

EcoSphere

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

APRIL 2026

Volume III, Issue 4



**Institute for
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Chairman's Reflections



From Shock to Strategy: Rethinking Growth in a Fragmented World

The developments highlighted in this edition of *EcoSphere* reveal a world that is no longer dealing with cyclical fluctuations alone, but confronting deeper, systemic shifts driven by geopolitics, energy transitions, financial realignments, and technological disruption.

At the global level, the West Asia conflict has reinforced the fragility of interconnected systems. What began as an energy disruption has cascaded across supply chains, inflation dynamics, and financial markets. The volatility in oil prices, the re-emergence of inflationary pressures, and the growing fragmentation of trade underscore a critical transition, from an era of global integration to one of strategic realignment. Yet, even amidst this turbulence, global financial markets have demonstrated surprising resilience, led by technology-driven optimism and the transformative potential of artificial intelligence. This duality of fragility in fundamentals and strength in financial sentiment, defines the current global moment.

India's position within this landscape is both promising and complex. The economy continues to exhibit strong growth fundamentals, supported by domestic demand, infrastructure investment, and a vibrant services sector. However, the underlying narrative is shifting. As this issue's cover story highlights, India stands at a crossroads: resilient, yet increasingly exposed to external shocks. The energy crisis has brought into sharp focus the country's structural dependence on imported resources, while evolving trade patterns and capital flows are testing the stability of the external sector.

Monetary policy, in this context, reflects a careful balancing act. The Reserve Bank of India's strategic pause underscores a broader recognition: that traditional policy tools are less effective against supply-driven shocks. The challenge today is not merely to manage inflation or growth in isolation, but to navigate their intersection in an environment marked by uncertainty and asymmetry. Similarly, fiscal policy must reconcile competing priorities: supporting growth and protecting vulnerable sectors while maintaining long-term sustainability.

What is equally evident is that India's economic trajectory is being shaped by deeper structural transformations. The digitalisation of finance, the rise of new technologies, and shifts in labour markets are redefining the contours of growth. At the same time, persistent challenges, such as uneven consumption recovery, regional disparities, and the need for greater inclusion, highlight that growth must be both broad-based and sustainable.

The insights across this edition point to a common theme: the increasing interconnectedness of economic, financial, and environmental systems. Climate change, in particular, is no longer a distant concern but an immediate economic reality, influencing agriculture, commodity markets, and long-term growth prospects.

Looking ahead, the period from 2026 to 2028 will be critical. It is not merely a phase of adjustment but a window for strategic transformation. Strengthening energy security, enhancing supply chain resilience, deepening financial markets, and accelerating structural reforms will be central to sustaining growth in an uncertain world.

In many ways, this is a moment of reckoning, and also of opportunity. India's ability to convert resilience into long-term strength will depend on the choices made today. The task before policymakers, businesses, and institutions is not just to respond to shocks, but to build systems that are more adaptive, inclusive, and future-ready.



As we reflect on the evolving economic landscape, one message stands clear: resilience is no longer enough. The future will belong to those economies that can anticipate change, adapt with agility, and align growth with sustainability.

Dr Debesh Roy

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Unit Conversion

1 lakh = 100,000

1 crore = 10 million

100 crore = 1 billion

1 lakh crore = 1 trillion

USD/INR Exchange Rate

USD (\$) 1 = INR (₹) 94.6543 (30 March 2026)

USD (\$) 1 = INR (₹) 95.2417 (30 April 2026)

COVER STORY

STATE OF THE INDIAN ECONOMY

INDIA AT A CROSSROADS: GROWTH, RESILIENCE, AND RISKS IN A FRAGMENTING WORLD

Introduction: A Shock That Redefines the Moment

Two months into the West Asia conflict, the global economy is no longer navigating a routine cycle, but it is confronting a structural shock. The disruption of energy flows, particularly through the Strait of Hormuz, has injected volatility into oil markets, supply chains, and financial systems.

The International Monetary Fund's *World Economic Outlook April 2026* captures the shift starkly: global growth is slowing, inflation risks are rising, and uncertainty has deepened. Yet, amid this turbulence, India stands out. It is not untouched, but comparatively resilient.

The Global Context: Growth Interrupted

The global economy has entered 2026 on an increasingly fragile footing. What initially appeared to be a continuation of post-pandemic recovery has been abruptly disrupted by the escalation of conflict in West Asia. The IMF's *World Economic Outlook April 2026* makes it clear that this is not a routine cyclical slowdown, but a structural break driven by a sharp supply-side shock.

At the heart of this disruption lies the surge in energy prices and the breakdown of critical supply chains. Oil and gas markets, already tight, have been pushed into volatility by disruptions in transit routes and production facilities. This has had cascading effects across industries, raising costs for transportation, fertilizers, chemicals, and manufacturing. Unlike demand-driven inflation, which can be moderated through policy tightening, this supply-driven inflation presents a far more complex challenge.

Compounding the problem is the synchronisation of risks across regions. Advanced economies are grappling with persistent inflation and tightening financial conditions, while emerging markets face capital flow volatility and currency pressures. Trade fragmentation and geopolitical realignments are further weakening global integration. As a result, the global economy is now characterised by a combination of slowing growth, rising inflation, and heightened uncertainty—conditions that recall earlier episodes of stagflationary stress.

India's Growth Story: Resilient, But Not Immune

India's economic performance in this uncertain global environment reflects a dual reality. On the one hand, the country continues to demonstrate strong growth momentum, underpinned by domestic demand, infrastructure spending, and a dynamic services sector. On the other, the early signs of stress are becoming increasingly visible, particularly in sectors exposed to global supply disruptions.

Consumption demand remains a key pillar of resilience. Urban demand, supported by rising incomes and credit expansion, continues to sustain sectors such as retail, automobiles, and services. Government-led capital expenditure, especially in infrastructure, has further reinforced growth by crowding in private investment and supporting employment generation.

However, this strength on the demand side contrasts with emerging constraints on the supply side. Manufacturing activity, while still expanding, has lost some momentum,

reflecting higher input costs and logistical bottlenecks. Industries dependent on imported inputs, such as fertilizers, chemicals, and energy-intensive manufacturing, have been particularly affected. The contraction in fertilizer output due to gas shortages is a case in point, highlighting how external shocks can quickly translate into domestic production constraints.

This divergence suggests that India's growth story is entering a more complex phase, where sustaining momentum will depend not just on demand strength but also on the ability to manage supply-side risks.

Monetary Policy: Walking a Tightrope

The Reserve Bank of India's policy stance reflects the complexity of the current macroeconomic environment. Faced with a supply-driven shock, the central bank has chosen a cautious approach by holding policy rates steady while closely monitoring inflation dynamics and external conditions.

This approach recognises the limitations of conventional monetary policy in addressing supply-side inflation. Aggressive tightening could dampen growth without significantly easing cost pressures, while premature easing could risk unanchoring inflation expectations. The challenge, therefore, lies in maintaining a delicate balance between supporting growth and preserving price stability.

At a broader level, the RBI's policy framework is evolving to address structural changes in the financial system. As highlighted in the *RBI Bulletin April 2026*, the increasing digitalisation of finance is transforming the transmission of monetary policy and the nature of financial risks. The rise of digital payments, fintech platforms, and interconnected financial systems has enhanced efficiency but also increased systemic complexity.

In this context, monetary policy is no longer just about managing interest rates—it is also about ensuring financial stability in a rapidly evolving ecosystem.

Financial System: Stability Amid Transformation

India's financial system remains one of the strongest pillars supporting the economy during this period of global uncertainty. Banks are well-capitalised, credit growth remains robust, and liquidity conditions are broadly supportive of economic activity. These factors have enabled the financial sector to absorb external shocks without significant disruption.

However, beneath this stability lies a process of rapid transformation. The financial system is being reshaped by technological innovation, regulatory evolution, and changing consumer behaviour. Digitalisation has expanded access to financial services, improved efficiency, and reduced transaction costs, contributing to greater financial inclusion.

At the same time, these changes have introduced new risks. Cybersecurity threats, data privacy concerns, and the growing interdependence between financial institutions and technology platforms have created new vulnerabilities. The increasing complexity of financial networks also raises the risk of contagion, where disruptions in one segment can quickly spread across the system.

Managing this transition will require a careful balance between innovation and regulation, ensuring that the benefits of digitalisation are realised without compromising systemic stability.

External Sector: Strength with Exposure

India's external sector reflects both the strengths of its economic model and the vulnerabilities inherent in its integration with global markets. On the positive side, the country has achieved record levels of exports, driven largely by the strong performance of the services sector. This highlights India's growing competitiveness in areas such as IT services, business process outsourcing, and digital trade.

However, the external sector is also where the impact of global shocks is most immediately felt. Rising oil prices have significantly increased the import bill, widening

the trade deficit and placing pressure on the current account balance. As an energy-importing economy, India remains particularly sensitive to fluctuations in global commodity prices.

The recent decline in both exports and imports reflects the broader impact of global uncertainty and supply disruptions. Higher shipping costs, longer transit times, and reduced demand in key markets are all contributing to a slowdown in trade activity.

In addition, global financial volatility has implications for capital flows and exchange rate stability. Periods of risk aversion can lead to capital outflows, putting pressure on the rupee and complicating macroeconomic management.

Fiscal Landscape: Prudence Meets Pressure

India's fiscal position remains relatively stable at the central level, reflecting a commitment to fiscal consolidation and prudent budgeting. Conservative revenue assumptions and institutional safeguards have helped create a buffer against external shocks.

However, the fiscal landscape is characterised by significant heterogeneity. While the central government has maintained discipline, several states face elevated debt levels and constrained fiscal space. This divergence poses challenges for coordinated policy responses, particularly in times of crisis.

The current environment is also likely to increase fiscal pressures. Rising input costs in sectors such as fertilizers and energy may necessitate higher subsidies to protect consumers and maintain economic stability. At the same time, there is a continued need for public investment in infrastructure and social sectors to sustain long-term growth.

Balancing these competing demands will be a key challenge for fiscal policy. The focus will need to shift not only to the quantity of spending but also to its quality, ensuring that public expenditure contributes to productivity and resilience.

Structural Shifts: The Deeper Transformation

Beyond the immediate cyclical challenges, India's economy is undergoing significant structural transformation. Labour markets are gradually stabilising, with increasing formalisation and improvements in participation rates. However, challenges remain in areas such as youth employment and gender inclusion, which will require targeted policy interventions.

At the same time, technological change is reshaping the economic landscape. The growing adoption of digital technologies, artificial intelligence, and automation is transforming production processes, business models, and labour markets. These changes offer significant opportunities for productivity gains but also raise important questions about employment and skill development.

The financial system, too, is evolving in response to these trends, with digitalisation playing a central role in expanding access and improving efficiency. As highlighted in the *RBI Bulletin April 2026*, the interplay between technology and finance will be a key determinant of future economic outcomes.

These structural shifts suggest that India's growth story is entering a new phase—one that will be defined not just by the pace of growth, but by its composition and sustainability.

What Lies Ahead: 2026–2028

The outlook for India over the next two to three years is likely to be defined by a combination of resilience and recalibration. Growth is expected to remain moderate but stable, supported by domestic demand, public investment, and a still-robust services sector. However, this growth will operate under tighter constraints than in the immediate post-pandemic recovery phase. Rising input costs, global uncertainty, and external sector pressures are likely to weigh on momentum, making the growth path more uneven across sectors.

Inflation risks, though currently contained at the consumer level, are likely to re-emerge as a central macroeconomic concern. The persistence of elevated global commodity prices, particularly energy, combined with rising wholesale price pressures, suggests that cost pass-through to consumers may intensify. This creates a delicate policy environment in which managing inflation expectations without derailing growth becomes increasingly challenging.

At the same time, India's external vulnerability will remain a key macroeconomic fault line. Sustained high oil prices could widen the current account deficit and exert pressure on the rupee, while global financial volatility may lead to intermittent capital outflows. These dynamics underscore the importance of maintaining macroeconomic buffers and ensuring policy credibility in an uncertain global environment.

In this context, strengthening energy security will emerge as a strategic priority. The current crisis has underscored the risks of excessive dependence on imported fossil fuels and geographically concentrated supply routes. Expanding renewable energy capacity, diversifying sources of crude imports, and investing in strategic reserves will be critical not only for stability but also for long-term economic resilience.

Equally important is the need to enhance supply chain resilience. The disruptions triggered by the West Asia conflict highlight the vulnerability of production systems to external shocks. Developing domestic capabilities in critical sectors, improving logistics infrastructure, and diversifying trade partnerships can help mitigate these risks and ensure more stable production cycles.

Fiscal discipline will remain central to sustaining macroeconomic stability. While there may be pressure to expand spending in response to rising costs and sectoral stress, maintaining prudent fiscal management will be essential to preserve investor confidence and avoid crowding out private investment. At the same time, improving the quality of expenditure, particularly towards infrastructure, human capital, and productivity-enhancing investments, will be key.

Finally, the coming years will require renewed momentum on structural reforms. Enhancing labour market flexibility, deepening financial markets, accelerating digital transformation, and strengthening institutional capacity will play a decisive role in sustaining long-term growth. The interplay between technology, productivity, and employment will be particularly important, as India navigates the transition to a more digital and knowledge-driven economy.

Taken together, the period from 2026 to 2028 represents not just a phase of adjustment, but a critical window for strategic transformation. The choices made during this period will shape the trajectory of India's growth story for the decade ahead.

Conclusion: A Moment of Reckoning and Opportunity

India's economy in 2026 is not in crisis, but it is being tested. The country has demonstrated resilience in the face of global shocks.. However, the challenge now is to convert this moment of disruption into an opportunity for structural strengthening. If India can navigate the delicate balance between growth and stability, it will not only withstand the current crisis, but emerge stronger from it.

SECTION 1: INDIAN ECONOMY

ENERGY AT RISK: HOW THE WEST ASIA CRISIS COULD REDEFINE INDIA'S ECONOMY

Introduction

Two months into the West Asia conflict, the world is confronting not just another geopolitical crisis, but a full-scale energy shock with systemic economic consequences. At the epicentre lies the Strait of Hormuz, a narrow maritime artery through which a fifth of global oil flows. Its disruption has triggered a cascade of effects that now extend far beyond oil markets, seeping into supply chains, inflation dynamics, and growth trajectories across economies. For India, the crisis is not distant—it is immediate, structural, and deeply consequential.

A Shock That Travels Far Beyond Oil

Energy crises rarely remain confined to the energy sector. Crude oil is not merely a fuel; it is the invisible backbone of modern economic activity. From fertilizers and plastics to pharmaceuticals and electronics, petroleum derivatives underpin thousands of products and industrial processes.

This is why the current disruption is reverberating across nearly 30 sectors of the Indian economy, directly or indirectly. What began as a supply disruption has now evolved into a broad-based economic shock, affecting production, prices, and demand simultaneously.

India's exposure is amplified by geography and dependence. A significant share of its crude imports passes through the Strait of Hormuz. Even partial disruption raises freight costs, insurance premiums, and delivery timelines, transmitting cost pressures across the economy almost instantaneously.

Sectoral Fault Lines: Where the Pain Is Sharpest

The first cracks are visible in energy-intensive sectors. Fertilizers, heavily dependent on natural gas, are facing acute supply constraints. Production has already declined

sharply, and the risk of deeper disruptions looms large. This is not merely an industrial concern, it has direct implications for agriculture, food prices, and rural incomes.

The aviation sector is confronting a different but equally severe stress. Rising aviation turbine fuel costs, combined with a weakening rupee and softer travel demand, have created a “triple shock” that threatens profitability. In a sector already operating on thin margins, this could translate into financial strain and capacity adjustments.

Manufacturing sectors such as ceramics, metals, and petrochemicals are also under pressure. Their dependence on liquefied natural gas and imported fuels makes them particularly vulnerable to price spikes. Margins are being squeezed, and the ability to pass on costs is limited in a price-sensitive market.

Yet, the crisis does not stop there. Even sectors with indirect exposure—fast-moving consumer goods, automobiles, and consumer durables, are feeling the impact through higher logistics costs and weakening demand. The breadth of the shock underscores a fundamental truth: energy is embedded in every layer of economic activity.

Inflation Meets Slowing Growth: A Dangerous Mix

The deeper economic risk lies in the second-order effects. Rising energy costs are feeding into inflation across goods and services, eroding purchasing power and dampening consumption. At the same time, higher input costs are constraining production and investment. The result is a classic supply-side shock—one that pushes prices up while pulling growth down.

For policymakers, this is a difficult terrain. Traditional tools are less effective against externally driven shocks. Tightening monetary policy may contain inflation but risks further slowing growth. Fiscal support can cushion the blow but at the cost of widening deficits. The risk, therefore, is not just inflation, but stagflation-like conditions, where the economy faces simultaneous pressure on growth and prices.

External Pressures: Currency, Trade, and Competitiveness

The energy shock is also spilling into India's external sector. Higher crude prices are inflating the import bill, widening the current account deficit, and putting downward pressure on the rupee.

Currency depreciation, in turn, raises the cost of imports further, creating a reinforcing loop of inflationary pressure. For export-oriented sectors, rising logistics and insurance costs are eroding competitiveness, adding another layer of stress.

The global nature of the crisis compounds the challenge. With multiple economies scrambling for alternative supplies, competition for energy resources is intensifying, pushing prices higher and prolonging the adjustment process.

The Fiscal Dilemma: Support vs Stability

The government faces a difficult balancing act. Rising fertilizer and fuel costs are likely to increase subsidy requirements, particularly if domestic production remains constrained.

Supporting agriculture and protecting consumers from price shocks will require fiscal intervention. Yet, expanding subsidies risks straining public finances and crowding out other priorities. This tension between economic support and fiscal discipline lies at the heart of the policy challenge in the months ahead.

A Structural Weakness Exposed

Beyond the immediate crisis, the disruption has exposed a deeper structural vulnerability, viz., India's dependence on imported energy and fragile supply routes. Despite efforts to diversify sourcing, the continued reliance on the Strait of Hormuz highlights the limits of current strategies. In a world marked by geopolitical fragmentation, such chokepoints represent systemic risks. The lesson is stark: energy security is not just about access, but about resilience.

Echoes of the Past, Signals for the Future

The current crisis bears uncomfortable similarities to the oil shocks of the 1970s, when geopolitical tensions triggered inflation, disrupted growth, and reshaped global economic policy.

Today, the risks are compounded by more complex supply chains and deeper global integration. The ripple effects extend into food systems, financial markets, and consumer behaviour, amplifying the overall impact.

Yet, crises also create inflection points. This moment could accelerate shifts already underway: towards renewable energy, diversified supply chains, and more resilient economic structures.

What This Means for India: 2026–2028

The immediate outlook suggests heightened volatility. Growth could moderate as input costs rise and demand weakens, while inflationary pressures persist. Sectors with strong balance sheets may weather the storm, but more vulnerable industries could face prolonged stress.

Over the medium term, the crisis could reshape India's economic strategy in three important ways. First, it may accelerate the push towards energy diversification, including renewables and alternative fuels. Second, it could deepen the focus on domestic manufacturing resilience, reducing dependence on imported inputs. Third, it may lead to a more cautious macroeconomic stance, balancing growth ambitions with external stability.

Conclusion: A Defining Test of Economic Resilience

The West Asia conflict has triggered more than an energy crisis. It has set off a systemic shock that is testing the resilience of economies worldwide. For India, the impact is broad-based, cutting across sectors, markets, and policy domains.



The immediate challenge lies in managing rising costs and supply disruptions. But the larger imperative is strategic: building an economy that is less vulnerable to external shocks and more capable of sustaining growth in an uncertain world.

MONETARY POLICY

RBI'S STRATEGIC PAUSE: NAVIGATING GROWTH-INFLATION TRADE-OFFS IN A VOLATILE WORLD

Introduction: A Strong Economy in a Fragile World

India's macroeconomic landscape in April 2026 reflects a compelling paradox: strong domestic fundamentals coexisting with rising external vulnerabilities. The Reserve Bank of India's latest monetary policy communication, comprising the Governor's Statement, Monetary Policy Report, and MPC Minutes, captures this duality, presenting an economy that remains resilient but increasingly exposed to geopolitical tensions, energy shocks, and financial market volatility.

Growth Momentum: Resilience Anchored in Domestic Demand

India's growth performance continues to stand out, with GDP expanding by 7.6 per cent in 2025–26. This momentum is driven by robust private consumption, sustained investment, and strong public capital expenditure. Rural demand is supported by favourable agricultural conditions, while urban demand benefits from a dynamic services sector and policy reforms. Structural improvements in the financial sector and healthy credit growth further reinforce this trajectory, indicating that the economy's core growth engines remain intact.

Emerging Headwinds: Moderation in the Growth Outlook

Despite strong fundamentals, the outlook has become more uncertain. The RBI projects growth to moderate to 6.9 per cent in 2026–27, reflecting the impact of global headwinds. The West Asia conflict has disrupted supply chains, raised energy prices, and heightened financial volatility. These shocks are transmitted through multiple channels, viz., higher import costs, weaker external demand, tighter financial conditions, and increased uncertainty, tilting risks to the downside.

Inflation Dynamics: Stability Today, Risks Tomorrow

Inflation remains relatively benign at present, with headline inflation below target and core inflation subdued. However, the outlook is increasingly uncertain due to rising global commodity prices and potential weather disruptions such as El Niño. The RBI projects CPI inflation at 4.6 per cent for 2026–27, with risks tilted upward. A key concern is the growing role of imported inflation, which complicates policy responses and reduces the effectiveness of domestic monetary tools.

Monetary Policy Response: A Strategic Pause

In response to this complex environment, the RBI has adopted a calibrated and flexible approach. By keeping the policy repo rate unchanged at 5.25 per cent and maintaining a neutral stance, the Monetary Policy Committee has signalled a “wait-and-watch” strategy. This reflects the recognition that current shocks are largely supply-driven, and premature tightening could dampen growth without effectively containing inflation. The emphasis remains on data dependence and policy flexibility.

External Sector and Financial Conditions: Buffers with Caution

India’s external sector remains broadly stable, supported by strong foreign exchange reserves and resilient services exports. However, rising imports, particularly of energy and gold, have widened the trade deficit. Financial markets have become more volatile, influenced by global risk sentiment and capital flow fluctuations. The RBI’s approach of allowing market-determined exchange rates while intervening to curb excessive volatility reflects a pragmatic balance between stability and flexibility.

Policy Trade-offs: Navigating Growth and Inflation

The current macroeconomic environment presents a complex growth–inflation trade-off. While domestic demand remains strong, external shocks are simultaneously dampening growth and raising inflation risks. The MPC minutes highlight that these are primarily supply-side shocks, limiting the effectiveness of conventional monetary

tightening. This necessitates a nuanced and forward-looking policy framework focused on managing expectations and maintaining macroeconomic stability.

Conclusion: Resilience with Strategic Prudence

India's economy remains resilient but not immune to global shocks. Strong domestic fundamentals provide a solid foundation, yet the evolving geopolitical and economic landscape requires careful policy calibration. The RBI's emphasis on flexibility, vigilance, and data-driven decision-making reflects a mature approach to navigating uncertainty. Going forward, the ability to balance stability with adaptability will be crucial in sustaining growth and managing risks in an increasingly volatile world.

STABILITY AMIDST TURBULENCE: KEY INSIGHTS FROM RBI'S APRIL 2026 MONETARY POLICY REPORT

Global Macroeconomic Environment

RBI's *Monetary Policy Report April 2026* highlights that the global economy in early 2026 remains resilient but continues to operate below its historical growth trajectory amid persistent geopolitical tensions and trade uncertainties. While AI-driven investment and accommodative financial conditions have provided some support to global activity, the escalation of the West Asia conflict has significantly heightened uncertainty. This has manifested through rising energy prices, volatile financial markets, and renewed inflationary pressures. The global outlook is therefore characterised by a fragile balance, where growth remains moderate but highly contingent on geopolitical developments and commodity price movements .

Domestic Financial Conditions and Liquidity

Domestically, financial conditions during the second half of 2025–26 were shaped by surplus liquidity, albeit with intermittent volatility driven by global factors and capital flows. The Reserve Bank actively managed liquidity through a combination of policy tools, including open market operations, CRR reductions, and forex swaps, ensuring that money market rates remained aligned with the policy corridor. As noted in the

report, liquidity conditions evolved dynamically, with factors such as currency in circulation and government cash balances influencing system liquidity (as seen in the liquidity trends depicted in the chart on page 15). Transmission of monetary policy remained effective, with lending and deposit rates adjusting in response to policy changes, although some frictions persisted .

Financial Markets and Monetary Transmission

Financial markets exhibited resilience for much of late 2025 but turned volatile in early 2026 as geopolitical risks intensified. Equity markets experienced corrections, bond yields hardened, and currency markets reflected heightened risk aversion, with the US dollar strengthening on safe-haven demand. In India, bank credit growth improved and remained supportive of economic activity, while non-bank financing also expanded. Importantly, the transmission of policy rate changes to lending and deposit rates remained robust during the easing cycle, though banks increasingly relied on higher deposit rates and market instruments to bridge funding gaps arising from strong credit demand.

Domestic Growth Dynamics

India's domestic economic activity remained resilient, driven primarily by strong private consumption and investment demand. Both rural and urban consumption contributed to growth, supported by favourable labour market conditions, GST rationalisation, and monetary easing. On the supply side, services and manufacturing sectors demonstrated strength, while agriculture experienced some moderation due to weather-related disruptions. The report emphasises that structural reforms, infrastructure spending, and favourable financial conditions continue to underpin growth. However, global headwinds, particularly supply chain disruptions and geopolitical tensions, pose downside risks, with the potential to constrain output in key sectors.

Inflation Developments and Drivers

Inflation dynamics in India have remained relatively benign, with headline inflation rising from earlier lows but staying below the target. The increase in inflation has largely been driven by food prices, reflecting the waning of favourable base effects. Fuel inflation has remained moderate, while core inflation has been contained, especially when excluding volatile components such as precious metals. The report also highlights methodological changes in the CPI series, which have implications for inflation measurement, including a higher weight for food and lower core inflation readings. Notably, cost pressures from wages, inputs, and margins remained subdued up to early 2026, although imported inflation has begun to rise due to global commodity price movements .

External Sector and Global Spillovers

The external environment presents both opportunities and risks for India. While global trade had shown resilience in 2025, it is expected to moderate in 2026 due to weaker demand and policy uncertainties. Commodity price movements, particularly in energy, have become a key transmission channel of global shocks. The surge in crude oil prices following the West Asia conflict has heightened inflation risks and could widen external imbalances. Financial market volatility and shifting capital flows further complicate the external landscape, underscoring the need for continuous monitoring and policy preparedness .

Macroeconomic Outlook and Risks

Looking ahead, the report presents a cautiously optimistic outlook for the Indian economy. Strong macroeconomic fundamentals, such as sustained growth, relatively low inflation, and fiscal consolidation, provide resilience against external shocks. However, risks to the outlook are clearly asymmetric. The surge in global energy prices has tilted inflation risks upwards, while geopolitical tensions and supply disruptions pose downside risks to growth. These risks are explicitly captured in the report's

scenario analysis and fan charts, which highlight the uncertainty surrounding future macroeconomic trajectories .

Monetary Policy Perspective

In navigating this complex environment, the RBI’s monetary policy approach is guided by the dual objectives of maintaining price stability while supporting growth. The report underscores the importance of cautious and calibrated policy adjustments, given the uncertain and evolving nature of global and domestic conditions. The emphasis is on flexibility, data dependence, and proactive risk assessment, ensuring that monetary policy remains responsive to both inflationary pressures and growth dynamics.

Conclusion

The Report conveys a clear message: India’s economy remains resilient, but the external environment has become significantly more uncertain. The interplay between global shocks and domestic fundamentals defines the current macroeconomic landscape. In this context, the RBI’s policy strategy—anchored in prudence, flexibility, and forward-looking assessment—aims to safeguard macroeconomic stability while sustaining the momentum of growth.

STRENGTHENING INDIA’S FINANCIAL ARCHITECTURE: RBI’S DEVELOPMENTAL AND REGULATORY POLICIES

Introduction: A Shift Towards Simplification and Market Deepening

The Reserve Bank of India’s *Statement on Developmental and Regulatory Policies* (April 2026) reflects a clear strategic orientation towards enhancing efficiency, reducing compliance burdens, and deepening financial markets. The policy measures span four key domains, viz., regulation, supervision, payment systems, and financial markets, indicating a holistic approach to strengthening the financial ecosystem while improving ease of doing business.

Regulatory Reforms: Rationalisation and Capital Efficiency

A key thrust of the policy is regulatory simplification aimed at improving capital efficiency and governance within banks. The proposed removal of restrictions on including quarterly profits in the computation of CRAR marks a significant shift towards greater flexibility in capital management. By eliminating the condition linked to deviations in NPA provisioning, the RBI is effectively aligning regulatory requirements with evolving banking practices and risk assessment frameworks .

Similarly, the proposal to dispense with the Investment Fluctuation Reserve (IFR) requirement for commercial banks reflects a rationalisation of overlapping prudential norms. Given that banks already maintain capital for market risk and adhere to updated valuation norms, the IFR requirement is increasingly redundant. This move is expected to free up capital while maintaining prudential safeguards.

Another notable reform relates to governance. By rationalising the list of items to be placed before bank boards, the RBI seeks to enhance the quality of board-level deliberations. The shift is from procedural compliance towards strategic oversight, enabling boards to focus more on risk management and long-term direction rather than routine approvals.

Supervisory Framework: Consolidation and Clarity

The consolidation of supervisory instructions into 64 Master Directions represents a major institutional reform aimed at improving regulatory clarity and reducing compliance complexity. Building on the earlier consolidation of over 9,000 regulatory circulars into 238 Master Directions, this initiative brings greater coherence to supervisory expectations across different categories of regulated entities .

This move signals a transition towards a more streamlined and transparent supervisory architecture, where regulated entities can engage more effectively with a unified framework rather than navigating fragmented instructions. It is also likely to reduce compliance costs and enhance supervisory effectiveness.

