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Preface

Seldom do we find ourselves in the position of having to write a preface for the 'Monthly Economic Review'. The year is barely two months old, but so much has happened already, and it threatens to unleash a lot more. As this MER was under preparation, came the news of the U.S. Supreme Court striking down the American government's imposition of tariffs under the International Economic Emergency Powers Relief Act.

Then, India released its new GDP series with 2022-23 as the base year and incorporating other methodological revisions. The new series cemented India's post-Covid growth rate at slightly over 7 per cent but left the size of the economy (nominal GDP) about 3 per cent below the previous estimate as of the end of March 2026. As a result, the fiscal deficit ratio for FY26 ticks up slightly, but the gross public debt ratio ticks up a tad more than 'slightly'. Given the depreciation of the Indian rupee in FY26 and the decline in the nominal GDP value from 357.1 trillion to 345.5 trillion rupees, the Indian economy may likely become the world's fourth largest economy in FY28.

Then, over the last weekend, the United States and Israel launched an attack on Iran called 'Operation Epic Fury'. It has already resulted in the death of the Supreme Leader of Iran, attacks on multiple Gulf states by Iran, with the attacks not just confined to American military installations but extended to civilian targets, too. Oil and gas installations have also been hit, and their supplies are temporarily disrupted. The Strait of Hormuz appears to be closed for all practical purposes, as insurance is unavailable. Scores of passengers are stranded in the Gulf region as airspace is shut.

Speculation as to what would constitute the endgame for this conflict is rife. One thing is certain. The levels of volatility in macroeconomic outcomes and financial markets, and the world's uncertainty, have risen and will likely remain elevated for some time. Regardless of the immediate 'end game' for this conflict, it may have made the long-term 'end game' for lasting peace in the Gulf and beyond less clear.

For oil traders, the central question is not whether hostilities pause but whether the risk to supply routes has fundamentally diminished. If the Strait of Hormuz remains vulnerable to disruption, the geopolitical risk premium in oil prices will inevitably return. If the confrontation ends with a credible shift in the regional balance of power, the international system will gradually absorb the shock, and markets will stabilise. But if the declaration of victory precedes the resolution of the underlying strategic contest, the apparent calm may prove fleeting.

The implications of this conflict for India are significant and may be longer-lasting in ways that are not immediately understood. As we wrote in the preface to the Economic Survey FY26, this war brings closer the third of the three risk scenarios we mentioned in the preface. We had also noted that the coming two decades might more closely resemble the inter-War period of the last century than not. If it is the baseline scenario, then maintaining steady, if not high, growth and macro and financial stability become paramount considerations for policy, as stability itself will be at a premium globally. Further, a few other priorities push themselves into the reckoning.

The last few days since the Gulf conflict erupted have once again underscored the importance of natural resource buffers in the coming years. Fiscal resources have to be found, and hence reprioritisation may be necessary in the coming years. That will be as true of states as it is true of the Union government. The importance of the certainty, predictability, continuity, and stability of tax policies and tax administration for attracting foreign direct investment has risen a few notches in the current global political scenario. Even if only latent for now, the risks to India's balance of payments may have become elevated due to this conflict. Stress-testing balance-of-payments under various scenarios has to be undertaken periodically.

With the government striking free trade agreements and with several underway, it has opened up markets for Indian exporters. They need to grab it, and it requires their commitment to quality, research and development and innovation. These are eternal reminders, but the conflict now with us has issued a serious, urgent reminder that there is not much time left for Indian businesses to embrace them. Amid these geopolitical developments, the diffusion of AI and its impact on employment and the competitiveness of India's service sector offerings must be closely monitored. The importance of preparing India's youth to prosper in the world of AI through meaningful educational reforms has become even more urgent.

India enters the next financial year with a solid macroeconomic backdrop, unlike during the previous turbulent episodes in the Gulf region. Growth is solid, inflation is moderate, credit growth is healthy, the fiscal deficit is under control, and external stability is intact. Scenario-building exercises on the macroeconomic impacts of higher oil prices suggest that crude oil prices must remain above 100 per barrel for a sustained period for macroeconomic aggregates to reflect the strain. But there are large unknown unknowns in several other areas. Crude oil may be one obvious stress marker, but the supplies of natural gas and cooking gas also matter. The safety of sea lanes matters for overall exports and capital flows.

This is no time for complacency or basking in the solidity of our post-Covid macroeconomic performance hitherto. That belongs to history. The future has become that much more uncertain, with every indication that it will remain so for quite some time to come. If and when growth is buffeted by external developments, long-standing issues such as urbanisation, air and water

pollution, unbalanced economic development of states and the unsustainable fiscal health of some of them may emerge as more binding growth constraints than before.

At the same time, the current global scenario also carries with it immense opportunities. India's shock absorbing capacities, amply demonstrated in recent years, if strengthened by proactive and entrepreneurial governance characterised by speedy decision-making, among other things, may become more priceless for investors, eliminating much of the potential stress to balance of payments. Even better, it may result in bigger capital inflows, accelerating investment and growth in the process, in an otherwise challenging environment.

With this preface to the MER out of the way, we now request you to delve into the rest of the MER written mostly before the outbreak of the most recent war in the Gulf region.

Executive Summary

At a time of heightened global uncertainty and shifting economic dynamics, the Union Budget 2026-27 positions India's policy framework around stability, resilience and inclusive growth. Building on the reform momentum of recent years, the Budget advances a calibrated strategy that combines fiscal prudence with targeted interventions to sustain growth, strengthen productivity and strategic resilience and expand economic participation. By aligning investment-led growth with human capital development and social protection, the policy approach seeks to reinforce macroeconomic stability while ensuring that growth remains broad-based and employment-oriented.

Economic activity in January 2026 remained broad-based, with high-frequency indicators pointing to sustained momentum. Manufacturing expansion was supported by strong order books and capacity utilisation above long-run averages, while services activity remained robust amid improving demand conditions. Alongside improved corporate performance and positive forward-looking indicators, these trends suggest continued growth momentum into the next fiscal year.

A key statistical milestone was the introduction of the revised GDP and CPI series, strengthening the measurement of economic activity and inflation dynamics. Inflation under the new CPI 2024 series firmed moderately in January 2026 to 2.75 per cent, reflecting normalisation in food prices, but remained within a broadly benign range. The new GDP series shows a smaller but steadfast economy, especially post-pandemic, with three consecutive years of growth above 7 per cent. Contribution to growth by industry and investment appears higher than what was in the earlier series. The new series resets the macroeconomic measurement framework, levels, growth rates, sectoral composition, and expenditure shares-against which fiscal, monetary, and structural policy will henceforth be assessed.

Fiscal policy continues along a consolidation path while maintaining expenditure quality. During April-January FY26, capital expenditure grew by 11.2 per cent while revenue expenditure remained contained. The fiscal deficit up to January was lower than in the corresponding period of the previous year, reflecting improved fiscal management. Building on this progress, the Union Budget 2026-27 continues the fiscal consolidation trajectory while sustaining capital spending to support infrastructure-led growth and macroeconomic credibility. The recommendations of the 16th Finance Commission further support this approach by emphasising responsible federalism, fiscal self-reliance and improved expenditure efficiency at the State level. However, compression of GDP in nominal terms in the new series translates the 4.4 per cent fiscal deficit target of FY26 to 4.5 per cent. The fiscal deficit for FY27, now projected at 4.3 per cent, would amount to 4.46 per cent of projected GDP, assuming the same nominal GDP growth rate of 10 per cent.

Trade policy uncertainty remains the defining feature of the external environment. In January 2026, the trade policy uncertainty index increased by 33.2 per cent on a month-on-month basis, following four consecutive months of decline. In January, India's merchandise exports increased marginally by 0.6 per cent (YoY) while non-petroleum, non-gems and jewellery exports grew by 2 per cent (YoY). Services exports have continued to provide a thrust to the country's trade performance, increasing by 26.3 per cent (YoY) to achieve their highest-ever monthly level.

FDI inflows strengthened in April-December FY26, even as portfolio flows stayed negative before turning positive in February. At the same time, foreign exchange reserves remain comfortable, providing cover for more than 11 months of goods imports. Progress on trade agreements and diversification initiatives complements export performance by improving market access and reducing external vulnerabilities.

Monetary and financial sector conditions have remained supportive. Bank credit growth strengthened further, with overall and non-food credit growth reaching their highest levels in FY26, led by services and sustained lending to micro and small enterprises. Financial sector reforms announced in the Budget will deepen financial markets, enhance efficiency and strengthen financial intermediation to better support India's evolving growth requirements.

Labour market indicators point to a gradual strengthening of employment conditions, supported by regulatory reforms, expanding social protection and targeted skilling initiatives. Employment increased to an average of 57.4 crore persons in Q3 FY26, including rising female participation, while high-frequency indicators suggest stable hiring trends in emerging service sectors. The Budget builds on this momentum through a sector-focused employment strategy centred on "Yuva Shakti", integrating job creation, skill development, education and healthcare investments to improve workforce employability and participation.

Social sector allocations reinforce the inclusive growth agenda, with increased emphasis on education, healthcare and gender-sensitive budgeting. The policy architecture reflects a broader shift towards strengthening human capital and social protection as essential complements to economic expansion, thereby fostering wider participation in growth outcomes.

Overall, the macroeconomic environment remains characterised by stable growth, contained inflation and continued reform momentum. The policy framework articulated in the Union Budget 2026-27 provides a strong anchor for sustaining investment-led, employment-oriented and inclusive growth. In view of positive developments, including recent successful trade deals and consecutive strong growth of 7+ over the previous three years, the real GDP growth outlook has been upgraded to 7.0-7.4 per cent for FY27, even as external uncertainties remain an important factor shaping the outlook.

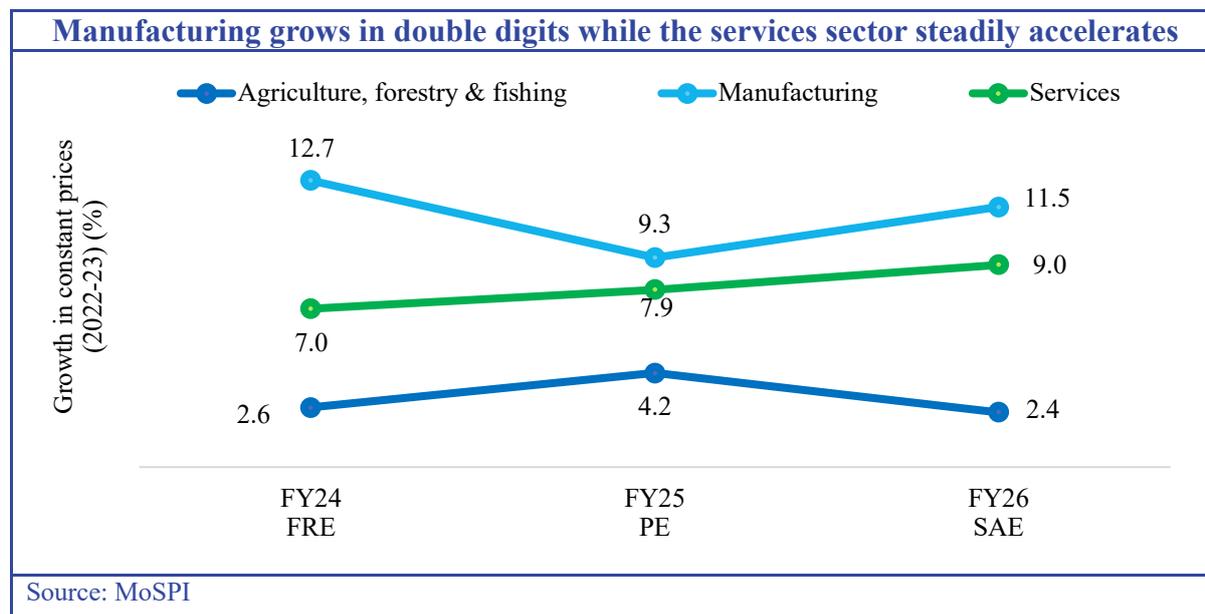
Deepening the Reforms through Budget 2026-27

1. “Action over Ambivalence, Reform over Rhetoric and People over Populism”- Union Budget 2026-27 presented on 1st February 2026, focused on turning global challenges into momentum for Viksit Bharat. It represented continuity in India’s growth strategy, building on the policy direction of the previous two Budgets. Over the past few years, the focus of fiscal policy has shifted from crisis management to capex-led growth, while structural reforms have focused on formalisation, productivity enhancement, and process efficiency.
2. In 2024-25, the Government articulated a broad-based development framework spanning agriculture productivity, employment and skilling, manufacturing, infrastructure, energy security and next-generation reforms. In 2025-26, these priorities were organised into four growth engines of agriculture, MSMEs, investment and exports, under the broader agenda of deregulation-led reforms. Budget 2026-27 advances this trajectory by focusing on strategic and frontier sectors like semiconductors, hitech tools, electronics component manufacturing, chemical parks, biopharma, datacentres, etc., while also leveraging the various service sectors, including IT Enabled Services (ITES), education, health, tourism and orange economy.
3. The underlying fiscal strategy remains disciplined as the Government moves closer to the medium-term debt target announced last year, signalling policy credibility amid heightened global uncertainty. As noted in Chapter 2 of the Economic Survey, fiscal policy remains the key anchor of macroeconomic stability and investor confidence.

