EcoSphere

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

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Institute for Pioneering Insightful Research Pvt Ltd

InsPIRE

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

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Chairman's Reflections

From Global Turbulence to Strategic Resilience

The July 2026 edition of *EcoSphere* comes at a time when the global and Indian economies are being shaped by a striking combination of resilience and uncertainty. Geopolitical tensions, energy market disruptions, changing patterns of global investment, technological transformation, inflationary pressures and climate risks are interacting in ways that make the economic outlook considerably more complex than conventional indicators might suggest. The central message emerging from this issue is that resilience is increasingly becoming a function of preparedness, diversification, technological capability and institutional strength.

The cover story, *Foreign Investment in a Turbulent Era: From Globalisation to Strategic Investment*, highlights one of the most consequential structural changes underway in the global economy. Global investment is becoming increasingly selective, with capital flowing towards AI, semiconductors, critical minerals, energy transition technologies and other strategically important sectors. Economic security, supply chain resilience and technological sovereignty are increasingly influencing investment decisions alongside conventional considerations of cost and efficiency.

For India, this transformation presents both an opportunity and a challenge. The country has several advantages, including a large domestic market, expanding digital infrastructure, growing capabilities in electronics and advanced manufacturing, and increasing investment in renewable energy. But attracting capital is no longer sufficient. India must increasingly focus on converting FDI into deeper domestic value chains, technology transfer, skilled employment, supplier development and export competitiveness. The policy objective must therefore evolve from attracting investment to maximising the developmental value of investment.

The domestic economy provides grounds for cautious optimism. India's industrial performance strengthened towards the end of the first quarter of FY2026–27, while manufacturing and electricity generation recorded strong growth. Yet, the divergence between consumer and wholesale inflation reminds us that production costs remain under pressure. This deserves close monitoring because persistent input cost pressures can eventually affect corporate margins, investment and consumer prices.

Agriculture presents a similarly mixed picture. Kharif sowing had reached 787.37 lakh hectares by 24 July, with the year-on-year acreage deficit narrowing considerably. This is encouraging evidence of farmers' ability to respond to improving rainfall conditions. Yet uneven rainfall, relatively low reservoir storage and the prospect of below normal rainfall during August and September continue to pose risks. The lesson is important: for Indian agriculture, the distribution and timing of rainfall may matter more than the aggregate seasonal rainfall figure.

This issue also draws attention to a less visible but potentially transformative driver of agricultural performance: research and innovation. ICAR estimates that agricultural research and technology contributed approximately ₹55,000 crore to the additional agricultural output generated during 2025. Although the attribution is indicative rather than a precise measurement, it reinforces an important policy proposition: agricultural R&D should be viewed not merely as expenditure on science, but as an investment in productivity, climate resilience and rural prosperity.

The external sector, meanwhile, illustrates the other side of India's growth story. Resilient exports have been accompanied by a widening merchandise trade deficit, reflecting stronger imports of energy, capital goods and intermediate inputs. While some of this reflects stronger domestic economic activity, elevated energy prices and geopolitical disruptions can also increase India's external vulnerability. This reinforces the importance of export competitiveness, energy diversification and adequate external buffers.

The global economy remains equally nuanced. The IMF's July outlook points to continuing global growth despite geopolitical and trade uncertainties, while the energy shock arising from the Middle East conflict continues to complicate the inflation and monetary policy outlook. The global economy is therefore navigating a difficult balance between resilience and vulnerability.

Global financial markets remained resilient in July despite geopolitical tensions, elevated energy prices and uncertainty over the path of monetary policy. Strong corporate earnings supported equities, while technology heavy markets benefited from continued optimism around AI, although elevated valuations raised concerns about sustainability. European markets also advanced, supported by energy, mining, financial and industrial stocks.

Emerging markets remained sensitive to oil prices, global interest rates and capital flows. India’s markets reflected these global crosscurrents but showed considerable resilience, supported by domestic liquidity, corporate earnings and renewed foreign portfolio inflows. The broader trend suggests a shift from broad based optimism towards more selective risk taking, with earnings quality, valuations and geopolitical developments likely to determine market performance in the months ahead.

The climate dimension of this economic transition cannot be overlooked. This issue examines India's movement from coal towards clean energy, with NTPC's renewable capacity under construction already exceeding its under construction coal capacity. Its planned expansion into solar, wind, storage, pumped hydro, nuclear power and green hydrogen illustrates how energy security and decarbonisation are increasingly becoming interconnected objectives. At the same time, the scale of the transition highlights the need for stronger transmission networks, energy storage and grid resilience.

The biodiversity dimension adds another important layer to this sustainability transition. The issue features UNEP's *State of Biodiversity Action: Global Report on Collective Progress in the Implementation of the Kunming-Montreal Global Biodiversity Framework*, a second draft dated 26 July 2026. The report assesses collective progress towards the 23 targets of the Global Biodiversity Framework and presents a mixed picture: political engagement and national commitment have increased substantially, but implementation is not advancing rapidly enough to ensure achievement of the 2030 targets. The report is particularly significant because it shows that biodiversity is no longer simply an environmental issue; it is increasingly an economic and development issue. While 162 Parties had established national targets aligned with the Framework, implementation gaps remain, particularly in biodiversity mainstreaming, sustainable consumption, harmful subsidies, resource mobilisation and policy coherence. The message is highly relevant for policymakers and businesses alike: climate action, biodiversity conservation, sustainable production and economic decision making can no longer be treated as separate policy domains.

The Research Digest adds another important dimension by reminding us that economic policy increasingly needs to account for unintended consequences. Research on stablecoins and dollarisation raises questions about monetary control in emerging economies, while research on sanctions and oil production demonstrates how geopolitical policies can generate significant environmental costs.

Taken together, the articles in this issue suggest that the defining challenge for India is not simply to sustain growth, but to build resilience into the foundations of growth. This requires greater investment in research and human capital, deeper domestic value chains, stronger infrastructure, diversified energy sources, sound financial institutions and credible macroeconomic management. It also requires a policy framework capable of balancing immediate economic pressures with longer term structural transformation.

The world economy is not moving towards a simple retreat from globalisation. Rather, globalisation itself is being redesigned around technology, resilience, security and sustainability. India has an opportunity to play a much larger role in this emerging economic architecture. Realising that opportunity will depend on whether the country can combine its scale and entrepreneurial dynamism with productivity enhancing investment, institutional capacity and strategic policy coherence.

That, perhaps, is the most important reflection emerging from the July issue of *EcoSphere*: in an increasingly uncertain world, resilience will not be a passive outcome. It will have to be built, invested in and continuously renewed.

Dr Debesh Roy
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Unit Conversion

1 lakh = 100,000

1 crore = 10 million

100 crore = 1 billion

1 lakh crore = 1 trillion

USD/INR Exchange Rate

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

USD ($) 1 = INR (₹) 95.3706 (31 July 2026)

COVER STORY

FOREIGN INVESTMENT IN A TURBULENT ERA: FROM GLOBALISATION TO STRATEGIC INVESTMENT

Dr Debesh Roy
Chairman, InsPIRE

Foreign Investment in a Turbulent Era

For several decades, foreign direct investment (FDI) was driven predominantly by the logic of globalisation. Multinational enterprises expanded across borders in search of lower production costs, larger markets, efficient supply chains and economies of scale. Developing economies, in turn, benefited from capital inflows, technology transfer, employment creation and integration into global value chains. The *World Investment Report 2026* by the UN Trade and Development (UNCTAD), however, suggests that this model is undergoing a fundamental transformation. International investment is increasingly being shaped by geopolitics, economic security, technological competition, industrial policy and supply-chain resilience.

The headline numbers initially appear reassuring. Global FDI increased by 6 percent in 2025 to $1.624 trillion, following declines in the preceding two years. Yet the recovery is fragile and highly uneven. FDI into developed economies rose by 11 percent to $723 billion, while flows to developing economies increased by only 2 percent to $901 billion. More importantly, excluding conduit flows through major European financial centres, global FDI increased by only 4 percent. Thus, the apparent revival in global investment masks a more cautious and selective investment environment.

The central message of the Report is therefore not that global investment is disappearing, but that its geography, sectoral composition and underlying motivations are changing. Capital is increasingly flowing towards activities considered strategically important for technological leadership, energy security and economic resilience, while conventional cost-driven manufacturing investment is losing momentum.

A Fragile Global Recovery

The regional distribution of FDI in 2025 illustrates the uneven nature of the recovery. Europe recorded an extraordinary 39 percent increase in inflows to $285 billion, although much of the rise reflected financial-centre effects, intra-firm financing and large transactions rather than a broad-based expansion of productive investment. North American inflows declined marginally by 2 percent to $344 billion. Developing Asia remained the world's largest developing investment destination, with inflows rising 3 percent to $644 billion. Latin America and the Caribbean registered a stronger 14 percent increase to $188 billion, while Africa experienced a sharp 26 percent decline to $70 billion.

The distinction between headline FDI and actual new productive investment is increasingly important. Cross-border mergers and acquisitions declined by 7 percent in 2025 to $421 billion, while international project finance recovered only modestly after three years of decline. Greenfield investment remained relatively strong in aggregate, but was increasingly dominated by very large projects in a narrow range of sectors. Data centres, semiconductors, oil and gas and selected infrastructure activities accounted for much of the momentum, while renewable energy, conventional infrastructure and many GVC-intensive manufacturing industries weakened.

This divergence points to a more concentrated global investment landscape. Large multinational enterprises continue to have substantial financial capacity, but the rate of return on FDI declined to around 7 percent in 2025 from 10.2 percent in 2024. The Report notes that this combination of strong profits among the largest MNEs and declining average returns suggests that international production and value creation are becoming increasingly concentrated among a relatively small group of dominant firms and strategic sectors.

Geopolitics Enters the Investment Equation

The most consequential change is the growing influence of geopolitics on investment decisions. The traditional calculus of cost, efficiency and market access is increasingly being supplemented—or in some cases overridden—by concerns relating to geopolitical risk, technological competition, supply-chain resilience and economic security.

The UNCTAD Investment Promotion Agency Survey provides a revealing perspective. Geopolitical tensions or conflicts were identified by 76 percent of respondents as a major factor affecting FDI during the previous three years, followed by global economic slowdown at 58 percent and trade-policy uncertainty at 54 percent. Changes in industrial policies or subsidies in major economies were cited by 30 percent.

This represents a profound change in the geography of globalisation. Investment is no longer simply following the cheapest or most efficient location. Governments are increasingly seeking secure access to critical technologies, energy, minerals and production capacity, while firms are attempting to reduce their exposure to geopolitical disruptions.

The implications became particularly visible in 2026 with the escalation of conflict in the Middle East. UNCTAD identifies the conflict as a major adverse shock to the global investment environment, raising energy, logistics, insurance and operating costs while increasing uncertainty. Capital-intensive investment in infrastructure, energy and industry is especially vulnerable. Disruption to maritime routes has also increased transport costs and reduced supply-chain reliability.

The impact is unlikely to be uniform. Energy-importing and financially constrained economies face a particularly difficult combination of higher energy costs and tighter external financing conditions. At the same time, elevated oil prices can generate a dual investment response: stronger investment in fossil-fuel supply for immediate energy security alongside greater investment in renewable energy for longer-term energy transition.

The Rise of Strategic Sectors

Perhaps the most striking structural change documented by the Report is the rapid concentration of investment in strategic sectors. UNCTAD identifies five broad areas: AI infrastructure and related technologies, advanced and sensitive technologies, critical minerals, energy-transition technologies and semiconductors. These sectors are closely interconnected because AI depends on data centres, computing capacity and semiconductors; energy transition depends on critical minerals and advanced manufacturing; and semiconductor production requires highly specialised ecosystems.

The scale of the transformation is substantial. The share of strategic sectors in global greenfield investment increased from 16 percent in 2020 to 44 percent in 2025. AI-related investment alone grew at an average annual rate of 47 percent between 2020 and 2025.

This is more than a technology story. Data centres, for example, require enormous quantities of reliable electricity, land, water, digital connectivity and transmission infrastructure. The AI investment boom is therefore creating a new intersection between digital infrastructure, energy security and industrial policy. Countries capable of providing reliable low-carbon power and high-quality digital infrastructure may gain a significant advantage in attracting the next generation of investment.

Yet this investment boom is highly concentrated. Low-income and lower-middle-income economies captured only about 10 percent of strategic-sector investment during 2020–2025, compared with more than 20 percent in other sectors. The top three investors and top three recipient economies account for disproportionately large shares of investment in strategic sectors. The danger is therefore that the new investment cycle could widen rather than narrow global development disparities.

Manufacturing and the New Supply-Chain Geography

The transformation is especially significant for manufacturing. Global supply chains are not simply being dismantled; they are being reconfigured. UNCTAD identifies four broad patterns: expansion, concentration, diversification and retreat. ICT and electronics and electric vehicles fall into the expansion category, with investment spreading into new locations. Materials and industrial manufacturing are becoming more geographically diversified. Life sciences are experiencing growth but remain concentrated in a few advanced hubs. Agribusiness, consumer goods, textiles and apparel and conventional transport equipment are experiencing retreat.

This reconfiguration presents both an opportunity and a challenge for developing economies. India and South-East Asia are emerging as important alternative locations for electronics and ICT investment as production moves beyond a China-centred model. Electric-vehicle investment is also reaching new destinations, including India, Brazil, Morocco and Thailand.

But the opportunity is highly selective. The traditional entry point for poorer countries, labour intensive, cost driven manufacturing, is shrinking. UNCTAD estimates that the value of inward greenfield manufacturing investment declined from $970 billion during 2015–2019 to $807 billion during 2021–2025. Over the same period, investment in low-income economies fell by 70 percent, while lower-middle-income economies recorded a modest 6 percent increase.

The implication is important: the future of manufacturing-led development will depend less on low wages and more on productive capabilities, infrastructure, skills, technology and integration into sophisticated value chains.

India: A Significant Opportunity, But Not an Automatic Dividend

India stands out positively in this changing investment landscape. FDI inflows increased 44 percent in 2025 to $39 billion, contributing to a rise in South Asian inflows from $34 billion to $46 billion. India also remained among the world's leading FDI destinations.

The country's policy architecture has increasingly focused on broadening investment beyond traditional services and promoting advanced manufacturing. The Production-Linked Incentive schemes, Make in India, Startup India and the National Industrial Corridor Development Programme have been complemented by the National Single Window System, India Industrial Land Bank, Project Development Cells and Project Monitoring Group.

However, an important distinction emerges between FDI inflows and the investment pipeline. Although total FDI increased strongly, the value of announced greenfield projects in India declined from more than $111 billion in 2024 to around $74 billion in 2025. Manufacturing greenfield investment fell sharply from about $65 billion to $27 billion, while services remained comparatively resilient. ICT became the largest sector, reflecting India's growing role in digital infrastructure and technology-related activities.

This divergence is a warning against interpreting higher FDI inflows as evidence of an unqualified investment boom. India is attracting large strategic investments, but the next challenge is to convert these projects into deep domestic value addition, supplier development, technological upgrading, employment and export competitiveness.

The opportunities are nevertheless considerable. India's position in the emerging electronics, semiconductor, digital infrastructure, electric-vehicle and clean-energy ecosystems provides a potentially powerful platform for moving up global value chains.

The Report records a $14.5 billion investment by Alphabet in ICT and internet infrastructure and a $4.1 billion renewable-energy investment by Hynfra of Poland among major greenfield projects announced in developing Asia in 2025.

The strategic question for India, therefore, is not simply how to attract more FDI but how to maximise the developmental value of each investment dollar.

Industrial Policy Makes a Comeback

The changing investment landscape is also transforming the role of governments. Industrial policy, once associated mainly with developing economies, has returned forcefully to the centre of global economic strategy. UNCTAD finds that the average annual number of industrial-policy interventions increased by 60 percent between 2016–2020 and 2021–2025. Both promotional measures, such as subsidies and incentives, and defensive measures, such as localisation requirements, export restrictions and FDI screening, have increased.

The scale of firm-specific subsidies has also expanded dramatically. According to the Report's infographic, the value of firm-specific subsidies in developed economies increased from $187 billion during 2015–2019 to $600 billion during 2020–2024, while developing economies saw an increase from $84 billion to $179 billion. The result is an increasingly uneven playing field, because large economies have greater fiscal capacity to compete for strategic investment.

For developing countries, attempting to compete subsidy-for-subsidy with the world's largest economies would be fiscally unsustainable. The more effective strategy is to invest in the enabling ecosystem around investment: quality infrastructure, industrial parks, skills, reliable electricity, logistics, digital connectivity, standards, regulatory predictability and efficient public institutions.

This is especially relevant to India. The country's competitive advantage should increasingly be built around the depth of its domestic market, skilled human capital, expanding infrastructure, digital public infrastructure, entrepreneurial ecosystem and ability to integrate local firms into global production networks.

Investment Policy Must Move from Attraction to Value Creation

The Report's broader message is that investment promotion cannot remain confined to offering incentives to prospective investors. In an environment of geopolitical and trade uncertainty, retaining existing investors and helping them expand may be just as important as attracting new ones.

Nearly three quarters of investment promotion agencies surveyed by UNCTAD have adjusted their facilitation or aftercare services in response to geopolitical and trade-policy turbulence. Among these, 82 percent expanded aftercare and investor-retention activities, while 61 percent strengthened policy advocacy.

This represents a shift from investment attraction to investment stewardship. Governments need to understand the operational constraints faced by investors, facilitate access to finance and infrastructure, reduce regulatory uncertainty and support supplier development.

India has already moved in this direction through mechanisms such as the Project Development Cells and Project Monitoring Group. The Report also cites India's Credit Guarantee Scheme for Exporters and trade-relief measures introduced during 2025 as examples of policies designed to protect viable export-oriented firms from temporary external shocks and prevent financial pressures from disrupting investment plans.

The Outlook for 2026: Fragile Recovery, Greater Selectivity

The outlook for international investment in 2026 remains cautious. UNCTAD's indicators point to global GDP growth slowing from 3.4 percent in 2025 to 3.1 percent, while trade growth is projected to slow from 5.1 percent to 2.8 percent. The geopolitical risk index rises sharply from 145.1 to 230.8. Although interest rates and foreign-exchange volatility are expected to moderate, higher commodity and energy prices could delay monetary easing and constrain capital-intensive investment.

The most likely scenario is therefore not a collapse in global FDI but greater selectivity. Capital will continue to seek technology, scale, resilience and strategic relevance. Investment in AI infrastructure, semiconductors, critical minerals, digital networks and energy-transition technologies is likely to remain strong, while conventional manufacturing and infrastructure will face greater competition for capital.

The challenge for developing economies is that the sectors attracting the greatest investment increasingly require capabilities that cannot be created overnight. The competitive advantage of the future will depend on the interaction of capital, infrastructure, skills, technology, institutions and policy credibility.

Conclusion: The New Geography of Capital

The *World Investment Report 2026* captures a fundamental transition in the global economy. The era in which FDI was primarily organised around cost efficiency and market access is giving way to an era in which resilience, technology, security and strategic autonomy increasingly determine investment decisions.

The $1.6 trillion global FDI figure for 2025 therefore tells only part of the story. Beneath it lies a more profound transformation: investment is becoming more concentrated, more technology-intensive and more closely connected to national industrial strategies. AI, semiconductors, critical minerals and clean technologies are emerging as the new magnets for global capital, while conventional manufacturing investment is becoming more selective.

For developing countries, this creates a paradox. The reconfiguration of global supply chains offers opportunities to attract investment away from established production centres, but the investment increasingly seeks capabilities that many developing economies do not yet possess. The development challenge is therefore shifting from attracting capital to building the capabilities that capital seeks.

For India, the opportunity is particularly significant. Rising FDI inflows, expanding digital infrastructure and growing participation in electronics, electric vehicles, renewable energy and advanced manufacturing provide a strong foundation. But the next phase must focus on converting FDI into deeper domestic value chains, technology transfer, skilled employment, supplier development and export competitiveness.

The future of globalisation may therefore not be characterised by its retreat, but by its strategic redesign. Capital will continue to cross borders, but increasingly for reasons that combine economics with security, technology with resilience and investment with industrial strategy. The countries that understand this new logic—and build the infrastructure, skills, institutions and policy credibility needed to respond—will be best positioned to shape the next phase of global economic integration. As UNCTAD aptly cautions, today's policy choices will determine whether FDI becomes an engine of shared development or reinforces global divergence.

World Investment Report 2026 can be accessed from:
https://unctad.org/publication/world-investment-report-2026-international-investment-turbulent-era

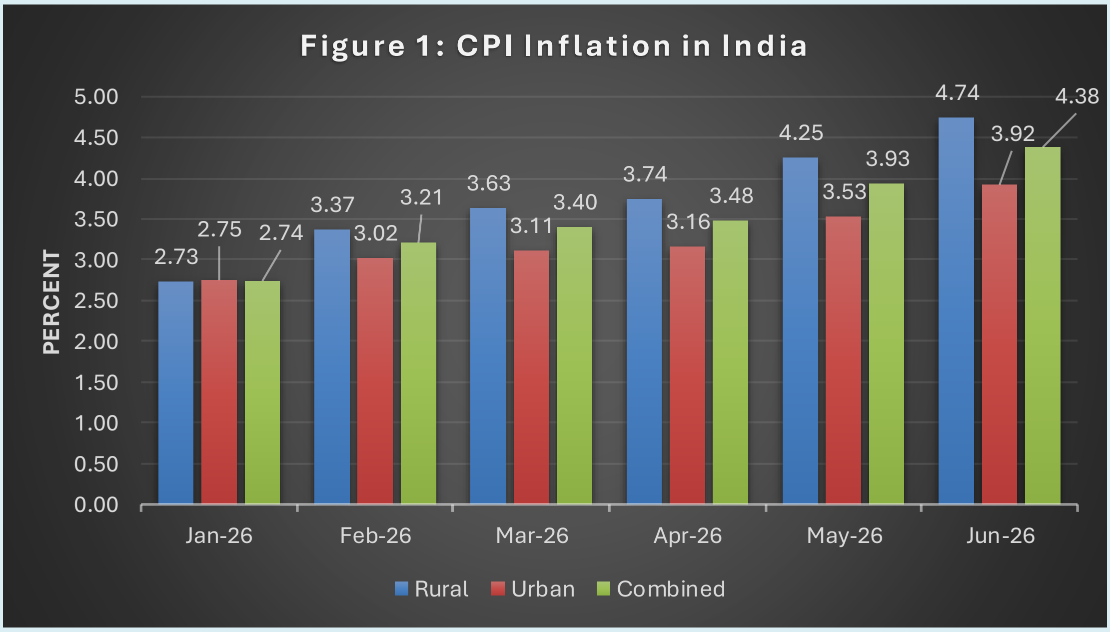
SECTION 1: INDIAN ECONOMY

NAVIGATING MACROECONOMIC TRENDS

FOOD, FUEL AND GEOPOLITICS: UNDERSTANDING THE JUNE 2026 INFLATION UPSWING

India's retail inflation staged an unexpected comeback in June 2026. After remaining comfortably below the Reserve Bank of India's (RBI) medium-term target of 4 percent for several months, Consumer Price Index (CPI) inflation accelerated to 4.38 percent in June from 3.93 percent in May (Figure 1). Although the increase was moderate in absolute terms, it carries considerable policy significance as it marks the first breach of the RBI's 4 percent target in nearly a year and a half.

The June inflation print does not yet suggest a broad-based inflationary spiral. Rather, it reflects a combination of food price pressures, rising transport costs linked to higher fuel prices amid geopolitical tensions, and adverse base effects. The challenge for policymakers is to distinguish between temporary supply-side shocks and a more persistent inflation trend.



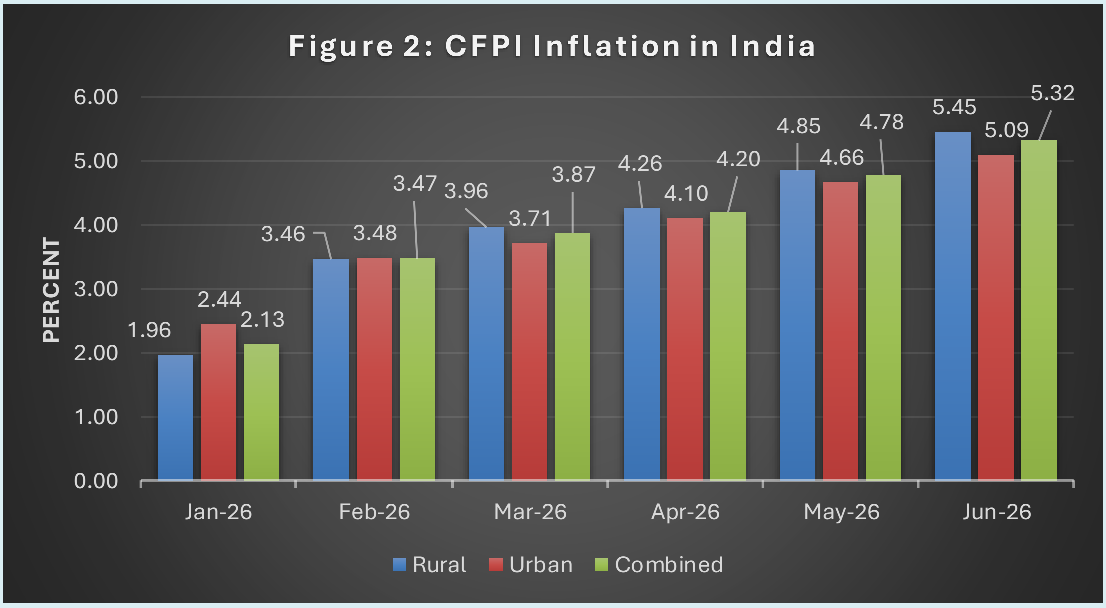
Source: MoSPI, GoI

Headline Inflation: A Sharp Month-on-Month Acceleration

The National Statistics Office (NSO) reported that headline consumer price inflation rose to 4.38 percent in June 2026, with rural inflation at 4.74 percent and urban inflation at 3.92 percent, while food inflation increased to 5.32 percent from 4.78 percent in May, indicating renewed price pressures driven primarily by food items. The divergence between rural and urban inflation widened further, reflecting the greater weight of food items in rural consumption baskets. Food prices continue to exert a disproportionate influence on rural households, making rural inflation more sensitive to supply disruptions.

Food Inflation Once Again Takes Centre Stage

The principal driver of June inflation was food. Food inflation accelerated by over half a percentage point to 5.32 percent (Figure 2), reversing the moderation observed during the previous few months.



Source: NSO, MoSPI, GoI

Several commodities recorded exceptionally high inflation during the month. Among food items, ginger prices surged by 50.41 percent, followed by tomatoes (31.92 percent) and raisins (20.52 percent). Elevated global bullion prices also drove a sharp increase in jewellery prices, with silver jewellery inflation reaching 133.21 percent and gold, diamond and platinum jewellery rising by 36.82 percent. In contrast, some food items continued to provide relief to consumers, with potato prices remaining 20.34 percent lower than a year ago and peas declining by 9.67 percent. The mixed pattern suggests that inflation is not being driven by generalized food shortages but rather by supply constraints in selected vegetables and spices.

Beyond Food: Services Continue to Show Persistent Inflation

While food inflation remained the primary driver of headline inflation, services inflation continued to exhibit persistence across several categories. Restaurants and accommodation recorded the highest inflation at 6.91 percent, followed by transport (4.31 percent), education (3.34 percent), and clothing and footwear (3.23 percent). In contrast, housing inflation remained subdued at 2.10 percent, while health inflation was relatively benign at 1.42 percent, indicating that price pressures were concentrated in select service segments rather than being broad-based. The persistence of service inflation indicates that domestic demand remains reasonably resilient despite tighter financial conditions over the past year.

Geopolitics and Fuel Costs Added Fresh Pressure

The uptick in June inflation is a combination of rising food prices, higher domestic fuel prices driven by elevated international crude oil prices, geopolitical tensions in West Asia, and the delayed or uneven progress of the southwest monsoon across some regions, all of which contributed to renewed inflationary pressures during the month.

These developments increased transportation and logistics costs, feeding into retail prices across several commodity groups. The inflation increase reflected both supply-side disruptions and a low statistical base from the previous year rather than an overheating economy.

State-wise Inflation Reveals Regional Pressures

Inflation remained uneven across states, with several large states recording inflation well above the national average. Telangana reported the highest inflation at 6.36 percent, followed by Andhra Pradesh (5.39 percent), Tamil Nadu (5.24 percent), Odisha (5.15 percent), and Madhya Pradesh (5.09 percent), reflecting significant regional variations in price pressures. These states also reported relatively elevated food inflation, suggesting that local supply conditions and agricultural factors continue to play an important role.

What Does This Mean for RBI?

The June data places the RBI in a delicate position. Although headline inflation has moved above the RBI's medium-term target of 4 percent, it remains well within the statutory tolerance band of 2–6 percent. Moreover, average CPI inflation during the first quarter of FY2026–27 is still below the RBI's latest annual projection. The June inflation spike, by itself, is unlikely to warrant an immediate monetary policy tightening. Instead, the future inflation trajectory will depend on the progress of the southwest monsoon, the performance of the kharif sowing season, movements in international crude oil prices, geopolitical developments, and whether food price pressures spill over into core inflation.

Indeed, some global financial institutions have already revised down expectations of further policy tightening, arguing that inflation could moderate later in the year if food supplies improve and energy markets stabilize.

The Road Ahead

The June inflation print serves as a timely reminder that India's inflation battle is far from over. While macroeconomic fundamentals remain favourable and domestic demand continues to support growth, supply-side shocks can quickly alter the inflation trajectory.

Several factors warrant close monitoring over the coming months, including the spatial and temporal distribution of the southwest monsoon, movements in vegetable and pulse prices, international crude oil prices amid continuing geopolitical uncertainties, the pass-through of higher fuel costs to transport and logistics, and the behaviour of core inflation, all of which will be critical in determining the inflation outlook and the future course of monetary policy.If food prices stabilise with improved kharif arrivals and global oil prices soften, headline inflation could gradually move back towards the RBI's 4 percent objective during the second half of the fiscal year. Conversely, persistent geopolitical tensions or weather-related disruptions could keep inflation elevated for longer.

The June 2026 CPI data should be viewed as a warning signal rather than a policy alarm. The rise above 4 percent reflects primarily supply-side disturbances rather than excessive domestic demand. Nevertheless, the persistence of food inflation alongside firm services inflation suggests that inflation risks have become more balanced than they appeared earlier this year.

For policymakers, the priority should be twofold: maintain monetary policy vigilance while strengthening supply-side interventions—particularly through efficient food supply management, timely imports where necessary, and measures to cushion energy price shocks. Sustaining macroeconomic stability in an increasingly uncertain global environment will require close coordination between monetary, fiscal and supply-management policies. If these measures succeed and monsoon conditions improve, the June spike is likely to prove temporary rather than the beginning of a renewed inflation cycle.

WHOLESALE PRICE PRESSURES INTENSIFY: WHAT JUNE 2026 WPI SIGNALS FOR THE ECONOMY

India's inflation narrative in June 2026 presents a striking divergence between consumer and producer prices. While retail inflation (CPI) increased moderately to 4.38 percent, wholesale inflation surged to 9.87 percent (Figure 3), indicating that producers continue to face significant input cost pressures. The newly released Output Producer Price Index (Output PPI) and the Trial Input Producer Price Index (Input PPI) reinforce this assessment by showing that cost pressures are building across the entire production chain—from raw material procurement to factory gate prices. Together, these indicators provide an important early warning that businesses are operating under elevated cost conditions, even though the full impact has not yet been transmitted to consumers.

Wholesale Inflation Remains Elevated

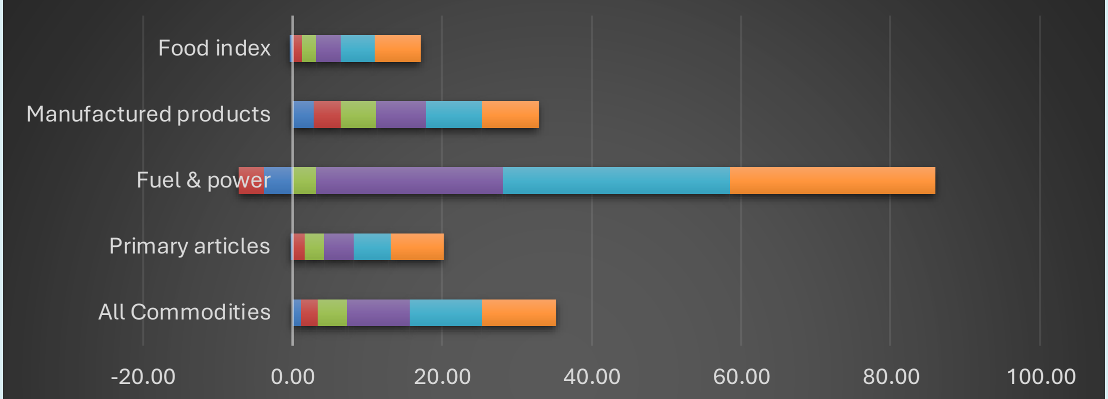
The Wholesale Price Index (WPI) rose by 9.87 percent year-on-year in June 2026, marginally higher than 9.68 percent in May, marking the third consecutive month of exceptionally high wholesale inflation. The WPI index itself increased from 109.9 to 110.2, reflecting persistent pricing pressures across commodity markets.

The composition of inflation is particularly noteworthy:

- Primary Articles inflation accelerated sharply to 7.0 percent from 4.99 percent.
- Fuel and Power inflation remained exceptionally high at 27.41 percent, although it moderated slightly from 30.33 percent in May.
- Manufactured Products inflation remained unchanged at 7.48 percent, indicating that industrial cost pressures continue to remain firmly entrenched.

The Department for Promotion of Industry and Internal Trade (DPIIT) identified Mineral Oils, Food Articles, Basic Metals, and Chemicals & Chemical Products as the principal contributors to wholesale inflation during the month. These sectors account for a substantial share of industrial inputs, implying that cost pressures are broad-based rather than confined to a few commodities.

Figure 3: WPI Inflation in India



	All Commodities	Primary articles	Fuel & power	Manufactured products	Food index
Jan-26	1.19	-0.09	-3.83	2.82	-0.36
Feb-26	2.18	1.64	-3.37	3.61	1.27
Mar-26	3.98	2.58	3.20	4.80	1.92
Apr-26	8.36	3.96	25.00	6.68	3.29
May-26	9.68	4.99	30.33	7.48	4.49
Jun-26	9.87	7.00	27.41	7.48	6.14

PERCENT

Jan-26 Feb-26 Mar-26 Apr-26 May-26 Jun-26

Office of the Economic Adviser, Ministry of Commerce & Industry, GoI

Food Inflation at the Wholesale Level Accelerates

Food prices have once again emerged as an important source of inflationary pressure. The WPI Food Index increased to 6.14 percent in June from 4.49 percent in May (Figure 3), reflecting rising prices of food articles as well as processed food products. Primary food articles recorded inflation of 5.49 percent, while manufactured food products registered inflation of 7.20 percent.

This acceleration assumes significance because wholesale food inflation typically precedes retail food inflation. If procurement prices remain elevated over the coming months, food manufacturers and retailers may gradually pass on higher costs to consumers, potentially keeping CPI food inflation elevated.

Energy Continues to Drive Pipeline Inflation

Despite some moderation, energy remains the dominant inflation driver. Fuel and Power inflation of 27.41 percent (Figure 3) continues to exert significant upward pressure on production costs. Within this group:

- Mineral Oils inflation stood at 46.48 percent.
- Crude Petroleum and Natural Gas inflation remained elevated at 34.75 percent.

Although international crude prices softened marginally during June compared with May, the continuing geopolitical tensions in West Asia, disruptions to shipping routes, and elevated freight costs continued to sustain wholesale energy prices. The persistence of WPI inflation can be attributed to imported inflation arising from elevated global energy prices and supply-chain disruptions, rather than overheating domestic demand.

Manufactured Products Show Persistent Cost Pressures

Perhaps the most significant feature of the June data is the persistence of inflation in manufacturing. Manufactured products account for more than 63 percent of the WPI basket, making them the largest contributor to overall wholesale inflation. Inflation remained unchanged at 7.48 percent (Figure 3), suggesting that businesses continue to face elevated production costs despite stable output growth.

Among major manufacturing industries:

- Basic Metals: 12.31 percent
- Chemicals and Chemical Products: 12.78 percent
- Electrical Equipment: 11.03 percent
- Textiles: 10.85 percent
- Rubber and Plastic Products: 9.94 percent

These sectors are upstream suppliers for a wide range of industries including automobiles, engineering, construction, consumer durables and infrastructure.

Persistent inflation in these industries could therefore gradually permeate the broader economy.

Output Producer Price Index Reflects Strong Factory-Gate Inflation

One of the important additions to India's inflation framework is the Output Producer Price Index (Output PPI), introduced to measure prices received by producers at the point of sale.

The Output PPI increased from 109.6 in May to 109.9 in June, indicating that manufacturers continue to receive higher prices for their products.

Sector-wise movements reveal important trends:

- Agriculture, Forestry and Fishing index increased from 111.9 to 114.1.
- Mining and Quarrying remained elevated at 121.5.
- Manufactured Products moderated slightly from 109.5 to 109.2.
- Electricity increased from 90.2 to 92.0.

The Output PPI confirms that producers have been able to pass on a significant part of higher input costs to downstream buyers. However, the slight moderation in manufacturing output prices suggests that competitive pressures may be limiting full cost pass-through.

Trial Input Producer Price Index Signals Rising Raw Material Costs

The June release also includes the Trial Input Producer Price Index (Input PPI), which measures prices paid by manufacturers for production inputs. Although currently published on an experimental basis, it provides valuable early insights into future inflationary pressures.

The Input PPI for manufacturing increased sharply from 104.9 in May to 107.1 in June, indicating that firms experienced another month of rising raw material costs.

Several industries recorded notable increases in input prices:

- Food Products: 112.2
- Coke and Refined Petroleum Products: 113.5
- Chemicals and Chemical Products: 112.5 Rubber and Plastic Products: 112.1
- Electrical Equipment: 117.7
- Textiles: 107.8

The Input PPI effectively captures inflation at the beginning of the production chain. Rising input costs generally feed into producer prices with a lag, which subsequently influence wholesale prices before eventually reaching retail consumers.

Reading the Inflation Pipeline

Viewed together, the three indicators provide a comprehensive picture of India's inflation dynamics.