Payment Systems: Enhancing MSME Access to Finance

The policy places significant emphasis on improving access to finance for MSMEs through reforms in the Trade Receivables Discounting System (TReDS). The proposal to eliminate the requirement for due diligence during MSME onboarding is a major step towards simplifying participation and expanding the reach of the platform.

By reducing procedural barriers, the RBI aims to increase MSME participation in invoice discounting, thereby improving liquidity and working capital access. This reform aligns with broader policy objectives of supporting MSMEs and enhancing financial inclusion through digital platforms .

Financial Markets: Broadening Participation and Improving Transmission

The development of the term money market is a central feature of the policy. By expanding the participant base to include non-bank entities such as All India Financial Institutions (AIFIs), NBFCs, and corporates, the RBI aims to deepen liquidity and improve price discovery in this segment.

An active term money market is critical for strengthening monetary policy transmission, as it links short-term policy rates with longer-term interest rates. The decision to also enhance borrowing limits for primary dealers further supports market liquidity. These measures collectively indicate a strategic effort to broaden and deepen India's financial markets, making them more efficient and resilient .

Conclusion: Towards a More Efficient and Integrated Financial System

Overall, the April 2026 policy statement reflects a coherent reform agenda focused on simplification, harmonisation, and market development. By reducing regulatory redundancies, consolidating supervisory frameworks, easing access for MSMEs, and deepening financial markets, the RBI is moving towards a more efficient and responsive financial system.



The emphasis on consultation through draft directions also highlights a participatory approach to policymaking, ensuring that reforms are well-calibrated and aligned with stakeholder needs. In essence, the policy measures underscore a shift from regulatory intensity to regulatory efficiency—an important evolution in India’s financial sector governance.

NAVIGATING MACROECONOMIC TRENDS

INFLATION IN TRANSITION: UNDERSTANDING INDIA'S PRICE DYNAMICS IN MARCH 2026

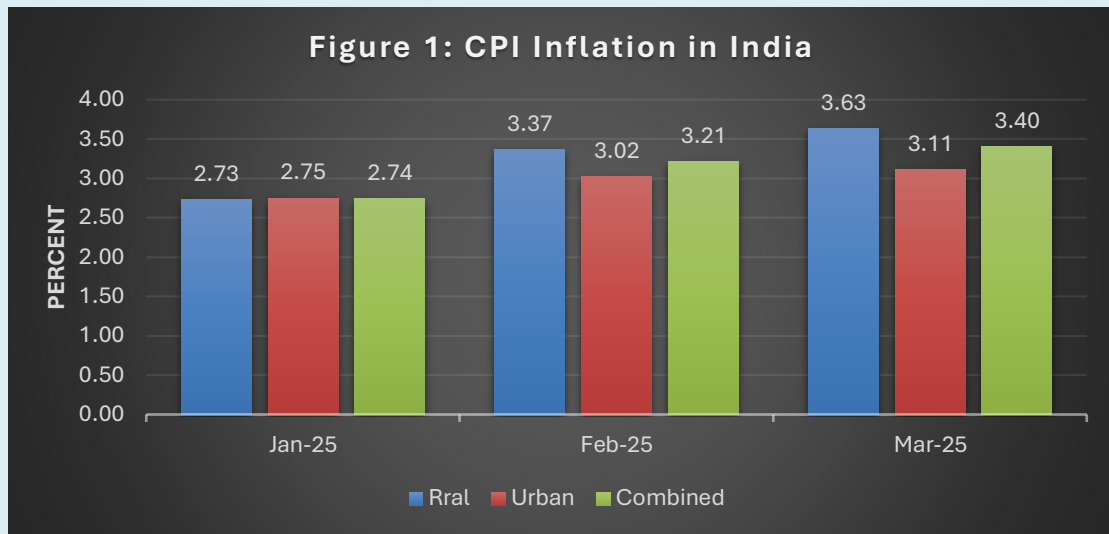
Introduction

India's inflation trajectory in early 2026 reflects a phase of relative stability accompanied by underlying structural shifts. The Consumer Price Index (CPI)-based inflation for March 2026 stood at 3.40 percent (Figure 1), marking a modest increase from February but remaining well within the comfort zone of policymakers.

At first glance, the headline number suggests a benign inflation environment. However, a deeper examination reveals a more nuanced picture, shaped by divergent trends across food and non-food components, rural-urban dynamics, and regional variations. The current inflation pattern is thus best understood not as a uniform moderation, but as a recomposition of price pressures, with certain sectors experiencing deflation while others exhibit persistent or even elevated inflation.

General Inflation

The overall inflation rate of 3.40 percent in March 2026 (Figure 1) reflects a gradual normalization following earlier fluctuations. Yet, this aggregate masks an important divergence between rural and urban inflation. Rural inflation stood at 3.63 percent, notably higher than urban inflation at 3.11 percent (Figure 1).



Source: MoSPI, GoI

This rural-urban differential points to asymmetric transmission of price pressures, likely driven by differences in consumption baskets and supply conditions. Rural consumption remains more sensitive to food prices, which have exhibited relatively higher inflation, while urban inflation is more influenced by services and housing, where price increases have been more moderate.

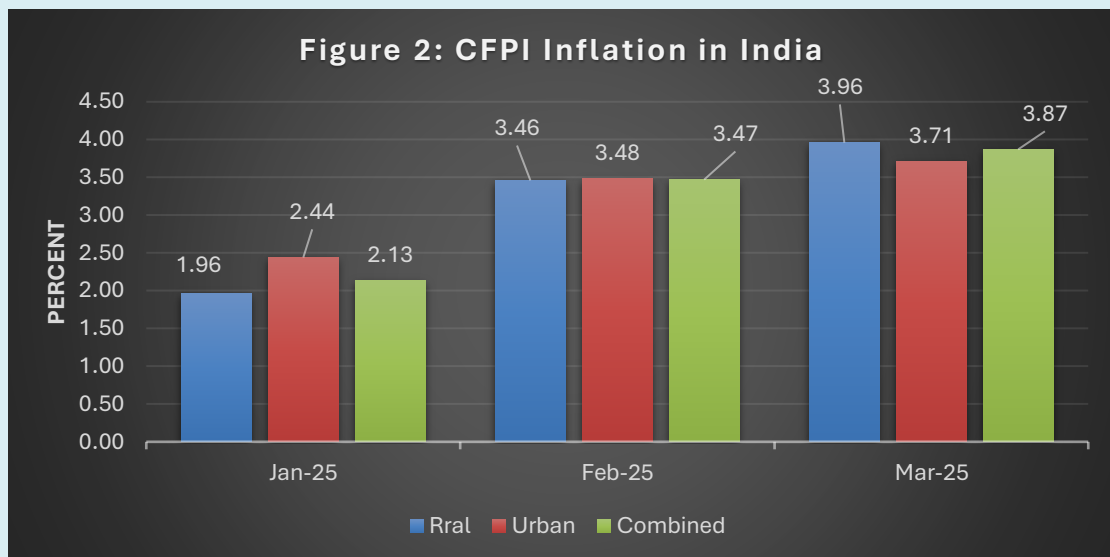
The persistence of higher rural inflation also suggests that inflationary pressures are more deeply embedded in primary consumption segments, particularly food and essential goods. At the same time, the relatively lower urban inflation indicates some moderation in demand-side pressures, possibly reflecting tighter financial conditions or evolving consumption patterns.

Food Inflation

Food inflation continues to play a central role in shaping the overall inflation trajectory. In March 2026, food inflation stood at 3.87 percent (Figure 2), exceeding the headline CPI inflation. This aggregate, however, conceals significant volatility within food categories. While certain items such as onions, potatoes, and pulses experienced sharp deflation, others, particularly vegetables like tomatoes and cauliflower—recorded high inflation rates.

This divergence reflects the inherent supply-side vulnerabilities of India's food economy, where weather conditions, seasonal cycles, and supply chain inefficiencies lead to sharp price fluctuations. The coexistence of deflation in some commodities and high inflation in others underscores the fragmented nature of agricultural markets.

From a policy perspective, the persistence of food inflation, even at moderate levels, remains significant because of its disproportionate impact on lower-income households. The rural-urban gap in food inflation, with rural inflation at 3.96 percent compared to 3.71 percent in urban areas (Figure 2), further reinforces this concern.



Source: NSO, MoSPI, GoI

Non-Food Inflation

Non-food inflation presents a contrasting picture of relative stability, albeit with pockets of pressure. Housing inflation remained subdued at around 2.11 percent, indicating limited cost escalation in this segment.

Similarly, several core categories such as transport and communication exhibited very low or near-zero inflation, suggesting weak pass-through of global commodity prices or improved supply conditions. Notably, transport inflation was effectively stagnant, reflecting stability in fuel-related costs.

However, this overall moderation masks significant inflation in select non-food segments. Personal care and miscellaneous services recorded exceptionally high inflation (around 18.65 percent). Additionally, items such as precious metals and jewellery showed extremely high inflation, reflecting global price trends rather than domestic demand conditions.

This divergence indicates that core inflation is becoming increasingly heterogeneous, with certain services and discretionary consumption categories driving price pressures, even as essential non-food categories remain stable.

Regional Variation in Inflation

A notable feature of the March 2026 inflation data is the significant variation across states, reflecting differences in local supply conditions, consumption patterns, and economic structures.

States such as Telangana recorded relatively high inflation (around 5.83 percent), followed by Andhra Pradesh and Karnataka, while others such as Chhattisgarh and Mizoram exhibited much lower inflation levels.

States with higher overall inflation also tend to experience elevated food inflation, suggesting a strong correlation between regional food price dynamics and overall inflation outcomes.

These disparities highlight the importance of localized inflation dynamics, which are often influenced by region-specific factors such as agricultural output, logistics infrastructure, and market integration. The presence of such variation also underscores the limitations of relying solely on national averages for policy formulation.

Policy Implications

The current inflation scenario presents a complex policy landscape characterised by moderate headline inflation but underlying structural divergences, now further

complicated by evolving global geopolitical risks, particularly the ongoing crisis in West Asia.

First, the persistence of food-driven inflation suggests the need for continued focus on supply-side interventions, including improvements in agricultural logistics, storage, and market integration. Reducing volatility in perishable commodities remains critical for stabilising overall inflation, especially in rural areas where price sensitivity is higher.

Second, the divergence between rural and urban inflation calls for a more nuanced policy mix. While monetary policy operates at the aggregate level, complementary fiscal and administrative measures are necessary to address region- and sector-specific price pressures, particularly those affecting essential consumption.

Third, the relatively benign transport and fuel inflation observed in March 2026 may not persist in the near term. The West Asia crisis poses significant upside risks through first-order effects, primarily via higher global crude oil prices. Given India's high import dependence on crude, any sustained increase in oil prices would directly raise fuel and transportation costs, feeding into headline inflation.

More importantly, second-order effects could emerge through broader cost-push pressures. Rising energy costs would increase input prices across sectors, viz., fertilisers, logistics, manufacturing, and services, leading to a more generalised and persistent inflationary impulse. This could also unanchor inflation expectations if not managed proactively.

Fourth, the emergence of high inflation in select non-food categories, particularly services and discretionary goods, suggests evolving consumption patterns and cost structures. In the presence of energy price shocks, these segments could become key transmission channels for second-round inflationary effects.

Finally, the significant regional variation in inflation highlights the need for decentralized policy responses. State-level interventions, combined with strengthened

real-time data systems, will be essential to manage localized price pressures. At the macro level, policymakers must remain vigilant and retain flexibility, balancing growth concerns with the need to pre-empt externally driven inflation shocks.

Conclusion

India's inflation dynamics in March 2026 reflect a phase of measured stability accompanied by structural complexity. While headline inflation remains within manageable limits, the underlying composition reveals a shifting balance between food and non-food components, rural and urban pressures, and regional disparities.

However, this relative stability is occurring in an increasingly uncertain global environment. The West Asia crisis introduces a critical external risk that could alter India's inflation trajectory through both first-order effects, via direct increases in fuel and energy prices, and second-order effects, as these cost pressures cascade across production systems and services.

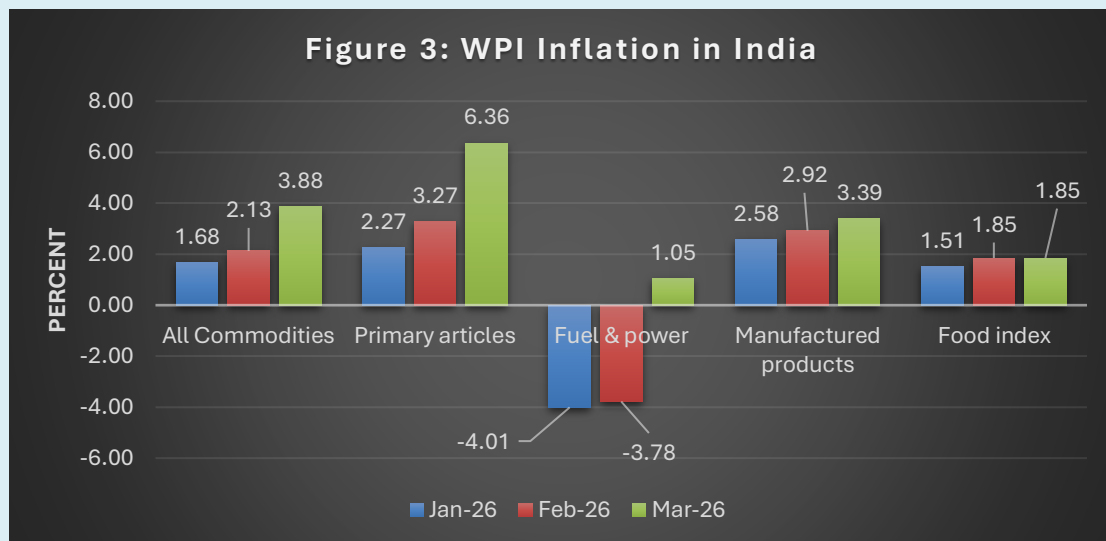
The current inflation pattern suggests that price pressures are no longer driven by broad-based demand but by sector-specific and supply-side factors. Yet, in the event of a sustained energy shock, inflation dynamics could quickly broaden, reversing the present moderation in core inflation observed in segments such as transport.

Sustaining price stability in this context will require a calibrated and forward-looking policy approach. This includes not only managing domestic supply-side constraints, particularly in food, but also preparing for external shocks through prudent energy management, strategic reserves, and timely policy responses.

Ultimately, the challenge for policymakers will be to navigate the transition from a phase of contained inflation to one of heightened global uncertainty. This will require integrating macroeconomic management with structural reforms, ensuring that India remains resilient to both domestic and external inflationary pressures while sustaining inclusive growth.

RISING INPUT COSTS AND COMMODITY PRESSURES SHAPE INDIA'S WHOLESALE INFLATION TRAJECTORY

India's wholesale price dynamics in March 2026 signal a clear transition from subdued inflation to a phase of gradual firming, with the Wholesale Price Index (WPI) rising to 3.88 percent year-on-year, up from 2.13 percent in February (Figure 3). This acceleration reflects a combination of strengthening industrial momentum, rising primary commodity prices, and a rebound in fuel costs. A notable driver has been the sharp increase in primary articles inflation to 6.36 percent, led by surging crude petroleum and natural gas prices, alongside firming non-food articles such as oilseeds. At the same time, food price dynamics remain mixed, with continued deflation in key staples like wheat, pulses, potatoes, and onions offset by modest increases in other categories, highlighting persistent volatility in agricultural markets.



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

The manufacturing sector, which carries the largest weight in the WPI basket, recorded a steady rise in inflation to 3.39 percent, with price increases observed across a broad range of industries including food products, chemicals, textiles, and basic metals. This broad-based firming suggests strengthening producer price pressures and improving demand conditions within the industrial economy. Meanwhile, fuel and power inflation turned positive at 1.05 percent after several months of contraction, reflecting rising

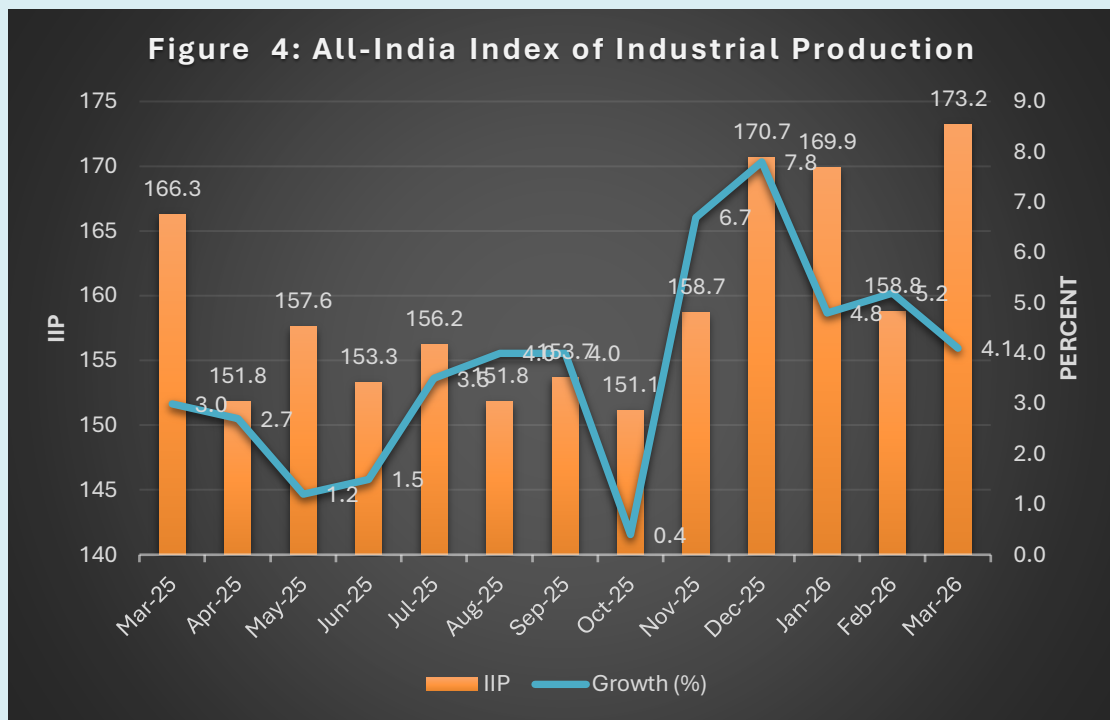
mineral oil prices and marking a shift in the role of energy from a disinflationary to a mildly inflationary force. Month-on-month, the WPI recorded a sharp increase of 1.64 percent—significantly higher than in preceding months—indicating a pickup in short-term price momentum.

Overall, the March data point to an evolving inflation environment characterised by recovering cost pressures, sectoral divergences, and growing influence of global commodity trends. While food inflation remains relatively contained at the aggregate level, volatility within categories continues to pose risks. The simultaneous firming of manufacturing and fuel prices suggests that input cost pressures may increasingly transmit to retail inflation over time. Going forward, the trajectory of wholesale inflation will depend critically on global energy prices, commodity cycles, and the resilience of domestic supply chains, with implications for both monetary policy and industrial cost dynamics.

INDUSTRIAL GROWTH HOLDS STEADY BUT LOSES MOMENTUM: DECODING INDIA'S IIP FOR MARCH 2026

Headline Growth: Resilient but Moderating

India's industrial sector ended FY2025–26 with a 4.1 percent year-on-year growth in the Index of Industrial Production (IIP) for March 2026 (Figure 4). While this indicates continued expansion, it also marks a slowdown from 5.2 percent in February, suggesting a moderation in industrial momentum. The data reflects a steady but uneven recovery, with growth increasingly dependent on specific sectors rather than broad-based expansion.

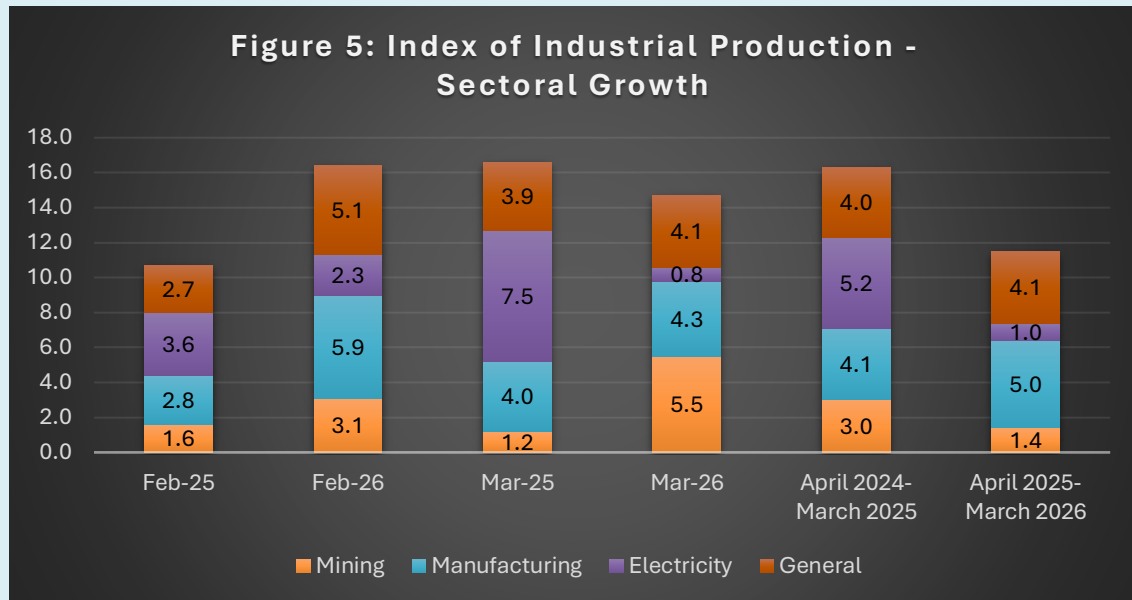


Source: MoSPI, GoI

Sectoral Trends: Manufacturing Leads, Electricity Lags

At the sectoral level, manufacturing grew by 4.3 percent (Figure 5), remaining the principal driver of industrial output. Mining posted a stronger growth of 5.5 percent, indicating sustained extraction activity. In contrast, electricity generation expanded by only 0.8 percent, reflecting either softer demand conditions or base effects. This divergence highlights the uneven nature

of industrial recovery, where core sectors are performing reasonably well but energy demand signals some underlying softness in economic activity.



Manufacturing Dynamics: Investment-Led Growth

Within manufacturing, growth was concentrated in capital- and infrastructure-linked industries. As the detailed industry-level data indicates, sectors such as motor vehicles recorded a robust growth of 18.1 percent, machinery and equipment grew by 11.2 percent, and basic metals expanded by 8.6 percent. These sectors are closely associated with investment activity, suggesting that the industrial recovery is being driven by capital formation and infrastructure expansion rather than consumption demand.

Weakness in Consumption-Oriented Sectors

In contrast to the strength in investment-linked industries, several labour-intensive and consumption-driven sectors displayed weakness. Industries such as textiles, wearing apparel, leather products, and chemicals recorded negative or subdued growth. This divergence indicates that while supply-side capacity expansion is underway, demand-side recovery—especially in mass consumption segments—remains fragile. The uneven performance also raises concerns about employment generation, given the labour-intensive nature of these sectors.

Use-Based Insights: Investment vs Consumption Divide

The use-based classification of IIP further reinforces this structural imbalance. Capital goods output surged by 14.6 percent, reflecting strong investment demand, while infrastructure and construction goods grew by 6.7 percent (Table 1), supported by ongoing public capital expenditure. Intermediate goods expanded moderately by 3.3 percent, indicating steady but not exceptional industrial linkages. On the consumption side, consumer durables recorded a moderate growth of 5.3 percent, suggesting some resilience in discretionary demand, likely urban-led. However, consumer non-durables, which serve as a proxy for essential consumption, grew by only 1.1 percent, highlighting persistent weakness in broad-based demand, particularly among lower-income segments.

Table 1: IIP Growth - Use-based Classification

	(percent)					
	<i>Feb. 2025</i>	<i>Feb. 2026</i>	<i>March. 2025</i>	<i>March 2026</i>	<i>April-March 2024-25</i>	<i>April-March 2025-26</i>
<i>Primary goods</i>	2.8	1.8	3.9	2.2	3.9	1.2
<i>Capital goods</i>	8.2	12.4	3.6	14.6	5.6	8.3
<i>Intermediate goods</i>	1.0	7.2	3.8	3.3	4.3	5.5
<i>Infrastructure/ Construction goods</i>	6.8	11.1	9.9	6.7	6.7	9.8
<i>Consumer durables</i>	3.7	7.1	6.9	5.3	7.9	5.9
<i>Consumer non-durables</i>	-2.1	-0.5	-4.0	1.1	-1.5	0.1

Source: NSO, MoSPI, GoI

Annual Trends: A Year of Moderate Expansion

For the full financial year 2025–26, overall IIP growth stood at 4.1 percent, indicating a year of moderate industrial expansion. Manufacturing emerged as the main growth driver with a 5.0 percent increase, while mining and electricity lagged with growth rates of 1.4 percent and 1.0 percent respectively. This pattern suggests that while manufacturing has provided resilience, the broader industrial ecosystem has not exhibited uniformly strong performance.

Structural Concerns: Uneven Sectoral Performance

A closer examination of industry-level data reveals further imbalances within manufacturing. Electronics manufacturing, for instance, experienced a contraction on a year-on-year basis in March, reflecting possible global demand headwinds or supply chain adjustments. Pharmaceuticals and electrical equipment sectors showed only moderate growth, indicating limited dynamism. Additionally, the “other manufacturing” category registered a sharp decline, pointing to stress in smaller or less diversified segments of the industrial economy. These patterns suggest that growth is concentrated in a few sectors rather than being widespread.

Macroeconomic Implications: Limits of Investment-Led Growth

The emerging pattern of investment-led growth carries important macroeconomic implications. While public and private investment in infrastructure and capital goods is essential for long-term productivity and capacity creation, it may not be sufficient to sustain high growth in the absence of robust consumption demand. Weak consumption can limit capacity utilization, dampen incentives for private investment, and constrain employment generation. Therefore, the current growth trajectory may face limitations unless supported by a stronger recovery in household demand.

External and Domestic Risks

The industrial outlook is also shaped by a combination of external and domestic risks. On the global front, slowing demand in advanced economies and geopolitical uncertainties could affect export-oriented sectors such as textiles and electronics. Domestically, factors such as rural distress, uneven income growth, and inflationary pressures may continue to weigh on consumption. These risks could reinforce the current imbalance between investment-driven growth and weak consumption demand.

Conclusion: Growth with Gaps

The March 2026 IIP data presents a nuanced picture of India’s industrial economy. Growth remains resilient but is gradually losing momentum and becoming increasingly skewed toward investment-led sectors. The divergence between strong capital goods performance and weak consumption demand highlights underlying structural challenges. Sustaining industrial growth in the coming period will require not only continued investment but also targeted measures to

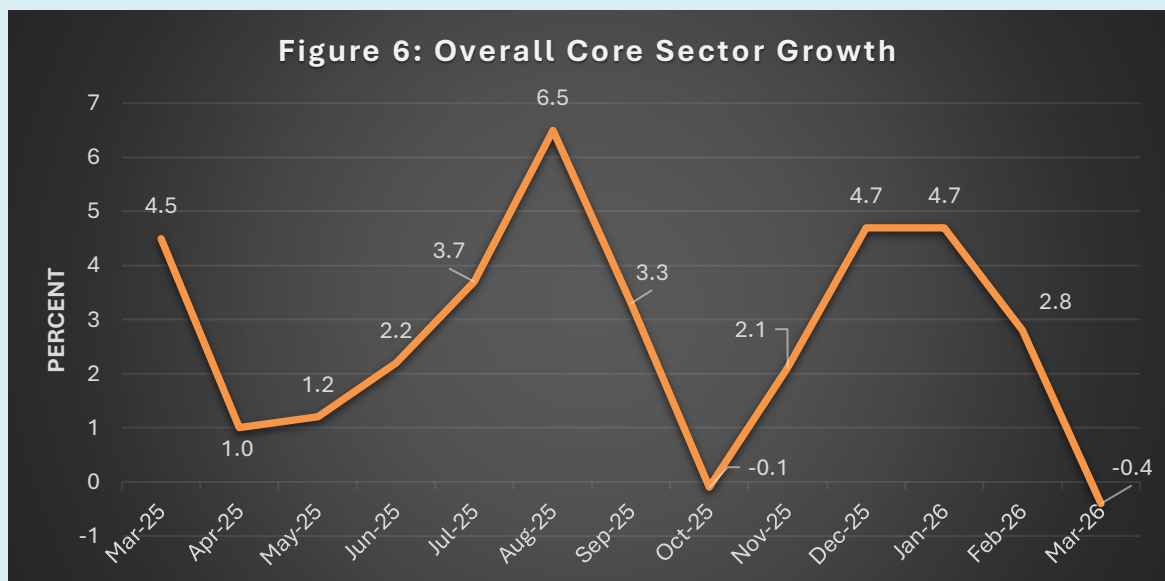
boost consumption, strengthen rural demand, and ensure a more broad-based and inclusive recovery.

CORE SECTOR SLOWDOWN: WHAT MARCH 2026 REVEALS ABOUT INDIA'S INDUSTRIAL MOMENTUM

Introduction

The performance of India's eight core industries—comprising coal, crude oil, natural gas, refinery products, fertilizers, steel, cement, and electricity—offers a critical window into the underlying momentum of the industrial economy. Accounting for over 40 percent of the Index of Industrial Production (IIP), these sectors serve as leading indicators of broader economic activity.

The March 2026 data reveals a nuanced and somewhat concerning picture. The combined Index of Eight Core Industries (ICI) declined by 0.4 percent year-on-year (Figure 6), marking a reversal from the modest growth observed in preceding months. While some manufacturing sectors continue to demonstrate resilience, weaknesses in energy production and fertilizers point to emerging structural constraints that could weigh on industrial growth in the near term.



