowers state governments to notify up to 60 days in a year during which employment works will not be undertaken, with flexibility to issue differentiated notifications at district, block, or gram panchayat levels based on local agro-climatic conditions. This design, Chouhan argues, ensures that the employment guarantee complements rather than disrupts agricultural operations.

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Fiscal apprehensions are countered by provisions mandating rules-based, state-wise normative allocations, determined on objective parameters. At the same time, the framework treats states as partners rather than mere implementing agencies, allowing them to operationalise their own employment and livelihood schemes within the statutory minimum guarantee—an expression of cooperative federalism in practice.

Addressing fears of technology-driven exclusion, Chouhan emphasises that digital tools such as biometric authentication, geo-tagging, and real-time dashboards are intended to strengthen transparency and prevent leakages, not to act as rigid gatekeepers. Built-in exception handling and strengthened gram sabha-led social audits are highlighted as safeguards to ensure community oversight and inclusion.

In conclusion, the article frames VB-G RAM G as a comprehensive attempt to restore credibility to India's rural employment guarantee by combining enhanced worker security, localised planning, productive asset creation, administrative coherence, and modern governance tools. Chouhan argues that the real choice is not between reform and compassion, but between a static framework that under-delivers and a modernised system capable of delivering employment with dignity. VB-G RAM G, he asserts, represents a renewal—not a retreat—of social protection in rural India.

*This is a summary of an article by Shivraj Singh Chouhan, Union Minister, Agriculture and Farmers' Welfare; and of Rural Development.*

*The full article can be accessed from <https://shorturl.at/Bv96V>*

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## **A WEAKENED JOB GUARANTEE MAY EXACERBATE DISTRESS IN RURAL INDIA**

The article<sup>3</sup> argues that the repeal of the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) and its replacement with the Viksit Bharat—Guarantee for Rozgar and Ajeevika Mission (Gramin) Act marks a fundamental shift in India's

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<sup>3</sup> This is a summary of an article by Himanshu in Mint on 26 December 2025.

approach to rural livelihood security. While public employment schemes have existed for decades, MGNREGA was distinctive for its rights-based, universal and legally enforceable guarantee of work, which played a crucial role in strengthening rural infrastructure, raising agricultural productivity and reducing poverty. Its importance became most evident during the COVID-19 pandemic, when it served as a critical safety net for rural households and returning migrants, and by providing a fallback option at government-set wages, it indirectly supported higher rural wages and bargaining power.

Over time, MGNREGA was diluted through administrative restrictions and stagnant wages that fell below market levels in many states, yet demand for work persisted, particularly among women and marginalized communities. The new law dismantles the core rights-based framework by linking funding to centrally defined objectives, allowing suspension of guaranteed work during peak agricultural seasons, and shifting a larger share of costs to states. These changes weaken workers' bargaining power, risk pushing wages lower amid already stagnant rural earnings, and undermine the scheme's role as a buffer during periods of economic stress. Although the maximum number of guaranteed workdays has been raised, this offers little comfort given historically low utilization.

By reducing central funding and increasing the fiscal burden on states, especially poorer ones, the new framework is likely to widen inter-state inequalities and erode a key pillar of social protection for rural India. With nearly one-third of rural households having relied on MGNREGA as their primary safety net, the dilution of guaranteed employment is expected to deepen rural distress and slow the recovery of the rural economy.

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## AGRICULTURE & AGRI-BUSINESS

### **FLOODS, LOW CROP PRICES PLAGUE AGRICULTURE, INDIA STRUGGLES TO PROTECT FARMERS**

India struggled to adequately protect farmers in 2025 as agrarian distress deepened due to a combination of climate shocks and price pressures. Exceptionally heavy monsoon rains triggered severe flooding in Punjab, damaging nearly 200,000 hectares of farmland, while also affecting crops in Haryana and Maharashtra, particularly the Marathwada region. These events led to significant crop losses, soil degradation, and income erosion, intensifying demands from farmers for better compensation and longer-term support.

Compounding these losses, farm-gate prices for several major crops fell below the Minimum Support Price (MSP), undermining farmer incomes even as the broader economy benefited from low food inflation. Prices of grains, most pulses, and oilseeds such as soybean, groundnut, and sunflower declined below MSP levels. This deflation in wholesale crop prices contributed to a sharp fall in consumer inflation—headline CPI dropped to a record low of 0.25 percent year-on-year in October, while food prices declined by 5 percent. While low inflation eased pressures on consumers, it raised serious concerns about rural livelihoods, given that about 42 percent of India's population depends on agriculture, which accounts for 18 percent of GDP.

In response, the Centre began working on contingency measures to prevent distress sales, including increasing procurement at MSP, facilitating exports, and partially compensating farmers for price losses. A key policy response was the launch of the Mission for Aatmanirbharta in Pulses (FY26–FY31), with a budget allocation of ₹11,440 crore, guaranteeing 100 percent procurement of tur, urad, and masoor at MSP for four years, alongside efforts to expand acreage and production. Additionally, the government approved the continuation of the PM-AASHA scheme until FY26 to

support MSP-based procurement of oilseeds through central agencies such as NAFED and NCCF.

*This is a summary of an article by Vijay C. Roy published in Mint on 27 December 2025. The full article can be accessed from: <https://shorturl.at/YCU0m>*

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#### **ONE REFORM CAN YIELD MULTIPLE BENEFITS: INDIA SHOULD SEND ITS FERTILIZER SUBSIDY DIRECTLY TO FARMERS**

India's fertiliser subsidy—one of the government's largest recurring fiscal commitments—requires urgent structural reform. In 2024–25, the subsidy amounted to ₹1.83 trillion, with over 65 percent going to urea, and is budgeted at ₹1.56 trillion for 2025–26. While the current system is labelled a direct benefit transfer (DBT), subsidies are routed to fertiliser companies rather than farmers, reimbursed only after Aadhaar-authenticated sales. Although this has improved traceability and reduced some diversion, it has failed to address the core problem of artificially low fertiliser prices, which encourage overuse, degrade soil health, and enable misuse.

Evidence shows that diversion and inefficiency remain severe. Past estimates indicate that up to 65 percent of subsidised urea failed to reach small and marginal farmers, with large quantities diverted to industry or smuggled. Overuse of cheap urea has sharply reduced fertiliser efficiency, as reflected in the steep decline in the fertiliser response ratio over time. The consequences extend beyond agriculture: excessive nitrogen use contributes to water contamination, public health problems, and a broader nutrition crisis.

This article proposes shifting to a farmer-centric DBT model, under which subsidies would be transferred directly to farmers as season-specific, per-hectare entitlements, coupled with nutrient caps for nitrogen, phosphorus, and potassium (NPK). Fertilisers would then be sold at market prices, restoring price signals and discouraging overuse. Tools such as the Agri Stack, Soil Health Cards, and e-Rupi vouchers could be used to calculate entitlements, impose nutrient limits, and ensure transparency. Bringing urea under the nutrient-based subsidy regime is seen as essential to correcting India's chronic nitrogen imbalance.

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The fiscal case for reform is presented as compelling. Reducing leakage substantially could yield savings ranging from tens of thousands of crores to nearly ₹1 trillion annually, depending on the extent of diversion curtailed. Beyond fiscal gains, the reforms could improve soil fertility, reduce groundwater pollution and emissions, and strengthen farm productivity and climate resilience. Redirecting a portion of the savings to irrigation, soil testing, and extension services could further amplify these benefits.

While acknowledging potential farmer resistance to higher upfront prices, this article suggests solutions such as pre-season e-Rupi vouchers and phased implementation through pilots in select agro-climatic zones. Smarter subsidy delivery—anchored in data, direct transfers, and nutrient discipline—can preserve affordability, improve governance, and trigger a much-needed ecological and agricultural reset.

***This is a summary of an article by Amit Kapoor and Pradeep Puri published in Mint on 21 December 2025. The full article can be accessed from: <https://shorturl.at/scwze>***

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## ONION PRICES CONTAINED WITH EASING OF TRANSPORTATION

The government successfully contained the usual seasonal spike in onion prices in 2025 through timely buffer stock interventions and large-scale rail-based transportation under the “Kanda Express” initiative. Dedicated railway rakes were used to move onions from Maharashtra to major consuming centres across southern, eastern and northern India, significantly improving the speed and scale of distribution during the lean season.

A total of 85,719 tonnes of onions were transported via special rail rakes this season—seven times higher than the 11,798 tonnes moved in 2024. The number of rakes rose sharply from 14 to 86, while coverage expanded from 5 to 16 major cities. Each rake, with a capacity equivalent to about 30 trucks, enabled bulk, rapid and cost-effective movement. Although buffer procurement accounted for only about 1 percent of total production, targeted and timely dispatch had a stabilising impact across multiple markets.

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Higher onion production in 2024–25, which increased by 27 percent to 30.78 million tonnes, also contributed to softer prices. Retail onion inflation has remained in negative territory since May 2025, with prices falling 55.4 percent year-on-year in November 2025. The usual November price surge was effectively avoided due to coordinated rail logistics and buffer releases.

Government agencies NCCF and NAFED procured about 0.3 million tonnes of onions from Maharashtra, Madhya Pradesh and Gujarat for buffer stocking. Between September and mid-December, over 0.2 million tonnes were dispatched to high-price centres. NCCF also began retail sales in Delhi-NCR at ₹19 per kg, well below prevailing market prices.

On the trade front, the government lifted the 20 percent export duty on onions from April 1, 2025, after earlier imposing export restrictions in 2023–24. As a result, onion exports rose sharply, reaching 0.72 million tonnes during April–September 2025–26, 80 percent higher than the same period last year, with Bangladesh, Malaysia, the UAE, Sri Lanka and Nepal as major destinations.

Overall, improved logistics, strategic buffer management and higher production helped stabilise onion prices, protecting consumers while maintaining export momentum.

***This is a summary of an article by Sandip Das published in Financial Express on 27 December 2025. The full article can be accessed from: <https://shorturl.at/uOkpg>***

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## INDIA'S FOOD PROCESSING INDUSTRY IS SET TO PICK UP PACE IN FY26– 27

India's food processing sector is expected to accelerate in the coming two years, with growth projected at 11–13 per cent in FY26 and FY27, up from around 10 per cent in FY25<sup>4</sup>. The improvement will be driven primarily by rising demand for value-added products such as butter, ghee, paneer, curd, and ice cream, which are steadily gaining share in consumer food baskets.

The contribution of value-added products to the overall product mix is projected to rise to about 45 per cent by FY27, from 42 per cent in FY25. This shift is expected to support operating profitability, aided by better product realisations and the full impact of price hikes taken in FY25.

To capitalise on these demand trends, food processing companies plan to invest around ₹6,400 crore over FY26 and FY27. The proposed capital expenditure will focus on expanding milk processing capacities, increasing the share of value-added offerings, and strengthening supply chain and logistics infrastructure.

Despite its scale in primary agriculture, India's food processing sector remains significantly underdeveloped. The country is the world's second-largest producer of agricultural commodities such as grains, fruits, and vegetables, and the largest producer of milk. Yet, processing levels remain low—21 per cent for dairy, 49 per cent for oilseeds, and less than 5 per cent for fruits and vegetables. Overall, only about 10 per cent of India's agricultural output is processed across commodities.

This gap has far-reaching implications, including high post-harvest losses, limited value realisation for farmers, and under-exploitation of India's potential in global processed food markets. Addressing these challenges requires sustained investment across the food value chain, from farm-level aggregation to modern processing, storage, and distribution.

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<sup>4</sup> This article is based on a CRISIL Analysis published in Business Standard on December 27, 2025.

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Recognising this, both central and state governments have rolled out multiple initiatives to boost food processing, supported by robust domestic demand and growing export opportunities for processed foods. Encouragingly, the sector's financial fundamentals remain stable. Even with debt-funded capital expenditure, key food processors are expected to maintain healthy credit metrics in FY26 and FY27, with interest coverage ratios above eight times and total outside liabilities to tangible net worth around 2.6 times.

Credit profiles of dairy companies and food-focused FMCG players are expected to remain stable, backed by strong balance sheets, healthy cash accruals, and rising premiumisation following GST rate rationalisation. Basmati rice processors are also likely to maintain stable credit profiles, supported by healthy profitability and controlled reliance on debt for expansion.

As demand shifts towards higher-value products and investments gather pace, India's food processing sector appears poised for a period of faster growth—one that could unlock value across the farm-to-fork chain while strengthening the country's position in global food markets.



## CORPORATE NEWS

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### RELIANCE'S AI MANIFESTO: A BLUEPRINT FOR AN AI-NATIVE CONGLOMERATE AND A NEW INDIA

Reliance Industries Limited (RIL) has unveiled an ambitious artificial intelligence (AI) road map that signals a decisive shift in the group's long-term strategy. Through a draft *Reliance AI Manifesto*, the oil-to-telecom conglomerate has articulated its intent to lead India's AI revolution—much as it did with digital transformation over the past decade.

The timing of the manifesto is noteworthy. It comes amid a surge of global interest in India as an AI and data-centre hub, with multinational corporations committing more than \$60 billion towards AI-led data infrastructure in the country. Reliance's move positions it not merely as a participant in this wave, but as a potential architect of India's AI ecosystem.

In a message to employees, Chairman and Managing Director Mukesh Ambani described AI as “the most consequential technological development in human history.” Against this backdrop, Reliance aims to transform itself into an AI-native deep-tech enterprise—one where AI is embedded across operations, decision-making, and organisational culture. According to the manifesto, this transformation could deliver a tenfold improvement in productivity for the group's over 600,000 employees, while creating a 10x impact on India's economy and society.

The ambition is underpinned by substantial capital commitments. In December, Reliance announced an \$11 billion investment over five years—along with joint venture partners Brookfield (Canada) and Digital Realty (US)—to develop 1 gigawatt of AI data-centre capacity in Andhra Pradesh. This follows recent AI partnerships with global technology leaders such as Google and Meta, and the launch of a new business unit, Reliance Intelligence, aimed at building India-focused AI solutions.

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At the heart of the manifesto is the idea that AI is not a standalone technology project, but a new way of working. The document is structured in two parts. The first focuses on internal transformation, calling for a fundamental reorganisation of operations around outcomes and end-to-end workflows. The second extends the vision outward, positioning Reliance as a catalyst for India's broader AI transformation.

To operationalise this shift, the company plans to align its businesses around four pillars: outcomes, workflows, platforms, and governance. Common digital platforms, strong oversight mechanisms, and accountability frameworks are expected to ensure that AI adoption enhances efficiency, quality, and speed while remaining safe and trustworthy. Ambani emphasised that the same AI-driven productivity gains within Reliance could be scaled to deliver a tenfold national impact through the group's businesses and philanthropic initiatives.

A distinctive feature of the manifesto is its participatory approach. Rather than presenting a finished blueprint, Reliance has invited employees to contribute ideas on how AI can be applied across its diverse businesses—from Jio's 500-million-plus subscriber base and India's largest retail network to energy, materials, life sciences, financial services, media, and philanthropy. Employees have been asked to submit suggestions between January 10 and 26, reinforcing the idea that the manifesto is a living action guide rather than a top-down declaration.

Equally important is Reliance's emphasis on inclusivity. The group has articulated a clear resolve to deliver "affordable AI for every Indian," embedding AI across sectors while ensuring safety, trust, and accountability. This framing aligns commercial ambition with a broader developmental narrative, positioning AI as a general-purpose technology that can transform livelihoods, productivity, and service delivery across the economy.

Shared with employees on Dhirubhai Ambani's birth anniversary on December 28, the draft manifesto carries symbolic weight. It seeks to link the group's next phase of transformation with its founding ethos of nation-building. As Ambani put it, the

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document is intended to become a shared commitment to “build a New Reliance and a New India.”

If executed effectively, Reliance’s AI manifesto could mark a turning point—not only for the conglomerate’s evolution into an AI-native enterprise, but also for India’s emergence as a global hub for responsible, large-scale AI deployment.

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#### **BHARTI ENTERPRISES AND WARBURG PINCUS TO BUY 49 PERCENT OF HAIER INDIA**

Bharti Enterprises, led by Sunil Bharti Mittal, and private equity firm Warburg Pincus will jointly acquire a 49 percent stake in Haier Appliances India, the Indian arm of China’s Haier Group, in a deal that values the company at around ₹15,000 crore, according to industry sources. The acquisition marks the second major instance of a Chinese multinational significantly diluting its India operations, following JSW Group’s stake purchase in MG Motor India.

Post-transaction, Haier Group will retain a 49 percent stake, while the remaining 2 percent will be held by Haier India’s management team. The companies did not disclose the individual shareholding of Bharti Enterprises and Warburg Pincus, or the transaction value.

The partnership is expected to accelerate Haier India’s expansion by combining Haier’s global technology and innovation capabilities with Bharti’s domestic networks and Warburg Pincus’ experience in scaling consumer brands. The collaboration will also strengthen Haier India’s “Made in India, Made for India” strategy by boosting local sourcing, expanding manufacturing capacity, and driving product innovation and market penetration.

For Bharti Enterprises, the deal further diversifies its portfolio beyond telecom, which is anchored by Bharti Airtel. The group’s interests also span telecom infrastructure, satellite communications, insurance, real estate, and hospitality. Warburg Pincus, a

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long-standing partner of the Bharti Group, has previously invested in Airtel, the group's DTH business, and its Africa operations.

Haier Appliances India, one of the top three consumer durables companies in the country, has posted a compound annual growth rate of about 25 percent over the past seven years. The company expects revenue to grow 25 percent in 2025 to around ₹11,000 crore, supported by strong demand across categories. It holds significant market shares in air conditioners, refrigerators, washing machines, televisions, and commercial refrigeration, and aims to nearly double its air conditioner market share to 17 percent by 2030.

The transaction underscores growing localisation in India's consumer durables sector, as global brands increasingly partner with domestic conglomerates and long-term investors to deepen manufacturing, distribution, and market reach.

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#### **INDIA'S BRANDED HOMES BOOM ATTRACTS MERCEDES-BENZ, BMW AND GLOBAL LUXURY LABELS**

Global luxury automobile brands Mercedes-Benz and BMW are exploring entry into India's fast-expanding branded residences segment, signalling a new phase in the country's premium real estate market. According to industry sources, both companies are in discussions with Indian developers for projects in prime urban locations, with deal activity expected to gather momentum in 2026.

Mercedes-Benz is already in talks with multiple developers in Gurugram for a luxury branded residential project. While BMW is also reported to be engaging with Indian real estate groups, it remains unclear whether these discussions are for a branded residential development or through its design consultancy arm, Designworks, which advises on real estate and urban design projects globally.

The growing interest from automotive marques follows recent reports that Tonino Lamborghini SpA is in advanced negotiations with developers in Mumbai and Chennai. Industry experts suggest that the Lamborghini family's move into India has accelerated

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conversations across the luxury ecosystem, prompting other global brands to explore similar collaborations.

Internationally, Mercedes-Benz has launched branded residential projects in Dubai and Miami, while BMW is yet to debut a residential development under its brand name. If concluded, Indian projects would mark the entry of automobile-branded luxury residences into a market traditionally dominated by hospitality and lifestyle brands.

India currently ranks sixth globally in terms of live branded residence projects, accounting for nearly a quarter of global supply, and stands tenth in the global pipeline. Established players in the country include Four Seasons, Ritz-Carlton, Marriott, Armani Casa, Versace Home, Trump-branded projects, Hyatt, Pullman, ITC, and Hilton. The potential entry of luxury auto brands would significantly diversify this landscape.

According to Savills' *Branded Residences 2025–26* report, branded residence supply in the Asia-Pacific region has grown 55 per cent over the past five years, with India emerging as a key contributor alongside Vietnam and Thailand. Experts now place India in the same league as mature branded residence markets such as the US, UAE, Thailand, and Vietnam.

Developers see brand partnerships as a way to differentiate offerings in an increasingly competitive luxury housing segment. Beyond design, global brands bring service benchmarks, lifestyle positioning, and aspirational value that resonate with ultra-high-net-worth buyers. Recent announcements, including Indian Hotels Company Ltd's Taj-branded residences in Chennai, underscore this growing trend.

While Tier-I cities such as Mumbai, Delhi-NCR, Bengaluru, Hyderabad, and Chennai are leading adoption, Tier-II markets—including Bhubaneswar, Chandigarh, Ahmedabad, Goa, and Surat—along with leisure destinations near major metros, are emerging as strong growth zones.

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Industry experts note that India's branded homes buyer base has matured significantly over the past three years, with rising demand for curated, lifestyle-led living. As non-hospitality brands—from automotive and fashion to wellness—actively evaluate India, branded residences are poised to become a defining feature of the country's luxury real estate market.

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### **HYUNDAI BETS ON TAXIS TO COUNTER INTENSIFYING COMPETITION IN INDIA'S AUTO MARKET**

Hyundai Motor India Limited (HMIL) has formally entered the commercial mobility segment with the launch of its taxi offerings—Prime HB (hatchback) and Prime SD (sedan)—marking a strategic shift beyond its traditional stronghold in private passenger vehicles. Announced on December 30, 2025, the move reflects Hyundai's effort to diversify volumes at a time when competition in India's passenger vehicle market is intensifying.

The entry comes against the backdrop of a reshuffling in the domestic auto pecking order. Hyundai, long entrenched as India's second-largest carmaker, is expected to slip to fourth position by the end of 2025, trailing Mahindra & Mahindra and Tata Motors, according to Vahan registration data. Maruti Suzuki continues to dominate the market. In this context, the commercial taxi segment offers Hyundai access to a high-usage, price-sensitive market that can provide incremental and more stable volumes.

The Prime range has been designed specifically for fleet operators and taxi entrepreneurs, with a focus on low operating costs, predictable maintenance, and high vehicle uptime. Both models are powered by Hyundai's 1.2-litre Kappa four-cylinder engine and are available in petrol as well as factory-fitted CNG variants—an important consideration for operators seeking to manage fuel costs.

Pricing has been kept competitive, with the Prime HB priced at approximately ₹5.99 lakh and the Prime SD at around ₹6.89 lakh (ex-showroom). Bookings have opened across Hyundai dealerships with a token amount of ₹5,000.

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Despite the value positioning, HMIL has equipped the Prime models with features tailored for commercial use and regulatory compliance. These include a company-fitted speed limiter capped at 80 kmph, six airbags, rear AC vents, power windows, rear parking sensors, and steering-mounted controls. Optional accessories such as a 9-inch touchscreen infotainment system with wireless Android Auto and Apple CarPlay, rear camera, and a vehicle tracking system with panic buttons further enhance suitability for taxi operations.

To address the intensive usage typical of fleet vehicles, Hyundai is offering extended warranty packages covering the fourth and fifth years or up to 1.8 lakh kilometres. Maintenance costs have been estimated at a competitive 47 paise per kilometre. The company is also rolling out flexible financing options with repayment tenures of up to 72 months, supported by dedicated fleet-care advisors at dealerships.

According to Tarun Garg, Managing Director and CEO-designate of HMIL, the Prime HB and Prime SD are engineered to deliver trust, reliability, and earning potential for operators, while ensuring safe and comfortable mobility for passengers. Hyundai's extensive service network and customised ownership solutions are expected to be key differentiators in a segment where uptime and after-sales support are critical.

As competition in the private passenger vehicle market intensifies, Hyundai's entry into commercial mobility underscores a broader strategic recalibration—leveraging its manufacturing scale, service reach, and brand credibility to capture new growth avenues in India's evolving mobility landscape.

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## **FROM BATTERY ANXIETY TO BUYBACK GUARANTEES: HOW CARMAKERS ARE DE-RISKING EV OWNERSHIP**

As India's electric vehicle (EV) market transitions from early adoption to a more mature phase, carmakers are increasingly focusing on a question that weighs heavily on buyers: the future resale value of EVs. With a growing stock of older electric cars on Indian roads, manufacturers are rolling out assured buyback schemes, resale platforms, and battery health assurance programmes to address concerns around depreciation and battery degradation.

On December 29, 2025, JSW MG Motor India extended its assured buyback programme for EVs from three years to up to five years—an industry-first move in the mass market segment. The company said the scheme guarantees a resale value of 40–60 per cent, depending on the tenure selected, and applies to both private buyers and commercial fleet operators using the MG ZS EV.

Resale value remains a key psychological barrier for EV adoption, given that batteries account for nearly 40 per cent of an EV's cost and their long-term performance directly influences vehicle valuation. MG's extended buyback programme, which is not linked to any loan or financing arrangement, allows customers to retain, surrender, or upgrade their vehicles at the end of the tenure, reducing uncertainty and easing the transition to newer models.

The focus on resale comes as EV penetration in India's passenger vehicle (PV) market rises. Battery electric vehicles now account for about 4.6 per cent of PV sales. Between January and November, EV registrations grew 78 per cent year-on-year to 160,740 units. JSW MG Motor, the second-largest EV player after Tata Motors, has seen sales more than double to over 47,000 units during the period, capturing roughly 30 per cent market share.

Market leader Tata Motors is also strengthening the used-EV ecosystem. The company has piloted a dedicated online marketplace for pre-owned EVs, along with battery health checks and refurbishment services aimed at improving confidence among second

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owners. Maruti Suzuki, which is preparing to enter the EV space with its first electric SUV, has indicated that assured buyback and battery-as-a-service (B-a-a-S) models will be central to its EV strategy.

Industry executives note that the used EV market in India is still nascent, with limited transaction data and price discovery. However, as early adopters from 2021–22 begin upgrading to longer-range and more advanced models over the next 12–24 months, volumes in the second-hand market are expected to rise. Analysts believe assured buyback programmes of five years or more could help establish early price benchmarks and accelerate mainstream EV adoption.

Dealers say customer interest in used EVs is already emerging, driven by long battery warranties of eight to ten years and improving awareness about battery longevity. With charging cycles often far below technical limits, manufacturers and dealers alike see resale assurance as a critical lever in building confidence and sustaining growth in India's EV market.

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#### **COFORGE'S \$2.35-BILLION ENCORA BUY SIGNALS BIG LEAP IN AI-LED ENGINEERING**

Midcap IT services firm Coforge has announced the acquisition of Silicon Valley-based artificial intelligence (AI) company Encora for \$2.35 billion in an all-stock transaction, marking the largest takeover by an Indian IT company in the engineering research and development (ER&D) segment. The deal is also the fourth-largest ER&D transaction globally and the second-biggest acquisition ever by an Indian IT services company.

The acquisition is expected to significantly bolster Coforge's AI-led engineering capabilities while expanding its geographic reach, particularly in the US and Latin America. Coforge will acquire Encora from private equity firms Advent and Warburg Pincus, along with other minority shareholders. The equity value of \$1.89 billion will be funded through a preferential allotment of Coforge shares at approximately ₹1,815.91 apiece, a 14.5 per cent premium to the previous market close. Encora's

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shareholders will hold about 20 per cent of the combined entity and will nominate two directors to Coforge's board.

Encora brings strong capabilities in AI-driven engineering, cloud, and data services, with projected FY26 revenues of \$600 million and an adjusted EBITDA margin of around 19 per cent. Post-acquisition, the combined company is expected to operate at an EBIT margin of 14 per cent, with the deal projected to be earnings-per-share accretive in FY27.

