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Exploring Indian and Global Economies, Financial Markets & Climate Change with 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 Resilience to Transformation: Navigating a Changing Global and Indian Economy

The global economy is entering a period of profound transformation, shaped by geopolitical tensions, disruptions in energy markets, trade fragmentation, technological change and the growing urgency of climate action. Despite successive shocks, economic activity has demonstrated considerable resilience. Yet, as the International Monetary Fund's October 2026 *World Economic Outlook* highlights, this resilience is increasingly under strain. The challenge before policymakers is to build economic systems capable of sustaining growth, managing uncertainty and delivering broad-based prosperity.

The October 2026 issue of *EcoSphere* explores these interconnected developments, with particular attention to their implications for India. The global outlook presents a mixed picture. While technology-related investment and resilient domestic demand are supporting growth in some economies, energy-importing countries remain vulnerable to geopolitical disruptions and renewed inflationary pressures. The continuing conflict in West Asia has underscored the strategic importance of energy security, diversified supply chains and macroeconomic preparedness. These developments also demonstrate that economic resilience cannot be assessed solely through headline growth figures; it must encompass the capacity of economies to absorb shocks without compromising long-term development priorities.

India enters this uncertain environment with important strengths. Robust domestic demand, expanding services activity, improving industrial performance and a growing digital ecosystem provide a strong foundation for economic expansion. The Reserve Bank of India's October policy assessment reflects confidence in the growth outlook, while recognising the risks posed by imported inflation, energy prices and global financial conditions. Nevertheless, sustaining high growth will require more than favourable macroeconomic indicators. Productivity

enhancement, employment generation, manufacturing competitiveness and stronger private investment must become central to the next phase of India's economic transformation.

Inflation remains an important policy concern. Rising energy and food prices can erode household purchasing power, increase production costs and complicate monetary policy decisions. The RBI, therefore, faces the continuing task of balancing price stability with growth resilience. Its recent policy initiatives, including measures to improve financial connectivity and strengthen consultation with financial-market participants, also underline the importance of institutional adaptability as India's financial system becomes increasingly sophisticated.

The broader structural agenda is equally important. India's progress in digital public infrastructure, artificial intelligence and financial technology offers opportunities to improve productivity and expand access to economic services. However, technology must translate into tangible improvements in enterprise efficiency, industrial competitiveness and the quality of employment. The growing use of AI should therefore be accompanied by investment in skills, research, innovation and institutional capabilities. India's ambition to become a developed economy by 2047 will depend not merely on adopting emerging technologies, but on developing the capacity to create, adapt and deploy them productively.

The same principle applies to agriculture and rural development. Digital initiatives such as AgriStack can strengthen farmer identification, service delivery and the integration of agricultural information. However, digitalisation alone cannot transform agriculture. Its effectiveness will depend on complementary investments in climate intelligence, irrigation, storage, logistics, institutional credit, market access and farmer collectives. Strengthening these linkages is essential to improving farm productivity, reducing vulnerabilities and creating viable rural enterprises.

Financial markets provide another perspective on the changing economic environment. October witnessed considerable divergence across global equity markets, with technology-heavy indices experiencing corrections while several European markets demonstrated resilience. The reassessment of AI-related valuations highlights the need for investment decisions to be supported by credible earnings prospects and sustainable returns. India's equity

market also displayed a recovery in benchmark indices, although broader market weakness and external uncertainties remained relevant concerns. The successful mobilisation of capital, deepening of financial markets and sound corporate governance will be critical to sustaining investor confidence.

Climate change adds a further dimension to the development challenge. The latest assessment of the global emissions gap makes clear that existing commitments are insufficient to achieve the desired temperature objectives without significant overshoot. The transition towards a low-carbon economy must therefore accelerate, but it must also remain economically viable and socially equitable. Energy security, access to climate finance, technological innovation and responsible management of critical mineral supply chains will shape the pace and character of this transition. Research highlighted in this issue also demonstrates how well-designed green subsidies and household preferences can improve the cost-effectiveness of emissions reduction. These insights reinforce the importance of aligning climate policy with local economic conditions and behavioural realities.

The research digest in this issue, including the work recognised by the 2026 Nobel Prize in Economic Sciences, further emphasises the importance of understanding how individual decisions and expectations influence economy-wide outcomes. Effective economic policymaking requires a sound analytical foundation, credible institutions and an appreciation of the interactions between households, businesses and financial markets.

Ultimately, the defining challenge for India and the global economy is to convert resilience into sustainable prosperity. This calls for stronger institutions, productive investment, technological capabilities, inclusive employment, financial stability and climate-resilient development. The quality of economic transformation will be measured not only by the pace of GDP growth, but also by its capacity to improve livelihoods, reduce inequalities and preserve environmental sustainability.

This issue of *EcoSphere* seeks to contribute to a deeper understanding of these developments and the policy choices they demand. We hope the perspectives presented here will stimulate informed discussion among policymakers, researchers, industry leaders and readers. We

welcome your comments and suggestions as we continue our endeavour to make *EcoSphere* a meaningful platform for evidence-based economic analysis and informed policy dialogue.

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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 (₹) 95.2492 (30 October 2026)

Cover Story

Resilience Under Strain: The Global Economy at a Crossroads



COVER STORY

RESILIENCE UNDER STRAIN: THE GLOBAL ECONOMY AT A CROSSROADS

Dr Debesh Roy
Chairman, InsPIRE

The global economy is navigating an increasingly complex environment characterised by geopolitical conflicts, disruptions in energy markets, trade fragmentation, elevated public debt and rapid technological change. Yet, despite repeated shocks, economic activity has demonstrated an unexpected degree of resilience. The International Monetary Fund's (IMF) October 2026 *World Economic Outlook*, titled *Resilience Under Strain, Urgent Choices*, captures this apparent paradox. While the global economy has managed to absorb successive disruptions, the IMF cautions that the margins supporting this resilience are narrowing, making policy choices increasingly consequential.

The report projects global economic growth at 3.1 percent in 2026, rising moderately to 3.4 percent in 2027 (Table 1). Although the 2026 projection remains unchanged from the April 2026 WEO, the modest improvement expected in 2027 masks significant divergences across countries and regions. Global headline inflation, meanwhile, is projected to rise from 4.1 percent in 2025 to 4.7 percent in 2026 before moderating to 4.1 percent in 2027. The temporary reversal in the disinflationary trend primarily reflects higher energy and food prices associated with the continuing conflict in the Middle East.

The central message of the IMF assessment is that global resilience should not be confused with economic stability. The interaction of geopolitical developments and technological transformation is producing a divided global economy in which countries' growth prospects increasingly depend on their energy exposure, participation in technology value chains and capacity to absorb external shocks.

A Divided Global Economy: Geopolitics Meets Technology

Two powerful forces are reshaping the global economic landscape. The first is geopolitical uncertainty, particularly the continuing conflict in the Middle East and its implications for energy supplies, international trade and financial markets. The second is the artificial intelligence (AI)-led investment cycle, which has generated a significant demand impulse through investments in computing infrastructure, semiconductors, data centres and related technologies.

These forces are producing sharply differentiated economic outcomes. Countries with limited exposure to energy disruptions and strong participation in technology-related production and trade are benefiting from favourable conditions. Energy-exporting countries outside the conflict zone are also gaining from improved terms of trade. In contrast, energy-importing economies with limited integration into technology value chains face higher import bills, exchange-rate pressures, weaker real incomes and more difficult macroeconomic policy trade-offs.

This divergence is particularly important for emerging market and developing economies. Their ability to withstand external shocks depends not only on the strength of domestic demand but also on foreign-exchange availability, fiscal flexibility, energy dependence and access to international capital markets.

The IMF's analysis suggests that global growth is no longer moving in a synchronised direction. Instead, the distribution of economic gains is becoming increasingly uneven, potentially widening income and productivity gaps between countries.

Growth prospects of major economies

The growth outlook for advanced economies remains relatively subdued (Table 1). The United States is projected to maintain growth of 2.3 percent in both 2026 and 2027, reflecting the resilience of domestic demand and the continuing contribution of technology-related investment. The euro area is expected to grow by 1.1 percent in 2026 and 1.2 percent in 2027, constrained by higher energy costs and weak consumer confidence. Within the euro area, Germany's growth is projected to improve from 0.2 percent in 2025 to 1.3 percent in 2026, before moderating to 1.1 percent in 2027. France is expected to experience weaker growth of 0.4 percent in 2026, while Italy and Spain are projected to grow by 0.8 percent and 2.5 percent, respectively.

Among other advanced economies, Japan's growth is projected at 0.7 percent in both 2026 and 2027. The United Kingdom is expected to grow by 1.3 percent in 2026 and 1.2 percent in 2027, while Canada's growth is projected to moderate to 1.1 percent in 2026 before recovering to 1.7 percent in 2027.

Emerging market and developing economies present a more varied picture (Table 1). Emerging and developing Asia remains an important growth engine, although its expansion is projected to moderate from 5.6 percent in 2025 to 5.1 percent in 2026 and 4.9 percent in 2027. China's growth is projected to slow from 5.0 percent in 2025 to 4.5 percent in 2026 and 4.0 percent in 2027, reflecting the impact of higher global oil prices, persistent uncertainty and structural headwinds.

India, by contrast, is expected to maintain growth of 7.0 percent in both 2026 and 2027 on the fiscal-year basis used in the IMF's country table. Its growth momentum is supported by resilient domestic demand and robust services activity. The IMF's separate calendar-year projections place India's growth at 7.4 percent in 2026 and 7.0 percent in 2027.

Elsewhere, emerging and developing Europe is projected to grow by 1.7 percent in 2026 and 2.1 percent in 2027, while Latin America and the Caribbean is expected to expand by 2.3 percent and 2.5 percent, respectively. Brazil's growth is projected at 2.2 percent in 2026, easing

to 1.9 percent in 2027. Sub-Saharan Africa is expected to maintain growth of 4.5 percent in both years, with Nigeria projected to grow by 4.2 percent in 2026 and 4.3 percent in 2027, compared with 1.0 percent and 1.3 percent, respectively, for South Africa.

The most pronounced regional disruption is visible in the Middle East and Central Asia, where growth is projected to contract by 0.3 percent in 2026 before rebounding sharply to 6.3 percent in 2027. This reflects the substantial impact of the conflict-related disruption to energy production and transportation, followed by an anticipated recovery as supply and logistics normalise.

These projections reveal three important features of the global economic landscape. First, advanced economies continue to face relatively modest growth prospects, reflecting structural constraints and the drag from elevated energy prices. Second, emerging Asia retains its position as a major contributor to global economic expansion, although China's deceleration is likely to influence the regional outlook. Third, the economic consequences of geopolitical conflicts are highly uneven, with energy-importing economies and countries directly affected by supply disruptions facing considerably greater pressures.

Global headline inflation is projected to rise from 4.1 percent in 2025 to 4.7 percent in 2026 before declining to 4.1 percent in 2027. This temporary reversal in the disinflationary trend primarily reflects higher energy and food prices associated with the continuing conflict in the Middle East.

The comparative growth outlook demonstrates that global resilience is not synonymous with economic stability. Countries' growth prospects increasingly depend on their energy exposure, participation in technology value chains, domestic demand strength and capacity to absorb external shocks. The interaction of geopolitical developments and technological transformation is producing a divided global economy in which the distribution of economic gains is becoming increasingly uneven.

TABLE 1

World Economic Outlook: Growth Projections

Real GDP growth, annual percent change

Economy / Region	2025	2026	2027
World Output	**3.5**	**3.1**	**3.4**
Advanced Economies	**2.0**	**2.1**	**1.8**
United States	2.3	2.3	2.3
Euro Area	1.2	1.1	1.2
Germany	0.2	1.3	1.1
France	0.9	0.4	0.7
Italy	0.5	0.8	0.6
Spain	2.6	2.5	1.8
Japan	1.2	0.7	0.7
United Kingdom	1.2	1.3	1.2
Canada	1.9	1.1	1.7
Other Advanced Economies	3.1	4.2	2.7
Emerging Market and Developing Economies	**4.5**	**3.7**	**4.4**
Emerging and Developing Asia	**5.6**	**5.1**	**4.9**
China	5.0	4.5	4.0
India	**7.8**	**7.0**	**7.0**
Emerging and Developing Europe	2.0	1.7	2.1
Russia	1.0	0.9	0.9
Latin America and the Caribbean	**2.5**	**2.3**	**2.5**
Brazil	2.3	2.2	1.9
Mexico	0.5	1.5	1.8
Middle East and Central Asia	**3.7**	**-0.3**	**6.3**
Saudi Arabia	4.6	-3.3	7.9
Sub-Saharan Africa	**4.5**	**4.5**	**4.5**
Nigeria	4.0	4.2	4.3
South Africa	1.1	1.0	1.3
Memorandum			
Source: IMF.	4.5	3.6	4.4
Low-Income Developing Countries	4.8	4.8	4.8

Source: IMF, World Economic Outlook, October 2026

Energy Disruptions and the Limits of Economic Resilience

The continuing conflict in the Middle East has emerged as a major source of uncertainty for the global economy. Disruptions around the Strait of Hormuz, through which approximately

20 million barrels of oil, or nearly one-quarter of global maritime oil trade, moved daily before the conflict, have exposed the vulnerability of international energy supply chains.

Oil prices experienced considerable volatility during 2026. Brent crude reached approximately $126 per barrel in late March as the physical market tightened sharply. Following temporary improvements in shipping conditions and the release of accumulated inventories, prices subsequently declined. However, the IMF warns that energy markets remain vulnerable, with inventory depletion and disruptions to refining capacity creating the possibility of renewed price pressures.

The IMF assumes an average oil price of $95.74 per barrel in 2026, declining to $87.39 in 2027. These assumptions underline the continued importance of energy prices in shaping the global inflation and growth outlook.

The resilience of the global economy has partly reflected its ability to adjust to supply disruptions. Alternative shipping routes, increased production outside the Gulf, inventory releases, substitution towards other energy sources and improvements in energy efficiency have helped moderate the economic impact.

An important structural development has been the declining energy intensity of global output. The IMF estimates that energy consumption per dollar of global GDP has fallen by approximately 32 percent over the past two decades. Renewable sources have also accounted for around 60 percent of the increase in global electricity generation since 2010.

Nevertheless, these adjustments cannot indefinitely compensate for prolonged supply disruptions. A sustained increase in energy prices would raise production and transportation costs, weaken household purchasing power, intensify inflationary pressures and constrain economic growth, particularly in energy-importing countries.

Artificial Intelligence: A New Engine of Growth with Emerging Risks

The AI investment boom has emerged as an important counterweight to the negative effects of geopolitical disruptions. Investments in semiconductors, computing infrastructure, software

and data centres have supported economic activity and international trade, particularly in technology-oriented economies.

However, the IMF distinguishes between the immediate demand stimulus from AI-related investment and the longer-term productivity gains that the technology may generate. Whether the current investment cycle translates into sustained improvements in productivity remains uncertain.

The concentration of investment and financial market gains among a relatively small number of firms, sectors and economies creates vulnerabilities. A reassessment of expected returns from AI investments could trigger a correction in technology valuations, reduce investment and tighten global financial conditions.

The IMF's scenario analysis illustrates the potential consequences. A market correction associated with an unwinding of AI-related investment could reduce global GDP by approximately 1.1 percent relative to the baseline by 2028, with particularly significant effects on the United States and technology-oriented Asian economies.

For developing countries, the challenge is twofold: capturing the productivity benefits of AI while avoiding excessive dependence on a narrow set of technologies, suppliers and external investment flows. Investments in digital infrastructure, human capital, research capabilities and institutional preparedness will determine how widely the benefits of technological transformation are distributed.

Trade Fragmentation and the Changing Global Economic Order

International trade is undergoing significant reconfiguration as geopolitical tensions, tariffs and changes in trading relationships reshape global production networks. Although businesses have demonstrated considerable adaptability by redirecting shipments and diversifying suppliers, persistent trade uncertainty can undermine investment and reduce economic efficiency.

The IMF projects global trade volume growth at 4.6 percent in 2026 and 4.7 percent in 2027. The continued strength of technology-related trade provides support, but the overall outlook remains constrained by tariffs and adjustments in production chains.

Importantly, the IMF cautions against excessive reliance on reshoring as a response to geopolitical uncertainty. Relocating production domestically may increase costs and concentrate risks rather than eliminate them. Instead, trade diversification offers a more sustainable approach to strengthening resilience.

A more diversified network of trading partners, suppliers and markets can reduce exposure to individual sources of disruption while preserving the benefits of international specialisation. Transparent and predictable trade rules and international cooperation remain essential for sustaining investment and economic integration.

Fiscal and Monetary Policies: Rebuilding the Capacity to Respond

An important concern highlighted by the IMF is the narrowing of fiscal space. Public debt remains elevated across several major economies, while borrowing costs have increased. Governments are simultaneously facing rising expenditure requirements associated with ageing populations, climate change, defence and infrastructure.

The repeated deployment of fiscal support to absorb successive shocks has weakened the capacity of governments to respond to future crises. The IMF therefore emphasises credible fiscal consolidation, combining revenue mobilisation, expenditure rationalisation and institutional improvements.

The report also highlights the importance of appropriately designed responses to cost-of-living crises. Broad-based subsidies and price controls may provide immediate relief but can distort market signals, weaken fiscal balances and disproportionately benefit higher-income households.

Targeted and temporary income support is generally more effective in protecting vulnerable households while preserving incentives for efficient resource allocation. Strengthening social protection systems is therefore essential to enable governments to respond quickly when food and energy prices rise.

Monetary policy must remain focused on price stability. Central banks need to respond to underlying inflationary pressures, inflation expectations and domestic economic conditions

rather than mechanically reacting to temporary commodity-price movements. Maintaining central bank credibility and independence is particularly important in an environment of heightened uncertainty.

Corporate Taxation and International Spillovers

The third chapter of the WEO examines an increasingly important dimension of global economic integration: the international spillovers of corporate income taxation.

Greater capital mobility, digitalisation and the growing importance of intangible assets have intensified competition among countries to attract multinational corporations through lower tax rates and preferential incentives.

Although lower corporate tax rates can encourage investment, they may also reduce government revenues and create distortions in international capital allocation. Debt-financed tax reductions can raise borrowing costs and crowd out investment in other economies. Similarly, tax concessions that weaken public investment in infrastructure, education and institutional capacity may undermine long-term productivity.

For emerging market economies, the issue is particularly important because corporate income tax remains a significant source of public revenue. Stronger anti-avoidance frameworks and international tax cooperation can help protect tax bases while maintaining an attractive investment environment.

The broader policy implication is that tax competition should not become a race to the bottom. Investment incentives need to be transparent, targeted and linked to demonstrable economic and social benefits.

The Road Ahead: From Managing Shocks to Building Resilience

The IMF identifies three mutually reinforcing pillars for strengthening economic resilience.

First, technological diversification requires greater investment in critical technologies and essential inputs, reducing dependence on concentrated sources of supply. Energy diversification, including renewable energy, is particularly important.

Second, trade diversification can reduce vulnerability to disruptions involving individual trading partners, suppliers and markets. Open and predictable trade relationships are preferable to excessive protectionism and inefficient reshoring.

Third, stronger supply buffers in critical sectors, particularly energy, water, food and essential inputs, can reduce the economic costs of future disruptions.

These measures must be supported by structural reforms, entrepreneurship, private-sector investment and international cooperation. Resilience should not merely enable countries to absorb shocks after they occur; it should reduce their exposure to disruptions and strengthen their capacity to sustain long-term growth.

India: Sustaining Growth Amid Global Uncertainty

India occupies a relatively favourable position in the IMF's assessment of the global economic landscape. Despite higher oil prices and continuing geopolitical uncertainty, the economy has maintained robust growth, supported by resilient domestic demand and strong services activity. The IMF projects India's real GDP growth at 7.0 percent in calendar year 2026, placing it among the fastest-growing major economies.

The country's performance reflects the strength of domestic consumption, services-led expansion and improving macroeconomic policy frameworks. The IMF also notes that India's second-quarter economic performance remained resilient despite higher energy prices. This provides an important cushion against the weakening of global demand and disruptions in international trade.

The detailed country projections in the IMF's Annex Table 1.1.2 provide additional insights. On a fiscal-year basis, India's real GDP growth is projected at 7.8 percent in 2025, 7.0 percent in 2026 and 7.0 percent in 2027. The report separately indicates calendar-year growth projections of 7.4 percent for 2026 and 7.0 percent for 2027. These different figures reflect the IMF's distinction between fiscal-year and calendar-year reporting.

However, India's growth prospects are not insulated from external developments. As a major energy importer, the country remains vulnerable to sustained increases in crude oil prices.

Higher energy import costs can widen the current account deficit, exert pressure on the rupee, increase transportation and manufacturing costs and complicate monetary policy management.

The IMF's projections indicate that India's current account deficit could widen from 0.7 percent of GDP in 2025 to 1.5 percent in 2026 before moderating to 1.3 percent in 2027. Consumer price inflation is projected to rise from 2.0 percent in 2025 to 5.0 percent in 2026, before easing to 4.4 percent in 2027. These projections highlight the potential transmission of external commodity-price pressures into domestic inflation.

India's policy challenge, therefore, is to sustain growth while managing the trade-offs between inflation control, external stability and investment requirements.

Strengthening energy security and economic resilience: India needs to accelerate diversification of its energy sources, expand renewable energy capacity, improve energy efficiency and strengthen strategic reserves. Greater investment in domestic manufacturing of solar equipment, batteries and other clean-energy technologies can reduce external vulnerabilities while creating new industrial opportunities.

Leveraging the AI and technology opportunity: The global AI investment cycle presents an opportunity for India to strengthen its position in digital services, software, semiconductor manufacturing and data-centre infrastructure. However, capturing these opportunities will require sustained investments in research and development, advanced skills, digital infrastructure and domestic technological capabilities. India should seek to move beyond being primarily a consumer of advanced technologies towards becoming an important producer and innovator.

Strengthening manufacturing and trade competitiveness: Global supply-chain diversification creates opportunities for India to attract investment and expand its manufacturing base. However, competitiveness will depend on improving logistics, reducing transaction costs, enhancing labour productivity and strengthening integration with global value chains. Trade diversification should be accompanied by greater domestic value addition and export sophistication.

Maintaining fiscal and macroeconomic stability: Higher energy prices and external uncertainty require prudent fiscal management. Expenditure priorities should support infrastructure, human capital, technological innovation and climate resilience. Any relief measures introduced to protect households from commodity-price shocks should be carefully targeted and fiscally sustainable. Monetary policy must remain attentive to the transmission of imported inflation while supporting macroeconomic stability.

Ensuring inclusive and employment-intensive growth: Sustaining high GDP growth is not sufficient unless it translates into better employment opportunities, higher real wages and improvements in household welfare. Expanding labour-intensive manufacturing, strengthening MSMEs, promoting women's workforce participation and improving skills will be essential. Rural economic diversification and agricultural productivity improvements also remain important for strengthening domestic demand and reducing regional inequalities.

India's ability to convert its growth momentum into sustained economic transformation will depend on how effectively it addresses these structural challenges. The country's demographic advantages, expanding digital ecosystem, domestic market and institutional capabilities provide a strong foundation, but productivity enhancement and employment generation must remain central to the development strategy.

Conclusion: Resilience Must Lead to Sustainable Prosperity

The IMF's October 2026 WEO presents a world economy that has demonstrated considerable adaptability but faces increasingly complex risks. Geopolitical conflicts, energy disruptions, trade fragmentation, fiscal vulnerabilities and the uncertain trajectory of AI-related investment are reshaping the global economic landscape.

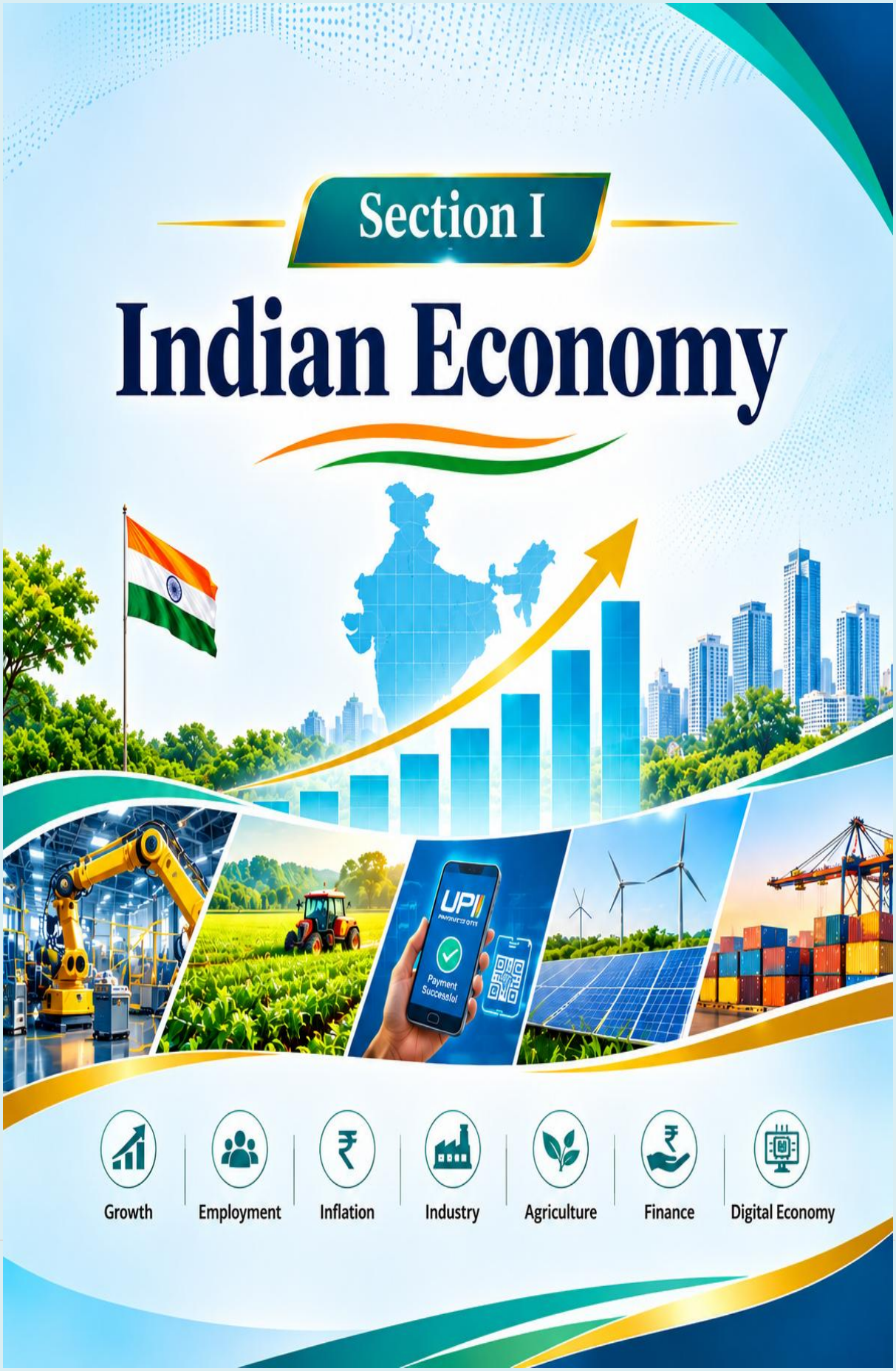
The report's most important message is that resilience cannot be sustained through short-term adjustments alone. It requires structural transformation, diversified supply chains, stronger institutions, technological capabilities, sound macroeconomic frameworks and international cooperation.

For India, the outlook offers both opportunities and cautionary signals. Its strong growth momentum provides an opportunity to accelerate economic transformation, strengthen manufacturing and services, improve technological capabilities and enhance its role in global trade. At the same time, energy dependence, external imbalances, inflationary risks and employment challenges require sustained policy attention.

Ultimately, the objective should be to move beyond resilience as the capacity to withstand shocks towards resilience as the foundation for sustained and inclusive prosperity. For India and the wider global economy, the choices made today will shape the trajectory of growth, competitiveness and economic security over the coming decade.

Bottomline:

The global economy remains resilient but increasingly vulnerable to geopolitical conflicts, energy disruptions and technological uncertainties, underscoring the need for stronger institutions, diversified supply chains and prudent policies to sustain inclusive and stable growth.


Section I
Indian Economy
UPI
Payment Successful
Growth
Employment
Inflation
Industry
Agriculture
Finance
Digital Economy

SECTION 1: INDIAN ECONOMY

NAVIGATING MACROECONOMIC TRENDS

INDIA AT THE AI CROSSROADS: TURNING DIGITAL STRENGTH INTO PRODUCTIVITY AND INCLUSIVE GROWTH

EcoSphere Editorial

India stands at an important juncture in its economic transformation. Strong domestic demand, expanding investment and a resilient financial system have helped the economy navigate global uncertainty. Yet the next phase of development will depend increasingly on the country's ability to raise productivity, create better-quality employment and strengthen its technological capabilities. Artificial intelligence (AI) could become a major catalyst in this transition. The World Bank's *India Development Update, October 2026*, titled *India and Artificial Intelligence: Seizing the Development Opportunity*, examines this opportunity while drawing attention to the institutional, infrastructural and human-capital constraints that India must address.

A Resilient Economy amid Global Uncertainty

The World Bank has upgraded its forecast for India's GDP growth in FY2026–27 to 7.1 per cent from 6.6 per cent in its April assessment. The economy expanded by 7.8 per cent in FY2025–26, compared with 7.2 per cent in the previous year. Growth was supported by investment, robust private consumption and a favourable domestic policy and credit environment. GDP also grew by 7.8 per cent in the first quarter of FY2026–27, reflecting strong domestic demand and industrial activity.

The outlook, however, remains exposed to geopolitical and energy-market risks. The Middle East conflict and disruptions to global energy supplies have raised concerns about inflation, the

current account and fiscal balances. India's stronger external buffers, including foreign exchange reserves that reached US$785.7 billion on September 4, 2026, and a current account deficit of only 0.7 per cent of GDP in FY2025–26, have helped cushion the impact. The report projects growth to accelerate to 7.2 per cent in FY2027–28 before moderating to 7.0 per cent in FY2028–29, assuming energy markets normalise and external headwinds ease.

This macroeconomic resilience provides a favourable foundation for technological transformation. However, sustaining high growth over the medium term will require productivity gains beyond the traditional drivers of investment and consumption. AI could play an increasingly important role.

India's AI Opportunity: Strong Foundations, but a Scaling Challenge

India has several advantages in the emerging AI economy: a large technical workforce, a globally integrated IT services industry, a growing startup ecosystem, a substantial domestic market and established digital public infrastructure. Platforms such as Aadhaar, UPI and DigiLocker have demonstrated how interoperable digital systems can reduce transaction costs and enable services to reach large populations. These capabilities could also lower the cost of deploying AI applications across finance, commerce and public services.

The IndiaAI Mission, with an approved five-year outlay of ₹10,371.92 crore, provides support for shared computing infrastructure, indigenous models, datasets, skills and startup financing. Initiatives such as BHASHINI and AI4Bharat are also important in addressing India's linguistic diversity and developing locally relevant language technologies.

Nevertheless, India remains some distance from the global AI frontier. Limited access to affordable computing capacity, gaps in high-quality local datasets, shortages of specialised skills and constraints on financing and experimentation could impede the development and commercialisation of indigenous applications. The challenge is therefore not simply to develop more sophisticated AI models, but to make existing technologies accessible, affordable and useful across the economy.

From Adoption to Adaptation: A Practical AI Strategy

The World Bank proposes a three-part approach: deepening adoption, accelerating adaptation and selectively advancing at the frontier. For India, wider adoption is likely to generate substantial productivity gains because many businesses, particularly micro, small and medium enterprises (MSMEs), have yet to integrate AI meaningfully into their operations.

Affordable cloud services, shared AI tools, targeted training and partnerships with technology providers can help smaller firms overcome the cost and capability barriers to adoption. Priority sectors include manufacturing, financial services, healthcare, education, agriculture and business services, areas where AI can complement existing capabilities and improve efficiency.

Adaptation is equally important. India's linguistic, social and economic diversity requires applications that reflect local needs rather than simply replicating solutions developed for advanced economies. The report highlights the potential of "Small AI", lightweight, task-specific models that can operate with limited computing resources and, in some cases, without continuous internet connectivity. Applications such as AI-assisted tuberculosis screening, multilingual educational tools and agricultural advisory platforms illustrate how such technologies can address development challenges. The KATHIR platform in Kerala and MahaVISTAAR-AI in Maharashtra, for example, use AI-enabled tools to provide farmers with localised information on weather, sowing, crop diseases and market prices.

India should also pursue selective frontier development in areas where it possesses strategic or comparative advantages. Concentrating scarce financial and human resources in these areas could generate wider technological spillovers without requiring the country to replicate the entire global AI ecosystem.

AI, Employment and the Future of Work

The impact of AI on employment is a central policy concern. The World Bank finds that emerging evidence points to simultaneous job creation and displacement, rather than broad-based employment losses in India so far. A compilation of company announcements across Asia between 2022 and August 2026 recorded 83,100 AI-related hires and 31,921 layoffs or

attrition in India among the companies covered. These figures suggest a net increase in employment within this sample, although they cannot isolate AI-related restructuring from other business and economic factors.

The more significant change may be in the nature of work. Routine coding, testing, documentation and data-processing tasks are increasingly exposed to automation, while demand is growing for skills in AI implementation, data engineering, cybersecurity, supervision and client-facing services. The expansion of global capability centres and the wider technology-services ecosystem also indicates that employment opportunities are shifting towards higher-value activities.

India's policy response must therefore extend beyond technical training. Workers need opportunities for continuous reskilling, better job matching and portable social protection. Particular attention is necessary for employees in occupations more exposed to automation and those who face barriers to acquiring complementary skills. The objective should be to ensure that productivity gains translate into improved wages, employment opportunities and wider economic participation.

Building an Enabling Policy and Institutional Framework

Realising AI's development potential requires coordinated action across government, industry, educational institutions and research organisations. Digital and physical infrastructure must expand, while affordable computing and cloud access should become available to smaller firms and institutions. High-quality datasets, interoperability and reliable connectivity are essential for developing locally relevant applications.

A risk-based regulatory framework can build public trust without unnecessarily constraining innovation. Data protection, transparency, accountability and mechanisms for monitoring emerging risks should form its foundation. Government can also act as a lead user by deploying AI in public services and scaling applications that demonstrate measurable benefits.

Ultimately, India's AI strategy must be people-centred. Technology should complement workers, improve public-service delivery and enable businesses of different sizes to become

more productive. The success of AI will be measured not merely by the number of models developed or investments attracted, but by its contribution to productivity, livelihoods and inclusion.

Conclusion

Artificial intelligence offers India an opportunity to move beyond its traditional strengths in IT services and digital infrastructure towards a broader, innovation-driven development model. The country's large market, technical workforce and digital public infrastructure provide a strong starting point, but gaps in computing access, skills, data and enterprise adoption remain significant.

The priority should be to democratise AI adoption, adapt technologies to India's diverse needs and invest selectively in frontier capabilities. If supported by responsive institutions, responsible governance and continuous investment in human capital, AI can become an important instrument for raising productivity, improving the quality of employment and advancing India's aspiration for Viksit Bharat by 2047.

Bottomline:

India's AI opportunity lies in moving beyond digital adoption to widespread, responsible integration that raises productivity, strengthens innovation, improves employment opportunities and advances inclusive growth.

World Bank's India Development Update, October 2026 can be accessed from:
https://documents1.worldbank.org/curated/en/099455510022634209/pdf/IDU-26df18db-fc2b-4e0b-91ed-be8ced3d9bce.pdf

BEYOND POVERTY REDUCTION: CAN INDIA TRANSLATE WELFARE GAINS INTO INCLUSIVE PROSPERITY?

EcoSphere Editorial

India has achieved a remarkable reduction in poverty over the past decade, according to the World Bank's *India Poverty & Equity Brief: October 2026*. The findings point to a substantial improvement in living standards, supported by consumption growth, expanding employment and social transfers. Yet the report also highlights persistent inequalities, regional concentration of poverty and weaknesses in employment quality. The central challenge for India is no longer simply to reduce the number of people living in poverty, but to ensure that economic growth generates productive employment, rising real incomes and broadly shared prosperity.

A Remarkable Decline in Poverty

Between 2011 and 2023, the proportion of India's population living below the lower-middle-income poverty line of $4.20 per person per day, measured at 2021 purchasing power parity (PPP), declined from 57.7 percent to 16.1 percent. This represents an estimated 496 million people moving above the poverty threshold. Extreme poverty, measured against the international poverty line of $3 per day, fell from 27.1 percent to 2.6 percent over the same period. Nevertheless, approximately 75.2 million people remained below the extreme-poverty threshold in 2023, while 342.3 million were below the $4.20 line.

Multidimensional poverty has also declined substantially. The Oxford Poverty and Human Development Initiative's measure fell from 53.8 percent in 2005–06 to 16.4 percent in 2019–21, while the World Bank's multidimensional poverty measure stood at 15.5 percent in 2022–23. These improvements reflect better access to essential services alongside gains in household consumption.

The progress is significant, but poverty estimates depend on the threshold employed. The report indicates that 80 percent of the population remained below the upper-middle-income poverty line of $8.30 per day in 2023. Crossing the extreme-poverty threshold, therefore, does not necessarily imply economic security or resilience against future shocks.

Employment Growth and the Income Challenge

Employment has been an important contributor to poverty reduction. Between 2017 and 2023, employment increased by approximately 134 million people, nearly twice the growth of the working-age population. The entry of rural women into paid work contributed substantially to this expansion, increasing the number of earners in many households.

However, employment growth has not translated into commensurate improvements in earnings. Real wages remained broadly unchanged, while much of the employment expansion occurred in relatively low-productivity activities. Youth unemployment also increased from 14.6 percent to 15.9 percent between the first quarters of FY2026 and FY2027, with rural young women particularly affected.

These trends expose an important limitation of employment-led poverty reduction when new jobs provide inadequate remuneration, limited security or weak opportunities for advancement. India must therefore prioritise productive employment through manufacturing, modern services, labour-intensive industries and higher-value agricultural and rural enterprises. Skill development, apprenticeships and stronger links between education and industry will be essential to improve young people's employment prospects.

Regional and Social Disparities Persist

The gains from poverty reduction have been geographically uneven. Rural and urban households experienced improvements, with faster progress in rural areas narrowing the rural–urban welfare gap. Nevertheless, poverty at the $4.20 threshold remained higher in rural India, at 19.3 percent, than in urban areas, at 8.6 percent.

More strikingly, approximately 57 percent of India's poor population was concentrated in a contiguous belt stretching from Uttar Pradesh to West Bengal. This concentration makes regional development central to the next phase of poverty reduction. Investment in infrastructure, agro-processing, logistics, education and urban centres, combined with the expansion of non-farm employment, could strengthen economic opportunities in these states.

Social disparities also remain pronounced. The poverty rate was 21.8 percent among children aged 0–14, compared with 14.4 percent among those aged 15–64. Among people aged 16 and above, poverty was 21.3 percent for those without education, against 7.4 percent for those with tertiary or post-secondary education. These differences underline the importance of educational attainment, healthcare, nutrition and access to productive assets in breaking intergenerational poverty.

Inequality and the Policy Priorities Ahead

The report draws attention to substantial wage inequality: median earnings among the top 10 percent of workers were approximately 13 times those of the bottom 10 percent in 2023. Moreover, multidimensional deprivation remains visible in inadequate sanitation, which affected 29.6 percent of the population under the report's specified indicator, and the absence of an adult with completed primary education, affecting 13.8 percent.

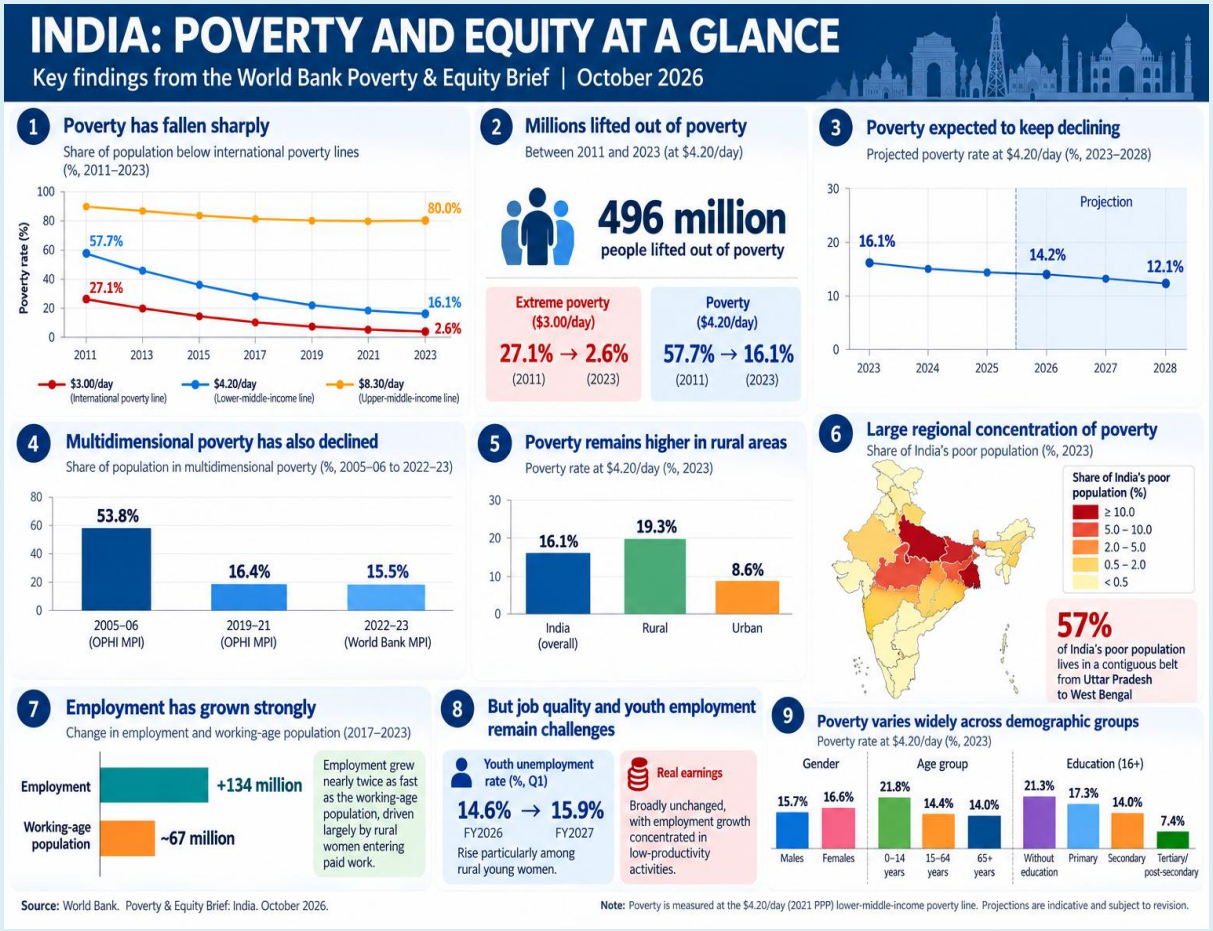
Looking ahead, the World Bank projects that poverty at the $4.20 threshold will decline from 14.2 percent in 2026 to 12.1 percent by 2028. These are indicative microsimulation-based projections and may change as new data become available.

India's next phase of poverty reduction requires a shift from welfare gains alone towards sustained improvements in productivity, wages and economic security. Social protection and food subsidies remain important, but must complement investments in human capital, rural diversification, women's economic participation and employment-intensive growth.

The report also cautions that recent welfare gains may partly reflect improvements in measurement and that inequality could be understated because wealthier households may not be fully captured by consumption surveys. The findings should therefore be interpreted with appropriate methodological care.

India's achievement in reducing poverty is substantial. The larger test is whether the country can convert this progress into durable economic mobility and shared prosperity. That will depend not only on how fast the economy grows, but also on the productivity of its jobs, the

distribution of opportunities and the ability of lagging regions and disadvantaged households to participate in the gains from growth.



Bottomline:

India's progress in poverty reduction must now translate into inclusive prosperity through better-quality employment, rising household incomes and equitable access to economic opportunities and essential services.

World Bank's *India Poverty and Equity Brief* : October 2026 can be accessed from: https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099722104222534584

RBI'S MONETARY POLICY AT A TURNING POINT: BALANCING INFLATION RISKS WITH GROWTH RESILIENCE

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The Reserve Bank of India's October 2026 policy marks a decisive shift towards containing inflationary risks as geopolitical disruptions, elevated energy prices and a deficient monsoon threaten to broaden price pressures. The challenge is to anchor inflation expectations without weakening the investment-led growth momentum.