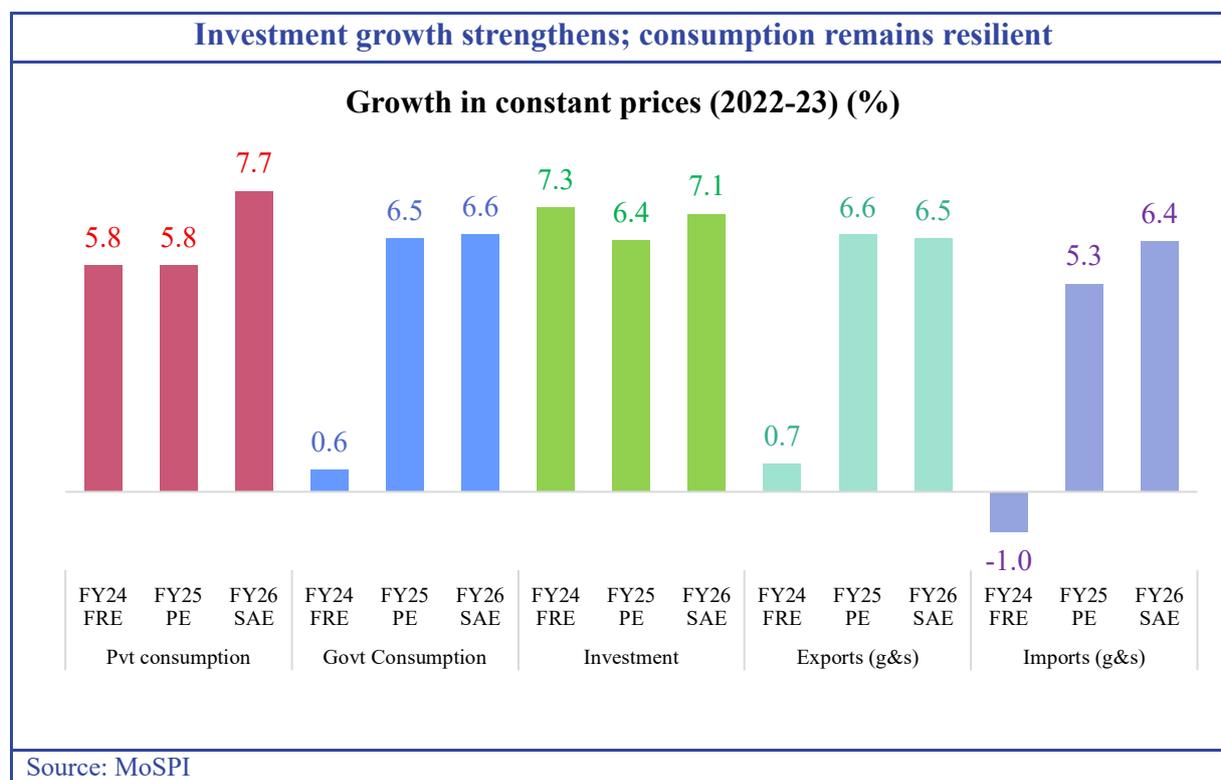
Broad-Based Economic Activity Sustains Growth Momentum

4. While Budget 2026-27 lays down the overarching policy framework, recent macroeconomic indicators point to continued resilience and sustained growth momentum in the economy. Real GDP growth estimates under the revised 2022-23 series indicate that the economy sustained 7-plus per cent growth during FY24-FY26, with growth estimated at 7.2 per cent in FY24, 7.1 per cent in FY25, and 7.6 per cent in FY26. GVA growth at 7.7 per cent was higher than GDP growth for FY26. Nominal GDP is estimated to have grown by 8.6 per cent in FY26. This performance reflects sustained momentum across major sectors under the updated national accounts framework. Box 1 presents the key methodological features of the GDP rebasing to 2022-23 and its implications for the measurement and composition of economic activity.
5. Sectoral trends remain broadly supportive of growth. Industry remained a key growth driver, led by strong performance in manufacturing and allied activities. Services maintained steady expansion, reinforcing their role as the principal stabilising force in aggregate output. Agriculture recorded moderate growth, with year-to-year variation largely shaped by seasonal

and weather-related factors, while continuing to provide underlying support to overall economic activity.



6. On the expenditure side, trends indicate that domestic demand remained the major driver of economic activity. Private consumption continued to support aggregate demand, while investment maintained momentum, reflecting ongoing capital formation. Exports recorded positive growth, suggesting resilience in external demand amid evolving global trade conditions.



Box 1: Rebasing India's GDP: Strengthening Credibility and Measurement Accuracy

The Ministry of Statistics and Programme Implementation (MoSPI) released the new series of National Accounts Statistics (NAS) on 27 February 2026, revising the base year for GDP estimation from 2011-12 to 2022-23. The revision reflects better measurement of structural features of the economy, such as greater formalisation, digitalisation, and emerging services-sector-oriented activities. The new series aligns more closely with the UN System of National Accounts (SNA) 2008 standards, with a dedicated sub-committee constituted to begin the transition towards SNA 2025.

The base year 2022-23 was specifically selected as a structurally stable, post-pandemic reference period with comprehensive data coverage; years 2020-21 and 2021-22 were deemed unsuitable due to pandemic-induced distortions that would have introduced systematic biases into the base-year weights. The transition from the 2011-12 base to the 2022-23 series involves several methodological and data-related improvements, summarised below.

Key Methodological Changes

- 1. Estimation Methodology: Double deflation¹** has been introduced for manufacturing and agriculture, whereby gross output and intermediate consumption are deflated separately using sector-specific price indices. This improves the measurement of real value added when input and output prices move in different directions. Other sectors adopt volume or single extrapolation approaches as appropriate. Deflators are now applied at a more granular level, including over 260 CPI item-level indices. In addition, integrating Supply and Use Tables (SUT)² strengthens consistency between production and expenditure estimates, thereby reducing statistical discrepancies. Quarterly estimates are benchmarked using the **Proportional Denton method³**, replacing the earlier pro-rata

¹ Under single deflation, we deflate value added directly using a single price index. Since Value added = Output – Intermediate Consumption, Single deflation applies one deflator to the net figure. This is an easy-to-use approach which requires less information. This implicitly assumes that output prices and input prices move together. This can bias real GDP if input and output prices behave differently. Under double deflation, we deflate Output separately and Intermediate consumption separately using two different relevant price indices. Though data-intensive, it captures GDP or GVA more accurately, especially when input prices can move very differently from output prices.

² SUT shows what industries produce (Supply) and how products are used by industries or final consumers (Use). Balanced SUT ensures that total supply matches total demand in the economy. So, integration of the SUT framework with the National Accounts Framework will help minimise discrepancies in the new series.

³ The Proportional Denton method is a benchmarking technique used to adjust high-frequency data (e.g., quarterly GDP) so that it matches lower-frequency totals (e.g., annual GDP) while preserving the short-term movement pattern of the original series. Unlike simple pro rata benchmarking, which adjusts values proportionally and can

approach and ensuring smoother and temporally consistent alignment with annual aggregates.

2. Data Sources and Sectoral Coverage: Estimation of the unincorporated sector now draws on direct survey-based evidence from the Annual Survey of Unorganised Sector Enterprises (ASUSE) and Periodic Labour Force Surveys (PLFS), replacing earlier proxy-based methods, and incorporates for the first time the imputed contribution of hired domestic workers. Administrative datasets, including GST returns, PFMS, and e-Vahan registrations have been systematically integrated to strengthen sectoral coverage and enhance the robustness of estimates. In the private corporate sector, MGT-7/7A filings enable activity-wise allocation of value added for multi-activity enterprises, replacing earlier assignment to a single principal activity. Updated technical parameters from expert studies by institutes like IGFR, CMFR, NDRI, and JNU have further improved estimation in agriculture and consumption-related components. The revised series also broadens coverage of digital services, platform and gig economy activities, and renewable energy, including contributions from unincorporated enterprises and self-employed individuals that were previously underrepresented in the national accounts.

3. General Government and Consumption Measurement:

Actual expenditure data from PFMS is now used at the First Revised Estimates (FRE) stage, replacing reliance on Revised Estimates. Further methodological refinements include improved treatment of pension liabilities under both the National Pension System (NPS) and the Old Pension Scheme, imputation of government-provided accommodation in lieu of HRA, expanded coverage of local bodies and autonomous institutions, and adoption of volume extrapolation for product subsidies at constant prices.

Private Final Consumption Expenditure is now estimated using a triangulated approach aligned with the internationally accepted *Classification of Individual Consumption according to Purpose (COICOP) 2018*.

Conclusion

The new series represents a substantive improvement in India's statistical architecture. The new series enhances the quality and granularity of economic tracking by better capturing the informal sector, emerging industries, and high-frequency administrative data enabling, more timely and responsive policy analysis.

Greater alignment with internationally recognised statistical standards also strengthens the credibility and comparability of India's national accounts, reinforcing confidence among investors, researchers, and global institutions. The planned release of a back-series under the

distort growth rates, the Denton method minimises changes in period-to-period growth rates, producing smoother and more realistic series.

new methodology by December 2026 will further support consistent historical analysis and more robust assessment of India's long-term growth dynamics.

Changes in GDP Composition under the Revised Series

7. A comparison of average GDP shares at current prices for 2022-23 to 2025-26 across the 2011-12 and 2022-23 base series indicates measurable shifts in the composition of output and expenditure. These changes primarily reflect methodological refinements, expanded data coverage, and improved estimation practices introduced under the revised series.

Comparison of average share of GDP/GVA components: Old series (2011-12) vs new series (2022-23)

	Avg. Share in GDP (current prices) (%)	
	(FY23-FY26)	
	2011-12 series	2022-23 series
Agriculture & allied sectors	16.1	17.4
Industry	24.9	25.4
Mining & quarrying	1.7	1.8
Manufacturing	12.9	13.3
Services	50.0	48.0
Trade, Hotel, Transport, Storage etc	16	12.7
Financial, real estate & prof services	21	23.6
Public Admin, defence & other services	13.1	11.7

8. On the supply side, the share of agriculture and allied activities rises from 16.1 per cent to 17.4 per cent, largely reflecting improved coverage and inclusion of new high-value fruits and vegetables through updated survey-based estimation. Crop and forestry sectors are revised upwards. While the agriculture sector was already using double-deflation methods, there has been an update to the input rates. Industry's share increases marginally to 25.4 per cent, with upward revisions in manufacturing and mining and quarrying, indicating improved capture of value addition from these activities on account of double deflation.

9. The aggregate share of services moderates from 50.0 per cent to 48.0 per cent, with important compositional changes observed within the sector. The share of trade, hotels, transport and storage is revised lower, reflecting improved allocation of value added across multi-activity enterprises, reclassification changes, and the use of survey data for the informal sector. In contrast, financial, real estate and professional services record an upward revision,

supported by better capture of formal-sector activity through administrative datasets. An upward revision in housing services is due to an increase in house ownership by households. It also reflects better capture of improved availability of lighting and fuel and expanded coverage of the dynamics of the NBFCs. The relative moderation in public administration, defence and other services largely reflects compositional effects arising from expanded measurement of market-based activities in other sectors.

