EcoSphere

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

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Driving Policy, Empowering Progress

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

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Chairman's Reflections

Balancing Stability and Transformation in a Turbulent World

Geopolitical tensions, technological disruptions, climate risks, and shifting trade patterns are reshaping the economic landscape even as many economies display surprising resilience. Against this backdrop, India appears relatively well positioned, combining strong growth momentum with improving macroeconomic stability. Yet sustaining this trajectory will require careful navigation of both domestic challenges and global uncertainties.

Fiscal Strategy and the Budget Framework

The Union Budget 2026–27 reflects a strategy of fiscal prudence combined with long-term growth orientation. With fiscal space tightening globally, the Budget prioritises macroeconomic credibility through a gradual shift toward a debt-to-GDP fiscal anchor while maintaining public capital expenditure at about 3.1 percent of GDP. Investments in integrated infrastructure and logistics systems remain central to the government's growth strategy, alongside initiatives aimed at strengthening strategic industries such as semiconductors and electronics. At the same time, modest increases in social spending and rural employment programmes seek to preserve economic stability, underscoring a policy approach that balances fiscal consolidation with developmental priorities.

Growth Momentum and Structural Shifts

Recent revisions to the national accounts by the Ministry of Statistics and Programme Implementation have improved the measurement of India's economy through better use of administrative data, enhanced survey coverage, and updated methodologies. The new GDP series with base year 2022–23 indicates that India has maintained strong growth momentum, with real GDP expanding by an average of around 7.3 percent over the past three years and reaching about 7.6 percent in 2025–26. Growth continues to be driven largely by services and investment, while manufacturing is showing renewed strength and capital formation now accounts for nearly one-third of GDP. Private consumption has recovered, and services exports have played an increasingly important role in stabilising the external sector.

However, the narrowing gap between nominal and real GDP growth reflects moderating inflation, which may place pressure on tax buoyancy and fiscal projections. Sustaining high growth will therefore require greater emphasis on productivity, investment efficiency, and employment generation.

Fiscal Federalism and Institutional Reforms

Fiscal relations between the Union and the States remain a critical pillar of India's development architecture. The Sixteenth Finance Commission, chaired by Dr Arvind Panagariya, has recommended maintaining the States' share in the divisible pool of Union taxes at 41 percent, ensuring continuity and predictability in fiscal transfers. At the same time, the Commission proposes refinements in the horizontal devolution formula, giving greater weight to demographic transition, tax effort, and ecological considerations.

In addition to tax devolution, the Commission has emphasised targeted grants and stronger support for local governments while reinforcing fiscal discipline under the FRBM framework. The incorporation of climate vulnerability and disaster risks into fiscal transfers represents an important step toward aligning fiscal policy with emerging environmental challenges.

Monetary Stability and Inflation Dynamics

India's macroeconomic environment currently reflects a rare combination of strong growth and subdued inflation. At its February 2026 meeting, the Monetary Policy

Committee of the Reserve Bank of India chose to maintain the policy repo rate at 5.25 percent while retaining a neutral stance. Consumer price inflation moderated to 2.75 percent in January 2026, well below the RBI's medium-term target of 4 percent.

The moderation in inflation has been driven largely by declining food prices, while wholesale price inflation has begun to firm up after a prolonged period of disinflation. Together, these developments suggest that monetary policy currently operates within a relatively comfortable environment, characterised by stable growth, manageable inflation, and resilient domestic demand.

Industrial Activity and Infrastructure

Industrial activity in January 2026 displayed moderate but resilient growth, with the Index of Industrial Production expanding by 4.8 percent year-on-year. Manufacturing and electricity continue to anchor industrial expansion, while mining has shown steady improvement. Notably, the structure of industrial growth is gradually shifting from consumption-driven impulses toward infrastructure and intermediate goods.

This trend is also reflected in the performance of the core infrastructure sectors. The Index of Eight Core Industries recorded growth of around 4 percent, with strong performance in steel and cement highlighting the impact of sustained public infrastructure investment. At the same time, contraction in hydrocarbon output underscores persistent structural challenges in domestic energy production.

External Sector and Trade Dynamics

India's external sector performance in early 2026 highlights both resilience and emerging pressures. Merchandise exports remained broadly stable while imports rose sharply, widening the trade deficit. However, strong services exports, particularly in IT and professional services, generated a substantial surplus that helped stabilise the overall external balance.

The recently announced interim trade framework between the India and the United States marks an important step toward deeper economic cooperation. The agreement reduces tariffs on several Indian exports while opening new opportunities for agricultural and manufacturing sectors. At the same time, it emphasises regulatory standards, rules of origin, and supply-chain cooperation in emerging technologies, reflecting the increasing intersection of trade policy and strategic considerations.

Labour Markets and Agricultural Transformation

Labour market indicators from the January 2026 round of the Periodic Labour Force Survey suggest that employment conditions remain broadly stable despite mild seasonal softening, particularly in rural areas following the harvest season. Urban labour markets continue to display resilience, indicating that the recent moderation reflects temporary factors rather than structural weakness.

Agriculture policy, meanwhile, is gradually shifting towards diversification and technology adoption. The Union Budget highlights digital agriculture, AI-based advisory systems, and stronger support for allied sectors such as livestock and fisheries. Yet the persistence of large fertiliser subsidies and relatively limited investment in agricultural research suggests that deeper structural reforms will be required to raise farm productivity and incomes sustainably.

Technology, Industry and Financial Sector Developments

India's technological ambitions are becoming increasingly visible. Mukesh Ambani and Reliance Industries Limited have announced plans to invest about ₹10 trillion to build a comprehensive artificial intelligence ecosystem through Reliance Jio. The initiative aims to create sovereign AI infrastructure, including large-scale data centres powered by renewable energy and a nationwide edge-computing network.

Similarly, the inauguration of a semiconductor assembly and testing facility by Micron Technology in Sanand signals India's growing participation in global electronics supply chains. These developments underline the country's efforts to strengthen technological capabilities and reduce dependence on external suppliers in strategic sectors.

The financial sector also continues to demonstrate strength. State Bank of India reported its highest-ever quarterly profit in the third quarter of FY26, supported by strong credit growth, improved asset quality, and expanding deposits—reflecting the broader resilience of India’s banking system.

Global Economic Conditions

Globally, economic conditions remain mixed. According to Ajay Banga, President of the World Bank, one of the most significant structural challenges facing the global economy is the massive demographic surge in developing countries. Over the next decade, more than a billion young people are expected to enter the labour force, while job creation is projected to fall far short of this number.

Monetary policy developments across advanced economies also reflect a period of cautious adjustment. The European Central Bank and the Bank of England have maintained relatively tight policy stances even as inflation moderates, highlighting the delicate balance between supporting growth and maintaining price stability.

Financial Markets and Commodity Trends

Financial markets worldwide have displayed considerable volatility in recent months. In India, benchmark indices such as the BSE Sensex and NSE Nifty 50 fluctuated in response to policy developments, global trade tensions, and technological disruptions. Global financial markets in February 2026 showed mixed performance as investors navigated shifting monetary policy expectations, geopolitical tensions, and technological disruptions. US equity markets experienced moderate volatility as strong economic data and persistent inflation reduced expectations of rapid interest-rate cuts by the Federal Reserve, leading to cautious investor sentiment and intermittent pressure on technology stocks amid debates over AI-driven industry changes. Major indices, including the S&P 500, NASDAQ Composite, and Dow Jones Industrial Average, moved within relatively narrow ranges and ended the month with mixed results. In contrast, European markets recorded stronger gains supported by solid corporate earnings, while performance across the Asia-Pacific region remained uneven due to varying domestic growth conditions and external demand uncertainties, reflecting increasingly divergent trends in global capital markets.

Commodity markets have been equally volatile. Oil prices, represented by benchmarks such as Brent Crude and West Texas Intermediate, have fluctuated amid geopolitical tensions in the Middle East, while safe-haven demand has pushed Gold close to historic highs.

Climate Change and Global Policy Divisions

The global climate agenda is entering an increasingly contested phase. A recent ministerial meeting of the International Energy Agency revealed growing divisions among major economies after the United States pushed to reduce emphasis on climate targets. Several European leaders, including French President Emmanuel Macron, reaffirmed their commitment to clean energy transitions, highlighting widening policy differences.

At the same time, the world appears to be approaching critical climate thresholds, with rising temperatures intensifying extreme weather events and placing growing pressure on vulnerable regions. Addressing these challenges will require a new development paradigm that integrates climate resilience, equitable growth, and sustainable resource use under the framework of the United Nations Framework Convention on Climate Change.

Looking Ahead

The developments of recent months underscore a central reality: the global economy is entering a period where stability and disruption coexist. India's current macroeconomic position, characterised by strong growth, moderate inflation, and expanding investment, offers an opportunity to strengthen its long-term development trajectory. Yet sustaining this momentum will depend on continued policy discipline, deeper structural reforms, and the ability to adapt to an increasingly uncertain global environment.

In this evolving landscape, the challenge for policymakers will be to balance resilience with transformation, ensuring that growth remains inclusive, sustainable, and capable of navigating the profound economic and environmental changes shaping the world ahead.

Dr Debesh Roy
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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 (₹) 90.9542 (27 February 2026)

COVER STORY

UNION BUDGET 2026-27

HIGHLIGHTS OF BUDGET SPEECH BY SMT. NIRMALA SITHARAMAN MINISTER OF FINANCE, GOVERNMENT OF INDIA

I. Vision, Context, and Strategic Orientation

The Union Budget 2026–27 is presented as a Viksit Bharat–oriented Budget, grounded in the Government's 12-year reform journey marked by:

- Macroeconomic stability and fiscal discipline
- Sustained high growth (~7 percent) with moderate inflation
- Large-scale public investment
- Structural reforms focused on productivity, competitiveness, and inclusion

The Finance Minister situates the Budget in a challenging global environment characterised by weakening multilateralism, trade disruptions, supply-chain risks, and rapid technological change, especially AI. Against this backdrop, India's strategy is to remain deeply integrated with global markets, expand exports, attract stable long-term capital, and build domestic capabilities in critical sectors, while ensuring inclusive growth.

II. The Three "Kartavya" Framework

The Budget is explicitly structured around three core duties (kartavya):

1. Accelerate and sustain economic growth by enhancing productivity, competitiveness, and resilience to global volatility.
2. Fulfil aspirations and build capacity of citizens—especially youth—so they become partners in growth.
3. Ensure inclusive access to resources, opportunities, and amenities across regions, communities, and sectors, aligned with *Sabka Saath, Sabka Vikas*.

These are supported by:

- Continuous and adaptive structural reforms
- A robust and resilient financial sector
- Deployment of advanced technologies, including AI, for governance and service delivery

III. Part A: Growth, Investment, and Structural Transformation

A. Reform Momentum – "Reform Express"

- Over 350 reforms implemented since Independence Day 2025
- Key areas: GST simplification, Labour Codes, Quality Control Orders rationalisation
- High-Level Committees and Centre–State coordination to reduce regulatory and compliance burdens

B. First Kartavya: Accelerating and Sustaining Growth

1. Scaling Manufacturing in Strategic and Frontier Sectors

The Budget identifies seven strategic manufacturing thrusts:

a) Biopharma SHAKTI (₹10,000 crore over 5 years)

- Position India as a global hub for biologics and biosimilars
- New and upgraded NIPERs, expanded clinical trial network
- Strengthening CDSCO to global regulatory standards

b) Semiconductors and Electronics

- Launch of India Semiconductor Mission (ISM) 2.0: equipment, materials, full-stack IP, and skilled workforce
- Electronics Components Manufacturing Scheme outlay enhanced to ₹40,000 crore

c) Critical Minerals and Rare Earths

- Rare Earth Corridors in Odisha, Kerala, Andhra Pradesh, and Tamil Nadu
- Customs duty exemptions for processing of critical minerals

d) Chemicals and Capital Goods

- Three plug-and-play Chemical Parks via challenge mode
- Hi-Tech Tool Rooms and schemes for construction & infrastructure equipment
- Container Manufacturing Scheme (₹10,000 crore over 5 years)

e) Textiles and Labour-Intensive Sectors

- Integrated Textile Programme covering fibres, clusters, handlooms, sustainability, and skilling (Samarth 2.0)
- Mega Textile Parks and Gram Swaraj initiative for khadi and handicrafts

f) Sports Goods Manufacturing

- Dedicated initiative for sports equipment, materials research, and design

2. Rejuvenation of Legacy Industrial Clusters

- Revival of 200 legacy clusters through infrastructure, technology, and efficiency upgrades

3. MSMEs and "Champion SMEs"

A three-pronged strategy:

- **Equity Support**:
  - ✓ ₹10,000 crore SME Growth Fund
  - ✓ ₹2,000 crore top-up to Self-Reliant India Fund
- **Liquidity Support**:
  - ✓ Mandatory use of TReDS by CPSEs
  - ✓ Credit guarantees for invoice discounting
  - ✓ GeM–TReDS integration
  - ✓ Securitisation of TReDS receivables
- **Professional Support**:
  - ✓ "Corporate Mitras" trained by professional institutes to assist MSMEs

4. Infrastructure Push

- Public capital expenditure increased to ₹12.2 lakh crore in FY 2026–27
- Infrastructure Risk Guarantee Fund to de-risk construction-phase financing
- Asset monetisation via CPSE REITs
- Green logistics:
    - ✓ New Dedicated Freight Corridor (Dankuni–Surat)
    - ✓ 20 new National Waterways
    - ✓ Coastal Cargo Promotion Scheme
- Incentives for seaplane manufacturing and operations

5. Energy Security and Sustainability

- Carbon Capture, Utilisation and Storage (CCUS): ₹20,000 crore over 5 years
- Focus on power, steel, cement, refineries, and chemicals

6. City Economic Regions (CERs)

- Tier II and Tier III cities as engines of growth
- ₹5,000 crore per CER over 5 years via reform-linked challenge mode
- Seven High-Speed Rail corridors as economic "growth connectors"

C. Financial Sector Reforms

- High-Level Committee on Banking for Viksit Bharat
- Restructuring of PFC and REC
- Review of FDI rules under FEMA (Non-Debt Instruments)

- Market-making and derivatives for corporate bonds
- Incentives for large municipal bond issuances

IV. Second Kartavya: Aspiration, Skills, and Services-Led Growth

A. Services Sector Focus

- High-powered Education–Employment–Enterprise Standing Committee
- Target: 10 percent share in global services trade by 2047
- Focus on AI's impact on jobs and skills

B. Human Capital Development

Key initiatives across sectors:

- **Health and Care Economy**:
  - ✓ 1 lakh Allied Health Professionals in 5 years
  - ✓ 1.5 lakh caregivers trained annually
- **Medical Value Tourism**:
  - ✓ Five Regional Medical Hubs
- **AYUSH Expansion**:
  - ✓ New Ayurveda institutes, upgraded labs, WHO centre strengthening
- **Animal Husbandry**:
  - ✓ Private investment in veterinary education and infrastructure
- **Orange Economy (AVGC)**:
  - ✓ Creator labs in schools and colleges

- **Design and Higher Education**:
  - ✓ New National Institute of Design
  - ✓ University Townships and girls' hostels in every district
  - ✓ Astronomy and astrophysics infrastructure

C. Tourism, Heritage, and Sports

- National Institute of Hospitality
- Digital Knowledge Grid for tourism destinations
- Eco-tourism trails and heritage site development
- Launch of Khelo India Mission for comprehensive sports ecosystem development

V. Third Kartavya: Inclusion, Equity, and Regional Balance

A. Increasing Farmer Incomes

- Fisheries value-chain strengthening
- High-value crops: coconut, cashew, cocoa, sandalwood, nuts
- Bharat-VISTAAR: AI-enabled agricultural advisory
- SHE-Marts for rural women entrepreneurs

B. Empowering Divyangjan and Strengthening Mental Health

- Divyang Kaushal Yojana and Divyang Sahara Yojana
- Scaling assistive device production and retail access
- Establishment of NIMHANS-2 and expansion of trauma care centres

C. Regional Development Focus

- **Purvodaya**: East Coast Industrial Corridor, tourism, and e-buses
- **North-East**: Buddhist Circuit development across six states

VI. Fiscal Consolidation and Budget Numbers

- **Debt-to-GDP ratio**: 55.6 percent in FY 2026–27, on path to 50±1 percent by FY 2030–31
- **Fiscal deficit**:
    - ✓ 4.4 percent of GDP (RE 2025–26)
    - ✓ 4.3 percent of GDP (BE 2026–27)
- **Finance Commission**:
    - ✓ 41 percent vertical devolution retained
    - ✓ ₹1.4 lakh crore in grants to States

VII. Part B: Tax Proposals

A. Direct Taxes

- Income Tax Act, 2025 effective from 1 April 2026
- Simplified rules, forms, and compliance
- Ease-of-living measures:
    - ✓ Motor Accident Claims Tribunal (MACT) interest exemption & TDS will be done away with
    - ✓ Lower Tax Collection at Source (TCS) on foreign remittances
    - ✓ Extended timelines for revised returns

- FAST-DS 2026 for small foreign asset disclosures
- Rationalisation of penalties and prosecution
- Strong support to IT services sector (expanded safe harbour)
- MAT reformed and reduced to 14 percent as final tax

B. Indirect Taxes

- Tariff simplification and exemption rationalisation
- Export promotion for marine, leather, and textile sectors
- Energy transition and critical minerals support
- Electronics, aviation, and nuclear power incentives
- Passenger-friendly baggage rules and customs process reforms

VIII. Overall Assessment

The Union Budget 2026–27 presents a medium-term, reform-driven strategy combining:

- Manufacturing scale-up and infrastructure-led growth
- Services-sector expansion and skill creation
- Fiscal consolidation with high public investment
- Strong emphasis on inclusion, technology, and regional balance

It reinforces India’s pathway towards becoming a resilient, competitive, and inclusive developed economy in line with the Viksit Bharat 2047 vision

UNION BUDGET 2026–27 AND THE ARCHITECTURE OF LONG-TERM GROWTH

India's Union Budget 2026–27 must be read not as a routine fiscal document, but as a strategic response to a rapidly fragmenting global economic order and a domestic economy at an inflection point. The Budget is shaped by three defining forces: heightened geopolitical uncertainty, tightening fiscal space after years of pandemic-induced expansion, and the structural transition of the Indian economy towards higher income, greater urbanisation, and deeper integration with global value chains.

Against this backdrop, Finance Minister Nirmala Sitharaman has presented a Budget that privileges macroeconomic credibility, strategic capacity-building and systems-level infrastructure, even as it cautiously restores elements of welfare spending and employment support.

A Changed World, a Changed Fiscal Philosophy

The global context framing Budget 2026–27 is unusually turbulent. The resurgence of protectionism, the reordering of supply chains, volatile capital flows and renewed trade uncertainty have weakened the assumptions that underpinned the old globalisation model. For India, this has meant stable growth and moderate trade deficits coexisting with sustained foreign portfolio outflows and pressure on the rupee.

In this environment, the Budget signals a decisive shift in fiscal philosophy. The government has formally moved from a narrow annual fixation on the fiscal deficit to a medium-term debt-to-GDP anchor, committing to reduce central government debt from 56.1 percent of GDP in FY26 to around 50 percent by FY31. This aligns India with international fiscal best practices and reflects a recognition that resilience, not just growth, must anchor policy in an era of shocks.

Yet this transition also introduces complexity. Debt dynamics depend not only on fiscal discipline but on interest rates and nominal GDP growth. While the fiscal deficit is budgeted to fall marginally to 4.3 percent of GDP in FY27, interest payments are projected to rise to over 26 percent of total expenditure. This uncomfortable juxtaposition—declining debt ratios alongside rising interest burdens—highlights the importance of growth revival and credible assumptions.

Fiscal Consolidation under Constraint

The Budget reveals a government operating with shrinking fiscal headroom. Nominal GDP growth for FY27 is assumed at 10 percent, among the most conservative projections since the pandemic. Tax buoyancy remains weak, particularly on the consumption side, with GST collections expected to stagnate or decline—an indicator of subdued demand rather than cyclical exuberance.

The after-effects of substantial tax cuts announced in earlier budgets are clearly visible. Net tax revenues in FY26 are estimated to fall short by nearly ₹1.6–1.9 trillion. While higher dividends from the Reserve Bank of India and public sector enterprises have cushioned the blow, fiscal consolidation has slowed markedly. The Budget thus prioritises credibility over populism, preferring realistic projections and modest deficit reduction to headline-grabbing targets.

Capital Expenditure and the Rise of Systems Thinking

Despite fiscal constraints, capital expenditure remains the central pillar of the government's growth strategy. With an allocation of ₹12.2 trillion (3.1 percent of GDP), public capex continues to anchor India's medium-term development narrative. More importantly, the Budget reflects a shift from asset creation to systems thinking.

The emphasis on city economic regions, seven high-speed rail corridors, new dedicated freight corridors, expanded inland waterways, container manufacturing, and logistics integration reflects a recognition that productivity gains emerge from connectivity and scale. Infrastructure is being designed not merely to add capacity, but to reshape economic geography, strengthening Tier II and Tier III cities, easing congestion in megacities, and creating new nodes of industrial and services-led growth.

The proposal for an Infrastructure Risk Guarantee Fund further signals a desire to crowd in private investment by reducing financing risk, particularly in long-gestation projects that have historically suffered from delays and cost overruns.

Industrial Policy in a Geopolitical Economy

Budget 2026–27 marks a clear evolution in India's industrial policy—from incentive-heavy schemes towards strategic capacity-building. The focus on semiconductors, electronics components, pharmaceuticals, chemicals, rare earths, defence manufacturing and clean energy inputs reflects a conscious response to global supply chain vulnerabilities.

Rather than broad tariff protection, the Budget relies on targeted customs exemptions, logistics reforms, digital trade facilitation and cluster-based development. Initiatives such as rare earth corridors, chemical parks, semiconductor mission expansion, electronics component manufacturing and defence MRO incentives aim to embed India deeper into reconfigured global value chains while reducing import dependence in critical inputs.

Employment, Skills and the AI Transition

A striking feature of the Budget is its explicit engagement with the employment implications of artificial intelligence and automation. With a workforce exceeding 560 million, India's challenge is not the absence of skilling initiatives, but the weak translation of training into durable labour market outcomes, a gap acknowledged in the Economic Survey.

The proposed high-level Education-to-Employment and Enterprise Committee is tasked with aligning curricula, apprenticeships, internships and industry demand, with a particular focus on AI's impact on jobs. The emphasis on labour-intensive sectors—textiles, tourism, MSMEs, healthcare and services—recognises their centrality to employment generation in the coming decade.

Agriculture and the Rural Economy: Stability without Structural Breakthrough

Agriculture occupies a quieter but significant place in Budget 2026–27. Unlike infrastructure or manufacturing, the sector does not witness dramatic new announcements. Instead, the Budget reflects a strategy of incremental consolidation rather than radical reform.

The most visible agricultural and rural intervention comes through increased allocations to rural development and employment schemes. Spending on rural development rises sharply, with employment guarantees expanded from 100 to 125 days per household under the revamped rural employment programme. This signals an acknowledgement of persistent rural underemployment and the need for income support amid uneven recovery.

However, experience suggests that actual outcomes will depend on state-level implementation capacity and their ability to meet co-financing requirements. Without complementary investments in rural productivity, such programmes risk remaining consumption-smoothing tools rather than engines of transformation.

The Budget introduces targeted agriculture-linked interventions with regional implications. The Coconut Promotion Scheme aims to improve productivity and competitiveness through replanting and improved saplings, benefiting coastal states where livelihoods are closely tied to coconut cultivation. Similarly, the initiative to revive the sandalwood ecosystem reflects an attempt to blend livelihood support with heritage-linked value chains.

While these schemes are economically modest, they reflect a shift towards crop- and region-specific interventions, aligning with broader efforts such as One District One Product (ODOP) to promote diversification and value addition.

What the Budget largely avoids is a deep engagement with structural agricultural challenges, viz., low productivity growth, fragmented landholdings, post-harvest losses, climate vulnerability and weak market integration. There is limited emphasis on irrigation efficiency, agri-logistics, cold chains, or technology adoption at scale.

Climate risks, despite their growing impact on farm incomes, receive limited explicit fiscal articulation. While broader investments in clean energy, water infrastructure and climate technologies indirectly benefit agriculture, a more explicit climate-resilient agriculture strategy remains conspicuously absent.

In essence, agriculture in Budget 2026–27 is treated as a sector requiring stability and risk mitigation, not yet as a frontier for productivity-led transformation.

Welfare, Human Capital and Social Spending

After years of compression, welfare spending makes a cautious return. Allocations for health and education rise modestly, while food, fertiliser and fuel subsidies are trimmed—though past trends suggest actual subsidy outlays may exceed budgeted figures.

This rebalancing reflects the government's attempt to reconcile fiscal discipline with social stability. Human capital investments are framed not as consumption but as productivity-enhancing expenditures, particularly in a labour market being reshaped by technology.

Conclusion: A Budget for an Age of Uncertainty

Union Budget 2026–27 is best understood as a document of strategic restraint and institutional maturation. It neither promises rapid fiscal loosening nor dramatic reform breakthroughs. Instead, it focuses on repairing balance sheets, building systems, strengthening strategic industries and cautiously addressing employment and welfare concerns.

The shift to a debt-based fiscal anchor, the emphasis on integrated infrastructure, the alignment of industrial policy with geopolitics, and the tentative engagement with AI-driven labour disruption together signal a government preparing for a more volatile, contested global economy.

The challenge now lies in execution. Translating capital expenditure into private investment, industrial intent into jobs, skilling into employability, and agricultural stability into rural prosperity will determine whether this Budget marks merely prudent stewardship, or the foundation of India's next growth chapter.

EXPERT OPINION: UNION BUDGET - LOOK BEYOND THE HEADLINES FOR ITS ACTUAL IMPACT – INDIRA RAJARAMAN

Indira Rajaraman (*Mint,* 02 February 2026) argues that Union Budget 2026–27 must be assessed less by its headline announcements and more by the structural and institutional realities that underpin it, especially at a time when India is operating in what she describes as a harsh and punitive global order. She begins by noting an important statistical transition: the Budget is presented before the advance GDP estimates based on the new 2022–23 base year are released, creating uncertainty around growth comparisons. While the new series will alter sectoral weights and real growth estimates, nominal GDP is unlikely to change significantly; for now, the economy is assumed to grow at 10 percent, from an estimated ₹357.14 trillion in the current year to ₹393 trillion in 2026–27. Two institutional developments frame the Budget numbers—the incorporation of the 16th Finance Commission's recommendations, which retain the states' share of Union taxes at 41 percent, and the impending 8th Pay Commission, whose retrospective implementation from January 2026 will cause a sharp spike in revenue expenditure in 2027–28 when arrears fall due.

On fiscal performance, Rajaraman highlights that consolidation remains on track despite a rise in the absolute fiscal deficit. The provisional deficit for 2025–26 is marginally lower than budgeted, while the projected deficit for 2026–27, though expressed as 4.3 percent of GDP, is better judged in absolute terms at ₹16.96 trillion, an increase of ₹1.38 trillion. What stands out is that this consolidation has been achieved alongside a significant expansion in effective capital expenditure—rising from a pre-pandemic average of 2.7 percent of GDP to 3.9 percent in 2025–26 and a budgeted 4.4 percent in 2026–27. The adjustment has largely occurred on the revenue expenditure side, which has fallen below its pre-pandemic share, helped by reduced subsidy leakages through direct benefit transfers, strong tax buoyancy, and substantial non-tax revenues, including a dividend payout of ₹2.68 trillion from the Reserve Bank of India.

However, she cautions against an uncritical celebration of rising capital expenditure. The quality of spending, she argues, cannot be judged solely by the share devoted to asset creation. Adequate allocations for maintenance are essential if newly created assets—such as roads, sewage systems, and urban infrastructure—are not to become inefficient or even hazardous. She raises pointed questions about whether sewage treatment capacity, regulatory staffing, and environmental safeguards are keeping pace with infrastructure expansion, warning that regulatory failure and public health crises arising from polluted air and water could ultimately undermine growth itself.

Rajaraman notes that most major macroeconomic levers have already been pulled. Significant income tax and GST rate cuts have been implemented, monetary policy space is nearly exhausted with little scope for further repo rate reductions, and banks are facing difficulties in mobilising deposits. On the trade front, she flags the recently concluded free trade agreement with the European Union, expected to be operational by end-2026, while underscoring unresolved complexities, particularly compliance with the Carbon Border Adjustment Mechanism, which will require producer-specific carbon certification by EU-accredited auditors.

Despite these constraints, the article identifies grounds for cautious optimism. The Budget introduces several well-targeted reforms, notably the expansion of the Trade Receivables Discounting System to ease liquidity constraints for small enterprises, an extensive set of skill development initiatives addressing acute needs in areas such as geriatric and mental healthcare, and support for commercial tree crops that aligns with expected tariff reductions and demand growth in the EU market. Finally, the forthcoming Income Tax Act, effective April 2026, simplifies procedures for tax deduction and collection at source, eases compliance for cooperatives and IT service providers, and liberalises indirect tax provisions for exporters' imported inputs—changes that are likely to be widely welcomed.

This is a summary of an article by Indira Rajaraman, published in Mint on 02 February 2026.

EXPERT OPINION: THIS BUDGET SHOULD HAVE TRIED TO LIFT FLAGGING INDIAN SAVINGS – RAJRISHI SINGHAL

Rajrishi Singhal (*Mint*, 02 February 2026) cautions that India's much-celebrated economic resilience, reflected in strong real GDP growth and easing inflation, masks deeper structural vulnerabilities that could weaken the foundations of growth. The most critical of these, he argues, is sub-optimal nominal GDP growth and a widening fault line in household savings, which together pose a serious challenge to macroeconomic stability. While the Union Budget highlights stability and growth, Singhal finds it puzzling and disappointing that it fails to directly address this emerging structural deficit in savings.

He notes that the government's development strategy hinges on two key budgetary pillars: a relatively restrained net borrowing programme of ₹11.7 trillion for 2026–27 and a robust capital expenditure outlay of ₹12.2 trillion, up 11.5 percent over the revised estimates. Public capital expenditure is expected to crowd in private investment and support employment and growth, but this strategy implicitly depends on the availability of domestic savings to finance both public borrowing and private investment. Slowing nominal growth, coupled with revenue collections falling short of budgeted targets, makes this dependence on savings even more critical.

The article highlights growing stress in the household savings ecosystem. Deposit growth in the banking system has lagged credit growth, forcing banks to either moderate lending or rely on costlier non-deposit funding, thereby compressing margins. Aggregate deposits have risen by 8.5 percent since April 2025, compared to a 10.4 percent rise in bank credit. Structurally, the share of bank deposits in household savings has fallen sharply—from 58 percent in 2011–12 to just 35 percent in 2024–25. While some of this shift has gone into equities and mutual funds, Singhal questions the *Economic Survey's* optimistic interpretation of this as an "evolving" risk appetite, pointing out that bank deposits currently deliver negative real returns after inflation and taxes, which naturally discourages savers. He observes that the banking sector's demand for more favourable tax treatment of interest income—possibly akin to capital gains taxation—reflects this pressure. Although the merits of such a proposal are debatable, bankers argue that tax parity could redirect some household savings back into deposits. Concerns about weakening household savings have also been voiced within the Reserve Bank of India, including by monetary policy committee member Ram Singh, even as there appears to be tension between recognising savings erosion and advocating further interest rate cuts.

Singhal is sceptical that encouraging households to move into bond markets, as suggested in the Economic Survey, will resolve the problem. Pre-budget demands for limited issuance of tax-free bonds—either by the government or highly rated public sector enterprises—to tap patient household savings for long-gestation infrastructure projects were ignored. With insurance companies and pension funds unable to bridge the long-term funding gap, the absence of such instruments leaves a significant financing wrinkle unresolved.

The article ends with a note of concern about rising household indebtedness. Household liabilities have doubled from 3 percent of gross national disposable income in 2014–15 to 6.1 percent in 2023–24, suggesting that consumption is increasingly being financed through borrowing rather than income or savings. Singhal concludes that unless job creation accelerates meaningfully, this combination of weak savings growth and rising household debt could undermine the sustainability of India's current growth narrative.

This is a summary of an article by Rajrishi Singhal, published in Mint on 02 February 2026.

SECTION 1: INDIAN ECONOMY

SECOND ADVANCE ESTIMATES OF INDIA'S GDP 2025-26

BEYOND THE HEADLINE NUMBERS: INTERPRETING INDIA'S NEW GDP AND GVA ESTIMATES

The rebasing of India's National Accounts Statistics to 2022–23 is not merely a statistical housekeeping exercise. It is a structural reset of the lens through which the economy is viewed, evaluated, and governed. The new base year captures a fundamentally altered economic landscape shaped by the pandemic, accelerated formalisation, widespread digitalisation, GST stabilisation, and a rebalancing of growth drivers towards services and public investment. As such, the revised series reshapes not only growth numbers but also the underlying story of India's economic transition.

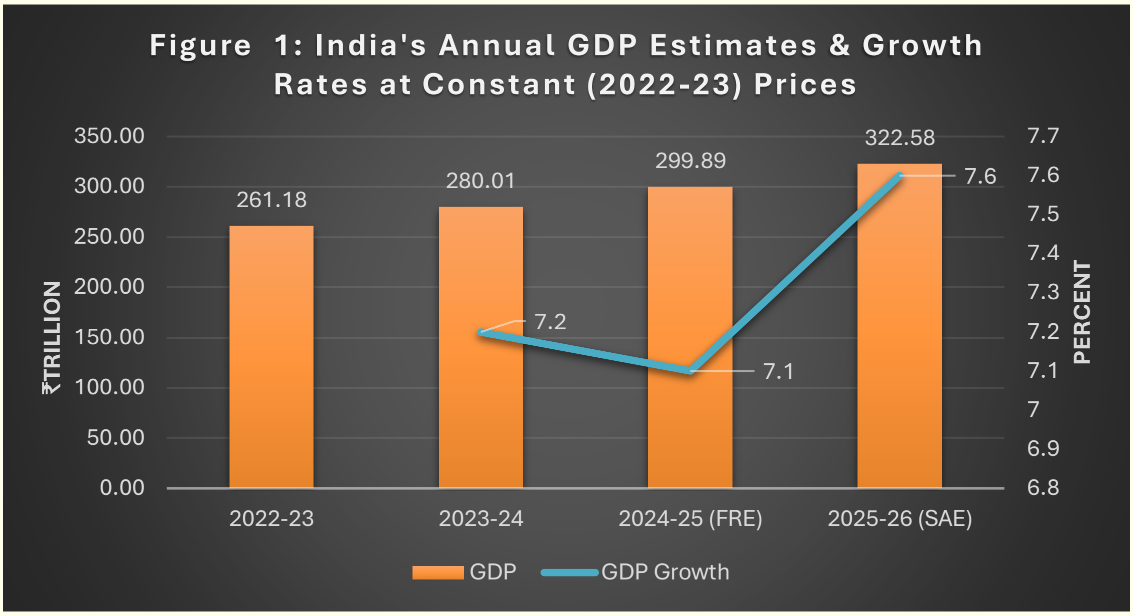
Crucially, the new series arrives at a moment when policy credibility depends increasingly on data transparency and methodological robustness. Growth is no longer judged solely by headline GDP expansion but by its quality, sustainability, and employment content. In this context, the revised GDP and GVA estimates provide a clearer mirror of economic realities, one that demands more nuanced policy responses.

Key Methodological Improvements in the New GDP Series (Base Year 2022–23)

The new GDP series with base year 2022–23 introduces several methodological and data-related improvements aimed at enhancing the accuracy, coverage, and consistency of national accounts estimates. A key enhancement is the improved compilation of the private corporate institutional sector through the segregation of activities in multi-activity enterprises, enabling a more precise allocation of value added across sectors. The coverage of the unincorporated sector has also been strengthened by using annual survey data, allowing better capture of its evolving dynamics. Methodologically, the series adopts double deflation for the agriculture and manufacturing sectors and volume or single extrapolation methods for other sectors, improving the measurement of real growth. In the Quarterly National Accounts, the Proportional Denton benchmarking method replaces the earlier pro-rata approach, leading to more consistent alignment between annual and quarterly estimates. The series also incorporates updated rates and ratios from recent surveys and methodological studies conducted by the Ministry of Statistics and Programme Implementation (MoSPI) in collaboration with expert institutions. In addition, there is extensive use of GST and other new administrative data sources, particularly for quarterly estimates, which enhances the timeliness and reliability of sectoral indicators. Estimates of Private Final Consumption Expenditure (PFCE) have been improved through the adoption of the COICOP 2018 classification and greater use of survey and administrative data. Finally, discrepancies between the production and expenditure approaches have been reduced through integration with the Supply and Use Table (SUT) framework, ensuring better overall consistency in GDP estimation.

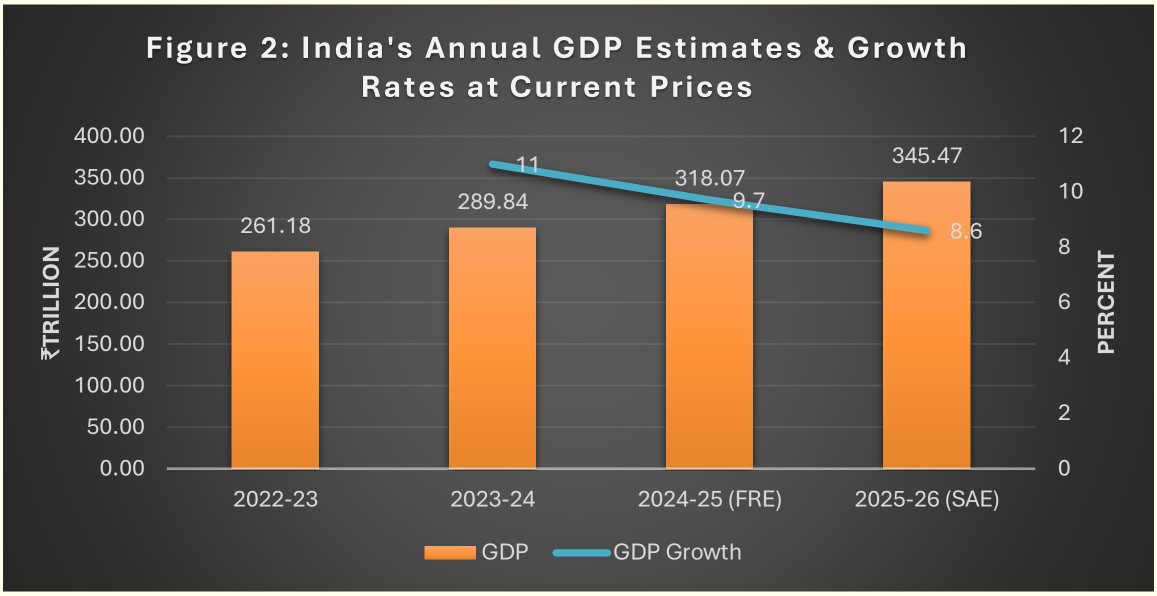
Overall GDP Growth: Resilient Expansion with a Changing Price-Growth Dynamic

The revised estimates indicate that India's real GDP growth remains strong and broadly stable, averaging above 7 percent over the past three years. The acceleration to 7.6 percent in 2025–26 (Figure 1), reflects the cumulative impact of sustained capital expenditure, recovery in private consumption, and continued services sector dynamism. The average growth during the last three years is estimated at 7.3 percent. This confirms India's position as the fastest-growing large economy in a slowing global environment.



Source: Second Advance Estimates of GDP 2025-26, NSO, MoSPI, GoI

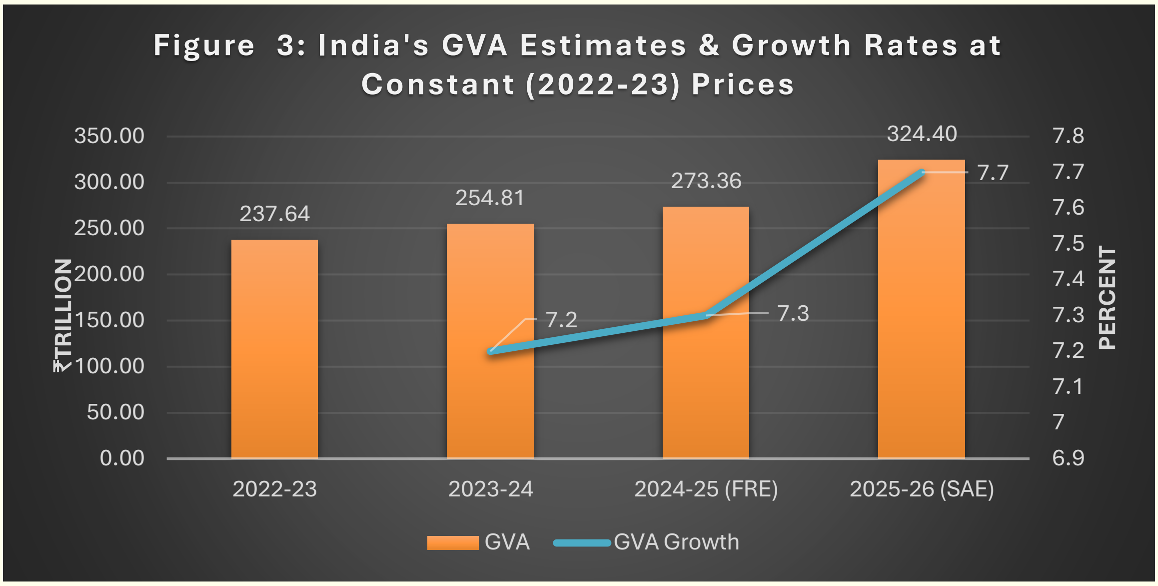
However, a defining feature of the new series is the moderation in nominal GDP growth, which has fallen to 8.6 percent from 9.7 percent in the previous year (Figure 2). This divergence between real and nominal growth signals a transition away from inflation-supported expansion towards volume-led growth. While this is macroeconomically healthy, it carries important fiscal implications. Slower nominal growth constrains tax buoyancy and limits fiscal space, even when real economic activity remains robust. The revised series thus highlights a subtle but critical tension between growth momentum and revenue mobilisation.



Source: Second Advance Estimates of GDP 2025-26, NSO, MoSPI, GoI

Gross Value Added: A More Accurate Supply-side Decomposition

Gross Value Added provides a cleaner picture of sectoral performance by stripping out product taxes and subsidies. Under the new base year, real GVA growth at 7.7 percent (Figure 3) closely tracks GDP growth, reinforcing confidence in the internal consistency of the estimates. The dominance of services, contributing more than half of total GVA, is now even more clearly established, reflecting India's evolution into a service-centric economy at a relatively low per capita income level.



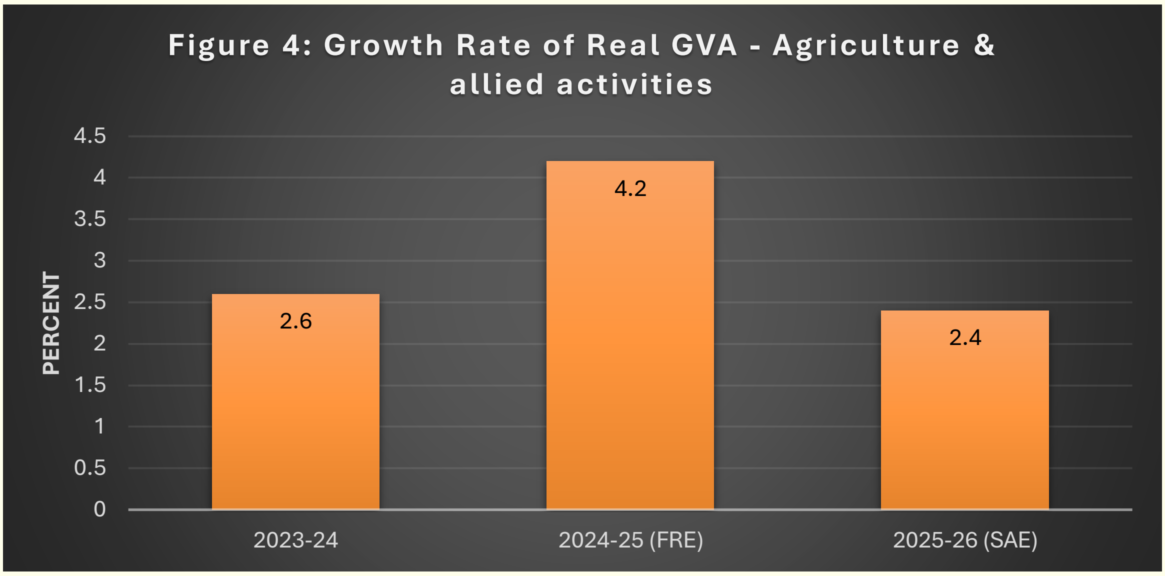
Source: Second Advance Estimates of GDP 2025-26, NSO, MoSPI, GoI

The revised sectoral weights also imply that fluctuations in services output now exert a disproportionate influence on overall growth. This has implications for macroeconomic volatility, as services tend to be less cyclically sensitive than manufacturing but more exposed to demand-side shocks and labour market dynamics.