Introduction

The Reserve Bank of India's (RBI) October 2026 monetary policy marks an important inflection point in India's macroeconomic management. Faced with renewed geopolitical tensions, volatile international crude oil prices and mounting evidence of broadening domestic inflationary pressures, the Monetary Policy Committee (MPC) raised the policy repo rate by 25 basis points to 5.50 percent and shifted its stance from neutral to calibrated tightening. The decision reflects a growing recognition that the inflation outlook has become less favourable even as economic activity remains resilient.

The significance of this policy extends beyond the immediate rate increase. It signals a change in the balance of risks confronting monetary policymakers: inflation can no longer be treated simply as a temporary consequence of supply disruptions if higher input costs begin influencing firms' pricing decisions and household expectations. At the same time, aggressive monetary tightening could undermine private investment, interest-sensitive consumption and rural demand. The RBI must therefore navigate the difficult trade-off between safeguarding price stability and sustaining growth.

A resilient economy amid mounting global uncertainties

India's economic performance provides the foundation for the RBI's relatively confident growth assessment. Real GDP expanded by 7.8 percent in the first quarter of 2026–27, supported by private consumption, fixed investment and positive contributions from net

exports. Manufacturing remained robust, while services activity benefited from sustained domestic and external demand. High-frequency indicators for July and August suggested that momentum continued into the second quarter, although purchasing managers' indices indicated some moderation.

The RBI revised its real GDP growth projection for 2026–27 upwards by 40 basis points, from 6.7 percent in August to 7.1 percent in October. Quarterly growth is projected at 7.2 percent in Q2, 6.9 percent in Q3 and 6.8 percent in Q4, followed by 7.1 percent in Q1 of 2027–28. These projections indicate that the economy is expected to retain growth above 7 percent despite significant external headwinds (RBI, 2026a, 2026b).

The investment outlook is particularly encouraging. Growth in capital-goods production, rising imports of capital goods, strong capacity utilisation and buoyant industrial credit point towards an improving private investment cycle. Government infrastructure expenditure and sustained services exports are additional sources of support. Merchandise exports also recorded strong double-digit growth during July–August 2026, reflecting expansion across petroleum products, engineering goods and electronics.

Nevertheless, important vulnerabilities remain. The West Asia conflict has intensified uncertainty surrounding energy prices and global supply chains. Higher international bond yields and tighter financial conditions in advanced economies could increase financing costs for emerging markets, while an appreciating US dollar may add to external pressures. Elevated valuations of artificial-intelligence-related assets and concerns about public debt in major economies constitute further downside risks.

Domestic conditions are equally mixed. The southwest monsoon ended September approximately 13 percent below its long-period average, while strong El Niño conditions threaten agricultural production and the forthcoming rabi season. Although foodgrain buffers and government interventions may cushion the impact, weaker agricultural incomes could constrain rural consumption.

The RBI's growth forecast consequently rests on a favourable combination of investment, services, urban demand and exports, but the durability of this momentum will depend partly on how effectively the economy absorbs global energy and weather-related shocks.

Inflation returns to the centre of monetary policy

The immediate trigger for monetary tightening is the deterioration in the inflation outlook. Consumer price index (CPI) inflation increased from 4.5 percent in July to 4.8 percent in August 2026, driven primarily by food and fuel prices. More concerningly, price increases have become broader across food items, with notable spikes in sugar and onion prices.

The increase in core inflation adds another dimension to the problem. CPI inflation excluding food and fuel rose to 4.2 percent in August, from 3.9 percent in July, while core inflation excluding precious metals stood at 2.9 percent. The weighted share of CPI items registering inflation above 4 percent increased from approximately 20 percent in March to 37 percent in August. These indicators suggest that inflationary pressure is spreading beyond a narrow set of volatile commodities.

The external energy shock has intensified the challenge. The Indian crude oil basket averaged US$116.1 per barrel in September, compared with US$82 in July. Higher oil prices affect inflation directly through fuel-related components and indirectly through transportation, fertilisers, manufacturing inputs and other production costs. Exchange-rate depreciation can amplify these effects by increasing the domestic-currency cost of imported commodities.

The RBI raised its CPI inflation projection for 2026–27 from 5.0 percent to 5.2 percent. Inflation is expected to reach 4.9 percent in Q2, rise to 6.0 percent in Q3 and moderate to 5.7 percent in Q4. The projection for Q1 of 2027–28 is 5.6 percent, while core inflation is projected at 4.4 percent for the current financial year (RBI, 2026b).

The projected Q3 peak is particularly significant. Under India's flexible inflation-targeting framework, the target is 4 percent, with a tolerance band of 2–6 percent. An expected breach of the upper tolerance limit, even if temporary, increases the risk that inflation will become embedded in expectations and pricing decisions.

The minutes reveal further evidence of underlying momentum. Saugata Bhattacharya highlighted wholesale input-price pressures and signs that firms were passing higher costs on to consumers. Indranil Bhattacharyya pointed to increases in trimmed-mean and weighted-median inflation measures, alongside evidence of cost pass-through in restaurants and prepared meals. These developments suggest that headline inflation may increasingly reflect the propagation of supply shocks rather than only their initial impact.

Why the RBI raised rates despite supply-side pressures

The central analytical question is whether higher interest rates can effectively address inflation driven substantially by food, energy and geopolitical disruptions.

Monetary tightening cannot produce crude oil, improve rainfall or immediately restore agricultural supply. A rate increase may therefore impose economic costs without removing the original source of inflation. However, its purpose is to limit the second-round effects of supply shocks, particularly rising inflation expectations, wage demands and firms' decisions to pass on higher input costs.

The October MPC explicitly acknowledged that distinguishing these effects from the indirect consequences of higher production costs is difficult. Core inflation and diffusion indices provide useful evidence, but they cannot conclusively establish whether a supply shock has become entrenched. The Committee nevertheless identified elevated inflation expectations and increasing generalisation of price pressures as reasons for action.

This approach is consistent with the broader monetary-policy literature. Blanchard and Galí (2007) show that the appropriate response to supply shocks involves a trade-off between inflation stabilisation and output stabilisation. When shocks are temporary and expectations remain anchored, central banks may accommodate some initial inflation increase. However, persistent shocks or rising expectations make a policy response more necessary.

More recent research reinforces the importance of timing. Erceg, Lindé and Trabandt (2024) argue that looking through supply shocks may be appropriate when shocks are small, but can become costly when large shocks coincide with resilient economic activity. Similarly, Beaudry,

Carter and Lahiri (2026) examine how central banks must balance accommodation of supply disruptions against the risk of destabilising inflation expectations.

The RBI's decision can be understood in this context. With GDP growth remaining strong, credit expansion broadening and inflation projected to approach 6 percent, the cost of waiting for definitive evidence of second-round effects may be substantial. Monetary policy operates with lags; action taken only after inflation becomes firmly embedded could require more pronounced tightening later.

The 25-basis-point increase is therefore best interpreted as a preventive measure rather than an attempt to suppress demand indiscriminately. It seeks to reinforce the credibility of the inflation-targeting framework while leaving the scale and duration of any further tightening dependent on incoming evidence.

Calibrated tightening: A change in the policy reaction function

The most consequential aspect of the October decision may be the change in the MPC's stance rather than the rate increase itself. By adopting calibrated tightening, the Committee indicated that rate cuts were off the table in the near term and that subsequent action would involve either a further increase or a pause, depending on the evolving outlook.

This is a meaningful shift in policy communication. A neutral stance preserves the possibility of rate cuts, increases or pauses. Calibrated tightening narrows the range of near-term possibilities and communicates a stronger commitment to containing inflation. It may influence financial conditions and expectations even before additional rate increases occur.

Importantly, the decision does not constitute an unconditional commitment to a prolonged tightening cycle. The RBI stated that the duration and magnitude of further increases would depend on underlying inflation, the breadth of price pressures, evidence of second-round effects and the strength of demand.

The distinction is essential. An automatic sequence of rate increases would risk overreacting to temporary supply shocks, whereas a conditional approach allows policymakers to respond as the persistence of inflation becomes clearer.

The MPC minutes: Governor Malhotra's rationale and the debate over tightening

The minutes of the MPC meeting, published on October 21, 2026, provide a deeper understanding of the reasoning behind the policy decision. While all six members unanimously supported raising the repo rate by 25 basis points to 5.50 percent, the discussion revealed differing assessments of inflation persistence and the implications of shifting the policy stance from neutral to calibrated tightening. Governor Sanjay Malhotra's statement is particularly important because it brings together the Committee's assessment of inflation dynamics, the risks of delayed intervention and the conditions that would determine the future policy trajectory.

Governor Sanjay Malhotra: Preventing inflation from becoming entrenched

Governor Malhotra's assessment begins with the contrast between India's resilient economic performance and the deterioration in the inflation outlook. Although real GDP growth reached 7.8 percent in the first quarter of 2026–27 and the full-year growth projection was raised to 7.1 percent, inflationary pressures were clearly building. Headline CPI inflation was projected to average approximately 5.8 percent over the next three quarters, while core inflation was expected to reach 4.4 percent for the financial year. In his assessment, this combination warranted a recalibration of the policy rate despite the adverse global environment.

A central element of the Governor's reasoning was the increasing breadth of inflationary pressures. The weighted share of items in the CPI basket registering inflation above 4 percent had risen from around 20 percent in March to 37 percent in August. Core inflation had also increased from 3.9 percent in July to 4.2 percent in August. Although core inflation excluding precious metals remained lower at 2.9 percent, the Governor viewed the broader indicators as evidence that the exceptionally benign inflation conditions of the preceding period were normalising.

Malhotra also highlighted the difficulty of distinguishing between the direct and indirect effects of supply shocks. Higher crude oil, food and other commodity prices initially raise production and distribution costs. Over time, however, firms may pass these costs on to consumers, while

households may revise their inflation expectations and workers may seek compensation for higher living costs. These second-round effects can make an initially temporary supply shock more persistent. The Governor emphasised that core inflation, diffusion indices, inflation expectations and firms' pricing behaviour must therefore be examined together, even though the available indicators cannot perfectly distinguish cost pass-through from the broader generalisation of inflation.

Importantly, his assessment did not suggest that demand-driven overheating had already become the dominant source of inflation. Rather, he identified risks arising from strong growth in monetary and credit aggregates alongside the possibility that supply-side pressures could become embedded in pricing decisions. This distinction explains why the RBI opted for a measured rate increase rather than a more aggressive intervention.

The Governor's position was also reflected in the change of stance to calibrated tightening. He made clear that rate cuts were off the table in the near term, leaving a further rate increase or a pause as the available options. However, he did not commit the RBI to a predetermined sequence of increases. The duration and magnitude of any tightening cycle would depend on actual growth and inflation developments, especially the trajectory of underlying inflation, the extent to which price pressures broadened, the emergence of second-round effects and the strength of demand impulses.

The analytical significance of Malhotra's position lies in its emphasis on pre-emptive but conditional monetary action. Waiting until inflation expectations become firmly entrenched could necessitate a sharper tightening cycle later, with greater costs for output and investment. Conversely, tightening too aggressively in response to a predominantly supply-driven shock could weaken demand without addressing its underlying cause. The 25-basis-point increase, accompanied by a more restrictive policy signal, sought to manage this tension while preserving flexibility over subsequent decisions (RBI, 2026c).

Other members: Agreement on the rate increase, differences over the stance

The individual statements reveal that the Governor's concerns about inflation persistence were shared by several members, although the appropriate degree of policy commitment remained contested.

Saugata Bhattacharya argued that upside inflation risks were materialising more clearly. He highlighted elevated wholesale input costs, indications that firms were passing these costs on to consumers, and the broadening of bank credit growth across sectors. In his assessment, the economy was resilient enough to permit greater attention to inflation persistence, while the prevailing level of real interest rates might not be sufficient to ensure price stability. He therefore supported both the rate increase and calibrated tightening. At the same time, he stressed that the pace of adjustment should be carefully calibrated to balance inflation against growth, credit against deposits, and domestic conditions against external financing requirements.

Dr Poonam Gupta also supported the rate increase and the change in stance, placing particular emphasis on the risk of acting too late. She observed that inflation was still driven predominantly by external supply shocks, with limited evidence of entrenchment at that stage. Nevertheless, the projection that headline inflation could reach the upper tolerance limit of 6 percent made it prudent to act before the evidence of generalisation became conclusive. Given the lags in monetary transmission, she argued that waiting for more definitive signs could prove costly. Future action, however, would need to depend on incoming inflation data, the breadth of price increases and evidence of second-round effects.

Indranil Bhattacharyya similarly emphasised the interaction between persistent supply pressures and resilient demand. He drew attention to rising underlying inflation measures, higher household inflation expectations and evidence of input-cost pass-through in selected service categories. Strong credit growth, in his view, increased the possibility that supply shocks could interact with demand-side pressures to generate more persistent inflation. He consequently favoured a pre-emptive rate increase and calibrated tightening, while leaving the future policy path dependent on emerging economic conditions.

The principal counterarguments came from Dr Nagesh Kumar and Prof. Ram Singh, both of whom supported the 25-basis-point rate increase but favoured retaining a neutral stance.

Dr Kumar acknowledged the strength of economic activity, particularly manufacturing, investment and exports, but argued that inflation remained largely supply-driven and that the classic signs of economic overheating were absent. He cautioned that signalling an extended tightening cycle could weaken interest-sensitive consumption and disrupt the emerging private investment recovery. In his view, the immediate rate increase was justified to manage inflation expectations, but the policy stance should preserve greater flexibility amid geopolitical and trade uncertainty.

Prof. Ram Singh similarly recognised the risk that supply shocks could become more widespread, but questioned whether a tightening stance was necessary when clear evidence of demand-driven overheating or a wage-price spiral remained limited. He warned that expectations of sustained rate increases could undermine investment plans and add to pressures on households and firms already affected by deficient rainfall, rising input costs and global uncertainty. He therefore favoured incremental rate increases, if warranted, without signalling an extended tightening cycle.

What the debate reveals

The minutes reveal an important distinction between agreement on the immediate policy action and disagreement over the signal conveyed about future policy. All six members judged a 25-basis-point increase appropriate, but two considered that the neutral stance should be retained. The debate was therefore not simply about whether inflation required attention; it concerned how strongly monetary policy should commit itself to further tightening before the persistence of the shock became clearer.

Governor Malhotra's position brings these competing considerations together. The RBI seeks to prevent the broadening of inflation from undermining the credibility of the inflation-targeting framework, while recognising that the ultimate policy response must depend on the evolution of the growth-inflation balance. The shift to calibrated tightening strengthens the

anti-inflationary signal, but the commitment to data dependence leaves room for a pause if price pressures moderate.

The central question for the coming quarters is whether inflation remains predominantly a supply-side phenomenon or becomes increasingly embedded in expectations, wages and firms' pricing decisions. If the latter occurs, further tightening may be necessary. If supply pressures ease and underlying inflation remains contained, a pause could limit the costs to consumption and investment. The December 2026 MPC meeting will be an important opportunity to reassess this balance.

Financial conditions and the external sector

The policy decision must also be assessed against evolving domestic liquidity and external financing conditions.

The RBI reported an average daily liquidity surplus of ₹5.9 lakh crore since the August MPC meeting. Liquidity absorption through variable-rate reverse repo auctions and open-market sales, together with advance-tax outflows, moderated the surplus during September. Despite these operations, short-term money-market rates remained relatively low, while government bond yields hardened amid rising global yields and higher crude oil prices.

Bank credit growth was robust, reaching 18.1 percent year-on-year as of September 15, 2026, compared with 10.4 percent a year earlier. Credit expansion extended beyond retail lending to industry, services, agriculture and micro, small and medium enterprises. Strong credit growth supports investment and economic activity, but it also warrants monitoring for potential demand-side inflationary pressures.

The transmission of monetary policy will require attention. During July–August, lending rates on fresh rupee loans increased modestly, while term deposit rates moderated, partly because of liquidity generated by foreign-currency non-resident bank deposit mobilisation. Consequently, a higher repo rate may not translate uniformly into borrowing costs across sectors. The RBI will need to align money-market rates with the policy rate while ensuring that financial conditions transmit the intended anti-inflationary signal.

The external sector presents another complication. India's current account deficit remained modest at 0.5 percent of GDP in Q1:2026–27, but the merchandise trade deficit widened during July–August, partly because of higher crude oil and electronics imports. Strong services exports and remittance inflows provide resilience, while improved net foreign direct investment inflows offer additional support.

Nevertheless, higher oil prices and tighter global financial conditions could increase the current account deficit and place pressure on the rupee. Interest-rate differentials also matter for attracting capital flows, although domestic growth prospects, investor confidence and global risk appetite influence these flows alongside monetary policy.

The RBI's challenge is therefore multidimensional: it must contain inflation, preserve orderly financial conditions and maintain external stability without unnecessarily constraining productive credit.

Policy priorities and the road ahead

The October policy highlights three priorities:

First, monetary policy must remain firmly focused on inflation expectations and the diffusion of price pressures. Headline CPI alone is insufficient. Changes in trimmed-mean inflation, weighted medians, household expectations and firms' pricing behaviour will help determine whether the energy and food shocks are temporary or becoming persistent.

Second, monetary tightening must be complemented by supply-side measures. Effective food-stock management, timely imports where necessary, monitoring of essential commodity markets and measures to strengthen agricultural resilience can address sources of inflation that interest rates cannot directly resolve. Diversifying energy supplies and improving energy efficiency would also reduce the economy's vulnerability to international oil-price shocks.

Third, policy calibration must protect the investment cycle. Public infrastructure expenditure, private capital formation and credit availability remain central to sustaining growth. Excessive tightening could raise financing costs, weaken consumption and delay investment decisions, particularly in interest-sensitive sectors and among smaller firms. Conversely, insufficient

action could allow inflation expectations to rise, ultimately necessitating more disruptive measures.

The international experience underscores the importance of balancing these considerations. The Bank for International Settlements (2026) emphasises that the appropriate monetary response to energy shocks depends on their persistence, indirect effects and implications for economic activity. The challenge is not to eliminate every temporary price increase, but to prevent it from generating a self-reinforcing inflation process.

For India, the coming quarters will be decisive. The December 2–4, 2026 MPC meeting will provide an opportunity to reassess the trajectory of inflation, the effects of the October increase and the durability of economic momentum. A pause could be justified if price pressures moderate and expectations remain anchored; further tightening may become necessary if inflation broadens or second-round effects intensify.

Conclusion

The RBI's October 2026 monetary policy represents a shift from accommodating uncertainty to managing the risk that inflation may become persistent. The 25-basis-point repo-rate increase, combined with calibrated tightening, reflects the judgement that strong economic growth provides some room to address emerging price pressures before they become more deeply embedded.

Yet the policy's success will depend less on the immediate rate increase than on the quality of subsequent decisions. A prolonged energy shock, weak agricultural conditions and tighter global financial markets could sustain inflation while simultaneously weakening growth. Monetary policy must therefore remain forward-looking, data-dependent and sensitive to the distinction between temporary supply pressures and persistent inflation.

The central lesson is that price stability and growth sustainability are not competing long-term objectives. Anchored inflation expectations support investment and purchasing power, while resilient productive capacity reduces the economy's vulnerability to supply shocks. The RBI's

task is to preserve both by tightening sufficiently to contain inflation, but not so aggressively that it undermines the economic momentum it seeks to sustain.

Bottomline:

The RBI's policy challenge lies in containing renewed inflationary pressures without undermining growth momentum, requiring a calibrated, data-driven approach that preserves macroeconomic stability while sustaining economic resilience.

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INDIA'S GROWTH–INFLATION BALANCING ACT: KEY INSIGHTS FROM THE RBI'S OCTOBER 2026 MONETARY POLICY REPORT

The Reserve Bank of India's *Monetary Policy Report, October 2026* presents a detailed assessment of an Indian economy that has demonstrated considerable resilience amid a volatile global environment, but faces renewed inflationary pressures and significant external risks. Its central message is that strong domestic demand and investment continue to support economic activity, while higher energy prices, uncertain weather conditions and geopolitical tensions have complicated the task of maintaining price stability. The challenge for policymakers is to preserve the momentum of growth without allowing temporary supply shocks to become persistent and widespread inflation.

A turbulent global environment

The global economy has remained resilient during 2026, supported by investment in artificial intelligence (AI), technology-related trade and fiscal stimulus. Nevertheless, the outlook has become increasingly uncertain. The conflict in West Asia has disrupted energy supplies and shipping routes, pushing up crude oil and other commodity prices. Meanwhile, persistent inflation, elevated public debt and concerns about fiscal sustainability have contributed to higher sovereign bond yields and volatile financial markets.

The International Monetary Fund's July 2026 projections placed global growth at 3.0 percent in 2026 and 3.4 percent in 2027. These aggregate figures, however, conceal considerable differences across countries. AI-related investment has supported activity in several economies, but elevated energy costs and tighter financial conditions threaten to weaken consumption, investment and trade. The Report also notes that higher global interest rates and

a stronger US dollar can trigger portfolio outflows and exchange-rate pressures in emerging markets.

For India, these developments matter through multiple channels: imported inflation, higher production and transport costs, currency movements, external demand and financing conditions. The global environment therefore remains a significant source of uncertainty for both growth and inflation.

Domestic growth remains resilient

India's economic performance stands out against this unsettled backdrop. Real GDP grew by 7.8 percent in the first quarter of 2026–27, reflecting strong underlying activity. Private consumption remained healthy, while gross fixed capital formation recorded double-digit growth, indicating a strengthening investment cycle. Manufacturing and services both expanded robustly, and net external demand contributed positively to growth.

The Report attributes this resilience to a combination of domestic demand, infrastructure expenditure, improving corporate investment and supportive financial conditions. Government measures to ensure the availability of key inputs also helped moderate supply-side disruptions. High-frequency indicators point to continued economic buoyancy, although some moderation from the first-quarter pace is evident.

The sustainability of this performance will depend partly on whether strong consumption translates into a broader and more durable recovery in private capital expenditure. Although investment indicators are encouraging, the Report emphasises that sustained private consumption remains important for supporting business confidence and capacity expansion. Weak monsoons, El Niño conditions, trade frictions and tighter global financial conditions could weigh on activity in the coming quarters.

The RBI's baseline projection places real GDP growth at 7.1 percent for 2026–27 and 7.0 percent for 2027–28. These projections suggest that the economy is expected to retain substantial momentum, but they remain conditional on developments in global energy markets, domestic food supplies and the broader financial environment.

Inflation: From food and fuel pressures to wider risks

The most consequential change in the domestic macroeconomic outlook is the renewed firming of inflation. Consumer price index (CPI) inflation rose from 3.4 percent in March 2026 to 4.8 percent in August, moving above the RBI's 4 percent target. The increase was driven principally by food and fuel prices, reflecting adverse weather conditions, rising international energy prices and disruptions associated with the West Asia conflict.

The Report's concern, however, extends beyond the immediate contribution of these components. Core inflation has also increased, while price pressures have become more widespread across the CPI basket. The proportion of items recording inflation above 4 percent rose from approximately 20 percent in March to 37 percent in August. This diffusion indicates that inflation is no longer confined to a narrow set of commodities.

Input costs have risen, although their pass-through to final prices has remained limited so far. If firms increasingly transfer these costs to consumers, and if households and businesses begin to expect persistently higher inflation, an initially supply-driven shock could acquire greater momentum. Strong domestic demand and robust credit growth make this possibility particularly important.

The RBI projects CPI inflation at 5.2 percent in 2026–27, with quarterly inflation expected to reach 6.0 percent in the third quarter before moderating to 5.7 percent in the fourth. The Report's baseline projection for 2027–28 is 5.0 percent. These projections underscore the difficulty of bringing inflation sustainably towards the target while supply-side pressures remain elevated.

Crude oil: A critical macroeconomic transmission channel

The Report's analysis of crude oil shocks is especially relevant to India as a major energy importer. Higher oil prices affect the economy through several interconnected channels: domestic fuel and transport costs, production expenses, household purchasing power, the import bill, the current account and inflation expectations. The effects can therefore extend well beyond the initial increase in petroleum prices.

The RBI revised its baseline crude oil assumption to US$95 per barrel for the second half of 2026–27, compared with US$85 per barrel for the full financial year in the April Report. The Indian crude basket averaged US$116.1 per barrel in September, highlighting the scale of the recent pressure.

The Report's scenario analysis demonstrates why the duration and magnitude of the shock matter. A sustained rise in oil prices could intensify inflation and weaken growth, especially if higher costs are passed through to domestic prices and the external balance deteriorates. Exchange-rate depreciation could reinforce the inflationary impact by making imports more expensive. Conversely, an easing of geopolitical tensions and lower oil prices would improve the outlook.

The risk is not simply that oil becomes more expensive, but that prolonged supply disruptions coincide with adverse agricultural conditions and stronger domestic demand. Such a combination would make inflation harder to contain and could complicate monetary policy decisions.

Financial conditions and monetary transmission

The Report also highlights important developments in domestic liquidity and financial markets. System liquidity increased substantially in September, partly reflecting the Reserve Bank's swap facilities. Money-market rates responded to prevailing liquidity conditions, while lending and deposit rate transmission showed differing patterns during the first half of 2026–27. Bank credit growth remained robust and broad-based.

These developments matter because the effectiveness of monetary policy depends not only on changes in the policy rate but also on how those changes transmit through banks and financial markets to borrowing, saving and spending decisions. Strong credit growth can support investment and economic activity, but it also warrants attention when inflationary pressures are broadening.

Global developments add another layer of complexity. Rising sovereign bond yields, geopolitical uncertainty and changing expectations about major central banks influence

domestic financial conditions and capital flows. Consequently, liquidity management and monetary transmission will remain important complements to the policy rate in maintaining orderly financial conditions.

Policy implications: Vigilance without undermining growth

The October Report highlights a delicate policy balance. Much of the recent inflation increase originates in supply shocks that monetary policy cannot directly reverse. Interest-rate changes cannot restore disrupted oil supplies or compensate for deficient rainfall. Nevertheless, monetary policy can help prevent these shocks from generating persistent inflation through expectations, wage and price decisions, and broader second-round effects.

This distinction is central to the policy challenge. An excessive response to temporary supply pressures could unnecessarily weaken consumption and investment. Conversely, delayed action when inflation becomes widespread could make price stability more costly to restore. The appropriate response therefore requires close monitoring of underlying inflation, price diffusion, input-cost pass-through, demand conditions and the evolution of global commodity prices.

Complementary measures are equally important. Improving agricultural resilience, strengthening food supply chains, diversifying energy sources and enhancing logistics can reduce the economy's vulnerability to external shocks. Fiscal and supply-side interventions can address the origins of specific price pressures, while monetary policy remains focused on containing their broader inflationary consequences.

Conclusion

The RBI's October 2026 *Monetary Policy Report* portrays an economy with strong domestic foundations but increasing exposure to external shocks. Growth of 7.8 percent in the first quarter and the projected 7.1 percent expansion for the full financial year demonstrate considerable resilience. Yet inflation's rise to 4.8 percent in August, its growing breadth and the volatility of international oil prices have complicated the outlook.

The decisive issue is whether these pressures remain temporary or become embedded in domestic price-setting behaviour. India's policy challenge is therefore not simply to sustain rapid growth or lower inflation in isolation, but to preserve the conditions necessary for both. Greater supply-side resilience, prudent liquidity management and a data-dependent monetary policy response will be essential to navigate the uncertain months ahead.

RBI Monetary Policy Report October 2026 can be accessed from:
https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/01MPR071020267B057FA4E71E4164A8B14EDC40197418.PDF

RBI'S OCTOBER 2026 POLICY INITIATIVES: ADVANCING FINANCIAL CONNECTIVITY AND MARKET CONSULTATION

The Reserve Bank of India's *Statement on Developmental and Regulatory Policies*, released on October 7, 2026, introduces two initiatives aimed at improving customer convenience and strengthening consultation with financial market participants. The measures focus on enhancing interoperability within the Account Aggregator framework and establishing a Technical Consultative Committee for Financial Markets. Together, they reflect the RBI's continuing efforts to make financial information more accessible while ensuring that regulatory and operational policies evolve in step with changes in financial markets.

Enhancing customer convenience through the Account Aggregator framework

A key announcement is the decision to introduce interoperability among non-banking financial company Account Aggregators (NBFC-AAs). The Account Aggregator framework enables individuals to access and share their financial information across participating institutions with their consent. Greater interoperability will allow customers to access and share information held by different Financial Information Providers through any NBFC-AA of their choice.

This measure is significant because it seeks to reduce fragmentation in the way individuals access their financial information. By enabling customers to choose an Account Aggregator without being constrained by the particular institution holding their information, interoperability can make the framework more convenient and flexible. It may also support

wider use of consent-based financial data sharing, subject to the applicable regulatory arrangements.

The RBI has also proposed facilitating the inclusion of bank deposit account information in the Consolidated Account Statement (CAS) provided by depositories regulated by the Securities and Exchange Board of India. This would enable demat account holders to view information about their securities holdings and bank deposit accounts in one place through the CAS, using the Account Aggregator framework.

Importantly, the initiative is not restricted to demat account holders. Customers without demat accounts will continue to be able to obtain a consolidated view of their financial information and share it through NBFC-AAs. The broader objective is to improve the accessibility and usability of financial information across different parts of the financial system.

If implemented effectively, these measures could make it easier for individuals to monitor their financial assets and share relevant information when required. They may also help reduce the practical difficulties associated with accessing information maintained by multiple financial institutions. Their effectiveness will, however, depend on reliable system integration, clear consent mechanisms, data security and adequate safeguards for customer privacy.

The RBI expects both measures to be implemented by December 31, 2026. Their implementation will be an important step towards a more integrated and customer-oriented financial information ecosystem.

A consultative mechanism for financial markets

The second initiative concerns the constitution of a Technical Consultative Committee for Financial Markets, referred to in the statement as the Financial Market Consultative Committee (FMCC). Against the backdrop of rapidly evolving financial markets and market infrastructure, the RBI intends to establish a structured forum for engagement with market participants and other stakeholders on policy and operational issues.

The committee will cover money markets, government securities markets, foreign exchange markets, their respective derivatives markets and related infrastructure. These segments are

interconnected and play important roles in liquidity management, government borrowing, exchange-rate risk management and the transmission of monetary policy.

A structured consultative mechanism can help the RBI obtain feedback on market functioning, operational challenges and emerging developments. Regular engagement may also help identify unintended consequences of regulatory changes and improve understanding between the regulator and market participants. Such consultation is particularly relevant as financial markets become more complex and increasingly influenced by global developments, technological change and evolving risk-management practices.

The RBI has stated that the committee's composition and terms of reference will be notified separately. Its eventual contribution will therefore depend on the breadth of stakeholder representation, the clarity of its mandate and the extent to which consultation informs policy and operational decisions.

Conclusion

The RBI's October 2026 developmental and regulatory initiatives address two complementary priorities: improving the customer experience in financial services and strengthening engagement with financial markets. Interoperability among Account Aggregators and the integration of bank deposit information into consolidated statements could make personal financial information easier to access and share. Meanwhile, the proposed consultative committee offers a formal channel for discussing developments across key financial markets and their infrastructure.

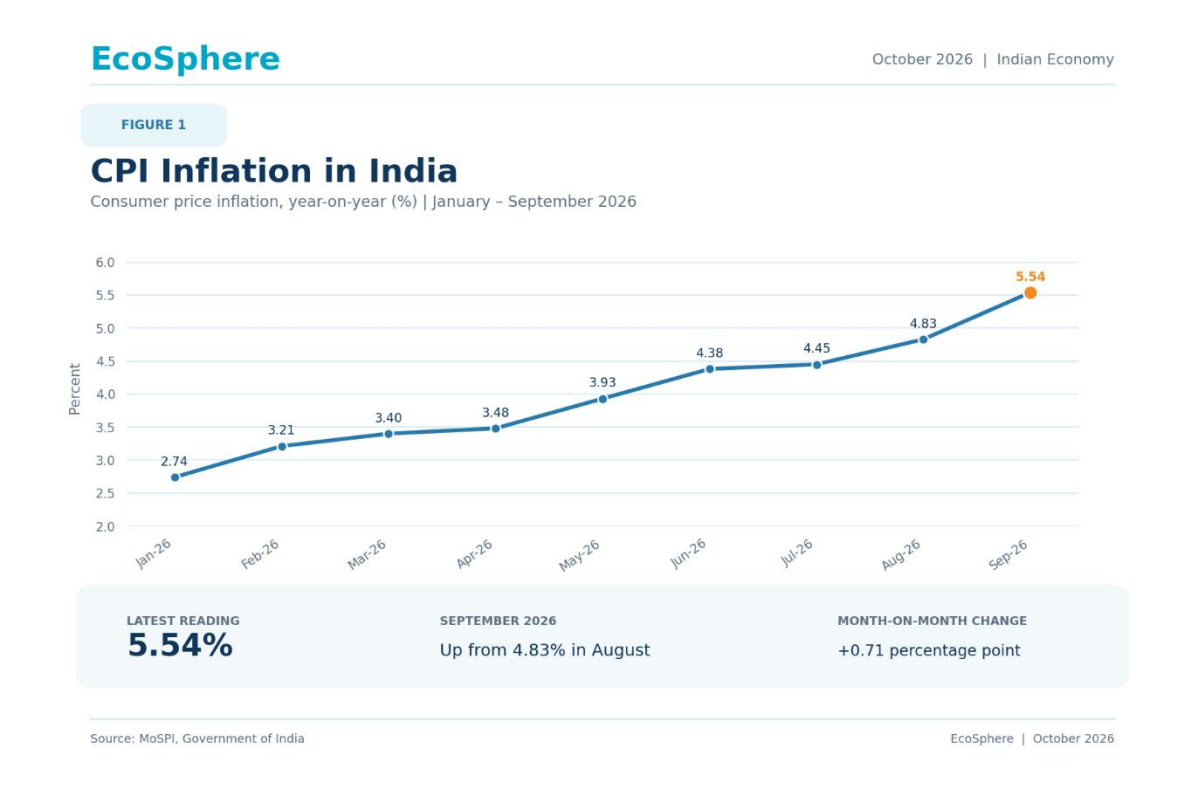
The success of these initiatives will depend on effective implementation, appropriate safeguards and meaningful stakeholder engagement. Together, they represent practical steps towards a more connected financial system and a regulatory framework that remains responsive to changing market needs.

RBI's Statement on Developmental and Regulatory Policies can be accessed from:
https://rbidocs.rbi.org.in/rdocs/PressRelease/PDFs/PR1265E82E69B92961475A9766676D6B20B08A.PDF

INDIA'S INFLATION RESURGENCE: FOOD, FUEL AND THE CHALLENGE OF SUSTAINING GROWTH

Dr Debesh Roy
Chairman, InsPIRE

India's inflation trajectory deteriorated in September 2026, with retail inflation rising to 5.54 percent from 4.83 percent in August (Figure 1) and wholesale price index (WPI) inflation surging to 11.39 percent from 9.92 percent. The acceleration reflects mounting pressures from food, fuel and manufactured products, raising concerns about household purchasing power, business costs and the sustainability of economic growth.

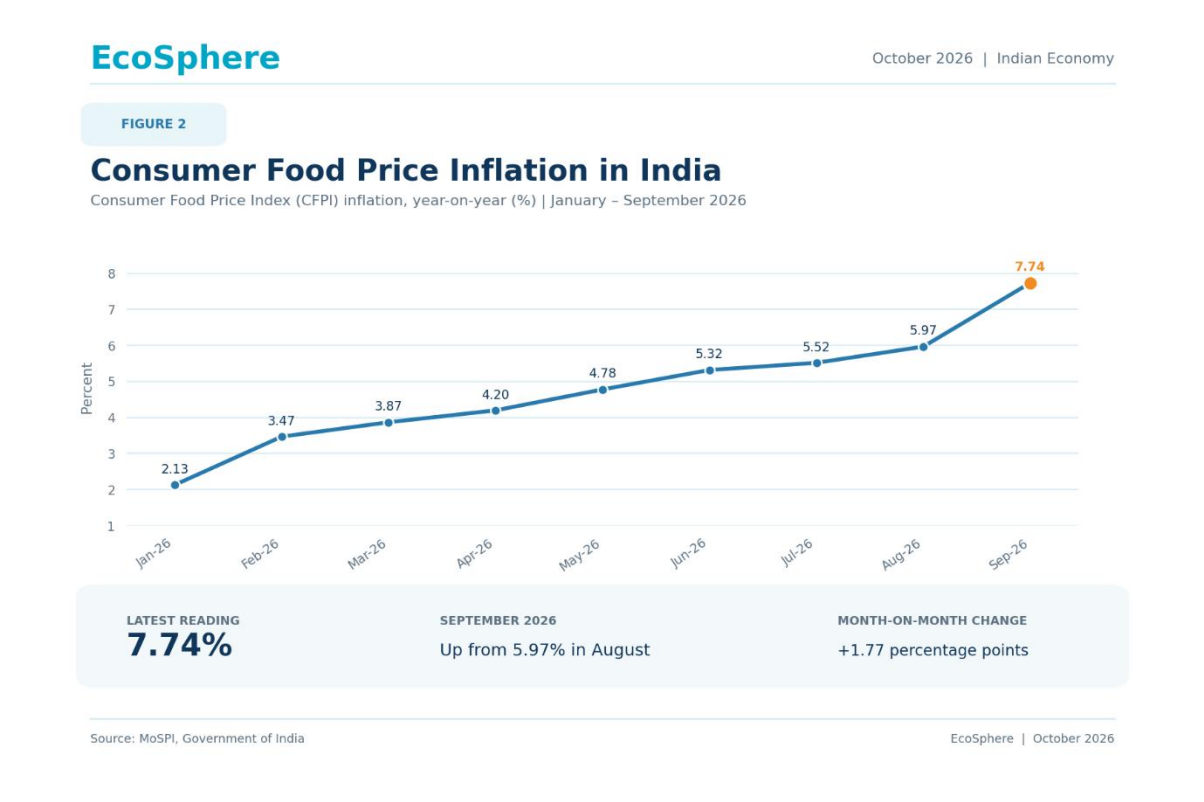


The simultaneous increase in consumer and wholesale prices is particularly significant. While retail inflation captures the prices paid by households, wholesale inflation provides an indication of cost pressures facing producers and manufacturers. If elevated input costs persist, businesses may pass some of these increases on to consumers, potentially making inflation more widespread and persistent.

The September figures therefore present a challenge for policymakers: how can inflation be contained without unnecessarily weakening consumption, investment and economic activity?

Food inflation returns as a major concern

The sharp acceleration in food prices was the principal driver of the increase in retail inflation. Consumer food price inflation rose to 7.74 percent in September from 5.97 percent in August (Figure 2), increasing pressure on household budgets.



Individual commodities recorded particularly steep price increases. Onion prices rose by 108.09 percent year-on-year, while ginger and garlic prices increased by 62.85 percent and 54.62 percent, respectively. Lemon prices climbed by 36.41 percent. These increases were partly offset by declining prices of potatoes, tomatoes and lady's finger, illustrating the uneven nature of food price movements.

The distributional implications are substantial. Lower-income households generally devote a larger share of their expenditure to food and other necessities. Consequently, food inflation can

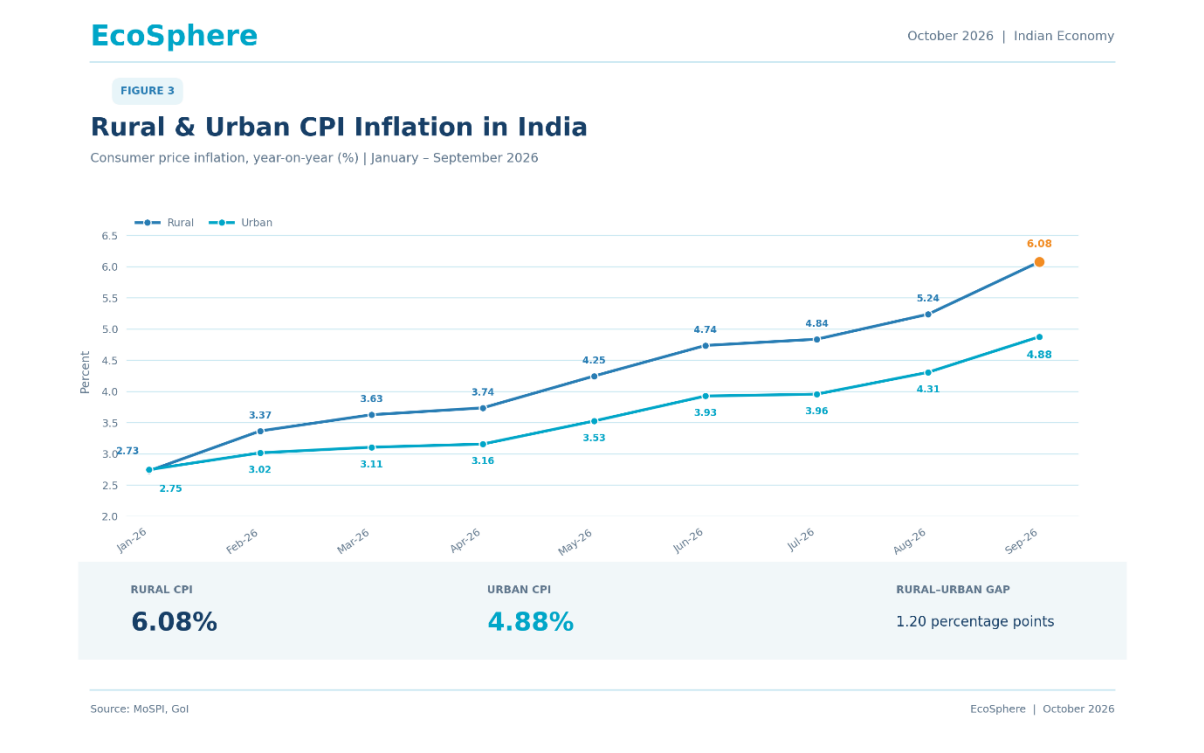
erode real purchasing power disproportionately, forcing households to reduce discretionary spending. This, in turn, can weaken demand for consumer goods and services.

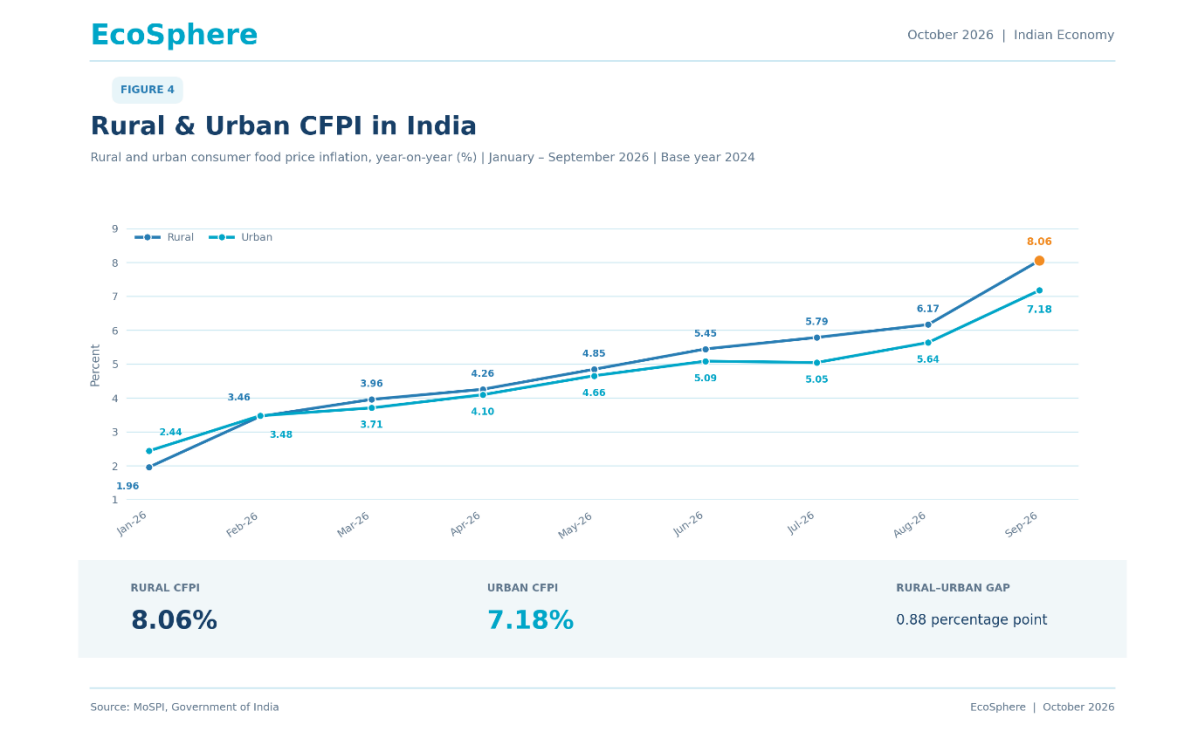
The distinction between the inflation rate and the cost of living is also important. Even if inflation moderates in subsequent months, the prices of essential commodities may remain elevated. A decline in the rate of increase does not necessarily restore the purchasing power lost during the preceding period.