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

Energy Sector Performance

Coal

Coal production contracted by 4.0 percent in March 2026 (Figure 7), continuing a broader trend of stagnation, with cumulative output declining by 0.5 percent over FY26. This slowdown reflects both supply-side challenges and potential demand moderation from thermal power generation. Given coal's central role in India's energy mix, sustained weakness could have ripple effects across electricity generation and industrial activity.

Crude Oil

Crude oil production fell sharply by 5.7 percent in March (Figure 7), with cumulative output declining by 2.8 percent over the fiscal year. This persistent decline underscores India's structural dependence on energy imports and highlights the limitations of domestic exploration and production. In an environment of elevated global oil prices, this trend amplifies external vulnerability.

Natural Gas

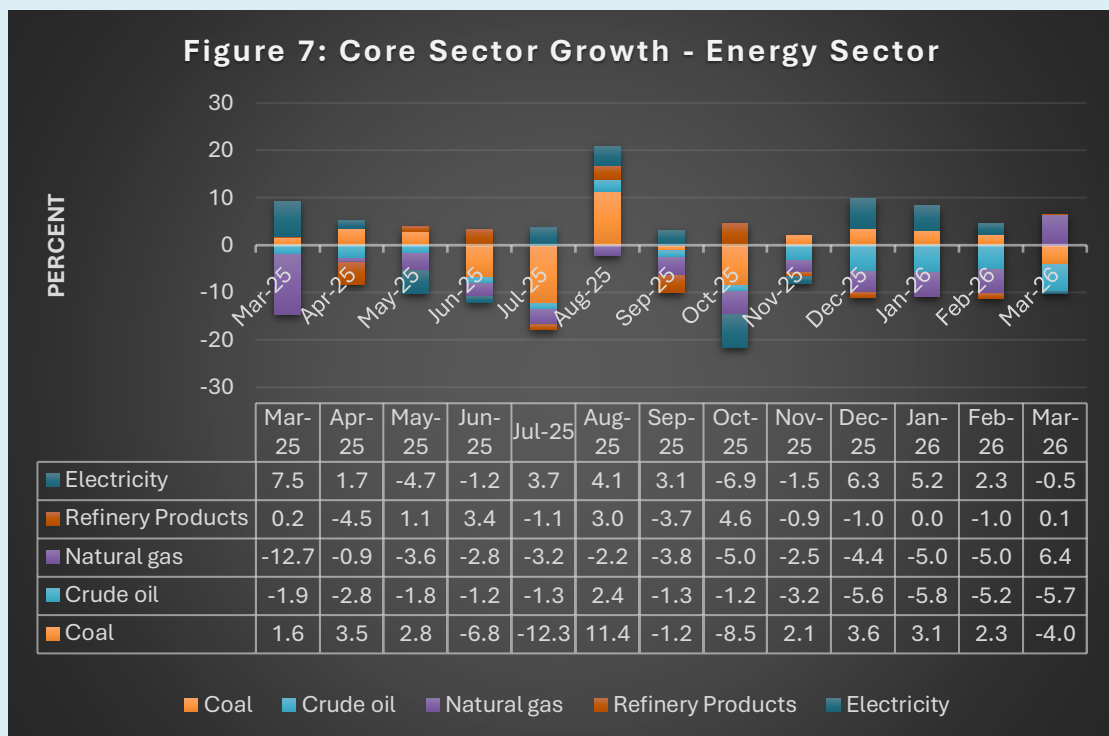
Natural gas production provided a rare positive signal within the energy segment, growing by 6.4 percent year-on-year in March (Figure 7). However, this improvement masks a broader annual contraction of 2.8 percent. The volatility in gas output reflects supply disruptions and pricing challenges, particularly in the context of global energy market instability.

Refinery Products

Refinery output remained largely flat, growing marginally by 0.1 percent in March (Figure 7), with a slight cumulative decline over the fiscal year. This stagnation suggests limited expansion in refining capacity utilisation and points to subdued demand growth for petroleum products.

Electricity

Electricity generation declined marginally by 0.5 percent in March (Figure 7), though it recorded modest annual growth of 0.9 percent. The slowdown in electricity output, despite growing economic activity, raises concerns about demand softness or supply constraints, particularly in the thermal segment.



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

Manufacturing Sector Performance

Steel

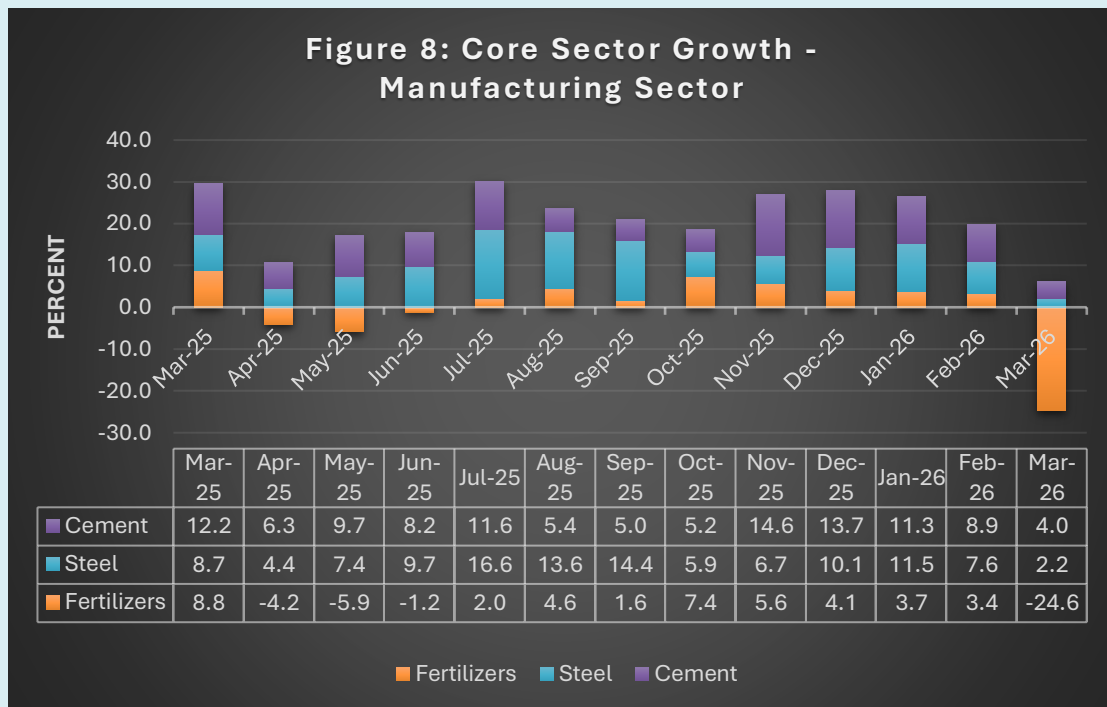
Steel production emerged as a key growth driver, expanding by 2.2 percent in March (Figure 8) and registering a robust cumulative growth of 9.1 percent over FY26. This strong performance reflects sustained demand from infrastructure, construction, and capital goods sectors, underscoring the role of public investment in supporting industrial activity.

Cement

Cement production also showed resilience, growing by 4.0 percent in March (Figure 8) and 8.6 percent over the fiscal year. The continued expansion in cement output indicates strong momentum in construction and infrastructure development, aligning with increased government capital expenditure and urbanisation trends.

Fertilizers

In sharp contrast, fertilizer production declined steeply by 24.6 percent in March (Figure 8), with a marginal decline on a cumulative basis. This dramatic contraction highlights the sector’s vulnerability to input disruptions, particularly in natural gas supply, which happened on account of the West Asia crisis. Given the critical role of fertilizers in agriculture, this trend has broader implications for food security and inflation.



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

Annual Core Sector Growth

For the full fiscal year 2025–26, the core sector recorded a cumulative growth of 2.6 percent (Table 2), significantly lower than the growth rates observed in previous years.

This modest expansion reflects a divergence within the core industries:

- Strong growth in steel and cement driven by infrastructure demand
- Stagnation or contraction in energy-related sectors
- Volatility in fertilizers due to input constraints

The overall trend suggests that while investment-led sectors are performing well, supply-side bottlenecks in energy and inputs are limiting broader industrial expansion.

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
2025-26	2.6	-0.5	-2.8	-2.8	-1	0.9	-0.1	9.1	8.6

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

Conclusion

The March 2026 core sector data underscores a critical transition phase in India's industrial economy. The headline contraction, though modest, reveals deeper structural imbalances between demand-driven growth in manufacturing and supply constraints in energy and inputs. The resilience of steel and cement points to the strength of infrastructure-led growth, but the weakness in coal, crude oil, and fertilizers highlights vulnerabilities that could constrain future expansion.

Going forward, addressing these structural bottlenecks, particularly in energy security and input supply chains, will be essential to sustaining industrial growth. Without such interventions, the divergence between manufacturing momentum and energy constraints could widen, posing risks to broader economic stability.

TRADE & INVESTMENTS

INDIA–NEW ZEALAND FTA: STRATEGIC EXPANSION OR LIMITED TRADE GAINS?

A New Milestone in India’s Trade Strategy

The recently signed free trade agreement (FTA) between India and New Zealand marks another step in India’s evolving trade policy, which has increasingly focused on bilateral agreements rather than large multilateral blocs. As India’s seventh FTA in the past five years, the agreement reflects a deliberate strategy to deepen economic ties with developed markets while retaining flexibility to protect domestic interests.

Described as a “landmark” and “once-in-a-generation opportunity,” the agreement is expected to come into force by the end of the year, signalling growing economic engagement between the two countries. It also aligns with India’s broader ambition to integrate more deeply into global value chains while maintaining a calibrated approach to trade liberalisation.

Market Access: Asymmetry with Strategic Intent

A key feature of the agreement is the asymmetry in market access. India will receive 100 percent duty-free access across all tariff lines in New Zealand, benefiting a wide range of exports including textiles, garments, leather, engineering goods, auto components, and processed foods. This full liberalisation offers Indian exporters an opportunity to expand in a high-income, quality-conscious market.

In contrast, India has opened around 70 percent of its tariff lines, covering approximately 95 percent of New Zealand’s exports. However, this access is carefully calibrated, with sensitive sectors such as dairy, sugar, edible oils, and key agricultural products excluded. This reflects India’s cautious trade strategy—balancing export promotion with domestic protection.

The structure of tariff concessions, such as quotas, minimum import prices, and phased reductions, demonstrates a nuanced approach aimed at preventing sudden import surges that could disrupt domestic producers.

Sectoral Gains: Boost for Labour-Intensive Industries

The FTA is likely to benefit several labour-intensive sectors in India. Industries such as textiles, apparel, leather, footwear, and gems and jewellery stand to gain from tariff elimination, improving their competitiveness in the New Zealand market.

For micro, small, and medium enterprises (MSMEs), which dominate these sectors, the agreement could open new export opportunities and support employment generation. Additionally, improved access to a developed market with high quality standards may help Indian firms upgrade their production processes and enhance global competitiveness.

However, the scale of these gains may be constrained by the relatively small size of the New Zealand market. With bilateral trade currently modest, the immediate impact on India's overall export performance may be limited.

Services and Mobility: A Key Strategic Win

One of the most significant aspects of the agreement lies in services and labour mobility. New Zealand has committed market access in over 100 service sectors, along with most-favoured nation (MFN) treatment in a large number of sub-sectors.

For Indian professionals, the agreement creates new mobility pathways, including quotas for skilled workers, work rights for students, and post-study visa opportunities. These provisions are particularly important for India, given its comparative advantage in services and skilled labour.

By facilitating movement of professionals and students, the FTA strengthens people-to-people ties and enhances India's integration into global services markets—an area where it has a clear competitive edge.

Investment Promise: Opportunity with Uncertainty

A headline feature of the agreement is New Zealand’s commitment to invest \$20 billion in India over 15 years. This investment is expected to support sectors such as agriculture, manufacturing, technology, and innovation, complementing India’s domestic initiatives like “Make in India.”

However, this commitment must be viewed with caution. Historically, New Zealand’s investment in India has been relatively modest, raising questions about the feasibility and timeline of such large-scale inflows. The actual realization of this investment will depend on project viability, regulatory environment, and broader economic conditions.

Trade Facilitation and Standards: Long-Term Benefits

Beyond tariffs, the agreement includes provisions on trade facilitation, such as faster customs clearance, paperless systems, and streamlined procedures. These measures can significantly reduce transaction costs and improve the ease of doing business.

Additionally, regulatory cooperation—such as acceptance of pharmaceutical inspection reports—can lower compliance costs and speed up market entry for Indian firms. Over time, these “behind-the-border” reforms may have a more lasting impact than tariff reductions alone.

Strategic Context: Bilateralism over Multilateralism

The India–New Zealand FTA reflects a broader shift in India’s trade policy toward bilateral and minilateral agreements. Rather than joining large trade blocs like the Regional Comprehensive Economic Partnership (RCEP), India is pursuing targeted agreements that allow greater control over terms and conditions.

This approach emphasizes complementarities rather than direct competition. New Zealand’s strengths in agriculture and high-value exports complement India’s strengths in manufacturing and services, reducing the risk of disruptive competition.

Limitations and Challenges

Despite its potential, the agreement has limitations. The relatively small size of New Zealand’s economy means that export gains for India may be modest in absolute terms. Moreover, the success of the agreement will depend on how effectively businesses utilize the new opportunities.

There are also concerns about implementation, particularly in areas such as investment commitments and services mobility. Ensuring that these provisions translate into tangible outcomes will require sustained policy coordination and industry engagement.

Conclusion: A Measured but Meaningful Step

The India–New Zealand FTA represents a carefully crafted agreement that balances ambition with caution. While it may not transform India’s trade landscape overnight, it strengthens economic ties with a developed partner, opens new opportunities for exporters and professionals, and reinforces India’s strategic shift toward bilateral trade agreements. Its true significance lies not in immediate gains, but in its contribution to India’s long-term trade architecture—one that prioritizes flexibility, diversification, and gradual integration into the global economy.

INDIA'S EXTERNAL SECTOR AT A CROSSROADS: RISING DEFICIT AMID MODEST EXPORT GROWTH

Introduction

India's external sector in FY 2025–26 reflects a nuanced balance between resilience and emerging vulnerabilities. Total exports (merchandise and services combined) grew by 4.22 percent to reach \$860.09 billion, indicating steady expansion despite a challenging global environment. However, this aggregate performance masks divergent trends—muted growth in merchandise exports alongside strong momentum in services—while a widening trade deficit underscores persistent structural imbalances.

Trade During March 2026

Merchandise Trade

Merchandise exports in March 2026 stood at \$38.92 billion, declining from \$42.05 billion a year earlier (Table 3), reflecting weak external demand and sectoral constraints. Imports also moderated to \$59.59 billion from \$63.74 billion, suggesting some softening in domestic demand or global price effects. Despite this, the merchandise trade deficit remained substantial. Sectoral trends indicate that export growth was supported by petroleum products, engineering goods, and minerals, while non-petroleum and non-gems exports declined, pointing to underlying weakness in core export segments.

Services Trade

Services exports remained relatively stable at \$35.20 billion in March 2026, only marginally lower than the previous year, while services imports declined to \$16.96 billion (Table 3). This resulted in a robust services trade surplus, reinforcing the sector's role as a stabilising force in India's external account. The resilience of services exports highlights India's sustained competitiveness in IT and business services, even amid global uncertainties.

Table 3: India's Trade During March 2026

		<i>March 2026</i> <i>(US\$ Billion)</i>	<i>March 2025</i> <i>(US\$ Billion)</i>
Merchandise	<i>Exports</i>	38.92	42.05
	<i>Imports</i>	59.59	63.74
Services	<i>Exports</i>	35.20	35.63
	<i>Imports</i>	16.96	17.48
Total Trade (Merchandise + Services)	<i>Exports</i>	74.11	77.67
	<i>Imports</i>	76.55	81.22
	Trade Balance	-2.44	-3.55

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

Trade During 2025–26

Merchandise Trade

For the full fiscal year, merchandise exports grew modestly by 0.93 percent to \$441.78 billion (Table 4), reflecting subdued global demand conditions. In contrast, merchandise imports rose sharply by 6.47 percent to \$774.98 billion, leading to a widening merchandise trade deficit of \$333.19 billion. Even excluding petroleum and gems & jewellery, imports outpaced exports, indicating strong domestic demand but also highlighting India's dependence on imported inputs and intermediate goods.

Services Trade

Services exports emerged as the key driver of overall export growth, rising to \$418.31 billion from \$387.55 billion in the previous year (Table 4). Services imports increased at a slower pace, resulting in a significantly higher services trade surplus of \$213.89 billion. This surplus continues to play a critical role in offsetting the merchandise trade deficit and maintaining overall balance of payments stability.

Table 4: India’s Trade During 2025-26

		<i>FY 2025-26</i> <i>(US\$ Billion)</i>	<i>FY 2024-25</i> <i>(US\$ Billion)</i>
Merchandise	<i>Exports</i>	441.78	437.70
	<i>Imports</i>	774.98	721.20
Services	<i>Exports</i>	418.31	387.55
	<i>Imports</i>	204.42	198.72
Total Trade (Merchandise + Services)	<i>Exports</i>	860.09	825.26
	<i>Imports</i>	979.40	919.92
	Trade Balance	-119.30	-94.66

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

Trade Destinations

India’s export performance reflects increasing diversification across markets. Significant growth was observed in exports to countries such as China, Spain, Hong Kong, Vietnam, and Sri Lanka over the fiscal year, while in March 2026, markets like Singapore and Malaysia showed strong gains. On the import side, key sources of growth included China, the United States, and select commodity-exporting nations such as Peru and Oman. These trends underline the evolving geography of India’s trade, with greater integration into regional and emerging market networks.

Issues and Challenges

Several structural challenges emerge from the data. First, the sluggish growth in merchandise exports points to competitiveness constraints, limited diversification, and exposure to global demand cycles. Second, the sharp rise in imports—particularly in non-petroleum segments—highlights continued reliance on external inputs, raising concerns about supply chain vulnerabilities. Third, the widening trade deficit poses risks to macroeconomic stability, especially in a context of volatile global energy prices

and geopolitical uncertainties. Finally, the concentration of export growth in a few sectors suggests limited breadth in India's export basket.

Policy Perspective

Addressing these challenges requires a multi-pronged strategy. Enhancing the competitiveness of manufacturing exports through productivity gains, infrastructure improvements, and integration into global value chains is critical. At the same time, sustaining the momentum in services exports will remain essential, given their role in offsetting goods trade deficits. Policies aimed at import substitution in strategic sectors, along with diversification of energy sources, can help reduce external vulnerabilities. Additionally, expanding trade agreements and deepening market access in emerging regions can support export growth.

Conclusion

India's trade performance in FY 2025–26 presents a mixed picture—steady overall export growth supported by services, but accompanied by a widening merchandise trade deficit. While the resilience of services exports provides a strong buffer, the underlying structural imbalances in merchandise trade remain a concern. Going forward, strengthening export competitiveness, reducing import dependence, and diversifying trade relationships will be crucial to achieving a more balanced and sustainable external sector trajectory.

EMPLOYMENT

INDIA'S LABOUR MARKET IN MARCH 2026: STABILITY WITH SUBTLE SIGNS OF STRESS

Introduction

The Periodic Labour Force Survey (PLFS) remains India's most authoritative barometer of employment dynamics, capturing shifts in labour participation, employment intensity, and unemployment trends. The March 2026 Monthly Bulletin provides a nuanced picture of the labour market—one that reflects stability at the aggregate level but reveals underlying fragilities when examined more closely.

With labour market indicators now available on a monthly basis, the data offers sharper insights into short-term fluctuations and structural trends. The latest numbers suggest that while headline indicators remain broadly stable, subtle shifts—particularly in female participation and urban unemployment—signal emerging pressures in the employment landscape.

Labour Force Participation: Stability with a Slight Softening

The overall Labour Force Participation Rate (LFPR) for persons aged 15 years and above stood at 55.4 percent in March 2026, marking a marginal decline from 55.9 percent in February. This suggests that while participation remains relatively robust, there may be early signs of softening in labour market engagement.

A key feature of the data is the divergence between rural and urban participation trends. Rural LFPR declined to 58.0 percent from 58.7 percent in the previous month, while urban participation remained broadly stable at around 50.3 percent, as illustrated in the chart on page 3 of the report.

This pattern indicates that rural labour markets may be more sensitive to seasonal or economic fluctuations, whereas urban labour participation appears more stable but

potentially constrained by structural factors such as job availability and skill mismatches.

Female Labour Force Participation: Persistent Structural Challenge

One of the most critical insights from the March 2026 data is the marginal decline in female labour force participation. The female LFPR fell to 34.4 percent from 35.3 percent in February, continuing a pattern of volatility rather than sustained improvement.

The rural-urban divide is particularly striking. Rural female participation stood at 38.9 percent, significantly higher than the urban rate of 25.2 percent, as shown in the trend chart on page 3. This gap reflects deeper structural issues, including limited employment opportunities for women in urban areas, social constraints, and the nature of available jobs.

The lack of sustained upward momentum in female participation underscores a key constraint on India's long-term growth potential. Enhancing female workforce participation remains one of the most critical policy challenges for achieving inclusive and sustainable economic development.

Employment Trends: Stability in Worker Population Ratio

The Worker Population Ratio (WPR), which measures the proportion of employed persons in the population, stood at 52.6 percent in March 2026, indicating relative stability in employment levels.

Urban employment conditions remained broadly unchanged, with WPR at 46.8 percent, while rural WPR declined slightly to 55.5 percent from 56.3 percent in February, as shown in the chart on page 4. This suggests that while employment levels are stable overall, rural employment may be experiencing mild stress.

The data also indicates that male employment remains significantly higher than female employment, reflecting persistent gender disparities in labour market outcomes. While

stability in WPR is reassuring, it also points to limited job creation momentum, particularly in the context of a growing workforce.

Unemployment: Modest Increase with Urban Pressures

The unemployment rate (UR) rose slightly to 5.1 percent in March 2026 from 4.9 percent in February, indicating a modest deterioration in labour market conditions.

This increase was primarily driven by urban unemployment, which rose from 6.6 percent to 6.8 percent, as highlighted in the chart on page 5. Rural unemployment, in contrast, remained relatively stable.

The divergence between rural and urban unemployment trends suggests that job creation challenges are more acute in urban areas, where the pace of employment generation may not be keeping up with labour supply. This is particularly concerning given the increasing urbanisation of the workforce.

Gender-specific trends add another layer of complexity. Female unemployment in rural areas remained broadly stable, while male unemployment showed a slight uptick, as illustrated in the charts on page 6. These patterns indicate that labour market pressures are not uniform and vary across demographic segments.

Interpreting the Trends: Stability with Emerging Risks

Taken together, the March 2026 PLFS data presents a picture of relative stability in India's labour market, but with emerging risks that warrant close attention.

First, the slight decline in labour force participation suggests that some workers may be withdrawing from the labour market, potentially due to discouragement or lack of suitable opportunities. Second, the stagnation in employment levels indicates that job creation is not accelerating sufficiently to absorb new entrants. Third, the rise in urban unemployment highlights structural challenges in the urban labour market, including skill mismatches and sectoral imbalances.

The persistence of low female participation remains the most significant structural issue. Without meaningful progress in this area, India risks underutilising a large segment of its potential workforce, limiting both growth and inclusivity.

Conclusion

The March 2026 PLFS data underscores a labour market that is stable on the surface but facing subtle and evolving challenges beneath. While headline indicators such as LFPR and WPR suggest continuity, the decline in participation, modest rise in unemployment, and persistent gender disparities point to underlying structural constraints.

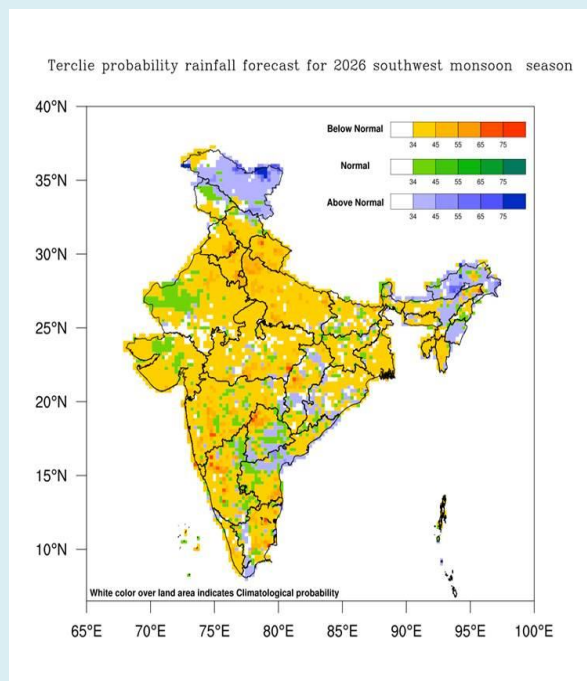
As India navigates a complex economic environment, the focus must shift toward enhancing job creation, improving labour market flexibility, and addressing gender gaps in participation. The labour market will play a pivotal role in determining the sustainability of India's growth trajectory, making it imperative to address these emerging challenges with targeted and forward-looking policy interventions.

AGRICULTURE & AGRI-BUSINESS

MONSOON AT RISK: EL NIÑO THREAT CLOUDS INDIA'S RAINFALL OUTLOOK

Introduction: Reading the Signals of a Weakening Monsoon

India's southwest monsoon, a critical determinant of agricultural output, rural incomes, and macroeconomic stability, is projected to be moderately below normal in 2026, with rainfall estimated at 92 percent of the Long Period Average (LPA). While not indicative of a drought year, such a forecast places the monsoon in a vulnerable zone—where spatial and temporal variability can amplify economic risks. The outlook reflects a complex interplay of global climatic drivers, particularly the evolving El Niño–Southern Oscillation (ENSO) cycle, which remains the most influential determinant of monsoon performance.



Source: IMD, GoI¹

¹ Probability forecast of tercile categories* (below normal, normal, and above normal) of the seasonal rainfall over India during the 2026 southwest monsoon season (June -September). The figure illustrates

Climate Dynamics: ENSO Transition and Emerging Risks

The 2026 monsoon forecast is shaped by a transition from weak La Niña-like conditions to ENSO-neutral, with increasing probability of an El Niño developing during the monsoon season. Historically, El Niño events have been associated with suppressed rainfall over India, often leading to below-normal monsoon outcomes.

The timing of this transition is particularly significant. An emerging El Niño during the monsoon months can disrupt atmospheric circulation patterns, weakening the monsoon trough and reducing moisture inflows. This increases the likelihood of uneven rainfall distribution, with prolonged dry spells interspersed with short bursts of intense precipitation.

Such intra-seasonal variability can be more damaging than an evenly distributed weak monsoon, as it affects sowing cycles, crop yields, and water availability in a more unpredictable manner.

Offsetting Factors: Limited Cushion from IOD and Snow Cover

While ENSO-related risks dominate the outlook, there are some mitigating factors. Model projections suggest the possible emergence of a positive Indian Ocean Dipole (IOD) later in the season. A positive IOD is typically associated with enhanced rainfall over India, as warmer western Indian Ocean waters strengthen monsoon currents.

However, the effectiveness of this offset depends critically on timing. If the IOD strengthens only in the latter half of the monsoon, it may not fully compensate for early-season deficits, particularly during the crucial sowing period.

Similarly, slightly below-normal northern hemisphere snow cover—often linked to stronger monsoon performance—provides a marginal positive signal. Reduced snow cover can enhance land-sea temperature contrasts, strengthening monsoon circulation. Yet, in the current scenario, this factor appears insufficient to counterbalance the dominant ENSO-driven risks.

the most likely categories as well as their probabilities. The white shaded areas represent no signal from the model. (*Tercile categories have equal climatological probabilities, of 33.33% each).

Rainfall Pattern: Uneven Distribution and Variability

The most significant concern in the 2026 outlook is not just the quantum of rainfall, but its distribution. A 92 percent LPA monsoon, if evenly spread, could still support near-normal agricultural output. However, the evolving climate signals point toward a monsoon characterised by:

- Regional disparities in rainfall
- Delayed onset or weak early-season rains
- Increased frequency of dry spells
- Episodes of heavy, short-duration rainfall

Such patterns can disrupt agricultural planning, reduce crop productivity, and strain water resources. The risk of localized droughts alongside flood-like conditions in other regions becomes more pronounced under such variability.

Agricultural Impact: Sowing, Yields, and Crop Choices

Agriculture remains the most immediate and sensitive sector affected by monsoon performance. A below-normal and uneven monsoon could delay sowing, particularly for rain-fed crops such as pulses, oilseeds, and coarse cereals.

Moisture stress during critical growth phases can reduce yields, while erratic rainfall can damage standing crops. Farmers may also shift crop patterns toward less water-intensive varieties, potentially affecting overall output composition.

The impact is likely to be more pronounced in regions with limited irrigation coverage, where dependence on monsoon rainfall remains high. This underscores the continuing importance of monsoon dynamics despite advances in irrigation and agricultural technology.

Macroeconomic Implications: Rural Demand and Inflation

The implications of a weaker monsoon extend beyond agriculture to the broader economy. Rural demand, which plays a significant role in driving consumption, could face headwinds if farm incomes are affected.

A slowdown in rural consumption can impact sectors such as FMCG, automobiles, and consumer durables, which are closely linked to agricultural income cycles.

Inflation dynamics are also likely to be influenced. Lower agricultural output, particularly of food grains and vegetables, can lead to upward pressure on food prices. Combined with existing global commodity price pressures, this could complicate monetary policy decisions.

Policy Response: Managing Risk and Building Resilience

The evolving monsoon outlook calls for proactive policy responses to mitigate risks. Key areas of focus include:

- Ensuring timely availability of seeds and inputs
- Strengthening irrigation and water management systems
- Expanding crop insurance coverage
- Maintaining buffer stocks to stabilise food prices

In addition, improving weather forecasting and dissemination can help farmers make more informed decisions, reducing the adverse impact of rainfall variability.

Conclusion: A Year of Cautious Optimism

The 2026 monsoon outlook does not signal a severe drought, but it does point to a season marked by uncertainty and uneven performance. The interplay of ENSO transition, delayed IOD support, and modest positive signals from snow cover creates a scenario where risks are tilted to the downside.