- The Input PPI measures the cost of raw materials entering the production process.
- The Output PPI captures prices received by producers at the factory gate.
- The WPI reflects wholesale transaction prices across the economy.

Finally, the CPI measures prices paid by households.

June 2026 data indicate that inflationary pressures remain strongest in the upstream stages of production. Although consumer inflation remains relatively moderate, elevated producer prices suggest that pricing pressures have not completely dissipated.

Policy Implications

The June inflation data present a nuanced challenge for policymakers. For the RBI, the relatively moderate CPI inflation does not yet justify an immediate policy tightening. However, the persistence of high wholesale and producer price inflation warrants close monitoring, particularly if higher production costs begin to feed into retail inflation over the coming quarters.

Equally important will be developments in global crude oil prices, geopolitical risks, monsoon performance, and food supply conditions. A favourable agricultural season could help moderate food prices, while easing international commodity prices would reduce imported inflation.

Conclusion

The June 2026 inflation data reveal that India's inflation challenge is increasingly a producer-side phenomenon. Elevated wholesale inflation, firm Output PPI, and rapidly rising Input PPI indicate that cost pressures remain deeply embedded within industrial supply chains. Businesses have absorbed part of these higher costs, preventing a sharper rise in consumer inflation, but such absorption may not be sustainable indefinitely.

The introduction of the Output Producer Price Index and the Trial Input Producer Price Index represents an important milestone in India's statistical architecture. These indicators provide policymakers with valuable leading signals on emerging inflationary pressures and improve the understanding of price transmission from raw materials to final consumers.

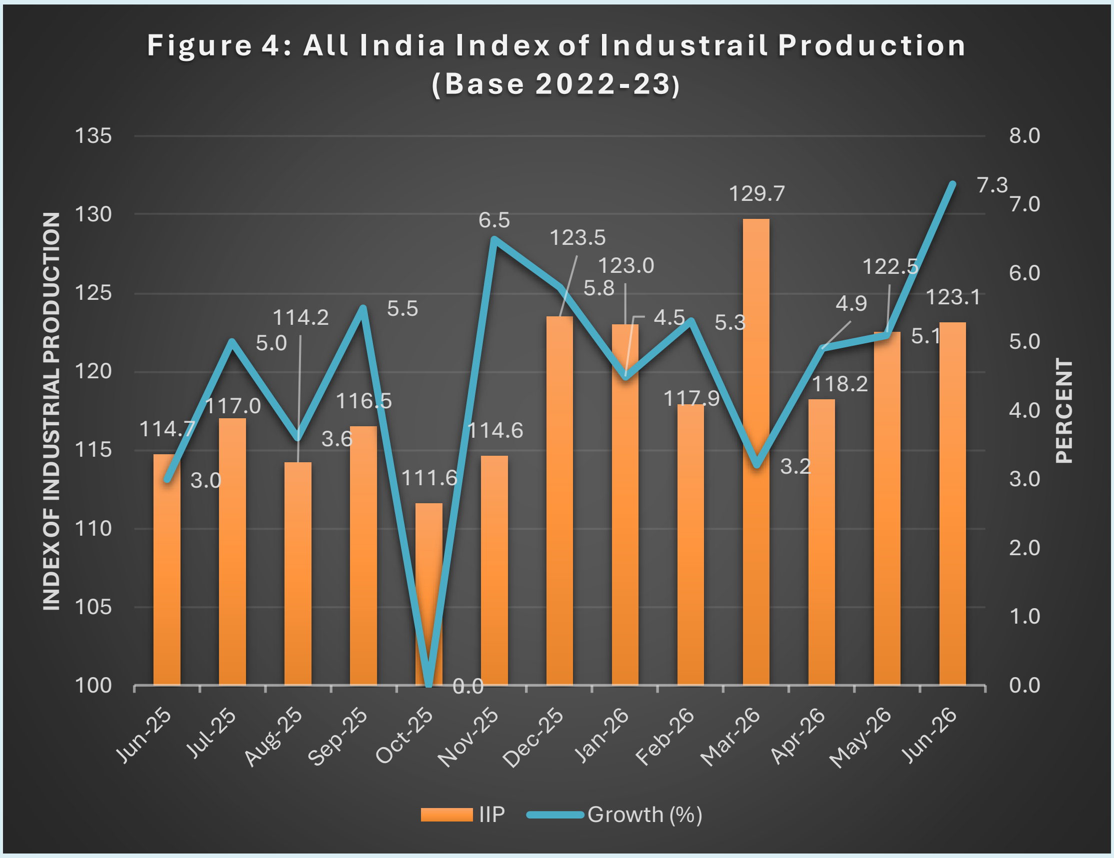
Looking ahead, if geopolitical tensions ease, global energy prices stabilise, and the kharif season delivers a healthy harvest, producer price inflation could moderate during the second half of FY2026-27. However, until upstream cost pressures recede, the risk of wholesale inflation spilling over into consumer inflation will remain an important macroeconomic concern.

INDUSTRIAL MOMENTUM STRENGTHENS: DECODING INDIA'S IIP PERFORMANCE IN JUNE 2026

Introduction

India's industrial sector ended the first quarter of FY2026-27 on a stronger footing, with the Index of Industrial Production (IIP) registering a robust year-on-year growth of 7.3 percent in June 2026, compared with 5.1 percent in May 2026 (Figure 4). The improvement was driven primarily by a broad-based acceleration in manufacturing, continued strength in electricity generation, and sustained expansion in investment-oriented industries. The overall IIP index increased to 123.1 from 114.7 a year earlier, reflecting improving industrial activity across much of the economy.

The June data are particularly encouraging because they indicate that industrial growth is no longer dependent on a few sectors. Manufacturing, which accounts for over three-fourths of the IIP, expanded by 7.8 percent, while Electricity & Gas Supply grew by 10.6 percent, providing strong support to industrial output. Although mining remained relatively subdued, the use-based classification suggests that investment demand, infrastructure activity and supply-chain production continue to strengthen.



Source: MoSPI, GoI

Sectoral Trends

Manufacturing: Broad-Based Expansion Gains Momentum

Manufacturing remained the principal driver of industrial growth, registering a robust 7.8 percent year-on-year expansion in June 2026, a marked improvement over the 2.4 percent growth recorded in June 2025 and also significantly higher than the 5.2 percent growth observed in May 2026. (Table 1). More importantly, 19 out of the 23 manufacturing industry groups recorded positive growth, indicating widespread recovery rather than isolated sectoral improvements.

Three industries emerged as the strongest contributors:

- Electrical Equipment: +34.0 percent
- Motor Vehicles, Trailers & Semi-Trailers: +17.5 percent

- Food Products: +10.8 percent

The exceptional performance of electrical equipment reflects robust demand arising from power infrastructure expansion, renewable energy installations, industrial automation and transmission investments. The sharp increase in switchgear, circuit breakers, UPS systems and optical fibre connectors points towards continued infrastructure modernization.

The automobile industry also maintained healthy momentum. Strong growth in passenger vehicles, commercial vehicles and auto components suggests resilient domestic demand together with improving supply-chain conditions.

Food processing continued to perform well, supported by higher production of tea, rice and starch products, indicating stable rural demand and adequate agricultural supplies.

Several other industries also posted double-digit growth:

- Textiles (+13.7 percent)
- Paper products (+10.1 percent)
- Computer & electronic products (+12.6 percent)
- Non-metallic mineral products (+12.9 percent)
- Other transport equipment (+11.9 percent)

However, the manufacturing landscape remains uneven. Declines in wearing apparel (-6.9 percent), wood products (-7.4 percent), coke and petroleum products (-0.5 percent), chemicals (-0.3 percent) and pharmaceuticals (+0.8 percent) indicate that certain consumer-oriented and export-linked industries continue to face demand pressures.

Overall, the manufacturing data suggest that India's industrial recovery is increasingly being driven by capital formation and infrastructure-related demand rather than discretionary consumer spending.

Mining: Recovery Remains Uneven

Mining & Quarrying remained the weakest-performing industrial sector in June 2026, registering a modest growth of 1.0 percent. Although this marked an improvement from the contraction of 1.4 percent recorded in May 2026, it was significantly lower than the 4.1 percent growth achieved in June 2025 (Table 1).Within mining, performance varied considerably:

- Metallic minerals: +38.9 percent
- Fuel minerals: −1.5 percent
- Non-metallic minerals: −13.4 percent

The surge in metallic minerals reflects continued demand from steel, engineering and infrastructure industries. In contrast, lower production of fuel minerals and non-metallic minerals moderated overall mining growth.

The weak mining performance suggests that while downstream manufacturing is expanding, upstream extractive industries have yet to experience comparable momentum.

Electricity & Gas Supply: Strongest Growth Among Core Sectors

Electricity & Gas Supply recorded a robust growth of 10.6 percent in June 2026, the highest among the major industrial sectors. Although the pace of growth was marginally higher than the 10.3 percent recorded in May 2026, it marked a significant turnaround from the 2.0 percent contraction witnessed in June 2025 (Table 1). Electricity generation alone expanded by 11.4 percent, highlighting strong industrial and commercial power demand.

The breakdown is particularly revealing:

- Renewable electricity generation: +7.3 percent
- Non-renewable electricity generation: +13.0 percent
- Gas supply: −0.1 percent

The stronger expansion in conventional electricity generation suggests that rising industrial demand is currently being met largely through thermal power, even as renewable generation continues to grow steadily. The modest decline in gas supply indicates relatively subdued demand from gas-intensive industries or supply-side constraints.

Renewable electricity generation continued to maintain healthy growth, recording 7.3 percent year-on-year growth in June and 14.2 percent cumulative growth during April-June 2026. Although renewable generation expanded more slowly than non-renewable sources during June, the sustained double-digit cumulative growth reflects India's continued investments in solar, wind and other clean energy projects.

The data reinforce two important structural trends:

- Renewable energy continues to increase its contribution to India's power mix.
- Rising industrial electricity demand is creating room for simultaneous expansion of both renewable and conventional generation.

This dual-track growth is consistent with India's broader energy transition strategy, where rapid industrialization and decarbonization proceed together.

Water Supply, Sewerage & Waste Management: Steady Expansion Reflects Improving Urban Infrastructure

The Water Supply, Sewerage & Waste Management sector maintained a steady growth trajectory in June 2026, recording a 6.1 percent year-on-year increase, marginally higher than the 5.5 percent growth registered in May 2026, though lower than the 7.9 percent growth achieved in June 2025 (Table 1). While the sector's contribution to the overall Index of Industrial Production (IIP) remains relatively modest owing to its 2.02 percent weight, its sustained expansion is indicative of continued investment in essential urban infrastructure and public utility services.

A disaggregated analysis reveals that both constituent segments contributed positively to the sector's performance. Water Supply expanded by 4.5 percent in June 2026, slightly higher than its cumulative growth of 4.4 percent during April–June 2026, reflecting stable improvements in water production and distribution systems. Meanwhile, Sewerage & Waste Management recorded a stronger growth of 8.3 percent, maintaining the same pace as its cumulative growth during the first quarter of FY2026–27. The stronger performance of this segment suggests continued emphasis on sanitation infrastructure, scientific waste management and urban environmental services.

Although the sector's growth remains below that of Manufacturing (7.8 percent) and Electricity & Gas Supply (10.6 percent), its consistent expansion carries significant developmental importance. Improvements in water supply and waste management infrastructure enhance public health outcomes, improve urban productivity, strengthen environmental sustainability, and support the functioning of industrial clusters. The sector also complements flagship government initiatives such as the Jal Jeevan Mission, Swachh Bharat Mission (Urban), and the Atal Mission for Rejuvenation and Urban Transformation (AMRUT), which continue to drive investments in urban infrastructure.

From a macroeconomic perspective, the sustained growth of the sector points to continued public capital expenditure in municipal infrastructure despite fiscal pressures. While its direct contribution to industrial production is relatively small, investments in water, sanitation and waste management generate substantial long-term economic and social returns by improving the quality of urban services, supporting sustainable industrialisation, and enhancing the resilience of India's rapidly expanding urban economy.

Table 1: IIP – Sectoral Trends

	2025-26			2026-27		
	May	June	April-June	May	June	April-June
Mining & Quarrying	5.8	4.1	3.5	-1.4	1.0	-1.4
Manufacturing	4.2	2.4	4.1	5.2	7.8	6.3
Electricity & Gas Supply	-5.1	-2.0	-1.8	10.3	10.6	8.6
Water supply, sewerage & Waste Mgt.	8.5	7.9	8.2	5.5	6.1	6.0
General	3.4	2.2	3.4	5.0	7.3	5.8

Source: MoSPI, GoI

Use-Based Insights

Primary Goods: Moderate Improvement

Primary goods recorded 4.9 percent growth, compared to 2.7 percent in May 2026 and 2.1 percent in June 2025 (Table 2), reflecting moderate expansion in basic industrial inputs. Growth in this category indicates continued activity in mining, agriculture-linked industries and basic materials, although the pace remains below that of investment-oriented sectors.

Capital Goods: Strong Investment Cycle Continues

Capital goods remained the best-performing use-based category, registering a robust growth of 14.2 percent in June 2026. Although marginally lower than the exceptional 15.5 percent growth recorded in May 2026, it substantially outperformed all other use-based segments and represented a sharp improvement over the 3.4 percent growth recorded in June 2025 (Table 2). The sustained double-digit growth underscores the continued strength of the investment cycle, supported by robust public capital expenditure and improving private sector investment. During the first quarter (April–June) of FY2026–27, capital goods production expanded by 14.0 percent, significantly higher than the 8.8 percent growth recorded during the corresponding period of the previous year, reflecting broad-based strengthening in investment demand and industrial capacity creation. Capital goods production is widely regarded as a leading indicator of investment activity. Higher production of industrial machinery, electrical equipment and engineering products suggests that both public and private investments continue to gain traction.

The performance also aligns with the Government's emphasis on manufacturing expansion, infrastructure creation and the Production Linked Incentive (PLI) ecosystem.

Intermediate Goods: Supply Chains Strengthen

Intermediate goods recorded a robust growth of 9.3 percent in June 2026, accelerating significantly from 5.8 percent in May 2026 and 3.1 percent in June 2025 (Table 2). The strong improvement points to strengthening industrial supply chains and higher demand for production inputs across manufacturing industries. On a cumulative basis, intermediate goods output expanded by 8.5 percent during April–June 2026, compared with 5.0 percent during the corresponding period of the previous year, indicating sustained improvement in industrial activity and capacity utilisation. Strong intermediate goods production indicates improving industrial supply chains and higher capacity utilization across manufacturing industries. Since these goods serve as inputs for downstream production, their robust performance signals sustained industrial activity in the coming months.

Infrastructure & Construction Goods: Public Investment Remains Supportive

Infrastructure and construction goods recorded a robust growth of 7.5 percent in June 2026, up from 6.6 percent in both May 2026 and June 2025 (Table 2), reflecting sustained momentum in construction activity, infrastructure development and public capital expenditure. The improved performance suggests continued implementation of government-led infrastructure projects and healthy demand for construction materials. On a cumulative basis, the segment expanded by 6.8 percent during April–June 2026, compared with 6.1 percent during the corresponding period of the previous year, indicating a gradual strengthening of infrastructure-led industrial growth. The performance suggests sustained implementation of government infrastructure projects, including roads, railways, urban infrastructure, power transmission and logistics development. Continued growth in this category should also generate positive spillover effects for steel, cement, engineering goods and transport equipment.

Consumer Durables: Demand Shows Improvement

Consumer durables registered a healthy growth of 7.7 percent in June 2026. Although marginally lower than the 8.0 percent growth recorded in May 2026, it represented a substantial improvement over the 1.4 percent growth achieved in June 2025 (Table 2). The sustained expansion points to strengthening discretionary consumer demand, supported by improving household incomes, favourable financing conditions and resilient urban consumption. On a cumulative basis, consumer durables output grew by 7.2 percent during April–June 2026, compared with 2.8 percent during the corresponding period of the previous year, indicating a marked recovery in consumer sentiment and demand for high-value household and personal goods. The increase suggests stronger purchases of automobiles, electrical appliances and household equipment, supported by rising incomes, improving urban consumption and easier financing conditions. Although encouraging, durable consumption still trails the pace of capital goods growth, suggesting that investment demand currently remains the stronger driver of industrial expansion.

Consumer Non-Durables: Recovery Still Gradual

Consumer non-durables recorded a moderate growth of 4.9 percent in June 2026, marking a significant turnaround from the 0.4 percent contraction recorded in May 2026 and the 2.0 percent decline witnessed in June 2025 (Table 2). The improvement suggests a gradual recovery in demand for essential consumer goods, supported by stable food production and improving rural and urban consumption. On a cumulative basis, consumer non-durables grew by 1.5 percent during April–June 2026, compared with a contraction of 2.0 percent during the corresponding period of the previous year.

Although the recovery remains modest relative to other use-based categories, the return to positive growth indicates a gradual strengthening of underlying consumption demand. This category reflects demand for essential consumer goods including food products, beverages and daily-use items. While positive growth indicates stable consumption, the relatively lower pace suggests that mass-market consumer demand is improving gradually rather than rapidly.

Table 2: IIP - Use-based Trends

	2025-26			2026-27		
	May	June	April-June	May	June	April-June
Primary Goods	0.7	2.1	1.2	2.7	4.9	2.9
Capital Goods	9.5	3.4	8.8	15.5	14.2	14.0
Intermediate Goods	4.8	3.1	5.0	5.8	9.3	8.5
Infrastructure/ Construction Goods	5.7	6.6	6.1	6.6	7.5	6.8
Consumer Durables	1.9	1.4	2.8	8.0	7.7	7.2
Consumer Non-durables	3.3	-2.0	1.6	-0.4	4.9	1.5

Source: MoSPI, GoI

Macroeconomic Implications

The June 2026 IIP data point towards a strengthening industrial recovery with several encouraging macroeconomic implications.

First, the acceleration in manufacturing and capital goods production suggests that India's investment cycle is becoming more entrenched. Sustained public capital expenditure, complemented by improving private investment, appears to be generating multiplier effects across engineering, electrical equipment, automobiles and construction materials.

Second, the broad-based expansion across manufacturing industries indicates improving business confidence. With 19 of the 23 manufacturing groups recording positive growth, industrial activity has become considerably more diversified, reducing dependence on a few sectors.

Third, the robust growth in electricity generation reflects expanding industrial capacity utilisation. Higher power demand is often an early indicator of stronger manufacturing activity and improved economic momentum.

Fourth, the strong performance of intermediate goods indicates healthier industrial supply chains, which should support future production and exports.

Nevertheless, certain vulnerabilities remain. Weak mining output, subdued performance in chemicals and petroleum products, and relatively modest growth in consumer non-durables suggest that the recovery is still uneven across sectors. Moreover, stronger growth in non-renewable electricity generation highlights the continuing dependence on conventional energy sources despite rapid renewable capacity expansion.

Overall, the industrial data strengthen expectations that manufacturing will continue to play an increasingly important role in sustaining India's economic growth during FY2026-27.

Conclusion

The June 2026 IIP results present one of the strongest industrial performances in recent months, with overall industrial production growing by 7.3 percent, supported by broad-based manufacturing expansion and robust electricity generation. Investment-led sectors, including capital goods, electrical equipment, automobiles and infrastructure-related industries, have emerged as the principal engines of industrial growth.

The use-based classification further reinforces the narrative of an economy increasingly driven by capital formation and infrastructure development rather than solely by consumption. At the same time, continued improvement in consumer durables and food processing points to gradually strengthening domestic demand.

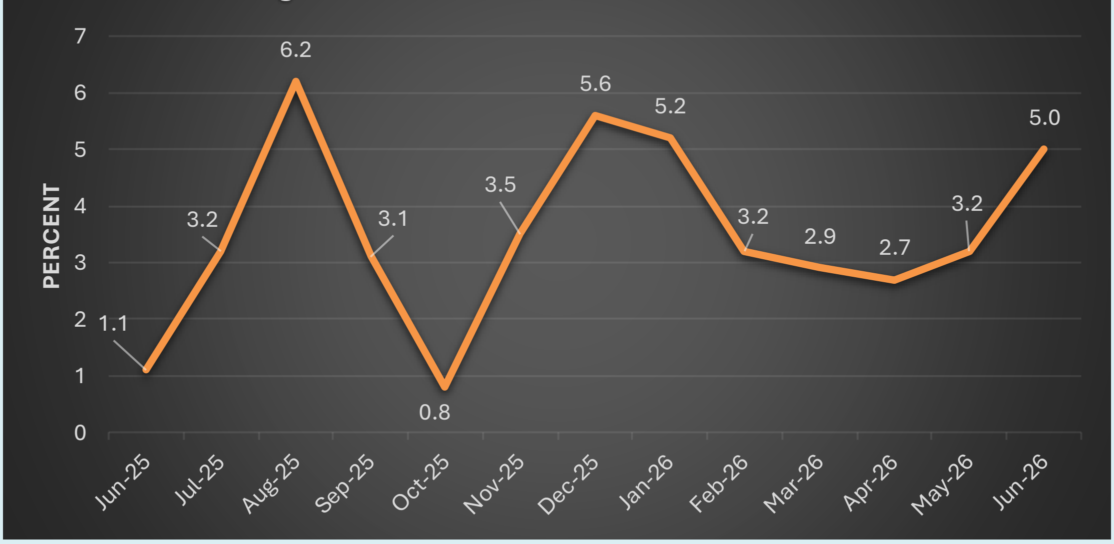
Going forward, sustaining this momentum will require continued investment in infrastructure, faster expansion of manufacturing competitiveness, deeper integration of renewable energy into industrial production, and renewed policy attention to weaker sectors such as mining and consumer-oriented industries. If these conditions are met, the industrial sector is well positioned to make a stronger contribution to India's growth trajectory during the remainder of FY2026-27.

INDIA'S REBASED CORE INDUSTRIES INDEX SIGNALS STRONGER INDUSTRIAL MOMENTUM

Introduction

The release of the revised Index of Core Industries (ICI) with 2022–23 as the new base year marks a significant milestone in India's industrial statistics. More than a routine statistical revision, the new series reflects the structural transformation of the Indian economy over the past decade by incorporating methodological improvements, revised sectoral weights and the inclusion of iron ore as the ninth core industry. These changes make the index more representative of the country's evolving industrial landscape and better aligned with the revised Index of Industrial Production (IIP). The first release under the new series presents an encouraging picture, with core sector growth accelerating to 5.0 percent in June 2026, compared with 3.2 percent in May (Figure 5), while cumulative growth during April–June 2026 improved to 3.6 percent, compared with 1.0 pe cent in the corresponding period of the previous year.

Figure 5: Overall Core Sector Growth

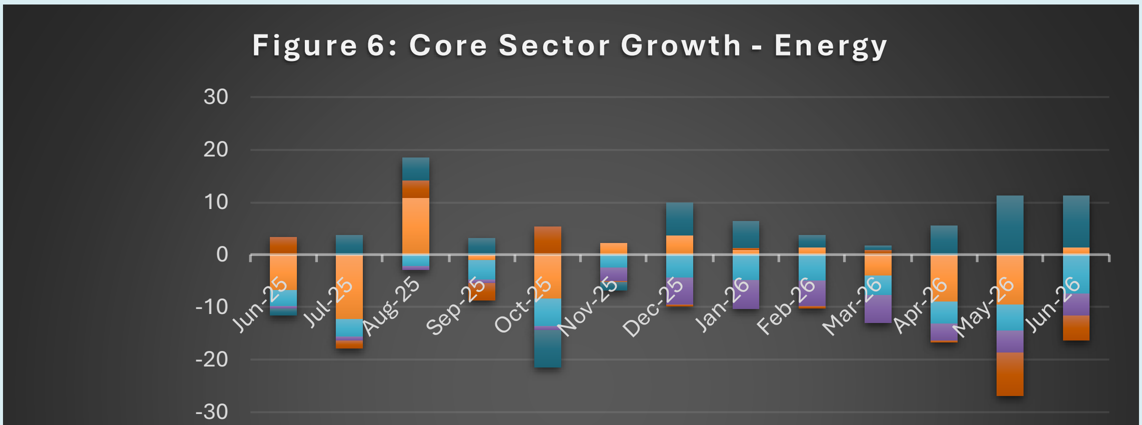


Source: Office of Economic Adviser, DPIIT, Ministry of Commerce & Industry, GoI

Energy Sector

The performance of the energy sector presents a mixed picture. Electricity emerged as one of the strongest growth drivers, recording 9.8 percent year-on-year growth in June (Figure 6) and accounting for the largest weight (30.9 percent) in the revised index. The strong growth reflects sustained demand from industry, services and households, supported by infrastructure expansion and rising economic activity. Coal production also returned to positive territory, registering 1.4 percent growth after contracting in the previous month, indicating improved fuel availability for thermal power generation.

In contrast, hydrocarbon-based industries continued to remain under pressure. Natural gas production contracted by 7.4 percent, crude oil output declined by 4.2 percent, while refinery products registered a 4.7 percent decline. The continued weakness in these sectors reflects persistent structural challenges in domestic hydrocarbon production and the impact of global energy market volatility. The decline in refinery output also suggests moderation in petroleum product demand and refining activity despite stable domestic economic conditions. Overall, while electricity and coal supported industrial growth, weakness in petroleum-related industries remained a drag on overall core sector performance.



	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26
Electricity	-1.2	3.7	4.2	3.1	-7.0	-1.5	6.2	5.1	2.3	0.8	5.5	11.2	9.8
Refinery Products	3.3	-1.4	3.4	-3.2	5.3	-0.2	-0.3	0.4	-0.4	0.9	-0.2	-8.2	-4.7
Crude oil	-0.5	-0.8	-0.7	-0.7	-0.8	-2.6	-5.1	-5.4	-4.8	-5.3	-3.2	-4.2	-4.2
Natural gas	-3.0	-3.3	-2.2	-3.7	-5.2	-2.5	-4.4	-4.9	-5.0	-3.7	-4.2	-5.0	-7.4
Coal	-6.8	-12.3	10.8	-1.1	-8.4	2.2	3.7	0.9	1.4	-4.0	-9.0	-9.5	1.4

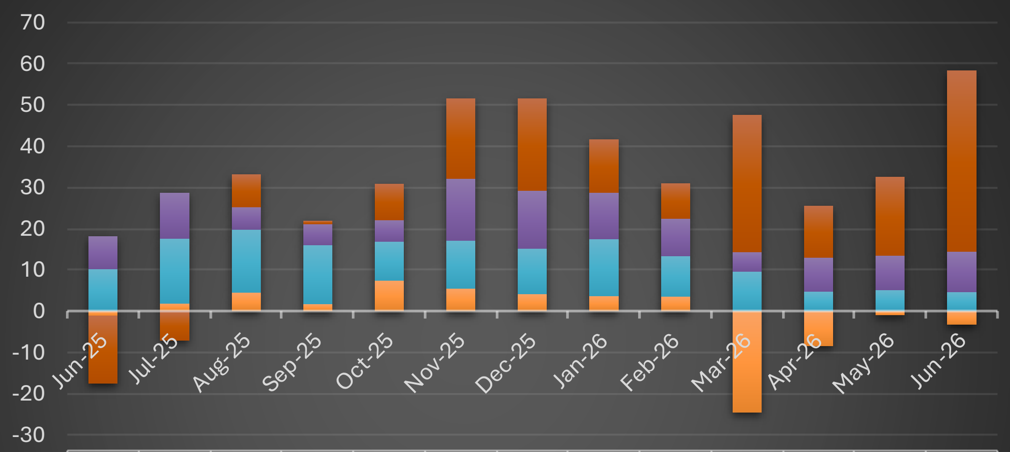
Source: Office of Economic Adviser, DPIIT, Ministry of Commerce & Industry, GoI

Manufacturing Sector

The manufacturing-related core industries delivered a relatively strong performance. The inclusion of iron ore in the revised index proved particularly significant, with production surging 43.9 percent (Figure 7), making it the single largest contributor to headline growth. While the exceptionally high growth partly reflects a favourable base effect, it also indicates strong demand from the steel industry and infrastructure projects.

Cement production expanded by 9.8 percent (Figure 7), reflecting continued momentum in construction, housing and infrastructure activities. Steel production recorded a healthy 4.6 percent increase, although growth moderated compared with previous months. Together, these trends indicate sustained investment activity in roads, railways, urban infrastructure and real estate. However, fertiliser production contracted by 3.3 percent, suggesting weaker industrial output in this segment despite continued policy emphasis on agricultural development. The divergent performance highlights the strength of investment-led manufacturing relative to agriculture-linked industries.

Figure 7: Core Sector Growth - Manufacturing



	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26
Iron Ore	-16.4	-7.1	7.9	0.8	8.7	19.3	22.3	12.8	8.5	33.3	12.5	19.0	43.9
Cement	7.9	11.1	5.4	5.1	5.2	15.1	14.0	11.3	9.1	4.7	8.3	8.4	9.8
Steel	10.2	15.7	15.3	14.3	9.5	11.6	11.1	13.8	9.9	9.6	4.7	5.1	4.6
Fertilizers	-1.2	1.9	4.5	1.7	7.4	5.5	4.1	3.7	3.5	-24.6	-8.5	-1.0	-3.3

Fertilizers Steel Cement Iron Ore

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

Implications for Industrial Production and GDP Growth

The revised Index of Core Industries provides an encouraging signal for India's broader industrial outlook. Since the core industries constitute nearly 40 percent of the weight in the Index of Industrial Production (IIP), stronger core sector growth is likely to translate into improved manufacturing performance in the coming months. The broad-based expansion in electricity, cement, steel and iron ore points towards sustained infrastructure activity and improving industrial demand, both of which are essential drivers of economic growth.

The revised methodology also enhances the usefulness of the index as a leading indicator. The inclusion of iron ore and revised weights have resulted in a stronger and more representative measure of industrial activity. The new series better reflects the current structure of the economy, while higher electricity consumption and mining output indicate continuing investment momentum. If these trends continue, they could provide meaningful support to GDP growth during FY2026–27.

Challenges Ahead

Despite the encouraging headline numbers, several challenges remain. The persistent contraction in natural gas, crude oil and refinery products points to continued weakness in India's hydrocarbon sector. Global geopolitical uncertainties, volatile crude oil prices and supply disruptions continue to influence domestic energy production and refining activity. Furthermore, part of the exceptionally strong growth in iron ore reflects a favourable statistical base, which may not be sustained in subsequent months.

The revised series also introduces a break in historical comparability, requiring analysts and policymakers to exercise caution while comparing current growth rates with the earlier 2011–12 base series. As with any rebasing exercise, trend analysis will become more meaningful only after several months of data become available.

Policy Priorities

The latest data underscore the importance of sustaining public investment in infrastructure while encouraging greater private sector capital expenditure. Continued expansion in electricity generation, mining and construction will require timely project implementation, efficient logistics and improved availability of raw materials. At the same time, the persistent weakness in crude oil and natural gas highlights the need to strengthen domestic hydrocarbon exploration, diversify energy sources and accelerate the transition towards cleaner energy.

The revised Index of Core Industries itself represents an important policy reform. By incorporating iron ore, revising sectoral weights and harmonising the methodology with the new IIP series, the government has significantly improved the quality and relevance of India's industrial statistics, thereby strengthening evidence-based policymaking.

Conclusion

The revised Index of Core Industries offers a more accurate reflection of India's changing industrial economy. The June 2026 data indicate that industrial growth is being increasingly driven by mining, electricity and infrastructure-related manufacturing, even as petroleum-based industries continue to face structural challenges. The rebased index therefore provides a stronger analytical framework for assessing industrial performance and economic momentum. Going forward, sustaining growth in investment-oriented sectors while addressing weaknesses in the energy sector will be critical for maintaining industrial expansion and supporting India's medium-term GDP growth trajectory.

INDIA'S SERVICES SECTOR FINDS NEW MOMENTUM: INSIGHTS FROM THE TRIAL INDEX OF SERVICES PRODUCTION

Introduction

The launch of the Index of Services Production (ISP) marks a significant milestone in India's statistical system. For decades, while the Index of Industrial Production (IIP) has provided timely insights into the manufacturing and industrial sectors, policymakers and analysts have lacked a comparable high-frequency indicator to monitor India's dominant services sector, which contributes nearly 55 percent of the country's Gross Value Added (GVA). The Ministry of Statistics and Programme Implementation (MoSPI) has now addressed this gap by releasing the trial series of the ISP for May 2026, covering 19 major service sub-sectors with 2024–25 as the base year.

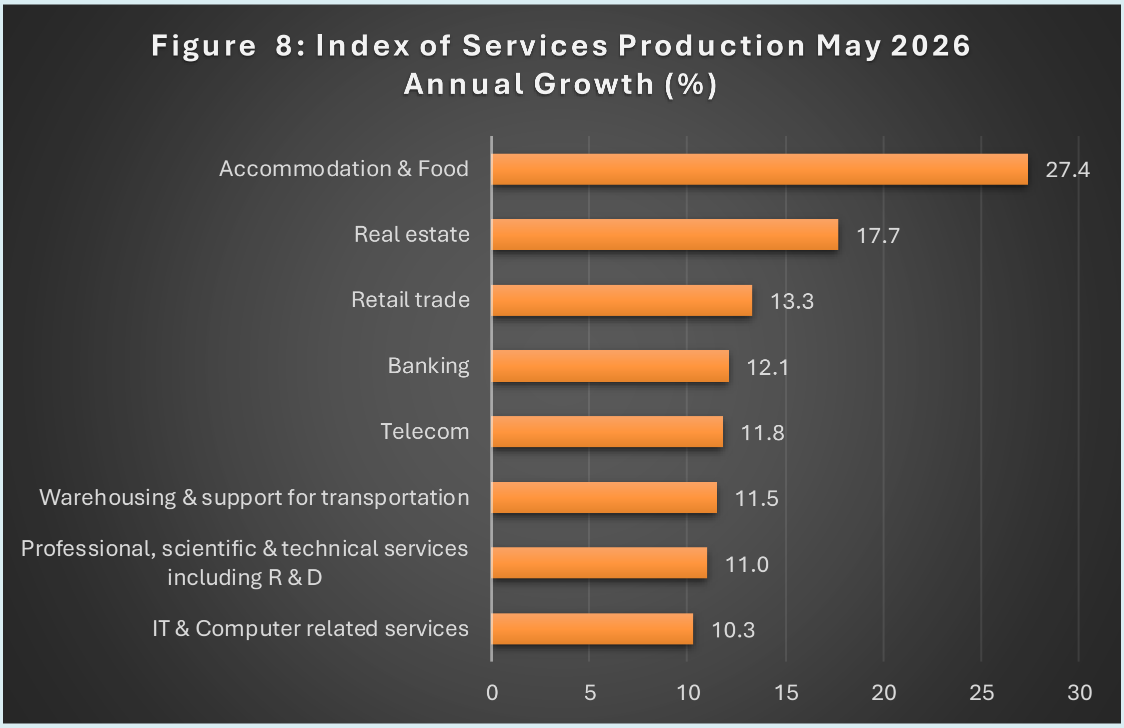
Although published on an experimental basis, the ISP has the potential to become a critical leading indicator of economic activity. It provides monthly insights into the performance of major services such as trade, transport, financial services, telecommunications, real estate, hospitality and professional services, thereby complementing existing indicators like the IIP and enhancing the monitoring of India's evolving economic structure.

Broad-Based Expansion Reflects Strengthening Services Activity

The May 2026 ISP presents an encouraging picture of India's services economy. Of the 19 sub-sectors covered, 16 recorded positive year-on-year growth, while eight registered double-digit expansion, indicating that the recovery is broad-based rather than confined to a few industries.

The strongest growth was recorded by Accommodation and Food Services, which expanded by an impressive 27.4 percent, followed by Real Estate (17.7 percent), Retail Trade (13.3 percent), Banking (12.1 percent) and Telecommunications (11.8 percent). Other sectors such as Warehousing and Support Activities (11.5 percent), Professional, Scientific and Technical Services (11.0 percent) and IT & Computer-related Services (10.3 percent) also recorded double-digit growth (Figure 8).

The widespread nature of growth suggests that domestic demand, business services and digital activities are simultaneously contributing to the expansion of the services economy.



Source: MoSPI, GoI

Consumption-Oriented Services Continue to Lead

One of the most striking features of the latest ISP is the exceptional performance of consumer-facing services. Accommodation and food services recorded the fastest expansion, reflecting sustained growth in tourism, business travel, hospitality and restaurant activity. Retail trade also registered robust double-digit growth, indicating resilient consumer spending despite global uncertainties. Repair services grew by 9.8 percent, further pointing to healthy household consumption and increased demand for consumer services. Wholesale trade expanded more moderately by 3.7 percent, suggesting that retail demand has been relatively stronger than wholesale activity during the month.

The continued strength of these sectors is consistent with India's domestic demand-driven growth model, where private consumption remains a major engine of economic expansion.

Financial and Knowledge-Based Services Maintain Strong Momentum

The ISP also highlights the growing importance of modern services in India's economy. Banking expanded by 12.1 percent, supported by rising credit demand, expanding digital financial services and improving financial intermediation. Telecommunications recorded 11.8 percent growth, reflecting sustained demand for digital connectivity and data services. Similarly, IT and computer-related services grew by 10.3 percent, while professional, scientific and technical services, including research and development, expanded by 11.0 percent.

These sectors represent the knowledge-intensive segment of the economy and are likely to remain key drivers of productivity, innovation and export competitiveness. Their continued expansion also reflects increasing digitalisation across businesses and households.

Real Estate Signals Continuing Investment Activity

Real estate emerged as one of the strongest-performing sectors, registering 17.7 percent annual growth. The robust performance of real estate may reflect continued demand in residential and commercial property markets, ongoing urban infrastructure development and sustained investment in construction-related activities. Given the strong forward and backward linkages of real estate with construction, finance, cement, steel and consumer durables, this trend augurs well for broader economic activity.

Transport Services Present a Mixed Picture

The transport sector exhibited varying performance across different modes. Road transport grew by 4.4 percent, railway transport by 3.4 percent, and water transport by 5.6 percent, indicating steady improvements in freight movement and logistics. Warehousing and support activities for transportation performed particularly well, expanding by 11.5 percent, which points to improving supply chain efficiency and stronger logistics demand.

However, air transport contracted by 2.8 percent, while postal and courier services declined by 1.0 percent. The decline in air transport may partly reflect base effects, changing travel patterns or temporary operational disruptions, whereas the modest contraction in postal services is consistent with the longer-term structural shift toward digital communication and integrated logistics services.

Divergence within Communication Services

An interesting divergence emerges within communication-related activities. Telecommunications recorded healthy growth of 11.8 percent, reflecting continued digital transformation and rising internet usage. In contrast, Information and Broadcasting contracted by 7.6 percent, making it the weakest-performing service sector during May 2026.

