

# EcoSphere

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

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## EcoSphere

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

May 2026, Volume III, Issue 5

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

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## **Chairman's Reflections**



### ***Resilience in an Age of Disruption: Economics, Climate and the Future of Growth***

The month of May 2026 reminded us that the global economy remains deeply interconnected, vulnerable to geopolitical shocks, and increasingly influenced by structural transformations that extend far beyond conventional economic cycles.

The prolonged tensions in West Asia once again highlighted the strategic importance of energy security. Crude oil prices surged, inflationary pressures resurfaced across advanced and emerging economies, and financial markets oscillated between optimism and anxiety. Policymakers across the globe faced a familiar but difficult challenge: sustaining growth while containing inflation in an increasingly uncertain world.

India, too, finds itself at an important crossroads. Encouragingly, the country's macroeconomic fundamentals remain relatively strong. Growth continues to outpace most major economies, inflation remains manageable, financial institutions are healthier than they have been in years, and digital transformation is reshaping both markets and governance. Yet the economy is not immune to external shocks. Rising energy costs, volatile capital flows, exchange-rate pressures, climate-related risks, and supply-chain disruptions continue to test policy resilience.

One of the most significant debates highlighted in this issue concerns the future of the Indian rupee. As the currency faces pressure from global developments, the discussion has evolved beyond exchange-rate management. It has become a broader conversation about competitiveness, productivity, external-sector resilience, and India's long-term development strategy. Sustainable currency strength ultimately comes not from defending arbitrary levels but from building a stronger economy.

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At the corporate level, the challenges facing Tata Sons illustrate the complexities of balancing governance, growth, capital allocation, and stakeholder expectations in a rapidly changing business environment. Similarly, the continuing advances in artificial intelligence and semiconductor technologies remind us that technological leadership is becoming a key determinant of economic and geopolitical influence.

Climate change remains another defining challenge of our times. The World Meteorological Organization's warning about the increasing probability of record global temperatures before the end of this decade serves as a stark reminder that climate risks are no longer distant possibilities. They are immediate economic realities affecting food security, energy systems, investment decisions, and human well-being. At the same time, the accelerating global shift of investment from fossil fuels toward clean energy demonstrates that the energy transition is gathering momentum despite geopolitical disruptions.

The broader lesson from the developments of May 2026 is clear. We are living through an era where economics, geopolitics, technology, finance, and climate change are becoming increasingly inseparable. Traditional policy frameworks and business models must evolve to reflect this new reality.

As always, *EcoSphere* seeks to contribute to this understanding by bringing together insights from economics, financial markets, public policy, technology, and climate studies. We hope that the analyses presented in this issue help readers better understand the forces shaping our world and inspire informed dialogue on the challenges and opportunities that lie ahead.

Dr Debesh Roy

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### **Unit Conversion**

1 lakh = 100,000

1 crore = 10 million

100 crore = 1 billion

1 lakh crore = 1 trillion

### **USD/INR Exchange Rate**

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

USD (\$) 1 = INR (₹) 95.3845 (29 May 2026)

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# COVER STORY

## THE RUPEE DEBATE: EXCHANGE RATE MANAGEMENT, GROWTH, AND INDIA'S ECONOMIC FUTURE

**Dr Debesh Roy**  
Chairman, InSPIRE

The sharp depreciation of the Indian rupee in recent months has reignited a familiar debate in India's economic discourse: Should the Reserve Bank of India (RBI) aggressively defend the currency, or should it allow market forces to determine the exchange rate? As the rupee comes under pressure from elevated crude oil prices, global geopolitical uncertainty, foreign portfolio outflows, and a strengthening US dollar, economists and policymakers are increasingly questioning long-held assumptions about what constitutes a "strong" currency and whether defending exchange-rate levels at all costs is economically prudent.

The renewed discussion has gained significance amid fears that the rupee may psychologically breach the ₹100-per-dollar mark. However, several leading economists have argued that focusing excessively on symbolic exchange-rate thresholds risks obscuring deeper structural realities. The debate today is not merely about currency valuation; it concerns the broader architecture of India's macroeconomic strategy, including capital flows, inflation management, export competitiveness, energy dependence, and growth prospects.

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## **The Myth of the “Strong Rupee”**

Former Planning Commission Deputy Chairman Montek Singh Ahluwalia recently challenged the notion that a strong rupee should be viewed as a badge of economic nationalism. According to Ahluwalia, the strength of a currency should reflect the strength of the economy itself rather than being artificially sustained through heavy intervention in foreign exchange markets. He argued that forcing the rupee to remain artificially strong despite adverse market conditions could weaken the economy rather than strengthen it (Indian Express, 2026<sup>1</sup>).

Ahluwalia’s argument strikes at the heart of a persistent misconception in India’s public discourse. Currency appreciation is often equated with national economic strength, while depreciation is perceived as a sign of failure. Yet exchange rates fundamentally represent relative prices shaped by productivity, inflation differentials, capital flows, trade balances, and global financial conditions. A currency may weaken not because an economy is collapsing, but because it is adjusting to changing global realities.

Historically, India itself has experienced the negative consequences of an overvalued currency. Ahluwalia pointed out that Indian nationalist leaders during the colonial period criticised British exchange-rate policies for artificially appreciating the rupee, thereby hurting Indian exports and domestic producers. This historical perspective underscores the fact that an excessively strong currency can undermine export competitiveness and industrial growth (Indian Express, 2026<sup>2</sup>).

## **Why the Rupee is Under Pressure**

The present weakness of the rupee reflects a combination of cyclical and structural factors. Rising global crude oil prices, driven partly by geopolitical tensions in West Asia, have sharply increased India’s import bill. Since India imports nearly 85 percent

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<sup>1</sup>Indian Express 01 June 2026 Ideas Exchange, <https://shorturl.at/iqSou>

<sup>2</sup> *ibid.*

of its crude oil requirements, higher oil prices place immediate pressure on the current account deficit and foreign exchange demand.

Simultaneously, foreign portfolio investors (FPIs) have been steadily withdrawing capital from Indian markets. According to Janak Raj (2026<sup>3</sup>), FPIs turned sustained net sellers in both 2025 and 2026, with outflows reaching nearly \$43 billion over the two years. Rising US bond yields, tighter global financial conditions, and concerns over currency depreciation have reduced the attractiveness of Indian assets in dollar-adjusted terms.

Moreover, global risk aversion has strengthened the US dollar against most emerging-market currencies. The rupee's depreciation is therefore not an isolated phenomenon but part of a broader global realignment triggered by energy shocks, geopolitical uncertainty, and divergent monetary policies across advanced economies.

Structural weaknesses within India's economy have also contributed to currency pressures. India remains heavily dependent on imports of fuel, machinery, electronics, chemicals, and industrial inputs. While a weaker rupee may theoretically support exports, the country's high import dependence means depreciation simultaneously raises domestic production costs and fuels inflationary pressures (Krishan, 2026<sup>4</sup>).

### **Should the RBI Defend the Rupee?**

One of the most contentious issues in the current debate concerns the appropriate policy response by the RBI. Some analysts have suggested that the central bank should raise interest rates aggressively to defend the currency. However, many economists argue that such a strategy could produce damaging side effects.

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<sup>3</sup> Raj, Janak. 2026. "A wrong tool for the rupee and serious side effects on growth prospects" *Business Standard* 25 May 2026. <https://shorturl.at/6k5Is>

<sup>4</sup> Krishan, Sanjeev. 2026. "Four myths about the falling rupee and what India must actually do" *Economic Times*, May 25, 2026. <https://shorturl.at/947hu>

Janak Raj (2026<sup>5</sup>) cautions against using monetary policy as an exchange-rate defence mechanism. He argues that interest rates are fundamentally designed to manage inflation rather than defend specific currency levels. According to the Tinbergen principle, one policy instrument should ideally target one policy objective. Using the repo rate to simultaneously manage inflation and exchange rates risks undermining policy credibility and confusing markets.

Historical evidence also raises doubts about the effectiveness of interest-rate defence strategies. During the 2013 taper tantrum, India's currency stabilisation did not result primarily from interest-rate hikes but from exceptional liquidity measures and special foreign-currency deposit schemes. Excessively high interest rates can slow economic growth, weaken investment, compress equity valuations, and potentially trigger even larger capital outflows.

Arvind Panagariya similarly warned against allowing psychological exchange-rate thresholds to dictate policy decisions. In his view, "100 is just a number," and attempting to artificially defend the rupee could lead to an unnecessary depletion of India's foreign exchange reserves (Panagariya, 2026<sup>6</sup>). He argued that if external shocks persist, defending the currency indefinitely would become unsustainable and economically costly.

The RBI appears increasingly aware of these trade-offs. RBI Governor Sanjay Malhotra recently suggested that the rupee may now be "undervalued" following its recent slide, indicating a more pragmatic approach to exchange-rate management. Rather than targeting a fixed exchange-rate level, the RBI's current strategy appears focused on preventing disorderly volatility while allowing gradual market-driven adjustment.

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<sup>5</sup> *Op cit*

<sup>6</sup> Arvind Panagariya's advice to RBI: '100 is just a number; let rupee depreciate or reserves will bleed out' *Economic Times* May 22, 2026. <https://shorturl.at/RvjYp>

## **The Costs of Artificial Currency Defence**

Defending a currency aggressively can impose significant economic costs. The most immediate cost is the depletion of foreign exchange reserves. India has already sold substantial amounts of dollars to smooth exchange-rate volatility. While reserves provide an important buffer against external shocks, persistent intervention can reduce market confidence if investors perceive that authorities are fighting unsustainable trends.

Ananth Narayan (2026<sup>7</sup>) highlights another important issue: the interaction between exchange-rate management, interest rates, and capital flows. He argues that the RBI's large-scale liquidity injections and bond purchases in recent years kept domestic interest rates artificially low even as external imbalances widened. This reduced the attractiveness of Indian debt markets, encouraged domestic investors to seek foreign assets, and contributed to speculative pressure against the rupee.

Narayan further points out that low interest-rate differentials compressed forward premia in currency markets, encouraging hedging and speculative demand for dollars. As a result, interventions designed to support growth may have inadvertently amplified currency pressures.

Artificially supporting the rupee can also weaken export competitiveness. A weaker currency often benefits export-oriented sectors such as pharmaceuticals, chemicals, information technology services, and textiles by increasing rupee earnings from foreign sales. Conversely, an overvalued currency can undermine domestic manufacturing and widen trade deficits.

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<sup>7</sup> Narayan, Ananth. 2026. "India's policy mix needs a rethink on capital flows and rupee stability". *Business Standard*, 26 May 2026. <https://11nq.com/uh4y0kc>

## **Inflation Risks and Consumer Impact**

While many economists support allowing gradual rupee depreciation, they also acknowledge the inflationary risks involved. Since crude oil and many industrial inputs are priced in dollars, a weaker rupee directly raises import costs. These higher costs eventually feed into transportation, logistics, fertilisers, consumer goods, and food prices.

The inflationary impact is particularly concerning given India's dependence on imported energy. Sanjeev Krishan (2026<sup>8</sup>) warns that additional risks such as El Niño-related monsoon disruptions and fertiliser shortages could further intensify inflationary pressures.

However, economists note that India's macroeconomic position today is significantly stronger than during previous currency crises. Inflation remains relatively moderate, banking-sector stability has improved, and foreign exchange reserves remain substantial despite recent declines. Panagariya argues that the economy is better positioned to absorb temporary inflationary pressures associated with depreciation than it was during the 2013 crisis (Panagariya, 2026<sup>9</sup>).

## **Structural Reforms: The Real Solution**

Most economists agree that exchange-rate management alone cannot resolve India's external vulnerabilities. Sustainable currency stability ultimately depends on strengthening the economy's structural fundamentals.

A recurring theme in recent analyses is the urgent need to reduce India's import dependence, particularly in energy and manufacturing inputs. Accelerating investments in renewable energy, nuclear power, and domestic manufacturing ecosystems can reduce exposure to global commodity shocks over time (Krishan, 2026).

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<sup>8</sup> *Op cit.*

<sup>9</sup> *Op cit.*

Tax reforms also feature prominently in policy recommendations. India remains one of the few major economies that taxes foreign investors' capital gains at source. Several analysts argue that rationalising capital-gains taxation could improve India's attractiveness for long-term foreign investment and help stabilise capital flows (Raj, 2026<sup>10</sup>; Narayan, 2026<sup>11</sup>). In addition, economists emphasise the need to deepen India's debt markets, improve export competitiveness, enhance productivity, and strengthen technological capabilities. As artificial intelligence and technological disruption reshape global services industries, India must invest heavily in innovation, research and development, and workforce upskilling to sustain its external competitiveness.

Improving the implementation of free trade agreements (FTAs) is another critical priority. India's low FTA utilisation rates indicate that policy initiatives have not fully translated into export expansion. Greater integration with global value chains and stronger manufacturing ecosystems could improve export resilience and reduce current-account vulnerabilities.

### **Towards a More Mature Exchange-Rate Debate**

The current rupee debate reflects a broader evolution in India's economic thinking. Policymakers increasingly recognise that exchange rates cannot be viewed purely through the lens of national prestige or psychological symbolism. Currency movements are often symptoms of deeper macroeconomic conditions rather than independent causes of economic strength or weakness.

The challenge for the RBI is therefore not to defend arbitrary exchange-rate thresholds but to maintain market confidence, manage volatility, and preserve macroeconomic stability. A gradual, orderly depreciation consistent with underlying economic fundamentals may ultimately prove healthier than prolonged artificial defence.

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<sup>10</sup> *Op cit.*

<sup>11</sup> *Op cit.*

At the same time, policymakers must address the structural vulnerabilities that repeatedly expose the rupee to external shocks: energy dependence, shallow debt markets, volatile capital flows, import-intensive manufacturing, and weak export competitiveness.

India's long-term currency stability will not be achieved through reserve depletion or symbolic defence of round-number exchange rates. It will come from building a more productive, competitive, innovative, and resilient economy. In that sense, the rupee debate is ultimately a debate about India's development model itself.

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## SECTION 1: INDIAN ECONOMY

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## NAVIGATING MACROECONOMIC TRENDS

### RBI ANNUAL REPORT 2025-26: RESILIENCE AMID GLOBAL TURBULENCE

The Reserve Bank of India's (RBI's) *Annual Report 2025-26* presents a comprehensive assessment of an economy that has displayed remarkable resilience despite an increasingly volatile global environment marked by geopolitical tensions, trade fragmentation, inflationary uncertainties, and financial market volatility. The report reflects the RBI's evolving role not merely as a monetary authority but also as a guardian of financial stability, digital transformation, and macroeconomic resilience.

#### **India Remains the Fastest-Growing Major Economy**

One of the strongest highlights of the report is India's robust economic performance. The RBI notes that India remained the fastest-growing major economy in 2025-26, with GDP growth estimated at 7.6 percent, higher than 7.1 percent in the previous year. Growth was supported by strong domestic consumption, sustained investment activity, proactive policy interventions, and relatively stable macroeconomic fundamentals.

Importantly, the report underlines that India's growth model continues to rely primarily on domestic demand rather than exports. This structural characteristic insulated the economy from external shocks arising from tariff wars, geopolitical tensions, and slowing global trade. In an increasingly fragmented global economy, India's large domestic market has emerged as a critical stabilising force.

The services sector remained the principal engine of growth, contributing nearly 69 per cent of real gross value added (GVA) growth. Segments such as financial services, real estate, IT services, trade, transport, and communications continued to expand robustly, reinforcing India's transition toward a knowledge- and services-driven economy.

## **Inflation Moderation and Monetary Policy Easing**

A major achievement highlighted in the report is the sharp moderation in inflation. Headline inflation declined to 2.1 percent in 2025-26 from 4.6 percent in the previous year, largely due to lower food inflation and favourable base effects. This created policy space for the RBI's Monetary Policy Committee (MPC) to reduce the policy repo rate by 100 basis points during the year.

The report demonstrates that monetary transmission has improved considerably compared to earlier cycles. A higher share of loans linked to external benchmark lending rates (EBLRs) accelerated the pass-through of repo rate cuts to lending rates. This reflects the structural reforms undertaken in India's monetary transmission framework over the last several years.

However, the RBI remains cautious about future inflationary risks. The report repeatedly flags the resurgence of supply-shock-driven inflation risks arising from the West Asia conflict, rising energy prices, and disruptions in shipping routes. This underscores the challenge central banks globally face today: balancing growth support with inflation control in an environment where inflation is increasingly driven by geopolitical and supply-side factors rather than demand pressures.

## **Fiscal Consolidation with Capital Expenditure Push**

The report presents a relatively positive assessment of India's fiscal management. The central government succeeded in reducing the gross fiscal deficit to 4.4 per cent of GDP in 2025-26, thereby achieving its medium-term fiscal consolidation target.

What is particularly noteworthy is the emphasis on expenditure quality. The report indicates that fiscal consolidation was achieved not through indiscriminate expenditure compression, but through containment of revenue expenditure while preserving growth-enhancing capital expenditure. This distinction is important because productive public investment crowds in private investment and strengthens long-term growth potential.

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The RBI also recognises the growing role of states in capital formation and infrastructure development. Continued public investment in transport infrastructure, renewable energy, logistics, and urban development is expected to sustain investment momentum in the coming years.

### **Banking Sector Resilience and Financial Stability**

A major positive theme running through the report is the remarkable improvement in India's banking system. Gross non-performing assets (GNPAs) declined to multi-decadal lows, while capital adequacy ratios remained comfortably above regulatory thresholds. Stress tests conducted by the RBI indicated that banks possess sufficient resilience even under adverse macroeconomic scenarios.

The report suggests that the prolonged clean-up of bank balance sheets following the twin balance sheet crisis of the previous decade has substantially strengthened the financial system. Improved asset quality, higher profitability, and stronger capital buffers have restored the banking sector's ability to support economic growth through sustained credit expansion.

At the same time, the RBI has displayed heightened vigilance regarding emerging financial risks. The report highlights supervisory measures relating to cyber-enabled frauds, anti-money laundering frameworks, digital lending regulation, and financial sector resilience.

This reflects the RBI's recognition that financial stability risks today increasingly arise not only from traditional banking stress but also from technological vulnerabilities, digital fraud, fintech disruptions, and interconnected financial networks.

### **Digital Payments and CBDC Expansion**

The *Annual Report* showcases India's continued leadership in digital payments infrastructure. The RBI Digital Payments Index rose by 11 per cent during 2025-26, while Unified Payments Interface (UPI) transactions crossed 200 billion during the year.

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India's digital public infrastructure architecture, combining Aadhaar, UPI, Jan Dhan accounts, and mobile connectivity, has become one of the most successful financial inclusion experiments globally. The RBI rightly positions digital payments not merely as a technological innovation but as a transformational instrument for financial inclusion and economic formalisation.

The report also highlights important progress in Central Bank Digital Currency (CBDC) pilots. Programmable CBDCs were used for food subsidy transfers in selected states, while cross-border CBDC collaboration initiatives were undertaken with Singapore and the UAE.

These initiatives indicate that India is positioning itself at the forefront of the evolving global digital currency ecosystem. If scaled effectively, CBDCs could reduce transaction costs, improve subsidy targeting, strengthen payment efficiency, and enhance India's strategic autonomy in cross-border financial systems.

### **Artificial Intelligence and Financial Governance**

A particularly forward-looking aspect of the report is its attention to artificial intelligence (AI). The RBI's discussion of the FREE-AI framework signals the central bank's awareness that AI will fundamentally reshape finance, banking, regulation, and risk management.

The report's emphasis on responsible and ethical AI governance is especially important. While AI can improve productivity, risk assessment, and financial access, it can also generate systemic risks related to algorithmic bias, cyber vulnerabilities, market concentration, and misinformation.

India's launch of "Bharat Gen," a sovereign multilingual AI initiative, also reflects the country's broader ambition to develop indigenous technological capabilities rather than remain dependent on foreign digital ecosystems.

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## **External Sector Vulnerabilities Persist**

Despite strong domestic fundamentals, the report acknowledges vulnerabilities in the external sector. India's merchandise trade deficit widened sharply to US\$333.2 billion in 2025-26. Although strong services exports and remittances helped contain the current account deficit at manageable levels, capital flows remained volatile.

Foreign portfolio investment outflows, global financial uncertainty, and geopolitical tensions exerted pressure on the rupee and foreign exchange reserves. Nevertheless, the RBI emphasises that India's reserves, at over US\$691 billion, remain adequate by conventional reserve adequacy metrics.

The report implicitly reinforces an important policy lesson: in an era of global uncertainty, maintaining strong foreign exchange reserves and prudent external sector management remains critical for macroeconomic stability.

## **Outlook: Resilient but Challenged**

For 2026-27, the RBI projects GDP growth at 6.9 per cent, while warning that risks remain tilted to the downside due to geopolitical tensions, commodity price volatility, and climate-related uncertainties.

The report is cautiously optimistic. It argues that India's strong macroeconomic fundamentals, demographic advantages, infrastructure investments, financial sector resilience, and digital transformation provide a solid foundation for medium-term growth. However, it also recognises that external shocks, especially prolonged conflict in West Asia, supply-chain disruptions, and global financial tightening, could test the resilience of the economy.

## **Conclusion**

The RBI *Annual Report 2025-26* portrays an economy that has demonstrated resilience amid global turbulence, but one that must remain vigilant against emerging risks. The report reflects the transformation of the RBI into a multidimensional institution

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balancing monetary stability, financial regulation, digital innovation, financial inclusion, and systemic resilience.

India enters the next phase of its economic journey with stronger banking institutions, expanding digital infrastructure, improving fiscal discipline, and robust domestic demand. The report also makes it clear that sustaining high growth in an uncertain world will require continued policy coordination, structural reforms, technological preparedness, and macroeconomic prudence.

*RBI Annual Report 2025-26 can be accessed from:*

<https://www.rbi.org.in/Scripts/AnnualReportPublications.aspx?year=2026>

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## GROWTH, INFLATION AND EXTERNAL RISKS: INDIA'S ECONOMIC BALANCING ACT

The Indian economy entered 2026-27 on a relatively strong footing despite rising global uncertainties arising from the prolonged West Asia conflict, elevated crude oil prices, supply-chain disruptions, and tighter global financial conditions. The *Monthly Economic Review* (May 2026) released by the Department of Economic Affairs (DEA) and the Reserve Bank of India's *State of the Economy* article in the May 2026 *RBI Bulletin* present a picture of cautious resilience. While domestic demand, industrial activity, and services exports continue to support economic growth, inflationary pressures, volatile capital flows, and monsoon-related uncertainties remain important risks to the macroeconomic outlook.

India's projected GDP growth of around 6.9 per cent in 2026-27 positions it among the fastest-growing major economies in the world. However, sustaining this momentum will require careful balancing of growth, inflation management, fiscal prudence, and external-sector stability.

### **Global Economic Environment: Rising Geopolitical and Energy Risks**

The global economy remains under stress from the continuing geopolitical tensions in West Asia. According to the DEA's *Monthly Economic Review*, the conflict has disrupted energy markets, increased transportation and logistics costs, and intensified supply-chain pressures globally. Brent crude oil prices averaged over US\$120 per barrel in April 2026 before moderating somewhat in May. At the same time, the Global Supply Chain Pressure Index climbed to its highest level since late 2022.

The *RBI Bulletin* similarly observed that global business activity remained subdued despite a marginal improvement in April 2026. Manufacturing activity in several economies weakened due to rising input costs, supply bottlenecks, and weaker business confidence. Inflationary pressures also resurfaced globally, especially in energy-importing economies. Inflation accelerated in the United States, Euro Area, South Korea, and several emerging markets due to rising fuel and transport costs.

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These developments have complicated the global growth-inflation trade-off. Central banks in major advanced economies have largely maintained restrictive monetary policy stances, resulting in elevated sovereign bond yields and tighter global liquidity conditions. The US 10-year Treasury yield rose above 4.5 per cent, while yields in Europe and Japan also hardened significantly.

The implications for emerging markets are significant. Rising global yields, capital outflows, currency depreciation pressures, and higher import bills have increased macroeconomic vulnerabilities across many developing economies. India, while relatively better placed than several peers, remains exposed to these external shocks due to its dependence on imported crude oil and global trade linkages.

### **Domestic Economic Activity: Growth Momentum Remains Intact**

Despite adverse global conditions, India's domestic economy continued to display resilience in April and May 2026. High-frequency indicators such as e-way bill generation, PMI indices, electricity consumption, and automobile sales remained broadly expansionary.

The HSBC Manufacturing PMI remained comfortably above the neutral 50 mark, indicating continued expansion in manufacturing activity. Similarly, the services PMI reflected strong momentum in sectors such as finance, communications, logistics, and hospitality. The RBI Bulletin noted that industrial and services activity remained robust across several segments, while early results of listed private non-financial companies showed double-digit growth in aggregate sales and operating profits during Q4 of 2025-26.

Domestic demand conditions also remain relatively healthy. Urban and rural automobile sales recorded double-digit growth, supported by rising incomes, improved credit availability, and continued infrastructure spending. Government-led capital expenditure in roads, railways, defence manufacturing, renewable energy, and digital infrastructure continues to act as a major growth driver.

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However, there are early signs of moderation in some sectors. Fuel consumption and the Eight Core Industries Index softened in April, reflecting the impact of elevated global energy prices and external uncertainty. Air passenger traffic also showed some moderation amid higher aviation turbine fuel prices. These developments indicate that while domestic growth remains resilient, external headwinds are beginning to affect certain segments of economic activity.

### **Inflation Dynamics: Divergence Between Retail and Wholesale Prices**

One of the most striking developments in recent months has been the divergence between retail inflation and wholesale inflation. Consumer Price Index (CPI)-based inflation remained relatively contained at 3.48 per cent in April 2026, below the RBI's medium-term target of 4 per cent. Core inflation also remained stable, suggesting that underlying demand-side inflationary pressures are still moderate.

However, wholesale price inflation surged sharply to 8.3 per cent, the highest level in over three years. This rise was driven primarily by soaring global energy prices, currency depreciation, and higher fuel and transportation costs. Inflation in crude petroleum, natural gas, LPG, diesel, and petrol increased sharply, indicating rising upstream cost pressures across the economy.

The DEA review noted that inflationary pressures are increasingly visible in food items such as edible oils, tea, coffee, mustard oil, and protein-rich food products. The transmission of higher fuel costs has also become visible in transport services, restaurant prices, and accommodation services. This suggests that while retail inflation has remained relatively contained so far, broader pass-through effects may intensify over the coming months.

The recent increases in petrol and diesel prices may further amplify inflationary pressures through both direct and indirect channels. Given India's dependence on imported energy, sustained crude oil prices above US\$100 per barrel could significantly complicate inflation management and monetary policy.

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## **Agriculture and Monsoon Risks**

Agriculture remains a key determinant of inflation and rural demand in India. The outlook for the 2026 kharif season presents both opportunities and risks. On the positive side, reservoir levels and foodgrain buffer stocks remain comfortable. The total stock of rice and wheat held by the Food Corporation of India and state agencies stood at over 817 lakh tonnes at the end of April 2026.

Summer crop sowing has also expanded compared to the previous year, supported by adequate irrigation and favourable reservoir storage. However, the India Meteorological Department's forecast of below-normal monsoon rainfall due to a possible El Niño event poses a significant risk. The DEA review warned that deficient rainfall could adversely affect pulses, oilseeds, livestock, and dairy production, especially in rain-fed regions.

A weak monsoon could trigger food inflation, reduce rural purchasing power, and weaken aggregate demand at a time when external conditions are already fragile. This makes agricultural risk management and food supply monitoring particularly important in FY27.

## **External Sector: Services Exports and FDI Provide Stability**

India's external sector performance has remained relatively stable despite global uncertainty. Strong growth in services exports has helped cushion the impact of elevated merchandise imports, particularly crude oil and gold imports. According to the DEA review, buoyant services exports substantially narrowed the overall trade deficit in April 2026.

Foreign direct investment (FDI) inflows also remained robust. Gross FDI inflows reached a record US\$94.5 billion in FY26, reflecting continued long-term investor confidence in India's economic prospects. Sectors such as semiconductors, electronics, defence manufacturing, renewable energy, and digital services continue to attract strategic investments.

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Nevertheless, foreign portfolio investment (FPI) flows remained volatile due to rising global yields and geopolitical uncertainty. The RBI Bulletin noted that FPIs continued to remain net sellers during April and May 2026, though the pace of outflows moderated.

The Indian rupee also came under pressure due to higher crude oil prices and capital outflows. However, India's foreign exchange reserves remain at comfortable levels, providing an important buffer against external volatility.

### **Financial Sector and Monetary Policy**

India's financial system remains broadly stable despite global uncertainty. Liquidity conditions have remained comfortable due to government spending and RBI liquidity management measures. According to the RBI Bulletin, money market rates largely remained below the policy repo rate during April and May, reflecting adequate system liquidity.

At the same time, rising global bond yields and inflation concerns have pushed up government and corporate bond yields domestically. Equity markets have also witnessed increased volatility amid geopolitical developments and fluctuations in crude oil prices.

The RBI now faces a delicate balancing challenge. While inflation remains below target at present, rising wholesale inflation, energy costs, and monsoon-related risks could complicate the inflation outlook. At the same time, global uncertainties and slowing external demand may require continued policy support for growth.

### **Labour Market and Employment Conditions**

Labour market conditions remain broadly stable. The RBI Bulletin observed that employment indicators continue to show resilience, with a gradual increase in regular salaried employment and higher employment generation in manufacturing and services sectors.

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Hiring activity in sectors such as logistics, digital services, construction, electronics, and hospitality remains strong. Rural demand conditions also remain relatively supportive due to improved agricultural incomes and government welfare programmes. However, sustained inflationary pressures and monsoon uncertainty could affect employment generation in rural areas in the coming months.

### **Structural Reforms and Long-Term Growth Drivers**

India's medium-term growth outlook continues to be supported by ongoing structural reforms and public investment initiatives. Government programmes such as the Production Linked Incentive (PLI) scheme, semiconductor mission, defence manufacturing initiatives, coal gasification projects, renewable energy expansion, and digital public infrastructure are strengthening India's industrial and technological capabilities.

India's digital public infrastructure architecture combining Aadhaar, UPI, Jan Dhan accounts, and mobile connectivity has significantly strengthened financial inclusion and digital payments penetration. The continued expansion of digital commerce, fintech, and formalisation of the economy is expected to improve productivity and tax compliance over the medium term.

India also continues to strengthen trade diversification through bilateral trade agreements and strategic partnerships, which may help reduce vulnerabilities arising from global geopolitical fragmentation.

### **Conclusion**

India's economy in FY27 reflects a combination of resilience, opportunity, and caution. Strong domestic demand, expanding services exports, resilient industrial activity, robust FDI inflows, and stable financial institutions provide important macroeconomic strengths. At the same time, elevated global energy prices, supply-chain disruptions, imported inflation, volatile capital flows, and monsoon uncertainties pose meaningful risks to growth and price stability.

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India's projected GDP growth of around 6.9 per cent continues to make it one of the fastest-growing major economies globally. However, sustaining this momentum will require agile macroeconomic management, prudent fiscal and monetary coordination, continued structural reforms, and careful monitoring of external vulnerabilities. The coming year is likely to test India's policy resilience, but the broader fundamentals

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## RIISING OIL PRICES: WHERE NOW?

**Dr. Manoranjan Sharma**  
Chief Economist, Infomerics Ratings

Amid mounting losses, oil marketing companies (OMC) increased petrol and diesel prices by around ₹3 a litre across metros on May 15, 2026. Piped kitchen gas prices were, however, left unchanged. It has, however, to be realised that

this modest increase in petrol and diesel prices is not merely a routine market adjustment; it is symptomatic of a deeper and more dangerous global energy crisis. Triggered by escalating tensions in West Asia and prolonged disruptions in the Strait of Hormuz — the narrow maritime corridor through which nearly one-fifth of the world's oil supply and three-fifth of India's supply passes — the latest fuel hike exposes the fragility of India's energy security and the vulnerability of oil-dependent economies worldwide.

### **Staggered Hikes**

We see this hike for the two auto fuels as part of a staggered process because this will only partially cover the losses of state-run oil retailers with under-recoveries estimated at ₹ 10 a litre for petrol and ₹ 13 for diesel. This hike is expected to yield an additional monthly revenue of a little over ₹ 4,400 crore for India's OMCs. Thus hikes in the not too distant future are inevitable because of the rising mismatch: while the cost of crude for Indian refiners rose 53 percent from an average \$69 a barrel in Feb to over \$106 so far in May, there is a jump of around 75 percent each for petrol and diesel. A granular examination reveals that prices had remained frozen since April 2022, barring March 2024, when the Centre reduced excise duty by ₹ 2 a litre, making this hike necessary. Viewed thereof, while heightened geopolitical tensions make future rate hikes imperative, the key considerations are timing, sequencing and quantum of such hikes.

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## **Impact on India**

The implications are severe for India. I have demonstrated for long that India imports nearly 85–90 percent of its crude oil requirements, making it one of the world’s most exposed major economies to external energy shocks. Given the weightage of petrol and diesel in the CPI basket, a ~3-5 percent increase likely adds ~15-25 bps to the headline inflation, besides second round impact. While the increase may temporarily add to inflation concerns and impact transportation and consumption costs, it also indicates the government’s focus on managing fuel subsidies and protecting forex reserves amid ongoing global uncertainty.

The current crisis is, therefore, not only about rising fuel costs at petrol pumps; it threatens inflation stability, industrial growth, fiscal management, currency strength, and even geopolitical autonomy.

The Strait of Hormuz crisis has already disrupted global oil flows and pushed crude prices above \$100 per barrel, with some reports indicating spikes toward \$120–126.

Historically, every major oil shock — from the 1973 Arab Oil Embargo to the Gulf War and the Russia–Ukraine conflict — has triggered inflationary spirals, recessionary pressures, and geopolitical realignments. The present situation risks repeating that pattern on an even larger scale because global supply chains remain fragile after the pandemic and continuing geopolitical fragmentation.

The immediate effect of higher fuel prices is inflationary. Petrol and diesel are “input fuels” that affect nearly every sector of the economy. Transportation costs rise first, followed by a vicious cycle of hikes in logistics, manufacturing, agriculture, aviation, and retail distribution. Food prices are particularly vulnerable because diesel powers trucks, irrigation pumps, harvesters, and cold storage networks. When fuel becomes expensive, the cost of transporting vegetables, grains, milk, and essential commodities rises almost automatically. The result is cost-push inflation that directly hits ordinary households.

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Every \$10 increase in global crude prices can significantly widen India's current account deficit and raise inflationary pressures. The Reserve Bank of India (RBI) may then face a difficult policy dilemma: either raise interest rates to control inflation, risking slower growth and unemployment, or tolerate rising prices and weakening purchasing power. Both options are fraught with political and economic costs and straddling this trade-off is difficult.

