Economic Division

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DEPARTMENT OF
ECONOMIC AFFAIRS
सत्यमेव जयते

Contents

Abstract

The West Asia conflict has emerged as a major shock to the already fragile global recovery, with its effects increasingly visible across energy markets, supply chains, trade routes and global financial conditions. Elevated energy, transportation and logistics costs have revived inflationary pressures and renewed stagflation concerns across major economies. Confronted with these pressures, major central banks are expected to maintain restrictive monetary policy stances for longer than previously anticipated, pushing sovereign bond yields in advanced economies to multi-year highs. Across emerging markets, the impact remains uneven, energy-importing economies face mounting pressures from currency depreciation, capital outflows, and higher import bills, while commodity exporters remain relatively better positioned. In response, several countries have adopted energy-conservation and demand-management measures. However, prolonged disruptions to Gulf energy supplies could further weaken global growth and intensify macroeconomic vulnerabilities across economies.

For India, these external pressures are beginning to transmit, selectively but perceptibly, into domestic economic conditions. The Indian economy maintained its growth momentum in April 2026, with E-way bill generation, PMI indices and electricity consumption remaining in expansionary territory. However, the moderation in the Eight Core Industries Index and fuel consumption signals that global headwinds are gradually finding their way into select segments of domestic activity.

The inflation dynamics of April 2026 reflect a growing divergence between relatively contained consumer prices and sharply rising wholesale prices. While retail inflation increased only marginally to 3.48 per cent and remained below the RBI's target, pressures intensified in select food items and services such as restaurants and accommodation. In contrast, wholesale inflation accelerated sharply to 8.3 per cent, driven primarily by elevated global energy prices, currency depreciation and low base effect. The sharp rise in upstream price pressures, along with recent increases in fuel prices, suggests a gradual pass-through to retail inflation through higher transport, energy, and food-related costs in the coming months. Adding to these near-term risks, the IMD has projected overall monsoon rainfall at around 92 per cent of the long-period average. Buffer stocks of rice and wheat at 817.53 lakh tonnes and adequate reservoir storage provide suitable cushion to foodgrains. However, any significant rainfall deficit coupled with current geopolitical conditions could translate into food inflation, weakening rural demand and aggregate growth.

Industrial activity moderated in April 2026 amid persistent global uncertainty and weakness in the hydrocarbon sector. However, resilience in cement, steel, and electricity generation continued to support overall momentum, reflecting sustained domestic demand from infrastructure and construction activity. The HSBC India Manufacturing PMI remained in expansionary territory even as rising input costs weighed on operating conditions. At the same time, stronger export orders, rising employment, and continued investment commitments in sectors such as automobiles, semiconductors, electronics, and defence manufacturing pointed to underlying resilience in industrial activity. Continued policy support through measures such as ECLGS 5.0, BHAVYA, PLI, Promotion of Surface Coal/Lignite Gasification Projects and the semiconductor mission is expected to cushion external shocks and sustain momentum.

On the external front, India's total exports recorded strong growth in April 2026, with buoyant services exports substantially narrowing the overall trade deficit. India also continued to advance its diversified trade strategy through bilateral and strategic economic partnerships, while policy measures were undertaken to manage non-essential imports. On the financial side, capital flows remained volatile, with FPI outflows exerting pressure on the Indian rupee. Nevertheless, gross FDI inflows remained resilient, reaching a historical peak of USD 94.5 billion in FY26, indicating continued long-term investor interest in the Indian economy. Foreign exchange reserves, too, remained at comfortable levels, providing an important buffer against global volatility.

Labour market indicators, meanwhile, reflect a stable employment landscape, with steady participation and employment levels, and sustained hiring momentum across manufacturing and services.

Overall, India's macroeconomic position in May 2026 reflects cautious resilience. Strong services exports, adequate foreign exchange reserves and a stable labour market provide a firm foundation. However, the confluence of elevated global energy prices, a depreciating rupee, rising upstream cost pressures and the prospect of a below-normal monsoon calls for sustained policy vigilance. Navigating FY27 will require agility across monetary, fiscal and structural dimensions to safeguard growth momentum and keep inflation durably anchored, even as the global environment remains uncertain.

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Global Economy in the backdrop of the West Asia Conflict

1. Nearly three months into the West Asia conflict, the global economy is experiencing its negative effects in multiple areas, including higher energy prices, supply chain disruptions, rising inflationary pressures, and tighter financial conditions. Reflecting these pressures, the Geopolitical Risk Index climbed to its highest level in more than five years in April 2026, while Brent crude oil prices averaged US$120.4 per barrel in April. However, it moderated to US$108.3 per barrel in May 2026[1]. Global supply-chain pressures also intensified in April, driven by rising transportation costs, delivery bottlenecks, shortages, and precautionary inventory accumulation, pushing the Global Supply Chain Pressure Index to its highest level since late 2022.

2. The impact of these disruptions became increasingly visible in weakening business activity as gauged by Purchasing Managers' Index (PMI) readings, softer business sentiment, and slowing growth across major economies. In the Euro area, GDP growth moderated to 0.8 per cent year-on-year in Q1 of 2026, from 1.3 per cent in Q4 of 2025, due to elevated energy costs, weak industrial activity and lingering geopolitical uncertainty. Further, Eurozone business activity also contracted in April 2026, with the Composite PMI Output Index falling to a 17-month low of 48.8, driven by weaker demand and elevated geopolitical uncertainty. Germany, France and Spain recorded contractionary conditions, while Italy remained relatively resilient. Japan's business activity softened due to weakening confidence and rising energy costs. South Korea's manufacturing sector, despite resilience in semiconductor-led output, faced rising input costs and supply disruptions linked to volatility in the Middle East energy market. In the United States, economic activity remained relatively resilient, supported by stronger domestic demand and energy self-sufficiency. However, rising oil prices and increasing cost pressures contributed to softer consumer sentiment and heightened uncertainty regarding the monetary policy outlook.

3. Emerging economies are also facing mounting pressures from elevated fuel and raw material costs alongside tightening supply conditions. Vietnam's manufacturing activity fell to a seven-month low in April 2026, while Indonesia's manufacturing PMI slipped into contractionary territory. In contrast, Brazil's private sector activity returned to expansionary territory, with the Composite PMI rising to 52.4 in April from 49.9 in March, partly supported

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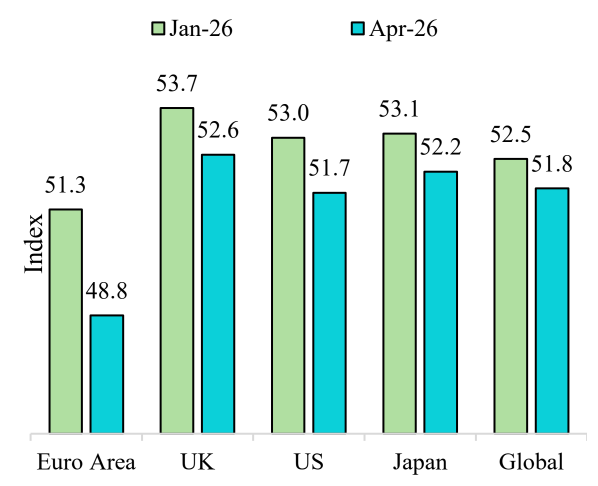
[1] Upto 28th May 2026

by front-loaded purchases and inventory accumulation following concerns over rising costs and potential supply disruptions.

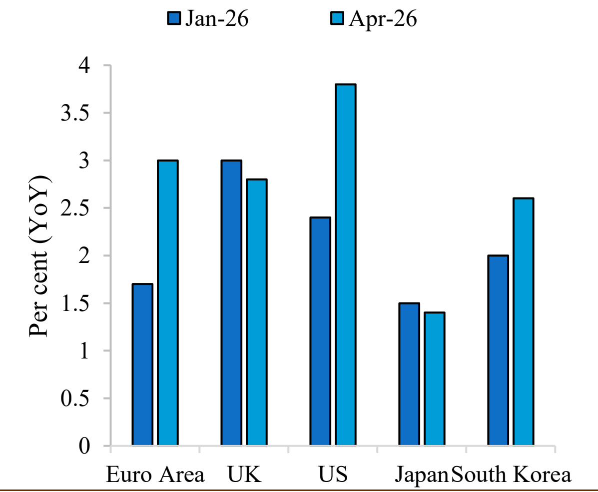
4. Elevated energy prices have led to a renewed build-up of inflationary pressures across major economies. Inflation in the Euro area accelerated to 3.0 per cent in April 2026 from 1.7 per cent in January 2026, driven by double-digit energy inflation, intensifying concerns about stagflation. In the United States, CPI inflation rose to 3.8 per cent in April 2026 from 3.0 per cent in January 2026. In the United Kingdom, the rate increased to 3.3 per cent in March 2026, but moderated in April 2026 owing to a reduction in the government's energy price cap. South Korea's CPI inflation also increased to 2.6 per cent in April 2026 from 2.2 per cent in January 2026, reflecting higher energy and transport costs. However, in Japan, inflationary pressures remained relatively contained despite rising import and energy costs, partly due to the cushioning effect of government fuel subsidies.

Expansion in Composite PMI moderates



Source: IHS Markit

Rise in CPI Inflation

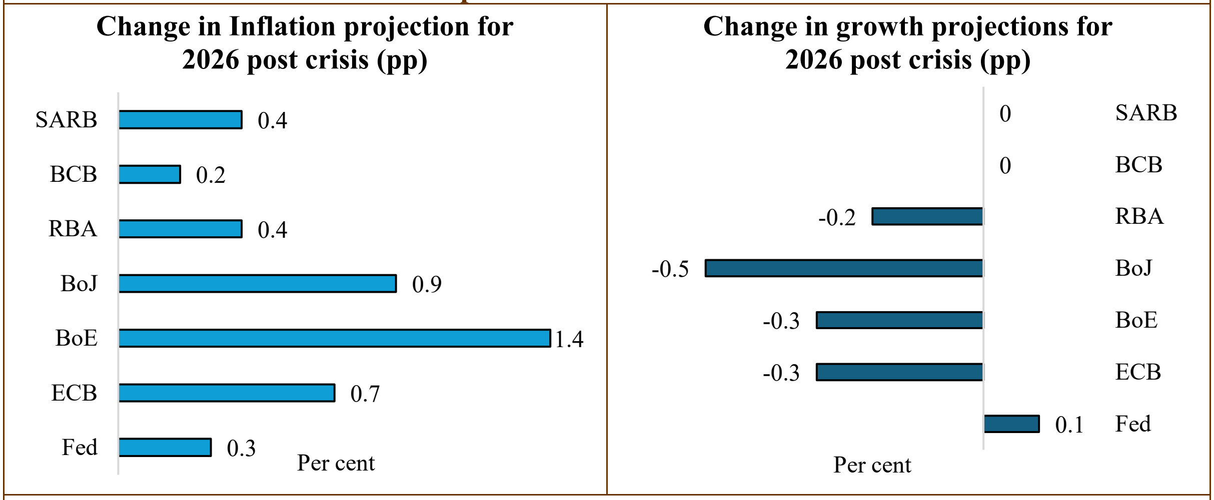


Source: Bloomberg

5. The persistence of elevated energy and logistics costs has worsened the global growth-inflation trade-off and tightened financial conditions. Major central banks have signalled a prolonged period of restrictive monetary policy, as conflict-driven energy prices risk delaying disinflation and fuelling second-round inflation pressures. Consequently, sovereign bond yields hardened across advanced economies, with the US 10-year Treasury yield rising above 4.5 per cent in May, close to its highest level in nearly a year, while Germany's 10-year bond yield climbed to around 3.1 per cent, its highest level since 2011, and Japan's 10-year government bond yield rose to multi-decade highs. Reflecting the weakening global macroeconomic environment, several central banks revised down their 2026 growth projections while simultaneously raising inflation forecasts.

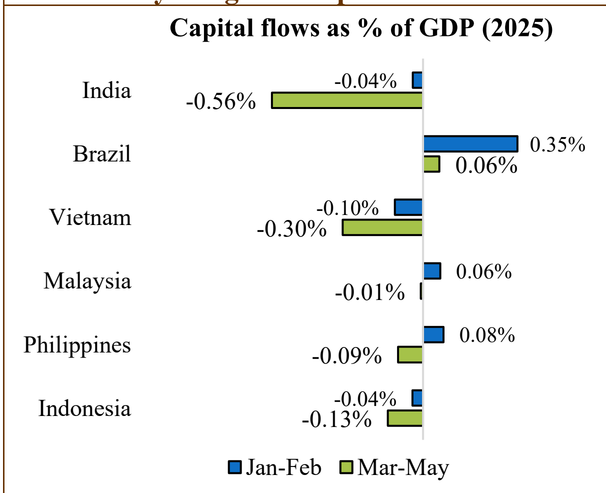
6. As a result, several emerging economies witnessed weaker portfolio equity flows during March-May 2026, as investors shifted towards relatively safer assets in advanced economies amid elevated global yields and geopolitical uncertainty. Further, higher import bills and capital outflows led to depreciation pressures on their respective currencies. In contrast, Brazil remained relatively resilient, supported by stronger commodity export prospects and relatively favourable investor sentiment.

Central Banks Revise Up Inflation and Down Growth Outlook for 2026

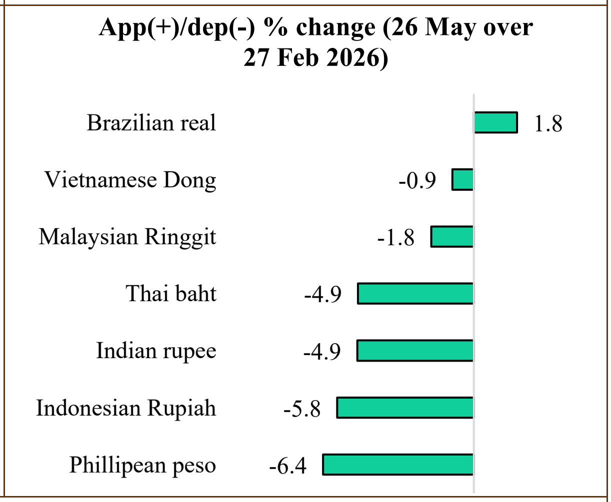


Source: Respective websites
Note: Fed - US Federal Reserve; ECB -European Central Bank; BoE - Bank of England; BoJ - Bank of Japan; RBA - Reserve Bank of Australia; BCB - Banco Central do Brasil; SARB - South African Reserve Bank.