This divergence illustrates the structural changes taking place within India's media and communication landscape. While demand for digital connectivity continues to expand rapidly, traditional broadcasting segments may be undergoing adjustment amid changing consumer preferences and the growing dominance of digital platforms.

Monthly Trends Indicate Stable Expansion

The annexure accompanying the release provides monthly ISP values from May 2025 to May 2026, enabling an assessment of recent trends. Several sectors—including accommodation and food services, banking, telecommunications and real estate—have maintained relatively stable and elevated index levels over the past year. Other sectors, such as repair services, administrative support services and insurance, exhibit greater month-to-month volatility, suggesting sensitivity to seasonal factors and business cycles. The availability of monthly time-series data represents a valuable addition for economic analysis and business forecasting.

Policy Significance of the New ISP

The introduction of the ISP represents an important institutional innovation. India's economy has undergone a profound structural transformation over the past three decades, with services accounting for the largest share of output, employment and exports. Yet policymakers have relied largely on indirect indicators, including GST collections, PMI Services, e-way bills and sector-specific data, to assess short-term services activity.

The ISP fills this important information gap by providing a comprehensive, high-frequency measure of production across major service industries. Once fully institutionalised, it will strengthen macroeconomic surveillance, improve GDP estimation, support monetary and fiscal policy formulation, and enable more timely identification of sector-specific trends.

Nevertheless, MoSPI has appropriately clarified that the present series is experimental and intended to facilitate stakeholder feedback before the index is finalised. Certain components, including railways, banking and insurance, are currently based on provisional data and remain subject to annual revisions.

Conclusion

The ISP has the potential to become one of India's most important high-frequency macroeconomic indicators. The May 2026 trial results portray a services sector that remains a key pillar of economic growth, supported by strong expansion in hospitality, retail trade, real estate, financial services, telecommunications and knowledge-intensive industries.

Although a few sectors, including air transport and information & broadcasting, continue to face challenges, the broad-based nature of services growth indicates resilient domestic demand, continued digital transformation and expanding business activity. As the trial series matures into an official statistical product, the ISP is likely to become an indispensable tool for policymakers, researchers, businesses and investors seeking timely insights into India's increasingly services-driven economy.

TRADE & INVESTMENTS

INDIA'S EXPORTS GAIN MOMENTUM IN JUNE, BUT RISING IMPORTS WIDEN INDIA'S TRADE DEFICIT

Introduction

India's external sector exhibited a mixed performance during June 2026. Merchandise exports maintained robust momentum, supported by strong growth in engineering goods, electronics, chemicals and gems & jewellery, while services exports continued to expand steadily. However, a much sharper increase in imports, driven by higher international commodity prices, rising crude oil imports and stronger domestic demand, resulted in a significant widening of both the merchandise and overall trade deficits. The latest trade data thus present two contrasting developments: India's export competitiveness continues to improve, but growing import dependence is exerting increasing pressure on the external balance.

During the first quarter (April-June) of FY2026-27, India's combined merchandise and services exports reached US$232.73 billion, registering an impressive 11.37 percent increase over the corresponding period of the previous year. Merchandise exports grew even faster at 15.92 percent, while non-petroleum exports also maintained healthy double-digit growth, underscoring the broad-based nature of export expansion.

Merchandise Exports Maintain Strong Momentum

India's merchandise exports increased to US$40.41 billion in June 2026 from US$34.98 billion a year earlier, reflecting a strong recovery in manufacturing exports despite an uncertain global environment. For the April-June quarter, merchandise exports rose to US$129.32 billion, compared with US$111.57 billion during the corresponding period of FY2025-26, recording a growth of 15.92 percent.

The export performance demonstrates the resilience of Indian manufacturing, supported by improving global demand in selected sectors, supply chain diversification and expanding market access through recent trade agreements.

Engineering, Electronics and Gems & Jewellery Lead Export Growth

The composition of exports provides encouraging evidence of improving product diversification. Gems & Jewellery emerged as the fastest-growing major export category, registering 34.64 percent growth, followed by Engineering Goods (20.74 percent), Organic & Inorganic Chemicals (19.42 percent), Electronic Goods (18.93 percent) and Rice (16.48 percent).

The robust expansion in engineering and electronics exports is particularly significant, as these sectors represent higher value-added manufacturing activities and align with India's objective of strengthening its position in global manufacturing value chains. Similarly, the sustained growth in chemicals reflects India's increasing competitiveness in speciality and industrial chemical exports.

The detailed commodity data further indicate strong growth in several other export sectors, including Other Cereals (244.29 percent), Meat, Dairy & Poultry Products (54.63 percent), Iron Ore (49.97 percent), Plastic & Linoleum Products (21.24 percent) and Marine Products (14.48 percent), pointing to broad-based export expansion across agriculture, manufacturing and resource-based industries.

Non-Petroleum Exports Reflect Underlying Export Strength

Non-petroleum exports increased to US$35.54 billion during June 2026, while non-petroleum exports during April-June reached US$106.30 billion, representing a growth of 12.44 percent over the previous year. Even after excluding both petroleum and gems & jewellery, exports increased from US$87.88 billion to US$99.04 billion during the first quarter, indicating that export growth is not confined to a few volatile commodities.

This broad-based performance suggests that India's export competitiveness has strengthened across several manufacturing sectors, supported by improvements in production capacity, quality standards and integration into global supply chains.

Import Growth Outpaces Exports

Despite encouraging export performance, imports increased at a much faster pace. Merchandise imports rose sharply to US$70.84 billion in June 2026 from US$54.08 billion a year earlier. During April-June 2026-27, imports reached US$216.18 billion, compared with US$180.31 billion during the corresponding period last year.

The sharp increase reflects a combination of stronger domestic demand, higher international commodity prices and rising imports of energy, capital goods and intermediate inputs. While robust imports often signal expanding industrial activity, they also widen the external financing requirement when export growth is unable to keep pace.

Merchandise Trade Deficit Widens Significantly

The stronger import growth resulted in a noticeable deterioration in the merchandise trade balance. The merchandise trade deficit widened to US$30.43 billion in June 2026, while the cumulative merchandise trade deficit during April-June expanded to US$86.86 billion, compared with US$68.75 billion during the corresponding period of the previous year.

Similarly, the overall trade deficit (merchandise and services combined) increased substantially to US$15.32 billion during June 2026 from US$2.89 billion a year earlier. During April-June, the combined trade deficit widened to US$37.42 billion, compared with US$20.85 billion in the previous year. This deterioration underscores the continuing vulnerability of India's external sector to fluctuations in global commodity prices and import demand.

Services Continue to Provide Stability

India's services sector remained an important source of resilience. Services exports were estimated at US$33.03 billion in June 2026, marginally higher than US$32.11 billion in June 2025. During April-June, services exports increased to US$103.41 billion, recording a growth of 6.16 percent, while services imports rose to US$53.97 billion. The resulting services trade surplus improved slightly to US$49.43 billion, helping offset a significant portion of the merchandise trade deficit.

The continued strength of services exports—particularly in information technology, business services and professional services—remains a key structural advantage for India's balance of payments.

Changing Trade Geography

The trade data also point to evolving geographical patterns. Among export destinations, the strongest growth during June was recorded in shipments to South Africa, Singapore, China, Oman and Malaysia, while during the first quarter, exports to Singapore, Tanzania, Sri Lanka, South Africa and China registered particularly strong growth. On the import side, higher imports originated primarily from Russia, China, the United States, the United Arab Emirates and Taiwan, highlighting India's continued dependence on major commodity and industrial suppliers. The increasing importance of Asian, African and Gulf markets also reflects India's strategy of diversifying export destinations and strengthening South-South trade partnerships.

Macroeconomic Implications

The June trade data carry several important macroeconomic implications.

First, the sustained expansion in merchandise exports demonstrates the growing competitiveness of Indian manufacturing and supports the country's objective of increasing its share in global exports. Strong growth in engineering goods, electronics and chemicals indicates progress towards higher value-added manufacturing.

Second, the widening merchandise trade deficit raises concerns regarding the current account balance. Continued increases in imports, particularly if accompanied by elevated crude oil prices, could place pressure on the balance of payments and the exchange rate.

Third, the resilience of services exports continues to provide an important cushion against external shocks. Without the sizeable services trade surplus, India's overall external imbalance would be significantly larger.

Finally, the robust growth in non-petroleum and non-gems & jewellery exports suggests that India's export performance is becoming increasingly diversified, thereby reducing dependence on a limited number of commodity groups.

Conclusion

India's external trade performance during June 2026 reflects both resilience and emerging challenges. Merchandise exports have maintained strong momentum across a wide range of manufacturing sectors, supported by expanding engineering goods, electronics, chemicals and gems & jewellery exports. The continued strength of non-petroleum exports further highlights the improving competitiveness of Indian industry.

However, the much faster growth in imports has resulted in a sharp widening of the merchandise and overall trade deficits, underscoring the continuing sensitivity of India's external sector to global commodity prices and domestic import demand. While the services sector continues to provide an important stabilising influence through a sizeable trade surplus, sustaining external stability will require continued export diversification, deeper integration into global value chains, prudent management of import dependence, and measures to enhance competitiveness in high-value manufacturing and services exports.

EMPLOYMENT

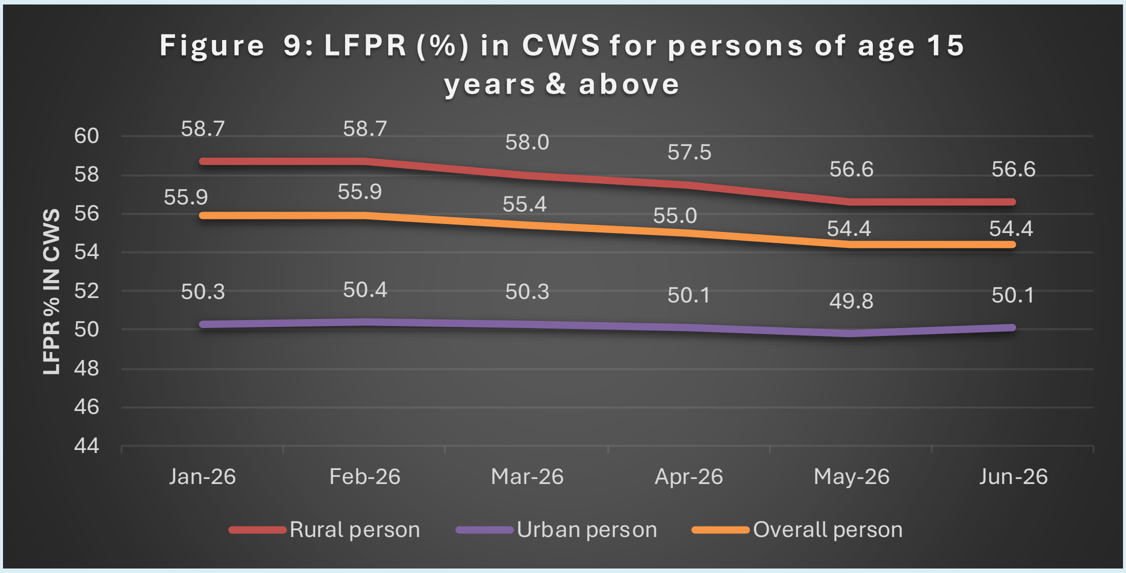
PLFS JUNE 2026: STABLE EMPLOYMENT WITH ENCOURAGING GAINS IN LABOUR PARTICIPATION

The Periodic Labour Force Survey (PLFS) for June 2026 presents a picture of a labour market that has remained broadly resilient despite global economic uncertainty and geopolitical headwinds. Labour force participation, employment, and unemployment indicators remained largely stable, while urban employment and female labour force participation continued to improve compared with a year ago. Nevertheless, structural challenges, including relatively low female workforce participation, persistent urban unemployment, and the need to create more productive jobs, continue to warrant sustained policy attention.

Labour Force Participation Remains Stable

The Labour Force Participation Rate (LFPR) in Current Weekly Status (CWS)[1] for persons aged 15 years and above remained unchanged at 54.4 percent in June 2026, slightly higher than 54.2 percent recorded a year earlier. Rural labour force participation remained robust at 56.6 percent, while the urban LFPR improved modestly to 50.1 percent from 49.8 percent in May (Figure 9). The gradual improvement in urban participation suggests that labour market conditions in cities continue to strengthen alongside economic activity.

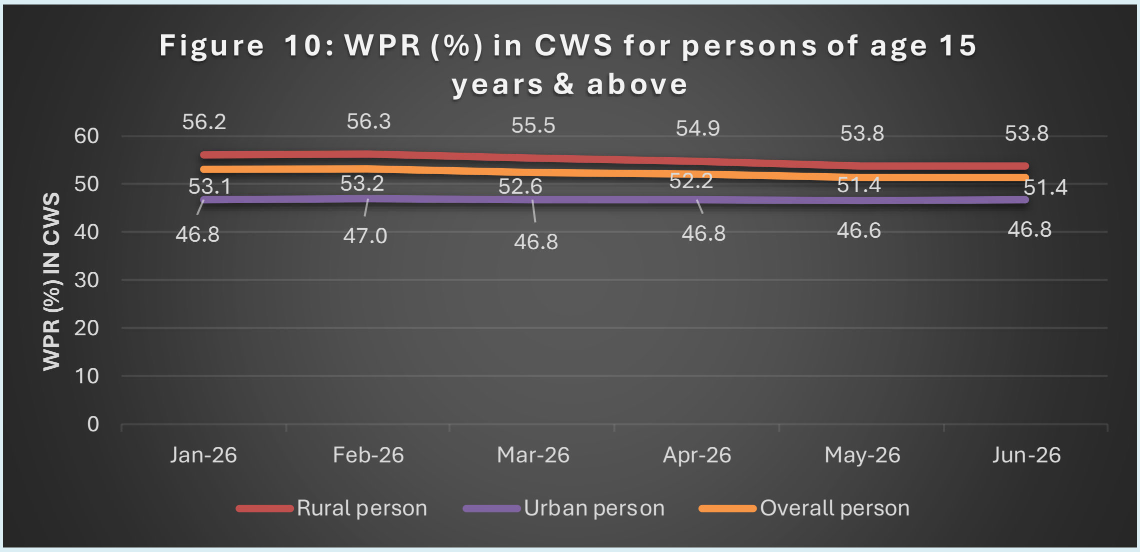
[1] A person's employment status is determined by the economic activities undertaken during a specified reference period. When this assessment is based on the activities performed during the seven days preceding the date of the survey, it is referred to as the Current Weekly Status (CWS).



Source: MoSPI, GoI

Employment Continues to Expand

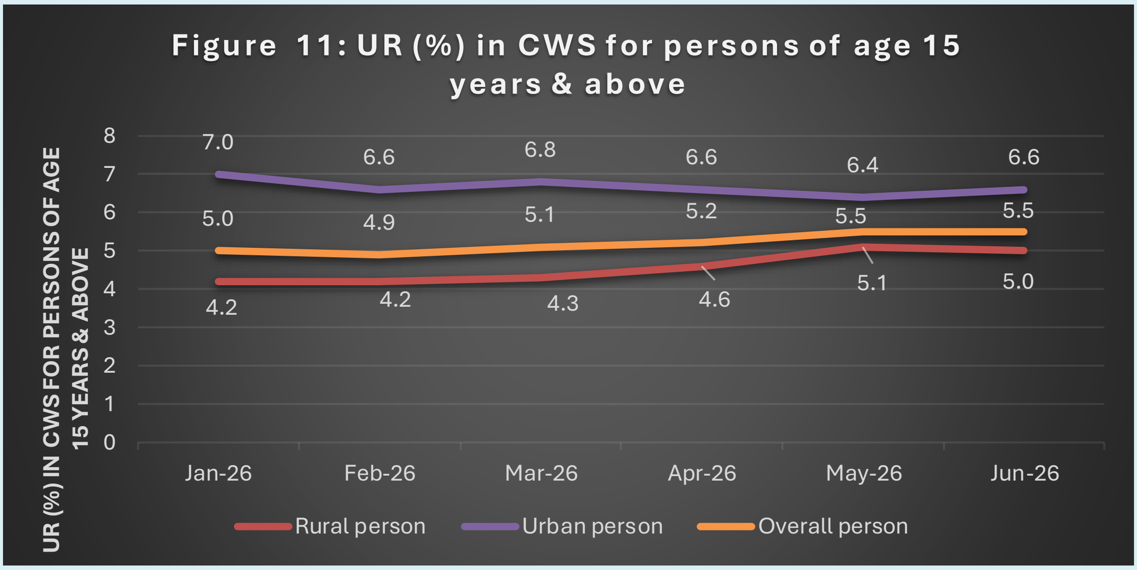
The Worker Population Ratio (WPR) remained stable at 51.4 percent (Figure 10), indicating that employment generation has broadly kept pace with labour force growth. Urban employment improved marginally, with urban WPR increasing to 46.8 percent, while rural WPR remained steady at 53.8 percent. On a year-on-year basis, overall employment strengthened modestly, reflecting continued expansion in employment opportunities. Male employment also improved, supported by relatively favourable conditions in manufacturing, construction and services.



Source: MoSPI, GoI

Unemployment Remains Contained

The Unemployment Rate (UR) remained unchanged at 5.5 percent (Figure 11), suggesting that the economy has continued to absorb new labour market entrants. Rural unemployment declined marginally to 5.0 percent, while urban unemployment edged up to 6.6 percent, although it remained well below the 7.1 percent recorded a year earlier. The slight increase in urban unemployment during the month may largely reflect stronger labour force participation rather than weaker employment generation.

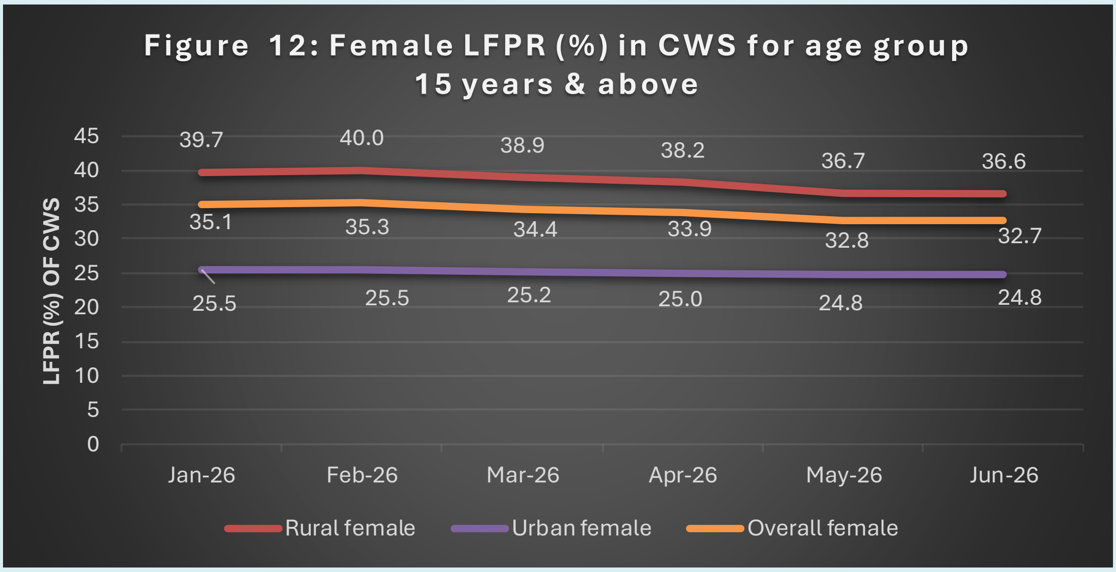


Source: MoSPI, GoI

Women's Labour Market: Gradual Progress Continues

One of the encouraging developments is the continued improvement in women's labour market participation. Female LFPR stood at 32.7 percent, compared with 32.0 percent a year ago, while the female WPR also remained above last year's level (Figure 12). Rural women continued to participate in the labour market at significantly higher rates than urban women, reflecting greater engagement in agriculture, allied activities, self-employment and rural enterprises.

However, challenges remain. Female unemployment increased to 5.9 percent, with urban female unemployment remaining elevated at 8.4 percent, considerably above the corresponding rate for men. These trends underscore persistent structural barriers, including skill mismatches, childcare responsibilities, workplace safety concerns and limited access to formal employment, which continue to constrain women's employment opportunities in urban India.



Source: MoSPI, GoI

Rural Labour Market Continues to Provide Stability

The June data once again underline the stabilising role of the rural economy. Stable labour force participation, steady employment, and marginally lower unemployment reflect continued support from agriculture, allied activities, rural infrastructure development, MGNREGS, and the expansion of rural non-farm enterprises. Going forward, however, policy emphasis should increasingly shift from employment generation alone towards improving productivity, earnings, and job quality in rural areas.

Economic Implications

The June labour market indicators complement other high-frequency economic indicators pointing to continued resilience in the Indian economy. Stable employment supports household incomes and private consumption, reinforcing economic growth. At the same time, the data suggest that India has entered a phase where the challenge is less about generating jobs in aggregate and more about creating high-quality, productive and inclusive employment, particularly for women and urban youth. Continued investment in manufacturing, infrastructure, digital services, skill development and labour-intensive industries will therefore be essential to sustain employment growth.

Conclusion

The June 2026 PLFS confirms that India's labour market remains fundamentally stable, with resilient labour force participation, steady employment, and contained unemployment despite an uncertain global environment. Encouraging gains in female labour force participation and urban employment demonstrate gradual structural improvement. However, raising women's workforce participation, reducing urban unemployment, improving labour productivity, and expanding formal employment opportunities remain central to India's long-term growth strategy. As India advances towards the vision of *Viksit Bharat 2047*, labour market reforms must increasingly focus on improving the quality, inclusiveness and productivity of employment to fully harness the country's demographic dividend.

RETHINKING AGRICULTURAL PRIORITIES: WHY RESEARCH AND INNOVATION DESERVE GREATER INVESTMENT

Introduction

For decades, the success of Indian agriculture has largely been measured in terms of record foodgrain production, rising horticultural output, expanding livestock production, and increasing fisheries exports. Yet, the underlying drivers of these achievements have often remained invisible in public discourse. While government programmes, subsidies and farmers' hard work receive deserved recognition, the contribution of agricultural research and innovation has rarely been quantified in economic terms.

The recent assessment by the Indian Council of Agricultural Research (ICAR) marks an important departure from this tradition. For the first time, the country's premier agricultural research institution has attempted to estimate the economic value generated by agricultural research and development (R&D). According to the analysis, India's agricultural sector generated an additional output worth approximately ₹1.7 trillion between 2024 and 2025, of which nearly one-third (about ₹55,000 crore) can be attributed to agricultural research, technological innovation, mechanisation, improved crop varieties, natural resource management, and extension services.

Although ICAR acknowledges that these estimates are indicative rather than exact, the findings offer an important policy message. Agricultural research is not merely a scientific endeavour; it is a productive investment that generates substantial economic returns, strengthens food security, enhances climate resilience, and improves farmers' incomes. At a time when climate change, resource degradation, and food system transformation pose unprecedented challenges, the report provides compelling evidence that research and innovation must occupy a far more central place in India's agricultural development strategy.

Agricultural Research: A Silent Driver of Productivity Growth

India's agricultural production expanded significantly between 2024 and 2025 across virtually all major sub-sectors. Crop production increased by nearly 19 million tonnes, generating additional economic value estimated at around ₹60,000 crore. Horticulture production rose by 7 million tonnes, contributing another ₹20,000 crore, while livestock production generated additional output valued at nearly ₹50,000 crore. Fisheries, one of the fastest-growing segments of Indian agriculture, expanded from 18.40 million tonnes to 19.77 million tonnes, creating an estimated economic value of ₹40,000 crore.

Together, these gains added approximately ₹1.7 trillion to agricultural output within a single year. ICAR attributes this increase broadly to three equally important factors: research and technological innovation, government development programmes and policies, and the efforts of farmers themselves.

The importance of this framework lies not in the precise numerical allocation but in recognising that productivity improvements are the outcome of complementary investments. Government expenditure alone cannot raise productivity without improved technologies, and farmers cannot realise higher yields without access to superior seeds, better production practices, mechanisation, and scientific knowledge. Agricultural research therefore acts as the catalyst that enhances the effectiveness of every other investment made in the sector.

Measuring the Economic Returns to Agricultural Innovation

Traditionally, research institutions have evaluated their achievements by reporting the number of crop varieties released, technologies developed, patents obtained, or scientific publications produced. While these indicators reflect scientific progress, they reveal little about the actual contribution of research to agricultural production and economic growth.

ICAR's attempt to express research outcomes in monetary terms therefore represents a significant methodological innovation. Instead of counting technologies, it estimates their contribution to increased agricultural output. Improved seed varieties, mechanisation, climate-resilient technologies, better germplasm, natural resource management, extension services, breeder seed production, and farmer training are viewed collectively as productivity-enhancing interventions whose economic value can be approximated through their contribution to higher production.

Although the precise attribution may remain subject to debate, the broader conclusion is difficult to contest. Modern agricultural growth increasingly depends on continuous technological progress rather than expansion of cultivated area. India's cultivated land has remained broadly stagnant for decades, while water resources have become increasingly scarce and climate variability has intensified. Under such circumstances, productivity gains must necessarily originate from better science and technology.

The report therefore shifts the discussion from viewing agricultural research as an expenditure to recognising it as an investment that generates measurable economic returns.

Technology Adoption: Bridging Laboratories and Farmers

The report also highlights the growing success of translating research into practical agricultural applications. During 2025, ICAR released 365 improved crop varieties, including 29 bio-fortified varieties, 94 climate-resilient varieties, and 111 registered genetic stocks. Simultaneously, the institution aims to produce approximately 120,000 quintals of breeder seeds during 2025-26 to accelerate dissemination of improved technologies.

These developments reflect an increasingly dynamic agricultural innovation ecosystem. Higher seed replacement rates, wider adoption of improved varieties, improved mechanisation, digital extension services, scientific water management, and better farmer awareness have collectively enhanced productivity across multiple farming systems.

Equally important is the increasing commercialisation of agricultural technologies through partnerships with private industry, state governments and farmer organisations. Such collaborations shorten the time required for transferring research outcomes from laboratories to farmers' fields, thereby increasing the social returns on public investment in research.

The challenge, however, lies in ensuring that these innovations reach smallholders, who constitute the overwhelming majority of India's farming community. Strengthening agricultural extension systems, Farmer Producer Organisations (FPOs), Krishi Vigyan Kendras (KVKs), digital advisory platforms and public-private partnerships will remain critical for accelerating technology adoption.

India's Agricultural Research Investment Gap

Despite the impressive returns demonstrated by agricultural research, India's investment remains surprisingly modest. Gross expenditure on research and development across all sectors accounts for only 0.6-0.7 percent of GDP, significantly below the 2 percent or more invested by many advanced economies. Agricultural research mirrors this broader national pattern.

The Union Budget allocation for Agricultural Research and Education (ARE) has increased from ₹4,836 crore in FY2014-15 to ₹9,266 crore in FY2026-27. While this represents an increase of nearly 92 percent over twelve years, the compound annual growth rate remains below 6 percent, with considerable year-to-year volatility. Such incremental growth appears inadequate given the increasing technological challenges confronting Indian agriculture.

The scale of underinvestment becomes even more apparent when viewed alongside private-sector spending. Bayer India alone reportedly invested around ₹7,230 crore in research and development during FY2024-25, equivalent to nearly three-fourths of India's total public allocation for agricultural research and education.

This comparison illustrates the limited scale of India's public investment in agricultural science relative to both domestic needs and international benchmarks.

High Returns, Low Investment: A Policy Contradiction

Perhaps the most striking finding concerns the exceptionally high economic returns generated by agricultural research. A working paper by the National Institute of Agricultural Economics and Policy Research (NIAP) estimates that every rupee invested in agricultural research generates a return of nearly ₹13.85, among the highest returns observed in the agricultural sector.

Yet public expenditure priorities tell a different story. Research by the Indian Council for Research on International Economic Relations (ICRIER) indicates that nearly 73 percent of India's agricultural budget is absorbed by subsidies and welfare programmes. Food and fertiliser subsidies alone account for more than half of total agricultural expenditure.

For FY2026-27, the combined allocation for food, fertiliser and fuel subsidies exceeds ₹4.1 trillion, more than 44 times the allocation for agricultural research and education. Subsidies undoubtedly play an important role in supporting farmers' incomes and ensuring food security. However, their benefits are largely consumption-oriented and recurrent. Agricultural research, in contrast, creates productive assets that continue generating benefits over many years through sustained productivity improvements, lower production costs, climate resilience and technological advancement. This imbalance suggests that India's agricultural expenditure remains heavily oriented towards short-term income support rather than long-term productivity enhancement.

Research for Climate-Resilient Agriculture

The strategic importance of agricultural research has become even greater under changing climatic conditions. Indian agriculture faces increasing risks arising from erratic monsoons, rising temperatures, water scarcity, emerging pests and diseases, soil degradation, and declining factor productivity. Traditional production technologies are unlikely to remain adequate under these evolving conditions.

Future agricultural growth will depend increasingly on climate-resilient crop varieties, precision agriculture, water-efficient irrigation technologies, digital agriculture, artificial intelligence-based advisory systems, carbon-smart farming practices, bio-fortified crops, resource-conserving technologies, and biotechnology.

Agricultural research therefore represents not only an investment in productivity but also an investment in resilience. The technologies developed today will determine India's capacity to sustain food security under future climatic uncertainty.

The Way Forward

The ICAR assessment provides an opportunity to rethink India's agricultural investment priorities. Public investment in agricultural research should no longer be viewed merely as a budgetary expenditure but as a strategic growth investment capable of generating sustained economic, social and environmental returns.

Going forward, India should substantially increase public expenditure on agricultural R&D while simultaneously strengthening collaboration among ICAR institutions, State Agricultural Universities, Krishi Vigyan Kendras, private agribusiness firms, startups, Farmer Producer Organisations, and international research institutions. Greater emphasis should also be placed on accelerating technology commercialisation, expanding breeder seed production, promoting digital extension systems, and improving last-mile technology delivery to smallholders.

Equally important is the need to develop systematic frameworks for evaluating the economic impact of research investments. Measuring scientific success solely through publications or varieties released no longer captures the full value generated by research. Quantifying productivity gains, income improvements, environmental benefits and climate resilience would provide a stronger evidence base for future public investment decisions.

Conclusion

ICAR's attempt to estimate the economic contribution of agricultural research marks an important milestone in India's agricultural policy discourse. By demonstrating that research and innovation contributed nearly ₹55,000 crore to the additional agricultural output generated in a single year, the analysis highlights the substantial returns that scientific investment can deliver.

The findings reinforce a broader policy lesson. Sustainable agricultural growth in the coming decades will depend less on expanding cultivated area and more on enhancing productivity through science, technology and innovation. In an era of climate uncertainty, resource constraints and rising food demand, agricultural research is no longer a supporting activity—it is the foundation of future agricultural transformation.

India's continued leadership in global agriculture will depend not merely on producing more food, but on investing more decisively in the scientific knowledge that makes higher productivity, greater resilience and sustainable farm prosperity possible.

RAINFALL, RESILIENCE AND RISKS: ASSESSING INDIA'S KHARIF PROSPECTS FOR FY2026–27

Introduction

The progress of the southwest monsoon remains the single most important determinant of India's agricultural performance, rural incomes and food inflation during the kharif season. Although the 2026 monsoon began with considerable spatial and temporal variability, the recent improvement in rainfall has significantly accelerated sowing activities across the country. The narrowing gap in kharif acreage suggests that farmers have responded swiftly to favourable weather conditions, reflecting both the resilience of Indian agriculture and the adaptability of farming decisions to changing monsoon patterns.

As of 24 July 2026, kharif sowing had covered 787.37 lakh hectares (Table 3), equivalent to around 71 percent of the normal cultivated area, with the year-on-year acreage shortfall narrowing to just 4.7 percent. The recovery has been broad-based, encompassing oilseeds, pulses, soybean, groundnut, urad, moong and maize. These developments have considerably improved the outlook for agricultural production compared with the initial weeks of the monsoon season.

However, the encouraging progress in sowing should not obscure the underlying risks. Rainfall continues to exhibit significant regional disparities, reservoir levels remain below those of last year, and the India Meteorological Department (IMD) has projected below-normal rainfall during the most critical phase of crop development. Consequently, the success of the kharif season will depend less on cumulative rainfall and more on its timely and spatially balanced distribution during August and September.

Table 3: Progress of area coverage under Kharif crops in India as on 24 July 2026

(Area in Lakh hectares)

Crop	*Normal area (2020-21 to 2024-25)*	*Final Area Coverage 2025*	*Area Sown*		*Increase (+)/ Decrease (-)*
			2026	2025	
Rice	412.00	446.70	234.43	240.62	-6.19
Pulses	123.64	118.97	84.57	91.46	-6.90
Shri Anna cum Coarse cereals	182.63	192.12	142.21	161.49	19.28
Oilseeds	200.08	196.38	163.54	167.00	-3.45
Sugarcane	54.20	58.84	57.58	56.72	0.86
Jute & Mesta	6.40	6.06	6.32	6.19	0.13
Cotton	125.51	115.20	98.72	102.71	-3.99
Total	**1104.46**	**1134.27**	**787.37**	**826.19**	**-38.82**

Source: Ministry of Agriculture & Farmers' Welfare, GoI

Kharif Sowing Gains Momentum

The latest sowing data indicate a marked improvement in agricultural activity following the gradual advance of the southwest monsoon. The coverage of 787.37 lakh hectares by 24 July reflects a significant recovery from the delayed start to the season and suggests that farmers have taken advantage of the improved soil moisture conditions created by recent rainfall.

Particularly encouraging has been the broad-based expansion in acreage across several major crop groups. Oilseeds and pulses have recorded notable progress, supported by increased sowing of soybean, groundnut, urad and moong. Maize acreage has also strengthened, reflecting favourable planting conditions across many producing regions. The widespread improvement across crop categories suggests that the recovery is not confined to a few states but represents a broader revival in agricultural operations.

The narrowing of the acreage gap to only 4.7 percent compared with the corresponding period of last year is especially significant. It indicates that the initial weather-related disruptions have largely been offset by subsequent rainfall, thereby reducing concerns regarding substantial acreage losses during the current season.

Uneven Rainfall Remains a Structural Concern

Despite the encouraging recovery in sowing, the spatial distribution of rainfall continues to present a major challenge. The southwest monsoon has remained highly uneven across regions, with several parts of the country experiencing excessive rainfall while others continue to face rainfall deficits. Heavy precipitation and flooding in parts of Gujarat have temporarily disrupted agricultural operations, illustrating the increasingly erratic nature of monsoon behaviour under changing climatic conditions. While floodwaters are expected to recede and facilitate further sowing, excessive rainfall can also damage standing crops, delay field operations and affect soil quality.

More importantly, rainfall variability has been remarkably pronounced across districts. Although cumulative monsoon rainfall has remained marginally above normal at the national level, nearly 42 percent of India's districts experienced deficient rainfall during June and July. This divergence highlights an important limitation of aggregate rainfall statistics: national averages often conceal substantial regional imbalances that ultimately determine agricultural outcomes.

Such uneven precipitation poses significant challenges for rain-fed agriculture, which still accounts for a substantial proportion of India's cultivated area. Crop productivity depends not merely on seasonal rainfall totals but on the timing, intensity and distribution of rainfall throughout the crop cycle.

Reservoir Storage and Irrigation Concerns

Another area requiring close attention is reservoir storage. Despite recent rainfall, water storage levels continue to remain below those recorded during the previous year. Reservoirs play a critical role in supporting irrigation during dry spells, particularly during the reproductive and grain-filling stages of crops when moisture stress can significantly reduce yields.

Lower storage levels imply that the agricultural sector remains vulnerable if rainfall weakens during the remainder of the monsoon season. Adequate reservoir replenishment during August will therefore be essential not only for the current kharif crop but also for ensuring sufficient irrigation availability for the forthcoming rabi season.

From a broader macroeconomic perspective, reservoir storage also influences hydropower generation, drinking water availability and industrial water supply, making it an important indicator of overall water security.

August: The Decisive Month for Agricultural Performance

While the recovery in sowing has reduced immediate concerns regarding acreage, the ultimate success of the kharif season will depend on weather conditions during August. This month represents the most critical phase of crop development, during which vegetative growth, flowering and yield formation take place for many major crops. Any prolonged dry spells during this period can significantly reduce productivity even if sowing has been completed successfully.

The IMD has projected below-normal rainfall, defined as less than 94 percent of the Long Period Average (LPA), for both August and the combined August–September period. The forecast also suggests that the uneven spatial distribution of rainfall observed during June and July may persist during the remainder of the monsoon season. These projections introduce considerable uncertainty into the agricultural outlook. A delayed or poorly distributed rainfall pattern during August could adversely affect crop growth, particularly in rain-fed regions where irrigation facilities remain limited.

Climate Drivers and Monsoon Uncertainty

Large-scale climatic conditions continue to shape India's monsoon prospects. The persistence of moderate *El Niño* conditions is expected to exert downward pressure on monsoon performance during the second half of the season. Historically, El Niño episodes have often been associated with weaker monsoon rainfall and lower agricultural output, although the relationship is not always uniform. At the same time, the possible emergence of a positive Indian Ocean Dipole (IOD) during September offers some optimism. A positive IOD has frequently moderated the adverse effects of El Niño by enhancing moisture transport towards the Indian subcontinent.

The interaction between these two climatic phenomena introduces a degree of uncertainty that makes seasonal forecasting particularly challenging. Consequently, policymakers and agricultural planners will need to remain vigilant and respond quickly to evolving weather conditions during the coming weeks.

Implications for Agriculture, Inflation and the Economy

The evolving monsoon situation carries important implications extending well beyond agriculture. A successful kharif season would strengthen rural incomes, support consumption demand and improve the availability of foodgrains, pulses and oilseeds. Higher agricultural production would also help moderate food inflation, particularly for vegetables, pulses and edible oils, thereby contributing to overall macroeconomic stability.

Conversely, uneven rainfall and lower crop yields could tighten food supplies, exert upward pressure on food prices and complicate inflation management. Given the significant weight of food items in India's Consumer Price Index (CPI), monsoon performance continues to influence monetary policy expectations as well.

Agriculture also remains an important driver of rural employment and household incomes. Strong agricultural performance typically stimulates demand for consumer goods, agricultural machinery, construction materials and rural services, generating multiplier effects across the broader economy. Therefore, the quality of rainfall during August and September will influence not only agricultural output but also rural demand, industrial production, inflation dynamics and overall GDP growth during FY2026–27.