### **The Hit on Rupee**

The crisis also exposes the dangerous relationship between oil prices and currency depreciation. As crude prices rise, India must spend more dollars on imports. This increases demand for foreign currency and weakens the rupee. A depreciating rupee then makes imports even more expensive, creating a vicious cycle of imported inflation. India's trade deficit widened sharply to \$28.38 billion due largely to surging crude imports, while the rupee became one of Asia's weakest-performing currencies.

This has extensive macroeconomic implications. A weaker rupee raises the cost of imported machinery, fertilizers, chemicals, electronics, and industrial inputs. Industries dependent on petroleum derivatives — aviation, chemicals, paints, plastics, textiles, fertilizers, and logistics — face margin pressures and reduced competitiveness. Investors also become nervous during prolonged oil shocks, often triggering capital outflows from emerging markets such as India.

Beyond economics, the fuel crisis has strategic implications. Nearly 30–50 percent of India's crude oil imports and an even larger share of LPG and LNG supplies pass through the Strait of Hormuz. Any prolonged blockade or military escalation in the region could disrupt shipping routes and create actual supply shortages rather than simply price increases. Reports suggest that India's strategic reserves can only sustain limited demand for a few weeks under severe disruption scenarios.

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## **The Challenge and the Response**

This dependence on politically unstable regions highlights a long-standing structural weakness in India's development model. Despite sustained economic growth, domestic oil production has stagnated while energy demand has surged. Rising urbanization, expanding vehicle ownership, industrial growth, and infrastructure development have deepened oil dependency rather than reduced it. India's vulnerability is, therefore, structural, not temporary.

However, the crisis may also become a turning point. Historically, major oil shocks have accelerated technological and policy transformations. The 1970s oil crises pushed many countries toward nuclear energy, fuel efficiency, and strategic petroleum reserves. Similarly, the current crisis could accelerate India's transition toward renewable energy, electric mobility, green hydrogen, and diversified supply chains.

The government has already intensified ethanol blending programs, expanded solar investments, and diversified crude imports toward countries, such as the United States, Brazil, and Nigeria. India now imports crude from nearly 40 countries in an effort to reduce excessive reliance on Gulf suppliers. While diversification cannot eliminate vulnerability entirely, it can reduce concentration risk and improve resilience during geopolitical crises.

The economic logic for renewable energy has also become compelling. High oil prices improve the competitiveness of solar, wind, electric vehicles, and public transport systems. What once appeared environmentally desirable now becomes economically urgent. For example, electric mobility not only reduces carbon emissions but also lowers dependence on imported oil. Similarly, investments in metro systems, freight rail corridors, and green logistics can reduce diesel consumption significantly over time.

Yet the transition will be protracted and complex. Renewable infrastructure requires enormous investment, technological capacity, and stable policy frameworks. Moreover, India still faces the challenge of balancing energy security with development needs.

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Millions of households and businesses continue to rely on affordable fossil fuels for transportation, cooking, and production. As I have repeatedly held, disruptive energy transitions without adequate infrastructure could decelerate economic growth and accentuate inequality.

Another critical concern is the social impact of prolonged inflation. Fuel inflation disproportionately affects lower- and middle-income groups because transport and food constitute a larger share of their expenditure. Rising fuel prices reduce disposable income, weaken consumer demand, and increase economic insecurity. Small businesses, farmers, truck operators, and informal workers are especially vulnerable because they often operate with thin profit margins.

The political consequences can also be significant. Across the world, fuel price hikes have historically triggered protests, public dissatisfaction, and electoral backlash. Governments, therefore, often attempt to absorb oil shocks through subsidies, excise duty cuts, or controlled pricing. However, these measures strain public finances and widen fiscal deficits. India faces this balancing challenge today: protect consumers or protect fiscal stability.

### **No Easy Answers- Undivided Attention on Structural Measures Needed**

The present crisis, therefore, represents more than a temporary spike in oil prices. It is a convergence of geopolitics, economics, energy security, and social stability. The disruption in the Strait of Hormuz demonstrates how events thousands of kilometres away can directly affect inflation, growth, and household budgets in India. As one analyst observed, the Strait may be geographically distant from Delhi, but it determines “your grocery bill, your fuel price, and the value of the rupee in your pocket.”

Ultimately, the question is not whether oil prices will remain volatile, but whether India and other import-dependent economies can adapt fast enough. The current crisis is both a warning and an opportunity. If governments continue relying excessively on imported fossil fuels without accelerating diversification and renewable transition, future shocks

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could become even more destabilizing. But if the crisis drives long-term reforms in energy policy, infrastructure, and sustainability, it may become the catalyst for a more resilient and strategically secure economic future. This requires coordinated and concerted measures with a sense of urgency to surmount the travails of transition.

*(Note from the Editor: This article was received on 16 May 2026. Since then, three more price hikes of petrol and diesel were announced by the government)*

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## **CPI INFLATION AT 3.48 PERCENT: A CAUTIOUS RELIEF FOR INDIA, BUT WEST ASIA CLOUDS THE OUTLOOK**

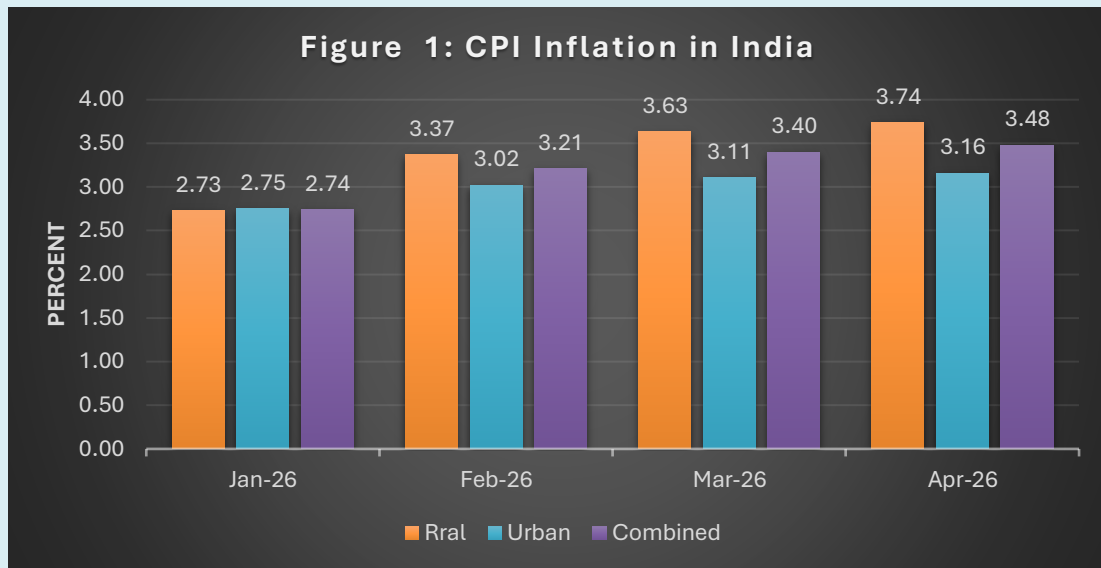
### **Inflation Remains Within Comfortable Range**

India's retail inflation story in April 2026 presents a picture of relative macroeconomic comfort, but also one that remains vulnerable to global geopolitical tremors. The latest Consumer Price Index (CPI) data released by the National Statistics Office (NSO) show headline inflation easing to 3.48 percent in April 2026 from 3.40 percent in March (Figure 1), remaining comfortably within the Reserve Bank of India's tolerance band and close to the medium-term target of 4 percent.

The April inflation print reflects a continuation of the moderation trend seen since the second half of 2025. Headline CPI inflation rose only marginally from 3.40 percent in March to 3.48 percent in April, while urban inflation remained subdued at 3.16 percent. Rural inflation, at 3.74 percent, continued to remain higher than urban inflation, indicating that food prices still exert greater pressure on rural households.

The latest inflation numbers suggest that India has entered a phase where domestic demand conditions remain stable, food supply pressures are relatively manageable, and imported inflation risks have not yet fully transmitted into the retail economy. However, the inflation trajectory is increasingly being shaped by factors beyond domestic macroeconomic management, particularly the evolving crisis in West Asia, rising geopolitical fragmentation, and the possibility of renewed commodity market volatility.

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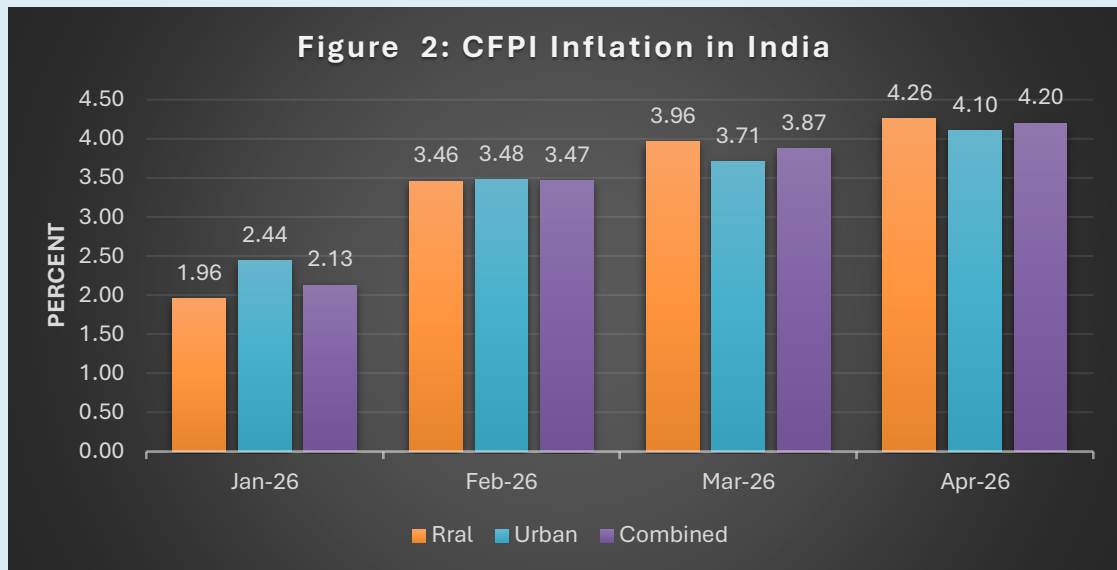


Source: MoSPI, GoI

### Food Inflation Shows Mixed Signals

Food inflation, measured by the Consumer Food Price Index (CFPI), increased to 4.20 percent from 3.87 percent in March (Figure 2). While this rise may appear concerning at first glance, the broader food inflation dynamics suggest improving supply conditions across several key agricultural commodities.

A major reason why headline inflation remains contained is the sharp decline in prices of several essential vegetables and consumer goods. Potato inflation fell by 23.69 percent year-on-year, while onion prices remained deeply negative at -17.67 percent. These declines are particularly significant because food inflation has historically been the most volatile and politically sensitive component of India's inflation basket.



Source: NSO, MoSPI, GoI

### Core Inflation Remains Benign

Transport inflation was virtually flat at -0.01 percent, while housing and fuel-related inflation remained subdued at 1.71 percent. This indicates that the pass-through of global energy market volatility into domestic retail prices has so far remained limited. The moderation in fuel inflation has also prevented secondary inflationary pressures from spreading across logistics, manufacturing, and services.

Education services inflation stood at 3.15 percent, while restaurants and accommodation services recorded inflation of 4.20 percent. These figures suggest that domestic demand in services remains resilient, but not excessively inflationary.

Overall, core inflation conditions continue to remain relatively benign, giving policymakers greater room to balance inflation control with growth concerns.

### Precious Metals Reflect Global Uncertainty

While broad-based inflation pressures remain moderate, some categories continue to witness exceptionally high price increases. Personal care and miscellaneous services inflation stood at 17.66 percent, driven largely by soaring precious metal prices.

Gold, diamond, and platinum jewellery inflation exceeded 40 percent, while silver jewellery inflation remained extraordinarily high at more than 144 percent. This reflects the global shift toward safe-haven assets amid geopolitical uncertainty and financial market volatility.

The surge in bullion prices is therefore not merely a commodity phenomenon. It signals growing investor anxiety over geopolitical risks, currency instability, and the uncertain trajectory of the global economy.

### **Regional Inflation Divergence**

State-level inflation trends indicate that inflationary pressures remain uneven across India. Telangana recorded the highest CPI inflation among major states at 5.81 percent, followed by Andhra Pradesh at 4.20 percent and Tamil Nadu at 4.18 percent.

Southern states continue to experience relatively higher food and services inflation compared to northern and eastern states, partly reflecting stronger consumption demand and higher urbanisation-linked services costs.

Such regional disparities underline the fact that inflation in India is increasingly influenced by local supply conditions, consumption patterns, and state-level economic dynamics.

### **What Business Standard and Mint Highlight**

India currently enjoys a relatively favourable inflation-growth balance compared to many advanced and emerging economies. The moderation in inflation has strengthened expectations that the RBI may gradually move towards a more accommodative monetary stance if growth conditions soften further. Lower inflation also reduces fiscal pressures by easing subsidy burdens and potentially lowering government borrowing costs over time. At the same time, analysts have cautioned that the current comfort may prove temporary if geopolitical tensions trigger another round of commodity price shocks.

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## **West Asia Crisis: The Biggest Inflation Risk**

The inflation outlook is now increasingly tied to developments in West Asia. The intensifying geopolitical tensions in the region have significantly raised the probability of renewed crude oil volatility. For India, which imports nearly 85 percent of its crude oil requirements, oil remains the single most critical external inflation risk.

So far, India has benefited from relatively stable global crude prices and diversified energy sourcing strategies. However, any prolonged disruption in shipping routes, escalation in military conflict, or sanctions-related supply shocks could sharply alter the inflation outlook.

Even if retail fuel prices are partly managed through excise adjustments or oil marketing company buffers, sustained increases in crude oil prices would eventually feed into transportation costs, fertiliser prices, electricity tariffs, aviation fuel, and manufactured goods inflation.

The broader concern is that imported inflation could coincide with weather-related food supply disruptions, thereby creating a more difficult inflation-management environment.

## **Near-Term Inflation Outlook**

In the near term, India's inflation trajectory still appears manageable. Headline CPI inflation is likely to remain within the 3.5–4.5 percent range over the next few months if food prices remain stable and crude oil prices do not witness a sustained spike.

The relatively low transport inflation and moderation in fuel-linked categories provide an important cushion for the economy. Moreover, subdued global demand conditions may also help limit imported manufacturing inflation.

However, a weak monsoon on account of the *El Niño* effect would adversely impact agricultural production and lead to food-price volatility.

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## **Medium-Term Risks and Challenges**

The medium-term inflation outlook, however, is more uncertain. Three major risks stand out.

First, a sustained rise in crude oil prices due to the West Asia conflict could significantly increase headline inflation. Second, global supply-chain disruptions may raise imported input costs for Indian industry. Third, persistent geopolitical uncertainty could weaken the rupee and amplify imported inflation pressures.

Climate variability also remains an important risk factor. India's inflation dynamics continue to be highly sensitive to agricultural output conditions, particularly for vegetables, cereals, and pulses.

## **Conclusion: Stability Amid Global Uncertainty**

The April 2026 inflation numbers signal that India has, at least temporarily, achieved a degree of macroeconomic stability that many economies are still struggling to attain. Inflation remains moderate, food supply conditions have improved, and core inflation pressures remain contained. Yet this stability remains fragile in a world increasingly shaped by geopolitical shocks, commodity market disruptions, climate uncertainty, and financial fragmentation.

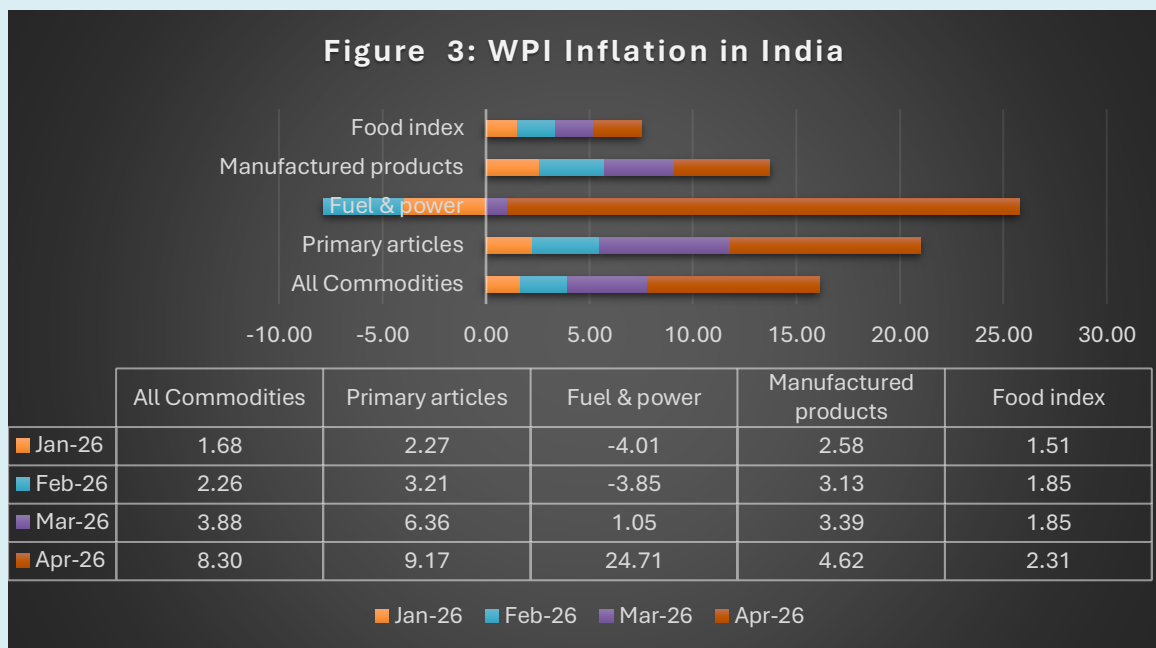
India's inflation challenge in the coming years will therefore not simply be about managing domestic demand. It will increasingly be about navigating a global environment where energy security, geopolitics, and supply-chain resilience become central determinants of price stability.

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## WPI INFLATION SURGES TO 8.3 PERCENT: ENERGY SHOCK RESHAPES INDIA'S PRICE LANDSCAPE

India's wholesale inflation witnessed a sharp acceleration in April 2026, indicating the emergence of significant cost-side pressures across the economy. The Wholesale Price Index (WPI)-based inflation rose sharply to a 42-month high of 8.3 percent in April 2026 from 3.88 percent in March (Figure 3), marking the steepest increase in recent months.

The latest WPI data released by the Office of the Economic Adviser suggest that the inflation landscape in India is entering a new phase, driven less by food shortages and more by energy prices, imported commodity inflation, and rising industrial input costs. While retail inflation remains relatively contained, wholesale inflation is increasingly reflecting the impact of global geopolitical uncertainty, especially the intensifying crisis in West Asia.



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

## **Fuel and Energy Prices Drive the Inflation Spike**

The most significant contributor to the sharp rise in wholesale inflation was the Fuel and Power category, where inflation surged to 24.71 percent in April from just 1.05 percent in March.

The data reveal a dramatic rise in mineral oil prices, which increased by nearly 29.37 percent month-on-month in April. Petrol inflation rose to 32.40 percent, while High-Speed Diesel (HSD) inflation climbed to 25.19 percent.

Crude petroleum and natural gas inflation reached an exceptionally high 67.18 percent year-on-year, while crude petroleum inflation alone touched 88.06 percent. These figures clearly indicate that the global energy shock is now feeding strongly into India's wholesale price structure.

The sudden jump in energy inflation has important macroeconomic implications because fuel prices affect transportation, logistics, manufacturing costs, fertiliser production, aviation, and electricity generation. Wholesale inflation therefore often acts as an early warning signal for future retail inflation pressures.

## **Primary Articles Reflect Commodity Market Volatility**

Inflation in Primary Articles rose to 9.17 percent in April from 6.36 percent in March. The increase was driven by higher prices of crude petroleum, minerals, oilseeds, and selected food commodities.

Oilseed inflation remained particularly elevated at 22.24 percent, while minerals inflation stood at 12.15 percent. These trends suggest that global commodity market volatility is beginning to exert broader pressure beyond energy products alone.

At the same time, food-related wholesale inflation remained relatively moderate. The WPI Food Index increased from 1.85 percent in March to 2.31 percent in April. This indicates that India is currently facing a predominantly commodity- and energy-driven inflation cycle rather than a broad-based food inflation shock.

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Interestingly, several food categories continued to show soft price trends. Onion inflation remained deeply negative at -26.45 percent, while potato inflation stood at -30.04 percent. Pulses inflation also remained negative at -4.03 percent. These declines helped offset broader commodity pressures and prevented wholesale food inflation from rising more sharply.

### **Manufacturing Inflation Begins to Rise**

Another important development in the April WPI data is the gradual rise in manufacturing inflation. Inflation in Manufactured Products increased to 4.62 percent from 3.39 percent in March.

The data show rising inflation across a wide range of industrial sectors, including chemicals, textiles, basic metals, machinery, and food products. Basic metals inflation rose to 7 percent, while chemicals and chemical products inflation climbed to 5.09 percent. Textile inflation also accelerated to 7.30 percent.

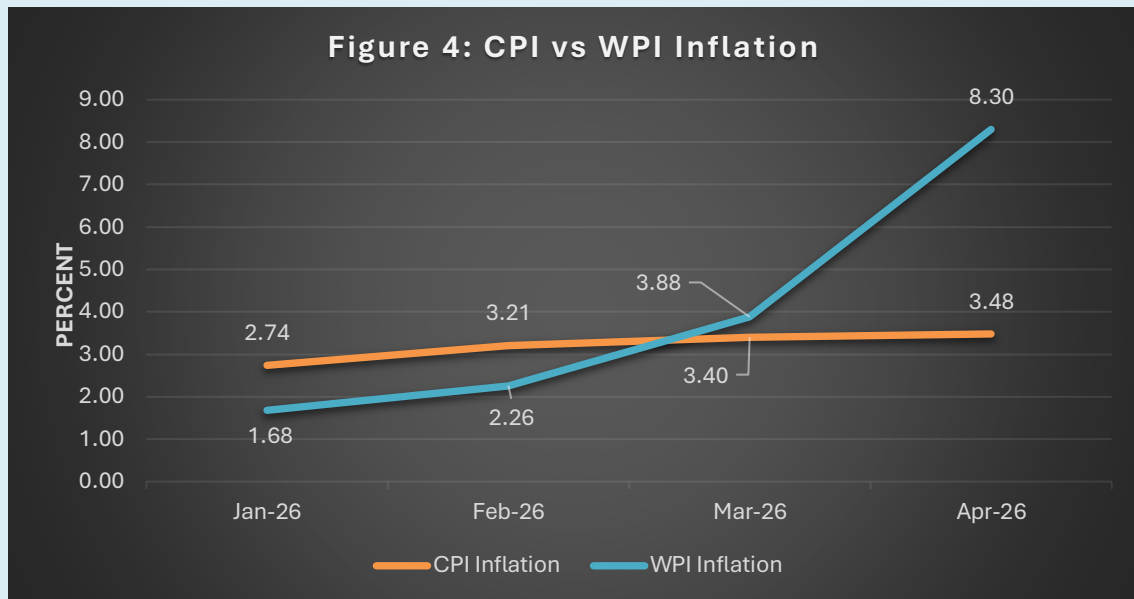
These trends are important because they indicate that higher input costs are gradually spreading through the industrial economy. Rising manufacturing inflation could eventually feed into consumer prices if firms begin passing on higher production costs to households.

The increase in manufacturing inflation also reflects the recovery in global commodity prices, supply-chain adjustments, and higher transportation costs arising from geopolitical disruptions.

### **Divergence Between CPI and WPI Inflation**

One of the most striking features of the current inflation environment is the widening gap between retail inflation and wholesale inflation. While CPI inflation stood at 3.48 percent in April 2026, WPI inflation surged to 8.3 percent (Figure 3).

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Sources: MoSPI & MoC&I, GoI

This divergence suggests that cost pressures are building at the producer level faster than they are being transmitted to consumers. In the short term, businesses may absorb part of these costs through lower margins. However, if wholesale inflation remains elevated for a prolonged period, it is likely to spill over into retail inflation over the coming months. Historically, sustained increases in WPI inflation often precede broader inflationary pressures in the economy, especially when energy prices remain elevated.

### West Asia Crisis and Imported Inflation Risks

The sharp rise in wholesale inflation cannot be viewed in isolation from global geopolitical developments. The escalating crisis in West Asia has significantly increased uncertainty in global energy markets and shipping routes.

India, being heavily dependent on imported crude oil, remains particularly vulnerable to external commodity shocks. The steep increase in crude petroleum inflation in April clearly reflects the transmission of global oil market volatility into domestic wholesale prices.

The broader risk is that prolonged geopolitical instability could sustain elevated crude oil prices for an extended period. This would increase imported inflation pressures not only in fuel but also in chemicals, fertilisers, metals, plastics, and transportation-intensive industries. A sustained rise in global energy prices could therefore complicate both monetary and fiscal management in India.

### **Outlook: Inflation Risks Likely to Persist**

The near-term outlook for wholesale inflation remains challenging. If crude oil prices remain elevated due to geopolitical tensions, WPI inflation is likely to stay significantly above retail inflation in the coming months.

The rapid month-on-month increase in Fuel and Power prices, which rose by 18.22 percent in April alone, indicates that inflationary pressures are intensifying rather than moderating.

However, the relatively moderate food inflation environment provides some cushion to the economy. A normal monsoon and stable agricultural output could help contain food-price pressures even if commodity inflation remains elevated.

The key policy challenge for India will therefore be to prevent imported energy inflation from spilling over into broader retail inflation and inflation expectations.

### **Conclusion**

The April 2026 WPI data highlight a significant shift in India's inflation dynamics. Wholesale inflation is no longer being driven primarily by food prices; instead, energy shocks, commodity market volatility, and rising industrial input costs are becoming the dominant drivers.

The sharp rise in fuel, crude petroleum, metals, chemicals, and manufacturing inflation reflects the growing impact of global geopolitical uncertainty on the Indian economy. While retail inflation remains relatively contained for now, sustained wholesale inflation could eventually feed into consumer prices and complicate macroeconomic

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management. India's inflation outlook will therefore depend heavily on global crude oil movements, the trajectory of the West Asia conflict, and the economy's ability to absorb imported cost pressures without triggering broader inflationary spillovers.

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## **BEYOND BASE REVISION: HOW THE NEW IIP SERIES REFLECTS INDIA'S STRUCTURAL TRANSFORMATION**

**Dr Debesh Roy**

Chairman, InSPIRE

The report of the Technical Advisory Committee (TAC)<sup>12</sup> on the new series of the All India Index of Industrial Production (IIP) with base year 2022–23, represents one of the most important reforms in India's industrial statistics framework in recent years. More than a routine base revision, the report attempts to modernise the way industrial activity is measured in an economy undergoing rapid technological, structural and sectoral transformation.

### **The Importance of the IIP**

The IIP remains one of India's most critical high-frequency economic indicators, widely used by policymakers, businesses, investors and researchers to assess industrial performance and broader economic momentum. The report highlights that industrial structures, product composition and production systems evolve continuously, making periodic revisions necessary to ensure that the index remains representative of the contemporary economy.

The revision of the base year from 2011–12 to 2022–23 also aligns the IIP with other major macroeconomic indicators such as GDP, CPI and WPI, thereby improving consistency and coherence within India's statistical system.

### **Moving Towards a Modern Statistical Framework**

One of the most significant recommendations of the report is the introduction of a chain-linked IIP alongside the traditional fixed-base index. The existing fixed-base Laspeyres methodology can gradually lose relevance as industrial structures and production patterns change over time. Chain-linking enables periodic updating of

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<sup>12</sup> National Statistics Office, Ministry of Statistics and Programme Implementation, Government of India <https://shorturl.at/W8loa>

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weights, helping reduce substitution bias and better capture structural shifts in the economy.

This is particularly important in an era where industries are changing rapidly because of automation, digitalisation, artificial intelligence and global supply-chain restructuring. The TAC recognises that statistical systems must evolve alongside these industrial transformations if they are to remain analytically useful.

### **Expanding the Scope of Industrial Measurement**

The report proposes a major expansion in the scope and coverage of the IIP. In addition to manufacturing, mining and electricity, it recommends including sectors such as gas supply, water supply, sewerage and waste management. This broadening of coverage aligns India's industrial statistics with international standards and reflects the increasing importance of utilities and environmental services in the modern economy.

The report also recommends the inclusion of minor minerals and rare earth minerals in the mining basket. These minerals are becoming strategically important because of their applications in renewable energy, electric vehicles, electronics and defence technologies.

### **Capturing India's Energy Transition**

A particularly forward-looking feature of the report is its emphasis on renewable energy. The TAC recommends separate indices for renewable and non-renewable electricity generation, enabling more accurate tracking of India's transition towards cleaner energy sources.

This reflects the growing importance of sustainability and climate-related transitions within industrial policy and economic planning. By separately measuring renewable energy generation, the revised IIP could become a more useful tool for assessing progress towards India's green growth objectives.

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### **Addressing Structural Change and “Creative Destruction”**

The report acknowledges that industrial production is increasingly characterised by rapid technological change and “creative destruction,” where older factories and product lines disappear while new industries emerge. To address this, the TAC proposes a formal framework for substitution and augmentation of factories within the IIP panel.

This is a crucial reform because outdated factory panels can create distortions and reduce the representativeness of industrial statistics. The proposed framework aims to ensure that the index better reflects actual industrial production trends and changing market realities.

### **Improving Coverage of the Unorganised Sector**

Another important recommendation relates to the unincorporated sector, which remains inadequately represented in India’s industrial statistics. The TAC suggests developing separate production indices for unincorporated enterprises using ASUSE data after further methodological refinement.

Given the significant role played by small and informal enterprises in India’s industrial ecosystem, this could eventually improve the inclusiveness and comprehensiveness of industrial measurement.

### **Leveraging Digital Data and Technology**

The report also signals a gradual move towards more digitally integrated statistical systems. It recommends exploring the use of GST-based business registries to improve industrial data collection and monitoring.

Such reforms could strengthen the timeliness, granularity and reliability of industrial statistics, while also reducing dependence on traditional survey-based approaches.

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## **Challenges Ahead**

While the proposed reforms are ambitious and forward-looking, implementation challenges remain significant. Expanding coverage, introducing chain-linking, incorporating new sectors and modernising data systems will require substantial institutional coordination, technical capacity and improvements in data infrastructure.

There may also be transitional disruptions in data comparability and reporting systems. However, the report argues that these reforms are essential if India's statistical systems are to remain relevant in a rapidly changing industrial economy.

## **Conclusion**

The TAC-IIP report is not merely a technical exercise in rebasing industrial statistics. It is a broader attempt to modernise India's economic measurement framework to reflect the realities of a technology-driven, diversified and globally integrated industrial economy. By combining methodological reforms with expanded coverage and greater alignment with international practices, the report lays the foundation for a more responsive, accurate and analytically robust industrial production index for the coming decade.

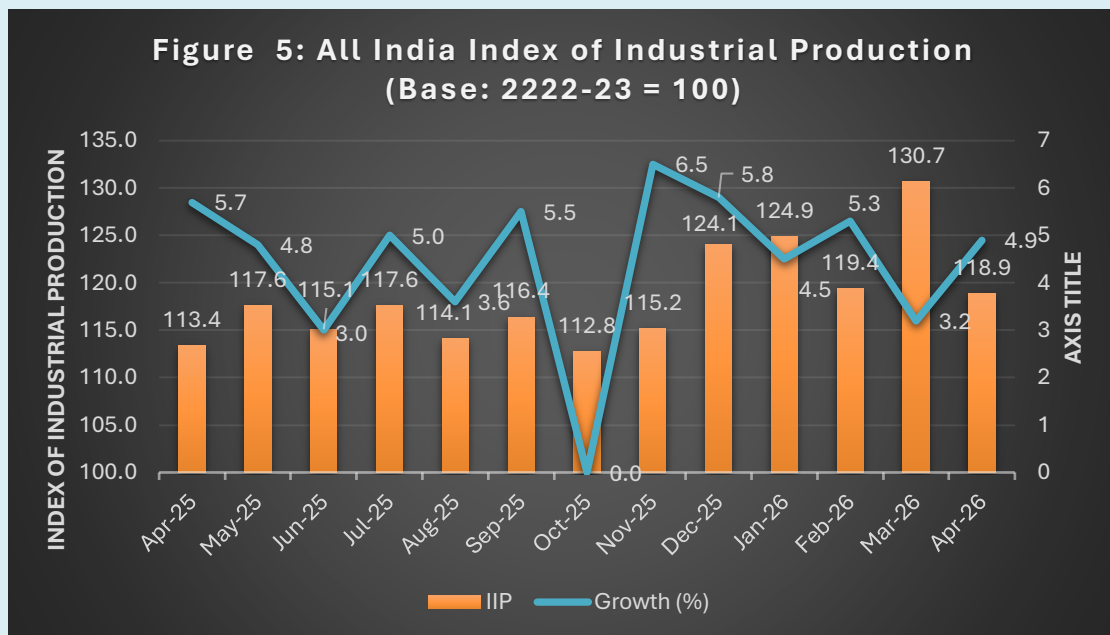
*The TAC-IIP report can be accessed from:*

[www.mospi.gov.in/uploads/documents/documents/1779702577643-Report\\_of\\_TAC\\_IIP\\_Final.pdf](http://www.mospi.gov.in/uploads/documents/documents/1779702577643-Report_of_TAC_IIP_Final.pdf)

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## INDIA'S INDUSTRIAL MOMENTUM STRENGTHENS: DECODING THE NEW IIP SERIES AND APRIL 2026 TRENDS

India's industrial sector began FY2026–27 on a relatively strong footing, with the Index of Industrial Production (IIP) registering a growth of 4.9 percent in April 2026 over the corresponding month of the previous year (Figure 5). The expansion was led primarily by robust manufacturing activity, especially in automobiles, electrical equipment, machinery, and capital goods industries. At the same time, the release is particularly significant because it marks the launch of the new IIP series with base year 2022–23, replacing the earlier 2011–12 series.



Source: MoSPI, GoI

The revised IIP series represents more than a statistical update. It reflects the changing structure of the Indian economy, incorporating new sectors, products, and industrial dynamics that have emerged over the past decade. The expanded coverage of renewable energy, gas supply, water and waste management, and high-technology manufacturing provides a more contemporary and representative picture of India's industrial ecosystem.

The April 2026 data therefore offer two important insights simultaneously: first, the short-term trajectory of industrial activity at the beginning of FY2026–27, and second, the long-term structural transformation underway within India’s industrial economy.

### **Understanding the New IIP Series**

The Ministry of Statistics and Programme Implementation (MoSPI) revised the base year of the IIP from 2011–12 to 2022–23 to better reflect changes in production patterns, industrial technologies, and sectoral composition. The revised series introduces expanded sectoral coverage, greater granularity, updated weights, and a revamped product basket.