The persistence of food inflation will depend on agricultural supplies, market arrivals, storage and distribution efficiency, and weather conditions. Timely intervention to address local shortages can help moderate price pressures without resorting to measures that discourage domestic production.

Rural households face greater pressure

The September data reveal a marked divergence between rural and urban inflation. Rural CPI inflation increased to 6.08 percent, compared with 4.88 percent in urban areas (Figure 3). Rural food inflation reached 8.06 percent, against 7.18 percent in urban India (Figure 4).





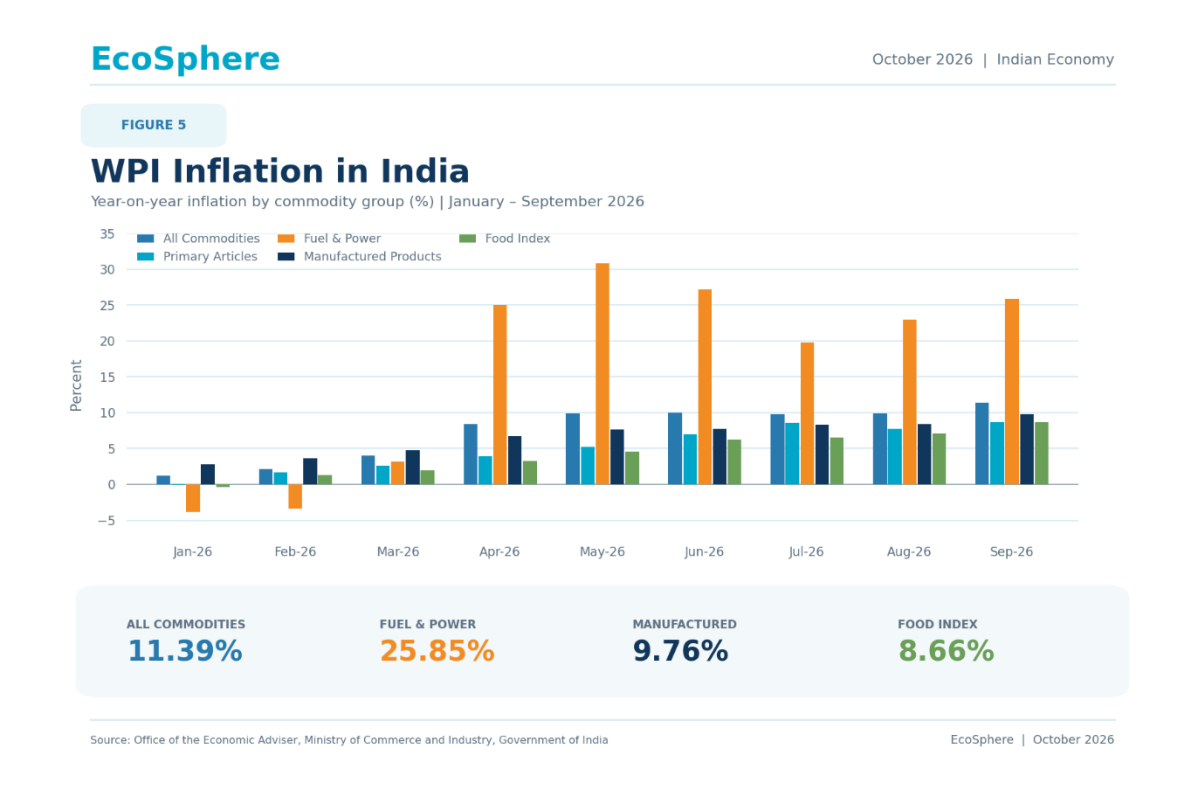
This gap is economically significant. Higher food prices can constrain rural consumption, affecting demand for two-wheelers, consumer durables, construction materials and other discretionary products. Agricultural households may benefit from higher prices for commodities they sell, but their overall position depends on whether they are net sellers or purchasers and on the prices of their agricultural inputs.

Regional differences add another dimension. Among states with populations exceeding 50 lakh, Tamil Nadu recorded headline inflation of 6.81 percent, followed by Odisha at 6.70 percent, Madhya Pradesh at 6.68 percent, Telangana at 6.64 percent and Andhra Pradesh at 6.29 percent.

These variations demonstrate why national averages must be supplemented by state- and commodity-level monitoring. Improving food distribution, strengthening storage infrastructure and ensuring the timely movement of essential commodities can help address localised shortages. Targeted food security support can also protect vulnerable households while avoiding unnecessary fiscal expenditure.

Wholesale inflation signals mounting cost pressures

The acceleration in wholesale inflation raises a wider concern about the production costs facing Indian businesses. WPI inflation increased to 11.39 percent in September from 9.92 percent in August (Figure 5). Inflation accelerated across the three major groups: primary articles, fuel and power, and manufactured products.



Source: Office of the Economic Adviser, Ministry of Commerce and Industry. September figures are provisional.

Fuel and power inflation rose to 25.85 percent, with mineral oils recording inflation of 40.02 percent and crude petroleum and natural gas reaching 57.32 percent. Such increases can affect transportation, logistics, agriculture and manufacturing, raising the cost of producing and distributing goods throughout the economy.

The WPI Food Index, which combines food articles and manufactured food products, recorded inflation of 8.66 percent, compared with 7.05 percent in August. This reinforces the evidence

that food-related pressures extend beyond retail markets into wholesale and production channels.

Manufacturing costs are another source of concern. Inflation in manufactured products reached 9.76 percent. Basic metals recorded inflation of 16.96 percent, chemicals and chemical products 16.74 percent, textiles 13.85 percent, rubber and plastic products 13.47 percent, and electrical equipment 11.93 percent.

Higher input costs can squeeze corporate margins or lead businesses to increase selling prices. The extent of pass-through will depend on competition, demand conditions, inventory positions and the proportion of affected inputs in total production costs. If firms absorb the increases, profitability and investment may suffer; if they pass them on, consumer inflation could intensify.

The September producer price indicators provide additional information on these pressures. The Output Producer Price Index for goods recorded year-on-year inflation of 11.39 percent, compared with 9.81 percent in August. The trial Input Producer Price Index for manufacturing stood at 106.1, up from 104.2 in August. These indicators offer useful complementary evidence on producer prices and manufacturing input costs.

External risks complicate the outlook

India's inflation outlook remains vulnerable to international commodity prices, currency movements and weather-related disruptions.

Higher international energy prices can raise import costs, while rupee depreciation can make imported commodities more expensive in domestic currency. These pressures can reinforce one another, increasing costs for transport, industry and agriculture.

Weather conditions add to the uncertainty. SBI Research's Ecowrap assessment of 12 October identifies deficient monsoon conditions and El Niño risks among the factors that could prolong food inflation. The report also notes that the FAO Food Price Index increased by 5.8 percent year-on-year in September.

These developments do not guarantee a deterioration in agricultural output, but they highlight the need for close monitoring of crop conditions, irrigation availability, reservoir levels and harvest prospects.

Strengthening agricultural resilience through irrigation, climate-resilient seeds, crop diversification, cold chains and improved storage can reduce vulnerability to supply shocks. More efficient agricultural markets and logistics can also help narrow the gap between farm-gate and retail prices.

RBI's policy dilemma: Inflation versus growth

The simultaneous increase in CPI and WPI inflation complicates the monetary policy outlook. India's flexible inflation-targeting framework centres on a 4 percent CPI target, with a tolerance band of 2–6 percent. September retail inflation remained within that band but moved further above the target midpoint.

The RBI must prevent temporary supply shocks from becoming embedded in inflation expectations. Yet higher interest rates cannot directly resolve commodity shortages or reverse increases in international energy prices. Excessive tightening could weaken credit demand, investment and consumption without addressing the underlying supply constraints.

SBI Research argues that a calibrated but firm response may be necessary if inflationary pressures persist. Its Ecowrap report projects CPI inflation at approximately 6.5 percent in the third quarter of FY2026–27 and 5.6 percent in the fourth quarter, with the full-year average at around 5.3 percent. It also estimates that inflation could peak at 6.7–6.8 percent in November. These are forecasts rather than established outcomes and depend on food, energy, weather and currency developments.

The RBI's response should therefore be guided by incoming data, the breadth of price increases, underlying inflation trends and inflation expectations. Clear communication will be essential to preserve policy credibility.

A coordinated response is essential

Monetary policy alone cannot resolve the current inflation challenge. A sustainable response requires complementary measures across several areas.

First, food supply management should focus on timely market arrivals, efficient distribution, storage and targeted buffer-stock operations. Second, vulnerable households need effective food security support to protect purchasing power and nutrition. Third, energy efficiency and diversified supplies can reduce exposure to volatile international markets. Fourth, the WPI and producer price indicators should be monitored to identify sectors where input cost pressures are becoming persistent.

Finally, agricultural investment must address the structural vulnerabilities that make food prices susceptible to weather and supply disruptions. These measures can improve the effectiveness of monetary policy while reducing the economic and social costs of inflation.

Conclusion: Protecting price stability without sacrificing growth

September 2026's inflation figures are a warning that price pressures are extending from household essentials to energy, industrial inputs and manufactured goods. The rural–urban inflation gap highlights the unequal burden on households, while rising wholesale prices threaten business profitability and may eventually feed into consumer prices.

The immediate priority is to determine whether these pressures will moderate as supplies improve or become more persistent. India needs a balanced response that combines credible monetary policy with efficient food markets, energy resilience and climate-smart agriculture. Containing inflation while protecting consumption and investment will be critical to sustaining economic growth and preserving household purchasing power.

Bottomline:

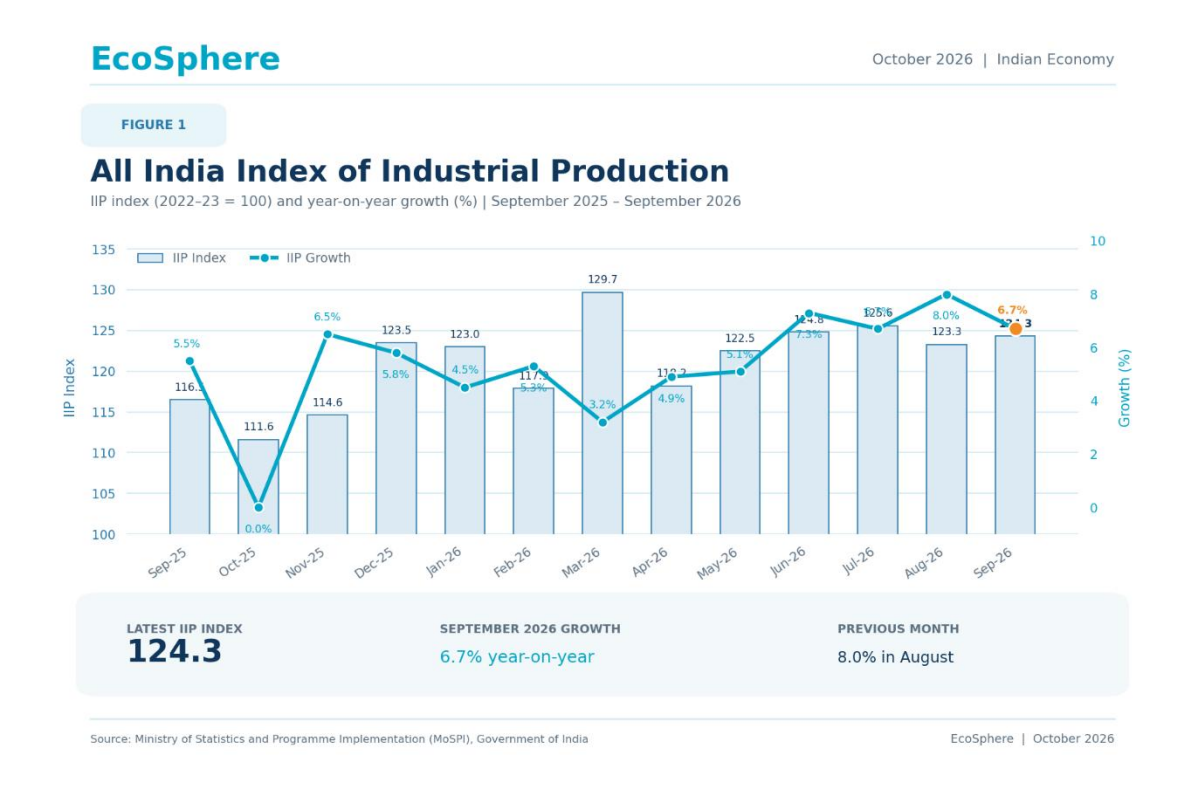
The resurgence of food- and fuel-led inflation poses a renewed challenge to India's macroeconomic stability, making effective supply-side interventions and calibrated policy responses essential to protect household purchasing power while sustaining growth momentum.

INDIA'S INDUSTRIAL PRODUCTION GROWS 6.7 PERCENT IN SEPTEMBER: MANUFACTURING AND INFRASTRUCTURE SUSTAIN MOMENTUM

EcoSphere Editorial

Introduction

India's Index of Industrial Production (IIP) registered year-on-year growth of 6.7 percent in September 2026, moderating from 8.0 percent in August but indicating continued expansion in industrial activity (Figure 1). The index reached 124.3, compared with 116.5 in September 2025, reflecting the resilience of the manufacturing sector and strong electricity and gas supply. However, the headline growth conceals significant variations across sectors and end-use categories. While manufacturing, capital goods and intermediate goods demonstrated encouraging momentum, mining remained a drag and consumer non-durables recorded relatively modest growth. The September performance therefore points to an industrial recovery supported increasingly by investment and production-related demand, although the strength of consumption remains uneven.



Sectoral Trends

Manufacturing

Manufacturing remained the principal contributor to industrial expansion, recording 7.6 percent growth in September (Table 1). Its production index stood at 128.0, reflecting sustained activity across several manufacturing industries. Notably, 17 of the 23 industry groups at the two-digit NIC level registered positive growth over September 2025.

Three industries emerged as particularly strong performers: manufacture of electrical equipment (33.9 percent), rubber and plastics products (19.9 percent), and motor vehicles, trailers and semi-trailers (19.0 percent). Growth in automobiles was supported by increased production of auto components, passenger cars and commercial vehicles. Electrical equipment benefited from higher production of switchgear, circuit breakers, UPS and solid-state drives, while acrylic sheets, tyres for light motor vehicles and rubber conveyors contributed to the expansion of rubber and plastics manufacturing.

The broad-based improvement across manufacturing groups is encouraging, although the concentration of particularly strong growth in selected industries suggests that the recovery is not yet uniform across the industrial landscape.

Mining

Mining and quarrying contracted by 6.2 percent, making it the weakest-performing major industrial sector (Table 1). Its. Its production index stood at 90.4 in September. The contraction contrasts with the expansion in manufacturing and electricity, indicating that industrial growth continues to face supply-side constraints in certain upstream activities. Weakness in mining also has implications for the availability and cost of industrial raw materials, potentially affecting downstream production.

Electricity & Gas Supply

Electricity and gas supply recorded robust growth of 11.2 percent (Table 1), with the index reaching 128.6. This performance reflects rising energy requirements associated with industrial

production and wider economic activity. Strong electricity generation is particularly important for sustaining manufacturing expansion, infrastructure development and the growing demand for energy-intensive activities. The sector's performance also highlights the importance of reliable energy supply in supporting India's industrial competitiveness.

Water Supply, Sewerage and Waste Management

This sector registered growth of 5.8 percent (Table 1), with its production index reaching 146.4. Although its expansion was slower than that of electricity and manufacturing, the sector's performance reflects continuing activity in essential urban infrastructure and environmental services. Sustained investment in water supply, sanitation and waste management will remain important for improving the quality and sustainability of industrial and urban development.

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October 2026 | Indian Economy

TABLE 1

Sectoral Growth of IIP

Year-on-year growth (%) | Base year: 2022–23

	2025–26			2026–27		
Sector	Aug	Sep	Apr-Sep	Aug	Sep	Apr-Sep
Mining & Quarrying	15.8	15.7	8.0	-4.6	-6.2	-2.4
Manufacturing	3.6	5.5	4.4	8.6	7.6	7.5
Electricity & Gas Supply	3.7	3.3	0.6	12.3	11.2	9.7
Water Supply, Sewerage & Waste Manag	6.9	6.2	7.6	6.3	5.8	6.3
General	4.7	6.1	4.4	7.8	6.7	6.8

SEPTEMBER 2026

Manufacturing 7.6% | Electricity & Gas 11.2%

APRIL–SEPTEMBER 2026

General IIP growth: 6.8%

Source: MoSPI, Government of India

EcoSphere | October 2026

Use-based Insights

The use-based classification provides a clearer understanding of the sources of industrial demand.

Primary Goods

Primary goods recorded 4.0 percent growth (Table 2), with the index at 111.6. The moderate expansion indicates that the recovery in basic production inputs remains relatively restrained.

Capital Goods

Capital goods expanded by 10.4 percent (Table 1), reaching an index of 153.4. This strong performance is an encouraging indicator of investment activity and suggests improving demand for machinery, equipment and productive capacity.

Intermediate Goods

Intermediate goods registered the highest growth among the six use-based categories at 12.2 percent (Table 1), with an index of 131.7. Their strong performance reflects increased demand for inputs used in further production and indicates improving linkages across industrial value chains.

Infrastructure and Construction Goods

This category grew by 7.2 percent (Table 1), reaching an index of 133.0. The expansion points to sustained construction and infrastructure-related activity, supported by demand for materials and associated industrial products.

Consumer Durables

Consumer durables recorded growth of 6.0 percent (Table 1), with the index at 133.1. The performance suggests an improvement in demand for household and other durable products, although growth remains below that of capital and intermediate goods.

Consumer Non-Durables

Consumer non-durables grew by only 1.4 percent (Table 1), with an index of 111.8. This relatively weak performance indicates that consumption-led industrial demand remains subdued, particularly compared with investment- and production-oriented categories.

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October 2026 | Indian Economy

TABLE 2

Growth of IIP – Use-based

Year-on-year growth (%) | Base year: 2022–23

	2025-26			2026-27		
Use-based category	Aug	Sep	Apr-Sep	Aug	Sep	Apr-Sep
Primary Goods	7.6	6.6	3.7	4.2	4.0	3.5
Capital Goods	6.0	13.2	8.6	15.9	10.4	15.1
Intermediate Goods	3.3	6.4	4.6	14.2	12.2	10.8
Infrastructure / Construction Goods	9.2	9.8	8.1	8.0	7.2	7.4

SEPTEMBER 2026

Capital goods 10.4% | Intermediate goods 12.2%

APRIL–SEPTEMBER 2026

Capital goods 15.1% | Intermediate goods 10.8%

Source: MoSPI, Government of India

EcoSphere | October 2026

Macroeconomic Implications

The September IIP data offer three important macroeconomic signals. First, the strong performance of capital and intermediate goods suggests that investment activity and industrial supply chains are gaining traction. This is significant for sustaining medium-term growth and expanding productive capacity.

Second, the divergence between manufacturing and mining highlights the need to strengthen upstream industrial capabilities, improve mineral exploration and production, and address logistical and regulatory bottlenecks. Third, the relatively weak growth of consumer non-

durables points to an uneven consumption recovery. Strong industrial growth will be more sustainable if household demand broadens alongside investment.

The performance of electricity and gas supply also underscores the growing importance of energy security, reliable power infrastructure and efficient resource utilisation. Together, these trends suggest that industrial expansion is increasingly linked to investment, infrastructure and production networks rather than being driven uniformly by consumption.

Conclusion

India's industrial production growth of 6.7 percent in September 2026 reflects a resilient manufacturing base, strong electricity supply and improving investment-related demand. The double-digit expansion in capital and intermediate goods is particularly encouraging for the medium-term industrial outlook. However, contraction in mining and weak growth in consumer non-durables reveal important structural and demand-side vulnerabilities. Sustaining industrial momentum will require stronger upstream capacity, deeper manufacturing linkages, continued infrastructure investment and a broader revival in household consumption. The challenge is not merely to maintain high IIP growth, but to make industrial expansion more broad-based, employment-intensive and competitive.

Bottomline:

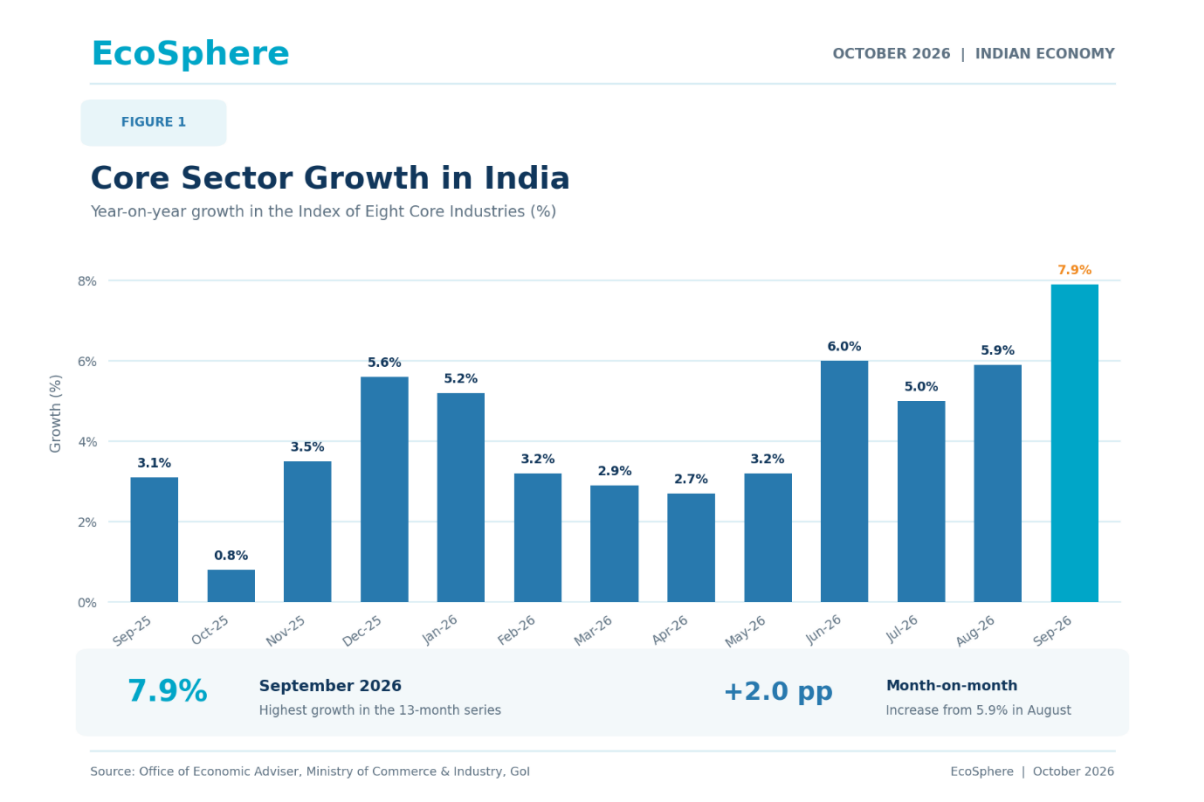
India's 6.7% growth in industrial production in September reflects resilient manufacturing activity and infrastructure-led demand, reinforcing the industrial sector's role in sustaining economic momentum amid an uncertain global environment.

CORE SECTOR GROWTH RISES TO 7.9 PERCENT: STRONG OUTPUT, BUT UNEVEN SECTORAL PERFORMANCE

EcoSphere Editorial

Introduction

India's Index of Eight Core Industries (ICI) recorded year-on-year growth of 7.9 percent in September 2026, up from 5.9 percent in August (Figure 1). The acceleration reflects stronger activity in energy, metals and infrastructure-linked industries. Cumulative growth during April–September 2026 reached 5.1 percent, more than double the 2.5 percent recorded in the corresponding period of 2025–26. Nevertheless, the recovery remains uneven, with three sectors, viz., natural gas, crude oil and fertilisers, registering negative growth.



Energy Sector

Electricity: Electricity production grew by 11.4 percent in September, marginally below August's 13.1 percent (Figure 2). Its significance is amplified by its 30.93 percent weight in

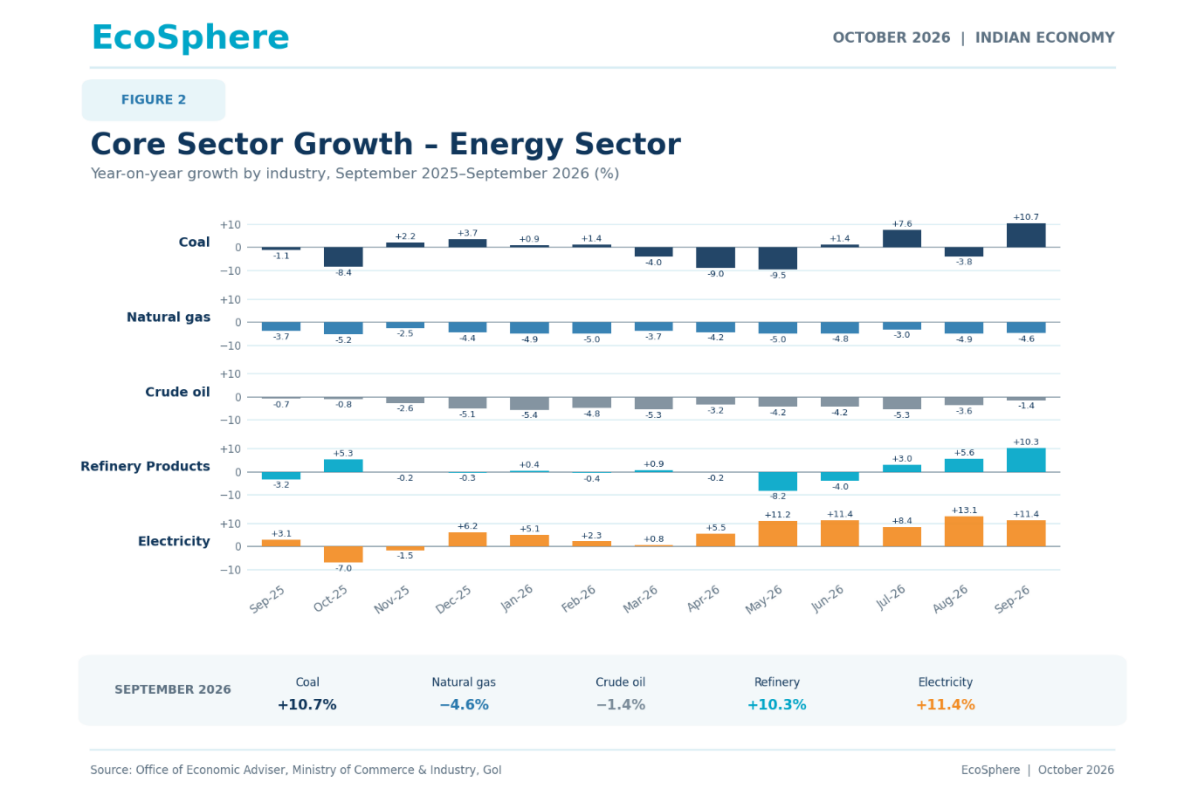
the core industries index, the largest among the eight sectors. The sustained expansion points to firm power demand from industry, infrastructure and households.

Refinery Products: Refinery output increased by 10.3 percent (Figure 2), reversing the subdued performance of the preceding months. With a 22.57 percent weight, this sector made an important contribution to overall growth, reflecting stronger refining activity and petroleum-product demand.

Crude Oil: Crude oil production declined by 1.4 percent, although the contraction was considerably narrower than August's 3.6 percent (Figure 2). Persistent weakness in domestic production highlights continuing challenges in exploration, field productivity and reducing import dependence.

Natural Gas: Natural gas output contracted by 4.6 percent, following a 4.9 percent decline in August (Figure 2). The continued weakness underscores the need to strengthen domestic exploration, production and gas infrastructure.

Coal: Coal production grew by 10.7 percent, recovering sharply from a 3.8 percent contraction in August (Figure 2). The improvement supported electricity generation and industrial activity, although the longer-term challenge is to balance energy security with a gradual transition towards cleaner sources.



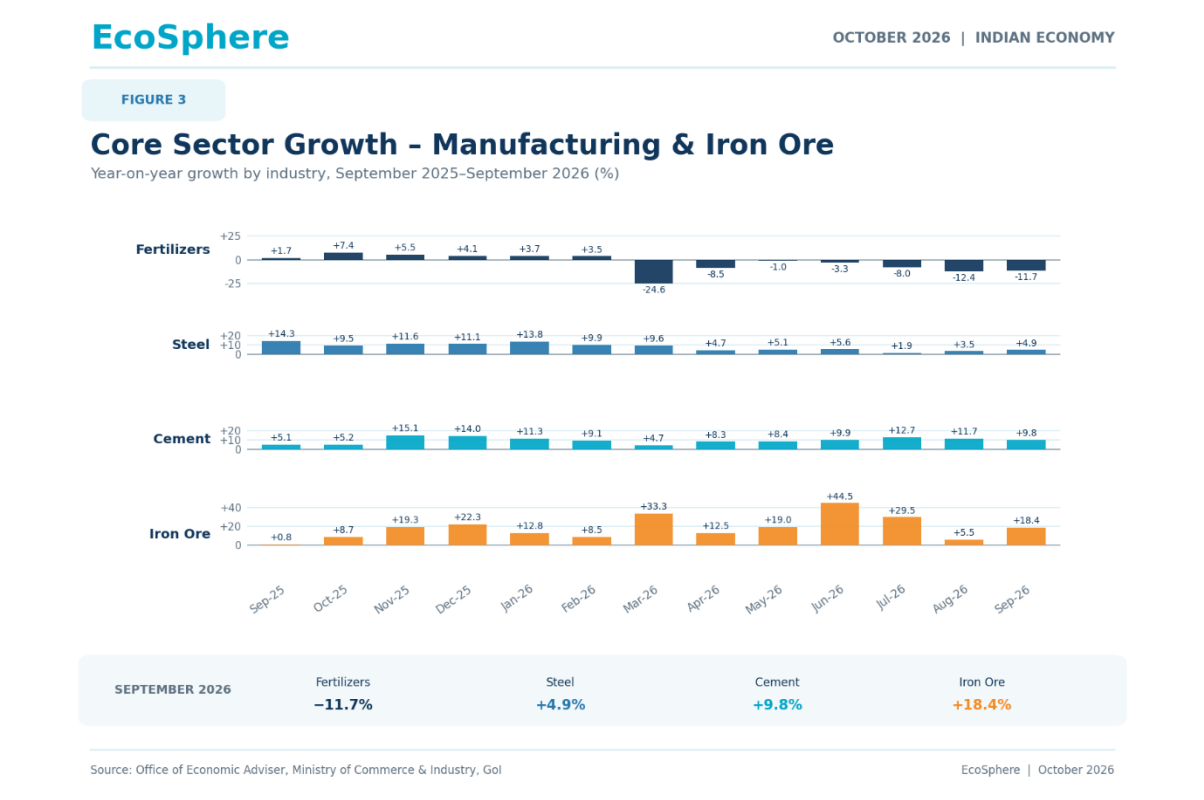
Manufacturing & Iron Ore Sector

Fertilisers: Fertiliser production declined by 11.7 percent, following a 12.4 percent contraction in August (Figure 3). This persistent weakness raises concerns about domestic availability, production costs and agricultural input security.

Steel: Steel output expanded by 4.9 percent, compared with 3.5 percent in August (Figure 4). Growth indicates continuing demand from construction, infrastructure and manufacturing, although the pace remains moderate.

Cement: Cement production grew by 9.8 percent, easing from 11.7 percent in August (Figure 3). The expansion reflects sustained construction and infrastructure activity.

Iron Ore: Iron ore production surged by 18.4 percent, up from 5.5 percent in August (Figure 3), providing a strong upstream boost to the metals value chain.



Implications for Industrial Production and GDP Growth

The core sector index is an important early indicator of industrial momentum and contributes substantially to the Index of Industrial Production (IIP). Stronger electricity, refinery, coal, cement and iron ore output augurs well for manufacturing and infrastructure investment. The improvement in cumulative growth also suggests a firmer industrial base in the first half of 2026–27. However, weakness in crude oil, natural gas and fertilisers could constrain upstream activity and expose the economy to import and supply-side vulnerabilities. Core sector growth alone does not determine GDP performance, but its broad-based strengthening would support industrial value addition and investment.

Challenges Ahead

The principal challenges are declining domestic hydrocarbon production, persistent fertiliser-sector weakness, energy-import dependence and the need to reconcile rising power demand

with decarbonisation. Volatility in global energy prices and input costs could also affect industrial competitiveness.

Policy Priorities

Policy priorities should include accelerating exploration and enhanced recovery in mature oil and gas fields; improving coal logistics and mine productivity; strengthening refining and fertiliser capacity; and ensuring reliable, affordable electricity. Continued investment in renewable energy, storage, transmission and green hydrogen is essential to align energy security with climate commitments. Modernisation, technology adoption and efficient resource use should remain central to industrial policy.

Conclusion

September's 7.9 percent core sector growth signals renewed industrial momentum, led by energy and infrastructure-related industries. Sustaining this performance will require addressing weaknesses in hydrocarbons and fertilisers while strengthening domestic supply chains and accelerating the clean-energy transition. The quality, breadth and sustainability of growth will ultimately matter more than the headline rate.

Bottomline:

The rise in core sector growth to 7.9% signals strengthening industrial activity and infrastructure demand, but uneven performance across sectors highlights the need for broader-based expansion to sustain industrial momentum.

INDIA'S SERVICES ECONOMY GAINS MOMENTUM: RETAIL, REAL ESTATE AND FINANCIAL SERVICES LEAD GROWTH

EcoSphere Editorial

Introduction

India's services sector continued to demonstrate resilience in August 2026, with the trial Index of Services Production (ISP) indicating widespread expansion across economic activities. Of the 19 sub-sectors covered, 17 recorded positive year-on-year growth, while 13 registered double-digit increases. The performance points to strengthening domestic demand, expanding business activity and the growing contribution of services to economic momentum.

Trade, Hospitality and Repair Services

Retail trade emerged as the strongest-performing sub-sector, expanding by 19.9 percent in August 2026, followed by repair services at 17.6 percent and wholesale trade at 10.2 percent (Figure 1a). The robust performance of retail trade reflects sustained consumer demand and the expansion of organised and digital commerce. Accommodation and food services grew by 11.9 percent, indicating continued activity in hospitality and related services. These trends suggest that consumption-led activities remain important drivers of services growth.

Transport, Logistics and Communication

Performance across transport services was mixed. Road transport and water transport grew by 9.4 percent and 9.5 percent, respectively, while railway transport expanded by a relatively modest 3.7 percent (Figure 1a). Warehousing and support activities for transportation recorded 11.2 percent growth, and postal and courier services increased by 13.2 percent (Figure 1a), reflecting the expansion of logistics and delivery networks. Telecommunications grew by 11.8 percent, supported by rising digital connectivity and data-related demand (Figure 1b). However, air transport contracted by 9.6 percent, indicating a significant divergence within the transport segment (Figure 1a).

Financial and Real Estate Services

Financial services remained a major source of momentum. Insurance expanded by 16.5 percent, while banking grew by 14.9 percent (Figure 1b). These gains point to increasing financial intermediation and the wider use of financial products and services. Real estate recorded strong growth of 17.6 percent (Figure 1b), reflecting sustained activity in property-related services. The expansion of banking and insurance also reinforces the importance of financial services in supporting investment, consumption and enterprise development.

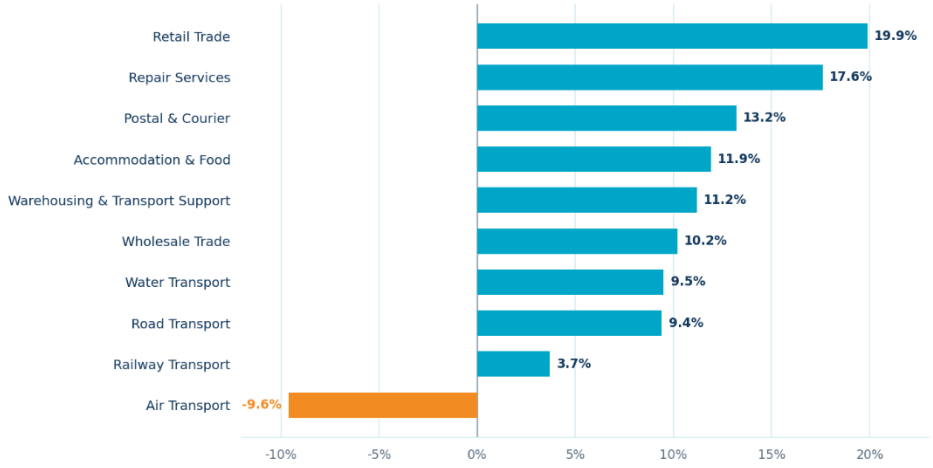
Knowledge-intensive and Business Services

Information technology and computer-related services grew by 13.8 percent , while professional, scientific and technical services, including research and development, expanded by 14.2 percent. Administrative and support services recorded 13.1 percent growth (Figure 1b). These developments highlight the increasing importance of knowledge-intensive activities, technology adoption and specialised business services in India's evolving economic structure. Information and broadcasting services grew by 7.2 percent, indicating more moderate expansion (Figure 1b). Arts, entertainment and recreation services contracted by 4.7 percent (Figure 1b), making it one of the two sub-sectors registering negative growth.

FIGURE 1a

Services Production: Trade, Transport & Hospitality

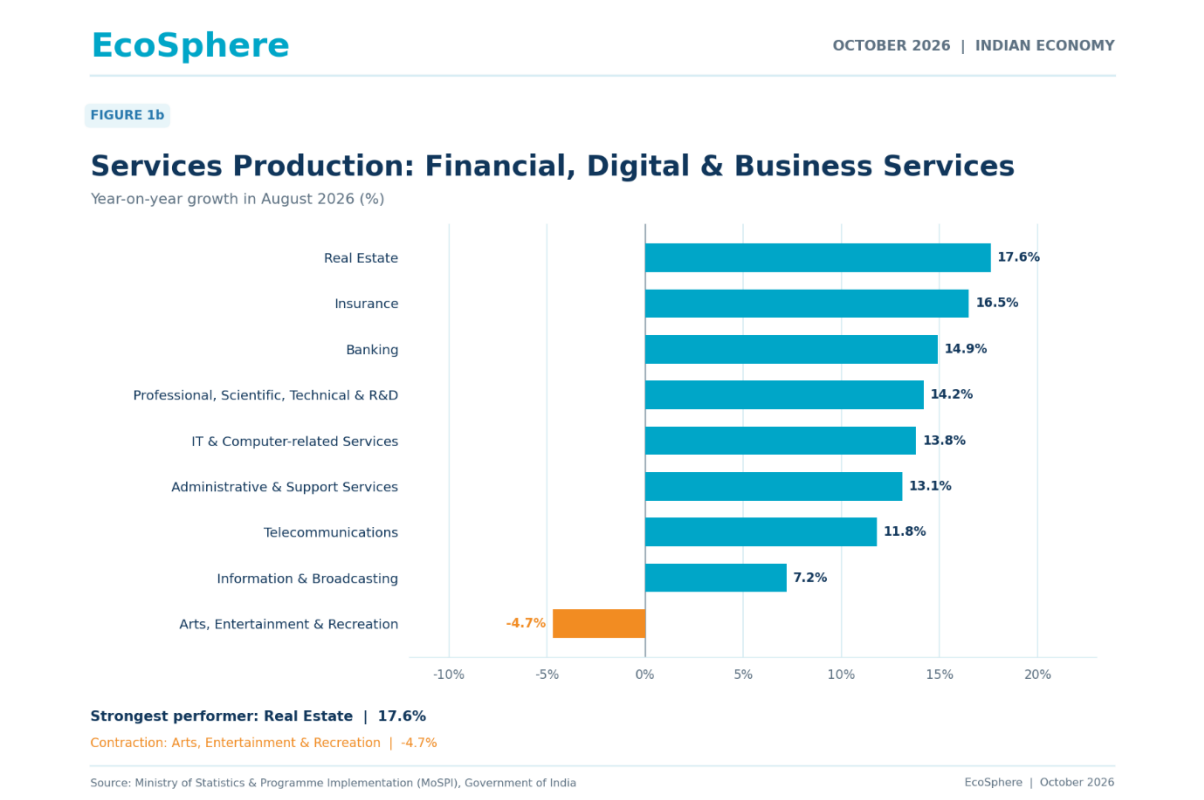
Year-on-year growth in August 2026 (%)



Strongest performer: Retail Trade | 19.9%

Contraction: Air Transport | -9.6%

Source: Ministry of Statistics & Programme Implementation (MoSPI), Government of India



Implications for Economic Growth

The broad-based expansion in services has positive implications for GDP growth, employment generation and domestic demand. Strong retail, financial, real estate, IT and professional services activity can reinforce consumption, investment and productivity. At the same time, the contrasting performance of transport and recreational services indicates that the recovery is not uniform.

Challenges and Policy Priorities

The principal priorities include strengthening transport and logistics infrastructure, improving the competitiveness of aviation and other mobility services, expanding digital connectivity, and facilitating access to finance for smaller service enterprises. Greater investment in skills, research, innovation and technology adoption will be essential to sustain growth in knowledge-intensive services. Improving the quality and consistency of services-sector statistics will also help strengthen policy assessment.

Conclusion

The August 2026 ISP signals a strong and broad-based expansion in India's services economy. Retail trade, real estate, financial services and knowledge-intensive activities are providing significant momentum. Sustaining this performance will require addressing weaker sub-sectors, improving productivity and ensuring that the expansion translates into quality employment and higher value addition.

Bottomline:

The growing momentum in India's services economy, led by retail, real estate and financial services, underscores the sector's strengthening contribution to economic activity, employment and domestic demand.

TRADE & INVESTMENTS

EXPORTS GAIN MOMENTUM, BUT A WIDENING TRADE DEFICIT TESTS INDIA'S EXTERNAL RESILIENCE

EcoSphere Editorial

Introduction

India's external trade performance strengthened in September 2026, with total exports of merchandise and services estimated at US$80.75 billion (Table 1), registering year-on-year growth of 10.99 percent. Cumulative exports during April–September 2026–27 reached US$476.20 billion (Table 2), an increase of 13.84 percent. However, imports grew faster over the six-month period, widening the overall trade deficit and highlighting continuing pressures on the external sector.

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TABLE 1

Trade during September 2026

Merchandise, services and total trade (US$ billion)

Trade category	Indicator	September 2026	September 2025
Merchandise	Exports	44.40	36.08
	Imports	74.61	69.08
Services	Exports	36.35	36.67
	Imports	19.44	17.84
Total Trade	Exports	80.75	72.76
	Imports	94.05	86.93
	Trade Balance	-13.30	-14.17

TOTAL TRADE BALANCE
September 2026 —US$13.30 bn vs —US$14.17 bn

Source: Ministry of Commerce & Industry, Government of India

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TABLE 2

Trade during April–September 2026

Merchandise, services and total trade (US$ billion)

Trade category	Indicator	April–September 2026–27	April–September 2025–26
Merchandise	Exports	**259.89**	219.30
	Imports	**437.53**	376.17
Services	Exports	**216.31**	199.02
	Imports	**113.60**	100.24
Total Trade	Exports	**476.20**	418.31
	Imports	**551.13**	476.42
	Trade Balance	**-74.93**	-58.10

TOTAL TRADE BALANCE
April–September 2026–27
−US$74.93 bn
vs −US$58.10 bn

Source: Ministry of Commerce & Industry, Government of India

EcoSphere | October 2026

Merchandise Exports: Electronics and Engineering Lead

Merchandise exports rose to US$44.40 billion in September, from US$36.08 billion a year earlier (Table 1). Cumulative merchandise exports increased by 18.51 percent to US$259.89 billion (Table 2). Non-petroleum exports also performed strongly, growing by 15.56 percent during April–September to US$218.70 billion.

Electronic goods were the standout performer, with exports surging by 70.44 percent in September to US$5.31 billion. Petroleum products grew by 31.90 percent, while organic and inorganic chemicals expanded by 24.21 percent. Engineering goods exports increased by 20.91 percent to US$12.17 billion. Cotton yarn, fabrics, made-ups and handloom products also recorded growth of 20.76 percent. The performance indicates improving export competitiveness across several manufacturing and value-added product categories.

Merchandise Imports and Trade Deficit

Merchandise imports increased to US$74.61 billion in September, compared with US$69.08 billion in September 2025 (Table 1). During April–September, imports rose by 16.31 percent to US$437.53 billion (Table 2), exceeding the growth in merchandise exports. Consequently, the merchandise trade deficit widened to US$177.64 billion from US$156.88 billion in the corresponding period of the previous year.