Conclusion

The acceleration in kharif sowing represents an encouraging development for India's agricultural sector. The recovery in acreage across major crops demonstrates the resilience of Indian farmers and their ability to capitalise on improved weather conditions. The narrowing of the sowing gap to less than five percent has significantly improved the production outlook compared with the beginning of the monsoon season.

Nevertheless, considerable risks remain. Uneven rainfall distribution, below-normal reservoir storage and the IMD's forecast of below-normal rainfall during August underscore that the monsoon season is far from over. With nearly half of India's districts having experienced deficient rainfall during the first two months of the season, regional disparities continue to pose a significant challenge.

The remainder of the monsoon will therefore determine whether the encouraging start to the kharif season translates into higher agricultural production and stable food prices. Ultimately, the distribution and timing of rainfall—not merely cumulative seasonal totals—will shape crop yields, rural prosperity, inflation dynamics and the resilience of the Indian economy during the remainder of FY2026–27.

BEYOND EARNINGS: STRATEGIC INVESTMENTS SHAPE CORPORATE INDIA'S GROWTH STORY IN Q1 FY2026–27

Dr Debesh Roy
Chairman, InsPIRE

Introduction

The first quarter of FY2026–27 reflects a corporate sector that is increasingly balancing short-term challenges with long-term strategic ambitions. While geopolitical uncertainties, currency volatility, elevated commodity prices and supply chain disruptions continued to exert pressure on profitability in several industries, Indian companies largely demonstrated operational resilience, sustained investment appetite and confidence in the country's medium-term growth prospects.

A defining feature of the quarter has been the divergence between top-line growth and bottom-line performance. Many companies reported robust revenue growth supported by healthy domestic demand, premiumisation, digitalisation and exports, even as margins were compressed by higher input costs, logistics expenses and exchange-rate movements. At the same time, corporate India continued to announce sizeable capital expenditure plans across manufacturing, infrastructure, clean energy, electric mobility, logistics and healthcare, signalling growing confidence in India's structural growth story despite an uncertain global environment.

The quarterly developments suggest that India's corporate sector is entering a new phase characterised by technological transformation, capacity expansion, sustainability-oriented investments and increasing integration with global value chains.

Private Capital Expenditure Emerges as the Principal Growth Driver

One of the most encouraging developments during the quarter has been the revival of private investment. New project announcements increased by 28.6 percent year-on-year to ₹14.5 trillion, driven primarily by strong private-sector investments in power transmission, renewable energy and manufacturing. Private investment announcements increased by more than 70 percent, while government project announcements moderated, indicating a gradual shift towards private-sector-led capital formation.

This investment momentum is reflected in several large corporate announcements. Adani Enterprises and UAE-based IHC announced a ₹1.08 lakh crore integrated aluminium project in Odisha, while Tata Steel plans to invest ₹20,000 crore during FY2026–27 to expand domestic operations. Hindalco unveiled an investment pipeline of up to ₹1 trillion focused on aluminium, copper, recycling and downstream manufacturing, reinforcing confidence in India's long-term industrial growth.

Similarly, investments in logistics, ports and transmission infrastructure by JSW Infrastructure, Tata Power and Larsen & Toubro highlight the growing importance of infrastructure as a key enabler of manufacturing competitiveness and energy transition.

Domestic Demand Continues to Support Corporate Performance

Despite global economic uncertainties, domestic demand remained a significant source of resilience across several sectors. The automobile industry reported one of its strongest quarters, supported by improving rural demand, income tax relief and lower interest rates. Passenger vehicle sales rose sharply, while retail automobile sales reached record levels. Companies such as Tata Motors, Mahindra & Mahindra, Bajaj Auto, TVS Motor, Eicher Motors and Asian Paints reported strong volume growth, reflecting broad-based improvement in consumer spending.

The FMCG sector also displayed encouraging trends. Nestlé India delivered strong revenue and profit growth driven by rural demand, expanding distribution and premiumisation. Tata Consumer Products and ITC similarly benefited from product diversification, health-oriented offerings and expanding consumer portfolios, although rising input costs continued to pose challenges.

Hospitality companies such as ITC Hotels and Indian Hotels Company Limited (IHCL) also reported strong financial performance, supported by sustained domestic travel demand despite some moderation in international tourism arising from geopolitical tensions.

Digital Transformation and Technology Become Strategic Priorities

Another defining characteristic of the quarter has been the increasing emphasis on technology-led transformation.

Nestlé India announced significant investments in digital technologies, data analytics and supply chain modernisation to improve operational efficiency and consumer reach. Reliance Industries, Tata Group and other leading companies similarly identified artificial intelligence, digital platforms, automation and data analytics as central pillars of their long-term growth strategies.

The rapid expansion of quick commerce through Blinkit, continued subscriber growth in Jio Platforms and growing e-commerce penetration across consumer businesses indicate that digitalisation is no longer confined to technology companies but has become a core business strategy across industries.

Increasing investments in semiconductors, electronics manufacturing and AI further demonstrate the strategic shift towards technology-intensive industries that are expected to shape India's future industrial landscape.

Energy Transition and Electric Mobility Gather Pace

The transition towards cleaner energy and sustainable mobility gathered considerable momentum during the quarter. Tata Motors, Mahindra & Mahindra, Hero MotoCorp and Eicher Motors announced new investments aimed at expanding electric vehicle production and strengthening EV supply chains. Tata Power simultaneously accelerated investments in transmission infrastructure and identified potential locations for future nuclear power development, highlighting the diversification of India's clean energy strategy.

The growing importance of critical minerals also emerged during the quarter, with India's first private overseas rare earth investment signalling efforts to reduce strategic dependence on external suppliers while strengthening domestic manufacturing capabilities.

These developments are consistent with India's broader objectives of achieving energy security, expanding clean manufacturing and strengthening participation in global green value chains.

Profitability Under Pressure Despite Revenue Growth

Although revenues remained robust across several industries, profitability was more uneven. Higher commodity prices, increased freight costs, exchange-rate volatility and disruptions arising from geopolitical tensions in West Asia weighed on margins in sectors such as automobiles, cement, pharmaceuticals and aviation. Companies including Maruti Suzuki, ACC, Ambuja Cements, Shree Cement, Jindal Steel, IndiGo and Dr Reddy's Laboratories all highlighted rising costs as key challenges affecting quarterly earnings.

Similarly, currency depreciation affected companies with significant import exposure. BMW India and Ceat identified exchange-rate movements as important factors influencing profitability, illustrating how global financial conditions continue to affect domestic corporate performance.

Nevertheless, several companies successfully mitigated these pressures through product premiumisation, operational efficiencies, diversification and calibrated pricing strategies.

India's Global Corporate Competitiveness Strengthens

The quarter also highlighted the increasing international stature of Indian corporations. According to the Brand Finance India 100 Report, the combined value of India's top 100 brands increased to US$252.8 billion, with Tata Group retaining its position as India's most valuable brand for the tenth consecutive year. Continued growth in the global presence of Indian companies across technology, pharmaceuticals, infrastructure and manufacturing reflects improving competitiveness and expanding international recognition.

Meanwhile, companies such as Reliance Industries, Tata Group, Larsen & Toubro, Sun Pharma, Glenmark Pharmaceuticals and Hindustan Zinc demonstrated that operational excellence, innovation and diversification continue to strengthen India's corporate capabilities even amid a volatile global environment.

Outlook

The first quarter of FY2026–27 reinforces the view that corporate India remains fundamentally resilient despite a complex external environment. Domestic demand, private capital expenditure, digital transformation, manufacturing expansion and clean energy investments continue to provide strong structural support to corporate growth.

However, several challenges remain. Persistent geopolitical tensions, volatile commodity prices, exchange-rate fluctuations, climate-related uncertainties and slowing global demand could continue to affect corporate profitability during the coming quarters. Companies will therefore need to maintain strong balance sheets, improve operational efficiency and accelerate innovation to sustain growth.

Overall, the quarter presents a cautiously optimistic picture. Corporate India's focus is increasingly shifting from short-term earnings management towards long-term value creation through investment, technology adoption, sustainability and global competitiveness. If supported by stable macroeconomic conditions and continued policy reforms, these strategic investments are likely to strengthen India's industrial capacity, enhance productivity and contribute significantly to the country's long-term economic transformation.

FCNR(B) MOBILISATION: OPPORTUNITY, CONSTRAINTS, AND THE FUTURE OF INDIA'S EXTERNAL SECTOR STRATEGY

Dr Debesh Roy
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India's External Sector Strategy Faces a New Reality

The Reserve Bank of India's (RBI) revival of the Foreign Currency Non-Resident (Bank) [FCNR(B)] deposit mobilisation programme marks one of the most significant external sector policy interventions since the "taper tantrum" episode of 2013. Faced with a weakening rupee, elevated crude oil prices, rising geopolitical tensions in West Asia, and heightened volatility in global financial markets, the RBI has once again turned to the Indian diaspora as a stable source of foreign currency funding.

The policy objective is straightforward. By encouraging Non-Resident Indians (NRIs) to place foreign currency deposits with Indian banks under an attractive regulatory framework, the RBI aims to strengthen India's foreign exchange reserves, improve balance of payments resilience, moderate exchange rate volatility and provide banks with additional funding at a time when domestic liquidity conditions remain tight.

The initial response has been encouraging. Within five weeks of the launch of the concessional swap facility, total foreign exchange mobilisation crossed US$20 billion, of which nearly US$17.4 billion came through FCNR(B) deposits. Several analysts now estimate that total mobilisation could eventually reach US$60–70 billion, substantially exceeding the US$26 billion mobilised during the celebrated 2013 programme.

Yet beneath these impressive headline numbers lies a far more complex story. Unlike 2013, today's mobilisation exercise is unfolding in an entirely different global financial architecture characterised by higher US interest rates, tighter international liquidity, complex cross-border taxation, greater regulatory scrutiny and elevated geopolitical risks. Consequently, while the RBI's policy intervention deserves recognition for its speed and ingenuity, expecting a simple replay of the 2013 success may be overly optimistic.

The current FCNR(B) programme should therefore be viewed not merely as a deposit mobilisation scheme, but as an important test of India's ability to navigate an increasingly fragmented and uncertain global financial system.

Why the RBI Revived FCNR(B)

India's external sector has come under renewed pressure during 2026. Although merchandise exports have remained relatively resilient, the external environment has become increasingly challenging due to a combination of adverse developments, including rising international crude oil prices following geopolitical tensions in West Asia, renewed depreciation pressures on the rupee, slower capital inflows, narrowing interest rate differentials with advanced economies, and heightened volatility in global financial markets. Collectively, these factors have increased external vulnerabilities and complicated the management of India's balance of payments and exchange rate stability.

Under these circumstances, strengthening India's foreign exchange reserves assumed strategic importance. Accordingly, the RBI introduced a comprehensive package of incentives to significantly enhance the attractiveness of FCNR(B) deposits. The measures included a concessional USD-INR swap facility, exemption from the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) requirements, absorption of hedging costs by the RBI, and greater flexibility for banks to offer higher interest rates on FCNR(B) deposits. Together, these incentives were designed to encourage larger foreign currency inflows, augment reserve buffers, and enhance the resilience of India's external sector amid heightened global uncertainty.

Together, these measures significantly reduced banks' funding costs while allowing them to offer globally competitive returns to NRIs.

A Strong Start, but Is It Sustainable?

The scheme's early performance has exceeded expectations. The mobilisation of over US$17 billion in FCNR(B) deposits within little more than a month represents one of the fastest foreign currency mobilisation exercises undertaken by the RBI. Government outreach, bank-specific mobilisation targets, aggressive marketing among the Indian diaspora and attractive deposit pricing have all contributed to the encouraging response.

Nevertheless, a closer examination suggests that the headline numbers require careful interpretation. Several questions remain unanswered:

- How much of the mobilisation represents genuinely fresh inflows?
- How much consists of renewals of maturing deposits?
- To what extent have deposits been shifted from other NRI schemes?
- What proportion reflects leveraged transactions rather than conventional savings?

Without answers to these questions, headline mobilisation figures alone may overstate the improvement in India's external financing position.

The Global Financial Landscape Has Changed Since 2013

The inevitable comparison is with the highly successful FCNR(B) mobilisation during the taper tantrum. However, the two episodes differ fundamentally. In 2013, the global financial environment was highly conducive to FCNR(B) mobilisation. US interest rates were exceptionally low, enabling Indian banks to offer significantly higher interest-rate premiums over comparable US Treasury securities. Investors worldwide were actively searching for higher-yielding investment opportunities, while the sharp depreciation of the rupee had created expectations of future appreciation, further strengthening investor confidence.

In contrast, the present environment is considerably less favourable. The spread between FCNR(B) deposit rates and US Treasury yields has narrowed sharply, reducing India's relative yield advantage. At the same time, elevated US interest rates have enabled global investors to earn attractive returns from relatively risk-free dollar-denominated assets, diminishing the appeal of FCNR(B) deposits. Consequently, NRIs today face a fundamentally different investment calculus than they did thirteen years ago. Replicating the remarkable success of the 2013 FCNR(B) mobilisation programme will therefore require much stronger policy support and more innovative measures than simply offering attractive deposit rates.

Leverage: The Hidden Engine Behind Mobilisation

Perhaps the most striking feature of the present programme is the increasing reliance on leveraged investments. Several Indian banks, working with overseas financial institutions, are enabling eligible NRI customers to borrow multiple times their own capital before investing in FCNR(B) deposits.

Depending on the jurisdiction and the lending institution, leverage ratios under the FCNR(B) scheme reportedly range from 9 to 19 times the investor's own capital. From the perspective of banks, such leverage significantly enhances deposit mobilisation by enabling much larger foreign currency inflows. For investors, it has the potential to substantially amplify returns by allowing them to invest borrowed funds alongside their own capital. However, leverage also magnifies financial risk. The ultimate returns depend critically on several factors, including overseas borrowing costs, exchange rate expectations, the tax treatment applicable in the investor's country of residence, and the availability of international credit lines. Even a modest increase in global borrowing costs can significantly compress leveraged returns by narrowing the interest rate spread. Consequently, while leverage serves as a powerful catalyst for accelerating FCNR(B) mobilisation in the short term, it also introduces a layer of financial complexity and risk that is largely absent in conventional deposit schemes.

Taxation and Regulation: The Underestimated Constraints

One of the most significant insights emerging from the current FCNR(B) mobilisation exercise is that investor demand is not the primary constraint. Rather, the principal impediments arise from the increasingly complex international regulatory and taxation environment governing cross-border financial transactions. In several major NRI markets, including the United States, Australia, and parts of Europe, taxation is levied on gross interest income rather than on net leveraged returns. As a result, the attractive headline deposit rates offered under the scheme translate into considerably lower post-tax returns, thereby reducing its appeal to many potential investors. In addition, stricter anti-money laundering (AML) regulations, more extensive Know Your Customer (KYC) procedures, enhanced cross-border compliance requirements, and tighter restrictions on overseas lending have collectively lengthened onboarding timelines and increased transaction complexity. These structural and regulatory constraints, rather than a lack of investor interest, largely explain why the pace of FCNR(B) mobilisation has been more gradual than many of the initial market projections had anticipated.

Geopolitics Has Become a Financial Variable

Unlike previous FCNR(B) mobilisation programmes, the current initiative is unfolding against a backdrop of heightened geopolitical uncertainty, making its success increasingly contingent on developments beyond India's borders. The ongoing conflict in West Asia has influenced the programme through multiple channels. The sharp rise in international crude oil prices has increased India's import bill and intensified pressure on the country's external balance, while heightened regional uncertainty has prompted central banks in several Gulf countries to encourage domestic financial institutions to maintain stronger liquidity buffers and adopt more conservative risk management practices. As a result, overseas lenders have become more cautious in extending leverage facilities to support FCNR(B) investments, thereby constraining the pace of deposit mobilisation. Consequently, a scheme originally conceived to strengthen India's external sector has itself become increasingly influenced by evolving geopolitical developments and international financial conditions. This underscores the growing interconnectedness of modern banking systems, where the effectiveness of domestic policy initiatives is increasingly shaped by global economic and geopolitical dynamics.

The RBI's Policy Innovation Deserves Recognition

Despite these challenges, the RBI deserves credit for both the design and the timely implementation of the FCNR(B) intervention. The concessional swap facility effectively eliminates one of the largest costs associated with foreign currency mobilisation by absorbing the hedging burden that would otherwise fall on banks. In addition, exemptions from the CRR and SLR requirements have improved the economics of deposit mobilisation, while the relaxation of interest rate ceilings has enabled banks to offer more competitive returns to attract NRI deposits. Most importantly, the programme has helped restore market confidence at a time of heightened global uncertainty and increasing pressure on India's external sector. The rapid turnaround from sharply declining FCNR(B) inflows during FY26 to substantial mobilisation within a matter of weeks demonstrates the effectiveness of timely and well-calibrated policy intervention. Equally significant, it reinforces the RBI's credibility as a proactive and agile central bank capable of responding swiftly to emerging external sector vulnerabilities and preserving macroeconomic stability in an increasingly volatile global environment.

But Important Structural Risks Remain

Several longer-term concerns deserve greater attention.

1. Maturity Mismatch: Deposits generally have maturities of three to five years. However, depositors may withdraw after completing the mandatory lock-in period, subject to bank policies. The RBI's swap arrangement, however, remains fixed until maturity. This creates potential maturity mismatch risks for banks.

2. Cost of Reserve Accumulation: The scheme effectively shifts part of the cost of exchange-rate management to the RBI through subsidised hedging. While justified during periods of external stress, repeated use of such facilities may create quasi-fiscal costs that eventually affect the central bank's balance sheet.

3. Dependence on Wholesale Funding: FCNR(B) deposits strengthen liquidity. However, excessive dependence on foreign currency wholesale funding may expose banks to refinancing risks when global financial conditions tighten.

4. Concentration Risk: Much of the mobilisation appears concentrated among large depositors capable of accessing leveraged products. This narrows the depositor base and increases dependence on a relatively small group of high-net-worth investors.

The Rupee Puzzle

One of the more intriguing developments highlighted in recent analyses is the continued weakness of the Indian rupee despite the sizeable foreign currency inflows generated under the FCNR(B) mobilisation programme. Under normal circumstances, such strong capital inflows would be expected to strengthen the balance of payments and provide support to the exchange rate. However, several factors help explain this apparent disconnect. First, the conversion of FCNR(B) deposits into the Reserve Bank of India's foreign currency assets is subject to reporting and operational lags, meaning that the full impact of these inflows on foreign exchange reserves may not be immediately reflected in official data. Second, persistently elevated crude oil prices have continued to generate substantial demand for US dollars, offsetting part of the positive impact of capital inflows. Third, the RBI's intervention in the foreign exchange market has been measured rather than aggressive, reflecting its preference for managing excessive volatility rather than defending any particular exchange rate level. Consequently, the movement of the rupee continues to be influenced more by broader external sector pressures, including oil prices, geopolitical developments, and global capital flows, than by FCNR(B) inflows alone. This suggests that while FCNR(B) mobilisation is an important policy instrument for strengthening India's external sector, it should be viewed as a complementary stabilisation measure rather than a comprehensive solution to exchange rate pressures.

Beyond Mobilisation: Building a More Resilient External Sector

The current FCNR(B) mobilisation programme offers several important policy lessons for strengthening India's external sector over the long term. While such targeted initiatives can provide timely support during periods of external stress, India cannot rely indefinitely on episodic foreign currency mobilisation drives whenever global financial conditions deteriorate. Building durable external sector resilience requires a broader programme of structural reforms that addresses the underlying drivers of external vulnerability. These reforms include developing deeper and more liquid domestic bond markets to reduce dependence on external financing, enhancing export competitiveness to generate sustained foreign exchange earnings, diversifying the composition of capital inflows beyond short-term funding sources, continuing to improve the ease of doing business to attract long-term investment, promoting the gradual internationalisation of the Indian rupee, and maintaining prudent macroeconomic policies that reinforce investor confidence. Against this backdrop, FCNR(B) deposits should be viewed as an important complementary instrument for managing short-term external sector pressures rather than as a substitute for comprehensive structural reforms aimed at strengthening India's long-term external resilience.

Conclusion

The RBI's 2026 FCNR(B) initiative represents an innovative and timely response to mounting external sector pressures. The programme has successfully revived NRI interest, strengthened foreign currency inflows, and improved market confidence during a period of considerable global uncertainty. Its early success demonstrates both the credibility of India's macroeconomic management and the continued confidence of the global Indian diaspora in the country's banking system.

However, this programme is operating in a fundamentally different world from that of 2013. Higher global interest rates, tighter liquidity, international taxation, regulatory complexities, leveraged funding structures and geopolitical uncertainties have fundamentally altered the economics of foreign currency mobilisation. The challenge today is no longer simply attracting deposits; it is navigating an increasingly interconnected global financial system where domestic policy effectiveness depends heavily on international financial conditions.

From a policy perspective, FCNR(B) should therefore be regarded as a valuable stabilisation instrument rather than a permanent solution to external sector vulnerabilities. While it can meaningfully augment foreign exchange reserves, support the balance of payments and moderate pressure on the rupee, India's long-term external resilience will ultimately depend on sustained export growth, diversified capital inflows, prudent macroeconomic management, and continued structural reforms.

The true success of FCNR(B) 2.0 will not be measured merely by whether it surpasses the US$26 billion mobilisation achieved in 2013 or even reaches the ambitious US$60–70 billion projections. Rather, it will be judged by whether it strengthens confidence in India's external sector while buying valuable time for deeper reforms that reduce dependence on episodic foreign currency mobilisation. In that sense, the current initiative is not simply about raising dollars, it is about reinforcing the credibility and resilience of India's macroeconomic framework in an era of persistent global uncertainty.

57 YEARS OF BANK NATIONALIZATION & A U-TURN IN BANKING OPERATIONS

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July 19, 1969 will forever remain a landmark date in the history of the Indian banking system. On this day, the then Prime Minister, Mrs. Indira Gandhi, initiated one of the most far-reaching financial sector reforms by promulgating the nationalisation of 14 major private sector commercial banks. This transformative process was further extended with the nationalisation of six additional banks on April 15, 1980, bringing a total of 20 banks under public ownership. Bank nationalisation fundamentally reshaped the structure, priorities, policies, and operational philosophy of the Indian banking system, shifting its focus from profit-driven urban banking to development-oriented and socially inclusive banking. As India marks 57 years of bank nationalisation on July 19, 2026, the banking landscape bears little resemblance to that of 1969. The transformation has been nothing short of extraordinary. At the time of nationalisation, the country had only 8,187 bank branches, of which barely 1,400 were located in rural areas, leaving vast sections of the population outside the formal financial system. The principal objective of bank nationalisation was therefore to extend banking services to rural and underserved regions, mobilise savings, expand institutional credit to agriculture and priority sectors, and integrate economically disadvantaged sections of society into the mainstream development process. Over the subsequent decades, these objectives became the cornerstone of India's financial inclusion strategy and laid the foundation for the widespread expansion and democratisation of banking services across the country.

At present, India has a vast banking network comprising approximately 164,225 bank branches, of which more than 100,000 branches are located in rural and semi-urban areas. This extensive outreach reflects the sustained efforts made over several decades to deepen financial inclusion and extend formal banking services to previously underserved regions. The mission of bringing every citizen into the formal financial system received a significant boost with the launch of the Pradhan Mantri Jan Dhan Yojana (PMJDY), one of the flagship financial inclusion initiatives of Prime Minister Shri Narendra Modi. By facilitating the opening of millions of basic savings bank accounts, expanding access to digital payment systems, and linking beneficiaries to social security and direct benefit transfer programmes, PMJDY has transformed the financial inclusion landscape in India. Although it is difficult to quantify the full developmental impact of rural banking expansion, its transformative effect is undeniable. People who had little or no exposure to formal banking at the time of bank nationalisation in 1969 are today actively using ATM cards, mobile banking, internet banking, and other digital financial services. This remarkable transition underscores the profound changes that have taken place in India's financial ecosystem over the past five decades. While economic progress is a natural and evolutionary process, its pace is significantly accelerated by the timely availability of financial services and institutional credit. In this regard, the expansion of rural banking has played a pivotal role in promoting agricultural development, fostering rural entrepreneurship, enhancing financial inclusion, and contributing to India's broader economic growth and social transformation.

The journey of bank nationalisation in India has undergone significant transformation over the years. The number of nationalised banks, which had at one stage increased to 20, has since been reduced to 12, including the State Bank of India, primarily through a series of mergers and consolidation initiatives. These mergers have been widely viewed as a strategic reform aimed at strengthening the banking system by creating larger and more resilient institutions capable of achieving economies of scale, improving operational efficiency, enhancing capital adequacy, and expanding their capacity to finance large-scale economic activities. Consolidation has also been driven by the objective of creating globally competitive banks with stronger balance sheets and greater technological capabilities. Looking ahead, there remains the possibility of further consolidation within the public sector banking landscape as policymakers seek to build internationally competitive banking institutions that can effectively compete in an increasingly integrated global financial system.

Another significant phase in the evolution of the Indian banking sector commenced with the economic liberalisation reforms of 1991, which fundamentally transformed the role and scope of banking in the country. The reforms permitted banks to diversify beyond their traditional functions of deposit mobilisation and credit intermediation into a broad spectrum of financial services, including housing finance, venture capital, mutual funds, factoring, merchant banking, insurance, and other fee-based financial activities. This marked the transition from conventional banking to the universal banking model, enabling banks to offer a comprehensive suite of financial products and services under one roof. The diversification not only enhanced the operational efficiency, profitability, and competitiveness of banks but also significantly improved customer convenience by providing integrated financial solutions tailored to the evolving needs of individuals and businesses. Consequently, the banking system became increasingly customer-centric, while consumers benefited from wider access to sophisticated financial products, improved service quality, and the rapid adoption of technology-driven delivery channels.

The introduction of computerisation in nationalised banks was another critical phase where trade unions in banks had a high opposition to such initiative. But, thanks to the growth of new private sector banks that were started with latest IT services and this posed a threat to the nationalised banks and ultimately with lots of hue and cry, the nationalised banks implemented computerisation in their operations in a phased manner commencing from 1992-93. Today, the pace of computerisation and latest uses of IT enabled services have changed the very process and procedures of banking operations. In 1969, a person dealing with banks would have never imagined that funds can be transferred by her or him sitting in their home or office without approaching banks and that too within the minutes when the funds used to be got transferred within the country taking 10 to 15 day time in seventies and eighties. This can certainly be a revolutionary change when a person has been operating and availing all banking services even without visiting or even without knowing as where the bank branch physically exists in which the person has the account and completing all transactions. A real dream for the banking generation of sixties and seventies.

The era of banking post 2001 has again undergone a significant transformation where banking quickly shifted from mere of ATM services to the emergence of RTGS, NEFT, IMPS, and the fast developing and adopting of UPI services followed by likely introduction of digital currency. This banking growth in a phased manner is a hallmark of innovation that has witnesses that banking and bank customers in India are not behind any developed country when it comes to banking transactions, savings and investments. The banks have also strengthened to a larger extent in terms of their capital base, liquidity buffers, asset quality management, transparency in annual reports, taking advantage of international banking and so on. This has strengthened the banks, customers and other stake holders.

All said and done, the very purpose of banks nationalization was to strengthen the rural segment who were neglected with banking facilities so as to make them self-sufficient and thereby contribute to the overall economic growth process of the country. This has been achieved to a certain extent and still the process is continuing. But moot point remains, at what cost this kind of growth? If we analyse the kind of banking in rural areas, it has been polluted right from the nationalization especially when we talk of the rural credit. Initially, it was the introduction of Integrated Rural Development Program, Antodaya Scheme, Loan Melas and so on where huge amount of loans distributed and majority of them were waived offed. Then, the announcements by political parties for the loan waivers ultimately impacted the very climate of recovery of loans in rural banking. This trend has been continuing and still there are public messages in the open public forums conveying that the loans to the particular segment are available from banks without guarantee. The message is very clear to the borrowers causing huge non-performing assets to the banks. If this trend continues, there could be a compulsion to de-nationalize the banking system.

SECTION 2: GLOBAL ECONOMY

GLOBAL ECONOMIC OUTLOOK

WAR, TECHNOLOGY AND GLOBAL GROWTH: KEY INSIGHTS FROM THE IMF WORLD ECONOMIC OUTLOOK UPDATE, JULY 2026

Introduction

The International Monetary Fund's (IMF) July 2026 *World Economic Outlook (WEO) Update*, aptly titled *Global Economy in Crosscurrents of War and Technology*, presents a world economy being shaped by two powerful yet opposing forces. On one hand, the conflict in the Middle East has emerged as a major adverse supply shock, disrupting energy markets, raising commodity prices and increasing geopolitical uncertainty. On the other, rapid advances in artificial intelligence (AI) and the accelerating global technology cycle are providing an important countervailing force by boosting investment, productivity and trade in technology-intensive sectors. The interaction of these opposing developments has produced a highly uneven global recovery, where economic fortunes increasingly depend on countries' exposure to geopolitical risks and their integration into global technology value chains.

Against this backdrop, the IMF projects global growth at 3.0 percent in 2026, moderating from the average growth of 3.5 percent recorded during 2024-25, before recovering modestly to 3.4 percent in 2027 (Table 4). At the same time, the global disinflation process has stalled, with headline inflation expected to rise from 4.1 percent in 2025 to 4.7 percent in 2026, largely reflecting higher energy and food prices.

Table 4: Growth (percent) Projections by IMF

	Projections		
	2025	2026	2027
World Output	**3.5**	**3.0**	**3.4**
Advanced Economies	**1.9**	**1.7**	**1.8**
United States	2.1	2.3	2.2
Euro Area	1.4	0.9	1.2
Germany	0.2	0.7	1.0
France	0.9	0.6	0.9
Italy	0.5	0.5	0.5
Spain	2.8	2.1	1.8
Japan	1.1	0.6	0.7
United Kingdom	1.4	1.0	1.3
Canada	1.9	1.1	1.7
Other Advanced Economies	3.0	2.8	2.3
Emerging Market and Developing Economies	**4.5**	**3.8**	**4.5**
Emerging and Developing Asia	**5.6**	**5.0**	**4.8**
China	5.0	4.6	4.1
India	7.7	6.4	6.7
Emerging and Developing Europe	**2.0**	**1.9**	**2.1**
Russia	1.0	1.1	1.1
Latin America and the Caribbean	**2.4**	**2.4**	**2.7**
Brazil	2.3	2.4	2.2
Mexico	0.5	1.2	1.9
Middle East and Central Asia	**3.7**	**0.7**	**6.5**
Saudi Arabia	4.6	1.7	5.5

Source: World Economic Outlook July 2026 Update, IMF https://shorturl.at/xiAVy

Two Opposing Forces Shaping the Global Economy

The IMF argues that the current global outlook is no longer driven solely by traditional business-cycle dynamics but by the interaction of geopolitical disruptions and technological transformation.

The first force is the negative supply shock arising from the conflict in the Middle East. Although oil markets have adjusted better than initially feared through inventory drawdowns and strategic reserves, energy prices remain significantly above pre-war levels. Supply chain pressures, rising transport costs and elevated commodity prices continue to weigh on global economic activity, particularly for energy-importing economies.

The second force is the positive technology shock generated by rapid advances in AI and semiconductor technologies. Countries deeply integrated into global technology supply chains have experienced stronger investment, exports and productivity gains, largely offsetting the adverse effects of higher energy costs. This divergence increasingly explains the varying growth performance across countries.

Global Growth Slows but Avoids a Sharp Downturn

Despite heightened geopolitical uncertainty, the global economy has remained relatively resilient. According to the IMF, stronger-than-expected growth during the first quarter of 2026 reflected continued fiscal support in several economies, robust domestic demand and greater energy efficiency resulting from the increasing share of renewable energy. Much of the upside surprise, however, was concentrated in economies benefiting directly from the AI-driven technology boom.

World output is projected to expand by **3**.0 percent in 2026 before recovering to 3.4 percent in 2027. However, this relatively stable aggregate outlook masks significant regional divergence. Economies that are either major energy exporters or important participants in global AI-related manufacturing are expected to outperform, while energy-importing economies with limited participation in technology value chains face weaker growth prospects. World trade growth is also projected to moderate from 5.0 percent in 2025 to 3.5 percent in 2026, reflecting the combined effects of tariffs, trade fragmentation and adjustments in global production networks.

Inflation Pressures Re-emerge

One of the most important messages of the July update is that the global disinflation process has paused. Higher crude oil, natural gas, fertiliser and food prices have reversed much of the progress achieved during the previous two years. Energy prices are projected to remain substantially above pre-war levels, with crude oil prices expected to average around US$89 per barrel during 2026. Natural gas prices are projected to increase by 22 percent, fertiliser prices by 26 percent and food prices by about 8 percent over the previous year.

Consequently, global headline inflation is expected to increase to 4.7 percent in 2026 before moderating again in 2027. Importantly, inflation dynamics are expected to remain highly uneven across countries depending on exchange rate movements, energy dependence and domestic labour market conditions.

Artificial Intelligence Becomes a New Growth Engine

A distinctive feature of the July 2026 WEO Update is the recognition of artificial intelligence as a major macroeconomic driver. The IMF highlights that economies exporting semiconductors and AI hardware, including Korea, Taiwan, Malaysia and Thailand, have experienced growth substantially above earlier projections. Korea's growth, for example, has been powered by booming semiconductor exports despite its heavy dependence on imported energy. Similarly, China has benefited from strong investment in high-technology manufacturing and exports, while Malaysia, Thailand and Vietnam have all seen upward revisions to their growth outlook owing to expanding technology exports and investment.

The IMF nevertheless cautions that excessive optimism regarding AI could also create macro-financial vulnerabilities if current expectations regarding productivity gains prove overly optimistic.

Regional Outlook: Increasing Divergence

The report points to widening differences in regional economic performance. Advanced economies are projected to grow by 1.7 percent in 2026 (Table 5), with the United States remaining relatively resilient due to strong business investment and technology-related productivity gains. The euro area is expected to experience weaker growth because of higher energy costs and subdued consumer confidence, while Japan's recovery remains modest.

Among emerging market and developing economies, India continues to be one of the fastest-growing major economies, with growth projected at 6.4 percent in 2026, supported by steady private consumption and strong services activity. China is expected to slow to 4.6 percent, reflecting structural challenges and higher energy prices, while several Southeast Asian economies benefit from their integration into technology value chains.

In contrast, the Middle East faces significant disruptions owing to the conflict, while many low-income countries remain particularly vulnerable because of higher food and energy costs combined with limited fiscal space.

Risks Remain Tilted to the Downside

Although the IMF judges risks to be more balanced than in April, they remain predominantly tilted towards the downside. The most immediate risk remains a renewed escalation of conflict in the Middle East, which could further disrupt energy supplies, increase commodity prices and intensify inflationary pressures. Continued trade fragmentation, rising protectionism and deterioration in global supply chains also pose significant risks to growth.

Financial risks are equally important. Elevated public debt, shrinking fiscal buffers and tighter global financial conditions could amplify vulnerabilities, particularly in emerging markets and low-income economies. At the same time, an abrupt correction in technology-related equity valuations could trigger broader macro-financial instability.

Conversely, a faster easing of geopolitical tensions, stronger AI-driven productivity gains or renewed international trade cooperation could improve the global outlook beyond current projections.

Policy Priorities

The IMF argues that policymakers face an exceptionally complex balancing act. Monetary policy must remain firmly focused on restoring price stability while maintaining institutional credibility and clear communication. Fiscal policy should avoid broad-based subsidies and instead provide temporary, well-targeted support to vulnerable households without weakening long-term fiscal sustainability.

Over the medium term, structural reforms will become increasingly important. The IMF recommends strengthening energy security, accelerating renewable energy adoption, investing in digital infrastructure and skills, enhancing AI readiness, improving cybersecurity, rebuilding fiscal buffers and modernising international trade frameworks. Greater international cooperation is also considered essential to address debt vulnerabilities, supply chain disruptions and growing geopolitical fragmentation.

Implications for India

For India, the IMF's assessment presents a mixed but broadly favourable outlook. The projected growth rate of 6.4 percent in 2026 underscores the resilience of domestic demand, private consumption and the services sector, allowing India to remain among the world's fastest-growing major economies.

However, the report also highlights significant external risks. As a major energy importer, India remains exposed to higher crude oil prices, imported inflation and external sector pressures. At the same time, the global acceleration in AI, semiconductor manufacturing and digital technologies presents substantial opportunities for India to deepen its participation in global technology value chains through continued investments in digital infrastructure, electronics manufacturing, skill development and innovation.

Conclusion

The July 2026 IMF *World Economic Outlook Update* portrays a global economy entering a new phase in which geopolitics and technology have become the dominant determinants of economic performance. While the Middle East conflict has raised energy costs, disrupted trade and revived inflationary pressures, the rapid expansion of AI and technology-intensive industries has provided an important counterbalance for many economies.

The resulting global economy is becoming increasingly differentiated between technology leaders and laggards, as well as between energy exporters and importers. In this environment, sustained growth will depend not only on sound macroeconomic policies but also on countries' ability to embrace technological transformation, strengthen energy resilience and enhance international cooperation. For India, the challenge will be to preserve macroeconomic stability while leveraging its digital capabilities and manufacturing potential to emerge as a major beneficiary of the next phase of the global technology cycle.

The full report can be accessed from:
https://www.imf.org/en/publications/weo/issues/2026/07/08/world-economic-outlook-update-july-2026

ASIAN DEVELOPMENT OUTLOOK JULY 2026: NAVIGATING A FRAGILE RECOVERY IN AN ERA OF GEOPOLITICAL UNCERTAINTY

Introduction

The *Asian Development Outlook July 2026*, released by the Asian Development Bank (ADB), presents a sobering assessment of the economic prospects for developing Asia and the Pacific. The report argues that while the region continues to remain the world's fastest-growing economic bloc, the recovery has become increasingly fragile amid prolonged disruptions in global energy markets triggered by the Middle East conflict. Rising oil prices, elevated freight costs, persistent supply-chain disruptions and renewed inflationary pressures have forced downward revisions to growth forecasts across most Asian subregions. At the same time, rapid advances in artificial intelligence (AI), resilient electronics exports and continued infrastructure investments are providing important buffers against these external shocks.

The report therefore portrays an Asia confronting two contrasting realities: the headwinds of geopolitical uncertainty and energy insecurity, and the opportunities arising from digital transformation and technology-led growth.