Coforge said the transaction will create a technology services company with revenues of roughly \$2.5 billion. AI-led engineering, data, and cloud services alone are expected to generate about \$2 billion in FY27, with product engineering contributing \$1.25 billion, cloud services \$500 million, and data engineering \$250 million. The company's hi-tech and healthcare verticals are also expected to scale rapidly, each reaching an annualised revenue run rate of \$170 million. Coforge reported FY25 revenues of about \$1.4 billion.

Beyond scale, the acquisition significantly enhances Coforge's delivery footprint. Encora adds more than 3,100 AI and engineering specialists and strengthens nearshore delivery capabilities in Latin America. It also expands Coforge's presence in the western and midwestern US, regions that previously accounted for just a quarter of its US revenues. The combined group will have 45 scalable client relationships, each generating over \$10 million annually.

Industry experts see the deal as a strategic fit. Analysts note that Coforge has steadily pursued inorganic growth to deepen its AI capabilities, building a track record of well-integrated acquisitions. The Encora transaction is expected to enable cross-selling, entry into new segments, and faster growth in AI-led engineering services.

As enterprises accelerate AI adoption and modernise digital cores, the acquisition positions Coforge to move into a higher growth orbit, reshaping it from a midcap IT services player into a scaled, AI-centric engineering powerhouse.

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## BANKING, FINANCIAL SERVICES & INSURANCE

### RBI'S REPORT ON TREND AND PROGRESS OF BANKING IN INDIA 2024-25: RESILIENT FOUNDATIONS, EMERGING CHALLENGES

The *Report on Trend and Progress of Banking in India 2024–25* offers a comprehensive and forward-looking assessment of the Indian banking and financial system at a time when global uncertainty, financial fragmentation, and structural transformation are reshaping banking worldwide. The Report's central conclusion is that India's financial system has entered a phase of enhanced resilience and stability, underpinned by strong macroeconomic fundamentals, sustained credit growth, improved asset quality, and a regulatory framework that emphasises prudence, early risk detection, and systemic stability. At the same time, the Report underscores that emerging risks—stemming from rapid credit expansion, growing interconnectedness, and global spillovers—require continued vigilance.

#### Perspectives

From a system-wide perspective, the Report finds that financial stability risks remain contained, supported by robust capital and liquidity buffers across regulated entities. Stress tests indicate that scheduled commercial banks would remain well-capitalised even under severe macroeconomic stress scenarios, reflecting the strengthening of balance sheets over recent years. Improved governance, enhanced supervision, and tighter prudential norms have significantly increased the system's loss-absorbing capacity. However, the Report cautions that the evolving structure of finance—marked by deeper linkages between banks, NBFCs, capital markets, and households—necessitates continuous monitoring to prevent the build-up of systemic vulnerabilities.

#### Global Banking Developments

Globally, the banking sector continued to operate under tight financial conditions, elevated interest rates, and heightened geopolitical uncertainty. While major banking

systems in advanced economies demonstrated resilience, stress persisted in specific segments such as commercial real estate, sovereign bond valuations, and non-bank financial intermediation. Emerging market economies faced additional challenges from volatile capital flows, exchange rate pressures, and debt sustainability concerns. Against this backdrop, the Report highlights India's relative resilience, noting that limited exposure to stressed global asset classes, strong domestic demand, and conservative regulatory norms helped insulate the banking system from global financial turbulence.

### **Domestic Policy Environment**

The domestic policy environment during 2024–25 was shaped by a careful balancing of price stability, financial stability, and growth imperatives. Monetary policy remained focused on anchoring inflation expectations while ensuring adequate liquidity to support productive credit growth. Macprudential measures, supervisory interventions, and targeted regulatory actions were deployed to address sector-specific risks, including those arising from rapid growth in unsecured retail credit. The Report also highlights the role of digital public infrastructure, data-driven supervision, and technology-enabled compliance in strengthening transparency, efficiency, and inclusion within the financial system.

### **Commercial Banks**

Scheduled commercial banks delivered strong financial performance, marked by healthy profitability, sustained credit expansion, and a continued decline in stressed assets. Gross and net non-performing asset ratios fell to multi-year lows, reflecting better credit underwriting, recoveries under insolvency and resolution frameworks, and improved borrower balance sheets. Capital adequacy and liquidity indicators remained comfortably above regulatory requirements. Credit growth was broad-based, driven by retail lending, services, and MSMEs, while corporate credit showed signs of gradual revival. The Report, however, flags emerging risks from concentration, unsecured

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lending, and interest rate sensitivity, emphasising the need for disciplined risk management and prudent provisioning.

### **Co-operative Banks**

The co-operative banking sector showed gradual improvement, supported by regulatory reforms, consolidation efforts, and enhanced supervisory oversight. Urban co-operative banks, in particular, exhibited better asset quality and capital positions, though performance remained uneven across institutions. Rural co-operative banks continued to play a critical role in agricultural and rural credit delivery but faced challenges related to governance, technology adoption, and operational efficiency. The Report stresses that sustained reform in governance, professional management, and risk controls is essential to ensure the long-term viability of the co-operative banking ecosystem.

### **Non-Banking Financial Institutions**

Non-banking financial institutions (NBFCs) remained an important complement to banks in credit intermediation, particularly in underserved and specialised segments such as MSMEs, retail credit, and infrastructure finance. Improved asset quality, diversified funding sources, and stronger capital buffers enhanced the sector's resilience. However, the Report highlights risks arising from rapid growth in select NBFC segments, increased reliance on market-based funding, and deeper interconnections with banks and mutual funds. The RBI's scale-based regulatory framework and intensified supervision are identified as critical tools to mitigate systemic risks and prevent regulatory arbitrage.

### **Conclusion**

In conclusion, the *Report on Trend and Progress of Banking in India 2024–25* portrays a financial system that is stronger, more resilient, and better governed than in previous cycles, yet operating in an increasingly complex and uncertain environment. The Report emphasises that sustaining this resilience will require continued prudence, adaptive regulation, and close supervision, alongside efforts to harness innovation responsibly.

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As India's economy expands and financial intermediation deepens, the central policy challenge will be to support growth while preventing the build-up of systemic risks, ensuring that the banking system remains a stable and trusted pillar of the economy.

### **Key Messages for Policymakers**

- **Preserve hard-won balance sheet strength:** India's banking system has rebuilt capital, asset quality, and liquidity buffers after a prolonged repair phase. Policy should prioritise safeguarding these gains, avoiding pro-cyclical dilution of prudential norms during periods of strong credit growth.
  - **Monitor risks from rapid and concentrated credit expansion** Broad-based credit growth is supporting economic activity, but rising exposure to unsecured retail lending and sectoral concentrations warrants close supervisory attention, calibrated macroprudential tools, and early corrective action.
  - **Strengthen oversight of interconnected financial entities:** Growing linkages among banks, NBFCs, capital markets, and households amplify spillover risks. Supervision must increasingly adopt a system-wide perspective, focusing on interconnectedness rather than entity-specific risks alone.
  - **Deepen governance and operational reforms in co-operative banks:** Continued improvements in the co-operative banking sector depend on professional management, stronger boards, better risk management, and accelerated adoption of technology, especially among smaller and rural institutions.
  - **Ensure NBFC growth remains sustainable and well-regulated:** NBFCs play a critical role in financial inclusion and niche lending, but rapid expansion and market-based funding increase vulnerability to liquidity shocks. Scale-based regulation and close monitoring of funding profiles remain essential.
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- **Balance innovation with financial stability:** Digitalisation, fintech partnerships, and data-driven finance offer efficiency gains but introduce new risks. Regulatory frameworks must remain adaptive, technology-aware, and anchored in the principle that innovation should strengthen—not bypass—the regulated financial system.
- **Maintain policy credibility amid global uncertainty:** In a volatile global environment, preserving monetary and financial stability through credible policies, strong institutions, and regulatory consistency remains India's strongest defence against external shocks.

***Report on Trend and Progress of Banking in India 2024-25 can be accessed from:***  
***<https://website.rbi.org.in/documents/d/rbi/rtp2025>***

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## RESILIENCE AMID UNCERTAINTY: INSIGHTS FROM RBI'S FINANCIAL STABILITY REPORT, DECEMBER 2025

The Reserve Bank of India's *Financial Stability Report (FSR), December 2025* assesses the resilience of the global and domestic financial system amid heightened geopolitical uncertainty, evolving trade dynamics, rapid technological change, and growing interconnectedness between banks and non-bank financial institutions (NBFIs). While global financial stability risks remain elevated, the Indian financial system continues to display strong institutional soundness and systemic resilience.

### Macrofinancial Risks

The global economy has exhibited greater-than-anticipated resilience in 2025, supported by front-loaded trade, fiscal measures, and strong investment—particularly in artificial intelligence. However, vulnerabilities persist in the form of elevated public debt, stretched asset valuations, expanding non-bank intermediation, private credit risks, and the rapid growth of stablecoins. The disconnect between heightened economic and geopolitical uncertainty and relatively low market volatility underscores latent risks of abrupt market corrections.

Against this backdrop, the Indian economy remains robust, driven by strong domestic demand, easing inflation, fiscal consolidation, and prudent macroeconomic management. Financial markets have remained relatively stable, supported by healthy balance sheets across banks and NBFIs, ample liquidity, and low systemic stress. Nonetheless, near-term risks stem from external spillovers—particularly a sharp correction in global equity markets, exchange rate volatility, and capital flow reversals. Importantly, sizeable buffers in foreign exchange reserves, capital adequacy, and liquidity strengthen India's capacity to withstand adverse shocks.

### Financial Institutions – Soundness and Resilience

The Indian banking system remains strong and well-capitalised. Scheduled Commercial Banks (SCBs) continue to report improving asset quality, stable profitability, and robust capital and liquidity buffers. Macro stress tests indicate that banks can comfortably

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withstand severe credit, market, and interest rate shocks while maintaining capital ratios above regulatory minima.

Urban Co-operative Banks (UCBs), barring a few exceptions, remain resilient, supported by adequate capital buffers and sustained profitability. Stress tests suggest that even under severe scenarios, the sector remains broadly stable, with Tier I banks comfortably meeting regulatory capital requirements.

Non-Banking Financial Companies (NBFCs) continue to demonstrate improved asset quality, stable earnings, and strong capital positions. Stress tests covering credit, concentration, and liquidity risks show that, except for a small number of outliers, NBFCs would remain resilient under adverse scenarios. Mutual funds and clearing corporations also exhibit resilience to liquidity and market stress, while the insurance sector remains financially sound with solvency ratios above prescribed thresholds.

Network and contagion analysis highlights growing interconnectedness across banks, NBFCs, mutual funds, and insurance companies. While such linkages enhance efficiency and risk diversification, they also act as potential channels for shock transmission, underscoring the importance of granular monitoring and macroprudential oversight.

A special feature examines the financial stability implications of stablecoins, noting their rapid growth, cross-border nature, and potential risks to monetary sovereignty, financial integrity, and systemic stability, warranting coordinated regulatory responses.

### **Regulatory Initiatives in the Financial Sector**

The final chapter reviews key global and domestic regulatory initiatives aimed at strengthening financial stability. Internationally, regulators have continued to advance reforms relating to Global Systemically Important Banks (G-SIBs), non-bank financial intermediation, climate-related financial risks, decentralised finance, and artificial intelligence. Emphasis has shifted from policy formulation to implementation monitoring and data enhancement, particularly in the NBFI and private credit space.

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Domestically, Indian regulators have focused on enhancing transparency, governance, consumer protection, and ease of doing business. Notable initiatives include measures to strengthen liquidity risk management, expand the regulatory perimeter, improve payment system oversight, and advance climate risk assessment frameworks. The report reiterates the need for a balanced regulatory approach—one that safeguards stability while enabling innovation, financial inclusion, and long-term growth.

### **Overall Assessment**

The *Financial Stability Report, December 2025* concludes that India's financial system remains resilient and well-positioned to support economic growth, even amid an uncertain global environment. Strong capital and liquidity buffers, improved asset quality, prudent regulation, and proactive supervision continue to anchor financial stability. Going forward, sustained vigilance, enhanced monitoring of interconnected risks, and adaptive regulatory frameworks will be critical to preserving stability while fostering responsible innovation.

***Financial Stability Report, December 2025 can be accessed from:***  
<https://website.rbi.org.in/documents/87730/39711208/FSRDEC2025.pdf/89069b2e-5099-5fd2-ac53-7ef45f868961>

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## **RBI'S ₹3 TRILLION LIQUIDITY PUSH: CUSHIONING THE SYSTEM AFTER FOREX INTERVENTION**

The Reserve Bank of India (RBI) on 23 December 2025 announced a fresh and sizeable round of liquidity measures, signalling its intent to ensure orderly financial conditions amid currency market intervention, seasonal liquidity pressures, and rising bond yields. Through a combination of open market operations (OMOs) and a long-term foreign exchange swap, the central bank will inject close to ₹3 trillion of durable liquidity into the banking system over the coming weeks.

The measures come at a time when systemic liquidity has slipped into deficit, estimated at around ₹54,852 crore as of mid-week, following heavy dollar sales by the RBI to stabilise the rupee, advance tax outflows, and a rise in currency in circulation.

### **Details of the Liquidity Operations**

Under the announced plan, the RBI will purchase Government of India securities worth ₹2 trillion through OMOs, spread across four tranches of ₹50,000 crore each. These auctions are scheduled for December 29, January 5, January 12, and January 22. In addition, the central bank will conduct a three-year USD/INR buy-sell swap of \$10 billion on January 13, 2026.

Together, these operations are designed to inject durable liquidity while simultaneously managing rupee and dollar supply conditions. The forex swap, in particular, allows the RBI to infuse rupee liquidity by buying dollars from the market while absorbing excess dollar supply—an important consideration given elevated forward premiums in recent weeks.

### **Why the RBI Acted Now**

Market participants had been expecting a liquidity infusion of at least ₹2 trillion even before the RBI's recent intervention in the foreign exchange market. Last week, the central bank stepped in aggressively to stem a sharp depreciation of the rupee amid

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uncertainty surrounding a potential India–US trade deal and persistent foreign portfolio investor (FPI) outflows from equity and debt markets.

While the intervention helped the rupee strengthen from around ₹91 per dollar to below ₹89, it also tightened banking system liquidity by sucking out rupees in exchange for dollars. This tightening was compounded by seasonal factors such as advance tax payments and higher currency demand during the festive period.

Against this backdrop, the RBI's decision to inject nearly ₹3 trillion is widely seen as an effort to neutralise the liquidity drain caused by forex intervention, rather than a shift towards an overtly accommodative stance.

### **Liquidity Assurance without Targeting Surplus**

At its most recent monetary policy meeting, RBI Governor Sanjay Malhotra had assured markets that the central bank would ensure ample liquidity in the system, even without explicitly targeting surplus levels of around 1 percent of net demand and time liabilities (NDTL). The latest measures are consistent with that guidance.

So far in December, the RBI has already infused about ₹1.45 trillion of durable liquidity through OMOs and forex buy-sell swaps. With the additional injections now announced, system liquidity is expected to move comfortably into surplus territory—potentially exceeding 1 percent of NDTL well before March 2026.

Durable liquidity, estimated at around ₹3.3 trillion in mid-December, is projected to rise to ₹3.6–3.7 trillion by the end of the month, even after accounting for currency leakage and further forex intervention.

### **Implications for the Bond Market**

Despite earlier liquidity announcements and a 25 basis point repo rate cut in early December, government bond yields have continued to edge higher. The yield on the benchmark 10-year government security has risen by about 12 basis points since the rate cut, underscoring weak transmission to the bond market.

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Analysts point out that with the RBI having exhausted its cash reserve ratio (CRR) tool, OMOs remain the primary instrument available to offset the negative liquidity impact of forex intervention. Conducting OMOs in more liquid securities could improve participation and price discovery, as operations in illiquid bonds often clear at a premium of 2–5 basis points above prevailing market levels, reducing their effectiveness.

Some economists believe the scale of OMOs—₹2 trillion in a single month, compared with the usual ₹1 trillion—could improve demand–supply dynamics and ease pressure on yields. Others remain sceptical.

### **Limits to Yield Compression**

Several analysts caution that the scope for a sustained decline in bond yields remains limited due to emerging fiscal concerns. Central government bond redemptions are estimated at around ₹5.5 trillion in the next financial year, while additional borrowing pressure could arise from states. The combined supply of central and state government securities is therefore expected to remain elevated.

Even after earlier liquidity infusions, bond yields moved higher, suggesting that liquidity alone may not be sufficient to counter supply-side pressures. As some economists note, the latest OMOs and swaps are best viewed as countermeasures to offset liquidity drained by forex intervention, rather than as tools aimed at driving yields materially lower.

### **A Balancing Act Going Forward**

In the first half of calendar year 2025, the RBI injected nearly ₹9.5 trillion of durable liquidity through a mix of OMOs, long-term repo operations, and forex swaps—successfully shifting the system from a prolonged liquidity deficit into surplus by end-March. The current round of measures reflects a similar playbook, adapted to the constraints of tighter global financial conditions and heightened currency volatility.

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Looking ahead, market participants expect the RBI's next steps to depend on how liquidity conditions evolve and whether further currency market intervention becomes necessary. While more action in the fourth quarter cannot be ruled out if pressures persist, the current measures are widely viewed as timely, proportionate, and adequate for now.

Ultimately, the RBI's latest move underscores the delicate balancing act it faces—supporting liquidity and financial stability without fuelling excesses, anchoring the rupee without sacrificing monetary autonomy, and navigating bond market pressures in an environment of rising fiscal supply.

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## **SABKA BIMA SABKI RAKSHA: A STRUCTURAL RESET FOR INDIA'S INSURANCE SECTOR**

The passage of the Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Bill, 2025 marks a major inflection point in the evolution of India's insurance sector. By amending the Insurance Act, 1938, the Life Insurance Corporation Act, 1956, and the IRDAI Act, 1999, the legislation seeks to modernise a regulatory framework that has struggled to keep pace with the growing complexity of India's economy and the persistent challenge of low insurance penetration.

At its core, the Bill aims to deepen insurance coverage, enhance ease of doing business, strengthen regulatory oversight, and position insurance as a pillar of financial resilience for households and enterprises alike.

### **Opening the Sector: 100 Percent FDI in Insurance**

The most consequential reform under the Bill is the decision to allow up to 100 percent Foreign Direct Investment (FDI) in insurance companies. This move signals a decisive shift from a cautious, incremental liberalisation strategy to a more open and competitive market structure.

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Higher foreign participation is expected to facilitate capital augmentation, support the adoption of advanced technologies, and bring global best practices into the Indian insurance ecosystem. At a time when India's insurance penetration and density remain well below global averages, the availability of long-term capital is critical for expanding coverage, underwriting new risks, and developing innovative products tailored to diverse segments of the population. Increased competition, in turn, is expected to drive efficiency and improve service quality for policyholders.

### **Ease of Doing Business and Operational Flexibility**

The Bill introduces several measures aimed at reducing regulatory friction for insurers and intermediaries. A notable reform is the provision for one-time licensing for intermediaries, coupled with the option of suspension rather than outright cancellation of licences, providing proportionality in enforcement and reducing business uncertainty.

For insurers, the threshold for seeking prior regulatory approval for transfer of share capital has been raised from 1 percent to 5 percent, offering greater flexibility in ownership restructuring and capital management. In the reinsurance segment, the Net Owned Fund requirement for Foreign Reinsurance Branches has been sharply reduced from ₹5,000 crore to ₹1,000 crore, a move likely to encourage greater participation and deepen risk-pooling capacity in the domestic market.

The Bill also grants the Life Insurance Corporation of India (LIC) greater operational autonomy, allowing it to open zonal offices within India and align its overseas operations with host-country regulations—an important step as LIC expands its global footprint.

### **Strengthening Policyholder Protection and Trust**

Recognising that insurance markets function effectively only when policyholders trust the system, the Bill introduces a Policyholders' Education and Protection Fund. This

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dedicated fund is intended to promote insurance awareness, improve financial literacy, and empower consumers to make informed choices.

In addition, the legislation mandates that the collection and protection of policyholder data be aligned with the Digital Personal Data Protection (DPDP) Act, 2023, reflecting growing concerns around data privacy and cyber risks in an increasingly digital insurance ecosystem.

### **Enhancing Regulatory Governance**

The Bill strengthens regulatory governance by formalising standard operating procedures for regulation-making and mandating a consultative process, thereby improving transparency and predictability. The Insurance Regulatory and Development Authority of India (IRDAI) is also empowered to disgorge wrongful gains made by insurers or intermediaries, reinforcing accountability.

Penalties under the insurance laws have been rationalised, with clearer factors introduced for their imposition. This shift from discretionary enforcement to rule-based regulation is expected to improve compliance while reducing arbitrariness.

### **Towards Deeper Coverage and Financial Resilience**

Taken together, the reforms under the Sabka Bima Sabki Raksha Bill are aimed at extending insurance coverage across people, households, and enterprises, particularly in underinsured and underserved segments. By combining greater capital access, improved regulatory oversight, consumer protection, and operational flexibility, the Bill seeks to strengthen the insurance sector's role as a shock absorber for the Indian economy.

While the true impact of the legislation will depend on implementation and market response, the Bill represents a significant step towards building a more competitive, inclusive, and resilient insurance ecosystem—one that aligns with India's broader goals of financial inclusion and economic stability.

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## **NEW INSURANCE LAW EASES INVESTORS' LIVES. BUT WHAT ABOUT CONSUMER PROTECTION?**

The article argues that while the Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Bill, 2025 significantly eases conditions for investors—through measures such as 100 percent FDI, lower capital requirements for reinsurers, and reduced regulatory friction—it does little to address the core consumer protection problems that plague India’s insurance sector.

The author acknowledges that the reforms are probably necessary to attract capital, expertise, and competition, and that changes such as easier share transfers and updated definitions of intermediaries are sensible. However, the legislation is criticised for focusing overwhelmingly on investors and market participants, while neglecting long-standing issues faced by policyholders, especially mis-selling, opaque products, and information asymmetry.

Although the Bill introduces a Policyholders’ Education and Protection Fund, the article is sceptical about its effectiveness. It questions who will actually conduct this “education” and whether it will confront uncomfortable truths—such as the fact that many regulator-approved products may harm customers’ financial well-being, and that incentive structures often reward the sale of complex, high-commission products like ULIPs and traditional policies over simpler, cheaper term insurance.

The author contends that meaningful insurance education would require the regulator to acknowledge structural flaws in the market and its own approval processes—an admission that is unlikely. As a result, “education” is expected to be reduced to generic messaging promoting insurance uptake, advising consumers to read dense policy documents, and encouraging more purchases, rather than genuinely empowering customers or curbing aggressive sales practices.

***This is a summary of an article by Dharendra Kumar published in Mint on 28 December 2025.***

***The full article can be accessed from <https://shorturl.at/xpvzY>***

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## FINANCIAL MARKETS

### RANGE-BOUND DECEMBER 2025: HOW SENSEX AND NIFTY NAVIGATED YEAR-END UNCERTAINTY

#### Introduction

Indian equity markets navigated December 2025 amid heightened volatility and mixed global cues, ultimately closing the month on a steady note. The benchmark indices reflected a phase of consolidation as investors balanced profit-booking at elevated levels against supportive domestic fundamentals and selective global tailwinds.

At the beginning of the month (1 December 2025), the BSE Sensex closed at 85,642 (Figure 25) and the Nifty 50 at 26,176 (Figure 26), both hovering near record highs. By mid-month (15 December 2025), the indices had softened modestly, with the Sensex at 85,213 and the Nifty at 26,027, reflecting pressure from foreign portfolio outflows, rupee depreciation, and cautious global sentiment. The markets recovered marginally toward the end, closing December 2025 at 85,221 on the Sensex and 26,130 on the Nifty 50 (31 December 2025).

#### Market Movement: BSE Sensex and Nifty 50

Throughout December, benchmark indices displayed sharp intramonth swings but remained largely range-bound. Early gains driven by positive domestic growth cues gave way to corrections amid global uncertainty and profit-booking. The Sensex oscillated between the 84,000–86,000 range, while the Nifty largely traded between 25,800 and 26,300 levels.

Despite intermittent sell-offs—particularly during the second and third weeks—the indices demonstrated resilience, supported by selective buying in autos, metals, PSU banks, and capital goods. The marginal difference between start- and end-month closing levels highlights the consolidation phase underway after strong gains earlier in the year.

## Key Milestones

- Markets began December near lifetime highs before correcting on sustained foreign portfolio investor (FPI) selling and rupee weakness.
- A mid-month dip reflected global risk aversion, concerns over US interest rate trajectories, and pressure on IT and financial stocks.
- The final week saw modest recovery, aided by improved global cues, metal stock outperformance following trade-related policy announcements, and year-end portfolio adjustments.
- On the last trading day of 2025, indices closed firmly higher, helping recoup a part of mid-month losses.

## Overall Trend

The overall trend during December 2025 can be characterised as sideways consolidation with mild positive bias. While headline indices ended the month nearly flat compared to early December, the internal churn across sectors and stocks was significant. This pattern suggests market participants were digesting previous gains rather than signalling any structural weakness.

