

EcoSphere

*EXPLORING INDIAN AND GLOBAL ECONOMIES,
FINANCIAL MARKETS & CLIMATE CHANGE WITH InsPIRE*

JANUARY 2026

Volume III, Issue 1



Driving Policy, Empowering Progress

Institute for Pioneering Insightful Research Pvt. Ltd. (InsPIRE)

Website: <https://inspire-solutions.in/>



Driving Policy, Empowering Progress

EcoSphere

Exploring Indian and Global Economies, Financial Markets and Climate Change with InsPIRE

January 2026, Volume III, Issue 1

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.

Editorial Board

Dr Debesh Roy, Chairman, InsPIRE

Ms. Bijetri Roy, Managing Director, InsPIRE

EcoSphere is published by the Institute for Pioneering Insightful Research Pvt. Ltd. (InsPIRE)

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Contact us:

Dr Debesh Roy, Chairman
Institute for Pioneering Insightful Research Pvt. Ltd. (InsPIRE)
Villa No. B 315, Paramount Golfcourse, UPSIDC, Site C,
Opp. Sector Zeta,
Greater Noida 201 311, Uttar Pradesh, India

Please send your feedback to: Email ID: inspiresearch0806@gmail.com



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Institute for Pioneering Insightful Research Pvt. Ltd. (InsPIRE)

CIN: U80902UP2021PTC147066

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Chairman's Reflections



Resilience with Responsibility: India and the World at a Turning Point

As 2026 unfolds, the global economy finds itself at a delicate inflection point: resilient, yet fragile; adaptive, yet deeply uncertain. Across growth, inflation, trade, finance, climate, and geopolitics, the defining challenge is no longer how fast economies are growing, but how durable, inclusive, and strategically grounded that growth truly is.

Rethinking Growth: Beyond the Headline Numbers

India's First Advance Estimates (FAE) for FY 2025–26 reaffirm the country's position as the fastest-growing major economy, with real GDP growth projected at a robust 7.4 per cent. Yet, as our Cover Story argues, this headline strength masks a more consequential concern: exceptionally weak nominal GDP growth driven by a historically low GDP deflator. This divergence between real and nominal performance raises critical questions about income generation, fiscal capacity, and the sustainability of growth. As India charts its course toward *Viksit Bharat@2047*, the quality of growth, and its translation into incomes, value creation, and fiscal strength, will matter as much as its pace.

A Fragmented World, a Strategic India

The *Economic Survey 2025–26* situates India's growth story within a fractured global order marked by geopolitical conflict, trade fragmentation, and weakening multilateral institutions. Growth, the Survey rightly argues, must now be resilient and strategically anchored. India's upward revision of potential growth to 7.0 per cent signals structural strengthening supported by public capital expenditure, healthier corporate and banking

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balance sheets, and infrastructure-led productivity gains. This structural underpinning differentiates India from many peers navigating the same turbulent global waters.

Inflation, Industry, and the Domestic Cycle

India entered 2026 with a markedly improved inflation backdrop. Headline CPI inflation moderated sharply to 1.33 per cent in December 2025, remaining well below the Reserve Bank of India's medium-term target. At the same time, industrial momentum strengthened, with the Index of Industrial Production recording its fastest growth in over two years. Core sector performance, while uneven across energy and construction-linked segments, remained firmly positive, reinforcing the narrative of a broadening domestic recovery.

Trade, States, and Employment: The Real Economy in Motion

India's external trade performance reflects resilience amid uncertainty—steady cumulative export growth alongside rising imports, underscoring both global integration and domestic demand strength. State finances, as analysed through the RBI's budget study, reveal a new structural dimension shaped by demographic transition, with long-term implications for sub-national fiscal sustainability. Meanwhile, labour market indicators from the PLFS point to rising participation, especially among women, suggesting that growth is increasingly translating into employment absorption, even as challenges remain.

Agriculture and Corporate India: Dual Pillars of Stability

Agriculture continues to occupy a paradoxical yet central role, supporting livelihoods, anchoring food security, and stabilising inflation despite its declining share in GVA. Strong growth in livestock and fisheries underscores the sector's evolving structure. Corporate performance, meanwhile, reveals a nuanced picture: strong revenue momentum coexisting with margin pressures, regulatory costs, and sectoral divergence. Whether in metals, FMCG, energy, or IT services, the common thread is transition towards new technologies, cost structures, and demand patterns.

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Banking, Markets, and Monetary Signals

India's banking system continues to display resilience, supported by strong capital buffers and improving asset quality, even as regulatory provisioning and margin pressures demand vigilance. Financial markets, however, began 2026 on a volatile note. Indian equities corrected meaningfully amid foreign outflows and global uncertainty, while global markets exhibited sharp regional divergence. US markets consolidated, Europe struggled with growth constraints, and Asia emerged as a relative outperformer, highlighting a shift from synchronised cycles to differentiated outcomes.

Monetary policy remains a critical anchor. The US Federal Reserve's decision to hold rates reflects its balancing act between easing inflation and lingering services-sector pressures. The Bank of Japan's cautious stance, amid evolving inflation dynamics, points to a broader global debate on the pace and sequencing of policy normalisation.

Climate, Trade, and the Politics of Transition

Climate risks and climate policy increasingly intersect with economic competitiveness. The World Weather Attribution study on Australia's extreme heatwave underscores the accelerating human cost of climate change. Simultaneously, the European Union's Carbon Border Adjustment Mechanism (CBAM) marks a structural shift in global trade—embedding carbon intensity into market access. While decarbonisation is unavoidable, the uneven burden placed on developing economies raises fundamental questions of equity, finance, and responsibility that demand multilateral solutions.

Looking Ahead

The unifying message of this issue is clear: resilience today must be matched by strategic foresight for tomorrow. Whether it is growth without nominal momentum, disinflation without complacency, trade without fragmentation, or climate action without inequity, the choices made now will shape economic outcomes for decades.

As *EcoSphere* enters 2026, our endeavour remains to move beyond surface indicators and engage with the deeper forces reshaping economies, markets, and societies. In a



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world defined by uncertainty, clarity of analysis and coherence of strategy will be the most valuable assets.

A handwritten signature in blue ink, appearing to read "Debesh Roy".

Dr Debesh Roy

debeshroy_chairman@inspire-solutions.in

TABLE OF CONTENTS

Cover Story	11
Beyond 7.4%: The Real and Nominal Story of India’s Growth	11
Reading the First Advance Estimates in a changing global economy	11
Special Feature	23
India-EU Free Trade Agreement.....	23
The Mother of All Deals: How the India–EU FTA Redefines Trade, Strategy, and Sustainability	23
From Market Access to Sustainability: An Overview of the India–EU Free Trade Agreement	27
Section 1: Indian Economy	30
Economic Survey 2025-26	31
Running a Marathon as a Sprint: India’s Growth Strategy in a Fractured Global Economy	31
Beyond Growth: Economic Survey 2025–26 and the Political Economy of Viksit Bharat ..	42
Navigating Macroeconomic Trends	48
India’s CPI Inflation Firms to a Three-Month High in December 2025, Though Remaining Benign	48
Expert Group Report on Comprehensive Updation of the Consumer Price Index (CPI): Key Reforms in India’s CPI 2024 Series	55
Manufactured Goods Drive WPI Recovery as Food Deflation Eases in December 2025.....	59
Infrastructure and Manufacturing Power India’s Industrial Growth in December 2025 ...	63
Cement and Steel Offset Energy Weakness: India’s Core Sector Growth at 3.7% in December 2025.....	68
India’s Trade in December 2025: Export Resilience Amid Rising Import Pressures.....	74
State Finances.....	78
Demography, Debt and Development: An Assessment of State Finances in India, 2025–26	78
Employment	82
Female Participation Hits a High as India’s Labour Market Stabilises in December 2025 .	82
Agriculture & Agri-business	85
Reimagining Indian Agriculture: Productivity, Resilience, and the Next Growth Transition	85
Healing India’s Soils through Data: Rethinking Urea Use with Agristack	94
A Calibrated Opening: What India’s Limited Wheat Product Exports Mean for Market..	97

Driving Policy, Empowering Progress

Corporate News	100
Reliance Q3FY26: Record Revenues, But Margin Pressures Cap Profit Growth	100
Reliance Retail Q3FY26: Scale Expands, Profits Grow Steadily	102
Ahead of IPO, Jio Delivers: Strong Margins and Rising Monetisation in Q3	104
AI Momentum Strengthens, Global Demand Lags: Decoding TCS' Q3FY26 Performance	106
Infosys Bets on Deal Momentum and AI to Lift FY26 Growth Outlook	109
Profit Pressure, Strategic Pivot: How HCLTech Is Repositioning for an AI-First Era	111
IndiGo's Q3 FY26 Profits Sink as Labour Codes and Operational Disruptions Bite	114
AESL Profit Slips on Higher Taxes, Adani Total Gas Gains on CNG Demand	117
Strategic Restructuring and Cost Gains Drive JSW Steel's Standout Q3 Results	119
ITC's Q3 FY26 Net Profit Flat as One-Time Labour Code Costs Offset Strong Core Performance	122
Vedanta's Q3 FY26 Profit Jumps 60% on Record EBITDA and Strong Metal Prices	124
Banking, Financial Services & Insurance	126
HDFC Bank Q3FY26: Profit Rises on Lower Provisions, Asset Quality Remains in Focus	126
ICICI Bank Q3 FY26: Strong Core Earnings Offset by Regulatory Provisions	129
Axis Bank Q3 FY26: Strong Deposit Growth and Cost Efficiency Drive Profit Surge	132
Kotak Mahindra Bank Q3 FY26: Steady Profits and Strong Capital Cushion Define Performance	136
Bank of Baroda Q3 FY26: Steady Profit Growth Amid Higher Provisions	138
Section 2: Global Economy	142
Global Economic Outlook	142
From Recovery to Renewal: Global Economic Prospects	142
Resilience with Risks: Global Growth, Inflation, and Policy Trade-offs in the IMF's January 2026 Outlook	145
Global Growth at a Crossroads: WEF Chief Economists' Outlook – January 2026	148
From Recovery to Renewal: Global Economic Outlook	151
From Polycrisis to Preparedness: Global Risks in an Age of Fragmentation	155
Monetary Policy	159
US Federal Reserve Holds Rates Steady: Policy Caution amid Inflation Persistence and Labour Market Stabilisation	159
Bank of Japan Holds Rates at 0.75% as Inflation Debate Intensifies	162
Inflation	165

Driving Policy, Empowering Progress

US Inflation Ends 2025 Steady, but Services Keep the Fed on Guard.....	166
UK Inflation Ticks Up in December as Services Costs Refuse to Cool	169
December 2025 Euro Area Inflation Data Strengthen Case for ECB Policy Recalibration.....	172
China’s Inflation Edges Up in December 2025 but Remains Well Below Target	174
Japan’s Inflation Cools Sharply in December 2025, Marking Lowest Level Since 2022 ...	177
Food & Agriculture.....	180
FAO Food Price Index: Global Food Prices Ease at Year-End, but 2025 Averages Stay Elevated.....	180
Section 3: Financial Markets	184
Indian Financial Markets	185
January 2026: Volatility, Geopolitics and a Market in Correction Mode.....	185
Global Financial Markets	189
Global Markets in January 2026: Diverging Global Markets Amid Monetary and Macro Uncertainty.....	189
Introduction.....	189
Section A – Performance of US Equity Markets	189
Section B - Performance of European Equity Markets.....	192
Section C – Performance of Asia-Pacific Stock Markets.....	194
Section D – Outlook for Major Global Stock Indices.....	198
Commodity Markets.....	200
Commodity Markets in January 2026: Gold Frenzy, Energy Resurgence, and Rising Volatility.....	200
Section 4: Research Digest	203
Synopsis of Research Papers	204
Global Trade, Tariff Uncertainty and the U.S. Dollar	204
Monetary policy and private equity acquisitions: tracing the links.....	205
Summary of Opinion Articles from Indian publications.....	206
Rewiring power reforms: Discom profitability is an encouraging start.....	206
Our pitch at Davos amid global flux: Reliable India is a safe	207
Bookshelf Chronicles	209
The Land Trap: A New History of he World’s Oldest Asset	209
We are Eating the Earth: The Race to Fix Our Food System and Save Our Climate	211
Section 5: Climate Change.....	213
Climate News.....	214



Driving Policy, Empowering Progress

Australia’s worst heatwave since black summer made five times more likely by global heating..... 214

EU’s Carbon Border Adjustment Mechanism (CBAM) comes into force 215

Synopsis of Research Papers / Reports..... 216

Transitioning from PAT to a Carbon Trading System: Implications for India’s Iron & Steel, Aluminium Sectors, and Cement under the EU’s CBAM..... 216

Economic Development and the Environment 217

Unit Conversion

1 lakh = 100,000

1 crore = 10 million

100 crore = 1 billion

1 lakh crore = 1 trillion

USD/INR Exchange Rate

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

USD (\$) 1 = INR (₹) 91.8983 (30 January 2026)

COVER STORY

BEYOND 7.4%: THE REAL AND NOMINAL STORY OF INDIA'S GROWTH

READING THE FIRST ADVANCE ESTIMATES IN A CHANGING GLOBAL ECONOMY

The First Advance Estimates of GDP for FY 2025–26 reaffirm Indian economy's resilience, projecting real growth of 7.4 percent, the strongest among large economies, globally, despite persistent external headwinds and global uncertainty.

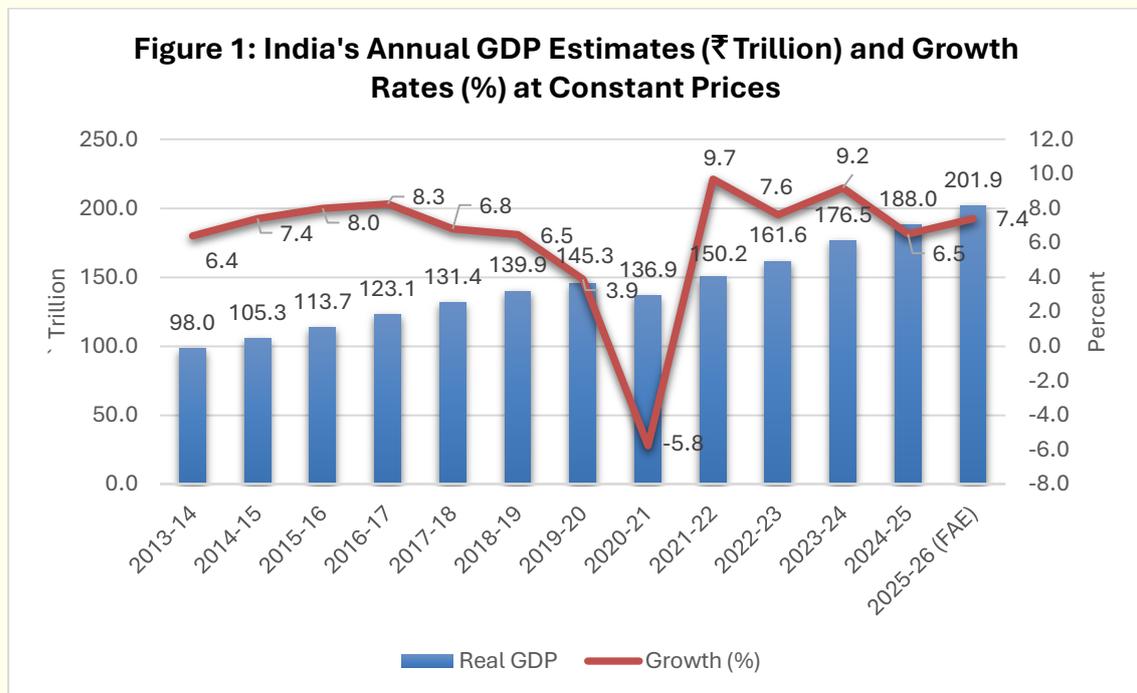
Yet, as this issue's cover story argues, headline growth alone does not tell the full story. Beneath the robust real expansion lies a more nuanced and more consequential development: exceptionally weak nominal GDP growth, driven by a GDP deflator at a five-decade low. This divergence between real and nominal performance raises critical questions about income generation, fiscal capacity, and the quality of growth as India charts its medium-term economic trajectory.

Our cover story goes beyond the topline numbers to examine what the First Advance Estimates reveal about sectoral momentum, demand dynamics, fiscal implications, and India's position in a global context. It aims to shift the conversation from how fast India is growing to how effectively that growth is translating into value, incomes, and fiscal strength, a distinction that will matter enormously as India aligns its economic strategy with the ambitions of Viksit Bharat@2047. Sustaining high real growth is essential, but ensuring strong nominal momentum will be decisive for India's long-term economic transformation.

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Introduction: A Clearer Growth Signal amid Global Uncertainty

India’s First Advance Estimates (FAE) of Gross Domestic Product (GDP) for FY 2025–26, released by the National Statistics Office (NSO), project real GDP growth at 7.4 percent, an acceleration from 6.5 percent in FY 2024–25 (Figure 1). In a global environment marked by persistent geopolitical tensions, uneven disinflation, and fragile trade recovery, the estimate reinforces India’s position as the fastest-growing major economy, underlining the resilience of domestic demand and investment.



Source: Press Note on First Advance Estimates of GDP 2025-26, NSO, MoFPI, Government of India

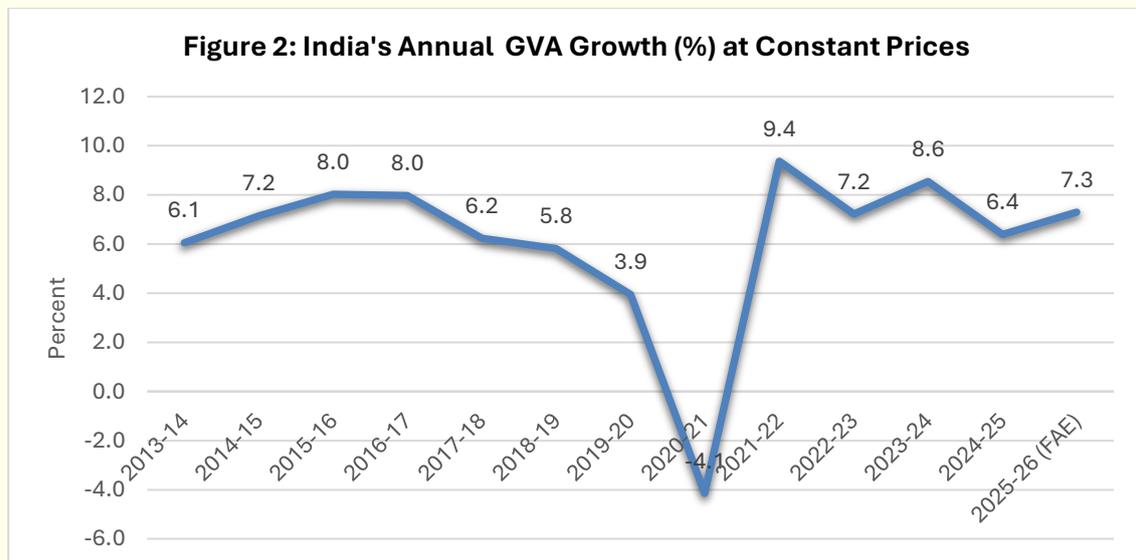
Yet, beneath this reassuring headline lies a more complex and more consequential story. Nominal GDP growth is estimated at just 8.0 percent (Figure 2), the slowest since the pandemic-disrupted FY 2020–21, and far below the 10.1 percent assumption in the Union Budget for FY 2025–26. The resulting 60 basis point gap between real and nominal GDP growth is the narrowest since 2011–12, driven by a GDP deflator of barely 0.5 percent, among the lowest in five decades.

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This combination of strong real expansion and exceptionally weak nominal momentum defines the central macroeconomic paradox of the current growth cycle.

Production-Side Dynamics: Services Dominate, Agriculture Lags

On the production side, real Gross Value Added (GVA) is estimated to grow by 7.3 percent from 6.4 percent in the previous year (Figure 2), implying a marginally positive contribution from net indirect taxes. The growth impulse is decisively services-led, with the tertiary sector expanding by 9.1 percent.



Source: NSO, MoFPI, Government of India

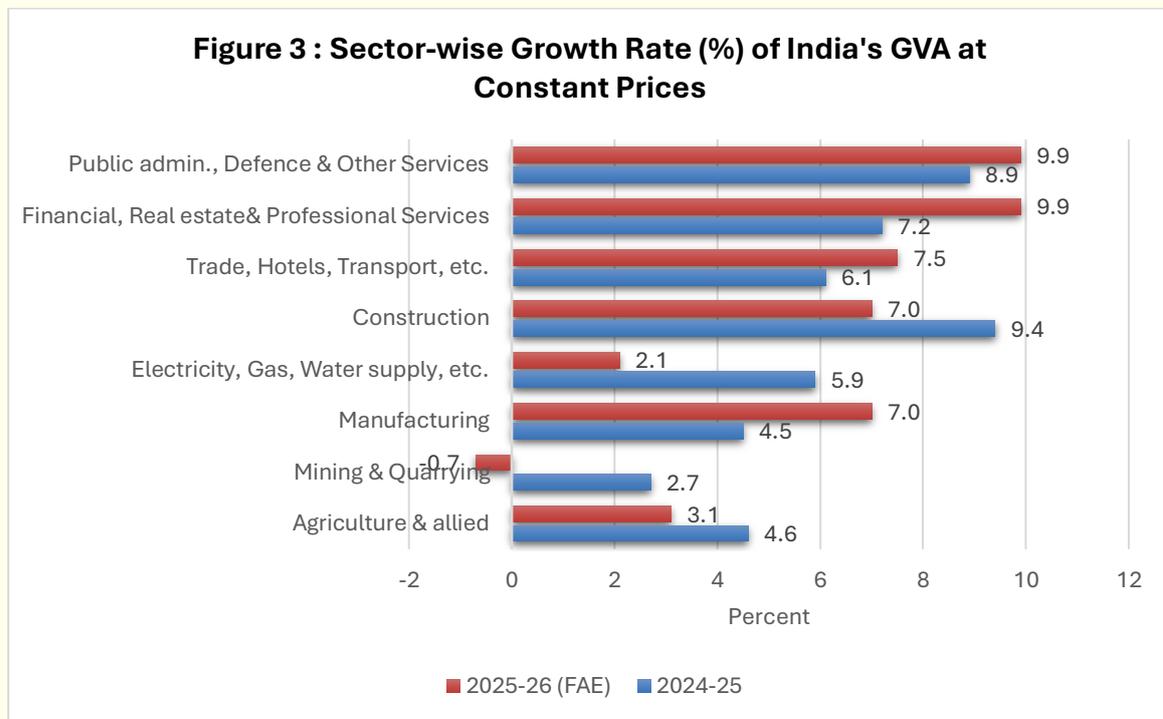
Within services, Financial, Real Estate and Professional Services and Public Administration, Defence and Other Services are each projected to grow by 9.9 percent (Figure 3), reflecting the combined effects of financial deepening, digitalisation, public expenditure, and rising demand for professional and social services. Trade, hotels, transport, communication and broadcasting-related services are estimated to grow by 7.5 percent, signalling sustained momentum in mobility, logistics, and tourism.

The secondary sector is projected to grow by 6.6 percent, with manufacturing and construction each expanding by 7.0 percent. Manufacturing performance has benefited from export front-loading—particularly to the US—lower input costs, and steady

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domestic demand. Construction continues to be supported by infrastructure spending, though growth has moderated from last year’s exceptionally high base.

In contrast, the primary sector remains the weakest link. Agriculture and allied activities are estimated to grow by 3.1 percent, while mining and quarrying are projected to contract marginally. Despite adequate aggregate output and a broadly normal monsoon, soft agricultural prices have constrained nominal farm incomes, reinforcing the disconnect between output and earnings.



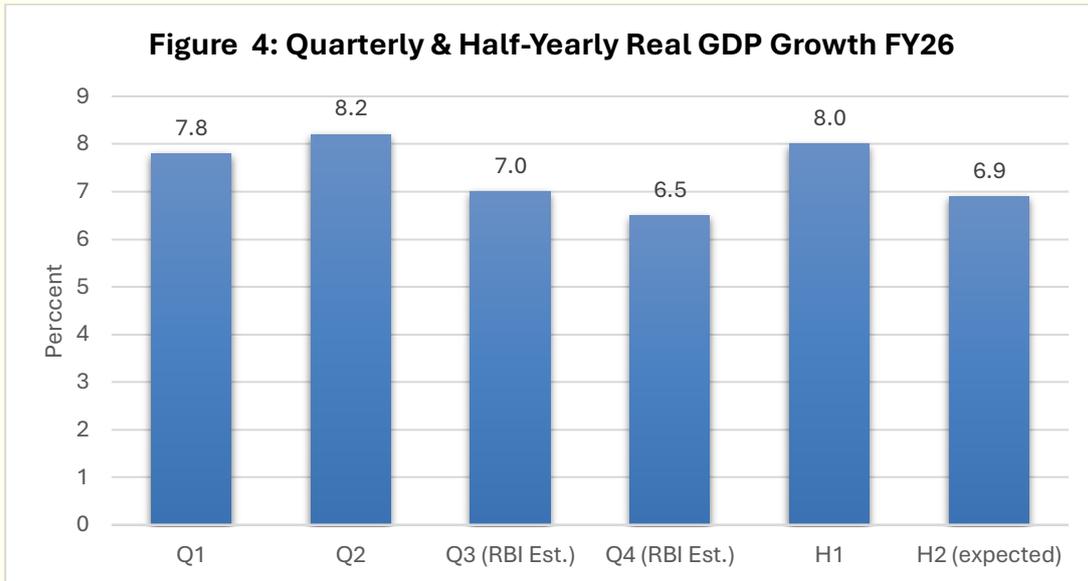
Source: NSO, MoFPI, Government of India

A Front-Loaded Expansion: Second-Half Moderation Built In

A critical feature of the FAE is its implicit assumption of a broad-based slowdown in the second half of FY 2025–26. Real GDP growth is expected to ease to around 6.9 percent during October–March, compared to 8 percent in the first half (Figure 4). This moderation reflects multiple factors: high base effects, a likely tapering of central government spending growth, and lingering global uncertainties. Sectoral assumptions

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mirror this pattern—manufacturing, construction, and even services are expected to grow more slowly in the second half, though without any sharp loss of momentum.



Source: (1) NSO, MoFPI, Government of India; & (2) Monetary Policy Statement, 2025-26, Dec. 06, 2025, RBI

The advance estimates also incorporate industrial production data up to November, along with select lead indicators for December, but remain subject to revision—particularly with the new GDP base year (2022–23) to be adopted from February 2026.

Fiscal Implications: Stability via Levels, Not Momentum

Despite weaker-than-expected nominal growth, the absolute level of nominal GDP of ₹357.1 trillion is marginally higher than budgeted, largely because the FY 2024–25 nominal GDP base was revised upward. This statistical cushion significantly alters the fiscal outlook.

As a result, even with moderation in tax buoyancy, exacerbated by income tax and GST relief, the central government is unlikely to miss its fiscal deficit target of 4.4 percent of GDP. Higher non-tax revenues, including a stronger-than-expected RBI dividend transfer, along with expenditure rationalisation, are expected to offset potential revenue shortfalls.

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This distinction is crucial. Fiscal stability is being preserved by base effects, not by strong nominal growth momentum—a dynamic that cannot be relied upon indefinitely.

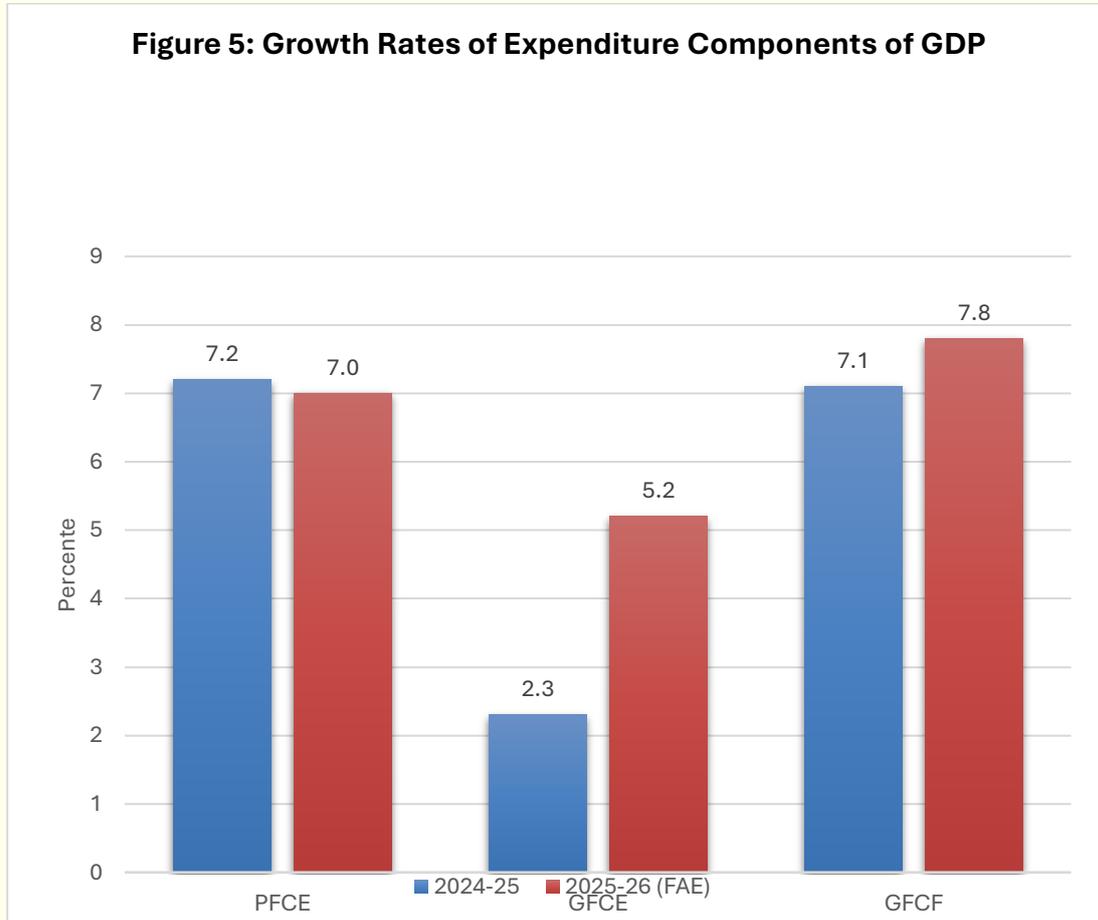
Demand-Side Trends: Investment Resilient, Consumption Uneven

From the expenditure perspective, Gross Fixed Capital Formation (GFCF) is estimated to grow by 7.8 percent in real terms, up from last year and slightly above first-half trends (Figure 5). Importantly, nominal capital formation has also strengthened, indicating a genuine revival in investment demand rather than a purely volume-driven expansion.

Private Final Consumption Expenditure (PFCE) is projected to grow by 7.0 percent, slower than in the first half, reflecting subdued rural momentum linked to modest agricultural growth and weak price realisation. Per capita consumption expenditure is estimated to grow by 6.1 percent, reinforcing the view that income gains, while positive, remain uneven.

Government Final Consumption Expenditure (GFCE), at 5.2 percent real growth, plays a stabilising role, supported by higher expected spending by state governments.

Exports are projected to grow by 6.4 percent, with services exports cushioning goods trade amid tariff-related uncertainties. Imports have expanded sharply in real terms, again highlighting the divergence between volume growth and nominal value.



Source: Press Note on First Advance Estimates of GDP 2025-26, NSO, MoFPI, Government of India

The Nominal GDP Puzzle: A Five-Decade Low Deflator

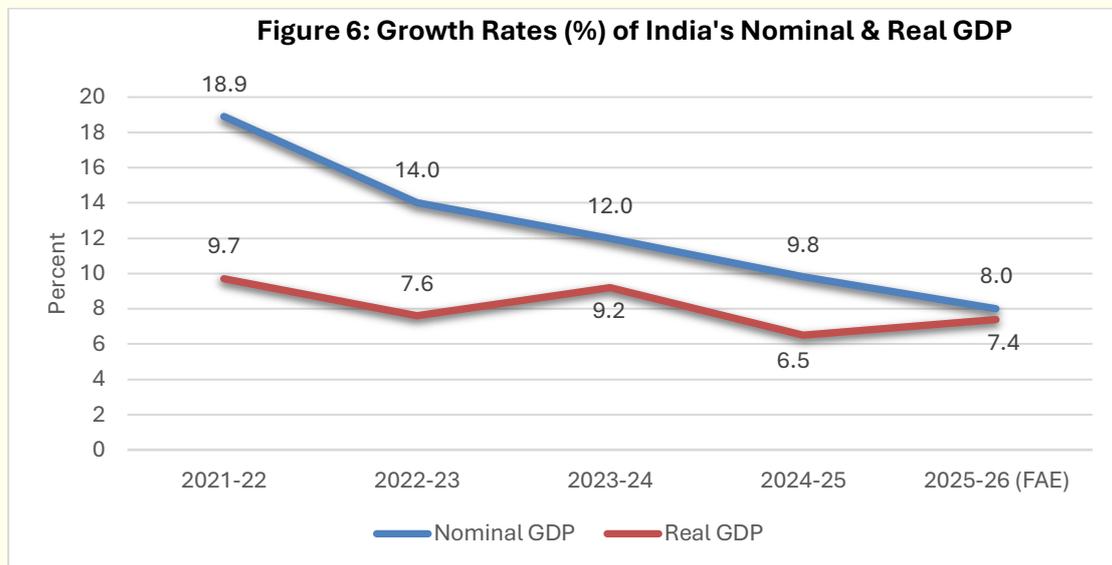
The most striking and policy-relevant aspect of the FAE is the exceptionally weak nominal growth outcome. At 8.0 percent, nominal GDP growth is not only well below budget assumptions but also historically unusual for an economy growing at over 7 percent in real terms. The gap between real and nominal GDP growth has been steadily narrowing over the last five years. . The nominal GDP growth dropped sharply from a high point of 18.9 percent in 2021-22 to 8 percent in 2025-26 (Figure 6). This trend deserves close policy attention, because sustained high real growth without commensurate nominal expansion can constrain incomes, investment incentives, and fiscal space.

The underlying reason is the GDP deflator, estimated at 0.5 percent, one of the lowest readings since the mid-1970s. While low inflation is welcome from a macro-stability

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perspective, such a compressed deflator also signals weak pricing power, subdued income expansion, and limited value realisation across sectors.

This phenomenon is visible across the economy. Agricultural prices remain soft despite adequate output. Manufacturing firms face intense competition and thin margins, expanding volumes without commensurate price gains. Even in services, much of the growth is concentrated in regulated or public-linked segments with limited pricing flexibility. In effect, India is growing faster in volume than in value.



Source: NSO, MoFPI, Government of India

India in Global Perspective: Nominal Growth That Lags Peers

A global comparison sharpens the concern. In most major economies, nominal GDP growth comfortably exceeds real growth, supported by wage growth, services inflation, and pricing power. The US, despite moderating inflation, continues to generate strong nominal expansion. The Euro Area has relied on price effects to sustain nominal growth even amid weak output. China, though now facing deflationary pressures, has historically extracted greater nominal value per unit of growth.

Against this backdrop, India stands out as an anomaly: among the fastest-growing economies in real terms, yet with one of the weakest nominal growth differentials. This

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has implications for tax buoyancy, debt dynamics, corporate balance sheets, and household perceptions of prosperity.

Why Nominal Growth Must Now Matter

The First Advance Estimates for FY 2025–26 portray an economy that is growing faster, more resilient, and structurally stronger in real terms. Manufacturing has revived, services remain buoyant, investment momentum has returned, and fiscal stability appears intact.

Yet the estimates also expose a strategic vulnerability: India’s growth is not generating commensurate nominal value. An economy that expands rapidly in volume but weakly in value risks constraining fiscal space, muting income growth, and limiting the financial foundations of long-term development.

The policy challenge is not to revive inflation, but to strengthen the income-generating capacity of growth—through higher productivity, deeper value addition, better price realisation, and broader wage growth. As India transitions to a new GDP base year and prepares for the FY 2026–27 Budget, the message from the FAE is clear: How fast India grows matters—but how much value that growth creates matters even more.

Historically, India’s nominal GDP growth has tended to exceed real growth by a comfortable margin, reflecting moderate inflation and healthy price realisation across sectors. In contrast, the FY 2025–26 estimates imply an implicit GDP deflator of less than 1 percent, signalling exceptionally weak price pressures at the aggregate level. This is not merely a benign story of disinflation; it also reflects compressed pricing power across large segments of the economy.

A closer examination of sectoral data reinforces this interpretation. While services are expanding rapidly in real terms, several segments, particularly public services and regulated activities, operate with limited price flexibility. At the same time, primary sector prices have remained subdued, with agricultural GVA showing modest real growth and weak nominal acceleration, constraining rural income growth. Even in

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manufacturing, the divergence between output growth and price realisation suggests that firms are expanding volumes in a competitive environment marked by thin margins and cautious demand conditions.

From a macroeconomic perspective, subdued nominal GDP growth has far-reaching implications. First, it directly affects tax buoyancy and fiscal arithmetic. Since tax revenues are linked more closely to nominal rather than real GDP, weaker nominal expansion can constrain fiscal space, even in the presence of strong real growth. This makes fiscal consolidation more challenging and limits the government's ability to step up counter-cyclical or development spending without raising deficits.

Second, muted nominal growth has consequences for debt sustainability. A lower nominal growth rate reduces the denominator effect that typically helps stabilise public debt ratios over time. While India's debt dynamics remain manageable, sustained periods of low nominal growth would require greater fiscal discipline or stronger revenue mobilisation to prevent slippages.

Third, and perhaps most importantly, nominal GDP growth is closely tied to income perception and cash-flow generation in the economy. For households and firms, it is nominal income growth—not real GDP—that determines their ability to service loans, invest, and spend. The relatively modest growth in nominal PFCE and per capita income, despite healthy real gains, suggests that purchasing power improvements may feel less tangible on the ground, particularly for informal workers and small enterprises.

It is also important to situate this outcome within the broader macroeconomic context. Part of the nominal slowdown reflects a welcome easing of inflation, as seen in lower CPI and WPI readings during FY 2025–26. However, the FAE data also point to deflationary tendencies in select commodity groups and traded goods, amplified by global price moderation and domestic supply-side adjustments. While beneficial for macro stability, this environment underscores the need for demand-side strengthening and productivity-led wage growth to sustain medium-term expansion.

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In this sense, the FAE presents a nuanced picture: India is growing faster in real terms, but earning less per unit of output than in previous cycles. The challenge for policymakers is not to reignite inflation, but to ensure that productivity gains, structural reforms, and value addition translate into stronger nominal incomes, especially outside high-end services.

The First Advance Estimates thus reveal an economy that is expanding with renewed vigour, yet grappling with subdued nominal momentum—highlighting that the next phase of India’s growth strategy must focus not only on how fast the economy grows, but also on how effectively growth converts into incomes, revenues, and financial resilience.

Interpreting the FAE: Strengths, Caveats, and the Road Ahead

As with all advance estimates, the FAE is indicator-based and subject to revisions as more comprehensive data become available. Moreover, the ongoing revision of the national accounts base year from 2011–12 to 2022–23 implies that subsequent estimates may alter both levels and growth rates.

Nonetheless, the current estimates convey three clear messages. First, India’s growth momentum has strengthened, with a clear rebound from the previous year. Second, growth is increasingly services-led, with implications for employment, skills, and urban infrastructure. Third, while investment and consumption are supportive, agriculture and external imbalances remain key areas of vulnerability.

Conclusion: A Growth Story with Structural Choices Ahead

The First Advance Estimates for FY 2025–26 present India as an economy that is regaining growth momentum in real terms, powered decisively by services and supported by steady investment. Yet, beneath this encouraging headline lies a more sobering macroeconomic signal: nominal GDP growth of just 8.0 percent, barely exceeding real growth, and markedly weaker than what India has historically relied upon to sustain fiscal capacity, income expansion, and debt sustainability.

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This divergence between real and nominal performance is not a statistical footnote—it goes to the heart of the growth narrative. An economy that grows rapidly in volume terms but generates muted nominal value risks facing constraints in revenue mobilisation, corporate profitability, and household cash flows. For governments, subdued nominal growth tightens fiscal space even when real activity is buoyant. For firms, it limits pricing power and balance-sheet strengthening. For households, it weakens the perceived gains from growth, particularly in segments where wage growth lags productivity improvements.

The policy challenge, therefore, is not to revive inflation indiscriminately, but to strengthen the income-generating capacity of growth itself. This requires accelerating productivity-enhancing reforms in manufacturing and agriculture, deepening value addition in exports, and ensuring that services-led expansion translates into broader wage and income growth rather than remaining concentrated in a few high-end segments.

In this sense, the FY 2025–26 First Advance Estimates mark a turning point rather than a destination. India’s growth engine is clearly running faster—but unless nominal momentum improves, the economy risks underperforming on the very metrics that sustain long-term development, fiscal resilience, and social legitimacy. The next phase of policy must therefore focus not only on how fast India grows, but on how effectively growth converts into incomes, revenues, and economic confidence.

SPECIAL FEATURE

INDIA-EU FREE TRADE AGREEMENT

THE MOTHER OF ALL DEALS: HOW THE INDIA–EU FTA REDEFINES TRADE, STRATEGY, AND SUSTAINABILITY

A Landmark Moment in Global Trade

After nearly two decades of intermittent negotiations, India and the European Union have concluded one of the most ambitious free trade agreements in recent global history. Covering a combined market of almost two billion people and representing roughly one-quarter of global GDP, the India–EU Free Trade Agreement (FTA) marks a decisive shift in the architecture of international trade.

European Commission President Ursula von der Leyen captured the magnitude of the agreement when she described it as “*the mother of all deals*”. The phrase is not rhetorical flourish. In scale, depth, and strategic intent, the India–EU FTA goes well beyond conventional tariff liberalisation to encompass services, digital trade, sustainability, labour standards, regulatory governance, and institutional cooperation.

Its timing is no less significant than its content. The agreement has been concluded at a moment when global trade is increasingly shaped by geopolitical rivalry, supply-chain fragmentation, climate imperatives, and the resurgence of economic statecraft.

Why the Timing Matters

For India, the FTA arrives as exporters confront higher trade barriers in key markets, particularly the United States, and as the country seeks to consolidate its role as a reliable manufacturing and services hub. Securing preferential access to one of the world’s wealthiest consumer markets provides a critical hedge against rising protectionism elsewhere.

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For the European Union, the agreement offers deeper engagement with one of the fastest-growing large economies at a time when transatlantic trade relations are under strain and Europe is actively diversifying its economic partnerships.

Seen together, the FTA reflects a shared recognition that strategic autonomy today depends not on isolation, but on carefully constructed interdependence.

Beyond Tariffs: A Structural Shift in Trade Policy

What distinguishes the India–EU FTA from many earlier agreements is its systemic ambition. While tariff liberalisation is deep, covering nearly the entire value of bilateral trade, the agreement is equally focused on:

- Regulatory transparency and predictability
- Services and professional mobility
- Digital trade governance
- Sustainability, climate action, and labour standards
- Institutional mechanisms for long-term cooperation

This reflects a broader evolution in trade policy, where agreements are no longer limited to border measures but increasingly shape domestic regulatory ecosystems.

Economic Gains and Asymmetry Management

A defining feature of the agreement is its careful management of developmental asymmetry. India’s average applied tariffs are significantly higher than those of the EU, particularly in sensitive sectors such as automobiles, alcohol, and agriculture. The FTA addresses this through:

- Phased tariff reductions, often spread over 5–10 years
 - Quota-based liberalisation in politically sensitive sectors
-

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- Explicit protection for critical domestic industries on both sides

For India, the principal gains lie in labour-intensive manufacturing, viz., textiles, footwear, fisheries, chemicals, leather, and pharmaceuticals, where EU tariffs, though modest on average, remain high in key product categories. For the EU, the agreement unlocks unprecedented access to India's large and expanding market for automobiles, agri-food, wines and spirits, machinery, medical devices, and high-end manufactured goods.

Services, Digital Trade, and Mobility: The Quiet Revolution

Perhaps the most transformative element of the FTA lies outside goods trade. Services and digital chapters significantly deepen India–EU integration in areas that are central to 21st-century economic growth.

The agreement introduces disciplines on domestic regulation, financial services, professional mobility, and digital commerce that go beyond India's existing multilateral commitments. For the EU, this means secure access to India's services market. For India, it creates opportunities for skilled professionals, IT services, and knowledge-based exports under a predictable and enforceable framework.

Trade, Sustainability, and Global Governance

The Trade and Sustainable Development (TSD) chapter places the agreement firmly within the evolving global consensus that trade policy must align with climate goals, labour rights, and inclusive growth.