For India, the challenge lies not just in managing the immediate impact, but in strengthening long-term resilience to climate variability. As climate patterns become increasingly volatile, the ability to adapt, through better infrastructure, policy frameworks, and technological innovation, will determine the sustainability of agricultural and economic growth.

CORPORATE INSIGHTS

SUN PHARMA'S ORGANON DEAL AND THE END OF THE US GENERICS ERA FOR INDIAN PHARMA

The \$11.75 billion acquisition of Organon & Co. by Sun Pharmaceutical Industries Ltd marks a pivotal inflection point—not just for the company, but for the trajectory of India's pharmaceutical industry. While on the surface the deal appears to deepen Sun Pharma's exposure to the United States, its strategic logic suggests the opposite: a deliberate pivot away from overdependence on the US generics market toward diversified geographies and higher-value therapeutic segments.

For nearly two decades, Indian pharmaceutical firms built global scale by capitalizing on patent expires in the US. The generics boom—driven by small-molecule drugs losing exclusivity—offered high margins, rapid scale, and relatively predictable regulatory pathways. Companies such as Sun Pharma leveraged this window to emerge as global leaders. However, that era is now structurally weakening.

The US generics market has become intensely competitive and commoditized. Consolidation among buyers has increased pricing pressure, while regulatory scrutiny from the US Food and Drug Administration has raised compliance costs. More importantly, the innovation frontier has shifted from small molecules to biologics and specialty therapies—areas that demand significantly higher capital, technological sophistication, and longer gestation periods. For traditional generics players, this transition has reduced the availability of “easy wins.”

It is in this context that the Organon acquisition must be understood. While the deal raises Sun Pharma's US revenues in absolute terms—from \$1.9 billion to \$3.35 billion—it reduces the relative importance of both India and the US in the combined entity's revenue mix. Instead, it provides access to new geographies such as China, South Korea, and Spain, where branded generics and specialty therapies offer more stable growth trajectories.

China, in particular, stands out as a strategic prize. With an estimated pharmaceutical market size of \$150 billion, it represents one of the fastest-growing healthcare markets globally. Unlike the US, where pricing pressures dominate, emerging markets offer higher margins for branded generics and less intense competition. By leveraging Organon's established commercial infrastructure, Sun Pharma gains an accelerated entry into these markets, bypassing years of organic expansion.

Equally significant is the portfolio transformation embedded in the deal. Organon brings strengths in women's health and biosimilars—segments where Sun Pharma previously had limited presence. This is not a marginal shift. Biosimilars represent the next frontier of pharmaceutical growth, particularly as biologic drugs worth an estimated \$320 billion are expected to lose patent protection by 2035. Even a partial conversion into biosimilars could create a \$70 billion opportunity.

Historically, Sun Pharma, under the leadership of Dilip Shanghvi, had been cautious about entering biosimilars due to regulatory uncertainty and high development costs. The Organon acquisition effectively compresses the timeline for entry by providing an existing portfolio and commercialization platform. This allows Sun Pharma to leapfrog the initial barriers to entry, positioning itself among the top global players in biosimilars.

However, the opportunity is not without risks. Organon's biosimilars business currently contributes only about 11 percent of its revenues and faces profitability challenges due to fragmented commercialization rights and reliance on partners such as Samsung Bioepis Co., Ltd. and Shanghai Henlius Biotech, Inc.. Additionally, evolving regulatory norms, particularly around interchangeability in the US, could intensify competition and erode margins.

Yet, compared to previous large-scale acquisitions by Indian pharma firms, Sun Pharma appears better positioned to manage these risks. The failures of deals such as Lupin Ltd's acquisition of Gavis and Biocon Ltd's purchase of Viatris' biosimilars business underscore the importance of valuation discipline and balance sheet strength. Sun

Pharma's acquisition, valued at roughly 5–6x EBITDA, is significantly cheaper than comparable deals, making it earnings-accretive from the outset.

Moreover, the company's relatively conservative leverage, projected at around 2.3x net debt-to-EBITDA, provides financial flexibility. This is a critical differentiator, as excessive leverage constrained post-acquisition performance in earlier cases. Sun Pharma's strong cash flows and disciplined capital allocation reduce the likelihood of a prolonged post-merger value erosion.

Strategically, the deal also enhances Sun Pharma's global commercialization capabilities. Products such as Ilumya, a biologic therapy for psoriasis, can now be scaled across Organon's international footprint, accelerating revenue growth. Furthermore, the acquisition opens avenues for in-licensing and partnerships, enabling Sun Pharma to build a pipeline of complex therapies without bearing the full cost of development.

Ultimately, the Organon acquisition reflects a broader structural shift in Indian pharma. The industry is moving away from volume-driven generics toward value-driven innovation, branded formulations, and biologics. In doing so, companies are also diversifying geographically to mitigate risks associated with regulatory concentration and pricing pressures in the US.

For Sun Pharma, the deal is less about immediate gains and more about long-term positioning. As Shanghvi succinctly put it, the company is "debt-averse but not risk-averse." This calculated risk signals a recognition that the future of pharmaceutical growth will be shaped not by legacy strongholds, but by the ability to adapt to a rapidly evolving global landscape.

BANKING, FINANCIAL SERVICES & INSURANCE

RBI'S NEW CAPITAL NORMS: A SHIFT TOWARD RISK-SENSITIVE BANKING

The Reserve Bank of India's *Commercial Banks – Capital Charge for Credit Risk (Standardised Approach) Directions, 2026* marks a significant milestone in India's ongoing transition toward a more risk-sensitive and globally aligned banking regulatory framework. By operationalising the revised Basel III norms on credit risk, the Directions aim to strengthen capital adequacy, enhance transparency, and improve comparability across banks. The framework, which refines the Standardised Approach (SA), introduces greater granularity in risk weights and reinforces prudential discipline in credit allocation.

Conceptual Shift: Toward Risk-Sensitive Capital Regulation

At the core of the revised Directions is a shift from relatively broad-brush capital requirements to a more granular, risk-sensitive framework. The Standardised Approach now assigns differentiated risk weights based on borrower characteristics, credit ratings, and exposure types. This ensures that capital requirements more accurately reflect the underlying credit risk, reducing regulatory arbitrage and improving the alignment between risk and capital.

Unlike earlier frameworks, where standardised risk weights often masked heterogeneity in borrower quality, the revised norms bring in sharper differentiation—particularly for corporates, financial institutions, and real estate exposures—thereby strengthening the overall prudential architecture.

Risk Weight Framework: Greater Differentiation Across Exposures

A defining feature of the Directions is the structured classification of exposures and calibrated risk weights:

- **Sovereign Exposures:** Claims on the Government of India and state governments continue to enjoy preferential (often zero) risk weights under specified conditions, preserving their role as low-risk assets.
- **Bank Exposures:** Interbank exposures are risk-weighted based on counterparty strength and regulatory classification, enhancing discipline in interbank markets.
- **Corporate Exposures:** Risk weights vary widely depending on external credit ratings, with highly rated corporates attracting lower capital charges and unrated or lower-rated entities attracting significantly higher weights.
- **Retail and MSME Exposures:** These segments benefit from relatively favourable risk weights, reflecting diversification benefits and policy priorities.

This differentiated approach ensures that capital allocation becomes more sensitive to credit quality, thereby improving risk pricing and lending discipline.

Treatment of Unrated Exposures: Incentivising Transparency

One of the most impactful changes is the stringent treatment of unrated corporate exposures, particularly large exposures above specified thresholds. These are assigned higher risk weights, often up to 150 percent, to discourage opacity and encourage wider adoption of credit ratings.

This provision is likely to have systemic implications:

- It incentivises corporates to seek formal ratings, improving market transparency.
 - It may increase borrowing costs for unrated entities, particularly in the mid-sized segment.
 - It encourages banks to strengthen internal credit assessment frameworks.
-

Specialised Lending and Real Estate Exposures

The Directions introduce a more nuanced framework for specialised lending, including project finance, object finance, and infrastructure exposures. Risk weights are linked to project phases—such as pre-operational and operational stages—and to qualitative assessments of project risk.

Similarly, real estate exposures are calibrated based on loan-to-value (LTV) ratios, introducing dynamic risk sensitivity. Higher LTV loans attract higher risk weights, reflecting greater vulnerability to asset price corrections. This is particularly relevant given the historical role of real estate cycles in banking sector stress.

Credit Risk Mitigation and Collateral Framework

The revised norms strengthen the framework for credit risk mitigation (CRM) by clearly defining the eligibility and treatment of collateral, guarantees, and netting arrangements. Recognised mitigants can reduce effective exposure and capital requirements, but only under stringent conditions related to legal enforceability and valuation.

This enhances both prudential soundness and operational clarity, ensuring that risk mitigation techniques are applied consistently and transparently across banks.

Operational and Supervisory Enhancements

The Directions emphasise stronger due diligence, governance, and supervisory alignment:

- Banks must ensure that external ratings used for risk weighting are credible and appropriately mapped.
 - Internal processes must align regulatory risk weights with internal risk assessments.
-

- Supervisory oversight is strengthened through enhanced disclosure requirements and monitoring frameworks.

These measures aim to reduce inconsistencies and ensure that the framework is implemented in both letter and spirit.

Implications for Banks and Credit Markets

The revised framework is expected to have multi-dimensional implications:

- **Portfolio Rebalancing:** Banks may shift exposures toward better-rated borrowers or sectors with favourable risk weights.
- **Cost of Credit:** Borrowing costs for unrated or riskier entities may rise, potentially affecting credit access.
- **Capital Efficiency:** Improved risk sensitivity can enhance capital allocation efficiency, supporting sustainable growth.
- **Market Discipline:** Greater reliance on ratings and transparency can deepen financial markets and improve credit culture.

However, the transition may also pose challenges, particularly for smaller borrowers and sectors with limited rating penetration.

Policy Perspective

From a policy standpoint, the Directions represent a calibrated approach that balances global alignment with domestic realities. While adopting Basel III standards, the RBI has retained flexibility to address India-specific conditions, such as the treatment of MSMEs and infrastructure financing.

Going forward, complementary reforms, such as expanding the credit rating ecosystem, improving data infrastructure, and strengthening insolvency mechanisms, will be critical to fully realise the benefits of the new framework.

Conclusion

The *Capital Charge for Credit Risk (Standardised Approach) Directions, 2026* marks a decisive step towards a more sophisticated and resilient banking system. By embedding greater risk sensitivity, enhancing transparency, and aligning with global standards, the framework strengthens the foundations of credit risk management in India.

While the transition may entail short-term adjustments, the long-term gains—in terms of financial stability, efficient capital allocation, and improved credit discipline—are likely to be substantial. The Directions thus signal a maturing regulatory regime, better equipped to navigate the complexities of modern financial systems.

FORWARD-LOOKING PROVISIONING: HOW RBI'S ECL NORMS WILL TRANSFORM BANKS

The RBI's *Commercial Banks – Asset Classification, Provisioning and Income Recognition (IRACP) Directions, 2026* represents a major structural reform in India's prudential regulatory framework. By introducing a forward-looking Expected Credit Loss (ECL) regime alongside refined asset classification norms, the RBI is seeking to fundamentally transform how banks recognise, measure, and manage credit risk. The Directions, which will come into effect from April 1, 2027, aim to enhance resilience, transparency, and alignment with global best practices.

Shift to a Forward-Looking Credit Risk Framework

At the heart of the new framework is the transition from an incurred-loss model to an Expected Credit Loss (ECL) approach, which marks a paradigm shift in provisioning practices. Unlike the traditional model, where losses are recognised only after default or stress becomes evident, the ECL framework requires banks to anticipate potential credit losses over the life of an asset. This forward-looking methodology incorporates macroeconomic conditions, borrower-specific factors, and probabilistic scenarios, thereby enabling earlier recognition of risks.

The introduction of a three-stage classification system, viz., Stage 1 (performing), Stage 2 (significant increase in credit risk), and Stage 3 (credit-impaired), ensures a graduated response to credit deterioration. While Stage 1 assets require provisioning based on 12-month expected losses, Stage 2 and Stage 3 assets require lifetime loss provisioning, making capital buffers more responsive to evolving risk profiles.

Retention and Refinement of NPA Framework

Importantly, the RBI has retained the existing Non-Performing Asset (NPA) classification norms, thereby preserving continuity while enhancing analytical depth. A loan continues to be classified as NPA if interest or principal remains overdue for more than 90 days, with borrower-level classification ensuring that stress in one exposure reflects across all exposures to the same borrower.

The classification into sub-standard, doubtful, and loss assets remains intact, but is now complemented by the ECL framework, creating a dual-layered system that combines backward-looking prudence with forward-looking risk assessment. This hybrid approach reflects a careful balancing of regulatory conservatism with modern risk management practices.

Granular and Risk-Sensitive Provisioning

A key strength of the new Directions lies in the granularity of provisioning requirements. The ECL framework relies on core risk parameters, viz., Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD), to estimate expected losses. These parameters are required to be calibrated using historical data, adjusted for current and forward-looking macroeconomic conditions, and validated through robust governance mechanisms.

Additionally, the RBI has introduced prudential floors for provisioning across loan categories and stages, ensuring that model-based estimates do not fall below minimum regulatory thresholds. This serves as a safeguard against under-provisioning and enhances the reliability of banks' financial statements.

Strengthening Governance and Risk Management

The Directions place significant emphasis on governance, data integrity, and model risk management. Banks are required to establish board-level oversight mechanisms, ensure robust model validation frameworks, and maintain high-quality data for ECL estimation. The integration of macroeconomic variables into credit risk assessment reflects a more holistic approach to risk management, aligning with international standards such as IFRS 9.

The requirement for continuous monitoring, documentation of assumptions, and independent validation of models underscores the RBI's focus on ensuring that the ECL framework is not merely a technical exercise but a credible and reliable tool for risk management.

Implications for Banks and the Financial System

The transition to the ECL framework is expected to have far-reaching implications. In the short term, banks may face higher provisioning requirements, particularly for portfolios with elevated credit risk or limited historical data. This could exert pressure on profitability and capital adequacy, especially during the transition phase.

However, over the medium to long term, the framework is likely to enhance financial stability by promoting early recognition of stress, improving credit discipline, and reducing the pro-cyclicality of bank lending. By aligning provisioning with expected losses rather than realised defaults, the system becomes more resilient to economic shocks.

The framework may also incentivise improvements in credit appraisal, data infrastructure, and risk pricing, as banks seek to optimise capital allocation under more risk-sensitive norms.

Conclusion

The RBI's 2026 IRACP Directions represent a transformative step in India's banking regulation. By integrating forward-looking provisioning with established asset classification norms, the framework strikes a balance between innovation and prudence. While implementation challenges, particularly in data, modelling, and governance, are likely to arise, the long-term benefits in terms of transparency, resilience, and global alignment are substantial.

In essence, the new Directions signal a shift toward a more sophisticated and proactive approach to credit risk management, positioning India's banking system on a stronger footing in an increasingly uncertain global financial landscape.

SECTION 2: GLOBAL ECONOMY

GLOBAL ECONOMIC OUTLOOK

GLOBAL ECONOMY IN TURBULENCE: IMF'S WEO 2026 SIGNALS RISING RISKS

Introduction

The April 2026 edition of the International Monetary Fund's *World Economic Outlook (WEO)*, titled *Global Economy in the Shadow of War*, presents a sobering assessment of a global economy that is once again being tested by geopolitical shocks. The report underscores how the outbreak of conflict in the Middle East has disrupted what was otherwise a trajectory of moderate recovery, introducing renewed uncertainty through energy markets, inflation dynamics, and financial conditions.

Global Growth: Resilience Interrupted

Prior to the escalation of geopolitical tensions, the global economy exhibited notable resilience, supported by strong technology-driven investment, easing trade frictions, and accommodative financial conditions. However, the onset of conflict has significantly altered the outlook. The IMF now projects global growth at 3.1 percent in 2026 (Table 5), a downward revision from earlier estimates, reflecting the adverse impact of supply disruptions and heightened uncertainty.

The report highlights that the war has introduced a classic negative supply shock, primarily through higher energy prices. This shock is expected to weaken purchasing power, disrupt supply chains, and dampen global demand. While the baseline scenario assumes a relatively short-lived conflict, alternative scenarios suggest that prolonged disruptions could push global growth down to 2.5 percent or even near 2 percent, bringing the world economy close to recessionary conditions.

Table 5: GDP Growth Projections by IMF

(Percentage change)

	<i>Projections</i>		
	2025	2026	2027
World Output	3.4	3.1	3.2
United States	2.1	2.3	2.1
Euro Area	1.4	1.1	1.2
Japan	1.2	0.7	0.6
China	5.0	4.4	4.0
India	7.6	6.5	6.5

Source: WEO April 2026, IMF

Inflation Dynamics: Renewed Pressures

Inflation, which had been moderating globally, is expected to rise again, with headline inflation projected at 4.4 percent in 2026. The primary driver is the surge in energy prices resulting from disruptions in the Middle East, particularly around critical supply routes such as the Strait of Hormuz.

The report emphasises the risk of second-round effects, where higher input costs translate into wage and price increases, potentially leading to inflation persistence. This risk is especially pronounced in economies where inflation expectations are not well anchored. Compared to the 2022 energy shock following the Russia–Ukraine conflict, the current environment may prove more challenging, as inflation expectations remain sensitive and supply conditions less favourable.

Divergence Across Economies

A key insight from the *WEO* is the asymmetric impact of the shock across countries. Advanced economies are expected to experience relatively modest growth revisions, while emerging market and developing economies (EMDEs) face sharper slowdowns.

Commodity-importing economies are particularly vulnerable due to higher energy and food import costs, currency depreciation, and limited policy buffers.

At the same time, energy exporters may also face disruptions due to conflict-related damage and export constraints, illustrating that the shock is broadly global in nature rather than confined to a specific region. The report also points to uneven growth patterns within major economies such as the United States and China, highlighting underlying structural imbalances.

Resilience with Risks: IMF's Assessment of India's Growth Outlook

The IMF notes that while global growth is moderating, India remains among the fastest-growing major economies, supported by strong domestic demand, public investment, and continued momentum in services exports.

A key takeaway is that India's growth is less exposed to external demand shocks compared to more export-dependent economies, owing to its large domestic market. However, the IMF also cautions that India is not insulated from global spillovers, particularly through higher crude oil prices, tighter global financial conditions, and potential capital flow volatility. As a major energy importer, India faces risks from elevated commodity prices, which could widen the current account deficit and exert pressure on inflation.

The report also implicitly highlights India's structural strengths, including its role in global services trade and increasing integration into technology-driven supply chains. At the same time, it underscores the importance of sustaining growth through continued infrastructure investment, macroeconomic stability, and structural reforms, particularly in manufacturing and labour markets, to fully capitalise on global supply chain realignments.

In essence, the IMF's assessment suggests that while India is well-positioned to outperform the global average, maintaining this trajectory will depend on managing

external vulnerabilities and reinforcing domestic growth drivers in an increasingly uncertain global environment.

Financial Conditions and Global Risks

The geopolitical shock has triggered a risk-off sentiment in global financial markets, leading to tighter financial conditions, higher bond yields, and stronger safe-haven currencies such as the US dollar. These developments are likely to constrain investment and capital flows, particularly to vulnerable emerging markets.

The report identifies multiple downside risks, including:

- Prolonged or escalating conflict leading to a severe energy crisis
- De-anchoring of inflation expectations
- Rising fiscal deficits and public debt
- Potential correction in technology-driven asset valuations

These risks collectively point to a fragile global environment where uncertainty remains elevated.

Structural Shifts: Fragmentation and Multipolarity

Beyond the immediate shock, the *WEO* highlights deeper structural changes in the global economy. Rising geopolitical tensions are contributing to economic fragmentation, with countries reconfiguring trade relationships and supply chains. The emergence of a more multipolar world is evident in shifting trade patterns and new regional alliances.

The report also emphasises the growing importance of critical minerals and rare earth supply chains, which are increasingly becoming focal points of strategic competition. Disruptions in these sectors could have significant implications for global production, particularly in the context of the green and digital transitions.

Policy Response: Balancing Stability and Growth

The IMF advocates a calibrated and state-contingent policy response. Central banks are advised to “look through” temporary supply shocks, provided inflation expectations remain anchored, but to act decisively if these expectations begin to drift. Fiscal policy should avoid broad-based subsidies and instead focus on targeted support for vulnerable groups, while maintaining medium-term fiscal discipline.

The report also underscores the importance of global cooperation, particularly in managing trade tensions and ensuring stability in energy and commodity markets. Structural reforms, investment in technology, and accelerated adoption of renewable energy are identified as key priorities for enhancing long-term resilience.

Conclusion

The April 2026 World Economic Outlook paints a picture of a global economy at a critical juncture. While underlying fundamentals remain relatively stable, the escalation of geopolitical tensions has introduced significant downside risks. The interplay between energy markets, inflation dynamics, and financial conditions will shape the trajectory of global growth in the near term.

Ultimately, the report underscores a central message: resilience alone is no longer sufficient. In an increasingly uncertain and fragmented world, proactive policy frameworks, structural reforms, and renewed multilateral cooperation will be essential to sustain global economic stability and growth.

IMF's World Economic Outlook April 2026 can be accessed from:
<https://www.imf.org/-/media/files/publications/weo/2026/april/english/text.pdf>

FROM SHOCK TO SYSTEMIC RISK: DECODING IMF'S GLOBAL FINANCIAL STABILITY REPORT

Introduction

The April 2026 *Global Financial Stability Report (GFSR)* by the International Monetary Fund presents a nuanced picture of a global financial system that has so far demonstrated resilience in the face of geopolitical shocks, but remains exposed to significant and potentially amplifying vulnerabilities. Titled *Global Financial Markets Confront the War in the Middle East and Amplification Risks*, the report underscores that while markets have remained orderly, underlying fragilities could transform localized shocks into systemic stress.

Resilience Amid Geopolitical Shock

A central theme of the report is the apparent resilience of global financial markets despite the escalation of conflict in the Middle East. Equity and bond markets have adjusted, but without disorderly sell-offs or systemic disruptions. Short-term funding markets have continued to function smoothly, supported by improved market infrastructure, stronger bank balance sheets, and post-global financial crisis regulatory reforms.

This resilience is partly attributed to stronger starting conditions, including healthier household and corporate balance sheets, as well as well-capitalised banking systems. Additionally, the episodic nature of geopolitical developments—characterised by alternating escalation and de-escalation—has prevented sustained panic in financial markets. However, the IMF cautions that this resilience may reflect incomplete pricing of risks rather than their absence.

Financial Market Developments: Early Signs of Stress

Despite orderly conditions, financial markets have already exhibited signs of tightening and volatility. Global equity prices have declined, bond yields have risen sharply, and

volatility indicators have spiked in response to higher energy prices and inflation expectations.

A notable development is the simultaneous sell-off in equities and bonds, signalling a weakening of the traditional diversification benefits of government bonds. This reflects a shift toward supply-driven shocks, particularly energy shocks, which affect both asset classes adversely. Financial conditions, while still accommodative relative to historical norms, have begun to tighten, raising concerns about future market stability.

Amplification Risks: From Market Turbulence to Instability

The report's most critical contribution lies in its analysis of amplification channels—mechanisms through which moderate shocks can escalate into systemic instability. Several key vulnerabilities stand out:

- **Sovereign Debt and Bond Market Fragility:** Elevated debt levels and increased reliance on price-sensitive investors have made bond markets more volatile and susceptible to rollover risks. Rising yields can strain fiscal positions and spill over into banking systems through the sovereign–bank nexus.
 - **Nonbank Financial Intermediaries (NBFIs):** The growing role of leveraged institutions such as hedge funds and exchange-traded funds introduces risks of forced selling and liquidity stress during market downturns.
 - **Emerging Market Vulnerabilities:** Emerging markets face heightened exposure to capital flow volatility, particularly due to the increasing dominance of non-resident investors. Currency pressures and capital outflows could intensify under adverse global conditions.
 - **Private Credit and Corporate Stress:** Signs of rising defaults in private credit markets could spill over into broader corporate credit concerns, particularly for highly leveraged firms.
-

- **Artificial Intelligence (AI)-Driven Financial Risks:** The rapid expansion of AI-related investments, often financed through complex and interconnected structures, introduces new forms of systemic risk, particularly if investor sentiment reverses.

These interconnected vulnerabilities highlight the risk of nonlinear outcomes, where small shocks trigger disproportionately large financial disruptions.

Emerging Markets: Uneven Exposure and Rising Sensitivity

The report emphasises that emerging markets are particularly vulnerable to global financial tightening. Capital flows to these economies have become increasingly “K-shaped,” favouring debt instruments over more stable foreign direct investment.

Moreover, the growing influence of nonbank investors—who are more sensitive to global risk sentiment—has increased the likelihood of abrupt capital outflows. This dynamic, combined with higher energy prices and weaker external balances, could lead to currency depreciation, tighter domestic financial conditions, and macroeconomic instability in vulnerable economies.

Structural Vulnerabilities and Medium-Term Risks

Beyond immediate risks, the GFSR highlights medium-term structural vulnerabilities that could shape future financial stability:

- Rising global debt levels and constrained fiscal space
 - Increased interconnectedness between banks and nonbank financial institutions
 - Growing concentration in financial markets, particularly in technology and AI sectors
 - Vulnerabilities in frontier markets with limited policy buffers
-

These factors suggest that the global financial system is operating in an environment of elevated systemic risk, where shocks can propagate more rapidly across markets and institutions.

Policy Imperatives: Strengthening Resilience

The IMF advocates a proactive and coordinated policy response to mitigate these risks:

- **Monetary Policy:** Central banks should remain focused on price stability while being prepared to respond to financial instability if conditions deteriorate.
- **Fiscal Policy:** Governments should rebuild fiscal buffers and ensure debt sustainability, while providing targeted support to vulnerable groups.
- **Macroprudential Regulation:** Strengthening oversight of both banks and nonbanks is critical, including closing data gaps and enhancing stress testing frameworks.
- **Market Infrastructure:** Expanding central clearing and ensuring robust liquidity backstops can help mitigate funding market stress.
- **Global Cooperation:** Coordinated international action is essential to manage cross-border risks and maintain financial stability.

The report also emphasises the importance of completing Basel III reforms and avoiding regulatory fragmentation that could undermine financial resilience.

Conclusion

The April 2026 *GFSS* delivers a clear message: resilience should not be mistaken for stability. While global financial markets have absorbed recent shocks without major disruption, the underlying system remains vulnerable to amplification effects that could rapidly escalate risks.

In an environment characterised by geopolitical uncertainty, elevated debt levels, and evolving financial structures, the challenge for policymakers is not merely to respond

to shocks, but to anticipate and mitigate the channels through which they propagate. Strengthening buffers, enhancing oversight, and maintaining policy credibility will be essential to ensuring that the global financial system remains robust in the face of future uncertainties.

IMF's Global Financial Stability Report April 2026 can be accessed from:
<https://www.imf.org/-/media/files/publications/gfsr/2026/april/english/text.pdf>

HIGH DEBT, TIGHT SPACE: IMF WARNS OF A NEW ERA OF FISCAL CONSTRAINTS

The April 2026 *Fiscal Monitor* of the IMF offers a stark diagnosis of the global fiscal landscape: governments are navigating an increasingly constrained policy environment marked by historically high public debt, rising borrowing costs, and intensifying structural spending pressures. The report, titled *Fiscal Policy under Pressure: High Debt, Rising Risks*, argues that the world is entering a phase where fiscal space is shrinking just as risks are multiplying, making policy choices more consequential than at any time in recent decades.

A World of Elevated Debt and Narrowing Fiscal Space

The most striking takeaway is the persistent and rising trajectory of global public debt. According to the report, global government debt reached nearly 94 percent of GDP in 2025 and is projected to climb to 100 percent by 2029, levels previously seen only in the aftermath of World War II.

This rise is not merely cyclical but structural. The global fiscal deficit remains around 5 percent of GDP, with little improvement in primary balances. Even where modest consolidation is expected, it is insufficient to stabilise debt dynamics.

More concerning is the erosion of fiscal buffers. The report notes that the global fiscal gap has shrunk from over 1 percent of GDP a decade ago to nearly zero today, implying that governments have little room to absorb future shocks without worsening debt sustainability.

The New Fiscal Stress: Higher Interest Rates and Market Discipline

A defining feature of the current fiscal environment is the return of higher interest rates, which has fundamentally altered debt dynamics. The report shows that interest payments have risen sharply, from 2 percent to nearly 3 percent of global GDP in just four years, as governments refinance debt at higher rates.

This shift has two major implications:

- Debt sustainability is more sensitive to fiscal slippages, as the interest-growth differential ($r - g$) becomes less favourable.
- Financial markets are less forgiving, reacting more quickly to weak fiscal frameworks or policy uncertainty.

The report emphasises that episodes of market repricing in major economies signal a structural shift: investors are increasingly questioning the assumption of unlimited sovereign borrowing capacity.

Geopolitical Shocks and Fiscal Transmission Channels

The war in the Middle East has emerged as a new and significant source of fiscal pressure. The report observes that the conflict affects public finances through multiple channels:

- Higher energy and food prices, raising subsidy burdens
- Tighter financial conditions, increasing borrowing costs
- Weaker growth, eroding revenues
- Rising defence expenditures

The fiscal effects are asymmetric. Energy-importing countries, especially low-income economies, face the greatest strain, while potential gains for exporters are uncertain due to supply disruptions in key producing regions. This combination of shocks illustrates

how supply-side disruptions can simultaneously worsen deficits and debt, complicating policy responses that must balance inflation control with fiscal sustainability.

Diverging Fiscal Trajectories across Economies

The report highlights significant cross-country divergence:

The United States continues to run large deficits (7–8 percent of GDP) despite operating near full capacity, with debt projected to reach 142 percent of GDP by 2031.

- China’s fiscal expansion has pushed deficits close to 8 percent of GDP, with debt expected to approach 127 percent of GDP.
- Europe faces trade-offs between defence spending and fiscal rules, with several countries invoking escape clauses.
- Low-income countries face the most acute constraints, with rising debt service, declining aid, and limited market access.