## Factors Influencing Market Sentiment

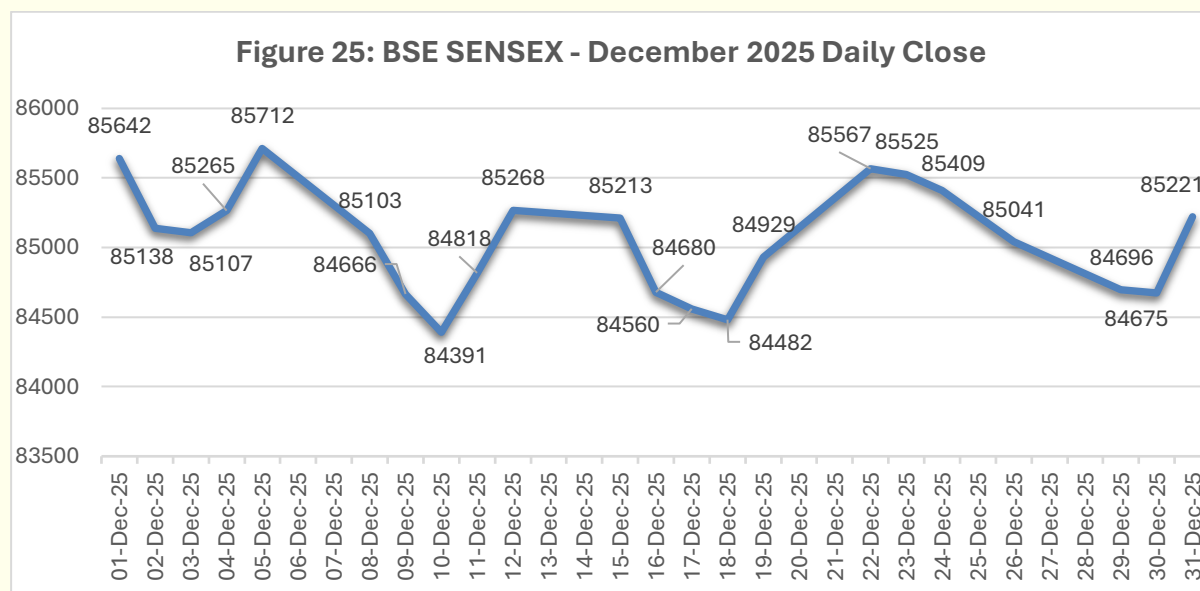
Several factors influenced market behaviour during the month:

- **Global monetary signals:** Expectations around US Federal Reserve policy, bond yield movements, and global liquidity conditions shaped investor positioning.
  - **Foreign portfolio flows:** Persistent FPI outflows exerted pressure, even as domestic institutional investors provided support.
  - **Currency movements:** Episodes of rupee depreciation weighed on sentiment, particularly for import-dependent and rate-sensitive sectors.
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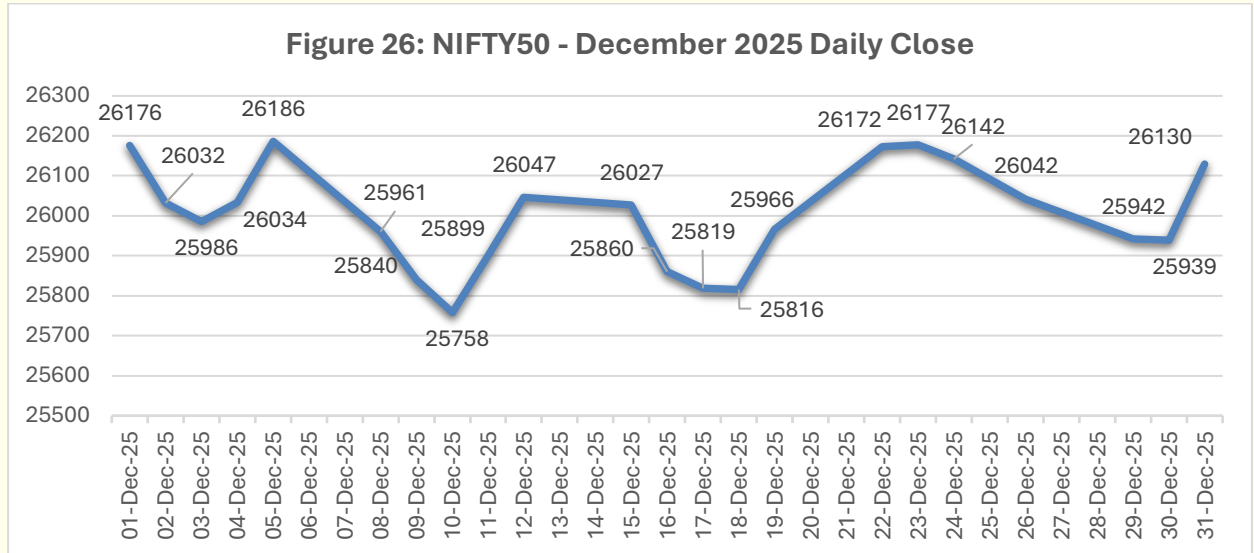
- **Sectoral rotation:** Leadership shifted across autos, metals, IT, FMCG, and PSU banks, reflecting changing growth and valuation expectations.
- **Year-end dynamics:** Thin volumes, profit-booking, and portfolio rebalancing ahead of the calendar year-end added to volatility.

## Outlook

Looking ahead, Indian equity markets are likely to remain sensitive to global developments, particularly interest rate expectations, geopolitical risks, and currency movements. However, strong domestic growth fundamentals, improving corporate earnings visibility, and policy continuity provide a supportive medium-term backdrop. The consolidation witnessed in December 2025 may serve as a base for the next directional move as markets enter 2026 with renewed focus on earnings growth and macroeconomic stability.



Source: BSE <https://www.bseindia.com/indices/IndexArchiveData.html>



Source: NSE <https://www.niftyindices.com/reports>

## SECURITIES MARKETS CODE BILL, 2025: SIMPLIFYING REGULATION, STRENGTHENING TRUST

India's capital markets have expanded rapidly over the past three decades, but the legal architecture governing them has evolved in a piecemeal manner. The Securities Markets Code Bill, 2025—introduced in the Lok Sabha in December and currently under examination by a parliamentary standing committee—seeks to address this structural fragmentation. By consolidating three foundational statutes into a single code, the Bill represents the most significant legislative reform of India's securities market framework since the early 1990s.

At its core, the Bill aims to simplify regulation, strengthen governance at the Securities and Exchange Board of India (SEBI), reduce regulatory uncertainty, and balance enforcement rigor with investor protection.

### Consolidating a Fragmented Legal Framework

The most consequential feature of the Bill is the merger of the Securities Contracts (Regulation) Act, 1956, the SEBI Act, 1992, and the Depositories Act, 1996 into a unified Securities Markets Code. These laws were enacted in different eras to address

specific market needs—stock exchange regulation, an independent market regulator, and dematerialisation of securities—but over time their overlapping provisions have led to interpretational ambiguities and procedural complexity.

A single code is expected to improve regulatory coherence, reduce duplication, and make compliance easier for intermediaries and issuers. For investors and market participants, it promises clearer rights, obligations, and enforcement pathways within one consolidated statute rather than across multiple Acts.

### **Strengthening SEBI's Institutional Capacity**

Recognising the growing scale and sophistication of India's capital markets, the Bill expands SEBI's board from nine to fifteen members. This is intended to enhance institutional capacity, bring in a wider range of expertise, and strengthen internal governance.

The Bill also tightens conflict-of-interest norms by requiring board members to disclose personal and familial financial interests. This move reflects global best practices and is aimed at reinforcing regulatory credibility at a time when SEBI's role has expanded beyond market regulation to include systemic risk oversight and investor protection.

### **Decriminalisation with a Clear Red Line**

A notable reform in the Bill is the decriminalisation of minor procedural and technical violations. Such infractions will now attract civil penalties rather than criminal prosecution, reducing compliance anxiety and the risk of regulatory overreach. This aligns securities regulation with broader trends in economic law reform, where criminal sanctions are increasingly reserved for egregious misconduct.

At the same time, the Bill draws a sharp line on serious market abuse. Offences such as insider trading, price manipulation, and fraudulent practices remain criminal acts, carrying penalties of up to ten years' imprisonment. These offences may also fall under the Prevention of Money Laundering Act, signalling a tougher stance on systemic and wilful market misconduct.

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## **Re-centering Investor Protection**

Investor protection is given explicit statutory recognition under the new Code. The Bill mandates an Investor Charter, setting out enforceable rights and service standards, and reintroduces the SEBI ombudsperson to provide a dedicated, time-bound mechanism for grievance redressal.

This is particularly significant in a market that has seen a surge in retail participation, especially through digital platforms. By formalising investor rights and redress mechanisms, the Bill seeks to restore trust and reduce the asymmetry between market intermediaries and individual investors.

## **Certainty Through Timelines**

Another important provision is the introduction of an eight-year outer limit for initiating investigations or inspections from the date of the alleged default. While preserving SEBI's enforcement authority, this provision brings long-overdue certainty for market participants, who have often faced prolonged regulatory exposure without closure.

Clear timelines are expected to improve compliance behaviour while also strengthening the quality and discipline of regulatory action.

## **A Structural Reform with Execution Risks**

The Securities Markets Code Bill, 2025 is a structural reform rather than a narrow amendment. Its success will depend on how effectively the consolidated code is implemented, how SEBI uses its enhanced powers, and whether decriminalisation is applied consistently without diluting deterrence against serious misconduct.

If executed well, the Bill could mark a decisive step toward a more transparent, predictable, and investor-friendly capital market regime—one that matches India's growing economic and financial ambitions. If not, consolidation alone may not be sufficient to address deeper enforcement and governance challenges.

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## SECTION 2

# GLOBAL ECONOMY

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## GLOBAL ECONOMIC OUTLOOK

### GLOBAL GROWTH SLOWS, DISINFLATION ADVANCES: INSIGHTS FROM THE OECD ECONOMIC OUTLOOK, DECEMBER 2025

#### Introduction

The *OECD Economic Outlook, December 2025* presents a cautiously stabilising but increasingly fragmented global economic landscape. While the post-pandemic inflation surge has largely been brought under control across advanced economies, global growth remains subdued, uneven and vulnerable to downside risks. According to the OECD, restrictive financial conditions, weak productivity growth, demographic pressures and rising geopolitical fragmentation continue to weigh on the medium-term outlook, even as monetary tightening cycles approach their end.

The Outlook underscores a key transition underway in the global economy: from managing inflation shocks to navigating low growth, high debt and heightened uncertainty.

#### Global Growth Outlook: Subdued and Uneven

The OECD projects global GDP growth to moderate further in 2025–26, reflecting tightening financial conditions, softening demand and persistent structural constraints. Growth is expected to remain below pre-pandemic averages, with advanced economies expanding at a particularly modest pace.

Advanced OECD economies are projected to grow slowly, constrained by high interest rates, weak investment momentum and subdued productivity gains. In contrast, emerging market economies (EMEs), particularly India, continue to outperform advanced peers, although growth remains uneven and increasingly dependent on domestic demand rather than export-led expansion.

China's growth is projected to continue its gradual deceleration, reflecting property sector adjustment, demographic headwinds and weaker global trade. The United States

is expected to slow as the cumulative effects of past monetary tightening weigh on consumption and investment, while the euro area faces persistent headwinds from weak manufacturing activity and tight credit conditions.

### **Inflation Dynamics: Disinflation with Residual Pressures**

A central theme of the December 2025 Outlook is the broad-based easing of inflation across most economies. Headline inflation has declined significantly from its 2022–23 peaks, driven by lower energy prices, easing supply constraints and tighter monetary policy.

However, the OECD cautions that inflation pressures have not fully dissipated. Core inflation remains elevated in several economies, particularly in services, reflecting tight labour markets, elevated wage growth and lingering pricing power in non-tradable sectors. The pace of disinflation has slowed in recent quarters, raising the risk that inflation may stabilise above central bank targets in the absence of sustained policy discipline.

In many EMEs, inflation has eased more rapidly, aided by currency stabilisation and declining food and energy prices, though vulnerability to renewed commodity price shocks remains high.

### **Monetary Policy: A Delicate Pivot**

The Outlook notes that most major central banks have reached or are close to the peak of their tightening cycles. Policy rates remain restrictive, and the OECD stresses that premature easing could jeopardise hard-won disinflation gains.

Going forward, the policy challenge lies in calibrating the timing and pace of rate cuts. With inflation falling but not yet firmly anchored at target, monetary authorities face a narrow path between sustaining disinflation and avoiding excessive damage to growth and employment. The OECD emphasises that future easing is likely to be gradual, data-dependent and uneven across jurisdictions.

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Financial conditions remain tight globally, particularly for small firms, households with variable-rate debt and highly leveraged sovereigns.

### **Fiscal Policy and Debt Sustainability**

Fiscal positions remain strained across most economies. Public debt ratios are elevated, reflecting pandemic-era support measures, higher interest costs and slower growth. The OECD warns that rising debt servicing burdens could crowd out productive public spending, particularly in countries with limited fiscal space.

While some fiscal consolidation is underway, the Outlook argues for a careful balance: withdrawing broad-based support measures while preserving targeted spending on investment, climate transition and social protection. Poorly designed consolidation could amplify downturn risks, while delayed adjustment would heighten debt sustainability concerns.

### **Structural Challenges: Productivity, Demographics and Fragmentation**

Beyond cyclical forces, the OECD highlights deep-seated structural challenges weighing on the global outlook. Productivity growth remains weak across advanced economies, limiting potential output and real income gains. Ageing populations are intensifying labour shortages and fiscal pressures, especially in Europe and East Asia.

Geopolitical fragmentation and trade policy uncertainty are emerging as significant drags on global efficiency. The Outlook notes that increased trade barriers, industrial subsidies and geo-economic bloc formation risk reducing global output over the medium term, particularly for smaller and more open economies.

### **Risks to the Outlook**

The balance of risks remains tilted to the downside. Key risks identified by the OECD include a resurgence of inflation due to energy or commodity shocks, sharper-than-expected slowdowns in major economies, financial stress arising from high interest rates, and escalating geopolitical tensions disrupting trade and investment flows.

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Conversely, faster productivity-enhancing investment, stronger-than-expected labour supply improvements, or more rapid disinflation could provide upside surprises, though these are viewed as less likely in the near term.

## **Conclusion**

The OECD Economic Outlook, December 2025 paints a picture of a world economy at an inflection point. Inflation has receded, but growth remains fragile and uneven, with structural constraints increasingly shaping medium-term prospects. Policy priorities are shifting from crisis management toward rebuilding resilience—through credible macroeconomic frameworks, targeted fiscal strategies and renewed emphasis on productivity-enhancing reforms.

The Outlook's core message is clear: stabilisation has been achieved, but sustained and inclusive growth will require disciplined policy choices and renewed international cooperation in an increasingly fragmented global economy.

*The full report can be accessed from:*

[https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/12/oecd-economic-outlook-volume-2025-issue-2\\_413f7d0a/9f653ca1-en.pdf](https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/12/oecd-economic-outlook-volume-2025-issue-2_413f7d0a/9f653ca1-en.pdf)

## MONETARY POLICY

### US FED'S FOMC CUTS RATES IN DECEMBER 2025: A CAUTIOUS PIVOT AS EMPLOYMENT RISKS RISE

#### Introduction

The Federal Open Market Committee (FOMC), at its December 9–10, 2025 meeting, marked a significant shift in the stance of US monetary policy by cutting the federal funds rate by 25 basis points, lowering the target range to 3.50–3.75 percent. This move reflects the Committee's growing concern over slowing labour market momentum and rising downside risks to employment, even as inflation remains somewhat elevated. The decision signals the beginning of a cautious recalibration from a restrictive policy stance towards one that seeks to balance inflation control with the imperative of sustaining economic growth.

#### Policy Decision: A Measured Rate Cut Amid Elevated Uncertainty

The FOMC's decision to reduce the policy rate by 25 basis points represents a deliberate and measured response to evolving macroeconomic conditions. The Committee noted that economic activity continues to expand at a moderate pace, but job gains have slowed over the course of 2025, and the unemployment rate has edged up through September. While inflation has risen again since earlier in the year, it remains "somewhat elevated," prompting the Fed to proceed cautiously rather than aggressively.

The voting pattern underscores the delicate balance within the Committee. While a majority supported the quarter-point cut, there were dissenting views on both sides: one member preferred a larger 50 basis point reduction, citing sharper employment risks, while two members favoured no change, reflecting continued concern about inflation persistence. This divergence highlights the uncertainty surrounding the appropriate pace of policy easing.

## **Shift in the Balance of Risks: Employment Takes Centre Stage**

A key element of the December statement is the explicit acknowledgement that downside risks to employment have increased in recent months. This marks an important evolution in the Fed's risk assessment, indicating that the labour market—long a source of strength—is now showing clearer signs of cooling.

The Committee reaffirmed its commitment to the dual mandate of maximum employment and price stability, noting that uncertainty around the economic outlook remains elevated. The rate cut, therefore, is best interpreted as a risk-management response, aimed at preventing a sharper labour market slowdown rather than signalling a full-fledged easing cycle.

## **Economic Projections: Growth Resilience with Gradual Disinflation**

The December Summary of Economic Projections provides important context for the policy decision. The median projection for real GDP growth in 2025 was revised up to 1.7 percent, compared to 1.6 percent in the September projections, suggesting a more resilient growth outlook than previously anticipated. Growth is expected to strengthen further to 2.3 percent in 2026, before moderating towards its longer-run trend of around 1.8 percent .

Labour market projections show a gradual rise in unemployment, with the median unemployment rate projected at 4.5 percent in 2025, easing marginally to 4.4 percent in 2026 and converging to 4.2 percent over the longer run. These projections are consistent with the Committee's assessment that labour market tightness is easing but not collapsing.

On inflation, the Fed continues to expect gradual disinflation. Median PCE inflation is projected at 2.9 percent in 2025, declining to 2.4 percent in 2026 and reaching the 2.0 percent target by 2027–28. Core PCE inflation follows a similar trajectory, reinforcing the view that inflation pressures are easing, albeit slowly.

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## **Policy Path and Forward Guidance: Flexibility Over Commitment**

The projected policy path embedded in the SEP suggests a gradual decline in the federal funds rate over the medium term. The median projection places the policy rate at 3.6 percent in 2025, easing to 3.4 percent in 2026 and 3.1 percent in 2027–28, with a longer-run neutral rate around 3.0 percent.

However, the FOMC was careful to avoid any pre-commitment. The statement reiterated that future adjustments would depend on incoming data, the evolving outlook, and the balance of risks. This emphasis on flexibility reflects the heightened uncertainty surrounding inflation dynamics, global financial conditions, and geopolitical developments.

## **Liquidity Management and Balance Sheet Operations**

Beyond interest rates, the Fed announced operational measures to ensure adequate liquidity. With reserve balances judged to have declined to “ample” levels, the Committee decided to initiate purchases of shorter-term Treasury securities as needed to maintain sufficient reserves on an ongoing basis. At the same time, the Fed will continue rolling over Treasury securities and reinvesting agency security proceeds into Treasury bills .

These actions signal a technical adjustment rather than a shift in the overall stance of balance sheet policy, aimed at preserving smooth functioning of money markets.

## **Conclusion**

The FOMC’s December 2025 decision marks a carefully calibrated pivot in US monetary policy. By lowering the policy rate modestly, the Federal Reserve has acknowledged rising downside risks to employment while maintaining confidence that inflation will continue its gradual return to target. The accompanying projections suggest an economy that remains resilient but is transitioning towards slower growth and a less tight labour market.

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Rather than the start of an aggressive easing cycle, the December rate cut should be viewed as a precautionary adjustment, designed to sustain the expansion without reigniting inflationary pressures. The path ahead will remain highly data-dependent, with the Fed balancing the risks of doing too little against the risks of easing too soon.

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## **A CAUTIOUS TURN TOWARDS EASING: INSIDE THE BANK OF ENGLAND'S DECEMBER 2025 POLICY DECISION**

### **Introduction**

At its meeting ending on 17 December 2025, the Bank of England's Monetary Policy Committee (MPC) voted by a narrow majority of 5–4 to reduce the Bank Rate by 25 basis points to 3.75 percent, marking a further step in the gradual withdrawal of monetary policy restriction that began in August 2024.

The decision reflects growing confidence that the disinflation process is becoming entrenched, even as the Committee remains divided over the persistence of underlying inflation pressures and the appropriate pace of policy normalisation.

The December decision underscores the MPC's delicate balancing act: ensuring that headline inflation converges sustainably to the 2 percent target while guarding against downside risks from weakening demand and a loosening labour market.

### **Inflation Developments: Progress, but Not Yet Complete**

Twelve-month CPI inflation declined to 3.2 percent in November 2025, down from 3.6 percent in October and 3.8 percent in September, undershooting the MPC's short-term forecast published in the November Monetary Policy Report.

The moderation was driven largely by downside surprises in food price inflation.

Services inflation—closely watched as a proxy for domestic price pressures—eased to 4.4 percent in November, from a recent peak of 5.4 percent in April. The Committee noted that underlying measures of services price inflation continued to point to ongoing disinflation, consistent with easing wage pressures. However, one-off factors such as

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increases in employers' National Insurance Contributions and earlier administered price hikes continued to dampen the pace of decline.

Looking ahead, CPI inflation is expected to ease further to around 3 percent in the first quarter of 2026, before temporarily rising in December 2025 due to higher tobacco duty and airfares inflation. Importantly, Budget measures—particularly one-off reductions in regulatory costs on household energy bills and changes to fuel duty—are expected to lower CPI inflation by around ½ percentage point in April 2026, bringing inflation closer to the 2 percent target by mid-2026.

### **Wage Dynamics and the Labour Market**

Labour market indicators increasingly point to easing capacity pressures. Whole-economy Average Weekly Earnings (AWE) growth declined to 4.7 percent in the three months to October, while private-sector regular pay growth fell to 3.9 percent, broadly in line with the MPC's November projections.

Although still elevated, the Committee judged that current pay growth is now more consistent with underlying economic fundamentals than during the post-pandemic inflation surge.

The unemployment rate rose to 5.1 percent in the three months to October, exceeding the MPC's earlier expectations. Redundancy rates climbed to their highest level since 2013 (excluding the pandemic), while private-sector employment continued to weaken, as reflected in HMRC payroll data. Vacancies, however, have stabilised since the summer, suggesting a gradual rather than abrupt loosening of labour market conditions.

Forward-looking wage indicators remain a source of concern. Surveys from the Bank's Agents and the Decision Maker Panel (DMP) suggest expected pay growth of around 3½–3¾ percent in 2026—below recent peaks, but still above levels consistent with the inflation target.

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## **Economic Activity and Demand Conditions**

UK economic growth has softened further. GDP growth slowed to 0.1 percent in Q3 2025, and monthly GDP contracted by 0.1 percent in October, driven by weakness in market sector output. Bank staff now expect zero headline GDP growth in Q4 2025, though underlying growth is estimated to be slightly stronger at around 0.2 percent.

Business surveys remain subdued, despite a modest pickup in the flash December PMI. Overall, the evidence points to growth running below supply potential, contributing to the gradual accumulation of slack in the economy.

Credit conditions have eased modestly as policy restrictiveness has declined. While access to finance has improved for households and firms, real credit growth remains subdued relative to pre-pandemic norms, reinforcing the MPC's assessment that monetary conditions remain restrictive overall.

## **Fiscal Policy and the Inflation Outlook**

The Autumn Budget of 26 November 2025 plays a significant role in shaping the near-term inflation profile. While short-term spending increases are expected to lift GDP by around 0.1–0.2 percent over the next two years, future tax increases—particularly extended income tax threshold freezes—are projected to weigh on activity over the medium term.

Crucially, Budget measures affecting administered prices are expected to lower CPI inflation materially in April 2026, though the MPC anticipates a modest upward impact on inflation of around 0.1–0.2 percentage points in 2027–28 as indirect effects feed through.

## **The Policy Debate: A Narrow Majority**

The December vote revealed a deeply divided Committee. The five members voting for a rate cut emphasised the cumulative progress on disinflation, easing wage growth, and

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the increasing risk that weak demand and rising unemployment could pull inflation below target in the medium term.

In contrast, the four dissenting members argued that inflation persistence risks remain elevated, citing still-high services inflation, forward-looking wage indicators, and concerns that monetary conditions may no longer be sufficiently restrictive. Several highlighted the danger of policy reversal if easing proceeds too quickly, potentially undermining credibility.

### **Outlook and Policy Signalling**

The MPC reiterated that monetary policy would continue to be set to ensure CPI inflation settles sustainably at 2 percent in the medium term. While Bank Rate has been reduced by 150 basis points since August 2024, future easing is expected to be gradual and conditional on incoming data.

The Committee acknowledged that as Bank Rate approaches a neutral level—variously perceived by members to be around 3 percent—judgements will become increasingly finely balanced. The December decision thus signals not the start of an aggressive easing cycle, but a cautious recalibration in response to improving inflation dynamics amid a weakening growth backdrop.

### **Conclusion**

The Bank of England's December 2025 policy decision reflects growing confidence that disinflation is taking hold, supported by easing wage pressures and softer demand. At the same time, the narrow split within the MPC highlights persistent uncertainty over inflation persistence and the appropriate speed of policy normalisation.

As the UK economy moves into 2026, the interaction between fiscal measures, labour market adjustment, and inflation expectations will be critical in determining whether the current gradual easing path can be sustained—or whether the MPC will be forced to pause as it navigates the final stretch back to price stability.

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## **ECB'S DECEMBER 2025 MONETARY POLICY: HOLDING RATES STEADY AS INFLATION CONVERGES AND GROWTH STABILISES**

### **Introduction**

At its December 18, 2025 meeting, the European Central Bank (ECB) chose to keep all three key policy interest rates unchanged, signalling a phase of consolidation after a prolonged tightening cycle. The decision reflects growing confidence that inflation is converging towards the ECB's 2 percent medium-term target, alongside a more resilient growth outlook than previously anticipated. At the same time, the Governing Council maintained a cautious, data-dependent stance, underscoring persistent uncertainties stemming from global trade conditions, geopolitics, and financial market volatility.

### **Policy Decision and Monetary Stance**

The Governing Council left the deposit facility rate at 2.00 percent, the main refinancing operations (MRO) rate at 2.15 percent, and the marginal lending facility rate at 2.40 percent. By holding rates steady, the ECB signalled that current policy settings are sufficiently restrictive to ensure inflation convergence, without unduly constraining economic activity.

Importantly, the ECB reiterated its meeting-by-meeting, data-dependent approach, explicitly avoiding any pre-commitment to a future rate path. This stance preserves policy flexibility in an environment where inflation risks are becoming more balanced but remain elevated compared to the pre-pandemic era. The ECB also confirmed the continued, predictable rundown of its Asset Purchase Programme (APP) and Pandemic Emergency Purchase Programme (PEPP) portfolios, reinforcing quantitative tightening as a complementary tool to interest rate policy.

### **Inflation Outlook: Convergence with Residual Pressures**

Inflation dynamics remain central to the ECB's assessment. According to updated Eurosystem staff projections, headline inflation is expected to average 2.1 percent in 2025, before declining to 1.9 percent in 2026 and 1.8 percent in 2027, returning to 2.0

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percent in 2028. Inflation excluding energy and food is projected to follow a similar trajectory, easing gradually from 2.4 percent in 2025 to 2.0 percent by 2028.

The ECB acknowledged that inflation projections for 2026 have been revised upward, largely due to stickier services inflation. While goods inflation has continued to decline—reflecting easing supply constraints and weaker pricing power—services inflation has risen to 3.5 percent in November 2025, driven by labour cost pressures and resilient demand. Wage growth remains elevated, with compensation per employee rising by 4.0 percent, although forward-looking indicators suggest moderation over the coming quarters.

Despite these pressures, the Governing Council expressed confidence that underlying inflation measures and longer-term inflation expectations remain consistent with the 2 percent target, supporting the decision to pause further tightening.

### **Economic Growth: Domestic Demand Lends Resilience**

The ECB's growth assessment has turned moderately more optimistic. Euro area GDP expanded by 0.3 percent in the third quarter of 2025, supported by stronger consumption and investment. Updated staff projections now place growth at 1.4 percent in 2025, 1.2 percent in 2026, and 1.4 percent in both 2027 and 2028, marking an upward revision from the September projections.

Growth is increasingly services-led, particularly in information and communication services, while industry and construction remain subdued. A robust labour market continues to support domestic demand, with unemployment at 6.4 percent in October, close to historical lows. However, signs of cooling labour demand—reflected in falling vacancy rates—suggest that labour market tightness may gradually ease, helping contain wage pressures.

Looking ahead, the ECB expects rising real incomes, declining household savings, and increased public investment in infrastructure and defence to underpin growth, even as weak global trade conditions remain a drag on the euro area economy.

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## **Risks and Uncertainty: A Balanced but Fragile Outlook**

The ECB's risk assessment reflects a more balanced but still fragile macroeconomic environment. On the downside, renewed global trade disruptions, geopolitical tensions—particularly related to the war in Ukraine—and episodes of financial market stress could tighten financing conditions and weigh on growth. A stronger euro or weaker external demand could also push inflation below projections.

On the upside, stronger-than-expected domestic demand, higher defence and infrastructure spending, and productivity-enhancing structural reforms could lift growth and inflation. Climate-related shocks and extreme weather events remain a source of upside risk to food prices, while a slower-than-expected moderation in wage growth could prolong services inflation.

## **Financial and Monetary Conditions**

Financial conditions have tightened modestly since the ECB's previous meeting, with market rates rising. However, bank lending rates for firms and households have stabilised, reflecting the transmission of earlier rate cuts over the past year. Credit growth has remained steady, with lending to firms growing by 2.9 percent and mortgage lending strengthening to 2.8 percent year-on-year.