The increase in imports of non-petroleum and non-gems-and-jewellery products is also noteworthy. Such imports reached US$292.88 billion during April–September, compared with US$244.67 billion a year earlier. This suggests that domestic demand and industrial activity continue to generate substantial import requirements.

Services Trade: A Stabilising Force

Services exports were estimated at US$36.35 billion in September, marginally below US$36.67 billion a year earlier (Table 1). During April–September, however, services exports grew by 8.69 percent to US$216.31 billion (Table 2). Services imports increased to US$113.60 billion, resulting in a services trade surplus of US$102.71 billion, compared with US$98.77 billion in the corresponding period last year. This surplus remains an important source of support for India's external balance.

Implications for the External Sector

The overall trade deficit widened to US$74.93 billion during April–September, from US$58.10 billion a year earlier (Table 2). Although merchandise exports are expanding rapidly, stronger import growth is offsetting part of the gain. The performance of electronics, engineering goods and chemicals is encouraging, but sustaining export momentum will require deeper integration into global value chains and greater domestic value addition.

Policy Priorities

Export diversification, improved logistics, competitive energy costs and easier access to trade finance should remain priorities. Greater support for technology-intensive manufacturing,

MSMEs and labour-intensive export sectors can broaden the export base. Strengthening domestic production of critical inputs and intermediates would also help moderate import dependence without disrupting the requirements of a growing economy.

Conclusion

India's September trade performance reflects strong export momentum alongside persistent import pressures. The expansion of merchandise exports and the resilience of services trade are positive developments. However, narrowing the external trade gap will require sustained export competitiveness, higher domestic value addition and a more resilient manufacturing ecosystem.

Bottomline:

While export growth reflects the resilience of India's external trade, the widening trade deficit underscores the need to strengthen export competitiveness, diversify markets and contain import vulnerabilities to safeguard external stability.

INDIA–NEW ZEALAND FTA: UNLOCKING NEW OPPORTUNITIES FOR TRADE, INVESTMENT AND SERVICES

EcoSphere Editorial

A New Chapter in Bilateral Economic Relations

The India–New Zealand Free Trade Agreement (FTA), which came into force on 20 October 2026, marks an important step in India's efforts to expand export markets, diversify trade partnerships and strengthen its integration with the global economy. The first consignment under the agreement—a JCB-18Z mini-excavator manufactured in Maharashtra—was flagged off on Monday, signalling the beginning of a new phase in bilateral commercial engagement. With New Zealand committing to eliminate tariffs on all Indian goods exports, the agreement creates opportunities for Indian manufacturers, service providers, professionals and students.

Commerce and Industry Minister Piyush Goyal described the agreement as one that would open opportunities for different sections of society in both countries, including businesses, innovators, educationists, students and farmers. However, the extent of these benefits will depend on how effectively businesses understand and utilise the agreement's provisions.

Zero-Duty Access and Export Diversification

A key feature of the agreement is New Zealand's commitment to provide zero-duty access to 100 percent of Indian goods exports. Engineering goods, pharmaceuticals, textiles, marine products, chemicals, leather and footwear, gems and jewellery, and electronic goods are among the sectors expected to benefit. Plastic articles and agricultural products will also receive tariff concessions, including the elimination of duties.

The agreement could strengthen the competitiveness of Indian exporters by reducing tariff-related costs and improving access to the New Zealand market. Labour-intensive sectors, including textiles, apparel, leather and footwear, gems and jewellery, and processed foods, may find additional opportunities to expand overseas sales. Engineering goods, represented by the first JCB consignment, provide an early illustration of the agreement's potential to support India's manufacturing exports.

Pharmaceutical exporters could also benefit from streamlined market access through the acceptance of good manufacturing practice and good clinical practice inspection reports from comparable regulators. This provision may help reduce regulatory duplication and facilitate trade, although exporters will still need to meet applicable standards and requirements.

For India, these opportunities are relevant to the broader objective of diversifying export destinations and strengthening the role of manufacturing in economic growth.

Balancing Market Access with Domestic Sensitivities

While New Zealand has offered comprehensive tariff elimination on Indian exports, India's commitments follow a calibrated approach. India has offered market access across 70.03 percent of tariff lines, covering approximately 95 percent of New Zealand's export value. Duties on 30 percent of tariff lines will be eliminated immediately, while another 35.6 percent will be phased out over three, five, seven or ten years.

Sensitive sectors, including dairy, sugar, several agricultural products, arms and ammunition, and selected metals, have been excluded from tariff concessions. Imports of certain products will also be managed through quotas, minimum import prices and seasonal restrictions. These provisions seek to balance the benefits of trade liberalisation with the need to protect vulnerable domestic producers and sensitive industries.

Agricultural cooperation will include joint action plans for products such as apples, kiwifruit and honey. The agreement therefore combines expanded market access with safeguards intended to manage the effects of increased competition. Its implementation will need to ensure that trade opportunities are realised without overlooking the adjustment challenges faced by domestic producers.

Services, Skills and Professional Mobility

The agreement extends beyond merchandise trade to include services and the movement of people. New Zealand has committed to market access across 118 services sectors and sub-sectors, including information technology, healthcare and engineering, and to most-favoured-

nation treatment in 139 sectors. It will also facilitate trade in traditional Indian services, including Ayurveda and yoga.

Professional mobility is another significant component. A new temporary employment visa pathway will provide opportunities for 5,000 skilled Indian professionals, with stays of up to three years in eligible fields such as IT, engineering, healthcare, education and construction.

Indian students will be permitted to work up to 20 hours per week while studying. Eligible graduates in science, technology, engineering and mathematics will have post-study work opportunities of up to three years, while doctoral graduates may qualify for up to four years. The agreement also provides for 1,000 working-holiday visas annually for young Indians, valid for 12 months with multiple entry.

These provisions can deepen people-to-people connections, facilitate skills exchange and strengthen India's participation in international services markets. Their benefits will depend on effective implementation and awareness among prospective applicants and employers.

Investment and Implementation: Turning Commitments into Outcomes

New Zealand has committed to investing $20 billion in India over 15 years, supported by a rebalancing clause to address any shortfall in investment delivery. If realised, this commitment could support investment flows and strengthen bilateral economic links. The agreement also targets faster customs procedures, with standard cargo clearance within 48 hours and express shipments and perishable goods within 24 hours, supported by automation and paperless single-window clearance.

Despite these provisions, bilateral trade has so far remained modest at around $1.2 billion annually. India and New Zealand aim to double trade by 2030, making effective implementation particularly important. New Zealand's Trade and Investment Minister Todd McClay has emphasised that the agreement's success will ultimately depend on the opportunities it creates and the extent to which businesses use them. Both governments will need to ensure that exporters, importers and service providers understand the applicable rules and procedures.

Conclusion

The India–New Zealand FTA offers a framework for expanding merchandise exports, strengthening services trade, facilitating professional mobility and attracting investment. It also reflects India's wider effort to diversify trade relationships and improve access to international markets. Yet tariff concessions alone cannot guarantee higher trade. Businesses must identify market opportunities, meet regulatory requirements and develop reliable commercial partnerships. Sustained cooperation between the two governments will be essential to address implementation challenges and ensure that the agreement delivers tangible gains. If effectively utilised, the FTA could help deepen bilateral economic relations and support India's broader ambitions in manufacturing, services and export-led growth.

Bottomline:

The India–New Zealand FTA offers an opportunity to deepen bilateral economic ties by expanding market access, attracting investment and strengthening services trade, while enabling Indian businesses to diversify export destinations and integrate more closely into global value chains.

EMPLOYMENT

INDIA'S LABOUR MARKET IN SEPTEMBER 2026: RISING PARTICIPATION AND PERSISTENT GENDER GAPS

EcoSphere Editorial

Introduction

The September 2026 Periodic Labour Force Survey (PLFS)[1] presents a cautiously encouraging picture of India's labour market. The overall unemployment rate remained stable, while labour force participation and workforce participation recorded year-on-year improvements. Urban labour market indicators strengthened during the month, and female participation continued to improve, particularly in rural areas. These developments suggest gradual progress, although important structural and gender-related challenges persist.

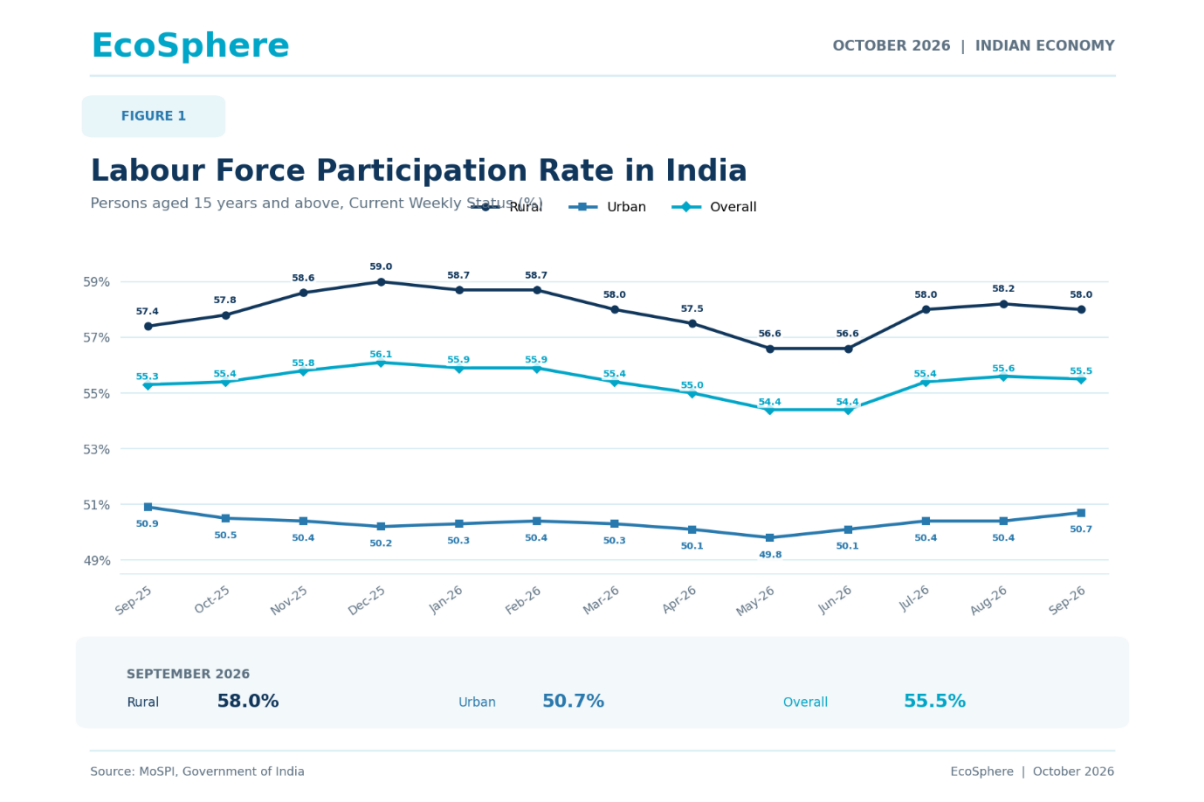
Labour Force Participation: Urban Recovery and Rural Resilience

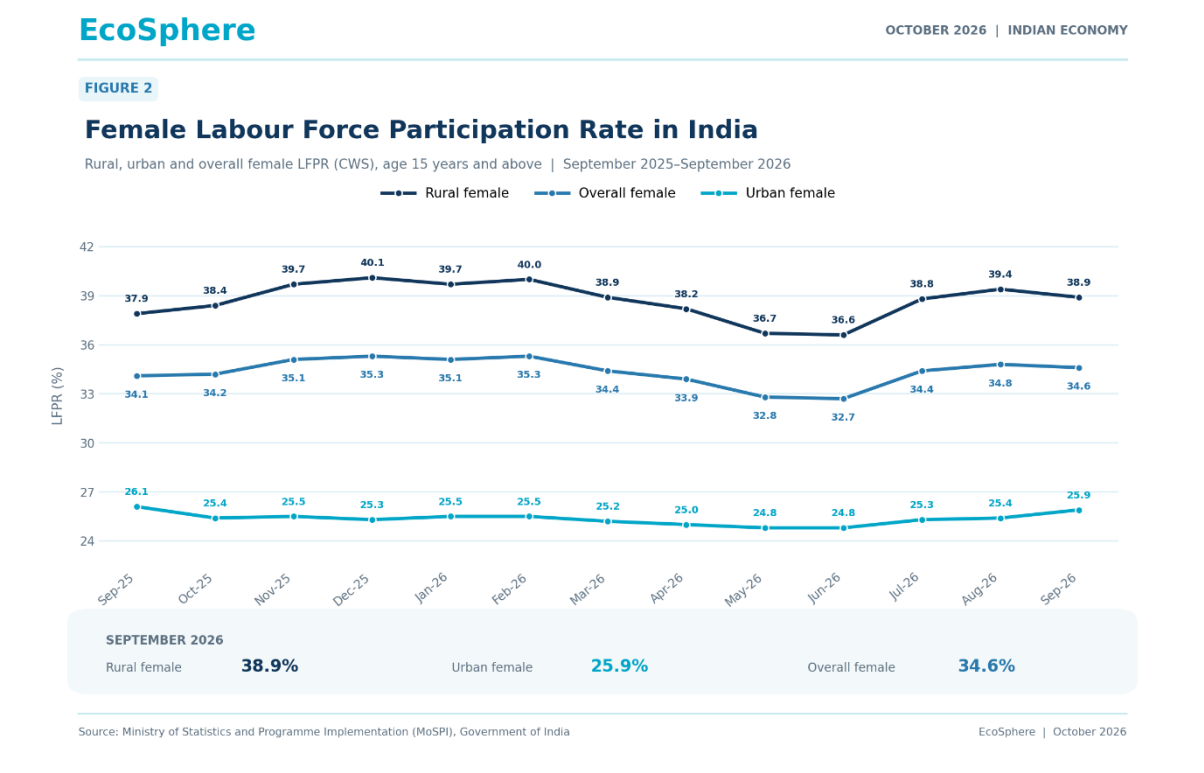
The Labour Force Participation Rate (LFPR) for persons aged 15 years and above stood at 55.5 percent in September 2026, marginally below 55.6 percent in August but 0.2 percentage points higher than a year earlier (Figure 1). Rural LFPR increased from 57.4 percent in September 2025 to 58.0 percent, while urban LFPR declined marginally from 50.9 percent to 50.7 percent over the same period (Figure 1). On a month-on-month basis, however, urban LFPR improved by 0.3 percentage points.

Female participation offers an encouraging dimension. Overall female LFPR increased by 0.5 percentage points year-on-year to 34.6 percent (Figure 2). Rural female LFPR rose by a full percentage point to 38.9 percent, whereas urban female LFPR remained broadly stable at 25.9

[1] The PLFS provides monthly estimates under the Current Weekly Status (CWS) approach since the methodology was modified in January 2025. The activity status determined on the basis of a reference period of last 7 days preceding the date of survey is known as the Current Weekly Status (CWS) of the person.

percent (Figure 2). Notably, urban female participation increased to its highest level since October 2025.

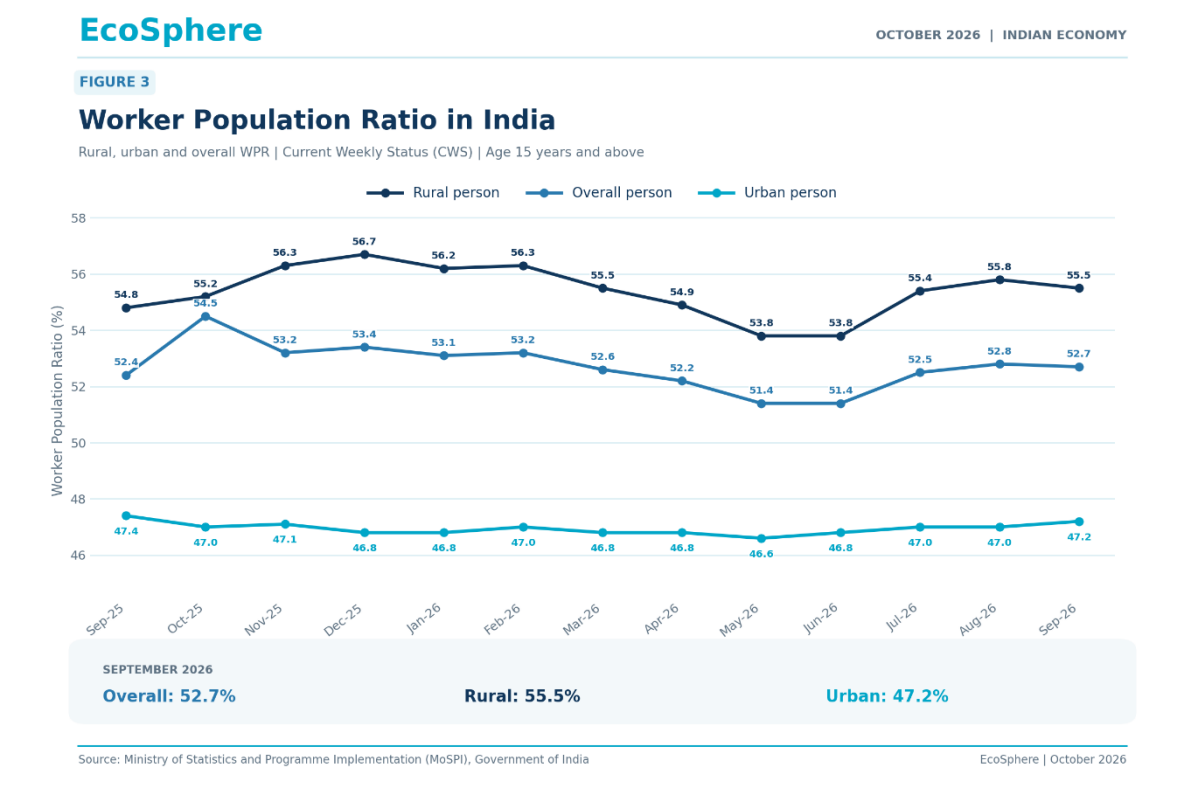




Workforce Participation: Gradual Improvement

The overall Worker Population Ratio (WPR) increased by 0.3 percentage points year-on-year to 52.7 percent (Figure 3). Rural WPR declined marginally from 55.8 percent to 55.5 percent, while urban WPR rose marginally from 47 percent to 47.2 percent, its highest level since October 2025 (Figure 3). Both urban male and female WPR improved by 0.3 percentage points during the month, reaching 71.0 percent and 23.5 percent, respectively.

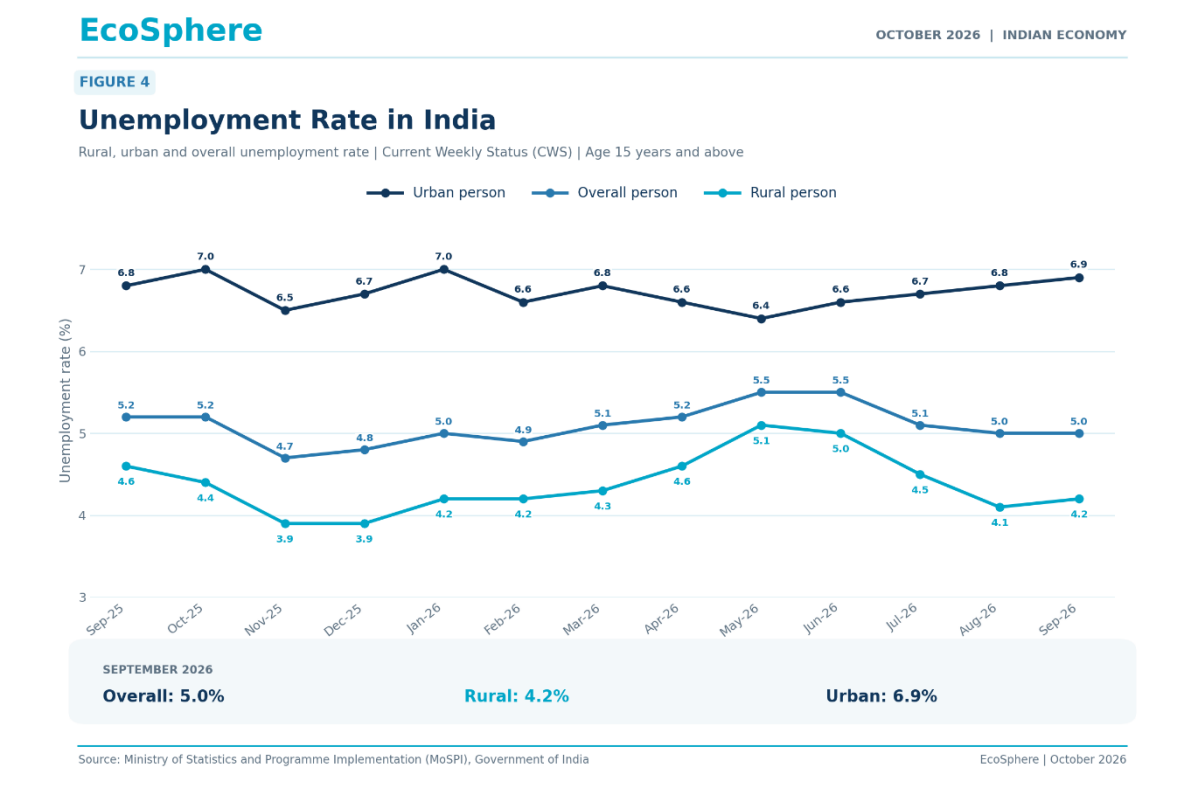
At the all-India level, male WPR increased by 0.4 percentage points year-on-year to 73.6 percent, while female WPR rose by 0.5 percentage points to 32.8 percent. The improvement in female workforce participation is significant, although the substantial gender gap remains a structural concern.



Unemployment: Stability with Rural Improvement

The overall unemployment rate (UR) remained unchanged at 5.0 percent in September 2026, compared with August, but declined by 0.2 percentage points year-on-year (Figure 4). Rural UR fell from 4.6 percent to 4.2 percent, while urban UR edged up from 6.8 percent to 6.9 percent. The difference indicates that urban labour markets continue to face relatively greater employment pressures.

Gender-wise, overall male unemployment declined to 4.9 percent, while female unemployment stood at 5.2 percent. Rural female UR declined to 3.9 percent, its lowest level during 2026. In contrast, urban female UR increased from 8.9 percent in August to 9.2 percent in September, highlighting the continuing difficulty of translating women's labour force participation into employment opportunities.



Economic Implications and Policy Priorities

Higher participation and workforce ratios are positive indicators, but their significance ultimately depends on the availability, quality and stability of employment. The persistent gender gap, particularly in urban areas, calls for stronger support for women's employment through skills development, childcare facilities, safe transport, flexible work arrangements and improved access to formal jobs.

Policy efforts should also focus on labour-intensive manufacturing, modern services, MSMEs and rural non-farm enterprises. Strengthening vocational training and aligning skills with emerging industry requirements will be important for improving employability.

Conclusion

September's PLFS findings indicate gradual improvement in India's labour market, with stable overall unemployment and stronger workforce participation. Rising rural female participation and improving urban employment indicators are encouraging. However, the high

unemployment rate among urban women and the persistent gender gap underline the need for more inclusive employment generation and better-quality jobs.

Bottomline:

Rising labour force participation in September 2026 signals improving engagement with India's labour market, but persistent gender gaps highlight the need for more inclusive employment opportunities, greater female workforce participation and better-quality jobs.

AGRICULTURE & AGRI-BUSINESS

AGRISTACK'S 11 CRORE FARMER IDS: BUILDING DIGITAL PUBLIC INFRASTRUCTURE FOR INDIAN AGRICULTURE

Dr Debesh Roy
Chairman, InsPIRE

India's agricultural transformation is entering a new phase, with digital infrastructure emerging as an important instrument for improving governance, strengthening institutional access and modernising service delivery. The creation of 11 crore unique 11-digit Farmer IDs, known as *Kisan Pehchaan Patra*, under the AgriStack framework marks a significant milestone in this transition. Announced by Union Agriculture Minister Shivraj Singh Chouhan, the target was achieved on the night of October 23, 2026—five months ahead of the original deadline of March 31, 2027.

The achievement represents more than a numerical accomplishment. It reflects an effort to establish a verified digital identity for farmers and connect agricultural households with relevant information on landholdings, cropping patterns and government services. Approximately 26 percent of the IDs created so far belong to women farmers, an encouraging development in improving the visibility of women's contribution to agriculture.

However, the ultimate significance of this initiative will depend not simply on the number of registered farmers but on whether the digital infrastructure translates into easier access to credit, insurance, public support and markets.

Understanding AgriStack and the Farmer ID

Implemented under the Digital Agriculture Mission, AgriStack is designed as a digital public infrastructure (DPI) initiative for agriculture. Its central component, the Farmer ID, provides a unique digital identity linked to three foundational registries.

- **The Farmer Registry** captures farmers' demographic details and identity-related information.

- **The Geo-Referenced Village Maps** connect individuals with identified land parcels.
- **The Crop Sown Registry** records information about crops cultivated on agricultural land. Together, these databases are intended to create a more integrated picture of agricultural activity.

This architecture could help shift agricultural administration away from repeated, paper-based verification towards a system in which authorised institutions can verify relevant information digitally. Farmers frequently interact with multiple government departments, banks, insurance providers and procurement agencies, each of which may require overlapping documentation. An integrated digital identity could reduce this duplication and improve administrative efficiency.

Nevertheless, the Farmer ID should not be understood as an automatic entitlement to every agricultural scheme. Eligibility conditions, verification requirements and programme-specific rules will continue to apply. Its principal value lies in making the verification process more efficient and the delivery of eligible benefits more reliable.

From administrative efficiency to financial inclusion

One of AgriStack's most important potential contributions is improving farmers' access to formal finance. Agricultural lending often involves verifying identity, land records, cultivation details and other eligibility criteria. Where records are fragmented or inconsistent, verification can be time-consuming, increasing transaction costs for both borrowers and financial institutions.

A reliable digital registry could simplify these processes and support more informed credit assessments. Banks and other authorised lenders may be able to verify relevant information more efficiently, potentially reducing documentation requirements and delays in processing agricultural loans.

The implications extend to crop insurance and other risk-management instruments. Linking verified farmer and crop information could improve enrolment, policy administration and the assessment of eligible claims. Better information on cultivation patterns may also support more

accurate identification of insured crops and reduce discrepancies between declared and actual agricultural activity.

These benefits, however, will depend on the accuracy and timely updating of records, appropriate data-sharing arrangements and the willingness of financial institutions to use the system. A digital identity alone cannot resolve all the underlying constraints on agricultural credit, including inadequate collateral, uncertain farm incomes and limited access to banking services in remote areas.

Improving subsidy delivery and agricultural procurement

AgriStack could also strengthen the delivery of agricultural support. Digital verification of farmers, land parcels and crop information can help government agencies identify eligible beneficiaries and reduce duplication or diversion of benefits.

In public procurement, the system could facilitate verification when farmers sell produce to government agencies at the Minimum Support Price (MSP). By connecting farmer identities with relevant land and crop records, it may help establish whether the seller and the crop meet applicable procurement requirements. This could reduce opportunities for unauthorised participation and make procurement processes more transparent.

The initiative also has implications for the management of fertiliser subsidies. The proposed linkage of fertiliser sales with AgriStack could help align subsidised input distribution with crop requirements and the scale of cultivation, potentially reducing diversion and improving targeting.

Yet, safeguards will be essential. Land ownership does not always correspond to actual cultivation, particularly where tenancy arrangements are informal or land is cultivated by family members other than the recorded owner. Procurement and input-distribution systems must therefore accommodate legitimate cultivators who may not appear as landowners in official records. Otherwise, digital verification could inadvertently exclude the very farmers it is intended to support.

Women farmers: Making agricultural contributions visible

The fact that approximately 26 percent of the Farmer IDs belong to women is particularly significant. Women undertake substantial agricultural work, including cultivation, livestock management, post-harvest activities and farm-based enterprises, but their contributions are not always adequately reflected in land ownership records or institutional databases.

Improved identification can help make women farmers more visible to public institutions and potentially facilitate their access to agricultural services, credit, insurance and capacity-building programmes. It may also strengthen the evidence base for designing gender-responsive agricultural policies.

However, registration should not be confused with empowerment. Women's effective access to benefits will depend on whether they can independently use their IDs, whether their cultivation activities are properly recorded, and whether financial institutions and government agencies recognise their roles as farmers. Particular attention is needed for women cultivating family-owned or leased land without formal ownership rights.

Data accuracy, privacy and inclusion: The challenges ahead

The rapid expansion of AgriStack makes data governance a central policy concern. Agricultural land records are maintained by state governments and vary in their completeness, digitisation and updating practices. Inheritance, land transfers, tenancy changes, disputed titles and differences between recorded ownership and actual cultivation can all create inconsistencies.

If these issues are not addressed, errors in the registry could affect access to credit, insurance, procurement and subsidies. A robust correction and grievance-redressal mechanism is therefore indispensable. Farmers should be able to inspect their records, report inaccuracies and obtain timely corrections without facing excessive administrative burdens.

Privacy and data security are equally important. Agricultural records can reveal sensitive information about landholdings, livelihoods and production decisions. Access should be governed by clear rules on consent, purpose limitation, security and accountability. Data-

sharing arrangements must prevent unauthorised use while enabling legitimate public-service delivery and innovation.

Digital exclusion presents another challenge. Farmers with limited digital literacy, unreliable connectivity or restricted access to smartphones may struggle to navigate digital systems. Assisted registration and service centres, local-language interfaces and accessible offline support should remain integral to implementation. Digitalisation should reduce the distance between farmers and institutions, not create a new barrier.

Unlocking agricultural innovation

Beyond government services, AgriStack could provide a foundation for responsible private-sector innovation. Subject to appropriate authorisation and data-protection safeguards, verified agricultural information could help agritech enterprises develop precision-farming solutions, location-specific weather advisories, pest alerts, crop-management recommendations and market-linkage services.

Financial institutions could explore more efficient approaches to agricultural risk assessment, while farmer-producer organisations could use relevant information to improve aggregation, input procurement and market planning. Better integration of land, crop and farmer information could also support agricultural research and more evidence-based policy design.

Such opportunities should not translate into unrestricted commercial access to individual farmers' records. Innovation must be built around transparent data governance, farmers' rights and clear public-interest objectives.

Conclusion: Measuring success beyond registration

The creation of 11 crore Farmer IDs marks an important step towards building a digital foundation for Indian agriculture. By connecting farmer identities with land and crop information, AgriStack has the potential to reduce administrative friction, improve institutional access and support more targeted delivery of agricultural services.

The next phase must focus on converting coverage into outcomes. This requires accurate and regularly updated records, recognition of tenant and women farmers, effective grievance redressal, strong privacy safeguards and accessible support for digitally excluded households.

Ultimately, the success of AgriStack will not be measured solely by the number of IDs issued. It will be determined by whether farmers experience faster access to services, lower transaction costs, more reliable benefits and greater opportunities to improve their livelihoods. If these conditions are met, the Farmer ID could become a significant building block in India's transition towards a more inclusive, efficient and technology-enabled agricultural economy.

Bottomline:

The creation of 11 crore farmer IDs under AgriStack marks a significant step towards building India's digital public infrastructure for agriculture, with the potential to improve service delivery, strengthen policy targeting and enhance farmers' access to institutional support and market opportunities.

BEYOND DIGITAL FARMING: INTEGRATING TECHNOLOGY, CLIMATE INTELLIGENCE AND FINANCE FOR INDIA'S AGRICULTURAL TRANSFORMATION

Dr Debesh Roy

Chairman, InsPIRE

Indian agriculture is at a turning point. While it remains central to food security, rural livelihoods and inclusive economic growth, the sector continues to grapple with fragmented landholdings, low productivity, information asymmetries, inadequate market integration and rising climate risks. The challenge is particularly significant because agriculture and allied activities account for approximately 46.1 percent of India's workforce, according to the *Economic Survey 2025–26*. Transforming agriculture is therefore essential not only for improving farmers' incomes but also for sustaining India's broader economic transformation.

Three powerful developments—digital technology, climate intelligence and inclusive finance—are creating opportunities to address these structural constraints. Their real potential, however, lies not in their independent application but in their integration into a farmer-centric agricultural ecosystem.

Technology is Reshaping the Agricultural Landscape

Artificial intelligence (AI), the Internet of Things (IoT), drones, satellite remote sensing and geospatial analytics are changing how agricultural decisions are made. AI-based applications can analyse information on soil conditions, weather, crop growth, pests and market prices to support crop planning, yield estimation, disease identification and irrigation management. Generative AI and local-language conversational platforms could further widen access to agricultural knowledge, particularly among farmers who face difficulties navigating conventional digital applications.

IoT-enabled sensors offer opportunities for precision farming by monitoring soil moisture, temperature and other field conditions. This can help farmers optimise irrigation, reduce input wastage and improve resource efficiency. Similarly, drones and satellite imagery can support

crop-health monitoring, acreage estimation, pest surveillance and assessment of flood or drought damage.

These technologies are increasingly relevant to agricultural insurance and public programme delivery. India's technology-assisted crop-yield estimation initiatives under the Pradhan Mantri Fasal Bima Yojana (PMFBY), including YES-TECH, illustrate how remote sensing and analytical tools can complement conventional crop assessment.

Digital platforms are also changing agricultural marketing. The electronic National Agriculture Market (e-NAM) had integrated 1,656 mandis across 23 states and four Union Territories by March 2026, with more than 1.80 crore registered farmers. Its facilities include online trading, price discovery, quality assaying and electronic payments. Yet platform registration alone does not guarantee effective market integration. Competitive buyer participation, reliable logistics, grading, storage and timely payments remain equally important.

Digital Public Infrastructure: The Foundation for Transformation

The Government of India's Digital Agriculture Mission, approved in September 2024 with an outlay of ₹2,817 crore, represents an important step towards building a digital agricultural ecosystem. Its key components include farmer-centric digital public infrastructure, the Krishi Decision Support System, digital crop surveys and soil-profile mapping.

AgriStack, built around the Farmers' Registry, geo-referenced village maps and the Crop Sown Registry, seeks to create more reliable information on farmers, land parcels and crops. Integrated with weather, soil and geospatial information, these systems can improve agricultural planning, beneficiary identification, crop estimation and the delivery of credit, insurance and extension services.

However, the effectiveness of digital public infrastructure will depend on data quality, interoperability and trust. Land records do not always reflect tenancy, sharecropping or informal cultivation arrangements. Farmers without recognised land titles could face exclusion if digital eligibility systems rely excessively on ownership documentation. Transparent

consent, privacy protection, accessible grievance redressal and mechanisms to correct inaccurate records must therefore be integral to implementation.

Climate Intelligence: From Forecasts to Farm-Level Decisions

Climate variability is intensifying the risks faced by Indian farmers through erratic rainfall, heat stress, droughts, floods and changing pest patterns. Climate intelligence can help convert weather observations, seasonal forecasts, satellite data and climate-risk assessments into practical agricultural decisions.

Timely and location-specific advisories can guide crop selection, sowing dates, irrigation, fertiliser application and harvesting. Satellite-based observations can help identify emerging drought conditions and crop stress, while improved local weather monitoring can strengthen agricultural planning and disaster preparedness. Initiatives such as the Weather Information Network and Data System (WINDS), through the expansion of automatic weather stations and rain gauges, can contribute to improving the availability of local weather information.

Climate-smart agriculture offers a broader framework for translating this intelligence into action. Depending on local conditions, interventions may include micro-irrigation, rainwater harvesting, soil-moisture conservation, crop diversification, agroforestry, conservation agriculture and improved livestock management.

The critical requirement is to ensure that climate information reaches farmers in a timely, understandable and actionable form. Mobile applications and SMS services must be complemented by community radio, agricultural extension workers, Farmer Producer Organisations (FPOs) and local institutions. Scientific information can improve decisions, but farmers also need the resources and institutional support to implement recommended practices.

Inclusive Finance: Enabling Farmers to Act

Technology and climate intelligence can deliver meaningful benefits only when farmers have access to appropriate finance. Smallholders often face constraints arising from limited collateral, irregular cash flows, high transaction costs and exposure to production and price

risks. These constraints can prevent them from investing in improved seeds, irrigation systems, machinery, storage and digital services.

Digital financial infrastructure can reduce transaction costs and improve access to formal financial services. Verified cropping information, digital transaction histories and credible market records can potentially strengthen credit assessment. Financial products must nevertheless reflect agricultural cash flows, with repayment schedules aligned to harvesting and marketing cycles. Digital records should supplement conventional credit assessment rather than become an automatic condition for accessing finance.

Crop insurance is another important instrument for managing agricultural risk. Satellite imagery, weather stations, mobile applications and geospatial records can improve crop identification, yield estimation and damage assessment. However, technology-assisted assessment must be independently validated and supported by transparent claim procedures and accessible grievance mechanisms.

Long-term climate-resilient investments also require innovative financing. Blended finance can combine public resources, development finance and private capital to support investments in watershed development, renewable-energy-powered irrigation, agroforestry, soil restoration and climate-resilient storage. FPOs and cooperatives can aggregate smaller investments, reduce transaction costs and make projects more attractive to financial institutions.

Carbon markets may offer supplementary income opportunities for farmers adopting suitable practices such as agroforestry and improved soil management. However, measurement and verification challenges, project costs and benefit-sharing arrangements must be addressed. Carbon revenue should be treated as a potential additional income stream, not a guaranteed source of finance.

Institutions Must Connect Innovation with Farmers

FPOs, cooperatives, agritech enterprises and agricultural extension institutions can bridge the gap between technological innovation and farm-level adoption. FPOs can aggregate demand for drones, soil testing, digital advisory services and storage facilities while strengthening

farmers' bargaining power in input and output markets. Their effectiveness, however, depends on professional management, working capital, sound governance and commercially viable business models.

Agritech startups can develop specialised solutions for precision farming, advisory services, logistics, market intelligence and financial intermediation. Hybrid models combining digital platforms with local entrepreneurs, FPOs and extension institutions are likely to be particularly relevant for reaching smallholders. Agricultural universities and Krishi Vigyan Kendras can provide the scientific validation and human support needed to ensure that technology-based recommendations are locally appropriate.

An Integrated Roadmap for Viksit Bharat @ 2047

India's agricultural transformation requires a coordinated policy approach. Interoperable digital systems, reliable data and responsible AI must be supported by strong privacy safeguards and effective grievance redressal. Climate intelligence should prioritise local relevance and last-mile delivery. Digital markets must be complemented by investment in assaying, warehousing, cold chains, processing and transport. Agricultural credit and insurance should be inclusive, affordable and responsive to farmers' circumstances, while climate finance should be linked to measurable development outcomes.

Equally important is outcome-oriented monitoring. The success of agricultural digitalisation should be assessed not merely through the number of registered farmers or digital platforms but through improvements in net farm income, input efficiency, water productivity, market access, insurance settlement and resilience to climate shocks.

The future of Indian agriculture will not be determined by technology alone. It will depend on how effectively technological innovation, climate intelligence, finance and institutional capacity reinforce one another. Better information can improve farm-level decisions; improved decisions can strengthen productivity and resilience; and appropriate finance can enable further investment in sustainable practices.

For Viksit Bharat @ 2047, the objective must be to move beyond production-centric agriculture towards a knowledge-driven, climate-resilient and competitive agricultural economy—one that places farmers' prosperity, inclusion and sustainability at its centre.

Bottomline:

India's agricultural transformation requires moving beyond standalone digital solutions towards an integrated ecosystem that combines technology, climate intelligence and accessible finance to enhance farm productivity, strengthen resilience and improve farmers' incomes.

CORPORATE INSIGHTS

CORPORATE INDIA'S Q2 FY27 SCORECARD: RESILIENCE, UNEVEN GROWTH AND THE EMERGING DEMAND DIVIDE

Dr Debesh Roy

Chairman, InsPIRE

The second-quarter earnings season for FY2026–27, announced largely during October 2026, offers an important insight into the changing dynamics of corporate India. Despite uncertain global demand, geopolitical risks and uneven recovery across consumer segments, a large number of companies reported healthy revenue and profit growth. Domestic consumption, infrastructure investment, credit expansion and improving balance-sheet strength provided important support. However, the performance was far from uniform. Banking, infrastructure, automobiles and selected manufacturing businesses delivered strong results, while parts of the information technology, cement and mass-market consumer segments faced pressure.

The results suggest that India Inc. remains resilient, but its growth momentum is increasingly differentiated by sectoral exposure, pricing power, operating efficiency and the strength of domestic demand.

Banking and Financial Services: Strong Earnings, Improving Asset Quality

Banks remained among the principal contributors to corporate profitability. Robust credit demand, relatively healthy asset quality and improved operating efficiency supported earnings, although competitive deposit mobilisation continued to place some pressure on net interest margins.

Axis Bank reported a 39.4 percent year-on-year increase in profit after tax, while ICICI Bank recorded growth of 22.3 percent. Bank of India also delivered a strong performance, with net profit rising 25.34 percent to ₹3,202 crore. Its gross non-performing asset ratio declined by 94 basis points to 1.60 percent, indicating a further improvement in asset quality.

HDFC Bank, one of the most important additions to the October earnings scorecard, reported consolidated profit after tax of approximately ₹20,700 crore. Its standalone net interest income increased by 9.7 percent to ₹34,620 crore, while net interest margin stood at 3.16 percent on total assets. However, standalone profit after tax grew by a more moderate 4.7 percent, reflecting the impact of lower treasury gains. Advances under management increased by 14.1 percent, indicating sustained credit demand.

The broader banking picture is therefore positive, but the next phase of growth will depend on maintaining margins, controlling funding costs and preserving underwriting discipline. The performance of NBFCs also warrants attention, as tighter credit filters and more cautious lending have moderated growth in some segments.

Automobiles and Engineering: Domestic Demand Drives Expansion

Automobiles and heavy engineering were among the stronger performers during the quarter. Festive-season demand, premiumisation and the continuing preference for utility vehicles supported manufacturers, while infrastructure investment strengthened demand for commercial vehicles and industrial equipment.

Mahindra & Mahindra reported a 25 percent increase in net profit to ₹4,588 crore. Its automotive segment profit rose sharply, supported by strong demand for utility vehicles and premium SUVs. Tata Motors also returned to profitability, reporting net earnings of ₹1,257 crore. Bosch India recorded a significant sequential revenue increase, reflecting stronger demand from original equipment manufacturers.

These results point to a structural shift in the automobile market. Consumers are increasingly opting for higher-value vehicles, while manufacturers are benefiting from a more favourable product mix. Nevertheless, the comparatively moderate performance of entry-level two-wheelers indicates that affordability constraints have not disappeared. A durable recovery will require broader improvement in rural purchasing power and mass-market demand.

Infrastructure and Metals: The Investment Cycle Supports Earnings

Infrastructure and capital goods companies continued to benefit from public investment, private capital expenditure and a healthy order pipeline. Larsen & Toubro (L&T) reported a 33 percent year-on-year increase in consolidated net profit to ₹5,202 crore, supported by 16 percent revenue growth. Its domestic and international order books provide visibility for future execution and revenue.

JSW Steel recorded a 225 percent increase in net profit to ₹5,279 crore, benefiting from improved operating conditions and stabilising domestic steel realisations. The performance reflects the importance of domestic infrastructure demand in supporting steel consumption, even as global markets remain uncertain.

Reliance Industries, which announced its results on October 30, delivered one of the strongest performances among large Indian conglomerates. Consolidated gross revenue increased 27.8 percent to ₹3,62,268 crore, while EBITDA rose 23.9 percent to ₹62,409 crore. Profit after tax, including the share of associates and joint ventures, increased 33.8 percent to ₹29,550 crore. The oil-to-chemicals business recorded particularly strong performance, with EBITDA rising 67.9 percent, while digital services EBITDA grew 17.7 percent. The results underline the contribution of diversified business operations to earnings resilience.

The strong performance of these companies reinforces the role of infrastructure investment and industrial expansion as important drivers of corporate earnings. However, the sustainability of this momentum will depend on timely project execution, stable commodity prices and the conversion of order books into actual revenues.

Information Technology: Growth Continues, but Global Demand Remains Uneven

The IT services sector presented a more mixed picture, reflecting subdued discretionary spending in some overseas markets and continuing uncertainty around global technology expenditure.

Tata Consultancy Services (TCS) reported second-quarter revenue of US$7.64 billion, up 2.4 percent year-on-year in dollar terms. Its operating margin stood at 24 percent, while net profit

was US$1.45 billion. Total contract value of new deals reached US$9.6 billion. Annualised AI revenue crossed US$3.1 billion, demonstrating the growing commercial significance of artificial intelligence.

