

EcoSphere

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

March 2026

Volume III, Issue 3



Institute for
Pioneering Insightful
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InsPIRE

Driving Policy, Empowering Progress

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

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

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Chairman's Reflections



Navigating Uncertainty: Resilience in a Fragmenting Global Economy

The global economy presents a complex interplay of resilience and rising uncertainty. What began as a conventional energy shock amid escalating tensions in West Asia has evolved into a broader systemic disturbance, affecting supply chains, financial markets, and macroeconomic stability. For India, the disruption of critical energy routes has underscored the economy's structural exposure to external shocks, particularly in crude oil, fertilisers, and industrial inputs. While policy buffers such as diversified sourcing and strategic reserves have enhanced resilience, the current environment highlights the urgency of strengthening long-term energy security and reducing external vulnerabilities.

Domestically, India's economic fundamentals remain steady, with moderate inflation, investment-led industrial growth, and a stable labour market supporting momentum. However, external pressures, ranging from a widening trade deficit to currency volatility, signal emerging risks that require calibrated policy responses. Globally, growth is moderating as geopolitical tensions, persistent inflation, and tightening financial conditions weigh on economic prospects. Financial markets have responded with heightened volatility, reflecting a shift towards risk aversion and fundamentals-driven investment behaviour. Commodity markets, particularly energy and metals, have mirrored these dynamics, reinforcing their central role in transmitting global shocks.

Amid these challenges, climate policy continues to evolve as a critical pillar of economic strategy. India's updated Nationally Determined Contribution signals a decisive shift towards higher ambition, integrating clean energy, resilience, and inclusive development within its growth trajectory. At the same time, global

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developments, from Germany's climate programme to emerging frameworks on carbon removal and Indigenous knowledge systems, highlight the expanding scope and complexity of climate governance. These trends point to a broader transition where climate action, energy security, and economic development are increasingly interdependent.

Looking ahead, the central challenge for policymakers lies in navigating this convergence of risks and opportunities. The current moment calls not only for managing short-term shocks but also for advancing structural reforms that enhance resilience, foster sustainable growth, and align development pathways with climate imperatives. India's experience offers a compelling example of how economies can balance these objectives, leveraging policy coordination, institutional innovation, and strategic foresight to chart a stable and sustainable course in an increasingly uncertain world.

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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 (₹) 94.6543 (30 March 2026)

COVER STORY

CRISIS IN WEST ASIA

STRAIT OF HORMUZ DISRUPTIONS: MACROECONOMIC AND FINANCIAL STABILITY IMPLICATIONS FOR INDIA

Introduction

The ongoing conflict involving the United States, Israel, and Iran marks one of the most significant geopolitical escalations in West Asia in recent years. The crisis intensified on February 28, 2026, when coordinated US–Israeli military strikes targeted Iran’s nuclear facilities, military infrastructure, and leadership, following the breakdown of diplomatic negotiations over Iran’s nuclear programme .

Iran responded with a broad campaign of missile and drone strikes against Israel, U.S. military bases, and allied infrastructure across West Asia, transforming the confrontation into a multi-front regional conflict . The situation has since evolved beyond direct state-to-state engagement, drawing in regional actors and proxy groups, thereby heightening risks of wider instability and disruption to global trade and energy flows.

At its core, the conflict reflects deeper structural tensions, ranging from concerns over Iran’s nuclear ambitions to long-standing geopolitical rivalries and competing regional influence. As the crisis unfolds, its implications extend far beyond the Middle East, with significant repercussions for global energy markets, supply chains, and financial stability, making it a defining geopolitical event with global economic consequences.

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A geopolitical flashpoint in the Strait of Hormuz is exposing deep structural vulnerabilities in India's energy system, while accelerating a transition that could redefine its economic future.

Context and Macroeconomic Setting

The Strait of Hormuz is one of the most critical nodes in the global energy architecture, facilitating a substantial share of seaborne crude oil and liquefied natural gas trade. Historically, disruptions in this corridor have manifested primarily as oil price shocks. However, in an increasingly interconnected global economy characterized by dense production networks and just-in-time supply chains, such disruptions now operate through multiple transmission channels, imparting broader macroeconomic and financial effects.

The ongoing crisis reflects a transition from a conventional commodity price shock to a more complex systemic disturbance, wherein energy markets, supply chains, and financial systems interact in a mutually reinforcing manner. For India, as a large net importer of crude oil, these developments assume particular significance, with implications for inflation dynamics, external sector stability, and growth prospects.

The disruption of maritime flows through the Strait of Hormuz represents a critical juncture in the evolution of global economic risks. Traditionally viewed as a source of episodic oil price shocks, such disruptions now operate within a deeply interconnected global system, transmitting across energy markets, supply chains, and financial systems.

For India, this episode is not merely a cyclical disturbance but a structural stress test of its energy security framework. The country imports nearly 90 per cent of its crude oil, over half of its natural gas, and around 60 per cent of its LPG requirements, with a substantial share transiting through the Gulf region. This high degree of external dependence renders the economy particularly sensitive to disruptions in the Strait of Hormuz.

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The present crisis, therefore, must be understood as both an immediate macroeconomic shock and a strategic inflection point, necessitating a reassessment of India's energy, trade, and macroeconomic resilience.

In the narrow waters of the Strait of Hormuz, barely 40 kilometres across at its narrowest point, the pulse of the global economy is once again under strain. Oil tankers slow, insurance premiums spike, and markets tremble, not merely in anticipation of higher crude prices, but in recognition of something deeper: the fragility of a hyper-connected global energy system.

For India, this is not a distant geopolitical episode. It is a moment of reckoning. As one of the world's fastest-growing major economies and the third-largest energy consumer, India's growth story is inextricably tied to secure and affordable energy flows. Yet nearly 90 per cent of its crude oil, over half of its natural gas, and a significant share of its LPG imports depend on external sources, much of which originates in or passes through the Gulf region .

What is unfolding today is not just an energy shock. It is a systemic stress test of India's economic resilience.

Transmission Channels and Macroeconomic Effects

The first and most immediate channel of transmission is through the terms of trade. An increase in global crude oil prices raises the import bill, thereby exerting pressure on the current account. This deterioration in external balances is typically accompanied by exchange rate pressures, especially in an environment of heightened global risk aversion. The exchange rate, in turn, acts as an additional channel of inflation transmission, amplifying imported price pressures.

Inflationary dynamics in such episodes are shaped by both direct and indirect effects. The direct impact is visible in fuel and transport components, while indirect effects arise through cost escalation across sectors. Higher energy prices raise input costs in manufacturing, logistics, and agriculture, leading to a broad-based increase in price

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levels. The extent of pass-through depends on administrative measures, tax policies, and demand conditions, but the risk of second-round effects, particularly through wage-price interactions, remains salient.

In agriculture, reduced availability and rising prices of fertilizers translate directly into higher cultivation costs, potentially affecting crop yields and farm incomes. This, in turn, can exert upward pressure on food prices, reinforcing inflationary trends. In the industrial sector, the increase in input costs, particularly for chemicals and energy-intensive processes, compresses profit margins and may lead firms to scale back production or pass on costs to consumers.

Fertilizers, petrochemicals, and industrial inputs occupy a critical position in global value chains, linking upstream energy markets with downstream sectors such as agriculture, manufacturing, and transportation. Supply constraints in these inputs can therefore induce cascading effects, resulting in cost-push inflation alongside moderation in output. This combination introduces elements of stagflationary risk into the macroeconomic environment.

The logistics sector experiences a parallel escalation in freight charges and insurance premiums, reflecting heightened risks and disruptions in shipping routes. These rising logistics costs feed into the overall cost structure of goods and services, further amplifying price pressures.

Financial markets constitute another important channel of transmission. Episodes of geopolitical uncertainty are typically associated with a re-pricing of risk, leading to capital flow volatility, tightening of global financial conditions, and upward pressure on yields. For emerging market economies, including India, such conditions can result in exchange rate volatility, equity market corrections, and shifts in investor sentiment. The interaction between commodity price movements and financial flows further reinforces macro-financial linkages.

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Macroeconomic Assessment

The current episode may be characterized as a multi-dimensional external shock, with simultaneous implications for inflation, growth, and external stability. While the magnitude of the impact is contingent upon the duration and intensity of the disruption, the balance of risks appears tilted towards elevated inflation and moderated growth in the near term.

The inflation trajectory is likely to be shaped by the persistence of energy price increases and the degree of pass-through to domestic prices. Growth dynamics, on the other hand, may be affected through both supply-side constraints and demand-side adjustments, particularly if higher prices erode real incomes and consumption.

Policy Response: A Calibrated and Coordinated Approach

In such a scenario, macroeconomic policy must navigate the trade-offs between inflation control and growth support. From a monetary policy perspective, the emphasis would be on anchoring inflation expectations and maintaining financial stability. This necessitates a calibrated approach to liquidity management, ensuring that market functioning remains orderly while avoiding excessive tightening that could impede growth. Exchange rate flexibility, supplemented by judicious use of foreign exchange reserves, can help absorb external shocks without creating misalignments.

On the fiscal front, the policy response may involve targeted interventions to moderate the pass-through of global price increases. This could include adjustments in indirect taxes on fuel, as well as support measures for sectors most affected by input cost escalation. At the same time, maintaining fiscal discipline remains important to preserve macroeconomic credibility and contain risk premia.

Energy policy assumes a central role in this context. Diversification of import sources, expansion of strategic petroleum reserves, and strengthening of long-term supply arrangements can enhance resilience to external shocks. Over the medium term, the

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acceleration of renewable energy deployment can reduce structural dependence on imported fossil fuels, thereby mitigating vulnerability to similar disruptions.

Supply chain resilience also emerges as a key policy priority. The development of alternative logistics corridors, along with efforts to enhance domestic production capacity in critical inputs such as fertilizers and petrochemicals, can reduce exposure to external supply disruptions. Strategic stockpiling of essential commodities may further provide a buffer against temporary shocks.

Financial sector policies must focus on monitoring and mitigating systemic risks arising from heightened volatility. This includes close surveillance of sectoral exposures, particularly in energy-intensive industries, and the use of macroprudential tools to maintain financial stability.

The Artery of Global Energy, and India's Lifeline

The Strait of Hormuz is often described as the world's most critical energy chokepoint. Nearly one-fifth of global oil consumption flows through this narrow passage. In the narrow waters of the Strait of Hormuz, barely 40 kilometres across at its narrowest point, the pulse of the global economy is under strain. Oil tankers slow, insurance premiums spike, and markets tremble—not merely in anticipation of higher crude prices, but in recognition of something deeper: the fragility of a hyper-connected global energy system.

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For India, the dependence is even more acute: 40–50 percent of its crude imports, around 2.5 million barrels per day, transit through this corridor .

Recent disruptions have demonstrated how quickly this lifeline can become a bottleneck. Shipping delays, surging freight costs, and declining maritime traffic have already begun to ripple through supply chains. In extreme scenarios, maritime activity has dropped sharply, underscoring the scale of vulnerability embedded in global energy logistics.

This is the new reality of energy security: it is no longer just about access to resources, but about routes, risks, and resilience.

When Oil Becomes Inflation and Instability

The first tremors of a Hormuz disruption are felt in oil markets, but they do not stay there. A sharp increase in crude prices quickly feeds into inflation, widens the current account deficit, and puts pressure on the rupee. Estimates suggest that a \$30 increase in oil prices could raise inflation by 2 percentage points and push the current account deficit towards 2.5 per cent of GDP .

But the current crisis carries an added twist. The Indian Basket price, driven by heavier reliance on sour crude, has diverged significantly from Brent, touching levels as high as \$150 per barrel. This divergence magnifies the domestic impact, exposing India to sharper terms-of-trade shocks than many advanced economies. The result is a familiar but dangerous combination: rising prices alongside slowing growth.

Beyond Oil: The Hidden Supply Chain Shock

What distinguishes the present crisis is that its effects extend well beyond oil markets. The Gulf region, apart from being a critical energy hub, is also a key supplier of fertilizers, petrochemicals, and a range of industrial inputs that form the backbone of global production networks. As disruptions emerge in these supply chains, their impact is transmitted across sectors in a cascading manner. Agricultural activity is affected through rising input costs, industrial production faces pressure from tightening margins,

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and logistics networks experience escalating costs, together amplifying the broader economic impact of the shock.

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The Turning Point: Energy Transition as Strategy

India is not entering this crisis unprepared. Over the past decade, it has diversified its crude sourcing, now importing from nearly 40 countries. Strategic petroleum reserves provide a buffer against short-term disruptions, while policy measures have focused on protecting consumers and ensuring supply continuity .

Yet diversification has limits. Longer shipping routes, higher costs, and geopolitical constraints mean that alternatives cannot fully offset disruptions in the Gulf, at least in the short term. The immediate response, therefore, is about managing the shock. The long-term challenge is far more ambitious: transforming the system.

If the Strait of Hormuz exposes India's vulnerabilities, the energy transition offers a pathway to resilience. India has already made significant strides. More than 50 percent of its installed power capacity now comes from non-fossil sources, with renewable capacity exceeding 240 GW. Solar power alone has crossed 100 GW, and the country is targeting 500 GW of non-fossil capacity by 2030 . But the transition is not just about power generation. It is about reimagining energy consumption itself.

One of the most transformative shifts could come from electrification, particularly in clean cooking. Moving from LPG to electric cooking, supported by reliable power

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supply and targeted incentives, can significantly reduce import dependence while improving household energy security. At the same time, emerging technologies such as green hydrogen, biofuels, and energy storage are reshaping the contours of long-term energy strategy.

India's Macroeconomic Outlook Amid Emerging Geopolitical Shocks

India's economic momentum remained strong through early 2026, supported by resilient domestic demand, robust consumption, and sustained public capital expenditure. High-frequency indicators up to February reflected this strength, with manufacturing and services activity expanding and infrastructure sectors maintaining growth.

However, escalating geopolitical tensions in West Asia, particularly the US–Israel conflict with Iran, have begun to weigh on the outlook. The Finance Ministry's March 2026 issue of *Monthly Economic Review* indicates early signs of moderation, as disruptions in energy markets and supply chains transmit through rising input costs, higher freight and insurance charges, and emerging supply constraints. High-frequency indicators for March suggest a sequential slowdown, although year-on-year trends remain positive.

Importantly, the slowdown appears to be driven more by supply-side pressures than by weakening demand. Consumption remains relatively resilient, though there are early signs of softening in rural sentiment. Inflation has begun to edge up, led by food prices, with further upside risks from rising crude oil costs.

In this context, the Chief Economic Advisor, Dr V. Anantha Nageswaran, has cautioned that the combined impact on growth, inflation, fiscal balances, and the external sector could be significant. While the economy enters this phase from a position of strength, risks are increasingly tilted to the downside, warranting close monitoring and calibrated policy response.

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From Crisis to Catalyst

Every energy crisis carries within it the seeds of transformation. The Strait of Hormuz disruption is a stark reminder that dependence on fossil fuel imports is not merely an economic issue; it is a strategic vulnerability. Yet it also presents an opportunity to accelerate the transition towards a more resilient and sustainable energy system. India stands at a crossroads. It can continue to manage vulnerabilities within the existing.

Strategic Perspective and Way Forward

The Strait of Hormuz crisis underscores the evolving nature of global economic shocks, where disruptions in a single geographic corridor can propagate across multiple domains. For India, the episode highlights the importance of strengthening macroeconomic buffers, enhancing supply chain resilience, and advancing the energy transition.

Over the medium to long term, reducing structural vulnerabilities will require a combination of policy initiatives spanning energy, industry, trade, and finance. The integration of these dimensions into a coherent strategic framework will be critical for sustaining growth while preserving macroeconomic stability in an increasingly uncertain global environment.

The ongoing disruption in the Strait of Hormuz represents more than a transient geopolitical episode; it reflects a broader shift towards systemic, interconnected risks in the global economy. For India, the policy challenge lies in responding effectively to immediate pressures while simultaneously building resilience against future shocks. A calibrated and coordinated policy approach, anchored in macroeconomic stability and structural transformation, will be essential in navigating this evolving landscape.



SECTION 1: INDIAN ECONOMY

NAVIGATING MACROECONOMIC TRENDS

RISING CRUDE AND OIS SIGNALS: IS INDIA'S EASING CYCLE OVER?

Financial markets are beginning to reassess India's monetary policy outlook as geopolitical tensions in West Asia push crude oil prices sharply higher. A notable indicator of this shift is the rise in Overnight Indexed Swap (OIS) rates across maturities in March, suggesting that market participants are moving away from the earlier expectation of a prolonged low-interest-rate environment.

The one-year OIS rate, widely regarded as the most reliable gauge of near-term policy expectations, has risen sharply in recent weeks. Since the outbreak of the conflict, the rate has climbed by about 36 basis points, reaching around 5.85 percent, while the five-year OIS has increased to about 6.43 percent. These movements imply that markets are now pricing in the possibility of at least two 25-basis-point policy rate hikes during the current calendar year, potentially beginning in August.

OIS contracts involve the exchange of a fixed interest rate for a floating rate linked to the overnight Mumbai Interbank Offered Rate (MIBOR). Because these swaps are largely insulated from liquidity fluctuations and government bond supply dynamics, they are viewed as a relatively clean measure of expectations regarding future monetary policy. A rise in OIS rates therefore typically signals that investors anticipate tighter policy conditions ahead.

The change in market sentiment has been driven largely by the sharp increase in global crude oil prices. Benchmark oil prices have surged to above \$100 per barrel, compared with around \$74 per barrel before the escalation of tensions. For an energy-importing economy like India, where more than 85 percent of oil requirements are imported, sustained high crude prices can quickly translate into inflationary pressures and wider macroeconomic imbalances.

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Market participants note that overseas investors have been active on the “paying” side of the swap market, reflecting expectations that higher oil prices could push up inflation and widen the current account deficit. In such a scenario, the Reserve Bank of India (RBI) may eventually need to tighten monetary policy to anchor inflation expectations.

Some economists believe the shift in OIS rates signals that the market views the monetary easing cycle as effectively over. While the exact number of rate increases remains uncertain, the prevailing view is that the probability of further rate cuts has diminished significantly.

At the same time, policymakers may adopt a cautious approach. A sustained oil price shock can also weigh on economic growth by raising input costs, widening the current account deficit, and increasing fiscal pressures if the government absorbs part of the fuel price increase through subsidies or tax reductions. As a result, the RBI may prefer to assess whether the rise in crude prices feeds persistently into core inflation before altering the policy stance.

The upcoming monetary policy review in early April is therefore expected to be closely watched by markets. While an immediate rate hike appears unlikely, the policy communication could provide clearer signals on how the central bank is balancing the emerging inflation risks from higher energy prices against the need to sustain economic growth.

In the meantime, the movement in OIS rates suggests that financial markets are already adjusting to a potentially tighter interest rate environment—one shaped largely by the uncertain trajectory of global energy prices and geopolitical developments.

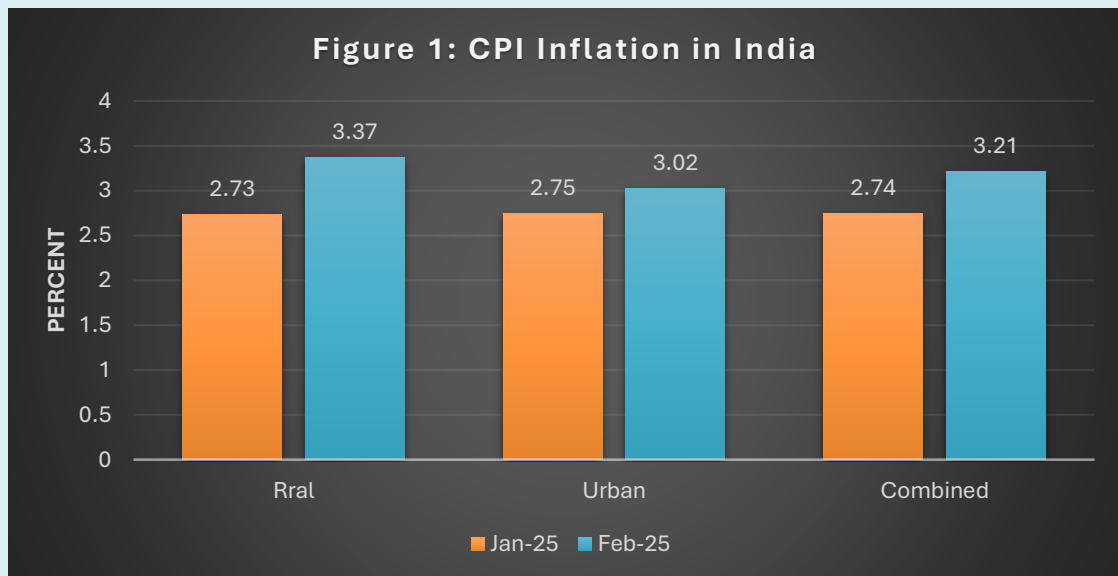
INFLATION IN INDIA EDGES UP TO 3.21 PERCENT: FOOD PRICES REBOUND BUT PRESSURES REMAIN CONTAINED

Introduction

India's consumer price inflation edged up modestly in February 2026, reflecting evolving price dynamics across food items, services, and select commodity groups. The latest data show that while inflation remains well within the macroeconomic comfort zone, underlying patterns in food prices and personal effects signal changing drivers of inflation in the economy.

Inflation Edges Up but Remains Contained

The year-on-year Consumer Price Index (CPI) inflation in February 2026 stood at 3.21 percent, rising from 2.74 percent in January 2026 (Figure 1). Rural inflation was slightly higher at 3.37 percent, while urban inflation stood at 3.02 percent.



Source: NSO, MoSPI, GoI

This moderate uptick reflects a combination of base effects and price movements in food and non-food categories. Despite the rise, overall inflation remains relatively

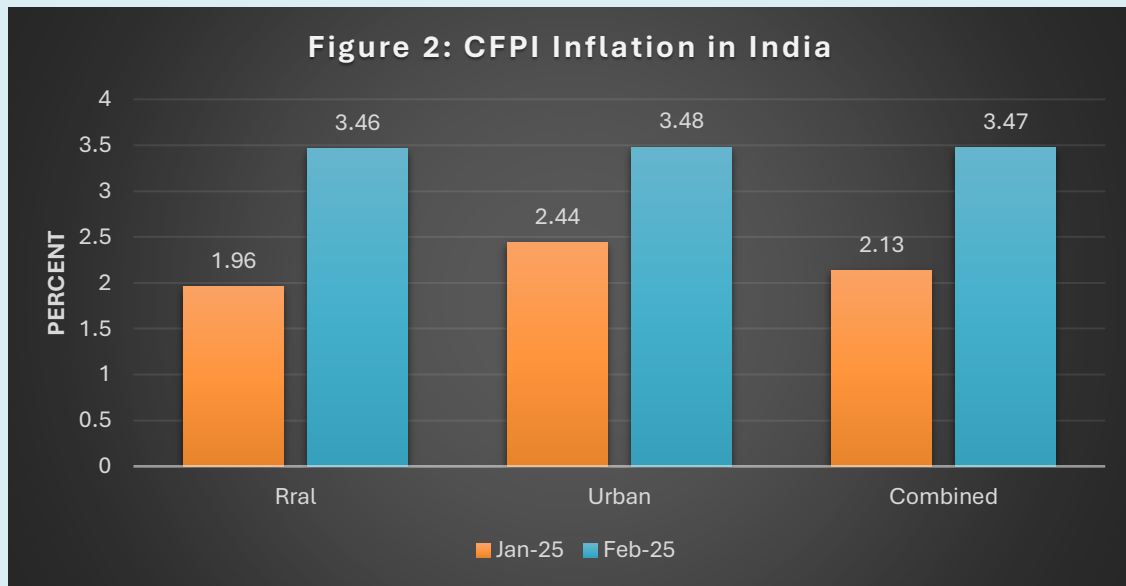
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subdued by historical standards and comfortably below the upper tolerance band of India’s inflation-targeting framework.

The CPI index itself rose marginally to 104.57 in February 2026 from 104.45 in January, indicating that price pressures are increasing gradually rather than sharply.

Food Inflation: A Gradual Rebound

Food prices showed a noticeable rebound during the month. The Consumer Food Price Index (CFPI) inflation increased to 3.47 percent in February 2026, up from 2.13 percent in January (Figure 2).



This rise indicates that food inflation, after moderating significantly in recent months, is beginning to normalise. However, the increase remains modest and reflects mixed movements across different food items.

Several staple food items experienced sharp price declines, helping to moderate food inflation: Garlic: –31.09 percent; Onion: –28.20 percent; Potato: –18.46 percent; Arhar (tur) dal: –16.00 percent

These declines suggest improved supply conditions for several key staples, which has helped prevent a stronger rise in overall food inflation.

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At the same time, certain perishables continued to display high volatility. Tomato inflation remained elevated at 45.29 percent, though it declined from 64.58 percent in January, while cauliflower inflation rose to 43.77 percent.

This pattern highlights the persistent structural feature of Indian food inflation: sharp price movements in perishable vegetables, driven by seasonal supply fluctuations.

Commodity and Personal Effects Driving Non-Food Inflation

An interesting feature of February inflation was the unusually sharp increase in prices of precious metal jewellery and personal effects. Inflation in silver jewellery surged dramatically to 160.84 percent, while prices of gold, diamond, and platinum jewellery also recorded a significant rise of 48.16 percent, indicating strong price pressures in this category. These movements contributed to extremely high inflation in the category “other personal effects”, which recorded inflation exceeding 60 percent. Although this category has a relatively smaller weight in the CPI basket, it reflects strong global precious metal price movements and possibly increased domestic demand for jewellery.

The broader category “personal care, social protection and miscellaneous goods and services” registered inflation of 19.64 percent, the highest among CPI divisions.

Stable Core Inflation Indicators

Several major consumption categories recorded moderate and stable inflation, indicating limited underlying demand-side pressures in the economy. Inflation remained contained across key segments such as clothing and footwear at 2.81 percent, health at 1.90 percent, housing, water, electricity and fuels at 1.52 percent, recreation and culture at 2.21 percent, and education services at 3.33 percent. Notably, transport inflation remained negative at -0.05 percent, reflecting stable fuel prices and easing vehicle costs. Taken together, these trends suggest that core inflation remains largely contained, with no significant broad-based price pressures across services and manufactured goods.

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Regional Variation in Inflation

Inflation patterns also varied across states. Among larger states, Telangana recorded the highest inflation at 5.02 percent, followed by Kerala (3.50 percent) and Andhra Pradesh (3.45 percent). These variations reflect differences in local food prices, supply conditions, and consumption patterns. Meanwhile, inflation in the National Capital Territory of Delhi remained relatively low at 1.96 percent, indicating subdued price pressures in urban consumption centres.

Policy Implications

The February inflation data suggest three key policy insights:

First, headline inflation remains well contained, providing macroeconomic stability and policy flexibility. The moderate level of inflation supports real income growth and consumption demand.

Second, food price volatility continues to shape short-term inflation dynamics, particularly through vegetables. Strengthening supply chains, storage, and logistics remains critical for stabilising these fluctuations.

Third, the surge in prices of precious metals and personal effects highlights the influence of global commodity markets on domestic inflation indicators.

Overall, the inflation outlook appears stable, with the current uptick representing a normalisation rather than a structural rise in inflationary pressures. If food supplies remain favourable and energy prices stable, inflation is likely to remain within a comfortable range in the coming months.

Conclusion

The inflation data for February 2026 indicate that price pressures in the Indian economy remain broadly contained despite a modest uptick during the month. Headline CPI inflation at 3.21 percent reflects a gradual normalisation from the unusually low levels

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seen in January, driven largely by food price movements and specific commodity categories rather than broad-based demand pressures.

The composition of inflation reveals a nuanced picture. While food inflation has rebounded moderately, significant price declines in key staples such as onion, potato and pulses have helped cushion overall price pressures. At the same time, high inflation in precious metals and personal effects highlights the role of global commodity price movements in shaping domestic inflation trends. Importantly, core categories such as housing, health, transport and household goods continue to record relatively moderate inflation, suggesting that underlying demand-side pressures remain stable.

From a macroeconomic perspective, the current inflation trajectory reinforces the picture of a relatively well-balanced economy. With inflation comfortably within the tolerance band of India's inflation-targeting framework, the policy environment retains flexibility to support growth while maintaining price stability. Looking ahead, continued vigilance on food supply management, agricultural logistics and commodity price movements will be essential to sustain this stability. If supply conditions remain favourable and external shocks are limited, India's inflation outlook is likely to remain broadly stable in the near term, supporting both macroeconomic stability and growth momentum.

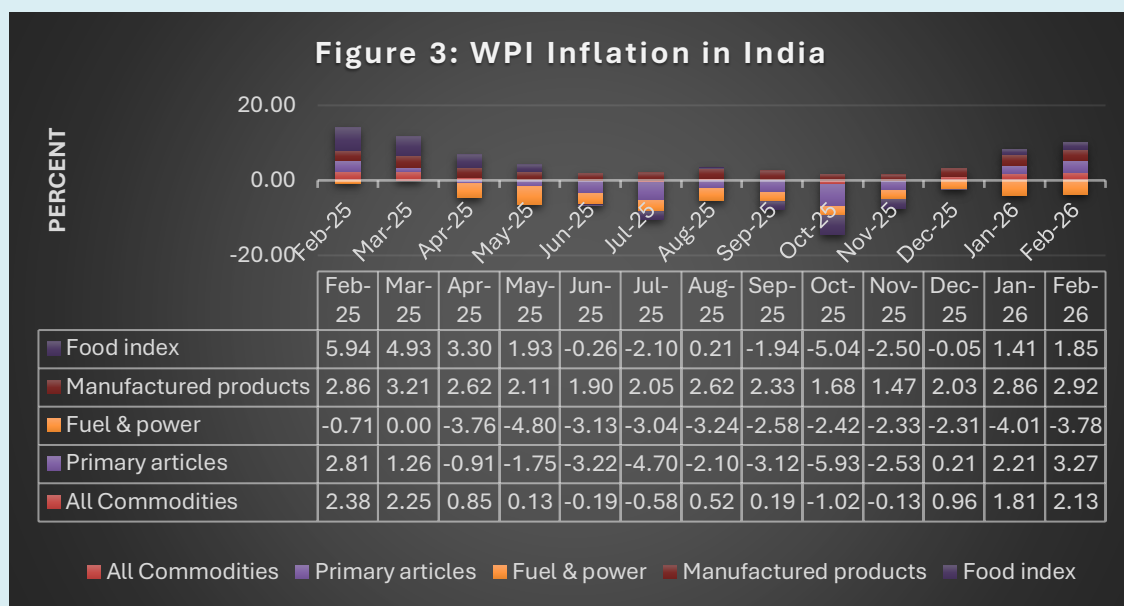
INDIA'S WHOLESALE INFLATION RISES TO 2.13 PERCENT IN FEBRUARY 2026 AMID MANUFACTURING PRICE GAINS

Introduction

India's wholesale price inflation strengthened further in February 2026, reflecting a gradual recovery in producer prices driven primarily by manufacturing activity and primary commodities. While overall price pressures remain moderate, the latest data suggest a steady normalisation in wholesale inflation after a prolonged period of subdued or negative price trends.

Headline WPI Inflation Continues Upward Trend

The annual rate of inflation based on the Wholesale Price Index (WPI) rose to 2.13 percent in February 2026, up from 1.81 percent in January 2026 and 0.96 percent in December 2025 (Figure 3). This marks a continuation of the upward trend observed in recent months, signalling a gradual revival in producer price inflation after the deflationary phase witnessed during much of the previous year. The overall WPI index increased to 158.2 in February 2026 from 157.8 in January, indicating a modest month-to-month rise in wholesale prices.



Source: Office of the Economic Adviser, Ministry of Commerce and Industry, GoI.

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On a month-over-month basis, wholesale prices increased by 0.25 percent, suggesting that the recent rise in inflation reflects a combination of base effects and incremental price increases across several sectors.

Primary Articles: Mixed Price Movements

Inflation in primary articles rose sharply to 3.27 percent in February 2026, up from 2.21 percent in January, reflecting divergent price trends across commodities. Within this category, food articles recorded moderate inflation of 2.19 percent, even as several staples continued to witness price declines. Wheat prices fell by 4.43 percent year-on-year, pulses declined by 5.92 percent, potato prices dropped sharply by 27.42 percent, and onion prices declined by 40.95 percent, indicating improved supply conditions and highlighting the inherent volatility in food prices at the wholesale level. In contrast, non-food articles registered strong inflation of 8.80 percent, driven largely by a sharp increase in oilseed prices, which surged by 25.38 percent year-on-year. Mineral prices also remained elevated, with inflation at 11.06 percent, reflecting continued strength in commodity markets.