The ECB assessed euro area banks as resilient, supported by strong capital and liquidity positions. Nonetheless, the Governing Council highlighted geopolitical risks and the possibility of sudden asset price repricing as key financial stability concerns, reaffirming the role of macroprudential policy as the first line of defence.

## **Conclusion**

The ECB's December 2025 monetary policy decision marks a pause grounded in growing confidence rather than complacency. With inflation projected to stabilise around the 2 percent target and growth showing resilience driven by domestic demand, the Governing Council appears comfortable maintaining current policy settings. At the

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same time, persistent services inflation, elevated wage growth, and global uncertainties argue against premature easing.

Overall, the ECB has entered a phase of policy calibration, balancing inflation convergence with growth support, while retaining maximum flexibility to respond to evolving risks. The emphasis on data dependence and the refusal to pre-commit to a rate path underscore a central bank navigating a more complex and uncertain post-inflationary landscape.

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## **BANK OF JAPAN RAISES RATES TO A 30-YEAR HIGH: A CAUTIOUS EXIT FROM ULTRA-EASY MONETARY POLICY**

### **Introduction**

The Bank of Japan's monetary policy decision of December 19, 2025 marks a watershed moment in Japan's macroeconomic history. By raising the short-term policy interest rate to around 0.75 percent, the BoJ has taken its most decisive step yet away from decades of ultra-easy monetary policy. This move, which lifts rates to their highest level in nearly thirty years, reflects growing confidence that Japan is finally escaping the grip of deflation and entering a phase of sustained, wage-led inflation. At the same time, the BoJ has gone out of its way to emphasise gradualism, flexibility, and data dependence, underscoring that policy normalisation will proceed cautiously rather than mechanically.

### **The Rate Hike: From Exceptional Easing to Conditional Tightening**

At its December 2025 Monetary Policy Meeting, the BoJ unanimously decided to raise the target for the uncollateralised overnight call rate from around 0.5 percent to around 0.75 percent. This 25 basis point increase is symbolically significant, signalling a clear break from the near-zero rate environment that has prevailed since the late 1990s.

The Bank framed the decision as an adjustment in the degree of monetary accommodation, rather than a shift to outright monetary restraint. Even after the hike, real interest rates are expected to remain significantly negative, ensuring that financial

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conditions continue to support economic activity. In this sense, the BoJ is normalising policy without abandoning its long-standing commitment to accommodative conditions.

### **Inflation Dynamics: Rising Confidence in the 2 Percent Target**

The central justification for the rate hike lies in the BoJ's increasingly optimistic assessment of inflation dynamics. According to the December statement, underlying CPI inflation has continued to rise moderately, supported by firms passing on higher labour costs to selling prices. Importantly, the likelihood of achieving the BoJ's baseline scenario—where underlying inflation is broadly consistent with the 2 percent price stability target in the second half of the projection period—has “been rising” .

This marks a notable shift from earlier years, when inflation upswings were often dismissed as transitory or cost-driven. The BoJ now appears more confident that inflationary pressures are becoming self-sustaining, rooted in domestic demand and wage dynamics rather than external shocks.

### **Wages as the Anchor of Policy Normalisation**

A defining feature of the BoJ's current assessment is its strong emphasis on wages. The Bank expects steady wage increases to continue next year, following already solid gains in 2025. It explicitly notes that the risk of firms' active wage-setting behaviour being interrupted is low, a crucial condition for maintaining a virtuous cycle of rising wages and prices.

Governor Kazuo Ueda has repeatedly underscored that wage growth is the linchpin of durable inflation in Japan. The December rate hike thus reflects not just current inflation outcomes, but confidence that wage dynamics have structurally improved—an essential departure from Japan's deflationary past.

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## **Future Outlook: Gradualism and Data Dependence**

While the BoJ signalled readiness to raise rates further, it was careful to avoid committing to a predefined path. The statement makes clear that future hikes will depend on whether economic activity and prices evolve in line with the October 2025 Outlook Report. This reinforces the BoJ's preference for a gradual, non-rushed approach, sensitive to domestic conditions as well as global uncertainties, including developments in the US economy and trade policies.

This cautious messaging was echoed by Governor Ueda, who emphasised flexibility and the need to guard against downside risks, including the possibility that inflation momentum could weaken over time.

## **Market Reaction: Hawkish Policy, Soft Yen**

Despite the hawkish signal implicit in the rate hike, financial markets reacted in an unexpected manner, with the Japanese yen weakening following the announcement. This paradox reflects investor scepticism about the speed and scale of future tightening, reinforced by the BoJ's reluctance to provide explicit guidance on the terminal rate or pace of hikes.

The market response highlights a persistent credibility challenge for the BoJ: convincing investors that policy normalisation will be sustained, even as the Bank remains acutely aware of Japan's long history of deflationary relapses.

## **Historical Context: The End of an Era**

The December 2025 decision must be seen against the backdrop of Japan's long struggle with deflation and its extensive reliance on unconventional monetary tools. Following a comprehensive policy review concluded in 2024, the BoJ has gradually pivoted from extraordinary easing towards a more conventional framework. The move to 0.75 percent is not merely a technical adjustment, but a symbolic closing chapter in an era defined by negative rates, yield curve control, and balance sheet expansion.

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Yet, the BoJ remains mindful that Japan's structural challenges—ageing demographics, productivity constraints, and deflationary psychology—have not disappeared. This explains its continued emphasis on maintaining accommodative conditions even as it raises rates.

## **Conclusion**

The Bank of Japan's December 2025 monetary policy decision represents a historic but cautious step towards normalisation. By raising interest rates to a 30-year high, the BoJ has signalled confidence that Japan is on a firmer inflationary footing, supported by sustained wage growth and improving price dynamics. At the same time, the Bank has deliberately avoided locking itself into a rigid tightening cycle, preferring a data-driven and flexible approach.

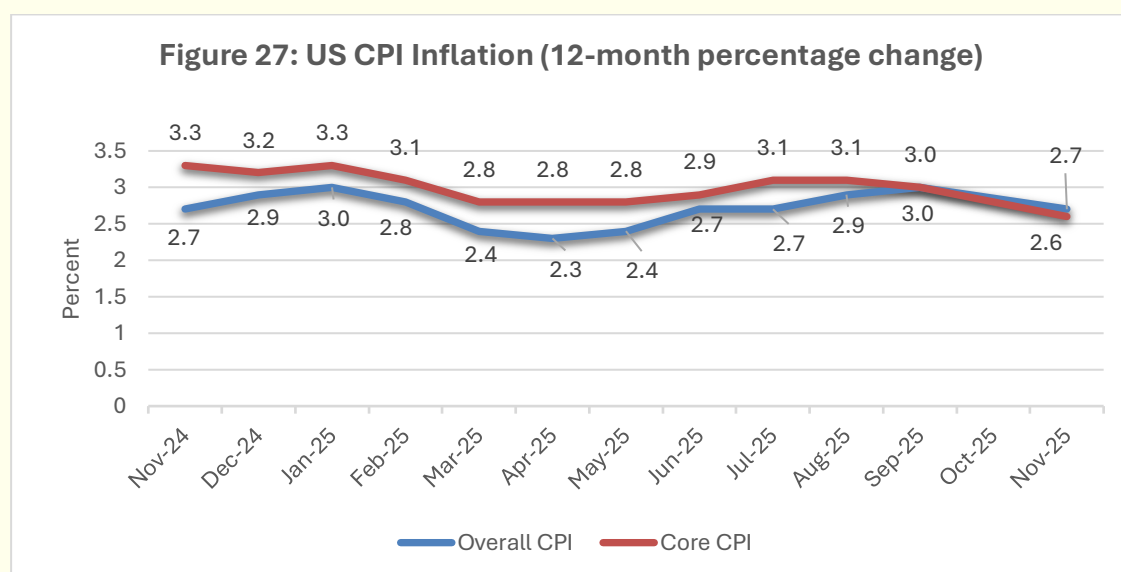
In essence, the BoJ is seeking to strike a delicate balance: reinforcing its commitment to price stability at 2 percent, while ensuring that the hard-won escape from deflation is not jeopardised. The December rate hike thus marks not the end of accommodation, but the beginning of a long and carefully managed transition to monetary normalcy.

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## INFLATION

### US INFLATION IN NOVEMBER 2025: COOLING HEADLINE NUMBERS, STICKY CORE PRESSURES

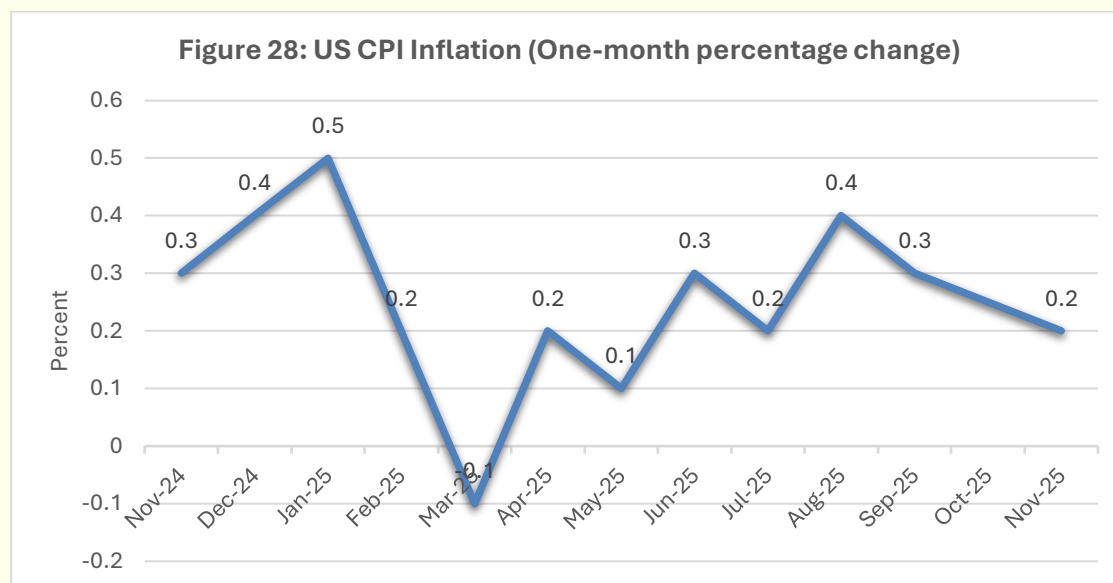
US consumer price inflation moderated in November 2025, reinforcing the narrative of a gradual return towards price stability even as sectoral pressures remain uneven. According to the US Bureau of Labor Statistics (BLS), the Consumer Price Index for All Urban Consumers (CPI-U) rose 2.7 per cent year-on-year, easing from 3.0 per cent in September 2025 (Figure 27). The data, however, must be interpreted with caution, as the BLS did not collect survey data for October 2025 due to a federal government shutdown, leading to a two-month comparison for some indicators.



Source: US Bureau of Labor Statistics <https://www.bls.gov/news.release/cpi.nr0.htm>

### Headline and Core Inflation: A Measured Cooling

On a seasonally adjusted basis, the CPI-U increased 0.2 per cent over the two months from September to November 2025, while core inflation (CPI excluding food and energy) also rose 0.2 per cent over the same period (Figure 28). On a 12-month basis, core inflation stood at 2.6 per cent (Figure 27), remaining marginally above the Federal Reserve's longer-run target.



Source: US Bureau of Labor Statistics <https://www.bls.gov/news.release/cpi.nr0.htm>

The moderation in headline inflation was broad-based, with a notable deceleration from earlier months, suggesting that the aggressive monetary tightening cycle of the past two years continues to transmit through the economy.

### Food Inflation: Easing at Home, Sticky Outside

Food inflation remained contained at 2.6 per cent year-on-year. Within this, food at home inflation softened to 1.9 per cent, reflecting improved supply conditions and easing commodity prices. However, food away from home inflation remained elevated at 3.7 per cent, underscoring persistent wage and service-sector cost pressures. Among food categories, sharp increases were observed in meats, poultry, fish and eggs (up 4.7 per cent), and non-alcoholic beverages (4.3 per cent), while dairy prices declined 1.6 per cent, offering some relief to consumers.

### Energy Inflation: A Renewed Source of Pressure

Energy prices emerged as a renewed inflationary risk, with the energy index rising 4.2 per cent year-on-year. Electricity prices increased 6.9 per cent, natural gas prices rose 9.1 per cent, and fuel oil surged 11.3 per cent over the past year. Although gasoline

prices posted only a modest 0.9 per cent annual increase, the broader energy basket continues to inject volatility into the inflation outlook.

### **Services and Shelter: The Sticky Core**

The most persistent inflationary pressure remains in services. Shelter inflation rose 3.0 per cent year-on-year, unchanged from recent months, reflecting the slow adjustment of housing costs. Services excluding energy services increased 3.0 per cent, while medical care services inflation stood at 3.3 per cent. These components—closely linked to labour market dynamics—suggest that while goods-led inflation has largely normalized, services inflation continues to limit the pace of overall disinflation.

### **Inflation Measures Beyond CPI-U**

Other inflation gauges reinforced the disinflation trend. The CPI-W (Urban Wage Earners and Clerical Workers) rose 2.7 per cent year-on-year, while the Chained CPI (C-CPI-U) increased 2.6 per cent, reflecting consumer substitution effects and offering a slightly softer inflation picture.

### **Policy Implications and Outlook**

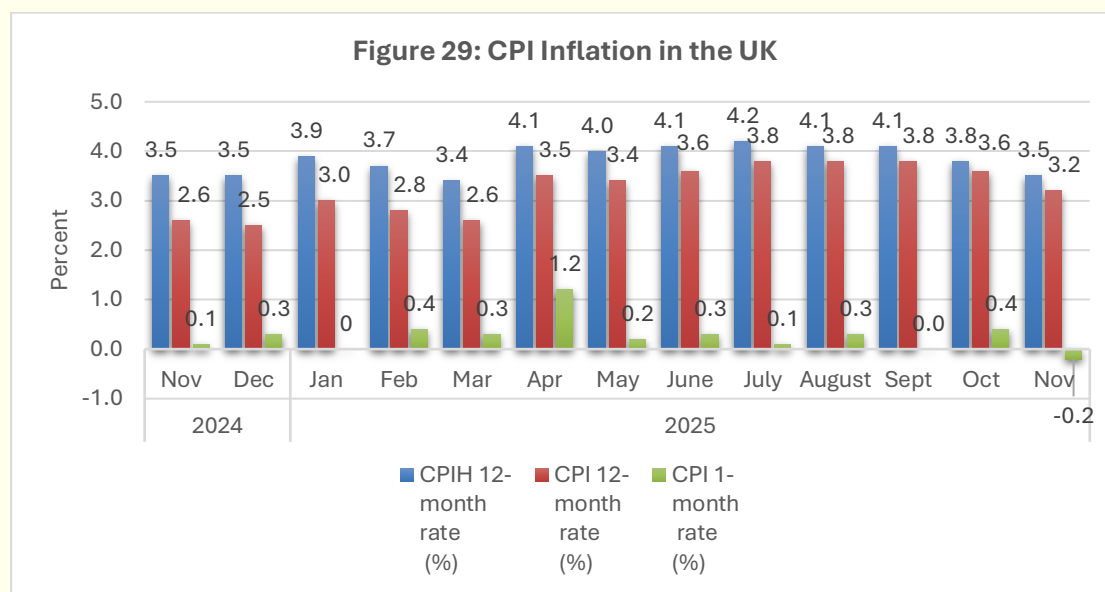
The November 2025 CPI data strengthens the case that US inflation is moving closer to the Federal Reserve's comfort zone, though not decisively below it. The persistence of shelter and services inflation, combined with renewed energy price pressures, argues for continued policy caution.

With inflation expectations anchored but core services still elevated, the Fed is likely to maintain a data-dependent stance, balancing the risk of easing too early against the economic costs of keeping financial conditions tight for too long. The December 2025 CPI release, scheduled for January 13, 2026, will therefore be critical in shaping near-term monetary policy expectations.

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## UK INFLATION EASES FURTHER IN NOVEMBER 2025, BUT SERVICES KEEP PRESSURE ALIVE

UK consumer price inflation continued to ease in November 2025. According to the Office for National Statistics (ONS), the Consumer Prices Index (CPI) rose 3.2 per cent year-on-year, down from 3.6 per cent in October 2025 (Figure 29), marking a further step away from the peaks witnessed during the energy shock period. The Consumer Prices Index including owner occupiers' housing costs (CPIH) rose by 3.5 percent in the 12months to November 2025, down from 3.8 percent in the 12 months to October. On a monthly basis, CPI fell by 0.2 percent in November 2025, compared with a rise of 0.1 percent in November 2024.



Source: <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/latest>

While the headline number points to moderating price pressures, the underlying composition of inflation suggests that progress remains uneven, particularly across services and housing-related costs.

### Core Inflation: Gradual Cooling, Still Elevated

Core CPI inflation (excluding energy, food, alcohol and tobacco) declined to 3.2 percent in November, from 3.4 per cent in October. This easing reflects slowing

momentum in goods inflation and some softening in services, but core inflation remains well above the Bank of England's 2 per cent target, underscoring the challenge of achieving durable price stability.

### **Services Inflation: The Key Constraint**

Services inflation, closely watched by the Bank of England as a proxy for domestic price pressures, remained elevated despite easing slightly to 4.5 percent in November, from 4.6 percent in October. Strong wage growth, higher labour costs, and price rigidity in sectors such as hospitality, healthcare and personal services continue to limit the pace of disinflation. This persistence in services inflation suggests that, while external price shocks have faded, domestically generated inflation pressures are proving slower to unwind.

### **Policy Implications and Outlook**

The November 2025 inflation data strengthens the case that UK inflation is on a downward trajectory, but it also highlights why the Bank of England is likely to remain cautious. With core and services inflation still elevated, policymakers face a delicate balance between supporting a weakening growth outlook and ensuring inflation expectations remain firmly anchored.

Looking ahead, further easing in food and goods prices should help pull inflation lower in early 2026. However, the pace at which services inflation moderates—shaped by wage dynamics and labour market tightness—will be decisive in determining when the UK can return sustainably to its inflation target.

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## **EURO AREA INFLATION HOLDS STEADY IN NOVEMBER 2025 AS SERVICES PRESSURES PERSIST**

The euro area's annual inflation rate remained unchanged at 2.1 per cent in November 2025 (Figure 30), signalling a pause in the disinflationary momentum seen earlier in the year. While headline inflation stayed close to the European Central Bank's (ECB) medium-term target, underlying price dynamics across components reveal a mixed picture, with services inflation continuing to exert upward pressure.

### **Services Inflation Remains the Key Driver**

Services recorded the highest annual inflation rate at 3.5 per cent, up slightly from 3.4 per cent in October. This persistence reflects ongoing wage pressures, higher labour costs, and strong demand in contact-intensive sectors such as hospitality, healthcare, and personal services. As services inflation is closely tied to domestic cost structures, it remains a central concern for policymakers assessing the durability of price stability.

### **Food Inflation Moderates Marginally**

Inflation in food, alcohol and tobacco eased to 2.4 per cent, compared with 2.5 per cent in October. The gradual moderation suggests easing supply-side pressures and improved agricultural and commodity conditions, although food prices remain elevated relative to pre-pandemic norms, continuing to weigh on household budgets.

### **Goods Inflation Continues to Cool**

Price pressures in non-energy industrial goods softened further to 0.5 per cent, down from 0.6 per cent in October. This trend reflects subdued consumer demand, easing global supply chains, and increased competition, all of which have helped compress goods price inflation across the euro area.

### **Energy Prices Still in Deflationary Territory**

Energy inflation remained negative at -0.5 per cent, though less so than -0.9 per cent in October. While energy prices continue to provide a disinflationary impulse, the

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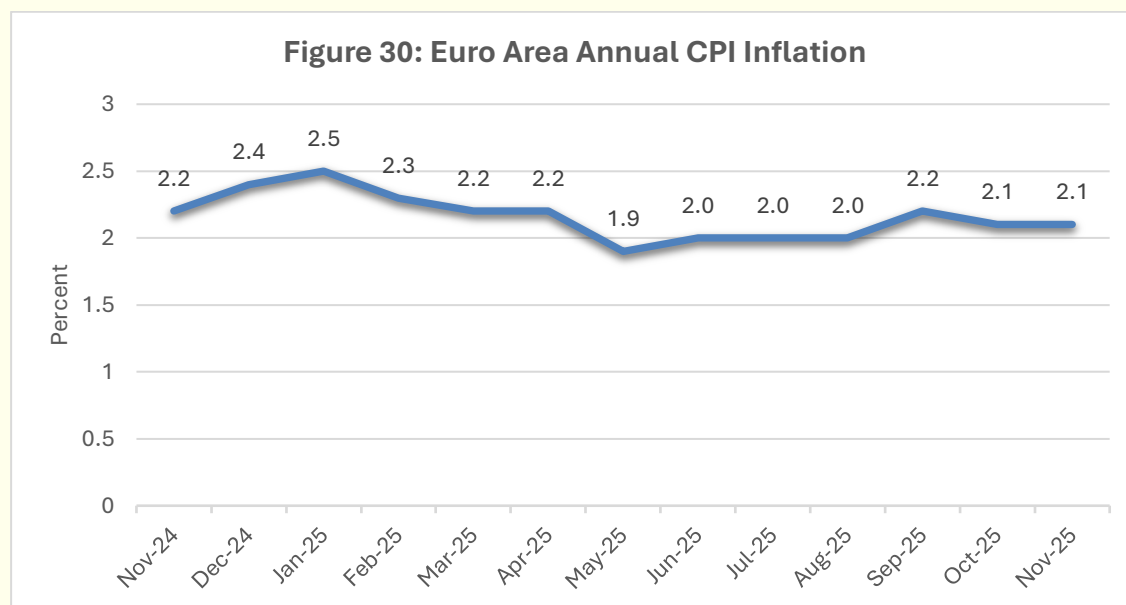


narrowing contraction suggests base effects are fading and that volatility in global energy markets could yet reintroduce price pressures.

## Implications for Policy Outlook

The stability of headline inflation at 2.1 per cent offers reassurance that price pressures are broadly under control. However, the stickiness of services inflation underscores the challenge facing the ECB as it weighs the timing and pace of any policy easing. With core domestic pressures still elevated, policymakers are likely to remain cautious, seeking clearer evidence that services inflation is on a sustained downward path.

November's inflation data point to a euro area economy that is close to achieving price stability—but not quite there yet. The balance between easing goods and food inflation and persistent services pressures will be critical in shaping the euro area's inflation trajectory in the months ahead.



Source: Eurostat <https://shorturl.at/uKYMe>

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## **CHINA INFLATION TICKS UP IN NOVEMBER 2025 AS FOOD PRICES TURN POSITIVE**

China's annual consumer inflation edged higher to 0.7 per cent in November 2025, up from 0.2 per cent in October (Figure 31), marking its fastest pace since February 2024 and broadly in line with market expectations. The uptick points to a tentative stabilisation in price conditions, even as demand recovery remains uneven across sectors.

### **Food Prices Return to Growth**

A key driver of the higher headline inflation was food prices, which rose 0.2 per cent year-on-year, reversing a 2.9 per cent contraction in October and marking the first increase in ten months. The turnaround was led by a rebound in fresh vegetable and fruit prices, along with a less pronounced decline in pork prices. Given food's significant weight in China's CPI basket, this shift played a crucial role in lifting overall inflation.

### **Non-Food Inflation Strengthens**

Non-food inflation also picked up, rising to 0.8 per cent, supported by government-led consumer trade-in programmes aimed at stimulating spending on durable goods. Price increases were evident across several service-oriented categories, including clothing (1.9 per cent), healthcare (1.6 per cent), and education (0.8 per cent), reflecting modest but broadening domestic demand.

### **Mixed Signals from Housing and Transport**

Price trends remained divergent across major components. Housing prices were flat, after a marginal increase in the previous month, highlighting continued softness in the property sector. In contrast, transport costs fell further, declining 2.3 per cent, compared with a 1.5 per cent drop in October, driven by lower fuel prices and subdued travel demand.

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## **Core Inflation Holds Firm**

Core inflation, which excludes food and energy, remained steady at 1.2 per cent year-on-year, matching October's reading and staying at its highest level in nearly 20 months. This stability suggests that underlying inflationary pressures are gradually firming, even though they remain well below levels seen in major advanced economies.

## **Monthly Dip Underscores Fragile Momentum**

On a month-on-month basis, consumer prices fell 0.1 per cent, marking the first decline in five months and underscoring the fragility of China's price recovery. The decline contrasts with market expectations of a modest increase and indicates that demand-side pressures are still insufficient to generate sustained inflation momentum.

## **Policy Implications and Outlook**

The November data suggest that China may be emerging from its prolonged phase of ultra-low inflation, aided by targeted fiscal measures and consumption support. However, the combination of weak housing prices, falling transport costs, and a negative monthly reading highlights ongoing deflationary risks. Policymakers are therefore likely to continue with calibrated stimulus measures to stabilise demand while avoiding excessive price volatility.

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Source: <https://tradingeconomics.com/china/inflation-cpi>

## JAPAN INFLATION EASES marginally IN NOVEMBER 2025, BUT CORE PRESSURES STAY FIRM

Japan's annual consumer inflation edged marginally lower to 2.9 per cent in November 2025, easing from a three-month high of 3.0 per cent in October (Figure 32). While the headline figure points to some moderation in price pressures, underlying inflation dynamics remain firm, with core inflation staying above the Bank of Japan's (BoJ) target for an extended period.

### Food Inflation Cools to a One-Year Low

Food price inflation slowed to 6.1 per cent, down from 6.4 per cent in October, marking its lowest level in a year. The easing was driven by the slowest increase in rice prices in 15 months, offering partial relief to households grappling with persistently high living costs. The moderation in food prices played a key role in pulling down the overall inflation rate.

### Broad-Based Softening Across Several Categories

Price growth decelerated across a range of consumer categories. Inflation eased for clothing (2.3 per cent), transport (3.3 per cent), recreation (2.3 per cent), communications (6.8 per cent), and miscellaneous goods (0.6 per cent). Education costs continued to decline sharply, falling 5.6 per cent year-on-year, reflecting policy-driven price controls and subsidies.

In contrast, inflation remained unchanged for housing (0.9 per cent), household items (1.8 per cent), and healthcare (0.8 per cent), pointing to relative stability in these components.

### **Utility Costs Add to Price Pressures**

Utility prices emerged as a countervailing force. Electricity inflation accelerated to 4.9 per cent, from 3.5 per cent in October, while gas prices rose 0.7 per cent, unchanged from the previous month. Higher utility costs continue to weigh on household budgets and limit the pace of overall disinflation.