One of the most important changes is the inclusion of Gas Supply and Water Supply, Sewerage & Waste Management as separate sectors within industrial production. Additionally, the mining sector now includes rare earth minerals and minor minerals, while the electricity index distinguishes between renewable and non-renewable power generation.

The revised item basket now consists of 1,042 products mapped to 463 item groups, compared with 839 items and 407 item groups in the earlier series. New-age industrial products such as CCTV cameras, aircraft parts, stents, advanced textiles, and vaccines have been incorporated, while obsolete products such as kerosene lamps and CFLs have been removed.

The new weighting structure also better reflects the current industrial economy. Manufacturing continues to dominate with a weight of 76.06 percent, but the relative weight of mining has declined, while electricity, gas supply, and environmental infrastructure sectors have gained importance.

These revisions significantly improve the analytical relevance of the IIP, especially in the context of India’s transition toward cleaner energy systems, advanced manufacturing, infrastructure expansion, and digital industrialisation.

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## Sectoral Trends

### *Manufacturing Emerges as the Primary Growth Driver*

Manufacturing remained the backbone of industrial growth in April 2026, registering a robust growth rate of 6.2 percent year-on-year (Figure 6). Since manufacturing carries more than three-fourths of the overall IIP weight, its performance largely determined the overall industrial growth trajectory.

Within manufacturing, 17 out of 23 industry groups recorded positive growth, indicating broad-based industrial expansion. Particularly strong growth was observed in:

- Electrical equipment: 19.2 percent
- Other transport equipment: 18.9 percent
- Textiles: 15.6 percent
- Machinery and equipment: 12.9 percent
- Motor vehicles and auto components: 12.7 percent
- Fabricated metal products: 11.7 percent
- Basic metals: 5.8 percent

The strong growth in automobiles and engineering industries suggests sustained investment demand and healthy momentum in manufacturing supply chains. Auto components, passenger vehicles, transformers, switchgear equipment, cranes, and industrial engines emerged as key contributors to industrial output growth.

The performance of electrical equipment and machinery sectors is particularly important because these industries are closely associated with infrastructure expansion, industrial capacity creation, and power sector investments. Rising output in these segments indicates ongoing momentum in both public and private capital expenditure.

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### ***Weakness in Mining Sector***

In contrast to manufacturing, the mining and quarrying sector contracted by 5.1 percent in April 2026 (Figure 6). The decline was driven primarily by weak performance in fuel minerals and non-metallic minerals. Fuel minerals declined by 5.7 percent, while non-metallic minerals recorded a sharp contraction of 14.2 percent.

However, metallic minerals, including rare earth minerals, recorded strong growth of 12.3 percent. This divergence reflects changing industrial demand patterns and growing importance of strategic minerals in electronics, renewable energy systems, batteries, and advanced manufacturing.

The mining contraction may partly reflect base effects, logistical bottlenecks, or uneven commodity demand. However, continued weakness in fuel minerals could also indicate structural shifts toward cleaner energy sources and changing industrial energy consumption patterns.

### ***Renewable Energy Gains Momentum***

The electricity and gas supply sector recorded a growth of 4.9 percent in April 2026 (Figure 6). Significantly, renewable electricity generation surged by 18 percent, far outpacing non-renewable electricity generation, which grew only 2.8 percent.

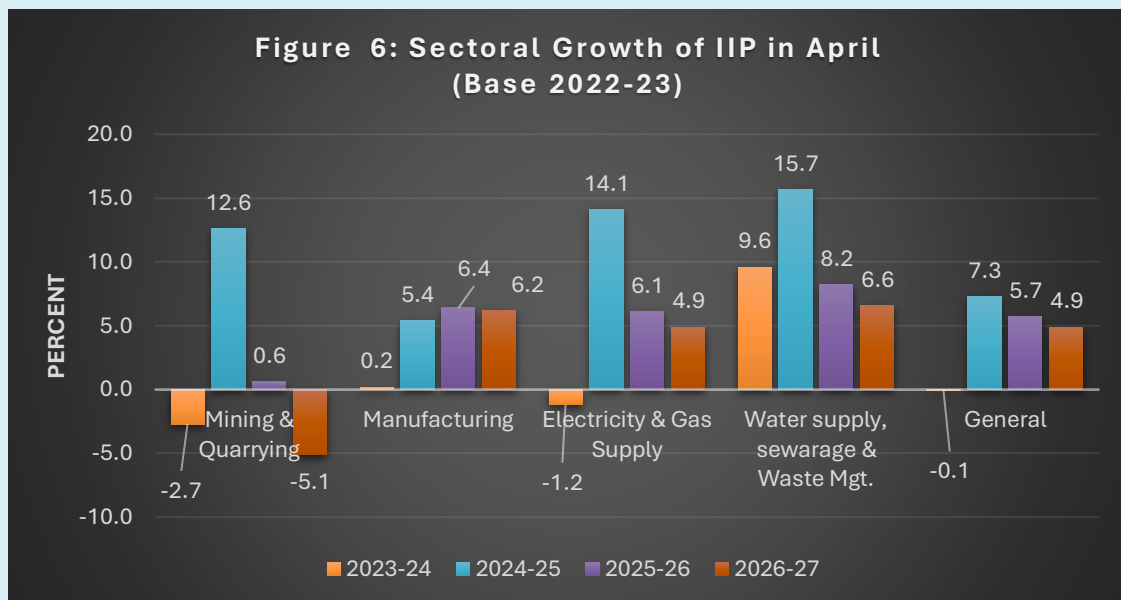
This is one of the most important structural signals emerging from the new IIP series. The separation of renewable and non-renewable power generation provides valuable insight into India's energy transition. Rapid expansion of solar, wind, and hydroelectric generation reflects increasing investments in green infrastructure, decarbonisation efforts, and energy diversification.

Gas supply, however, declined by 11.2 percent, potentially reflecting lower industrial demand, pricing dynamics, or supply constraints.

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### ***Environmental Infrastructure Becomes a Measurable Growth Segment***

The newly added Water Supply, Sewerage & Waste Management sector recorded strong growth of 6.6 percent in April 2026 (Figure 6). Although the sector carries a relatively small weight of 2.02 percent, its inclusion is economically significant. It reflects the growing role of urban infrastructure, sanitation systems, environmental management, and public utility services in India’s industrial economy. Rising investments in urban infrastructure, smart cities, waste management, and water systems are increasingly becoming integral components of industrial development.



Source: MoSPI, GoI

### **Use-Based Insights**

The use-based classification of industrial production provides deeper insights into the demand structure of the economy.

### ***Primary Goods Growth Remains Subdued***

Primary goods, which carry the highest weight in the use-based classification, recorded a modest growth of 0.8 percent in April 2026 (Figure 7), reflecting weakness in mining and fuel-related activities. Since this category includes key raw materials such as coal,

crude oil, and minerals, the subdued growth indicates uneven momentum in core industrial inputs. The slowdown also highlights the divergence within India's industrial sector, where manufacturing and investment-driven segments are growing faster than extractive industries.

### ***Capital Goods Signal Investment Revival***

Capital goods production grew by an impressive 16 percent in April 2026 (Figure 7), making it the fastest-growing use-based category. This is a highly positive macroeconomic signal because capital goods production typically reflects investment activity and future productive capacity creation. Strong growth in machinery, engineering goods, industrial equipment, and electrical systems indicates continuing momentum in infrastructure projects, manufacturing expansion, and capital expenditure cycles. The sustained strength in capital goods also suggests that both government-led infrastructure spending and private-sector investment intentions remain relatively strong despite global uncertainties.

### ***Intermediate Goods Reflect Supply Chain Momentum***

Intermediate goods production expanded by 7.7 percent (Figure 7), indicating healthy industrial supply-chain activity. Growth in intermediate goods often signals improving manufacturing linkages because these products serve as inputs into broader industrial production processes. Strong performance in metals, chemicals, rubber products, and engineering components suggests resilient industrial demand across sectors.

### ***Infrastructure and Construction Activity Remains Robust***

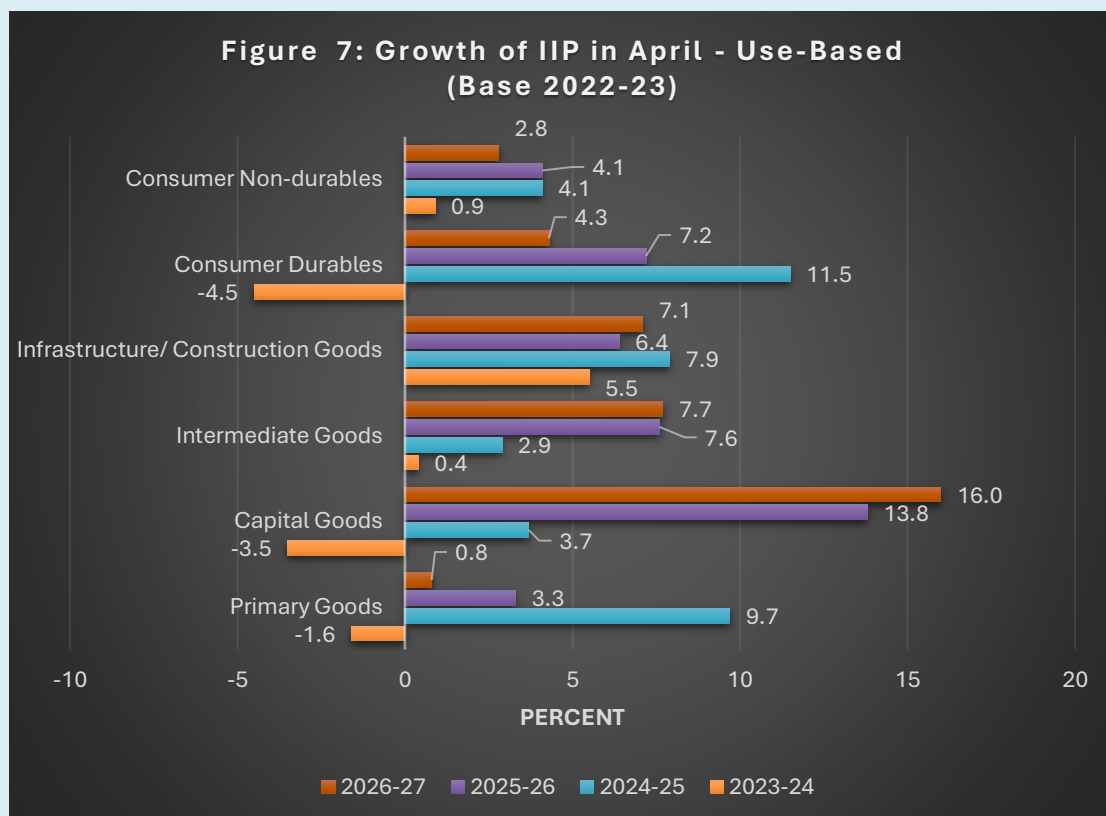
Infrastructure and construction goods recorded growth of 7.1 percent (Figure 7). This reflects ongoing momentum in roads, railways, power systems, housing, and urban infrastructure projects. Government capital expenditure programmes continue to support demand for cement, steel, fabricated metals, electrical systems, and construction machinery. The infrastructure segment has emerged as one of the key

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stabilisers of India’s industrial growth in recent years, particularly amid weak global demand conditions.

### ***Consumer Demand Remains Moderate***

Consumer durables recorded growth of 4.3 percent (Figure 7), while consumer non-durables grew only 2.8 percent (Figure 7). The relatively slower growth in consumer-oriented industries indicates that consumption demand remains uneven. While urban discretionary spending may be supporting segments such as automobiles and electronics, broader consumer demand appears constrained by inflationary pressures, rural stress, and global uncertainty. The moderation in consumer non-durables is particularly important because it may reflect slower demand for essential goods and weaker rural purchasing power.



Source: MoSPI, GoI

## **Macroeconomic Implications**

### ***Industrial Growth Remains Investment-Led***

The April 2026 IIP data suggest that India's industrial recovery remains predominantly investment-driven rather than consumption-driven. Strong capital goods, infrastructure, machinery, and engineering growth point toward continued public investment and manufacturing expansion.

This aligns with the broader macroeconomic strategy pursued in recent years, where infrastructure spending and industrial policy initiatives such as Production Linked Incentive (PLI) schemes have played a central role in supporting growth.

### ***Manufacturing Competitiveness is Improving***

The robust performance of automobiles, machinery, electrical equipment, transport equipment, and engineering industries suggests gradual strengthening of India's manufacturing ecosystem. The increased weight of high-value manufacturing sectors in the new IIP series also reflects India's ambitions to position itself as a global manufacturing and supply-chain hub.

The inclusion of advanced products such as aerospace components, medical devices, and electronics in the revised item basket indicates the growing diversification and technological upgrading of India's industrial base.

### ***Green Industrial Transition is Accelerating***

One of the most important implications of the new IIP series is the clearer visibility it provides into India's energy transition. The rapid growth in renewable electricity generation demonstrates the increasing integration of clean energy into India's industrial system. The separation of renewable and non-renewable electricity generation is analytically valuable because it allows policymakers and analysts to track the pace of decarbonisation more accurately.

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### ***Structural Challenges Persist***

Despite positive industrial momentum, several structural concerns remain visible:

- Weak mining performance could constrain raw material availability.
- Consumer demand recovery remains uneven.
- Gas supply contraction points to energy-sector vulnerabilities.
- External uncertainties, including commodity prices and global trade weakness, may affect manufacturing exports.

Moreover, the divergence between investment-led growth and slower consumer demand raises questions about the sustainability and inclusiveness of industrial expansion.

### **Conclusion**

The April 2026 IIP data present a picture of an industrial economy that remains resilient, investment-driven, and increasingly diversified. Manufacturing continues to anchor industrial growth, while strong performance in capital goods, infrastructure, engineering, and renewable energy signals ongoing structural transformation within the Indian economy.

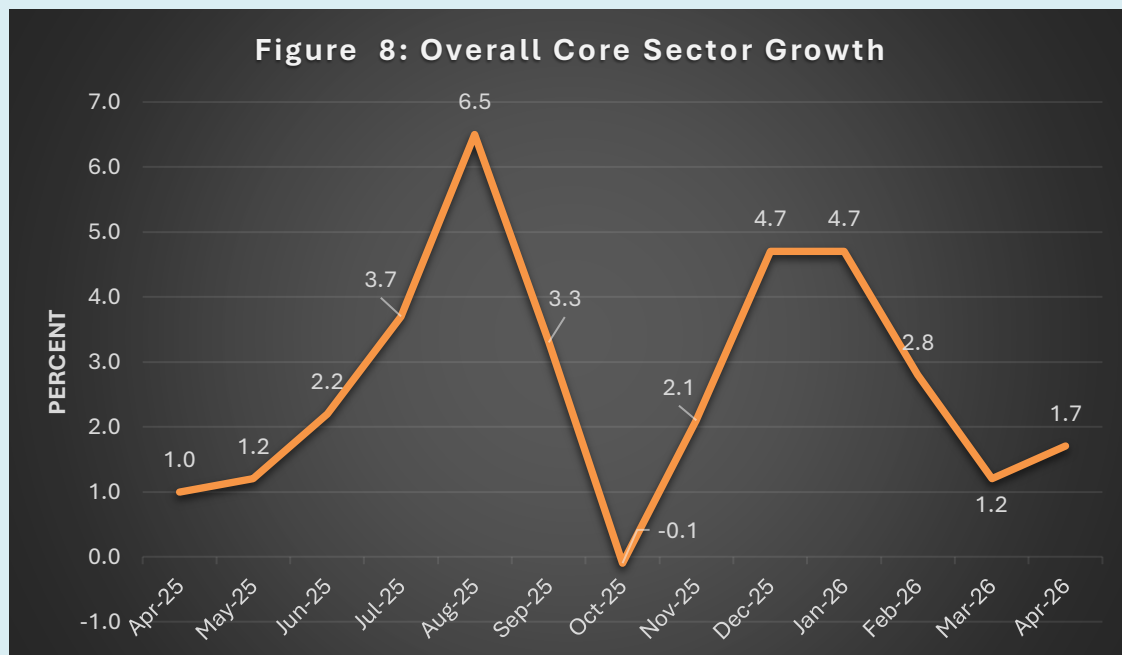
Equally important is the introduction of the new IIP series with base year 2022–23. The revised framework offers a more modern, comprehensive, and policy-relevant measure of industrial activity by incorporating emerging industries, environmental infrastructure, renewable energy, and advanced manufacturing sectors.

The data suggest that India's industrial economy is gradually evolving from a traditional resource-heavy production structure toward a more technology-intensive, infrastructure-oriented, and sustainability-driven model. However, sustaining this momentum will require continued investment, stronger domestic demand, deeper manufacturing ecosystems, energy security, and global competitiveness.

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## CORE SECTOR GROWTH SLOWS AS ENERGY WEAKNESS OFFSETS MANUFACTURING GAINS

India's eight core industries recorded a modest growth of 1.7 per cent in April 2026 (Figure 8), reflecting a mixed start to the new financial year. While manufacturing-linked sectors such as steel and cement maintained robust momentum, most energy-related sectors remained under pressure due to weak demand conditions, declining domestic production, and global market uncertainties. The Index of Eight Core Industries (ICI), which carries a weight of over 40 per cent in the Index of Industrial Production (IIP), therefore presents a picture of uneven industrial recovery driven increasingly by infrastructure and construction activity rather than broad-based energy expansion.



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

### Energy Sector Performance

#### Coal

Coal production contracted sharply by 8.7 percent year-on-year in April 2026 (Figure 9), marking one of the steepest declines among the core sectors. The cumulative coal

index for FY26 also registered a marginal decline of 0.5 percent (Table 1), indicating moderation after several years of strong growth. Lower thermal power demand and inventory adjustments may have contributed to the slowdown.

### ***Crude Oil***

Domestic crude oil production declined 3.9 per cent in April 2026 (Figure 9) and fell 2.8 percent during FY26 as a whole (Table 1), highlighting the persistent structural challenges in India's upstream hydrocarbon sector. Aging oilfields, limited new discoveries, and declining output from mature basins continue to constrain domestic energy production, increasing India's dependence on imports amid volatile global crude markets.

### ***Natural Gas***

Natural gas output also remained weak, declining 4.3 per cent in April 2026 (Figure 9) and 2.8 percent during FY26 (Table 1). The continued contraction reflects both lower domestic production and operational constraints in key gas-producing fields. The weakness in natural gas production comes at a time when India is attempting to increase the share of cleaner fuels in its energy mix

### ***Refinery Products***

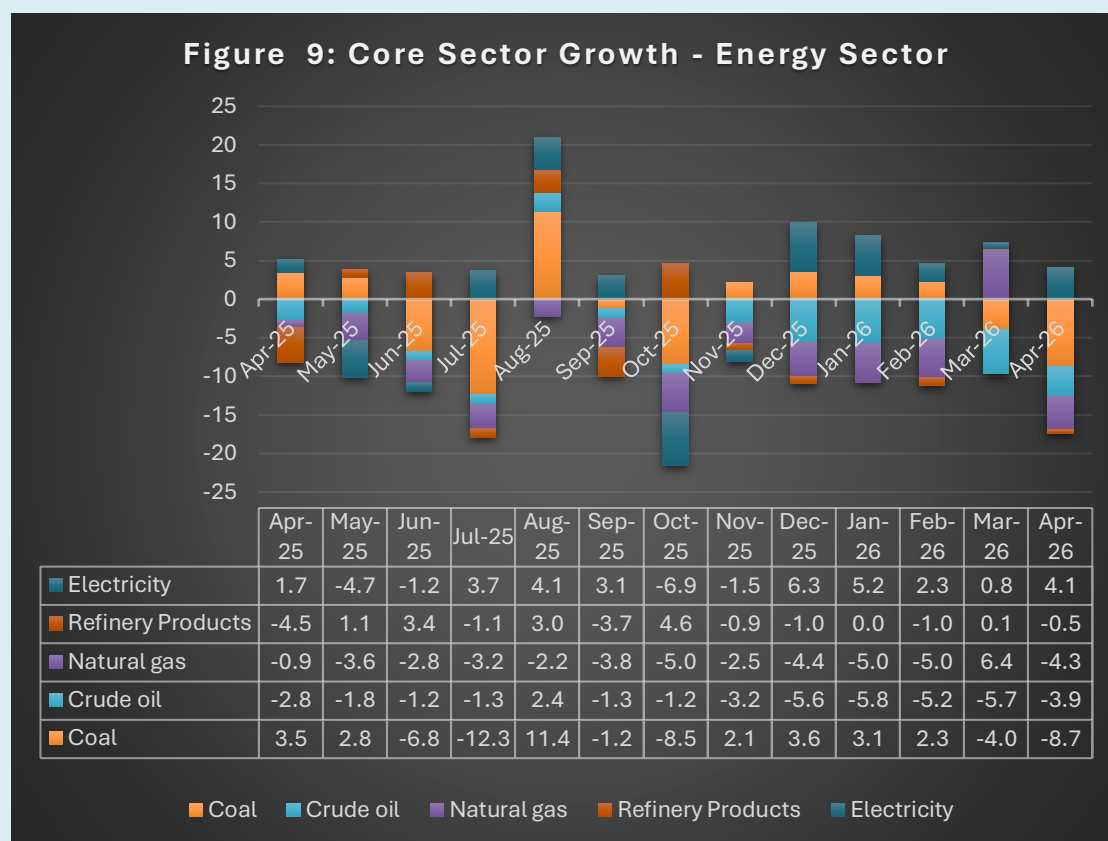
Petroleum refinery production declined marginally by 0.5 per cent in April 2026 (Figure 9), while cumulative growth for FY26 remained almost flat at -0.1 per cent (Table 1). Weakness in global refining margins, periodic maintenance shutdowns, and fluctuations in export demand appear to have affected refinery output. Given the high weight of refinery products in the core sector index, the slowdown significantly influenced overall core sector growth.

### ***Electricity***

Electricity generation increased by 4.1 per cent in April 2026 (Figure 9), though cumulative annual growth moderated to 1 per cent in FY26 (Table 1). The rise reflects

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continued industrial and infrastructure activity, but the relatively slower annual expansion indicates moderation in overall power demand growth compared to previous years. Renewable energy generation continues to support electricity output alongside conventional sources.



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

## Manufacturing Sector Performance

### Steel

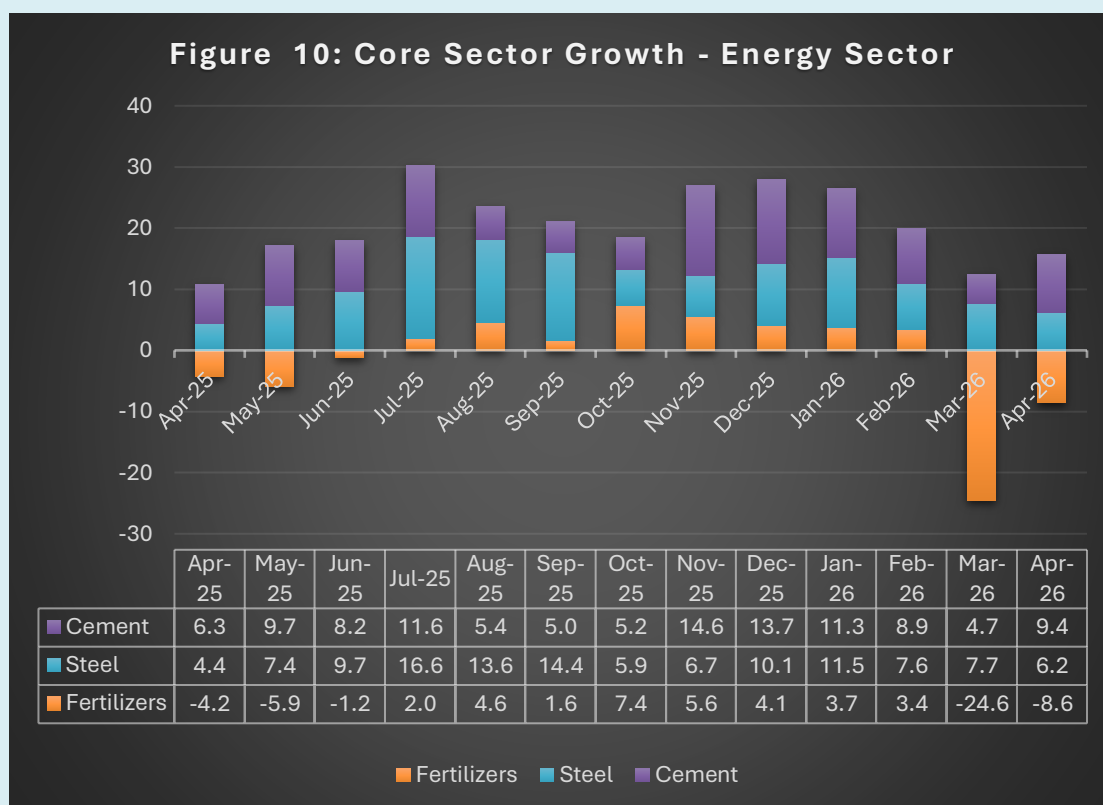
Steel production remained the strongest performer among the core industries, growing 6.2 per cent in April 2026 (Figure 10) and 9.5 per cent during FY26 (Table 1). The sustained growth reflects robust infrastructure spending, continued construction activity, and strong demand from sectors such as engineering, automobiles, and capital goods. Steel continues to be a major driver of industrial momentum in India.

## Cement

Cement production rose by 9.4 per cent in April 2026 (Figure 10), while annual growth stood at 8.7 per cent in FY26 (Table 1). Strong housing demand, government infrastructure projects, and higher public capital expenditure supported the sector’s performance. Cement and steel together underscore the resilience of construction-led growth in the Indian economy.

## Fertilizers

Fertilizer production declined 8.6 per cent in April 2026 (Figure 10) and remained broadly stagnant during FY26 with a marginal contraction of 0.1 per cent (Table 1). The decline may reflect lower seasonal demand, input supply constraints, and global price volatility linked to geopolitical tensions and energy costs.



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

## Annual Core Sector Growth

The cumulative growth of the eight core industries slowed to 2.7 per cent in FY26 compared to 4.5 per cent in FY25 (Table 1), reflecting broad moderation across energy-related sectors. While steel and cement maintained strong double-digit momentum over recent years, contractions in coal, crude oil, natural gas, refinery products, and fertilizers weakened the overall industrial growth profile. The data suggest that India's industrial expansion is increasingly reliant on infrastructure and construction activity, while traditional energy sectors face structural and cyclical challenges.

**Table 1: 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	2.7	-0.5	-2.8	-2.8	-0.1	1.0	-0.1	9.5	8.7

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

## **Conclusion**

The April 2026 core sector data reveal a clear divergence within India's industrial economy. Manufacturing sectors linked to infrastructure and construction continue to display resilience, supported by public investment and domestic demand. In contrast, energy sectors remain under pressure from declining domestic production, global commodity volatility, and slower demand growth. Going forward, sustaining industrial momentum will require stronger energy sector reforms, improved domestic resource production, and continued infrastructure spending to offset external vulnerabilities and support broader economic growth.

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## **DIGITALISATION, WOMEN ENTREPRENEURSHIP AND RURAL EXPANSION RESHAPE INDIA'S INFORMAL ECONOMY**

India's unincorporated non-agricultural sector has emerged as one of the strongest pillars of economic resilience, employment generation, and grassroots entrepreneurship. The latest findings from the Annual Survey of Unincorporated Sector Enterprises (ASUSE) 2025 and the Quarterly Bulletin of Unincorporated Sector Enterprises (QBUSE) for January–March 2026 reveal a sector undergoing rapid expansion, increasing formalisation, and accelerated digital transformation.

The surveys underline the growing importance of small and informal enterprises in sustaining India's economic momentum amid global uncertainty and uneven demand conditions. Covering unincorporated establishments in manufacturing, trade, and services (excluding construction), the data provide important insights into employment trends, entrepreneurship, digital adoption, women's participation, and financial inclusion.

### **Strong Expansion in Establishments and Employment**

The unincorporated sector recorded impressive growth between ASUSE 2023-24 and ASUSE 2025. The estimated number of establishments increased from 7.34 crore to 7.92 crore, registering a growth of nearly 8 per cent. Gross Value Added (GVA) expanded by 10.87 per cent during the same period, indicating that the sector is not only expanding in scale but also improving its economic contribution.

The momentum strengthened further in the January–March 2026 quarter. According to QBUSE, the number of unincorporated establishments surged to 9.16 crore, marking a sharp year-on-year increase of 16.69 per cent. Employment crossed the 15-crore mark for the first time, rising by 15.51 per cent over the corresponding quarter of the previous year.

The data indicate that the sector continues to play a vital counter-cyclical role in India's labour market. At a time when formal job creation remains uneven, unincorporated enterprises have absorbed a substantial workforce, particularly in rural areas and services-related activities.

### **Rural Economy Emerging as a Major Driver**

One of the most striking trends in the quarterly data is the strong rural expansion of the unincorporated sector. Rural establishments recorded growth of over 20 per cent, significantly

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outpacing urban growth. Similarly, rural employment rose by 21.65 per cent compared to 10.39 per cent growth in urban areas.

This suggests that the rural economy is witnessing rising entrepreneurial activity, diversification beyond agriculture, and stronger local demand for services and trade. The movement of workers between agriculture and informal non-farm activities also appears to be strengthening the sector's dynamism.

The expansion of rural enterprises is economically significant because it helps reduce excessive dependence on agriculture while creating decentralized employment opportunities closer to local communities.

### **Services Sector Leading the Transformation**

The surveys highlight the growing dominance of the services sector within the unincorporated economy. During January–March 2026, the “other services” category accounted for 44 per cent of establishments and 43 per cent of workers.

More importantly, the services sector recorded the fastest growth, with establishments rising by 24.82 per cent and employment by more than 31 per cent year-on-year.

This reflects structural changes underway in the Indian economy. Demand for local services, repair activities, logistics, personal services, digital support services, and community-based enterprises is increasing rapidly. The services segment is also becoming an important source of self-employment and micro-entrepreneurship.

Trade and manufacturing remain important contributors as well. Retail trade and apparel manufacturing continue to dominate the sector in terms of both establishments and employment.

### **Women's Participation and Entrepreneurship**

A particularly encouraging aspect of the survey findings is the rising role of women in the unincorporated sector. Women accounted for around 29 per cent of the total workforce both in ASUSE 2025 and in the QBUSE January–March 2026 estimates.

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Female entrepreneurship has also shown notable strength. More than 60 per cent of manufacturing establishments were headed by women proprietors during the ASUSE 2025 survey period. Overall, female-headed proprietary establishments increased from 26.17 per cent to 26.93 per cent.

The apparel manufacturing segment continues to remain a major employer of women workers. Importantly, women-led enterprises also appear to generate employment for other women, with nearly 72 per cent of female-led hired-worker establishments employing at least one female hired worker.

These trends point to the growing importance of informal enterprises in advancing women's economic participation, income generation, and entrepreneurship.

### **Rapid Digitalisation and Financial Inclusion**

One of the most transformative developments highlighted by the surveys is the rapid adoption of digital technologies. Internet use for entrepreneurial purposes rose sharply from 26.68 per cent in ASUSE 2023-24 to 39.37 per cent in ASUSE 2025. Among trading establishments, internet usage crossed 50 per cent.

The pace accelerated dramatically in the QBUSE January–March 2026 data. Around 81 per cent of establishments reported using the internet for business purposes, while nearly 81 per cent had adopted cashless payment systems such as UPI, online banking, and digital payment gateways.

This represents a major structural shift in India's informal economy. The spread of smartphones, UPI infrastructure, digital platforms, and affordable internet connectivity is integrating even small enterprises into the digital economy. Digital adoption is improving market access, operational efficiency, customer connectivity, and financial transparency.

Formalisation is also improving gradually. The proportion of registered establishments increased from 37.2 per cent to 37.5 per cent in ASUSE 2025 and further to 41.37 per cent in the QBUSE January–March 2026 estimates.

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The surveys also indicate stronger financial inclusion. More than 80 per cent of outstanding loans were sourced through institutional channels, including banks and government schemes, suggesting growing access to formal credit.

### **Structural Importance and Policy Implications**

The findings underscore the strategic importance of India's unincorporated sector in sustaining growth, livelihoods, and local entrepreneurship. The sector acts as a crucial employment buffer during economic uncertainty while supporting supply chains, local commerce, and service delivery.

At the same time, the surveys highlight the ongoing transition of the informal economy toward greater digitalisation and formal integration. Rising internet use, digital payments, institutional borrowing, and business registrations indicate that India's informal enterprises are becoming increasingly connected to the formal economic ecosystem.

However, several challenges remain. Productivity levels are still low in many activities, enterprises remain vulnerable to demand shocks, and access to technology, markets, and skilled labour remains uneven. Policy support in the form of easier credit access, digital skilling, infrastructure development, simplified compliance systems, and targeted support for women entrepreneurs will remain critical.

### **Conclusion**

The latest ASUSE and QBUSE results present a picture of a vibrant and evolving unincorporated sector that is becoming increasingly central to India's growth story. The sector is expanding rapidly in scale, generating millions of jobs, deepening women's participation, and embracing digital technologies at an unprecedented pace. The strong growth in rural enterprises and the rapid rise of the services sector suggest that India's economic transformation is becoming broader and more decentralized. As digital adoption and formalisation continue to deepen, the unincorporated sector could emerge not merely as a survival economy but as a dynamic engine of entrepreneurship, employment, and inclusive growth in the years ahead.

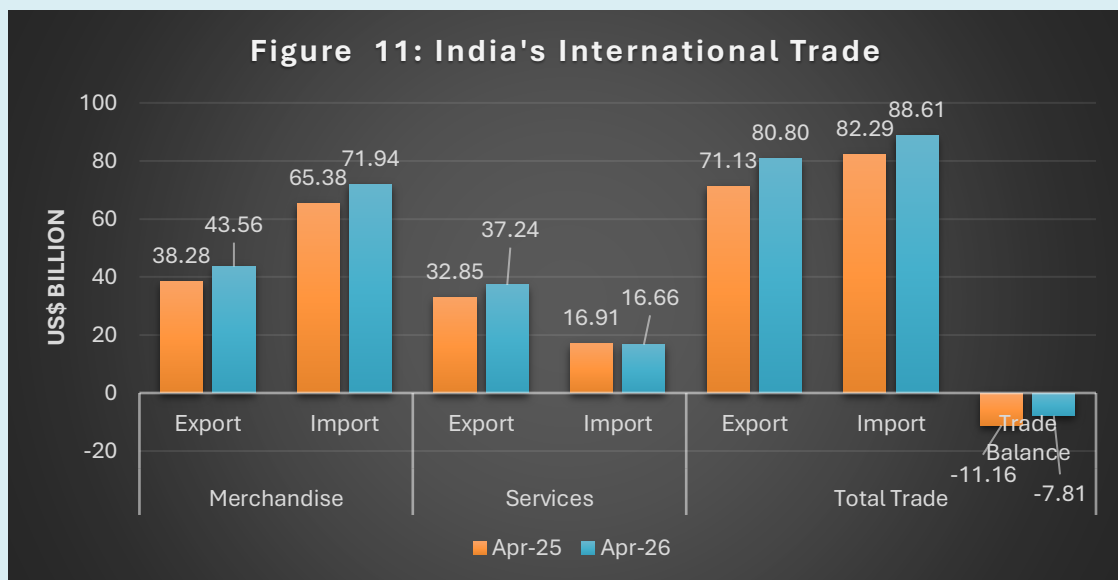
*The reports can be accessed from: ASUSE: <https://11nq.com/9r1fayi>  
QBUSE: <https://s11nk.com/d1hi8nk>*

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## TRADE & INVESTMENTS

### INDIA'S TRADE PERFORMANCE SHOWS RESILIENCE AMID GLOBAL VOLATILITY

India's external sector began FY27 on a strong note, with total exports rising 13.59 percent year-on-year to \$80.8 billion in April 2026 (Figure 11), reflecting resilient global demand and the growing diversification of India's export basket. Merchandise exports alone rose 13.78 percent to \$43.56 billion, while services exports increased to an estimated \$37.24 billion (Figure 11).