HCLTech reported revenue of ₹35,620 crore, an increase of 11.5 percent year-on-year, while net income rose 21.2 percent to ₹5,132 crore. Its advanced AI revenue increased 78 percent year-on-year in constant currency, indicating opportunities in enterprise AI adoption.

Infosys recorded revenue growth of 10.7 percent to ₹49,244 crore and net profit growth of 6.2 percent to approximately ₹7,828 crore. However, it reduced its FY27 revenue growth guidance to 1–2 percent in constant currency, citing a less favourable demand outlook in its largest market, the United States.

Wipro's results were more subdued. Revenue increased 9.1 percent year-on-year in rupee terms, but IT services revenue grew only 0.6 percent in constant currency. Net income declined 1.9 percent year-on-year, although its operating margin improved sequentially to 16.5 percent.

Taken together, the results suggest that the IT industry is undergoing a transition. AI, cloud and digital engineering offer significant growth opportunities, but monetisation, client spending and global demand will determine how quickly these opportunities translate into stronger earnings.

Consumption and Pharmaceuticals: Premiumisation Outpaces Mass-Market Recovery

Consumer-facing companies recorded divergent performances. Nestlé India reported a 36.3 percent increase in consolidated net profit to ₹1,026.77 crore, while revenue from product sales rose 20.5 percent to ₹6,782.17 crore. Growth was broad-based across product categories and supported by strong double-digit volume expansion.

The performance contrasts with the difficulties faced by some mass-market consumer and building-material companies. UltraTech Cement experienced pressure from monsoon-related volume disruption and weaker regional price realisations. The broader cement industry faced the challenge of balancing capacity utilisation, input costs and pricing discipline.

Pharmaceuticals and premium consumer segments showed greater resilience. Mankind Pharma's margin improvement illustrates how product mix, operating efficiency and premiumisation can support profitability even when demand conditions are uneven. The divergence suggests that consumer recovery is not yet uniform across income groups and product categories.

What the Earnings Season Reveals

Three broader conclusions emerge from the Q2 FY27 results.

First, domestic demand remains a major source of corporate resilience. Banking, automobiles, infrastructure and selected consumer businesses have benefited from credit expansion, public investment and household spending. Second, operating efficiency and balance-sheet strength are increasingly important determinants of profitability. Lower input-cost volatility and disciplined cost management have supported margins in several industries, although the benefits vary across sectors. Third, global exposure remains a source of uncertainty. IT services and export-oriented businesses continue to face the effects of cautious international spending and geopolitical risks.

The results also underline the growing importance of premiumisation, technological innovation and diversification. Companies able to move towards higher-value products, digital services and more efficient operations are better positioned to protect margins and sustain growth.

The Road Ahead

Corporate India's Q2 performance provides evidence of resilience, but it should not be interpreted as a uniformly strong earnings cycle. The banking and infrastructure sectors remain important growth anchors, while automobiles and selected consumer businesses are benefiting from domestic demand. At the same time, subdued global technology spending, uneven mass-market consumption and sector-specific input-cost pressures remain relevant risks.

For the second half of FY27, the critical indicators will be the durability of domestic consumption, private capital expenditure, credit growth, commodity prices and the pace of

recovery in major export markets. The ability of companies to convert revenue growth into sustainable operating cash flows will be equally important.

Ultimately, the strength of corporate India will depend not merely on headline profit growth but on the breadth and quality of that growth. A more balanced expansion—supported by investment, productivity, innovation and wider consumption demand—will be essential for translating corporate resilience into sustained economic momentum.

Bottomline:

Corporate India's Q2 FY27 performance reflects underlying resilience but also widening disparities across sectors and companies, with uneven demand conditions highlighting the need for broader consumption recovery and sustained investment to strengthen the growth outlook.

BANKING, FINANCIAL SERVICES & INSURANCE

BANKING REFORMS FOR VIKSIT BHARAT: REVISITING THE UNFINISHED AGENDA AND PREPARING FOR THE FUTURE

Dr Debesh Roy

Chairman, InsPIRE

The constitution of the High-Level Committee on Banking for Viksit Bharat marks an important step towards preparing India's banking system for the financing requirements of a rapidly expanding economy. Announced in the Union Budget 2026–27, the committee, chaired by former Central Vigilance Commissioner and former Andhra Bank Chairman Suresh N. Patel, has been mandated to recommend structural, regulatory and legislative reforms to make Indian banks globally competitive. Its six-month mandate, extending until April 2027, comes at a critical juncture when India needs a banking architecture capable of financing large-scale infrastructure investment, industrial expansion, technological transformation and inclusive development.

The significance of this exercise, however, extends beyond another round of regulatory adjustments. India's banking sector has undergone substantial transformation since the economic liberalisation of the 1990s. Yet, several structural questions concerning governance, institutional autonomy, consolidation, capital adequacy and the allocation of credit remain unresolved. The new committee therefore has an opportunity to revisit the unfinished agenda of earlier banking reforms while addressing the challenges emerging from a fundamentally different economic and technological environment.

Revisiting the Legacy of Banking Sector Reforms

The timing of the committee's constitution is particularly significant as 2026 marks 35 years since the submission of the first Narasimham Committee report in November 1991. The subsequent Narasimham Committee II report of 1998 provided another comprehensive framework for modernising India's financial system. These committees laid the foundations for

prudential regulation, capital adequacy, improved accounting standards, stronger supervision and greater operational efficiency.

Importantly, the Narasimham Committee did not consider privatisation of public sector banks (PSBs) a prerequisite for reform. Instead, it emphasised professional management, institutional autonomy and the separation of ownership from governance. It argued that banks should be managed according to commercial considerations rather than administrative priorities. This distinction remains relevant today. Public ownership need not necessarily imply bureaucratic control over operational and commercial decisions.

Several recommendations of the earlier committees were implemented, including the introduction of capital adequacy norms and the development of mechanisms for resolving non-performing assets. However, their recommendations concerning governance autonomy, consolidation and the international expansion of Indian banks remain only partially realised.

The Narasimham Committee had envisaged three to four large banks, including the State Bank of India, alongside eight to ten national banks, with a stronger international presence. Although consolidation has taken place through the merger of several public sector banks, questions remain about whether the process has generated the desired improvements in operational efficiency, institutional autonomy and global competitiveness. The new committee should therefore undertake a comprehensive assessment of the outcomes of previous consolidation exercises rather than treating bank size as an objective in itself.

Building Globally Competitive Banks

One of the central challenges facing Indian banking is the need to develop institutions with sufficient scale, capital strength and technological capabilities to finance the country's long-term investment requirements. As the economy expands, financing demand will increasingly arise from infrastructure, manufacturing, renewable energy, digital industries, urban development and emerging technology sectors.

The committee's proposed assessment of capital requirements across banks, development financial institutions and non-banking financial companies is therefore particularly important.

Adequate capital, competitive funding and appropriate prudential safeguards will be essential to sustaining credit expansion without compromising financial stability.

The possibility of attracting greater domestic and foreign investment into the banking sector also deserves attention. Recent large foreign investments involving IDBI Bank, RBL Bank and Yes Bank demonstrate international interest in India's banking market. However, the committee will need to examine whether existing regulatory provisions, including restrictions on voting rights for large shareholders and procedures governing foreign investment, adequately balance capital mobilisation with governance and systemic stability.

Similarly, the possibility of allowing large NBFCs to convert into universal banks warrants careful consideration. Such conversions could strengthen financial intermediation, provided institutions meet stringent requirements relating to capital, governance, risk management and regulatory compliance.

Consolidation should also be approached strategically. Larger banks can benefit from economies of scale, greater investment capacity and international reach, but excessive concentration may create systemic risks and weaken competition. The objective should be to develop a diversified banking structure comprising globally competitive universal banks alongside specialised institutions serving distinct market segments.

Reorienting Priority Sector Lending Towards Inclusion

A particularly important aspect of the committee's mandate is the proposed review of the Priority Sector Lending (PSL) framework and the Lead Bank Scheme. These mechanisms have historically played a significant role in directing institutional credit towards agriculture, micro and small enterprises and underserved sections of society.

However, the effectiveness of PSL needs to be assessed in terms of actual credit delivery and developmental outcomes rather than merely the achievement of prescribed targets. The existing broad sectoral classifications may allow banks to fulfil lending obligations without necessarily reaching the most credit-constrained beneficiaries.

The earlier Narasimham Committee had advocated a narrower definition of priority sector lending, emphasising small and marginal farmers, artisans, micro enterprises and small transport operators. The current review should revisit this principle while recognising the changing structure of the rural and urban economies.

A more targeted framework could prioritise smallholder agriculture, women-led enterprises, rural non-farm activities, FPOs, micro enterprises and economically weaker households. Technology-enabled credit assessment, digital financial records and alternative credit information can improve the identification of viable borrowers and reduce information asymmetries.

The Lead Bank Scheme also requires modernisation. Its coordination mechanisms should increasingly be supported by granular district-level credit data, measurable development outcomes and stronger convergence between banks, government departments and local institutions. Financial inclusion must evolve from access to banking services towards access to affordable, productive and sustainable credit.

Governance, Technology and Regulatory Modernisation

Bank governance is another critical area requiring structural attention. Operational autonomy, professional board oversight, accountability and transparent performance assessment must become central to the functioning of public sector banks. Strengthening governance does not necessarily require a change in ownership; rather, it requires clearly defined institutional responsibilities and insulation from unnecessary administrative intervention.

The committee's mandate also recognises the transformative role of artificial intelligence and digital innovation. Indian banking has made considerable progress in digital payments, account access and technology-enabled service delivery. The next phase will involve wider applications of AI in credit assessment, fraud detection, customer services, compliance monitoring and risk management.

However, technological adoption must be accompanied by robust cybersecurity frameworks, data protection, operational resilience and effective oversight of third-party technology

providers. Banks will also need to invest in specialised talent and continuous workforce development to manage the transition towards increasingly technology-intensive operations.

The review of regulatory and legal frameworks governing commercial banks, regional rural banks and cooperative banks is equally important. Regulatory requirements should reflect differences in institutional size, complexity and risk exposure without compromising prudential standards. Simplifying compliance procedures and improving coordination among regulatory institutions can enhance efficiency and reduce operational costs.

The Road Ahead: Aligning Banking with Viksit Bharat

The most important challenge before the committee is to develop a coherent reform roadmap rather than a collection of isolated recommendations. India's banking system must simultaneously support economic growth, preserve financial stability, promote inclusion and strengthen its international competitiveness.

Three priorities deserve particular attention. First, governance and institutional autonomy should be strengthened across public sector banks, allowing professional management to operate within clearly defined accountability frameworks. Second, capital mobilisation and consolidation should be guided by the objective of building competitive institutions without creating excessive systemic concentration. Third, financial inclusion and priority sector lending should be redesigned around measurable developmental outcomes, supported by digital infrastructure and better credit information.

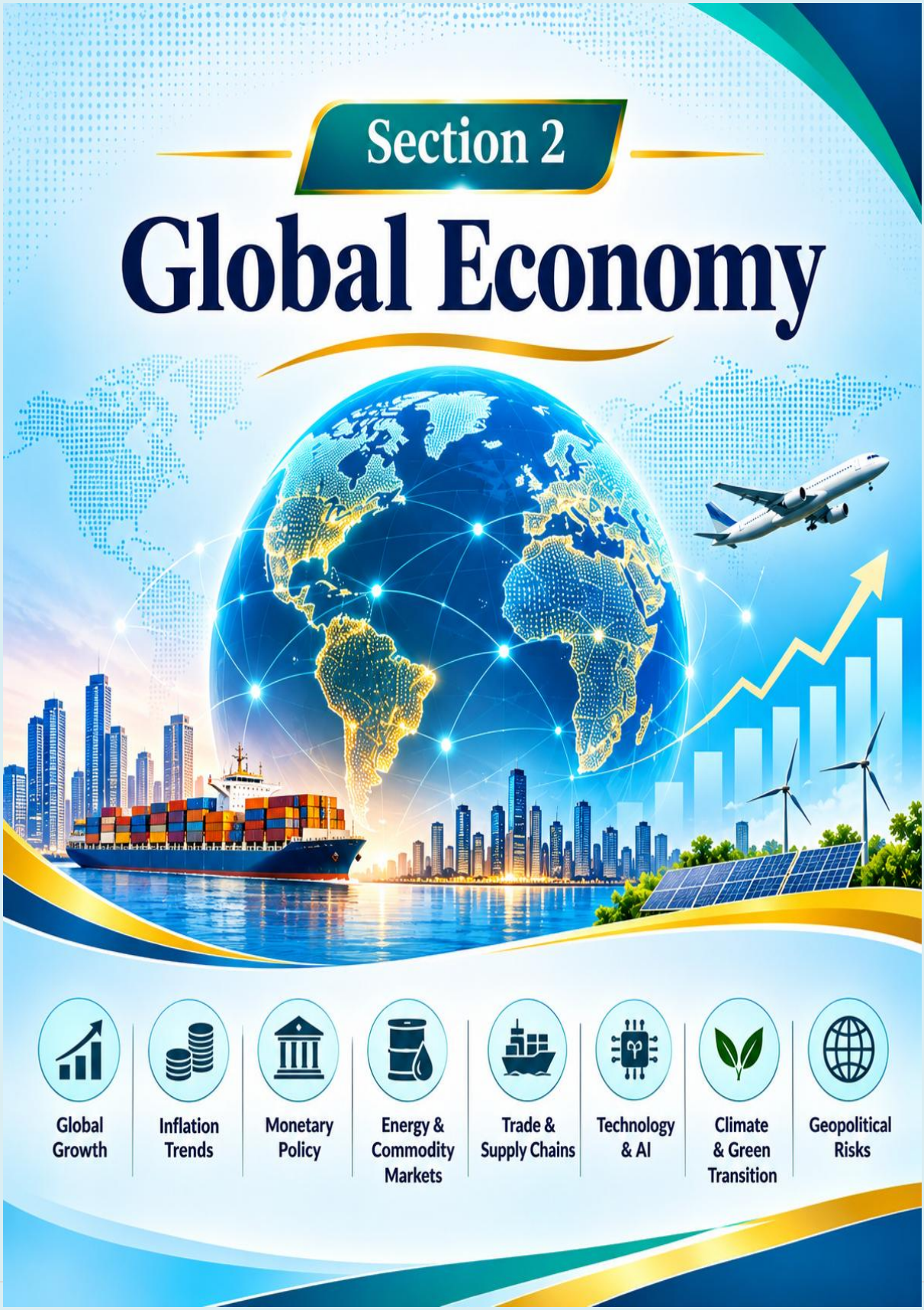
Equally important will be the sequencing of reforms. The experience of previous banking committees demonstrates that recommendations can remain unimplemented for years when institutional incentives, regulatory coordination and political commitment are inadequate. The new committee must therefore distinguish between reforms that can be implemented immediately and those requiring legislative amendments or broader institutional restructuring.

Ultimately, the success of the High-Level Committee on Banking for Viksit Bharat will depend not on the comprehensiveness of its recommendations alone, but on their implementation. India's ambition of becoming a developed economy by 2047 requires a banking system that is

financially resilient, technologically advanced, professionally governed and development-oriented. Revisiting the unfinished agenda of the Narasimham Committees while responding to the demands of a changing economy offers an opportunity to achieve precisely that. The next generation of banking reforms must ensure that Indian banks do not merely grow alongside the economy but become active drivers of its transformation.

Bottomline:

Realising the vision of Viksit Bharat requires moving beyond incremental banking reforms towards a stronger, more inclusive, technology-driven and resilient banking system capable of financing growth, expanding financial access and meeting the demands of a rapidly transforming economy.


Section 2
Global Economy
Global Growth
Inflation Trends
Monetary Policy
Energy & Commodity Markets
Trade & Supply Chains
Technology & AI
Climate & Green Transition
Geopolitical Risks

SECTION 2: GLOBAL ECONOMY

GLOBAL ECONOMIC OUTLOOK

GLOBAL FINANCIAL STABILITY UNDER PRESSURE: EMERGING RISKS IN AN AGE OF AI, LEVERAGE AND DIGITAL FINANCE

EcoSphere Editorial

The global financial system has demonstrated considerable resilience despite geopolitical conflicts, economic uncertainty and tighter financial conditions. However, beneath this apparent stability, financial vulnerabilities are accumulating, creating the possibility of sudden market disruptions with wider macroeconomic consequences. The International Monetary Fund's (IMF) October 2026 *Global Financial Stability Report*, titled *Resilience, Risk, and Transformation*, examines these emerging vulnerabilities and highlights the need for stronger regulatory oversight, improved risk management and greater institutional preparedness.

The report identifies three major risks that could trigger a sharp tightening of financial conditions: a correction in artificial intelligence (AI)-related asset valuations, a sudden increase in sovereign bond yields and escalating cyber threats. These risks are particularly concerning because they could interact with existing vulnerabilities in banks, non-bank financial institutions (NBFIs), private credit markets and institutional investment portfolios.

AI Investment Boom: Opportunity and Financial Vulnerability

The rapid expansion of AI investment has become an important source of support for global economic activity and financial markets. Strong corporate earnings and investments in data centres, semiconductors and computing infrastructure have sustained equity market valuations. However, the IMF cautions that the growing concentration of investments and rising leverage within the AI ecosystem could amplify the consequences of an investment slowdown.

Since 2024, the share of global investment-grade corporate bond issuance accounted for by major cloud-computing and data-centre companies has increased to 10 percent, from less than 1 percent. Hedge funds' gross equity positions and margin loans have also expanded substantially. Furthermore, circular financing arrangements, involving approximately $300 billion in equity investments and $650 billion in additional debt against $1.4 trillion in future revenue commitments, have created interconnected financial exposures.

A reassessment of AI-related earnings expectations could therefore trigger sharp corrections in equity valuations, forced asset sales and wider credit-market disruptions. The challenge is to ensure that technological innovation is supported by sustainable financing rather than excessive leverage and speculative expectations.

Sovereign Debt and Bond Market Fragilities

The second major risk arises from the possibility of a sharp increase in sovereign bond yields. Elevated public debt, persistent fiscal deficits, higher energy prices and inflation uncertainty have increased the compensation demanded by investors for holding longer-term government securities. The IMF observes that term premiums have risen, particularly in advanced economies, increasing refinancing risks and the vulnerability of bond markets to adverse developments.

A sudden rise in yields could increase government borrowing costs, reduce the market value of existing bond portfolios and transmit stress across financial institutions. The growing participation of leveraged non-bank investors in sovereign bond markets adds another layer of vulnerability. Strengthening market infrastructure, expanding central clearing and maintaining credible central bank liquidity arrangements are therefore essential.

Cybersecurity: An Emerging Systemic Risk

Rapid digitalisation has increased the interconnectedness of financial institutions, payment systems and market infrastructure. While technology improves efficiency, it also expands the potential attack surface for cybercriminals. The IMF highlights the growing significance of

advanced AI models, which can strengthen cyber defence but can also facilitate increasingly sophisticated cyberattacks.

Disruptions affecting critical financial institutions or market infrastructure could undermine confidence and interrupt essential financial services. Cybersecurity must consequently become an integral component of financial stability policy, supported by stronger incident reporting, third-party risk oversight and operational resilience testing.

Non-Bank Finance, Hedge Funds and Private Credit

An important contribution of this report is its examination of risks originating outside the traditional banking system. Global hedge fund gross assets exceeded $13 trillion in early 2026, having more than tripled since the previous decade. Although hedge funds support market liquidity during normal conditions, leverage, crowded investment positions and fragile investor funding can amplify volatility during periods of stress.

Similarly, private credit direct lending has expanded to nearly $2 trillion globally. Higher borrower leverage and contingent liquidity commitments could intensify financial stress if credit conditions deteriorate. Pension funds and insurance companies are also increasing their exposure to illiquid assets, creating liquidity mismatches and the possibility of forced asset sales.

These developments demonstrate that financial stability cannot be assessed exclusively through the capital adequacy and liquidity positions of commercial banks. Greater attention must be given to interconnected exposures across banks, hedge funds, insurers, pension funds and private credit institutions.

Tokenisation: Efficiency with New Risks

The report's third chapter examines the growing potential of asset tokenisation. Representing financial assets on distributed programmable ledgers can reduce reconciliation costs, improve transparency, facilitate fractional ownership and enable continuous trading. However, tokenised markets remain relatively small, fragmented and less liquid than traditional markets.

The IMF identifies legal uncertainty, regulatory ambiguity, inadequate interoperability and the availability of reliable settlement assets as major constraints. As adoption expands, tokenisation could introduce additional risks involving liquidity, leverage, operational infrastructure and interconnectedness. A technology-neutral regulatory approach, supported by appropriate safeguards, will be necessary to ensure that financial innovation does not undermine stability.

India: Preserving Financial Stability Amid Financial Transformation

For India, the IMF's assessment carries important implications as its financial system becomes increasingly integrated with global capital markets and digital financial infrastructure. The report's analysis of equity-market sensitivity to global AI developments indicates that India's market has relatively limited direct sensitivity compared with several advanced technology-oriented markets. Nevertheless, global market corrections can still affect India through foreign portfolio investment flows, investor sentiment and international financial linkages.

India's banking system must continue strengthening capital and liquidity buffers, improving asset-quality surveillance and monitoring exposures to non-bank financial institutions. The expansion of private credit and alternative financing also calls for greater transparency and effective supervision of interconnected financial exposures.

The report's discussion of tokenisation is particularly relevant to India's evolving financial architecture. India has already introduced optional same-day settlement for selected equity-market segments using conventional technology. This illustrates that market efficiency can improve without necessarily adopting distributed-ledger systems. Future developments in tokenised securities, digital settlement and financial infrastructure will require legal clarity, interoperability, cybersecurity and appropriate investor protection.

Cyber resilience deserves particular attention given India's rapidly expanding digital payments ecosystem and increasing dependence on technology-driven financial services. Strengthening incident-response capabilities, third-party oversight and operational continuity will be critical.

Conclusion

The IMF's October 2026 GFSR makes an important distinction between financial market resilience and underlying financial stability. Strong earnings, adequate bank capital and accommodative financial conditions have supported markets, but leverage, liquidity mismatches, sovereign debt vulnerabilities and technological risks remain significant.

For India, the priority should be to combine financial innovation with prudent regulation, strengthen oversight of non-bank financial institutions, improve market infrastructure and preserve macroeconomic buffers. Ultimately, a resilient financial system must not only support investment and economic growth but also withstand shocks without disrupting the flow of credit and essential financial services

Bottomline:

The growing interplay of artificial intelligence, leverage and digital finance is creating new vulnerabilities in the global financial system, underscoring the urgency of stronger regulatory oversight, robust risk management and international cooperation to safeguard financial stability.

Global Financial Stability Report October 2026 can be accessed from:
https://www.imf.org/-/media/files/publications/gfsr/2026/october/english/text.pdf

BEYOND REVENUE MOBILISATION: HOW SMARTER TAXATION CAN UNLOCK ECONOMIC GROWTH

EcoSphere Editorial

Governments across the world are confronted with a difficult fiscal dilemma: how to mobilise adequate revenues to finance rising public expenditure without undermining private investment, employment and economic growth. High public debt, elevated borrowing costs, geopolitical uncertainties and mounting spending commitments have narrowed fiscal space, while medium-term global growth is expected to remain subdued. In this context, the International Monetary Fund's (IMF) October 2026 *Fiscal Monitor*, in its Chapter 1, *Taxing Better to Boost Growth*, makes an important policy proposition: the quality of taxation matters as much as the amount of revenue collected. Improving tax design and administration can generate significant economic gains without necessarily reducing government revenues.

Tax Design and the Growth Imperative

Taxation influences economic decisions through its impact on production costs, investment returns, innovation, labour supply and business expansion. Poorly designed tax provisions can distort the allocation of resources, discourage productive investment and impose disproportionate compliance costs on smaller enterprises. The IMF therefore advocates greater tax neutrality, raising the required revenue while minimising interference in economically efficient decisions.

The potential costs of such distortions are considerable. In emerging market and developing economies, VAT-related exemptions and incomplete crediting of input taxes can increase firms' input costs by as much as 9 percent. Similarly, conventional corporate income taxes increase the cost of capital by approximately 15–20 percent on average across country groups, partly because investment expenditure is not fully recovered for tax purposes. These distortions discourage investment and constrain productivity growth.

The IMF's cross-country analysis covering 55 economies during 2002–18 finds that a one-standard-deviation reduction in tax distortions is associated with GDP per capita being

approximately 3.5 percent higher after three years. This demonstrates that improvements in tax efficiency can generate meaningful growth dividends.

Restoring VAT Neutrality and Encouraging Investment

One of the principal recommendations concerns reforming value-added taxation. A properly designed VAT should tax final consumption rather than production. However, exemptions and restrictions on input-tax credits can transform VAT into an implicit tax on intermediate production, with costs cascading through supply chains.

The IMF estimates that restoring VAT neutrality could generate annual welfare gains of up to 0.8 percent of GDP in the economies studied, with an average gain of 0.26 percent. Limiting exemptions, ensuring timely refunds and improving input-tax credit mechanisms can therefore enhance competitiveness, particularly for manufacturing and exporting enterprises.

Corporate taxation also requires reconsideration. Rather than relying exclusively on reductions in statutory tax rates, governments should facilitate faster recovery of investment costs while preserving taxation of economic rents. The report estimates that eliminating tax-induced increases in the cost of capital could raise long-term GDP by 2.1–2.7 percent. The corresponding increase in the long-term capital stock could reach 6.4 percent in advanced economies and 8.2 percent in low-income developing countries. Such reforms could strengthen capital formation without necessarily sacrificing revenue.

Incentivising Innovation and Enterprise Growth

Tax incentives can support innovation when they address genuine market failures, particularly the positive externalities associated with research and development (R&D). However, incentives based primarily on firm size or income from intellectual property may encourage inefficient resource allocation and subsidise profits rather than additional innovation.

The IMF favours expenditure-based R&D incentives, such as enhanced deductions and tax credits, over preferential taxation of income generated from intellectual property. Its analysis indicates that every dollar of revenue forgone through expenditure-based R&D incentives

generates approximately 80 cents of additional R&D that firms would otherwise not have undertaken.

Another important issue is the adverse impact of size-based tax thresholds. Preferential treatment for smaller firms can discourage them from expanding to avoid higher tax liabilities or mandatory registration. Significantly, the IMF's analysis of firms in West Bengal during 2010–16 identifies bunching immediately below the VAT registration threshold. This illustrates how tax provisions can unintentionally constrain enterprise growth and formalisation. Smoother tax thresholds and simpler compliance arrangements can encourage firms to expand and achieve greater economies of scale.

Strengthening Employment Incentives and Tax Administration

Tax-benefit systems also influence labour market participation. High effective tax rates, combined with the withdrawal of social benefits as earnings increase, can reduce the financial gains from entering employment or working additional hours. Revenue-neutral reforms that expand targeted in-work tax credits and recalibrate marginal tax rates could increase employment rates by approximately 1.2 percentage points in emerging market and developing economies and 0.8 percentage point in advanced economies.

Equally important is strengthening tax administration. Complex registration, filing, payment and refund procedures impose substantial costs, particularly on small and young enterprises. The IMF estimates that countries with stronger tax administration, at the 67th percentile of operational strength, collect approximately 1.7 percentage points of GDP more revenue than countries at the 33rd percentile.

Digitalisation, risk-based compliance management, improved taxpayer services and predictable dispute-resolution mechanisms can enhance revenue mobilisation while reducing the compliance burden. The experiences of Greece, Jamaica, Sri Lanka and Zambia demonstrate the potential of sustained administrative modernisation.

Implications for India and the Way Forward

For India, the IMF's findings offer important lessons for aligning tax policy with the country's development ambitions. The experience of West Bengal highlights the need to examine whether tax thresholds and compliance requirements inadvertently discourage enterprise expansion. Further simplification of GST compliance, timely input-tax credit refunds and predictable tax administration can strengthen the competitiveness of businesses, particularly MSMEs.

India should also ensure that corporate taxation encourages productive capital formation, while R&D incentives are directed towards additional innovation. Improving employment incentives and reducing the compliance costs of formalisation would further strengthen the productive capacity of the economy.

However, tax reform is not merely a technical exercise. Changes that withdraw existing tax concessions can encounter resistance from affected groups. Effective communication, stakeholder consultation, phased implementation and targeted support are therefore essential for building public acceptance.

Ultimately, the IMF's central message is that taxing better is a long-term growth strategy. It is not a substitute for additional revenue mobilisation where required, nor should efficiency considerations undermine equity. Rather, the objective is to finance public expenditure through a tax system that imposes fewer economic distortions, encourages productive activity and strengthens the revenue base. For India, a more efficient, predictable and growth-oriented tax architecture can become an important instrument in advancing investment, employment and the broader ambition of becoming a developed economy by 2047.

Bottomline:

Smarter taxation must go beyond revenue mobilisation to create a simpler, fairer and more growth-oriented tax system that encourages investment, strengthens compliance, supports enterprise and advances inclusive and sustainable economic development.

IMF's Fiscal Monitor October 2026 can be accessed from:
https://www.imf.org/en/publications/fm/issues/2026/10/05/fiscal-monitor-october-2026#Chapters

MONETARY POLICY

THE FED'S OCTOBER 2026 POLICY PAUSE: RESILIENT GROWTH, PERSISTENT INFLATION AND A DIVIDED COMMITTEE

EcoSphere Editorial

The US Federal Reserve's October 28, 2026, monetary policy decision reflects a cautious approach to an economy displaying considerable resilience alongside persistent inflationary pressures. The Federal Open Market Committee (FOMC) voted by 10–2 to maintain the target range for the federal funds rate at 3.75–4 per cent, signalling that the Committee is not yet convinced that inflation is on a sufficiently sustained path towards its 2 per cent objective. The decision also reveals differences within the Committee over the appropriate policy response, with two members favouring a further rate increase.

The decision is significant because it comes at a time when domestic economic activity remains strong, private spending is resilient and investment is robust. However, elevated inflation and geopolitical uncertainty complicate the outlook, making the balance between supporting economic activity and restoring price stability increasingly delicate.

A Pause amid Economic Resilience

The FOMC's assessment of the US economy was broadly positive. Economic activity is expanding at a strong pace, supported by resilient domestic spending, robust capital investment and strong productivity growth. Job gains have kept pace with the workforce, while the unemployment rate has changed little. These conditions suggest that the economy has retained considerable momentum despite uncertainty arising partly from geopolitical developments.

The resilience of domestic demand is particularly important for the Fed's policy calculations. Strong consumption and investment sustain economic growth, but they can also keep demand-side price pressures elevated if supply does not expand sufficiently. Similarly, strong productivity growth can improve the economy's capacity to grow without generating inflation,

although the extent to which this translates into lower prices depends on the durability and distribution of productivity gains.

The Committee's decision to hold rates therefore represents neither a declaration of victory over inflation nor an indication that monetary tightening is imminent. Rather, it reflects a preference to assess incoming economic information before making another adjustment to the policy stance.

Inflation Remains the Central Concern

The most important consideration behind the Fed's cautious position is that inflation remains elevated. The Committee reiterated its commitment to returning inflation to its 2 per cent objective and emphasised that the accumulation of further information would help determine the appropriate policy stance.

This language suggests that the Fed is not prepared to ease monetary conditions merely because economic activity remains strong or the labour market appears stable. Price stability remains central to its mandate, and the Committee will need convincing evidence that inflation is moving sustainably towards the target before considering a change in direction.

The policy challenge is particularly complex because geopolitical developments can influence energy prices, supply chains and production costs. Such shocks can create inflationary pressures even when domestic demand is not excessive. At the same time, resilient spending and investment may make it difficult for monetary policy to contain inflation without affecting economic momentum.

The Fed must therefore distinguish between temporary price pressures arising from supply disruptions and more persistent inflation generated by domestic demand and expectations. Maintaining the policy rate allows the Committee to retain a restrictive degree of monetary discipline while monitoring these developments.

A Divided Committee: Significance of the Dissent

An important feature of the October decision was the 10–2 voting split. Lisa D. Cook and Beth M. Hammack dissented, preferring to raise the federal funds rate by 25 basis points. Their position indicates that at least two members considered a further increase necessary to address continuing inflationary risks.

The dissent is significant because it highlights the difficulty of reaching consensus when economic activity is strong but inflation remains above the desired level. While the majority preferred to maintain the existing rate and assess additional information, the dissenting members evidently placed greater weight on the risks of allowing inflation to remain elevated.

However, the voting split should not automatically be interpreted as a signal that a rate increase is imminent. It does indicate that the Committee is divided over the balance of risks and that future decisions will remain sensitive to inflation developments and incoming economic indicators.

Monetary Policy Implementation and Liquidity Conditions

Alongside the rate decision, the Federal Reserve maintained its policy of ensuring ample reserves in the banking system. The Board of Governors unanimously retained the interest rate paid on reserve balances at 3.90 per cent, effective October 29. The primary credit rate was also maintained at 4 per cent.

The FOMC directed the Federal Reserve Bank of New York's Open Market Desk to conduct operations necessary to keep the federal funds rate within the 3.75–4 per cent target range. Standing overnight repurchase operations will continue at 4 per cent, while the offering rate on standing overnight reverse repurchase operations will remain at 3.75 per cent, with a daily per-counterparty limit of US$160 billion.

The Committee also retained flexibility to increase securities holdings through purchases of Treasury bills and, if necessary, other Treasury securities with remaining maturities of three years or less to maintain an ample level of reserves. Principal payments from Treasury

securities will be rolled over at auction, while payments from agency securities will be reinvested in Treasury bills.

These operational measures underline that monetary policy involves more than setting the benchmark interest rate. Managing reserves and short-term money-market conditions is essential to ensuring that the policy decision is transmitted effectively through the financial system.

Implications for the Global Economy and India

The Fed's decision has implications beyond the United States. Interest-rate expectations influence global capital flows, bond yields, currency movements and the cost of international financing. A prolonged period of relatively high US interest rates could sustain pressure on emerging-market currencies and make external borrowing more expensive. It could also influence portfolio investment decisions, particularly where investors perceive a more attractive risk-adjusted return in US assets.

For India, the implications will depend on the interaction between global financial conditions and domestic macroeconomic fundamentals. Sustained US rate stability may limit immediate volatility, but continuing uncertainty over the future policy direction could affect foreign portfolio flows and exchange-rate expectations. A stronger dollar or renewed global risk aversion could add pressure to the rupee and complicate the management of external-sector risks.

At the same time, India's policy response will need to remain guided by domestic inflation, growth and liquidity conditions rather than mechanically following the Fed. Maintaining macroeconomic stability, strengthening external buffers and sustaining investor confidence will remain important.

Conclusion

The October 2026 decision reflects a Federal Reserve balancing strong economic activity against the unfinished task of restoring price stability. The decision to hold rates at 3.75–4 per

cent provides continuity, while the two dissenting votes reveal concern that inflation risks may require a firmer response.

The immediate policy message is one of caution and data dependence. The Fed has retained flexibility to respond as the economic outlook evolves, but its commitment to the 2 per cent inflation objective remains unequivocal. For global markets and emerging economies such as India, the key variable will be how quickly inflation moderates and whether the resilience of US growth allows monetary policy to remain stable without reigniting price pressures.

Bottomline:

The Fed's October policy pause reflects the delicate balance between resilient economic growth and persistent inflation, with divisions within the Committee underscoring the uncertainty surrounding the timing and pace of future monetary easing.

ECB HOLDS INTEREST RATES AS ENERGY SHOCK RAISES INFLATION AND GROWTH RISKS

EcoSphere Editorial

The European Central Bank (ECB), at its monetary policy meeting on 29 October 2026, decided to keep all three key interest rates unchanged, adopting a cautious stance amid rising energy prices and heightened uncertainty over the euro area's economic outlook. The decision reflects the Governing Council's assessment that the ongoing energy shock poses risks in both directions: higher inflation and weaker economic growth. With the full effects of the shock still unfolding, the ECB has chosen to retain policy flexibility rather than signal a predetermined interest-rate trajectory.

The deposit facility rate remains at 2.50 per cent, the main refinancing operations rate at 2.65 per cent and the marginal lending facility rate at 2.90 per cent. The decision underscores the ECB's continued commitment to ensuring that inflation stabilises at its 2 per cent target over the medium term.

Energy Shock Complicates the Inflation Outlook

The principal concern confronting the ECB is the continued increase in energy prices. Higher energy costs directly affect household purchasing power and business operating expenses. They can also feed into the prices of transportation, manufacturing, food and other goods and services, creating indirect inflationary pressures.

The Governing Council noted that the magnitude and duration of the energy shock could have more significant consequences than initially anticipated. Although underlying inflation has remained broadly stable and wages have not yet shown a material response, the risk of second-round effects remains important. If businesses pass higher energy and production costs on to consumers, and workers subsequently seek higher wages to compensate for lost purchasing power, inflation could become more persistent.

This creates a difficult policy trade-off. Raising interest rates to contain inflation could further weaken investment and consumption, while easing monetary conditions prematurely could allow energy-related price pressures to become embedded in the broader economy.

Growth Outlook Faces Downside Risks

The energy shock is also weighing on the euro area's growth prospects. Higher energy costs reduce disposable incomes, increase production expenses and can discourage private investment. Energy-intensive industries are particularly vulnerable, as rising input costs can undermine competitiveness and compress profit margins.

The ECB also observed that financing conditions have tightened since its previous meeting. Higher borrowing costs and more restrictive financial conditions are likely to weigh on both inflation and economic activity. While tighter financing may help moderate demand-driven price pressures, it can simultaneously constrain household consumption, business investment and credit expansion.

The central challenge is therefore to distinguish between inflation arising from supply-side disruptions and price pressures sustained by domestic demand. Monetary policy can influence the latter more directly, but it cannot immediately reverse an external energy shock.

A Data-Dependent and Flexible Policy Approach

The ECB has reiterated that future monetary policy decisions will follow a data-dependent, meeting-by-meeting approach. The Governing Council will assess incoming economic and financial information, the outlook for inflation, underlying price dynamics and the strength of monetary policy transmission.

Importantly, the ECB has not pre-committed to a particular interest-rate path. This approach allows it to respond to changing circumstances without signalling either further tightening or an early return to monetary easing.

The flexibility is particularly relevant because the ultimate economic consequences of the energy shock remain uncertain. If energy prices continue to rise and inflation expectations

become less firmly anchored, the ECB may face pressure to maintain a restrictive stance for longer. Conversely, if higher costs substantially weaken economic activity and inflationary pressures moderate, the case for maintaining current rates could strengthen.

Liquidity Management and Monetary Transmission

The ECB also confirmed that its Asset Purchase Programme (APP) and Pandemic Emergency Purchase Programme (PEPP) portfolios are continuing to decline at a measured and predictable pace. The Eurosystem is no longer reinvesting principal payments from maturing securities, allowing these portfolios to contract gradually.

The Governing Council retains the flexibility to adjust all monetary policy instruments within its mandate to ensure medium-term price stability and preserve the smooth transmission of monetary policy across the euro area. It also reaffirmed the availability of the Transmission Protection Instrument (TPI), which can be used to counter unwarranted and disorderly market dynamics that threaten monetary policy transmission across member countries.

This safeguard is important because divergent borrowing costs across euro area economies could undermine the effectiveness of a common monetary policy. Preserving orderly financial conditions remains essential to ensuring that policy decisions are transmitted consistently across the currency union.

Implications and the Road Ahead

The October decision reflects the ECB's preference for caution in an environment where inflation and growth risks are moving in opposite directions. Rising energy prices could reignite inflation, while tighter financing conditions and higher production costs could weaken economic activity.

For global markets, the ECB's stance signals that major central banks remain sensitive to supply-side inflation risks and are unlikely to ease policy automatically in response to weaker growth. For emerging economies, including India, developments in European energy demand, trade and financial conditions could influence export prospects, capital flows and exchange-rate movements.

Ultimately, the ECB's policy challenge will be to prevent a temporary energy shock from becoming a persistent inflation problem without imposing an excessive burden on economic growth. Its decision to hold rates provides room to assess incoming evidence, but the policy outlook remains uncertain. The trajectory of energy prices, underlying inflation and financial conditions will determine whether the current pause is sustained or followed by a change in the monetary policy stance.

Bottomline:

The ECB's decision to hold interest rates reflects its cautious approach to balancing renewed energy-driven inflationary pressures against weakening growth prospects, as the evolving energy shock complicates the monetary policy outlook and heightens the risk of stagflation across the euro area.

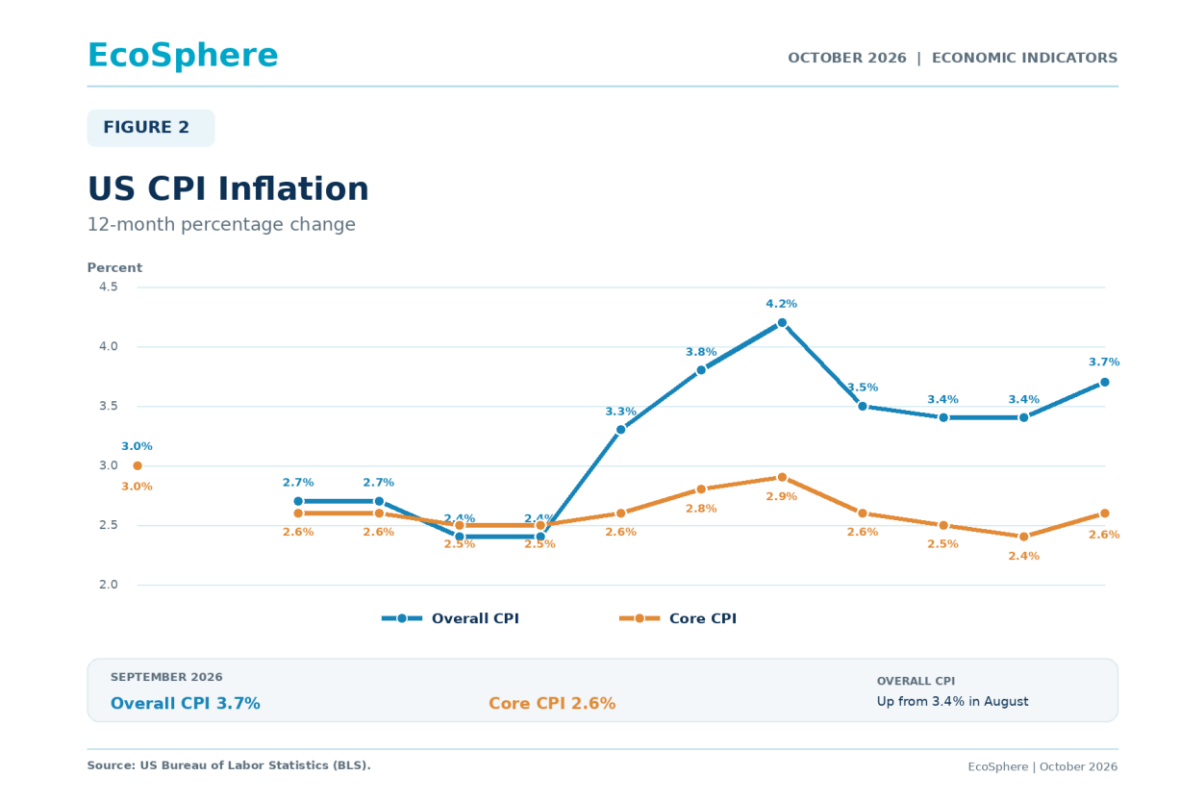
INFLATION

US INFLATION REACCELERATES: ENERGY PRICES COMPLICATE THE FEDERAL RESERVE'S POLICY OUTLOOK

EcoSphere Editorial

US inflationary pressures strengthened in September 2026, reversing some of the moderation observed in recent months. According to the US Bureau of Labor Statistics (BLS), the Consumer Price Index for All Urban Consumers (CPI-U) increased by 0.6 percent on a seasonally adjusted basis in September, compared with 0.4 percent in August (Figure 1). On an annual basis, consumer inflation accelerated to 3.7 percent, up from 3.4 percent in August (Figure 2). The latest figures indicate that the disinflationary process remains fragile, with rising energy prices emerging as a major source of renewed inflationary pressure.





The most significant contributor to the monthly increase was energy. The energy index rose by 5.2 percent in September, following a 2.1 percent increase in August. Gasoline prices increased by 9.1 percent, accounting for more than half of the monthly rise in the overall CPI. On an annual basis, energy inflation reached 20.4 percent, while gasoline prices increased by 34.2 percent. Fuel oil recorded an even sharper annual increase of 74.2 percent. These developments underline the vulnerability of household purchasing power and business costs to volatility in energy markets.

Core Inflation Shows Relative Stability, but Services Remain Firm

Excluding food and energy, core CPI increased by 0.3 percent in September, matching the increase recorded in August. Annual core inflation, however, edged upwards to 2.6 percent from 2.4 percent in August. This suggests that the immediate acceleration in headline inflation is largely energy-driven, although underlying price pressures have not disappeared.