Agriculture and Allied Activities: Stability over Dynamism

Agriculture's contribution under the new series underscores its role as a stabilising rather than growth-driving sector. Real growth fell to 2.4 percent from 4.2 percent in 2024-25 (Figure 4). The incorporation of updated yield estimates and feed-use ratios enhances the credibility of agricultural GVA figures.

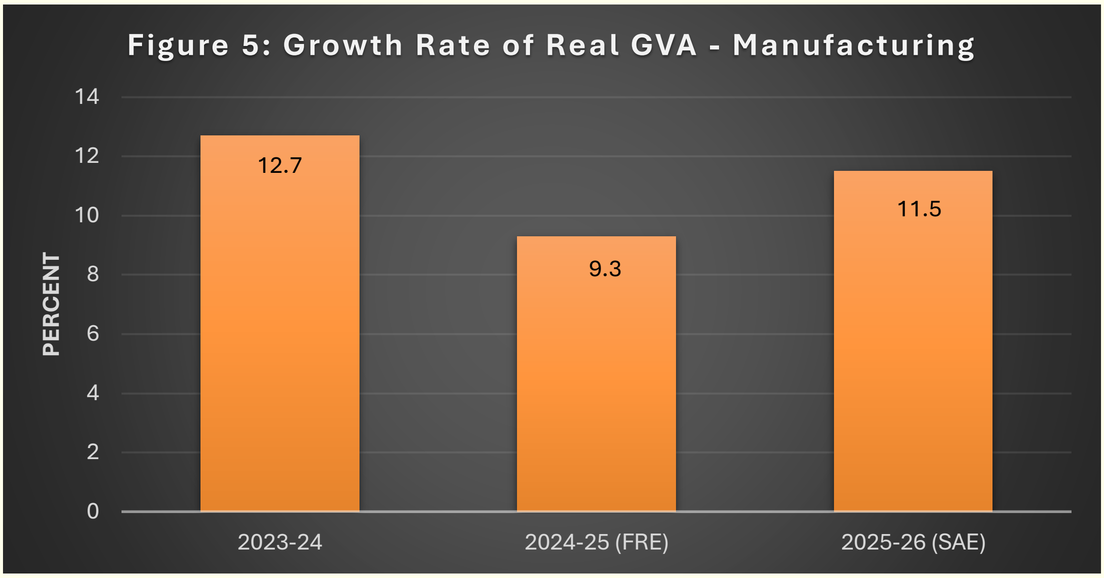
Agriculture's share in total GVA continues its secular decline, reflecting structural transformation rather than sectoral weakness. The challenge highlighted by the new data is not low agricultural growth per se, but low productivity and income levels relative to the rest of the economy. Agriculture's macroeconomic importance lies in food security, inflation management, rural demand support, and climate resilience. The data reinforce the case for shifting policy focus from output maximisation to income stability, value addition, and risk mitigation.



Source: Second Advance Estimates of GDP 2025-26, NSO, MoSPI, GoI

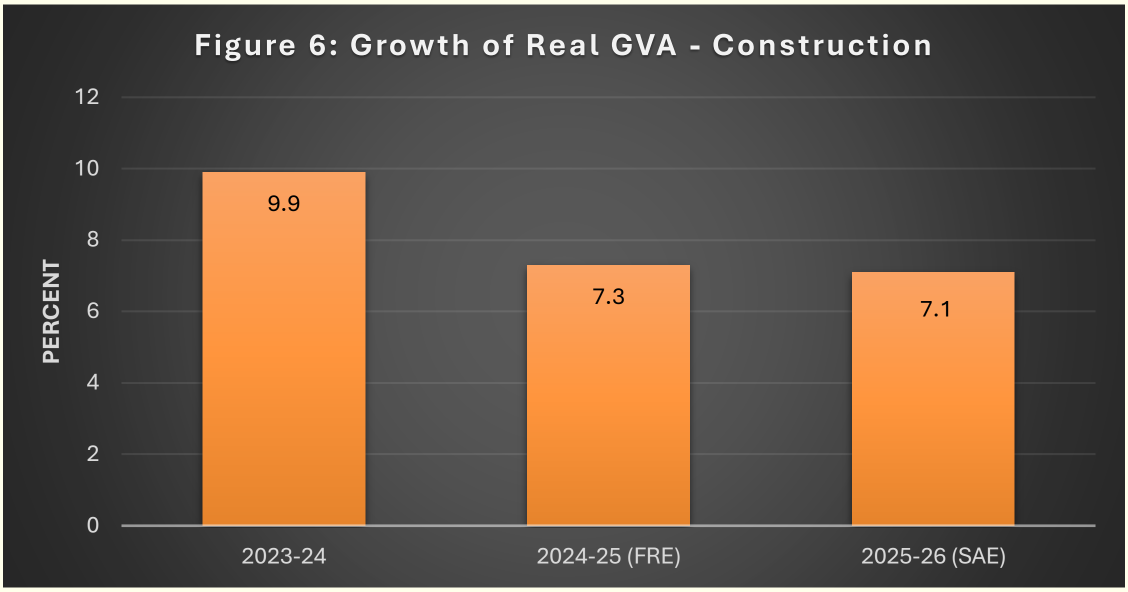
Industry: Manufacturing-led Growth with Construction as a Jobs Engine

The secondary and tertiary sectors strengthened overall economic performance by recording growth of over 9.0 percent in FY 2025–26.The industrial sector exhibits renewed strength under the revised estimates. Manufacturing growth appears stronger and more broad-based, aided by improved coverage of formal enterprises and better use of administrative data. The manufacturing sector has been a key driver of the economy's resilient performance in the three financial years following the rebasing exercise. It recorded double-digit growth in FY 2023–24 (12.7 percent) and FY 2025–26 (11.5 percent), along with a robust growth rate of 9.3 percent in FY 2024–25 (Figure 5).This lends greater credibility to claims of manufacturing recovery and industrial expansion, particularly in sectors linked to infrastructure, capital goods, and export-oriented production.



Source: Second Advance Estimates of GDP 2025-26, NSO, MoSPI, GoI

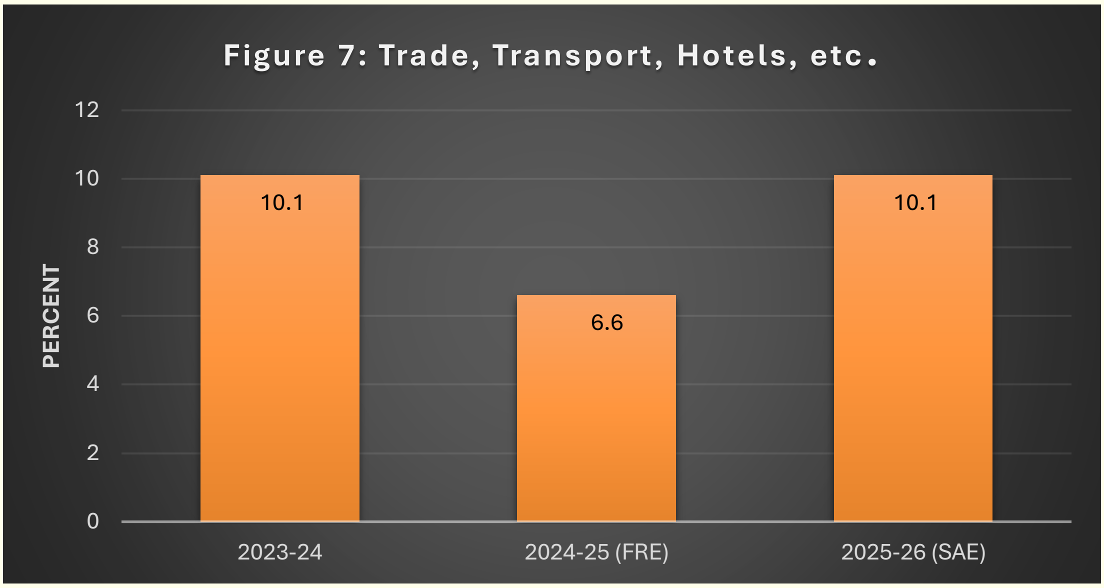
Construction emerges as a critical pillar of growth (9.9 percent, 7.3 percent and 7.1 percent in 2023-24, 2024-25 and 2025-26, respectively) (Figure 6), reflecting the scale-up of public infrastructure investment and improved capture of informal and household construction activity. Given construction's high employment elasticity, its expansion has direct implications for labour absorption, especially for low- and semi-skilled workers. Utilities show steady growth, mirroring increased investment in power generation, renewable energy, and urban infrastructure.



Source: Second Advance Estimates of GDP 2025-26, NSO, MoSPI, GoI

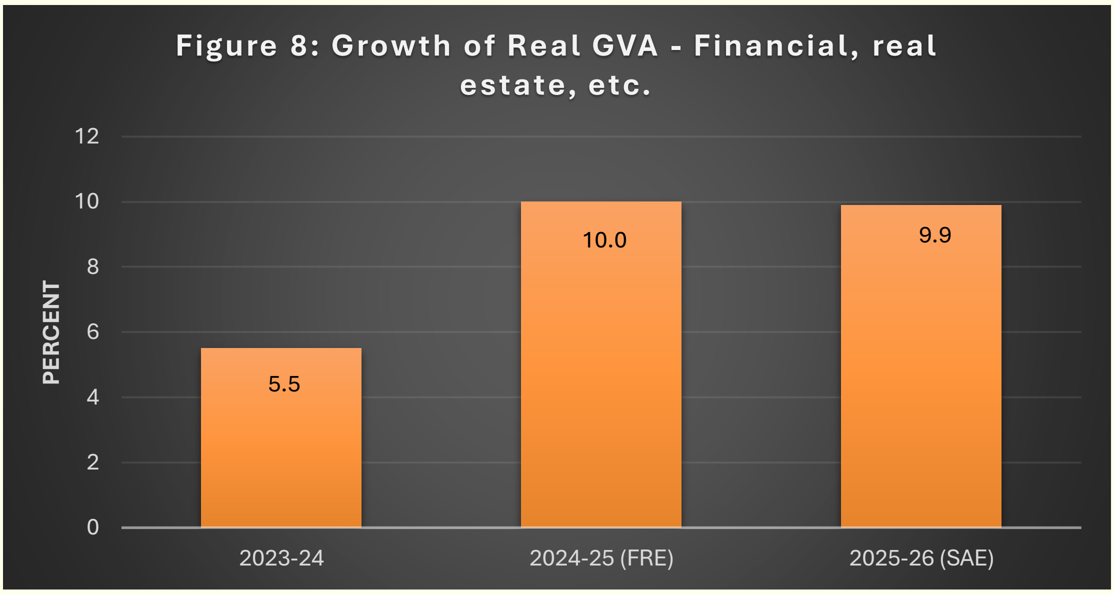
Services: The Structural Core of India's Economy

Services consolidate their role as the principal engine of growth. Trade, transport, communication, and hospitality services have benefited from improved data integration through GST and logistics indicators, which better capture the scale of domestic trade and mobility. The sector is estimated to grow strongly at 10.1 percent in 2025–26, rebounding from 6.6 percent in 2024–25, when growth had slowed after reaching 10.1 percent in 2023–24 (Figure 7).



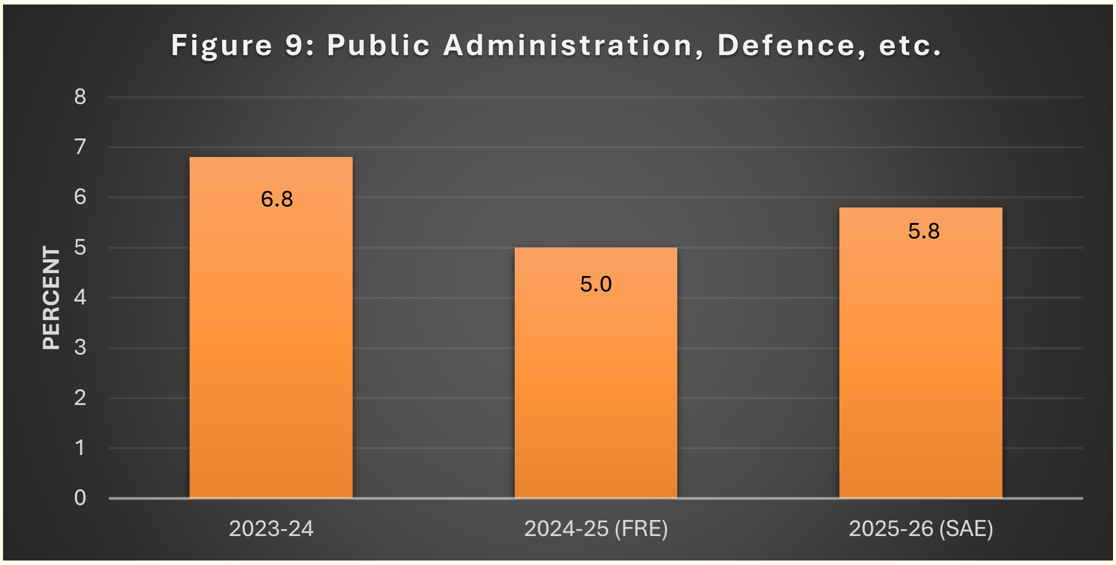
Source: Second Advance Estimates of GDP 2025-26, NSO, MoSPI, GoI

Financial, real estate, and professional services exhibit improved consistency in measurement, particularly through balance-sheet-based estimation methods aligned with financial sector data compiled by the Reserve Bank of India. The sector is estimated to grow at a strong 9.9 percent in 2025–26 and 10 percent in 2024–25, representing a sharp acceleration from 5.5 percent in 2023–24 (Figure 8).



Source: Second Advance Estimates of GDP 2025-26, NSO, MoSPI, GoI

Public administration, defence, and other services are estimated to grow at **5**.8 percent in 2025–26, indicating a modest recovery from 5.0 percent growth in 2024–25 (Figure 9). However, the pace of expansion remains below the 6.8 percent growth recorded in 2023–24, suggesting a relatively moderate trajectory in recent years. The sector's performance reflects stable but somewhat slower growth compared with earlier levels, while continuing to contribute steadily to overall economic activity.



Source: Second Advance Estimates of GDP 2025-26, NSO, MoSPI, GoI

The expansion of services reflects both supply-side capabilities and demand-side shifts, including urbanisation, rising middle-class consumption, and the digitalisation of economic activity. However, the dominance of services also raises questions about employment quality, informality within services, and the capacity of the sector to absorb India's growing workforce at scale.

Private Consumption: Recovery with Structural Shifts

Private Final Consumption Expenditure (PFCE) continues to serve as the backbone of aggregate demand. Its growth is projected to rise to **7**.7 percent in 2025–26, up from 5.8 percent in 2024–25 (Figure 10), reflecting easing inflationary pressures, improved rural incomes, and stabilising employment conditions. The revised data show a clear compositional shift away from goods towards services such as healthcare, education, transport, and communication.

This transformation implies that sustaining consumption growth increasingly depends on real income growth, employment generation, and access to affordable services. It also makes consumption more sensitive to shocks affecting labour markets, urban services, and household balance sheets.

Investment and Capital Formation: Quantity Achieved, Quality Pending

Gross Fixed Capital Formation (GFCF) continues to account for roughly one-third of GDP, confirming India's investment-led growth strategy. Public capital expenditure remains the anchor, aiming at crowding in private investment and supporting manufacturing and construction activity. GFCF is estimated to grow at a robust 7.1 percent in 2025-26, compared to 6.4 percent in 2024-25 (Figure 10). Improved estimation of household and unincorporated sector investment enhances the reliability of GFCF data under the new series.

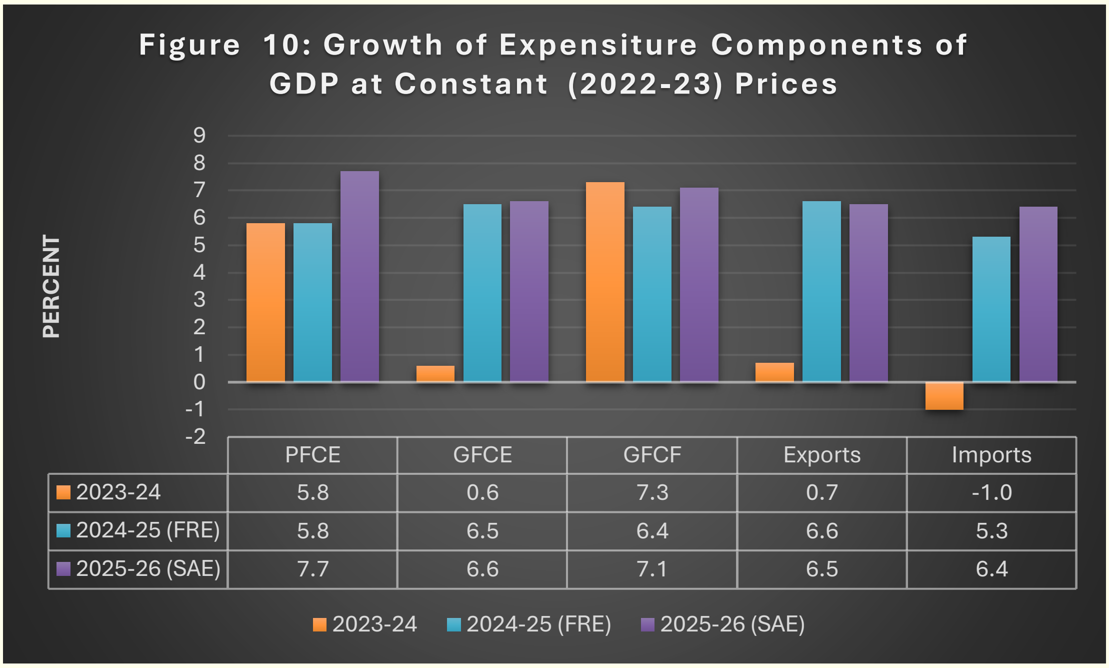
The data, however, raise a critical policy question: whether the current investment surge is translating into commensurate productivity gains and employment creation. The emphasis now must shift from scaling investment volumes to improving project efficiency, sectoral targeting, and long-term returns.

Government Consumption: Fiscal Discipline with Demand Support

Government Final Consumption Expenditure (GFCE) reflects the balance between fiscal consolidation and developmental spending priorities. GFCE is estimated to grow steadily by 6.6 percent in 2025–26 and 6.5 percent in 2024–25 (Figure 10), thereby supporting aggregate demand while maintaining credibility with respect to fiscal targets. Improved alignment between budgetary accounts and national accounts enhances confidence in fiscal indicators derived from GDP ratios.

External Sector: Services as a Shock Absorber

Net exports continue to weigh on GDP growth, although revised data indicate that strong services exports substantially offset the deficit in merchandise trade. Improved measurement of cross-border services flows has reduced statistical bias and underscored the strategic role of the services sector in managing external vulnerabilities. Exports are estimated to grow by 6.5 percent in 2025–26, marginally lower than 6.6 percent in 2024–25, while imports are projected to increase by 6.4 percent in 2025–26, up from 5.3 percent in the previous fiscal year (Figure 10). Overall, India's growth remains largely driven by domestic demand, which helps cushion the economy from global demand shocks but may also constrain the pace of export-led expansion. India's growth remains largely domestically driven, reducing exposure to global demand shocks but also limiting export-led acceleration.



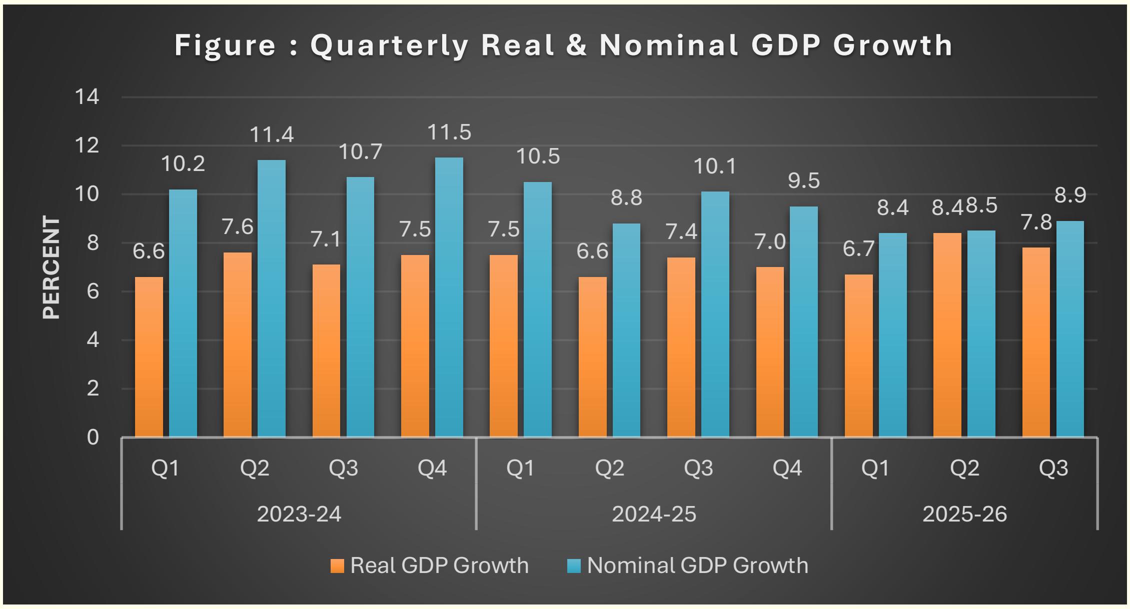
	PFCE	GFCE	GFCF	Exports	Imports
2023-24	5.8	0.6	7.3	0.7	-1.0
2024-25 (FRE)	5.8	6.5	6.4	6.6	5.3
2025-26 (SAE)	7.7	6.6	7.1	6.5	6.4

Source: Second Advance Estimates of GDP 2025-26, NSO, MoSPI, GoI

Q3 FY 2025–26: High-Frequency Confirmation of Structural Momentum

The third quarter of FY 2025–26 assumes analytical significance because it captures the economy's performance after the dissipation of most post-pandemic base effects and in a phase of relative macroeconomic normalisation. The Q3 data under the new 2022–23 base year therefore serve as a stress test of whether India's growth momentum is cyclical, transitory, or structurally embedded.

Real GDP growth in Q3 has strengthened steadily over the past three years, rising from 7.1 percent in 2023–24 to 7.4 percent in 2024–25 and 7.8 percent in 2025–26 (Figure 11). Over the same period, nominal GDP growth has moderated from 10.7 percent to 10.1 percent and further to 8.9 percent, leading to a progressive narrowing of the gap between nominal and real growth. The moderation in nominal GDP growth, could temper tax buoyancy in the near term, with implications for fiscal projections despite the strengthening momentum in real economic activity.



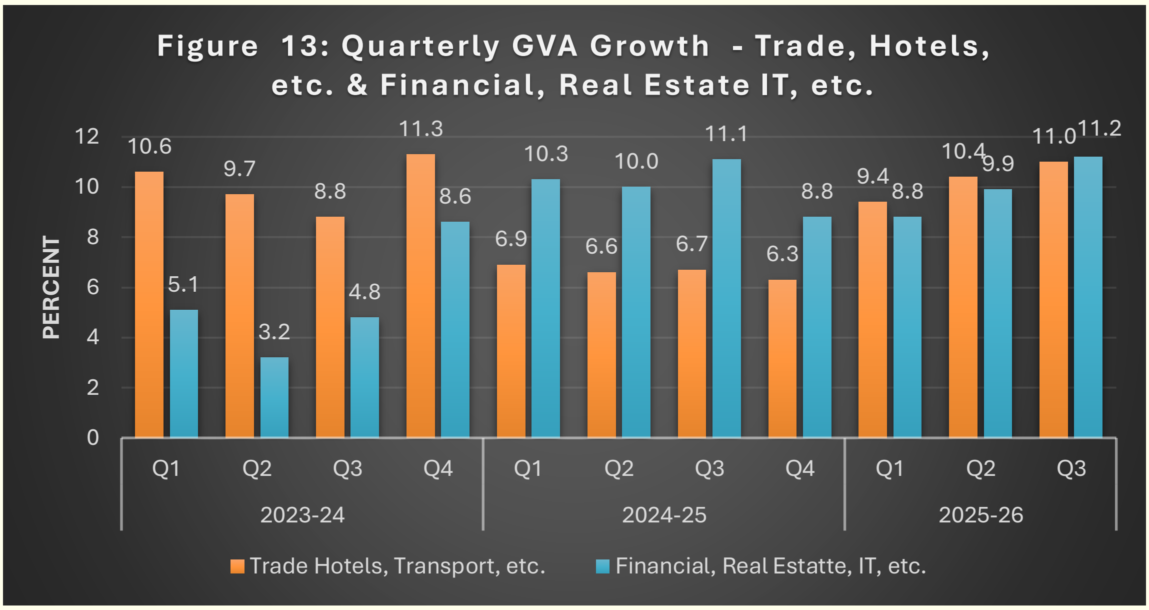
Source: Second Advance Estimates of GDP 2025-26, NSO, MoSPI, GoI

Supply-Side Dynamics: GVA Growth Broad-Based but Services-Led

On the supply side, real GVA growth at 7.8 percent (Figure 12) in Q3 closely tracked GDP growth, underscoring internal consistency in the revised national accounts.

Source: Second Advance Estimates of GDP 2025-26, NSO, MoSPI, GoI

Services once again emerged as the principal driver, with trade, transport, communication (11 percent), and financial services (11.2 percent) maintaining strong momentum (Figure 13). The resilience of these sectors reflects the normalisation of mobility, expansion of digital platforms, and sustained demand for urban and business services.



Source: Second Advance Estimates of GDP 2025-26, NSO, MoSPI, GoI

Manufacturing recorded a robust 13.3 percent growth in Q3 (Figure 14), extending its double-digit expansion for the fifth consecutive quarter. This sustained momentum underscores the sector's strong contribution to overall economic activity. Meanwhile, construction activity maintained steady growth at 6.6 percent (Figure 14), supported by continued public infrastructure spending and its spillover effects on allied industries. Together, these trends reinforce construction's role as an important short-term stabiliser for employment and economic activity.

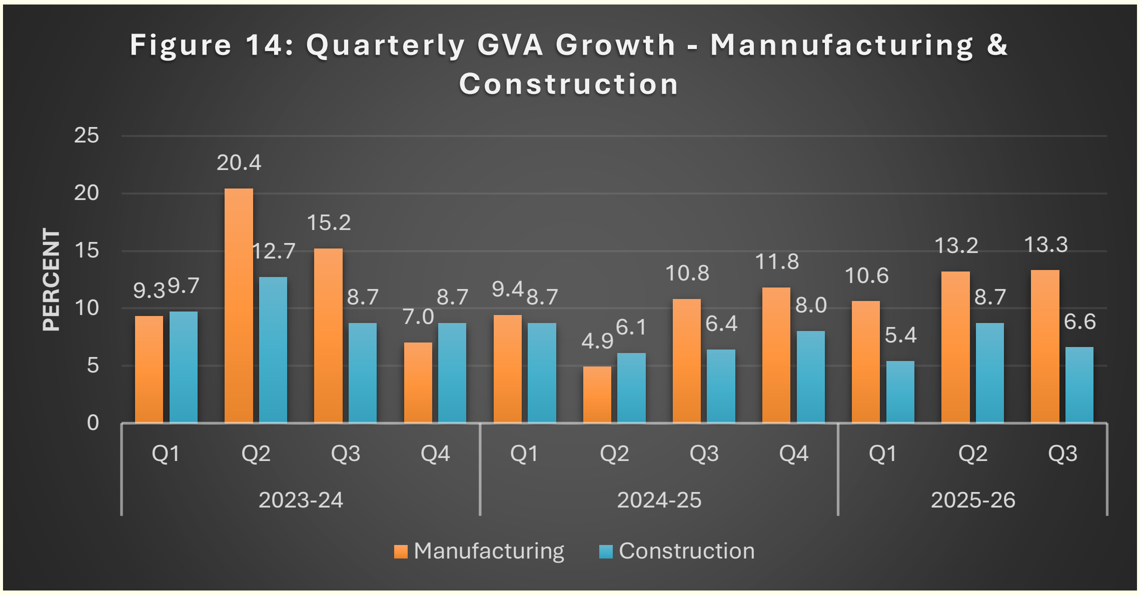


Figure 14: Quarterly GVA Growth - Mannufacturing & Construction

Source: Second Advance Estimates of GDP 2025-26, NSO, MoSPI, GoI

Agriculture recorded a second consecutive moderation in GVA growth, declining to 1.4 percent in Q3 FY26 (Figure 15). This slowdown reflects the inherent seasonality of agricultural production as well as refinements in the measurement framework under the new series. The updated methodology improves the capture of allied activities, such as livestock and fisheries, thereby reducing volatility and providing a more comprehensive assessment of the sector's performance.

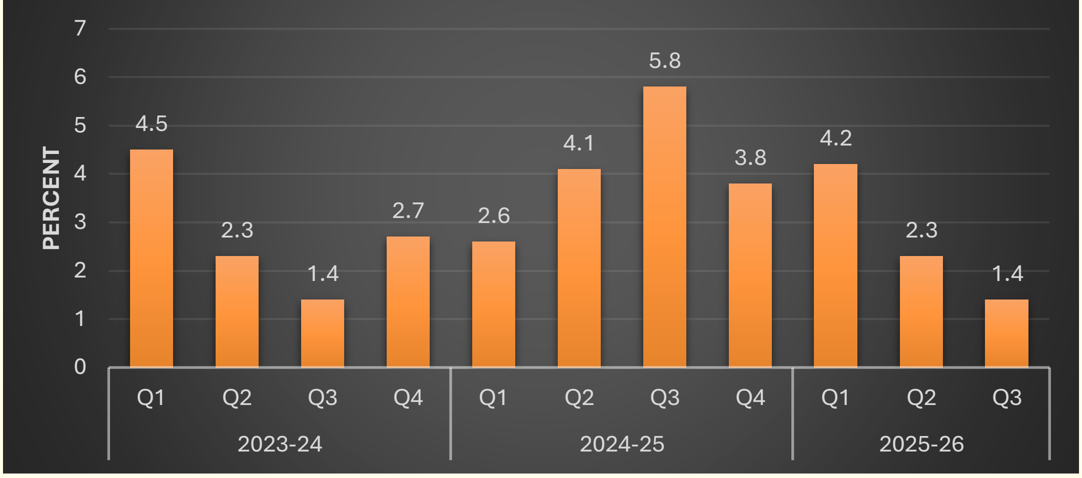


Figure 15: Quarterly GVA Growth - Agiculture & Allied sctivities

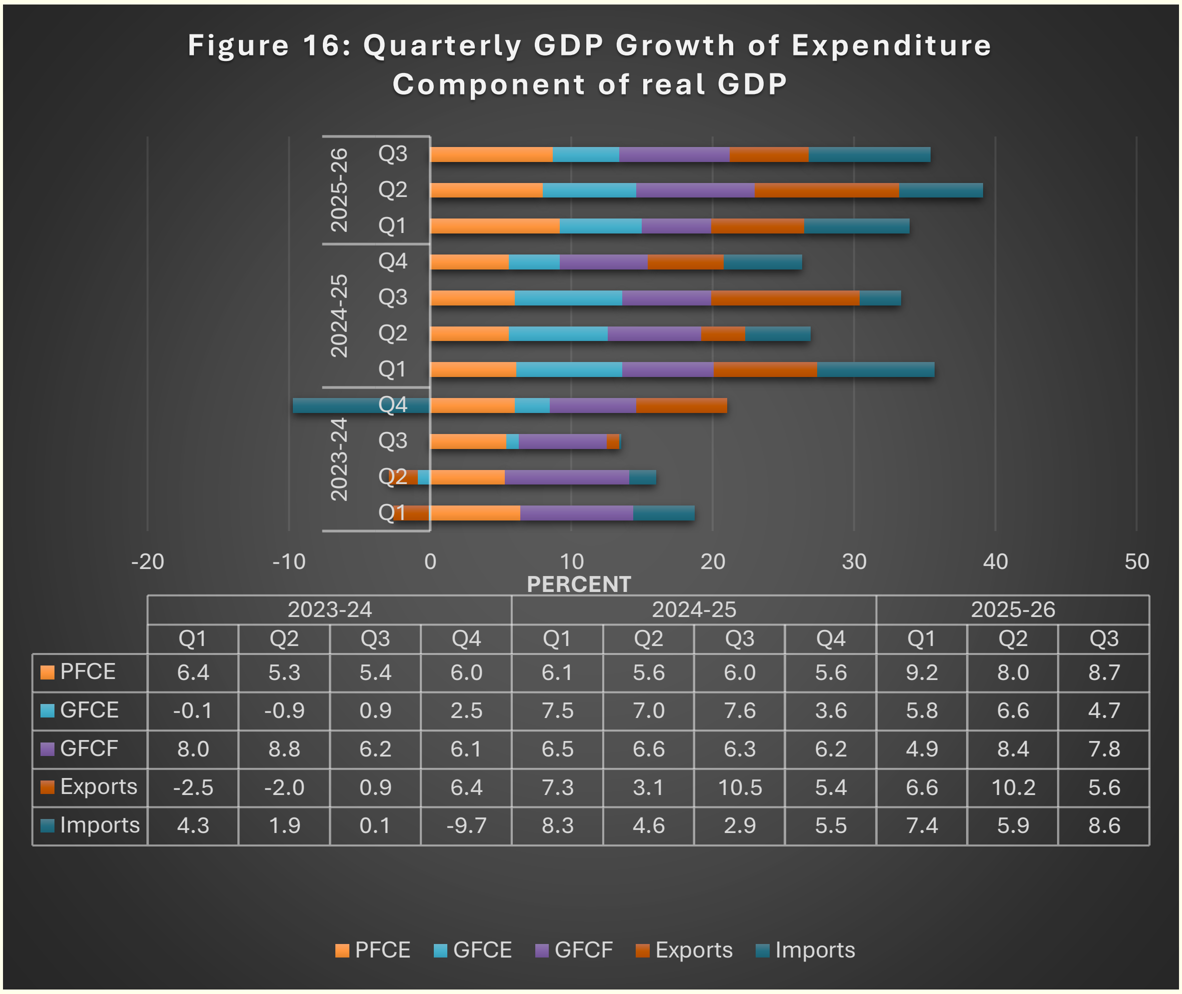
Source: Second Advance Estimates of GDP 2025-26, NSO, MoSPI, GoI

Demand-Side Composition: Consumption Recovery with Investment Support

From the expenditure perspective, Q3 real GDP growth was underpinned by a combination of recovering private consumption and sustained investment activity. Private Final Consumption Expenditure (8.7 percent; Figure 16) showed a clear improvement over earlier quarters, reflecting easing inflation, improved rural purchasing power, and stable urban demand. The composition of consumption continued to tilt toward services, reinforcing the longer-term structural shift highlighted in the annual data.

Gross Fixed Capital Formation (7.8 percent) remained a strong contributor in Q3, supported by public capital expenditure and improved execution of infrastructure projects. Importantly, the Q3 data suggest that investment momentum has been maintained even as nominal growth moderates, indicating that investment decisions are being driven by expectations of real demand rather than price-driven revenue growth.

Government Final Consumption Expenditure played a supportive but secondary role in Q3 (4.7 percent growth), consistent with fiscal consolidation objectives. Its stable contribution helped smooth demand without crowding out private activity. Net exports remained a modest drag, but improved performance in services exports partially offset merchandise trade pressures, cushioning the overall growth impact.



	2023-24				2024-25				2025-26		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
PFCE	6.4	5.3	5.4	6.0	6.1	5.6	6.0	5.6	9.2	8.0	8.7
GFCE	-0.1	-0.9	0.9	2.5	7.5	7.0	7.6	3.6	5.8	6.6	4.7
GFCF	8.0	8.8	6.2	6.1	6.5	6.6	6.3	6.2	4.9	8.4	7.8
Exports	-2.5	-2.0	0.9	6.4	7.3	3.1	10.5	5.4	6.6	10.2	5.6
Imports	4.3	1.9	0.1	-9.7	8.3	4.6	2.9	5.5	7.4	5.9	8.6

Source: Second Advance Estimates of GDP 2025-26, NSO, MoSPI, GoI

Nominal–Real Divergence: Implications for Policy Interpretation

One of the most analytically important features of Q3 FY 2025–26 is the persistence of the narrowing gap between real and nominal growth. While real GDP and GVA growth remained strong, nominal growth was constrained by lower inflation and weaker price pass-throughs. For policymakers, this has two implications. First, revenue growth, particularly tax buoyancy, may lag real economic expansion, placing pressure on fiscal arithmetic. Second, monetary policy calibration becomes more complex, as strong real growth coexists with subdued price dynamics.

The Q3 data thus reinforce the need for policy frameworks that look beyond headline growth rates and incorporate nominal dynamics, income flows, and balance-sheet conditions. The alignment of these signals with monetary assessments by the Reserve Bank of India enhances the credibility of the revised national accounts.

Reading Q3 as a Structural Signal

Taken together, the Q3 estimates suggest that India's growth momentum is neither fragile nor overheated. Instead, it reflects a maturing expansion anchored in services, supported by investment, and stabilised by consumption. The absence of sharp sectoral imbalances or excessive nominal acceleration points to macroeconomic stability rather than cyclical exuberance.

In analytical terms, Q3 FY 2025–26 validates the central message of the rebased GDP series: India has entered a phase of structurally higher, but more measured, growth. The challenge ahead is not sustaining momentum per se, but ensuring that this growth translates into employment generation, income broad-basing, and productivity gains. Q3 thus serves less as a quarterly scorecard and more as a confirmation that the economy's post-pandemic transformation is taking root in measurable, durable ways.

Conclusion: From Better Measurement to Better Policy

The rebased GDP series offers more than revised numbers—it offers sharper policy signals. India's growth model is clearly investment- and services-led, consumption-supported, and agriculture-stabilised. The challenge ahead lies in translating growth into jobs, ensuring investment efficiency, strengthening urban and social infrastructure, and managing fiscal constraints in a low-inflation environment.

Ultimately, the value of the new GDP series will depend on how it is used. If it informs evidence-based policy choices and honest economic debate, it can strengthen governance and growth outcomes. If reduced to a narrative tool, it risks obscuring the very structural challenges it seeks to illuminate.

EXPERT OPINION: GDP REVISION A MOVE IN RIGHT DIRECTION, BUT QUESTIONS REMAIN: DR PRONAB SEN

In an interview with *Business Standard*, Dr Pronab Sen, former Chief Statistician of India, discusses the methodological changes in India's new GDP series and their implications for measurement and interpretation.

One major change is the adoption of double deflation, where separate price indices are used to deflate inputs and outputs when estimating value added. While this approach is internationally accepted and theoretically more accurate, Sen notes that it can make interpretation difficult because the price deflator for output may differ from that for value added, making comparisons less intuitive.

Another significant improvement is the segregation of multi-product firms. Earlier, firms were classified based on their primary activity, meaning that services produced by manufacturing firms were counted under manufacturing. Separating these activities provides greater clarity about where economic growth is occurring, although complete accuracy may still be difficult to achieve.

The new GDP series also uses more frequent survey data, such as the Annual Survey of Unincorporated Sector Enterprises (ASUSE) and the Periodic Labour Force Survey (PLFS), to estimate the informal sector. Sen views this as an improvement because productivity estimates are now updated annually. However, he cautions that estimating the number of informal enterprises remains challenging, especially since the sector has high entry and exit rates and there has not been a recent economic census.

Regarding credibility, Sen says the government has provided three years of overlapping data between the old and new series, which will help analysts compare results. However, detailed sector-by-sector analysis is needed to understand whether differences between the two series remain stable over time.

He also notes that nominal GDP estimates appear lower in the new series, possibly because the implied inflation rate used in the calculations is unusually low. Another surprising feature is the sharp rise in consumption growth, which appears higher than earlier trends but may change once the data undergo further revisions.

This is a gist of an interview of Dr Pronab Sen, ex-Chief Statistician of India, published in Business Standard on February 27, 2026, The full interview can be accessed from: https://shorturl.at/X9Kdq

SIXTEENTH FINANCE COMMISSION REPORT

BALANCING EQUITY, EFFICIENCY AND FEDERAL STABILITY: KEY TAKEAWAYS FROM THE SIXTEENTH FINANCE COMMISSION

The Sixteenth Finance Commission (SFC), constituted under Article 280 of the Constitution, was mandated to recommend the distribution of Union tax revenues between the Centre and the States for the period 2026–31, along with principles governing grants-in-aid and measures to strengthen fiscal federalism. The Commission's report is framed against a backdrop of heightened fiscal stress, rising subnational expenditure responsibilities, climate risks, demographic divergence across States, and the need to balance fiscal consolidation with development imperatives.

Vertical Devolution: Stability with Continuity

The Commission, headed by Dr Arvind Panagariya, has recommended maintaining the States' aggregate share in the divisible pool of Union taxes at 41 percent, continuing the arrangement adopted since the Fifteenth Finance Commission. This decision reflects the Commission's assessment that States continue to bear the primary responsibility for delivering public services, social sector outcomes, and capital formation at the grassroots level. At the same time, it recognises the Centre's growing commitments in national infrastructure, defence, and macroeconomic stabilisation.

The Commission underscores that predictability in vertical devolution is essential for medium-term fiscal planning by States, particularly in an environment of moderate nominal GDP growth and constrained fiscal space.

Horizontal Devolution: Refining Equity and Incentives

In determining the inter se distribution among States, the SFC has refined the horizontal devolution formula to better reflect contemporary fiscal and developmental realities. Income distance continues to be the dominant criterion, reinforcing the equalisation objective of fiscal transfers. However, greater emphasis has been placed on demographic transition, tax effort, and forest and ecological indicators, reflecting a shift towards incentivising sustainable development and responsible fiscal behaviour.

The Commission explicitly recognises the emerging divergence between States at different stages of demographic transition and seeks to balance equity with incentives for population stabilisation, revenue mobilisation, and environmental stewardship.

Grants-in-Aid: Targeted Support and Outcome Orientation

Beyond tax devolution, the Commission has proposed a calibrated system of grants-in-aid to address both structural and contingent fiscal needs of States. These include revenue deficit grants for fiscally weaker States, sector-specific grants for health, education, and urban development, and performance-linked grants aimed at improving governance outcomes.

A notable feature of the Commission's approach is the increasing emphasis on outcome-based and performance-oriented grants, moving away from purely gap-filling transfers. This reflects a broader shift towards accountability, transparency, and measurable service delivery improvements at the subnational level.

Local Bodies: Strengthening the Third Tier

The SFC has reaffirmed the critical role of local governments, viz., Panchayats and Urban Local Bodies, in delivering basic services and implementing development programmes. It has recommended predictable and formula-based grants to local bodies, with an increasing share linked to performance indicators such as own-source revenue mobilisation, financial reporting, and service delivery outcomes.

The Commission stresses that strengthening fiscal decentralisation at the local level is essential for achieving inclusive growth, particularly in rapidly urbanising regions and underserved rural areas.

Fiscal Discipline and Debt Sustainability

A central theme of the report is the need to restore and sustain fiscal discipline without undermining growth. The Commission has reiterated the importance of adhering to medium-term fiscal consolidation paths under the FRBM framework, while allowing limited flexibility to accommodate shocks and cyclical downturns.

It has expressed concern over rising debt levels and contingent liabilities at both Union and State levels, calling for improved transparency, better debt management practices, and enhanced coordination between the Centre and the States.

Climate, Disaster Risk, and Emerging Challenges

For the first time with greater analytical depth, the Commission has integrated climate vulnerability and disaster risk into its fiscal framework. It recognises that climate change imposes asymmetric fiscal burdens on States and argues for incorporating resilience-building and adaptation needs into intergovernmental transfers.

The report also flags emerging challenges related to ageing populations in some States, migration pressures in others, and the fiscal implications of expanding social protection systems.

Conclusion

Overall, the Sixteenth Finance Commission's report seeks to strike a careful balance between stability and reform, equity and efficiency, and autonomy and accountability. By retaining the broad architecture of fiscal federalism while refining incentives and performance orientation, the Commission reinforces the principle of cooperative federalism suited to India's evolving economic and demographic landscape.

The effectiveness of the Commission's recommendations will ultimately depend on their implementation and on sustained Centre–State collaboration in managing fiscal risks, delivering public services, and supporting long-term, inclusive growth.