Unlike earlier generations of FTAs, sustainability commitments in the India–EU agreement are legally binding and enforceable, supported by consultation mechanisms, technical expertise, and civil-society participation. Cooperation on climate action, biodiversity, sustainable food systems, and green technologies positions the FTA as a tool for managing, and not ignoring the global ecological transition.

A Strategic Anchor in a Fragmenting World

In strategic terms, the India–EU FTA serves as an anchor of stability in a fragmented global trade system. It reinforces a rules-based framework at a time when unilateralism and ad-hoc protectionism are on the rise.

By combining market access with institutional depth, the agreement signals that large, diverse economies can still negotiate comprehensive, forward-looking trade arrangements without retreating into narrow protectionist instincts.

Conclusion: More Than a Trade Deal

The India–EU Free Trade Agreement is not simply about tariffs, quotas, or market shares. It is about how economic partnerships will be structured in an era defined by geopolitical tension, technological change, and climate risk.

As President Ursula von der Leyen observed, this is indeed the “*mother of all deals*”, not only because of its scale, but because of the new template it offers for global economic cooperation. For India and the EU alike, the agreement represents a strategic investment in shared prosperity, regulatory trust, and long-term resilience.

FROM MARKET ACCESS TO SUSTAINABILITY: AN OVERVIEW OF THE INDIA–EU FREE TRADE AGREEMENT

Trade in Goods

Near-complete tariff liberalisation covering over 96% of trade value. Strong gains for Indian labour-intensive exports and unprecedented market access for EU industrial and agri-food products, with phased reductions and safeguards.

Rules of Origin

Modern, self-certification-based rules ensuring that only substantially transformed goods benefit from preferences, easing compliance—especially for SMEs.

Customs and Trade Facilitation

Streamlined customs procedures, advance rulings, faster clearance, and enhanced data exchange to reduce transaction costs and improve supply-chain security.

Sanitary and Phytosanitary Measures

Greater transparency and predictability while fully preserving the EU’s stringent food safety standards and India’s agricultural sensitivities.

Technical Barriers to Trade

Enhanced transparency, mandatory public consultations, and a dedicated working group to address conformity assessment and quality standards.

Trade Remedies

Retention of anti-dumping, countervailing, and safeguard measures, including a bilateral safeguard mechanism to manage import surges.

Services

Deep commitments across more than 240 sub-sectors combined, covering financial services, maritime services, professional mobility, and domestic regulation.

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Digital Trade

Rules on source-code protection, online consumer rights, spam prevention, and digital trust, aligned with emerging global norms.

Intellectual Property Rights

Strong protection and enforcement across copyrights, trademarks, designs, trade secrets, and plant varieties, aligned with domestic laws.

Competition, Subsidies, and State Enterprises

Application of competition law to all enterprises and transparency mechanisms for subsidies, with scope for regulatory cooperation.

Small and Medium-Sized Enterprises

Dedicated SME chapter with digital information platforms, contact points, and reduced regulatory barriers.

Transparency

Clear obligations on publication, review, and appeal of trade-related regulations, strengthening predictability.

Good Regulatory Practices

Use of regulatory impact assessments, early stakeholder consultation, and non-discriminatory regulatory processes.

Sustainable Food Systems

Framework for cooperation on resilient, inclusive, and environmentally sustainable food systems.

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Trade and Sustainable Development

Binding commitments on labour rights, environment, climate action, gender equality, and responsible business conduct.

Environment, Climate, and Natural Resources

Alignment with multilateral environmental agreements and promotion of green goods, services, and technologies.

Dispute Settlement

Transparent, binding dispute resolution with independent panels, mediation options, and enforcement mechanisms.

Institutional Provisions

Joint Committee, specialised committees, civil-society participation, and a Rapid Reaction Mechanism.

Final, General, and Exception Provisions

Review clauses, security and general exceptions, and recognition of democratic principles and human rights as essential elements.



SECTION 1: INDIAN ECONOMY

ECONOMIC SURVEY 2025-26

RUNNING A MARATHON AS A SPRINT: INDIA'S GROWTH STRATEGY IN A FRACTURED GLOBAL ECONOMY

State of the Economy: When Growth Meets Geopolitics

The *Economic Survey 2025–26* analyses India's economic performance within an increasingly fragile global order. The post-pandemic recovery has given way to a period marked by geopolitical conflict, weaponisation of trade and finance, supply-chain fragmentation, and a weakening of multilateral institutions. In such a world, growth alone is no longer sufficient; it must be resilient, credible, and strategically grounded.

India's macroeconomic performance stands out. Real GDP growth has remained above 7 percent, placing India among the fastest-growing large economies. The First Advance Estimates place real GDP growth at 7.4 percent, with growth largely driven by domestic demand. More importantly, the Survey revises India's potential growth rate upward to 7.0 percent from 6.5 percent, signalling a structural improvement rather than a cyclical bounce. This revision reflects sustained public capital expenditure, strengthening corporate balance sheets, improved bank health, and gradual gains from infrastructure expansion.

A significant innovation is the refinement of nowcasting techniques, which integrate high-frequency indicators, viz., GST collections, e-way bills, electricity consumption, port traffic, and financial flows, to track real-time economic momentum. This marks a transition from retrospective assessment to anticipatory economic governance.

The Survey also highlights a maturing growth model: public investment is no longer merely filling a private investment gap; it is actively crowding in private capital by lowering logistics costs, improving connectivity, and enhancing market access. Inflation moderation and external sector stability further reinforce macroeconomic confidence.

Fiscal Developments: Credibility as a Growth Asset

In a world of volatile capital flows and heightened risk aversion, fiscal credibility has become a productive asset.

The Union government's fiscal deficit for FY25 came in below budgeted levels, reinforcing confidence in India's medium-term consolidation strategy. The reaffirmed glide path towards a 4.4 percent deficit in FY26 sends a strong signal to investors, rating agencies, and markets.

What distinguishes this chapter is its system-wide view of public finance. The Survey explicitly warns that investors increasingly evaluate general government finances, not just the Centre's balance sheet. In this context, the fiscal behaviour of States has macroeconomic consequences.

The Survey identifies worrying trends in some States:

- Rising revenue deficits
- Expansion of non-targeted cash transfers
- Weak prioritisation of capital expenditure

Such practices risk crowding out productive investment and raising sovereign borrowing costs—particularly as Indian government bonds gain greater global market exposure.

The chapter does not argue against social spending per se. Instead, it stresses expenditure quality, fiscal transparency, and long-term sustainability. Fiscal consolidation, the Survey argues, is not austerity, but it is inter-generational equity..

Monetary Management and Financial Intermediation: The Structural Cost of Capital

Contrary to popular perception, the Survey argues that India's relatively high cost of capital is not primarily a function of policy rates, banking inefficiencies, or regulatory

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overreach. Instead, it reflects a deeper structural reality: India's dependence on foreign savings.

Countries that consistently run current account deficits must offer higher returns to attract external capital. Monetary easing can influence short-term conditions, but it cannot sustainably overcome this structural constraint. Therefore, the true path to lower capital costs lies in external surplus generation, higher domestic savings, and improved export competitiveness.

The chapter also reviews the health of the banking and financial system. Asset quality has improved markedly, capital buffers are strong, and credit growth has resumed. Regulatory approaches are evolving toward risk-based supervision, while macroprudential tools are being refined to manage systemic risk.

Crucially, the Survey links monetary outcomes with:

- External sector performance
- Manufacturing competitiveness
- Energy and logistics costs

This integrated perspective highlights that capital, trade, infrastructure, and industrial policy are deeply interconnected.

External Sector: Growth without External Vulnerability

The *Economic Survey* situates India's external sector strategy within a fragmented global economy. Trade is increasingly shaped by geopolitics, national security considerations, and industrial policy rather than comparative advantage alone.

India's external sector performance has been stable. Services exports, remittances, and resilient foreign exchange reserves have cushioned the economy against global shocks. However, the Survey cautions against complacency.

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The core argument is stark: no large economy has achieved durable currency strength without a strong manufacturing export base. While services exports provide stability, they do not generate the scale, employment, or import compression needed to structurally strengthen the balance of payments.

The Survey examines India's limited integration into global manufacturing value chains and identifies constraints such as:

- High logistics costs
- Input tariffs
- Scale limitations
- Cost of capital

The recently concluded India–EU Free Trade Agreement is presented as a potential inflection point, offering access to advanced markets, technology, and demand for labour-intensive manufacturing.

The chapter reframes trade policy as a strategic tool—not merely for export promotion, but for currency stability, employment generation, and geopolitical relevance.

Inflation: From Firefighting to Anchoring Expectations

The *Economic Survey* marks a decisive shift in India's inflation narrative—from episodic firefighting to durable anchoring. Headline inflation has moderated, but the more telling signal is the sustained softness in core inflation, reflecting improvements in supply-side capacity rather than demand compression.

The Survey's granular analysis shows that infrastructure investments—especially in logistics, warehousing, roads, ports, and digital platforms—are reducing transaction costs and supply rigidities. The widening use of e-NAM, better freight connectivity, and integrated markets is gradually weakening the traditional transmission of food price shocks into core inflation.

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Another notable insight is the reversal of manufacturing terms of trade, suggesting that cost pressures in industry are easing relative to output prices. This has implications for both profitability and export competitiveness.

The Survey is cautious, however. Climate shocks, geopolitical disruptions, and food price volatility remain structural risks. Yet India's inflation management framework—combining monetary discipline with supply-side reforms—is increasingly robust.

Agriculture and Food Management: Beyond Price Support to Productivity Security

Agriculture remains a stabilising force in India's economy, but the Survey is unequivocal: resilience cannot substitute for reform. While favourable monsoons and policy interventions have sustained output, long-term income security for farmers hinges on productivity gains and diversification.

The chapter critically evaluates the existing architecture of MSP, procurement, and food subsidies. While acknowledging their role in food security and income protection, it warns against path dependence that locks farmers into low-productivity cropping patterns.

The Survey places renewed emphasis on:

- Crop diversification and allied activities
- Technology adoption (precision farming, digital advisories)
- Institutional reforms in marketing
- Rationalisation of input subsidies
- Strengthening agri-value chains and food processing

Food management reforms are framed not as fiscal imperatives alone, but as efficiency-enhancing interventions that free resources for investment in irrigation, research, and extension.

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Services Sector: Stability without Structural Compulsion

India's services sector continues to deliver growth, exports, and macroeconomic stability. IT services, financial services, tourism, logistics, and digital platforms have demonstrated resilience even amid global slowdown.

However, the Survey makes a subtle but important argument: services-led growth does not automatically generate pressure for institutional reform. Globally competitive services firms can thrive even when land markets, labour regulations, urban governance, or logistics remain suboptimal.

This contrasts with manufacturing, where competitiveness is brutally exposed to infrastructure quality, regulatory efficiency, and cost structures.

The Survey therefore cautions against complacency. While services will remain a growth engine, they cannot alone drive:

- Mass employment
- Export diversification
- Strong currency fundamentals
- Broad-based state capacity

Industry: Strategic Resilience without Strategic Complacency

This Survey challenges the notion that strategic autonomy requires broad-based protection.

The Survey argues that excessive protection of upstream industries raises input costs for downstream manufacturers, effectively acting as a hidden tax on exports. This weakens India's ability to integrate into global value chains.

Drawing lessons from East Asia, the Survey stresses:

- Discipline through global competition
-

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- Sunset clauses for protection
- Performance-linked support rather than open-ended shelter
- MSME scaling through technology and finance
- Lower logistics and energy costs

Strategic resilience, it argues, should come from diversification, redundancy, and competitiveness, not insulation.

Investment and Infrastructure: From Fiscal Stimulus to System Efficiency

Public investment has emerged as the backbone of India's growth strategy. This chapter reframes infrastructure not as counter-cyclical stimulus but as permanent productivity capital.

The Survey highlights:

- Transport corridors and logistics parks
- Energy infrastructure and renewables
- Digital Public Infrastructure (DPI)
- Urban infrastructure and housing
- Innovative financing and asset monetisation

The emphasis is on system-wide efficiency gains, viz., lower logistics costs, faster turnaround times, better market access, and enhanced private sector confidence.

Importantly, the Survey notes that infrastructure-led growth is now crowding in private investment, rather than displacing it.

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Environment and Climate Change: Pragmatism over Piety

The Survey rejects ideological extremes. It cautions against premature transitions that raise energy costs, disrupt industry, and weaken competitiveness—especially for a developing economy.

Instead, it advocates:

- Sequenced transitions
- Technology neutrality
- Energy security
- Adaptation alongside mitigation
- Scaled-up climate finance

Climate policy is positioned as an economic competitiveness strategy, not a moral abstraction. The Survey stresses that green growth must be affordable, reliable, and industrially viable.

Education and Health: The Next Frontier of Human Capital

Access metrics have improved significantly in education and health, but the Survey shifts focus to quality, outcomes, and behavioural challenges.

In education, the challenge is not enrolment but learning outcomes, relevance, and employability. In health, the burden of non-communicable diseases, obesity, and lifestyle-related risks is rising rapidly.

The Survey argues for:

- Outcome-based accountability
 - Stronger education–skills–industry linkages
 - Preventive healthcare
-

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- Behavioural nudges and awareness

Human capital is framed as a co-produced asset, shaped by institutions, incentives, and individual choices.

Employment and Skill Development: Fixing the Mismatch

Employment indicators show improvement, including rising female labour force participation. However, the Survey identifies skills mismatch as the binding constraint.

Key challenges include:

- Weak alignment between education and labour demand
- Limited apprenticeship penetration
- Fragmented skilling ecosystems
- Slow absorption of trained youth

The Survey advocates demand-driven skilling, employer-led training, and stronger industry participation.

Rural Development and Social Progress: From Welfare to Work

The Survey acknowledges India's success in poverty reduction but warns against welfare dependency. Sustainable inclusion requires productive engagement, not perpetual transfers.

Rural development must now focus on:

- Livelihood diversification
 - Skill development
 - Rural enterprises
 - Market linkages
-

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- Community–market–state partnerships

Social justice is framed as an enabler of participation, not merely redistribution.

Artificial Intelligence: Development, Not Disruption

The Survey emphasises that India’s AI strategy must prioritise:

- Productivity enhancement
- Human capital
- Data governance
- Risk management
- Ethical deployment

The Survey warns against uncritical adoption of heavily leveraged AI investment models and speculative bubbles.

Urbanisation: India’s Hidden Growth Constraint

Urbanisation is framed as India’s most underperforming growth lever. Cities suffer from weak governance, fragmented authority, land constraints, and inadequate municipal finance.

The Survey calls for:

- Empowered urban local bodies
- Land and housing reforms
- Urban infrastructure financing
- Professional city management

Without functional cities, India’s growth ceiling will remain constrained.



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Strategic Resilience to Strategic Indispensability

The concluding chapters synthesise the Survey's philosophy. India must move beyond defensive resilience to strategic indispensability—becoming too important to be ignored or bypassed.

This requires:

- An entrepreneurial but disciplined state
- Deep deregulation
- Strong institutions
- Responsible private sector behaviour
- Citizen alignment with long-term goals

Growth, resilience, and sovereignty are treated as mutually reinforcing.

BEYOND GROWTH: ECONOMIC SURVEY 2025–26 AND THE POLITICAL ECONOMY OF VIKSIT BHARAT

Introduction: When Economic Success Meets Strategic Uncertainty

The *Economic Survey 2025–26* marks a decisive shift in India’s economic self-understanding. It is no longer content with describing growth outcomes or cataloguing policy initiatives. Instead, it confronts a deeper and more uncomfortable question: how does a fast-growing economy secure its prosperity in a world that is no longer rules-based, predictable, or benign?

The Survey estimates a real GDP growth range of 6.8 percent to 7.2% for 2026-27. In the background of this, the survey has analysed India’s potential growth for the medium term and estimated it at 7 percent.

India enters 2026 with enviable macroeconomic credentials. Real GDP growth remains above 7 percent, inflation is largely anchored, the banking system is healthy, public investment is at record levels, and fiscal consolidation has regained credibility. Yet the Survey repeatedly cautions that macroeconomic strength alone is no longer sufficient. Trade fragmentation, financial weaponisation, geopolitical shocks, climate stress, and technological concentration have fundamentally altered the global landscape.

The Survey’s core message is therefore strategic: India must sustain high growth while simultaneously building resilience, credibility, and indispensability. This dual imperative, captured in the Survey’s evocative metaphor of *running a marathon as if it were a sprint*, defines the economic challenge of the next two decades.

Macroeconomic Stability as National Capability

At the heart of the Survey lies a reframing of macroeconomic stability—not as a technocratic achievement, but as national capability. The upward revision of India’s potential growth rate to around 7 percent reflects structural improvements driven by sustained public investment, healthier corporate balance sheets, improved bank asset quality, and easing supply-side constraints.

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The Survey's use of high-frequency indicators and nowcasting models signals a shift toward anticipatory governance, acknowledging that in a volatile global environment, delayed responses can amplify shocks. Growth is no longer treated as an end in itself; it is the foundation upon which fiscal space, institutional capacity, and strategic autonomy are built.

Fiscal policy is accorded particular importance. By undershooting deficit targets and reaffirming a medium-term consolidation path, the Union government has reinforced macro credibility. More significantly, the Survey broadens the lens to include State finances, warning that rising revenue deficits and populist expenditure at the sub-national level now have systemic implications. As Indian sovereign bonds integrate further into global markets, investors increasingly assess general government discipline, not just the Centre's balance sheet.

Fiscal prudence is thus recast not as austerity, but as inter-generational responsibility and risk management.

The Structural Cost of Capital and the External Constraint

One of the Survey's most analytically consequential arguments concerns the cost of capital. It challenges the popular narrative that high borrowing costs are primarily the result of tight monetary policy or banking inefficiencies. Instead, it locates the problem in India's persistent dependence on foreign savings.

Economies that run current account deficits must offer a risk premium to attract capital. Monetary easing can influence cyclical conditions, but it cannot sustainably eliminate this structural constraint. The implication is profound: cheap capital is not a policy choice—it is an outcome of external strength.

This insight reframes the role of exports, manufacturing, and energy efficiency. External sector resilience becomes not just a balance-of-payments concern, but a determinant of domestic investment, job creation, and growth sustainability.

Manufacturing, Trade, and Strategic Relevance

The Survey is unequivocal that no large economy has achieved durable currency stability or geopolitical relevance without a strong manufacturing export base. While services exports and remittances have provided India with resilience, they cannot substitute for the scale, employment intensity, and import compression delivered by manufacturing.

Trade policy is therefore presented as a strategic instrument rather than a transactional tool. The Survey highlights the importance of deeper integration into global value chains and underscores the potential of recent trade agreements—particularly with advanced economies—to catalyse labour-intensive manufacturing and technological upgrading.

Equally important is the Survey's critique of excessive protectionism. Shielding upstream industries raises input costs for downstream manufacturers, effectively taxing exports and undermining competitiveness. Strategic resilience, the Survey argues, must be built through diversification, scale, and competition, not insulation.

Inflation, Agriculture, and the Quiet Supply-Side Transition

India's inflation trajectory receives a nuanced treatment. The sustained moderation of core inflation is interpreted as evidence of improving supply-side conditions rather than demand suppression. Infrastructure expansion, logistics reform, market integration, and digital platforms are gradually weakening the transmission of price shocks.

In agriculture, the Survey adopts a pragmatic stance. It acknowledges the historical role of price support and procurement in ensuring food security, but warns against a future locked into low productivity, high fiscal cost, and ecological stress. Long-term income security for farmers, it argues, must rest on productivity gains, diversification, allied activities, and value-chain integration rather than perpetual price intervention.

This marks a subtle but important shift: from price security to productivity security.

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Infrastructure and Investment: Building Economic Architecture

Public investment emerges as the backbone of India's growth strategy, but the Survey reframes its purpose. Infrastructure is not merely counter-cyclical stimulus; it is economic architecture that shapes productivity across sectors.

Transport corridors, logistics parks, ports, energy systems, and Digital Public Infrastructure together reduce transaction costs, improve reliability, and crowd in private investment. Digital platforms such as UPI, GSTN, and ONDC are treated as institutional infrastructure that lowers information asymmetries and expands market access.

The Survey's emphasis on asset monetisation, PPPs, and blended finance reflects an effort to scale infrastructure without undermining fiscal sustainability.

Climate Policy as Development Strategy

The Survey rejects false binaries between growth and sustainability. It argues for sequenced, affordable, and technologically feasible transitions, cautioning against premature decarbonisation that raises energy costs and erodes competitiveness.

Climate action is framed as an economic strategy that must align with energy security, industrial development, and employment. Adaptation, climate finance, and domestic manufacturing of green technologies receive as much attention as mitigation.

This pragmatic approach reflects a broader theme of the Survey: policies that ignore economic viability will not endure politically.

Human Capital, Employment, and Social Transformation

With access largely achieved in education and healthcare, the Survey shifts focus to outcomes and behaviour. Learning outcomes, employability, preventive healthcare, and lifestyle-related diseases emerge as critical constraints on productivity.

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Employment indicators show improvement, including rising female labour force participation, but skill mismatches remain the binding constraint. The Survey calls for demand-driven skilling, apprenticeships, and deeper industry participation—positioning employment as a macroeconomic and social stabiliser.

Rural development policy is urged to evolve from welfare dependence to productive inclusion, emphasising rural enterprises, non-farm livelihoods, and market integration.

Urbanisation, Technology, and the Limits of the State

Urbanisation is identified as one of India’s most underperforming growth levers. Weak municipal finance, land constraints, fragmented governance, and inadequate service delivery threaten to cap long-term growth. Empowered cities, predictable fiscal frameworks, and professional urban management are presented as prerequisites for India@2047.

The Survey’s treatment of Artificial Intelligence is notably restrained. AI is seen as a productivity amplifier that requires governance, skills, and ethical frameworks. Unregulated adoption and speculative investment are flagged as systemic risks.

From Resilience to Strategic Indispensability

The Survey’s concluding chapters elevate the discussion from economics to statecraft. Resilience protects an economy from shocks; indispensability gives it leverage. In a fractured global order, nations that are deeply embedded in value chains, technology ecosystems, and markets are harder to bypass or marginalise.

Achieving this status requires:

- An entrepreneurial but disciplined state
 - Deep deregulation and institutional capacity
 - Responsible private sector behaviour
 - Citizen alignment with long-term national goals
-

Driving Policy, Empowering Progress

Growth, sovereignty, and security are treated as mutually reinforcing outcomes of institutional quality and strategic focus.

Conclusion: Economic Survey 2025–26 and the Making of Viksit Bharat

The *Economic Survey 2025–26* is ultimately a document about choices. It recognises India’s extraordinary opportunity, but also the narrowing margin for error. Short-term comfort, fiscal populism, and policy complacency are luxuries India can no longer afford.

India@2047 and Viksit Bharat will not be achieved through growth alone, but through the quality of that growth—its resilience, inclusiveness, competitiveness, and strategic relevance.

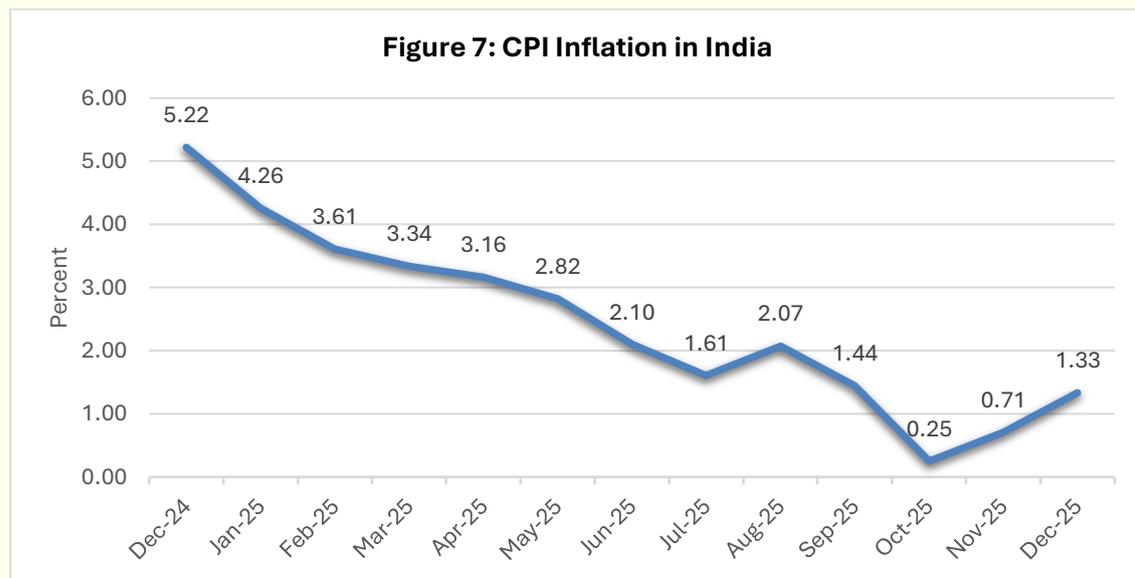
In a world where power increasingly flows from productivity, credibility, and indispensability, the Survey offers a clear, if demanding, roadmap. It is now up to institutions, markets, and citizens to walk that path.

NAVIGATING MACROECONOMIC TRENDS

INDIA'S CPI INFLATION FIRMS TO A THREE-MONTH HIGH IN DECEMBER 2025, THOUGH REMAINING BENIGN

Introduction

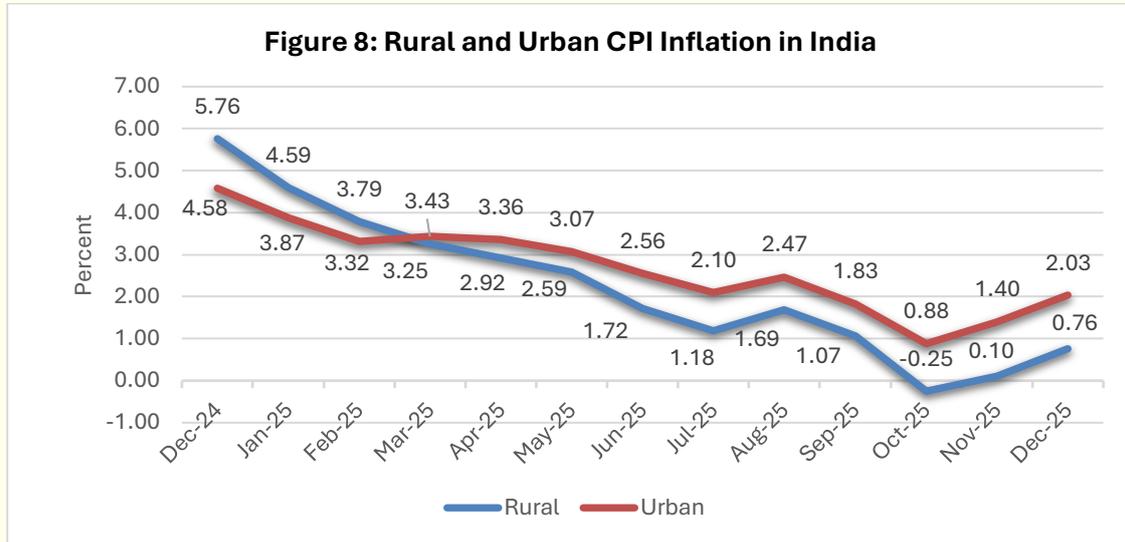
India's headline consumer price inflation (CPI) moderated sharply in December 2025, underscoring a phase of broad-based disinflation. The year-on-year CPI inflation stood at 1.33 percent, rising modestly from 0.71 percent in November 2025 (Figure 7), but remaining well below the RBI's medium-term target of 4 percent.



Source: MoSPI, GoI

A key feature of inflation dynamics since March 2025 has been the persistent rural–urban divergence, with urban inflation exceeding rural inflation. Rural CPI inflation increased to 0.76 percent, up from 0.1 percent in November (Figure 8), reflecting some easing of deflationary pressures in food prices. Urban inflation rose more sharply to 2 percent, compared with 1.4 percent a month earlier, driven largely by stickier services inflation such as housing, education and health.

Driving Policy, Empowering Progress



Source: MoSPI, GoI

Overall, December 2025 marked a transition from deep disinflation towards stabilisation, rather than a renewed inflationary upturn.

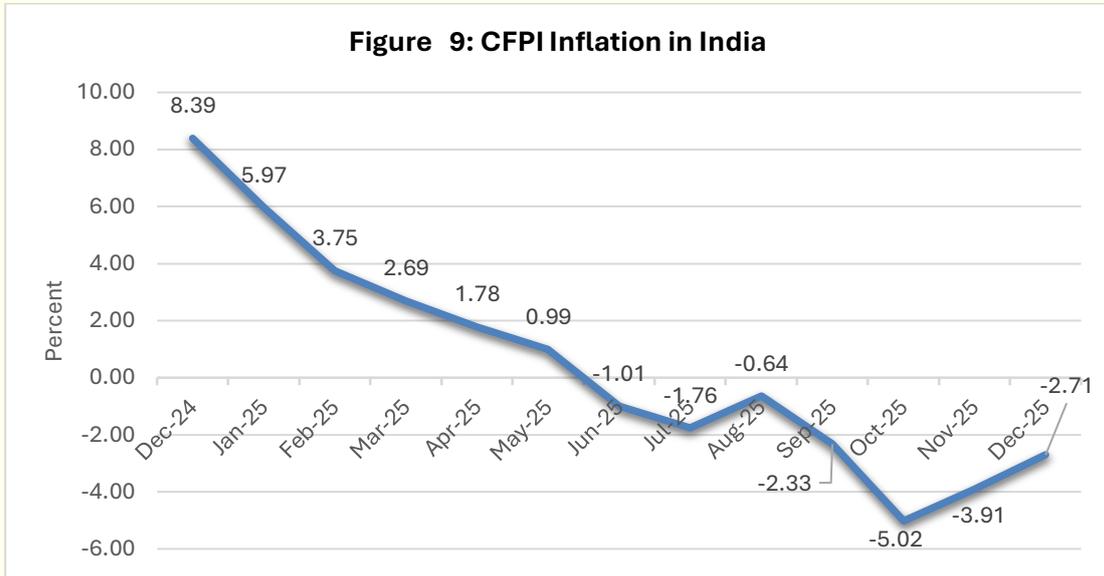
Food Inflation

Food prices remained the dominant driver of low headline inflation, although the degree of deflation moderated.

Consumer Food Price Inflation (CFPI)

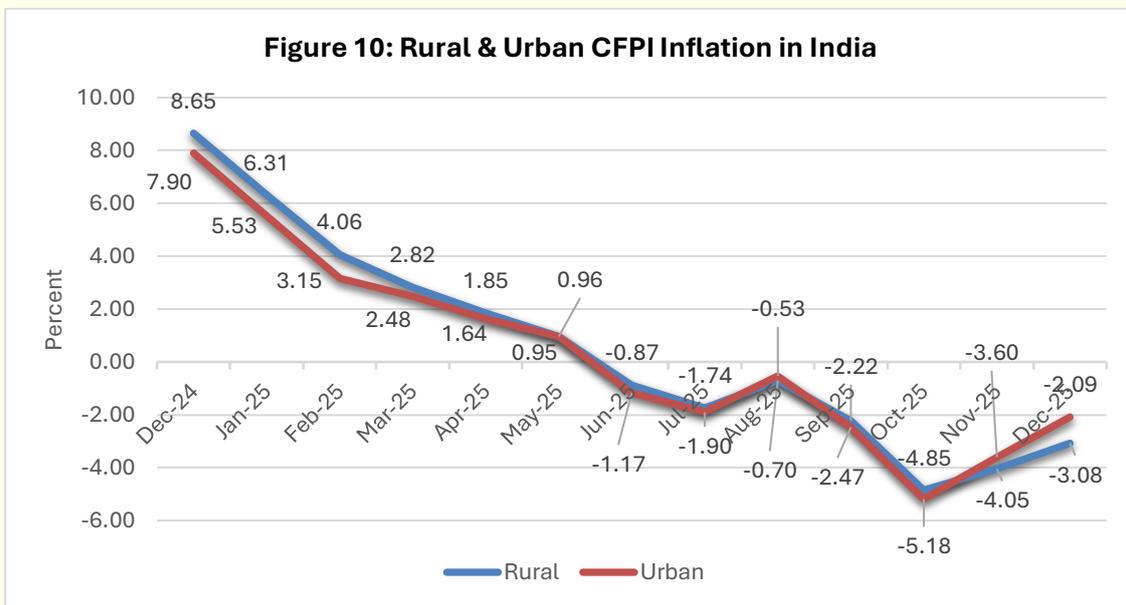
The All-India Consumer Food Price Index (CFPI) inflation was -2.71 percent in December 2025, compared with -3.91 percent in November (Figure 9).

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Source: MoSPI, GoI

While rural food inflation rose to -3.08 percent from -4.05 percent in the previous month, urban food inflation increased to -2.09 percent from -3.08 (Figure 10).



Source: MoSPI, GoI

The narrowing of food deflation reflects early signs of price firming in select items, even as overall food prices continued to exert a strong downward pull on headline CPI.

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Cereals and Products

Cereals inflation remained subdued but positive, with firmer prices compared to the previous year. Rural inflation was relatively higher than urban inflation, reflecting procurement prices and regional supply factors. Adequate buffer stocks and smooth public distribution limited sharper price pressures.

Meat and Fish

Prices of meat and fish recorded moderate positive inflation across rural and urban areas. Urban inflation remained marginally higher, reflecting stronger demand conditions and higher marketing and logistics costs.

Eggs

Egg prices continued to show notable inflation, particularly in urban areas. Seasonal demand, transport costs and feed prices contributed to firmer price levels, although rural inflation remained comparatively contained.

Milk and Products

Milk inflation stayed muted and stable, with only marginal year-on-year increases. The stability in milk prices across rural and urban regions reflects steady procurement prices and improved supply management by cooperatives.

Oils and Fats

Inflation in oils and fats remained low to moderate, supported by easing global edible oil prices. Urban inflation was lower than rural inflation, reflecting better pass-through of international price corrections in urban markets.

Fruits

Fruit prices showed mild deflation at the all-India level, with sharper declines in rural areas due to local supply gluts and seasonal arrivals. Urban prices were relatively more stable, supported by logistics and storage costs.

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Vegetables

Vegetables continued to be the largest contributor to food deflation, particularly in rural India. Improved supply conditions, seasonal arrivals and better market integration led to steep year-on-year price declines, although the pace of deflation moderated compared to November.

Pulses

Pulses inflation remained negative across rural and urban segments, reflecting strong domestic production and comfortable availability. Urban deflation was slightly less pronounced, indicating steady consumer demand.

Sugar and Confectionery

Sugar prices remained largely stable, with low single-digit inflation. Government interventions, adequate stocks and export controls helped contain price volatility across regions.

Non-Food Inflation

While food prices pulled inflation down, non-food components remained sticky, especially services.

Housing

Housing inflation (urban only) stood at 2.86 percent, marginally lower than 2.95 percent in November. Despite moderation, housing inflation remains a key source of persistence in urban CPI, reflecting rent revisions and higher maintenance costs.

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Health

Health inflation eased to 3.43 percent, down from 3.60 percent in November. The moderation was visible across both rural and urban areas, though healthcare costs continue to rise faster than headline CPI, reflecting structural cost pressures.

Education

Education inflation moderated slightly to 3.32 percent, from 3.38 percent in November. Price pressures remain uniform across rural and urban segments, driven by fees, transport and ancillary educational expenses.

Transport and Communication

Transport and communication inflation softened to 0.76 percent, reflecting easing fuel costs and stable telecom tariffs. The moderation was visible across both rural and urban consumers.

Fuel and Light

Fuel and light inflation declined to 1.97 percent, from 2.32 percent in November. Lower international energy prices and limited pass-through to domestic fuel costs helped anchor inflation expectations.

Key Insights

- Headline CPI inflation at 1.33 percent remains exceptionally low by historical standards.
 - Food deflation continues, though at a slower pace, indicating early signs of bottoming out.
 - Urban inflation is structurally higher than rural inflation due to services-led price pressures.
 - Non-food inflation, particularly housing, education and health, remains sticky and well above headline CPI.
-

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Inflation Outlook

Looking ahead, food inflation is likely to gradually normalise, especially as base effects fade and seasonal pressures emerge. However, the outlook remains benign given strong agricultural output and effective supply-side management.

Non-food inflation is expected to remain moderately elevated, driven by services costs, but unlikely to accelerate sharply in the absence of strong demand-side pressures.

Policy Implications

- The current inflation environment provides ample space for accommodative monetary policy.
- Persistent services inflation underscores the need for structural reforms in housing, healthcare and education to contain long-term inflation.
- Continued focus on supply-side interventions in food markets remains critical to maintaining price stability.

Conclusion

India's CPI inflation in December 2025 reflects a rare confluence of deep food disinflation and stable core price pressures. While headline inflation has edged up marginally, it remains comfortably below the RBI's target, offering macroeconomic stability. The challenge ahead lies not in controlling inflation, but in managing its gradual normalisation without undermining growth momentum.

EXPERT GROUP REPORT ON COMPREHENSIVE UPDATION OF THE CONSUMER PRICE INDEX (CPI): KEY REFORMS IN INDIA'S CPI 2024 SERIES

The *Expert Group Report on Comprehensive Updation of the Consumer Price Index (CPI)* represents a major methodological and institutional overhaul of India's principal measure of retail inflation. Anchored in the realities of a rapidly transforming consumption landscape, the report provides a robust framework for transitioning from the existing CPI (2012=100) series to a new CPI series with base year 2024=100, aligned with global best practices, technological advances, and evolving policy requirements.

Rationale and Context

The Consumer Price Index is a cornerstone of India's macroeconomic architecture, serving as the nominal anchor for monetary policy under the Reserve Bank of India's Flexible Inflation Targeting framework, as well as a critical deflator for national accounts, welfare analysis, and poverty estimation. Since the last base revision in 2012, India's economy has witnessed profound structural changes—urbanisation, digitisation, expansion of e-commerce, diversification of services, changing food consumption patterns, and the growing role of administered prices and social transfers.

International statistical standards, particularly those articulated by the IMF and the United Nations Statistical Commission, recommend revising CPI weights and baskets at least once every five years to preserve representativeness. However, delays in the conduct and release of household expenditure surveys meant that India's CPI basket remained unchanged for over a decade. The availability of the Household Consumption Expenditure Survey (HCES) 2022–23 and 2023–24 therefore provided a long-awaited opportunity to comprehensively revisit the CPI framework.

Institutional Process and Consultative Approach

The Expert Group, constituted in February 2023 under the chairmanship of a former Director General of the Central Statistics Office, undertook an exhaustive and

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consultative exercise spanning 13 formal meetings between April 2023 and December 2025. The process combined technical scrutiny, international benchmarking, stakeholder consultations, and pilot testing.

Inputs were drawn from central ministries, the RBI, international experts (including an IMF Technical Assistance Mission), state statistical systems, and users from academia, banking, and financial markets. This ensured that the revised CPI framework is not only statistically sound but also policy-relevant, transparent, and credible.

Key Enhancements in CPI 2024

The CPI 2024 series marks a decisive shift from incremental adjustment to structural modernisation.

Expanded Coverage and Representativeness: The number of rural markets increases from 1,181 to 1,465 and urban markets from 1,114 to 1,395, covering 434 towns compared to 310 earlier. The weighted item basket expands from 299 to 358 items, with a notable increase in services, reflecting India's consumption transition. Importantly, online markets are formally incorporated for the first time, recognising the growing role of e-commerce in household expenditure.

Alignment with COICOP 2018: A major reform is the near-complete adoption of the Classification of Individual Consumption According to Purpose (COICOP) 2018, replacing the partially aligned COICOP 1999 framework. This brings India's CPI in line with international standards, enabling global comparability. The CPI is now structured across 12 Divisions, 43 Groups, 92 Classes, and 162 Sub-classes, with careful adaptation to Indian consumption realities.

Technological Transformation of Data Collection: The CPI 2024 series introduces tablet-based Computer Assisted Personal Interviewing (CAPI), enabling real-time validation, geo-tagging of outlets, supervisory dashboards, and enhanced data security. This transition significantly improves data quality, reduces field-level discretion, and strengthens auditability.

Use of Alternative and Administrative Data Sources: Recognising that many prices are centrally determined or digitally observable, the new CPI integrates administrative and online data for items such as rail fares, postal services, fuel products, telecom services, electricity tariffs, OTT subscriptions, and airfares. This reduces respondent burden, improves accuracy, and enhances timeliness.

Methodological Refinements

At the core of the revision lies a set of important methodological improvements. Elementary indices continue to use Jevons' formula but shift to the short index method, reducing dependence on base prices and improving robustness. Missing prices are now systematically imputed, including for seasonal items, eliminating the earlier practice of redistributing weights and thereby improving index stability.

The housing rent index undergoes a fundamental redesign. Coverage is expanded to include rural areas for the first time, employer-provided accommodation is excluded, and a uniform chain-linked methodology is adopted. Census 2011 data are used for dwelling-type weights, ensuring exhaustiveness and consistency.

Treatment of Free Social Transfers and PDS

One of the most policy-sensitive issues addressed by the Expert Group is the treatment of free food grains distributed under the Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY). After extensive deliberation, the Group recommends excluding free social transfers from the CPI, in line with international principles that CPI should measure out-of-pocket consumption expenditure rather than welfare transfers. This decision preserves the conceptual purity of the CPI as a price index.

Weights, Base Year, and Linking

The item basket and weights are derived primarily from HCES 2023–24, with selective use of HCES 2022–23 where necessary to address data gaps. Base prices are collected during calendar year 2024, ensuring close alignment between weight and price reference periods.

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To maintain continuity, the Expert Group recommends publishing linking factors between CPI 2012 and CPI 2024 at the all-India rural, urban, and combined levels, enabling construction of back series for analytical and policy use.

Transparency and Dissemination

The CPI 2024 series significantly expands the scope of public dissemination. Index numbers and inflation rates will be released not only at the all-India level but also across rural, urban, and combined sectors for States/UTs, with granularity extending down to COICOP subclasses and individual items. This marks a major step forward in transparency and analytical usefulness.

At the same time, the Group advises caution on publishing “core inflation,” noting the absence of a universally accepted definition and the risk of misinterpretation.

Concluding Assessment

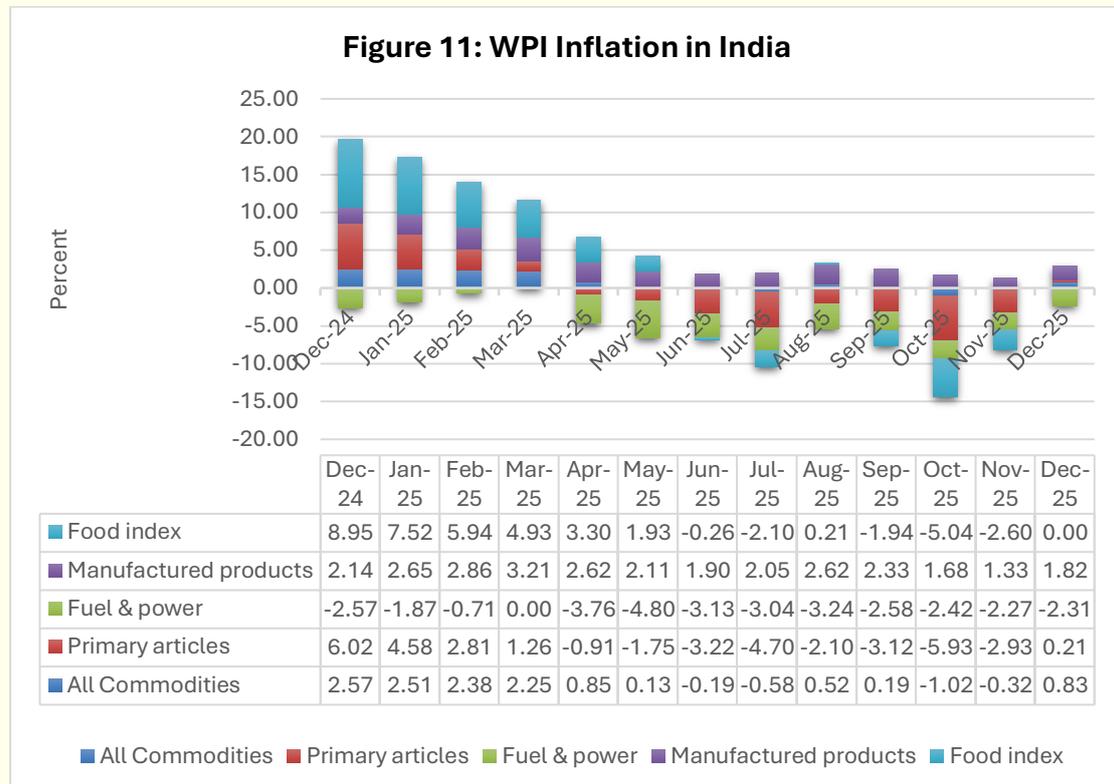
Overall, the Expert Group Report lays the foundation for a more representative, resilient, and internationally comparable CPI. By integrating updated consumption patterns, modern data collection techniques, alternative data sources, and refined methodology, CPI 2024 is positioned to serve as a credible inflation anchor for monetary policy and a reliable indicator for economic governance in a rapidly evolving Indian economy.