Shelter costs continued to exert upward pressure. The shelter index increased by 0.4 percent during September, compared with 0.3 percent in August, while annual shelter inflation stood at 3.2 percent. Rents increased by 0.2 percent and owners' equivalent rent by 0.3 percent during the month. Services excluding energy services rose by 0.4 percent, compared with 0.3 percent in August, and increased by 3.1 percent over the year.

Several other categories also registered monthly increases. Airline fares rose by 1.2 percent, used cars and trucks by 0.7 percent, education by 0.6 percent and recreation by 0.5 percent. Airline fares recorded a particularly substantial annual increase of 22.4 percent. These movements indicate that inflationary pressures are not confined entirely to energy, although the relatively moderate increase in core CPI suggests that broad-based price acceleration remains limited.

Food Inflation Provides Some Relief

Food prices remained relatively stable in September, with the overall food index unchanged during the month. Prices of food consumed at home declined by 0.1 percent, while food away from home increased by 0.2 percent. The annual increase in food prices was 2.5 percent, comprising 1.8 percent for food at home and 3.5 percent for food away from home.

Within grocery prices, meat, poultry, fish and eggs declined by 0.5 percent, while dairy and related products fell by 0.9 percent. In contrast, fruits and vegetables increased by 0.5 percent, and non-alcoholic beverages rose by 0.9 percent. The relative stability of food prices has helped moderate the overall inflationary impact on households, although rising energy and service costs continue to constrain disposable incomes.

Implications for the Federal Reserve

The September inflation figures present a difficult policy environment for the Federal Reserve. The acceleration in headline CPI, combined with the rise in annual core inflation, suggests that the central bank cannot yet assume that inflation is firmly returning to its 2 percent objective.

However, the composition of inflation is important. A substantial part of the monthly increase originated in gasoline and energy prices, which may reflect supply-side developments rather

than excessive domestic demand. Tightening monetary policy in response to a temporary energy shock could unnecessarily weaken consumption, investment and employment. Conversely, allowing elevated energy prices to feed into wages, transportation costs and inflation expectations could make price pressures more persistent.

The Federal Reserve will therefore need to assess the persistence of energy inflation, developments in shelter costs and the behaviour of underlying services prices before determining its policy response. The distinction between a temporary supply shock and a broader inflationary process will be particularly important.

Outlook: Energy Markets Remain the Critical Variable

The September CPI release highlights the continuing vulnerability of the US economy to global energy-market developments. While food inflation remains contained and core inflation is relatively moderate, the sharp increase in gasoline and other energy prices has interrupted the recent improvement in headline inflation.

The immediate outlook will depend significantly on the trajectory of international crude oil prices, domestic fuel costs and the extent to which higher energy prices transmit into other goods and services. Persistent increases could weaken household purchasing power, raise production costs and complicate the Federal Reserve's efforts to achieve price stability without undermining economic activity.

The broader policy challenge is to prevent temporary energy shocks from becoming entrenched inflationary pressures. For the Federal Reserve, September's figures reinforce the need for a cautious, data-dependent approach. The direction of monetary policy will depend not simply on the headline inflation rate, but on whether the renewed price pressures prove temporary or signal a more persistent challenge to US price stability.

EUROZONE INFLATION SURGES TO A THREE-YEAR HIGH: ENERGY PRICES REKINDLE INFLATIONARY PRESSURES

Inflationary pressures in the Eurozone intensified in September 2026, with the annual inflation rate accelerating for the third consecutive month to 3.8 percent (Figure 3), its highest level since September 2023. This compares with 3.2 percent in August and is consistent with the preliminary estimate. The latest increase highlights the renewed challenge facing the European Central Bank (ECB) as rising energy prices threaten to reverse the progress achieved in bringing inflation closer to its 2 percent target.



Energy emerged as the principal driver of the acceleration, with annual price growth increasing sharply to 18.9 percent in September from 14.3 percent in August. Inflation also edged higher in services, rising to 3.2 percent from 3 percent, while food, alcohol and tobacco inflation increased to 1.3 percent from 1.1 percent. In contrast, inflation in non-energy industrial goods moderated marginally to 1.1 percent from 1.2 percent. The divergence suggests that the latest

inflationary impulse is concentrated primarily in energy, although price pressures are also becoming somewhat broader.

The acceleration was widespread across the Eurozone. Among its largest economies, annual inflation rose in Germany to 3.3 percent from 2.9 percent, France to 3.4 percent from 2.6 percent, Italy to 4.2 percent from 3.2 percent, Spain to 5 percent from 4.6 percent, and the Netherlands to 3 percent from 2.8 percent. Slovakia was the only country to record a marginal decline, while inflation remained unchanged in Latvia and Portugal.

More significantly, annual core inflation, excluding energy, food, alcohol and tobacco, increased to 2.5 percent from 2.4 percent. Meanwhile, consumer prices rose by 0.6 percent month-on-month, indicating that the renewed inflationary momentum is not confined to annual comparisons.

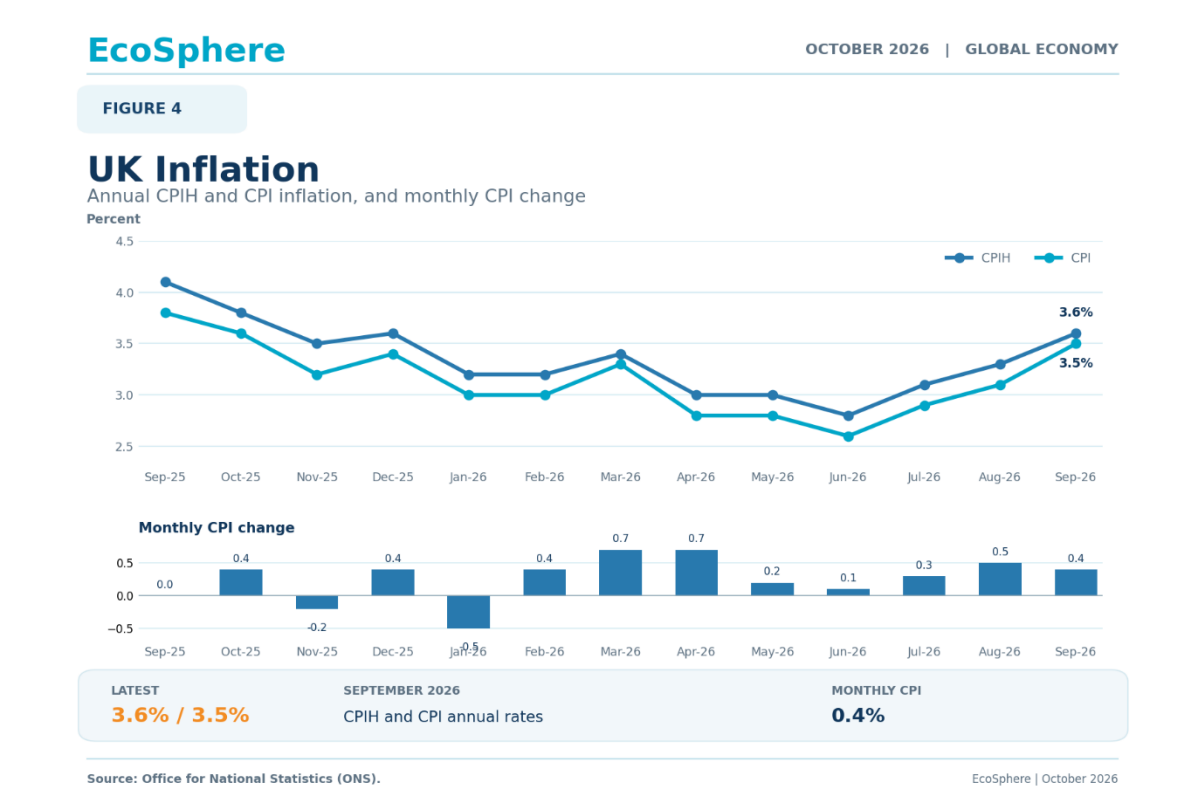
The latest figures complicate the ECB's monetary policy outlook. While the energy-led nature of the increase may partly reflect external supply-side pressures, persistent increases in energy costs can feed into transportation, manufacturing and service prices. If these pressures become embedded in inflation expectations and wage-setting behaviour, the temporary shock could develop into a more persistent inflation problem.

For the Eurozone, the challenge is to contain second-round inflationary effects without unnecessarily weakening economic activity. September's inflation data therefore reinforce the need for a cautious, data-dependent monetary policy approach, with particular attention to energy prices and underlying services inflation.

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UK INFLATION REACCELERATES TO 3.5 PERCENT AS FUEL PRICES SURGE

The United Kingdom's annual Consumer Prices Index (CPI) inflation rose to 3.5 percent in September 2026, from 3.1 percent in August (Figure 4), exceeding market expectations of 3.4 percent and reaching its highest level since October 2025. The broader Consumer Prices Index including owner occupiers' housing costs (CPIH) also accelerated, rising to 3.6 percent from 3.3 percent. Both indices increased by 0.4 percent month-on-month, although CPIH had risen by just 0.1 percent in September 2025, while CPI recorded little change.



Transport made the largest upward contribution to the annual inflation rates, driven principally by motor fuels. Transport inflation climbed to 6.6 percent from 4.6 percent, while motor fuel inflation accelerated to 29.8 percent from 23.0 percent. Petrol prices rose by 8.2 pence per litre to 169.5 pence, their highest since August 2022; diesel increased by 10.7 pence to 192.5 pence, its highest since July 2022. Housing and household services, communication, and recreation and culture also recorded higher inflation. Conversely, restaurants and hotels made the largest

partially offsetting downward contribution, with inflation easing to 3.8 percent from 4.1 percent. Food inflation remained unchanged at 1.3 percent.

Underlying price pressures also strengthened. Core CPI inflation rose to 2.8 percent from 2.6 percent, while core CPIH increased to 3.1 percent from 2.9 percent. Goods inflation accelerated to 3.2 percent under both measures. Services inflation rose to 3.7 percent for CPI and 3.9 percent for CPIH.

The September data signal an uneven disinflationary trajectory. Rising fuel costs risk transmitting additional pressures through transport, logistics and production costs, while firmer services inflation points to persistent domestic price pressures. For the Bank of England, the challenge is to contain inflation without further weakening economic activity and household demand.

CHINA'S INFLATION EDGES UP, BUT WEAK DOMESTIC DEMAND CONTINUES TO WEIGH ON PRICES

China's annual consumer inflation edged up to 0.9 percent in September 2026 from 0.8 percent in August, marking its highest level since June (Figure 5), although it remained marginally below market expectations of 1 percent. The modest increase reflects strengthening non-food prices, particularly transport costs, but persistent food price deflation and subdued housing costs continue to underline the fragility of domestic demand.

Non-food inflation accelerated to 1.5 percent from 1.2 percent in August, largely driven by transport inflation, which climbed to 4.3 percent from 2.5 percent. Higher gasoline prices and stronger travel demand ahead of the Golden Week holiday contributed to this increase. Inflation in clothing eased marginally to 1.2 percent from 1.3 percent, while healthcare and education inflation remained unchanged at 2.7 percent and 1.4 percent, respectively. Housing costs continued to decline by 0.3 percent, indicating that pressures in the property-related segment remain subdued.

Food prices, meanwhile, fell for the sixth consecutive month, with the annual decline deepening to 1.7 percent from 1.4 percent in August—the steepest fall in four months. The

continued decline in pork prices, reflecting abundant supplies and weak consumption, remains a significant drag on the overall inflation rate. Core inflation, which excludes food and energy, held steady at 1.0 percent, suggesting that underlying price pressures have yet to gain meaningful momentum.

On a monthly basis, consumer prices increased by 0.2 percent, slowing from August's six-month high of 0.4 percent and falling short of the expected 0.3 percent. This moderation reinforces the view that China's price recovery remains uneven.

For policymakers, the challenge is not simply to contain inflation but to revive domestic consumption and strengthen private demand. While higher transport costs have lifted headline inflation, persistent food deflation and weak housing prices suggest that demand-side pressures remain significant. A durable recovery will require measures that strengthen household confidence, support consumption and restore price momentum across the wider economy.



JAPAN'S CORE INFLATION RETURNS ABOVE 2 PERCENT AS PRICE PRESSURES RE-EMERGE

Japan's annual inflation rate accelerated to 2.1 percent in September 2026, up from 1.9 percent in each of the previous two months, marking its highest level since December 2025 (Figure 6). The increase reflects strengthening price pressures across several expenditure categories, although easing food inflation and continued electricity price declines have moderated the overall rise in consumer prices.



Inflation accelerated in transport to 2.5 percent from 2.3 percent in August, while housing inflation edged up to 1.1 percent from 1.0 percent. Household goods recorded a sharper increase, with inflation rising to 6.5 percent from 4.9 percent. Price growth in recreation also accelerated to 3.9 percent from 2.2 percent, while miscellaneous items inflation increased to 1.2 percent from 0.7 percent.

In contrast, food inflation eased to 2.8 percent from 3.1 percent, its lowest level since February 2022. Inflation also moderated in clothing to 1.2 percent from 1.5 percent and healthcare to 2.8

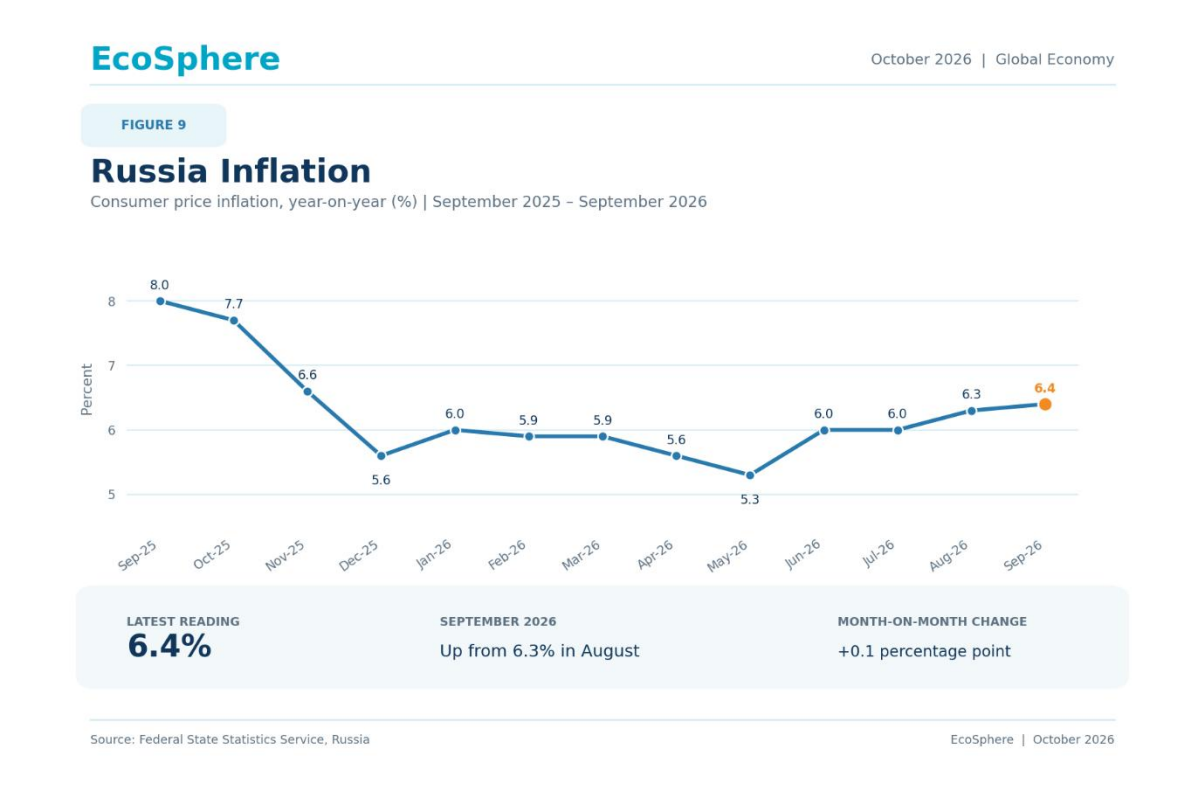
percent from 3.0 percent. Within energy, gas inflation accelerated to 2.4 percent from 2.0 percent, whereas electricity prices continued to decline by 2.4 percent, partly reflecting government energy subsidies. Education prices remained in deflation at 3.8 percent.

More significantly, core inflation, which excludes fresh food, rose to 2.1 percent from 1.7 percent in August, exceeding the Bank of Japan's 2 percent target for the first time in nine months. This suggests that underlying price pressures are gradually strengthening despite the moderation in food prices. On a monthly basis, consumer prices remained unchanged, following a 0.1 percent increase in August.

The September figures present a delicate policy challenge for the Bank of Japan. The return of core inflation above its target could strengthen the case for further monetary policy normalisation. However, subdued monthly price growth and the continued influence of energy subsidies warrant caution. The sustainability of inflation, particularly wage-driven domestic demand, will remain central to the Bank's policy decisions.

RUSSIA'S CORE INFLATION SIGNALS RENEWED PRICE PRESSURES

Russia's annual inflation rate edged up to 6.4 percent in September 2026 from 6.3 percent in August (Figure 9). While food and non-food inflation eased slightly, accelerating services and core inflation suggest that underlying price pressures remain persistent.



Services inflation increased to 7.97 percent in September from 7.85 percent in the previous month, highlighting continued price pressures in the services sector. In contrast, food inflation moderated marginally to 5.05 percent from 5.08 percent, while non-food inflation eased to 6.47 percent from 6.51 percent.

Developments within the food category were mixed. Fruit and vegetable prices continued to decline, falling by 4.24 percent year-on-year, compared with a 5.19 percent decline in August. However, food products excluding fruits and vegetables recorded faster inflation of 5.24 percent, up from 5.15 percent, indicating that price pressures remain across other food segments.

More significantly, core inflation accelerated to 5.47 percent in September from 5.37 percent in August, suggesting that underlying inflationary momentum is strengthening despite the marginal moderation in headline food and non-food prices. On a monthly basis, consumer prices rose by 0.35 percent, reversing the 0.08 percent decline recorded in August. Average inflation during January–September reached 5.93 percent, compared with 5.87 percent during January–August.

The September figures suggest that Russia's disinflationary process remains fragile. The acceleration in services and core inflation points to persistent domestic price pressures, even as food and non-food inflation show modest moderation. The monthly rebound in consumer prices further reinforces this concern.

For Russian policymakers, the challenge will be to sustain disinflation while addressing the underlying sources of price persistence. The trajectory of services inflation and core prices will be particularly important in assessing whether the recent moderation can be maintained and whether monetary policy can gradually move towards a more supportive stance without compromising price stability.

OIL SHOCK COMPLICATES CANADA'S INFLATION OUTLOOK AMID EASING CORE PRESSURES

Canada's annual headline inflation rate edged up to 3.1 percent in September 2026 from 3.0 percent in August, reaching its highest level since May, when it touched 3.2 percent (Figure 7). However, the increase was marginally below market expectations of 3.2 percent, reflecting divergent movements in energy, food and housing costs.

The principal upward pressure came from gasoline prices, which surged by 27.8 percent year-on-year, compared with 22.8 percent in August. The increase reflects the recent rise in crude oil prices amid escalating geopolitical tensions in the Middle East, as the United States and Iran tightened restrictions on oil and fuel tankers crossing the Persian Gulf. The energy shock has renewed concerns about imported inflation and its potential transmission through transportation, logistics and production costs. Significantly, excluding gasoline, consumer price inflation slowed to 2.2 percent from 2.4 percent in the previous month.



Shelter costs also accelerated, with inflation rising to 1.8 percent from 1.5 percent. Higher longer-term bond yields contributed to a 4.9 percent annual increase in homeowners' and mortgage insurance costs, adding to household expenditure pressures. In contrast, food inflation moderated considerably to 2.2 percent from 2.8 percent, largely reflecting a sharp deceleration in grocery-store food prices, which rose by 1.7 percent compared with 2.8 percent in August.

More encouragingly, the underlying inflation indicators monitored by the Bank of Canada remained below the 2 percent threshold. The trimmed-mean core inflation rate stood at 1.8 percent, below market expectations of 1.9 percent, suggesting that broad-based domestic price pressures remain relatively contained.

The September data present a complex policy environment for the Bank of Canada. While geopolitical developments and higher oil prices are pushing headline inflation upwards, easing food prices and subdued core inflation provide some counterweight. The key challenge will be distinguishing temporary energy-driven price increases from persistent inflationary pressures while calibrating monetary policy to sustain price stability without undermining economic growth.

BRAZIL'S INFLATION OUTLOOK FACES FRESH CHALLENGES AMID GLOBAL OIL PRICE VOLATILITY

Brazil's annual inflation rate accelerated to 4.58 percent in September 2026 from 4.22 percent in August (Figure 8), marginally exceeding market expectations of 4.50 percent. The increase reflects renewed price pressures across several expenditure categories, particularly food, transport and household articles, pointing to a broadening of inflationary pressures in the economy.



Food and beverages recorded a significant acceleration in inflation to 4.66 percent from 3.53 percent in August, making this category an important contributor to the overall increase. Inflation in household articles also rose to 2.08 percent from 1.40 percent, while clothing inflation edged up to 3.34 percent from 3.25 percent. Transport inflation increased to 3.94 percent from 3.04 percent, partly reflecting higher vehicle fuel prices. Fuel inflation accelerated to 4.97 percent from 4.41 percent, as international crude oil prices surged amid escalating

geopolitical tensions in the Middle East. Communication costs also recorded faster inflation, rising to 2.79 percent from 1.96 percent.

However, price pressures moderated in several other categories. Housing inflation eased to 4.22 percent from 4.90 percent, while health and personal care inflation declined marginally to 5.75 percent from 5.84 percent. Inflation in personal expenses moderated to 5.90 percent from 6.16 percent, and education inflation edged down to 5.95 percent from 5.98 percent.

The monthly picture was more pronounced: consumer prices rose by 0.82 percent in September, reversing the 0.32 percent decline recorded in August. Cumulative inflation reached 3.95 percent during the first nine months of 2026, indicating that price pressures remain a concern.

The September acceleration presents a challenge for Brazil's monetary authorities. Higher food and fuel costs, particularly those linked to international commodity markets, could sustain inflationary pressures and affect household purchasing power. Although moderation in housing and selected service categories offers some relief, the broad-based monthly increase warrants close monitoring. The outlook will depend significantly on global energy prices, domestic demand and the persistence of food inflation.

AUSTRALIA'S INFLATION ACCELERATES TO 4.3 PERCENT IN SEPTEMBER, DRIVEN BY FUEL COSTS

Australia's annual inflation rate accelerated to 4.3 percent in September 2026, from 4.0 percent in August, exceeding market expectations of 4.2 percent and reaching its highest level since March (Figure 10). The latest increase has pushed inflation further above the Reserve Bank of Australia's (RBA) target range of 2–3 percent, highlighting renewed price pressures and complicating the outlook for monetary policy.



The sharpest acceleration came from the transport sector, where inflation rose to a six-month high of 8.7 percent, compared with 5.6 percent in August. The principal driver was a 23.6 percent surge in automotive fuel prices—the fastest increase in six months—reflecting the impact of rising global oil prices. This reinforces the vulnerability of Australia's domestic price level to movements in international energy markets.

Price pressures also strengthened in other categories. Inflation in food and non-alcoholic beverages accelerated to 3.2 percent, while recreation and culture inflation increased to 4.5

percent. Housing inflation, however, moderated to 5.2 percent from 5.7 percent in August. Despite this easing, housing remained the largest contributor to overall inflation, indicating that underlying household cost pressures remain significant.

Measures of underlying inflation presented a mixed picture. The trimmed mean CPI, which excludes unusually large price movements, increased marginally to 3.6 percent year-on-year from 3.5 percent, in line with expectations. In contrast, the weighted median eased to 3.4 percent from 3.6 percent, suggesting some moderation in the broader distribution of price changes.

Monthly inflation strengthened considerably, with the CPI rising 0.8 percent in September, against expectations of 0.7 percent and 0.4 percent in August. This was the largest monthly increase in six months.

The September data point to renewed inflationary risks, particularly from energy prices. With headline inflation moving further above target and underlying measures remaining elevated, the RBA faces a delicate balancing act between containing inflation and sustaining economic growth.

SOUTH KOREA'S INFLATION EASES TO 2.9 PERCENT IN SEPTEMBER AS CORE PRICE PRESSURES MODERATE

South Korea's annual inflation rate moderated to 2.9 percent in September 2026, from 3.1 percent in August (Figure 11), in line with market expectations. Despite the decline, inflation remained above the Bank of Korea's 2 percent target, indicating that price stability remains a challenge even as some underlying pressures begin to ease.



The moderation was primarily driven by slower price increases in selected categories. Inflation in alcohol and tobacco eased to 0.1 percent from 0.4 percent, while communication inflation fell sharply to 2.0 percent from 16.6 percent. Price growth in other goods and services also moderated to 4.1 percent from 4.4 percent. These declines helped offset accelerating inflation across several other components of the consumer basket.

Price pressures strengthened in household goods and services, where inflation edged up to 3.0 percent from 2.9 percent. Transport inflation accelerated to 7.7 percent from 7.2 percent, while recreation and culture recorded a sharper increase to 5.8 percent from 4.9 percent. Food and

non-alcoholic beverage prices returned to positive territory, rising 1.0 percent after declining 0.5 percent in August. Health and education costs also increased at a faster pace, to 1.6 percent each. Meanwhile, inflation remained unchanged in clothing and footwear (2.8 percent), housing, water, electricity and fuel (1.9 percent), and restaurants and hotels (2.8 percent).

A more encouraging development was the moderation in core inflation, which excludes food and energy prices. It declined significantly to 2.8 percent in September from 3.4 percent in August, suggesting an easing in underlying price pressures.

However, monthly consumer prices rose by 0.3 percent, accelerating from 0.2 percent in August and marking the fastest increase since May. This indicates that near-term price momentum remains firm.

Overall, September's figures present a mixed inflation outlook. Although lower core inflation offers some reassurance, persistent transport and other sectoral pressures, together with rising monthly prices, warrant continued vigilance from the Bank of Korea.

FOOD & AGRICULTURE

GLOBAL FOOD PRICES RISE IN SEPTEMBER AS CEREALS, VEGETABLE OILS AND SUGAR BECOME COSTLIER

EcoSphere Editorial

The FAO Food Price Index (FFPI) averaged 136.0 points in September 2026 (Table 1), rising by 1.5 percent from its revised August level. Prices increased for cereals, vegetable oils and sugar, while the meat index declined and dairy prices remained broadly stable. Compared with September 2025, the index was 5.8 percent higher, although it remained 15.1 percent below its peak in March 2022. The latest increase reflects supply uncertainties, adverse weather conditions and trade-related disruptions across global food markets.

Cereal Prices Surge Amid Supply Constraints

The FAO Cereal Price Index rose by 5.1 percent month-on-month to 122.8 points, standing 17.2 percent above its year-earlier level. International wheat prices increased by 6.3 percent, reaching their highest level since August 2023. Logistical constraints in the Black Sea region prompted importers to seek alternative suppliers, while dry weather in parts of North America ahead of winter wheat planting added to concerns over production prospects.

Global maize prices climbed 5.6 percent to their highest level in more than three years, supported by lower-than-anticipated US yields and reduced export availability from Brazil. Black Sea trade disruptions further tightened supplies, while uncertainty over shipping through the Strait of Hormuz sustained concerns about fuel, fertiliser and freight costs.

Feed grain markets also strengthened, with sorghum prices rising 13.7 percent and barley prices increasing 3.9 percent. Expectations of higher Chinese sorghum purchases following trade discussions with the United States contributed to the trend. The FAO All Rice Price Index increased by 1.4 percent, reflecting weather concerns and seasonally tighter Indica rice supplies.

Vegetable Oil Prices Continue to Climb

The FAO Vegetable Oil Price Index increased by 0.9 percent to 198.6 points, 18.3 percent above its level a year earlier. Higher palm oil prices more than offset declining sunflower oil quotations, while soy oil and rapeseed oil prices remained broadly stable.

Palm oil prices rose for the fourth consecutive month, supported by strong global import demand and concerns about dry weather affecting production in Southeast Asia. Sunflower oil prices declined for the third successive month amid expectations of ample Black Sea supplies, although logistical disruptions limited the fall. Soy oil prices remained elevated on robust biofuel demand.

Meat Prices Ease

The FAO Meat Price Index declined by 1.1 percent to 127.9 points, broadly unchanged from September 2025. Lower poultry and pig meat prices drove the decline, while bovine and ovine meat prices remained relatively stable.

Poultry prices weakened amid ample Brazilian export supplies and softer European Union import demand following the implementation of new antimicrobial-related import requirements on 3 September. Pig meat prices also declined as abundant supplies in major exporting countries, including the European Union, weighed on markets.

Bovine meat prices moved in different directions. Australian export quotations declined amid stronger international competition, while Brazilian prices increased on firmer US demand following the temporary expansion of the tariff-rate quota for lean beef trimmings. Ovine meat prices were broadly unchanged as strong global demand was offset by lower New Zealand quotations.

Dairy Prices Remain Broadly Stable

The FAO Dairy Price Index edged down by 0.1 percent to 119.1 points, remaining 19.1 percent below its year-earlier level. Lower cheese prices largely offset gains in milk powder, while butter prices changed little. Skim milk powder prices stood 33.1 percent above their year-earlier

level. Milk powder quotations strengthened on sustained import demand, particularly from Asia, and limited availability for prompt delivery. Conversely, cheese prices declined amid weaker European Union demand and competition from abundant US supplies. Butter prices remained broadly stable as lower Oceanian quotations were offset by firmer European prices amid limited milkfat availability.

Sugar Prices Reach a 17-Month High

The FAO Sugar Price Index rose by 6.1 percent to 114.0 points, marking its third consecutive monthly increase and its highest level since April 2025. Prices were 14.7 percent above September 2025, driven by expectations of tighter global supplies in the 2026/27 season. Lower anticipated sugar beet output in the European Union, forecasts of reduced production in Thailand and concerns about India's crop prospects amid below-normal rainfall and strengthening El Niño conditions contributed to the increase. Heavy rains disrupting harvesting in Brazil's Centre-South region added further upward pressure.

Outlook

September's figures indicate renewed price pressures in global food markets, particularly for cereals, vegetable oils and sugar. Weather variability, trade disruptions, production shortfalls and biofuel demand remain important drivers.

For India, sustained increases in international grain, edible oil and sugar prices could complicate efforts to contain domestic food inflation, depending on domestic production, import dependence and policy responses. Although the FFPI remains below its March 2022 peak, its recent rise underscores the importance of monitoring global supply conditions, diversifying import sources and strengthening agricultural resilience.

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Exploring Indian and Global Economies, Financial Markets & Climate Change

TABLE 1

FAO Food Price Index (FFPI)

Monthly index values | September 2025 – September 2026

Month	Food Price Index	Meat	Dairy	Cereals	Oils	Sugar
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	131.0	131.3	119.1	114.2	185.0	95.1
June 2026	130.1	130.5	116.9	110.0	192.0	90.0
July 2026	131.7	129.4	116.6	113.8	195.7	95.0
August 2026	134.0	129.3	119.2	116.8	196.9	107.4
September 2026	**136.0**	**127.9**	**119.1**	**122.8**	**198.6**	**114.0**

September 2026 highlights

Food Price Index: 136.0 | Cereals: 122.8 | Oils: 198.6 | Sugar: 114.0

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Source: Food and Agriculture Organization of the United Nations (FAO)

Bottomline:

Rising global food prices in September, driven by higher costs of cereals, vegetable oils and sugar, highlight renewed pressures on food markets and underscore the importance of strengthening supply chains, ensuring trade flows and building resilience against climate and geopolitical disruptions.


Section 3
Financial Markets
Equity Markets
Bond Markets
Commodity Markets
Currency Markets
Interest Rates
Capital Flows
ESG & Sustainable Finance
Market Outlook

SECTION 3: FINANCIAL MARKETS

INDIAN FINANCIAL MARKETS

INDIAN EQUITY MARKETS IN OCTOBER 2026: A BENCHMARK RECOVERY AMID BROADER MARKET WEAKNESS

Dr Debesh Roy

Chairman, InsPIRE

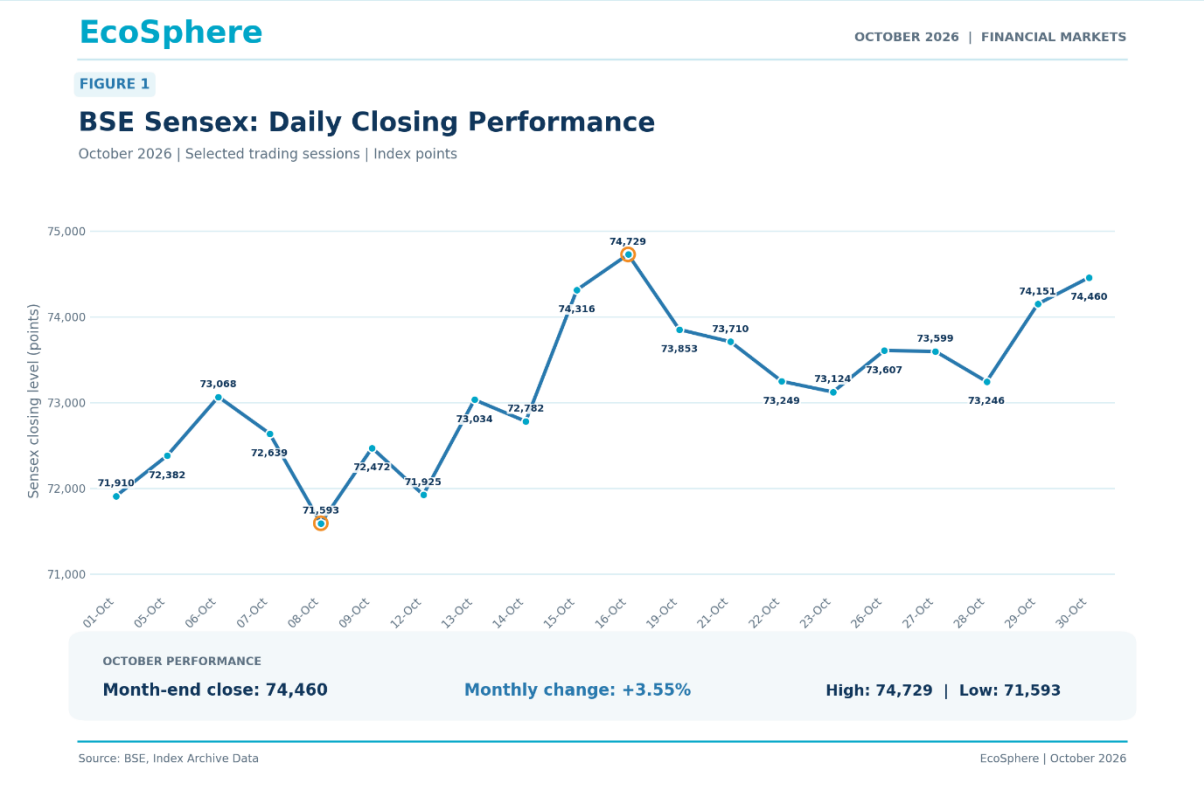
Indian equity markets staged a notable recovery in October 2026, bringing an end to two consecutive months of losses in the benchmark indices. The BSE Sensex and NIFTY 50 advanced during the month, supported by a strong rally in information technology stocks, improving corporate earnings, renewed buying towards the end of October and optimism surrounding major corporate developments. However, the recovery remained uneven. Persistent foreign portfolio investor (FPI) outflows, elevated crude oil prices, geopolitical uncertainty and weakness in mid- and small-cap stocks revealed underlying fragilities in market sentiment.

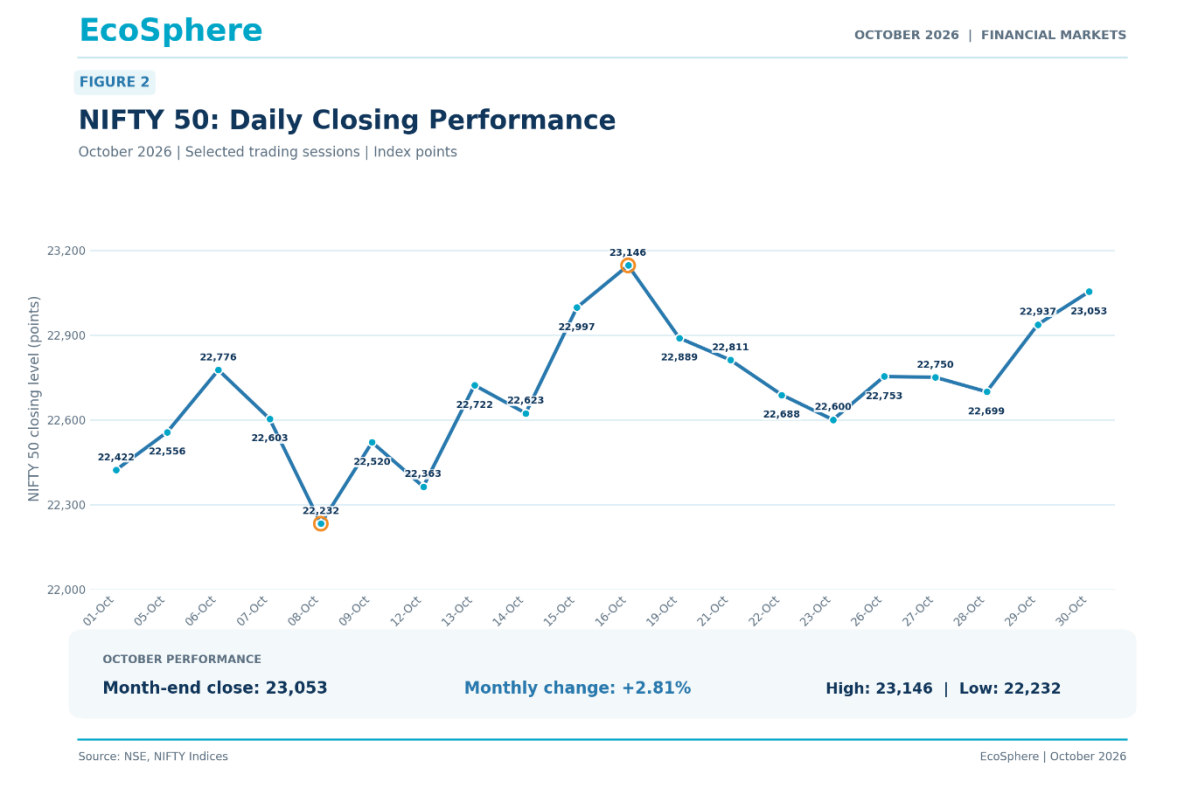
Benchmarks Recover amid Volatility

The daily closing data show that the Sensex opened October at 71,910 points and ended the month at 74,460, registering a gain of approximately 3.55 per cent over this period (Figure 1). The NIFTY 50 advanced from 22,422 to 23,053 points, an increase of 2.81 per cent (Figure 2). Both indices experienced considerable fluctuations, reflecting changing investor expectations and intermittent bouts of selling.

The recovery was particularly strong during the middle of the month. The Sensex reached its October high of 74,729 points on October 16, while the NIFTY 50 peaked at 23,146 points on the same day. Subsequently, both indices corrected, with the Sensex declining to 73,246 on October 28 and the NIFTY falling to 22,699. The benchmarks recovered sharply over the final two sessions, closing at 74,460 and 23,053, respectively.

The monthly returns reported by financial-market publications are lower than the gains calculated from the October 1 closing levels because they use September 30 as the starting point. On this conventional month-on-month basis, the Sensex gained 2.73 per cent and the NIFTY 50 rose 1.91 per cent. Both measures nevertheless confirm a positive October performance.





IT Stocks and Corporate Earnings Drive the Rally

The standout feature of October was the strong performance of information technology stocks. The NIFTY IT index surged approximately 17.7 per cent, its strongest monthly performance in several years. Better-than-expected quarterly results from selected technology companies, improving investor sentiment towards artificial intelligence-related opportunities and attractive valuations after a prolonged period of underperformance contributed to the rally.

The listing of Jio Platforms also generated considerable market interest. Its strong debut and substantial listing gains strengthened sentiment around large-cap companies and added momentum to the benchmark indices. Meanwhile, the September-quarter earnings season provided support to selected stocks, particularly in IT, pharmaceuticals and consumer-facing businesses.

Business Standard highlighted that only 22 of the 50 NIFTY constituents advanced during October, indicating that the benchmark recovery was relatively narrow. The rally was therefore driven more by selected heavyweight stocks than by a broad improvement across the market.

Foreign Selling and Global Uncertainty Remain Headwinds

Foreign portfolio investor selling remained a major source of pressure. Elevated crude oil prices, geopolitical tensions in West Asia, a stronger US dollar and higher global bond yields influenced international capital allocation. Business Standard reported that FPIs withdrew substantial amounts from Indian equities during October, although selling moderated and foreign investors turned buyers during the second half of the month. Domestic institutional investors provided an important counterweight through sustained purchases.

The recovery was also interrupted by concerns over rising crude prices and geopolitical developments. On October 28, the Sensex and NIFTY came under significant selling pressure amid concerns about renewed tensions in West Asia and uncertainty ahead of the US Federal Reserve's policy decision. The subsequent rebound on October 29 reflected improved sentiment following the Fed's decision to keep interest rates unchanged, alongside easing crude prices, expectations of diplomatic engagement and buying in stocks reporting encouraging quarterly results.

The Broader Market Tells a Different Story

The divergence between benchmark and broader-market performance was one of October's most important features. While the Sensex and NIFTY gained, mid-cap and small-cap indices declined. Financial Express reported that the BSE Midcap index fell around 4 per cent and the Smallcap index declined approximately 7.65 per cent. This suggests that investors remained cautious towards companies with relatively higher valuations and greater sensitivity to liquidity conditions.

Mint also observed that the return of foreign buying towards the end of the month helped the benchmarks recover, but high crude prices continued to cloud the earnings outlook. Increased

volatility was reflected in record trading activity in Sensex options, underscoring the uncertainty prevailing in the market.

Outlook: Earnings and Flows Will Determine Market Direction

The October recovery offers some reassurance about the resilience of Indian equities, but it does not yet establish a durable broad-based uptrend. The performance of the IT sector, improving corporate earnings and domestic institutional support are positive factors. However, sustained foreign investor outflows, elevated energy prices, geopolitical uncertainty and the correction in mid- and small-cap stocks remain important risks.

Going forward, market direction will depend increasingly on earnings delivery, the trajectory of crude oil prices, global interest-rate expectations and the return of foreign portfolio investment. A broader recovery will also require greater participation across sectors and market capitalisation categories.

October's experience therefore offers a mixed message: India's benchmark indices have demonstrated resilience, but the strength of the recovery remains concentrated. Sustained improvement in market breadth, supported by earnings growth and stable global financial conditions, will be essential to consolidate the gains.

Bottomline:

October 2026 witnessed a tentative recovery in India's benchmark equity indices, led by large-cap stocks and supported by domestic institutional buying and late-month gains, but persistent FPI outflows, elevated crude oil prices and geopolitical uncertainty continued to weigh on broader market sentiment and limit the breadth of the rally.

JIO'S HISTORIC IPO: FROM TELECOM DISRUPTOR TO INDIA'S DIGITAL AND AI POWERHOUSE

The listing of Jio Platforms Limited (JPL) on October 28, 2026, marks a defining moment in the evolution of India's corporate and digital economy. Raising ₹30,188 crore through the country's largest-ever initial public offering (IPO), Jio has moved beyond its identity as a telecommunications disruptor to emerge as a major publicly listed digital technology enterprise. The scale of investor participation, the company's post-listing valuation and the strategic use of the IPO proceeds underline a broader ambition: to position Jio as a central player in India's digital infrastructure, enterprise technology and artificial intelligence (AI) landscape.

The IPO was priced at the upper end of the ₹1,119 price band and offered 27 crore fresh shares. The issue was fully subscribed within 100 minutes and attracted cumulative demand of ₹7.44 lakh crore, representing more than 22 times subscription. Particularly striking was the participation of individual investors: the offering received 1.39 crore applications, making it the first IPO globally to cross the one-crore application mark. This extraordinary response reflects both the growing depth of India's capital markets and the strong public interest in the country's digital growth story.

A Landmark in Capital-Market History

Jio's market debut was equally impressive. Its shares surged on listing day, opening at a substantial premium and gaining approximately 27 per cent during the first day of trading. The company's market capitalisation crossed ₹10.3 lakh crore during its initial trading sessions, while the valuation estimates in the post-listing comparison placed it at ₹11.64 lakh crore, or around US$137 billion. This made Jio India's second-most valuable listed company, behind its parent, Reliance Industries Limited (RIL).