HOW THE SIXTEENTH FINANCE COMMISSION REBALANCED CENTRE–STATE FINANCES

FY27 marks the beginning of a new fiscal compact between the Centre and the states, as the recommendations of the Sixteenth Finance Commission come into force for the five-year award period from 2026–27 to 2030–31. Like every Finance Commission before it, the 16th FC was tasked with reconciling competing claims in a diverse federation. But the context this time was more complex: uneven development across states, demographic divergence, the fading window of India's demographic dividend, and mounting pressure on public finances at both Union and state levels.

At the heart of the Commission's work lay a deceptively simple but deeply contentious question: how should the Centre's tax revenues be distributed among states? The answers offered by India's 28 states, through their formal submissions to the Commission, provide a revealing window into the evolving political economy of Indian federalism.

The Sixteenth Finance Commission was confronted with a fundamental trade-off: how to recognise and reward states that have successfully contained population growth and built higher income levels, while continuing to provide meaningful support to states with lower per capita incomes and higher fertility rates. This challenge was compounded by a broader structural concern—the possibility that India's demographic dividend may narrow over time as population ageing accelerates in several regions.

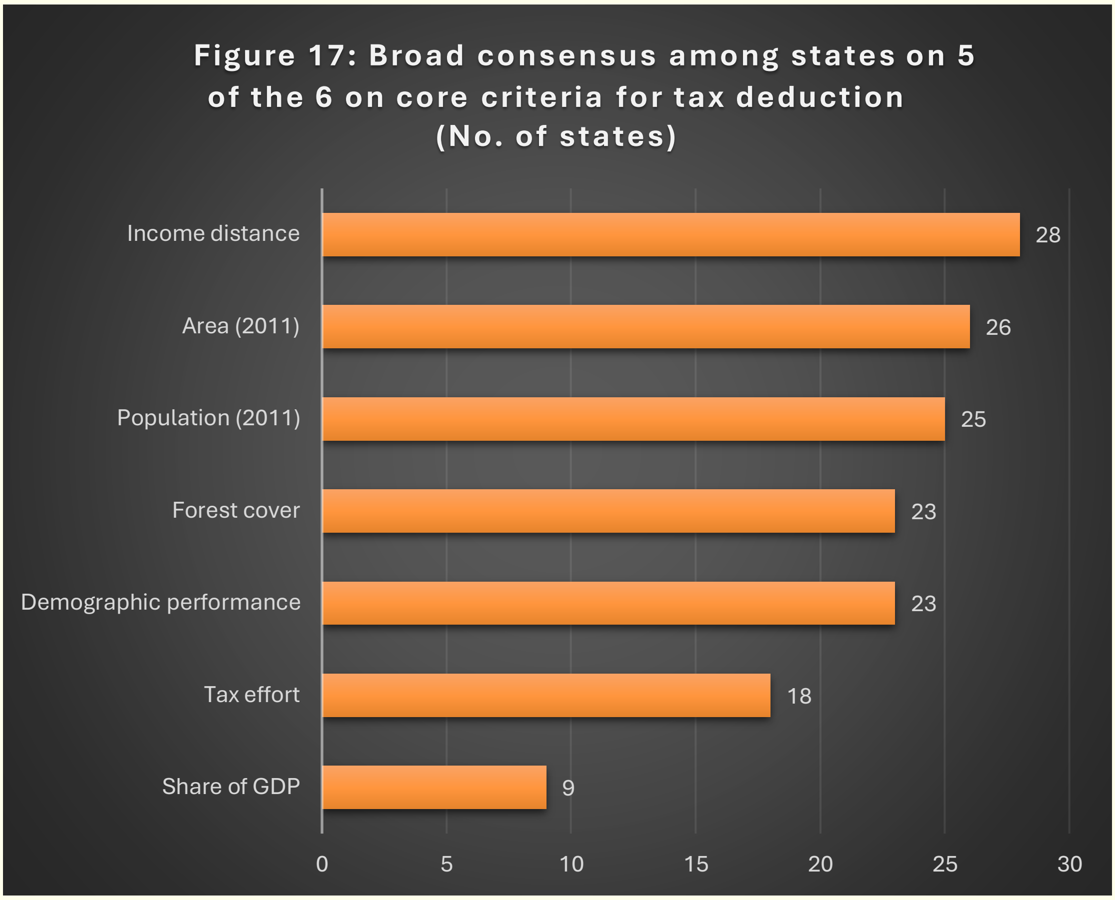
In navigating this balance, the Commission introduced a series of incremental yet consequential changes to the framework used to determine states' shares in central tax revenues (Table 1). Most notably, it added a new efficiency-oriented criterion based on states' contribution to national GDP and increased the weight assigned to population. At the same time, it pared back the influence of per capita income distance, geographical area, and demographic performance, and eliminated explicit tax and fiscal effort criteria altogether. Through subtle definitional refinements, the Commission also shifted the emphasis away from short-term fiscal manoeuvres towards the quality of effort and longer-term developmental planning.

Table 1: Accounting for Economic Heft: How the 16th Finance Commission Revised Devolution Criteria

Criteria	*Change from 15th FC to 16th FC*	*Key changes*
Per capita GSDP distance	*45 percent to 42.5 percent*	*Reduced to accommodate efficiency criteria*
Population (2011)	*15 percent to 17.5 percent*	*Increased*
Area	*15 percent to 10 percent*	*Reduced*
Forest & ecology	*Retained at 10 percent*	*Retained, but formula modified to include open forests and reward increase in forest cover*
Demographic performance	*12.5 percent to 10 percent*	*Reduced. Metric changed from inverse total fertility rate to inverse population growth (1971-2011)*
Contribution to GDP	*Added at 10 percent*	*New criterion introduced to reward economic performance*
Tax and fiscal efforts	*2.5 percent removed*	*Efficiency now captured by contribution to GDP*

Source: Sixteenth Finance Commission Report

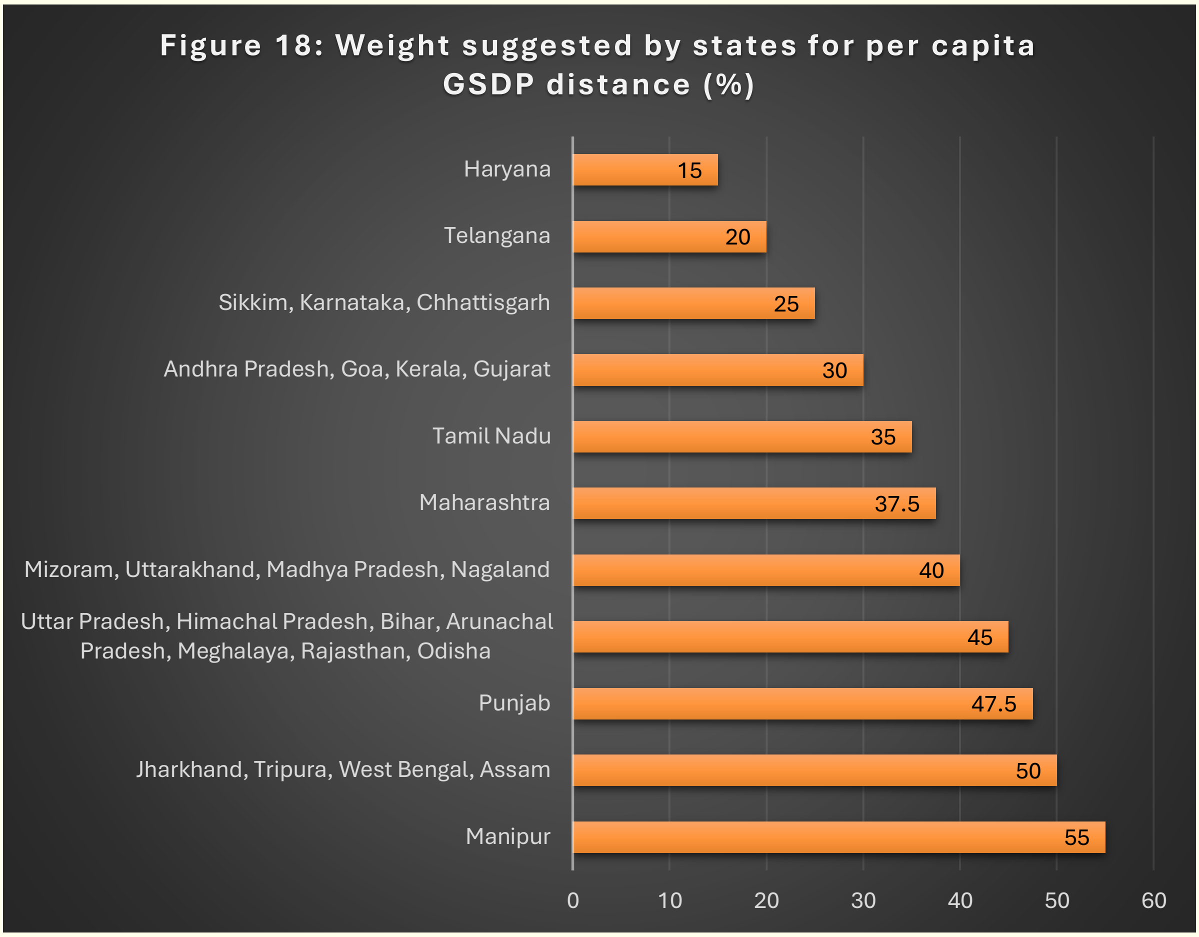
These choices largely reflected the preferences articulated by the states themselves. Five of the six criteria ultimately adopted by the Sixteenth Finance Commission had been proposed by between 23 and all 28 states (Figure 17). The sixth criterion, viz., the newly introduced measure of states' contribution to national GDP, had been suggested by nine of the 28 states. In addition, states put forward a wide array of other proposals, collectively suggesting 13 further criteria ranging from poverty and vulnerability to international border exposure and infrastructure quality.



Source: Sixteenth Finance Commission Report

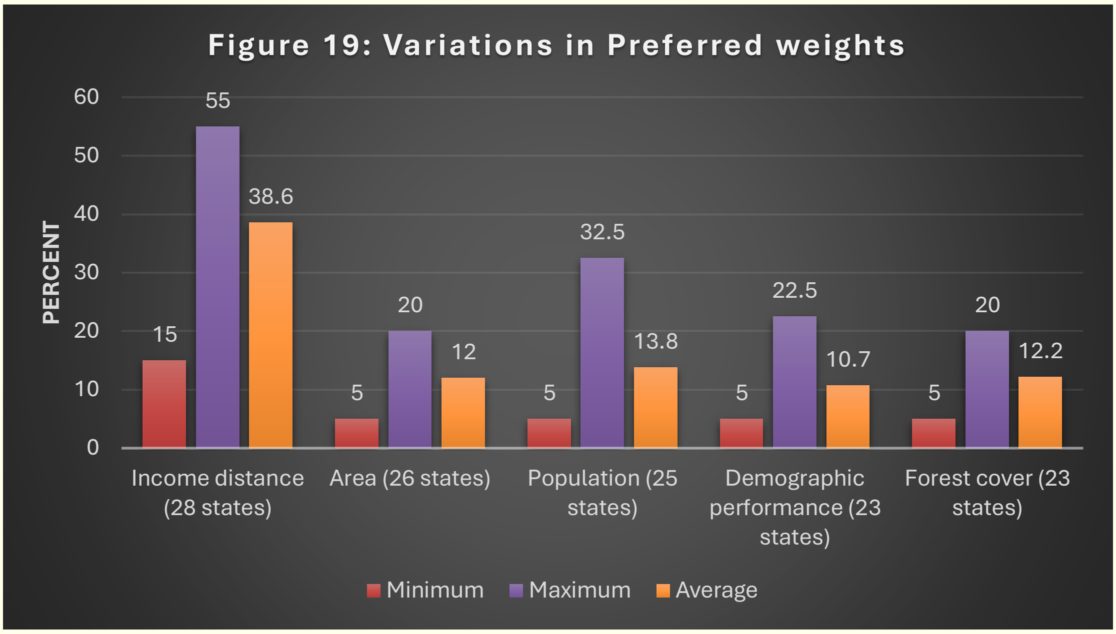
This is where the divergence among states becomes most evident. While all five of the principal criteria, each of which has been retained by the Sixteenth Finance Commission. commanded broad agreement in principle, states differed sharply on the weight that should be assigned to them. This variation is particularly clear in the case of per capita income distance, defined as the gap between a state's per capita income and the average per capita income of the three richest large states.

With a weight of 42.5 percent, per capita income distance emerges as the single most influential criterion in the Sixteenth Finance Commission's devolution formula. Although all 28 states endorsed its inclusion, there was wide divergence in their preferred weights, ranging from as low as 15 percent in Haryana to as high as 55 percent in Manipur (Figure 18). Predictably, economically weaker states argued for a stronger redistributive emphasis, while more prosperous states favoured a lower weight. Across all submissions, the average weight proposed by states stood at 38.6 percent.



Source: Sixteenth Finance Commission Report

A similar pattern of divergence was evident across the other four major criteria as well. State preferences consistently reflected self-interest, with governments amplifying the importance of factors that worked in their favour while minimising those that did not. Forest cover offers a telling example: four states, viz., Andhra Pradesh, Sikkim, Tripura and Uttarakhand, argued for a weight as high as 20 percent, whereas Haryana and Uttar Pradesh proposed a much lower weight of 5 percent (Figure 19).



Source: Sixteenth Finance Commission Report

The Centre–State fiscal compact sits at the core of India's governance architecture. Tax collection has historically been concentrated at the Union level, encompassing personal income tax and corporate tax, and, since 2017, indirect taxes on the sale of goods through the introduction of the goods and services tax (GST). Designed around the principle of "one nation, one tax," the GST subsumed a wide array of state-level levies, further consolidating revenue-raising powers at the Centre.

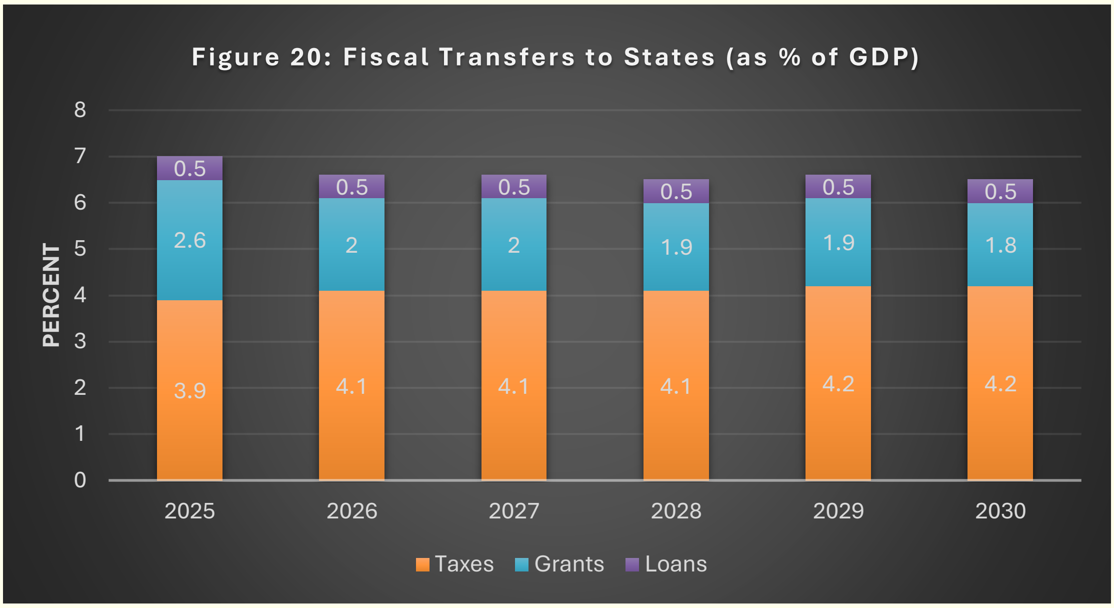
Yet, while revenues accrue largely to the Centre, the responsibility for public spending rests predominantly with the states, across education, healthcare, policing, and other essential services. This structural mismatch is addressed through tax devolution in two stages. Vertical devolution determines the overall share of Union tax revenues transferred to states, which the Sixteenth Finance Commission has retained at 41 percent. Horizontal devolution then allocates this pool among states. For years, richer and better-performing states, particularly in the south, along with Maharashtra and Gujarat, have argued that the system penalises success. The introduction of a new criterion recognising states' contribution to GDP partly responds to this concern, nudging up their shares in the divisible pool. At the same time, some poorer states have seen marginal reductions in their percentage shares, with Uttar Pradesh's falling from 17.9 percent to 17.6 percent and Bihar's from 10.1 percent to 9.9 percent (Table 2).

Table: 2 Change in state's share of centre's divisible revenues between 15th and 16th FC (in percentage)

State	*Change (percentage points)*	*15th FC*	*16th FC*
Karnataka	*0.5*	*3.6*	*4.1*
Kerala	*0.5*	*1.9*	*2.4*
Gujarat	*0.3*	*3.5*	*3.8*
Haryana	*0.3*	*1.1*	*1.4*
Punjab	*0.2*	*1.8*	*2.0*
Andhra Pradesh	*0.2*	*4.0*	*4.2*
Assam	*0.1*	*3.1*	*3.3*
Maharashtra	*0.1*	*6.3*	*6.4*
Himachal Pradesh	*0.1*	*0.8*	*0.9*
Telangana	*0.1*	*2.1*	*2.2*
Mizoram	*0.1*	*0.5*	*0.6*
Jharkhand	*0.1*	*3.3*	*3.4*
Uttarakhand	*0.0*	*1.1*	*1.1*
Tamil Nadu	*0.0*	*4.1*	*4.1*
Goa	*0.0*	*0.4*	*0.4*
Sikkim	*-0.1*	*0.4*	*0.3*
Tripura	*-0.1*	*0.7*	*0.6*
Nagaland	*-0.1*	*0.6*	*0.5*
Manipur	*-0.1*	*0.7*	*0.6*
Rajasthan	*-0.1*	*6.0*	*5.9*
Chhattisgarh	*-0.1*	*3.4*	*3.3*
Odisha	*-0.1*	*4.5*	*4.4*
Bihar	*-0.1*	*10.1*	*9.9*
Meghalaya	*-0.1*	*0.8*	*0.6*
West Bengal	*-0.3*	*7.5*	*7.2*
Uttar Pradesh	*-0.3*	*17.9*	*17.6*
Arunachal Pradesh	*-0.4*	*1.8*	*1.4*
Madhya Pradesh	*-0.5*	*7.9*	*7.3*

Source: Sixteenth Finance Commission Report

Even so, poorer states are likely to receive higher transfers in absolute terms, as the Centre's tax revenues are projected to grow over the next five years, expanding the overall divisible pool. In that sense, a larger quantum of national tax revenues, measured against GDP, is expected to flow to states through 2030–31 (Figure 20). Yet this apparent gain comes with a significant offset. Departing from past practice, the Sixteenth Finance Commission has recommended the abolition of revenue deficit grants, arguing that states have sufficient scope to raise their own resources and that routine deficit compensation breeds inefficiency. The net effect is unambiguous: despite rising absolute transfers, states will receive at least 0.5 percentage points less of GDP by 2030–31 compared to the current arrangement.



Source: Sixteenth Finance Commission Report

Conclusion

The recommendations of the Sixteenth Finance Commission signal a subtle but important recalibration of India's fiscal federalism. Redistribution remains central to the devolution framework, with per capita income distance retaining primacy. Yet the architecture is no longer purely compensatory. By introducing an explicit efficiency-oriented criterion, pruning redistributive weights at the margin, and withdrawing revenue deficit grants, the Commission has shifted the compact away from unconditional support and towards greater fiscal self-reliance.

This marks a decisive move towards a more conditional federalism—one that continues to equalise across states, but with sharper incentives for growth, revenue mobilisation, and expenditure discipline. For better-performing states, the recognition of economic contribution offers partial relief from the long-standing charge of being penalised for success. For poorer states, higher absolute transfers provide short-term comfort, but the withdrawal of deficit grants raises the bar for fiscal management and administrative capacity.

The political economy implications are significant. As demographic trajectories diverge further and fiscal pressures intensify, future Finance Commissions may find it increasingly difficult to sustain broad consensus around redistribution alone. The Sixteenth Finance Commission's framework appears to anticipate this shift, laying the groundwork for a system in which fiscal transfers are not just a tool for balancing disparities, but also an instrument for shaping state behaviour.

Whether this evolving compact strengthens cooperative federalism or deepens Centre–State frictions will ultimately depend on how states respond—by building stronger tax systems and more efficient public spending, or by contesting a framework that, while fiscally prudent, leaves less room for cushioning structural disadvantage. What is clear is that the era of automatic fiscal accommodation is ending, replaced by a more exacting, and more consequential, phase of India's federal bargain.

MONETARY POLICY

CONFIDENCE WITH CAUTION: READING RBI'S FEBRUARY MONETARY POLICY SIGNAL

The February 06, 2026 monetary policy decision of the Reserve Bank of India marks a moment of unusual macroeconomic calm amid global turbulence. Against a backdrop of intensifying geopolitical tensions, trade frictions, and divergent monetary cycles across advanced economies, India finds itself in a relatively comfortable "Goldilocks" zone—buoyant growth, subdued inflation, and resilient domestic demand. Unsurprisingly, the Monetary Policy Committee (MPC) chose continuity over activism, voting unanimously to keep the policy repo rate unchanged at 5.25 percent and to retain a neutral stance.

A Pause Anchored in Confidence, Not Complacency

At first glance, the decision appears straightforward. Headline CPI inflation has remained below the lower tolerance band in recent months, with inflation for 2025–26 now projected at just 2.1 percent. Even looking ahead, inflation is expected to rise only gradually towards the 4 percent target in the first half of 2026–27. Crucially, the MPC's assessment underscores that the modest upward revision in the inflation outlook is almost entirely attributable to precious metals, viz., gold and silver, contributing about 60–70 basis points, while underlying inflation pressures remain muted.

Growth dynamics reinforce the case for patience rather than urgency. Real GDP growth for 2025–26, as per the First Advance Estimates, is projected at a robust 7.4 percent[1], supported by private consumption and fixed investment. The minutes reveal growing confidence among MPC members that domestic demand has broadened, with rural consumption holding steady and urban demand showing signs of revival. High-

[1] The GDP growth rate for FY26 has been revised upwards to 7.6 percent by the Second Advance Estimates.

frequency indicators—credit growth, capacity utilisation, and services activity—suggest momentum is being sustained even in a challenging global environment.

The External Boost and the Changing Growth Narrative

What distinguishes this policy cycle from earlier ones is the evolving external context. The minutes place significant emphasis on the recent conclusion of major trade agreements with the European Union and the United States, which have materially improved India's external outlook. Several MPC members argued that these deals reposition India as a key beneficiary of China-plus-one supply chain diversification, with potential spillovers into exports, foreign direct investment, and manufacturing employment. This optimism has already translated into a modest upward revision in growth projections for the first half of 2026–27.

Yet this improved outlook has not prompted an immediate policy easing. The reason lies partly in sequencing. The RBI has already delivered a cumulative 125 basis points of rate cuts over the recent cycle, with the December 2025 cut still working its way through the system. Transmission, as repeatedly emphasised in the minutes, is ongoing and incomplete. Premature easing risks diluting the credibility and effectiveness of earlier actions.

Neutral Stance, Subtle Divergences

While the headline decision was unanimous, the minutes reveal important nuances beneath the surface. Most members supported retaining the neutral stance to preserve flexibility amid uncertainty, especially as new GDP and CPI series, based on updated base years, were due during the month. These revised data could materially alter assessments of the growth–inflation balance, arguing for caution in signalling the next policy move.

At the same time, a minority view within the MPC is becoming more explicit. Some members argued that with inflation persistently benign (excluding precious metals), strong fundamentals across the balance of payments, fiscal consolidation on track, and growth hovering around 7 percent, monetary policy has room to become more overtly growth-supportive. They contended that a shift to an accommodative stance—without an immediate rate cut—could help accelerate transmission, compress bond yields, and reinforce private investment sentiment.

What the Policy Signals Going Forward

The February policy, therefore, should be read less as a pause and more as a calibrated wait-and-watch strategy. By holding rates steady and retaining neutrality, the RBI has signalled three clear priorities. First, it remains committed to the flexible inflation targeting framework, with an emphasis on underlying inflation rather than transient price movements. Second, it is keenly aware of lags in monetary transmission and is unwilling to outrun its own policy signals. Third, it is consciously preserving optionality ahead of major informational changes—new data series, evolving global financial conditions, and the real-economy impact of recent trade agreements.

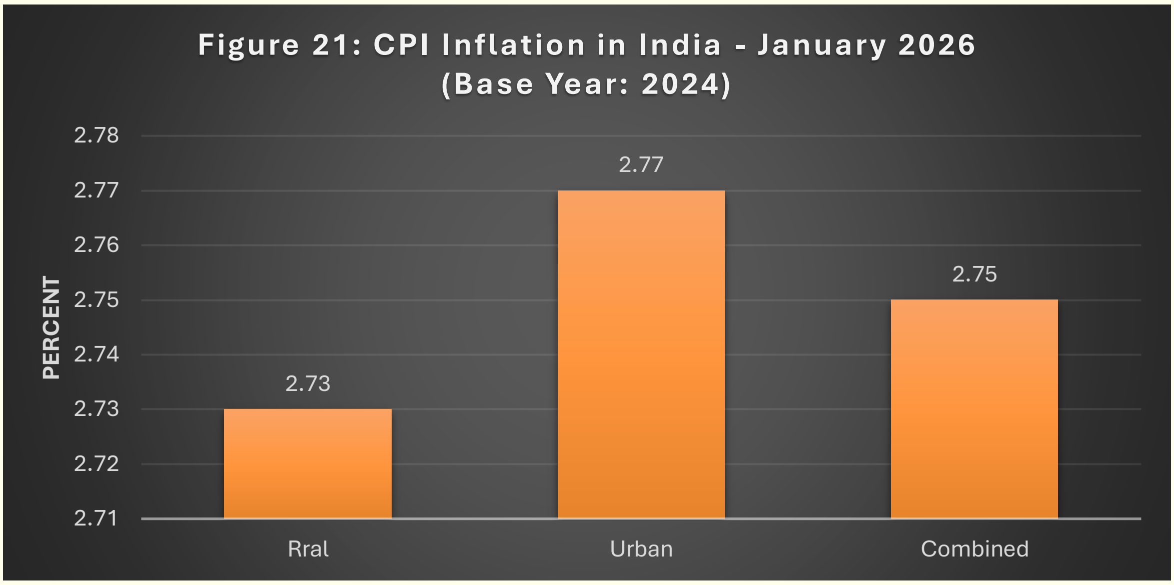
In effect, monetary policy has shifted from firefighting to fine-tuning. The debate within the MPC has moved away from whether inflation is under control and towards how best to support growth without compromising medium-term stability. The February decision reflects a consensus that this balance is best served, for now, by staying the course.

NAVIGATING MACROECONOMIC TRENDS

SOFT PRICES, SHIFTING WEIGHTS: WHAT THE NEW CPI SERIES REVEALS ABOUT INDIA'S INFLATION DYNAMICS

Introduction

India's consumer price inflation was 2.75 percent in January 2026 (Figure 21), comfortably below RBI's medium-term target of 4 percent. The January data are significant for reasons that go well beyond the headline number. They represent the first full inflation reading under the revised CPI series (base year 2024=100), marking a structural shift in how inflation is measured, interpreted, and ultimately responded to by policymakers.



Source: MoSPI, GoI

Released by the National Statistics Office under the Ministry of Statistics and Programme Implementation, the data captures both genuine disinflationary forces in the economy and the statistical effects of a reweighted consumption basket that better reflects contemporary spending patterns.

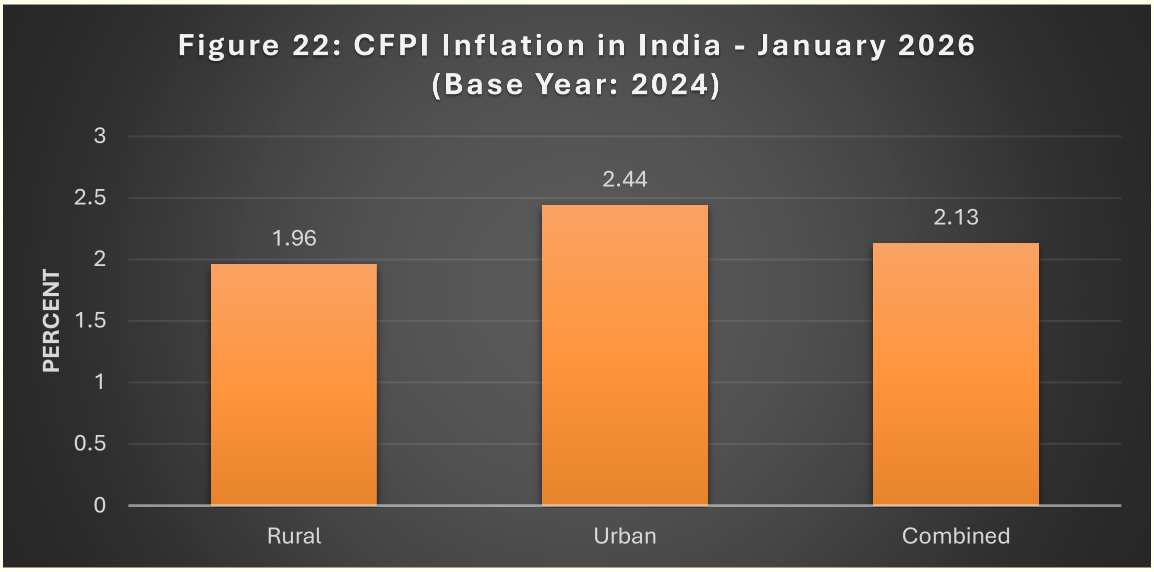
Headline and Core Inflation: Broad-Based Moderation Takes Hold

The January print shows a rare alignment of low inflation across both rural and urban India. Rural CPI inflation stood at 2.73 percent, while urban inflation was marginally higher at 2.77 percent (Figure 1), suggesting that the easing of prices has not been geographically skewed. This is a notable departure from earlier inflation cycles, when food price spikes disproportionately affected rural households.

Equally important is the behaviour of non-food inflation. With fuel prices largely stable and core inflation remaining subdued, the January data suggest that demand-side pressures are currently well contained. This reinforces the view that inflation is not being driven by overheating demand but is instead responding to improved supply conditions and a favourable price environment.

Food Inflation: Dramatic Corrections, Persistent Volatility

Food prices were the primary driver of the sharp moderation in headline inflation. Consumer Food Price Index (CFPI) inflation eased to 2.13 percent (Figure 22), largely due to significant year-on-year price declines across several essential food items. Rural food inflation stood at 1.96 percent, while urban food inflation was higher at 2.44 percent, indicating slightly stronger price pressures in urban consumption baskets.



Source: MoSPI, GoI

Prices of garlic fell by over 53 percent, onions by 29 percent, potatoes by nearly 29 percent, and arhar dal by close to 25 percent. These corrections reflect a combination of favourable base effects, improved arrivals, and better supply management.

Yet beneath this broad moderation lies continued volatility. Tomato prices, for instance, recorded inflation exceeding 64 percent, underscoring the chronic instability that continues to characterise India's horticulture markets. This divergence highlights a familiar structural weakness: while overall food inflation may remain benign, item-level price shocks persist due to inadequate storage, fragmented supply chains, and uneven market integration.

Non-Food Inflation: Services Begin to Matter More

One of the most important insights from the January data emerges from the behaviour of non-food components, particularly services. Education inflation crossed 3.3 percent, while the personal care and effects category recorded inflation of over 19 percent, driven largely by sharp increases in jewellery prices. These trends are especially relevant under the new CPI framework, which assigns greater weight to services and discretionary consumption.

Transport inflation remained strikingly low at 0.09 percent, reflecting stable fuel prices and muted cost pressures in mobility-related services. Housing inflation also remained modest at around 2 percent, aided by a more representative measurement that now includes rural housing rents for the first time. Together, these shifts indicate that future inflation episodes may be driven less by food shocks and more by services-led pressures.

State-Level Inflation: Uneven Welfare Outcomes

The national average masks significant variation across states. Among major states, Telangana recorded the highest inflation at 4.92 percent, followed by Kerala and Tamil Nadu, all of which exceeded the national average by a wide margin. At the other end of the spectrum, several northeastern states registered inflation below 1 percent.

This dispersion underscores an increasingly important reality: inflation is no longer a uniform national phenomenon. As consumption patterns diverge across states and services assume greater prominence, state-level inflation dynamics will matter more for welfare, fiscal planning, and political economy considerations.

The New CPI Series: A Structural Shift in Inflation Measurement

January 2026 marks a watershed in inflation measurement. The revised CPI series, anchored to HCES 2023–24, expands item coverage from 299 to 358, adopts the COICOP 2018 classification, and incorporates online prices and digital services. Crucially, the weight of food in the CPI basket has declined, while housing, transport, health, and services have gained prominence.

This rebalancing makes the CPI more representative of modern consumption—but also more sensitive to services inflation, wage dynamics, and asset-linked consumption. Over time, this could reduce the volatility associated with food price swings but increase the persistence of inflation driven by services and discretionary spending.

Monetary Policy Implications: Space, but Not a Free Pass

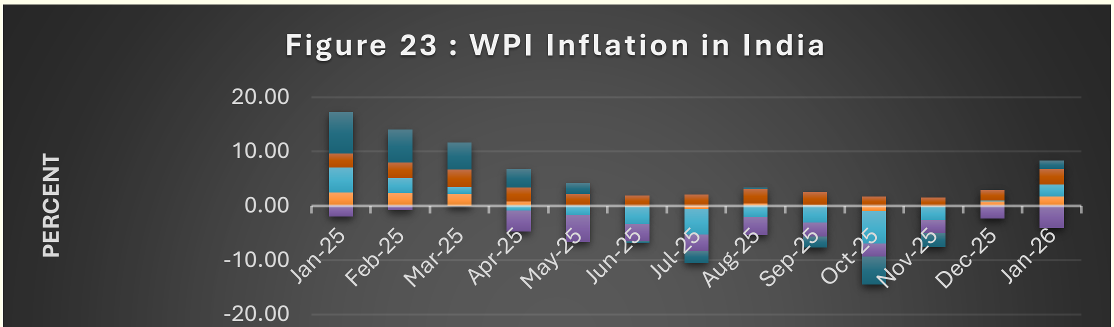
For the RBI, the January inflation print offers near-term policy comfort. Inflation well below target, combined with stable growth, strengthens the case for patience rather than haste. However, the deeper message is one of caution. Food disinflation is largely supply-driven and potentially reversible, while services inflation—now more visible under the new CPI—could become stickier over time.

In this sense, January 2026 may represent the calm before a more complex inflation regime. The new CPI series raises the analytical bar, demanding that policymakers look beyond headline numbers and engage more closely with composition, persistence, and distributional effects of inflation. Low inflation today is reassuring—but under a reweighted CPI framework, tomorrow's inflation challenges may look very different.

WHOLESALE INFLATION TURNS A CORNER: READING THE SECTORAL SIGNALS FROM JANUARY 2026

Introduction

Wholesale price inflation in India firmed up in January 2026, marking a decisive exit from the disinflationary phase seen through much of late 2025. The All-India Wholesale Price Index (WPI) rose by 1.81 percent year-on-year, up sharply from 0.83 percent in December 2025 and a contraction of 0.13 percent in November 2025 (Figure 23). On a month-on-month basis, wholesale prices increased by 0.51 percent, mirroring the pace seen in the previous month.



	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26
Food index	7.52	5.94	4.93	3.30	1.93	-0.26	-2.10	0.21	-1.94	-5.04	-2.50	0.00	1.41
Manufactured products	2.65	2.86	3.21	2.62	2.11	1.90	2.05	2.62	2.33	1.68	1.47	1.82	2.86
Fuel & power	-1.87	-0.71	0.00	-3.76	-4.80	-3.13	-3.04	-3.24	-2.58	-2.42	-2.33	-2.31	-4.01
Primary articles	4.58	2.81	1.26	-0.91	-1.75	-3.22	-4.70	-2.10	-3.12	-5.93	-2.53	0.21	2.21
All Commodities	2.51	2.38	2.25	0.85	0.13	-0.19	-0.58	0.52	0.19	-1.02	-0.13	0.83	1.81

All Commodities Primary articles Fuel & power Manufactured products Food index

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

This renewed uptick in WPI inflation reflects a changing composition of price pressures. While fuel deflation deepened, inflationary impulses strengthened in manufactured products and parts of the primary articles basket, particularly non-food articles and minerals. The January data thus signal a transition from commodity-driven disinflation to cost-push pressures emanating from industrial inputs and manufacturing value chains.

Primary Articles

Primary articles, which carry a weight of 22.62 percent in the WPI basket, recorded a year-on-year inflation of 2.21 percent in January 2026 (Figure 23), reversing the negative inflation seen in several preceding months. However, on a month-on-month basis, the index declined marginally by 0.15 percent, underscoring divergent trends within the group.

Food articles remained a key moderating force. Prices of food articles declined by 1.79 percent month-on-month, driven by sharp corrections in vegetables and cereals. Vegetables continued to exhibit high volatility, with potato and onion prices still significantly lower than a year ago, despite some sequential recovery in onions. Pulses inflation remained deeply negative on a year-on-year basis, reflecting improved supply conditions.

In contrast, non-food articles emerged as a source of upward pressure, rising by 5.32 percent month-on-month and 7.58 percent year-on-year. Oilseeds prices surged sharply, reflecting tighter domestic availability and global price firming. Minerals inflation also remained elevated, pointing to sustained demand from construction and core industries. Crude petroleum and natural gas prices rose sequentially, although they remained in deflationary territory on an annual basis.

Fuel & Power

Fuel and power continued to exert a strong disinflationary influence on headline WPI inflation. The group recorded a year-on-year deflation of 4.01 percent, deepening from –2.31 percent in December 2025 (Figure 23). On a month-on-month basis, the fuel index declined by 1.62 percent.

The deflation was broad-based across electricity and petroleum products. Electricity prices fell sharply, while mineral oils such as petrol and high-speed diesel also recorded sequential declines. LPG prices, although higher on a month-on-month basis, remained significantly lower than a year earlier.

Persistently negative fuel inflation reflects a combination of stable international crude prices, calibrated domestic price adjustments, and subdued pass-through. This has provided an important cushion against sharper wholesale inflation, even as pressures build elsewhere in the economy.

Manufactured Products

Manufactured products, with the largest weight of 64.23 percent, were the principal driver of the January inflation uptick. The group recorded 2.86 percent year-on-year inflation, accelerating from 1.82 percent in December 2025 (Figure 23), and a strong 1.30 percent month-on-month increase.

Price increases were widespread: 19 out of 22 manufacturing groups registered sequential gains. The most notable contributor was basic metals, which saw a sharp 5.82 percent month-on-month increase and nearly 6 percent year-on-year inflation, reflecting rising input costs and firm demand from infrastructure and construction sectors. Textiles, food products, electrical equipment, and other manufacturing also recorded meaningful price increases.

At the same time, some moderation was visible in pharmaceuticals, machinery, and furniture, suggesting that pricing power remains uneven across industries. Overall, the manufacturing inflation profile points to cost-push pressures gradually replacing commodity-led volatility as the dominant inflation dynamic at the wholesale level.

WPI Food Index

The WPI Food Index, which combines food articles and manufactured food products and carries a weight of 24.38 percent, declined from 196.0 in December 2025 to 194.2 in January 2026 on a month-on-month basis. However, year-on-year food inflation turned positive at 1.41 percent (Figure 23), after remaining flat in December.

This mixed picture reflects sharp sequential declines in vegetables offset by firm prices in milk, eggs, meat, and processed food products. While primary food inflation remains relatively contained, the gradual firming of processed food prices within manufactured products warrants close monitoring, especially given its potential pass-through to retail inflation.

Conclusion

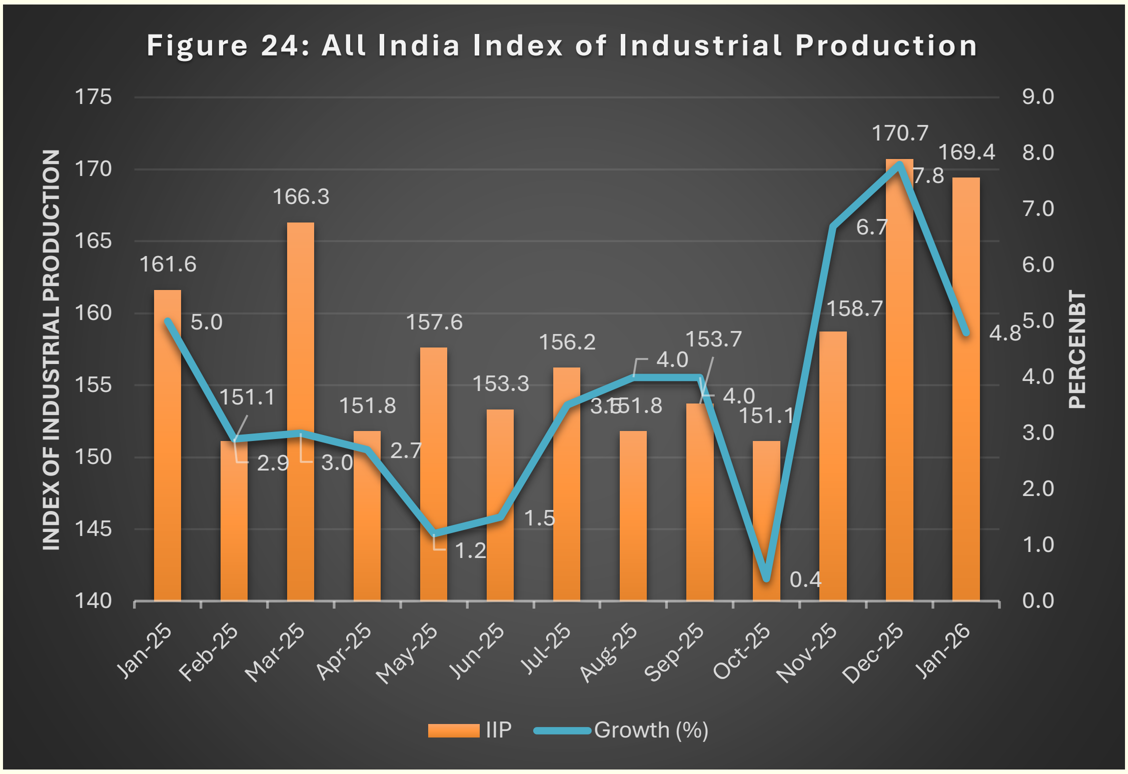
The January 2026 WPI data mark an inflection point in India's wholesale inflation trajectory. Headline inflation has moved decisively into positive territory, not because of fuel or food shocks, but due to strengthening price pressures in manufactured products and industrial inputs. The persistence of fuel deflation has helped cap overall inflation, but its cushioning role may weaken if global energy prices turn volatile.

More importantly, the broad-based nature of manufacturing inflation suggests that upstream cost pressures are building across value chains. While this may reflect improving demand conditions, it also raises questions about margin compression and pass-through risks in the months ahead. For policymakers, the message from wholesale prices is nuanced: inflation risks are re-emerging, but their source has shifted—from commodities to production costs—requiring a calibrated and forward-looking policy response.

INFRASTRUCTURE-LED MOMENTUM: WHAT JANUARY 2026 IIP REVEALS ABOUT INDIA'S INDUSTRIAL GROWTH

Introduction

India's industrial momentum moderated but remained resilient in January 2026, with the Index of Industrial Production (IIP) registering 4.8 percent year-on-year growth, down from 7.8 percent in December 2025 (Figure 24). The slowdown reflects base effects and some sectoral unevenness rather than a broad-based loss of industrial traction. Manufacturing and electricity continued to anchor growth, while mining showed steady expansion. Importantly, the January data underline a structural shift in industrial drivers, away from consumption-led impulses towards infrastructure, construction, and intermediate goods, highlighting the evolving nature of India's post-pandemic industrial recovery.



Source: Press Release dated 2nd March 2026, MoSPI, Government of India

Sectoral Performance

Manufacturing

Manufacturing, which accounts for nearly 78 percent of the IIP, grew by 4.8 percent in January 2026, moderating from the robust expansion recorded in December (Figure 25). The manufacturing index stood at 167.2, compared to 159.5 a year earlier. At the disaggregated level, 14 of 23 industry groups recorded positive growth, indicating a broad, though uneven, recovery.

The strongest impulses came from basic metals, which expanded by 13.2 percent, reflecting sustained demand from infrastructure, construction, and capital goods sectors. Motor vehicles, trailers and semi-trailers grew by 10.9 percent, supported by rising output of commercial vehicles and auto components, while non-metallic mineral products, notably cement and clinker, rose by 9.9 percent, reinforcing the narrative of infrastructure-led industrial growth.