The full report can be accessed from: <https://shorturl.at/IE14x>

MANUFACTURED GOODS DRIVE WPI RECOVERY AS FOOD DEFLATION EASES IN DECEMBER 2025

Introduction

Wholesale Price Index (WPI) inflation in India turned positive in December 2025, marking an important inflection after several months of deflationary or near-zero price pressures. The year-on-year (YoY) WPI inflation stood at 0.83 percent, compared with -0.32 percent in November 2025 and -1.02 percent in October 2025 (Figure 11). This turnaround reflects a combination of easing base effects, firming manufactured goods prices, and a moderation in the sharp deflation seen in primary articles—especially food items. On a month-on-month (MoM) basis, overall WPI rose by 0.71 percent, indicating a broad-based sequential pickup in wholesale prices.



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

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Primary Articles

Primary Articles, with a weight of 22.62 percent in the WPI basket, recorded a YoY inflation of 0.21 percent in December 2025, a significant improvement from –2.93 percent in November and –5.93 percent in October. On a MoM basis, the index increased by 1.09 percent, driven largely by non-food articles, minerals, and a modest rise in food articles prices .

Within food articles, deflation persisted at –0.43 percent (YoY), though the magnitude of price decline narrowed considerably compared to earlier months. Vegetables, which had been exerting strong deflationary pressure for much of 2025, saw a sharp moderation, with YoY inflation improving to –3.50 percent from double-digit deflation earlier in the year. Pulses continued to remain in deep deflation (–13.88 percent YoY), reflecting adequate domestic availability and easing global prices. In contrast, milk prices remained firm at 3.23 percent YoY, reflecting structural cost pressures in dairy production.

Non-food articles registered 2.95 percent YoY inflation, led by oilseeds (14.82 percent) and supported by firm global commodity prices. Minerals inflation accelerated to 11.86 percent, reflecting sustained demand from infrastructure and construction activities. However, crude petroleum and natural gas prices remained in deflation (–5.99 percent YoY), continuing to dampen overall primary articles inflation.

Fuel & Power

The Fuel & Power group (weight 13.15 percent) continued to remain in deflationary territory, with YoY inflation at –2.31 percent in December 2025, broadly unchanged from November. Nonetheless, the index increased by 1.23 percent on a MoM basis, indicating emerging upward pressures at the margin .

Electricity prices rose sharply on a monthly basis (4.46 percent), reflecting revisions in tariffs and higher demand during the winter months. Coal prices also increased modestly, while mineral oils registered only a marginal uptick. On a YoY basis, petrol

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(–1.88 percent), high-speed diesel (–2.07 percent), and LPG (–14.04 percent) remained in deflation, largely due to soft international energy prices and domestic price management policies. Overall, while fuel inflation remained negative, the MoM momentum suggests that energy prices may no longer exert strong downward pressure on headline WPI going forward.

Manufactured Products

Manufactured Products, accounting for the largest share of WPI (64.23 percent), emerged as the principal driver of headline inflation in December 2025. The group recorded 1.82 percent YoY inflation, up from 1.33 percent in November, and registered a 0.41 percent MoM increase.

Out of 22 two-digit NIC manufacturing groups, 13 groups witnessed price increases, indicating a fairly broad-based firming. Notable contributors included basic metals, chemicals and chemical products, textiles, machinery and equipment, and other manufacturing. Textiles inflation remained steady at 1.68 percent YoY, supported by input cost pressures and export demand. Chemicals and pharmaceuticals showed moderate but stable price increases, reflecting pass-through of costs amid improving industrial demand.

At the same time, some segments such as rubber and plastics products, food products, paper and paper products, and beverages recorded price declines on a MoM basis. Importantly, inflation in manufactured food products moderated to 0.90 percent YoY, suggesting that easing agricultural prices are gradually passing through to processed food items.

WPI Food Index

The WPI Food Index (weight 24.38 percent) moved decisively out of deflation, with YoY inflation rising to 0.00 percent in December 2025, from –2.60 percent in November. On a MoM basis, the index increased by 0.51 percent, reflecting a seasonal uptick in prices and a waning of sharp vegetable price corrections.

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This transition is significant, as food prices had been the primary source of WPI deflation through much of 2024–25. While the food index remains benign, the shift towards zero inflation suggests diminishing downside risks from food prices and a more balanced inflation outlook at the wholesale level.

Conclusion

December 2025 marks a clear turning point in India’s wholesale price dynamics. The return of WPI inflation to positive territory has been driven mainly by firming manufactured goods prices, easing deflation in primary articles, and a stabilisation of food prices. Fuel and power prices continue to provide a countervailing force, remaining in deflation despite a modest monthly uptick.

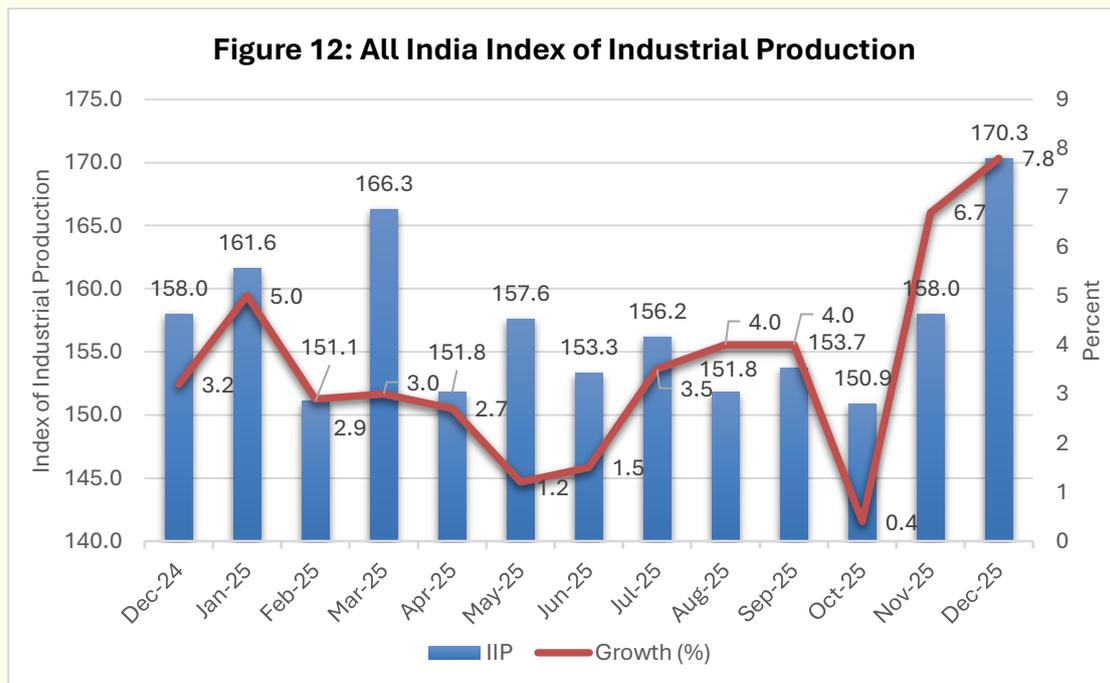
Overall, the December WPI data point to normalisation rather than overheating, with inflationary pressures appearing contained and largely cost-driven rather than demand-led. The improving price environment at the wholesale level could support industrial margins and investment sentiment, while posing limited immediate risks to consumer inflation. Going forward, the trajectory of global commodity prices, energy markets, and domestic food supply conditions will remain critical in shaping WPI inflation in the first quarter of 2026

INFRASTRUCTURE AND MANUFACTURING POWER INDIA'S INDUSTRIAL GROWTH IN DECEMBER 2025

Introduction

India's industrial sector closed calendar year 2025 on a strong note, with the Index of Industrial Production (IIP) expanding by 7.8 percent year-on-year in December 2025 (Figure 12), the highest growth recorded in over two years. This follows an already robust 7.2 percent growth in November 2025 (revised estimate), signalling a sustained improvement in industrial momentum. The broad-based nature of this expansion—spanning manufacturing, mining, and electricity—suggests that the recovery is no longer episodic but increasingly entrenched across sectors.

The general IIP stood at 170.3 in December 2025, compared with 158.0 in December 2024, reflecting both favourable base effects and genuine output expansion. Importantly, the revival is corroborated by strong performance across use-based categories, especially infrastructure-related goods, capital goods, and consumer durables.



Source: Press Release dated 28 January 2026, MoSPI, Government of India

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Sectoral Performance

Manufacturing

Manufacturing, which accounts for nearly 78 percent of the IIP basket, remained the principal driver of industrial growth, registering a robust 8.1 percent year-on-year expansion in December 2025 (Figure 13). As many as 16 out of 23 manufacturing industry groups recorded positive growth, underscoring the breadth of the recovery.

High-growth segments included computer, electronic and optical products (34.9 percent), motor vehicles, trailers and semi-trailers (33.5 percent), and other transport equipment (25.1 percent). Traditional heavy industries such as basic metals (12.7 percent) and other non-metallic mineral products (12.0 percent) also performed strongly, benefiting from infrastructure demand and construction activity. Pharmaceuticals continued to expand at a healthy pace (10.2 percent), reflecting both domestic and export demand.

At the same time, pockets of weakness persisted in textiles, wearing apparel, and beverages, indicating that consumption recovery remains uneven across categories. Nonetheless, the overall manufacturing performance points to strengthening investment and supply-chain normalisation.

Electricity

Electricity generation recorded a 6.3 percent Y-o-Y growth in December 2025, rebounding from a contraction in November (Figure 13). The electricity index rose to 204.9, reflecting higher industrial usage and seasonal demand. This improvement is consistent with rising capacity utilisation in manufacturing and a pickup in infrastructure activity, reinforcing electricity's role as a coincident indicator of industrial health.

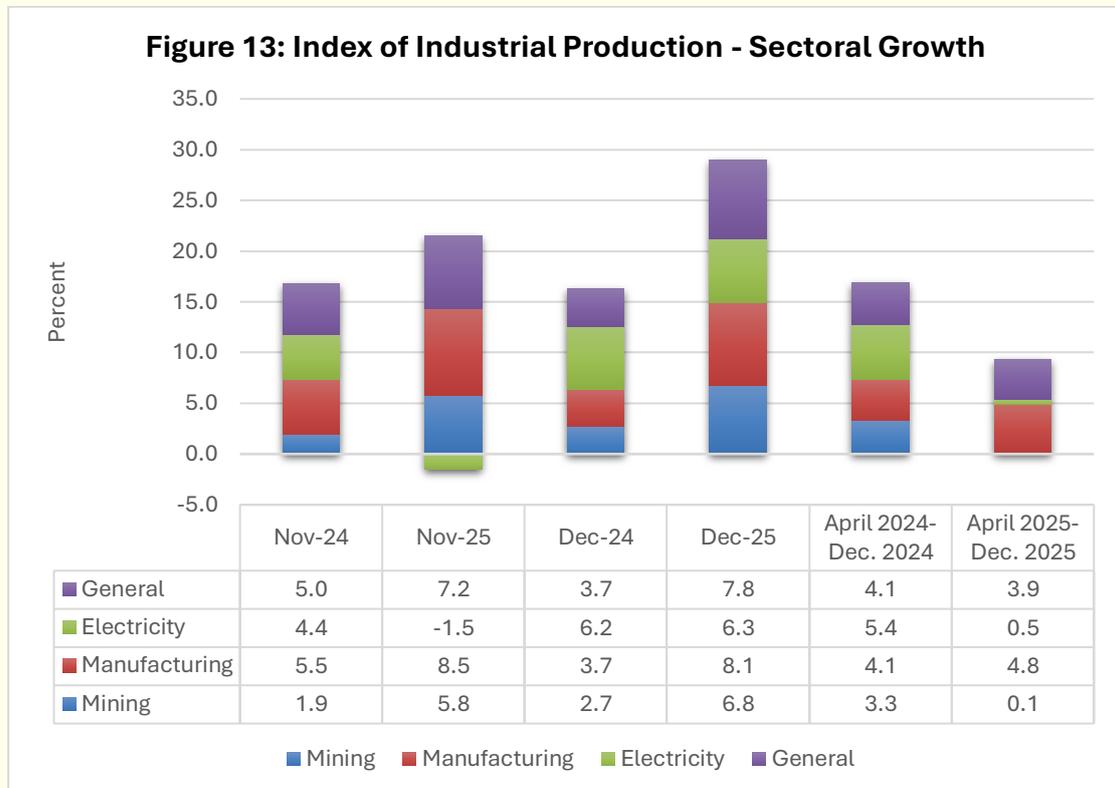
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Mining

Mining output expanded by 6.8 percent Y-o-Y, marking a significant acceleration from earlier months (Figure 13). The mining index rose to 153.0, supported by higher extraction of coal, metallic minerals, and construction-related inputs. While mining growth has been relatively volatile over the year, the December performance suggests improved alignment between resource extraction and downstream industrial demand.

General IIP

Taken together, the three core sectors, viz., manufacturing, mining, and electricity, pushed overall industrial growth to indicating 7.8 percent, well above the average growth recorded during the first half of 2025–26. On a cumulative basis, IIP growth during April–December 2025 stood at 3.9 percent (Figure 13), that momentum has strengthened considerably in the second half of the fiscal year.



Source: Press Release dated 28 January 2026, MoSPI, GoI

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Use-based Classification

Primary Goods

Primary goods registered a 4.4 percent Y-o-Y growth in December 2025 (Table 1). This reflects steady performance in basic inputs such as food items, crude materials, and basic industrial goods. While growth in this category is moderate compared to others, it provides a stable foundation for downstream manufacturing.

Capital Goods

Capital goods output rose by 8.1 percent Y-o-Y (Table 1), signalling a revival in investment demand. The capital goods index reached 124.0, supported by higher production of machinery, equipment, and transport-related assets. Although growth moderated slightly from November's double-digit pace, the sustained expansion suggests improving private and public sector capex sentiment.

Intermediate Goods

Intermediate goods expanded by 7.5 percent Y-o-Y (Table 1), reflecting stronger demand for inputs used in manufacturing processes. This growth mirrors the pickup in core manufacturing industries and points to improving supply-chain activity and inventory replenishment.

Infrastructure / Construction Goods

Infrastructure and construction goods emerged as the single largest contributor to IIP growth, registering a strong 12.1 percent Y-o-Y expansion (Table 1). The index surged to 219.1, reflecting continued momentum in public infrastructure spending, housing, roads, and allied construction activities. This category's strong performance highlights the catalytic role of government-led capital expenditure in driving industrial growth.

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Consumer Durables

Consumer durables output rose sharply by 12.3 percent YoY (Table 1), marking a notable improvement in discretionary consumption. The rebound suggests improving urban demand, easing inflationary pressures, and better financing conditions. It also reflects pent-up demand in segments such as automobiles, electronics, and household appliances.

Consumer Non-Durables

Consumer non-durables grew by 8.3 percent YoY, reversing earlier weakness. This improvement indicates a gradual recovery in mass consumption, although the pace remains sensitive to rural demand conditions and income growth.

Table 1: IIP Growth - Use-based Classification

	<i>Nov. 2024</i>	<i>Nov. 2025</i>	<i>Dec. 2024</i>	<i>Dec. 2025</i>	<i>April-December 2024-25</i>	<i>April-December 2025-26</i>	(percent)
<i>Primary goods</i>	2.7	2.2	3.8	4.4	3.9	0.9	
<i>Capital goods</i>	8.9	10.1	10.5	8.1	5.1	7.3	
<i>Intermediate goods</i>	4.8	7.4	6.4	7.5	4.6	5.5	
<i>Infrastructure/Construction goods</i>	8.0	13.0	8.4	12.1	6.3	9.4	
<i>Consumer durables</i>	14.1	11.2	8.1	12.3	8.7	5.6	
<i>Consumer non-durables</i>	0.6	8.0	-7.1	8.3	-1.4	0.2	

Source: NSO, MoSPI, GoI

Policy and Structural Implications

The December 2025 IIP data carry several important policy implications. First, the broad-based nature of growth strengthens the case for maintaining a growth-supportive macroeconomic stance, particularly with inflationary pressures remaining moderate. Second, the strong performance of infrastructure and capital goods validates the

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effectiveness of public capex-led growth strategies, while also crowding in private investment.

Structurally, the data underscore India's ongoing transition towards technology-intensive and transport-related manufacturing, aligned with production-linked incentive (PLI) schemes and global supply-chain diversification. However, persistent weakness in labour-intensive sectors such as textiles and apparel highlights the need for targeted interventions to ensure inclusive industrial growth.

Outlook

Looking ahead, industrial momentum is expected to remain supportive in the near term, driven by infrastructure spending, festive-season demand spillovers, and improving global trade conditions. However, risks remain from external demand uncertainties, commodity price volatility, and uneven consumption recovery. Sustaining growth will depend on continued investment, export competitiveness, and policy consistency.

Conclusion

The 7.8 percent expansion in IIP in December 2025 marks a decisive strengthening of India's industrial recovery. With manufacturing, infrastructure goods, and consumer durables all contributing meaningfully, the data suggest that industrial growth is becoming more broad-based and resilient. While challenges persist, particularly in certain consumption-linked sectors, the overall trajectory points to a more durable industrial upswing as India enters 2026.

CEMENT AND STEEL OFFSET ENERGY WEAKNESS: INDIA'S CORE SECTOR GROWTH AT 3.7% IN DECEMBER 2025

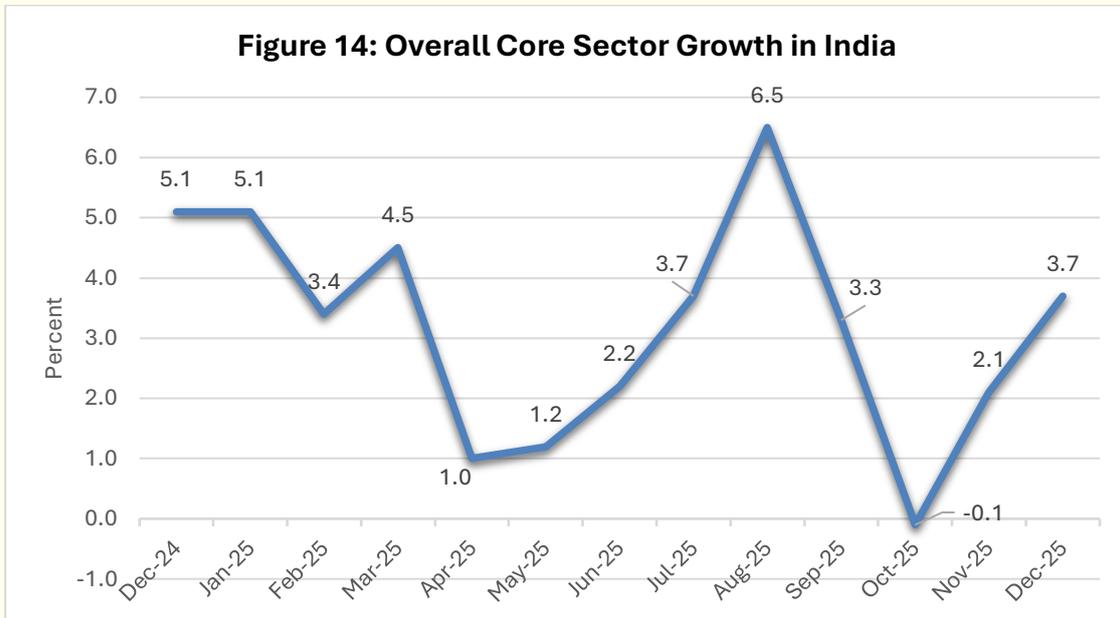
Introduction

India's core infrastructure sector recorded a 3.7 percent year-on-year (Y-o-Y) expansion in December 2025, marking a moderation from the previous month's revised growth of 2.1 percent in November 2025 (Figure 14), but remaining firmly in positive

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territory. The performance reflects divergent trends within the energy basket, where fossil fuel production continued to decline, contrasted with strong growth in construction-linked manufacturing segments such as cement and steel.

The eight core industries, viz., Coal, Crude Oil, Natural Gas, Refinery Products, Fertilizers, Steel, Cement, and Electricity, together account for 40.27 percent of the weight of the Index of Industrial Production (IIP), making them a critical leading indicator of broader industrial activity.



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

Energy Sector Performance

Electricity

Electricity generation registered a 5.3 percent Y-o-Y growth in December 2025, reversing the contraction observed in November (Figure 15). This improvement suggests rising industrial and infrastructure-related power demand. However, on a cumulative basis, electricity generation during April–December 2025–26 grew by only 0.3 percent, indicating that annual performance remains subdued despite recent monthly recovery.

Refinery Products

Petroleum refinery products, the single largest component of the core sector with a weight of 28.04 percent, declined by 1.0 percent Y-o-Y in December 2025 (Figure 15). This contraction reflects maintenance shutdowns and soft global demand conditions. Nevertheless, on a cumulative basis, refinery output remained broadly flat, registering a marginal increase of 0.1 percent during April–December 2025–26, underscoring structural stagnation rather than sharp deterioration.

Natural Gas

Natural gas production fell by 4.4 percent Y-o-Y in December 2025 (Figure 15), continuing a persistent downward trend. Cumulatively, natural gas output declined by 3.2 percent during the current financial year so far. The sustained contraction highlights challenges related to declining domestic reserves, production constraints, and rising import dependence.

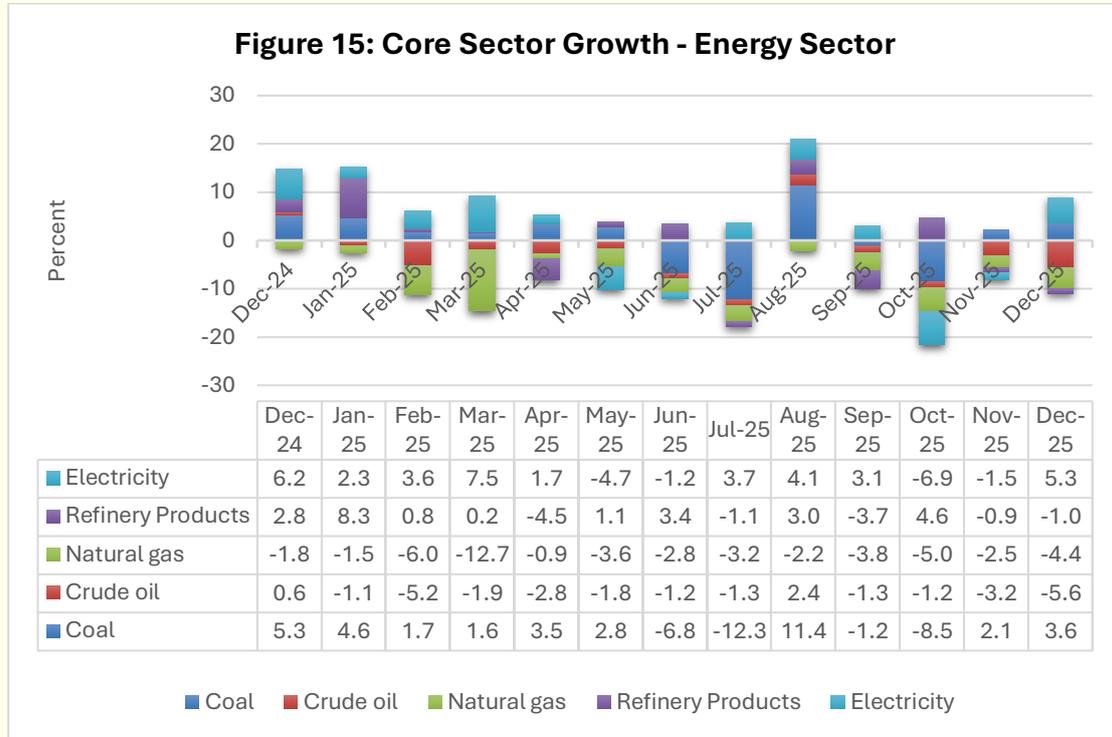
Crude Oil

Crude oil production recorded a sharp contraction of 5.6 percent Y-o-Y in December 2025 (Figure 15).. The cumulative decline of 1.9 percent during April–December 2025–26 reinforces long-standing concerns over India’s stagnating upstream oil sector. Structural issues such as ageing fields, limited new discoveries, and high extraction costs continue to weigh on output.

Coal

Coal production rose by 3.6 percent Y-o-Y in December 2025, providing some relief to the energy basket (Figure 15). However, despite the monthly increase, cumulative coal output declined by 0.7 percent during April–December 2025–26. This reflects volatility in production and the impact of weather disruptions and logistics constraints earlier in the year.

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

Manufacturing Sector Performance

Cement

Cement emerged as the best-performing core industry, expanding by a robust 13.5 percent Y-o-Y in December 2025 (Figure 16). On a cumulative basis, cement output grew by 8.8 percent during April–December 2025–26, reflecting sustained momentum in housing, roads, and public infrastructure projects. This strong performance underscores the central role of construction activity in supporting industrial growth.

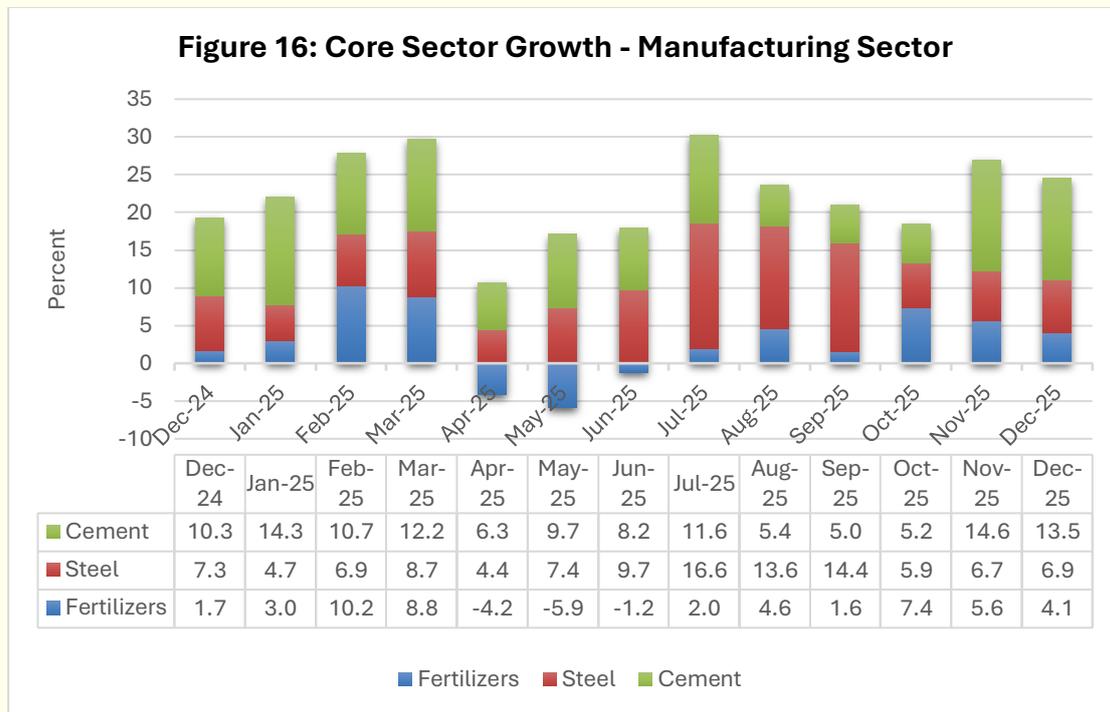
Steel

Steel production recorded a 6.9 percent Y-o-Y increase in December 2025 (Figure 16), maintaining consistent growth through the fiscal year. Cumulative steel output rose by an impressive 9.5 percent during April–December 2025–26, supported by infrastructure spending, capital goods demand, and export resilience. Steel remains one of the most reliable pillars of India’s core sector performance.

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Fertilizers

Fertilizer production grew by 4.1 percent Y-o-Y in December 2025 (Figure 16). Cumulatively, fertilizer output increased by 1.7 percent during April–December 2025–26. While growth is modest, it reflects stable agricultural input demand and improved supply conditions compared to earlier disruptions.



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 2.6 percent during April–December 2025–26 (Table 2), significantly lower than the growth recorded in the previous year. The moderation is largely attributable to persistent contractions in crude oil and natural gas, which offset strong gains in steel and cement. The data point to a structural divergence between India’s energy extraction sectors and its construction- and investment-led manufacturing segments.

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- Dec.	4.5	6.2	-2.1	0.8	2.7	5.4	1.6	6.8	4.0	
2024-25 April- Dec.	2.6	-0.7	-1.9	-3.2	0.1	0.3	1.7	9.5	8.8	
2025-26										

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

Conclusion

The 3.7 percent growth in the core sector in December 2025 reflects a mixed but stabilising industrial landscape. While manufacturing-linked segments, particularly cement and steel, continue to benefit from infrastructure-led demand, the energy sector remains constrained by structural challenges in crude oil and natural gas production. Going forward, sustaining higher core sector growth will require not only continued public investment in infrastructure but also deeper reforms and investments aimed at revitalising domestic energy production and improving supply resilience.

INDIA'S TRADE IN DECEMBER 2025: EXPORT RESILIENCE AMID RISING IMPORT PRESSURES

Introduction

India's external trade performance in December 2025 reflects a mixed but resilient picture, marked by steady export growth in key merchandise and services segments, alongside a sharper rise in imports. While total exports (merchandise and services combined) declined marginally by 1.01 percent year-on-year to US\$ 74.01 billion, cumulative performance during April–December 2025 remained robust, with exports expanding by 4.33 percent to US\$ 634.26 billion. The data underscore India's growing integration with global markets, even as external demand conditions and commodity price movements continue to shape the trade balance.

Merchandise Trade

Merchandise exports in December 2025 stood at US\$ 38.51 billion, up from US\$ 37.80 billion in December 2024 (Table 3), reflecting a modest but positive growth. This improvement was driven by strong performance in electronic goods, meat, dairy and poultry products, drugs and pharmaceuticals, engineering goods, and marine products. Notably, electronic goods exports rose sharply by 16.78 percent, highlighting the growing role of electronics manufacturing and export-oriented production.

On the import side, merchandise imports rose significantly to US\$ 63.55 billion in December 2025 from US\$ 58.43 billion a year earlier (Table 3), driven partly by higher non-petroleum imports. As a result, the merchandise trade deficit widened, reflecting strong domestic demand and higher intermediate and capital goods imports.

Excluding petroleum and gems & jewellery, non-petroleum, non-gems & jewellery exports increased to US\$ 32.02 billion in December 2025, compared with US\$ 30.96 billion a year earlier, indicating underlying strength in India's core export base.

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Services Trade

Services continue to provide a critical buffer to India’s external sector. In December 2025, services exports were estimated at US\$ 35.50 billion, slightly lower than US\$ 36.97 billion in December 2024, while services imports declined marginally to US\$ 17.38 billion (Table 3). Despite the monthly moderation, services trade maintained a healthy surplus.

On a cumulative basis, services exports during April–December 2025 rose to US\$ 303.97 billion, registering a growth of 6.46 percent over the corresponding period of the previous year. Services imports increased more modestly to US\$ 152.23 billion, resulting in a substantial services trade surplus of US\$ 151.74 billion, which played a crucial role in partially offsetting the large merchandise trade deficit.

Table 3: Trade During December 2025

		<i>December 2025 (US\$ Billion)</i>	<i>December 2024 (US\$ Billion)</i>
<i>Merchandise</i>	<i>Exports</i>	38.51	37.80
	<i>Imports</i>	63.55	58.43
<i>Services</i>	<i>Exports</i>	35.50	36.97
	<i>Imports</i>	17.38	17.80
<i>Total Trade</i>	<i>Exports</i>	74.01	74.77
	<i>Imports</i>	80.94	76.23
	<i>Trade Balance</i>	-6.92	-1.46

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

Cumulative Trade: April–December 2025 Trends

During April–December 2025, India’s total exports (merchandise and services combined) reached US\$ 634.26 billion, up from US\$ 607.93 billion in the same period of 2024 (Table 4). Imports, however, grew faster, rising to US\$ 730.84 billion, resulting

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in an overall trade deficit of US\$ 96.58 billion, compared to US\$ 88.43 billion a year earlier.

Merchandise exports increased by 2.44 percent to US\$ 330.29 billion, while merchandise imports rose by 5.90 percent to US\$ 578.61 billion, reflecting strong domestic demand and higher import intensity of growth. Encouragingly, non-petroleum exports expanded by 5.51 percent, underscoring diversification away from traditional commodity-driven exports.

Table 4: Trade During April-December 2025

		<i>April-December 2025 (US\$ Billion)</i>	<i>April-December 2024 (US\$ Billion)</i>
<i>Merchandise</i>	<i>Exports</i>	330.29	322.41
	<i>Imports</i>	578.61	546.36
<i>Services</i>	<i>Exports</i>	303.97	285.53
	<i>Imports</i>	152.23	150.01
<i>Total Trade</i>	<i>Exports</i>	634.26	607.93
	<i>Imports</i>	730.84	696.37
	<i>Trade Balance</i>	-96.58	-88.43

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

Product and Market Diversification

The trade data highlight notable progress in both product and market diversification. On the product side, exports of other cereals, coffee, iron ore, electronics, marine products, pharmaceuticals, and chemicals recorded strong growth during December 2025. This reflects India’s expanding capabilities in agri-based processing, minerals, and technology-intensive manufacturing.

In terms of markets, exports registered strong growth to destinations such as China, the United Arab Emirates, Malaysia, Hong Kong, Spain, and the United States. On a

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cumulative basis, the United States, China, UAE, Spain, and Hong Kong emerged as the top destinations driving export growth. Import growth was led by sources such as China, the United States, Saudi Arabia, Brazil, and Ireland, indicating deepening trade linkages across regions.

Conclusion

India's trade performance in December 2025 and during April–December 2025 reflects a nuanced balance between resilience and emerging pressures. While export growth—particularly in services and non-petroleum merchandise—remains encouraging, faster import growth has led to a widening trade deficit. The strong services surplus continues to be a key stabilising factor for the external sector. Going forward, sustaining export momentum through deeper product diversification, higher value addition, and expanded market access will be critical to managing external imbalances and strengthening India's position in global trade.

STATE FINANCES

DEMOGRAPHY, DEBT AND DEVELOPMENT: AN ASSESSMENT OF STATE FINANCES IN INDIA, 2025–26

The Reserve Bank of India's *State Finances: A Study of Budgets of 2025–26* provides a comprehensive and forward-looking assessment of the fiscal position of Indian States over the period 2023–24 (actuals) to 2025–26 (budget estimates), set against the backdrop of India's evolving demographic transition. The central theme *Demographic Transition in India: Implications for State Finances*, adds a structural and long-term dimension to the conventional analysis of deficits, debt, revenues, and expenditure, underscoring how population dynamics are increasingly shaping sub-national public finance outcomes.

Fiscal Position and Recent Trends

After three consecutive years of maintaining consolidated gross fiscal deficits below 3 percent of GDP, State finances experienced a modest deterioration in 2024–25, with the deficit rising to 3.3 percent of GDP. This widening reflects a combination of slower growth in revenue receipts, particularly due to a sharp decline in grants-in-aid from the Centre following the sunset of GST compensation and post-devolution revenue deficit grants, and a continued thrust on capital expenditure. Importantly, the deficit expansion has remained within the borrowing limits prescribed by the Centre, including the flexibility linked to power sector reforms and the provision of 50-year interest-free loans for capital investment.

For 2025–26, States have budgeted to maintain the gross fiscal deficit at 3.3 percent of GDP, signalling a calibrated approach that balances fiscal consolidation with growth-supportive spending. A notable feature of this adjustment is the improvement in expenditure quality: revenue expenditure has been restrained relative to GDP, while capital outlay is budgeted to rise further, reinforcing medium-term growth prospects.

Revenue Dynamics: Resilience Amid Structural Shifts

On the receipts side, States' own tax revenues have shown resilience, supported by robust GST-related collections, State excise duties, and a sustained improvement in stamp duty and registration fee mobilisation. The report highlights that States' own tax bases remain highly concentrated, with a few taxes accounting for nearly 90 percent of collections, underscoring both efficiency gains and vulnerability to sector-specific shocks.

A key structural challenge has been the decline in grants-in-aid from the Centre, which has altered the composition of State revenues and heightened the importance of own-source revenue mobilisation. In response, States have increasingly turned to data-driven administrative reforms, digitalisation, policy rationalisation, and asset monetisation strategies. Initiatives such as reforms in excise structures, motor vehicle taxation, mining-related levies, and the use of Infrastructure Investment Trusts (InvITs) point to a gradual strengthening of sub-national fiscal capacity.

Expenditure Composition: Quality over Quantity

On the expenditure front, the report documents a sustained moderation in revenue expenditure as a share of GDP since the pandemic, achieved without compressing social sector spending. Social expenditure—particularly on education, health, rural development, and social security—continues to account for a large share of State budgets, reflecting redistributive and welfare priorities.

Capital expenditure has emerged as a defining feature of State finances in recent years. Supported by the Centre's interest-free loan scheme, States have significantly scaled up spending on infrastructure, including irrigation, water supply, transport, and urban development. Although the pace of capital spending was temporarily affected by election-related factors in early 2024–25, it rebounded strongly in the latter half of the year. Budget estimates for 2025–26 envisage a further increase in capital expenditure to over 3 percent of GDP, reinforcing the shift towards growth-enhancing fiscal strategies.

Debt, Borrowings, and Sustainability

Despite elevated debt levels, the consolidated outstanding liabilities of States have declined from their pandemic peak, falling to 28.1 percent of GDP by end-March 2024. This improvement reflects fiscal consolidation efforts, nominal GDP growth, and favourable debt dynamics, including lower effective interest costs. However, outstanding liabilities are budgeted to rise again to 29.2 percent of GDP by end-March 2026, pointing to the need for continued vigilance.

Encouragingly, debt sustainability indicators remain favourable. Interest payments as a share of revenue receipts have moderated, aided by interest-free loans from the Centre and a lengthening of the maturity profile of State government securities. Nonetheless, the report flags contingent liabilities, including guarantees, as a persistent vulnerability that warrants careful monitoring.

Demographic Transition and State Finances

The thematic core of the report lies in its analysis of India's demographic transition and its differentiated impact across States. While India as a whole is at a demographic inflection point—with a historically high working-age population alongside declining fertility and rising life expectancy—the national averages mask substantial inter-State heterogeneity. States are categorised into youthful, intermediate, and ageing groups based on their age structures and demographic trajectories.

These demographic differences have profound fiscal implications. Youthful States benefit from a growing labour force and expanding tax bases but face pressing demands for investment in education, skilling, healthcare, and job creation. Intermediate States must balance growth priorities with early preparation for ageing, including urban reforms, innovation-led growth, and increased female workforce participation. Ageing States, by contrast, confront rising fiscal pressures from pensions, healthcare, and social welfare, alongside a shrinking tax base, necessitating revenue augmentation and structural reforms.

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The report demonstrates that demographic factors are already influencing revenue performance, expenditure composition, and debt dynamics across States. Without proactive policy responses, population ageing could constrain growth and strain public finances over the medium to long term.

Policy Implications and the Way Forward

The report concludes that a “one-size-fits-all” fiscal strategy is increasingly untenable in a demographically diverse India. Instead, differentiated, forward-looking fiscal policies are essential. Youthful States must urgently convert their demographic advantage into a durable growth dividend through human capital investment and employment generation. Intermediate States should use the remaining demographic window to strengthen productivity, innovation, and institutional capacity. Ageing States need to prioritise healthcare, pension reforms, and revenue-enhancing measures to maintain fiscal sustainability.

Overall, *State Finances: A Study of Budgets of 2025–26* underscores that India’s demographic transition is not merely a social or economic phenomenon but a central determinant of sub-national fiscal trajectories. Aligning fiscal policy with demographic realities will be critical for sustaining growth, ensuring equity, and preserving debt sustainability across States in the decades ahead.

The full report can be accessed from:

https://website.rbi.org.in/documents/d/rbi/statefinance2025_full

EMPLOYMENT

FEMALE PARTICIPATION HITS A HIGH AS INDIA'S LABOUR MARKET STABILISES IN DECEMBER 2025

Introduction

The Periodic Labour Force Survey (PLFS) Monthly Bulletin for December 2025 presents an encouraging snapshot of India's labour market at the close of calendar year 2025. The data point to a sustained improvement in labour force participation and workforce engagement, particularly among women, even as unemployment rates remain broadly stable. This combination of higher participation without a commensurate rise in unemployment, suggests a labour market that is gradually absorbing an expanding workforce, reflecting underlying economic resilience.

December 2025 is particularly notable for recording yearly highs in female Labour Force Participation Rate (LFPR) and Worker Population Ratio (WPR), underscoring a structural shift in women's engagement with the labour market. At the same time, the overall unemployment rate (UR) remained contained, indicating that rising participation has not translated into labour market stress.

Rising Labour Force Participation: Broad-Based Gains

The overall LFPR for persons aged 15 years and above increased to 56.1 percent in December 2025, continuing an upward trend observed since June 2025. This improvement was largely driven by rural areas, where LFPR rose to 59.0 percent, while urban LFPR witnessed a marginal dip to 50.2 percent.

A standout feature of the December data is the sustained rise in female labour force participation, with the overall female LFPR reaching 35.3 percent, the highest level recorded during 2025. Rural female LFPR climbed to 40.1 percent, indicating growing engagement of women in rural economic activities, while urban female LFPR remained broadly stable at 25.3 percent. These trends suggest that structural and cyclical

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factors—such as improved rural employment opportunities, diversification of livelihoods, and possibly better reporting of women’s work—are contributing to higher female participation.

Employment Trends: Workforce Participation Strengthens

Mirroring the rise in LFPR, the Worker Population Ratio (WPR) also improved steadily. The overall WPR for persons aged 15 years and above increased to 53.4 percent in December 2025, up from 53.2 percent in November.

Rural areas continued to outperform urban areas in employment engagement. Rural male WPR rose to 76.0 percent, while rural female WPR edged up to 38.6 percent. In contrast, urban male WPR declined marginally to 70.4 percent, and urban female WPR remained around 23.0 percent. As a result, overall female WPR increased to 33.6 percent, marking a yearly high.

The simultaneous rise in LFPR and WPR indicates that a substantial share of new entrants into the labour force were able to find employment, reinforcing the view that labour demand has remained supportive through the latter half of 2025.

Unemployment Rate: Stability Amid Expanding Participation

Despite rising participation, the overall unemployment rate remained broadly stable at 4.8 percent in December 2025, compared to 4.7 percent in November. Rural unemployment remained unchanged at 3.9 percent, while urban unemployment increased slightly to 6.7 percent.

Gender-disaggregated data reveal nuanced dynamics. Rural male unemployment stayed low and stable at 4.1 percent, reflecting strong absorption capacity in rural labour markets. Notably, urban female unemployment declined to 9.1 percent, down from its peak of 9.7 percent in October 2025. This moderation suggests improving employment prospects for urban women, even though their participation rates remain lower than in rural areas.

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Overall, the stability of unemployment rates in the face of rising LFPR points to a labour market that is expanding in a balanced manner, rather than one characterised by distress-driven participation.

Structural Signals from the December 2025 Data

Beyond month-on-month movements, the December PLFS data offer important structural insights. The consistent rise in female LFPR and WPR suggests a gradual shift in India's labour market structure, with implications for long-term growth, household incomes, and demographic dividend realisation. Rural areas continue to act as the primary engine of employment absorption, while urban labour markets show signs of consolidation rather than rapid expansion.

At the same time, the persistence of relatively higher urban unemployment—particularly among women—highlights the need for targeted policy interventions focused on skill development, formal job creation, and childcare and mobility support in urban centres.

Conclusion

The PLFS Monthly Bulletin for December 2025 portrays a labour market that is steadily strengthening rather than overheating. Rising labour force participation, record-high female engagement, improving workforce participation, and stable unemployment together point to a maturing recovery in employment conditions. While challenges remain—especially in urban job creation and female employment quality—the December data reinforce cautious optimism about India's labour market trajectory as it enters 2026.

