

# EcoSphere

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

***JUNE 2026***

***Volume III, Issue 6***



**Institute for  
Pioneering Insightful  
Research Pvt Ltd**

InsPIRE

*Driving Policy, Empowering Progress*

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

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June 2026, Volume III, Issue 6

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Dr Debesh Roy, Chairman, InsPIRE

Ms Bijetri Roy, Managing Director, InsPIRE

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Please send your feedback to: Email ID: [inspireresearch0806@gmail.com](mailto:inspireresearch0806@gmail.com)



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

CIN: U80902UP2021PTC147066

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

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## **Chairman's Reflections**



### **Navigating a Changing World: Economy, Markets and Climate**

The global economy today is navigating one of the most complex periods of the past several decades. Geopolitical tensions, evolving trade dynamics, technological disruption, climate change, and shifting monetary policy frameworks continue to reshape the economic landscape. At the same time, artificial intelligence is redefining industries, labour markets and productivity, while climate-related risks are increasingly influencing investment decisions, supply chains and macroeconomic stability. Policymakers and businesses alike are being challenged to adapt to a world where uncertainty has become the new normal.

Against this backdrop, India continues to stand out as the world's fastest-growing major economy. The provisional GDP estimates for FY2025–26 reaffirm the resilience of the Indian economy, supported by broad-based sectoral growth, strengthening investment, resilient domestic demand and continued macroeconomic stability. Yet, as our cover story highlights, the headline growth figures tell only part of the story. Equally important are the structural shifts taking place within the economy: manufacturing moving towards higher value addition, services consolidating their leadership, rising capital formation, expanding formalisation and an accelerating transition towards a greener and more technology-driven growth model.

Despite the positive momentum, risks remain. Slower agricultural growth, external uncertainties, volatile energy prices and weakening global demand could weigh on the outlook. Sustaining high growth will depend on accelerating job creation, productivity, manufacturing competitiveness, export diversification, human capital development and technological innovation.

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This edition of *EcoSphere* examines these developments through a multidisciplinary lens. We analyse India's evolving macroeconomic environment, the RBI's monetary policy, inflation dynamics, industrial performance, external trade, labour markets, agriculture and financial stability. At the global level, we review the World Bank's latest economic outlook, monetary policy developments across major central banks, inflation trends in leading economies, commodity market movements and the growing influence of artificial intelligence on financial markets.

Climate change continues to occupy a central place in our analysis. Europe's unprecedented heatwave and the latest scientific evidence on intensifying global heat stress serve as timely reminders that climate risks are no longer distant environmental concerns but immediate economic realities. Building resilient infrastructure, accelerating clean energy transitions and integrating climate considerations into development planning will be critical for achieving sustainable and inclusive growth.

This issue also includes important developments in academic research and contemporary literature, including recent work on labour markets, monetary policy and the future of work. We believe that evidence-based research, informed public discourse and continuous knowledge sharing remain indispensable for better policymaking and sound business decision-making.

At InsPIRE, our objective is not merely to present data, but to interpret emerging trends, identify structural transformations and stimulate informed discussion on the opportunities and challenges shaping India's development journey. We hope this edition provides valuable insights to policymakers, researchers, industry leaders, academicians and students seeking a deeper understanding of an increasingly interconnected global economy.

As always, we welcome your feedback, suggestions and engagement as we continue our endeavour to deliver rigorous, policy-oriented and insightful economic research.

Dr Debesh Roy

[debeshroy\\_chairman@inspire-solutions.in](mailto:debeshroy_chairman@inspire-solutions.in)

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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 (₹) 94.5975 (30 June 2026)

# COVER STORY

## BEYOND THE HEADLINE NUMBERS: WHAT INDIA'S FY2025–26 GDP DATA REVEAL ABOUT THE ECONOMY

**Dr Debesh Roy**  
*Chairman, InsPIRE*

### **India's Economy Continues to Outperform**

According to the Provisional Estimates released by the Ministry of Statistics and Programme Implementation (MoSPI), the Indian economy expanded by 7.7 percent in FY2025-26, improving upon the revised growth of 7.1 percent in FY2024-25 (Figure 1). Even more encouraging was the performance during the final quarter of the fiscal year, when GDP accelerated to 7.8 percent, significantly exceeding market expectations. Real GDP reached ₹323.12 trillion<sup>1</sup> (Figure 1), while nominal GDP expanded by 8.9 percent to ₹346.36 trillion (Figure 2).

The declining trend in the growth of nominal GDP is a matter of concern. Nominal GDP growth, which declined to 8.9 percent from 9.7 percent in FY2024–25 (Figure 2), despite strong real GDP growth of 7.7 percent. This divergence reflects a lower GDP deflator, indicating that inflationary pressures eased during much of the year. While softer price growth is beneficial from the standpoint of macroeconomic stability and

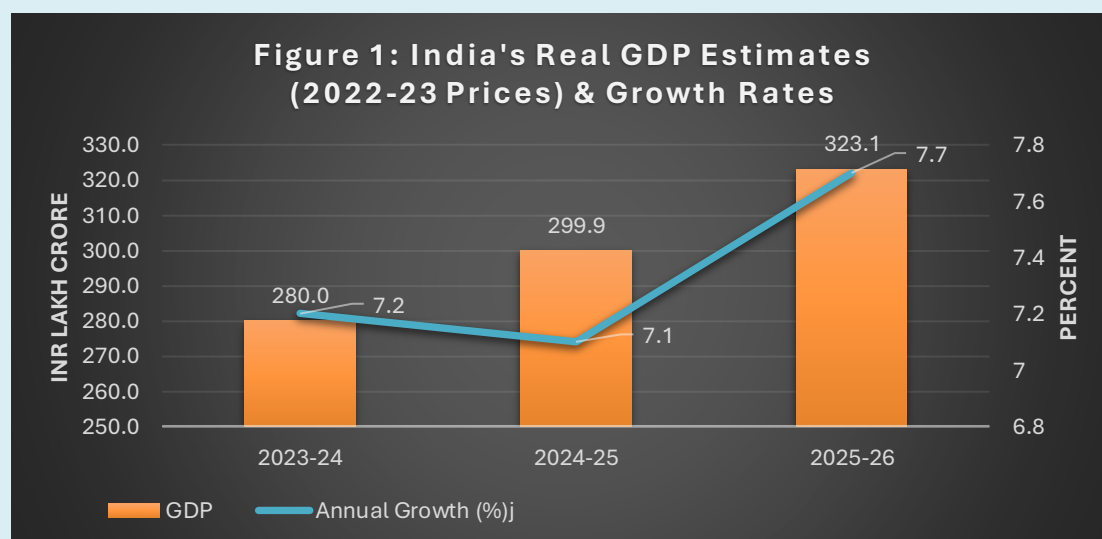
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<sup>1</sup> 1 Trillion = 1 Lakh Crore

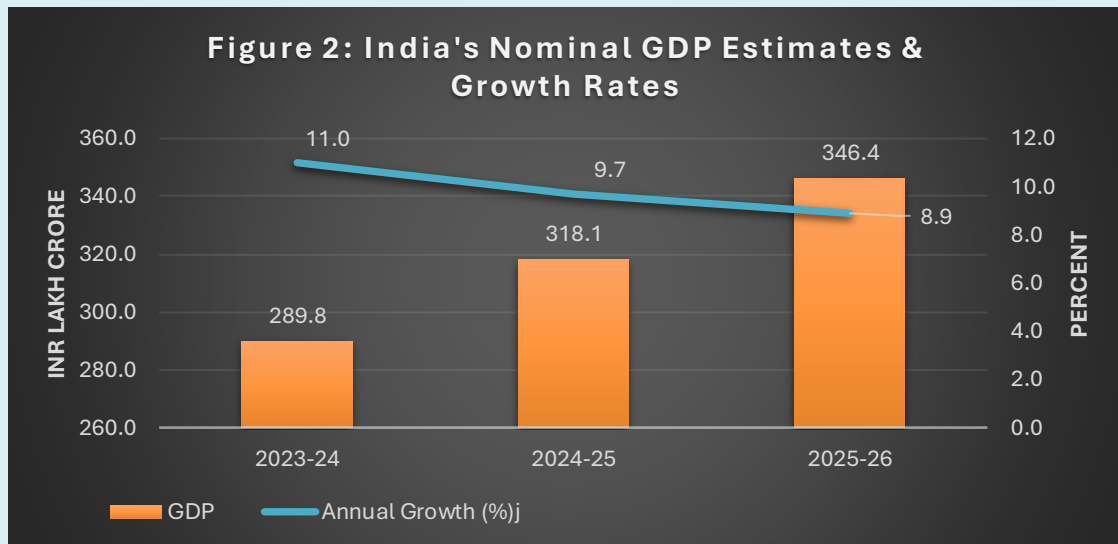


purchasing power, slower nominal GDP growth has important policy implications. Government tax revenues, corporate sales, and household incomes are more closely linked to nominal rather than real GDP, implying that revenue buoyancy may moderate even in a rapidly growing economy. A lower nominal GDP also affects key fiscal indicators, including the debt-to-GDP ratio and fiscal deficit calculations, and may constrain fiscal space unless tax collections remain buoyant through improved compliance and formalisation.

At a time when geopolitical tensions, volatile commodity prices, slowing global trade and heightened policy uncertainty continue to weigh on the world economy, India's growth performance once again establishes it as the fastest-growing major economy. However, the significance of these estimates extends well beyond the headline growth rate. The data reveal an economy undergoing a structural transformation, characterised by stronger investment, broad-based sectoral expansion, rising productivity, greater formalisation and improving quality of growth.



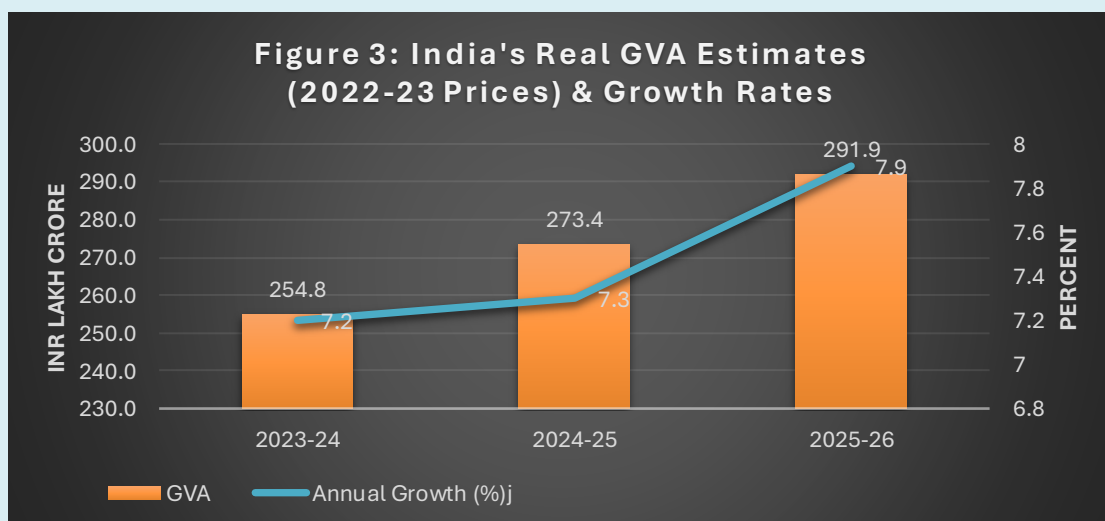
Source: National Statistics Office (NSO), Ministry of Statistics and Programme Implementation (MoSPI), Government of India (GoI)



Source: NSO, MoSPI, GoI

### Growth is Becoming More Broad-Based

One of the most encouraging aspects of the latest GDP estimates is the broad-based nature of growth. Real Gross Value Added (GVA), which strips out the impact of taxes and subsidies, grew by 7.9 percent, outperforming the previous year's 7.3 percent, from ₹273.4 trillion to ₹291.9 trillion (Figure 3). Unlike earlier years, when growth depended heavily on a few sectors, almost every major segment of the economy contributed positively.

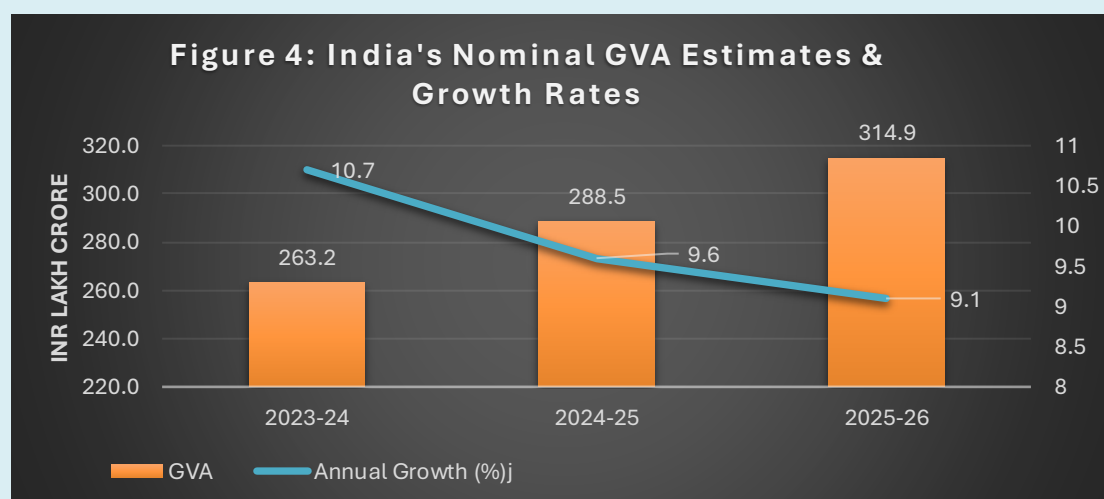


Source: NSO, MoSPI, GoI

The sectoral picture highlights three important trends:

- Primary sector grew by 3.2 percent, led primarily by agriculture and fisheries (3.0 percent).
- Secondary sector expanded by 8.8 percent, driven by manufacturing and construction.
- Services sector emerged as the principal growth engine, recording an impressive 9.3 percent expansion.

The nominal GVA grew by 9.1 percent from ₹288.5 trillion to ₹314.9 trillion (Figure 4). The growth, however, declined from 10.7 percent in 2023-24 and 9.6 percent in 2024-25.



Source: NSO, MoSPI, GoI

The steadily rising share of services, from around 52 percent of GVA to more than 54 percent under the new series, indicates India's continuing transition towards a knowledge- and services-based economy. At the same time, manufacturing's double-digit nominal growth demonstrates that industrial activity remains an important pillar of economic expansion.

## **Manufacturing is Regaining Momentum**

Manufacturing GVA grew by 10.7 percent during FY2025-26 (Figure 5), one of the strongest performances among major sectors. Construction also remained robust with 7.4 percent growth, reflecting continued public infrastructure investment as well as improving private sector activity.

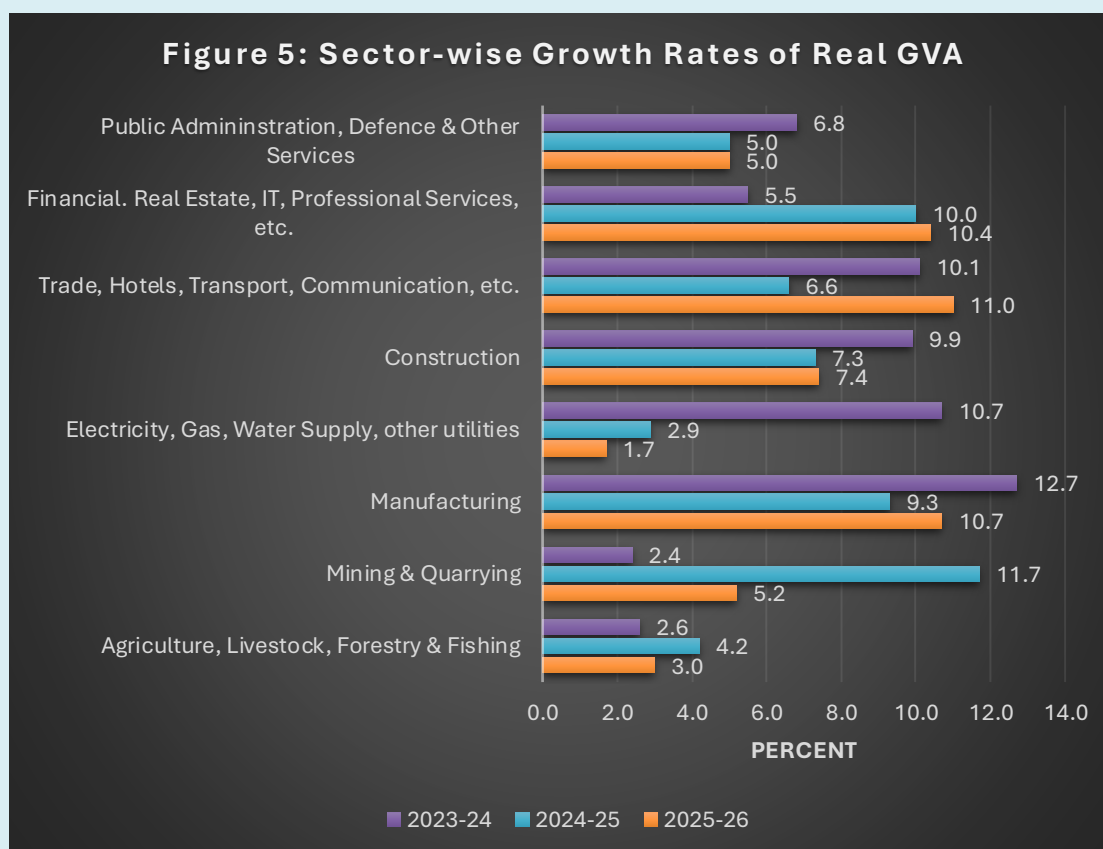
Yet the GDP data also highlight an interesting issue. SBI Research<sup>2</sup> points out that manufacturing GVA has consistently exceeded the growth reflected in the Index of Industrial Production (IIP). Rather than indicating inconsistencies, this divergence reflects the fact that the two indicators measure different aspects of production. While the IIP captures physical output, GVA measures value addition. As firms increasingly move towards higher-value products such as electronics, precision engineering and specialty chemicals, value addition can rise much faster than production volumes. This structural shift suggests that Indian manufacturing is gradually climbing the value chain instead of merely expanding capacity.

## **Services Continue to Power Growth**

The services sector remained India's strongest growth engine. Trade, hotels, transport and communication expanded by 11.0 percent during FY2025-26, while financial, real estate and professional services grew by 10.4 percent (Figure 5). Both sectors recorded double-digit expansion, reflecting stronger domestic demand, increased mobility, rising financial activity and expanding digital services. The continued strength of these sectors indicates that India's recovery is no longer driven solely by government expenditure but increasingly by private economic activity.

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<sup>2</sup> SBI Research Ecowrap, Issue No. 10, 06 June 2026, State Bank of India



Source: NSO, MoSPI, GoI

## Consumption and Investment are Growing Together

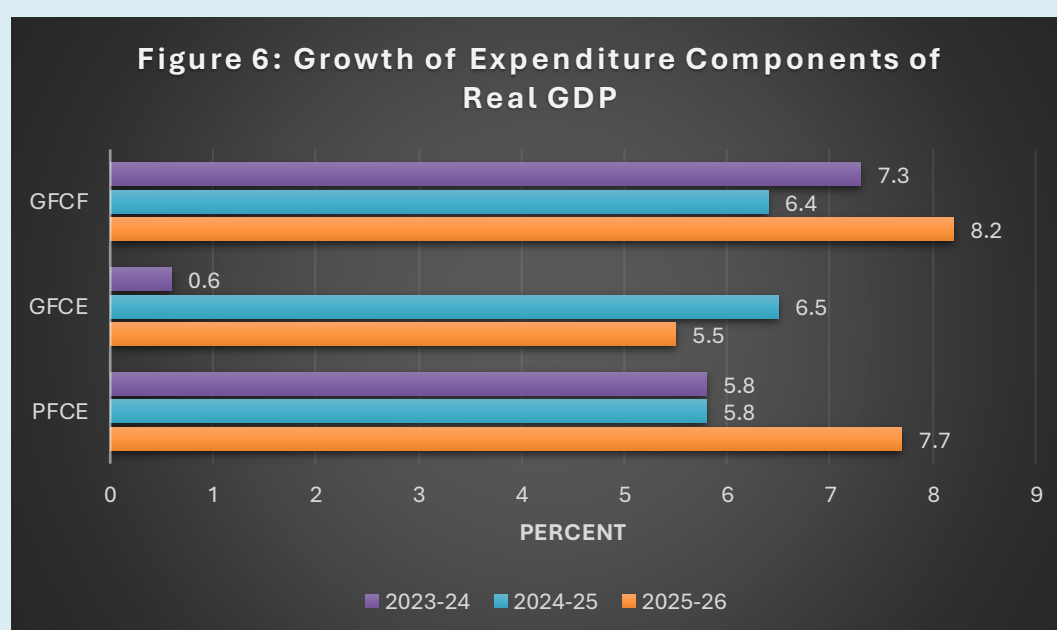
Perhaps the most reassuring feature of the GDP data lies on the expenditure side. Private Final Consumption Expenditure (PFCE), which accounts for nearly 56 per cent of GDP, accelerated from 5.8 per cent in FY2024-25 to 7.7 percent in FY2025-26 (Figure 6). This suggests that household demand has strengthened considerably, supported by improving employment conditions, rising incomes and sustained consumer confidence.

Government Final Consumption Expenditure (GFCE) grew by 5.5 percent during FY2025–26, following a robust 6.5 percent expansion in the previous year. While the pace of growth moderated, it remained healthy, reflecting a calibrated fiscal strategy that sought to balance support for aggregate demand with fiscal consolidation. The relatively slower increase in government consumption also indicates a gradual shift in the composition of growth, with private demand increasingly assuming a larger role in

driving economic activity. This transition is desirable, as durable high growth is ultimately more sustainable when led by private consumption and investment rather than public expenditure.

Even more encouraging is the performance of Gross Fixed Capital Formation (GFCF), which grew by 8.2 percent, with an exceptional 10.8 percent growth during the fourth quarter. The strong investment performance reflects continued public infrastructure spending alongside improving private sector investment sentiment, laying the foundation for higher productive capacity and future growth.

Historically, economies experience sustained high growth only when consumption and investment reinforce one another. India's latest GDP estimates suggest that this virtuous cycle may now be taking shape. With household spending strengthening, government consumption remaining supportive, and capital formation gathering momentum, the composition of growth appears increasingly balanced and conducive to long-term economic expansion.



Source: NSO, MoSPI, GoI

## **Q4 Performance Suggests Strong Underlying Momentum**

The fourth quarter deserves separate attention because it provides the clearest indication of current momentum. Real GDP grew by 7.8 percent, while GVA increased by 7.9 percent. Construction expanded by 8.4 percent, financial and professional services by 10.4 percent, and trade-related services by an impressive 12.5 percent. GFCF rose by 10.8 percent, indicating accelerating investment activity. Such broad-based acceleration across sectors suggests that growth remains fundamentally healthy despite global uncertainties.

## **The New GDP Series is Changing Our Understanding of the Economy**

One of the most important insights emerging from the new GDP series is methodological rather than cyclical. The revised series now captures India's informal economy much more effectively through improved use of data from the Annual Survey of Unincorporated Sector Enterprises (ASUSE) and the Periodic Labour Force Survey (PLFS). Around 7.9 crore enterprises are now covered under ASUSE, contributing roughly 12 percent of total GVA.

This has important policy implications. The earlier GDP methodology relied heavily on formal-sector indicators to estimate informal-sector performance. The new framework provides a more direct measurement of informal enterprises, making GDP estimates more representative of India's economic structure. Equally significant is the evidence that greater formalisation, digitisation, skill development and improved access to institutional finance are raising labour productivity and supporting long-term growth.

## **Private Investment is Showing Signs of Revival**

Perhaps the most encouraging structural development is the apparent revival in private investment. According to SBI Research, investment announcements increased from ₹37 trillion in FY2024-25 to approximately ₹56 trillion in FY2025-26, while cumulative investment announcements reached nearly ₹80 trillion. Simultaneously, the gross block of listed Indian companies has almost doubled over the past six years.

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Although announced investments do not automatically translate into completed projects, these trends suggest improving business confidence and expanding productive capacity.

### **Challenges Remain**

Despite the encouraging numbers, several challenges warrant careful attention. Agricultural growth moderated to 3.0 percent (Figure 5), reflecting weather-related constraints. Export growth has softened amid geopolitical tensions and weaker global demand. Persistent global uncertainty, including developments in West Asia, volatile energy prices and possible shifts in advanced economy monetary policy, continues to pose downside risks.

Moreover, maintaining growth above 7 percent over the medium term will require continued progress in employment generation, productivity enhancement, manufacturing competitiveness, export diversification, human capital formation and technological innovation.

### **Policy Priorities Going Forward**

The latest GDP estimates point towards several policy priorities.

First, sustaining public capital expenditure remains essential until private investment broadens further.

Second, manufacturing competitiveness must improve through logistics reforms, technology adoption and greater integration into global value chains.

Third, agriculture requires renewed emphasis on productivity enhancement, irrigation, value addition and climate resilience.

Fourth, continued investment in digital infrastructure, artificial intelligence, skilling and innovation will determine India's future growth trajectory.

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Finally, macroeconomic stability, particularly low inflation, fiscal discipline and financial sector resilience, must remain the foundation for sustained high growth.

### **Conclusion: Growth with Increasing Quality**

India's FY2025-26 GDP estimates represent much more than another year of robust growth. They indicate that the economy is becoming more diversified, investment-led, productivity-driven and resilient. The simultaneous acceleration in consumption, investment, manufacturing and services suggests that growth is becoming broader and more sustainable. Equally important, the new GDP methodology provides a more comprehensive picture of India's economic reality by better capturing the contribution of the informal sector and structural transformation. The FY2025-26 GDP estimates mark an important indicator that the economy is steadily moving towards a higher-quality and more resilient growth path.

Nevertheless, policymakers should avoid complacency. Sustaining growth above 7 percent will require continuous structural reforms, stronger private investment, enhanced export competitiveness and greater employment generation. The challenge is no longer merely to maintain rapid growth, but to ensure that it is inclusive, innovation-driven and environmentally sustainable.

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## SECTION 1: INDIAN ECONOMY

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## RBI'S MONETARY POLICY

### RBI'S JUNE 2026 MONETARY POLICY: BALANCING GROWTH, INFLATION AND GEOPOLITICAL UNCERTAINTY

**Dr Debesh Roy**  
*Chairman, InsPIRE*

The June 2026 monetary policy of the Reserve Bank of India (RBI) marked a pivotal moment in India's macroeconomic trajectory. While the Monetary Policy Committee (MPC) unanimously left the repo rate unchanged at 5.25 percent and retained its neutral policy stance, the policy statement reflected far more than a routine pause. It signalled growing confidence that inflation has been brought under control while reaffirming the RBI's commitment to preserving macroeconomic stability amid an uncertain global environment.

Unlike previous policy reviews that were primarily driven by domestic inflation dynamics, the June policy is dominated by a rapidly changing global geopolitical environment. The prolonged conflict in West Asia, disruptions in global supply chains, sharply higher energy prices and the possibility of a deficient southwest monsoon have fundamentally altered the balance of risks facing the Indian economy. The RBI's challenge is no longer merely inflation management; it is managing an external supply shock while preserving growth momentum. The June policy therefore represents a carefully calibrated response to an economy entering a phase of heightened uncertainty.

#### **From Goldilocks to Geopolitical Shock**

Until early 2026, the Indian economy was enjoying exceptionally favourable macroeconomic conditions. Growth remained robust, inflation had declined sharply and fiscal consolidation had strengthened macroeconomic stability.

The RBI notes that India entered the current global turbulence with significantly stronger fundamentals than during previous episodes such as the Global Financial

Crisis, the Taper Tantrum or the pandemic. Strong foreign exchange reserves, healthy banking sector balance sheets, moderate current account deficits, resilient services exports and improving fiscal metrics provide important buffers against external shocks. However, the external environment changed dramatically following the escalation of geopolitical tensions in West Asia.

The Governor's Statement highlights several simultaneous shocks:

- prolonged disruption of critical trade routes;
- elevated crude oil and commodity prices;
- increasing freight and insurance costs;
- heightened volatility in financial markets;
- cautious global business sentiment;
- renewed inflation concerns across advanced economies; and
- tighter global financial conditions.

Unlike demand-driven inflation, these developments represent classical supply-side shocks, making monetary policy decisions substantially more complex.

### **Why the RBI Chose to Pause**

The most important takeaway from the June policy is that the RBI deliberately chose patience over pre-emptive tightening. Ordinarily, a sharp upward revision in inflation projections could justify an increase in policy rates. Instead, the MPC unanimously decided to wait.

This decision rests on three important considerations.

**First, inflation remains below target, for now:** Headline CPI inflation remained only 3.4–3.5 percent during March–April 2026, well below the 4 percent target, although food inflation has started rising. Core inflation also remains relatively contained, especially after excluding precious metals.

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**Second, the current inflationary pressures originate outside India:** Higher global oil prices, commodity costs and logistics disruptions cannot be directly addressed through domestic interest rate increases. Aggressive tightening under such circumstances could unnecessarily weaken domestic demand without materially reducing imported inflation.

**Third, uncertainty remains exceptionally high:** The duration of the West Asia conflict, the extent of supply-chain disruptions, the future trajectory of energy prices and the eventual monsoon outcome all remain uncertain. Rather than reacting prematurely, the RBI has opted to remain data-dependent. This represents prudent monetary management rather than policy inertia.

### **Growth Is Slowing, but Not Collapsing**

One of the most significant changes in the June policy is the moderation in growth expectations. Real GDP growth is projected at 6.6 percent during 2026-27 compared with 7.7 percent in 2025-26. Quarterly projections also indicate relatively slower expansion throughout the year.

Yet the RBI's assessment remains cautiously optimistic. Several domestic growth drivers continue to perform well:

- resilient private consumption;
  - strong services sector activity;
  - healthy manufacturing PMI;
  - sustained capital expenditure by the government;
  - improving infrastructure investment;
  - robust bank credit growth;
  - continuing services exports; and
  - relatively stable employment conditions.
-

High-frequency indicators suggest that economic activity has slowed only modestly despite global disruptions. This resilience reflects improvements in India's macroeconomic architecture over the past decade.

### **Inflation Risks Have Changed Character**

Perhaps the most important shift in the policy is not the current inflation rate but the future inflation outlook. The RBI now projects CPI inflation to average 5.1 percent during 2026-27, with inflation expected to rise to nearly 5.9 percent during the third quarter before moderating later in the year. Several factors explain this revision.

- The increase in retail fuel prices during May has already begun transmitting higher international crude prices into domestic inflation.
- Beyond fuel, rising prices of commercial LPG, industrial chemicals, plastics and other intermediate inputs indicate that imported inflation is gradually spreading across sectors.
- The RBI is particularly concerned about second-round effects, whereby higher input costs translate into broader wage increases and inflation expectations.
- Such generalized inflation is considerably more difficult to reverse than temporary supply shocks.

### **The Monsoon Adds Another Layer of Uncertainty**

An important domestic risk highlighted repeatedly across all three documents is the possibility of a sub-normal southwest monsoon associated with *El Niño*. Unlike earlier decades, India's agriculture has become more resilient due to:

- crop diversification;
  - irrigation expansion;
  - water conservation;
  - climate-resilient farming practices; and
  - shorter-duration crop varieties.
-

Nevertheless, deficient rainfall could affect: agricultural output; rural incomes; food inflation; and rural consumption. The combination of higher imported inflation and food inflation would significantly complicate monetary policy.

### **The RBI's Confidence in India's Structural Resilience**

One of the more encouraging themes emerging from both the Governor's Statement and the MPC Minutes is confidence in India's structural resilience. Several long-term strengths are repeatedly emphasised.

These include: substantial foreign exchange reserves; improved fiscal discipline; diversified export markets; resilient services exports; healthy banking sector balance sheets; strong government capital expenditure; better infrastructure; diversified energy sourcing; and improved domestic manufacturing capabilities.

The policy therefore projects confidence without complacency. India may slow, but the RBI believes it remains among the fastest-growing major economies.

### **What the MPC Minutes Reveal: A Broad Consensus with Distinct Perspectives**

The MPC Minutes provides valuable insight into the Committee's thinking. Unlike periods of policy disagreement, all six members unanimously supported both: maintaining the repo rate at 5.25 percent; and retaining the neutral stance.

The statements reveal broad consensus on several issues:

First, the current inflation shock is externally driven.

Second, India's macroeconomic fundamentals remain considerably stronger than during previous global crises.

Third, premature tightening could unnecessarily weaken growth while offering limited relief from imported inflation.

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### ***Governor Sanjay Malhotra: Patience Amid Extraordinary Uncertainty***

Governor Sanjay Malhotra acknowledged that the projected inflation path, averaging 5.1 percent in 2026-27 and peaking at 5.9 percent in the third quarter, could ordinarily justify monetary tightening. However, he argued that the present inflation shock is fundamentally different because it is largely driven by external supply disruptions rather than excessive domestic demand.

He advanced four key arguments for maintaining the status quo:

- exceptional uncertainty surrounding the duration of the West Asia conflict and the evolution of supply chains;
- inflation projections are heavily influenced by food and fuel prices, while underlying core inflation remains relatively contained;
- current headline inflation is still within the RBI's target despite rising global energy prices; and
- monetary policy should remain vigilant against second-round inflation effects without reacting prematurely.

The Governor therefore advocated a "wait-and-watch" approach, while emphasising that the RBI would remain data-dependent and respond quickly if inflation became more broad-based.

### ***Dr. Nagesh Kumar: Strong Fundamentals but a Call for Energy Transition***

Dr. Nagesh Kumar viewed the West Asia conflict as a major external shock affecting crude oil prices, fertiliser supplies, remittances, exports and capital flows. Nevertheless, he stressed that India entered the crisis with considerably stronger macroeconomic fundamentals than during earlier episodes such as the Global Financial Crisis, the Taper Tantrum and the COVID-19 pandemic.

He highlighted several strengths:

- foreign exchange reserves approaching US\$700 billion;
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- fiscal consolidation creating policy space;
- resilient exports and remittances;
- improving agricultural resilience; and
- the government's ability to sustain public investment.

Importantly, Dr. Kumar argued that the crisis reinforces the urgency of accelerating India's clean energy transition to reduce long-term dependence on imported fossil fuels. Given the high uncertainty, he supported maintaining the current policy stance until greater clarity emerges.

### ***Saugata Bhattacharya: Risk Management Should Guide Monetary Policy***

Saugata Bhattacharya's statement places particular emphasis on risk management under conditions of exceptional uncertainty. While recognising that economic activity remains resilient, he observes that momentum is beginning to slow and that inflation expectations have risen noticeably.

His analysis focuses on five concerns:

- slowing growth momentum despite favourable high-frequency indicators;
- increasing inflation risks arising from commodity prices and deficient rainfall;
- rising inflation expectations among households and businesses;
- vulnerability of capital flows due to changing global monetary conditions; and
- the difficulty of distinguishing temporary shocks from persistent inflation.

Although he expresses concern about second-round inflation effects, he concludes that tightening policy at this stage could prove to be a policy mistake. Since domestic financial conditions have already tightened significantly, maintaining the existing repo rate would impose the lowest economic cost.

### ***Prof. Ram Singh: Preserve Growth While Retaining Flexibility***

Prof. Ram Singh emphasises the difficult balance between supporting growth and containing inflation. Having earlier favoured an accommodative stance, he

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acknowledges that the persistence of the West Asia conflict has materially changed the inflation-growth trade-off.

He notes that higher crude oil prices, increased freight costs and supply-chain disruptions are likely to raise imported inflation and widen the current account deficit. At the same time, he argues that several mitigating factors, including restrained retail fuel price pass-through, stable fertiliser prices, growing ethanol blending and diversified import sources, should prevent inflation expectations from becoming unanchored.

Prof. Singh therefore strongly supports retaining the neutral stance because it preserves maximum policy flexibility. In his assessment, if inflation risks ease over the coming months, monetary policy can continue to remain growth-supportive.

***Dr. Poonam Gupta: Monetary Policy Should Avoid Overreacting to Supply Shocks***

Deputy Governor Dr. Poonam Gupta presents perhaps the clearest articulation of why monetary tightening is not yet warranted. She notes that India has successfully diversified energy supplies despite higher costs, while the economy continues to display considerable resilience through strong credit growth, healthy liquidity and stable financial conditions.

She projects GDP growth at 6.6 percent and inflation at 5.1 percent but argues that much of the expected increase in inflation is concentrated in food and fuel rather than demand-driven components. Since growth is slowing while inflation has not yet become entrenched, tightening monetary policy could unnecessarily intensify the pain caused by an external supply shock. She therefore favours postponing any policy reversal until both global geopolitical uncertainties and weather-related risks become clearer.

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### ***Indranil Bhattacharyya: Flexible Inflation Targeting Requires Gradualism***

Indranil Bhattacharyya places considerable emphasis on the philosophy of flexible inflation targeting. He argues that central banks should distinguish carefully between demand-driven inflation and temporary supply shocks.

Although wholesale inflation has risen sharply and imported cost pressures are increasing, he notes that core CPI inflation remains subdued, indicating that higher input costs have not yet fully transmitted into retail inflation. Moreover, government interventions to improve supply availability and agricultural resilience should moderate some of the inflationary pressures. Consequently, he advocates gradualism rather than pre-emptive tightening, arguing that policy should wait until incoming data provide greater clarity regarding inflation persistence.

### ***A Remarkable Degree of Consensus***

Taken together, the six statements reveal a remarkable degree of consensus despite their differing analytical emphases. Governor Malhotra stresses policy patience under uncertainty; Dr. Nagesh Kumar highlights India's structural resilience and energy transition; Saugata Bhattacharya emphasises risk management and inflation expectations; Prof. Ram Singh focuses on preserving growth while retaining policy flexibility; Dr. Poonam Gupta argues that monetary policy should avoid overreacting to externally driven supply shocks; and Indranil Bhattacharyya advocates gradualism within the flexible inflation-targeting framework.

Collectively, these perspectives reinforce the central message of the June 2026 policy: the RBI is not ignoring inflation risks, nor is it sacrificing growth. Rather, it is exercising strategic patience in the face of exceptional geopolitical uncertainty, while preserving the flexibility to respond decisively should inflation become broad-based or growth weaken more sharply than anticipated.

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## **Implications for Markets and Businesses**

For financial markets, the June policy signals continuity rather than surprise. Borrowing costs are unlikely to decline immediately, but neither is there an imminent tightening cycle unless inflation risks intensify.

For businesses, however, the message is more nuanced. Companies should prepare for: persistently high input costs; elevated logistics expenses; continued volatility in commodity markets; possible exchange-rate pressures; and relatively stable domestic financing conditions. Investment decisions are therefore likely to depend increasingly on geopolitical developments rather than purely domestic monetary conditions.

## **Looking Ahead**

The RBI has clearly shifted into a wait-and-watch mode. Future policy decisions will depend primarily on four evolving variables:

- the duration and intensity of the West Asia conflict;
- the trajectory of global crude oil prices;
- the performance of the southwest monsoon; and
- evidence of second-round inflation effects.

