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## *Preface*

*It has been sixty days since the conflict in West Asia began on February 28th. We do not appear to be closer to a resolution. The positions of the warring parties remain wide apart, as the negotiations are marked or marred by a lack of trust regarding the underlying motive for ceasing hostilities.*

*In the meantime, media and commentary of all hues and shades draw multiple, often contradictory conclusions about the relative winners and losers in the ongoing conflict. There is also more haze than visibility on the duration for which energy supplies will remain disrupted. The official Short-Term Energy Outlook (STEO) of the U.S. Energy Information Administration released on the 7th April provides a helpful timetable. It does not look pretty, but most seem to be unwilling to engage with reality. In the presence of pervasive uncertainty and distrust, it does not make sense to assume the best, as stock market investors seem to be doing.*

*From an economic perspective, energy – oil and gas – importers are worse off. That applies to most of Asia. However, inside Asia, some are better prepared with anticipated (or otherwise) inventory buildup and access to energy sources, sanctioned or not. Others less so. Countries like Japan and Canada have built up inventories of some petroleum products for 2 years or more. One enduring message for policymakers from the conflict is the need to build buffers of key commodities. That goes beyond energy. That has moved up the ladder of policy priorities and will remain there for the next decade or two as geopolitical conflicts intensify.*

*Some countries have begun to allow prices to be passed on to end-users – households and businesses. Some are yet to do so. But it is inevitable. During a period of supply disruption, demand has to moderate; failing that, countries will have to pay a much higher price for energy supplies. India's crude oil basket averaged USD 113 per barrel in March, and it is just under USD 115 per barrel for April until the 24th.*

*In the second week of April, the International Monetary Fund released its World Economic Outlook. With an assumption of USD 82 per barrel for the year, the Fund's overall macroeconomic forecasts appear more sanguine than they would otherwise be. In other words, the risks to the Fund's growth forecasts are heavily tilted to the downside, while inflation risks are tilted to the upside.*

*Many international agencies appear 'guilty' of assuming a swift restoration of normalcy to energy supplies. The forecasts do not appear to account for the time required to restore production and resume shipping. Even if both happen as quickly as the forecasts imply, it is anybody's guess as to when logistics costs will return to pre-conflict levels. Once prices move up, they're sticky. Further, in this situation, it is reasonable to expect they will remain sticky at higher levels because a permanent resolution of the conflict may remain elusive, even if immediate hostilities abate. As we wrote two months ago, strategic contest is different from the immediate conflict. The latter is only a symptom, one of the many acts in the drama that will unfold in the coming years and decades.*

*In this context, it will be a reasonable temptation for many countries to shore up near-term growth and preserve employment. However, macroeconomic stability is equally important, as anxious attempts to restore near-term growth may cause significant harm to medium to long-term growth prospects by destabilising external balances, the inflation outlook and the currency. Long-term growth and development aspirations will be significantly set back. That should be firmly kept in mind.*

*It is axiomatic in policy circles that crises should not be allowed to go to waste. This crisis is no exception. First, India should prioritise energy security and resilience. Of course, in doing so, it cannot substitute one import dependency for another. Vulnerability to sudden stoppages should not worsen. Getting public transportation right holistically will enhance both energy security and the liveability of Indian cities. This requires consensus-building with states, and the current crisis demands that all stakeholders come together. Second, the domestic decriminalisation and deregulation agenda need not be hostage to external developments. In particular, regulatory simplification that lowers the cost of imports and exports will be particularly valuable in these times. Third, this is the ideal time to unleash long-overdue policies (or eliminate them in some cases) that remove distorted crop choices and improve agricultural productivity. In India, the forecast of a below-normal, spatially uneven monsoon underscores the urgency of getting agricultural and water policies right. If not now, when? Fourth, boosting, encouraging and promoting AI-insulated (i.e., resilient to AI-driven labour displacement) durable trade skills among the Indian youth will not only boost domestic manufacturing and services but can also be a source of export earnings. India's employment challenge includes but transcends the impact of AI on Information Technology jobs alone.*

*Five and finally, the need for tax policy certainty and predictability has never been greater. As we mentioned earlier, the risks of excessive focus on short-term growth preservation should*

*not override the broader macroeconomic interests of attracting investment and boosting domestic capital formation. Indeed, there is no contradiction between the two in the end. India's merchandise trade deficit widened in FY2026 (USD 333.2 billion vs. USD 283.5 billion in FY25), as did the overall trade deficit (USD 119.3 billion vs. USD 94.7 billion). In FY27, the pattern is likely to repeat, with even wider deficits. So will the current account deficit. No doubt, it is encouraging that gross FDI inflows in FY26 have broken out of recent annual ranges, but the challenge only intensifies in FY27. In the meantime, other countries are not only weaponising supply chains but also investment flows, making it difficult for businesses – domestic or foreign – to relocate. India's task is cut out. All agencies will have to lend their shoulders to attracting capital flows. Tax policies, logistics, liveability for expats, a culture of research, development and innovation, and a skilled, fit and healthy population are the key elements.*

*If the ongoing conflict in West Asia results in meaningful action with durable effects on these fronts and more in this financial year, India will emerge with a much stronger foundation and platform for sustained high growth in the years to come.*

## ***Abstract***

*The West Asia crisis has weighed on India's industrial performance in early FY27, with the fertiliser sector bearing the brunt of disruptions to gas and chemical supplies. Business sentiment has softened, while e-way bill growth has declined from its near-30 per cent peak in November 2025, despite absolute numbers reaching record levels in March 2026. Other high-frequency indicators point to a degree of supply-side moderation in March, primarily reflecting the initial impact of escalating tensions in West Asia; however, demand-side indicators remain reasonably resilient. India's policy response to date has demonstrated an ability to manage immediate disruptions without losing sight of long-term priorities.*

*Inflation remains moderate at the consumer level (CPI at 3.4 per cent in March 2026), aided by policy measures to shield households from higher fuel prices. However, rising wholesale prices indicate emerging cost-push pressures that could transmit to consumer inflation if supply disruptions persist. Monetary policy has therefore maintained a cautious stance, keeping the repo rate unchanged at 5.25 per cent, while closely monitoring second-round effects.*

*Liquidity in the system remains in surplus, and the bank credit growth remains steady and broad-based. As of March 31, 2026, bank credit has grown by 17.1 per cent YoY, although the ongoing crisis in West Asia has slightly dampened bankers' optimism regarding loan demand and terms for Q1 FY27. However, financial instability is not a threat.*

*The country's trade performance in FY26 demonstrates resilience despite a volatile global trade environment. Total exports (goods and services) increased by 4.2 per cent YoY, reaching a record high of USD 860.1 billion. In addition, non-petroleum exports reached a historic peak of USD 387.8 billion, while services exports crossed the USD 400 billion mark for the first time, reaching USD 418.3 billion. However, the effects of the crisis in West Asia are evident in the trade statistics for March 2026, during which total exports and imports declined by 4.6 per cent and 5.7 per cent, respectively.*

*Monthly PLFS data for H2 FY26 suggest a gradual stabilisation in labour market conditions, with rising participation, declining unemployment, and range-bound monthly variations. The annual PLFS data show a compositional shift toward regular wage employment and non-farm activities. Separately, a NITI Aayog report highlights substantial growth in women's access to credit over the past decade.*

*Global growth, which expanded by an estimated 3.4 per cent in 2025, is projected by the IMF to slow to 3.1 per cent in 2026, with growth potentially falling to 2.0–2.5 per cent in adverse scenarios, while global inflation could rise to 5.4–6.0 per cent. In contrast, India remains a relative bright spot, with the IMF revising India's 2026 GDP growth upward to 6.5 per cent, underpinned by domestic demand, carry-over momentum, and a sharp reduction in US tariffs on Indian goods from 50 per cent to 10 per cent.*

*While the West Asia conflict constitutes a significant supply shock with rising risks to inflation, trade, and financial flows, India's domestic demand, policy buffers, resilient financial system, and sustained public investment provide some insulation. Whether they would prove adequate in the event of prolonged uncertainty about energy and fertiliser supplies is an important question. On top of this, the El Niño Southern Oscillation (ENSO) is expected to keep India's Southwest monsoon below normal. Most rainfall districts are expected to receive below-normal rainfall this season. Therefore, risks are tilted to the upside for inflation, fiscal and external deficits and to the downside for economic growth. However, while striving to sustain economic growth, policy is expected to safeguard medium-term fiscal and external stability.*

## Escalating Global Uncertainty and Supply Disruptions from West Asia Conflict

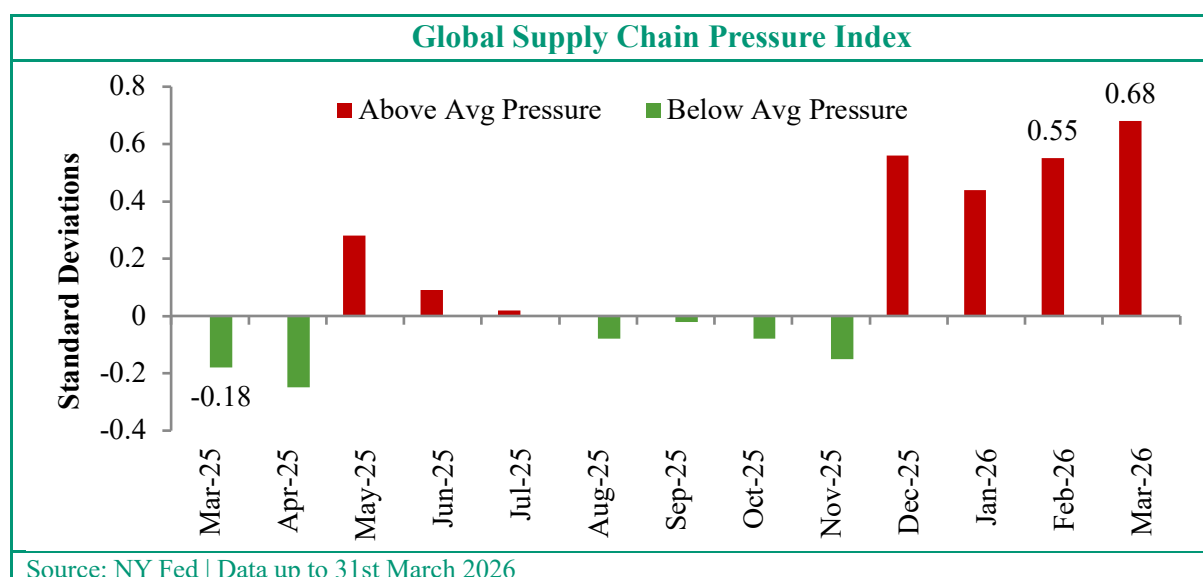
1. What began as a year of cautious optimism supported by easing inflation and resilient growth has been disrupted by the escalation of conflict in West Asia, causing concerns over the outlook for growth, inflation, fiscal and external deficits, capital flows and exchange rates in several parts of the world. The IMF's April 2026 World Economic Outlook (WEO) observed that the global economy demonstrated notable resilience through 2025, with growth estimated at 3.4 per cent, underpinned by relatively moderate US tariffs, accommodative financial conditions, continued fiscal support in major economies, and strong investment momentum in emerging technologies such as AI. However, this improving trajectory has since been derailed. The WEO now projects global growth slowing to 3.1 per cent in 2026 under its baseline reference scenario of a short-lived conflict, alongside a rise in inflation to 4.4 per cent. In more adverse, severe scenarios, characterised by prolonged energy disruptions and tighter financial conditions, growth could slow further to 2.0-2.5 per cent, while inflation may rise to 5.4-6.0 per cent, levels historically associated with significant economic slowdowns. The report also highlights that emerging markets and developing economies are likely to face relatively larger impacts, reflecting their greater sensitivity to commodity price volatility, exchange rate pressures, and external financing conditions.

2. However, India stands out as a rare bright spot in the April 2026 WEO — the IMF raised its real GDP growth forecast for FY2026-27 to 6.5 per cent, a 0.1 percentage point upgrade from January 2026 estimates, driven by strong carryover momentum from FY26, a significant reduction in US tariffs on Indian goods from 50 per cent to 10 per cent, and continued domestic demand strength outweighing the impact of the West Asian crisis. On inflation, the Fund projects consumer prices to rise to 4.7 per cent in the ongoing year, before easing back toward the RBI's 4 per cent target next year reflecting the risk of imported inflation from higher global energy and commodity prices.

Group of Economies	April WEO forecast for Growth for the year 2026	Change from Jan 2026 WEO forecasts (in percentage points)
Advanced Economies	1.8	-0.2
EMDEs	3.9	-0.3

3. It turns out that there are broader supply dependencies, beyond crude oil. Economies in the Gulf region remain important suppliers of fertilisers, energy products, and key industrial inputs that support sectors such as agriculture and electronics. Emerging pressures on global supply chains are becoming evident. In India, Port traffic grew by 0.7 per cent year-on-year (YoY) in March 2026. In fact, as of 23 April 2026, daily ship arrivals at four Major Indian Ports (Navi Mumbai, Vishakhapatnam, Mundra and Krishnapatnam) have declined by 40.6 per cent compared to the same period last year. The New York Fed's Global Supply Chain Pressure Index (GSCPI) had remained below its historical average for much of 2025. This has recently

moved into positive territory, rising to 0.68 standard deviation above its long-term mean in March 2026, which is its highest level in over two years, indicating a re-emergence of logistical constraints.



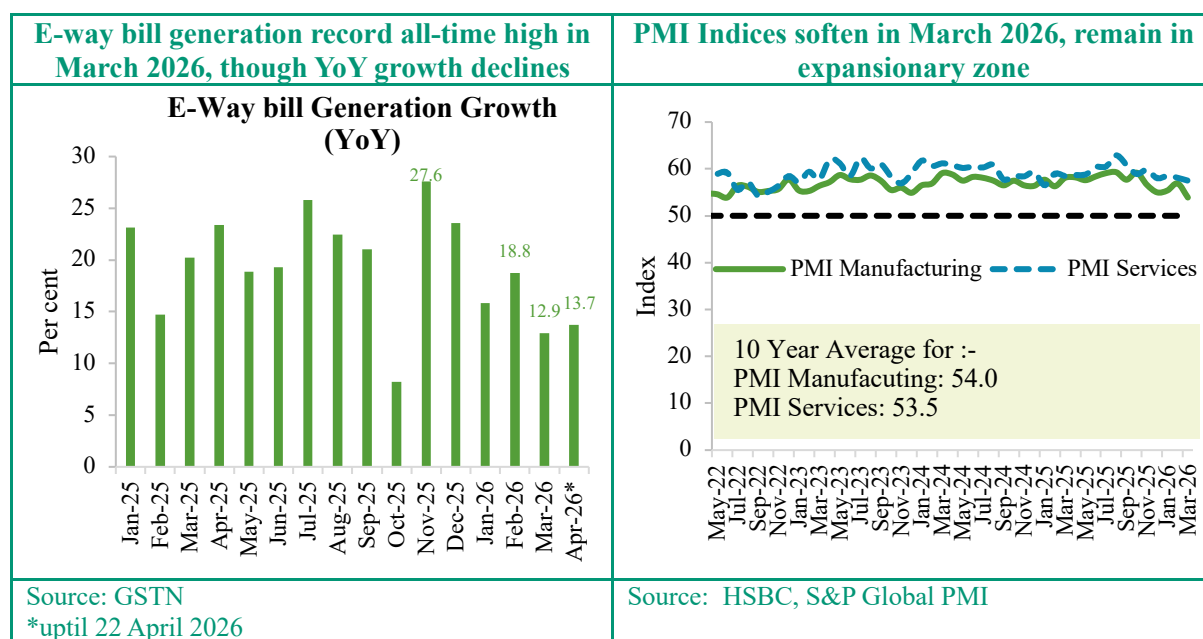
4. Such constraints translate into higher prices and inflation. Urea import prices into India stand at around US\$ 950/MT compared to US\$ 390/MT one year back. Ammonia import prices stand at around US\$ 775/MT compared to US\$ 365/MT one year back. While sulphur has seen a 157 per cent jump, chip prices (dynamic RAM 1-Gigabit) have risen 560 per cent from last year. As per the April WEO release, energy prices are projected to increase in 2026, with oil prices averaging approximately \$82/barrel (for a short-lived conflict) - \$100/barrel (in an adverse scenario of prolonged conflict) - and \$110/ barrel (in a worst-case severe scenario of energy disruptions continuing into the next year), sharply up from \$67.74 in 2025. These elevated price pressures may contribute to a more challenging policy trade-off between growth and inflation, particularly for commodity-importing economies, impacting their budget arithmetic adversely.

5. Uncertainty regarding the duration and extent of disruptions remains elevated, thus leading to a prolonged strategic contest. Damage to energy infrastructure and production curtailments in key producing regions may take time to normalise, even under relatively favourable conditions. While production levels could gradually recover over the course of 2026, some persistence in risk premia across freight, insurance and contractual arrangements appears likely. Taken together, the global economy is likely to navigate a period characterised by elevated risks and a more complex external environment.

## Economic performance remains resilient, though shaken

6. Amidst the continuing uncertainty, India’s economic performance, based on high-frequency indicators, remains largely resilient, with some incipient signs of stress visible in March 2026. In absolute terms, E-way bill generation touched an all-time high of 140.6 million

in March 2026, though the growth rate has been declining since its recent peak in November 2025. April data up to 22 April 2026 show continued resilience in goods movement, registering 13.7 per cent YoY growth, compared with 12.9 per cent in March 2026. PMI trends indicate an expansionary zone, albeit with easing momentum. Manufacturing PMI eased to 53.9 in March 2026 from 56.9 in February, its lowest level since June 2022. The PMI Services declined to 57.5 in March 2026 from 58.1 in February 2026. The slowdown reflects softening output and new orders linked to global supply disruptions (non-availability), as well as a sharp increase in input costs across key commodities such as fuels, chemicals, and metals.