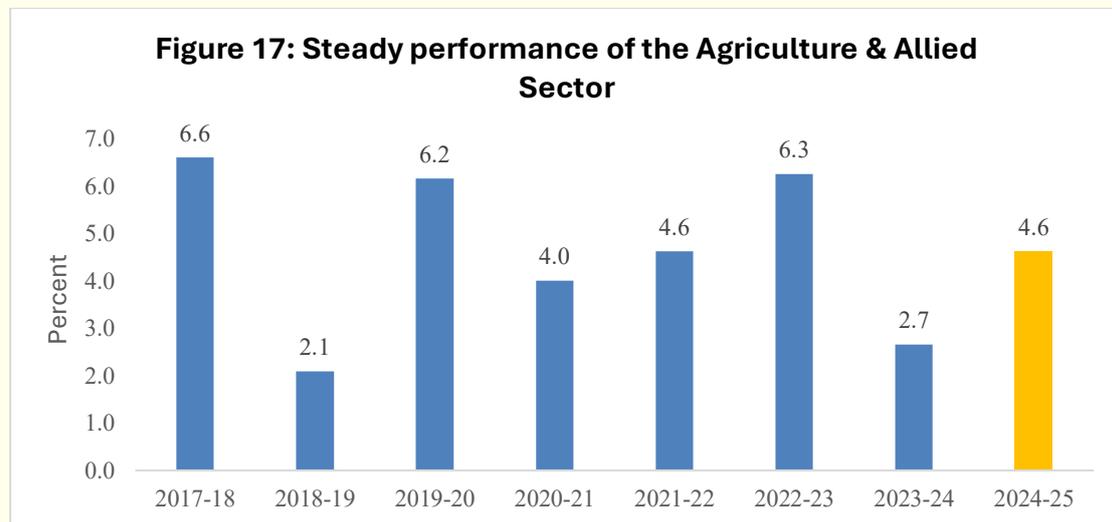
AGRICULTURE & AGRI-BUSINESS

REIMAGINING INDIAN AGRICULTURE: PRODUCTIVITY, RESILIENCE, AND THE NEXT GROWTH TRANSITION

Introduction: Agriculture at the Core of India's Economic Resilience

Indian agriculture occupies a paradoxical position in the economy. It contributes less than one-fifth of Gross Value Added (GVA), yet supports nearly half of the workforce and anchors food security, rural demand, inflation management, and social stability. The *Economic Survey 2025–26* recognises this centrality and treats agriculture not as a residual or sunset sector, but as a strategic pillar of inclusive and resilient growth.

The agriculture and allied sector grew by 4.6 percent in 2024-25, from 2.7 percent in 2023-24, which was sharp drop from 6.3 percent in 2022-23 (Figure 17).



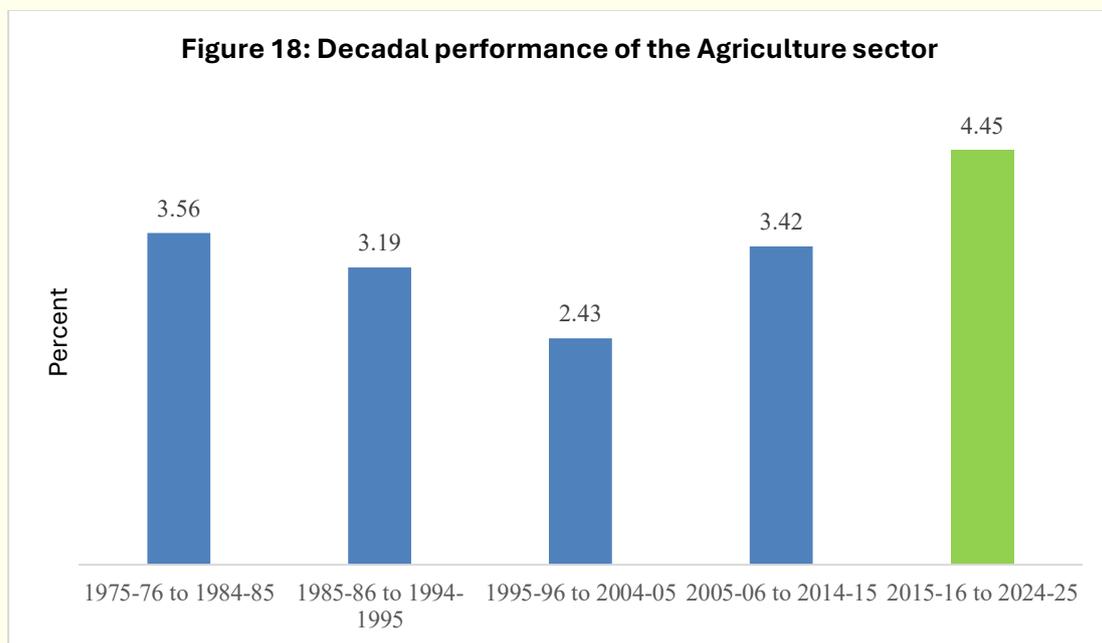
Source: *Economic Survey 2025-26, Ministry of Finance, Government of India*

Agricultural growth over the past decade has been the strongest in recent history, averaging 4.45 percent (Figure 18), outperforming earlier periods, driven largely by robust expansion in livestock, which grew at 7.1 percent, and fisheries and aquaculture

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at 8.8 percent, with the crop sector growing at a more modest pace of 3.5 percent. In the second quarter of FY 2025–26, agricultural growth stood at 3.5 percent.

Yet this growth masks deep structural challenges, viz., low productivity, fragmented landholdings, climate vulnerability, and misaligned incentives, that threaten sustainability if left unaddressed.



Source: Economic Survey 2025-26, Ministry of Finance, Government of India

India has largely secured food availability; the next challenge is income security, productivity, and resilience.

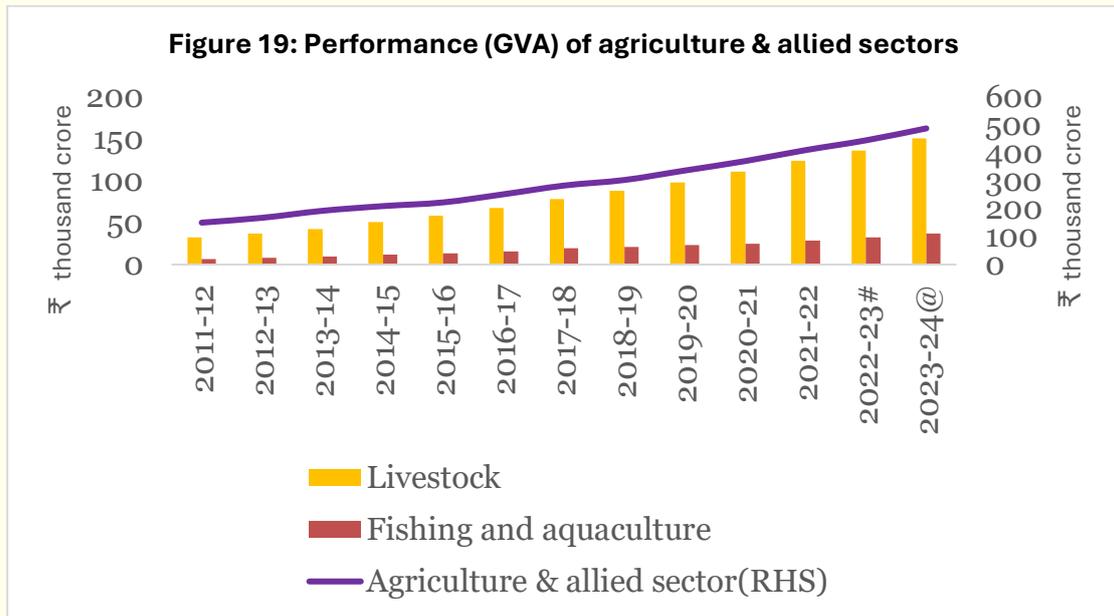
A Structural Shift Underway: Beyond Crop-Centric Agriculture

One of the most significant insights of the Survey is the structural transformation within agriculture itself. Growth in recent years has been driven disproportionately by allied activities (Figures 19 and 20):

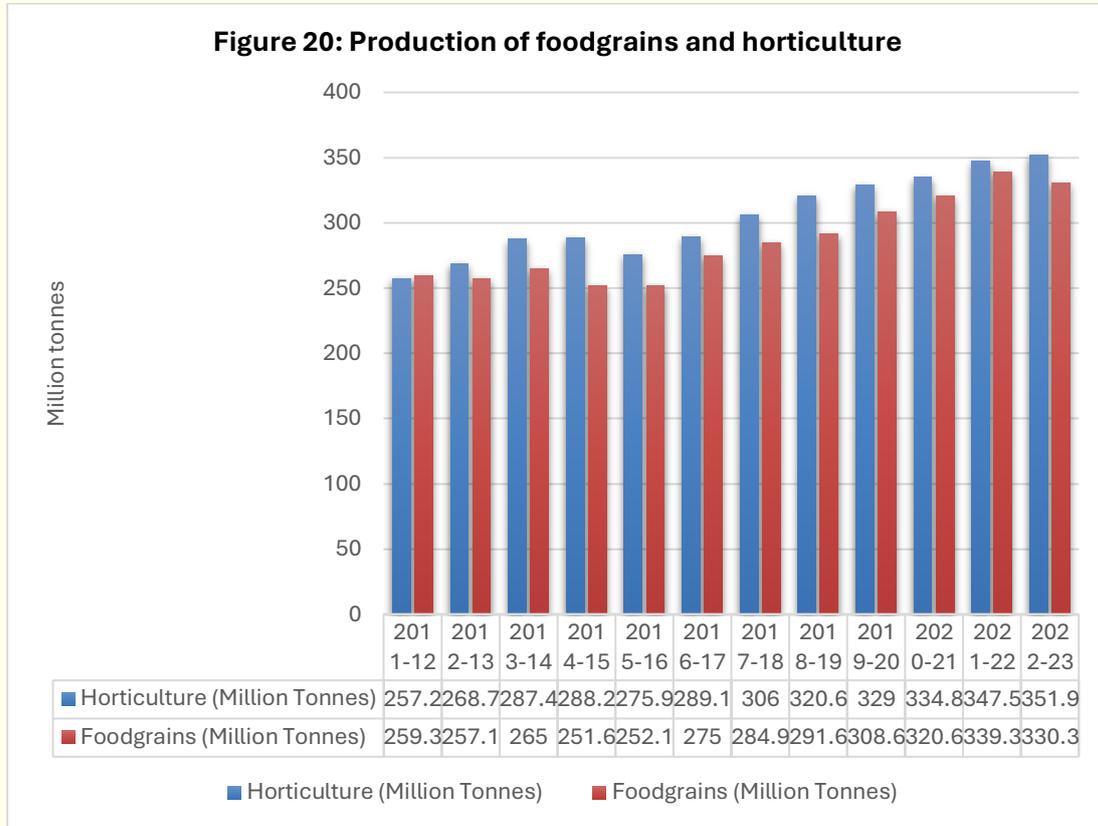
- Livestock has emerged as the largest contributor to agricultural GVA, with output nearly tripling since FY15.

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- Fisheries have grown rapidly, with production increasing by over 140 percent since 2014.
- Horticulture output has overtaken foodgrains, signalling diversification toward higher-value crops (Figure 20).



Source: Economic Survey 2025-26, Ministry of Finance, Government of India



Source: Economic Survey 2025-26, Ministry of Finance, Government of India

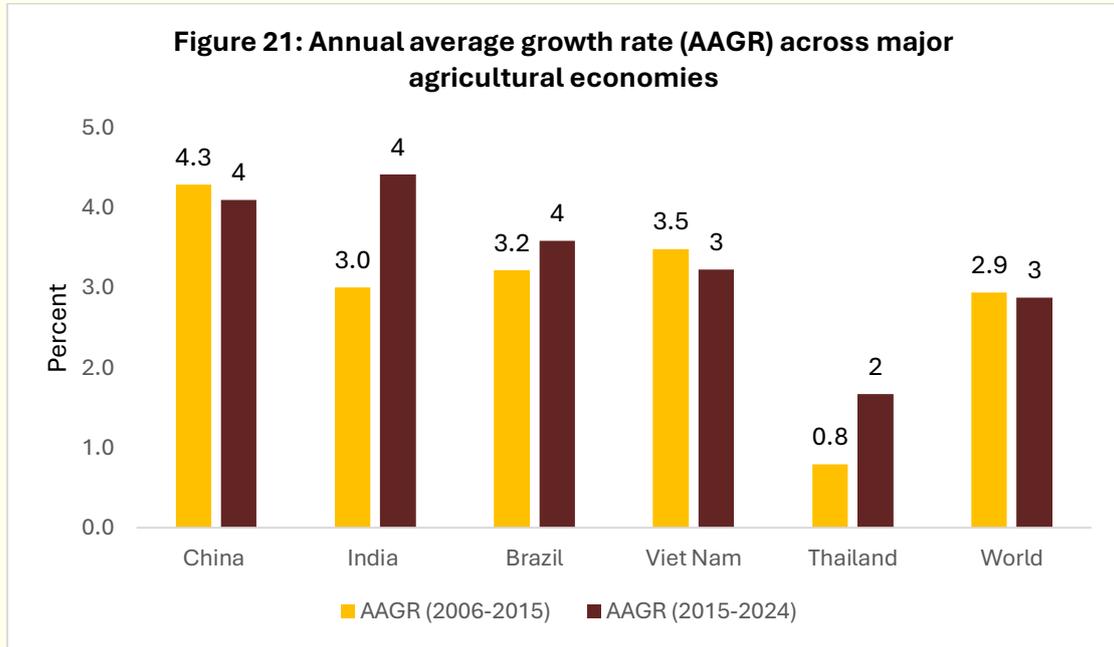
This shift reflects changing consumption patterns, rising incomes, and policy support. It also offers a pathway to higher farmer incomes, given the greater value addition and employment intensity of these sub-sectors.

However, the Survey cautions that diversification remains uneven and region-specific. Large parts of Indian agriculture remain locked into cereal-centric systems, particularly rice–wheat rotations, sustained by procurement incentives and input subsidies.

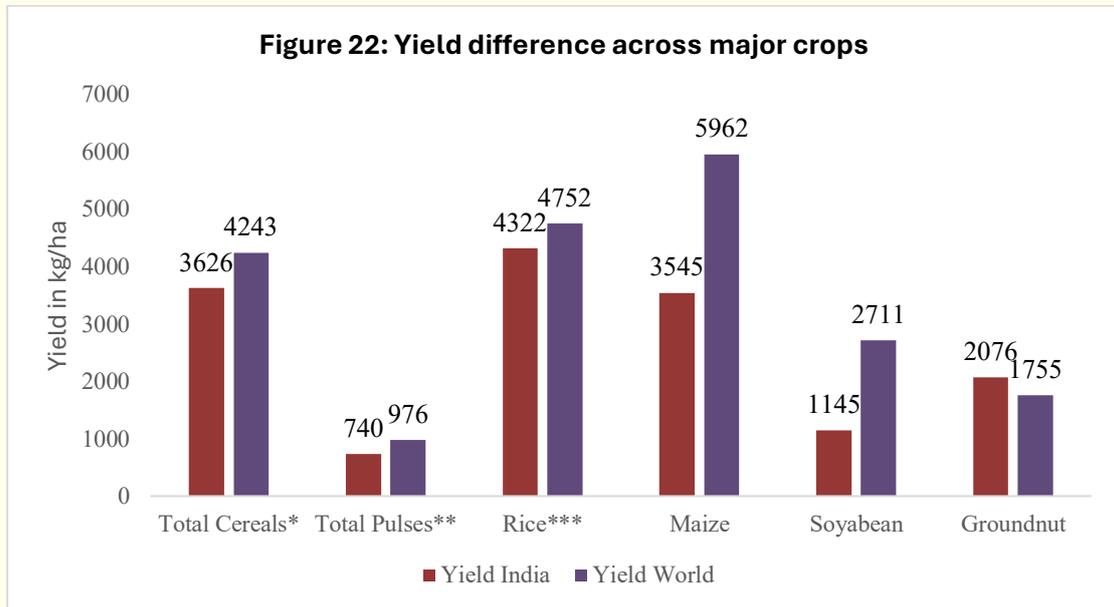
Productivity: The Binding Constraint on Agricultural Growth

Despite respectable aggregate growth, productivity remains the sector’s most binding constraint. Indian yields for major crops, viz., rice, wheat, pulses, maize, and oilseeds, remain significantly below global benchmarks (Figures 21 and 22).

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Source: Economic Survey 2025-26, Ministry of Finance, Government of India



Source: Economic Survey 2025-26, Ministry of Finance, Government of India

With land availability constrained and water stress intensifying, future growth cannot come from area expansion. It must come from yield improvements and efficiency gains.

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The Survey identifies several interlinked productivity challenges:

- Limited diffusion of high-quality and climate-resilient seeds
- Overuse and imbalance in fertiliser application
- Declining soil health and water efficiency
- Inadequate mechanisation, especially for smallholders
- Weak last-mile extension systems

Policy responses are increasingly mission-driven. Initiatives such as Soil Health Cards, micro-irrigation under PMKSY, digital soil mapping, and improved seed systems are steps in the right direction. Yet the Survey underscores that technology adoption, not technology availability, is the real challenge.

Subsidies, Incentives, and the Fertiliser Distortion

A particularly strong analytical contribution of the Survey is its treatment of fertiliser subsidies. While fertiliser support has played a role in stabilising farm costs, price distortions, especially the underpricing of urea, have led to:

- Excessive nitrogen use
- Nutrient imbalance
- Diminishing marginal productivity of fertilisers
- Environmental degradation

The Survey makes a compelling case for restructuring incentives rather than withdrawing support. It proposes moving toward acre-based or income-linked transfers, decoupling income support from input consumption. This would protect farmer incomes while restoring rational nutrient use and improving long-term soil productivity.

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This is not merely an agricultural reform; it is a macro-fiscal and environmental reform, with implications for subsidy efficiency, food inflation, and sustainability.

Food Security, Energy Security, and Policy Trade-offs

The Survey provides a nuanced discussion of emerging trade-offs, most notably the ethanol–food security nexus. India’s ethanol blending programme has strengthened energy security and improved price realisation for crops such as maize. However, rising maize prices have altered cropping incentives, in some cases crowding out pulses and oilseeds.

The Survey does not oppose ethanol blending. Instead, it warns that single-objective policies can generate unintended consequences. It calls for:

- Better coordination between agriculture, food, and energy policies
- Monitoring of cropping pattern shifts
- Safeguards to protect nutritional and food security

This reflects a broader theme of the chapter: policy coherence matters as much as policy ambition.

Markets, Credit, and Institutional Capacity

Agricultural resilience increasingly depends on market integration and institutional strength.

The Survey highlights progress under:

- Agriculture Infrastructure Fund (AIF) for post-harvest assets
 - e-NAM for improved price discovery
 - Farmer Producer Organisations (FPOs) for aggregation and bargaining power
 - Digital agriculture initiatives (AgriStack) for data-driven services
-

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Credit flows to agriculture have reached record levels, yet regional disparities persist, particularly in rain-fed and eastern regions. The Survey notes that access to credit must be complemented by access to markets, storage, and processing, otherwise indebtedness risks rise without commensurate income gains.

Food Management: Efficiency, Not Abandonment

India's food management system, including procurement, buffer stocking, and the Public Distribution System, remains indispensable for ensuring food security and controlling inflation.

The Survey is careful not to advocate abrupt dismantling.

Instead, it argues for efficiency-oriented reform:

- Better stock management
- Reduced carrying costs
- Targeted procurement aligned with diversification goals

Efficiency gains can free fiscal resources to support innovation, diversification, and climate adaptation, without undermining food security.

Climate Change and Agricultural Resilience

Climate variability is no longer a future risk; it is a present constraint. Erratic rainfall, heat stress, and extreme weather events increasingly affect yields and incomes.

The Survey emphasises:

- Climate-resilient seeds and cropping systems
 - Water-use efficiency
 - Risk mitigation through insurance and diversification
-

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Agricultural resilience, it argues, is now a macroeconomic concern, given its impact on inflation, rural demand, and social stability.

Conclusion: From Support-Based to Productivity-Led Agriculture

The *Economic Survey 2025–26* presents a clear and forward-looking diagnosis. Indian agriculture has delivered food security and demonstrated resilience, but its next phase must be fundamentally different.

The future lies in:

- Productivity-led growth, not input intensification
- Diversification and value addition, not cereal dependence
- Smarter incentives, not blanket subsidies
- Stronger institutions and markets, not price support alone

Therefore, agriculture must evolve from a sector managed for stability to one enabled for dynamism. This transition is essential not only for farmers, but for India's broader ambitions of sustained growth, macroeconomic stability, and Viksit Bharat by 2047.

HEALING INDIA'S SOILS THROUGH DATA: RETHINKING UREA USE WITH AGRISTACK

India's long-standing challenge of excessive and imbalanced fertiliser use—particularly urea—may be entering a new phase, not through price controls or subsidy rationalisation, but through data-driven governance. Recent remarks by Union Agriculture Secretary Rajat Kumar Mishra signal a strategic pivot: leveraging digital platforms such as Agristack to align land records, crop choices and fertiliser usage, thereby nudging farmers towards more rational nutrient application.

Speaking at a roundtable on *'Healing Soils in India'* organised by ICRIER, Mishra outlined how the government is currently running seven pilot projects across four states, where nearly 60 percent matching of land, fertiliser usage and crops grown has already been achieved. Once this linkage reaches around 80 percent, the government plans to connect these datasets with “vital statistics” to actively discourage excessive urea consumption. Significantly, this approach places the debate around fertiliser price control on hold, favouring precision targeting over blunt policy instruments.

Why Urea Overuse Persists

India's fertiliser problem is not merely one of awareness but of economic compulsion and structural constraints. Urea remains heavily subsidised, making it the cheapest source of crop nutrients. As Mishra noted, farmers operating under small and fragmented landholdings, with pressing livelihood needs, naturally gravitate towards the lowest-cost input available—even if it is agronomically sub-optimal.

Government data reveal a stark concentration in usage patterns. While 65 percent of farmers purchase five to seven bags of urea annually, broadly considered reasonable, the remaining 35 percent account for a disproportionate share of total consumption. This skew highlights that excess use is not universal, but clustered—making it amenable to targeted, rather than universal, interventions.

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Complicating matters further is the prevalence of informal cultivation arrangements. Mishra pointed out that nearly 60 percent of fertiliser usage is by individuals who do not own land in their own names, underscoring the importance of accommodating co-tenants and sharecroppers within any digital or regulatory framework. The pilots, he noted, are consciously designed to incorporate such realities to avoid friction and exclusion.

Haryana Pilot: Evidence of Impact

The most compelling evidence in favour of the Agristack-led approach comes from Haryana, where land records, fertiliser purchases and crop data were digitally linked. The results were striking. Within less than four months, the state recorded a saving of 102,000 tonnes of urea compared to the same period in the previous year. Savings in DAP exceeded 72,000 tonnes.

These figures are notable not only for their scale but also for what they imply: significant reductions are possible without changing prices or cutting subsidies, simply by improving visibility, accountability and advisories around nutrient use. Such outcomes strengthen the case for scaling up digital integration across states.

Targeting High-Consumption Districts

Beyond pilots, the Centre has also launched a focused campaign in 163 out of India's 730 districts, identified as having exceptionally high fertiliser consumption. In these districts, average urea use is around 100,000 tonnes annually, translating into roughly 2.2 million bags per district each year. According to Mishra, farmers in these regions themselves recognise that such levels of use are unsustainable.

Complementing administrative and technological measures is a grassroots awareness initiative. The government has constituted nearly 156,000 'Dharti Mata Nigrani Samitis' across the country, aimed at sensitising farmers to the long-term ill-effects of excessive fertiliser use on soil health, productivity and input efficiency. This reflects an

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understanding that behavioural change, particularly in agriculture, requires social engagement alongside technological solutions.

Revisiting the NPK Paradigm

Adding a broader policy dimension to the discussion, NITI Aayog member Dr Ramesh Chand emphasised the need to re-examine India's ideal NPK ratio of 4:2:1. These norms were established decades ago, when crop yields and input intensities were far lower. With yields having increased manifold and cropping patterns diversifying, static nutrient norms may no longer reflect current agronomic realities.

This observation dovetails with the Agristack approach: once land, crop and input data are reliably integrated, India could move towards crop- and region-specific nutrient recommendations, rather than relying on uniform ratios and generalised advisories.

A Quiet but Significant Shift

Taken together, these developments point to a quiet but significant shift in fertiliser policy—from subsidy-centric and price-based interventions to data-enabled precision management. If successfully scaled, Agristack could help India reduce fiscal stress from fertiliser subsidies, improve soil health, correct nutrient imbalances, and sustain yield growth without penalising farmers.

The challenge, however, will lie in execution: ensuring data accuracy, protecting farmer privacy, integrating informal cultivators, and maintaining trust. Yet, as the Haryana pilot demonstrates, the potential gains are substantial. In a sector where reforms often encounter resistance, technology-led nudges may offer a politically feasible and economically sound pathway to healing India's soils.

A CALIBRATED OPENING: WHAT INDIA'S LIMITED WHEAT PRODUCT EXPORTS MEAN FOR MARKET

The Centre's decision to permit exports of 500,000 tonnes of wheat products, including wheat flour (atta), maida and semolina, marks a carefully calibrated shift in India's grain trade policy. Coming just weeks ahead of the 2026 wheat harvest season, the move reflects growing confidence in domestic supply conditions, while stopping short of a full liberalisation that could unsettle prices in the domestic market.

India had imposed a ban on exports of wheat and wheat products several years ago to contain food inflation amid tightening global supplies. The partial opening now, limited in volume and governed by strict administrative conditions, suggests that policymakers are attempting to balance three objectives simultaneously: protecting consumers, supporting farm and milling sector sentiment ahead of harvest, and gradually re-engaging with global markets.

Supply Comfort and Timing

The timing of the decision is significant. Wheat production in India is expected to touch a new record in the 2025–26 season, following last year's all-time high output of 117.5 million tonnes, which itself represented a 3.8 percent year-on-year increase. Early indicators for the current season remain favourable.

As of January 27, 2026, wheat had been sown over 33.4 million hectares, about 1.9 percent higher than the same period last year and roughly 7 percent above the five-year average area. In a normal year, wheat is sown over around 31.23 million hectares, underscoring the robustness of the current sowing cycle.

Equally important is the stock position. As of mid-December, India held around 60 million tonnes of wheat and rice combined in the central pool, far exceeding the buffer norm of 21.4 million tonnes. This comfortable stock cushion has clearly emboldened the government to allow limited exports without risking domestic food security.

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Why Wheat Products, Not Grain

Notably, the permission applies only to processed wheat products, not raw wheat. This distinction is central to the policy logic. Exporting value-added products allows India to earn higher foreign exchange per tonne of grain, supports domestic milling capacity, and generates employment, while retaining tighter control over staple availability at home.

A similar rationale informed the earlier decision to permit exports of wheat bran, whose domestic prices had softened due to the growing use of distillers' dried grains with solubles (DDGS) (a by-product of ethanol production), as a substitute in animal feed. That experience appears to have reassured policymakers that selective, product-specific export openings can be managed without destabilising domestic markets.

Stringent Conditions, Limited Impact

While the announcement has been welcomed by the industry, traders caution that the immediate price impact is likely to be modest. Export conditions are stringent and tightly administered. All exporters must apply through the DGFT portal, with the first application window open from January 21 to January 31, 2026. Subsequent windows will be limited to the last ten days of each month until the permitted quantity is exhausted.

Export authorisations will be valid for six months, with extensions considered only on a case-by-case basis. Exporters are also required to submit landing certificates within 30 days of completing shipments under their allocated quota. These conditions ensure close monitoring but also raise transaction costs, limiting speculative or large-scale participation.

As a result, market participants view the decision as providing a sentiment boost ahead of the harvest rather than a structural change in price dynamics.

Industry Response and Market Re-entry

The wheat milling industry has nevertheless welcomed the move. According to Navneet Chitlangia of the Roller Flour Millers' Federation of India, the decision will help India's wheat flour industry recapture overseas markets that were ceded during the export ban. Indian wheat flour, he noted, enjoys a distinct aroma and taste, making it particularly attractive to the Indian diaspora and increasingly acceptable to non-Indian consumers as well.

This sentiment aligns with earlier industry representations. A few months ago, the Ministry of Consumer Affairs had urged the Directorate General of Foreign Trade (DGFT) to consider requests from millers for reopening wheat product exports with a quantitative ceiling of one million tonnes. The current approval of 500,000 tonnes can therefore be seen as a halfway house, a cautious first step rather than a full endorsement of the industry's demand.

A Signal, Not a Signal Shift

At a broader level, the decision signals that India's grain trade policy is becoming more responsive and nuanced, moving away from blanket bans towards calibrated, data-driven interventions. By choosing processed products, imposing tight quotas, and maintaining strict oversight, the government has attempted to retain policy flexibility while testing the waters of re-entry into global wheat markets.

For now, the message is clear: India is comfortable with its wheat supply situation, but not yet ready to fully normalise wheat exports. Whether this limited opening evolves into a more liberal regime will depend on how the harvest unfolds, how domestic prices behave, and how effectively the current quota system is administered.

CORPORATE NEWS

RELIANCE Q3FY26: RECORD REVENUES, BUT MARGIN PRESSURES CAP PROFIT GROWTH

Reliance Industries Ltd (RIL) delivered a mixed set of results for the third quarter of FY26, underscoring the growing divergence between its scale-driven revenue expansion and margin-led profitability challenges. While consolidated revenues comfortably beat market expectations and touched a new record, profit growth remained muted as higher input costs, rising depreciation, and tax outgo weighed on margins.

At the consolidated level, RIL's net sales rose 10.4 percent year-on-year to about ₹2.65 trillion in Q3FY26, exceeding analysts' expectations of around ₹2.61 trillion. Sequentially too, revenues improved from roughly ₹2.55 trillion in Q2FY26, highlighting the company's continued ability to scale operations across its diversified businesses.

However, the topline strength did not translate proportionately into profits. Consolidated net profit attributable to shareholders increased by a marginal 0.6 percent year-on-year to about ₹18,645 crore—below Street estimates by nearly 8 percent. This marked the weakest quarterly profit in the last four quarters and reinforced the pattern seen since FY23, with RIL's net profit largely oscillating in a ₹17,000–20,000 crore range despite steady revenue growth.

Margins Under Pressure

The key drag on profitability was margin compression. Consolidated EBITDA rose 6.4 percent year-on-year to ₹51,055 crore, but EBITDA margins slipped to their lowest level in three quarters, nearly 70 basis points below the company's three-year average of 19.3 percent. Rising raw material costs were the primary factor: consolidated raw material expenses climbed 12.2 percent year-on-year, outpacing revenue growth.

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Beyond operating costs, profits were further squeezed by faster growth in depreciation and taxes. Consolidated depreciation rose to ₹14,622 crore, driven largely by continued investments in the telecom and digital infrastructure. Deferred tax expenses surged over 40 percent year-on-year, while total corporate tax outgo increased by just over 10 percent. As a result, profit before tax margins declined to 11.1 percent, and profit after tax margins fell to 6.9 percent from 7.6 percent a year earlier.

Segment Performance: Digital Leads, Retail Lags

A closer look at business segments reveals uneven performance. Nearly 73 percent of consolidated EBIT came from the oil-to-chemicals (O2C) and digital services businesses, reaffirming their centrality to RIL’s earnings profile.

The digital services segment, led by Jio Platforms, was the standout performer. Jio reported a robust 11.2 percent year-on-year rise in net profit to ₹7,629 crore, supported by strong subscriber additions, higher average revenue per user, and scaling up of digital services. Revenues grew 12.7 percent year-on-year to ₹43,683 crore, reflecting sustained momentum in India’s data-driven consumption story.

In contrast, the retail business underperformed relative to its scale. Reliance Retail Ventures posted an 8–9 percent rise in revenues, but net profit growth remained subdued at just over 2 percent year-on-year, indicating margin pressures in a competitive consumption environment. Similarly, the oil and gas segments lagged, with higher input costs offsetting operational gains.

Standalone results—largely reflecting the refining and petrochemical businesses—offered some relief, with margins improving on lower raw material costs and declining interest and depreciation expenses. Yet this improvement was insufficient to counterbalance the pressures visible at the consolidated level.

Strategic Pivot and the Road Ahead

Commenting on the results, Chairman Mukesh D Ambani emphasised RIL’s “consistent financial delivery and operational resilience,” while highlighting the

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company's transition into a new phase of value creation anchored in artificial intelligence and new energy. This signals a strategic pivot toward future-facing businesses, even as legacy segments grapple with cyclical and cost pressures.

Overall, Q3FY26 results reinforce a familiar theme for Reliance: scale and diversification continue to drive revenue growth, but profitability is increasingly sensitive to margins, capital intensity, and tax dynamics. For investors, the near-term focus will remain on margin recovery in O2C and retail, alongside sustained momentum in digital services. Over the medium term, execution in AI and new energy initiatives will be critical in determining whether Reliance can break out of its recent profit-growth plateau and unlock its next leg of value creation.

RELIANCE RETAIL Q3FY26: SCALE EXPANDS, PROFITS GROW STEADIL

Reliance Retail Ventures Ltd (RRVL) delivered a steady but restrained performance in the third quarter of FY26, reflecting both the resilience of India's consumption story and the pressures facing organised retail amid a shifting consumer landscape. While revenues expanded at a healthy pace, profit growth remained modest, underscoring the trade-off between aggressive scale-up and near-term margin expansion.

RRVL reported a 2.1 percent year-on-year increase in net profit at about ₹3,558 crore for Q3FY26. Earnings before interest, taxes, depreciation and amortisation (EBITDA) from operations also grew by 2.1 percent to around ₹6,770 crore, suggesting stable operating performance but limited margin leverage despite strong topline growth.

Topline Momentum, Margin Discipline

Revenues from operations rose 9.2 percent year-on-year to ₹86,951 crore, while gross revenues increased 8.1 percent to ₹97,605 crore. On a sequential basis, performance was stronger, with revenues from operations rising 9.9 percent and net profit improving 3.5 percent over the previous quarter. The divergence between revenue and profit growth points to continued investments in store expansion, logistics, and omni-channel capabilities, even as the company maintains pricing competitiveness.

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Finance costs offered some relief, declining 13.2 percent year-on-year to ₹578 crore, helping cushion the impact of operating expenses. However, the overall profit growth remained subdued, reflecting a retail environment where volume growth is being prioritised over aggressive margin expansion.

Omni-channel Strategy and Store Expansion

Management commentary highlighted Reliance Retail's strategic emphasis on trend-focused assortments and seamless omni-channel experiences. Executive Director Isha Ambani underscored the company's focus on customer engagement and loyalty as consumption patterns evolve, positioning innovation and convenience at the core of its retail strategy.

During the quarter, Reliance Retail added 431 new stores, taking its total store count close to 20,000 nationwide. Its registered customer base expanded to 378 million, reinforcing its position as one of India's most preferred retail platforms. This scale, combined with a deep physical presence, continues to be a key competitive advantage, particularly as consumers increasingly blend online and offline shopping.

Demerger and Consumer Products Push

A significant strategic development in the quarter was the completion of the demerger of the consumer products business. According to Chairman Mukesh Ambani, the newly structured consumer products vertical—housing a diverse portfolio ranging from established Indian brands to new-age labels—is now on an accelerated growth path with a focused organisational structure.

Reliance Consumer Products reported gross revenues of about ₹5,065 crore in Q3FY26 and strengthened its brand portfolio by acquiring global rights to brands such as Brylcreem, Toni & Guy, Badedas and Matey. This move signals a clear intent to build a scalable FMCG play, leveraging Reliance Retail's extensive distribution and omni-channel reach.

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Quick Commerce and Digital Reach

JioMart continued to expand its hyperlocal and digital footprint, maintaining coverage across more than 5,000 PIN codes and over 1,000 cities, supported by a network of more than 3,000 stores. The traction in quick deliveries adds another growth lever, aligning Reliance Retail with changing consumer expectations around speed and convenience.

Outlook

Overall, Q3FY26 reflects a phase of consolidation for Reliance Retail—marked by robust revenue growth, disciplined cost management, and strategic restructuring rather than sharp profit acceleration. As the consumer products business scales up and omni-channel efficiencies improve, the key question for investors will be whether this expanding footprint can translate into stronger margin expansion over the medium term, while sustaining leadership in India’s rapidly evolving retail ecosystem.

AHEAD OF IPO, JIO DELIVERS: STRONG MARGINS AND RISING MONETISATION IN Q3

Jio Platforms Limited (JPL), the digital and telecom arm of Reliance Industries and operator of India’s largest telecom network, delivered a strong operating performance in the third quarter of FY26, reinforcing its position as the principal growth engine within the Reliance ecosystem. With double-digit growth in profits, revenues, and operating margins, the quarter underlined the benefits of scale, rising data consumption, and steady monetisation—at a time when the company is preparing for a much-anticipated initial public offering.

JPL reported a net profit of about ₹7,629 crore in Q3FY26, marking an 11.2 percent year-on-year increase. Sequentially, profits rose 3.4 percent, reflecting sustained operating momentum even as competitive intensity in the telecom sector remains high. Revenues climbed 12.7 percent year-on-year to ₹43,683 crore, while quarter-on-quarter growth stood at a healthy 2.4 percent.

Operating Leverage and Margin Expansion

The most notable feature of Jio's Q3 performance was the sharp improvement in operating profitability. EBITDA rose 16.4 percent year-on-year to around ₹19,303 crore, outpacing revenue growth and translating into a margin expansion of 170 basis points. This margin improvement was driven by a combination of higher average revenue per user (ARPU) and operating leverage as the network continues to absorb growing data traffic at relatively low incremental cost.

ARPU, a key metric closely watched by investors, stood at ₹213.7 in Q3FY26, marginally higher than ₹211.4 in the previous quarter and up 5.1 percent year-on-year. The company attributed the increase to higher customer engagement, even as promotional offers for unlimited 5G and fixed broadband services partly capped sharper near-term gains. The trajectory nevertheless suggests a gradual but durable improvement in monetisation.

5G at Scale: From Rollout to Usage

Jio's rapid transition from 5G rollout to 5G usage is increasingly evident in its operating metrics. As of December 2025, Jio had a total subscriber base of 515.3 million, of which 253 million—over half—were 5G users. The company added 8.9 million subscribers during the quarter, highlighting its continued ability to attract users even in a mature market.

Data consumption trends underline the scale advantage Jio has built. During Q3FY26, 5G data traffic surged nearly 34 percent year-on-year to 62.3 billion gigabytes, while total voice traffic rose 5.8 percent to 1.53 trillion minutes. These numbers reflect not just network reach but also deepening digital adoption across consumer segments, strengthening Jio's long-term revenue base.

IPO Readiness and Strategic Significance

With an IPO targeted by July, Jio Platforms' Q3 results strengthen the investment case around predictable cash flows, improving margins, and leadership in next-generation

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connectivity. The combination of rising ARPU, expanding 5G penetration, and strong EBITDA growth positions Jio as a scaled digital infrastructure play rather than merely a telecom utility.

Within the broader Reliance group, Jio continues to act as a stabilising and growth-driving force, offsetting cyclicalities in other businesses. For prospective investors, the key variables to watch in the coming quarters will be the pace of ARPU expansion once promotional offers taper, the monetisation of 5G use cases beyond connectivity, and the integration of digital services into a broader platform ecosystem.

Overall, Q3FY26 reinforces Jio Platforms' transition into a mature, cash-generative digital powerhouse—one that is increasingly defined by operating efficiency and depth of usage, rather than just subscriber scale.

AI MOMENTUM STRENGTHENS, GLOBAL DEMAND LAGS: DECODING TCS' Q3FY26 PERFORMANCE

Tata Consultancy Services (TCS), India's largest IT services firm, delivered a mixed set of results for the third quarter of FY26, underscoring both the emerging tailwinds from artificial intelligence (AI)-driven demand and the persistent challenges confronting global IT spending. While the company beat revenue expectations and reaffirmed confidence in growth prospects for calendar year 2026, profitability was weighed down by one-off costs and uneven performance across geographies.

Revenue Resilience Amid Profit Compression

TCS reported Q3FY26 revenue of ₹67,087 crore, up 4.9 percent year-on-year and 2 percent sequentially, exceeding market expectations. Growth was supported by early signs of recovery in BFSI, improving demand in North America, and increasing traction in AI-led engagements.

However, the bottom line told a more subdued story. Net profit declined 13.9 percent year-on-year to ₹10,657 crore, and fell 11.7 percent quarter-on-quarter, missing consensus estimates. The decline was primarily driven by restructuring costs, one-time

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charges linked to the new labour codes, and a ₹1,010 crore provision for a legal claim. These factors, while non-recurring in nature, compressed near-term earnings and dampened investor sentiment.

Deal Momentum Holds Firm

TCS continued to demonstrate strength in deal execution, reporting a total contract value (TCV) of \$9.3 billion during the quarter. Although marginally lower than Q2, the number reflects sustained client engagement and supports management's optimism about future growth. According to CEO K. Krithivasan, deal momentum and client conversations remain constructive, providing confidence in a stronger calendar year 2026.

That said, analysts flagged the challenge of achieving higher full-year constant-currency growth in FY26, given the modest pace of international market expansion and the relatively subdued quarter-on-quarter growth trajectory.

AI Emerges as a Core Growth Engine

A key highlight of the quarter was the sharp rise in AI services. TCS reported annualised AI services revenue of \$1.8 billion, up 17.3 percent sequentially, reinforcing the firm's positioning as an AI-first services provider. Management noted that AI-led projects are increasingly short-cycle in nature, with faster decision-making driven by clearer return-on-investment metrics.

AI programmes at TCS span two broad categories: AI for business transformation across industry value chains and AI-enabled modernisation of legacy systems. These engagements not only enhance revenue visibility but also help clients improve productivity and efficiency—an important consideration in a cautious global macro environment.

Geographical and Sectoral Divergences Persist

Despite overall growth, international markets remained sluggish, with constant-currency revenue rising just 0.5 percent sequentially. North America, TCS's largest market, posted muted sequential growth, while Europe showed modest improvement and the UK continued to lag. India recorded strong sequential growth, though year-on-year comparisons were distorted by a high base.

From a sectoral perspective, BFSI, the company's largest vertical, showed modest year-on-year growth but declined sequentially, reflecting cautious client spending. Consumer business remained under pressure, while life sciences and healthcare offered incremental support.

Margins, Workforce and Structural Adjustments

TCS maintained a healthy operating margin of 25.2 percent, reflecting disciplined cost management and strong cash conversion, even as the new labour codes are expected to exert a 10–15 basis points drag going forward. However, workforce rationalisation continued, with headcount declining by over 11,000 employees during the quarter.

Management emphasised that this shift reflects a strategic transition rather than demand weakness. More than 217,000 employees now possess advanced AI skills, and the company has stepped up the hiring of fresh graduates with higher-order capabilities, signalling a recalibration of its talent mix toward future-ready skills.

Outlook: Optimism Tempered by Execution Risks

TCS's Q3FY26 performance highlights a sector at an inflection point. AI and data-led opportunities are clearly gaining momentum, offering new growth avenues and reinforcing client relevance. At the same time, global demand remains uneven, cost pressures persist, and achieving faster growth in international markets will require sustained execution.

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For investors and policymakers, the results suggest that while India's IT bellwethers are structurally well-positioned for the next phase of digital transformation, near-term earnings volatility and region-specific headwinds will continue to shape the sector's trajectory.

INFOSYS BETS ON DEAL MOMENTUM AND AI TO LIFT FY26 GROWTH OUTLOOK

Infosys' decision to raise its FY26 revenue growth guidance signals renewed confidence in demand conditions for India's IT services sector, even as profitability faces near-term headwinds. The country's second-largest IT firm now expects 3–3.5 percent constant-currency revenue growth in FY26, an upward revision from the 2–3 percent band projected earlier, underpinned by a strong deal pipeline and improved execution.

Growth Visibility Improves Despite Profit Dip

The guidance upgrade comes despite a 2.2 percent year-on-year decline in net profit to ₹6,654 crore in Q3 FY26, largely due to the one-time impact of the new Labour Codes. The cost impact of ₹1,289 crore weighed on margins across the sector, with peers TCS and HCLTech also reporting similar pressures. Excluding this structural adjustment, Infosys' operational performance remained resilient.

Revenue grew a robust 8.9 percent year-on-year to ₹45,479 crore, exceeding market expectations, driven primarily by the financial services and manufacturing verticals. While the company missed profit estimates, its ability to beat revenue forecasts reinforces the view that demand conditions—especially in its core markets—are stabilising after several quarters of uncertainty.

Deal Pipeline Signals Demand Revival

A key driver of the improved outlook is the sharp acceleration in deal wins. Infosys reported a total contract value (TCV) of \$4.8 billion, a 45 percent sequential increase,

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with 57 percent classified as net-new deals. This marks a clear improvement in client spending intent and provides revenue visibility for the coming quarters.

Notably, the upgraded guidance already incorporates the £1 billion NHS Business Services Authority deal, which will modernise workforce management systems across England and Wales. However, it excludes the impact of the Versent acquisition in Australia, suggesting further upside potential once inorganic contributions are factored in.