However, segments such as textiles, wearing apparel, leather products, and pharmaceuticals contracted, pointing to continued stress in labour-intensive and export-linked manufacturing. This divergence suggests that while headline manufacturing growth remains positive, underlying sectoral health is far from uniform.

Electricity

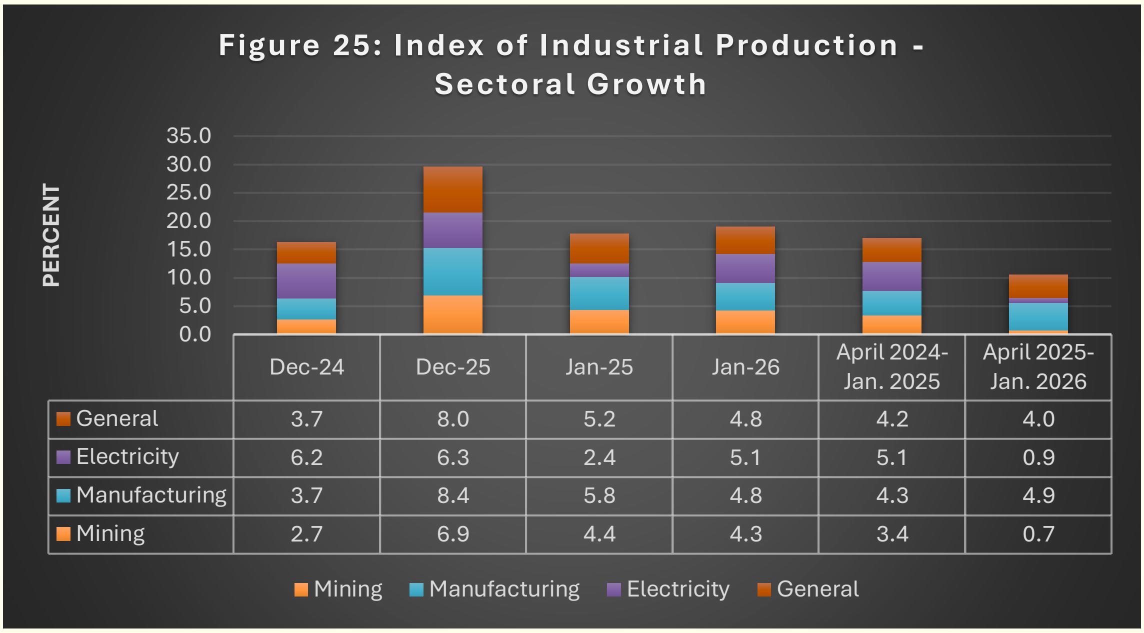
Electricity generation grew by 5.1 percent year-on-year in January 2026 (Figure 25), accelerating from the previous month. The electricity index rose to 212.1, reflecting sustained demand from industrial users and infrastructure projects. This steady expansion signals resilient underlying economic activity, particularly in energy-intensive sectors such as metals, cement, and construction materials.

Mining

Mining output increased by 4.3 percent in January 2026 (Figure 25), with the mining index reaching 157.2. While growth remained positive, the sector's performance over the April–January period shows only 0.7 percent growth, underscoring volatility driven by regulatory constraints, weather disruptions, and fluctuating global commodity demand. Mining continues to lag manufacturing and electricity in providing durable momentum to industrial growth.

General IIP

The overall IIP stood at 169.4 in January 2026, compared to 161.6 in January 2025, having growth at 4.8 percent (Figure 25). Over the April–January period, industrial production grew by 4.0 percent, broadly consistent with India's real GDP growth trajectory. The data suggest that industrial activity is expanding at a stable, but not accelerating, pace—adequate to support growth, but insufficient to generate a strong investment-led upswing on its own.



	Dec-24	Dec-25	Jan-25	Jan-26	April 2024-Jan. 2025	April 2025-Jan. 2026
General	3.7	8.0	5.2	4.8	4.2	4.0
Electricity	6.2	6.3	2.4	5.1	5.1	0.9
Manufacturing	3.7	8.4	5.8	4.8	4.3	4.9
Mining	2.7	6.9	4.4	4.3	3.4	0.7

Source: Press Release dated 2nd March 2026, MoSPI, GoI

Use-based Classification

Primary Goods

Primary goods output grew by 3.1 percent in January 2026 (Table 3). The relatively modest expansion reflects subdued mining performance and soft agricultural-linked industrial activity. While primary goods remain an important base for industrial supply chains, they are no longer the principal growth engine.

Capital Goods

Capital goods registered 4.3 percent growth (Table 3), marking a slowdown from double-digit rates seen earlier in the year. Although positive, this moderation suggests that private investment demand remains cautious. The capital goods index, at 124.4, indicates incremental rather than transformational capacity expansion.

Intermediate Goods

Intermediate goods emerged as a key growth driver, expanding by 6.0 percent (Table 3). This reflects strengthening demand across manufacturing value chains and signals improved utilisation of industrial capacity. Rising intermediate goods output often precedes stronger capital expenditure cycles, making this trend particularly significant.

Infrastructure / Construction Goods

The standout performer was infrastructure and construction goods, which surged by 13.7 percent year-on-year (Table 3). The index climbed to 227.7, underscoring the central role of public investment in sustaining industrial momentum. This growth aligns with continued government emphasis on roads, railways, housing, and urban infrastructure.

Consumer Durables

Consumer durables grew by 6.3 percent (Table 3), indicating steady but unspectacular recovery in discretionary consumption. While urban demand remains supportive, high interest rates and uneven income growth appear to be tempering a stronger rebound.

Consumer Non-Durables

In contrast, consumer non-durables contracted by 2.7 percent, highlighting persistent weakness in mass consumption. This contraction raises concerns about rural demand, real wage growth, and the uneven distribution of post-pandemic recovery gains.

Table 3: IIP Growth - Use-based Classification

(percent)

	Dec. 2024	*Dec. 2025*	*Jan. 2025*	*Jan. 2026*	*April-Jan.2024-25*	*Apri- Jan. 2025-26*
Primary goods	*3.8*	*4.4*	*5.5*	*3.1*	*4.0*	*1.1*
Capital goods	*10.5*	*8.3*	*10.2*	*4.3*	*5.6*	*7.1*
Intermediate goods	*6.4*	*7.8*	*5.3*	*6.0*	*4.6*	*5.6*
Infrastructure/ Construction goods	*8.4*	*12.8*	*7.3*	*13.7*	*6.4*	*9.9*
Consumer durables	*8.1*	*12.4*	*7.1*	*6.3*	*8.5*	*5.7*
Consumer non-durables	*-7.1*	*8.5*	*0.1*	*-2.7*	*-1.2*	*0.0*

Source: NSO, MoSPI, GoI

Policy and Structural Implications

The January 2026 IIP data reinforce the picture of an economy increasingly reliant on public-led infrastructure spending to sustain industrial growth. Manufacturing expansion is being driven more by construction-linked industries than by consumer demand or private investment. The weakness in consumer non-durables, combined with slowing capital goods growth, points to structural constraints in income growth and investment confidence.

For policymakers, this underscores the importance of complementing public capital expenditure with measures that revive household consumption and crowd in private investment. Without such balance, industrial growth risks becoming narrowly anchored to government spending cycles.

Outlook

Looking ahead, industrial activity is likely to remain stable but uneven. Infrastructure-linked sectors should continue to perform well, supported by budgetary allocations and ongoing project execution. However, a sustained acceleration in IIP growth will depend on a revival in capital goods demand and a turnaround in consumer non-durables. Global uncertainties, monetary policy tightness, and export demand conditions will remain key swing factors.

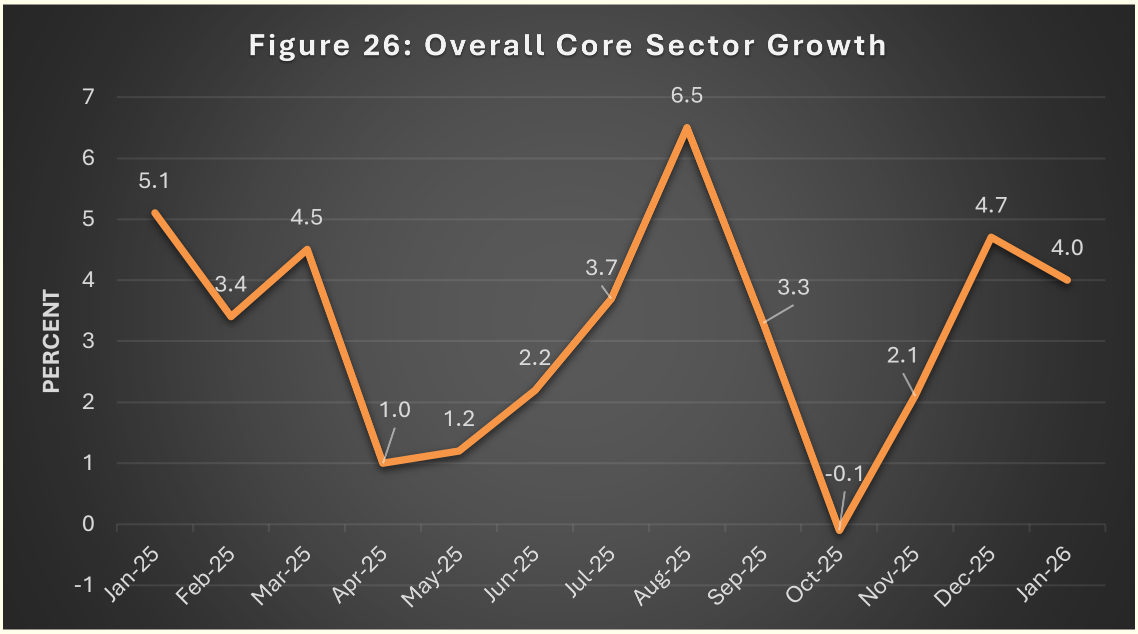
Conclusion

January 2026's IIP numbers tell a story of resilient but asymmetric industrial growth. India's industrial engine is running, but on selective cylinders—powered by infrastructure and intermediates rather than broad-based consumption or private investment. The challenge ahead lies not in sustaining growth per se, but in rebalancing its drivers. A durable industrial recovery will require policies that extend momentum beyond construction sites and factory gates, into household demand, investment confidence, and export competitiveness.

JANUARY 2026 CORE SECTOR GROWTH: INVESTMENT-LED STRENGTH MEETS STRUCTURAL ENERGY WEAKNESSES

Introduction

The performance of India's core infrastructure industries offers a crucial real-time barometer of the economy's underlying strength. In January 2026, the combined Index of Eight Core Industries (ICI) recorded a year-on-year growth of 4.0 percent (Figure 26), marking a steady, though uneven, expansion in the backbone sectors that together account for over 40 percent of the Index of Industrial Production (IIP). While investment-linked segments such as steel and cement continued to power ahead, persistent contraction in hydrocarbons underscores structural challenges in domestic energy production.



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

Energy Sector Performance

Electricity

Electricity generation grew by 3.8 percent year-on-year in January 2026 (Figure 27), reflecting resilient demand from industry and households alike. However, cumulative growth during April–January 2025-26 remained modest at 0.8 percent, suggesting that capacity additions and renewable integration are yet to translate into sustained acceleration. For policymakers, this reinforces the need to focus not just on installed capacity, but also on grid stability, storage solutions, and demand-side management.

Refinery Products

Petroleum refinery output remained flat compared to January 2025, with no year-on-year growth recorded. Given its high weight in the ICI basket, this stagnation significantly moderated overall core sector growth. The data point to refinery utilisation constraints and evolving demand patterns, raising questions about the medium-term alignment between refining capacity expansion and India's energy transition pathway.

Natural Gas

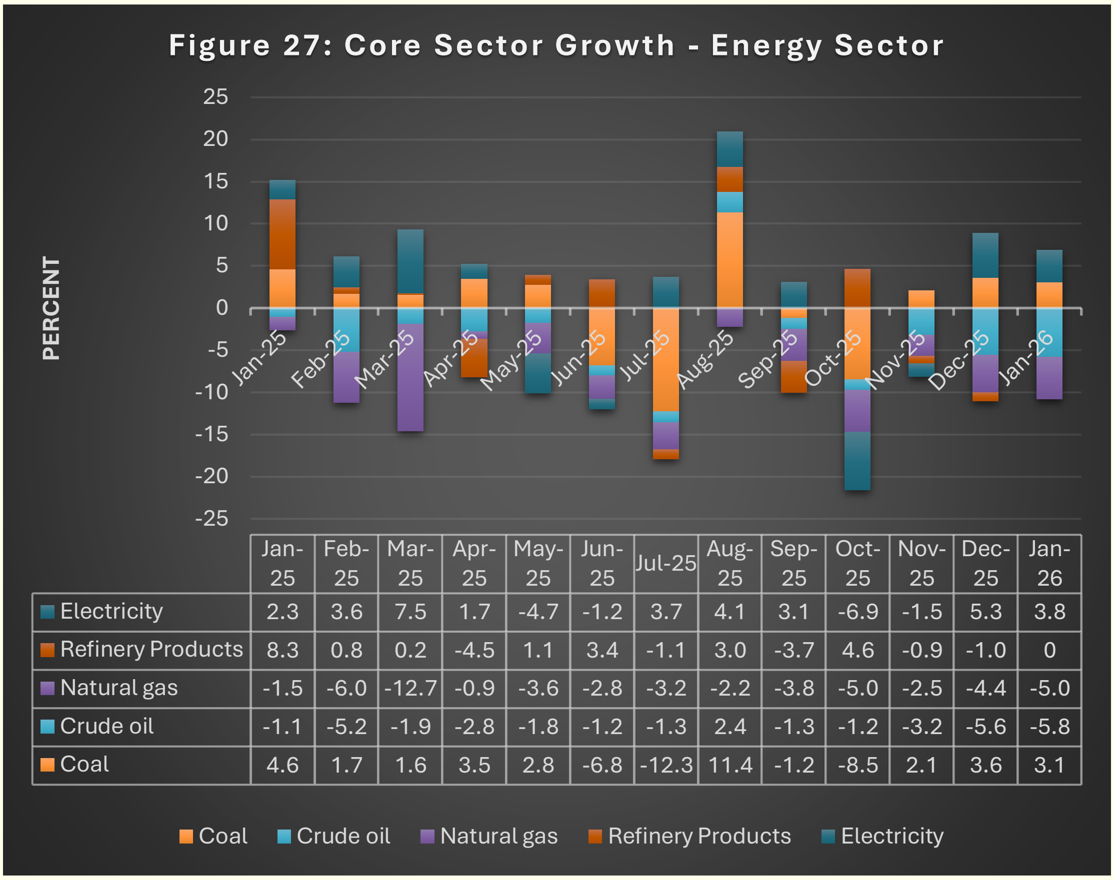
Natural gas production contracted by 5.0 percent in January 2026 (Figure 27), extending the sector's cumulative decline to 3.4 percent during the current financial year so far. This persistent weakness highlights supply-side rigidities, delays in new field development, and growing import dependence—issues that carry implications for fertilisers, power generation, and city gas distribution.

Crude Oil

Crude oil output declined by 5.8 percent year-on-year (Figure 27), continuing a multi-year downtrend in domestic production. With cumulative production down 2.1 percent during April–January 2025-26, the data reinforce concerns over energy security and fiscal vulnerability to global oil price volatility. The numbers strengthen the case for accelerated exploration reforms and improved recovery from mature fields.

Coal

Coal production increased by 3.1 percent in January 2026 (Figure 27), though cumulative output for the year so far registered a marginal decline of 0.3 percent. While monthly growth reflects efforts to stabilise supplies amid rising power demand, the cumulative slowdown suggests logistical bottlenecks and the need for faster evacuation and mine capacity augmentation.



	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26
Electricity	2.3	3.6	7.5	1.7	-4.7	-1.2	3.7	4.1	3.1	-6.9	-1.5	5.3	3.8
Refinery Products	8.3	0.8	0.2	-4.5	1.1	3.4	-1.1	3.0	-3.7	4.6	-0.9	-1.0	0
Natural gas	-1.5	-6.0	-12.7	-0.9	-3.6	-2.8	-3.2	-2.2	-3.8	-5.0	-2.5	-4.4	-5.0
Crude oil	-1.1	-5.2	-1.9	-2.8	-1.8	-1.2	-1.3	2.4	-1.3	-1.2	-3.2	-5.6	-5.8
Coal	4.6	1.7	1.6	3.5	2.8	-6.8	-12.3	11.4	-1.2	-8.5	2.1	3.6	3.1

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

Manufacturing Sector Performance

Cement

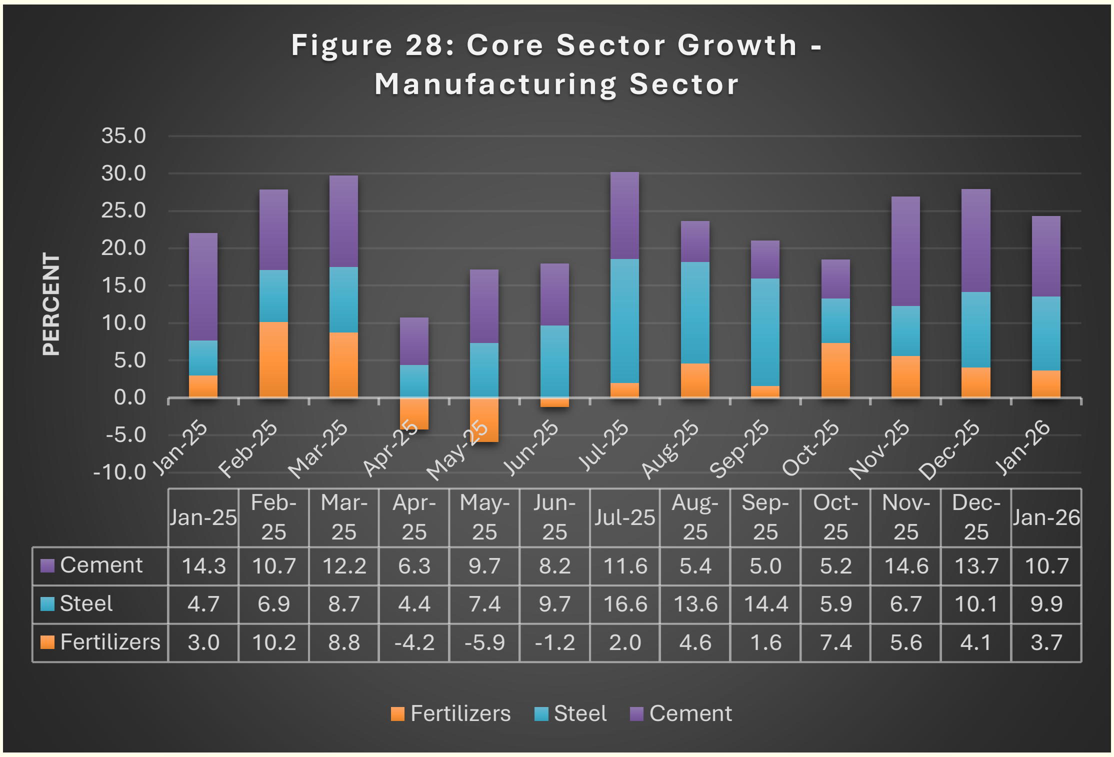
Cement production surged by 10.7 percent (Figure 28), one of the strongest performances among core industries. This robust growth mirrors sustained momentum in housing, infrastructure, and public capital expenditure, indicating that the investment cycle remains firmly intact.

Steel

Steel output rose by an impressive 9.9 percent year-on-year (Figure 28), with cumulative growth of 9.8 percent during April–January 2025-26. The strength of steel production underscores continued traction in construction, transport, and capital goods manufacturing, reinforcing steel's role as a leading indicator of industrial expansion.

Fertilizers

Fertilizer production grew by 3.7 percent in January (Figure 28), with cumulative growth of 1.9 percent. While positive, the moderate pace reflects ongoing pressures from input costs, natural gas availability, and subsidy rationalisation, which are issues central to both agricultural productivity and fiscal management.



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

Annual Core Sector Growth

For the period April–January 2025-26, the overall ICI recorded a cumulative growth of 2.8 percent (Table 4), lower than the January year-on-year print. This divergence highlights the uneven nature of recovery, where strong momentum in construction-linked manufacturing is offset by prolonged weakness in hydrocarbons and subdued electricity growth.

Table 4: 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-Jan. 2024-25	*4.5*	*6.0*	*-2.1*	*0.5*	*3.3*	*5.1*	*1.7*	*6.6*	*5.1*
April – Jan. 2025-26	*2.8*	*-0.3*	*-2.1*	*-3.4*	*0.1*	*0.8*	*1.9*	*9.8*	*9.1*

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

Conclusion

The January 2026 core sector data present a picture of investment-driven resilience coexisting with structural energy constraints. Strong growth in steel and cement confirms the durability of India's infrastructure-led growth strategy, supported by public capital expenditure. At the same time, declining crude oil and natural gas production expose vulnerabilities that could undermine medium-term growth, energy security, and fiscal stability.

For policymakers, the message is clear: sustaining industrial momentum will require a two-pronged approach, viz., continued support for infrastructure and manufacturing on the one hand, and deep structural reforms in the energy sector on the other. As the economy navigates global uncertainty and domestic transition pressures, the performance of the eight core industries will remain central to India's growth narrative under the stewardship of the Government of India.

EXPORTS SURGE; DEFICITS WIDEN: READING INDIA'S JANUARY 2026 TRADE SIGNALS

Introduction

India's external sector performance in January 2026 reflects a phase of accelerating trade activity, marked by robust export growth alongside a sharper rise in imports. At a time of heightened global uncertainty and uneven recovery across major economies, India's trade numbers underscore both resilience and emerging macroeconomic pressures. While exports, particularly services, have provided strong momentum, the widening trade deficit highlights the structural challenges associated with import dependence and domestic demand revival.

The January data, along with cumulative trends for April–January 2025–26, offer valuable insights into the evolving composition of India's trade basket, the role of services in stabilising the current account, and the importance of product and market diversification in sustaining export growth.

Trade During January 2026

Merchandise Trade

Merchandise exports in January 2026 stood at US$ 36.56 billion (Table 5), marginally higher than US$ 36.34 billion recorded a year earlier, indicating near-stagnant year-on-year growth. In contrast, merchandise imports rose sharply to US$ 71.24 billion, up from US$ 59.77 billion in January 2025. This divergence led to a significant widening of the merchandise trade deficit.

Within exports, growth was driven by engineering goods, petroleum products, meat, dairy and poultry products, marine products, and iron ore. Engineering goods alone grew by over 10 percent year-on-year, reinforcing their role as a cornerstone of India's manufacturing exports. Agricultural and resource-based exports also posted strong gains, reflecting favourable global demand and improved domestic supply conditions.

On the import side, the surge was broad-based, though imports of several commodities, including coal, iron and steel, project goods, and crude petroleum, declined year-on-year. This suggests a mixed picture: while domestic demand remains strong, some easing of commodity prices and moderation in investment-related imports may be underway.

Services Trade

Services exports emerged as the principal driver of overall export growth in January 2026. Estimated services exports rose sharply to US$ 43.90 billion, compared to US$ 34.75 billion in January 2025 (Table 5). Services imports also increased, but at a slower pace, reaching US$ 19.60 billion.

As a result, the services trade surplus provided a crucial counterbalance to the expanding merchandise trade deficit. This reinforces the strategic importance of India's services sector, particularly IT, business services, and professional services, in maintaining external sector stability.

Table 5: India's Trade During January 2026

		January 2026 (US$ Billion)	*January 2025 (US$ Billion)*
Merchandise	*Exports*	*36.56*	*36.34*
	Imports	*71.24*	*59.77*
Services	*Exports*	*43.90*	*34.75*
	Imports	*19.60*	*16.71*
Total Trade	*Exports*	*80.45*	*71.09*
	Imports	*90.83*	*75.48*
	Trade Balance	***-10.38***	***-5.38***

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

Cumulative Trade: April–January 2025-26 Trends

Merchandise Trade

Cumulative merchandise exports during April–January 2025–26 amounted to US$ 366.63 billion (Table 6), registering a growth of 2.20 percent over the corresponding period of the previous year. Imports, however, rose more sharply to US$ 649.86 billion, resulting in a merchandise trade deficit of US$ 283.23 billion, significantly higher than the previous year.

Notably, non-petroleum exports grew by nearly 5 percent, indicating underlying strength in India's manufacturing and agro-processing exports. However, the faster rise in non-petroleum and non-gems imports points to sustained domestic consumption and investment demand, with implications for the trade balance.

Services Trade

Services exports during April–January 2025–26 reached US$ 354.13 billion (Table 6), reflecting robust growth of over 10 percent. Services imports stood at US$ 173.55 billion, yielding a substantial services trade surplus of US$ 180.58 billion.

This surplus played a decisive role in moderating India's overall trade deficit and underscores the growing asymmetry between merchandise and services trade performance. The data reaffirm that India's external sector resilience increasingly rests on the continued competitiveness of its services exports.

Table 6: Trade During April 2025-January 2026

		April-January 2025-26 (US$ Billion)	*April-January 2024-25 (US$ Billion)*
Merchandise	*Exports*	*366.63*	*358.75*
	Imports	*649.86*	*606.13*
Services	*Exports*	*354.13*	*320.28*
	Imports	*173.55*	*166.72*
Total Trade	*Exports*	*720.76*	*679.02*
	Imports	*823.41*	*772.85*
	Trade Balance	***-102.65***	***-93.83***

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

Product and Market Diversification

The January 2026 data highlight encouraging signs of diversification in both products and markets. On the product side, strong growth was observed in exports of cereals (excluding rice), coffee, iron ore, marine products, and processed food items. This reflects gradual progress in moving beyond traditional export categories and strengthening value-added segments.

Market-wise, exports to destinations such as the United Arab Emirates, China, Hong Kong, the Netherlands, Italy, Spain, and the United States registered notable growth. The expansion of exports to China and Hong Kong is particularly significant, suggesting a partial rebalancing of India's trade engagement in Asia. On the import front, rising inflows from Switzerland, the UAE, China, and the United States point to deeper integration with global supply chains, albeit with implications for the trade deficit.

These trends underline the importance of sustained trade diplomacy, effective utilisation of free trade agreements, and targeted export promotion strategies to consolidate gains in new markets.

Conclusion

India's trade performance in January 2026 presents a picture of strong export momentum tempered by widening imbalances. While total exports—driven decisively by services—have grown at a healthy pace, the sharper increase in imports has led to a deterioration in the trade balance. Over the cumulative period, services continue to act as a stabilising force, offsetting much of the pressure from merchandise trade deficits.

Going forward, the challenge for policymakers lies in sustaining export growth while addressing structural drivers of import dependence. Greater emphasis on manufacturing competitiveness, deeper product diversification, and strategic market expansion will be critical. Equally important will be maintaining the dynamism of the services sector, which remains India's strongest buffer against external shocks. Together, these will determine whether India's trade trajectory can remain both robust and sustainable in the face of an increasingly volatile global environment.

US-INDIA INTERIM TRADE FRAMEWORK

BEYOND TARIFFS: THE POLITICAL ECONOMY OF THE US–INDIA INTERIM TRADE FRAMEWORK

Introduction

The US–India Interim Trade Framework, announced on 7 February 2026, represents a calibrated shift in bilateral economic engagement rather than a conventional trade liberalisation agreement. Designed as a transitional arrangement towards a comprehensive Bilateral Trade Agreement (BTA), the framework seeks to stabilise trade relations, ease tariff pressures, and embed economic cooperation within a broader strategic partnership.

While the agreement expands market access for several Indian sectors, its deeper significance lies in the evolving nature of global trade governance. The framework reflects a shift from rules-based multilateralism towards a system where market access increasingly depends on geopolitical alignment, supply-chain strategy, and regulatory convergence. As such, the agreement must be evaluated not merely in terms of tariff reductions but through the lens of political economy, sectoral incentives, and long-term strategic positioning.

From Trade Friction to Conditional Engagement

The framework emerges after a prolonged period of bilateral trade friction. Indian exports to the United States had faced combined tariffs of up to 50 percent, including reciprocal duties and additional punitive tariffs linked to India's continued purchases of Russian crude oil. The removal of the extra 25 percent tariff and the reduction of reciprocal duties to 18 percent represent a partial normalisation of trade conditions for Indian exporters.

However, the easing of tariffs remains explicitly conditional. The United States retains the ability to reimpose duties should underlying geopolitical assumptions shifts, particularly regarding energy sourcing. This conditionality illustrates a broader transformation in global trade policy: economic integration is increasingly mediated by strategic considerations rather than neutral multilateral rules. The interim framework thus functions as both a trade arrangement and a mechanism for aligning economic incentives with geopolitical priorities.

Sectoral Market Access and Export Competitiveness

Tariff reductions under the framework improve access for a range of Indian exports, particularly in labour-intensive and MSME-dominated sectors. Products such as gems and jewellery, pharmaceuticals, smartphones, machinery components, textiles, and leather goods stand to benefit from improved price competitiveness in the US market.

Additional opportunities are expected in aircraft components, machinery parts, toys, silk, handicrafts, and home décor products. The framework also gestures toward deeper cooperation in advanced technology segments, including semiconductors and emerging fields such as quantum technologies, reflecting a shared interest in diversifying global technology supply chains.

Beyond tariff reductions, the agreement's most immediate economic benefit may be policy stability. Frequent tariff changes over the past year had disrupted export planning and investment decisions. Even as an interim arrangement, the framework sends a stabilising signal that reduces uncertainty for exporters and investors across manufacturing and technology sectors.

Agricultural Trade: Selective Liberalisation

Agriculture remains one of the most politically sensitive aspects of trade negotiations between the two countries. The interim framework adopts a selective and asymmetric approach, expanding export opportunities for Indian agricultural products while preserving protection for domestic food-security crops.

Indian exports such as spices, tea, coffee, coconut, cashew, mango, banana, guava, pineapple, and processed agri-products (including fruit juices and preserves) are expected to benefit from zero or reduced tariffs in the US market. These product categories are closely linked to smallholder farmers, Farmer Producer Organisations (FPOs), and agri-MSMEs, suggesting potential gains for rural value chains.

From a structural perspective, this reflects a gradual shift in India's agricultural trade strategy, from bulk commodity exports towards high-value horticultural and processed products. Improved access to the US market could accelerate this transition by increasing farm-gate prices and encouraging investment in logistics, processing, and cold-chain infrastructure.

At the same time, the framework also includes provisions under which India will eliminate or reduce tariffs on selected US agricultural and food products, including dried distillers' grains (DDGs), red sorghum used for animal feed, tree nuts, fresh and processed fruits, soybean oil, wine and spirits, and certain other products. The composition of this list suggests a carefully calibrated opening of India's market. Many of these items either cater to higher-income consumption segments or function as inputs for livestock and food-processing industries rather than directly competing with India's staple food crops. For instance, DDGs and sorghum are primarily used as feed in the poultry and livestock sectors, while imports of tree nuts, fruits, and edible oils respond to demand segments where domestic supply remains limited.

This selective import liberalisation therefore complements India's broader strategy of offering targeted concessions in relatively non-sensitive agricultural segments while preserving policy space in politically sensitive sectors. At the same time, it reflects a negotiated trade-off within the broader bilateral framework, where market access for US products is balanced against improved export opportunities for Indian goods.

Importantly, the agreement preserves strong protection for sensitive commodities including rice, wheat, sugar, millets, pulses, and dairy products. These sectors remain deeply embedded in India's public procurement system and food-security architecture. Excluding them from liberalisation helps mitigate risks of import competition and price volatility that have historically derailed agricultural trade negotiations.

This calibrated approach of liberalising export-oriented products while safeguarding staple crops, and allowing selective imports in non-sensitive segments, reflects an attempt to reconcile export competitiveness with domestic political economy constraints.

However, tariff reductions alone do not guarantee market penetration. Strict US sanitary and phytosanitary standards, fragmented domestic supply chains, and uneven certification capacity could limit the distribution of gains across producers. Without complementary investments in quality compliance, logistics infrastructure, and farmer organisations, the benefits may remain concentrated among larger exporters.

Rules of Origin, Standards, and Adjustment Costs

Although tariff concessions dominate public discourse, the agreement's provisions on rules of origin (RoO) and non-tariff barriers (NTBs) may ultimately prove more consequential.

The emphasis on stricter RoO reflects concerns in both countries about third-country routing and supply-chain circumvention. These provisions aim to ensure that tariff benefits accrue primarily to domestic producers rather than external intermediaries.

India has also committed to addressing several longstanding NTBs, including issues related to medical devices, information and communication technology imports, regulatory standards, and agricultural market access. A six-month review window will assess the adoption of US or internationally recognised standards.

Over the longer term, regulatory alignment could enhance India's integration into global value chains. In the short term, however, compliance costs, particularly for smaller firms, may be substantial, highlighting the need for targeted domestic support mechanisms.

Employment, Industrial Policy, and Strategic Supply Chains

The agreement is frequently framed by policymakers as an opportunity to expand employment and industrial growth. Increased access to the US market could generate employment gains in labour-intensive sectors such as textiles, leather goods, handicrafts, and food processing, where export growth tends to have strong multiplier effects.

Yet market access alone is unlikely to translate automatically into employment gains. Realising these opportunities will depend on improvements in logistics efficiency, infrastructure, access to finance, and workforce skills. Without complementary domestic reforms, the employment potential of export expansion may remain under-realised.

More broadly, the framework reinforces India's growing integration into US-centric supply chains, particularly in technology and energy sectors. While this alignment offers benefits in terms of scale, technology transfer, and investment flows, it also introduces new strategic trade-offs related to diversification and policy autonomy.

Policy Uncertainty and the Evolving US Trade Strategy

Recent developments in US trade policy highlight the fragile institutional context surrounding the interim framework. Following a US Supreme Court ruling limiting executive authority to impose tariffs under emergency economic powers, the US administration invoked Section 122 of the Trade Act of 1974 to impose a temporary 15 percent tariff surcharge on global imports.

Section 122 allows the US President to impose tariffs or quotas for up to 150 days in response to balance-of-payments concerns. Although intended as a temporary measure, the provision introduces additional uncertainty for trading partners, including India.

This policy shift illustrates the broader volatility of US trade instruments. Alternative mechanisms such as Section 301 investigations, Section 232 national security tariffs, or Section 338 discrimination tariffs provide the US administration with multiple legal avenues to impose trade restrictions.

For Indian exporters, this evolving policy landscape underscores a critical reality: the predictability of market access may depend as much on US domestic politics as on negotiated trade agreements.

Conclusion

The US–India Interim Trade Framework should be understood less as a comprehensive trade agreement and more as a strategic platform for deeper economic engagement. It reduces tariff pressures, restores momentum to bilateral trade relations, and creates opportunities across agriculture, manufacturing, and technology sectors.

At the same time, the framework remains selective in liberalisation, conditional in implementation, and embedded within a shifting geopolitical environment. Its ultimate impact will depend on how effectively India leverages the openings it provides, by strengthening export competitiveness, broadening participation across firms and regions, and maintaining strategic flexibility in global trade relations.

In that sense, the agreement represents both an opportunity and a test: a chance to deepen economic integration while navigating the complex intersection of trade policy, domestic political economy, and geopolitical alignment.

EMPLOYMENT

LABOUR MARKET HOLDS STEADY: SEASONAL EFFECTS SHAPE JANUARY 2026 PLFS OUTCOMES

Introduction

The January 2026 round of the Periodic Labour Force Survey (PLFS) presents a nuanced picture of India's labour market—one marked by broad stability in participation and employment, but also by modest seasonal softening, particularly in rural areas. Following steady improvements through much of 2025, labour market indicators show a mild pause rather than a reversal. The data underscore the growing importance of reading monthly labour statistics through a seasonal and structural lens, especially as the PLFS has transitioned to higher-frequency reporting since January 2025.

At the all-India level, labour force participation and employment ratios have remained largely steady, while unemployment has edged up marginally. Importantly, urban labour market conditions appear resilient, with most of the observed moderation driven by rural, seasonal factors linked to post-harvest slack and winter-related slowdowns.

Labour Force Participation: Stability with Minor Rural Easing

The Labour Force Participation Rate (LFPR) for persons aged 15 years and above stood at 55.9 percent in January 2026, marginally lower than 56.1 percent in December 2025. This near-plateau reflects a stabilisation after a gradual rise observed between June and December 2025.

The rural–urban split reveals the underlying dynamics more clearly. Rural LFPR declined slightly from 59.0 percent to 58.7 percent, while urban LFPR edged up marginally to 50.3 percent, suggesting continued engagement in urban labour markets even as rural activity moderated.

Female labour force participation, a key structural indicator, held steady at 35.1 percent overall. Rural female LFPR stood at 39.7 percent, while urban female participation was recorded at 25.5 percent. The persistence of female participation at elevated levels relative to historical norms points to a structural shift, even as month-to-month variations reflect short-term economic and seasonal conditions.

Employment Trends: Worker Population Ratio Shows Mild Retreat

The Worker Population Ratio (WPR) for persons aged 15 years and above declined marginally to 53.1 percent in January 2026, following a steady rise over the preceding months. This dip was largely rural-driven. Rural WPR fell from 56.7 percent in December 2025 to 56.2 percent, while urban WPR remained broadly unchanged at 46.8 percent.

Gender-disaggregated data reinforce this pattern. In rural areas, male WPR declined slightly to 75.7 percent, while female WPR eased to 38.0 percent. In contrast, urban WPR for both men (70.5 percent) and women (23.0 percent) remained stable, underlining the relative insulation of urban employment from seasonal fluctuations.

Overall, the January data suggest that the employment slowdown is not cyclical or demand-driven, but rather reflects predictable winter-season effects in agriculture, construction, transport, and allied rural activities.

Unemployment: A Modest, Seasonal Uptick

The Unemployment Rate (UR) for persons aged 15 years and above rose modestly to 5.0 percent in January 2026 from 4.8 percent in December. This increase was visible in both rural and urban areas, though the drivers differ.

Rural unemployment rose from 3.9 percent to 4.2 percent, consistent with post-harvest slack and reduced demand for casual labour during winter months. Urban unemployment increased from 6.7 percent to 7.0 percent, though urban labour force and employment participation remained stable, suggesting transitional or frictional unemployment rather than a deterioration in labour demand.

Male unemployment remained broadly stable across rural and urban areas. Female unemployment, however, edged up in January 2026, though it stayed within the range observed during April–December 2025. This indicates a short-term fluctuation rather than a structural weakening of female labour market conditions.

Seasonal Dynamics and Structural Signals

The PLFS bulletin explicitly attributes the January softening in LFPR and WPR, along with the rise in UR, to seasonal factors. Winter-related slowdowns in agriculture, construction, transport, small trade, and allied activities have historically produced similar patterns. The fact that urban indicators remain largely unchanged strengthens the interpretation that the observed moderation is temporary.

At a broader level, the data point to increasing resilience in India's labour market. The stability of female participation, the persistence of urban employment, and the absence of sharp unemployment spikes all suggest that underlying labour demand remains intact. Monthly PLFS data are thus proving valuable not just for headline tracking, but for distinguishing between seasonal noise and structural trends.

Conclusion

January 2026 marks a pause, not a setback, in India's labour market trajectory. The modest easing in participation and employment ratios, alongside a slight uptick in unemployment, reflects seasonal rural dynamics rather than a weakening of economic fundamentals. Urban labour markets continue to show stability, while female labour force participation remains significantly stronger than in pre-pandemic years.

As India moves towards a more granular, high-frequency labour market monitoring framework, the challenge for policymakers lies in resisting over-interpretation of month-to-month movements, while remaining attentive to emerging structural shifts. The January PLFS data reinforce a central message: India's labour market is stabilising, but its resilience will ultimately depend on sustained growth in non-farm employment, skill absorption, and gender-inclusive labour demand.

OCTOBER-DECEMBER 2025 QUARTERLY PLFS: RISING FEMALE PARTICIPATION AND LOWER UNEMPLOYMENT

India's labour market showed incremental improvement in the October–December 2025 quarter, according to the latest Periodic Labour Force Survey (PLFS) released by the National Statistical Office. The data indicate a modest expansion in workforce participation, a decline in unemployment, and a continuing rise in female labour force participation. At the same time, the figures underscore persistent structural features of India's employment landscape—particularly the dominance of agriculture in rural employment and the growing reliance on self-employment.

The overall Labour Force Participation Rate (LFPR) for persons aged 15 years and above increased to 55.8 percent, up from 55.1 percent in the previous quarter. The improvement was driven largely by rural areas, where participation rose to 58.4 percent, while urban participation remained broadly stable. The Worker Population Ratio (WPR) also improved, rising to 53.1 percent, suggesting that the increase in labour supply was accompanied by a corresponding rise in employment.

One of the most notable developments in the data is the continued rise in female labour force participation. Female LFPR increased to 34.9 percent, compared to 33.7 percent in the previous quarter, largely driven by rural women entering the labour force. This trend reflects gradual changes in rural labour markets and the increasing economic engagement of women, although urban female participation remains relatively stagnant.

Encouragingly, the unemployment rate declined across both rural and urban areas. Rural unemployment fell to 4.0 percent, while urban unemployment eased to 6.7 percent. These declines suggest that employment generation kept pace with the growing labour force during the quarter. However, the persistence of higher unemployment in urban areas continues to highlight challenges in absorbing new entrants into formal and high-productivity jobs.

The composition of employment also reveals important structural patterns. Self-employment remains the dominant form of work in rural India, accounting for 63.2 percent of workers, while urban areas continue to rely more heavily on regular wage employment. The increase in self-employment could reflect entrepreneurial activity, but it may also indicate limited availability of stable wage jobs, particularly in rural economies.

The agriculture sector continues to dominate rural employment, engaging 58.5 percent of workers, a slight increase from the previous quarter. In contrast, the urban workforce remains concentrated in the services sector, which employs nearly 62 percent of urban workers. This divergence highlights the continuing dual structure of India's labour market, where rural employment remains closely tied to agriculture while urban employment is driven by services.

In absolute terms, employment also expanded during the quarter. The estimated number of employed persons aged 15 years and above increased from 56.2 crore in July–September 2025 to 57.4 crore in October–December 2025, indicating a gradual increase in employment opportunities.

Taken together, the latest PLFS data point to **a** labour market that is improving gradually but unevenly. Rising workforce participation, declining unemployment, and greater female engagement are encouraging signals. However, the persistence of agricultural dependence, the growth of self-employment, and relatively weak urban female participation suggest that deeper structural transformation in employment remains a work in progress.

As India's economy continues to expand, the central challenge will be to translate growth into productive, high-quality jobs, particularly outside agriculture and within the formal sector. Sustained progress on labour-intensive manufacturing, services expansion, and skill development will ultimately determine whether the positive momentum in labour indicators evolves into durable employment gains.

AGRICULTURE & AGRI-BUSINESS

DIVERSIFICATION WITHOUT DEEP REFORM: WHAT BUDGET 2026–27 MEANS FOR INDIAN AGRICULTURE

Introduction

The Union Budget 2026–27 marks a conscious attempt to reposition Indian agriculture away from a narrow focus on cereals and input subsidies towards technology-led, diversified, and allied-sector-driven growth. Presented by Nirmala Sitharaman on 1 February 2026, the Budget signals a strategic shift in narrative, from welfare-heavy support to productivity enhancement, value addition, and integration with emerging technologies such as artificial intelligence and drones.

With an allocation of ₹1,40,529 crore for the Ministry of Agriculture and Farmers Welfare, representing a 5.4 percent increase over the revised estimates of 2025–26, the Budget seeks to project continuity with reform while addressing structural transformation. Yet, beneath the rhetoric of diversification and digitalisation lies an uneasy tension: ambitious announcements coexist with modest outlays, stagnant support for price and risk management, and a troubling retrenchment in agricultural research at a time of mounting climate stress.

Budgetary Allocations: Incremental Growth, Skewed Priorities

The overall allocation for agriculture and allied sectors stands at around ₹1.63 trillion, only marginally higher than the previous year. While headline growth appears positive, this increase masks a decline in real terms when adjusted for inflation and the rising scale of climate and income risks faced by farmers.

The single largest outlay remains PM-KISAN, with ₹63,500 crore earmarked for direct income transfers. Fertiliser subsidies continue to dominate the fiscal landscape, with allocations exceeding ₹1.7 trillion, far outstripping spending on productivity-enhancing investments. As several analysts have noted, the Centre spends more on fertiliser subsidies alone than on the entire agriculture budget—underscoring a deep structural inertia in resource allocation.

Crucially, schemes aimed at stabilising farm incomes received little attention. The price-support scheme saw only a marginal increase to ₹7,200 crore, crop insurance under PMFBY remained unchanged at ₹12,200 crore, and interest subvention on crop loans stayed flat at ₹22,600 crore. In an environment of falling crop prices—where cereals, pulses, and oilseeds are selling below MSP in wholesale markets—this signals a policy blind spot.