Fuel and Power: Continued Deflation

Fuel prices continued to act as a moderating influence on wholesale inflation, with the fuel and power category registering a negative inflation rate of -3.78 percent in February 2026. Key petroleum products also witnessed price declines, with petrol inflation at -5.38 percent, high-speed diesel (HSD) at -3.72 percent, and LPG at -4.63 percent. Although the fuel index recorded a slight month-on-month increase due to higher mineral oil prices, the overall annual trend remains negative, reflecting relatively subdued global energy price conditions. This continued fuel deflation has played a significant role in containing overall wholesale inflation.

Manufacturing Sector Driving Price Momentum

The manufactured products category, which carries the largest weight in the WPI basket, recorded inflation of 2.92 percent in February 2026, up from 2.86 percent in

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January. Price increases were observed in several manufacturing industries, including: food products, textiles, electrical equipment, chemical products, and other manufacturing industries. Out of the 22 manufacturing groups, 16 registered price increases, indicating that producer price pressures are becoming more broad-based.

Some segments, however, witnessed price declines, including basic metals, fabricated metal products, electronics and optical equipment. These movements reflect sector-specific supply-demand adjustments within the industrial economy.

Food Index Shows Modest Increase in Inflation

The WPI Food Index, which combines food articles and manufactured food products, recorded inflation of 1.85 percent in February 2026, up from 1.41 percent in January.

Although the index itself declined slightly during the month due to falling vegetable prices, the annual inflation rate increased due to base effects and higher prices in certain food categories such as fruits and animal products. This pattern indicates that food price pressures at the wholesale level remain relatively moderate.

Emerging Inflation Trends

The February data reveal three important trends in India's wholesale price dynamics:

First, producer price inflation is gradually recovering, reflecting stronger manufacturing activity and rising commodity prices.

Second, agricultural price movements remain uneven, with sharp declines in several staples offset by rising prices in oilseeds, fruits and animal products.

Third, fuel prices continue to exert a disinflationary effect, helping to keep overall wholesale inflation relatively moderate.

Conclusion

Overall, the February 2026 WPI data suggest that India's wholesale inflation is entering a phase of gradual normalisation after a period of subdued price pressures. The rise in

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inflation has been driven primarily by manufacturing and non-food primary commodities, while fuel prices continue to moderate overall inflation.

The current inflation environment reflects a balanced combination of recovering industrial demand, stable energy prices and improved agricultural supply conditions. If global commodity markets remain stable and domestic supply chains function smoothly, wholesale inflation is likely to remain moderate in the coming months.

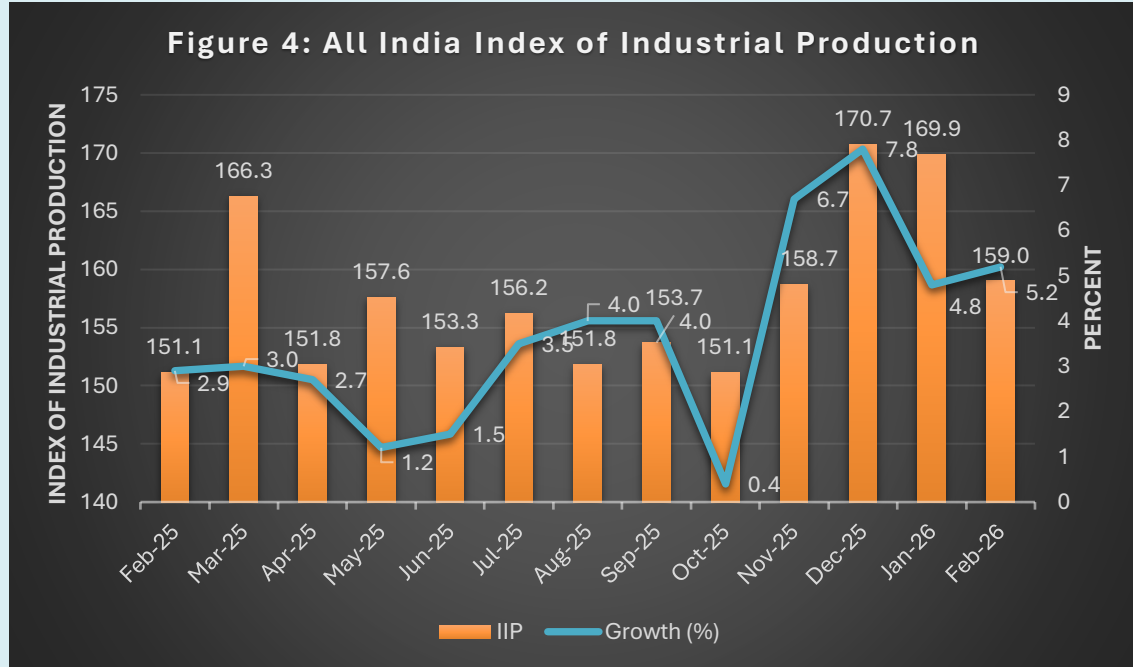
At the same time, the gradual firming of manufacturing prices may signal strengthening industrial momentum, which could have broader implications for growth, investment and pricing dynamics across the economy.

INDUSTRIAL MOMENTUM BUILDS: DECODING INDIA'S IIP GROWTH IN FEBRUARY 2026

Introduction

India's industrial sector recorded a steady improvement in February 2026, with the Index of Industrial Production (IIP) registering a 5.2 percent year-on-year growth, up from 4.8 percent in January 2026 (Figure 4). This growth reflects a gradual strengthening of industrial activity, led primarily by manufacturing and supported by investment-oriented sectors. The IIP index rose to 159.0 compared to 151.1 in February 2025, indicating a broad-based, though uneven, expansion across sectors .

The data highlights a structural pattern in India's industrial growth—one that is increasingly driven by capital formation, infrastructure expansion, and intermediate demand, rather than consumption-led growth.



Source: Press Release dated 30th March 2026, , NSO, MoSPI, Government of India

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Sectoral Performance

Manufacturing

Manufacturing remains the principal driver of industrial growth, recording a 6.0 percent growth in February 2026 (Figure 5). Importantly, 14 out of 23 industry groups within manufacturing registered positive growth, indicating a reasonably broad-based expansion.

Key high-performing segments include:

- Basic metals (13.2 percent)
- Motor vehicles and trailers (14.9 percent)
- Machinery and equipment (10.2 percent)

These sectors reflect strong linkages with infrastructure, construction, and investment demand. The performance of automobiles and machinery also signals improving industrial capacity utilization and capital formation.

However, certain segments such as textiles, apparel, and pharmaceuticals showed weaker or negative growth, suggesting uneven recovery across consumer-oriented and export-sensitive sectors.

Electricity

Electricity generation grew by 2.3 percent in February 2026 (Figure 5), indicating moderate expansion. While electricity typically acts as a proxy for overall economic activity, the relatively subdued growth suggests that industrial demand, though improving, has not yet reached peak momentum.

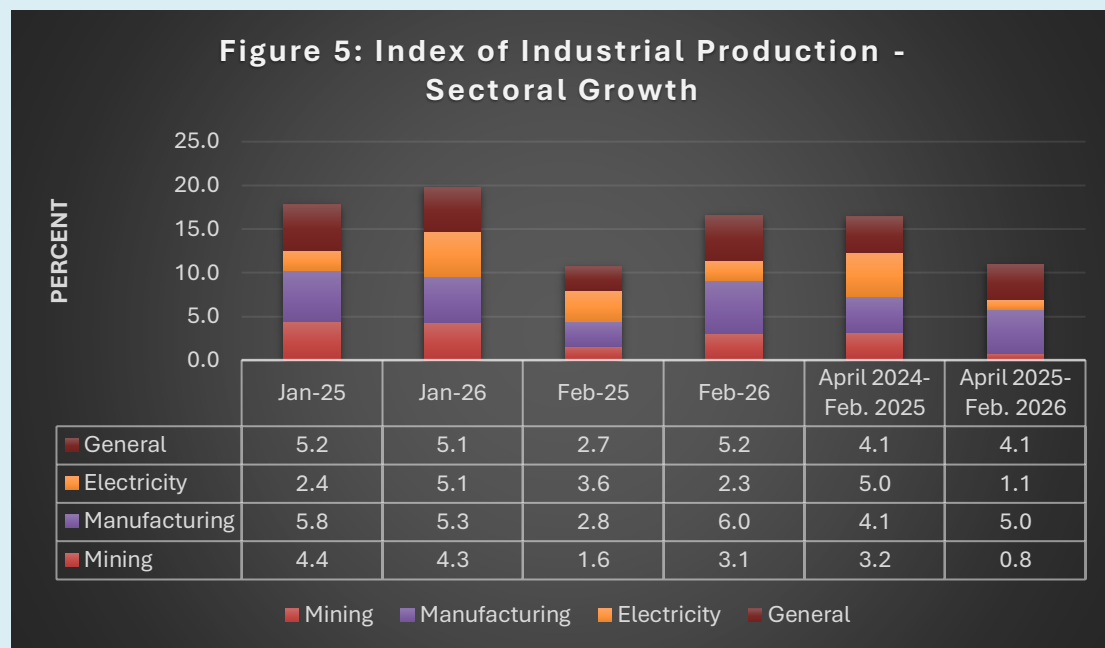
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Mining

The mining sector recorded 3.1 percent growth (Figure 5), reflecting modest improvement. The relatively lower growth compared to manufacturing suggests supply-side or regulatory constraints, as well as slower expansion in raw material extraction.

General IIP

The overall IIP growth of 5.2 percent (Figure 5) represents a stable industrial trajectory . The index level of 159.0 signals continued recovery from earlier slowdowns, though the pace remains moderate rather than accelerated .



Source: Press Release dated 30th March 2026, NSO, MoSPI, GoI

Use-based Classification

A deeper understanding of industrial dynamics emerges from the use-based classification of goods.

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Primary Goods

Primary goods grew by 1.8 percent (Table 1), indicating relatively weak expansion . This aligns with the moderate performance in mining and suggests limited momentum in raw material extraction.

Capital Goods

Capital goods recorded a robust 12.5 percent growth (Table 1), making it one of the strongest-performing categories. This is a critical signal of rising investment activity and future productive capacity.

Intermediate Goods

Intermediate goods grew by 7.7 percent (Table 1), reflecting strong supply chain activity and industrial linkages. This indicates healthy demand from downstream industries

Infrastructure / Construction Goods

This category emerged as a major growth driver, expanding by 11.2 percent (Table 1). It reflects ongoing public investment in infrastructure and construction-led growth.

Consumer Durables

Consumer durables grew by 7.3 percent (Table 1), indicating some recovery in discretionary consumption. This may be linked to improved urban demand and seasonal factors.

Consumer Non-Durables

Consumer non-durables contracted by 0.6 percent (Table 1), highlighting persistent weakness in mass consumption. This divergence between durables and non-durables points to uneven demand recovery, particularly in rural and lower-income segments.

Table 1: IIP Growth - Use-based Classification

	Jan. 2025	Jan. 2026	Feb. 2025	Feb. 2026	April-Feb. 2024-25	April-Feb. 2025-26
	(percent)					
<i>Primary goods</i>	5.5	3.1	2.8	1.8	3.9	1.2
<i>Capital goods</i>	10.2	4.1	8.2	12.5	5.8	7.5
<i>Intermediate goods</i>	5.3	6.3	1.0	7.7	5.3	5.8
<i>Infrastructure/ Construction goods</i>	7.3	14.6	6.8	11.2	6.4	10.2
<i>Consumer durables</i>	7.1	7.2	3.7	7.3	8.2	5.9
<i>Consumer non-durables</i>	0.1	-2.3	-2.1	-0.6	-1.3	-0.1

Source: NSO, MoSPI, GoI

Policy and Structural Implications

The February 2026 IIP data underscores several important structural trends:

- **Investment-Led Growth Model:** The strong performance of capital goods and infrastructure sectors suggests that India’s industrial growth is being driven by public and private investment rather than consumption.
- **Manufacturing Resilience with Structural Gaps:** While manufacturing growth is robust, sectoral disparities persist, especially in labour-intensive industries such as textiles and apparel.
- **Weak Consumption Signals:** The contraction in non-durables highlights subdued mass consumption, raising concerns about demand sustainability.
- **Infrastructure as Growth Anchor:** Infrastructure and construction goods continue to anchor industrial expansion, reflecting government-led capital expenditure.

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- **Supply Chain Strengthening:** Growth in intermediate goods indicates strengthening domestic value chains and industrial integration.

Outlook

Looking ahead, India's industrial outlook appears cautiously optimistic:

- **Positive Drivers**
 - Continued public infrastructure spending
 - Strong capital goods momentum
 - Improving manufacturing capacity utilization
- **Risks**
 - Weak consumption demand
 - Uneven sectoral recovery
 - External uncertainties affecting export-oriented industries

If investment momentum sustains and consumption gradually recovers, industrial growth could strengthen further in the coming months.

Conclusion

The February 2026 IIP data reflects a structural shift in India's industrial growth dynamics, with investment and infrastructure taking the lead. While manufacturing remains robust and capital goods growth is encouraging, the weakness in consumer non-durables signals underlying demand constraints.

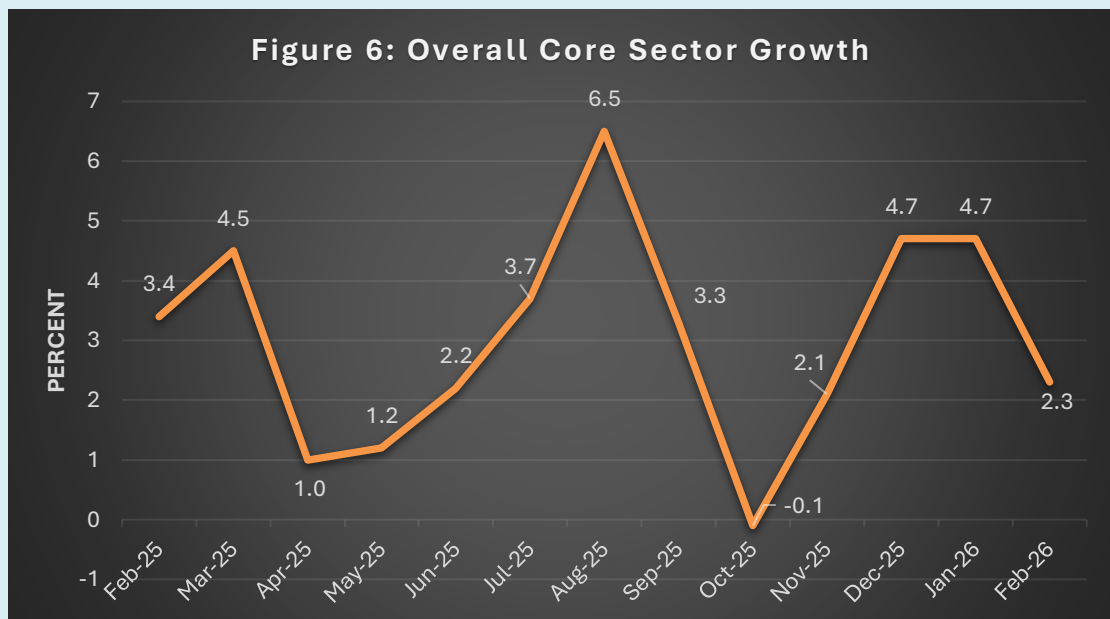
Overall, the data points to a transition towards investment-led industrialization, but highlights the need for policy support to revive consumption and ensure balanced, inclusive growth.

CORE INFRASTRUCTURE MOMENTUM VS ENERGY WEAKNESS: READING INDIA'S CORE SECTOR SIGNALS IN FEBRUARY 2026

Introduction

The performance of India's core infrastructure sectors provides a critical barometer of underlying economic momentum, given their strong forward and backward linkages with the broader industrial economy. The latest data on the Index of Eight Core Industries (ICI) for February 2026 presents a nuanced picture of the economy, one that combines resilience in key manufacturing segments with emerging signs of stress in energy-related sectors.

The combined index recorded a growth of 2.3 percent year-on-year in February 2026 (Figure 6), reflecting a moderation compared to previous months. Over the period April to February 2025-26, cumulative growth stood at 2.9 percent, indicating a steady but uneven recovery trajectory. The divergence between energy and manufacturing segments underscores the evolving structural dynamics within India's industrial ecosystem.



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

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Energy Sector Performance

Electricity

Electricity generation grew modestly by 0.5 percent in February 2026 (Figure 7), with cumulative growth of 0.9 percent during April to February. This relatively subdued performance suggests a moderation in demand growth, possibly reflecting seasonal factors and early signs of industrial slowdown. Nevertheless, electricity continues to play a stabilising role, supported by the inclusion of renewable energy in generation data.

Refinery Products

Petroleum refinery output contracted by 1 percent in February 2026 (Figure 7), (Figure 7), with near stagnation in cumulative terms. Given its high weight in the core index, this decline is significant and reflects the combined effects of global demand uncertainties, inventory adjustments, and evolving crude supply dynamics.

Natural Gas

Natural gas production declined by 5.0 percent in February (Figure 7), with cumulative output falling by 3.5 percent. This persistent contraction highlights structural challenges in domestic gas production, increasing reliance on imports, and potential constraints in upstream investment.

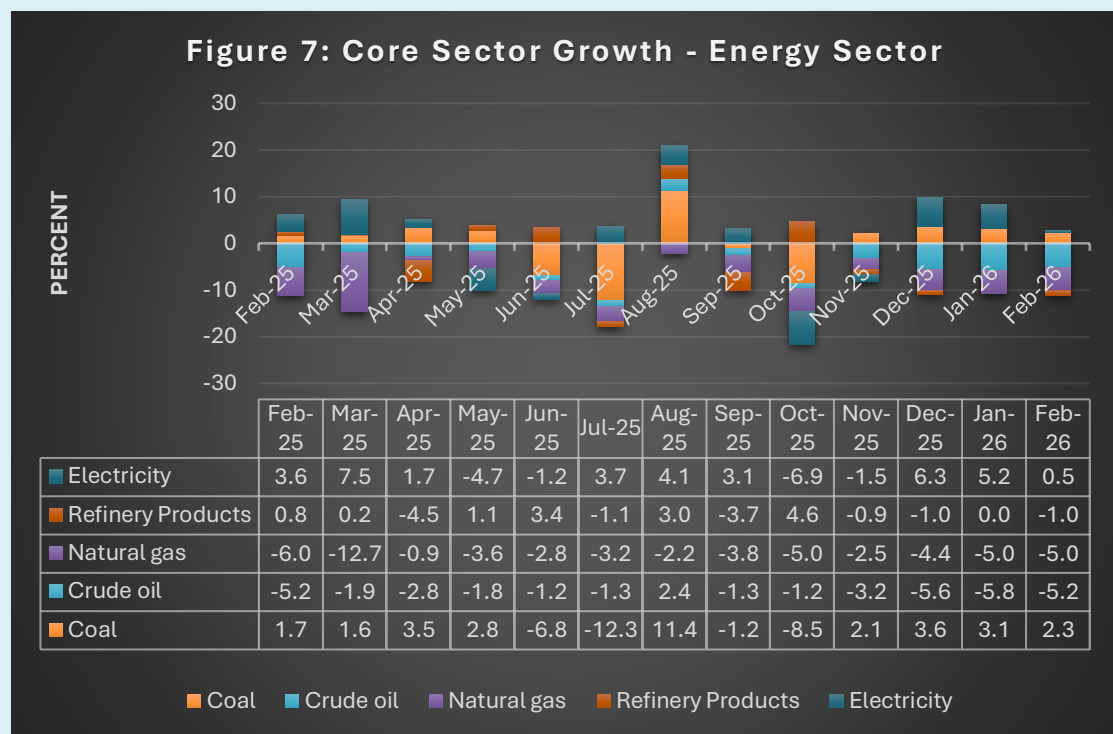
Crude Oil

Crude oil production continued its declining trend, registering a 5.2 percent contraction in February (Figure 7), and a 2.5 percent decline cumulatively. This underscores the long-standing structural weakness in India's upstream hydrocarbon sector, with implications for energy security and import dependence.

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Coal

Coal production grew by 2.3 percent in February (Figure 7), though cumulative output remained broadly unchanged over the year. Coal continues to serve as the backbone of India’s energy system, particularly for power generation, even as the energy transition gains momentum.



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

Manufacturing Sector Performance

Cement

Cement production emerged as one of the strongest performers, recording a 9.3 percent growth in February (Figure 8) and 9.2 percent cumulative growth. This robust performance reflects sustained activity in infrastructure and construction, driven by public capital expenditure and urban development.

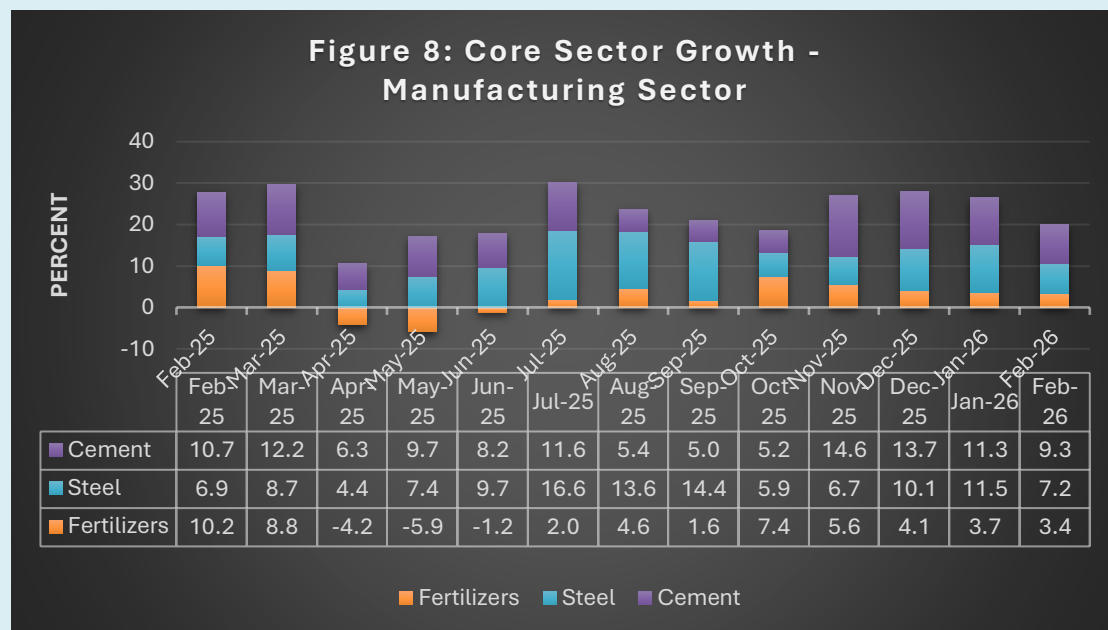
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Steel

Steel production also demonstrated strong momentum, expanding by 7.2 percent in February (Figure 8) and 9.7 percent cumulatively. This growth underscores the resilience of industrial demand, particularly in sectors such as construction, capital goods, and manufacturing.

Fertilizers

Fertilizer production grew by 3.4 percent in February (Figure 8) and 2.0 percent cumulatively, indicating steady demand from the agricultural sector. This reflects the continued importance of agriculture as a stabilising force within the broader economy.



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

Annual Core Sector Growth

A longer-term perspective reveals important structural trends. The overall core sector index has shown a steady upward trajectory over the past decade, rising from an index level of around 103.8 in 2012-13 to 167.9 (provisional) during April–February 2025-26.

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However, this aggregate trend masks significant sectoral divergence. While steel, cement, and fertilizers have exhibited strong and sustained growth, energy sectors such as crude oil and natural gas have experienced persistent declines. Coal and electricity have shown moderate growth, reflecting their transitional role in an evolving energy mix.

The moderation in overall growth to 2.9 percent in 2025-26 (April–February) (Table 2), compared to higher growth in previous years, suggests that the economy is entering a phase of consolidation, with emerging supply-side constraints and external pressures beginning to weigh on industrial activity.

Table 2: India’s Annual Core Sector Growth

	Overall Core Sector	Energy Sector					Manufacturing Sector			
		Coal	Crude Oil	Natural Gas	Refinery Products	Electricity	Fertilizers	Steel	Cement	
2012-13	3.8	3.2	-0.6	-14.4	7.2	4.0	-3.3	7.9	7.5	
2013-14	2.6	1.0	-0.2	-12.9	1.4	6.1	1.5	7.3	3.7	
2014-15	4.9	8.0	-0.9	-5.3	0.2	14.8	1.3	5.1	5.9	
2015-16	3.0	4.8	-1.4	-4.7	4.9	5.7	7.0	-1.3	4.6	
2016-17	4.8	3.2	-2.5	-1.0	4.9	5.8	0.2	10.7	-1.2	
2017-18	4.3	2.6	-0.9	2.9	4.6	5.3	0.03	5.6	6.3	
2018-19	4.4	7.4	-4.1	0.8	3.1	5.2	0.3	5.1	13.3	
2019-20	0.4	-0.4	-5.9	-5.6	0.2	0.9	2.7	3.4	-0.9	
2020-21	-6.4	-1.9	-5.2	-8.2	-11.2	-0.5	1.7	-8.7	-10.8	
2021-22	10.4	8.5	-2.6	19.2	8.9	8.0	0.7	16.9	20.8	
2022-23	7.8	14.8	-1.7	1.6	4.8	8.9	11.3	9.3	8.7	
2023-24	7.6	11.8	0.6	6.1	3.6	7.1	3.7	12.5	8.9	
2024-25	4.5	5.1	-2.2	-1.2	2.8	5.2	2.9	6.8	6.3	
April-Feb.	4.4	5.6	-2.2	-0.1	3.1	5.0	2.4	6.6	5.6	

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2024-25									
April – Jan. 2025-26	2.9	0.0	-2.5	-3.5	-0.1	0.9	2.0	9.7	9.2

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

Conclusion

The latest core sector data presents a mixed but instructive picture of India’s economic trajectory. On the one hand, strong growth in cement and steel underscores the continued momentum in infrastructure and industrial demand. On the other hand, persistent weaknesses in crude oil and natural gas production highlight structural vulnerabilities in the energy sector.

The divergence between manufacturing strength and energy sector stress points to a broader structural shift within the economy. As India continues to expand its infrastructure base and industrial capacity, the need to address bottlenecks in energy supply becomes increasingly critical.

Going forward, sustaining growth will require a dual strategy: strengthening domestic energy production and accelerating the transition towards alternative energy sources, while continuing to support infrastructure-led demand. The performance of the core sectors thus not only reflects current economic conditions but also provides valuable insights into the challenges and priorities that will shape India’s growth trajectory in the coming years.

INDIA'S TRADE DYNAMICS IN FEBRUARY 2026: SERVICES STRENGTH AMID MERCHANDISE PRESSURES

Introduction

India's external sector in February 2026 reflects a complex interplay of resilience and vulnerability. While exports, particularly services, continue to demonstrate robust growth, rising imports have widened the trade deficit. The latest data released by the Ministry of Commerce and Industry highlights the dual nature of India's trade dynamics: strong performance in high-value sectors alongside persistent external imbalances. This analysis examines monthly trends, cumulative performance, and the evolving structure of India's trade.

Trade During February 2026

Merchandise Trade

India's merchandise exports in February 2026 stood at US\$ 36.61 billion, marginally lower than US\$ 36.91 billion a year ago (Table 3), indicating near-stagnation in goods exports. In contrast, merchandise imports surged to US\$ 63.71 billion, up significantly from US\$ 51.33 billion, reflecting strong domestic demand and possibly elevated global commodity prices.

As a result, the merchandise trade deficit widened sharply. However, disaggregated trends reveal underlying strength in non-oil segments. Non-petroleum and non-gems & jewellery exports rose to US\$ 30.55 billion, signalling diversification and resilience in core manufacturing exports.

Key export drivers included:

- Engineering goods (+12.9 percent)
 - Electronic goods (+10.37 percent)
 - Chemicals and allied products
 - Gems & jewellery
 - Meat, dairy and poultry products (+22.66 percent)
-

These trends suggest a gradual shift towards higher value-added and diversified export baskets, even as aggregate export growth remains subdued.

Services Trade

Services trade continues to be the strongest pillar of India’s external sector. Services exports in February 2026 are estimated at US\$ 39.53 billion, a sharp increase from US\$ 31.65 billion in February 2025 (Table 3). Imports rose moderately to US\$ 16.38 billion, resulting in a substantial services trade surplus.

This robust performance reflects India’s comparative advantage in IT, business services, and knowledge-based sectors, which continue to offset weaknesses in merchandise trade. The strong growth in services exports has been instrumental in cushioning the overall trade balance.

Table 3: India’s Trade During February 2026

		February 2026 (US\$ Billion)	February 2025 (US\$ Billion)
Merchandise	<i>Exports</i>	36.61	36.91
	<i>Imports</i>	63.71	51.33
Services	<i>Exports</i>	39.53	31.65
	<i>Imports</i>	16.38	14.51
Total Trade	<i>Exports</i>	76.13	68.56
	<i>Imports</i>	80.09	65.84
	Trade Balance	-3.96	-2.72

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

Cumulatively, merchandise exports during April–February 2025-26 reached US\$ 402.93 billion (Table 4), registering a modest growth of 1.84 percent over the previous

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year . However, imports rose much faster to US\$ 713.53 billion, leading to a widened merchandise trade deficit of US\$ 310.60 billion .

Import growth reflects both structural dependence on energy and intermediate goods and cyclical factors such as domestic demand recovery. Meanwhile, non-petroleum exports grew by over 5 percent, indicating some improvement in export quality and diversification.

Services Trade

Services trade presents a more positive picture. During April–February 2025-26:

- Services exports reached US\$ 387.93 billion
- Services imports stood at US\$ 186.98 billion
- Resulting in a surplus of US\$ 200.96 billion

With services exports growing at over 10 percent, this segment has emerged as the primary stabilizer of India’s external account, significantly offsetting the merchandise trade deficit.

Table 4: Trade During April-February 2025-26

		<i>April-February 2025-26 (US\$ Billion)</i>	<i>April-February 2024-25 (US\$ Billion)</i>
Merchandise	<i>Exports</i>	402.93	395.66
	<i>Imports</i>	713.53	657.46
Services	<i>Exports</i>	387.93	351.93
	<i>Imports</i>	186.98	181.23
Total Trade	<i>Exports</i>	790.86	747.58
	<i>Imports</i>	900.51	838.69
	Trade Balance	-109.64	-91.11

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

ENGINES OF INCLUSION: THE RISING ROLE OF INDIA'S UNINCORPORATED SECTOR

Introduction

The unincorporated non-agricultural sector occupies a central place in India's economic architecture, serving as a critical source of employment, entrepreneurship, and grassroots economic activity. The latest results from the Annual Survey of Unincorporated Sector Enterprises (ASUSE) 2025 provide important insights into the evolving dynamics of this sector, revealing a pattern of steady expansion, improving productivity, and increasing formalisation through digital adoption.

The findings suggest that the sector has not only demonstrated resilience in the face of economic uncertainties but has also emerged as a key driver of inclusive growth. The expansion in establishments, employment generation, and value addition underscores its growing contribution to India's development trajectory.

Expansion of Enterprises and Economic Activity

A key highlight of ASUSE 2025 is the significant increase in the number of establishments, which rose from 7.34 crore to 7.92 crore, reflecting a growth of nearly 8 percent. This expansion is broad-based, with notable growth across manufacturing, trade, and services sectors.

The "Other Services" segment recorded the fastest expansion, followed by manufacturing and trade, indicating a gradual diversification of economic activity within the unincorporated sector. This trend reflects the increasing role of services in driving economic growth, even at the informal and semi-formal levels.

At the same time, Gross Value Added (GVA) of the sector increased by 10.87 percent, driven largely by strong growth in trade and supported by manufacturing and services. The rising share of services in GVA, accounting for around 42 percent, highlights a structural shift within the sector.

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Labour Market Dynamics and Productivity Gains

The unincorporated sector continues to be a major engine of employment generation. Total employment increased to 12.81 crore workers, with the addition of over 74 lakh jobs during the survey period. The “Other Services” sector contributed the largest share of new employment, reflecting changing patterns of labour absorption.

Importantly, productivity indicators have also improved. Gross Value Added per worker rose to ₹1,56,539, while GVA per establishment increased to ₹2,52,699, indicating gains in efficiency and scale. These improvements suggest that the sector is not merely expanding in size but is also becoming more productive.

Wage dynamics reinforce this trend. The emolument per hired worker increased by 3.88 percent, pointing to gradual improvements in income levels. The highest gains were observed in the trade sector, reflecting stronger demand conditions and higher value addition.