Sectoral Strength: Financial Services and Manufacturing

Performance was broad-based but led by a revival in financial services and manufacturing, which grew 3.9 percent and 6.6 percent, respectively, in constant-currency terms. The recovery in US financial services—Infosys' largest market—has been particularly significant, supported by heightened merger and acquisition activity and rising investments in digital transformation.

The company highlighted strong traction across retail and mid-sized banks, payments, and mortgage segments, where productivity-driven technology adoption is accelerating.

AI as a Structural Growth Lever

Although Infosys has not yet disclosed standalone AI revenue figures, management commentary underscores AI as a central growth engine. The company is currently working on AI initiatives with 90 percent of its top 200 clients, has developed 500 AI agents, and has executed around 4,600 AI projects.

Infosys has identified six high-impact AI opportunity areas, ranging from AI-led software development and legacy modernisation to AI trust, risk, and governance services. This strategic positioning suggests that AI will not only enhance near-term deal wins but also support medium-term margin expansion through higher-value services.

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Margins and Cash Flow Remain Resilient

Despite cost pressures, Infosys delivered a 0.2 percent expansion in adjusted operating margins and generated \$965 million in free cash flow during what is typically a seasonally weak quarter. This reflects disciplined cost management and reinforces the company's balance-sheet strength at a time when global macro conditions remain uncertain.

Implications for the IT Sector

Infosys' guidance upgrade stands out in a sector that has largely maintained cautious outlooks. While challenges persist—ranging from wage pressures to uneven global growth—the company's performance suggests that the worst of the demand slowdown may be behind, at least for well-positioned players with strong execution capabilities and exposure to AI-led transformation.

For investors and policymakers alike, the results highlight an important shift: India's IT sector may be entering a phase of selective recovery, driven less by volume growth and more by deal quality, digital depth, and AI-enabled productivity gains.

PROFIT PRESSURE, STRATEGIC PIVOT: HOW HCLTECH IS REPOSITIONING FOR AN AI-FIRST ERA

HCLTech's third-quarter FY26 results reflect a sector in transition, where demand is shifting toward new technology frontiers even as regulatory changes reset cost structures. India's third-largest IT services firm reported a double-digit decline in profit, driven largely by the one-time impact of newly implemented labour codes, but simultaneously raised its full-year growth guidance, signalling confidence in the resilience of its business model and order pipeline.

Revenue Momentum Outpaces Earnings

For the quarter ended December 31, 2025, HCLTech posted a net profit of ₹4,076 crore, down 11.1 percent year-on-year, as it absorbed a ₹956 crore provision related to

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employee benefits under the new labour codes. The profit miss, while notable, was widely anticipated given similar disclosures by peers such as TCS.

In contrast, revenue performance remained robust, rising 13.3 percent year-on-year to ₹33,872 crore, comfortably beating market expectations. On a sequential basis, revenue grew 6 percent, reflecting strong execution and improving demand visibility. Growth was led by financial services and manufacturing, which expanded 8.1 percent and 1.8 percent, respectively, in constant-currency terms.

Guidance Upgrade Reflects Strategic Clarity

A key takeaway from the quarter was HCLTech's decision to revise its FY26 constant-currency revenue growth guidance to 4–4.5 percent, from the earlier 3–5 percent range. Services revenue growth is now expected at 4.75–5.25 percent, underscoring confidence in core operations despite macro uncertainties.

Management acknowledged that discretionary IT spending remains subdued compared to pre-pandemic levels. However, rather than waiting for a cyclical rebound, the company is actively reallocating resources toward segments where client spending is structurally rising.

Pivot Toward AI and Physical Infrastructure

HCLTech's strategy is increasingly aligned with AI-adjacent and infrastructure-led growth areas. The company highlighted expanding opportunities in data centres, robotics, physical AI, semiconductors, and edge inferencing—technologies that form the backbone of next-generation AI deployment.

This shift reflects a broader recalibration within the IT services industry, where growth is being driven less by traditional application development and more by platform engineering, infrastructure modernisation, and AI enablement. By positioning itself early in these domains, HCLTech aims to capture higher-value, longer-duration engagements.

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Labour Codes: A Structural Reset for IT Services

The implementation of the new labour codes marks a structural inflection point for India's IT and IT-enabled services sector. For the first time, companies like HCLTech will be governed not only by state-level shop and establishment laws but also by the central Occupational Safety, Health and Working Conditions (OSH) Code.

While the immediate financial impact is visible through one-time charges, over the medium term these reforms are likely to standardise compliance, increase transparency, and potentially raise operating costs. Importantly, these costs are non-recurring in nature, suggesting that margin pressures should ease once the transition is complete.

Deal Wins Provide Forward Visibility

HCLTech reported total contract value (TCV) of \$3 billion, a 43.5 percent increase year-on-year, reinforcing confidence in future revenue streams. A healthy order book, combined with improving execution in priority segments, provides a cushion against near-term earnings volatility.

Outlook: Transition with Opportunity

HCLTech's Q3FY26 performance underscores the dual forces shaping India's IT sector: regulatory-driven cost adjustments and technology-driven growth transformation. While profitability has taken a short-term hit, the company's ability to grow revenues, upgrade guidance, and build a strong deal pipeline suggests that it is well-positioned for the next phase of industry evolution.

For investors, the results highlight a crucial distinction—near-term earnings softness driven by structural reforms should not be conflated with weakening demand fundamentals. Instead, they point to a sector recalibrating itself for an AI-led future.

INDIGO'S Q3 FY26 PROFITS SINK AS LABOUR CODES AND OPERATIONAL DISRUPTIONS BITE

Introduction

India's largest airline, IndiGo, reported a sharp contraction in profitability in Q3 FY26, with net profit plunging 77.6 percent year-on-year to around ₹549 crore. The steep decline was driven not by weak demand but by a confluence of structural regulatory changes, operational disruptions, and external cost pressures. The implementation of the new Labour Codes, a significant operational meltdown in December, and continued rupee depreciation collectively weighed on the airline's financial and operating performance during the quarter.

Exceptional Items and the Labour Code Impact

A defining feature of IndiGo's Q3 FY26 results was the reporting of exceptional items amounting to approximately ₹1,546.5 crore. The largest component was a one-time post-tax hit of about ₹969.3 crore arising from the implementation of the new Labour Codes. These reforms consolidated multiple labour legislations and altered the definition of wages for computing employee benefits, while also expanding eligibility for social security benefits such as gratuity and compensated absence.

For an airline with a large and operationally critical workforce, these changes had an immediate and material financial impact. Management clarified that the provisioning reflects revised long-term employee benefit obligations rather than any deterioration in operational efficiency, but the timing significantly affected quarterly profitability.

December Operational Disruption and DGCA Action

The quarter was further marred by a major operational disruption in early December, when IndiGo cancelled 4,290 flights between December 1 and December 9. The cancellations were triggered by an acute shortage of pilots as the airline struggled to implement revised Flight Duty Time Limitations (FDTL) norms, which mandate more humane working hours and rest periods.

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The disruption had multiple financial consequences. IndiGo incurred ₹577.2 crore in expenses related to customer compensation, accommodation, meals, transportation, and goodwill gestures such as travel vouchers. In addition, the Directorate General of Civil Aviation (DGCA) imposed a penalty of ₹22.2 crore, which has been fully provisioned as an exceptional item.

Following the episode, the DGCA mandated a 10 percent cut in IndiGo's domestic capacity for the remainder of the winter schedule, a restriction that remains in force until late March. This regulatory intervention directly affected capacity deployment and unit costs during the quarter.

Revenue Growth, Costs, and Margin Pressures

Despite the disruptions, total revenue grew 6.7 percent year-on-year to around ₹24,541 crore, reflecting resilient passenger demand. However, total expenses rose faster, increasing 9.6 percent YoY to approximately ₹22,432 crore, compressing operating margins.

A key concern for management going forward is the rise in cost per available seat kilometre (CASK). IndiGo reported a CASK of about ₹4.73 in Q3, and expects unit costs to rise further due to capacity curtailment mandated by the regulator. For FY26, the airline is guiding towards a mid-single-digit increase in CASK, though it has indicated that this is a near-term view and that greater clarity on FY27 costs will emerge as operational adjustments stabilise.

Yield, Load Factors, and Currency Headwinds

Operational metrics also reflected pressure. Passenger unit revenue declined 4.5 percent year-on-year to around ₹5.2, in line with revised guidance. Yield stood at approximately ₹5.33, about two percent lower than a year earlier, while the load factor fell to around 85 percent, down two percentage points YoY.

Compounding these pressures was rupee depreciation, which weakened by over one percent during Q3 alone and by around five percent over the course of the year. Given

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IndiGo's exposure to dollar-denominated costs such as aircraft leases and maintenance, foreign exchange movements added to cost headwinds at a time when margins were already under stress.

Fleet Expansion and Capacity Outlook

Despite near-term challenges, IndiGo continued to expand its fleet. During Q3 FY26, the airline inducted 36 aircraft on a gross basis, including 24 from its order book and 12 through damp leases, while re-delivering 13 aircraft. This took the fleet to 440 aircraft by the end of the quarter.

However, reflecting regulatory constraints and operational recalibration, IndiGo has moderated its capacity growth guidance for Q4 FY26 to around 10 percent year-on-year, down from its earlier expectation of growth in the teens. Management attributed this primarily to schedule adjustments necessitated by regulatory requirements rather than demand weakness.

Management Response and Forward Strategy

IndiGo's leadership characterised early December as one of the most challenging periods in the airline's history but emphasised that the episode does not define its broader performance. CEO Pieter Elbers highlighted that IndiGo achieved one of the highest on-time performance records among the world's top 20 airlines in calendar year 2025, underscoring the airline's underlying operational strengths.

The airline is now conducting an in-depth review of internal processes to strengthen resilience and is preparing for the full transition to revised FDTL norms in February, after the DGCA temporarily placed certain rules in abeyance until February 10 to allow operational stabilisation.

Conclusion

IndiGo's Q3 FY26 results reflect a quarter of extraordinary disruption rather than structural weakness. While profitability took a severe hit due to labour reforms,

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operational disruptions, and currency headwinds, demand fundamentals remained intact and revenue continued to grow. The episode has exposed execution risks associated with rapid regulatory transitions, but it has also prompted a reassessment of systems and processes that could strengthen long-term resilience. How quickly IndiGo restores operational stability and reins in unit costs will be critical to its performance in the coming quarters.

AESL PROFIT SLIPS ON HIGHER TAXES, ADANI TOTAL GAS GAINS ON CNG DEMAND

Introduction

Adani Group's energy businesses delivered mixed financial outcomes in the December quarter of FY26, reflecting the differing cost structures and regulatory environments across power transmission, distribution, and gas businesses. While Adani Energy Solutions Ltd (AESL) reported a decline in net profit despite higher revenues, Adani Total Gas posted improved profitability, aided by strong demand for compressed natural gas (CNG). Together, the results underline how sector-specific factors—ranging from taxation to input cost dynamics—continue to shape earnings trajectories within India's energy landscape.

Adani Energy Solutions: Profit Declines Despite Revenue Growth

Adani Energy Solutions Ltd reported a consolidated net profit of approximately ₹574.06 crore in Q3 FY26, marking an over 8 percent year-on-year decline from ₹625.30 crore in the corresponding quarter last year. The contraction in profitability was primarily attributed to a sharp increase in tax expenses, rather than any weakness in core operations.

During the quarter, AESL made a total tax provision of about ₹226.17 crore, a significant reversal from the tax credit of around ₹66.07 crore recorded in the year-ago period. This swing in tax treatment had a pronounced impact on the bottom line, masking the underlying strength in revenue generation.

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Segment-Wise Performance: Transmission and Distribution

On the operational front, AESL reported a rise in total income to about ₹6,944.44 crore, highlighting continued growth across its business segments. The transmission segment generated revenues of approximately ₹2,426.36 crore, benefiting from the company's expanding asset base and stable regulated returns.

The distribution business remained the largest contributor to revenue, with earnings increasing to ₹3,103.62 crore, up from ₹2,972.42 crore in the corresponding quarter last year. The growth in distribution revenues reflects steady demand and incremental network expansion, reinforcing AESL's position as a key player in India's power infrastructure ecosystem.

Overall, the results suggest that AESL's core businesses remain operationally sound, with profitability pressures largely stemming from accounting and tax-related factors rather than from deterioration in business fundamentals.

Adani Total Gas: CNG Demand Lifts Profits

In contrast, Adani Total Gas Ltd delivered a more positive performance during the quarter. The company reported a 10 percent increase in net profit to about ₹157 crore in Q3 FY26, compared with ₹143 crore in the year-ago period.

The improvement in profitability was driven by strong growth in CNG sales, which helped offset the impact of higher input raw material costs. Rising adoption of CNG as a cleaner and more economical fuel for transport and urban use continued to support volumes, enabling the company to protect margins despite cost pressures.

Broader Implications for the Energy Sector

The divergent outcomes between AESL and Adani Total Gas illustrate the varying sensitivities of energy sub-sectors to fiscal and cost dynamics. Regulated power transmission and distribution businesses offer revenue stability but remain susceptible to tax and regulatory changes that can influence reported profits. In contrast, city gas

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distribution businesses are more exposed to commodity price fluctuations but can benefit from volume-led growth and favourable demand trends.

Conclusion

The Q3 FY26 performance of Adani Group's energy companies highlights a contrast between accounting-driven profit pressures and demand-led growth. While Adani Energy Solutions saw its net profit decline due to higher tax provisions despite rising revenues, Adani Total Gas capitalised on robust CNG demand to deliver profit growth. Taken together, the results underscore the importance of segmental dynamics and policy factors in shaping earnings across India's evolving energy sector.

STRATEGIC RESTRUCTURING AND COST GAINS DRIVE JSW STEEL'S STANDOUT Q3 RESULTS

Introduction

JSW Steel delivered a sharp surge in profitability in the third quarter of FY26, reporting a nearly threefold increase in consolidated net profit, driven largely by a one-time tax gain linked to its strategic restructuring of the Bhushan Power & Steel Ltd (BPSL) business. The quarter also reflected robust operational performance, with record sales volumes, improved cost efficiencies, and continued expansion in domestic and export markets. Together, these factors enabled the company to significantly outperform market expectations.

Profitability Boosted by Strategic BPSL–JFE Transaction

JSW Steel reported a consolidated net profit of about ₹2,139 crore in Q3 FY26, marking a 198.3 percent year-on-year increase from ₹717 crore in the corresponding quarter last year. The standout contributor to this surge was a deferred tax asset recognition of approximately ₹1,439 crore, arising from brought-forward unabsorbed depreciation in BPSL.

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The tax gain is linked to JSW Steel's strategic joint venture with Japan's JFE Steel, announced on December 3, under which JFE will acquire a 50 percent stake in BPSL's steel business. The transaction values BPSL's steel business at an equity value of around ₹31,500 crore and an enterprise value of approximately ₹53,000 crore. The company noted that the carried-forward depreciation is expected to be recovered against likely capital gains from the slump sale of BPSL's steel undertaking, justifying the recognition of the deferred tax asset.

Offsetting this partially was a one-time exceptional charge of around ₹529 crore, booked at the consolidated level to account for higher employee benefit costs arising from the implementation of the new Labour Codes.

Revenue Growth and Outperformance of Market Expectations

On the top line, JSW Steel's consolidated revenue rose 11.1 percent year-on-year to about ₹45,991 crore, compared with ₹41,378 crore in Q3 FY25. Both revenue and net profit surpassed Bloomberg consensus estimates, which had pegged revenue at around ₹44,514.6 crore and net profit at ₹1,457.3 crore.

Sequentially, revenue grew 1.9 percent quarter-on-quarter, while net profit rose a strong 31.8 percent, reflecting the combined impact of operational improvements and the one-time tax gain.

Operating Performance: Higher Volumes and Lower Costs

JSW Steel reported a consolidated adjusted EBITDA of about ₹6,620 crore, representing a 22 percent year-on-year increase. The improvement was driven primarily by higher sales volumes and lower coking coal and power costs, which more than offset the impact of lower steel realisations. Reported EBITDA for the quarter stood at approximately ₹6,496 crore.

The company clarified that the adjusted EBITDA excludes unrealised foreign exchange gains or losses on long-term borrowings, net of similar unrealised forex movements on

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intercompany receivables, providing a clearer picture of underlying operating performance.

Production, Sales, and Export Momentum

Operationally, consolidated crude steel production reached 7.48 million tonnes (MT) in Q3 FY26, a 6 percent increase year-on-year, supported by the ramp-up of JSW Vijayanagar Metallics Limited (JVML). However, production declined 5 percent quarter-on-quarter due to the shutdown of blast furnace-3 at Vijayanagar from end-September 2025 for capacity upgradation.

Despite this, consolidated sales touched a record 7.64 MT, up 14 percent year-on-year, driven largely by strong domestic demand. Exports also posted robust growth, rising 53 percent year-on-year to 0.84 MT, accounting for 11 percent of sales from Indian operations during the quarter.

Capacity Expansion and Long-Term Growth Strategy

Reinforcing its long-term growth ambitions, JSW Steel's board approved the setting up of a 5 million tonnes per annum (MTPA) greenfield steel plant at Jagatsinghpur, Odisha, under its subsidiary JSW Utkal Steel Ltd. The project will involve a capital investment of around ₹31,600 crore and is targeted for commissioning by FY30.

This will be the first phase of development at the site, with expansion potential up to 13.2 MTPA, underscoring JSW Steel's confidence in India's medium- to long-term steel demand outlook.

Conclusion

JSW Steel's Q3 FY26 performance highlights a combination of strategic financial restructuring and solid operational execution. While the sharp jump in net profit was significantly aided by a one-time tax gain related to the BPSL–JFE transaction, the quarter also showcased strong volume growth, improving cost efficiencies, and expanding domestic and export footprints. With major capacity additions in the pipeline

Driving Policy, Empowering Progress

and strategic partnerships in place, JSW Steel appears well positioned to capitalise on India's infrastructure-led steel demand in the coming years.

ITC'S Q3 FY26 NET PROFIT FLAT AS ONE-TIME LABOUR CODE COSTS OFFSET STRONG CORE PERFORMANCE

Introduction

Diversified conglomerate ITC Ltd reported a largely flat consolidated net profit for the third quarter of FY26, as one-time provisions related to the new Labour Codes and an unfavourable base effect weighed on headline profitability. However, a closer look at operating performance indicates steady underlying momentum, with profit before exceptional items rising strongly and broad-based growth across most operating segments.

Profitability: Exceptional Items Mask Operating Strength

ITC reported a consolidated net profit of about ₹4,931.19 crore in Q3 FY26, marginally lower than ₹4,934.8 crore recorded in the corresponding quarter last year. The result also came in below the Bloomberg consensus estimate of ₹5,232 crore.

The company clarified that profit before exceptional items in continuing operations provides a more accurate reflection of operational performance. On this basis, consolidated profit before exceptional items and tax stood at about ₹7,108.66 crore, marking an 8.8 percent year-on-year increase.

Sequentially, while net revenue rose 2.8 percent, net profit declined 3.8 percent, reflecting the impact of one-off provisions linked to labour law changes.

Revenue Performance Beats Market Expectations

ITC posted consolidated gross revenue of approximately ₹21,706.64 crore in Q3 FY26, up 6.7 percent year-on-year. Net revenue stood at around ₹20,047 crore, significantly above the Bloomberg consensus estimate of ₹19,030 crore, underscoring the strength of demand across the company's diversified business portfolio.

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Cigarettes Business: Growth Continues Amid Rising Tax Risks

The cigarette segment, ITC's largest profit contributor, delivered revenue of about ₹9,681.08 crore, registering an 8.2 percent year-on-year increase. Pre-tax profit rose 5.7 percent to around ₹5,487.29 crore, reflecting steady volume growth and pricing discipline.

However, ITC flagged concerns over recent changes in GST and excise duty rates effective February 1, which have led to what it termed an "unprecedented increase" in tax incidence on cigarettes. The company warned that such steep increases could encourage illicit trade and adversely affect farmers, MSMEs, retailers, and the broader value chain, while also potentially hurting government revenues.

FMCG (Non-Cigarettes): Strong Growth and Rising Profitability

The non-cigarette FMCG segment continued to gain momentum, reporting revenue of about ₹6,109.58 crore, up 12.6 percent year-on-year. Growth was broad-based across categories, with particularly strong traction in the premium portfolio, NewGen trade channels, and digital-first and organic offerings.

Profitability improved sharply, with pre-tax profit rising 39.8 percent to around ₹448.29 crore, highlighting operating leverage and improving scale in the FMCG business.

Agribusiness and Paperboards: Mixed Performance

The agribusiness segment posted revenue of about ₹3,859.04 crore, a 6.4 percent increase year-on-year, driven by value-added agri products and leaf tobacco. Pre-tax profit, however, remained flat at around ₹495.85 crore, reflecting margin pressures despite revenue growth.

In the paperboard, paper, and packaging segment, revenue increased 2.7 percent to about ₹2,203.03 crore, but pre-tax profit declined 4.2 percent to around ₹188.77 crore. The decline was attributed to a planned shutdown for maintenance of high-pressure recovery boilers and paper machines, which temporarily affected profitability.

Driving Policy, Empowering Progress

Shareholder Returns and Group Performance

The board recommended an interim dividend of ₹6.5 per share for the financial year ending March 31, 2026, reaffirming ITC's commitment to shareholder returns. The company also highlighted strong performances by group entities, including ITC Infotech, Surya Nepal, and ITC Hotels, contributing positively to consolidated results.

Conclusion

ITC's Q3 FY26 results underline the resilience of its diversified business model, with strong revenue growth and improving profitability in core operating segments, particularly FMCG. While one-time labour code provisions and regulatory headwinds in the cigarette business weighed on headline net profit, the underlying operating performance remains robust. Going ahead, the company's ability to navigate taxation challenges in cigarettes while scaling up its non-cigarette FMCG and agri businesses will be critical to sustaining long-term growth.

VEDANTA'S Q3 FY26 PROFIT JUMPS 60% ON RECORD EBITDA AND STRONG METAL PRICES

Strong Earnings Momentum in December Quarter

Mining and metals major Vedanta Ltd reported a robust 60 percent year-on-year increase in consolidated Profit After Tax (PAT) for the quarter ended December 31, 2025 (Q3 FY26), aided by firm base metal prices, record production levels, and strong operational performance across key businesses.

The company posted a consolidated PAT of about ₹7,807 crore, compared with ₹4,876 crore in the corresponding quarter last year.

Revenue Growth Driven by Commodities Upswing

Vedanta's consolidated revenue from operations rose 19 percent year-on-year to approximately ₹45,899 crore, up from ₹38,526 crore in Q3 FY25. The strong top-line

Driving Policy, Empowering Progress

growth reflects a favourable pricing environment for base metals, coupled with higher volumes across aluminium and zinc businesses.

Record EBITDA Highlights Operational Strength

Q3 FY26 emerged as a landmark quarter for Vedanta, with the company recording its highest-ever consolidated EBITDA of about ₹15,171 crore. Two of its major businesses delivered their best-ever quarterly financial results, underscoring operational efficiencies and scale benefits.

According to Vedanta Executive Director Arun Misra, the aluminium business posted its strongest-ever EBITDA margin of \$1,268 per tonne, supported by record alumina and aluminium production. Meanwhile, Zinc India recorded its highest quarterly EBITDA of around ₹6,064 crore, driven by record mined and refined metal output, with silver accounting for 44 percent of the segment's overall profit.

Production Performance: Aluminium and Zinc Lead Growth

Vedanta reported significant improvements in production volumes across its key commodities:

- Alumina production surged 57 percent year-on-year to 7.94 lakh tonnes, reflecting improved operational efficiency and capacity utilisation.
- Cast metal aluminium production stood at 6.20 lakh tonnes, marginally higher than the year-ago period.
- At Zinc India, mined metal production increased 4 percent year-on-year to 2.76 lakh tonnes.
- Zinc International recorded a sharper 28 percent year-on-year increase in mined metal production to 59,000 tonnes.

The strong production performance enabled the company to capitalise on favourable global commodity prices during the quarter.

Driving Policy, Empowering Progress

Balance Sheet Position

As of December 31, 2025, Vedanta's net debt stood at about ₹60,624 crore, while gross debt was around ₹80,709 crore. While leverage remains elevated, the company's strong cash generation during the quarter provides some comfort on debt servicing and balance sheet stability.

Outlook

Vedanta's Q3 FY26 performance underscores the company's high operating leverage to commodity cycles, with strong base metal prices translating into outsized gains in profitability. Sustaining production momentum, managing debt levels, and navigating volatility in global metal prices will be key factors shaping performance in the coming quarters.

BANKING, FINANCIAL SERVICES & INSURANCE

HDFC BANK Q3FY26: PROFIT RISES ON LOWER PROVISIONS, ASSET QUALITY REMAINS IN FOCUS

Introduction

HDFC Bank delivered a steady yet nuanced performance in the third quarter of FY26, reporting a net profit of ₹18,653.75 crore for the quarter ended December 2025—an 11.4 percent year-on-year (YoY) increase. The results underscore the bank's underlying earnings resilience amid a moderating interest rate environment, tighter liquidity conditions, and heightened competition for deposits. While core profitability metrics remained robust, sequential trends in asset quality and net interest income point to emerging pressures that warrant close monitoring.

Profitability and Income Growth

The bank's operating performance remained healthy, supported by growth in both interest and non-interest income streams. Net Interest Income (NII) rose by 6.4 percent YoY to ₹32,615 crore, reflecting continued expansion in the loan book, though the pace of growth moderated compared to earlier quarters. This suggests some compression in net interest margins, likely due to higher funding costs amid intense competition for deposits.

Pre-Provisions Operating Profit (PPOP) increased by 8.38 percent YoY to ₹27,097.80 crore, highlighting effective cost management and stable operating leverage. A notable positive was the strong performance of non-interest income, which rose 15.7 percent YoY to ₹13,253.84 crore. This growth points to diversification in revenue streams, including fees, commissions, and treasury-related income, partially offsetting the moderation in interest income growth.

Provisions and Credit Costs

A key support to bottom-line growth during the quarter came from lower provisioning requirements. Provisions and contingencies declined to ₹2,837.86 crore, compared to ₹3,153.85 crore a year earlier and ₹3,500.53 crore in the previous quarter. The reduction

Driving Policy, Empowering Progress

in credit costs reflects a relatively stable asset quality environment and adequate provisioning buffers built over previous periods.

However, the moderation in provisions should be viewed alongside emerging asset quality trends, particularly the sequential increase in absolute non-performing assets.

Asset Quality: Stable Ratios, Rising Absolute NPAs

Asset quality metrics remained broadly stable in ratio terms, but absolute numbers showed some deterioration. The gross NPA ratio stood unchanged at 1.24 percent, while the net NPA ratio remained flat at 0.42 percent, both on a quarter-on-quarter basis.

In absolute terms, however, gross NPAs increased by 2.59 percent to ₹35,178.98 crore, and net NPAs rose by 4.66 percent to ₹11,981.75 crore compared to the September 2025 quarter. This divergence suggests that while loan growth has helped contain NPA ratios, stress is incrementally building in certain pockets of the loan book. The trend merits attention, particularly as credit growth remains strong across retail and MSME segments.

Deposits and Advances: Balanced Growth with MSME Push

HDFC Bank continued to demonstrate strength on both sides of its balance sheet. Total end-of-period deposits stood at ₹28,601 billion, registering an 11.6 percent YoY increase. CASA deposits grew by 10.1 percent, with savings account deposits at ₹6,617 billion and current account deposits at ₹2,995 billion. While CASA growth remains healthy, it lags overall deposit growth, indicating ongoing pressure on low-cost funding.

On the asset side, gross advances rose by 11.9 percent YoY to ₹28,446 billion, broadly in line with deposit growth. The composition of credit expansion reflects a strategic tilt towards higher-yielding segments. Small and mid-market enterprise (SME) loans grew by a strong 17.2 percent, significantly outpacing retail loan growth of 6.9 percent. Corporate and wholesale loans increased by 10.3 percent, while overseas advances

Driving Policy, Empowering Progress

remained modest at 1.7 percent of total advances, underscoring the bank's predominantly domestic focus.

Conclusion

HDFC Bank's Q3FY26 performance reflects earnings stability rather than acceleration. Double-digit profit growth, strong PPOP, and rising non-interest income reaffirm the bank's operational strengths. At the same time, moderation in NII growth, slower CASA accretion relative to deposits, and a sequential rise in absolute NPAs signal emerging challenges in a tightening financial environment.

Overall, the results suggest that while HDFC Bank remains well-positioned with a diversified loan book and strong balance sheet, the coming quarters will test its ability to protect margins, manage asset quality, and sustain growth momentum amid evolving macroeconomic and competitive conditions.

ICICI BANK Q3 FY26: STRONG CORE EARNINGS OFFSET BY REGULATORY PROVISIONS

Introduction

ICICI Bank's financial performance in the third quarter of FY26 reflects a phase of consolidation marked by steady core earnings, resilient asset quality, and strong capital buffers, even as higher regulatory provisions weighed on headline profitability. The bank reported a profit after tax (PAT) of ₹11,318 crore, marginally lower than the year-ago period, largely due to elevated provisioning following the Reserve Bank of India's (RBI) supervisory review. Excluding this one-off regulatory impact, operating fundamentals remained robust, supported by healthy loan growth, stable margins, and diversified income streams.

Core Operating Performance: Resilience in Earnings

ICICI Bank's core operating profit grew by 6.0 percent year-on-year to ₹17,513 crore, underscoring the bank's ability to generate stable earnings despite a challenging

Driving Policy, Empowering Progress

operating environment. Net interest income (NII) increased by 7.7 percent YoY to ₹21,932 crore, aided by an expansion in the domestic loan portfolio and sustained net interest margins. The net interest margin (NIM) remained steady at 4.30 percent, unchanged from the previous quarter and marginally higher than a year earlier, indicating effective balance sheet management amid evolving funding costs.

Non-interest income (excluding treasury) rose by a healthy 12.4 percent YoY to ₹7,525 crore, driven primarily by fee income, which grew 6.3 percent YoY to ₹6,572 crore. Importantly, nearly 78 percent of fee income was generated from retail, rural, and business banking customers, highlighting the granular and diversified nature of the bank's revenue base.

Operating Costs and Treasury Impact

Operating expenses increased by 13.2 percent YoY to ₹11,944 crore, reflecting continued investments in branch expansion, technology, and compliance, along with ₹145 crore of provisions linked to the implementation of new Labour Codes. While cost growth outpaced income growth during the quarter, these expenditures are largely structural and aimed at supporting medium-term growth.

The quarter also saw a treasury loss of ₹157 crore, compared to a gain of ₹371 crore in Q3 FY25, largely due to adverse market movements. This reversal further weighed on reported profitability, though it does not detract from the strength of the bank's core banking operations.

Provisions and Profitability: Regulatory Overhang

Provisions (excluding tax) rose sharply to ₹2,556 crore, more than double the level recorded in the corresponding quarter last year. A significant portion of this increase was attributable to an additional standard asset provision of ₹1,283 crore, mandated by the RBI following its annual supervisory review. This provision relates to certain agricultural priority sector loans that did not fully meet regulatory classification norms,

Driving Policy, Empowering Progress

although there was no deterioration in borrower repayment behaviour or asset classification.

As a result, profit before tax (excluding treasury) declined modestly to ₹14,957 crore, while PAT fell to ₹11,318 crore from ₹11,792 crore a year earlier. Importantly, the impact on profitability is largely regulatory and precautionary, rather than reflective of asset quality stress.

Credit Growth: Broad-Based Expansion

ICICI Bank continued to register healthy credit growth, with net domestic advances increasing by 11.5 percent YoY and 4.0 percent sequentially to ₹14.31 lakh crore. Growth was particularly strong in the business banking segment, which expanded by 22.8 percent YoY, underscoring rising credit demand from MSMEs and mid-sized enterprises.

The retail loan portfolio grew by 7.2 percent YoY, accounting for just over half of total advances, while the domestic corporate portfolio increased by 5.6 percent YoY. The rural portfolio posted modest annual growth of 4.9 percent, but witnessed strong sequential expansion, reflecting seasonal credit demand.

Deposits and CASA: Funding Stability Maintained

On the liabilities side, average deposits grew by 8.7 percent YoY, while period-end deposits rose by 9.2 percent to ₹16.6 lakh crore. The CASA ratio averaged 39.0 percent, providing a stable and relatively low-cost funding base. While deposit growth lagged loan growth marginally, the bank's funding profile remains comfortable, supported by its extensive branch network, which expanded to 7,385 branches and nearly 12,000 ATMs and cash recycling machines.

Asset Quality: Continued Improvement

Asset quality trends remained favourable and improving. The gross NPA ratio declined to 1.53 percent, while the net NPA ratio improved to 0.37 percent, both showing

Driving Policy, Empowering Progress

improvement over the previous quarter and the year-ago period. Net additions to NPAs moderated, and the bank maintained a strong provisioning coverage ratio of 75.4 percent.

Importantly, stressed exposures outside the NPA book remained minimal, with loans under resolution accounting for just 0.1 percent of total advances. This highlights the bank's conservative risk management and prudent underwriting standards.

Capital Adequacy and Subsidiary Performance

ICICI Bank's balance sheet remains well-capitalised, with a total capital adequacy ratio of 17.34 percent and a CET-1 ratio of 16.46 percent, comfortably above regulatory requirements. This provides ample headroom to support future growth while absorbing potential shocks.

The bank's subsidiaries delivered mixed but broadly stable performance. ICICI Prudential Life Insurance reported improved profitability and higher value of new business margins, while ICICI Lombard General Insurance saw higher premium income but some pressure on underwriting profitability. Asset management and securities businesses posted healthy earnings, contributing to diversified consolidated income.

Conclusion

ICICI Bank's Q3 FY26 results reflect underlying operational strength tempered by temporary regulatory and market-related headwinds. Stable margins, strong credit growth in business banking, improving asset quality, and robust capital buffers underscore the bank's resilience. While higher provisions and treasury losses weighed on headline profits, these factors do not signal structural weakness. Overall, ICICI Bank remains well-positioned to sustain growth and profitability as macroeconomic conditions stabilise and regulatory overhangs recede.

Driving Policy, Empowering Progress

Introduction

Axis Bank delivered a robust operational performance in the third quarter of FY26, marked by strong growth in deposits and advances, improved operating efficiency, and stable asset quality. The bank reported 15 percent year-on-year (YoY) growth in deposits and 14 percent growth in advances, while profitability strengthened sequentially, with profit after tax (PAT) rising 28 percent quarter-on-quarter (QoQ). These outcomes were supported by steady net interest income, healthy fee growth, declining cost ratios, and disciplined risk management, positioning the bank well amid a competitive and evolving banking environment.

Earnings Momentum Driven by Core Operations

Axis Bank's earnings performance in Q3 FY26 was underpinned by solid core operations. Net Interest Income (NII) grew by 5 percent YoY and 4 percent QoQ, reflecting healthy loan growth and a lower cost of funds. However, net interest margin (NIM) moderated to 3.64 percent, declining 9 basis points QoQ, largely due to repricing dynamics and competitive pressures in deposits.

Core operating profit rose by 9 percent QoQ and 7 percent YoY, demonstrating the bank's ability to generate earnings growth even as margins softened. Fee income emerged as a key growth driver, increasing 12 percent YoY, with granular fees accounting for 92 percent of total fees. Retail fee income also grew by 12 percent YoY, highlighting the bank's strong franchise in transaction-based and customer-driven revenue streams.

Cost Efficiency and Operating Leverage

A notable feature of Axis Bank's Q3 FY26 performance was the continued improvement in cost efficiency. The cost-to-assets ratio declined to 2.33 percent, down 15 basis points YoY and 5 basis points QoQ, enabling the bank to deliver a positive operating jaw for the first nine months of FY26. This improvement reflects disciplined

Driving Policy, Empowering Progress

cost management, operating leverage from business growth, and efficiency gains from digital adoption.

The decline in the cost of funds by 39 basis points YoY and 8 basis points QoQ further supported profitability, partly offsetting the pressure on margins and reinforcing the bank's earnings resilience.

Deposits: Broad-Based Growth with Strong CASA

Axis Bank reported strong deposit growth across all segments, supported by healthy CASA inflows. On a YoY basis, total deposits grew 15 percent on MEB basis and 12 percent on QAB basis, while term deposits increased by 16 percent and 14 percent, respectively. Current account (CA) deposits recorded robust growth of 20 percent YoY, and savings account (SA) deposits grew 11 percent YoY.

Sequentially, deposits expanded by 5 percent QoQ, with balanced growth across term deposits, CA, and SA balances. The CASA ratio stood at 39 percent, remaining among the strongest across large peer banks, reinforcing Axis Bank's stable and relatively low-cost funding profile.

Advances Growth: Focus on Granular and Business Segments

On the asset side, advances grew by 14 percent YoY and 4 percent QoQ, with the bank's focus segments expanding at a healthy pace. The SBB, SME, and mid-corporate (MC) portfolio reached ₹2,800 billion, accounting for 24 percent of total loans, an increase of around 705 basis points over the last four years.

SME loans grew by 22 percent YoY, while corporate loans rose by 27 percent YoY, led by strong momentum in the mid-corporate segment. Retail loans grew at a more moderate 6 percent YoY, though retail disbursements were strong, increasing 20 percent YoY and 12 percent QoQ. This mix underscores the bank's strategic shift towards higher-yielding and granular segments while maintaining portfolio balance.

Capital, Liquidity, and Digital Strength

Driving Policy, Empowering Progress

Axis Bank remained well capitalised, with an overall capital adequacy ratio of 16.55 percent and a CET-1 ratio of 14.50 percent, including a net accretion of 7 basis points of CET-1 in Q3 FY26. Additional provisioning buffers provided an extra 43 basis points of capital cushion, while liquidity metrics remained strong, with average LCR at around 116 percent and excess SLR holdings of ₹1.38 lakh crore.

The bank continued to strengthen its digital and payments leadership, maintaining a market share of about 39 percent by volume in the UPI payer PSP space, with industry-leading reliability. Axis Bank also remained a major player in merchant acquiring, holding a 21.4 percent terminal market share, and added around one million cards during the quarter. Its mobile banking app remained among the highest-rated in the industry, supported by a large and growing user base.

Asset Quality: Stability and Improvement

Asset quality indicators showed continued improvement and stability. The gross NPA ratio declined to 1.40 percent, while the net NPA ratio improved to 0.42 percent. Credit costs remained contained, with the net credit cost at 0.76 percent, lower than a year earlier. Excluding technical impacts, slippage ratios and credit costs showed sharper YoY improvements, indicating underlying asset quality strength across portfolios.

Subsidiaries: Healthy Contribution to Group Earnings

Axis Bank's subsidiaries delivered healthy performance, with domestic subsidiaries reporting PAT of ₹1,490 crore in 9MFY26, up 6 percent YoY. Axis Finance, Axis AMC, Axis Securities, and Axis Capital all posted solid earnings growth, underscoring the strength and diversification of the group's financial services platform.

Conclusion

Axis Bank's Q3 FY26 performance highlights a balanced growth strategy anchored in strong deposit mobilisation, disciplined cost management, granular credit expansion, and stable asset quality. While margin pressures persist in a competitive environment, improving efficiency, robust capital buffers, and leadership in digital and payments

Driving Policy, Empowering Progress

position the bank well for sustained growth. Overall, the results underscore Axis Bank's ability to deliver profitable growth while maintaining resilience across cycles.

KOTAK MAHINDRA BANK Q3 FY26: STEADY PROFITS AND STRONG CAPITAL CUSHION DEFINE PERFORMANCE

Introduction

Kotak Mahindra Bank delivered a stable and balanced performance in the third quarter of FY26, marked by steady profit growth, robust expansion in customer assets, and strong capital and liquidity buffers. While profitability was modestly impacted by incremental costs arising from the implementation of the new Labour Code, the bank's core operating fundamentals remained resilient. Both consolidated and standalone results highlight Kotak's continued focus on prudent growth, balance sheet strength, and asset quality discipline.

Consolidated Performance: Profitability and Balance Sheet Expansion

At the consolidated level, profit after tax (PAT) rose to ₹4,924 crore in Q3 FY26, registering a 5 percent year-on-year (YoY) increase and a 10 percent sequential rise. The quarter's results include an estimated incremental post-tax cost of ₹98 crore related to the new Labour Code, suggesting that underlying profitability would have been higher in its absence.

Consolidated customer assets expanded by 15 percent YoY to ₹5.99 lakh crore, reflecting healthy growth in advances and credit substitutes. Total customer assets under management also increased by 15 percent YoY to ₹7.88 lakh crore, supported by strong traction in asset management businesses. Notably, domestic mutual fund assets under management rose by 20 percent YoY, underscoring Kotak's growing presence in fee-generating investment products.

The bank's consolidated net worth increased to ₹1.75 lakh crore, while book value per share rose by 15 percent YoY to ₹176, reflecting sustained internal capital generation.

Driving Policy, Empowering Progress

Profitability ratios remained healthy, with annualised ROA at 2.10 percent and ROE at 11.39 percent.

Standalone Business Growth: Advances and Deposits

Kotak Mahindra Bank's standalone performance was anchored by strong balance sheet growth. Net advances increased by 16 percent YoY to ₹4.81 lakh crore, while customer assets grew by 15 percent YoY to ₹5.29 lakh crore. This expansion was well supported by deposit mobilisation, with total period-end deposits rising by 15 percent YoY to ₹5.43 lakh crore.

Average deposits also recorded similar growth, driven by a broad-based increase across deposit categories. Average term deposits grew by a strong 19 percent YoY, while current and savings account balances grew in double digits. The CASA ratio stood at 41.3 percent, reflecting a stable and granular funding profile. Importantly, the cost of funds declined to 4.54 percent, down sharply from a year earlier, providing support to net interest income despite margin pressures.

Income and Operating Performance

Net Interest Income (NII) rose by 5 percent YoY to ₹7,565 crore, supported by loan growth and a lower cost of funds. However, net interest margin (NIM) moderated to 4.54 percent, down from 4.93 percent in the year-ago quarter, reflecting the impact of repricing in a competitive interest rate environment.

Fee and services income increased by 8 percent YoY to ₹2,549 crore, highlighting the bank's ability to generate diversified non-interest income. Operating expenses rose by 8 percent YoY to ₹5,023 crore, including an estimated ₹96 crore incremental cost due to the new Labour Code. Excluding this impact, expense growth remained moderate at 6 percent YoY, underscoring effective cost control.

As a result, operating profit increased by 4 percent YoY to ₹5,380 crore, while cost-to-income ratio stood at 48.3 percent, improving to 47.4 percent when adjusted for the Labour Code impact.

Driving Policy, Empowering Progress

Asset Quality and Credit Costs

Asset quality indicators continued to improve. As of December 31, 2025, the gross NPA ratio declined to 1.30 percent, while the net NPA ratio improved to 0.31 percent, reflecting sustained recoveries and controlled slippages. The provision coverage ratio stood at 76 percent, providing a comfortable buffer against potential stress.

Credit costs remained contained, with the annualised credit cost declining to 0.63 percent, lower than both the year-ago and preceding quarter levels. Provisions during the quarter amounted to ₹810 crore, down sequentially, indicating a benign credit environment.

Capital and Liquidity: A Key Strength

Kotak Mahindra Bank continued to maintain one of the strongest capital positions among large Indian banks. The standalone capital adequacy ratio stood at 22.6 percent, with a CET-1 ratio of 21.5 percent, well above regulatory requirements. At the consolidated level, capital adequacy was 23.3 percent, while liquidity remained ample, with an average Liquidity Coverage Ratio (LCR) of 135 percent during the quarter.

Conclusion

Kotak Mahindra Bank's Q3 FY26 results underline a strategy of steady growth backed by balance sheet strength and prudent risk management. While profitability growth was modestly tempered by one-off regulatory costs and margin moderation, strong asset quality, robust capital buffers, and healthy expansion in customer assets provide a solid foundation for sustainable growth. Overall, the bank remains well positioned to navigate evolving market conditions while continuing to deliver stable returns.

BANK OF BARODA Q3 FY26: STEADY PROFIT GROWTH AMID HIGHER PROVISIONS

Introduction

Driving Policy, Empowering Progress

Bank of Baroda (BoB) delivered a steady financial performance in the third quarter of FY26, marked by moderate revenue growth, improved profitability, and a conscious strengthening of provisioning buffers. The bank reported growth in both top-line and bottom-line metrics on a quarter-on-quarter (QoQ) and year-on-year (YoY) basis, reflecting improved operating momentum amid a challenging macro-financial environment. At the same time, a sharp rise in provisions indicates a cautious and forward-looking approach to balance sheet risk management.