Technology and Digital Agriculture: Promise Versus Reach

The Budget's most visible departure from the past lies in its embrace of digital agriculture. The announcement of Bharat-VISTAAR, a multilingual AI-based advisory platform with an allocation of ₹150 crore, aims to integrate AgriStack databases with ICAR's package of practices to deliver real-time, customised advisories to farmers. In principle, this could reduce information asymmetries, improve input efficiency, and mitigate climate risks.

Similarly, the Digital Agriculture Mission, targeting unique digital IDs for 11 crore farmers by 2026–27, reflects the government's ambition to build a data-driven agricultural ecosystem.

However, the success of these initiatives hinges on last-mile connectivity, data quality, and digital literacy—areas where small and marginal farmers remain disadvantaged. Without parallel investments in extension systems and human intermediaries, there is a risk that AI-led tools may remain aspirational rather than transformational.

High-Value Agriculture and Allied Sectors: A Strategic Reorientation

A defining feature of the Budget is its emphasis on high-value agriculture and allied activities. A new ₹350 crore scheme has been announced to promote plantation and tree crops such as coconut, cocoa, cashew, sandalwood, walnuts, almonds, and pine nuts.

The focus on coastal, hilly, and northeastern regions reflects both agro-climatic suitability and political economy considerations.

The rationale is well-grounded. As recent analysis by Ramesh Chand shows, high-value agricultural products have grown significantly faster than cereals over the past decade, driven by changing consumption patterns. Between the trienniums ending 2013–14 and 2023–24, the share of crops in agricultural GVA fell sharply, while livestock and fisheries gained ground.

In line with this trend, allocations for animal husbandry rose by 16 percent, and fisheries by nearly 60 percent (BE over RE). The Budget proposes integrated development of 500 reservoirs and Amrit Sarovars, modernisation of livestock enterprises, and creation of farmer-producer organisations in allied sectors. A credit-linked subsidy scheme to expand veterinary infrastructure also acknowledges livestock's growing contribution—nearly 16 percent of farm income, especially for marginal households.

Women, Drones, and Rural Enterprise

The Budget reinforces its gender narrative through schemes such as Namo Drone Didi, with an allocation of ₹677 crore, enabling women self-help groups to rent drones for agricultural operations. The proposed SHE-Marts (Self-Help Entrepreneurs Marts) aim to transition women from subsistence activities to rural entrepreneurship.

While these initiatives align with broader goals of rural employment and empowerment, their scale remains modest relative to the structural challenges facing women farmers, including land ownership constraints, credit access, and market linkages.

Research, Climate Risk, and the Productivity Paradox

Perhaps the most troubling aspect of the Budget is the cut in agricultural research funding, from ₹10,466 crore in 2025–26 (BE) to ₹9,967 crore in 2026–27. This retrenchment comes at a time when Indian agriculture faces a dual crisis of stagnating productivity and rising climate volatility.

The *Economic Survey* had explicitly recommended repurposing fertiliser subsidies towards research, innovation, and sustainable practices. Yet no such reallocation occurred. Several missions announced in earlier budgets, covering pulses, oilseeds, cotton, seeds, and perishables, remain unoperational, receiving zero allocation in FY27.

As analysts from institutions such as IFPRI have argued, productivity gains, not merely diversification, are essential to long-term income growth. Without stronger investment in R&D, extension, and climate-resilient technologies, the Budget's ambitions risk being undermined.

Conclusion

The Union Budget 2026–27 articulates a clear vision of an AI-enabled, diversified, and allied-sector-driven agricultural economy. Its recognition of livestock, fisheries, plantation crops, and women-led enterprises reflects an evolving understanding of India's agrarian transformation. Yet the fiscal architecture remains tethered to old priorities, viz., heavy subsidies, limited price stabilisation, and underinvestment in research.

Agricultural incomes do not rise through productivity alone; they depend equally on fair prices, risk mitigation, and institutional support. By privileging technological promise over structural reform, the Budget risks widening the gap between vision and viability. The real test of Budget 2026–27 will lie not in its announcements, but in whether it can translate diversification into durable income security for India's farmers.

FROM FOOD BASKET TO FOOD POWER: UTTAR PRADESH'S AGRICULTURAL REBUILD

Uttar Pradesh is undergoing a structural transformation in agriculture, moving beyond its traditional role as a bulk producer of foodgrains to become a key food-security hub for India. The state now leads national production of several commodities, including wheat, sugarcane, milk and amla, while also accounting for the largest output of crops such as rice, banana, mango, guava and mentha.

This shift has been driven by policy continuity, administrative reforms and fiscal discipline in recent years. Agricultural growth in the state has accelerated significantly, from 8.6 percent in 2016–17 to a projected 17.7 percent in 2024–25. Despite having only about 11 percent of India's cultivable land, Uttar Pradesh contributes over 20percent of the country's foodgrain output, reflecting improvements in productivity and scale.

The state budget has increased allocations for agriculture and animal husbandry to ₹10,888 crore, about 20percent higher than the previous year, while maintaining fiscal balance through improved revenue management. Policy initiatives have included farm loan waivers, direct income support to millions of farmers under the Pradhan Mantri Kisan Samman Nidhi scheme, and expanded irrigation through major canal projects.

Other measures include free electricity for tubewells, improved sugarcane payment systems, and strengthening of the ethanol blending programme, which has stabilised sugar mill finances. The state has also promoted market access and exports through the One District One Product initiative, linking local agricultural products to domestic and global markets.

Growth in allied sectors such as dairy has been supported by initiatives like the Nand Baba Milk Mission, while investments in horticulture, food processing and agri-technology are encouraging value addition and diversification.

Agriculture is being positioned as a central pillar of Uttar Pradesh's ambition to become a one-trillion-dollar economy, with a focus on productivity, value creation, exports and technology-driven farming.

This is a summary of an article by Dharmendra Malik, published in Mint on 14 February 2026. The full article can be accessed from: https://shorturl.at/rbC6x

HOW AN OBSCURE ITEM IN THE INDIA-US TRADE DEAL IS STIRRING THE POT

An interim trade agreement between India and United States has allowed the duty-free import of distillers dried grains with solubles (DDGS), a protein-rich animal feed produced during ethanol manufacturing from genetically modified (GM) corn. The decision has revived the debate over the use of GM crops in India's agriculture sector.

DDGS is widely used as feed for cattle, poultry and fisheries. While India also produces DDGS through its ethanol industry, it uses non-GM corn and rice, unlike the US where GM corn is common. Critics argue that allowing DDGS imports could become a "backdoor entry" for GM products into India's food system, even though the country currently permits GM cultivation only for Bt cotton.

Farmer groups and some experts have raised concerns that imported DDGS could lower domestic prices for soybeans and corn, which are used to produce animal feed, and could reduce profitability for Indian ethanol manufacturers.

However, the immediate impact may be limited. Indian DDGS is currently cheaper than imported supplies, though US DDGS is considered higher quality due to lower contamination levels. India has also not allowed imports of US corn, soybeans, ethanol fuel, dairy products or cereals, which helps protect domestic farmers.

Some uncertainties remain in the broader trade negotiations, including possible tariff reductions on additional agricultural products and how India may address non-tariff barriers, such as standards and rules related to GM products. Overall, the agreement is unlikely to significantly alter India's agricultural trade surplus with the US, but it has reopened debate on GM crops and feed in the country.

This is a summary of an article by Sayantan Bera, published in Mint on 9 February 2026.
The full article can be accessed from: https://shorturl.at/jfE9Q

CORPORATE NEWS

RELIANCE PLANS ₹10 TRILLION AI INVESTMENT TO BUILD INDIA'S SOVEREIGN COMPUTE INFRASTRUCTURE

Mukesh Ambani, Chairman and Managing Director of Reliance Industries Limited (RIL), has announced plans to invest ₹10 trillion (about $110 billion) over the next seven years to build a comprehensive artificial intelligence (AI) ecosystem in India. The investment, to be led by Reliance Jio, aims to reduce the cost of computing intelligence and create sovereign AI infrastructure for the country.

Speaking at the India AI Impact Summit, Ambani described the initiative as "patient, disciplined, nation-building capital" intended to create long-term economic value rather than speculative returns. He emphasised that India must build its own AI capabilities rather than rely on external technology providers.

A key component of the plan is the development of gigawatt-scale AI-ready data centres in Jamnagar, Gujarat. The first phase, with a capacity of over 120 megawatts, is expected to become operational in the second half of 2026. The objective is to make AI-powered intelligence as widely accessible as internet connectivity.

The strategy also includes ensuring sustainable energy for AI infrastructure. Ambani said the project would draw on up to 10 gigawatts of surplus renewable power, anchored by solar projects in Kutch in Gujarat and in Andhra Pradesh, to meet the energy-intensive demands of large-scale computing.

Another pillar of the initiative is the creation of a nationwide edge-computing network integrated with Jio's telecommunications infrastructure. This will allow AI services to operate closer to users, enabling faster response times and wider adoption across sectors, from retail and healthcare to education and agriculture.

Ambani noted that the global AI race is shifting from building the best algorithms to creating the strongest ecosystems capable of delivering speed and scale. RIL plans to collaborate with Indian start-ups, research institutions such as the Indian Institutes of Technology and Indian Institute of Science, and leading global technology companies.

The announcement comes amid a broader surge in AI investments worldwide. Companies such as Amazon, Microsoft, and Google have also announced large global investments in AI infrastructure and cloud computing.

Ambani argued that AI stands at a critical crossroads: it could either remain expensive and concentrated among a few global players, or become widely accessible and transformative. By investing heavily in domestic infrastructure and innovation, he said, India can ensure that AI becomes affordable, inclusive, and a driver of broad-based economic growth.

MICRON'S SANAND PLANT PUTS INDIA ON THE GLOBAL SEMICONDUCTOR MAP

The inauguration of the semiconductor assembly and testing facility of Micron Technology in Sanand, Gujarat, by Pime Minister Narendra Modi on 28 February 2026 represents a major milestone in India's effort to emerge as a significant player in the global semiconductor ecosystem. The facility signals the country's growing role in the global supply chain for memory chips and advanced electronics manufacturing.

Headquartered in Boise, Idaho, Micron is one of the world's leading memory solutions providers, with manufacturing facilities across the United States, China, Singapore, Taiwan, Malaysia, and Japan. With the commissioning of the Sanand plant, India joins this global network of semiconductor production locations. At full capacity, the Sanand unit is expected to contribute around 10 percent of Micron's global production, supplying both domestic and international markets.

The plant has been established under India's $10 billion semiconductor incentive scheme, through which the government provides up to 50 percent of the project cost for assembly, test, marking, and packaging (ATMP) or outsourced semiconductor assembly and test (OSAT) facilities. Micron became the first beneficiary of this initiative, investing approximately ₹22,516 crore in the project.

The Sanand facility will undertake assembly and testing of dynamic random access memory (DRAM) and NAND flash memory chips, which are widely used in computing devices and data storage solutions such as solid-state drives. Initially, semiconductor wafers will be imported from Micron's global manufacturing plants, assembled and tested in India, and then packaged into finished memory products for export and domestic use.

At peak capacity, the plant is expected to generate around 5,000 direct jobs, while also supporting a broader ecosystem of semiconductor suppliers and electronics manufacturers. The facility's core infrastructure includes a one-million-square-foot clean room, among the largest for ATMP plants globally, designed to maintain extremely low levels of dust and contamination. The plant is also expected to be one of the most automated ATMP facilities in the world, with value addition estimated between 10 and 40 percent.

The investment also reflects shifting global supply chain dynamics. In recent years, Micron has sought to diversify its manufacturing base and reduce dependence on China, particularly after restrictions imposed by the Chinese government on the use of Micron products in critical infrastructure in 2023. This strategic realignment has created opportunities for countries like India to attract semiconductor investments.

The Sanand project is expected to catalyse further developments in India's semiconductor sector. Several additional ATMP and OSAT facilities are already in various stages of planning or pilot production, including projects by domestic companies such as Kaynes Technology and CG Power, as well as initiatives supported by the Tata Group.

The commissioning of the Micron facility marks an important step in India's semiconductor journey. By strengthening domestic capabilities in chip assembly and testing and integrating the country more deeply into global supply chains, the project advances India's ambition to become a key hub in the rapidly evolving global semiconductor industry.

AI RESHAPES INDIA'S IT SECTOR AS REVENUES CONTINUE TO RISE

Despite global macroeconomic uncertainty and the transformative impact of artificial intelligence (AI), India's information technology services sector continues to demonstrate resilience, maintaining steady revenue growth while remaining a net job creator.

According to industry estimates by NASSCOM, the Indian IT services industry is projected to reach $315 billion in revenue in FY26, representing a 6.1 percent year-on-year growth. This marks a slight improvement over the 5.9 percent growth recorded in FY25, indicating the sector's ability to sustain momentum despite a challenging global environment.

Growth in FY26 is expected to be driven largely by the hardware and engineering research and development (ER&D) segments, while exports continue to remain the backbone of the industry. Export revenues are projected to rise 5.6 percent year-on-year to $246 billion, up from $233 billion in FY25.

Although the industry remains a net hirer, employment growth has moderated due to increasing automation and the non-linear nature of technology services. The sector is expected to add around 135,000 net new jobs in FY26, a modest increase from 133,000 additions in FY25. Hiring from campuses has slowed, reflecting the growing divergence between revenue expansion and workforce growth as companies adopt AI-led productivity models.

A significant development is the rising contribution of artificial intelligence, with AI-driven revenues estimated at $10–12 billion in FY26. Many technology providers are accelerating their AI capabilities through acquisitions, with nearly 70 percent of the top

25 firms acquiring AI-native companies in the past year, and about 85 percent deploying agentic AI platforms to enhance service delivery.

New growth drivers are also emerging within the ecosystem. Global Capability Centres (GCCs) and ER&D units are playing an increasingly important role, while niche technology areas such as cybersecurity, cloud computing, data analytics, and GCC-as-a-service are gaining scale. Regionally, the Asia-Pacific and Middle East markets are leading export growth, while the domestic technology market continues to expand steadily.

Industry leaders emphasise that AI is not only improving productivity but also transforming the nature of work. The focus is increasingly on creating "Human + AI" teams, investing in continuous reskilling, and redesigning roles around outcomes and specialised capabilities.

Looking ahead, global technology spending is expected to remain strong. A recent CXO survey indicates that 86 percent of technology leaders expect business demand to remain stable or grow in 2026, while 90 percent plan to increase AI spending within digital budgets.

India's IT services sector appears well positioned to navigate the changing technological landscape. By integrating AI into its core operations and expanding into emerging technology domains, the industry is likely to sustain its role as a key pillar of the country's digital economy and export growth.

INDIA'S PHARMACEUTICAL INDUSTRY IMPROVES QUALITY STANDARDS AMID TIGHTER GLOBAL SCRUTINY

India's pharmaceutical industry is steadily closing the quality gap with global peers and, in several areas, beginning to pull ahead. Recent inspection data from the U.S. Food and Drug Administration (US FDA) over the past decade highlights a significant structural shift in compliance outcomes for Indian drug manufacturing facilities.

Between 2015 and 2025, the share of Official Action Indicated (OAI) outcomes for Indian pharmaceutical plants declined from 12 per cent to 8 per cent, even as inspections became more stringent, frequent, and increasingly unannounced. In contrast, the global pharmaceutical industry witnessed an increase in OAI outcomes from 9 per cent to 13 per cent during the same period. These findings, compiled by the Indian Pharmaceutical Alliance, reflect the growing emphasis on quality and compliance within India's drug manufacturing ecosystem.

An OAI outcome signals serious regulatory violations that may result in enforcement actions such as warning letters or import alerts. Other outcomes include Voluntary Action Indicated (VAI), which requires corrective steps, and No Action Indicated (NAI), indicating full compliance.

Industry experts attribute the improved performance to a shift from inspection-driven compliance to a systematic, risk-based quality culture. Pharmaceutical companies have increasingly adopted a "ready-at-all-times" approach, recognising that regulatory inspections now often occur with minimal or no prior notice.

The data also reveals that most serious regulatory observations now originate from smaller firms, while large Indian pharmaceutical companies have largely internalised global Good Manufacturing Practice (GMP) standards. Over time, repeated observations in traditional problem areas have declined, suggesting that companies have institutionalised quality improvements rather than merely responding to inspection events.

Regulatory scrutiny itself has evolved. Earlier inspections focused largely on basic manufacturing controls, but regulators are now examining deeper operational risks such as contamination management, cleaning validation, and the robustness of engineering and infrastructure systems in multi-product manufacturing facilities.

Another important driver of improvement has been the industry's investment in talent development and technology adoption. Training programmes, specialised quality courses, and collaborations with academic institutions such as the National Institute of

Pharmaceutical Education and Research (NIPER) are helping build a workforce aligned with evolving global regulatory expectations.

Technology is also playing an increasing role. Pharmaceutical companies are beginning to adopt AI-enabled quality monitoring, predictive maintenance, and data-driven deviation analysis to strengthen compliance systems. While regulators encourage such innovations, they continue to emphasise that final regulatory decisions must remain under human oversight.

The improving inspection outcomes signal that India's pharmaceutical industry is strengthening its global reputation for quality and reliability. As the country continues to be a major supplier of medicines worldwide, sustaining these improvements in compliance, talent development, and technological capability will be critical for maintaining its competitive position in the global pharmaceutical market.

AIRTEL AND ZSCALER LAUNCH AI-POWERED CYBER THREAT RESEARCH CENTRE IN INDIA

India's growing digital infrastructure faces an expanding cyber threat landscape, prompting stronger collaboration between industry and technology firms. In this context, Bharti Airtel, India's second-largest telecom carrier, and US-based cloud security firm Zscaler have launched the AI and Cyber Threat Research Centre — India, aimed at detecting and preventing cyber threats targeting critical sectors of the economy.

The centre will focus on protecting key areas such as telecommunications, banking, energy systems, and digital platforms that are vital for economic and national security. It will also promote the use of artificial intelligence to strengthen cyber resilience across India's rapidly expanding digital ecosystem.

Speaking at the launch, Sunil Mittal, Chairman of Bharti Enterprises, noted that the cyber threat landscape is evolving rapidly as malicious actors increasingly deploy AI-based tools. He emphasised that countering such threats requires equally advanced AI-driven technologies to safeguard enterprise networks and government systems.

The research centre, funded jointly by Airtel and Zscaler, is designed as a collaborative platform that may eventually include other enterprises, government agencies, and academic institutions. Its objective is to develop solutions capable of identifying and mitigating cyber threats that could potentially disrupt banking systems, communication networks, or transportation infrastructure.

Operationally, the initiative will combine Zscaler's cybersecurity technologies and research expertise with Airtel's deep visibility into mobile traffic and Internet of Things (IoT) networks. This integration is expected to enhance monitoring capabilities, accelerate the detection of suspicious activities, and improve coordination among stakeholders in responding to cyber incidents.

At the launch event, Ashwini Vaishnaw, India's Union Minister for Electronics and Information Technology, highlighted the need for a new legal and regulatory framework for cybersecurity, noting that artificial intelligence is fundamentally changing the nature of cyber threats. He urged the technology industry to adopt innovative approaches to cybersecurity and treat it as a strategic priority.

The initiative reflects a broader recognition that as India's digital economy expands, strengthening cybersecurity capabilities through advanced technologies and collaborative research will be essential to safeguarding critical infrastructure and maintaining trust in digital systems.

HYUNDAI INDIA PROFIT RISES ON STRONG DEMAND AFTER POLICY STIMULUS

Hyundai Motor India Limited (HMIL) reported a 6.3 per cent year-on-year rise in consolidated net profit to ₹1,234 crore in the third quarter of 2025–26, supported by improved automobile demand following the rationalisation of Goods and Services Tax (GST) rates in September.

According to Tarun Garg, Managing Director and CEO of the company, demand in India's automobile sector has been strengthened by a combination of policy measures, including income tax cuts announced in the Union Budget, GST rate reductions, and cumulative interest rate cuts by the Reserve Bank of India during 2025.

Industry sales data also indicates a continuing shift in consumer preferences towards compact sport utility vehicles (SUVs). The share of hatchbacks in industry sales declined from 22.4 per cent during January–August to 21.4 per cent between September and December, while the share of compact SUVs increased from 22.1 per cent to 23 per cent over the same period.

Despite the year-on-year improvement, the company's profit declined 21.5 per cent on a quarter-on-quarter basis, reflecting higher operational costs and weaker export volumes.

K S Hariharan, Head of Investor Relations at HMIL, attributed the sequential margin pressure to several factors, including higher costs related to the stabilisation of the company's new manufacturing facility in Pune, which began operations on October 1. Initial ramp-up of production at the plant increased processing costs during the quarter.

Exports also declined sequentially from 51,400 units in Q2FY26 to 48,888 units in Q3FY26, partly due to seasonal factors. However, on a year-on-year basis, exports still registered 21.1 per cent growth, reflecting steady demand in overseas markets.

The company also faced rising input costs during the quarter, particularly due to higher prices of precious metals, aluminium, and copper. These cost pressures were partly offset by moderation in domestic discounts compared with the previous quarter.

Overall, Hyundai's performance reflects the gradual recovery of India's automobile market, supported by policy measures and sustained consumer interest in SUVs, even as manufacturers continue to navigate cost pressures and operational adjustments.

BANKING, FINANCIAL SERVICES & INSURANCE

SBI POSTS HIGHEST-EVER QUARTERLY PROFIT AMID ROBUST LOAN EXPANSION

State Bank of India (SBI), India's largest bank by assets, delivered a strong financial performance in the third quarter of FY26, posting its highest-ever quarterly profit on the back of robust loan growth, improved asset quality, and stable income expansion. The results underline the resilience of the banking sector and the continued momentum in credit demand across segments of the economy.

The bank reported a 24.5 percent year-on-year (YoY) rise in standalone net profit, which increased to ₹21,028 crore in the December quarter from ₹16,891 crore in the corresponding quarter of the previous year. Total income also recorded steady growth, rising 9.7 percent YoY to ₹1.41 lakh crore.

A key driver of the bank's performance was the growth in net interest income (NII), which rose 9 percent YoY to ₹45,190 crore, reflecting strong expansion in the bank's loan book. Operating profit grew even faster, increasing 39.5 percent YoY to ₹32,862 crore, highlighting improved operational efficiency and stronger core banking performance.

SBI's loan growth remained robust, with total advances rising 15.14 percent YoY to ₹46.8 trillion. Domestic advances grew slightly faster at 15.44 percent, supported by expansion across corporate and retail lending. Domestic corporate loans increased 13.37 percent, while the retail personal loan portfolio expanded 14.95 percent, indicating sustained demand for credit across sectors.

On the liability side, total deposits crossed ₹57 trillion, reinforcing SBI's dominant position in the Indian banking system. However, the bank's CASA (Current Account Savings Account) ratio declined marginally by 7 basis points to 39.13 percent, reflecting competitive pressures for deposits across the banking sector.

The bank's net interest margin (NIM) remained broadly stable at 2.99 percent, while domestic NIM declined slightly by 3 basis points to 3.12 percent.

Asset quality continued to improve during the quarter. Gross non-performing assets (NPAs) declined 12.7 percent YoY to ₹73,637 crore, while net NPAs fell 15.7 percent YoY to ₹18,012 crore, reflecting better recovery and risk management practices. At the same time, the bank increased loan loss provisions by 39.5 percent to ₹3,216 crore, strengthening its balance sheet against potential credit risks.

On a consolidated basis, which includes subsidiaries and associates, SBI reported a 14.08 percent YoY rise in profit to ₹21,876 crore. Consolidated income grew 10.6 percent YoY to ₹1.86 lakh crore.

Overall, the strong quarterly performance highlights SBI's ability to maintain growth momentum while improving asset quality and operational efficiency. As credit demand remains strong and the Indian economy continues to expand, the bank appears well positioned to sustain its growth trajectory in the coming quarters.

GOVERNMENT PLANS BANKING REFORMS PANEL TO STRENGTHEN CREDIT FOR VIKSIT BHARAT 2047

The Government of India is preparing to launch a high-level expert committee on banking sector reforms to help strengthen the financial system and support the country's long-term development vision of *Viksit Bharat 2047*. According to M. Nagaraju, Secretary in the Department of Financial Services (*Business Standard*, February 02, 2026), the panel's terms of reference are expected to be finalised within the next month following consultations with stakeholders.

The committee, announced by Nirmala Sitharaman in the Union Budget, will focus on identifying reforms needed to make Indian banks globally competitive and capable of meeting the country's growing credit needs over the next two decades.

Nagaraju noted that achieving the goal of a developed India by 2047 would require substantial expansion in bank credit, which in turn demands stronger banks with adequate capital and robust regulatory frameworks. The proposed panel is expected to examine issues such as capital requirements, the need for larger banks, and the overall roadmap for strengthening the banking system.

One reform under consideration is raising the foreign direct investment (FDI) cap in public sector banks (PSBs) to 49 per cent from the current 20 per cent, which could help expand their capital base. The proposal is currently under inter-ministerial consultation.

The government is also witnessing strong global interest following the decision to allow 100 per cent FDI in the insurance sector. Nagaraju said several insurance companies from the United States and Europe are exploring opportunities to expand or fully own operations in India, reflecting the growing attractiveness of the country's financial services market.

On institutional governance, the DFS Secretary indicated that the current framework for appointing board members and managing directors in public sector financial institutions is functioning well. The selection process is handled by the Financial Services Institutions Bureau, whose recommendations are generally accepted by the government.

Nagaraju also highlighted progress in restructuring the Regional Rural Banks (RRBs) sector. Following recent amalgamations, India now has 28 RRBs operating on a "one state, one RRB" model, with most of them reporting improved operational efficiency and profitability. As part of the next phase of reforms, three institutions — Haryana Gramin Bank, Kerala Gramin Bank, and Tamil Nadu Grama Bank — have been shortlisted for initial public offerings (IPOs), which could reach the market by the end of the year.

The government's reform agenda aims to strengthen India's financial institutions, deepen capital availability, and enhance global competitiveness, ensuring that the banking sector can support the country's long-term economic transformation.

SECTION 2: GLOBAL ECONOMY

GLOBAL ECONOMIC OUTLOOK

HOW TO CREATE JOBS FOR THE WORLD'S 1.2 BILLION NEW WORKERS

Ajay Banga, President, World Bank, argues that while global attention often focuses on short-term crises, such as wars, technological disruptions and market shocks, long-term structural forces like demographics, globalization and resource scarcity ultimately shape the world more profoundly.

One of the most significant slow-moving forces is the surge in the youth population in developing countries. Over the next 10–15 years, about 1.2 billion young people will enter the workforce, but current projections suggest only 400 million jobs will be created, leaving a large employment gap. Banga warns that failing to address this challenge could lead to migration pressures, institutional strain, conflict and rising insecurity.

To address this, the World Bank Group is pursuing a jobs-focused development strategy built on three pillars:

1. Investing in infrastructure and human capital, including education, healthcare and skills development.
2. Creating business-friendly environments with clear regulations that encourage private investment and entrepreneurship.
3. Helping businesses scale, especially micro, small and medium enterprises, through financing, guarantees and risk mitigation.

The strategy prioritizes sectors with strong job creation potential, including infrastructure and energy, agribusiness, healthcare, tourism and value-added manufacturing.

Banga emphasizes that supporting job creation in developing economies benefits both developing and advanced countries. It can drive economic growth, expand global markets, strengthen supply chains, and reduce pressures such as migration and instability.

He concludes that demographic change is inevitable, but with early investment and coordinated action, it can become a powerful engine of global growth and stability rather than a source of future crises.

This is a summary of a World Bank Blog by Ajay Banga, published on February 18, 2026.
The full blog can be accessed from: https://shorturl.at/Lozwo

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MONETARY POLICY

ECB STAYS THE COURSE AS INFLATION NEARS TARGET AMID GLOBAL HEADWINDS

Introduction

The Governing Council of the European Central Bank (ECB) decided at its February 2026 meeting to keep its three key policy interest rates unchanged, signalling growing confidence that inflation is stabilising around its medium-term target of 2 percent. The decision comes against a backdrop of a resilient euro area economy, easing price pressures, and persistent global uncertainties stemming from trade policy tensions and geopolitical risks.

Monetary Policy Decision and Stance

The ECB maintained the deposit facility rate at 2.00 percent, the main refinancing operations rate at 2.15 percent, and the marginal lending facility rate at 2.40 percent. The Governing Council reiterated its commitment to a data-dependent, meeting-by-meeting approach, explicitly avoiding pre-commitment to any future interest rate path. This reflects the ECB's assessment that while inflation dynamics have improved, risks remain sufficiently balanced to warrant caution rather than immediate policy adjustment.

At the same time, the ECB confirmed that its Asset Purchase Programme (APP) and the Pandemic Emergency Purchase Programme (PEPP) portfolios continue to decline in a predictable manner, as reinvestments of maturing securities have ceased—further normalising the monetary policy framework.

Economic Activity: Resilience with Pockets of Strength

Economic growth in the euro area remained modest but positive, with GDP expanding by 0.3 percent in the fourth quarter of 2025. Growth was driven primarily by services, particularly in information and communication activities, while manufacturing showed resilience despite global headwinds. Construction activity has begun to recover, supported by rising public investment.

Labour market conditions continue to underpin domestic demand. Unemployment edged down to 6.2 percent in December, and rising labour incomes—combined with a declining household savings rate—are expected to support private consumption. Government spending on defence and infrastructure is also emerging as an important pillar of growth, alongside gradually strengthening business investment, especially in digital technologies.

Inflation Dynamics: Convergence Towards Target

Inflation fell to 1.7 percent in January 2026, down from 2.0 percent in December, reinforcing the ECB's confidence that price stability is being restored. The decline was driven largely by energy prices, which remained in deflationary territory, while food inflation edged up modestly.

Core inflation (excluding energy and food) eased further to 2.2 percent, with services inflation continuing its gradual moderation. Indicators of underlying inflation, including negotiated wages and forward-looking wage trackers, suggest a continued easing of labour cost pressures, broadly consistent with the ECB's 2 percent medium-term target. Importantly, longer-term inflation expectations remain well anchored around this level.

Risks and Uncertainties

Despite the improved inflation outlook, the ECB highlighted an unusually high degree of uncertainty. On the downside, renewed global trade frictions, weaker external demand, or a stronger euro could weigh on growth and inflation. Financial market volatility could also dampen demand.

On the upside, larger-than-expected defence and infrastructure spending, faster productivity gains from digitalisation, and deeper integration of the Single Market could lift growth and potentially rekindle inflationary pressures over the medium term.

Energy price volatility, supply chain fragmentation, and climate-related shocks to food prices remain key inflation risks.

Financial and Monetary Conditions

Since the previous meeting, market interest rates have eased, although lending conditions remain somewhat tight. Bank lending to firms and households continues to grow at a moderate pace, supported by improving credit demand, particularly for mortgages. However, credit standards for business loans have tightened slightly, reflecting lingering risk aversion amid global uncertainty.

Conclusion

The ECB's February 2026 decision underscores a careful balancing act: acknowledging meaningful progress in the fight against inflation while remaining alert to a complex and volatile global environment. By keeping rates unchanged and reaffirming its data-driven approach, the ECB is positioning itself to respond flexibly as new information emerges. With inflation nearing target and growth holding up, monetary policy has entered a phase of cautious consolidation rather than decisive easing—at least for now.

HOLDING THE LINE: WHY THE BANK OF ENGLAND IS NOT READY TO CUT RATES

Introduction

At its February 2026 meeting, the Bank of England (BoE) opted to hold the Bank Rate at 3.75 percent, underscoring a cautious and data-dependent approach as inflation eases but underlying pressures remain under scrutiny. The decision, taken by a narrow 5–4 vote of the Monetary Policy Committee (MPC), reflects growing confidence that inflation is returning towards target, tempered by concerns over persistence, labour market dynamics, and the risks of premature easing.

The Policy Decision: Hold, with an Easing Bias

The MPC judged that while inflation remains above the 2 percent target, it is expected to fall back to around target from April 2026, largely due to lower energy prices and measures announced in Budget 2025. Since August 2024, Bank Rate has already been reduced by 150 basis points, meaning the stance of monetary policy has become materially less restrictive. On current evidence, most members agreed that further rate cuts are likely, though the precise timing remains finely balanced.

Inflation Outlook: Headline Relief, Core Caution

CPI inflation declined from 3.8 percent in September 2025 to 3.4 percent in December and is projected to fall further in early 2026. However, members emphasised the distinction between headline disinflation driven by one-off factors, particularly energy, and the slower-moving components such as wages and services prices. While pay growth and services inflation have eased, they remain above levels consistent with the inflation target, keeping alive concerns about persistence.

Labour Market and Slack: The Disinflationary Counterweight

The minutes highlight increasing evidence of slack in the economy. GDP growth has remained below potential, unemployment has risen to just over 5 percent, and business surveys point to subdued demand. Bank staff now assess the output gap to be slightly wider than previously estimated, implying downward pressure on future inflation. Several members argued that if demand weakens further or labour market loosening accelerates, inflation could undershoot the target without additional easing.

Diverging Views within the MPC

The close vote reveals two distinct perspectives within the Committee.

- The majority, favouring a hold, stressed the need for greater assurance that lower headline inflation will feed through into wage- and price-setting behaviour. They highlighted still-elevated inflation expectations and uncertainty over productivity growth.
- The minority, advocating an immediate 25 basis point cut, argued that risks of inflation persistence have diminished materially and that keeping policy too restrictive for too long could deepen economic slack and necessitate sharper cuts later.

Policy Strategy: Gradualism and Insurance

Across the debate, members repeatedly returned to the costs of policy error. Cutting too quickly risks reigniting inflation or damaging credibility if rates must later be raised again; cutting too slowly risks unnecessary weakness in activity, employment, and a potential inflation undershoot. With uncertainty surrounding the neutral rate—variously seen around 3 percent—the MPC signalled that future easing will be gradual and highly contingent on incoming data, particularly on wages, services inflation, and inflation expectations.

Conclusion

The February 2026 decision confirms that UK monetary policy has entered a transition phase. Inflation is falling, slack is building, and the direction of travel for interest rates is downward. Yet the BoE remains wary of declaring victory too soon. With a deeply split MPC and a finely balanced outlook, the coming months will test whether easing inflation proves durable enough to justify the next step in policy normalisation. For now, the message is clear: cuts are coming—but only when confidence in sustainable price stability is firmly secured.

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INFLATION

US INFLATION COOLS TO 2.4 PERCENT, BUT SHELTER KEEPS CORE PRESSURES ALIVE

Introduction

Inflation in the United States showed further signs of moderation at the start of 2026, even as underlying price pressures remained uneven across sectors. According to the U.S. Bureau of Labor Statistics, the Consumer Price Index for All Urban Consumers (CPI-U) rose 0.2 percent month-on-month on a seasonally adjusted basis (Figure 29) in January, while headline inflation eased to 2.4 percent year-on-year, down from 2.7 percent in December (Figure 30). Core inflation fell to 2.5 percent from 2.6 percent.

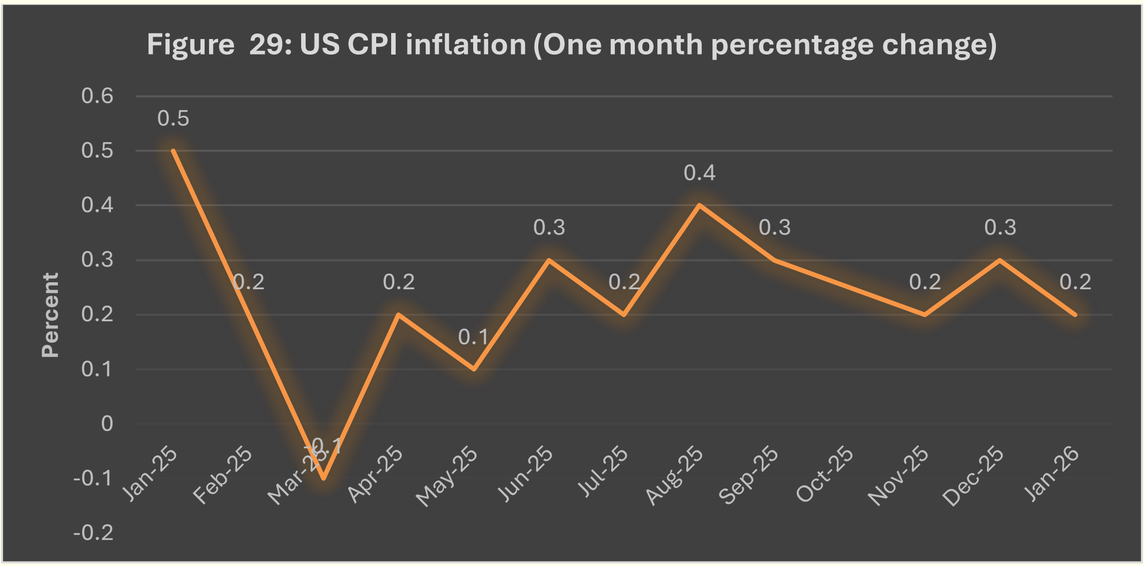


Figure 29: US CPI inflation (One month percentage change)

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

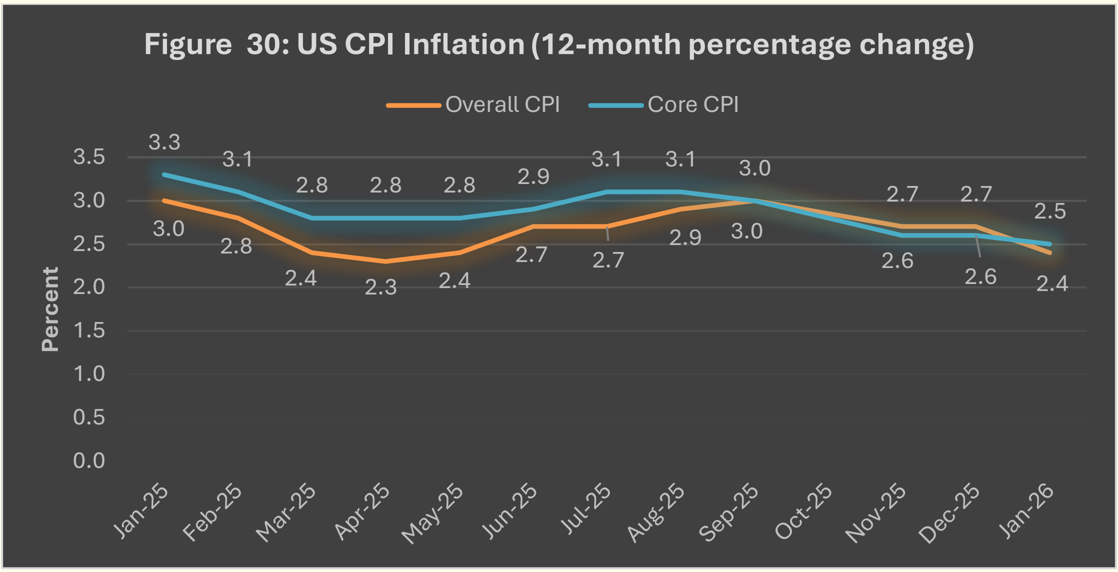


Figure 30: US CPI Inflation (12-month percentage change)

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

The latest data underline a familiar post-pandemic inflation pattern: headline inflation is being pulled down by falling energy prices, while shelter and services inflation continue to exert upward pressure, complicating the task of achieving durable price stability.

Headline Inflation and Core Momentum

The January increase in CPI-U was modest, but the composition of inflation remains crucial. Excluding food and energy, the core CPI rose 0.3 percent month-on-month and 2.5 percent year-on-year, slightly above the headline rate. This divergence highlights the persistence of domestic inflationary pressures, particularly in services and housing-related components.

The easing in headline inflation largely reflects energy price movements, rather than a broad-based deceleration across the consumption basket.

Shelter: The Dominant Driver

Shelter inflation once again emerged as the single largest contributor to the monthly increase in CPI. The shelter index rose 0.2 percent in January, mirroring increases in both rent and owners' equivalent rent, which also climbed by 0.2 percent each. By contrast, lodging away from home declined marginally by 0.1 percent.

On an annual basis, shelter prices rose 3.0 percent, underscoring the stickiness of housing inflation. Given the heavy weight of shelter in the CPI basket, this component continues to anchor core inflation at elevated levels, even as goods and energy prices soften.

Food Inflation: Mixed Signals

Food prices increased 0.2 percent in January, with both food at home and food away from home registering gains. Within grocery items, five of the six major food groups recorded price increases. The sharpest monthly rise was seen in cereals and bakery products (1.2 percent), followed by dairy and related products (0.8 percent). Meat, poultry, fish and eggs rose modestly by 0.2 percent.

Over the past 12 months, food inflation stood at 2.9 percent, with food away from home rising faster (4.0 percent) than food at home (2.1 percent). Notably, full-service meals saw a steep annual increase of 4.7 percent, reflecting higher labour and operating costs in the hospitality sector.

Energy: A Disinflationary Force

Energy prices provided the strongest offset to inflationary pressures in January. The energy index fell 1.5 percent month-on-month, driven by a 3.2 percent decline in gasoline prices. Electricity prices edged down by 0.1 percent, while natural gas prices rose 1.0 percent.

On a year-on-year basis, energy prices declined 0.1 percent, with gasoline prices plunging 7.5 percent. However, this headline relief masks divergence within the energy basket: electricity prices rose 6.3 percent, and natural gas prices surged 9.8 percent over the past year, suggesting persistent cost pressures for household utilities.

Core Services and Goods: Diverging Trends

Beyond shelter, several service categories saw notable monthly increases. Airline fares jumped 6.5 percent, while personal care, recreation, communication, and medical care all recorded firm gains. Hospital services rose sharply by 0.9 percent, reinforcing the upward drift in healthcare costs.

By contrast, goods prices showed renewed softness. Used cars and trucks declined 1.8 percent, household furnishings slipped 0.1 percent, and motor vehicle insurance fell 0.4 percent. These declines suggest easing supply-side pressures in selected goods markets, even as service-sector inflation remains resilient.

Alternative Inflation Measures

Not seasonally adjusted data broadly reinforce the same narrative. CPI-U rose **2**.4 percent year-on-year, while the CPI for Urban Wage Earners and Clerical Workers (CPI-W) increased 2.2 percent. The Chained CPI (C-CPI-U) also rose 2.2 percent, indicating slightly lower inflation once consumer substitution effects are accounted for.

These measures suggest that while inflation has moderated across definitions, it remains uneven and concentrated in specific service categories.

Conclusion

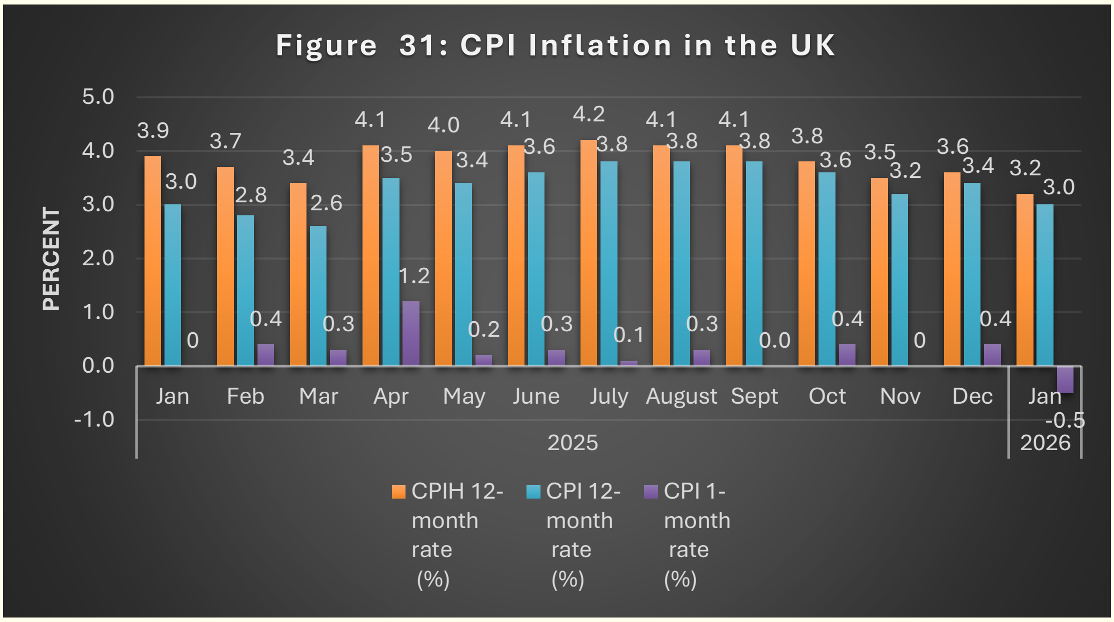
January's inflation data point to continued progress toward price stability in the United States, with headline inflation easing further to 2.4 percent. Yet the underlying picture remains complex. Energy prices are providing temporary relief, but persistent shelter and services inflation continue to keep core inflation elevated.