**Comparison of average share of GDP components:
Old series (2011-12) vs new series (2022-23)**

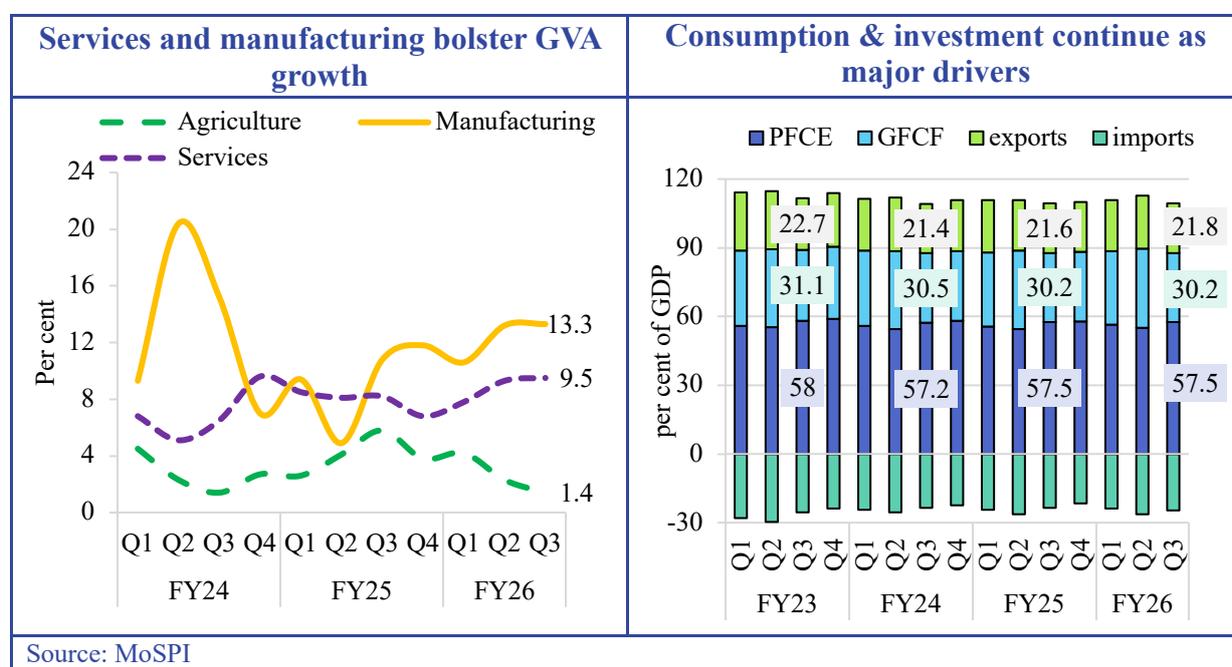
	Avg Share in GDP (current prices, %)	
	(FY23-FY26)	
	2011-12 series	2022-23 series
Govt Consumption (GFCE)	10.1	10.8
Pvt Consumption (PFCE)	61.1	56.7
Investment (GFCF)	30.4	31.9
Exports of goods & services	21.8	22.7
Imports of goods & services	24.4	24.6

10. On the expenditure side, the share of Private Final Consumption Expenditure (PFCE) is revised from 61.1 per cent to 56.7 per cent, reflecting strengthened consumption estimation through triangulation using household expenditure data, commodity flow methods, and alignment with the COICOP 2018 classification. The items of PFCE are mapped to survey products to derive the shares of output and intermediate consumption from the relevant activity, ensuring that products predominantly used by industry as intermediates or for capital formation are not covered in PFCE. Nearly half of the items are benchmarked to the Household Consumption Expenditure Survey, resulting in lower but reliable estimates. Consequently, the share of Gross Fixed Capital Formation (GFCF) rises from 30.4 per cent to 31.9 per cent, reflecting improved measurement across the four categories of assets, namely Dwellings, Other Buildings & Structures, Machinery & Equipment, Cultivated Biological Resources, and Intellectual Property Products.

11. Government Final Consumption Expenditure (GFCE) also increases modestly, reflecting adjustments in pension payments and the imputation of government-provided accommodation in lieu of HRA. FCI is now considered part of the Government sector rather than the corporate sector, and Government financing to FCI will be treated as a social transfer in kind (part of GFCE and adjusted PFCE) rather than a product subsidy. External sector shares are revised only marginally, with exports and imports both recording slight upward adjustments. Taken together, the revised series reflects improvements in the measurement and classification of economic activity, leading to a rebalancing of GDP composition.

Quarterly GDP Performance during Q3:FY26

12. The quarterly GDP estimates in the revised series point to strengthening growth momentum in the second half of FY26. Real GDP growth accelerated to 7.8 per cent in Q3, underscoring the resilience of domestic demand conditions. On the supply side, growth remained broad-based and robust, with both manufacturing and services expanding at higher YoY rates in Q2 and Q3 of FY26 than in the corresponding quarters of the previous year. Manufacturing sustained strong double-digit expansion, growing by 13.2 per cent in Q2 and 13.3 per cent in Q3, signalling continued industrial momentum. The services sector also maintained steady traction, expanding by 9.3 per cent in Q2 and 9.5 per cent in Q3, supported by trade, transport, communication segment, and financial, real estate and professional services.

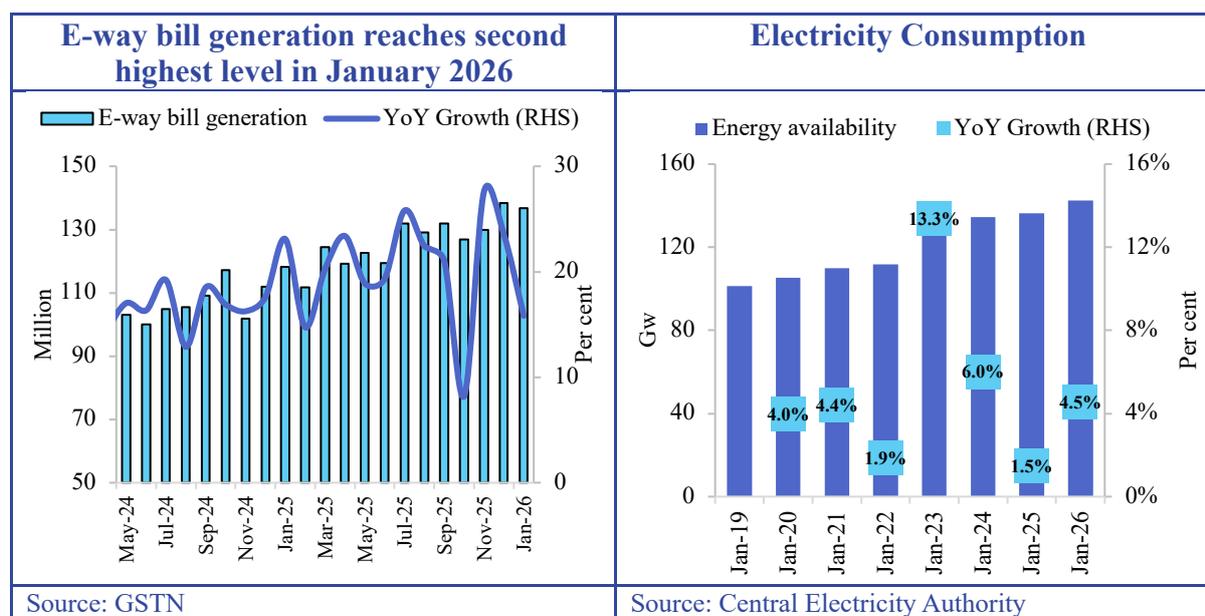


13. Even from a demand-side perspective, growth remains anchored in domestic drivers. Private Final Consumption Expenditure, accounting for 57.5 per cent of GDP, remained resilient, while investment, with a share of 30.2 per cent of GDP, sustained its contribution to GDP. Overall, FY 2025-26 performance relies heavily on Q2 and Q3, implying strong mid-year momentum. Based on the full-year real GDP estimates and the sum of the available three quarters, the implicit real GDP growth estimate for Q4 FY26 is 7.3 per cent.

High-Frequency Indicators Signal Continued Economic Momentum in January 2026

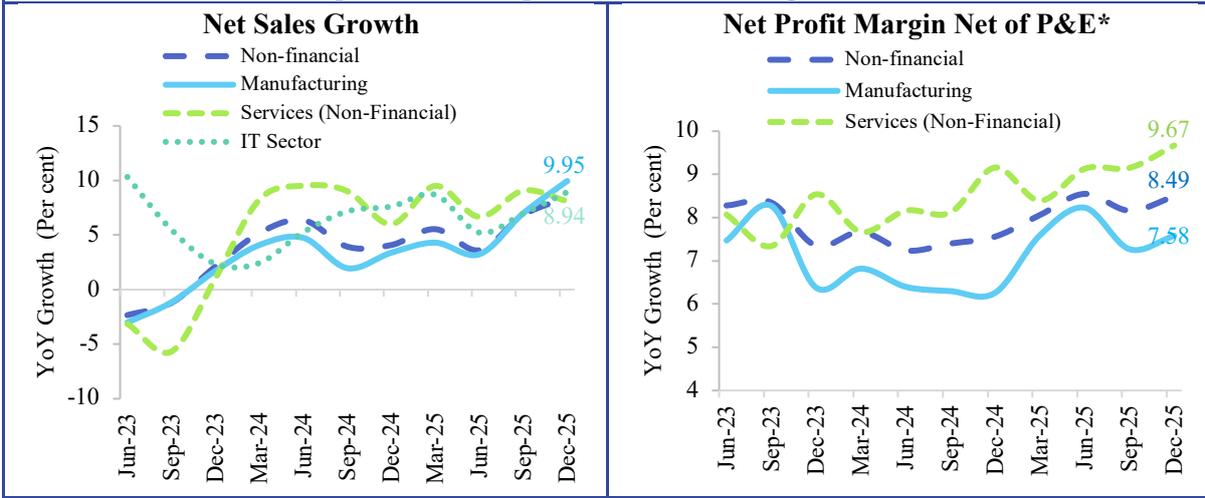
14. High-frequency indicators available for January 2026 broadly validate the growth dynamics embedded in the Second Advance Estimates, pointing to continued resilience in domestic economic activity across production, consumption and logistics indicators. E-way bill

generation reached its second-highest level on record, registering double-digit growth and signalling continued strength in goods movement and commercial activity. Electricity consumption grew by 4.5 per cent, driven by severe cold wave conditions in the northern and eastern regions, which increased heating demand, along with strong underlying economic activity. Petrol and diesel consumption also grew steadily. Retail commercial vehicle sales continue to grow in double digits for the fourth consecutive month in January 2026, suggesting sustained freight movement and infrastructure activity.



15. Non-financial companies, in general, recorded multi-quarter-high net sales growth in Q3:FY26, driven by robust demand conditions strengthened by GST rationalisation. Manufacturing performance was particularly strong and broad-based, with near-double-digit net sales growth, compared with an average growth rate of 2.6 per cent over the preceding ten quarters. The expansion was driven by sectors such as transport equipment, machinery, consumer goods, construction materials, metal and metal products, and food and agro-based industries.

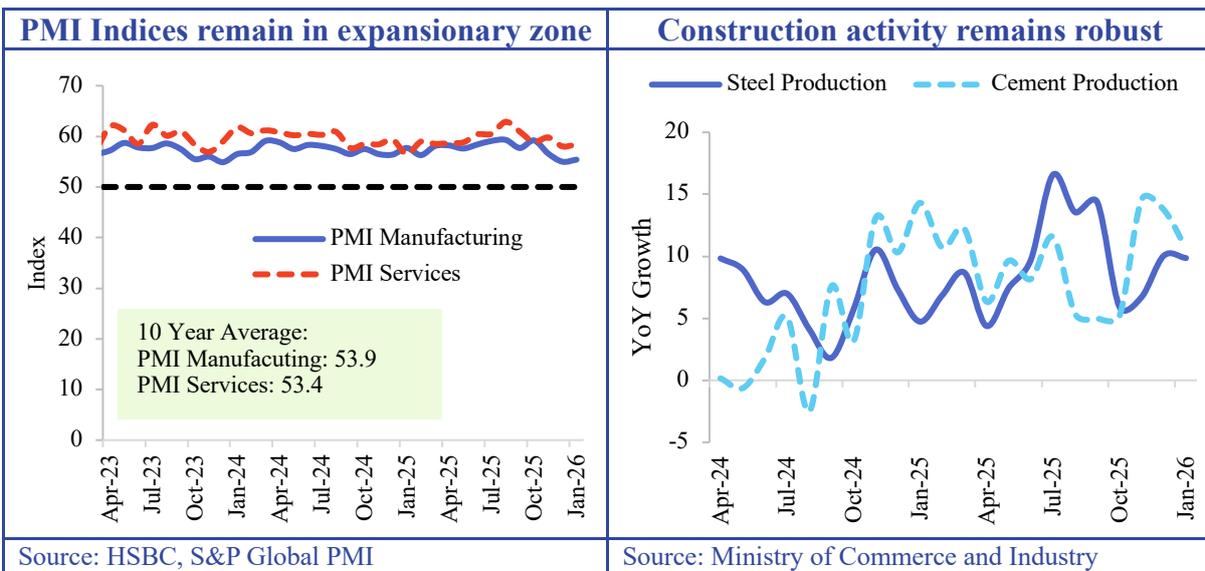
Corporate sector performance during Q3:FY26



Source: Economic Outlook, CMIE

*net of prior period and extraordinary transactions

16. Industrial activity remained resilient. Manufacturing continued to expand, with the Manufacturing PMI strengthening on the back of higher new orders, output, and employment. Capacity utilisation in the manufacturing sector, as reflected in the RBI’s OBICUS survey, stood at 74.3 per cent in Q2:FY26, remaining above its long-run average, and indicating sustained demand conditions and ongoing investment momentum. Construction activity remains robust, as reflected in double-digit growth in steel and cement production in January 2026, according to the eight core industries data. The sustained momentum in the industrial sector during the year is further supported by the structural policy measures announced in Budget 2026-27, as elaborated in Box 2.