### **Core Inflation Remains Sticky**

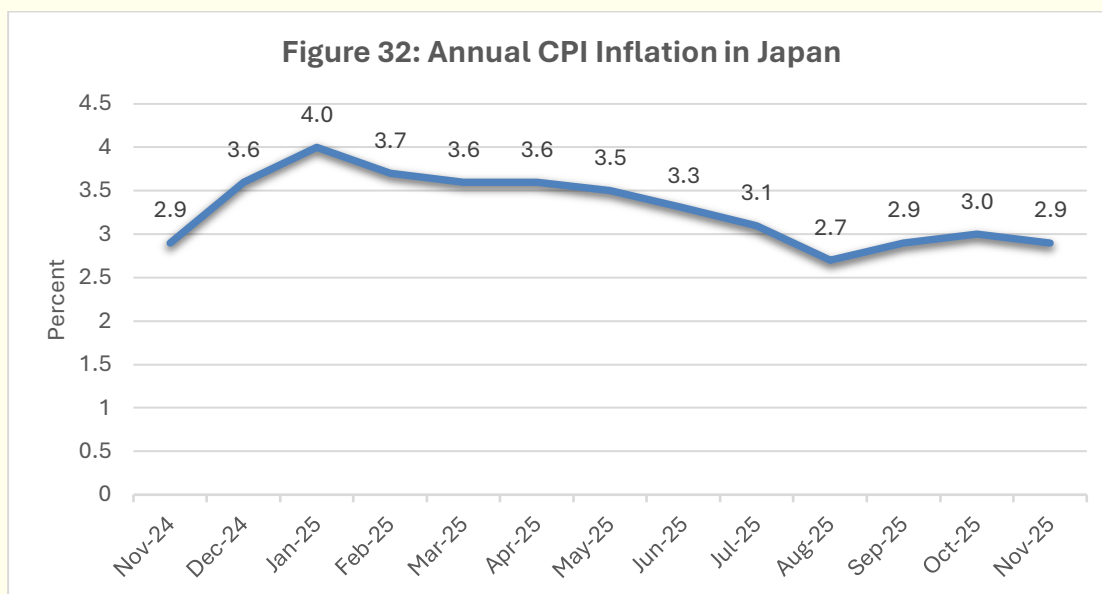
Core inflation, which excludes fresh food, remained steady at 3.0 per cent, marking the 44th consecutive month above the BoJ's 2 per cent target. This persistence underscores the challenge facing Japanese policymakers as they attempt to normalise monetary policy without undermining fragile domestic demand.

### **Monthly Momentum Signals Ongoing Pressure**

On a month-on-month basis, the CPI increased 0.4 per cent, matching October's reading and remaining at its highest level in eight months. The sustained monthly momentum suggests that price pressures, while easing at the margin, are far from dissipating.

### **Policy Implications and Outlook**

The November inflation data present a nuanced picture for Japan. While easing food inflation and softer price increases in several categories indicate some relief, the persistence of core inflation and rising utility costs complicate the policy outlook. With inflation remaining above target for nearly four years, the BoJ is likely to continue its cautious approach to policy normalisation, closely monitoring wage growth and domestic demand conditions in the months ahead.



Source: <https://tradingeconomics.com/japan/inflation-cpi>

## RUSSIA INFLATION DROPS TO TWO-YEAR LOW IN NOVEMBER 2025

Russia's annual consumer inflation declined to 6.6 per cent in November 2025, down from 7.7 per cent in October (Figure 33), marking its lowest level since September 2023 and coming in slightly below market expectations. The sharp moderation signals a strengthening disinflationary trend after elevated price pressures over the past two years.

### Broad-Based Easing Across Key Categories

The decline in headline inflation was driven by a broad-based slowdown across major components. Food inflation eased significantly to 7.5 per cent, from 9.3 per cent in the previous month, reflecting improved supply conditions and base effects. Non-food goods inflation moderated to 3.5 per cent, while services inflation slowed to 9.4 per cent, down from 10.4 per cent, indicating easing cost pressures across consumer-facing services.

The synchronised deceleration across food, goods, and services suggests that inflationary pressures are easing more decisively than earlier in the year.

## **Monthly Momentum Continues to Cool**

On a month-on-month basis, consumer prices rose 0.4 per cent, slower than the 0.5 per cent increase in October. While monthly inflation remains positive, the moderation points to reduced near-term price momentum.

## **Policy Signals and Inflation Outlook**

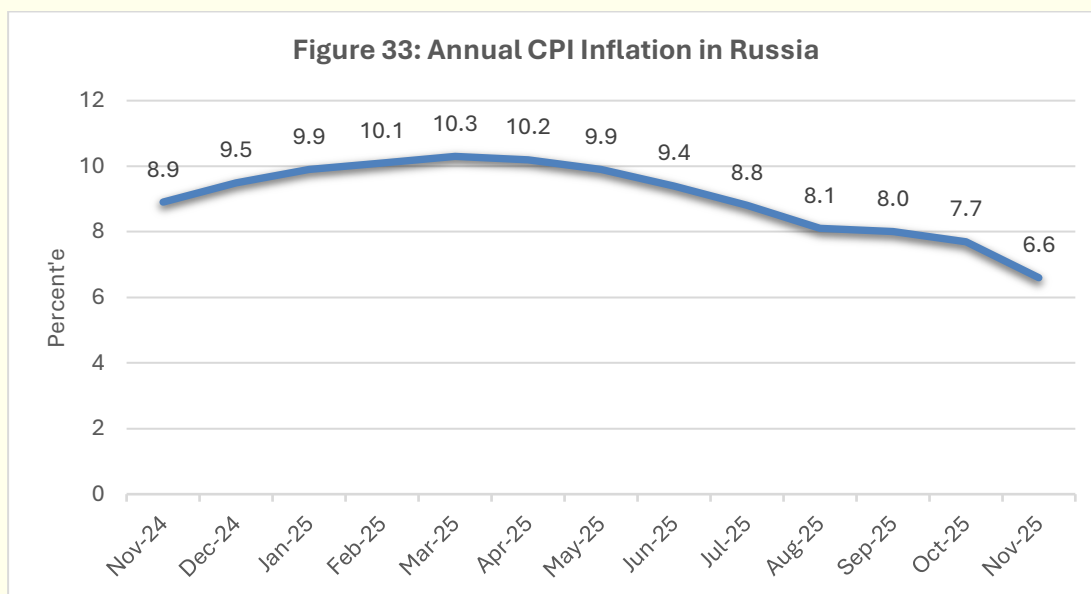
The November data aligns closely with official inflation forecasts. Russia's central bank has projected inflation in the 6.5–7.0 per cent range for 2025, a notable improvement from 9.52 per cent recorded last year. President Vladimir Putin has also indicated that inflation could fall to around 6 per cent or lower by the end of the year, reinforcing expectations of continued easing.

## **Implications for Monetary Policy**

The sharper-than-expected disinflation strengthens the case for a more flexible monetary policy stance in the months ahead. However, with inflation still well above the central bank's long-term target, policymakers are likely to remain cautious, balancing the need to support economic activity against the risks of reigniting price pressures.

Overall, the November 2025 inflation print suggests Russia is making tangible progress toward price stability, with easing pressures across consumption categories providing policymakers greater room to manoeuvre as the year closes.

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Source: <https://tradingeconomics.com/russia/inflation-cpi>

## FOOD-LED DISINFLATION LOWERS BRAZIL'S INFLATION TO A 14-MONTH LOW

Brazil's annual consumer inflation moderated to 4.46 per cent in November 2025, down from 4.68 per cent in October (Figure 34), marking its lowest level since September 2024 and coming in slightly below market expectations. The decline reinforces the ongoing disinflation trend, even as price pressures remain uneven across expenditure categories.

### Food and Transport Drive Disinflation

The easing in headline inflation was led by a sharp slowdown in food and beverage prices, which rose 3.88 per cent year-on-year, compared with 5.50 per cent in the previous month. Improved supply conditions and favourable base effects contributed to the deceleration, offering some relief to household budgets.

Inflation in transport also moderated to 3.00 per cent, from 3.69 per cent, reflecting softer fuel prices and easing cost pressures in mobility-related services. Together, food and transport played a key role in pulling overall inflation lower.



## **Mixed Signals Across Consumer Categories**

Price growth softened in several other segments, including personal expenses (6.14 per cent vs 6.83 per cent) and communication (0.77 per cent vs 0.88 per cent). Notably, prices of household articles fell by 0.26 per cent, reversing a positive increase in October and adding to the disinflationary momentum.

However, inflation accelerated in a number of essential categories. Housing inflation rose sharply to 6.54 per cent, from 4.36 per cent, driven by higher rents, utilities, and maintenance costs. Clothing prices increased 5.71 per cent, while health and self-care inflation edged up to 5.44 per cent. Education costs also remained elevated at 6.26 per cent, underscoring persistent structural pressures.

## **Regional Variation and Monthly Momentum**

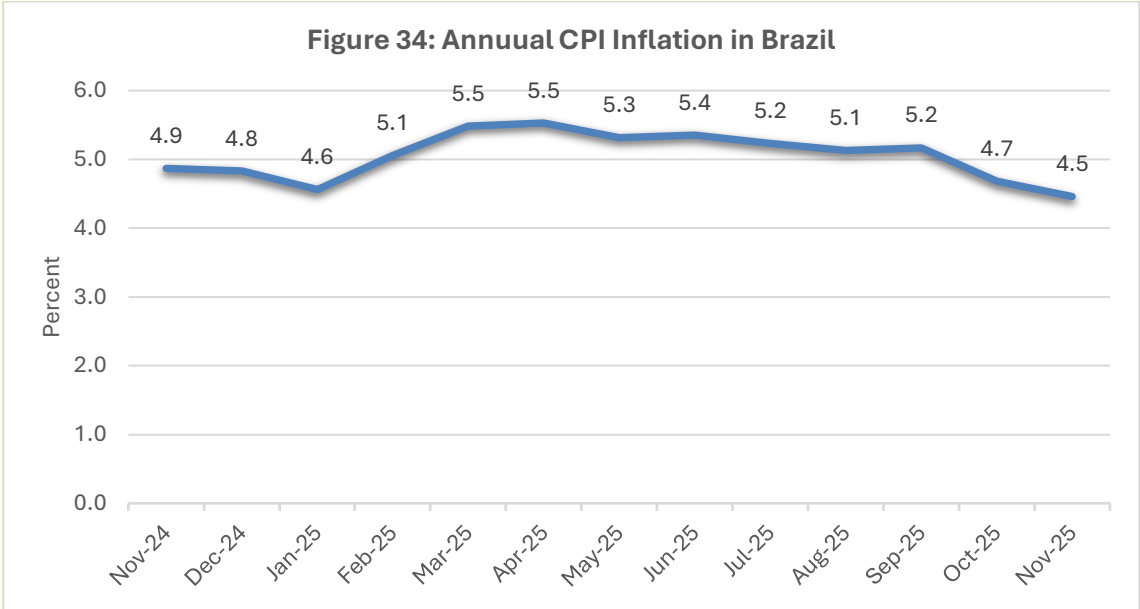
At the regional level, Rio Branco recorded the lowest inflation rate at 3.21 per cent, highlighting disparities in cost pressures across Brazil's major urban centres. On a month-on-month basis, consumer prices rose 0.18 per cent, up from 0.10 per cent in October, suggesting that short-term price momentum has picked up slightly despite the easing in annual inflation.

## **Policy Implications and Outlook**

The November data point to continued progress toward price stability, strengthening the case that Brazil's inflation is moving closer to the central bank's comfort zone. However, the acceleration in housing, education, and healthcare costs suggests that underlying pressures have not fully dissipated.

For policymakers, the challenge will be to balance support for economic activity with vigilance against renewed inflationary risks. While food-led disinflation has provided relief, the persistence of service- and housing-related inflation could shape the pace and timing of any future policy adjustments.

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Source: <https://tradingeconomics.com/brazil/inflation-cpi>

## FOOD & AGRICULTURE

### FAO FOOD PRICE INDEX EXTENDS DECLINE IN NOVEMBER AS DAIRY, SUGAR AND OILS WEAKEN

The FAO Food Price Index (FFPI) averaged 125.1 points in November 2025 (Table 5), declining by 1.5 points (1.2 percent) from the revised October level, marking the third consecutive monthly fall. Lower prices for dairy products, meat, sugar and vegetable oils more than offset a rise in cereal prices. Overall, the index stood 2.1 percent below its level in November 2024 and remained 21.9 percent lower than the March 2022 peak.

The FAO Cereal Price Index rose to 105.5 points, up 1.8 percent from October, though it remained 5.3 percent lower year-on-year. Global wheat prices increased by 2.5 percent, supported by possible Chinese import interest from the United States, ongoing geopolitical risks in the Black Sea region, and expectations of reduced plantings in the Russian Federation, despite generally comfortable supply prospects and good harvests in Argentina and Australia. Maize prices also firmed on strong demand for Brazilian supplies and weather-related disruptions to fieldwork in South America. Prices of barley and sorghum increased as well, influenced partly by higher soybean prices. In contrast, the FAO All Rice Price Index declined by 1.5 percent, as main-crop harvests in northern hemisphere exporters and subdued import demand weighed on Indica and fragrant rice prices.

The FAO Vegetable Oil Price Index fell to 165.0 points, down 2.6 percent from October and reaching a five-month low. The decline was driven by lower palm, rapeseed and sunflower oil prices, which outweighed a modest rise in soy oil quotations. Palm oil prices dropped on higher-than-expected production in Malaysia, while rapeseed oil prices eased on favourable global output prospects. Sunflower oil prices declined amid seasonally rising supplies from the Black Sea region. Soy oil prices remained broadly stable, supported by firm biodiesel demand, particularly in Brazil, while lower crude oil prices also contributed to overall weakness in vegetable oil markets.

The FAO Meat Price Index averaged 124.6 points, down 0.8 percent month-on-month but still 4.9 percent higher than a year earlier. The decline was led by lower pig and poultry meat prices. Poultry prices fell as Brazil's export values declined amid abundant supplies and intensified competition, compounded by efforts to regain market share following the lifting of avian influenza-related trade bans by key importers, including China. Pig meat prices eased mainly due to ample supplies and weak demand in the European Union, particularly from China. Bovine meat prices remained broadly stable, as the removal of tariffs on beef imports into the United States tempered upward pressure, while ovine meat prices increased on strong global import demand.

The FAO Dairy Price Index declined to 137.5 points, down 3.1 percent from October and 1.7 percent year-on-year, marking the fifth consecutive monthly fall. Prices fell across all major dairy products, reflecting rising milk production and ample export supplies in key producing regions, notably the European Union and New Zealand. Weaker import demand for milk powders in parts of Asia also weighed on prices. Butter and whole milk powder recorded the steepest declines, while skim milk powder prices fell moderately. Cheese prices declined the least, supported by firm demand in Asian and Near Eastern markets, and remained nearly 10 percent higher than a year earlier.

The FAO Sugar Price Index averaged 88.6 points, down 5.9 percent from October and nearly 30 percent below its level a year ago, marking a third consecutive monthly decline and its lowest level since December 2020 for the second month in a row. Prices remained under pressure due to expectations of ample global supplies. Strong sugar production in Brazil, a good early start to India's 2025/26 harvest, and favourable crop prospects in Thailand reinforced the positive global supply outlook and contributed to the continued downturn in prices.

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**Table 5: FAO Food Price Index (FFPI)**

	<i>Food Price Index</i>	<i>Meat</i>	<i>Dairy</i>	<i>Cereals</i>	<i>Oils</i>	<i>Sugar</i>
<i>November 2024</i>	<i>127.7</i>	<i>118.7</i>	<i>139.8</i>	<i>111.4</i>	<i>164.1</i>	<i>126.4</i>
<i>December 2024</i>	<i>127.3</i>	<i>119.6</i>	<i>141.2</i>	<i>111.4</i>	<i>162.1</i>	<i>119.3</i>
<i>January 2025</i>	<i>124.7</i>	<i>116.7</i>	<i>143.1</i>	<i>111.8</i>	<i>153.0</i>	<i>111.2</i>
<i>February 2025</i>	<i>126.6</i>	<i>116.9</i>	<i>147.7</i>	<i>112.6</i>	<i>156.0</i>	<i>118.5</i>
<i>March 2025</i>	<i>127.2</i>	<i>118.3</i>	<i>148.7</i>	<i>109.7</i>	<i>161.8</i>	<i>116.9</i>
<i>April 2025</i>	<i>128.2</i>	<i>121.6</i>	<i>151.7</i>	<i>110.9</i>	<i>158.0</i>	<i>112.3</i>
<i>May 2025</i>	<i>127.1</i>	<i>122.8</i>	<i>153.6</i>	<i>109.0</i>	<i>152.2</i>	<i>109.4</i>
<i>June 2025</i>	<i>128.1</i>	<i>126.0</i>	<i>155.5</i>	<i>107.3</i>	<i>155.7</i>	<i>103.6</i>
<i>July 2025</i>	<i>129.8</i>	<i>126.7</i>	<i>154.6</i>	<i>106.5</i>	<i>166.8</i>	<i>103.3</i>
<i>August 2025</i>	<i>130.0</i>	<i>127.8</i>	<i>152.3</i>	<i>105.7</i>	<i>169.1</i>	<i>103.6</i>
<i>September 2025</i>	<i>128.7</i>	<i>128.1</i>	<i>147.2</i>	<i>104.9</i>	<i>167.9</i>	<i>99.4</i>
<i>October 2025</i>	<i>126.6</i>	<i>125.5</i>	<i>141.9</i>	<i>103.6</i>	<i>169.4</i>	<i>94.1</i>
<i>November 2025</i>	<i>125.1</i>	<i>124.6</i>	<i>137.5</i>	<i>105.5</i>	<i>165.0</i>	<i>88.6</i>

Source: <https://w.w.fao.org/worldfoodsituation/foodpricesindex/en>

## THE BUFFETT WAY: CLARITY, CHARACTER, AND COMPOUNDING

### THE ORACLE'S LEGACY: WHY WARREN BUFFETT'S COMMON SENSE STILL BEATS MARKET NOISE

Warren Buffett may have retired from the day-to-day leadership of Berkshire Hathaway, but the Oracle of Omaha has not exited the world he shaped. As Buffett, now 95, steps away from operational responsibility, it marks the close of an extraordinary professional chapter—one that redefined investing not through innovation or disruption, but through discipline, patience, and moral clarity.

For more than six decades, Buffett stood apart in a financial ecosystem increasingly driven by speed, leverage, and spectacle. While markets rewarded constant action and clever trades, Buffett proved something profoundly unfashionable: that doing less, but doing it well, could generate extraordinary results. He built one of the world's most enduring fortunes by buying strong businesses, holding them for long periods, and allowing the quiet power of compounding to work uninterrupted.

His investing philosophy was disarmingly simple. Understand the business. Trust capable and ethical management. Insist on a margin of safety. Avoid debt-fuelled excess. And, perhaps most importantly, learn to say “no” far more often than “yes.” In an age that celebrated complexity, Buffett championed clarity. In markets addicted to movement, he warned against confusing activity with progress.

Buffett's retirement comes at a time when markets are arguably noisier than ever. Algorithms trade in microseconds, asset prices swing on sentiment as much as fundamentals, and finance is often framed as a contest of cleverness rather than judgment. Against this backdrop, Buffett's legacy feels less like a relic and more like a counterweight. His core insight—that investing is ultimately applied common sense—remains strikingly relevant.

Leadership of Berkshire Hathaway now passes to Greg Abel, vice chairman overseeing non-insurance operations, effective January 1. Abel, widely seen as Buffett's chosen

successor, has played a central role in building Berkshire's energy and infrastructure businesses over the past two decades. Buffett's decision to remain chairman is deliberate, ensuring continuity in Berkshire's distinctive culture—one defined by decentralised management, conservative capital allocation, and an unwavering focus on long-term value creation.

Yet Buffett's influence extends far beyond corporate governance. What truly set him apart was not just how he invested, but how he explained investing. Through his annual shareholder letters—part financial lesson, part moral essay—he demystified finance for millions. He reframed risk not as price volatility but as the possibility of permanent loss. He cautioned against debt when leverage was in vogue, urged humility at market peaks, and famously reminded investors that it is “far better to buy a wonderful company at a fair price than a fair company at a wonderful price.”

These ideas now sound obvious largely because Buffett spent decades repeating them—and living by them.

Equally important was Buffett's moral compass. In an era when corporate scandals and short-termism eroded trust, he insisted that reputation was a core asset, one that took decades to build and minutes to destroy. He argued consistently that ethics were not a constraint on returns, but a foundation for sustainable wealth creation. Berkshire Hathaway's record suggests he was right.

That Buffett's influence endures even as he steps back from daily management is no accident. His legacy is not tied to his presence, but to a philosophy that has survived bubbles, crashes, manias, and market cycles. It lives in investors who learned to slow down, managers who learned to think like owners, and shareholders who learned that wealth is built through discipline, not drama.

Warren Buffett may no longer run Berkshire Hathaway each day. But in a financial world still searching for anchors, the principles he championed continue to matter—perhaps now more than ever.

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## GLOBAL FINANCIAL MARKETS

### INTRODUCTION

Global equity markets closed December 2025 on a firm but uneven note, reflecting a year-end balance between optimism over a prospective easing in global monetary conditions and caution driven by stretched valuations, geopolitical risks, and uneven growth across regions. While US and European equities largely consolidated near record highs, Asia-Pacific markets showed greater divergence, shaped by domestic macro conditions and policy responses.

### SECTION A – PERFORMANCE OF US STOCK MARKETS

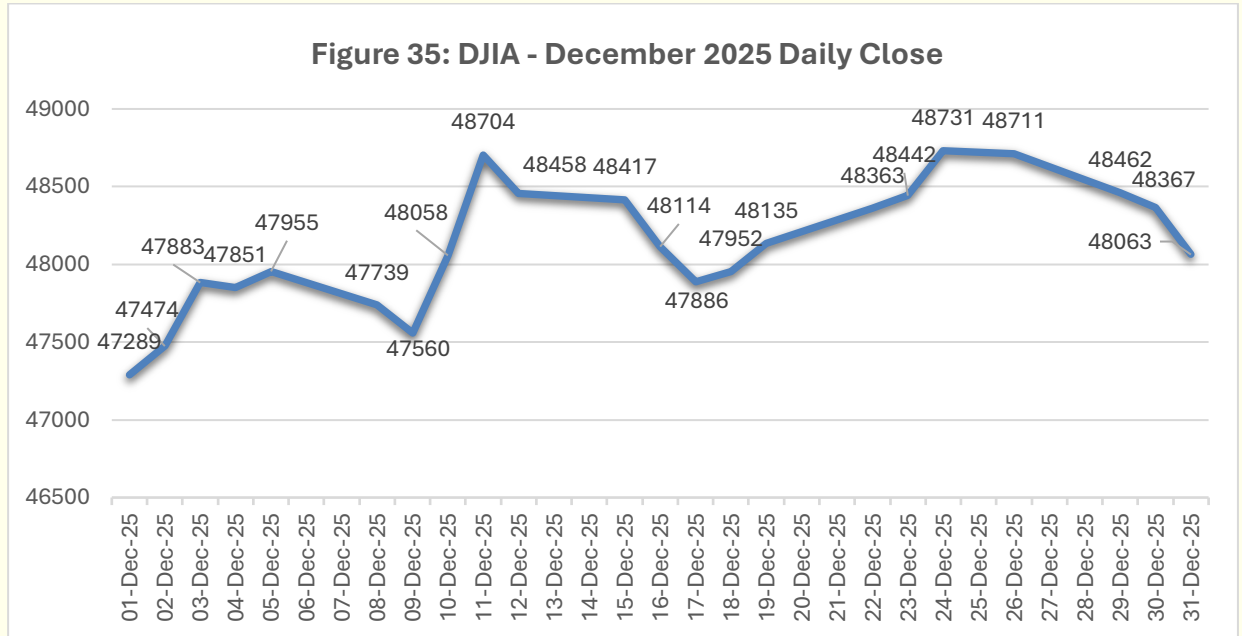
#### Introduction

US equity markets remained the primary anchor of global risk sentiment in December 2025. Supported by expectations of a soft landing, resilient corporate earnings, and optimism around artificial intelligence-led productivity gains, benchmark indices traded near historic highs, though volatility increased toward mid-month.

#### Dow Jones Industrial Average (DJIA)

The DJIA began December at 47,289 and climbed steadily to a peak of 48,731 on December 24, before easing to 48,063 by month-end (Figure 35). The DJIA posted a 1.6 percent monthly gain, advancing steadily through December as industrials, financials, and consumer blue chips led the rally, reflecting investor confidence in domestic growth resilience and earnings stability.

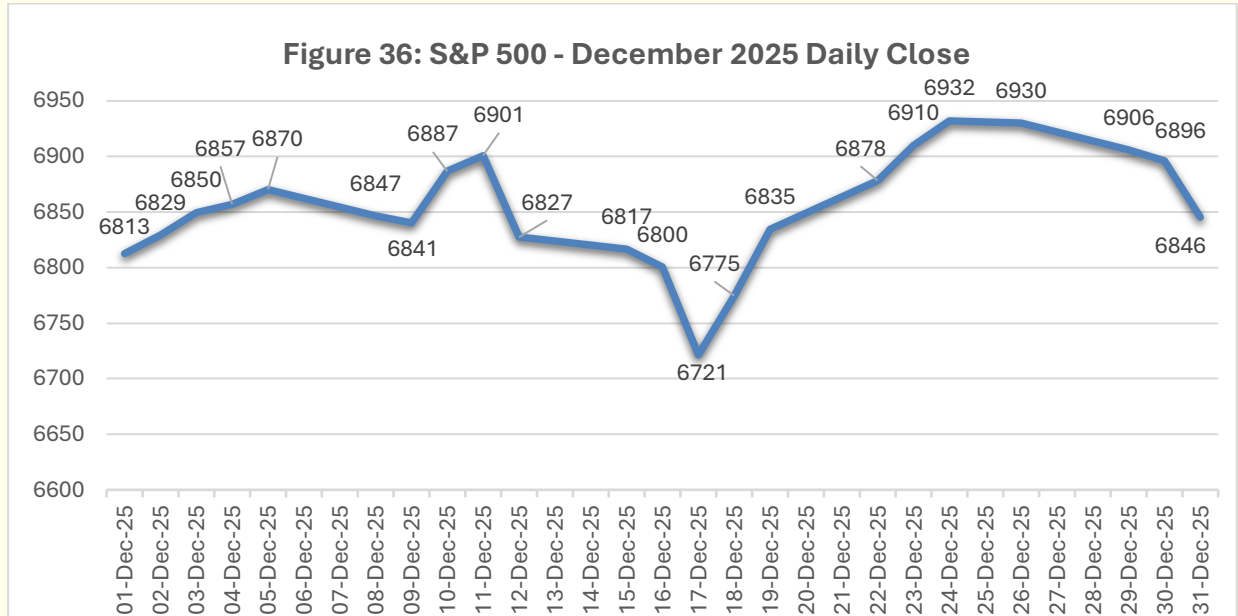




Source: <https://www.wsj.com/market-data/quotes/index/DJIA/historical-prices>

## S&P 500

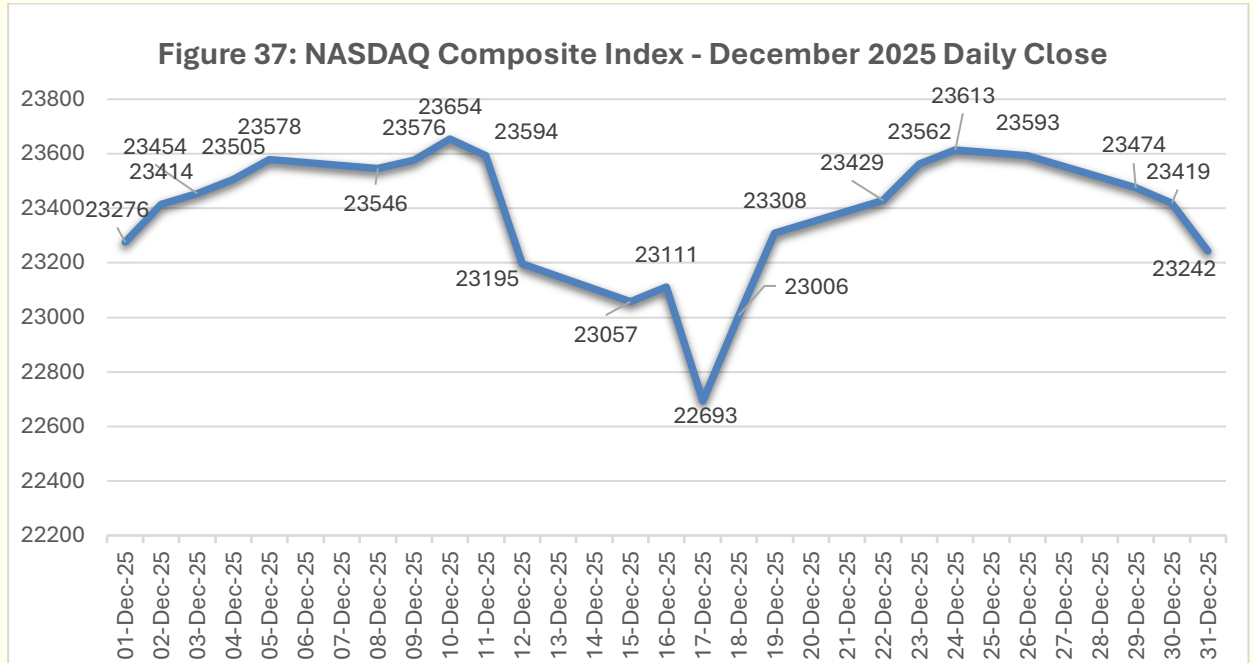
The S&P 500 displayed a similar trajectory, rising from 6,813 on December 1 to an intramonth high of 6,932 on December 24, before closing the year at 6,846 (Figure 36). It edged up 0.5 percent in December, as gains in technology and communication services offset valuation-driven consolidation during the middle of the month, keeping market leadership narrow but stable. Gains were driven by technology, communication services, and select healthcare stocks, though mid-month pullbacks highlighted sensitivity to bond yields and valuation concerns.



