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REVIEW***

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## *Preface*

*We are approaching the end of the first month since the Persian Gulf War began. As I write this on the 25<sup>th</sup> March afternoon here in Delhi, it is striking to see the near-term Brent and WTI contracts trading below 100 and 90, respectively. [They have since climbed back]. This would be welcome news were it accompanied by physical improvement in the movement of oil-bearing vessels through the Strait of Hormuz. Such is not the case. As is so often the case with financial markets, prices appear disconnected from reality.*

*The American President has claimed that a deal to almost completely disarm Iran is imminent. The Iranian side disputes that. For the rest of the world that depends on passage of oil, gas and other materials through the Strait of Hormuz, a cessation of hostilities and a peace deal reopening the Strait to the free flow of goods would be a profoundly positive development. The critical question, however, concerns the extent of damage already done to energy sites and what it would take to restore normal supplies. That would determine how quickly oil and gas prices fall for buyers, even if the Strait were to reopen promptly.*

*For forecasting and planning purposes, therefore, it is prudent to assume a slow, gradual restoration of 'business as usual' in the Gulf rather than an accelerated one. It is always easier to call off preparations than to make them at the eleventh hour. It is also an opportunity for countries to structurally fortify themselves against future supply disruptions, whether man-made or natural.*

*As written last month, the impact of the conflict on India will be felt through four channels: (a) supply disruptions to oil, gas and fertilisers and more importantly, to exports as well, (b) higher import prices, (c) higher logistics costs (e.g., freight and insurance) and (d) a possible decline in remittances by Indians in the Gulf countries. (The slowdown in exports to Gulf countries may not be particularly consequential for overall exports.) The combined impact across the four channels on growth, inflation, the fiscal balance, and external balances is likely to be significant.*

*India will need to provide immediate relief to the most affected and vulnerable businesses and households, and at the same time, generate fiscal space to meet strategic and long-term needs that this conflict has underscored, such as the need to build long-term buffers in several commodities and materials, not just energy-related ones. This calls for re-prioritisation of spending and targeted relief for the most affected and vulnerable businesses and households.*

*India's merchandise trade deficit exceeded USD 280 billion in 2024-25, amounting to around 7.5 per cent of GDP. The trade deficit will rise significantly in FY27, widening the current account deficit. Keeping it manageable will require burden-sharing between the government, via fiscal absorption, and households and businesses. Pass-through of higher import prices to end-users will also moderate demand growth and, with it, the pressure on the current account. Demand moderation will also ease the central bank's dilemma over the appropriate monetary policy response to conflict-induced shocks. If demand moderates in response to higher prices, the central bank will be more inclined to treat the inflationary impact as a supply shock. Otherwise, it may be compelled to watch for second-round effects of higher import costs on inflation and respond accordingly. Higher interest rates burden the entire economy, whereas the pass-through of material prices falls on specific end-users.*

*On the 27<sup>th</sup> February, we upgraded India's growth estimate (at constant prices) for FY27 to a range of 7.0 per cent to 7.4 per cent. Clearly, there is considerable downside to this number. Data for March will not reveal much, since businesses are trying to meet full-year targets for FY26. High-frequency data for April and possibly May may give us a better handle on the likely growth rate for the new financial year. Similarly, the current account deficit too will widen significantly in FY27.*

*At the same time, in the current and the preceding financial years, net capital flows to India have been sharply lower, although gross foreign direct investment flows have remained steady. Continued efforts to lower manufacturing costs — such as reducing tariffs on industrial power; allowing employers and employees to agree on averaging labour hours over a quarter or half-year and reducing overtime rates — will further enhance India's already-strong attractiveness as an investment destination, given its market size. Further, in the current circumstances, credible assurances of tax policy certainty, stability and continuity will matter more than ever.*

*Given the considerable impact of the conflict on India's economy, we should leverage the fallout to redouble our recent reform efforts to enhance India's competitiveness and preparedness. The 'entrepreneurial mindset' in bureaucracy (not making the 'best' the enemy of the 'good'), accompanied by enhanced speed of decision-making, discussed in Chapter 16 of the Economic Survey, is precisely what is called for if India is to emerge from this episode stronger, more resilient and more competitive.*

*-V. Anantha Nageswaran (Chief Economic Advisor, Government of India)*

## ***Abstract***

*The economic outlook has become more uncertain in the wake of recent geopolitical developments in West Asia, which have disrupted key energy and logistics channels and led to a tightening of global supply conditions. Prior to the onset of these developments, economic activity in India remained robust up to February 2026, with strong performance across both supply and demand-side indicators. This month's edition of the Monthly Economic Review mostly reviews the performance of the Indian economy as reflected in the data for February, prior to the escalation of the West Asia conflict, and may not fully capture the evolving impact of the conflict. However, the data reflect that the recent shocks are being transmitted through higher input costs, supply constraints, and pressures across sectors, with early indications of some moderation in economic activity. While domestic demand conditions have remained relatively stable so far, risks to growth are increasingly evident, particularly for sectors dependent on imported inputs.*

*Industrial activity grew moderately in February 2026 amid divergent sectoral trends. While the hydrocarbon segment weighed on overall performance due to the contraction in crude oil and natural gas output amid global energy uncertainties, domestic demand-driven sectors remained resilient. Strong growth in steel and cement production, alongside steady expansion in coal and fertilisers, underscores sustained momentum in infrastructure and construction activity, supported by public capital expenditure and supply-side policy initiatives such as the Bharat Audyogik Vikas Yojna (BHAVYA).*

*On the inflation front, retail inflation rose to a 10-month high of 3.21 per cent in February 2026, driven primarily by a sharp uptick in food prices, while most other categories remained broadly stable. The current inflation numbers do not yet reflect the potential impact of rising crude oil prices, which pose an upside risk going forward.*

*Monetary and financial sector conditions have remained supportive. Bank credit growth strengthened further, rising 14.5 per cent (YoY) in February 2026. Concurrently, the overall flow of financial resources to the commercial sector grew at 33.2 per cent (YoY).*

*In recent times, a decline in predictability, with trade policy uncertainty emerging as the prevailing norm, has been observed. This shift can be attributed to various factors, including tariffs and other restrictions, as well as supply chain challenges stemming from geopolitical disruptions. In February 2026, India's merchandise exports declined marginally by 0.8 per cent (YoY) while non-petroleum, non-gems and jewellery exports grew by 6.6 per cent (YoY).*

*Services exports have continued to provide a thrust to the country's trade performance effectively, and the services trade surplus covered 85.4 per cent of the merchandise trade deficit.*

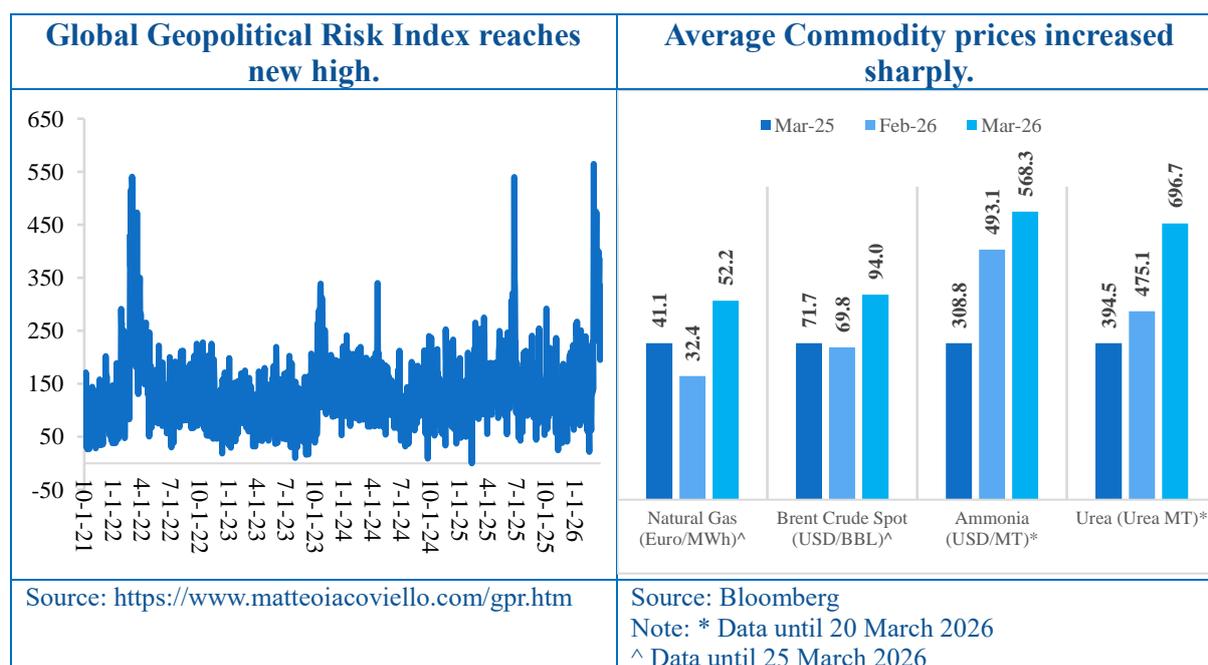
*India's current account deficit widened to 1.3 per cent of GDP in Q3 of FY26, from 1.1 per cent of GDP in Q3 FY25. The increase was mainly driven by a larger merchandise trade deficit, notwithstanding continued strong performance in the services sector. During April-January FY26, gross FDI inflows increased; however, this momentum did not translate into higher net FDI, which remained subdued and has been negative for five consecutive months. Increased geopolitical uncertainty has dampened global risk appetite; as a result, the portfolio flows remained negative in March 2026. Foreign exchange reserves continue to remain comfortable, providing cover for more than 11 months of goods imports.*

*Amid global uncertainty, India's labour market in FY26 has remained steady with higher participation rates, declining unemployment, and consistent hiring activity across various sectors. Employment in the unincorporated sector remained robust in CY 2025, with improved wages and labour productivity, alongside increasing digital adoption and gradual gains in women's enterprise ownership.*

*The Government has undertaken a range of measures to manage supply disruptions, ensure energy availability, support trade and logistics, and maintain overall economic stability. While these interventions, along with existing macroeconomic buffers, provide some support, the balance of risks remains tilted to the downside. In this context, continued vigilance and proactive policy measures will be important to mitigate the impact of evolving global uncertainties.*

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

1. Successive **global shocks this decade have left the world economy characterised by elevated uncertainty and rising fragility**. The escalation of tensions in West Asia since late February 2026 has added further disruption, affecting the Strait of Hormuz, a critical maritime chokepoint that handles around one-fifth of global seaborne oil trade, along with significant volumes of LNG and fertilisers. The disruption is transmitting through closely linked energy and logistics channels. Ship transits through the Strait have nearly stopped (one a week, as against 200-300 a week), constraining the movement of hydrocarbons and tightening global supply conditions. This has resulted in a sharp rise in energy prices, with crude oil prices doubling over a short span and natural gas prices also firming up, especially for the European benchmarks.<sup>1</sup> At the same time, freight costs have surged, driven by higher tanker rates, a near doubling in bunker fuel prices, and a sharp increase in war-risk insurance premiums, substantially raising the cost of transporting energy and other goods.



2. The effects of current challenges are becoming increasingly evident across interconnected commodity systems. Fertiliser markets are experiencing pressure because approximately one-third of the global seaborne fertiliser trade passes through the Strait. Higher

<sup>1</sup> US gas is reportedly still oversupplied domestically so the LNG Benchmark prices for US's Henry Hub did not reflect the price changes. TTF is high because Europe is on a thin margin between renewables, nuclear, LNG imports, and demand, so any short-term shock—in weather, maintenance, or storage—tilts the basin sharply bullish.

natural gas costs, supply disruptions from the Gulf, and elevated freight charges are driving up prices, which impact agricultural production and food prices.

3. Several major Gulf players (Qatar Energy, Kuwait Petroleum Corporation, and Bapco of Bahrain) have invoked force majeure clauses and cut or temporarily halted production/refining due to the attacks on energy infrastructure. 17 per cent of Qatar LNG capacity got lost after Iran missiles hit Ras Laffan, the world's largest industrial city and hub for liquifying and exporting natural gas, and this outage is expected to last for several years. Saudi Arabia's major refinery, Aramco, temporarily shut its Ras Tanura refinery (about 550,000 b/d) in early March 2026.