Higher Bond Yields in AEs and Geopolitical Uncertainty Weigh on Capital Flows to EMEs



Depreciation pressures on EMEs Currencies

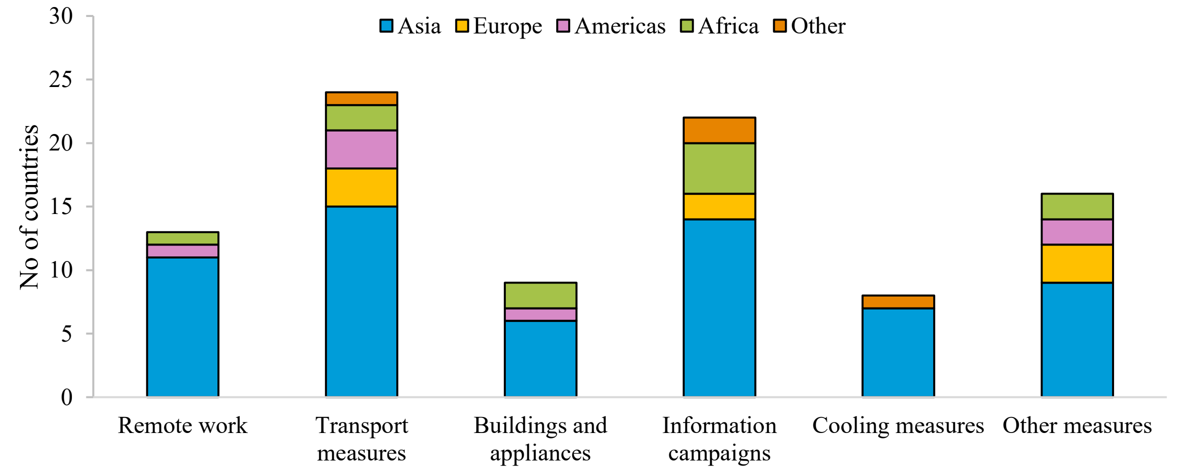


Source: Bloomberg

7. In response to the prolonged energy shock, governments across advanced and emerging economies have gradually transitioned from short-term price supports to broader demand-management and energy-conservation strategies. According to the IEA's 2026 Energy Crisis Policy Response Tracker, nearly 80 countries introduced emergency measures, with transport restrictions adopted by 24 countries, public energy conservation campaigns by 22 countries,

and remote-work mandates by 13 countries. Asian economies accounted for a significant share of these interventions. Additionally, European economies expanded fiscal support and state aid measures to cushion the impact on households and energy-intensive manufacturing sectors. The evolving policy response underscores the growing challenge of balancing inflation containment, energy security, fiscal sustainability, and industrial competitiveness.

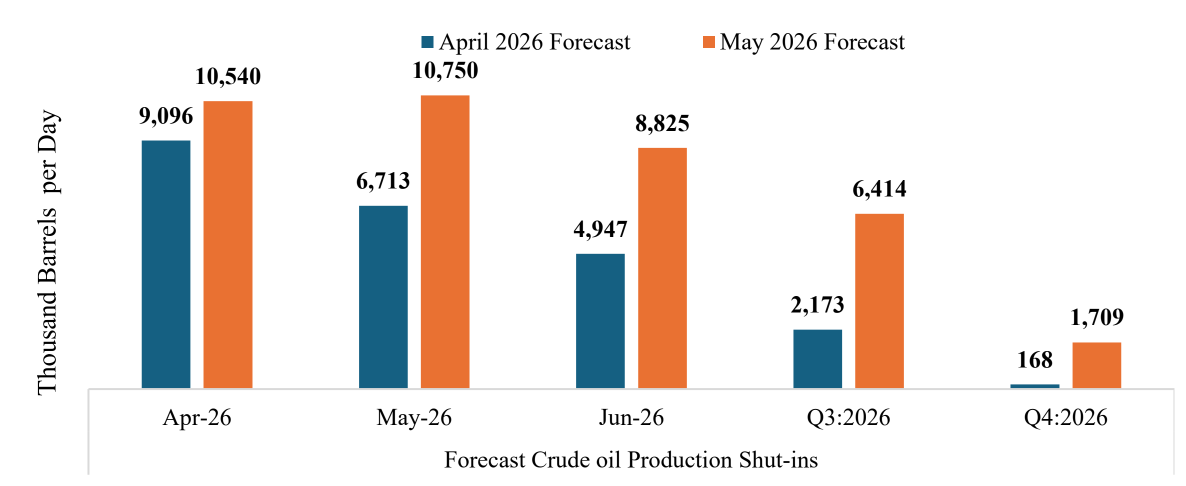
Energy crisis policy response to encourage energy conservation by region as of 6 May



Source: IEA 2026 Energy Crisis Policy Response Tracker
Note: Remote work: encourage or mandate work from home; Transport measures: limit air and road travel by public officials; Schools and universities: close or limit opening times; limit vehicle use, ration fuel, lower speed limits, and promote public transport. Information Campaign: ask or mandate consumers to limit energy demand, Cooling: temperature limits of air conditioners. Other measures: price caps, fuel subsidies, taxation, among others

8. Looking ahead, the global outlook remains highly contingent on the evolving situation in the Strait of Hormuz and the restoration of Gulf energy infrastructure. Upward revisions in projected crude oil production shut-ins by the U.S. Energy Information Administration (EIA) in its Short-Term Energy Outlook (May 2026) indicate higher expected supply disruptions compared to the April 2026 assessment. This has heightened the risk of global supply-chain disruptions and sustained pressure on energy and shipping costs. This, in turn, could complicate global disinflation trajectories, delay monetary easing cycles and weaken global growth momentum, particularly across energy-importing emerging market economies. At the same time, tighter financial conditions, elevated sovereign borrowing costs and constrained fiscal space could further amplify macroeconomic vulnerabilities across several economies.

Projected crude oil supply disruptions intensify global supply-chain risks



Source: U.S. Energy Information Administration, Short-Term Energy Outlook
Note: Total projected crude oil production shut-ins include estimates for Kuwait, UAE, Iran, Iraq, Qatar, Bahrain and Saudi Arabia.

Domestic Economy remains resilient

9. Against an increasingly uncertain global backdrop marked by elevated energy prices, supply chain disruptions, and tightening financial conditions, the Indian economy maintained growth momentum in April 2026. While high-frequency indicators such as E-way bill generation, PMI indices and electricity consumption continued to depict resilience in economic activity during the month, some indicators, such as the Eight Core Industries Index and fuel consumption, have begun to show signs of moderation (Table below). This suggests that although domestic growth drivers remain broadly intact, ongoing global headwinds may gradually be transmitting into select segments of economic activity.

Performance of High-frequency Indicators (YoY Growth Rates)

	Indicators	Apr-25	May-25		Jan-26	Feb-26	Mar-26	Apr-26	May-26*
Economic Activity	E-way bill generation	23.4	18.9		15.8	18.8	12.9	11.8	12.9
	PMI manufacturing#	58.2	57.6		55.4	56.9	53.9	54.7	56.6
	PMI Services#	58.7	58.8		58.5	58.1	57.5	58.8	58.9
	Electricity consumption	2.9	-4.7		3.8	1.0	0.8	3.5	5.9
	Fuel consumption	0.3	1.1		0.3	4.5	3.2	-4.6	
	8 Core Industries	1.0	1.2		4.7	2.8	1.2	1.7	
Domestic Demand	Urban Auto Sales	5.3	1.1		17.1	30.6	25.5	11.8	
	Rural Auto Sales	3.1	7.9		21.0	24.5	28.2	13.8	
	Air Passenger Traffic	9.7	2.6		3.1	-0.1	-1.3		

Sources: GSTN, HSBC, Central Electricity Authority, PPAC, DPIIT, FADA
*Data as of 19th May 2026
#PMI indices are absolute figures. PMI Manufacturing & PMI Services values for May 26 are Flash estimates.

10. Demand conditions continue to remain resilient. Domestic automobile sales show strong growth across all segments, viz., two and three-wheelers, passenger vehicles, commercial vehicles and tractors. Domestic air passenger traffic declined 1.3% year on year, signalling some softening in demand. With forecasts pointing to a below-normal monsoon and a likely moderation in economic activity, overall consumption demand may face headwinds in the coming months.

Agricultural outlook and monsoon risks

11. Looking ahead, agricultural prospects for the upcoming kharif season are a source of both near-term comfort and medium-term caution. On the positive side, buffer stocks are well-positioned. The total stock of rice and wheat held by the Food Corporation of India and State agencies stood at 817.53 lakh tonnes as of end-April 2026, and reservoir storage was at 123.86 per cent of the decadal average, providing a favourable starting point ahead of the monsoon. Summer crop sowing has also expanded, with area coverage at 83.08 lakh hectares, up from 80.01 lakh hectares in the corresponding period last year. In the above context, it is important to see that the India Meteorological Department (IMD) has indicated a likely transition from ENSO-neutral conditions to El Niño during the 2026 monsoon season, with overall rainfall projected at around 92 per cent of the Long Period Average and a significant probability of deficient rainfall depending upon other climatic factors' interaction with El Niño.

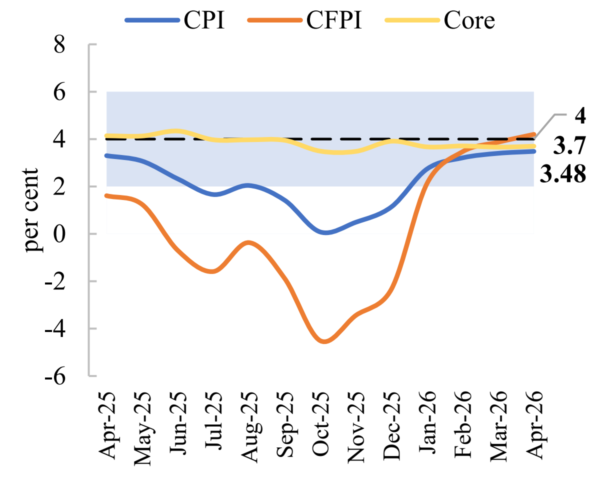
12. During strong El Niño years with deficit rainfall, rice production remained relatively resilient due to higher irrigation coverage in major producing states. Pulses and oilseeds, which are highly climate-sensitive and concentrated in rainfed regions, have historically experienced declines in acreage, yields, and production during El Niño episodes. In addition, livestock and dairy operations may face stress due to fodder shortages, lower milk yields, and rising feed costs. In the coming month of June, if rainfall is deficient due to the development of El Niño, the transmission to food inflation, rural demand, and aggregate growth could be swift, adding to the existing inflationary pressures stemming from elevated global energy prices.

CPI remains softer, while WPI increases

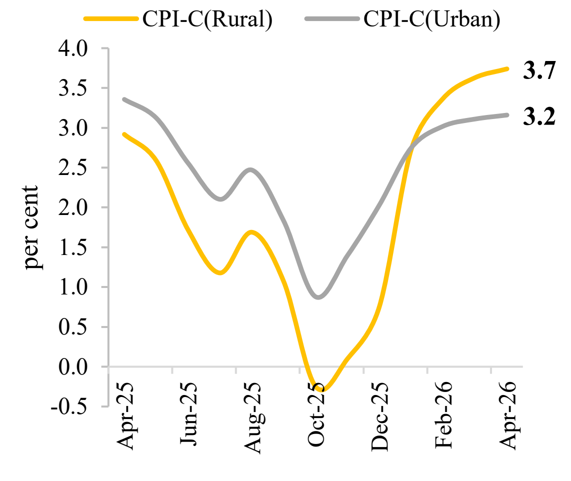
13. In April, retail inflation moved up only marginally - from 3.4 per cent to 3.48 per cent, undershooting the general expectations. The latest inflation print, however, is the highest recorded in the last 13 months. For the two consecutive months after the West Asian conflict began, India's inflation has remained below the monetary policy target of 4 per cent. In fact,

inflationary pressures slowed in April 2026 compared to the previous two months.[2] While food inflation rose by 33 basis points (bps) from 3.87 per cent to 4.20 per cent, the core inflation[3], which approximates the underlying inflation in the economy, has remained stable at 3.7 per cent. Given the predominance of food items in the rural CPI basket (~37 per cent), rural inflation outpaced urban inflation by 58 bps, with the gap widening.

Headline, Core and Food Inflation



Rural-Urban Inflation

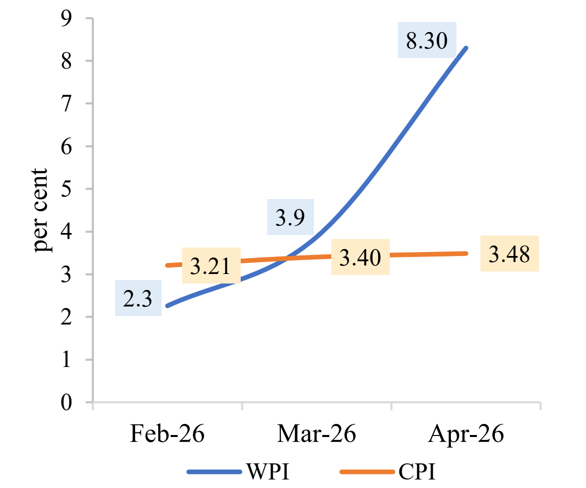
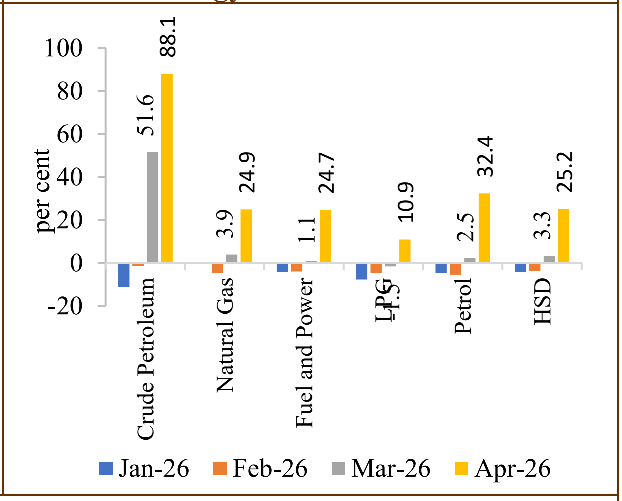


Source: MoSPI; core inflation is calculated

14. In contrast to consumer prices, wholesale price inflation jumped to 8.3 per cent in April 2026, a 42-month high, from 3.9 per cent in March 2026. Primarily driven by soaring energy prices, the high WPI inflation reflects the combined effects of the global oil price shock, a weakening domestic currency and statistical push from a low base. The divergence between subdued retail inflation and rising wholesale inflation suggests that upstream cost pressures are building in the economy, although their pass-through to consumers has so far remained limited.

[2] 47 basis points (bps) in February; 19bps in March and merely 8 bps in April; The containment of headline inflation in April 2026 is primarily the result of near balancing out of positive momentum effect (month-on-month price pressures) by the base effect (year-on-year inflation or the statistical drag).