Should imported inflation prove temporary, the current policy stance would appear fully justified. However, if supply disruptions persist and inflation expectations begin to rise materially, the RBI may eventually have limited room to avoid monetary tightening.

## **Conclusion**

The June 2026 monetary policy represents a carefully balanced strategy for navigating an exceptionally uncertain global environment. The RBI recognises that India's growth remains fundamentally strong, yet acknowledges that external shocks have materially altered the inflation outlook. By maintaining the repo rate while retaining a neutral

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stance, the central bank has preserved policy flexibility at a time when uncertainty exceeds conviction.

The broader message is one of cautious optimism. India's stronger macroeconomic fundamentals, improved fiscal position, resilient banking system and diversified economic structure provide important buffers against external shocks. Nevertheless, the economy now faces a more complex policy environment in which geopolitical developments, energy markets and climate risks may exert a greater influence on monetary policy than domestic demand conditions.

In this context, the June 2026 policy demonstrates a mature and pragmatic approach to central banking: one that seeks to safeguard price stability without unnecessarily sacrificing growth. It also underscores an important lesson: in an era of geopolitical fragmentation and supply-side disruptions, effective monetary policy increasingly depends not only on economic models but also on strategic patience, resilience and policy flexibility.

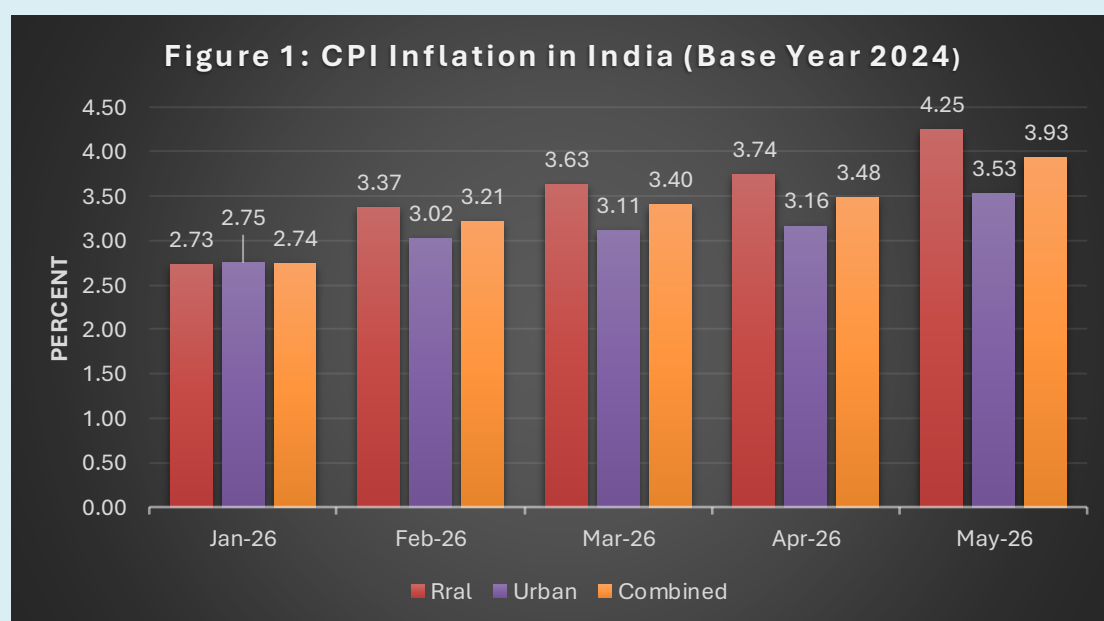
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## NAVIGATING MACROECONOMIC TRENDS

### RETAIL INFLATION EDGES UP IN MAY 2026: IS THE RBI'S COMFORT ZONE UNDER THREAT?

India's retail inflation, measured by the Consumer Price Index (CPI), rose to 3.93 percent in May 2026 from 3.48 percent in April (Figure 1), marking the fourth consecutive month of acceleration in headline inflation. Although inflation continues to remain below the Reserve Bank of India's (RBI) medium-term target of 4 percent, the latest data suggest that the period of exceptionally benign price pressures may be coming to an end.

The inflation print assumes significance because it comes at a time when the RBI has embarked on a monetary easing cycle to support growth amid an uncertain global environment. The increase in inflation, driven largely by food prices, raises questions about the extent of future policy accommodation and underscores the continuing vulnerability of India's inflation dynamics to supply-side shocks.



Source: MoSPI, GoI

## **Inflation Remains Within the Comfort Zone**

Despite the uptick, headline inflation remains comfortably within the RBI's tolerance band of 2-6 percent and marginally below the central bank's target rate of 4 percent. The May reading of 3.93 percent is still historically moderate, especially when compared with the inflation episodes witnessed during 2022 and 2023.

The moderation in inflation over the past year has been aided by easing commodity prices, favourable base effects, lower fuel inflation and a broad correction in prices of several essential food items. However, the latest data indicate that the disinflationary momentum may be weakening.

The sequential rise in inflation, from 2.74 percent in January 2026 to 3.21 percent in February, 3.40 percent in March, 3.48 percent in April and 3.93 percent in May, suggests that price pressures are gradually rebuilding.

## **Food Inflation Re-emerges as the Principal Driver**

The most important feature of the May inflation data is the renewed rise in food inflation. Consumer Food Price Index (CFPI)-based inflation increased to 4.78 percent in May from 4.20 percent in April (Figure 2). Rural food inflation stood at 4.85 percent, while urban food inflation was 4.66 percent.

Food inflation continues to be the dominant determinant of India's inflation trajectory because food items account for nearly half of the CPI basket. Consequently, even relatively small increases in food prices have a disproportionate impact on headline inflation.

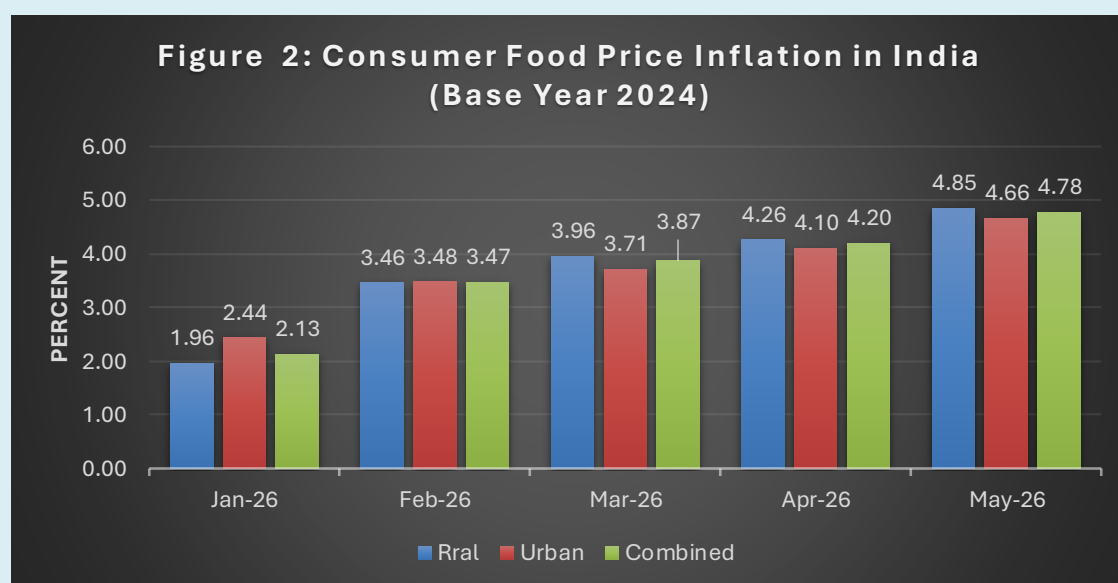
Several food commodities witnessed sharp price increases in May. Tomato inflation surged to 48.43 percent, up from 35.26 percent in April. Ginger inflation accelerated sharply to 32.49 percent. Prices of raisins and other dry fruits also remained elevated.

Recent media reports have highlighted weather-related disruptions, seasonal supply shortages and uneven arrival patterns in mandis as major contributors to the rise in

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vegetable prices. Unseasonal weather events and heat stress in several regions have affected production and supply chains, particularly for perishable commodities. The early onset and progress of the southwest monsoon will therefore be critical in shaping inflation outcomes during the remainder of the year.

Nevertheless, there are also encouraging signs. Prices of some key staples remained significantly lower than a year ago. Potato prices declined by 23.71 percent, while pea prices fell by 11.47 percent. Such declines have helped contain overall food inflation and prevented a sharper rise in headline inflation.



Source: NSO, MoSPI, GoI

### Rural Inflation Continues to Outpace Urban Inflation

A notable feature of the latest data is the persistent divergence between rural and urban inflation. Rural headline inflation rose to 4.25 percent compared with 3.53 percent in urban areas (Figure ). Rural food inflation also exceeded urban food inflation.

This pattern reflects the greater weight of food in rural consumption baskets. Rural households remain more exposed to fluctuations in prices of cereals, vegetables, pulses and other essentials. The persistence of higher rural inflation may have implications for



real incomes, consumption demand and poverty outcomes, particularly among lower-income households.

At the state level, Telangana recorded the highest combined inflation at 6.15 percent, followed by Tamil Nadu (5.11 percent), Andhra Pradesh (4.90 percent), Karnataka (4.59 percent) and Odisha (4.54 percent). The concentration of high inflation in southern states suggests regional supply-side pressures and differences in consumption patterns.

### **Core Inflation Remains Benign**

One of the most reassuring aspects of the inflation data is the continued moderation in non-food and non-fuel inflation, often referred to as core inflation.

Inflation in several major categories remained subdued:

- Housing, water, electricity, gas and other fuels: 1.73 percent;
- Health: 1.49 percent;
- Transport: 1.75 percent;
- Information and communication: 0.30 percent; and
- Recreation and culture: 1.98 percent.

Such low readings indicate that generalized demand-side inflationary pressures remain weak. Core inflation continues to remain near multi-year lows, reflecting subdued pricing power among firms, moderate wage pressures and still-uneven private consumption recovery.

Low core inflation suggests that the current rise in headline inflation is primarily supply-driven rather than demand-driven. Consequently, monetary policy may not need to react aggressively unless food price pressures become persistent or spill over into broader inflation expectations.

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## **Precious Metals Continue to Distort Certain CPI Components**

An interesting feature of the May data is the extraordinary increase in prices of precious metals and jewellery. Inflation in silver jewellery reached an astonishing 155.23 percent, while inflation in gold, diamond and platinum jewellery remained above 40 percent. Inflation under the category "other personal effects" stood at 56.35 percent. International geopolitical uncertainties, safe-haven demand and strong investment interest have pushed precious metal prices to record highs globally. Although these items carry relatively low weights in the CPI basket and therefore have limited impact on headline inflation, they contribute to elevated inflation in specific sub-groups.

## **Implications for Monetary Policy**

The latest inflation data come shortly after the RBI signalled a more accommodative policy stance to support growth. The May inflation print is unlikely to alter the immediate policy outlook because inflation remains below the target level and core inflation is still benign.

However, the rise in food inflation will warrant close monitoring. If monsoon conditions remain favourable and agricultural output improves, food prices could moderate in the coming months. Conversely, adverse weather conditions, supply disruptions or renewed commodity price shocks could push inflation higher.

Recent commentary in leading business newspapers suggests that financial markets continue to expect additional monetary easing during FY27, although the pace and magnitude of future rate cuts may now become more data-dependent.

The RBI is therefore likely to adopt a cautious approach—balancing the need to support economic growth while ensuring that inflation expectations remain firmly anchored.

## **Outlook**

India's inflation outlook remains broadly favourable, but risks are gradually increasing. A normal and well-distributed monsoon, adequate food supplies, stable global crude oil

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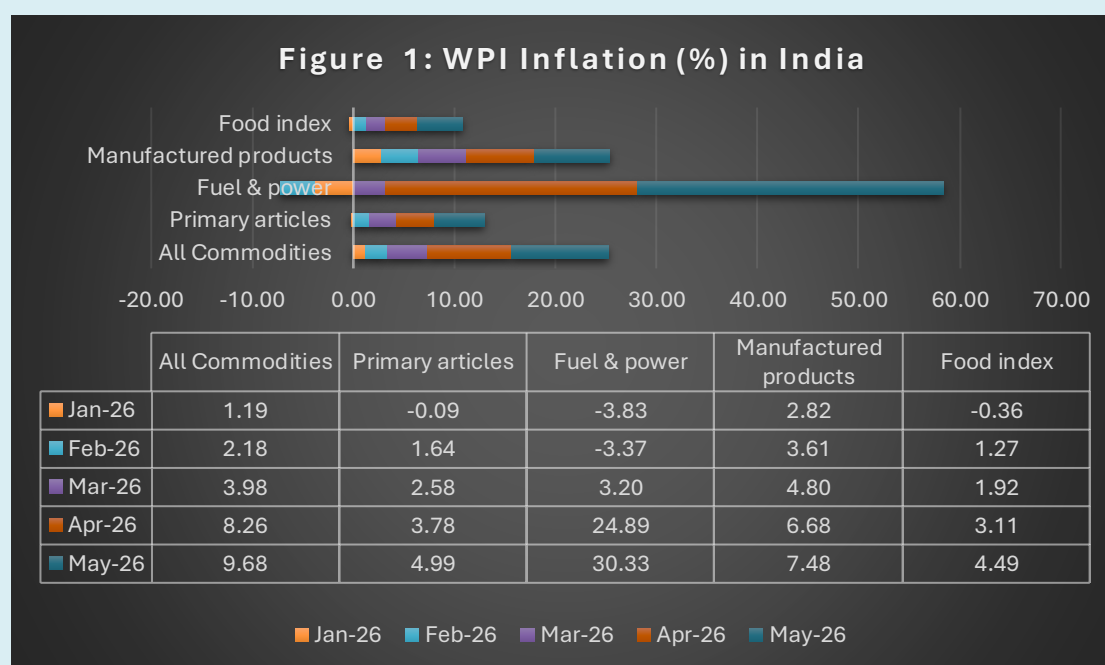
prices and easing geopolitical tensions will be essential for maintaining inflation within the target range.

The May CPI data indicate that inflation is no longer on a steady downward path. Instead, the economy appears to be entering a phase where food-related supply shocks could once again dominate inflation dynamics.

For policymakers, the challenge will be to preserve the hard-won gains in price stability while sustaining economic momentum. For households, particularly in rural India, the trajectory of food prices will remain the most important determinant of cost-of-living pressures in the months ahead.

## INDIA'S NEW WPI SERIES DEBUTS AMID RISING COST PRESSURES AND STRUCTURAL REFORMS

India's wholesale inflation accelerated sharply in May 2026, with the Wholesale Price Index (WPI)-based inflation rising to 9.68 percent year-on-year, compared with 8.26 percent in April (Figure 1 ). More importantly, the latest data mark the beginning of a significant statistical transition, as the Government has introduced a new WPI series with base year 2022-23, replacing the earlier 2011-12 series. Simultaneously, the Office of the Economic Adviser (OEA), Department for Promotion of Industry and Internal Trade (DPIIT), has launched new Producer Price Indices (PPIs), including Output PPI, Trial Input PPI and Service PPI, aligning India's price statistics with global best practices.



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

The release represents not merely a routine revision of the inflation series but a fundamental modernization of India's producer price measurement architecture. While the sharp rise in wholesale inflation raises concerns about input cost pressures, the

introduction of a comprehensive producer price framework promises to improve inflation monitoring and policymaking in the years ahead.

### **Wholesale Inflation Touches a Multi-Month High**

The provisional estimates indicate that WPI inflation rose to 9.68 per cent in May 2026, the highest level in recent months and significantly above the 8.26 per cent recorded in April. The index for all commodities increased from 108.8 in April to 109.9 in May. The acceleration continues the upward trajectory visible since late 2025, when wholesale inflation had remained close to zero or even negative for several months.

The sharp rise in wholesale inflation stands in contrast with retail inflation, which continues to remain within the Reserve Bank of India's comfort zone. Such divergence suggests that cost pressures are building at the producer level but have not yet been fully transmitted to consumers. However, sustained increases in wholesale prices could eventually feed into retail inflation with a lag.

The spike in wholesale inflation has been driven primarily by energy prices and industrial raw materials rather than broad-based demand pressures. This distinction is important because supply-driven inflation requires a different policy response than demand-led inflation.

### **Energy Prices Emerge as the Principal Driver**

The most striking feature of the May data is the surge in fuel and power inflation. Inflation in this category jumped to 30.33 per cent in May from an already elevated 24.89 per cent in April. The fuel and power index itself increased from 110.9 to 113.0 during the month.

Within the fuel basket, mineral oils recorded an extraordinary inflation of 49.82 per cent, while crude petroleum and natural gas inflation surged to 61.51 per cent. These categories have emerged as the single largest contributors to overall wholesale inflation. The recent escalation in geopolitical tensions in West Asia and fluctuations in global crude oil prices have significantly influenced domestic producer prices. The uncertainty

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surrounding energy supplies and volatility in international commodity markets have pushed up input costs across industries. Although crude prices have shown some moderation in recent weeks, the pass-through of earlier price increases continues to influence wholesale inflation.

The new WPI series has also reorganized the treatment of energy products by moving crude petroleum and natural gas from the primary articles category to the fuel and power group. This restructuring creates a more coherent framework for monitoring energy inflation and improves the analytical usefulness of the index.

### **Manufactured Products Signal Broadening Cost Pressures**

Manufactured products, which account for over 63 per cent of the WPI basket, registered inflation of 7.48 per cent in May compared with 6.68 per cent in April. The index rose from 107.0 to 107.8 during the month.

Several industrial categories witnessed notable price increases. Inflationary pressures were particularly visible in chemicals and chemical products, basic metals, food products, textiles, electrical equipment and fabricated metal products. According to the official release, manufacture of chemicals and chemical products and manufacture of basic metals were among the major drivers of WPI inflation during April and May 2026.

The rise in manufactured inflation indicates that higher energy and commodity prices are increasingly being transmitted through industrial supply chains. This trend is closely watched by policymakers because persistent producer price inflation often foreshadows future increases in retail inflation.

Recent media reports have pointed out that industries such as chemicals, metals and engineering goods remain vulnerable to fluctuations in global commodity prices. At the same time, stronger domestic demand and ongoing infrastructure spending have supported pricing power in several manufacturing segments.

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## **Food Inflation at the Wholesale Level Also Moves Up**

The WPI Food Index, comprising food articles and manufactured food products, recorded inflation of 4.49 per cent in May, up from 3.11 per cent in April. The food index rose from 112.8 to 114.0 during the month.

Primary food articles registered inflation of 3.60 per cent, while manufactured food products recorded inflation of 6.14 per cent. Non-food articles inflation also accelerated sharply to 9.49 per cent.

The increase in food inflation at the wholesale level suggests that supply-side pressures in agriculture are gradually intensifying. Weather uncertainties, uneven crop arrivals and rising transportation costs have contributed to higher food prices. The progress of the southwest monsoon and kharif sowing will therefore play a critical role in determining inflation dynamics during the remainder of the year.

## **A Structural Transformation in India's Inflation Statistics**

The introduction of the new WPI series with base year 2022-23 is perhaps the most significant aspect of the latest release. The revision updates the commodity basket, methodologies and weights to reflect the changing structure of the Indian economy. The number of items covered has increased substantially from 697 to 957, ensuring broader representation of economic activity.

Several methodological improvements have been introduced:

- Weights are now derived from Gross Value of Output (GVO) rather than net traded value, providing a better reflection of domestic production patterns.
  - The elementary indices are compiled using short-term formulation methods instead of long-term methods.
  - Missing prices are imputed using targeted mean imputation rather than the earlier carry-forward approach.
  - Renewable energy sources such as solar and wind power, along with nuclear electricity, have been incorporated into the electricity basket.
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These improvements enhance the robustness, representativeness and reliability of wholesale price statistics.

### **Transition from WPI to Producer Price Index**

An equally important development is the government's decision to gradually transition from WPI to Producer Price Indices. The Office of the Economic Adviser has indicated that WPI and PPI will coexist for five years, after which WPI will be discontinued.

This transition aligns India with international practices followed by advanced economies and recommended by the International Monetary Fund. Unlike WPI, which largely measures price movements of traded goods, PPIs provide a more comprehensive picture of price changes faced by producers by capturing both output and input prices. The introduction of Service PPIs for sectors such as banking, insurance, railways, air transport and telecommunications further expands the coverage of producer inflation.

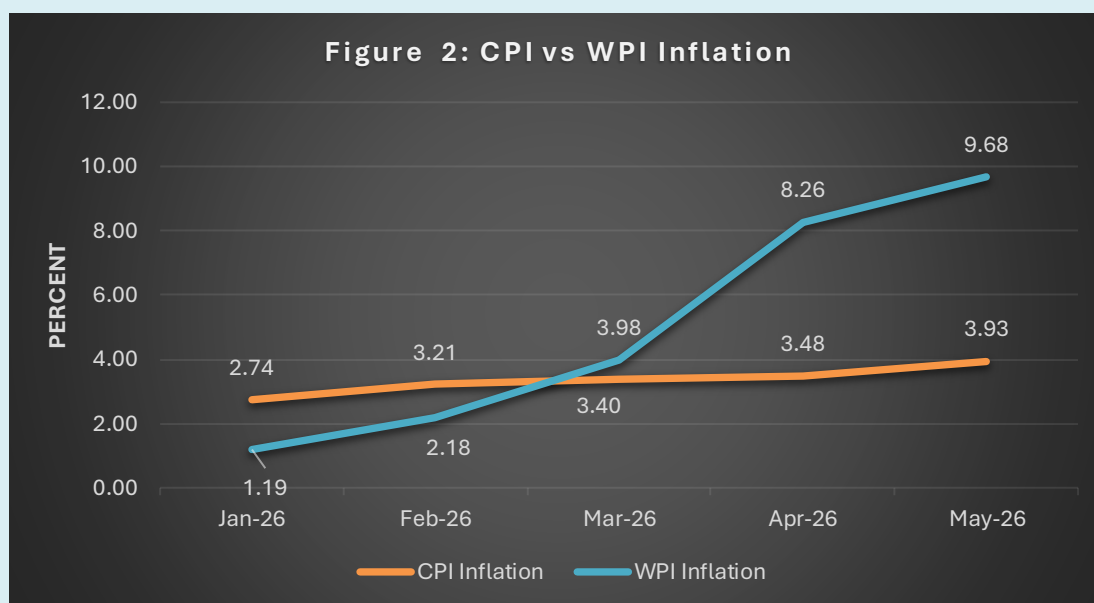
Economists have observed that the adoption of PPIs could substantially improve inflation forecasting, national accounts compilation and monetary policy analysis.

### **The CPI-WPI Divergence: Understanding the Emerging Inflation Disconnect**

One of the most striking features of India's inflation landscape in May 2026 is the widening divergence between wholesale and retail inflation. While WPI inflation accelerated sharply to 9.68 per cent in May from 8.26 per cent in April, retail inflation, measured by the CPI, stood at a much lower 3.93 per cent, albeit up from 3.48 per cent in April (Figure 2). The gap of nearly 5.8 percentage points highlights the fundamentally different nature of the two inflation measures and underscores the complexity of the current inflation environment. This phenomenon as a renewed decoupling of wholesale and retail inflation, driven primarily by the energy shock emanating from West Asia. Rating agency Crisil has observed that WPI is inherently more volatile than CPI because of its much larger exposure to global commodity and energy prices. Over the past decade, WPI volatility has been substantially higher than that of CPI.

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Sources: 1) MoSPI, GoI, & 2) Office of the Economic Adviser, Ministry of Commerce & Industry, GoI

The divergence stems largely from differences in the composition of the two indices. WPI assigns a significantly larger weight to fuel, power, metals and industrial raw materials, whereas CPI is dominated by household consumption items, especially food and services. In May 2026, fuel and power inflation under WPI surged to an exceptionally high 30.33 per cent, while mineral oils recorded inflation of nearly 50 per cent. Such sharp increases immediately influence wholesale prices but are transmitted only gradually to retail consumers because of administered pricing mechanisms, taxation structures and incomplete pass-through by firms. Another important factor behind the divergence is the relatively subdued core inflation at the retail level. As noted in the earlier analysis of CPI inflation, non-food and non-fuel inflation has remained benign, reflecting moderate demand conditions, restrained pricing power among firms and still-uneven consumption recovery. Consequently, although producers are experiencing substantial input cost pressures, many businesses have not fully passed these higher costs on to consumers. This has compressed corporate margins in several sectors and delayed the transmission of wholesale inflation to retail prices.

The current divergence has important implications for monetary policy. Since the RBI targets CPI inflation rather than WPI, the sharp increase in wholesale inflation does not

automatically warrant a policy tightening. However, persistent elevation in producer prices could eventually generate second-round effects through higher transportation costs, manufactured goods prices and inflation expectations. Policymakers will therefore closely monitor whether the present cost-push pressures at the wholesale level begin to spill over into consumer prices in the coming months.

Going forward, the trajectory of global crude oil prices, geopolitical developments in West Asia and the extent of pass-through of higher input costs will determine whether the current CPI-WPI divergence remains temporary or evolves into a broader inflation challenge. A moderation in energy prices could narrow the gap, while sustained commodity price pressures may eventually push retail inflation closer to wholesale inflation.

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This transition aligns India with international practices followed by advanced economies and recommended by the International Monetary Fund. Unlike WPI, which largely measures price movements of traded goods, PPIs provide a more comprehensive picture of price changes faced by producers by capturing both output and input prices. The introduction of Service PPIs for sectors such as banking, insurance, railways, air transport and telecommunications further expands the coverage of producer inflation. The adoption of PPIs could substantially improve inflation forecasting, national accounts compilation and monetary policy analysis.

### **Outlook**

The outlook for wholesale inflation will depend largely on global crude oil prices, geopolitical developments, commodity markets and domestic agricultural conditions. A stable monsoon, easing energy prices and normalization of global supply chains could moderate inflationary pressures in the coming months.

The May 2026 WPI release thus carries a dual message. On the one hand, rising producer prices signal intensifying cost pressures across the economy. On the other, the introduction of a modern producer price framework marks an important milestone in strengthening India's statistical infrastructure.

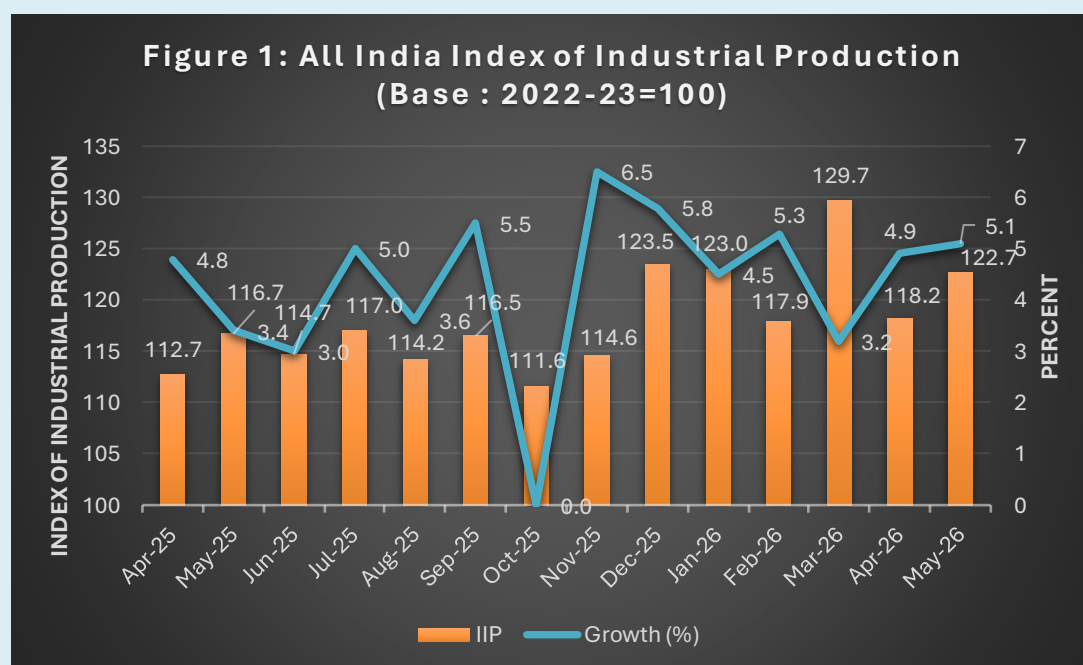
As India moves towards a full-fledged Producer Price Index regime, policymakers, businesses and researchers will gain access to richer and more nuanced information on inflation dynamics, an essential requirement for managing an increasingly complex and globally integrated economy.

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## INDIA'S INDUSTRIAL ECONOMY IN TRANSITION: MANUFACTURING STRENGTH, GREEN GROWTH AND INVESTMENT DYNAMICS

### Introduction

India's industrial sector maintained its growth momentum in May 2026 despite an uncertain global environment characterised by geopolitical tensions, volatile commodity prices, uneven global demand and persistent trade disruptions. According to the latest estimates of the Index of Industrial Production (IIP) released by the Ministry of Statistics and Programme Implementation (MoSPI), industrial production expanded by 5.1 percent year-on-year (Figure 1), supported primarily by robust manufacturing activity and strong growth in electricity generation.



Source: MoSPI, GoI

While the headline number points to healthy industrial activity, the underlying trends reveal a more nuanced story. Manufacturing continues to serve as the principal driver of industrial growth, investment-oriented industries are gaining momentum, renewable energy is emerging as an increasingly important contributor to industrial production, while environmental infrastructure is steadily strengthening. At the same time, sectoral

divergences, particularly the contraction in mining and gas supply, highlight continuing challenges.

An equally important development accompanying the latest release is the adoption of the Output Producer Price Index (Output PPI) as the deflator for value-based industrial production, replacing the Wholesale Price Index (WPI). This methodological improvement aligns India's industrial statistics with international best practices and enhances the accuracy of measuring real industrial output. Since around 36 per cent of the IIP basket is compiled using value-based production data, the transition is expected to improve the quality of industrial measurement and strengthen its role in estimating GDP.

Against this backdrop, the May 2026 IIP provides valuable insights into the evolving structure of India's industrial economy.

## **Sectoral Trends**

### ***Manufacturing: The Principal Growth Engine***

Manufacturing, accounting for over 76 percent of the overall IIP, expanded by 5.5 percent in May 2026 (Figure 2), making it the largest contributor to industrial growth. More importantly, 16 of the 23 manufacturing industry groups recorded positive growth, suggesting that the expansion is broad-based rather than concentrated in a handful of industries.

Three industries stand out. The manufacture of electrical equipment registered an impressive 20.8 percent growth, supported by higher production of switchgear, transformers and power management equipment. This reflects rising investments in electricity infrastructure, renewable energy integration and industrial automation.

The motor vehicles and auto components industry expanded by 14.5 percent, driven by strong production of passenger cars, commercial vehicles and automobile components. The sustained expansion indicates resilient domestic demand and improving supply-chain conditions.

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The basic metals industry grew by 4.6 percent, supported by higher production of steel products, reflecting continued infrastructure construction and industrial demand.

Several capital-intensive industries also performed strongly. Fabricated metal products expanded by 15.5 percent, other transport equipment by 14.3 percent, computer and electronic products by 11.4 percent, textiles by 12.7 percent, and paper products by 10.1 percent. These trends suggest that manufacturing growth is becoming increasingly diversified across traditional and technology-intensive industries.

However, weaknesses remain in segments such as wearing apparel, leather products, petroleum refining and chemicals, reflecting continuing softness in export demand and global commodity market adjustments.

### ***Mining Sector: Emerging Signs of Weakness***

Unlike manufacturing, the mining and quarrying sector contracted by 1.6 percent during May 2026 (Figure 2). The decline was primarily driven by lower production of fuel minerals (-6.4 percent) and non-metallic minerals (-6.1 percent). Only metallic minerals recorded strong growth of 18.3 percent, reflecting continued demand from steel and engineering industries.

The weakness in fuel minerals is noteworthy because domestic coal and mineral production remain critical for energy security. Continued contraction could increase dependence on imports unless domestic extraction improves.

### ***Electricity & Gas Supply: Powering India's Industrial Expansion***

The Electricity & Gas Supply sector emerged as one of the strongest performers in May 2026, recording an impressive 9.9 percent year-on-year growth, significantly outpacing the overall industrial growth of 5.1 percent (Figure 2). The sectoral index increased to 129.6, highlighting the expanding energy requirements of a rapidly growing economy. During April–May 2026, the sector registered cumulative growth of 7.3 percent, confirming that the momentum is broad-based rather than a one-month phenomenon.

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Strong growth in electricity generation carries implications that extend far beyond the power sector itself. Electricity demand is widely regarded as one of the most reliable high-frequency indicators of economic activity because virtually every productive sector—manufacturing, mining, construction, transport and services—depends upon reliable energy supply. Sustained expansion in electricity generation therefore reflects increasing industrial capacity utilisation, expanding infrastructure activity and strengthening economic demand.

A particularly noteworthy feature of the new IIP series is the separate reporting of renewable and non-renewable electricity generation. While renewable electricity generation recorded an exceptional 18.0 percent growth in May 2026 and 18.8 percent during April–May, electricity generation from conventional sources also grew by a healthy 8.8 percent in May and 5.2 percent cumulatively. This suggests that India's expanding electricity demand is currently being met through both accelerated renewable capacity additions and continued utilisation of conventional generation assets.

In contrast, gas supply contracted by 7.1 percent in May 2026 and 7.3 percent during the first two months of the financial year. This divergence indicates that the sector's overall performance was driven overwhelmingly by electricity generation rather than by gas distribution. While short-term fluctuations in gas demand may reflect changing industrial consumption patterns or fuel substitution, they also underline the need to strengthen domestic gas infrastructure and improve the availability of cleaner transition fuels for industry.

From a broader macroeconomic perspective, robust growth in electricity generation augurs well for India's industrial outlook. Rising electricity production not only supports higher manufacturing output and infrastructure development but also enhances the economy's productive capacity by reducing energy constraints. Moreover, sustained investments in transmission networks, grid modernisation and renewable energy integration are likely to improve energy security, enhance industrial competitiveness

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and support India's long-term objective of achieving sustainable and low-carbon economic growth.

### ***Renewable Energy: Accelerating the Green Industrial Transition***

Beyond its immediate contribution to industrial production, the most significant structural development in the May 2026 IIP data is the rapid expansion of renewable electricity generation. The new IIP series, by separately reporting renewable and non-renewable electricity generation, provides a more nuanced understanding of India's ongoing energy transition. Renewable electricity generation expanded by 18.0 percent in May 2026 and 18.8 percent during April–May, substantially outpacing conventional electricity generation. This indicates that an increasing share of India's growing energy demand is being met through cleaner energy sources, reflecting sustained investments in solar, wind and other renewable technologies.

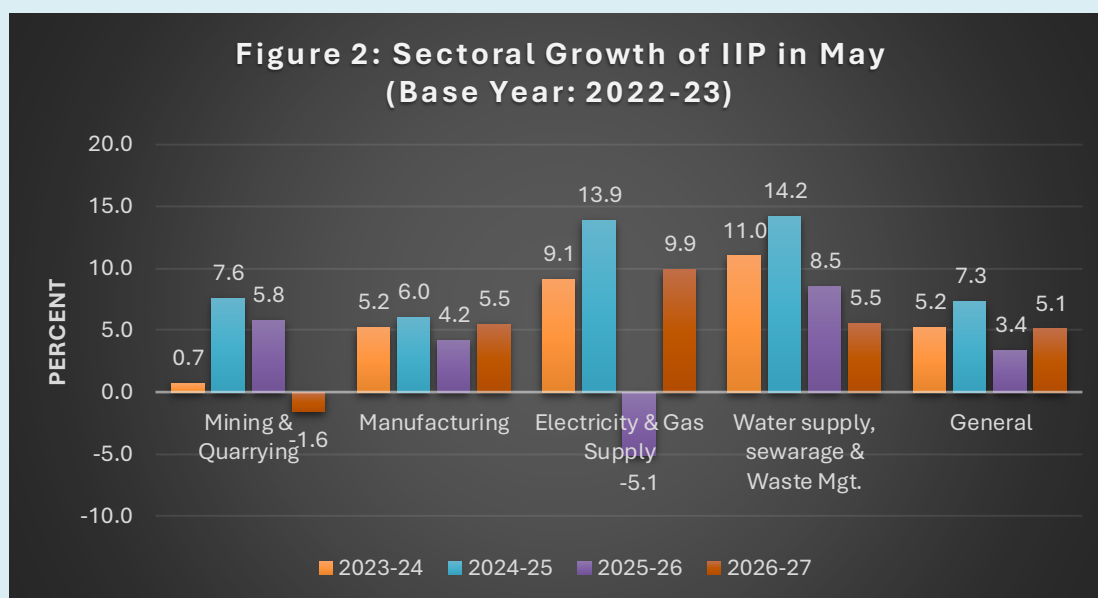
### ***Environmental Infrastructure: Steady Progress***

Environmental infrastructure continues to receive increasing policy attention. Water supply, sewerage and waste management recorded 5.5 percent growth during May 2026 (Figure 2). Within this category, sewerage and waste management expanded by 6.9 percent, while water supply grew by 4.3 percent.

Although the sector accounts for only a small share of industrial production, its steady expansion reflects increasing public investment in urban infrastructure, sanitation and environmental sustainability. Improvements in these sectors have significant implications for public health, urban productivity and climate resilience.

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Source: MoSPI, GoI

## Use-Based Insights

### Primary Goods

Production of primary goods increased by 2.6 percent (Figure 3), making it the slowest-growing use-based category. The relatively modest expansion reflects the weakness observed in mining activity, particularly fuel minerals. Since primary goods constitute the base of industrial supply chains, sustained weakness in this segment could eventually constrain manufacturing if not addressed.

### Capital Goods

The standout performer in the latest IIP was capital goods, which expanded by 12.9 percent (Figure 3). Capital goods are widely regarded as one of the best indicators of future investment activity because they represent machinery and equipment used for productive purposes. Strong growth therefore signals expanding industrial capacity and improving business confidence. This performance complements the recent national income data showing robust growth in Gross Fixed Capital Formation and suggests that India's investment cycle is gradually strengthening.

### ***Intermediate Goods***

Intermediate goods recorded 5.8 percent growth (Figure 3), and emerged as one of the largest contributors to overall industrial production. Growth in this category indicates expanding industrial supply chains and stronger demand from downstream manufacturing industries. Since intermediate goods feed directly into final production, sustained growth reflects healthy industrial momentum rather than isolated sectoral expansion.

### ***Infrastructure & Construction Goods: Sustaining the Investment Cycle***

Infrastructure and Construction Goods recorded a steady 5.9 percent year-on-year growth in May 2026 (Figure 3), while cumulative growth during April–May 2026 stood at 6.0 percent. The index increased to 130.8, reflecting continued momentum in infrastructure-related economic activity.

This category serves as an important barometer of both public and private investment. Demand for construction materials, cement, steel products, electrical equipment and related industrial inputs generally strengthens during periods of sustained infrastructure development. The continued expansion in this segment therefore suggests that India's investment cycle remains firmly supported by ongoing expenditure on roads, railways, ports, airports, urban infrastructure and housing.