4. Going forward, the fundamental problem is a simultaneous double squeeze - no crude coming in, and no product going out. So even where crude can come in via alternate pipelines, finished products cannot leave as they are more dependent on tankers, making partial operation economically pointless. Thus, production of crude and natural gas will have to be scaled down owing to overflowing bunkering facilities, which have not been cleared as the tankers are stranded. Output product storage capacity generally does not exceed a month's worth of requirements. Hence, if refineries are shut down, it will take a long time to resume normal oil production even after the conflict subsides. Overall, these cascading effects are expected to weigh on global economic activity and reinforce inflationary pressures, with risks to growth skewed to the downside.

5. These developments have introduced a complex and multi-layered set of risks for India, given its position as a major energy importer with strong trade, investment and remittance linkages with the West Asia region. The channels of impact are analysed in **Box I**.

#### **Box I: Anatomy of the crisis impacts for India**

The most immediate and significant transmission channel is through energy markets. While alternative sourcing remains feasible for crude and LNG, it involves time lags and elevated costs. LPG faces more acute constraints due to limited substitutability (around 93 per cent is sourced from conflict-affected regions) and low refinery yields (LPG yields are only around 4-6 per cent of throughput).

The crisis has triggered widespread input cost pressures across industries reliant on petrochemical derivatives and gas-based fuels. Fertilisers (gas-based urea), petrochemicals, and gas-based power generation are directly affected by LNG shortages and price increases.

For India's agricultural sector, the region is a key source of fertilisers and related feedstocks such as ammonia, sulphur, and phosphoric acid. Over 80 per cent of ammonia and sulphur imports come from the Gulf, while around 40 per cent of DAP imports are sourced from Saudi Arabia.<sup>2</sup> While fertiliser availability remains manageable in the near term, risks persist for the rabi season if the situation remains unresolved. Input cost increases and logistical constraints may affect farm operations, even as some export-oriented crops experience price declines due to demand disruptions.

While refineries focus on increasing LPG output, this reduces the output of other petrochemical products, creating disruptions in feedstock availability. Shortages of key intermediates such as solvents (e.g., methanol, acetone, IPA) and polymers (e.g., HDPE) are disrupting production cycles in pharmaceuticals, chemicals, packaging, textiles, and plastics. Constraints in polymer production are affecting packaging availability for essential goods, including food and medicines.

In several segments, particularly MSMEs and continuous-process industries like glass or ceramics, the inability to switch fuels or inputs has led to production curtailment and temporary shutdowns. The dual impact of non-availability and cost escalation is amplifying stress on margins and output.

Shipping disruptions, rerouting, and war-risk premiums have significantly increased freight and insurance costs. Transit delays have lengthened delivery cycles, affecting both imports of critical inputs and export commitments. Export-oriented sectors—including engineering goods, textiles, leather, and gems & jewellery—are facing reduced competitiveness due to rising logistics costs and weakening demand from Gulf markets. Airspace restrictions have further compounded challenges for high-value and time-sensitive cargo. Airspace closures and higher ATF prices are increasing operational costs, reducing connectivity, and dampening demand for the aviation sector.

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<sup>2</sup> <https://indianexpress.com/article/opinion/columns/disruption-caused-by-west-asia-war-carries-a-reminder-policy-reforms-in-fertiliser-sector-are-overdue-10583818/>

Higher petroleum import bills, combined with increased logistics costs and reduced exports to the Middle East, could exert pressure on the current account. Additionally, potential moderation in remittance inflows—given that a significant share originates from the Gulf—poses a downside risk. According to data from the Ministry of External Affairs, an estimated 9.2 million Indians live and work in West Asia, with the largest concentration in the United Arab Emirates, where the Indian diaspora is estimated to be close to four million.<sup>3</sup> According to RBI estimates, at least 35 per cent of India’s annual remittances originate from West Asia. This implies that India’s exposure to remittances from the region is around USD 40 billion annually.<sup>4</sup> These factors, alongside portfolio capital outflows, have contributed to depreciation pressures on the Indian Rupee, necessitating calibrated policy responses.

On the fiscal side, higher subsidy requirements (fertiliser and fuel) and potential revenue shortfalls may widen the fiscal deficit, underscoring the need for expenditure prioritisation.

The impact is characterised by both supply-side disruptions and cost-push pressures, with heterogeneous effects across sectors. The cumulative impact operates through three broad pathways: (i) reduced production due to input and energy constraints, (ii) moderation in consumption driven by higher prices and supply shortages, and (iii) decline in exports to affected regions. These factors, if sustained, could weigh on overall growth and employment, particularly in vulnerable sectors. Continued monitoring and targeted policy interventions remain critical to mitigating near-term risks and preserving macroeconomic stability.

6. The transmission of higher global prices and logistics costs is already visible through exchange rate pressures, with the rupee depreciating to around ₹93.88 per US dollar (24 March 2026), reflecting both trade-related pressures and heightened global risk aversion. In March alone, around USD 12.5 billion in outflows have occurred on the portfolio side. The overall balance of risks remains tilted towards supply-side pressures.

7. Early high-frequency indicators for March 2026 suggest a moderation in economic momentum, reflecting the initial impact of these global developments. E-way bill generation declined by 5.3 per cent on a month-on-month basis up to 22 March, indicating some moderation in goods movement, although it remained higher by 9.4 per cent on a year-on-year basis. Flash PMI estimates for March 2026 point to a softening in output growth following the energy price shock. At the same time, demand conditions appear relatively resilient: vehicle

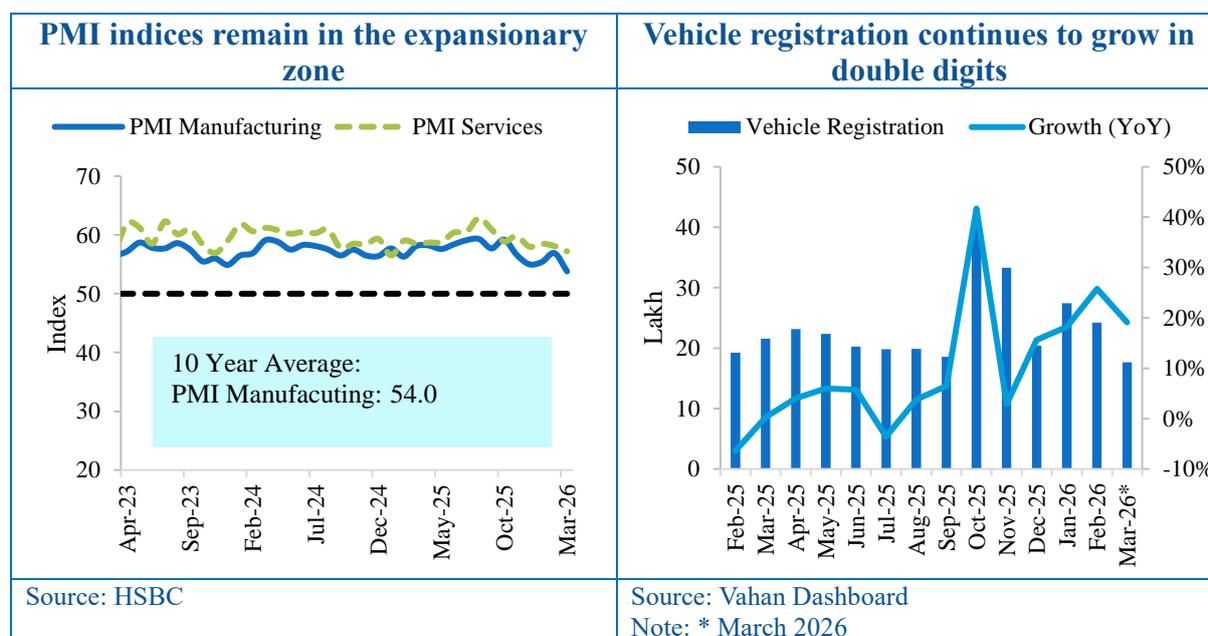
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<sup>3</sup> Source: [MEA](#)

<sup>4</sup> RBI Bulletin March 2025: <https://tinyurl.com/yccca3mb>

registrations grew by 19.1 per cent YoY up to 24 March 2026, and digital payment volume up to 22 March continued to expand in double digits. The March 2026 round of the Rural Economic Conditions and Sentiments Survey (RECSS), conducted during the last week of February 2026 and the first week of March 2026, indicates some softening in rural sentiment; however, consumption growth strengthened in the March 2026 round.

8. Prior to the onset of the West Asia conflict, economic activity in India sustained its growth momentum during the first two months of calendar year 2026, underpinned by strong performance across both supply and demand-side indicators. The Purchasing Managers Index (PMI) for manufacturing rose to a four-month high of 56.9 in February, while the services PMI stood at 58.1, signalling continued expansion in both sectors. High-frequency supply-side indicators, including e-way bill generation, rail freight traffic, and petrol and diesel consumption, also recorded robust growth during the month.



9. On the demand side, indicators pointed to broad-based strength. Retail automobile sales expanded by 25.2 per cent year-on-year in February, with double-digit growth across segments such as two-wheelers, three-wheelers, commercial vehicles, and tractors, reflecting buoyant consumption demand. This was complemented by a 26.6 per cent increase in digital payments volume. Rural demand remained resilient, as evidenced by a 25.2 per cent year-on-year increase in rural auto retail sales, supported by strong tractor demand.

10. In this context, India's relatively strong macroeconomic fundamentals, supported by policy measures, provide resilience, but the evolving situation warrants continued close monitoring and calibrated policy responses.

## **Domestic industrial resilience amid energy uncertainty**

11. The combined Index of Eight Core Industries registered a provisional growth of 2.26 per cent in February 2026 on a year-on-year basis, with the cumulative growth rate for April to February 2025-26 standing at 2.9 per cent (provisional), a moderation from the 4.4 per cent recorded for the same period in the previous year. The headline number, however, masks significant divergence across sectors, leading to the moderation. The hydrocarbon complex, comprised of crude oil, natural gas, and petroleum refinery products, has weighed on aggregate performance, with crude oil output contracting by 5.2 per cent in February 2026 and natural gas declining by 5.0 per cent.<sup>5</sup>

12. The pressures on India's hydrocarbon output have coincided with a period of heightened uncertainty in global energy markets, with ongoing geopolitical tensions involving suppliers who make up a significant portion of India's crude and natural gas basket. This has, in turn, introduced both price and supply volatility. The current geopolitical environment adds an additional layer of caution to near-term energy security assessments, particularly for a refining-intensive economy that remains heavily dependent on imported feedstock.

13. Notwithstanding these external headwinds in the energy segment, domestic demand-driven sectors present a contrasting picture. The performance of construction-linked and industrial sectors provides a more encouraging counterpoint. Steel production expanded by a robust 7.2 per cent in February 2026, sustaining a cumulative growth of 9.7 per cent for the April-February 2026 period. This makes the steel sector the strongest sectoral performer in the index by a considerable margin. Cement output also recorded a strong 9.3 per cent growth in February, with cumulative expansion of 9.2 per cent, signalling continued momentum in infrastructure and construction activity, consistent with the Government's sustained capital expenditure push. Coal production grew at 2.3 per cent in February, while fertiliser output rose 3.4 per cent, supporting agricultural supply chains ahead of the upcoming kharif season. Taken together, these sectors point to an underlying resilience in domestic demand-driven industrial

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<sup>5</sup> PIB release of the Ministry of Commerce & Industry dated 20 March 2026: <https://tinyurl.com/4ffsbdeu>

activity, even as the external energy environment remains a source of uncertainty for the aggregate index.

14. Additionally, the Union Cabinet's approval of the Bharat Audyogik Vikas Yojna (BHAVYA), with an outlay of ₹. 33,660 crores for developing 100 plug-and-play industrial parks across the country marks a significant step toward translating India's manufacturing ambitions into investable, shovel-ready infrastructure. Building on the National Industrial Corridor Development Programme (NICDP) framework, BHAVYA addresses a persistent structural bottleneck of the gap between investment intent and operational readiness<sup>6</sup>.

15. By pre-approving land, front-loading core, value-added, and social infrastructure at up to ₹. One crore per acre, and extending connectivity support up to 25 per cent of the project cost, the scheme significantly compresses the time-to-production curve for incoming investors. Parks ranging from 100 to 1,000 acres will be selected through a challenge mode, incentivising states to compete on reform quality and investment readiness rather than merely on land availability. Anchored in PM GatiShakti principles and designed around green energy and integrated utility corridors, BHAVYA is positioned as a long-term supply-side intervention aimed at strengthening domestic supply chains, deepening cluster-based industrialisation, and broadening the geography of manufacturing opportunity to all States and Union Territories.