The listing also strengthened the position of the Reliance Group in India's corporate landscape. Its combined market capitalisation was estimated at ₹29.57 lakh crore, placing it ahead of the Tata Group. More significantly, the public listing gives investors a direct opportunity to

participate in the growth of a digital business that was previously embedded within a diversified conglomerate.

The Financial Strategy: Growth Capital and Deleveraging

One of the most distinctive features of the IPO was its structure. Unlike conventional large offerings that often include an offer for sale (OFS), allowing existing shareholders to partially exit, Jio's issue consisted entirely of fresh shares. Consequently, the proceeds were directed towards the company's financial requirements rather than providing an exit to existing investors.

The IPO proceeds are earmarked primarily for the repayment of borrowings of Reliance Jio Infocomm, Jio's telecom subsidiary. The proposed deployment of approximately ₹27,500 crore towards prepayment of these borrowings is expected to substantially strengthen the group's digital business balance sheet. Importantly, strategic technology investors Meta, which holds a 9.98 per cent stake, and Google, with 7.73 per cent, retained their holdings rather than diluting their positions.

This financial restructuring could provide Jio with greater flexibility to finance future investments in AI, cloud infrastructure, enterprise solutions and next-generation telecommunications. Reduced debt-servicing obligations would also allow a larger proportion of operating cash flows to be deployed towards innovation and expansion.

Beyond Connectivity: The JioBrain and AI Opportunity

The most significant aspect of Jio's long-term proposition is its ambition to evolve from a consumer telecommunications provider into an integrated digital technology ecosystem. Its subscriber base of approximately 533 million provides a formidable platform for distributing digital services, while its 5G network and data infrastructure offer the foundation for more sophisticated enterprise applications.

At the centre of this strategy is JioBrain, its AI-driven technology architecture. The platform is intended to support enterprise applications such as predictive network management, industrial automation, smart-city infrastructure, logistics optimisation and locally adapted language

models. By combining telecommunications infrastructure with AI capabilities, Jio seeks to move into higher-value business-to-business services, reducing its dependence on conventional mobile connectivity revenues.

The opportunity is substantial. Indian businesses are increasingly seeking affordable cloud computing, data analytics, automation and AI solutions. Jio could leverage its network scale and domestic infrastructure to provide these services at competitive costs. Its strategic relationships with Meta and Google may further strengthen its access to technology, applications and global digital ecosystems. The challenge, however, will be to translate technological capabilities into commercially viable products and recurring enterprise revenues.

Competitive Position and Valuation

Jio's post-listing financial profile places it in a distinct position relative to both its parent company and its principal telecom competitor, Bharti Airtel. The comparative figures indicate a trailing price-to-earnings ratio of 38.7 times for Jio, compared with 23.3 times for RIL and 52.4 times for Airtel. Jio's FY2025–26 profit after tax was reported at ₹30,049 crore.

The valuation premium over RIL reflects investor expectations that Jio's future growth will increasingly come from digital services, cloud computing and AI rather than traditional telecom operations alone. However, a premium valuation also creates pressure to deliver sustained earnings growth and demonstrate that emerging technology businesses can generate meaningful returns.

Risks and the Road Ahead

Despite its strengths, Jio faces important challenges. India's mobile subscriber market is becoming more mature, making sustained growth increasingly dependent on average revenue per user (ARPU) improvements and the monetisation of additional services. The transition towards enterprise AI and cloud services will require substantial investment, specialised talent and the ability to compete with established global technology providers.

Regulatory developments, data governance requirements and the capital expenditure associated with future 6G networks could also affect profitability. Investors will need to monitor the

company's capital allocation decisions, related-party transactions and the extent to which its digital strategy remains commercially focused.

Jio's historic IPO is therefore more than a capital-market milestone. It represents a significant attempt to build a large Indian-owned digital technology ecosystem with the financial capacity to compete in emerging areas of global technology. Whether its premium valuation proves sustainable will depend on execution, innovation and the successful commercialisation of AI and enterprise services. If Jio can convert its enormous connectivity base into a platform for high-value digital solutions, its listing could mark the beginning of a new chapter in India's technological and corporate transformation.

Bottomline:

India's growing technological capabilities, resilient domestic economy and expanding investment opportunities are positioning it as a potential global "AI Tech Hedge", offering investors diversification beyond concentrated exposure to established technology markets amid shifting global economic and geopolitical uncertainties.

INDIA AS THE GLOBAL "AI TECH HEDGE": HOW DOMESTIC STRENGTH AND MARKET DIVERSIFICATION ARE RESHAPING INVESTOR SENTIMENT

Dr Debesh Roy

Chairman, InsPIRE

October 2026 marked a significant moment for Indian financial markets. The total market capitalisation of companies listed on the Bombay Stock Exchange (BSE) crossed ₹500 lakh crore for the first time, highlighting the growing scale and depth of India's equity market. More interestingly, this milestone coincided with a reassessment of global investment strategies. As concerns about stretched valuations and concentration in artificial intelligence (AI)-related stocks intensified in several international markets, India increasingly attracted attention as an alternative destination for capital. Its appeal rested not on competing directly in the global AI hardware race, but on a combination of domestic demand, sectoral diversification, financial depth and macroeconomic resilience.

This emerging positioning as a global "AI Tech Hedge" reflects an important distinction: investors are increasingly evaluating economies not only by their exposure to transformative technologies but also by their ability to generate sustainable earnings across a broad range of sectors.

The Global Capital Rotation: An Opportunity for India

The global AI investment boom has generated substantial gains for semiconductor manufacturers, technology hardware companies and software businesses. However, the concentration of market valuations around a relatively small group of technology companies has also raised concerns about excessive optimism, high valuations and the sustainability of investment returns. During October, selling pressure in some AI-exposed markets, particularly in Japan and Taiwan, highlighted the risks associated with concentrated exposure to the technology cycle.

This environment created an opportunity for portfolio diversification. India offered international investors exposure to a large and relatively diversified economy, with its principal equity indices anchored in financial services, consumption, infrastructure, energy and

industrial enterprises. Unlike markets whose performance is closely linked to semiconductor and hardware cycles, India's market provides access to a wider range of domestic economic activities.

The prospect of substantial foreign investment interest, including estimates of up to US$115 billion in potential net inflows, reflects this opportunity. However, such estimates should be viewed as indicative of possible capital allocation rather than confirmed or realised inflows. India's ability to attract sustained investment will ultimately depend on earnings growth, valuations, macroeconomic stability and the consistency of economic reforms.

The ₹500-Lakh-Crore Milestone: Strength of Domestic Fundamentals

The crossing of the ₹500-lakh-crore market-capitalisation threshold is more than a symbolic achievement. It reflects the expansion of India's listed corporate sector, growing domestic investor participation and the increasing role of equity markets in financing economic activity.

Domestic fundamentals have been central to this performance. Infrastructure investment, improving services demand and the gradual recovery in economic activity have supported corporate revenue expectations. A moderation in corporate cost inflation has also offered the possibility of improved operating margins. The combination of relatively stable input costs and stronger domestic orders can support profitability even when external demand remains uncertain.

India's consumption-oriented sectors, financial institutions and infrastructure companies therefore provide an important counterweight to volatility in global technology markets. This diversification is particularly valuable when international investors are reassessing the risks associated with concentrated technology exposures.

From Software Services to Enterprise AI

India's technology industry is also adapting to the changing global AI landscape. Rather than attempting to replicate the capital-intensive model of developing large foundational AI models at the scale of leading global technology companies, Indian technology firms are increasingly positioned to benefit from enterprise-level AI implementation.

The country's established software services industry, engineering talent and global delivery networks provide a competitive foundation for this transition. Businesses across the world require support in integrating generative AI into existing systems, automating workflows, improving data management and strengthening cybersecurity. Indian IT companies and Global Capability Centres (GCCs) can play an important role in delivering these services.

This shift could create opportunities for higher-value technology exports. The economic opportunity lies not merely in developing AI models but in adapting them to specific business processes, industries and regulatory environments. India's software services heritage can therefore become an advantage in the emerging market for AI deployment and enterprise transformation.

Nevertheless, this transition will require continuous investment in advanced skills, research, computing infrastructure and intellectual property. The challenge for Indian technology companies will be to move beyond labour-intensive outsourcing towards specialised, innovation-led services that command higher margins.

Domestic Consumption as the Economic Backstop

A further source of India's relative attractiveness is the strength of its domestic market. While global consumer demand remains exposed to geopolitical uncertainty and tighter financial conditions, India's large consumer base offers companies opportunities for growth across retail, logistics, financial services and infrastructure-linked businesses.

The expansion of express logistics, increasing digital commerce and investments in transport infrastructure illustrate how domestic demand can generate opportunities across interconnected sectors. The reported 58 per cent expansion in parts of the domestic express-logistics segment, alongside corporate initiatives such as Adani Ports' international expansion, points to the potential for Indian companies to combine domestic scale with international growth.

However, the durability of this demand will depend on employment generation, household purchasing power and the distribution of income growth. A strong stock market cannot, by itself, establish that consumption is strengthening uniformly across income groups. Sustained

earnings growth requires a broad-based improvement in demand rather than reliance on a limited set of premium consumer segments or large corporate investments.

Opportunities and Risks

India's emergence as a potential alternative to concentrated global AI investments should not be interpreted as immunity from international market volatility. Foreign capital remains sensitive to global interest rates, currency movements, geopolitical developments and relative valuations. A sharp correction in global markets could still trigger portfolio outflows from emerging economies, including India.

Moreover, high market capitalisation does not automatically imply that valuations are sustainable. Corporate earnings must justify market prices, while investment opportunities need to be supported by productivity improvements and sound corporate governance. The country must also strengthen its own AI capabilities rather than depend exclusively on the implementation of technologies developed elsewhere.

Conclusion

October 2026 highlighted an important shift in the way global investors may view India. Its appeal increasingly lies in the combination of a large domestic market, diversified corporate structure, established technology services industry and expanding infrastructure. The ₹500-lakh-crore market-capitalisation milestone symbolises this growing financial depth. India's opportunity is not to become an alternative to the global AI revolution, but to position itself as a major beneficiary of its wider economic applications. By combining enterprise AI adoption with domestic demand, industrial expansion and financial-market development, India can strengthen its position in the global investment landscape. The sustainability of this opportunity, however, will depend on converting market confidence into productivity, innovation, employment and durable corporate earnings.

Bottomline:

India's growing technological capabilities, resilient domestic economy and expanding investment opportunities are positioning it as a potential global "AI Tech Hedge", offering investors diversification beyond concentrated exposure to established technology markets amid shifting global economic and geopolitical uncertainties.

GLOBAL FINANCIAL MARKETS

GLOBAL EQUITY MARKETS IN OCTOBER 2026: A MONTH OF DIVERGENCE, ROTATION AND REPRICING

Dr Debesh Roy
Chairman, InsPIRE

Global Equities: Divergence and Rotation in October

Global equity markets displayed sharply divergent trends in October 2026, reflecting changing investor expectations about corporate earnings, technology valuations, inflation and monetary policy. While several European markets and Australia recorded gains, technology-heavy US indices and a number of Asian benchmarks experienced significant corrections. The contrasting performance suggests that investors were increasingly differentiating between sectors, business models and regional growth prospects rather than responding to a uniform global market trend.

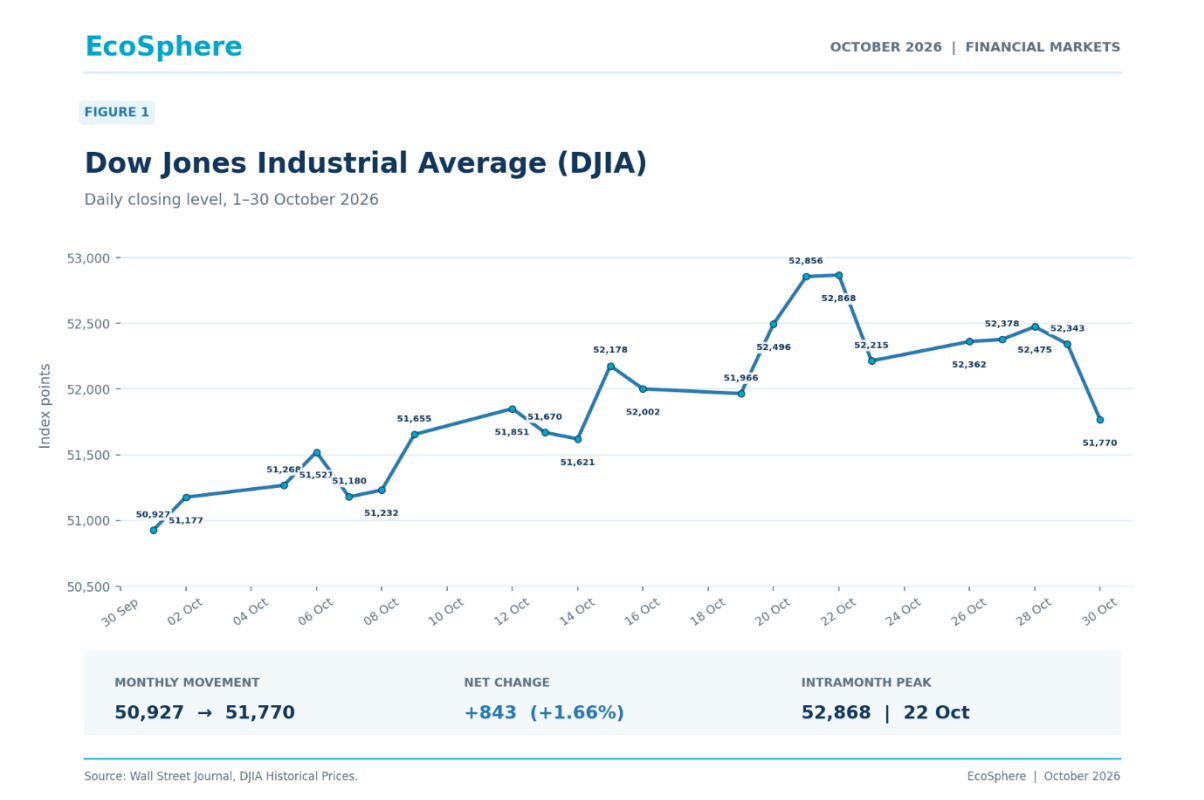
A prominent feature was the reassessment of technology and artificial-intelligence-related valuations. *The Wall Street Journal (WSJ),* in its October 7, 2026 article, *The S&P 500 Hits a New Record High, Powered by Tech—and Not Much Else*, highlighted the narrow concentration of the US market rally in a relatively small group of large technology companies. By the latter part of the month, concerns about the scale of AI investment, financing requirements and the returns on capital expenditure had contributed to renewed selling pressure. The broader market nevertheless showed greater resilience, indicating a rotation of investment towards other sectors.

Inflation and interest-rate expectations remained equally important. Energy-price pressures and uncertainty surrounding the Federal Reserve's policy direction influenced risk appetite, while geopolitical developments added to market volatility. Consequently, October was characterised less by a synchronised global correction than by a redistribution of market leadership across regions and sectors.

US Equities: From AI-Led Rally to Market Reassessment

A Tale of Two Benchmarks: Dow Strength and S&P Weakness

The US equity market exhibited a clear divergence between traditional blue-chip stocks and the broader market. The Dow Jones Industrial Average (DJIA) opened October at 50,927 and closed at 51,770, registering a gain of 843 points, or 1.66 percent (Figure 1). It advanced through much of the month, reaching an intramonth high of 52,868 on 22 October, before retreating towards month-end. The index's resilience reflected relatively better performance among established companies outside the most vulnerable segments of the technology trade.



In contrast, the S&P 500 declined from 7,666 on 1 October to 7,580 on 30 October, a fall of 1.12 percent (Figure 2). It reached 7,819 on 6 October before losing momentum. The contrasting performance of the two indices points to a more selective market environment, in which gains in traditional industrial and other established companies were insufficient to offset weakness in influential growth-oriented constituents.



The *WSJ's* October coverage captured this shift in sentiment. Its 7 October analysis noted that the S&P 500 and NASDAQ had reached record closing levels, but that the rally was increasingly dependent on a limited group of AI-linked companies. The article also drew attention to narrow market breadth, with fewer than half of S&P 500 constituents trading above their 200-day moving averages at the time. This raised questions about the sustainability of an advance driven by a small number of large-cap stocks.

NASDAQ Under Pressure as Technology Valuations Reset

The NASDAQ Composite experienced the sharpest decline among the three major US benchmarks. It fell from 26,872 at the beginning of October to 25,437 at the end, representing a loss of 1,435 points, or 5.34 percent (Figure 3). After reaching a high of 27,600 on 6 October, the index entered a prolonged downward phase, with selling pressure intensifying during the second half of the month.



The correction reflected concerns about the high valuations of technology companies and the financial implications of their substantial AI-related capital expenditure. Investors increasingly questioned whether future earnings and cash flows would justify the scale of investment in data centres, computing infrastructure and advanced chips. *The WSJ's* October 29, 2026 report, *The Fed Held Steady on Rates, Leaving Investors to Sit Tight, Too*, highlighted how borrowing costs, expectations of future AI demand and technology-sector volatility were influencing market behaviour.

The NASDAQ's decline, alongside the relative resilience of the Dow, underscores the extent to which technology exposure shaped US market performance during October.

European Equities Demonstrate Relative Resilience

European equity markets demonstrated greater resilience, with all three major indices considered here recording monthly gains. This relative strength suggests that the technology-led correction in the United States did not translate into an equivalent decline across developed markets.

FTSE 100 Index: London's Blue Chips Maintain an Upward Trajectory

The UK's FTSE 100 advanced from 10,428 on 1 October to 10,730 on 30 October, gaining 302 points, or 2.90 percent (Figure 4). The index strengthened through the first half of the month and touched a high of 10,882 on 16 October. Although it subsequently eased, it retained most of its gains by month-end. Its performance made it one of the stronger developed-market benchmarks during the period.



CAC 40 Recovers to Close Near Its Monthly High

France's CAC 40 rose from 7,835 to 7,969, an increase of 134 points, or 1.71 percent (Figure 5). The index experienced intermittent volatility, particularly during the second week and

around 22–23 October, but recovered towards the end of the month. Its closing level was close to the period high of 7,970 recorded on 29 October.



DAX Leads Major European Markets

Germany's DAX recorded the strongest performance among the three European indices. It increased from 24,939 to 25,818, a gain of 879 points, or 3.53 percent (Figure 6). After some early-month fluctuations, the index maintained a broadly upward trajectory and reached 26,040 on 29 October before a modest correction on the final trading day.



The performance of European indices indicates that investors continued to find opportunities beyond the US technology sector. Nevertheless, European markets remained exposed to energy costs, geopolitical uncertainty and domestic economic conditions. The WSJ's October reporting on monetary policy and inflation also underlined the importance of central-bank decisions for the global cost of capital and investor sentiment.

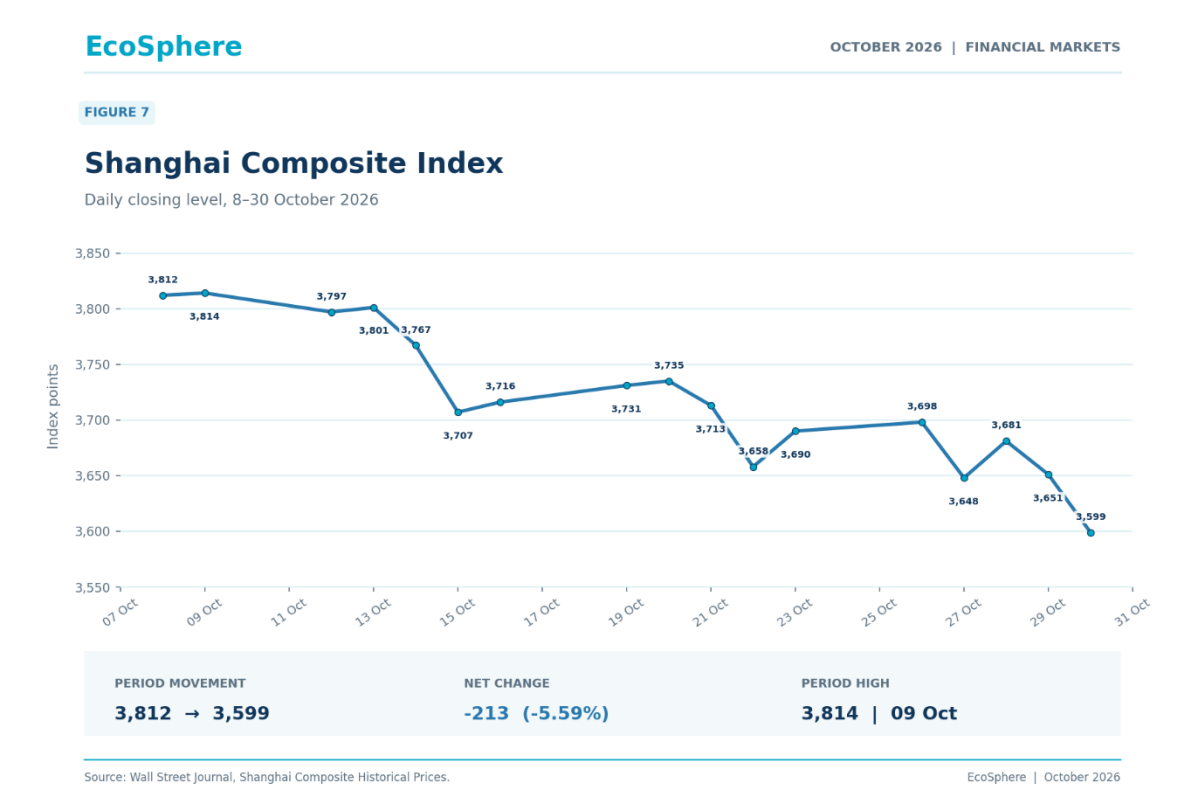
Asia-Pacific Markets: Equities Face a Broad-Based Correction

Asia-Pacific markets were considerably more uneven, with most of the major indices recording declines. The extent of the losses in Japan, South Korea and Taiwan was particularly notable, reflecting the vulnerability of technology-oriented markets to changing global investment sentiment.

Shanghai Composite Weakens in the Second Half

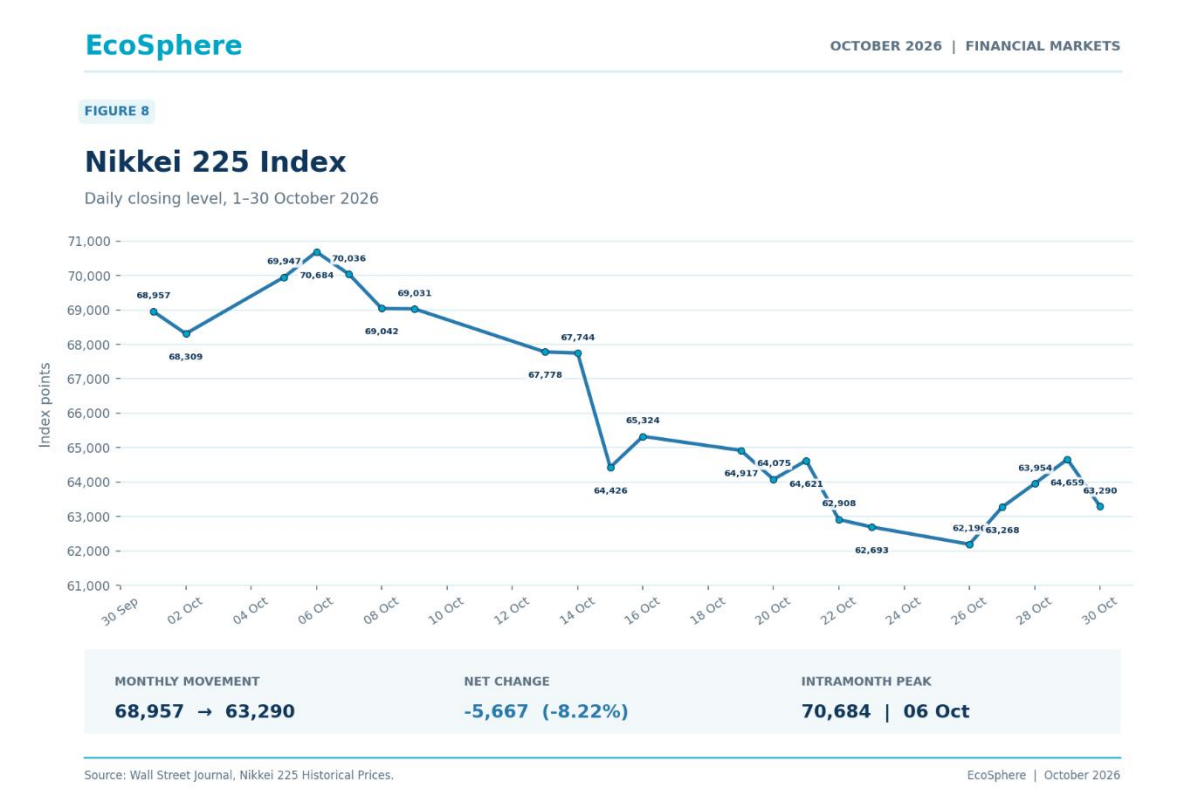
The Shanghai Composite declined from 3,812 on 8 October, the first available observation in the series, to 3,599 on 30 October, a fall of 213 points, or 5.59 percent (Figure 7). The index

weakened during the second half of the month and ended at its lowest recorded level in the period. Since observations begin only on 8 October, this movement should be interpreted as a partial-month change rather than a full-month return.



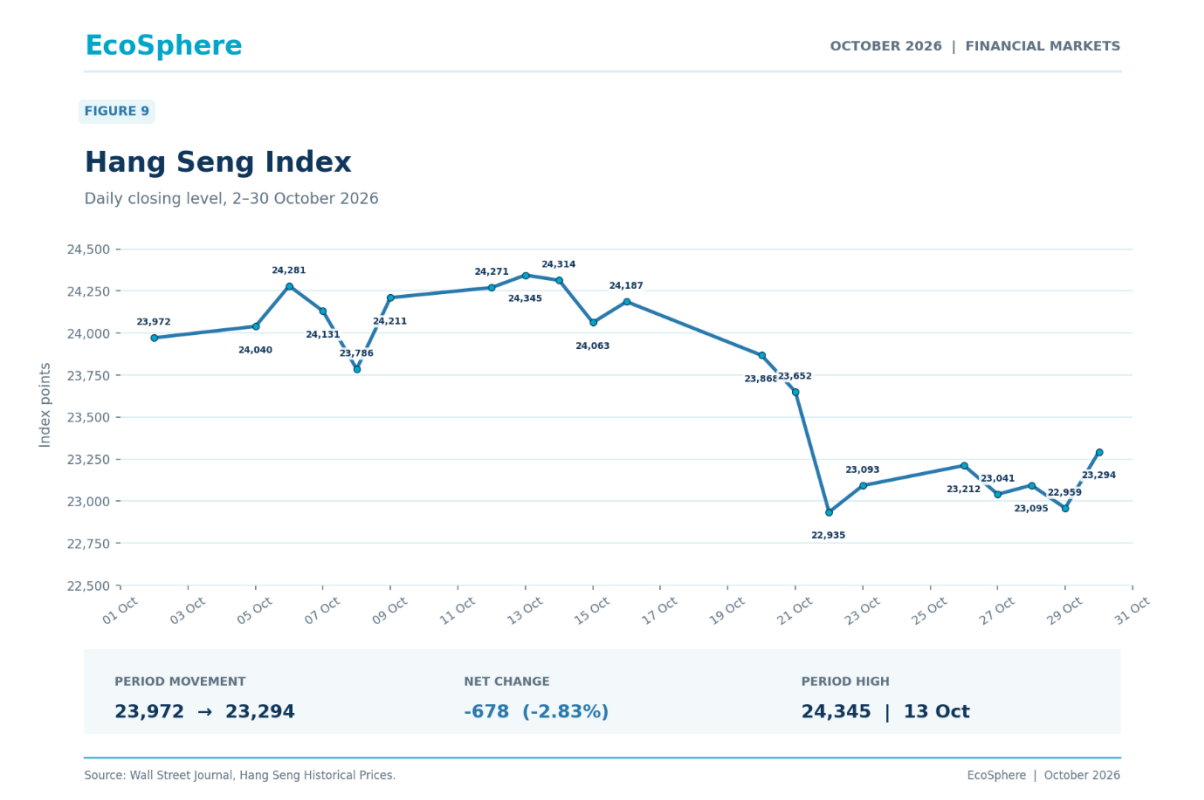
NIKKEI 225 Retreats Sharply After Early-Month Highs

Japan's NIKKEI 225 registered a substantial decline of 8.22 percent, falling from 68,957 on 1 October to 63,290 on 30 October (Figure 8). The index initially advanced to 70,684 on 6 October but subsequently experienced sustained selling pressure. Although a recovery was visible during the final week, it was insufficient to reverse the earlier losses. The sharp correction points to heightened sensitivity to global technology valuations, currency and interest-rate expectations, and international risk appetite.



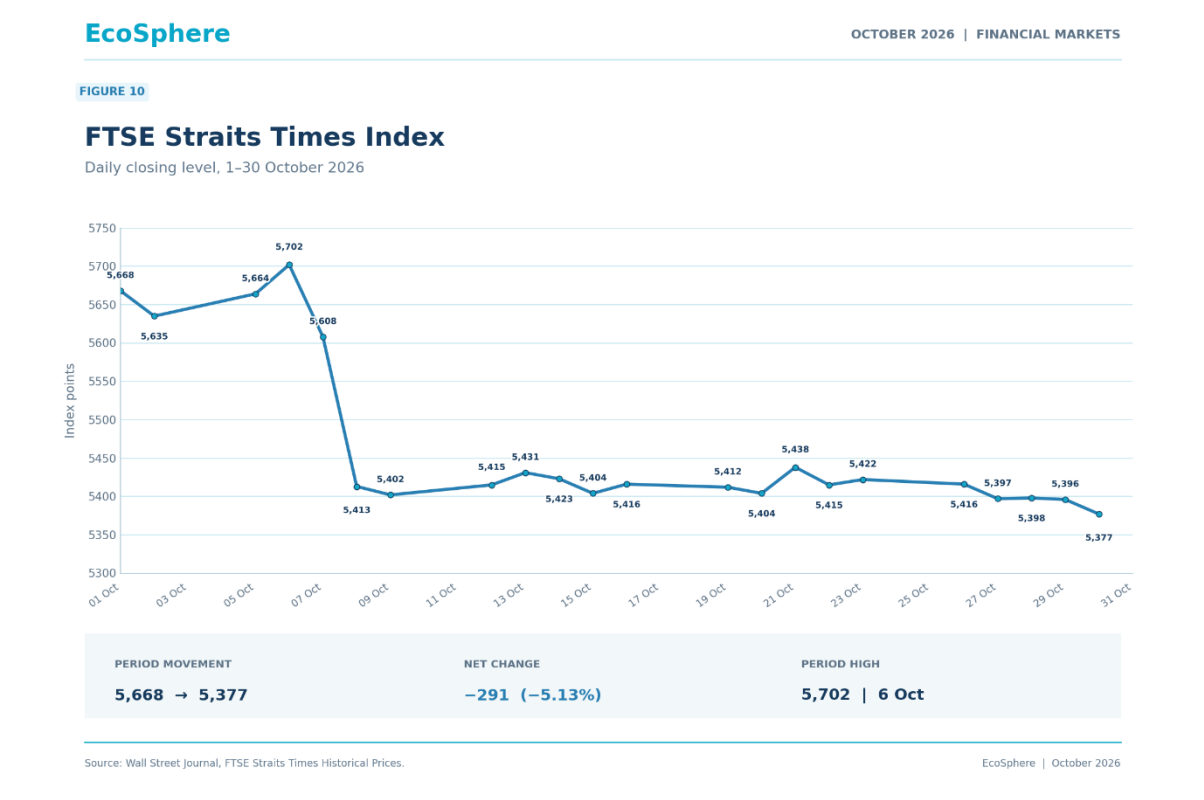
Hang Seng Index

Hong Kong's Hang Seng Index declined from 23,972 on 2 October to 23,294 on 30 October, a loss of 678 points, or 2.83 percent (Figure 9). It initially strengthened, reaching 24,345 on 13 October, before weakening during the second half of the month. The index recovered modestly in the final trading sessions but remained below its early-month levels. The calculation reflects the first available observation on 2 October.



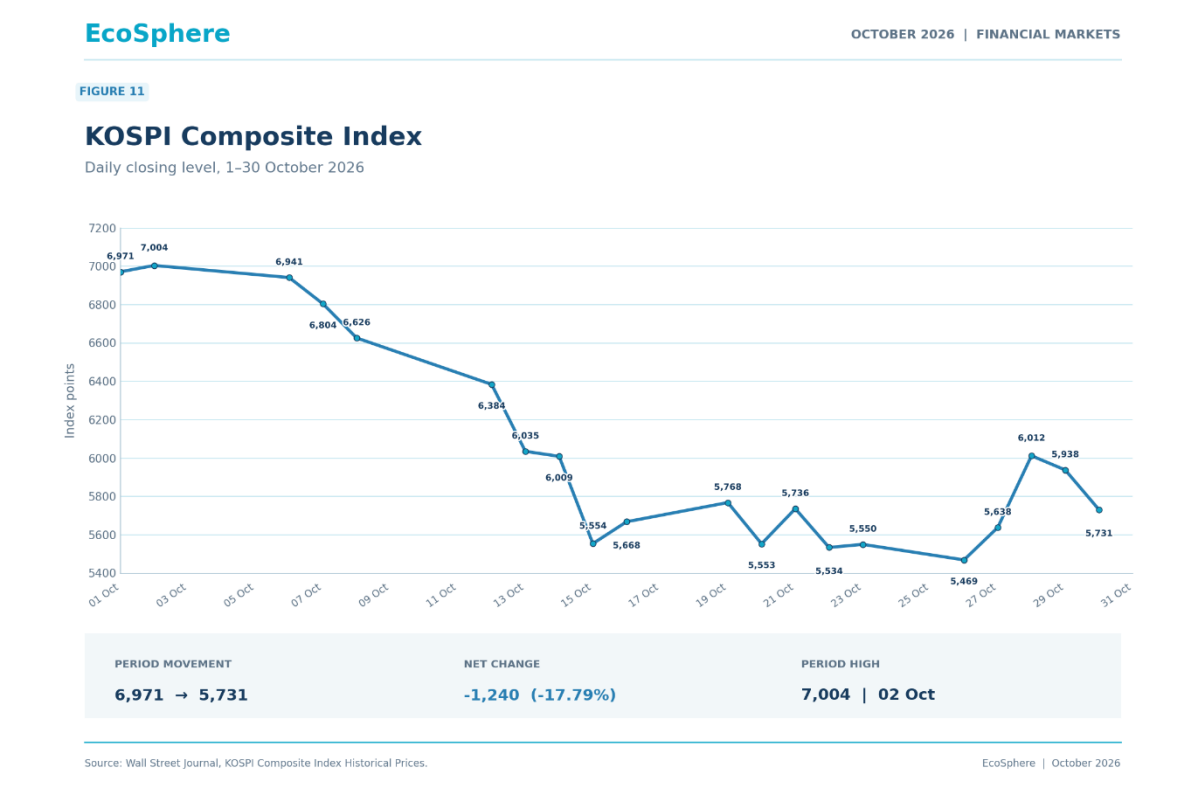
FTSE Straits Times Index: Singapore Equities Lose Ground During October

Singapore's FTSE Straits Times Index fell from 5,668 to 5,377, declining by 291 points, or 5.13 percent (Figure 10). After reaching a high of 5,702 on 6 October, it experienced a sharp correction, particularly during the first half of the month (Figure 10). The index remained relatively subdued thereafter, indicating that the recovery in the final sessions was limited.



KOSPI Composite: Technology Exposure Amplifies Market Losses

South Korea's KOSPI Composite was the weakest among the Asia-Pacific benchmarks covered. It dropped from 6,971 on 1 October to 5,731 on 30 October, a substantial decline of 1,240 points, or 17.79 percent (Figure 11). The index's downward movement became particularly pronounced after mid-October, when it fell from 6,009 on 14 October to 5,554 on 15 October. Although it recovered to 6,012 on 28 October, the rebound proved temporary. The scale of the decline highlights the vulnerability of markets with significant technology and semiconductor exposure when investors reassess growth expectations and valuations.



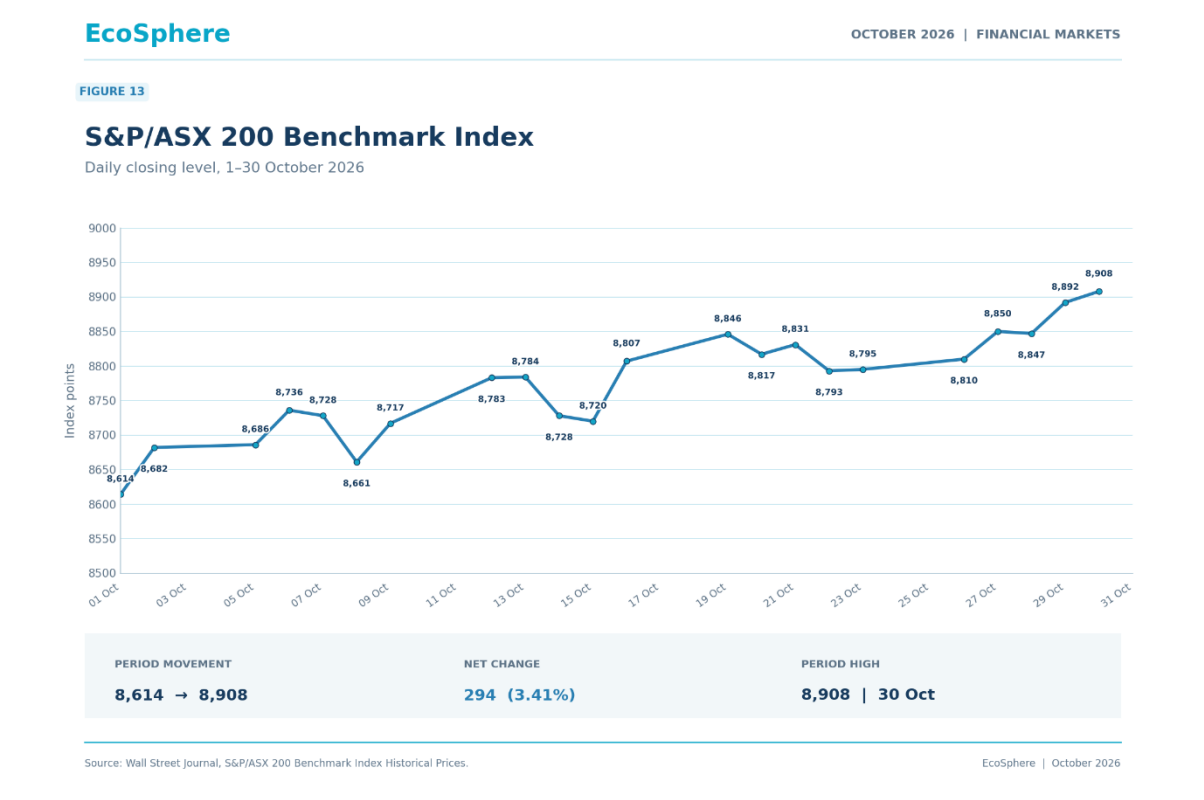
Semiconductor Exposure and the TAIEX Correction

Taiwan's TAIEX declined by 6.50 percent, from 48,353 on 1 October to 45,212 on 30 October (Figure 12). It reached a high of 49,823 on 6 October before entering a broad downward phase. The sharp fall after mid-month and the weakness towards the end of October indicate that the market was unable to sustain its early gains. Given Taiwan's importance in the global semiconductor supply chain, the reassessment of technology valuations and AI-related investment expectations may have contributed to the cautious sentiment.



S&P/ASX 200 Benchmark Extends Gains to a New Monthly High

Australia's S&P/ASX 200 was a notable exception to the weakness across much of the Asia-Pacific region. It advanced from 8,614 on 1 October to 8,908 on 30 October, gaining 294 points, or 3.41 percent (Figure 13). The index maintained a broadly upward trajectory and reached its period high on the final trading day. Its performance, alongside the gains in the FTSE 100 and major European indices, illustrates the geographical selectivity of global equity investment during October.



Outlook: Valuations, Inflation and the Search for Market Leadership

The October experience suggests that global equity markets are entering a phase in which earnings quality, valuation discipline and sector diversification may matter more than broad market momentum. The sharp correction in the NASDAQ, KOSPI and TAIEX contrasts with gains in the Dow, European benchmarks and the Australian market. This divergence points to a reassessment of the concentration of investment in technology and AI-related companies.

Three factors are likely to remain central to the outlook. First, the ability of technology companies to convert substantial AI-related capital expenditure into sustainable earnings and cash flows will influence valuations. Second, inflation and central-bank policy will continue to shape borrowing costs and equity risk premiums. The WSJ reported on 29 October that the Federal Reserve had kept interest rates unchanged, while its communication was interpreted by investors as indicating reluctance to pursue an aggressive sequence of rate increases. However, persistent inflation and energy-price pressures continued to complicate the outlook.

Third, geopolitical developments and regional growth prospects will influence capital flows and market leadership. European resilience and Australia's gains demonstrate that opportunities may emerge beyond the traditional technology-heavy markets, while the steep declines in several Asian indices underline the risks of concentrated sector exposure.

Overall, October 2026 was a month of market rotation rather than uniform global weakness. The coming months will test whether the correction in technology shares represents a temporary adjustment in valuations or a more durable shift in investment preferences. For investors, the central challenge will be to balance the long-term opportunities offered by technological transformation with the risks arising from elevated valuations, financing requirements and macroeconomic uncertainty.

Bottomline:

October 2026 exposed a widening divergence in global equity markets, as technology-led corrections weighed on US and Asian indices while European markets and Australia demonstrated resilience, underscoring a shift towards more selective, valuation-conscious investment amid uncertainty over inflation, interest rates and AI-driven growth.

THE END OF THE AI BLANK CHEQUE? ANTHROPIC'S IPO AND THE RISING COST OF THE AI REVOLUTION

Dr Debesh Roy

Chairman, InsPIRE

The artificial intelligence (AI) revolution is entering a more demanding phase. After several years in which investors rewarded technology companies for expanding computing capacity, developing large language models and committing billions of dollars to data centres, financial markets are increasingly asking a fundamental question: can the enormous investment in AI generate sustainable returns? Developments surrounding Anthropic's proposed public listing in October 2026, together with mounting concerns over the cash flows of major technology companies, suggest that investor enthusiasm is giving way to greater scrutiny of capital requirements, profitability and creditworthiness.

Anthropic's IPO: Growth Meets Financial Reality

Anthropic's filing of its public Form S-1 on October 26, 2026, for a proposed Nasdaq listing under the ticker ANT, represents a potentially historic milestone for the AI industry. The company's quarterly revenue reportedly increased by 47 per cent to nearly US$17 billion, demonstrating the rapid commercial expansion of its AI business. However, the filing also exposed a widening operating loss of US$567 million and long-term computing commitments amounting to an extraordinary US$895 billion, including US$70 billion due over the following 12 months.

These figures illustrate the distinctive economics of the AI industry. Unlike many software businesses, whose expansion can generate relatively high incremental returns without proportionate increases in physical infrastructure, advanced AI development requires enormous investments in specialised chips, computing capacity, energy and data centres. As models become more sophisticated and usage expands, companies must continually invest in infrastructure to remain competitive.

Consequently, rapid revenue growth does not necessarily translate into strong operating cash flows. Anthropic's financial challenge is to convert its expanding customer base and

technological capabilities into sustainable profitability while meeting substantial future infrastructure commitments.

The Credit-Rating Question: A New Test for AI Financing

The reported warning by Blackstone on October 30 that Anthropic could receive a double-B, below-investment-grade credit rating after its public debut adds another dimension to the debate. Blackstone is identified in the document as the anchor investor in Anthropic's US$63 billion chip-financing vehicle. The possibility of a speculative-grade rating, commonly described as a junk rating, represents a significant departure from earlier investment-grade expectations.

Credit ratings matter because they influence the cost and availability of finance. A below-investment-grade assessment could raise borrowing costs, restrict access to certain institutional investors and make large-scale infrastructure financing more difficult. This is particularly consequential for an AI company whose competitive position depends on securing computing capacity and maintaining access to advanced semiconductor infrastructure.

The potential implications extend beyond Anthropic. If credit markets become more cautious about financing AI infrastructure, other companies pursuing capital-intensive AI strategies may also face pressure to demonstrate clearer pathways to cash generation. The industry's financing model could gradually shift from an emphasis on expansion at almost any cost towards more disciplined capital allocation.