The performance of this category also complements the strong growth observed in capital goods. While capital goods primarily indicate investments in productive capacity by industries, infrastructure and construction goods reflect the implementation of physical development projects that create long-term productive assets. Together, these two segments point towards a broad-based investment recovery rather than isolated sectoral improvements.

From a macroeconomic perspective, sustained growth in infrastructure goods is particularly encouraging because infrastructure investment generates significant multiplier effects across the economy. It stimulates demand for steel, cement,

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machinery, transport equipment and electrical products while simultaneously improving long-term productivity and reducing logistics costs. Consequently, this category remains central to India's strategy of achieving faster and more inclusive economic growth.

### ***Consumer Durables: Rising Household Confidence***

Consumer Durables registered a robust 7.2 percent growth in May 2026 (Figure 3), significantly higher than overall industrial production. The index reached 120.4, while cumulative growth during April–May stood at 6.4 percent.

Consumer durable goods, including automobiles, household appliances, consumer electronics and electrical equipment, are typically discretionary purchases that households undertake when income expectations and consumer confidence improve. Consequently, strong growth in this category generally reflects rising purchasing power, improved employment prospects and greater willingness among consumers to make long-term purchases.

The healthy performance of consumer durables is consistent with recent GDP data showing strengthening Private Final Consumption Expenditure (PFCE). It also reflects improving urban demand, easier availability of retail credit and sustained growth in sectors such as automobiles and electrical equipment, which have been among the principal contributors to manufacturing growth.

Viewed together with the strong performance of capital goods, the expansion of consumer durables suggests that both household demand and investment demand are contributing simultaneously to industrial growth. Such a combination is often associated with more durable and broad-based economic expansion.

### ***Consumer Non-Durables: Broadening Consumption Demand***

Consumer Non-Durables recorded a modest growth of 3.6 percent in May 2026 (Figure 3), while cumulative growth during April–May stood at 1.9 percent. The index

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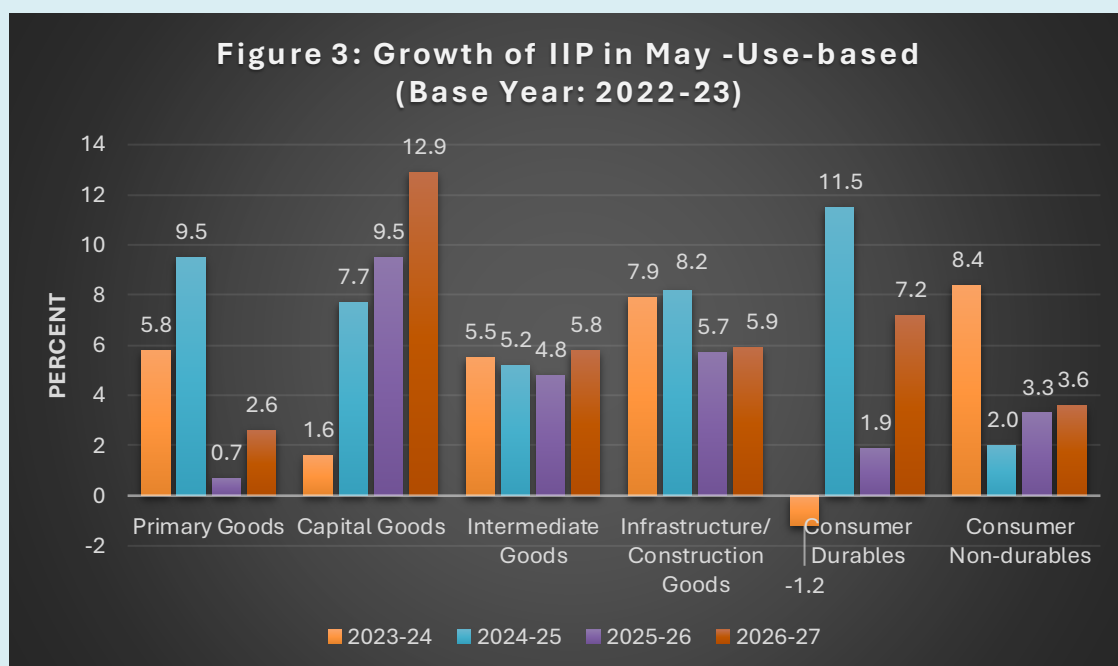
increased to 118.4, indicating continued expansion in the production of essential consumer goods.

Unlike consumer durables, this category primarily comprises frequently purchased items such as food products, beverages, pharmaceuticals, personal care products and other daily necessities. Production trends in consumer non-durables therefore provide useful insights into broad-based household consumption rather than discretionary spending.

Although growth in this segment has been relatively modest compared with capital goods and consumer durables, it nevertheless suggests that consumption demand remains resilient. The slower pace may partly reflect a high statistical base, changing consumption patterns and moderation in certain commodity-based industries. However, sustained positive growth indicates that domestic consumption continues to provide a stable foundation for industrial production.

From a policy perspective, the divergence between consumer durables and consumer non-durables is also noteworthy. Faster growth in durable goods suggests improving consumer optimism and greater confidence regarding future income, whereas the steady expansion in non-durable goods reflects the underlying resilience of everyday consumption. Together, these trends reinforce the assessment that India's domestic demand remains an important pillar of economic growth despite uncertainties in the external environment.

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Source: MoSPI, GoI

## Macroeconomic Implications

The latest IIP data reinforce the view that India's industrial recovery is becoming increasingly investment-led. The strong expansion in capital goods, electrical equipment, transport equipment and engineering industries points to rising productive capacity rather than merely cyclical demand recovery. This augurs well for sustaining medium-term economic growth and complements the recent acceleration in Gross Fixed Capital Formation reported in the national accounts.

The sectoral composition of growth is equally significant. The impressive performance of renewable electricity generation underscores the structural shift underway in India's energy mix and highlights the growing contribution of green infrastructure to industrial expansion. Meanwhile, continued growth in environmental infrastructure reflects increasing emphasis on sustainable urban development and climate resilience.

The adoption of the Output Producer Price Index (Output PPI) as the deflator marks an important methodological milestone. By replacing the Wholesale Price Index for value-based production data, the revised methodology provides a more accurate measure of

real industrial output and aligns India's statistical practices with international standards. This improvement will enhance the reliability of IIP as a leading indicator for GDP estimation and macroeconomic analysis.

Nevertheless, certain challenges remain. The contraction in mining output and gas supply, together with weakness in some export-oriented manufacturing industries, suggests that global uncertainties continue to affect industrial performance. Sustaining high industrial growth will therefore require continued policy support for infrastructure, logistics, energy security, technological upgrading and export competitiveness.

## **Conclusion**

The May 2026 IIP presents a picture of an industrial economy that is not only expanding but also undergoing structural transformation. Manufacturing continues to anchor industrial growth, while strong gains in capital goods and intermediate goods indicate a strengthening investment cycle. Simultaneously, rapid growth in renewable energy generation and steady expansion in environmental infrastructure underscore India's transition towards a greener and more sustainable industrial economy.

The latest release also marks an important statistical advancement through the adoption of the Output PPI, improving the quality and international comparability of India's industrial data. Together, these developments suggest that India's industrial sector is becoming more diversified, technologically advanced and investment-driven.

Looking ahead, maintaining this momentum will require continued emphasis on manufacturing competitiveness, domestic mineral production, clean energy investments, infrastructure development and export diversification. If these structural drivers remain intact, industrial production can continue to serve as a critical pillar of India's aspiration to sustain high economic growth and emerge as a globally competitive manufacturing economy

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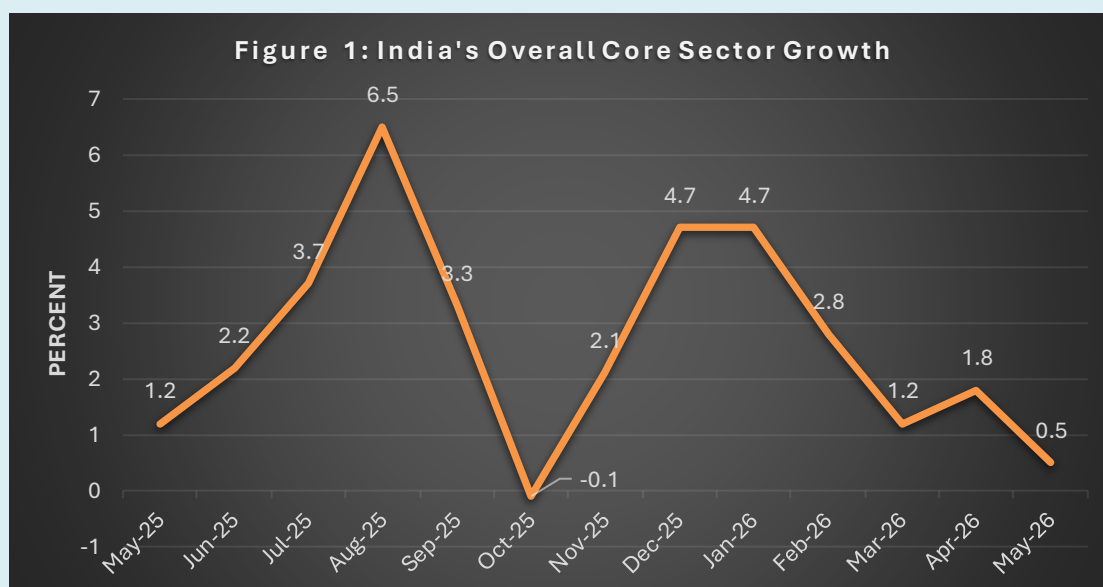
## CORE SECTOR GROWTH SLOWS: CHALLENGES AND OPPORTUNITIES FOR INDIA'S INDUSTRIAL ECONOMY

### Introduction

The performance of India's Eight Core Industries serves as one of the most reliable leading indicators of the country's industrial and economic activity. Accounting for 40.27 percent of the weight of the Index of Industrial Production (IIP), these industries provide valuable insights into trends in infrastructure development, manufacturing, energy security and investment demand. Consequently, policymakers, investors and businesses closely monitor the Index of Eight Core Industries (ICI) to gauge the direction of the economy.

The latest data released by the Office of the Economic Adviser, Department for Promotion of Industry and Internal Trade (DPIIT), indicate that the combined Index of Eight Core Industries grew by only 0.5 percent in May 2026 compared with the corresponding month of the previous year (Figure 1). Although the headline number suggests a significant moderation in industrial momentum, the underlying composition of growth presents a far more nuanced picture. Robust expansion in steel, cement and electricity production has been offset by sharp declines in coal, crude oil, natural gas, petroleum refinery products and fertilisers.

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

The data, therefore, paint a nuanced picture of India's industrial economy. Robust growth in infrastructure and construction reflects the continuing momentum in capital formation, supported by sustained public investment and a gradual revival in private sector spending. In contrast, the persistent weakness in conventional energy production highlights structural challenges that warrant policy attention to ensure that energy availability does not become a constraint on future industrial expansion.

### Snapshot of the Core Industries

Among the eight industries, electricity recorded the highest growth of 8.7 percent, followed by cement (8.4 percent) and steel (5.0 percent). In contrast, coal production contracted by 9.3 per cent, petroleum refinery products by 8.7 percent, natural gas by 4.9 per cent, crude oil by 4.6 per cent, and fertilisers by 0.9 percent. During April-May FY2026-27, the cumulative growth of the overall core sector stood at 1.1 percent, reflecting a subdued start to the financial year.

The divergence between infrastructure-intensive sectors and energy-related industries provides important clues about the changing dynamics of India's economy.



## **Energy Sector: Weakness in Conventional Energy Clouds the Outlook**

The performance of India's energy sector presented a mixed picture in May 2026, with robust growth in electricity generation contrasting sharply with declines across coal, crude oil, natural gas and petroleum refinery products. As these industries constitute nearly three-fourths of the weight of the Eight Core Industries Index, their subdued performance significantly restrained overall core sector growth.

Coal production contracted by 9.3 per cent, while crude oil output fell by 4.6 percent, natural gas production declined by 4.9 percent, and refinery products registered a steep decline of 8.7 percent (Figure 2). The cumulative performance during April-May FY2026-27 also remained negative for all these sectors, indicating that the slowdown is not merely a one-month phenomenon but reflects broader structural and cyclical challenges.

Several factors appear to have contributed to this weakness. Softer industrial fuel demand, maintenance shutdowns at refineries, logistical bottlenecks and the continuing decline in domestic hydrocarbon production have all weighed on output. India remains heavily dependent on imported crude oil and liquefied natural gas, making the sector vulnerable to geopolitical developments and global commodity price fluctuations.

Although international crude oil prices moderated towards the end of June following easing geopolitical tensions, uncertainty in West Asia has once again highlighted India's energy security concerns. The country imports nearly 85 per cent of its crude oil requirements, exposing the economy to external supply disruptions and exchange rate risks.

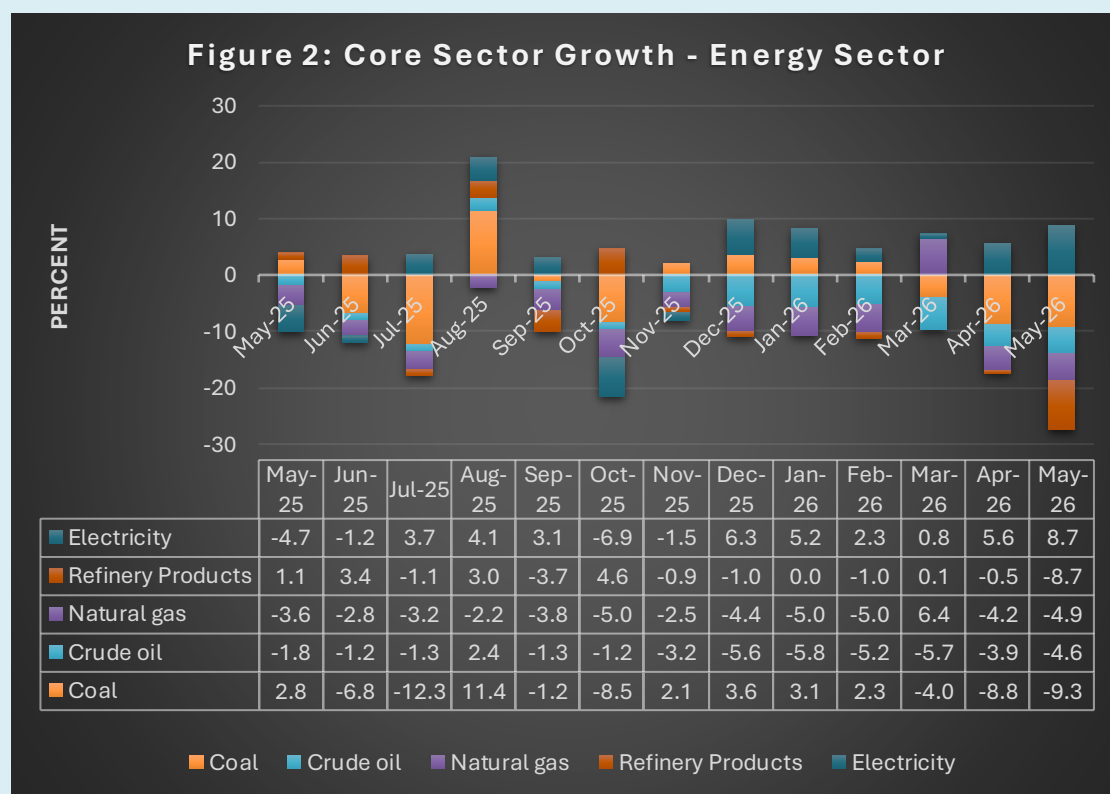
The decline in domestic crude oil and natural gas production also underscores the need to accelerate upstream exploration and production. Despite reforms such as the Hydrocarbon Exploration and Licensing Policy (HELP) and Open Acreage Licensing Policy (OALP), domestic output has remained broadly stagnant for several years. Greater private participation, faster environmental clearances, improved geological

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surveys and wider adoption of advanced exploration technologies are essential for reducing import dependence.

In contrast, electricity generation expanded by an impressive 8.7 per cent, reflecting sustained growth in industrial activity, urbanisation, digitalisation and rising household consumption. Rapid expansion of renewable energy, increased power transmission capacity and stronger electricity demand from sectors such as data centres, electric mobility and manufacturing have contributed significantly to this growth.

The divergence between electricity generation and primary energy production illustrates India's ongoing energy transition. While conventional fossil fuel production faces structural constraints, the power sector is increasingly supported by renewable energy, imported fuels and improvements in generation efficiency.



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

## **Manufacturing Sector: Infrastructure Spending Continues to Support Industrial Activity**

Unlike the energy sector, India's manufacturing-oriented core industries displayed considerable resilience during May 2026. Steel production increased by 5.0 percent, cement output rose by 8.4 percent, while fertiliser production recorded only a marginal decline of 0.9 percent (Figure 3).

Steel and cement continue to serve as reliable indicators of India's investment cycle. Their sustained growth reflects robust government expenditure on highways, railways, metro systems, airports, industrial corridors, urban infrastructure and renewable energy projects. Continued implementation of the National Infrastructure Pipeline (NIP), PM Gati Shakti, Bharatmala, Sagarmala and large-scale urban development programmes has maintained strong demand for construction materials.

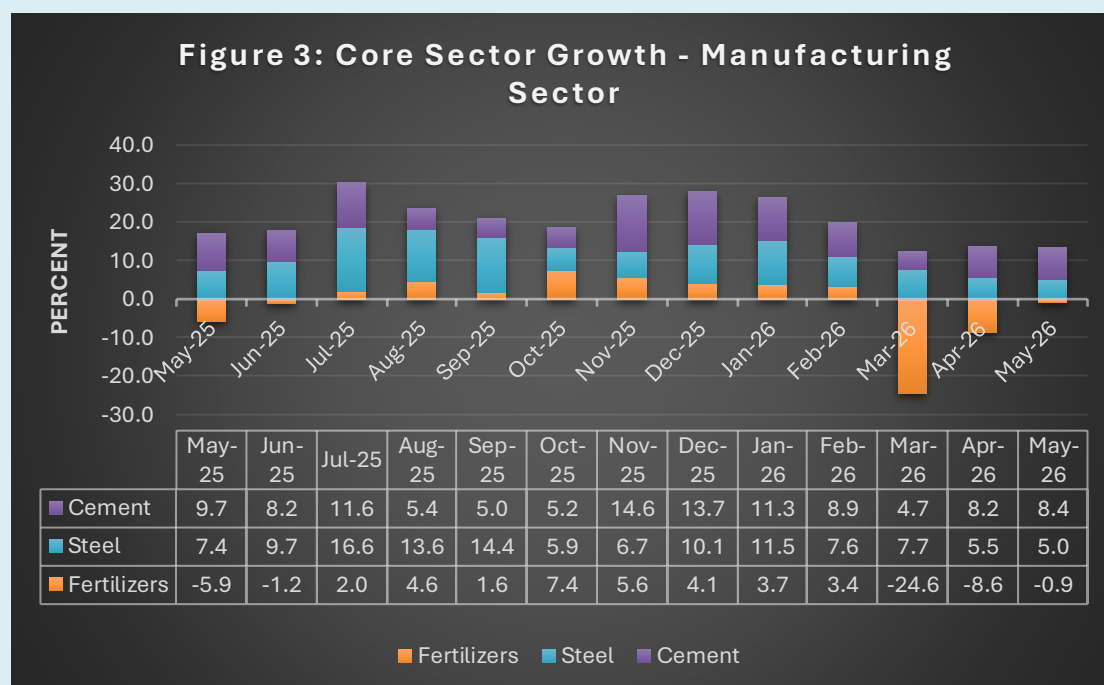
The private sector is also contributing to this momentum. Investments in electronics manufacturing, semiconductor facilities, data centres, renewable energy, logistics infrastructure and commercial real estate have strengthened domestic demand for steel and cement. The expansion plans recently announced by leading corporate groups in sectors such as power, airports, data centres and manufacturing further reinforce this trend.

Steel production has additionally benefited from capacity expansion by domestic producers and relatively healthy domestic demand despite subdued global steel markets. Government initiatives such as Make in India and the Production Linked Incentive (PLI) schemes continue to support industrial production and manufacturing competitiveness.

Fertiliser production, however, recorded a marginal decline. Although seasonal factors partly explain the slowdown, ensuring adequate fertiliser availability before the kharif season remains important, particularly in view of forecasts of a weaker-than-normal monsoon influenced by *El Niño* conditions.

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Overall, the manufacturing segment presents a relatively encouraging picture. Continued public investment and improving private capital expenditure are supporting industrial production and reinforcing the foundations for medium-term economic growth.



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

### Infrastructure Remains the Principal Growth Engine

The contrasting performance of the core industries demonstrates that India's current growth model continues to be driven primarily by infrastructure investment rather than energy production.

Government capital expenditure has remained the principal driver of demand across steel, cement and electricity. Simultaneously, private investment is showing encouraging signs of revival in sectors including airports, logistics, renewable energy, digital infrastructure, semiconductors and manufacturing.

Recent corporate announcements, including major investments in airports, power generation, data centres, AI infrastructure and industrial manufacturing, indicate

growing confidence in India's long-term growth prospects. This suggests that the investment cycle is gradually broadening beyond public expenditure.

### **Implications for Industrial Production and GDP Growth**

Since the Eight Core Industries account for over 40 per cent of the Index of Industrial Production, their performance has important implications for manufacturing output and GDP growth.

The relatively strong performance of steel, cement and electricity suggests that construction and manufacturing activity is likely to remain supportive of overall economic growth during the first quarter of FY2026-27. However, continued weakness in energy-related sectors could constrain industrial expansion if supply bottlenecks persist.

A sustained recovery in industrial production will therefore depend on strengthening domestic energy supplies alongside continued infrastructure development.

### **Challenges Ahead**

Several risks could influence the trajectory of the core sector during the remainder of FY2026-27.

These include:

- continued geopolitical uncertainty affecting global energy markets;
- volatility in crude oil and metal prices;
- below-normal monsoon conditions affecting agricultural demand;
- slowing global economic growth and external demand; and
- rising input costs for infrastructure and manufacturing projects.

At the same time, India's rapidly expanding electricity demand will require significant investments in generation capacity, transmission networks, energy storage systems and grid modernisation.

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## **Policy Priorities**

The latest core sector data underline the need for a balanced policy approach.

Priority areas include:

- accelerating domestic oil and gas exploration;
- improving coal mining productivity and logistics;
- strengthening refinery capacity and energy security;
- expanding renewable energy generation and storage infrastructure;
- modernising electricity transmission networks;
- sustaining public capital expenditure;
- encouraging private investment in manufacturing; and
- improving ease of doing business to accelerate project implementation.

Continued policy support for infrastructure development, manufacturing competitiveness and energy transition will be essential for sustaining high economic growth over the medium term.

## **Conclusion**

The May 2026 core sector data present a story of both resilience and caution. Although headline growth moderated sharply to 0.5 percent, the underlying performance reveals that India's infrastructure and manufacturing sectors continue to expand at a healthy pace, supported by sustained public investment and improving private capital expenditure. At the same time, persistent weakness in coal, crude oil, natural gas and refinery products highlights structural challenges in the country's energy sector that warrant urgent policy attention.

Looking ahead, India's medium-term growth prospects remain favourable. Continued investments in infrastructure, manufacturing, renewable energy, digital technologies and logistics are likely to sustain economic momentum. However, achieving the country's ambition of becoming a developed economy will require not only expanding infrastructure but also strengthening domestic energy security, enhancing industrial

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competitiveness and building greater resilience against global economic and geopolitical uncertainties. The latest Eight Core Industries data therefore reinforce an important policy message: sustaining high growth will depend on ensuring that India's energy transition keeps pace with its rapidly expanding infrastructure and manufacturing ambitions.

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## TRADE & INVESTMENTS

### TRADE RECOVERY WITH STRUCTURAL SHIFTS: INTERPRETING INDIA'S EXTERNAL SECTOR PERFORMANCE IN MAY 2026

#### Introduction

India's external sector has begun FY2026–27 on a strong note. The latest trade data for May 2026 indicate that exports have gathered considerable momentum despite an uncertain global economic environment characterised by geopolitical tensions, persistent trade fragmentation and uneven economic recovery across major economies. Both merchandise and services exports recorded robust double-digit growth, reflecting the increasing competitiveness and diversification of India's export basket. At the same time, imports also expanded sharply, resulting in a wider merchandise trade deficit.

At first glance, the widening trade deficit may appear concerning. However, a closer examination suggests a more nuanced picture. Much of the increase in imports appears to be associated with stronger domestic economic activity, higher investment demand and increased imports of energy and industrial inputs rather than a deterioration in external competitiveness. Simultaneously, the continued expansion of engineering goods, electronics, chemicals and services exports points towards an increasingly diversified export structure.

The latest trade figures therefore present a story of an economy experiencing simultaneous expansion in exports and imports, reflecting both improving external demand and strengthening domestic growth. The challenge for policymakers is to sustain export competitiveness while ensuring that rising imports continue to support productive investment rather than consumption-led imbalances.

#### Overall Trade Performance: Strong Expansion in External Trade

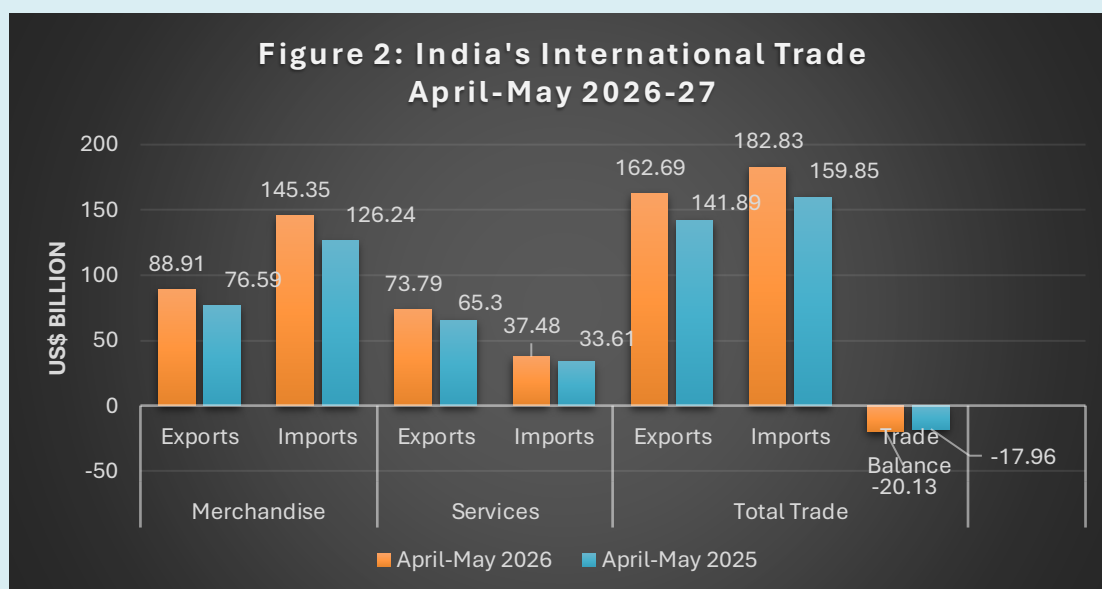
India's total trade (merchandise and services combined) recorded impressive growth during May 2026. Total exports increased by 15.8 percent to US\$ 81.96 billion (Figure



1), while total imports grew by 19.2 per cent to US\$92.47 billion. Consequently, the overall trade deficit widened to US\$ 10.51 billion from US\$ 6.79 billion in May 2025 (Figure 1). During the first two months of FY2026–27, total exports reached US\$162.69 billion, registering growth of 14.7 percent, while imports increased by 14.4 percent to US\$182.83 billion (Figure 2).



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



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

These figures suggest that India's integration with the global economy continues to deepen. More importantly, export growth has remained broadly aligned with import growth, indicating that the expansion in imports is occurring alongside, rather than at the expense of, export performance. This balanced expansion is generally associated with healthy economic growth rather than external sector stress.

### Merchandise Trade: Exports Regain Momentum

The most encouraging aspect of the May trade data is the strong revival in merchandise exports. Merchandise exports increased by 17.9 percent year-on-year to US\$ 45.20 billion (Figure 1), while cumulative exports during April–May grew by 16.1 percent to US\$ 88.91 billion (Figure 2). This marks one of the strongest performances in recent years and reflects both improving global demand and enhanced competitiveness of Indian exporters.

Engineering goods continued to retain their position as India's largest export category, growing by 24.5 percent. Equally noteworthy was the strong expansion in petroleum product exports (54.9 percent), supported by favourable refining margins and robust

global demand. Electronic goods exports increased by 11.6 percent, underscoring India's growing role in global electronics value chains. Organic and inorganic chemicals (12.7 percent) and gems and jewellery (6.7 percent) also contributed positively to export growth.

The composition of export growth is particularly encouraging. Unlike earlier periods when export performance depended heavily on a few commodity groups, the current expansion is supported by a wider range of manufactured products, chemicals, engineering goods and electronics. This diversification enhances resilience against sector-specific or market-specific shocks.

### **Non-Petroleum Exports: Evidence of Structural Competitiveness**

One of the most significant indicators of export quality is the performance of non-petroleum exports. During April–May 2026, non-petroleum exports increased by 10.5 percent to US\$ 70.74 billion, while non-petroleum, non-gems and jewellery exports rose to US\$ 65.89 billion.

This distinction is important because petroleum exports are influenced significantly by international crude oil prices and refining margins. Sustained growth in non-petroleum exports therefore reflects underlying improvements in India's manufacturing competitiveness rather than temporary price movements.

The continued expansion of engineering products, electronics, pharmaceuticals, chemicals and processed agricultural products indicates that India's export basket is gradually becoming more diversified and technologically sophisticated. This aligns closely with national initiatives aimed at strengthening manufacturing, promoting exports and integrating India into global value chains.

### **Services Trade: India's Enduring Competitive Advantage**

India's services sector continues to be the strongest pillar of the external sector. Estimated services exports reached US\$ 36.76 billion in May 2026, increasing from US\$ 32.46 billion a year earlier (Figure 1. During April–May, services exports grew by

13.0 percent to US\$ 73.79 billion, while the services trade surplus expanded to US\$ 36.31 billion (Figure 2).

The continued strength of services exports reflects India's well-established comparative advantage in information technology, business services, financial services, consulting and other knowledge-intensive sectors. Importantly, the large services surplus continues to offset a substantial portion of the merchandise trade deficit, thereby improving the overall balance of payments.

As global digitalisation accelerates and demand for knowledge-based services expands, India's services sector is likely to remain an important source of export earnings and macroeconomic stability.

### **Imports: Rising Investment Demand Rather than Weakness**

Merchandise imports increased to US\$ 73.41 billion in May 2026 (Figure 1) and US\$ 145.35 billion during April–May (Figure 2), resulting in a merchandise trade deficit of US\$ 56.44 billion during the first two months of the financial year.

Although widening trade deficits often attract concern, the composition of imports deserves closer attention. Strong domestic economic growth naturally increases demand for crude oil, capital equipment, intermediate goods and industrial raw materials. Such imports often support future production and exports rather than merely satisfying consumption demand.

The simultaneous strength observed in capital goods production, infrastructure activity and manufacturing output, as reflected in recent IIP data, suggests that rising imports are closely linked to expanding investment and industrial activity. Consequently, the widening merchandise deficit should be interpreted in the broader context of a strengthening domestic economy.

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## **Emerging Export Markets and Diversification**

Another encouraging feature of the trade data is the growing geographical diversification of India's exports. Among major destinations, exports to Singapore, South Africa, Tanzania, Italy, Sri Lanka and China recorded particularly strong growth during April–May 2026. This indicates that India's export expansion is no longer dependent solely on traditional developed markets but increasingly reflects stronger engagement with emerging economies and regional partners. Such diversification reduces vulnerability to economic slowdowns in any single region while creating new opportunities for Indian exporters.

## **Macroeconomic Implications**

The latest trade data carry several important macroeconomic implications.

First, the strong growth in merchandise and services exports reinforces the resilience of India's external sector despite continuing global uncertainties.

Second, the composition of exports indicates gradual movement towards higher value-added manufacturing, consistent with the objectives of Make in India, the Production Linked Incentive (PLI) Scheme and integration into global value chains.

Third, the widening merchandise trade deficit should not be interpreted in isolation. Strong import growth often accompanies periods of robust domestic investment and industrial expansion. Rising imports of industrial inputs, machinery and energy can strengthen future productive capacity.

Fourth, the continued expansion of services exports remains one of India's greatest structural strengths. The services surplus provides an important buffer against merchandise trade imbalances and contributes significantly to external sector stability.

Finally, sustained export growth will remain essential for maintaining high GDP growth while managing the current account deficit. Continued improvements in logistics, trade

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facilitation, manufacturing competitiveness and export diversification will therefore remain important policy priorities.

## **Conclusion**

India's trade performance during May 2026 reflects an external sector that is both resilient and evolving. Double-digit growth in exports, particularly in engineering goods, electronics, chemicals and services, demonstrates improving competitiveness and increasing diversification of India's export basket. At the same time, stronger imports largely reflect expanding domestic investment and industrial activity rather than weakening external fundamentals.

Nevertheless, important challenges remain. The widening merchandise trade deficit underscores the continued dependence on imported energy and industrial inputs, while uncertainties in the global economy, geopolitical tensions and protectionist tendencies could influence export demand in the coming months. Sustaining export momentum will therefore require continued improvements in manufacturing competitiveness, logistics infrastructure, trade facilitation and integration into global value chains.

Overall, the May 2026 trade data provide grounds for cautious optimism. India's external sector appears well positioned to support economic growth, with robust services exports, strengthening manufacturing competitiveness and broadening export markets providing important sources of resilience. If these trends are sustained, the external sector can become an increasingly important driver of India's aspiration to emerge as a major global manufacturing and trading economy.

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## EMPLOYMENT

### INDIA'S LABOUR MARKET: SIGNS OF MODERATION AMID UNDERLYING RESILIENCE

#### Introduction

India's labour market occupies a central position in the country's economic transformation. Sustained GDP growth ultimately derives its strength from productive employment, rising labour force participation and improvements in the quality of jobs. Consequently, the latest Periodic Labour Force Survey (PLFS) for May 2026 provides valuable insights into the evolving dynamics of India's employment landscape.

At first glance, the headline indicators present a mixed picture. The Labour Force Participation Rate (LFPR) and the Worker Population Ratio (WPR) moderated marginally during May, while the overall unemployment rate remained broadly stable. However, urban unemployment declined to its lowest level in a year, female labour force participation in urban areas remained remarkably stable and labour market conditions continued to compare favourably with many emerging economies.

The latest data therefore suggest neither a significant deterioration nor a substantial strengthening of labour market conditions. Rather, they indicate a temporary moderation following several months of robust employment expansion, possibly reflecting seasonal factors and a normalisation of economic activity.

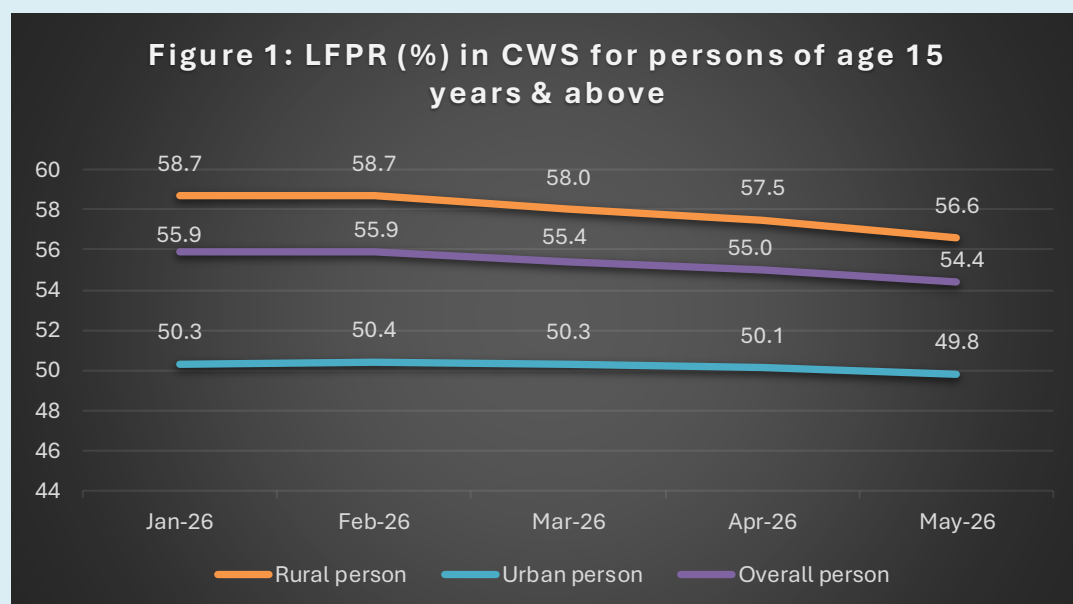
#### Labour Force Participation: Moderation After Sustained Expansion

The Labour Force Participation Rate (LFPR), which measures the proportion of the working-age population either employed or actively seeking employment, declined marginally as a percentage of Current Weekly Status (CWS)<sup>3</sup> to 54.4 percent in May

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<sup>3</sup> A person's employment status is determined by the economic activities undertaken during a specified reference period. When this assessment is based on the activities performed during the seven days preceding the date of the survey, it is referred to as the Current Weekly Status (CWS).

2026 from 55.0 percent in April 2026 (Figure 1). Compared with May 2025, the decline was limited to 0.4 percentage points, indicating that overall labour market participation has remained broadly stable over the past year. Rural LFPR stood at 56.6 percent, while urban LFPR was 49.8 percent.



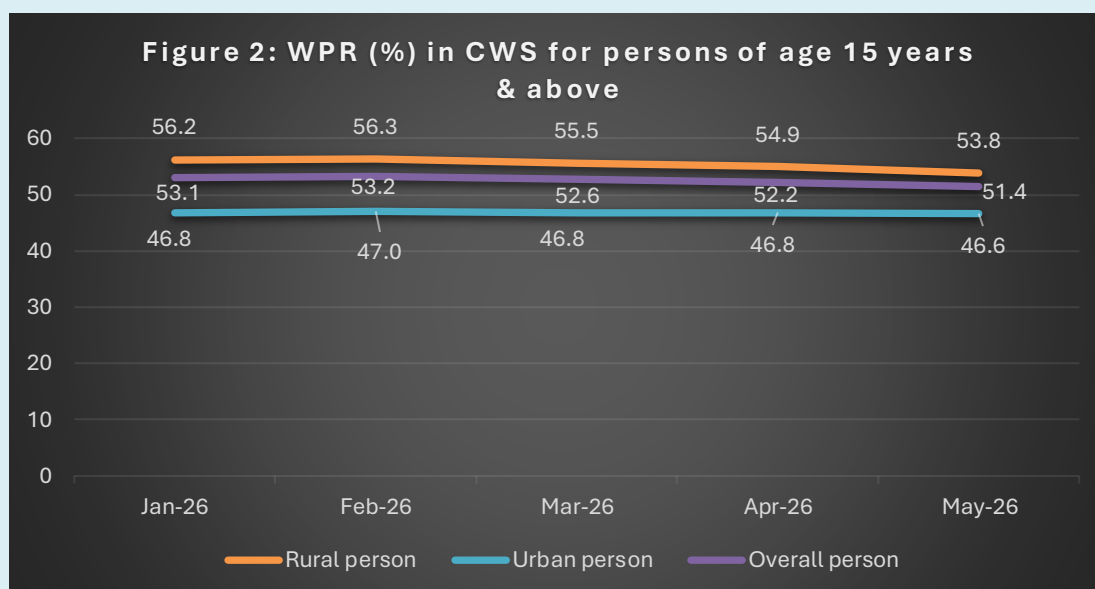
Source: MoSPI, GoI

Although any decline in labour force participation merits attention, the magnitude of the change remains relatively modest. Labour force participation is influenced not only by employment opportunities but also by seasonal agricultural activity, educational enrolment, migration and demographic factors. The moderation observed in May therefore appears more consistent with seasonal adjustments than with any structural weakening of the labour market.