The uneven composition of inflation highlights why policymakers must look beyond the headline number. Durable disinflation will ultimately depend on a sustained easing in shelter and services costs—areas that remain resistant to rapid adjustment even as goods and energy prices cool.

UK INFLATION EASES IN JANUARY, BUT HOUSING AND SERVICES REMAIN A DRAG

Introduction

Inflation in the United Kingdom continued to ease in January 2026, offering tentative evidence that price pressures are gradually moderating after a prolonged period of persistence. Data released by the Office for National Statistics show that the Consumer Prices Index including owner occupiers' housing costs (CPIH) rose 3.2 percent year-on-year, down from 3.6 percent in December 2025 (Figure 31). The headline Consumer Prices Index (CPI) also decelerated, easing to 3.0 percent from 3.4 percent.



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

While the direction of travel is reassuring, the structure of inflation suggests that the final leg of disinflation remains challenging. Housing-related costs and services inflation continue to run well above pre-pandemic norms, underscoring the stickiness of domestic price pressures.

Monthly Dynamics: Seasonal Falls Reinforce Disinflation

On a monthly basis, inflation fell sharply in January. CPIH declined by 0.3 percent, while CPI dropped by 0.5 percent (Figure 31), a much larger fall than the 0.1 percent decline recorded in January 2025. These monthly movements reflect seasonal patterns, but also point to easing price momentum across key consumption categories.

Transport, along with food and non-alcoholic beverages, made the largest downward contributions to the monthly changes in both CPIH and CPI annual rates. The broad-based nature of these declines suggests that recent disinflation is not confined to a single volatile component.

CPIH vs CPI: The Role of Housing Costs

Although CPIH and CPI broadly track similar trends, differences between the two measures remain significant. The owner occupiers' housing (OOH) costs component—accounting for around 18 percent of CPIH—is the principal driver of the gap between CPIH and CPI inflation rates.

By incorporating housing costs faced by owner occupiers, CPIH provides a more comprehensive measure of household inflation pressures. The persistence of elevated housing costs explains why CPIH inflation remains higher than CPI, even as goods prices soften and energy-related pressures recede.

Core Inflation: Gradual but Uneven Easing

Underlying inflation also showed signs of moderation in January. Core CPIH, which excludes energy, food, alcohol and tobacco, slowed to 3.3 percent, down from 3.5 percent in December. Similarly, core CPI eased marginally to 3.1 percent from 3.2 percent.

A closer look at the components reveals a familiar divergence. Goods inflation has decelerated sharply, with the CPIH goods annual rate falling from 2.2 percent to 1.6

percent. Services inflation, by contrast, remains elevated, easing only slightly from 4.5 percent to 4.3 percent under CPIH, and from 4.5 percent to 4.4 percent under CPI.

This gap highlights the central challenge for policymakers: while goods price inflation has largely normalised, services inflation—closely linked to wages and domestic demand—continues to resist rapid cooling.

Sectoral Drivers: Transport and Food Lead the Decline

Transport prices were among the strongest contributors to the easing in inflation, reflecting lower fuel and transport-related costs. Food and non-alcoholic beverages also played a significant role, offering relief to household budgets after prolonged periods of elevated food inflation.

However, the persistence of services inflation suggests that cost pressures in labour-intensive sectors remain strong, limiting the speed at which headline inflation can converge towards target-consistent levels.

Policy Implications

January's inflation data strengthen the case that UK inflation is on a downward trajectory, but they stop short of declaring victory. With CPIH still above 3 percent and core services inflation running above 4 percent, inflation remains uncomfortably high relative to medium-term objectives.

The contrast between rapidly easing goods inflation and sticky services and housing costs implies that further progress will depend on developments in wages, productivity, and domestic demand conditions. For monetary policymakers, the message is clear: while disinflation is advancing, underlying pressures warrant continued caution.

Conclusion

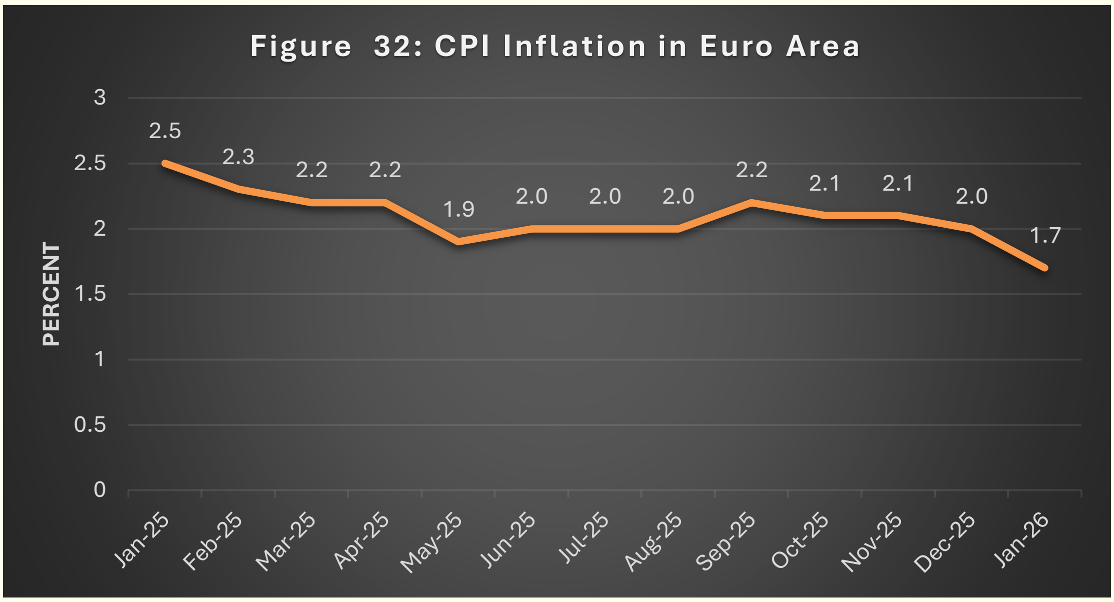
The January 2026 inflation outturn marks another step forward in the UK's disinflation journey. Headline and core inflation measures have softened, monthly price declines have been pronounced, and goods inflation has fallen decisively. Yet housing costs and services inflation remain persistent, keeping overall inflation elevated.

The data suggest that the path back to price stability will be gradual rather than swift—marked by incremental gains rather than dramatic breakthroughs. For households and policymakers alike, the challenge now lies in sustaining disinflation without undermining economic momentum.

EURO AREA INFLATION AT 1.7 PERCENT: WHY SERVICES STILL HOLD THE KEY

Introduction

Inflationary pressures in the Euro area continued to ease at the start of 2026, reinforcing the narrative of a gradual but uneven disinflation process. Annual headline inflation, as measured by the Harmonised Index of Consumer Prices (HICP), declined to 1.7 percent in January 2026, down from December 2025 (Figure 32). While the headline figure suggests growing price stability, a closer look at the underlying components reveals significant divergence across sectors, with services inflation remaining elevated and energy prices exerting a strong disinflationary pull.



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

Understanding these compositional dynamics is critical, as different inflation components carry vastly different weights in household consumption and exhibit varying degrees of volatility.

Headline Inflation and Sectoral Trends

The decline in euro area inflation in January 2026 was driven largely by a sharp deepening of deflation in the energy component. Energy prices fell by 4.0 percent year-on-year, compared to a contraction of 1.9 percent in December. This sharper decline reflects ongoing adjustments in global energy markets and base effects from earlier price spikes.

Services inflation, however, remained the dominant contributor to headline inflation despite a marginal moderation. Services prices rose by 3.2 percent, down slightly from 3.4 percent in December. This persistence points to continued domestic cost pressures, particularly from wages and labour-intensive activities, which tend to adjust more slowly than commodity-linked prices.

Food, alcohol and tobacco inflation edged higher to 2.6 percent, compared to 2.5 percent in December, suggesting that price pressures in essential consumption items remain sticky. Meanwhile, non-energy industrial goods inflation rose modestly to 0.4 percent, continuing a low but positive trend.

The Importance of Inflation Weights

A key insight from the January 2026 data lies in the relative weights of inflation components, which shape how price movements translate into headline inflation. Services dominate the consumption basket, accounting for approximately 46.8 percent of household final monetary consumption expenditure in the euro area. As a result, even modest changes in services inflation have an outsized impact on the headline number.

Non-energy industrial goods form the second-largest component, with a weight of around 25.3 percent. By contrast, food, alcohol and tobacco (18.9 percent) and energy (9.0 percent) together account for less than one-third of total expenditure. Despite their smaller weights, these components can exert disproportionate influence on headline inflation because their prices are far more volatile.

This asymmetry explains why sharp energy price declines can temporarily suppress headline inflation, even when underlying domestic price pressures, particularly in services, remain elevated.

Volatility Versus Persistence

The January inflation breakdown highlights a fundamental distinction between volatile and persistent inflation components. Energy and food prices tend to fluctuate sharply due to global supply shocks, geopolitical developments, and weather conditions. These swings can quickly alter headline inflation but often do not reflect sustained domestic inflationary momentum.

Services inflation, by contrast, is typically more persistent. It is closely linked to wages, productivity, and domestic demand conditions. The fact that services inflation remains above 3 percent suggests that underlying inflationary pressures have not fully dissipated, even as headline inflation falls closer to levels consistent with price stability.

Policy Implications

The evolving composition of inflation poses a nuanced challenge for monetary policymakers. A headline inflation rate of 1.7 percent may suggest that price stability is largely restored, yet the persistence of services inflation indicates that underlying pressures remain. Policymakers must therefore look beyond the headline figure and focus on the drivers of inflation that matter most for medium-term price dynamics.

The January 2026 data underscores the importance of component-level analysis, particularly when inflation is close to target but uneven across sectors. Temporary relief from energy prices cannot substitute for sustained moderation in services inflation if durable price stability is to be achieved.

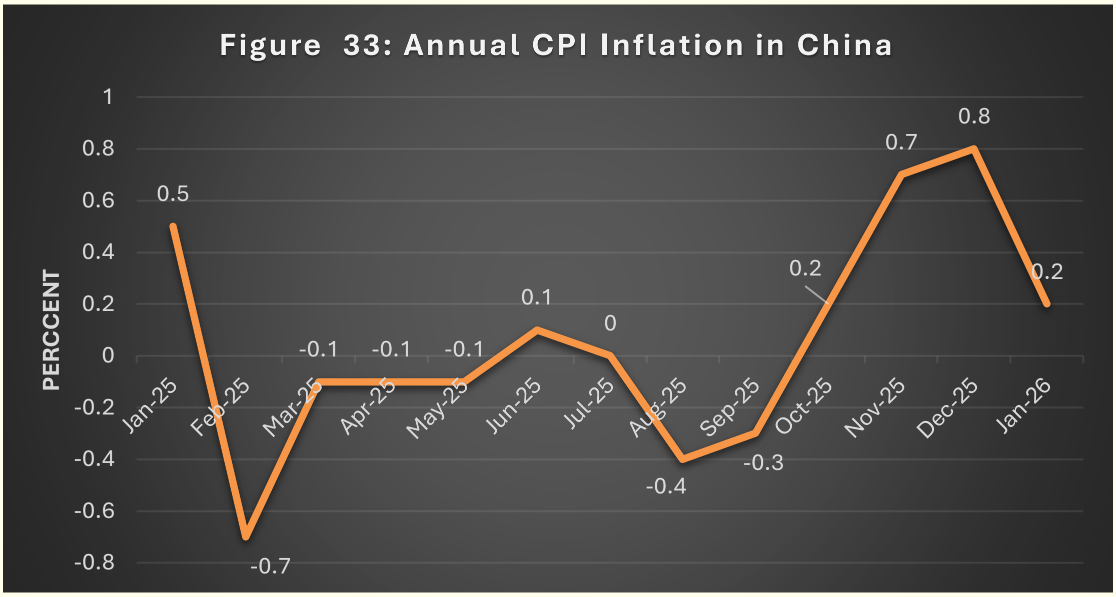
Conclusion

Euro area inflation in January 2026 reflects a continuation of the disinflationary trend, driven primarily by falling energy prices. However, the inflation landscape remains uneven. Services inflation, which carries the largest weight in household consumption, continues to run well above the headline rate, while food prices show renewed firmness.

The divergence between volatile components and persistent domestic price pressures highlights why headline inflation alone provides an incomplete picture. As the euro area moves further into 2026, the balance between easing energy prices and sticky services inflation will remain central to the inflation outlook—and to the policy choices that follow.

CHINA'S INFLATION SLIPS TO 0.2 PERCENT: DEMAND WEAKNESS OVERSHADOWS POLICY SUPPORT

China's inflationary pressures eased sharply at the start of 2026, underscoring persistent demand-side weakness in the world's second-largest economy. Annual consumer price inflation fell to 0.2 percent in January 2026, down from 0.8 percent in December (Figure 33), marking the lowest reading since October and undershooting market expectations of 0.4 percent. The data, released by the National Bureau of Statistics of China, reinforces concerns about fragile consumer sentiment despite ongoing policy support.



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

A key driver of the slowdown was a renewed decline in food prices, which fell 0.7 percent year-on-year, reversing a 1.1 percent increase in December. Prices of staple items such as pork, eggs, and cooking oils declined notably, reflecting ample supply conditions and subdued household demand. Given the significant weight of food in China's consumer price basket, this reversal exerted substantial downward pressure on headline inflation.

Non-food inflation also softened, easing to 0.4 percent from 0.8 percent a month earlier. This deceleration came despite the continuation of consumer trade-in programmes aimed at stimulating purchases of durable goods. Sectoral trends reveal uneven price dynamics: healthcare inflation edged lower to 1.7 percent, education costs were flat after rising 0.9 percent previously, while housing prices fell 0.1 percent, extending a prolonged period of property-sector deflation.

Price pressures in transport weakened further, with inflation dropping to -3.4 percent from -2.6 percent in December, reflecting sharper declines in fuel and energy prices. In contrast, clothing prices accelerated modestly to 1.9 percent, offering one of the few pockets of price resilience amid broader disinflationary forces.

According to Dong Lijuan, a statistician at the NBS, the moderation in January inflation was largely driven by a high base effect from the previous year and steeper declines in energy prices. These factors, while partly technical, also highlight the limited traction of domestic demand in lifting prices on a sustained basis.

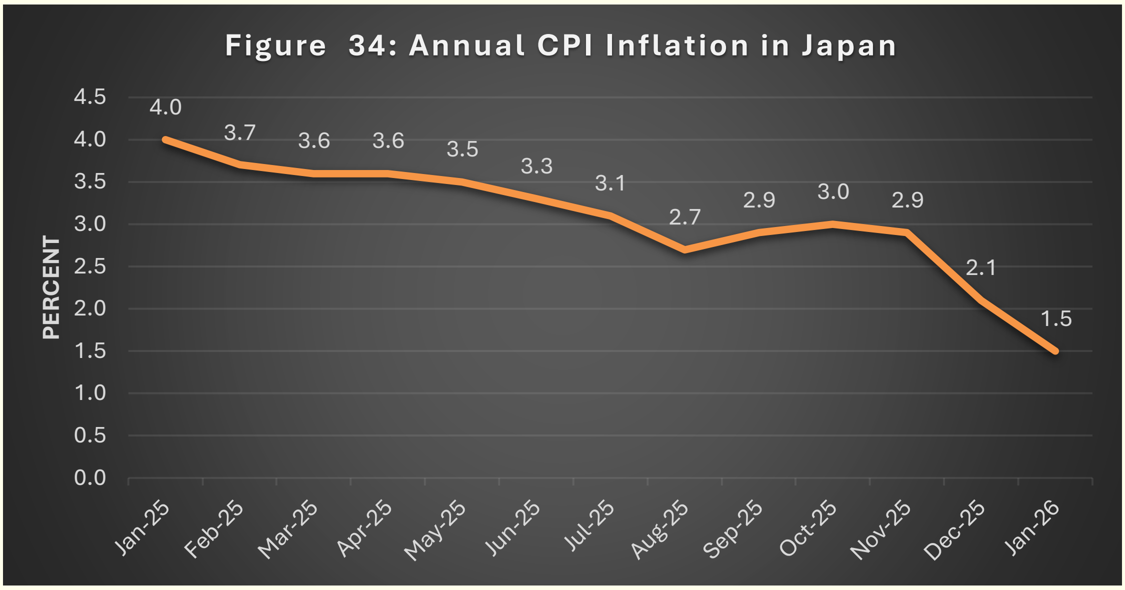
More tellingly, core inflation, which excludes volatile food and energy components, slowed to 0.8 percent year-on-year, the weakest reading in six months, down from 1.2 percent in both December and November. This decline suggests that underlying price momentum is losing strength, raising concerns about the risk of prolonged low inflation or even deflation.

On a month-on-month basis, consumer prices rose 0.2 percent, matching December's pace but falling short of the 0.3 percent consensus forecast. The muted sequential increase further underscores the lack of strong cyclical recovery in consumption.

Taken together, the January inflation data point to a challenging macroeconomic environment for China. While supply-side factors and energy prices have contributed to the current disinflation, the weakness in core inflation suggests deeper structural and demand-related constraints. For policymakers, the figures strengthen the case for calibrated stimulus measures aimed not only at stabilising growth but also at restoring household confidence and reviving domestic consumption in a durable manner.

JAPAN'S INFLATION RETURNS TO TARGET AS FOOD AND ENERGY PRESSURES EASE

Inflation in Japan moderated sharply in January 2026, reinforcing the narrative that the post-pandemic price cycle is losing momentum. Headline consumer inflation eased to 1.5 percent year-on-year, down from 2.1 percent in December (Figure 34), marking its lowest reading since March 2022. The slowdown reflects a broad-based deceleration across food, transport, healthcare and household goods, alongside continued deflation in energy prices.



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

Equally significant, core inflation, excluding fresh food, slipped to 2.0 percent, its lowest level since January 2024 and precisely in line with the central bank's long-standing inflation target. The January data, released by the Ministry of Internal Affairs & Communications, suggest that Japan's inflation episode may be transitioning from persistence to stability.

Food Prices Lead the Disinflation

Food inflation fell to a 15-month low of 3.9 percent, down sharply from 5.1 percent in December. The moderation was driven primarily by a slowdown in rice prices, which recorded their weakest increase in 18 months. Given rice's outsized importance in household consumption and price formation, this easing played a decisive role in pulling down headline inflation.

The cooling in food prices is particularly important for Japan, where food inflation had been one of the most visible channels through which global price shocks filtered into domestic consumption.

Energy Deflation Continues on Subsidy Support

Energy prices remained firmly in deflationary territory for the second consecutive month, providing a sustained drag on overall inflation. Electricity prices declined by 1.7 percent, while gas prices fell by 2.0 percent, reflecting the continued impact of government subsidy measures.

Although the pace of decline in electricity prices moderated slightly compared to December, energy costs continue to exert downward pressure on household inflation, helping offset price increases in select service categories.

Broad-Based Cooling Across Consumption Categories

Beyond food and energy, inflation slowed across most major components:

- Transport inflation eased sharply to 0.8 percent from 1.9 percent.
- Healthcare costs softened to 0.4 percent from 0.7 percent.
- Household items saw price growth halve to 0.8 percent from 1.6 percent.
- Recreation inflation edged down to 2.1 percent from 2.3 percent.
- Miscellaneous goods and services cooled to 0.6 percent from 0.8 percent.

Education costs continued to contract steeply, falling 5.6 percent year-on-year, underscoring the persistence of structural price declines in this segment.

Together, these trends point to a widespread easing of cost pressures rather than a narrow, sector-specific adjustment.

Pockets of Resilience: Services Show Mixed Signals

Despite the overall slowdown, inflation remained sticky—or even accelerated—in a few service categories. Housing inflation held steady at 1.0 percent, while clothing prices rose faster at 2.4 percent, up from 2.0 percent in December. Communication services inflation accelerated further to 6.7 percent, reflecting strong pricing power in this segment.

These pockets of resilience suggest that while headline inflation is easing, underlying service-sector dynamics, often linked to wages and structural costs, continue to warrant close monitoring.

Monthly Trends Reinforce the Disinflation Narrative

On a month-on-month basis, consumer prices fell 0.2 percent in January, following a 0.1 percent decline in December. Two consecutive monthly declines reinforce the view that inflation momentum has weakened materially at the start of 2026.

Policy Implications

The return of core inflation to the 2 percent threshold carries significant policy implications. For the first time in two years, Japan's inflation dynamics appear aligned with price stability rather than overshooting or undershooting risks. However, the composition of inflation—characterised by subsidy-driven energy deflation and uneven service-sector pressures—suggests that durability remains uncertain.

The challenge for policymakers will be to assess whether inflation can be sustained around target once fiscal support fades, without reigniting deflationary tendencies that have long plagued the Japanese economy.

Conclusion

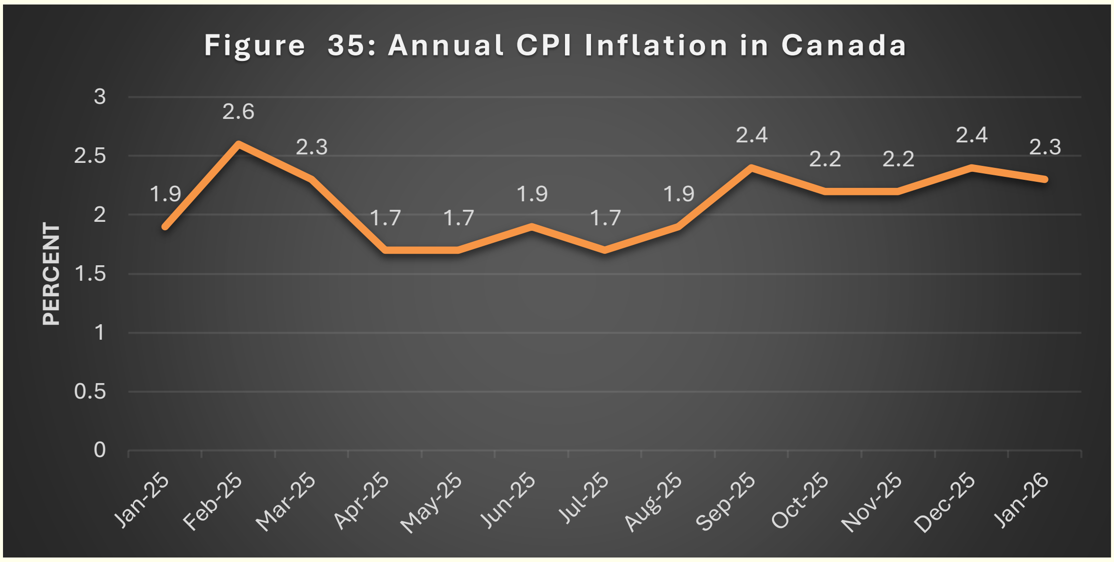
January 2026 marks an important inflection point for Japan's inflation trajectory. Headline inflation has cooled decisively, core inflation has slipped back to target, and price pressures have eased across most consumption categories. Yet the coexistence of energy deflation, subdued demand-side pressures, and selective service-sector strength highlights the delicate balance policymakers must manage.

Japan may finally be approaching inflation normalisation—but sustaining it will require careful navigation between withdrawal of support and the risk of sliding back into low-inflation inertia.

ENERGY DEFLATION AND SOFTER CORE INFLATION PULL CANADA'S CPI LOWER IN JANUARY 2026

Introduction

Headline inflation in Canada eased modestly at the start of 2026, reinforcing signs that the disinflationary process remains broadly on track despite pockets of sectoral pressure. The consumer price index rose 2.3 percent year-on-year in January 2026, down from 2.4 percent in December (Figure 35) and slightly below market expectations. While the move was marginal, it carried important signals about the underlying drivers of price dynamics and the evolving balance of risks facing policymakers.



Source: https://tradingeconomics.com/canada/inflation-cpi

The outcome was broadly consistent with the Bank of Canada's guidance that inflation would hover around the mid-2 percent range early in the year before gradually easing below the 2 percent target later in 2026. Base effects linked to the expiry of the GST/HST break introduced in January 2025 continued to shape the annual inflation profile.

Headline Inflation: Gradual Cooling, Not a Break

At 2.3 percent, headline inflation remains comfortably within the Bank of Canada's tolerance band, underscoring a soft landing rather than a sharp disinflation. The easing from December was incremental, but notable in the context of subdued domestic demand and improving supply-side conditions.

Crucially, the moderation occurred even as certain consumption categories, most notably food services, registered sharp price increases. This highlights the offsetting role played by energy prices and shelter-related components.

Energy and Transport: Deflation Takes Hold

The most powerful disinflationary force in January came from transportation, where prices fell 17 percent year-on-year, a dramatic acceleration from a 0.5 percent decline in December. This was driven almost entirely by a 16.7 percent plunge in gasoline prices, reflecting both favourable global energy conditions and base effects.

Such steep transport deflation exerted significant downward pressure on headline inflation, masking stronger price increases elsewhere. While volatile by nature, energy prices continue to play an outsized role in shaping short-term inflation outcomes in Canada.

Shelter and Household Costs: Pressures Ease

Encouragingly for policymakers, inflation in shelter slowed to 1.7 percent, down from 2.1 percent in December. This moderation suggests that earlier tightening in financial conditions and improving supply in rental and housing markets are beginning to dampen cost pressures.

Similarly, inflation in household operations and furnishings eased sharply to 2.5 percent from 3.6 percent, pointing to waning pass-through from earlier cost shocks and softer consumer demand for durable goods.

Food Inflation: A Persistent Outlier

In contrast, food inflation accelerated markedly to 7.3 percent, up from 6.2 percent in December. This increase was amplified by changes in tax regimes, which disproportionately affected prices in food services. Prices for food purchased from restaurants surged 12.3 percent, highlighting the stickiness of services inflation driven by labour costs and margin adjustments.

While food inflation tends to be more visible to households than headline measures, its persistence raises distributional concerns, particularly for lower-income consumers.

Core Inflation: A Clear Signal of Easing Pressures

Perhaps the most policy-relevant development was the sharp decline in core inflation. The trimmed-mean core rate fell to 2.4 percent from 2.7 percent, undershooting expectations and marking its lowest level since April 2021. This measure, closely monitored by the Bank of Canada, suggests that underlying inflationary pressures are easing more decisively than headline numbers alone might indicate.

The fall in core inflation strengthens the case that restrictive monetary policy has succeeded in re-anchoring inflation expectations and cooling demand without triggering a sharp economic downturn.

Policy Implications and Outlook

Taken together, the January data present a cautiously reassuring picture. While food and services inflation remain areas of concern, broad-based disinflation across energy, shelter, and core measures suggests that inflation is converging toward target over time.

For policymakers, the challenge now lies in calibrating the timing and pace of any future policy easing without reigniting price pressures.

The data released by Statistics Canada reinforce the view that inflation risks are becoming more balanced, though uneven sectoral dynamics warrant continued vigilance.

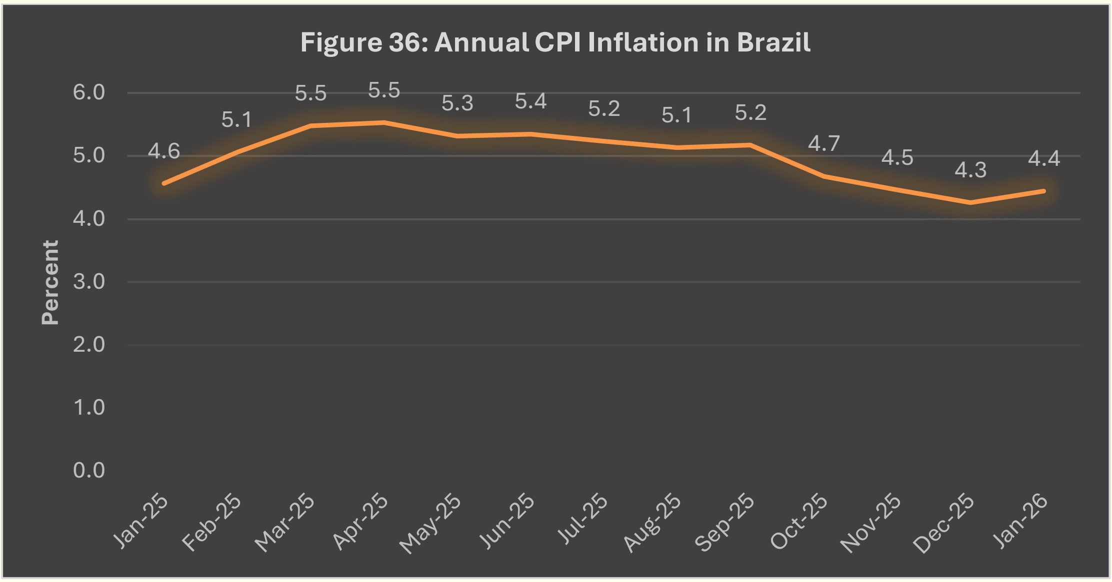
Conclusion

Canada's January 2026 inflation print reflects an economy moving steadily, if unevenly, toward price stability. Sharp energy-driven deflation and easing shelter costs have countered persistent food inflation, while core measures point to a meaningful cooling of underlying pressures. As inflation edges closer to target, the focus will increasingly shift from whether disinflation is occurring to how durable it proves to be in the months ahead.

BRAZIL'S INFLATION EDGES HIGHER IN JANUARYAS HOUSING AND SERVICES DOMINATE PRICE PRESSURES

Introduction

Inflation in Brazil edged higher at the start of 2026, signalling persistent underlying price pressures even as headline inflation remains broadly within expectations. Consumer prices rose 4.44 percent year-on-year in January 2026, up from 4.26 percent in December (Figure 36), closely matching market forecasts. The data point to a familiar pattern in Brazil's inflation dynamics: strong and sticky services-related inflation offset by relatively benign price movements in food and tradables. On a monthly basis, inflation held steady at 0.33 percent, underscoring that price pressures are not accelerating sharply but are proving resilient.



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

Headline Inflation: Gradual Firming, Not a Shock

The January uptick marks a continuation of Brazil's gradual inflation firming rather than a sudden flare-up. At 4.44 percent, inflation remains above the central bank's target midpoint, keeping the focus squarely on persistence rather than volatility.

The stability of the month-on-month print, unchanged from December and marginally above expectations, suggests that inflationary momentum is being sustained by structural factors rather than one-off shocks.

Housing and Services Lead the Inflation Basket

The most striking feature of the January data is the sharp divergence across components. Housing inflation surged to 10.06 percent, making it the single largest contributor to headline pressure. This reflects rising costs related to rents, utilities, and housing services—categories that tend to adjust slowly downward and are sensitive to domestic cost conditions.

Other services-heavy components also recorded elevated inflation: education (5.97 percent), personal expenses (5.76 percent), and healthcare (5.59 percent). Together, these categories highlight the role of labour costs, administered prices, and indexation mechanisms in keeping inflation sticky.

Clothing inflation, at 4.88 percent, added to the pressure, pointing to incomplete pass-through of earlier currency movements and cost increases.

Food and Tradables Offer a Cushion

In contrast, several key components provided relief. Food and beverages inflation stood at a modest 2.20 percent, helping to anchor household inflation expectations. This moderation is particularly significant in Brazil, where food carries a large weight in consumer budgets.

Similarly, inflation in household articles (0.01 percent) and communication (1.78 percent) remained subdued, suggesting that competitive pressures and productivity gains are restraining price increases in these segments. Transport inflation was also relatively mild on an annual basis at 2.36 percent, despite notable monthly increases.

Monthly Dynamics: Transport and Communication in Focus

The 0.33 percent monthly rise in January was driven primarily by transport prices, which climbed 0.6 percent. This was largely due to a 2.06 percent increase in gasoline prices and a sharp 5.14 percent rise in city bus fares, reflecting both fuel cost pass-through and adjustments in administered tariffs.

Communication prices also rose strongly on a monthly basis, increasing 0.82 percent, led by higher telephone charges. These increases, while not dominant in the annual picture, underscore the risk that services inflation could broaden further if cost pressures persist.

Policy Implications and Outlook

The January inflation data present a nuanced challenge for policymakers. Headline inflation is not spiralling, but its composition is increasingly uncomfortable. Elevated housing and services inflation point to structural rigidities that are less responsive to short-term demand management.

For the Instituto Brasileiro de Geografia e Estatística, the latest release reinforces the message that Brazil's inflation problem is no longer driven by food or external shocks, but by domestic cost structures. This complicates the policy trade-off between supporting growth and ensuring durable disinflation.

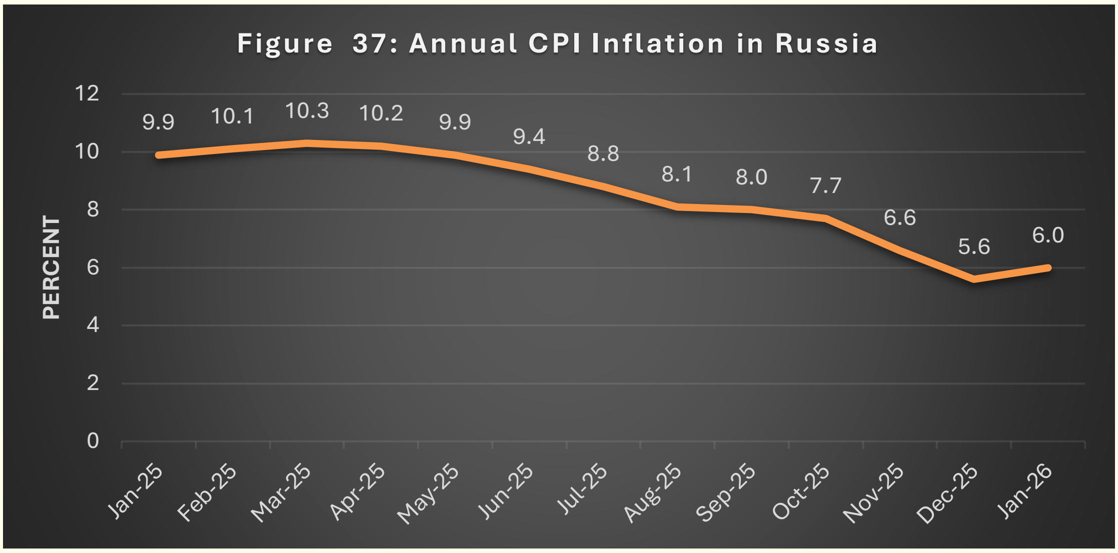
Conclusion

Brazil's January 2026 inflation data reflect an economy where price pressures are persistent rather than volatile. While food and tradables continue to provide a stabilising influence, strong inflation in housing and services is keeping headline inflation elevated. The steady monthly pace suggests inflation is not accelerating out of control, but neither is it easing decisively. For policymakers, the challenge ahead lies in addressing these structural pressures without derailing the broader economic recovery.

RUSSIA'S INFLATION TURNS UPWARD AS TAX CHANGES AND CAPACITY CONSTRAINTS BITE

Introduction

Inflation dynamics in Russia entered a new phase at the start of 2026. After more than a year of steady moderation, the annual inflation rate edged up to 6.0 percent in January 2026, from a two-year low of 5.6 percent in December (Figure 37). While the increase was milder than market expectations of a rise to 6.4 percent, it marked the first acceleration in inflation since March 2025, signalling that disinflationary momentum may be weakening.



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

The uptick comes against the backdrop of VAT increases introduced by the Russian government, alongside signs of softening production capacity among major goods producers. Together, these factors are beginning to feed into consumer prices, even as pass-through remains uneven across sectors.

Headline Inflation: A Modest but Meaningful Reversal

At 6.0 percent, inflation remains well below the double-digit levels seen earlier in the decade, but the direction of travel is noteworthy. The January increase suggests that the forces restraining prices—weak demand, administrative controls, and stabilising supply chains—may be losing traction.

Month-on-month, consumer prices rose sharply by 1.6 percent, underscoring that the annual uptick was not merely a statistical artefact but reflected renewed price pressures at the margin.

Services Inflation Emerges as the Primary Pressure Point

The most pronounced inflationary pressure continues to emanate from the services sector, where prices rose by 9.6 percent year-on-year. Services inflation typically reflects domestic cost conditions—wages, rents, and operating expenses—rather than global commodity cycles. Its persistence suggests that internal cost pressures are becoming entrenched, even as goods inflation remains more contained.

For policymakers, elevated services inflation is particularly concerning, as it tends to be stickier and less responsive to short-term administrative interventions.

Food Inflation Moderates Despite Tax Changes

In contrast, food inflation remained relatively subdued at 5.9 percent, below the headline rate. According to the Bank of Russia, the recent VAT increases have not been fully passed on to consumers in food markets. This may reflect a combination of price controls, competitive pressures among retailers, and efforts by producers to absorb part of the tax burden.

The muted response of food prices has played a stabilising role in headline inflation, preventing a sharper acceleration at a time when household budgets remain under strain.

VAT Increases and Supply Constraints: The Underlying Drivers

The January inflation pickup coincides with changes in indirect taxation, notably higher VAT rates, which tend to have a direct but staggered impact on consumer prices. At the same time, capacity constraints among major goods producers are beginning to surface, limiting supply responsiveness and creating conditions for price firming.

The fact that inflation undershot expectations suggests that pricing power remains constrained, but the direction is clear: fiscal measures are starting to feed into inflation dynamics, even if pass-through is partial.

Policy Implications and Outlook

The January data place Russian policymakers at a delicate juncture. On the one hand, inflation remains broadly manageable and below levels that would trigger immediate alarm. On the other, the end of the disinflation phase raises questions about how durable price stability will be in the face of higher taxes, supply rigidities, and persistent services inflation.

For the Federal State Statistics Service, the January release may prove to be an early indicator rather than an outlier. Much will depend on whether VAT pass-through intensifies in coming months and whether services inflation continues to run close to double digits.

Conclusion

January 2026 marks a turning point for Russia's inflation trajectory. The rise to 6.0 percent may appear modest, but it breaks a year-long pattern of easing and highlights emerging pressures from fiscal policy and domestic supply constraints. While food prices have so far cushioned the impact, elevated services inflation and strong monthly price gains suggest that inflation risks are tilted to the upside.

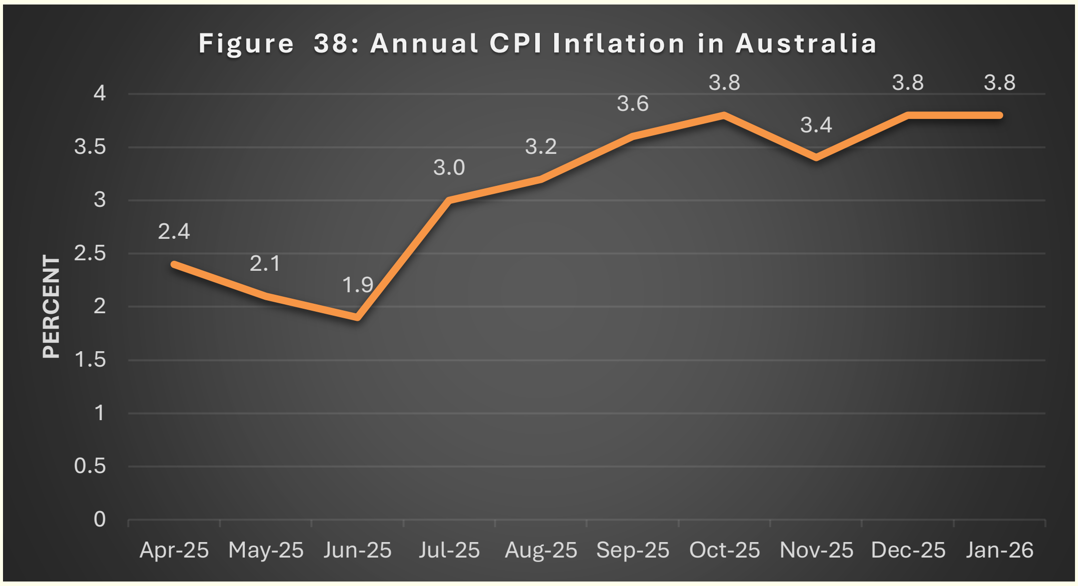
Whether this proves to be a temporary adjustment or the start of a more persistent inflationary phase will shape the policy debate in the months ahead.

ELECTRICITY COSTS KEEP AUSTRALIA'S INFLATION ABOVE TARGET IN JANUARY 2026

Introduction

Inflation in Australia showed renewed persistence at the start of 2026, complicating the task of monetary policymakers. Headline consumer price inflation held steady at 3.8 percent year-on-year in January (Figure 38), unchanged from December but marginally above market expectations. More importantly, inflation remained outside the central bank's 2–3 percent target band, underlining the uneven and fragile nature of Australia's disinflation process.

While there were early signs of easing in services inflation, accelerating goods prices, particularly electricity, offset these gains, keeping overall price pressures elevated.



Source: https://tradingeconomics.com/australia/inflation-cpi

Headline Inflation: Stability Masks Underlying Shifts

At first glance, the unchanged headline inflation rate suggests stability. However, beneath the surface, inflation dynamics shifted notably across components. The persistence of inflation at 3.8 percent reflects not demand overheating, but rather sector-specific cost shocks, especially in administered and regulated prices.

The January outcome also exceeded market expectations of 3.7 percent, reinforcing concerns that inflation may prove more stubborn than previously anticipated.

Services Inflation: Early Signs of Relief

Services inflation moderated to **3**.9 percent, easing from a two-year high of 4.1 percent in December. This deceleration was partly driven by lower pharmaceutical prices following a cut in the standard medicine fee, a policy-induced relief rather than a broad-based cooling of services demand.

Despite this easing, services inflation remains elevated, reflecting continued pressures from wages, housing-related services, education, and recreation. Given the labour-intensive nature of services, this component remains a key concern for inflation persistence.

Goods Inflation: Electricity Becomes the Dominant Shock

In contrast, goods inflation accelerated sharply to 3.8 percent from 3.4 percent, driven overwhelmingly by a surge in electricity prices. Electricity inflation jumped to 32.2 percent, up from 21.5 percent in December, as state-level rebates expired.

This spike highlights the vulnerability of headline inflation to policy rollbacks and administered price adjustments. Energy costs have once again emerged as a destabilising force, feeding through to household budgets and business input costs.

Broad-Based Price Pressures Persist

Beyond electricity, inflation pressures remained widespread across consumption categories. Food and non-alcoholic beverages rose 3.1 percent, while alcohol and tobacco inflation climbed to 5.0 percent, reflecting ongoing excise and cost pass-throughs. Clothing inflation accelerated sharply to 5.3 percent, signalling persistent supply and retail pricing pressures.

Housing inflation intensified to 6.8 percent, up from 5.5 percent, underscoring the structural imbalance in housing supply and elevated construction and financing costs. Education inflation remained high at 5.4 percent, while financial services inflation, though easing slightly, stayed elevated at 2.4 percent.

The breadth of price increases suggests that inflation is no longer confined to a few volatile components but remains embedded across the consumption basket.

Core Inflation: Trimmed Mean Moves Higher

A particularly important development was the rise in underlying inflation. The trimmed mean CPI edged up to 3.4 percent year-on-year, exceeding both the previous reading and market expectations of 3.3 percent. This increase signals that inflation pressures remain entrenched even after excluding extreme price movements.

For policymakers, this metric carries greater weight than headline inflation, as it better reflects persistent domestic price pressures.

Monthly Dynamics: Momentum Slows, but Risks Remain

On a monthly basis, the CPI increased 0.4 percent, a moderation from the sharp 1.0 percent rise in December. While this suggests some loss of short-term momentum, the monthly gain remains firm enough to keep annual inflation elevated.

The slowdown in monthly inflation does little to offset concerns raised by rising core inflation and energy-driven cost shocks.

Policy Implications and Outlook

The January inflation data, released by the Australian Bureau of Statistics, present a mixed picture for monetary policy. While easing services inflation offers some reassurance, accelerating goods inflation—particularly electricity—and a rising trimmed mean point to persistent inflation risks.

With inflation still above target and core measures edging higher, policymakers are likely to remain cautious. Any premature easing of monetary conditions could risk entrenching inflation expectations, especially in an environment where administered prices and structural bottlenecks continue to exert upward pressure.