Revenue Performance: Consistent Top-Line Expansion

In Q3 FY26, Bank of Baroda reported a total income of ₹39,999 crore, registering a 4.1 percent QoQ increase and a 6.0 percent YoY growth. The expansion in total income suggests steady traction in the bank's core banking operations, supported by a combination of interest income and non-interest revenue streams. Although segment-wise details are not available, the growth trajectory indicates resilience in revenue generation amid competitive pressures in both lending and deposit markets.

Profitability: Bottom-Line Growth Supported by Lower Tax Outgo

Profitability metrics improved sequentially and annually. Profit before tax (PBT) rose to ₹7,023.53 crore, up 4.9 percent QoQ and 1.3 percent YoY. More notably, profit after tax (PAT) increased to ₹5,500.66 crore, reflecting a 6.2 percent QoQ rise and a 4.8 percent YoY increase.

A key contributor to the improvement in net profit was a reduction in tax expenses. Tax outgo declined marginally by 0.5 percent QoQ and sharply by 11.1 percent YoY, easing pressure on net earnings. As a result, earnings per share (EPS) stood at ₹10.53, up 6.0 percent QoQ and 4.5 percent YoY, underscoring the bank's improved shareholder returns.

Operating Metrics: Controlled Costs with Higher Provisions

Total expenses for the quarter amounted to ₹30,347.36 crore, reflecting a 1.4 percent QoQ increase and a 3.6 percent YoY rise. The relatively modest growth in expenses

Driving Policy, Empowering Progress

compared to income growth points to improving operating efficiency, even as the bank continues to invest in operations and compliance.

However, a standout feature of Q3 FY26 was the sharp increase in provisions and contingencies, which rose to ₹2,628.11 crore, marking a 46.2 percent QoQ increase and a 75.6 percent YoY jump. This significant rise suggests a deliberate strategy to strengthen buffers against potential credit stress and improve balance sheet resilience. While higher provisions weighed on operating profitability, they enhance the bank's capacity to absorb future shocks.

Strategic Positioning

As a major public sector bank, Bank of Baroda maintains a strong domestic presence complemented by operations in several international markets. Its diversified portfolio spanning retail banking, corporate lending, and treasury operations provides stability across economic cycles. While no major strategic announcements were highlighted during the quarter, the financial results indicate a continued focus on steady growth, risk containment, and balance sheet strengthening.

Conclusion

Bank of Baroda's Q3 FY26 performance reflects a measured and balanced approach to growth, combining steady revenue expansion with improved profitability and enhanced provisioning. While the sharp rise in provisions points to a cautious stance on asset quality, the bank's ability to grow income faster than expenses and improve net profits highlights strengthening operational fundamentals. Going forward, sustained revenue momentum and prudent risk management will be key to maintaining profitability in an increasingly competitive banking environment.



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SECTION 2: GLOBAL ECONOMY

GLOBAL ECONOMIC OUTLOOK

FROM RECOVERY TO RENEWAL: GLOBAL ECONOMIC PROSPECTS

World Bank's *Global Economic Prospects, January 2026* assesses a world economy that has demonstrated remarkable resilience in the face of successive shocks, but one that is increasingly constrained by structural weakness, policy fragmentation, and declining long-term growth potential. While a global recession has been avoided, the report cautions that the post-pandemic recovery has entered a phase of subdued momentum, with widening divergence between countries and insufficient growth to meet development and employment needs.

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Global Growth: Stability Without Momentum

Global GDP growth is estimated at 2.7 percent in 2025 and is projected to moderate to 2.6 percent in 2026, before stabilising near 2.7 percent in 2027. Easing inflation has allowed central banks—particularly in advanced economies—to begin loosening monetary policy, improving financial conditions and supporting demand. However, the report underscores that the transmission of monetary easing to real activity is expected to be slow and uneven, as high public debt, trade barriers, and elevated uncertainty dampen investment.

Divergence as the Defining Feature of the Recovery

A defining message of the GEP is the deepening divergence in global economic outcomes. Nearly 90 percent of advanced economies have regained or exceeded pre-pandemic per capita income levels. By contrast, more than one-quarter of emerging market and developing economies (EMDEs)—and over one-third of low-income countries—remain below their 2019 income levels. This divergence reflects differences in fiscal space, institutional capacity, productivity growth, and access to finance, raising concerns about a more fragmented and unequal global economy.

Trade, Commodities, and Financial Conditions

Global trade growth, which benefited in 2025 from inventory front-loading ahead of anticipated tariff increases, is projected to slow sharply in 2026 as these temporary effects fade. Trade fragmentation and higher barriers are expected to exert a persistent drag on cross-border investment and productivity growth. Commodity prices—especially energy—are forecast to soften, easing inflationary pressures but also weighing on exporters. Financial conditions have eased since mid-2025, improving capital flows to EMDEs, but the report warns that this window could close quickly if asset prices correct or geopolitical risks intensify.

EMDEs: Growth That Falls Short of Development Needs

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Growth in EMDEs is projected to ease from 4.2 percent in 2025 to around 4.0 percent in 2026–27. China’s structural slowdown remains a key drag, while EMDEs excluding China are expected to see modest strengthening later in the forecast horizon. However, the report stresses that these growth rates are insufficient to generate adequate employment, particularly as more than 1.2 billion people are expected to enter the working-age population in EMDEs by 2035. Without faster productivity growth and deeper structural transformation, demographic pressures could become an economic liability rather than a dividend.

India: A Pillar of Global Growth

Within this challenging global landscape, the World Bank identifies India as one of the fastest-growing major economies and a key contributor to global growth. India’s growth estimate for 2025-26 has been upgraded from 6.3 percent to 7.2 percent, and is projected to remain in the mid-6 percent range over the medium term, supported by strong domestic demand, sustained public infrastructure investment, a gradual revival in private capital expenditure, and the continued expansion of services exports, particularly in IT and business services. The report highlights India’s improved macroeconomic stability, healthier corporate and banking balance sheets, and ongoing structural reforms as sources of resilience relative to many peer EMDEs. At the same time, it underscores critical medium-term challenges—most notably, the need to accelerate job creation, deepen manufacturing-led value addition, and strengthen human capital outcomes to fully realise the demographic dividend. External risks, including trade fragmentation, financial volatility, and climate shocks, remain significant.

Risks Remain Skewed to the Downside

The balance of risks to the global outlook is decidedly negative. Escalating trade tensions, sharper-than-expected tightening in financial conditions, asset price corrections, geopolitical conflicts, and climate-related disruptions could materially weaken growth. The report estimates that in a downside scenario involving a sharp fall

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in equity valuations and confidence, global growth in 2026 could be up to 0.3 percentage points lower than the baseline. Upside risks are more limited, largely hinging on faster diffusion of AI-driven productivity gains and sustained adaptability to trade fragmentation.

Fiscal Space and the Case for Credible Rules

A major analytical focus of this edition is the role of fiscal rules in rebuilding policy credibility and restoring fiscal space. Public debt in EMDEs has risen to a 55-year high, severely constraining counter-cyclical policy. The World Bank finds that well-designed fiscal rules—supported by strong institutions, transparency, and enforcement—are associated with improved fiscal outcomes, particularly when introduced during periods of economic strength. However, fiscal rules must be complemented by reforms in revenue mobilisation, expenditure efficiency, and debt management to be effective.

From Resilience to Renewal

The overarching message of *Global Economic Prospects, January 2026* is clear: resilience alone is not enough. Without renewed global cooperation and decisive domestic reforms, the world risks settling into a prolonged period of low growth, high debt, and widening inequality. For EMDEs, including India, the challenge is to convert macroeconomic stability into sustained productivity growth, job creation, and inclusive development.

The full report can be accessed from: <https://shorturl.at/3olpB>

RESILIENCE WITH RISKS: GLOBAL GROWTH, INFLATION, AND POLICY TRADE-OFFS IN THE IMF'S JANUARY 2026 OUTLOOK

Global Growth Outlook: Resilience amid Diverging Forces

The IMF's *World Economic Outlook Update January 2026* projects global growth to remain steady at 3.3 percent in 2026, before moderating marginally to 3.2 percent in 2027, broadly unchanged from recent years. This headline stability conceals divergent growth drivers across regions and sectors. While tighter financial conditions and trade

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policy uncertainty continue to act as drags, these headwinds are being offset by robust investment in digital technologies, particularly artificial intelligence (AI), and supportive macroeconomic policies in major economies.

The IMF characterises the current phase as one of “stable but fragile” expansion, where growth is increasingly dependent on a narrow set of sectors and economies, heightening vulnerability to shocks.

Inflation Trajectory: Gradual Disinflation, Uneven Convergence

Global inflation is projected to continue its downward path, easing from 4.1 percent in 2025 to 3.8 percent in 2026 and 3.4 percent in 2027. The disinflation process is supported by softer energy prices, easing supply-side pressures, and moderation in demand.

However, inflation convergence remains uneven. Advanced economies are expected to return to target levels at different speeds, with the United States facing slower convergence due to tariff-related cost pass-through and persistent services inflation. In several emerging market economies, inflation risks are more closely tied to exchange rate movements and food price volatility.

Advanced Economies: Modest Growth, Technology-Led Support

Growth in advanced economies is projected at 1.8 percent in 2026, reflecting modest domestic demand and limited fiscal space. The United States remains the key driver, supported by strong fiscal impulses and investment in AI-related infrastructure. In contrast, the euro area continues to face structural constraints, weak productivity growth, and subdued investment sentiment.

Japan’s growth moderates, despite accommodative fiscal measures, highlighting demographic constraints and weak consumption dynamics. Overall, advanced economy growth remains below pre-pandemic averages, with technology investment providing only partial offset.

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Emerging Market and Developing Economies: Growth with Constraints

Emerging market and developing economies (EMDEs) are projected to grow slightly above 4 percent, though momentum varies widely across countries.

India's growth has been revised upward to 7.3 percent in 2025, reflecting strong domestic demand and public investment, before moderating to 6.4 percent in 2026–27 as cyclical support fades.

China's near-term growth benefits from policy stimulus and a temporary easing of trade tensions but slows over the medium term due to property sector stress, demographic headwinds, and weaker productivity growth.

The IMF notes that EMDEs face heightened exposure to global financial conditions, capital flow volatility, and rising debt servicing costs.

Key Risks: Trade, Geopolitics, and Financial Stability

The outlook is subject to elevated downside risks. Renewed trade tensions, particularly involving major economies, pose a significant threat to global growth. Geopolitical conflicts could disrupt energy and commodity markets, reigniting inflationary pressures.

Financial stability risks are also rising. High equity valuations—especially concentrated in a narrow set of technology firms—combined with increased reliance on non-bank financial intermediaries, could amplify market volatility. High public debt and rising sovereign yields further constrain fiscal policy space in several economies.

Upside Potential: AI, Productivity, and Structural Reforms

On the upside, the IMF highlights AI-driven productivity gains as a potential game-changer for medium-term growth. Faster and broader diffusion of AI technologies could lift output, wages, and investment, provided complementary policies are in place.

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However, realising these gains will require investment in energy infrastructure, workforce reskilling, data governance, and competition policy, to avoid widening inequality and sectoral concentration.

Policy Priorities: Balancing Growth, Stability, and Credibility

The IMF underscores the need for data-dependent monetary policy, with central banks maintaining credibility while responding flexibly to evolving inflation dynamics. Fiscal policy should focus on credible medium-term consolidation, prioritising growth-enhancing public investment and social protection.

Structural reforms—particularly those aimed at boosting productivity, improving labour market flexibility, and strengthening financial regulation—are essential to sustaining growth in an increasingly uncertain global environment.

Conclusion: Stability without Comfort

The January 2026 WEO Update presents a picture of global growth that is stable but increasingly reliant on narrow drivers, with risks tilted to the downside. While inflation is easing and recession risks have receded, the global economy remains vulnerable to policy missteps, geopolitical shocks, and financial market corrections. Sustaining growth will depend critically on prudent macroeconomic management and accelerated structural transformation.

The full report can be accessed from:

<https://www.imf.org/-/media/files/publications/weo/2026/january/english/text.pdf>

GLOBAL GROWTH AT A CROSSROADS: WEF CHIEF ECONOMISTS' OUTLOOK – JANUARY 2026

Global Macro Outlook: Resilience with a Downside Bias

The global economy enters 2026 with cautious resilience but a clear downside tilt. The *World Economic Forum Chief Economists' Outlook January 2026*, indicates that a majority (53 percent) of chief economists expect global economic conditions to weaken

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over the year ahead, though sentiment has improved markedly from late 2025. This moderation reflects the economy's ability to absorb successive shocks—tight financial conditions, geopolitical conflict, and trade fragmentation—without tipping into recession. However, growth momentum remains fragile, and confidence is contingent on avoiding financial and geopolitical tail risks .

Financial Stability Risks: Asset Valuations and Debt Overhang

A central concern is the disconnect between financial markets and macro fundamentals. Global equity markets, particularly US AI-linked stocks, have sustained strong gains, pushing valuations into historically elevated territory. While some economists argue that profitability and real investment distinguish this cycle from past bubbles, others warn of concentrated asset booms and abrupt correction risks.

Simultaneously, public and private debt levels have moved to the forefront of macro vulnerability. Years of accommodative policy and crisis-driven borrowing have constrained fiscal space, particularly as governments face rising defence, energy, and digital infrastructure spending needs. The combination of high debt and elevated real interest rates has sharpened debates over fiscal sustainability and the appropriate calibration of monetary policy.

Monetary and Fiscal Policy: Narrowing Room for Manoeuvre

Policy trade-offs are intensifying across advanced and emerging economies. While inflation has eased from post-pandemic peaks, it remains uneven and region-specific, limiting the scope for aggressive easing. Expectations are increasingly skewed toward gradual or selective monetary loosening, led by the United States, while Europe and several emerging markets remain more cautious.

On the fiscal side, priorities are shifting decisively toward defence, digital infrastructure, energy security, and AI-related investments. In contrast, spending on

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education, environmental protection, and transport is expected to stagnate or decline, raising concerns about long-term productivity, climate transition, and social cohesion .

Geoeconomics and Trade: Fragmentation without Collapse

Global trade is adapting rather than contracting. Despite record-high trade policy uncertainty, overall trade volumes have remained robust, reflecting rerouting rather than retreat. Chief economists overwhelmingly expect an expansion in bilateral and regional trade agreements, as countries pursue economic security, resilient supply chains, and access to critical technologies and minerals.

US–China relations remain characterised by managed tension: tariffs are expected to persist, technology restrictions may intensify, and China is redirecting exports toward Europe and emerging Asia. This evolving trade geography is reshaping foreign direct investment flows, producing divergent regional prospects rather than a uniform global slowdown.

Artificial Intelligence: Productivity Promise with Uneven Diffusion

AI adoption emerges as the most significant medium-term opportunity and risk for the global economy. Chief economists broadly agree on AI’s productivity potential, particularly through investments in data centres, energy infrastructure, and advanced computing. However, the pace and distribution of gains are expected to be highly uneven across regions, industries, and firm sizes.

Labour market impacts remain uncertain. While short-term disruption is expected to be modest, longer-term outcomes depend critically on skills, diffusion to SMEs, regulatory frameworks, and energy constraints. The risk is that AI remains a capital-intensive, concentrated phenomenon—boosting valuations without delivering broad-based productivity gains.

Regional Growth Divergence: A Multi-Speed World

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- **United States:** Growth is supported by AI-driven investment and resilient consumption, but elevated inflation expectations and large fiscal deficits pose medium-term risks.
- **China:** Growth is stabilising around technology-led exports and AI investment, even as deflationary pressures, property sector stress, and external frictions persist.
- **Europe:** The weakest outlook among major regions, constrained by demographics, policy fragmentation, war-related fiscal pressures, and slower AI uptake.
- **South Asia:** The brightest growth spot globally, anchored by India's reform momentum, macro stability, and accelerating AI adoption, despite rising trade headwinds.
- **Sub-Saharan Africa and Latin America:** Confront debt constraints and structural challenges, with limited fiscal and AI-driven growth support.

Strategic Implications: Managing Risk while Enabling Transformation

The prevailing global mood is one of vigilant anticipation. The next phase of the global economy will be shaped less by cyclical stimulus and more by policy choices **around** technology diffusion, fiscal prioritisation, trade architecture, and institutional reform. Whether AI becomes a broad-based productivity engine or a narrow asset-price phenomenon will depend on decisions taken in the next few years.

As 2026 unfolds, the challenge for policymakers and business leaders is to convert resilience into renewal—managing near-term risks while laying foundations for inclusive, productivity-led growth in a more fragmented and uncertain global order

The full report can be accessed from:

https://reports.weforum.org/docs/WEF_Chief_Economists_Outlook_January_2026.pdf

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The global economy in 2026 is no longer moving along a single recovery path. As highlighted in EY's *Global Economic Outlook: Navigating a Bifurcated Landscape*, the world is entering a phase of structural divergence, marked by uneven growth trajectories, asynchronous monetary easing, and growing fragmentation across regions, sectors, and income groups. The post-pandemic rebound has given way to a more complex environment in which resilience and vulnerability coexist—often within the same economy.

A Bifurcated Recovery Takes Shape

EY characterises the current global phase as one of bifurcation rather than synchronisation. Advanced economies are grappling with subdued growth, ageing demographics, and lingering inflation persistence, while several emerging market economies (EMEs) continue to benefit from domestic demand strength, public investment, and structural reforms. This divergence is being reinforced by differences in inflation dynamics, labour market tightness, and fiscal space, resulting in sharply different policy responses across regions.

Global growth remains positive but modest, with downside risks skewed by geopolitical tensions, trade fragmentation, and climate-related shocks. The outlook is no longer about avoiding recession alone, but about managing low potential growth and rising volatility.

Inflation: Cooling, But Not Conquered

A central theme of EY's outlook is that inflation has eased but not disappeared. Headline inflation has moderated across most economies as supply chain pressures have normalised and energy prices softened. However, core inflation remains sticky, particularly in services, reflecting tight labour markets and wage pressures in advanced economies.

This persistence complicates the policy environment. Central banks face a narrow path: easing too quickly risks reigniting inflation, while prolonged tightness could further

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suppress growth and investment. As a result, monetary policy divergence is becoming more pronounced, contributing to financial market volatility and capital flow pressures, particularly for emerging economies.

Monetary Policy: The Era of Asynchronous Easing

Unlike previous cycles, 2026 is witnessing asynchronous monetary easing. Some emerging economies, having tightened early, have greater scope to cut rates, while several advanced economies remain cautious due to services inflation and fiscal dominance concerns. EY underscores that interest rates are likely to remain structurally higher than in the pre-pandemic decade, reshaping investment decisions, asset valuations, and public debt sustainability.

Financial conditions, therefore, remain fragile. High debt levels—both public and private—limit policy flexibility and raise the risk of disorderly adjustments if growth disappoints or financial stress intensifies.

Fiscal Policy: From Stimulus to Selectivity

Fiscal policy has shifted from broad-based stimulus to targeted and selective intervention. Governments are increasingly prioritising infrastructure, energy transition, defence, and strategic industries, reflecting both economic and geopolitical imperatives. However, high debt and rising interest costs constrain fiscal manoeuvrability, especially in advanced economies.

EY notes that fiscal credibility and policy consistency will be critical in maintaining investor confidence. Countries with clear medium-term fiscal frameworks and growth-enhancing expenditure composition are better positioned to navigate the current environment.

Geopolitics and Fragmentation: Economics Meets Strategy

The presentation highlights how geopolitical fragmentation is reshaping global economics. Trade realignment, friend-shoring, and strategic decoupling are altering

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supply chains and investment flows. While these shifts may enhance resilience for some, they also raise costs, reduce efficiency, and dampen global growth.

Fragmentation is particularly evident in technology, energy, and critical minerals, where economic decisions are increasingly influenced by national security considerations. EY cautions that sustained fragmentation could entrench a lower-growth, higher-cost global equilibrium.

Emerging Markets: Divergence Within the Divergence

EY's outlook stresses that emerging markets are not a monolith. Some EMEs—particularly those with strong domestic demand, reform momentum, and manageable external balances—are positioned to outperform. Others remain vulnerable to capital flow volatility, debt stress, and climate shocks.

India and parts of Southeast Asia stand out as relative bright spots, supported by demographics, digitalisation, and public investment, while commodity-dependent and highly indebted economies face greater headwinds.

Structural Forces Reshaping the Outlook

Beyond cyclical dynamics, EY identifies several structural forces shaping the medium-term outlook:

- Demographic divergence, with ageing populations weighing on growth in advanced economies
 - Digital transformation and AI, offering productivity gains but also labour market disruption
 - Climate transition, requiring massive investment while posing transition and physical risks
 - Debt overhangs, limiting counter-cyclical capacity and amplifying shocks
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These forces reinforce the bifurcated nature of the global economy, creating winners and losers across regions and sectors.

Implications for Business and Policymakers

The key message from EY’s Global Economic Outlook is that volatility is becoming structural. Businesses must plan for a world of higher uncertainty, fragmented markets, and shifting policy regimes. Policymakers, meanwhile, must balance stabilisation with long-term competitiveness—investing in productivity, skills, and resilience while preserving macroeconomic credibility.

Conclusion: Managing Divergence, Building Resilience

“Navigating a bifurcated landscape” is not a temporary challenge but a defining feature of the global economy in the years ahead. The EY outlook underscores that success in 2026 and beyond will depend less on cyclical tailwinds and more on institutional strength, policy coherence, and strategic adaptability. In a world moving at different speeds, resilience—not synchronisation—will be the cornerstone of sustainable growth.

FROM POLYCRISIS TO PREPAREDNESS: GLOBAL RISKS IN AN AGE OF FRAGMENTATION

The *Global Risks Report 2026* of the World Economic Forum, presents a sobering assessment of a world entering a period of heightened fragility and compounding systemic risks. Drawing on the views of global experts, policymakers, business leaders, and academics, the report argues that the global risk landscape is no longer dominated

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by isolated shocks, but by interconnected and reinforcing crises—spanning geopolitics, climate change, economic stress, technological disruption, and societal fragmentation. The coming decade, the report warns, will test the capacity of institutions and governance frameworks to manage risks that are increasingly non-linear, cross-border, and persistent.

A World of Overlapping Crises

At the core of the 2026 assessment is the notion of polycrisis: a situation in which multiple crises interact in ways that amplify their individual impacts. Economic instability, geopolitical confrontation, climate stress, and technological disruption are no longer sequential challenges; they are unfolding simultaneously, often reinforcing one another. The report cautions that this interaction significantly raises the probability of systemic breakdowns, particularly in regions with weak institutions and limited fiscal or social buffers.

Top Global Risks: Short, Medium, and Long Term

The report classifies risks across three time horizons, revealing a shift from immediate geopolitical and economic threats to longer-term structural and environmental dangers.

- Short-term risks (next 2 years) are dominated by geopolitical tensions, interstate conflict, economic volatility, and misinformation and disinformation, particularly amplified by generative artificial intelligence. Rising protectionism, contested elections, and fragile ceasefires heighten the risk of sudden escalation.
 - Medium-term risks (2–5 years) include economic stagnation, sovereign debt distress, supply chain disruptions, and social polarisation, driven by unequal growth, fiscal constraints, and declining trust in institutions.
 - Long-term risks (5–10 years) are overwhelmingly environmental and technological, with climate change, biodiversity loss, ecosystem collapse, and uncontrolled technological externalities posing existential threats to economic and social stability.
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The report highlights that environmental risks dominate the top-ranked threats over the long term, underscoring the failure to adequately address climate mitigation and adaptation despite repeated warnings.

Geopolitical Fragmentation and the Return of Power Politics

A defining feature of the 2026 risk outlook is the erosion of multilateralism. Strategic competition among major powers has intensified, resulting in fragmented trade systems, weaponisation of economic interdependence, and weakening global cooperation on shared challenges. The report notes that geopolitical rivalry increasingly constrains collective action on climate change, debt relief, pandemic preparedness, and digital governance—exacerbating vulnerabilities, especially in developing economies.

Economic Risks: Low Growth, High Debt, and Inequality

Economic risks remain deeply embedded in the global outlook. Persistently low growth, high interest rates, and elevated public and private debt levels constrain governments' ability to respond to shocks. The report warns that debt distress in developing economies, combined with fiscal consolidation pressures, could lead to underinvestment in health, education, and climate resilience—further entrenching inequality. Rising cost-of-living pressures and uneven recovery threaten social cohesion and political stability across regions.

Technology as a Double-Edged Sword

Technological risks feature prominently in the 2026 report. While digitalisation and AI offer productivity gains and solutions to complex problems, the report highlights mounting concerns over misinformation, cyber insecurity, algorithmic bias, and concentration of technological power. Generative AI, in particular, is identified as a catalyst that could accelerate both innovation and instability, especially in the absence of robust governance frameworks. The erosion of trust—exacerbated by deepfakes and

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synthetic media—is seen as a critical threat to democratic processes and social cohesion.

Climate and Environmental Risks: The Defining Threat of the Decade

Environmental risks dominate the long-term horizon. The report warns that failure to curb emissions and adapt to climate impacts will lead to more frequent extreme weather events, food and water insecurity, forced migration, and economic disruption. Biodiversity loss and ecosystem collapse are highlighted as underappreciated risks that undermine natural capital and long-term growth. The report stresses that climate risks are no longer distant or abstract—they are already reshaping economic outcomes and geopolitical dynamics.

Social Fragmentation and Governance Stress

The erosion of trust in institutions, rising inequality, demographic pressures, and polarisation pose significant risks to governance. The report identifies social cohesion erosion as both a risk in itself and a force multiplier for other threats, reducing societies' ability to respond collectively to crises. Weak governance amplifies the impact of shocks, turning manageable risks into systemic failures.

From Risk Identification to Risk Preparedness

A key contribution of the *Global Risks Report 2026* is its emphasis on preparedness over prediction. The report argues that many of today's risks are well known; the failure lies in inadequate coordination, short-term policymaking, and insufficient investment in resilience. It calls for renewed commitment to global cooperation, stronger national institutions, and forward-looking policies that integrate economic, environmental, and technological risk management.

The Central Message

The overarching conclusion of the *Global Risks Report 2026* is stark: the world is entering a decisive decade. Choices made now—on climate action, technological



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governance, economic inclusion, and geopolitical cooperation—will determine whether global risks remain manageable or escalate into cascading crises. Resilience will depend not only on economic strength, but on institutional trust, policy coherence, and collective action.

The full report can be accessed from:

https://reports.weforum.org/docs/WEF_Global_Risks_Report_2026.pdf

MONETARY POLICY

US FEDERAL RESERVE HOLDS RATES STEADY: POLICY CAUTION AMID INFLATION PERSISTENCE AND LABOUR MARKET STABILISATION

Introduction

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At its January 28, 2026 meeting, the US Federal Reserve opted to maintain the target range for the federal funds rate at 3.50–3.75 percent, signalling a continuation of its data-dependent approach amid an economy expanding at a “solid pace,” stabilising labour market conditions, and inflation that remains “somewhat elevated”. The decision, however, was not unanimous, reflecting emerging divergences within the Federal Open Market Committee (FOMC) over the appropriate timing of policy easing. This policy stance must be interpreted alongside the Fed’s reaffirmed longer-run monetary policy framework, which continues to anchor inflation expectations at 2 percent while emphasising flexibility in achieving maximum employment.

Current Policy Stance and Economic Assessment

The FOMC’s January statement underscores a cautious balance between progress and persistence. Economic activity is assessed to be expanding at a solid pace, while job gains have moderated and the unemployment rate shows signs of stabilisation. Inflation, although off its peaks, remains above the Federal Reserve’s comfort zone, justifying the decision to hold rates steady rather than initiate an easing cycle. Notably, the Committee acknowledged that uncertainty about the economic outlook remains elevated, a formulation that has become central to recent Fed communications. This uncertainty stems not only from domestic inflation dynamics but also from global financial conditions and international developments, all of which the Committee explicitly lists as inputs into its policy assessment.

Internal Dissent and the Emerging Policy Debate

While the majority supported maintaining rates, two members, Stephen I. Miran and Christopher J. Waller, voted in favour of a 25 basis point rate cut, signalling growing internal debate on whether restrictive policy risks overtightening as labour market momentum softens. This dissent is significant, as it suggests that the threshold for

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easing is being actively debated within the FOMC, even as the official stance remains one of patience.

Such divergence reflects the Fed's broader challenge: inflation is still elevated, but employment conditions no longer appear overheated. The Committee's emphasis on "carefully assessing incoming data" highlights its reluctance to pre-commit to a rate path, reinforcing the primacy of real-time evidence over forward guidance.

Operational Framework and Liquidity Management

From an operational perspective, the Fed reaffirmed its commitment to maintaining ample reserves in the banking system. Key implementation decisions include keeping the interest rate on reserve balances at 3.65 percent, the primary credit rate at 3.75 percent, and continuing overnight repo and reverse repo operations to anchor short-term money market rates within the target corridor.

Importantly, the Fed will continue to roll over Treasury securities at auction and reinvest principal payments from agency securities into Treasury bills. This approach reflects a preference for balance sheet stability while ensuring smooth monetary transmission, particularly in an environment where financial market conditions remain sensitive to liquidity signals.

The Longer-Run Strategy: Anchoring Credibility

The January 2026 reaffirmation of the Statement on Longer-Run Goals and Monetary Policy Strategy provides the conceptual backbone to current decisions. The FOMC reiterates its commitment to a 2 percent inflation target, measured by the personal consumption expenditures (PCE) price index, and emphasises that well-anchored inflation expectations are essential for price stability and moderate long-term interest rates.

Crucially, the statement recognises that maximum employment is not directly measurable and evolves over time due to non-monetary factors. This acknowledgment provides the Fed with necessary discretion to tolerate periods when employment may

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run above or below real-time estimates without triggering mechanical policy responses. The balanced approach outlined in the framework becomes especially relevant when inflation and employment objectives are not fully complementary.

Implications for Global Financial Markets

For global markets, the Fed's decision to hold rates while keeping easing on the table reinforces expectations of a gradual and conditional transition towards policy normalisation. The absence of a clear pivot reduces the risk of abrupt repricing in bond yields and capital flows, particularly in emerging markets sensitive to US monetary conditions.

At the same time, the presence of dissenting votes may keep market expectations of future rate cuts alive, contributing to volatility in yield curves and exchange rates. The Fed's emphasis on financial and international developments as part of its risk assessment signals continued awareness of spillovers beyond US borders.

Conclusion

The January 2026 FOMC decision reflects a Federal Reserve navigating a complex macroeconomic landscape, where inflation progress is incomplete, labour market conditions are stabilising, and uncertainty remains elevated. By holding rates steady while reaffirming its longer-run strategy, the Fed has chosen continuity over haste, credibility over convenience. The coming quarters will test this balance, as incoming data determine whether the internal debate tilts decisively toward easing or continued restraint. For now, US monetary policy remains firmly data-driven, cautiously flexible, and globally consequential.

**BANK OF JAPAN HOLDS RATES AT 0.75% AS INFLATION DEBATE
INTENSIFIES**

Introduction

Driving Policy, Empowering Progress

At its Monetary Policy Meeting concluded on January 23, 2026, the Bank of Japan (BoJ) decided, by an 8–1 majority, to maintain its accommodative monetary stance by keeping the uncollateralized overnight call rate at around 0.75 percent. The decision reflects the BoJ’s continued caution in normalising monetary policy, even as inflation dynamics evolve and global economic conditions improve. Notably, the meeting also revealed a growing internal debate on whether Japan is approaching a phase where upside inflation risks warrant a faster pace of policy tightening.

The Policy Decision and Voting Pattern

The BoJ’s Policy Board reaffirmed its existing guideline for money market operations, signalling continuity rather than acceleration in its policy normalisation path. Governor Kazuo Ueda, along with Deputy Governors and most board members, supported maintaining the call rate at 0.75 percent.

However, Hajime Takata dissented, proposing that the policy rate be raised to around 1.0 percent. His dissent is analytically significant, as it marks a clear view within the Policy Board that Japan’s price stability target has been “more or less achieved” and that risks to prices are now tilted to the upside, particularly in the context of recovering overseas economies. Although his proposal was defeated, the dissent underscores a gradual shift in the balance of risks being discussed within the BoJ.

Interpreting the BoJ’s Cautious Stance

The decision to hold the policy rate steady suggests that the BoJ remains unconvinced that inflation is yet sustainably anchored at levels consistent with its price stability objective. Unlike other major central banks that have already embarked on aggressive tightening cycles, the BoJ continues to prioritise stability and gradualism, reflecting Japan’s long history of deflationary pressures and weak demand-side inflation.

The majority view appears to be that premature tightening could undermine the still-fragile transmission of inflation through wages and domestic demand. The emphasis on

maintaining accommodative financial conditions indicates that the BoJ is keen to avoid policy reversals that could destabilise growth expectations.

Inflation Risks and Global Context

Takata's dissent explicitly referenced recovering overseas economies, highlighting the BoJ's growing sensitivity to global inflation spillovers. As major economies normalise policy and global demand strengthens, imported inflation and exchange rate dynamics could exert upward pressure on Japanese prices.

At the same time, the majority's reluctance to raise rates suggests that the BoJ continues to view such pressures as manageable rather than decisive, preferring to wait for clearer evidence from domestic inflation and wage trends before committing to further tightening.

Policy Signalling and Forward Guidance

By maintaining the policy rate and publishing a clear voting record, the BoJ has reinforced its commitment to transparent and incremental policy adjustment. The announcement of upcoming releases—including the Outlook for Economic Activity and Prices, the Summary of Opinions, and the meeting minutes—signals that forward guidance will remain data-driven and closely scrutinised by markets.

This approach helps anchor market expectations, reducing the risk of abrupt repricing in Japanese bond yields and the yen, while keeping open the possibility of future rate increases should inflation risks intensify.

Conclusion

The January 2026 monetary policy decision highlights a Bank of Japan in transition but not in haste. While the maintenance of the 0.75 percent policy rate underscores continued caution, the presence of a dissent advocating a move to 1.0 percent points to an evolving internal debate on inflation sustainability. As global economic recovery gathers pace and domestic price dynamics mature, the BoJ's challenge will be to

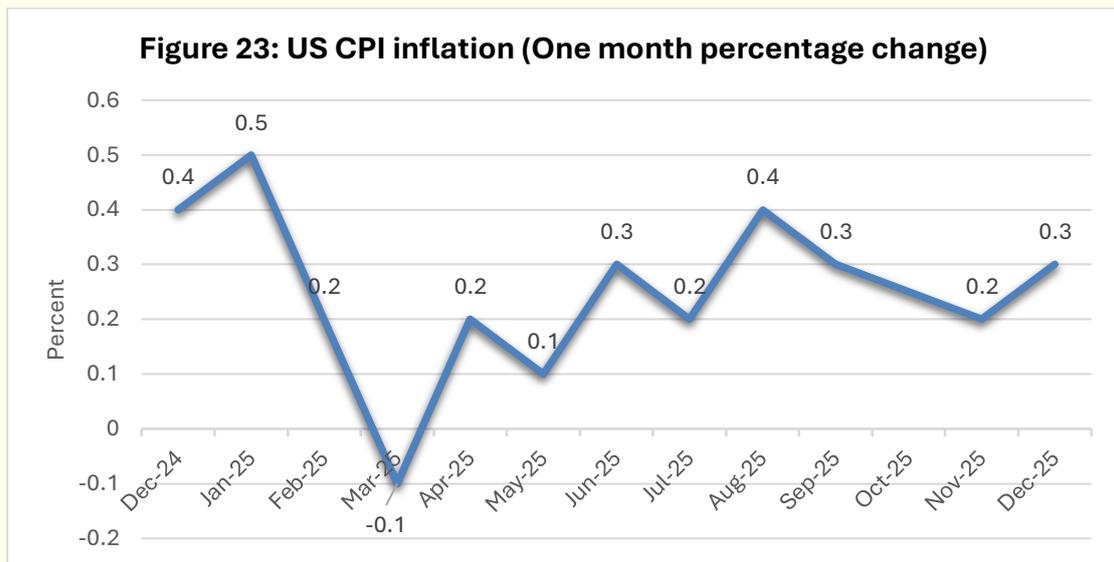
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calibrate its exit from ultra-loose policy without undermining hard-won macroeconomic stability. For now, continuity prevails, but the contours of future tightening are becoming increasingly visible.

INFLATION

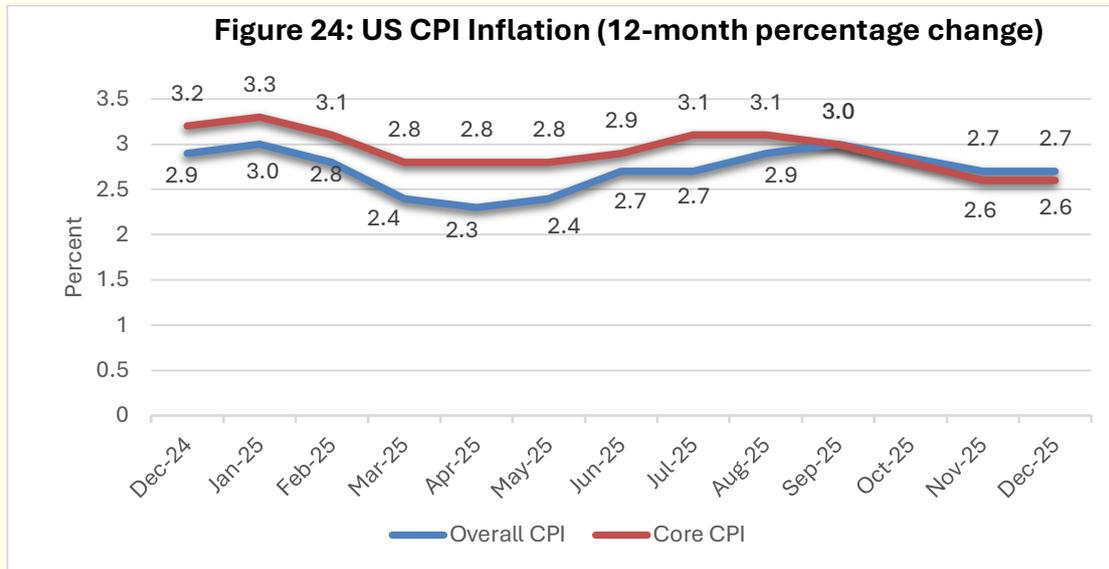
US INFLATION ENDS 2025 STEADY, BUT SERVICES KEEP THE FED ON GUARD

U.S. consumer inflation remained broadly stable at the end of 2025, reinforcing the narrative of a gradual return toward price stability while underlining the Federal Reserve’s challenge in taming services-driven inflation. According to the Bureau of Labor Statistics (BLS), the Consumer Price Index for All Urban Consumers (CPI-U) rose 0.3 per cent month-on-month (seasonally adjusted) in December (Figure 23), while headline inflation stood at 2.7 per cent year-on-year (Figure 24), unchanged from November.



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

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

Headline Stability Masks Diverging Components

The December reading confirmed that overall inflation is no longer accelerating, but it is also not yet decisively converging toward the Federal Reserve’s 2 per cent target. The persistence of inflation reflects a divergence between moderating goods prices and still-elevated services inflation.

Shelter remained the single largest contributor to the monthly increase, rising 0.4 per cent in December and 3.2 per cent over the past year. Although shelter inflation has slowed from its 2023 peaks, it continues to exert upward pressure on the core index, reflecting lagged effects of past rent increases and tight housing supply conditions.

Food prices rose sharply on a monthly basis, with the food index increasing 0.7 per cent in December, driven by gains in both food at home and food away from home. On an annual basis, food inflation stood at 3.1 per cent, with restaurant prices rising faster than grocery prices—an indicator of higher labour and operating costs in the services sector.

Core Inflation: Progress, but Not Victory

Core inflation, measured as CPI excluding food and energy, rose 0.2 per cent month-on-month and 2.6 per cent year-on-year. This marks a meaningful improvement

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compared to earlier phases of the post-pandemic inflation cycle, but it remains above the Fed’s comfort zone.

Within core components, services inflation excluding energy continued to show resilience, rising 3.0 per cent year-on-year (Figure). Medical care services, transportation services, and recreation posted notable monthly increases, underscoring the stickiness of price pressures linked to wages and demand for discretionary services.

By contrast, core goods inflation remained subdued. Prices of used cars and trucks fell 1.1 per cent in December, while household furnishings and communication services also declined, continuing a longer-term trend of deflation in goods categories as supply chains normalize.

Energy: A Mild Rebound with Mixed Signals

Energy prices edged higher, with the energy index rising 0.3 per cent in December and 2.3 per cent over the year. However, this headline increase masks divergent trends within energy components. Gasoline prices declined 3.4 per cent year-on-year, while natural gas prices surged 10.8 per cent and electricity prices rose 6.7 per cent, reflecting structural pressures in utility and energy services rather than global oil price dynamics alone.

Policy Implications: Reinforcing a “Higher for Longer” Bias

For financial markets and policymakers alike, the December CPI report supports the case for caution rather than urgency in monetary easing. Inflation is no longer broad-based or accelerating, but neither has it decisively returned to target. The persistence of services inflation—especially shelter and labour-intensive categories—suggests that underlying price pressures remain embedded in the domestic economy.

This inflation configuration strengthens the Federal Reserve’s “higher for longer” stance, where policy rates may remain restrictive for an extended period even as headline inflation moderates. For markets, the report limits the scope for aggressive

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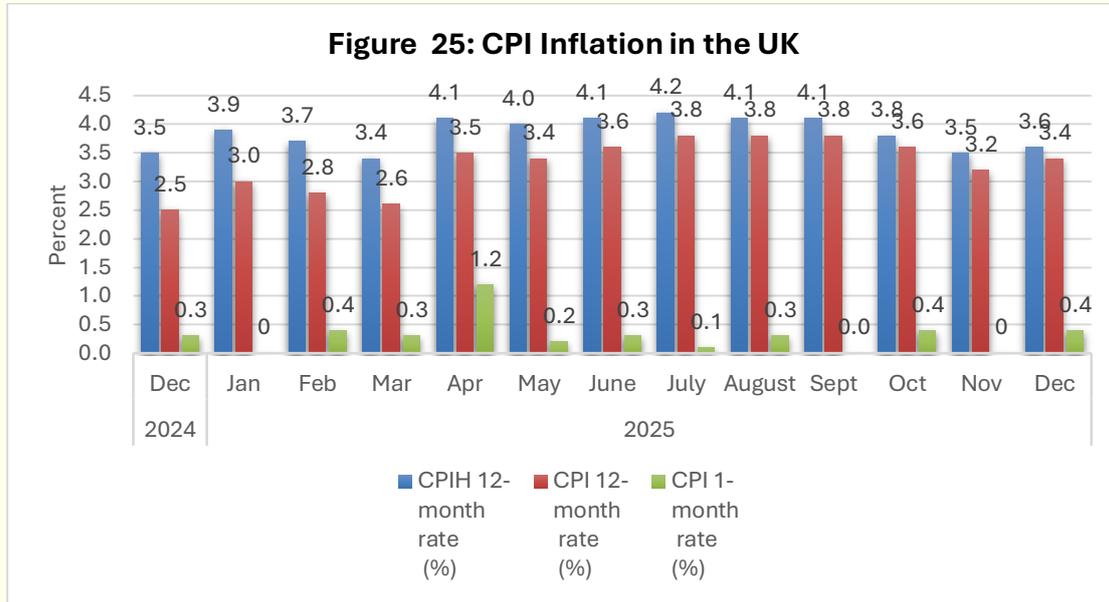
rate-cut expectations in early 2026, while reinforcing the importance of forthcoming data on wages, housing, and consumer demand.

Outlook

With headline CPI stable at 2.7 per cent and core inflation inching lower only gradually, the path to full price stability remains uneven. Future inflation outcomes will depend heavily on the pace of shelter disinflation, labour market cooling, and the extent to which services inflation responds to tighter financial conditions. Until then, December's CPI underscores that the inflation battle has entered its final, but most difficult, phase.

UK INFLATION TICKS UP IN DECEMBER AS SERVICES COSTS REFUSE TO COOL

UK inflation picked up modestly in December 2025, signalling that price pressures remain entrenched even as headline rates appear broadly stable. The Consumer Prices Index including owner occupiers' housing costs (CPIH), the UK's most comprehensive inflation measure, rose 3.6 per cent year-on-year, up from 3.5 per cent in November, while the Consumer Prices Index (CPI) climbed to 3.4 per cent, compared with 3.2 per cent in the previous month (Figure 25). On a monthly basis, both CPIH and CPI increased by 0.4 per cent, higher than the 0.3 per cent rise recorded in December 2024 (Figure), pointing to renewed momentum at the margin.



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

CPIH vs CPI: Housing Costs Drive the Gap

The divergence between CPIH and CPI continues to be explained largely by owner occupiers' housing (OOH) costs, which account for roughly 17 per cent of CPIH but are excluded from CPI. This structural difference makes CPIH a broader gauge of household inflation, especially in an environment where housing-related expenses remain elevated. The December data reaffirm why policymakers increasingly rely on CPIH to assess underlying inflationary conditions in the UK economy.