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

The strong export performance assumes significance against the backdrop of intensifying geopolitical tensions in West Asia, elevated energy prices, slowing global growth, and persistent supply-chain disruptions. The data suggest that India's export sector continues to demonstrate considerable resilience despite mounting global uncertainties.

## **Electronics and Petroleum Exports Lead Growth**

A major driver of export growth in April 2026 was the sharp rise in electronic goods exports, which increased over 40 percent year-on-year to \$5.18 billion. This reflects the growing success of India's electronics manufacturing ecosystem, supported by production-linked incentive (PLI) schemes, supply-chain diversification, and increasing integration into global value chains.

Petroleum product exports also surged nearly 35 percent to \$9.59 billion, aided partly by elevated global crude oil prices. Engineering goods exports crossed \$10 billion during the month, maintaining their position as India's largest export category.

Other sectors such as marine products, pharmaceuticals, chemicals, coffee, carpets, and agricultural products also recorded healthy growth, indicating broad-based expansion across manufacturing and agro-based exports. Particularly noteworthy was the sharp increase in exports of meat, dairy, and poultry products, which rose 48 percent year-on-year.

## **Services Exports Continue to Provide Stability**

India's services exports remained a major pillar of external-sector stability, rising 13.36 percent year-on-year. The strength of services trade continues to offset part of the merchandise trade deficit and reflects India's sustained competitiveness in IT services, business services, financial services, and digital exports.

The continued expansion of services exports is particularly important at a time when global merchandise trade faces increasing fragmentation due to geopolitical tensions, trade restrictions, and shipping disruptions.

## **Rising Imports Reflect Both Strength and Vulnerability**

Imports also grew strongly during April 2026, with merchandise imports rising to \$71.94 billion (Figure 11). The increase was driven by higher demand for industrial inputs, electronics, and energy-related imports.

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However, the import profile also highlights India's continuing external vulnerabilities. Non-petroleum imports rose sharply, while imports from major suppliers such as China, Russia, Saudi Arabia, and Oman registered strong growth.

Although petroleum imports recorded a decline in value during April compared to the previous year, the recent surge in global crude oil prices due to the West Asia conflict could sharply alter the trade trajectory in the coming months.

The merchandise trade deficit widened significantly to around \$28.4 billion, reflecting the faster growth in imports relative to exports. While the services surplus continues to cushion overall external-sector pressures, sustained energy-price shocks could increase current account risks going forward.

### **Diversification of Export Markets Gains Importance**

The trade data also indicate increasing diversification of India's export destinations. Countries such as Singapore, Sri Lanka, Bangladesh, Tanzania, and Hong Kong recorded strong growth in imports from India during April 2026.

This diversification is important in the current global environment, where geopolitical fragmentation and trade realignments are reshaping global commerce. India's ability to expand trade with emerging markets and regional partners could help reduce excessive dependence on traditional advanced economies.

### **Outlook: Opportunities and Risks Ahead**

Despite the encouraging April numbers, the outlook for India's external sector remains mixed. On the positive side, electronics manufacturing, engineering goods, pharmaceuticals, and digital services are likely to continue supporting export growth. Government initiatives such as PLI schemes, logistics improvements, and trade diversification strategies are also strengthening India's export competitiveness.

However, significant risks remain. The continuing West Asia conflict poses serious concerns for oil prices, shipping costs, insurance premiums, and global trade routes,

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particularly through the Strait of Hormuz. Rising crude oil prices could widen India's import bill, pressure the rupee, and increase inflationary risks.

Global growth uncertainty, tightening financial conditions, and protectionist trends in major economies could also affect export demand in the coming quarters.

Nevertheless, India's April 2026 trade performance suggests that the economy is entering FY27 with relatively strong external-sector momentum. Sustaining this momentum will require continued policy support, export diversification, energy-security measures, and efforts to strengthen domestic manufacturing competitiveness.

## EMPLOYMENT

### INDIA'S LABOUR MARKET SHOWS SIGNS OF STRUCTURAL TRANSITION

India's labour market continued to display relative stability during January–March 2026, even as the economy navigated global uncertainty, uneven demand conditions, and sectoral adjustments. The latest Periodic Labour Force Survey (PLFS) Quarterly Bulletin released by the National Statistics Office (NSO) reveals a labour market that is gradually undergoing structural transformation, particularly in rural India, while urban employment conditions remain broadly stable.

The latest PLFS data suggest that the Indian labour market is no longer defined solely by post-pandemic recovery dynamics. Instead, it is increasingly reflecting deeper transitions in employment patterns, sectoral diversification, and changing labour-force participation trends. The movement of rural workers away from agriculture toward secondary and tertiary activities, along with the gradual rise in regular salaried employment, points toward an evolving employment structure that may have important long-term implications for productivity and income generation.

#### **Labour Force Participation Remains Stable**

The overall Labour Force Participation Rate (LFPR) for persons aged 15 years and above stood at 55.5 percent during January–March 2026, only marginally lower than 55.8 percent recorded in the previous quarter.

Rural LFPR remained significantly higher at 58.2 percent compared to 50.2 percent in urban areas. This gap continues to reflect the stronger dependence on labour-intensive and informal economic activities in rural India, particularly agriculture and self-employment.

Female labour force participation also remained broadly stable. The female LFPR stood at 34.7 percent during the quarter, with rural female participation at 39.2 percent and urban female participation at 25.4 percent.

While the stability in female LFPR is encouraging, the relatively low urban female participation rate continues to highlight structural barriers such as limited access to quality jobs, care responsibilities, safety concerns, and persistent gender disparities in labour markets.

### **Urban Employment Conditions Remain Stable**

The Worker Population Ratio (WPR), which measures the proportion of employed persons in the population, remained largely stable during the quarter. Overall WPR stood at 52.8 percent compared to 53.1 percent in the previous quarter.

Urban WPR remained almost unchanged at 46.9 percent, indicating that urban labour demand has remained relatively resilient despite global economic uncertainties and uneven industrial conditions.

The stability of urban employment is particularly significant given concerns regarding slowing global growth, export uncertainties, and technology-driven disruptions in several sectors. The data suggest that India's domestic demand conditions and services-sector expansion continue to support urban employment generation.

### **Urban Unemployment Shows Improvement**

One of the more positive signals emerging from the latest PLFS data is the decline in urban unemployment. The urban unemployment rate (UR) for persons aged 15 years and above declined to 6.6 percent during January–March 2026 from 6.7 percent in the previous quarter.

Although the decline is modest, it reflects a gradual improvement in labour market absorption in urban areas. Male urban unemployment declined to 5.8 percent, while female urban unemployment remained elevated at 9.1 percent.

The persistence of higher female unemployment in urban areas indicates that gender disparities remain a major challenge in India's labour market. The issue is not merely

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labour force participation but also the availability of suitable employment opportunities for educated and skilled women.

In rural areas, unemployment edged up slightly to 4.3 percent from 4.0 percent in the previous quarter. However, rural unemployment levels continue to remain substantially below urban levels, largely due to the prevalence of self-employment and informal work arrangements.

### **Rural Employment Structure Is Changing**

Perhaps the most important insight from the latest PLFS Bulletin is the evidence of gradual structural transformation in rural employment. The share of workers engaged in agriculture in rural areas declined from 58.5 percent in October–December 2025 to 55.8 percent in January–March 2026.

At the same time, the share of employment in the rural tertiary sector increased from 20.6 percent to 21.7 percent, while the secondary sector, including mining and quarrying, rose from 20.9 percent to 22.6 percent.

This shift is economically significant. It suggests that rural India is gradually diversifying away from excessive dependence on agriculture toward manufacturing, construction, trade, transportation, and services activities. Such structural movement is critical for improving productivity, reducing disguised unemployment, and supporting income diversification in rural areas.

The shift also reflects the growing integration of rural economies with broader infrastructure expansion, logistics networks, digitalisation, and non-farm economic opportunities.

### **Rise in Regular Wage Employment**

Another notable development is the rise in regular wage and salaried employment in rural India. The share of regular wage/salaried workers in rural areas increased to 15.5 percent during January–March 2026 from 14.8 percent in the previous quarter.

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Simultaneously, the share of self-employed workers declined from 63.2 percent to 62.5 percent.

This movement could indicate gradual formalisation and improved employment quality in parts of the rural economy. A rise in regular wage employment generally implies greater income stability, improved access to social protection, and potentially higher labour productivity.

However, the pace of change remains gradual, and informal employment continues to dominate the Indian labour market. The challenge remains not merely generating employment, but generating productive and adequately remunerated employment.

### **Employment Growth in Absolute Terms**

The PLFS Bulletin estimates that, on average, 57.4 crore persons aged 15 years and above were employed during January–March 2026. Of these, 40.2 crore were male workers and 17.2 crore were female workers.

These figures underline the enormous scale and complexity of India's labour market. Even modest improvements in employment indicators involve millions of workers transitioning across sectors, employment categories, and income levels.

India's labour market therefore remains deeply interconnected with broader structural transformations in the economy, including urbanisation, industrialisation, technological change, infrastructure expansion, and demographic shifts.

### **Challenges Beneath the Stability**

Despite the broadly stable labour market picture, important challenges remain. Female labour force participation continues to be relatively low by international standards. Urban unemployment among women remains elevated, while a large share of employment still remains informal and vulnerable.

The quality of employment also remains a critical issue. A significant proportion of workers continue to be concentrated in low-productivity activities, particularly in

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agriculture and informal services. Wage growth in several sectors remains uneven, and technological disruptions may increasingly alter labour demand patterns in manufacturing and services.

Moreover, the sustainability of employment generation will depend heavily on the pace of economic growth, private investment, export performance, and the expansion of labour-intensive industries.

## **Conclusion**

The January–March 2026 PLFS data present a picture of cautious optimism for India’s labour market. Employment conditions remain broadly stable, urban unemployment has eased marginally, and important structural shifts are emerging within rural employment patterns.

The gradual movement of workers toward secondary and tertiary activities, along with the rise in regular wage employment, suggests that India may be entering an important phase of labour market transition. However, significant challenges related to employment quality, female participation, informality, and productivity remain unresolved.

India’s long-term employment trajectory will ultimately depend not only on the quantity of jobs created, but also on the economy’s ability to generate productive, formal, and inclusive employment opportunities capable of supporting sustained income growth and structural transformation.

*PLFS Quarterly Bulletin January-March 2026 can be accessed from:*

*<https://slink.com/9le98w3>*

*PLFS Monthly Bulletin April 2026 can be accessed from: <https://slink.com/pchxsk6>*

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## AGRICULTURE & AGRI-BUSINESS

### PREPARING FOR AN UNCERTAIN MONSOON: INDIA'S KHARIF STRATEGY AMID EL NIÑO RISKS

India is entering the 2026 kharif season under the shadow of rising climatic uncertainty. The possibility of an *El Niño* event, combined with forecasts of a below-normal southwest monsoon and increasing frequency of heatwaves, has prompted the Centre to prepare an extensive contingency strategy aimed at protecting agricultural production and rural livelihoods. The India Meteorological Department's projection of monsoon rainfall at 90 per cent of the long-period average has heightened concerns because the southwest monsoon remains the backbone of India's agricultural economy, particularly for rain-fed regions and kharif crops such as rice, pulses, oilseeds, cotton, and coarse cereals.

The government's response reflects a growing recognition that climate variability is no longer an occasional disruption but an emerging structural challenge for Indian agriculture. Frequent episodes of erratic rainfall, heat stress, delayed monsoons, and extreme weather events are increasingly affecting crop yields, water availability, soil health, and farm incomes. Against this backdrop, the Centre's emphasis on contingency crop planning, irrigation preparedness, seed availability, crop diversification, and integrated farming represents an attempt to strengthen agricultural resilience rather than merely respond to short-term weather shocks.

#### ***El Niño* and the Monsoon Challenge**

Historically, *El Niño* events have often been associated with weaker monsoon rainfall in India. A deficient or uneven monsoon can significantly affect kharif sowing, reduce reservoir levels, increase dependence on groundwater irrigation, and put pressure on food prices. The risks become even more serious when accompanied by prolonged heatwaves, which can damage standing crops, reduce soil moisture, increase evapotranspiration, and affect labour productivity in rural areas.

The current concern is not simply about lower aggregate rainfall, but about the spatial and temporal distribution of rainfall. Even if overall monsoon rainfall remains near normal, long dry spells interspersed with intense rainfall events can disrupt sowing cycles and reduce crop productivity. Such climatic volatility poses serious challenges for India's predominantly smallholder farming structure, where large sections of cultivators remain dependent on monsoon-fed agriculture.

The kharif season is particularly critical because it contributes significantly to India's annual foodgrain production. Any major disruption in the monsoon could affect not only agricultural growth but also inflation, rural consumption, employment, and overall macroeconomic stability.

### **Government's Contingency Strategy**

The Centre's contingency planning strategy appears to focus on four major priorities: risk mitigation, input preparedness, crop diversification, and long-term resilience building.

One of the most important elements is district-level crop planning. Since climatic conditions vary sharply across regions, decentralised contingency planning allows states and districts to tailor cropping patterns according to local rainfall conditions, water availability, and agro-climatic characteristics. This marks a shift away from a uniform national approach toward more location-specific agricultural planning.

The government has also directed states to ensure timely seed availability, especially for short-duration and drought-resistant crop varieties. Such varieties can help farmers adjust sowing decisions in the event of delayed monsoons or rainfall deficiencies. Expanding irrigation preparedness is another critical component of the strategy, particularly for vulnerable rain-fed regions.

The emphasis on pulses and oilseeds reflects both food security and import-substitution objectives. India remains heavily dependent on imports of edible oils and continues to face periodic shortages in pulses. Promoting domestic production of these crops not

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only strengthens self-reliance but also supports crop diversification away from water-intensive cultivation patterns.

Integrated farming systems are also receiving renewed policy attention. By combining crops, livestock, fisheries, and allied agricultural activities, integrated farming can diversify income sources, reduce climatic vulnerability, and improve resource efficiency for farmers.

### **Climate Resilience and Agricultural Transformation**

The contingency strategy also reflects broader structural changes underway in Indian agricultural policy. Increasingly, the focus is shifting from maximizing output alone toward building climate resilience, sustainability, and resource efficiency.

The renewed emphasis on soil health, water management, and sustainable farming practices is particularly important. Soil degradation, groundwater depletion, and declining farm productivity have emerged as serious long-term concerns in several parts of the country. Climate change is likely to intensify these stresses further.

Crop diversification is emerging as a central pillar of agricultural adaptation. Moving away from excessive dependence on water-intensive crops such as paddy toward pulses, oilseeds, millets, and horticulture can improve both ecological sustainability and farm resilience. Such diversification also aligns with broader national priorities related to nutritional security and sustainable agriculture.

The growing role of technology and institutional coordination is another positive development. Improved weather forecasting, satellite monitoring, digital advisories, crop insurance systems, and real-time agricultural data can significantly improve preparedness and reduce climate-related losses.

### **Macroeconomic Implications**

The performance of the kharif season has implications far beyond agriculture. A weak monsoon can fuel food inflation, increase rural distress, reduce discretionary

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consumption, and weaken overall economic growth. Food prices remain a particularly sensitive issue because they directly affect household budgets and monetary policy decisions.

Higher food inflation may complicate the Reserve Bank of India's inflation management strategy, especially if global commodity prices and energy costs remain elevated. A poor monsoon can also increase fiscal pressures through higher food subsidies, irrigation support, and rural relief measures.

At the same time, India enters the 2026 kharif season with certain strengths. The government remains optimistic because of record foodgrain production prospects, stronger institutional coordination, improved buffer stocks, and expanded irrigation infrastructure. The continued emphasis on public investment in rural infrastructure, agricultural technology, and supply chains has improved the sector's resilience compared with earlier decades.

Moreover, India's agricultural sector has demonstrated considerable adaptability in recent years. The rapid expansion of horticulture, dairy, fisheries, and allied activities has diversified rural income sources and reduced exclusive dependence on monsoon-sensitive crop cultivation.

## **Conclusion**

India's preparation of a comprehensive kharif contingency plan reflects the growing reality that climate risks are becoming central to agricultural policymaking. The challenge is no longer limited to managing occasional droughts or rainfall deficits; it is about adapting the entire agricultural system to a future of greater climatic uncertainty and volatility.

The Centre's emphasis on decentralised crop planning, drought-resistant seeds, irrigation preparedness, integrated farming, and crop diversification indicates a more proactive and resilience-oriented policy approach. While immediate concerns relate to

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the 2026 monsoon and *El Niño* risks, the broader objective is to build a more sustainable, climate-resilient, and diversified agricultural economy.

The coming kharif season will therefore test not only the monsoon, but also India's institutional capacity to manage climate-linked agricultural risks. The success of these efforts will have important implications for food security, inflation management, rural livelihoods, and long-term agricultural sustainability.

## CORPORATE INSIGHTS

### TATA SONS AT A CROSSROADS: GOVERNANCE, GROWTH, AND THE IPO DILEMMA

**Dr Debesh Roy**  
*Chairman, InSPIRE*

India's largest and most respected business conglomerate is entering one of the most sensitive phases in its modern history. Tata Sons, the holding company of the Tata Group, is simultaneously confronting internal governance tensions, mounting financial pressures from ambitious expansion projects, leadership uncertainties, and a potentially transformative regulatory challenge arising from Reserve Bank of India (RBI) regulations.

At the heart of the current debate lies a fundamental question: Should Tata Sons remain a closely controlled private holding company governed largely through the Tata Trusts' philanthropic and strategic vision, or should it evolve into a publicly listed corporate entity subject to greater market discipline, regulatory scrutiny, and shareholder accountability?

The answer will shape not only the future governance architecture of the Tata Group, but also the broader trajectory of India's corporate sector, where questions of ownership concentration, professional management, capital allocation, and regulatory oversight are becoming increasingly important.

#### **The Governance Divide Within Tata Trusts**

The immediate trigger for the current uncertainty is the growing divergence within the Tata Trusts, which collectively own around 66 percent of Tata Sons. Traditionally, the Tata Trusts have exercised significant influence over the strategic direction of the Tata Group while simultaneously funding some of India's largest philanthropic initiatives.

However, internal divisions are now becoming increasingly visible. One faction, led by Trust Chairman Noel Tata, reportedly favours retaining Tata Sons as a private entity to preserve the Trusts' long-standing veto powers and strategic control over the group. Another section of influential trustees and directors has advocated exploring a public listing of Tata Sons, arguing that greater transparency, market discipline, and capital access may become unavoidable in the future.

This debate reflects a deeper institutional tension between legacy stewardship and modern corporate governance. For decades, Tata Sons operated through a relatively insulated governance structure, protected from public-market scrutiny because of its private ownership model. But as the group expands into capital-intensive sectors such as aviation, electronics manufacturing, semiconductors, digital commerce, and renewable technologies, the traditional governance model is coming under increasing strain.

The issue is no longer merely philosophical. It is becoming deeply financial and regulatory.

### **Leadership Questions and Strategic Reassessment**

The uncertainty surrounding Tata Sons Chairman N Chandrasekaran's proposed third term further highlights the ongoing reassessment within the group. Chandrasekaran, widely credited with stabilising the Tata Group after earlier governance conflicts and driving its global expansion strategy, now faces questions regarding capital allocation efficiency and profitability of newer ventures.

Reports suggest that Noel Tata has linked Chandrasekaran's leadership renewal to a broader review of governance practices, investment strategies, and turnaround plans for loss-making businesses. This reflects growing concerns about whether the group's aggressive diversification strategy is generating sustainable returns.

Under Chandrasekaran's leadership, the Tata Group has significantly expanded into emerging sectors aligned with India's long-term economic priorities, including

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semiconductors, electronics manufacturing, aviation, e-commerce, and digital platforms. While strategically important, many of these businesses remain heavily cash-intensive and loss-making.

This has intensified concerns about balance-sheet pressures and the sustainability of the group's investment cycle, particularly at a time when its largest profit engine—TCS—is experiencing moderating growth and dividend flows.

### **Air India: Strategic Asset or Financial Burden?**

Among the most critical concerns is the financial condition of Air India, which has become both a symbol of the Tata Group's national ambition and its largest operational challenge.

Since reacquiring Air India in 2022, the Tata Group has embarked on one of the world's most ambitious airline transformation programmes, involving fleet modernisation, operational restructuring, route expansion, and integration with Vistara. However, the financial costs have escalated sharply.

Air India reportedly posted a consolidated loss of ₹25,606 crore in FY2025–26, more than double the previous year's losses. Despite generating annual revenues of over ₹79,000 crore, profitability remains under severe pressure due to rising fuel costs, expensive maintenance requirements, airport charges, employee costs, and disruptions in international air routes caused by geopolitical tensions.

The airline industry globally remains highly vulnerable to oil-price volatility, geopolitical disruptions, and cyclical demand shocks. In Air India's case, the challenge is even greater because the company is simultaneously attempting large-scale modernization while rebuilding operational reliability and global competitiveness.

The aviation business is therefore exerting significant pressure on the broader Tata ecosystem. Questions are increasingly emerging about the pace of investment, funding requirements, and the timeframe within which Air India can achieve operational profitability.

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## **Financial Stress Across New-Age Businesses**

Air India is not the only concern. Tata Digital, semiconductor projects, electronics manufacturing initiatives, and several technology-focused ventures are also reportedly consuming substantial capital without immediate profitability visibility.

The Tata Group's strategic logic is understandable. India is entering a major industrial transformation phase driven by digitalisation, supply-chain diversification, semiconductor manufacturing, artificial intelligence, electronics production, and energy transition investments. The Tata Group aims to position itself at the centre of this transformation.

However, such transitions require patient capital, long gestation periods, and substantial risk absorption capacity. Simultaneously financing aviation restructuring, semiconductor investments, digital expansion, and manufacturing scale-up creates enormous capital pressure even for a conglomerate as large as Tata.

Historically, much of the group's financial stability has depended on strong and predictable dividend flows from Tata Consultancy Services (TCS). However, as the global technology environment becomes more uncertain and growth moderates, the group's reliance on TCS dividends as an internal funding engine may become increasingly difficult to sustain at previous levels.

This raises a critical strategic question: Can Tata Sons continue funding its next-generation expansion strategy within the constraints of its current ownership and capital structure?

## **RBI Regulations and the Listing Dilemma**

The most consequential issue confronting Tata Sons may ultimately come from regulation rather than internal governance.

The RBI has classified Tata Sons as an "Upper-Layer Core Investment Company" (CIC) under its scale-based regulatory framework for large non-banking financial

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entities. Under existing regulations, entities falling into the upper layer are expected to comply with stricter governance norms and, in many cases, move toward public listing.

Tata Sons attempted to avoid this route by repaying over ₹22,000 crore of public debt and applying to voluntarily surrender its CIC registration. However, the RBI has retained the company within the upper-layer classification framework.

The situation has become more complicated because a revised RBI framework effective from July 2026 introduces a strict asset threshold of ₹1 lakh crore for upper-layer classification. Since Tata Sons reportedly has standalone assets of approximately ₹1.75 lakh crore, it remains within the regulatory net regardless of its debt profile.

This effectively revives the possibility that Tata Sons may eventually be compelled to launch an Initial Public Offering (IPO).

### **Why an IPO Would Be Transformational**

A Tata Sons IPO would represent one of the most significant corporate events in modern Indian business history. More importantly, it would fundamentally alter the governance structure of the Tata Group.

Currently, the Tata Trusts enjoy substantial influence and veto powers because of their dominant ownership position in a privately held company. A public listing would subject Tata Sons to Securities and Exchange Board of India (SEBI) norms regarding board independence, minority shareholder rights, disclosures, and governance practices.

Public shareholders and institutional investors would demand greater transparency regarding capital allocation, investment returns, succession planning, and risk management. The group's philanthropic governance model would increasingly coexist with market-driven accountability mechanisms.

For the Tata Trusts, this presents both financial and philosophical concerns. The Trusts have historically used dividend income from Tata Sons to fund extensive philanthropic

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activities across healthcare, education, research, and social development. Dilution of ownership and governance control could potentially weaken this unique institutional model.

At the same time, supporters of listing argue that greater transparency and capital-market discipline could improve governance quality, unlock shareholder value, and provide Tata Sons with access to significantly larger pools of long-term capital.

### **The Broader Corporate Governance Question**

The Tata Sons debate also reflects broader changes occurring within Indian capitalism. Large family-controlled and promoter-driven business groups are increasingly confronting pressures related to transparency, institutional governance, succession planning, and capital-market accountability. As Indian corporations become larger, more globally integrated, and more systemically important, regulators are seeking stronger oversight and governance standards.

The RBI's evolving approach toward large shadow-bank-like holding structures reflects concerns about systemic financial risks, concentration of control, and interconnected corporate financing arrangements.

Simultaneously, India's growth ambitions require massive long-term investment in infrastructure, manufacturing, aviation, technology, clean energy, and semiconductors. Financing these sectors sustainably may increasingly require deeper capital-market participation and stronger governance frameworks.

In that sense, the Tata Sons case may become a template for how India balances legacy business structures with modern regulatory and capital-market expectations.

### **Conclusion**

Tata Sons today stands at a defining institutional crossroads. The group is simultaneously managing leadership questions, ambitious expansion plans, financial

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pressures from loss-making strategic ventures, and growing regulatory scrutiny over its ownership structure.

At the centre of this transition lies a difficult balancing act: preserving the Tata Group's long-standing values-based stewardship model while adapting to the realities of modern capital markets, large-scale industrial financing, and evolving governance standards.

The outcome of the listing debate, the future of Chandrasekaran's leadership, the turnaround of Air India, and the RBI's regulatory stance will collectively determine the next phase of the Tata Group's evolution.

Regardless of the eventual path chosen, the developments at Tata Sons will carry implications far beyond a single conglomerate. They will shape discussions on corporate governance, institutional ownership, regulatory oversight, and the future structure of Indian capitalism itself.

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## BANKING, FINANCIAL SERVICES & INSURANCE

### A DECADE OF INDIA'S INSOLVENCY AND BANKRUPTCY CODE: ACHIEVEMENTS, CHALLENGES AND THE ROAD AHEAD

**Dr Debesh Roy**  
*Chairman, InSPIRE*

The completion of ten years of the Insolvency and Bankruptcy Code (IBC) marks an important moment in India's economic and institutional evolution. Introduced in 2016, the Code represented a fundamental departure from India's earlier fragmented and inefficient insolvency framework, which had long been associated with prolonged litigation, weak creditor rights and mounting non-performing assets (NPAs). This article highlights substantial institutional success alongside emerging structural weaknesses that now require urgent reform.

#### **The Economic Context Behind the IBC**

The IBC emerged during a period of severe financial stress in the Indian economy. As Sahoo and Pandey<sup>13</sup> observe, India's transition to a market economy created a cycle of expansion, stress and failure, but the absence of an effective exit mechanism allowed economically unviable "zombie firms" to survive for years. This contributed to the so-called "twin balance sheet syndrome," where stressed corporate balance sheets weakened banks, particularly public sector banks, thereby constraining fresh lending and investment.

Prior to the IBC, India relied on multiple overlapping mechanisms such as the Sick Industrial Companies Act (SICA), Debt Recovery Tribunals and SARFAESI, none of which succeeded in ensuring timely resolution of corporate distress. Recovery

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<sup>13</sup> Sahoo, M.S. & Raghav Pandey. 2026. "Rescue, recovery, and reform: IBC's first decade has changed credit culture". *Business Standard*, May 27, 2026 <https://slink.com/i5em1h4>

processes often stretched over many years while promoters retained control of failing businesses. The IBC attempted to fundamentally alter this equilibrium by shifting control from defaulting promoters to creditors and by imposing strict timelines for insolvency resolution.

### **Achievements: Changing India's Credit Culture**

One of the most important achievements of the IBC has been the transformation of India's credit culture. The framework significantly altered borrower behaviour by creating a credible threat of loss of ownership and management control after default. Former RBI Deputy Governor N S Vishwanathan rightly noted that the Code changed the creditor-debtor relationship, which had previously favoured defaulting borrowers.

The numerical outcomes have been substantial. Till March 2026, more than 1,400 companies had been resolved through approved resolution plans, while creditors realised over ₹4.3 trillion through the insolvency process. Importantly, recoveries under the IBC have significantly exceeded those under earlier recovery mechanisms. The Mint article notes that financial creditors realised 31–36 per cent of admitted claims under the IBC compared to roughly 15–20 per cent under the pre-IBC regime.

Equally significant has been the improvement in banking sector health. Gross NPAs of scheduled commercial banks declined from nearly 11.8 per cent in 2018 to close to 2.2 per cent by 2025. Public sector banks, once burdened by toxic assets, have returned to profitability with improved capital adequacy and stronger balance sheets. The IBC, combined with bank recapitalisation and tighter supervisory norms, played a central role in this transformation.

The Code also contributed to broader macroeconomic efficiency. Economic literature on insolvency regimes emphasises that efficient bankruptcy systems are essential for “creative destruction”, reallocating resources from inefficient firms to productive enterprises (Schumpeter, 1942<sup>14</sup>). By enabling the exit of non-viable firms and revival

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<sup>14</sup> Schumpeter, Joseph. 1942. *Capitalism, Socialism and Democracy*, Harper & Brothers, New York.

of viable ones, the IBC improved capital allocation and credit discipline within the economy.

### **Revival Rather Than Liquidation**

Contrary to early fears that the IBC would become merely a liquidation mechanism, the evidence suggests that the framework has increasingly prioritised revival and value preservation. The resolution plans generated recoveries amounting to 167 per cent of liquidation value on average (Sahoo & Pandey, 2026<sup>15</sup>).

Many high-profile cases such as Essar Steel, Bhushan Steel and Electrosteel Steels resulted in operational revival under new ownership. Resolved firms experienced significant improvements in sales, capital expenditure and asset utilisation after resolution.

This outcome is important because bankruptcy systems should ideally maximise enterprise value rather than merely recover dues. International experience, especially from Chapter 11 proceedings in the United States, demonstrates that preserving firms as going concerns often generates better economic and social outcomes than liquidation (Hart, 2000<sup>16</sup>).

### **The Growing Crisis of Delays**

Despite these achievements, the most serious challenge confronting the IBC today is the growing crisis of delays. A *Financial Express* editorial<sup>17</sup> notes that the average resolution timeline has stretched to over 680 days against the statutory limit of 330 days, with some cases taking nearly four years after resolution plans are submitted.

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<sup>15</sup> Sahoo, M.S. & Raghav Pandey. 2026. "Rescue, recovery, and reform: IBC's first decade has changed credit culture". *Business Standard*, May 27, 2026 <https://s11nk.com/i5em1h4>

<sup>16</sup> Hart, Oliver. 2000. "Different Approaches to Bankruptcy," National Bureau of Economic Research *Working Paper No. 7921*, Cambridge, MA. [https://www.nber.org/system/files/working\\_papers/w7921/w7921.pdf](https://www.nber.org/system/files/working_papers/w7921/w7921.pdf)

<sup>17</sup> "Relapse, after a decade: Why India's bankruptcy law needs urgent reform", *Financial Express* 24 May 2026. <https://11nq.com/zy5uhhf>

The backlog at the National Company Law Tribunal (NCLT) has become a major institutional bottleneck. Nearly 400 approved resolution plans remain pending before tribunals. Such delays erode enterprise value, increase uncertainty and reduce the attractiveness of the insolvency process for creditors and investors.

Economic theory strongly supports the importance of speed in insolvency resolution. Research by Djankov et al. (2008<sup>18</sup>) shows that countries with faster insolvency systems tend to have deeper credit markets and better recovery outcomes. Delays destroy firm value because distressed assets deteriorate rapidly, customers and suppliers exit relationships, and employees lose confidence.

### **Concerns Over Governance and Creditor Dominance**

Another emerging concern relates to governance and decision-making within the IBC process. Barman (2026<sup>19</sup>) argues that the Committee of Creditors (CoC) exercises disproportionate power, often resulting in opaque decision-making and conflicts of interest.

The current structure places financial creditors at the centre of the resolution process, while operational creditors, suppliers and employees often have limited influence. Critics argue that the framework increasingly resembles a debt recovery mechanism rather than a balanced restructuring process.

This criticism is particularly relevant in sectors such as real estate, where homebuyers frequently remain trapped in prolonged insolvency proceedings despite being recognised as financial creditors. The challenge lies in balancing efficiency with fairness across different stakeholder groups.

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<sup>18</sup> Djankov, Simeon, Caralee McLiesh and Andrei Shleifer (2008), “Debt Enforcement Around the World,” *Journal of Political Economy*, Vol. 116, No. 6, pp. 1105–1149.

<sup>19</sup> Barman, Arijit. 2026. “Fix the ABC of IBC: Why we should re-engineer the bankruptcy code further”, *The Economic Times*, 28 May 2026. <https://sl1nk.com/u5lj9ol>

## **The Transition Towards IBC 2.0**

The recent amendments to the Code indicate the beginning of what many commentators describe as “IBC 2.0.” These reforms aim to address several shortcomings in the original framework by introducing creditor-led resolution without displacing existing management in certain cases, along with provisions for cross-border insolvency and group insolvency.

The shift towards pre-packaged and management-retention models reflects lessons from global insolvency practices. Countries such as the United States and the United Kingdom increasingly emphasise restructuring frameworks that preserve operational continuity while reducing litigation and delays.

The proposed reforms also underscore a broader transition from an enforcement-centric approach towards a more mature restructuring ecosystem. As India’s financial markets deepen and corporate structures become more complex, insolvency systems must evolve accordingly.

## **The Way Forward**

The next phase of reforms should focus on four broad areas.