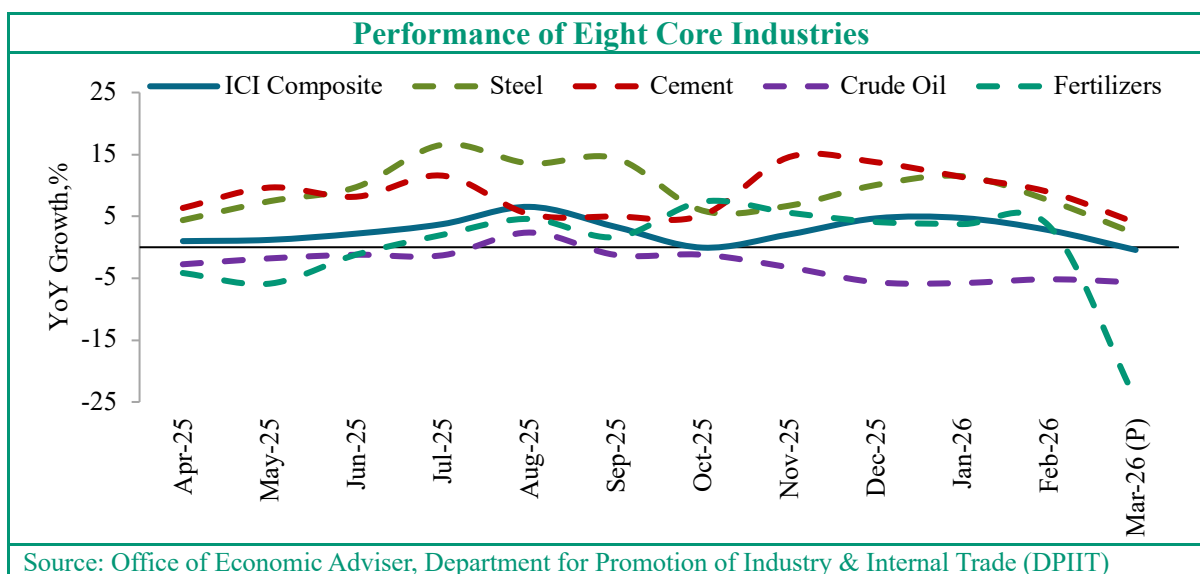


7. The combined Index of Eight Core Industries (ICI), which accounts for 40.27 per cent of the total weight of items included in the Index of Industrial Production (IIP), declined marginally by 0.4 per cent (provisional) in March 2026 over March 2025, reflecting the broadening impact of the West Asia crisis on India's energy and input supply chains.<sup>1</sup> Fertiliser production contracted by 24.6 per cent in March 2026, given that the feedstock supply of natural gas was restricted at 70 per cent of their last six months' average consumption<sup>2</sup> (later raised to 95 per cent). Existing stockpiles of fertilisers can ensure a comfortable supply for the Kharif season, though a lingering concern for the Rabi season, if the situation persists. The electricity and coal sectors also contracted by (-) 0.5 per cent and (-) 4 per cent, respectively, though they were expected to pick up the fuel substitution demand. While India's mature domestic fields have typically recorded declining crude and natural gas output over time, rising LNG prices and domestic demand pressures have driven a 6.4 per cent growth in natural gas output, a clear break from the prevailing trend. Cement and Steel output increased by 4.0 per cent and 2.2 per

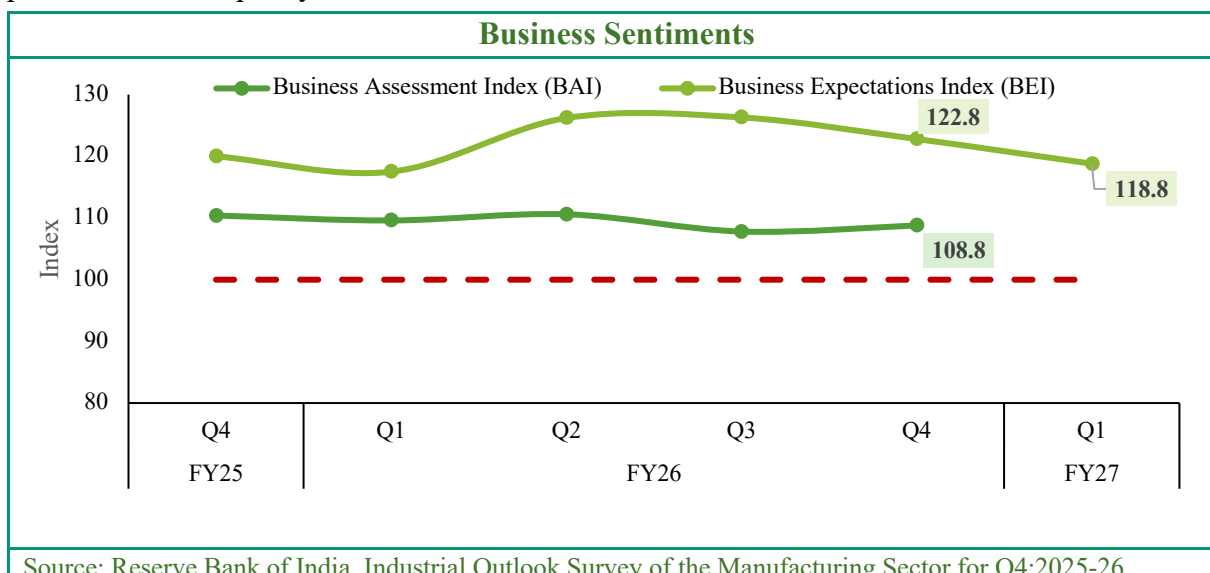
<sup>1</sup>The cumulative growth for the full year 2025-26 (April-March) stands at 2.6 per cent (provisional) as against 4.5 per cent last year. <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2253812&reg=3&lang=1>

<sup>2</sup> <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2237803&reg=3&lang=2>

cent, respectively, in March 2026, still lagging the 12.2 per cent and 8.7 per cent growth registered in the corresponding period last year.



8. Business sentiments indeed reflect a more cautious outlook. According to the RBI Industrial Outlook Survey for Q4:2025-26<sup>3</sup>, manufacturers reported moderated optimism due to rising input costs and a decline in export orders. The Business Expectations Index (BEI) remains in expansionary territory at 118.8 for Q1:2026-27, though it has eased from the 122.8 recorded in the previous quarter, signalling that firms expect a temporary softening in production and capacity utilisation.<sup>4</sup>



9. The infrastructure sector, however, indicated robust optimism regarding business conditions for the first quarter of FY27 as per the RBI’s flash survey of infrastructure

<sup>3</sup> <https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=23801>

<sup>4</sup> BAI/BEI gives a snapshot of demand conditions in the manufacturing sector by combining nine parameters – (1) overall business situation, (2) production, (3) order books, (4) inventory of raw material, (5) inventory of finished goods, (6) profit margin, (7) employment, (8) exports and (9) capacity utilisation. A value above 100 indicates an expansion of the overall business activity and value below 100 indicates contraction.

companies.<sup>5</sup> In February 2026, around 268 new central sector projects costing over ₹150 crore were initiated, maintaining strong demand for industrial materials.<sup>6</sup> Domestic energy security is bolstered by the Prototype Fast Breeder Reactor (PFBR) at Kalpakkam achieving first criticality in April 2026—a landmark milestone in India’s three-stage nuclear program that promises reliable, low-carbon baseload power.<sup>7</sup> The approval of Tata Electronics’ ₹91,000 crore semiconductor fabrication facility in Dholera, Gujarat, alongside the notification of a dedicated electronics SEZ in April 2026,<sup>8</sup> reflects a calibrated push toward high-technology, cluster-based industrialisation and the creation of domestic capability in critical supply chains. Additionally, to support the broader industrial base, the collateral-free loan limit for MSMEs under the Credit Guarantee Scheme has been enhanced from ₹10 lakh to ₹20 lakh w.e.f. 1 April 2026.<sup>9</sup> Collectively, these measures reflect a calibrated effort to deepen India’s manufacturing capabilities and enhance supply-chain resilience against a backdrop of global geopolitical uncertainty.

10. In sum, India’s industrial landscape in early FY27 presents a study in contrasts. While the ongoing crisis has exposed vulnerabilities in energy and input supply chains that warrant vigilance, the resilience demonstrated by the infrastructure sector is not accidental. It reflects a deliberate strategy forged in the aftermath of the pandemic, when policymakers responded to economic disruption with long-term investment. That same instinct is now being applied to initiatives that will strengthen domestic energy capacity and build more resilient, self-reliant supply chains.

11. While supply-side stresses are becoming increasingly evident, demand conditions still appear reasonably robust. Retail vehicle sales in March 2026 recorded strong year-on-year growth of 25.3 per cent, reflecting stable demand across segments. Growth was broad-based, with two-wheelers rising by 28.7 per cent, passenger vehicles by 21.5 per cent, and commercial vehicles by 15.1 per cent, indicating improving rural demand alongside steady urban consumption and freight activity. In March 2026, tractor sales increased by 10.9 per cent year on year; however, there was a sequential decline of 8.2 per cent over February 2026 sales, indicating the beginning of a cautious approach to spending.

12. The Reserve Bank of India’s Consumer Confidence Survey for rural and urban regions in March 2026 indicates a weakening sentiment. The Current Situation Index for the rural economy slipped into pessimistic territory, aligning with the already subdued urban reading. The Future Expectations Index also moderated, although it remained in the optimistic zone.

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<sup>5</sup> <https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=23802>

<sup>6</sup> MoSPI 484<sup>th</sup> Flash Report on Central sector Infrastructure Projects (₹150 crore & above), February 2026 available at [https://ipm.mospi.gov.in/Content/PDF/FlashReport\\_February\\_2026.pdf](https://ipm.mospi.gov.in/Content/PDF/FlashReport_February_2026.pdf)

<sup>7</sup> <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2249783&reg=3&lang=2>

<sup>8</sup> <https://egazette.gov.in/WriteReadData/2026/271759.pdf>

<sup>9</sup> <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2240590&reg=3&lang=1>

Households' perceptions of employment, overall economic conditions, and inflation softened across both the current period and the year-ahead horizon.

13. Looking ahead, demand conditions and economic activity will be influenced by emerging pressures stemming from rising input prices and supply chain constraints. However, as the fragile peace holds on with the ceasefire, we expect the situation to improve in H2 of 2026. In addition, measures have been undertaken across sectors to mitigate the impact of the recent crisis, as detailed in **Annexure II**.

## An assessment of fiscal space

14. As the evolving West Asia conflict begins to exert pressure on economic activity, it will have direct implications for both revenue realisation and expenditure commitments in 2026-27. Notwithstanding these emerging headwinds, the Centre enters the fiscal year from a position of relative prudence. The fiscal consolidation path adhered to in recent years, coupled with the Budget's conservative assumption of a gross tax revenue buoyancy of 0.8, which is below the historical average, and the creation of an Economic Stabilisation Fund in the public account, provides room for fiscal interventions. The latter specifically offers flexibility to absorb near-term shocks of mild intensity without immediately deviating from the fiscal deficit target.

15. At the same time, an assessment of fiscal space at the Union level must be complemented by a consideration of the fiscal position of States, given their critical role in aggregate public spending. The aggregate State-level fiscal landscape for 2026-27 continues to exhibit significant divergence. Among the 18 states analysed, nine are revenue deficit states, and 13 are budgeting a fiscal deficit<sup>10</sup> at or above 3 per cent of GSDP, with ten states projected to remain above the 3.0 per cent fiscal deficit threshold. State Budgets exhibit a long-run trend of considerable divergence between Budget Estimates and Budget Realisations. The degree of fiscal marksmanship varies from State to State. Added to this, FY 2026-27 being the first year of the 16<sup>th</sup> FC period, the implications of the FC Award (especially the changes in devolution share and the absence of Revenue Deficit Grant) and how these have been reflected in the individual States' budget numbers need further analysis. However, a preliminary analysis based on the numbers as budgeted for the FY 2026-27<sup>11</sup> is attempted below.

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<sup>10</sup> Fiscal Deficit = Total Expenditure – Total Non-Debt Receipts  
= (Revenue Expenditure + Capital Expenditure) – (Revenue Receipts + Non-Debt Capital Receipts)  
= (Revenue Expenditure – Revenue Receipts) + Capital Expenditure – Non-Debt Capital Receipts  
= Revenue Deficit + Capital Expenditure – Non-Debt Capital Receipts

<sup>11</sup> This excludes Tamil Nadu and West Bengal as states have presented only the interim budget so far.

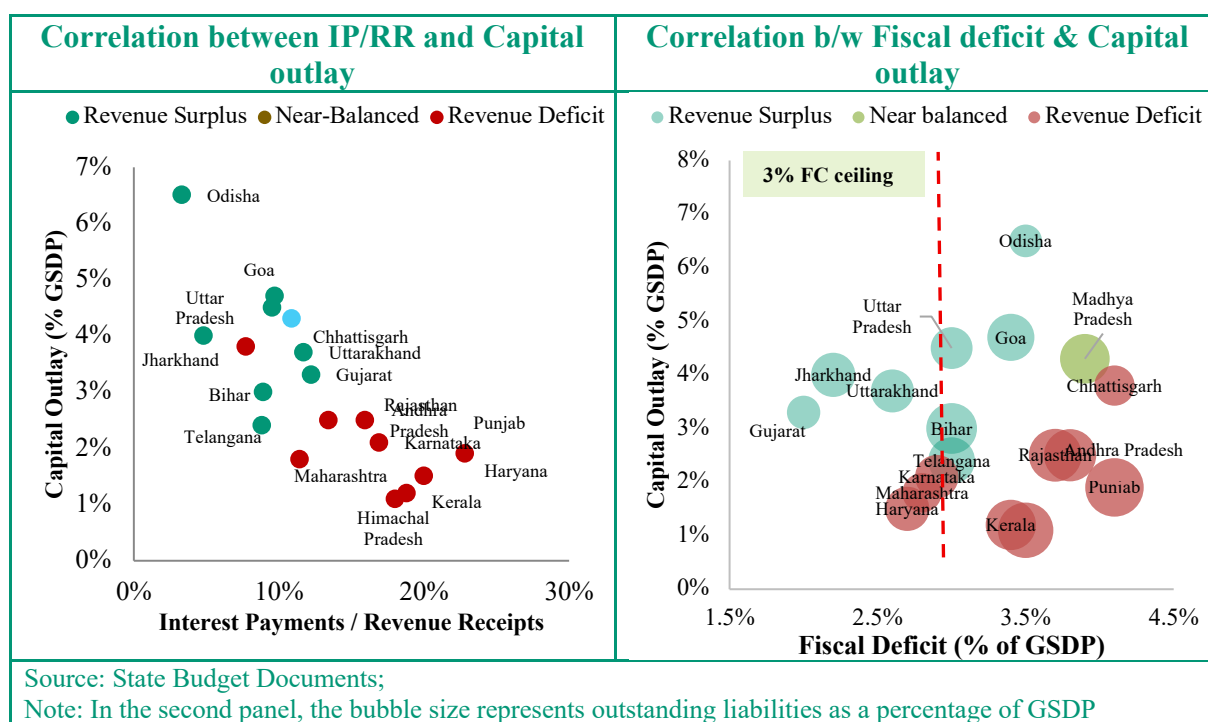
## State Fiscal Indicators: FY2026-27 Budget Estimates

State	Fiscal Deficit inclusive of SASCI loans (as % GSDP)	Outstanding Liabilities (% GSDP)	Revenue Balance (% GSDP)	Interest Payments (% Revenue Receipts)	Capital Outlay (% GSDP)@	Rev. Exp. to Capital Outlay (ratio)	Own Revenue Receipts (% Total RR)
<b>Revenue Surplus States</b>							
Odisha	3.50%	14.10%	3.00%	3.30%	6.50%	2.99	56.70%
Jharkhand	2.20%	25.80%	2.50%	4.80%	4.00%	4.87	49.00%
Uttar Pradesh	3.00%	23.10%	1.60%	9.50%	4.50%	3.74	49.60%
Goa	3.40%	29.30%	1.30%	9.70%	4.70%	3.61	70.70%
Gujarat	2.00%	14.70%	0.80%	12.20%	3.30%	2.30	71.40%
Uttarakhand	3.40%	28.5%	0.59%	11.70%	4.24%	3.58	46.80%
Telangana	3.00%	28.70%	0.30%	8.80%	2.40%	4.96	76.20%
Bihar	3.00%	34.00%	0.10%	8.90%	3.00%	7.22	26.40%
<b>Average</b>	<b>2.94%</b>	<b>24.24%</b>	<b>1.27%</b>	<b>8.61%</b>	<b>4.08%</b>	<b>4.16</b>	<b>55.85%</b>
<b>Near-Balanced States</b>							
MP	3.90%	32.50%	0	10.90%	4.30%	3.91	46.00%
<b>Revenue Deficit States</b>							
Chhattisgarh	4.10%	21.40%	-0.30%	7.70%	3.80%	5.47	54.00%
Maharashtra	2.80%	20.40%	-0.70%	11.40%	1.80%	6.74	73.30%
Karnataka	2.90%	25.00%	-0.70%	16.90%	2.10%	4.70	74.90%
Haryana	2.70%	25.80%	-0.90%	20.00%	1.50%	7.32	79.00%
Rajasthan	3.70%	36.80%	-1.10%	13.40%	2.50%	6.49	58.70%
AP	3.80%	36.00%	-1.10%	15.90%	2.50%	5.26	58.60%
Kerala	3.40%	33.40%	-2.10%	18.80%	1.20%	11.18	63.00%
Punjab	4.10%	45.10%	-2.20%	22.80%	1.90%	8.06	68.60%
HP	3.50%	40.50%	-2.40%	18.00%	1.10%	15.19	47.70%
<b>Average</b>	<b>3.44%</b>	<b>31.60%</b>	<b>-1.28%</b>	<b>16.10%</b>	<b>2.04%</b>	<b>8.31</b>	<b>64.20%</b>
<b>Notes</b>							
@ Capital outlay is capital expenditure – loans and advances by the state governments; Capital outlay broadly refers to expenditure incurred on capital goods, services, investments, etc.							
The 16 <sup>th</sup> Finance Commission has limited states' borrowing to 3 per cent of their GSDP. SASCI loans are not included while fixing the borrowing limits for States; However, SASCI funded expenditure is part of the capital outlay as presented here, and hence for better comparison, it is included in the Fiscal Deficit calculations as well.							

16. Notably, eight states which have budgeted revenue surpluses for 2026-27, save for Telangana, have their capital outlay as a percentage of state GDP higher than their projected fiscal deficit, i.e., their borrowings are financing assets, not consumption. Odisha's capital outlay of 6.5 per cent of GSDP illustrates this directly. Odisha's fiscal deficit of 3.5 per cent

breaches the 3 per cent norm, but its revenue surplus of +3.0 per cent and sustained capex intensity mark it as a case of deliberate investment rather than fiscal stress. On the other hand, among the revenue-deficit states, higher fiscal deficits obviously do not correlate with greater capital outlay. States that are unable to maintain the golden rule of fiscal financing, that is, zero revenue deficit, will face increased stress as a result of the present crisis.