Women Entrepreneurship and Social Inclusion

An encouraging feature of the ASUSE 2025 results is the rise in women-led enterprises. The share of female-owned proprietary establishments increased to 27 percent, up from 26.2 percent in the previous round.

While the increase may appear modest, it reflects a steady shift towards greater gender inclusion in entrepreneurial activity. This trend has important implications for inclusive growth, as women-led enterprises contribute not only to economic output but also to household welfare and social empowerment.

Digital Transformation and Formalisation Trends

One of the most striking findings of the survey is the rapid increase in digital adoption. The proportion of establishments using the internet rose sharply from 26.7 percent to 39.4 percent.

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This substantial increase points to a growing integration of the unincorporated sector into the digital economy. Greater use of digital platforms can enhance market access, improve efficiency, and facilitate financial inclusion. It also signals a gradual movement towards formalisation, as digital footprints make enterprises more visible to financial institutions and regulatory frameworks.

Structural Significance and Policy Implications

The ASUSE 2025 findings reinforce the strategic importance of the unincorporated sector in India's economic landscape. As a bridge between informal livelihoods and formal economic structures, the sector plays a vital role in supporting domestic value chains and sustaining employment.

However, the data also points to emerging policy priorities. Enhancing access to finance, improving productivity through technology adoption, and strengthening market linkages will be critical for sustaining growth. At the same time, continued efforts to promote digital inclusion and skill development can help unlock the sector's full potential.

Conclusion

The ASUSE 2025 results present a compelling narrative of a sector that is expanding, diversifying, and gradually modernising. The combination of enterprise growth, employment generation, productivity gains, and digital adoption reflects a dynamic and evolving economic segment.

While challenges remain, particularly in terms of scale, formalisation, and access to resources, the unincorporated sector continues to demonstrate resilience and adaptability. As India advances towards higher growth and structural transformation, this sector will remain central to ensuring that growth is not only robust but also inclusive.

The full report Annual Survey of Unincorporated Sector Enterprises (ASUSE) 2025 can be accessed from <https://shorturl.at/vbMY4>

EMPLOYMENT

INDIA'S LABOUR MARKET IN FEBRUARY 2026: EASING UNEMPLOYMENT WITH GRADUAL GAINS IN WOMEN'S EMPLOYMENT

A Stable Labour Market with Emerging Structural Improvements

India's labour market in February 2026 exhibited broad stability, accompanied by modest but meaningful improvements in female labour force participation and urban employment conditions. The latest monthly bulletin of the Periodic Labour Force Survey (PLFS) indicates that key labour market indicators, including the Labour Force Participation Rate (LFPR), Worker Population Ratio (WPR), and Unemployment Rate (UR), remained largely stable, suggesting resilience in the employment landscape despite evolving macroeconomic conditions.

While the overall labour force participation rate remained unchanged, subtle shifts within the labour market, particularly rising female participation and declining urban unemployment, point to gradual structural strengthening.

Labour Force Participation Remains Stable

The overall Labour Force Participation Rate (LFPR) for persons aged 15 years and above stood at 55.9 percent in February 2026, unchanged from January. Rural participation remained relatively higher at 58.7 percent, while the urban LFPR increased marginally to 50.4 percent.

The stability in LFPR indicates that the labour supply dynamics have remained broadly steady over recent months. From a macroeconomic perspective, this reflects a labour market that is neither experiencing sharp contraction nor rapid expansion in workforce participation. Instead, the trend suggests a gradual consolidation phase following the fluctuations seen during earlier economic cycles.

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Female Labour Force Participation Shows Gradual Progress

One of the most encouraging developments in the February data is the modest increase in female labour force participation. The overall female LFPR rose to 35.3 percent in February from 35.1 percent in January. Rural female participation increased from 39.7 percent to 40.0 percent, while urban female participation remained stable at 25.5 percent.

Although the increase is marginal, the trend is significant from a structural perspective. India's female labour participation rate has historically remained below global averages, and even incremental gains can have substantial implications for economic growth, household incomes, and gender equality. Rising rural female participation may also reflect seasonal agricultural employment, expanding rural livelihoods, and gradual improvements in economic opportunities.

Employment Levels Remain Broadly Unchanged

The Worker Population Ratio (WPR), a measure of the proportion of the population actually employed, remained largely stable in February 2026. The overall WPR stood at 53.2 percent, compared with 53.1 percent in January. Rural employment remained higher at 56.3 percent, while the urban WPR increased slightly to 47.0 percent.

The stability in WPR suggests that the employment base remains intact, with incremental improvements rather than sharp shifts. This pattern is consistent with a labour market where job creation is occurring steadily but not yet at a pace that significantly alters the employment-to-population ratio.

Encouragingly, the female WPR improved to 33.4 percent from 33.1 percent, reflecting growth in both rural and urban female employment.

Urban Unemployment Declines

Another positive signal from the February data is the decline in urban unemployment. The urban unemployment rate fell to 6.6 percent, down from 7.0 percent in January.

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Rural unemployment remained unchanged at 4.2 percent, resulting in an overall unemployment rate of 4.9 percent, slightly lower than the 5.0 percent recorded in January.

The reduction in urban unemployment is particularly significant, as urban labour markets tend to reflect broader macroeconomic trends in services, manufacturing, and the formal sector. The improvement suggests strengthening job absorption in urban areas, possibly driven by expanding economic activity in sectors such as services, construction, and manufacturing.

Female Unemployment Shows Notable Improvement

The most pronounced improvement in the labour market indicators was observed in female unemployment. The female unemployment rate declined to 5.1 percent in February from 5.6 percent in January. Urban female unemployment saw a sharper fall, from 9.8 percent to 8.7 percent, while rural female unemployment declined from 4.3 percent to 4.0 percent.

This decline indicates improved employment opportunities for women, particularly in urban areas. However, the urban female unemployment rate remains significantly higher than the overall unemployment rate, highlighting the continuing challenges women face in accessing stable employment opportunities.

Interpreting the Labour Market Signals

Taken together, the February 2026 labour market indicators point to three important trends.

First, overall labour market stability suggests that India's employment landscape is currently in a consolidation phase rather than experiencing volatility. Stable LFPR and WPR indicate balanced labour supply and demand conditions.

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Second, female labour market outcomes are gradually improving, both in terms of participation and employment. While the gains remain modest, they represent an important structural shift that could have long-term implications for economic growth.

Third, urban labour markets are strengthening, as reflected in the decline in unemployment rates. This improvement may signal stronger economic activity and job creation in urban sectors.

Conclusion

The PLFS data for February 2026 presents a picture of a labour market characterised by stability and gradual improvement. While headline participation and employment indicators remained broadly unchanged, the decline in urban unemployment and the steady rise in female participation highlight emerging positive trends.

Going forward, sustaining these gains will require continued focus on job creation, particularly in urban sectors and female-intensive industries. Policies aimed at enhancing skill development, expanding labour-intensive manufacturing, and improving female workforce participation could play a critical role in translating these incremental improvements into sustained employment growth.

AGRICULTURE & AGRI-BUSINESS

HARVESTING ETHANOL FROM SISAL: A STRATEGIC PATHWAY FOR INDIA'S DRYLAND BIOECONOMY

By Dr M.S. Basu

Introducing Sisal as a National Biofuel Resource

Sisal (*Agave sisalana*) is a hardy, perennial crop uniquely suited to India's environmentally stressed landscapes—ranging from dry, gravelly acidic soils of eastern India to saline-alkaline and arid regions of western states. These are areas where conventional crops either fail or remain economically unviable.



Leveraging sisal as a feedstock for ethanol is technically feasible, strategically significant, and environmentally transformative. It offers India an opportunity to convert vast tracts of underutilized land into productive assets.

Rationale for Policy Intervention

India's ethanol programme, under the National Biofuel Policy, is currently dependent on sugarcane (highly water-intensive) and maize (food and feed competing). This

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dependence raises serious concerns on water stress in key producing regions, food vs fuel trade-offs and limited geographic expansion.

A transition towards non-food, low-water biofuel crops is therefore both necessary and urgent.

Proposed Pilot: A Replicable Dryland Model

The proposal envisages a 1000-hectare cluster-based pilot with an integrated value chain:

Plantation Component

- Establishment of sisal across degraded and wasteland areas
- Farmer-led model through FPOs

Processing Infrastructure

- Fibre extraction unit
- Ethanol production facility (2G + juice route)
- Biogas and organic manure unit

This integrated approach ensures zero-waste utilisation and diversified revenue streams.

Comparative Ethanol Productivity

Sisal vs Maize & Sugarcane

Sisal yields about 5,000 litres of ethanol per hectare, making it competitive, especially in marginal conditions. Rainfed maize produces around 2,500–3,500 litres per hectare, while well-managed irrigated sugarcane yields 6,000–8,000 litres. Under marginal conditions, sugarcane drops to about 4,500–5,000 litres, nearly matching sisal.

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Even if sisal produces only 5,000 litres per hectare, it can match or outperform maize and sugarcane in difficult conditions as because it uses less water, costs less to grow and is more reliable.

Sisal competes not by maximizing yield, but by minimizing risk and resource use

Ethanol Quality and Industrial Suitability

Ethanol derived from sisal is primarily second-generation (2G) cellulosic ethanol, produced from leaf biomass and post-fibre residues.

Conversion efficiency from sugar-to-ethanol is around 92 percent and the product quality remain chemically identical to ethanol from sugarcane and maize.

Ethanol from sisal is suitable for E20 blending (India's target); Industrial alcohol and Biofuel-grade ethanol.

Environmental and Social Impact

Environmental Benefits

- Carbon sequestration: 10–15 tCO₂/ha/year
- Significant reduction in water use
- Restoration of degraded lands

Socio-Economic Benefits

- Employment generation: 5,000–7,000 jobs (pilot scale)
- Farmer income: ₹2–4 lakh/ha annually
- Strong potential for women-led participation via FPOs

Carbon Credit Opportunity

Estimated credits: 10,000–15,000 tCO₂ annually (pilot scale) with a revenue potential: ₹5–10 crore/year. Sisal offers a natural pathway to integrate biofuel production with carbon markets, strengthening financial viability.

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Policy Support Required

To unlock this opportunity, the following interventions are essential:

1. Assured ethanol offtake by Oil Marketing Companies (OMCs)
2. Dedicated pricing mechanism for 2G ethanol from non-food crops
3. Capital subsidy support (30–40 percent)
4. Integration with carbon credit frameworks

Conclusion

Sisal presents a transformational opportunity to: a) diversify India's ethanol feedstock base, b) reduce pressure on water and food systems, c) revitalize dryland economies and d) advance climate and carbon goals.

Agave-based systems can generate large-scale rural employment, engage youth in productive enterprises, and convert fragile landscapes into engines of growth.

Sisal is a triple value crop (fibre, syrup, alcohol) capable of transforming India's barren lands into productive landscapes. With the right policy push, India can reduce imports and unlock a high value bio-industrial economy rooted in climate resilience.

For Further Reading:

Agave (Sisal): A Climate-Resilient Opportunity for Transforming Marginal Lands and Rural Livelihoods

Mukti Sadhan Basu, Ph.D | Dec 3, 2025

<https://www.linkedin.com/pulse/agave-sisal-climate-resilient-opportunity-marginal-lands-basu-ph-d-8xuic>

Policy Message:

From water-intensive ethanol to wasteland-based bioeconomy—sisal can anchor India's next phase of sustainable growth having no food vs fuel conflict.



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POWERFUL CHALLENGERS TO CROPS

Indian agriculture is increasingly diversifying from traditional crop farming towards higher-value allied sectors such as horticulture, livestock, and fisheries, which are growing faster and contributing more to farm incomes. Over the decade ending 2024–25, crop agriculture grew at an average of 3.5 percent, compared with 7.1 percent for livestock and 8.8 percent for fisheries. Horticulture has also expanded rapidly, with production exceeding 360 million tonnes, surpassing foodgrain output and accounting for about 33 percent of agricultural GVA. Livestock and fisheries have shown particularly strong growth, with livestock GVA rising sharply and milk becoming India’s largest food commodity. These sectors are increasingly crucial for small and marginal farmers, providing more stable and regular income than crop farming. However, their further growth is constrained by challenges such as fodder shortages in livestock and inadequate post-harvest infrastructure in fisheries, which need urgent policy attention.

(This is a summary of an article by Surinder Sood, published in Business Standard on 16 March 2026)

A TRIGGER FOR REFORM

The ongoing West Asia conflict involving Iran, Israel, and the United States has exposed India’s vulnerability to disruptions in energy and fertiliser supplies, highlighting the need for urgent reforms in the fertiliser sector to safeguard food security. India imports about 88 percent of its crude oil, much of it through the Strait of Hormuz, and rising geopolitical tensions have already pushed oil, LNG, and fertiliser prices sharply higher. Fertiliser security is particularly critical because India consumes around 40 million tonnes of urea annually, but domestic production is only about 30 million tonnes, increasing reliance on imports—over 60 percent of which come from the Gulf region. Overall, India depends on global supply chains for nearly 70 percent of its fertiliser requirements, making the sector highly vulnerable to geopolitical shocks and price volatility. Prolonged disruption could also raise India’s fertiliser subsidy bill above ₹2 lakh crore. To address these risks, the article recommends diversifying

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fertiliser imports beyond the Gulf, investing in overseas fertiliser resources, and accelerating domestic exploration, along with policy reforms such as direct fertiliser subsidy transfers, price deregulation, balanced nutrient pricing, or bringing urea under the Nutrient-Based Subsidy framework. The crisis, therefore, presents an opportunity for India to undertake long-pending fertiliser sector reforms.

(This is a summary of an article by Ashok Gulati and Ritika Juneja in Financial Express on 15 March 2026. The full article can be accessed from <https://shorturl.at/sG7u7>)

FERTILIZER REFORM: INDIA MUST SEIZE THIS MOMENT TO REPLACE ITS SUBSIDY REGIME WITH A HIGH-YIELD POLICY

A Mint editorial (18 March 2026) argues that the ongoing West Asia conflict has exposed the fragility and inefficiency of India's fertiliser subsidy regime, making a strong case for urgent reform. Disruptions in imports of urea and natural gas, coupled with rising global energy prices, are increasing India's fiscal burden and could sharply inflate subsidy costs if the status quo continues.

India's fertiliser system, based on heavy product subsidies, especially for urea, has led to distorted nutrient usage, with farmers overusing nitrogen relative to phosphatic and potassic fertilisers. This imbalance has reduced agricultural productivity, harmed soil health, and contributed to environmental damage such as groundwater pollution and greenhouse gas emissions.

The editorial recommends removing fertiliser price subsidies and instead shifting to direct income support for farmers, allowing market-based pricing to guide efficient fertiliser use. Such reform would not only reduce fiscal pressure but also improve productivity and sustainability in agriculture. Given the current crisis-driven rise in import costs and supply disruptions, the editorial emphasizes that this is an opportune moment to undertake long-pending fertiliser reforms.

(The full article can be accessed here: <https://shorturl.at/Uqg3a>)

PULSE CHECK: INDIA'S IMPORTS FALL AS DOMESTIC OUTPUT STRENGTHENS

India's pulse import trajectory has reversed sharply in FY26 after reaching a record high in the previous fiscal year, reflecting improved domestic availability and favourable global price conditions. Provisional data indicates that pulse imports during April–January FY26 declined by 35 percent in value to \$2.97 billion, while volumes fell by over 18 percent to 4.9 million tonnes, compared to the same period last year.

This moderation follows a surge in imports in FY25, when India imported a record 7.3 million tonnes of pulses. The current decline is largely attributed to robust domestic production and adequate carry-forward stocks, which have reduced the need for large-scale imports. Overall imports for FY26 are expected to remain just above 5.2 million tonnes.

A significant factor behind the decline has been the correction in global prices. Increased global output and reduced import demand have led to a 30–40 percent reduction in import costs. Prices of key varieties such as yellow peas and Bengal gram have dropped substantially, easing the import bill and contributing to softer domestic price pressures.

However, the trend is not uniform across pulse varieties. Imports of yellow peas and lentils have declined sharply, while urad and arhar imports have increased, reflecting shifting consumption patterns and domestic supply gaps in specific crops. Despite the recent decline, India continues to depend on imports for about 18–20 percent of its pulse consumption, sourcing primarily from countries such as Canada, Australia, Myanmar, and African nations.

On the policy front, the government is expected to extend duty-free imports for tur and urad, while maintaining import duties on yellow peas and lentils. At the same time, structural efforts are underway to reduce long-term import dependence. These include assured procurement at minimum support prices and initiatives to expand pulse cultivation in non-traditional regions under the broader push for self-reliance.

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The recent decline in imports thus reflects a combination of cyclical and structural factors like strong domestic output, favourable global prices, and policy interventions. Going forward, sustaining this trend will depend on continued improvements in productivity, diversification of cultivation, and effective price support mechanisms.

*(This is a summary of an article “Pulse imports drop 35 percent in April-January on robust crop, stocks” by Sandip Das in Financial Express on March 29, 2026
<https://shorturl.at/VCz61>)*

CORPORATE NEWS

STEEL, SPEED, AND SCALE: AM/NS INDIA'S LANDMARK INVESTMENT IN ANDHRA PRADESH

In a significant milestone for India's industrial landscape, ArcelorMittal Nippon Steel India (AM/NS India) has commenced work on the country's first greenfield integrated steel plant in over a decade. Located in the Nakkapalli mandal of Andhra Pradesh's Anakapalli district, the project marks not just a revival of large-scale steel investments, but also a renewed push toward strengthening India's manufacturing and export capabilities.

The scale of the project is striking. With a planned investment of approximately ₹1.36 trillion, the steel plant will be developed in phases, eventually reaching a production capacity of 17.8 million tonnes per annum. The first phase alone will involve an investment of around ₹70,000 crore and deliver a capacity of 8.2 million tonnes, with commissioning expected by early 2029. Complementing the plant, a captive port, requiring an additional investment of over ₹11,000 crore, will significantly enhance logistics efficiency and export potential.

What makes this project particularly noteworthy is the speed of its execution. From initial concept to groundbreaking, the entire process was completed in just 15 months—a rare feat for a project of such magnitude. This accelerated timeline reflects a new model of cooperative federalism, where proactive state facilitation, streamlined approvals, and industry-government coordination have enabled rapid industrial deployment.

Strategically located along Andhra Pradesh's coastline, the plant is well-positioned to serve both domestic and international markets. The availability of robust logistics infrastructure, including proximity to ports and an existing slurry pipeline linked to NMDC's Bailadila mines, played a crucial role in site selection and project

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acceleration. This integration of raw material supply chains with export-ready infrastructure underscores the project's long-term competitiveness.

Beyond its economic scale, the project is expected to generate substantial employment, with estimates suggesting up to 100,000 direct and indirect jobs. It is also geared toward producing advanced, value-added steel, aligning with India's ambitions to move up the manufacturing value chain and reduce dependence on imports.

The development also reflects the broader strategic vision of AM/NS India, which continues to expand its footprint following the acquisition of Essar Steel in partnership with Nippon Steel. With additional plans to expand its Hazira facility and invest in new projects in Odisha, the company is positioning itself as a key player in India's evolving steel ecosystem.

Ultimately, the Anakapalli steel plant represents more than just an industrial investment—it signals a shift toward faster execution, globally competitive manufacturing, and integrated infrastructure development. As India seeks to strengthen its position in global supply chains, such projects could serve as catalysts for sustained industrial growth and export expansion.

GROWTH VS. PROFITABILITY: INSIDE TATA SONS' SHIFT TOWARDS NEW-AGE BUSINESSES

Tata Sons, the holding company of the Tata Group, finds itself at a critical juncture—balancing strong long-term strategic investments with rising near-term financial pressures. Recent financial disclosures reveal a sharp increase in losses from its unlisted ventures, even as these businesses emerge as key drivers of the group's future growth.

In FY25, Tata Sons' unlisted subsidiaries, including Air India, Tata Digital, Tata Electronics, and Tata Teleservices, reported combined net losses of approximately ₹25,568 crore, marking a significant increase from the previous year. Despite this, the group has maintained profitability at the consolidated level, supported largely by steady dividend income from its listed entities, particularly Tata Consultancy Services (TCS).

However, this model is beginning to show signs of strain. Dividend income from TCS, historically the group's primary cash generator, declined in FY25 for the first time in over a decade. Given that TCS has accounted for nearly 92 percent of Tata Sons' dividend income since FY16, this shift has important implications for the group's financial stability.

At the same time, Tata Sons is doubling down on its long-term transformation strategy. The group has been aggressively investing in new-age and capital-intensive sectors such as aviation, digital commerce, and electronics manufacturing. In FY25 alone, it infused around ₹31,000 crore into its unlisted ventures, the highest ever in a single year. Over time, these investments have significantly reshaped the group's business profile.

This transformation is reflected in revenue trends. Unlisted subsidiaries are increasingly contributing to the group's top line, with their share in consolidated revenues rising to a record 47.3 percent in FY25, compared to just 11.4 percent in FY16. In contrast, TCS's share has steadily declined, underscoring a structural shift away from reliance on IT services toward a more diversified portfolio.

Yet, this diversification comes with risks. Several of the group's flagship unlisted ventures continue to incur substantial losses. Air India remains the largest loss-making

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entity, burdened by high liabilities and negative net worth, while Tata Digital and Tata Electronics are still in investment-heavy phases. The persistence of these losses has also contributed to a rise in consolidated borrowing, which increased significantly in FY25.

Nevertheless, the strategy appears deliberate. Tata Sons is effectively using dividend flows from its mature businesses to fund emerging sectors that are expected to deliver long-term growth and strategic relevance. This approach reflects a broader shift within Indian conglomerates, prioritizing scale, capability building, and future competitiveness over short-term profitability.

Ultimately, Tata Sons' current trajectory highlights a classic trade-off between investment-led expansion and financial discipline. While the near-term pressures from rising losses and declining dividends are evident, the group's sustained commitment to new sectors suggests a long-term vision aimed at reshaping its business for the next phase of global competition.

DRIVING THE FUTURE: JSW MOTORS PARTNERS DASSAULT TO ACCELERATE NEW ENERGY VEHICLES

JSW Motors Limited has taken a significant step in advancing its automotive ambitions by partnering with Dassault Systèmes to deploy a cutting-edge digital platform for its upcoming range of new energy vehicles. The collaboration signals a decisive shift toward technology-driven manufacturing as the JSW Group positions itself in India's rapidly evolving mobility landscape.

At the core of this partnership is the adoption of Dassault's 3DEXPERIENCE platform, which will serve as the digital backbone for JSW Motors. By integrating product design, engineering, and manufacturing into a unified system, the platform enables real-time data sharing and significantly shortens development cycles. This is particularly critical in the competitive electric and new energy vehicle segment, where speed to market and innovation are key differentiators.

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A notable feature of the platform is its support for modular vehicle architecture. This approach allows multiple models to be developed using shared components, helping reduce costs while enhancing flexibility in product development. Advanced tools such as CATIA for 3D design and ENOVIA for collaborative product lifecycle management will further streamline operations and improve coordination across teams.

The partnership also extends to manufacturing efficiency. Through Dassault's DELMIA solutions, JSW Motors aims to optimise factory processes, reduce waste, and lower carbon emissions, aligning with global sustainability trends in automotive production. Additionally, the use of "virtual twins," or digital replicas of vehicles and production systems, will enable simulation and testing before actual manufacturing, minimizing risks and improving precision.

This technology-led collaboration is part of JSW Group's broader multi-billion-dollar push into the automotive sector. While its joint venture, JSW MG Motor India, continues to expand capacity and prepare for multiple launches, including electric vehicles, JSW Motors is being developed as a standalone brand with a strong emphasis on innovation and digitalisation.

Complementing this strategy is JSW Motors' technology licensing agreement with Chery Holding Group, which provides access to advanced vehicle platforms without requiring equity participation. Together, these partnerships reflect a hybrid approach: combining global technology alliances with domestic manufacturing ambitions.

In essence, JSW Motors' collaboration with Dassault Systèmes highlights a broader transformation underway in the automotive industry, where digital engineering, modular design, and sustainability are becoming central to competitiveness. As India accelerates its transition toward clean mobility, such initiatives could play a pivotal role in shaping the future of the sector.

BANKING, FINANCIAL SERVICES & INSURANCE

FROM ARBITRAGE TO INTERVENTION: THE RBI'S BATTLE TO DEFEND THE RUPEE

Introduction: A Currency Under Siege

In late March 2026, the Indian rupee came under intense pressure, breaching successive psychological levels and touching an all-time low of 94.84 against the US dollar. The depreciation was driven by a confluence of global and domestic factors, escalating geopolitical tensions in West Asia, surging crude oil prices, and sustained capital outflows. Against this backdrop, the Reserve Bank of India (RBI) intervened decisively by imposing a cap on banks' Net Open Position in INR (NOP-INR), marking one of the most significant foreign exchange market interventions in recent years.

The RBI Directive: Tightening the FX Framework

On March 27, 2026, the RBI directed Authorised Dealers to limit their NOP-INR positions in the onshore deliverable market to \$100 million at the end of each business day, with compliance mandated by April 10. This move, issued under the Foreign Exchange Management Act (FEMA), represents a sharp tightening of position limits aimed at curbing speculative pressures and restoring order in the foreign exchange market.

The measure directly targets banks' ability to take large directional bets against the rupee, particularly through arbitrage strategies exploiting price differences between onshore and offshore markets.

The Mechanics of Arbitrage and Market Distortion

In recent months, banks had built substantial arbitrage positions by buying dollars in the onshore market and simultaneously selling them in the offshore non-deliverable forward (NDF) market. This strategy allowed them to profit from the widening spread

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between the two markets, a spread that had expanded sharply amid heightened volatility, rising oil prices, and risk aversion linked to the Iran conflict.

Estimates suggest that such positions ranged between \$25 billion and \$50 billion, creating significant imbalances in the currency market. While these trades provided liquidity and market depth under normal conditions, they also amplified downward pressure on the rupee during periods of stress.

Collateral Damage: Banking Sector Under Pressure

However, the move imposed significant costs on the banking sector. The forced unwinding of large arbitrage positions exposed banks to mark-to-market losses, estimated at up to ₹4,000 crore.

The underlying risk stems from the scale of positions and the sensitivity of these trades to exchange rate movements. Even a modest divergence between onshore and offshore rates during unwinding can result in substantial losses. As a result, banking stocks reacted negatively, with the Nifty Bank index declining sharply and major lenders registering losses.

However, some analysts argue that these losses may be overstated, noting that banks had likely accumulated gains during the rupee's earlier depreciation. In this view, the current losses represent a partial reversal of prior profits rather than a net deterioration.

Why the RBI Acted: A Multi-Dimensional Crisis

The RBI's decision must be viewed in the context of broader macroeconomic pressures. The rupee's weakness was driven not only by speculative activity but also by structural factors, including:

- Rising crude oil prices, increasing India's import bill
 - Persistent foreign portfolio outflows
 - Heightened global risk aversion linked to geopolitical tensions
 - A widening gap between onshore and offshore currency markets
-

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Left unaddressed, these dynamics could have triggered a self-reinforcing cycle of depreciation, inflationary pressures, and financial instability.

By capping NOP-INR positions, the RBI aimed to break this cycle, reduce speculative pressures, and restore alignment between market segments.

Policy Trade-offs: Stability vs Market Efficiency

The intervention highlights a classic policy trade-off. On the one hand, the measure enhances exchange rate stability by curbing excessive risk-taking and speculative positioning. On the other hand, it may reduce market efficiency by limiting arbitrage activity, which typically contributes to price discovery and liquidity.

Moreover, the sudden tightening has raised concerns within the banking sector, prompting calls for regulatory forbearance, including possible grandfathering of existing positions or an extension of the compliance deadline.

The Road Ahead: Temporary Relief or Structural Shift?

While the RBI's move has provided immediate relief, the sustainability of the rupee's recovery remains uncertain. Much will depend on external factors, particularly the trajectory of the West Asia conflict and global oil prices.

If geopolitical tensions persist and crude prices remain elevated, the rupee could face renewed pressure, potentially testing new levels in the coming months. In such a scenario, regulatory measures alone may not suffice, and broader macroeconomic adjustments may be required.

At the same time, the episode underscores the need for closer integration between onshore and offshore currency markets, as well as enhanced risk management practices within the banking system.

Conclusion: A Necessary Intervention with Lasting Implications

The RBI's decision to cap NOP-INR positions represents a decisive and timely intervention in a period of heightened market stress. By forcing the unwinding of large speculative positions, the central bank has stabilised the rupee and restored a degree of confidence in the foreign exchange market.

However, this stability has come at a cost, particularly for the banking sector, which must now absorb the financial impact of rapid position adjustments. More importantly, the episode highlights deeper structural challenges in India's currency markets, including the growing influence of offshore trading and the vulnerability of the rupee to global shocks.

In this sense, the March 2026 intervention may be seen not merely as a crisis response, but as a signal of a more proactive and interventionist approach to exchange rate management in an increasingly uncertain global environment.

RBI ISSUES AMENDMENT DIRECTIONS ON ‘COUNTERPARTY CREDIT RISK - ADD-ON FACTORS FOR COMPUTATION OF POTENTIAL FUTURE EXPOSURE’

The RBI has issued Amendment Directions (10 March 2026) to revise the framework for Counterparty Credit Risk (CCR), specifically concerning the computation of Potential Future Exposure (PFE). The amendments follow a draft circular released in August 2025 and incorporate feedback from stakeholders. The key changes include clarifying that banks acting as clearing members in equity and commodity derivatives must maintain capital charges for CCR, and aligning the add-on factors used in the Current Exposure Method (CEM), particularly for interest rate and exchange rate contracts, with international standards set by the Basel Committee on Banking Supervision.

These revised directions apply across multiple regulated entities, including commercial banks, small finance banks, payments banks, and All India Financial Institutions. The primary objective is to enhance clarity in the CCR framework and ensure greater alignment with global regulatory practices, thereby strengthening the robustness of capital adequacy norms in India’s financial system.

RBI ISSUES AMENDMENT DIRECTIONS ON ‘CLARIFICATION ON OWNED FUND / TIER 1 CAPITAL COMPUTATION FOR NBFCS / ARCS AND APPLICABILITY TO CREDIT / INVESTMENT CONCENTRATION NORMS’

The Reserve Bank of India (RBI) has issued Amendment Directions (10 March 2026) to clarify the computation of Owned Fund / Tier 1 Capital for Non-Banking Financial Companies (NBFCs) and Asset Reconstruction Companies (ARCs), particularly in relation to compliance with credit and investment concentration norms.

Previously, NBFCs (excluding NBFC-UL) and ARCs calculated Tier 1 capital based on the position as of March 31 of the previous year. The amendments aim to refine and clarify these provisions following stakeholder feedback and a review of existing guidelines.

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The revised directions apply across a wide range of entities, including NBFCs, Housing Finance Companies, Core Investment Companies, Mortgage Guarantee Companies, ARCs, and Standalone Primary Dealers.

The primary objective is to enhance regulatory clarity, improve consistency in capital computation, and strengthen risk management related to concentration exposure, thereby reinforcing the prudential framework governing these financial institutions.



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SECTION 2: GLOBAL ECONOMY

GLOBAL ECONOMIC OUTLOOK

ENERGY SHOCKS AND ECONOMIC STABILITY: INSIGHTS FROM THE OECD ECONOMIC OUTLOOK

Introduction

The *OECD Economic Outlook, Interim Report (March 2026)* assesses the evolving global macroeconomic environment amid rising geopolitical tensions, energy market disruptions, and structural transformation driven by artificial intelligence. The report highlights that while the global economy entered 2026 with strong underlying resilience, it now faces significant headwinds that threaten growth, inflation stability, and financial conditions .

Global Economy: Resilient but Under Stress

Prior to the escalation of conflict in the Middle East, global growth remained robust, supported by strong consumption, accommodative financial conditions, and rapid expansion in AI-related investment and production. Global GDP growth maintained momentum through 2025, with strong performance in both advanced and emerging economies.

However, this resilience is now being tested. The disruption of energy supplies, particularly through the Strait of Hormuz, has triggered a sharp increase in geopolitical risk and threatens global economic stability.

Energy Shock as the Central Transmission Channel

The report underscores that the most immediate and powerful transmission channel of the ongoing Middle East conflict to the global economy is the sharp surge in energy prices. Since the onset of the conflict, oil prices have risen by over 50 percent, while gas and fuel prices have increased significantly across both Europe and Asia. At the same time, disruptions in fertiliser markets, closely linked to energy inputs, are beginning to emerge, raising concerns about future food inflation.