First, institutional capacity must be strengthened urgently. Expanding NCLT capacity, improving judicial specialisation and reducing procedural delays are essential for restoring credibility to the system.

Second, the insolvency process needs greater transparency and predictability. Simplified bidding mechanisms, electronic auctions and clearer evaluation criteria could reduce litigation and improve investor participation.

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Third, the role and accountability of resolution professionals require strengthening. As suggested by Barman (2026<sup>20</sup>), resolution professionals should evolve into more independent and empowered restructuring managers with greater accountability.

Finally, India must implement the long-delayed personal insolvency framework under Part III of the Code. A modern market economy requires mechanisms not only for corporate restructuring but also for giving failed entrepreneurs a genuine economic “fresh start.”

## **Conclusion**

The IBC has undeniably transformed India’s insolvency landscape over the past decade. It improved credit discipline, strengthened bank balance sheets, revived distressed enterprises and fundamentally altered the relationship between borrowers and lenders. Yet the system is now entering a more complex phase where institutional weaknesses, judicial delays and governance concerns threaten to dilute its effectiveness.

The challenge for policymakers is no longer whether the IBC was necessary; its importance is beyond dispute. The challenge now is to ensure that the next phase of reforms preserves the Code’s original spirit of timely, transparent and market-driven resolution while adapting it to the realities of a more sophisticated and globally integrated economy.

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<sup>20</sup> Barman, Arijit. 2026. “Fix the ABC of IBC: Why we should re-engineer the bankruptcy code further”, *The Economic Times*, 28 May 2026. <https://sl1nk.com/exxcbaw>

## SECTION 2: GLOBAL ECONOMY

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## GLOBAL ECONOMIC OUTLOOK

### ENERGY SHOCKS, AI MODERATION AND GLOBAL GROWTH RISKS: INSIGHTS FROM THE WEF CHIEF ECONOMISTS' OUTLOOK 2026

The World Economic Forum's *Chief Economists' Outlook: May 2026* presents a sobering assessment of the global economy amid intensifying geopolitical tensions, supply chain disruptions and rising inflationary pressures. The report suggests that the optimism visible at the beginning of 2026 has faded considerably as the conflict in West Asia and the prolonged disruption in the Strait of Hormuz have amplified uncertainty across global markets. The findings indicate that the world economy is entering a phase characterised by slower growth, elevated inflation, financial volatility and increasing geoeconomic fragmentation.

#### **A Deteriorating Global Economic Outlook**

The report highlights a sharp deterioration in sentiment among global chief economists. Nearly 89 per cent of respondents expect global economic growth to weaken over the next twelve months, while 21 per cent anticipate a significantly weaker global outlook. The escalation of the West Asia conflict and disruptions in maritime trade routes have severely affected the flow of crude oil, liquefied natural gas, fertilisers and critical industrial inputs.

The report notes that the global economy now faces conditions comparable to some of the most disruptive periods since the Covid-19 pandemic. The closure of the Strait of Hormuz, through which nearly 10 per cent of global seaborne trade typically passes, has triggered widespread supply-side disruptions, sharp increases in energy prices and heightened macroeconomic uncertainty.

Although most economists surveyed do not yet foresee a full-scale global recession, concerns about weakening resilience are growing. Supply chain adjustments,

diversification of sourcing and energy system reconfiguration are expected to take time, limiting the world economy's ability to absorb repeated shocks in the near term.

### **Inflation Re-emerges as the Dominant Concern**

One of the strongest messages emerging from the report is the return of inflationary pressures as a major global challenge. Around 94 per cent of surveyed economists expect global inflation to rise over the next year. Energy and food prices are identified as the principal drivers of inflation, particularly in emerging economies dependent on imported fuel and fertilisers.

The report underscores that inflationary pressures are becoming increasingly broad-based. Rising crude oil prices are feeding into transportation, logistics and manufacturing costs, while disruptions in fertiliser supplies threaten agricultural productivity and food prices globally. The report warns that prolonged supply chain disruptions may lead to a delayed but more persistent food inflation shock, particularly in vulnerable regions such as Sub-Saharan Africa and the Middle East and North Africa.

This assessment aligns with broader concerns expressed recently by the International Monetary Fund and several central banks regarding the resurgence of supply-driven inflation in an era of geopolitical fragmentation and energy insecurity.

### **Financial Market Volatility and Debt Vulnerabilities**

The WEF report also draws attention to growing volatility in financial markets. Most surveyed economists expect higher volatility in public debt markets, private credit markets and global equity markets over the next year.

The concern is particularly significant because global public debt levels remain elevated after years of fiscal expansion during the pandemic and subsequent economic crises. Rising borrowing costs, coupled with persistent inflation, could constrain fiscal space in many economies and increase debt servicing burdens.

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The report notes that global borrowing by governments and corporations reached record levels in 2025 and is expected to rise further in 2026. Such conditions create vulnerabilities, especially for developing economies facing currency depreciation and capital outflows.

### **Artificial Intelligence: Optimism with Greater Realism**

While geopolitical risks dominate the short-term outlook, artificial intelligence remains one of the few areas generating sustained optimism. More than 90 per cent of surveyed chief economists expect AI adoption to increase significantly over the next year.

However, expectations regarding immediate productivity gains have become more cautious compared to earlier assessments. The report observes that AI-driven productivity improvements are likely to emerge unevenly across industries and regions. Information technology, financial services and digital communications are expected to witness the earliest gains, while sectors such as manufacturing, agriculture and infrastructure may take longer to realise substantial productivity improvements.

The report correctly points out that the economic benefits of general-purpose technologies historically materialise gradually, requiring complementary investments in skills, infrastructure, management practices and regulatory frameworks.

### **India Emerges as a Relative Bright Spot**

Among major economies, India continues to stand out as one of the strongest growth performers. According to the survey, India recorded the highest growth expectations among all regions covered in the report, with 52 per cent of respondents expecting strong or very strong growth over the next year.

The report projects India's GDP growth at around 6.5 per cent for 2026-27, supported by infrastructure investment, domestic demand, technology expansion and policy continuity. India's relatively strong macroeconomic fundamentals, expanding manufacturing base and proactive trade engagement contribute to this positive assessment.

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At the same time, the report warns that India faces rising inflationary pressures from higher crude oil prices and imported energy costs. Depreciation pressures on the rupee also forced the Reserve Bank of India to draw down foreign exchange reserves to stabilise the currency. Inflation therefore remains India's key macroeconomic challenge in the near term.

Importantly, the report identifies India as one of the most attractive destinations for multinational companies, second only to the United States. The combination of scale, market growth, infrastructure expansion and strategic supply-chain positioning has enhanced India's global economic relevance.

### **Europe Faces Stagflation Risks**

The report paints a relatively weak picture for Europe. Growth expectations have deteriorated sharply due to rising energy costs and supply disruptions. Economists increasingly fear stagflation-like conditions characterised by low growth and elevated inflation.

Germany, Europe's largest economy, continues to face near-stagnation, while energy insecurity has amplified broader concerns about industrial competitiveness. The report also suggests that Europe's fiscal and monetary policy frameworks may face renewed stress if inflation persists while economic activity slows.

### **Goeconomic Fragmentation and the New Global Order**

A broader theme running through the report is the growing fragmentation of the global economy. Supply chains are increasingly being reorganised along geopolitical lines, while nations are reassessing dependencies on strategic commodities, energy sources and critical technologies.

The report suggests that multinational corporations are now prioritising resilience, strategic flexibility and geopolitical stability alongside traditional considerations such as market size and labour costs. This reflects a transition from efficiency-driven globalisation to security-oriented economic strategies.

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The implications are profound. A more fragmented global economy could reduce overall efficiency, increase production costs and weaken long-term productivity growth. At the same time, it may create opportunities for emerging economies such as India and several South-East Asian countries that are positioning themselves as alternative manufacturing and supply-chain hubs.

## **Conclusion**

The WEF Chief Economists' Outlook for May 2026 presents a world economy confronting simultaneous geopolitical, inflationary and structural challenges. The combination of energy shocks, supply-chain disruptions, financial volatility and slowing growth has created an unusually uncertain macroeconomic environment.

While artificial intelligence and technological transformation continue to offer long-term optimism, short-term economic conditions remain fragile. Inflation is once again becoming a central policy challenge, and the global economy appears increasingly vulnerable to geopolitical shocks.

In this uncertain landscape, countries with strong domestic demand, credible institutions, diversified supply chains and macroeconomic stability are likely to emerge more resilient. India's relative strength in the report highlights the importance of sustained reforms, infrastructure investment and strategic economic positioning in navigating an increasingly fragmented and volatile global economy.

*World Economic Forum's Chief Economists' Outlook May 2026 can be accessed from:*  
[https://reports.weforum.org/docs/WEF\\_Chief\\_Economists\\_Outlook\\_May\\_2026.pdf](https://reports.weforum.org/docs/WEF_Chief_Economists_Outlook_May_2026.pdf)

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## MONETARY POLICY

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### RESERVE BANK OF AUSTRALIA TIGHTENS POLICY AMID RISING INFLATION AND GEOPOLITICAL RISKS

The Reserve Bank of Australia (RBA) has raised its cash rate target by 25 basis points to 4.35 percent at its Board meeting held on 5 May 2026, underscoring growing concerns over persistent inflationary pressures and heightened global uncertainty. The decision reflects the RBA's assessment that inflation risks have intensified, particularly due to rising energy prices linked to the ongoing conflict in the Middle East and continued domestic capacity pressures within the Australian economy.

According to the RBA, inflation accelerated significantly during the second half of 2025, and incoming data since the beginning of 2026 confirm that demand pressures and supply-side constraints remain stronger than previously anticipated. The conflict in the Middle East has sharply increased global fuel and commodity prices, which are already feeding into domestic inflation. Higher transport, logistics, and production costs are beginning to spread across the broader economy, with many firms now considering further price increases for goods and services.

The RBA also expressed concern about the rise in short-term inflation expectations. Policymakers fear that if elevated fuel and commodity prices persist for a prolonged period, inflationary pressures could become embedded in wage-setting and price-setting behaviour, making inflation more difficult to contain over the medium term.

The central bank has revised its economic forecasts to incorporate recent geopolitical developments and commodity market disruptions. Under the baseline scenario—which assumes that tensions in the Middle East ease relatively soon and fuel prices gradually moderate—underlying inflation is still expected to peak at a higher level than projected in February 2026. Inflation is then forecast to decline gradually as tighter monetary

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policy slows demand growth and eases capacity constraints within the Australian economy.

However, the RBA acknowledged that uncertainty surrounding the outlook has increased materially. A prolonged or more severe conflict in the Middle East could trigger additional spikes in global energy prices, further intensifying inflationary pressures. At the same time, sustained geopolitical instability and higher commodity prices could weaken economic growth among Australia's major trading partners, thereby reducing external demand and weighing on domestic economic activity.

Financial conditions in Australia have already tightened considerably during 2026. Money market rates and government bond yields have risen, while the Australian dollar has appreciated. Despite tighter financial conditions, the RBA noted that credit remains readily available to both households and businesses, indicating that the financial system continues to function effectively.

The Board concluded that inflation is likely to remain above the RBA's target range for an extended period and that risks remain skewed to the upside. Policymakers therefore judged that a further increase in interest rates was necessary to reinforce the central bank's commitment to restoring price stability and anchoring inflation expectations.

Importantly, the decision highlighted the difficult balancing act confronting the RBA. While higher interest rates are necessary to contain inflation, policymakers are also aware that tighter monetary conditions and prolonged geopolitical uncertainty may slow economic growth and weaken labour market conditions over time.

The policy decision was approved by majority vote, with eight Board members supporting the 25-basis-point increase and one member voting to keep the cash rate unchanged at 4.10 percent. The split decision reflects differing assessments regarding the trade-off between controlling inflation and preserving economic momentum.

The latest move by the Reserve Bank of Australia reflects broader global challenges confronting central banks in 2026. Persistent inflation, geopolitical instability, volatile

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energy markets, and slowing global growth are forcing monetary authorities to maintain restrictive policy settings despite rising downside risks to economic activity.

For Australia, the policy outlook will now depend heavily on the trajectory of global energy prices, developments in the Middle East conflict, domestic inflation trends, and the resilience of consumer demand and the labour market. The RBA has signalled that it will remain highly data-dependent and stands prepared to take further action if inflationary pressures prove more persistent than currently expected.

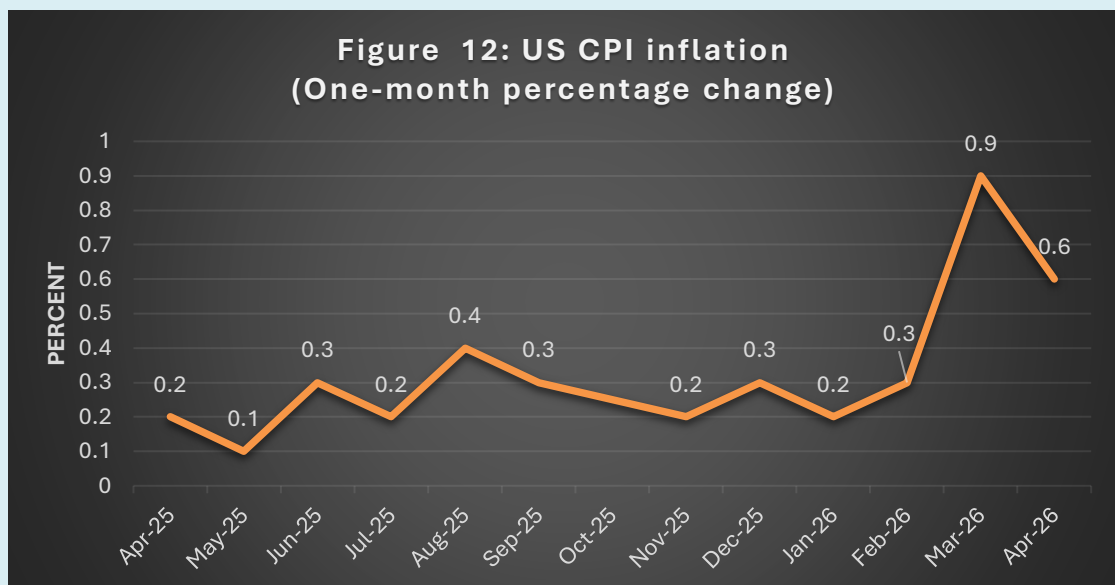
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## INFLATION

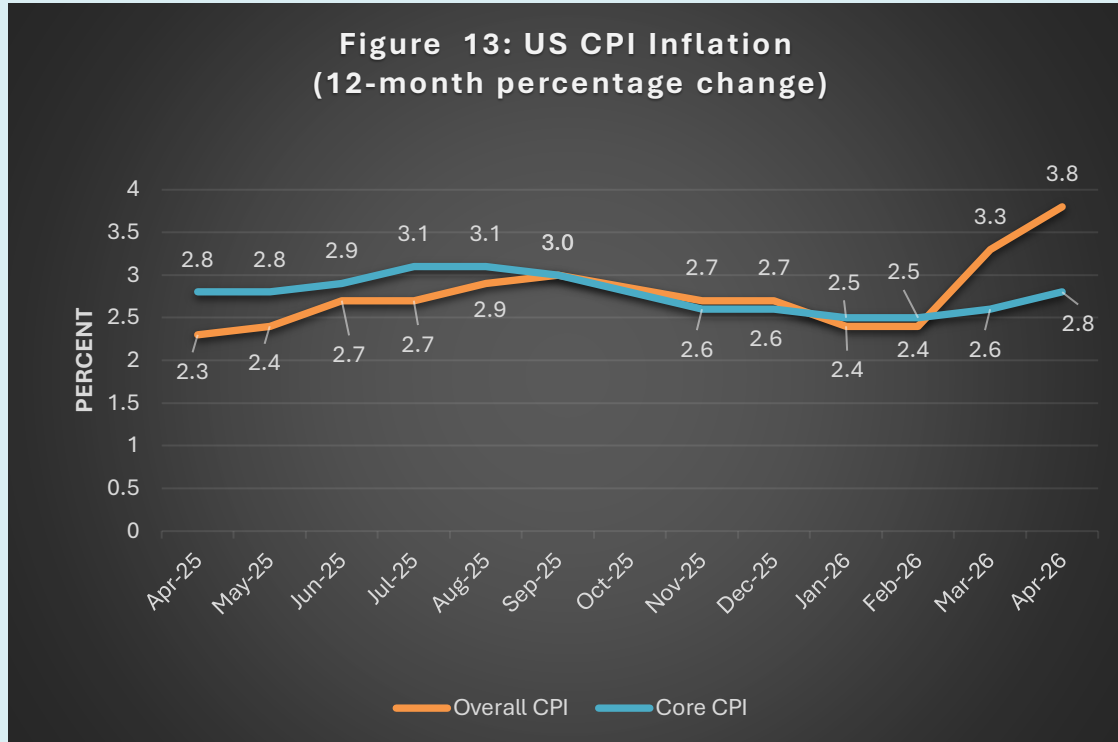
### FUEL COSTS DRIVE SHARP RISE IN U.S. CONSUMER INFLATION IN APRIL 2026

The April 2026 Consumer Price Index (CPI) data released by the U.S. Bureau of Labor Statistics indicate that inflationary pressures in the United States intensified again in April 2026, driven primarily by surging energy prices, rising shelter costs, and firm food inflation. The data suggest that while core inflation remains relatively contained compared with previous peaks, broader price pressures are becoming increasingly persistent amid geopolitical tensions, elevated fuel costs, and resilient domestic demand.

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.6 percent month-on-month in April 2026 (Figure 12) on a seasonally adjusted basis, following a sharper 0.9 percent increase in March. On a year-on-year basis, headline inflation accelerated to 3.8 percent from 3.3 percent in March (Figure 13). The increase marks a significant rebound in inflation after earlier expectations that price pressures would gradually moderate during 2026.



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



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### Energy Prices Emerge as the Main Inflation Driver

The most important contributor to the April inflation surge was the energy sector. The energy index rose 3.8 percent during the month and accounted for more than 40 percent of the overall increase in the headline CPI.

Gasoline prices increased by 5.4 percent in April alone and were up 28.4 percent compared with a year earlier. Fuel oil prices recorded an even sharper annual increase of 54.3 percent, while electricity prices rose 6.1 percent year-on-year. The sharp rise in energy prices reflects continuing geopolitical tensions, supply disruptions, and elevated global crude oil prices.

The energy shock is particularly significant because of its broader spillover effects across the economy. Higher fuel costs raise transportation, logistics, manufacturing, and household utility expenses, thereby feeding into broader consumer prices. The

persistence of elevated energy prices also raises concerns about second-round inflationary effects, especially if businesses continue passing higher input costs onto consumers.

### **Shelter and Services Inflation Remain Sticky**

Apart from energy, shelter costs continued to exert sustained upward pressure on inflation. The shelter index rose 0.6 percent in April and increased 3.3 percent over the past 12 months. Both rent and owners' equivalent rent increased by 0.5 percent during the month, indicating that housing-related inflation remains persistent despite tighter monetary conditions.

Services inflation also remained firm. Transportation services rose 4.3 percent year-on-year, while airline fares surged 20.7 percent over the past year. Rising travel demand, higher fuel costs, and supply constraints within the aviation sector continue to support elevated transportation prices.

The persistence of shelter and services inflation is particularly important for policymakers because these components tend to be more structurally sticky than commodity-driven price movements. Unlike energy prices, which can fluctuate sharply, housing and services inflation often reflect broader labour-market conditions, wage pressures, and domestic demand trends.

### **Food Inflation Adds to Household Pressures**

Food prices also contributed significantly to inflationary pressures in April. The food index rose 0.5 percent during the month and increased 3.2 percent year-on-year.

Food-at-home prices increased 0.7 percent in April, led by higher prices for meats, fruits and vegetables, dairy products, and non-alcoholic beverages. Beef prices rose particularly sharply, increasing 2.7 percent during the month. Fruits and vegetables recorded an annual increase of 6.1 percent, reflecting continuing supply-chain pressures and climate-related disruptions affecting agricultural production.

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Meanwhile, food-away-from-home inflation remained elevated, with restaurant prices increasing 3.6 percent over the year. Persistent wage pressures in the hospitality sector, combined with rising food and energy costs, continue to push up restaurant prices.

The combination of rising food, fuel, and shelter costs is particularly burdensome for lower- and middle-income households because these categories account for a larger share of their overall expenditure.

### **Core Inflation Remains Relatively Moderate**

Despite the rise in headline inflation, core inflation, which excludes food and energy, remained comparatively moderate. The all-items-less-food-and-energy index rose 0.4 percent in April and increased 2.8 percent over the previous 12 months.

Certain categories even recorded price declines. New vehicle prices fell 0.2 percent during the month, while medical care commodities declined 0.4 percent. Used vehicle prices remained broadly unchanged, continuing the correction from earlier post-pandemic price spikes.

These trends suggest that some supply-chain distortions and goods inflation pressures that emerged during previous years are gradually easing. However, the moderation in core goods inflation is being partly offset by persistent services inflation.

### **Implications for Monetary Policy**

The April CPI data complicate the monetary policy outlook for the U.S. Federal Reserve. The reacceleration in headline inflation, especially energy-driven inflation, may strengthen arguments for maintaining restrictive monetary policy for a longer period.

Although the Federal Reserve typically focuses more closely on core inflation measures, persistent increases in headline inflation can influence consumer expectations, wage negotiations, and broader pricing behaviour. If energy and food price shocks persist, they could eventually spill over into broader inflation dynamics.

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At the same time, policymakers face a difficult balancing act. Aggressive monetary tightening aimed at containing inflation could weaken economic growth, slow labour markets, and increase financial vulnerabilities. The persistence of inflation despite earlier tightening measures suggests that the disinflation process may be slower and more uneven than previously anticipated.

### **Broader Economic Concerns**

The latest inflation data also reflect the increasingly global nature of inflation risks. Geopolitical tensions, commodity market volatility, supply-chain disruptions, and climate-related shocks continue to influence domestic inflation dynamics in advanced economies.

Moreover, the resurgence of energy inflation raises concerns about stagflationary pressures, where economies simultaneously face elevated inflation and slowing growth. Higher fuel costs reduce household purchasing power, raise business operating costs, and weaken consumer sentiment.

The rise in shelter and services inflation also indicates that domestic demand conditions in the U.S. economy remain relatively resilient despite higher interest rates. A still-tight labour market and continued consumer spending are helping sustain price pressures in several service-oriented sectors.

### **Conclusion**

The April 2026 U.S. inflation data suggest that the path toward price stability remains uneven and uncertain. While core inflation has moderated compared with earlier peaks, rising energy prices, persistent shelter inflation, and firm food prices are keeping headline inflation elevated.

The data underscore the challenges facing policymakers in an environment shaped by geopolitical uncertainty, volatile commodity markets, and resilient domestic demand. Inflationary pressures are no longer driven solely by temporary supply disruptions; they increasingly reflect broader structural and global factors.

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For the Federal Reserve, the latest inflation numbers reinforce the likelihood that monetary policy may need to remain restrictive for longer than markets had previously anticipated. At the same time, policymakers must remain cautious about the potential economic slowdown that could emerge from prolonged high interest rates and persistent global uncertainty.

The April CPI release therefore highlights a critical reality confronting the global economy in 2026: inflation may be moderating from its earlier extremes, but the battle against persistent price pressures is far from over.

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#### **ENERGY AND EURO AREA INFLATION CLIMBS TO 3.0% AS ECB FACES RENEWED PRESSURE**

Inflationary pressures in the euro area strengthened once again in April 2026, with the annual Consumer Price Index (CPI) inflation rate rising to 3.0 percent from 2.6 percent in March (Figure 14). The increase signals that the disinflation process across the Eurozone remains uneven and that price pressures continue to pose challenges for policymakers and consumers alike.

The renewed acceleration in inflation comes at a sensitive time for the European Central Bank (ECB), which has been attempting to balance slowing economic growth with the need to restore price stability across the currency bloc. Rising inflation has reinforced market expectations that the ECB may maintain a tighter monetary policy stance for longer than previously anticipated.

The increase in euro area inflation reflects a combination of factors, including higher energy prices, persistent services inflation, and continued cost pressures in several sectors of the economy. While earlier declines in inflation had raised hopes that the Eurozone was moving closer to price stability, the latest data suggest that underlying inflationary pressures remain more resilient than expected.

The inflation dynamics across the Eurozone continue to vary significantly among member states. Differences in energy dependence, labour market conditions, fiscal

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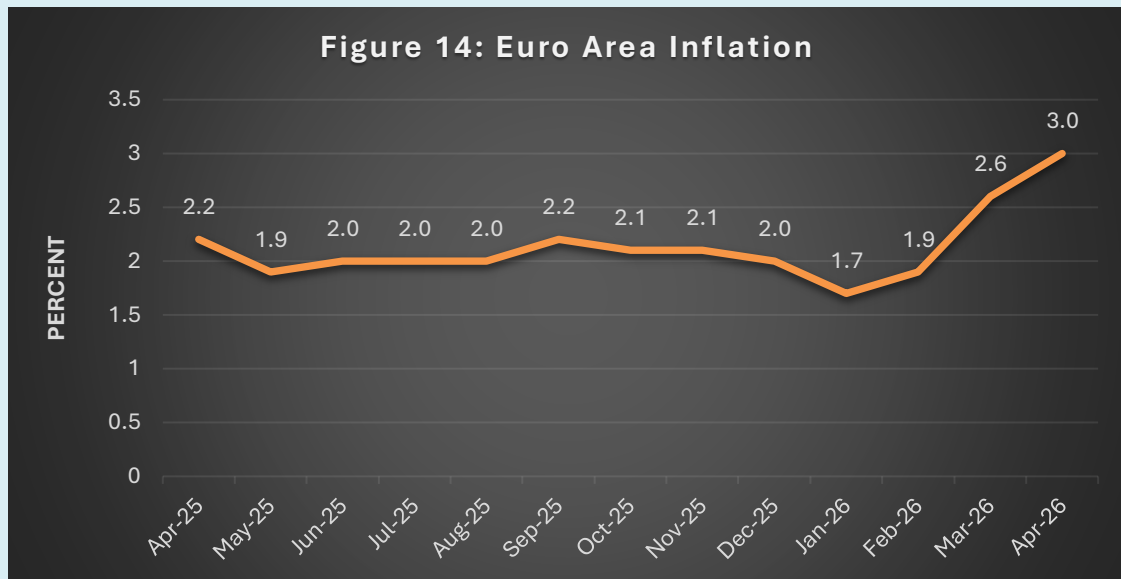
policies, and domestic demand patterns have led to uneven inflation trends across countries such as Germany, France, Italy, and Spain. Nevertheless, the overall upward movement in prices indicates that inflation remains a broad-based concern for the region.

The rise in inflation also highlights the growing influence of global geopolitical and commodity market uncertainties on European economies. Higher fuel and energy costs continue to affect transportation, manufacturing, and household expenditures, while supply-chain adjustments and wage pressures are contributing to sticky services inflation.

For European households, persistent inflation continues to erode purchasing power, particularly in essential categories such as food, housing, and energy. At the same time, businesses face rising input costs and financing pressures in an environment of elevated interest rates and slowing external demand.

The latest inflation figures therefore underline the difficult policy environment confronting the ECB. While inflation has moderated significantly from the extreme levels seen during earlier energy crises, the path back to the ECB's medium-term inflation target remains uncertain. Policymakers will need to carefully balance inflation control with the risk of weakening growth momentum across the Eurozone economy.

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Source: Eurostat <https://ec.europa.eu/eurostat/web/products-euro-indicators/w/2-02062026-ap>

## UK INFLATION MODERATES AS HOUSING COSTS WEAKEN

Inflationary pressures in the United Kingdom eased significantly in April 2026, offering some relief to households and policymakers amid a challenging economic environment. The Consumer Prices Index including owner occupiers' housing costs (CPIH) slowed to 3.0 percent in the 12 months to April, down from 3.4 percent in March, while headline Consumer Prices Index (CPI) inflation declined to 2.8 percent from 3.3 percent over the same period (Figure 15).

On a monthly basis, CPIH rose by 0.8 percent in April 2026, compared with a stronger increase of 1.2 percent in April 2025. Similarly, monthly CPI inflation stood at 0.7 percent, lower than the 1.2 percent rise recorded a year earlier. The moderation suggests that overall price momentum is beginning to soften after prolonged inflationary pressures across the UK economy.

Housing and household services made the largest downward contribution to both CPIH and CPI annual inflation rates. Although motor fuel prices increased sharply and

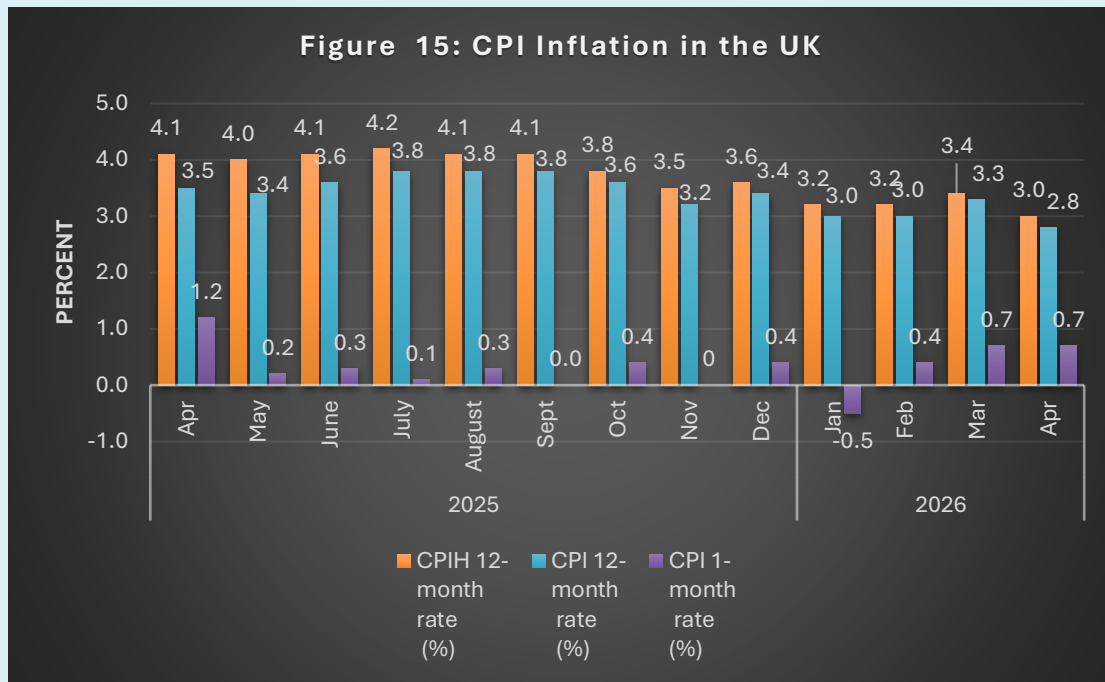
exerted upward pressure on transport costs, these effects were largely offset by falling inflation across several other categories.

A particularly important development was the easing in core inflation measures, which exclude volatile items such as energy, food, alcohol, and tobacco. Core CPIH inflation slowed to 2.8 percent from 3.3 percent, while core CPI inflation declined to 2.5 percent from 3.1 percent. This indicates that underlying inflationary pressures are gradually moderating.

The decline was driven mainly by a sharp slowdown in services inflation, which has remained one of the most persistent sources of price pressure in the UK economy. The CPIH services inflation rate fell to 3.4 percent from 4.3 percent, while CPI services inflation dropped to 3.2 percent from 4.5 percent. In contrast, goods inflation edged higher, reflecting continued supply-side and fuel-related cost pressures.

The latest inflation figures may strengthen expectations that the Bank of England could adopt a less aggressive monetary policy stance in the coming months if the disinflation trend continues. However, policymakers are likely to remain cautious, particularly given ongoing global energy market volatility and uncertainty surrounding economic growth.

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Source:

<https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/april2026>

## RISING TRANSPORT COSTS PUSH CHINA'S INFLATION HIGHER IN APRIL 2026

China's consumer inflation accelerated to 1.2 percent year-on-year in April 2026, up from 1.0 percent in March (Figure 16) and above market expectations of 0.8 percent, indicating a gradual strengthening of price pressures in the world's second-largest economy. The increase was driven mainly by rising transport and services costs amid higher global energy prices and supply chain disruptions linked to the prolonged conflict in the Middle East.

Non-food inflation rose sharply to 1.8 percent from 1.2 percent in March, with transport costs recording a particularly strong increase of 4.6 percent compared with just 0.9 percent in the previous month. Higher fuel prices and logistical disruptions continued to raise transportation and distribution costs across the economy. Prices also remained elevated in categories such as healthcare, education, and clothing, reflecting steady domestic demand and rising service-sector costs.

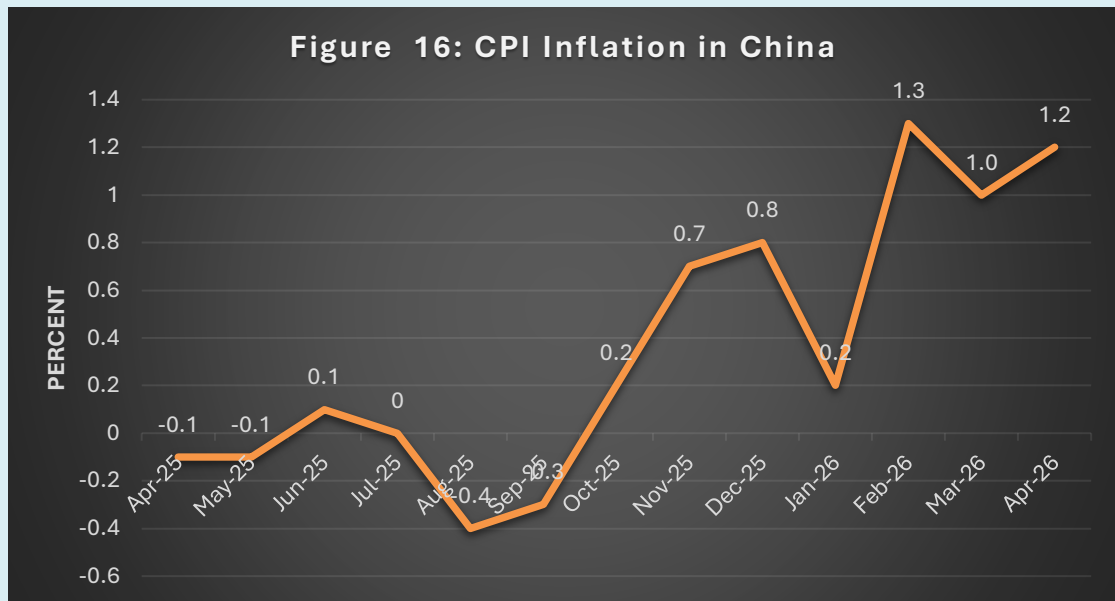
In contrast, housing prices continued to remain weak, with housing costs declining by 0.2 percent for the second consecutive month. The continued softness in the property sector highlights the lingering challenges facing China's real estate market despite policy support measures introduced in recent years.