Source: HSBC, S&P Global PMI

Source: Ministry of Commerce and Industry

Box 2: Union Budget 2026-27 policies for the Industrial sector

Broad-based industrial growth: From frontier to traditional sectors

In a rapidly evolving global environment, Union Budget 2026-27 places significant emphasis on frontier sectors such as semiconductors, biopharma, rare earths, chemicals and advanced manufacturing to build technological depth and ecosystem. This focus aligns with the Economic Survey 2025-26's view that India's industrial strategy must evolve from simple import substitution towards building strategic resilience and, over time, strategic indispensability. The expansion of the India Semiconductor Mission, the launch of Biopharma SHAKTI, enhanced outlay for the Electronics Components Manufacturing Scheme, and support for critical mineral corridors reflect a strategy to strengthen domestic capabilities while remaining integrated with global value chains. The Budget also promotes indigenisation in niche manufacturing segments, including a Seaplane VGF Scheme to support domestic manufacturing.

At the same time, the Budget recognises that in a labour-abundant economy, traditional sectors remain central to employment generation. Export support has been announced for textiles, leather, and seafood, which are major employment engines and among the sectors vulnerable to rising uncertainty from large export destinations. The rejuvenation of 200 legacy industrial clusters and an integrated textile programme covering the entire value chain signal the policy objective of enhancing scale, productivity, and competitiveness in manufacturing.

Alongside, the Budget introduces a three-pronged strategy to create 'Champion MSMEs', building on the expanded credit guarantee framework, digital credit assessment models and revised classification thresholds introduced in recent years. This includes equity support through a ₹10,000 crore SME Growth Fund and a ₹2,000 crore top-up to the Self-Reliant India Fund. Liquidity support has been extended by mandating TReDS as the transaction settlement platform for all purchases from MSMEs by CPSEs, serving as a benchmark for other corporates; credit guarantee support for invoice discounting on TReDS platform, and enabling securitisation of TReDS receivables. Targeted professional support has also been envisaged to support compliance at affordable cost through 'Corporate Mitras' in Tier-II/III towns. Together, these measures target broad-based industrial expansion over the medium term.

Continued investments in infrastructure

Importantly, the Budget 2026-27 recognises that manufacturing competitiveness depends not only on industrial policy but equally on infrastructure and logistics efficiency. Government's

capital expenditure has been raised to ₹12.2 lakh crore in 2026-27 (BE), sustaining the momentum of infrastructure-led growth. In addition, ₹2 lakh crore has been provided under the SASCI scheme to support States' capital formation efforts.

To mitigate construction-phase risks and strengthen lender confidence, the Budget proposes the setting up of an Infrastructure Risk Guarantee Fund to provide calibrated partial credit guarantees to lenders. It also envisages accelerated asset monetisation through dedicated REITs for CPSE real estate, thereby unlocking capital for new investments. Further, logistics efficiency and regional integration are strengthened through new Dedicated Freight Corridors, operationalisation of 20 National Waterways connecting mineral-rich regions and industrial centres to ports, a ship-repair ecosystem for inland waterways, Coastal Cargo Promotion Scheme, high-speed rail corridors, mapping City Economic Regions, and the development of the Integrated East Coast Industrial Corridor in the Purvodaya region. Simultaneously, long-term energy stability is addressed through a ₹20,000 crore outlay for Carbon Capture, Utilisation and Storage (CCUS) to support decarbonisation of hard-to-abate sectors such as power, steel, cement, refineries and chemicals.

Reducing frictions through ease of doing business

Budget 2026-27 advances ease of doing business through calibrated, friction-reducing reforms. The Budget announces customs exemptions on key manufacturing and maintenance, repair and overhaul components to lower input costs and improve competitiveness. It envisages greater tax certainty by allowing updated returns even after reassessment proceedings upon payment of an additional levy, extending compliance timelines, and introducing automated systems for obtaining lower or nil TDS certificates. Reduced TCS rates under the Liberalised Remittance Scheme ease compliance burdens. Individual Persons Resident Outside India (PROI) have been permitted to invest in listed Indian equities through the Portfolio Investment Scheme, and MAT exemptions have been extended to non-residents under presumptive taxation, thus enhancing policy clarity and investor confidence.

Further, trade facilitation is to be strengthened through a single interconnected digital window for cargo clearances and the phased rollout of a Customs Integrated System. Collectively, these measures reflect steady progress toward a trust-based, technology-enabled and friction-light regulatory environment.

17. The ease-of-doing-business measures outlined in the Union Budget 2026–27 are not confined to industry sector alone, they rather form part of a broader reform momentum in the economy across sectors. The defence procurement reforms and indigenisation drive as

discussed in Box 3 reflect this wider shift towards trust-based governance frameworks in the economy aimed at strengthening domestic capability.

Box 3: Defence Procurement Reforms and Indigenisation Drive, 2025-26

Over the past year, the Government has undertaken a significant restructuring of India's defence procurement architecture. The effort has been aimed at addressing the long-standing problem of procedural complexity and delays in defence acquisitions by creating a streamlined and innovation-driven ecosystem for both capital and revenue expenditure in defence sector.

The most significant among the reforms is the transition from the earlier acquisition framework to the draft Defence Acquisition Procedure (DAP) 2026 and the implementation of the Defence Procurement Manual (DPM) 2025. The draft DAP 2026 introduces a qualitative shift from an emphasis on "Made in India" towards "Owned by India," prioritising firms that retain intellectual property rights, source codes and design ownership within the country. Complementing this, DPM 2025, effective November 2025, streamlines revenue procurement, including spares, maintenance and smaller equipment purchases, by delegating greater decision-making authority to field-level formations. In addition, the traditional "Lowest Bidder" (L1) system is being recalibrated towards a value-based framework that accords additional weightage to superior technical parameters and higher indigenous design content, thereby encouraging quality and innovation over price competition alone.

Parallel efforts have focused on reducing procurement timelines and enhancing transparency. Stricter stage-wise deadlines, from Acceptance of Necessity (AoN) to contract conclusion, aim to compress overall timelines by 30–50 per cent. The rollout of an end-to-end digital procurement and export facilitation portal has reduced paperwork, improved real-time tracking and strengthened accountability. Further, the delegation of enhanced financial powers to the Service Chiefs and other Competent Financial Authorities has reduced administrative layering and expedited decision-making.

A notable feature of this reform cycle is the repositioning of start-ups and MSMEs as drivers of defence innovation. Through expanded support under initiatives such as iDEX and ADITI, grant ceilings for deep-technology ventures have been enhanced. The introduction of reimbursement mechanisms for trial costs of shortlisted start-ups lowers entry barriers in capital-intensive defence testing. A fast-track single-vendor procurement route for smaller-value contracts enables quicker induction of indigenous innovations. In addition, access to testing and trial infrastructure has been broadened to better integrate private innovators into the defence ecosystem.

Complementing procurement reforms, the Government has strengthened the Positive Indigenisation Lists (PILs), which specify defence items to be sourced exclusively from domestic manufacturers after notified timelines. The lists are implemented through two channels: those issued by the Department of Military Affairs (DMA), focusing on major platforms and high-end systems, and those issued by the Department of Defence Production (DDP), covering line-replacement units, subsystems, and spares for defence public sector undertakings. As of early 2026, multiple lists cumulatively encompass a wide spectrum of items, reflecting progressive expansion from basic components to complex, integrated systems.

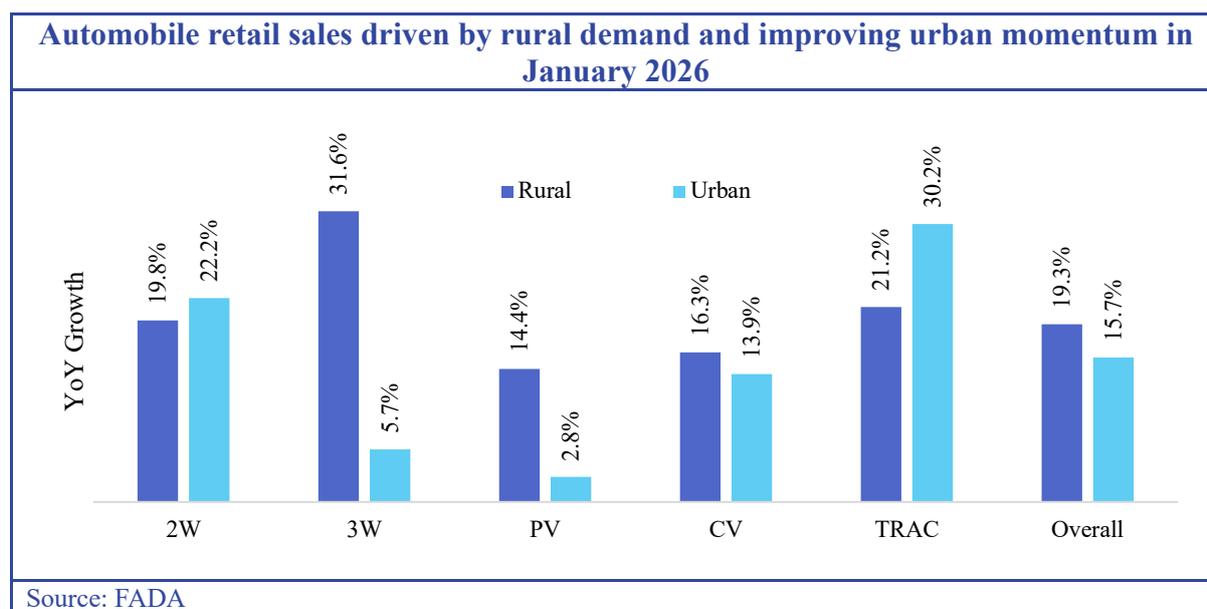
Recent additions to these lists include unmanned aerial systems and drone swarms, advanced electronic and sensor platforms such as tactical control radars and software-defined radios, next-generation armoured and naval platforms, and a substantial share of ammunition variants used by the armed forces. The indigenisation mandate is further operationalised through the Srijan portal, which provides industry with a structured repository of items targeted for import substitution, thereby improving visibility of domestic manufacturing opportunities. The government estimates that the items on the 5th PIL alone will result in ₹1,048 crore of import substitution. In total, the "domestic reservation" for procurement has been hiked to nearly ₹1.39 lakh crore in the 2026-27 budget.

Overall, in the Union Budgets for 2025-26 and 2026-27, approximately three-fourths of the modernisation outlay has been reserved for the domestic industry, providing a stable demand environment. Policies providing assured orders over multi-year horizons for successfully developed prototypes aim to enhance revenue visibility and improve emerging firms' ability to mobilise private capital. Taken together, these measures signal a calibrated shift from a conventional buyer-seller framework towards a co-development and partnership model anchored in domestic capability creation. By combining policy clarity with financial commitment and digital transparency, the reforms aim to deepen domestic industrial capability while enhancing operational readiness.

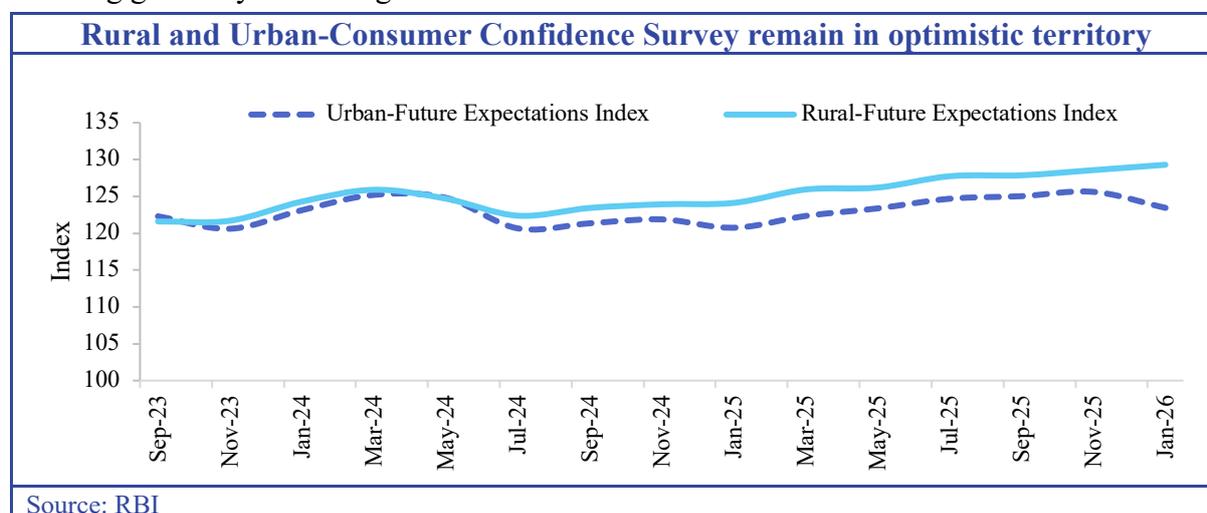
18. The services sector sustained its momentum, with the Services PMI indicating continued expansion driven by robust output growth and a steady inflow of new orders, including international demand from South and Southeast Asia. Trade and logistics indicators remained firm, with port cargo traffic growing by 7.6 per cent in January 2026, air cargo traffic rising by 9.4 per cent, and railway freight expanding by 3.2 per cent in December 2025.