Core Inflation: Little Relief from Services

Underlying inflation showed little sign of easing. Core CPIH, which excludes energy, food, alcohol and tobacco, rose 3.5 per cent year-on-year, unchanged from November. Within this, goods inflation edged up from 2.1 per cent to 2.2 per cent, while services inflation remained stubbornly high at 4.5 per cent.

A similar pattern emerged in CPI measures. Core CPI held steady at 3.2 per cent, but services inflation rose from 4.4 per cent to 4.5 per cent, reinforcing concerns that domestic, labour-intensive sectors continue to generate persistent price pressures. The

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resilience of services inflation suggests that wage growth and cost pass-throughs remain key drivers of overall inflation dynamics.

Key Drivers: Alcohol, Tobacco and Transport

Alcohol and tobacco, along with transport, made the largest upward contributions to the monthly rise in both CPIH and CPI inflation. These categories reflect a mix of policy-driven factors (such as duties and taxes), fuel-related costs, and broader input price pressures. Their outsized contribution highlights how specific components, rather than broad-based inflation, are shaping short-term movements in headline indices.

Policy Implications

For the Bank of England, the December inflation data complicates the path toward monetary easing. While inflation is well below the peaks seen in 2022–23, it remains significantly above the 2 per cent target, particularly in services. The persistence of core inflation at current levels suggests that restrictive monetary conditions may need to be maintained for longer to ensure a durable return to price stability.

From a market perspective, the uptick in headline and services inflation is likely to reinforce expectations of a cautious and data-dependent policy stance, limiting the scope for near-term rate cuts unless clearer evidence of disinflation emerges.

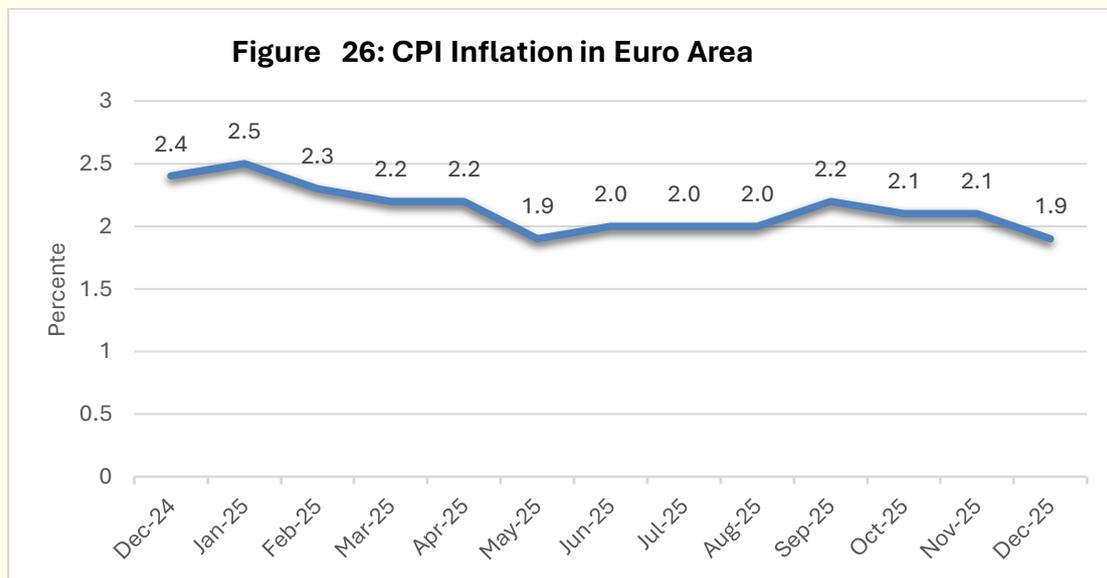
Conclusion

The December 2025 inflation figures underline a familiar but unresolved challenge for the UK economy: headline inflation may be moderating, but services and housing-related costs continue to anchor inflation at elevated levels. As long as these pressures persist, inflation risks remain skewed to the upside, keeping monetary policy firmly focused on restraint rather than stimulus.

DECEMBER 2025 EURO AREA INFLATION DATA STRENGTHEN CASE FOR ECB POLICY RECALIBRATION

Inflationary pressures across the euro area continued to moderate in December 2025, reinforcing the narrative of a gradual return to price stability after the turbulence of recent years. According to Eurostat, the annual inflation rate in the euro area fell to 1.9 per cent in December 2025, down from 2.1 per cent in November (Figure 26). This marked a significant deceleration compared with 2.4 per cent recorded in December 2024, underscoring the steady disinflationary trend over the past year.

At the broader European Union level, inflation also edged lower. EU annual inflation stood at 2.3 per cent in December 2025, compared with 2.4 per cent in November, and 2.7 per cent a year earlier. The convergence of inflation rates across both the euro area and the wider EU suggests that easing price pressures are becoming more widespread rather than confined to a few large economies.



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

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Divergence Across Member States

Despite the overall decline, inflation dynamics varied sharply across individual member states, reflecting differences in domestic demand conditions, energy exposure, and fiscal measures. The lowest annual inflation rates were recorded in Cyprus (0.1 per cent), France (0.7 per cent), and Italy (1.2 per cent)—all well below the European Central Bank’s (ECB) medium-term inflation target of 2 per cent.

In contrast, inflation remained elevated in parts of Eastern Europe, with Romania recording the highest rate at 8.6 per cent, followed by Slovakia (4.1 per cent) and Estonia (4.0 per cent). These disparities highlight persistent structural and energy-related pressures in some economies, even as headline inflation moderates elsewhere.

Broad-Based Disinflation Momentum

The December data point to a broad-based easing of inflation across the region. Compared with November 2025, annual inflation declined in 18 EU member states, remained unchanged in three, and increased in six. This pattern indicates that disinflation is becoming more entrenched, rather than being driven by isolated country-specific factors.

The decline reflects stabilising energy prices, easing supply-side constraints, and the cumulative impact of tighter monetary policy. Higher interest rates over the past two years have dampened demand and helped anchor inflation expectations, contributing to the downward trajectory in prices.

Implications for Monetary Policy

With euro area inflation slipping below 2 per cent in December, the balance of risks facing the ECB is shifting. While policymakers remain cautious about easing too soon, the latest data strengthen the case for a more accommodative policy stance in 2026, provided inflation remains sustainably close to target.

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However, the persistence of elevated inflation in some member states suggests that the ECB will need to carefully navigate regional divergences, ensuring that policy normalisation does not reignite price pressures or exacerbate economic fragmentation.

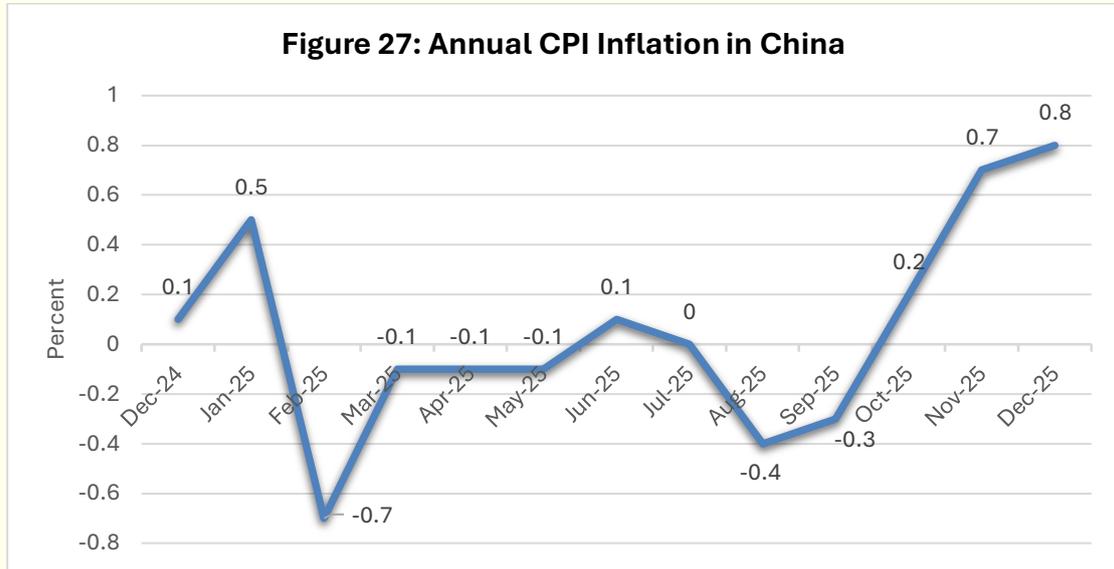
Conclusion

The fall in euro area inflation to 1.9 per cent in December 2025 marks an important milestone in the region's post-pandemic adjustment. While challenges remain, particularly in countries still facing high inflation, the overall trend points toward a stabilisation of prices and a potential inflection point for monetary policy. As the euro area enters 2026, inflation dynamics will remain central to economic and financial market assessments

CHINA'S INFLATION EDGES UP IN DECEMBER 2025 BUT REMAINS WELL BELOW TARGET

China's consumer inflation edged modestly higher in December 2025, reinforcing signs of a gradual and uneven recovery in domestic demand. According to data released by the National Bureau of Statistics of China, the annual Consumer Price Index (CPI) rose to 0.8 per cent, up from 0.7 per cent in November (Figure 27), marking the highest inflation reading since February 2023. However, the outcome fell slightly short of market expectations of 0.9 per cent, underscoring the continued fragility of price pressures in the world's second-largest economy.

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

Food Prices Lead the Uptick

The increase in headline inflation was driven primarily by a sharp acceleration in food prices, which rose 1.1 per cent year-on-year, the fastest pace in 14 months, compared with just 0.2 per cent in November. The surge reflected higher prices for fresh vegetables and fresh fruit, suggesting some seasonal and supply-side influences rather than a broad-based demand revival.

By contrast, non-food inflation remained unchanged at 0.8 per cent, supported in part by ongoing consumer trade-in programmes aimed at stimulating household spending. These programmes have helped stabilise prices in select discretionary categories without generating excessive inflationary pressure.

Mixed Signals Across Consumption Categories

Underlying price trends remained uneven across sectors. Prices continued to rise for clothing (1.7 per cent), healthcare (1.8 per cent), and education (0.9 per cent), indicating relative resilience in services and essentials. At the same time, housing prices declined by 0.2 per cent, reversing flat growth in the previous month, reflecting persistent weakness in the property sector.

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Deflationary pressures also remained evident in transport-related costs, with transport prices falling 2.6 per cent year-on-year, deeper than the 2.3 per cent decline in November, likely reflecting lower fuel prices and subdued travel demand.

Core Inflation Stabilises at a 20-Month High

China's core inflation, which excludes volatile food and energy prices, held steady at 1.2 per cent year-on-year, remaining at its highest level in 20 months. While still modest by international standards, this stability suggests that underlying price momentum has improved compared to earlier periods of near-deflation.

On a month-on-month basis, consumer prices rose 0.2 per cent in December, reversing a 0.1 per cent decline in November, further pointing to tentative stabilisation in consumer demand.

Full-Year Inflation Remains Subdued

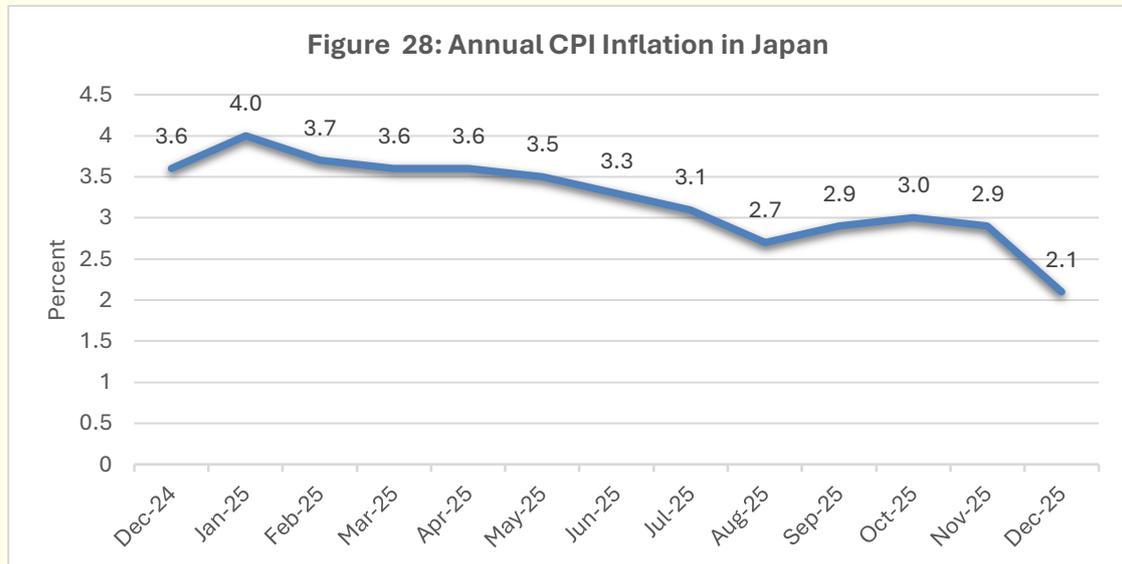
Despite the late-year uptick, inflation for 2025 as a whole remained flat, falling well below the government's official target of around 2 per cent. This outcome highlights the persistent challenge facing Chinese policymakers: stimulating domestic demand sufficiently to avoid deflationary risks while navigating structural headwinds in property, demographics, and global trade.

Conclusion

December's inflation data suggest that China is slowly emerging from a prolonged period of price stagnation, led by food prices and selective support measures. However, inflation remains far below target, and sectoral divergences—particularly continued weakness in housing and transport—point to an economy still grappling with subdued demand. As China enters 2026, sustaining a durable inflation recovery will likely require a combination of targeted fiscal support and calibrated monetary easing, alongside efforts to restore consumer confidence.

JAPAN'S INFLATION COOLS SHARPLY IN DECEMBER 2025, MARKING LOWEST LEVEL SINCE 2022

Japan's inflation moderated significantly in December 2025, reinforcing signs that price pressures are easing after a prolonged period of above-target inflation. According to data released by the Ministry of Internal Affairs & Communications, annual consumer inflation fell to 2.1 per cent, down sharply from 2.9 per cent in November, marking the lowest reading since March 2022 (Figure 28).



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

The decline underscores the combined impact of easing food prices, slowing services inflation, and renewed energy subsidies, even as core inflation remains above the Bank of Japan's (BoJ) 2 per cent target.

Food and Energy Drive Disinflation

Food inflation slowed to a 13-month low of 5.1 per cent, compared with 6.1 per cent in the previous month, led by the slowest rise in rice prices in 16 months. Given the outsized role of food in Japanese household consumption, this moderation played a central role in pulling down headline inflation.

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Energy prices provided an additional drag. Electricity prices fell 2.3 per cent year-on-year, reversing a 4.9 per cent increase in November, while gas prices declined 2.1 per cent after rising 0.7 per cent previously. This marked the first decline in energy costs in four months, reflecting the reintroduction and extension of government subsidy measures aimed at cushioning households from high utility bills.

Broad-Based Easing Across Consumption Categories

Price pressures softened across most major categories. Inflation slowed for clothing (2.0 per cent from 2.3 per cent), transport (1.9 per cent from 3.3 per cent), healthcare (0.7 per cent from 0.8 per cent), household items (1.6 per cent from 1.8 per cent), and communications (6.2 per cent from 6.9 per cent). Education costs continued to decline sharply at 5.6 per cent, reflecting structural and policy-driven factors.

However, not all components showed disinflation. Recreation prices remained unchanged at 2.3 per cent, while housing inflation edged up to 1.0 per cent from 0.9 per cent, and miscellaneous goods inflation increased to 0.8 per cent from 0.6 per cent, indicating some underlying price persistence.

Core Inflation Moderates, But Remains Above Target

Japan's core inflation, which excludes fresh food, slipped to 2.4 per cent in December from 3.0 per cent in November, marking the lowest level since October 2024. Despite the decline, core inflation has now remained above the BoJ's 2 per cent target for 45 consecutive months, suggesting that underlying price pressures have not fully dissipated.

On a month-on-month basis, consumer prices fell 0.1 per cent, reversing a 0.3 per cent increase in November and recording the first monthly decline in nine months, a signal that short-term inflation momentum is weakening.

Implications for Monetary Policy

The December data complicate the BoJ's policy calculus. While the sharp moderation in headline and core inflation supports arguments for maintaining accommodative financial conditions, inflation's continued stay above target—alongside rising wages—suggests the BoJ may remain cautious about prematurely easing its policy stance. The balance between sustaining economic recovery and preventing a re-acceleration of inflation will remain central to policy deliberations in early 2026.

Conclusion

Japan closed 2025 with inflation easing faster than anticipated, driven largely by food and energy price moderation. While core inflation remains above target, the breadth of disinflation and the return of monthly price declines suggest that inflationary pressures are losing momentum. The durability of this cooling trend will be critical in shaping Japan's monetary policy trajectory.

FOOD & AGRICULTURE

FAO FOOD PRICE INDEX: GLOBAL FOOD PRICES EASE AT YEAR-END, BUT 2025 AVERAGES STAY ELEVATED

Global food prices continued their gradual cooling in December 2025, with declines in dairy, meat and vegetable oil prices more than offsetting firming trends in cereals and sugar. The FAO Food Price Index (FFPI) averaged 124.3 points during the month, down 0.6 percent from November (Table 5). The index was 2.3 percent lower than its level a year earlier and remained more than 22 percent below the historic peak recorded in March 2022.

Despite the year-end moderation, food prices were higher on average in 2025. The FFPI averaged 127.2 points for the year, up 4.3 percent from 2024, reflecting persistent tightness and episodic supply disruptions across key commodity groups during much of the year.

Cereals: Mixed Trends, Rice Emerges as an Outlier

Cereal prices strengthened modestly in December, with the FAO Cereal Price Index rising 1.7 percent month-on-month to 107.3 points. International wheat prices found support from renewed uncertainty over Black Sea export flows, although ample global supplies—reinforced by large harvests in Argentina and Australia—continued to cap gains. Maize prices moved higher on strong export demand and robust ethanol production in Brazil and the United States, while sorghum prices tracked maize despite slower sales to China.

Rice stood apart from other cereals. The FAO All Rice Price Index rose 4.3 percent in December, supported by easing harvest pressure, improved demand and policy support across major producing countries. On an annual basis, however, cereal prices remained subdued. The Cereal Price Index averaged 107.9 points in 2025, its lowest annual level since 2020, while the rice index fell sharply by over 35 percent year-on-year, reflecting

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abundant exportable supplies, intense competition among exporters and weaker buying interest from parts of Asia.

Vegetable Oils: Six-Month Low Despite Tight Annual Supplies

Vegetable oil prices edged lower in December, with the index slipping to a six-month low as declines in soya, rapeseed and sunflower oil prices outweighed a mild uptick in palm oil. Ample export supplies from the Americas weighed on soya oil prices, while larger rapeseed harvests in Australia and Canada pressured global markets. Sunflower oil prices declined for a second straight month due to sluggish import demand.

Palm oil prices, in contrast, edged higher on expectations of seasonal production slowdowns in Southeast Asia, offsetting higher inventories in Malaysia. For the full year, however, vegetable oil prices remained elevated. The index averaged 161.6 points in 2025, up 17.1 percent year-on-year and marking a three-year high amid structurally tight global supplies.

Meat: Broad-Based Declines in December

The FAO Meat Price Index declined 1.3 percent in December, with prices falling across all meat categories. Bovine and poultry meat recorded the steepest declines, driven by increased cattle availability in Australia following herd destocking and ample exportable poultry supplies globally. Ovine and pig meat prices also eased, reflecting seasonal supply increases and subdued global demand, particularly in the European Union.

Nevertheless, on an annual basis, meat prices were higher. The index averaged 123.2 points in 2025, up 5.1 percent from 2024, supported by firm import demand and heightened uncertainty linked to animal disease outbreaks and geopolitical risks. While bovine and ovine meat prices rose sharply year-on-year, pig and poultry meat prices softened due to weaker demand and abundant supplies.

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Dairy: December Correction After a Strong Year

Dairy prices recorded one of the sharpest monthly declines in December, with the FAO Dairy Price Index falling 4.4 percent. Butter prices dropped significantly on higher cream availability in Europe and stock accumulation after strong production earlier in the year. Whole milk powder prices also weakened, reflecting peak seasonal output in Oceania and subdued buying from key importers. Skim milk powder and cheese prices eased more moderately amid ample supplies and mixed regional demand.

Despite the December pullback, dairy prices were significantly higher in 2025. The index averaged 146.9 points for the year, up 13.2 percent from 2024, driven primarily by strong price gains in cheese, butter and whole milk powder during the first half of the year, when exportable supplies were constrained.

Sugar: Modest Rebound, Annual Prices at a Five-Year Low

Sugar prices rebounded in December after three consecutive monthly declines, with the index rising 2.4 percent. The uptick was driven mainly by a sharp fall in sugar output in Brazil's key southern regions, reflecting lower cane crushing and reduced diversion of cane for sugar production. However, expectations of ample global supplies—supported by favourable production prospects in India—limited further price increases.

For 2025 as a whole, sugar prices remained under pressure. The Sugar Price Index averaged 104.3 points, down 17 percent from 2024 and marking the lowest annual level since 2020, reflecting comfortable export availabilities and easing supply-side concerns.

Outlook

The December 2025 FAO data underscore a global food market that is stabilising after the extreme volatility of recent years. While year-end prices moderated across most categories, elevated annual averages for dairy, meat and vegetable oils point to lingering structural tightness. As 2026 unfolds, the balance between ample supplies in

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some markets and climate, policy and geopolitical risks in others will continue to shape global food price dynamics.

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>December 2024</i>	127.3	119.6	141.2	111.4	162.1	119.3
<i>January 2025</i>	124.7	116.7	143.1	111.8	153.0	111.2
<i>February 2025</i>	126.6	116.9	147.7	112.6	156.0	118.5
<i>March 2025</i>	127.2	118.3	148.7	109.7	161.8	116.9
<i>April 2025</i>	128.2	121.6	151.7	110.9	158.0	112.3
<i>May 2025</i>	127.1	122.8	153.6	109.0	152.2	109.4
<i>June 2025</i>	128.1	126.0	155.5	107.3	155.7	103.6
<i>July 2025</i>	129.8	126.7	154.6	106.5	166.8	103.3
<i>August 2025</i>	130.0	127.8	152.3	105.7	169.1	103.6
<i>September 2025</i>	128.6	127.9	147.2	104.9	167.9	99.4
<i>October 2025</i>	126.5	125.2	141.8	103.6	169.4	94.1
<i>November 2025</i>	125.1	125.3	136.3	105.5	165.0	88.6
<i>December 2025</i>	124.3	123.6	130.3	107.3	164.6	90.7

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



SECTION 3: FINANCIAL MARKETS

INDIAN FINANCIAL MARKETS

JANUARY 2026: VOLATILITY, GEOPOLITICS AND A MARKET IN CORRECTION MODE

Introduction

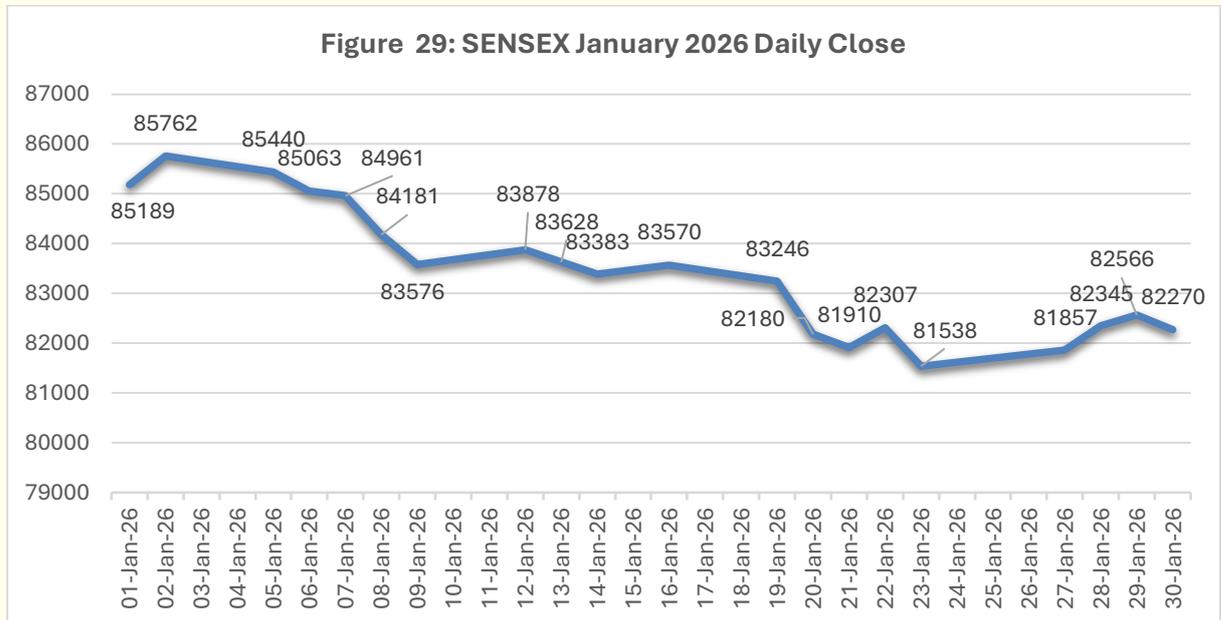
Indian financial markets witnessed a volatile and correction-led start to 2026, marked by sharp swings in investor sentiment, heavy foreign portfolio investor (FPI) outflows, and heightened global uncertainty. After beginning the year near record highs, benchmark indices corrected meaningfully through the month, reflecting a confluence of geopolitical risks, trade-related anxieties, subdued corporate earnings, and pre-Budget caution. January 2026 thus emerged as a month of consolidation and repricing rather than sustained directional momentum.

Market Movement: BSE Sensex and Nifty 50

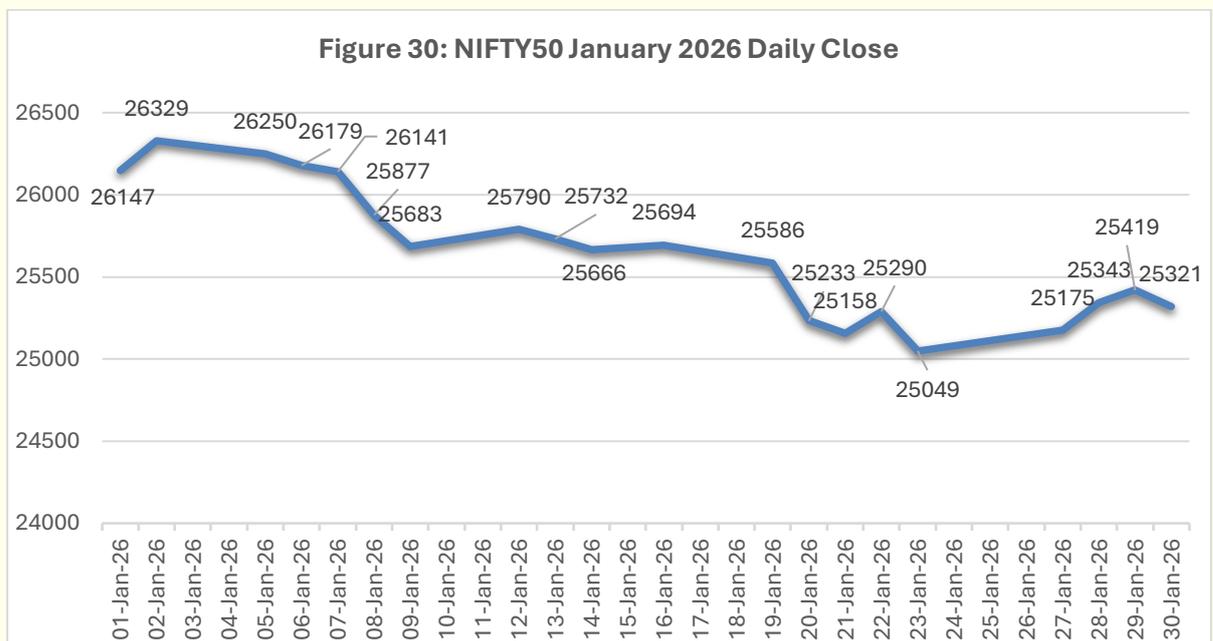
The BSE Sensex opened January 2026 near historic highs, closing at 85,189 on January 1 and reaching 85,762 on January 2 (Figure 29). However, sustained selling pressure soon set in. By January 20, the Sensex had plunged to 82,180, marking its steepest single-day fall in eight months. The index eventually closed the month at 82,270, implying a decline of nearly 2.9 per cent over January.

The Nifty 50 followed a similar trajectory. After touching an all-time high of 26,329 on January 2 (Figure 30), the index slipped steadily amid global and domestic headwinds. It breached key psychological and technical levels during the mid-month sell-off, falling to a low of 25,049 on January 23. Although a modest recovery was seen toward the end of the month, the Nifty closed January at 25,321, down about 3.2 per cent from its early-month peak.

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



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

Key Milestones

Several critical milestones defined market behaviour during the month. Early January saw benchmark indices hit record highs, driven by optimism around corporate earnings and global risk appetite. This was followed by one of the worst opening weeks in recent

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years, with both indices declining for five consecutive sessions and eroding over ₹13 lakh crore in market capitalisation.

January 20 stood out as a pivotal session, with markets recording their sharpest fall since May 2025 amid escalating US–EU geopolitical tensions and weak earnings sentiment. Another notable milestone was the brief rebound on January 22, when indices snapped a three-day losing streak following reassuring signals on global trade and domestic policy continuity. Toward month-end, the release of the Economic Survey 2025–26 provided temporary support, though gains remained capped by Budget-related caution.

Overall Trend

Overall, January 2026 was characterised by heightened volatility, broad-based corrections, and a shift toward risk aversion. Mid-cap and small-cap stocks underperformed large caps for much of the month, reflecting valuation concerns and reduced risk appetite. Sectoral performance was uneven, with metals, PSU banks, and select energy stocks showing intermittent strength, while IT, realty, and consumer durables faced persistent pressure. The market trend remained largely range-bound to bearish, with repeated failures to decisively reclaim key resistance levels.

Factors Influencing Market Sentiment

Multiple factors shaped market sentiment during the month. Globally, renewed trade and tariff threats, particularly involving the US, Europe, and emerging markets, heightened uncertainty. Geopolitical tensions, including those related to Greenland and Iran, further dampened risk appetite. Rising crude oil prices and a weakening rupee added macroeconomic stress.

Domestically, muted Q3 FY26 earnings growth, especially among IT and banking majors, weighed on confidence. Persistent FPI outflows—amounting to nearly \$4 billion in January—exerted sustained pressure, even as domestic institutional investors provided partial support. Additionally, anticipation of the Union Budget, concerns over

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fiscal space, and elevated volatility indicators kept investors cautious through the latter part of the month.

Outlook

Looking ahead, market direction will hinge on clarity from the Union Budget, the trajectory of global trade negotiations, and the pace of corporate earnings recovery. While valuations have moderated and technical indicators suggest potential stabilisation near key support zones, volatility is likely to remain elevated in the near term. A sustained recovery will depend on easing global tensions, improved earnings visibility, and a moderation in FPI outflows. Until then, Indian equity markets are expected to remain range-bound, with selective stock-specific opportunities rather than broad-based rallies.

GLOBAL FINANCIAL MARKETS

GLOBAL MARKETS IN JANUARY 2026: DIVERGING GLOBAL MARKETS AMID MONETARY AND MACRO UNCERTAINTY

INTRODUCTION

Global equity markets began 2026 with cautious optimism, shaped by easing inflation in advanced economies, resilient corporate earnings, and evolving expectations around monetary policy, particularly in the United States. January 2026 was marked by selective risk-taking, regional divergence, and episodic volatility triggered by policy signals and geopolitical developments. While US markets consolidated near record highs, European equities faced growth-related constraints, and Asian markets emerged as relative outperformers amid supportive domestic fundamentals and policy environments.

January's market performance underscored a transition from broad-based rallies to more differentiated outcomes across regions. US indices traded within narrow ranges as investors reassessed the pace of future rate cuts. European markets remained subdued despite disinflationary progress, reflecting structural growth concerns. In contrast, Asian markets, especially Japan and South Korea, recorded strong gains, supported by currency dynamics, corporate reforms, and sector-specific tailwinds.

SECTION A – PERFORMANCE OF US EQUITY MARKETS

Market Overview

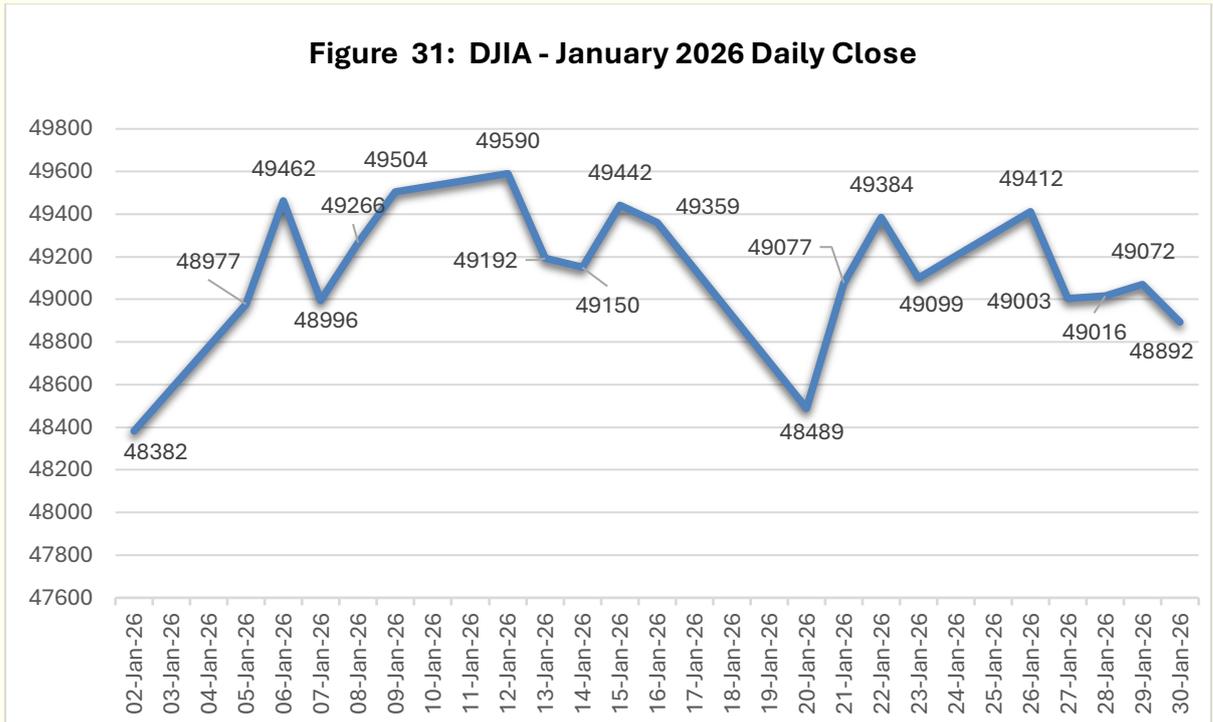
US equity markets displayed resilience in January 2026, balancing confidence in a soft-landing scenario against uncertainty over fiscal conditions and the future policy stance of the Federal Reserve.

Dow Jones Industrial Average (DJIA)

The DJIA closed at 48382 on the first trading day of January, advanced to 49359 on 16 January, and ended the month at 48892 (Figure 31). Over the course of the month, the

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index touched a high of 49590 on 12 January, while the lowest level was on 02 January. The largely range-bound movement reflected steady industrial demand but resistance at higher valuation levels.

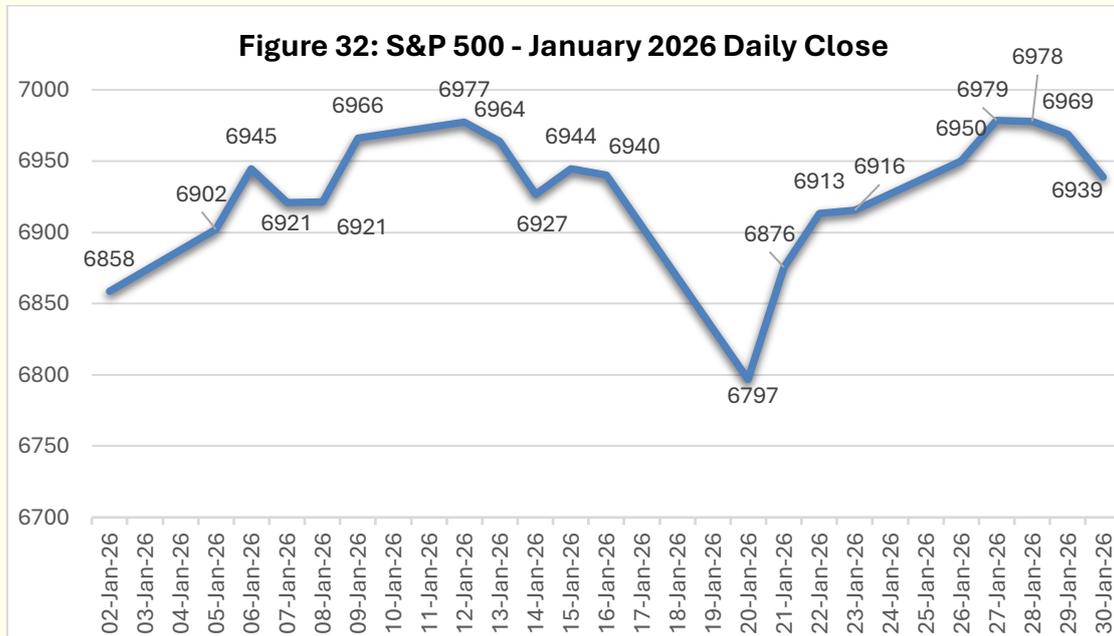


Source: <https://www.wsj.com/market-data/quotes/index/DJIA/historical-prices>

S&P 500

The S&P 500 opened January at 6858, strengthened to 6940 by 16 January, and closed at 6939 (Figure 32). The index reached a monthly high of 6979 on 27 January, while the lowest close of 6797 occurred on 20 January. Performance remained supported by earnings strength, even as expectations of rapid monetary easing moderated.

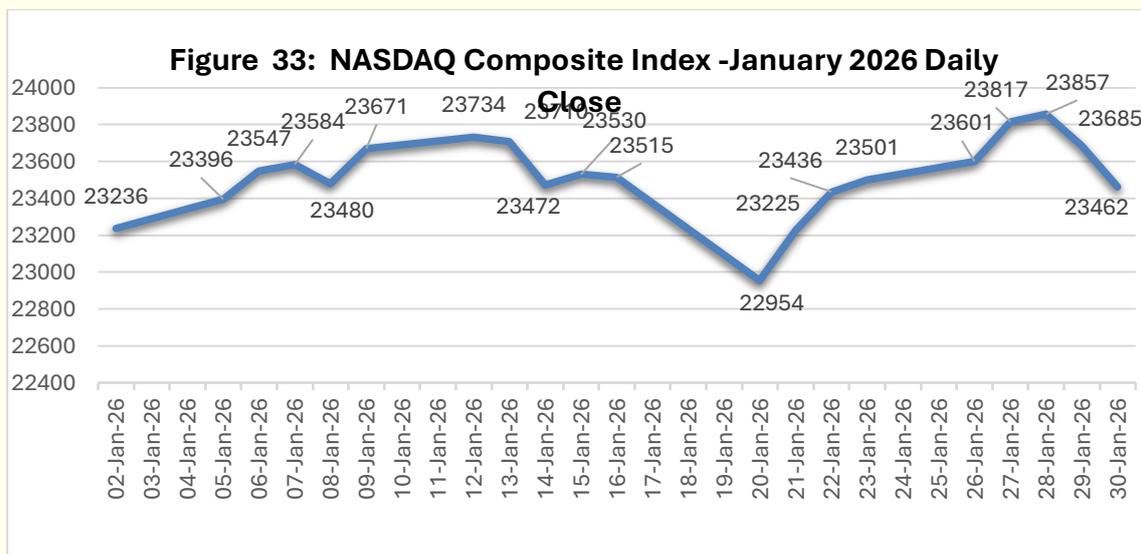
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Source: <https://www.wsj.com/market-data/quotes/index/SPX/historical-prices>

NASDAQ Composite Index

The NASDAQ Composite closed at 23236 at the start of January, rose to 23515 on 16 January, and finished the month at 23462 (Figure 33). The index recorded a high of 23,857 on 28 January, while the lowest close of 22954 on 20 January, reflected intermittent profit-taking in high-growth technology stocks.



Source: <https://www.wsj.com/market-data/quotes/index/COMP/historical-prices>

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US Market Insight

US markets entered a consolidation phase at historically elevated levels. Investor focus increasingly shifted towards quality, earnings visibility, and balance-sheet strength, with heightened sensitivity to monetary policy communication.

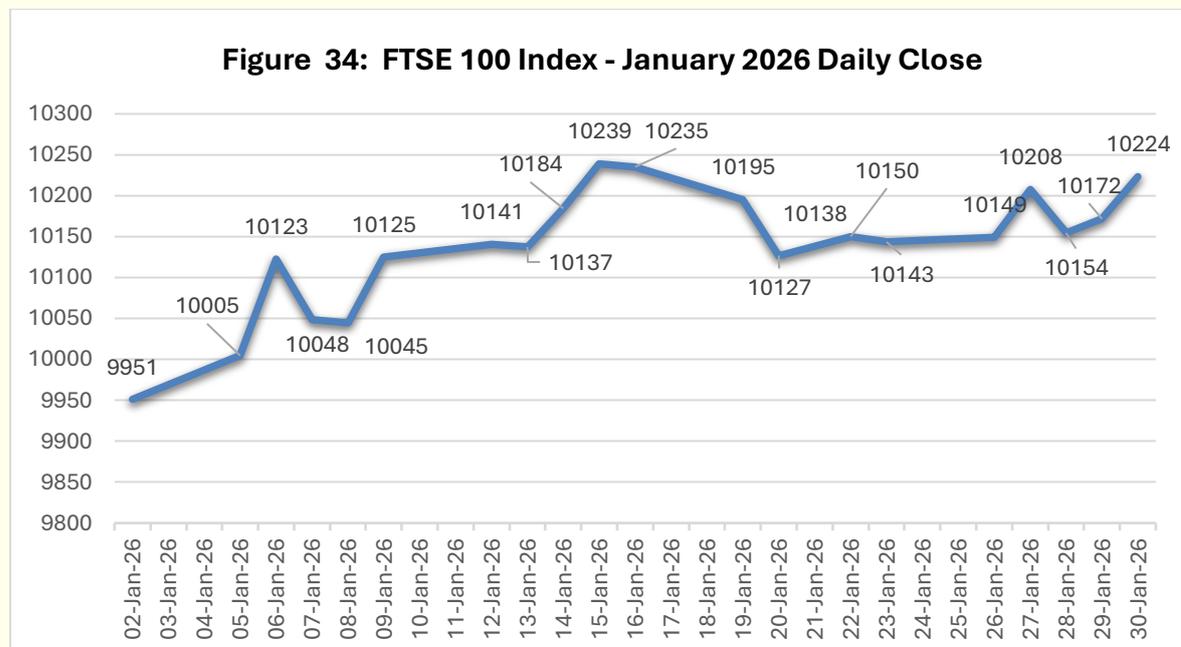
SECTION B - PERFORMANCE OF EUROPEAN EQUITY MARKETS

Market Overview

European equity markets showed mixed performance, influenced by falling inflation, uneven growth momentum, and lingering external trade and energy-related uncertainties.

FTSE 100 Index

The FTSE 100 closed at 9951 on the first trading day, rose to 10239 by 15 January, the highest during the month, and eased to 10224 by the end of January (Figure 34).