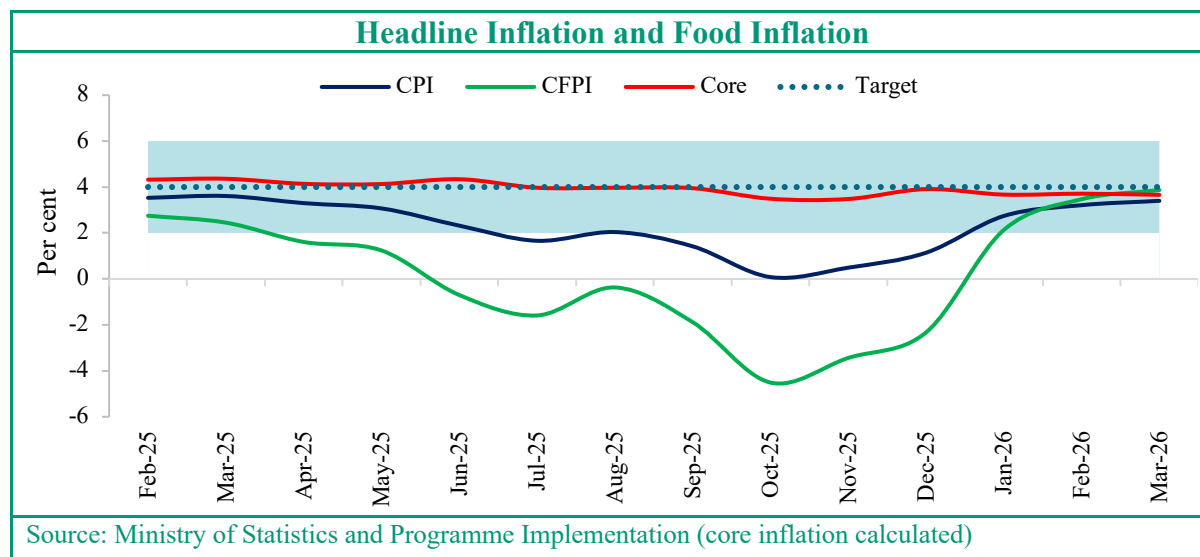
17. The revenue surplus states are aided by lower interest payments, providing them with resources for a higher capital outlay. Conversely, revenue-deficit states are constrained by the debt servicing obligations and carry, on average, significantly higher outstanding liabilities than revenue-surplus states (as reflected by the size of the bubbles), and many of them spend more than 15 per cent of their revenue receipts on interest payments. States simultaneously running a revenue deficit and high outstanding liabilities have fewer degrees of freedom to respond to fiscal shocks. Specifically, they may have to resort to expenditure restructuring or may demand higher central transfers to meet the present unforeseen shocks.



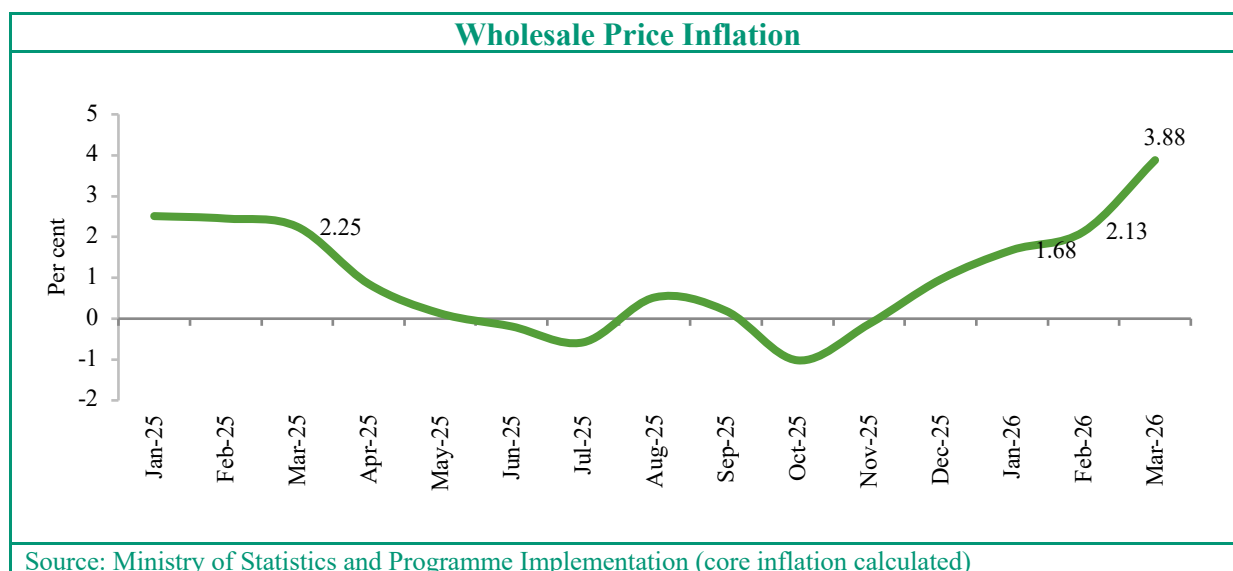
18. Stressed states with compressed fiscal space make demands on the Centre at precisely the moment that the Centre is attempting consolidation. With aggregate state liabilities in several cases approaching or exceeding 35–45 per cent of GSDP, the general government debt picture is influenced by developments at the sub-national level. Bringing that trajectory down requires consolidation at both levels of Government.

## Moderate inflation

19. Retail inflation rose 20 basis points to 3.4 per cent in March 2026, from 3.2 per cent in February. Food inflation rose by a higher margin (from 3.47 per cent to 3.87 per cent), and the core inflation, which approximates the underlying inflation in the economy, has been stable at around 3.7 per cent.

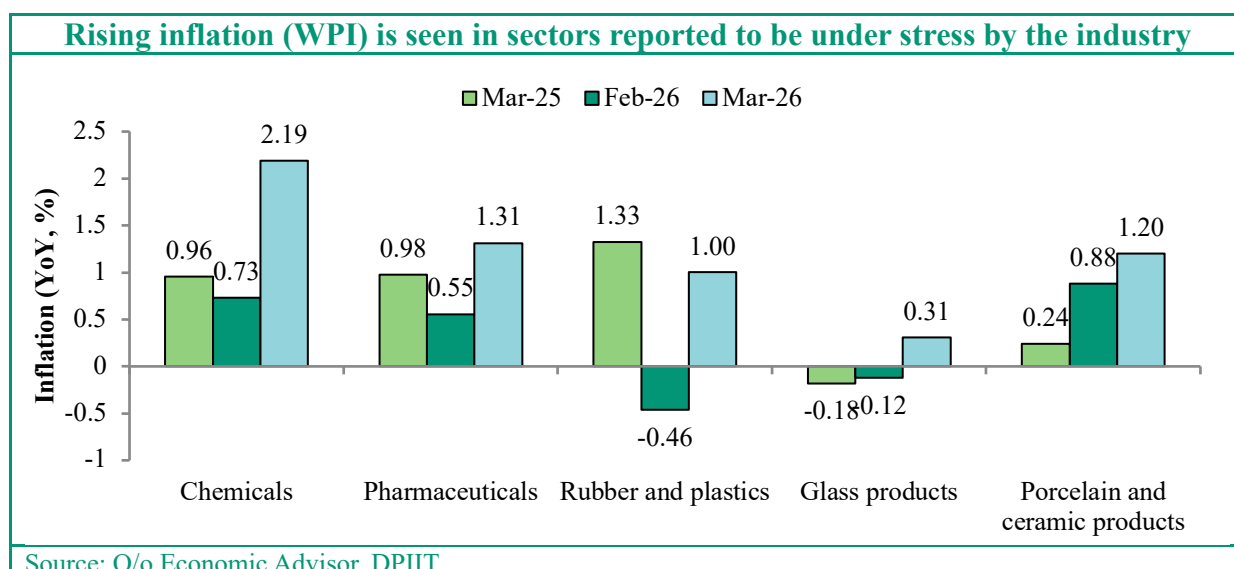
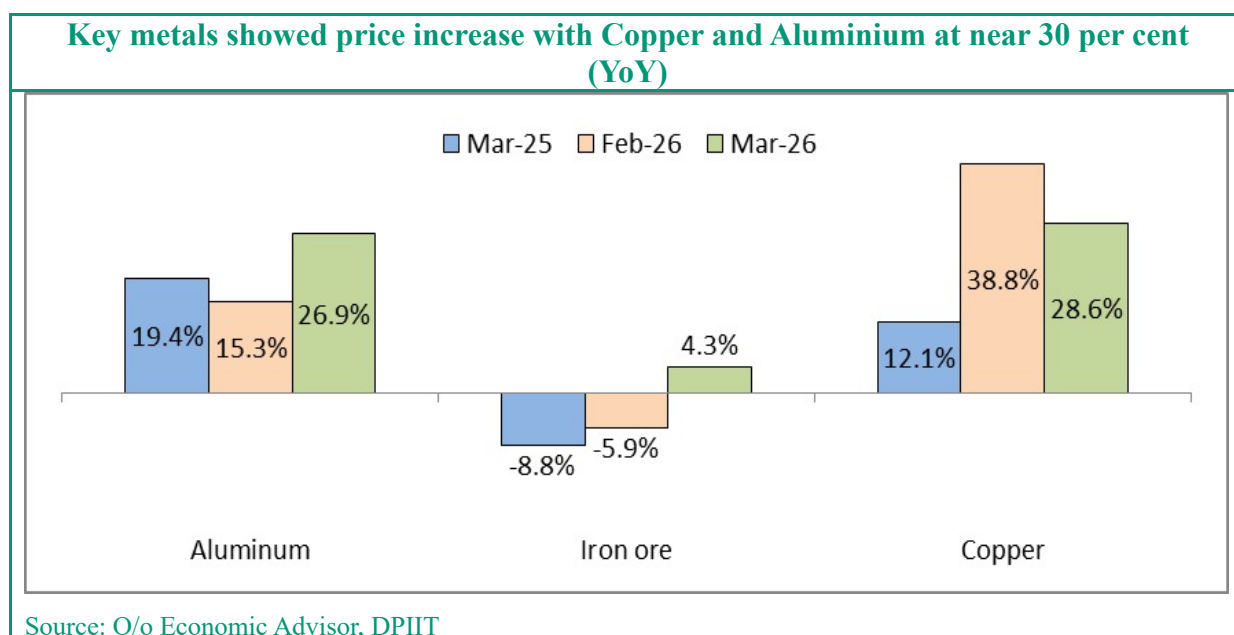


20. Among broad ‘divisions’ of the new CPI series, inflation rates in all categories were rangebound (well below the upper threshold of 6 per cent) except in the ‘personal care et al.’ division. Like in February, the soaring prices of gold and silver jewellery have brought inflation in the ‘personal care et al.’ division close to around 18 -19 per cent in March also.



21. However, the wholesale price index witnessed sharper price movements post the conflict, indicating that price pressures might be passed on in the coming months, if the situation persists. The jump from 2.13 per cent to 3.88 per cent, nearly 175 basis points in a

single month, is large by recent historical standards and confirms that the energy and commodity shock is transmitting rapidly at the wholesale level. Critical industrial commodities and sectors affected by the crisis have seen a price surge. The risks are tilted toward persistence rather than quick reversal of the price pressures.

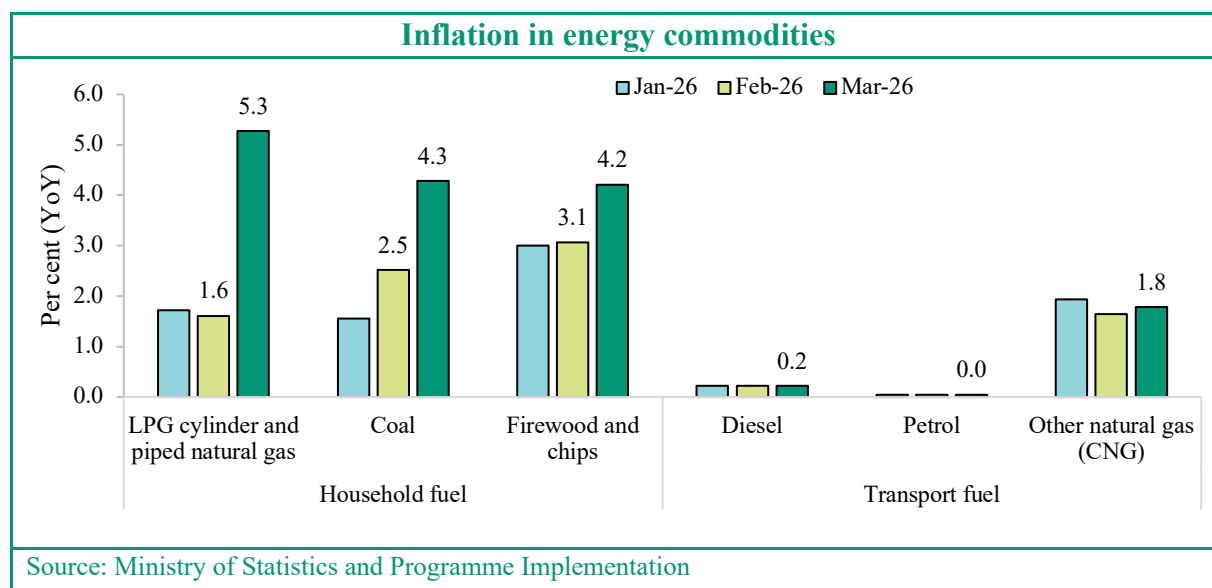


### Limited impact of oil price shock

22. Since the war began, global oil prices have increased, with greater day-to-day volatility. The representative Indian basket, a derived basket comprising sweet grade (Brent Dated) and sour grade (Oman & Dubai average), remains higher at \$ 114.46/barrel, on average, for April 2024 (as on 24<sup>th</sup> April 2026) compared to \$113.5/barrel for March 2026.

23. The rise in oil prices influences headline inflation, directly and indirectly. The most immediate effect can be seen in the domestic fuel prices, while the subsequent effects are felt

in other commodity/ service prices through increased transport and input costs. In March 2026, inflation in the household fuel category increased, but that in transport fuel was muted as petrol and diesel prices were not raised for citizens. The price of LPG has increased by 370 basis points. Consequently, prices of substitute commodities such as coal and firewood have also increased by 180 bps and 110 bps, respectively. Pump prices of petrol and diesel haven't changed, but CNG inched up marginally. Since the relative weightage of transport fuel in the revised CPI series (4.9 per cent) is higher than that of the household fuels (3 per cent), any rise in transport fuel is likely to have a more immediate (direct) impact on the headline inflation.



24. While the domestic pass-through of global oil price shocks remains contained so far, evolving global energy market conditions pose significant upside risks to inflation, as outlined in Box 1.

### Box 1: Tighter Global Energy Market in 2026

The Short-Term Energy Outlook (April 2026) of the U.S. Energy Information Administration (EIA), the statistical and analytical agency within the U.S. Department of Energy, highlights the current phase of heightened volatility in global energy markets, primarily driven by supply disruptions due to the closure of Strait of Hormuz, and describes the future course. Brent crude oil prices are projected to rise sharply from \$69 per barrel in 2025 to \$96 in 2026, before moderating to \$76 in 2027 as supply conditions gradually normalize. Major producers such as Saudi Arabia, Iraq, UAE, Kuwait, Qatar, and Bahrain have experienced substantial production shut-ins. The EIA estimates that total disruptions would increase from about 7.5 million barrels per day (mb/d) in March 2026 to a peak of 9.1 mb/d in April, before declining to 6.7 mb/d in May, assuming conflict does not persist beyond April.

### Estimated Strait of Hormuz closure-related disruptions in crude oil production

(thousand barrels per day)

Country	Production Feb-26	Estimated Shut-ins Mar-26	Forecast Shut-ins				
			Apr-26	May-26	Jun-26	Q3'26	Q4'26
Kuwait	2,560	1,250	EIA forecasted aggregate disruptions				
UAE	3,600	1,110					
Iraq	4,370	2,820					
Qatar	616	316					
Bahrain	193	130					
Saudi Arabia	10,400	1,900					
<b>Total</b>	<b>21,739</b>	<b>7,526</b>	<b>9,096</b>	<b>6,713</b>	<b>4,947</b>	<b>2,173</b>	<b>168</b>

Source: US Energy Information Administration, *Short-term Energy Outlook, April 2026*

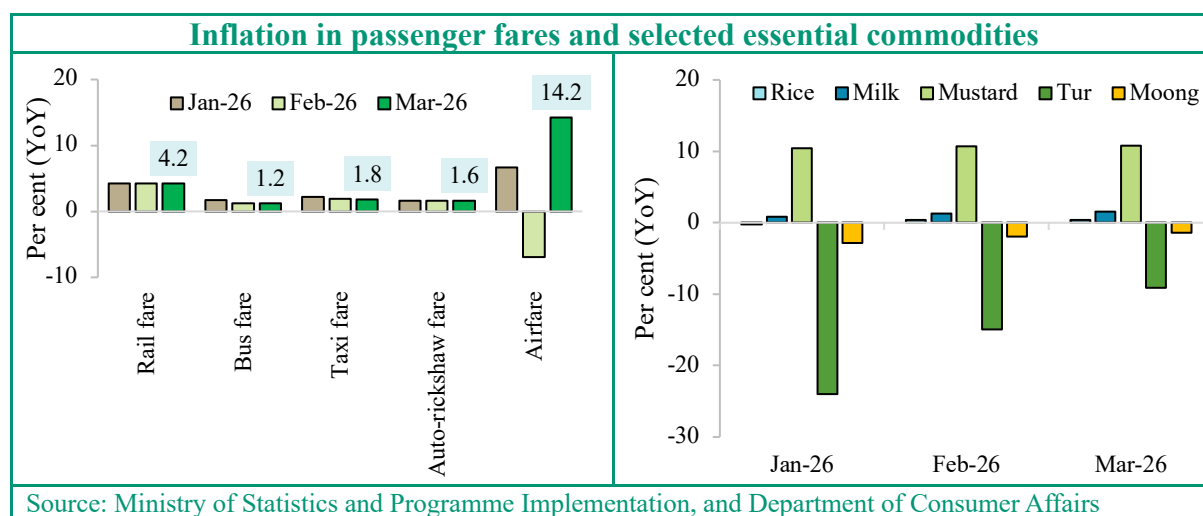
The supply shock has led to sharp global inventory drawdowns of 5.1 mb/d in the second quarter of 2026 and pushed Brent prices to a peak of around \$115 per barrel in the same period, with price pressure continuing due to uncertainty and logistical constraints. However, in the subsequent quarters, an easing of production conditions – a gradual build-up of global oil inventories, a reduction in production shut-ins, and a gradual moderation of oil prices – is expected, assuming hostilities are not prolonged. Notably, the forecast revisions in April 2026 show tighter conditions in the global energy market, during 2026 as a whole, than expected in their March 2026 outlook. Brent prices for 2026 have been revised up by 22 per cent (from \$79 to \$96) and for 2027, by 18 per cent (to \$76 from \$64). Global oil inventories are now expected to decline by 0.3 mb/d in 2026, compared to an earlier projected build of 1.9 mb/d, reflecting tighter supply conditions. OPEC+ crude oil production has been revised downward to 41.7 mb/d in 2026 (a 5 per cent reduction from earlier estimates), while remaining broadly unchanged for 2027.

On the demand side, the global oil demand growth is expected to moderate to 0.6 mb/d in 2026 due to high prices, supply shortages, and demand adjustments, particularly in Asia. However, demand is expected to rebound strongly in 2027 to 1.6 mb/d as supply conditions improve. Overall, the outlook suggests that 2026 will be characterised by supply shocks, tight market conditions, and elevated prices, while 2027 is expected to witness gradual stabilisation with easing prices, recovery in supply, and stronger demand growth.