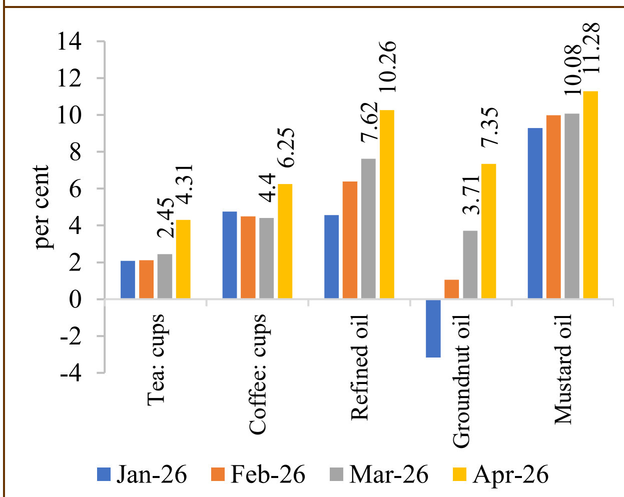
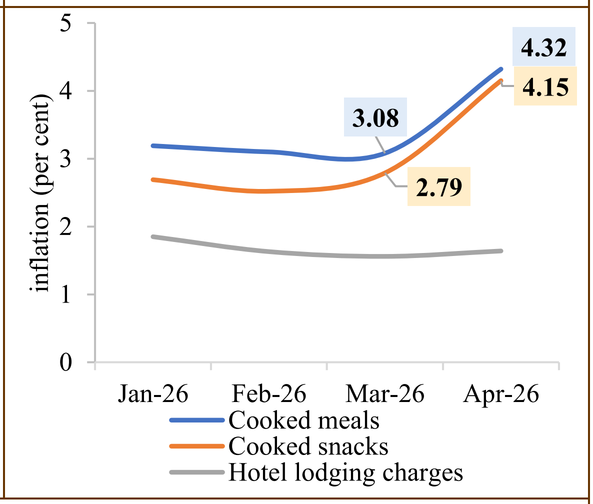
[3] Core inflation measure is derived after excluding food, household and transport fuel. It represents 53 per cent of the CPI basket.

CPI and WPI Inflation	Energy inflation in WPI
	

Source: MoSPI & DPIIT

Selected items becoming dearer

15. Over the past four months, food prices have transitioned rapidly from deflation to inflation. Inflation in several non-seasonal food items such as animal protein, marine products and edible oil, which are relatively important in the consumer basket, was on the higher side, rising by 5 to 15 per cent. Between March and April, inflation also gathered pace for tea, coffee, refined oil, mustard and groundnut oils (having a combined weight of 2.7 per cent).

Inflation in selected items	Restaurant and accommodation services
	

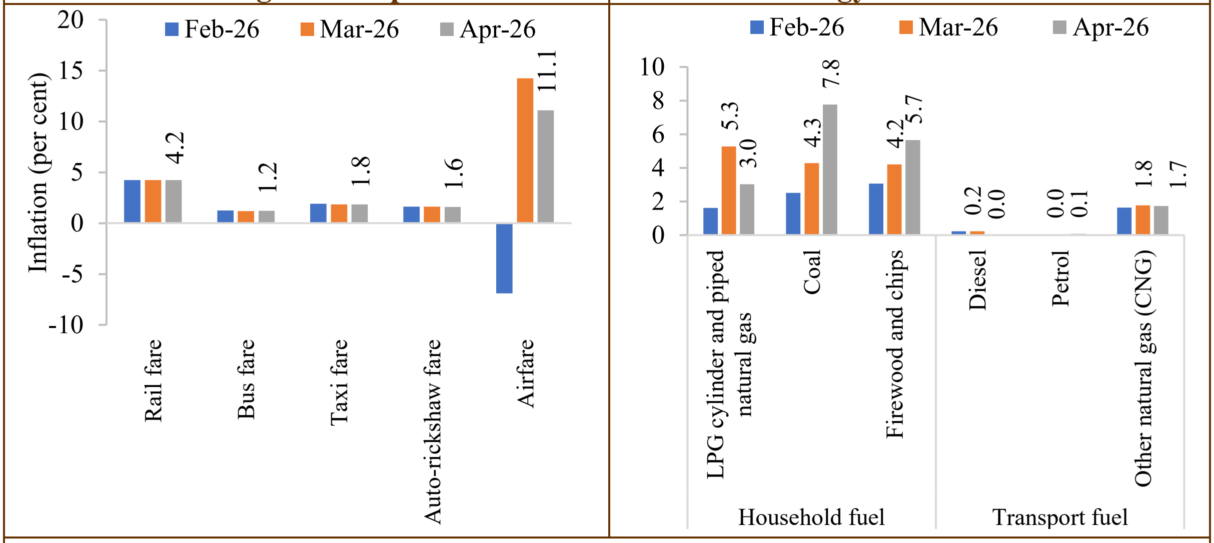
Source: MoSPI

16. Signalling the transmission of hike in commercial LPG prices, the inflation in ‘restaurant & accommodation’ services increased by 132 bps in April (from 2.9 per cent to 4.2 per cent), as compared to just 16 bps in March 2026. Eating out has become dearer, while hotel rates have been rising at a much slower, steadier pace.

Sticky inflation in energy commodities and transport services

17. Unsurprisingly, inflation rates in passenger fares largely remained sticky as pump prices of petrol and diesel didn't change. Among energy commodities, inflation rates for coal and firewood – substitute goods for domestic LPG – were the highest (7.8 per cent and 5.7 per cent, respectively) and had been accelerating. In other energy products such as LPG, PNG, CNG, diesel and petrol, inflation moderated.

Passenger Transport | **Energy commodities**



Source: MoSPI

18. However, the recent hikes (on four occasions) in petrol and diesel prices (which have a combined share of ~5 per cent in the CPI basket) by ₹7.38 and ₹7.52, respectively, may activate both the direct and indirect channels of transmission of the global price shock to the country's retail inflation.

Industry

19. The Index of Eight Core Industries registered a provisional growth of 1.7 per cent in April 2026 on a year-on-year basis, with the overall growth rate for the previous fiscal year (April 2025 to March 2026) finalised at 2.7 per cent. Among the eight core sectors, cement, steel, and electricity recorded positive growth in the month of April. The hydrocarbon complex, which had weighed on aggregate performance in March as discussed in the previous review, continued to remain subdued, with crude oil production contracting by 3.9 per cent, natural gas by 4.3 per cent, and petroleum refinery products by 0.5 per cent in April 2026 over April 2025. Meanwhile, fertiliser production declined by 8.6 per cent in April 2026 on a year-on-year basis,

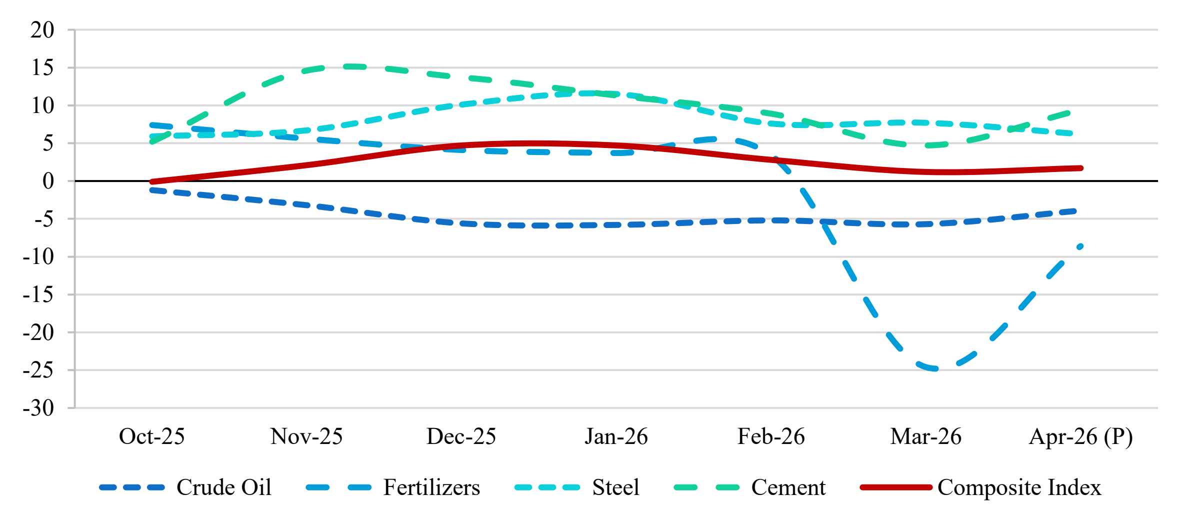
following the sharp contraction of 24.6 per cent recorded in March 2026 over the corresponding period of the previous year.[4]

20. The persistent weakness in the hydrocarbon complex aligns with the heightened uncertainty that has increasingly characterised the global energy landscape in recent months. The ongoing conflict in West Asia has revived supply-side concerns for a refining-intensive economy that remains structurally dependent on imported feedstock, with the resulting price volatility feeding into both production decisions and broader cost structures. For a country whose import basket remains tethered to West Asian crude and natural gas flows, the current situation reinforces the imperative of diversifying energy sources and accelerating the structural energy transition that has remained central to policy discussions. It also underscores that the trajectory of industrial growth, at least in the near term, is likely to remain significantly influenced by developments beyond India's borders.

21. Set against these external challenges, the construction-linked and electricity-generating segments of the index continue to provide a stabilising counterweight. Cement output expanded by a robust 9.4 per cent in April, sustaining a cumulative growth of 8.7 per cent for 2025-26, while steel production rose by 6.2 per cent in April, with an overall expansion of 9.5 per cent in FY26, making it the strongest sectoral performer in the index for the year. Electricity generation, which had registered softer prints in some of the intervening months, grew by 4.1 per cent in April, lending further support to the aggregate index. Taken together, these readings suggest that domestic demand conditions, particularly those driven by capital expenditure on infrastructure and housing, remain considerably more resilient than the headline growth number might otherwise suggest.

[4]PIB Release: https://www.pib.gov.in/PressReleasePage.aspx?PRID=2263287&reg=3&lang=1

Index of Eight Core Industries and Select Sectors — Monthly YoY Growth (%)



Source: Ministry of Commerce and Industry

22. The HSBC India Manufacturing Purchasing Managers' Index (PMI) rose to 54.7 in April, up from 53.9 in March, but still marked the second slowest improvement in operating conditions in nearly four years. Spillovers from the West Asia conflict are becoming more evident, particularly through inflation: input costs increased at the fastest pace since August 2022, and output prices rose at the quickest rate in six months. Even so, output, new orders (including exports) and employment all grew moderately, pointing to continued resilience in India's manufacturing sector. [5]

23. These signals are reinforced by the continuing pipeline of investment commitments, which has remained robust despite the prevailing global uncertainty. Toyota Motor Corporation is reportedly considering establishing additional vehicle assembly plants in Maharashtra, with planned investments estimated at around USD 1.9 billion (approximately 300 billion yen), underscoring the longer-term recalibration underway in global automotive supply chains.[6] The proposed investment is expected to raise Toyota's production capacity in India to one million units by the 2030s, potentially positioning the country among the company's largest global production bases outside Japan. The new plants are expected to serve not only the domestic market, where new vehicle sales are projected to rise substantially, but also strengthen India's role as an export hub catering to the Middle East and Africa, regions whose demographic and motorisation trajectories align well with India's geographic and trading position. For an

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[5] HSBC India Manufacturing PMI (S&P Global) News Release (04 May 2026) available at https://www.pmi.spglobal.com/Public/Home/PressRelease/a0451a81ccf142baabf2600ec61e2ab2.

[6] Nikkei Asia.

economy seeking to deepen its manufacturing base and integrate further into regional value chains, such commitments remain significant.

24. Furthermore, sunrise sectors are beginning to register traction. Industry estimates suggest that India's military drone manufacturing industry, which generated revenues of up to ₹30 billion in 2025-26 with roughly two-thirds derived from military contracts, is expected to grow four-to-fivefold by March 2028 as order books swell on account of price competitiveness against established suppliers from Israel, the United States, Turkey, China, and Iran.[7] Total Indian arms exports, more broadly, rose by 62 per cent year-on-year to a record ₹384.24 billion in the same fiscal year, underscoring the increasing global acceptance of Indian defence manufacturing capabilities.

25. Similarly, the electronics and semiconductor value chain is gathering momentum, with the ELCINA Electronics Manufacturing Cluster at Bhiwadi, Rajasthan, attracting planned investments of over ₹1,200 crore from 20 companies, of which 11 are already operational and generating employment for over 2,700 persons[8]. The Sahasra Semiconductors ATMP/OSAT facility, supported under MeitY's SPECS scheme, has become the first SME-led semiconductor packaging unit to commence commercial production in India. A significant share of its production is already being exported to global markets, reflecting the growing integration of India's semiconductor ecosystem with international value chains.

26. Policy support has also been calibrated to cushion sectors exposed to the spillovers from the ongoing conflict in West Asia. On 5 May 2026, the Union Cabinet approved Emergency Credit Line Guarantee Scheme (ECLGS) 5.0, aimed at facilitating an additional credit flow of ₹2.55 lakh crore to businesses affected by the conflict-induced disruptions. The scheme provides 100 per cent guarantee coverage for MSMEs and 90 per cent coverage for non-MSMEs and airlines, without any guarantee fee, while permitting additional credit support of up to 20 per cent of peak working capital utilised during Q4 FY26 (capped at ₹100 crore). Airlines, given their heightened exposure to fuel price volatility and operational disruptions, have been accorded enhanced support, including credit assistance of up to ₹1,500 crore per borrower, subject to satisfying certain specific conditions.[9] The scheme is expected to help businesses maintain their operations, protect jobs, and sustain supply chains through timely

[7]Nikkei Asia.

[8]Press Information Bureau.

[9] PIB Release available at https://www.pib.gov.in/PressReleasePage.aspx?PRID=2258114&lang=1&reg=3&utm_source

liquidity support. It is also expected to help businesses, particularly MSMEs and the airline sector, meet their additional working capital requirements through enhanced credit access from banks and financial institutions, thereby supporting uninterrupted domestic production and overall industrial resilience.

27. As a further strategic response to the vulnerabilities exposed by the West Asia conflict, the Union Cabinet approved the Scheme for Promotion of Surface Coal/Lignite Gasification Projects, with a total financial outlay of ₹37,500 crore. The Scheme targets the gasification of approximately 75 million tonnes of coal/lignite and is expected to mobilise investments of ₹2.5-3.0 lakh crore.[10] By leveraging India's vast coal and lignite reserves to produce 'synthesis gas' (syngas) and its downstream products, such as ammonia, urea, and methanol, the Scheme directly addresses the country's high import dependence on these critical inputs.

28. Needless to say, the near-term horizon remains challenging due to external uncertainties, most notably the trajectory of the West Asian conflict and its second-order effects on energy prices and industrial input costs. The moderation in the growth of the Eight Core Industries Index, alongside the relatively subdued improvement reflected in the PMI, underscores the weight of these pressures. At the same time, the continued resilience in construction-linked sectors, expanding manufacturing exports, sustained hiring intent, large-scale investment commitments, and emerging strength in sunrise sectors suggests that the underlying momentum in the industrial sector remains intact. Continued policy support, whether through the recently approved BHAVYA scheme or through the targeted interventions under PLI, SPECS, Promotion of Surface Coal/Lignite Gasification Projects and the broader semiconductor mission, will remain instrumental in sustaining this momentum and facilitating a more broad-based industrial recovery as external conditions gradually stabilise.