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These developments have led to a pronounced spike in overall energy costs, placing upward pressure on production expenses and eroding real household incomes. The impact is particularly widespread because a substantial share of global oil and liquefied natural gas (LNG) flows transits through the Strait of Hormuz. As a result, any disruption in this critical corridor quickly reverberates across global energy markets, amplifying both price volatility and economic uncertainty.

Growth Outlook: Moderation Ahead

The global economy is expected to enter a phase of moderate deceleration over the next two years. After expanding at 3.3 percent in 2025, world GDP growth is projected to ease to 2.9 percent in 2026 before stabilizing slightly at 3.0 percent in 2027. This trajectory suggests that while growth remains resilient, the pace of expansion is likely to soften amid emerging headwinds.

Across major economies, a similar pattern of moderation is evident. In the United States, growth is projected to decline from 2.1 percent in 2025 to 2.0 percent in 2026 and further to 1.7 percent in 2027, reflecting a gradual cooling of demand. The euro area is expected to experience a sharper slowdown, with growth easing from 1.4 percent in 2025 to 0.8 percent in 2026, before recovering modestly to 1.2 percent in 2027. China's growth is also projected to moderate, declining from 5 percent in 2025 to 4.4 percent in 2026 and 4.3 percent in 2027, indicating a steady but slower expansion. India, while remaining the fastest-growing major economy, is expected to see growth soften from 7.6 percent in 2025 to 6.1 percent in 2026, followed by a slight recovery to 6.4 percent in 2027.

This broad-based slowdown reflects a combination of factors, including rising energy costs, supply chain disruptions, and weaker real income growth, all of which are weighing on consumption and investment. At the same time, these pressures are being partially offset by continued momentum in technology-driven investment, particularly in artificial intelligence, and the easing of trade frictions through lower tariff pressures.

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Inflation: Renewed Pressures

Inflation has re-emerged as a central macroeconomic concern in the current global environment. Across the G20 economies, inflation is projected to rise to 4.0 percent in 2026, which is higher than previously anticipated, before moderating to 2.7 percent in 2027 as energy-related pressures gradually ease. While core inflation remains relatively contained, it continues to exhibit persistence, reflecting underlying structural rigidities in prices.

A key driver of these renewed pressures is the surge in energy prices, which is feeding into broader inflation expectations, particularly in advanced economies. This dynamic is complicating the policy landscape for central banks, as they must balance the need to contain inflation without unduly constraining growth.

Financial Conditions and Market Volatility

Financial markets have responded sharply to the evolving global uncertainties, reflecting heightened sensitivity to geopolitical and economic shocks. Volatility has increased significantly, accompanied by corrections in equity markets across several economies. At the same time, sovereign bond yields have risen in both advanced and emerging markets, signalling tighter financial conditions and shifting investor expectations.

Currency markets have also come under pressure, particularly in emerging economies, where exchange rate movements reflect capital flow adjustments and heightened risk perceptions. As a result, overall financial conditions have tightened, although they remain only moderately restrictive at this stage. Nevertheless, the risk of further asset repricing remains elevated, especially if existing shocks persist or intensify.

Trade and Supply Chain Dynamics

Despite rising geopolitical tensions, global trade has demonstrated notable resilience through the early months of 2026. Trade flows have remained robust, supported in part by strong demand for technology-related goods. In particular, exports from Asia,

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especially in high-technology sectors, have continued to expand at a steady pace, reflecting sustained investment in digital and AI-driven industries. Additionally, recent reductions in US tariffs have provided some relief to global trade, easing pressures on cross-border flows and improving overall trade sentiment.

However, beneath this resilience, underlying vulnerabilities in global supply chains have begun to resurface. Disruptions are particularly evident in critical sectors such as energy, fertilisers, and key industrial inputs. These constraints carry broader implications, with potential spillover effects into agriculture through higher input costs and into manufacturing through supply shortages. As a result, while trade remains stable for now, the risk of renewed supply-side disruptions continues to loom.

Risks: Tilted to the Downside

The global economic outlook remains highly uncertain, with risks increasingly skewed to the downside. A key concern is the possibility of a prolonged or intensified conflict in the Middle East, which could further disrupt energy markets and trigger additional spikes in commodity prices. Such developments would not only amplify inflationary pressures but also weigh on global growth. At the same time, heightened volatility in financial markets raises the risk of instability, particularly if investor sentiment weakens further. Another source of uncertainty lies in the evolving role of artificial intelligence; if the anticipated gains from AI investments fall short, the expected boost to productivity and growth may not fully materialize.

That said, there are also potential upside scenarios. A quicker-than-expected resolution of geopolitical tensions could help stabilize energy markets and restore confidence. Similarly, stronger productivity gains from AI adoption could provide a meaningful lift to economic activity. Continued resilience in private sector investment would further support growth, helping to offset some of the prevailing headwinds.

Policy Priorities: A Coordinated Response

In response to the evolving economic challenges, the OECD underscores the importance of a coordinated and balanced policy approach. Monetary authorities are advised to remain vigilant, ensuring that inflation expectations stay well anchored even as new price pressures emerge. At the same time, fiscal policy must strike a careful balance, providing targeted support to vulnerable households and firms while maintaining a credible path toward debt sustainability.

Energy policy also assumes critical importance in the current context. Governments are encouraged to enhance energy efficiency and reduce reliance on imported fossil fuels, thereby strengthening resilience against future shocks. Alongside this, the OECD highlights the need for stronger financial regulation and supervision to address rising systemic risks and safeguard financial stability.

Finally, the report stresses the importance of maintaining an open and cooperative global trading system. Avoiding protectionist measures and deepening trade partnerships will be essential to support economic recovery, reduce uncertainty, and sustain long-term growth.

Conclusion

The report underscores a critical juncture for the global economy: resilience built on strong demand and technological dynamism is being tested by geopolitical shocks and energy disruptions. Sustained recovery will depend on effective policy coordination, stable energy markets, and the successful translation of technological advances, particularly AI, into productivity gains.

The full report can be accessed from: <https://shorturl.at/j542h>

MONETARY POLICY

PAUSE WITH A PURPOSE: INTERPRETING THE US FEDERAL RESERVE'S MARCH 2026 POLICY STANCE

The March 18, 2026 statement of the Federal Open Market Committee (FOMC) signals a continuation of the US Federal Reserve's cautious approach to monetary policy. By maintaining the federal funds rate in the range of 3.50–3.75 percent, the Fed has chosen to pause rather than pivot, reflecting a complex macroeconomic environment characterised by steady growth, persistent inflation, and elevated global uncertainty. This policy stance underscores a central tension: while economic activity remains resilient, the path to price stability is not yet secure.

A Resilient but Uneven Economy

The Fed's assessment of the U.S. economy remains broadly positive. Economic activity is expanding at a "solid pace," indicating that growth has held up despite tighter financial conditions. However, the labour market presents a more nuanced picture. Job gains have been described as "low," while the unemployment rate has remained stable. This suggests a cooling labour market, though not one that signals distress. This combination, steady growth with moderating employment gains, points to an economy that is gradually adjusting to tighter monetary conditions without slipping into recession.

Inflation: The Persistent Challenge

Despite progress in recent years, inflation remains "somewhat elevated," signalling that the Fed's 2 percent target is still not within reach. This persistence explains the Fed's reluctance to ease policy prematurely. The central bank's credibility hinges on ensuring that inflation expectations remain anchored. Any early rate cuts could risk reigniting price pressures, particularly in a context of geopolitical instability and supply-side risks. The message is clear: the fight against inflation is not over.

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Policy Decision: A Strategic Pause

The decision to hold the policy rate steady reflects a deliberate strategy. Rather than committing to a predefined path, the Fed emphasises data dependence, indicating that future policy adjustments will be guided by incoming economic information and the evolving risk landscape.

Importantly, the FOMC also highlighted its readiness to adjust policy “as appropriate” if risks emerge. This flexibility is critical in an environment where uncertainties, both domestic and global, remain high. The dissent within the Committee, with one member favouring a rate cut, further highlights that the policy debate is finely balanced.

Global Risks and Geopolitical Uncertainty

A notable feature of the statement is the explicit reference to developments in the Middle East and their uncertain implications for the U.S. economy. This reflects the increasing role of geopolitical risks in shaping monetary policy. Energy price volatility, supply chain disruptions, and financial market reactions to geopolitical events can all complicate the inflation-growth trade-off. For the Fed, this adds another layer of complexity to an already delicate balancing act.

Monetary Operations: Ensuring Liquidity and Stability

Alongside the policy rate decision, the Fed has maintained its operational framework, including open market operations and liquidity facilities, to ensure adequate reserves in the financial system.

By continuing Treasury purchases and managing repo and reverse repo operations, the Fed aims to maintain smooth market functioning. These technical measures, while less visible, are crucial for financial stability and effective policy transmission.

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Interpreting the Policy Stance: Neither Hawkish nor Dovish

The stance can best be described as “cautiously neutral.” It is not overtly hawkish, as the Fed has refrained from further tightening. Nor is it dovish, given the absence of any signal toward imminent rate cuts. Instead, the Fed appears to be in a holding pattern, waiting for clearer evidence on two fronts:

- A sustained decline in inflation toward the 2 percent target
- Greater clarity on global and domestic risks

This approach minimises the risk of policy error, either tightening too much and triggering a slowdown, or easing too soon and reigniting inflation.

Implications for the Global Economy

Given the central role of U.S. monetary policy in global finance, the Fed’s decision has broader implications:

- **Emerging Markets:** A steady US rate environment reduces pressure on capital flows and exchange rates.
- **Global Liquidity:** Continued balance sheet operations help maintain financial stability.
- **Commodity Markets:** Geopolitical uncertainty, coupled with stable US rates, may sustain volatility in energy markets.

For countries like India, this environment offers relative external stability, though risks from global shocks persist.

Conclusion

The Federal Reserve’s March 2026 policy decision reflects a central bank navigating a narrow path between inflation control and growth preservation. The choice to hold rates

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steady is not a sign of indecision but a recognition of the complex and evolving economic landscape.

In many ways, this is a moment of strategic patience. The Fed is signalling that while progress has been made, the final stretch toward price stability requires caution, vigilance, and flexibility.

The coming months will be critical. As new data emerges and global uncertainties unfold, the Fed's next move, whether toward easing or renewed tightening, will define the trajectory of not just the US economy, but the global financial system.

SOFT LANDING IN SIGHT? INTERPRETING THE FED'S 2026–28 ECONOMIC PROJECTIONS

The March 2026 *Summary of Economic Projections (SEP)* released alongside the FOMC meeting offers a detailed roadmap of the US Federal Reserve's expectations for growth, inflation, unemployment, and interest rates through 2028. More than a set of forecasts, the SEP provides insight into how policymakers perceive the evolving macroeconomic landscape—and, crucially, the risks surrounding it.

At its core, the projections suggest a cautiously optimistic scenario: a gradual return to price stability alongside steady, albeit moderate, economic growth. Yet, embedded within these projections is a clear acknowledgment of persistent uncertainty.

Growth Outlook: Stability Without Acceleration

The median projection for US real GDP growth stands at 2.4 percent in 2026, moderating slightly to 2.3 percent in 2027 and 2.1 percent in 2028, eventually converging toward a long-run rate of 2.0 percent.

This trajectory reflects a stabilising economy rather than a rapidly expanding one. Compared to earlier projections, there is a modest upward revision, indicating improved confidence in near-term growth prospects. However, the gradual decline toward the long-run trend underscores structural constraints, including productivity trends and

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demographic factors. In effect, the Fed is signalling that the US economy is likely to grow at a sustainable pace, neither overheating nor slipping into stagnation.

Labour Market: Gradual Cooling Without Distress

The unemployment rate is projected at 4.4 percent in 2026, easing slightly to 4.2 percent in the longer run. This suggests a controlled cooling of the labour market. The Fed does not anticipate a sharp rise in unemployment, which would typically accompany aggressive monetary tightening. Instead, the projections point to a rebalancing, where labour demand moderates without triggering widespread job losses.

Such an outcome would align with the much-discussed “soft landing” scenario, where inflation is brought under control without a recession.

Inflation: The Final Mile Remains Challenging

Inflation remains the central focus of monetary policy. The Fed projects PCE inflation at 2.7 percent in 2026, declining to 2.2 percent in 2027 and reaching the 2 percent target by 2028. Notably, inflation projections for 2026 have been revised upward compared to December estimates, indicating that disinflation is proving slower than expected. Core inflation follows a similar trajectory.

This highlights the “last mile” problem in inflation control: while headline inflation may fall relatively quickly, bringing it fully back to target often requires sustained policy discipline.

Interest Rate Path: Higher for Longer

The projected path for the federal funds rate suggests a gradual easing, but not a rapid pivot. The median projection stands at 3.4 percent in 2026 and declines to around 3.1 percent through 2027–28, remaining above the long-run neutral rate.

This reinforces the “higher for longer” narrative. Even as inflation declines, the Fed appears committed to maintaining a restrictive policy stance for an extended period to ensure that price stability is firmly restored.

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Importantly, the dispersion of projections across policymakers indicates differing views on the appropriate policy path, reflecting underlying uncertainty about the economy's response to monetary tightening.

Uncertainty and Risks: The Dominant Theme

A defining feature of the SEP is its explicit emphasis on uncertainty. Historical forecast errors suggest wide confidence intervals around projections for GDP, inflation, and interest rates.

Participants' assessments indicate that:

- Uncertainty remains broadly in line with historical norms
- Risks to growth, employment, and inflation are relatively balanced

However, “balanced” does not imply benign. It reflects a situation where both upside and downside risks are significant—ranging from persistent inflation to potential growth slowdowns.

This uncertainty is further compounded by external factors such as geopolitical tensions, financial market volatility, and supply-side disruptions.

Interpreting the Macro Narrative: A Managed Transition

Taken together, the projections outline a scenario of **managed transition**:

- Growth stabilises at a sustainable pace
- Inflation gradually converges to target
- Labour markets adjust without major disruption
- Monetary policy remains cautiously restrictive

This is the textbook definition of a soft landing. However, achieving such an outcome is historically rare and requires precise calibration of policy.

Global Implications: Stability with Spillovers

The Fed's projections have important implications for the global economy:

- **Interest Rate Environment:** A prolonged period of relatively high U.S. rates could influence global capital flows and financial conditions.
- **Exchange Rates:** Continued policy tightness may support a stronger dollar, affecting emerging markets.
- **Trade and Growth:** Stable U.S. growth provides a supportive external environment, but slower global demand may persist.

For economies like India, this environment presents a mix of opportunities and risks—greater external stability but continued exposure to global financial conditions.

Conclusion

The March 2026 SEP reflects a Federal Reserve that is cautiously optimistic but acutely aware of the risks ahead. The projections suggest that the U.S. economy is on track for a soft landing, with inflation gradually returning to target without a sharp rise in unemployment.

Yet, the path forward is far from certain. The wide range of possible outcomes highlighted in the projections underscores the inherent unpredictability of the economic environment. Ultimately, the message is clear: the destination: price stability and sustainable growth, is within reach, but the journey remains uncertain.

ECB HOLDS THE LINE: INFLATION RISKS RISE AMID GEOPOLITICAL UNCERTAINTY

The European Central Bank's (ECB) March 19, 2026 monetary policy decision reflects a central bank operating in an increasingly complex and uncertain macroeconomic environment. By keeping its key policy rates unchanged—deposit facility at 2.00 percent, main refinancing operations at 2.15 percent, and marginal lending facility at 2.40 percent—the ECB has opted for policy continuity.

Yet, this apparent stability masks a deeper tension: inflation risks are re-emerging even as growth prospects weaken. At the heart of this dilemma lies a familiar but intensifying driver: energy price volatility triggered by geopolitical conflict.

Inflation Outlook: Near Target, But Under Pressure

The ECB's baseline projections suggest that inflation will average 2.6 percent in 2026, before easing to around the 2 percent target in 2027 and 2.1 percent in 2028. However, these projections represent an upward revision, particularly for 2026, largely driven by higher energy prices linked to the ongoing conflict in the Middle East.

Core inflation (excluding energy and food) is also projected to remain elevated at 2.3 percent in 2026, indicating that price pressures are becoming more broad-based.

While inflation expectations remain well anchored around 2 percent, the ECB has clearly signalled that the path to price stability is becoming more uncertain. The risk is no longer just persistence—but resurgence.

Growth Outlook: Weak but Resilient

In contrast to inflation, the growth outlook has been revised downward. The euro area economy is expected to grow by just 0.9 percent in 2026, rising modestly to 1.3 percent in 2027 and 1.4 percent in 2028.

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This subdued outlook reflects the negative spillovers of higher energy prices on real incomes, consumption, and investment. The ECB explicitly notes that the geopolitical shock is weighing on confidence and economic activity.

At the same time, certain structural supports remain in place:

- Low unemployment levels
- Strong private sector balance sheets
- Increased public spending on defence and infrastructure

These factors are expected to prevent a sharper slowdown, resulting in a scenario of weak but resilient growth.

The Energy Shock: A Central Risk Factor

A defining feature of the ECB's assessment is the centrality of the energy shock. The war in the Middle East is seen as having both immediate and medium-term implications:

- **Short-term:** Higher energy prices pushing inflation above target
- **Medium-term:** Potential second-round effects on wages and broader prices

Scenario analysis conducted by the ECB suggests that a prolonged disruption in oil and gas supply could push inflation higher while simultaneously depressing growth.

This dual impact complicates monetary policy, as traditional tools are ill-suited to address supply-driven inflation shocks.

Policy Strategy: Data Dependence and Flexibility

In this uncertain environment, the ECB has reaffirmed its commitment to a data-dependent, meeting-by-meeting approach. It has deliberately avoided pre-committing to a specific rate path, preserving flexibility in the face of evolving risks.

This approach reflects lessons learned from recent years, where rigid forward guidance often proved inadequate in rapidly changing conditions. By emphasising incoming data,

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underlying inflation dynamics, and transmission strength, the ECB is attempting to strike a balance between credibility and adaptability.

Financial Conditions: Gradual Tightening

Financial conditions in the euro area have tightened in recent months. Market interest rates have risen, equity markets have declined, and borrowing costs remain elevated.

Bank lending rates for firms and mortgages are still relatively high (around 3.6 percent and 3.4 percent, respectively), and credit growth remains moderate.

This suggests that monetary policy is continuing to transmit effectively, restraining demand even without further rate hikes.

Structural and Policy Dimensions

Beyond immediate monetary policy, the ECB has highlighted several structural priorities:

- Reducing dependence on fossil fuels
- Advancing the green and digital transitions
- Strengthening the EU Single Market
- Accelerating the adoption of the digital euro

These elements underscore the broader context in which monetary policy operates. Structural reforms and fiscal policy will play a critical role in shaping the euro area's long-term growth trajectory.

Risk Assessment: A Tilt Toward Downside Growth and Upside Inflation

The ECB's risk assessment reveals a clear asymmetry:

- **Growth risks:** Tilted to the downside, due to geopolitical uncertainty and weak confidence
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- **Inflation risks:** Tilted to the upside, driven by energy prices and potential second-round effects

This combination represents a classic stagflationary risk profile, where policy trade-offs become particularly acute.

Interpreting the Policy Stance: Strategic Caution

The ECB's decision to hold rates steady reflects a stance of strategic caution. Tightening further could exacerbate growth weakness, while easing prematurely could allow inflationary pressures to re-emerge.

Instead, the ECB has chosen to wait—monitoring how the energy shock evolves and how it feeds into inflation and growth dynamics.

Conclusion

The ECB's March 2026 policy statement captures a central bank navigating a narrow and uncertain path. Inflation is close to target but vulnerable to external shocks, while growth is subdued but not collapsing.

In this context, the decision to hold rates steady is not a sign of inertia, but of deliberate calibration. The ECB is balancing competing risks in an environment where traditional policy trade-offs are sharpened by geopolitical uncertainty.

The months ahead will be critical. If energy prices stabilise and inflation expectations remain anchored, the ECB may gain room to support growth. However, if inflation proves more persistent, the central bank may be forced to maintain or even tighten its stance despite weak economic conditions.

In short, the ECB's challenge is clear: to maintain price stability without derailing a fragile recovery—an objective that has rarely been more difficult to achieve.

ENERGY SHOCK AND POLICY PAUSE: INTERPRETING THE BANK OF ENGLAND'S MARCH 2026 DECISION

The March 18, 2026 monetary policy decision of the Bank of England marks a pivotal moment in the United Kingdom's macroeconomic trajectory. By unanimously voting to maintain the Bank Rate at 3.75 percent, the Monetary Policy Committee (MPC) has signalled not inertia, but strategic caution in the face of a renewed external shock.

At the heart of this decision lies a familiar yet increasingly complex challenge: how to respond to an inflationary surge driven not by domestic demand, but by global energy disruptions, while the domestic economy remains weak.

The Shock: Geopolitics Meets Energy Markets

The immediate trigger for the MPC's reassessment has been the escalation of conflict in the Middle East, particularly disruptions to shipping through the Strait of Hormuz—a critical artery for global energy supply. With around one-fifth of global oil and liquefied natural gas flows affected, energy markets have responded sharply.

Oil prices have surged above \$100 per barrel, while European gas prices have risen by around 60 percent from pre-conflict levels. These developments are already feeding into expectations of higher fuel and utility costs for households and rising input costs for businesses.

This is a classic terms-of-trade shock that raises domestic prices while simultaneously eroding real incomes and dampening demand.

Inflation Dynamics: From Disinflation to Reversal

Prior to the shock, the UK economy was firmly on a disinflationary path. CPI inflation had declined to 3.0 percent in January 2026, and wage growth had moderated, suggesting that earlier monetary tightening was working.

However, the energy shock has disrupted this trajectory. Inflation is now expected to:

- Rise to around 3½ percent in the near term,

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- Remain close to 3 percent in the second quarter, and
- Potentially increase again in Q3, driven by both direct and indirect effects of higher energy prices.

The direct impact, through fuel and utility prices, is relatively predictable. More uncertain are the indirect effects, as firms pass on higher costs, and the second-round effects through wage-setting and inflation expectations. It is this latter channel that concerns policymakers most.

Second-Round Effects: The Core Policy Risk

- The MPC's discussions reveal a heightened concern about the risk of inflation persistence. The experience of recent years, where successive supply shocks led to prolonged inflation, has increased the sensitivity of households and firms to price changes.

Energy and food prices play a disproportionate role in shaping inflation expectations. If households and businesses begin to anticipate sustained inflation, this could lead to:

- Higher wage demands
- More aggressive price-setting by firms
- A self-reinforcing inflationary cycle

While current wage growth remains moderate, early signals—such as slightly higher expected pay settlements—suggest that the risk cannot be dismissed.

Growth Outlook: Weakness Beneath the Surface

Unlike the energy shock of 2022, the current shock is hitting an economy that is already under strain.

- GDP growth has been subdued, with quarterly expansion of just 0.1–0.2 percent.
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- Labour demand remains weak, with unemployment at 5.2 percent and limited job creation.
- Consumer and business confidence are fragile.

Higher energy prices are expected to further squeeze real incomes, increase precautionary savings, and weaken demand. This could widen the output gap and exert downward pressure on inflation over the medium term.

Thus, the MPC faces a classic policy trade-off:

- Tighten policy to contain inflation, risking a deeper slowdown, or
- Ease policy to support growth, risking inflation persistence.

Policy Response: A Deliberate Pause

In this context, the decision to hold rates reflects a strategy of “pause and reassess.” Several factors underpin this approach:

- **Nature of the Shock:** Monetary policy cannot directly influence global energy prices.
- **Uncertainty:** The duration and magnitude of the shock remain unclear.
- **Transmission Lags:** Policy affects inflation with a lag, making medium-term dynamics more relevant than near-term fluctuations.
- **Tightening Financial Conditions:** Market rates have already risen, implying some passive tightening.

Importantly, the unanimity of the decision masks a shift in underlying preferences. Several MPC members indicated that, absent the shock, they would have supported a rate cut, highlighting how dramatically the policy landscape has changed.

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Scenario-Based Policy Thinking

A notable feature of the MPC's deliberations is its explicit consideration of alternative scenarios:

- **Benign Scenario:** A short-lived shock with limited pass-through, allowing inflation to return to target and enabling future rate cuts.
- **Adverse Scenario:** Prolonged supply disruptions leading to persistent inflation and requiring tighter policy.

This scenario-based approach reflects a broader shift in central banking toward managing uncertainty rather than relying on point forecasts.

Global Context: Converging Challenges, Diverging Responses

The Bank of England's stance aligns with a broader global pattern. Central banks worldwide are grappling with the same energy shock, but their responses vary based on domestic conditions.

Compared to the Federal Reserve, which faces stronger growth, and the European Central Bank, which confronts deeper stagnation risks, the UK sits in an intermediate position, characterised by both inflation vulnerability and growth weakness. This places the MPC in a particularly delicate position.

Conclusion: Policy at a Crossroads

The March 2026 MPC decision captures a central bank at a crossroads. The UK economy is transitioning from a period of disinflation to one of renewed uncertainty, driven by external shocks beyond the control of domestic policy.

The choice to hold rates is not a sign of indecision but a recognition of complexity. The MPC is buying time—to assess the persistence of the energy shock, the behaviour of inflation expectations, and the resilience of the domestic economy.

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In the months ahead, the path of monetary policy will depend critically on one question: Will the energy shock prove temporary, or will it leave a lasting imprint on inflation dynamics? The answer will determine whether the next move is toward easing, tightening, or an extended pause. In an increasingly volatile global environment, the challenge for the Bank of England is clear: to anchor expectations without anchoring the economy into stagnation.

FROM ULTRA-LOOSE TO MEASURED TIGHTENING: INTERPRETING JAPAN'S MONETARY POLICY SHIFT

The March 19, 2026 policy decision of the Bank of Japan marks another step in what is arguably one of the most closely watched monetary transitions in the global economy. By maintaining the uncollateralized overnight call rate at around 0.75 percent (decided by an 8–1 majority), the Bank has reaffirmed its cautious but clear shift away from ultra-accommodative policy.

This is not merely a routine decision. It reflects a deeper structural transformation in Japan's macroeconomic environment—one that is finally moving beyond decades of deflationary pressures toward a more “normal” inflation regime.

Economic Conditions: Recovery with Fragility

Japan's economy continues to exhibit moderate recovery, though not without pockets of weakness.

- **External sector:** Exports and industrial production remain broadly flat, reflecting subdued global demand and the impact of trade policies.
 - **Corporate sector:** Profits remain high overall, though manufacturing faces pressure from tariffs.
 - **Investment:** Business fixed investment is increasing moderately, signalling confidence among firms.
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- **Consumption:** Private consumption remains resilient, supported by improving wages and employment, but is being eroded by rising prices.
- **Housing:** A notable weak spot, with investment declining.

Financial conditions, however, remain accommodative—an important support for growth during this transitional phase.

The overall picture is one of steady but uneven recovery, where domestic demand is holding up even as external conditions remain uncertain.

Inflation Dynamics: At Target, But Not Yet Anchored

A defining feature of the current policy environment is that inflation has finally reached the Bank’s long-elusive 2 percent target, at least temporarily.

Core CPI (excluding fresh food) has been above 2 percent, driven partly by rising food prices, particularly staples such as rice. However, inflation has recently moderated to around 2 percent, reflecting government measures to ease energy costs.

Looking ahead, the Bank expects a two-phase inflation trajectory:

1. **Near-term moderation:** Inflation may fall below 2 percent as food price effects fade and government interventions take hold.
2. **Medium-term reacceleration:** Rising crude oil prices and improving domestic demand are expected to push inflation upward again.

Crucially, the Bank emphasises the emergence of a wage–price cycle, where rising wages feed into prices and vice versa—a mechanism long absent in Japan’s economy.

The Wage–Price Dynamic: A Structural Shift

The most significant development in Japan’s macroeconomic landscape is the gradual strengthening of the interaction between wages and prices.

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For decades, Japan struggled with weak wage growth and entrenched deflationary expectations. The current environment, however, suggests a shift:

- Firms are increasingly passing on higher costs to consumers.
- Wage growth is improving, supported by labour shortages.
- Inflation expectations are rising, albeit gradually.

If sustained, this could mark a structural break, transforming Japan from a low-inflation, low-growth economy into one characterised by moderate inflation and more dynamic demand conditions.

Policy Stance: Cautious Normalisation

Despite these changes, the Bank of Japan's policy stance remains highly measured.

Real interest rates are still significantly negative, indicating that monetary conditions remain accommodative. However, the Bank has clearly signalled its intention to gradually raise policy rates if economic and inflation conditions evolve as expected.

This represents a shift from: crisis-era stimulus, aimed at combating deflation, to calibration of accommodation, aimed at sustaining inflation at target.

The emphasis is on gradualism. Rapid tightening could undermine the fragile recovery and disrupt the emerging wage-price cycle.

Global Risks: Energy and Geopolitics

A key concern highlighted in the statement is the impact of rising global uncertainty, particularly tensions in the Middle East.

The surge in crude oil prices introduces a dual risk:

- Inflationary pressure, through higher import costs
 - Growth risks, by squeezing household incomes and increasing business costs
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For Japan, a major energy importer, these risks are particularly pronounced. The Bank must therefore navigate a complex environment where external shocks can simultaneously push inflation up and growth down.

Risk Assessment: A Multi-Dimensional Challenge

The Bank identifies several key risks:

- Geopolitical developments and energy prices
- Global trade policies and economic activity
- Domestic wage- and price-setting behaviour
- Financial and exchange rate volatility

Among these, the most critical is whether the underlying inflation process becomes self-sustaining. Temporary price increases driven by external shocks are not sufficient; the Bank seeks durable, demand-driven inflation anchored in wages and expectations.

Interpreting the Policy Shift: From Experimentation to Normalisation

The Bank of Japan's current stance can be understood as a transition from monetary experimentation, including negative interest rates and yield curve control, to policy normalisation.

However, this transition is fundamentally different from that of other major central banks:

- Unlike the Federal Reserve or European Central Bank, which are managing disinflation,
- The Bank of Japan is attempting to secure inflation after decades of undershooting its target.

This reversal of the global narrative makes Japan's policy path uniquely challenging.

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Conclusion: A Delicate but Defining Moment

The March 2026 policy statement reflects a central bank at a defining moment. Japan is closer than ever to achieving sustained inflation at its 2 percent target, supported by an emerging wage–price cycle and improving economic conditions.

Yet, the path ahead remains uncertain. External shocks, particularly energy price volatility, could disrupt both inflation and growth. At the same time, premature tightening could derail the fragile progress made so far.

The Bank of Japan’s strategy: gradual, data-dependent, and cautious, reflects an acute awareness of these risks.

Ultimately, the success of this transition will depend on one critical factor: whether Japan can sustain a virtuous cycle of wages, prices, and demand. If it can, the country may finally turn the page on its long deflationary era. If not, the challenge of achieving durable price stability will persist.

CENTRAL BANKS IN TRANSITION: A COMPARATIVE ANALYSIS OF MONETARY POLICY ACROSS MAJOR ECONOMIES

The March 2026 monetary policy stance of the Bank of Japan (BoJ) highlights a striking divergence in global monetary policy. While most major central banks are grappling with the challenge of bringing inflation down, Japan faces the opposite problem, viz., ensuring that inflation, once achieved, is sustained.

By maintaining the policy rate at around 0.75 percent while signalling a gradual path toward further tightening, the BoJ is navigating a transition that is fundamentally different from its global peers. This divergence reflects deeper structural differences in economic conditions, inflation dynamics, and policy objectives.

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Japan's Macro Transition: From Deflation to a Fragile Inflation Regime

Japan's economy is recovering moderately, supported by resilient consumption, rising wages, and improving corporate performance. Yet, external demand remains weak, and sectors such as housing continue to lag.

Most notably, inflation has finally reached the Bank's 2 percent target—an achievement that would have seemed elusive just a few years ago. However, this inflation remains fragile:

- It has been partly driven by food and energy prices, rather than purely domestic demand.
- It is supported by government interventions, which are now moderating price pressures.
- It is still in the process of being anchored through expectations and wage dynamics.

The BoJ's emphasis on a strengthening wage–price cycle is therefore critical. Unlike other economies where such dynamics risk overheating, in Japan they are essential for sustaining inflation.

A Unique Policy Challenge: Securing, Not Containing, Inflation

The BoJ's policy dilemma stands in contrast to other major central banks:

- The Federal Reserve is focused on ensuring that inflation falls sustainably to its 2 percent target.
- The European Central Bank is balancing inflation risks against weak growth.
- The Bank of England is managing a renewed inflation shock from rising energy prices.