These trends underline a key insight: global fiscal risks are increasingly systemic but unevenly distributed, with the most vulnerable economies facing the sharpest adjustment pressures.

Structural Pressures: Aging, Climate, and Fragmentation

Beyond cyclical factors, the report identifies long-term structural drivers of fiscal stress:

- Population aging, increasing pension and healthcare spending
- Climate transition and energy security, requiring large-scale public investment
- Rising protectionism and geoeconomic fragmentation, leading to subsidies and inefficient spending

As noted in the report, these pressures risk pushing primary balances further away from levels needed to stabilise debt, especially if growth disappoints.

Changing Sovereign Debt Markets and Amplified Risks

An important analytical contribution of the report is its focus on the changing structure of sovereign debt markets. With central banks unwinding balance sheets, private and often leveraged investors are becoming the marginal buyers of government bonds.

This shift introduces new vulnerabilities:

- Greater exposure to market volatility
- Increased risk of sudden spikes in yields
- Shorter debt maturities in some economies, raising rollover risks

The global implications are significant: shocks in major bond markets, especially US Treasuries, can transmit rapidly across countries, tightening global financial conditions.

Policy Imperatives: Credibility, Targeting, and Reform

The IMF's policy message is clear and pragmatic:

- Avoid broad fiscal stimulus that could conflict with monetary tightening.
- Target support measures to vulnerable households and firms, keeping them temporary.
- Rebuild fiscal buffers through credible medium-term consolidation strategies.
- Strengthen domestic revenue mobilisation, particularly in low-income countries.
- Improve spending efficiency, especially in public investment and subsidies.

The report also stresses the importance of institutional credibility, including transparent communication and adherence to fiscal frameworks, to anchor market expectations.

Conclusion: The End of Fiscal Complacency

The April 2026 *Fiscal Monitor* delivers a sobering conclusion: the era of easy fiscal policy is over. High debt, elevated interest rates, and mounting structural demands leave governments with little room for error.

The central challenge is no longer simply managing deficits, but restoring fiscal resilience in a world of persistent shocks and tightening constraints. Countries that act early, by rebuilding buffers, enhancing credibility, and prioritising efficient spending, will be better positioned to navigate future crises. Those that delay may face abrupt and costly adjustments as market discipline intensifies.

IMF's Fiscal Monitor can be accessed from:

www.imf.org/-/media/files/publications/fiscal-monitor/2026/april/english/text.pdf

UAE'S EXIT FROM OPEC: A GEOPOLITICAL SHOCK OR A STRUCTURAL SHIFT IN OIL MARKETS?

A Historic Break from the Oil Cartel

The United Arab Emirates' (UAE) decision to exit the Organization of the Petroleum Exporting Countries (OPEC) marks one of the most consequential developments in global energy markets in decades. As OPEC's third-largest producer, contributing roughly 12–13 percent of its output, the UAE's departure represents not just a symbolic blow but a material weakening of the cartel's cohesion and market influence.

This is the first time a major producer, rather than a smaller or marginal member, has chosen to leave, raising fundamental questions about the future viability of OPEC as a coordinated supply-management institution.

The Geopolitical Trigger: War and Strategic Realignment

The immediate catalyst for the UAE's exit lies in the intensifying geopolitical crisis in the Middle East. The US-Israel conflict with Iran, and the subsequent closure of the Strait of Hormuz—through which nearly one-fifth of global oil supply flows—has reshaped regional alliances and risk perceptions.

The UAE has borne a disproportionate share of the conflict's fallout, facing sustained missile and drone attacks. This experience appears to have triggered a broader reassessment in Abu Dhabi regarding the reliability of traditional alliances and multilateral frameworks. The decision to also exit OPEC (which includes Russia) signals dissatisfaction not only with regional partners but also with broader geopolitical alignments, particularly Moscow's stance in the conflict. Thus, the move is not merely economic, it reflects a deeper strategic repositioning.

Long-Standing Economic Frictions: The Quota Constraint

While geopolitics accelerated the decision, the roots of the UAE's exit lie in long-standing economic tensions within OPEC. For years, the UAE has been frustrated by

production quotas that limited its ability to fully utilize its expanding production capacity. With a capacity of around 4.8 million barrels per day but constrained to produce closer to 3.4 million barrels, the UAE viewed quotas as a binding constraint on revenue maximization and long-term economic planning.

Unlike Saudi Arabia, which requires higher oil prices to balance its fiscal position, the UAE can sustain lower price levels due to its diversified economy and lower fiscal breakeven. This divergence created structural tensions within OPEC's price-support strategy, which relies on coordinated output restraint.

The Strategic Logic: Monetisation and Post-Oil Transition

At a deeper level, the UAE's decision reflects a forward-looking economic strategy. Abu Dhabi has increasingly prioritized monetizing its hydrocarbon resources while they remain valuable, in order to fund diversification into a post-oil economy.

Exiting OPEC allows the UAE to pursue an independent production policy, aligning output decisions with investment returns, long-term customer contracts, particularly in Asia, and broader economic transformation goals. Additionally, the country's investments in alternative export routes, including pipelines bypassing the Strait of Hormuz, enhance its ability to operate independently of cartel coordination and geopolitical chokepoints.

Implications for OPEC: Fragmentation and Credibility Risks

The departure of a major producer like the UAE significantly undermines OPEC's ability to manage global oil markets. One of the cartel's key strengths has been its spare capacity, concentrated in a few large producers such as Saudi Arabia and the UAE. Losing one of these pillars reduces its flexibility in responding to supply shocks.

Moreover, the exit could trigger a "demonstration effect," encouraging other dissatisfied members to reconsider their participation. Countries such as Kazakhstan, Nigeria, and Venezuela, already strained by quota compliance or shifting domestic priorities, could emerge as potential "flight risks." This raises the possibility of a

gradual erosion of OPEC's cohesion, transforming it from a coordinated cartel into a looser, less effective grouping.

Market Impact: Limited Short-Term Shock, Higher Long-Term Volatility

Interestingly, the immediate market reaction to the UAE's exit has been muted, with oil prices remaining elevated due to supply disruptions linked to the Strait of Hormuz closure and ongoing geopolitical tensions.

In the short term, the dominant drivers of oil prices remain geopolitical risk premia and supply constraints. However, over the medium to long term, the weakening of coordinated supply management is likely to increase price volatility. Analysts suggest that while the "OPEC premium" may decline, the trading range of oil prices could widen significantly. In essence, markets may transition from a relatively managed equilibrium to a more fragmented and unpredictable system.

Global Energy Landscape: Rise of Competition and Multipolarity

The UAE's exit also reflects broader structural changes in the global energy landscape. The rise of US shale oil has already diminished OPEC's pricing power, while the increasing diversification of energy sources and geopolitical fragmentation are creating a more multipolar system.

In this context, the UAE's move can be seen as part of a broader shift away from collective action toward national energy strategies. Countries are increasingly prioritizing flexibility, resilience, and strategic autonomy over cartel-based coordination.

Conclusion: A Turning Point for Oil Governance

The UAE's decision to leave OPEC marks a turning point in the governance of global oil markets. While the immediate impact on prices may be limited, the longer-term implications are profound. The move exposes deep fractures within the cartel, challenges its relevance in a changing energy landscape, and signals a shift toward more

decentralized and competitive market dynamics. For global energy markets, this could mean greater volatility, reduced predictability, and a gradual reconfiguration of power away from traditional institutions towards more flexible, state-driven strategies.

MONETARY POLICY

AT THE CROSSROADS: THE FED'S STRATEGIC PAUSE AMID INFLATION AND UNCERTAINTY

The April 29, 2026 monetary policy decision by the US Federal Reserve, reinforced by the post-meeting press conference of Chair Jerome H. Powell, marks a critical inflection point in the global monetary cycle. While the decision to hold the federal funds rate at 3.50–3.75 percent was widely anticipated, Powell's communication provides deeper insight into the Fed's evolving reaction function—one that is increasingly cautious, data-driven, and sensitive to global risks.

Powell's remarks underscore a subtle but important shift: from a singular focus on inflation control to a more balanced recognition of risks to both sides of the dual mandate. While reaffirming that inflation remains “elevated” and that the Fed is committed to returning it to 2 percent, he acknowledged that monetary policy is now operating in restrictive territory and its cumulative effects are becoming more visible—particularly in the labour market. This aligns with the statement's observation of subdued job gains and signals that the Fed is increasingly attentive to downside risks to employment.

A key takeaway from Powell's address is the emphasis on uncertainty—especially stemming from geopolitical developments, including tensions in the Middle East and their implications for energy prices. Powell noted that such supply-side shocks complicate the inflation outlook, as they may push prices higher even as demand moderates. This reinforces the notion that the current inflation episode is structurally different from earlier demand-driven cycles, limiting the effectiveness of conventional rate hikes.

Importantly, Powell avoided giving any explicit forward guidance on rate cuts, reiterating that future decisions will depend on “incoming data, the evolving outlook,

and the balance of risks.” This deliberate ambiguity reflects a strategic choice: preserving optionality in an environment where both premature easing and excessive tightening carry significant costs. Markets expecting a clear pivot toward easing may thus need to recalibrate expectations.

The divergence within the Federal Open Market Committee (FOMC), as reflected in the voting pattern, also gained prominence in Powell’s remarks. While he emphasized institutional consensus, the presence of dissent—both toward easing and against an easing bias—highlights the growing complexity of policymaking at this stage of the cycle. Powell framed this not as disunity, but as a reflection of a healthy debate in the face of heightened uncertainty.

On the operational front, Powell reiterated the Fed’s commitment to maintaining ample reserves and smooth market functioning through continued open market operations. He emphasized that balance sheet policies remain complementary to interest rate policy, ensuring that financial conditions remain consistent with the desired stance of monetary policy.

Taken together, both the policy statement and Powell’s press conference suggest that the Fed is transitioning into a “watchful waiting” phase. The tightening cycle appears largely complete, but the timing and pace of any future easing remain highly contingent. Powell’s communication strategy—carefully balancing reassurance with caution—reflects an effort to anchor expectations without overcommitting in an uncertain macroeconomic landscape.

From a global perspective, this stance has significant implications. For emerging markets, including India, a prolonged period of elevated US rates may sustain capital flow volatility and exchange rate pressures. At the same time, the absence of further tightening reduces the risk of abrupt global financial tightening.

In essence, Powell makes it evident that the Fed is not yet ready to declare victory over inflation, but it is equally mindful of the risks of overtightening. The path ahead will

depend less on pre-set trajectories and more on the unfolding interplay between inflation dynamics, labour market adjustments, and geopolitical developments.

AN ‘ACTIVE HOLD’: INSIDE THE BANK OF ENGLAND’S CAUTIOUS MONETARY STRATEGY

The April 30, 2026 monetary policy decision by the Bank of England reflects a central bank grappling with a classic supply shock dilemma under heightened global uncertainty. By voting 8–1 to maintain the Bank Rate at 3.75 percent, the Monetary Policy Committee (MPC) has opted for a cautious pause, balancing rising inflationary pressures against a weakening domestic economy.

At the heart of the policy assessment lies the resurgence of inflation, which has climbed to 3.3 percent and is expected to rise further in the near term due to higher global energy prices triggered by geopolitical tensions in the Middle East. Crucially, the MPC recognizes that monetary policy cannot directly offset such supply-side shocks. Instead, its role is to manage the “second-round effects”—the risk that higher energy prices feed into broader wage and price-setting behaviour, thereby entrenching inflation.

This distinction between direct, indirect, and second-round effects is central to the Bank’s current strategy. The MPC signals a willingness to “look through” the immediate inflationary spike caused by energy costs, while remaining vigilant about persistent inflation dynamics. This reflects a more sophisticated policy approach compared to earlier cycles, acknowledging both the limits and the strategic scope of monetary policy in the face of external shocks.

However, the policy trade-off is stark. On one side lies the risk of inflation persistence, particularly if households and firms begin to adjust expectations upward. Survey evidence cited by the MPC suggests that firms may attempt to pass on rising costs, while households—still shaped by recent episodes of elevated inflation—may become more sensitive to price increases. On the other side lies a softening economic environment, characterized by weak demand, loosening labour market conditions, and

tightening financial conditions. These factors are expected to dampen inflationary pressures over time.

To navigate this uncertainty, the MPC adopts a scenario-based framework, outlining alternative trajectories depending on the evolution of energy prices and second-round effects. Scenario A assumes no persistent second-round effects, while Scenarios B and C incorporate increasingly strong and persistent inflationary spillovers. This approach underscores the inherently state-contingent nature of monetary policy in the current environment—where policy must remain flexible and responsive to unfolding data rather than pre-committed to a fixed path.

The voting pattern reveals a subtle but important divergence within the Committee. While the majority favoured holding rates, one member advocated an immediate rate hike, citing concerns about inflation persistence and the risk of entrenched expectations. Meanwhile, even among those supporting a hold, there is a clear inclination toward future tightening should second-round effects materialize more strongly. This suggests that the current pause is not a pivot toward easing, but rather a strategic “active hold” with a tightening bias.

Another key insight from the minutes is the role of financial conditions. The MPC notes that market-driven tightening, through higher yields and broader financial conditions, has already contributed to restraining inflationary pressures. This allows the Bank to adopt a wait-and-watch approach, using time as a policy tool to gather more evidence on how the energy shock propagates through the economy.

From a broader perspective, the Bank of England’s stance reflects the evolving challenges of monetary policymaking in a world increasingly shaped by supply shocks and geopolitical disruptions. The traditional demand-management framework is being tested, requiring central banks to operate under greater uncertainty and with more nuanced strategies.

The April 2026 decision embodies a delicate balancing act: maintaining policy restrictiveness to anchor inflation expectations while avoiding unnecessary damage to an already fragile economy. The path ahead will depend critically on whether inflationary pressures remain contained or become embedded through second-round effects, making the coming months pivotal for the UK's monetary policy trajectory

FROM DEFLATION TO INFLATION RISK: INSIDE THE BOJ'S APRIL 2026 POLICY DEBATE

The April 28, 2026 monetary policy decision by the Bank of Japan highlights a central bank navigating a delicate transition from prolonged monetary accommodation toward a more normalized policy regime. By a 6–3 majority, the Policy Board chose to maintain the uncollateralized overnight call rate at around 0.75 percent, signalling continuity but also revealing intensifying internal debate about the future course of policy.

At one level, the decision reflects a cautious approach in an environment marked by global uncertainty, particularly stemming from geopolitical tensions in the Middle East. These developments have introduced volatility in energy prices, with implications for inflation dynamics in Japan. However, unlike other major central banks, the Bank of Japan continues to operate within a relatively accommodative framework, reflecting the country's long-standing struggle with low inflation and subdued demand conditions.

Yet, the policy statement reveals a subtle but important shift in the inflation narrative. Dissenting members of the Policy Board expressed growing concern that risks to prices are now “skewed to the upside,” driven in part by second-round effects from imported cost pressures. This marks a departure from Japan's historical context, where deflationary risks dominated policy thinking. The recognition of sustained inflationary pressures—particularly those transmitted through wages and domestic pricing behaviour—suggests that Japan may be entering a new macroeconomic phase.

The divergence within the Policy Board is especially noteworthy. Three members voted against the status quo, advocating for a higher policy rate of around 1.0 percent. Their

arguments reflect differing but related concerns: the persistence of inflation, the risk of falling behind the curve, and the need to move policy closer to a neutral stance. One member even suggested that the price stability target has “more or less been achieved,” implying that continued accommodation may no longer be justified.

This internal division underscores a broader strategic dilemma. On one hand, prematurely tightening policy could undermine Japan’s still-fragile recovery, particularly if global uncertainties dampen external demand. On the other hand, maintaining an overly accommodative stance risks allowing inflation expectations to become unanchored, especially in the presence of sustained external price shocks.

The Bank of Japan’s decision, therefore, can be interpreted as a “cautious hold” with an emerging tightening bias. While the majority remains inclined to observe how global and domestic conditions evolve, the growing dissent signals that the threshold for policy normalization may be approaching. This is particularly significant given Japan’s unique monetary policy trajectory, which has long been characterized by ultra-low interest rates and unconventional tools.

From a global perspective, the BOJ’s stance adds another layer of complexity to the international monetary landscape. While the Federal Reserve and the Bank of England are in a phase of holding or recalibrating after aggressive tightening cycles, Japan appears to be at an earlier stage of normalization. This divergence could have implications for exchange rates, capital flows, and global financial conditions.

The April 2026 policy decision reflects that the BOJ is at a crossroads. The balance between sustaining economic recovery and responding to emerging inflation risks is becoming increasingly delicate. The growing dissent within the Policy Board suggests that the era of ultra-accommodative policy in Japan may be gradually ending, even if the transition remains measured and cautious.

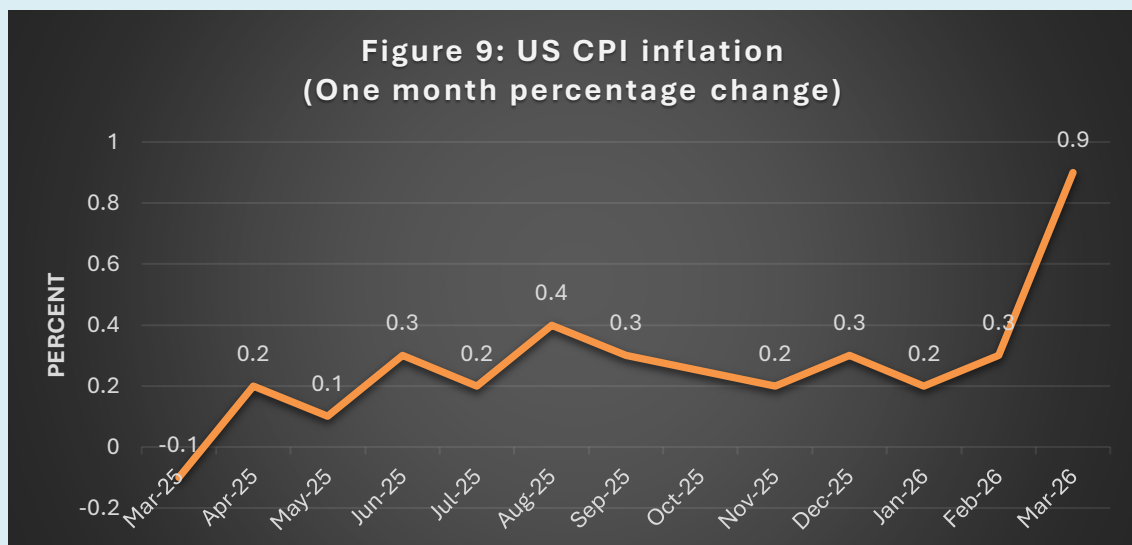
INFLATION

ENERGY SHOCK DRIVES U.S. INFLATION HIGHER IN MARCH

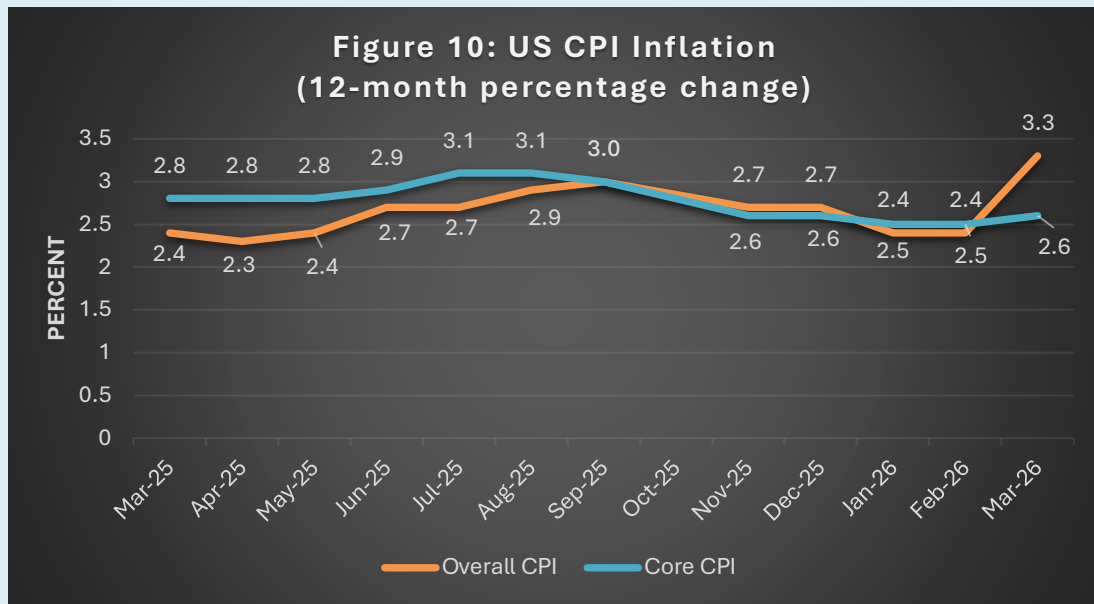
The latest data from the U.S. Bureau of Labor Statistics indicates a renewed uptick in inflation, with CPI-U rising sharply by 0.9 percent month-on-month in March, up from 0.3 percent in February (Figure 9). On a year-on-year basis, inflation increased to 3.3 percent (Figure 10), signalling a reversal of the recent disinflation trend.

The surge was largely driven by energy prices, which rose 10.9 percent, led by a 21.2 percent jump in gasoline costs. Shelter prices also edged up, adding to persistent inflationary pressures. In contrast, food prices remained broadly stable, while core inflation rose modestly by 0.2 percent month-on-month and 2.6 percent annually (Figure 10), suggesting contained underlying demand pressures.

From a policy perspective, the data highlights a key challenge: headline inflation is being pushed up by supply-side shocks, even as core inflation remains stable. This complicates monetary policy, as authorities must balance inflation control with the risk of over-tightening.



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



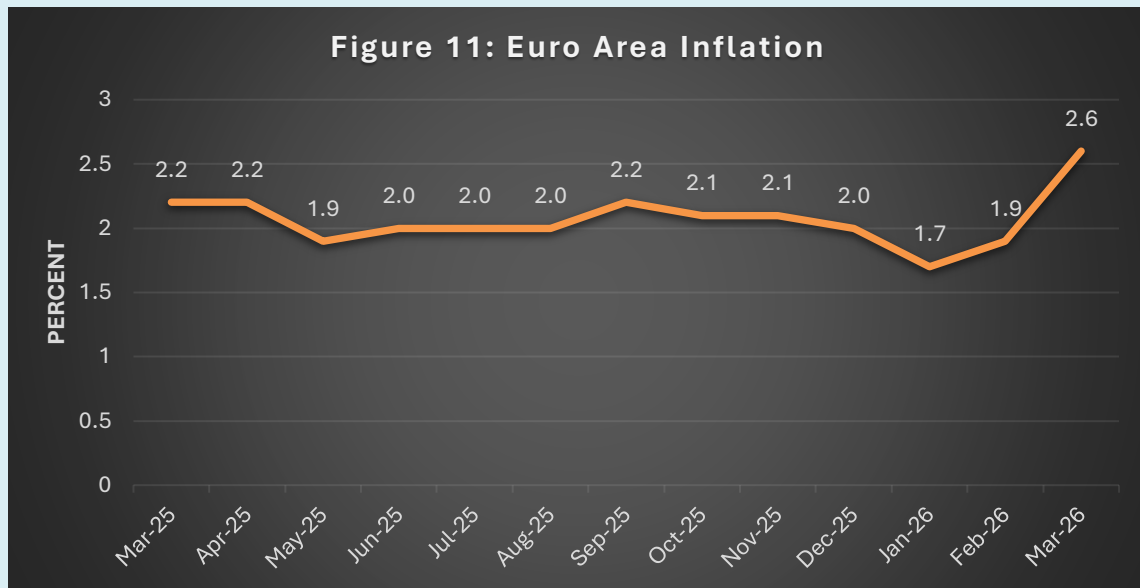
Source: US Bureau of Labor Statistics <https://www.bls.gov/news.release/cpi.nr0.htm>

ENERGY AND SERVICES DRIVE RENEWED INFLATION PRESSURES IN EUROPE

Euro Area inflation rose to 2.6 percent in March 2026 from 1.9 percent in February (Figure 11), with EU-wide inflation at 2.8 percent, signalling a loss of disinflation momentum. Price pressures were broad-based, led by services, which remained the largest contributor, while energy re-emerged as a key driver after earlier declines. Food, alcohol, and tobacco added moderately.

Inflation varied widely across member states—from 1.0 percent in Denmark to 9.0 percent in Romania—highlighting uneven transmission. Major economies such as Germany (2.8 percent) and France (2.0 percent) remained near the average. Core inflation held relatively stable at around 2.3 percent, indicating persistent but contained underlying pressures.

For the European Central Bank, the data present a policy dilemma: while inflation is near target, its renewed rise—driven by energy and services—raises concerns about premature easing. Overall, the outlook suggests a more uncertain and uneven path to price stability.



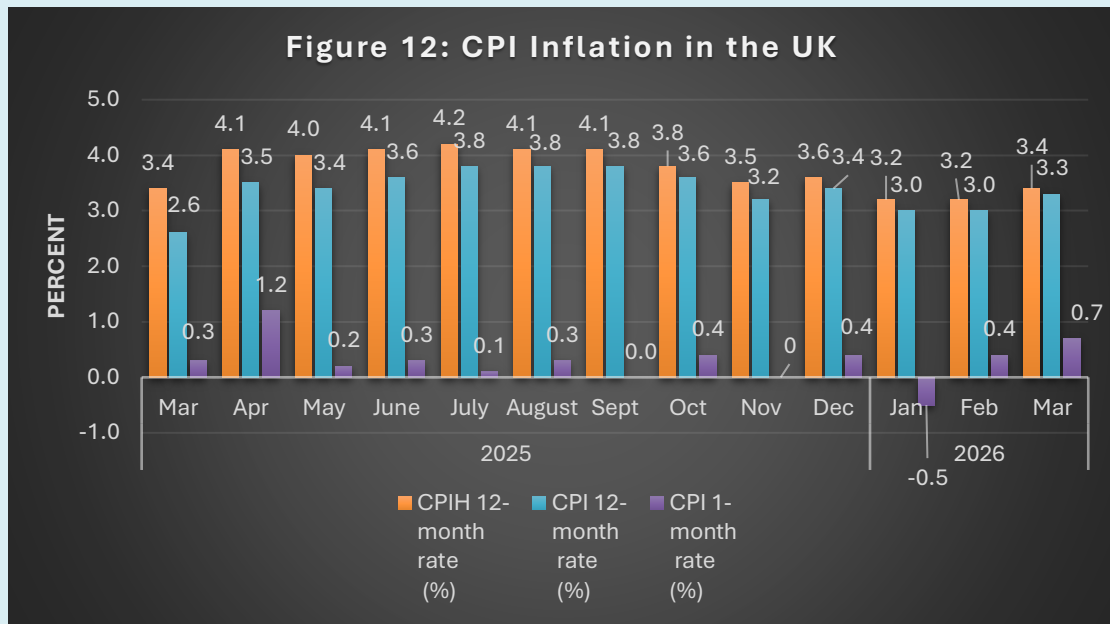
Source: Eurostat <https://ec.europa.eu/eurostat/web/products-euro-indicators/w/2-16042026-ap>

UK INFLATION EDGES HIGHER AS FUEL COSTS DRIVE PRICE PRESSURES

Inflation in the UK has shown a renewed uptick, with CPIH rising to 3.4 percent and headline CPI to 3.3 percent in March 2026 (Figure 12). Monthly momentum also strengthened, with CPI increasing by 0.7 percent.

The rise was largely driven by higher motor fuel prices, highlighting the impact of energy volatility, while falling clothing prices provided partial offset. Core indicators were mixed: slightly easing overall, but with a shift in composition. Goods inflation increased to 2.1 percent, while services inflation remained elevated above 4 percent, indicating persistent domestic price pressures.

CPIH, which includes housing costs, remained slightly higher than CPI, reflecting continued cost-of-living pressures. From a policy perspective, rising headline inflation alongside sticky services inflation may constrain early monetary easing, suggesting a still uneven path to price stability.



Source:

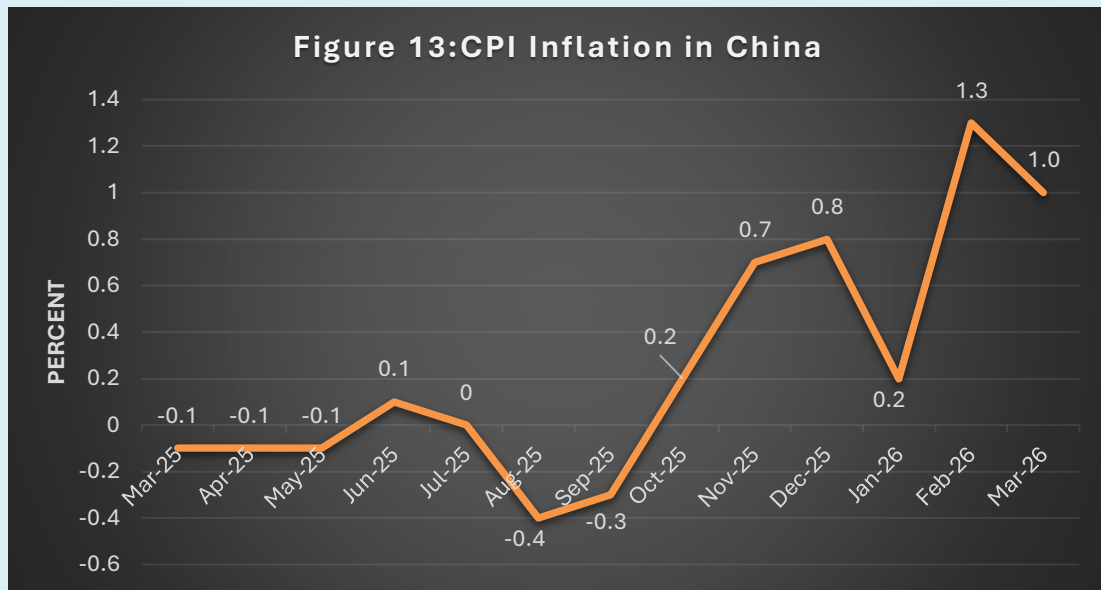
<https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/march2026>

CHINA'S INFLATION EASES AS FOOD PRICES AND DEMAND WEAKEN

China's inflation eased to 1.0 percent year-on-year in March 2026 from 1.3 percent in February (Figure 13), driven mainly by softer food prices, including declines in pork and slower increases in fruits and vegetables.