Food inflation, however, provided some relief. Food prices fell by 1.6 percent in April, reversing the modest increase recorded in March. The decline was driven primarily by persistently weak pork prices as well as lower prices for fresh vegetables and fruits. The fall in food prices helped contain overall inflation despite rising non-food costs.

Core inflation, which excludes volatile food and energy prices, edged up to 1.2 percent from 1.1 percent in March, suggesting that underlying domestic price pressures remain relatively moderate. On a monthly basis, consumer prices rose 0.3 percent, rebounding from a 0.7 percent decline in the previous month and defying market expectations of a further fall.

The latest inflation data reflect the complex economic environment facing China. While weak food and housing prices indicate subdued domestic demand in some sectors, rising energy costs and external geopolitical disruptions are adding fresh inflationary pressures. The data may provide policymakers with a mixed signal: inflation remains relatively low by global standards, but imported cost pressures and supply disruptions could complicate efforts to support economic recovery while maintaining price stability.

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

#### JAPAN'S INFLATION EASES FURTHER BELOW CENTRAL BANK TARGET

Japan's annual inflation rate eased slightly to 1.4 percent in April 2026 from 1.5 percent in March (Figure 17), signaling continued moderation in price pressures and remaining below the Bank of Japan's 2 percent inflation target for the third consecutive month. The slowdown reflects softer food inflation, easing household price pressures, and weakening momentum across several consumer categories.

Food inflation rose at its slowest pace in 18 months, helped by a further moderation in rice prices. Inflation also slowed across major sectors including transport, housing, clothing, household goods, and recreation, indicating weakening consumer price momentum in the broader economy. Healthcare costs remained flat after recording a modest increase in the previous month.

At the same time, energy-related inflation dynamics remained mixed. Electricity and gas prices continued to decline, although at a slower pace than in March as the impact of government subsidies gradually faded. The moderation in subsidy support has prevented a sharper decline in headline inflation despite softer demand conditions.

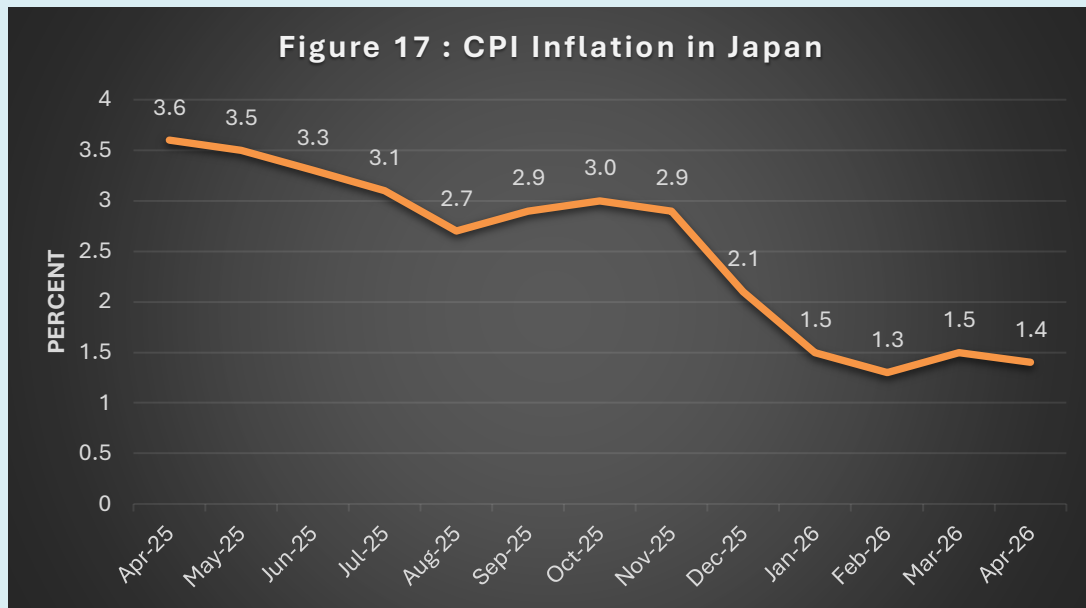
One notable exception was communication costs, where inflation accelerated to 7.4 percent, reflecting persistent pricing pressures in telecommunications and digital services. However, this was insufficient to offset the broader disinflationary trend across the economy.

Core inflation, which excludes fresh food and energy-related volatility, also eased to 1.4 percent from 1.8 percent in March, marking its lowest level since March 2022. On a monthly basis, consumer prices increased only 0.1 percent, slowing sharply from the 0.4 percent rise recorded in March.

The latest data highlight the complex challenge facing Japanese policymakers. While inflation remains above the ultra-low levels that characterized Japan for decades, price pressures are still not strong enough to sustainably achieve the central bank's inflation target. At the same time, households continue to face rising living costs due to the weak yen and elevated energy prices, prompting Tokyo authorities to consider additional measures to ease consumer burdens.

Overall, the April 2026 inflation data suggest that Japan's economy continues to experience fragile inflation dynamics, with slowing domestic demand and fading subsidy effects shaping the near-term outlook for prices and monetary policy.

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

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## CANADA'S INFLATION HITS TWO-YEAR HIGH AMID ENERGY PRICE SHOCK

Canada's headline inflation rate accelerated to 2.8 percent in April 2026 from 2.4 percent in March (Figure 18), reaching its highest level in two years as rising global energy prices pushed transportation and fuel costs sharply higher. Although the figure remained below market expectations of 3.1 percent, it highlighted the growing impact of geopolitical tensions and energy market disruptions on consumer prices.

The latest increase was driven primarily by the surge in transportation inflation, which jumped to 7.6 percent from 3.7 percent in March. Energy prices rose sharply by 19.2 percent year-on-year compared with 3.9 percent in the previous month, reflecting supply disruptions linked to the ongoing conflict in the Middle East. Rising fuel and power costs significantly increased transportation expenses and added fresh inflationary pressure across the economy.

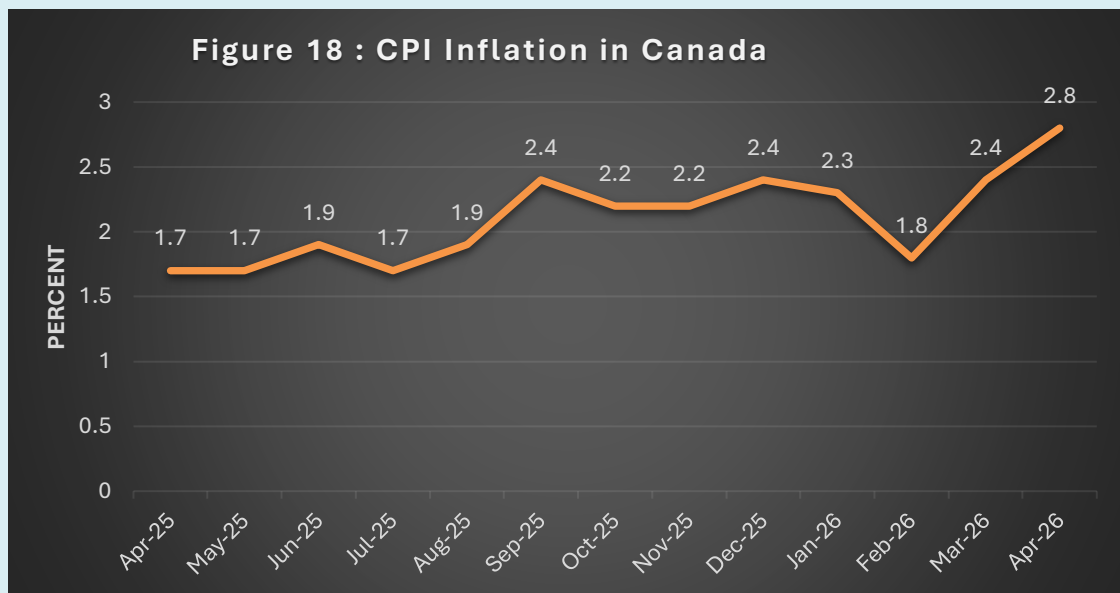
Despite the sharp rise in headline inflation, underlying price pressures remained relatively contained. The Bank of Canada's preferred core inflation measures—the trimmed mean and median CPI—declined to 2.0 percent and 2.1 percent respectively,

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both falling below market expectations and reaching their lowest levels in five years. This suggests that higher energy prices have not yet broadly filtered into inflation expectations or core consumer prices.

Food inflation also moderated, easing to 3.5 percent from 4.0 percent in March, while shelter inflation edged slightly higher to 1.8 percent from 1.7 percent. The relatively stable performance of core sectors indicates that domestic demand conditions remain softer than the headline inflation numbers may initially suggest.

The latest data present a mixed picture for policymakers. While the energy-driven rise in inflation may complicate the short-term outlook, the moderation in core inflation measures could provide some reassurance to the Bank of Canada that broader inflationary pressures remain under control.



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

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## **FOOD AND TRANSPORT PRICES PUSH BRAZIL'S INFLATION HIGHER**

Brazil's annual inflation rate accelerated to 4.39 percent in April 2026 from 4.14 percent in March (Figure 19), reflecting renewed price pressures in key sectors of the economy. Although the figure came in slightly below market expectations of 4.41 percent, it highlighted the continued challenge facing policymakers as food, housing, and transport costs remained elevated.

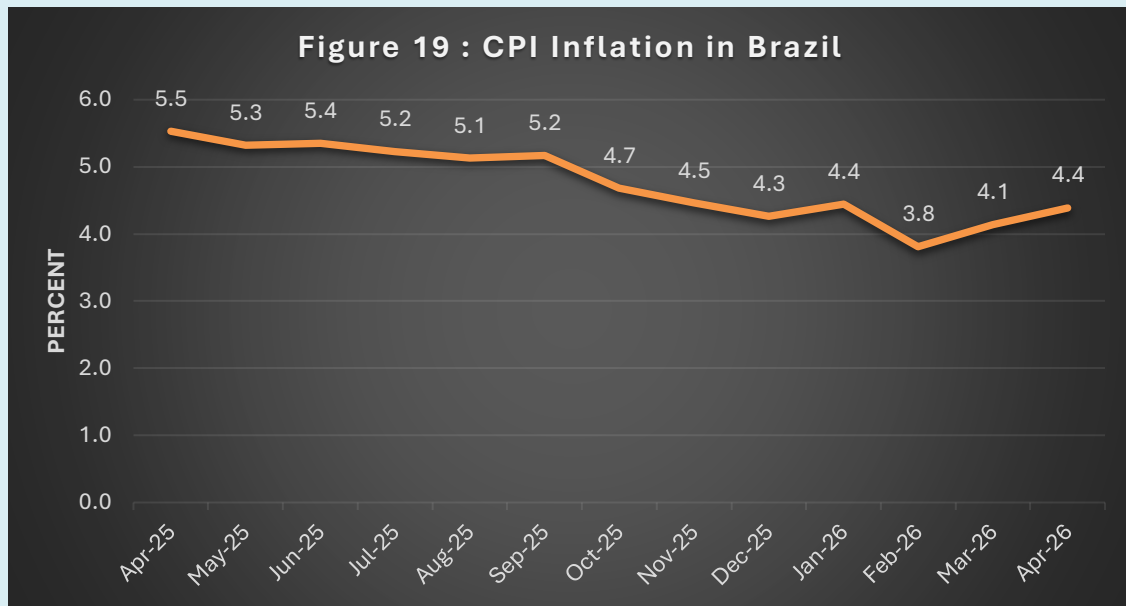
The rise in inflation was driven mainly by stronger price increases in food and beverages, where inflation accelerated to 2.69 percent from 2.16 percent in the previous month. Housing inflation also rose sharply to 6.19 percent from 5.67 percent, indicating persistent pressure on household living costs. Transport inflation increased to 4.15 percent from 3.69 percent, reflecting higher fuel and mobility-related expenses.

Other sectors such as household articles and education also recorded modest increases in inflation, suggesting that price pressures remain relatively broad-based across the economy. However, some categories showed signs of easing inflation. Clothing inflation slowed to 4.38 percent from 4.90 percent, while inflation in health and personal care, personal expenses, and communication moderated slightly.

On a monthly basis, consumer prices rose 0.67 percent in April, slowing from the 0.88 percent increase recorded in March. The moderation in monthly inflation suggests that while price pressures remain elevated, the pace of increase may be stabilizing gradually.

The latest inflation data present a mixed picture for Brazil's economy. Persistent increases in food, housing, and transport costs continue to strain household budgets and may complicate monetary policy decisions. At the same time, the easing of inflation in some consumer categories and the slower monthly price increase could provide some reassurance that inflationary momentum is not accelerating uncontrollably.

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

## RUSSIA'S INFLATION FALLS TO FOUR-MONTH LOW AMID MIXED PRICE TRENDS

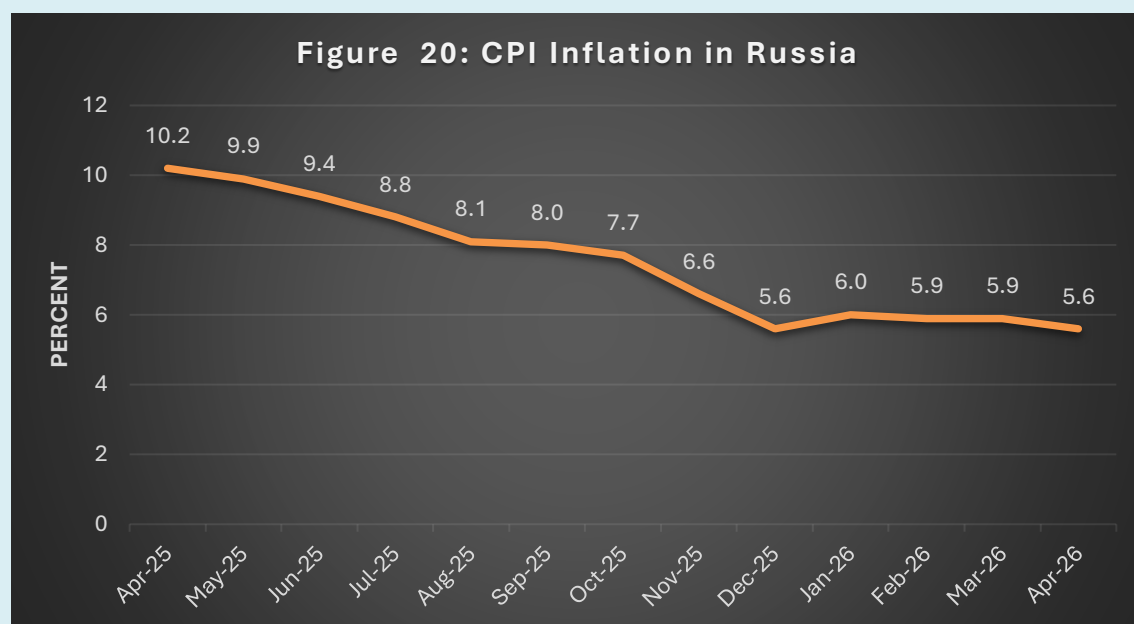
Russia's annual inflation rate eased to a four-month low of 5.6 percent in April 2026 from 5.9 percent in March (Figure 20), coming in below market expectations of 5.8 percent. Despite the moderation, inflation remains significantly above the Central Bank of Russia's (CBR) 4 percent target, indicating that underlying price pressures continue to persist across the economy.

The slowdown in headline inflation was driven mainly by easing food prices. Food inflation moderated to 4 percent from 5 percent in March, supported by a sharper decline in prices of fruits and vegetables, which fell by 6.6 percent compared with a 2.3 percent decline in the previous month. Lower food prices helped contain overall inflationary pressures and provided some relief to households.

However, inflation trends across other sectors remained uneven. Services inflation stayed elevated at 9.9 percent, reflecting persistent cost pressures in transport, utilities, and consumer services. Meanwhile, inflation for non-food products accelerated to 3.9 percent from 3.5 percent, driven largely by higher prices for automobile gasoline, medicines, and tobacco products.

On a monthly basis, consumer prices increased only 0.1 percent in April, slowing sharply from the 0.6 percent rise recorded in March and remaining below market expectations of a 0.3 percent increase. The softer monthly reading suggests that inflationary momentum may be easing gradually, although price pressures remain above the central bank's comfort zone.

The latest data present a mixed picture for the Russian economy. While moderating food inflation has helped slow headline price growth, elevated services inflation and rising fuel-related costs indicate that broader inflationary pressures have not fully subsided. The persistence of inflation above the CBR's target may therefore keep monetary policy relatively cautious in the near term.



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

### AUSTRALIA'S INFLATION EASES, BUT REMAINS ABOVE TARGET

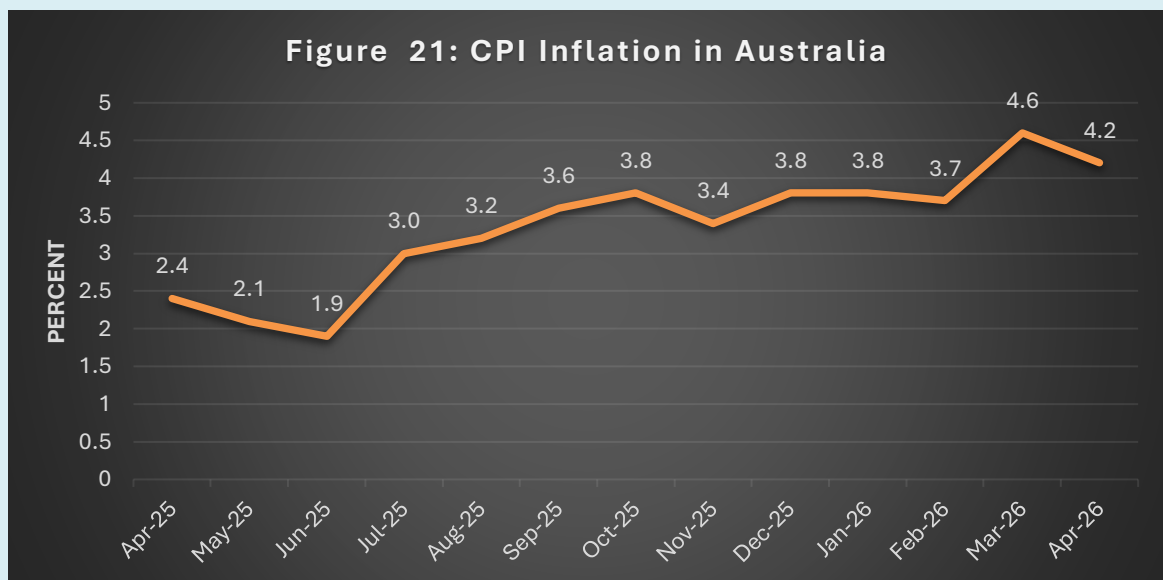
Australia's annual inflation rate moderated to 4.2 percent in April 2026 from 4.6 percent in March (Figure 21), falling more sharply than market expectations of 4.4 percent. While the decline offers some relief to households and policymakers, inflation remains well above the Reserve Bank of Australia's (RBA) target range of 2–3 percent, indicating that price pressures continue to pose challenges for monetary policy.

The slowdown was driven primarily by easing goods inflation, which fell to 4.7 percent from 5.5 percent in March. Transport costs, a major contributor to inflation in recent months, rose at a slower pace of 6.6 percent compared with 8.9 percent previously. The moderation largely reflected slower increases in automotive fuel prices following the reduction in the fuel excise tax from 52.6 cents per litre to 20.6 cents per litre from April 1.

Price pressures also eased in other key categories. Inflation for food and non-alcoholic beverages slowed to 2.8 percent from 3.1 percent, while housing inflation moderated slightly to 6.3 percent from 6.5 percent. Services inflation, which has remained relatively sticky in recent quarters, edged down to 3.5 percent from 3.6 percent, suggesting some gradual easing in domestic cost pressures.

Despite the moderation in headline inflation, underlying inflation remained relatively firm. The RBA’s preferred trimmed mean inflation measure rose 3.4 percent year-on-year, its highest level since September 2024 and in line with market expectations. The weighted median inflation rate remained unchanged at 3.5 percent, indicating that core price pressures continue to run above the central bank’s target range.

On a monthly basis, consumer prices increased by 0.4 percent in April, slowing sharply from the 1.1 percent rise recorded in March and coming in below expectations of a 0.6 percent increase. The softer monthly reading suggests that recent policy measures and easing fuel costs are helping to moderate inflationary momentum.



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

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## **SOUTH KOREA'S INFLATION CLIMBS TO 21-MONTH HIGH ON ENERGY PRICE SURGE**

South Korea's annual consumer inflation accelerated to 2.6 percent in April 2026 from 2.2 percent in March (Figure 22), marking its highest level since July 2024. The increase was driven primarily by rising global energy and petroleum prices, reflecting the inflationary impact of ongoing geopolitical tensions in the Middle East.

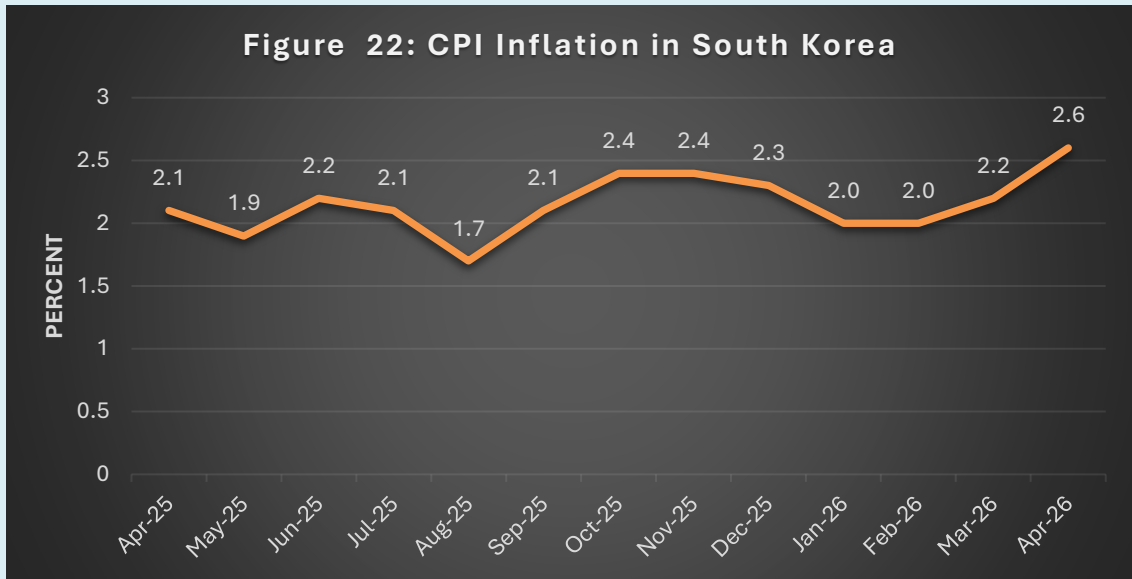
Energy-related costs emerged as the principal driver of inflation, with transport prices surging 9.7 percent year-on-year. Higher crude oil prices and fuel costs significantly increased transportation expenses, highlighting South Korea's vulnerability as a major energy-importing economy. The energy shock has added upward pressure on household and business costs, reversing the moderation in inflation seen in recent months.

Beyond energy, inflation remained relatively broad-based. Prices for recreation and culture rose 3.4 percent, while clothing and footwear costs increased 2.1 percent, indicating continued strength in consumer demand and services-related inflation. Core inflation, which excludes volatile food and energy prices, stood at 2.2 percent, suggesting that underlying price pressures remain above the Bank of Korea's comfort zone.

A notable counterbalance came from food prices. Fresh food prices declined by 6.1 percent compared with a year earlier, helping to offset some of the inflationary impact of rising energy costs. Without this decline, headline inflation would likely have been even higher.

The latest inflation figures have prompted a more cautious stance from the Bank of Korea (BOK). While the central bank kept its benchmark interest rate unchanged at 2.50 percent, policymakers signalled growing concern about inflation risks and indicated that further interest rate increases could be considered later in the year if price pressures persist.

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

## FOOD & AGRICULTURE

### HIGHER ENERGY COSTS AND SUPPLY RISKS PUSH UP GLOBAL FOOD PRICES IN APRIL 2026

The FAO Food Price Index (FFPI) averaged 130.7 points in April 2026, rising by 1.6 percent from the revised March level and recording its third consecutive monthly increase, although the pace of increase moderated compared to the previous month (Table 2). The rise was primarily driven by higher prices of vegetable oils, meat, and cereals, which more than offset declines in sugar and dairy products. Despite the recent upward movement, the index remained significantly below its historic peak recorded in March 2022.

The FAO Cereal Price Index increased marginally to 111.3 points in April, reflecting firmer prices for most major cereals. Wheat prices strengthened due to drought conditions in parts of the United States and concerns over lower rainfall in Australia. Expectations of reduced global wheat acreage, as farmers shift toward less fertilizer-intensive crops amid elevated fertilizer and energy prices, also supported the market. Maize prices rose on account of tighter seasonal supplies, weather-related concerns in Brazil, and strong ethanol demand linked to high crude oil prices. Rice prices also increased because of rising production and marketing costs associated with higher fuel prices. In contrast, sorghum prices declined due to weaker import demand, particularly from China, alongside improved supply prospects in key exporting countries.

The FAO Vegetable Oil Price Index recorded the sharpest increase among all commodity groups, reaching its highest level since July 2022. Prices of palm, soy, sunflower, and rapeseed oils all moved upward. Palm oil prices continued to rise due to stronger anticipated demand from the biofuel sector and concerns over lower production in Southeast Asia. Soy and rapeseed oil prices were supported by firm biofuel demand in the United States and the European Union, while sunflower oil prices rose because of persistent supply tightness in the Black Sea region.

The FAO Meat Price Index climbed to a new record high in April 2026, driven by rising prices across most meat categories. Beef prices increased sharply due to constrained cattle supplies in Brazil and robust international demand, especially from China. Pig meat prices strengthened in the European Union amid seasonal demand, while poultry prices benefited from strong buying interest from African markets despite logistical disruptions in trade routes through the Red Sea. Ovine meat prices remained largely stable as higher prices in Australia were offset by weaker demand in New Zealand.

In contrast, the FAO Dairy Price Index declined slightly during the month. Lower prices for butter and cheese, supported by abundant milk supplies in the European Union and Oceania, outweighed continued gains in skim milk powder prices. Meanwhile, the FAO Sugar Price Index fell sharply due to expectations of ample global supplies, supported by improved production prospects in major producers such as China and Thailand, along with favourable harvesting conditions in Brazil.

Overall, the April 2026 FAO food price trends reflect the growing influence of energy prices, biofuel demand, climate-related disruptions, and geopolitical uncertainties on global agricultural commodity markets. While some commodities continue to face supply-side pressures, others are benefiting from improved production prospects and easing market conditions.

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**Table 2: 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>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>	128.6	127.9	120.9	110.4	183.1	92.8
<i>April 2026</i>	130.7	129.4	119.6	111.3	193.9	88.5

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

## SECTION 3: FINANCIAL MARKETS

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## INDIAN FINANCIAL MARKETS

### **MARKETS UNDER PRESSURE: HOW WEST ASIA TENSIONS SHAPED INDIAN EQUITIES IN MAY 2026**

Indian equity markets experienced a turbulent yet resilient performance in May 2026, as investors grappled with escalating geopolitical tensions in West Asia, volatile crude oil prices, currency pressures, and shifting foreign capital flows. While benchmark indices witnessed sharp swings throughout the month, strong domestic institutional participation, robust corporate earnings, and periodic easing of geopolitical concerns helped prevent a deeper correction.

#### **A Month Defined by Volatility**

The month began on a positive note, with the BSE Sensex rising to 77,269 and the Nifty 50 closing at 24,119 on 4 May, supported by encouraging corporate earnings and favourable domestic political developments. However, optimism quickly gave way to caution as tensions in West Asia intensified, causing crude oil prices to surge and the rupee to weaken.

Market sentiment improved temporarily on hopes of a potential US-Iran diplomatic breakthrough. On 6 May, the Sensex rallied to 77,959 (Figure 23) and the Nifty rose to 24,171 (Figure 24) as crude prices softened and investors returned to risk assets. The positive momentum continued into 7 May, when the Nifty touched 24,234 and the Nifty Midcap 100 reached a record high, reflecting strong domestic participation.

#### **Oil Shock Triggers Mid-Month Correction**

The sharpest phase of volatility occurred during the second week of May as Brent crude prices crossed US\$100 per barrel. Markets became increasingly concerned about the implications of higher energy costs for inflation, India's current account deficit, corporate profitability, and monetary policy.

The Sensex declined from 77,328 on 8 May to 74,559 on 12 May, a fall of nearly 3.6 percent within two trading sessions. Similarly, the Nifty dropped from 24,176 to 23,380 during the same period. These declines reflected heightened fears of a prolonged geopolitical conflict and its potential impact on India's import-dependent economy.

Although benchmark indices recovered partially in the following sessions, investor sentiment remained fragile. Every movement in crude oil prices and every development in the US-Iran situation continued to influence market direction.

### **Domestic Fundamentals Provide Support**

Despite external headwinds, several domestic factors prevented a more severe market correction. Strong fourth-quarter corporate earnings, particularly in the banking sector, continued to support valuations. Banking stocks emerged as market leaders during several rallies, with investors favouring fundamentally strong large-cap companies.

Information technology stocks also provided stability during periods of uncertainty. A stronger US dollar improved earnings prospects for export-oriented technology companies, helping offset weakness in other sectors.

The resilience of broader markets was another notable feature. Mid-cap and small-cap stocks generally outperformed benchmark indices, supported by strong retail participation and sustained domestic institutional buying. This reflects the increasing maturity of Indian capital markets and the growing role of domestic savings in supporting equity valuations.

### **Foreign Flows and MSCI Rebalancing Add Pressure**

Foreign portfolio investor (FPI) behaviour remained a critical determinant of market movements throughout the month. Global risk aversion, elevated oil prices, and geopolitical uncertainty periodically triggered foreign outflows.

The most dramatic episode occurred on 29 May, when MSCI index rebalancing led to record FPI selling of more than ₹20,600 crore in a single trading session. The resulting

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sell-off pushed the Sensex down to 74,776 and the Nifty to 23,548, representing their lowest closing levels of the month. Both benchmark indices declined by nearly 1.5 percent during the session, marking their sharpest fall in more than two weeks.

Importantly, domestic institutional investors absorbed a substantial portion of this selling pressure, limiting the magnitude of the correction and highlighting the growing depth of India's domestic investor base.

### **Market Recovery and the Role of Oil Prices**

A major rally occurred on 25 May when improving global sentiment and easing crude oil prices triggered broad-based buying. The Sensex surged 1,073 points to close at 76,489, while the Nifty climbed above the 24,000 mark to 24,032. Banking stocks led the rally amid optimism that easing geopolitical tensions could stabilize global energy markets and reduce inflationary risks.

However, the rebound proved short-lived. Renewed US military actions and conflicting geopolitical signals from West Asia once again dampened sentiment, causing markets to retreat in the final week of the month.

The pattern throughout May clearly demonstrated that crude oil had become the most important macroeconomic variable influencing Indian equities. Every decline in oil prices triggered market rallies, while every upward spike generated concerns regarding inflation, fiscal pressures, and growth prospects.

### **Key Takeaways**

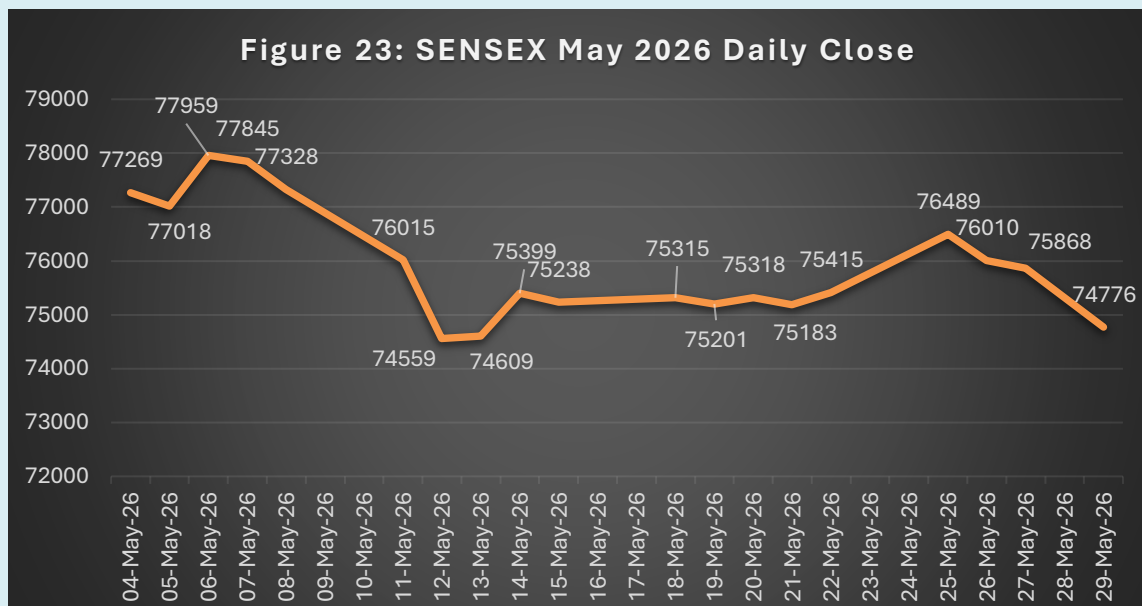
The performance of Indian equity markets in May 2026 highlights three important trends. First, geopolitical developments and energy markets have become increasingly important drivers of short-term market sentiment. Second, India's growing domestic investor base is providing an effective cushion against external shocks and foreign capital outflows. Third, despite heightened volatility, investors continue to exhibit confidence in India's long-term growth story, particularly in sectors such as banking, technology, and large-cap industrials.