Source: <https://www.wsj.com/market-data/quotes/index/SPX/historical-prices>

## NASDAQ Composite Index

The technology-heavy NASDAQ Composite was comparatively more volatile. It rose from 23,276 at the start of the month to a high of 23,613, before correcting to 23,242 by December 31 (Figure 37). The NASDAQ slipped 0.1 percent over the month, underperforming broader benchmarks as investors booked profits in high-growth technology stocks, even as longer-term optimism around artificial intelligence and digital infrastructure remained intact. The pattern underscored profit-taking in high-growth stocks even as the medium-term AI-led growth narrative remained intact.



Source: <https://www.wsj.com/market-data/quotes/index/COMP/historical-prices>

## Insights

Overall, US markets ended December in consolidation mode near record highs, suggesting investor confidence in the earnings outlook but growing caution about near-term upside. The divergence between headline indices and select growth stocks pointed to increased selectivity rather than broad-based risk aversion.

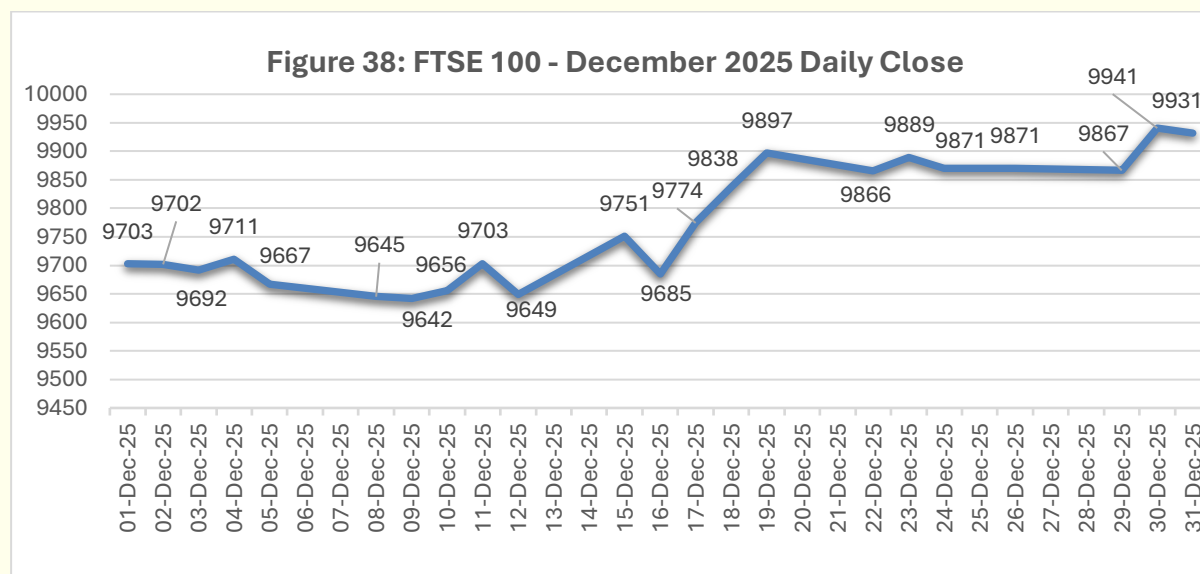
## SECTION B - PERFORMANCE OF EUROPEAN STOCK MARKETS

### Introduction

European equities posted moderate gains in December, supported by easing inflation, expectations of eventual European Central Bank (ECB) rate cuts, and relative valuation comfort compared to US markets. However, growth concerns and geopolitical uncertainty capped upside.

### FTSE 100

The FTSE 100 rose from 9,703 at the start of December to 9,931 by month-end, after touching an intramonth high near 9,941 (Figure 38). It increased 2.4 percent during the month, outperforming its peers as strength in energy, mining, and financial stocks was supported by firm commodity prices and an improvement in global risk appetite. The index benefited from strength in energy, financials, and global commodity-linked stocks.



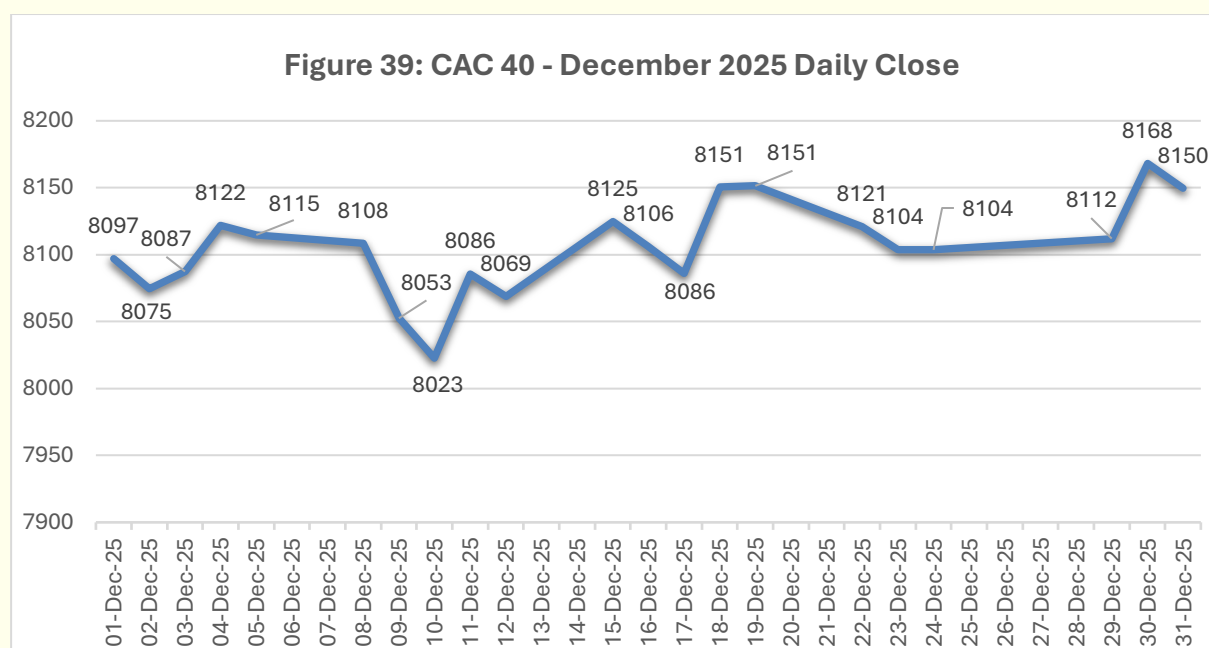
Source: <https://www.wsj.com/market-data/quotes/index/UK/UKX/historical-prices>

### CAC 40 (Paris, France)

France's CAC 40 traded in a relatively narrow range, starting at 8,097 and closing December at 8,150 (Figure 39), recording a 0.7 percent monthly gain, with advances in

*Driving Policy, Empowering Progress*

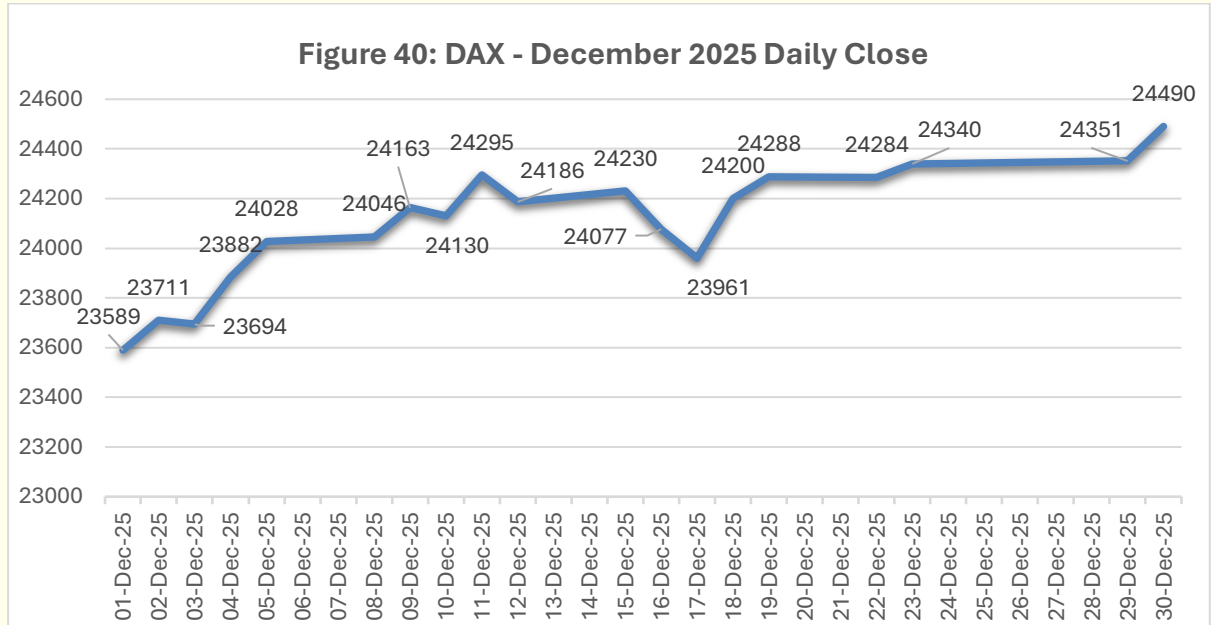
industrials and banking stocks partly offset by weaker performance in luxury and other consumer-facing segments. The index reflected mixed performance across luxury goods, industrials, and financials, with subdued domestic demand weighing against export resilience.



Source: <https://www.wsj.com/market-data/quotes/index/FR/PX1/historical-prices>

### DAX (Frankfurt, Germany)

Germany's DAX was the strongest performer among major European indices, rising from 23,589 to 24,490 by December 30 (Figure 40). The index surged 3.8 percent over the month, emerging as Europe's standout performer as export-oriented industrials, auto majors, and technology-linked manufacturing stocks led the rally. Gains were driven by industrial exporters and technology-linked manufacturing firms, supported by improving global trade sentiment.



Source: <https://www.wsj.com/market-data/quotes/index/DX/DAX/historical-prices>

## Insights

European markets demonstrated measured optimism, underpinned by disinflation trends and expectations of policy easing in 2026. However, structural growth constraints and external risks continued to limit aggressive re-rating.

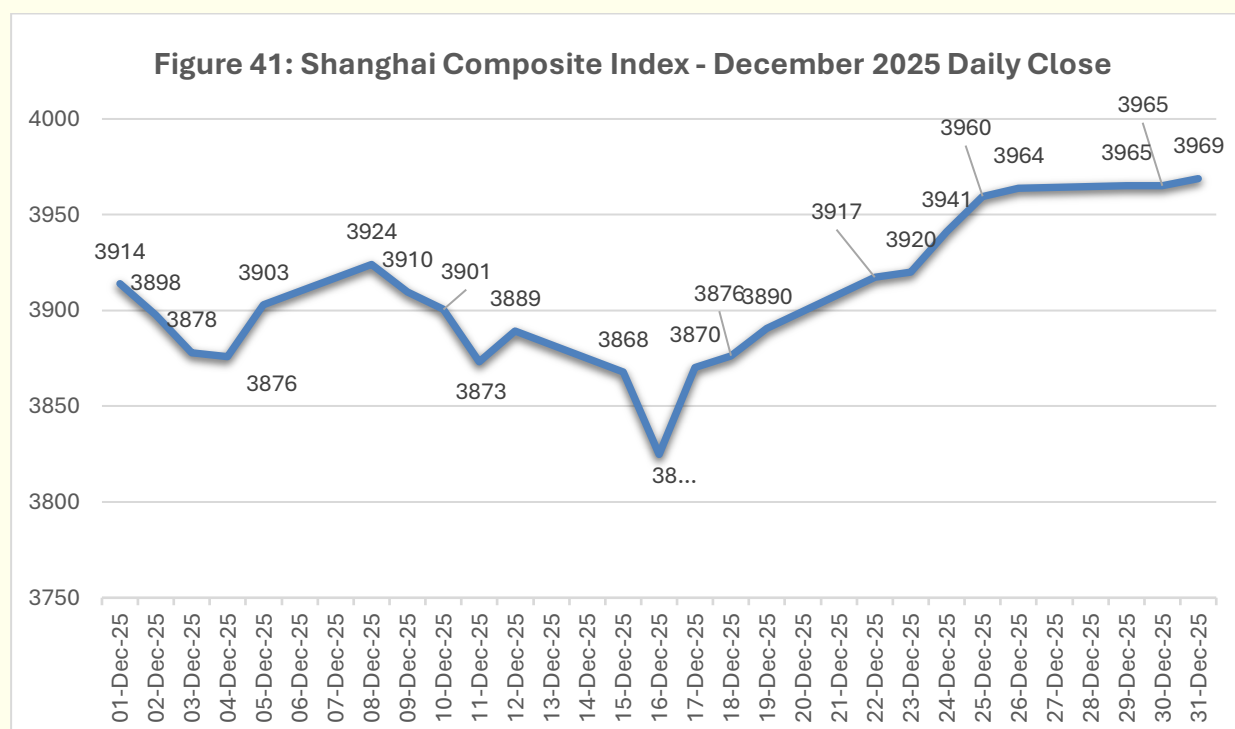
## SECTION C – PERFORMANCE OF ASIA-PACIFIC STOCK MARKETS

### Introduction

Asia-Pacific markets exhibited pronounced divergence in December 2025, reflecting varying domestic growth dynamics, currency movements, and policy frameworks. While Japan and select Southeast Asian markets performed strongly, China and Hong Kong remained comparatively subdued.

### Shanghai Composite Index (Shanghai, China)

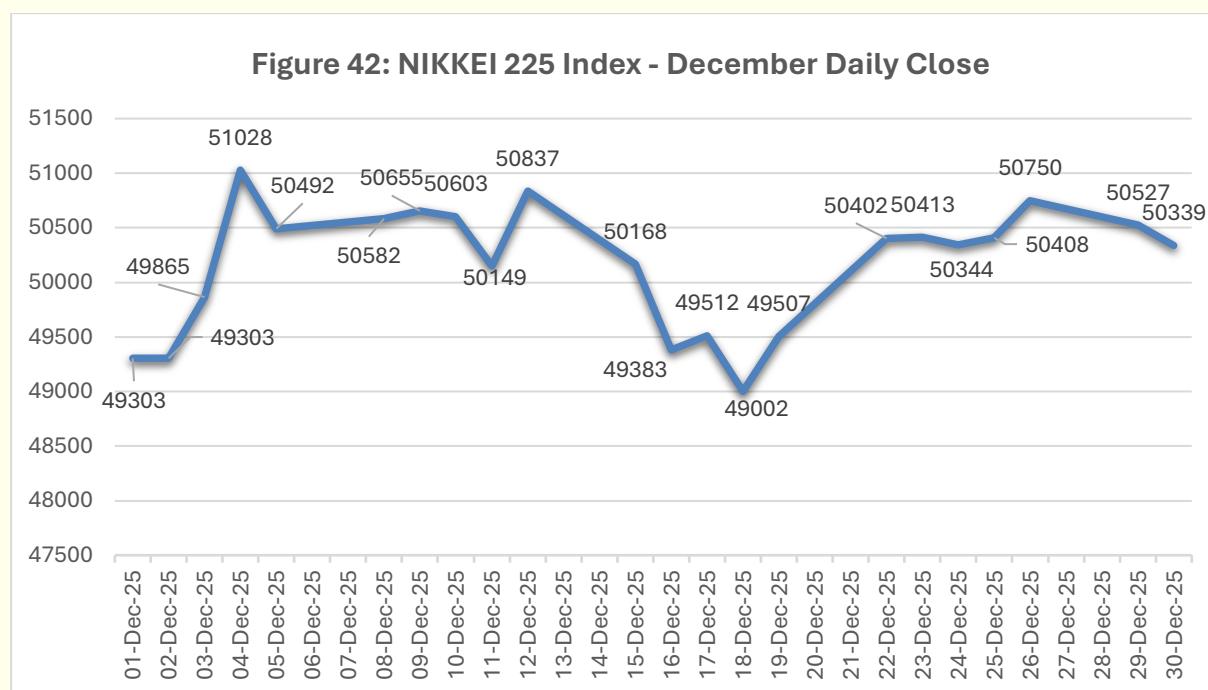
The Shanghai Composite rose steadily from 3,914 to 3,969 by month-end (Figure 41). Chinese equities rose 1.4 percent during the month, posting modest gains on the back of targeted policy support and signs of stabilising inflation, even as persistent stress in the property sector continued to weigh on overall investor sentiment. The gradual recovery reflected targeted policy support and stabilising inflation, though investor sentiment remained cautious amid property sector stress.



Source: <https://www.wsj.com/market-data/quotes/index/CN/XSHG/SHCOMP/historical-prices>

## NIKKEI 225 (Tokyo, Japan)

Japan's Nikkei 225 was among the strongest global performers, surging from 49,303 to 51,028 (December 4) before ending the month near 50,339 (Figure 42). The benchmark index advanced 2.1 percent over the month, buoyed by strong corporate earnings, a weaker yen that supported exporters, and sustained inflows from foreign investors. A weaker yen, robust corporate earnings, and continued foreign inflows supported gains.



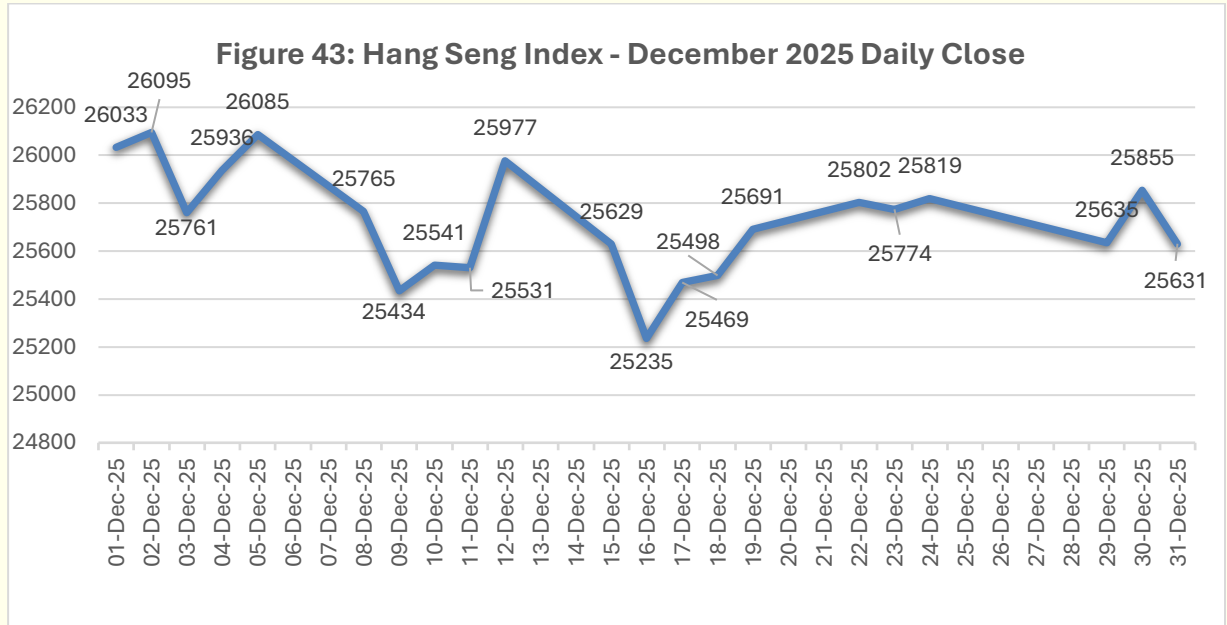
Source: <https://www.wsj.com/market-data/quotes/index/JP/NIK/historical-prices>

## Hang Seng Index (Hong Kong)

Hong Kong's Hang Seng Index underperformed, declining from 26,033 to 25,631 by December 31 (Figure 43). The index declined 1.5 percent during the month, underperforming regional peers amid persistent concerns over China's growth outlook and continued weakness in technology and property-linked stocks. Persistent concerns over China's growth outlook and weak technology stocks weighed on sentiment.



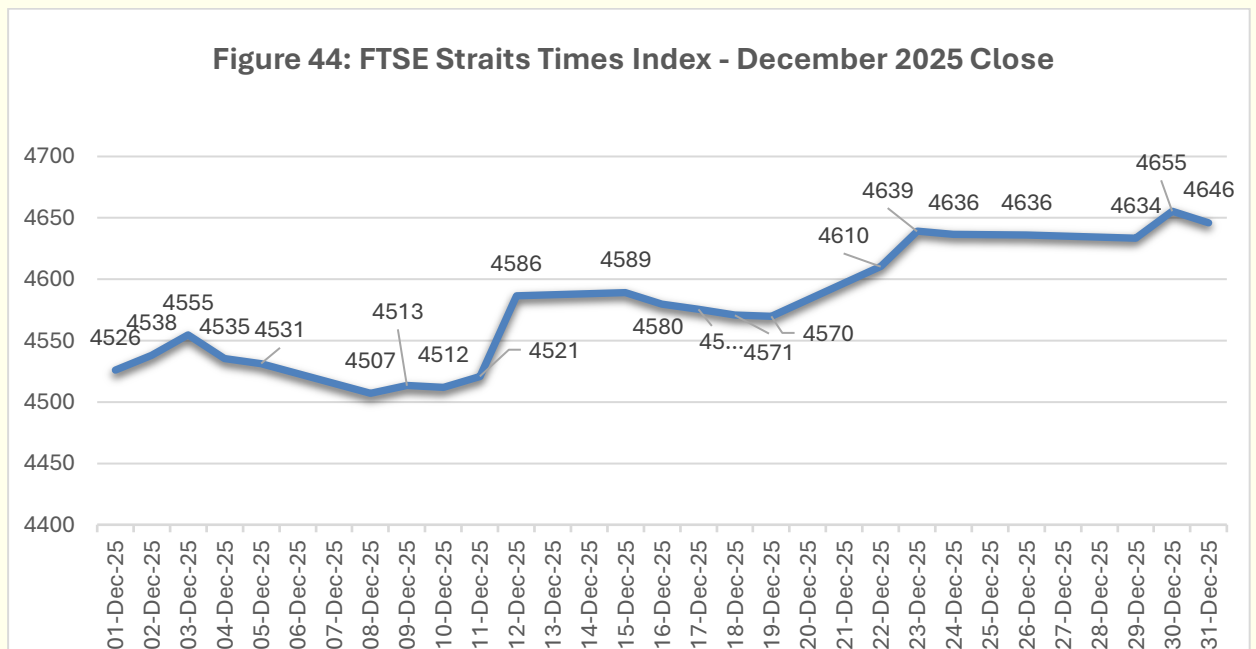
Driving Policy, Empowering Progress



Source: <https://www.wsj.com/market-data/quotes/index/HK/HSI/historical-prices>

### FTSE Straits Times Index (Singapore)

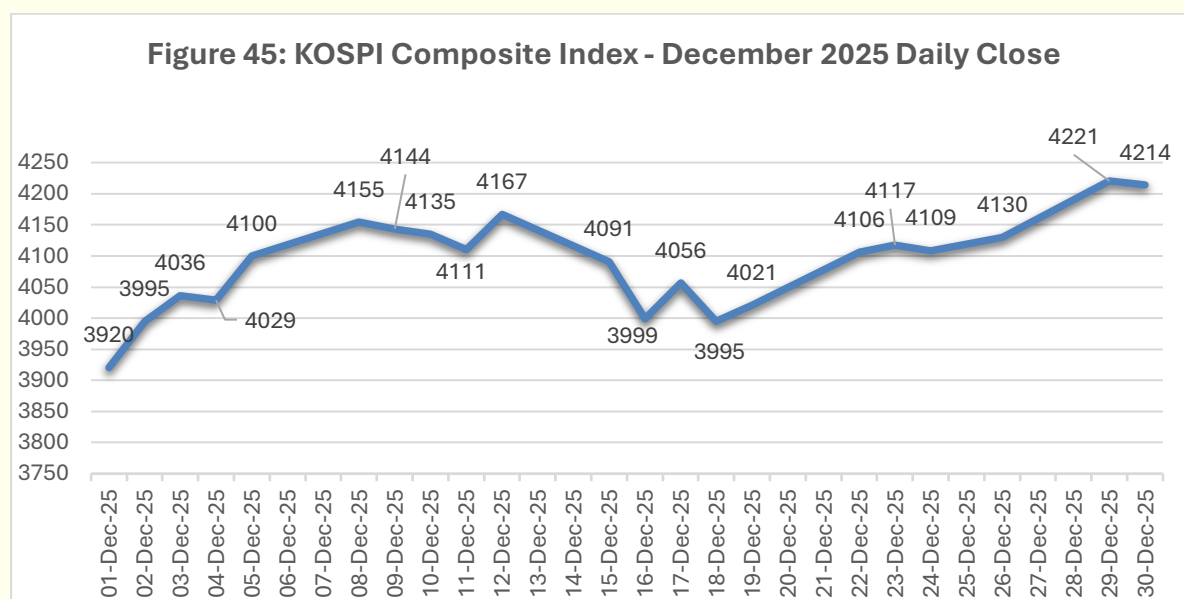
Singapore's benchmark rose from 4,526 to 4,646 (Figure 44), posting a 2.7 percent monthly gain supported by financials, REITs, and regional trade resilience.