In contrast, the BoJ is attempting to lock in inflation, ensuring that it does not fall back below target once temporary factors dissipate.

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This reversal of the conventional policy problem makes Japan's strategy uniquely cautious.

Global Context: A Shared Shock, Different Responses

A key common factor across all major economies in 2026 is the resurgence of geopolitical risk, particularly from tensions in the Middle East. This has led to:

- Rising oil and gas prices
- Increased financial market volatility
- Heightened uncertainty about inflation trajectories

However, the policy responses differ significantly:

United States (Federal Reserve): Controlled Disinflation

The Fed has adopted a data-dependent pause, maintaining relatively high interest rates while monitoring inflation's gradual decline. Growth remains resilient, allowing the Fed to prioritise price stability.

Euro Area (ECB): Stagflation Risk Management

The ECB faces a more difficult trade-off, with weak growth and renewed inflation pressures. Its policy stance reflects strategic caution, balancing downside growth risks against upside inflation risks.

United Kingdom (BoE): Shock-Driven Reassessment

The Bank of England has paused amid an energy-driven inflation shock, shifting from a potential easing cycle to a wait-and-watch approach. The UK economy's underlying weakness complicates its response.

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Japan (BoJ): Gradual Normalisation

The BoJ, in contrast, is exiting from ultra-loose policy, with inflation finally at target and wages rising. Its challenge is to tighten policy without undermining the nascent inflation regime.

Table 5: Comparative Snapshot: Monetary Policy Across Major Economies

<i>Dimension</i>	<i>Japan (BoJ)</i>	<i>United States (Fed)</i>	<i>Euro Area (ECB)</i>	<i>United Kingdom (BoE)</i>
<i>Policy Rate</i>	<i>~0.75 percent</i>	<i>3.50–3.75 percent</i>	<i>~2.00 percent</i>	<i>3.75 percent</i>
<i>Inflation Challenge</i>	<i>Too low (historically)</i>	<i>Too high (moderating)</i>	<i>Re-emerging</i>	<i>Shock-driven rise</i>
<i>Growth Outlook</i>	<i>Moderate</i>	<i>Strong</i>	<i>Weak</i>	<i>Subdued</i>
<i>Policy Direction</i>	<i>Gradual tightening</i>	<i>Pause / eventual easing</i>	<i>Hold / cautious</i>	<i>Hold amid uncertainty</i>
<i>Key Risk</i>	<i>Inflation not sustained</i>	<i>Inflation persistence</i>	<i>Stagflation</i>	<i>Energy shock</i>

This table underscores the asymmetry in policy challenges, which is driving divergence in monetary policy paths.

Structural Drivers of Divergence

The differences in policy are rooted in deeper structural factors:

1. **Demographics:** Japan’s ageing population dampens demand and inflation.

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2. **Labour Markets:** Tight labour markets in the U.S. contrast with weaker dynamics in Europe and Japan.
3. **Energy Dependence:** Europe and the UK are more vulnerable to energy shocks than the U.S.
4. **Inflation Expectations:** Japan's expectations remain less entrenched compared to other advanced economies.

These structural features imply that global monetary policy cycles are becoming less synchronised.

Implications for the Global Economy

The divergence in central bank strategies has several implications:

- **Capital Flows:** Higher interest rates in the U.S. may continue to attract global capital, affecting exchange rates.
- **Currency Movements:** A relatively accommodative stance in Japan may keep the yen under pressure.
- **Global Growth:** Weakness in Europe and the UK may weigh on global demand, even as the U.S. remains resilient.
- **Policy Spillovers:** Decisions by major central banks will continue to have cross-border effects, particularly for emerging markets.

Conclusion: Convergence in Goals, Divergence in Paths

The global monetary policy landscape in 2026 is defined by a shared objective of price stability, but increasingly divergent strategies.

The Bank of Japan stands out as the only major central bank attempting to secure inflation rather than suppress it. Its cautious normalisation reflects both progress and fragility in Japan's economic transition.

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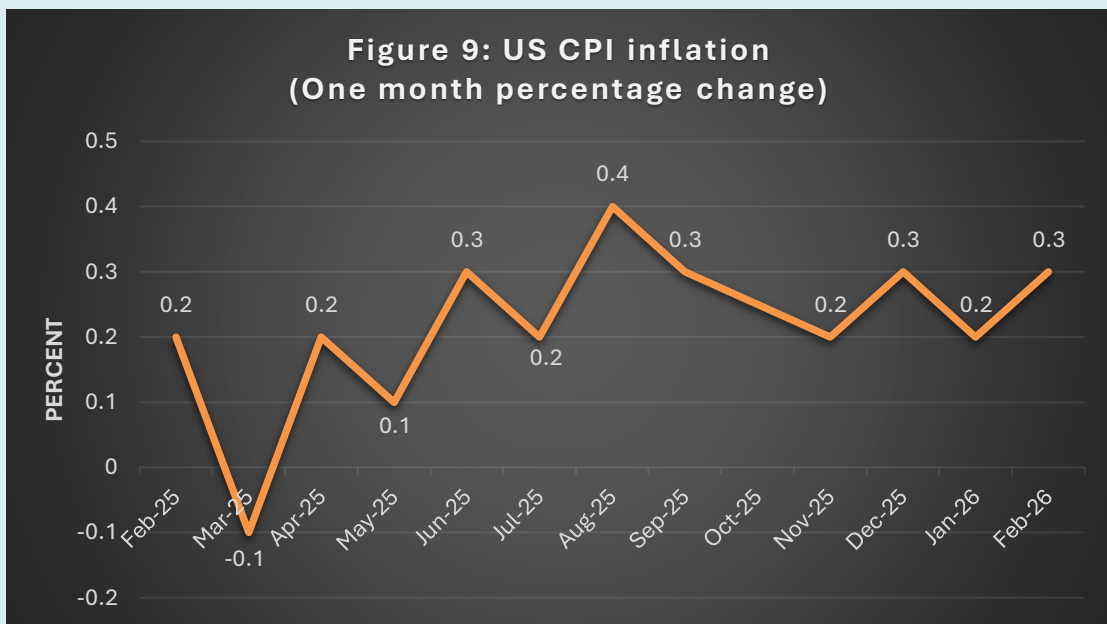
At the same time, the Fed, ECB, and Bank of England are navigating the more familiar, but no less challenging, task of managing inflation in the face of geopolitical shocks and uncertain growth.

This divergence marks a new phase in global macroeconomics, where policy synchronisation gives way to policy differentiation, and where domestic conditions, rather than global cycles, increasingly shape monetary decisions. In this evolving landscape, the success of each central bank will depend not only on its ability to respond to shocks, but also on its capacity to manage expectations in an uncertain world.

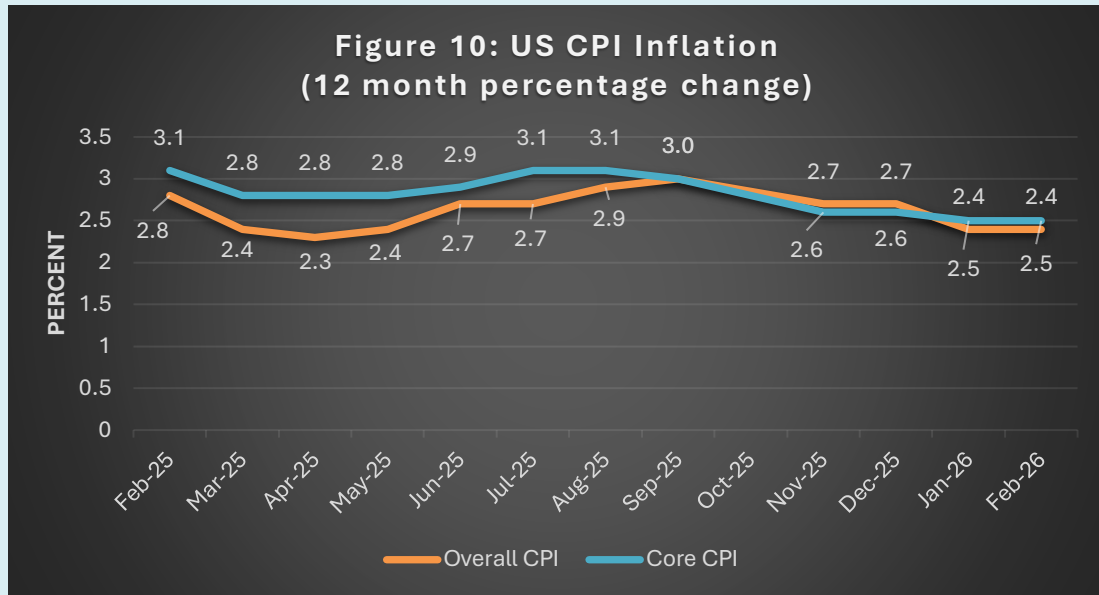
INFLATION

INFLATION HOLDS STEADY: WHAT FEBRUARY 2026 CPI DATA SIGNALS FOR THE US ECONOMY

Inflation in the United States showed signs of stability in February 2026, even as underlying price pressures remained evident across key consumption categories. According to the latest Consumer Price Index (CPI) release, prices rose by 0.3 percent month-on-month, following a 0.2 percent increase in January (Figure 9). On an annual basis, inflation remained unchanged at 2.4 percent (Figure 10), indicating a broadly steady price environment.



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



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

A closer look at the data reveals that housing costs continued to be the dominant driver of inflation. The shelter index recorded a 0.2 percent increase during the month and accounted for the largest share of the overall rise in prices. This highlights the persistent role of housing in shaping inflation dynamics, even as other components show mixed trends.

Food prices also contributed to the upward movement, with the overall food index rising by 0.4 percent in February. Both food consumed at home and food away from home registered increases, reflecting sustained cost pressures in the food economy. Over the past year, food prices have risen by 3.1 percent, outpacing headline inflation and underscoring continued stress in household consumption budgets .

Energy prices, which had softened in previous months, rebounded in February with a 0.6 percent increase. Rising gasoline and natural gas prices were key contributors, although electricity prices showed some moderation. Despite this monthly uptick, energy inflation remains relatively subdued on an annual basis.

Core inflation, excluding food and energy, rose by 0.2 percent during the month and stood at 2.5 percent year-on-year (Figure 10), indicating moderate but persistent

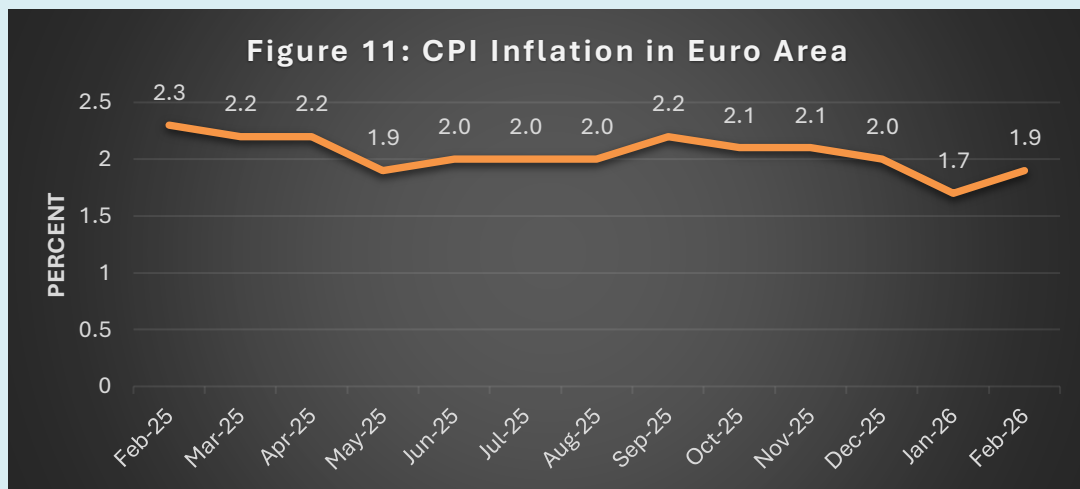
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underlying inflationary pressures. Increases were observed in categories such as medical care, apparel, airline fares, and education, while declines in used vehicles, communication services, and personal care helped offset the rise.

Overall, the February CPI data points to a phase of relative inflation stability, with headline inflation holding steady while sectoral divergences persist. Housing and food continue to exert upward pressure, while energy and selected goods categories provide some relief. For policymakers, this suggests that while inflation may be under control at the aggregate level, underlying structural pressures remain, warranting continued vigilance in monetary policy. The US inflation landscape appears balanced but fragile, stable in aggregate terms, yet shaped by persistent cost pressures in essential sectors that directly affect household welfare.

EURO AREA INFLATION EDGES UP, STAYS BELOW ECB TARGET

Inflation in the euro area showed a modest uptick in February 2026, reflecting a gradual firming of price pressures even as overall levels remained within manageable bounds. The annual inflation rate rose to 1.9 percent, up from 1.7 percent in January (Figure 11), placing it just below the European Central Bank’s (ECB) medium-term target of 2 percent.



Source: Eurostat

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The increase was largely driven by a rebound in services and non-energy industrial goods, suggesting strengthening domestic demand and pricing power in key sectors. Services inflation rose to 3.4 percent, continuing to be the primary contributor to overall price pressures. Meanwhile, inflation in non-energy industrial goods edged up to 0.7 percent, indicating a modest recovery in goods-related pricing dynamics.

At the same time, core inflation (which excludes volatile components such as energy and food) also moved higher, rising to 2.4 percent from 2.2 percent in January. This points to underlying inflationary pressures that remain somewhat sticky, even as headline inflation appears contained.

Energy prices, however, continued to act as a moderating force. Although they declined by 3.1 percent year-on-year, the pace of decline slowed compared to the previous month, reducing the downward drag on overall inflation. This interplay between falling energy prices and rising services inflation highlights the evolving composition of price dynamics in the euro area.

Across major economies, inflation trends remained mixed. Germany recorded inflation at 2.0 percent, aligning closely with the ECB's target, while France remained lower at 1.1 percent. Italy posted a moderate 1.5 percent, and Spain stood higher at 2.5 percent, reflecting varying domestic conditions across the bloc.

Compared to a year earlier, the February 2026 inflation rate represents a significant moderation from the 2.5–2.7 percent range seen in early 2025. This suggests that the euro area has made considerable progress in bringing inflation under control.

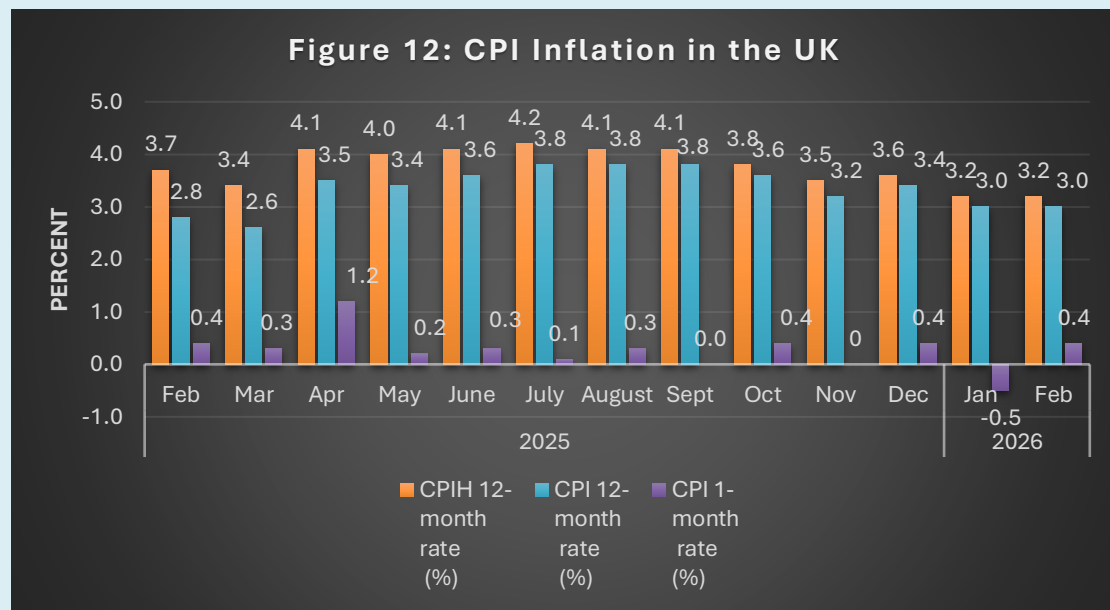
However, the outlook remains uncertain. The relatively benign February reading was followed by a sharp rise to 2.5 percent in March 2026, driven by a surge in energy prices. This underscores the continued vulnerability of inflation to external shocks, particularly in energy markets.

Overall, the February data presents a picture of inflation nearing stability but not yet fully anchored. While headline inflation remains close to target, underlying pressures

and external risks suggest that policymakers will need to remain cautious in navigating the path ahead.

UK INFLATION HOLDS AT 3 PERCENT, BUT COST PRESSURES PERSIST

Inflation in the United Kingdom remained broadly unchanged in February 2026, reflecting a balance between rising costs in some categories and easing pressures in others. The Consumer Prices Index including owner occupiers' housing costs (CPIH) stood at 3.2 percent year-on-year, while the headline Consumer Prices Index (CPI) held steady at 3.0 percent (Figure 12), both unchanged from January.



Source:

<https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/february2026>

On a monthly basis, prices rose by 0.4 percent for both CPIH and CPI, mirroring the pace recorded in February 2025. This suggests a degree of stability in price movements, even as inflation remains above the Bank of England's target.

The underlying drivers of inflation reveal a nuanced picture. Clothing prices emerged as the largest contributor to the monthly increase, indicating renewed pressure in

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discretionary consumer categories. In contrast, motor fuel prices provided the biggest downward offset, helping to contain the overall rise in prices.

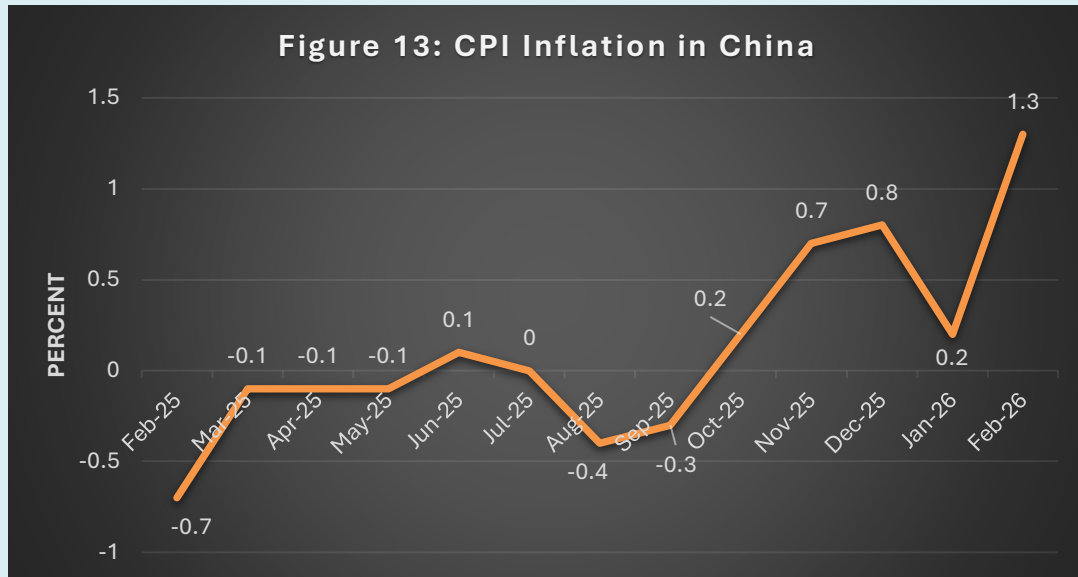
Core inflation, which excludes volatile components such as energy and food, edged higher. Core CPIH rose to 3.4 percent, while core CPI increased to 3.2 percent, pointing to persistent underlying inflationary pressures. At the same time, a divergence between goods and services inflation continues to shape the inflation profile. Goods inflation remained stable at 1.6 percent, while services inflation—though still elevated—eased slightly, with CPIH services declining to 4.2 percent and CPI services to 4.3 percent.

This pattern suggests that while headline inflation has stabilized, price pressures in the services sector remain relatively strong, reflecting factors such as wage growth and domestic demand. The modest uptick in core inflation further reinforces concerns about “sticky” inflation, where underlying price pressures persist even as overall inflation appears steady.

Overall, the February data points to an economy experiencing stable but elevated inflation, with offsetting forces keeping headline figures in check. For policymakers, the challenge remains to bring inflation closer to target without undermining growth, particularly as underlying pressures continue to linger beneath the surface.

CHINA’S INFLATION SURGES TO TWO-YEAR HIGH ON LUNAR NEW YEAR DEMAND

China’s inflation recorded a sharp uptick in February 2026, rising to 1.3 percent year-on-year from just 0.2 percent in January (Figure 13), which is its highest level since early 2023 and well above market expectations. The surge was largely driven by seasonal factors, particularly the timing of the Lunar New Year, which fell in mid-February this year and boosted consumer demand across key categories.



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

The most notable increase came from food prices, which rebounded strongly after a decline in January. Food inflation rose to 1.7 percent, supported by higher prices of fresh vegetables and a moderation in the decline of pork prices—an important component of China’s consumption basket. This seasonal demand-led surge highlights the continued sensitivity of China’s inflation dynamics to food price movements.

At the same time, non-food inflation also strengthened significantly, rising to 1.3 percent from 0.4 percent in the previous month. Price increases were observed across several categories, including clothing, healthcare, and education, indicating a broader-based pickup in consumer prices. This suggests that inflationary pressures are not limited to seasonal food effects alone.

Core inflation, which excludes food and energy, rose to 1.8 percent, marking its strongest level since March 2019. This is an important signal of underlying price momentum, pointing to a gradual firming of domestic demand conditions after a prolonged period of subdued inflation.

On a monthly basis, consumer prices rose by 1.0 percent, the largest increase in a year, further reflecting the impact of holiday-related spending. Meanwhile, transport costs

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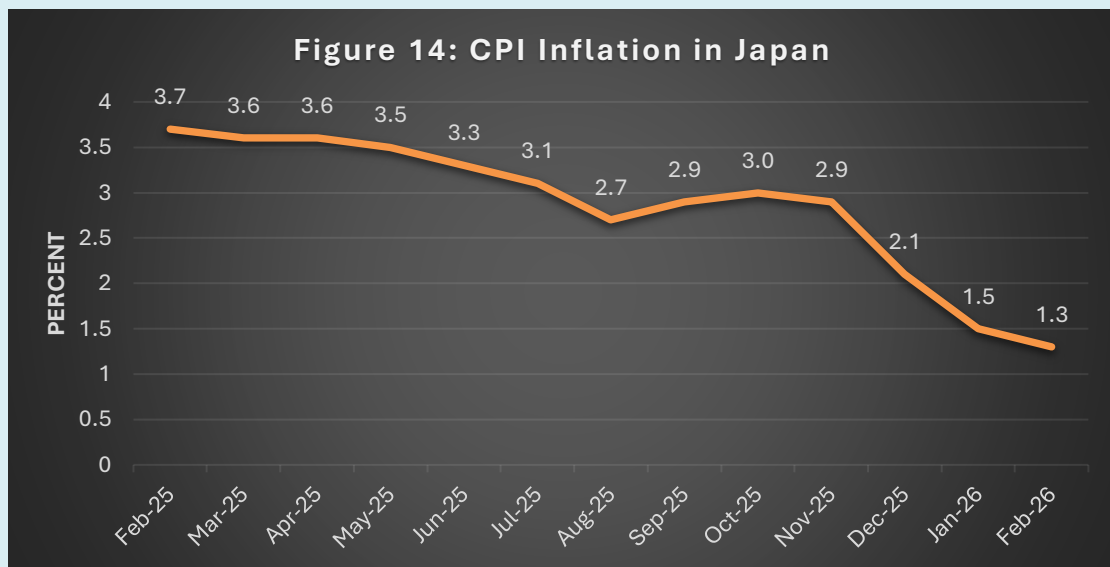
continued to decline, though at a slower pace, and housing prices remained weak, indicating persistent softness in certain segments of the economy.

Despite the strong February reading, the broader inflation environment in China remains relatively moderate. Much of the recent increase appears to be driven by temporary, seasonal factors rather than a sustained demand-driven inflation cycle. However, the rise in core inflation suggests that underlying price pressures may be gradually strengthening.

Overall, the latest data points to a transition from deflationary concerns toward modest inflation recovery, though the durability of this trend will depend on the strength of domestic demand and the trajectory of key sectors such as housing and consumption.

JAPAN’S INFLATION SOFTENS, RENEWING QUESTIONS ON DEMAND STRENGTH

Japan’s inflation continued to ease in February 2026, with the annual rate falling to 1.3 percent, down from 1.5 percent in January (Figure 14) and marking the lowest level since March 2022. The decline reflects a combination of moderating price pressures across key consumption categories and the continued impact of government subsidies, particularly in energy.



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

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Food inflation, while still elevated relative to other components, remained subdued at 4.0 percent, close to a 15-month low. A notable factor was the slowing increase in rice prices, the weakest in nearly two years, which helped contain overall food costs. At the same time, price growth softened in sectors such as transport and clothing, indicating a broader moderation in consumer price pressures.

Energy prices played a decisive role in pulling inflation lower. Electricity and gas prices fell sharply, with declines deepening compared to the previous month. These trends largely reflect the effects of government support measures aimed at reducing household energy costs, which continue to exert a downward influence on headline inflation.

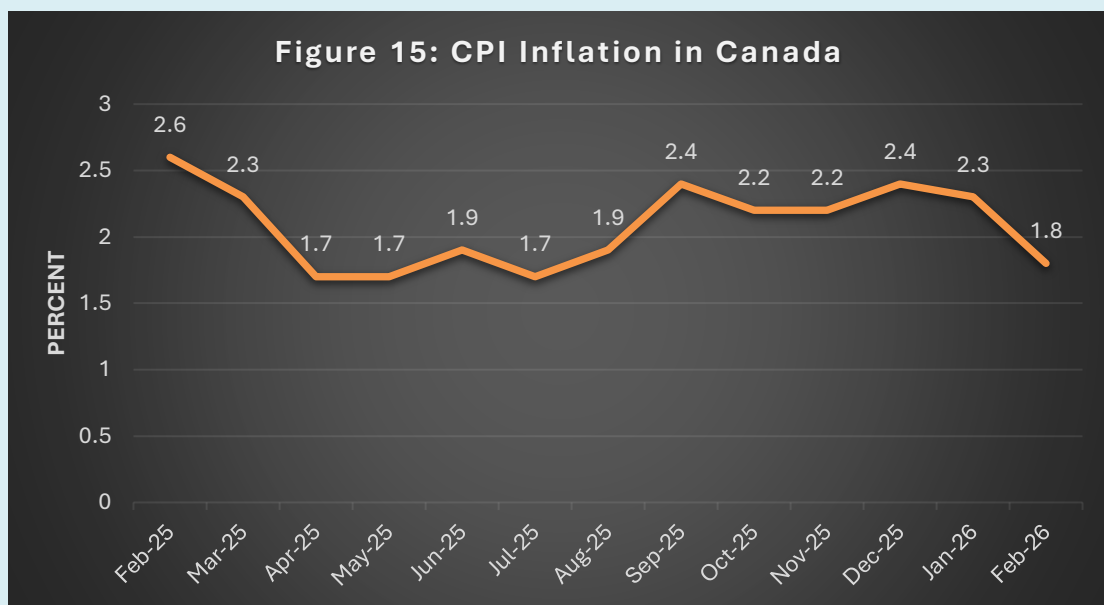
Other components presented a mixed picture. Prices for housing, healthcare, and miscellaneous goods remained stable, suggesting a degree of underlying price consistency in essential services. However, inflation accelerated modestly in categories such as household goods, communications, and recreation, pointing to pockets of resilience in consumer demand.

A key development was the decline in core inflation, which fell to 1.6 percent, its lowest level since March 2022 and below the Bank of Japan's 2 percent target for the first time in nearly four years. This signals a weakening of underlying inflationary momentum, raising concerns about the sustainability of Japan's long-awaited exit from low inflation. On a monthly basis, consumer prices declined by 0.2 percent for the third consecutive month, reinforcing the trend of softening price dynamics.

The data for the month suggest that Japan's inflation is losing momentum, with energy subsidies and moderating demand playing a central role. While this may ease cost pressures for households, it also underscores the ongoing challenge for policymakers in achieving stable, target-consistent inflation in the world's third-largest economy.

CANADA'S INFLATION FALLS BELOW 2 PERCENT AS PRICE PRESSURES EASE

Canada's inflation rate eased notably in February 2026, falling to 1.8 percent from 2.3 percent in January (Figure 15) and coming in slightly below market expectations. This marks the softest inflation reading since mid-2025 and suggests that price pressures are gradually aligning with the Bank of Canada's target of around 2 percent.



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

The moderation in inflation was driven largely by base effects, particularly following the expiration of tax breaks in February 2025, which had previously elevated price levels. As a result, food inflation slowed significantly to 5.3 percent from 7.3 percent in the previous month, contributing to the overall decline in headline inflation.

Beyond food, several key categories also recorded a deceleration in price growth. Inflation in recreation and education eased, while household operations and shelter costs showed signs of moderation. Transportation prices continued to decline, though at a slower pace than in January, indicating a gradual stabilization in that segment.

Importantly, underlying inflationary pressures also softened. Core inflation measures tracked by the Bank of Canada declined more than expected, with the trimmed-mean

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rate falling to 2.3 percent, its lowest level in four years. This suggests that the disinflationary trend is becoming more broad-based and not solely dependent on volatile components.

The February data reinforces expectations that inflation will remain close to the central bank's target in the near term. However, the outlook is not without risks. The data precedes recent geopolitical developments, including rising tensions in the Middle East, which have already triggered increases in global energy and commodity prices. These external shocks could potentially reverse some of the recent gains in controlling inflation.

Canada appears to be entering a phase of inflation stability, with both headline and core measures showing encouraging signs. Yet, as global uncertainties persist, maintaining this balance will require careful monitoring of external price shocks and domestic demand conditions.

BRAZIL'S INFLATION EASES TO TWO-YEAR LOW DESPITE MONTHLY PRICE SPIKE

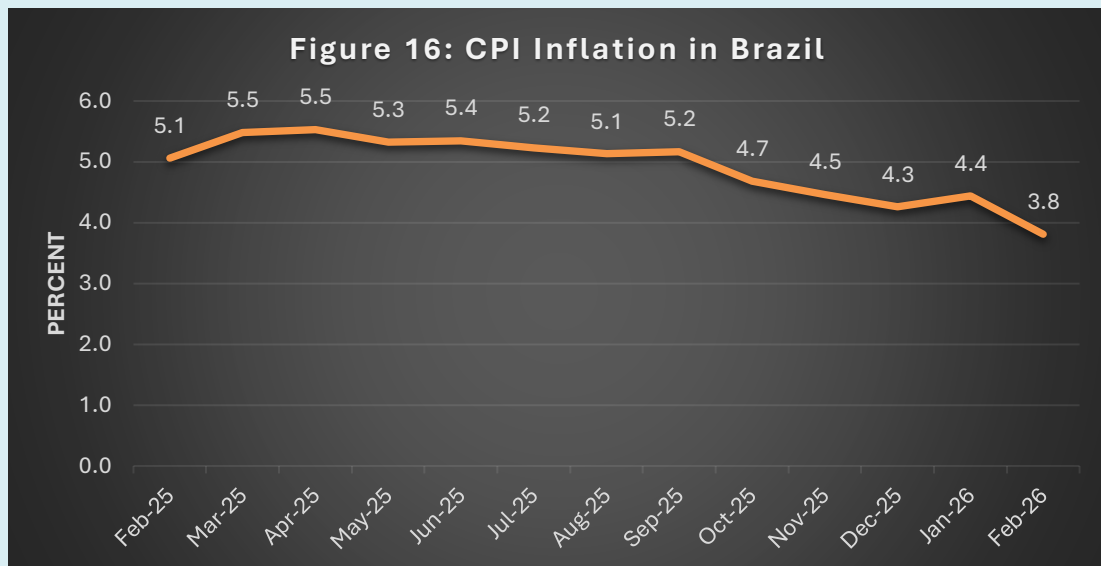
Brazil's inflation showed a notable easing in February 2026, with the annual rate declining to 3.81 percent (Figure 16), its lowest level since April 2024. This marks a significant drop from 4.44 percent in January and signals continued progress in moderating price pressures, broadly in line with market expectations.

The decline in inflation was primarily driven by softer increases in food and beverage prices, as well as a sharp moderation in housing costs. Electricity prices, one of the major contributors to inflation in recent months, rose at a much slower pace compared to January, largely due to base effects. This easing in utility costs played a central role in bringing down overall inflation.