19. Demand-side indicators suggest continued support from rural activity. Rural auto retail sales expanded by 19.3 per cent year-on-year in January 2026, led by strong growth in two-wheelers (19.8 per cent) and passenger vehicles (14.4 per cent), and three-wheelers (31.6 per cent). Tractor sales also registered strong growth, reflecting continued agricultural demand. The performance reflected positive rural sentiment over higher Rabi sowing, higher MSP realisations, and stronger farm cash flows from the Kharif harvest. Supportive policy measures, including GST rationalisation and state subsidies, also underpinned demand.

20. Urban demand indicators pointed to a gradual strengthening in consumption. Urban auto retail sales grew by 15.7 per cent year-on-year in January 2026, led by two-wheelers (22.2 per cent), while passenger vehicle sales recorded modest growth of 2.8 per cent. Digital payment activity also stayed strong, with continued growth in UPI transactions indicating high transaction intensity and stable urban consumption patterns. However, domestic air passenger traffic declined in December 2025, partly due to operational challenges faced by a major airline, suggesting temporary moderation in travel-related demand.



21. Recent high-frequency indicators suggest that economic activity has remained broadly stable across sectors, consistent with the growth momentum reflected in the Second Advance Estimates. RBI's consumer confidence surveys for both rural and urban households indicate improving future expectations, aligning with demand-side indicators pointing to continued rural support alongside a gradual strengthening of urban consumption. Taken together, these signals suggest that domestic activity remains on a steady footing, with demand conditions evolving gradually across segments.



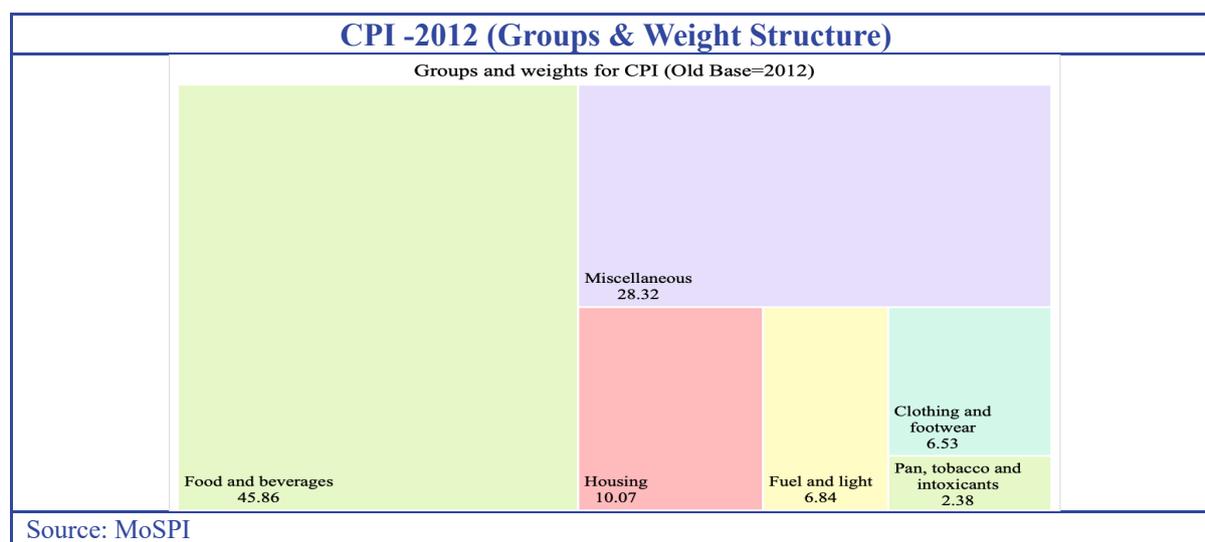
Inflation Trends and Outlook under the Revised CPI Series

22. A major statistical development in January 2026 was the release of the new Consumer Price Index (CPI) series with the base year of 2024 by the Ministry of Statistics and Programme Implementation. The new series has revised both the item basket and weights in accordance with the Household Consumption Expenditure Survey (HCES) 2023-24. The number of weighted items has increased from 299 to 358, with expanded coverage for both goods and services. The sampling markets have been significantly expanded, with a higher number of rural and urban markets covered alongside the fresh addition of online markets. New administrative data sources have been incorporated for fuel, rail fares, telecom services and digital subscriptions, thereby strengthening accuracy and timeliness.

Enhanced Coverage in New CPI Series

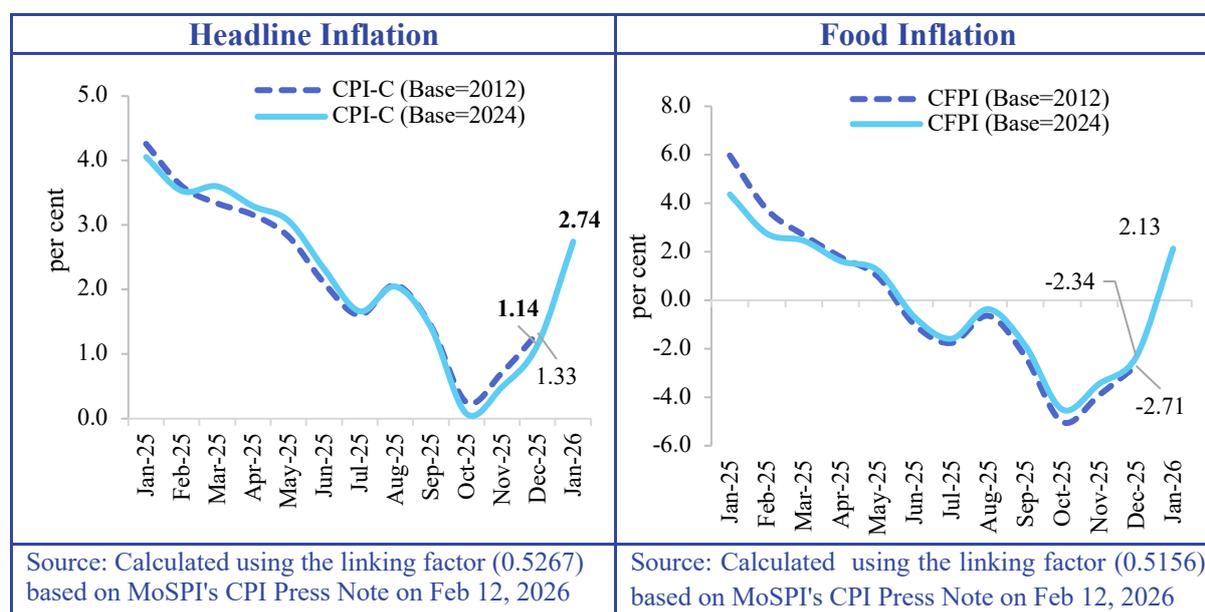
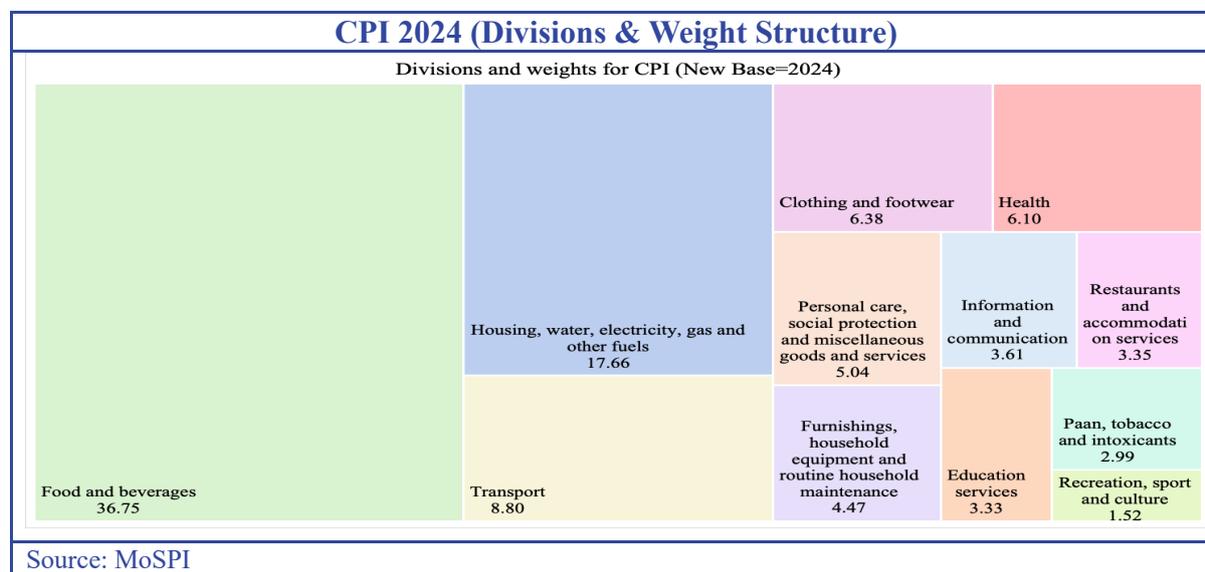
Coverage	CPI 2012	CPI 2024
Rural markets	1,181	1,465
Urban markets	1,114	1,395
Online markets	Nil	12
Towns	310	434
Items (weighted)	299	358
(i) Goods	259	308
(ii) Services	40	50

Source: MoSPI



23. The CPI 2024 has adopted the UN's Classification of Individual Consumption According to Purpose (COICOP) 2018. All CPI-weighted items were successfully mapped to the COICOP framework and classified into a four-fold system (Divisions - Groups - Classes - Sub-Classes) in place of the two-fold system (Groups - Sub-Groups) followed in CPI 2012.

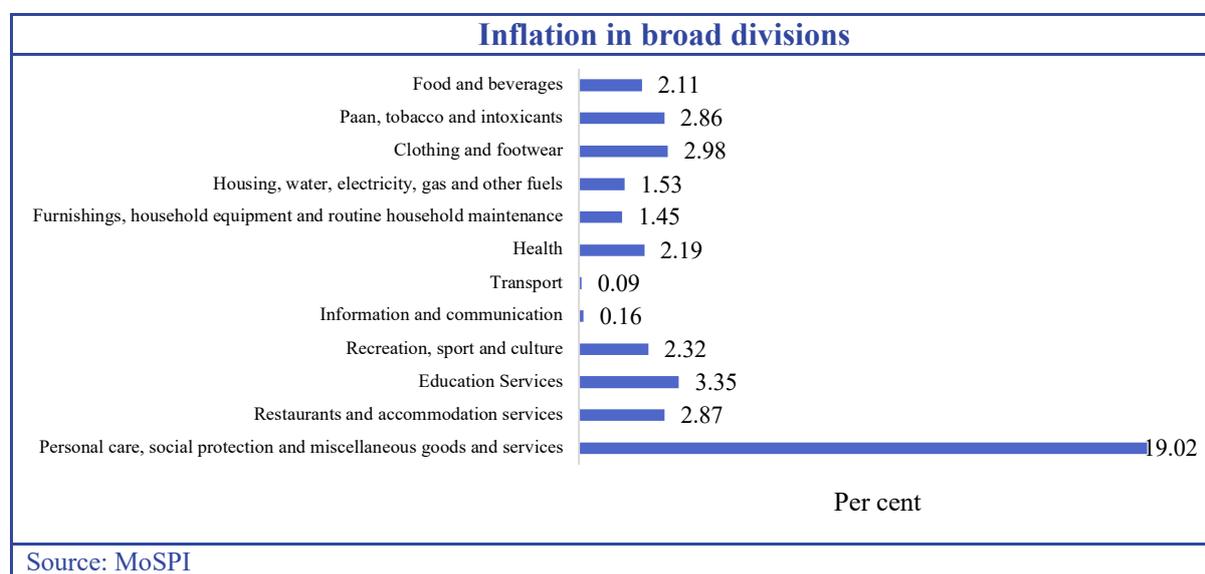
Now, 358 weighted items are classified into 12 Divisions, 43 Groups, 92 Classes, and 162 Subclasses. The weights have also undergone change; for instance, the weightage of ‘food & beverages’ Division (Group) have declined from 45.9 per cent in the 2012 series to 36.8 per cent in the 2024 series. These changes reflect not only changes in consumption patterns but also the effect of following the COICOP 2018 classification framework.



24. Headline inflation firmed up in January 2026 to 2.75 per cent from 1.14 per cent in the previous month⁴ (based on the new series). This marked a return of headline inflation to the tolerance band of the Reserve Bank of India's (RBI) inflation target of 4 per cent (± 2 per cent) after four months. In fact, the shift in food inflation from negative (-2.34 per cent based on the

⁴ In CPI 2012, the retail inflation in December 2025 was 1.33 per cent

new series) to positive (2.13 per cent) in January 2026 helped headline numbers enter the tolerance band. The inflation trends in the new CPI-General and CPI-Food series were broadly aligned with those of the old series.



25. Among the new broad CPI 2024 categories, all 12 *divisions* recorded positive inflation. While inflation was extremely low in *transport* (0.09 per cent) and *information & communication* (0.16 per cent) *divisions*, it was quite high in the *personal care, social protection and miscellaneous goods and services* (19.02 per cent) due to high inflation in precious metals.