### Employment Trends: Worker Population Ratio Softens Marginally

The Worker Population Ratio (WPR), representing the proportion of the working-age population actually employed, also eased modestly to 51.4 percent from 52.2 percent in April 2026 (Figure 2). Rural WPR declined to 53.8 percent, while urban WPR remained broadly stable at 46.6 per cent. Compared with May 2025, the overall decline amounted to only 0.3 percentage points.





Source: MoSPI, GoI

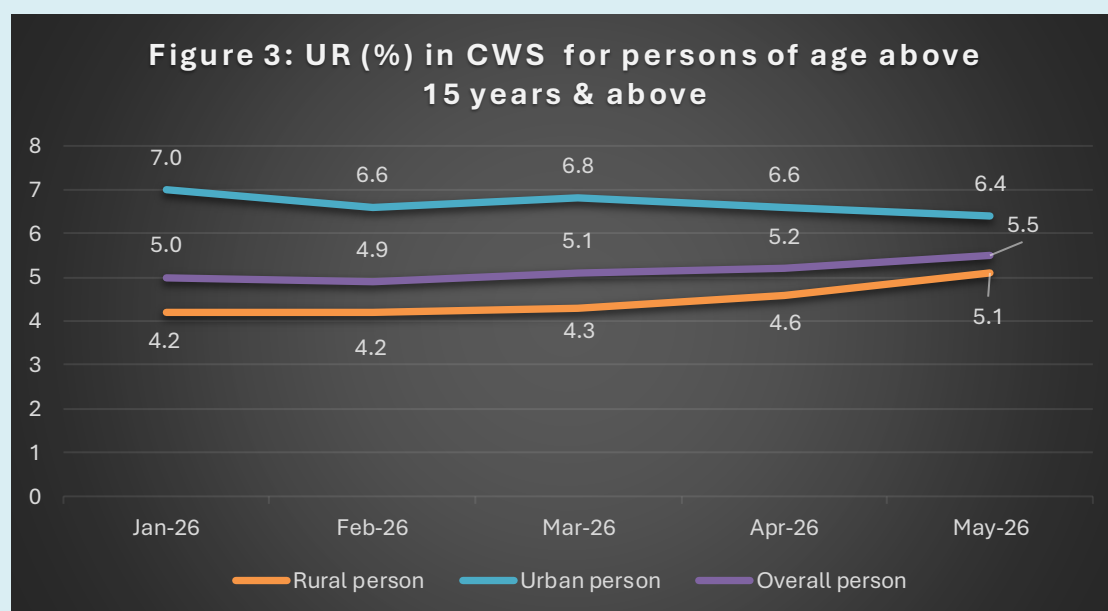
The stability of urban employment is particularly encouraging. Urban labour markets tend to respond more quickly to changes in industrial production, services activity and investment. Their resilience therefore suggests that employment in manufacturing, construction and services has remained broadly stable despite some moderation in overall labour market activity.

### Unemployment: Urban Labour Markets Continue to Improve

One of the most encouraging findings of the latest PLFS is the continued improvement in urban unemployment. The urban unemployment rate (UR) declined from 6.6 percent in April to 6.4 per cent in May 2026, representing the lowest level recorded since May 2025 (Figure 3). By contrast, rural unemployment increased modestly from 4.6 percent to 5.1 percent, resulting in an overall unemployment rate of 5.5 percent.

This divergence highlights differing economic conditions across rural and urban India. Urban labour markets continue to benefit from expanding services, manufacturing and construction activity, whereas rural employment remains more susceptible to seasonal fluctuations associated with agriculture.

Importantly, the decline in urban unemployment reinforces the broader picture emerging from recent GDP and Industrial Production data, both of which indicate continued strength in domestic economic activity.

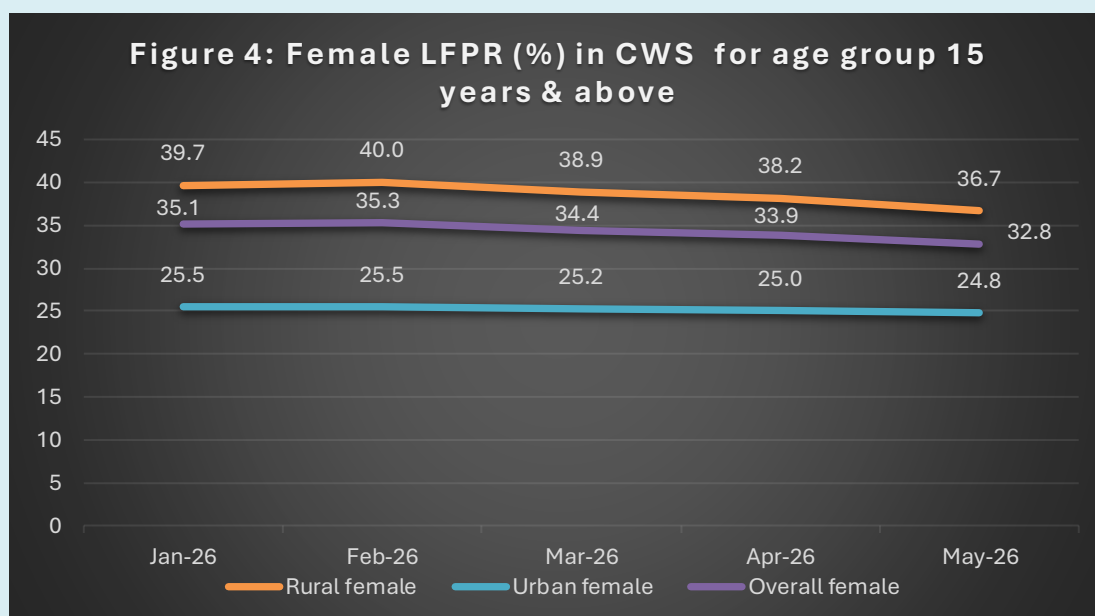


Source: MoSPI, GoI

### Female Labour Force Participation: Encouraging Signs Despite Marginal Moderation

Female labour force participation remains one of the most important indicators of inclusive economic development. Overall female LFPR stood at 32.8 percent in May 2026 compared with 33.2 percent a year earlier (Figure 4). While this represents a marginal decline, urban female LFPR remained broadly unchanged at 24.8 percent, indicating continued stability in women's participation in urban labour markets. Rural female LFPR remained significantly higher at 36.7 percent.

Equally encouraging is the continued improvement in urban female unemployment. The urban unemployment rate for women declined to 8.2 per cent, the lowest level in a year. Although female unemployment remains higher than that of men, the gradual decline suggests improving employment opportunities for women in urban sectors.



Over the medium term, further increases in female labour force participation will remain one of India's most important sources of potential economic growth. International experience demonstrates that greater participation of women significantly enhances labour productivity, household incomes and overall economic output.

### Rural–Urban Dynamics: Diverging Employment Conditions

The May 2026 PLFS highlights an increasingly important feature of India's labour market—the divergence between rural and urban employment conditions.

Urban indicators generally improved during the month. Labour force participation remained relatively stable, employment showed only marginal moderation and unemployment continued to decline. Rural areas, however, experienced a slight softening in labour market conditions, reflected in lower participation rates and higher unemployment.

Part of this divergence may reflect seasonal patterns in agricultural employment. Rural labour markets are closely linked to agricultural cycles, whereas urban employment depends more heavily on manufacturing, infrastructure, construction and services.

Consequently, short-term fluctuations are not uncommon and should be interpreted cautiously.

### **Macroeconomic Implications**

The latest labour market data carry several important macroeconomic implications.

First, the modest moderation in LFPR and WPR should not be interpreted as signalling a sharp deterioration in employment conditions. The changes are relatively small and likely influenced by seasonal factors.

Second, declining urban unemployment reinforces the evidence emerging from recent GDP and IIP releases that domestic economic activity remains resilient despite global uncertainties.

Third, stable urban female labour force participation represents encouraging progress towards greater labour market inclusion. Sustained improvements in female employment remain essential for raising India's long-term growth potential.

Fourth, the labour market appears broadly consistent with an economy experiencing healthy, though slightly moderating, expansion rather than one facing widespread employment stress.

Finally, continued improvements in manufacturing, infrastructure investment, services exports and digitalisation are likely to remain important drivers of employment creation over the medium term.

### **Structural Challenges Remain**

While the overall assessment is reassuring, the PLFS also highlights several structural challenges that continue to deserve policy attention.

India's labour force participation rate remains below that of many rapidly industrialising economies, particularly with respect to women. Expanding employment opportunities

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will require sustained investment in labour-intensive manufacturing, modern services, tourism, logistics and MSMEs.

Equally important is the need to improve the quality of employment. Rising employment must increasingly be accompanied by higher productivity, formalisation, better wages and stronger social protection. As India's economy evolves towards more technology-intensive production, continuous investment in skills and workforce adaptability will become critical.

Finally, rural employment remains vulnerable to seasonal fluctuations, underscoring the importance of accelerating non-farm employment through agro-processing, rural industries, digital services and infrastructure development.

### **Employment Quality: The Next Frontier of India's Labour Market**

While the latest PLFS data provide encouraging evidence of broad labour market stability, they also remind us that India's employment challenge extends well beyond unemployment rates. As the economy moves towards higher levels of development, the quality of employment will become as important as the quantity of jobs created.

India has witnessed sustained economic growth over the past decade, accompanied by rapid expansion in infrastructure, manufacturing, digital services and financial inclusion. Yet the country's long-term development will increasingly depend upon creating productive, well-paying and formal employment opportunities capable of absorbing its large and youthful workforce. In this context, improvements in labour force participation and employment ratios should be viewed as necessary—but not sufficient—conditions for inclusive growth.

A critical priority is the continued formalisation of employment. Government initiatives such as digitalisation, the Goods and Services Tax (GST), the Employees' Provident Fund Organisation (EPFO), the Employees' State Insurance (ESI) system, and the e-Shram portal have contributed to bringing more workers within the ambit of the formal economy. Greater formalisation not only improves income security and social

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protection but also enhances productivity, facilitates skill development and strengthens the tax base.

Equally important is the sectoral composition of employment. While agriculture continues to employ a significant proportion of India's workforce, future employment growth is likely to originate increasingly from manufacturing, construction, logistics, tourism, healthcare, financial services and other knowledge-intensive sectors. Recent improvements in industrial production, infrastructure investment and services exports suggest that these sectors are gradually strengthening their capacity to generate employment, although sustained expansion will require continued investment and policy support.

Skill development represents another crucial dimension of employment quality. Rapid technological change, automation, artificial intelligence and digital transformation are fundamentally altering labour market requirements. Consequently, expanding access to vocational education, industry-oriented training and continuous skill upgradation will become essential for ensuring that India's workforce remains globally competitive.

The increasing participation of women in the labour market also deserves continued policy attention. Although the May 2026 PLFS indicates broadly stable urban female labour force participation and declining urban female unemployment, the overall participation rate remains below its potential. Expanding affordable childcare, improving workplace safety, promoting flexible work arrangements and increasing employment opportunities in manufacturing and modern services could substantially enhance women's economic participation, with significant benefits for household incomes and national productivity.

Ultimately, the objective of labour market policy should extend beyond creating jobs to creating productive, formal and resilient employment. Higher-quality employment supports stronger consumption, greater household savings, increased productivity and more inclusive economic growth. As India progresses towards its aspiration of

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becoming a developed economy, improvements in employment quality will become one of the most important determinants of long-term economic success.

## **Conclusion**

The May 2026 Periodic Labour Force Survey presents a labour market that is moderating but remains fundamentally resilient. Marginal declines in labour force participation and employment appear largely consistent with seasonal adjustments rather than signalling a deterioration in underlying economic conditions. Meanwhile, the continued decline in urban unemployment, particularly among women, points to improving employment opportunities in the urban economy.

More importantly, the PLFS reinforces a broader narrative emerging from recent macroeconomic indicators. Strong GDP growth, expanding industrial production, rising infrastructure investment and robust services exports continue to provide a supportive environment for employment generation. While monthly fluctuations in labour market indicators are inevitable, the underlying trajectory remains broadly positive.

Nevertheless, India's employment agenda is entering a new phase. The challenge is no longer confined to generating a larger number of jobs but increasingly centres on creating better jobs—jobs that are more productive, formal, skill-intensive and inclusive. Raising female labour force participation, strengthening manufacturing employment, enhancing workforce skills and expanding opportunities in high-value services will be critical for sustaining long-term economic growth.

As India advances towards the goal of Viksit Bharat 2047, the labour market will serve as one of the most important indicators of the success of its economic transformation. A resilient labour market, characterised not only by low unemployment but also by rising productivity and improving job quality, will be indispensable for translating rapid economic growth into broad-based prosperity. The May 2026 PLFS provides cautious

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optimism that India is moving in that direction, while also highlighting the policy priorities that will shape the next stage of the country's development journey.



## AGRICULTURE & AGRI-BUSINESS

### STRUCTURAL TRANSFORMATION IN INDIAN AGRICULTURE FOR VIKSIT BHARAT BY 2047

**Dr. Vinod Kumar Vidyarthi<sup>4</sup>**  
*Professor, RBI Chair, CRRID, Chandigarh*

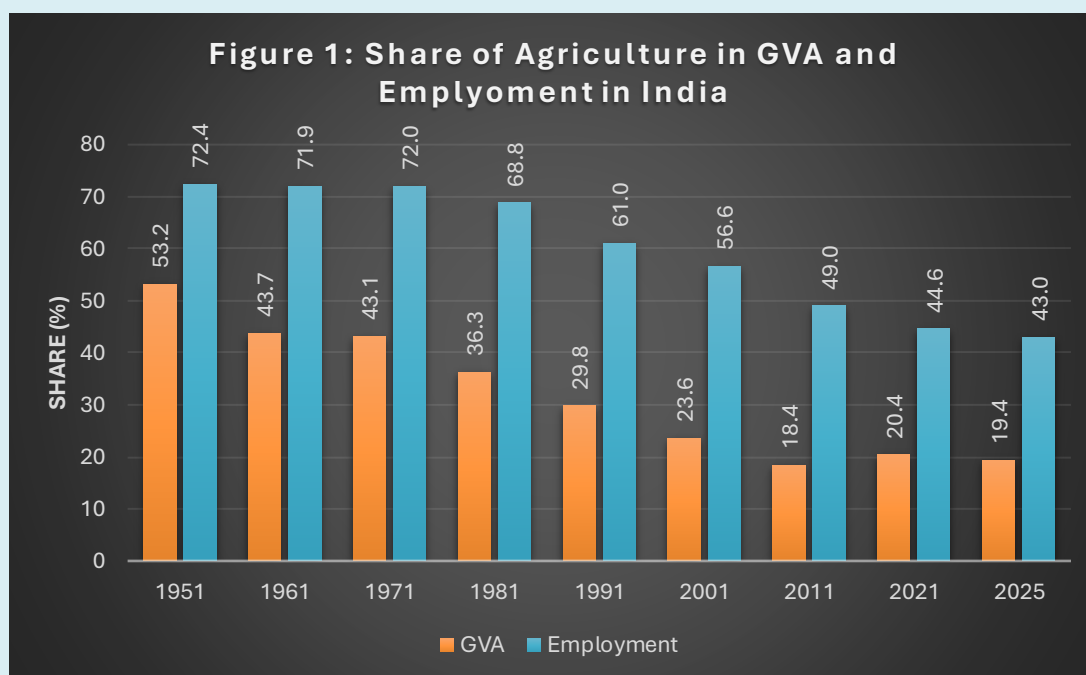
According to the theory of economic development, as an economy progresses, the contribution of agriculture to Gross Value Added (GVA)/Gross Domestic Product (GDP) and employment declines, while the shares of the secondary (industry) and tertiary (services) sectors increase (Figure 1). However, this structural transformation in India has been only partial. While agriculture's contribution to total GVA declined substantially from 53.2 per cent in 1950-51 to 16.99 per cent in 2024-25, the proportion of the workforce engaged in agriculture decreased at a much slower pace, from 72.4 per cent in 1950-51 to 43.0 per cent in 2024-25 (PLFS, 2026).

At the same time, the shares of the secondary and tertiary sectors in total GVA increased from 8.24 per cent and 38.5 per cent, respectively, in 1950-51 to 25.8 per cent and 54.3 per cent in 2025-26 (MoSPI). Similarly, the proportion of the workforce employed in the secondary and tertiary sectors rose from 10.5 per cent and 24.4 per cent, respectively, in 1950-51 to 24.8 per cent and 31.9 per cent in 2024-25.

This mismatch between sectoral contributions to economic output and their shares in employment highlights a critical challenge in India's development trajectory and its aspiration to achieve the vision of Viksit Bharat by 2047. The persistence of a large workforce in agriculture, despite its declining contribution to GVA, suggests that the non-agricultural sectors have not generated sufficient employment opportunities to absorb surplus labour from agriculture. This phenomenon, often described as "jobless growth," underscores the need for policies that promote productive employment generation and facilitate a smoother transition of labour in line with the evolving structure of the economy.

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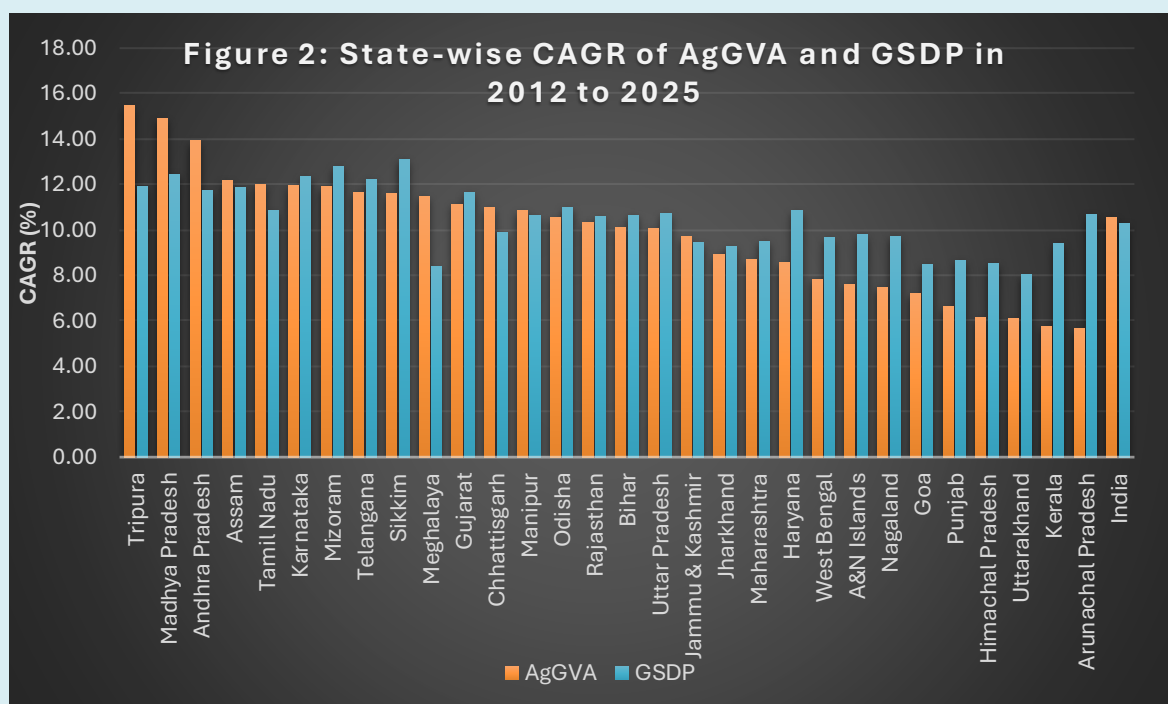
<sup>4</sup> The views expressed in this paper are strictly those of the author and not attributable to the RBI, usual disclaimer applies.



Source: MoSPI, GoI.

### Agriculture Growth and Diversification

Despite global turmoil due to war and geopolitics, India has maintained a compound annual growth rate (CAGR) of 10.3 per cent total Gross State Domestic Products (GSDP) during 2011-12 to 2024-25. The agricultural sector has shown a remarkable resilience under the existing uncertain conditions and it grew by 10.6 per cent in current prices (Figure 2). The rate of growth both in Agricultural Gross Value Added (AgGVA) and GSDP, however, is not uniform across the states. Figure 3 reveals the state-wise CAGR of GVA in agriculture and overall GSDP over the decade from 2011-12 to 2024-25. Among the eight states of India's North-Eastern Region, six states are performing better than the all India average in terms of AgGVA growth. Sikkim's progress is significant in terms of GSDP growth (113.1%), followed by Mizoram (12.8%), Madhya Pradesh (12.4%) and Karnataka (12.3%). In terms of AgGVA, Tripura takes the lead with 15.5 per cent CAGR, followed by Madhya Pradesh (14.9%), Andhra Pradesh (13.9%) and Assam (12.2%). These results are indicative of the economic dynamism and agricultural prowess of these states. A number of other states (Telangana, Gujarat, Rajasthan, Bihar and Uttar Pradesh) have established consistent growth in both AgGVA and GSDP.



Source: MoSPI, GoI.

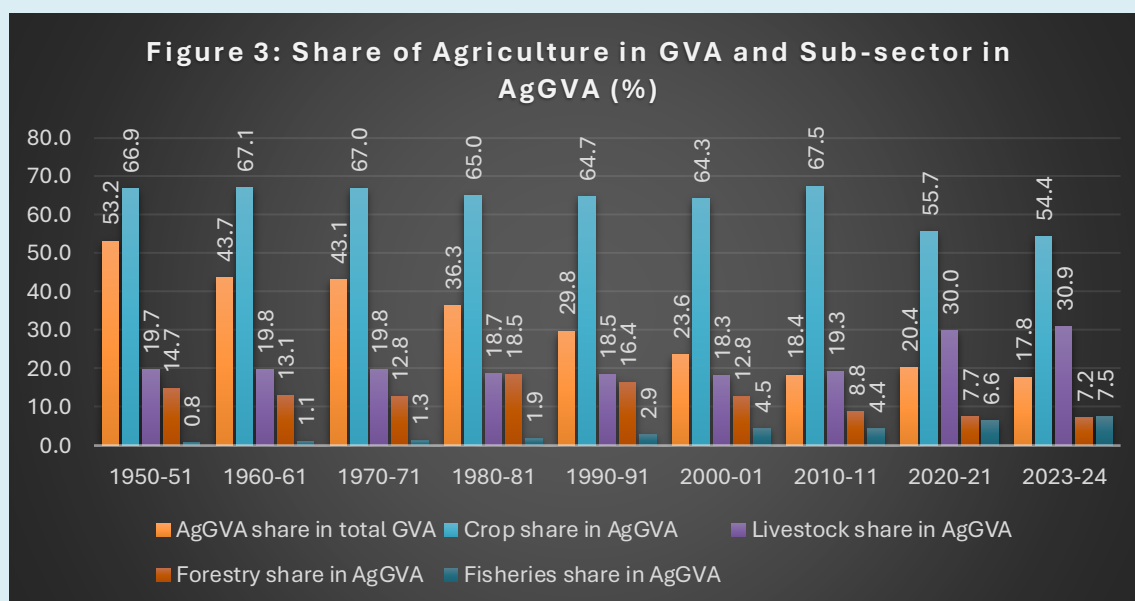
The average annual growth rate (AAGR) in agricultural, non-agricultural and overall GVA is given in Table 1. Agricultural growth has constantly lagged behind the growth in non-agricultural sector. It is noteworthy that since the mid-1990s, India's policymakers have been targeting a 4 per cent annual growth rate for the agricultural sector, which, however, remained unattainable until the most recent decade. This is encouraging; however, it coincides with a broader economic deceleration. During this period, a significant deceleration occurred in non-agricultural growth to 7.85 per cent from 2000-01 to 2010-11 to 5.44 per cent in 2023-24, pulling down the overall economic growth from 6.72 per cent to 5.25 per cent. The AgGVA, Non-AgGVA and overall GSDP grew with a CAGR of 2.99 per cent, 6.04 per cent and 4.92, respectively during 1950-51 to 2023-24 at the real prices.

**Table 1: Decennial AAGR GVA in Percentage (at Constant Prices)**

| <i>Period</i>             | <i>AgGVA</i> | <i>Non-AgGVA</i> | <i>Total GVA</i> |
|---------------------------|--------------|------------------|------------------|
| <b>1950-51 to 1960-61</b> | 3.12         | 5.22             | 3.94             |
| <b>1960-61 to 1970-71</b> | 2.54         | 5.30             | 3.75             |
| <b>1970-71 to 1980-81</b> | 1.83         | 4.46             | 3.16             |
| <b>1980-81 to 1990-91</b> | 2.74         | 5.38             | 4.03             |
| <b>1990-91 to 2000-01</b> | 2.84         | 7.06             | 5.73             |
| <b>2000-01 to 2010-11</b> | 2.96         | 7.85             | 6.72             |
| <b>2010-11 to 2020-21</b> | 3.55         | 6.01             | 5.58             |
| <b>2020-21 to 2023-24</b> | 4.39         | 5.44             | 5.25             |
| <b>1950-51 to 2023-24</b> | 2.99         | 6.04             | 4.92             |

*Source: Authors' calculations based on data from MoSPI, GoI.*

Indian agriculture is on a high growth trajectory. One of the factors that have contributed to higher income growth is diversification toward allied activities. At the time of independence, the crop sector dominated; in the subsequent decades, however, especially after the 1980s, acceleration was seen in the share of livestock. The crop sector's share in agricultural GVA decreased from 66.9 per cent in 1950-51 to 54.4 per cent in 2023-24 while the share of livestock has accelerated from 19.7 per cent to 30.9 per cent over the same period. The contribution of fisheries to total value of agricultural output has also increased significantly from 0.8 per cent to 7.5 per cent. The share of forestry in total agricultural GVA decreased from 14.7 per cent to 7.2 per cent (Figure 3). Within the crop sector, the share of horticulture increased from 10.8 per cent to 33.5 per cent during the same period.



Source: MoSPI, GoI.

## Conclusion and Suggestions

Agriculture continues to face several challenges, including mono-cropping, water stress, inadequate marketing infrastructure, low levels of investment in research and development (R&D), low productivity, and high vulnerability to climate variability. There is a pressing need to promote diversified cropping systems, enhance crop diversification, strengthen allied sectors, encourage alternative livelihood opportunities, and improve market linkages in a phased manner.’

Further, to facilitate a sustainable transition from water guzzling crops such as paddy and sugarcane to alternative crops including pulses, millets, oilseeds, horticultural crops, and vegetables, it is imperative to ensure the availability of a comprehensive and supportive ecosystem. This ecosystem should, inter alia, provide access to high-yielding varieties, quality seeds, assured Minimum Support Price (MSP), robust procurement mechanisms, adequate primary and secondary processing facilities, and well-developed market infrastructure.

Moreover, a coordinated and integrated approach involving the Government, financial institutions, research organizations, and other stakeholders is essential to enable the transition towards a resilient, sustainable, and climate-smart agricultural system. Such efforts will contribute significantly to achieving the vision of Viksit Bharat by 2047.

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## **DELAYED MONSOON, DELAYED SOWING: ASSESSING THE RISKS TO INDIA'S AGRICULTURAL ECONOMY**

### **Introduction**

The southwest monsoon remains one of the most important determinants of India's economic performance. Although agriculture now contributes around one-sixth of GDP, it continues to support the livelihoods of nearly half the country's population, influences rural demand, shapes food inflation and affects overall macroeconomic stability. Consequently, developments during the monsoon season are closely watched not only by farmers but also by policymakers, financial markets and businesses.

The 2026 monsoon has begun on a challenging note. Following a delayed onset and prolonged pause in its advance, June emerged as one of the driest corresponding months in more than a century. Rainfall was nearly 40 percent below the Long Period Average (LPA), while the India Meteorological Department (IMD) has projected below-normal rainfall for July, traditionally the wettest month of the southwest monsoon. The delayed progress of the monsoon has already affected kharif sowing, raising concerns about agricultural output, reservoir levels and food price inflation.

Nevertheless, the outlook is not entirely pessimistic. The IMD expects rainfall activity to improve during the first half of July, particularly over central India, while the possible emergence of a positive Indian Ocean Dipole (IOD) during August and September could partly offset the adverse effects of the developing *El Niño*. The evolving monsoon therefore presents a picture of heightened risks but not necessarily an adverse agricultural outcome.

### **June Rainfall: An Exceptionally Weak Start**

The most striking feature of the 2026 monsoon has been the exceptionally weak rainfall during June. The country received only 99.6 mm of rainfall during the month, representing a deficit of 39.9 percent from the benchmark LPA. According to the IMD, this was the fifth-lowest June rainfall since 1901 and the lowest since 2014.

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The weak performance largely reflects the delayed advance of the southwest monsoon. After its onset over Kerala on 4 June, the monsoon stalled for nearly fifteen days before regaining momentum after 20 June. Consequently, the advance into central and northwestern India was delayed by approximately ten days, affecting sowing operations across major agricultural states.

The primary meteorological explanation lies in the evolving *El Niño* conditions over the Pacific Ocean. *El Niño* typically suppresses monsoon rainfall over the Indian subcontinent by altering large-scale atmospheric circulation patterns. At the same time, the IOD remained neutral during June and therefore failed to offset the adverse influence of *El Niño*. Together, these climatic developments contributed to one of the weakest starts to the monsoon in recent decades.

### **Kharif Sowing: Delays Across Major Crops**

The rainfall deficit has already translated into slower progress in kharif sowing. As of 25 June 2026, the total area sown under kharif crops stood at 182.72 lakh hectares, compared with 236.46 lakh hectares during the corresponding period of the previous year—a decline of 53.74 lakh hectares, or nearly 23 percent (Table 1).

The slowdown has been widespread:

- Rice sowing declined by 8.65 lakh hectares.
- Pulses recorded a reduction of 6.53 lakh hectares.
- Shri Anna /Coarse cereals fell by 4.23 lakh hectares.
- Oilseeds experienced the sharpest decline of 19.42 lakh hectares.
- Cotton acreage was lower by 15.70 lakh hectares.

Only sugarcane and jute & mesta recorded modest increases in area coverage, largely reflecting their different planting calendars and irrigation dependence.

Oilseeds and cotton appear particularly vulnerable because their sowing windows are relatively narrow. Prolonged rainfall deficiencies could reduce acreage further, potentially affecting edible oil imports and the textile value chain later in the year.

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**Table 1: Kharif Sowing at a Glance (as on 25 June 2026)**

(Area in Lakh hectares)

| Crop                               | Normal area<br>(2020-21 to<br>2024-25) | Final Area<br>Coverage<br>2025 | Area Sown     |               | Increase (+)/<br>Decrease (-) |
|------------------------------------|----------------------------------------|--------------------------------|---------------|---------------|-------------------------------|
|                                    |                                        |                                | 2026          | 2025          |                               |
| Rice                               | 412.00                                 | 446.70                         | 25.75         | 34.41         | -8.65                         |
| Pulses                             | 123.64                                 | 118.97                         | 14.92         | 21.46         | -6.53                         |
| Shri Anna cum<br>Coarse<br>Cereals | 182.63                                 | 192.12                         | 31.84         | 36.07         | -4.23                         |
| Oilseeds                           | 200.08                                 | 196.38                         | 16.99         | 36.41         | -19.42                        |
| Sugarcane                          | 54.20                                  | 58.84                          | 57.31         | 56.64         | 0.67                          |
| Jute & Mesta                       | 6.40                                   | 6.06                           | 6.25          | 6.13          | 0.12                          |
| Cotton                             | 125.51                                 | 115.20                         | 29.66         | 45.36         | -15.70                        |
| <b>Total</b>                       | <b>1104.46</b>                         | <b>1134.27</b>                 | <b>182.72</b> | <b>236.46</b> | <b>-53.74</b>                 |

Source: Ministry of Agriculture & Farmers' Welfare, GoI

## Reservoir Levels and Water Availability

Another consequence of deficient June rainfall has been slower replenishment of reservoirs. Water storage stood at only 26 percent of total capacity by 25 June, marginally lower than the previous week and below the level normally expected at this stage of the monsoon.

Reservoir storage is important not only for kharif cultivation but also for the rabi season, hydroelectric generation and urban water supply. Continued deficiencies in rainfall could therefore have implications extending well beyond the current cropping season.

However, it remains too early to draw definitive conclusions. Reservoir levels typically improve substantially during July and August, provided rainfall normalises.

## Weather Outlook: Risks Remain but Recovery is Possible

Despite the disappointing start, the IMD has identified several factors that could improve the monsoon outlook. The first is the expected development of fresh low-pressure systems over the Bay of Bengal, which are likely to enhance rainfall activity



during the first half of July, particularly across central India—the country's principal rainfed agricultural region.

Second, the monsoon trough is expected to shift southwards, supporting wider rainfall distribution.

Third, Australia's Bureau of Meteorology has indicated the possibility of a positive Indian Ocean Dipole during August and September. Historically, a positive IOD has often helped strengthen the Indian monsoon by enhancing moisture transport towards the subcontinent. Although the IMD has appropriately cautioned that it is too early to conclude whether a positive IOD will fully compensate for *El Niño*, its potential emergence provides an important source of optimism.

Thus, while the early monsoon has underperformed, the agricultural season is far from being irreversibly affected.

### **Macroeconomic Implications**

The delayed monsoon has implications extending well beyond agriculture.

First, slower kharif sowing may affect agricultural output if rainfall does not improve during July. Crops such as paddy, pulses, oilseeds and cotton remain particularly sensitive because their sowing periods are concentrated during the early monsoon.

Second, food inflation could come under renewed pressure. Lower production of pulses, edible oilseeds and cereals may tighten supplies later in the year, particularly if reservoir levels remain below normal. Given that food prices account for a substantial share of India's Consumer Price Index (CPI), agricultural developments will remain closely linked to the inflation outlook.

Third, rural incomes and consumption may experience temporary moderation if agricultural activity slows. Rural demand has played an important role in supporting consumption-led growth, and any sustained weakness could influence demand for consumer goods, tractors, fertilisers and agricultural inputs.

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Fourth, the monsoon will also influence fiscal management. A weak agricultural season may increase the need for government support through irrigation programmes, crop insurance, employment schemes and food management measures.

Finally, monetary policy could also be affected indirectly. Although the Reserve Bank of India primarily focuses on core inflation trends, sustained food inflation arising from weather-related supply shocks could complicate future monetary policy decisions.

### **Agriculture's Growing Resilience**

While the delayed monsoon warrants close monitoring, India's agricultural economy today is considerably more resilient than it was two decades ago.

Expansion of irrigation infrastructure, wider adoption of drought-tolerant crop varieties, improved weather forecasting, digital agricultural advisory services, better seed availability and greater mechanisation have strengthened farmers' ability to cope with rainfall variability. Government programmes promoting micro-irrigation, watershed development and climate-resilient agriculture have further reduced dependence on timely monsoon rainfall.

Moreover, agriculture increasingly benefits from improved logistics, stronger procurement systems and expanding crop insurance coverage, enabling faster recovery from adverse weather conditions.

Consequently, delayed sowing does not automatically translate into lower agricultural production. Much will depend on rainfall distribution during July and August rather than the June deficit alone.

### **Conclusion**

The southwest monsoon has begun the 2026 agricultural season on a weaker-than-expected footing. The sharp rainfall deficit during June and the consequent delay in kharif sowing have understandably raised concerns regarding agricultural production,

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food inflation and rural demand. Yet the current situation should be viewed with cautious realism rather than undue pessimism.

The IMD's expectation of improved rainfall during early July, together with the possibility of a positive Indian Ocean Dipole later in the season, suggests that there remains considerable scope for recovery. Much of India's agricultural performance will ultimately depend not on the weakness observed in June but on the cumulative rainfall received during the remainder of the monsoon season.

The coming weeks will therefore be critical. Timely rainfall during July could significantly narrow the sowing gap, replenish reservoirs and support crop development. Conversely, a prolonged rainfall deficit would heighten risks to agricultural output and inflation.

At present, the evidence points to a season characterised by heightened uncertainty rather than inevitable adversity. India's agricultural sector has demonstrated increasing resilience in recent years, and while weather-related risks have undoubtedly risen, the final outcome will depend on how the monsoon evolves during the remainder of the season.

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## CORPORATE INSIGHT

### FROM CONGLOMERATE TO DEEP-TECH GIANT: RELIANCE'S NEXT GROWTH FRONTIER

**Dr Debesh Roy**  
*Chairman, InspIRE*

#### **A Company Reinventing Itself**

Reliance Industries Limited (RIL) has long been regarded as India's most diversified corporate enterprise. Yet the Chairman's Statement at the company's 49th Annual General Meeting signals something more profound than another phase of business expansion. It reveals a strategic transformation of Reliance from a traditional energy and industrial conglomerate into an integrated technology, artificial intelligence (AI), advanced manufacturing, consumer, and clean-energy powerhouse.

The significance of this transition extends beyond the company itself. Reliance's evolving strategy offers important insights into the future direction of India's economy, industrial policy, technological capabilities, and global competitiveness.

#### **Strong Financial Foundations for the Next Growth Phase**

The company's financial performance reflects the success of its diversification strategy. Reliance reported record revenues, EBITDA, and profits in FY26, with digital and retail businesses contributing nearly half of total EBITDA. This marks a structural shift from the era when hydrocarbons dominated earnings.

The growing contribution of consumer-facing and technology-driven businesses indicates that Reliance's future growth will increasingly be powered by data, digital platforms, artificial intelligence, and consumer markets rather than by energy alone.

## **AI at the Core of Reliance's Future Strategy**

Perhaps the most significant announcement relates to artificial intelligence. Reliance is no longer approaching AI as a supplementary technology but as a foundational growth engine. Through Reliance Intelligence, the company is building what it describes as India's sovereign AI backbone, including large-scale AI computing infrastructure powered by renewable energy.

This initiative reflects a broader strategic objective: ensuring that India becomes not merely a consumer of AI technologies developed elsewhere but an active creator of indigenous AI capabilities.

The company's vision of "AI for everyone, everywhere" is particularly noteworthy. By developing multilingual AI applications in Indian languages and embedding AI across sectors such as healthcare, education, agriculture, retail, and enterprise services, Reliance seeks to democratise access to advanced technologies.

## **Jio's Next Chapter: Beyond Connectivity**

The proposed listing of Jio Platforms represents another milestone. Over the past decade, Jio has transformed India's telecommunications landscape through affordable connectivity and rapid digital adoption. The next phase of growth will be driven by 5G, broadband expansion, enterprise solutions, cloud computing, AI-enabled services, and satellite communications.

Jio's plans to develop a sovereign low-earth-orbit satellite constellation signal ambitions that extend beyond telecommunications into strategic digital infrastructure. These initiatives could strengthen India's technological sovereignty while expanding connectivity to underserved regions.