Energy Shock Replaces the Pandemic as the Principal External Risk

Unlike earlier editions that focused on post-pandemic normalization, the July 2026 Outlook identifies the Middle East conflict as the dominant source of macroeconomic risk. According to the report, the conflict temporarily removed over 10 million barrels per day of global oil supply, making it one of the largest energy supply disruptions in recent history. Brent crude prices surged from around US$71 per barrel before the conflict to nearly US$144 per barrel before easing as alternative supply routes emerged and a framework agreement reduced immediate market anxieties. Nevertheless, the report cautions that normalization of global energy markets is likely to be gradual because of infrastructure damage, shipping disruptions and depleted gas inventories.

This prolonged energy shock has become the principal transmission channel affecting Asian economies through higher fuel costs, rising freight charges, increasing fertilizer prices and renewed pressure on food inflation.

Growth Moderates but Asia Remains the World's Fastest-Growing Region

The ADB has revised its 2026 growth forecast for Developing Asia and the Pacific (DAP) downward to 4.9 percent, compared with 5.1 percent projected in April and 5.5 percent recorded in 2025 (Table 5). Growth is expected to improve modestly to 5.1 percent in 2027 as energy markets gradually stabilize.

Although this moderation appears relatively modest, it masks considerable regional divergence. Developing East Asia has largely maintained its growth outlook owing to resilient exports and continued infrastructure investment in the People's Republic of China (PRC). In contrast, South Asia, Southeast Asia, Central Asia and the Pacific have all experienced downward revisions because of their greater exposure to higher energy prices, transport costs and geopolitical uncertainty. The report thus highlights that Asia's growth story is increasingly becoming differentiated by countries' energy dependence, export composition and technological capabilities.

Table 5: Growth (percent) Projections by ADB

	2025	*2026*		*2027*	
		April*	**July**	**April***	**July**
Developing Asia and the Pacific (DAP)	**5.5**	**5.1**	**4.9**	**5.1**	**5.1**
Developing East Asia	**5.0**	**4.6**	**4.6**	**4.5**	**4.5**
China	5.0	4.6	4.6	4.5	4.5
South Asia	**6.9**	**6.3**	**6.0**	**6.8**	**6.7**
India	7.7	6.9	6.6	7.3	7.3
ASEAN	**4.8**	**4.6**	**4.5**	**4.6**	**4.6**
Indonesia	5.1	5.2	5.2	5.2	5.2
Malaysia	5.2	4.6	4.6	4.5	4.5
Philippines	4.4	4.4	3.8	5.5	5.3
Thailand	2.4	1.8	1.8	2.0	2.0
Vietnam	8.0	7.2	7.2	7.0	7.0

*Note: *Estimates by Asan Development Outlook April 2026.*
Source: Asian Development Outlook July 2026, ADB https://shorturl.at/eqcbJ

India Remains One of Asia's Bright Spots

Despite the more challenging regional environment, India continues to remain among Asia's fastest-growing major economies. The ADB projects India's GDP growth at 6.6 percent in FY2026-27, compared with 7.7 percent in FY2025-26, before improving to 7.3 percent in FY2027-28 (Table 6). Although growth has been revised downward relative to earlier projections, India's performance continues to outpace most major economies. The moderation primarily reflects higher global fuel prices that have squeezed household purchasing power and increased production costs.

At the same time, India continues to benefit from resilient domestic demand, expanding services activity, improving manufacturing conditions and strong business expansion. Manufacturing PMIs remain among the highest in the region, while services activity continues to expand robustly.

However, the report also highlights India's continued vulnerability as a major energy importer. Higher oil prices, freight costs and imported inflation could weigh on macroeconomic stability if geopolitical tensions persist.

Inflation Has Re-emerged as a Major Policy Challenge

One of the report's strongest messages concerns the return of inflationary pressures. Regional headline inflation is projected to rise from 3.0 percent in 2025 to 4.3 percent in 2026 before moderating to 3.4 percent in 2027. Importantly, inflation is no longer confined to fuel prices. Higher energy costs have gradually passed through to transportation, fertilizers, food products and core inflation, making price pressures considerably broader than during the initial stages of the energy shock. This broadening inflation complicates monetary policy, as central banks now face the difficult task of containing inflation without undermining already slowing economic growth.

Artificial Intelligence Emerges as a Powerful Growth Driver

A particularly noteworthy feature of the July 2026 Outlook is its recognition of artificial intelligence as an increasingly important macroeconomic force. The report observes that electronics and machinery exports expanded strongly during the first quarter of 2026, driven largely by AI-related investments. Economies deeply integrated into global semiconductor and technology supply chains, including the Republic of Korea, Singapore, Taipei (China), Malaysia and Thailand, have benefited from robust export growth and investment despite the adverse energy environment.

Similarly, manufacturing Purchasing Managers' Indices (PMIs) remained above the expansion threshold in India, Thailand, Viet Nam and China, supported by technology demand and improving industrial activity. The report also notes that services activity has strengthened in several economies, partly reflecting AI-driven demand and expanding digital businesses. This suggests that technological transformation is becoming an increasingly important counterweight to external economic shocks.

Monetary Policy Faces a Delicate Balancing Act

Regional central banks have adopted a noticeably more cautious stance. As inflation has exceeded target ranges in many economies, several central banks, including those of Indonesia, Pakistan, Sri Lanka and the Philippines, have tightened monetary policy, while others have preferred to pause further easing. Yet despite higher nominal policy rates, rising inflation expectations have reduced real interest rates across much of the region, implying that monetary conditions remain relatively accommodative.

The report also points out that expectations regarding future policy rates have shifted upward, reflecting concerns about persistent inflation, higher energy prices and tighter global financial conditions.

Financial Markets Demonstrate Remarkable Resilience

Despite heightened geopolitical uncertainty, Asian financial markets have shown notable resilience. Bond yields have increased alongside global yields, reflecting expectations of prolonged monetary tightening. Nevertheless, equity markets recovered after initial volatility, sovereign risk premiums narrowed and the region continued to attract net capital inflows exceeding US$22 billion. Exchange rates have remained broadly stable despite significant global uncertainty. This resilience suggests that investors continue to view Asia as one of the most attractive long-term growth regions despite near-term geopolitical risks.

Fiscal Pressures Are Intensifying

The report warns that governments throughout developing Asia are facing growing fiscal stress. Higher energy prices are increasing subsidy requirements, raising public expenditure and worsening trade balances. Currency depreciation has also increased the burden of external debt servicing, while some economies are experiencing weaker remittance inflows and lower tourism revenues. As a result, primary fiscal balances are expected to deteriorate across most economies during 2026.

The fiscal challenge therefore extends beyond short-term inflation management to the broader issue of maintaining debt sustainability while supporting vulnerable households.

Policy Implications

The July 2026 Outlook offers several important policy lessons.

First, energy security has become an integral component of macroeconomic stability. Diversification of energy sources, accelerated renewable energy investment and stronger strategic petroleum reserves will be essential for reducing future vulnerabilities.

Second, policymakers must carefully balance inflation control with growth objectives. Excessively aggressive monetary tightening could weaken investment and employment, while delayed action could entrench inflation expectations.

Third, Asia must capitalize on the opportunities created by AI and digital technologies. Investment in semiconductor ecosystems, digital infrastructure, research and development, human capital and innovation will increasingly determine long-term competitiveness.

Finally, strengthening regional cooperation—particularly in trade, logistics and energy markets—will be critical for enhancing economic resilience in an increasingly fragmented global environment.

Conclusion

The *Asian Development Outlook July 2026* depicts an Asian economy navigating one of its most complex external environments in recent years. The region remains remarkably resilient, but its growth trajectory has become increasingly vulnerable to geopolitical tensions, energy market disruptions and persistent inflationary pressures.

Yet the report also highlights an encouraging structural transformation. Rapid advances in artificial intelligence, expanding electronics exports, digitalization and infrastructure investment are emerging as powerful new drivers of growth. These developments suggest that Asia's long-term economic prospects remain strong, even as short-term risks intensify.

For India and the broader Asian region, the challenge will be to manage immediate macroeconomic pressures without losing momentum on structural reforms. Countries that successfully combine macroeconomic stability with technological innovation, energy diversification and productivity-enhancing investments are likely to emerge as the principal beneficiaries of the next phase of Asia's development.

The full report can be accessed from:
https://www.adb.org/publications/asian-development-outlook-july-2026

SLOWER US GROWTH MASKS THE RISE OF THE AI ECONOMY

Introduction: Looking Beyond the Headline GDP Numbers

The United States economy is entering a new phase in which artificial intelligence (AI) is becoming a powerful driver of economic growth, investment and productivity. The latest GDP data for the second quarter of 2026 present an interesting paradox. While the economy expanded at an annualised rate of 1.5 percent, down from 2.1 percent in the previous quarter and below market expectations of 1.8 percent, the underlying economy remained remarkably resilient. The apparent slowdown reflects not weakening domestic demand but the unprecedented investment cycle associated with AI infrastructure. As businesses invest heavily in semiconductors, data centres and advanced computing systems, imports of these capital goods temporarily weigh on measured GDP even as they lay the foundation for stronger long term growth.

AI Investment Emerges as the New Growth Engine

The defining feature of the current US expansion is the scale of investment in AI infrastructure. Businesses continue to increase spending on data centres, advanced computing equipment, semiconductors, cloud infrastructure and AI enabled software to enhance productivity and competitiveness. According to economists, investments in computers, data centres and information processing equipment contributed more than half of the second quarter's GDP growth, highlighting AI's growing role as a new engine of economic expansion.

Unlike previous waves of technological change that primarily improved efficiency, AI is reshaping production processes, business models and innovation across manufacturing, financial services, healthcare, logistics and professional services. Increasingly, AI investment is being viewed as a strategic necessity rather than a discretionary technology upgrade, reflecting its transformative potential for long term productivity and economic competitiveness.

Why AI Is Temporarily Slowing GDP Growth

Ironically, the very investments that promise to strengthen future growth have also reduced the pace of current GDP expansion. Since many advanced semiconductors, processors and AI related hardware are imported, they enter the national income accounts as imports, which subtract from GDP. Consequently, higher spending on foreign made AI equipment has temporarily lowered headline growth despite representing productive investment.

This highlights an important limitation of conventional GDP measurement. Large scale investments that expand future productive capacity may initially appear as a drag on economic growth because of their import content. The current US experience illustrates how structural technological transformation can distort short term economic indicators while strengthening long term growth prospects.

Resilient Domestic Demand Supports the Economy

Beyond the headline GDP figures, the US economy continues to display considerable strength. Consumer spending, the principal driver of economic activity, rebounded sharply, expanding by 3.2 percent after growing only 0.5 percent in the previous quarter. Households continued to spend despite elevated fuel prices arising from geopolitical tensions in West Asia, supported by tax reductions, a healthy labour market and rising incomes.

Business investment also remained robust as companies accelerated spending on information technology, software and AI infrastructure. Measures of underlying private domestic demand strengthened significantly, suggesting that businesses remain confident about future economic prospects. Strong labour market conditions, stable employment and rising productivity further reinforce the resilience of the world's largest economy.

Financial markets echoed this optimism. Strong corporate earnings, particularly from leading technology companies such as Microsoft, boosted investor confidence, driving major US equity indices sharply higher. Markets increasingly recognise AI as a structural driver of future corporate earnings and economic growth.

Policy Implications: AI, Productivity and Reindustrialisation

The AI investment boom carries significant policy implications. As the United States seeks to strengthen domestic manufacturing and technological leadership, policymakers increasingly view imports of advanced machinery, semiconductors and AI chips as productive investments that support reindustrialisation rather than indicators of external weakness. The emphasis is shifting from importing consumer goods to importing capital equipment that expands domestic production capabilities.

The latest GDP data also support the US Federal Reserve's cautious monetary policy stance. Despite slower headline growth, robust consumer demand, sustained business investment and healthy labour market conditions suggest that the economy remains fundamentally strong. Over time, productivity gains generated by AI adoption could help moderate inflationary pressures by enabling firms to produce more efficiently while supporting higher economic growth.

Lessons for India and the Global Economy

The US experience offers important lessons for the global economy. Artificial intelligence is rapidly emerging as a new engine of economic growth, comparable to earlier technological revolutions such as electrification and the internet. Countries that invest in AI infrastructure, semiconductor ecosystems, digital skills and innovation are likely to strengthen their productivity and global competitiveness.

For India, these developments present both opportunities and strategic imperatives. With one of the world's largest digital talent pools, a vibrant start up ecosystem and globally competitive IT services industry, India is well positioned to benefit from the AI revolution. However, maintaining this advantage will require sustained investment in semiconductor manufacturing, advanced computing infrastructure, research and development, cybersecurity and AI driven innovation. Strengthening domestic capabilities while integrating with global AI value chains will be essential for achieving long term technological leadership.

Conclusion: The AI Economy Has Arrived

The second quarter GDP figures tell a story that extends well beyond a modest slowdown in economic growth. They point to a structural transformation in which artificial intelligence is reshaping investment patterns, productivity dynamics and international trade. The apparent contradiction between slower headline growth and strong underlying economic activity reflects the limitations of traditional economic indicators in capturing the benefits of large scale technological transitions.

As AI becomes deeply embedded across industries, economic success will increasingly depend not only on sound macroeconomic management but also on technological capability, innovation capacity and digital infrastructure. The AI revolution has moved well beyond the technology sector; it is becoming the defining force shaping productivity, industrial competitiveness and long term economic growth. The current moderation in US GDP growth should therefore be viewed not as a sign of economic weakness, but as a transitional phase in the emergence of a more technology driven and AI powered economy.

FEDERAL RESERVE HOLDS RATES STEADY AS INFLATION RISKS CONTINUE TO DOMINATE

Introduction

The US Federal Reserve's Federal Open Market Committee (FOMC) decided at its meeting on 29 July 2026 to maintain the target range for the federal funds rate at 3.50–3.75 percent, signalling a cautious approach to monetary policy amid an evolving macroeconomic environment. While acknowledging that the US economy continues to expand at a solid pace, the Committee reiterated that inflation remains above its 2 percent objective and reaffirmed its commitment to restoring price stability. The decision reflects the difficult policy trade-off facing the Federal Reserve: preserving economic growth and labour market resilience while ensuring that inflation expectations remain firmly anchored.

Notably, the decision was approved by a 9–3 vote, with three members favouring an immediate 25-basis-point increase in the policy rate. The dissent underscores that inflation risks continue to dominate the policy debate despite the decision to pause further tightening.

A Pause Rather than a Policy Pivot

The Federal Reserve's decision should not be interpreted as the beginning of a monetary easing cycle. Instead, it represents a pause within an otherwise restrictive monetary policy stance.

The policy statement indicates that the Committee continues to view the current interest rate range as appropriate to support its dual mandate of maximum employment and price stability. By maintaining the existing policy rate while emphasizing its determination to restore inflation to target, the Fed has signalled that policy will remain data-dependent and that further tightening remains a possibility if inflationary pressures persist.

The sizeable number of dissenting votes reinforces this interpretation. The preference of three policymakers for an immediate rate increase suggests that concerns about persistent inflation remain significant within the Committee and that consensus around the future policy path has become less certain.

Economic Activity Remains Resilient

The FOMC acknowledged that the US economy continues to display considerable resilience despite elevated geopolitical uncertainty. According to the statement, economic activity is expanding at a solid pace, supported by strong productivity growth and robust capital investment. Labour market conditions also remain healthy, with job creation broadly keeping pace with labour force growth and the unemployment rate remaining relatively stable.

These observations suggest that higher interest rates have moderated demand without causing a significant deterioration in economic activity. Continued business investment and productivity improvements have provided an important cushion against tighter financial conditions.

The resilience of the labour market also reduces immediate concerns regarding recession risks, allowing the Federal Reserve greater flexibility to maintain restrictive monetary policy for longer if required.

Inflation Continues to Drive Policy Decisions

Despite encouraging economic growth, inflation remains the Federal Reserve's principal concern. The Committee noted that inflation continues to remain above its 2 percent objective, with supply-side shocks, particularly those affecting energy prices, contributing to continued price pressures. The reference to the conflict in the Middle East indicates that geopolitical developments remain an important source of inflation uncertainty through higher energy prices and supply-chain disruptions.

Importantly, the statement concludes with an unequivocal commitment that the Committee will deliver price stability, signalling that inflation control continues to take precedence over supporting short-term growth. This communication suggests that the Federal Reserve remains unwilling to declare victory over inflation despite recent moderation in headline price pressures.

Geopolitical Risks Continue to Influence Monetary Policy

One of the notable features of the July statement is the explicit reference to the Middle East conflict. The Committee acknowledged that elevated uncertainty arising partly from geopolitical tensions continues to affect the economic outlook. The inclusion of this assessment reflects the growing importance of geopolitical developments in monetary policymaking, particularly through their impact on commodity prices, inflation expectations and global financial markets.

Unlike demand-driven inflation, supply shocks generated by geopolitical events present a more difficult challenge for central banks because tighter monetary policy cannot directly address disruptions in energy or commodity markets. Consequently, policymakers must balance inflation control against the risk of unnecessarily weakening economic activity.

Monetary Policy Operations Remain Unchanged

Alongside the policy rate decision, the Federal Reserve maintained its broader operational framework for implementing monetary policy. The Board of Governors kept the interest rate paid on reserve balances at 3.65 percent, while the FOMC instructed the New York Fed's Open Market Desk to continue conducting operations necessary to maintain the federal funds rate within the target range. Standing overnight repurchase agreement operations remain at 3.75 percent, while the overnight reverse repurchase agreement facility continues at 3.50 percent. The Federal Reserve also reaffirmed its strategy of maintaining ample reserves through Treasury bill purchases when necessary and continuing the rollover and reinvestment of Treasury and agency securities.

The decision to leave these operational tools unchanged reinforces the message that the current monetary policy framework remains appropriate for achieving the Committee's objectives.

Market Implications

Financial markets are likely to interpret the July decision as hawkish despite the pause. The combination of steady policy rates, explicit concern regarding inflation, and multiple dissenting votes in favour of higher rates suggests that the Federal Reserve is unlikely to begin easing monetary policy in the near term. Market expectations for future rate cuts may therefore become more cautious, particularly if inflation remains elevated or geopolitical tensions continue to support higher energy prices.

Higher-for-longer US interest rates are also likely to sustain upward pressure on US Treasury yields and the US dollar, with important implications for global capital flows and emerging market economies.

Implications for India and Emerging Markets

For emerging market economies such as India, the Federal Reserve's decision carries significant external implications. A prolonged period of elevated US interest rates may continue to narrow interest-rate differentials between advanced and emerging economies, potentially affecting portfolio capital flows, exchange rate stability and financing conditions. Higher US yields can also strengthen the dollar, increasing imported inflationary pressures for energy-importing countries.

At the same time, the continued resilience of the US economy is broadly supportive for global trade and services exports, providing a positive external demand environment for export-oriented sectors in emerging markets.

Conclusion

The July 2026 FOMC meeting reinforces the view that the Federal Reserve remains firmly committed to restoring price stability while recognising the continued resilience of the US economy. Although policymakers chose to leave interest rates unchanged, the decision should be viewed as a tactical pause rather than a shift towards monetary easing.

Persistent inflation, geopolitical uncertainty and the unusually large number of dissenting votes underscore that the inflation battle is not yet over. The Federal Reserve's communication suggests that future policy decisions will remain highly data-dependent, with inflation developments, labour market conditions and global geopolitical risks continuing to shape the trajectory of US monetary policy.

For the global economy, the message is clear: while growth has remained resilient, the era of restrictive monetary policy is likely to persist until inflation is firmly aligned with the Federal Reserve's long-term objective

HOLDING THE LINE: THE ECB'S MONETARY POLICY RESPONSE TO GEOPOLITICAL AND INFLATIONARY PRESSURES

Introduction

The European Central Bank (ECB) decided at its 23 July 2026 monetary policy meeting to leave its three key policy interest rates unchanged, signalling a cautious but vigilant policy stance amid heightened geopolitical uncertainty. While inflation in the euro area has moderated in recent months, the Governing Council believes that the inflationary consequences of the Middle East energy shock have not yet fully materialised. Consequently, the ECB has chosen to maintain a restrictive monetary policy while adopting a data-dependent approach to future policy decisions.

The decision reflects the increasingly complex macroeconomic environment confronting the euro area. Economic activity has shown tentative signs of improvement, supported by resilient services, digital investment and higher defence spending.

However, elevated energy prices, geopolitical tensions, weakening labour market expectations and persistent inflation risks continue to constrain the pace of recovery. Against this backdrop, the ECB seeks to strike a delicate balance between safeguarding economic growth and ensuring that inflation returns sustainably to its 2 percent medium-term target.

Policy Rates Remain Unchanged

The Governing Council maintained the deposit facility rate at 2.25 percent, the main refinancing operations rate at 2.40 percent, and the marginal lending facility rate at 2.65 percent. The ECB reiterated that future policy decisions will continue to be determined on a meeting-by-meeting basis, guided by incoming economic data, the inflation outlook, developments in underlying inflation and the effectiveness of monetary policy transmission. Importantly, the Governing Council emphasised that it is not pre-committing to any particular interest rate path, thereby preserving maximum policy flexibility in an uncertain environment.

The ECB also confirmed that the balance sheets under the Asset Purchase Programme (APP) and the Pandemic Emergency Purchase Programme (PEPP) will continue to decline gradually as principal repayments from maturing securities are no longer reinvested. Nevertheless, it reaffirmed its readiness to deploy all available policy instruments, including the Transmission Protection Instrument (TPI), if necessary to preserve the smooth transmission of monetary policy across the euro area.

Energy Shock Continues to Shape Monetary Policy

A defining feature of the July policy statement is the ECB's continued focus on the economic consequences of the Middle East conflict. The Governing Council noted that although energy prices have stabilised broadly in line with the June projections, they remain well above pre-conflict levels. More importantly, the ECB believes that the full inflationary impact of the energy shock has yet to materialise, particularly through indirect and second-round effects on wages, production costs and broader consumer prices.

This assessment explains the ECB's cautious stance. While headline inflation has moderated, policymakers remain concerned that prolonged elevated energy prices could reignite broader inflationary pressures and delay the return of inflation to target.

Economic Activity Shows Signs of Stabilisation

Despite continued geopolitical headwinds, the euro area economy has shown tentative signs of recovery during the second quarter of 2026. The ECB observed that services activity has partly recovered following its sharp slowdown immediately after the energy shock. Digital services have remained particularly robust, supported by the expanding contribution of artificial intelligence-related activities. Manufacturing has also demonstrated resilience, benefiting from inventory accumulation by firms seeking to mitigate supply-chain risks and from higher defence-related expenditure.

Labour market conditions remain relatively favourable. The unemployment rate stood at 6.2 percent in May, close to historical lows. However, declining job postings and weaker expectations among businesses and households suggest that labour market conditions may soften over the coming months if uncertainty persists.

Looking ahead, the ECB expects economic growth to remain modest in the near term as higher energy costs and geopolitical uncertainty continue to weigh on confidence and investment. Nevertheless, private consumption, digital investment, defence spending, infrastructure expenditure and a gradual recovery in exports are expected to support medium-term growth.

Inflation Moderates but Risks Remain Elevated

Inflation developments provide some encouraging signals, although the ECB believes it is too early to declare victory. Headline inflation declined from 3.2 percent in May to 2.8 percent in June, reflecting easing energy and food price inflation. Core inflation (excluding energy and food) also moderated from 2.6 percent to 2.4 percent, while both goods and services inflation recorded further declines.

Despite this progress, the ECB remains cautious. Higher energy costs continue to feed into production costs, prompting firms to signal further increases in selling prices. Although wage growth remains moderate and rising labour productivity has helped contain unit labour costs, shorter-term inflation expectations remain elevated. The ECB expects inflation to remain above target well into the first half of 2027 before gradually converging towards 2 percent as energy prices moderate.

The Governing Council therefore views the current moderation in inflation as encouraging but not yet sufficient to justify a relaxation of monetary policy.

Risks Remain Skewed to the Downside

The ECB assesses that the balance of risks to economic growth remains tilted to the downside. Renewed disruptions to energy supplies arising from the Middle East conflict could prolong high energy prices, erode household purchasing power and weaken business investment. Additional risks stem from tighter global financial conditions, slowing credit growth, trade tensions, supply-chain disruptions and the continuing war in Ukraine.

At the same time, the ECB identifies several upside opportunities. Faster adaptation of energy markets, stronger digital investment, increased defence and infrastructure spending, structural reforms and wider adoption of new technologies could support stronger-than-expected economic growth over the medium term.

From an inflation perspective, risks remain predominantly on the upside. Persistent energy price increases, stronger wage settlements, fragmented supply chains, shortages of critical raw materials and climate-related disruptions—including the ongoing European heatwaves—could all generate additional inflationary pressures.

Financial Conditions Continue to Tighten

Financial conditions in the euro area have become moderately more restrictive since the previous policy meeting. Borrowing costs for firms remained broadly stable, while annual bank lending to businesses increased to 4.0 percent from 3.4 percent in April. However, this improvement was partly offset by slower corporate bond issuance and tighter credit standards reported by banks. Loan demand increased modestly, driven primarily by working capital requirements and investment by larger firms.

In the household sector, mortgage rates increased to 3.5 percent, while lending standards tightened further. Consumer confidence weakened, leading to lower demand for housing loans despite moderate growth in mortgage lending. These developments suggest that restrictive monetary policy continues to transmit effectively through the banking system while gradually moderating credit demand.

Structural Priorities Beyond Monetary Policy

An important aspect of the ECB's statement is its emphasis on structural reforms as a complement to monetary policy. The Governing Council reiterated the need to strengthen the euro area economy by simplifying and harmonising regulations within the Single Market, accelerating the energy transition, advancing the Savings and Investments Union, and maintaining sound public finances. It also welcomed progress towards establishing the digital euro, describing it as an important milestone in modernising Europe's payment infrastructure.

These observations underline the ECB's recognition that monetary policy alone cannot address the structural challenges confronting the euro area.

Implications for the Global Economy

The ECB's decision carries broader implications beyond Europe. By maintaining a restrictive but stable policy stance, the ECB joins other major central banks in prioritising inflation control while avoiding unnecessary tightening amid elevated geopolitical uncertainty.

For emerging market economies, including India, stable ECB interest rates reduce the likelihood of abrupt shifts in global capital flows. However, continued high energy prices and weaker European growth could moderate export demand from one of India's major trading partners. At the same time, Europe's growing investment in digital technologies, defence manufacturing and infrastructure may create new opportunities for global technology and manufacturing supply chains.

Conclusion

The ECB's July 2026 monetary policy decision reflects a central bank navigating an exceptionally uncertain economic landscape. While inflation has moderated and economic activity has shown early signs of improvement, the Governing Council remains concerned that the full impact of the Middle East energy shock has yet to emerge. Consequently, it has chosen to maintain policy rates while preserving maximum flexibility for future action.

The statement conveys a clear message: the ECB remains committed to restoring inflation sustainably to its 2 percent target, but future policy decisions will depend entirely on evolving economic conditions rather than a predetermined policy path. As the euro area confronts persistent geopolitical risks, elevated energy prices and structural transformation driven by digitalisation and defence investment, monetary policy will continue to balance inflation control with the need to preserve financial stability and support long-term economic resilience.

BANK OF ENGLAND'S JULY 2026 MONETARY POLICY: A CAUTIOUS PAUSE AMID GLOBAL UNCERTAINTY

Introduction

The Bank of England's (BoE) Monetary Policy Committee (MPC) decided at its meeting ending 29 July 2026 to maintain the Bank Rate at 3.75 percent, reflecting a cautious policy stance in response to heightened uncertainty arising from the Middle East conflict and its implications for global energy markets. The decision was supported by a 6–3 majority, with three members favouring a further 25-basis-point increase to 4.0 percent. The split vote underscores the difficult policy trade-off confronting the MPC: while domestic inflationary pressures continue to ease, the persistence of elevated energy prices raises the risk of renewed inflation through indirect and second-round effects.

The July policy statement reflects a central bank attempting to balance two opposing forces. On one side, the UK economy exhibits clear signs of underlying disinflation, a softer labour market and weakening domestic demand. On the other, geopolitical tensions, volatile energy markets and emerging global supply-side risks threaten to reverse recent progress in bringing inflation back towards the Bank's 2 percent target.

Bank Rate Remains Unchanged

The MPC voted 6–3 to maintain the Bank Rate at 3.75 percent, judging that the current degree of monetary restraint remains appropriate given the prevailing economic conditions. While inflation has declined since the previous meeting, policymakers acknowledged that the full effects of the recent energy shock have yet to be transmitted through the economy. The Committee therefore concluded that maintaining the current policy stance would provide sufficient insurance against inflation risks while allowing additional time to assess incoming data.

Importantly, the MPC reaffirmed its readiness to adjust policy if necessary to ensure that inflation returns sustainably to target. This indicates that the current pause should not be interpreted as the beginning of a monetary easing cycle, but rather as a period of careful observation in an unusually uncertain global environment.

Energy Prices Dominate the Inflation Outlook

A defining feature of the July meeting was the MPC's continued focus on the consequences of the Middle East conflict. The Committee noted that crude oil and refined energy prices remain substantially higher than pre-conflict levels and continue to exhibit considerable volatility. Although monetary policy cannot directly influence global energy prices, it must ensure that the resulting adjustment in the domestic economy does not generate persistent inflation through wage-setting and price-setting behaviour.

The minutes indicate that all members viewed risks to energy prices as being tilted to the upside. While the release of strategic petroleum reserves and fuel substitution have moderated the initial shock, persistent geopolitical tensions, supply constraints and repeated escalations could keep energy prices elevated for an extended period. This uncertainty remains the principal risk to the UK's inflation outlook.

Inflation Continues to Moderate

Despite heightened external risks, domestic inflation has continued to improve. Consumer Price Index (CPI) inflation declined to 2.6 percent, reflecting moderation in both services and food inflation. The Committee also observed continued signs of underlying disinflation, supported by slower wage growth, a softer labour market and tighter financial conditions than prevailed before the conflict.

Nevertheless, the MPC expects inflation to increase again later in 2026 as higher energy prices continue to pass through to households and businesses. Although there is currently little evidence of significant second-round effects, policymakers remain cautious because such effects often emerge only after considerable time lags.

The Committee therefore emphasised that the absence of broad-based inflation persistence should not be interpreted as evidence that the risks have disappeared.

Second-Round Effects Remain the Key Policy Concern

The July minutes make it clear that the possibility of second-round effects has become the central consideration guiding monetary policy. The MPC broadly agreed that there has been little evidence so far of sustained wage-price feedback or de-anchoring of inflation expectations. However, members also recognised that such dynamics typically emerge gradually and may become evident only during future wage negotiations and pricing decisions.

Consequently, the Committee intends to monitor a broad range of forward-looking indicators, including inflation expectations, wage settlements, firms' pricing intentions and labour market developments. This forward-looking approach reflects the Bank's emphasis on preventing inflation persistence rather than reacting only after it has become entrenched.

Domestic Economy Shows Signs of Weakness

Unlike the inflationary environment prevailing during 2022-23, the current domestic economy appears considerably softer. The minutes note that labour market conditions continue to loosen, wage growth has moderated and domestic demand remains subdued. Several MPC members argued that the economy currently possesses sufficient spare capacity to prevent higher energy prices from generating persistent inflation. Higher financing costs, restrictive monetary policy and weaker household demand are expected to dampen inflationary pressures over the medium term.

This assessment explains why a majority of members favoured holding interest rates steady despite recognising the existence of significant upside inflation risks.

Emerging Global Inflation Risks

Beyond the immediate energy shock, the MPC highlighted several structural developments that could contribute to a more inflationary global environment. The Committee pointed to the growing demand for artificial intelligence-related hardware, which could generate supply bottlenecks and sector-specific price pressures. It also identified *El Niño* as a potential driver of higher global food prices and warned that global trade fragmentation could interact with commodity price shocks to reinforce inflationary pressures.

These observations suggest that central banks are increasingly concerned not only with cyclical inflation but also with structural supply-side forces that may keep inflation elevated over a longer horizon.

Divergent Views Within the Monetary Policy Committee

The split vote illustrates the differing assessments of inflation risks within the MPC. The six members voting to maintain Bank Rate argued that the combination of restrictive monetary policy, tighter financial conditions and continued domestic disinflation provides sufficient restraint at present. They favoured waiting for clearer evidence regarding the emergence of second-round effects before considering additional policy tightening.

In contrast, the three dissenting members advocated an immediate rate increase to 4.0 percent. They argued that inflation has remained above target for more than five years and that persistent geopolitical uncertainty warrants a more proactive risk-management approach. According to this view, an early policy response would reduce the probability of inflation expectations becoming entrenched and would be less costly than responding after second-round effects have already materialised.

The divergence reflects differing judgements regarding the balance between safeguarding economic growth and maintaining the credibility of the inflation target.

Policy Implications

The July policy decision suggests that the Bank of England has entered a phase of strategic patience. While policy remains restrictive, future decisions will depend increasingly on the evolution of energy prices, inflation expectations, wage dynamics and labour market conditions rather than on current inflation alone. The emphasis on monitoring second-round effects also reflects a broader shift in central banking towards managing inflation persistence rather than simply responding to temporary supply shocks.

For financial markets, the decision signals that interest rates are likely to remain elevated until policymakers gain greater confidence that inflation will return sustainably to target. The presence of three dissenting votes also implies that further tightening cannot be ruled out if geopolitical developments worsen or inflation expectations become less well anchored.

Implications for the Global Economy and India

The Bank of England's decision reinforces a broader global trend among major central banks. Similar to the US Federal Reserve and the European Central Bank, the BoE has chosen to maintain policy rates while emphasising vigilance against inflation risks arising from geopolitical developments.

For emerging market economies such as India, prolonged restrictive monetary policy in advanced economies may continue to influence capital flows, exchange-rate dynamics and global financial conditions. At the same time, continued weakness in the UK economy could moderate export demand, while persistent energy price volatility may sustain imported inflationary pressures across energy-importing countries.

Conclusion

The Bank of England's July 2026 monetary policy decision reflects the increasingly complex environment confronting central banks worldwide. Although domestic inflationary pressures have moderated and the UK economy exhibits signs of underlying weakness, persistent geopolitical uncertainty and elevated energy prices continue to pose significant risks to price stability.

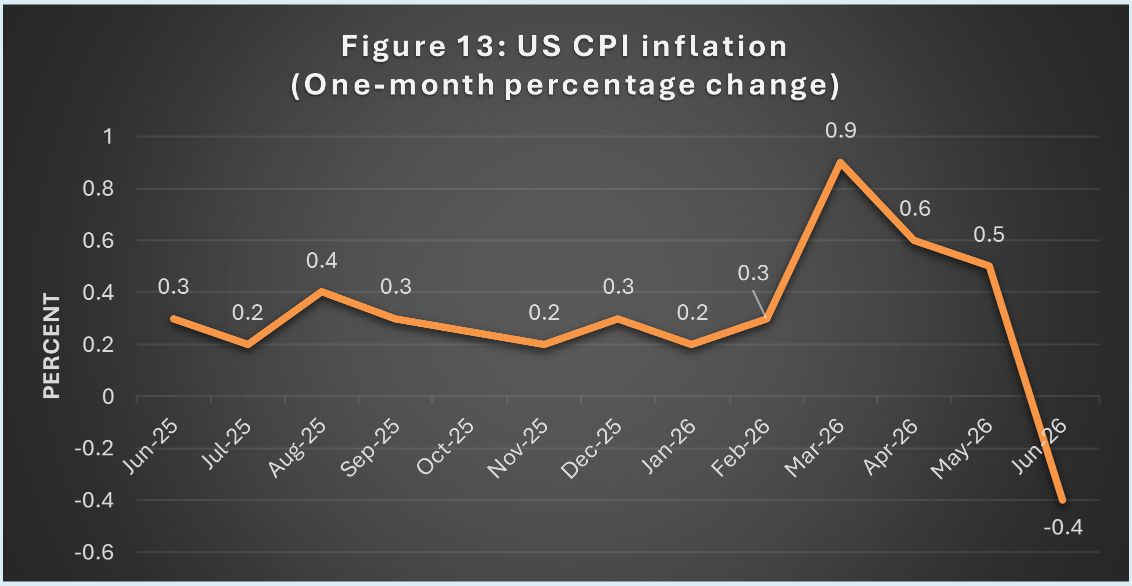
By maintaining the Bank Rate at 3.75 percent, the MPC has chosen to balance inflation control with the need to avoid unnecessarily weakening an already subdued economy. Nevertheless, the split vote and repeated emphasis on second-round inflation effects indicate that the fight against inflation is far from complete.

Looking ahead, the trajectory of UK monetary policy will depend less on current inflation readings and more on whether energy-related price shocks evolve into broader wage and price-setting behaviour. Until that uncertainty is resolved, the Bank of England is likely to maintain a cautious, data-dependent approach, remaining prepared to tighten policy further if inflation persistence threatens the achievement of its medium-term inflation target.

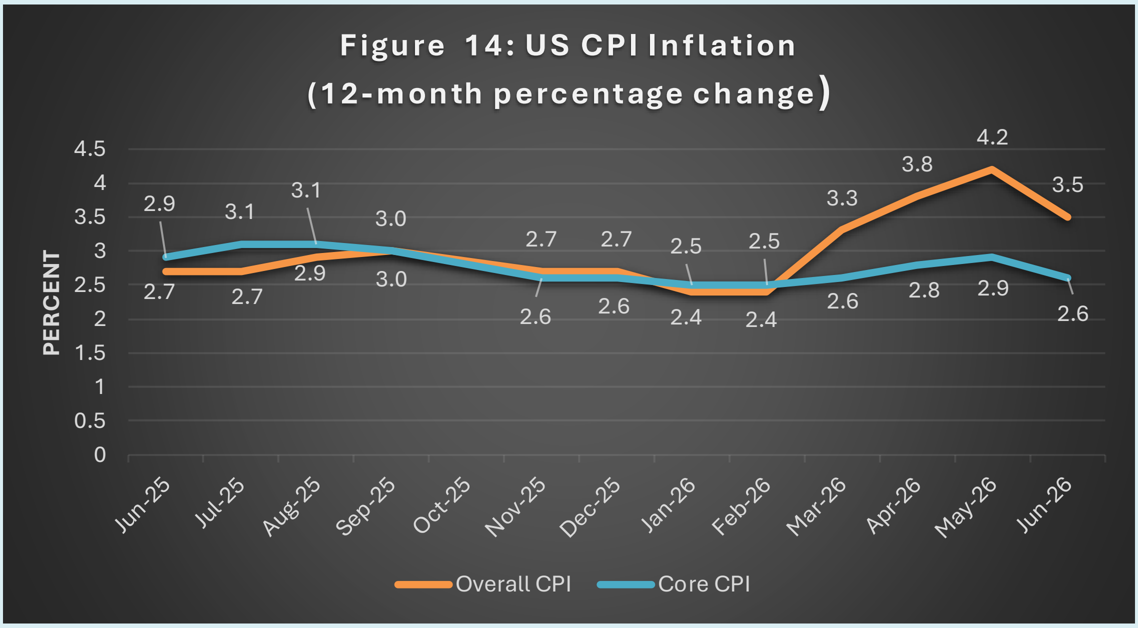
INFLATION

US INFLATION COOLS SHARPLY AS ENERGY PRICES REVERSE COURSE

The latest US Consumer Price Index (CPI) data for June 2026 indicate a marked easing in inflationary pressures, driven primarily by a sharp correction in energy prices. The headline CPI declined by 0.4 percent month-on-month—the largest monthly fall since April 2020—after increasing by 0.5 percent in May (Figure 13). On a year-on-year basis, headline inflation moderated from 4.2 percent in May to 3.5 percent in June (Figure 14), reflecting the substantial contribution of lower energy prices.