16. Consistent with these developments, survey-based indicators provide additional insights into evolving conditions and expectations in the infrastructure sector. As per the RBI's Services and Infrastructure Outlook Survey for Q3 FY26<sup>7</sup>, the infrastructure sector's Q3 FY26 assessment showed some moderation, with the overall business situation net response declining to 27.3 from 35.2 in Q2 FY26, and turnover sentiment easing to 28.5 from 34.8. Cost pressures intensified during the quarter, accompanied by rising salary and finance cost burdens. Selling price growth and profit margins also softened relative to the previous quarter, though both remained in positive territory.

17. Looking ahead, the sector's forward-looking indicators are considerably more buoyant. Infrastructure firms are highly optimistic about overall business conditions in Q4 FY26, with the net response on overall business situation rising to 69.8, and profit margins expected to improve sharply to 63.1. Extending to Q1 and Q2 of FY27, firms anticipate sequential improvement in demand conditions and turnover, though input cost pressures are expected to

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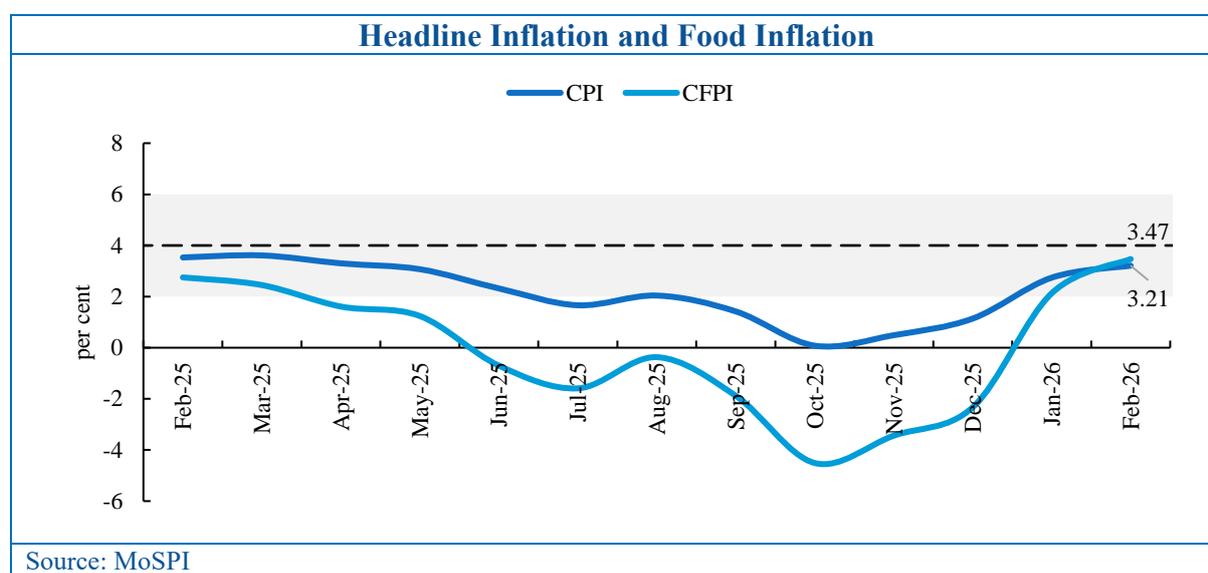
<sup>6</sup> PIB release of cabinet dated 18 March 2026: <https://tinyurl.com/bp5hjubf>

<sup>7</sup>RBI Services and Infrastructure Outlook Survey for Q3:2025-26: <https://tinyurl.com/4xe233mn>

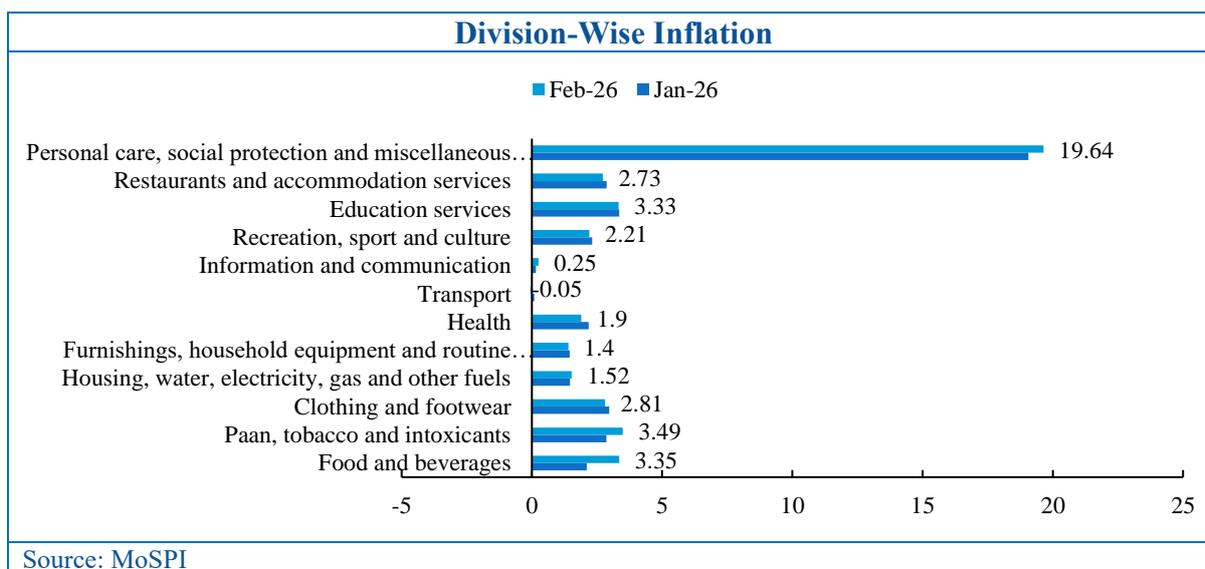
persist, with the cost of inputs net response remaining elevated at around -67. Physical investment expectations remain particularly strong, reaching 72.6 in Q4 FY26, pointing to sustained capacity-expansion appetite despite the near-term cost environment.

## Retail inflation rebounded

18. The retail inflation registered a 10-month high in February 2026, rising to 3.21 per cent from 2.74 per cent in the previous month, largely driven by food inflation. Inflation has been on an upward path since October 2025, when it bottomed out at 0.08 per cent, and is now moving closer to the inflation target of 4 per cent.



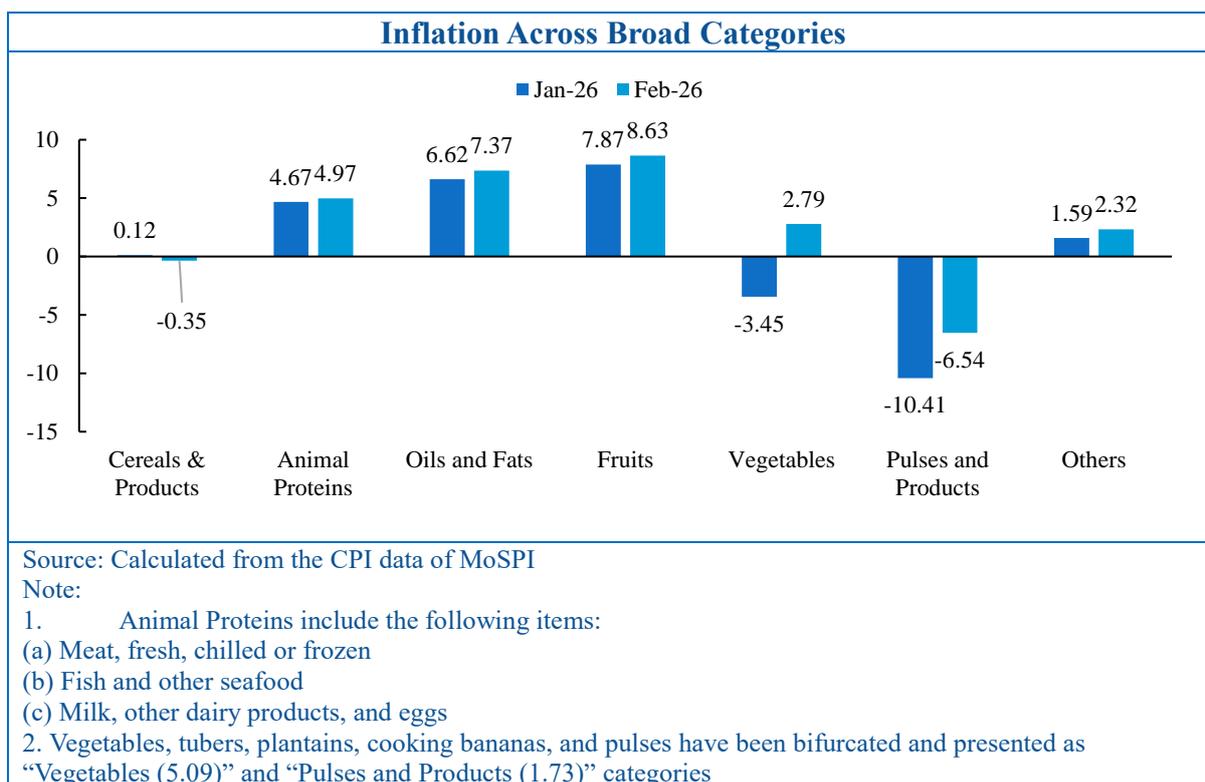
19. The largest increase in inflation is recorded in the ‘Food & beverages’ *division* – 124 basis points (from 2.11 per cent in January 2026 to 3.35 per cent in February 2026). While inflation in other *divisions* was more or less stable, the ‘Personal care et al’ *division* continues to be in the high inflation category (19.6 per cent) owing to the high prices of gold and silver and associated jewellery. Apart from precious metals, price pressures were building across several FMCG items. Inflation numbers are yet to reflect the impact of the crude oil price shock emanating from the recent conflicts in West Asia, as retail prices have not been adjusted yet.



### Food inflation picks up

20. Relatively high inflation was recorded in fruits (8.63 per cent), edible oils (7.37 per cent), and Animal Proteins (4.97 per cent). An early end of winter and adverse weather conditions in some parts of the country have affected the winter fruit production. High inflation in the fruits category was due to a rise in the prices of coconut and some seasonal fruits like grapes and watermelon. The high price of coconut was also reflected in the Oils and Fats category, with the price of coconut oil rising. Apart from coconut oil, high inflation was also recorded in mustard oil (9.99 per cent) and refined oil (6.39 per cent). Among Animal Proteins, high inflation was recorded in major consumption items, including Chicken (12.23 per cent) and Fish & Prawn (6.97 per cent), which contributed to a price rise in the segment.

21. Vegetable prices turned around from a declining phase to a rising phase and registered an inflation of 2.8 per cent in February 2026. This was mostly due to a high spike in tomato prices (45 per cent), even when potatoes (-18.46 per cent) and onions (-28.20 per cent) prices were declining sharply in February 2026. The decline in pulses' prices moderated to (-) 6.5 per cent from (-)10.4 per cent. Improved domestic production and calibrated import policies on Tur, Urad and Yellow peas under 'free category' till 31 March 2026 have helped in easing the prices in the domestic pulses market.