Conclusion

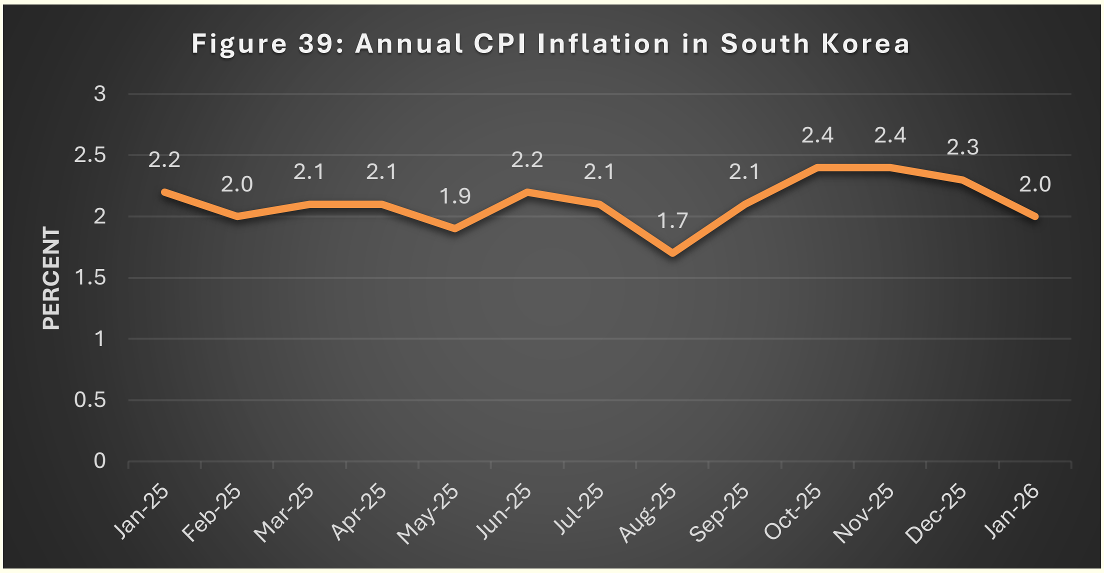
Australia's January 2026 inflation outcome underscores the difficulty of completing the final leg of disinflation. Temporary relief in services inflation has been offset by renewed goods-side shocks, led by electricity prices, while underlying inflation has edged higher. Until core inflation shows a sustained and decisive move back within target, inflation is likely to remain an uncomfortable constraint on policy flexibility.

SOUTH KOREA'S INFLATION RETURNS TO TARGET, BUT UNDERLYING PRICE PRESSURES PERSIST

Introduction

Inflation in South Korea eased further at the start of 2026, offering cautious reassurance to policymakers navigating a complex mix of domestic and external pressures. Headline consumer price inflation slowed to 2.0 percent in January, down from 2.3 percent in December (Figure 39), marking the second consecutive month of moderation and the lowest reading since August. The outcome broadly aligned with market expectations and brought inflation squarely back to the central bank's target.

The moderation reflects a combination of softer fuel prices and favourable base effects, even as price pressures remain uneven across consumption categories.



Source: https://tradingeconomics.com/south-korea/inflation-cpi

Headline Inflation: Back at Target, but Not Benign

The return of inflation to 2 percent is symbolically important, signalling progress after prolonged price pressures in earlier periods. However, the composition of inflation suggests that the slowdown has been driven more by energy and base effects than by a broad-based easing in domestic demand.

Monthly inflation accelerated slightly to 0.4 percent in January, up from 0.3 percent in December, indicating that short-term price momentum has not fully dissipated. This divergence between annual and monthly trends underscores the need for caution in interpreting the headline figure.

Sectoral Price Pressures: Services and Essentials Still Firm

Despite the easing in headline inflation, several categories continue to record relatively strong price increases. Miscellaneous goods and services led inflation with a 5.0 percent annual rise, reflecting cost pressures in personal services and other non-discretionary expenditures. Food and non-alcoholic beverages inflation remained elevated at 2.9 percent, a key concern given its direct impact on household purchasing power.

Price pressures were also notable in furnishings, household equipment and routine maintenance (2.9 percent), restaurants and hotels (2.8 percent), and clothing and footwear (2.4 percent). Together, these categories point to persistent services and consumption-linked inflation, even as energy-related components soften.

Monetary Policy Context: A Delicate Pause

Against this backdrop, the Bank of Korea opted to hold its policy rate at 2.5 percent at its most recent meeting. Significantly, the central bank removed explicit language pointing to the possibility of further easing, signalling a more data-dependent stance.

While inflation has returned to target, policymakers remain alert to currency volatility, particularly the inflationary risks posed by a weak won. Exchange rate pass-through could reintroduce price pressures, especially in energy and imported goods, complicating the disinflation trajectory.

Monthly Dynamics: Underlying Momentum to Watch

The acceleration in monthly inflation to 0.4 percent suggests that underlying price pressures have not vanished. While still moderate, this uptick indicates that inflation could stabilise around the target rather than fall decisively below it in the near term.

For policymakers, this reinforces the case for patience: premature easing could reignite inflation, especially if global financial conditions tighten or currency pressures intensify.

Conclusion

South Korea's January 2026 inflation data, released by Statistics Korea, mark an important milestone, with headline inflation returning to the 2 percent target. Yet the composition of inflation and the pickup in monthly prices suggest that the disinflation process remains incomplete. As the Bank of Korea balances domestic price stability against external risks and currency volatility, monetary policy is likely to remain cautiously on hold, with vigilance firmly intact.

FOOD & AGRICULTURE

EASING PRESSURES: WHAT JANUARY 2026 FOOD PRICE TRENDS REVEAL ABOUT GLOBAL MARKETS

Global food prices continued their downward drift in January 2026 (Table 7), reinforcing the disinflationary trend that has been underway for several months. The Food and Agriculture Organization Food Price Index (FFPI) averaged 123.9 points during the month, easing by 0.4 percent from December. Declines in dairy, meat and sugar prices more than offset increases in cereals and vegetable oils, marking the fifth consecutive monthly fall in the overall index. Compared with January 2025, global food prices were marginally lower, and they remained sharply below the peak reached in March 2022, underscoring the extent to which global commodity markets have normalised since the post-pandemic and geopolitical shocks.

Cereal prices were broadly stable, with the FAO Cereal Price Index inching up by 0.2 percent in January, though remaining nearly 4 percent below its level a year earlier. Wheat prices edged marginally lower as concerns over weather conditions in parts of the Russian Federation and the United States, along with strong export demand from Australia and Canada, were counterbalanced by ample global supplies and expectations of good harvests in Argentina and Australia. Maize prices also softened slightly, as weather-related planting concerns in South America and robust ethanol demand in the United States were insufficient to offset bearish sentiment driven by comfortable stock levels. Among other coarse grains, barley prices strengthened modestly on firm demand for Argentinian exports, while sorghum prices tracked wheat, easing marginally. In contrast to the overall cereals trend, rice prices moved higher, with the FAO All Rice Price Index rising by 1.8 percent, reflecting stronger demand, particularly for fragrant varieties.

Vegetable oil prices, however, bucked the broader food price trend. The FAO Vegetable Oil Price Index rose by 2.1 percent in January and stood more than 10 percent above its level a year earlier. The increase was driven by higher prices for palm, soy and sunflower oils. Palm oil prices rose for the second consecutive month, supported by seasonal production slowdowns in Southeast Asia and firm global import demand, aided by improved price competitiveness. Soyoil prices rebounded amid tightening export availability in South America and expectations of strong biofuel demand in the United States. Sunflower oil prices also recovered after two months of decline, reflecting continued supply tightness in the Black Sea region and limited farmer selling. By contrast, rapeseed oil prices edged lower, weighed down by ample availability in the European Union following large recent imports.

Meat prices softened slightly in January, even as they remained significantly higher than a year earlier. The FAO Meat Price Index declined by 0.4 percent month-on-month, largely due to lower pig meat prices, particularly in the European Union, where subdued international demand coincided with ample supplies and the clearing of slaughter backlogs following year-end holidays. Prices of bovine and ovine meats were broadly stable. In the case of bovine meat, shifts in Brazilian export flows played a stabilising role, as shipments were redirected toward China following the exhaustion of tariff-free quotas in the United States. Poultry meat prices, by contrast, rose, supported by strong international demand and higher export prices from Brazil.

Dairy prices recorded one of the sharpest monthly declines among major food groups. The FAO Dairy Price Index fell by 5 percent in January, marking its seventh consecutive monthly decline and leaving it nearly 15 percent below its level a year earlier. The downturn was driven primarily by falling prices for cheese and butter, reflecting intense global competition, ample supplies in Europe and the United States, and elevated inventories. Butter prices were further pressured by seasonally higher milkfat availability. In contrast, milk powder prices firmed modestly, with skim milk powder showing a more pronounced increase as price-sensitive import demand revived in regions such as the Near East, North Africa and parts of Asia.

Sugar prices also continued to ease. The FAO Sugar Price Index declined by 1 percent in January and was nearly 20 percent lower than a year earlier. The downward pressure stemmed from expectations of a significant rebound in global sugar production, particularly in India, along with favourable output prospects in Thailand. Despite a reduced allocation of sugarcane to sugar production in Brazil, overall production prospects for the 2025–26 season remain positive, reinforcing expectations of ample global supply.

Taken together, the January 2026 price movements point to a global food market that is largely well supplied, with selective pockets of price firmness driven by weather, biofuel demand, and regional supply constraints. For food-importing countries, the sustained easing of global food prices offers relief on inflation and balance-of-payments pressures, while for producers, the environment underscores the importance of productivity gains and cost management in a phase of normalising commodity prices.

Table 7: FAO Food Price Index (FFPI)

	Food Price Index	*Meat*	*Dairy*	*Cereals*	*Oils*	*Sugar*
January 2025	*124.7*	*116.7*	*143.1*	*111.8*	*153.0*	*111.2*
February 2025	*126.6*	*116.9*	*147.7*	*112.6*	*156.0*	*118.5*
March 2025	*127.2*	*118.3*	*148.7*	*109.7*	*161.8*	*116.9*
April 2025	*128.2*	*121.6*	*151.7*	*110.9*	*158.0*	*112.3*
May 2025	*127.1*	*122.8*	*153.6*	*109.0*	*152.2*	*109.4*
June 2025	*128.1*	*126.0*	*155.5*	*107.3*	*155.7*	*103.6*
July 2025	*129.8*	*126.7*	*154.6*	*106.5*	*166.8*	*103.3*
August 2025	*130.0*	*127.8*	*152.2*	*105.7*	*169.1*	*103.6*
September 2025	*128.6*	*127.9*	*147.2*	*104.9*	*167.9*	*99.4*
October 2025	*126.4*	*125.0*	*141.7*	*103.6*	*165.0*	*94.1*
November 2025	*125.2*	*125.4*	*136.2*	*105.5*	*165.0*	*88.6*
December 2025	*124.3*	*124.2*	*128.2*	*107.3*	*165.2*	*90.7*
January 2026	*123.9*	*123.8*	*121.8*	*107.5*	*168.6*	*89.8*

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

SECTION 3: FINANCIAL MARKETS

INDIAN FINANCIAL MARKETS

SENSEX AND NIFTY IN FEBRUARY 2026: TRADE DEVELOPMENTS, AI CONCERNS AND GEOPOLITICAL RISKS SHAPE MARKET SENTIMENT

Introduction

Indian financial markets in February 2026 witnessed significant volatility as domestic policy developments, global geopolitical tensions, evolving trade relations, and technological disruptions influenced investor sentiment. The month began with a sharp selloff following the Union Budget announcement, which increased the Securities Transaction Tax (STT) on derivatives trading. However, markets subsequently recovered on optimism surrounding a new India–US trade framework agreement and improved foreign portfolio investment (FPI) inflows.

Despite intermittent rallies, the broader market environment remained fragile. Concerns over artificial intelligence (AI) disrupting the information technology (IT) services sector, rising crude oil prices linked to geopolitical tensions, and uncertainty surrounding global trade policies continued to create periodic bouts of market correction. Consequently, benchmark indices such as the BSE Sensex and the NSE Nifty 50 oscillated within a relatively wide range during the month.

Market Movement: BSE Sensex and Nifty 50

Indian equity markets experienced pronounced swings throughout February 2026. The month began on a weak note as investors reacted negatively to the Union Budget announcement on 1 February, which raised the Securities Transaction Tax on futures and options trading. The BSE Sensex closed at 80,723 (Figure 40), while the NSE Nifty 50 declined to 24,825 (Figure 41) after sharp intraday volatility.

Markets rebounded strongly in the following sessions as bargain hunting emerged and investor confidence improved. On 3 February, the indices registered their strongest rally in several months after India and the United States finalised a framework trade agreement that significantly reduced tariffs on Indian exports. The Sensex surged to 83,739 and the Nifty climbed to 25,728, bringing both indices close to record levels.

The early-month recovery was supported by strong gains in banking, capital goods and infrastructure stocks, along with renewed FPI inflows. By 10 February, the Sensex had risen to 84,274 and the Nifty to 25,935, reflecting optimism regarding the trade deal, supportive macroeconomic signals and expectations of continued economic growth.

However, the momentum weakened during the second half of the month. Persistent selling in IT stocks, triggered by concerns about AI-driven disruption to the outsourcing business model, began to weigh heavily on market sentiment. Global factors also contributed to volatility, including strong US economic data reducing expectations of an early Federal Reserve rate cut, rising crude oil prices, and escalating geopolitical tensions between the United States and Iran.

Several sessions witnessed sharp corrections. For example, on 19 February the Sensex fell over 1,200 points and the Nifty declined by more than 1.4 percent amid rising geopolitical concerns and profit booking in banking and FMCG stocks. Similar declines occurred later in the month as global trade tensions resurfaced and IT stocks continued to face selling pressure. By 27 February, the Sensex had fallen to 81,287 and the Nifty to 25,179, reflecting renewed risk aversion and cautious investor sentiment.

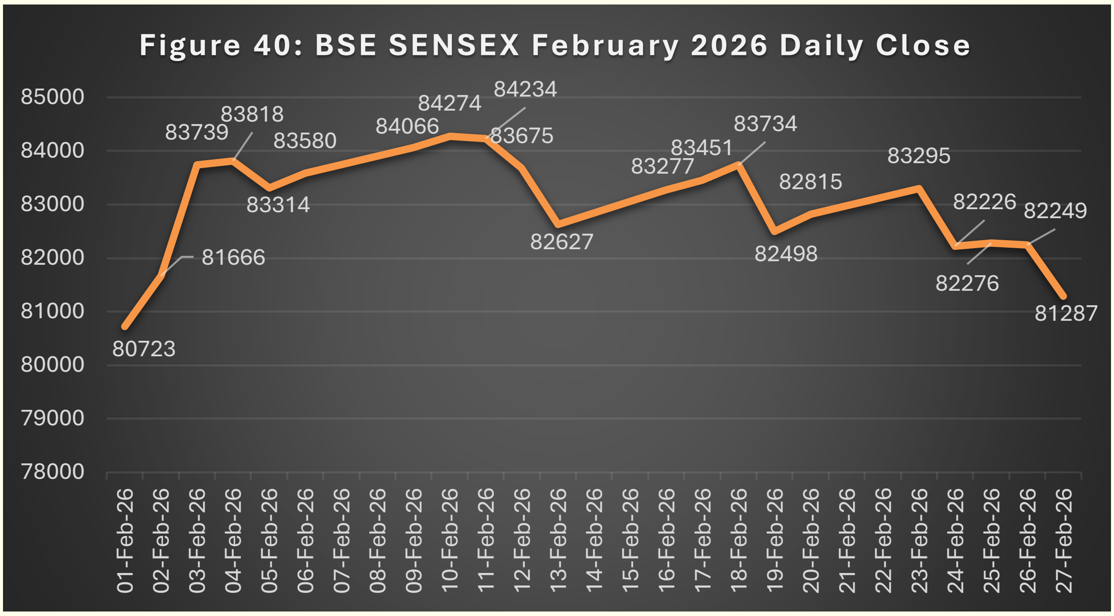


Figure 40: BSE SENSEX February 2026 Daily Close

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

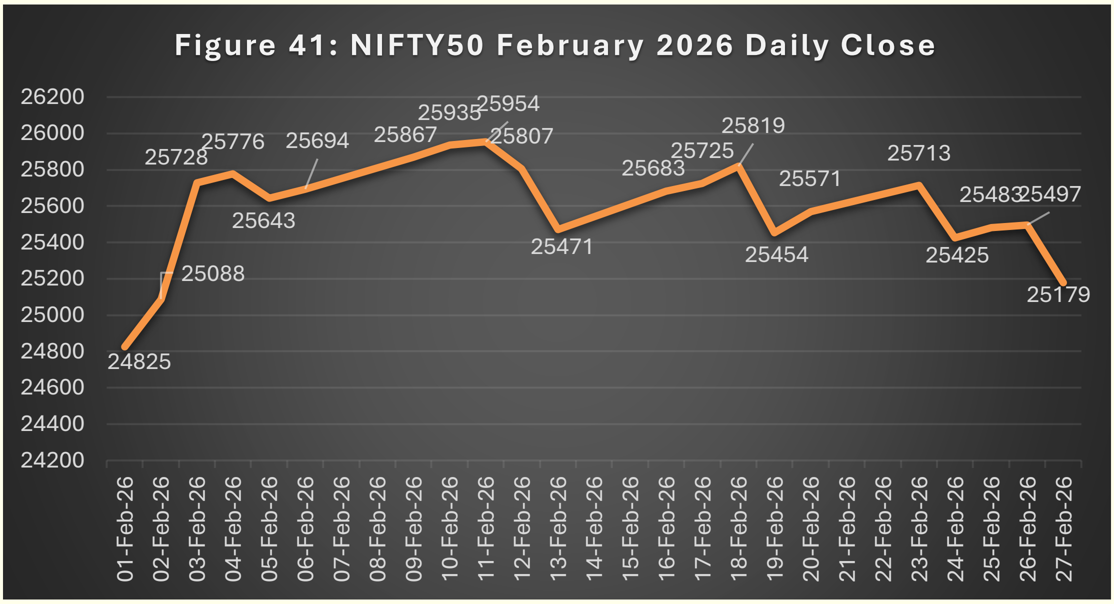


Figure 41: NIFTY50 February 2026 Daily Close

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

Key Milestones

Several notable developments shaped the trajectory of Indian financial markets during February 2026.

First, the Union Budget announcement triggered immediate volatility due to the increase in STT on derivatives trading, leading to the sharpest Budget-day decline in several years. This development highlighted the sensitivity of markets to changes in transaction costs and regulatory policy.

Second, the India–US framework trade agreement announced in early February significantly boosted investor sentiment. The agreement reduced tariffs on Indian exports and was seen as a positive step toward strengthening bilateral economic relations. The announcement triggered one of the strongest market rallies in recent months and encouraged foreign investors to re-enter the market.

Third, monetary policy stability also supported markets. The Reserve Bank of India kept the repo rate unchanged, signalling confidence in economic growth while maintaining a cautious stance on inflation.

Finally, the month witnessed heightened volatility in the IT sector. Rapid advancements in artificial intelligence raised concerns that automation could disrupt traditional IT services models, leading to a significant correction in major IT stocks.

Overall Trend

Despite sharp fluctuations, the overall trend of Indian equity markets in February 2026 can be characterised as range-bound with a mildly cautious bias. The indices oscillated between phases of optimism and risk aversion, reflecting the interplay of domestic economic resilience and external uncertainties.

Banking stocks, particularly public sector banks, performed relatively well due to strong earnings, improved asset quality, and expectations of higher foreign investment. FMCG and infrastructure-related stocks also provided support at various points during the month.

In contrast, the IT sector experienced sustained weakness due to concerns over technological disruption and shifting global demand patterns. Broader market segments such as mid-cap and small-cap stocks showed mixed performance, occasionally outperforming during risk-on phases but also experiencing sharp corrections during market downturns.

Overall, the markets remained sensitive to global developments, with investor behaviour reflecting short-term tactical positioning rather than strong directional conviction.

Factors Influencing Market Sentiment

Several interrelated factors shaped market sentiment during the month.

- **Domestic Policy Developments**: The Union Budget announcement, particularly the increase in derivatives transaction taxes, initially triggered risk aversion among investors. However, supportive policy signals related to infrastructure spending and manufacturing partly mitigated the negative impact.
- **India–US Trade Relations**: The finalisation of the framework trade agreement between India and the United States boosted market sentiment and encouraged foreign investment flows. However, subsequent trade-related developments—including tariff disputes in certain sectors—introduced new uncertainties.
- **Artificial Intelligence and the IT Sector**: Rapid progress in artificial intelligence technologies raised concerns about the future growth prospects of India's IT services industry. The resulting sell-off in IT stocks became one of the most prominent drivers of market volatility during the month.
- **Geopolitical Tensions and Oil Prices**: Rising geopolitical tensions between the United States and Iran contributed to higher crude oil prices, which is a key macroeconomic risk for India as a major oil importer. These developments increased concerns about inflation and the trade deficit.
- **Global Monetary Policy and Capital Flows**: Strong economic data from the United States reduced expectations of early interest-rate cuts by the Federal Reserve, influencing global capital flows and contributing to fluctuations in foreign investment in Indian equities.

Outlook

Looking ahead, the outlook for Indian financial markets remains cautiously optimistic but subject to significant global uncertainties. Domestic macroeconomic fundamentals, such as steady GDP growth, improving banking sector balance sheets, and continued government focus on infrastructure investment, provide a supportive backdrop for equities.

However, near-term market performance is likely to remain influenced by external factors, including global interest-rate trends, geopolitical developments, and technological disruptions in key sectors such as IT. The sustainability of foreign portfolio investment inflows will also play a crucial role in determining market direction.

In this context, Indian equity markets may continue to experience periods of volatility in the short term. Nevertheless, the long-term outlook remains positive, supported by structural economic growth, expanding domestic consumption, and ongoing policy reforms aimed at strengthening India's position in the global economy.

GLOBAL FINANCIAL MARKETS

FROM WALL STREET TO ASIA: GLOBAL EQUITY MARKETS NAVIGATE UNCERTAINTY IN FEBRUARY 2026

INTRODUCTION

Global financial markets in February 2026 displayed mixed performance as investors navigated a complex macroeconomic environment shaped by monetary policy expectations, geopolitical tensions, and technological disruptions. Equity markets in the United States faced increased volatility as investors reassessed the outlook for interest rate cuts amid strong economic data. In contrast, European markets recorded relatively stronger gains supported by robust corporate earnings and improved investor confidence.

Across the Asia-Pacific region, market performance varied significantly. Some markets benefited from strong domestic growth prospects and investor inflows, while others remained constrained by external demand uncertainties and geopolitical developments. Overall, February reflected a period of divergent regional trends, highlighting the evolving dynamics of global capital markets.

SECTION A – PERFORMANCE OF US EQUITY MARKETS

Market Overview

The United States equity markets experienced moderate volatility during February 2026 as investors weighed the implications of persistent inflation, resilient economic activity, and the future trajectory of monetary policy. Strong labour market data and steady consumer spending reduced expectations of rapid interest rate cuts by the Federal Reserve, which tempered investor enthusiasm. Technology stocks also faced intermittent selling pressure amid growing debate about artificial intelligence–driven industry restructuring.

Against this backdrop, the major US benchmark indices moved within relatively narrow ranges, ending the month with mixed results.

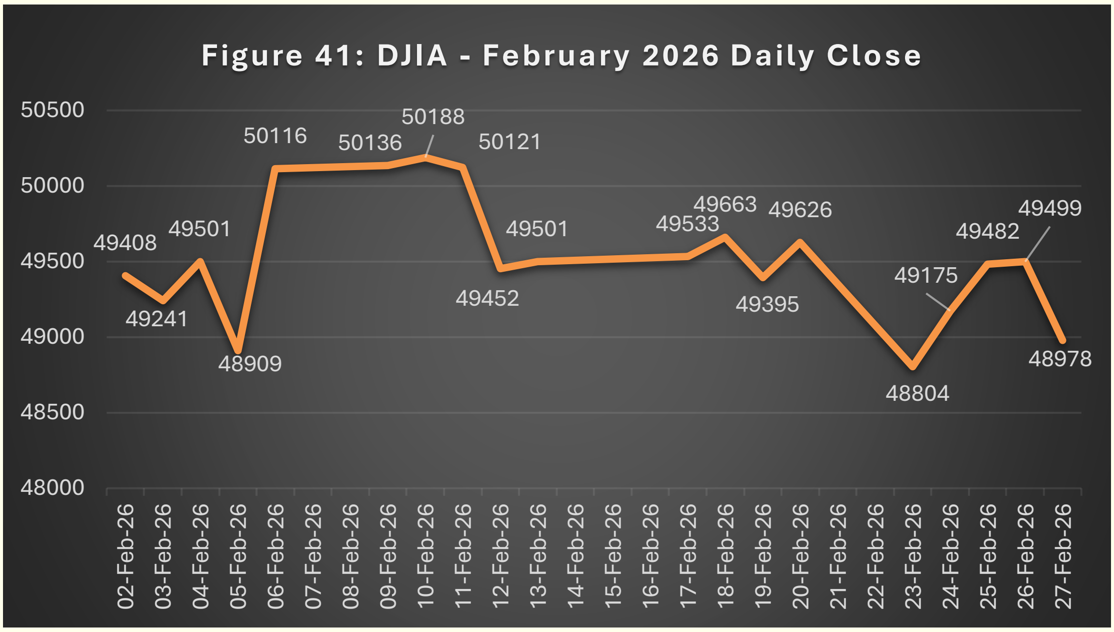
Dow Jones Industrial Average (DJIA)

Market Movement

The Dow Jones Industrial Average began February at 49408 points (Figure 41) and moved within a narrow range during the month. The index reached a monthly high of 50188 before experiencing mild corrections amid profit-taking and global uncertainty. By the end of the month, the DJIA closed at 48978, indicating a modest decline from its opening level.

Key Milestones

- Early-month gains were supported by strong earnings from industrial and financial companies.
- Mid-month volatility emerged as investors reacted to shifting expectations regarding Federal Reserve policy.
- The index briefly crossed the 50000 mark, reflecting continued investor confidence in the US economy before retreating toward month-end.



Source: https://www.wsj.com/market-data/quotes/index/DJIA/historical-prices

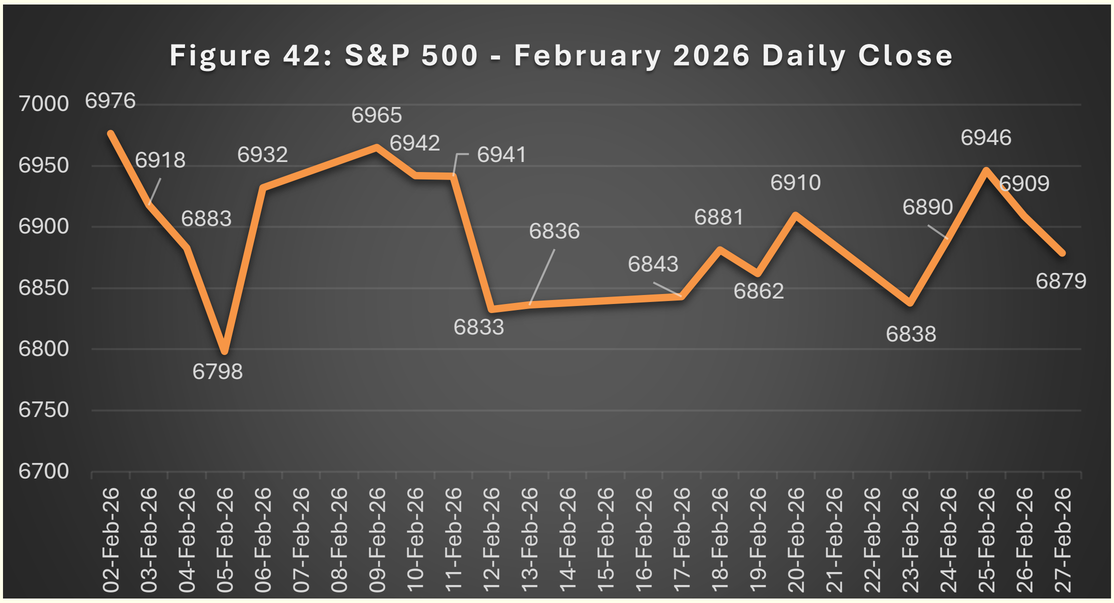
S&P 500

Market Movement

The broad-based S&P 500 index opened the month at 6976 (Figure 42) and fluctuated amid changing risk sentiment. The index experienced a gradual downward drift through the month and closed at 6879. The decline reflected investor caution toward growth sectors and concerns about stretched valuations in technology stocks.

Key Milestones

- Early February witnessed record-high territory near 6976.
- Mid-month selling pressure emerged in technology and communication services stocks.
- Defensive sectors such as healthcare and utilities provided partial stability.



Source: *https://www.wsj.com/market-data/quotes/index/SPX/historical-prices*

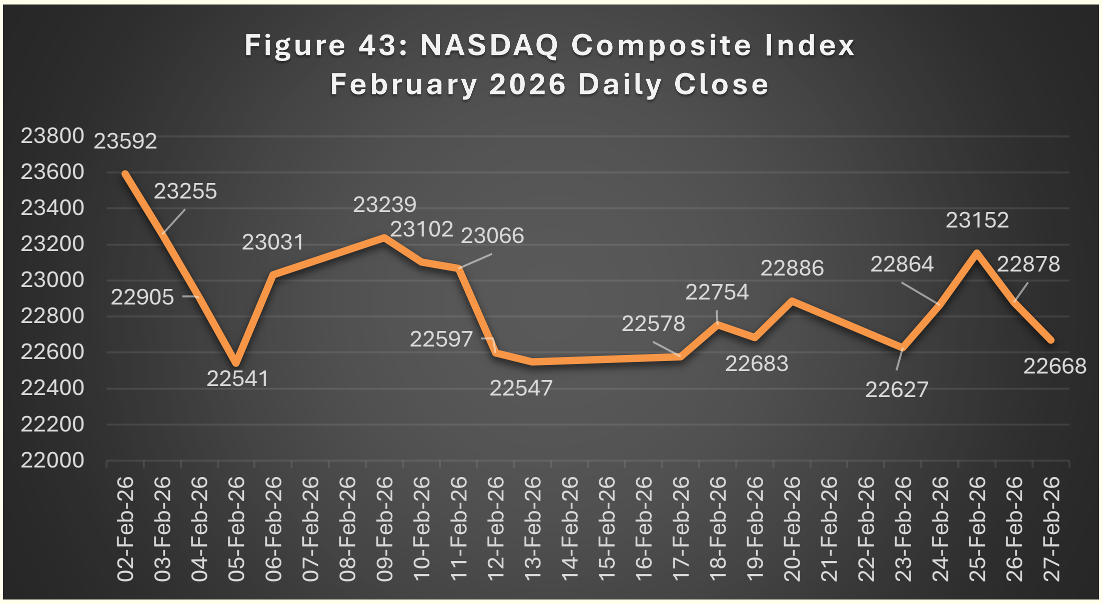
NASDAQ Composite Index

Market Movement

The technology-heavy NASDAQ Composite displayed greater volatility compared with other US indices. It started the month at 23592 (Figure 43), but persistent selling in major technology stocks pushed the index lower. By the end of February, the NASDAQ closed at 22668, reflecting one of the sharper corrections among major global indices.

Key Milestones

- Early-month peak at 23592 driven by continued enthusiasm around AI-related companies.
- Mid-month correction triggered by profit-taking and concerns about technology valuations.
- Continued investor debate on how artificial intelligence could reshape the technology and IT services sectors.



Source: https://www.wsj.com/market-data/quotes/index/COMP/historical-prices

US Market Insight

Overall, US equity markets in February 2026 demonstrated resilience but increasing caution. While economic fundamentals remained strong, persistent inflationary pressures and uncertainty surrounding the pace of monetary easing limited further gains. Technology stocks, which had driven much of the previous rally, became more volatile as investors reassessed long-term growth expectations.

SECTION B - PERFORMANCE OF EUROPEAN EQUITY MARKETS

Market Overview

European equity markets generally outperformed their US counterparts during February 2026. Investor sentiment was supported by improving corporate earnings, stabilising energy prices, and optimism regarding economic recovery across the eurozone. Monetary policy expectations also played a role, with investors anticipating gradual policy easing from the European Central Bank later in the year.

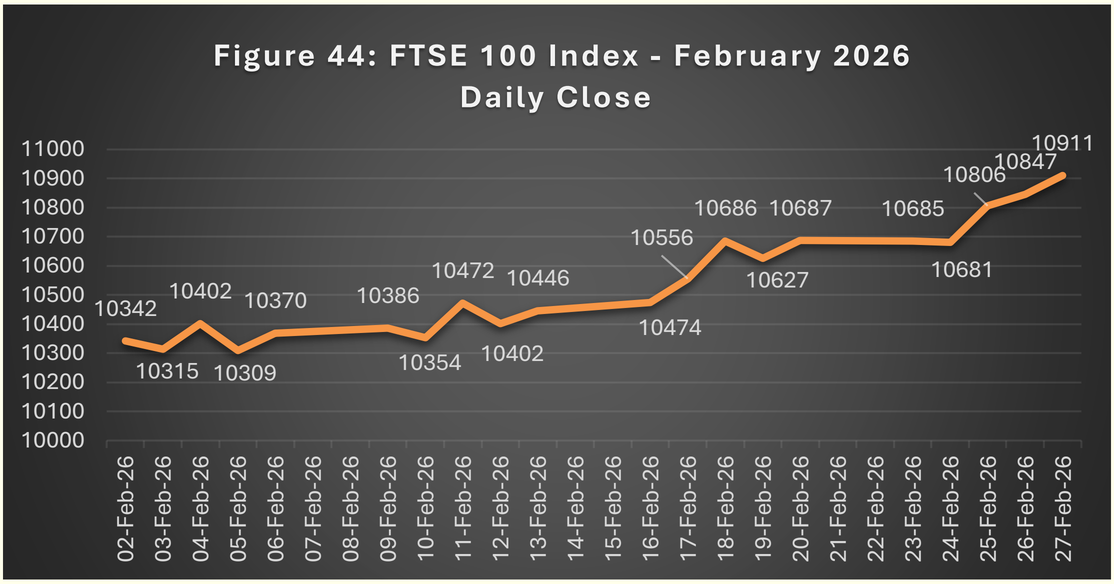
FTSE 100 Index (London, UK)

Market Movement

The UK benchmark FTSE 100 Index opened February at 10342 (Figure 44) and recorded a steady upward trend during the month. Supported by gains in energy, mining, and banking stocks, the index climbed to 10911 by the end of the month.

Key Milestones

- Strong performance from commodity-linked companies boosted the index.
- Global oil price movements supported energy sector stocks.
- The index reached one of its strongest monthly closing levels in recent years.



Source: https://www.wsj.com/market-data/quotes/index/UK/UKX/historical-prices

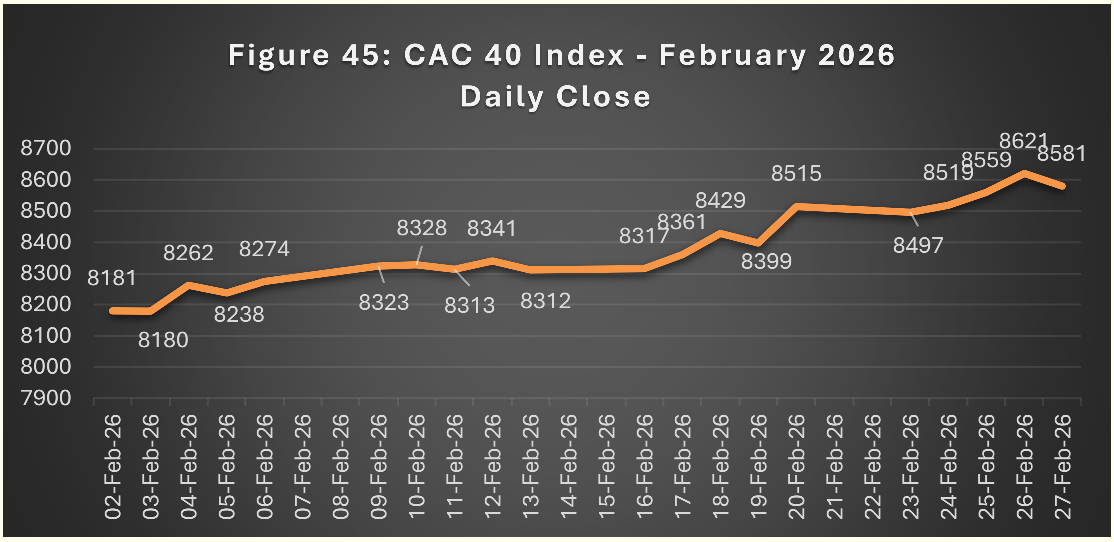
CAC 40 (Paris, France)

Market Movement

France's benchmark CAC 40 also recorded notable gains. The index rose from 8181 (Figure 45) at the beginning of the month to 8581 by the end of February.

Key Milestones

- Strong performance from luxury goods and industrial companies.
- Increased investor optimism regarding eurozone economic recovery.



Source: https://www.wsj.com/market-data/quotes/index/FR/PX1/historical-prices

DAX (Frankfurt, Germany)

Market Movement

Germany's DAX index displayed moderate growth during the month. Starting near 24798 (Figure 46) , the index climbed steadily and closed at 25284.

Key Milestones

- Export-oriented companies benefited from stable global demand conditions.
- Technology and industrial stocks provided strong support.

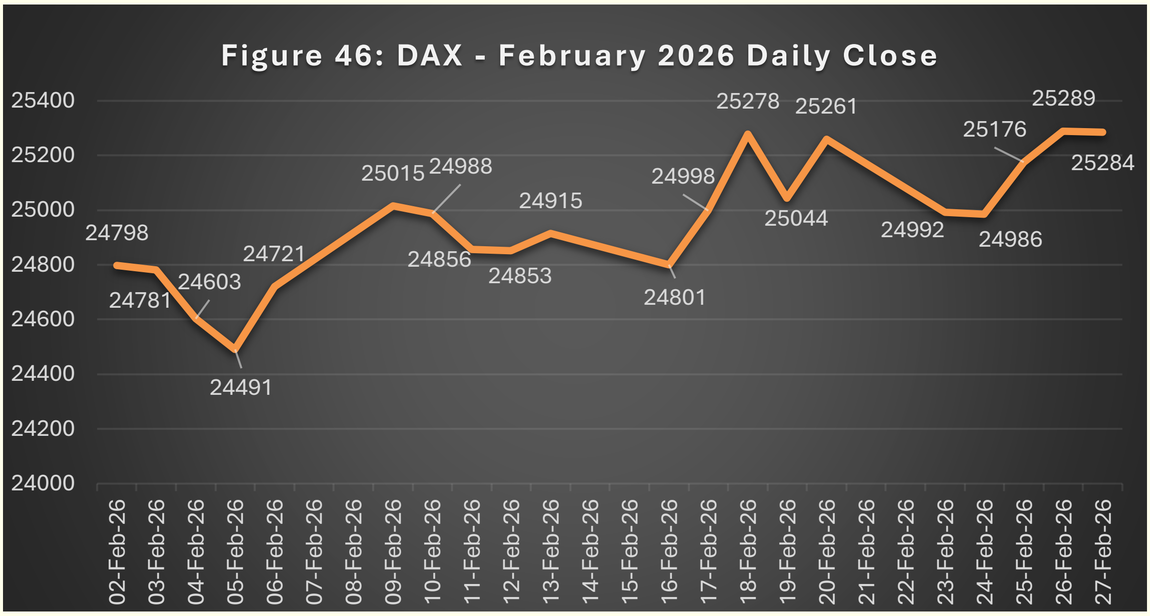


Figure 46: DAX - February 2026 Daily Close

Source: [*https://www.wsj.com/market-data/quotes/index/DX/DAX/historical-prices*](https://www.wsj.com/market-data/quotes/index/DX/DAX/historical-prices)

Europe Market Insight

European markets demonstrated relative resilience compared with the United States. Strong corporate earnings and improving macroeconomic indicators helped sustain investor confidence. Additionally, the sectoral composition of European indices, with stronger representation of industrial, financial, and commodity companies, provided a cushion against the technology-sector volatility affecting US markets.

SECTION C – PERFORMANCE OF ASIA-PACIFIC STOCK MARKETS

Market Overview

Equity markets in the Asia-Pacific region exhibited diverse trends during February 2026. While some markets benefited from strong domestic growth prospects and technology sector expansion, others faced pressures from external demand uncertainties and geopolitical developments.

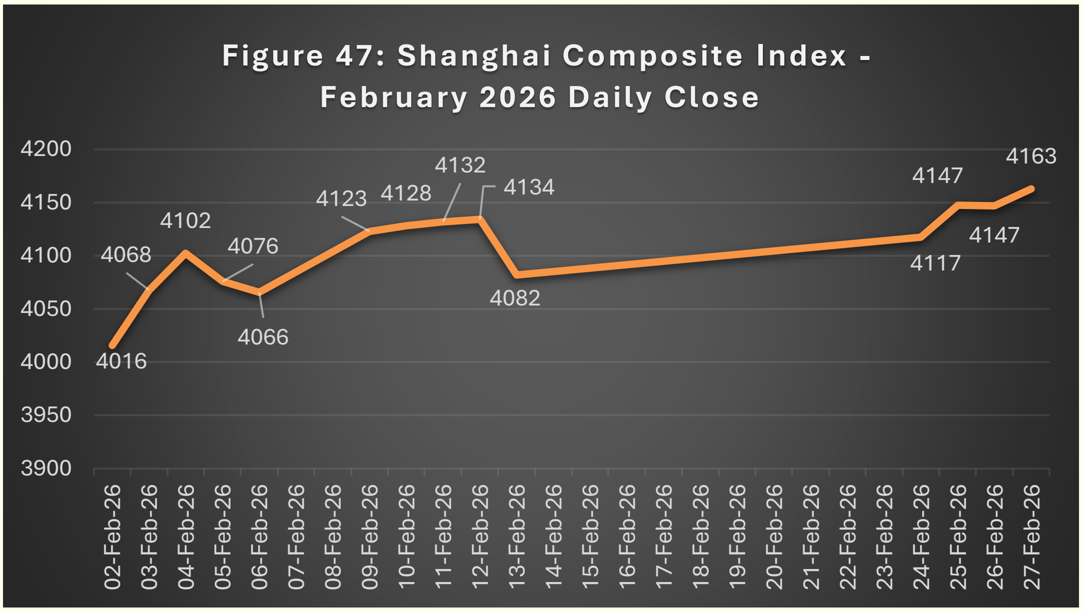
Shanghai Composite Index (Shanghai, China)

Market Movement

The Shanghai Composite Index rose from 4016 (Figure 47) at the beginning of the month to approximately 4163 by the end of February.

Key Milestones

- Investor optimism regarding economic stabilisation in China.
- Supportive policy measures aimed at boosting domestic demand.



Source: https://www.wsj.com/market-data/quotes/index/CN/XSHG/SHCOMP/historical-prices

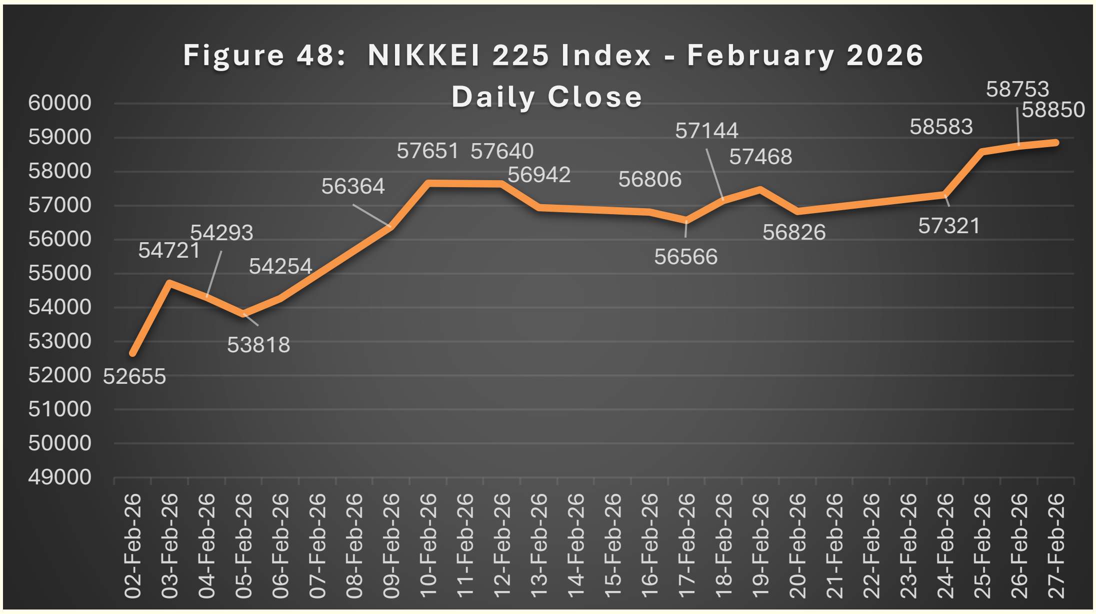
NIKKEI 225 (Tokyo, Japan)

Market Movement

Japan's Nikkei 225 was among the strongest performers globally. The index surged from 52655 at the start of February to about 58850 (Figure 48) by the end of the month.

Key Milestones

- Strong performance of technology and export-oriented companies.
- Continued depreciation of the yen supporting Japanese exporters.