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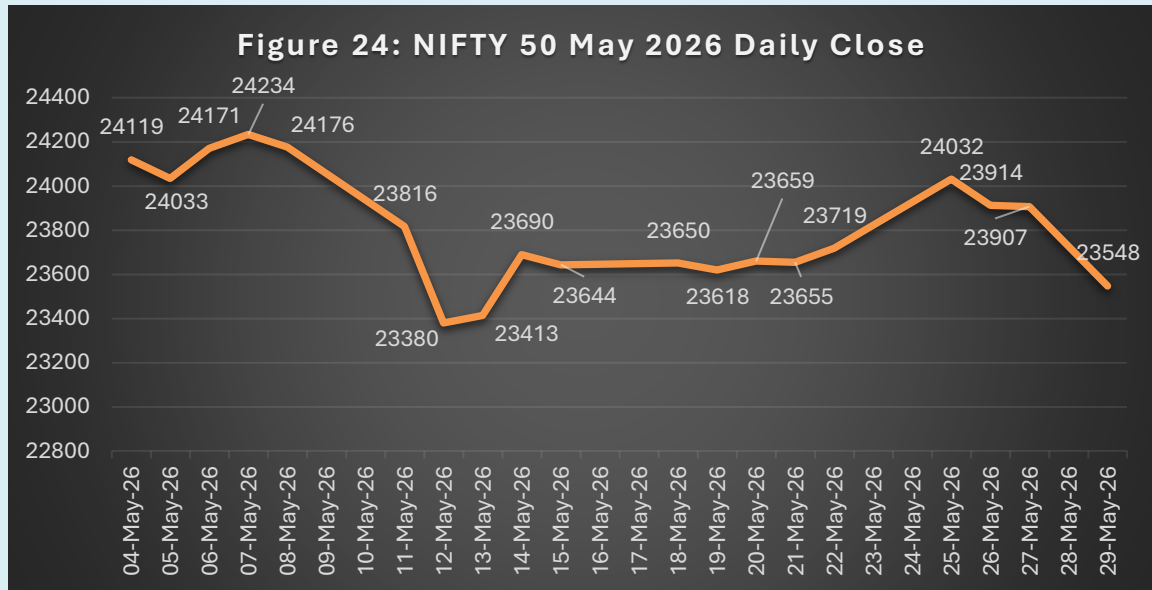
## Conclusion

Indian equity markets ended May 2026 with heightened volatility but remarkable resilience. Although benchmark indices remained vulnerable to geopolitical shocks, crude oil price fluctuations, and foreign investor behaviour, strong domestic participation and sound corporate fundamentals prevented a sustained downturn.

The month reinforced a critical lesson for investors: while external risks can drive short-term market movements, India's structural growth drivers and deepening domestic capital markets continue to provide a strong foundation for long-term market stability. Going forward, developments in West Asia, crude oil prices, inflation trends, and foreign portfolio flows will remain key factors shaping market direction in the months ahead.



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



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

## GLOBAL FINANCIAL MARKETS

### GLOBAL MARKETS IN MAY 2026: BETWEEN GEOPOLITICAL RISKS AND THE AI BOOM

Global financial markets in May 2026 were shaped by an extraordinary interplay of geopolitical tensions, energy market disruptions, artificial intelligence (AI)-driven optimism, and shifting expectations regarding monetary policy. The month demonstrated how rapidly investor sentiment can oscillate between risk aversion and risk appetite in an increasingly interconnected global economy. While concerns surrounding the conflict in West Asia and the potential disruption of energy supplies periodically triggered sharp market corrections, strong corporate earnings, technological innovation, and expectations of easing inflation ultimately helped major equity markets end the month on a positive note.

#### **Geopolitics and Oil Prices Dominate Market Sentiment**

The defining macroeconomic theme of May was the conflict in West Asia and its implications for global energy markets. Investor sentiment fluctuated almost daily in response to developments involving the United States and Iran, with concerns centred on the security of the Strait of Hormuz, one of the world's most critical energy trade routes.

During the first half of the month, escalating tensions pushed Brent crude oil prices above US\$100 per barrel, raising fears of higher inflation, tighter monetary policy, and weaker global growth. Equity markets across regions experienced heightened volatility as investors reassessed growth prospects in the face of rising energy costs. Energy-importing economies, particularly in Europe and Asia, were especially vulnerable to these developments.

However, sentiment improved markedly in the final week of the month as hopes of a ceasefire and a potential diplomatic breakthrough between the United States and Iran

reduced concerns about prolonged supply disruptions. The resulting decline in oil prices triggered a broad-based rally across global markets, highlighting the central role that energy prices played in shaping investor behaviour throughout May.

### **The AI Revolution Continues to Drive Global Equities**

If geopolitics represented the principal source of market risk, artificial intelligence remained the dominant source of market optimism. The technology sector continued to lead global equity performance, particularly in the United States and major semiconductor-producing economies.

Investor enthusiasm surrounding AI infrastructure spending, semiconductor demand, and cloud computing investment remained exceptionally strong. Technology companies benefiting from AI-related capital expenditure continued to report robust earnings, reinforcing confidence in the long-term growth potential of the sector.

The AI theme was particularly visible in the performance of the Nasdaq Composite, which climbed from 25,114 at the beginning of May to 26,973 by month-end, delivering one of the strongest performances among major global indices. Similarly, technology-heavy markets such as Taiwan, South Korea, and parts of Europe benefited from continued investor interest in semiconductor manufacturing and AI-related supply chains.

The persistence of the AI rally demonstrates that investors increasingly view artificial intelligence not merely as a cyclical market trend but as a transformational technological shift capable of reshaping productivity, corporate profitability, and economic growth over the coming decade.

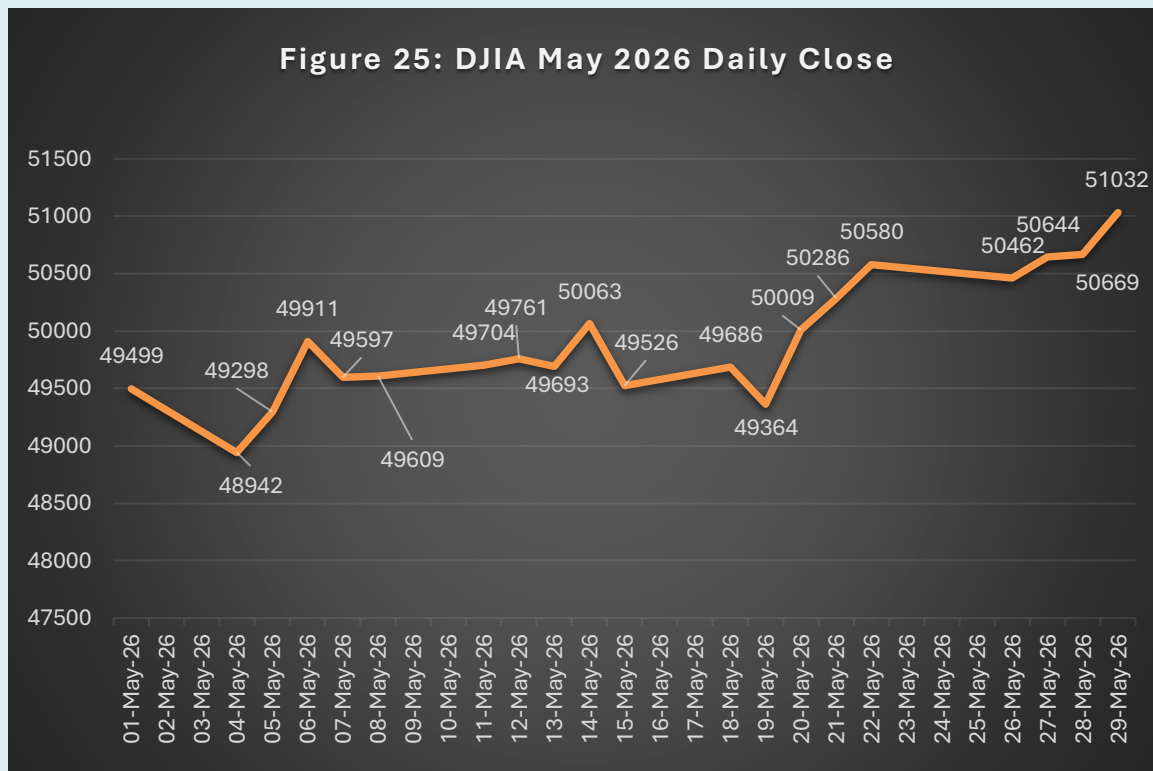
### **United States: Record Highs Amid Mixed Signals**

The United States remained the epicentre of global market strength during May 2026. All three major benchmark indices reached new record highs during the month, supported by strong corporate earnings, AI-related optimism, and expectations of a more growth-friendly policy environment.

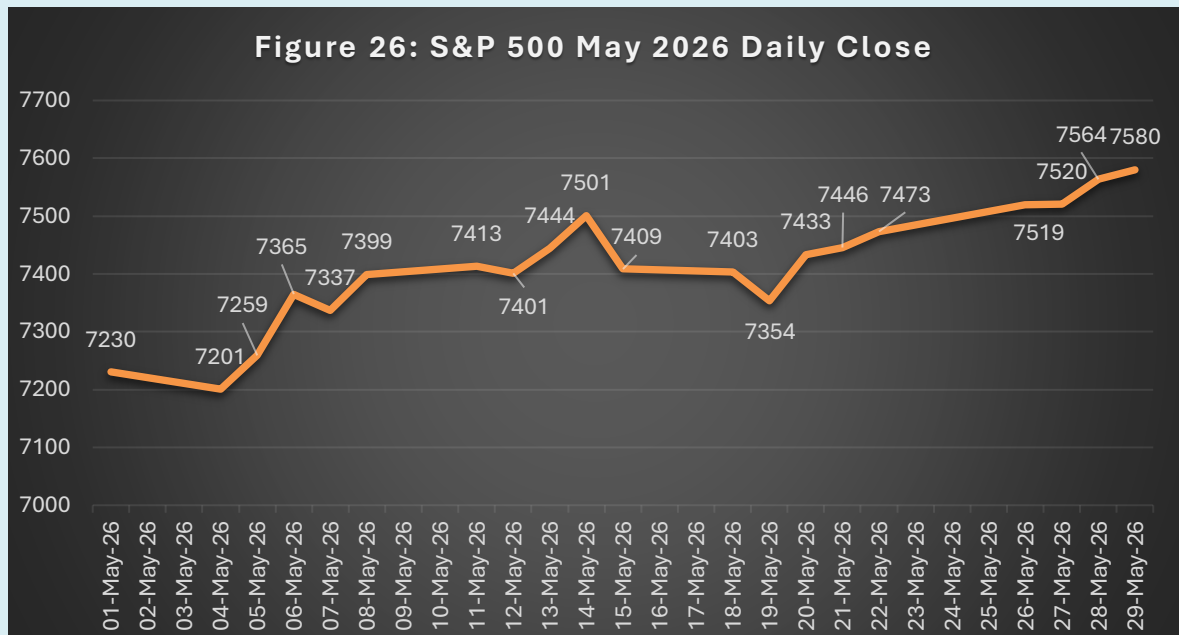
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The Dow Jones Industrial Average crossed the historic 50,000 mark for the first time (Figure 25), while the S&P 500 surpassed 7,500 (Figure 26) and the Nasdaq (Figure 27) reached fresh all-time highs. Although profit-taking and rising Treasury yields triggered a sharp correction in mid-May, markets quickly recovered and ended the month strongly. By 29 May, the Dow had climbed to 51,032, the S&P 500 to 7,580, and the Nasdaq to 26,973.

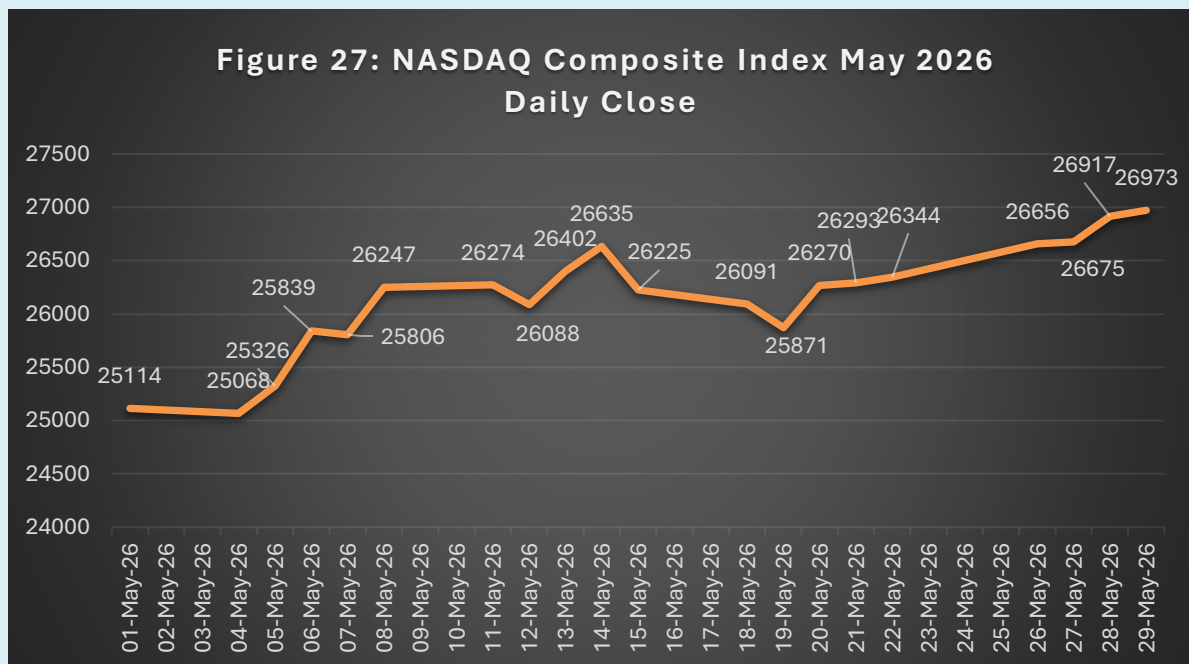
The resilience of U.S. markets reflected investor confidence in the underlying strength of the American economy and the continued dominance of large technology companies in driving earnings growth.



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



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



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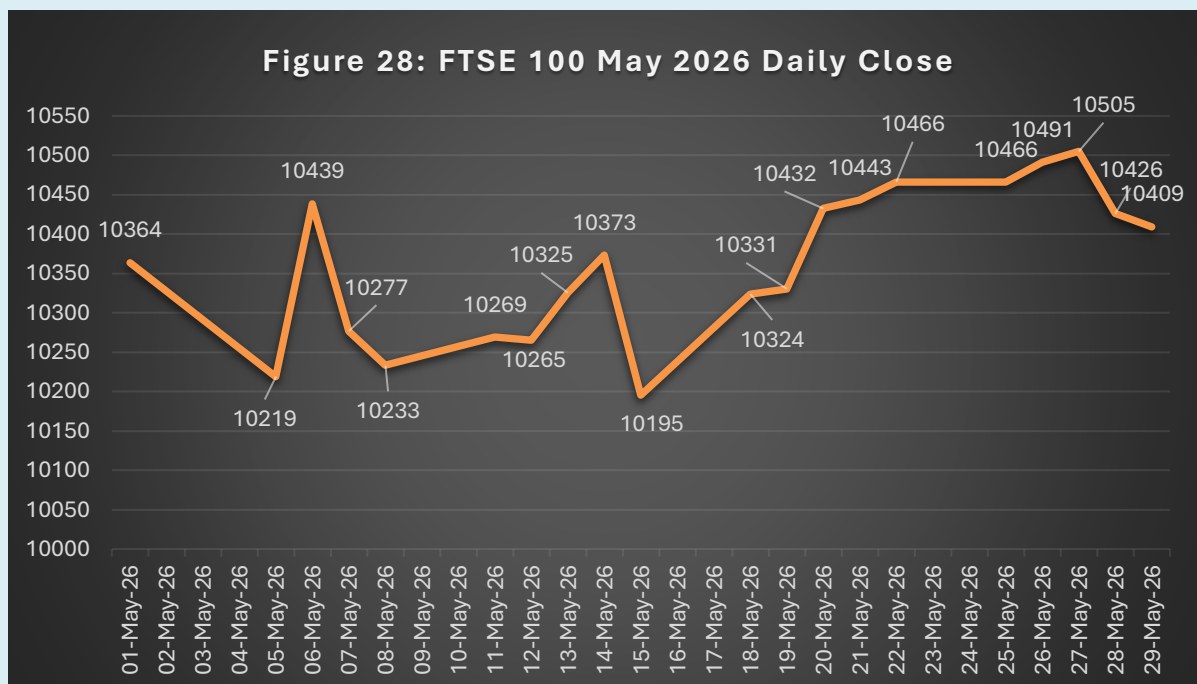
## Europe: Balancing Growth Concerns and Energy Risks

European markets faced a more complex environment. While AI-related optimism and expectations of continued European Central Bank policy support provided a positive

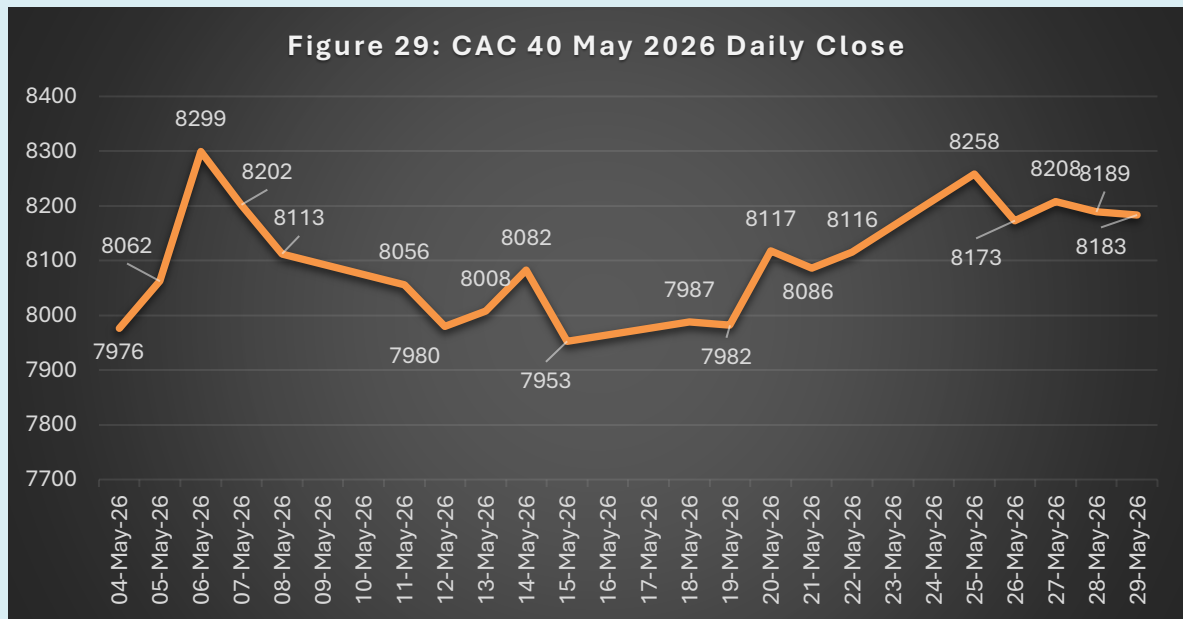
backdrop, elevated energy prices and weak consumer demand constrained gains during much of the month.

Germany's DAX (Figure 30) emerged as one of the region's strongest performers, benefiting from easing energy concerns and improved prospects for industrial activity. The DAX rose from around 24,000 at the beginning of the month to above 25,100 by month-end. France's CAC 40 (Figure 29) also recorded gains, supported by financial and industrial stocks, while the UK's FTSE 100 (Figure 28) underperformed its continental peers due to weakness in major energy companies as oil prices declined.

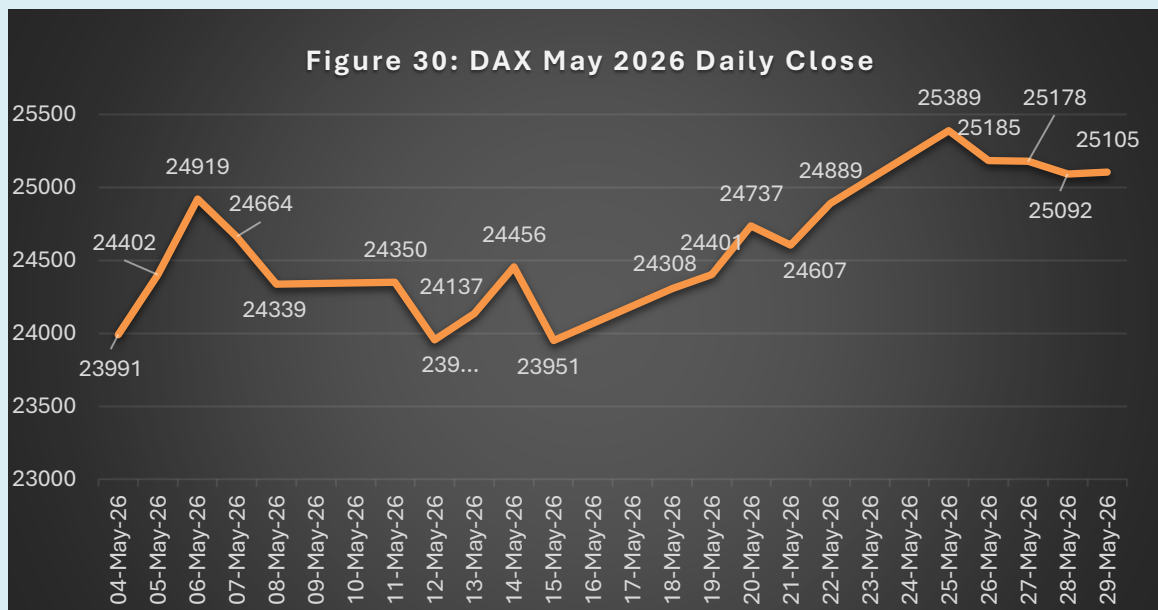
The European experience highlighted the region's continued sensitivity to energy markets and external demand conditions



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



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

### Asia-Pacific: Divergent Performance Across Markets

Asia-Pacific markets displayed significant divergence during May. Japan emerged as one of the strongest performers globally, benefiting from lower oil prices, supportive monetary conditions, and strong demand for technology and semiconductor stocks. The

Nikkei 225 surged from around 59,500 (Figure 32) at the start of the month to over 66,300 by month-end, making it one of the best-performing major indices globally.

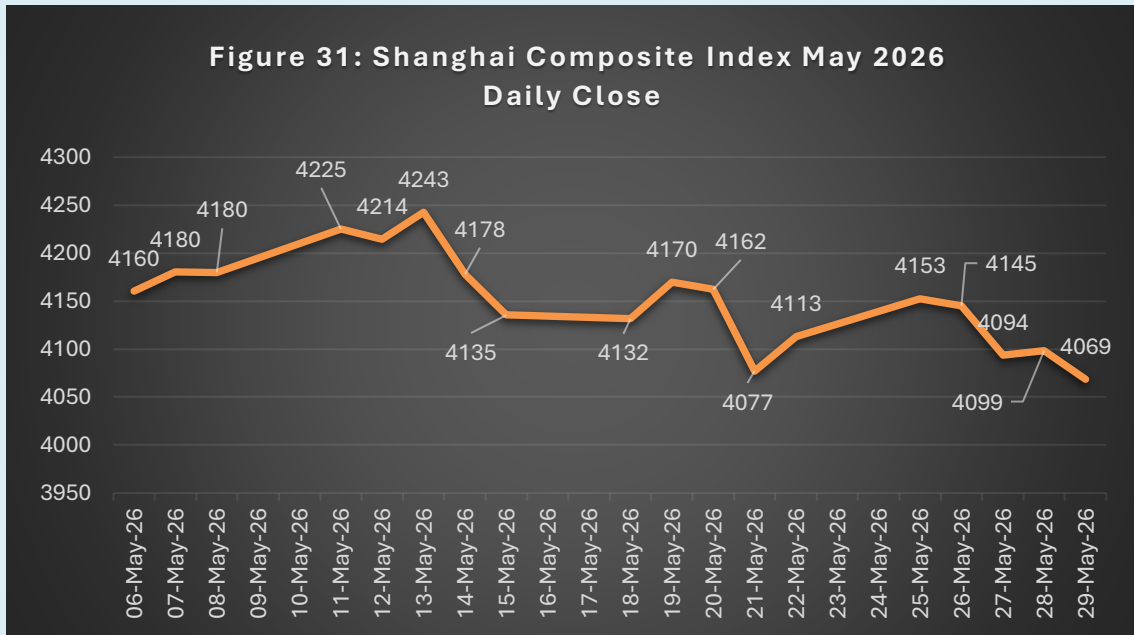
Singapore's FTSE Straits Times Index (STI) (Figure 34) remained resilient in May 2026, supported by banking, telecom, and logistics stocks. Improving trade prospects and easing geopolitical concerns helped the index end the month higher.

South Korea's KOSPI (Figure 35) and Taiwan's TAIEX (Figure 36) also delivered impressive gains, supported by strong global demand for semiconductors and AI-related technologies. Taiwan's benchmark index climbed above 44,700 by the end of the month, reflecting investor confidence in the island's central role within global technology supply chains.

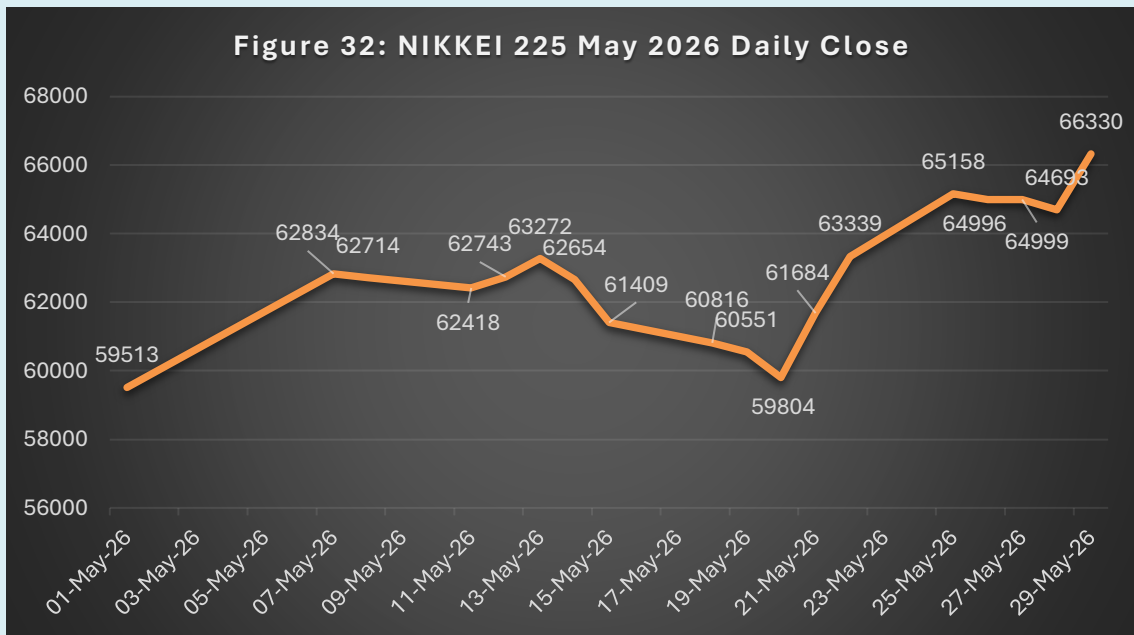
In contrast, China's Shanghai Composite (Figure 31) struggled to maintain momentum. Although lower energy prices provided some support, concerns regarding domestic economic growth, property sector weakness, and investor confidence limited gains. Hong Kong's Hang Seng (Figure 33) similarly underperformed other Asian markets, reflecting ongoing concerns about China's economic recovery.

Australia's S&P/ASX 200 (Figure 37) witnessed volatility amid oil price fluctuations and inflation concerns. While lower energy prices supported sentiment, weakness in resource stocks limited gains, resulting in a modest monthly rise.

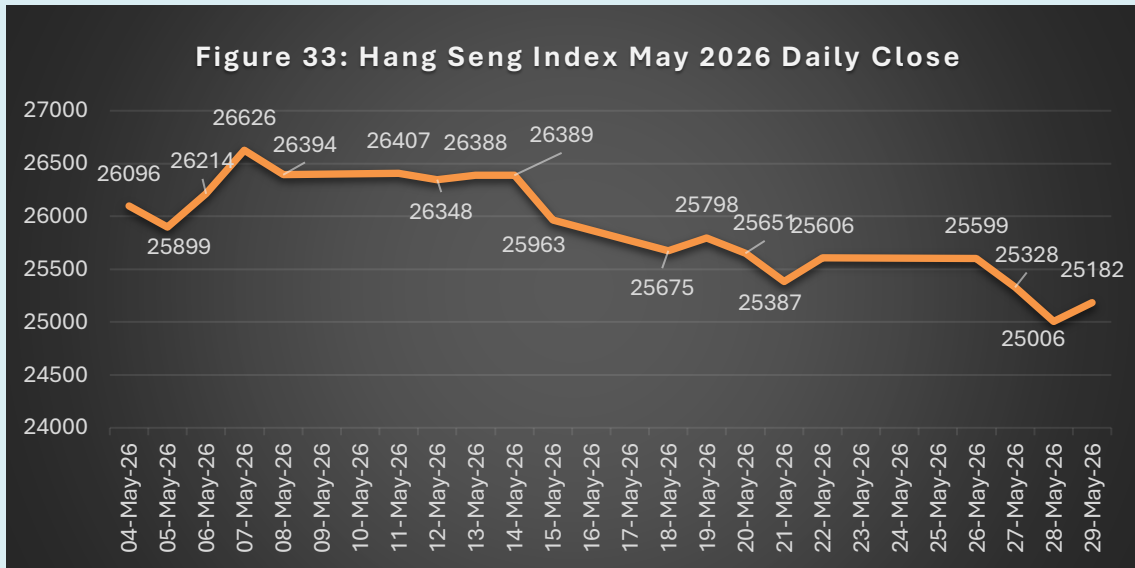
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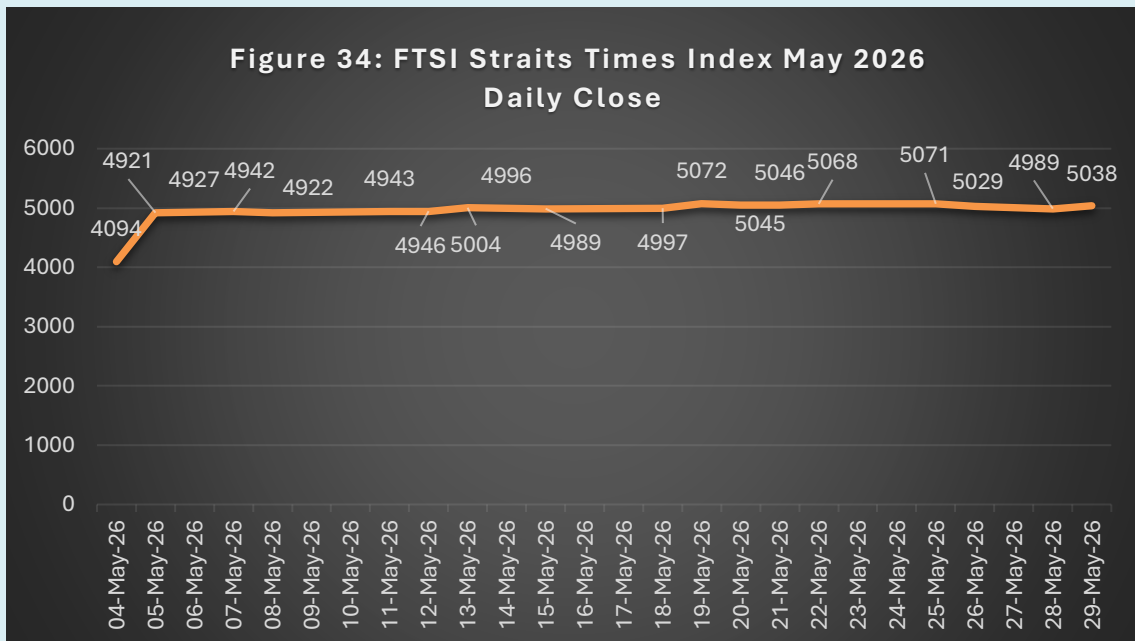
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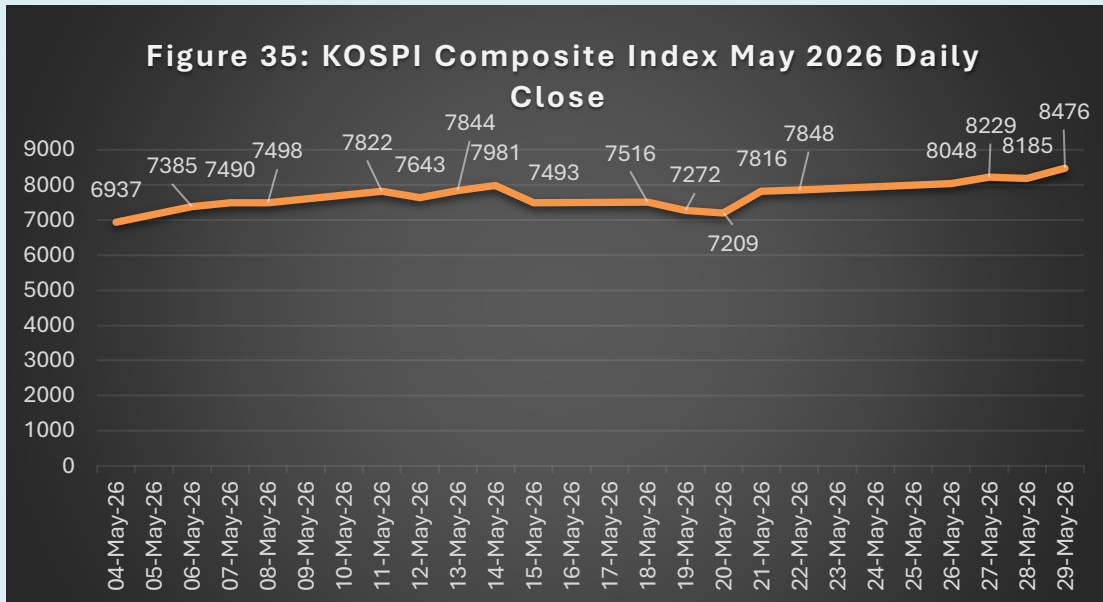
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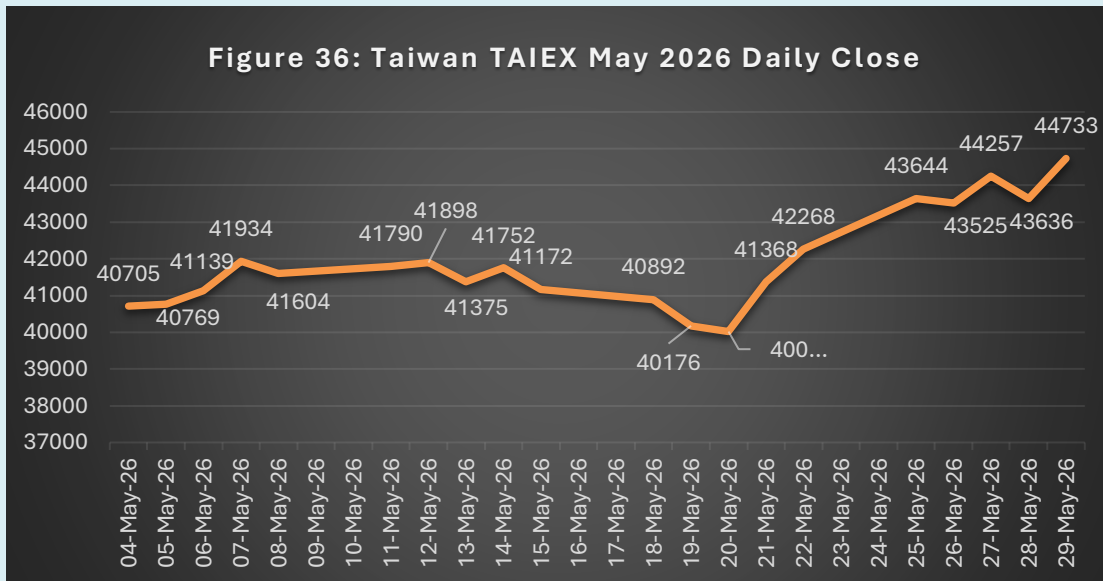
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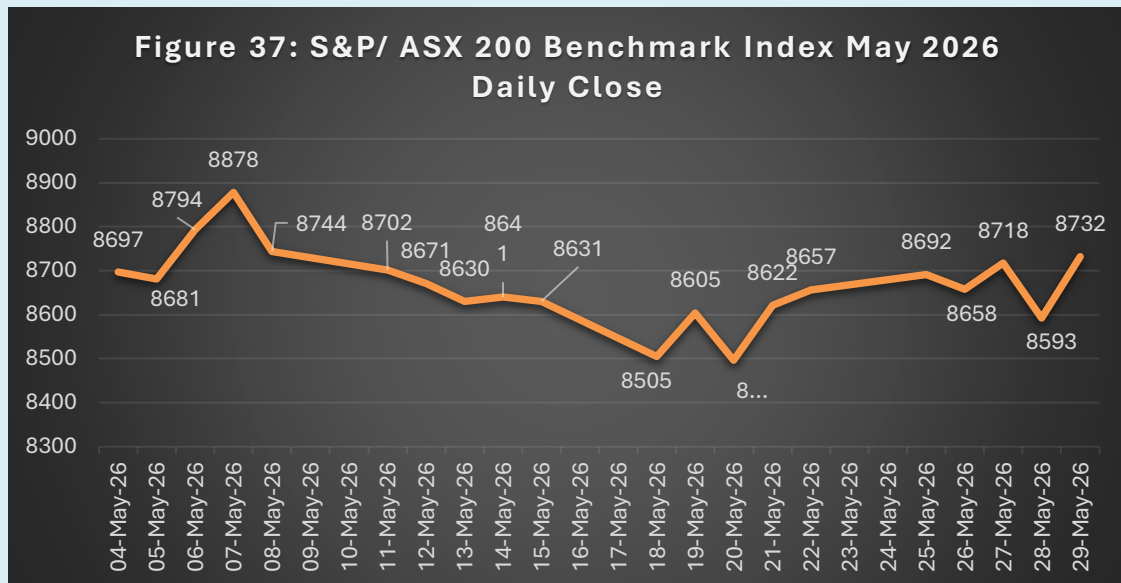
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### Monetary Policy and Inflation Expectations

Another important theme during May was the evolving outlook for global monetary policy. Falling oil prices toward the end of the month helped reduce inflation concerns and strengthened expectations that several major central banks could adopt a more accommodative stance in the coming quarters.