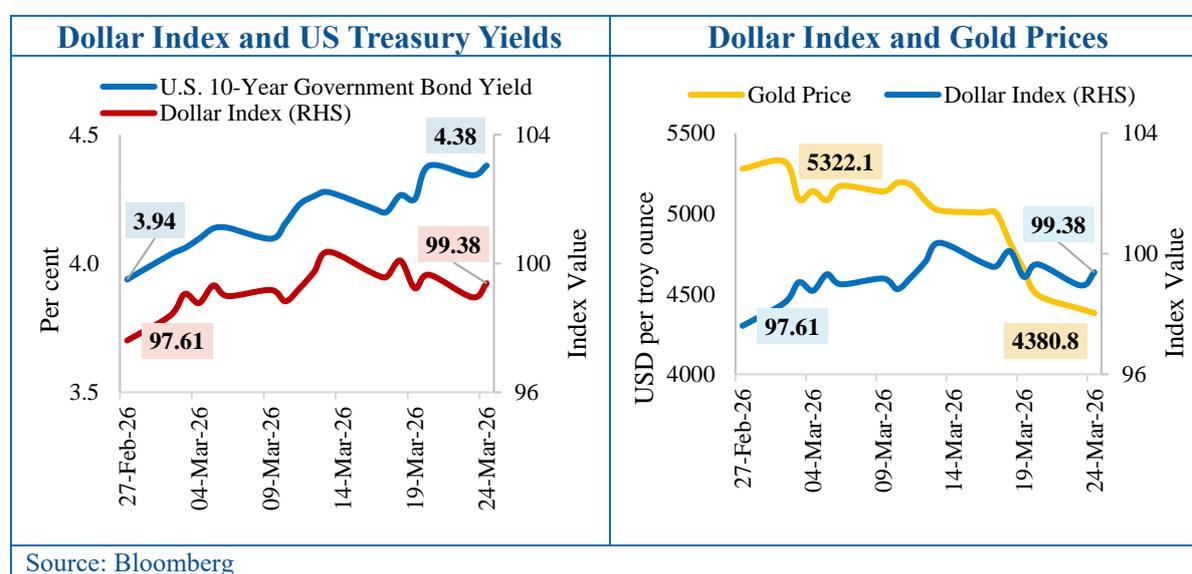
### Some upside risks to inflation

22. The present agricultural supply conditions remain favourable. Indicating strong production prospects, the wheat acreage in Rabi 2026 has increased to 334.17 lakh hectares, and the pulses cultivation area in the summer season expanded by 0.51 lakh hectares. The area under summer cultivation of edible oil, however, declined marginally. The current stock position of rice (including paddy) is 12 times the buffer norm, and that of wheat is nearly double the buffer norm for January 01, 2026. The oil price shock poses an unexpected upside risk for inflation in the medium term. Supply disruptions and higher input costs are being transmitted into domestic prices, particularly in fuel-intensive sectors. At the same time, selective price corrections in perishables—due to export disruptions—reflect localised demand-supply imbalances. If oil and gas prices remain high, they may spill over into other sectors through higher input prices. However, the Government is closely monitoring the situation and has been taking several measures to ensure adequate domestic energy availability and cushion any adverse effects.

### Monetary and financial sector developments

23. Geopolitical conflicts typically drive investors towards safe-haven assets, including US Treasuries. The increasing demand for these instruments consequently lowers their yields. The ongoing conflict in West Asia, however, has produced a notably different outcome, not merely

due to risk aversion but also to the inflationary consequences of the accompanying oil shock. As energy prices rose sharply in the wake of the conflict, markets began pricing in a more persistent inflationary environment, leading to expectations that the Federal Reserve would maintain higher interest rates for longer. This shift in rate expectations, rather than safe-haven demand, has been the dominant force driving US 10-year yields upward, rising 44 basis points from 3.94 per cent on February 27, 2026, to 4.38 per cent by March 24, 2026. Simultaneously, the dollar index has strengthened by 1.82 per cent over the period from 27 February 2026 to March 24, 2026<sup>8</sup> reflecting both conventional flight-to-safety flows and the deteriorating growth outlook for net energy-importing economies, whose trade balances are adversely affected by elevated oil prices. The combined effect of a stronger dollar and rising yields has exerted downward pressure on most major global currencies.



24. Gold prices and the dollar index initially moved together, as both are conventional safe-haven assets with gold rising sharply from USD 5278.9 per ounce on 27 February 2026, to a peak of USD 5322.1 per troy ounce on March 02, 2026, as investors sought protection against the risk of wider regional conflict and supply disruptions. Thereafter, however, the two assets diverged. As inflation concerns deepened and rate-cut expectations receded, the dollar continued to strengthen, while gold prices eased to USD 4380.8 per troy ounce as of March 26, 2026.<sup>8</sup> This divergence is due to gold being a non-yielding asset, and a rising dollar makes it more expensive for non-dollar investors; both factors typically suppress gold prices when monetary tightening expectations dominate the macroeconomic narrative.

<sup>8</sup> Bloomberg

25. The oil price shock has also been transmitted into equity markets through channels that extend beyond risk aversion. Rising energy prices hardened inflation expectations and pushed back the anticipated timeline for Federal Reserve rate cuts, prompting markets to reprice equities downward as higher discount rates erode the present value of future earnings. Adding to this, disruptions to trade flows, attacks on commercial shipping, and the threat of supply constraints around the Strait of Hormuz have introduced a layer of uncertainty. The initial phase of a traditional risk-off sentiment has evolved into a more significant risk assessment, as market participants are now considering the potential for prolonged oil prices to induce stagflationary conditions. As of March 23, 2026, the MSCI World Index has decreased by 5.97 per cent on a month-to-date basis. In comparison, the MSCI Emerging Market Index has fallen by 13.52 per cent, while the MSCI India Index has declined by 10.65 per cent.<sup>9</sup>

## **Bank Credit**

26. As of 28 February 2026, the bank credit growth stands at 14.5 per cent (YoY) compared to 11.1 per cent (YoY) in the corresponding period of the previous year.<sup>10</sup>

27. According to the most recent data on the sectoral distribution of bank credit by scheduled commercial banks, as of January 2026, YoY growth rates for overall bank credit and non-food credit are 14.6 per cent and 14.4 per cent, respectively, up from 11.4 per cent and 11.3 per cent in January 2025.

28. 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 an increase of 15.5 per cent (YoY). A significant factor contributing to this growth is a rise in credit for shipping and tourism, hotels and restaurants, which have registered growth of (YoY) by 44.5 per cent and 19.2 per cent, respectively, increasing significantly, from 1.1 per cent and 5.8 per cent in December 2024.

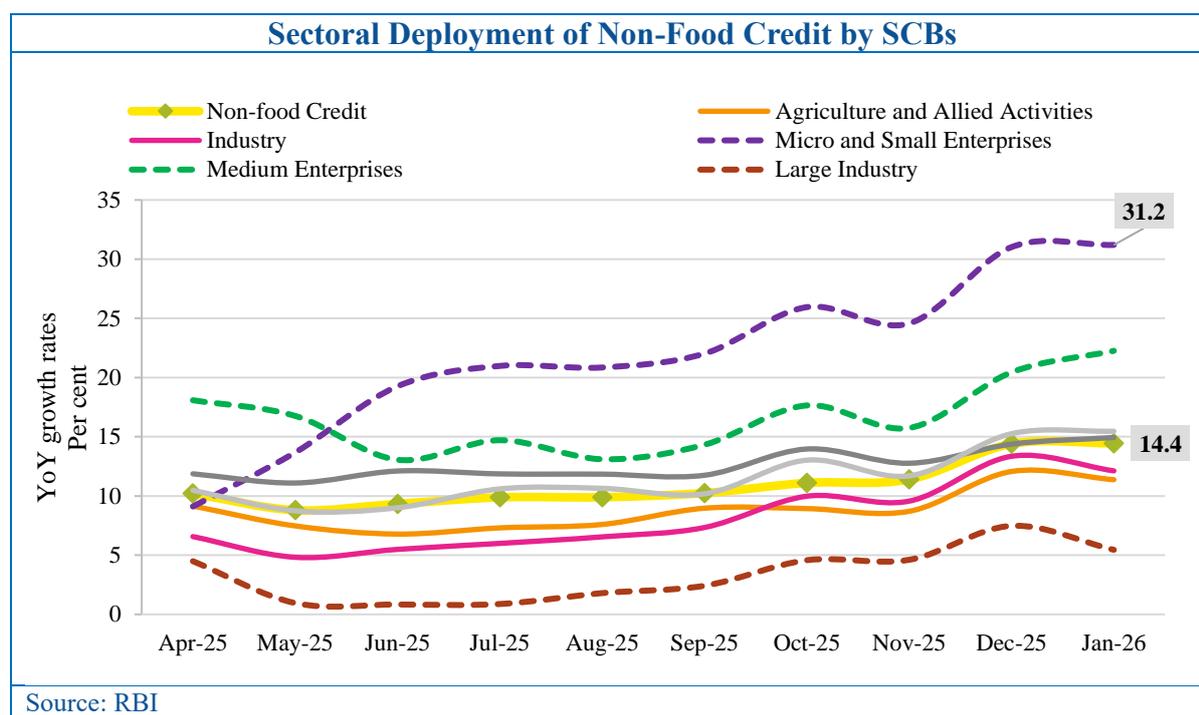
29. Within the industry, the bank credit to the MSME sector continues to show momentum and remains robust. In January 2026, bank credit to this sector rose 28.5 per cent YoY, compared with 12.2 per cent in January 2025. Within the MSME sector, credit extended to

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<sup>9</sup> MSCI Indexes - <https://tinyurl.com/37pj2kav>

<sup>10</sup> RBI's Weekly Statistical Supplement dated March 20, 2026: <https://tinyurl.com/55zaw89v>.

micro and small enterprises increased by 31.2 per cent (YoY) in January 2026, up from 9.6 per cent in January 2025.<sup>11</sup>



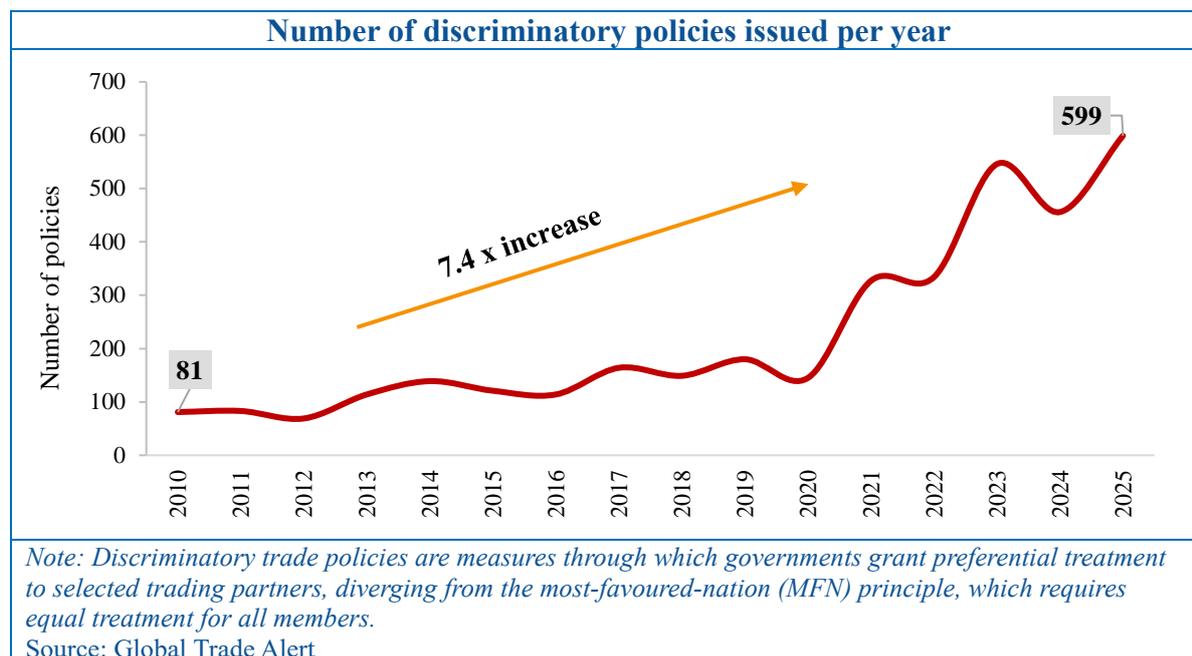
30. In addition to the recent uptick in bank credit growth, the overall flow of financial resources to the commercial sector has also increased. As of February 28, 2026, it stands at ₹39.2 lakh crore, a 33.2 per cent YoY increase from February 28, 2025. Among non-bank sources, increases of 11.8 per cent YoY and 148.2 per cent YoY have been observed in corporate bond issuances by non-financial entities and external commercial borrowings by non-financial entities, respectively.

## Global Trade Dynamics

31. Predictable market access is essential for integrating economies into global supply chains and enabling export-led growth. However, in recent years, this predictability has declined, and trade policy uncertainty has become the prevailing norm. Global trade dynamics are increasingly characterised by the frequent use of tariffs, export controls, investment screenings, and technology restrictions. Consequently, the number of discriminatory policies issued annually has risen significantly, from 81 in CY 2010 to 599 in CY 2025, an increase of

<sup>11</sup> RBI's Sectoral Deployment of Bank Credit Data, January 2026: <https://tinyurl.com/44tm77n3>.

approximately sevenfold. This proliferation of unilateral measures, inherently discretionary and unpredictable, heightens the risk premium associated with cross-border trade.<sup>12</sup>



32. Reflecting these significant shifts in global trade policies, data from the World Trade Organisation (WTO) reveals a notable decline in the share of worldwide trade conducted under Most-Favoured-Nation terms, decreasing from 80 per cent in CY 2022 to approximately 72 per cent based on data from CY 2024 and tariff actions recorded through the end of February 2026.