Source: https://www.wsj.com/market-data/quotes/index/JP/NIK/historical-prices

Hang Seng Index (Hong Kong)

Market Movement

Hong Kong's Hang Seng Index experienced moderate volatility. The index started the month at 26776, and fluctuated between 26381 (26 February 2026) and 27266 (11 February 2026) before closing near 26631 (Figure 49).

Key Milestones

- Mixed investor sentiment linked to developments in mainland Chinese markets.
- Volatility in technology stocks listed in Hong Kong.

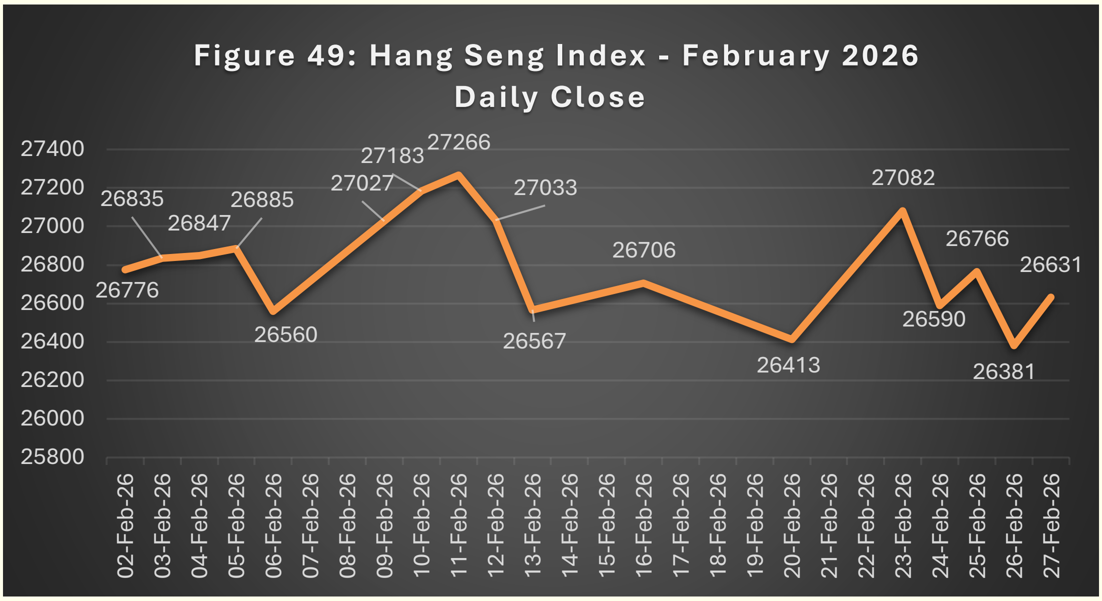


Figure 49: Hang Seng Index - February 2026 Daily Close

Source: https://www.wsj.com/market-data/quotes/index/HK/HSI/historical-prices

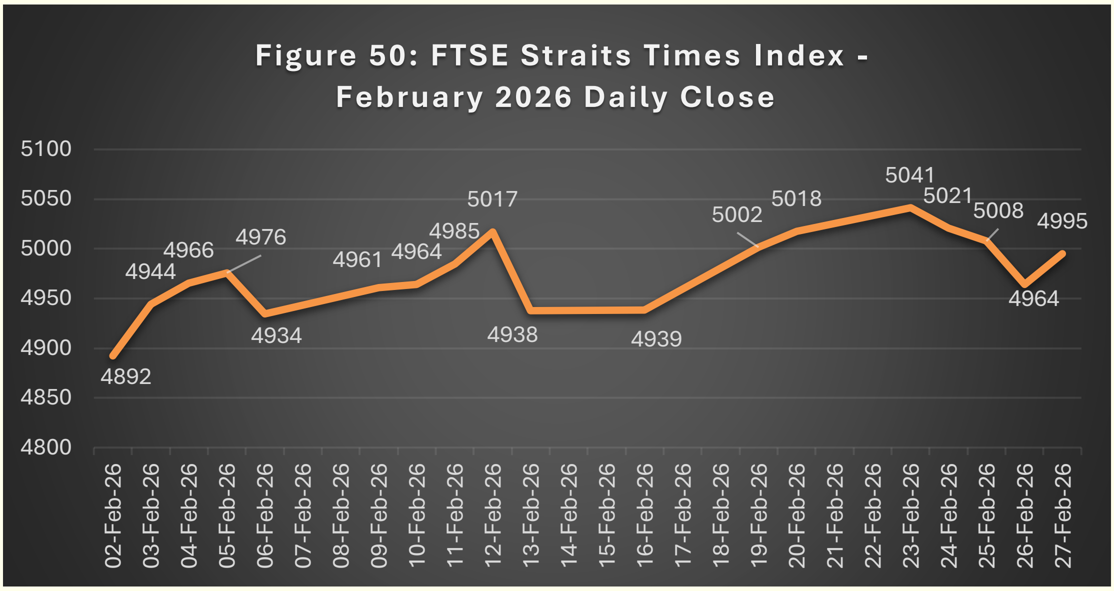
FTSE Straits Times Index (Singapore)

Market Movement

Singapore's FTSE Straits Times Index moved gradually upward, rising from 4892 to approximately 4995 during the month (Figure 50).

Key Milestones

- Gains in banking and financial sector stocks.
- Stable regional trade activity supporting investor confidence.



Source: https://www.wsj.com/market-data/quotes/index/SG/STI/historical-prices

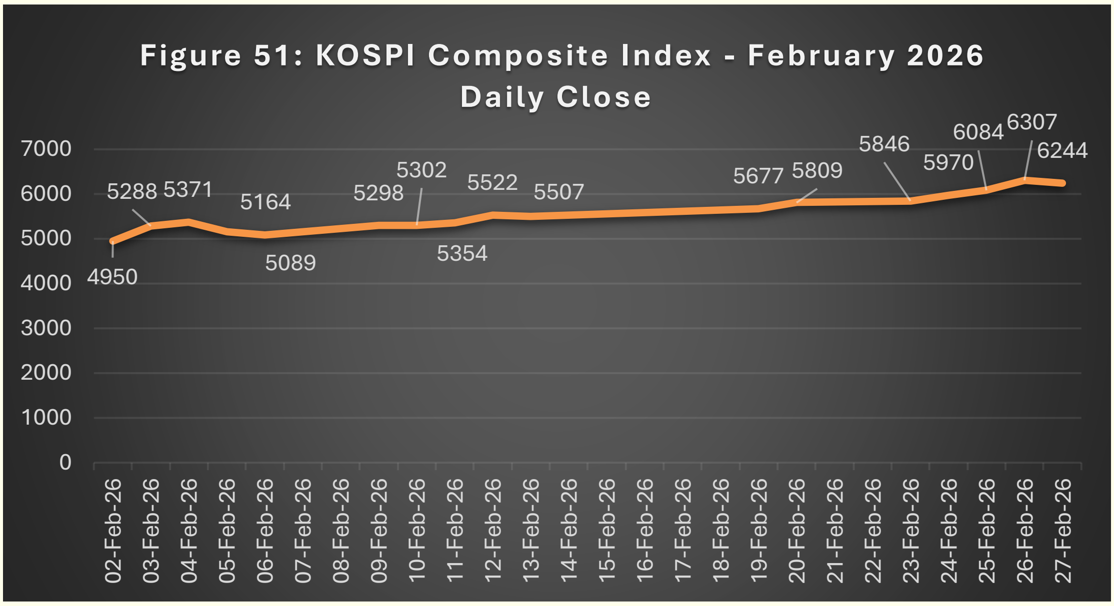
KOSPI Composite Index (Busan & Seoul, South Korea)

Market Movement

South Korea's KOSPI Composite Index recorded one of the most significant increases among Asian markets, rising from 4950 to about 6244 (Figure 51).

Key Milestones

- Strong performance in semiconductor and technology companies.
- Increased foreign investor participation.



Source: [*https://www.wsj.com/market-data/quotes/index/KR/SEU/historical-prices*](https://www.wsj.com/market-data/quotes/index/KR/SEU/historical-prices)

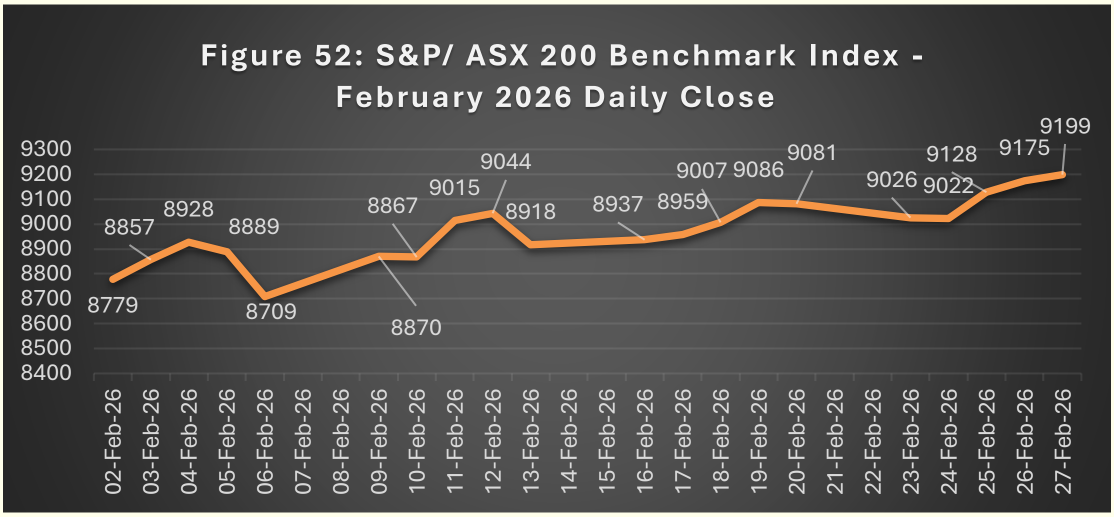
S&P/ASX Benchmark Index (Sydney, Australia)

Market Movement

Australia's S&P/ASX 200 also displayed steady gains during the month. The index increased from 8779 to around 9199 (Figure 52).

Key Milestones

- Strong commodity prices benefiting mining companies.
- Stable domestic economic indicators supporting investor confidence.



Source: https://www.wsj.com/market-data/quotes/index/AU/XJO/historical-prices

Asia-Pacific Market Insight

The Asia-Pacific region displayed stronger growth momentum compared with Western markets in February 2026. Japan and South Korea led the regional rally due to strong technology sector performance and export growth. Meanwhile, China-related markets experienced moderate recovery as policymakers introduced supportive economic measures.

SECTION D – OUTLOOK FOR MAJOR GLOBAL STOCK INDICES

Looking ahead, the outlook for global equity markets remains cautiously optimistic but subject to several risks. Key factors influencing market performance include the trajectory of global interest rates, geopolitical developments, and the pace of technological transformation across industries.

In the United States, investor focus will remain on Federal Reserve policy signals and corporate earnings trends. European markets may continue benefiting from improving economic activity and supportive monetary policy expectations. Meanwhile, Asia-Pacific markets are likely to remain driven by technology sector developments, regional trade flows, and domestic economic policies.

COMMODITY MARKETS

COMMODITY MARKETS IN FEBRUARY 2026: GEOPOLITICAL RISKS AND SAFE-HAVEN DEMAND DRIVE VOLATILITY

Introduction

Global commodity markets in February 2026 experienced heightened volatility, reflecting a complex interaction of geopolitical tensions, shifting monetary policy expectations, and evolving supply dynamics. There have been sharp price movements across energy, precious metals, and industrial commodities. While demand fundamentals remained relatively stable, investor sentiment and geopolitical risks played an increasingly decisive role in shaping commodity price movements.

Oil Markets: Geopolitical Risk and Policy Uncertainty

Oil markets moved within a volatile range during February as investors assessed geopolitical tensions in the Middle East alongside expectations regarding global growth and monetary policy. Early in the month, crude oil prices traded around the low-to-mid-$60 per barrel range for US benchmark crude, reflecting cautious demand expectations and relatively stable supply conditions.

Oil prices showed notable fluctuations during February 2026 as markets responded to geopolitical developments and shifting supply expectations. On 17 February, crude prices remained relatively steady, with West Texas Intermediate (WTI) around $63.66 per barrel and Brent near $68.47, as investors weighed the impact of Iranian naval drills against ongoing U.S.–Iran nuclear negotiations, which created uncertainty about potential supply disruptions. By 23 February, prices had softened somewhat, with Brent trading around $71.28 and WTI near $65.72, reflecting cautious market sentiment and evolving diplomatic signals. However, towards the end of February, crude markets showed signs of recovery, with prices rebounding and settling in the range of roughly $65–$67 per barrel, supported by continued geopolitical risk and tightening supply expectations in global energy markets.

Geopolitical developments repeatedly pushed prices higher during the month. Concerns surrounding tensions between the United States and Iran, as well as potential disruptions to shipping routes in the Persian Gulf, introduced a risk premium into energy markets. Even when diplomatic signals temporarily eased tensions, market participants remained sensitive to the possibility of supply disruptions in one of the world's most critical oil-exporting regions.

In addition, US policy developments, particularly debates over monetary tightening and inflation control, affected investor sentiment toward energy markets. A stronger dollar and expectations of tighter financial conditions intermittently weighed on commodity prices, including oil.

Precious Metals: Safe-Haven Demand and Record Price Levels

Precious metals were among the most closely watched commodities during February 2026. Gold prices remained historically elevated throughout the month, reflecting strong investor demand for safe-haven assets amid financial and geopolitical uncertainty.

By mid-February, gold was trading close to $4,900 per ounce, marking one of the highest price levels in history.

Several factors contributed to the strength of gold prices:

- Persistent geopolitical tensions
- Concerns about global financial stability
- Portfolio diversification by institutional investors
- Expectations of continued inflation pressures

However, the precious metals market was far from stable. At the beginning of the month, gold and silver experienced sharp corrections after earlier record highs, as investors reassessed interest-rate expectations following developments in US monetary policy. In one trading session, gold fell sharply while silver dropped more than 13 percent, highlighting the speculative nature of commodity investment flows.

Despite these short-term corrections, gold maintained a strong upward trajectory during February, reinforcing its role as a hedge against financial uncertainty.

Industrial Metals: Growth Concerns and Supply Dynamics

Industrial metals markets displayed mixed performance during February. Copper, nickel, and other base metals experienced fluctuations reflecting uncertainty about global manufacturing activity.

Early in the month, concerns about financial stress in parts of the global metals trading ecosystem triggered a sell-off in copper and other industrial metals.

However, industrial metals prices were supported by several structural factors:

- Continued demand from energy transition technologies
- Infrastructure investment in major economies
- Supply constraints in several mining regions

At the same time, market participants closely watched developments in China—the world's largest consumer of industrial metals—as indicators of future demand.

Agricultural Commodities: Stable but Sensitive to Input Costs

Compared with energy and metals, agricultural commodities exhibited relatively stable price movements during February. Grain and oilseed markets were primarily influenced by input costs, weather conditions, and currency movements.

Rising energy prices during parts of the month increased concerns about higher fertilizer and transport costs, which can indirectly affect agricultural commodity prices. However, global supply conditions for major grains remained broadly comfortable, limiting upward price pressure.

Financialisation and Market Volatility

A recurring theme highlighted in financial reporting during February was the increasing role of financial investors in commodity markets. Institutional funds and commodity index investors have significantly expanded their participation in energy and metals markets over the past decade.

As a result, commodity price movements have become more closely linked with macroeconomic expectations, interest-rate outlooks, and portfolio rebalancing strategies. Shifts in investor sentiment—particularly related to inflation expectations and monetary policy—frequently translated into rapid price adjustments across commodity markets.

Implications for the Global Economy

The developments observed in February 2026 underline several broader trends shaping global commodity markets.

First, geopolitical developments remain a key driver of commodity price volatility, particularly in energy markets. Even limited tensions in major oil-producing regions can generate significant market reactions.

Second, the strong performance of gold reflects continued investor concern regarding macroeconomic uncertainty and financial market volatility.

Third, the growing financialisation of commodity markets means that prices are increasingly influenced by global capital flows rather than purely by physical supply-demand balances.

Conclusion

Commodity markets in February 2026 reflected an environment of heightened uncertainty. Energy prices fluctuated in response to geopolitical tensions, precious metals maintained strong safe-haven demand, and industrial metals remained sensitive to global growth prospects.

Taken together, the developments of February suggest that commodity markets are entering a phase in which geopolitical risks, monetary policy expectations, and financial investment flows will play an increasingly prominent role in determining price movements. For policymakers and investors alike, the challenge will be navigating these overlapping sources of volatility while assessing the longer-term fundamentals shaping global commodity demand and supply.

SECTION 4: RESEARCH DIGEST

SYNOPSIS OF RESEARCH PAPERS

CHAINING TASKS, REDEFINING WORK: A THEORY OF AI AUTOMATION

Authors: Mert Demirer, John J. Horton, Nicole Immorlica, Brendan Lucier, and Peyman Shahidi

NBER Working Paper No. 34859, February 2026
National Bureau of Economic Research (NBER)

This paper develops a task-based analytical framework to explain how advances in artificial intelligence (AI) reshape production processes, the organization of work within firms, and ultimately the structure of labor demand in the economy. It conceptualizes production as a sequence of discrete steps that can be performed manually by humans, executed with human–AI augmentation, or fully automated by AI. A central idea in the paper is the formation of "AI chains," in which multiple adjacent steps in a production sequence are executed entirely by AI systems, with human oversight limited to verifying the final output.

The framework examines how firms optimally assign humans and AI to production steps while balancing the gains from specialization against the coordination costs associated with dividing work across different agents. Firms bundle steps into tasks and jobs, designing job structures that minimize costs while maintaining efficiency. In this setting, the presence of AI chains can overturn the traditional principle of comparative advantage at the step level. Rather than assigning each step to the agent best suited to perform it individually, firms may prefer to allocate clusters of steps to AI when doing so reduces coordination frictions and creates complementarities across adjacent automated activities.

A key contribution of the model is its demonstration that improvements in AI quality generate non-linear productivity effects. Marginal increases in AI capability may initially yield little impact on production efficiency when existing job structures remain unchanged. However, once AI quality crosses certain thresholds, firms may find it optimal to reorganize production processes, creating longer AI chains and redefining job boundaries. Such shifts can produce discrete and substantial productivity gains, explaining why firms continue to invest in AI technologies even when immediate returns appear modest. This dynamic is consistent with the "J-curve" pattern of technology adoption, where early adoption increases costs before structural adjustments unlock productivity benefits.

The paper distinguishes between short-run and long-run decision environments. In the short run, firms operate with fixed job structures and determine which production steps should be automated or augmented with AI. In the long run, firms simultaneously redesign jobs and determine AI deployment strategies, allowing them to fully exploit the potential for AI chaining and reorganization of workflows.

Beyond firm-level analysis, the framework shows that the resulting production structures can be aggregated into a constant elasticity of substitution (CES) production function when firms differ in their deployment of a common general-purpose AI technology. This provides a micro-founded link between firm behavior and macroeconomic outcomes, enabling analysis of how improvements in AI capability affect aggregate productivity and labor demand.

The theoretical insights are complemented by empirical evidence drawn from a task-level dataset on AI exposure and execution outcomes. The findings support three key predictions of the model. First, AI-executed steps tend to cluster in contiguous chains, rather than appearing randomly across workflows. Second, occupations in which AI-exposed steps are highly dispersed across the workflow show lower realized automation, suggesting that fragmentation increases coordination costs and discourages AI deployment. Third, when similar steps appear across occupations, those adjacent to AI-executed steps are significantly more likely to be automated, highlighting the importance of local complementarities created by AI chains.

Taken together, the paper offers a novel perspective on the economic effects of AI, emphasizing that the impact of the technology depends not only on its technical capabilities but also on how firms reorganize work to integrate it. By highlighting the role of step adjacency, task structure, and organizational redesign, the framework provides new insights into the mechanisms through which AI adoption may transform productivity, employment patterns, and the broader economic structure.

The full paper can be accessed from:
https://www.nber.org/system/files/working_papers/w34859/w34859.pdf

INTERATIONS OF ARTIFICIAL INTELLINGENCE WITH INDIA'S LABOUR MARKET

Authors: Payal Malik and Nikita Jain

Policy Brief 10, February 2026
ICRIER – PROSUS Centre for Internet and Digital Economy

Artificial intelligence (AI) is increasingly transforming production systems, job structures, and skill requirements across the global economy. However, the employment effects of AI are neither uniform nor technologically predetermined; they are shaped by the institutional context, sectoral structure, and policy choices within each economy. In the case of India—where services-led growth coexists with low employment elasticity, a large informal workforce, and significant productivity gaps across sectors—the interaction between AI and the labour market is likely to follow a distinct trajectory.

This paper examines the AI–labour nexus in India using a structural and task-based analytical framework. Drawing on datasets such as the India KLEMS database, Periodic Labour Force Survey (PLFS), and National Classification of Occupations (NCO), the study groups the economy into four broad structural categories and evaluates sectoral exposure to AI through the lens of productivity, inclusivity, and entrepreneurship. The analysis seeks to understand how AI adoption may reshape tasks, alter skill requirements, and influence employment outcomes across different segments of the Indian economy.

The findings suggest that AI diffusion in India will be highly uneven across sectors. In employment-intensive but low-productivity sectors such as agriculture, construction, and small-scale trade—where a large share of the workforce is informal—direct exposure to AI remains limited. Consequently, large-scale job displacement risks are relatively low in the near term. The more pressing concern, however, is the possibility of exclusion from AI-driven productivity gains, which could widen existing income and productivity disparities. This highlights the importance of policies that promote formalisation, digital integration of micro-enterprises, and access to institutional support, enabling these sectors to participate in technology-led growth.

In manufacturing, AI presents opportunities for structural upgrading rather than simple labour substitution. As global production systems evolve, manufacturing growth is increasingly tied to technological integration and the "servicification" of production, where manufacturing firms expand into design, logistics, data services, and other high-value activities. AI-enabled automation of routine production tasks can shift employment toward hybrid roles combining technical, operational, and service-oriented capabilities, strengthening the competitiveness of Indian firms within global value chains. For an economy where industrial output has lagged services, such transformation could simultaneously support productivity growth and employment expansion.

The impact of AI is likely to be most pronounced in knowledge-intensive services, including IT and IT-enabled services, business and professional services, and parts of the public and social sectors. Some repetitive tasks—such as routine coding, customer support, and administrative functions—are increasingly exposed to automation. However, AI is equally likely to function as a complementary tool that augments human capabilities, enabling workers to supervise, validate, and refine AI-generated outputs. This transition is expected to generate demand for new roles at the interface between AI systems and real-world applications, requiring skill systems to evolve beyond narrow programming competencies toward broader analytical and domain-specific capabilities.

The paper also highlights an important structural constraint: India faces a growing "ownership gap" in AI innovation. While the country has seen rapid growth in AI-related hiring and skill development, its share in foundational AI assets—such as patents, large-scale models, and patient-capital-backed innovation ecosystems—remains limited. This imbalance restricts India's ability to capture the full productivity and employment benefits of AI domestically and underscores the importance of strengthening indigenous AI capabilities.

Given these dynamics, the paper argues that India's AI transition should be guided by a broad-based diffusion strategy rather than a narrow top-down innovation push. AI adoption should be shaped by the needs of firms, MSMEs, and workers, supported by coordinated investments in skills, digital infrastructure, and institutional frameworks. Public digital infrastructure (DPI) can play a crucial role in democratizing access to AI tools, data, and computing resources, enabling smaller firms and startups to participate in AI-enabled growth and preventing excessive concentration of technological advantages among large firms.

Several policy priorities emerge from the analysis. First, AI deployment should emphasise augmentation rather than substitution, encouraging technologies that complement human labour and improve task productivity. Second, the expansion of shared digital infrastructure and interoperable platforms can lower entry barriers for MSMEs and startups. Third, India should promote contextual and vernacular AI ecosystems, including small language models tailored to local needs, to broaden the scope of innovation and adoption. Fourth, labour market adjustment requires continuous and adaptive skilling systems, including vocational training, apprenticeships, recognition of prior learning, and modular skill pathways that allow workers to transition across sectors. Finally, improvements in digital and physical infrastructure, such as reliable power supply, high-speed internet, and affordable computing capacity, are essential for enabling inclusive AI adoption.

The paper concludes that the future of work in India will depend less on the pace of technological change and more on how the country manages the institutional and policy environment surrounding AI adoption. Aligning AI deployment with employment-rich growth requires steering technological transformation toward productivity, inclusivity, and entrepreneurship. Rather than limiting technological progress, India's challenge is to shape AI adoption in a way that supports human–machine complementarities, economic resilience, and broad-based participation in the emerging digital economy.

The full paper can be accessed from:
https://icrier.org/pdf/Interactions-of-Artificial-Intelligence-with-India-s-Labour-Market.pdf

SUMMARY OF OPINION ARTICLES FROM INDIAN PUBLICATIONS

TRUMP'S TARIFFS GOT QUASHED BY AMERICA'S SUPREME COURT—BUT INDIA'S POSITION HAS STRENGTHENED

In his article, Shekhar Aiyar examines the implications of a recent ruling by the Supreme Court of the United States that limited President Donald Trump's ability to impose sweeping tariffs using the International Emergency Economic Powers Act (IEEPA). The court ruled that the president had exceeded his authority, since the law does not explicitly grant power to impose tariffs—authority that constitutionally rests with the U.S. Congress.

While the judgment represents a significant legal setback for Trump's tariff strategy, it is unlikely to end the administration's aggressive trade policies. The government can still rely on other legal tools—such as Section 232 and Section 301 of the Trade Expansion Act and Section 122 of the Trade Act of 1974—to impose tariffs, though these mechanisms are more limited and procedurally complex.

For India, the ruling comes at a critical moment during negotiations for a bilateral trade agreement with the United States. Previously imposed U.S. tariffs on Indian imports—including a 25% punitive tariff linked to India's purchases of Russian oil and a 25% reciprocal tariff—now effectively stand invalidated. As a result, the tariff reductions offered by the U.S. earlier no longer constitute concessions.

Aiyar argues that the decision improves India's bargaining position in trade negotiations. He suggests that India should quietly leverage this advantage to seek lower tariffs on key exports such as apparel, footwear and pharmaceuticals, as well as greater access in services and digital trade. At the same time, he advises caution: India should avoid publicly provoking the U.S. administration and should maintain reforms that are beneficial regardless of the trade deal, such as simplifying import licensing and aligning with international standards.

This is a summary of an article by Shekhar Aiyar, published in Mint on 25 February 2026.
The full article can be accessed from: https://shorturl.at/s6QFP

SARVAM SHOWS THE WAY, NOT THE FINISH LINE

The emergence of Sarvam AI at the recent AI Impact Summit has brought renewed attention to India's ambitions to develop sovereign artificial intelligence under the India AI Mission. By showcasing large language models, speech systems, document-processing tools, and on-device AI designed for Indian conditions, the startup has demonstrated the potential of locally developed AI systems tailored to India's linguistic diversity and complex data environments.

Sarvam's models appear better suited for tasks such as multilingual speech recognition and document processing in Indian languages than global systems like ChatGPT or Gemini, reinforcing the argument that domestic AI capabilities are necessary to address country-specific needs.

However, the article argues that building an Indian foundational model alone is not sufficient to succeed in the global AI landscape. AI adoption depends on performance, cost, reliability, and ecosystem strength, and domestic models must compete directly with global leaders in an open market. Moreover, the development and commercialization of AI require significant capital, enterprise trust, and large-scale market adoption.

While government support can help validate early technologies, long-term success depends on building commercially viable platforms that compete internationally. The article cautions against focusing solely on domestic requirements, noting that global AI companies are rapidly improving localisation capabilities.

Ultimately, India's AI strategy must move beyond "made in India for India" and aim to build globally competitive AI systems. True sovereignty in AI will depend not just on domestic development but on global adoption, technological competitiveness, and sustainable commercial success.

This is a summary of an article by Rishi Raj, published in Financial Express on 28 February 2026.
The full article can be accessed from: https://shorturl.at/UoWCp

BOOKSHELF CHRONICLES

DOING THE RIGHT THING: LEARNINGS FROM RATAN TATA

Author: Harish Bhat

Publisher: Penguin Business

Year of Publication: 2025

Doing the Right Thing: Learnings from Ratan Tata is a thoughtful and engaging reflection on the leadership philosophy of Ratan Tata, one of India's most respected industrialists. Written by long-time Tata Group insider Harish Bhat, the book draws upon anecdotes, lesser-known episodes, and personal observations to distil the values that guided Tata's decisions during his long stewardship of the Tata Group.

The central theme of the book is deceptively simple: great leadership is ultimately about "doing the right thing." Through a series of short narrative episodes, from the launch of the Tata Indica and the promise of an affordable car to the handling of the 2008 Mumbai terror attacks and the decision-making behind the listing of Tata Consultancy Services, Bhat illustrates how ethical considerations, fairness to stakeholders, and a deep sense of national responsibility shaped Tata's approach to business.

The book identifies several recurring principles in Tata's leadership style: adherence to ethical conduct even when it conflicts with profit motives; fairness to employees, investors and society; respect for people; and unwavering commitment to promises once made. These values, Bhat argues, helped build the moral credibility of the Tata brand and reinforced the group's long-standing tradition of responsible capitalism.

One of the strengths of the book lies in its storytelling approach. Rather than presenting abstract management theory, Bhat uses real-life situations—boardroom dilemmas, strategic choices, and moments of crisis—to demonstrate how values translate into concrete decisions. The result is a leadership narrative that is both accessible and instructive for managers, entrepreneurs and students of business.

Doing the Right Thing succeeds as an inspiring portrait of value-driven leadership. It reinforces the idea that enduring corporate success depends not merely on strategic acumen but on integrity, fairness and respect for stakeholders. In an era when business ethics are frequently tested, the book offers a timely reminder that moral conviction can remain a powerful compass in corporate decision-making.

Bhat's work is best read as a set of leadership lessons drawn from the life and career of Ratan Tata—simple in tone, rich in anecdotes, and anchored in the enduring principle that ethical leadership ultimately builds lasting institutions.

HOW GREAT IDEAS HAPPEN: THE HIDDEN STEPS BEHIND BREAKTHROUGH SUCCESS

Author: George Newman

Publisher: Hachettte

Year of Publication: 2026

In *How Great Ideas Happen: The Hidden Steps Behind Breakthrough Success*, George Newman challenges the popular belief that creativity emerges from sudden flashes of genius. Instead, drawing on insights from psychology, management research, and real-world examples, Newman argues that breakthrough ideas arise from a systematic process of exploration, experimentation, and refinement. Creativity, in his view, is less a mysterious gift and more a method that can be learned and practiced.

A central metaphor of the book likens the creative process to archaeological discovery. Innovators do not simply invent ideas from nothing; they "dig" through existing knowledge, experiences, and influences to uncover promising insights. Newman illustrates this process with examples from diverse fields—science, music, business, and the arts—showing how many transformative ideas emerged from recombining existing concepts rather than inventing entirely new ones.

The book identifies several recurring stages in idea generation: wide exploration, discovery of a promising concept, and the subsequent phase of “exploitation,” where the idea is refined and developed into a breakthrough. Research suggests that many creative “hot streaks” occur when individuals first experiment broadly and then concentrate their efforts on a particularly fertile idea.

One of the strengths of the book is its interdisciplinary storytelling. Newman draws examples ranging from art and music to technological innovation, accompanied by practical exercises intended to help readers cultivate curiosity, engage with diverse influences, and structure their brainstorming processes more effectively. The writing is accessible and energetic, making complex research on creativity understandable to a broad audience.

How Great Ideas Happen offers an engaging and research-informed perspective on creativity. By reframing innovation as a process of discovery rather than sudden inspiration, Newman provides a useful guide for entrepreneurs, managers, and creative professionals seeking to cultivate breakthrough ideas. The book ultimately conveys a reassuring message: great ideas are rarely accidents—they emerge from curiosity, exploration, and the disciplined pursuit of promising insights.

Newman’s book demystifies creativity and argues that breakthrough success is not the product of rare genius, but the outcome of a structured and repeatable process of searching, connecting, and refining ideas.

SECTION 5: CLIMATE CHANGE

CLIMATE NEWS

CLIMATE GOALS IN QUESTION AS US CHALLENGES NET-ZERO AGENDA AT IEA

At a recent ministerial meeting of the International Energy Agency (IEA) in Paris, the United States pushed to reduce the emphasis on climate change and net-zero emissions in the agency's agenda. As a result, the final chair's summary of the meeting did not list climate change among the IEA's core priorities. This marked the first time in nine years that the agency failed to issue a unified communique outlining common positions among member countries.

The shift followed pressure from US energy secretary Chris Wright, who reportedly warned that the US might reconsider its membership if the IEA continued promoting net-zero emissions goals. He argued that the net-zero target for 2050 is unrealistic and suggested that many countries are privately reconsidering their climate commitments while expanding fossil fuel production.

However, several European leaders resisted this stance. Emmanuel Macron and other European governments reaffirmed support for renewable energy, nuclear power, storage technologies and smart grids as key components of future energy systems. Countries such as France, Spain and United Kingdom emphasized the continued importance of clean energy transitions despite US pressure.

The meeting exposed growing divisions among major economies on climate and energy policy, highlighting tensions over the future direction of global energy governance.

This is a summary of an article by Elena Giordano, published in Carbon Brief on 20 February 2026.

TRENDS THAT TRAIL A NEW GREEN WORLD

Dr. Sunita Narain argues that 2025 marked a turning point in the global climate and political landscape, characterised by intensifying climate disruption, geopolitical tensions, and uncertainty about the future of the green transition. The article identifies several major trends shaping the world as it enters 2026.

First, scientific evidence confirms that the world is approaching, and at times exceeding, the 1.5°C warming threshold climate tipping points, such as coral reef collapse, weakening ocean currents, and large-scale forest degradation. This signals the arrival of an era of climate uncertainty.

Second, rising temperatures are translating into frequent and severe extreme weather events, including floods, heatwaves, cyclones, and erratic rainfall. These events are destroying infrastructure and livelihoods while forcing governments to divert resources from development to reconstruction, thereby increasing economic stress.

Third, fragile regions such as the Himalayas demonstrate the combined impact of climate change and unsustainable development. Heavy rainfall, landslides, and flooding are becoming more frequent, often worsened by unplanned construction, environmental degradation, and poor land-use management.

Fourth, despite mounting scientific evidence, political commitment to climate action is weakening globally. With Donald Trump returning to power in the United States and withdrawing again from the Paris Climate Agreement, several countries are reconsidering or slowing their climate commitments due to rising economic and political pressures.

Fifth, climate policy is increasingly being politicised, with sections of society viewing environmental measures as costly or elitist. Economic insecurity, rising living costs, and resentment against globalisation are fuelling political movements that question or downplay climate action.

Sixth, despite political setbacks, renewable energy technologies are advancing rapidly. Solar and wind power are expanding worldwide, battery costs are falling, and renewable energy has begun to compete with fossil fuels in electricity generation.

Seventh, the global trade system is undergoing a period of major transition. The model of globalisation that shifted manufacturing to low-cost countries reduced production costs but also transferred pollution and emissions to developing economies while creating new economic inequalities.

Eighth, Narain calls for a new green economic model that prioritises equitable development, wider income distribution, and stronger local economies. Economic growth must improve the well-being of the majority rather than concentrating benefits among a few.

Ninth, climate action must be people-centred and development-oriented, especially in countries like India where millions still lack access to reliable energy, clean air, and modern infrastructure. Policies that address local environmental problems—such as clean cooking fuels, improved public transport, and efficient resource use—can simultaneously reduce greenhouse gas emissions.

Finally, the transition to a sustainable future requires climate justice and adequate financing for developing countries. Current climate finance flows are insufficient and often take the form of loans rather than grants, increasing debt burdens in vulnerable economies. Addressing these inequalities is essential for building a fair and effective global climate response under the principles of the United Nations Framework Convention on Climate Change.

In conclusion, Narain argues that the world has entered a decisive phase in the climate crisis. The challenge now is to build a more inclusive, resilient, and sustainable development model.

This is a summary of an article by Dr Sunita Narain, Director General, Centre for Science and Environment, New Delhi, published in Down To Earth, on 25 February 2026. The full article can be accessed from: https://www.downtoearth.org.in/air/trends-that-trail-a-new-green-world

SYNOPSIS OF RESEARCH PAPERS / REPORTS

SEEING GREEN: THE EFFECTS OF FINANCIAL EXPOSURES ON SUPPORT FOR CLIMATE ACTION

Authors: Michelle Hanlon, Saumitra Jha, Namrata Kala, Nemit Shroff, and Chagai M. Weiss

NBER Working Paper No. 34828, February 2026

National Bureau of Economic Research, Cambridge, MA

This paper examines whether exposure to financial markets can influence public support for climate mitigation policies. Despite the substantial long-term benefits of climate action, political consensus on mitigation policies remains limited due to perceived short-term costs and increasing polarization over climate change. The study hypothesizes that financial exposure to energy-sector assets—particularly stocks linked to fossil fuels and renewable energy—can induce learning and shape individuals' attitudes toward climate policy. To test this hypothesis, the authors conduct a randomized controlled trial (RCT) in which participants are randomly assigned financial market exposure through simulated investment portfolios. The experiment varies both the presence of financial exposure and the type of portfolio allocated—either fossil-fuel (brown) or renewable energy (green) assets.

The findings indicate that financial exposure significantly increases support for climate mitigation policies and strengthens individuals' intentions to undertake climate adaptation measures. Interestingly, the effect is observed for ownership of both green and brown assets, suggesting that engagement with energy-sector investments—rather than the ideological orientation of the portfolio itself—encourages individuals to reconsider their views on climate action. The effect is particularly strong among individuals who initially exhibit climate skepticism and persists for at least eight months after the intervention, indicating that the impact is durable rather than temporary.

The study provides evidence that the primary mechanism driving this shift is learning. Participants who receive financial exposure are more likely to consume financial news, become more knowledgeable about markets, and reduce their reliance on polarized information sources such as social media. They also develop a more accurate understanding of the environmental risks and impacts associated with different energy firms. Through this process, financial engagement encourages individuals to reassess the economic and environmental implications of climate policies, thereby increasing their support for mitigation efforts.

The results highlight the broader role that financial markets and financial inclusion can play in shaping policy preferences on complex public issues. As advances in financial technology continue to democratize access to investment opportunities, exposure to financial markets may become an important channel for enhancing public understanding of the economic dimensions of climate policy and the opportunities associated with the green transition.

The paper also outlines several policy implications. First, financial innovations—such as passive investment vehicles, pension funds, or targeted portfolios—can serve as tools for increasing public awareness and engagement with climate-related economic issues. Second, integrating financial instruments into existing cash transfer programs, particularly in communities vulnerable to climate shocks, may help individuals diversify risks while benefiting from the economic opportunities associated with the energy transition. Third, financial literacy initiatives can further strengthen the capacity of individuals to assess investment risks and returns, thereby shaping more informed preferences regarding climate policies.

Finally, the authors suggest directions for future research. These include examining whether larger or longer-term financial exposure generates stronger effects, assessing whether increased knowledge translates into adaptive behaviors such as insurance uptake, and studying how information gained through financial market exposure spreads through social networks. Overall, the study demonstrates that participation in financial markets can act as a catalyst for learning, potentially contributing to broader and more durable support for climate mitigation policies.

The paper can be accessed from:
https://www.nber.org/system/files/working_papers/w34828/w34828.pdf

FOSSIL TAXES FUNDING INDIA'S DECARBONISATION: AN IMPACT ANALYSIS

Authors: Rajat Verma and Shifali Goyal

CSEP Working Paper 109 February 2026

Centre for Social and Economic Progress (CSEP), New Delhi

India's development trajectory is increasingly shaped by the twin imperatives of sustaining rapid economic growth while achieving ambitious climate commitments. With updated Nationally Determined Contributions (NDCs) and a pledge to achieve net-zero emissions by 2070, the country must mobilise large volumes of domestic climate finance. Against this backdrop, fossil fuel taxation—currently a major contributor to government revenues—offers a potential policy instrument to support the transition to a low-carbon economy. Fossil fuel taxes account for roughly one-third of India's indirect tax revenues, suggesting that even partial redirection of these revenues could play a significant role in financing decarbonisation investments.

This study examines the economic, environmental, and social implications of reallocating a portion of fossil fuel tax revenues toward green investments. Specifically, it explores the feasibility and impacts of directing these funds toward two critical areas: the deployment of energy-efficiency (EE) technologies in hard-to-abate (HTA) industries—namely cement, iron and steel, and aluminium—and the expansion of renewable energy (RE) transmission infrastructure needed to support India's target of achieving 500 GW of non-fossil fuel-based power capacity by 2030. The paper addresses two key objectives: first, to estimate the scale of investment required for industrial decarbonisation and renewable power infrastructure, and second, to assess the broader macroeconomic, environmental, and distributional effects of redirecting fossil fuel tax revenues to such investments.

The analysis employs an Environmentally Extended Social Accounting Matrix (ESAM) for 2019–20, covering 45 economic sectors and 318 labour categories. This framework captures the interlinkages between production, income distribution, and environmental outcomes, allowing the study to trace how targeted investments propagate through the broader economy. Three policy scenarios are simulated: one in which all redirected funds are invested in energy-efficiency technologies in HTA sectors; a second in which funds are allocated entirely to renewable energy transmission infrastructure; and a third combined scenario that distributes investments between both areas. These scenarios are evaluated relative to a baseline in terms of their impacts on Gross Value Added (GVA), Gross Domestic Product (GDP), emissions intensity, and household income distribution.

The study estimates that approximately ₹75,166 crore per year would be required to finance both energy-efficiency upgrades in HTA industries and renewable energy transmission expansion. Potential funding sources include around ₹16,949 crore from additional GST revenues on coal following the discontinuation of the GST compensation cess in 2025, and about ₹58,217 crore from existing taxes on oil and gas. While these revenues could finance a significant portion of the required investments, they would not fully cover the total capital requirements, estimated at ₹1.32 lakh crore for energy-efficiency improvements in HTA sectors and about ₹2.44 lakh crore for renewable transmission systems by 2030.

The results suggest that redirecting fossil fuel tax revenues toward green investments yields positive economic outcomes across all scenarios. GDP, GVA, and overall economic output increase due to higher demand for construction, machinery, and related services. Among the scenarios, investment in renewable energy transmission generates the strongest macroeconomic gains, reflecting its extensive spillover effects across sectors such as construction, agriculture, food processing, and services.

Importantly, because these investments rely on reallocating existing tax revenues rather than introducing new taxes or debt, the strategy can be considered fiscally neutral while supporting green growth.

Environmental outcomes also vary across scenarios. Investments in renewable energy transmission infrastructure generate the largest reduction in emissions intensity, largely because electricity generation accounts for nearly 40 percent of national emissions. By enabling a cleaner electricity grid, such investments produce system-wide environmental benefits. Energy-efficiency investments in HTA sectors also reduce emissions by lowering energy consumption in energy-intensive industries, though their overall system-wide impact is more limited. The combined scenario offers a balanced outcome, producing moderate gains in both industrial efficiency and electricity sector decarbonisation.

From a social and distributional perspective, the analysis indicates that household incomes rise under all scenarios due to increased economic activity and job creation. However, investments in renewable transmission infrastructure produce the most equitable outcomes. In rural areas, lower-income households experience relatively larger gains, indicating a progressive distributional effect. In urban areas, only the renewable energy investment scenario produces progressive outcomes, while the other scenarios display mild regressivity.

Overall, the study demonstrates that reallocating a modest share of fossil fuel tax revenues toward climate-related investments can generate a “triple dividend”: higher economic growth, reduced emissions intensity, and improved social equity. Such a strategy aligns fiscal policy with India’s climate commitments while supporting broader sustainable development objectives.

The paper concludes with several policy recommendations. First, a portion of revenues from existing fossil fuel taxes—such as increased GST on coal and levies like the Special Additional Excise Duty and the Road and Infrastructure Cess—could be earmarked for climate finance without imposing new tax burdens. Second, priority should be given to investments in renewable energy transmission infrastructure, which offer the highest combined economic, environmental, and social returns. Third, transparent governance mechanisms are needed to ensure efficient utilisation of funds, potentially through the revival or restructuring of a dedicated Clean Energy Fund with clear reporting and accountability frameworks.

The study also notes certain limitations. As the ESAM framework provides a comparative static analysis, it captures immediate structural effects but does not model dynamic adjustment processes over time. Future research could incorporate dynamic modelling approaches and explore additional fiscal instruments for financing India's low-carbon transition beyond the reallocation of fossil fuel tax revenues.

The full paper can be accessed from:
https://csep.org/wp-content/uploads/2026/02/Fossil-Taxes-Funding-Indias-Decarbonisation-1.pdf

All issues of EcoSphere are available at https://inspire-solutions.in/ecosphere/

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