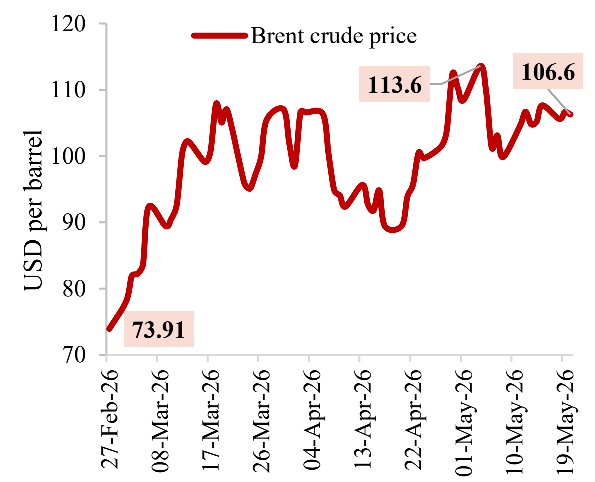
Financial sector developments

29. The impact of the crisis is also visible in global financial markets, with bond yields rising across both developed and developing economies. This increase reflects a combination of factors. Higher energy prices have added to inflationary pressures, while rising demand for semiconductor chips has increased chip prices, thereby increasing costs for consumer electronics, automobiles, and other products that depend on these components. Together, these

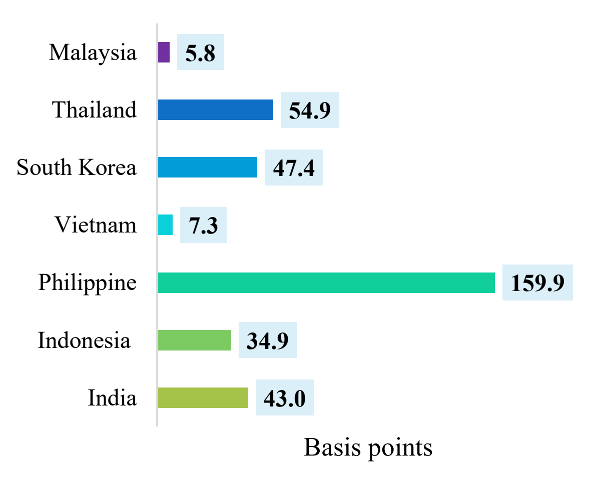
[10] PIB release dated May 13, 2026: https://www.pib.gov.in/PressReleasePage.aspx?PRID=2260621&reg=3&lang=2

developments have contributed to a renewed wave of inflation across several countries. In response, investors are increasingly expecting interest rates to rise. At the same time, public debt levels were already elevated worldwide. The combination of higher inflation expectations, anticipated monetary tightening, and high public debt has therefore contributed to the rise in government bond yields.

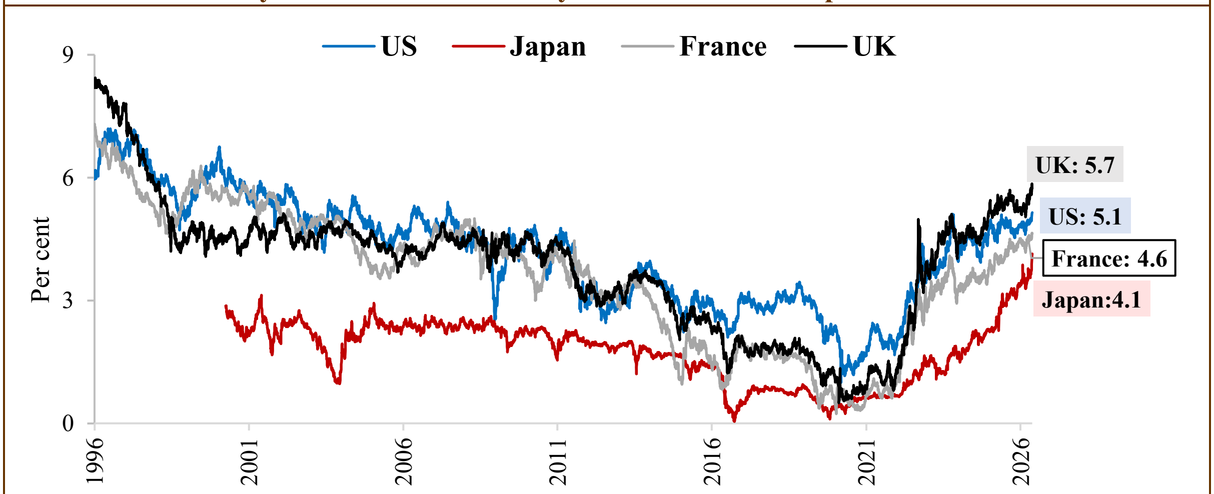
Brent crude price



Increase in 10-year govt bond yields of select EMEs since the start of the ongoing conflict



30-year Government bond yields of select developed countries



Source: Bloomberg

30. As discussed in the Global Economy section, sovereign bond yields have hardened materially across advanced economies, with 10-year yields rising sharply in the US, Germany, and Japan. Beyond the 10-year, the picture is no different. The yield on 30-year US bonds is near its highest since 2023, while in Japan, the yield stands at 4.1 per cent as of May 19, 2026, the highest level ever recorded in the bond's history. Similarly, yields in the UK and France are at their highest levels since 1998 and 2008, respectively.

31. In emerging market economies, yields on 10-year government bonds have risen sharply. As of May 19, 2026, the yield on the Philippine 10-year government bond stood at 7.5 per cent, rising by 159.9 basis points since the onset of the conflict in West Asia. A similar upward movement in bond yields has also been observed in Thailand, South Korea, and Indonesia.

32. Against this backdrop, the increase in India's 10-year government bond yield needs to be viewed in the context of both domestic and external factors. During FY26, the Indian G-Sec market was predominantly shaped by an accommodative monetary policy environment and the positive effects of India's inclusion in global bond indices. At the same time, the decline in inflation, liquidity injections, and periodic inflows from foreign portfolio investors helped contain a sharper rise in yields. With the onset of the West Asia crisis, however, upward pressure re-emerged, leading to a 43-basis-point increase in the 10-year government bond yield between February 27, 2026 and May 19, 2026. A rise in oil prices, which directly feeds into domestic retail inflation, widens the trade and current account deficit. Expectations of US rate hikes have simultaneously attracted capital flows into US assets, leaving the rupee vulnerable. The spike in energy prices, coupled with currency depreciation, heightened worries over rising import costs and broader price pressures, prompting investors to demand higher yields. As of May 19, 2026, the yield stood at 7.1 per cent, reaching levels last seen in May 2024.

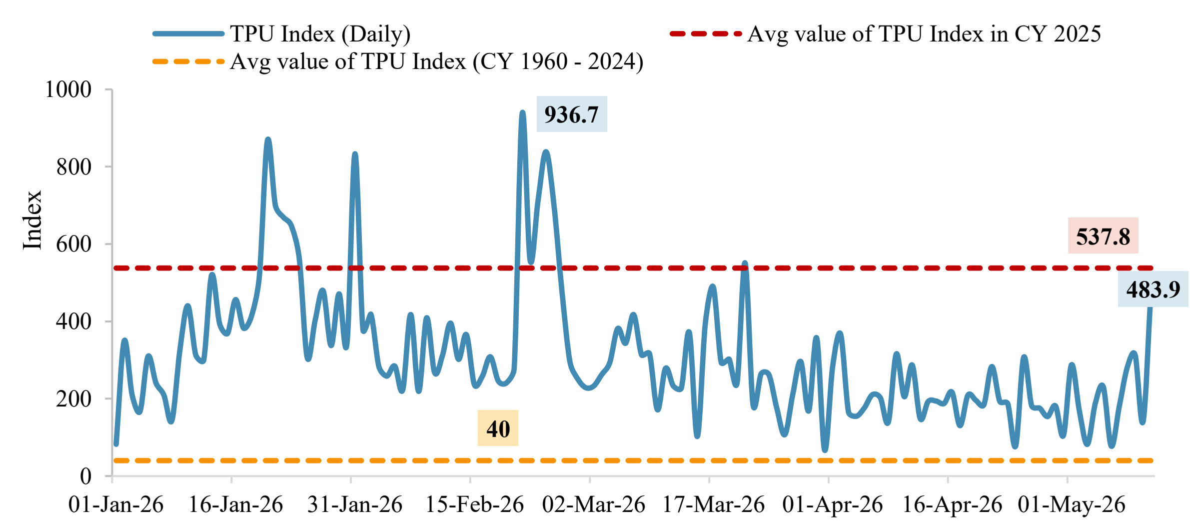
33. The upward movement in US and Japanese bond yields has further intensified pressure on emerging market currencies, including the INR. In India's case, the INR depreciated by ~4.9 per cent against the US dollar between February 27, 2026 and May 26, 2026. This depreciation reflects the combined effect of multiple external pressures, including elevated crude oil prices, rising US Treasury yields, and persistent risk aversion in global financial markets. Taken together, these factors have contributed to tighter external financial conditions for emerging market economies and have reinforced downward pressure on their currencies.

Global trade dynamics

34. The global trade landscape is being shaped by sustained uncertainty, with geopolitical pressures increasingly influencing trade policies worldwide. The Trade Policy Uncertainty (TPU) Index has remained persistently elevated and volatile so far in CY 2026, with daily values oscillating considerably around the CY 2025 average. This is notable, as the average TPU level in CY 2025 was substantially higher than the long-term average observed during CY 1960 - CY 2024.

35. The pronounced peaks in CY 2026 coincide with significant geopolitical developments, including tariff policies directed at specific advanced computing chips, semiconductor manufacturing equipment, and their derivative products under national security provisions, judicial rulings pertaining to the validity of certain tariff measures and the onset of the conflict in the West Asia.[11,12] Together, these developments have further intensified an already strained multilateral trade environment.

Trade Policy Uncertainty Index

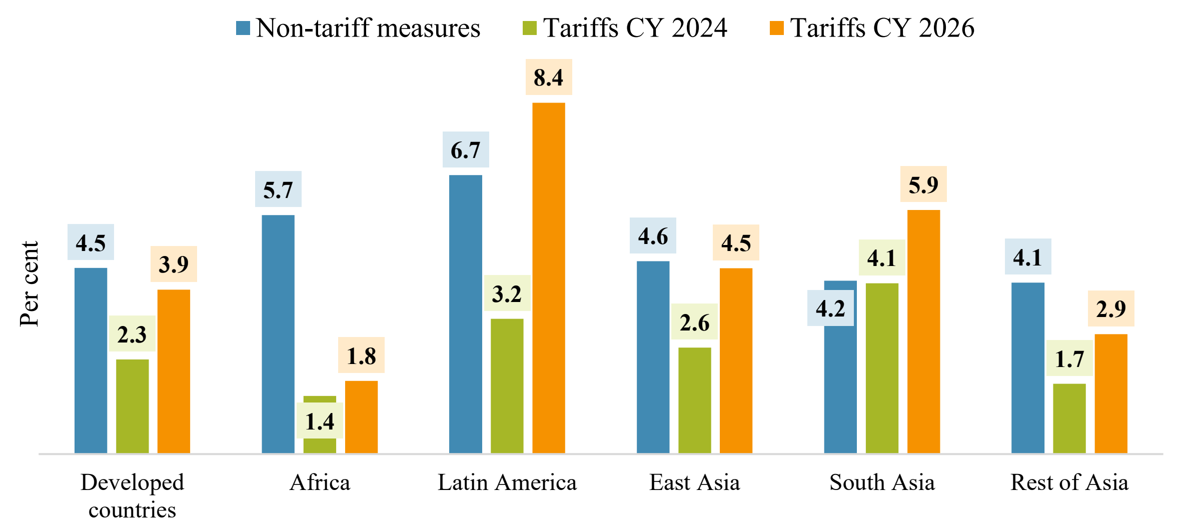


Source: Caldara, Dario, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea Raffo, "The Economic Effects of Trade Policy Uncertainty, https://tinyurl.com/4anb757k

36. UNCTAD notes that alongside tariff-related developments, the growing use of non-tariff measures (NTMs) by governments worldwide has emerged as an important factor shaping the global trade landscape. These measures are increasingly being deployed to advance objectives of economic nationalism and security, as both developed and developing economies seek to protect domestic industries while shaping and retaining influence over key global value chains. This reflects a broader shift towards the strategic use of the industrial policy – trade policy interdependence. The significance of this trend is underscored by the fact that, despite rising tariffs, NTMs impose higher costs for 88 per cent of countries.

[11] Proclamation 11002 - Adjusting Imports of Semiconductors, Semiconductor Manufacturing Equipment, and Their Derivative Products into the United States, dated January 14, 2026: https://tinyurl.com/mw3znsby
[12] Supreme Court of the United States: Learning Resources, Inc., Et Al. V. Trump, President of the United States, et al. No. 24–1287. Argued November 5, 2025 - Decided February 20, 2026, https://tinyurl.com/muvt983y

Trade-weighted average costs faced on exports of goods



Note: NTM costs are ad valorem equivalents of non-tariff measures. Tariffs are the average trade-weighted tariffs faced on all exports of goods. For 2026 latest available US tariff data, other countries 2024 data.
Source: UNCTAD, https://tinyurl.com/3d4yd9aj

37. The impact of these developments, however, has been uneven across countries. Tariff increases in CY 2025 affected developing countries more sharply than developed economies, while they also continue to bear a disproportionate share of trade costs associated with NTMs. Exports of developing countries are more adversely affected because compliance with complex regulatory standards, certification requirements, and related administrative procedures is more burdensome and resource-intensive for firms in these economies. This burden is particularly significant for smaller exporters, operating with limited technical and financial capacity.

38. In this context, the continued expansion of NTMs risks further widening the gap between developed and developing regions unless the associated compliance burdens are addressed. UNCTAD[13] suggests that policy efforts should focus on reducing the costs and complexity of compliance, particularly for exporters from developing countries. Greater transparency in regulatory requirements and stronger regulatory cooperation, including improved alignment and mutual recognition across regulatory systems, can play an important role in lowering NTM-related trade costs and supporting more inclusive participation in global trade.[14]

[13] UNCTAD Global Trade Update, May 2026: https://tinyurl.com/3d4yd9aj.
[14] UNCTAD Global Trade Update, May 2026: https://tinyurl.com/3d4yd9aj

India's trade performance in April 2026

39. India's total exports (merchandise & services) in FY27 began on a positive note. They rose to USD 80.8 billion in April 2026 from USD 71.1 billion in April 2025, registering a (YoY) growth rate of 13.6 per cent.