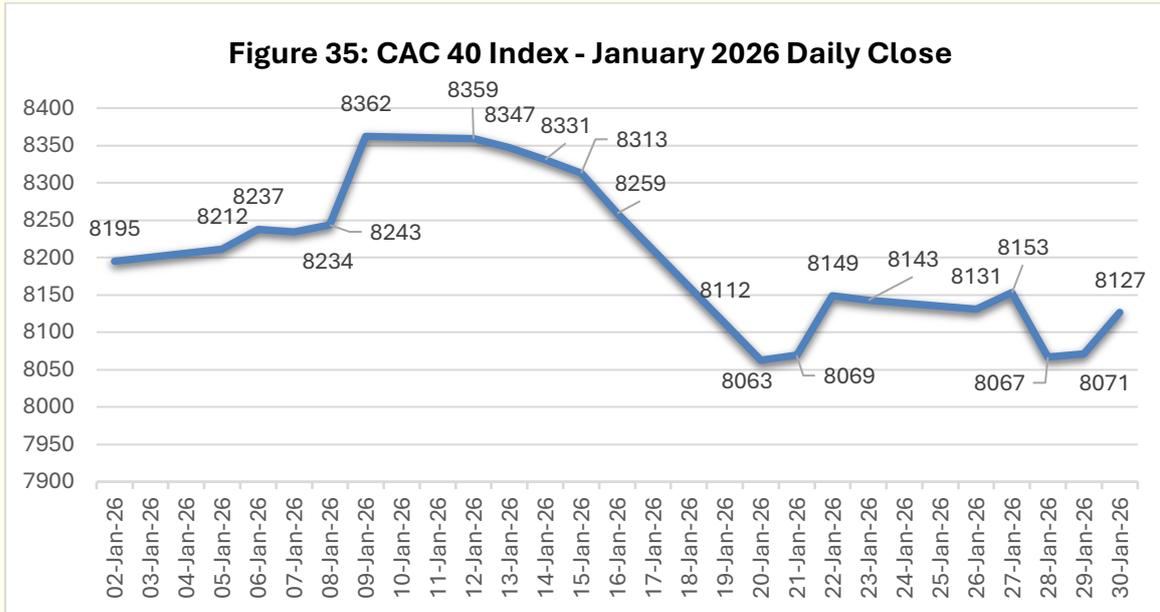


Source: <https://www.wsj.com/market-data/quotes/index/UK/UKX/historical-prices>

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CAC 40 (Paris, France)

France’s CAC 40 began January at 8195, peaked to 8359 on 12 January, and closed the month at 8127 (Figure 35). The index touched the lowest close of 8063 on 20 January.

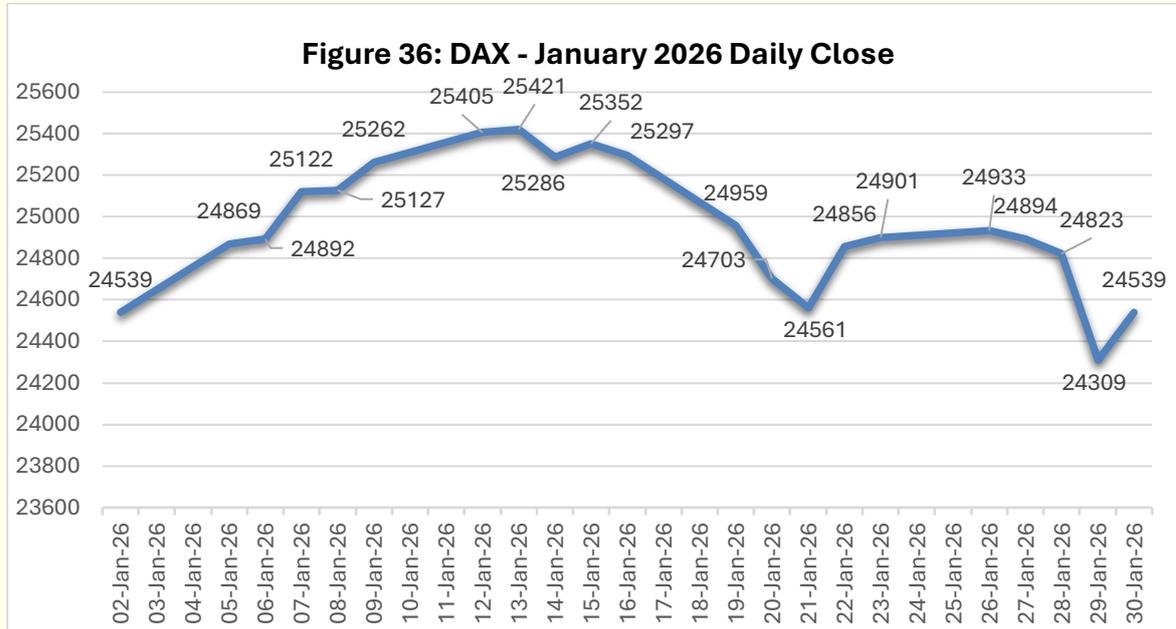


Source: <https://www.wsj.com/market-data/quotes/index/FR/PXI/historical-prices>

DAX (Frankfurt, Germany)

Germany’s DAX closed at 24539 at the start of the month, reached the highest level of 25421 on 13 January, and dropped to 24539 by month-end (Figure 36). The index recorded the lowest level of 24309 on 29 January, highlighting persistent concerns around manufacturing and exports.

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Source: <https://www.wsj.com/market-data/quotes/index/DX/DAX/historical-prices>

Europe Market Insight

Despite favourable inflation trends, European equities remained constrained by structural growth challenges. Investor preference remained tilted toward defensive sectors and dividend-yielding stocks, with cyclical sectors under pressure.

SECTION C – PERFORMANCE OF ASIA-PACIFIC STOCK MARKETS

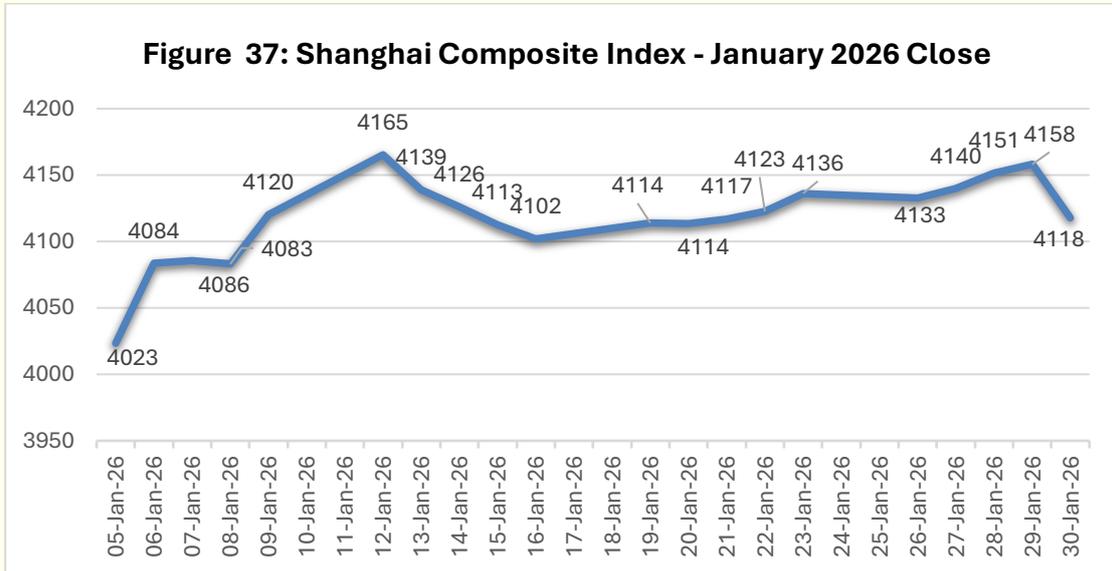
Market Overview

Asian markets outperformed global peers in January 2026, supported by accommodative policy settings, currency dynamics, and renewed foreign portfolio inflows.

Shanghai Composite Index (Shanghai, China)

The Shanghai Composite closed at 4023 on the first trading day, rose to the highest point at 4165 on 12 January, and ended the month at 4118 (Figure 37).

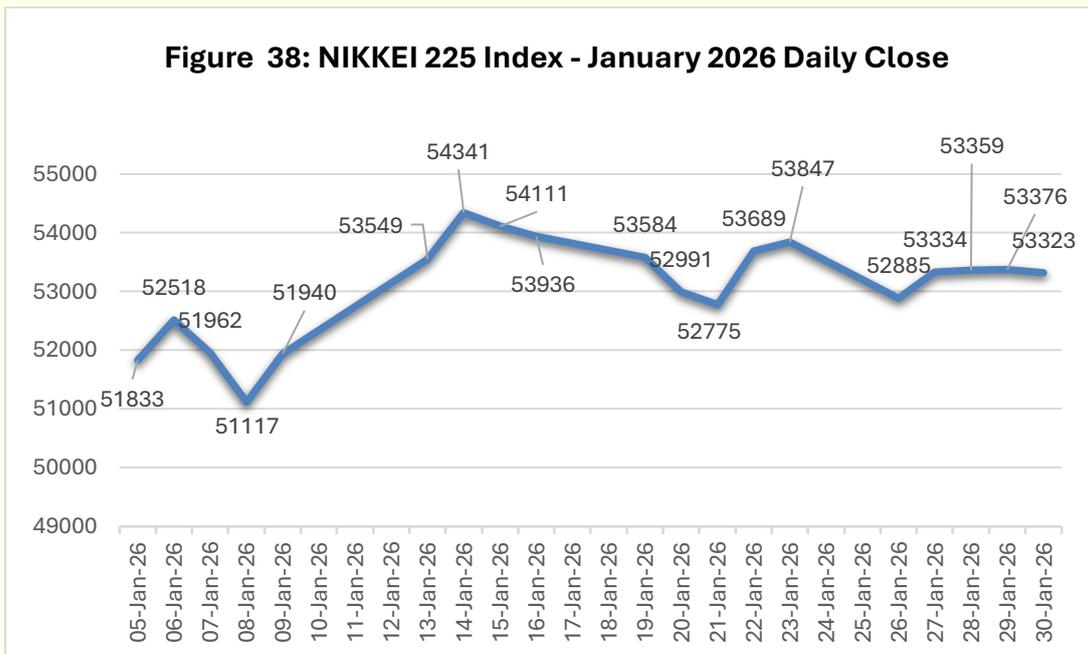
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Source: <https://www.wsj.com/market-data/quotes/index/CN/XSHG/SHCOMP/historical-prices>

NIKKEI 225 (Tokyo, Japan)

Japan’s Nikkei 225 began January at 51833, peaked at 54341 on 14 January, and closed the month at 53323 (Figure 38).

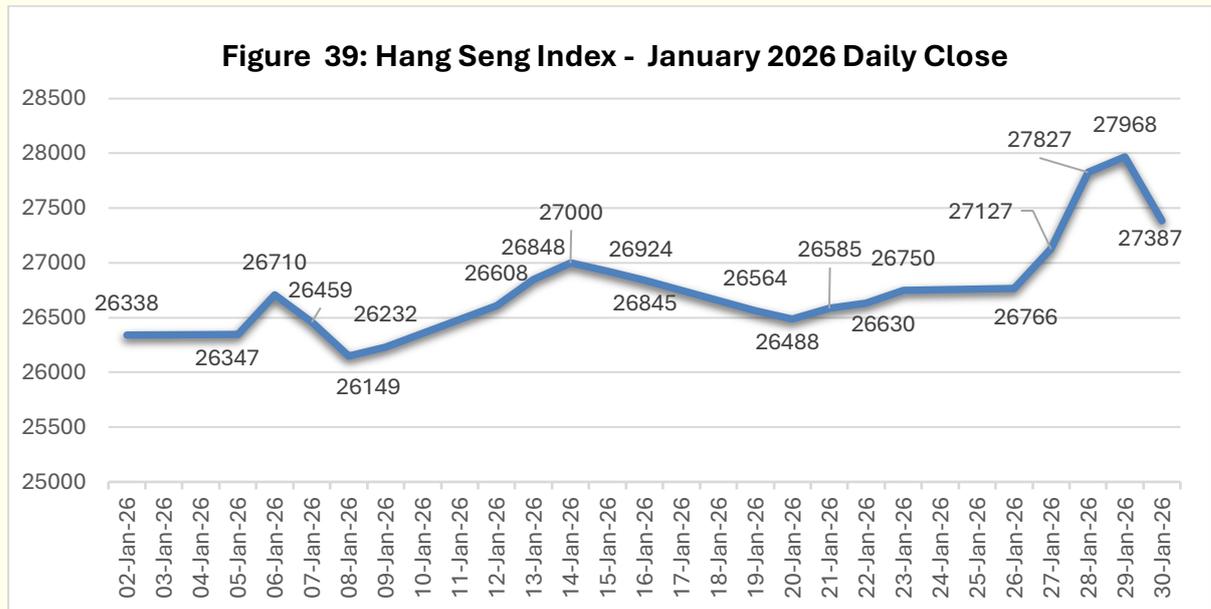


Source: <https://www.wsj.com/market-data/quotes/index/JP/NIK/historical-prices>

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Hang Seng Index (Hong Kong)

The Hang Seng Index closed at 26338 at the start of January, advanced to 27000 on 14 January, and finished the month at 27,387 (Figure 39). The index recorded a high of 27968 on 29 January, while the lowest close of 26149 occurred on 08 January.

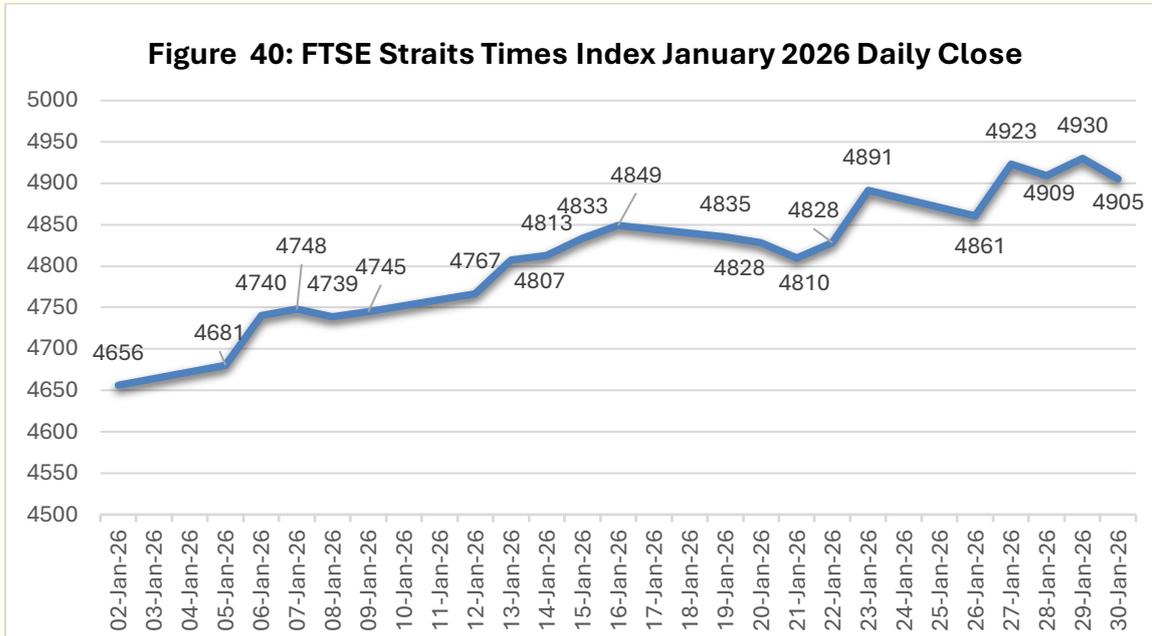


Source: <https://www.wsj.com/market-data/quotes/index/HK/HSI/historical-prices>

FTSE Straits Times Index (Singapore)

Singapore’s benchmark index closed at 4656 at the beginning of the month, rose to 4849 by mid-month (16 January), and closed the month at 4905 (Figure 40). The index reached a high of 4930 on 29 January, with limited downside volatility during the month.

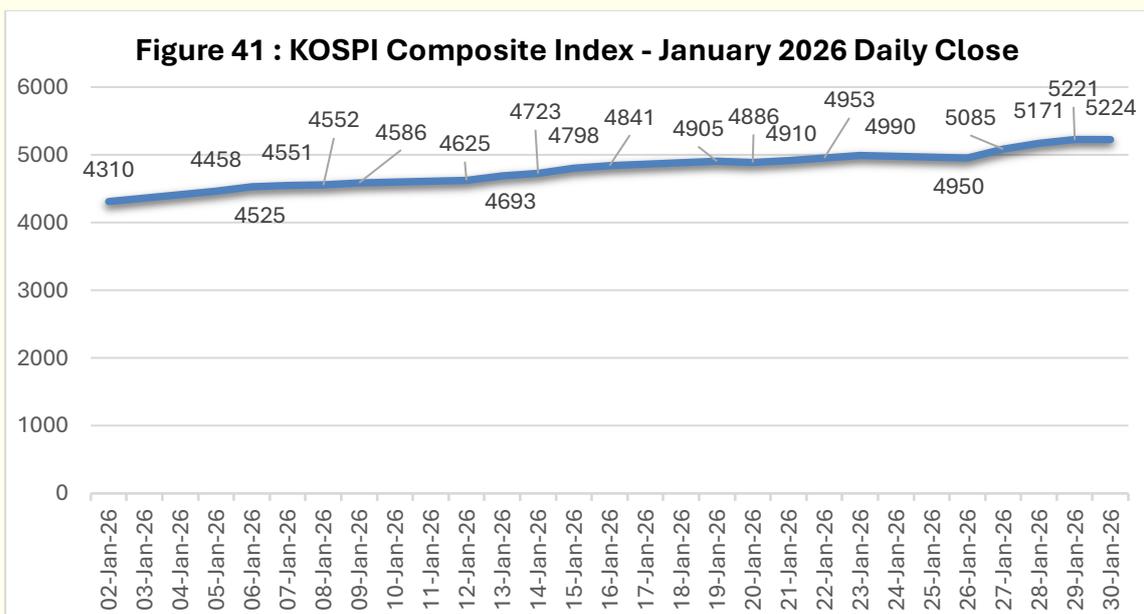
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Source: <https://www.wsj.com/market-data/quotes/index/SG/STI/historical-prices>

KOSPI Composite Index (Busan & Seoul, South Korea)

South Korea’s KOSPI began January at 4310, surged to 4905 on 19 January, and closed the month at 5224, which also marked its highest level for the month (Figure 41). The opening close represented the lowest level, underscoring the strength of the rally.

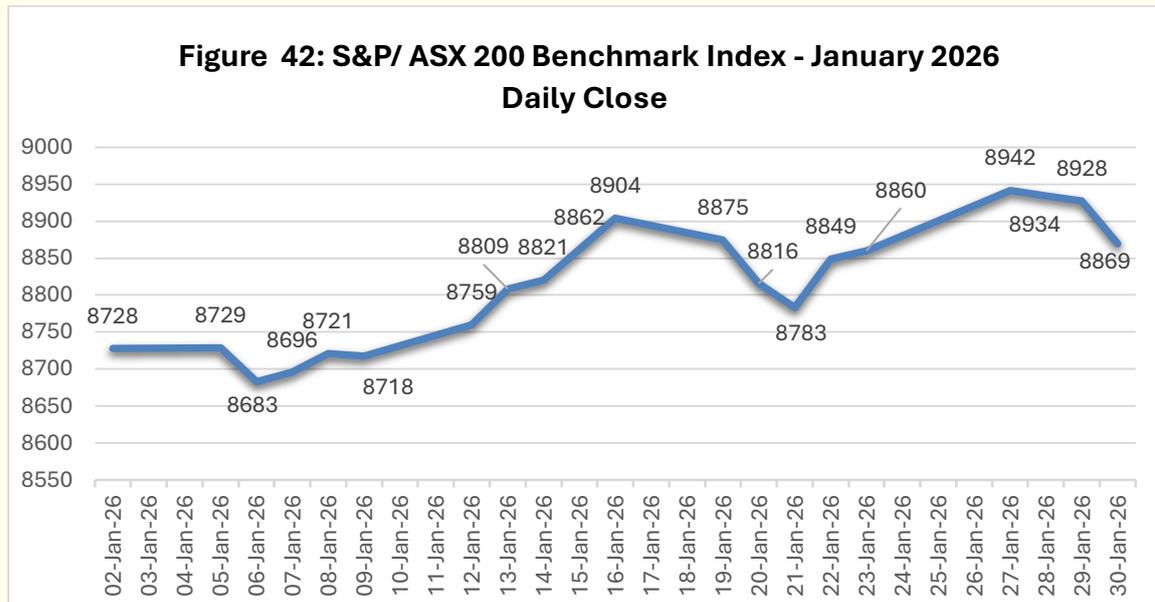


Source: <https://www.wsj.com/market-data/quotes/index/KR/SEU/historical-prices>

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S&P/ASX Benchmark Index (Sydney, Australia)

Australia’s S&P/ASX benchmark index closed at 8728 on the first trading day, rose to 8904 by mid-month (16 January), and eased slightly to 8869 by month-end (Figure 42). The index recorded a high of 8942 on 27 January and a low of 8683 on 06 January.



Source: <https://www.wsj.com/market-data/quotes/index/AU/XJO/historical-prices>

Asia-Pacific Market Insight

Asian markets benefited from stronger domestic fundamentals and sector-specific tailwinds. Japan and South Korea stood out as key outperformers, attracting global capital seeking diversification away from the US and Europe.

SECTION D – OUTLOOK FOR MAJOR GLOBAL STOCK INDICES

Markets are likely to remain sensitive to monetary policy guidance, geopolitical developments, and earnings momentum. In the US, rotation away from traditional growth names towards cyclicals and value stocks may continue, with the Federal Reserve’s communications on future rate paths a key driver of sentiment. In Europe, downside risk from global trade concerns remains balanced by robust fundamentals in energy and industrial sectors. Asia-Pacific markets are positioned to lead on the back

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of resilient domestic demand and export growth, though currency and policy risks warrant attention. Volatility is expected to persist, with geopolitical developments and policy transitions shaping the near-term market trajectory.

COMMODITY MARKETS

COMMODITY MARKETS IN JANUARY 2026: GOLD FRENZY, ENERGY RESURGENCE, AND RISING VOLATILITY

Introduction

Commodity markets began 2026 on a volatile note, with sharp price swings across precious metals, energy, and industrial commodities, reflecting heightened geopolitical risk, persistent inflation concerns, and shifting investor preferences. Reports from *The Wall Street Journal* and other financial market sources highlight record investment flows into gold, a resurgence in energy prices, and a broadening of market participation beyond technology-heavy equities. January 2026 thus emerged as a defining month for commodities, underscoring their renewed role in global portfolio allocation.

Precious Metals: Record Gold Inflows amid Extreme Volatility

The most striking development in January was the unprecedented surge in gold investment, driven by rising geopolitical uncertainty and inflation hedging. Gold exchange-traded funds (ETFs) recorded net inflows of approximately US\$19 billion, marking their strongest monthly inflow on record and pushing total assets under management to US\$669 billion, also a historic high.

Gold prices initially surged nearly 14 percent during the month, supported by strong safe-haven demand. However, this rally reversed sharply toward the end of January. On January 30, gold experienced its worst single-day fall since 1980, following the nomination of Kevin Warsh as the new Chair of the US Federal Reserve, which triggered expectations of a more hawkish policy stance. The episode highlighted the sensitivity of gold prices not only to geopolitical risks but also to changes in monetary policy expectations.

Despite the late-month correction, gold futures remained up 6.9 percent year-to-date as of early February, suggesting that underlying investor demand remained intact. Trading activity reinforced this view, with gold trading volumes reaching a record US\$623

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billion per day, while ETF trading volumes surged 160 percent, underscoring heightened participation and volatility. Silver also benefited from the broader precious metals rally, supported by both investment demand and expectations of recovery in industrial usage.

Energy Markets: Natural Gas Leads the Price Surge

Energy markets were another major source of momentum in January 2026. The energy price index rose by 12 percent, driven primarily by a 78.4 percent surge in US natural gas prices. Weather-related demand, supply constraints, and speculative positioning contributed to the sharp rise in gas prices, making it one of the best-performing commodities of the month.

Crude oil prices increased by 4.6 percent, supported by geopolitical tensions in the Middle East and heightened uncertainty surrounding US-Iran relations. While oil's gains were more moderate than those of natural gas, futures markets remained sensitive to any escalation risks, keeping volatility elevated.

Looking ahead, analysts flagged a mixed outlook for energy prices. While natural gas and precious metals were expected to remain relative outperformers, some forecasters anticipated a modest contraction in aggregate commodity prices over 2026, reflecting weak industrial demand and slowing global growth.

Industrial Metals and Agriculture: Uneven Gains

Industrial metals also participated in the January rally, with metals prices rising 9.3 percent, while precious metals climbed 17 percent over the month. In Europe, steel producers such as ArcelorMittal benefited from expectations of improved pricing power and stabilising demand conditions, lending support to steel prices.

Agricultural markets, however, presented a more mixed picture. While the broader non-energy commodity index increased, beverage prices declined sharply by 7.5 percent. Palm oil prices ended lower, weighed down by concerns over rising output and supply-

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side pressures. These divergences highlighted the importance of commodity-specific fundamentals even within a generally supportive macro environment.

Key Themes: Safe Havens, Inflation, and Portfolio Rotation

Several cross-cutting themes defined commodity market behaviour in January 2026. Geopolitical and trade tensions, including renewed US tariff threats against Europe, intensified market uncertainty and reinforced demand for safe-haven assets, particularly gold. At the same time, persistently elevated inflation, especially in the United Kingdom, strengthened the appeal of precious metals as an inflation hedge.

Equally important was the shift in investor focus on the start of the year. The first trading sessions of 2026 witnessed a broadening rally, with capital rotating away from technology stocks toward energy and materials, signalling a re-evaluation of sectoral leadership amid changing macro and policy conditions.

Conclusion

January 2026 underscored the renewed centrality of commodities in global financial markets. Record gold inflows, extreme price volatility, and a sharp resurgence in energy prices reflected a complex interplay of geopolitics, inflation concerns, and shifting monetary policy expectations. While near-term volatility remains high, the month's developments suggest that commodities, particularly precious metals and energy, are likely to remain key barometers of global risk sentiment and macroeconomic uncertainty in the year ahead.



SECTION 4: RESEARCH DIGEST

SYNOPSIS OF RESEARCH PAPERS

GLOBAL TRADE, TARIFF UNCERTAINTY AND THE U.S. DOLLAR

Authors: Şebnem Kalemli-Özcan, Can Soylu, and Muhammed A. Yildirim

NBER Working Paper No. 34728, January 2026
National Bureau of Economic Research (NBER)

This paper examines how tariff policy uncertainty reshapes exchange rate dynamics, motivated by the U.S. dollar's unexpected depreciation following the 2025 tariff announcements. Contrary to standard macro–trade models, which predict that unilateral tariffs lead to an appreciation of the implementing country's currency, we show that this result can be reversed when tariff uncertainty is explicitly accounted for. We develop a two-country general equilibrium model with risk-averse agents and segmented financial markets, in which tariff volatility enters uncovered interest parity through a risk-premium wedge. An increase in tariff uncertainty raises precautionary savings and risk premia, depresses demand for goods and dollar-denominated assets, and leads to an immediate currency depreciation even as tariffs rise. Quantitatively, the model replicates both the magnitude and timing of the observed dollar depreciation episode in 2025. Our findings suggest that trade policy uncertainty is not a second-order consideration but a central driver of exchange rate movements during periods of geopolitical and policy instability. More broadly, the results carry important implications for the U.S. dollar's "exorbitant privilege": while dollar dominance rests on deep markets, network effects, and its role as a safe store of value, persistent and erratic trade policy uncertainty can undermine confidence and potentially accelerate an erosion already noted in recent literature. Incorporating policy uncertainty into macroeconomic models is therefore essential for understanding exchange rate behaviour in an increasingly fragmented global economic environment.

The full paper can be accessed from:

https://www.nber.org/system/files/working_papers/w34728/w34728.pdf

MONETARY POLICY AND PRIVATE EQUITY ACQUISITIONS: TRACING THE LINKS

Authors: Fernando Avalos, Boris Hofmann and Jose Maria Serena
BIS Working Papers No.1326 , January 2026
Bank for International Settlements

This paper examines the transmission of monetary policy through private equity (PE) activity, a channel that has received limited attention despite the growing systemic importance of private markets. Focusing on private equity acquisitions—including leveraged buyouts (LBOs), venture capital, and growth investments—the analysis investigates how monetary policy affects (i) the volume of PE deals, (ii) the use of leverage, and (iii) deal pricing. The results show that contractionary monetary policy shocks at the short end of the yield curve significantly dampen private equity activity by reducing deal volumes, lowering leverage, and compressing deal prices. Two distinct transmission channels are identified. A credit channel operates through changes in borrowing costs, influencing both the number of transactions and the extent of leverage, particularly in LBOs. A valuation channel works through risk-free rates embedded in discount rates, affecting the present value of expected gains from firm restructuring and growth, and thereby shaping acquisition prices. Consistent with this mechanism, looser monetary policy is associated with higher deal volumes, greater reliance on leverage, and higher pricing, with non-linear effects that are especially pronounced in higher-priced transactions. The findings also indicate that accommodative policy increases the likelihood of leveraged transactions relative to non-LBO deals, implying a rise in corporate sector leverage at the extensive margin. In contrast, monetary policy shocks affecting the long end of the yield curve have weaker and often insignificant effects, reflecting the predominance of shorter-maturity debt in PE financing. Overall, the results suggest that conventional monetary policy is effectively transmitted through the private equity sector, while the impact of unconventional policies operating on long-term yields is more limited, underscoring the need to incorporate private markets into analyses of monetary transmission.

The full paper can be accessed from: <https://www.bis.org/publ/work1326.pdf>

SUMMARY OF OPINION ARTICLES FROM INDIAN PUBLICATIONS

REWIRING POWER REFORMS: DISCOM PROFITABILITY IS AN ENCOURAGING START

State power distribution companies' (discoms') return to profitability after a decade of being in the red offers hope that reform, which has eluded this sector, is finally paying off. In 2024-25, discoms collectively recorded profits of ₹2,701 crore, a major turnaround from the losses of ₹25,553 crore in 2023-24. Chronic loss-making discoms in states such as Punjab, Bihar, Kerala, Himachal Pradesh, and Madhya Pradesh all turned in profits for FY25. Behind this encouraging performance are a host of little-noticed but significant decisions that forced a degree of much-needed financial discipline among discoms.

Chief among them was the implementation in 2022 of the automatic pass-through of fuel costs for distribution companies, with 30 of the 36 state and Union Territories adopting the rule. Given that fuel accounts for 70-80 per cent of the discoms' average cost of supply (ACS), the ability to recover this major expense has had a salutary impact on discom profitability. A simultaneous surge in smart metering — from 4,000 per day in FY23 to 115,000 per day in FY25 — has helped reduce power theft, which has long been a bane of the discoms. At the same time, a Revamped Distribution Sector Scheme — the fifth bailout plan in two decades — upped the incentive for improvement by linking access to discounted funds for infrastructure upgrades to measurable targets.

The results of these critical tweaks have been notable. The gap between the ACS and the average revenue realised (ARR) in FY25 narrowed dramatically from 65 paise per unit in FY21 to just 6 paise. With smart metering, the aggregate technical and commercial (AT&C) losses fell from 22.6 per cent in FY14 to 15.04 per cent in FY25. The Revamped Distribution Sector Scheme played its part in improving discom finances by making the payment of government dues and subsidies mandatory. The cascading benefit of these improvements with discoms paying their dues to generating companies on time is due also to an overhaul of the rule governing late payment.

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Though this progress is promising, it does not yet point to the fundamental reform that can place the sector on a financially sustainable path. In fact, discoms ended FY25 with accumulated losses of ₹6.47 trillion. The basic problem is that most states continue to rely on support from their Budgets or subsidies to keep agricultural power rates low or free. The Punjab regulator, for instance, raised agricultural power tariffs in FY24 and FY25 but the higher cost was borne by the state; power for farmers remains free. To cover this rising burden, most states (including Punjab) resort to cross-subsidies, raising tariffs for industrial and commercial consumers. But high power tariffs have long impinged on India's manufacturing competitiveness. The draft Electricity Amendment Bill, 2025, yet to be presented to Parliament, states that it seeks to eliminate these legacy structural deficiencies even as it promises to fully protect tariffs of farmers and low-income households. Achieving these contradictory aims has so far eluded India's power sector. Competition in the retail business, as this Bill suggests, may just be the silver bullet the sector needs.

*This is a summary of a Business Standard editorial published on 27 January 2026.
The full article can be accessed from: <https://shorturl.at/fCatf>*

OUR PITCH AT DAVOS AMID GLOBAL FLUX: RELIABLE INDIA IS A SAFE

Chandrajit Banerjee argues that India emerged as a rare source of stability and confidence at the World Economic Forum Annual Meeting 2026, held against a backdrop of global fragmentation, geopolitical tensions, trade uncertainty, and rapid technological disruption. While the overall mood in Davos was sombre, India stood out as a credible and dependable economy offering scale, policy predictability, and long-term growth potential.

Banerjee highlights how the Confederation of Indian Industry (CII) led a coordinated effort to project India as a resilient, reform-driven partner aligned with the Davos theme of "A Spirit of Dialogue." Global interest in India's economic trajectory, governance, and innovation ecosystem was reinforced by signals such as the European Union's

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intent to advance a landmark EU–India trade agreement and broader discussions on the role of middle powers in shaping a new global order.

The article contrasts global anxieties—ranging from fragile supply chains and trade fragmentation to fears over AI’s impact on jobs—with India’s solution-oriented narrative focused on execution, scale, and delivery. India’s leadership in discussions on artificial intelligence, sustainability, and civil aviation underscored its readiness across the AI value chain and its pragmatic emphasis on real-world deployment and returns rather than purely technological ambition.

Sustainability, Banerjee notes, has become central to competitiveness, and India’s ability to balance growth, inclusion, and climate responsibility offers valuable lessons. A strong showing by Union ministers, chief ministers, and a large, diverse CII delegation further reinforced India’s seriousness in engaging global investors.

The overarching message from Davos, according to Banerjee, is that India is no longer viewed merely as an emerging economy. With strong growth prospects, institutional credibility, digital public infrastructure, and a deep talent pool, India is positioning itself as an essential pillar of the global economic order. In a world searching for dependable partners, India made a compelling case that it is a “reliable” anchor for the future.

This is a summary of an article by Chandrajit Banerjee, published in Mint on 27 January 2026.

BOOKSHELF CHRONICLES

THE LAND TRAP: A NEW HISTORY OF THE WORLD'S OLDEST ASSET

Author: Mike Bird

Publisher: Hodder Press

Year of Publication: 2025

The Land Trap: A New History of the World's Oldest Asset by Mike Bird is a timely and incisive examination of land as the most enduring, and most underestimated, foundation of economic power. Rather than treating land simply as real estate or a passive backdrop to economic activity, Bird places it at the centre of financial systems, credit creation, inequality, and recurrent economic crises. His core argument is that land's unique characteristics—its fixed supply, immobility, and durability—have made it the ultimate form of collateral and, therefore, a powerful engine of both wealth accumulation and systemic risk.

Spanning several centuries, the book traces how land has shaped economic trajectories from colonial land speculation to modern housing booms and busts. Bird shows how rising land values repeatedly fuel credit expansion, encouraging banks and households to take on leverage, only for these cycles to end in painful corrections. Case studies ranging from Japan's late-1980s property bubble to China's recent real estate turmoil illustrate how land-based finance can underpin rapid growth while simultaneously sowing the seeds of prolonged stagnation. One of the book's strengths lies in its ability to connect these historical episodes to contemporary concerns over housing affordability, financial fragility, and wealth concentration.

Bird's writing is accessible and engaging, translating complex financial dynamics into clear narratives without sacrificing analytical depth. His discussion of how modern corporations and financial institutions quietly depend on land values—often more than on productive investment—offers readers a fresh lens through which to understand capitalism's inner workings. The book is particularly effective in highlighting how land

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ownership reinforces inequality, as gains from rising land values accrue disproportionately to those who already hold assets, while newcomers face ever-higher barriers to entry.

Overall, *The Land Trap* is a thought-provoking contribution to economic history and political economy. It challenges conventional narratives that focus narrowly on productivity or innovation by reminding readers that control over land remains one of the most powerful determinants of wealth and stability. By bringing land back into the centre of economic analysis, Bird provides a valuable framework for understanding modern housing crises, financial instability, and the persistence of inequality. The book succeeds in making a compelling case that the world's oldest asset continues to exert a profound influence on the global economy.

WE ARE EATING THE EARTH: THE RACE TO FIX OUR FOOD SYSTEM AND SAVE OUR CLIMATE

Author: Michael Grunwald

Publisher: Simon & Schuster

Year of Publication: 2025

Michael Grunwald's *We are Eating the Earth: The Race to Fix Our Food System and Save Our Climate* is a bold, sweeping diagnosis of one of the most consequential yet underappreciated dimensions of the climate crisis: the way humanity produces and uses land to grow its food. Arguing that our food system, which already accounts for roughly one-third of global greenhouse gas emissions, is as central to planetary decline as fossil fuels themselves, Grunwald places the relentless expansion of agriculture and its heavy toll on ecosystems at the heart of climate discourse.

At the centre of the book is the sobering fact that humanity has cleared a land mass roughly equivalent to the size of Asia plus Europe for agriculture, and with a projected global population approaching 10 billion by 2050, this pressure on land is set to intensify. Grunwald contends that even if fossil fuel emissions were drastically cut, continuing to expand farmland, at the rate of roughly one acre of forest or wilderness every six seconds, would lock in ever-worsening climate change and biodiversity loss.

Grunwald blends history, science, policy analysis, and reportage to show how well-intended but flawed solutions have repeatedly failed to stem the damage. He profiles figures such as Princeton researcher Tim Searchinger, whose work on the unintended effects of biofuel mandates revealed how converting corn to ethanol can actually worsen deforestation and emissions. The book challenges popular narratives about biofuels, regenerative agriculture, and alternative proteins, demonstrating that many touted "solutions" are insufficient, misdirected, or risk exacerbating the very problems they aim to solve.



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One of Grunwald's strengths is his ability to translate complex scientific and policy debates into vivid storytelling. He tracks not only the macro trends of global food demand and land use but also the quirky, ambitious, and sometimes controversial experiments in food innovation — from miracle crops to genetically edited livestock and novel pest controls — that offer glimpses of how more food might be grown with less environmental cost.

Critically, the book does not merely catalogue problems; it situates them within a broader political and economic context, illustrating how entrenched agricultural interests, weak policies, and cultural blind spots have slowed progress toward sustainable land use.

We are Eating the Earth stands out for its timely framing of land use and food production as not peripheral but central to global climate strategy. By linking soil, forests, diets, subsidies, science, and politics, Grunwald offers a rich and sobering account of a “wicked problem” whose resolution will require technological innovation, policy courage, and broad shifts in human behaviour. For readers seeking a comprehensive, incisive look at why fixing the food system is essential to saving the climate, and what that might actually entail, this book is a compelling and urgent read.



SECTION 5: CLIMATE CHANGE

CLIMATE NEWS

AUSTRALIA'S WORST HEATWAVE SINCE BLACK SUMMER MADE FIVE TIMES MORE LIKELY BY GLOBAL HEATING

A new analysis by World Weather Attribution (WWA) finds that human-induced global heating made the intense heatwave that swept across much of Australia in early January about five times more likely. The heatwave, the most severe since the 2019–20 “black summer,” saw temperatures exceed 40°C in major cities such as Melbourne and Sydney and triggered extreme conditions across several states, preceding devastating bushfires in Victoria.

The study concludes that greenhouse gas emissions played a far greater role than natural climate variability, with climate change increasing temperatures by around 1.6°C, while a weak La Niña slightly moderated maximum temperatures. Climate scientists involved in the report emphasized clear evidence of human influence behind the event and warned that heatwaves, already Australia’s deadliest natural hazard, pose growing health risks, especially by exacerbating underlying illnesses.

Looking ahead, the analysis suggests that heatwaves of similar intensity could occur roughly once every five years under current climate conditions, and potentially every second year if global temperatures rise 2.6°C above pre-industrial levels. The authors stress that extreme heat is escalating rapidly with global warming, underscoring the urgent need to recognize and respond to the increasing limits of human tolerance to rising temperatures.

This is a summary of an article by Donna Lu published in The Guardian on 22 January 2026. The article can be accessed from: <https://shorturl.at/ZCoJF>

EU'S CARBON BORDER ADJUSTMENT MECHANISM (CBAM) COMES INTO FORCE

The European Union's Carbon Border Adjustment Mechanism (CBAM), which began imposing a carbon price on select industrial imports from January 1, 2026, is reshaping global trade competitiveness by linking market access to carbon intensity. While decarbonisation of industry is unavoidable, the Centre for Science and Environment (CSE) argues that CBAM shifts a disproportionate share of decarbonisation costs onto developing countries, reinforcing existing structural disadvantages and sidelining historical responsibility for emissions.

CSE recommends that countries such as India levy a domestic carbon tax on exports to the EU, allowing revenues to be retained and reinvested in industrial decarbonisation while complying with CBAM requirements. At the same time, it stresses that unilateral measures are insufficient and calls for meaningful EU support through concessional finance, technology transfer, and assistance with emissions monitoring to ensure equitable climate action.

The scope and compliance demands of CBAM have expanded rapidly, increasing cost and reporting burdens on exporters from the Global South. Critics note that the mechanism's evolution has been shaped more by EU domestic industrial interests than by global climate objectives, leading many developing countries to view CBAM as protectionist. For India, CSE estimates that steel and aluminium exports to the EU could face cost pressures of around 25 per cent, threatening competitiveness. While short-term relief could come from measures such as revenue recycling and exemptions for least-developed countries, CSE argues that long-term solutions require addressing deeper inequities in global trade and finance and enabling an inclusive transition to green industrialisation.

*This is a summary of a news item published by Centre for Science and Environment on 02 January 2026
The full news item can be accessed from: <https://shorturl.at/xSFTh>*

SYNOPSIS OF RESEARCH PAPERS / REPORTS

**TRANSITIONING FROM PAT TO A CARBON TRADING SYSTEM:
IMPLICATIONS FOR INDIA'S IRON & STEEL, ALUMINIUM SECTORS, AND
CEMENT UNDER THE EU'S CBAM**

Author: Saon Ray and Kuntala Bandyopadhyay

ICRIER Policy Brief # 64 January 2026

Indian Council for Research on International Economic Relations (ICRIER), New Delhi

The European Union's Carbon Border Adjustment Mechanism (CBAM) marks a structural reconfiguration of global trade by embedding carbon performance directly into market access for emissions-intensive goods. For India, whose iron and steel, aluminium, and cement industries are both carbon-intensive and export-oriented, CBAM poses immediate competitiveness risks while underscoring the urgency of deep industrial decarbonization. This paper examines the implications of CBAM for these sectors and evaluates India's prospective transition from the Perform, Achieve, and Trade (PAT) scheme to a nationwide Carbon Trading Scheme (CTS) as a strategic policy response. It argues that while PAT has delivered incremental efficiency gains, it is inadequate to align industry with India's net-zero ambitions or to mitigate CBAM-related trade exposure. Drawing on sectoral emissions data, international experience with carbon markets, and recent industrial decarbonization roadmaps, the analysis highlights the potential of a well-designed CTS—anchored in robust monitoring, reporting, and verification, credible price signals, and explicit linkage to technological transformation—to drive decarbonization in hard-to-abate sectors. The paper emphasizes the need to complement carbon pricing with targeted incentives for low-carbon technologies and strong institutional coordination across climate, energy, and industrial policy domains. It concludes that CBAM should be viewed not merely as a trade constraint but as a catalyst for industrial upgrading, with a technology-aligned



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CTS enabling India to safeguard export competitiveness while accelerating its transition toward low-carbon industrialization.

The full policy brief can be accessed from: <https://shorturl.at/AUUBI>

ECONOMIC DEVELOPMENT AND THE ENVIRONMENT

Authors: B. Kelsey Jack and Nicholas Ryan

NBER Working Paper No. 34735 January 2026

National Bureau of Economic Research, Cambridge, MA

Economic development both depends on and reshapes the natural environment, often resulting in severely degraded environmental quality in low- and middle-income countries. This paper examines how environmental quality affects health, productivity, and well-being, and how individuals, communities, and states respond to environmental hazards. Drawing on a comprehensive review of empirical research, the analysis highlights three central findings. First, private adaptation to environmental risks is both insufficient and inefficiently low, offering limited protection against widespread pollution and environmental degradation. Second, collective action without state involvement—such as informal governance of local commons—has been increasingly outpaced by the scale, complexity, and non-local nature of modern environmental challenges. Third, despite being coarse, imperfect, and often poorly targeted, formal state regulation performs better than commonly perceived, frequently delivering benefits that exceed its costs. The paper underscores that environmental harms in developing countries are systematically underestimated due to measurement challenges, unobserved adaptation costs, and the difficulty of capturing long-term and interacting effects. It further shows that significant improvements in environmental quality are achievable through sustained policy effort, as evidenced by major turnarounds in countries such as China, Vietnam, and Korea. Advances in monitoring technologies and regulatory enforcement have played a critical role in these gains. The analysis concludes that while political economy constraints and coordination failures—

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especially for transboundary and global environmental problems—remain formidable, effective state-led regulation is indispensable for reconciling economic development with environmental sustainability.

The full paper can be accessed from:

https://www.nber.org/system/files/working_papers/w34735/w34735.pdf



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