Big Tech's Free-Cash-Flow Challenge

Anthropic's financial position reflects a broader challenge confronting the technology industry. Major hyperscalers are committing unprecedented resources to AI infrastructure, but these investments are increasingly testing their cash-flow capacity.

Alphabet reportedly experienced a 12 per cent fall in its share price in its worst trading session on record, wiping out approximately US$500 billion in market capitalisation. One concern highlighted in the document is that AI-powered search features could disrupt the economics of its established advertising business. If users increasingly obtain direct answers through

conversational AI rather than conventional search results, the number and nature of commercially valuable advertising interactions could change.

Amazon and Meta are also facing substantial infrastructure expenditure. Amazon reportedly recorded negative free cash flow of US$42.4 billion over a 12-month period, reflecting the scale of investment in data centres and related infrastructure. These developments raise questions about how quickly AI-related revenues can compensate for the capital expenditure required to build and operate the underlying systems.

The paradox is striking: technology companies are investing heavily in AI to protect and expand their competitive positions, even as the same technology has the potential to disrupt their existing revenue models.

From Growth at Any Cost to Returns on Capital

The October developments point towards a possible change in investor expectations. During the early phase of the AI boom, announcements of new models, partnerships and infrastructure investments were frequently interpreted as indicators of future market leadership. Increasingly, however, investors are examining the relationship between capital expenditure, revenue growth, operating margins and free cash flow.

This does not imply that confidence in AI's long-term potential has disappeared. Rather, the investment cycle is becoming more selective. Companies will need to demonstrate that their infrastructure commitments can support commercially viable applications, generate recurring revenues and produce adequate returns on invested capital.

For emerging technology businesses, access to equity markets may provide an alternative to excessive reliance on debt. However, public investors will also demand greater transparency regarding capital commitments, financing structures, operating losses and profitability timelines.

Conclusion: The AI Revolution Enters a Financial Discipline Phase

Anthropic's proposed IPO and the growing scrutiny of Big Tech's cash flows mark an important transition in the economics of artificial intelligence. The industry is moving from a phase dominated by technological ambition and aggressive capacity expansion towards one in which financial sustainability will increasingly determine competitive success.

The long-term demand for AI applications may remain substantial, but technological leadership alone will not guarantee commercial viability. Companies must balance innovation with financial discipline, ensure that infrastructure investments generate productive capacity and establish credible routes to profitability.

The central question is no longer simply who can build the most powerful AI model or the largest data centre. It is who can build a sustainable business around it. The next phase of the AI revolution may therefore be determined as much by balance sheets, credit ratings and cash flows as by computing power and technological breakthroughs.

Bottomline:

Anthropic's prospective IPO signals a turning point in the AI investment cycle, as escalating computing costs, capital requirements and uncertain monetisation challenge the assumption of unlimited investor funding and shift the focus towards sustainable business models and demonstrable returns.

COMMODITY MARKETS

GLOBAL COMMODITY MARKETS IN OCTOBER 2026: GEOPOLITICAL SHOCKS, ENERGY SURGE AND PRECIOUS METALS CORRECTION

EcoSphere Editorial

Global commodity markets experienced sharp divergence in October 2026, shaped by escalating geopolitical tensions in the Middle East, supply-chain disruptions and a major reassessment of investment positions in financial markets. Energy prices surged as concerns over supply security intensified, while precious metals witnessed substantial corrections amid liquidity pressures and institutional selling. Industrial metals remained relatively firm, supported by structural supply constraints, whereas agricultural commodities recorded mixed movements.

Energy: Geopolitical Tensions Drive Prices Higher

Energy emerged as the strongest-performing commodity segment during October, with escalating conflict in the Middle East raising concerns about production, transportation infrastructure and the security of critical supply routes. Brent crude rose approximately 15.3 percent during the month, moving above $116 per barrel towards the end of October, while West Texas Intermediate (WTI) crossed $104 per barrel. The World Bank reported that disruptions in the Middle East contributed to a 7.1 percent increase in its energy price index during October, alongside a significant drawdown in global oil inventories.

Natural gas prices also strengthened. European natural gas gained 12.1 percent during the month as concerns over supply-route security coincided with seasonal heating demand. The simultaneous rise in crude oil and natural gas prices highlights the vulnerability of global energy markets to geopolitical disruptions. For energy-importing economies, particularly those dependent on supplies from the Middle East, higher prices could intensify inflationary pressures, widen trade deficits and complicate monetary policy decisions.

Precious Metals: Liquidity Pressures Trigger a Sharp Correction

In contrast to energy, precious metals experienced substantial losses. Gold prices declined by approximately 6.3 percent during October, falling below the psychologically important $4,000-per-ounce threshold and ending the month around $3,898–$3,913. Silver recorded an even sharper correction, declining approximately 18 percent.

The sell-off reflected an unusual combination of tighter monetary expectations, rising bond yields and liquidity pressures. The sharp correction in equity markets, particularly technology stocks, reportedly triggered institutional margin calls, prompting investors to liquidate positions in otherwise defensive assets to meet funding requirements. Higher US inflation and bond yields further weakened the appeal of non-yielding precious metals. The developments demonstrate that safe-haven assets are not immune to short-term liquidity shocks, even when geopolitical uncertainty remains elevated.

Industrial Metals: Structural Supply Constraints Support Prices

Industrial metals displayed greater resilience, although individual commodities followed different trajectories. Copper declined approximately 5.9 percent during October but remained elevated at around $6.30–$6.48 per pound, equivalent to approximately $14,250 per tonne. Low exchange inventories and labour disruptions in Chile continued to constrain supply.

Zinc, meanwhile, gained momentum towards the end of the month, rising by more than 3 percent on the London Metal Exchange amid localized shortages of ore. Longer-term demand associated with electrification, renewable energy, data centres and technological infrastructure continues to provide structural support to industrial metals. Nevertheless, price movements remain sensitive to global manufacturing activity and supply-side disruptions.

Agriculture and Food: Mixed Commodity Performance

Agricultural commodities recorded divergent trends. The FAO Food Price Index declined by 1.2 percent in October to 133.9 points, indicating some moderation in international food prices.

Cereal and grain prices fell by 4.5 percent, supported by improving production prospects in South America and expectations of easing Black Sea export restrictions.

Sugar prices, however, increased by 6.6 percent, reflecting harvesting and crushing disruptions caused by heavy rainfall in Brazil, alongside weaker crop prospects in India and Thailand. Fertilizer prices also strengthened, with increases ranging from 1 percent to 24 percent across categories, as supply constraints in the Persian Gulf and higher energy costs raised production and transportation expenses.

Outlook

The outlook for global commodity markets remains closely tied to geopolitical developments, supply-chain resilience and monetary policy expectations. Persistent energy-price pressures could revive inflation risks, while precious metals may remain sensitive to interest rates and financial-market liquidity. Industrial metals will depend on the balance between structural demand and supply constraints, whereas agricultural prices will remain exposed to weather conditions, production prospects and trade disruptions. October's contrasting movements underline the growing importance of geopolitical risk and supply security in shaping global commodity price dynamics.

Bottomline:

October's global commodity market movements underscore the growing influence of geopolitical tensions on global prices, with an energy-led surge contrasting sharply with corrections in precious metals and highlighting the heightened volatility and uncertainty confronting commodity markets.

INDIAN COMMODITY MARKETS IN OCTOBER 2026: CRUDE OIL SURGES AS BULLION CORRECTS AND AGRICULTURAL MARKETS DIVERGE

EcoSphere Editorial

October 2026 witnessed considerable volatility across Indian commodity markets, with the Multi Commodity Exchange (MCX) and the National Commodity and Derivatives Exchange (NCDEX) reflecting different underlying market forces. Energy prices strengthened sharply amid geopolitical tensions in West Asia, while bullion contracts faced substantial selling pressure. Base metals showed mixed movements. Agricultural commodities traded on NCDEX were influenced more by domestic arrivals, seasonal demand, export prospects and supply conditions.

MCX: Energy leads while bullion undergoes a correction

Energy commodities were the strongest segment on MCX. Crude oil futures recorded substantial gains as escalating tensions in the Middle East raised concerns over supply disruptions and the security of energy infrastructure. MCX crude oil was up approximately 14.7 percent over the 20 trading sessions to 28 October. It remained up 11.4 percent over the corresponding 20-session period to 29 October, despite a late-month pullback. Crude oil was trading around ₹9,545–9,738 per barrel in the final week of October. These movements reflected the transmission of international price pressures into the domestic futures market.

Natural gas, however, moved in the opposite direction. MCX natural gas declined approximately 10.1 percent over 20 sessions to 28 October and 13.1 percent over the corresponding period to 29 October. This divergence between crude oil and natural gas illustrates the influence of different supply-demand conditions, contract dynamics and international benchmarks on domestic energy futures.

Bullion witnessed a significant correction. Gold futures declined around 3.4 percent over 20 sessions to 28 October, with the December contract trading near ₹1.44 lakh per 10 grams on that date. Silver was considerably weaker, falling approximately 13.7 percent over the same period and nearly 14.9 percent over 20 sessions to 29 October. Silver's decline reflected the

unwinding of speculative positions, higher US bond yields and the strengthening of expectations that interest rates could remain elevated. The sharp correction in global equity markets also contributed to liquidity-driven selling in precious metals.

The correction was particularly pronounced in silver, which had already retreated substantially from its January 2026 peak. By 23 October, MCX December silver futures had fallen below ₹2 lakh per kilogram. This underlined the extent of the adjustment in the domestic market.

Base metals presented a mixed picture. Copper remained volatile, with the MCX contract declining approximately 0.3 percent over 20 sessions to 28 October and 1.4 percent to 29 October. Aluminium also weakened, while zinc registered gains of approximately 2.1 percent and 0.7 percent, respectively, over these periods. Lead remained marginally positive. The divergent movements reflected differences in industrial demand, inventories and supply conditions across individual metals.

NCDEX: Agricultural commodities reflect domestic supply-demand dynamics

Agricultural futures on NCDEX displayed varied movements during October. Guar seed and guar gum attracted attention, with prices experiencing considerable volatility. Historical trading data for NCDEX guar seed 10MT futures indicate that the contract rose from ₹7,491 on 9 October to ₹7,904 on 30 October, an increase of approximately 5.5 percent over the available observations. However, the market also experienced sharp daily fluctuations, including a 4.2 percent decline on 26 October, followed by a partial recovery.

Jeera futures also displayed considerable volatility. The available historical series shows that the contract moved from ₹24,830 on 9 October to ₹26,230 on 30 October, gaining approximately 5.6 percent. The movement was not linear: prices fluctuated significantly during the month, reflecting changing market expectations and trading activity.

Other agricultural commodities, including chana, coriander, turmeric and castor seed, experienced mixed conditions. Market reports towards the end of October indicated that chana prices were under pressure in some markets because of weaker dal-mill demand and softer prices of competing pulses. Kabuli chickpeas, however, recorded gains in some centres,

although higher arrivals and subdued export offers limited the upside. Coriander and turmeric prices also varied across trading centres. These developments demonstrate that agricultural commodity markets were being shaped by crop-specific fundamentals rather than a uniform trend.

Outlook

The outlook for Indian commodity markets will depend on the interaction between international price movements and domestic fundamentals. Crude oil remains particularly vulnerable to geopolitical developments, with higher prices posing risks to India's import bill, inflation and industrial costs. Gold and silver may remain volatile as investors reassess interest-rate expectations and global liquidity conditions. Industrial metals will depend on manufacturing activity and infrastructure demand, while agricultural futures will be influenced by arrivals, crop prospects, export demand and government policy.

Overall, October 2026 highlighted a clear distinction between the energy-led strength in MCX and the more commodity-specific movements across NCDEX agricultural contracts. The month reinforced the importance of monitoring global developments alongside domestic supply-demand conditions when assessing India's commodity market outlook.

Bottomline:

October's Indian commodity markets reflected sharp divergence, with rising crude oil prices intensifying inflationary and import-cost pressures, falling bullion prices signalling a correction in precious metals, and mixed agricultural commodity trends highlighting uneven supply-demand dynamics.


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SECTION 4: RESEARCH DIGEST

NOBEL PRIZE IN ECONOMICS 2026

SMOOTHING THE ECONOMIC CYCLE: THE 2026 NOBEL PRIZE AND THE MICROFOUNDATIONS OF MACROECONOMIC STABILITY

The 2026 Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel has been awarded jointly to Robert E. Hall of Stanford University and Michael Woodford of Columbia University, New York, for their contribution to the "microeconomic foundations of macroeconomic stabilisation". Announced by the Royal Swedish Academy of Sciences on 12 October 2026, the award recognises their work in developing macroeconomic models that have significantly strengthened the ability of governments and central banks to design and implement effective stabilisation policies.

At the heart of their contribution is a powerful idea: understanding the economy as a whole requires understanding how individual households and businesses make decisions. By building macroeconomic models on microeconomic foundations, the laureates have helped explain how individual choices collectively shape major economic variables such as inflation, production and consumption. Their work has provided a stronger theoretical basis for policies aimed at reducing the severity of economic fluctuations and maintaining macroeconomic stability.

From Keynesian Stabilisation to a New Macroeconomic Framework

Economic activity rarely follows a smooth trajectory. Periods of expansion are often followed by slowdowns and recessions, while excessive demand can generate inflationary pressures. Managing these fluctuations has been a central concern of economic policy for nearly a century.

John Maynard Keynes established the intellectual foundations of modern stabilisation policy by emphasising the role of aggregate demand. During recessions, governments could support economic activity by increasing public expenditure and accepting larger budget deficits, while central banks could lower interest rates to encourage borrowing, investment and consumption.

Conversely, during periods of excessive demand, tighter monetary and fiscal policies could help moderate economic activity.

However, the economic crises of the 1970s exposed significant limitations in the macroeconomic models then guiding policy. The oil crises were accompanied by a difficult combination of low growth, high unemployment and persistent inflation. Conventional Keynesian models appeared inadequate in explaining and addressing this phenomenon. Attempts to stimulate economic activity did not necessarily reduce unemployment and, in some circumstances, contributed to inflationary pressures. The experience raised fundamental questions about the effectiveness of stabilisation policy and the theoretical models underpinning it.

It became increasingly clear that macroeconomic relationships could not be understood simply through statistical correlations between aggregate variables. A more robust framework was needed: one that could explain how households and firms respond to economic conditions and policy decisions.

Bringing Individual Behaviour into Macroeconomic Policy

Robert E. Hall and Michael Woodford helped advance this transition by developing macroeconomic models grounded in the decisions of individual economic agents. Their approach recognises that households and businesses are not passive participants in the economy. They make decisions based on their expectations about the future, including expectations of inflation, interest rates, income, savings, demand and production costs.

For example, households deciding whether to consume or save take account not only of their present income but also of what they expect their future economic circumstances to be. Similarly, businesses setting prices and making investment decisions consider anticipated demand, costs and future economic conditions. When these individual decisions are aggregated, they influence the broader trajectory of the economy.

An important implication is that expectations matter greatly for the effectiveness of economic policy. When governments and central banks communicate their policy intentions clearly and

credibly, they can influence how households and businesses perceive the future. Such communication can shape present-day decisions and, consequently, economic outcomes.

This provides a deeper explanation of why monetary and fiscal policy are not merely instruments for responding to economic developments after they occur. Their effectiveness also depends on how people anticipate and respond to future policy actions. The ability to influence expectations has therefore become an important element of modern macroeconomic stabilisation.

Implications for Monetary and Fiscal Policy

The contribution recognised by the 2026 Nobel Prize has considerable relevance for the conduct of economic policy. Central banks routinely use interest-rate decisions and policy communication to influence inflation, credit conditions and economic activity. Governments, in turn, employ taxation, public expenditure and fiscal support to cushion downturns and manage demand.

The models developed on microeconomic foundations provide a more systematic framework for assessing how such interventions affect economic decisions. They help policymakers understand why the timing, credibility and communication of policy measures matter, rather than treating policy instruments as mechanical levers.

This is particularly important when economies face unexpected shocks. Energy crises, sudden changes in household consumption and disruptions to production can generate complex effects across sectors. A rise in energy prices, for instance, can increase production costs, influence inflation expectations, reduce household purchasing power and alter business investment decisions. The resulting macroeconomic impact depends on how households and firms adjust their behaviour.

The theoretical foundations associated with the laureates' work have strengthened the models used by central banks and governments to assess such developments and formulate responses. As John Hassler, Chair of the Committee for the Prize in Economic Sciences, observed, these

models provide a stable theoretical foundation for dealing with economic shocks, including energy crises and sudden changes in consumption.

Relevance in an Era of Economic Uncertainty

The award comes at a time when policymakers face increasingly complex challenges. Geopolitical tensions, volatile energy markets, technological change, climate-related disruptions and shifting consumption patterns can generate shocks that are difficult to anticipate. In such an environment, maintaining price stability while supporting growth and employment requires a careful assessment of how economic agents respond to changing conditions.

The work of Hall and Woodford reinforces the importance of forward-looking policymaking. Central banks must consider not only current inflation and output but also how their decisions influence expectations. Similarly, fiscal authorities need to assess how households and businesses may respond to changes in public spending, taxation and government borrowing.

For emerging economies such as India, these insights are particularly relevant. The policy challenge is to sustain growth, contain inflation and preserve macroeconomic stability while responding to domestic structural constraints and external shocks. Effective policy requires a clear understanding of how households, firms and financial institutions adjust their decisions when economic conditions or policy signals change. Credible communication and consistency in policy actions can be as important as the instruments themselves.

Conclusion

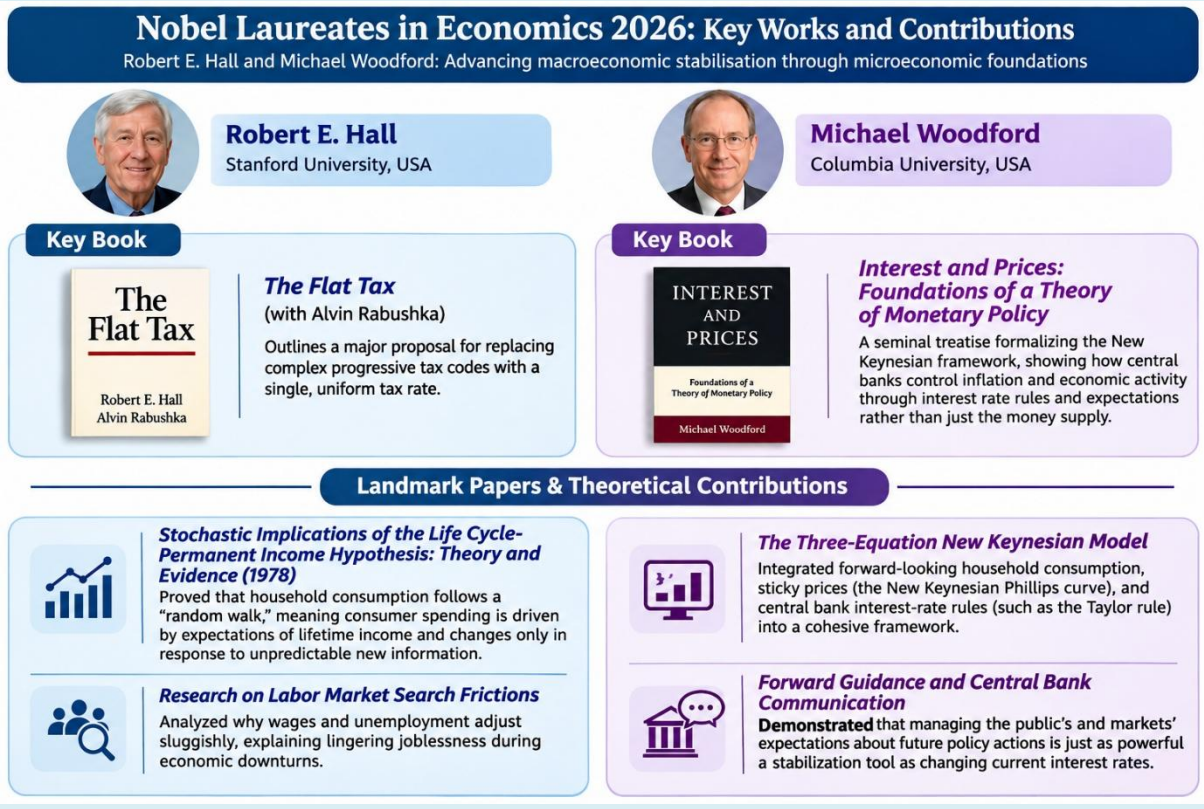
The 2026 Nobel Prize in Economic Sciences celebrates an important evolution in economic thought: the recognition that macroeconomic stability must be understood through the behaviour and expectations of individual economic agents. Robert E. Hall and Michael Woodford have helped provide the theoretical foundations for more effective stabilisation policies by connecting household and business decisions with economy-wide outcomes.

Their work does not eliminate the uncertainty inherent in economic policymaking. Rather, it equips policymakers with stronger analytical tools to understand economic fluctuations,

anticipate responses and design better-timed interventions. The central lesson is that successful stabilisation policy depends not only on what governments and central banks do, but also on how households and businesses interpret their actions and respond to them. In an increasingly interconnected and shock-prone world, this insight remains central to the pursuit of sustainable growth and macroeconomic stability.

SHAPING MODERN MACROECONOMICS: THE LANDMARK WORKS OF NOBEL LAUREATES 2026

The 2026 Nobel Prize in Economic Sciences recognises the pioneering contributions of Robert E. Hall and Michael Woodford to the microeconomic foundations of macroeconomic stabilisation. Their research has reshaped our understanding of household and business behaviour, monetary policy, inflation expectations and economic fluctuations. The highlights their key publications and landmark theoretical contributions, illustrating how their work has strengthened the analytical foundations of modern economic policymaking, are presented below:



SYNOPSES OF RESEARCH PAPERS

FIRMS' INVESTMENT AND THE REAL TRANSMISSION OF THE GLOBAL FINANCIAL CYCLE

Authors: Caitlin Hegarty, Matias Moretti, Pablo Ottonello, and Diego J. Perez

NBER Working Paper No. 35918, October 2026

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

The paper examines how fluctuations in global financial conditions affect firms' investment decisions and aggregate economic activity in open economies, with particular emphasis on the role of firm-level risk and the implications for macroeconomic stabilisation policies. It combines empirical evidence from a sample of open economies with a quantitative heterogeneous-firm open-economy model to investigate how changes in global risk premia are transmitted to domestic investment and output.

The empirical analysis combines firm-level balance-sheet information with data on external borrowing costs, measured by the excess bond premium, which captures changes in the financial sector's risk-bearing capacity. The findings indicate that increases in global risk premia are followed by significant contractions in investment, with more pronounced effects among firms facing higher default risk. To explain these patterns, the paper develops a model in which heterogeneous domestic firms finance investment through defaultable debt supplied by risk-averse global investors. Calibrated to a sample of Latin American economies, the model replicates the observed differences in firms' investment responses and captures the associated declines in aggregate output and investment, alongside exchange rate depreciation.

The analysis identifies three principal transmission channels: the risk channel, through which changes in global risk premia raise borrowing costs according to firms' exposure to aggregate risk; the competitiveness channel, through which adjustments in output and input prices partly mitigate investment contractions; and the debt-revaluation channel, through which exchange rate movements affect the real burden of foreign-currency debt. The risk channel emerges as

the principal driver of aggregate investment contractions, while the competitiveness channel provides a significant offset.

A central contribution of the paper is its identification of a distinct risk dimension of macroeconomic policy. Policies that stabilise firms' cash flows can reduce their exposure to aggregate risk and limit the transmission of external financial shocks to borrowing costs and investment. The analysis demonstrates that exchange rate regimes influence this mechanism differently depending on the currency composition of corporate debt. It also finds that the risk dimension accounts for more than half of the attenuation in firms' investment responses to global risk-premium shocks associated with macroprudential policies that tax corporate debt.

The paper concludes that the effectiveness of macroeconomic stabilisation depends not only on conventional channels, such as leverage and relative prices, but also on how policies shape firms' exposure to aggregate risk. This perspective provides a framework for understanding the interaction between international financial conditions, corporate investment and domestic policy, while highlighting the potential for fiscal measures and institutional reforms in credit markets to strengthen economic resilience against global financial shocks.

The full paper can be accessed from: https://www.nber.org/system/files/working_papers/w35918/w35918.pdf

AI READINESS IN CENTRAL BANKS

IFC Report No. 19, October 2026, Bank for International Settlements

The report *AI Readiness in Central Banks*, published by the Irving Fisher Committee on Central Bank Statistics (IFC) under the auspices of the Bank for International Settlements (BIS) in October 2026, examines the progress made by central banks in adopting artificial intelligence (AI), strengthening institutional capabilities and preparing their data systems for its effective use. Based on a survey conducted in early 2026 and comparisons with the 2024 findings, it highlights a significant shift from AI experimentation towards operational deployment. Almost two-thirds of surveyed central banks now consider AI a high strategic priority, while more than two-thirds of reported AI projects have reached production or small-scale production.

The report identifies growing applications of AI in research, statistics, cybersecurity, communication and institutional workflows. Central banks are also strengthening AI governance, investing in dedicated infrastructure and developing specialised human resources. However, important challenges persist, including high implementation costs, cybersecurity and privacy risks, data quality, ethical concerns, skills shortages and dependence on a limited number of technology providers. The emergence of agentic AI, capable of undertaking complex tasks with limited human oversight, further underlines the need for effective accountability and human supervision.

Looking ahead, the report emphasises two essential priorities: strengthening organisational readiness through robust governance, skilled personnel, cost management and oversight; and developing AI-ready data systems based on interoperability, security, machine-readability and consistent standards. It highlights the potential role of international initiatives such as Statistical Data and Metadata Exchange (SDMx) in improving data interoperability. The central message is that successful AI adoption in central banking requires more than technological investment: it depends on strong institutions, reliable data, responsible governance and a careful balance between innovation and human accountability

The full report can be accessed from: https://www.bis.org/publications/ifc-report-19-ai-readiness-central-banks.pdf

BOOKSHELF CHRONICLES

THE ELEMENTS OF POWER

Author: Nicolas Niarchos

Publisher: Harper Collins

Year of Publication: 2026

In *The Elements of Power*, investigative journalist Nicolas Niarchos offers a compelling account of the global scramble for the critical minerals that power the clean energy transition. Focusing on cobalt, lithium, copper and other essential materials used in lithium-ion batteries, the book examines the complex supply chains connecting mineral-rich regions, particularly the Democratic Republic of the Congo (DRC), with battery manufacturers and technology companies in China, the United States and elsewhere.

At the heart of the book is a striking contradiction: technologies designed to create a cleaner and more sustainable future often depend on extraction processes marked by environmental degradation, unsafe working conditions, exploitation and corruption. Through extensive field reporting and historical research, Niarchos brings attention to the lives of artisanal miners and communities in the DRC, Indonesia and other resource-rich regions, whose livelihoods and environments bear the costs of meeting the world's growing demand for battery metals. He also traces the evolution of battery technology and the geopolitical competition for control over mineral resources, revealing how commercial interests, strategic rivalries and unequal economic relationships shape the emerging global energy order.

One of the book's major strengths is its ability to connect the everyday use of smartphones, electric vehicles and other rechargeable devices with the distant mining communities that supply their essential materials. It challenges the assumption that the transition to clean energy is inherently sustainable, arguing that the environmental benefits enjoyed by consumers in wealthier economies can coexist with serious social and ecological costs in producing countries. The narrative also highlights China's growing influence across mineral extraction,

refining and battery manufacturing, alongside the strategic efforts of Western powers to secure alternative supply chains.

The book's relevance extends well beyond the mining industry. It raises important questions about the meaning of a just energy transition, the governance of critical mineral supply chains, corporate accountability and the distribution of economic gains from the global shift towards low-carbon technologies. For developing countries endowed with critical mineral resources, it also underscores the importance of moving beyond raw-material extraction towards domestic processing, value addition, technological capabilities and stronger institutional frameworks.

The Elements of Power is a timely and thought-provoking contribution to the debate on climate change, resource geopolitics and sustainable development. It reminds readers that the success of the green transition must be judged not only by the emissions it helps avoid, but also by the fairness, transparency and sustainability of the supply chains that make it possible. It is essential reading for policymakers, business leaders, researchers and anyone seeking to understand the political economy of the global energy transition.


Section 5
Climate Change
CO_2
Rising Climate Risks
Emissions & Net Zero
Climate Finance
Energy Transition
Adaptation & Resilience
Just Transition
India's Climate Action

SECTION 5: CLIMATE CHANGE

CLIMATE POLICY

THE POINT OF RETURN: CAN THE WORLD CLOSE THE EMISSIONS GAP AND RESTORE THE 1.5°C GOAL?

Dr Debesh Roy

Chairman, InsPIRE

The United Nations Environment Programme's (UNEP) *Emissions Gap Report 2026*, titled *The Point of Return*, delivers a sobering message: the world has lost the opportunity to limit global warming to 1.5°C above pre-industrial levels without significant overshoot. Decades of insufficient climate action have narrowed the options available to humanity. Yet the report does not abandon the Paris Agreement's temperature goal. Instead, it argues that immediate and sustained emissions reductions could still limit peak warming, shorten the period of overshoot and potentially return global temperatures to 1.5°C by the end of the century.

Emissions remain stubbornly high

Global greenhouse gas emissions were estimated at 58.4 gigatonnes of carbon dioxide equivalent ($GtCO_2e$) in 2025, broadly unchanged from the previous year. Although this represents a departure from the growth trend of the past decade, it is too early to conclude that global emissions have peaked. Carbon dioxide emissions from fossil fuels, along with nitrous oxide and fluorinated gases, continued to increase, while methane emissions remained broadly stable. A decline in emissions from land use, land-use change and forestry partly offset these increases.

The challenge is compounded by the gap between national climate commitments and the reductions required to meet global temperature goals. By 1 September 2026, 124 parties, accounting for approximately 76 percent of global greenhouse gas emissions, had submitted new nationally determined contributions (NDCs). However, the increased number of commitments has not translated into a commensurate rise in ambition. Full implementation of

the latest NDCs would reduce emissions by only 5–8 percent below 2025 levels by 2030 and 11–15 percent by 2035.

The widening gap between pledges and action

The scale of the shortfall is considerable. Under the lowest feasible 1.5°C overshoot pathway assessed by UNEP, global greenhouse gas emissions must fall by 18 percent by 2030, 45 percent by 2035 and 69 percent by 2040, relative to 2025 levels. This implies an average annual reduction of approximately 5.7 percent between 2025 and 2035. Global carbon dioxide emissions would need to reach net zero around 2050.

Against this benchmark, the emissions gap between the full implementation of current conditional and unconditional NDCs and the lowest 1.5°C overshoot pathway is estimated at 5 $GtCO_2e$ in 2030 and 16 $GtCO_2e$ in 2035. Even the less ambitious objective of limiting warming to below 2°C requires stronger action. Moreover, the implementation gap remains significant: countries have not adequately aligned domestic policies with their own climate commitments. Announced targets, therefore, cannot substitute for enforceable policies, investment and measurable emissions reductions.

Overshoot is not the end of the climate fight

UNEP's revised assessment recognises that some overshoot of 1.5°C is now unavoidable. The lowest feasible overshoot scenario limits peak warming to approximately 1.7–1.8°C, with a 66 percent probability, and envisages a return to 1.5°C by 2100 with around a 50 percent probability. This pathway would require removing and permanently storing roughly 320 gigatonnes of CO_2 over the century.

Such large-scale carbon removal presents substantial technological, financial and environmental uncertainties. It cannot be treated as a substitute for reducing emissions at source. The report consequently stresses the need for rapid reductions in fossil-fuel emissions, continued expansion of solar and wind energy, electrification of end uses and deep cuts in methane emissions. Every additional year of delay increases the scale of the required transition and raises the risks of irreversible changes in natural systems.

Turning climate ambition into economic opportunity

The report also identifies reasons for cautious optimism. Renewable energy deployment has advanced faster than many earlier projections, while solar photovoltaics, batteries and electric vehicles have become increasingly competitive. Evidence from hundreds of climate policies indicates that well-designed interventions can deliver measurable emissions reductions. Climate action can therefore serve not only environmental objectives but also energy security, affordability, technological innovation and industrial competitiveness.

For India and other emerging economies, the challenge is to reconcile development priorities with a lower-carbon growth trajectory. Expanding renewable electricity, strengthening grids and storage, improving industrial energy efficiency, promoting cleaner transport and reducing methane emissions can help moderate future emissions while supporting economic transformation. These efforts will require predictable financing, technology access and international cooperation. Equity must remain central: countries differ substantially in historical responsibility, per-capita emissions, development needs and capacity to finance the transition.

The point of return begins now

The central lesson of the UNEP report is that climate pledges must translate into faster implementation. Governments need stronger sectoral policies, credible milestones, transparent monitoring and investment frameworks that accelerate the transition away from unabated fossil fuels. International cooperation must also help mobilise finance and technology, particularly for developing countries facing competing demands on public resources.

The world can no longer avoid a period of warming beyond 1.5°C, but it can still influence how high temperatures rise and how long they remain elevated. The difference between decisive action and continued delay will be measured in climate risks, economic costs and

human welfare. The point of return is not a distant milestone; it is the policy and investment choices made today.

Bottomline:

Closing the global emissions gap and keeping the 1.5°C goal within reach demand far more ambitious and immediate climate action, backed by stronger national commitments, accelerated decarbonisation, scaled-up climate finance and sustained international cooperation.

The Emissions Gap Report 2026 can be accessed from: https://l1nq.com/igvtt9c

SIR NICHOLAS STERN ON INDIA'S GREEN TRANSITION: ENERGY SECURITY, CLIMATE FINANCE AND SUSTAINABLE GROWTH

In an interview with *Business Standard* (20 October 2026), Sir Nicholas Stern, environmental economist and professor at the London School of Economics, discusses how India can strengthen energy security, accelerate decarbonisation and respond to emerging challenges in climate finance, artificial intelligence (AI), critical-mineral supply chains and international trade. His central argument is that the transition to renewable energy is not merely an environmental necessity; it is also essential for reducing economic vulnerability to geopolitical shocks and volatile international oil prices.

Energy security and renewable energy. Stern distinguishes between immediate measures to manage energy-price volatility and medium-term strategies to reduce dependence on imported fossil fuels. In the short run, countries need adequate energy stocks, strategic reserves and diversified sources of supply. India has been developing relationships with alternative suppliers, but maintaining reserves involves costs. Over the medium term, reducing dependence on oil and gas is crucial. India's oil and gas imports amount to approximately 5 percent of GDP, exposing the economy to external shocks. Stern argues that renewable energy offers a cost-effective alternative, with the additional benefits of reducing air pollution and improving energy security.

He considers nuclear power a useful component of a diversified energy mix but cautions that its relatively high costs and long development timelines limit its ability to meet India's immediate energy requirements. Renewables, therefore, must lead the rapid expansion of clean electricity, complemented by other technologies where appropriate.

Climate finance and multilateral development banks. Stern expresses concern that climate finance has become more difficult to access as several advanced economies have reduced development assistance and the availability of low-cost finance. He argues that multilateral development banks (MDBs) must play a greater role in filling the financing gap. These institutions possess considerable lending capacity and could expand their operations through modest capital increases and more effective use of guarantees.

According to Stern, MDBs can provide loans at around 4–5 percent in suitable cases, often on better terms than those available to developing countries in commercial markets. He emphasises that the World Bank is only one part of the broader development-finance system. Institutions such as the Asian Infrastructure Investment Bank, the New Development Bank and the European Investment Bank can also contribute to financing sustainable infrastructure and climate-related investments.

Reflecting on the G20 report on MDB reforms, prepared under India's 2023 presidency and chaired by N. K. Singh and Larry Summers, Stern observes that it has influenced discussions about lending capacity and the use of guarantees. He believes the reform agenda should continue to be pursued to mobilise greater financial resources for developing economies.

Artificial intelligence and data centres. Stern sees significant potential for AI to support climate action. It can improve the management of energy and transport systems, help address congestion and urban pollution, accelerate the discovery of materials for batteries and semiconductors, and identify areas particularly vulnerable to climate impacts. However, the expansion of AI also creates environmental challenges because data centres require substantial electricity and cooling resources.

Stern suggests that AI data centres could account for around 5 percent of total electricity consumption by the middle of the century. Although this must be considered alongside the wider electrification of transport, heating and cooling, data centres can account for a substantial share of additional electricity demand in particular regions. Their expansion can raise concerns about water consumption, noise, power shortages and higher electricity prices.

India's ambition to become a major data-centre hub is reasonable, given its potential contribution to AI development and applications. However, Stern argues that developers must contribute directly and substantially to expanding clean electricity supply. India's abundant solar resources create an opportunity to power data centres through solar energy and battery storage, provided projects also protect local communities and minimise environmental harm.

Critical minerals and supply-chain diversification. Stern identifies the concentration of critical-mineral processing as a strategic vulnerability in the global green transition. The challenge is not simply the geographical availability of minerals such as lithium, but the concentration of processing capacity in a limited number of countries, particularly China. He argues that establishing three to five additional major processing centres could reduce this dependence. India should seek to become one of these centres, working with other countries, including the United States, through international collaboration and a coordinated global strategy.

Carbon border measures and international trade. On the European Union's Carbon Border Adjustment Mechanism (CBAM), which entered its definitive phase in 2026, Stern considers the underlying principle justified. Applying a comparable carbon cost to imports can help ensure that foreign producers compete on more equal terms with European manufacturers subject to domestic carbon pricing. He also believes the mechanism can encourage cleaner production.

However, Stern warns that its implementation must remain transparent and targeted. He favours concentrating on sectors such as steel, cement and aluminium, where carbon emissions can be measured more directly and the presence of equivalent carbon-pricing policies can be assessed. An excessively broad or opaque mechanism, he cautions, could become protectionist.

Overall, Stern's message is that India's green transition must combine energy security, affordable climate finance, responsible technological development and diversified industrial supply chains. Accelerating renewable energy deployment while strengthening international financial cooperation and ensuring that climate policies remain transparent can help India reduce external vulnerabilities and advance sustainable economic growth.

SYNOPSES OF RESEARCH PAPERS/ REPORTS

GREEN SUBSIDIES WITH DEMAND DISTORTIONS

Authors: Susanna B. Berkouwer and Joshua T. Dean

NBER Working Paper No.35911, October 2026

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

The paper examines how demand-side distortions, particularly credit constraints, influence the effectiveness of subsidies for adopting clean technologies in lower-income settings. It develops a theoretical framework showing that such distortions, despite imposing economic costs, can increase the welfare gains from green subsidies through two channels: by shifting the marginal adopter towards households with greater private and social benefits, and by increasing demand elasticity, thereby reducing the subsidy expenditure required to induce adoption.

The theoretical propositions are empirically tested through a randomised field experiment involving 2,134 charcoal-using households in Nakuru County, Kenya. The study evaluates the adoption of an induction stove priced at US$84 by cross-randomising purchase price subsidies, electricity usage subsidies and access to a four-month interest-free loan. The findings reveal that usage subsidies have virtually no measurable effect on households' willingness to pay, adoption or stove usage. Purchase price subsidies, however, generate substantial welfare gains. Access to interest-free credit increases the effectiveness of purchase subsidies by 35–73 percent, raising the observable welfare gain to US$10–US$12 for every dollar of government subsidy expenditure.

The study identifies the mechanisms underlying these results. Credit constraints increase the private fuel savings of marginal adopters by approximately 30 percent and their associated carbon emissions reductions by 19 percent. They also increase demand elasticity from −0.9 to −2.3, reducing subsidy expenditure per additional adoption by 29 percent. Consequently, the estimated cost of emissions abatement falls to US$12 per tonne of carbon dioxide equivalent (tCO_2e), compared with US$20 when credit constraints are relaxed. In a counterfactual scenario

without demand distortions, the estimated abatement cost rises to US$137 per tCO_2e, indicating that such distortions can substantially improve the cost-effectiveness of green subsidies in specific contexts.

The paper further demonstrates that the induction stove generates significant private and environmental benefits by reducing household charcoal consumption and energy expenditure. Over its estimated 2.2-year lifespan, the technology is associated with substantial fuel savings and emissions reductions, although some households continue to use traditional charcoal stoves. The findings therefore highlight the importance of considering local financial-market conditions, household behaviour and the distribution of private and social benefits when designing climate mitigation policies.

The study concludes that low- and middle-income countries, where credit-market frictions and other demand distortions are widespread, may offer some of the most cost-effective opportunities for climate change mitigation financing. It suggests that directing green subsidies towards these contexts could improve the welfare and emissions-reduction returns on public and international climate finance. The findings also underscore the need for further research to identify sector- and country-specific opportunities and to understand how different forms of demand distortion affect the optimal design and deployment of climate finance.

The full paper can be accessed from:
https://www.nber.org/system/files/working_papers/w35911/w35911.pdf

HOMEWORK IN CLIMATE ECONOMICS: HOUSEHOLD PRODUCTION, ENVIRONMENTAL PREFERENCES, AND CLIMATE POLICY

Authors: Stephie Fried, David Lagakos, and Hannah Rhodenhiser

NBER Working Paper No.35945, October 2026

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

The paper examines the role of household energy consumption in climate change mitigation and develops a quantitative framework to assess the effectiveness and fiscal cost of policies aimed at reducing residential emissions in the United States. Recognising that household activities, including driving, heating, cooling, cooking and cleaning, account for approximately one-third of national emissions, it analyses how households' income levels and environmental preferences influence their adoption of cleaner technologies and residential solar energy.

The study develops a model of household energy use in which households choose between cleaner and conventional equipment for different domestic activities and decide whether to install rooftop solar panels. The model incorporates differences in household income, environmental preferences and solar-generation capacity. A nationally representative survey provides evidence that environmental preferences are strongly associated with the adoption of clean equipment and solar panels, although they are not correlated with household income. The model is calibrated using survey findings and data from the Residential Energy Consumption Survey, the Consumer Expenditure Survey and other sources. It successfully reproduces observed patterns of technology adoption, household energy use and emissions across income groups.

The analysis evaluates the cost-minimising combination of subsidies for clean equipment, such as electric vehicles and heat pumps, and residential solar installations, with the objective of achieving a 10 percent reduction in household emissions at the lowest fiscal cost. It produces three principal findings. First, residential solar plays a central role in an efficient subsidy strategy. It receives the highest subsidy rate, remains accessible to households across income groups and accounts for 38 percent of the targeted emissions reduction. This reflects its ability to reduce emissions across multiple electricity-consuming household activities and

complement clean equipment that relies more heavily on electricity. Excluding residential solar from the subsidy programme increases the cost of achieving the same emissions-reduction target by approximately 50 percent.

Second, restricting subsidy eligibility to lower-income households generates only modest fiscal savings. Although higher-income households have higher baseline adoption rates and income caps can reduce payments to households likely to adopt clean technologies without government support, the resulting savings are largely offset by the higher subsidy rates required to encourage adoption among the smaller eligible population. Consequently, income-based eligibility restrictions reduce the overall cost of achieving the emissions target by only about 5 percent.

Third, environmental preferences make a substantial contribution to reducing household emissions independently of government intervention. The model estimates that, in the absence of such preferences, household emissions would be 15.6 percent higher than the baseline level. However, these preferences also influence the cost of additional policy-driven reductions, as households already motivated to adopt cleaner technologies leave a smaller pool of potential adopters for subsidies to influence. Accordingly, the cost of achieving a given additional emissions-reduction target is approximately 22 percent higher in the baseline economy with environmental preferences than in an otherwise comparable economy without them.

The study also explores the implications of a further strengthening of environmental preferences. Assuming that concern about climate change continues to increase at the pace observed over the preceding decade, household emissions are projected to decline by an additional 1.7 percent over the next decade, even without new climate policies. The estimated reduction is equivalent to the effect of a carbon tax of US$10.60 per tonne.

Overall, the paper highlights the importance of incorporating household behaviour and environmental preferences into the design of climate policy. It demonstrates that subsidising residential solar alongside clean household equipment is considerably more cost-effective than relying primarily on income-based targeting. The findings also underscore that voluntary

environmental preferences can contribute significantly to emissions reduction, complementing fiscal incentives and strengthening the potential for household-led climate action.

The full paper can be accessed from: https://www.nber.org/system/files/working_papers/w35945/w35945.pdf

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

About InsPIRE

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InsPIRE's strategic business vision is anchored on five thematic pillars: (i) Industry 5.0 & Global Competitiveness; (ii) Agriculture, Food Systems, and Rural Enterprise Development; (iii) Sustainability, Climate Policy & Energy Transition; (iv) Financial Inclusion, Digital Finance & Governance; and (v) Regional Development. Through these pillars, InsPIRE seeks to translate research insights into actionable policy and business outcomes through multi-stakeholder partnerships, thought leadership, and capacity building.

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