Lower bond yields and easing inflation expectations improved risk appetite globally, particularly for growth-oriented sectors such as technology and communication services. Markets increasingly interpreted declining energy prices as a factor that could reduce inflationary pressures without significantly undermining economic growth.

At the same time, investors remained alert to the possibility that renewed geopolitical disruptions could quickly reverse these favourable trends.

### Conclusion

Global financial markets in May 2026 were characterised by a remarkable transition from geopolitical anxiety to renewed optimism. While tensions in West Asia and fears of energy supply disruptions initially dominated investor sentiment, easing oil prices,

strong technology-sector performance, and continued enthusiasm surrounding artificial intelligence ultimately supported a broad-based global rally.

The month reinforced several important realities for investors. First, geopolitical developments remain capable of triggering significant short-term market volatility. Second, the AI revolution continues to be the most powerful structural driver of equity market performance worldwide. Third, falling inflation and the prospect of more accommodative monetary policies remain critical supports for risk assets.

As global markets move into the second half of 2026, investors are likely to remain focused on three key variables: the trajectory of the West Asia conflict, the outlook for global inflation and interest rates, and the sustainability of the AI-led technology boom. Together, these factors will continue to shape the direction of global financial markets in the months ahead.

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## COMMODITY MARKETS

### COMMODITY MARKETS DIVERGE IN MAY 2026: METALS AND GRAINS RALLY AS ENERGY RETREATS

Global commodity markets displayed sharply divergent trends in May 2026, with industrial metals and agricultural commodities posting solid gains while energy and precious metals retreated. Geopolitical developments, particularly changing expectations surrounding the West Asia conflict and the security of the Strait of Hormuz, remained the dominant influence on market sentiment and price movements throughout the month.

According to World Bank data, the broad non-energy commodity index rose by 2.5 percent in May, while the energy index declined by 5.4 percent. The contrasting performance reflected a combination of easing energy supply concerns, strong demand for industrial raw materials, weather-related disruptions in agricultural markets, and a shift in investor preferences away from traditional safe-haven assets.

#### **Energy Markets: Oil Prices Reverse Sharply**

The energy sector was the weakest-performing commodity segment during the month. Brent crude oil prices fell by 10.7 percent, reversing much of the geopolitical risk premium that had pushed prices above US\$100 per barrel earlier in May.

The sharp correction occurred in the final week of the month after reports of potential diplomatic progress between the United States and Iran raised hopes of a de-escalation in regional tensions and the eventual normalization of shipping through the Strait of Hormuz. Brent crude ended the month near US\$94.44 per barrel, significantly below its mid-month highs.

Natural gas provided a partial offset to the broader energy downturn, with U.S. natural gas prices rising 6.1 percent during the month amid tighter supply conditions and sustained demand.

## **Base Metals: Copper Continues to Shine**

Industrial metals emerged as the strongest-performing commodity group, rising 3.7 percent during May. The rally was led by copper, which continued to benefit from powerful structural demand drivers linked to artificial intelligence infrastructure, data centres, electric vehicles, renewable energy systems, and power transmission networks.

Copper prices climbed to approximately US\$13,543 per metric tonne by the end of May, reflecting growing concerns about supply constraints amid limited mining capacity expansion. The combination of accelerating demand and constrained supply has reinforced copper's position as one of the most strategically important commodities in the global energy transition.

## **Agricultural Commodities: Weather Risks Drive Grain Prices Higher**

Agricultural commodity prices increased by 1.9 percent during the month, supported primarily by higher grain prices. Adverse weather conditions in major producing regions and strong biofuel-related demand contributed to tighter supply expectations.

The wheat market was particularly affected. Global wheat prices rose by 3.4 percent as concerns over deteriorating winter crop conditions in the United States coincided with excessive rainfall in parts of China. Additional support came from revised supply estimates and stronger-than-expected global demand, pushing wheat prices to their highest levels in several months.

The gains highlight the growing influence of climate-related disruptions on global food markets and underline the continued vulnerability of agricultural supply chains to extreme weather events.

## **Precious Metals: Safe-Haven Demand Weakens**

In contrast to industrial commodities, precious metals lost momentum in May. The sector declined by 1.7 percent as improving global risk sentiment encouraged investors to shift funds toward equities and other risk assets.

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Gold prices fell by around 1 percent during the month, ending May near US\$4,546 per ounce. Investor demand weakened as expectations of easing geopolitical tensions reduced the appeal of safe-haven assets. Significant outflows from gold-backed exchange-traded funds (ETFs), particularly in North America and Asia, further weighed on prices.

Silver and other precious metals followed a similar trajectory, reflecting broader investor confidence in equity markets and the global economic outlook.

### **Outlook**

The performance of commodity markets in May 2026 highlights the increasing divergence between cyclical and structural drivers of demand. While easing geopolitical tensions reduced pressure on energy markets, long-term themes such as the AI revolution, electrification, renewable energy expansion, and climate-related agricultural risks continued to support industrial metals and food commodities.

Looking ahead, developments in West Asia, global growth prospects, weather patterns, and the pace of the energy transition will remain critical determinants of commodity market performance. The strong rally in copper and grains, alongside the correction in oil and gold, suggests that investors are increasingly positioning for a world shaped by technological transformation and shifting global supply dynamics.

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## SECTION 4: RESEARCH DIGEST

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## EDMUND S. PHELPS (1933-2026): THE ECONOMIST WHO REDEFINED INFLATION AND UNEMPLOYMENT



Edmund S. Phelps, the Nobel Prize-winning economist whose pioneering work transformed modern understanding of inflation, unemployment, and economic expectations, passed away at the age of 92 at his home in Manhattan. Awarded the 2006 Nobel Memorial Prize in Economic Sciences, Phelps fundamentally reshaped macroeconomic theory through his influential 1968 paper, “Money-Wage Dynamics and Labor-Market Equilibrium.” Challenging the prevailing belief that governments could permanently trade higher inflation for lower unemployment, he argued that such policies would ultimately fuel ever-rising inflation without delivering lasting employment gains. His insights on inflation expectations and the concept of an “equilibrium unemployment rate” became foundational to modern monetary policy and inspired central banks worldwide to prioritize price stability.

Born in Evanston, Illinois, in 1933, Phelps discovered economics while studying at Amherst College before earning his doctorate from Yale University in 1959. Over a distinguished academic career spanning decades, he produced influential work on economic growth, innovation, and public policy, authoring numerous books including *Mass Flourishing*, which celebrated grassroots innovation as a driver of prosperity and

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social dynamism. Though often compared with Milton Friedman, Phelps maintained an independent intellectual identity, resisting ideological labels and emphasizing pragmatic economic reasoning over partisanship. Even in his later years, he remained an active public voice, warning against policies he believed could reignite inflation and undermine economic stability.

Beyond his formidable scholarly legacy, Phelps is remembered for his intellectual curiosity, humility, and wide-ranging interests, from philosophy to music. His work bridged macroeconomics and microeconomics in ways that permanently altered the discipline, influencing generations of economists, policymakers, and central bankers across the world. Edmund Phelps leaves behind not only an extraordinary body of scholarship but also a profound intellectual legacy that continues to shape global economic thinking.

## SYNOPSIS OF RESEARCH PAPERS

### STATE DEPENDENCE OF MONETARY POLICY DURING GLOBAL SUPPLY CHAIN DISRUPTION

Authors: Xiwen Bai, Jesús Fernández-Villaverde, Yiliang Li, and Francesco Zanetti

*NBER Working Paper No. 35209, May 2026*

National Bureau of Economic Research (NBER), Cambridge, MA, USA

The authors examine how global supply chain disruptions alter the transmission and effectiveness of monetary policy. Motivated by the post-pandemic experience of 2020–2023, when transportation bottlenecks, shortages of intermediate goods, and surging freight costs contributed to sharp increases in inflation, the study investigates whether central banks should respond differently to inflation generated by supply chain disturbances.

The paper first documents three key empirical regularities in the United States: global supply chain disruptions significantly increased transportation costs; they created substantial imbalances between domestic demand and the productive capacity of major trading partners; and they coincided with sharp increases in goods-price inflation. Using these stylized facts, the authors develop a parsimonious theoretical framework in which producers and retailers are linked through frictional trading relationships and transportation costs. The model captures a situation in which upstream producers possess spare productive capacity while downstream retailers face shortages, a pattern widely observed during the pandemic recovery.

A central contribution of the study is the demonstration that supply chain disruptions do not simply reduce aggregate supply; they fundamentally alter the shape of the aggregate supply curve. Higher transportation costs reduce the number of profitable producer–retailer matches, making supply increasingly constrained. As a result, the aggregate supply curve becomes steeper and locally convex. Under such conditions,

prices become highly sensitive to changes in demand, whereas output becomes relatively less responsive.

This theoretical insight has important implications for monetary policy. The model predicts that when supply chains are disrupted, contractionary monetary policy can generate a larger reduction in inflation with a comparatively smaller decline in output. In other words, the traditional trade-off between inflation stabilization and output stabilization improves because output becomes relatively inelastic while prices respond more strongly to demand adjustments.

To test these predictions, the authors employ Threshold Vector Autoregression (TVAR) and Local Projection (LP) techniques using U.S. data. The empirical results strongly support the model's predictions. Monetary tightening during periods of supply chain disruption is associated with a significantly greater decline in goods-price inflation relative to the output cost than during normal periods. The findings indicate that monetary policy becomes more effective in controlling inflation when logistical bottlenecks constrain the economy.

The study contributes to the growing literature on supply-side shocks and monetary policy by showing that the state of global supply chains influences the transmission mechanism of monetary policy. Rather than weakening policy effectiveness, supply chain disruptions may enhance the ability of central banks to reduce inflation, as demand contractions translate more readily into lower prices than lower output.

The authors conclude that global supply chain conditions are an important determinant of macroeconomic stabilization outcomes and should be incorporated into policy analysis. They also identify several avenues for future research, including examining how fiscal policy multipliers vary during supply chain disruptions, endogenizing firms' supply-chain decisions, and extending the framework to multi-sector production networks to better understand how bottlenecks propagate through the economy.

*The full paper can be accessed from:*

[https://www.nber.org/system/files/working\\_papers/w35209/w35209.pdf](https://www.nber.org/system/files/working_papers/w35209/w35209.pdf)

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## CHINA'S MERCANTILIST SQUEEZE ON DEVELOPING COUNTRIES

Authors: Shoumitro Chatterjee and Arvind Subramanian

*ICRIER Working Paper 432 May 2026*

Indian Council for Research on International Economic Relations (ICRIER), New Delhi, India

The authors examine the implications of China's expanding trade surplus for low- and middle-income countries (LMICs), arguing that China's continued dominance in labor-intensive manufacturing exports is constraining the industrialization opportunities traditionally available to poorer economies. The paper introduces the concept of the "China Squeeze," defined as the compression of development space for countries seeking to industrialize through labor-intensive manufacturing and export-led growth.

The study is motivated by renewed global concerns over China's large and rising trade surplus, which has attracted considerable attention in the United States and Europe due to its impact on domestic manufacturing sectors. The authors contend that the consequences for LMICs have received far less attention despite the fact that a substantial portion of China's manufacturing surplus remains concentrated in labor-intensive sectors such as apparel, footwear, and other low-skill industries that have historically served as entry points for industrialization in developing economies.

Using multiple indicators, including gross trade flows, value-added exports, historical benchmarks, and labor-endowment comparisons, the authors demonstrate that China continues to occupy an unusually large share of global low-skill export markets even as its income levels have risen and its economy has moved up the technological value chain. When value-added embedded in global supply chains is taken into account, China's presence in these markets appears even more pronounced. The authors estimate that this dominance may have resulted in hundreds of billions of dollars in foregone value-added exports for LMICs, significantly reducing opportunities for industrial expansion and job creation.

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The paper identifies three channels through which the China Squeeze operates. The first and most important is competition in global export markets, where Chinese firms continue to dominate labor-intensive manufacturing. The second is import competition within LMIC domestic markets, where Chinese products increasingly displace local production. The third channel is limited market access to China itself, as China imports relatively fewer labor-intensive products from poorer countries than earlier industrial powers did at comparable stages of development.

Beyond documenting the magnitude of the squeeze, the authors investigate whether China's export performance reflects normal competitive advantages or policy-induced distortions. Although limitations in data availability prevent definitive conclusions, the study presents suggestive evidence that policy factors may have contributed to China's competitiveness. In particular, macroeconomic indicators related to wages, productivity, and exchange-rate policy point to the possibility that an undervalued renminbi may have supported export growth beyond what would be expected from productivity gains alone.

However, the authors emphasize that the developmental implications of the China Squeeze do not depend entirely on whether China's competitiveness arises from productivity or policy distortions. Even if China's export success reflects genuine efficiency gains, the scale and composition of its manufacturing dominance may still limit industrialization pathways for poorer countries. The resulting loss of manufacturing opportunities could impede structural transformation, constrain employment generation, and make it more difficult for many countries to escape low- and middle-income status.

The paper places these findings within a broader historical perspective. The authors argue that previous global economic leaders, particularly the United States after the Second World War, facilitated the industrialization of other economies by absorbing imports and creating export opportunities for developing countries. Japan, the East Asian Tigers, and eventually China itself benefited from this openness. By contrast,

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China's current position as a major exporter of both advanced and labor-intensive goods raises questions about whether it is providing similar opportunities for poorer economies.

The study concludes by highlighting the broader geopolitical and developmental significance of the China Squeeze. As China seeks a larger leadership role in the global economy, its trade policies and market openness will increasingly be judged not only by their domestic benefits but also by their impact on developing countries. The authors argue that if China aspires to be viewed as a responsible global economic leader, it must create greater space for poorer countries to industrialize and expand their exports. Ultimately, the China Squeeze represents not merely a trade issue but a test of whether China can contribute to a more inclusive and sustainable global development model or continue to pursue a strategy that limits opportunities for other emerging economies.

*The full paper can be accessed from:*  
[https://icrier.org/pdf/Working\\_Paper\\_432.pdf](https://icrier.org/pdf/Working_Paper_432.pdf)

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## BOOKSHELF CHRONICLES

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### THE THINKING MACHINE: JENSEN HUANG, NVIDIA, AND THE WORLD'S MOST COVETED MICROCHIP

Author: Stephen Witt

Publisher: Vintage

Year of Publication: 2026

Stephen Witt's *The Thinking Machine* is both a compelling biography of Jensen Huang and a fascinating account of Nvidia's rise from a niche graphics-chip maker to the company at the heart of the artificial intelligence revolution. Written with the pace of a business thriller, the book traces how a series of bold technological bets transformed Nvidia into one of the world's most valuable and strategically important firms.

At the centre of the narrative is Jensen Huang, portrayed as a visionary yet demanding leader whose relentless focus and willingness to take risks shaped Nvidia's culture and success. Witt shows how Huang's early decision to invest in parallel computing and the CUDA software platform laid the foundation for Nvidia's dominance in AI long before the technology became mainstream.

One of the book's greatest strengths is its ability to explain complex technologies in accessible language. Semiconductor design, GPUs, and AI infrastructure are woven seamlessly into a story of ambition, competition, and innovation. Witt also places Nvidia's rise within a broader geopolitical context, highlighting how advanced microchips have become critical assets in the strategic competition between major powers.

While the book focuses more on Nvidia's success than on the broader societal implications of AI, it succeeds brilliantly as a corporate history and leadership study.

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More than a biography, it is the story of how a little-known semiconductor company became the indispensable engine of the AI age.

Insightful, engaging, and highly relevant, *The Thinking Machine* is essential reading for anyone seeking to understand the technological and economic forces shaping the twenty-first century.

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## SECTION 5: CLIMATE CHANGE

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## CLIMATE POLICY

### WMO WARNS OF RECORD GLOBAL HEAT AS CLIMATE RISKS INTENSIFY

The World Meteorological Organization (WMO) has issued a stark warning that the world is likely to experience unprecedented levels of warming before the end of the decade, underscoring the accelerating pace of the global climate crisis. According to the agency's latest assessment, there is an 86 percent probability that at least one year between 2026 and 2030 will surpass 2024 as the hottest year ever recorded. The findings reinforce growing scientific concerns that climate change is moving faster than many earlier projections anticipated.

The warning comes against the backdrop of persistently rising greenhouse gas emissions and the increasing likelihood of an *El Niño* event, both of which are expected to push global temperatures higher. While long-term warming is driven primarily by the accumulation of carbon dioxide and other greenhouse gases in the atmosphere, El Niño can temporarily amplify global temperatures by releasing additional heat from the Pacific Ocean into the atmosphere. The combination of these factors is raising the risk of record-breaking heat across multiple regions of the world.

One of the most alarming aspects of the WMO assessment is the projected warming of the Arctic, where temperatures are expected to rise at more than three times the global average. Rapid Arctic warming has far-reaching implications beyond the polar region. It accelerates the melting of glaciers and sea ice, contributes to sea-level rise, disrupts ecosystems, and may alter atmospheric circulation patterns that influence weather conditions across the Northern Hemisphere. The phenomenon, often referred to as "Arctic amplification," has become one of the clearest indicators of the unequal and accelerating impacts of climate change.

The prospect of continued warming also raises concerns about the increasing frequency and intensity of extreme weather events. Higher global temperatures are associated with

more severe and prolonged heatwaves, erratic rainfall patterns, droughts, floods, and wildfires. Many regions have already experienced unprecedented climatic extremes in recent years, resulting in significant economic losses, disruptions to food and water systems, damage to infrastructure, and adverse health outcomes.

The implications for agriculture and food security are particularly significant. Rising temperatures and changing rainfall patterns can reduce crop yields, increase pest infestations, and heighten the vulnerability of rain-fed farming systems. Developing countries, where large sections of the population depend directly on climate-sensitive sectors for their livelihoods, are likely to face disproportionate impacts. Increased climate variability could also contribute to food price volatility and inflationary pressures globally.

The economic costs of climate change are becoming increasingly visible. Extreme weather events are imposing growing burdens on public finances through disaster relief, infrastructure reconstruction, and adaptation investments. Businesses are facing higher operational risks, supply chain disruptions, and rising insurance costs. For policymakers, climate change is no longer solely an environmental challenge but a macroeconomic and development issue with implications for growth, employment, public health, and financial stability.

The WMO's findings also carry important implications for international climate policy. The report reinforces the urgency of accelerating emissions reductions if the goals of the Paris Agreement are to remain achievable. While investments in renewable energy, energy efficiency, and climate adaptation have increased significantly in recent years, global greenhouse gas emissions remain near record levels. Without more ambitious mitigation efforts, the likelihood of breaching critical temperature thresholds will continue to rise.

The warning serves as a reminder that climate change is no longer a distant future risk but an unfolding reality. The next five years could witness some of the warmest conditions ever experienced by humanity, with far-reaching consequences for

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economies, ecosystems, and societies. The challenge before policymakers is not merely to respond to climate-related disasters but to undertake transformative actions that reduce emissions, strengthen resilience, and support a transition toward a more sustainable and climate-resilient future.

The WMO's projections therefore represent both a warning and a call to action. The choices made today regarding energy systems, industrial policies, land use, and climate adaptation will play a critical role in determining whether the world can avoid the most severe consequences of a rapidly warming planet

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## **CLEAN ENERGY GAINS GROUND AS GLOBAL INVESTMENT PATTERNS SHIFT**

The global energy sector is undergoing a profound transformation as investment flows increasingly shift away from traditional fossil fuels toward clean energy technologies, electricity infrastructure, and low-carbon solutions. According to the International Energy Agency's (IEA) *World Energy Investment 2026*<sup>21</sup> report, spending on oil projects is expected to fall below US\$500 billion in 2026, marking a significant milestone in the evolving global energy landscape.

The trend reflects a combination of climate commitments, technological advances, changing market economics, and growing concerns about energy security. While fossil fuels continue to play an important role in the global energy mix, investment priorities are increasingly being shaped by the need to build more resilient, diversified, and sustainable energy systems.

A notable feature of the current investment cycle is the growing emphasis on electrification. Capital is being directed toward renewable energy generation, power transmission networks, battery storage systems, nuclear energy, and low-emission fuels. Investments in electricity infrastructure are becoming particularly critical as countries seek to accommodate rising demand from electric vehicles, digital technologies, artificial intelligence-driven data centres, and industrial decarbonisation initiatives.

The shift has also been reinforced by recent geopolitical developments. Energy market disruptions arising from tensions in West Asia have highlighted the vulnerabilities associated with concentrated fossil fuel supply chains. As a result, many countries are viewing renewable energy and domestic electricity infrastructure not only as climate

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<sup>21</sup> <https://sl1nk.com/1fm57zl>

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solutions but also as strategic assets that enhance energy security and reduce exposure to global commodity price shocks.

Interestingly, the transition away from oil is not occurring uniformly across all fossil fuels. The IEA projects that global investment in natural gas will reach its highest level in a decade. Natural gas continues to be viewed by many countries as a transitional fuel capable of supporting energy security and grid stability while renewable energy capacity expands. Increased investment in liquefied natural gas (LNG) infrastructure and gas-fired power generation reflects efforts to balance decarbonisation objectives with reliability concerns.

Emerging economies are playing an increasingly important role in shaping the future energy investment landscape. India, in particular, has emerged as one of the world's fastest-growing energy markets. Rapid urbanisation, industrialisation, and rising electricity demand are driving substantial investments in renewable energy projects, transmission infrastructure, and grid modernisation. The country's focus on solar power, green hydrogen, battery storage, and transmission expansion reflects its broader strategy of supporting economic growth while advancing energy transition goals.

The changing composition of global energy investment carries significant economic and strategic implications. Greater investment in clean energy technologies can accelerate emissions reductions, stimulate innovation, create new industries and employment opportunities, and enhance long-term energy security. At the same time, the transition will require substantial investments in grids, storage systems, critical minerals, and supporting infrastructure to ensure that renewable energy can be integrated efficiently and reliably into national energy systems.

The IEA's latest projections suggest that the global energy transition is moving from ambition to implementation. While challenges related to financing, technology deployment, and energy affordability remain, investment patterns increasingly indicate that the future of the energy sector will be defined less by the expansion of oil

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production and more by the growth of electricity networks, renewable energy, and low-carbon technologies.

The shift in capital allocation marks a pivotal moment in the global energy transition. As governments, businesses, and investors adapt to changing economic realities and climate imperatives, energy investment is becoming a key indicator of how rapidly the world is moving toward a cleaner, more secure, and more sustainable energy future.

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## SYNOPSIS OF RESEARCH PAPERS/ REPORTS

### **DIVERGENCE IN CLIMATE CHANGE COMMUNICATION: LLM-BASED EVIDENCE FROM THE IPCC AND THE PRESS**

Authors: Sebastian Galiani, Franco Mettola La Giglia, and Raul A. Sosa

*NBER Working Paper No. 35216, May 2026*

National Bureau of Economic Research (NBER), Cambridge, MA, USA

The authors investigate how climate science is progressively communicated from technical assessments to policymakers and ultimately to the public through media coverage. Focusing on the Intergovernmental Panel on Climate Change (IPCC), the study examines whether the communication process systematically alters the presentation of climate risks and, if so, in what direction. The research is motivated by the central role of IPCC assessments in shaping international climate negotiations, national climate policies, and public understanding of climate change.

The study analyses the communication chain spanning six IPCC Assessment Reports from 1990 to 2023. Specifically, it examines the transition from the Technical Summary (TS), prepared by scientific authors, to the Summary for Policymakers (SPM), which is negotiated and approved by representatives of the IPCC's 195 member governments, and then from the SPM to media coverage. To undertake this large-scale analysis, the authors employ large language models (LLMs) to extract and compare approximately 114,000 matched claims drawn from IPCC documents and 116,045 newspaper articles published by ten major US and UK media outlets.

The authors develop three measures to assess changes in communication across stages: severity shift, which captures whether summaries emphasize the upper end of the source's impact range; uncertainty compression, which measures the reduction of qualifiers and expressions of uncertainty; and scenario salience, which evaluates

whether worst-case emissions scenarios receive disproportionate attention. These measures are applied using multiple LLMs to ensure robustness.

The findings reveal a consistent pattern of “severity amplification” throughout the communication chain. First, the transition from the Technical Summary to the Summary for Policymakers systematically emphasizes the more severe end of the scientific evidence in every assessment cycle from 1990 to 2023. Second, media coverage further amplifies this tendency by highlighting the more consequential interpretations of climate findings contained in the SPMs. Importantly, the amplification occurs while remaining within the scientifically accepted ranges reported by the IPCC. Thus, neither the SPMs nor the media typically exaggerate beyond the bounds of the underlying science; rather, they tend to emphasize higher-impact outcomes within those bounds.

The study finds that this amplification is driven primarily by greater attention to higher-impact estimates and magnitudes rather than by the omission of uncertainty or the selective promotion of worst-case climate scenarios. Contrary to common perceptions, the authors find little evidence that media outlets systematically focus on the most extreme emissions pathways. Furthermore, the analysis reveals remarkably similar patterns across both left-leaning and right-leaning newspapers, suggesting that ideological differences play a relatively limited role in shaping climate coverage compared with broader journalistic and institutional incentives.

To explain these patterns, the authors draw on theories of communication, political negotiation, and media economics. They argue that the TS-to-SPM amplification reflects the incentives of policymakers and scientists operating under asymmetric risk considerations, where the consequences of underestimating climate risks are perceived to be greater than those of overestimating them. The requirement that language be approved by all member governments may further encourage consensus around more precautionary interpretations. At the media stage, editors and journalists are likely to

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prioritize claims that are novel, urgent, and newsworthy, characteristics that naturally favour more severe impacts within the accepted scientific range.

The study contributes to the literature on science communication by demonstrating a measurable two-stage process through which climate risks are reweighted as information moves from scientific assessment to public discourse. However, the authors emphasize that the observed pattern should not be interpreted as evidence of scientific distortion. Rather, it represents a shift in emphasis within the range of conclusions already accepted by the scientific community.

The authors conclude that readers and policymakers should view IPCC summaries and media reports as calibrated interpretations rather than neutral mid-point representations of the underlying technical evidence. While both the Summary for Policymakers and subsequent media coverage remain anchored in peer-reviewed science, they tend to place greater emphasis on the higher-risk end of the spectrum. Consequently, users of climate information should recognize this within-range positioning when interpreting climate assessments and policy debates.

*The full paper can be accessed from:*

[https://www.nber.org/system/files/working\\_papers/w35216/w35216.pdf](https://www.nber.org/system/files/working_papers/w35216/w35216.pdf)

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## FRAMING INDIA'S CHINA STRATEGY ON CLIMATE AND CLEAN ENERGY

Authors: Pooja Vijay Ramamurthi and Shruti Jargad

*CSEP Working Paper – 119 May 2026*

Centre for Social and Economic Progress (CSEP), New Delhi, India

The paper examines the evolving prospects for climate and clean-energy engagement between India and China in an era marked by geopolitical rivalry, economic asymmetry, and growing climate urgency. It addresses a critical policy question: whether and how India can engage with China on climate and energy issues while safeguarding its strategic autonomy and reducing vulnerabilities arising from dependence on Chinese supply chains.

The authors argue that India's ambitious climate goals, including renewable energy expansion, decarbonisation, and adaptation initiatives, cannot be achieved through domestic policies alone. International cooperation remains essential for accessing technology, finance, and knowledge. In this context, China occupies a uniquely complex position. While it is India's largest supplier of green technologies and critical components for the energy transition, it is also a strategic competitor with whom diplomatic and political relations have deteriorated significantly in recent years.

The study situates India–China climate relations within contemporary geopolitical realities and identifies a major gap in existing scholarship. Most research on climate cooperation with China focuses on relations with advanced economies, offering limited guidance for India's distinctive developmental and strategic circumstances. The paper argues that the context for bilateral engagement has changed fundamentally since 2015 due to China's growing dominance in green technologies, widening economic imbalances, and escalating border tensions. Climate cooperation has increasingly become intertwined with concerns over national security, supply-chain resilience, and economic competitiveness.

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Methodologically, the paper employs a qualitative mixed-methods approach combining historical analysis, document review, expert interviews, and policy workshops. The authors construct an original dataset of 44 official India–China bilateral engagements between 1993 and 2020, sourced from India’s Ministry of External Affairs. These engagements are analysed according to their institutional characteristics, participating actors, and thematic focus. The study is supplemented by interviews with diplomats, policymakers, academics, and industry experts, as well as discussions conducted through closed-door policy workshops involving Indian and Chinese participants.

The historical analysis identifies three distinct phases of India–China climate engagement. The first phase (1990s–2007) was characterised by strong cooperation in multilateral climate negotiations and modest bilateral collaboration in areas such as environmental protection, renewable energy, and hydrological data sharing. During the second phase (2008–2015), climate and energy cooperation expanded substantially through strategic dialogues, research partnerships, city-level collaborations, and multiple memoranda of understanding. This period represented the high point of bilateral engagement, although implementation often lagged behind formal commitments. The third phase (2016–2026) witnessed a sharp deterioration in relations following geopolitical events such as the Doklam standoff, the COVID-19 pandemic, and the Galwan clashes. As strategic distrust increased and economic asymmetries widened, climate cooperation declined significantly.

The paper finds that cooperation is most difficult in sectors where India and China are direct economic competitors or where China possesses significant strategic leverage. Ironically, many of these sectors, including electric vehicles, batteries, solar components, wind technologies, and critical minerals, are central to India’s clean-energy transition. Given India’s current manufacturing limitations, China is likely to remain a major supplier of green technologies in the medium term. Consequently, the authors argue that complete disengagement is neither feasible nor desirable.

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Instead, the paper proposes a framework of “strategically calibrated engagement.” It recommends focusing cooperation on narrow, low-risk areas where mutual interests exist and strategic competition is limited. Potential areas include energy-efficiency standards, sustainable agriculture, waste-to-energy systems, urban sustainability planning, biodiversity conservation, disaster-risk management, and governance issues related to just energy transitions. These sectors offer opportunities for technical cooperation without creating excessive strategic dependence.

The authors also highlight the potential for cooperation in shaping climate norms and governance frameworks for the Global South. Given their shared status as major developing economies, India and China can jointly influence debates on climate finance, green taxonomies, resilient infrastructure, and sustainable development standards. The paper further advocates diversifying channels of engagement through multilateral and minilateral platforms such as BRICS, the Shanghai Cooperation Organisation (SCO), BASIC, and development finance institutions including the Asian Infrastructure Investment Bank (AIIB), the Asian Development Bank (ADB), and the New Development Bank (NDB).

An important recommendation is the strengthening of Track 1.5 and Track 2 diplomacy involving universities, think tanks, civil society organisations, cities, and industry groups. Such non-governmental channels can sustain dialogue and trust-building even during periods of strained official relations. The authors also suggest that India can learn from countries such as Indonesia and the Philippines, which have successfully managed extensive green-sector cooperation with China while maintaining strategic autonomy.

The paper concludes that climate and clean-energy cooperation between India and China remains both necessary and possible, but only under a carefully designed framework that acknowledges contemporary geopolitical realities. Rather than pursuing broad-based bilateral cooperation, India should adopt a selective, pragmatic, and strategically calibrated approach focused on low-politics areas, diversified

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institutional channels, and issue-specific collaboration. Such an approach would allow India to advance its climate objectives, secure access to critical technologies and finance, and strengthen Global South leadership while minimising strategic vulnerabilities arising from dependence on China.

*The full paper can be accessed from:*

<https://csep.org/wp-content/uploads/2026/05/Framing-Indias-China-strategy-on-climate-and-clean-energy.pdf>

*All issues of EcoSphere are available at <https://inspire-solutions.in/ecosphere/>*

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