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*](https://www.bls.gov/news.release/cpi.nr0.htm)

The principal driver of the monthly decline was the 5.7 percent fall in the energy index, led by a 9.7 percent decline in gasoline prices, which more than offset continued increases in food and shelter costs. Nevertheless, the annual energy index remained elevated at 15.7 percent, underscoring that energy prices continue to exert upward pressure on inflation despite the recent correction. Food prices increased modestly by 0.2 percent during the month and remained 3.0 percent higher than a year earlier, indicating that food inflation continues to be relatively sticky.

Underlying inflation also showed encouraging signs of moderation. The core CPI (excluding food and energy) remained unchanged during June after rising 0.2 percent in May, while annual core inflation eased to 2.6 percent from 2.9 percent in the previous month (Figure 14). Shelter inflation slowed to 0.1 percent, its smallest monthly increase since January 2021, while declines in motor vehicle insurance, communication services, apparel, medical care and used vehicle prices helped contain underlying inflationary pressures. However, shelter costs continued to rise by 3.3 percent year-on-year, indicating that housing-related inflation remains a significant contributor to core inflation.

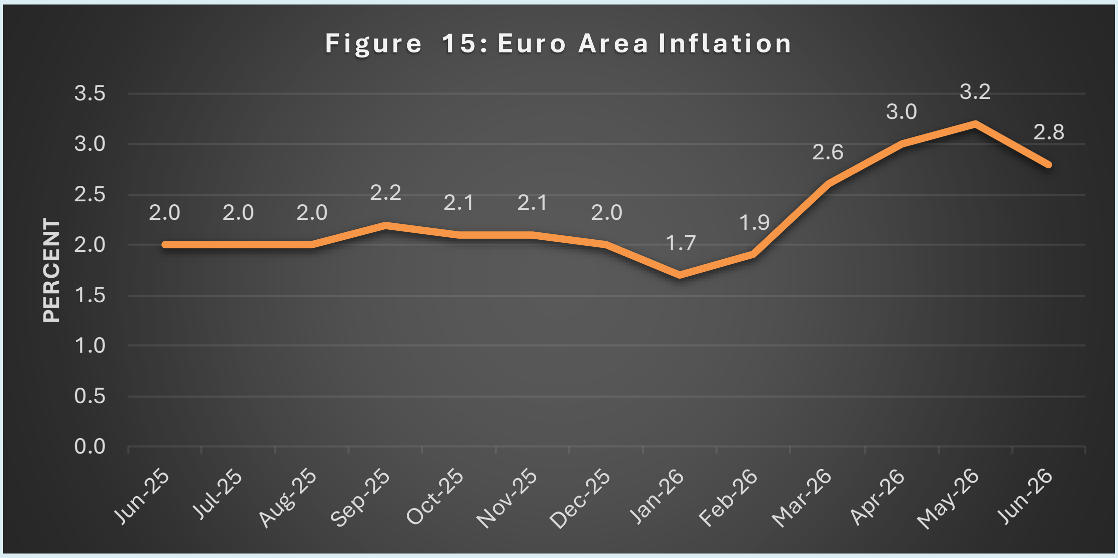
Overall, the June CPI report suggests that US inflation is moving in a favourable direction, supported by easing energy prices and moderating core inflation. However, the persistence of elevated annual energy costs, steady food inflation and resilient shelter prices indicates that inflationary pressures have not been fully eliminated. The report is therefore likely to reinforce the Federal Reserve's cautious approach to monetary policy, allowing policymakers to maintain a data-dependent stance while seeking greater confidence that inflation is returning sustainably towards its 2 percent target.

EURO AREA INFLATION EASES FURTHER AS ENERGY PRICE PRESSURES MODERATE

Annual inflation in the euro area moderated to 2.8 percent in June 2026, down from 3.2 percent in May (Figure 15), suggesting that the disinflation process has continued despite ongoing geopolitical and energy-related uncertainties. The decline reflects easing price pressures across most major expenditure categories, bringing headline inflation closer to the European Central Bank's (ECB) medium-term target of 2 percent.

Energy remained the largest contributor to inflation, with prices rising 8.7 percent year-on-year, although this represented a notable moderation from 10.8 percent in May. The deceleration suggests that while energy markets continue to be influenced by geopolitical tensions, particularly in West Asia, the pace of energy inflation has begun to soften. Inflation in the services sector also eased from 3.5 percent to 3.2 percent, indicating a gradual moderation in underlying domestic price pressures. Similarly, inflation in food, alcohol and tobacco declined to 1.6 percent from 1.9 percent, reflecting improving food price dynamics. Meanwhile, non-energy industrial goods inflation remained unchanged at 0.9 percent, suggesting that price pressures in manufactured goods remain well contained.

Overall, the June inflation data point to a broad-based easing of inflationary pressures across the euro area. Although energy prices continue to keep headline inflation above the ECB's target, the moderation in services and food inflation indicates that underlying inflation is becoming more benign. This trend strengthens the case for the ECB to maintain its data-dependent approach to monetary policy, while remaining vigilant against potential upside risks arising from geopolitical developments and energy market volatility.



Source: Eurostat https://ec.europa.eu/eurostat/web/products-euro-indicators/w/2-01072026-ap

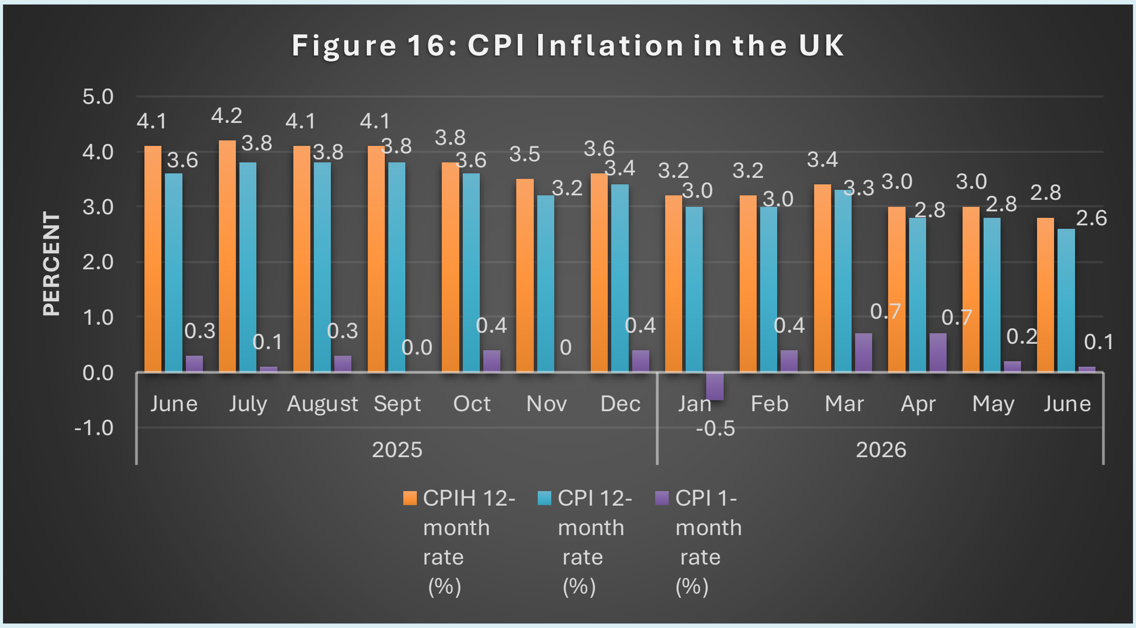
UK INFLATION MOVES CLOSER TO TARGET, BUT SERVICES PRESSURES PERSIST

UK inflation continued to moderate in June 2026, with both headline and broader measures recording slower annual price growth. CPI inflation declined to 2.6 percent in June from 2.8 percent in May, while CPIH inflation, which includes owner-occupiers' housing costs, eased to 2.8 percent from 3.0 percent (Figure 16). The CPIH rate was the lowest since September 2024, indicating a meaningful moderation in overall price pressures.

The moderation was also evident in monthly price movements. CPI increased by only 0.1 percent in June, compared with 0.3 percent in June 2025, while CPIH rose by 0.2 percent against 0.3 percent a year earlier (Figure 16). Transport and food and non-alcoholic beverages made the largest downward contributions to the monthly change in both CPI and CPIH annual inflation rates, providing significant relief to headline inflation.

However, the underlying picture remains more persistent. Core CPI inflation remained unchanged at 2.6 percent, while core CPIH stayed at 2.8 percent, indicating that the moderation in headline inflation has not yet translated into a comparable easing of underlying price pressures. Within CPIH, goods inflation slowed from 2.0 percent to 1.7 percent, whereas services inflation remained elevated at 3.6 percent. Similarly, CPI services inflation eased only marginally from 3.7 percent to 3.6 percent, highlighting continued stickiness in domestically generated inflation.

The June data therefore present a mixed but broadly encouraging picture. The decline in headline inflation strengthens evidence that price pressures are gradually easing, but persistent services inflation suggests that the disinflation process is not yet complete. For monetary policy, the key challenge will be to assess whether the continued moderation in goods and headline inflation can eventually translate into a sustained decline in services inflation and core price pressures.



Source: https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/june2026

CHINA'S CONSUMER INFLATION EASES FURTHER, SIGNALLING CONTINUED DEMAND WEAKNESS

China's consumer inflation moderated in June 2026, with annual CPI inflation easing to 1.0 percent from 1.2 percent in both April and May (Figure 17), slightly below market expectations of 1.1 percent. The moderation, which marked the weakest inflation increase in three months, points to continued softness in domestic price pressures despite some resilience in selected service categories.

The slowdown was particularly evident in non-food inflation, which eased to 1.5 percent from 1.9 percent in May, largely reflecting slower transport inflation. Transport prices rose 4.1 percent year-on-year, compared with 5.4 percent in May, following government reductions in domestic retail gasoline and diesel prices amid lower global energy prices as tensions in the Middle East eased. At the same time, inflation remained relatively firm in healthcare and education, while housing prices declined at a slightly faster pace, suggesting continued weakness in the property-related segment.

Food prices remained a major drag on headline inflation, declining for the third consecutive month by 1.6 percent year-on-year. Persistently weak pork prices and continued declines in fresh fruit prices were important contributors to the fall. Meanwhile, core inflation, excluding food and energy, eased marginally to 1.0 percent from 1.1 percent, indicating that underlying price pressures also remain subdued.

The monthly picture reinforces this assessment. Consumer prices fell 0.3 percent in June, following a 0.1 percent decline in May and performing slightly worse than the expected 0.2 percent decline. Taken together, the data suggest that China's inflation environment remains characterised by weak food prices, softer energy-related costs and subdued underlying demand pressures. The persistence of low inflation could therefore remain an important policy concern, particularly if weak domestic demand continues to constrain pricing power and reinforce deflationary pressures.

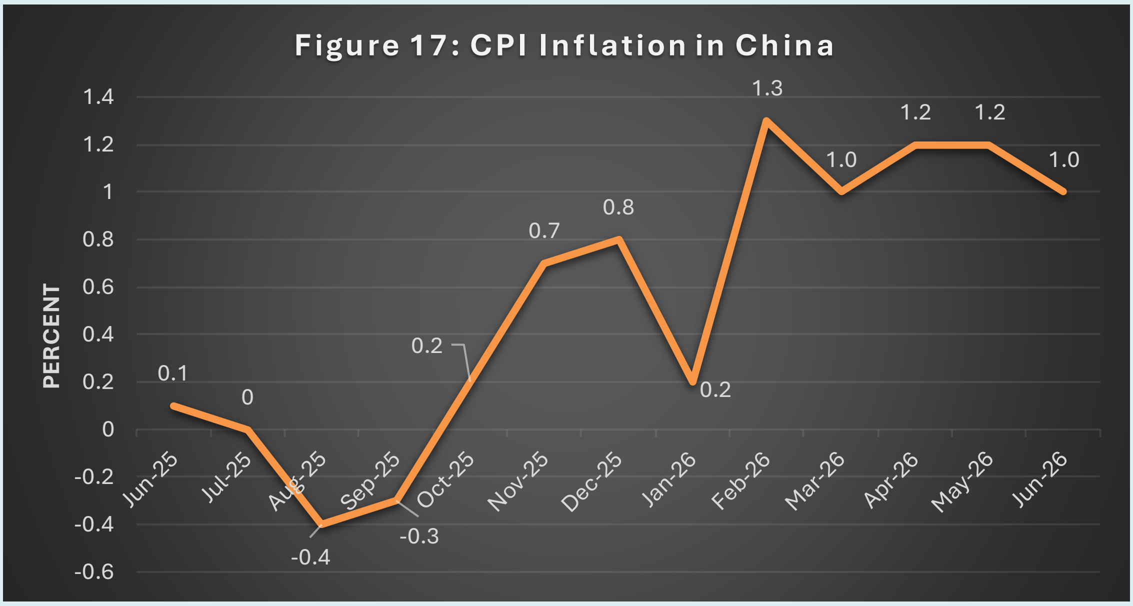


Figure 17: CPI Inflation in China

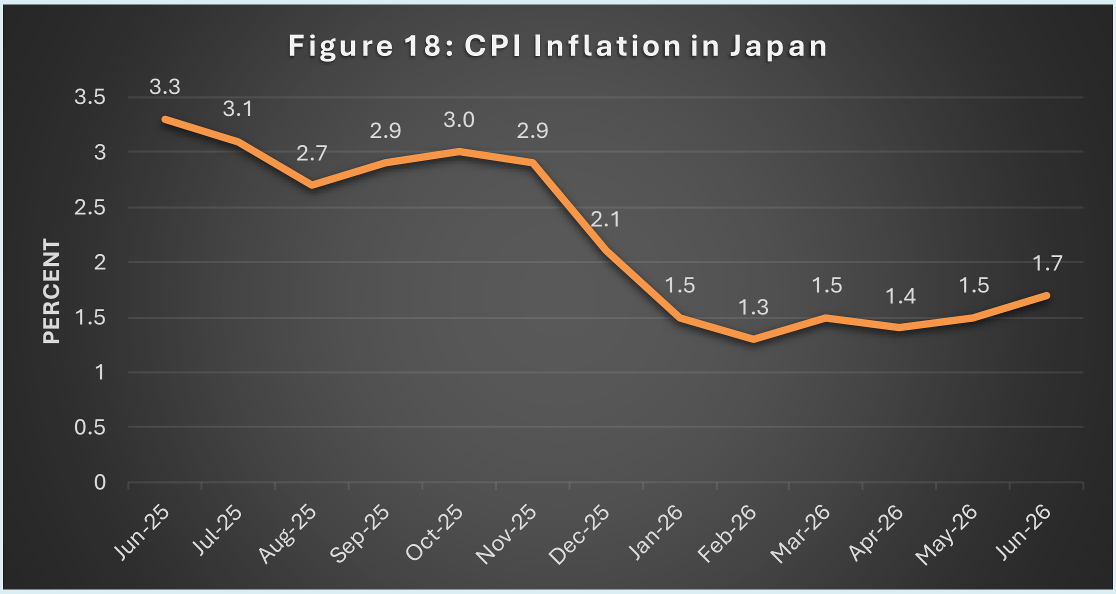
Source: https://tradingeconomics.com/china/inflation-cpi

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

Japan's annual inflation rate accelerated to 1.7 percent in June 2026, up from 1.5 percent in May and marking its highest level since December (Figure 18). The increase was driven primarily by a slower decline in electricity and gas prices as government energy subsidies were scaled back. Price pressures also strengthened across several categories, including transport, housing, household goods and healthcare, pointing to a modest broadening of inflationary pressures.

At the same time, the inflation picture remains mixed. Food inflation eased to 3.2 percent from 3.5 percent, its slowest pace since July 2024, helped by a second consecutive monthly decline in rice prices. Recreation inflation also moderated, while education remained firmly in deflation. These developments helped contain the overall acceleration in consumer prices.

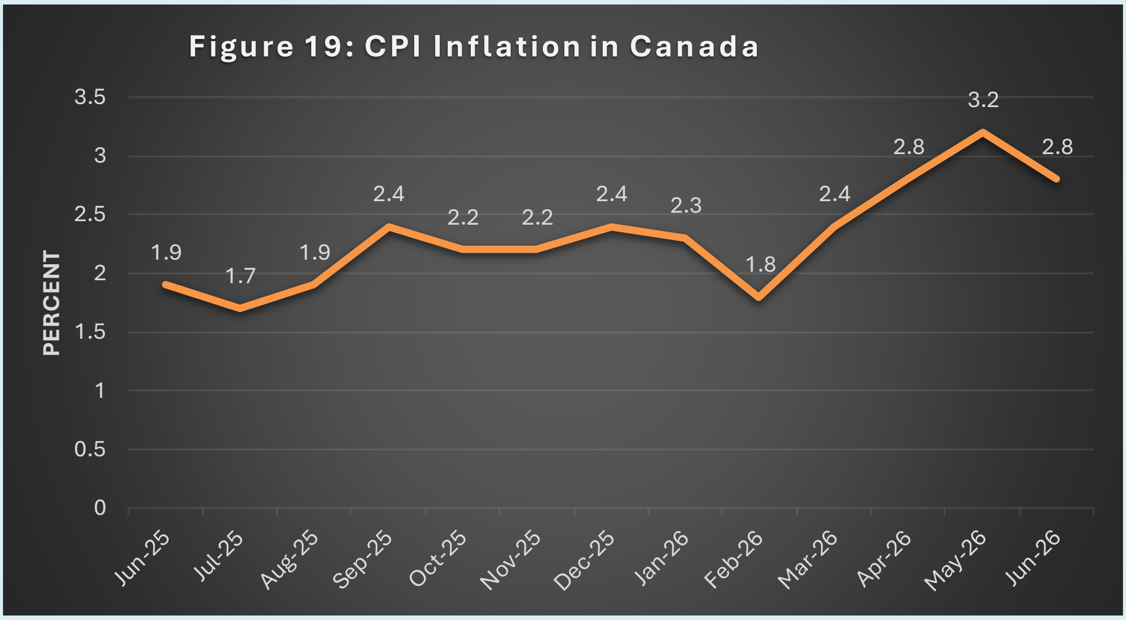
More importantly for monetary policy, core inflation, excluding fresh food, rose to 1.6 percent from 1.4 percent, reaching its highest level since March and matching market expectations. Nevertheless, it remained below the Bank of Japan's 2 percent target for the fifth consecutive month. The June data therefore suggest that Japan is experiencing a gradual strengthening of underlying price pressures, but inflation has yet to establish a sufficiently firm and broad-based momentum to move decisively above the central bank's target.



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

CANADIAN INFLATION COOLS, EASING PRESSURE ON THE BANK OF CANADA

Canada's headline inflation eased sharply to 2.8 percent in June 2026, from 3.2 percent in May (Figure 19), supported by slower gasoline price growth and softer food inflation. Core inflation also moderated significantly, with both the median and trimmed-mean measures falling to their lowest levels in more than five years. The broad-based easing, combined with a 0.4 percent month-on-month decline in CPI, suggests that underlying price pressures are weakening and provides greater room for the Bank of Canada to maintain a less restrictive monetary policy stance.

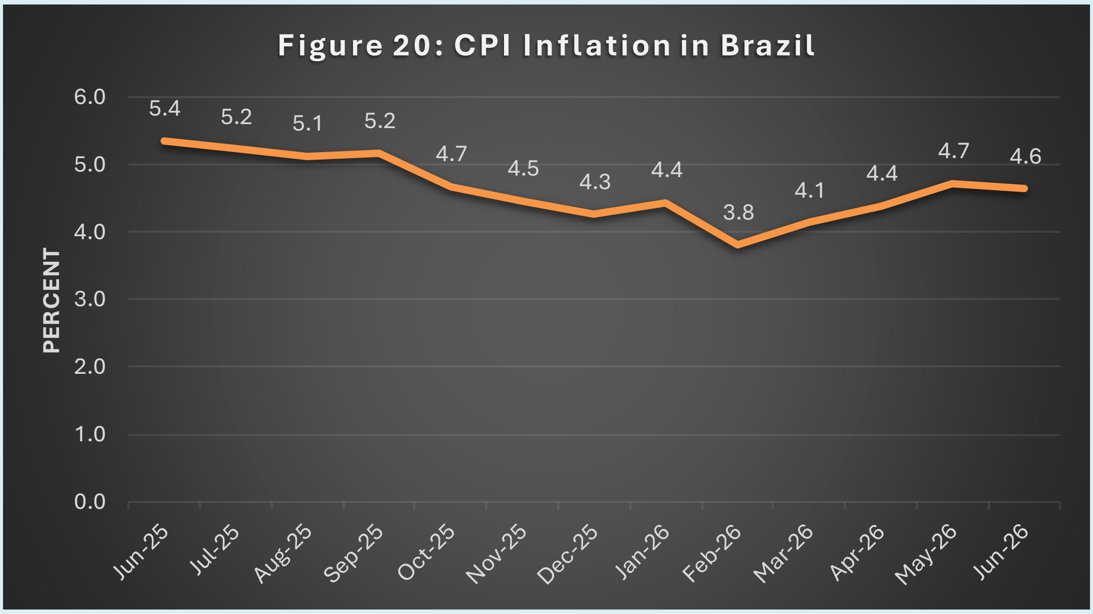


Source: https://tradingeconomics.com/canada/inflation-cpi

BRAZIL'S INFLATION

Brazil's annual inflation eased to 4.64 percent in June 2026, from 4.72 percent in May and below market expectations of 4.80 percent (Figure 20). The moderation was broad-based, with slower price growth in food and beverages, housing, clothing, transport and education. Energy and fuel inflation, however, remained elevated at 7.71 percent, reflecting supply disruptions associated with the Strait of Hormuz closure, although it eased from 8.90 percent in May as geopolitical tensions moderated.

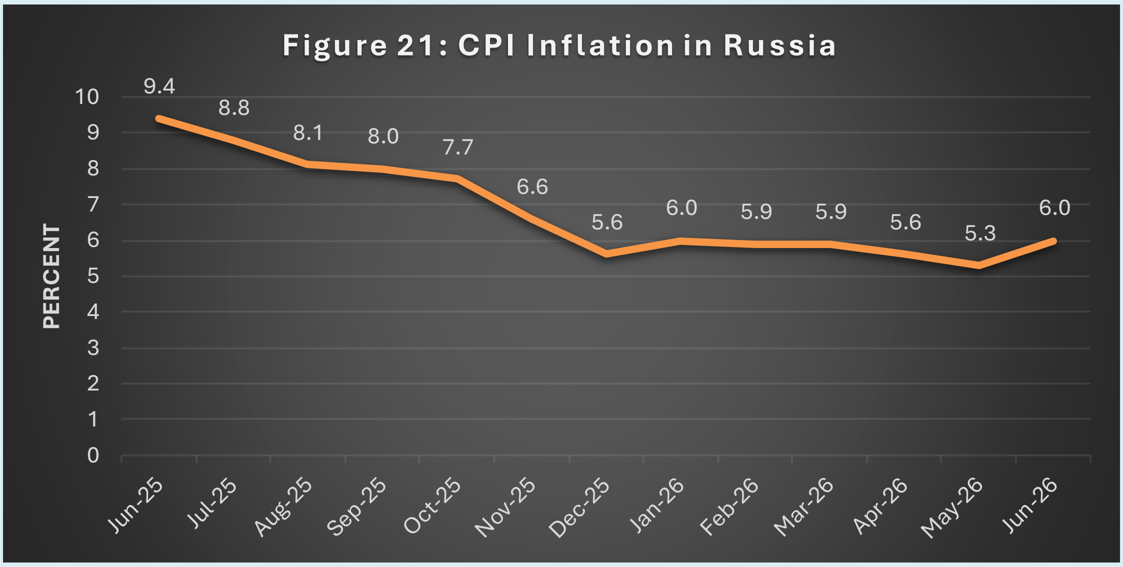
On a monthly basis, consumer prices rose just 0.16 percent, sharply lower than the 0.58 percent increase in May. Overall, the data suggest a gradual easing of inflationary pressures, although elevated energy costs remain a key upside risk.



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

RUSSIA'S INFLATION REBOUNDS AS FUEL SHORTAGES INTENSIFY

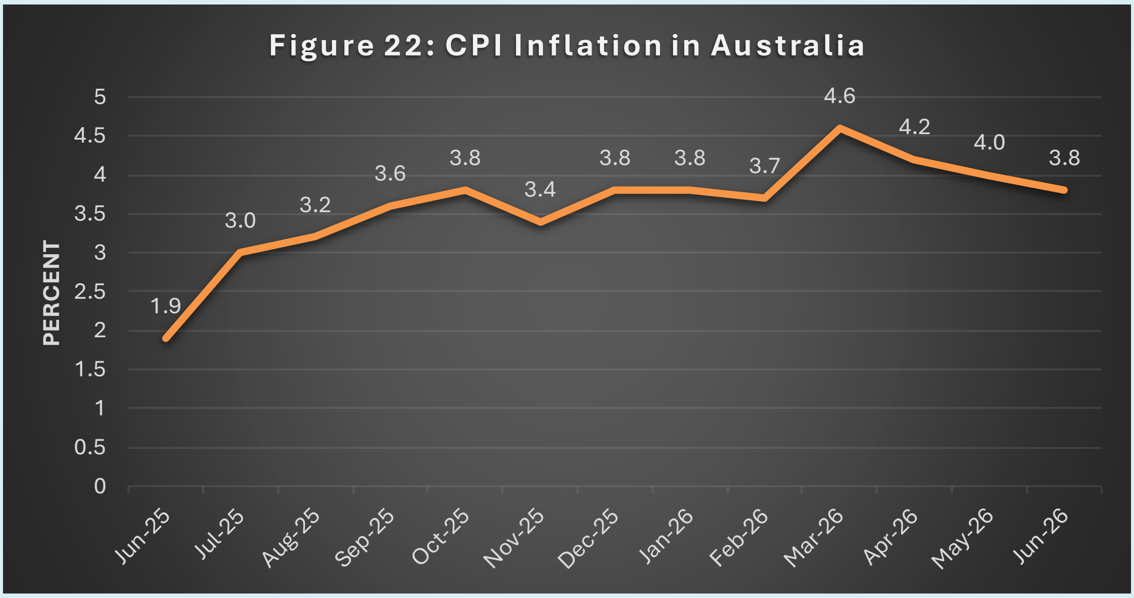
Russia's headline inflation rose sharply to 6.0 percent in June 2026, from 5.3 percent in May, reaching its highest level since January (Figure 21). The acceleration was driven primarily by severe fuel supply disruptions, with motor gasoline inflation reaching 19.9 percent, amid export disruptions in the Middle East compounded by Ukrainian drone attacks on Russian refineries. Services inflation also remained elevated at 10.6 percent, while food inflation was comparatively moderate at 3.4 percent. On a monthly basis, consumer prices increased by 0.9 percent, highlighting renewed inflationary pressures in the Russian economy.



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

AUSTRALIA'S INFLATION EASES BUT REMAINS ABOVE TARGET

Australia's annual inflation eased to 3.8 percent in June 2026, from 4.0 percent in May (Figure 22), but remained above the Reserve Bank of Australia's 2–3 percent target range. The moderation was supported by softer goods inflation, particularly transport costs amid falling fuel prices. However, services inflation accelerated to 4.0 percent, while housing inflation also increased, indicating persistent underlying price pressures. Core measures remained elevated, with trimmed-mean inflation at 3.6 percent. The data therefore suggest some progress on disinflation, but continued services and housing pressures could constrain the scope for monetary easing.

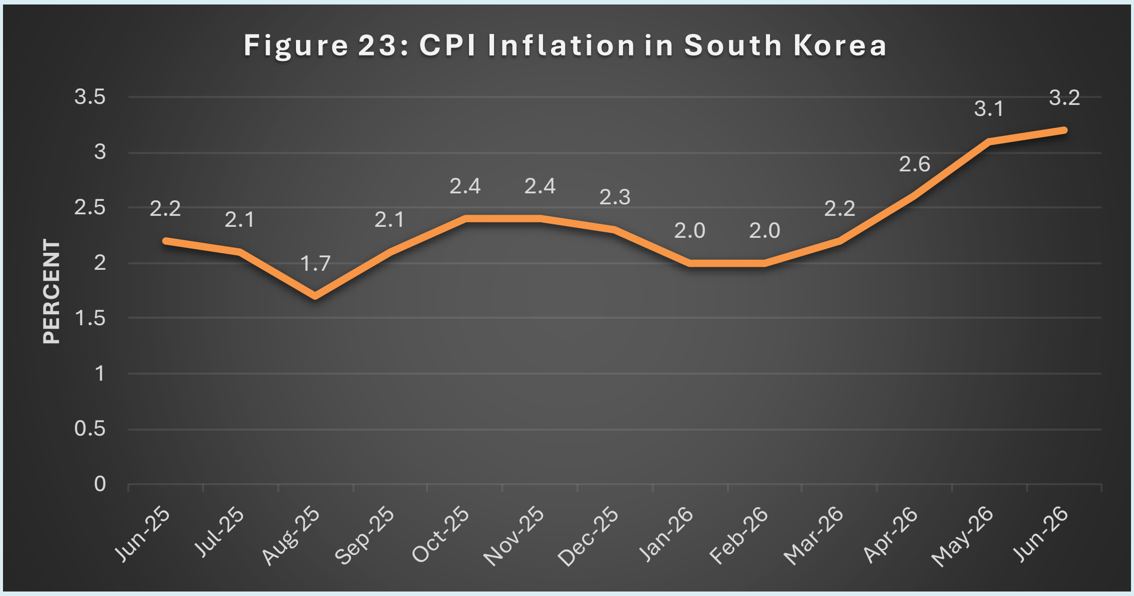


Source: https://tradingeconomics.com/australia/inflation-cpi

SOUTH KOREA'S INFLATION HITS 30-MONTH HIGH AMID RISING ENERGY COSTS

South Korea's annual inflation accelerated to a 30-month high of 3.2 percent in June 2026 (Figure 23), remaining well above the Bank of Korea's 2 percent target. The increase was driven largely by a sharp rise in transport costs, which surged 11.1 percent, reflecting elevated global energy and petroleum prices. Food and beverages also recorded moderate price increases, while recreation and culture saw stronger inflation.

The inflation outlook is further complicated by the weaker Korean won and high raw-material costs, which are adding to imported cost pressures in an import-dependent economy. The June data therefore point to a renewed strengthening of inflationary pressures and could constrain the scope for monetary easing in the near term.



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

FAO FOOD PRICE INDEX MODERATES AS COMMODITY MARKETS REMAIN DIVERGENT

The FAO Food Price Index (FFPI) averaged 130.3 points in June 2026 (Table 6), marginally declining by 0.3 percent from the previous month. The slight easing in global food prices reflected lower quotations for cereals, sugar and dairy products, which more than offset increases in vegetable oils and meat prices. Despite the monthly decline, the index remained 1.7 percent higher than its level a year earlier, although it continued to be 18.7 percent below the record high reached in March 2022, indicating that global food markets have largely stabilised following the extreme volatility witnessed during the post-pandemic and geopolitical crises.

Cereals: Improved Supply Prospects Weigh on Prices

The FAO Cereal Price Index declined by 3.5 percent month-on-month to 110.2 points in June 2026, primarily reflecting improved global supply conditions. Nevertheless, cereal prices remained 2.7 percent higher than in June 2025, indicating that international grain markets continue to trade above last year's levels.

International wheat prices fell by 4.4 percent, driven by rapid harvesting and favourable production prospects in the Black Sea region. The ample supplies from major exporters more than compensated for concerns regarding weather conditions in the United States and Australia. Although recent rainfall improved moisture availability in parts of Australia, *El Niño*-induced dryness and elevated production costs continued to pose risks to crop prospects.

Global maize prices declined even more sharply, falling by 6.2 percent due to expectations of abundant export supplies from South America. Lower crude oil prices also reduced demand for maize-based biofuels, adding further downward pressure on prices. Similar supply-side factors led to declines in barley and sorghum prices, which fell by 3.4 percent and 7.7 percent, respectively.

In contrast, the FAO All Rice Price Index increased by 3.2 percent, supported by stronger demand for Indica rice across Asia, weather-related uncertainties and higher transportation and production costs. The contrasting movement in rice prices highlights the differing supply-demand dynamics across major cereal markets.

Vegetable Oils: Biofuel Demand Supports Market Recovery

The FAO Vegetable Oil Price Index rose by 3.8 percent during June, reaching 192.0 points, and stood 23.3 percent above its level a year earlier, making vegetable oils one of the strongest-performing food commodity groups.

The increase was led by a rebound in palm oil prices, following expectations of tighter export availability from Indonesia. Stronger domestic demand for biodiesel feedstock, coupled with concerns over declining yields, reduced exportable supplies and supported international prices.

Rapeseed oil prices also continued to strengthen, reflecting firm global biofuel demand and adverse weather affecting crop plantings in Australia and Canada. By contrast, soybean oil prices edged lower as seasonal supplies from South America increased and declining crude oil prices moderated biofuel demand. Meanwhile, sunflower oil prices remained broadly stable, as current supply tightness was largely offset by expectations of improved production during the forthcoming marketing season. Overall, the vegetable oil market continues to be influenced not only by food demand but increasingly by developments in global energy markets and biofuel policies.

Meat Prices Reach a New Record High

The FAO Meat Price Index increased modestly by 0.4 percent in June to 131.0 points, reaching a new historical high. Compared with June 2025, meat prices were 4.0 percent higher, reflecting sustained strength in international protein demand.

The increase was primarily driven by poultry meat, where strong global import demand and temporarily tighter domestic supplies in Brazil resulted in higher export prices. Ovine meat prices also strengthened amid continued demand and limited export availability. Conversely, pig meat prices continued to weaken because of abundant supplies in the European Union and subdued demand across several Asian markets.

Similarly, bovine meat prices softened slightly as Australia anticipated increased export availability during the third quarter, while Chinese import demand moderated as existing import quotas approached full utilisation.

The divergent performance within the meat sector illustrates how commodity-specific supply conditions continue to outweigh broader market trends.

Dairy Prices Continue to Weaken

The FAO Dairy Price Index averaged 117.4 points in June, declining by 1.5 percent from May and remaining 24.5 percent below its level a year earlier. The decline reflected lower prices across virtually all major dairy products.

Skim Milk Powder (SMP) recorded only a modest decline after five consecutive months of increases, as recovering production in the European Union and the United States improved export availability while demand moderated. Despite the recent correction, SMP remained the only dairy product trading above its June 2025 level.

Whole Milk Powder (WMP) prices declined further as weak import demand from China continued to outweigh stronger purchases from Southeast Asia and the Near East. Similarly, butter and cheese prices weakened due to increased milk availability and higher production in major exporting countries, resulting in greater export competition. Cheese prices, in particular, extended their downward trend for the eleventh consecutive month as global export supplies continued to exceed import demand.

Sugar Prices Fall on Strong Brazilian Supplies

The FAO Sugar Price Index registered the sharpest monthly decline among the major commodity groups, falling by 5.7 percent to 89.7 points in June. Compared with the previous year, sugar prices were 13.3 percent lower.

The decline was driven primarily by developments in Brazil, where lower domestic ethanol prices encouraged sugar mills to divert a larger proportion of sugarcane towards sugar production. Strong export shipments from Brazil, supported by the depreciation of the Brazilian real against the US dollar, further increased supplies in international markets.

Nevertheless, the overall decline remained contained because of continuing concerns regarding the potential impact of *El Niño* on sugar production in major producing countries such as India and Thailand during the upcoming 2026-27 season. These climate-related uncertainties continue to provide an underlying floor to international sugar prices despite the current supply surplus.

Outlook

The June 2026 FAO Food Price Index suggests that global food inflation has eased considerably compared with the exceptionally high levels witnessed in recent years. Improved cereal harvests, abundant South American supplies and stronger Brazilian exports have contributed to lower prices for several key commodities. At the same time, sustained demand for biofuels, weather-related production risks and climate uncertainties continue to support prices of vegetable oils, meat and rice.

Looking ahead, global food prices are likely to remain influenced by the interplay between weather conditions, geopolitical developments, energy markets and biofuel policies. In particular, the evolution of *El Niño*, rainfall patterns across major producing regions and the performance of the Northern Hemisphere harvests will remain critical determinants of international food price movements during the second half of 2026.

Table 6: FAO Food Price Index (FFPI)

	Food Price Index	Meat	Dairy	Cereals	Oils	Sugar
June 2025	128.1	126.0	155.5	107.3	155.7	103.6
July 2025	129.8	126.7	154.6	106.5	166.8	103.3
August 2025	130.0	127.8	152.2	105.7	169.1	103.6
September 2025	128.6	127.9	147.2	104.9	167.9	99.4
October 2025	126.4	125.0	141.7	103.6	169.4	94.1
November 2025	125.2	125.5	136.2	105.5	165.0	88.6
December 2025	124.5	124.8	128.2	107.2	165.2	90.7
January 2026	124.1	124.9	120.7	107.5	168.6	89.8
February 2026	125.5	126.5	119.4	108.7	174.2	86.2
March 2026	128.7	128.0	121.2	110.4	183.1	92.8
April 2026	131.0	130.4	119.7	111.3	193.9	88.5
May 2026	130.8	130.5	119.2	114.2	185.0	95.1
June 2026	130.3	131.0	117.4	110.2	192.0	89.7

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

SECTION 3: FINANCIAL MARKETS

INDIAN EQUITIES NAVIGATE VOLATILITY TO END JULY ON A STRONGER NOTE

Introduction

Indian equity markets experienced a highly volatile but ultimately positive July 2026, as investors navigated a shifting combination of geopolitical tensions, crude oil prices, foreign portfolio flows, corporate earnings and global monetary-policy expectations. The month began on an optimistic note, supported by declining international crude prices, improving global risk sentiment and expectations of stronger investment flows. Sentiment subsequently deteriorated sharply as tensions in West Asia intensified and crude prices surged, before recovering strongly towards the end of the month as geopolitical concerns eased, corporate earnings remained supportive and foreign portfolio investors returned to Indian equities.