25. Inflation in passenger fares across different modes of transport, however, has not changed much, except for double-digit inflation in airfare (14.2 per cent), driven by the recent partial and staggered increase in Air Transport Fuel (ATF) prices for domestic airlines by the oil marketing companies. Although the Government passed on an increase in global fuel prices in select categories,<sup>12</sup> it kept petrol and diesel pump prices unchanged at pre-war levels. The

<sup>12</sup> Oil Marketing Companies have increased Aviation Turbine Fuel (ATF) prices for domestic airlines by 25% (about ₹15/litre), Administered Price Mechanism (APM) gas prices for state-run companies like ONGC and Oil

recent reduction in excise duty on petrol and diesel by ₹10 per litre each, bringing petrol duty to ₹3/litre and diesel duty to zero, helped offset losses for public-sector oil companies from the high global prices. The price movements of key essential commodities in March are also not much different from pre-conflict levels.



### ‘Wait and watch’ approach of monetary policy

26. In its bi-monthly meeting in April 2026, the Monetary Policy Committee (MPC) decided to keep the policy (repo) rate unchanged at 5.25 per cent and maintained a ‘neutral’ stance. The Committee evaluated the disruptions in the global energy market as a ‘supply shock’ to India’s economy and recognised the risks they pose to inflation and economic growth. However, the Committee assessed that the fundamentals of the economy – robust private consumption and investment demand and indications of strong momentum in economic activity – are strong enough to provide greater resilience to withstand the shocks. More importantly, the MPC reasoned that the headline inflation is below the target, and inflationary pressures reflected in the core measure (showing the spillover/second-round effect of the price shock) remain muted. In general, the MPC has adopted a cautious “wait and watch” approach in deciding the future course of monetary policy. The MPC forecasts CPI inflation at 4.6 per cent for 2026-27, with quarterly inflation estimated at 4.0 per cent in Q1, 4.4 per cent in Q2, and 5.2 per cent in Q3, before moderating to 4.7 per cent in Q4. The neutral approach provides the MPC the flexibility to respond proactively to evolving circumstances.

### Monetary and financial sector developments

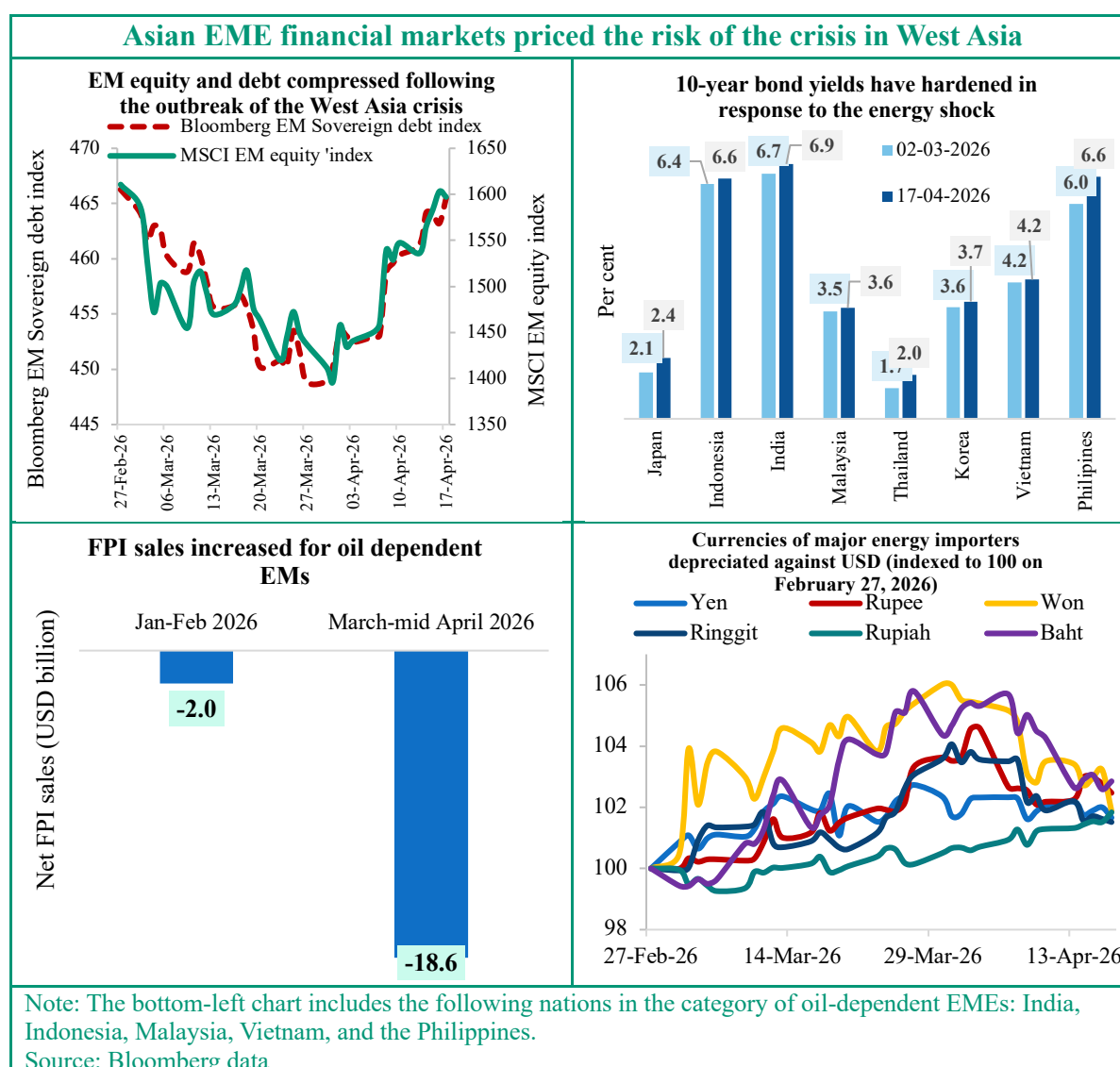
27. Globally, financial markets experienced significant declines following the outbreak of the West Asian conflict on February 28, 2026. For emerging markets that are highly dependent on oil imports, the crisis created pressure points in the form of currency depreciation, capital

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India have been raised to \$7/mmBtu, premium petrol prices are increased by about ₹2 per litre and industrial diesel by around ₹22 per litre and commercial LPG prices were raised by over 10% from April 1st

outflows, and a hardening of long-term yields. Furthermore, valuations declined across emerging market equity and debt categories. However, following signals of de-escalation towards the end of March, equity, debt and currency markets began to show a gradual rebound in April 2026.

28. As the IMF’s April 2026 Global Financial Stability Report observes, the current disruption to financial markets occurs in the backdrop of increasing fissures within the global financial system. These include stretched asset valuations, rising leverage by non-bank financial intermediaries and weakened public debt sustainability across several emerging markets. Taken together, these underlying fragilities have rendered global financial conditions more susceptible to episodic stress, such as that triggered by the recent West Asian conflict.



29. As an oil-import-dependent, large emerging market, India experienced currency depreciation following a large net sell-off by foreign investors. At the same time, long-term yields rose to account for the predicted rise in imported inflation. Equity markets registered a sharp decline, with the SENSEX falling 3.43 per cent between February 27, 2026, and April 17, 2026. In response to these pressures, the RBI instituted a range of temporary measures to

manage volatility, including a cap of USD 100 million (at the end of each business day) on banks' net open positions in the domestic currency market and norms to limit arbitrage opportunities for currency traders.

## Monetary Developments

30. In terms of liquidity, the overall system liquidity, as indicated by the net position under the Liquidity Adjustment Facility (LAF), currently reflects a surplus. To ensure adequate liquidity within the banking system, the RBI has implemented both durable and transient liquidity measures. These measures include conducting open market operations (OMO) purchase auctions totalling ₹1,50,000 crore, as well as executing a long-term foreign exchange buy/sell swap auction totalling USD 10 billion in February and March 2026. Consequently, in March 2026, the average daily net absorption under the LAF was recorded at ₹1.7 lakh crore, which subsequently increased to ₹3.5 lakh crore by April 2026 (up to April 6, 2026). Moving forward, the RBI will continue to maintain a proactive and pre-emptive approach to liquidity management, ensuring adequate liquidity within the banking system to fulfil the productive needs of the economy.

31. Due to sufficient liquidity in the financial system, monetary policy transmission to the credit market has been effective. During the easing cycle spanning from February 2025 to February 2026, the repo rate has been decreased by 125 basis points. Concurrently, the weighted average lending rate of Scheduled Commercial Banks (SCBs) on fresh and outstanding rupee loans declined by 89 basis points (a 92-basis-point decline due to the interest rate effect) and 87 basis points, respectively. On the deposit side, the weighted average domestic term deposit rate on fresh and outstanding deposits decreased by 97 basis points and 47 basis points, respectively, over the same period.

## Bank Credit

32. In FY26, the trajectory of bank credit by SCBs has shown a consistent upward trend since May 2025. As of March 31, 2026, bank credit grew by 17.1 per cent (YoY), up from 11 per cent a year ago. This growth in bank credit has been broad-based.<sup>13</sup>

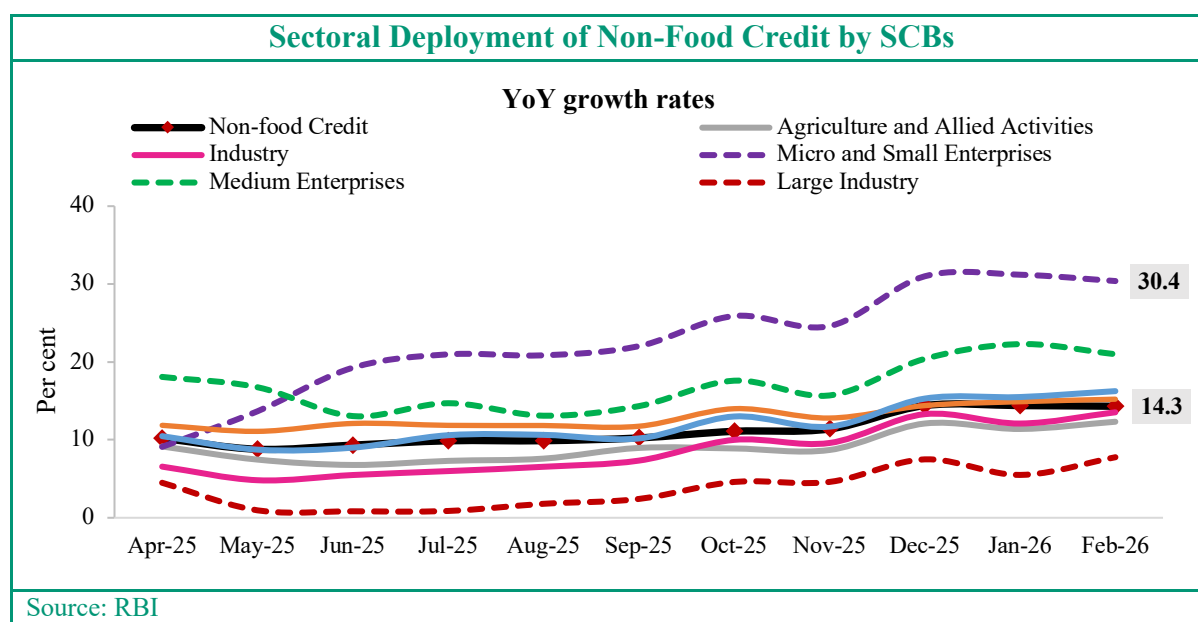
33. As per the latest data available on the sectoral deployment of credit by the SCBs as of February 2026, YoY growth rates for overall bank credit and non-food credit are 14.5 per cent and 14.3 per cent, respectively, increasing from 11.1 per cent (YoY) in the corresponding period of FY25. In terms of sectoral deployment of non-food credit, among the categories of agriculture and allied activities, industry, services and personal loans, the highest YoY growth has been observed in the services sector, with a growth of 16.3 per cent (YoY) in February 2026, up from 11.7 (YoY) per cent in February 2025. A significant factor contributing to this growth is a rise in credit for shipping and computer software, which have registered growth of

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<sup>13</sup> RBI's Weekly Statistical Supplement dated April 17, 2026: <https://tinyurl.com/4abdreyd>.

(YoY) by 41.7 per cent and 39.7 per cent, respectively, in February 2026, increasing significantly from 8.1 per cent and 22.3 per cent in February 2025.

34. Within the industry, the bank credit to the MSME sector continues to show momentum and remains robust. In February 2026, bank credit to this sector rose 27.5 per cent YoY, compared with 12.1 per cent in February 2025. Within the MSME sector, credit extended to micro and small enterprises increased by 30.4 per cent (YoY), up from 9.6 per cent during the same period.<sup>14</sup>



35. The total flow of resources to the commercial sector has increased alongside the rise in bank credit. As of March 31, 2026, the total flow of resources reached ₹44.7 lakh crore, reflecting a growth rate of 38.2 per cent (YoY). This significant increase can be attributed to several key drivers, notably the non-food bank credit, which increased to ₹29.2 lakh crore from ₹18.1 lakh crore as of March 31, 2025. Additionally, among non-bank sources, corporate bond issuances and external commercial borrowings by non-financial entities have demonstrated substantial growth, increasing by 123 per cent (YoY) and 154.1 per cent (YoY), respectively.

36. According to the RBI's Bank Lending Survey for Q4 FY26, the prevailing crisis in West Asia has tempered bankers' optimism regarding loan demand and terms and conditions across sectors in Q1 FY27. The net response<sup>15</sup> for sector-wise loan demand has declined from 50 per cent in Q4 FY26 to 28.6 per cent in Q1 FY27, indicating a decline in optimism about

<sup>14</sup> RBI's Sectoral Deployment of Bank Credit Data, February 2026: <https://tinyurl.com/mua4swk4>.

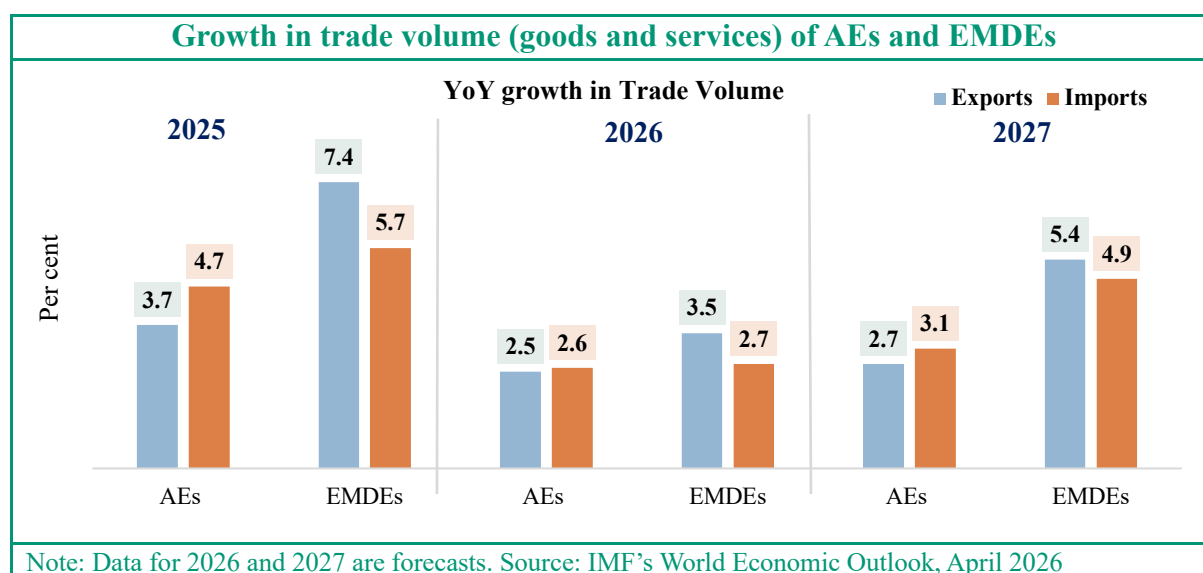
<sup>15</sup> Net Response (NR) is computed as the difference of percentage of banks reporting increase/optimism and those reporting decrease/pessimism in respective parameter. The weights of +1.0, 0.5, 0, -0.5 and -1.0 are assigned for computing NR from aggregate per cent responses on 5-point scale, i.e., substantial increase/ considerable easing, moderate increase/ somewhat easing, no change, moderate decrease/ somewhat tightening, substantial decrease/ considerable tightening for loan demand/loan terms and conditions parameters respectively. NR ranges between -100 to 100. Any value greater than zero indicates expansion/optimism and any value less than zero indicates contraction/pessimism. Increase in loan demand is considered optimism, while for loan terms and conditions, a positive value of net response indicates easy terms and conditions

loan demand across sectors. At the same time, the net response for sector-wise loan terms and conditions has also diminished, falling from 22.2 per cent to 18.5 per cent during the same period, underscoring a reduction in optimism about ease of terms and conditions. Nevertheless, for Q2 FY27 and Q3 FY27, the banker’s expectations for loan demand remain positive, and they anticipate continued easy loan terms and conditions.

37. The current crisis in West Asia is not expected to negatively affect financial stability. The system-wide financial indicators for capital adequacy, liquidity, asset quality, and SCB profitability remain robust. Likewise, the overall financial metrics of Non-Banking Financial Companies (NBFCs) exhibit soundness, characterised by sufficient capital levels and improved GNPA ratios. As of December 2025, the total CRAR of NBFCs stands at 25.59 per cent, and the Tier I CRAR stands at 23.72 per cent, both of which are well above the minimum regulatory requirements. At the same time, the GNPA ratio has improved from 2.52 per cent in December 2024 to 2.14 per cent in December 2025.

## Global trade dynamics

38. The global trade environment in CY 2025 has been marked by multiple disruptions, including tariff and trade policy uncertainty, geoeconomic fragmentation, and evolving nearshoring and friendshoring trends, which have now been compounded by the blockade of the Strait of Hormuz in CY 2026. As a result, we are witnessing a surge in energy prices, compounded by higher trade costs from tariffs, shifting regulations, and the weakening of established trade rules. Together, these challenges are casting a shadow over the trade landscape for the year.



39. According to the IMF’s World Economic Outlook, April 2026, the world trade volume (goods and services) grew by 5.1 per cent (YoY) in CY 2025. This growth is projected to decline to 2.8 per cent (YoY) in CY 2026 and then rebound to 3.8 per cent (YoY) in CY 2027. The underlying dynamics contributing to these fluctuations are attributed to the front-

loading of trade activities early in the period, alongside the impacts of tariffs, which have been mitigated over time through adjustments in trade linkages and production chains.<sup>16</sup>

40. The trade performance of advanced economies (AEs) shows notable differences when compared to that of emerging market and developing economies (EMDEs). While growth forecasts indicate that EMDEs are expected to experience higher trade volume increases for both imports and exports compared to AEs, the shifts in global trade dynamics are likely to affect the trade volumes of EMDEs more significantly than those of AEs. As shown in the chart below, the growth of exports of EMDEs is projected to decline by 2 percentage points, falling from 7.4 per cent in CY 2025 to 5.4 per cent in CY 2027. In contrast, the growth rate of exports from AEs is projected to decline by 1 percentage point from 3.7 per cent in CY 2025 to 2.7 per cent in CY 2027. A similar trend is evident in the growth of imports for both AEs and EMDEs.