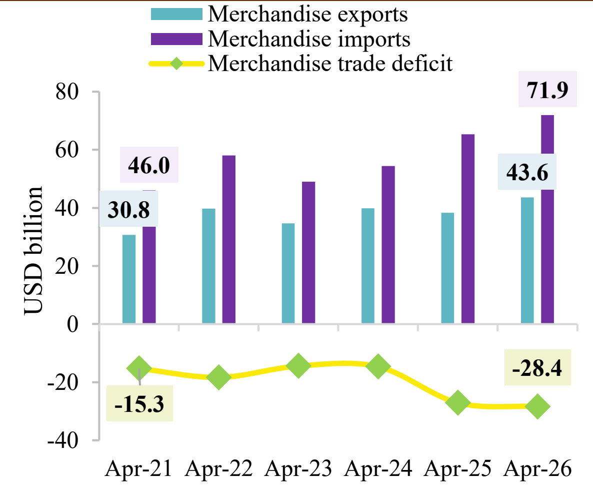
40. In April 2026, merchandise exports increased by 13.8 per cent (YoY) to USD 43.6 billion. This marked the highest monthly value for merchandise exports since March 2025. Notably, non-petroleum non-gems and jewellery exports, which comprise 72.6 per cent of total merchandise trade in the month, exhibited sustained momentum, growing 10.4 per cent (YoY).

41. Within merchandise exports, India's defence exports reached an all-time high of ₹38.4 thousand crore in FY26, reflecting a YoY increase of 62.7 per cent. The country's drone segment has emerged as a key growth frontier within defence exports.[15] Over the past year, Indian drone manufacturers have seen a sharp rise in export interest and are increasingly competing with established global suppliers in Southeast Asian and African markets. Drone exports rose from USD 1.7 million in FY24 to USD 2.8 million in FY25, and industry estimates suggest the segment is poised for substantial expansion over the coming years.[16]

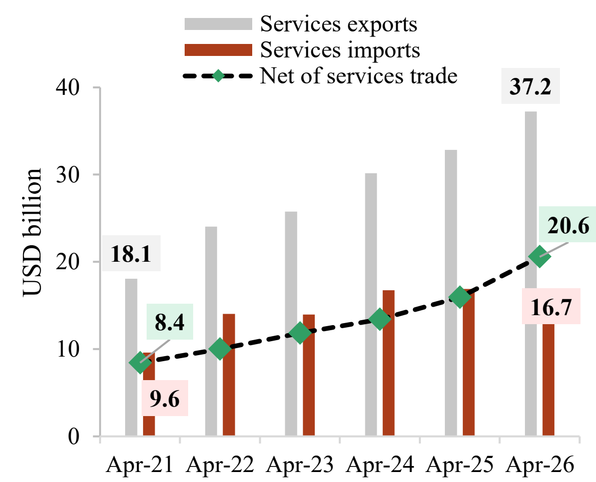
42. On the imports side, there was a 10 per cent (YoY) rise in merchandise imports, largely driven by higher imports of gold and silver, which rose by 81.7 per cent (YoY) and 157.2 per cent (YoY), respectively. This rise in imports may be due to rising gold and silver prices, which have increased by 46.7 per cent and 135.4 per cent, respectively.[17] Consequently, the merchandise trade deficit increased marginally to USD 28.4 billion from USD 27.1 billion in April 2025.

[15] PIB Press release of the Ministry of Defense dated April 2, 2026: https://www.pib.gov.in/PressReleasePage.aspx?PRID=2248124&reg=3&lang=1
[16] Making India a Global Drone Hub, Export-Import Bank of India (2026)
[17] World Bank Commodity Price Data (The Pink Sheet): https://tinyurl.com/3vdfszfw

Merchandise trade	Services trade



Source: Department of Commerce



Source: RBI and Department of Commerce

43. Services trade continued to provide thrust to India's trade performance. Services exports increased by 13.4 per cent (YoY), amounting to USD 37.2 billion. Services imports decreased by 1.5 per cent (YoY); as a result, the net of services trade increased by 29.1 per cent (YoY), amounting to USD 20.6 billion.

44. Effectively, the surplus in service trade covered 72.5 per cent of the merchandise trade deficit, and therefore, the total trade deficit amounted to USD 7.8 billion in April 2026, representing a YoY decrease of 30.1 per cent.

45. Software services exports have historically constituted the largest component of India's overall services exports, although business services exports have gained increasing prominence in recent years. This shift has been supported by India's emergence as a global hub for Global Capability Centres (GCCs), with multinational firms increasingly viewing India as a preferred destination for establishing integrated capability and innovation centres rather than relocating talent overseas. India currently hosts 2,117 GCCs employing around 2.35 million people directly and generating nearly USD 98 billion in revenue. The expansion of GCCs has strengthened India's high-value services export ecosystem and continues to support economic growth amid a challenging global environment.[18]

46. India has been actively pursuing a diversified trade strategy, and effectively utilising these trade agreements will sustain the momentum of the country's trade performance amid global challenges. In line with this strategy, the Hon'ble Prime Minister, during the 3rd India-

[18] PIB Press release of Ministry of Commerce & Industry dated May 21, 2026: https://www.pib.gov.in/PressReleasePage.aspx?PRID=2263649&reg=3&lang=2

Nordic Summit, reaffirmed the country's commitment to doubling the existing bilateral trade with Finland by 2030.[19,20] Further, the relations between India and the Netherlands were elevated to a 'Strategic Partnership' under which both countries will work through regular, structured cooperation across all areas, including trade and investment. Mechanisms to further advance trade and investment between the two countries include the India-Netherlands Joint Trade and Investment Committee, the Fast Track Mechanism, and the Agreement on Mutual Administrative Assistance in Customs Matters.[21,22] Another important development is India's inclusion on the list of countries published by the European Union (EU) for continued export of aquaculture products to the EU market. This is pertinent as the EU is one of the key destinations for the country's seafood exports. In FY26, the EU was the third-largest destination, accounting for 18.9 per cent of India's total seafood exports.[23]

47. In FY26, the country imported gold (HS Code 7108) and silver (HS Code 7106) totalling USD 84 billion, which accounted for 10.8 per cent of total merchandise imports. To curb non-essential imports by discouraging discretionary demand through price signals, the Government increased customs duties on gold, silver, and platinum. The revised duty framework increases the Basic Customs Duty (BCD) from 5 per cent to 10 per cent, increases the Agriculture Infrastructure and Development Cess (AIDC) to 5 per cent, and restructures existing exemptions. Thus, the effective import duty on gold and silver has increased to approximately 15 per cent.[24] These duties came into force on May 13, 2026. In addition, imports of silver under ITC (HS) codes 71069221 and 71069229 have been moved from the 'free' category to the 'restricted' category of import.[25]

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[19] As of FY25, the bilateral merchandise trade between India and Finland stood at USD 1.3 billion. The trade in services between the two countries stood at USD 1.9 billion in CY 2025. Source: for merchandise trade, Department of Commerce: https://tinyurl.com/vnhak2c8 and for services trade, India-Finland Bilateral Relations, Ministry of External Affairs, https://tinyurl.com/45jdhdn4.

[20] PIB Press release of Prime Minister's Office dated May 19, 2026: https://tinyurl.com/3d8zd4cc.

[21] The Agreement on Mutual Administrative Assistance in Customs Matters will enable the exchange of information between the customs authorities of the countries, and thus contribute to enhanced customs enforcement and the facilitation of legitimate trade between India and the Netherlands.

[22] PIB Press release of Prime Minister's Office dated May 17, 2026: https://tinyurl.com/5eb3n7x7.

[23] PIB Press release of the Ministry of Commerce and Industry dated May 14, 2026: https://tinyurl.com/mweym7wd.

[24] (a) **Notification No. 15/2026-Customs: Amendment to Notification No. 45/2025-Customs**The notification comes into force on May 13, 2026. https://tinyurl.com/4t9yuvxb.

(b) **Notification No. 16/2026-Customs: Changes in Social Welfare Surcharge (SWS) and AIDC:** . The amendments will take effect from May 13, 2026. https://tinyurl.com/3znudhp2

(c) **Notification No. 17/2026-Customs: Amendment to Notification No. 57/2000-Customs:**The revised rate will become effective from May 13, 2026. https://tinyurl.com/bddk6zxj.

(d) **Notification No. 18/2026-Customs: Amendment to UAE CEPA Notification**: https://tinyurl.com/dawakd86.

[25] DGFT Notification No. 17/2026-27 dated May 16, 2026: https://tinyurl.com/3j8evzry.

48. Crude oil and petroleum products accounted for 53.9 per cent of India's total merchandise imports from the West GCC region in FY26. Though the Strait of Hormuz, a critical passage for global oil and natural gas supplies, has been closed amid the conflict in the Persian Gulf, India has been able to meet its crude oil import requirements through its diverse sources.

49. In order to reduce the country's vulnerability to global shocks, an MoU has been signed for (i) Strategic Collaboration between Indian Strategic Petroleum Reserves Limited (ISPRL) and Abu Dhabi National Oil Company (ADNOC) and (ii) Strategic Collaboration between Indian Oil Limited (IOCL) Company and ADNOC on supplies of Liquefied Petroleum Gas (LPG). These agreements will enable the potential storage of up to 30 million barrels of ADNOC crude oil, as well as storage in Fujairah, UAE, which will form part of India's strategic petroleum reserve. Further, they lead to a potential collaboration on Liquid Natural Gas and LPG storage facilities in India, for the sale and purchase of LPG, including long-term supply, and entry into a long-term LPG sale and purchase agreement between ADNOC Gas Limited and IOCL.[26]

Balance of Payment

Capital flows

50. India's capital account faced continued pressure in FY26 amid moderating net foreign direct investment (FDI) inflows and heightened volatility in foreign portfolio investment (FPI) flows. Uncertain global financial conditions persist, driven by escalating geopolitical tensions, ongoing trade fragmentation, and changes in worldwide monetary and investment cycles, leading investors to become more risk-averse toward emerging market assets.

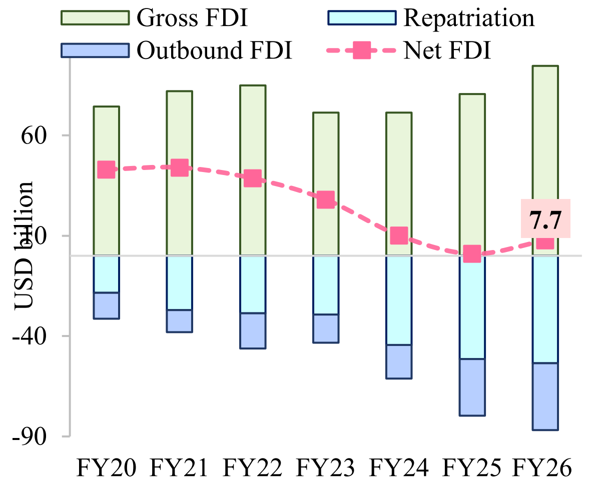
Foreign Direct Investment

51. Increasingly, cross-border investment decisions are being shaped by industrial policy priorities, supply-chain realignments, technological considerations, and national security concerns, influencing both the geographical distribution of capital and the organisation of global production networks.[27]

[26] PIB Press release of the Prime Minister's Office dated May 15, 2026: https://tinyurl.com/5h9rwv4h.
[27] UNCTAD (May 2026): AI investment boom risks widening global development divide (https://unctad.org/news/ai-investment-boom-risks-widening-global-development-divide).

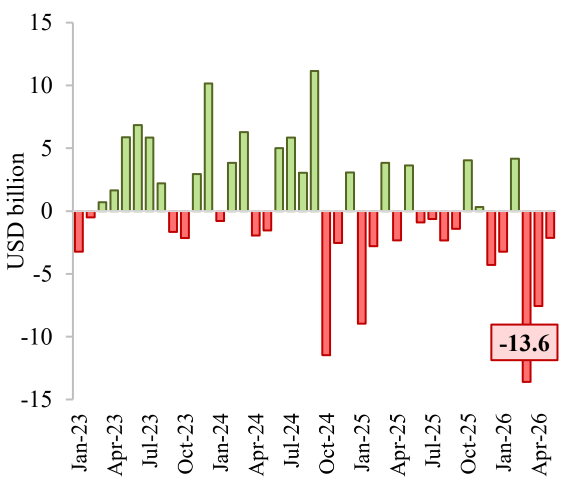
52. Against this backdrop, recent trends in FDI inflows into India assume added significance. Gross FDI inflows reached a historical peak of USD 94.5 billion in FY26, up from USD 80.6 billion in the corresponding period of the previous year (an increase of 17.3 per cent YoY), indicating sustained investor interest in the Indian economy despite the uncertain global environment. Although higher repatriation and outward FDI flows continued to weigh on net FDI inflows, net FDI improved to USD 7.7 billion during FY26.

FDI



Source: RBI

FPI



Source: NSDL

Note: Data for May is as of May 21, 2026.

Foreign Portfolio Investment

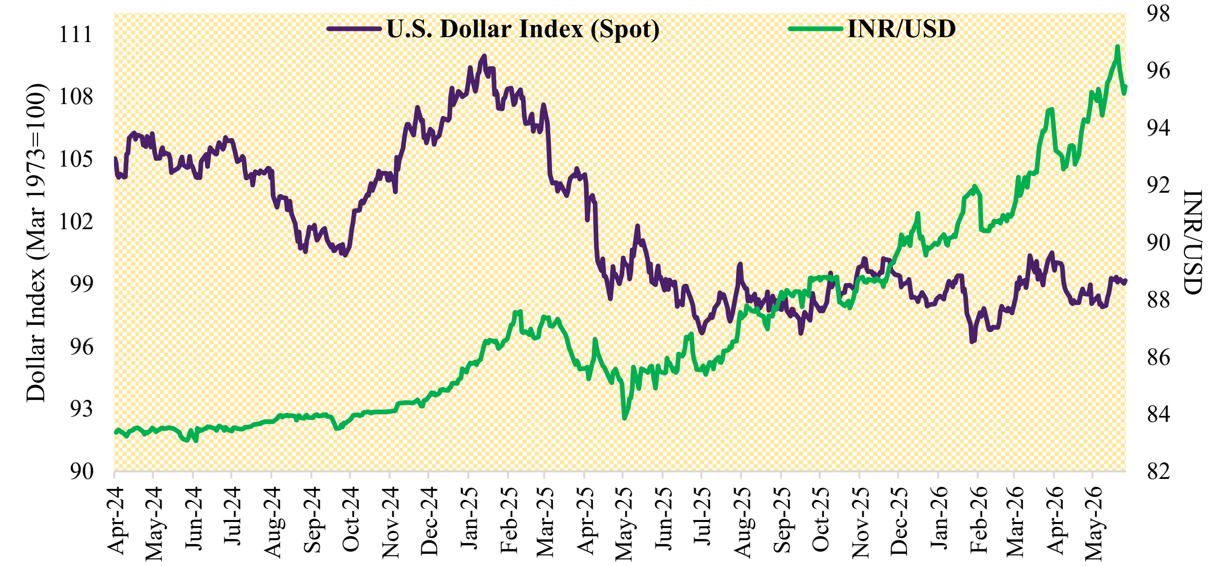
53. FPI outflows have intensified following the escalation of the West Asia conflict. After recording net inflows in February 2026, FPIs recorded cumulative outflows of USD 23.6 billion from Indian markets since the onset of the conflict till May 21, 2026. The bulk of these outflows was concentrated in the equity segment, reflecting heightened global risk aversion and portfolio rebalancing away from emerging-market assets. In contrast, the debt segment reversed in May, with earlier outflows turning into inflows, resulting in net inflows of around USD 455 million to May 21, 2026. Looking ahead, persistent global uncertainties, elevated crude oil prices, tighter global financial conditions and pressures on the Indian rupee are likely to keep investor sentiment cautious and contribute to continued volatility in portfolio flows.