26. Although the food inflation print in general was positive, the improved supply conditions might have eased price pressures in some of the major food items such as *garlic, onion, potato, arhar, tur and peas* (with a total weightage of 2.5 per cent in the new series), which experienced deflation in January 2026. With the introduction of the revised CPI series, rural and urban inflation are now closely aligned. In January 2026, rural inflation stood at 2.73 per cent, while urban inflation was 2.77 per cent.

27. The Monetary Policy Committee of RBI, in its February 2026 meeting, unanimously decided to keep the policy repo rate unchanged at 5.25 per cent, citing a benign inflation outlook and balanced growth risks. CPI inflation is projected at 2.1 per cent in FY26, rising to between 4.0 and 4.2 per cent in Q1 and Q2 of FY27. The RBI noted that the benign inflation offers optimum conditions to support growth while maintaining financial stability.

Inflation Outlook

28. The supply-side conditions remain favourable for price stability. Rabi sowing during 2025-26 recorded robust progress, with total area coverage increasing by 2.4 per cent over the

previous year, driven by higher sowing under wheat, pulses, oilseeds and coarse cereals. Strong crop coverage, combined with record buffer stocks held by the Food Corporation of India, suggests continued food supply resilience. Similarly, subdued external demand and easing input constraints are expected to keep clothing and textile prices anchored. The price pressures in the housing sector are likely to remain stable, with moderate construction cost pressures offset by soft demand, particularly in the affordable segment.

29. The ongoing US–Israel strike on Iran has heightened geopolitical risk around the Strait of Hormuz, driving oil prices upward - which, given India’s heavy reliance on imported crude, could feed through into higher imported inflation by raising fuel costs and weakening the rupee, complicating the inflation outlook for India. According to the Petroleum Planning and Analysis Cell, India’s crude oil import dependency stood at 88.6 per cent in April-January FY26, compared to 88.2 per cent in April-January FY25.⁵ During the same period, the country imported 206.3 million metric tonnes of crude oil, 46.9 per cent of which was imported from the Middle East, followed by 34.6 per cent from Eurasia and 7.2 per cent from North America. Further, crude oil imports from OPEC countries increased to 50.1 per cent of total imports during April-January FY26, compared with 48.3 per cent during April-January FY25.⁶ To enhance the country’s resilience to fluctuations in global oil prices, India has significantly diversified its sources of crude oil imports. Over the past decade, the number of countries from which the country imports crude oil has expanded from 27 to more than 40.⁷ According to the RBI, if crude oil prices are higher by 10 per cent than the baseline assumptions, and assuming full pass-through to domestic prices, inflation could turn out to be higher by 30 basis points. (Monetary Policy Report, Oct 2025). Given that India’s inflation is near the lower bound, the impact on inflation is not estimated to be substantial at this point.

Fiscal Consolidation Continues with Sustained Focus on Capex

30. During the period from April 2025 to January 2026, capital expenditure grew by 11.2 per cent, while revenue expenditure remained at 1.2 per cent, indicating continued prioritisation of infrastructure creation and asset-building. Revenue performance remained resilient during FY26 (April-January), with revenue receipts growing by 11.8 per cent, reflecting sustained resource mobilisation. Gross tax revenues expanded by 8.6 per cent, supported by stable performance across both direct and indirect taxes. Within direct taxes, strong growth in corporate tax collections of 14.7 per cent helped offset relatively slower income tax growth of 4.9 per cent, resulting in overall stable direct tax performance. Indirect taxes also maintained

⁵ PPAC - Snapshot Of India’s Oil & Gas Data Monthly Ready Reckoner January-26, <https://tinyurl.com/jhra5ra4>.

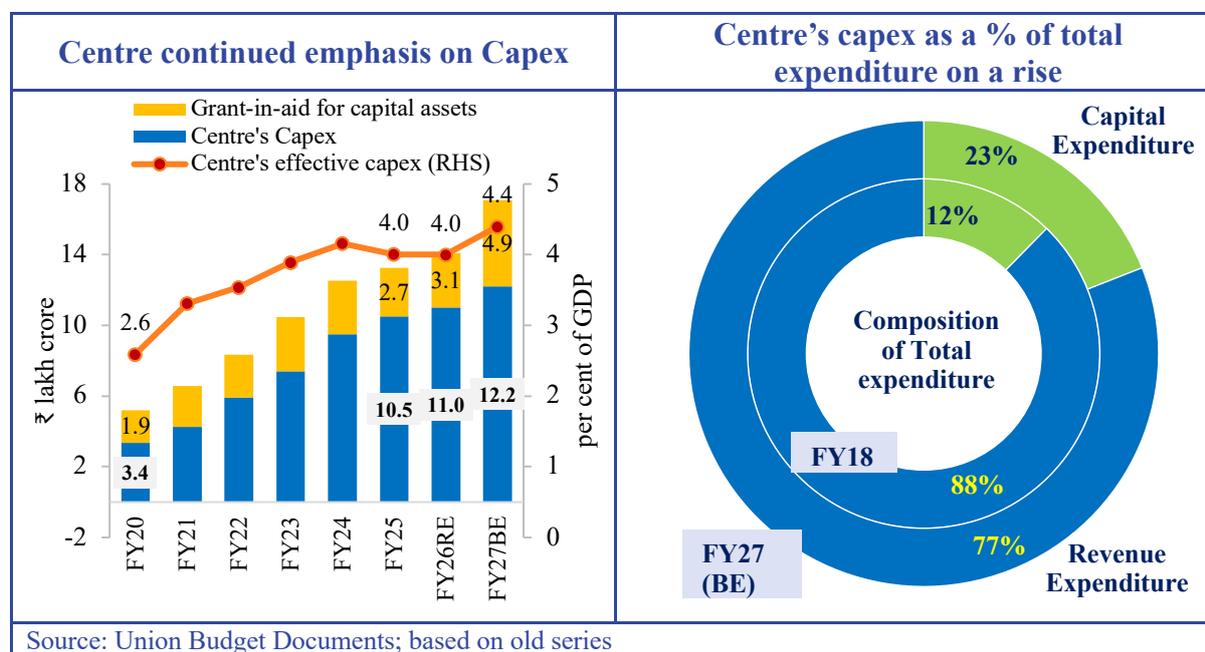
⁶ PPAC - Monthly Report On Indigenous Crude Oil Production, Crude Oil Import And Processing & Production, Import And Export Of Petroleum Products January 2026, <https://tinyurl.com/jckbjm7x>

⁷ PPAC - India’s Oil & Gas Ready Reckoner Oil & Gas Industry Information at a Glance FY 2025-26 (H1), <https://tinyurl.com/jhra5ra4>.

steady momentum, with gross GST collections⁸ rising by about 8.3 per cent year-on-year, indicating stable underlying economic activity. Non-tax revenues grew by 19.2 per cent, while non-debt capital receipts recorded strong growth of 95.5 per cent, providing additional support to overall revenues.

31. Consistent with evolving expenditure and revenue trends, key fiscal indicators improved during the period. The fiscal deficit up to January 2026 reached 63.0 per cent of the revised estimate (RE) of FY26, lower than the corresponding period last year, reflecting both expenditure prioritisation and steady revenue mobilisation. Overall, the RE for FY26 indicate continued progress along the intended fiscal consolidation trajectory.

32. Building on the fiscal progress observed during the current year, the Union Budget 2026-27 continues the consolidation path with a lower fiscal deficit target of 4.3 per cent of GDP, compared with 4.4 per cent in FY26(RE). The fiscal strategy envisages gradual deficit reduction while sustaining support for capital expenditure and development priorities, thereby preserving expenditure quality and growth momentum. Capital expenditure is budgeted at about ₹12.2 lakh crore in FY27(BE), underscoring continued emphasis on asset-creating public investment, while revenue projections assume maintenance of revenue buoyancy and steady resource mobilisation. The projected fiscal trajectory reflects a calibrated balance between consolidation and growth, reinforcing macroeconomic stability and fiscal sustainability.



33. Due to the compression in nominal GDP by around Rs. 11,66,729 crores in the new series, the budgeted numbers, when expressed as a percentage of nominal GDP, are set to

⁸ Gross GST collections are calculated as the sum of collections under Central GST (CGST), State GST (SGST) and Integrated GST (IGST).

change. The revision translates the 4.4 per cent fiscal deficit target of FY26 to 4.5 per cent. The fiscal deficit for FY27, now projected at 4.3 per cent, would amount to 4.46 per cent of projected GDP, assuming the same nominal GDP growth rate of 10 per cent. However, the fiscal consolidation trend remains intact. Some key budgetary ratios, based on the revised denominator, are given below.

Revisions to Key Budgetary Ratios

	2024-2025	2025-2026	2026-2027
	In ₹ Crore		
	Actuals	Revised Estimates	Budget Estimates
New GDP at current prices	31807308	34547157	38001872.7*
<i>*assumed to grow at the same projected growth rate of 10%</i>			
Revised Fiscal Ratios			
Total Revenue Receipts	9.55	9.67	9.30
Tax Receipts	7.86	7.74	7.54
Capital Receipts	5.08	4.70	4.77
Total Receipts	14.63	14.37	14.07
Total Expenditure	14.63	14.37	14.07
Revenue Expenditure	11.32	11.20	10.86
Interest payments	3.51	3.69	3.69
Grants in Aid	0.86	0.89	1.30
Capital Expenditure	3.31	3.17	3.22
Effective Capital Expenditure	4.16	4.06	4.51
Revenue deficit	1.77	1.52	1.56
Effective revenue deficit	0.92	0.63	0.26
Fiscal Deficit	4.95	4.51	4.46
Primary Deficit	1.44	0.82	0.77

34. Complementing the continued emphasis on capital expenditure, the Government has strengthened the asset monetisation programme as a structural financing strategy to recycle public capital and mobilise long-term private investment. Asset monetisation refers to unlocking value from operational, brownfield public infrastructure through structured mechanisms such as PPP concessions, Toll-Operate-Transfer (ToT) models, InvITs, lease arrangements, securitisation of cashflows and calibrated equity dilution, while retaining public ownership of strategic assets. The first phase of the National Monetisation Pipeline (NMP 1.0), launched in 2021, outlined a structured pipeline across Ministries and PSUs, targeting ₹6 lakh crore over FY22 to FY25. Of this, approximately ₹5.3 lakh crore, i.e., about 89 per cent of the target, was realised, with strong traction in highways, coal, mines, petroleum and natural gas, and ports.

35. Building on this experience, the Union Budget 2025-26 announced the second phase of the programme for FY26-FY30. In consultation with infrastructure line ministries and stakeholders, NITI Aayog has prepared National Monetisation Pipeline 2.0 (NMP 2.0), envisaging a Total Monetisation Value (TMV) of ₹16.72 lakh crore over FY26-FY30, including about ₹5.8 lakh crore of private sector investment within the pipeline. The pipeline spans twelve sectors, including highways (with Multi-Modal Logistics Parks and ropeways), railways, power, petroleum and natural gas, civil aviation, ports, warehousing and storage, urban infrastructure, coal, mines, telecom and tourism. By converting mature assets into investible opportunities and reinvesting proceeds into new infrastructure creation, the programme strengthens fiscal sustainability while crowding in private capital for infrastructure-led growth.

Box 4: Evolving tax framework in Union Budget 2026-27: Supporting Investment, Trade and Compliance Efficiency

Enhancing efficiency and certainty in the tax system

- Union Budget 2026-27 advances a simpler, more predictable and administratively efficient tax framework aimed at reducing compliance frictions and improving taxpayer certainty.
- The proposed Income-tax Act, 2025, which is set to come to effect from 1st April 2026, seeks to streamline direct taxation through rationalised provisions, simplified forms and greater automation, including TDS processes.
- Longer duty deferral periods and extended validity of advance rulings binding on Customs, strengthen predictability in cross-border transactions.
- Integration of assessment and penalty proceedings reduced pre-deposit requirements for appeals and decriminalisation of minor offences reinforce a trust-based compliance framework.
- Tariff rationalisation through withdrawal of obsolete customs exemptions and incorporation of effective duty rates into the tariff schedule, faster release of imported goods which require no compliances, and warehouse operator-centric system with self-declarations, electronic tracking and risk-based audit improves transparency and reduces classification-related ambiguity.
- Risk-based and trusted importer frameworks further enhance predictability in customs administration and lower compliance costs.

Supporting investment and strengthening industrial capacity

- Incentives for digital infrastructure and data centres uptill 2047 encourage investment in emerging growth sectors.
- Safe harbour regimes and expedited advance pricing agreements reduce tax uncertainty for globally integrated firms.

- Rationalisation of the Minimum Alternate Tax framework enhances clarity and stability in corporate taxation.
- Provisions relating to IFSCs and toll manufacturing⁹ support capital inflows and facilitate technology transfer.
- Calibrated customs duty relief on clean energy inputs, battery storage, solar value chains on raw materials imported for manufacture of aircraft parts used in maintenance, repair, or overhaul requirements and critical minerals aligns fiscal incentives with industrial expansion and energy transition priorities.
- Exemptions for aircraft parts, MRO and selected electronics components promote domestic value addition in technology-intensive sectors.