41. According to UNCTAD, global demand for goods associated with artificial intelligence, alongside certain consumer-driven markets, particularly within digital technologies and green industries, continues to exhibit resilience. Moreover, the rise of connector economies is emerging as a stabilising buffer for global supply chains. Nonetheless, it appears improbable that these favourable developments will adequately mitigate the prevailing geoeconomic challenges and the intensifying trade frictions. Consequently, several adverse factors are poised to hinder the trade outlook. These include the ongoing conflict in West Asia, persistent uncertainties surrounding the trade policies of major economies, and the geoeconomic competition and fragmentation that characterise the current landscape. Additional challenges stem from restrictive policies driven by global overcapacity, as well as a decline in trade in services attributable to rising fuel costs, which are anticipated to increase travel and transport expenses, thereby diminishing a crucial driver of post-pandemic trade. Furthermore, mounting debt pressures in developing economies continue to constrain fiscal space, stifle investment, and weaken import demand.<sup>17</sup>

42. Thus, the IMF asserts that while trade restrictions may serve a limited purpose in addressing economic imbalances, they can potentially hinder economic output. Therefore, it encourages countries to engage in collaborative efforts and coordinate their actions to foster stability in international economic relations. Additionally, it urges countries to explore opportunities to enhance trade integration, supported by transparent, consistent, and effectively communicated trade policy frameworks.<sup>18</sup>

## India's trade dynamics

43. India's trade performance has exhibited resilience in FY26 amidst a volatile global trade environment. The country's total exports (goods and services) grew by 4.2 per cent

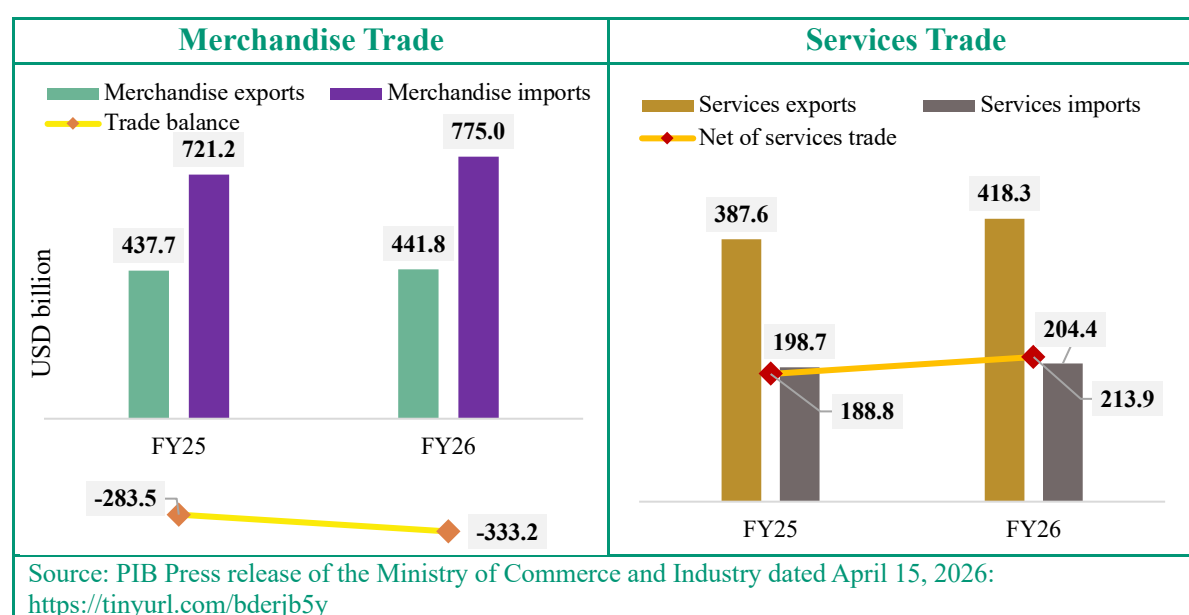
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<sup>16</sup> IMF's World Economic Outlook, April 2026: <https://tinyurl.com/j3vfa4z4>.

<sup>17</sup> UNCTAD's Global Trade Update April 2026: <https://tinyurl.com/ptezv73x>.

<sup>18</sup> IMF's World Economic Outlook, April 2026: <https://tinyurl.com/44v7bjdd>.

(YoY), reaching a record high of USD 860.1 billion.<sup>19</sup> While merchandise exports have grown by 0.9 per cent (YoY), amounting to USD 441.8 billion, non-petroleum, non-gems and jewellery exports, which account for 81.4 per cent of total merchandise exports, have grown by 4.4 per cent (YoY), amounting to USD 359.7 billion. The major drivers of this growth are electronic goods, mica, coal, and other ores and minerals. Further, non-petroleum exports reached a historic high of USD 387.8 billion. This underscores the inherent strength of the export sector, which volatility in the exports of gems and jewellery and petroleum may obscure. Consequently, the muted growth in total merchandise exports can largely be attributed to the disproportionate influence of petroleum and gems and jewellery, which often masks the more favourable trends present within the broader export sector.



44. Services exports continue to provide thrust to the country's total exports. They grew by 7.9 per cent (YoY) during FY26, crossing the USD 400 billion mark for the first time and reaching USD 418.3 billion. In FY26, the share of services exports in India's total exports increased to 48.6 per cent from 47 per cent in FY25. This strength in services exports has generated a net services surplus of USD 213.9 billion, which accounts for 64.2 per cent of the merchandise trade deficit in FY26. As a result, the total trade deficit stands at USD 119.3 billion in FY26, increasing from USD 94.7 billion in FY25.

45. On the import side, total imports grew by 6.5 per cent (YoY) to USD 979.4 billion, with merchandise imports rising by 7.5 per cent (YoY). The increase was driven by non-petroleum, non-gems, and jewellery imports, which grew by 9.7 per cent (YoY), indicating a robust domestic demand. In contrast, petroleum, crude and products imports fell by 6.4 per cent (YoY), on the back of a 9.6 per cent decrease (YoY) in the average crude oil price.<sup>20</sup>

<sup>19</sup> The latest data for the services sector released by the RBI is for February 2026. The data for March 2026 is an estimation. (ii) Data for FY 2024-25 (April-March) has been revised on a pro-rata basis using quarterly balance of payments data.

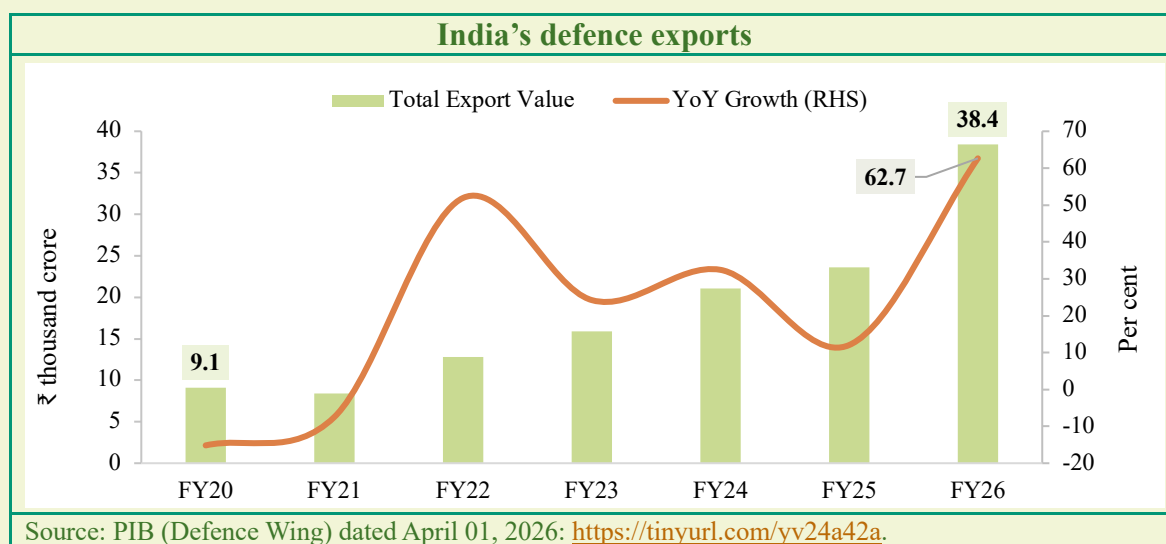
<sup>20</sup> PPAC - Crude Oil FOB Price (Indian Basket). The average price of crude oil decreased from USD 78.6 per barrel in FY25 to USD 71 per barrel in FY26: <https://tinyurl.com/228bzd2>.

Concurrently, service imports, valued at USD 204.4 billion in FY26, have grown by 2.9 per cent (YoY).

### Box 2: India's defence exports performance

India's defence exports performance exemplifies the success of the country's initiatives to enhance ease of doing business in the defence sector, and this focused approach has, in turn, significantly facilitated the operations of defence exporters, thereby fostering a performance-oriented, globally competitive defence industry. Central to these advancements has been the Government's commitment to streamlining regulatory processes for defence exports, reflected in the introduction of a revamped online portal and simplified standard operating procedures for authorisations, thereby improving the efficiency and accessibility of the export framework.

As a result of these policy and procedural improvements, during the period FY15 to FY26, the country's defence exports have registered a compounded annual growth rate of 31.2 per cent, and this upward trajectory is further evident in FY26, when defence exports reached an all-time high of ₹ 38.4 thousand crore, representing a YoY growth of 62.7 per cent. This growth has been supported by contributions from both segments of the industry, with Defence Public Sector Undertakings (DPSUs) accounting for 54.85 per cent of exports, while the private sector contributed 45.16 per cent.



This sustained increase in defence exports signifies the country's expanding global acceptance, which is further reinforced by its growing integration into international supply chains. In FY26, this trend is reflected in the notable diversification of export destinations, with the country exporting to 80 nations, and this widening global footprint has been accompanied by a 13.3 per cent increase in exporters, from 128 in FY25 to 145.

Taken together, these developments highlight a consistent and strengthening export performance, and therefore, maintaining this continuous and sustained momentum in the nation's defence export trajectory remains essential for achieving the objective of establishing the country as a leading defence exporter and achieving the target of exports amounting to ₹50 thousand crore by 2029.<sup>21</sup>

46. The trade statistics for March 2026 show the impact of the crisis in West Asia on India's trade performance. Merchandise exports have declined by 7.4 per cent (YoY), and non-petroleum, non-gems and jewellery exports have decreased by 7.5 per cent (YoY). Of the 30 major export commodities, 24 recorded YoY declines, with significant declines in exports of iron ore, agricultural and allied commodities such as tea, cashew, oilseeds, oil meals, and gems and jewellery.

47. Concurrently, merchandise imports have decreased by 6.5 per cent (YoY); in contrast, non-petroleum and non-gems and jewellery imports have increased by 10.2 per cent (YoY). This trend can be attributed to a rise in imports of electronic goods, machinery (electrical and non-electrical), metalliferous ores and other minerals and sulphur and unroasted iron pyrites, while imports of petroleum (crude and products) have decreased by 35.9 per cent (YoY).

48. Simultaneously, services exports have also decreased by 1.2 per cent (YoY), amounting to USD 35.2 billion. Services imports have decreased by 3 per cent (YoY); as a result, the net of services trade amounts to USD 18.2 billion in March 2026, comparable to the level observed in March 2025. The muted performance of both merchandise and services trade led to a reduction in the total trade deficit in March 2026, which amounted to USD 2.4 billion, a 31.4 per cent (YoY) decrease from March 2025.

49. The disruption in the Strait of Hormuz has had noticeable impacts, particularly in destination-wise trade statistics. There has been a significant YoY decline in exports to Gulf nations, such as the UAE and Saudi Arabia, as well as to countries like the Netherlands. In contrast, exports to Singapore and Malaysia have increased sharply. Similarly, imports from Gulf nations, including the UAE, Saudi Arabia, Iraq, and Qatar, have decreased substantially, while imports from Thailand have risen significantly.<sup>22</sup>

50. In order to mitigate the adverse impact of the crisis in West Asia and ensure a sustained momentum in the country's trade performance, complementing the country's diversified trade strategy, which includes the signing of trade agreements with various countries including EU, Oman, UK, New Zealand and ongoing trade negotiations with other countries such as Canada, Chile, Peru, the USA, the Government has undertaken several measures including the

<sup>21</sup> PIB Headquarters press release dated November 20, 2025: <https://tinyurl.com/yuyhhdpw>.

<sup>22</sup> In March 2026, exports to the UAE declined by 61.93 per cent (YoY), to Saudi Arabia (45.67 per cent) and the Netherlands by 51.28 per cent. Exports increased to Singapore and Malaysia by 158.55 per cent and 84.47 per cent, respectively. Imports from the UAE declined by 66.32 per cent, from Saudi Arabia by 37.32 per cent, from Iraq by 64.3 per cent and from Qatar by 47.89 per cent. Imports from Thailand increased by 64.53 per cent.

expansion of the RELIEF Scheme to include Egypt and Jordan,<sup>23</sup> this ensures that exporters operating across the extended West Asia and North Africa corridor are adequately supported during the ongoing disruptions. In pursuance of the Government's commitment to Ease of Doing Business and trade facilitation for exporters, the Ministry of Commerce & Industry has undertaken a series of targeted reforms to strengthen the functioning of Norms Committees under the Directorate General of Foreign Trade. These measures are aimed at improving turnaround time, enabling early approvals and enhancing transparency and predictability under the Advance Authorisation Scheme and are aligned with the Government's agenda of creating a facilitative and predictable trade environment, particularly for MSMEs. A streamlined norms-fixation process is expected to reduce transaction costs, shorten authorisation timelines, and enhance India's export competitiveness.<sup>24</sup> Further, conditional customs duty concessions have been notified on the clearance of goods manufactured in Special Economic Zones (SEZs) to the Domestic Tariff Area to improve the capacity utilisation of manufacturing units impacted by global trade disruptions. The measure is expected to benefit approximately 1,200 SEZ manufacturing units by enabling economies of scale, reducing costs and enhancing resilience, while preserving the export-oriented nature of SEZs.<sup>25</sup>

51. The Union Government has also approved the formation of the "Bharat Maritime Insurance Pool" with a sovereign guarantee of ₹12,980 crores to facilitate continuous maritime insurance coverages. The pool ensures that Indian trade continues to have access to affordable insurance for vessels carrying cargo from any international origin to Indian ports and vice versa, even when transiting volatile maritime corridors.<sup>26</sup>

### Box 3: West Asia crisis and India's response

India's resilient response to the West Asia crisis has been supported by a series of immediate measures outlined below. However, over the medium term, structural measures (beyond crisis management) will be required to sustain India's growth momentum amid heightened global uncertainty.

#### Short-term measures

In the short term, the Government of India has undertaken a series of measures to ensure energy security, maintain financial stability, and support trade continuity. Efforts have been made to judiciously manage the existing stock of petroleum and gas through a combination of demand management measures and introducing alternative sources of supply, such as

<sup>23</sup> PIB Press release of the Ministry of Commerce and Industry dated April 17, 2026: <https://tinyurl.com/4cs5f78d>.

<sup>24</sup> PIB Press release of the Ministry of Commerce and Industry dated April 17, 2026: <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2253000&reg=3&lang=1>.

<sup>25</sup> PIB Press release of the Ministry of Commerce and Industry dated April 1, 2026: <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2247993&reg=3&lang=1>

<sup>26</sup> PIB Press release of the Ministry of Finance dated April 18, 2026: <https://tinyurl.com/5n8939br>

kerosene and coal. To prevent households from bearing the brunt of the West Asia crisis, the Government has reduced the excise duty on petrol and diesel by ₹10 per litre. As a result, retail petrol and diesel prices have remained unchanged for Indian consumers.<sup>27</sup> As the West Asia crisis can particularly hinder pharmaceutical supply chains, the Government continues to facilitate the supply of critical inputs for the sector.

On the financial side, the Reserve Bank of India has remained vigilant, intervening as necessary to manage exchange rate volatility and maintain orderly market conditions.

Trade facilitation measures have also been prioritised. The Government has approved a time-bound and targeted intervention called RELIEF (Resilience and Logistics Intervention for Export Facilitation) under the export promotion mission (EPM). The intervention will support exporters by covering shipments affected during the disruption period, as well as prospective exports planned to the affected region.<sup>28</sup> In parallel, based on recommendations from an inter-ministerial group (IMG) on supply chain resilience, several operational measures have already been implemented. These include enhanced coordination at ports, advisories to promote transparency in shipping line pricings, monitoring of insurance risk developments and relaxations for stranded cargo movement.<sup>29</sup>

Lastly, diplomatic engagement has complemented these economic measures, with India leveraging its relationships across West Asia to secure supplies and safeguard the interests of Indian businesses and workers in the region.

These steps reflect a calibrated and pragmatic approach focused on managing the transmission of the shock to the domestic economy. However, as the current episode illustrates, repeated reliance on short-term measures is not a substitute for deeper structural resilience. In this context, the long-term policy framework assumes particular significance.

### **Long-term policy priorities**

Over the medium term, the current episode highlights a set of structural priorities that go beyond immediate crisis management. A central concern is the continued reliance on a narrow set of sources for critical imports, particularly energy and key industrial inputs. Reducing this dependence requires a deliberate expansion of procurement relationships across geographies, alongside the creation of buffer mechanisms such as strategic reserves that can be drawn upon during periods of disruption. These measures are less about insulation and more about ensuring continuity under stress.

There is also a need to strengthen the resilience of external financing. Past experience suggests that periods of global uncertainty tend to coincide with volatility in capital flows,

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<sup>27</sup> PIB Ministry of Petroleum and Natural Gas dated March 27, 2026: <https://tinyurl.com/n97msde2>

<sup>28</sup> PIB Ministry of Commerce and Industry dated March 19, 2026: <https://tinyurl.com/5n6h34ds>

<sup>29</sup> PIB Ministry of Commerce and Industry dated March 19, 2026: <https://tinyurl.com/5n6h34ds>

and in such situations, the availability of stable foreign exchange resources becomes important. Instruments that can mobilise non-resident Indian savings in a targeted manner have historically served this purpose and may continue to do so if deployed judiciously.

Further, there is a need to look at taxation of all equity, debt and hybrid instruments as well as insurance and pension instruments in line with their risk-return profile and correct existing anomalies so that there is vertical equity (so that growth capital is encouraged) and horizontal equity (similar instruments /returns face similar taxation).

At the same time, the broader objective remains to attract more stable and long-term capital in the form of foreign direct investment. This, in turn, is closely tied to the credibility and predictability of the policy environment. Greater clarity on taxation, regulatory processes, and dispute resolution can play a meaningful role in anchoring investor expectations, particularly in a more fragmented global investment landscape.

In parallel, the changing nature of global production networks suggests that a more active approach may be required to integrate with global value chains. This involves not only maintaining openness but also identifying and addressing specific bottlenecks that affect investment decisions. Institutional mechanisms that can engage directly with large global firms, resolve operational constraints, and provide time-bound facilitation can help position India more effectively in these networks.