Exchange Rate

54. Global currency markets have witnessed heightened volatility following the escalation of the West Asia conflict, with the U.S. Dollar Index (DXY) strengthening amid increased safe-haven demand for dollar assets. This has also added to the depreciation pressure.

55. The Indian rupee has depreciated by ~4.9 per cent since the onset of the conflict, settling at ₹95.7 per US dollar as of May 26, 2026. The primary drivers have been the rising crude oil import bill and persistent FPI outflows. The Reserve Bank of India has been periodically intervening in the foreign exchange market to contain excessive volatility and maintain orderly market conditions.

Movement of Dollar Index and Indian Rupee



Source: RBI & CEIC
Note: Data for May is as of May 26, 2026.

56. Against this backdrop, the Box 1 analyses what the rupee's recent depreciation implies in real effective terms for India's external competitiveness.

Box 1: Real, Not Just Nominal: What India's Exchange Rate Adjustment Means

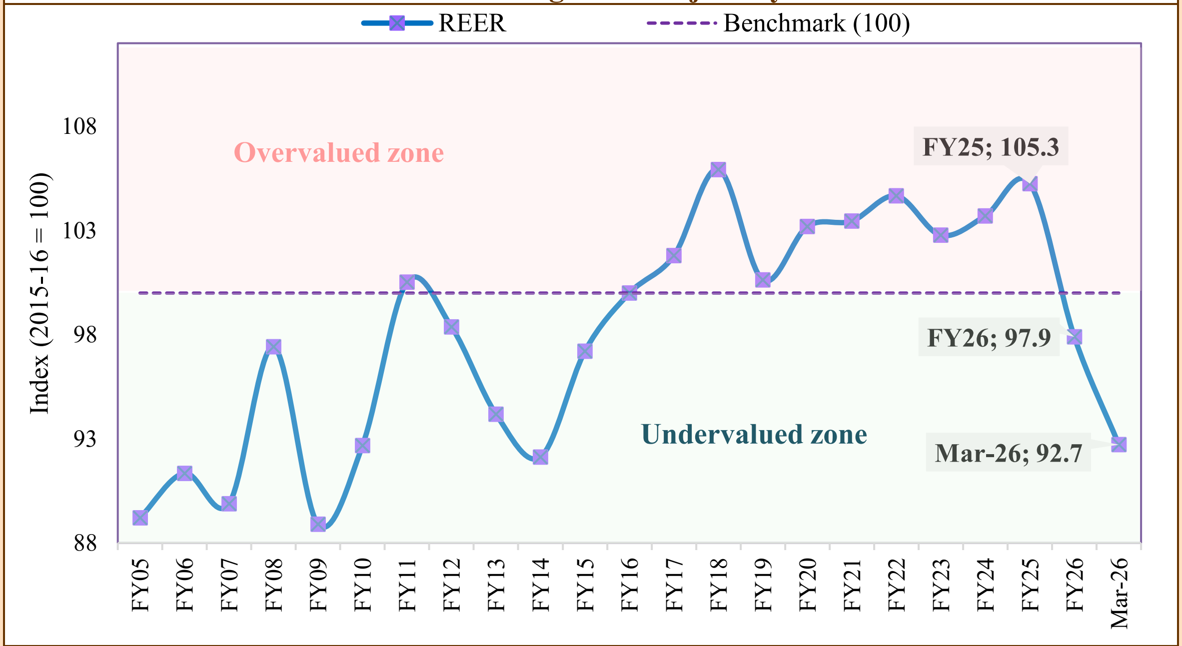
The Indian rupee's depreciation by ~10 per cent against the US dollar in FY26, with a further decline of about 4.9 per cent since the onset of geopolitical tensions in West Asia (as of May 26, 2026), has attracted considerable commentary on what this means for India's macroeconomic stability. The instinct to read currency depreciation as a signal of underlying weakness is understandable but warrants scrutiny.

The depreciation pressures have been acute in economies experiencing capital reallocation driven by the global surge in AI and other strategic technology investments. These investment trends are increasingly concentrating capital in a narrower set of sectors and countries, thereby reshaping the direction of global financial flows rather than reflecting weakening macroeconomic fundamentals in recipient economies.[29]

India's adjustment is, moreover, occurring from a position of macroeconomic strength: GDP growth has consistently exceeded 7 per cent annually; foreign exchange reserves stood at approximately USD 697 billion as of May 8, 2026, representing around 11 months of import cover; and gross FDI inflows reached USD 94.5 billion in FY26, marking a decisive break above the USD 70-80 billion range that had prevailed for four years, reflecting continued long-horizon commitment to India's productive capacity. Thus, the better question is what depreciation represents in real effective terms, and here the picture is instructive.

India's Real Effective Exchange Rate (REER),[30] measured on a 40-currency trade-weighted basis (base year 2015-16 = 100), stood at 92.72 as of April 2026, the lowest level in over a decade and materially below the benchmark rate of 100. In other words, through much of 2022-24, India's REER had risen above comparable measures for several peer economies, eroding the price competitiveness of Indian exports even as the nominal economy performed strongly. The REER reached a multi-year high of 108.03 in November 2024, a level that, on a trade-weighted, inflation-adjusted basis, rendered Indian goods measurably less competitive in global markets. Now, the ongoing correction has partially corrected this misalignment.

REER Long-Run Trajectory



Source: RBI

With India's REER now below its long-run mean, Indian goods and services are priced more competitively in real terms than at any point in the past decade. This competitiveness gain can potentially translate into broader export improvement, subject to certain conditions.

The first is the Marshall-Lerner condition: the requirement that the sum of a country's export and import price elasticities exceed unity for depreciation to improve the trade balance.

$$|\eta_x| + |\eta_m| > 1$$

where, η_x *= price elasticity of demand for exports;*

η_m *= price elasticity of demand for imports.*

The empirical evidence for India, as per the Economic Survey 2025-26, suggests this condition is satisfied over the medium term, with a 1 per cent depreciation seen to be improving the merchandise

[29] UNCTAD (May 2026): AI investment boom risks widening global development divide (https://unctad.org/news/ai-investment-boom-risks-widening-global-development-divide).

[30] The Real Effective Exchange Rate (REER) is a trade-weighted average of the rupee's exchange rate, adjusted for inflation differentials between India and its trading partners. Trade-weighted implies that each partner currency in the basket is given a weight proportional to that country's share in India's total trade. An increase in the REER indicates real appreciation of the rupee (loss of external competitiveness) and a decrease indicates real depreciation (gain in external competitiveness).

trade balance by 1.45 per cent.[31] The near-term picture, however, is more nuanced. India's heavy reliance on imports of crude oil, fertilisers, and capital goods creates an asymmetric timing problem: import bills rise immediately as the same volumes now cost more in rupee terms, while export volumes take time to respond to price signals as existing contracts are worked through and new orders materialise, the dynamic formalised in the J-curve framework.

The second condition is global demand, and perhaps a more binding constraint. The 2013-14 precedent is instructive in a cautionary sense: despite a ~10.1 per cent rupee depreciation in FY14 over FY13, merchandise exports declined by 1.3 per cent in FY15 and by 15.5 per cent in FY16, as the concurrent collapse in global commodity prices and weak global demand more than offset any gains from a weaker currency. Empirical trade studies consistently find that global demand outweighs exchange rates as a factor in driving exports. With global growth uncertain, this is the *key* variable determining whether India's REER realignment lifts export volumes.

The third condition relates to the composition and quality of India’s export basket: medium and high technology goods currently account for ~41 per cent of manufacturing value added in January 2026,[32] and the scope for depreciation-led export acceleration expands as exports become more differentiated, higher value-added, and less easily substitutable.

These structural dynamics cannot be resolved by the exchange rate alone, but one cannot deny that a competitive REER creates the enabling environment in which they can progressively take hold.

Moving on, it is necessary to understand the concurrent inflationary pressures at play during these extraordinary times of global unrest. For India, the pass-through of import costs to domestic producers and consumers operates with particular intensity in commodities such as crude oil, LNG, fertilisers, and edible oils, where the price elasticity of demand is low, and the country is effectively a price-taker.

If rupee depreciation raises domestic input costs for manufacturers, farmers, and logistics operators, it partially offsets the export price competitiveness that the REER realignment was intended to restore, eroding the gain at the production end even as it improves the price signal at the market end. The experience of Türkiye during 2021-23 serves as a cautionary reference in this regard: a Lira depreciation of ~60 per cent between September 2021 and May 2023 failed to produce the expected

[31] The Economic Survey 2025-26 (Box IV.5: Trade and financial channels of the exchange rate) employs an autoregressive distributed lag (ARDL) model using quarterly data from Q1 FY12 to Q2 FY26 to estimate the elasticities of India's trade and capital account balances with respect to exchange rate movements. The results are a 1 per cent appreciation of the rupee results in net total trade declining by 1.26 per cent, with merchandise trade exhibiting particularly high responsiveness, with an elasticity of -1.45.

[32] UNIDO Monthly Manufacturing Trade Database. https://stat.unido.org/data/table?dataset=mmtd#data-browser

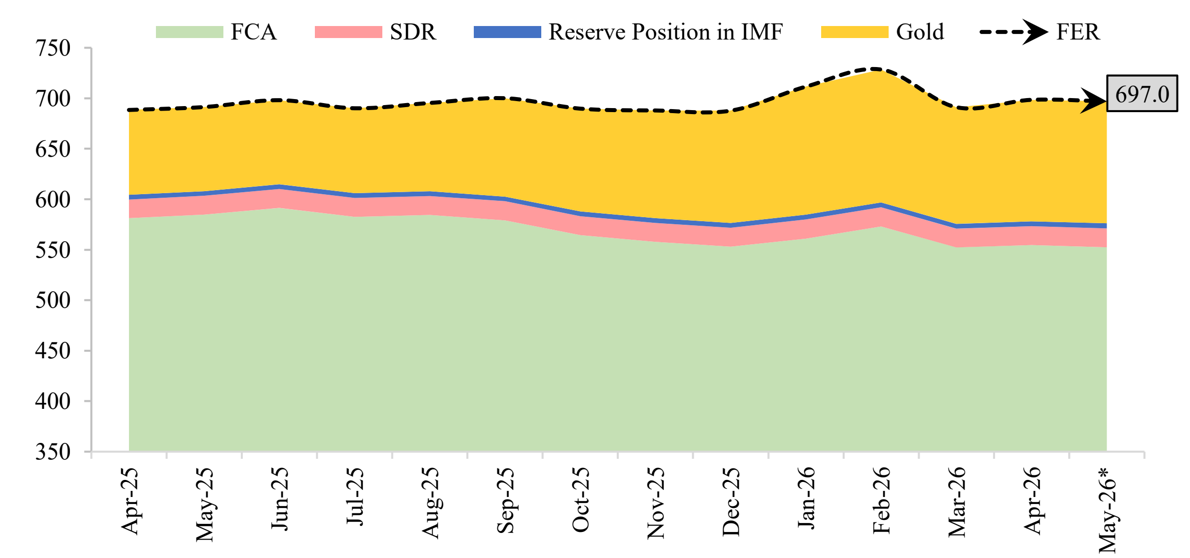
export-led improvement, as domestic inflation eroded competitiveness gains almost as fast as they accrued and the current account deficit widened from 0.74 per cent of GDP in 2021 to 3.63 per cent in 2023. India's macroeconomic configuration, with inflation contained within the RBI's tolerance band, a credible fiscal consolidation path and substantial reserve buffers, is different from the Türkiye episode. But Türkiye’s experience illustrates that nominal depreciation and real competitiveness are not the same thing, and the gap between them is determined by how effectively domestic price pressures are managed through the adjustment period.

Taken together, the foregoing analysis maps the channels through which rupee depreciation affects merchandise trade competitiveness, import costs, and domestic inflation, whose net effects are neither uniform in direction nor simultaneous in timing. The empirical evidence from the Economic Survey supports the view that a more competitive exchange rate is, on balance, beneficial for India's external position. However, converting that competitiveness into export volume gains is conditional on the factors discussed above, which operate beyond the exchange rate's ambit. These structural factors warrant close, ongoing monitoring.

Foreign Exchange Reserves

57. India’s foreign exchange reserves (FER) remained at comfortable levels despite heightened global uncertainty and external sector pressures. As of May 8, 2026, FER stood at USD 697 billion, providing an import cover of ~10.7 months and covering approximately 91 per cent of outstanding external debt as of end-December 2025.

Movement in foreign exchange reserves



Source: RBI
May-26*: As of May 8, 2026

58. According to the RBI's Half-Yearly Report on Management of Foreign Exchange Reserves, the decline in forex reserves between end-September 2025 and end-March 2026 was largely driven by a reduction in Foreign Currency Assets (FCA), which fell from USD 579.2 billion to USD 552.3 billion. The share of gold in total reserves increased from 13.9 per cent to 16.7 per cent during the same period, reflecting the sharp rise in global gold prices. The Reserve Bank held 880.5 metric tonnes of gold at end-March 2026, of which 680.1 metric tonnes were held domestically.

Labour Market Trends

59. Labour market indicators reflect a broadly stabilising employment landscape. Early indicators for FY27 suggest continuity with this trend. The April 2026 PLFS reports a labour force participation rate (LFPR)[33] of 55 per cent for persons aged 15 years and above, accompanied by an unemployment rate (UR)[34] of 5.2 per cent.[35]

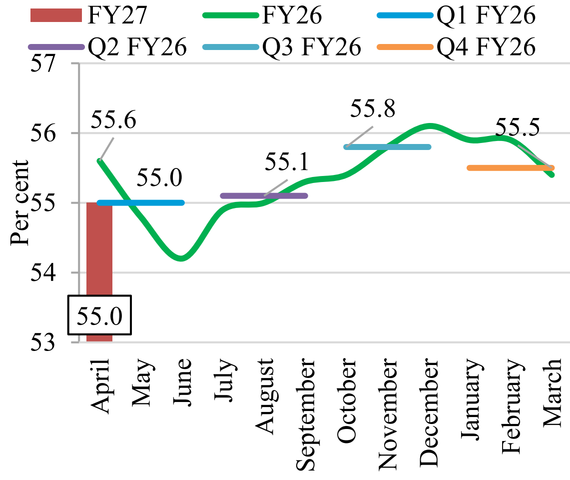
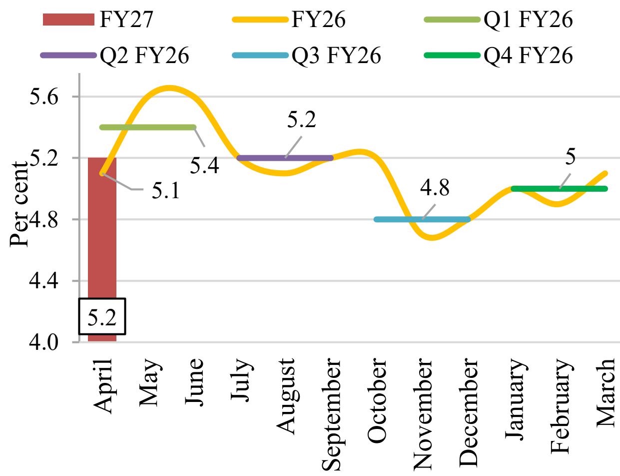
60. In line with the monthly trends through FY26, the quarterly Periodic Labour Force Survey (PLFS) estimates for January - March 2026 (Q4 FY26) show continued labour market stability, with some softening in Q4 FY26. Employment conditions remained stable during the quarter, with labour force participation remaining steady alongside a modest increase in unemployment. Average employment stood at 57.4 crore persons in Q4 FY26. Of the total employed aged 15 years and above in Q4 FY26, 40.2 crore were male and 17.2 crore were female.[36]

[33] Labour Force Participation Rate (LFPR) is defined as the percentage of the population in the labour force. Labour force, according to Current Weekly Status (CWS), is the number of persons either employed or unemployed on average in a week of 7 days preceding the date of the survey.