Non-food inflation remained stable at 1.2 percent, reflecting weak underlying demand. While transport costs picked up slightly, housing prices continued to fall, signalling ongoing stress in the property sector. Core inflation dropped to 1.1 percent from 1.8 percent, and CPI declined 0.7 percent month-on-month, indicating weakening price momentum.

Overall, the data points to subdued demand and a fragile recovery, with policy measures helping contain inflation but leaving room for continued support.



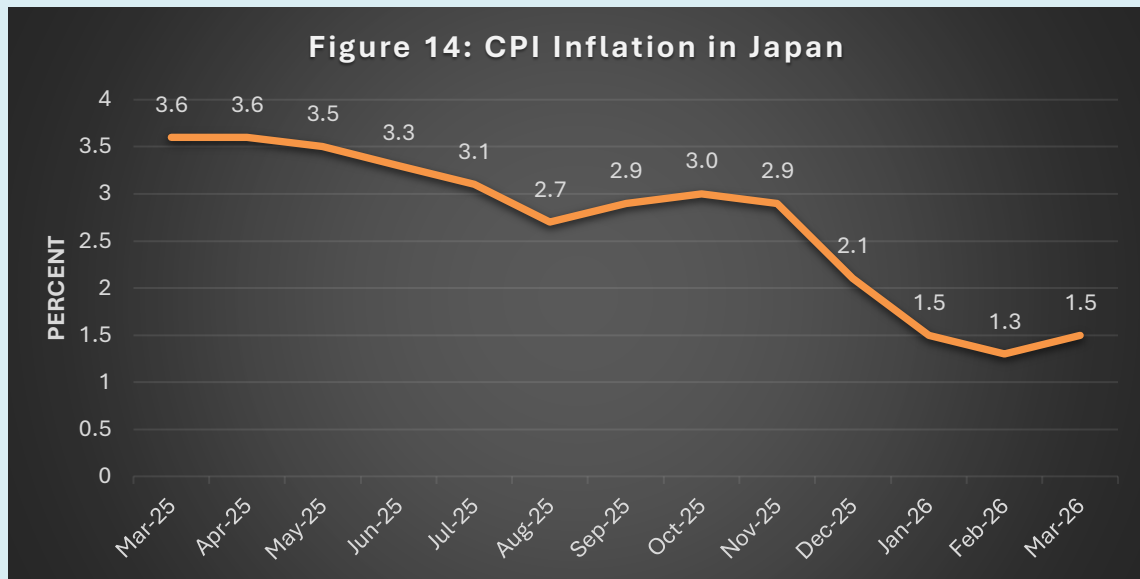
Source: <https://tradingeconomics.com/china/inflation-cpi>

JAPAN'S INFLATION EDGES UP, BUT REMAINS BELOW TARGET

Japan's inflation edged up to 1.5 percent year-on-year in March 2026 from 1.3 percent in February (Figure 14), remaining below the central bank's 2 percent target. The increase was driven mainly by higher transport costs (2.1 percent), reflecting global energy pressures, along with modest price gains in household goods, communications, and recreation.

This was partly offset by softer food inflation and continued declines in electricity and gas prices due to subsidies. Core inflation rose to 1.8 percent, indicating some strengthening, but still below target.

On a monthly basis, prices increased by 0.4 percent, signalling a mild pickup in momentum. Overall, inflation remains moderate and uneven, highlighting Japan's ongoing challenge of sustaining durable price growth.



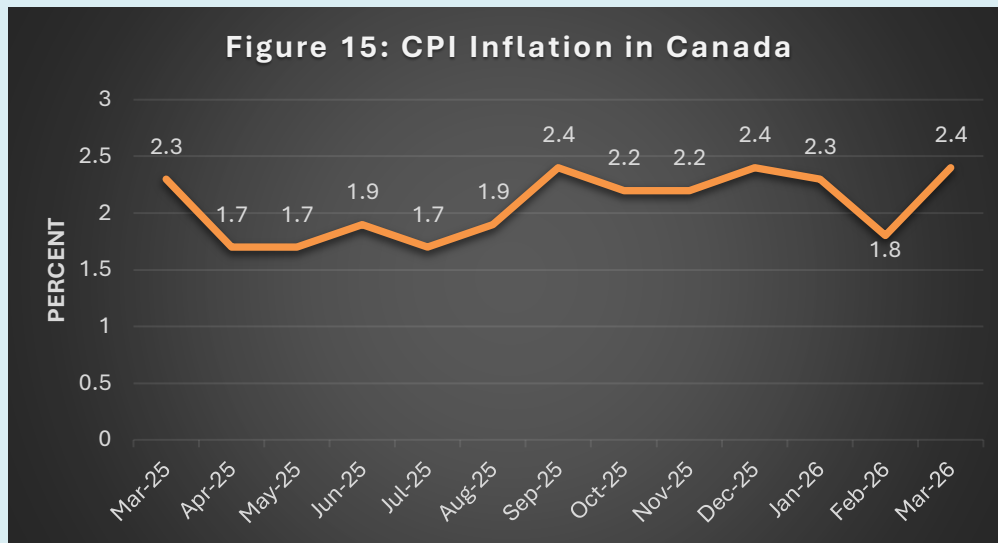
Source: <https://tradingeconomics.com/japan/inflation-cpi>

CANADA'S INFLATION REBOUND: ENERGY SHOCKS RETURN TO THE FORE

Canada's inflation rose to 2.4 percent in March 2026 from 1.8 percent in February (Figure 15), marking a shift from recent disinflation, driven mainly by higher energy prices amid Middle East tensions. Consumer energy inflation swung from -9.3 percent to 3.9 percent, with gasoline prices surging over 21 percent, pushing transportation inflation up to 3.7 percent.

Early second-round effects are emerging, with shelter and discretionary prices rising, indicating broader cost pressures. Food inflation eased to 4 percent due to base effects, offering partial offset.

Finally, the data highlights growing vulnerability to external shocks, complicating the policy outlook as inflation becomes increasingly shaped by geopolitical risks.



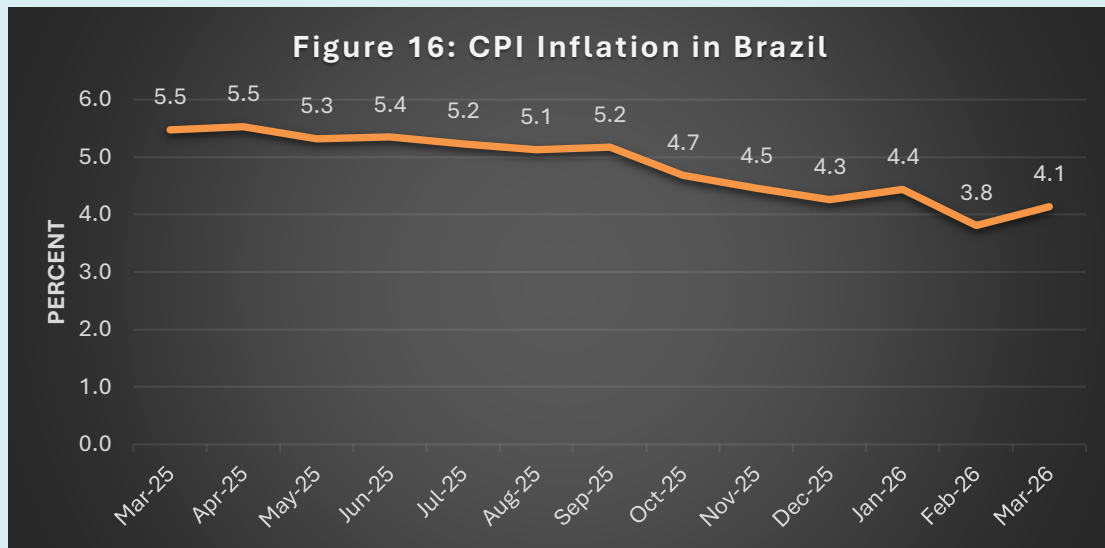
Source: <https://tradingeconomics.com/canada/inflation-cpi>

FUEL SHOCK DRIVES BRAZIL'S INFLATION HIGHER

Brazil's inflation accelerated to 4.14 percent in March 2026 from 3.81 percent in February (Figure 16), slightly exceeding expectations and signalling renewed price pressures. The uptick was driven mainly by food and transport, with food inflation rising to 2.16 percent and transport to 3.69 percent.

A key factor was the sharp increase in fuel prices, which jumped to 4.32 percent amid the global oil supply disruption linked to Middle East tensions and the closure of the Strait of Hormuz. This highlights Brazil's vulnerability to external energy shocks and their rapid pass-through into domestic inflation.

While inflation eased slightly in categories such as clothing, the broader trend points to rising cost pressures. The monthly CPI increase of 0.88 percent further indicates strengthening momentum. Brazil's inflation dynamics suggest a shift from moderation to renewed pressure, driven by external supply shocks and their spillover into essential consumption categories, posing fresh challenges for policymakers.



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

STABLE HEADLINE, RISING PRESSURES: RUSSIA'S INFLATION REMAINS STICKY

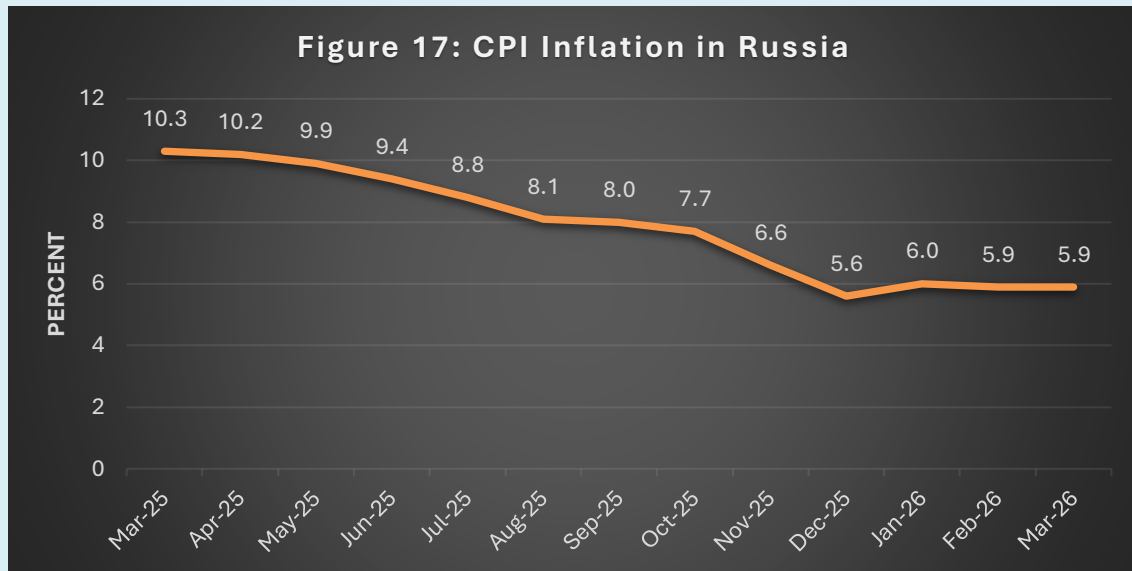
Russia's inflation held steady at 5.9 percent in March 2026 (Figure 17), slightly above expectations, but the stability in the headline figure masks persistent and uneven price pressures. The composition of inflation suggests that domestic factors, particularly services and food, remain the primary drivers.

Services inflation surged to 10 percent, indicating strong underlying cost pressures, likely linked to wages and structural rigidities. Food inflation also remained elevated at 5 percent, with fruit and vegetable prices rising sharply by 7.4 percent, reflecting supply-side constraints. Together, these trends point to entrenched, consumption-sensitive inflation.

External factors are beginning to add pressure. Gasoline prices rose by 2.3 percent amid global oil supply concerns linked to Middle East tensions, signalling the early transmission of energy shocks. Housing and utilities inflation also remained firm, adding to cost-of-living pressures.

With monthly inflation at 0.6 percent, the data indicate sustained price momentum. Overall, while headline inflation appears stable, underlying dynamics suggest persistent

inflationary pressures, complicating the policy outlook amid both domestic rigidities and emerging external risks.



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

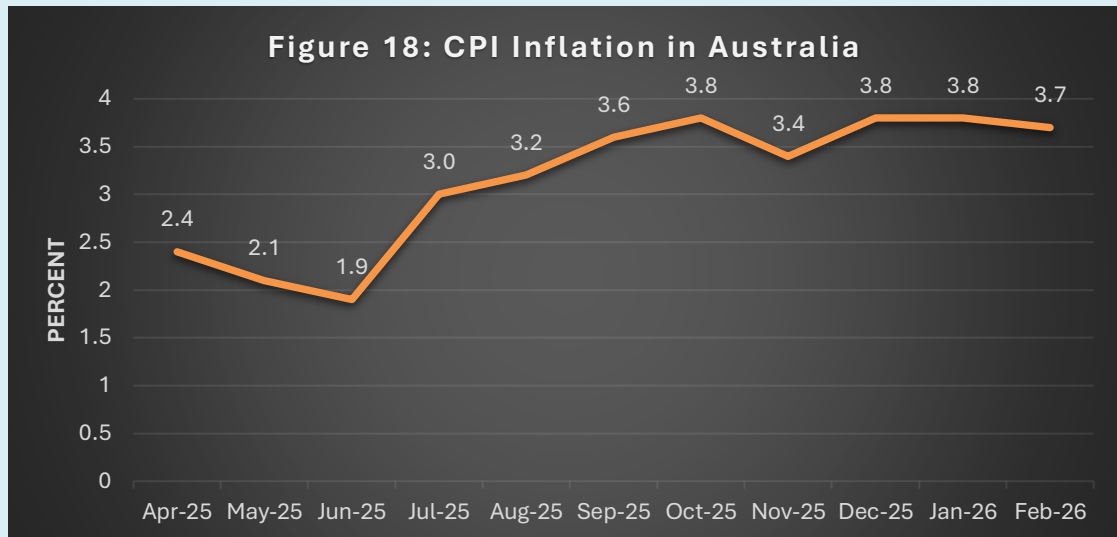
ENERGY SHOCK LIFTS AUSTRALIA'S INFLATION ABOVE TARGET

Australia's inflation rose sharply to 4.6 percent in March 2026 from 3.7 percent (Figure 18), the highest since September 2023 and above the central bank's target band. The surge was driven primarily by goods inflation, which accelerated to 5.5 percent, led by a sharp rebound in transport costs (8.9 percent) as fuel prices spiked amid Middle East tensions.

Price pressures were broad-based, with notable increases in clothing, housing, and food, though some categories such as alcohol, recreation, and housing showed partial moderation. In contrast, services inflation eased to 3.6 percent, reflecting some softening in domestic cost pressures, including lower pharmaceutical prices. The trimmed mean CPI at 3.3 percent suggests underlying inflation remains elevated but stable.

The monthly CPI rise of 1.1 percent, the fastest since mid-2025, signals strong short-term momentum. Overall, the data point to a renewed inflationary impulse driven by

external energy shocks, even as domestic pressures show mixed trends, complicating the monetary policy outlook.

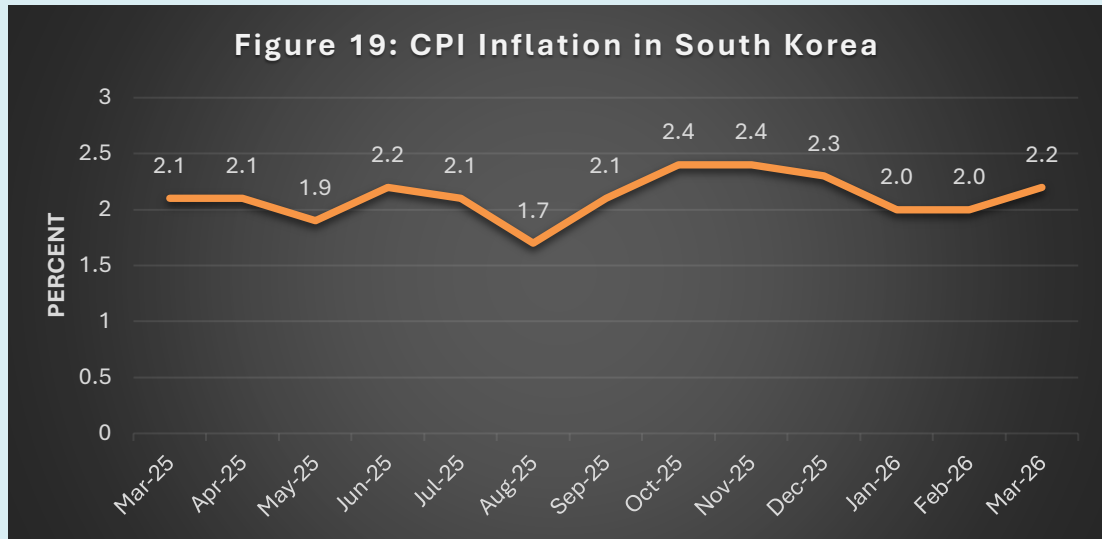


Source: <https://tradingeconomics.com/australia/inflation-cpi>

ENERGY COSTS PUSH SOUTH KOREA'S INFLATION ABOVE TARGET

South Korea's inflation rose to 2.2 percent in March 2026 from 2.0 percent (Figure 19), crossing the central bank's target but remaining below expectations. The increase was driven mainly by transport inflation, which surged to 5.0 percent amid higher fuel costs, along with moderate rises in housing and other services.

In contrast, food inflation slowed sharply to 0.5 percent, helping contain overall price pressures. With monthly inflation steady at 0.3 percent, momentum remains moderate. Overall, inflation is edging up but remains uneven, reflecting rising external cost pressures alongside subdued domestic demand.



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

FOOD & AGRICULTURE

FOOD MARKETS ON EDGE: FAO INDEX CLIMBS AID GEOPOLITICAL AND ENERGY PRESSURES

The FAO Food Price Index (FFPI) averaged 128.5 points in March 2026, (Table 6) rising by 2.4 percent from its revised February level and marking the second consecutive monthly increase. The uptick was broad-based, with prices increasing across all major commodity groups—cereals, meat, dairy, vegetable oils, and sugar. This reflects a combination of underlying supply-demand dynamics and the spillover effects of higher global energy prices, particularly linked to escalating tensions in the Near East. Despite the recent rise, the index remained nearly 20 percent below its March 2022 peak, indicating that global food prices, while firming, are still well below their crisis highs.

Cereal prices recorded a moderate increase, with the FAO Cereal Price Index rising 1.5 percent month-on-month. Wheat prices led the increase, supported by concerns over deteriorating crop conditions in the United States and reduced planting expectations in Australia due to higher input costs. However, these pressures were partially offset by favourable production prospects in Europe and strong export competition. Maize prices edged up only marginally, reflecting ample global supplies despite support from improved ethanol demand linked to higher energy prices. In contrast, rice prices declined, driven by harvest-related pressures, weaker import demand, and currency movements.

Vegetable oil prices saw the sharpest increase among all components, rising 5.1 percent and extending a three-month upward trend. The surge was driven by higher prices across palm, soy, sunflower, and rapeseed oils. Palm oil prices reached their highest levels since mid-2022, supported by strong crude oil prices and lower-than-expected production in Malaysia. Meanwhile, sunflower and rapeseed oil markets were

influenced by supply constraints in the Black Sea region and rising demand for biofuel feedstocks amid elevated energy prices.

Meat prices also edged higher, with the index increasing by 1.0 percent. The rise was primarily driven by pig meat prices in the European Union amid seasonal demand, along with firm bovine meat prices led by tighter cattle supplies in Brazil. However, poultry and ovine meat prices softened, reflecting ample supply conditions and evolving trade dynamics, including logistical adjustments in shipments to Near East markets.

Dairy prices recorded a modest increase of 1.2 percent, marking their first rise since July 2025. The rebound was led by higher prices for milk powders and butter, supported by strong import demand and seasonal declines in milk production in Oceania. However, declining cheese prices, particularly in the European Union, limited the overall increase, reflecting improved milk availability and subdued export demand.

Sugar prices experienced the most pronounced increase, rising by 7.2 percent to their highest level since November 2025. The surge was driven by higher crude oil prices, which are expected to divert sugarcane toward ethanol production in Brazil, as well as concerns about disruptions to trade flows due to geopolitical tensions. Nevertheless, favourable production prospects in key producing countries such as India and Thailand helped contain the overall rise.

Overall, the March 2026 data highlight a renewed upward momentum in global food prices, largely shaped by energy market developments and geopolitical uncertainties. While supply conditions remain relatively comfortable for several commodities, the increasing interlinkages between energy and food markets suggest that volatility may persist in the near term

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>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	107.2	165.2	90.7
<i>January 2026</i>	124.1	124.9	120.7	107.5	168.6	89.8
<i>February 2026</i>	125.5	126.5	119.4	108.7	174.2	86.2
<i>March 2026</i>	128.5	127.7	120.9	110.4	183.1	92.4

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

SECTION 3: FINANCIAL MARKETS

INDIAN FINANCIAL MARKETS

BROAD-BASED RALLY, UNDERLYING RISKS

India's equity markets delivered a powerful rebound in April 2026, recording their strongest monthly rally in 28 months and decisively reversing the March correction. The upswing reflected a convergence of supportive domestic fundamentals, particularly robust quarterly earnings, and a temporary easing of geopolitical tensions, which helped restore risk appetite.

The BSE Sensex rose 5.17 percent (around 3,779 points) to close at 76,913.50 (Figure 20), while the NIFTY 50 gained 5.81 percent (about 1,320 points) to settle at 23,997.55 (Figure 21). The rally was broad-based but led by cyclical and consumption-oriented sectors such as realty, FMCG, and automobiles. Strong earnings surprises, notably from companies like Nestlé India, reinforced confidence in corporate profitability and demand resilience.

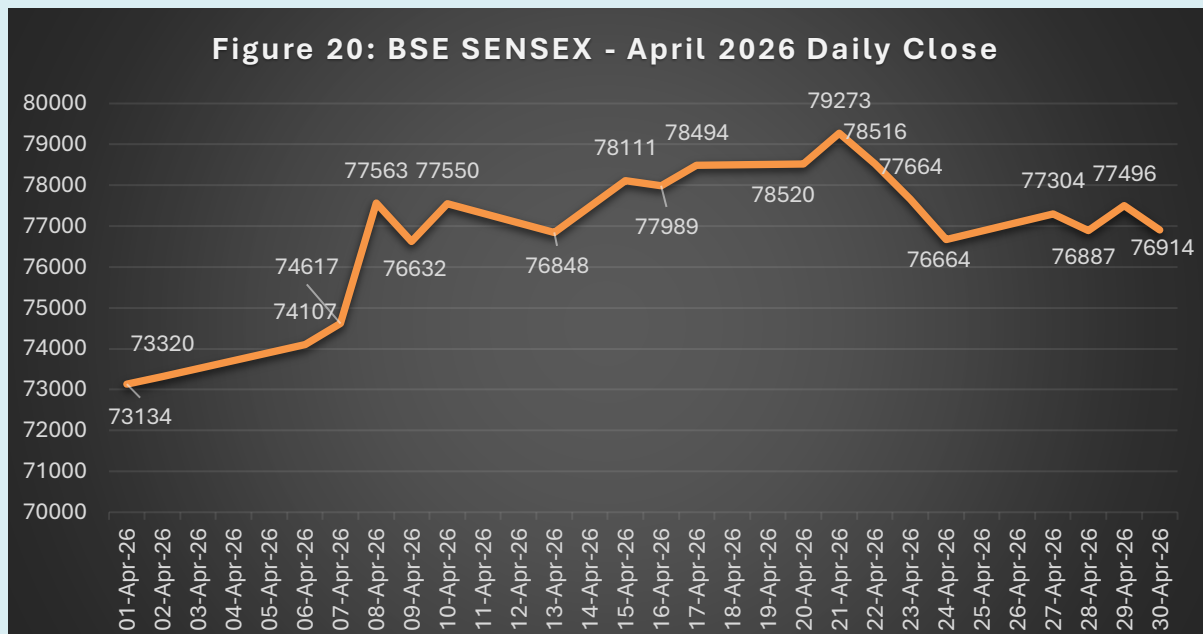
A striking feature of the rally was the outperformance of the broader market. Midcap and smallcap stocks surged well ahead of the benchmarks, with the Nifty Microcap 250 jumping over 16 percent. This indicates a revival of risk-taking and liquidity-driven participation, often associated with bullish phases but also raising concerns about potential overvaluation in pockets of the market.

Geopolitical developments played a critical enabling role. The ceasefire in the Middle East helped stabilize global sentiment and temporarily ease concerns over oil price spikes—an important factor for India as a major energy importer. However, the late-month decline of nearly 0.75 percent on April 30, triggered by renewed crude price pressures and foreign fund outflows, highlights the continued sensitivity of Indian markets to external shocks.

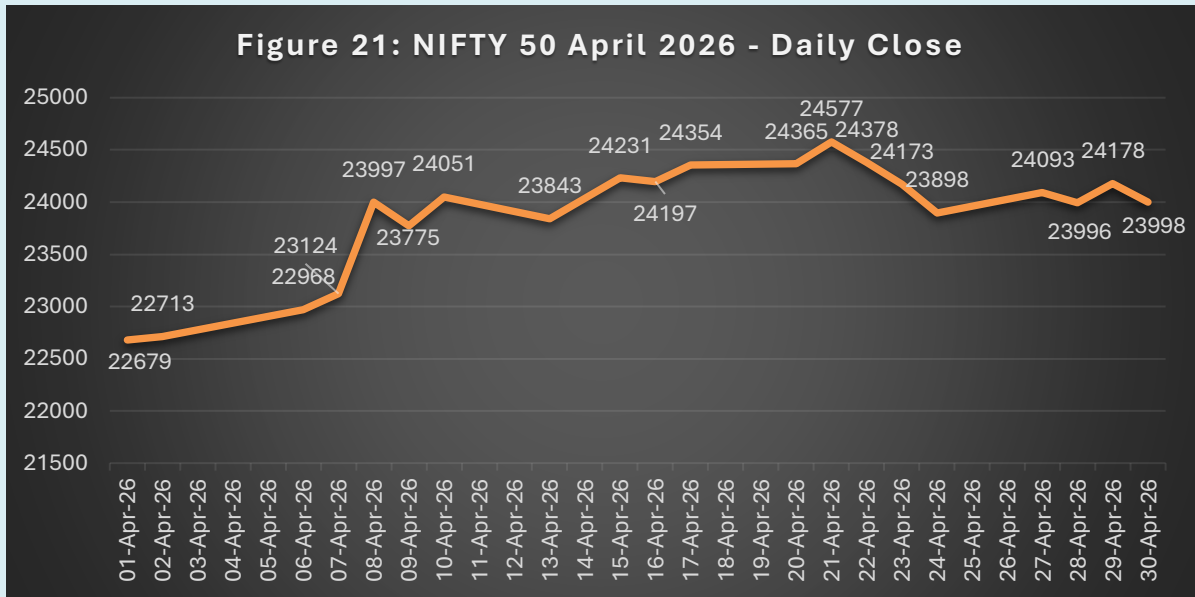
The intra-month movement further underscores the volatility underlying the rally. The Sensex rebounded sharply from a low of 71,545.81 on April 2 to approach 79,300 mid-

month, while the Nifty briefly crossed 24,300. This sharp swing reflects both the depth of the earlier correction and the speed of sentiment reversal.

Overall, April's rally signals strong underlying momentum, supported by earnings and liquidity. Yet, it also underscores a familiar tension: while domestic fundamentals remain robust, the sustainability of the uptrend will depend on global cues, particularly oil prices, geopolitical stability, and foreign capital flows. The recovery, though impressive, remains contingent rather than entrenched.



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



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

GLOBAL FINANCIAL MARKETS

EARNINGS, AI, AND ENERGY: WHAT DROVE APRIL'S GLOBAL MARKET REBOUND?

In April 2026, global equity markets experienced a powerful "risk-on" rally, largely overcoming geopolitical tensions in the Middle East. Performance was primarily fuelled by a renewed artificial intelligence (AI) supercycle, with major indices in the U.S. and select Asian markets reaching record highs.

Table 7: Major Global Indices - April 2026

Region	Index	Monthly Return (%)	Key Drivers
US Markets	NASDAQ Composite	+13.97%	Record AI capex and chip demand.
	S&P 500	+9.64%	Broadening earnings growth; record highs.
	DJIA	+6.63%	Led by industrial resilience (e.g., Caterpillar).
European Markets	DAX 40 (Germany)	+4.26%	Recovered despite growth forecast downgrades.
	CAC 40 (France)	+1.67%	Tempered by renewed tariff threats from the U.S..
	FTSE 100 (UK)	+0.14%	Lagged due to heavy energy/commodity exposure.
Asia-Pacific	KOSPI (S. Korea)	+38.20%	Exceptional gains in global AI supply chain.