The management of commodity price risk is another area that warrants closer attention. Given India's scale of exposure to global commodity markets, particularly crude oil, price fluctuations have direct implications for both the fiscal position and the external balance. While such exposure cannot be eliminated, it can be moderated through more systematic use of financial instruments. Developing institutional capacity in this area would allow for a more predictable management of such risks over time.

## Balance of Payment

### Remittances

52. India retained its position as the world's largest remittance recipient in FY25, with inflows reaching a record USD 135.4 billion (around 3.5 per cent of GDP). During April-December FY26, remittances stood at USD 110.9 billion, reflecting a robust y-o-y growth of 10.1 per cent and placing full-year inflows on track to surpass the previous year's peak.

53. The ongoing West Asia conflict presents a material, albeit uncertain, risk to this income stream, given the continued importance of the Gulf Cooperation Council (GCC)<sup>30</sup> economies as a source region. In FY24, the GCC accounted for 38 per cent of total remittances,

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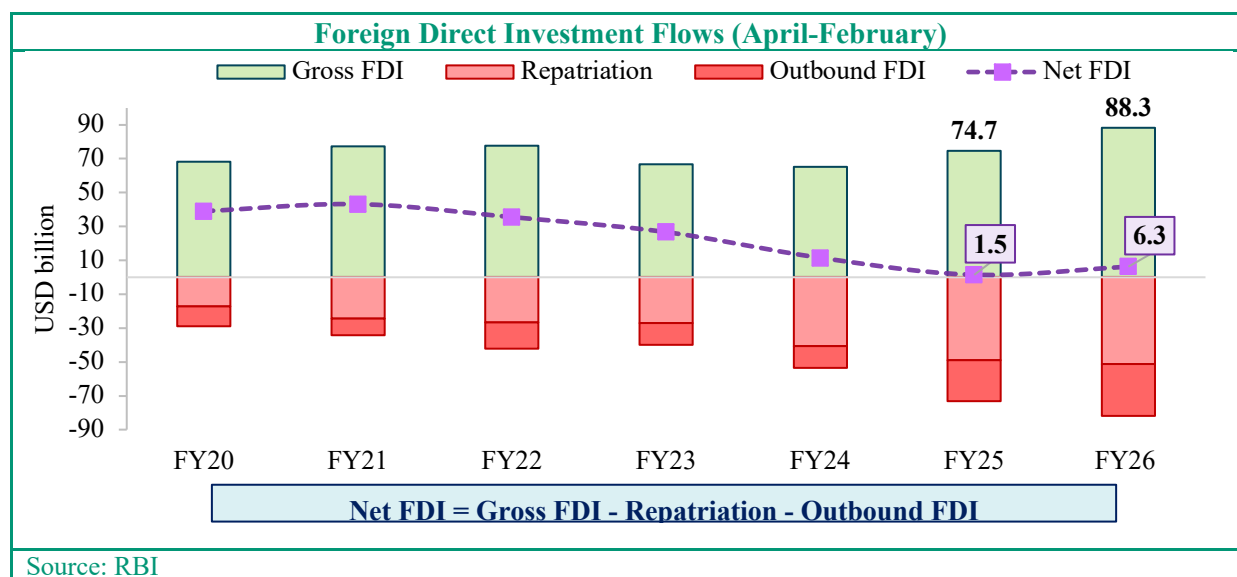
<sup>30</sup> Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE)

with the UAE alone contributing 19.2 per cent. While remittances have historically shown resilience to geopolitical shocks and may even experience temporary increases due to migrants' tendency to front-load precautionary transfers, a prolonged conflict could weigh on labour market conditions in the region and warrant a reassessment of current account projections.

## Capital Account

### Foreign Direct Investment

54. Gross FDI inflows increased by 18.1 per cent (y-o-y) to USD 88.3 billion during April-February FY26. Net FDI improved to USD 6.3 billion in April-February FY26 from USD 1.5 billion in the corresponding period of FY25, despite persistently elevated FDI repatriation and outward FDI flows. Notwithstanding this increase, inflows remain below potential, indicating scope to strengthen India's position as a destination for stable, long-term capital. Accordingly, improving both the scale and quality of FDI will remain important in the evolving global investment landscape.



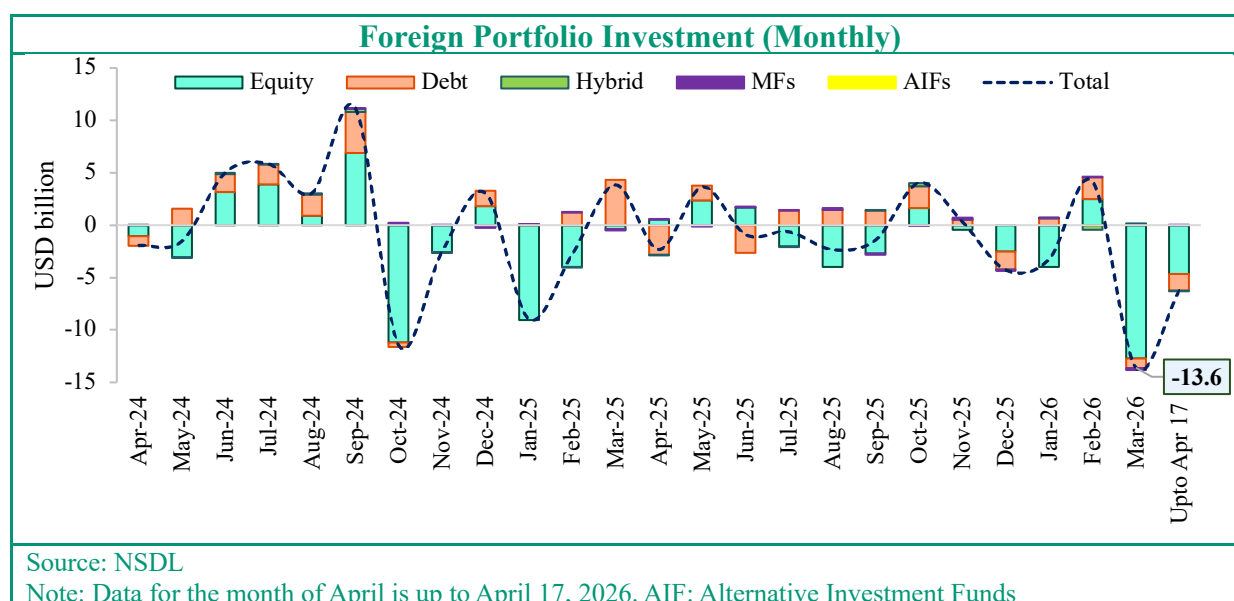
55. Manufacturing, computer services, financial services, business services, and communication services accounted for more than two-thirds of total equity inflows during April-February FY26. Furthermore, Singapore, the US, Mauritius, Japan, and the Netherlands were the major source countries of inward FDI to India, accounting for around three-fourths of the total inflows<sup>31</sup>.

### Foreign Portfolio Investment

56. Foreign portfolio investment (FPI) flows in FY26 were marked by significant volatility, with cumulative net outflows amounting to USD 16.6 billion, comparable in

<sup>31</sup> RBI's Monetary Policy Report (April 2026)

magnitude to the outflows observed during FY22. In March 2026, outflows intensified sharply to USD 13.6 billion, driven primarily by the equity segment amid heightened global risk aversion linked to the West Asia conflict.



57. The interaction between portfolio outflows and exchange rate movements has exhibited self-reinforcing dynamics: rupee depreciation reduces dollar-denominated returns for foreign investors, prompting further outflows, which in turn exacerbate currency pressures. As India’s integration with global financial markets deepens, such episodes underscore the heightened sensitivity of capital flows to shifts in global risk sentiment.

## Exchange Rate

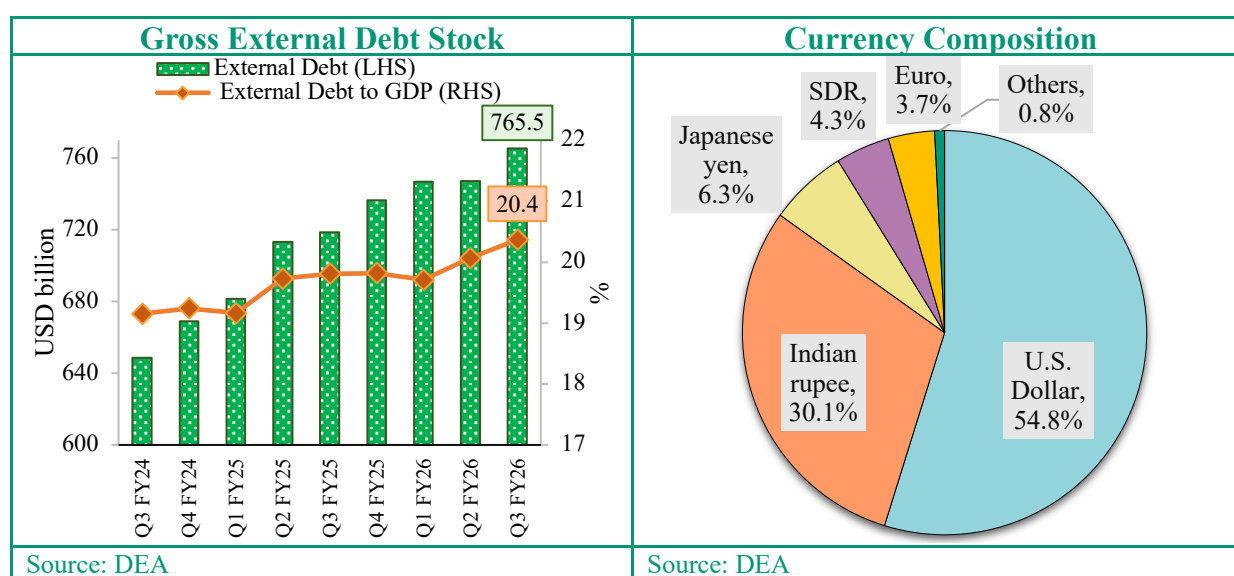
58. Global currency markets came under broad pressure in March as safe-haven demand strengthened the US dollar. The Indian rupee depreciated alongside other emerging-market currencies, with pressures intensifying in March. The rupee breached ₹95/USD intraday, marking a new low. The primary drivers have been sustained FPI outflows reflecting risk-off sentiment and elevated energy import costs arising from the West Asia conflict.

59. Against this backdrop, the RBI revised its baseline exchange rate assumption to ₹94/USD in April 2026, compared with ₹88/USD in the October 2025 Monetary Policy Report. RBI's policy response has focused on managing disorderly volatility through interventions in spot and forward markets. On March 27, 2026, a prudential cap of USD 100 million on the daily net open position in INR (NOP-INR) of authorised dealers was introduced to curb speculative positioning.

## Foreign Exchange Reserves & External Debt

60. As of April 10, 2026, India's foreign exchange reserves stood at USD 700.9 billion, providing an import cover of around 11 months (on a BoP basis) and covering 94 per cent of outstanding external debt as of end-December 2025.

61. India's total external debt stood at USD 765.5 billion at end-December 2025, an increase of USD 18.3 billion over end-September 2025, while the external debt-to-GDP ratio remained broadly stable at 20.4 per cent. The non-government sector continued to dominate the composition, accounting for approximately 78 per cent (USD 596.8 billion) of total external debt; government external debt remained contained at USD 168.7 billion. In terms of currency composition, US dollar-denominated debt accounted for the largest share (54.8 per cent), followed by Indian rupee-denominated debt (30.1 per cent), with smaller shares of yen, SDR and euro.

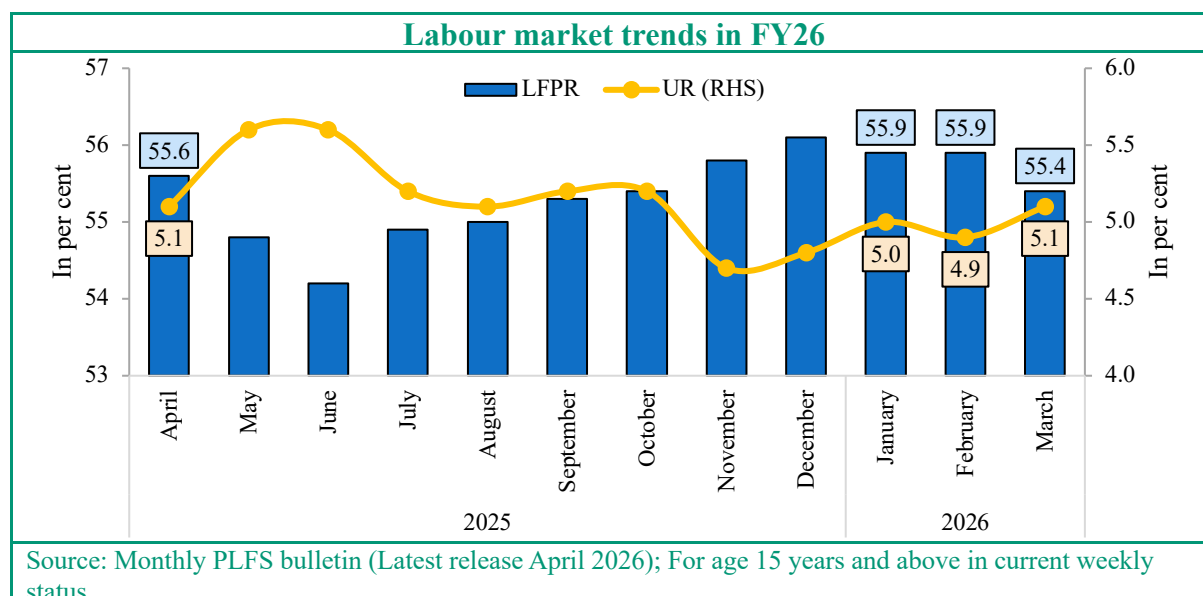


62. The maturity profile remained favourable, with long-term debt of USD 614.8 billion constituting the bulk of outstanding obligations. Short-term debt (original maturity) stood at 19.7 per cent of total external debt, while the short-term debt-to-foreign exchange reserves ratio remained broadly stable at 21.9 per cent, indicating robust liquidity buffers. The debt service ratio improved to 5.8 per cent of current receipts. Overall, key vulnerability indicators remained within prudent limits, reflecting a stable and sustainable external debt profile.

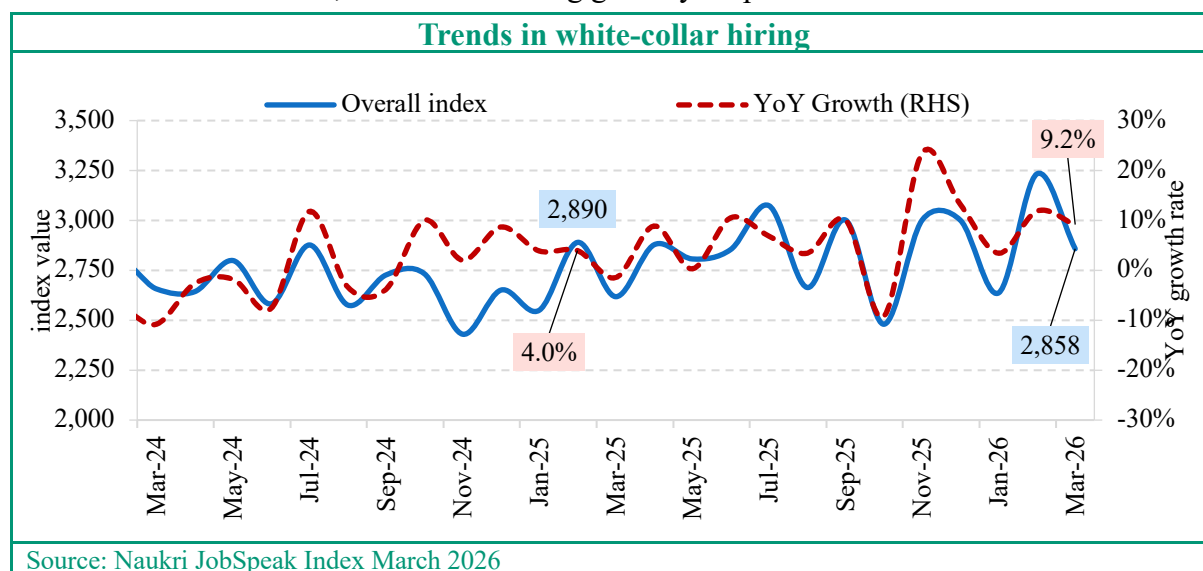
## Labour market developments

63. Recent Periodic Labour Force Survey (PLFS) data and high-frequency indicators suggest steady labour market conditions, though with month-to-month variation. The monthly PLFS reports indicate that labour force participation increased gradually and unemployment declined in H2 FY26 (October 2025 – March 2026), alongside month-to-month fluctuations, suggesting stabilisation in the labour market. The monthly PLFS for March 2026 shows the

labour force participation rate (LFPR)<sup>32</sup> to be at 55.4 per cent, while the Unemployment Rate (UR)<sup>33</sup> stood at 5.1 per cent.<sup>34</sup>



64. The high-frequency hiring indicators suggest a strong expansion in the white-collar job market, as evidenced by the 9 per cent YoY increase in the Naukri JobSpeak Index in March 2026. Non-IT sectors continued to drive hiring in the white-collar job market, with hospitality being the leading sector with a 21 per cent YoY growth, followed by BPO/ITES (+18 per cent), Oil & Gas (+15 per cent), Education (+15 per cent), and Real Estate (+14 per cent). While the IT sector remained stable, AI/ML role hiring grew by 37 per cent YoY in March 2026.



<sup>32</sup> 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.

<sup>33</sup> 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.

<sup>34</sup> PLFS March 2026: <https://www.mospi.gov.in/publications-reports>

65. The continued expansion in specialised hiring, particularly in AI/ML roles, underscores the importance of a coordinated national strategy as recommended in the Economic Survey 2025-26.<sup>35</sup> Realising this, the government constituted the AI Governance and Economic Group (AIGEG) to steer national AI strategy and manage the resulting economic transitions.<sup>36</sup> This group would work with industry to develop a long-term plan for AI deployment, focusing on job profile assessments, the geographical impacts, and the extent of automation and augmentation. The group would classify AI use cases into “deploy”, “pilot” and “defer” categories based on data availability, skills, legal frameworks, and capacity for labour adjustment. Furthermore, the body will assess the labour market impacts of AI adoption, and develop mitigation strategies and transition plans that account for informality, skill diversity and regional variations.<sup>37</sup> This aligns with the Economic Survey's principle of Labour-Market Sensitivity by Design, which recommends that AI policy internalise India’s labour structure through ex-ante labour market assessments and integrated mitigation and transition plans.

66. While these indicators capture short-term movements, annual PLFS data provides a broader perspective on structural labour market trends.