Facilitating trade and improving export competitiveness

- Enhanced duty-free input allowances and extended compliance windows improve operational flexibility for exporters, including MSMEs and e-commerce firms.
- Removal of the extant courier export cap of Rs 10 lakh supports support aspirations of India's small businesses, artisans and start-ups to access global markets through e-commerce.
- Wider adoption of digital and AI-enabled customs systems is expected to reduce clearance times and transaction costs.
- Structured dispute resolution mechanisms help contain prolonged litigation and trade facilitation outcomes.

The 16th Finance Commission - A Nudge towards Responsible Federalism

36. At a time when State finances are showing renewed signs of stress, the 16th Finance Commission (16th FC) seeks to recalibrate the balance between fiscal support and fiscal responsibility, while the deeper thrust of its recommendations is towards strengthening fiscal self-reliance at the State level.¹⁰ The government has accepted its recommendation to retain the States' share in the divisible pool of central taxes at 41 per cent, ensuring continuity and predictability in transfers.¹¹

37. The Economic Survey 2025-26¹² highlighted the growing prevalence of unconditional transfers by States in recent years. It had been noted that between FY19 and FY25 (PA), 18 States saw a deterioration in their revenue balances, with the number of revenue-surplus States declining from 19 to 11. The aggregate revenue deficit of States rose from 0.1 per cent of GDP

⁹ Toll manufacturing (or tolling) is an outsourcing arrangement where a company provides raw materials to a third-party manufacturer, which then processes them into finished goods for a pre-negotiated fee, known as the "toll". The client retains control over sourcing and IP, while the manufacturer provides specialised equipment, facilities, and technical labour

¹⁰ https://www.business-standard.com/opinion/columns/towards-a-more-responsive-federalism-fc-16-calls-for-self-reliant-states-126021201885_1.html

¹¹ <https://www.pib.gov.in/PressReleaseDetail.aspx?PRID=2221390®=3&lang=1>

¹² Box II.7, Chapter 2, Economic Survey 2025-26

to 0.7 per cent during this period. This deterioration reflects a combination of slower revenue growth and the expansion of discretionary cash transfers.

38. In this backdrop, 16th FC recommends¹³ that States review and rationalise their subsidy and transfer schemes, refine beneficiary identification through clearly defined exclusion criteria, and introduce sunset clauses to prevent permanent fiscal commitments. It cautions against financing subsidies through off-budget borrowings, guarantees or assignment of revenues, noting that such practices weaken transparency and fiscal sustainability. Significantly, the 16th FC has discontinued Revenue Deficit Grants, on the view that persistent gap-filling transfers can dilute incentives for structural correction and own-revenue mobilisation.

39. At the same time, the 16th FC balances equity with performance in horizontal devolution. Alongside income distance, population, area and forest cover, it introduces the contribution of Gross State Domestic Product to national GDP as a criterion, which is stated to capture the effect of spending efficiency and fiscal rectitude. Notably, the grants to local bodies and for disaster management have been continued.

40. Taken together, the Commission's recommendations reinforce an important principle: fiscal transfers are designed to enable development, not underwrite structural imbalances. The emphasis is on improving the quality of expenditure, strengthening state-level revenue effort, and moving towards a more responsible federal system.

41. Alongside evolving Centre-State fiscal arrangements, improving the fiscal capacity of urban local bodies has become increasingly important for sustaining urban development and infrastructure creation.

Box 5: Urban Local Body Finances and the Dynamics of Urban Development

India's urbanisation process is increasingly viewed as an economic transformation, with cities functioning as centres of productivity, innovation and agglomeration economies. Chapter 15, "*Urban Development and Sustainability*," of the Economic Survey 2025-26 highlights that the growth potential of cities depends not only on infrastructure creation but also on effective local governance and adequate fiscal capacity. As urban areas expand, strengthening municipal finances becomes central to supporting service delivery, infrastructure development and urban competitiveness.

¹³ <https://fincomindia.nic.in/asset/doc/commission-reports/16th-FC/reports/Vol1-Main-Report.pdf>

Evidence from the *CityFinance* platform points to significant asymmetry in municipal finances across cities. Large metropolitan centres account for a dominant share of municipal revenues and expenditure, while smaller cities operate with relatively limited fiscal resources. Per-capita revenue and expenditure are substantially higher in large cities, suggesting that differences in economic base, tax mobilisation and administrative capacity translate directly into unequal investment ability and service delivery outcomes.

Revenue patterns reveal concentration and limited diversification. Property tax remains the primary own-source revenue for most Urban Local Bodies, while dependence on intergovernmental transfers remains high, particularly among smaller municipalities.¹⁴ Limited diversification of revenues constrains fiscal flexibility and limits the ability of cities to scale capital expenditure. Expenditure trends further reinforce this structural constraint. CityFinance data indicates moderation in aggregate ULB spending between 2020-21 and 2021-22, reflecting variation in capital expenditure execution and post-pandemic fiscal adjustments across states and city categories.¹⁵

Consistent with these structural realities, the Union Budget 2026-27 emphasises cities as engines of growth through the development of City Economic Regions and measures aimed at strengthening municipal finance and expanding urban infrastructure investment. The focus on tier-2 and tier-3 cities reflects policy recognition that balanced urbanisation requires widening fiscal and infrastructure capacity beyond major metropolitan centres.

Taken together, the evidence suggests that India's urbanisation trajectory will increasingly hinge on the fiscal capacity and institutional effectiveness of Urban Local Bodies. Addressing structural gaps in revenue mobilisation, improving expenditure quality and strengthening local public financial management will be important for enabling sustained infrastructure investment and efficient service delivery. Over the medium term, stronger municipal finances will be critical for ensuring that urban growth remains balanced, productive and supportive of broader economic transformation.

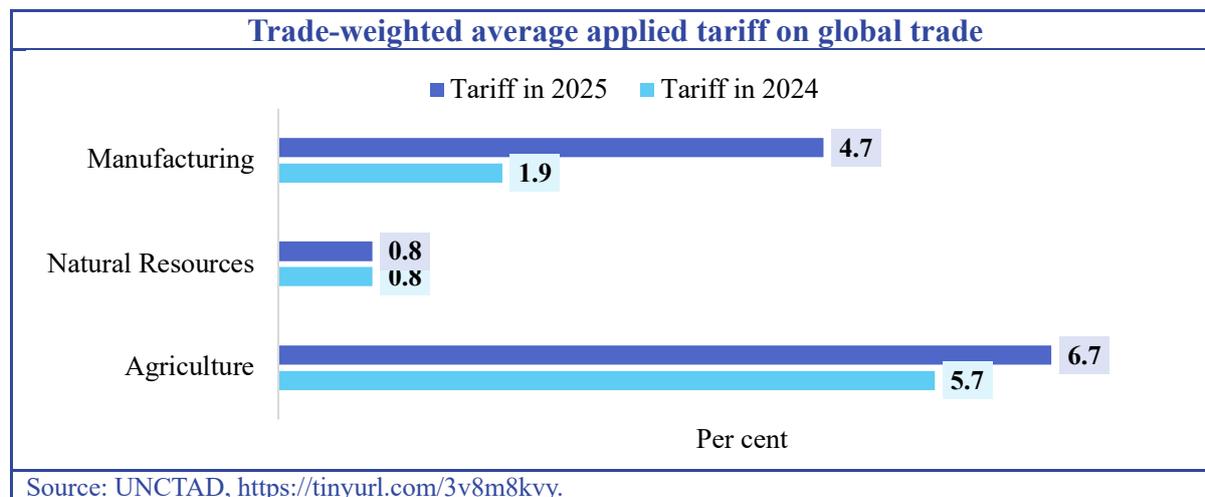
Global Trade Dynamics

42. Geopolitical considerations, economic challenges, shifting supply chains, digital breakthroughs, and sustainability imperatives significantly influence the manner in which countries engage in trade and commerce. Collectively, these factors will shape the global trade landscape in CY 2026. According to UNCTAD, the tariff uncertainty observed in CY 2025 has led to an increased role for the government in regulating market access. Consequently, average

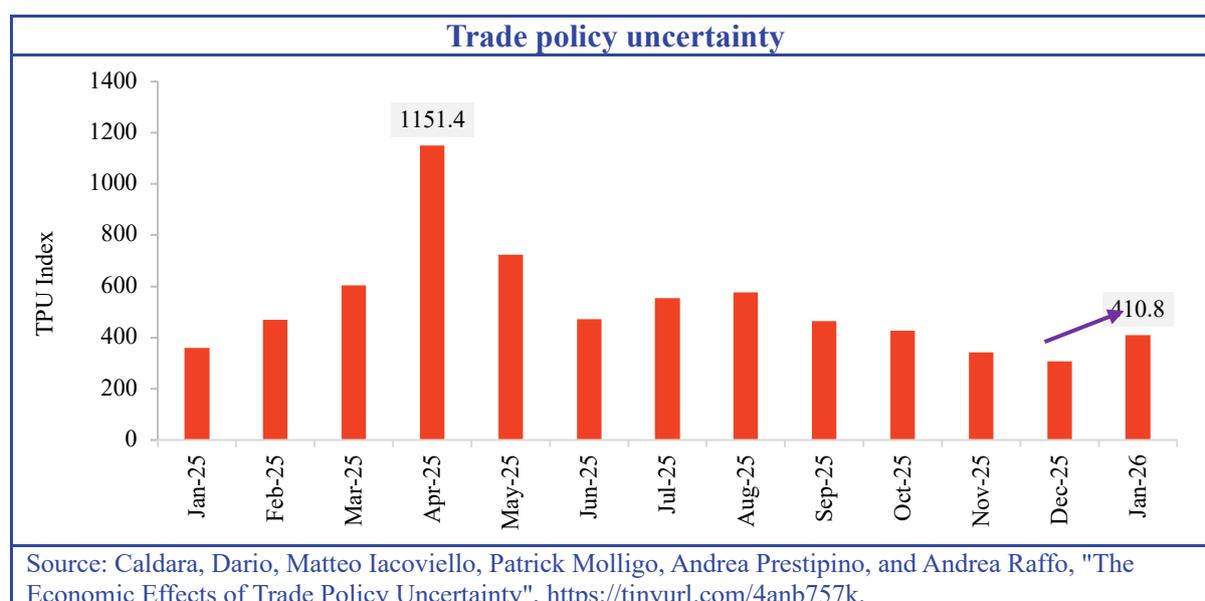
¹⁴ Team City Finance. (2025, November 24). *Exploring city revenues: A beginner's guide with CityFinance.in*. CityFinance Blog. (<https://tinyurl.com/53ewayxr>)

¹⁵ Team City Finance. (2026, January 9). *Exploring city expenditures with CityFinance.in: A beginner's guide*. CityFinance Blog. (<https://tinyurl.com/nhddcfb3>)

global tariffs rose across sectors, particularly in manufacturing, where rates increased from 1.9 per cent in CY 2024 to 4.7 per cent in CY 2025.



43. This uncertainty is expected to persist into CY 2026 as governments around the world pursue diverse domestic policy objectives. These objectives include using tariffs and other trade policy instruments to support industries, intensify industrial policies, address trade imbalances, and adapt to supply-chain reorganisation and technological advancements within existing and new trade agreements. Frequent policy changes further increase uncertainty, discouraging investment and complicating planning. In January 2026, the trade policy uncertainty index increased by 33.2 per cent on a month-on-month basis, following four consecutive months of decline.



44. Trade flows are significantly affected by tariffs, which directly increase the costs of imports. Even a modest rise in tariffs can weaken demand and lead to a reallocation of trade.