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## **Building Indigenous Technology Capabilities**

Reliance's growing patent portfolio, investments in AI research, indigenous technology development, and partnerships with global technology leaders demonstrate a deliberate effort to move up the innovation value chain.

The company's focus on developing India-born technologies rather than merely adopting global innovations aligns closely with the national objective of strengthening domestic technological capabilities. Such investments could contribute significantly to India's aspirations of becoming a global technology hub.

## **Reinventing Retail Through Technology**

Reliance Retail presents another compelling story. What began as a modern retail initiative has evolved into one of the world's largest retail ecosystems. The company's strategy now extends beyond commerce to include manufacturing, logistics, exports, consumer brands, quick commerce, and AI-enabled retail operations.

By integrating digital technologies with deep consumer insights, Reliance aims to create an intelligent consumer ecosystem capable of serving hundreds of millions of customers. This reflects the broader transformation occurring across India's consumer economy, where technology is increasingly reshaping retail experiences and supply chains.

## **Creating National Consumer Brands**

The rapid rise of Reliance Consumer Products Limited (RCPL) illustrates the company's ambition to challenge established multinational brands. The success of brands such as Campa and Independence demonstrates that Indian companies can build large-scale consumer brands by combining affordability, manufacturing scale, distribution strength, and technology-enabled market intelligence.

The company's target of becoming a major FMCG player underscores the growing importance of domestic brands in India's consumption story.

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## **Energy Security and the Green Transition**

The most transformative element of Reliance's long-term strategy may lie in energy. India remains heavily dependent on imported energy, making energy security a strategic imperative.

Reliance's investments in solar manufacturing, battery storage, green hydrogen, renewable energy generation, and green chemicals are designed not only to create new business opportunities but also to strengthen India's energy independence.

The scale of these investments is extraordinary. The development of integrated solar manufacturing facilities, battery giga-factories, renewable energy hubs, and green hydrogen capabilities positions Reliance among the most ambitious energy-transition players globally.

## **The Convergence of Digital and Energy Systems**

An important theme running through the Chairman's address is the convergence of digital technologies and energy systems. AI-powered operations, autonomous industrial facilities, smart manufacturing, digital commerce, and renewable energy infrastructure are increasingly becoming interconnected.

Reliance appears to recognise that future competitive advantage will stem from integrating these capabilities rather than developing them in isolation. This integrated approach could become a defining feature of the next generation of industrial enterprises.

## **Alignment with India's Development Priorities**

From a broader economic perspective, Reliance's strategy mirrors several key pillars of India's development agenda: Atmanirbhar Bharat, digital transformation, manufacturing expansion, energy security, technological innovation, and inclusive growth.

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The company's investments in AI, digital infrastructure, renewable energy, advanced manufacturing, and consumer markets align closely with the country's aspirations for Viksit Bharat 2047.

### **Challenges and Execution Risks**

The central question is whether Reliance can successfully execute such a vast and ambitious agenda simultaneously across multiple sectors. The scale of capital requirements, technological complexity, and execution challenges is immense.

However, Reliance's track record of building large-scale businesses and creating entirely new markets suggests that these ambitions deserve serious consideration. The company's financial strength and long-term investment horizon provide it with significant strategic advantages.

### **Conclusion: A Blueprint for India's Next Growth Story**

The Chairman's Statement reflects a vision that extends far beyond corporate growth. It presents Reliance as a platform for building the infrastructure of India's next development phase. Whether in artificial intelligence, digital connectivity, consumer markets, advanced manufacturing, or clean energy, the company is positioning itself at the intersection of the most important structural transformations shaping the global economy.

The coming decade may therefore be remembered not simply as a period of expansion for Reliance Industries, but as the phase in which it evolved into one of the defining institutions of India's economic transformation. In many ways, Reliance's future strategy mirrors India's own aspirations: technologically advanced, energy secure, globally competitive, and innovation-driven.

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## BANKING, FINANCIAL SERVICES & INSURANCE

### STRONG FUNDAMENTALS, EMERGING RISKS: AN ANALYSIS OF RBI'S FINANCIAL STABILITY REPORT, JUNE 2026

**Dr Debesh Roy**  
*Chairman, InsPIRE*

#### **Introduction**

The Reserve Bank of India's *Financial Stability Report (FSR) June 2026*, presents a reassuring assessment of India's financial system at a time when the global economy continues to grapple with geopolitical conflicts, elevated public debt, financial market volatility and rapid technological disruption. While global macro-financial vulnerabilities have intensified following the West Asia conflict and growing uncertainty surrounding inflation and monetary policy, India's financial system has displayed remarkable resilience, supported by robust macroeconomic fundamentals, healthy financial institutions and prudent regulation.

The report argues that India's banking and financial sectors are considerably stronger than during previous episodes of global stress. Banks and non-bank financial institutions possess adequate capital and liquidity buffers, non-performing assets have fallen to multi-decade lows, profitability remains healthy and stress tests indicate the system is well-equipped to withstand severe macroeconomic shocks. Nevertheless, the RBI cautions that external risks remain elevated and that policymakers must continue strengthening financial resilience amid an increasingly uncertain global environment.

The report therefore reflects a balanced message: India's financial system enters the second half of 2026 from a position of strength, but continued vigilance remains essential.

## **Global Financial Stability: A More Uncertain Landscape**

One of the central messages of the FSR is that global financial stability risks have increased despite the resilience shown by financial markets.

The West Asia conflict triggered significant volatility in energy markets and global supply chains. Although financial markets subsequently recovered, supported by optimism surrounding artificial intelligence, robust corporate earnings and expectations of future productivity gains, the report argues that these favourable market conditions may be masking deeper vulnerabilities.

Several risks deserve particular attention. High public debt across advanced economies continues to constrain fiscal flexibility. Government borrowing requirements remain elevated while higher bond yields have increased debt servicing costs. At the same time, inflationary pressures arising from energy prices have delayed expectations of monetary easing, raising the possibility that interest rates could remain higher for longer.

The report also highlights elevated equity valuations, particularly among AI-related companies, where concentrated investments have increased systemic exposure. Rapid growth of leveraged non-bank financial intermediaries (NBFIs) has created additional channels through which market shocks could propagate across the global financial system.

The RBI therefore argues that future financial instability may arise not from a single event but from the interaction of multiple vulnerabilities—including sovereign debt, bond markets, leveraged institutions and asset price corrections.

## **India's Macroeconomic Strength Provides Important Buffers**

Against this difficult international backdrop, India continues to stand out as one of the world's strongest-performing major economies.

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The *FSR* notes that India's macroeconomic fundamentals remain significantly stronger than during previous episodes of global financial stress. Economic growth remains robust, inflation has stayed broadly within the RBI's target range, and the current account deficit remains manageable despite persistent geopolitical uncertainty. Foreign exchange reserves continue to provide an important cushion against external shocks, while fiscal consolidation has strengthened macroeconomic credibility.

The report nevertheless recognises that India cannot remain insulated from global developments. Being a large importer of crude oil and several critical commodities, India remains vulnerable to renewed energy price shocks and supply chain disruptions. Exchange rate volatility, capital flow reversals and global financial tightening remain important downside risks.

However, unlike many emerging economies, India's relatively strong domestic demand, diversified economic structure and sound financial system substantially reduce the probability that external shocks will translate into systemic financial instability.

### **Banking Sector: The Strongest Balance Sheet in Decades**

Perhaps the most encouraging conclusion of the report concerns the health of India's banking system. Scheduled Commercial Banks (SCBs) continue to exhibit one of their strongest balance sheets in recent decades. The Capital to Risk-Weighted Assets Ratio (CRAR) improved to a multi-decadal high of 17.7 per cent in March 2026, while the Common Equity Tier-1 (CET1) ratio increased to 15.3 percent, indicating that banks possess substantial high-quality capital buffers well above the regulatory minimum. The Tier-I leverage ratio also improved to 8.2 percent, reflecting further strengthening of banks' capital position.

Asset quality has improved remarkably. The Gross Non-Performing Asset (GNPA) ratio declined further to 1.73 percent in March 2026 from 2.22 percent a year earlier, while the Net NPA ratio fell to 0.40 percent from 0.50 percent, both representing multi-

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decadal lows. Simultaneously, the Provisioning Coverage Ratio (PCR) increased to 75.6 per cent, providing additional resilience against potential future credit losses.

Profitability remains healthy despite some moderation. Banks reported an annualised Return on Assets (RoA) of 1.33 percent and Return on Equity (RoE) of 13.06 per cent in March 2026. Although the Net Interest Margin (NIM) moderated slightly from 3.46 per cent to 3.26 percent, reflecting rising funding costs and increased competition for deposits, profitability remains comfortably above historical averages. Liquidity also continues to remain strong, with the Liquidity Coverage Ratio (LCR) standing at 123.7 percent, well above the regulatory requirement.

An equally encouraging development is the broad-based nature of credit expansion. Both deposit growth and credit growth accelerated during the second half of FY2025-26, indicating continued confidence among households and businesses. Although the report notes some moderation in the share of low-cost CASA deposits, banks have largely succeeded in protecting profitability through efficient balance sheet management.

### **Stress Testing: The Banking System Can Withstand Severe Shocks**

The RBI's macro stress tests further reinforce this positive assessment. Even under severe macroeconomic scenarios involving slower growth and financial market stress, the banking system's aggregate capital ratios remain comfortably above regulatory minimum requirements. This represents a remarkable turnaround compared with the banking sector's condition less than a decade ago when high NPAs and weak capitalisation posed significant systemic risks.

Perhaps the strongest evidence of banking sector resilience comes from the RBI's macro stress tests. Under the baseline scenario, the aggregate CRAR is projected to moderate only marginally from 17.5 percent in March 2026 to 15.6 percent by March 2028. Even under the RBI's most adverse macroeconomic scenario, system-wide CRAR is projected at 13.0 percent, comfortably above the regulatory minimum. Similarly, the

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aggregate GNPA ratio, currently at 1.8 percent, is projected to rise only to 4.1 percent under the severe stress scenario. These results suggest that the banking system possesses sufficient capital buffers to absorb sizeable macroeconomic shocks without threatening systemic stability.

Even under an extreme hypothetical scenario where the aggregate GNPA ratio rises sharply to 8.1 percent, the banking system's aggregate CRAR would remain above regulatory requirements, underscoring the considerable resilience built into India's banking sector over the past decade.

### **NBFCs and Other Financial Institutions: Stability with Vigilance**

The report also presents a favourable assessment of India's non-bank financial sector. NBFCs remain well-capitalised, profitable and adequately liquid. Asset quality has continued to improve while retail lending remains an important driver of business growth.

The aggregate CRAR stood at 24.7 percent, while Tier-I CRAR reached 22.86 percent, both substantially above regulatory requirements. Asset quality continued to improve, with the GNPA ratio declining from 2.25 percent to 1.83 percent, and the NNPA ratio falling from 0.98 percent to 0.81 percent. Although RoA moderated slightly to 2.56 percent, profitability remains healthy, while NIM remained broadly stable at 4.56 percent.

Stress tests indicate that the aggregate capital position of NBFCs remains comfortably above regulatory requirements even under adverse scenarios. Similarly, primary urban cooperative banks have strengthened their balance sheets through improved capitalisation and lower NPAs. The insurance sector also continues to remain financially healthy, supported by adequate solvency margins and improving financial performance. Stress testing of mutual funds and clearing corporations further confirms that important components of India's financial market infrastructure remain resilient.

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Nevertheless, the RBI draws attention to one emerging structural concern. As India's financial markets deepen, interconnectedness among banks, NBFCs, mutual funds, insurance companies and other financial intermediaries has increased substantially. While this reflects financial market development, it also creates new channels through which stress in one institution or market segment could spread across the broader financial system.

### **Consumer Credit and Household Finance: Monitoring Emerging Risks**

One of the more nuanced discussions in the report concerns household borrowing. India's household debt remains relatively low compared with many major economies. Much of household borrowing continues to be concentrated in housing finance and retail loans rather than speculative leverage. Consumer credit growth remains robust while the overall risk profile of borrowers has improved.

However, the RBI identifies several areas requiring close monitoring. Gold loans have expanded rapidly, with repeat borrowers accounting for a significant share of new lending. Fintech companies continue to drive strong growth in small-ticket personal loans, although rising delinquencies in some borrower categories warrant greater supervisory attention.

The report therefore recommends continued vigilance to ensure that rapid expansion in retail credit does not create future financial vulnerabilities.

### **Regulatory Developments: Building Future Resilience**

An important feature of the June 2026 *FSR* is its emphasis on forward-looking regulation. Globally, regulators are increasingly focusing on the implications of artificial intelligence, climate finance, digital assets, operational resilience and cyber security.

India's regulatory agenda reflects similar priorities. Recent initiatives include strengthening Basel III implementation, enhancing customer protection, improving governance, promoting financial inclusion, strengthening cyber security frameworks

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and deepening financial markets. Particular emphasis has also been placed on improving supervisory capabilities through advanced analytics, early warning systems and risk-based supervision.

The report also highlights regulatory measures to facilitate foreign investment, improve KYC processes, enhance deposit insurance, strengthen governance in financial institutions and modernise financial market infrastructure.

Rather than responding to crises after they emerge, the RBI increasingly seeks to identify vulnerabilities at an early stage and build resilience proactively.

### **Emerging Structural Challenges**

While the overall tone of the report is optimistic, it identifies several long-term structural risks.

Geopolitical fragmentation remains perhaps the most significant external challenge. Persistent conflicts and trade disruptions could sustain higher commodity prices and inflation while weakening global growth.

Rapid advances in artificial intelligence present both opportunities and risks. AI has contributed significantly to optimism in global financial markets, but concentrated investments in AI-related firms may also increase asset valuation risks.

Climate-related financial risks are becoming increasingly important for both financial institutions and regulators. The RBI therefore emphasises the need for continued development of climate finance frameworks and enhanced risk management.

Finally, increasing digitalisation raises new concerns regarding cyber security and operational resilience, making technology governance a central component of future financial stability.

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## **Why Financial Stability Matters for India's Growth Story**

The *FSR June 2026* reinforces an important reality: financial stability is a prerequisite for sustained economic growth. Strong macroeconomic fundamentals, sound financial institutions and prudent regulation together create an ecosystem in which households, businesses and investors can make long-term decisions with confidence. In this sense, the resilience of India's financial system constitutes one of the country's most valuable economic assets.

The remarkable improvement in the health of the banking sector over the past decade has fundamentally altered India's growth dynamics. A decade ago, elevated non-performing assets constrained banks' ability to lend, weakened monetary policy transmission and dampened private investment. Today, with the GNPA ratio declining to 1.73 per cent, Net NPA falling to 0.40 percent, and the CRAR reaching a multi-decadal high of 17.7 percent, banks possess both the capacity and the confidence to support the next phase of India's investment cycle.

A healthy banking system also enhances the effectiveness of monetary policy. Changes in policy interest rates are transmitted more efficiently when banks are adequately capitalised, profitable and liquid. With the Liquidity Coverage Ratio remaining at 123.7 percent, the banking system is well positioned to meet credit demand while maintaining financial stability. This strengthens the RBI's ability to balance inflation control with the objective of sustaining economic growth.

Financial stability also has important fiscal implications. A resilient banking sector reduces the likelihood of government intervention through recapitalisation or emergency financial support, thereby limiting contingent fiscal liabilities. This enables public resources to be directed towards infrastructure, education, healthcare and other developmental priorities rather than financial sector rescue operations. The improvement in asset quality and capital adequacy therefore contributes not only to financial resilience but also to fiscal sustainability.

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Equally important is the role of financial stability in attracting domestic and foreign investment. Investors value predictability and institutional strength as much as economic growth. India's well-capitalised banks, resilient NBFCs, robust payment systems and prudent regulatory framework enhance investor confidence, particularly at a time when many economies are facing elevated financial vulnerabilities. The report's stress-test results, which show that aggregate capital ratios remain comfortably above regulatory thresholds even under severe adverse scenarios, provide an additional layer of reassurance regarding the resilience of the financial system.

The *FSR* also highlights the growing interconnectedness of banks, NBFCs, mutual funds, insurance companies and financial market infrastructures. While this reflects the deepening and sophistication of India's financial markets, it also underscores the need for continuous vigilance. In an increasingly integrated financial system, localised stress can spread rapidly across institutions and markets. The RBI's emphasis on macroprudential regulation, stress testing, early-warning systems and risk-based supervision therefore represents a forward-looking approach to safeguarding systemic stability.

Another noteworthy aspect of the report is its recognition that the nature of financial risks is evolving. Traditional concerns relating to credit quality and liquidity are now being complemented by emerging challenges arising from artificial intelligence, cyber security, climate change, digital finance and the expanding role of non-bank financial intermediaries. Building resilience in this new environment will require regulatory frameworks that are adaptive, technology-driven and internationally aligned. The RBI's increasing focus on these issues demonstrates a shift from reactive regulation towards proactive risk management.

Ultimately, the significance of the June 2026 *FSR* extends well beyond the financial sector. A stable financial system facilitates efficient resource allocation, supports entrepreneurship, lowers the cost of capital, strengthens monetary policy transmission and promotes sustained investment-led growth. As India aspires to become a developed

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economy by 2047, maintaining financial stability will remain as important as sustaining high GDP growth. The report therefore serves as both a testament to the considerable progress achieved over the past decade and a reminder that preserving stability requires constant vigilance in an increasingly complex global financial landscape.

### **Forward Outlook: Building Resilience in an Era of Structural Change**

The June 2026 *FSR* presents a reassuring assessment of the current state of India's financial system, but it also highlights that the nature of financial stability risks is changing rapidly. Over the coming years, policymakers will need to navigate a world characterised not only by cyclical economic fluctuations but also by profound structural transformations in geopolitics, technology, climate policy and global finance. Maintaining financial stability will therefore require continuous adaptation rather than reliance on past successes.

The most immediate challenge arises from the increasingly fragmented global geopolitical environment. Although the easing of tensions in West Asia has reduced some near-term uncertainty, geopolitical risks remain elevated. Any renewed disruption to energy supplies, shipping routes or global trade could reignite inflationary pressures, widen India's current account deficit and trigger greater volatility in exchange rates and capital flows. While India's foreign exchange reserves, prudent macroeconomic policies and diversified trade relationships provide important buffers, the economy will remain exposed to external shocks as long as it depends significantly on imported energy. Continued progress towards renewable energy, energy efficiency and diversification of import sources will therefore strengthen not only energy security but also financial stability.

A second area requiring close attention is the evolving global interest rate environment. Inflation remains above target in several advanced economies, increasing the possibility that major central banks may maintain relatively tight monetary policies for longer than previously anticipated. Such an environment could sustain higher global bond yields, influence capital flows towards advanced economies and increase financing costs for

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emerging markets. India's strong external position provides a measure of protection, but maintaining macroeconomic stability and fiscal discipline will remain essential for preserving investor confidence.

Domestically, the next phase of financial development is likely to be driven by deeper credit markets and greater financial inclusion. The banking system enters this phase from a position of considerable strength, with historically low non-performing assets, robust capital adequacy and comfortable liquidity buffers. At the same time, the rapid expansion of retail credit, gold loans and digital lending warrants continued monitoring to ensure that credit quality remains sound. Sustaining healthy credit growth while maintaining prudent underwriting standards will be critical for preserving financial stability as investment demand accelerates.

The growing importance of non-bank financial institutions represents another structural shift. NBFCs have become an increasingly important source of credit for households, small businesses and underserved sectors, complementing the formal banking system. Their strong capital position and improving asset quality are encouraging, yet the expanding interconnectedness among banks, NBFCs, mutual funds, insurance companies and financial market infrastructures creates new channels for the transmission of financial stress. Going forward, supervisory frameworks will need to focus increasingly on system-wide risks rather than institution-specific vulnerabilities. The RBI's emphasis on interconnectedness, contagion analysis and macroprudential surveillance reflects this evolution in regulatory thinking.

Technological transformation will also reshape the future of financial stability. Artificial intelligence is rapidly changing credit assessment, fraud detection, customer service and investment management. At the same time, greater reliance on digital technologies exposes financial institutions to cyber risks, operational disruptions and new forms of systemic vulnerability. The challenge for regulators will be to encourage innovation while ensuring robust governance, data security and operational resilience. The FSR rightly identifies artificial intelligence and digital finance as emerging

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priorities for financial sector oversight, suggesting that future regulation will increasingly focus on technology-enabled risk management.

Climate change constitutes another long-term challenge that is steadily moving from the periphery to the centre of financial regulation. More frequent extreme weather events, the transition towards low-carbon technologies and changing investor preferences are already influencing financial risks and capital allocation. Financial institutions will increasingly need to incorporate climate-related risks into lending, investment and risk management decisions. Simultaneously, expanding green finance and sustainable investment can create new opportunities for economic growth while strengthening long-term resilience.

Finally, India's aspiration to become a developed economy by 2047 will require a financial system capable of supporting sustained investment, technological innovation and structural transformation. This will necessitate deeper corporate bond markets, more diversified sources of long-term finance, stronger institutional investors, greater financial inclusion and continued improvements in governance across financial institutions. Maintaining financial stability should therefore be viewed not merely as a defensive objective but as a strategic enabler of long-term economic development.

The June 2026 *FSR* conveys confidence that India's financial system is well prepared to withstand current uncertainties. The challenge now is to build on these achievements by anticipating future risks before they become systemic. In an increasingly interconnected and technology-driven world, resilience will depend not only on strong balance sheets but also on sound institutions, forward-looking regulation and the capacity to adapt to an ever-changing global environment.

## **Conclusion**

The RBI's *Financial Stability Report June 2026*, conveys an encouraging message regarding the resilience of India's financial system. Strong macroeconomic fundamentals, healthier bank balance sheets, well-capitalised financial institutions and

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prudent regulatory oversight have significantly strengthened India's capacity to withstand external shocks. The remarkable improvement in asset quality, sustained profitability, robust capital adequacy and favourable stress-test outcomes collectively underscore the maturity of India's post-pandemic financial recovery.

Yet the report also serves as a reminder that financial stability is not a static achievement. Rising geopolitical fragmentation, elevated sovereign debt, changing global monetary conditions, expanding non-bank finance, rapid technological transformation and climate-related risks are reshaping the global financial landscape. These developments require policymakers to remain proactive, adaptive and forward-looking.

Overall, the June 2026 *FSR* reinforces confidence in India's financial architecture. While the external environment remains uncertain, India's financial system appears well-positioned to support sustained economic growth, provided policymakers continue to strengthen institutional resilience, maintain macroeconomic discipline and anticipate emerging risks before they evolve into systemic challenges.

*Financial Stability Report June 2026 can be accessed from: <https://shorturl.at/59x9j>*

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## SECTION 2: GLOBAL ECONOMY

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## GLOBAL ECONOMIC OUTLOOK

### GLOBAL ECONOMY AT A CROSSROADS: WORLD BANK WARNS OF A LOST DECADE FOR DEVELOPING ECONOMIES

The global economy has entered another phase of heightened uncertainty. Just as the world appeared to be stabilising after years of pandemic-induced disruptions, inflation shocks and aggressive monetary tightening, a fresh geopolitical crisis has altered the global economic landscape. According to the World Bank's *Global Economic Prospects, June 2026*, the conflict in the Middle East has emerged as a major global shock, disrupting energy markets, reigniting inflationary pressures and weakening growth prospects across advanced and developing economies alike.

The World Bank projects global growth to slow from 2.9 per cent in 2025 to 2.5 percent in 2026—the weakest pace outside of global recessions since the COVID-19 pandemic. Although activity is expected to recover moderately to 2.8 percent in both 2027 and 2028, the global economy remains vulnerable to a range of downside risks, including prolonged geopolitical tensions, trade fragmentation, commodity price volatility and climate-related disruptions. The report paints a sobering picture of a world economy struggling to regain the dynamism that characterised earlier decades.

#### Middle East Conflict Reshapes the Global Outlook

The deterioration in the global outlook has been driven primarily by the conflict in the Middle East. The Gulf region remains central to global energy markets, and disruptions to shipping and commodity flows have had far-reaching consequences.

The World Bank estimates that overall commodity prices could rise by 22 percent in 2026, in sharp contrast to the decline projected earlier in the year. Brent crude oil prices are expected to average US\$ 94 per barrel in 2026, representing an increase of 36 percent over 2025 levels and more than 50 percent above earlier projections. European natural gas prices are also projected to rise by about 30 percent owing to tightening

global liquefied natural gas supplies. The conflict has additionally disrupted global fertiliser markets, leading to higher agricultural input costs and raising concerns regarding food security.

The resurgence of commodity prices has rekindled inflationary pressures across economies. After considerable progress in bringing inflation under control during the past two years, central banks now face the difficult task of balancing price stability with the need to support growth. Rising energy and food prices threaten to delay monetary easing in several economies, thereby prolonging tight financial conditions.

### **Global Growth Slows Amid Multiple Headwinds**

The World Bank projects global growth at 2.5 percent in 2026, down from 2.9 percent in 2025 (Table 1). Growth in advanced economies is expected to moderate to 1.5 percent, while emerging market and developing economies (EMDEs) are projected to expand by 3.6 percent, significantly below pre-pandemic averages. Among major economies:

- The United States is projected to grow by 2.2 percent in 2026.
- The Euro Area is expected to expand by only 0.8 percent.
- Japan's growth is projected at 0.7 percent.
- China's growth is forecast to moderate to 4.2 percent.

The slowdown is broad-based. Approximately two-thirds of economies worldwide are expected to experience weaker growth prospects compared with earlier projections. For many developing countries, this implies a prolonged period of subdued income growth and weaker employment generation.

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**Table 1: Real GDP Growth (%) Estimates**

|                                                   | 2026       | 2027       | 2028       |
|---------------------------------------------------|------------|------------|------------|
| <b>World</b>                                      | <b>2.5</b> | <b>2.8</b> | <b>2.8</b> |
| <b>Advanced Economies</b>                         | <b>1.5</b> | <b>1.8</b> | <b>1.7</b> |
| <i>United States</i>                              | <i>2.2</i> | <i>2.1</i> | <i>2.0</i> |
| <i>Euro Area</i>                                  | <i>0.8</i> | <i>1.3</i> | <i>1.3</i> |
| <i>Japan</i>                                      | <i>0.7</i> | <i>0.9</i> | <i>0.8</i> |
| <b>Emerging Market &amp; Developing Economies</b> | <b>3.6</b> | <b>4.2</b> | <b>4.1</b> |
| <i>China</i>                                      | <i>4.2</i> | <i>4.3</i> | <i>4.2</i> |
| <i>India</i>                                      | <i>6.6</i> | <i>7.2</i> | <i>7.0</i> |
| <i>Indonesia</i>                                  | <i>5.0</i> | <i>5.2</i> | <i>5.2</i> |
| <i>Russia</i>                                     | <i>0.8</i> | <i>0.7</i> | <i>0.7</i> |
| <i>Brazil</i>                                     | <i>1.9</i> | <i>2.0</i> | <i>2.2</i> |
| <i>Mexico</i>                                     | <i>1.3</i> | <i>1.7</i> | <i>1.9</i> |
| <i>Saudi Arabia</i>                               | <i>3.1</i> | <i>4.9</i> | <i>3.7</i> |
| <i>South Africa</i>                               | <i>1.0</i> | <i>1.5</i> | <i>1.7</i> |

Source: Global Economic Prospects June 2026, World Bank

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

Despite an increasingly challenging global environment, India is projected to remain the world's fastest-growing major economy. India's GDP growth is projected at 6.6 percent in FY2026-27, accelerating to 7.2 percent in FY2027-28 and moderating marginally to 7.0 percent in FY2028-29 (Table 1). These projections underscore the resilience of the Indian economy at a time when global growth is expected to slow sharply. The World Bank expects India's growth to be supported by robust domestic demand, sustained public infrastructure investment, a vibrant services sector, and ongoing structural reforms. India's strong macroeconomic fundamentals, relatively healthy banking system and continued emphasis on capital expenditure are likely to provide important buffers against adverse global shocks. Nevertheless, as a major net importer of crude oil, India remains vulnerable to sustained increases in global energy prices and heightened geopolitical tensions, which could exert pressure on inflation, the current account balance and fiscal dynamics. Even so, India's projected growth trajectory positions it as one of the principal drivers of global growth over the medium term.

## **A 'Lost Decade' for Developing Economies?**

Perhaps the most striking message of the report is the warning that the 2020s may become a "lost decade" for many developing economies. The World Bank notes that nearly one out of every two developing economies has failed since 2019 to narrow the income gap with advanced economies. By the end of 2026, one-quarter of developing economies, one-third of low-income countries and nearly half of fragile and conflict-affected economies are expected to remain poorer than they were before the COVID-19 pandemic. Per capita income convergence has slowed dramatically, especially in economies excluding China and India. For many countries, pre-pandemic convergence levels may not be restored until after 2028. Weak growth prospects, reduced investment, constrained job creation and shrinking fiscal space have compounded developmental challenges. The report argues that without decisive policy reforms, many developing economies risk remaining trapped in a cycle of low growth and rising vulnerability.

## **Rising Debt: A Major Vulnerability**

A key analytical chapter of the report focuses on the growing challenge posed by rising sovereign debt in EMDEs. Government debt levels in developing economies have reached historic highs. The World Bank finds that rising debt has contributed to higher borrowing costs, increasing debt-servicing burdens and elevating the risk of debt distress. Since 2010, increases in debt-to-GDP ratios in EMDEs have been associated with a rise of approximately 110 basis points in sovereign spreads and 30 basis points in domestic bond yields. The relationship is non-linear: countries with already high debt levels face disproportionately larger increases in borrowing costs when debt rises further.

The report identifies several factors that exacerbate debt vulnerabilities, including weak governance, low credit ratings, high dependence on short-term borrowing and previous histories of sovereign default. Rising debt in advanced economies has also contributed to tighter global financial conditions by pushing up global interest rates.

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For policymakers, strengthening fiscal sustainability through improved domestic revenue mobilisation, prudent debt management and more efficient public expenditure has become an urgent priority.

### **Commodity Dependence and Fiscal Fragility**

The report's second analytical chapter examines fiscal management in commodity-exporting economies. Commodity-exporting EMDEs continue to face persistent fiscal vulnerabilities because government revenues remain heavily dependent on volatile commodity prices. Since 2000, fiscal positions in commodity exporters have generally been weaker than in other developing economies.

The World Bank finds that a one per cent increase in commodity prices raises both revenues and government spending by around 0.4 per cent over five years, indicating that many countries spend commodity windfalls rather than save them. While energy and metal exporters tend to improve their fiscal balances during commodity booms, agricultural commodity exporters often increase spending during good times, thereby limiting fiscal buffers and increasing debt accumulation.

The report advocates stronger fiscal frameworks, including credible fiscal rules, sovereign wealth funds, independent fiscal councils and revenue diversification strategies to improve resilience against commodity price shocks.

### **AI, Clean Energy and Regional Trade: Three Engines of Future Growth**

Despite the sombre near-term outlook, the World Bank identifies three transformative opportunities that could revive global growth during the 2030s.

The first is artificial intelligence (AI). If adopted widely and supported by adequate digital infrastructure, AI could significantly boost productivity and potentially make the 2030s the most prosperous decade since the 1970s. However, the benefits are unlikely to be evenly distributed. Developing economies currently account for less than one-quarter of global data-centre capacity, while the world's poorest economies account for

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less than one-tenth of one per cent. Without investments in digital infrastructure, human capital and computing capabilities, AI could widen global inequalities.

The second opportunity is the global energy transition. Clean energy investment reached a record US\$2.2 trillion in 2025 and now accounts for approximately two-thirds of total global energy investment. Energy security concerns, intensified by recent geopolitical conflicts, have accelerated investment in renewable energy. Yet access to finance remains a major constraint for many low-income economies.

The third opportunity lies in regional trade integration. The number of regional trade agreements has increased from slightly above 300 in 2020 to nearly 400 in 2026. These agreements now account for approximately 60 per cent of global trade, compared with 40 per cent in 1990. Regional trade arrangements are increasingly viewed as a mechanism for improving economic resilience and reducing uncertainty amid rising geopolitical fragmentation.

### **Policy Imperatives**

The World Bank emphasises that enhanced global cooperation will be essential to safeguard energy and food security, strengthen the multilateral trading system and accelerate the energy transition.

At the domestic level, governments face the difficult challenge of balancing inflation control with growth support while simultaneously maintaining fiscal sustainability and financial stability. Policymakers will need to invest in physical, human and digital capital, improve the business environment and mobilise private investment to generate employment and sustain long-term growth.

### **Conclusion**

The June 2026 edition of *Global Economic Prospects* presents a sobering assessment of the world economy. The combination of geopolitical conflict, elevated debt, persistent inflationary pressures and weak productivity growth has created a challenging environment for both advanced and developing economies.

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Yet the report also offers a cautiously optimistic message. If countries are able to harness the transformative potential of artificial intelligence, accelerate clean energy investments and deepen regional economic integration, the 2030s could become a decade of renewed prosperity rather than prolonged stagnation. The challenge for policymakers is to navigate the immediate shocks while laying the foundations for a more resilient, inclusive and sustainable global economy.

*Global Economic Prospects June 2026 can be accessed from:*  
<https://www.worldbank.org/en/publication/global-economic-prospects>

## ALAN GREENSPAN: THE MAESTRO, THE MARKETS, AND THE MAKING OF MODERN FINANCE

### **Introduction**

The death of Alan Greenspan at the age of 100 marks the passing of one of the most influential, and controversial, economic policymakers of the modern era. As Chairman of the U.S. Federal Reserve from 1987 to 2006, Greenspan shaped not only American monetary policy but also global financial markets. Admired as "The Maestro" yet criticised for policies that many believe contributed to the 2008 Global Financial Crisis, his legacy remains both remarkable and complex.

### **From Economist to Central Banker**

Born in New York City in 1926, Greenspan initially studied music before turning to economics at New York University. After establishing a successful economic consulting firm and serving as Chairman of the Council of Economic Advisers under President Gerald Ford, he was appointed Federal Reserve Chairman by President Ronald Reagan in 1987.

Barely two months into his tenure, he faced the 1987 stock market crash. His swift liquidity support restored market confidence and established a pattern of decisive intervention during periods of financial stress.

### **The Great Moderation**

During his 19-year tenure, Greenspan steered the U.S. economy through the early-1990s recession, the Mexican peso crisis, the Asian Financial Crisis, the collapse of Long-Term Capital Management, the dot-com boom and bust, and the aftermath of the September 11 attacks. Serving under four U.S. presidents, he became closely associated with the "Great Moderation"—a prolonged period of low inflation, stable growth and reduced economic volatility.

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One of his most notable achievements came in 1994, when aggressive interest rate increases successfully contained inflation without triggering a recession, achieving the rare "soft landing." He also recognised that technological advances had raised productivity, allowing unemployment to fall without igniting inflation.

### **Lasting Influence**

Greenspan entered financial history with the phrase "irrational exuberance," warning in 1996 that stock prices might have become detached from economic fundamentals. Although markets continued rising for several years, the expression became one of the most enduring descriptions of speculative excess.

His tenure also gave rise to the "Greenspan Put"—the widespread belief that the Federal Reserve would intervene to protect financial markets during crises. While these interventions strengthened market confidence, critics argued they also encouraged excessive risk-taking.

Greenspan transformed central banking through his influence over financial markets. Although famous for his deliberately cryptic communication, he also improved transparency by introducing the public announcement of Federal Reserve interest rate decisions, now a global standard.

### **The Great Blind Spot**

Greenspan's greatest criticism stemmed from his strong belief in market self-regulation. He favoured limited financial regulation and underestimated the systemic risks created by excessive leverage, complex financial products and the housing boom. When the Global Financial Crisis erupted in 2007–08, many held these views partly responsible. In a rare public admission before Congress, Greenspan acknowledged that the crisis had exposed flaws in his understanding of how financial markets function.

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## **Lessons and Legacy**

Greenspan's career offers enduring lessons for policymakers. Credibility and flexibility are essential for effective central banking, but so are humility and vigilance towards financial stability. The Global Financial Crisis demonstrated that controlling inflation alone is insufficient if systemic risks are allowed to accumulate.

Alan Greenspan's legacy defies simple judgment. He helped deliver nearly two decades of economic stability, strengthened the global influence of central banking and shaped modern financial markets. Yet his faith in self-regulating markets also exposed vulnerabilities that culminated in one of the worst financial crises in modern history. He will be remembered not only for the policies he pursued, but also for the enduring questions his career raises about markets, regulation, leadership and the limits of economic knowledge.



## MONETARY POLICY

### US FEDERAL RESERVE'S HIGHER-FOR-LONGER STRATEGY: BALANCING INFLATION RISKS AND ECONOMIC RESILIENCE

#### Introduction

The US Federal Reserve's monetary policy decisions have global implications, influencing capital flows, exchange rates and financial conditions across advanced and emerging economies. At its meeting on 17 June 2026, the Federal Open Market Committee (FOMC) unanimously kept the federal funds rate unchanged at 3.50–3.75 percent. While the decision was widely expected, the accompanying projections indicated that inflation remains more persistent than anticipated, reinforcing a "higher-for-longer" interest rate outlook.

#### Policy Rates Remain Unchanged

The Federal Reserve's decision reflects a careful balancing of its dual mandate of maximum employment and price stability. The US economy continues to expand at a healthy pace, supported by strong productivity, business investment and a resilient labour market. However, inflation remains above the 2 percent target, partly because of higher energy prices linked to geopolitical tensions in the Middle East. Restoring price stability therefore remains the Fed's overriding priority.

#### Growth and Labour Market Stay Resilient

Despite a slight downward revision in the 2026 GDP growth forecast to 2.2 percent, the Federal Reserve expects the economy to continue expanding steadily over the next three years. Strong consumer spending, productivity gains and investment have reduced concerns about a sharp slowdown.

The labour market also remains robust. Unemployment is projected to remain close to 4.3 percent through 2027, giving policymakers greater flexibility to maintain restrictive monetary conditions without jeopardising employment.

### **Inflation Remains the Key Challenge**

Inflation continues to dominate the policy outlook. The Federal Reserve has revised its 2026 PCE inflation forecast upward to 3.6 percent, with core inflation also expected to remain elevated. Although inflation is projected to return to the 2 percent target by 2028, the latest forecasts suggest that the disinflation process is proving slower than expected.

Reflecting these developments, the Fed's updated projections indicate that interest rates are likely to remain higher for longer, with policymakers now expecting fewer and slower rate cuts than previously anticipated.

### **Global and Indian Implications**

A prolonged period of elevated US interest rates is likely to keep global financial conditions relatively tight, supporting the US dollar and influencing capital flows to emerging markets. However, continued resilience in the US economy should support global trade and investment.

For India, the implications are mixed. Higher US rates could generate periodic capital flow and exchange rate volatility, requiring continued vigilance by the Reserve Bank of India. At the same time, strong US growth should benefit India's exports, particularly information technology, business services and pharmaceuticals. India's sound macroeconomic fundamentals and structural reforms also position it well to navigate a challenging global environment.

### **Conclusion**

The June 2026 FOMC meeting signals an important shift in the Federal Reserve's policy outlook. While interest rates remain unchanged, policymakers now expect inflation to

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take longer to return to target, reinforcing a higher-for-longer policy stance. The combination of resilient growth, stable employment and persistent inflation suggests that the US economy is moving towards a period of moderate expansion rather than recession.