However, the broader picture reveals a more complex dynamic. While some categories experienced cooling price pressures, others showed signs of strengthening. Inflation picked up in sectors such as transportation, healthcare, personal expenses, and

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education, indicating that underlying demand and sector-specific factors continue to exert upward pressure.



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

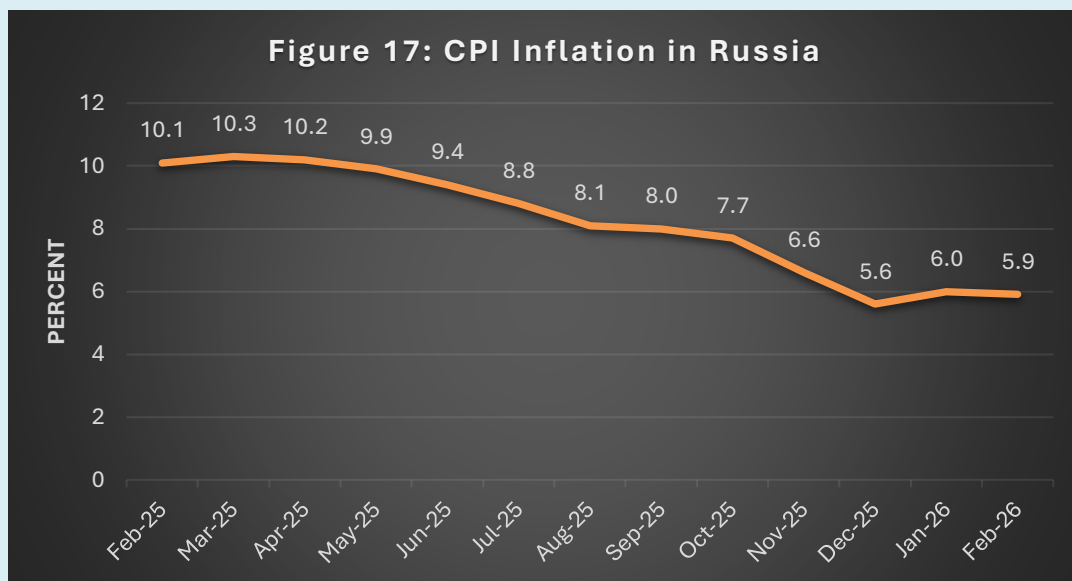
On a monthly basis, inflation rose by 0.7 percent, marking the fastest increase in a year. This surge was largely driven by seasonal factors. Education costs saw a sharp rise, reflecting typical price adjustments at the start of the academic year, while transportation costs were pushed higher by a significant increase in airfares.

These trends suggest that although Brazil’s inflation is moderating on an annual basis, short-term price pressures remain volatile, particularly due to seasonal and sector-specific factors. The divergence between easing headline inflation and rising monthly prices highlights the uneven nature of the disinflation process.

The February data points to a gradual but incomplete normalization of inflation, with encouraging signs of moderation tempered by persistent pressures in key consumption categories. For policymakers, maintaining this trajectory while managing periodic spikes in prices will remain a critical challenge in the months ahead.

RUSSIA'S INFLATION EASES SLIGHTLY BUT REMAINS ELEVATED

Russia's inflation showed a marginal easing in February 2025, with the annual rate dipping to 5.9 percent from 6.0 percent (Figure 17) in the previous month. While this slight moderation offers some relief, inflation remains elevated and above the central bank's preferred range, underscoring persistent price pressures in the economy.



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

The latest reading broadly aligns with signals from the Bank of Russia, which had anticipated elevated inflation at the start of the year due to increases in VAT and excise taxes. However, the outcome also highlights a deviation from the central bank's broader expectation that inflation would settle within the 4.5–5.5 percent range, indicating that price stability remains elusive.

A closer look at the composition of inflation reveals that services continue to be the primary driver, with prices rising sharply by 9.9 percent. This strong increase reflects underlying demand pressures and cost dynamics within the services sector. In contrast, inflation for food products eased to 5.4 percent, while non-food goods recorded a more moderate increase of 3.2 percent, helping to partially offset the overall rise.

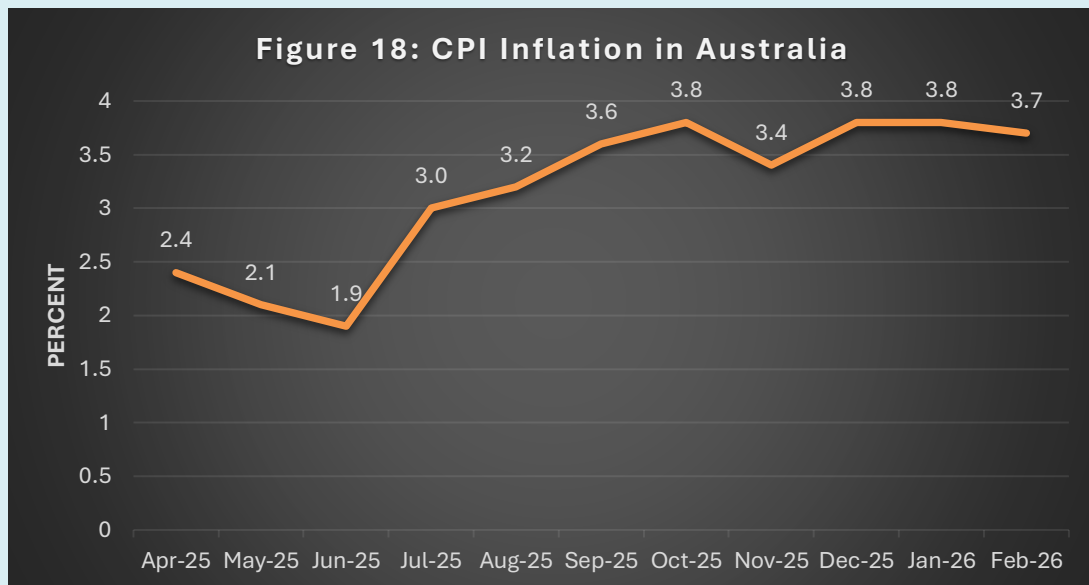
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On a monthly basis, consumer prices increased by 0.7 percent, pointing to continued momentum in price growth despite the slight moderation in annual inflation. This suggests that inflationary pressures remain entrenched, even if the headline rate has edged down.

Overall, the February data highlights a pattern of “sticky inflation” in Russia, where underlying pressures, particularly in services, continue to sustain elevated price levels. For policymakers, the challenge will be to manage these persistent pressures while steering inflation closer to target, especially in the face of fiscal adjustments and structural cost drivers.

AUSTRALIA’S INFLATION EASES SLIGHTLY BUT REMAINS ABOVE TARGET

Australia’s inflation showed a modest easing in February 2026, with the annual rate edging down to 3.7 percent (Figure 18), slightly below market expectations and continuing the trend observed in recent months. Despite this moderation, inflation remains outside the Reserve Bank of Australia’s target range of 2–3 percent, indicating that price pressures are still not fully contained.



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

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The decline in inflation was largely driven by softer goods prices, particularly in transport. Automotive fuel prices fell more sharply compared to January, reflecting easing global energy costs prior to the escalation of geopolitical tensions in the Middle East. Additional moderation was seen across categories such as alcohol and tobacco, clothing, furnishings, communication, and education, suggesting a broader cooling in goods-related inflation.

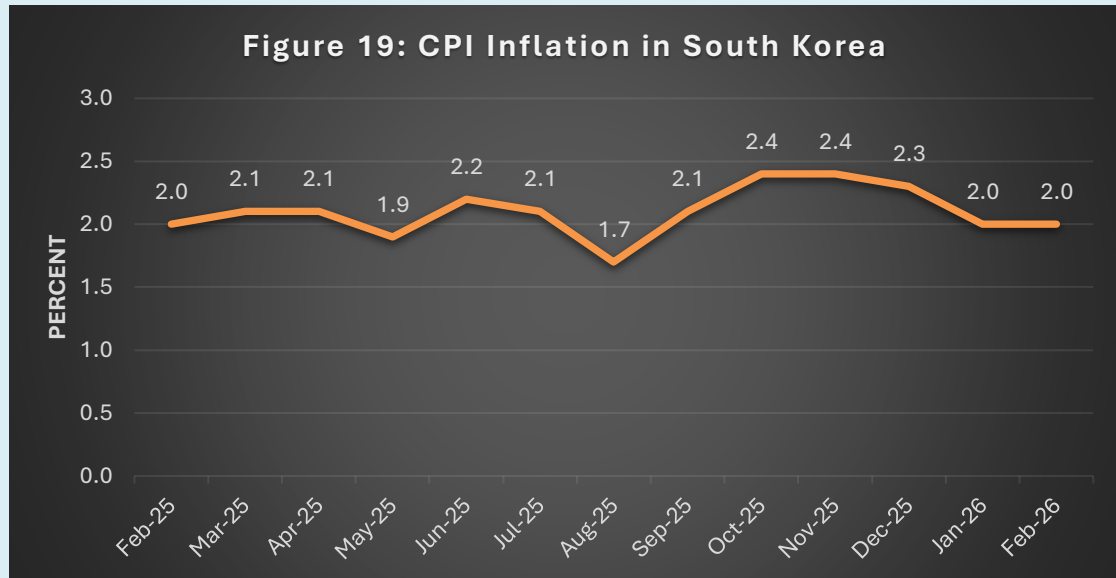
However, this easing was partly offset by rising pressures in other areas. Housing costs continued to accelerate, climbing to 7.3 percent and remaining a key driver of inflation. Similarly, prices in the recreation sector picked up, while food and financial services inflation held steady. Notably, services inflation remained unchanged at 3.9 percent, pointing to persistent underlying pressures in the domestic economy.

Core inflation, as measured by the trimmed mean, also edged lower to 3.3 percent, indicating gradual progress in reducing underlying inflationary momentum. On a monthly basis, consumer prices were unchanged, reversing the increase seen in January and further reinforcing signs of short-term stabilization.

Overall, the February data presents a mixed picture. While headline inflation is slowly moderating, structural pressures, particularly in housing and services, continue to keep inflation elevated. For policymakers, the challenge will be to sustain the disinflationary trend while addressing these persistent drivers, especially in the face of evolving global uncertainties.

SOUTH KOREA'S INFLATION HOLDS AT TARGET, BUT ENERGY RISKS LOOM

South Korea's inflation remained stable in February 2026, with the annual rate holding at 2.0 percent, in line with the Bank of Korea's target and unchanged from January. The steady reading suggests that consumer price pressures were broadly contained at the start of the year, providing a measure of stability in an otherwise uncertain global environment.



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

On a monthly basis, consumer prices rose by 0.3 percent, indicating modest upward momentum. Key contributors to this increase included higher prices for food, non-alcoholic beverages, and household expenses, reflecting ongoing cost pressures in essential consumption categories. Additionally, prices in miscellaneous goods and services, as well as food and restaurant segments, continued to record notable increases, pointing to persistent demand-driven pressures.

Despite the stable headline figure, underlying dynamics suggest a more nuanced picture. While inflation remains aligned with the central bank's target, it is occurring against a backdrop of rising global uncertainties, particularly in energy markets. The Bank of Korea has cautioned that escalating geopolitical tensions in the Middle East

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could push oil prices higher, potentially translating into renewed inflationary pressures in the coming months.

In response to the current balance between stability and risk, the central bank has maintained its policy rate at 2.5 percent, signalling a cautious approach. At the same time, it projects inflation to average around 2.2 percent for 2026, indicating expectations of a slight upward drift.

Overall, the February data reflects a phase of inflation stability with emerging risks. While current price levels remain well-anchored, external shocks, particularly from energy markets, pose a key challenge to maintaining this equilibrium in the months ahead.

FOOD & AGRICULTURE

FAO INDEX EDGES UP IN FEBRUARY 2026: CEREAL, MEAT AND OIL PRICES DRIVE FIRST RISE IN MONTHS

Introduction

After a sustained period of easing, global food prices showed a modest rebound in February 2026. The FAO Food Price Index (FFPI), a key benchmark tracking international food commodity prices, recorded its first increase in five months, signalling a potential shift in global price dynamics. While the uptick remains moderate, it reflects evolving supply-demand conditions across key commodity groups.

Recent Trends in the FAO Food Price Index

The FFPI rose by 0.9 percent month-on-month in February 2026 (Table 6), reversing the downward trend observed since late 2025. This increase, though limited in magnitude, suggests that global food markets may be stabilizing after a period of correction.

However, in a broader perspective, global food prices remain slightly below their levels a year ago and significantly lower than the highs reached during the commodity price surge of 2022. This indicates that while short-term pressures have emerged, the overall inflationary environment in food markets remains contained.

Drivers of the Price Increase

The February uptick was driven primarily by increases in three major commodity groups:

- **Cereals:** Rising wheat prices, influenced by adverse weather conditions and geopolitical tensions affecting supply chains, contributed to the upward movement. Demand for rice varieties, including basmati, also remained firm.

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- **Vegetable Oils:** Prices rose sharply, supported by strong global demand and supply constraints, particularly in palm and soybean oil markets.
- **Meat:** Higher prices of bovine and ovine meat, driven by supply limitations and strong import demand, added to the upward pressure.

Together, these categories more than offset price declines in other segments.

Offsetting Factors: Dairy and Sugar

Not all food categories followed the upward trend.

- Dairy prices continued to decline, reflecting improved supply conditions and weaker demand in key export markets.
- Sugar prices also fell, supported by expectations of ample global production and favourable supply outlooks.

These declines played a moderating role, preventing a sharper increase in the overall index.

Structural Insights

The latest data reveals several important structural dynamics:

- Supply-side disruptions, including weather shocks and logistical bottlenecks, continue to influence cereal and oil markets.
- Demand resilience, particularly in emerging markets, is supporting meat prices.
- Divergence across commodities suggests that global food markets are not moving uniformly, but are shaped by commodity-specific factors.

Outlook

Looking ahead, global food prices are likely to remain moderately volatile. Key factors to watch include:

- Weather conditions affecting crop yields
-

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- Geopolitical developments influencing trade flows
- Energy and biofuel policies impacting oilseed markets
- Demand trends in major importing economies

While the recent increase may signal the end of the declining phase, a sustained upward trend is not yet firmly established.

Conclusion

The February 2026 rise in the FAO Food Price Index marks an important turning point after several months of decline. Driven by cereals, vegetable oils, and meat, the uptick reflects emerging pressures in global food markets. However, with overall prices still below last year’s levels, the current trend points more toward stabilization than a sharp resurgence in global food inflation.

Table 6: FAO Food Price Index (FFPI)

	<i>Food Price Index</i>	<i>Meat</i>	<i>Dairy</i>	<i>Cereals</i>	<i>Oils</i>	<i>Sugar</i>
<i>February 2025</i>	126.6	116.9	147.7	112.6	156.0	118.5
<i>March 2025</i>	127.2	118.3	148.7	109.7	161.8	116.9
<i>April 2025</i>	128.2	121.6	151.7	110.9	158.0	112.3
<i>May 2025</i>	127.1	122.8	153.6	109.0	152.2	109.4
<i>June 2025</i>	128.1	126.0	155.5	107.3	155.7	103.6
<i>July 2025</i>	129.8	126.7	154.6	106.5	166.8	103.3
<i>August 2025</i>	130.0	127.8	152.2	105.7	169.1	103.6
<i>September 2025</i>	128.6	127.9	147.2	104.9	167.9	99.4
<i>October 2025</i>	126.4	125.0	141.7	103.6	169.4	94.1
<i>November 2025</i>	125.2	125.5	136.2	105.5	165.0	88.6
<i>December 2025</i>	124.5	124.8	128.2	107.3	165.2	90.7
<i>January 2026</i>	124.2	125.2	120.7	107.5	168.6	89.8
<i>February 2026</i>	125.3	126.2	119.3	108.6	174.2	86.2

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



SECTION 3: FINANCIAL MARKETS

INDIAN FINANCIAL MARKETS

FROM HIGHS TO CORRECTION: UNDERSTANDING THE MARCH 2026 SLIDE IN INDIAN EQUITIES

Introduction

The Indian equity markets witnessed a distinctly bearish and volatile phase in March 2026, reflecting a combination of global uncertainties, profit booking, and risk-off sentiment among investors. Both the BSE Sensex and Nifty 50 experienced sustained downward pressure through the month, with intermittent recoveries failing to reverse the broader declining trend.

Market movements during the month were shaped by global macroeconomic developments, including rising geopolitical tensions, energy price volatility, and tightening financial conditions. Domestic factors such as valuation concerns and sectoral rotation also contributed to market corrections.

Market Movement: BSE Sensex and Nifty 50

The trajectory of the Sensex and Nifty 50 during March 2026 reveals a clear pattern of decline punctuated by short-lived recoveries.

At the beginning of the month, the Sensex stood at 80239 on March 2 (Figure 20), while the Nifty 50 was at 24866 (Figure 21), indicating a relatively strong starting position. However, markets soon entered a downward phase. By mid-March, both indices had experienced significant corrections, with the Sensex falling to 74564 on March 13 and the Nifty dropping to 23151 during the same period.

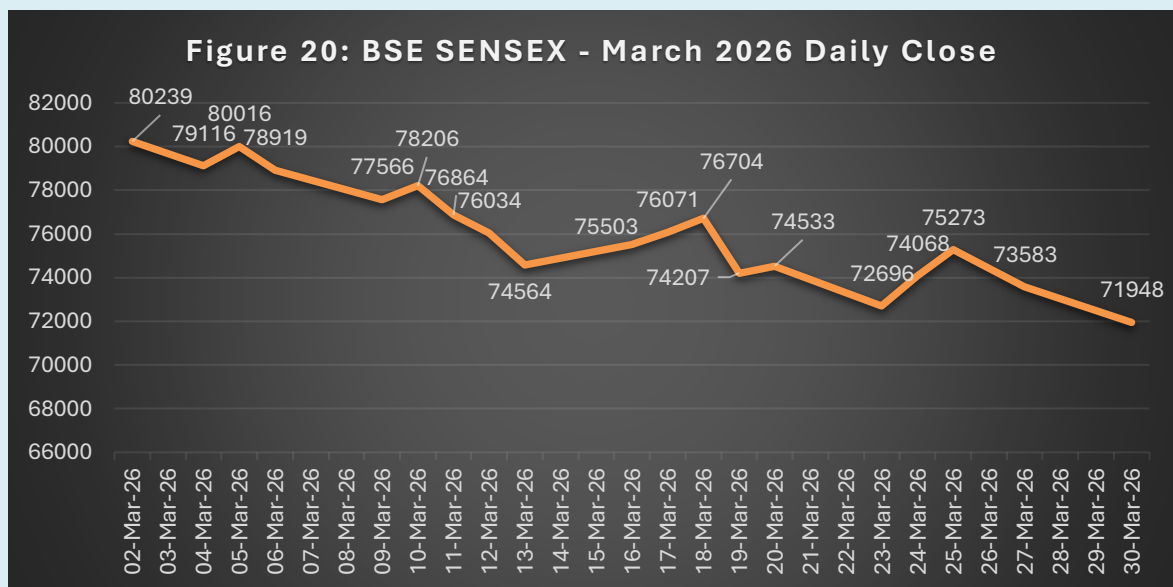
This decline can be attributed to heightened volatility and investor caution, as global risk factors intensified. Weakness in global equities, rising crude oil prices, and foreign portfolio investor (FPI) outflows exerted consistent pressure on Indian markets.

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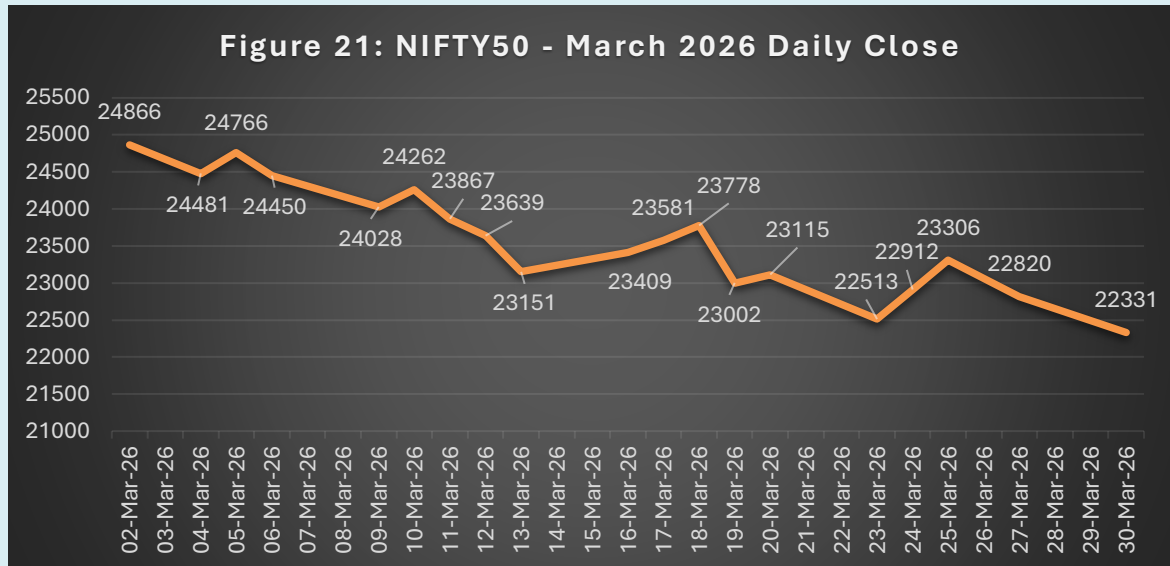
A brief recovery phase emerged in the middle of the month. Between March 16 and March 18, the Sensex rebounded to 76704, while the Nifty recovered to 23778, suggesting short-term buying interest and technical correction. However, this recovery proved unsustainable.

The latter half of the month saw renewed selling pressure, with markets hitting their lowest levels toward the end of March. The Sensex declined to 71948 on March 30, while the Nifty fell to 22331, marking a significant cumulative decline over the month.

Overall, the Sensex registered a drop of over 8000 points, while the Nifty declined by more than 2500 points during March, reflecting a broad-based correction across sectors.



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



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

Key Observations

- **Sustained Downtrend:** Both indices exhibited a consistent downward trajectory, indicating weak market sentiment.
- **Mid-Month Recovery:** Temporary rebounds suggest technical buying rather than a fundamental shift in outlook.
- **End-Month Weakness:** Sharp declines toward the end highlight intensified risk aversion.
- **Global Linkages:** Market movements closely tracked global developments, especially energy price shocks and geopolitical risks.

Overall Trend

The overall trend of the Indian equity markets in March 2026 can be characterised as bearish with high volatility. Despite brief recovery phases, the broader direction remained downward, reflecting a shift from optimism to caution among investors. The magnitude and persistence of the decline suggest that the correction was not merely technical but also driven by evolving macroeconomic concerns.

Factors Influencing Market Sentiment

Several interrelated factors shaped market sentiment during the month:

- **Global Geopolitical Tensions:** Escalating tensions in the Middle East led to a surge in crude oil prices, raising concerns about inflation and macroeconomic stability.
- **Foreign Capital Flows:** Continued outflows by foreign portfolio investors (FPIs) exerted downward pressure on equity markets.
- **Energy Price Volatility:** Rising energy costs increased input prices for industries, impacting corporate profitability expectations.
- **Monetary and Financial Conditions:** Tightening global financial conditions and uncertainty around interest rate trajectories contributed to risk aversion.
- **Valuation Concerns:** Elevated equity valuations prompted profit booking, especially after previous market highs.

Outlook

Looking ahead, the near-term outlook for Indian equity markets remains cautiously uncertain. While the recent correction may have improved valuations, market direction will depend on several key factors:

- The trajectory of global crude oil prices and geopolitical developments
- Trends in foreign investment flows
- Domestic macroeconomic indicators and corporate earnings
- Policy signals from the Reserve Bank of India and global central banks

If global uncertainties ease and domestic fundamentals remain strong, markets may witness a gradual stabilization and recovery. However, continued external shocks could prolong volatility in the near term.

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Conclusion

March 2026 was marked by significant correction and heightened volatility in Indian equity markets. While intermittent recoveries indicated resilience, the dominant trend remained downward, driven by global uncertainties and cautious investor sentiment. The coming months will be crucial in determining whether markets stabilise or continue to face headwinds.

VOLATILITY, VALUATIONS, AND RESILIENCE: INDIA'S EQUITY MARKET JOURNEY IN FY26

Introduction

The Indian stock market in FY 2025–26 underwent a significant transition: from a phase of strong optimism and record highs to a more measured, volatile, yet fundamentally resilient trajectory. Benchmark indices such as the Nifty 50 and BSE Sensex scaled historic peaks in late 2025, reflecting strong domestic macroeconomic fundamentals and investor confidence. However, the momentum was tempered in early 2026 by global uncertainties, foreign investor outflows, and currency pressures, resulting in a notable correction.

Market Performance: A Tale of Two Phases

The performance of Indian equities during FY 2025–26 can be broadly divided into two distinct phases:

1. Growth and Expansion (April–December 2025): During the first three quarters, markets exhibited robust growth. The Nifty 50 gained approximately 11.1 percent, while the Sensex rose by 10.1 percent, driven by strong corporate earnings, policy support, and liquidity flows. This phase was characterised by optimism, with indices reaching all-time highs.

2. Correction and Consolidation (Early 2026): The final quarter saw a sharp reversal. By April 1, 2026, the Sensex had declined significantly from around 85,762 in early

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January to nearly 73,134, reflecting a substantial correction. This phase was marked by increased volatility, profit booking, and global risk aversion.

Market Breadth and Participation

A key feature of FY 2025–26 was the polarisation in market performance across segments:

- Large-cap stocks demonstrated relative stability, supported by strong institutional participation.
- Mid- and small-cap stocks faced greater pressure, with indices such as the Nifty Smallcap 250 declining notably, reflecting valuation concerns and risk-off sentiment.

Market activity also showed signs of moderation:

- Cash market volumes declined by around 6 percent year-on-year.
- Growth in derivatives trading (F&O) slowed due to tighter regulatory norms.

This suggests a shift from speculative exuberance toward more cautious and disciplined participation.

Sectoral Performance: Cyclical Lead, Defensives Lag

Sectoral trends during the year revealed a clear rotation toward cyclical and domestic-oriented sectors:

Top Performers:

- **PSU Banks:** The standout sector, with gains of nearly 28 percent, driven by improved asset quality, strong credit growth, and recapitalisation efforts.
 - **Metals and Automobiles:** Both sectors recorded gains exceeding 21 percent, supported by domestic demand and policy measures such as GST rationalisation.
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- **Financial Services:** Continued to anchor market performance, with banking indices reaching record highs.

Underperformers:

- **IT Services:** Declined by nearly 10 percent, impacted by weak global demand and uncertainty in technology spending.
- **Media and Real Estate:** Among the worst-performing sectors, reflecting structural and cyclical challenges.
- **Defensive Sectors (Pharma, FMCG):** Witnessed mild declines as investor preference shifted toward growth-oriented sectors.

Key Drivers of Market Performance

Several structural and cyclical factors shaped market dynamics during the year:

1. **Domestic Institutional Strength:** A defining feature was the resilience provided by domestic investors. Strong SIP inflows, averaging over ₹28,000 crore per month, and consistent buying by Domestic Institutional Investors (DIIs) effectively offset heavy selling by Foreign Portfolio Investors (FPIs).
 2. **Policy and Reform Momentum:** Government initiatives, including income tax relief measures and GST reforms, boosted consumption and improved business sentiment, supporting market growth during the first half of the year.
 3. **Monetary Policy Support:** The Reserve Bank of India maintained an accommodative stance, reducing the repo rate to 5.25 percent by December 2025. This enhanced liquidity conditions and supported equity valuations.
 4. **Global Headwinds:** External factors played a critical role in the latter part of the year. Rising geopolitical tensions, trade uncertainties, and a weakening rupee contributed to capital outflows and increased market volatility.
 5. **Primary Market Momentum:** India continued to lead globally in IPO activity, with issuance volumes rising by around 20 percent in the first nine months of FY26, reflecting strong investor appetite and corporate fundraising activity.
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Overall Assessment: Resilient but Rebalancing

The performance of Indian equity markets in FY 2025–26 reflects a transition from exuberance to equilibrium. While the correction in early 2026 exposed vulnerabilities, particularly to global shocks, it also highlighted the structural strength of domestic demand, policy support, and institutional participation.

The divergence between large-cap resilience and small-cap weakness indicates a healthy market correction, driven by valuation rationalisation rather than systemic stress.

Outlook

Looking ahead, the Indian equity market appears poised for gradual stabilisation, contingent on several factors:

- Easing of global geopolitical and trade-related uncertainties
- Stability in crude oil prices and currency movements
- Sustained domestic economic growth and earnings momentum
- Continued strength in domestic investment flows

While volatility may persist in the short term, the underlying fundamentals suggest that Indian markets remain structurally strong and well-positioned for long-term growth.

Conclusion

FY26 was a year of contrasts: strong gains followed by sharp corrections, and optimism tempered by caution. Yet, the resilience demonstrated by Indian markets underscores their maturity and evolving depth. As the market transitions into a more balanced phase, the focus is likely to shift from momentum-driven gains to fundamentals-led, sustainable growth.

GLOBAL FINANCIAL MARKETS

ENERGY SHOCKS, YIELDS, AND VOLATILITY: DECODING THE GLOBAL MARKET SELL-OFF IN MARCH 2026

INTRODUCTION

March 2026 marked a synchronised correction across global equity markets, as rising geopolitical tensions, a surge in energy prices, and tightening financial conditions triggered a decisive shift toward a risk-off regime. After a period of strong performance in late 2025, global markets entered a phase of repricing, reflecting heightened uncertainty around inflation, interest rates, and growth prospects.

Insights from *The Wall Street Journal (WSJ)* during the month consistently pointed to three dominant drivers: (i) a sharp rise in crude oil prices due to Middle East tensions, (ii) renewed concerns over sticky inflation and central bank policy paths, and (iii) increased volatility in bond markets, which weighed particularly on growth and technology stocks.

These factors collectively triggered a synchronised correction across the United States, Europe, and Asia-Pacific markets.

SECTION A – PERFORMANCE OF US EQUITY MARKETS

Market Overview

US equity markets experienced a broad-based and sustained correction, with all major indices declining sharply through March before staging a modest recovery towards the end of the month. The correction reflected a combination of valuation reset, rising yields, and geopolitical risk premiums.

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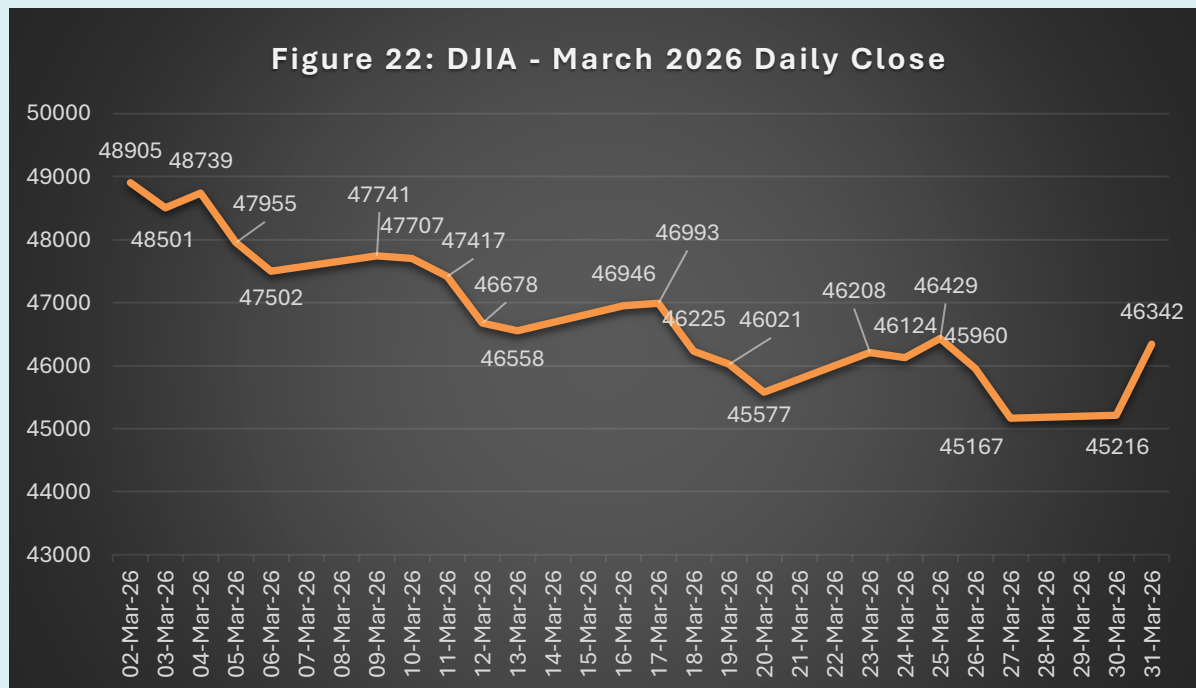
Dow Jones Industrial Average (DJIA)

Market Movement

The Dow Jones Industrial Average opened the month at 48905 (March 2) and entered a steady downward trend (Figure 22). It fell below 47000 by March 12 (46678) and continued declining to a monthly low of 45167 on March 27, before recovering to 46342 on March 31.