33. Despite this challenging trade policy environment, the volume of world merchandise trade registered a growth of 4.6 per cent (YoY) in CY 2025. This increase can be attributed to the rising demand for AI-related goods, which effectively mitigated the adverse effects of heightened trade policy uncertainty and escalating tariffs. During the same period, the volume of commercial services trade grew by 5.3 per cent (YoY). However, the WTO's outlook for merchandise trade and commercial services trade in CY 2026 and CY 2027 has been significantly influenced by the ongoing conflict in West Asia. Given that oil shipments through the Persian Gulf account for approximately 20 per cent of global liquefied petroleum consumption, the anticipated increase in oil prices is likely to impose substantial constraints on merchandise trade in CY 2026. Furthermore, as this region serves as a critical hub for transport and travel, the resulting disruptions may considerably affect the dynamics of trade in services. As a result of the impact of the conflict, the WTO's earlier forecast of 1.9 per cent growth of merchandise trade volume for 2026 is now projected to decrease to 1.4 per cent. Similarly, the

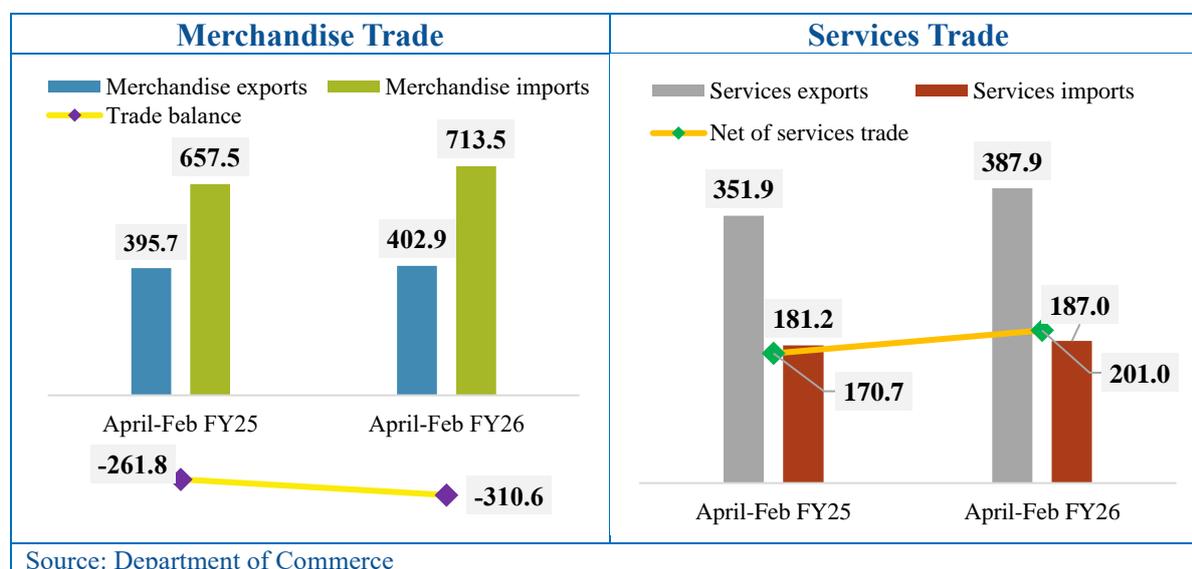
<sup>12</sup> UNCTAD's Global Trade Update, March 2026: <https://tinyurl.com/mt6vau8n>.

forecast for the growth of commercial services exports of 4.8 per cent for 2026 is now projected to decrease to 4.1 per cent.<sup>13</sup>

## India's trade performance

34. India's trade performance in April-February FY26 reflects steady momentum and resilience amidst the dynamic global trade landscape. The country's total exports (goods & services) have grown by 5.8 per cent (YoY), reaching USD 790.9 billion.<sup>14</sup> While merchandise exports have grown modestly by 1.8 per cent (YoY), services exports grew robustly by 10.2 per cent (YoY) during the period, reaching USD 387.9 billion. This strength in services exports has generated a net services surplus of USD 201 billion, which accounted for 64.7 per cent of the merchandise trade deficit and thus, the total trade deficit amounted to USD 109.7 billion, registering an increase of 20.4 per cent compared to the corresponding period in FY25.

35. During the same period, non-petroleum, non-gems, and jewellery exports grew by 5.7 per cent (YoY), mainly driven by electronic goods that have grown by 28.1 per cent (YoY). Petroleum products exports fell by 16.5 per cent (YoY) during April-February FY26. This reduction is likely attributable to the softening of the average Crude Oil FOB Price (Indian Basket), which has decreased to USD 66.8 per barrel in April-February FY26 from USD 79.2 per barrel in April-February FY25.<sup>15</sup>



<sup>13</sup> WTO's Global Trade Outlook and Statistics, March 2026: <https://tinyurl.com/3ajxkhmw>.

<sup>14</sup> The latest data for services sector released by RBI is for January 2026. The data for February 2026 is an estimation. (ii) Data for April-February 2024-25 and April-December 2025 has been revised on pro-rata basis using quarterly balance of payments data.

<sup>15</sup> PPAC: <https://tinyurl.com/39huzw6w>.

36. On the imports side, during the same period, total imports grew by 7.4 per cent (YoY), reaching USD 900.5 billion, with merchandise imports registering a growth of 8.5 per cent (YoY). The increase was driven by non-petroleum, non-gems, and jewellery imports, which grew by 9.2 per cent (YoY). In contrast, the petroleum, crude and products imports fell by 3 per cent (YoY), despite a 15.6 per cent decrease (YoY) in the average crude oil price. This import pattern indicates a robust domestic demand within the economy. Concurrently, service imports, which amounted to USD 187 billion in April-February FY26, grew by 3.2 per cent (YoY) compared to the corresponding period in FY25.

37. The trade statistics for February 2026 reveal a subdued performance in merchandise trade, contrasted by a marked resilience in services trade. On the merchandise side, while exports have declined by 0.8 per cent (YoY), imports have increased by 24.1 per cent (YoY), widening the merchandise trade deficit considerably. This increase in merchandise imports was primarily driven by a rise in gold and silver imports, which grew by 218.6 per cent and 285.2 per cent (YoY), respectively. The rise in imports of these precious metals may be attributable to higher gold and silver prices, which increased by 73.4 per cent and 154.9 per cent, respectively (YoY).<sup>16</sup> The combined effect of declining exports and rising imports led to a deterioration in the merchandise trade deficit, which widened to USD 27.1 billion in February 2026 from USD 14.4 billion in February 2025, representing an 87.9 per cent (YoY) increase. At the same time, the services trade continued to provide thrust to the country's trade performance. Services exports have grown by 24.9 per cent (YoY), amounting to USD 39.5 billion. Services imports have increased by 12.9 per cent; as a result, the net of services trade increased by 35.1 per cent (YoY), amounting to USD 23.2 billion. Effectively, the services trade surplus covered 85.4 per cent of the merchandise trade deficit, and therefore, the total trade deficit amounts to USD 4 billion in February 2026.

38. Rising tensions in West Asia have driven global crude oil prices higher, posing a growing risk to India's merchandise trade balance. Crude oil imports constitute approximately one-fourth of India's total imports, making the country vulnerable to global oil price movements. With average crude oil prices rising from USD 69 per barrel to USD 149.9 per barrel as of March 20, 2026, there is a significant risk that India's merchandise trade deficit will widen due to a rise in import costs.

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<sup>16</sup> World Bank Pink Sheet: <https://tinyurl.com/yey2dhzz>.

39. In the light of the disruption to transit through the Strait of Hormuz due to the conflict in West Asia, maritime trade has been affected. Given the strategic importance of the region for India's merchandise trade, the government has approved a time-bound support package of ₹497 crore for Indian exporters under the Export Promotion Mission. The Resilience and Logistics Intervention for Export Facilitation (RELIEF) intervention comprises three complementary components. The first component provides 100 per cent risk coverage, over and above the existing ECGC cover, during the eligible period (February 14-March 15, 2026), thereby ensuring enhanced protection without any additional financial burden. Building on this, the second component encourages exporters planning upcoming consignments over the next three months (March 16 - June 15, 2026) to obtain ECGC cover, with Government support for up to 95 per cent risk coverage over and above the existing ECGC cover, helping sustain exporter confidence and facilitate continued shipment flows despite logistics uncertainties. The third component addresses MSME exporters who, despite facing extraordinary freight and insurance surcharge burdens, may not have availed of credit insurance. For such exporters, RELIEF includes a partial reimbursement mechanism of up to 50 per cent for eligible non-ECGC-insured MSME exporters. All three components are applicable to consignments destined for countries in the region, including the United Arab Emirates, Saudi Arabia, Kuwait, Israel, Qatar, Oman, Bahrain, Iraq, Iran, and Yemen, whether for direct delivery or transshipment.<sup>17</sup> This intervention is expected to keep India's supply chains resilient, protect MSME exporters, prevent order cancellations and safeguard jobs in the export sector.

**Box II: India's Merchandise Import Linkages with the West Asia-GCC Region:  
Import Dependence and Diversification Prospects**

The West Asia–Gulf Cooperation Council (GCC) region accounted for 13.3 per cent of India's total merchandise exports during the period April–January 2026 and a 16.4 per cent share in total merchandise imports during the same period.

Within this trade relationship, the West Asia-GCC nations, particularly the UAE, Saudi Arabia, Qatar, and Kuwait, serve as key suppliers of critical commodities, including precious metals, hydrocarbons, industrial chemicals, and agricultural inputs. An analysis of 2024 trade data from the ITC Trade Map highlights both India's dependence on this maritime corridor and the scope for diversifying import sources across key sectors.

<sup>17</sup> PIB Press release of the Ministry of Commerce & Industry dated March 19, 2026: <https://tinyurl.com/5n6h34ds>.

## **1. Precious Metals and Stones**

In the precious metals and stones segment, the UAE plays a pivotal role in India's import basket. Notably, silver imports from the UAE account for 92 per cent of India's total silver imports. Additionally, the UAE accounts for 63 per cent of India's platinum imports, 25 per cent of gold imports, and 65 per cent of non-industrial unworked diamond imports.

In the event of sustained disruptions in the Strait of Hormuz, finding alternative suppliers may be necessary. For diamonds, supplementary sources include Belgium (14.5 per cent of global exports in 2024), Botswana (8.6 per cent), and Russia (8.4 per cent). For silver, Hong Kong (15.6 per cent), China (13.5 per cent), and the United Kingdom (12.5 per cent) may partially offset disruptions. Platinum imports may be diversified towards South Africa (15 per cent), Hong Kong (20.4 per cent), and the United Kingdom (12.4 per cent). However, none of these destinations individually approaches the UAE's current share in India's imports, indicating limited substitutability in the short term.

## **2. Hydrocarbons**

The region also accounts for a significant share of India's hydrocarbon imports, particularly liquefied propane and butane. Qatar accounts for a 43 per cent share in India's LNG imports. In this context, Australia and the United States, accounting for 22.1 per cent and 14.1 per cent of global LNG exports in 2024, respectively, emerge as significant alternative sources.

For liquefied propane, the United States, Canada, Algeria, and Norway account for 52.1 per cent, 7.1 per cent, 3.5 per cent, and 2.3 per cent of global exports, respectively, and may serve as alternative suppliers. Similarly, for liquefied butane, alternative suppliers may include the United States, Algeria, Norway, and Australia, which accounted for 29 per cent, 6.2 per cent, 5.8 per cent, and 5.4 per cent of global exports in 2024, respectively.

India currently relies on imports of pre-blended LPG to fulfil its demand for butane-heavy compositions, primarily sourced from West Asia. The natural gas supplied by other countries tends to be propane-heavy, requiring additional infrastructure to adjust the blend to domestic requirements. As the requisite infrastructure is not presently available, any diversification of import sources must be accompanied by the development of this necessary infrastructure within the country.

### **3. Industrial Chemicals and Agricultural Inputs**

In the industrial chemicals and agricultural inputs segment, Saudi Arabia accounts for 56 per cent of India's imports of diammonium phosphate. Alternative suppliers include China, Morocco, and Russia, which accounted for 26.7 per cent, 21.8 per cent, and 9 per cent of global exports in 2024, respectively.

Similarly, in the case of anhydrous ammonia, Saudi Arabia accounts for 33 per cent of India's imports. Alternative suppliers include Trinidad and Tobago (18.5 per cent), Canada (10.9 per cent), and Indonesia (8.9 per cent) of global exports in 2024.