Source: <https://www.wsj.com/market-data/quotes/index/SG/STI/historical-prices>

## KOSPI Composite Index (Busan & Seoul, South Korea)

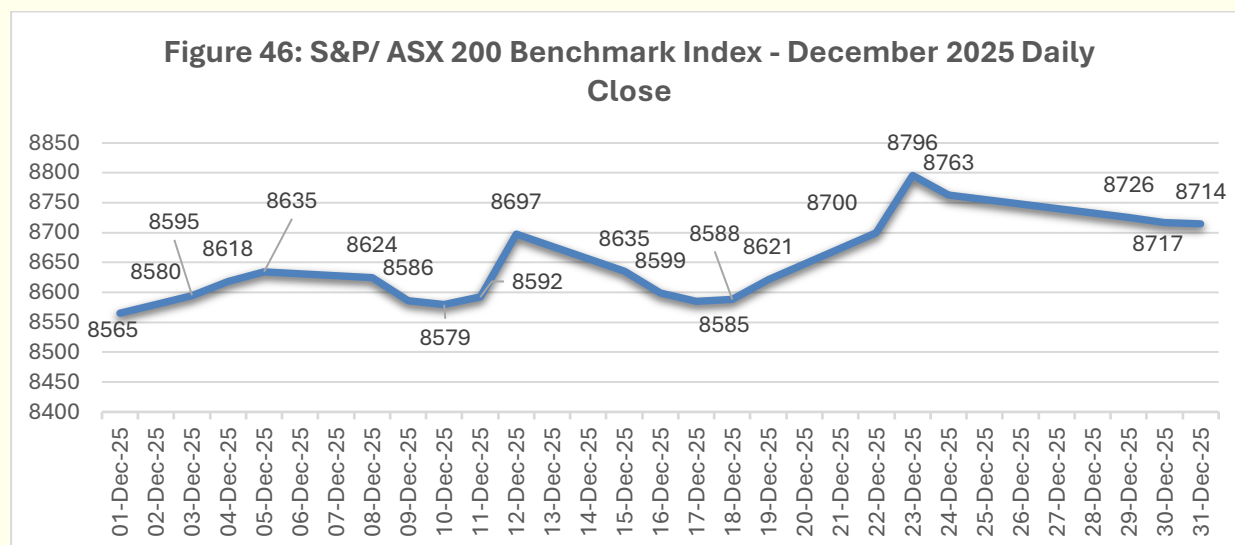
South Korea's KOSPI advanced strongly by 7.5 percent over the month, climbing from 3,920 to 4,214 (Figure 45), driven by semiconductor stocks and improving global technology demand.



Source: <https://www.wsj.com/market-data/quotes/index/KR/SEU/historical-prices>

## S&P/ASX Benchmark Index (Sydney, Australia)

Australia's S&P/ASX index also posted gains, rising from 8,565 to 8,714 (Figure 46), rising 1.7 percent, supported by mining stocks and expectations of monetary policy stability.



Source: <https://www.wsj.com/market-data/quotes/index/AU/XJO/historical-prices>

## Insights

Asia-Pacific markets reflected a two-speed dynamic: export- and technology-oriented economies outperformed, while China-linked markets lagged due to structural and confidence-related challenges.

## SECTION D – OUTLOOK FOR MAJOR GLOBAL STOCK INDICES

Looking ahead, global equity markets are likely to remain shaped by three dominant forces: the timing and pace of monetary easing in advanced economies, the sustainability of earnings growth—particularly in technology and industrial sectors—and geopolitical risks. While valuations in US markets warrant caution, strong balance sheets and productivity-linked growth provide medium-term support. Europe may benefit from relative valuation appeal, while Asia-Pacific performance will depend heavily on China’s policy effectiveness and global trade momentum.

Overall, December 2025 marked a phase of global market consolidation rather than exhaustion, setting the stage for more selective, earnings-driven performance in 2026.



## SECTION 3

# RESEARCH DIGEST

## STABLECOINS AND THE FUTURE OF MONEY: PROMISE, PERIL, AND POLICY CHOICES

*The global financial system stands at an inflection point, where rapid technological innovation is colliding with long-established principles of monetary sovereignty, financial stability, and public trust. Few developments capture this tension as sharply as the rise of stablecoins. Positioned by their proponents as instruments of faster payments, financial inclusion, and innovation, stablecoins have expanded rapidly across borders, raising fundamental questions about their macroeconomic, regulatory, and systemic implications—especially for emerging and developing economies.*

*This special section brings together two authoritative perspectives that examine stablecoins from complementary but distinct vantage points. The first, an IMF blog by Tobias Adrian, Marcello Miccoli, and Nobuyasu Sugimoto, offers a global assessment of stablecoins' growing footprint, highlighting both their promise in cross-border payments and financial access, and the significant risks they pose to monetary policy autonomy, capital flow management, financial integrity, and international financial architecture. The second is a lecture by T. Rabi Sankar, Deputy Governor of the Reserve Bank of India, which provides a principled critique rooted in the theory and practice of money, arguing that stablecoins lack the core attributes that make money stable and trustworthy, while introducing serious risks to banking intermediation, seigniorage, and systemic resilience.*

*Read together, these two contributions underscore a shared conclusion: while tokenisation and digital innovation are here to stay, the challenge for policymakers is not whether to innovate, but how to do so without weakening the foundations of the monetary and financial system. They also illuminate why the stakes are particularly high for emerging market economies, where currency substitution, volatile capital flows, and erosion of policy space can have far-reaching consequences. This section is intended to inform, provoke debate, and situate India's policy choices—especially the emphasis on public digital infrastructure and central bank digital currencies—within the broader global discourse on the future of money.*

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## HOW STABLECOINS CAN IMPROVE PAYMENTS AND GLOBAL FINANCE

In this IMF blog, Tobias Adrian, Marcello Miccoli, and Nobuyasu Sugimoto argue that stablecoins—despite being much smaller than Bitcoin by market capitalization—are becoming systemically important because of their growing links with mainstream finance and their rapid expansion in use. Over the past two years, stablecoins have seen a sharp rise in issuance and transactions, with the two largest stablecoins tripling in size since 2023 to a combined market capitalization of about \$260 billion, and annual trading volumes reaching \$23 trillion in 2024. Activity is highest in Asia in absolute terms, while Africa, the Middle East, and Latin America stand out relative to GDP, with most flows originating from North America.

The authors highlight the promise of stablecoins in cross-border payments and remittances, where existing correspondent banking systems are slow, costly, and opaque. By operating on blockchains as a single shared ledger, stablecoins could significantly reduce transaction costs, processing times, and complexity—an important benefit given that remittance fees can reach as high as 20 percent in some corridors. Stablecoins may also promote financial inclusion, particularly in developing economies, by increasing competition in digital payments, lowering costs, and extending services to populations underserved by traditional banks. This potential is reinforced by the rapid spread of mobile technology and digital money in many low- and middle-income countries.

At the same time, the blog underscores significant macrofinancial and financial stability risks. Because stablecoins are typically backed by conventional assets such as cash and government securities—often US Treasury bonds—their value depends on the quality of reserves and user confidence. Loss of confidence could trigger runs, fire sales of reserve assets, and spillovers to broader financial markets. A major concern is currency substitution, as digital, dollar-denominated stablecoins could accelerate the replacement of domestic currencies in countries with high inflation or weak institutions, undermining monetary policy autonomy and the central bank's role as lender of last resort.

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Stablecoins could also reshape capital flows and exchange rate dynamics, potentially allowing users to bypass capital flow management measures that rely on regulated financial intermediaries. These risks are especially acute for emerging and developing economies, which are more vulnerable to volatile cross-border flows. In addition, stablecoins' pseudonymous, low-cost, and borderless nature raises concerns around money laundering, terrorist financing, and other illicit activities if safeguards are insufficient.

From an international perspective, the authors caution that the benefits of faster and cheaper payments could be undermined by fragmentation, as multiple non-interoperable stablecoin networks emerge under differing national regulations. While global standard setters such as the IMF and the Financial Stability Board have issued recommendations—and regulatory approaches are gradually converging toward treating stablecoins as payment instruments—significant divergences across jurisdictions remain. These gaps create opportunities for regulatory arbitrage, weaken oversight, and complicate crisis management. Data gaps are another challenge, as limited visibility into holders and cross-border transactions hampers effective macroeconomic monitoring.

The blog concludes that stablecoins and tokenization are likely to persist, though their ultimate role in the global financial system remains uncertain. While some stablecoin providers could become dominant global players, banks and central banks are also exploring their own digital solutions. The authors stress that improving cross-border payments will require not only responsible stablecoin regulation but also upgrades to existing payment infrastructures. Achieving the right balance between innovation and stability, they argue, demands strong international coordination among policymakers, regulators, and the private sector.

*The full IMF Blog can be accessed from:*

<https://www.imf.org/en/blogs/articles/2025/12/04/how-stablecoins-can-improve-payments-and-global-finance>

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## **STABLECOINS – DO THEY HAVE A ROLE IN THE FINANCIAL SYSTEM -**

In this lecture, RBI Deputy Governor T. Rabi Sankar presents a principled and forceful critique of cryptocurrencies—especially stablecoins—arguing that they pose fundamental risks to monetary sovereignty, financial stability, and the integrity of the modern financial system, while offering no benefits that cannot be achieved more safely through existing or emerging public infrastructure.

He begins by situating money as a sovereign institution built on trust, evolving in form with technology but anchored in two defining features: fiat backing by the sovereign and “singleness”, meaning all forms of money are interchangeable at par and ultimately settle in central bank money. These attributes ensure stability, trust, and smooth functioning of commerce. Historically, private money has existed but has consistently proven unstable.

Against this benchmark, Sankar argues that unbacked cryptocurrencies fail entirely as money. They have no intrinsic value, no promise to pay, no issuer, and no underlying cash flows, making them neither money nor financial assets but purely speculative instruments akin to gambling. Their prices, he contends, reflect speculation rather than value.

The focus then shifts to stablecoins, which are closer to money because they are typically backed by financial assets and pegged to fiat currencies. Even here, Sankar identifies deep flaws. Most stablecoins do not clearly constitute a legal promise to pay at par, and even if they did, they remain private money, violating both the fiat nature and the singleness of money. A system with multiple privately issued currencies, he argues, would be inherently unstable and fragment the monetary system.

Addressing claimed benefits, Sankar is sceptical. In domestic payments, he notes that systems like UPI already deliver real-time, low-cost, and reliable payments, leaving little scope for improvement by stablecoins. While stablecoins may marginally improve cross-border payments, their efficiency is uncertain given issues of acceptability, regulation, and fragmentation across multiple issuers. Claims of enhanced financial

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inclusion are also rejected: inclusion requires safety, stability, and accessibility, which fiat-based digital public infrastructure delivers more effectively than private digital tokens dependent on smartphones, connectivity, and technical literacy. In practice, stablecoins remain largely confined to facilitating crypto-market trading rather than real-economy transactions.

The lecture devotes substantial attention to systemic risks. Stablecoins can accelerate currency substitution, especially in emerging markets, undermining demand for domestic currency and increasing dollarisation. This weakens monetary policy transmission, as central banks lose control over money supply and interest rates. Stablecoins also threaten capital flow management, enabling circumvention of controls through pseudonymous, cross-border transactions. Their widespread adoption could disintermediate banks, raising the cost of credit or forcing greater reliance on central bank liquidity—an unsustainable model. These channels together heighten systemic vulnerability to external shocks.

A particularly underappreciated risk, Sankar argues, is the loss of seigniorage. Income that rightly accrues to governments from issuing sovereign money would instead flow to private stablecoin issuers, often located outside the issuing country and denominated in foreign currency. Even domestically denominated stablecoins, he stresses, do not eliminate these risks and are not safe alternatives.

Reviewing global policy responses, Sankar notes that while bodies like the FSB, IMF, and BIS have issued recommendations, they fall short of addressing the asymmetric and amplified risks faced by emerging market and developing economies. Stablecoins, he argues, are structurally unsuitable to anchor a monetary system and can undermine countries with capital controls if adopted unevenly across borders.

For India, Sankar advocates a clear and cautious policy stance. Given India's robust payment infrastructure, stablecoins offer little incremental value while posing serious risks. Instead, India should pursue innovation through Central Bank Digital Currencies (CBDCs), which retain all essential attributes of money—sovereignty, trust, singleness,

and value—while enabling programmability, efficiency, and lower cross-border frictions. Complementary strategies include building cross-border CBDC corridors and expanding interlinkages of fast payment systems like UPI to meet G20 goals for cheaper and faster international payments.

Sankar argues that stablecoins do not serve any essential economic purpose that cannot be better fulfilled by sovereign money and public digital infrastructure. The real danger, he warns, is not a failing stablecoin but a successful one that undermines the foundations of the monetary system. India's policy choice, therefore, must prioritise trust in the national currency, monetary sovereignty, macro-financial stability, and innovation that strengthens—rather than bypasses—the regulated financial system.

*The text of the lecture by RBI Deputy Governor T. Rabi Sankar can be accessed from:*  
<https://website.rbi.org.in/web/rbi/-/speeches-interview/stablecoins-do-they-have-a-role-in-the-financial-system>

## SYNOPSIS OF RESEARCH PAPERS

### HUMAN CAPITAL AND DEVELOPMENT

Authors: Philippe Aghion, Ingvild Almås, and Costas Meghir

*NBER Working Paper No. 34602, December 2025*  
National Bureau of Economic Research (NBER)

Human capital is a critical driver of long-term economic growth, convergence, and poverty reduction. Drawing on foundational growth theories and extensive empirical evidence, this paper examines how different forms of human capital—distinguished by education level—matter at different stages of development. While human capital has accounted for nearly 45 percent of global growth in recent decades, its impact depends on complementary conditions that support entrepreneurship, physical investment, and innovation.

Despite rising years of schooling, many low- and middle-income countries continue to face stagnant learning outcomes, risking low-skill poverty traps. The paper identifies key barriers to human capital accumulation, including early childhood deprivation, low education quality, weak incentives, and institutional failures. Reviewing evidence from experimental and observational studies, it highlights cost-effective interventions that can sustainably improve skills, provided implementation quality is high. The paper concludes that human capital policies must be combined with broader economic reforms to translate skills into sustained and inclusive growth.

*The full paper can be accessed from:*  
[https://www.nber.org/system/files/working\\_papers/w34602/w34602.pdf](https://www.nber.org/system/files/working_papers/w34602/w34602.pdf)

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## ARTIFICIAL INTELLIGENCE AND GROWTH IN ADVANCED AND EMERGING ECONOMIES: SHORT-RUN IMPACT

Authors: Leonardo Gambacorta, Enisse Kharroubi, Aaron Mehrotra and Tommaso Oliviero

*BIS Working Papers No. 1321, December 2025*

Bank for International Settlements

This paper examines whether the short-run growth effects of generative artificial intelligence (gen AI) differ systematically across countries. Using an empirical strategy inspired by Rajan and Zingales (1998) and a novel dataset covering 56 economies and 16 industries, the authors identify differential growth impacts arising from cross-country variation in sectoral exposure to cognitive and knowledge-intensive activities, production structures, and levels of AI preparedness. The results show that gen AI is likely to generate larger gains in gross value added in advanced economies than in emerging market economies, suggesting a widening of global income disparities in the near term. By extending the analysis beyond the United States and other advanced economies, the paper fills an important gap in the literature on cross-country AI impacts. While the estimates capture short-run effects on value-added growth, translating these findings into total factor productivity and long-run growth implications requires a structural framework incorporating aggregate demand effects and intersectoral spillovers, which is left for future research.

*The full paper can be accessed from: <https://www.bis.org/publ/work1321.pdf>*

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## INDIA'S HUMAN DEVELOPMENT: HOW DO QUALITY-ADJUSTED ELEMENTS CHANGE THE PICTURE?

Authors: Janak Raj and Indramani Tiwari

*CSEP Working Paper – 108, December 2025*

Centre for Social and Economic Progress, New Delhi

The concept of human development has evolved beyond income-based measures to encompass broader aspects of well-being, opportunities, and capabilities. While the Human Development Index (HDI), introduced by the UNDP in 1990, marked a major advance by incorporating education and health, it remains largely focused on quantitative indicators and overlooks critical qualitative dimensions. This paper addresses this limitation by constructing a Quality-Adjusted Human Development Index (Q-HDI) at the subnational level for India. The index incorporates qualitative adjustments in all three HDI dimensions: income (adjusted for inequality), health (accounting for diseases and disabilities), and education (based on learning outcomes rather than years of schooling), and further adjusts the composite index for gender inequality. Using state-level data for 2011–12, 2017–18, and 2021–22, the study finds substantial divergences between traditional HDI and Q-HDI across Indian states. Quality-adjusted indices are consistently lower than their traditional counterparts, with particularly large gaps in education across all states, including high-HDI states such as Kerala and Himachal Pradesh. Health-related divergences widened sharply in 2021–22, reflecting the impact of the COVID-19 pandemic. Although the overall divergence between HDI and Q-HDI narrowed over time, it remains significant, underscoring the importance of integrating qualitative dimensions into human development assessments and the need for state-specific policy responses.

*The full paper can be accessed from: <https://csep.org/wp-content/uploads/2025/12/Indias-Human-Development-2.pdf>*

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## SUMMARY OF OPINION ARTICLES FROM INDIAN PUBLICATIONS

### CHINA'S GEO-ECONOMIC TACTICS

Amitendu Palit writes that China's nearly \$1 trillion trade surplus is not merely a macroeconomic outcome but a clear signal of its growing geo-economic power. Despite heightened tariffs and trade tensions with the US through much of 2025, China ended the year in a position of strength, underscored by a massive surplus and the restoration of access to advanced Nvidia H200 chips following the November truce between Presidents Donald Trump and Xi Jinping.

The article argues that global efforts to decouple from China or reduce dependence on its manufacturing base have so far had limited impact. The rest of the world continues to buy far more from China than it sells to it, highlighting the indispensability of Chinese exports across sectors. Even without extensive free trade agreements and despite tariffs imposed by major economies such as the US, India, and Germany, Chinese exports have remained competitive and resilient—demonstrating China's enduring control over global supply chains.

This resilience gives China a powerful geo-economic advantage, allowing it not only to influence production networks but also to shape global trade flows through its role as a major consumer market. Just as the US has used tariffs to control access to its domestic market, China has shown it can weaponise demand—illustrated by its temporary suspension of US agricultural imports during trade tensions.

Looking ahead, Palit suggests China will deepen this advantage by strategic specialisation, focusing on sectors that are difficult to replicate locally elsewhere, such as electric vehicles, artificial intelligence applications, green technologies, legacy semiconductors, rare earths, drones, aircraft, and industrial robotics. By scaling these industries, China will also become the largest buyer of critical intermediate goods, further tightening its grip on global supply chains.

The sustainability of this dominance ultimately hinges on the Chinese state's capacity to continue funding strategic industrial expansion. So far, concerns over domestic debt have not constrained such funding, as evidenced by large-scale investments even in frontier technologies like large language models. Unless severe domestic economic disruptions emerge, Palit concludes, trillion-dollar trade surpluses are likely to recur, reinforcing China's expanding geo-economic influence in the years ahead.

*This is a summary of an article by Amitendu Palit , published in Financial Express on 25 December 2025*

*The full article can be accessed from: <https://shorturl.at/5ji9h>*

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## CHINA'S WTO MOVES SIGNAL INDIA'S ARRIVAL AS A MANUFACTURING RIVAL

China's decision to challenge India's industrial policies at the World Trade Organisation marks more than a routine trade dispute—it signals a structural shift in how Beijing perceives India's role in global manufacturing. For the first time, China appears to see India not just as a large consumption market, but as a potential production rival, particularly in strategically vital sectors such as electronics, electric mobility, and clean energy.

Over the past few months, China has filed multiple WTO complaints against India, targeting production-linked incentive (PLI) schemes for electric vehicles, advanced chemistry cells and auto components, as well as tariffs and subsidies related to information and communication technology products and solar photovoltaic manufacturing. It has also revived a long-pending appeal against India's mobile phone import duties imposed in 2018. While these cases are framed around alleged violations of tariff commitments and prohibitions on import-substitution subsidies, the sectoral focus and timing suggest a deeper strategic intent.

At the core of Beijing's response lies electronics manufacturing, an area where China has exercised near-uncontested global dominance for nearly three decades. India's

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recent success in attracting smartphone assembly and electronics investments—supported by PLIs—represents one of the few credible attempts to challenge that dominance at scale. China’s move to litigate, despite its own extensive use of industrial subsidies, is notable precisely because Beijing has historically avoided WTO disputes that could expose its own policy framework to scrutiny. That restraint appears to be giving way as India’s manufacturing push gains traction.

The litigation also follows a series of non-tariff actions by China over the past year. These include the withdrawal of Chinese engineers from Indian contract manufacturing facilities, restrictions on exports of key capital equipment affecting electronics and solar manufacturing, and tighter controls on rare earth supplies. The sequencing is telling. These steps coincide with the approaching sunset of India’s flagship smartphone PLI scheme in March 2026 and align with China’s broader effort to retain control over high-value supply chains.

China’s commercial calculus is further shaped by the structure of the Indian market. While Chinese smartphone brands command significant market share domestically, they export little from India. By challenging import duties and localisation incentives, Beijing appears intent on ensuring that even limited supply-chain depth developed in India does not evolve into a durable manufacturing base—while Chinese firms continue to access Indian consumers.

The broader message is unmistakable: India has entered China’s competitive radar as a manufacturing economy, not merely as an end market. The appropriate response, therefore, is not policy retreat but strategic consolidation. India must use the WTO process to manage external pressure while simultaneously strengthening its domestic industrial ecosystem—by extending effective incentive frameworks, improving implementation, and addressing infrastructure and execution bottlenecks.

Viewed through this lens, China’s WTO challenges are less about legal technicalities and more about signalling and containment. For India, they underscore the need to

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convert early manufacturing gains into lasting competitive advantage—transforming external resistance into a catalyst for deeper, more resilient industrial capability.

*This article is based on a Financial Express editorial ‘China’s Trade Challenge’ on 25 December 2025*

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## **ROLLING BACK QCOS FIXES THE DAMAGE, BUT IT IS NOT THE SAME AS REFORM**

The article argues that while India’s recent rollback of quality control orders (QCOs) has eased supply-chain disruptions and reduced costs for exporters, it should not be mistaken for genuine reform. Instead, the episode reflects a recurring pattern in India’s economic governance: inward-looking interventions followed by delayed recognition of their costs and quiet retreats, often portrayed as pragmatism.

QCOs, once used sparingly, expanded rapidly after 2020 and effectively became non-tariff trade barriers, restricting access to imported intermediate inputs and raising production costs—especially for export-oriented sectors. In industries such as apparel, QCOs on polyester and viscose led to import collapses, forced reliance on costlier domestic substitutes, reduced productivity, and weakened exports. These outcomes followed basic economic logic and were largely predictable.

By mid-2025, internal concerns about supply disruptions grew, amplified by renewed global trade shocks. An inter-ministerial review was set up, new QCOs were halted, and NITI Aayog later recommended scrapping many of them. The rapid shift—from defending and expanding QCOs to quietly dismantling them within weeks—exposed policy incoherence, not tactical flexibility.

The article situates QCOs within a broader reversal of India’s post-1991 trade liberalisation. From 2017–18, tariffs were raised across thousands of products, particularly in labour-intensive manufacturing, increasing costs and undermining export competitiveness. As with QCOs, these policies were later partially unwound

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once economic damage became evident, through tariff cuts and withdrawal of anti-dumping duties.

Such reversals, the article stresses, do not undo the harm already done. Supply chains adapt, buyers shift, and investments are lost—often permanently. Conflating rollback with reform weakens accountability and raises the risk of repeated policy missteps. In a global environment already marked by fragmentation and protectionism, the article concludes, policy predictability is a crucial economic asset. Until the deeper governance reflex that produces such cycles is addressed, India's policy uncertainty will remain self-inflicted and costly

***This is a summary of an article by Abhishek Anand published in Business Standard on 25 December 2025.***

***The full article can be accessed from: <https://shorturl.at/vU8Rs>***

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## BOOKSHELF CHRONICLES

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### MS SWAMINATHAN: THE MAN WHO FED INDIA

Author: Priyambada Jayakumar

Publisher: Harper Collins

Year of Publication: 2025

*MS Swaminathan: The Man Who Fed India* is a meticulously researched and evocatively written biography of one of the most consequential figures in India's agricultural history. Priyambada Jayakumar, a historian with a deep understanding of science and society, delivers a compelling account of M. S. Swaminathan's life, work, and the transformative impact of his ideas on Indian agriculture.

Jayakumar traces Swaminathan's evolution from an academically gifted student to the architect of India's Green Revolution, a movement that dramatically increased food grain production and averted large-scale famine in the 1960s and 1970s. The author situates his scientific brilliance within the complex tapestry of post-independence India, where political urgency, institutional innovation, and global scientific collaboration intersected.

The narrative deftly captures Swaminathan's early influences—his family's academic upbringing, the intellectual ferment of pre-independence India, and his exposure to international agricultural research. This biographical context helps explain both his scientific rigor and his lifelong commitment to rural development and farmer welfare.

One of the book's strengths lies in its explanation of scientific concepts in accessible language without diluting their significance. Jayakumar outlines how Swaminathan's emphasis on high-yielding variety (HYV) seeds, combined with irrigation and fertilizers, catalysed productivity gains in wheat and rice—transforming India from a food-deficit nation to a food-surplus one.

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Beyond the Green Revolution's agronomic achievements, the author also explores Swaminathan's holistic vision of sustainable agriculture, which anticipated many modern debates around ecological resilience, biodiversity, and equity. His later work on eco-development, biological diversity conservation, and pro-poor agricultural policy is presented as a natural extension of his belief that science must serve society.

While the book celebrates Swaminathan's contributions, it does not shy away from the controversies and limitations associated with the Green Revolution. Jayakumar provides a reasoned discussion of critiques—such as regional disparities in benefits, environmental costs from intensive inputs, and later concerns about long-term soil health and water use. Rather than undermining Swaminathan's legacy, these reflections offer readers a balanced perspective on the complexities of agrarian transformation.

Importantly, the biography situates these debates within the ethics and exigencies of policy-making in a developing economy, where trade-offs are often unavoidable and imperfect solutions may still produce profound public good.

The book is structured chronologically but enriched with thematic chapters that explore science-policy linkages, institutional dynamics, and personal philosophies. Jayakumar's narrative voice is both authoritative and empathic; she brings characters—scientists, policymakers, farmers, and critics—into clear focus, making the story as much about people as about prize-winning agronomy.

Archival letters, interviews, and contemporary accounts are woven seamlessly into the text, giving readers a sense of immediacy and historical texture. A concluding reflection on Swaminathan's enduring relevance ties the biography to present challenges in climate change adaptation and rural livelihoods.

*MS Swaminathan: The Man Who Fed India* succeeds not just as a biography but as a mirror to India's development aspirations and challenges. Swaminathan emerges not as a flawless figure but as a visionary scientist and compassionate reformer, whose work reshaped the trajectory of Indian agriculture and influenced global thinking on food security.