### **Structural labour market trends (Annual PLFS 2025)**

67. The Annual PLFS report 2025 data provide a broader perspective on labour market outcomes.<sup>38</sup> The March 2026 edition of the Monthly Economic Review showcased the key findings from the report. In this edition, the analysis is extended to examine labour market indicators through a gender lens. According to the annual PLFS 2025, LFPR (15+ years, usual status<sup>39</sup>) stood at 59.3 per cent in CY2025, while the unemployment rate was 3.1 per cent, with an estimated 61.6 crore persons employed during the year. Beyond headline indicators, the data indicate a gradual shift in the composition of employment, with an increase in regular wage employment and a decline in casual labour. Sectoral distribution points to a movement towards non-farm activities, reflected in rising shares of manufacturing and services alongside a reduction in agriculture.

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<sup>35</sup> Chapter 14 Economic Survey 2025-26:

<https://www.indiabudget.gov.in/economicssurvey/doc/eschapter/echap14.pdf>

<sup>36</sup> PIB release of Ministry of Electronics & IT dated 16 April 2026:

<https://www.pib.gov.in/PressReleasePage.aspx?PRID=2252739&reg=3&lang=2>

<sup>37</sup> AIGEG Terms of Reference : <https://d12aarmt01154a.cloudfront.net/cms/files/constitution-of-aigeg/1776346498.pdf>

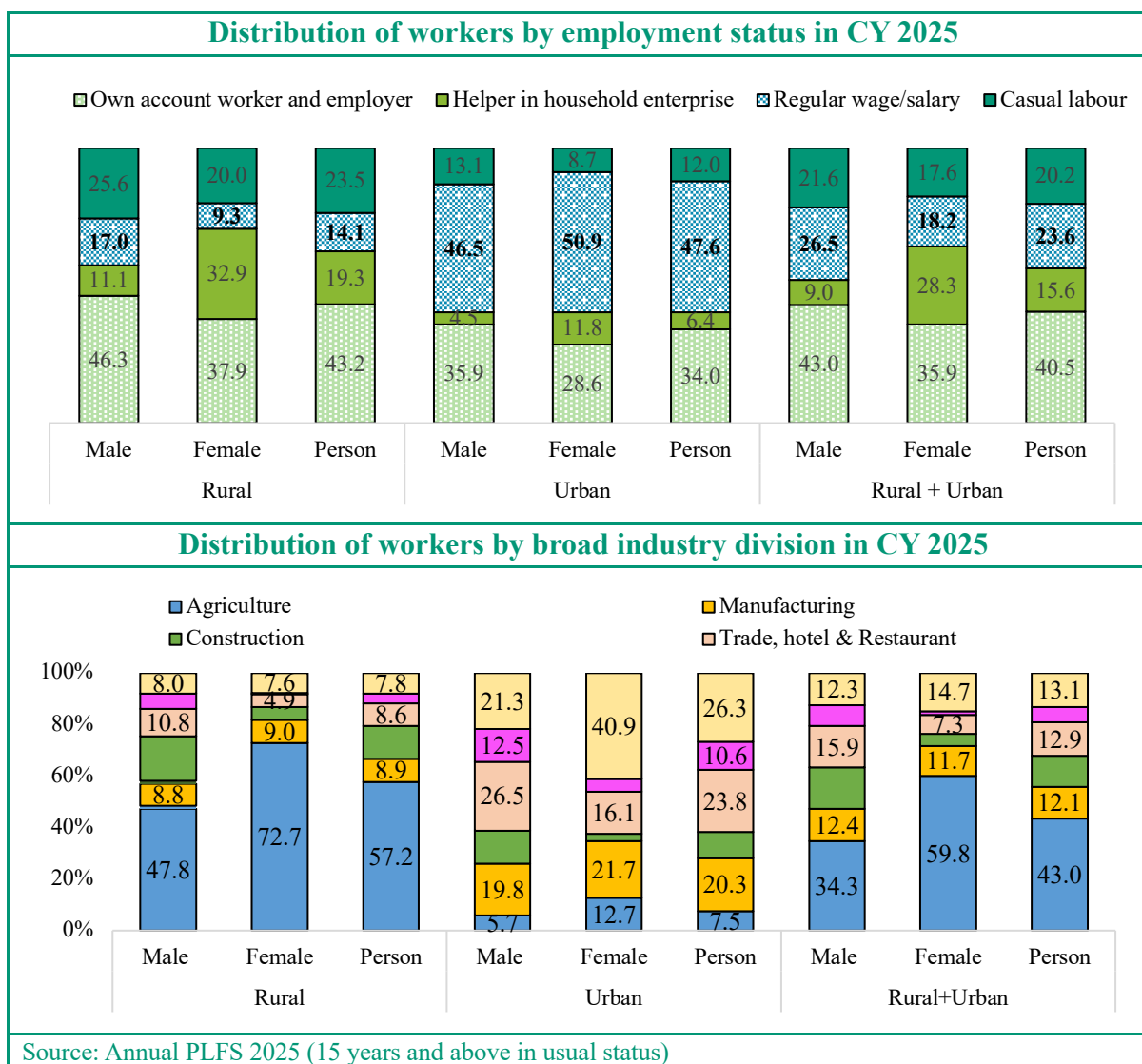
<sup>38</sup> Annual Report Periodic Labour Force Survey (PLFS 2025) (January - December 2025): <https://www.mospi.gov.in/publications-reports>

<sup>39</sup> The activity status of a person is determined on the basis of the activities pursued by the person during the specified reference period. When the activity status is determined on the basis of the reference period of the last 365 days preceding the date of the survey, it is known as the usual activity status of the person.

Regional and gender distribution of labour market indicators						
Indicator	Rural		Urban		Rural + Urban	
	Male	Female	Male	Female	Male	Female
LFPR ( per cent)	80.5	45.9	76.2	27.7	79.1	40.0
WPR ( per cent)	78.4	44.9	73.0	25.9	76.6	38.8
Unemployment Rate ( per cent)	2.6	2.1	4.2	6.4	3.1	3.1

Source: Annual PLFS 2025 (15 years and above in usual status)

68. A disaggregated analysis highlights differences in labour-market outcomes by gender. The female LFPR (15 years and above, usual status) has increased from 33.9 per cent in CY 2022 to 40 per cent in CY 2025, driven mainly by the rising participation of rural women. At the same time, male LFPR increased marginally from 78 per cent in CY2022 to 79.1 per cent in CY 2025.



69. Rural employment continues to be dominated by agriculture (57.2 per cent) and self-employment (62.4 per cent). In contrast, urban employment is primarily in the services and industries sector, with regular wage or salaried jobs accounting for the largest share (47.6 per cent). The proportion of women engaged in the agriculture sector and in self-employment or contributing to household enterprises, especially in rural areas, is relatively high. Women's participation in regular wage jobs is 9.3 per cent in CY 2025 in rural areas, along with a major share of women working as 'own account workers/employers' (37.9 per cent) or 'helpers in household enterprises' (32.9 per cent).

### Care responsibilities dominate female non-participation in the labour force

70. The Annual PLFS report provides data on reasons for non-participation in the labour force, providing additional insights into labour market dynamics.<sup>40</sup> This is the first time since 2021-22 that the PLFS has published this data. The data for CY 2025 indicate that the two main reasons for remaining outside the labour force are childcare/homemaking (29.1 per cent) and education (46.5 per cent).<sup>41</sup> Specifically, among women, the main reason for non-participation in both rural and urban areas is childcare/ homemaking (44.4 per cent), whereas among men, the primary reason is the continuation of education (69.8 per cent). This highlights the role of care work in shaping women's labour force participation.

71. The prominence of caregiving responsibilities as a key reason for non-participation further indicates that time constraints play an important role in shaping women's labour-market engagement, making flexible, home-based forms of work a relatively more viable option. A larger share of women is engaged in self-employment, which may offer greater flexibility in balancing work and household responsibilities. In this context, access to formal finance can enable greater economic participation.

72. According to a NITI Aayog report<sup>42</sup>, women borrowers hold a credit portfolio of ₹76 lakh crore (26 per cent of total system credit), 4.8 times increase since 2017. Credit penetration among women has increased to 36 per cent from 19 per cent in 2017.<sup>43</sup> Beyond overall growth, an equally important shift is visible in the composition of credit accessed by women. While microfinance<sup>44</sup> remains an important entry point for female borrowers, there is a gradual shift

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<sup>40</sup> The reference period for PLFS 2021-22 is July 2021- June 2022. Direct comparison of CY 2025 data with the 2021-22 round data is limited due to changes in the reference period.

<sup>41</sup> In addition, the report provides information on the proportion of persons outside the labour force due to health- and age-related factors, social reasons, or financial well-being, which together account for a relatively small share of 5.1 per cent.

<sup>42</sup> NITI Aayog (2026). *From borrowers to builders: Women and India's evolving credit market*. <https://tinyurl.com/mr2fvk6k>

<sup>43</sup> Credit penetration is the percentage of credit-active women in the population to the total adult women (18 to 64) population.

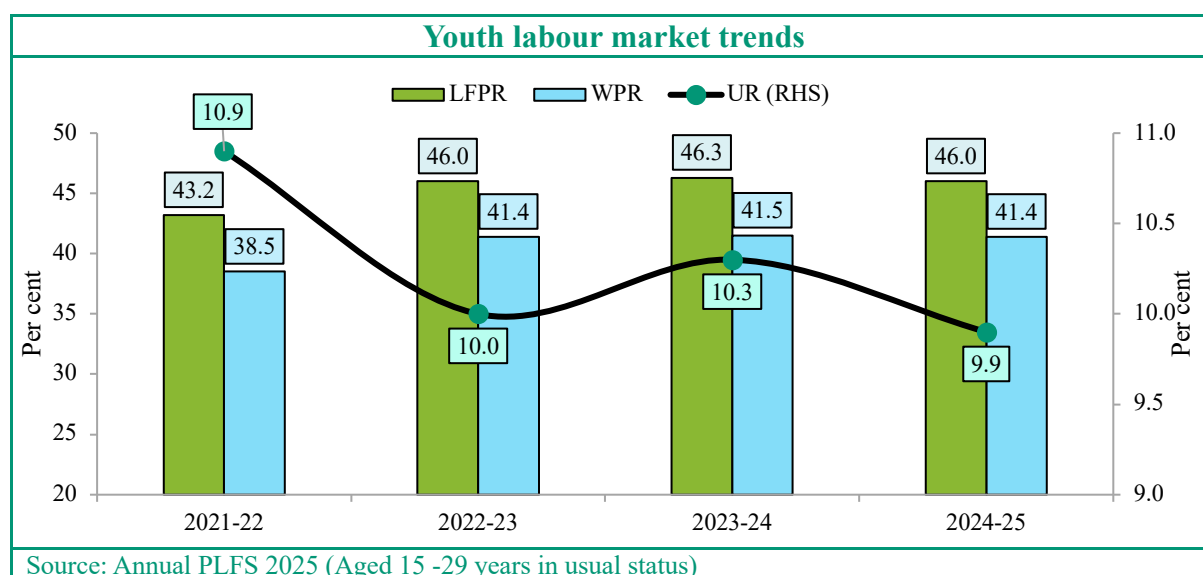
<sup>44</sup> These are collateral-free loans given at a lower ticket size (typically below INR 50,000) to support women borrowers from low-income households based on their credit needs

towards retail<sup>45</sup> and business-purpose lending.<sup>46</sup> Women borrowers with active business-purpose loans have experienced rapid growth, with a compound annual growth rate (CAGR) of 31 per cent over the past three years, signalling rising credit use for income-generating activities and enterprise development.

73. Beyond the dominant factors outlined above, other reasons for non-participation contribute only marginally to the overall distribution. Notably, factors such as the lack of required training/qualification/age for work (5.7 per cent) or the non-availability of work (0.4 per cent) account for only a small share, indicating that employability and job availability constraints are not dominant drivers of non-participation.

### Youth labour market outcomes

74. The Annual PLFS 2025 indicates that youth employment conditions have broadly improved over recent years, with moderation in CY 2025. The youth LFPR (aged 15–29 years) stood at 46.0 per cent in CY 2025, compared with 46.3 per cent in CY 2024. The UR for this age group improved to 9.9 per cent in CY 2025 from 10.3 per cent in CY 2024. Further, the data suggest that urban youth record a higher UR than their rural counterparts, and the female UR remains higher than the male UR across both urban and rural areas.



75. Beyond education and skilling, addressing emerging structural barriers to the quality and productivity of India's youth workforce is essential to utilise its demographic advantage. These include growing concerns around social media use and digital addiction, particularly

<sup>45</sup> These are retail-focused, individual-focused loans provided to meet personal or household needs. They typically cover consumption loans oriented to meet lifestyle needs and expenses such as home purchase/improvement, education, medical bills, travel, or purchasing consumer goods and also larger personal expenses.

<sup>46</sup> Business purpose loans are credit facilities provided to individuals, micro-entrepreneurs, or small businesses to support income-generating activities.

their impact on adolescent well-being and implications for human capital formation and the realisation of India's demographic dividend. (See box below).

#### **Box 4: Digital well-being and worker productivity**

The Economic Survey 2025-26 highlights that near-universal mobile/internet access among 15–29-year-olds in India raises concerns about mental health issues like digital addiction, anxiety, and sleep problems, impacting academic and work performance.<sup>47</sup>

Global evidence on the effects of social media on mental well-being has strengthened considerably. The World Happiness Report 2026 informs that social media causes both direct and indirect harm to children and adolescents, with direct harms including cyberbullying and sextortion, and indirect harms encompassing depression and anxiety.<sup>48</sup> Drawing on seven independent lines of evidence, the report finds that the scale and diversity of these harms are sufficient to produce adverse population-level outcomes, with particularly pronounced effects on adolescent girls.<sup>49</sup>

Evidence from a randomised study by Allcott, Gentzkow et al. (2025), covering over 35,000 participants in the United States, further corroborates the findings of the World Happiness Report. The study found that deactivating Facebook and Instagram for six weeks produced statistically significant improvements in happiness, depression, and anxiety, relative to those who deactivated for just the first of those six weeks.<sup>50</sup> The study reports that the effect of deactivation of Facebook was more pronounced for people above 35 and people without a college degree, and among women aged 18–24 in the case of Instagram.

The World Happiness Report 2026 further notes that the introduction of always-available social media, enabled by extensive smartphone adoption in the early 2010s, was a substantial contributor to the increase in mental illness observed across many Western nations, and more broadly, during the same decade.

With near-universal digital access among individuals aged 15-29 in India, the scale and intensity of usage raise concerns about associated mental health issues among youth, with

<sup>47</sup> Chapter 11 Economic Survey 2025-26:

<https://www.indiabudget.gov.in/economicsurvey/doc/eschapter/echap11.pdf>

<sup>48</sup> World Happiness Report 2026 Chapter 3: Social media is harming adolescents at a scale large enough to cause changes at the population level <https://www.worldhappiness.report/ed/2026/>

<sup>49</sup> The evidence of harm is found in: 1) surveys of young people; 2) surveys of parents, teachers, and clinicians; 3) contents from corporate documents; 4) findings from cross-sectional studies; 5) findings from longitudinal studies; 6) findings from social media reduction experiments; and 7) findings from natural experiments.

<sup>50</sup> Allcott, Gentzkow et al., "The Effect of Deactivating Facebook and Instagram on Users' Emotional State," NBER Working Paper 33697 (2025), <https://doi.org/10.3386/w33697>. The study was conducted before the 2020 U.S. presidential election. The study randomly assigned 27 per cent of participants to a treatment group that received payment for deactivating their accounts for the six weeks before the election. The remaining participants formed a control group that was paid to deactivate for just the first of those six weeks.

potential implications for human capital formation and the realisation of the demographic dividend. The Economic Survey 2025–26 recommends a multi-pronged policy response to digital addiction, including age-based access limits, platform accountability, digital wellbeing policy and curriculum in schools, expanded mental health services through Tele-MANAS, and improved national data collection through the upcoming Second National Mental Health Survey.<sup>51</sup>

Realising the importance of mental health, the Union budget 2026-27 announced the establishment of a new NIMHANS in North India and the upgradation of National Mental Health Institutes in Ranchi and Tezpur, significantly expanding the mental health care infrastructure. Additionally, several states are considering restrictions on mobile phone and social media usage. For instance, Maharashtra recently formed a specialised task force to study the effects of social media on minors,<sup>52</sup> while Karnataka announced that the use of social media will be banned for children under the age of 16.<sup>53</sup> Further, the Andhra Pradesh government is planning to introduce measures to restrict social media access for children under 13.<sup>54</sup> These developments indicate that the policy focus in India is shifting towards the implementation of direct regulation of digital use among children.

## Conclusion and Outlook

76. India enters FY2026-27 at the intersection of domestic resilience and external turbulence. The outgoing fiscal year delivered real GDP growth of 7.6 per cent, the strongest in recent years, encouraging a 7-7.4 per cent forecast for the upcoming financial year, only to be clouded by an altered macro-outlook in the wake of the West Asia war. A ‘supply shock’ is apparent in the economy. An accompanying demand compression is a serious concern, given high prices, rising inflation, and a reduced pace of economic activity. Inflation may become cost-push as businesses/producers pass on their increased input costs to protect their profit margins. A wide spectrum of downstream industries relies directly on the petroleum sector, and it is likely that input cost pressures will be felt widely across the economy. To temper cost pressures in critical sectors like agriculture, the Government has taken various measures such as increased allocation of natural gas to the fertiliser production, waiver of customs duty and around 12 per cent increase in nutrient-based subsidy for the upcoming kharif season. Beyond the production structures, the conflict has seriously dented investors’ confidence,

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<sup>51</sup>Chapter 11 Economic Survey 2025-26:

<https://www.indiabudget.gov.in/economicsurvey/doc/eschapter/echap11.pdf>

<sup>52</sup> <https://timesofindia.indiatimes.com/city/mumbai/maharashtra-forms-task-force-to-study-social-media-impact-on-minors/articleshow/129821480.cms>

<sup>53</sup> Karnataka Budget 2026-27 Para 118: <https://finance.karnataka.gov.in/192/budget-volumes-2026-27/en>

<sup>54</sup><https://indianexpress.com/article/india/age-tokens-digilocker-to-regulate-kids-social-media-use-andhra-pradesBusiness-Sentimentsh-10637535/>

disproportionately affecting EMDEs, including India. The consequent weakening of the rupee is another pressure point for domestic inflation, as that could raise import prices.

77. Repairing the damage to the oil and gas production/supply infrastructure in the Gulf region may take several months. If such a gradual recovery is not supported by a good kharif output<sup>55</sup> (a weather shock /below normal monsoon as predicted by the IMD – possible El Niño conditions), it is likely that the price shock felt at the headline inflation might spill over to the core measure through the cost-push channel. Yet it remains to be seen whether the spill-over effect will be strong/widespread or weak/ limited, as it depends on a range of factors such as the size of the shock, variability in the pass-through duration across different markets/commodities, price flexibility/ rigidity in sectoral markets, energy intensity of different sectors, etc.