In the petrochemicals segment, supply concentration is also evident, with Saudi Arabia and Kuwait accounting for 28 per cent and 30 per cent of India's styrene imports, respectively. The United States (19.8 per cent), the Netherlands (16.2 per cent), and Belgium (9.6 per cent) are well-established alternative suppliers. A similar concentration is observed in ethylene glycol imports, where Kuwait accounts for 65 per cent, with the United States (21.7 per cent) and Canada (9.7 per cent) emerging as the most credible substitutes.

A consistent pattern emerges across the examined product categories: the United States may act as a versatile alternative supplier for hydrocarbons, petrochemicals, and certain agricultural inputs. European suppliers, including Belgium, the Netherlands, and the United Kingdom, may provide reliable options in speciality chemicals and precious metals. Additionally, Australia and Canada may be considered as long-term partners for hydrocarbon supplies.

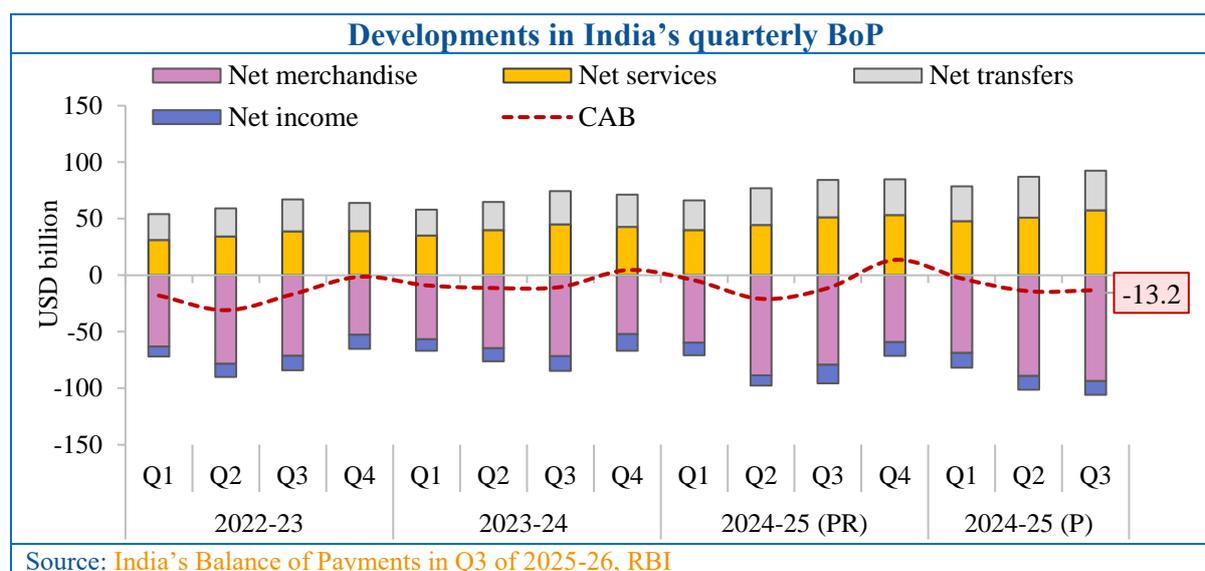
The ongoing conflict in West Asia presents significant challenges but also represents a potential strategic inflection for the nation. This situation offers an opportunity to advance the agenda of trade diversification. In this regard, pursuing free trade agreements with new partner countries, as well as optimising the utilisation of existing agreements, becomes increasingly important. It is anticipated that these initiatives will enhance diversification and strengthen resilience within India's trade relationships.

## Balance of Payments (BoP)

### Current Account Balance: Q3 FY26

40. India's current account deficit (CAD) widened to USD 13.2 billion (1.3 per cent of GDP) in Q3 of FY26, from USD 11.3 billion (1.1 per cent of GDP) in Q3 FY25. The increase was mainly driven by a larger merchandise trade deficit, which rose to USD 93.6 billion in Q3 FY26 from USD 79.3 billion in Q3 FY25, notwithstanding continued strong performance in the services sector.

41. Remittance inflows also remained robust, with personal transfer receipts rising to USD 36.9 billion from USD 35.1 billion over the same period. However, the outlook for remittances remains sensitive to crude oil price movements. Given that Gulf Cooperation Council (GCC) economies accounted for about 38 per cent of India's total remittances in 2023-24 and host nearly half of Indian migrants worldwide, any sustained rise in crude oil prices could weigh on fiscal conditions in these economies and, in turn, moderate remittance growth in the near term.

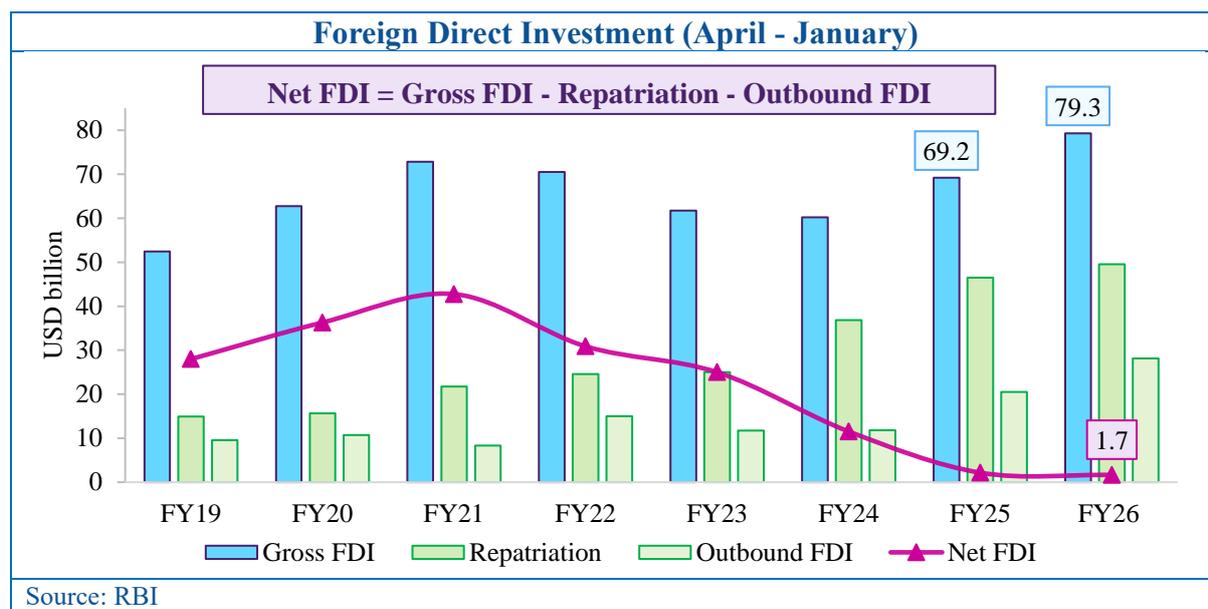


### Capital Account

42. Global capital flows have grown increasingly volatile, as persistent geopolitical uncertainties continue to reconfigure the risk calculus of international investors. For emerging market economies, this external environment has translated into episodic and often disruptive reversals in cross-border capital, irrespective of domestic fundamentals, a pattern that has been particularly pronounced over the past year.

## Foreign Direct Investment

43. During April-January FY26, gross FDI inflows increased to USD 79.3 billion from USD 69.2 billion in the corresponding period of the previous year. However, this momentum in gross inflows did not translate into higher net FDI, which remained subdued at USD 1.7 billion during the period. The weak net position reflects persistently elevated repatriation by foreign investors (USD 49.5 billion), coupled with increased outward investment by Indian firms (USD 28.1 billion).



44. On 10 March 2026, the Union Cabinet approved amendments to India's FDI framework governing investments from countries that share a land border with India. The amendment provides a definition and criteria for determining beneficial ownership (BO). Investments where the BO from land-border countries remains non-controlling and up to 10 per cent will be permitted under the automatic route, subject to the applicable sectoral caps, entry routes, and conditions. Additionally, introducing a defined timeline for approval in key manufacturing sectors is likely to reduce procedural delays and facilitate quicker investment decisions, thereby improving investor sentiment and regulatory certainty.

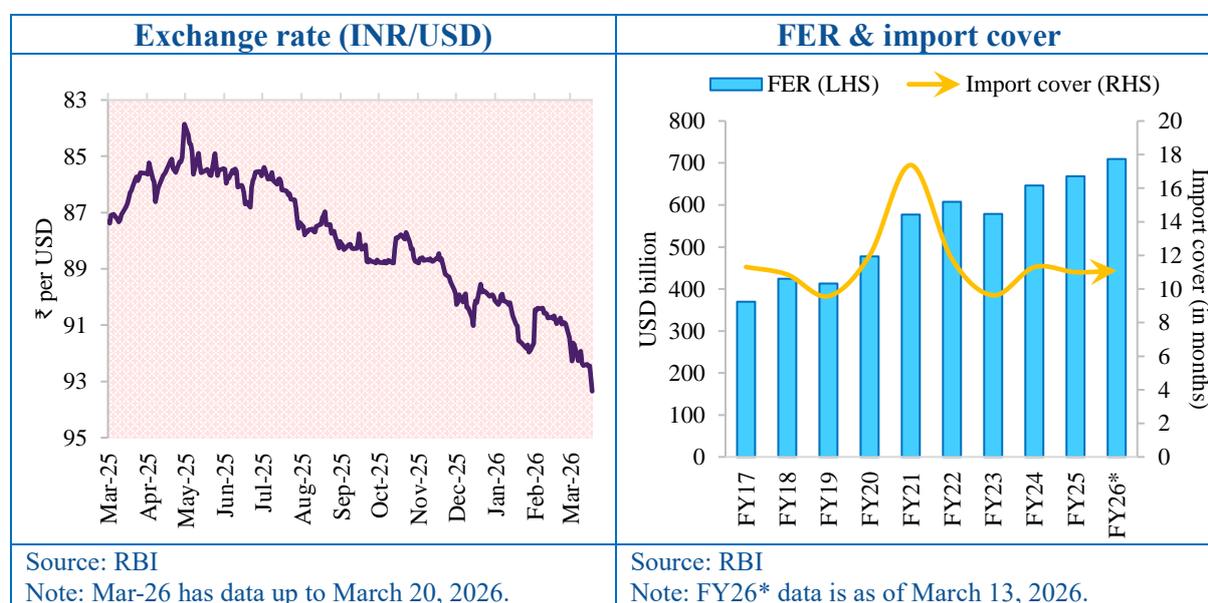
## Foreign Portfolio Investors

45. FPI flows into India have experienced persistent headwinds over the past fifteen months, with net outflows of USD 11.8 billion recorded in CY 2025. This pressure has continued into 2026, with net outflows of approximately USD 10.9 billion up to 23 March 2026. The recent intensification of selling pressure reflects a combination of factors: increased geopolitical uncertainty has dampened global risk appetite, while elevated yields on US

Treasury securities have continued to attract portfolio capital towards developed-market assets. This yield differential has prompted a widespread reallocation by global investors away from emerging markets.

## Exchange Rate and Foreign Exchange Reserves

46. India's economy remains deeply interconnected with global dynamics. Crude oil prices, determined by international demand and supply conditions, are a significant channel through which global developments influence India's external position. Given India's significant dependence on crude oil imports, geopolitical tensions in West Asia, including disruptions to key shipping routes, have contributed to elevated crude oil prices, which have weighed on the trade balance and exerted additional depreciation pressure on the rupee. While the exchange rate is ultimately influenced by a broader range of factors, including movements in the US Dollar Index, trends in capital flows, interest rate differentials vis-à-vis advanced economies, and the overall current account position, elevated crude oil prices remain one of the more direct channels through which global developments feed into India's external balance and currency dynamics. As a result, the rupee closed at ₹93.88 per US dollar on 24 March 2026, reflecting a depreciation of 9 per cent during FY26 and 3.1 per cent since the start of the West Asia conflict (up to 24 March 2026).