	<i>NIKKEI</i> 225 <i>(Japan)</i>	+10.32%	<i>Reached a new milestone above 60,000.</i>
	<i>Hang Seng (HK)</i>	+1.91%	<i>Supported by strong China industrial profits.</i>
	<i>S&P/ASX</i> 200 <i>(AU)</i>	-0.07%	<i>Pressured by rising oil and rates uncertainty.</i>

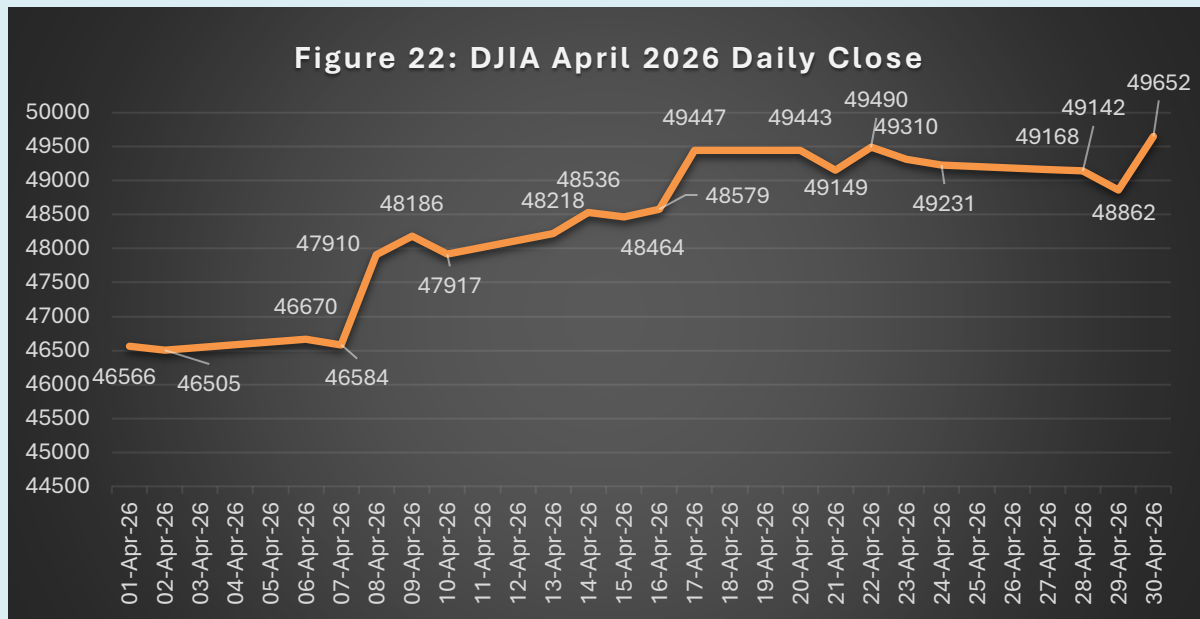
US Markets

US equities delivered their strongest monthly performance since 2020, underscoring renewed investor confidence and a resurgence of risk appetite. The Nasdaq Composite led the rally with a sharp 15% gain (Figure 24), reaching record highs, while the S&P 500 rose about 10% (Figure 23), and the Dow Jones Industrial Average (DJIA) advanced roughly 7% (Figure 22).

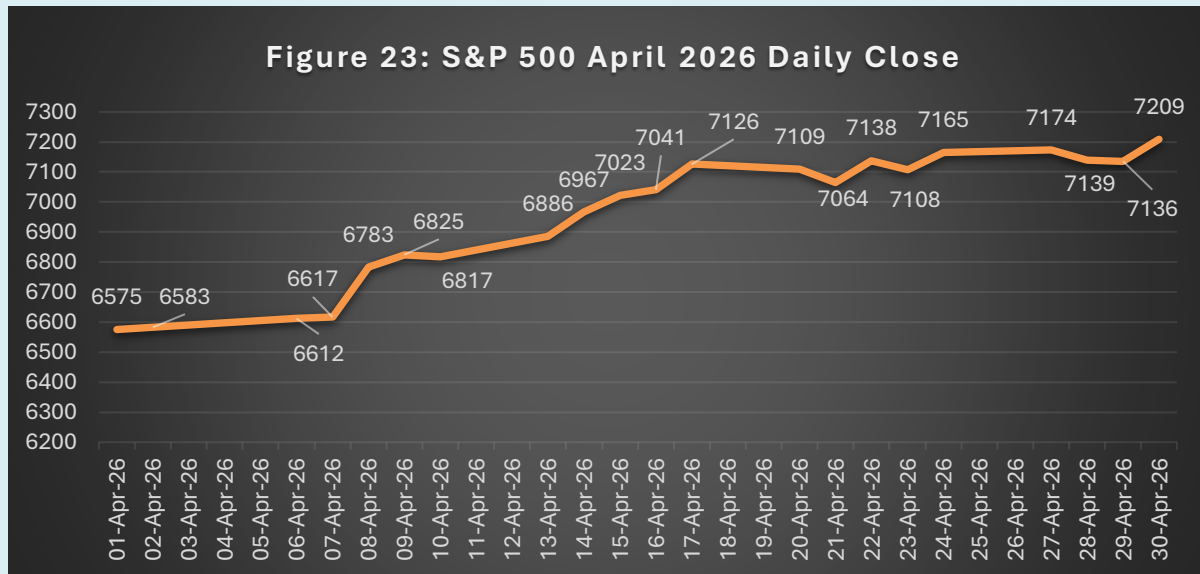
The rally was driven primarily by enthusiasm around artificial intelligence (AI), with technology stocks at the forefront. Strong earnings from major corporations, including industrial and tech giants, reinforced the narrative of sustained profitability. Additionally, easing oil prices toward the end of the month helped temper inflation concerns, further supporting valuations. The combination of earnings strength and technological optimism positioned US markets as the global leader in April's rally.

April 2026 was the best month for the S&P 500 and NASDAQ in over five years.

- **Tech Dominance:** Semiconductor stocks surged, with indices like the Philadelphia Semiconductor Index rising nearly 40%. Qualcomm and Alphabet hit records following massive AI-related earnings beats.
- **Economic Resilience:** Despite Brent crude staying above \$110/barrel, "confidence windows" opened as industrial giants like Caterpillar [CAT] hit all-time highs on strong full-year outlooks



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

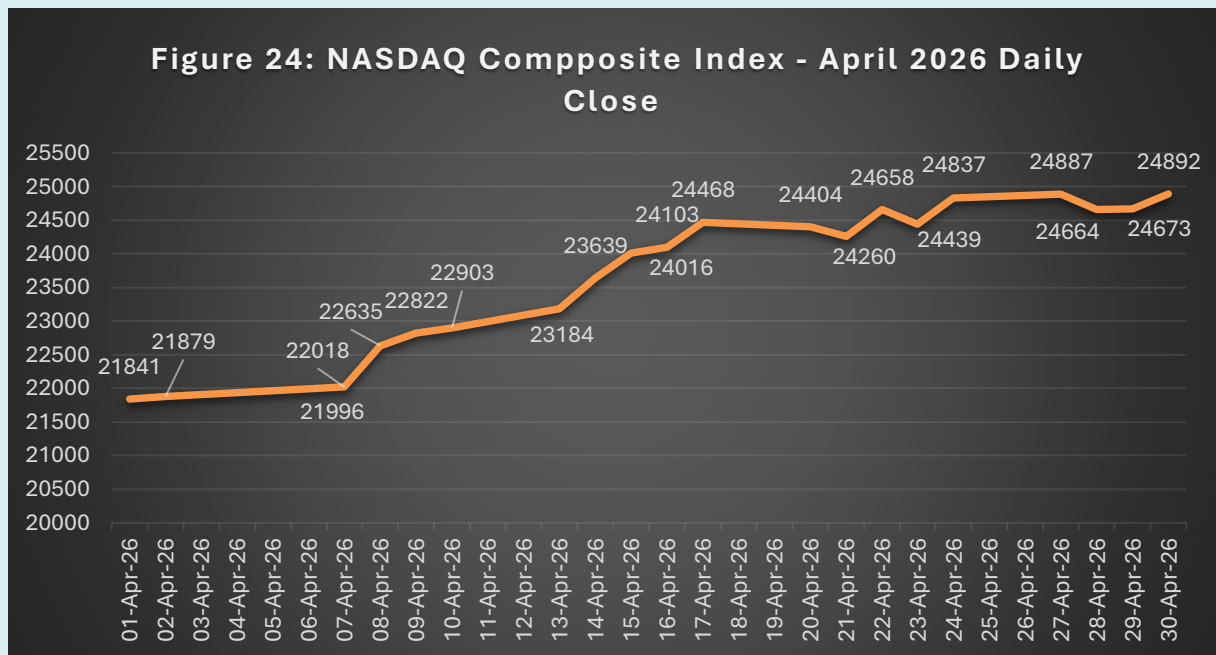


Source: <https://www.wsj.com/market-data/quotes/index/SPX/historical-prices>

AI-Fuelled Surge: How Tech and Semiconductors Powered the NASDAQ Rally

The NASDAQ Composite’s sharp 15.3% rally in April 2026 was driven by a powerful resurgence in technology-led sectors, particularly Communication Services (+18.5%) and Information Technology (+17.5%), amid a strong “confidence window” created by AI-driven earnings surprises and aggressive capital expenditure plans. Semiconductors

emerged as the core engine of this surge, with the SOX index jumping 38%—its best performance in decades—supported by robust demand for AI infrastructure, data centres, and next-generation computing. Major firms such as Nvidia, Intel, and Qualcomm benefited from rising investment in “agentic AI” and specialized processors, while memory stocks rallied sharply on supply constraints and price expectations. The rebound was further reinforced by mega-cap tech companies, with Alphabet, Meta, and others lifting sentiment through strong earnings and expanded AI investments. This technology concentration allowed the NASDAQ to significantly outperform broader indices, especially as capital rotated away from lagging sectors like energy. Overall, April’s rally underscores the growing centrality of AI as a structural driver of market performance, while also highlighting increasing sectoral divergence within equity markets.



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

European Markets

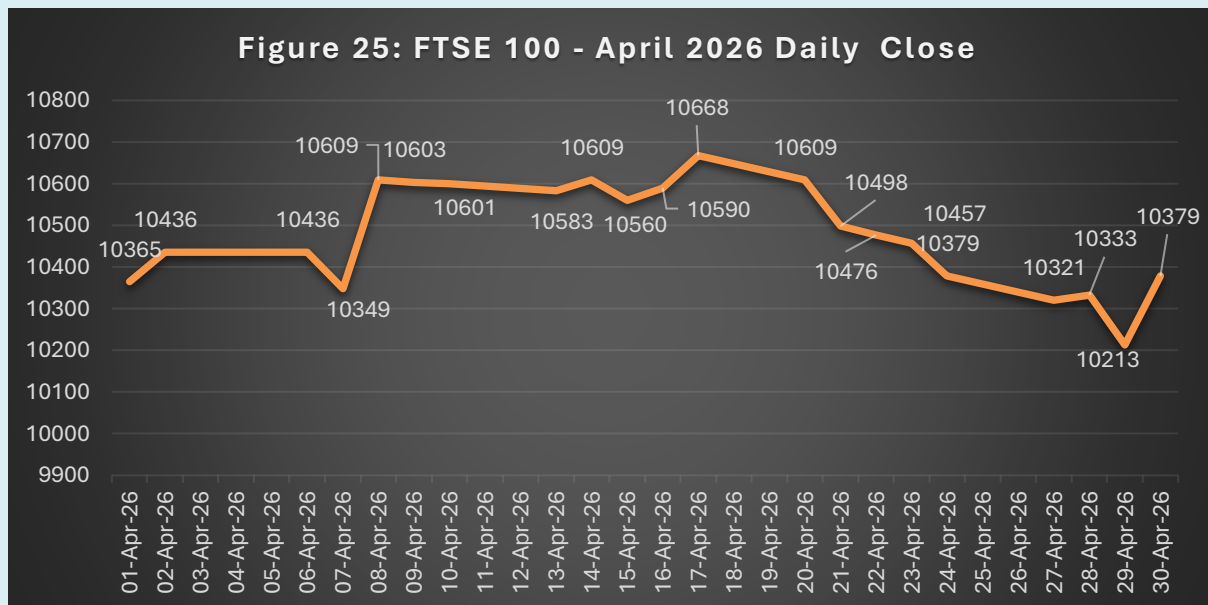
European markets posted moderate but positive gains, largely benefiting from spillover optimism from the US and some relief from declining energy prices. Major indices such

as Germany’s DAX (Figure 27) and France’s CAC 40 (Figure 26) ended the month on a strong note, particularly in the latter half, reflecting improving sentiment.

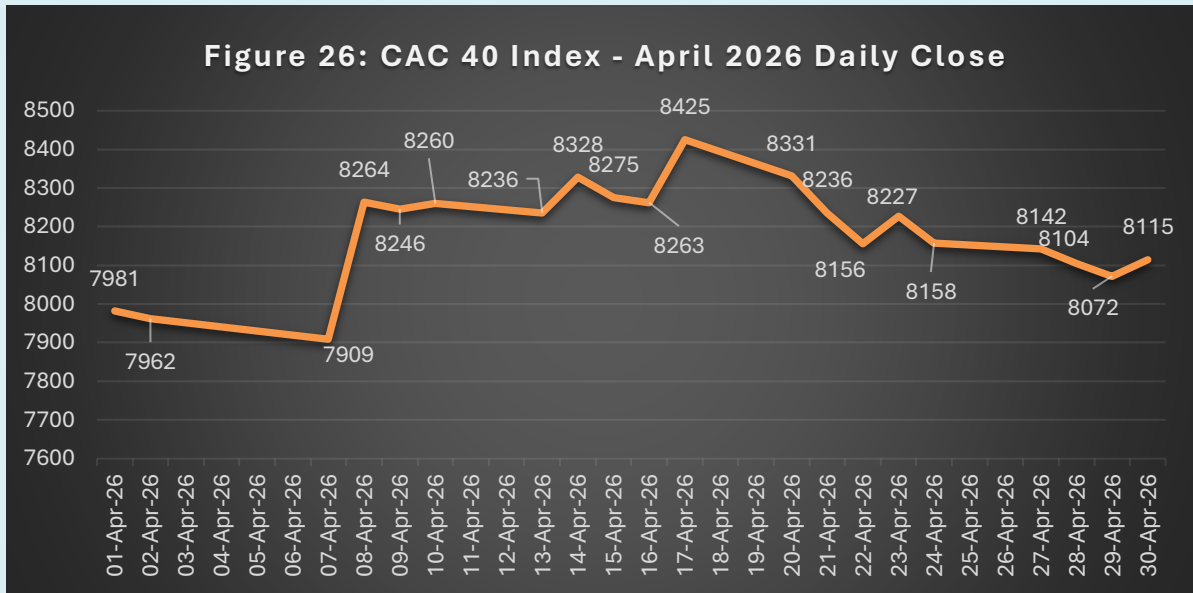
The UK’s FTSE 100 (Figure 25), however, showed more subdued gains, constrained by persistent domestic inflation pressures and a relatively cautious macroeconomic outlook. Overall, while Europe participated in the global rally, its performance remained more measured, reflecting structural economic challenges and sensitivity to energy dynamics

Europe showed modest gains but significantly trailed the U.S. and North Asia.

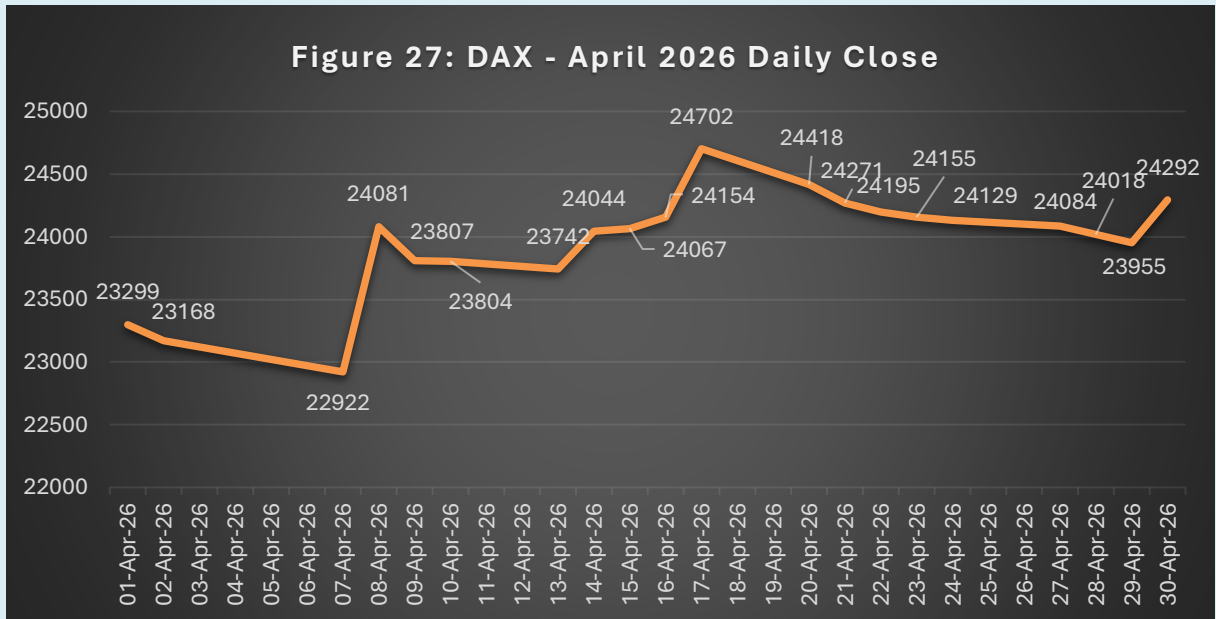
- **FTSE 100:** Remained largely flat, weighed down by the impact of higher energy costs on broader industrial sentiment.
- **CAC 40:** Faced headwinds late in the month as U.S. President Trump signalled 25% tariffs on European car imports.
- **DAX 40:** Gained 5.7% over the last month, even as Germany halved its 2026 growth forecast to 0.5% due to Middle East supply disruptions.



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



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



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

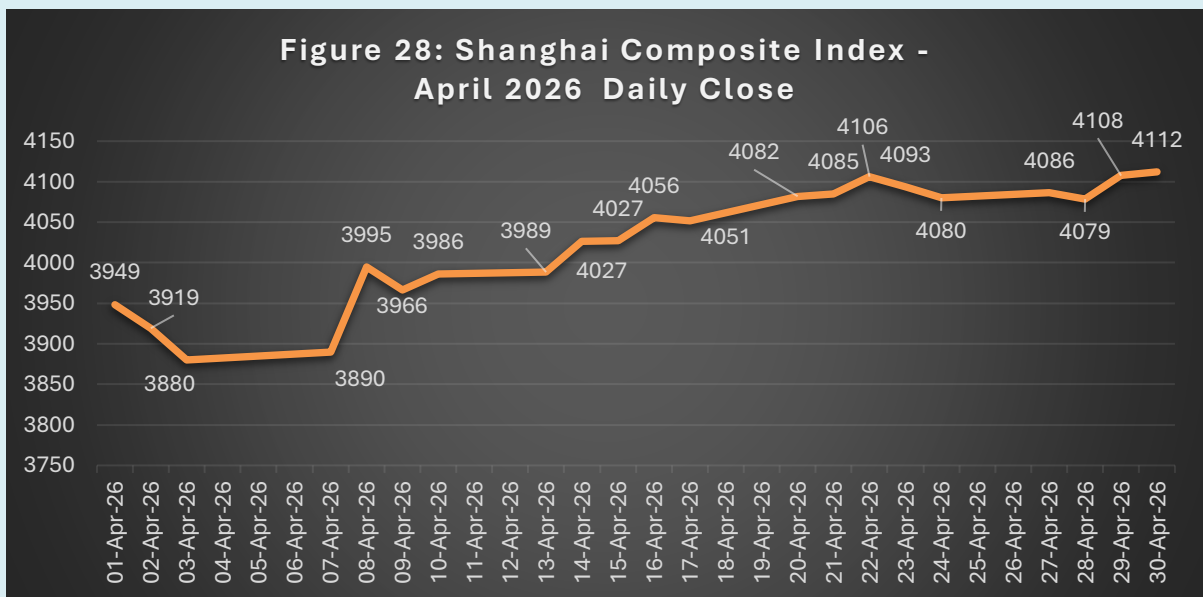
Asia-Pacific Markets

Asia-Pacific markets exhibited a more mixed and volatile performance, shaped by both global cues and regional developments. Japan's Nikkei 225 (Figure 29) stood out,

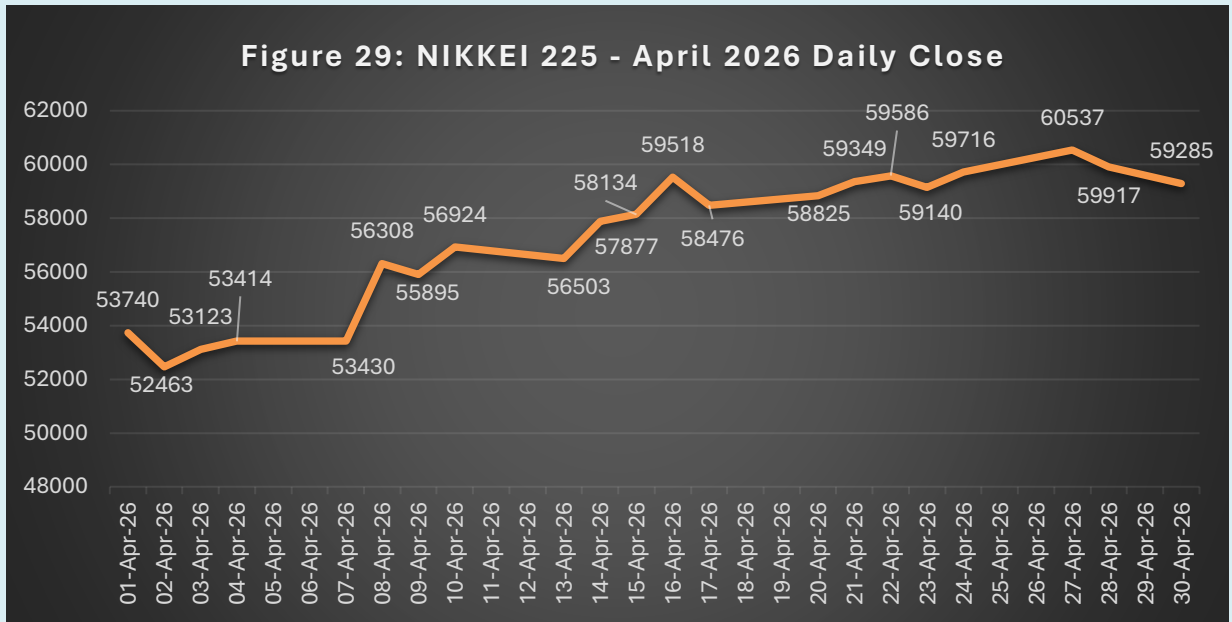
surging to record highs above 59000, supported by improved corporate profitability and strong investor inflows.

South Korea’s KOSPI (Figure 32) also recorded notable gains, particularly toward the end of the month, driven by technology and export-oriented sectors. In contrast, China-related markets showed relative stability. The Shanghai Composite (Figure 28) posted modest gains despite strong industrial profit growth, while Hong Kong’s Hang Seng Index (Figure 30) remained volatile, reflecting uncertainty around technology stocks and broader economic signals.

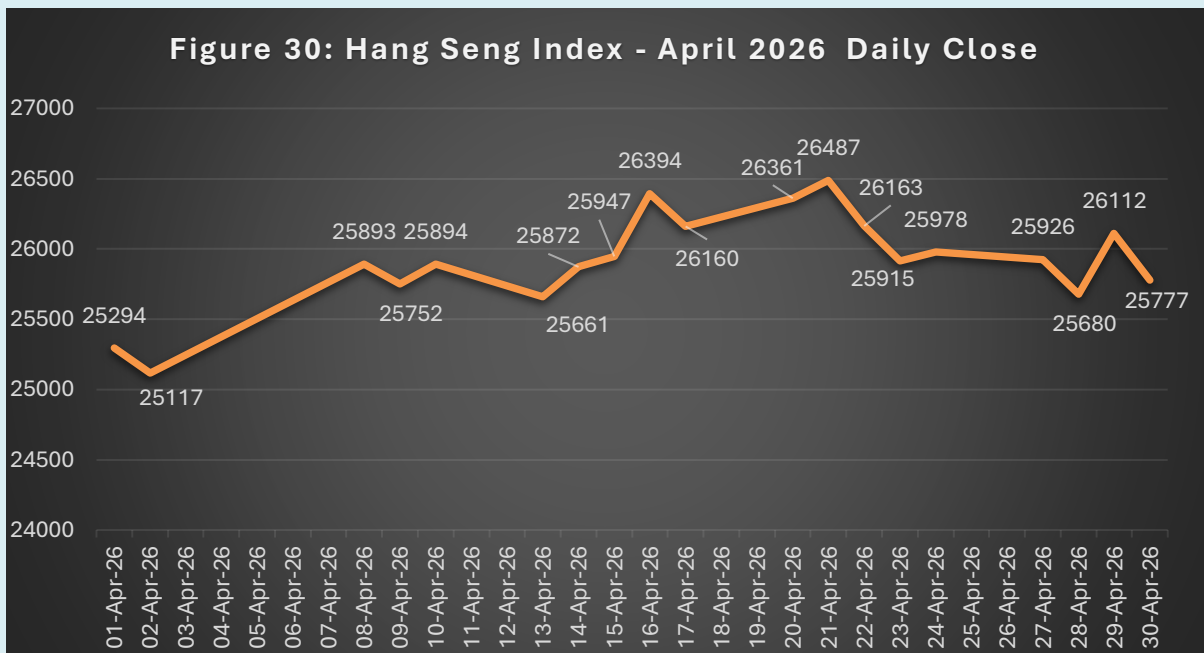
Australia’s S&P/ASX 200 (Figure 33) and Singapore’s Straits Times Index (Figure 31) experienced moderate fluctuations, largely tracking global sentiment while responding to domestic and regional factors.



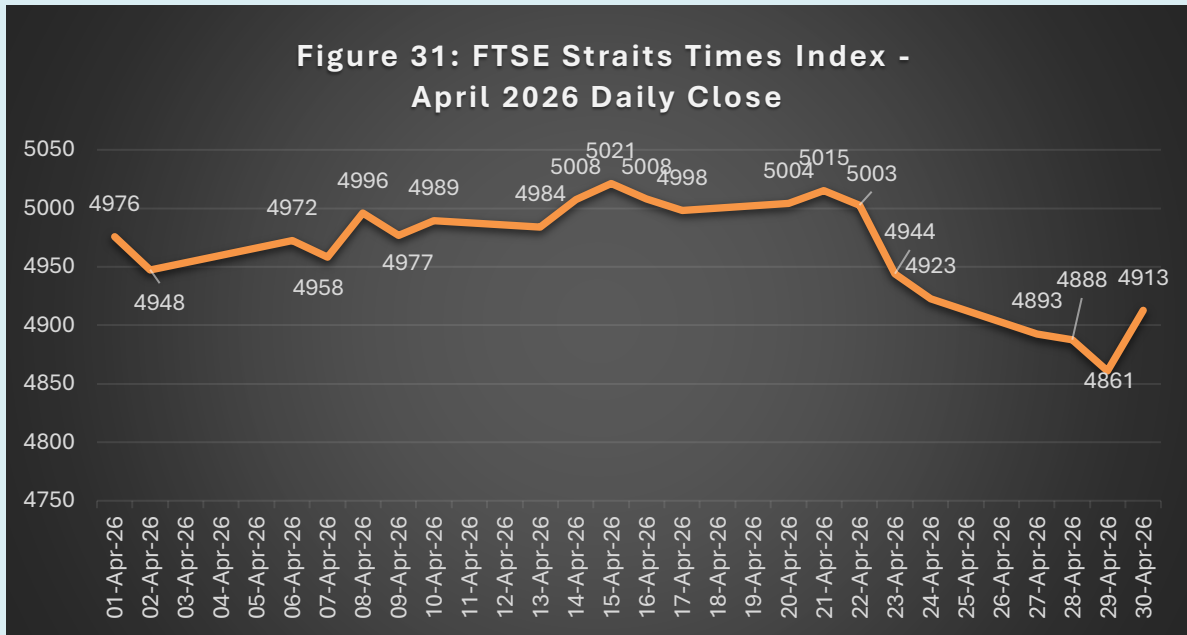
Source: <https://www.wsj.com/market-data/quotes/index/CN/XSHG/SHCOMP/historical-prices>



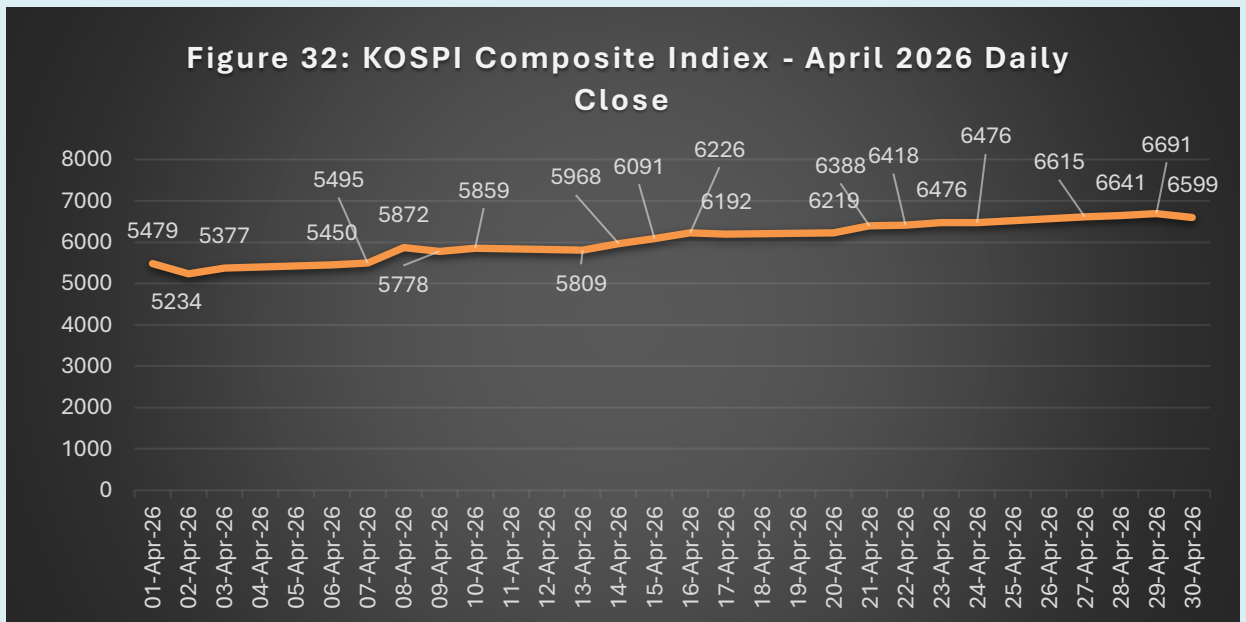
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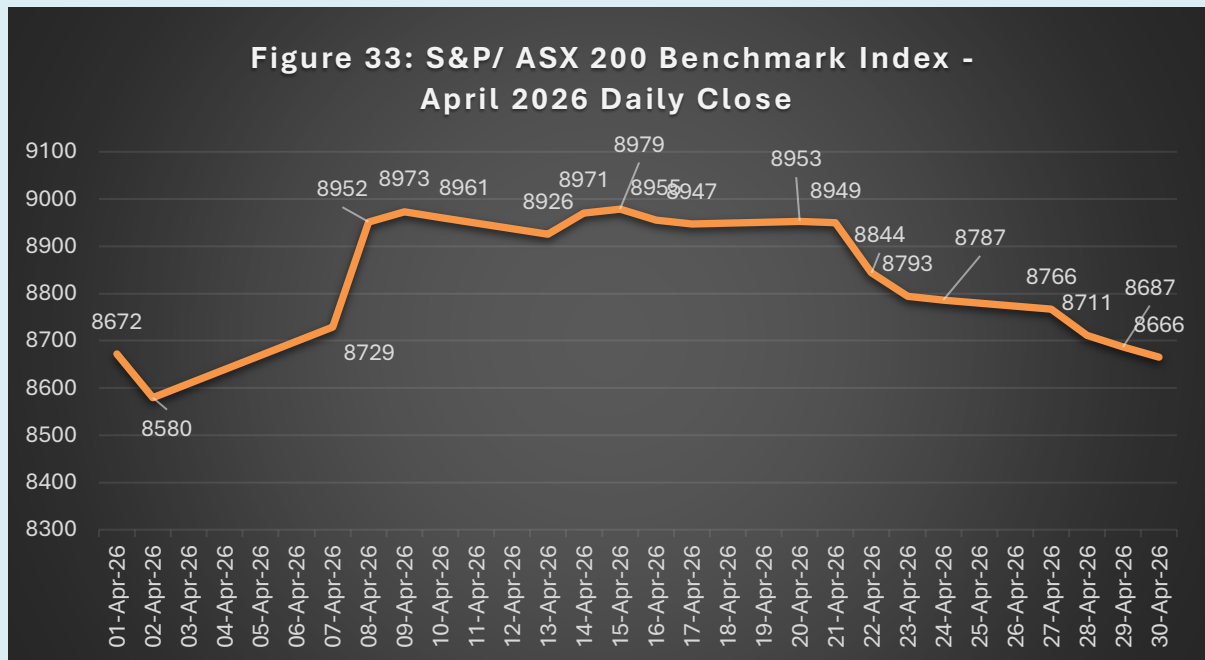
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Source: <https://www.wsj.com/market-data/quotes/index/KR/SEU/historical-prices>



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

Outlook and Conclusion

April's global equity rally highlights the dominance of liquidity, earnings strength, and technology-driven optimism, particularly in the US. However, the divergence across regions underscores the uneven nature of the recovery. The outlook for the remainder of 2026 remains cautiously bullish.