For the global economy, the decision highlights the continuing challenge of balancing inflation control with sustained growth. For emerging economies such as India, maintaining macroeconomic stability while adapting to tighter global financial conditions will remain a key policy priority.

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## **ECB RETURNS TO TIGHTENING: INFLATION TAKES PRIORITY OVER GROWTH**

### **Introduction**

Barely a year after beginning its monetary easing cycle, the European Central Bank (ECB) has reversed course. At its meeting on 11 June 2026, the ECB's Governing Council raised all three key policy interest rates by 25 basis points, signalling that the resurgence of inflation has become a greater concern than slowing economic growth.

The decision reflects the inflationary impact of the escalating conflict in the Middle East, which has pushed up energy prices across Europe. Although the euro area economy continues to grow, the pace has weakened, placing the ECB in the difficult position of containing inflation without further undermining economic activity. The June decision underscores the increasingly complex challenge facing central banks as geopolitical shocks once again become a major driver of inflation.

### **Inflation Returns to Centre Stage**

The ECB's decision was driven by a sharp upward revision in its inflation outlook. According to the latest Eurosystem projections, headline inflation is expected to average 3.0 percent in 2026, before easing to 2.3 percent in 2027 and returning to the 2 percent target in 2028. Core inflation is projected to remain elevated at 2.5 percent during both 2026 and 2027.

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The revisions largely reflect higher energy prices caused by the Middle East conflict. Unlike earlier inflation episodes driven by strong demand, the current surge stems from supply-side shocks, with rising energy costs feeding into transportation, manufacturing, food production and services. Concerned that these pressures could become entrenched through higher wages and inflation expectations, the ECB concluded that a tighter monetary policy stance was necessary.

### **Growth Outlook Weakens**

While inflation projections have risen, the ECB has lowered its growth forecasts. Euro area GDP is now expected to expand by only 0.8 percent in 2026, improving modestly to 1.2 percent in 2027 and 1.5 percent in 2028. Higher energy costs, weaker consumer confidence and geopolitical uncertainty are expected to weigh on investment and household spending.

Although manufacturing has remained relatively resilient, supported partly by defence spending, the services sector has begun to slow. This combination of persistent inflation and weakening growth presents policymakers with a difficult trade-off, as higher interest rates may curb inflation but also restrain an already fragile recovery.

### **A Data-Dependent Approach**

Despite raising interest rates, the ECB avoided signalling its future policy path. President Christine Lagarde reiterated that decisions would remain data-dependent and be taken on a meeting-by-meeting basis, reflecting the exceptional uncertainty surrounding the outlook. Future policy will depend largely on developments in the Middle East, energy prices and the extent to which cost pressures feed into broader inflation.

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## **Beyond Monetary Policy**

The ECB stressed that monetary policy alone cannot address Europe's current challenges. It called for fiscal discipline alongside targeted support for households and businesses affected by higher energy costs. It also emphasised structural reforms, deeper market integration, digital innovation and accelerated investment in clean energy to strengthen the euro area's long-term resilience.

## **Global Implications**

The ECB's decision carries wider global significance. It highlights the return of inflation as a major policy challenge driven by geopolitical tensions and supply-side disruptions. Higher European interest rates are also likely to keep global financial conditions relatively tight, influencing borrowing costs and capital flows. Meanwhile, slower European growth may moderate import demand, affecting exporters worldwide.

## **Conclusion**

The ECB's June 2026 policy decision marks an important shift in Europe's monetary policy. By raising interest rates despite slowing growth, it has reaffirmed that restoring price stability remains its overriding priority. The decision reflects the reality that geopolitical shocks, particularly those affecting energy markets, can quickly reshape the inflation outlook and force central banks to recalibrate policy.

For the global economy, the decision illustrates a broader challenge confronting central banks: managing inflation generated by supply disruptions rather than excessive demand. Addressing these risks will require not only prudent monetary policy but also structural reforms, greater energy security and stronger international cooperation.

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## **HOLDING FIRM AMID UNCERTAINTY: THE BANK OF ENGLAND'S DELICATE MONETARY POLICY BALANCE**

### **Introduction**

The Bank of England (BoE) faces one of its most challenging monetary policy environments in recent years. Although inflation has eased from earlier highs, renewed geopolitical tensions in the Middle East have pushed up energy prices, complicating the inflation outlook just as the UK economy shows signs of slowing.

At its meeting ending 17 June 2026, the Monetary Policy Committee (MPC) voted 7–2 to keep the Bank Rate unchanged at 3.75 percent. While most members favoured a pause, two voted for a 25-basis-point increase, highlighting the difficult balance between supporting growth and preventing temporary inflationary pressures from becoming entrenched. Rather than reacting immediately to the energy shock, the BoE has chosen to assess whether higher energy prices feed into wages and broader inflation before tightening policy further.

### **Inflation: Progress Faces New Risks**

Inflation remains the MPC's primary concern, although the underlying trend has improved. Consumer Price Index (CPI) inflation eased to 2.8 percent in May from 3.3 percent in March. However, the conflict in the Middle East has renewed upward pressure on oil and gas prices. Although energy prices have retreated from their immediate post-conflict peaks, they remain significantly above earlier levels.

The Bank expects inflation to rise later this year as higher energy costs pass through to households and businesses. Since monetary policy cannot directly influence global energy prices, the MPC's focus is on preventing temporary supply shocks from triggering persistent inflation through higher wages and inflation expectations.

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## **A Slowing Economy Supports a Pause**

The weakening UK economy has provided an important counterbalance to inflation concerns. Although GDP grew by 0.6 percent in the first quarter of 2026, the Bank believes underlying growth is closer to 0.2 percent. Business surveys point to weaker activity, subdued consumer confidence and slowing services sector growth.

The labour market is also gradually easing, with fewer vacancies, softer labour demand and moderating wage growth. These developments reduce the risk of sustained inflationary pressures and supported the majority's decision to keep interest rates unchanged.

## **Why the MPC Held Rates**

The MPC weighed two competing risks. On one hand, higher energy prices could become embedded in inflation through stronger wage growth and rising inflation expectations, requiring tighter monetary policy. On the other, further rate increases could unnecessarily weaken an already fragile economy by raising borrowing costs for households and businesses.

The Committee concluded that evidence of persistent second-round inflation effects remains limited. Wage growth continues to moderate and firms' pricing expectations have softened, allowing policymakers to maintain the current stance while monitoring incoming data.

## **A Divided Committee**

The 7–2 vote reflects the unusually high level of uncertainty. Governor Andrew Bailey and most members argued that moderating inflation and weaker economic activity justified holding rates steady. In contrast, Megan Greene and Huw Pill favoured raising the Bank Rate to 4.0 percent to reinforce inflation expectations and reduce the risk of more aggressive tightening later.

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The differing views illustrate the central challenge facing policymakers: tightening too little could allow inflation to become entrenched, while tightening too much could deepen the economic slowdown.

### **Global Implications**

The BoE's decision reflects a broader challenge confronting central banks worldwide. Inflation is increasingly being driven by geopolitical events and supply-side disruptions rather than excess demand. Since higher interest rates cannot reduce energy prices directly, policymakers must focus on preventing temporary shocks from becoming persistent inflation. The BoE's data-dependent approach mirrors that of several major central banks facing similar uncertainties.

### **Conclusion**

The Bank of England's June 2026 policy decision highlights the delicate balance between controlling inflation and supporting economic growth. By maintaining the Bank Rate at 3.75 percent, the MPC has recognised that while inflation risks remain, slowing growth and a softer labour market do not yet justify further tightening.

The June meeting also underscores a broader lesson for central banking: geopolitical tensions, supply-chain disruptions and energy market volatility are becoming increasingly important drivers of inflation. Preserving macroeconomic stability will therefore require not only prudent monetary policy but also greater resilience to global shocks.

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## JAPAN ENDS THE ERA OF ULTRA-LOW INTEREST RATES: A NEW CHAPTER IN MONETARY POLICY

### **Introduction**

The Bank of Japan (BoJ) has taken another significant step in normalising monetary policy by raising its benchmark interest rate by 25 basis points to 1.0 percent—the highest level in 31 years. For an economy that spent decades battling deflation and weak growth, the move marks a symbolic shift from extraordinary monetary stimulus towards a more normal policy framework.

### **A Shift Towards Policy Normalisation**

For much of the past two decades, the BoJ maintained near-zero and negative interest rates, large-scale asset purchases and yield curve control to revive demand and achieve its 2 percent inflation target. The latest rate increase reflects growing confidence that inflation is becoming more durable, supported not only by higher energy prices but also by stronger wage growth and broader price increases.

The decision also reflects changing inflation risks. While higher energy prices linked to geopolitical tensions in the Middle East have added to inflationary pressures, the BoJ is increasingly focused on persistent underlying inflation. A weaker yen has further raised import costs, strengthening the case for gradually withdrawing monetary stimulus before inflation expectations become firmly embedded.

### **Beyond Interest Rates**

Alongside the rate hike, the BoJ has continued to scale back its government bond purchases, signalling that policy normalisation extends beyond interest rates. Although the Bank continues to emphasise a gradual approach, recent policy discussions suggest that further rate increases remain possible if inflation and wages evolve broadly in line with expectations.

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## **Global Implications**

The BoJ's move effectively marks the final stage in the global retreat from the ultra-loose monetary policies introduced after the global financial crisis and expanded during the pandemic. As domestic yields rise, Japanese institutional investors may gradually shift more capital back to domestic markets, influencing global bond markets, exchange rates and international capital flows.

## **Conclusion**

The latest policy decision represents far more than a 25-basis-point increase. It signals growing confidence that Japan has finally emerged from its long deflationary era and entered a new phase of cautious monetary normalisation. Whether this transition proves durable will depend on the sustainability of wage growth, domestic demand and inflation. For the global economy, Japan's policy shift marks the end of an era of

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## **HOLDING THE LINE: WHY THE RESERVE BANK OF AUSTRALIA CHOSE PATIENCE OVER ANOTHER RATE HIKE**

### **Introduction**

The Reserve Bank of Australia (RBA) has adopted a measured approach to monetary policy, leaving the cash rate unchanged at 4.35 percent after three consecutive rate increases earlier in 2026. The decision should not be viewed as the start of a policy easing cycle but as an opportunity to assess the cumulative impact of recent tightening while remaining prepared to act if inflation proves more persistent than expected.

### **Inflation and Slowing Growth**

Inflation remains above the RBA's 2–3 percent target range, supported by domestic capacity constraints and higher global energy prices following disruptions to Middle East oil supplies. Although oil prices have eased from recent peaks, elevated energy costs continue to push up business expenses and consumer prices, raising the risk that inflation may remain above target for longer.

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At the same time, tighter monetary policy is beginning to moderate economic activity. Consumer spending has slowed, housing market momentum has weakened, and GDP growth eased to 0.3 percent in the first quarter of 2026. These developments suggest that higher interest rates are reducing demand and easing inflationary pressures.

### **A Delicate Policy Balance**

The RBA faces a difficult trade-off. Further rate increases could accelerate the return of inflation to target but would place additional pressure on household finances and economic growth. Conversely, easing policy too soon could allow inflation expectations to become entrenched. By pausing while retaining a tightening bias, the Bank has sought to balance these competing risks.

### **Global Context and Outlook**

The RBA's decision reflects a broader challenge confronting central banks worldwide. Inflation is increasingly being driven by geopolitical tensions and supply-side disruptions rather than excessive domestic demand. As a result, policymakers are adopting data-dependent approaches instead of committing to a predetermined interest-rate path.

For Australia, the outlook will depend on the evolution of global energy prices, domestic inflation, wage growth and consumer demand. The RBA has made it clear that restoring inflation to target remains its priority and that further policy tightening remains possible if inflationary pressures persist.

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## INFLATION

### **US INFLATION REACCELERATES: ENERGY PRICES COMPLICATE THE FEDERAL RESERVE'S POLICY PATH**

The May 2026 US Consumer Price Index (CPI) data indicate that inflationary pressures have strengthened again, complicating the Federal Reserve's efforts to restore price stability without undermining economic growth. The headline CPI rose 0.5 percent month-on-month in May 2026, following a 0.6 percent increase in April (Figure 1), pushing the annual inflation rate up to 4.2 percent from 3.8 percent a month earlier (Figure 2). This marks a renewed acceleration in inflation after several months of gradual moderation.

The principal driver of the increase was the energy sector, which accounted for more than 60 per cent of the monthly rise in the overall CPI. Energy prices increased 3.9 percent during May, extending the sharp increases recorded in March and April. Gasoline prices alone rose 7.0 percent during the month and were more than 40 per cent higher than a year earlier, reflecting the impact of disruptions in global oil markets. Electricity prices also continued to increase, although natural gas prices registered a modest decline.

While energy prices dominated the headline inflation numbers, the underlying inflation picture remained relatively contained. Core inflation (excluding food and energy) increased by only 0.2 percent during May, with the annual core inflation rate edging up to 2.9 percent (Figure 2). Shelter costs continued to rise steadily, while medical care and communication services also recorded moderate increases. In contrast, prices of new vehicles, household furnishings and motor vehicle insurance declined, suggesting that underlying demand-side inflation remains significantly weaker than headline inflation would imply.

Food inflation also showed signs of moderation. Food prices rose 0.2 percent during May, with grocery prices increasing only 0.1 percent, although restaurant prices

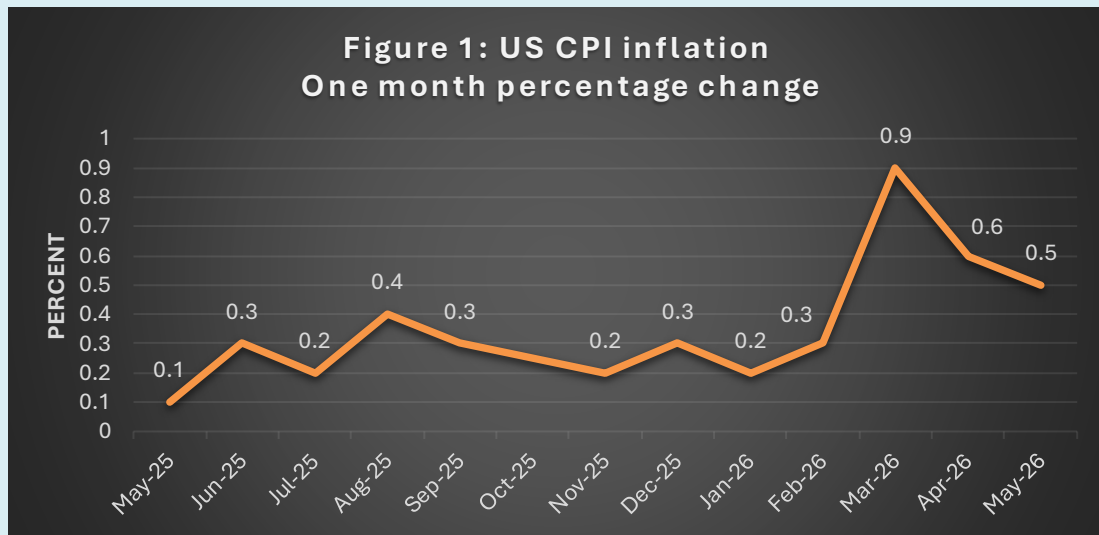
continued to rise at a faster pace. Annual food inflation stood at 3.1 percent, considerably below the pace recorded during the peak inflation period, indicating that supply conditions in food markets have improved despite continuing pressures in some commodity groups.

The latest inflation data reinforce the complex policy environment confronting the Federal Reserve. The acceleration in headline inflation is being driven primarily by supply-side factors, particularly higher energy prices, rather than by broad-based domestic demand. Nevertheless, sustained increases in energy costs could eventually feed into transportation, production and services, raising the risk of second-round inflationary effects and complicating the disinflation process.

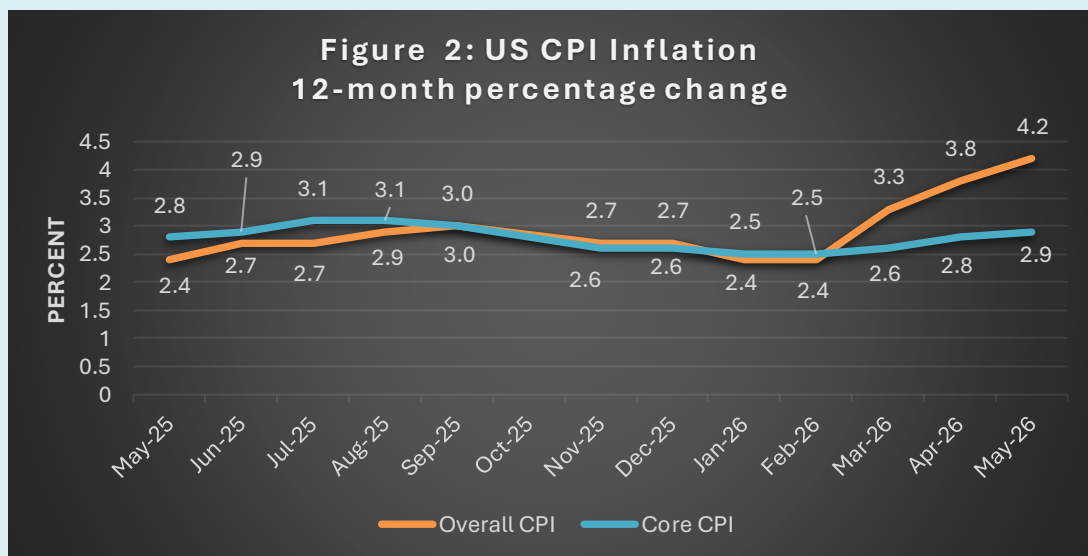
For financial markets, the report strengthens expectations that the Federal Reserve will maintain a cautious "higher-for-longer" policy stance. While the relatively subdued core inflation provides some reassurance that underlying inflation remains under control, the renewed increase in headline inflation is likely to reinforce the central bank's reluctance to begin an aggressive rate-cutting cycle until there is greater confidence that inflation is returning sustainably towards its 2 percent target.

The May CPI data suggest that the US disinflation process has become more uneven. Although underlying inflation continues to moderate gradually, the resurgence in energy prices has reminded policymakers that geopolitical shocks and supply-side disruptions remain significant risks to price stability. Managing these risks without derailing economic growth will remain one of the Federal Reserve's foremost policy challenges in the months ahead.

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



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

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## **EURO AREA INFLATION EDGES HIGHER: ENERGY PRICES CONTINUE TO CHALLENGE THE ECB**

The Eurostat flash estimate shows that annual inflation in the euro area increased to 3.2 per cent in May 2026, up from 3.0 percent in April (Figure 3), indicating that inflationary pressures remain well above the European Central Bank's (ECB) 2 percent target. The data reinforce concerns that the disinflation process has become uneven, with energy prices continuing to exert significant upward pressure.

Energy inflation remained the largest contributor, rising to 10.9 percent in May from 10.8 percent in April. Elevated energy prices, driven by continuing geopolitical tensions and supply disruptions, are increasing production and transportation costs across the economy and remain the principal source of headline inflation.

Another notable development is the acceleration in services inflation, which rose from 3.0 percent to 3.5 percent. As services inflation is closely linked to domestic wage and labour costs, its persistence suggests that underlying inflationary pressures remain stronger than headline figures alone might indicate.

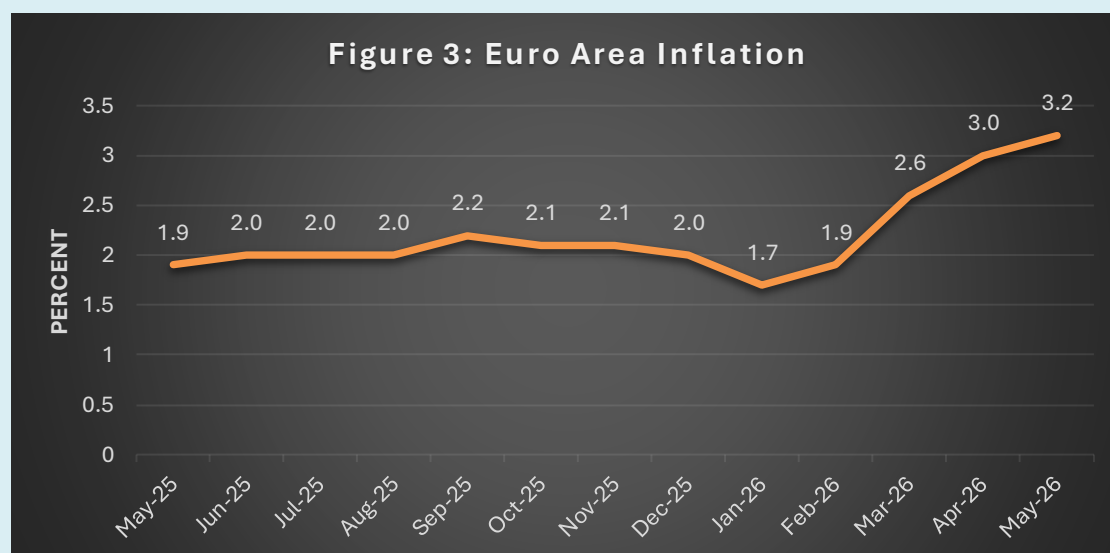
In contrast, food, alcohol and tobacco inflation moderated to 2.0 percent, down from 2.4 per cent in April, reflecting improving food supply conditions. Inflation in non-energy industrial goods remained subdued at 0.9 percent, indicating relatively limited price pressures in manufactured products.

The composition of inflation presents a mixed picture. While easing food prices are encouraging, sustained increases in energy and services prices suggest that inflation remains broad-based. This supports the ECB's cautious monetary policy stance and strengthens the case for maintaining restrictive interest rates until inflation moves more convincingly towards the target.

Looking ahead, the inflation outlook will largely depend on developments in global energy markets and the evolution of domestic wage pressures. For the ECB, the

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challenge remains balancing the need to restore price stability while avoiding a further slowdown in an already fragile euro area economy.



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

### UK INFLATION HOLDS STEADY, BUT SERVICES PRICES KEEP PRESSURE ON THE BANK OF ENGLAND

UK inflation remained broadly stable in May 2026, suggesting that while overall price pressures have eased significantly from earlier peaks, underlying inflationary risks continue to warrant close attention. The Consumer Prices Index (CPI) remained unchanged at 2.8 percent, while the broader Consumer Prices Index including owner occupiers' housing costs (CPIH) also held steady at 3.0 percent (Figure 4). Monthly inflation remained modest at 0.2 percent for both measures (Figure 4).

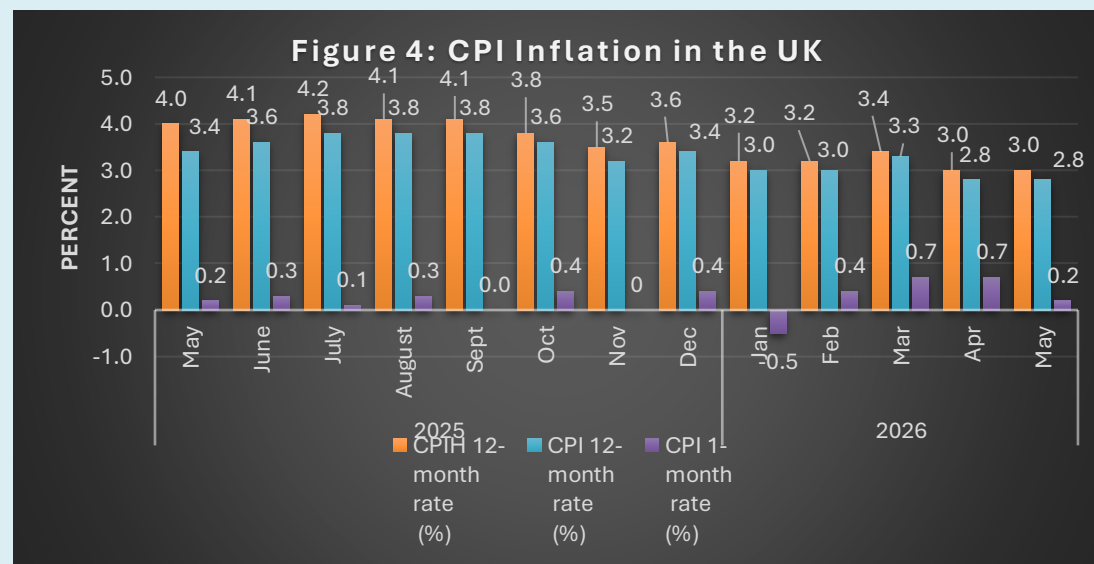
The stability in headline inflation, however, masks contrasting movements across major components. Transport costs made the largest upward contribution to inflation, reflecting higher fuel and travel-related expenses. In contrast, food and non-alcoholic beverages exerted the largest downward influence, indicating that food price pressures continue to moderate after the sharp increases witnessed in recent years.

A more significant development is the continued strength of services inflation, which rose from 3.2 percent to 3.7 percent under the CPI measure and from 3.4 percent to 3.6



percent under CPIH. As services inflation is closely linked to domestic wage growth and labour costs, its persistence suggests that underlying inflationary pressures remain relatively strong. By contrast, inflation in goods moderated, pointing to easing supply-side pressures and improving global supply chains.

The divergence between goods and services inflation presents an important challenge for the Bank of England. While stable headline inflation is encouraging, persistent services inflation indicates that domestic price pressures have not yet been fully contained. This is likely to reinforce the Bank's cautious approach to monetary policy, with policymakers seeking clearer evidence that inflation is moving sustainably towards the 2 percent target before considering significant policy easing.



Source:

<https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/may2026>

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## **CHINA'S INFLATION REMAINS MUTED DESPITE RISING ENERGY COSTS**

China's inflation remained subdued in May 2026, with the Consumer Price Index (CPI) rising 1.2 percent year-on-year (Figure 5), unchanged from April and marginally below market expectations. The data suggest that while global energy prices are exerting upward pressure on inflation, weak domestic demand continues to restrain broader price increases.

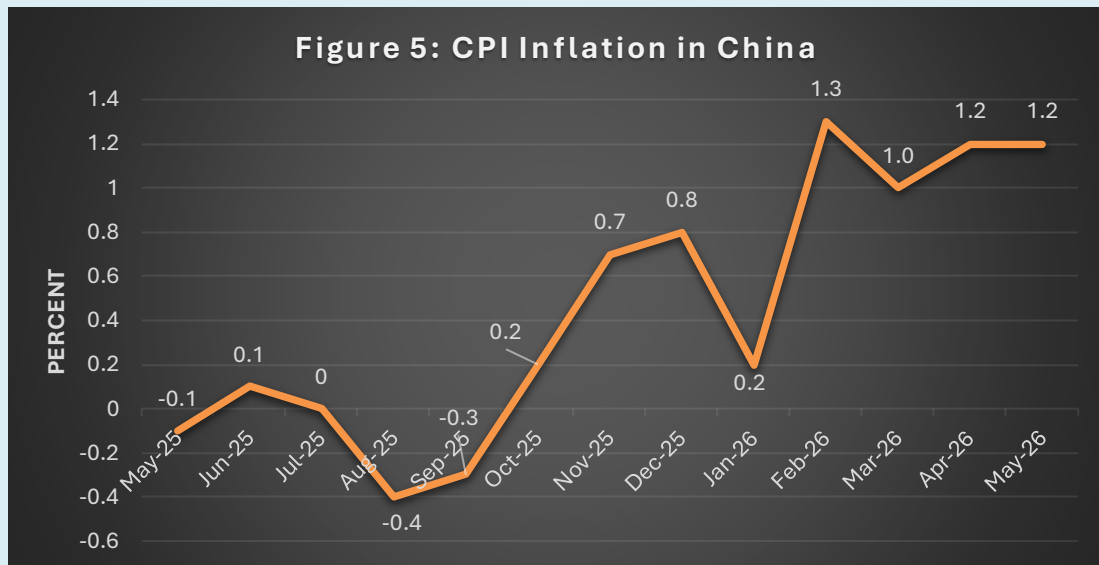
The most significant source of inflation was the non-food sector, where price growth accelerated to 1.9 percent from 1.8 percent in April. Higher transport costs, driven by rising energy prices and supply-chain disruptions linked to the Middle East conflict, were the principal contributor. Prices for healthcare, education and clothing also remained firm, reflecting stable demand for essential services.

In contrast, food prices declined by 1.7 percent, marking the second consecutive monthly fall and the steepest decline since October. Continued weakness in pork prices and lower fresh fruit prices helped offset rising costs elsewhere in the economy. Meanwhile, housing costs remained subdued, highlighting the ongoing softness in China's property market.

Underlying inflation also remained modest. Core inflation, which excludes food and energy, eased slightly to 1.1 percent, while consumer prices fell 0.1 percent month-on-month, indicating that domestic demand remains relatively weak despite policy support measures.

The latest inflation data point to a mixed economic environment. External factors, particularly higher energy prices, are exerting upward pressure on costs, while subdued household consumption and the prolonged weakness in the property sector continue to limit broader inflationary pressures. This combination provides the People's Bank of China (PBOC) with room to maintain an accommodative monetary policy stance to support economic growth without facing significant inflation risks.

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

## JAPAN'S INFLATION PICKS UP, BUT REMAINS BELOW THE BANK OF JAPAN'S TARGET

Japan's inflation edged up in May 2026, with the Consumer Price Index (CPI) rising 1.5 percent year-on-year, compared with 1.4 percent in April (Figure 6). While the increase reflects gradually strengthening price pressures, inflation remains below the Bank of Japan's (BoJ) 2 percent target for the fourth consecutive month, suggesting that the country's long battle against low inflation is not yet over.

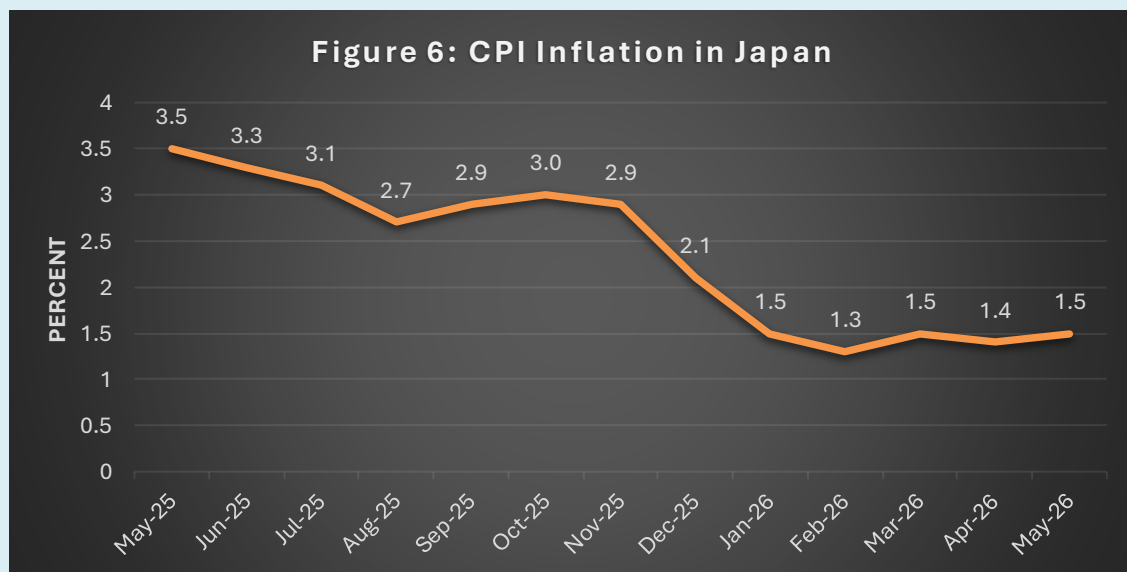
The modest rise in inflation was driven primarily by the gradual withdrawal of government subsidies on electricity and gas, which reduced the pace of decline in household energy prices. Inflation also accelerated across several sectors, including transport, housing, clothing, household goods and recreation, indicating that price increases are becoming more broad-based across the economy.

Food prices remained elevated, increasing 3.5 percent year-on-year, although the pace was unchanged from April and represented the slowest increase in 18 months. A notable development was the decline in rice prices, which fell for the first time since late 2022, helping to moderate overall food inflation. At the same time, healthcare costs remained stable, while education prices continued to remain in deflation.

Despite the uptick in headline inflation, core inflation, which excludes fresh food, remained unchanged at 1.4 percent, pointing to still-moderate underlying price pressures. Monthly inflation accelerated to 0.4 percent, up from 0.1 percent in April, suggesting that price momentum has strengthened in the short term.

The latest data support the Bank of Japan's cautious approach to monetary policy normalisation. Although inflation has become more stable and broad-based than in previous years, it remains below the central bank's target and is partly influenced by administrative factors such as the withdrawal of energy subsidies. Sustained wage growth and stronger domestic demand will therefore be essential for achieving durable inflation.

Japan's latest inflation figures point to an economy gradually moving away from its long period of ultra-low inflation. However, the persistence of core inflation below the BoJ's target suggests that policymakers are likely to continue normalising monetary policy cautiously, ensuring that inflation is supported by stronger domestic economic fundamentals rather than temporary price shocks alone.



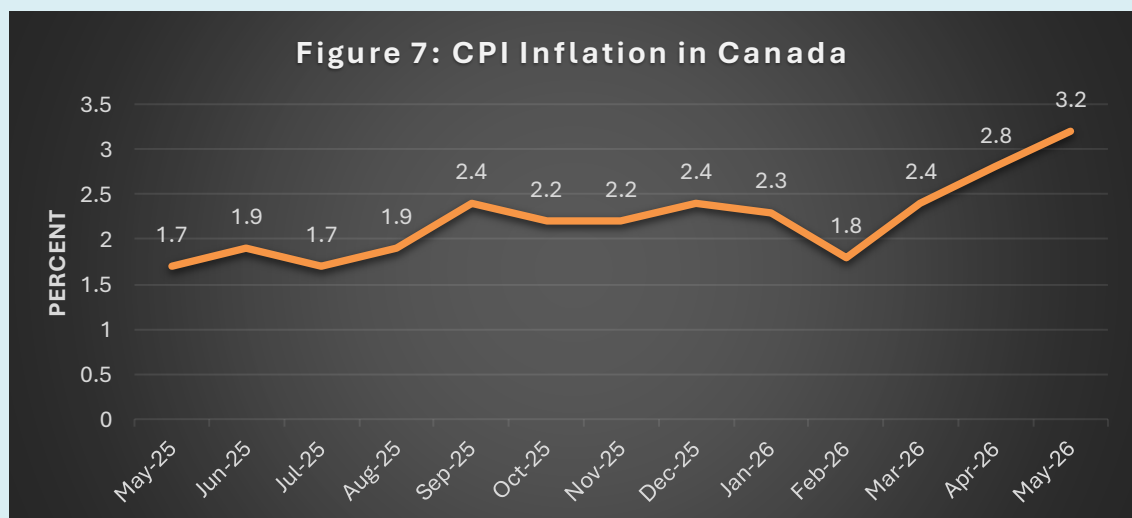
Source: <https://tradingeconomics.com/japan/inflation-cpi>

## CANADA'S INFLATION ACCELERATES AS ENERGY PRICES SURGE

Canada's headline inflation accelerated to 3.2 percent in May 2026, up from 2.8 percent in April (Figure 7) and above market expectations, marking the highest inflation rate since December 2023. The increase was driven primarily by a sharp rise in energy prices, particularly gasoline, as disruptions to Middle East oil exports pushed global crude prices higher.

Food inflation also strengthened, reflecting higher prices for fresh fruits and vegetables, partly due to rising fertilizer costs. However, the Bank of Canada's preferred core inflation measures remained broadly stable at around 2 percent, indicating that underlying domestic inflationary pressures remain contained.

The latest data suggest that the recent increase in inflation is largely supply-driven, stemming from higher energy and food costs rather than stronger domestic demand. While stable core inflation provides some reassurance, persistent geopolitical risks and elevated energy prices could delay the Bank of Canada's plans for monetary easing. Policymakers are therefore likely to remain cautious until there is clearer evidence that headline inflation is moving sustainably back towards the 2 percent target.



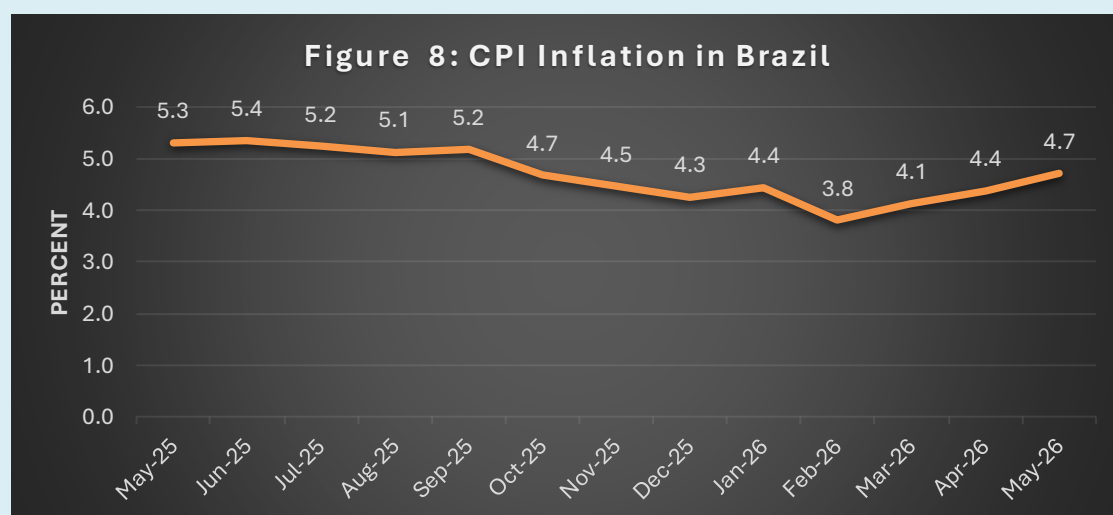
Source: <https://tradingeconomics.com/canada/inflation-cpi>

## BRAZIL'S INFLATION CLIMBS AS ENERGY AND FOOD PRICES RISE

Brazil's annual inflation accelerated to 4.72 percent in May 2026, up from 4.39 percent in April and the highest level since September 2025 (Figure 8), exceeding market expectations. The increase was driven by broad-based price pressures, particularly in food and beverages, housing, healthcare, clothing and personal services.

A key contributor remained energy and fuel inflation, which rose to 8.9 percent, reflecting higher global energy prices following supply disruptions caused by the closure of the Strait of Hormuz amid the US-Iran conflict. Although motor fuel inflation moderated slightly, elevated energy costs continued to exert upward pressure across the economy.

The latest data indicate that both domestic and external factors are contributing to rising inflation, posing a challenge for the Central Bank of Brazil. With inflation moving further above target, policymakers are likely to remain cautious in calibrating future monetary policy while monitoring the impact of persistent global energy market uncertainties.