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***Driving Policy, Empowering Progress***

For students of agricultural history, policy practitioners, and general readers interested in India's development story, this book offers both narrative richness and analytical depth. It underscores how individual agency, when combined with institutional engagement and scientific excellence, can generate transformational societal outcomes.

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## OUR DOLLAR, YOUR PROBLEM

Author: Kenneth Rogoff

Publisher: Yale University Press

Year of Publication: 2025

*In Our Dollar, Your Problem: An Insider's View of Seven Turbulent Decades of Global Finance, and the Road Ahead*, Harvard economist Kenneth Rogoff offers a comprehensive and historically grounded exploration of the rise, dominance, and potential vulnerabilities of the US dollar in the international financial system.

Drawing on nearly half a century of experience, as an academic, IMF chief economist, and policy adviser, Rogoff blends economic history, personal anecdotes, and policy analysis to chart the dollar's ascendancy after World War II and to interrogate its future in a rapidly changing global landscape.

Rogoff traces how the dollar consolidated its position over rival currencies such as the Japanese yen, the Soviet rouble, and the euro. Through clear narrative and rich historical detail, he shows how geopolitical dynamics, institutional trust, and deep US capital markets solidified the dollar's central role in global trade, finance, and reserve holdings.

Yet, unlike a simple celebration of American financial supremacy, the book critically examines the fragility inherent in that dominance. Rogoff highlights how the dollar's privilege, such as financing large deficits at low cost, carries risks, especially as geopolitical tensions rise, fiscal imbalances swell, and confidence in policy coherence wavers.

One of the book's core arguments is that dollar dominance is not guaranteed; it has been sustained by a combination of economic strength, institutional credibility, and structural network advantages, but these foundations are under strain. Challenges include the growth of alternative currencies and financial technologies, political polarization, and the erosion of fiscal discipline in the United States.

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*Driving Policy, Empowering Progress*

The narrative is both historical and forward-looking. Rogoff places current debates about the dollar in the context of long-term monetary history, while also addressing contemporary pressures, such as digital currencies, crypto assets, and shifting reserve preferences. He illustrates why a multipolar currency future is possible even if no immediate substitute matches the dollar's liquidity and depth.

*Our Dollar, Your Problem* offers more than historical recounting; it serves as a cautionary guide for policymakers, investors, and global institutions. Rogoff underscores the need for sound fiscal management and credible institutions to support the dollar's role, while also urging emerging economies to strengthen financial systems and adopt flexible exchange rate regimes to mitigate crisis risks.

Ultimately, Rogoff does not predict the end of the dollar era but rather emphasizes that the "exorbitant privilege" of dollar dominance may come with growing responsibilities and vulnerabilities in an evolving global economy.

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## SECTION 4

# CLIMATE CHANGE



## CLIMATE NEWS

### INDIA'S WIND ENERGY RESURGENCE: RECORD ADDITIONS SIGNAL A STRONG DECADE AHEAD

India has reclaimed third place in the global wind power market in 2025 after a gap of four years, recording its highest-ever annual capacity additions and underscoring a revival in the country's wind energy sector. According to a report by Bloomberg NEF (BNEF), India is now ranked behind only China and the United States in terms of annual wind installations.

The report estimates that India will add around 6.2 gigawatts (GW) of wind capacity in 2025, bringing it close to the US, the world's second-largest wind market. As of November 2025, India had already commissioned 5.8 GW of new wind capacity—surpassing its previous annual record of 4.2 GW set in 2017.

#### Back in the Global Top Three

This surge in installations has allowed India to overtake Brazil and Germany, both of which had ranked higher over the past three years. India climbed back to third position for the first time since 2019, after remaining fifth from 2021 through 2024. The turnaround reflects a steady increase in annual wind additions since 2020, following a period of slowdown linked to policy transitions and infrastructure constraints.

BNEF notes that India's resurgence marks a significant shift in the global wind landscape, particularly as mature markets in Europe face permitting challenges and supply chain pressures.

#### Complex Auctions Drive the Revival

A key driver behind India's wind resurgence has been the growing use of complex renewable energy auctions, which combine wind, solar, and battery energy storage systems. These auctions are designed to ensure firmer and more reliable delivery of clean power, addressing concerns over intermittency that have traditionally limited wind energy's role in grid planning.

Under this framework, developers are encouraged to oversize projects beyond the contracted capacity and integrate multiple generation technologies. In 2024 alone, India's auctioning agencies awarded nearly 60 GW of clean power capacity, with about two-thirds allocated to complex projects.

According to BNEF, the structure of these auctions could help India add over 30 GW of wind capacity by the end of this decade, significantly boosting the sector's long-term pipeline.

### **Grid Expansion Eases a Long-Standing Bottleneck**

Another factor contributing to the strong capacity additions in 2025 was the commissioning of delayed projects that had spilled over from 2024. Several wind projects had faced delays due to the lack of transmission connectivity—a persistent challenge for renewable developers.

Grid expansion projects in states such as Rajasthan, Gujarat, and Karnataka were completed toward the end of 2024, with additional capacity coming online in early 2025. This improved access enabled a wave of long-pending wind installations to be commissioned.

As BNEF highlights, transmission development typically has a longer gestation period than renewable asset construction, making grid availability a critical determinant of renewable energy growth.

### **Implications for India's Energy Transition**

India's return to the global top three in wind power signals a broader rebalancing within its renewable energy mix, which in recent years had been dominated by solar. The renewed momentum in wind not only diversifies clean energy sources but also strengthens grid resilience by complementing solar generation patterns.

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With ambitious targets for non-fossil fuel capacity and rising electricity demand, wind energy is poised to play a larger role in India's clean energy transition—provided auction design, grid planning, and execution remain aligned.

### **Looking Ahead**

While 2025 marks a turning point, sustaining this momentum will require continued investment in transmission infrastructure, stable auction pipelines, and effective integration of storage technologies. If these conditions hold, India's wind sector could emerge as a central pillar of the country's decarbonisation strategy through the end of the decade.

For now, India's climb back to third place in the global wind market stands as both a milestone and a reminder: policy innovation and infrastructure readiness remain decisive in shaping the pace of the energy transition.

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### **RENEWABLES AT SCALE: THE NEXT PHASE DEMANDS GRID AND CONTRACT REFORM**

India's renewable energy transition gathered further momentum in the past year, with total installed renewable capacity touching 262.7 GW as of November in FY26, accounting for more than half of the country's overall electricity generation capacity. Additions of 34.6 GW of non-fossil fuel capacity between April and November underscore the pace at which clean energy is being deployed, driven largely by solar power, which alone stands at 132.85 GW.

Yet, beneath this headline progress lies a growing stranded capacity paradox. Delays in signing power purchase agreements (PPAs) have left an estimated 40 GW of renewable capacity without assured offtake, weakening project bankability and slowing financial closures. While meeting peak power demand has become easier than in the past, integrating large volumes of variable renewable energy into the grid remains a structural challenge, calling for improved transmission readiness, advanced forecasting tools, and smarter grid management systems.

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The government's strategy to reach 500 GW of non-fossil capacity reflects this complexity. Beyond capacity additions, it emphasises hybrid projects, energy storage, domestic manufacturing of key inputs, and supply-chain resilience. However, developers argue that clearer long-term demand signals, smoother financing mechanisms, and greater certainty on storage economics are now critical to converting awarded capacity into operational assets.

On the manufacturing side, 2025 has been a year of both opportunity and stress. While policy support and capital expenditure have strengthened India's clean-energy manufacturing ecosystem, US tariffs on solar exports have led to excess module capacity in the domestic market, intensifying price pressures and accelerating consolidation among smaller players. Industry leaders see this as a painful but necessary phase that could ultimately result in stronger backward integration, better technology adoption, and higher quality standards.

Looking ahead, the industry sees Budget 2026 as a crucial inflection point. Expectations range from rationalising GST on solar equipment and battery energy storage systems to easing land-acquisition norms, waiving refinancing penalties, and offering targeted tax incentives for green hydrogen and related fuels. Such measures could significantly improve project viability, lower the cost of capital, and stimulate domestic demand for green energy across sectors such as refining, fertilisers, shipping, and mobility.

The medium-term outlook remains constructive. ICRA projects renewable energy, including large hydro, to account for over 35 percent of power generation by FY30, up from 22.1 percent in FY25, supported by an additional 200 GW of capacity over the next five years. Realising this potential, however, will depend less on bidding momentum and more on timely PPA signings, transmission build-out, and policy coherence—factors that will determine whether India's renewable surge translates into a resilient, round-the-clock clean energy system.

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## **MIXED-RESOURCE PROJECTS ARE RESHAPING INDIA'S CLEAN ENERGY PATH**

India's renewable energy sector is undergoing a structural transition from standalone solar and wind projects to mixed-resource configurations that combine generation with storage to improve grid reliability. This shift is central to meeting India's target of 500 GW of clean energy by 2030, as non-fossil fuel capacity has already reached nearly 259 GW—about 51 percent of total installed capacity as of October 2025, up sharply from 39 percent in FY21.

Mixed-resource projects, which integrate solar, wind and battery energy storage systems (BESS), help address the intermittency of renewables by reducing variability, enhancing grid stability, and improving capacity utilisation. Their adoption has accelerated rapidly: such projects accounted for 55 percent of total capacity allocations in FY25 and rose further to 88 percent during April–October FY26.

Regulatory support has been a key enabler. Mandates requiring storage for standalone solar projects, recognition of BESS as a distinct asset class, and the extension of inter-state transmission charge waivers for storage-linked projects until June 2028 have strengthened project viability. Capacity additions have also been robust, with nearly 24 GW of solar and 3.6 GW of wind added in the first eight months of FY26—already exceeding total additions in FY25.

The growth outlook is further supported by strengthening domestic manufacturing, particularly in wind equipment and solar modules, aided by schemes such as ALMM and PLI. However, two near-term risks persist. First, transmission infrastructure expansion faces execution challenges due to longer gestation periods and intensified demands on land, equipment, and skilled labour, despite a sharp rise in project awards. Second, delays in signing power purchase agreements remain a concern, with PPAs signed for only 48 percent of the 85 GW utility pipeline as of October, largely due to slow acceptance by state discoms.

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Overall, India's renewable sector is entering a phase of transformation rather than mere scale-up. While policy support and improving storage economics are expected to sustain growth, the pace of expansion will hinge on transmission readiness, timely PPA closures, and the off-take capacity of state utilities.

***This article is based on a CRISIL analysis published in Business Standard on 25 December 2025.***

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## **COAL'S SECOND WIND: HOW GRID CONSTRAINTS ARE SLOWING INDIA'S ENERGY TRANSITION**

India's energy transition is running into a hard reality: when reliability is scarce, coal still wins. Even as renewable power becomes cheaper than ever, state power distribution companies (discoms) are locking themselves into long-term thermal power purchase agreements (PPAs) at tariffs as high as ₹6.6 per unit—nearly double the cost of solar and wind. The resurgence of coal highlights a growing disconnect between India's climate ambitions and the operational constraints of its power system.

### **Reliability Trumps Price**

On paper, renewables dominate on cost. Solar and wind power are available at ₹2.5–4 per unit, and even hybrid renewable projects with battery storage are quoting tariffs of ₹5 or less. Yet discoms in Madhya Pradesh, Bihar, Assam, West Bengal and Uttar Pradesh are signing up for large coal-based capacities. The reason is straightforward: renewables are infirm, while coal offers assured baseload supply.

Battery storage—critical to making renewables dispatchable—remains a weak link. Discoms are wary of imported battery supply chains, limited storage duration (typically up to seven hours), and an 18 percent GST that pushes up costs. With evening peak demand still heavily dependent on firm power, coal remains the default option.

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## **Green Power Without Buyers**

The tilt towards thermal power is leaving a growing pool of renewable capacity stranded. Around 43GW of green power projects, involving investments of over ₹2 trillion, are stuck without PPAs or power supply agreements. At the same time, renewable-rich states such as Rajasthan and Gujarat have curtailed solar generation due to transmission constraints and grid stability concerns.

Ironically, signing expensive thermal PPAs also shrinks the space for renewable procurement, even as states are mandated to meet renewable purchase obligations (RPOs). The result is a structural squeeze on green power, not because it is uncompetitive, but because the system is not yet equipped to absorb it reliably.

## **Planning Gaps and Policy Drift**

India's electricity demand has been growing at close to 10 percent annually, prompting concerns over power shortages. In response, coal additions are being scaled up sharply, with plans for nearly 100GW of new coal capacity by the early 2030s, far above earlier projections. Coal already accounts for about 70 percent of electricity generation, well above the National Electricity Plan's near-term targets.

Experts point to weak resource adequacy planning, inadequate transmission infrastructure, and slow progress on storage as key bottlenecks. Without credible long-term planning, discoms naturally gravitate towards the most reliable option available—even if it undermines long-term decarbonisation goals.

## **Climate Costs of Long-Term Choices**

The renewed rush to coal carries serious climate implications. India has committed to reducing the emissions intensity of its GDP by 45 percent by 2030, a goal that becomes harder to achieve as 25-year coal PPAs with cost pass-through provisions lock in high-carbon generation. Once signed, these contracts limit flexibility and crowd out cleaner alternatives for decades.

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## **The Way Forward**

Coal's resurgence does not reflect a rejection of renewables, but rather the absence of firm, scalable clean power. Accelerating investment in storage, rationalising taxes on batteries, expanding transmission networks, and enforcing credible resource adequacy plans are now essential. Without these reforms, India risks meeting rising power demand by defaulting to coal—slowing its energy transition despite falling green power costs.

*This article draws from a news feature “Green power is cheaper than ever; so why are discoms chasing coal?” by Rituraj Baruah and Utpal Bhaskar, published in Mint on 26 December 2025, which can be accessed from <https://shorturl.at/prOrU>*



## NUCLEAR ENERGY - SHANTI ACT 2025

### SHANTI ACT, 2025: REWRITING THE RULES OF INDIA'S NUCLEAR ENERGY FUTURE

India's energy transition has entered a phase where scale, reliability, and decarbonisation must advance together. Against this backdrop, the Sustainable Harnessing and Advancement of Nuclear Energy for Transforming India (SHANTI) Act, 2025, represents a decisive attempt to modernise India's nuclear governance framework. The Act consolidates legacy legislations, recalibrates institutional arrangements, and aligns nuclear policy with India's long-term clean energy and energy security goals.

#### Why a New Nuclear Law Now?

India's nuclear programme has long been governed by a fragmented legal architecture—principally the Atomic Energy Act, 1962 and the Civil Liability for Nuclear Damage Act, 2010. While these laws served their purpose in an era of limited capacity and strong state monopoly, they have increasingly appeared misaligned with contemporary realities: rising electricity demand, climate commitments, technological innovation, and the need for investment at scale.

Although nuclear power contributes a modest 3.1 percent of India's electricity generation (2024–25), it remains a critical source of clean, base-load energy. Installed capacity currently stands at 8.78 GW, with plans to reach 22.38 GW by 2031–32. More ambitiously, the Government has announced a Nuclear Energy Mission to achieve 100 GW of nuclear capacity by 2047, positioning nuclear energy as a pillar of India's net-zero pathway.

#### Enabling Expansion without Diluting Sovereignty

A defining feature of the SHANTI Act is its calibrated opening of the nuclear sector to private participation, while retaining sovereign control over strategically sensitive activities. Private entities are permitted to engage in plant operations, power generation,

equipment manufacturing, and selected fuel-cycle activities—subject to strict licensing and regulatory approval.

At the same time, the Act clearly reserves core functions such as spent fuel management, reprocessing, high-level waste handling, isotopic separation, and heavy water production exclusively for the Central Government or its wholly owned entities. This dual structure reflects a conscious policy choice: mobilise capital, technology, and efficiency from the private sector without compromising national security or strategic autonomy.

### **Strengthening Regulation and Safety Oversight**

A major institutional reform embedded in the Act is the grant of statutory status to the Atomic Energy Regulatory Board (AERB). Until now, the AERB functioned through executive authority. Formal statutory recognition enhances its independence, credibility, and enforcement powers—an essential prerequisite for scaling nuclear capacity and building public trust.

The Bill establishes a comprehensive licensing and safety authorisation regime, covering the entire lifecycle of nuclear installations. It also strengthens provisions related to safeguards, quality assurance, emergency preparedness, and coordinated response mechanisms, reinforcing India's commitment to global best practices in nuclear safety and security.

### **A Reworked Liability Framework**

One of the most consequential changes introduced by the SHANTI Act is the shift to a graded liability structure. Unlike the earlier regime, which imposed a uniform statutory cap on operator liability, the new framework differentiates liability limits based on the type and characteristics of nuclear installations. This approach seeks to balance victim compensation, operator responsibility, and investment viability.

The Act also introduces a clearer civil liability architecture, including the appointment of Claims Commissioners and the establishment of a Nuclear Damage Claims

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Commission for severe incidents. Appeals will lie with the Appellate Tribunal for Electricity, ensuring judicial consistency and procedural clarity.

### **Beyond Power Generation: Expanding Peaceful Applications**

Importantly, the SHANTI Act recognises that nuclear technology is not confined to electricity generation alone. It creates a regulatory framework for non-power applications in healthcare, agriculture, industry, and research—areas where radiation technologies play an expanding role. Limited exemptions from licensing are also provided for research and innovation activities, signalling support for technological advancement.

### **Aligning with India's Clean Energy Vision**

The Act complements recent policy signals, including the ₹20,000 crore allocation in the Union Budget 2025–26 for Small Modular Reactors (SMRs). With initiatives such as the BSMR-200, SMR-55, and high-temperature reactors for hydrogen production, India is positioning itself at the frontier of advanced nuclear technologies. The SHANTI Bill provides the legal scaffolding necessary to translate these ambitions into deployable capacity.

### **Conclusion**

The SHANTI Act, 2025, marks a structural shift in India's nuclear policy—from cautious expansion under a tightly centralised regime to a more institutionally robust, investment-aware, and future-ready framework. By modernising regulation, enabling limited private participation, rationalising liability, and strengthening safety oversight, the Bill lays the groundwork for scaling nuclear energy in line with India's developmental and climate objectives.

If implemented effectively, the legislation could play a defining role in transforming nuclear power from a marginal contributor into a cornerstone of India's clean, reliable, and secure energy future—without diluting strategic control or safety imperatives.

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## **CAN NUCLEAR DELIVER FOR INDIA? THE SHANTI BILL RAISES TOUGH QUESTIONS**

The SHANTI Bill has revived debate on nuclear power by opening the sector to private investment (up to 49 percent equity) and capping operator liability at about ₹3,000 crore, with the government acting as a backstop. By breaking the monopoly of the Nuclear Power Corporation of India, the Bill offers some certainty to private players and signals a policy push towards small modular reactors (SMRs), with ambitions of operational indigenous SMRs by 2033 and 100 GW of nuclear capacity by 2047—around 5 percent of projected electricity capacity.

However, the article is sceptical about these targets. Nuclear currently accounts for only about 1.5 percent of installed grid capacity, contributes less than 7 GW to a 240 GW grid, and suffers from frequent outages, time overruns, and cost escalations. At roughly ₹6 per unit, nuclear power is significantly more expensive than coal and solar, and its full costs—fuel reprocessing, waste disposal, and decommissioning—are often understated.

Beyond economics, nuclear power faces strong public opposition, shaped by global accidents and domestic protests such as those at Kudankulam. Safety concerns, long-term waste management, potential weapons proliferation, dependence on imported uranium, and geopolitical risks further complicate the case. While nuclear offers two clear advantages—decarbonisation and reliable base-load power—the article argues that the likelihood of achieving the Bill’s ambitious outcomes without accidents, protests, or major cost overruns is low.

The only potential game-changer identified is a commercial breakthrough in nuclear fusion, which would be cleaner, safer, and far more powerful than fission-based reactors. Although fusion remains unproven after decades of research, the article notes that if such a breakthrough occurs, the SHANTI Bill would at least leave India better prepared, from a regulatory standpoint, to take advantage of it.

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*This is a summary of an article by Devangshu Datta in Business Standard on 26 December 2025. The full article can be accessed from <https://shorturl.at/6EyNs>*

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## THE SHANTI BILL: INDIA'S NUCLEAR REFORMS AND THE EXECUTION CHALLENGE AHEAD

India's SHANTI Bill marks the most far-reaching reform of nuclear governance since the Atomic Energy Act of 1962, shifting the sector from a tightly controlled state monopoly to a structured model that allows private participation while preserving strategic sovereignty. Like the 1991 economic reforms, SHANTI is a structural reform, responding to climate imperatives, capital constraints, and the need to scale capacity—constraints that have kept nuclear power below 2 percent of India's electricity mix despite proven technology.

The Bill's central innovation is breaking the single-operator model dominated by Nuclear Power Corporation of India Limited (NPCIL), whose limited organisational and financial bandwidth has constrained expansion. By enabling multiple private operators in reactor construction and power generation—while reserving sensitive fuel-cycle activities such as enrichment, reprocessing, and heavy water production for the state—SHANTI seeks to multiply execution capacity without diluting national security. Competition is expected to improve cost control, timelines, and operational efficiency.

A major strategic gamble lies in indigenous Small Modular Reactors (SMRs), targeted for deployment by 2033. The article warns of an eight-year vulnerability window during which private players may opt for foreign SMR technologies that are already commercially available, potentially locking India into long-term dependence on imported designs, fuel, and supply chains. India's own history of delays, including the Prototype Fast Breeder Reactor, reinforces scepticism about timely SMR delivery.

On regulation, SHANTI grants statutory independence to the Atomic Energy Regulatory Board (AERB) and introduces a four-tier adjudication framework—from

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AERB to a new Atomic Energy Redressal Advisory Council, the Appellate Tribunal for Electricity, and finally the Supreme Court. This architecture is designed to provide technical, time-bound dispute resolution essential for investor confidence, though its effectiveness will depend on real operational autonomy rather than legislative intent alone.

The Bill also reforms nuclear liability, aligning India with international practice by capping operator liability at 300 million SDR (around ₹3,000 crore) per incident, with government backstopping beyond that. While this makes projects insurable and bankable, it would be inadequate in a catastrophic event, reflecting a deliberate trade-off between investment viability and full compensation in worst-case scenarios.

Finally, the article questions whether even 100 GW of nuclear capacity by 2047—SHANTI's implicit ambition—is sufficient. Given projected total installed capacity of over 2,000 GW by then, nuclear would still account for only about 5 percent of the energy mix, and would require massive grid and transmission upgrades to be effective.

Overall, SHANTI provides a coherent and sophisticated legal architecture that removes long-standing constraints on nuclear expansion. Yet legislation alone cannot overcome India's chronic execution delays, regulatory capacity limits, and technology risks. The Bill creates the conditions for success, but whether it becomes a historic turning point or another missed opportunity will depend entirely on implementation over the next decade.

***This is a summary of an article by Kavya Wadhwa, published by Observer Research Foundation on 23 December 2025.***

***The full article can be accessed from <https://shorturl.at/kXiEf>***

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## SYNOPSIS OF RESEARCH PAPERS / REPORTS

### **BUILDING A GREEN ECONOMY FOR VIKSIT BHARAT: NEW OPPORTUNITIES FOR JOBS, GROWTH AND SUSTAINABILITY IN INDIA**

Author: Council on Energy, Environment and Water (CEEW)

*CEEW Report, November 2025*

Council on Energy, Environment and Water (CEEW), New Delhi

This report by the Council on Energy, Environment and Water (CEEW) examines the potential of a green economy to become a central pillar of India's *Viksit Bharat* vision for 2047. It argues that alongside sunrise sectors such as semiconductors, artificial intelligence, and fintech, green economic sectors offer a transformative opportunity to future-proof India's growth in a geoeconomically volatile global order. The analysis estimates that a green economy could unlock USD 1.1 trillion in market value, attract USD 4.1 trillion in investments, and generate nearly 48 million jobs by 2047, while abating approximately 2.3 billion tonnes of carbon emissions—nearly 78 percent of India's 2024 emissions.

The report identifies 36 green value chains across three thematic areas—energy transition, circular economy, and bio-economy and nature-based solutions—selected based on India's resource endowments, export and import-substitution potential, and capacity to generate jobs, markets, and investment. These value chains span diverse sectors, including renewable energy, electric mobility, waste management, sustainable construction, bio-based materials, agroforestry, sustainable tourism, and green fuels, highlighting the breadth of opportunities across urban, peri-urban, and rural India.

Using a jobs–market–investment (JMI) framework, the study finds that bio-economy and nature-based solutions could contribute nearly half of all green jobs, supporting livelihood diversification in rural and agriculture-dependent regions. Energy transition sectors, while more capital-intensive, account for the bulk of investment needs and are expected to generate high-skill, high-value employment, particularly in renewable

energy, electric vehicle manufacturing, energy storage, and green hydrogen. The circular economy is projected to create large-scale employment, especially in solid waste management, though much of this workforce remains informal.

Despite the significant potential, the report identifies structural challenges constraining scale-up, including high capital costs, limited access to affordable finance, supply-chain bottlenecks, underinvestment in research and development, skills shortages, and the absence of clear standards for emerging green products. Addressing these barriers, the report recommends demand-side interventions such as public procurement, blending mandates, and viability gap funding; accelerated indigenisation and R&D investment; workforce development through targeted skilling initiatives; and the creation of enabling standards and certification systems.

The report concludes by advocating a whole-of-nation, whole-of-government, and whole-of-economy approach to mainstream the green economy. It emphasises coordinated planning across levels of government, convergence of existing schemes, and inclusive participation by actors ranging from large corporations to cooperatives, MSMEs, and community institutions. By embedding sustainability into economic planning, the report positions the green economy as a pathway to achieving growth that is economically resilient, socially inclusive, and environmentally sustainable.

***The full report can be accessed from:***

***<https://www.ceew.in/sites/default/files/Mainstreaming-Green-Economy-latest.pdf>***

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## THE ECONOMICS OF CLIMATE INNOVATION: TECHNOLOGY, CLIMATE POLICY, AND THE CLEAN ENERGY TRANSITION

Authors: Eugenie Dugoua and Jacob Moscona

*NBER Working Paper No. 34601 December 2025*

National Bureau of Economic Research, Cambridge, MA

This paper analyses the economics of climate innovation and its central role in enabling the clean technology transition. It examines the incentives, market failures, and policy instruments that shape the development, diffusion, and adoption of clean technologies, and traces global patterns in the rate, direction, and geography of technological change. Drawing on microeconomic foundations of innovation and macroeconomic models of directed technological change, the analysis shows how multiple interacting market failures slow clean innovation and how climate policy influences both the focus of technological effort and its environmental outcomes. The paper reviews recent trends in mitigation and adaptation technologies, before turning to frontier issues such as critical mineral supply chains, artificial intelligence, and the geopolitics of the energy transition. Emphasising the role of effective and coordinated climate policy, it highlights the importance of aligning policy instruments with technology maturity and local context. While the paper adopts an economic lens, it recognises important gaps that lie beyond its scope, including detailed engineering and climate science assessments, political economy constraints, behavioural drivers of technology adoption, and international legal and governance frameworks. It concludes that addressing these challenges and advancing climate innovation will require sustained cross-disciplinary collaboration spanning economics, engineering, political science, law, and the behavioural sciences.

*The full paper can be accessed from:*

[https://www.nber.org/system/files/working\\_papers/w34601/w34601.pdf](https://www.nber.org/system/files/working_papers/w34601/w34601.pdf)

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