The BSE Sensex gained about 1.64 percent during July, while the Nifty 50 rose by around 1.62 percent, indicating that the underlying resilience of Indian equities remained intact despite considerable intra-month volatility.

A Month of Sharp Swings

The trajectory of the equity market during July can broadly be divided into four phases. During 1–3 July, markets recovered strongly as international crude oil prices declined, reducing concerns about imported inflation, the current account deficit and corporate input costs. Softer-than-expected US labour market data also reduced expectations of near-term monetary tightening by the US Federal Reserve, supporting global risk appetite. Positive developments from the India–Japan Summit further strengthened investor sentiment by raising expectations of greater investment flows and economic cooperation.

The optimism continued into the first part of the following week. On 6 July, the Sensex climbed 521 points to 78,285 (Figure 24) and the Nifty rose 160 points to 24,430 (Figure 25), their highest closing levels in nearly ten weeks. Robust business updates from HDFC Bank, easing crude prices, improving monsoon conditions and renewed FPI inflows supported the rally.

However, the market's vulnerability to external shocks became evident on 8 July, when escalating US-Iran tensions pushed crude prices sharply higher. The Sensex plunged 1,677 points, or 2.2 percent, while the Nifty fell 2.1 percent. The sell-off wiped out nearly ₹9 trillion in market capitalisation, highlighting the sensitivity of Indian equities to energy prices and geopolitical developments.

Markets subsequently recovered, supported by FII inflows of around ₹4,566 crore during 9–10 July, better-than-expected TCS earnings and encouraging banking-sector business updates. Nevertheless, both benchmark indices ended the week 0.3 percent lower, bringing an end to their four-week winning streak.

Geopolitics and Crude Oil Remain Key Market Drivers

The July market experience demonstrated once again the central role of crude oil prices in India's financial-market dynamics. Lower crude prices at the beginning of the month improved investor sentiment by reducing concerns over imported inflation, the oil import bill and corporate input costs. Conversely, the subsequent rise in Brent crude above US$100 per barrel triggered concerns about inflation, the current account deficit and macroeconomic stability.

The market therefore remained closely tied to developments in West Asia. The combination of geopolitical uncertainty and rising energy prices contributed to risk aversion, FPI selling and pressure on the rupee. The experience of July reinforces the importance of energy prices as a transmission channel between geopolitical shocks and India's financial markets.

Domestic Liquidity Provides a Cushion

Despite substantial foreign portfolio outflows at different points during the month, Indian markets demonstrated considerable resilience, supported by strong domestic liquidity and sustained retail participation. During 13–17 July, the Sensex initially weakened before recovering sharply to 78,151, while the Nifty ended the week at 24,334. The recovery was supported by domestic liquidity, retail participation, optimism surrounding corporate earnings and buying in large-cap stocks.

This suggests an important structural change in the market's resilience. While foreign flows continue to influence short-term market direction, domestic investors increasingly provide a stabilising counterweight when global risk appetite weakens.

Corporate Earnings Become Increasingly Important

The beginning of the Q1FY27 corporate earnings season added another layer to market volatility. Positive earnings and business updates supported selective buying, while disappointing results from some banks intensified selling pressure.

The sharp correction during 20–24 July reflected this combination of external and domestic concerns. The Sensex fell continuously for five trading sessions, declining from 77,709 to 76,060, while the Nifty dropped from 24,239 to 23,767. The decline represented a weekly fall of around 2.1 percent for the Sensex and pushed the Nifty below the psychologically important 24,000 level.

The correction was particularly pronounced in private banking, financial services, information technology and oil and gas stocks. HDFC Bank and Axis Bank emerged among the major laggards following weaker-than-expected earnings and concerns regarding margin pressures. In contrast, FMCG and automobile stocks displayed greater resilience, supported by defensive buying and relatively better quarterly results.

IT Stocks Lead the Late-Month Recovery

One of the most notable sectoral developments during July was the sharp turnaround in information technology stocks. The sector had previously faced pressure from concerns over AI-led pricing disruption, weaker global technology spending, delayed investments and subdued discretionary demand.

The Nifty IT Index nevertheless recorded a remarkable 16.8 percent gain during July, its strongest monthly performance since July 2020. The late-month rally was supported by strong FPI inflows and robust buying in IT stocks, while a global rotation away from AI-related stocks in several emerging markets also benefited Indian technology companies.

The strength of the IT sector therefore represented an important shift in market leadership during the month, although the sector's medium-term outlook remains sensitive to global technology spending, AI-related disruption and geopolitical uncertainty.

Strong Rebound in the Final Week

The most significant turnaround occurred during 27–31 July, when benchmark indices recovered strongly from the previous week's correction. The Sensex rose from 76,836 on 27 July to 78,095 by 31 July, while the Nifty increased from 23,996 to 24,384 over the same period. The rally was supported by easing geopolitical tensions, lower crude prices during the early part of the week, strong June-quarter earnings and the return of foreign portfolio investors after four months of net selling.

The month therefore ended with a significant improvement in investor confidence, demonstrating the capacity of Indian markets to absorb external shocks when domestic fundamentals, corporate earnings and liquidity conditions remain supportive.

Broader Trends in India's Financial Markets

The performance of equities in July highlights several broader trends in India's financial markets. First, global geopolitical developments and crude oil prices have become increasingly important short-term drivers of market volatility. Second, FPI flows remain highly sensitive to changes in global risk appetite and interest-rate expectations, creating sharp swings in market sentiment. Third, strong domestic liquidity and retail participation are increasingly cushioning the impact of foreign outflows. Fourth, corporate earnings have emerged as an important domestic anchor for valuations, with stock and sector performance increasingly differentiated according to earnings quality. Finally, the strong rebound in IT stocks demonstrates that sectoral leadership can change rapidly as global expectations around technology, AI and interest rates evolve.

The July experience also suggests that India's equity market remains fundamentally resilient but increasingly exposed to external shocks. Strong domestic macroeconomic fundamentals provide a cushion, but elevated crude prices, geopolitical risks, currency pressures and uncertainty surrounding global monetary policy are likely to keep volatility relatively high.

Outlook

The near-term trajectory of Indian financial markets is likely to remain dependent on the interaction between geopolitical developments in West Asia, crude oil prices, FPI flows, corporate earnings and signals from major global central banks.

The July experience provides a useful indication of the market's underlying resilience: even after a sharp mid-month correction driven by geopolitical and energy-price shocks, the Sensex and Nifty recovered to close the month with gains. However, this resilience should not obscure the continuing vulnerabilities arising from India's dependence on imported energy and global capital flows.

July 2026 was a month of volatility rather than weakness. Indian equities demonstrated their ability to absorb geopolitical shocks, supported by domestic liquidity, corporate earnings and improving investor sentiment towards the end of the month. The key challenge going forward will be whether these domestic strengths can continue to offset the risks posed by crude oil prices, geopolitical uncertainty, global interest rates and volatile foreign capital flows.

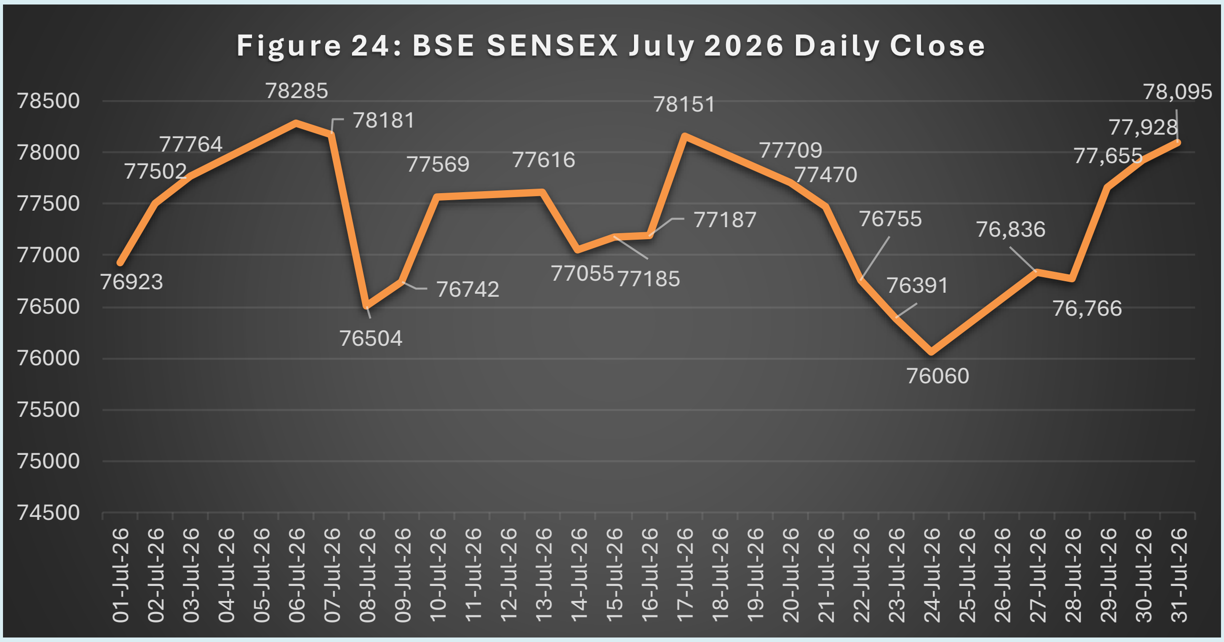
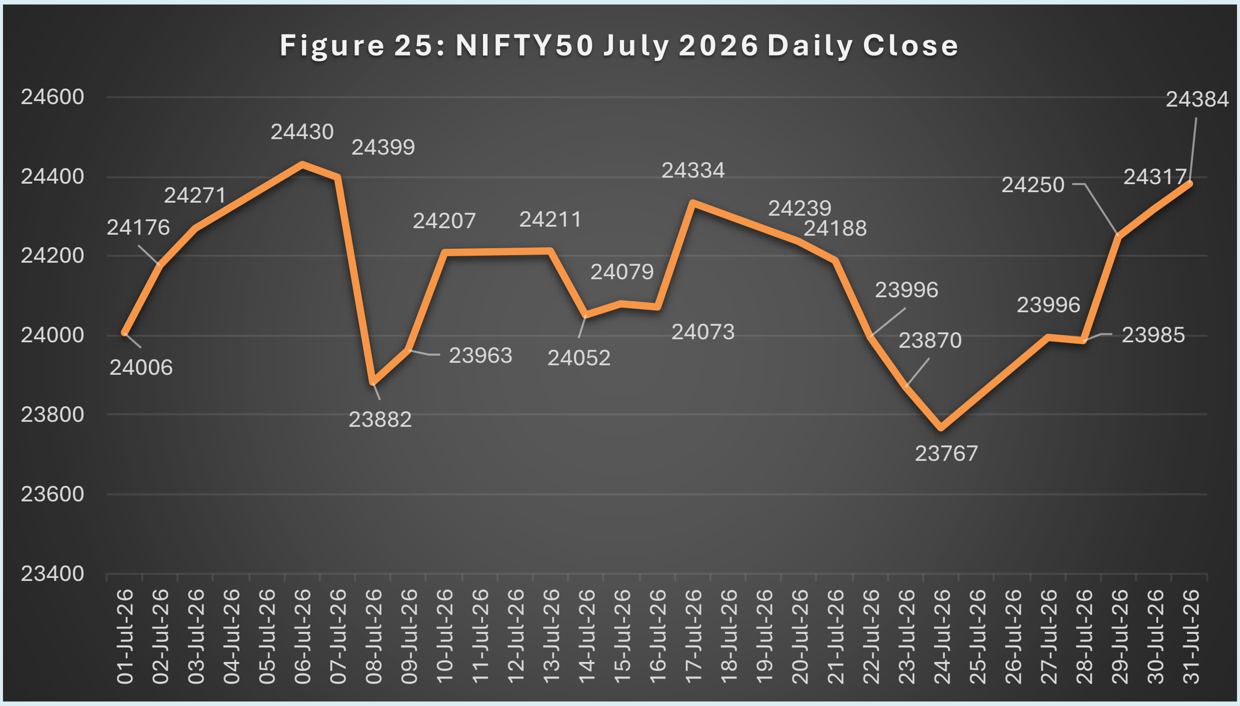


Figure 24: BSE SENSEX July 2026 Daily Close

Source: BSE [*https://www.bseindia.com/indices/IndexArchiveData.html*](https://www.bseindia.com/indices/IndexArchiveData.html)



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

GLOBAL FINANCIAL MARKETS

GLOBAL FINANCIAL MARKETS IN JULY: GEOPOLITICS, AI AND INTEREST RATES DRIVE VOLATILITY

Introduction

Global financial markets experienced a volatile and highly differentiated July 2026, as investors simultaneously navigated geopolitical tensions in West Asia, fluctuations in crude oil prices, changing expectations about monetary policy and the ongoing debate over the sustainability of massive investment in artificial intelligence (AI). Although risk sentiment improved at the beginning of the month following weaker-than-expected US labour-market data and softer oil prices, subsequent military tensions between the United States and Iran periodically triggered sharp risk-off episodes. At the same time, resilient corporate earnings and continued optimism surrounding AI-supported growth helped limit the depth of market corrections.

The dominant feature of July was therefore not a uniform global market trend but increased differentiation across markets, sectors and asset classes. Investors increasingly moved away from the indiscriminate pursuit of high-growth technology stocks towards companies and sectors with stronger earnings visibility, more attractive valuations and greater resilience to geopolitical and interest-rate shocks.

Global Equity Markets

Global equities were repeatedly pulled between fundamental optimism and geopolitical risk during July. Softer US labour-market data at the beginning of the month reduced expectations of an immediate Federal Reserve rate increase, while lower oil prices eased concerns about global inflation and corporate input costs. This initially encouraged a rotation towards defensive and value-oriented sectors.

However, renewed US-Iran military exchanges during 6–10 July pushed crude prices higher and triggered a temporary flight from risk assets. Markets subsequently recovered as investors shifted their focus back towards corporate earnings, resilient economic fundamentals and the longer-term growth potential of AI.

The pattern was repeated through the middle and latter parts of the month. Strong corporate earnings supported equities, but higher crude prices, geopolitical uncertainty and concerns about stretched technology valuations encouraged profit-taking. By the final week, investors had become increasingly selective, rewarding companies with tangible AI-related revenue growth while questioning whether the enormous capital expenditure on AI infrastructure would generate commensurate returns.

The July experience thus highlights a fundamental change in market behaviour: investors are becoming less willing to pay a premium merely for exposure to the AI theme and are increasingly demanding evidence of earnings and cash-flow generation.

United States Markets

US equities remained relatively resilient despite considerable intra-month volatility. The **Dow Jones Industrial Average (DJIA)** rose from 52,305 on 1 July to 52,485 on 31 July, an increase of around 0.3 percent (Figure 26). The index was supported by industrial, financial and healthcare stocks as investors increasingly favoured value-oriented companies and sought protection from technology-sector volatility.

The **S&P 500** performed somewhat better, increasing from 7,483 at the beginning of the month to 7,490 by its end (Figure 27). It touched a record high of 7,509 on 21 July before correcting as investors became concerned about elevated AI valuations and rising bond yields. A late-month recovery was supported by stronger-than-expected corporate earnings and renewed confidence in technology companies.

The technology-heavy **Nasdaq Composite** was considerably more volatile. It declined from 26,040 on 1 July to 25,374 by the end of the month (Figure 28), reflecting repeated profit-taking and growing concerns about the scale and profitability of AI-related investment. The index suffered particularly sharp corrections during the final week before recovering on stronger technology earnings.

The divergent performance of the three major US indices indicates a clear sectoral rotation. Investors remained confident in the US economy and corporate earnings but became increasingly cautious about high-growth technology valuations.

Monetary policy remained another major source of uncertainty. The US Federal Reserve kept its policy rate unchanged at 3.50–3.75 percent, but its relatively hawkish stance and reduced reliance on forward guidance made the future rate trajectory less predictable. With inflation still above target and geopolitical tensions creating upside risks to energy prices, investors increasingly turned to incoming economic data rather than central-bank signals to assess the timing of future rate moves.

This uncertainty was also reflected in bond markets, where higher Treasury yields indicated expectations that interest rates could remain elevated for longer. The combination of elevated yields and expensive technology stocks created an additional incentive for investors to reassess equity valuations.

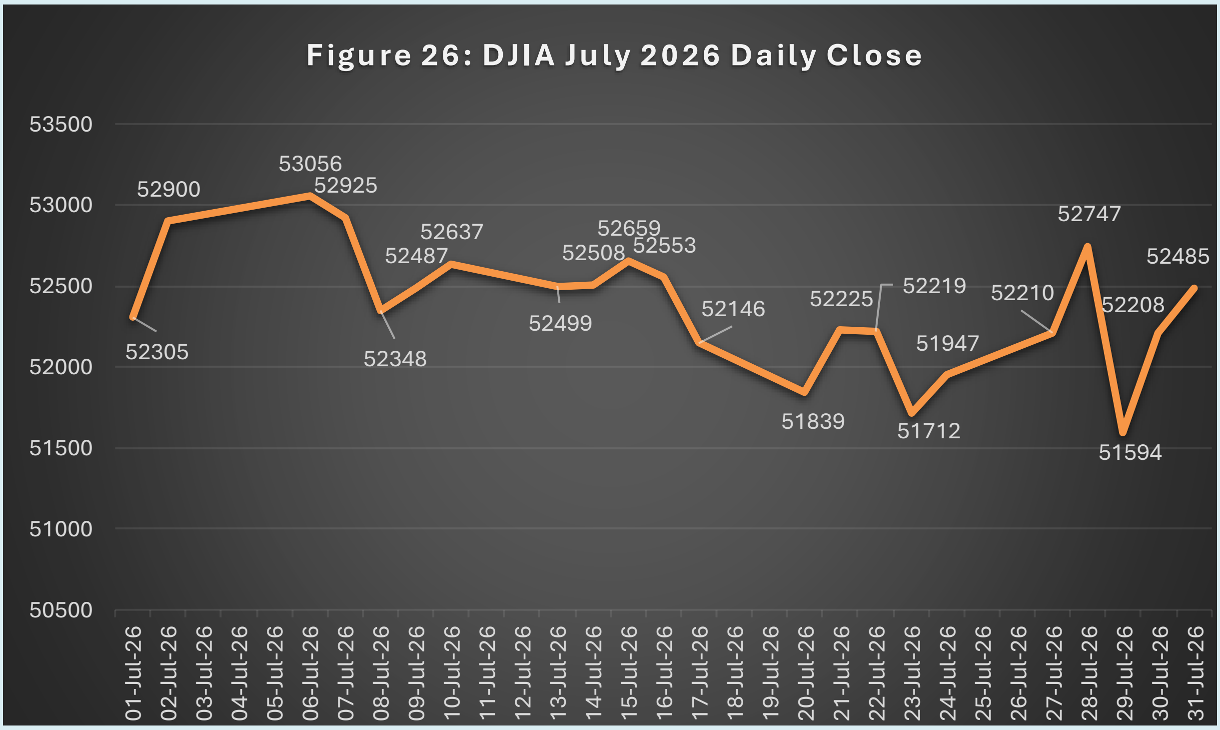


Figure 26: DJIA July 2026 Daily Close

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

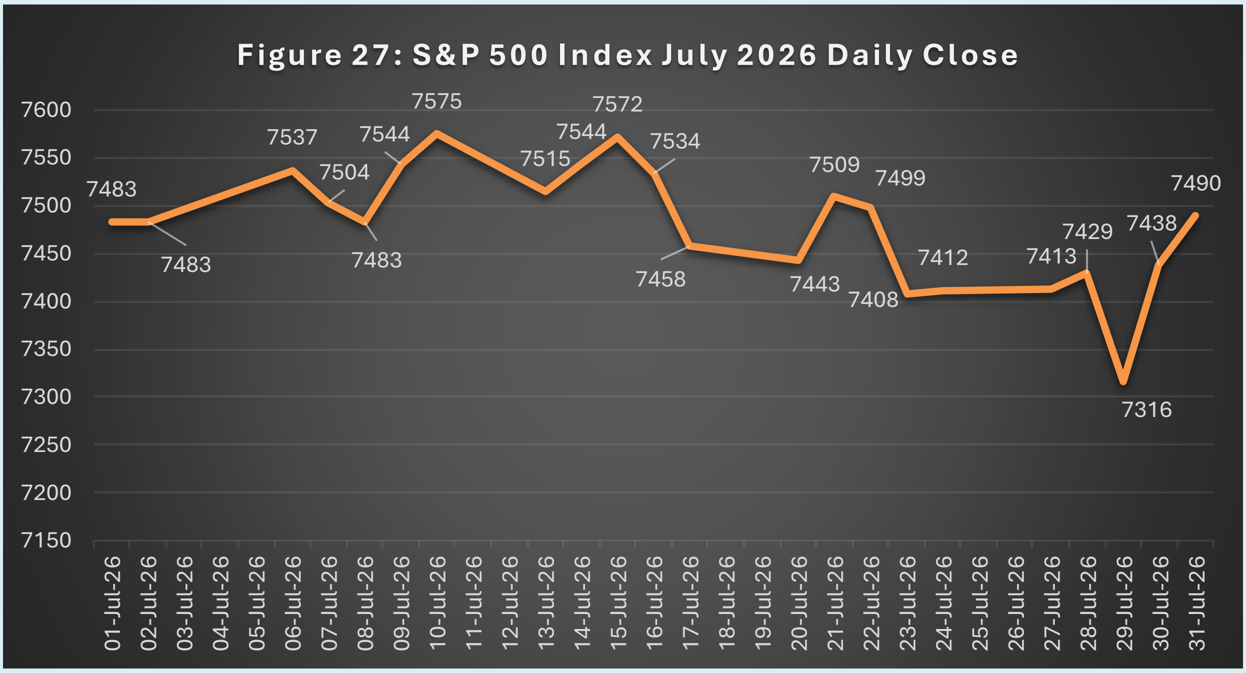


Figure 27: S&P 500 Index July 2026 Daily Close

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

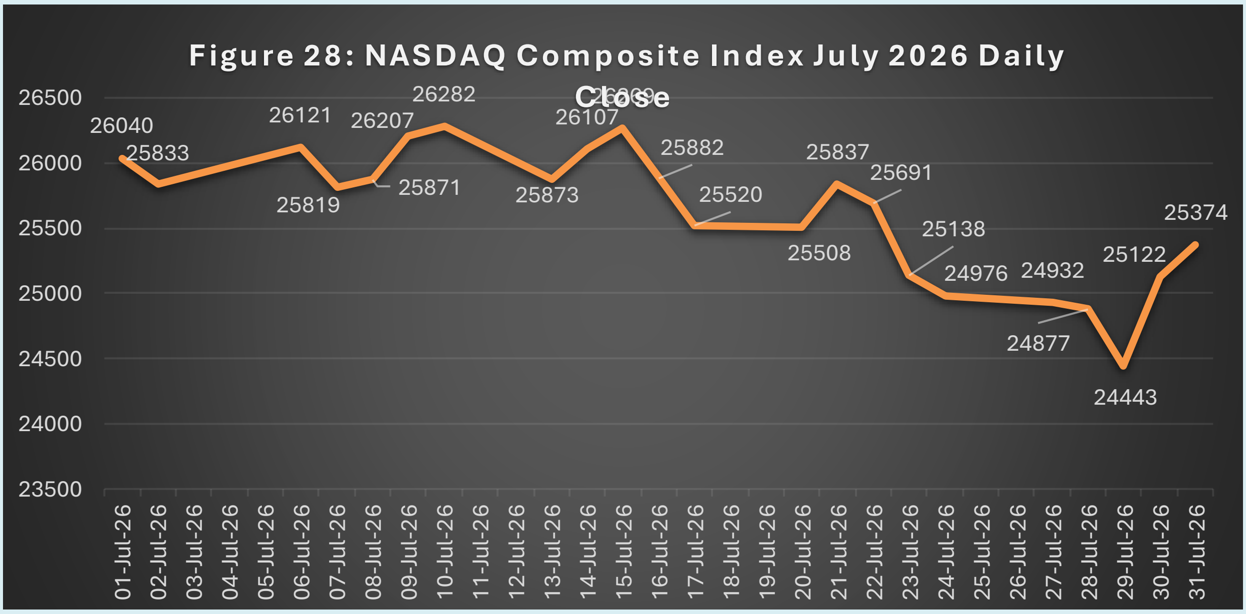


Figure 28: NASDAQ Composite Index July 2026 Daily Close

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

European Markets

European equities demonstrated greater resilience than some Asian markets during July, although performance remained uneven.

The **FTSE 100** increased from 10,478 on 1 July to 10,868 by 31 July (Figure 29), supported by energy, mining and financial stocks. Higher oil prices, which created concerns for many economies, benefited energy-oriented companies and helped the index reach a fresh record close during the month.

France's **CAC 40** also ended the month on a stronger note, rising from 8,337 to 8,510 (Figure 30). The index was affected by periodic profit-taking and weakness in luxury and technology stocks but recovered towards the end of July as investor confidence in European corporate earnings improved.

Germany's **DAX** showed a similar recovery, rising from 25,040 on 1 July to 25,629 on 31 July (Figure 31). Although the index was vulnerable to higher energy costs and concerns surrounding export-oriented industries earlier in the month, optimism regarding German industrial and export sectors supported a strong late-month performance.

The relative strength of European equities suggests that sectoral composition mattered significantly. Energy, mining, financial and industrial companies provided some protection against the volatility affecting technology-heavy markets.

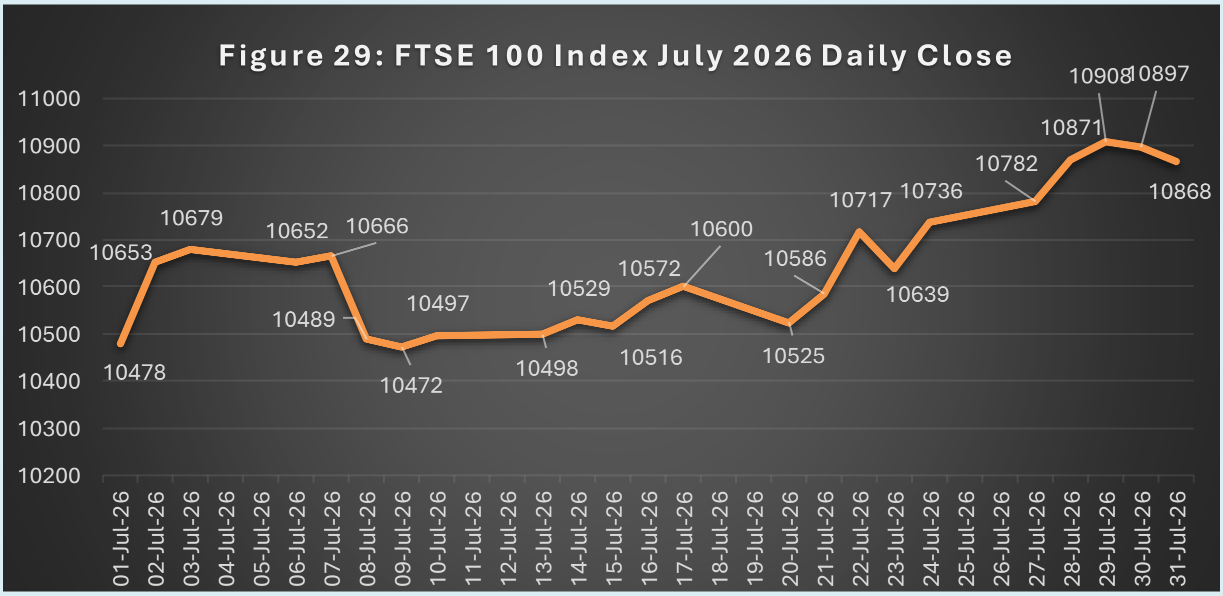
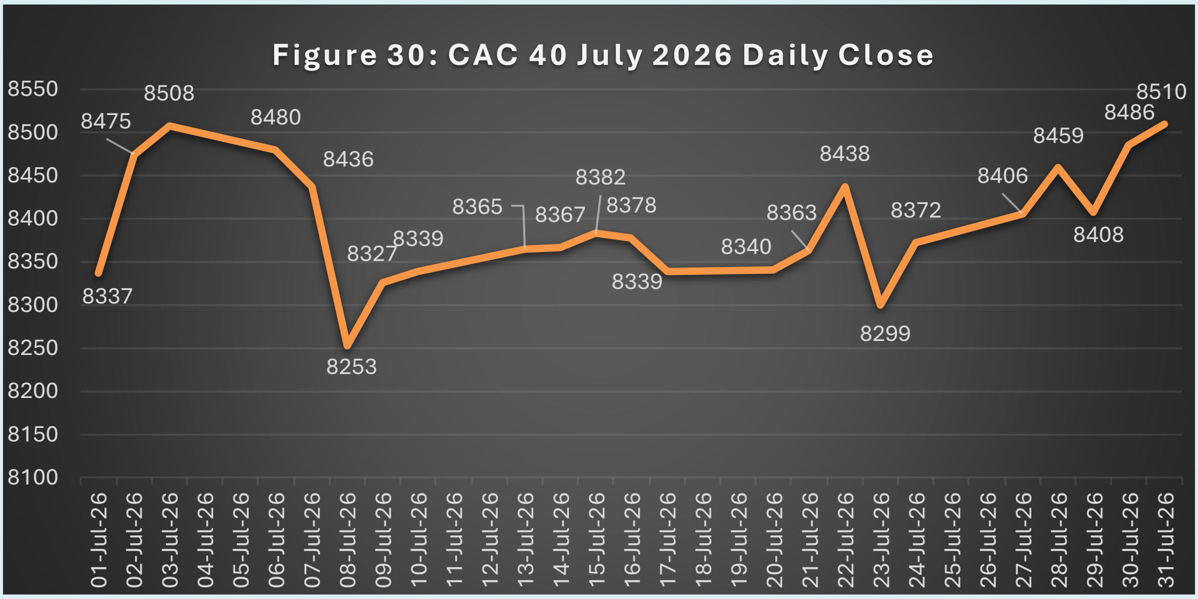
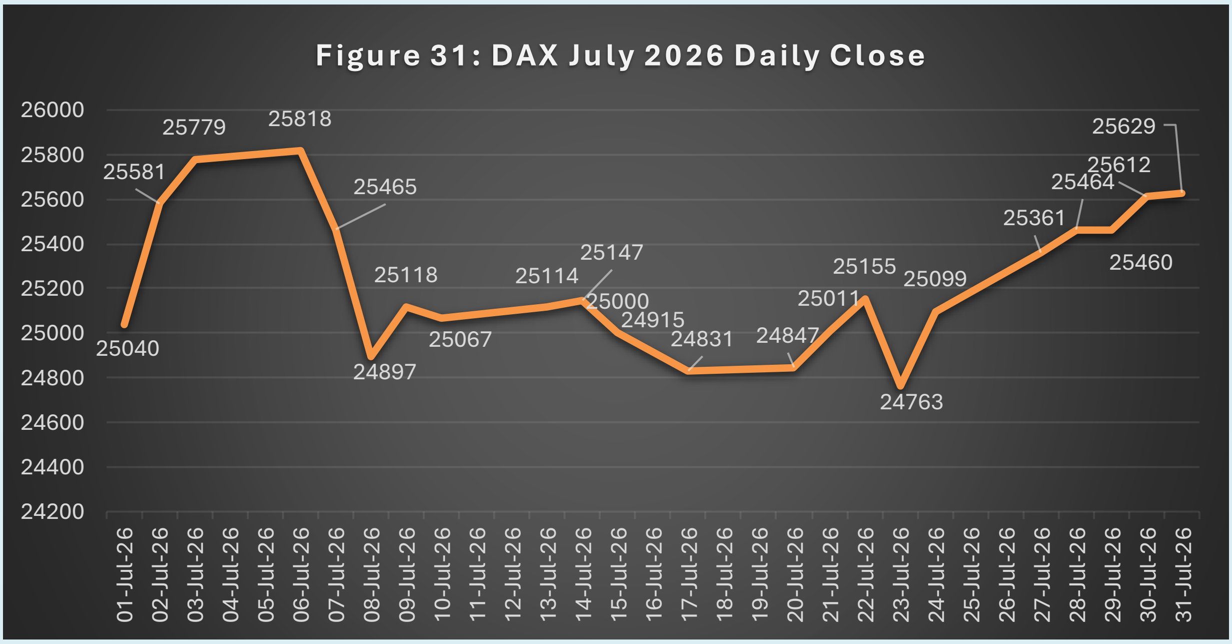


Figure 29: FTSE 100 Index July 2026 Daily Close

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



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



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

Asia-Pacific Markets

The Asia-Pacific region witnessed much greater divergence, particularly because of the heavy exposure of several markets to technology and semiconductor stocks.

China's **Shanghai Composite** ended July at 3,832, down significantly from 4,112 at the beginning of the month (Figure 32). Weak domestic demand, persistent property-sector concerns and trade uncertainties constrained investor confidence, although expectations of additional policy support provided some relief.

Japan's **Nikkei 225** experienced particularly sharp swings. After reaching 68,752 on 15 July (Figure 33), the index corrected substantially as investors booked profits and technology stocks came under pressure. The index ended July at 64,362, reflecting continuing sensitivity to semiconductor valuations and uncertainty surrounding the Bank of Japan's policy outlook.

Hong Kong's **Hang Seng Index** performed strongly, rising from 22,881 on 1 July to 25,884 by 31 July (Figure 34). Gains were supported by technology and financial stocks, improving sentiment towards Chinese technology companies and expectations of supportive policy measures.

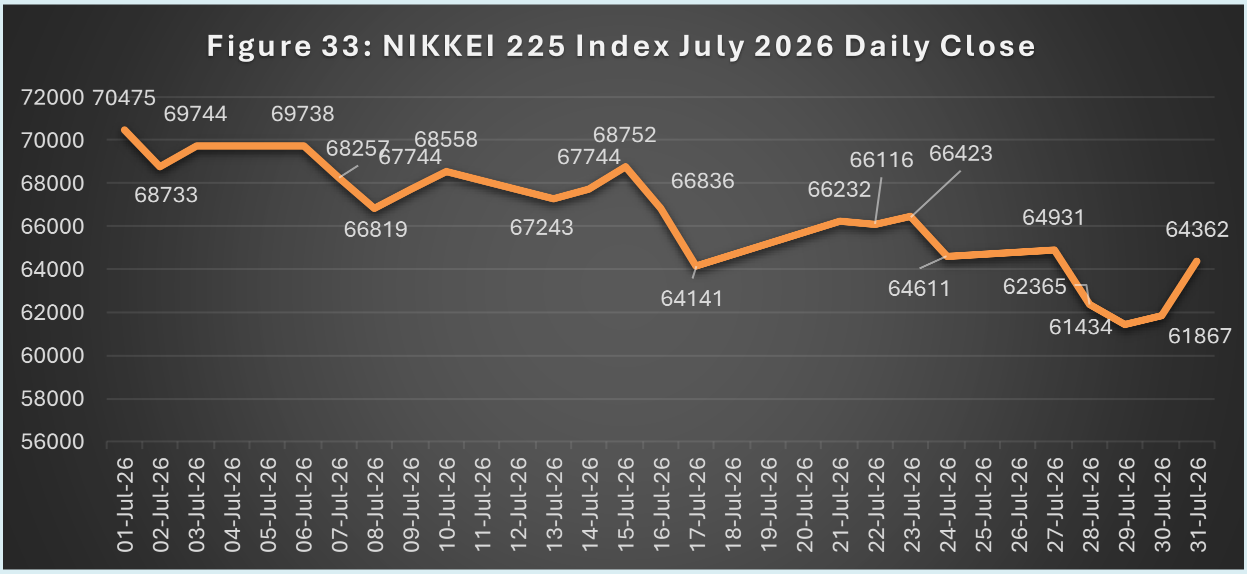
Singapore's **FTSE Straits Times Index** rose from 5,162 on 1 July to 5,629 at the end of the month (Figure 35), supported by financial institutions, industrial stocks and REITs. Its relative stability reflected the resilience of Singapore's domestic economic fundamentals.

South Korea's **KOSPI** remained volatile in July, driven by fluctuations in semiconductor and technology stocks. The index ended the month at 3,214, compared with 3,079 at the beginning, a gain of about 4.4 percent (Figure 36).

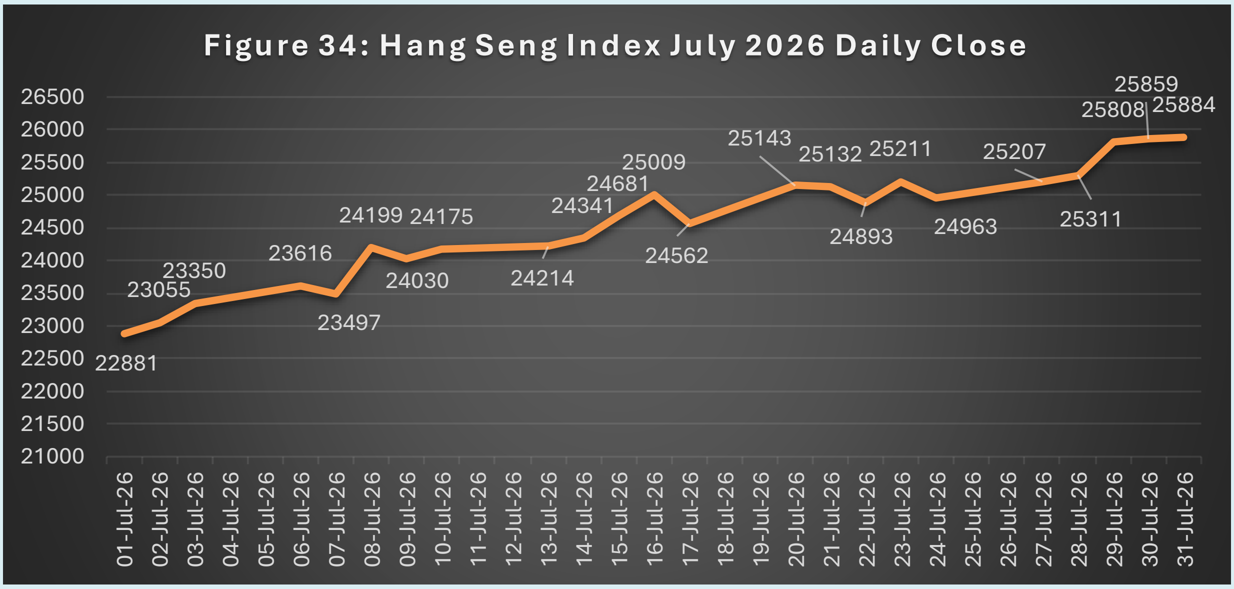
Taiwan's **TAIEX** was more volatile, reflecting concerns over elevated semiconductor valuations despite strong AI-related demand. The index closed July at 22,548, compared with 23,045 at the start of the month, a decline of around 2.2 percent (Figure 37).