Outlook: Strategists from Goldman Sachs and Morgan Stanley project the S&P 500 could reach 7500–7800 by year-end, supported by double-digit earnings growth.

Risks: Inflation remains "sticky" due to high energy prices, which may lead central banks to maintain high rates longer than markets anticipate. Geopolitical volatility in the Strait of Hormuz continues to be the primary wildcard for global supply chains.

April 2026 demonstrated that AI productivity gains are currently a stronger driver for global equities than geopolitical risks. However, the market is becoming increasingly polarized between AI-leveraged sectors and traditional value sectors

Looking ahead, the sustainability of this momentum will depend on several factors: the durability of corporate earnings, the trajectory of oil prices, and the evolution of geopolitical tensions, especially in West Asia. While easing energy prices provided support late in April, renewed volatility could quickly alter sentiment.

Global markets appear to have entered a phase of cautious optimism, buoyed by strong fundamentals but still vulnerable to external shocks.

COMMODITY MARKETS

FROM ENERGY SHOCK TO METAL RALLY: GLOBAL COMMODITIES REBALANCE IN APRIL 2026

Global commodity markets in April 2026 were defined by a sharp reversal of the energy shock that had dominated the previous month. As geopolitical tensions in the Middle East eased following a ceasefire and the reopening of key shipping routes such as the Strait of Hormuz, risk premiums in energy markets unwound rapidly. At the same time, industrial metals, particularly copper, emerged as the key outperformers, reflecting deeper structural demand forces.

Energy Markets: From Spike to Correction

The most notable shift in April was the correction in energy prices. After spiking above \$110 per barrel in March, crude oil prices fell by nearly 9.6 percent, retreating toward the \$96–\$105 range. This decline underscores how quickly geopolitical risk premiums can dissipate once supply disruptions ease. Similarly, natural gas prices dropped by around 10 percent, driven not only by easing geopolitical concerns but also by seasonal factors such as the end of winter demand and comfortable storage levels.

This sharp correction highlights the continued sensitivity of energy markets to geopolitical developments. While the March surge reflected supply-side fears, April's decline suggests that markets remain highly reactive, and potentially volatile, in response to changes in perceived risk.

Metals: Structural Demand Takes the Lead

In contrast to energy, industrial metals showed strong resilience, led by copper, which rose by approximately 9 percent during the month. The rally was driven by a combination of supply constraints—particularly China's ban on sulphuric acid exports, a critical input in copper processing—and sustained demand from electric vehicles and power infrastructure.

Precious metals presented a more nuanced picture. Gold posted modest gains of about 1.5 percent, supported by a weaker US dollar and softer bond yields, though improved global sentiment limited its upside as a safe-haven asset. Silver outperformed, rising nearly 3.8 percent, benefiting from both its industrial applications and its role as an inflation hedge.

The divergence within metals markets reflects a broader shift: while safe-haven demand is moderating, industrial demand linked to the energy transition and infrastructure investment is becoming increasingly dominant.

Agriculture: Stability Amid Cross-Currents

Agricultural commodities remained relatively stable compared to the volatility seen in energy and metals. A balanced supply of grains and oilseeds helped keep the overall food index steady, even as higher transport and fertilizer costs exerted upward pressure.

However, sub-segments showed divergence. Beverage commodities continued to decline sharply, reflecting the unwinding of earlier supply shocks in cocoa and coffee markets. Fertilizer prices, which had surged earlier in the year, showed some stabilization in April but remain elevated, with expectations of continued pressure due to high input costs.

Overall Outlook: Volatility with Structural Shifts

April 2026 underscores a key transition in global commodity markets. While geopolitical shocks continue to drive short-term volatility—particularly in energy—longer-term structural forces are increasingly shaping market dynamics.

The correction in oil and gas prices suggests that supply-side disruptions may be less persistent than initially feared, but the underlying vulnerability to geopolitical risks remains. At the same time, the strength in metals like copper points to sustained demand from the global energy transition and infrastructure cycles.

Looking ahead, commodity markets are likely to remain volatile, with energy prices reacting to geopolitical developments and metals supported by structural demand. The interplay between these short-term shocks and long-term trends will be critical in determining the trajectory of global commodity prices.

SECTION 4: RESEARCH DIGEST

SYNOPSIS OF RESEARCH PAPERS

THE MACROECONOMIC EFFECTS OF TARIFFS: INSIGHTS FROM 180 YEARS OF U.S. TRADE POLICY

Authors: Tamar den Besten, Regis Barnichon, Diego R. Känzig, and Aayush Singh

NBER Working Paper No. 35102, April 2026

National Bureau of Economic Research (NBER)

This paper examines the macroeconomic effects of tariff policy using long-run U.S. data from 1840–2024. It constructs a narrative series of plausibly exogenous tariff changes, based on legislative actions, trade agreements, and temporary measures, to identify structural tariff shocks while addressing the endogeneity of policy decisions.

The findings show that tariff increases are contractionary. A rise in tariffs leads to sharp declines in imports, followed by reductions in exports, output, and manufacturing activity, with effects persisting over time. These outcomes reflect the operation of both supply-side channels (higher input costs and reduced competition) and demand-side channels (weaker trade and aggregate activity).

Price responses are modest and vary across periods: inflation rises in the full historical sample but tends to fall in the post-World War II era, consistent with changes in monetary policy regimes, exchange rate dynamics, and stronger international retaliation. The results highlight the importance of global economic integration and policy coordination in shaping the transmission of tariff shocks.

Overall, the study demonstrates that, despite their protective intent, tariffs weaken economic activity and trade at the aggregate level. The macroeconomic impact of tariffs depends critically on general-equilibrium effects, including exchange-rate movements, foreign responses, and the broader monetary environment.

The full paper can be accessed from:

https://www.nber.org/system/files/working_papers/w35102/w35102.pdf

IMITATION AND THE DIFFUSION OF INNOVATION

Authors: Debi Prasad Mohapatra and Vatsala Shreeti

BIS Working Papers No 1344, April 2026
Bank for International Settlements

This paper examines why a market leader may choose not to patent an innovation, focusing on Samsung's decision to forgo enforcing patents for dual SIM technology in the Indian mobile handset market. Using a structural model of demand and supply estimated on product-level data from 2007–2016, the study identifies a preference discovery externality, whereby imitation by rival firms expanded consumer awareness and increased willingness to pay for the technology.

The findings show that consumer valuation of dual SIM functionality was initially negative but turned positive as competitors widely adopted the feature, accelerating market penetration. At the same time, production costs declined significantly due to scale and learning effects. Counterfactual simulations indicate that enforcing patent protection would have slowed this diffusion, limiting preference formation and ultimately reducing Samsung's profits despite granting monopoly power.

The results suggest that voluntary non-patenting can be privately optimal when imitation helps expand the market and enhances consumer learning. More broadly, the study highlights the role of preference discovery in shaping innovation strategy, offering insights into debates on open innovation, technology diffusion, and intellectual property policy.

The full paper can be accessed from:

<https://www.bis.org/publ/work1344.pdf>

BOOKSHELF CHRONICLES

WATER, NATURE, PROGRESS: SOLUTIONS FOR A NEW INDIA

Author: Parameswaran Iyer, Arunabha Ghosh & Richard Damania

Publisher: Harper Collins India

Year of Publication: 2026

Water, Nature, Progress: Solutions for a New India (2026), authored by Parameswaran Iyer, Arunabha Ghosh and Richard Damania, offers a timely and policy-oriented exploration of the interlinkages between natural resources, economic development, and sustainability in India. The book situates water and environmental management at the core of India's growth trajectory, arguing that ecological stewardship is not a constraint but a prerequisite for sustained development.

Written in an accessible yet analytically grounded style, the book combines empirical insights, policy case studies, and institutional analysis to highlight how India can navigate the dual challenge of accelerating economic progress while preserving its natural capital. The authors draw on India's recent experiences in sanitation, water governance, and climate adaptation to demonstrate that large-scale public policy interventions can yield transformative outcomes when backed by political will, behavioural change, and technological innovation.

A central contribution of the book lies in reframing water not merely as a resource issue but as a systemic development challenge, intersecting with agriculture, urbanisation, public health, and climate resilience. The authors emphasise that effective solutions require integrated policy frameworks, improved data systems, and stronger institutional coordination. They also underline the importance of community participation and market-based incentives in ensuring sustainability.

Overall, *Water, Nature, Progress* stands out as a forward-looking policy manifesto for a “new India,” offering actionable insights for policymakers, practitioners, and scholars. It makes a compelling case that aligning environmental sustainability with economic strategy is essential for achieving long-term prosperity and resilience.

ERA OF INDIA

Author: Minhaz Merchant

Publisher: Vintage Books

Year of Publication: 2026

Era of India by Minhaz Merchant is an ambitious and wide-ranging narrative that situates India’s contemporary rise within a long arc of global economic and civilisational history. The book advances a central thesis that the dominance of the West over the past few centuries was historically contingent, and that the global balance of power is now shifting back toward Asia, with India emerging as a pivotal force. Drawing on historical evidence, economic analysis, and geopolitical insights, Merchant traces the transformation of India from a colonised, impoverished economy to a prospective global powerhouse, while also critically reassessing the legacy of Western expansion, colonialism, and wealth transfer.

A key strength of the book lies in its synthesis of history and forward-looking analysis. Merchant not only revisits the structural drivers of Western ascendancy—industrialisation, technological change, and empire—but also interrogates their ethical and economic foundations. In doing so, he presents India’s rise as distinctive: a major power gaining influence without replicating the extractive and expansionist patterns of earlier global hegemons. The discussion of China’s trajectory adds comparative depth, positioning India within a tri-polar world alongside the US and China.

At times, the narrative adopts a strongly interpretive and normative tone, particularly in its critique of Western historiography and its optimistic projection of India’s future. While this lends the book rhetorical force, it may invite debate among readers seeking



a more balanced or empirically cautious account. Nevertheless, *Era of India* succeeds as a provocative and accessible contribution to contemporary discussions on global power shifts, offering a compelling perspective on how historical forces and emerging trends may converge to shape what the author sees as an “Indian century.”

SECTION 5: CLIMATE CHANGE

CLIMATE POLICY

SANTA MARTA SUMMIT: REFRAMING CLIMATE ACTION FROM EMISSIONS TO FOSSIL-FUEL EXIT

The first global summit on “transitioning away” from fossil fuels in Santa Marta marks a subtle but important inflection in international climate politics—less for what it decided, and more for how it reframed the debate. After over three decades of incrementalism under the United Nations Framework Convention on Climate Change (UNFCCC) process, the meeting exposed a growing impatience with negotiating the “symptoms” of climate change while sidestepping its structural driver: fossil fuels.

A Break from Negotiation Paralysis

Voices from climate-vulnerable nations set the tone. Leaders such as Maina Talia and Juan Carlos Monterrey Gómez openly criticised the historical failure of global climate diplomacy to confront fossil-fuel dependence. Their critique reflects a broader shift—from emissions management to production-phase accountability.

Notably, the summit deliberately moved away from formal negotiations. Instead, it fostered informal, closed-door dialogues under Chatham House rules—an institutional innovation that participants described as “groundbreaking”. This format allowed ministers, civil society, and Indigenous representatives to engage candidly, breaking the rigid, transactional dynamics typical of COP summits. The implication is significant: governance innovation may be as critical as policy innovation in accelerating climate action.

Coalition of the Willing—or Fragmented Multilateralism?

The participation of 57 countries—representing roughly one-third of global GDP—signals momentum, but the absence of major emitters raises concerns. The selective invitation strategy, excluding key players such as the US, China, and India, reflects a

strategic pivot toward a “coalition of the willing”. While this may enable faster consensus, it risks fragmenting global climate governance and limiting the summit’s systemic impact.

This tension underscores a central dilemma: can meaningful fossil-fuel transition pathways emerge without the participation of the largest producers and consumers?

From Principles to Policy Architecture

The summit’s most concrete contribution lies in its institutional outputs. Three workstreams aim to translate political intent into actionable frameworks:

- National and regional transition roadmaps, aligned with Nationally Determined Contributions (NDCs), could anchor fossil-fuel phase-down strategies within existing climate commitments.
- Financial system reform, including fossil-fuel subsidy identification and addressing sovereign debt constraints, recognises that the transition is fundamentally a macroeconomic challenge.
- Fossil-fuel-free trade pathways, supported by the Organisation for Economic Co-operation and Development, hint at the emergence of climate-aligned trade regimes.

These initiatives collectively signal a shift toward integrating climate policy with fiscal, financial, and trade systems—an overdue but complex transition.

Science Re-enters the Policy Core

A notable innovation is the launch of a new global science panel for energy transition, led by figures such as Johan Rockström and Carlos Nobre. This reflects an explicit attempt to bridge the widening gap between scientific evidence and political decision-making.

The emphasis on economic modelling—highlighting long-term cost savings from transition despite short-term investment needs—signals a pragmatic shift. Climate policy is increasingly being framed not just as an environmental imperative, but as an economic restructuring strategy.

Re-centering Equity and Justice

Perhaps the most politically transformative aspect of the summit was the integration of Indigenous peoples and civil society into core deliberations. Unlike traditional COP processes, where such voices are often peripheral, Santa Marta embedded them within decision-making spaces.

This aligns with growing calls for a “just transition”—one that addresses historical inequities, protects vulnerable communities, and ensures that decarbonisation does not replicate existing patterns of exclusion. The parallel “People’s Summit”, involving 900 organisations, further reinforces the bottom-up pressure shaping global climate discourse.

The Road to COP31: Incrementalism or Breakthrough?

The Santa Marta outcomes will feed into a proposed global fossil-fuel roadmap expected to be presented at COP31. However, participation in the summit’s workstreams remains voluntary, and no binding commitments were secured.

This highlights the summit’s core paradox: it represents a conceptual breakthrough without yet delivering enforceable policy change.

Conclusion: A Transitional Moment in Climate Governance

The Santa Marta summit does not resolve the central challenge of fossil-fuel dependence. But it does mark a transition—from cautious multilateralism to more experimental, coalition-driven approaches; from emissions accounting to systemic transformation; and from technocratic negotiations to more inclusive, politically charged dialogue.

Whether this evolves into a credible pathway for global decarbonisation will depend on two factors: the ability to scale these initiatives beyond a limited coalition, and the willingness to translate “transitioning away” from a rhetorical aspiration into binding economic reality.

CLIMATE AMBITION WITH CONSTRAINTS: RETHINKING INDIA'S DEVELOPMENT-LED DECARBONIZATION PATHWAY

India's updated Nationally Determined Contribution (NDC) for 2031–2035 marks a decisive shift in its climate policy, from incremental compliance to an assertion of strategic climate leadership. The enhanced targets of 47 percent reduction in emissions intensity, 60 percent non-fossil fuel capacity, and expanded carbon sinks, signal not merely ambition but a deeper attempt to reconcile development imperatives with global climate responsibility. Yet, while the framework is analytically coherent and politically compelling, it raises critical questions about feasibility, equity, and institutional capacity that merit deeper public policy debate.

At the core of India's climate strategy lies a "development-led decarbonization" model. Unlike advanced economies that pursue absolute emissions reductions, India emphasizes emissions intensity reduction, allowing space for economic growth. This reflects a pragmatic interpretation of climate justice and the principle of common but differentiated responsibilities (CBDR-RC). The approach is intellectually grounded in a hybrid framework combining ecological modernization, developmental state theory, and green industrial policy. In practice, this translates into large-scale renewable energy expansion, state-led industrial incentives, and mission-oriented programs such as green hydrogen.

However, the central tension remains unresolved: can India sustain high growth while meaningfully reducing emissions? The evidence so far of declining emissions intensity alongside rising GDP, suggests relative decoupling. But the transition to absolute decoupling, essential for long-term climate stability, is far more complex. Energy demand from urbanization, industrialization, and rising incomes will continue to exert upward pressure on emissions. This raises a fundamental policy question: is India's current pathway a transitional compromise or a long-term equilibrium?

The energy transition strategy is perhaps the most robust pillar of the NDC. India's success in scaling renewable energy, driven by falling costs and policy innovations such

as reverse auctions, is widely acknowledged. Yet, the next phase of deep decarbonization poses systemic challenges. Grid integration, storage technologies, and intermittency management require massive investments and technological sophistication. The transition from a capacity-centric approach to a systems-oriented approach is still incomplete. Without reliable storage and smart grids, high renewable penetration risks inefficiencies and instability.

Industrial decarbonization presents an even more formidable challenge. Hard-to-abate sectors such as steel and cement cannot transition through electrification alone. While green hydrogen and carbon capture technologies are promising, they remain commercially unviable at scale. The absence of a robust carbon pricing mechanism further weakens incentives for adoption. This exposes a gap between technological aspiration and economic reality. A key policy dilemma emerges: should India prioritize early adoption of expensive green technologies or wait for global cost reductions? The answer has implications for competitiveness, fiscal burden, and climate credibility.

Energy security adds another layer of complexity. The shift from fossil fuels to renewables reduces dependence on imported oil and gas but introduces new dependencies on critical minerals such as lithium and cobalt. This represents a structural transformation in energy vulnerability, from fuel supply risks to supply chain risks. India's policy response remains nascent, with limited domestic capabilities in critical mineral processing and storage technologies. This underscores the need for a more integrated strategy linking climate policy with industrial and trade policy.

One of the most distinctive features of India's NDC is its strong emphasis on adaptation and resilience. Unlike mitigation-centric frameworks, India foregrounds climate vulnerability, particularly in coastal regions, the Himalayas, and urban areas. Initiatives such as mangrove restoration, heat action plans, and disaster preparedness systems reflect a shift toward climate-resilient development. This is both necessary and strategic, given India's high exposure to climate risks.

Yet, adaptation raises a critical issue of financing. Globally, adaptation remains underfunded relative to mitigation, and India's needs are substantial. The public good nature of adaptation limits private investment, creating a structural financing gap. India's emphasis on climate justice is therefore not merely normative but economically grounded. However, reliance on international climate finance introduces uncertainty, as global commitments have historically fallen short. This raises an uncomfortable question: can India's adaptation strategy be sustained without predictable external support?

Institutionally, India's climate governance architecture is both comprehensive and ambitious. The integration of national missions, state-level action plans, and sectoral policies reflects a sophisticated approach to policy coordination. The polycentric governance model allows flexibility and contextual adaptation, which is essential in a country of India's scale and diversity. However, this complexity also creates coordination challenges, capacity constraints, and monitoring gaps. Variations in state capacity risk uneven implementation, potentially undermining national targets.

The socio-economic dimension of the NDC is particularly noteworthy. By emphasizing just transition, employment generation, and behavioural change (through initiatives like LiFE), India attempts to align climate policy with social equity. This is critical in a country where large segments of the population remain vulnerable. However, the transition away from coal poses significant risks for certain regions and communities. Coal-dependent states face potential job losses, fiscal stress, and social disruption.

The concept of a just transition is well-articulated but underdeveloped in policy terms. Reskilling programs, regional diversification strategies, and social protection mechanisms remain fragmented. Moreover, the predominance of the informal sector complicates policy design, as many workers lack formal safety nets. This highlights a key gap between conceptual commitment and operational readiness.

Financing remains the most binding constraint across all dimensions of the NDC. The estimated requirement of USD 700–900 billion underscores the scale of the challenge.

While public investment has catalyzed initial progress, the next phase will depend heavily on private capital. High cost of capital, regulatory uncertainty, and currency risks continue to deter investment. The development of domestic green finance markets and innovative instruments such as blended finance and green bonds is therefore critical.

Finally, the broader question is whether India's model is replicable. As a large emerging economy with strong state capacity and a growing technological base, India occupies a unique position. Its "development-led climate strategy" offers valuable lessons for other Global South countries, particularly in integrating climate action with development goals. However, its success depends on sustained political commitment, institutional effectiveness, and international cooperation. The real test lies in implementation, viz., mobilizing finance, bridging technology gaps, managing socio-economic trade-offs, and strengthening institutions. As India moves from commitments to execution, the policy choices it makes will not only shape its own trajectory but also influence the global discourse on climate and development.

HOW NOT TO TALK ABOUT CLIMATE CHANGE

Rajiv Narang
Honorary Treasurer (NRC)
Indian Institute of Chemical Engineers

In today's times climate change has become two mentionable words. Even when mentioned in *sotto voce*, one quickly looks back to check if anyone is listening. I have seen people in gatherings avoid this topic as a political hot potato.

If one wants to talk about climate change, one finds oneself between a rock and a hard place. On one side is the science and research which forecasts dire days ahead, although that viewpoint is littered with probabilities and conditions. The small print is hard to read. On the other side are the sceptics who produce contravening arguments, or just plain denial. A cold snap is enough to declare global warming as a hoax.

The political space further complicates matters, where the high cost of decarbonization is considered unpalatable. Or the petrostates simply dig in their heels and game the global economic system. Deals are made with countries guaranteeing oil at a negotiated long term attractive rate.

On the other side the relentless barrage of research is churning out reports which are sharpening the contours of future cataclysms. The claims of mortal danger to future generations are rising every day.

Amongst all this, what is an ordinary person to do? Does he panic? Does she ignore the end-of-the-world-as-we-know-it soothsayers? Or do we have a sensible path to reason out the flood of (mis) information?

One outstanding issue with the science of climate forecasting is that the results of any action (or inaction) will not be known for a long time. It is not the present generation which will see the impact of any change Our children's children will. Mankind is

notoriously short sighted, which means extending our vision beyond our lifetimes, nay, beyond the next quarter, is going to be difficult.

This leads to countries and companies trying to decarbonize along a meandering, uncertain path without a clear goal in sight. Unlike cleaning up waste water or fuels where the standards were clear, not emitting greenhouse gases (GHGs) is an uncertain remit. Legislating any waste to be dumped into a river is relatively easier. The contaminants to be removed are clear; the extent of removal is clear; the sources of waste are relatively smaller in number and not as spread out. GHGs are widely dispersed – burning any fossil fuel in industry, home or vehicles – and the quantities are huge - estimated anthropologically derived 30 million metric tons a year. Controlling these emissions will be unlike regulating waste water discharges from factories. And then there are carbon emissions from agriculture and farming activities, which is another dimension. Those are untouchables.

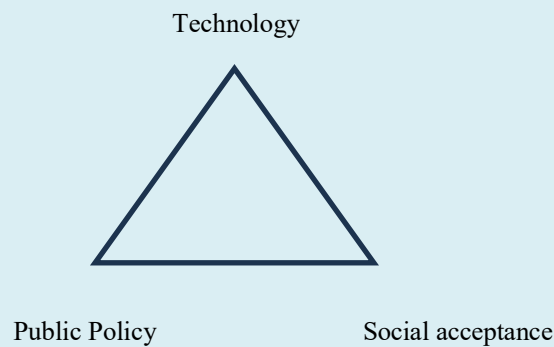
Countries which are growing on the back of fossil fuelled growth model are reluctant to step back. Any new coal fired power plant has a life of 25 – 35 years. Which means once invested in, these assets are sunk and cannot be replaced easily. Asking a lesser developed nation to forsake fossil fuelled growth for their citizens, to emit less GHGs, will not go down well with the populace and the politicians.

Technically not using fossil fuel to provide thermal energy is difficult. Fossil fuels sit high up in the energy ladder and combusting them to provide heat which can be used to power electricity, cars, manufacturing is an established route. Changing this mature pathway, fine-tuned and mastered over a century, will not be easy. New pathways will demand more resources and will be uncompetitive with fossil fuelled ones.

So here we are. To deny climate change research and negate the science is not a very astute way of planning a future. Refusing to acknowledge the inflation of social injustice in switching over to a decarbonization path does not seem practical for all. A rock and a hard place.

One way of negotiating this dilemma is the rational option of putting things on table for all – the facts and the uncertain consequences. And choosing a path of least regrets. For instance – installing solar panels on roof tops and gigantic farms is a no brainer. Or mandating higher efficiency devices like air conditioners and cars. These are easy pickings. Going after bigger elephants is going to take effort and patience.

By getting experts and policy makers in open debates is a feasible way of “buying in” support. The support from technologists, policy makers and the society needs a balancing act. If any one aspect strays too far from a healthy balance, it is pulled back. This can be visually demonstrated by a triangle below.



The way forward does not look like a top down approach can work seamlessly with people affected by decarbonization. The technologists convincing policy makers is one step – which has partial success. But now comes the difficult part of the convincing the society at large to part with their money for a fuzzy future. Who takes the lead? Who talks convincingly about what is needed to avoid a future catastrophe? A difficult task lies ahead. What is progressively clear is that talking from the pedestal is not working. Society leaders are needed for the present populace to take the bitter pill. We need them to be convinced of a likely future disaster. And the transitions needs to be calibrated and executed gradually to minimize the pain.

SYNOPSIS OF RESEARCH PAPERS/ REPORTS

CLIMATE CHANGE AND CROP YIELDS IN INDIA

Authors: Shweta Gupta, Gaurav Datt and Shreekanth Gupta

Monash Economics Working Papers no. 2026-04
Department of Economics, Monash University

This paper examines the impact of climate change on agricultural productivity in India using a district-level dataset covering 563 districts over five decades. Focusing on ten major crops, it employs a dynamic empirical framework that accounts for persistence and nonlinear effects of temperature changes.

The findings indicate that climate impacts on crop yields are substantial and larger than most existing estimates. A 1°C increase in temperature is estimated to reduce national average crop yields by 8 percent, with sharper declines for specific crops—up to 16 percent for maize and 19 percent for pearl millet—and significant variation across districts. These losses translate into several years of foregone yield growth, with implications for farm incomes and food prices.

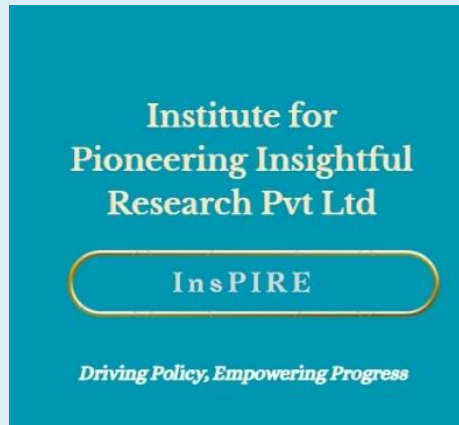
The study highlights the importance of methodological choices in estimating climate impacts and provides a comprehensive longitudinal dataset linking agricultural and climate variables. Overall, the results underscore the growing threat of climate change to agricultural productivity and food security, even after accounting for adaptation, and point to the need for further research on future projections and adaptive responses.

The full paper can be accessed from:

https://www.monash.edu/_data/assets/pdf_file/0008/4296041/wp04-26.pdf



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