[34] Unemployment rate (UR) is defined as the percentage of unemployed persons in the labour force. According to the CWS approach, a person was considered unemployed in a week if he/she did not work even for 1 hour on any day during the reference week but sought or were available for work at least for 1 hour on any day during the reference week.

[35] Monthly PLFS bulletin for April 2026: https://www.mospi.gov.in/publications-reports

[36] Quarterly PLFS bulletin for January- March 2026: https://www.mospi.gov.in/publications-reports

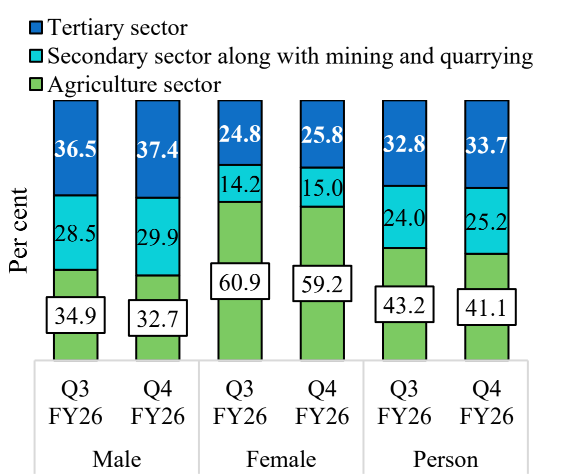
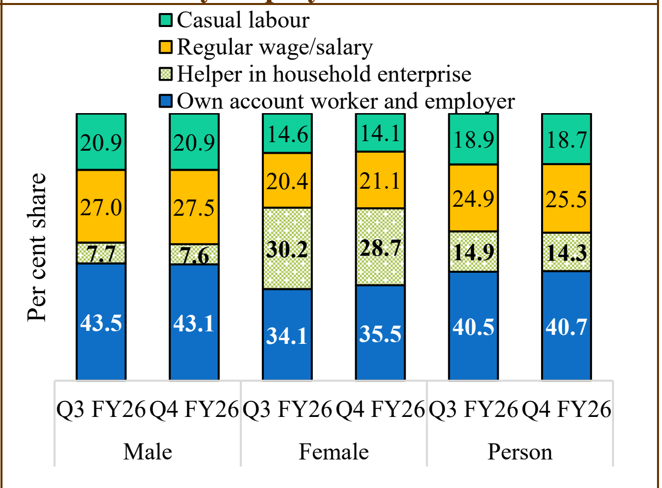
Labour force participation rate (%)	Unemployment Rate (%)
	

Source: Monthly and quarterly PLFS bulletin (aged 15 years and above in current weekly status)

61. In Q4 FY26, agriculture accounted for 41.1 per cent of total employment (declining marginally from 43.2 per cent in Q3 FY26), with the tertiary sector at 33.7 per cent and the secondary sector at 25.2 per cent. By employment status, own-account workers and employers comprised 40.7 per cent of the workforce, followed by regular wage and salaried workers at 25.5 per cent and casual labour at 18.7 per cent.

62. Even though the primary sector continues to dominate employment in rural areas, it has experienced a decline in its share from 58.5 per cent in Q3 to 55.8 per cent in Q4 FY26. This reflects the seasonal impact of reduced labour demand during the post-sowing and pre-harvest period of Rabi crops. The released labour might have been absorbed into the secondary and tertiary sectors, which experienced a modest rise in their employment share. In urban areas, employment in the tertiary sector remained steady at 62.1 per cent in Q4 FY26.

Distribution of workforce (in percentage share)

By broad industry group	By employment status
	

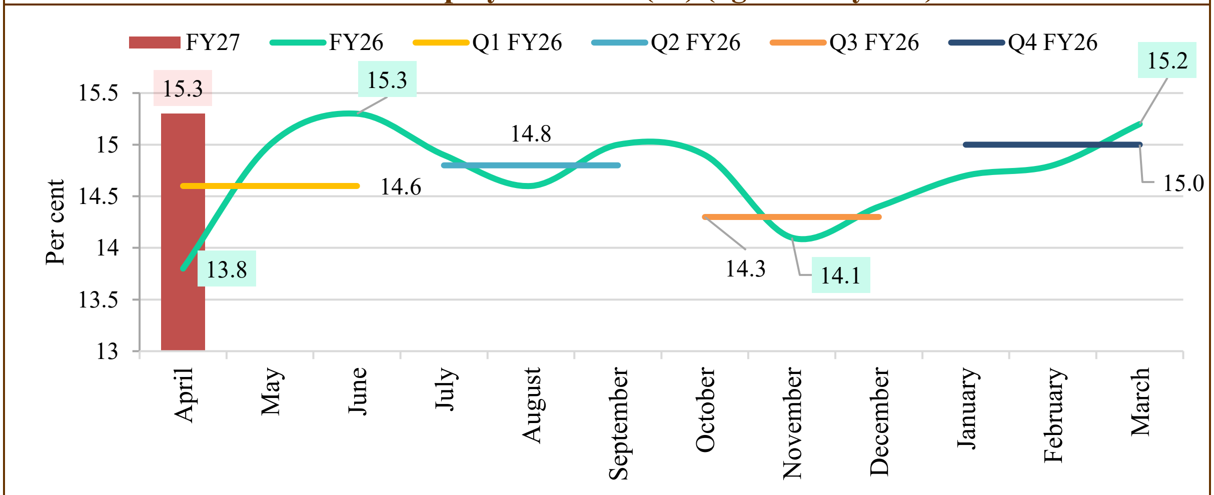
Source: Quarterly PLFS bulletin for January – March 2026

63. While rural areas experienced a fall in the share of self-employed and casual workers, alongside a rise in regular wage jobs, urban areas experienced quite the opposite, with a fall in regular wage employment and a rise in the share of self- employed. Regular wage employment (48.9 per cent in Q4 FY26) remained the dominant employment type in urban areas. A gender-wise distribution shows relatively higher female participation in agriculture and self-employment, whereas male workers remain concentrated in the secondary and tertiary sectors.

64. While the aggregate labour market indicators set the broader context of the employment landscape, a closer look at youth labour market outcomes reveals additional dimensions for policy consideration.

Youth unemployment trends

Youth unemployment rate (%) (age 15-29 years)



Source: Monthly and Quarterly PLFS bulletin (in current weekly status)

65. The April 2026 PLFS reported youth UR (15-29 years) at 15.3 per cent, consistent with FY26 figures. Urban youth unemployment has remained higher than rural unemployment throughout FY26, with the gap most pronounced among women. Within urban areas, female youth unemployment is higher than male unemployment. These patterns continue in April 2026, with urban youth UR standing at 18.0 per cent overall, compared to 14.1 per cent in rural areas, and urban women recording the highest UR at 24.5 per cent, compared to urban men at 15.9 per cent.

66. The persistence of the gender gap in urban areas suggests that the observed differences are structural. The high female youth unemployment is plausibly linked to structural barriers such as labour-market mismatches, care responsibilities, and mobility constraints. The findings underscore the need for stronger school-to-skill pathways, more robust apprenticeship

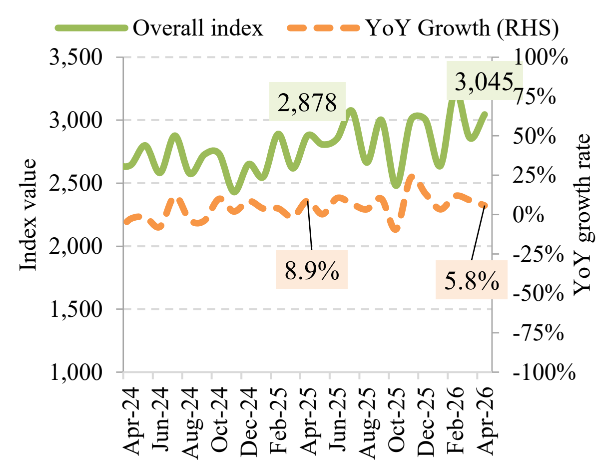
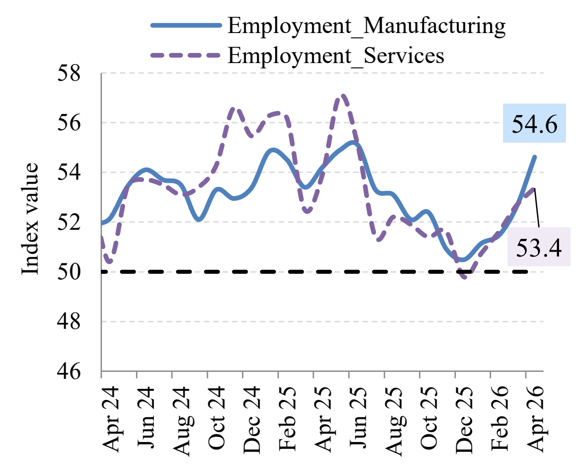
opportunities, and targeted support for young women to ensure that education outcomes translate more effectively into employment.

67. To address labour-market skill mismatches, weak school-to-work transition pathways, and support vocational training, the government has scaled up several skilling and education initiatives in recent years. Most recently, the Ministry of Skill Development and Entrepreneurship (MSDE) has initiated the Skills Outcomes Fund, a first-of-its-kind initiative aimed at unlocking aspirational livelihoods for youth from low-income backgrounds. The initiative proposes a blended finance model in which government funding from MSDE will be supplemented by private-sector funding. Additionally, its employer-led, demand-driven skilling model will align with high-growth, aspirational, future-oriented sectors such as IT-ITeS, BFSI, automotive, healthcare, logistics, green jobs, and electronics. The fund would be built on the success of the Skill Impact Bond, launched by the National Skill Development Corporation (NSDC) in 2021.[37]

High-frequency hiring indicators

68. Beyond official estimates, high-frequency hiring data offer insights into labour demand across industries, corroborating the steady momentum observed in the broader labour market. The monthly Naukri Jobspeak index, a key indicator of white-collar hiring in India, experienced a 6 per cent rise (year-on-year) in April 2026, driven by non-IT sectors such as insurance (21 per cent), BPO/ITES (+15 per cent), and real estate (+12 per cent) and healthcare (+11 per cent). Fresher hiring increased by 11 per cent, driven by non-IT sectors like hospitality and insurance. Hiring for AI/ML roles rose by 32 per cent in April 2026.

[37] PIB release of the Ministry of Skill Development & Entrepreneurship dated 8 April 2026: https://tinyurl.com/yu66e7z2

Steady white-collar hiring momentum	Trend in PMI Employment subindex
	
Source: Naukri JobSpeak Index	Source: HSBC PMI India (below 50: contraction, above 50: expansion vis-a-vis the previous month)

69. Hiring in manufacturing and services continued the revival trend in April 2026, following the slowdown in December 2025. The PMI employment sub-index remains in the expansionary zone and reached a 10-month high, indicating increased hiring by firms to meet rising demand.

70. Overall, India's labour market remains on a stable trajectory, with the policy focus increasingly shifting from employment generation to improving the quality of jobs, inclusivity, and resilience of work.

Health and the workforce

71. The Ministry of Statistics and Programme Implementation released the NSS 80th Round report on ‘Household Social Consumption: Health’.[38] Read alongside India's labour market trends, the report's findings on morbidity rates[39], out-of-pocket expenditure, and the burden of non-communicable diseases (NCDs) offer a complementary lens for assessing the broader well-being of the working-age population **(Box 2).**

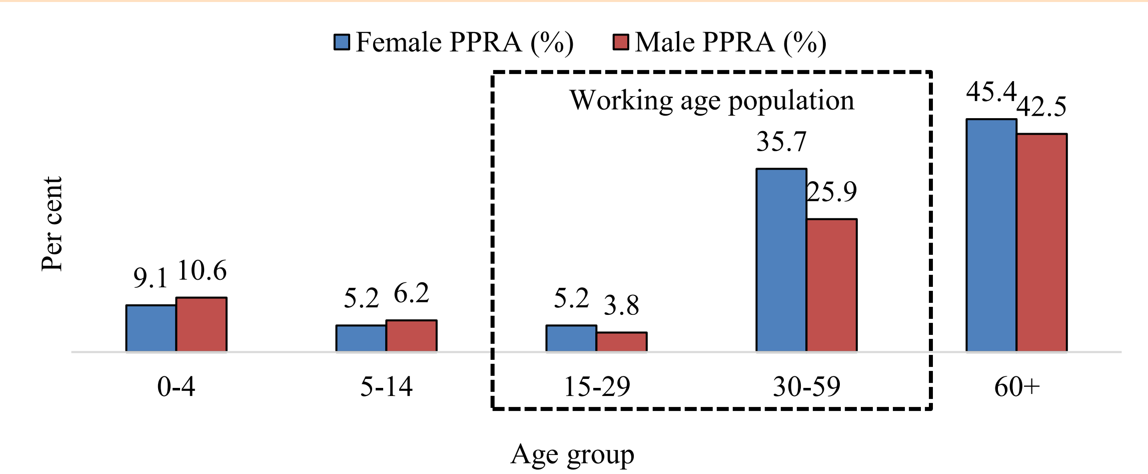
[38] NSS 80th Round ‘Household Social Consumption: Health’: https://www.mospi.gov.in/publications-reports
[39] Proportion of Persons Responded as Ailing (PPRA) during the last 15-day period.

Box 2: India's health data through an economic lens

The NSS 80th Round 'Household Social Consumption: Health', conducted during January, 2025 to December, 2025, is as much a story on labour as a healthcare story.[40] The survey reported that 13.1 per cent of persons reported illness[41] during the last 15-day period, almost doubling from 7.5 per cent in 2017-18.[42] Urban residents reported illness slightly more often than rural residents. While the number reflects increased morbidity in the population, economists have also linked this to more people seeking care.

A disaggregated analysis of morbidity by age highlights a working-age population facing a growing disease burden. Illness rates are low in early years, 5-6 per cent for those aged 5 to 14, but they climb sharply from age 30 onward. While morbidity increases with age, it is essentially high for the working-age population (15-59 years old), with 40.9 per cent of females and 29.7 per cent of males reporting illness during the last 15-day period. This trajectory maps almost exactly onto the labour force's peak productive years.