Australia's **S&P/ASX 200** was also relatively stable, supported by mining and banking stocks, although technology and consumer sectors remained under pressure. The index ended July at 8,977, compared with 8,723 at the beginning of the month (Figure 38).

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



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



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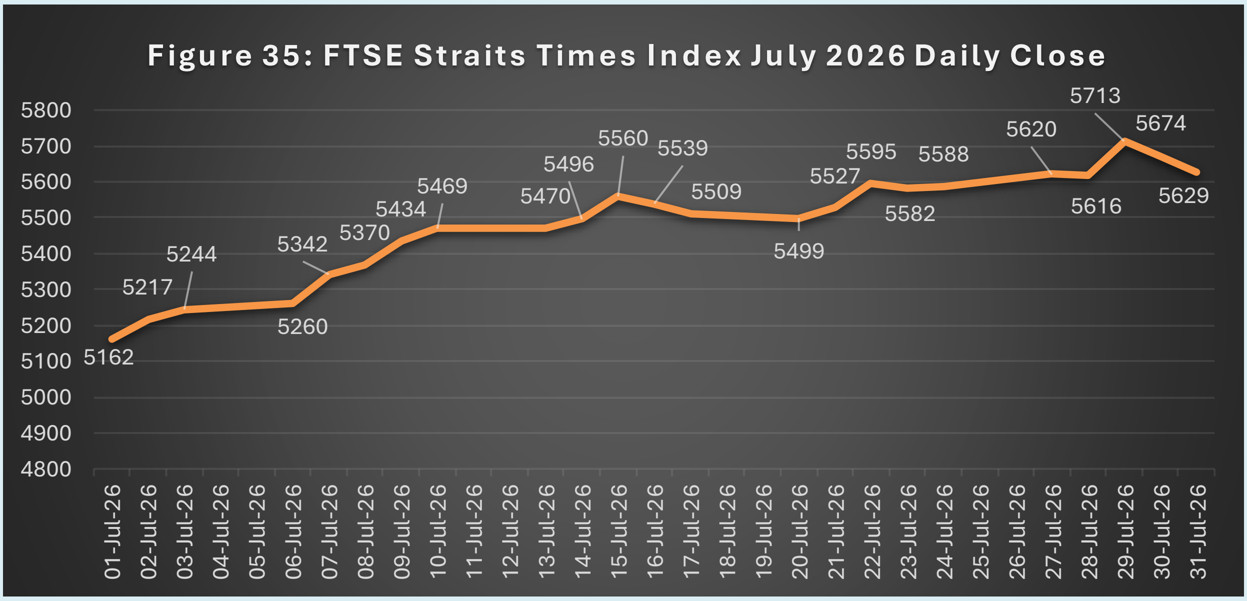

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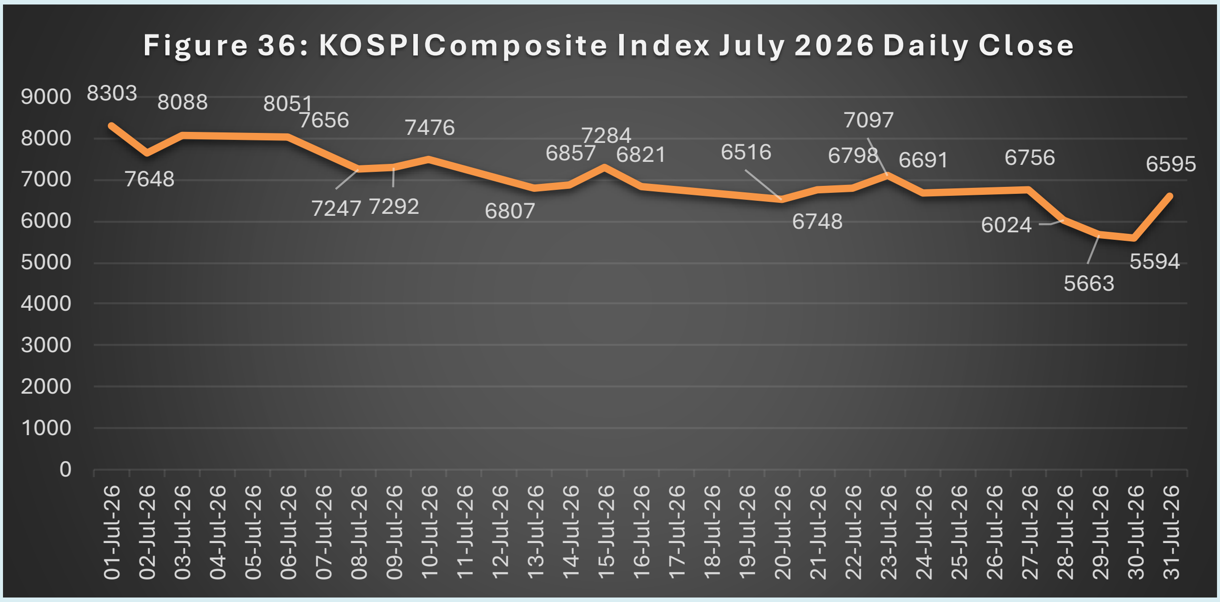
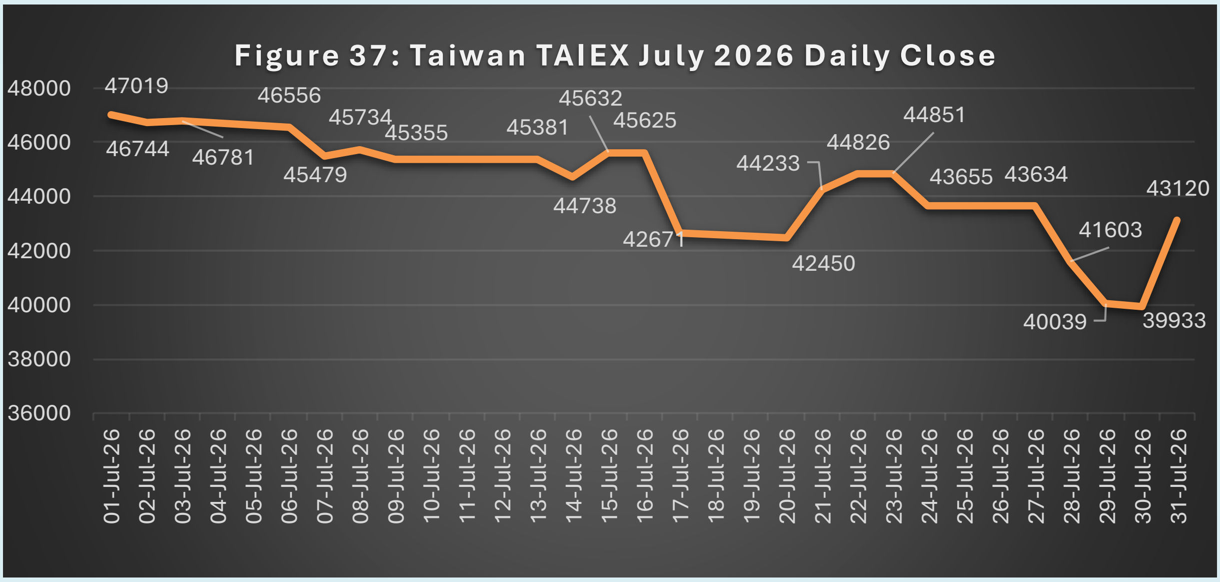


Source: https://www.wsj.com/market-data/quotes/index/KR/SEU/historical-prices



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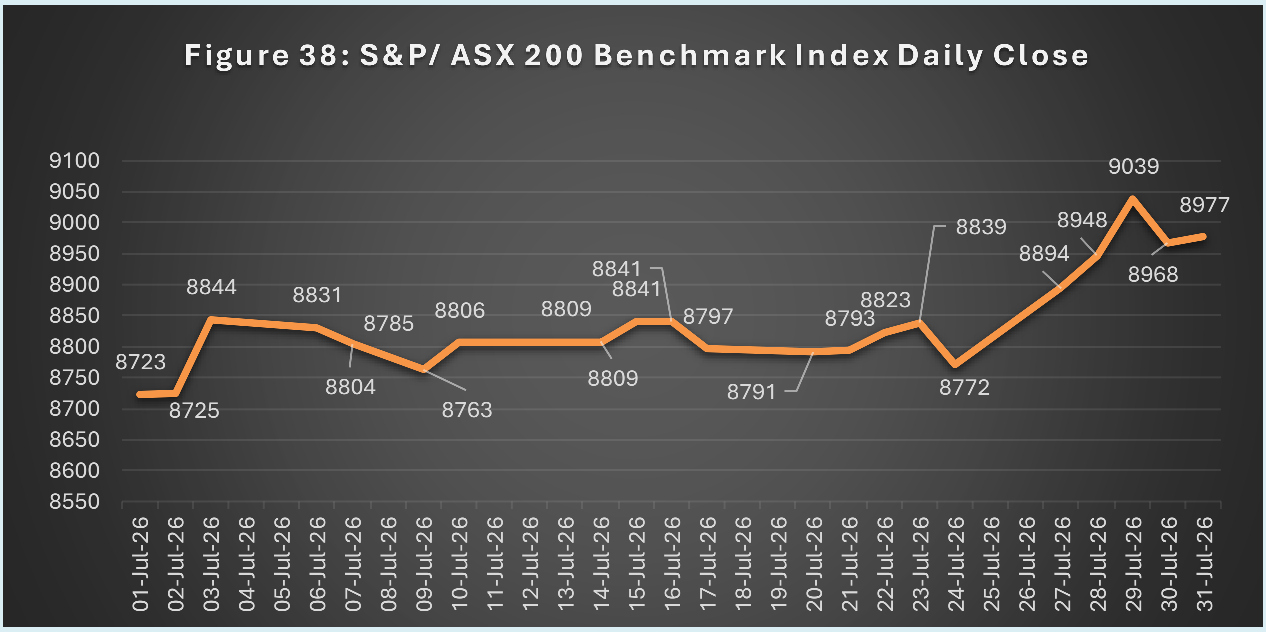

Source: https://www.wsj.com/market-data/quotes/index/AU/XJO/historical-prices

Outlook

The July performance across global equity markets suggests that market resilience is becoming increasingly conditional on sectoral composition and domestic fundamentals. Technology-heavy markets were particularly vulnerable to the reassessment of AI valuations, while markets with greater exposure to energy, financials, mining and industrials often proved more resilient.

This divergence also demonstrates the growing importance of the AI investment cycle as a global financial-market variable. The debate is no longer whether AI will transform economic activity, but whether the scale of investment currently being undertaken by technology companies can generate sufficient future revenues and productivity gains to justify prevailing valuations.

Global financial markets are likely to remain volatile in the near term. The principal external risk remains the trajectory of the US-Iran conflict and crude oil prices, while the policy stance of major central banks will continue to influence bond yields, currencies and equity valuations. At the same time, the second-quarter corporate earnings season will remain an important test of whether current equity valuations are supported by fundamentals.

The outlook is not uniformly negative. Moderating US inflation and softer labour-market conditions could eventually provide room for a more accommodative Federal Reserve stance. Resilient corporate earnings and continued investment in AI also offer important support to global equity valuations. Nevertheless, the market environment is likely to remain one of selective optimism rather than broad-based risk appetite.

Conclusion

July 2026 demonstrated that global financial markets are entering the second half of the year with stronger corporate fundamentals but greater uncertainty. Geopolitical tensions and energy-price volatility repeatedly disrupted risk sentiment, while uncertainty over monetary policy and the sustainability of AI valuations generated additional market swings.

Yet the resilience of several major markets indicates that investors have not abandoned risk assets. Rather, the investment strategy is evolving towards greater selectivity, stronger emphasis on earnings visibility and closer scrutiny of valuations. The coming months are therefore likely to be shaped by three interconnected forces: the evolution of geopolitical tensions and energy prices, the path of global monetary policy, and whether the enormous investment in AI translates into sufficiently strong corporate earnings and productivity gains.

For global investors, the central message from July is clear, with volatility likely to remain elevated and the market's underlying direction increasingly determined by the quality of earnings and the credibility of valuations rather than liquidity and optimism alone.

COMMODITY MARKETS

GLOBAL COMMODITY MARKETS IN JULY 2026: GEOPOLITICS MEETS STRUCTURAL DEMAND

The global commodity market in July 2026 was shaped by a stark "dual narrative": intense Middle East geopolitical shocks spiked energy and food prices early in the month, while long-term structural demand for AI and green infrastructure kept key industrial metals at historic highs.

1. Energy Sector: Driven by Geopolitical Friction

The energy sector was the most volatile and strongest-performing segment in July 2026 due to direct infrastructure threats in major shipping corridors.

Crude Oil Surge: Early-month escalation in the US-Iran conflict briefly pushed Brent crude past the $100 per barrel threshold. Back-and-forth attacks heavily restricted transit through the Strait of Hormuz (which handles 20 percent of global oil). Compounding this, Houthi militia blockades in the Bab el-Mandeb Strait created a secondary global bottleneck. NYMEX Crude Oil raw data reflects a massive 23.46 percent monthly gain, closing at $84.67.

Refinery Tightness: High crude costs and tight product markets pushed oil refining margins to a four-year high in the first half of the month.

2. Industrial Metals: Supply Deficits Meet the AI Boom

Industrial metals continued to break records, transitioning away from broad macroeconomic sentiment and toward targeted tech and power sector constraints.

Copper's Record Highs: Copper futures hit an all-time record high of over $6.70 per pound. Massive structural grid modernization, data centre construction, and electric vehicle demand severely outpaced mining output.

Supply Shocks: Global supply chains tightened severely after the Democratic Republic of Congo (DRC) enacted an immediate export ban on copper concentrate, combined with prolonged operational suspensions at Codelco's flagship El Teniente mine in Chile.

3. Agriculture and Food: Weather Anomalies and War Disruptions

Global food prices hit a three-year high in July 2026, with the UN's FAO Food Price Index climbing to 131.1 points.

Table 7: Agricultural Commodities – Key Market Drivers

Commodity	***July Price Performance***	***Key Market Drivers***
Wheat	+12.60 percent (NYMEX) / +5.8 percent (FAO)	Crop-damaging heatwaves in producing regions; Black Sea export disruptions.
Sugar	+5.6 percent	Heatwaves in Europe; *El Niño* in Asia; Brazil's higher mandatory ethanol blending rules.
Corn	+7.45 percent	Intense hot and dry weather spreading across the US Corn Belt.
Vegetable Oils	+2.0 percent	Rose to highest level since 2022, dragged upward by bio-diesel demand and high crude costs.

4. Precious Metals: Rangebound Safety

Precious metals behaved strictly as defensive safety plays, moving slowly as investors weighed geopolitical threats against high global interest rates.

- **Gold:** Rose marginally by 0.60 percent to finish July at $4,107.00/oz. Safe-haven inflows from the Middle East conflict were offset by central bank hawkishness and sticky inflation.
- **Silver:** Suffered profit-taking, declining -4.50 percent to end at $57.79

FROM GOLD AND CRUDE TO GUAR KORMA: A TRANSFORMING INDIAN COMMODITY MARKET

Indian commodity markets experienced dramatic shifts in July 2026, driven by intense geopolitical flare-ups in the Middle East and domestic regulatory evolution. On the Multi Commodity Exchange (MCX), extreme volatility characterized bullion and energy contracts, while the National Commodity & Derivatives Exchange (NCDEX) focused on structural product expansion despite regulatory headwinds.

MCX Performance: Bullion Records and Energy Swings

The MCX saw heightened trading volumes and massive price movements, primarily reflecting global supply shocks and the volatile US-Iran military standoffs.

Gold & Silver Surge: Bullion contracts reached extraordinary domestic highs. Driven by safe-haven demand amidst intensifying Middle East conflicts, MCX Gold (August futures) hovered around ₹1,43,350 per 10 grams, while MCX Silver (September futures) pushed to a record-chasing ₹2,22,306 per kg.

Crude Oil Volatility: Crude oil was the most volatile segment on the exchange. Early to mid-month, international escalation pushed local futures into a structural "buy on dips" pattern within the ₹7,800 – ₹8,000 band. However, late July saw a sharp 4.13 percent single-session correction to around ₹8,653 per barrel after a temporary suspension of reciprocal strikes between the US and Iran cooled immediate supply fears.

Base Metals (Copper): MCX Copper managed to sustain its position above the crucial ₹1,300 mark (settling around ₹1,314.50 to ₹1,320.75). Prices were structurally supported by long-term demand from the AI infrastructure and EV sectors, though the broader macro-tension capped further sudden breakouts.

NCDEX Performance: Agri-Ecosystem Expansion

Trading on NCDEX remained relatively constrained due to SEBI's continued suspension of major legacy agri-contracts, forcing the exchange to innovate with niche products.

New Product Launch (Guar Korma): To expand hedging options for the feed and processing industries, NCDEX officially launched Guar Korma futures contracts on July 24, 2026. This contract aims to complete the exchange-traded guar derivatives ecosystem alongside existing Guar Seed and Guar Gum contracts.

Monsoon and Sowing Influence: Trading in permissible non-perishable segments was guided heavily by the Kharif crop sowing progress and the government's Minimum Support Price (MSP) marketing guidelines. Regional weather shocks kept a firm floor under domestic grain and oilseed futures.

Structural Pivot: Following a financial restructuring in early 2026, NCDEX actively pushed into non-traditional avenues like **RAINMUMBAI** (rainfall derivatives) to reduce its reliance on traditional, heavily regulated agricultural futures.

SECTION 4: RESEARCH DIGEST

SYNOPSIS OF RESEARCH PAPERS

INFORMATION AND MACROECONOMIC EXPECTATIONS: GLOBAL EVIDENCE

Authors: Francesco D'Acunto and Michael Weber

NBER Working Paper No. 35511, July 2026

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

This paper investigates how households across the world form macroeconomic perceptions and expectations and why these beliefs often remain systematically biased despite widespread access to information. Drawing on a unique dataset covering approximately 47,000 consumers across 47 countries, representing nearly 90 percent of global GDP, the study provides one of the most comprehensive cross-country analyses of macroeconomic belief formation.

The paper argues that the accuracy of macroeconomic expectations depends not merely on the amount of information available to consumers, but more importantly on the sources from which they acquire information. It finds that most households rely predominantly on local information sources, such as utility bills, shopping experiences, workplace interactions, family and friends, and social media, rather than on aggregate information disseminated by governments, central banks, or traditional media. Although these local experiences are highly salient and personally relevant, they are often unrepresentative of broader macroeconomic conditions. Consequently, consumers who depend more heavily on local information tend to form systematically biased perceptions and expectations regarding inflation and other macroeconomic variables.

A major contribution of the study is its examination of the relationship between institutional trust and information acquisition. The authors demonstrate that distrust in governments and central banks significantly influences consumers' choice of information sources. Since these public institutions are the primary producers and disseminators of aggregate economic information, lower levels of trust discourage households from using official information and reinforce reliance on local experiences. At the country level, the analysis further reveals that distrust is more strongly associated with past macroeconomic volatility, particularly inflation volatility, than with the average level of inflation, suggesting that unstable economic environments undermine the credibility of official economic institutions.

The study also revisits the demographic determinants of expectation biases. While variables such as age, education, income, and other socioeconomic characteristics are found to be correlated with macroeconomic expectations, the evidence suggests that these differences arise primarily because demographic groups differ in their choice of information sources, rather than in their ability to process identical information. Thus, information acquisition behaviour, rather than cognitive processing, emerges as the principal channel through which expectation biases are formed.

Building on these empirical findings, the paper proposes an extension to existing theories of rational inattention and dispersed information. It argues that models of expectation formation should distinguish not only between information quantity and signal precision, but also between the representativeness and perceived credibility of different information sources. Consumers are viewed as choosing among multiple information channels whose objective informational value and subjective trustworthiness may differ considerably. In such a framework, trust in the producers of aggregate information directly influences households' willingness to incorporate official economic information into their expectations.

The paper concludes by highlighting important policy implications. It argues that simply making macroeconomic information publicly available is insufficient if households distrust the institutions producing that information or continue to rely primarily on local experiences. Effective communication by governments and central banks therefore requires sustained efforts to strengthen institutional credibility, improve public trust, and communicate economic developments in ways that resonate with citizens' lived experiences. By encouraging households to rely more on representative aggregate information, improved institutional trust can reduce expectation biases and enhance the effectiveness of fiscal and monetary policy transmission.

Overall, the study makes a significant contribution to the literature on expectation formation by demonstrating that information source selection, institutional trust, and macroeconomic stability jointly shape household expectations. Its findings provide valuable insights for both macroeconomic theory and public policy, particularly in designing more effective communication strategies that strengthen the credibility of economic institutions and improve the formation of macroeconomic expectations.

The full paper can be accessed from:
https://www.nber.org/system/files/working_papers/w35511/w35511.pdf

DOLLARISATION AND MONETARY CONTROL: WHAT LESSONS FOR THE RISE OF STABLECOINS?

Authors: Boris Hofmann, Aaron Mehrotra, and Jan Paulick

BIS Working Papers No. 1370, July 2026

Bank for International Settlements

The paper examines the emergence of stablecoins as a new channel for accessing US dollar liquidity in emerging market and developing economies (EMDEs) and draws parallels with the historical phenomenon of foreign-currency deposits, or "deposit dollarisation." Using data on foreign-currency deposits since the 1990s and recent data on dollar-pegged stablecoin inflows across more than 130 economies, the paper compares the drivers, persistence and macro-financial implications of stablecoin and conventional deposit dollarisation.

The analysis finds that both forms of dollarisation are associated with similar macro-financial conditions, particularly high exchange-rate pass-through and episodes of economic and financial crisis. Banking crises appear to have a particularly strong association with stablecoin inflows, potentially because stablecoins often circulate outside the regulated banking sector. Both deposit and stablecoin dollarisation also exhibit considerable persistence, suggesting that once dollarisation becomes established, it can be difficult to reverse. However, some stablecoin demand may represent substitution away from existing foreign-currency deposits rather than an increase in overall dollarisation.

A key distinction is the effectiveness of regulatory measures. Unlike conventional foreign-currency deposits, stablecoin flows appear largely unaffected by foreign-exchange restrictions and capital controls, possibly because stablecoins can circulate partly outside the regulatory perimeter. This raises an important challenge for EMDEs whose macro-financial stability frameworks rely on such restrictions to manage foreign-currency exposure and capital flows.

The paper also explores the relationship between dollarisation and inflation risks. It finds that moderate deposit dollarisation is associated with somewhat higher inflation risks, while very high levels of dollarisation may instead enhance monetary-policy credibility. At the same time, the evidence provides limited support for a significant impact of deposit dollarisation on the transmission of monetary policy.

The findings carry important implications for EMDE policymakers. Maintaining domestic monetary and financial stability may help prevent dollarisation dynamics from becoming entrenched, given the persistence of both deposit and stablecoin dollarisation. At the same time, the apparent limited effectiveness of capital controls and foreign-exchange restrictions against stablecoin flows highlights a potential gap in existing policy frameworks.

The paper, however, emphasises that these conclusions remain subject to considerable uncertainty. Stablecoin adoption may not reach the levels currently anticipated, while the experience of conventional deposit dollarisation may not fully predict the behaviour of stablecoins, given their distinct use cases and their tendency to operate outside regulated banking systems. The paper therefore highlights the need for further research as stablecoin adoption expands and more comprehensive data become available.

The full paper can be accessed from: https://www.bis.org/publ/work1370.pdf

BOOKSHELF CHRONICLES

THE GOD TEST

Author: Robert Wright

Publisher: Simon & Schuster

Year of Publication: 2026

Robert Wright's *The God Test* is less a conventional book about artificial intelligence than a meditation on what AI may mean for humanity and civilisation. Wright places the AI revolution within the much longer history of biological and cultural evolution, arguing that increasingly sophisticated AI could represent another stage in humanity's development towards collective intelligence.

The book's central question is whether humans can develop the wisdom, cooperation and ethical frameworks necessary to manage technologies that may eventually possess extraordinary capabilities. Wright is particularly concerned that AI could either strengthen humanity's capacity for cooperation or amplify existing divisions, geopolitical competition, inequality and conflict.

A key strength of the book is its refusal to treat AI simply as a technological issue. Wright connects artificial intelligence with evolution, politics, human psychology, spirituality and the future of cooperation. His discussion of the "noosphere"—the idea of a collective sphere of human thought—offers an interesting way of thinking about AI as an extension of accumulated human knowledge.

Ultimately, *The God Test* suggests that the greatest challenge posed by AI may not be whether machines become increasingly intelligent, but whether humanity becomes wise enough to use that intelligence responsibly. It is therefore a thought-provoking contribution to the debate on AI and the future of civilisation.

HUMANS FIRST MACHINES SECOND: 30 SPARKS TO REIMAGINE WINNING IN THE AGE OF AI

Author: Vineet Nayar

Publisher: Penguin Books

Year of Publication: 2026

Vineet Nayar’s *Humans First, Machines Second: 30 Sparks to Reimagine Winning in the Age of AI*, arrives at a moment when the excitement around artificial intelligence is increasingly accompanied by anxiety about human relevance. Drawing on his experience as CEO of HCL Technologies and his work with the Sampark Foundation, Nayar makes a simple but powerful argument: the greatest risk of the AI age is not that machines become smarter, but that humans begin to lose faith in their own uniqueness.

Rather than presenting AI as an enemy, Nayar sees it as a powerful instrument that should amplify human potential rather than replace it. The book is organised around four themes—Trust, Empower, Reimagine and Amplify—and uses 30 short “sparks” drawn from business, education, leadership and everyday experiences. This format makes the book accessible and reflective rather than heavily theoretical.

The book's strongest message is particularly relevant for organisations rushing to become “AI-first”. Nayar cautions that technology adoption by itself does not constitute transformation. Competitive advantage will increasingly depend on human qualities such as imagination, judgement, courage, empathy, curiosity and the ability to inspire others. His argument is therefore not anti-technology; it is a plea for human-centred technology and leadership.

What makes the book engaging is Nayar's ability to connect his earlier philosophy of *Employees First, Customers Second* with the emerging AI era. The central idea has evolved, but the underlying belief remains the same: organisations succeed when they enable ordinary people to achieve extraordinary things.

Overall, *Humans First, Machines Second* is a timely, optimistic and practical reflection on leadership in the age of AI. Its greatest contribution is perhaps its reminder that while AI may transform the rules of business, the ultimate source of innovation, purpose and judgement remains human. For business leaders, educators and professionals navigating the AI transition, Nayar's message is both reassuring and challenging: do not compete with machines on what machines do best; invest instead in what makes humans uniquely human.

SECTION 5: CLIMATE CHANGE

FROM AMBITION TO ACTION: ASSESSING PROGRESS UNDER THE KUNMING-MONTREAL GLOBAL BIODIVERSITY FRAMEWORK

State of Biodiversity Action: Global Report on Collective Progress in the Implementation of the Kunming-Montreal Global Biodiversity Framework, is a second draft dated 26 July 2026 and prepared by the United Nations Environment Programme, for the 28th meeting of the Subsidiary Body on Scientific, Technical and Technological Advice (SBSTTA). It assesses collective progress towards the 23 targets of the Kunming-Montreal Global Biodiversity Framework (GBF) adopted in 2022. The document is still subject to technical editing, and its final version is expected to be issued after the relevant review process.

The report presents a mixed picture of global biodiversity action. The GBF has generated unprecedented political engagement, with governments and a wide range of non-government actors, including Indigenous Peoples and local communities, women, youth, cities, NGOs, research institutions and businesses, taking actions across all 23 targets. However, the report's central message is that implementation is not advancing rapidly enough to achieve the 2030 targets. While it is still too early to detect significant changes in biodiversity outcomes, the current pace of implementation creates a substantial risk to both the 2030 mission and the longer-term 2050 vision.

Stronger National Commitment, but Gaps in Ambition

One of the most significant achievements is the expansion of national commitment. By the time of the report, 162 Parties, or 82 percent, had established national targets aligned with the Framework, with each Party addressing, on average, 22 of the 23 global targets. This represents considerably stronger engagement than under the earlier Aichi Biodiversity Targets. Nevertheless, many important elements of the global targets remain weakly reflected in national commitments. Conservation and sustainable-use objectives generally receive stronger attention than issues such as biodiversity mainstreaming, sustainable consumption, harmful subsidies, resource mobilisation, equitable governance, gender responsiveness and policy coherence.

The evidence base itself is substantial but incomplete. The report analyses 3,693 national targets from 162 Parties, NBSAPs from 89 Parties and national reports from 129 Parties. Thus, while all regions and different levels of economic development are represented, reporting gaps remain, particularly among some small island developing States and countries with economies in transition.

Implementation Remains the Major Weakness

The report finds that action is underway across all 23 targets, but fewer than half of Parties reported that their national targets were on track for any global target. Indicator trends are mixed, with negative trends more common than positive ones, and available data do not yet demonstrate progress at a pace sufficient to meet any of the global targets consistently. Targets associated with conservation and some enabling measures show relatively stronger progress, while areas involving biodiversity mainstreaming, business impacts, sustainable consumption and financial incentives lag behind.

The report also highlights a major imbalance between direct and indirect drivers of biodiversity loss. Unsustainable production and consumption, misaligned economic incentives, inadequate integration of biodiversity considerations into economic decisions and insufficient policy coherence remain difficult to address. Marine, coastal and inland-water ecosystems are also less comprehensively covered than terrestrial ecosystems.

Finance, Capacity and Technology Remain Critical Constraints

The availability of adequate means of implementation is one of the report's most important concerns. There have been gains in domestic and international public finance, positive incentives, capacity building, technology transfer and scientific cooperation. However, progress in mobilising and tracking private finance remains limited, while harmful incentives and subsidies have not been sufficiently reduced. Parties continue to identify inadequate and untimely financial resources, technical capacity, technology and knowledge sharing as significant barriers.

The report highlights encouraging innovations in biodiversity finance. For example, Chile has incorporated biodiversity indicators into its sovereign sustainability-linked bonds, linking financial incentives to protected-area coverage and effective biodiversity management. The bonds exceeded US$8 billion in value by the end of 2023.

Business, Finance and Biodiversity Mainstreaming

A particularly important message for the corporate sector is that biodiversity considerations are increasingly entering financial regulation, ESG reporting and sustainable finance frameworks. More than 30 national reports refer to implementing or piloting the Taskforce on Nature-related Financial Disclosures (TNFD) framework, while the EU's sustainability reporting framework is also influencing national approaches. However, around one-quarter of reporting Parties identify the absence of mandatory biodiversity-specific corporate disclosure as a challenge. Data and technical capacity remain major constraints, particularly in developing countries.

Inclusion, Gender and Rights Remain Underdeveloped

The report also finds that participation, rights and gender-responsive governance are not yet adequately integrated into national biodiversity strategies. For Target 23, only 43 percent of the relevant elements are addressed on average in national targets. While 63 percent of Parties address gender-responsive implementation and 56 percent address women's participation and leadership, only 27 percent recognise women's equal rights to land and natural resources and 25 percent address equal access.

Data and Monitoring Gaps

Data limitations constitute another major obstacle. Although many Parties have strengthened biodiversity monitoring and knowledge systems, significant gaps remain in data availability, comparability, indicators, digital infrastructure, technical capacity and data sharing. No Party reported on every headline indicator, and many indicators lack comparable time series or adequate disaggregation. These limitations affect not only reporting but also the ability of governments to design and implement effective biodiversity policies.

Overall Assessment

The report's overarching conclusion is therefore one of stronger global commitment but insufficient implementation. The GBF has succeeded in mobilising political attention, national planning and multi-stakeholder action, but the gap between ambition and delivery remains substantial. The report stresses the need for faster and more strategic implementation, stronger policy coherence, greater mobilisation of finance and technology, improved data and monitoring, and broader participation by businesses, financial institutions, Indigenous Peoples, local communities, women and youth.

Importantly, the report does not provide country rankings or prescriptive recommendations. Instead, it offers an evidence base for decision-making, highlighting areas of relative strength and weakness in collective implementation.

The report can be accessed from:
https://www.cbd.int/doc/c/5611/c35f/aa96bdcd816f5952d586a777/sbstta-28-02-add1-rev1-en.pdf

FROM COAL TO CLEAN ENERGY: NTPC ACCELERATES INDIA'S POWER TRANSFORMATION

NTPC's renewable energy pipeline marks a significant shift in the structure of India's power sector. With 16.4 GW of renewable capacity under construction, compared with 15.7 GW of coal-based capacity, renewable energy has, for the first time, overtaken coal in NTPC's construction pipeline. This signals a strategic transition from a predominantly thermal power producer towards a more diversified and integrated clean-energy company.

The scale of NTPC's planned expansion reinforces this transformation. The company aims to reach 60 GW of renewable capacity by FY2032 and 136 GW by FY2037, supported by planned investments of around ₹16.8 trillion. The expansion across solar, wind, battery storage, pumped hydro and nuclear power indicates that the transition is not simply about replacing coal with renewables, but about developing a more diversified energy portfolio capable of supporting India's rising electricity demand.

The proposed ₹1.85 trillion green hydrogen hub at Pudimadaka in Andhra Pradesh represents another important dimension of this strategy. With nearly 20 GW of renewable capacity, the project is envisaged to produce green ammonia, green methanol, green urea and sustainable aviation fuel. Such projects could help extend India's clean-energy transition beyond electricity generation into hard-to-abate industrial and transport applications.

However, the scale and intermittency of renewable generation also underline the importance of grid resilience, energy storage and transmission infrastructure. As renewable capacity expands rapidly, India's ability to integrate variable power into the electricity system will increasingly depend on adequate storage, transmission networks and system flexibility.

Overall, NTPC's changing investment profile reflects the broader transformation underway in India's energy sector. The fact that renewable capacity under construction has surpassed coal capacity represents more than a corporate milestone; it signals a potentially important structural shift in India's future energy mix, provided the supporting infrastructure and investment ecosystem develop at a comparable pace.

SYNOPSIS OF RESEARCH PAPERS/ REPORTS

THE ENVIRONMENTAL COSTS OF SANCTIONS: FLARING AND VENTING IN VENEZUELA

Authors: Michele Fioretti, Kavanaugh FitzPatrick, and Alessandro Iaria

NBER Working Paper No. 35512, July 2026

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

The paper examines the environmental consequences of economic sanctions on oil-producing economies, focusing on the US sanctions imposed on Venezuela. Using field-level production data and satellite measurements of gas flaring and methane emissions across six Latin American countries during 2012–2024, it finds that Venezuelan oil production fell by about two-thirds, while gas flaring per barrel increased approximately two-and-a-half-fold.

The study identifies three channels behind this deterioration: composition, strain and maintenance. While the composition of surviving oil fields actually reduced emissions per barrel, sanctions forced remaining infrastructure to operate beyond capacity and restricted access to spare parts, investment and technical expertise. Shortages of imported naphtha, required to transport Venezuela's extra-heavy crude, further strained the production system and increased methane emissions.

The paper estimates that the resulting gas flaring and methane emissions generate around US$11 billion in annual climate damage, of which approximately US$7 billion is attributable to sanctions. Similar increases in emissions per barrel are observed following US sanctions on Iran after 2018.

The study argues that sanctions policy should therefore consider environmental consequences alongside reductions in output and government revenues. It suggests that narrowly designed exemptions for spare parts, maintenance services and other inputs necessary for environmental protection could reduce emissions without substantially weakening the financial pressure imposed by sanctions.

The full paper can be accessed from:
https://www.nber.org/system/files/working_papers/w35512/w35512.pdf

EU SUSTAINABILITY REGULATIONS: IMPLICATIONS FOR INDIA'S RICE EXPORTS

Authors: Arpita Mukherjee and Ria Babbar

ICRIER Working Paper 436, July 2026

Indian Council for Research on International Economic Relations (ICRIER), New Delhi, India

The paper examines the competitiveness and sustainability of India's rice exports to the European Union (EU) amid the evolution of global trade requirements from conventional food-safety standards towards broader environmental, labour and corporate-governance obligations. Although India is the world's leading rice producer and largest rice exporter, its rice—particularly basmati—faces a disadvantage in the EU market because rice has been excluded from tariff elimination under the India-EU Free Trade Agreement, leaving duties of around 7.7 percent and placing Indian exports at a disadvantage relative to competitors such as Viet Nam.

Drawing on trade data, RASFF notifications, institutional analysis and firm-level case studies, the paper assesses India's rice export value chain against the EU's increasingly stringent regulatory framework. It highlights persistent compliance concerns, including more than 200 rapid alert notifications against Indian rice consignments over the past five years, primarily related to banned pesticide residues such as tricyclazole and thiamethoxam. The study identifies six major environmental risks, including pesticide residues, greenhouse gas emissions and groundwater depletion, alongside four labour-related risks, including migrant worker vulnerabilities and child labour.

The paper argues that environmental and labour compliance is increasingly becoming a prerequisite for accessing premium international markets, rather than a market-specific requirement. It identifies weaknesses in India's institutional framework, traceability systems and regulatory mechanisms that could undermine the long-term competitiveness and reputation of Indian rice exports.

To address these challenges, the paper recommends strengthening farm-level traceability, regulatory and institutional capacity, and environmental and labour compliance across the rice value chain. It also highlights the potential for India to use the India-EU FTA to seek mutual recognition of audit and certification systems, thereby reducing compliance costs while strengthening India's long-term competitiveness and market access in the EU.

The full paper can be accessed from:https://icrier.org/pdf/Working_Paper_436.pdf

All issues of EcoSphere are available at https://inspire-solutions.in/ecosphere/

About InsPIRE

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