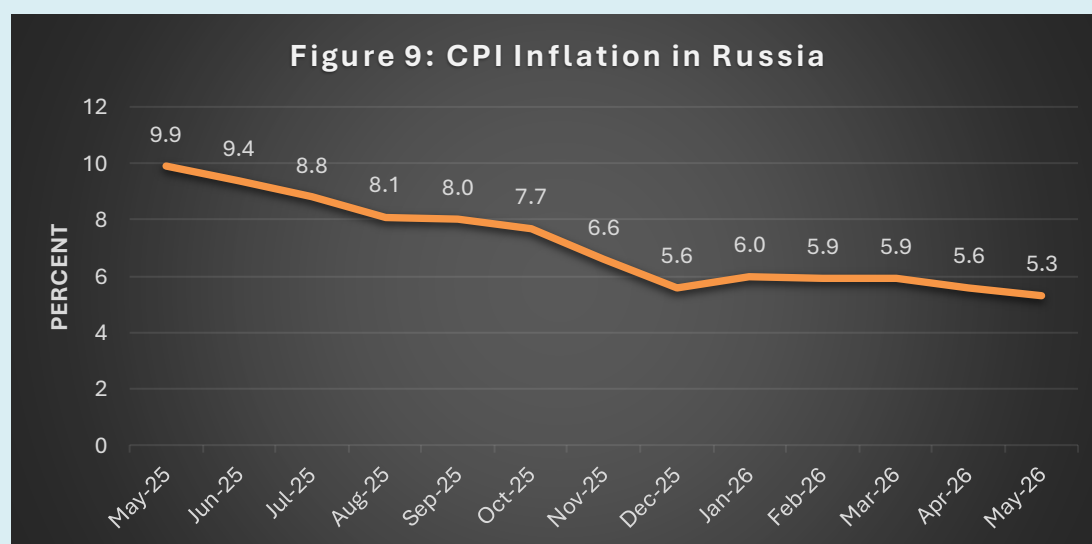
Source: <https://tradingeconomics.com/brazil/inflation-cpi>

## RUSSIA'S INFLATION CONTINUES TO MODERATE, BUT PRICE PRESSURES PERSIST

Russia's annual inflation eased to 5.3 percent in May 2026, down from 5.6 percent in April (Figure 9), marking the second consecutive monthly decline and the lowest rate since August 2023. The moderation was largely driven by slower food inflation, particularly falling fruit and vegetable prices. However, inflation remains above the Central Bank of Russia's 4 per cent target.

At the same time, services and non-food goods recorded faster price increases, indicating that underlying inflationary pressures have not yet fully subsided. Although core inflation also edged lower, the persistence of elevated services inflation suggests that domestic demand and cost pressures remain relatively strong.

The data point to gradual progress in containing inflation, but they are unlikely to prompt an immediate easing of monetary policy. The Central Bank of Russia is expected to maintain a cautious stance until inflation moves more decisively towards its target.



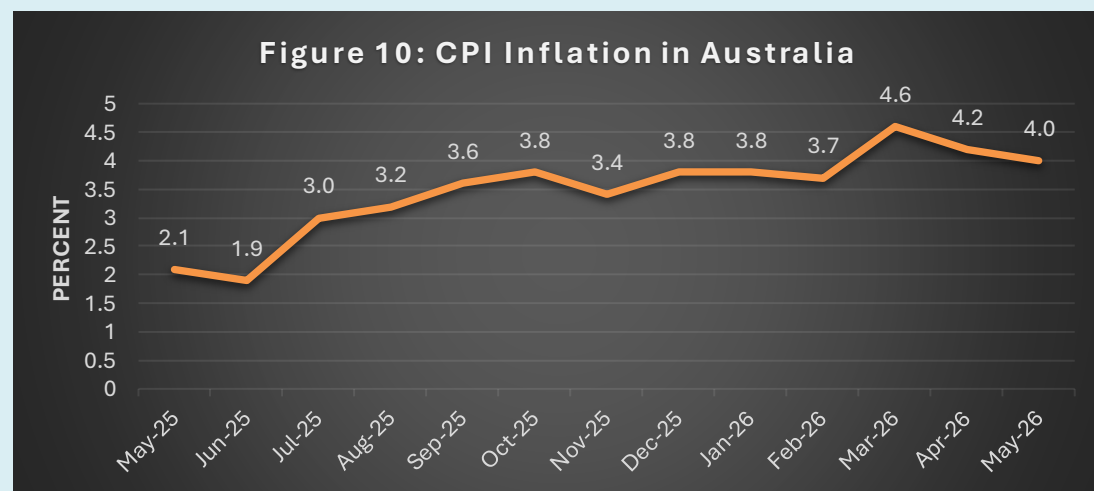
Source: <https://tradingeconomics.com/russia/inflation-cpi>

## AUSTRALIA'S INFLATION EASES, BUT UNDERLYING PRICE PRESSURES PERSIST

Australia's annual inflation unexpectedly eased to 4.0 percent in May 2026, down from 4.2 percent in April (Figure 10), primarily due to slower increases in transport and fuel prices. The decline in headline inflation offers some relief but leaves inflation well above the Reserve Bank of Australia's (RBA) 2–3 percent target range.

However, the underlying inflation picture remains less encouraging. Services inflation accelerated, while both the trimmed mean and weighted median measures of core inflation increased, indicating that domestic price pressures remain persistent. Food and housing inflation also strengthened, highlighting continued cost-of-living pressures.

The data suggest that although headline inflation is moderating, underlying inflation remains sticky. This is likely to reinforce the RBA's cautious monetary policy stance, with policymakers expected to keep interest rates elevated until there is clearer evidence that inflation is returning sustainably to target.



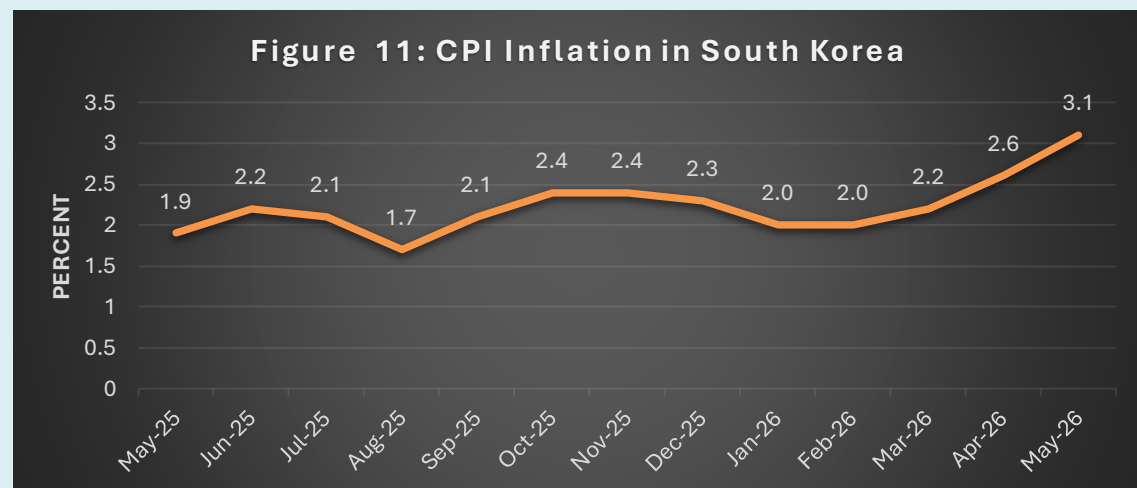
Source: <https://tradingeconomics.com/australia/inflation-cpi>



## **SOUTH KOREA'S INFLATION ACCELERATES ABOVE TARGET IN MAY**

South Korea's CPI inflation accelerated to 3.1 percent in May 2026, up from 2.6 percent in April (Figure 11) and marking the highest level since late 2023. Inflation has risen steadily over recent months after remaining close to the Bank of Korea's 2 percent target during the second half of 2025, indicating renewed price pressures in the economy.

The latest increase suggests that higher import costs, elevated energy prices and stronger domestic demand are gradually feeding into consumer prices. With inflation now significantly above the central bank's target, policymakers are likely to remain cautious in calibrating monetary policy, balancing the need to contain inflation while supporting economic growth amid continuing global uncertainties.



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

## FOOD & AGRICULTURE

### FAO FOOD PRICE INDEX HOLDS STEADY AMID DIVERGING COMMODITY TRENDS

Global food prices remained broadly stable in May 2026, reflecting offsetting movements across major commodity groups. The FAO Food Price Index (FFPI) averaged 130.8 points during the month, marginally lower by 0.2 points (0.2 per cent) compared with the revised April level. While higher prices of cereals and sugar exerted upward pressure on the index, declines in vegetable oils and dairy products moderated the overall increase, with meat prices remaining virtually unchanged. Despite the monthly stability, the index remained 2.9 per cent higher than its level a year ago, although it continued to stay significantly below the record peak reached in March 2022. The latest developments underscore the continuing volatility in global food markets amid weather uncertainties, geopolitical tensions and evolving energy market dynamics.

Among major commodities, cereals emerged as the principal source of upward pressure. The FAO Cereal Price Index rose by 2.6 per cent month-on-month to 114.3 points in May, recording its fourth consecutive monthly increase and standing 4.9 per cent above the level observed a year earlier (Table 1). Wheat prices strengthened further as concerns over adverse weather conditions in key exporting countries, particularly the United States, raised fears of lower production. Unfavourable winter wheat crop conditions, coupled with higher fuel and fertiliser costs, contributed to tightening global supplies and firming prices. Maize prices also remained elevated, supported by robust import demand, reduced exportable supplies from Brazil and the United States, and stronger demand from the ethanol industry amid higher energy prices. Spillover effects from the tightening maize and wheat markets lifted international prices of barley and sorghum. Rice prices, too, moved higher, reflecting weather-related concerns in major Asian exporting countries as well as the impact of elevated crude oil prices on production and transportation costs.

In contrast, the vegetable oil market witnessed its first correction in 2026 after a prolonged period of price increases. The FAO Vegetable Oil Price Index declined by 4.6 per cent to 185.0 points in May, largely due to lower prices of palm and soybean oils. International palm oil prices fell following expectations of softer global import demand and increased uncertainty in crude oil markets. Soybean oil prices displayed mixed trends, as abundant seasonal supplies in South America weighed on prices, while robust biofuel demand in the United States continued to provide support. At the same time, rapeseed and sunflower oil prices strengthened owing to tightening supplies, particularly in the European Union and Ukraine, respectively. These divergent trends highlight the increasingly important role of biofuel markets, energy prices and geopolitical developments in shaping global edible oil prices.

Global meat prices remained broadly stable during May, with the FAO Meat Price Index averaging 130.5 points, virtually unchanged from April but still 6.3 per cent higher than a year earlier. Rising prices of bovine and ovine meat, together with a modest increase in poultry prices, largely offset declines in pig meat prices. Strong import demand from China and the United States, coupled with limited exportable supplies due to herd rebuilding in major producing countries, continued to support bovine meat prices. Ovine meat prices also strengthened, particularly in New Zealand, where constrained supplies pushed up quotations. Poultry prices edged higher as firm global demand supported Brazilian exports, although abundant supplies in the United States moderated the increase. In contrast, pig meat prices declined because of plentiful supplies in the European Union and subdued import demand.

Dairy prices softened further in May. The FAO Dairy Price Index declined marginally by 0.5 per cent to 119.2 points and remained significantly below its level a year earlier. International butter prices continued to fall in both Europe and Oceania as improved milkfat availability and heightened competition among exporters exerted downward pressure. Cheese prices eased only slightly, with ample export supplies offset by support from whey and dairy protein markets. In contrast, skim milk powder prices increased, particularly in Europe, supported by firm import demand from the Near East,

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North Africa and parts of Asia. Whole milk powder prices displayed mixed movements, with tighter export availability in Oceania supporting prices, while subdued Chinese demand and comfortable global supplies weighed on European quotations.

Sugar prices registered the sharpest increase among all major commodity groups. The FAO Sugar Price Index surged by 7.5 per cent in May to reach its highest level since October 2025. The increase was primarily driven by concerns over a possible tightening in global sugar supplies. In Brazil, the world's largest sugar exporter, a lower proportion of sugarcane being allocated to sugar production increased expectations of greater diversion towards ethanol production, thereby supporting international sugar prices. Although strong sugarcane crushing temporarily moderated the upward momentum, concerns regarding the potential adverse effects of *El Niño* conditions on sugar production in India and Thailand during the 2026/27 season further strengthened market sentiment. Given the critical role of these countries in global sugar exports, any weather-induced production shortfall could tighten global supplies and sustain elevated prices in the months ahead.

Overall, the latest FAO data suggest that while global food prices have stabilised in recent months, underlying market conditions remain fragile. Weather-related risks, geopolitical tensions, energy market volatility and biofuel demand continue to shape price movements across agricultural commodities. As climate-related uncertainties intensify and geopolitical risks persist, global food markets are likely to remain susceptible to periodic price spikes, with important implications for food security and inflation, particularly in import-dependent developing economies.

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**Table : FAO Food Price Index (FFPI)**

|                       | <b><i>Food Price Index</i></b> | <b><i>Meat</i></b> | <b><i>Dairy</i></b> | <b><i>Cereals</i></b> | <b><i>Oils</i></b> | <b><i>Sugar</i></b> |
|-----------------------|--------------------------------|--------------------|---------------------|-----------------------|--------------------|---------------------|
| <i>May 2025</i>       | <i>127.1</i>                   | <i>122.8</i>       | <i>153.6</i>        | <i>109.0</i>          | <i>152.2</i>       | <i>109.4</i>        |
| <i>June 2025</i>      | <i>128.1</i>                   | <i>126.0</i>       | <i>155.5</i>        | <i>107.3</i>          | <i>155.7</i>       | <i>103.6</i>        |
| <i>July 2025</i>      | <i>129.8</i>                   | <i>126.7</i>       | <i>154.6</i>        | <i>106.5</i>          | <i>166.8</i>       | <i>103.3</i>        |
| <i>August 2025</i>    | <i>130.0</i>                   | <i>127.8</i>       | <i>152.2</i>        | <i>105.7</i>          | <i>169.1</i>       | <i>103.6</i>        |
| <i>September 2025</i> | <i>128.6</i>                   | <i>127.9</i>       | <i>147.2</i>        | <i>104.9</i>          | <i>167.9</i>       | <i>99.4</i>         |
| <i>October 2025</i>   | <i>126.4</i>                   | <i>125.0</i>       | <i>141.7</i>        | <i>103.6</i>          | <i>169.4</i>       | <i>94.1</i>         |
| <i>November 2025</i>  | <i>125.2</i>                   | <i>125.5</i>       | <i>136.2</i>        | <i>105.5</i>          | <i>165.0</i>       | <i>88.6</i>         |
| <i>December 2025</i>  | <i>124.5</i>                   | <i>124.8</i>       | <i>128.2</i>        | <i>107.2</i>          | <i>165.2</i>       | <i>90.7</i>         |
| <i>January 2026</i>   | <i>124.1</i>                   | <i>124.9</i>       | <i>120.7</i>        | <i>107.5</i>          | <i>168.6</i>       | <i>89.8</i>         |
| <i>February 2026</i>  | <i>125.5</i>                   | <i>126.5</i>       | <i>119.4</i>        | <i>108.7</i>          | <i>174.2</i>       | <i>86.2</i>         |
| <i>March 2026</i>     | <i>128.7</i>                   | <i>128.0</i>       | <i>121.2</i>        | <i>110.4</i>          | <i>183.1</i>       | <i>92.8</i>         |
| <i>April 2026</i>     | <i>131.0</i>                   | <i>130.4</i>       | <i>119.7</i>        | <i>111.3</i>          | <i>193.9</i>       | <i>88.5</i>         |
| <i>May 2026</i>       | <i>130.8</i>                   | <i>130.5</i>       | <i>119.2</i>        | <i>114.3</i>          | <i>185.0</i>       | <i>95.1</i>         |

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

## SECTION 3: FINANCIAL MARKETS

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## INDIAN FINANCIAL MARKETS

### INDIAN FINANCIAL MARKETS IN JUNE 2026: NAVIGATING GEOPOLITICAL SHOCKS AND DOMESTIC RESILIENCE

Indian financial markets experienced an exceptionally volatile month in June 2026, as investors grappled with geopolitical tensions, fluctuating crude oil prices, monetary policy developments and evolving domestic macroeconomic conditions. Despite sharp swings in investor sentiment, the month demonstrated the resilience of Indian markets, supported by strong domestic institutional participation and improving macroeconomic fundamentals.

The movement of the benchmark indices clearly reflected three distinct phases during the month. The BSE Sensex began June at 74267 (Figure 1), while the NIFTY 50 opened at 23383 (Figure 2). Escalating tensions in West Asia and the surge in crude oil prices pushed the indices to their monthly lows of 73524 and 23123, respectively, on 8 June, as investors responded to concerns over inflation, higher import costs and foreign portfolio investor (FPI) outflows. This was followed by a strong recovery during the second half of the month, with the Sensex climbing to an intra-month closing high of 77410 on 18 June and the Nifty reaching 24168, supported by easing geopolitical concerns, falling crude oil prices and supportive policy measures by the Reserve Bank of India (RBI). However, renewed profit-booking and concerns over the corporate earnings outlook weighed on sentiment towards month-end, leaving the Sensex at 76479 and the Nifty at 23866 on 30 June, both significantly above their monthly lows but below their mid-month peaks.

The principal driver of market volatility was the conflict in West Asia. Rising tensions between the United States and Iran and disruptions to shipping through the Strait of Hormuz pushed Brent crude oil prices above US\$94 per barrel, heightening concerns over inflation, India's current account deficit and corporate profitability. As geopolitical

tensions eased later in the month and oil prices declined, investor sentiment improved markedly, triggering a broad-based market rally.

Sectoral performance reflected changing investor expectations. Information technology stocks remained the most volatile segment as optimism surrounding artificial intelligence alternated with concerns that AI could disrupt the traditional outsourcing business model. Banking and financial stocks provided stability, benefiting from RBI measures to strengthen liquidity, support the rupee and encourage foreign currency deposits. Consumer-focused sectors and defence stocks also attracted buying interest during the recovery phase.

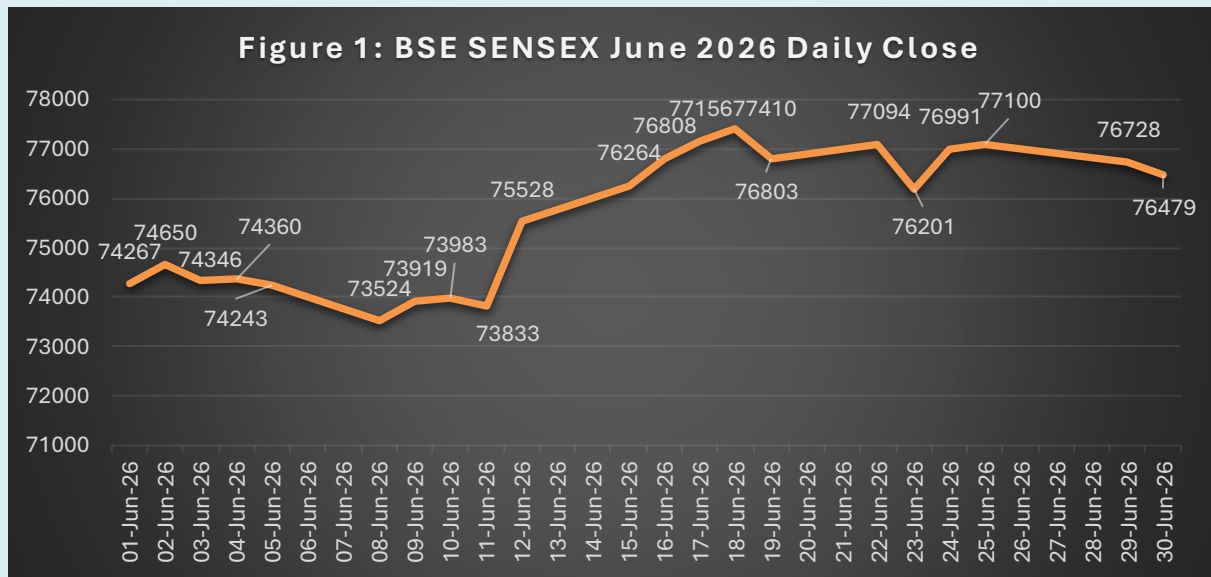
The RBI played an important stabilising role by maintaining a prudent monetary policy stance while introducing measures to improve liquidity and facilitate foreign capital inflows. Together with strong domestic institutional investor (DII) buying, these initiatives helped offset persistent FPI outflows and contributed to improved market confidence as global risks moderated.

Although the markets recovered strongly during the latter half of June, investors remained cautious as weaker-than-expected PMI data, concerns over the southwest monsoon, inflationary pressures and uncertainty surrounding the Q1 FY2026–27 earnings season resurfaced towards month-end. Continued weakness in IT stocks also limited further gains.

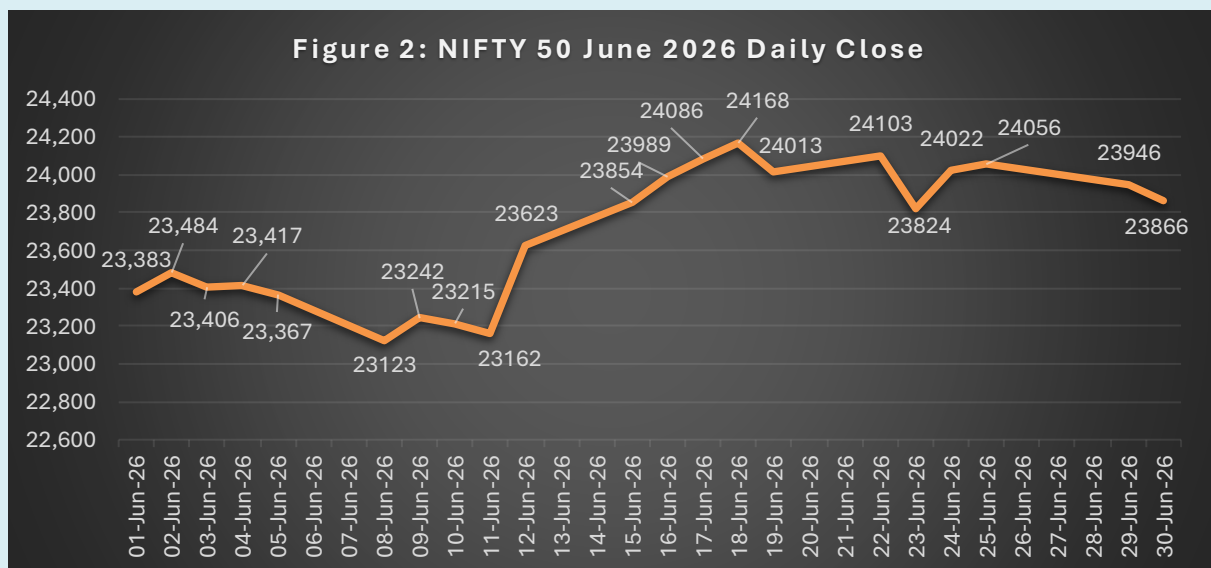
June 2026 underscored both the vulnerability and resilience of Indian financial markets. External factors, particularly geopolitical developments and crude oil prices, continued to dominate short-term market movements, while India's sound macroeconomic fundamentals, proactive policy measures and strong domestic institutional participation provided important buffers against global uncertainty. Looking ahead, the trajectory of crude oil prices, progress of the monsoon, corporate earnings, inflation and developments in India-US trade negotiations will remain the principal determinants of market direction.

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



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

## GLOBAL FINANCIAL MARKETS

### GLOBAL FINANCIAL MARKETS IN JUNE 2026: GEOPOLITICS, OIL PRICES AND THE AI INVESTMENT CYCLE

#### Introduction

Global financial markets witnessed heightened volatility during June 2026, reflecting the interplay of geopolitical tensions, fluctuating crude oil prices, monetary policy uncertainty and the continuing structural transformation driven by artificial intelligence (AI). The month began on a cautious note as the conflict in West Asia intensified, raising concerns over energy supplies through the Strait of Hormuz, one of the world's most important oil shipping routes. Brent crude oil prices experienced a dramatic reversal during June 2026, rising above US\$96 per barrel in the early part of the month as escalating tensions in West Asia raised fears of supply disruptions through the Strait of Hormuz. As diplomatic efforts progressed and global supply concerns eased, prices fell steadily to around US\$75 per barrel by month-end. This sharp decline significantly improved investor sentiment by easing inflationary concerns, reducing pressure on central banks to maintain restrictive monetary policies, and strengthening expectations of a more favourable global growth outlook.

Although market volatility remained elevated throughout the month, the eventual easing of geopolitical tensions, resilient corporate earnings and continued enthusiasm for AI-related investments enabled most major equity markets to recover a substantial part of their early losses.

#### United States: Resilience Despite Monetary Policy Uncertainty

The US equity market displayed remarkable resilience despite persistent concerns over inflation and interest rates.

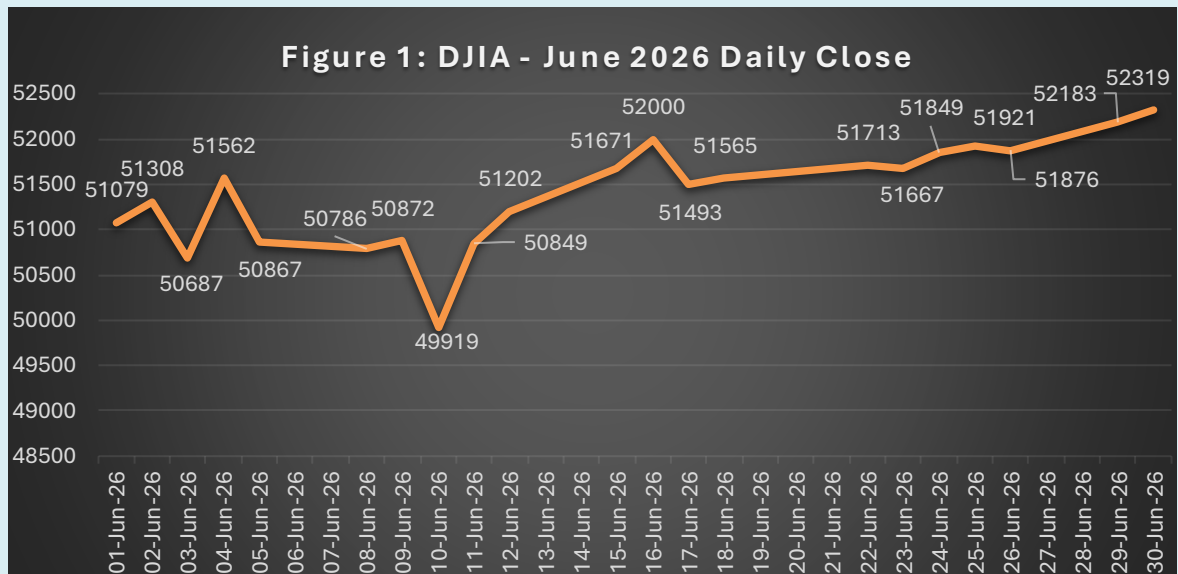
The Dow Jones Industrial Average (DJIA) followed a broadly upward trajectory during the month. After opening at 51079 (Figure 1), the index declined to 49919 on 10 June

amid heightened geopolitical concerns and rising oil prices before recovering steadily to close at 52319 on 30 June, representing a gain of nearly 2.4 per cent over the month. The recovery reflected strength in industrial, financial and consumer-oriented companies as investor confidence improved with declining oil prices.

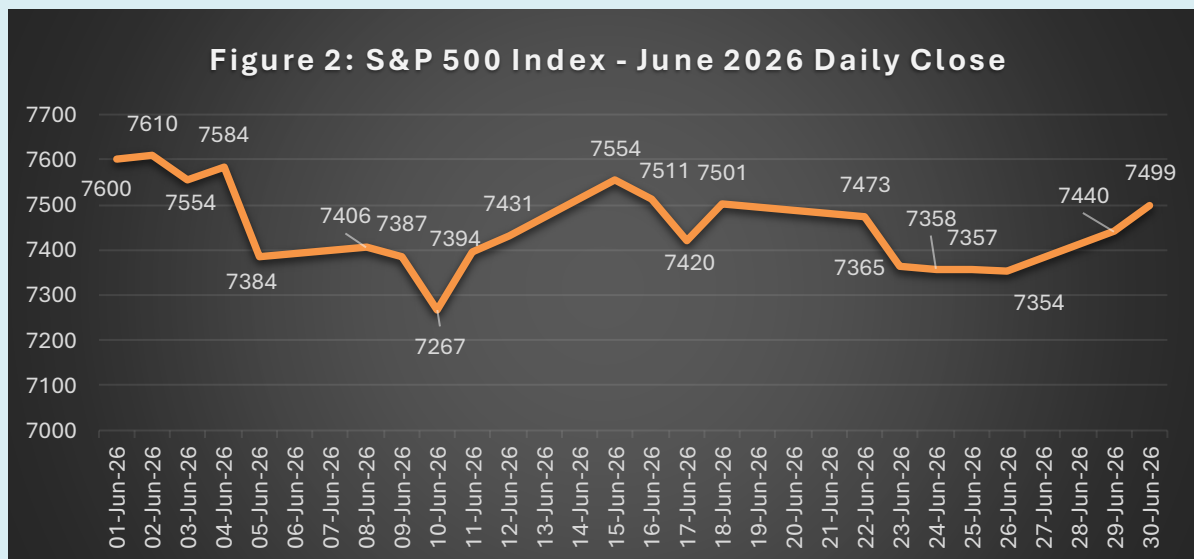
The broader S&P 500 experienced greater volatility. From an opening level of 7600 (Figure 2), it fell sharply to 7267 on 10 June, reflecting concerns over inflation, elevated bond yields and expectations that the Federal Reserve would maintain a restrictive policy stance. However, easing geopolitical tensions and renewed optimism regarding corporate earnings enabled the index to rebound, ending the month at 7499, only marginally below its opening level.

Technology stocks remained the principal source of volatility. The NASDAQ Composite declined from 27087 to 25170 (Figure 3) during the first half of the month as investors booked profits in AI-related stocks following an extraordinary rally. Nevertheless, strong long-term confidence in AI, cloud computing and semiconductor demand supported a gradual recovery, with the index closing at 26214. According to the *WSJ*, investors increasingly differentiated between companies with sustainable AI-driven earnings potential and those whose valuations had become excessively stretched, signalling a more selective phase of the AI investment cycle.

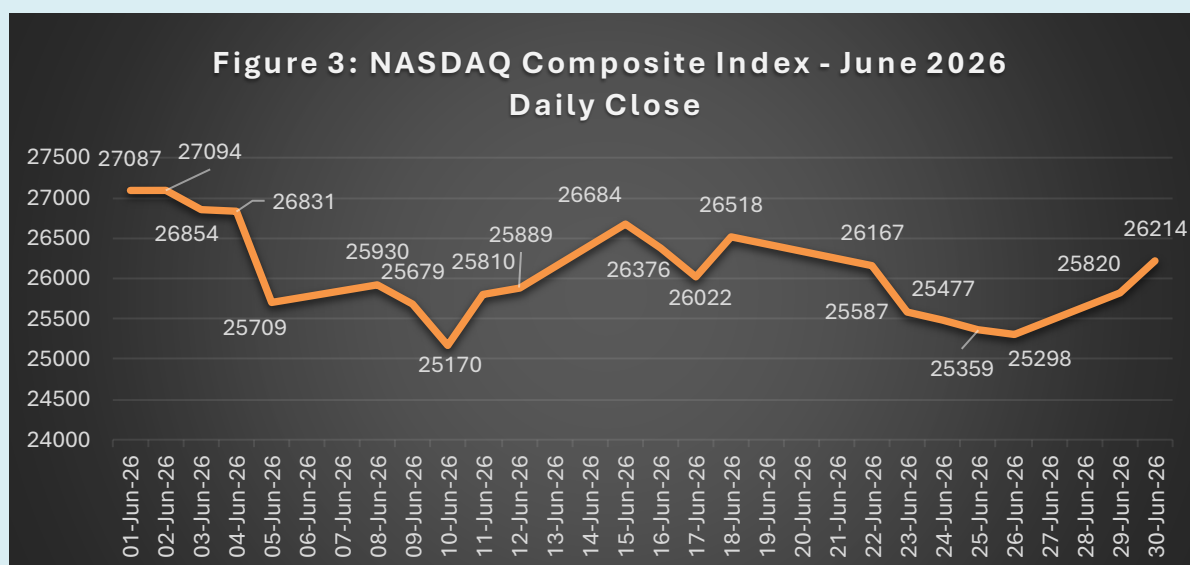
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Source: <https://www.wsj.com/market-data/quotes/index/DJIA/historical-prices>



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



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

### Europe: Relative Stability Amid Declining Energy Prices

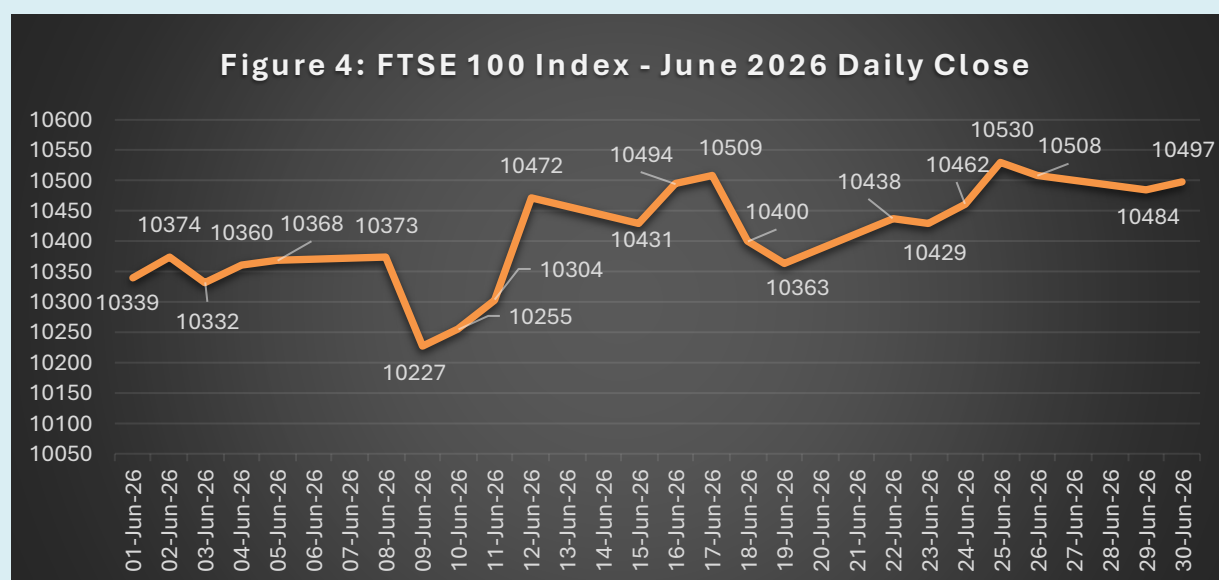
European equity markets demonstrated greater resilience than many of their global counterparts, benefiting from easing energy prices during the latter half of June.

The FTSE 100 remained relatively stable throughout the month. After beginning at 10339 (Figure 4), the index advanced steadily to touch 10530 on 25 June before ending at 10497. Financial institutions, consumer-oriented companies and exporters benefited from improved global sentiment and lower energy costs, offsetting weakness in commodity-linked sectors.

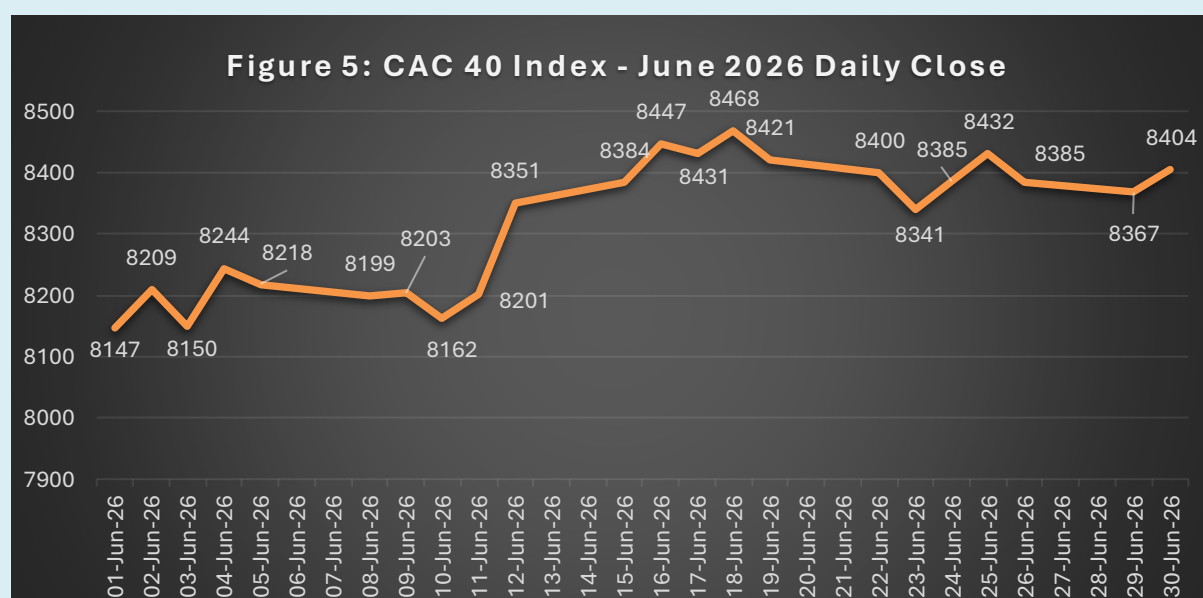
France's CAC 40 exhibited a similar pattern. The index rose from 8147 (Figure 5) at the beginning of the month to a high of 8468 on 18 June, before ending at 8404. Financials, industrials and luxury goods companies supported the recovery as declining oil prices improved Europe's inflation outlook and strengthened expectations of a gradual economic recovery.

Germany's DAX, representing Europe's largest manufacturing economy, remained closely tied to developments in global trade and industrial demand. After declining to 24195 on 10 June (Figure 6), the index recovered to close at 24996, almost unchanged

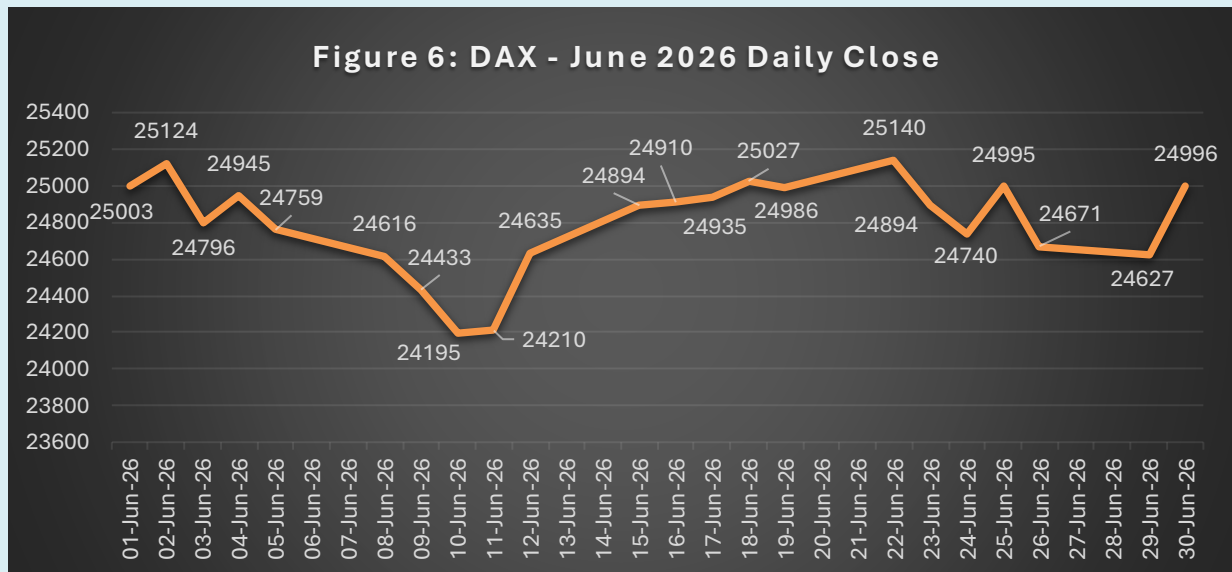
from its opening level. Export-oriented manufacturers benefited from improving global demand expectations, although investors remained cautious about persistent weakness in industrial activity and international trade.