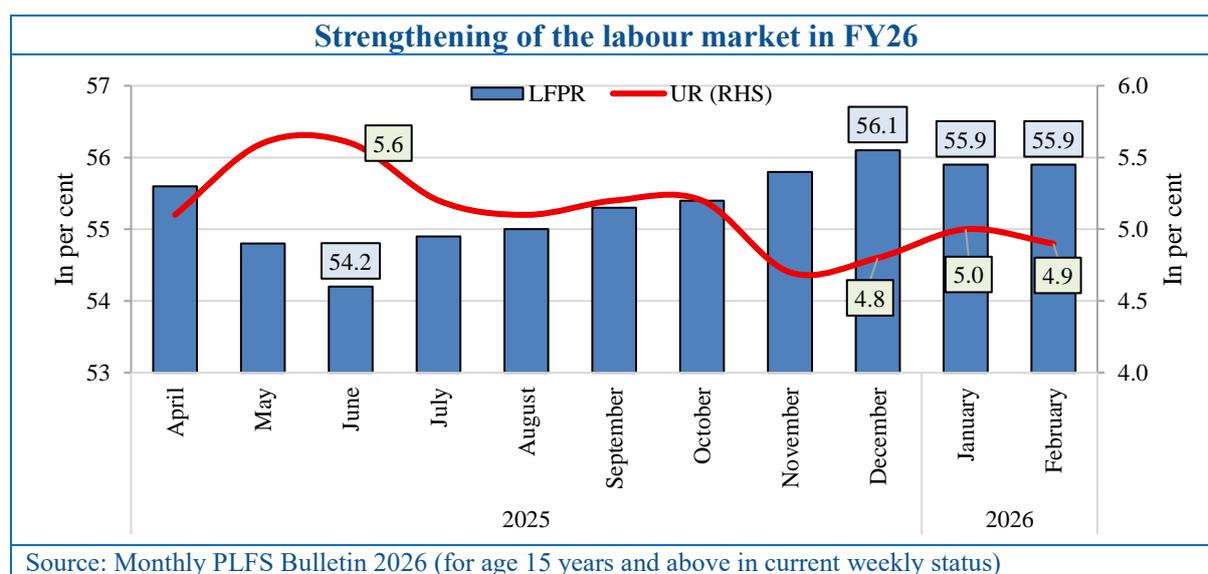


47. Against this backdrop, India's foreign exchange reserves of USD 709.8 billion (week ending 13 March 2026), providing over 11 months of import cover and equivalent to around 95 per cent of external debt outstanding as of end-September 2025, serve as a critical

macroeconomic buffer, ensuring resilience and external stability in the face of global uncertainties.

## Stable labour market in FY26

48. India's labour market in FY26 presents a picture of steady stabilisation, with improving participation, easing unemployment, and steady hiring momentum across sectors. The monthly Periodic Labour Force Survey (PLFS) for FY26 indicates a gradual strengthening and stabilisation of the job market, with a rising labour force participation rate (LFPR)<sup>18</sup> in the H2 FY26 (October 2025- February 2026), alongside an overall moderation in the unemployment rate (UR)<sup>19</sup>. The monthly PLFS for February 2026 shows the LFPR stable at 55.9 per cent, while the UR slightly eased to 4.9 per cent, compared to 5 per cent in January.<sup>20</sup> The decline in UR is driven by a significant fall in female UR, which declined from 5.6 per cent in January to 5.1 per cent in February 2026.



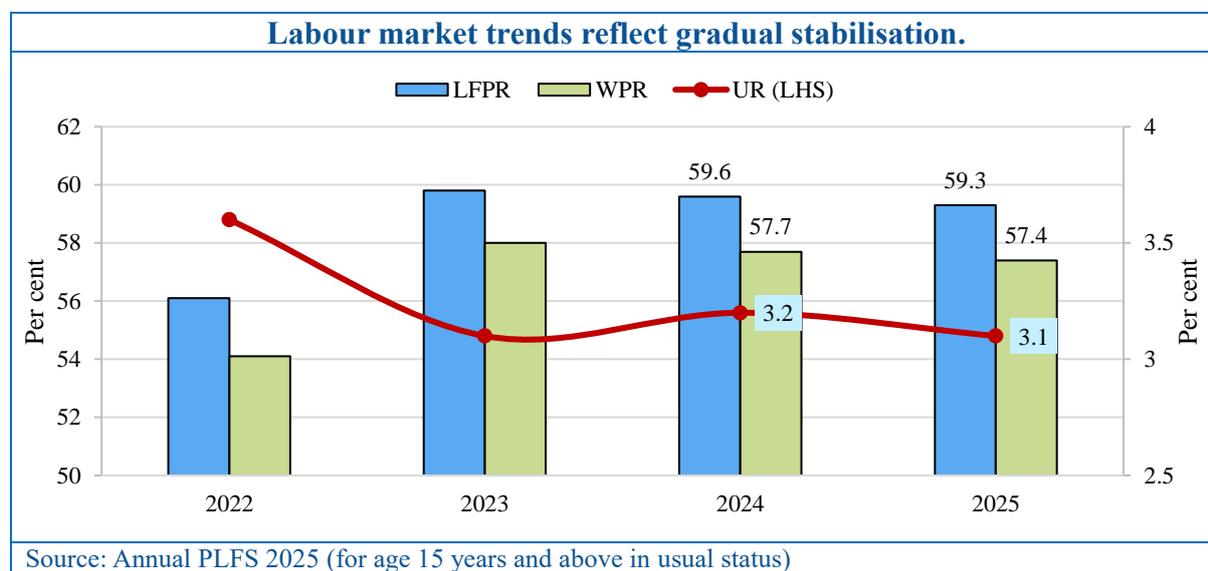
49. The broader trends observed in high-frequency monthly indicators are consistent with the findings of the latest annual PLFS release for CY 2025 (January – December 2025), which

<sup>18</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>19</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>20</sup> PLFS February 2026: <https://tinyurl.com/mrxp4dt7>

also points to a stable labour market. In 2025, the LFPR (15+ years, usual status<sup>21</sup>) stood at 59.3 per cent, marginally lower than 59.6 per cent in CY 2024. This was accompanied by a fall in the UR (15+ years, usual status) to 3.1 per cent from 3.2 per cent in 2024.<sup>22</sup> On average, 61.6 crore persons (aged 15 years and above, usual status) were employed in the country in CY 2025, of which 41.6 crore were male and 20.0 crore were female.<sup>23</sup>



50. Beyond key labour market indicators, the percentage distribution of workers in terms of employment status and industry indicates a gradual compositional shift in CY 2025 towards regular wage employment and higher productivity sectors. The share of self-employment declined to 56.2 per cent from 56.6 per cent in CY 2022, while regular wage/salaried employment increased to 23.6 per cent from 20.9 per cent during the same period. Casual labour declined from 22.5 per cent in CY 2022 to 20.2 per cent in CY 2025. Sectorally, the share of agriculture declined to 43.0 per cent from 45.5 per cent in CY 2022, while manufacturing increased to 12.1 per cent (from 11.2 per cent in CY 2022) and other services to 13.1 per cent (from 11.5 per cent in CY 2022), indicating a gradual shift towards non-farm employment.<sup>24</sup>

### Hiring in the white-collar job market

51. Other high-frequency indicators further corroborate the official labour market stabilisation trends. According to the Naukri Jobspeak Index for February 2026, India's white-

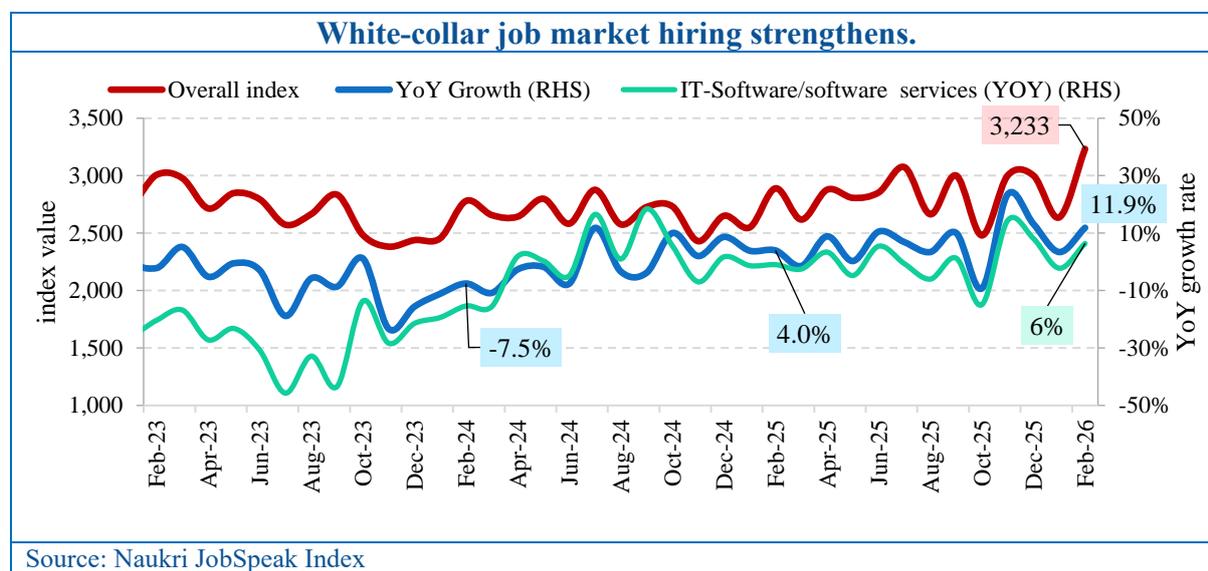
<sup>21</sup> The activity status of a person is determined on the basis of the activities pursued by the person during the specified reference period. When the activity status is determined on the basis of the reference period of last 365 days preceding the date of survey, it is known as the usual activity status of the person.

<sup>22</sup> [Annual Report Periodic Labour Force Survey \(PLFS 2025\) \(January - December 2025\)](#)

<sup>23</sup> The absolute number of workers has been estimated using the projected population figures of the Ministry of Health and Family Welfare (MoHFW).

<sup>24</sup> Ibid note 22 above

collar job market experienced its strongest February performance in recent years, with a 12 per cent year-on-year (YoY) rise. This rise was accompanied by a 17 per cent increase in fresher hiring (0-3 years of experience), alongside a 23 per cent increase in demand for roles in the ₹ 20+ lakh per annum (LPA) salary band, reflecting strength across both entry-level and high-value talent segments.



52. Non-IT sectors, such as insurance (+ 28 per cent), followed by BPO/ITES (+22 per cent), real estate (+19 per cent), hospitality/travel (+15 per cent), and retail (+14 per cent), continued to drive hiring momentum in the white-collar job market. Notably, the IT sector hiring rose 6 per cent YoY. The demand for AI/ML roles grew by 49 per cent YoY in February, maintaining their steady momentum.

53. This improving trend is also reflected in the unincorporated sector, which continues to exhibit robust employment and productivity gains.

### Employment in the unorganised sector

54. The Annual Survey of Unincorporated Sector Enterprises (ASUSE) for CY 2025 (January-December 2025), conducted by the Ministry of Statistics and Programme Implementation, reported that the number of workers in the unincorporated sector rose to 12.8 crore in 2025, increasing by 6.2 per cent, with more than 74.5 lakh new jobs in the sector compared to 2023-24 (October 2023 - September,2024).<sup>25</sup>

<sup>25</sup> ASUSE 2025 Factsheet: <https://www.mospi.gov.in/publications-reports>; In ASUSE 2025, data were collected from a total of 6,70,289 establishments (2,94,144 in rural and 3,76,145 in urban) pertaining to 24,153 surveyed FSUs (10,219 in rural and 13,934 in urban).

55. The survey findings show a rise in wages in the unincorporated non-agricultural sector, with average annual emolument per hired worker increased by 3.88 per cent, increasing from ₹1,41,071 in 2023-24 to ₹1,46,550 in CY 2025. During the same period, GVA per worker, a measure of the sector's labour productivity, rose to ₹ 1,56,539 in CY 2025 from. ₹ 1,49,742 in 2023-24.

56. Further, the share of establishments using the internet increased from 26.7 per cent in 2023-24 to 39.4 per cent in CY 2025, indicating rapid digital adoption within the sector. Notably, the share of female-owned proprietary establishments has increased modestly, rising from 26.2 per cent to 27.0 per cent over the same period, suggesting steady progress in women's participation in enterprise ownership.

### **Strong employment outlook**

57. Building on the observed labour market trends, forward-looking surveys further underscore the strength of labour demand in India, with employment outlook indicators signalling robust hiring intent across sectors and geographies. According to the ManpowerGroup Employment Outlook Survey, India's Net Employment Outlook (NEO)<sup>26</sup> stands at a robust 68 per cent for Q2 2026 (April-June 2026), the highest globally, with nearly three-fourths of employers (74 per cent) planning workforce expansion, reflecting broad-based confidence across sectors.<sup>27</sup> The finance and insurance sector reports the highest outlook, followed by utilities & natural resources and construction and real estate, indicating strong momentum in both services and infrastructure-linked activities. Corroborating trends observed in the white-collar labour market, hiring demand is largely driven by non-IT sectors. While employers reported that company expansion is still the top reason for hiring, automation & market changes are reported as the main reasons for firing existing workers, underscoring the growing importance of continuous skilling and workforce adaptability. Together, these trends underscore a labour market that is not only expanding but also increasingly driven by formalisation, enterprise growth, and evolving skill demands.