Key Milestones

- **Early March:** Initial decline reflecting global uncertainty
- **Mid-March:** Breach of 47000 level, signalling broader correction
- **Late March:** Trough formation near 45000
- **Month-end:** Technical rebound



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

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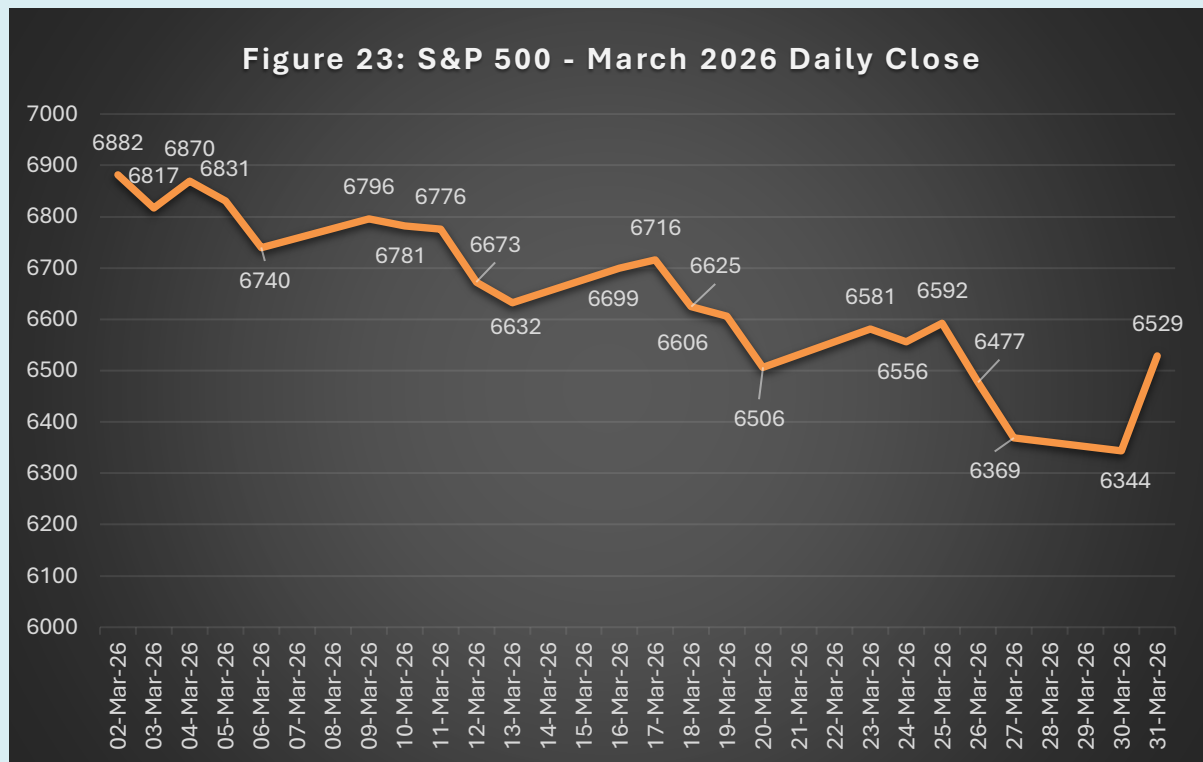
S&P 500

Market Movement

The S&P 500 declined from 6,882 (March 2) 32 (March 13), followed by further weakness to 6,344 (March 30) before closing at 6529 (Figure 23).

Key Milestones

- **Mid-March:** Fall below 6700, indicating broad market weakness
- **Late March:** Sharp decline below 6400
- **Month-end:** Partial recovery driven by bargain hunting



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

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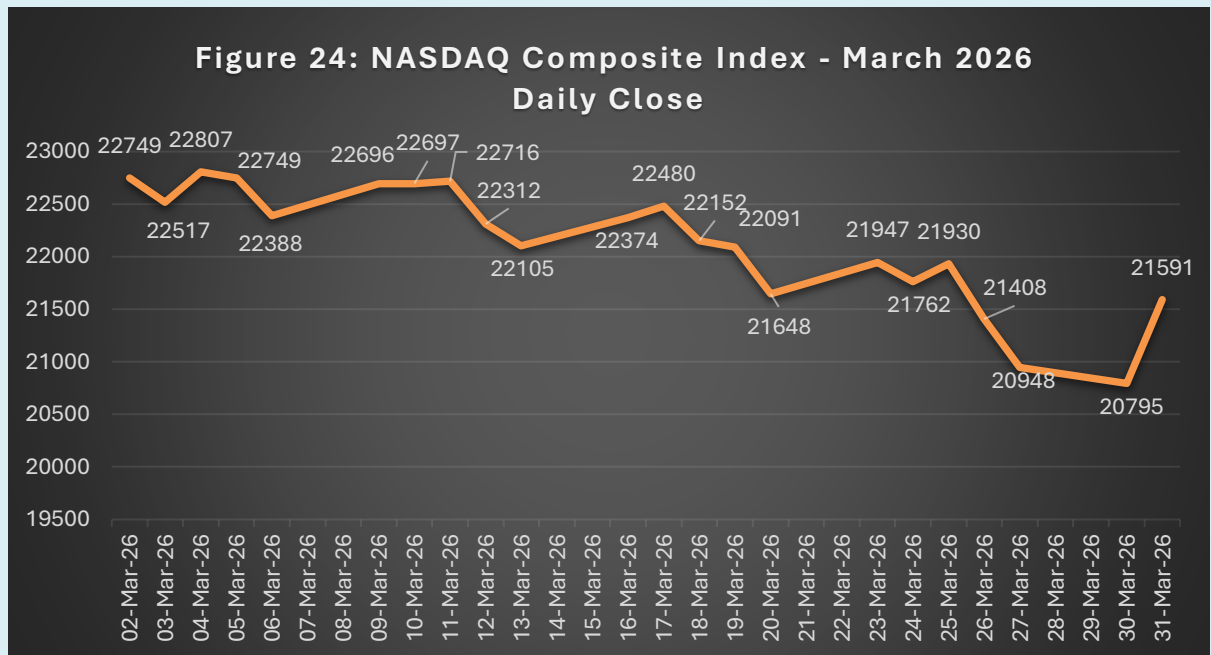
NASDAQ Composite Index

Market Movement

The NASDAQ Composite saw the sharpest correction, falling from 22749 (March 2) to 22105 (March 13) and further to 20795 (March 30) before closing at 21591 (Figure 24).

Key Milestones

- **Early decline:** Driven by tech stock weakness
- **Mid-month:** Sustained sell-off below 22000
- **Late March:** Deep correction below 21000
- **Recovery:** Short-covering and selective buying



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

US Market Insight

The US market exhibited a classic risk-off pattern, with technology stocks leading the decline. Rising Treasury yields and energy-driven inflation concerns triggered a rotation away from high-growth sectors toward defensives and cash positions. The

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sharper fall in NASDAQ underscores the sensitivity of tech valuations to interest rate expectations.

SECTION B - PERFORMANCE OF EUROPEAN EQUITY MARKETS

Market Overview

European markets faced amplified pressure due to their higher exposure to energy price shocks. The combination of rising oil and gas prices, currency volatility, and slowing growth expectations led to a broad-based decline across major indices.

FTSE 100 Index (London, UK)

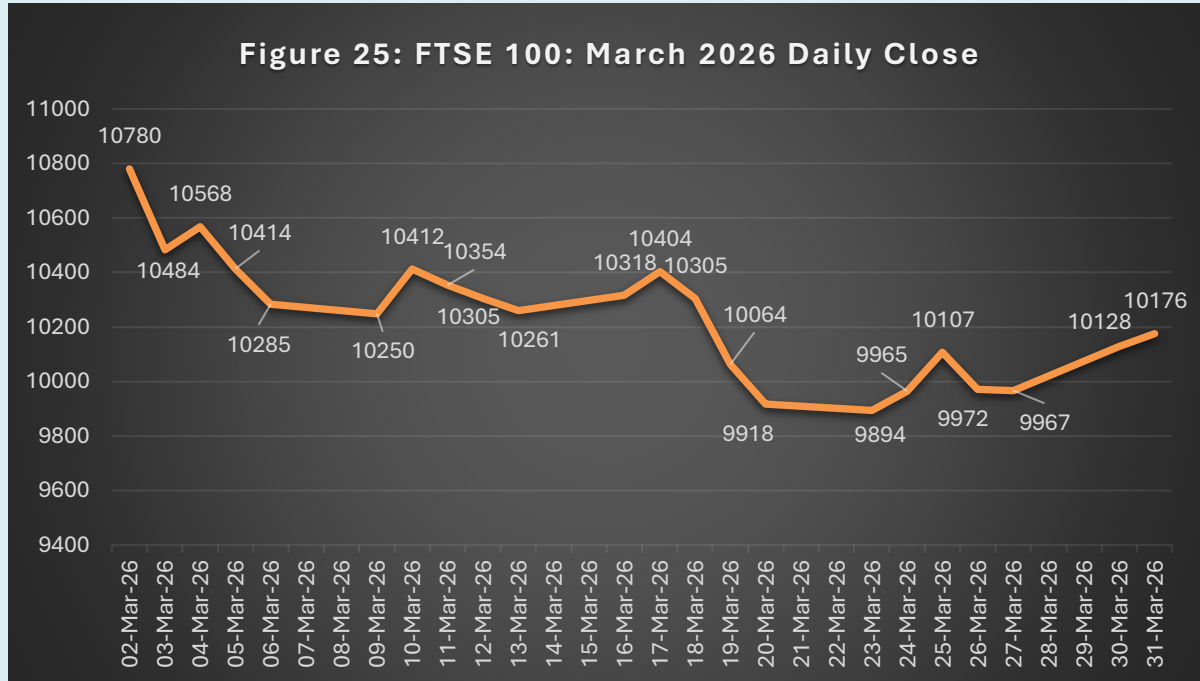
Market Movement

The FTSE 100 declined from 10780 (March 2) to 10261 (March 13), falling further to a low of 9894 (March 23) before recovering to 10176 (March 31) (Figure 25).

Key Milestones

- **Early March:** Sharp drop below 10500
 - **Mid-March:** Continued decline amid energy concerns
 - **Late March:** Break below 10000
 - **Month-end:** Recovery above psychological level
-

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

CAC 40 (Paris, France)

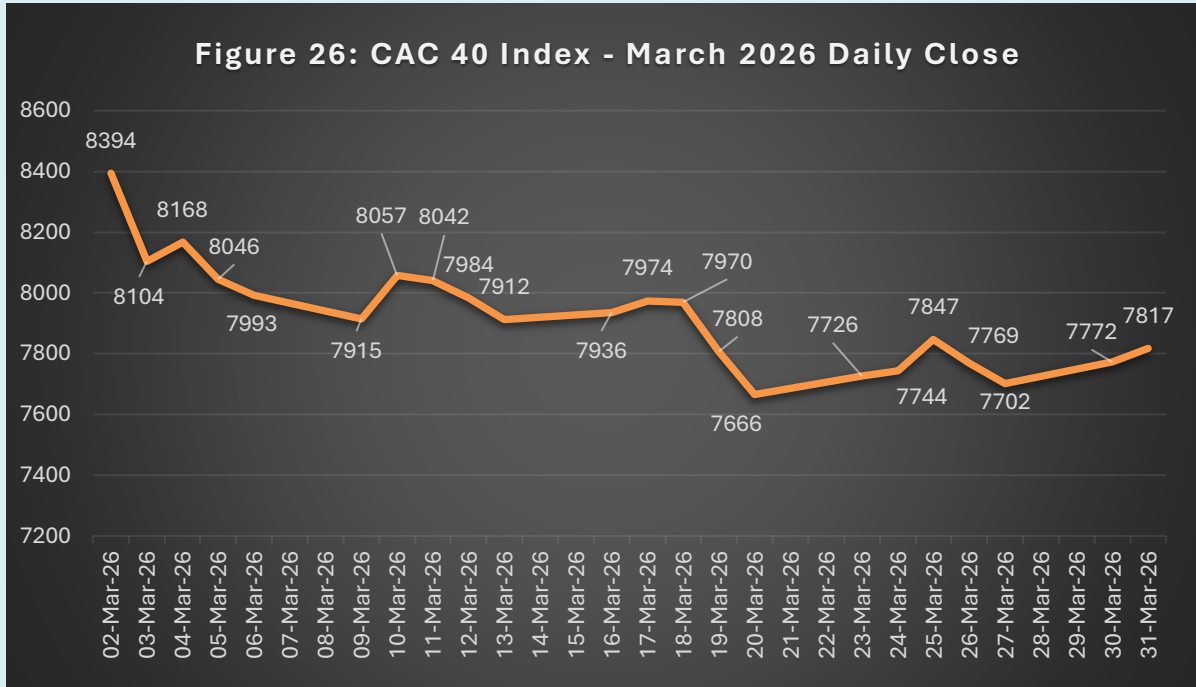
Market Movement

The CAC 40 declined from 8394 (March 2) to 7912 (March 13) and further to 7666 (March 20) before ending at 7817 (Figure 26).

Key Milestones

- Steady mid-month decline reflecting weak sentiment
- Sharp drop below 7800
- Partial recovery in final week

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

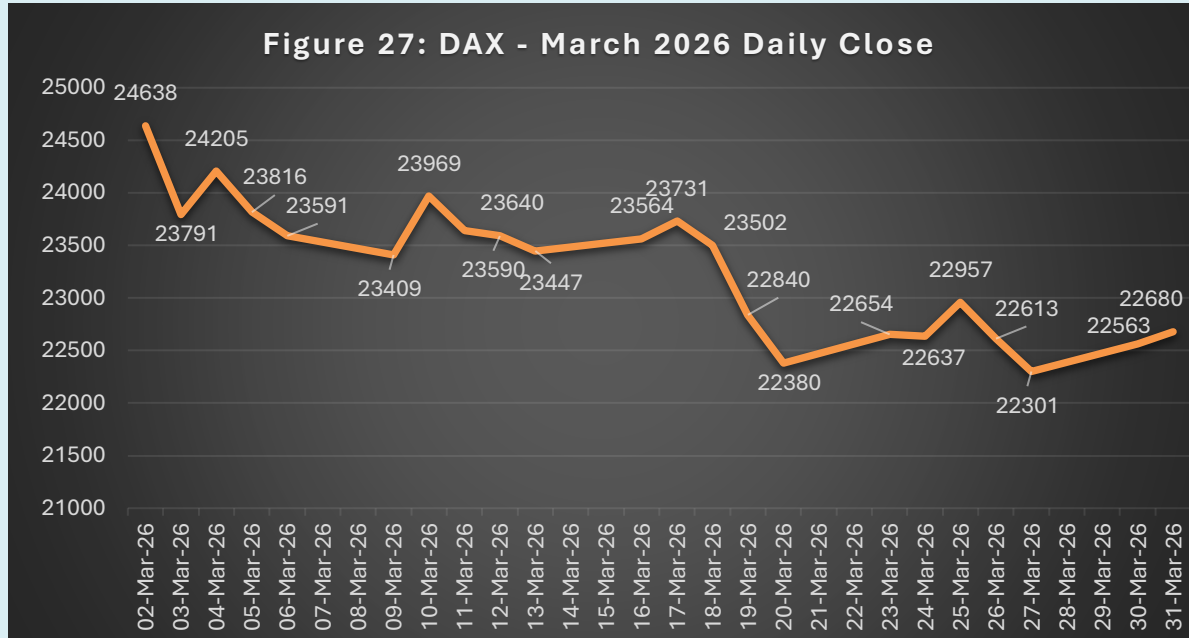
DAX (Frankfurt, Germany)

Market Movement

The DAX fell sharply from 24447 (March 13) and further to 22301 (March 27) before closing at 22680 (Figure 27).

Key Milestones

- Sharp early steep correction (~1,000 points)
- Mid-month weakness in industrial stocks
- Late March dip below 22500
- Modest recovery at month-end



Source: <https://www.wsj.com/market-data/quotes/index/DX/DAX/historical-prices>

Europe Market Insight

European markets reflected heightened vulnerability to external shocks, particularly energy. Higher input costs and weaker euro dynamics amplified inflation risks, leading to sustained selling pressure. Industrial-heavy indices like DAX were particularly affected.

SECTION C – PERFORMANCE OF ASIA-PACIFIC STOCK MARKETS

Market Overview

Asia-Pacific markets showed a divergent but generally weak performance, influenced by both global spillovers and domestic structural factors, exhibiting a three-phase pattern: early shock, mid-month recovery, and late-month decline, with most indices ending near their lows.

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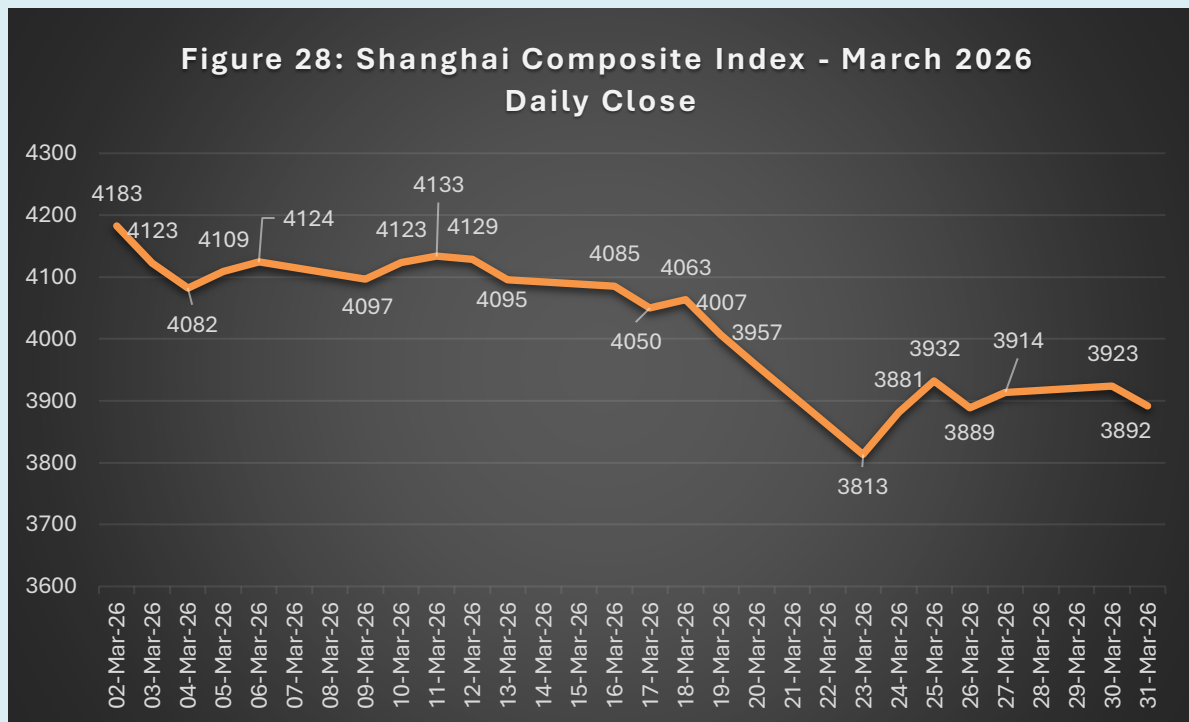
Shanghai Composite Index (Shanghai, China)

Market Movement

The Shanghai Composite declined from 4183 (March 2) to 4,095 (March 13) and further to 3813 (March 23) before stabilising at 3892 (March 31) (Figure 28).

Key Milestones

- Gradual early decline
- Sharp third-week correction
- Stabilisation toward month-end



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

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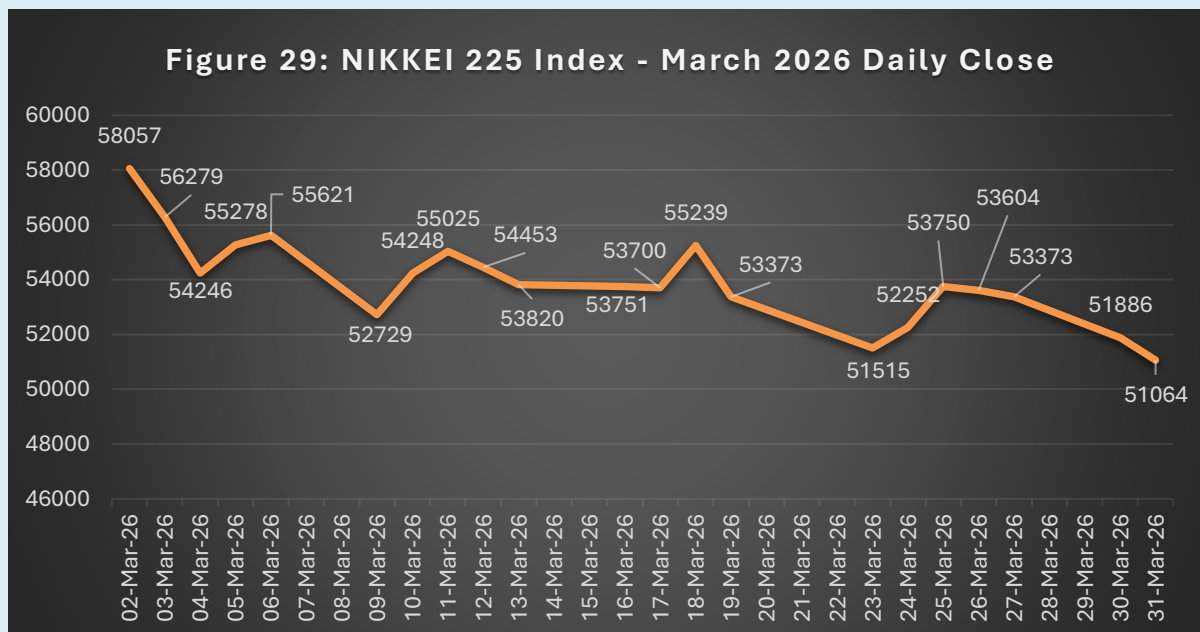
NIKKEI 225 Index (Tokyo, Japan)

Market Movement

The Nikkei 225 exhibited volatility through March, declining from 58057 (March 2) to 52729 (March 9) and ending at the lowest point of 51064 (March 31) (Figure 29), reflecting global tech weakness and yen movements.

Key Milestones

- Sharp early correction (~7 percent)
- Failed mid-month rally
- Weak close near lows



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

Hang Seng Index (Hong Kong)

Market Movement

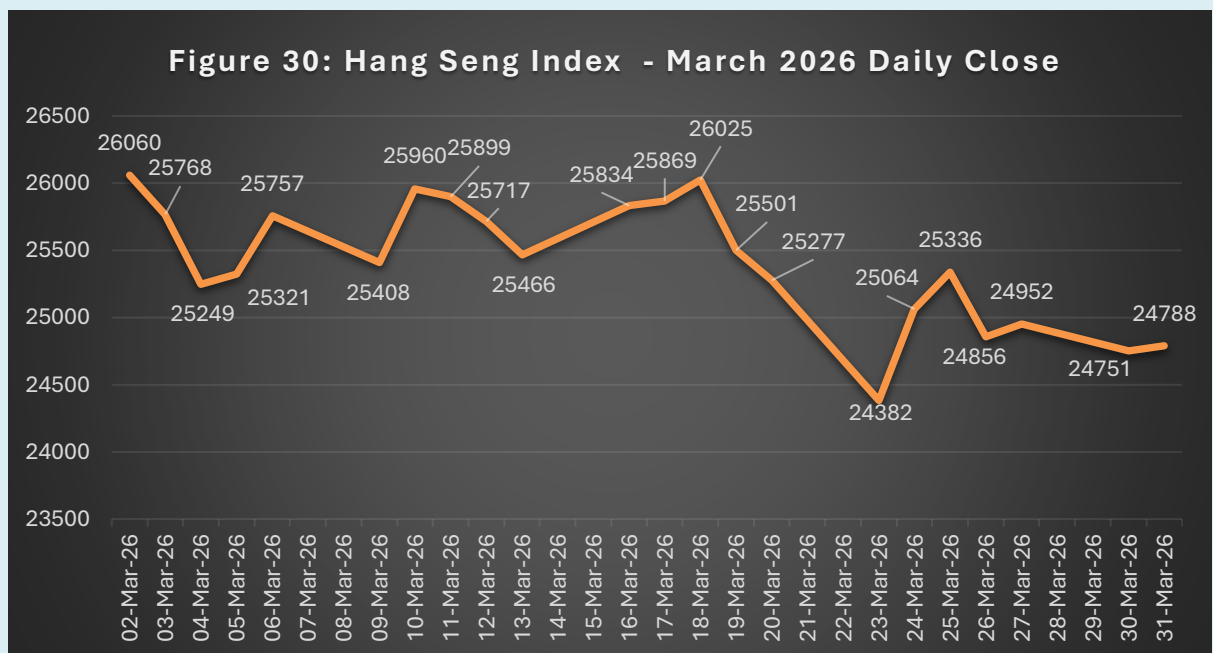
The Hang Seng Index experienced sustained weakness, tracking declines in Chinese equities and global risk sentiment. Starting the month (March 2) at 26060, the index

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reached the lowest point during the month at 24382 on March 23, and closing the month slightly at 24788 (Figure 30).

Key Milestones

- Persistent lower highs
- Sharp third-week correction



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

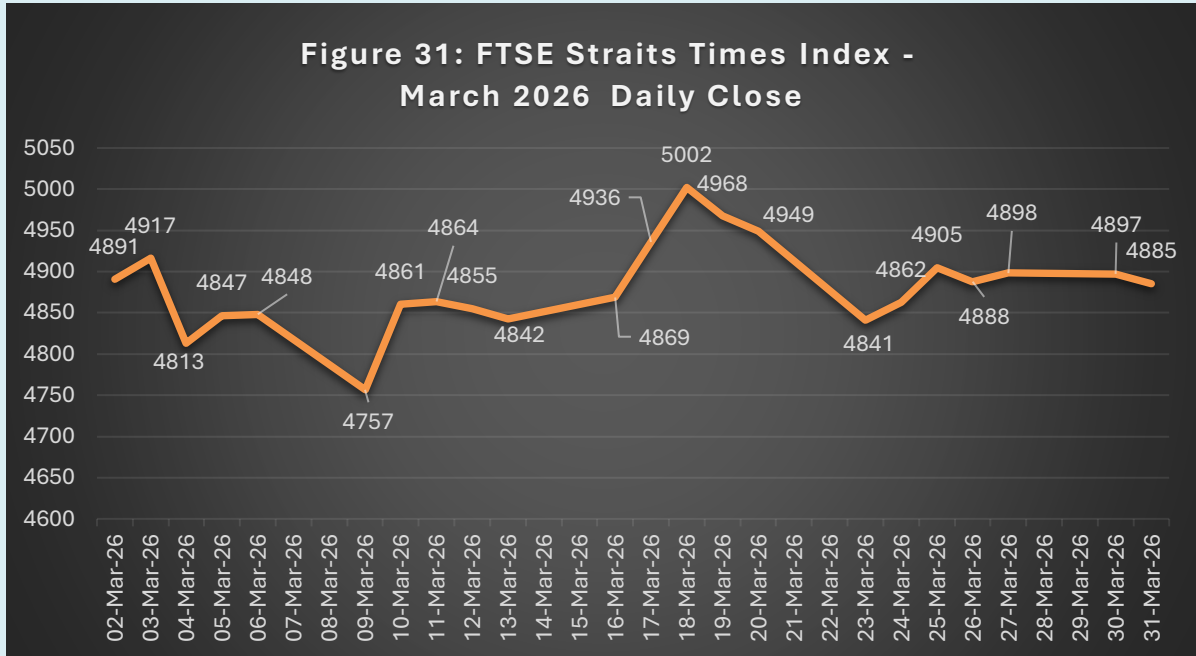
FTSE Straits Times Index (Singapore)

Market Movement

The FTSE Straits Times Index showed relative resilience but remained under pressure due to regional volatility. Starting the month (March 2) at 4891, reached the highest point at 5002 on March 18, and ended the month at 4885 (Figure 31).

Key Milestones

- Resilient and range-bound
- Lower volatility relative to peers



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

KOSPI Composite Index (Busan & Seoul, South Korea)

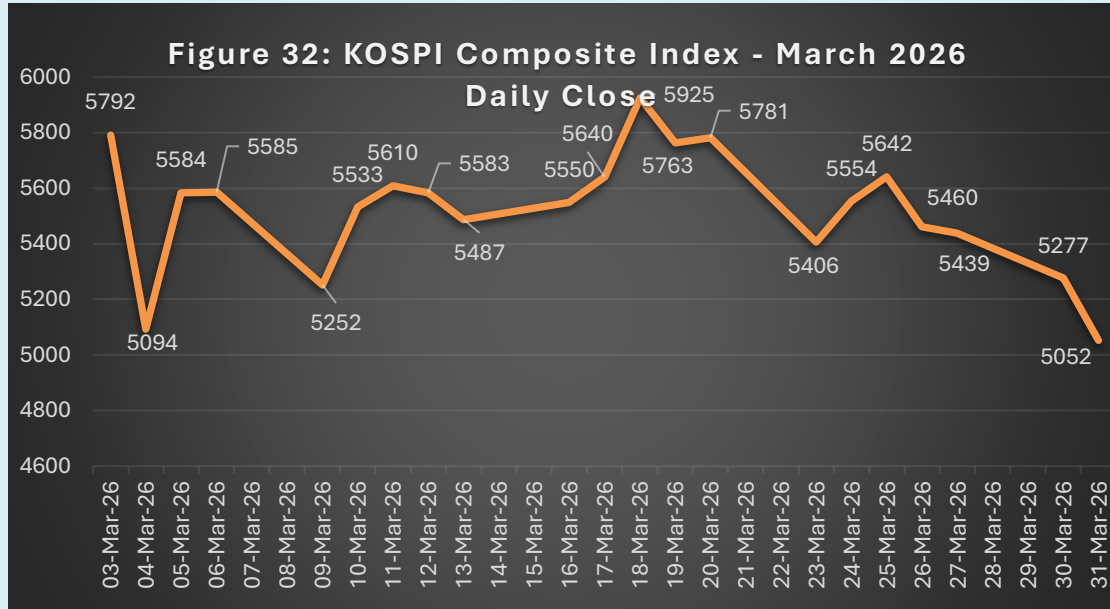
Market Movement

The KOSPI exhibited significant volatility during March 2026, dropping sharply from 5792 on March 3 to 5094 on March 4, before staging a strong recovery to reach 5925 by March 18 (Figure 32). However, this rebound proved short-lived, as the index declined again to 5406 on March 23 and ultimately closed the month lower at 5052 on March 31.