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



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



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

### Asia-Pacific: Divergent Performances Reflect Domestic Fundamentals

Asian equity markets presented a far more heterogeneous picture than either the US or Europe.

China's Shanghai Composite remained largely range-bound throughout June. The index declined from 4058 to 3959 (Figure 7) early in the month before recovering to end at 4094. Despite policy support from Chinese authorities, continued weakness in the property sector, subdued household consumption and fragile investor confidence constrained market performance.

Japan's Nikkei 225 emerged as one of the strongest performers. The index climbed from 66,934 to an intra-month high of 72366 (Figure 8) before closing at 70062, supported by robust semiconductor exports, sustained foreign investment inflows and a relatively weak yen that enhanced export competitiveness. Japan continued to benefit from strong global demand for AI-related technologies and advanced manufacturing.

The Hang Seng Index in Hong Kong was among the weakest performers globally. After opening at 25398 (Figure 9), it declined steadily to 22672 on 26 June, before recovering marginally to 22881 by month-end. Weakness in technology and property stocks

continued to dominate investor sentiment as concerns over China's economic outlook persisted.

Singapore's FTSE Straits Times Index displayed remarkable stability. After a brief correction early in the month, it recovered steadily to remain above 5170 (Figure 10) by month-end, supported by resilient financial stocks and Singapore's position as a regional financial and trading hub.

South Korea's KOSPI Composite recorded one of the month's most dramatic movements. The index fell sharply from 9115 to 8204 (Figure 11) on 23 June, before rebounding to finish at 8476. Semiconductor companies continued to benefit from AI-driven demand, but heightened volatility reflected changing expectations regarding global technology spending and export growth.

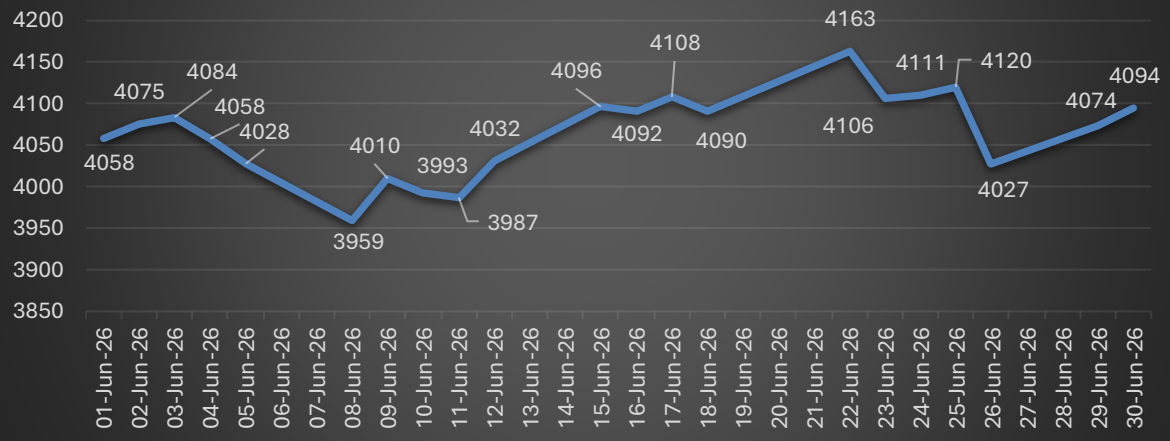
Taiwan's TAIEX similarly experienced substantial volatility. The index rose to an all-month high of 47742 (Figure 12) before correcting sharply to 44572, ultimately recovering to 46,126. Semiconductor manufacturers remained the principal beneficiaries of global AI investment, although investors became increasingly cautious regarding technology valuations.

Australia's S&P/ASX 200 traded within a relatively narrow range, rising to 8966 (Figure 13) before ending the month at 8779. Gains in financial stocks partly offset weakness in mining companies as softer commodity prices reduced earnings expectations for the resource sector.

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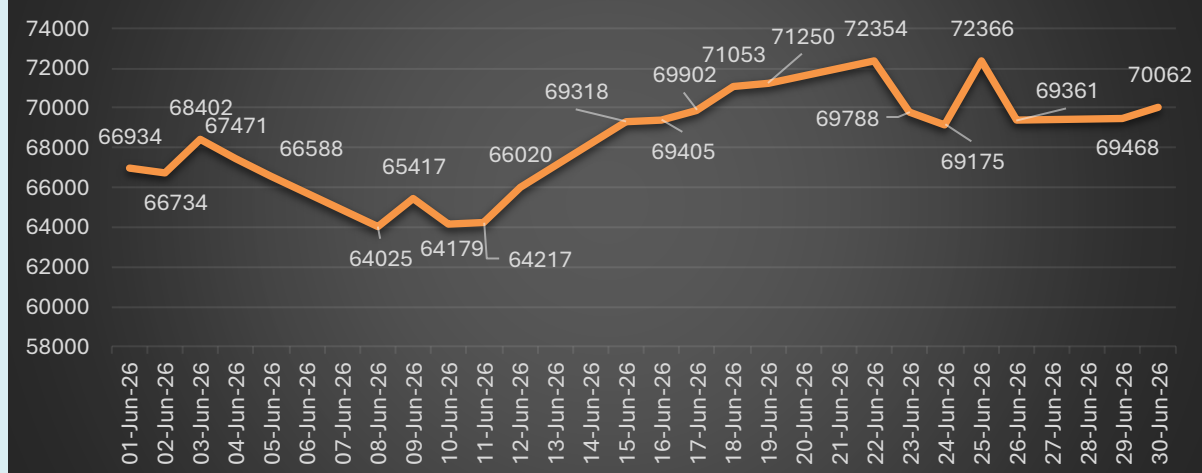


**Figure 7: Shanghai Composite Index - June 2026  
Daily Close**

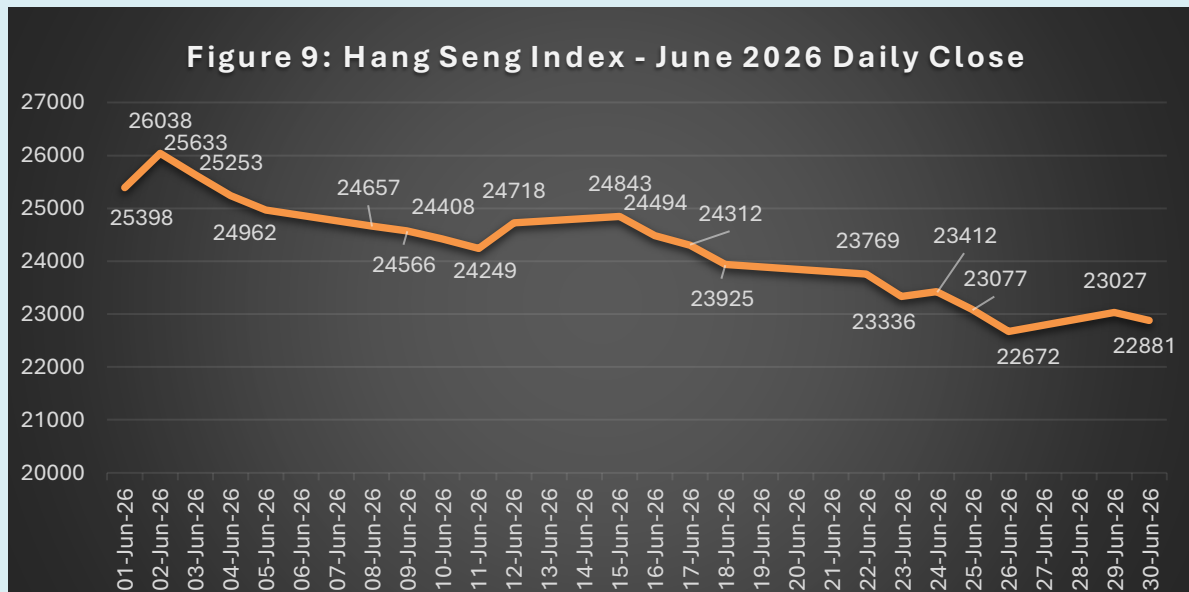


Source: <https://www.wsj.com/market-data/quotes/index/CN/XSHG/SHCOMP/historical-prices>

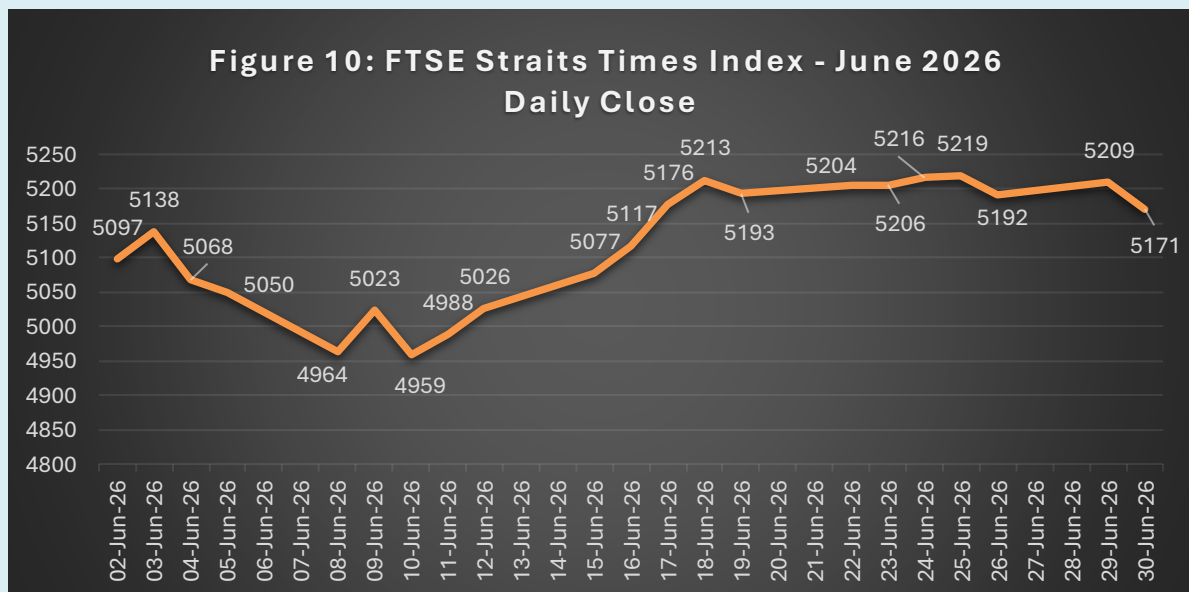
**Figure 8: NIKKEI 225 Index - June 2026 Daily Close**



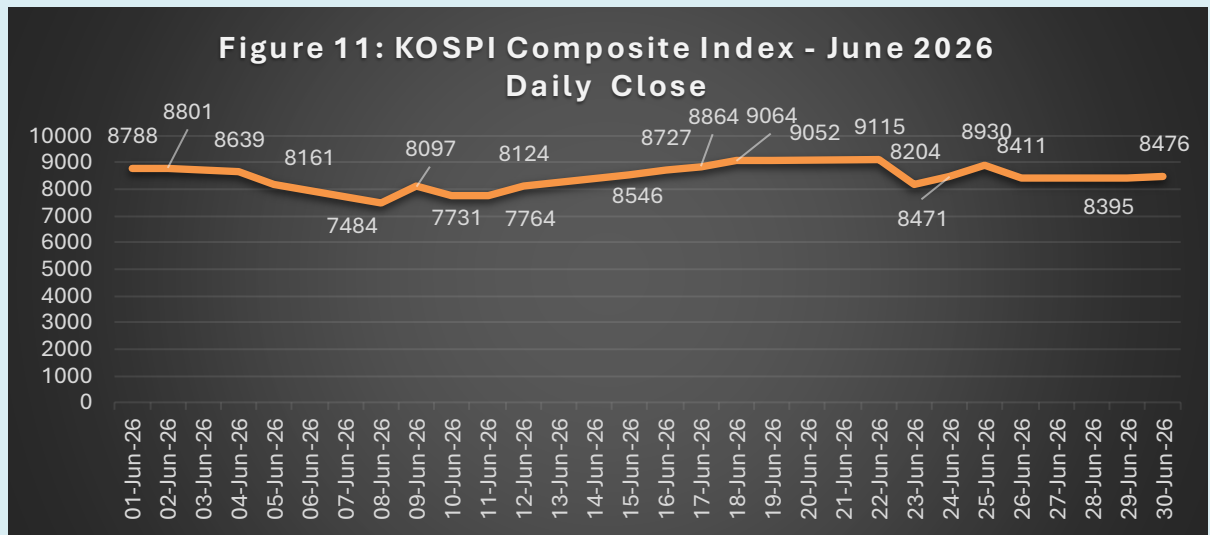
Source: <https://www.wsj.com/market-data/quotes/index/JP/NIK/historical-prices>



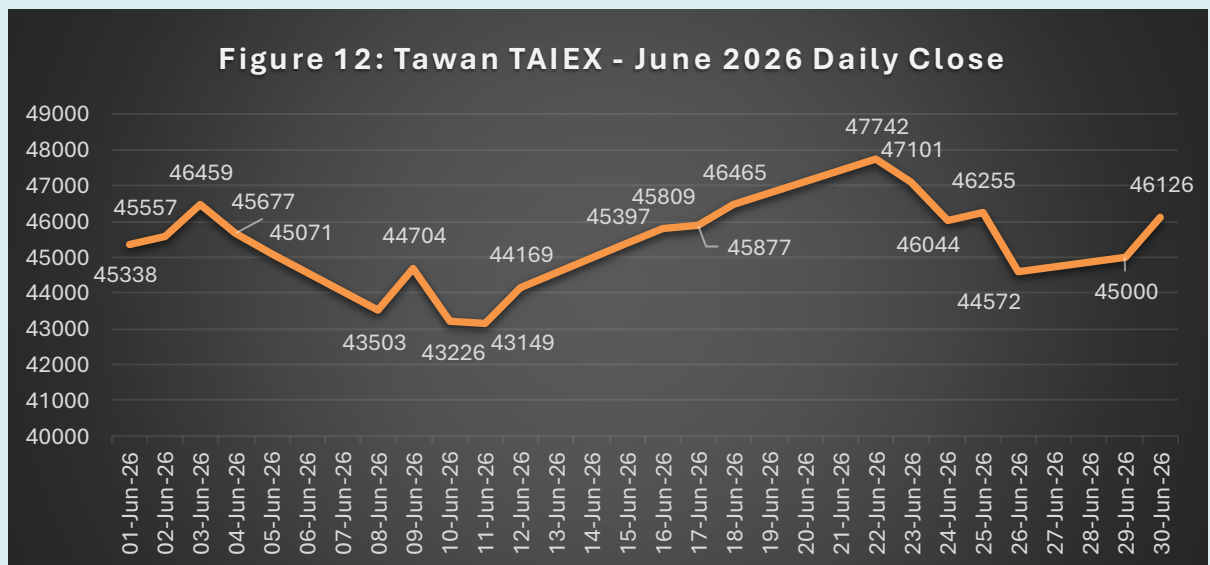
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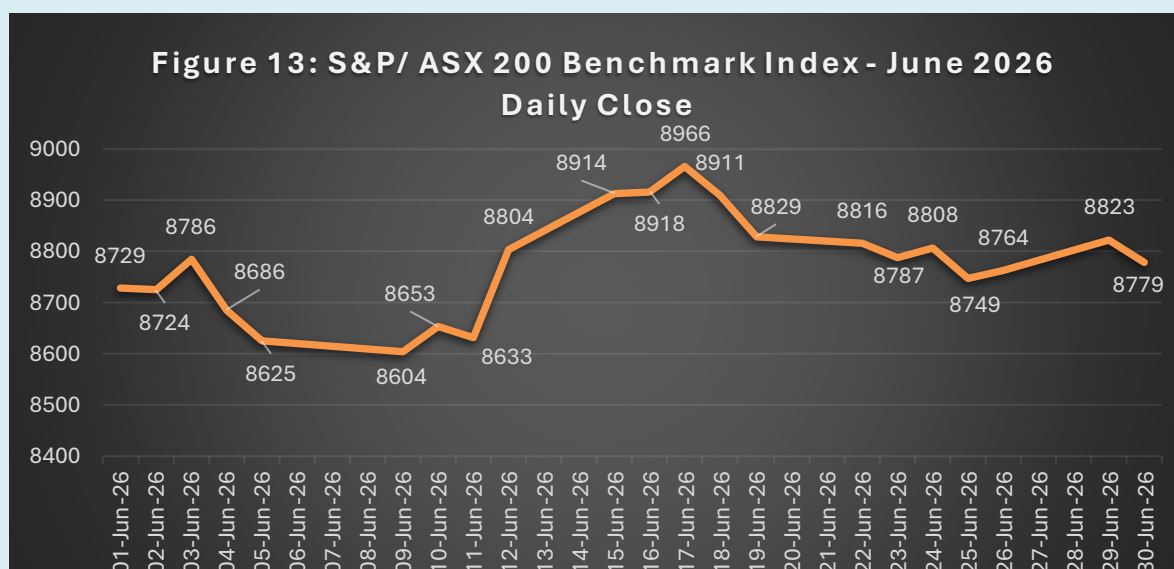
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Source: <https://www.wsj.com/market-data/quotes/index/AU/XJO/historical-prices>

### A Comparative Performance Table of Major Equity Markets

| Region  | Index    | June Trend             | Key Drivers                       |
|---------|----------|------------------------|-----------------------------------|
| US      | DJIA     | Resilient upward trend | Industrials, lower oil prices     |
| US      | S&P 500  | Volatile recovery      | Fed outlook, earnings             |
| US      | NASDAQ   | Highly volatile        | AI optimism vs valuation concerns |
| UK      | FTSE 100 | Stable                 | Financials, lower energy prices   |
| Germany | DAX      | Range-bound            | Exports, manufacturing            |
| France  | CAC 40   | Moderately positive    | Industrials, luxury goods         |

|                        |                               |                         |                                          |
|------------------------|-------------------------------|-------------------------|------------------------------------------|
| <i>Japan</i>           | <i>Nikkei 225</i>             | <i>Strong performer</i> | <i>Semiconductors, weaker yen</i>        |
| <i>China</i>           | <i>Shanghai<br/>Composite</i> | <i>Range-bound</i>      | <i>Policy support vs weak<br/>demand</i> |
| <i>Hong Kong</i>       | <i>Hang Seng</i>              | <i>Weak</i>             | <i>Property and technology</i>           |
| <i>South<br/>Korea</i> | <i>KOSPI</i>                  | <i>Highly volatile</i>  | <i>Semiconductor cycle</i>               |
| <i>Taiwan</i>          | <i>TAIEX</i>                  | <i>Volatile</i>         | <i>AI chip demand</i>                    |
| <i>Australia</i>       | <i>ASX 200</i>                | <i>Stable</i>           | <i>Financials vs mining</i>              |

## Key Themes Shaping Global Markets

Several common themes defined global financial markets during June:

First, geopolitical developments in West Asia became the dominant short-term driver of market sentiment. Rising tensions initially pushed oil prices sharply higher, but subsequent progress in diplomatic negotiations significantly improved investor confidence.

Second, central banks remained cautious. The Federal Reserve continued to emphasise that inflation risks warranted a restrictive monetary policy stance, reinforcing expectations of higher interest rates for longer. This particularly affected growth-oriented and technology stocks.

Third, artificial intelligence continued to reshape investment strategies. As highlighted by the Wall Street Journal, AI remains one of the strongest long-term structural drivers of equity markets. However, investors increasingly distinguished between companies

with sustainable AI-enabled earnings growth and those benefiting primarily from speculative enthusiasm.

Finally, sectoral rotation became increasingly evident. Financials, industrials and defensive sectors generally outperformed during periods of uncertainty, while technology stocks experienced frequent bouts of profit-taking despite their favourable long-term outlook.

## **Conclusion**

June 2026 demonstrated both the vulnerability and resilience of global financial markets. External shocks arising from geopolitical tensions and energy market disruptions generated considerable volatility, yet most major markets recovered as oil prices declined and diplomatic prospects improved. Regional performances increasingly reflected domestic economic fundamentals, monetary policy expectations and exposure to AI-driven technological transformation.

Looking ahead, market performance will continue to depend on developments in the US-Iran negotiations, the trajectory of crude oil prices, Federal Reserve policy, inflation trends and corporate earnings. While short-term volatility is likely to persist, the resilience displayed during June suggests that investors continue to view geopolitical shocks as temporary unless they fundamentally alter the global growth outlook. At the same time, the AI revolution remains a powerful structural force shaping capital allocation and investment opportunities across global equity markets.

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## COMMODITY MARKETS

### GLOBAL COMMODITY MARKETS RETREAT AS OIL PRICES FALL AND THE DOLLAR STRENGTHENS

Global commodity markets witnessed a broad correction in June 2026, as easing geopolitical tensions, a stronger US dollar and moderating inflation expectations triggered profit-taking across several commodity classes. While long-term structural supply constraints continued to provide underlying support, investors reduced exposure to commodities following the sharp rally earlier in the year.

The most significant development was the sharp decline in Brent crude oil, which fell from above US\$96 per barrel at the beginning of the month to around US\$75 by month-end. Optimism surrounding a US-Iran peace agreement and the normalization of shipping through the Strait of Hormuz eased concerns over supply disruptions, reducing inflationary pressures and improving the global economic outlook. In contrast, US natural gas prices rose during the month, supported by stronger domestic demand and tighter supply conditions.

Precious metals also came under pressure as a stronger US dollar and expectations of a prolonged period of higher US interest rates reduced investor demand for safe-haven assets. Both gold and silver recorded significant declines amid widespread liquidation. Base metals, particularly copper, weakened on concerns over global growth and tighter monetary conditions, although supply constraints continued to support prices of several industrial materials.

Agricultural commodities displayed greater resilience. While overall food prices remained broadly stable, soft commodities such as cocoa and coffee recovered on renewed weather-related concerns, and cereals continued to receive support from uncertainty surrounding crop prospects in major producing regions.

Overall, June highlighted the sensitivity of commodity markets to geopolitical developments, monetary policy expectations and currency movements. Although the correction eased global inflation concerns, structural supply constraints in energy, metals and agricultural markets suggest that commodity price volatility is likely to remain elevated in the months ahead.



## SECTION 4: RESEARCH DIGEST

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## SYNOPSIS OF RESEARCH PAPERS

### LABOR MARKET RESPONSES TO TARIFFS: FRICTIONS, DYNAMICS, AND POLICY RESPONSES

Authors: Rafael Dix-Carneiro and Brian K. Kovak

*NBER Working Paper No. 35377, June 2026*

National Bureau of Economic Research (NBER), Cambridge, MA, USA

Trade liberalisation has generated significant gains in productivity, efficiency and economic growth. However, its benefits have not been evenly distributed across industries, occupations and regions. Workers in import-competing sectors often face job displacement, prolonged unemployment and wage losses due to labour market frictions that slow adjustment to changing trade patterns. This paper examines the evolving relationship between international trade and labour markets, with particular emphasis on labour market adjustment, worker displacement and policy interventions.

The paper reviews contemporary evidence showing that the effects of trade shocks vary considerably across sectors and regions, necessitating dynamic policy frameworks that recognise slow labour market transitions. It argues that while trade liberalisation enhances overall economic welfare, targeted support is essential to ensure that workers adversely affected by import competition are able to adapt and benefit from structural economic change.

The paper evaluates several policy interventions designed to facilitate labour market adjustment. It highlights the effectiveness of the Trade Adjustment Assistance (TAA) programme in the United States, which provides income support and subsidised training to displaced workers, leading to improved employment and earnings outcomes. It also examines the role of wage insurance, which encourages quicker re-employment by temporarily compensating workers who accept lower-paying jobs. In addition, the paper discusses complementary measures such as relocation assistance, digital job-

matching platforms and gradual implementation of trade reforms to reduce adjustment costs.

The analysis concludes that trade policy should be accompanied by active labour market policies that promote retraining, skill development, occupational mobility and geographic mobility. Such measures not only improve labour market outcomes but also help sustain political support for trade liberalisation by ensuring that its benefits are more equitably distributed.

The paper argues that as globalisation evolves amid technological change, supply chain restructuring and geopolitical uncertainty, governments must adopt a balanced approach that combines open trade with robust labour market institutions. Strengthening adjustment assistance and promoting evidence-based labour market policies will be critical for achieving both economic efficiency and inclusive growth.

*The full paper can be accessed from:*

[https://www.nber.org/system/files/working\\_papers/w35377/w35377.pdf](https://www.nber.org/system/files/working_papers/w35377/w35377.pdf)

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## **BOND YIELD RESPONSES TO MACRO NEWS: THE ROLE OF MACRO FORECAST DISAGREEMENT AND MONETARY POLICY UNCERTAINTY**

Authors: Peter Hördahl, Burçin Kısacıkoğlu and Fan Dora Xia

*BIS Working Papers No. 136, June 2026*

Bank for International Settlements

This paper examines how macroeconomic forecast disagreement and monetary policy uncertainty influence the responsiveness of U.S. Treasury bond yields to macroeconomic data surprises. While financial markets typically react to unexpected economic news, the paper argues that the magnitude of these responses depends on the information environment prevailing at the time of data releases.

Using intraday data on U.S. Treasury futures around major macroeconomic announcements—including inflation, nonfarm payrolls, GDP, retail sales and durable

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goods orders—the study finds that greater disagreement among forecasters weakens bond yield responses, as it reduces the informational value of economic releases for predicting future monetary policy. Conversely, higher monetary policy uncertainty amplifies market reactions because macroeconomic news becomes more informative when expectations regarding future policy rates are less certain.

A notable finding concerns inflation announcements. Prior to the COVID-19 pandemic, bond yields exhibited relatively muted responses to inflation surprises despite elevated monetary policy uncertainty, reflecting the perception that the Federal Reserve placed limited emphasis on inflation during a prolonged period of low and stable prices. In contrast, the post-pandemic inflation surge fundamentally altered market behaviour, making inflation data a much stronger determinant of bond yield movements.

To explain these patterns, the paper develops a Bayesian learning model in which investors continuously update expectations regarding future monetary policy based on new macroeconomic information. The model demonstrates that both forecast disagreement and policy uncertainty shape the information content of economic announcements. By incorporating time-varying signal precision, it also explains the structural shift in market sensitivity to inflation and labour market data observed after the COVID-19 pandemic.

The study concludes that bond market reactions depend not only on the magnitude of macroeconomic surprises but also on how informative those surprises are perceived to be. By integrating behavioural expectations with monetary policy uncertainty, the paper provides a more comprehensive framework for understanding financial market responses to economic news and offers valuable insights for central banks, investors and policymakers operating in an environment of heightened macroeconomic uncertainty.

*The full paper can be accessed from: <https://www.bis.org/publ/work1361.htm>*

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## BOOKSHELF CHRONICLES

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### BREAKPOINT: THE CRISIS OF THE MIDDLE CLASS AND THE FUTURE OF WORK

Authors: Saurabh Mukherjea, Nandita Rajhansa and Sapna Bhavsar

Publisher: Juggernaut

Year of Publication: 2026

India's middle class has long been regarded as the principal driver of the country's economic growth, consumption and social mobility. In *Breakpoint: The Crisis of the Middle Class and the Future of Work*, the authors challenge this widely accepted narrative, arguing that the very group that fuelled India's post-liberalisation success is now confronting its most serious crisis since the economic reforms of 1991. Drawing on extensive empirical evidence, the book contends that the convergence of technological disruption, stagnating real wages, rising household indebtedness and an increasingly fragile white-collar labour market is fundamentally reshaping the future of work in India.

A key strength of the book is its data-driven approach. The authors define the Indian middle class more narrowly than many previous studies, focusing on income-tax-paying households with annual incomes between ₹5 lakh and ₹1 crore. They argue that this segment, although smaller than commonly perceived, contributes disproportionately to national income, consumption and tax revenues. Through a combination of official statistics, industry reports and case studies, the book highlights structural challenges including declining employment opportunities for graduates, the slowdown in white-collar job creation, skill mismatches, the disruptive impact of artificial intelligence and the growing burden of household debt.

The authors argue that traditional pathways to middle-class success—professional degrees, stable corporate careers and predictable promotions—are becoming less

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reliable in an economy increasingly shaped by automation, entrepreneurship and technological innovation. The book calls for reforms in education and skilling, greater emphasis on entrepreneurship, and policies that enhance labour-market adaptability while encouraging continuous learning.

*Breakpoint* is timely, thought-provoking and highly relevant for policymakers, business leaders, educators and young professionals. The book succeeds in stimulating an important discussion on the changing nature of employment and economic mobility in India. At a time when artificial intelligence and digital technologies are reshaping labour markets worldwide, *Breakpoint* offers a compelling and evidence-based examination of the challenges confronting India's middle class and the policy choices that will shape its future. It is an insightful contribution to the contemporary debate on inclusive growth, employment and the future of work in India.

## SECTION 5: CLIMATE CHANGE

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## CLIMATE POLICY

### EUROPE'S RECORD HEATWAVE SIGNALS THE ESCALATING ECONOMIC RISKS OF CLIMATE CHANGE

Europe witnessed an exceptional early-summer heatwave during the week, with several countries recording their highest June temperatures on record, underscoring the growing intensity and frequency of climate-related extreme weather events. The United Kingdom experienced its hottest June day ever, while France recorded temperatures exceeding 44°C on consecutive days. Spain and Switzerland also registered unprecedented June heat, placing severe strain on public health systems, electricity networks and water resources.

The heatwave carries implications that extend well beyond its immediate human and economic impacts. It highlights the increasing exposure of advanced economies to climate-related disruptions, including reduced labour productivity, rising energy demand, pressure on agricultural output and greater stress on critical infrastructure. As noted by *Carbon Brief*, such events reinforce the urgency of strengthening climate resilience through greater investment in adaptation measures, climate-resilient infrastructure and accelerated decarbonisation. With global temperatures continuing to rise, extreme heat is no longer an isolated phenomenon but an increasingly persistent feature of the global climate, posing significant challenges for sustainable economic development and long-term policy planning.



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## RISING HEAT STRESS: THE EXPANDING HUMAN AND ECONOMIC COSTS OF CLIMATE CHANGE

A new global assessment of heat stress underscores the rapidly escalating human and economic impacts of climate change, revealing that extreme heat events are becoming not only more frequent but also more intense, longer-lasting and geographically widespread. Using the Universal Thermal Climate Index (UTCI), the study finds that dangerous "feels-like" temperatures have increased across every continent since 1950, with some regions now experiencing up to 50 additional heat stress days annually. Particularly concerning is the observation that night-time temperatures are rising faster than daytime extremes, limiting the body's ability to recover from heat exposure and significantly increasing health risks, especially for the elderly, children and other vulnerable groups. The growing incidence of prolonged heat events spanning both day and night is also intensifying heat-related mortality, reducing labour productivity, increasing energy demand and placing additional stress on healthcare systems. Rapid urbanisation and population growth have further expanded the number of people exposed to hazardous heat conditions. The findings highlight the urgent need to strengthen climate resilience through investments in heat-resilient infrastructure, climate-smart urban planning, early warning systems, adaptive public health strategies and nature-based solutions. As global warming accelerates, managing extreme heat must become a central priority in national climate adaptation policies and sustainable development strategies.

*Source: Emerton, R., Nicolas, J., Lombardi, A. et al. (2026). "Global Heat Stress Intensification and its Expanding Footprint on the Human Population." Nature Climate Change. <https://doi.org/10.1038/s41558-026-02670-5>*

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## SYNOPSIS OF RESEARCH PAPERS/ REPORTS

### **DRIVING ENERGY TRANSITION: WORKFORCE, SKILLS, AND GENDER IN INDIA'S RENEWABLE ENERGY SECTOR**

Authors: NRDC: Deepesh Tourani, Pallavi Girolkar, Rana Pujari

Project Director: Charu Lata

CEEW: Nicole Almeida, Akanksha Tyagi, Soham Roy (former researcher)

Project Director: Rishabh Jain

*June 2026*

Natural Resources Defense Council (NRDC), and Council on Energy, Environment and Water (CEEW)

India's rapid expansion of renewable energy has positioned the country among the global leaders in clean energy deployment, with the achievement of 50 percent of installed electricity capacity from non-fossil fuel sources five years ahead of schedule marking a significant milestone in its transition towards Net Zero by 2070 and the vision of Viksit Bharat 2047. As the clean energy sector expands, understanding its employment potential, skill requirements and workforce composition has become increasingly important for designing evidence-based policies.

This report, prepared by the Natural Resources Defense Council (NRDC) India and the Council on Energy, Environment and Water (CEEW) with support from the Ministry of New and Renewable Energy, provides one of the most comprehensive assessments of employment generation across India's renewable energy sector. Based on a nationwide survey of firms operating in the solar, wind, bioenergy and hydropower sectors during 2024–25, the study estimates workforce intensity using Full-Time Equivalent (FTE) coefficients and analyses employment trends, skill requirements and gender participation.

The report finds that India's clean energy transition has already generated substantial employment, with nearly 6.6 lakh workers added across major renewable energy sectors between FY2023 and FY2026. Decentralised renewable energy systems, particularly

rooftop solar, are significantly more labour-intensive than utility-scale projects, while biomass-based power generation and small hydropower create the highest employment per unit of installed capacity. Looking ahead, achieving India's target of 500 GW of non-fossil fuel capacity, together with the objectives of the National Green Hydrogen Mission, could generate more than 44 lakh full-time equivalent jobs, highlighting the sector's immense employment potential.

The study also identifies two important structural challenges. First, around 60–90 percent of clean energy jobs require semi-skilled or highly skilled workers, underscoring the need for large-scale investment in skill development and workforce training. Second, women account for only 11 percent of employment in the solar and wind sectors, with the majority concentrated in non-technical roles, pointing to the need for greater gender inclusion in technical and leadership positions.

The report recommends institutionalising renewable energy workforce reporting, strengthening skill development and career progression programmes, and promoting gender-inclusive workplace practices. It concludes that India's clean energy transition represents not only an environmental imperative but also a major opportunity to create high-quality employment, strengthen human capital and support inclusive and sustainable economic development.

*The full report can be accessed from: <https://www.ceew.in/sites/default/files/driving-energy-transition-2026-web-file.pdf>*

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## **SCALING RURAL DISTRIBUTED RENEWABLE ENERGY IN INDIA: A FRAMEWORK FOR PLANNING AND IMPLEMENTATION**

Authors: Sunil Mani, Ashwitha Tunga, Anas Rahman, Rajiv Shukla, Nikita Thakare,  
Vimal Patel, and Harshil Saini

*IISD Report, June 2026*

International Institute for Sustainable Development, Manitoba, Canada; Idam  
Infrastructure Advisory Pvt. Ltd., Mumbai, India

India has made remarkable progress in expanding electricity access and renewable energy capacity, achieving significant milestones in its clean energy transition. However, despite near-universal village electrification, many rural areas continue to face challenges related to affordability, reliability, voltage quality and the availability of electricity for productive uses. While large-scale renewable energy projects remain central to India's target of 500 GW of non-fossil electricity capacity by 2030, they may not fully address last-mile distribution challenges. This report explores the role of Distributed Renewable Energy (DRE) as a complementary solution for improving the quality and reliability of rural electricity supply.

Drawing on a review of India's DRE policy landscape, field studies in Maharashtra and Tamil Nadu, and techno-economic modelling of villages in Maharashtra and Assam, the report develops a practical framework for integrating DRE into rural electricity planning. It argues that existing DRE initiatives—such as rooftop solar and agricultural solarisation schemes—have largely been implemented in isolation, focusing on specific consumer segments rather than the overall electricity requirements of villages. Consequently, issues relating to demand assessment, system design, grid integration, surplus management, financing and institutional responsibilities remain inadequately addressed.

The study identifies load typology as the most important determinant of system design and recommends that DRE deployment strategies be tailored to local demand patterns.

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It further highlights the importance of integrating storage solutions, export management and distribution network readiness into village-level planning to improve system reliability and minimise reverse power flows. A key recommendation is the introduction of a Village Energy Plan, which would provide a unified planning framework linking demand assessment, technology selection, financing, implementation responsibilities and existing government schemes.

The techno-economic analysis demonstrates that village-level solarisation is economically viable, with the levelized cost of electricity remaining below the average power purchase cost in the case studies. While battery energy storage systems increase project costs, appropriately sized storage solutions can improve system performance and reliability, particularly when the broader value of storage services is recognised.

The report concludes that achieving a resilient and inclusive rural energy transition requires moving beyond isolated project implementation towards integrated village-level energy planning. By strengthening policy coordination, institutional clarity and distribution planning, Distributed Renewable Energy can significantly improve rural electricity quality while supporting India's broader clean energy and sustainable development objectives.

*The full report can be accessed from:*

[https://www.iisd.org/system/files/2026-06/scaling-rural-distributed-renewable-energy-india\\_0.pdf](https://www.iisd.org/system/files/2026-06/scaling-rural-distributed-renewable-energy-india_0.pdf)

***All issues of EcoSphere are available at <https://inspire-solutions.in/ecosphere/>***

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### About InsPIRE

Institute for Pioneering Insightful Research Pvt. Ltd. (InsPIRE) is a DPIIT-recognized startup and an independent policy research and consulting firm established on 8 June 2021. InsPIRE specializes in macroeconomic policy, economic development, international trade, financial sector, agriculture and rural economy, MSMEs, climate policy, sustainability, strategic advisory services, and executive education. Through policy research, evaluations, advisory services, publications, knowledge partnerships, and executive education, InsPIRE works with government institutions, corporate sector, financial institutions, industry chambers, academia, and development agencies to promote sustainable and inclusive development and strengthen evidence-based policymaking.

InsPIRE's strategic business vision is anchored on five thematic pillars: (i) Industry 5.0 & Global Competitiveness; (ii) Agriculture, Food Systems, and Rural Enterprise Development; (iii) Sustainability, Climate Policy & Energy Transition; (iv) Financial Inclusion, Digital Finance & Governance; and (v) Regional Development. Through these pillars, InsPIRE seeks to translate research insights into actionable policy and business outcomes through multi-stakeholder partnerships, thought leadership, and capacity building.



**Institute for Pioneering Insightful Research Pvt. Ltd. (InsPIRE)**  
**Greater Noida (NCR), Uttar Pradesh, India**

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Contact us: [debeshroy\\_chairman@inspire-solutions.in](mailto:debeshroy_chairman@inspire-solutions.in)



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