Proportion of Persons Responded as Ailing (PPRA)[43] during the last 15-day period.



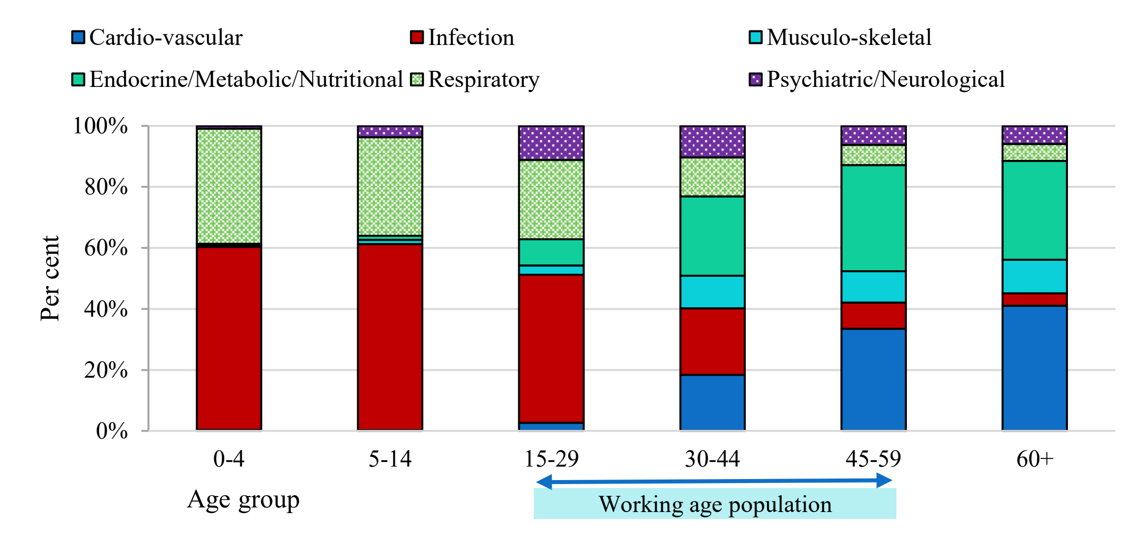
Source: NSS 80th Round 'Household Social Consumption: Health'

The gender dimension of morbidity deserves closer attention. Policy on women's workforce participation often focuses on structural barriers to entry, such as education, childcare, and mobility. But the morbidity data points to another challenge. Working-age women carry a disproportionately high health burden, one that rises sharply through their 30s and 40s. This is closely linked to a broader shift in India's disease burden.

Dual disease burden

India faces a dual disease burden of infectious and non-communicable diseases (NCDs). While infections & respiratory diseases are reported more frequently in childhood and adolescence, reporting of cardiovascular and endocrine/metabolic issues is high from the age of 30 years onward.

Percentage distribution of ailments over broad ailment type



Source: NSS 80th Round ‘Household Social Consumption: Health’

The growing incidence of NCDs was also highlighted in the Economic Survey 2025-26. This demographic shift in disease burden has a major economic cost, as infectious diseases may temporarily disrupt work, and untreated chronic NCDs may result in a deterioration of worker productivity over time. A third dimension deserves mention: psychiatric and neurological conditions show a significant increase from age 15-29 onward, the age cohort

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[40] The survey on ‘Household Social Consumption: Health’, conducted during January, 2025 to December, 2025, is the eighth such full-fledged all-India survey that collects information on general morbidity, inpatient and outpatient care and child births. Information was collected from 1,39,732 households across the country's rural and urban areas.

[41] The schedule of enquiry used for the survey adopted a list of 62 detailed ailment categories for collecting information on the ailments. These 62 detailed ailment categories have been clubbed into 17 broad categories: (i) infections (including fevers, jaundice, diarrhoea/dysentery), (ii) cancers, (iii) blood diseases, (iv) endocrine or metabolic (including diabetes and thyroid diseases), (v) psychiatric or neurological, (vi) eye, (vii) ear, (viii) cardio-vascular (including hypertension and heart disease), (ix) respiratory, (x) gastro-intestinal, (xi) skin, (xii) musculo-skeletal (including joint pain, back & body aches), (xiii) genito-urinary, (xiv) obstetric, (xv) injuries, (xvi) kidney failure and (xvii) other ailments.

[42] 75th NSS round (July, 2017- June, 2018)

[43] The ‘Proportion of Persons Responded as Ailing (PPRA)’ is defined as the estimated number of individuals in the population who reported suffering from an ailment during the 15-day period preceding the survey date, expressed as a proportion of the estimated total population.

PPRA (%) = 100 × (Estimated no. of persons responded as ailing ÷ Estimated population) entering the workforce. This suggests mental health is an emerging concern for the working-age population, as highlighted in various editions of the Economic Survey.[44]

Expansion of healthcare services

While the data presents various challenges, it also highlights improvements in access, enhanced service delivery, and reduced financial burden on households across the country.

According to the survey, at the national level, the median out-of-pocket expenditure per hospitalisation (all hospitals) is ₹11,285. For hospitalisation at public facilities, half of all admissions involve an expenditure of ₹ 1,100 or less. In contrast, outpatient care at public health facilities has a median out-of-pocket cost of zero, meaning half of outpatient visits are free. Additionally, financial risk protection has expanded with the rapid scaling-up of government-financed health insurance coverage, including under the Ayushman Bharat-Pradhan Mantri Jan Arogya Yojana, and various State schemes. The percentage of the population covered under these government health finance and insurance schemes in the country has notably increased from 12.9 per cent in 2017-18[45] to 45.5 per cent in CY 2025 in rural areas, and from 8.9 per cent to 31.8 per cent in urban areas, during the same period. There is an increasing trend towards utilising public health facilities. In 2014[46], around 28 per cent of the rural population used public facilities for outpatient care, rising to 35 per cent in CY 2025.[47]

India's demographic dividend is an opportunity that needs to be reaped through the right policies. Wider insurance coverage, lower out-of-pocket costs, and growing public facility use are the foundations for ensuring a healthy working population that can work productively through their 30s, 40s, and 50s. The Ministry of Health and Family Welfare recently released the Guidance Document on Diabetes Mellitus in Children, recognising that NCDs must be

[44] Economic Survey 2023-24; Economic Survey 2024-25 and Economic Survey 2025-26.
[45] 75th NSS round (July, 2017- June, 18)
[46] 71st NSSO round (January-June 2014)
[47] PIB release of Ministry of Health & Family Welfare dated 29 April 2026: https://www.pib.gov.in/PressReleasePage.aspx?PRID=2256538&reg=3&lang=2

intercepted at the earliest stages of life.[48] The next step is for the health system to recognise and act on the full arc of this burden, from childhood onset to working age, before it overwhelms the workforce on which India's growth story depends.

Outlook

72. The near-term outlook for the Indian economy is one of cautious resilience. Domestic fundamentals remain broadly intact, manufacturing and services PMIs are in expansionary territory, the labour market is stable, and foreign exchange reserves provide meaningful insulation against external shocks. At the same time, the global environment has become materially more challenging since the onset of the West Asia conflict, with elevated crude prices, tightening financial conditions, and weakening growth momentum across major economies posing headwinds that India cannot fully insulate itself from. With forecasts pointing to a below-normal monsoon and a likely moderation in economic activity, overall consumption demand may face headwinds in the coming months.

73. The inflation outlook warrants vigilance. The current divergence between retail inflation and wholesale prices signals that upstream cost pressures are building, and the pass-through to consumers, while limited so far, may not be far behind. The recent hike in petrol and diesel prices may activate both direct and indirect transmission channels, and any further escalation in energy prices could narrow the existing cushion more quickly than anticipated. A deficient monsoon could add food price pressures on top of energy-driven ones. However, second-round effects and their persistence must be evident in the data for policy responses to be triggered.

74. Looking further ahead, the duration of the Strait of Hormuz disruption remains the single most consequential variable for India's external and price outlook. Should normalisation occur soon, the conditions for a broader-based recovery, supported by strong services exports and sustained investment commitments, are in place. Policy will need to remain agile across monetary, fiscal, and structural dimensions to navigate this period of compounded uncertainty, external and climatic, while keeping medium-term growth objectives firmly in view.

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[48] PIB release of MoHFW dated 03 May 2026: https://www.pib.gov.in/PressReleasePage.aspx?PRID=2257617&reg=3&lang=1

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Performance of High Frequency Indicators

Data Title	Unit	YTD Period/As at the end of	Year to Date			Year to Date (YoY Growth)		
			2024-25	2025-26	2026-27	2024-25	2025-26	2026-27
Agriculture								
Fertiliser Sales	Lakh Tonnes	Apr - Mar	607.5	488.5	-	-3.5	-19.6	-
Domestic Tractor Sales	Lakh	Apr	0.7	0.8	1.0	-12.5	14.3	25.0
Foodgrain Production	Mn Tonnes	2nd AE	357.7	348.6	-	7.7	-2.5	-
Rice Procurement (KMS)	LMT	Sept - 20th May	513.4	501.2	-	6.6	-2.4	-
Rabi Sowing (Foodgrain)	Mn Hectare	30th Jan	56.7	58.0	-	2.7	2.3	-
Credit to Agriculture and allied activities	₹ Lakh crore	Mar	22.8	26.4	-	10.1	15.8	-
Industry								
IIP	Index	Apr - Mar	152.6	158.9	-	4.0	4.1	-
8-Core Industries	Index	Apr	161.7	163.3	166	6.9	1.0	1.7
Domestic Auto sales	Lakh	Apr	20.9	18.1	23.2	25.4	-13.3	27.9
PMI Manufacturing	Index	Apr	58.8	58.2	54.7	2.8	-1.0	-6.0
Power consumption	Billion kWh	Apr	144.3	148.4	153.6	9.2	2.9	3.5
Natural gas production	Bn Cu. Metres	Apr	3.0	2.9	2.8	7.8	-1.7	-4.2
Cement production	Index	Apr	192.3	204.5	223.7	0.2	6.3	9.4
Steel consumption	Mn Tonnes	Apr	11.4	12.0	13.0	12.1	5.8	8.1
Inflation								
CPI-C	Index	Apr	98.3	101.6	105.1	4.8	3.3	3.5
WPI	Index	Apr	152.9	154.2	167.0	1.2	0.9	8.3
CFPI	Index	Apr	98.6	100.2	104.4	8.7	1.6	4.2
Services								
Domestic Air Passenger Traffic	Lakh	Apr - Mar	3347.0	3394.5		9.1	1.4	
Port Cargo Traffic	Million tonnes	Apr	67.3	72.0	73.8	1.3	7.0	2.5

Data Title	Unit	YTD Period/As at the end of	Year to Date			Year to Date (YoY Growth)		
			2024-25	2025-26	2026-27	2024-25	2025-26	2026-27
PMI Services	Index	Apr	58.8	58.2	54.7	1.6	-0.6	-3.5
Fuel Consumption	Million tonnes	Apr	20.2	20.2	19.3	7.8	0.3	-4.6
UPI (Volume)	Crore	Apr	1330.4	1789.3	2234.8	50.1	34.5	24.9
E-Way Bill Volume	Crore	Apr	9.7	11.9	13.3	14.5	23.4	11.8
Fiscal Indicators								
Gross tax revenue (Central Govt)	₹ Lakh crore	Apr - Feb	28.9	32.0	34.2	13.3	10.7	6.9
Revenue Expenditure	₹ Lakh crore	Apr - Feb	29.4	30.8	31.2	1.4	4.8	1.3
Capital Expenditure	₹ Lakh crore	Apr - Feb	8.1	8.1	9.3	37.3	0.0	14.8
Fiscal Deficit	₹ Lakh crore	Apr - Feb	15.0	13.5	12.5	2.7	-10.0	-7.4
Primary Deficit	₹ Lakh crore	Apr - Feb	6.2	3.9	1.9	-4.6	-37.1	-51.3
GST Collection	₹ Lakh crore	Apr	1.97	2.23	2.43	12.6	13.3	8.7
External Sector								
Merchandise exports	USD Billion	Apr	39.8	38.3	43.6	15	-3.8	13.8
Non-petroleum exports	USD Billion	Apr	28.6	31.2	34.0	1.3	9.1	9.0
Merchandise imports	USD Billion	Apr	54.5	65.4	71.9	11.0	20.0	10.0
Non-oil imports	USD Billion	Apr	38	44.7	55.3	7.4	17.7	23.8
Non-oil non-gold/silver imports	USD Billion	Apr	34.9	41.4	49.3	1.9	18.7	19.0
Net FDI	USD Billion	Apr - Mar	1.0	7.7	-	-90.6	698	-
Exchange Rate (Average)	INR/USD	Apr	83.4	85.6	93.6	-1.7	-2.5	-8.5
Foreign Exchange Reserves	USD Billion	Apr	640.2	688.4	698.5	8.5	7.5	1.5
Import Cover	Months	Apr	11.2	11.0	11.0	-	-	-
Monetary and Financial								
Total Bank Credit	₹ Lakh crore	30 Apr	164.9	181.9	212.1	19	10.3	16.6
Non-Food Credit	₹ Lakh crore	30 Apr	164.7	181.6	211.1	19.0	10.2	16.3
10-Year Bond Yields	Per cent	24 Apr	7.16	6.40	7.02	4.0	-76.0	62.0

Data Title	Unit	YTD Period/As at the end of	Year to Date			Year to Date (YoY Growth)		
			2024-25	2025-26	2026-27	2024-25	2025-26	2026-27
Repo Rate	Per cent	24 Apr	6.50	6.00	5.25	0.0	-50.0	-75.0
Currency in Circulation	₹ Lakh crore	30 Apr	35.7	38.0	42.5	3.2	6.5	12.0
M_0	₹ Lakh crore	30 Apr	47.3	49.1	52.3	5.8	3.7	6.4
Employment								
Net payroll additions under EPFO	Lakh	Apr - July	44.7	69.0	-	-3.1	54.4	-
No. of person demanded employment under MGNREGA	Crore	April	3.0	2.7	1.7	-5.0	-9.7	-35.8
Unemployment Rate	Per cent	April	-	5.1	5.2	-	-	10.0
Subscriber Additions: National Pension Scheme (NPS)	Lakh	Apr - Feb	7.1	9.8		-16.0	37.8	

Notes on colour coding in Performance of HFIs:

- For all indicators except CPI-C, WPI, CPFI, Fiscal deficit, Primary deficit, Exchange rate, 10-year bond yield, repo rate, MGNREGA and unemployment rate, colour shading is based on percentiles: values in the top 90th percentile are shaded green, those in the bottom 10th percentile are red, and growth rates near zero are shown in yellow, with intermediate shades reflecting relative performance. For the indicators listed above, the colour interpretation is reversed.

Notes on Performance of HFIs:

- The performance of the repo rate, 10-yr bond yield and unemployment rate variables is presented in basis points, not in terms of growth rate.

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