78. The crisis in West Asia is not expected to adversely affect financial stability, as key indicators for capital adequacy, liquidity, and asset quality in both SCBs and NBFCs remain strong. Further, the RBI will continue its proactive approach to ensure adequate liquidity to meet the economy's productive needs.

79. To sustain momentum in the country's trade performance, the government has introduced targeted measures complementing its diversified trade strategy. These include the RELIEF scheme; efforts to improve turnaround times and easier switching of fuels; and reforms under the Advance Authorisation Scheme to enable faster approvals and enhance transparency and predictability, alongside the approval for the establishment of the 'Bharat Maritime Insurance Pool'. Additional interventions, such as strengthened port coordination, advisories to improve transparency in shipping line pricing, monitoring of insurance risks, and relaxations to facilitate the movement of stranded cargo, further support trade flows. Looking ahead, the conclusion of recent free trade agreements is expected to reinforce trade performance by expanding market access and deepening integration with global value chains.

80. RBI's latest Consumer Confidence Surveys show moderating sentiment on employment. Rural perceptions, while remaining positive, have weakened, while urban sentiment stayed negative and worsened further. One-year-ahead employment expectations remain positive but have weakened, suggesting reduced optimism about future jobs.

81. For most economies, the current global drift is a source of vulnerability. However, for India, with its strong domestic fundamentals and tradition of strategic autonomy, it can be an opportunity. First, a multipolar world creates space for India to convert diplomatic goodwill into durable economic gains. As a manufacturing destination, services hub and a large consumer, India can push for more ambitious trade agreements and diversified supply chains.

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<sup>55</sup> However, the Second Advance Estimates (2025-26) project a record foodgrain output in both kharif and rabi production. Households, nevertheless, are expecting an acceleration in inflation across food, non-food and services in the short-term (three months ahead) and medium-term (one year), as revealed by the latest Households' Inflation Expectations Survey of the RBI in March 2026. Their three-month-ahead inflation expectations have risen from 7.9% in January 2026 to 8.5% in March 2026.

Second, the last two months have shown that resilience cannot be built instantly in the moment of crisis but requires deliberate, planned efforts. Strategic energy reserves, shift to renewables, and domestic manufacturing capacity take years to build. As far as strengths go, India can capitalise on its strong domestic fundamentals and active trade engagement to move forward at the speed the moment demands.

**For feedback and queries, one may write to: [mer-dea@gov.in](mailto:mer-dea@gov.in).**

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## Annexure -I:- Summary of the various Measures taken as on date for the management of West Asia Crisis

Sector	Key Measures Taken
<b>Energy (Oil, Gas &amp; Fuel Management)</b>	<ul style="list-style-type: none"> <li>• LPG supply to industrial segments was eased by allocating ~70 per cent of demand to non-domestic bulk consumers, with priority accorded to key sectors such as pharma, food, polymers, agriculture, packaging, paints, steel, and defence-related materials.</li> <li>• The LPG Control Order (8 March 2026) mandated refineries to maximise LPG output, resulting in an estimated ~28 per cent increase in production within 5 days through diversion of feedstock streams. (The increase in output has ranged between 25 -40 per cent during the period)</li> <li>• The Natural Gas Control Order (9 March 2026) introduced priority allocation, ensuring 100 per cent supply to domestic PNG/CNG, 70 per cent to fertiliser plants, 80 per cent to industry, and 65 per cent to refineries. Fertiliser has since then been increased to 95 per cent, and power from 63 per cent to 70 per cent. CGD allocations have come down from 100 per cent to 70 per cent due to reduced offtake.</li> <li>• Commercial LPG supply was initially restricted to 20 per cent of normal levels and subsequently increased to ~50 per cent in phases, with priority for essential services.</li> <li>• Demand-side measures included mandatory surrender of LPG connections by PNG users, rationalisation of booking intervals, awareness camps, and doubling of 5kg FTL daily allocation for migrant labourers.</li> <li>• Enforcement actions under the Essential Commodities Act were undertaken to curb hoarding and diversion.</li> <li>• An additional 48,000+ KL of kerosene was allocated for fuel substitution.</li> <li>• The Government notified the Natural Gas and Petroleum Products Distribution Order, 2026, to enable time-bound, streamlined pipeline expansion, improving ease of doing business and accelerating PNG infrastructure rollout.</li> <li>• National PNG drive has been extended till June 2026. Domestic connections increased by 3.4 times and commercial connections by 2.6 times in March 2026. Voluntary surrender of LPG connections by those with access to PNG connections has increased by 15 per cent during the last 30 days leading up to 17 April 2026.</li> <li>• Crude imports were diversified to 41 countries, with strategic reserves (~5.3 MMT) maintained.</li> <li>• The Government of India revised its fuel duty as per notification dated 26 March 2026 by lowering the Special Additional Excise Duty (SAED) on petrol from ₹ 13 to ₹ 3 per litre and eliminating it entirely on diesel (from ₹ 10 per litre).</li> </ul>

<p><b>Power &amp; Alternate Energy Buffer</b></p>	<ul style="list-style-type: none"> <li>• India’s current installed capacity of over 531 GW reflects a well-diversified portfolio, with significant contributions from coal, renewables, hydro, and nuclear sources, with non-fossil sources exceeding 50 per cent.</li> <li>• Preparedness was ensured to meet peak summer demand, with ~8 GW of gas-based capacity backed by coal and renewable energy sources.</li> <li>• Renewable capacity exceeding 250 GW (including ~140 GW solar) provided a buffer against fuel shortages.</li> <li>• Coal allocation was increased, with stock levels at 125.54 MT at the pithead. Coal stocks at thermal power plants stand at 55.18 MT (~24 days of consumption), while 171.9 MT of coal available at mines in transit.</li> <li>• Imported Coal Based (ICB) plants are being fully operationalised to maximise existing capacity.</li> <li>• Frequency of e-auctions were increased in March 2026, with ~32.53 MT of coal offered to ensure availability across sectors. 30 e-auctions planned for April 2026, offering 25.8 MT with ~39 per cent booked so far.</li> <li>• Commissioning of under-construction thermal, hydro, renewable, BESS and PSP projects is being accelerated during April–June 2026.</li> <li>• Temporary regulatory relaxation allowed the use of alternate fuels such as biomass, RDF pellets, kerosene and coal for commercial establishments.</li> <li>• Granted temporary permission to PSU OMC petrol pumps to store up to 2,500 litres of SKO in drums/barrels through a temporary shed arrangement for public distribution. Imposed this as a short-term emergency facilitation measure with strict safety conditions and one-month validity.</li> </ul>
<p><b>Trade, Logistics &amp; External Sector</b></p>	<ul style="list-style-type: none"> <li>• A RELIEF Scheme (₹497 crore) was launched to offset elevated freight and insurance costs, providing up to 100 per cent ECGC risk cover, up to 95 per cent extended coverage, and up to 50 per cent reimbursement for MSME exporters.</li> <li>• The RELIEF scheme has been expanded to support exporters, with Egypt and Jordan added as eligible destinations and continued insurance and cost support via ECGC to MSMEs.</li> <li>• RoDTEP rates were fully restored on 23 March 2026, reversing the earlier 50 per cent restriction.</li> <li>• Continuous monitoring of trade disruptions was undertaken, along with efforts to diversify export markets and import sources.</li> <li>• Waivers and relaxations were provided on storage and dwell-time charges to ease congestion arising from the rerouting of vessels. SOP</li> </ul>

	<p>(06 Mar): waiver of ground rent &amp; demurrage (100 per cent), reefer plug-in charges (80 per cent); extended free storage for Gulf-bound cargo</p> <ul style="list-style-type: none"> <li>• Priority berthing for LPG vessels; night-time handling of Ammonium Nitrate; Bunker fuel availability at Indian Ports</li> <li>• So far, over 2447 Indian seafarers have been safely repatriated from various locations across the Gulf.</li> <li>• Expedited issuance of Export Obligation Discharge Certificates to help unlock working capital and improve liquidity for exporters.</li> <li>• Full Customs Duty exemption on critical petrochemical products till 30th June, 2026 to benefit sectors like plastics, packaging, textiles, pharmaceuticals, chemicals, automotive components and other manufacturing segments.</li> <li>• Creation of the ‘Bharat Maritime Insurance Pool’ with a sovereign guarantee of ₹12,980 crore to ensure uninterrupted and affordable maritime insurance for Indian trade, including vessels operating through volatile international routes.</li> </ul>
<p><b>Industrial Supply Chains</b></p>	<ul style="list-style-type: none"> <li>• Custom Duty exemptions on 40 critical petrochemical products announced till 30<sup>th</sup> June, 2026.</li> <li>• Temporary reduction in customs duties for SEZ units that sell their manufactured goods into the domestic market.</li> <li>• 0.23 TMT of Low Density Polyethylene (LDPE) have been allocated by the Ministry of Petroleum and Natural Gas, a key input for plastic packaging used by the dairy industry and has assured continued supplies of polypropylene and polystyrene, which are essential for plastic cups used in dairy packaging.</li> <li>• Supply chain disruptions across key sectors such as automobiles and electronics were monitored, and advisories were issued to encourage sourcing diversification and improved inventory management.</li> <li>• Faster approvals were facilitated for city gas distribution infrastructure to support the transition towards PNG.</li> <li>• A dedicated portal was launched on 30.3.2026 with all State Federations and Milk Unions as members to enable daily monitoring of dairy supply chains and availability of milk, fuel and packaging material.</li> <li>• Provision for 1000 MT/day, from LPG pool, has been made for Pharma and Chemical sector companies.</li> <li>• To support the pharmaceutical industry and ensure continued availability of essential and life-saving medicines, customs duty is reduced to zero on 40 petrochemical products.</li> <li>• Quality Control Order for Morpholine, an important input used in the manufacture of several life-saving drugs, has been suspended.</li> </ul>
<p><b>Agriculture &amp; Fertiliser</b></p>	<ul style="list-style-type: none"> <li>• Indian Council of Agriculture Research (ICAR) established a special task-force (STF) to address emerging global challenges and formulate mitigating strategies.</li> </ul>

	<ul style="list-style-type: none"> <li>• Adequate stocks of sugar available, with production expected to remain sufficient in 2025-26. So far, 15.6 LMT of sugar has been permitted for export.</li> <li>• Fertiliser plants were assured over 90 per cent gas allocation under the Natural Gas Control Order, safeguarding urea production. Average production of Urea increased from 56,000 MT per day in March to 67,000 MT per day in April 2026. Production of technical-grade urea, needed for diesel exhaust fluid, more than doubled.</li> <li>• Fertiliser imports (DAP, MOP) were closely monitored amid shipping disruptions and imports were secured from alternative sources.</li> <li>• Between March 01, 2026 and April 16, 2026, a total of 47.50 lakh tons of fertilisers - 28.22 lakh tons of Urea, 10.17 lakh tons of NPK, 3.34 lakh tons of DAP, and 5.77 lakh tons of SSP - have further boosted stocks, ensuring adequate availability.</li> <li>• Adequate input availability ensured for Kharif 2026: 46 per cent of fertilizer requirement available as opening stock, significantly higher than the usual pre-season level of around 33 per cent.</li> <li>• Nutrient based subsidy announced for Phosphatic and Potassic fertilizer (DAP/NPKS) to ensure availability at revised, affordable rates for Kharif 2026.</li> <li>• More than 1.85 lakh Nigrani Samitis have been formed to carry out awareness campaigns on judicious use of fertilisers.</li> </ul>
<b>Food &amp; Inflation Management</b>	<ul style="list-style-type: none"> <li>• Procurement of wheat under MSP operations has started, primarily through State Government agencies.</li> <li>• Prices of essential commodities, particularly edible oils, were closely monitored.</li> <li>• Buffer stock management and coordination with states were undertaken to maintain price stability and contain inflationary pressures.</li> </ul>
<b>Financial &amp; Trade Facilitation</b>	<ul style="list-style-type: none"> <li>• Customs facilitation measures were implemented to ensure faster clearance of cargo and reduce trade bottlenecks.</li> <li>• Engagement with the banking system ensured the continued availability of export credit and liquidity support.</li> </ul>
<b>Aviation &amp; Transport</b>	<ul style="list-style-type: none"> <li>• Ministry of Civil Aviation has issued directions to Airports Economic Regulatory Authority (AERA) and Airports Authority of India (AAI) to reduce parking and landing charges by 25 per cent for a period of three months, which will reduce landing and parking charges payable by airlines by ~₹400 crore.</li> <li>• Only a partial pass-through of ATF price hikes was permitted, with the increase for domestic operations capped at 25 per cent.</li> <li>• Export duty on diesel was increased to ₹55.5 per litre from ₹21.5 per litre, while on jet fuel exports, the levy was hiked to ₹42 per litre from ₹29.5 per litre to ensure domestic availability.</li> <li>• Flights were rerouted to avoid conflict-affected airspace, resulting in longer routes and higher aviation turbine fuel consumption.</li> </ul>

	<ul style="list-style-type: none"> <li>The impact on operational costs was monitored, and route optimisation was undertaken to minimise disruptions.</li> </ul>
<b>Governance &amp; Coordination</b>	<ul style="list-style-type: none"> <li>An Inter-Ministerial Group (IMG) on Supply Chain Resilience was operationalised on 2 March 2026, with daily review meetings from 3 March 2026 to ensure coordinated monitoring and response across sectors.</li> </ul>
<b>Investor confidence</b>	<ul style="list-style-type: none"> <li>Clarification issued by the Department of Revenue that the provisions of GAAR shall not be invoked for investments made prior to 1 April 2017.</li> <li>Maintenance of sufficient liquidity in the financial markets</li> </ul>

## Annexure -II Performance of high-frequency indicators

Data Title	Unit	YTD Period/As at the end of	Year to Date			Year to Date (YoY Growth)		
			2023-24	2024-25	2025-26	2023-24	2024-25	2025-26
<b>Agriculture</b>								
Fertiliser Sales	Mn Tonnes	Apr-Nov	427.1	444.5	453.3	6.6	4.1	2.0
Domestic Tractor Sales	Lakh	Apr-Mar	8.7	9.3	11.6	-7.4	6.9	24.7
Foodgrain Production	Mn Tonnes	2nd AE	332.3	357.7	348.6	0.8	7.7	-2.6
Rice Procurement (KMS)	LMT	Sept-31st March	478.5	511.6	536.7	-6.9	6.9	4.9
Credit to Agri & allied activities	₹ Lakh crore	Feb	20.3	22.6	25.4	20.1	11.3	12.5
<b>Industry</b>								
IIP	Index	Apr - Mar	146.7	152.6	158.9	5.9	4.1	4.1
8-Core Industries	Index	Apr - Mar	157.8	164.9	169.2	7.6	4.5	2.6
Domestic Auto sales	Lakh	Apr - Mar	223.1	240.8	265.3	13.3	8.0	10.2
PMI Manufacturing	Index	Apr - Mar	57.2	57.4	57.3	3.0	0.4	-0.3
Power consumption	Billion kWh	Apr - Mar	1622.0	1692.4	1708.3	7.8	4.3	0.9
Natural gas production	Bn Cu. Metres	Apr - Feb	33.3	33.1	31.9	5.7	-0.5	-3.7
Cement production	Index	Apr - Mar	185.7	197.4	214.4	8.9	6.3	8.6
Steel consumption	Mn Tonnes	Apr - Mar	136.3	152.1	163.7	13.7	11.6	7.6
<b>Inflation</b>								
CPI-C	Index	Apr - Mar	97.0	101.5	103.5	5.4	4.6	2.1
WPI	Index	Apr - Mar	151.4	154.9	155.9	-0.7	2.3	0.7
CFPI	Index	Apr - Mar	96.8	103.6	103.3	7.5	7.1	-0.3

Data Title	Unit	YTD Period/As at the end of	Year to Date			Year to Date (YoY Growth)		
			2023-24	2024-25	2025-26	2023-24	2024-25	2025-26
<b>Services</b>								
Domestic Air Passenger Traffic	Lakh	Apr - Feb	2798	3051	3104	14.4	9.0	1.7
Port Cargo Traffic	Million tonnes	Apr - Mar	820.6	854.9	915.0	4.6	4.2	7.0
PMI Services	Index	Apr - Mar	60.3	59.2	59.4	3.0	-1.0	0.2
Fuel Consumption	Million tonnes	Apr - Mar	234.3	239.2	243.2	5.0	2.1	1.7
UPI (Volume)	Crore	Apr - Mar	13117	18587	24162	56.6	41.7	30.0
E-Way Bill Volume	Crore	Apr - Mar	111.2	130.5	156.0	16.1	17.3	19.5
<b>Fiscal Indicators</b>								
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 - Mar	18.7	20.6	22.3	11.3	10.2	8.3
<b>External Sector</b>								
Merchandise exports	USD Billion	April-Mar	437.1	437.7	441.8	-3.1	0.1	0.9
Non-petroleum exports	USD Billion	April-Mar	352.9	374.3	387.9	-0.2	6.1	3.6
Merchandise imports	USD Billion	April-Mar	678.2	721.2	775.0	-5.3	6.3	7.5
Non-oil non-gold/silver imports	USD Billion	April-Mar	448.5	472.6	517	-3.8	5.4	9.4
Net FDI	USD Billion	Apr-Feb	11.5	1.5	6.3	-56.9	-87.3	331.5
Exchange Rate (Average)	INR/USD	Mar	83.0	86.6	92.8	-0.9	-4.2	-6.6
Foreign Exchange Reserves	USD Billion	Mar	646.4	668.3	688.1	11.8	3.4	3.0

Data Title	Unit	YTD Period/As at the end of	Year to Date			Year to Date (YoY Growth)		
			2023-24	2024-25	2025-26	2023-24	2024-25	2025-26
Import Cover	Months	Mar	10.9	11.0	11.2	-	-	-
<b>Monetary and Financial</b>								
Total Bank Credit	₹ Lakh crore	31 Mar	164.3	182.4	213.6	20.2	11.0	17.1
Non-Food Credit	₹ Lakh crore	31 Mar	164.1	182.1	212.9	20.2	11.0	16.9
10-Year Bond Yields	Per cent	31 Mar	7.07	6.62	7.02	-24	-45	40
Repo Rate	Per cent	31 Mar	6.50	6.25	5.25	0.0	-25	-100
Currency in Circulation	₹ Lakh crore	31 Mar	35.1	37.2	41.7	3.9	6.1	11.9
M0	₹ Lakh crore	31 Mar	46.3	48.3	51.2	5.6	4.3	6.0
<b>Employment</b>								
Net payroll additions under EPFO	Lakh	Apr-July	46.1	44.7	69.0	-4.3	-3.1	54.4
Number of person demanded employment under MGNREGA	Crore	Apr-Mar	33.3	30.7	25.7	0.4	-7.7	-16.3
Urban Unemployment Rate	Per cent	Oct-Dec	6.5	6.4	6.7	-70.0	-10.0	30.0

**Notes on colour coding in Performance of HFIs:**

- For all indicators except MGNREGA, CPI-C, WPI, CPFI, CPI-Core, Fiscal Deficit, primary deficit, Exchange rate, the 10-year bond yield, and the repo 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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