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<sup>26</sup> The Net Employment Outlook (NEO) is defined as the difference between the percentage of employers planning to increase staff and those planning to reduce staff.

<sup>27</sup> Since 1962, the ManpowerGroup Employment Outlook Survey has been conducted on a quarterly basis. In the latest edition of the Employment Outlook Survey, more than 3,000 employers across India reported hiring expectations for Q2 2026. Respondents shared whether their staffing levels would remain unchanged, increase through new hiring, or decrease due to layoffs or anticipated departures. Manpower Group Employment Outlook Survey Q2 2026: <https://tinyurl.com/2mbewhey>

## Structural and Policy Buffers Provide Resilience Against External Shocks

58. The sustained focus of the government on strengthening macroeconomic fundamentals through a series of structural and targeted interventions has created important structural and policy buffers to mitigate the impact of external shocks and build resilience.

59. India has significantly diversified its energy import basket over time, increasing the number of source countries from 27 to 41, with nearly 70 per cent of imports routed outside the Strait of Hormuz. In parallel, strategic preparedness has been strengthened through the development of over 5.3 MMT of strategic petroleum reserves, with plans to expand beyond 6.5 MMT, alongside adequate emergency fuel stockholding by oil companies. Public sector entities have also diversified sourcing of LPG and LNG, including long-term LNG contracts of about 6.5 MMTPA with the United States, along with additional sourcing from regions such as Africa, Latin America and Australia. Structured LPG supply contracts of around 2.2 MMTPA have also been secured, alongside efforts to expand sourcing from alternative suppliers.

60. In the agriculture sector, fertiliser availability remains comfortable ahead of the Kharif season. Total stocks stood at around 177 lakh metric tonnes in early March 2026, reflecting a 36.5 per cent year-on-year increase. This is supported by imports of about 98 lakh metric tonnes completed up to February 2026, along with additional planned imports of around 17 lakh metric tonnes in the coming months. Indian companies have secured long-term supply arrangements for phosphatic and potassic fertilisers.

61. The external sector is supported by strong buffers. Foreign exchange reserves provide adequate cover against external shocks and support exchange rate stability. Diversified trade linkages and resilient services exports further help mitigate external sector risks.

62. Financial and fiscal measures have also been undertaken to maintain stability. The Reserve Bank of India conducted open market operations amounting to ₹1 lakh crore in March 2026 to ensure adequate liquidity and orderly financial conditions. On the fiscal side, an Economic Stabilisation Fund of ₹57,381 crore has been proposed to provide headroom for responding to emerging pressures.

63. From a macroeconomic perspective, inflation conditions provide some headroom to absorb higher energy costs. Retail inflation (CPI) stood at 3.21 per cent and wholesale inflation (WPI) at 2.13 per cent in February 2026, both within manageable levels and below the RBI's

target band. Fuel and power inflation has remained subdued, contributing to overall price stability and providing policy flexibility in the near term. Further, India’s growth remains largely domestically driven, which helps reduce vulnerability to external demand shocks.

64. Overall, these buffers, spanning energy diversification, agricultural preparedness, inflation conditions, external sector strength, and policy measures, support the economy’s ability to absorb near-term disruptions arising from global developments, while ongoing monitoring and calibrated responses remain important in view of evolving conditions. The table below lists the details of measures undertaken by the government **to ensure energy security, strengthen supply chain resilience, and mitigate the impact of global disruptions on the economy.**

Sector	Key Measures Taken
<b>Energy (Oil, Gas &amp; Fuel Management)</b>	<ul style="list-style-type: none"> <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.</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.</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 and rationalisation of booking intervals.</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>• Crude imports were diversified to 41 countries, with strategic reserves (~5.3 MMT) maintained.</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>• 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>
<b>Power &amp; Alternate Energy Buffer</b>	<ul style="list-style-type: none"> <li>• Preparedness was ensured to meet peak summer demand, with ~8 GW of gas-based capacity backed by coal and renewable energy sources.</li> </ul>

	<ul style="list-style-type: none"> <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 and 53.41 MT at the power plants (~23 days of consumption).</li> <li>• Approximately 29 e-auctions in March 2026 offered ~23.56 MT of coal to ensure availability across sectors.</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>
<b>Trade, Logistics &amp; External Sector</b>	<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>• 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.</li> </ul>
<b>Industrial Supply Chains</b>	<ul style="list-style-type: none"> <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> </ul>
<b>Agriculture &amp; Fertiliser</b>	<ul style="list-style-type: none"> <li>• Fertiliser plants were assured 70 per cent gas allocation under the Natural Gas Control Order, safeguarding urea production.</li> <li>• Fertiliser imports (DAP, MOP) were closely monitored amid shipping disruptions.</li> <li>• Adequate availability was ensured through buffer stocks and advance procurement strategies.</li> <li>• Sufficient availability of fertilisers and key inputs was confirmed for the Kharif 2026 season, supported by coordination with states.</li> </ul>
<b>Food &amp; Inflation Management</b>	<ul style="list-style-type: none"> <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>• Flights were rerouted to avoid conflict-affected airspace, resulting in longer routes and higher aviation turbine fuel consumption.</li> <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>

## Outlook

65. The geopolitical developments have introduced a complex and multi-layered set of risks for India, given its position as a major energy importer with strong trade, investment, and remittance linkages with the West Asia region. While India's relatively robust macroeconomic fundamentals and sustained policy efforts provide resilience, the evolving situation warrants close monitoring and calibrated policy responses. The near-term outlook remains uncertain, with external shocks posing downside risks to growth through higher input costs and supply constraints, even as domestic demand may help cushion the impact.

66. The government's interventions across energy diversification, agricultural preparedness, inflation conditions, external sector strength, and policy measures support the economy's ability to absorb near-term disruptions arising from global developments, while ongoing monitoring and calibrated responses remain important in view of evolving conditions.

67. The recent oil price shock presents an upside risk to the inflation trajectory in the medium term, as higher energy costs are gradually transmitted into domestic prices, particularly in fuel-intensive sectors. While supply disruptions have added to cost pressures, selective price corrections in perishables, amid export-related dislocations, point to localised demand-supply imbalances. A sustained elevation in oil and gas prices could lead to broader second-round effects through input cost pass-through across sectors. Nonetheless, the Government remains vigilant, with measures underway to ensure adequate domestic energy availability and mitigate potential inflationary pressures.

68. Elevated global crude oil prices also pose risks to the merchandise trade balance, while the outlook for remittances also remains sensitive as the Gulf Cooperation Council economies

accounted for about 38 per cent of India's total remittances in FY24 and host nearly half of India's migrants worldwide.

69. In an increasingly uncertain global environment, the resilience of the Indian economy will depend on the strengthening of domestic fundamentals. This will require sustained focus on structural reforms to enhance competitiveness, achieve efficiency gains, and drive investment. At the same time, emphasis on preparedness, policy coordination, and domestic capacity development will remain important for navigating evolving global uncertainties and supporting growth.

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## Performance of high-frequency indicators for March 2026

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	427.13	444.47	453.3	6.6	4.1	2.0
Domestic Tractor Sales	Lakh	Apr-Feb	8.1	8.6	10.5	-5.7	5.9	22.2
Foodgrain Production	Mn Tonnes	2nd AE	332.3	357.7	348.6	0.8	7.7	-2.6
Rice Procurement (KMS)	LMT	Sept-27th March	477.5	510.1	529.5	-6.7	6.8	3.8
Rabi Sowing (Foodgrain)	Mn Hectare	30th Jan	55.2	56.7	58.0	-7.9	2.7	2.2
Credit to Agriculture and allied activities	₹ Lakh crore	Jan	20.0	22.5	25.1	20.0	12.5	11.5
<b>Industry</b>								
IIP	Index	Apr - Jan	145.3	151.4	157.4	6.0	4.2	4.0
8-Core Industries	Index	Apr - Feb	156.3	163.2	167.9	7.8	4.4	2.9
Domestic Auto sales	Lakh	Apr - Feb	204.43	220.31	241.056	13.2	7.8	9.4
PMI Manufacturing	Index	Apr - Mar	57.2	57.37	57.3	3.0	0.3	-0.1
Power consumption	Billion kWh	Apr - Feb	1483.93	1545.44	1558.89	7.7	4.1	0.9
Natural gas production	Bn Cu. Metres	Apr - Jan	30.35	30.37	29.28	5.2	0.1	-3.6
Cement production	Index	Apr - Feb	182.7	193	210.7	8.7	5.6	9.2
Steel consumption	Mn Tonnes	Apr - Feb	123.805	137.85	147.95	13.9	11.3	7.3
<b>Inflation</b>								
CPI-C	Index	Apr - Feb	96.9	101.5	103.4	5.4	4.7	1.9
WPI	Index	Apr - Feb	151.4	154.9	155.5	-0.8	2.3	0.4
CFPI	Index	Apr - Feb	96.7	103.9	103.2	7.4	7.5	-0.7
<b>Services</b>								
Domestic Air Passenger Traffic	Lakh	Apr - Feb	2798.2	3051	3104	14.4	9.0	1.7
Port Cargo Traffic	Million tonnes	Apr - Feb	745.3	771.0	830.7	4.6	3.4	7.7

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
PMI Services	Index	Apr - Feb	60.2	59.3	59.6	3.0	-0.9	0.3
Fuel Consumption	Million tonnes	Apr - Feb	212.6	218.5	222.3	5.2	2.8	1.7
UPI (Volume)	Crore	Apr - Feb	11768	16756.4	21897.5	56.8	42.4	30.7
E-Way Bill Volume	Crore	Apr - Mar	111.2	130.4	153.5	16.1	17.3	17.7
<b>Fiscal Indicators</b>								
Gross tax revenue (Central Govt)	₹ Lakh crore	Apr - Jan	27.1	29.8	32.4	14.8	10.0	8.7
Revenue Expenditure	₹ Lakh crore	Apr - Jan	26.3	28.1	28.5	1.2	6.8	1.4
Capital Expenditure	₹ Lakh crore	Apr - Jan	7.2	7.6	8.4	26.3	5.6	10.5
Fiscal Deficit	₹ Lakh crore	Apr - Jan	11.0	11.7	9.8	-7.6	6.4	-16.2
Primary Deficit	₹ Lakh crore	Apr - Jan	2.8	2.9	-0.1	-37.8	3.6	-103.4
GST Collection	₹ Lakh crore	Apr - Feb	17.1	18.7	20.3	11.7	9.6	8.3
<b>External Sector</b>								
Merchandise exports	USD Billion	April-Feb	395.4	395.7	402.9	-3.4	0.1	1.8
Non-petroleum exports	USD Billion	April-Feb	316.6	337.2	354.1	-1.0	6.5	5.0
Merchandise imports	USD Billion	April-Feb	621.2	657.5	713.5	-5.2	5.8	8.5
Non-oil imports	USD Billion	April-Feb	458.8	490.7	551.8	-1.0	7.0	12.4
Non-oil non-gold/silver imports	USD Billion	April-Feb	410.2	432.5	471.4	-3.9	5.4	9.0
Net FDI	USD Billion	Apr-Jan	11.5	2.2	1.7	-53.9	-81.2	573.6
Exchange Rate (Average)	INR/USD	Feb	83.0	87.1	90.7	-0.4	-4.7	-4.0
Foreign Exchange Reserves	USD Billion	Feb	625.2	638.7	728.5	11.1	2.2	14.1
Import Cover	Months	Feb	10.9	11.2	11.6	-	-	-
<b>Monetary and Financial</b>								
Total Bank Credit	₹ Lakh crore	15 Mar	164.3	182.4	207.7	21.3	11.0	13.8
Non-Food Credit	₹ Lakh crore	15 Mar	164.1	182.1	207.0	21.4	11.0	13.7

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
10-Year Bond Yields	Per cent	20 Mar	7.1	6.65	6.9	-21.0	-46.0	20.0
Repo Rate	Per cent	20 Mar	6.5	6.25	5.25	0.0	-25.0	-100.0
Currency in Circulation	₹ Lakh crore	15 Mar	35.0	37.0	41.3	3.7	5.8	11.7
M0	₹ Lakh crore	15 Mar	46.7	47.9	50.4	7.8	2.5	5.3
<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-Feb	30.9	28.3	23.9	2.1	-8.4	-15.8
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, 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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