Key Milestones

- High volatility and sharp swings
- Late-month decline to near lows

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Source: <https://www.wsj.com/market-data/quotes/index/KR/SEU/historical-prices>

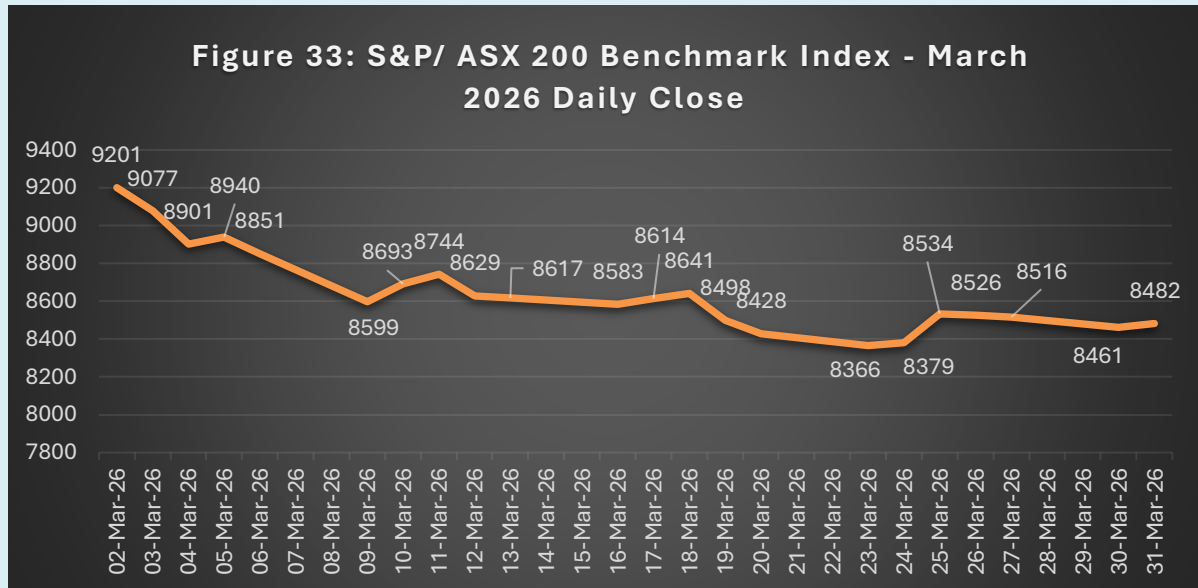
S&P/ASX 200 Benchmark Index (Sydney, Australia)

Market Movement

The S&P/ASX 200 followed a steady downward trajectory during March 2026, declining from 9201 at the beginning of the month to 8851 by March 6 (Figure 33). The index continued to weaken, falling further to 8428 on March 20 and reaching a monthly low of 8366 on March 23, before recovering modestly to close at 8482 on March 31.

Key Milestones

- Steady multi-week decline
- Weak recovery at month-end



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

Asia-Pacific Market Insight

The Asia-Pacific region confirms a clear global transmission of shocks, with the third week of March emerging as a decisive inflection point across markets. Export-oriented economies exhibited higher levels of volatility, reflecting their sensitivity to global demand and financial conditions, while the overall recovery remained weaker compared to the United States markets.

SECTION D – OUTLOOK FOR MAJOR GLOBAL STOCK INDICES

The outlook remains cautiously uncertain, with markets influenced by:

- Energy price volatility
- Inflation and interest rate trajectories
- Global liquidity conditions

The March correction likely represents a valuation reset, with potential for stabilisation if macroeconomic risks ease.



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Conclusion

March 2026 was characterised by a synchronised global correction, with daily data clearly showing a phased decline across regions. While late-month recoveries suggest resilience, the broader trend reflects a shift towards cautious, fundamentals-driven investing in an uncertain global environment.

COMMODITY MARKETS

COMMODITY MARKETS IN MARCH 2026: A MONTH OF VOLATILITY AND REPRICING

Introduction

Commodity markets in March 2026 were marked by heightened volatility and sharp price movements, driven primarily by geopolitical tensions, energy market disruptions, and shifting investor sentiment. The month saw a broad-based repricing across commodities, with energy markets leading the surge, precious metals hitting new highs, and industrial commodities reflecting concerns over global growth.

The interplay between geopolitical risk, financial market uncertainty, and macroeconomic expectations defined commodity price dynamics, reinforcing their central role as both economic indicators and financial assets.

Oil Markets: Geopolitical Risk and Policy Uncertainty

Oil markets emerged as the epicentre of global commodity volatility during March 2026. Prices surged sharply as escalating tensions in the Middle East raised concerns about potential disruptions to global supply, particularly through critical transit routes such as the Strait of Hormuz.

Crude oil prices rose significantly during the month, reflecting a risk premium embedded in energy markets. Supply-side uncertainties were compounded by policy ambiguity among major producers, including evolving production strategies within OPEC+.

At the same time, demand-side dynamics remained mixed. While global growth concerns persisted, the immediate impact of geopolitical risk outweighed demand considerations, pushing prices upward. The result was a tightening of global energy markets, with implications for inflation and production costs worldwide.

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From Surge to Correction: Gold and Silver Price Dynamics

In March 2026, global gold and silver prices experienced sharp volatility, rising to record highs early in the month before correcting significantly by the end. Gold surged above \$5,600 per ounce amid safe-haven demand driven by West Asia tensions, while silver also climbed strongly. However, as geopolitical fears eased and financial conditions tightened, prices fell sharply. By month-end, gold declined to around \$4,467 per ounce and silver to about \$68 per ounce.

The correction was largely driven by a stronger US dollar and rising Treasury yields, which reduced the appeal of non-yielding assets, alongside a shift in investor sentiment from panic buying to consolidation.

In India, gold prices dropped by over 14 percent from early March highs, while silver saw an even sharper correction. Elevated prices earlier in the month also dampened jewellery demand, reflecting the broader impact of global volatility on domestic markets.

Industrial Metals: Growth Concerns and Supply Dynamics

Industrial metals presented a more nuanced and mixed performance. While supply-side constraints provided some support, prices were largely weighed down by concerns over slowing global growth, particularly in major manufacturing economies.

Copper, often viewed as a barometer of economic activity, exhibited volatility, reflecting uncertainty about demand from China and other industrial hubs. Similarly, metals such as aluminium and zinc faced downward pressure due to weaker industrial sentiment and trade uncertainties.

The industrial metals segment is currently caught between structural demand drivers (such as energy transition investments) and cyclical headwinds, resulting in uneven price movements.

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Agricultural Commodities

Agricultural commodity markets were influenced by a combination of weather-related factors, supply conditions, and input cost pressures. Rising energy and fertiliser prices, linked to developments in energy markets, had indirect effects on agricultural production costs.

Food commodities experienced moderate price increases, with some volatility in key staples. While supply conditions remained broadly stable, the risk of future disruptions, particularly through fertiliser markets, has increased the likelihood of renewed food inflation pressures.

Financialization and Market Volatility

A defining feature of commodity markets in March 2026 was the growing role of financial investors and speculative activity. Commodities increasingly behaved as financial assets, reacting not only to physical supply-demand fundamentals but also to:

- Changes in interest rate expectations
- Movements in currency markets
- Shifts in global risk sentiment

This financialization contributed to amplified price swings, particularly in oil and gold markets. The result was a more volatile environment, where price movements were driven as much by capital flows as by underlying fundamentals.

Implications for the Global Economy

The developments in commodity markets during March 2026 carry several important implications:

- **Inflationary Pressures:** Rising energy prices are likely to feed into broader inflation, complicating monetary policy decisions.
 - **Growth Risks:** Higher input costs may weigh on industrial production and global growth.
-

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- **Policy Challenges:** Central banks face a difficult trade-off between controlling inflation and supporting economic activity.
- **Food Security Concerns:** Potential disruptions in fertiliser and agricultural markets could affect food prices and supply chains.

Overall, the commodity market trends point to a more uncertain and risk-prone global economic environment.

Conclusion

March 2026 highlighted the central role of commodities in transmitting global shocks, with energy markets leading a broad-based repricing across asset classes. While precious metals benefited from safe-haven demand, industrial and agricultural commodities reflected a more complex interplay of supply constraints and demand uncertainties.

As geopolitical tensions and macroeconomic risks persist, commodity markets are likely to remain volatile and highly sensitive to global developments, reinforcing their importance as both economic indicators and drivers of financial market dynamics.



SECTION 4: RESEARCH DIGEST

SYNOPSIS OF RESEARCH PAPERS

THE HIDDEN COST OF STOCK MARKET CONCENTRATION: WHEN FUNDS HIT REGULATORY LIMITS

Authors: Lubos Pastor, Taisiya Sikorskaya, and Jinrui Wang

NBER Working Paper No. 35007, March 2026
National Bureau of Economic Research (NBER)

This paper examines how rising stock market concentration has increased the binding nature of regulatory limits on fund portfolio concentration, particularly the long-standing 50/5/10 rule governing U.S. mutual funds. It shows that as funds approach these constraints—especially large-cap growth funds—they systematically rebalance by trimming their largest holdings, often those with higher volatility, and reducing overall equity exposure. This behaviour not only constrains portfolio choices but also leads to measurable underperformance among affected funds.

The study develops and tests a constraint-based ownership measure, demonstrating that stocks disproportionately held in large positions by constrained funds tend to earn abnormally high future returns. This effect is particularly pronounced during 2023–2024, when the regulatory constraint became especially binding, and is stronger for high-volatility stocks and actively managed funds. These findings support a mechanism whereby regulatory limits suppress the ability of optimistic investors to scale positions, leading to temporary underpricing, analogous to how short-sale constraints can cause overpricing by limiting pessimistic views.

Despite the relatively short sample period, the results are notable for identifying return predictability even among mega-cap stocks, a segment typically considered informationally efficient. The paper also finds similar, though weaker, effects under the alternative 75/5/10 diversification rule. Overall, the evidence suggests that increasing market concentration, when combined with portfolio concentration limits, can distort asset prices and investor behaviour.

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The paper concludes by highlighting broader implications for financial regulation and market design. As a small number of firms continue to dominate equity markets, existing diversification rules may unintentionally cap institutional ownership and create persistent deviations from optimal portfolios. This raises important policy questions regarding the adequacy of current regulatory thresholds and benchmark construction, suggesting the need for reassessment to balance investor protection with market efficiency.

The full paper can be accessed from:

https://www.nber.org/system/files/working_papers/w35007/w35007.pdf

GLOBAL BANKING AND GEOPOLITICS THROUGH TIME

Authors: Lorenz Emter, Laura Kuitunen, Arnaud Mehl, Peter McQuade, Swapan Pradhan and Goetz von Peter

BIS Working Papers No 1338, March 2026

Bank for International Settlements

This paper investigates asymmetries in the impact of geopolitical events on international bank credit, distinguishing between adverse shocks—such as the 2022 invasion of Ukraine—and positive developments, including the fall of the Berlin Wall in 1989. Drawing on confidential data from the Bank for International Settlements International Banking Statistics spanning 1977 to 2024, the study analyses bilateral credit flows across up to 12,000 country pairs, focusing on how geopolitical alignment shapes cross-border banking activity.

The findings demonstrate that geopolitical differences significantly influence international credit allocation. Negative events lead to a substantial contraction in cross-border bank lending, with credit flows declining by 10–20 percent more between geopolitical blocs than within them. In contrast, positive geopolitical events do not generate a comparable expansion in international banking activity, even when they coincide with increased trade flows. This asymmetry suggests that while geopolitical disruptions quickly erode financial linkages, improvements in geopolitical relations do not immediately rebuild them.

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The paper attributes this divergence to the inherently intertemporal nature of financial transactions, which require sustained trust, commitment, and institutional stability. Unlike trade in goods, which can respond relatively quickly to improved relations, international banking relationships depend on longer-term confidence and are therefore more sensitive to geopolitical risks and slower to recover following disruptions.

The study concludes that these asymmetries carry important policy implications. A reduction in current geopolitical tensions may lead to a faster recovery in trade than in cross-border finance, particularly between major blocs such as Western economies and Russia. Conversely, rising tensions within established alliances could have persistent adverse effects on international banking integration. Given the concentration of the global financial system in Western economies, such disruptions could have significant consequences for global financial stability and economic activity.

The full paper can be accessed from: <https://www.bis.org/publ/work1338.pdf>

SUMMARY OF OPINION ARTICLES FROM INDIAN PUBLICATIONS

TREAT USED WATER, DON'T WASTE IT: OUR WATER SECURITY MAY DEPEND ON RECYCLING THIS VITAL RESOURCE

India's water management is at a critical juncture, as declining per capita water availability and rising demand push the country from water stress toward potential water scarcity. With availability already below the 1,700 cubic metre threshold and projected to fall further, the challenge is compounded by climate change, inefficient water use, and structural weaknesses in both rural and urban systems. Groundwater over-extraction, low irrigation efficiency, and high urban water losses highlight the urgency of reform, while changing rainfall patterns, marked by fewer rainy days and intense precipitation, are intensifying cycles of floods and droughts.

Against this backdrop, the article argues that India must move beyond conventional water sources and embrace treated wastewater as a strategic resource. Urban India generates vast quantities of sewage, yet a significant portion remains untreated, representing a major missed opportunity. If effectively harnessed, treated water could support irrigation, generate substantial agricultural revenue, recover valuable nutrients, and reduce pressure on freshwater resources. It also offers multiple co-benefits, including improved water security, industrial support, and groundwater recharge.

Policy initiatives are already underway, with government programmes encouraging the reuse of treated wastewater for agriculture and industry, and several cities demonstrating successful models. However, these remain isolated efforts that need to be scaled up nationwide. Key barriers include inadequate infrastructure, financing challenges, concerns over water quality, low demand due to social perceptions, and the absence of robust regulatory and monitoring frameworks.

The article emphasizes the need for a comprehensive policy push, noting that only a fraction of states currently have wastewater reuse policies. A stronger institutional framework, supported by clear standards, financing mechanisms, and public awareness,

will be essential to overcome resistance and build trust. In this context, treated water is positioned as a cornerstone of a circular water economy, where wastewater is transformed from a liability into an economic and environmental asset.

Bridging the rural-urban divide in water reuse is also critical. While urban utilities can leverage treated water for multiple uses, rural areas require targeted investments and institutional support to adopt similar practices. Emerging demands, such as water-intensive data centres, further underscore the importance of alternative water sources, with treated water offering a sustainable solution for industrial cooling needs.

Ultimately, the article presents treated wastewater as a transformative pathway for India's water security, aligning technological innovation with behavioural change. It argues that reimagining wastewater as a resource is not merely an option but an imperative for achieving sustainable development and the broader vision of a developed India by 2047.

(This is a summary of an article authored by V.K.Paul, Member, NITI Aayog, in Mint on 31 March 2026. The article can be accessed from: <https://shorturl.at/LGIwa>)

WEST ASIA CONFLICT: ANTI-DUMPING DUTIES NEED A DOWNSTREAM IMPACT TEST

The article highlights a surge in trade remedy actions by India's Directorate General of Trade Remedies (DGTR), which issued 28 notifications within a short span in March, even as global attention remained focused on supply-chain disruptions arising from geopolitical tensions in West Asia. These actions—covering a wide range of raw materials and intermediate goods such as chemicals, textiles inputs, and industrial products—are likely to increase input costs for downstream industries, including textiles, chemicals, and engineering, where margins are already tight.

While anti-dumping measures are legally justified to counter unfair trade practices, the article argues that in India they have often functioned more as instruments of industry protection rather than narrowly targeted remedies. Empirical evidence suggests that

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such measures typically reduce imports and raise prices, with the burden largely falling on user industries and consumers. A key concern is the imbalance in representation: domestic producers are well-organised and capable of pursuing cases effectively, whereas downstream users—despite bearing widespread economic costs—remain fragmented and underrepresented in the process.

India's extensive use of anti-dumping measures underscores this trend, with the country emerging as the largest user globally since 1995. Although there is some evidence that authorities are beginning to consider downstream impacts, the continued high number of notifications suggests that such assessments remain inadequate. The article therefore calls for a more balanced and disciplined approach, including the possibility of mandatory independent evaluation of the broader economic impact before implementing anti-dumping duties.

In conclusion, while anti-dumping measures serve an important purpose, they are a double-edged sword. If used indiscriminately, they risk protecting specific industries at the cost of wider economic efficiency, higher input costs, and reduced competitiveness. A more holistic assessment framework is essential to ensure that trade remedies remain genuine remedies rather than instruments of protectionism.

This is a summary of an article by T N C Rajagopalan, published in Business Standard on 29 March 2026. The full article can be accessed from: <https://shorturl.at/RphXX>)

BOOKSHELF CHRONICLES

STREETWISE: GETTING TO AND THROUGH GOLDMAN SACHS

Author: Lloyd Blankfein

Publisher: Orion Ignite

Year of Publication: 2026

Streetwise: Getting to and Through Goldman Sachs by Lloyd Blankfein is a reflective and engaging memoir that combines personal narrative with an insider's account of modern finance. The book traces Blankfein's journey from a modest upbringing in Brooklyn to the helm of Goldman Sachs, offering a story of social mobility that is both compelling and humanizing. His tone is often conversational and self-aware, with moments of humour and introspection that distinguish the narrative from more formulaic corporate memoirs.

At a deeper level, the book serves as a window into the evolution of Goldman Sachs and, by extension, the transformation of global finance over the past few decades. Blankfein provides detailed insights into the firm's culture, emphasizing its partnership ethos, focus on risk management, and competitive internal environment. His account of the 2008 global financial crisis is particularly central to the book, where he portrays Goldman Sachs as disciplined and resilient, navigating unprecedented turmoil with strategic clarity. These sections are among the most informative, offering readers a rare glimpse into high-stakes decision-making at the core of the financial system.

However, the narrative is also marked by a distinctly defensive undertone. Blankfein frequently positions Goldman Sachs as misunderstood rather than culpable in many of the controversies that have surrounded it, especially in the aftermath of the financial crisis. While he does acknowledge challenges and occasional missteps, the book tends to justify rather than critically interrogate the firm's actions.



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The discussion of leadership and organizational culture is one of the book's stronger aspects. Blankfein reflects on managing talent, navigating uncertainty, and maintaining institutional coherence in a rapidly changing environment. His emphasis on adaptability, discipline, and culture offers valuable lessons, particularly for those interested in leadership within complex and high-pressure systems.

Overall, *Streetwise* succeeds as a candid and informative account of life inside one of the world's most influential financial institutions. It offers meaningful insights into leadership, risk, and the inner workings of global finance, even as it stops short of fully engaging with the broader ethical and systemic critiques of Wall Street.

THE GROUND BREAKER: RISKS, REWARDS, AND LESSONS FROM A LEGENDARY ENTREPRENEUR

Author: Kanwal Rekhi

Publisher: Harper Business

Year of Publication: 2025

The Ground Breaker: Risks, Rewards, and Lessons from a Legendary Entrepreneur by Kanwal Rekhi is a compelling and unvarnished autobiography that blends personal struggle with the evolution of global entrepreneurship, particularly through the lens of the Indian diaspora in Silicon Valley. Rather than presenting a linear success story, the book offers a candid and often unsentimental account of ambition, failure, resilience, and reinvention, making it both engaging and instructive.

At its heart, the narrative traces Rekhi's journey from a modest background in pre-Partition India to becoming a pioneering figure in the early technology revolution in the United States. His life story unfolds against the backdrop of major technological shifts, from the rise of networking companies to the dot-com boom, providing readers with a historical perspective on how entrepreneurial ecosystems evolve. The book is particularly effective in capturing the experience of the first generation of Indian immigrants who helped shape Silicon Valley, highlighting both the opportunities and the cultural and professional barriers they encountered.

What distinguishes the book is its striking honesty. Rekhi does not romanticize his achievements; instead, he openly discusses failures, missed opportunities, and personal limitations, ranging from career setbacks to challenges in communication and temperament. This refusal to "sugarcoat" his journey gives the narrative a rare authenticity and underscores a central theme of the book, that success is often contingent on timing, adaptability, and the ability to navigate uncertainty rather than on talent alone.

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The book also functions as a broader reflection on entrepreneurship as a mindset. Rekhi emphasizes resilience, risk-taking, and the importance of recognizing and riding technological “waves,” drawing from his own experiences of both wealth creation and loss. His involvement in building institutions such as TiE (The IndUS Entrepreneurs) further highlights his role not just as an entrepreneur but as a mentor who helped shape subsequent generations of Indian founders. In this sense, the book moves beyond autobiography to become a call to action for aspiring entrepreneurs, encouraging them to embrace uncertainty and think globally.

Finally, *The Ground Breaker* stands out as an insightful and honest account of entrepreneurship in an era of profound technological change. It succeeds not by offering neat lessons or formulaic success strategies, but by revealing the complex interplay of risk, timing, perseverance, and context that defines entrepreneurial journeys. For readers interested in business, innovation, and the rise of the Indian diaspora in global technology, the book is both illuminating and inspiring, even as it resists the temptation to provide easy answers.



SECTION 5: CLIMATE CHANGE

CLIMATE NEWS

INDIA'S NATIONALLY DETERMINED CONTRIBUTION (NDC) FOR 2031–2035

The Union Cabinet, chaired by Prime Minister Shri Narendra Modi, has approved India's Nationally Determined Contribution (NDC) for the period 2031–2035, strengthening the country's climate ambition under the UNFCCC and the Paris Agreement while reaffirming its commitment to sustainable development and climate justice.

The highlights of the NDC are as follows:

1. Enhanced Climate Targets

India has set three key quantitative targets:

- 47 percent reduction in emissions intensity of GDP from 2005 levels by 2035
- 60 percent share of non-fossil fuel capacity in installed electricity generation
- Creation of a carbon sink of 3.5–4.0 billion tonnes of CO₂ equivalent through forest and tree cover

These targets build on earlier achievements, many of which were met ahead of schedule, demonstrating India's strong implementation track record.

2. From Early Achievement to Higher Ambition

India has already:

- Reduced emissions intensity by 36 percent (2005–2020)
- Achieved over 52 percent non-fossil power capacity (2026)

The updated NDC reflects a shift from meeting targets to raising ambition, aligned with India's long-term goal of net-zero emissions by 2070.

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3. Clean Energy and Green Growth Strategy

India's climate approach emphasizes:

- Expansion of renewable energy and storage systems
- Development of green hydrogen and clean manufacturing
- Strengthening infrastructure and innovation ecosystems

Key policy initiatives include the Green Hydrogen Mission, PLI schemes, PM-KUSUM, and international collaborations such as the International Solar Alliance.

4. Strong Focus on Adaptation

India's NDC places significant emphasis on adaptation and resilience, including:

- Coastal protection through mangrove restoration
- Glacier monitoring and Himalayan ecosystem management
- Heat action plans and disaster preparedness systems

This reflects recognition of India's vulnerability to climate risks and the need for climate-resilient development.

5. Institutional Framework and Policy Integration

Climate action is implemented through:

- National Action Plan on Climate Change (NAPCC)
- State Action Plans on Climate Change (SAPCCs)

The approach integrates climate objectives across sectors such as agriculture, water, and infrastructure, ensuring a whole-of-government strategy.

6. People-Centric and Inclusive Approach

India emphasizes:

- The Lifestyle for Environment (LiFE) initiative to promote sustainable behaviour
- Community-driven programs such as tree plantation campaigns
- Inclusion of youth and women in the green transition

7. Guiding Principles and Global Positioning

India's NDC is guided by:

- Equity and Common but Differentiated Responsibilities and Respective Capabilities (CBDR-RC) principles
- Outcomes of the Global Stocktake
- Alignment with Viksit Bharat @2047

It reflects a balance between development priorities, energy security, and climate ambition.

8. Conclusion

The updated NDC represents a major milestone in India's transition towards a low-carbon, climate-resilient economy, reinforcing its role as a global leader in climate action while maintaining a strong focus on inclusive and sustainable development.

(Source: Press Information Bureau, GoI:

<https://www.pib.gov.in/PressReleasePage.aspx?PRID=2245209®=3&lang=1>)

GERMANY'S CLIMATE ACTION PLAN: AMBITION AMID ENERGY UNCERTAINTY

On 25 March 2026, the German government approved a comprehensive 67-point climate programme, backed by €8 billion in funding, aimed at accelerating progress toward its 2030 climate targets while reducing dependence on volatile fossil fuel imports. The initiative comes at a time of heightened energy security concerns, driven by geopolitical tensions and disruptions in global oil and gas supplies.

Germany has set an ambitious goal of reducing greenhouse gas emissions by at least 65 percent from 1990 levels by 2030 and achieving climate neutrality by 2045. However, current progress—around 48 percent reduction—has raised concerns about a potential shortfall, prompting the need for stronger policy interventions.

Key Measures

The programme focuses on a mix of mitigation and energy security strategies:

- Expansion of onshore wind capacity by 12 GW
- Incentives to boost electric vehicle (EV) adoption, including a €3 billion subsidy scheme targeting 800,000 EVs
- Investments in industrial decarbonization, including €2.9 billion for low-carbon technologies and carbon capture and storage (CCS)
- Continued support for building efficiency and heating transitions
- Measures to enhance natural carbon sinks through forests and soil

These interventions are expected to deliver over 25 million tonnes of CO₂ savings by 2030, along with significant reductions in fossil fuel consumption, including natural gas and petrol.

Strategic Significance

The plan reflects Germany's attempt to align climate ambition with energy security, particularly in the context of external shocks affecting fossil fuel supplies. By

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accelerating renewable energy deployment and electrification, the strategy seeks to reduce exposure to global energy price volatility while modernizing the economy.

Challenges and Criticism

Despite its scope, the programme has faced criticism from environmental groups and the independent Expert Council on Climate Issues, which has warned that the measures may be insufficient to meet the 2030 targets. Persistent challenges remain in key sectors such as transport and housing, which have historically lagged in emissions reductions.

Conclusion

Germany's latest climate package underscores the growing complexity of climate policymaking in advanced economies, where decarbonization, energy security, and economic stability must be balanced simultaneously. While the programme marks a step forward, its effectiveness will depend on implementation and whether additional measures are introduced to close the ambition gap.

(Source: Reuters, March 25, 2026)

FROM INCLUSION TO TRANSFORMATION: ADVANCING INDIGENOUS KNOWLEDGE IN THE IPCC FRAMEWORK

The report, *“Recommendations for the Ethical and Equitable Engagement of Indigenous Knowledge Systems within the IPCC”*, provides a comprehensive framework for addressing the persistent marginalisation of Indigenous Knowledge Systems (IKS) in global climate science and policymaking.

At its core, the report argues that Indigenous Peoples are not merely vulnerable to climate change but are critical knowledge holders and leaders, possessing sophisticated, evidence-based systems developed through centuries of observation, adaptation, and governance of ecosystems. Despite their relevance, Indigenous Knowledge Systems remain systematically underrepresented and often mischaracterized within the IPCC’s assessment processes.

The report identifies three major categories of barriers:

- **Structural and procedural barriers**, including state-centric governance and limited participation of Indigenous organisations
- **Epistemological barriers**, where Euro-Western scientific paradigms dominate and marginalize alternative knowledge systems
- **Relational and ethical barriers**, including extractive practices, tokenism, and inadequate recognition of Indigenous rights and data sovereignty

To address these challenges, the report proposes a principled framework grounded in epistemic justice, self-determination, and non-extractive engagement, emphasizing that Indigenous Knowledge Systems must be treated as equally valid, autonomous systems of knowledge, rather than supplementary inputs to conventional science.

The recommendations are organized across three key domains:

1. **Authorship and Representation**: Enhancing Indigenous participation through inclusive nomination processes, expanded definitions of expertise, and meaningful representation across IPCC Working Groups.
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2. **Methodology and Assessment Frameworks:** Reforming evidence standards and methodologies to recognize Indigenous validation systems, oral traditions, and community-based knowledge, while ensuring ethical protocols such as free, prior, and informed consent (FPIC).
3. **Institutional Transformation and Accountability:** Moving beyond symbolic inclusion toward structural reforms, including the establishment of permanent Indigenous advisory bodies, accountability mechanisms, and governance reforms aligned with the UN Declaration on the Rights of Indigenous Peoples (UNDRIP).

The report adopts a dual temporal approach:

- **Short-term (AR7):** Immediate actions to prevent harm, ensure ethical engagement, and improve representation
- **Long-term (AR8 and beyond):** Transformational reforms to reshape institutional structures and knowledge systems within the IPCC

Ultimately, the report calls for a shift from tokenistic inclusion to genuine co-production and shared governance, arguing that integrating Indigenous Knowledge Systems is not only a matter of justice but also essential for producing more robust, inclusive, and effective climate science.

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

SYNOPSIS OF RESEARCH PAPERS/ REPORTS

CLIMATE FAIRNESS AND GROWTH: ALLOCATING THE REMAINING CARBON BUDGET

Authors: Galina Hale, Michael Halling, Nora Alice. Paulus, and Han H.G. Pham

NBER Working Paper No. 34978, March 2026

National Bureau of Economic Research, Cambridge, MA

This paper examines the tension between climate mitigation goals and economic development under an equity-based allocation of the remaining global carbon budget consistent with limiting warming to 1.5°C. It adopts the equal-cumulative-per-capita (ECPC) principle to compute fair carbon budget shares for 162 countries using historical emissions data from 1950 to 2023. The study then estimates income–emissions elasticities across income groups and uses these relationships to simulate future emissions trajectories up to 2050.

The findings reveal a stark asymmetry in carbon budget allocations: most advanced economies have already exceeded their fair shares, resulting in negative remaining carbon budgets, while developing and emerging economies retain positive but limited allocations. However, under historically observed income–emissions relationships, many developing countries would surpass their fair shares as they converge toward higher income levels. At the global level, unused carbon allocations offset only a small portion of the total shortfall, covering about 17 percent of the combined deficit arising from overshooting countries and historically negative allocations. Even under a scenario of widespread technology transfer from advanced to developing economies, this coverage improves only to 38 percent.

The paper situates these findings within the principle of “common but differentiated responsibilities” articulated in the United Nations Framework Convention on Climate Change, emphasizing that developed countries bear a disproportionate historical

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responsibility and must play a leading role in enabling emissions reductions globally. It argues that technology transfer, particularly of low-carbon and efficiency-enhancing technologies, can help developing countries achieve growth while moderating emissions, though such measures alone are insufficient to fully reconcile climate and development objectives.

Using a tractable analytical framework, the study concludes that current global carbon constraints are not fully compatible with development aspirations in many middle-income economies. While accelerated technological diffusion can partially bridge this gap by enabling low-emission growth pathways, it can address only about half of the mismatch between carbon budgets and development needs. Consequently, the paper underscores the need for complementary mechanisms, including equitable allocation of carbon capture and adaptation financing, guided by frameworks such as the Greenhouse Development Rights approach, to address the broader challenge of climate inequality.

The full paper can be accessed from:

https://www.nber.org/system/files/working_papers/w34978/w34978.pdf

HOW CAN CARBON MARKETS SCALE DURABLE CARBON DIOXIDE REMOVAL IN INDIA?

Authors: Christi Kesh, Srishti Singh, Darshna Singh, Aparna Sharma, Vaibhav Chaturvedi, and Asitava Sen

Council on Energy, Environment and Water (CEEW) and Carbon Removal India Alliance

March 2026

This report examines the emerging role of durable carbon dioxide removal (CDR) in achieving long-term climate goals under the Paris Agreement, with a particular focus on India's net-zero pathway. It argues that emissions reductions alone will be insufficient to limit global warming to 1.5°C, as legacy atmospheric carbon dioxide will continue to drive warming unless actively removed and durably stored. Drawing on global evidence and Intergovernmental Panel on Climate Change pathways, the report

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highlights the growing importance of durable CDR approaches, such as biochar, enhanced rock weathering (ERW), bioenergy with carbon capture and storage (BECCS), and direct air carbon capture and storage (DACCS), and underscores the need for early investment and scaling during the 2020s.

The analysis finds that despite increasing global recognition, durable CDR remains nascent, accounting for less than 0.1 percent of total carbon removals and a small share of carbon market transactions. High costs, limited demand, and financing uncertainties continue to constrain deployment. Against this backdrop, carbon markets are identified as a critical mechanism for scaling CDR by strengthening price signals, enabling advance purchase commitments, and improving revenue certainty.

The report highlights India's emerging potential as a major supplier in the global durable CDR market, with the capacity to contribute 10–30 percent of global removals by 2050, driven by favourable agroclimatic conditions, abundant biomass, and suitable geology. While early commercial activity is visible, particularly in biochar and ERW, policy integration remains limited. Durable CDR is only broadly referenced in India's Long-Term Low-Emissions Development Strategy and is not explicitly embedded in its Nationally Determined Contribution or the evolving carbon market framework.

Drawing on international policy experience and stakeholder consultations led by the Council on Energy, Environment and Water and the Carbon Removal India Alliance, the report identifies key barriers, including definitional ambiguities, weak market infrastructure, underdeveloped monitoring and verification systems, and insufficient integration of socio-economic outcomes. It emphasizes that durable CDR must be aligned with development priorities, such as rural livelihoods, soil health, and domestic value creation, to ensure scalable and equitable deployment.

The report concludes by recommending the development of a National Carbon Removal Strategy (NCRS) for India, which would formally integrate durable CDR into national climate policy, clarify its role in managing residual emissions, establish a robust taxonomy and regulatory framework, and enable its incorporation into domestic

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and international carbon markets. Such a strategy, it argues, is essential to balance climate mitigation objectives with economic development goals while positioning India as a key player in the evolving global carbon removal landscape.

The full report can be accessed from:

<https://www.ceew.in/sites/default/files/carbon-markets-in-india-pathways-to-durable-carbon-removal-web.pdf>



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All issues of EcoSphere are available at <https://inspire-solutions.in/ecosphere/>



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