Additionally, trade volumes may decline as businesses proactively adjust to anticipated policy changes. Consequently, a volatile tariff environment poses a risk to both global trade growth and overall efficiency. Smaller, less diversified economies are particularly susceptible to the adverse effects of rising tariffs and policy uncertainty, given their limited capacity to redirect exports or absorb higher costs.¹⁶

45. Moreover, despite increases in tariffs across key sectors, the extent of the increases and the variation in tariffs imposed on different economies exhibit significant disparities. (A narrower range of tariff rates signifies a more uniform treatment of exporting nations, whereas a wider range indicates greater differentiation among trading partners.) This phenomenon has altered the relative competitiveness of economies and led to the reconfiguration of trade routes. Firms are diversifying their suppliers, "near-shoring" production closer to consumers, and vertically integrating to ensure access to essential inputs.¹⁷

46. In this dynamic environment, developing economies encounter a range of opportunities and challenges. Economies with well-established infrastructure, a highly skilled workforce, and consistent, long-term policies are in a stronger position to attract investment as businesses seek new locations. Conversely, peripheral economies, particularly those that rely on low-cost labour exports, risk marginalisation if production is concentrated in a limited number of hubs. Consequently, economies must implement measures to enhance logistics, upgrade and develop their workforce's skills, and foster a stronger investment climate to effectively integrate into global value chains.¹⁸

India's Trade Performance

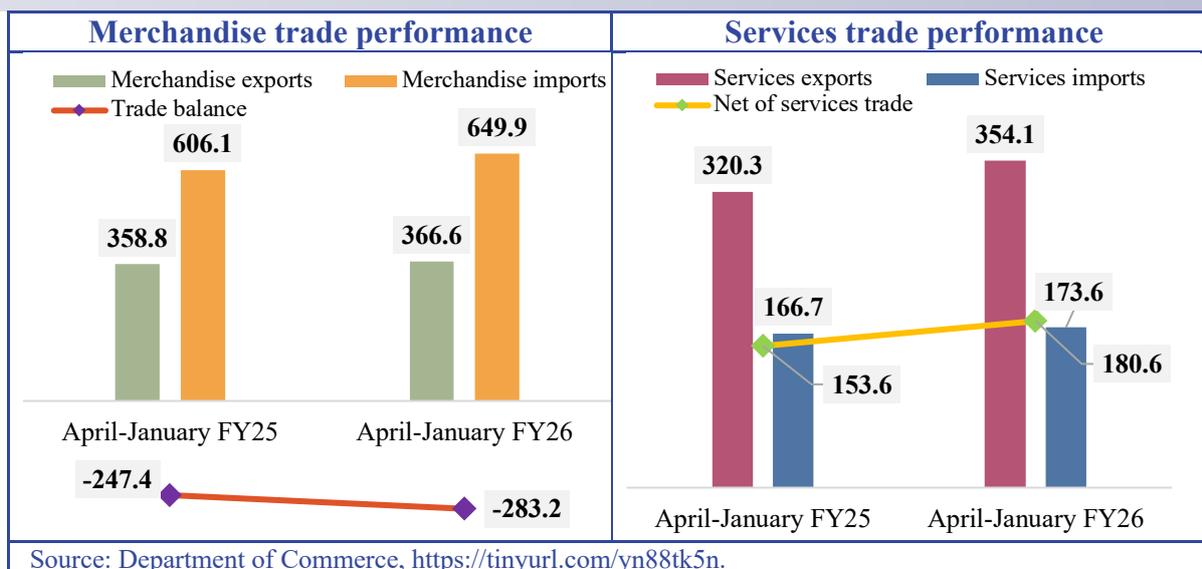
47. During the period April-January FY26, India's total exports (goods and services) grew by 6.2 per cent (YoY), reaching USD 720.7 billion. While merchandise exports have grown by 2.2 per cent (YoY), non-petroleum, non-gems and jewellery exports have grown by 5.6 per cent (YoY), amounting to USD 297.4 billion. Services exports grew by 10.6 per cent (YoY) during the period, reaching USD 354.1 billion, and this strength in the services exports has generated a net services surplus of USD 180.6 billion. As a result, the total trade deficit stands at USD 102.6 billion.¹⁹

¹⁶ UNCTAD's Global Trade Update, January 2026: <https://tinyurl.com/3v8m8kvj>.

¹⁷ UNCTAD's Global Trade Update, February 2026: <https://tinyurl.com/3sftv894>.

¹⁸ UNCTAD's Global Trade Update, January 2026: <https://tinyurl.com/3v8m8kvj>.

¹⁹ Note: The latest data for services sector released by RBI is for December 2025. The data for January 2026 is an estimation. (ii) Data for April-January 2024-25 and April-September 2025 has been revised on pro-rata basis using quarterly balance of payments data.



48. On the import side, total imports grew by 6.5 per cent (YoY) to USD 823.5 billion, with merchandise imports rising by 7.2 per cent (YoY). The increase was driven by non-petroleum, non-gems, and jewellery imports, which grew by 8.7 per cent (YoY). In contrast, the petroleum, crude and products imports fell by 3.9 per cent (YoY), on the back of a 16.8 per cent decrease (YoY) in the average crude oil price.²⁰ This import pattern indicates a robust domestic demand within the economy. Concurrently, service imports, valued at USD 173.6 billion in April-January FY26, have grown by 4.1 per cent (YoY).

49. In light of ongoing tensions in the Middle East, crude oil prices have risen sharply and the situation is still evolving. As of February 27, 2026, the price of crude oil (Indian Basket) has reached USD 71.2 per barrel, reflecting a month-on-month increase of 10.9 per cent.²¹ This price increase is likely to affect India's current account deficit (CAD). According to ICRA, a USD 10 per barrel increase in crude oil prices will increase the country's CAD by 0.3 per cent of the GDP.

50. The trade statistics for January 2026 indicate a subdued performance in the country's trade amid a dynamic global environment. While the merchandise exports have registered a marginal increase of 0.6 per cent (YoY) and non-petroleum, non-gems and jewellery exports have grown by 2 per cent (YoY), in contrast, merchandise imports have increased by 19.2 per cent (YoY). The rise in merchandise imports is attributable to higher gold and silver imports. Gold imports have increased by 349.2 per cent and silver imports by 127 per cent (YoY). This rise in imports may be due to higher gold and silver prices, which increased by 75.4 per cent and 202.7 per cent, respectively (YoY). Consequently, the merchandise trade deficit increased to USD 34.7 billion in January 2026 from USD 23.4 billion in January 2025.

²⁰ World Pink Sheet Data – Monthly Prices: <https://tinyurl.com/ycy2dhzz>.

²¹ Bloomberg.

51. Simultaneously, Services exports have increased by 26.3 per cent (YoY), amounting to USD 43.9 billion. This represents the highest level of service exports recorded in a single month. Services imports have increased by 17.3 per cent; as a result, the net of services trade increased by 34.7 per cent (YoY), amounting to USD 24.3 billion.

52. The country's renewed focus on free trade agreements (FTAs) signals a strategy for trade diversification, aimed at sustaining trade momentum and increasing participation in global value chains amid global uncertainties. This includes the signing of the India-Oman CEPA in December 2025, the recently concluded negotiations for the India-New Zealand FTA, the India-EU FTA, and the India-US framework for an Interim Agreement regarding reciprocal and mutually beneficial trade^{22,23} as well as the continuation of negotiations with Chile and Peru.²⁴

53. The India-EU FTA is significant because these economies account for 25 per cent of global GDP and one-third of global trade. Thus, integration of these two diverse and complementary economies will create trade and investment opportunities. The India-EU FTA facilitates market access for over 99 per cent of India's exports by trade value, while maintaining policy flexibility for sensitive sectors and reinforcing India's developmental priorities. The nation's labour-intensive sectors, including textiles, leather and footwear, tea, coffee, spices, sports goods, toys, gems and jewellery, as well as certain marine products, will benefit from immediate duty elimination upon the agreement's implementation. India has proposed access to 97.5 per cent of the EU imports, with 49.6 per cent of the tariff lines benefiting from immediate duty elimination. The import of high-technology goods from the EU will diversify India's import sources, thereby reducing input costs for businesses, benefiting consumers, and creating opportunities for Indian enterprises to integrate into global supply chains. On the services trade front, the FTA includes high-value commitments in services, along with a comprehensive mobility framework that enables the movement of skilled Indian professionals. It also provides for measures to tackle non-tariff barriers through strengthened regulatory cooperation, greater transparency, and streamlined customs, Sanitary and Phytosanitary procedures, and Technical Barriers to Trade disciplines. Through the CBAM provisions, India has secured a forward-looking most-favoured nation (MFN) assurance extending any flexibilities granted to third countries, along with enhanced technical

²² PIB Press release of the Ministry of Commerce and Industry dated February 7, 2026: <https://tinyurl.com/3um8xeuz>

²³ USA and India have reached a framework for an Interim Agreement regarding reciprocal and mutually beneficial trade, reaffirming their commitment to ongoing negotiations aimed at concluding a broader Bilateral Trade Agreement.

²⁴ PIB Press release of the Ministry of Commerce and Industry dated December 10, 2025: <https://tinyurl.com/mry64n7b>

cooperation on carbon price recognition and verifiers, and financial and targeted support to reduce emissions and meet emerging carbon requirements.²⁵

54. Similarly, the India-US framework for an Interim Agreement for reciprocal and mutually beneficial trade secures a preferential access for Indian exports to the US. Following the recent U.S. Supreme Court ruling that the tariffs imposed under the International Emergency Powers Act (IEEPA) are unlawful, the US has confirmed that the trade deal with India remains intact.²⁶

55. Further, the US has imposed a temporary surcharge of 10 per cent ad valorem on articles imported into the US, effective February 24, 2026, under Section 122 of the Trade Act of 1974 on all nations for a period of 150 days. However, certain goods are exempt from this surcharge, primarily those categorised as critical minerals, energy and energy products, specific agricultural items such as beef, tomatoes, and oranges, and pharmaceuticals and pharmaceutical ingredients.²⁷

56. Despite the recent developments leading to a reduction in tariffs on Indian exports to the U.S. from 50 per cent to 10 per cent, there remains a significant level of uncertainty related to these tariffs, which may continue to impact the global trade dynamics. An additional factor contributing to the current uncertainty is the U.S. Supreme Court's ruling that the tariffs were collected unlawfully, which has created an opportunity to submit refund claims. According to the Penn Wharton Budget Model, reversing the IEEPA tariffs is projected to generate up to USD 175 billion in refunds.²⁸ The Government is studying the implications of these developments.²⁹

57. Complementing the renewed push for FTAs, several measures have been announced in the Union Budget 2026-27 to strengthen the country's position as a trusted global trading partner. A technology-driven, trust-based approach to ease of doing business in trade has been put in place. It includes measures such as electronic sealing of export cargo, trusted supply-chain recognition, automated customs procedures, expansion of non-intrusive scanning, extended validity of advance rulings, enhanced duty deferment for Authorised Economic Operators, and the removal of value caps on courier exports, all aimed at improving predictability, reducing transaction costs, and strengthening India's position on global trade facilitation indices. Measures for infrastructure development, such as dedicated freight

²⁵ PIB Press releases of Ministry of Commerce and Industry dated January 27, 2026: <https://tinyurl.com/yybnzu2b> and <https://tinyurl.com/49acxd4p>.

²⁶ Akashvani News: White House confirms temporary 10 per cent tariff for India after US Supreme Court ruling Dated February 21, 2026 - <https://tinyurl.com/3cv7cjbh>.

²⁷ US Presidential Actions: Imposing a Temporary Import Surcharge to Address Fundamental International Payments Problems, dated February 20, 2026 - <https://tinyurl.com/26pm6s2s>.

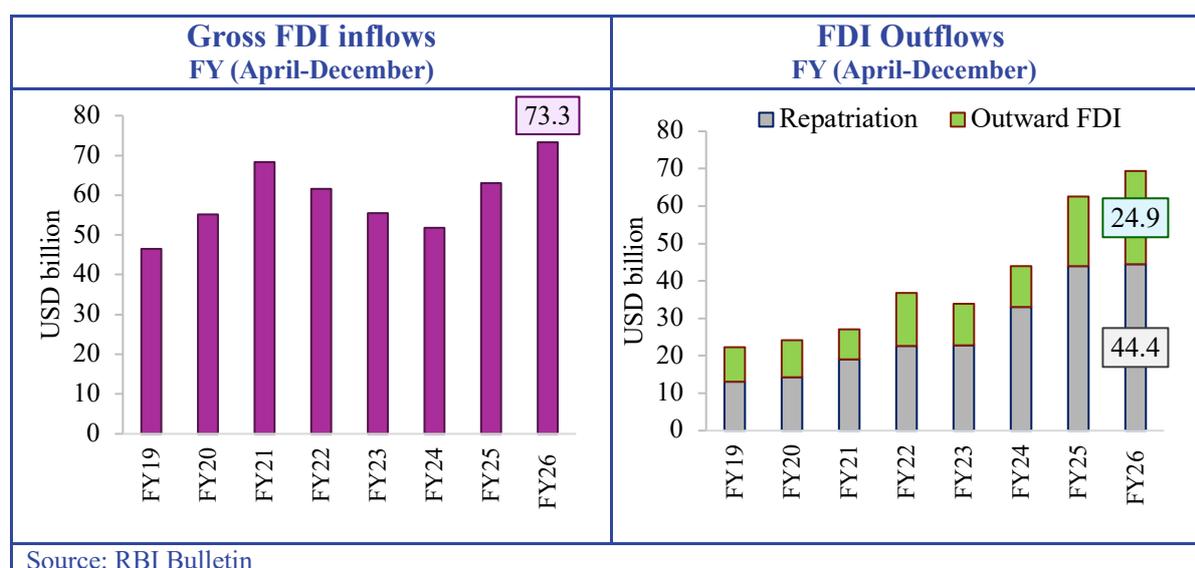
²⁸ Penn Wharton Budget Model, University of Pennsylvania - <https://tinyurl.com/349ckcsm>.

²⁹ Press Statement of the Ministry of Commerce and Industry, dated February 21, 2026 - <https://tinyurl.com/46rkmcmf>.

corridors, new National Waterways, logistics parks, etc, will enhance export competitiveness by reducing dwell times and improving supply chain efficiency. A proposal has been put forth to establish a High-Powered Education-to-Empowerment and Enterprise Standing Committee. This committee is intended to oversee and guide coordinated reforms to position India as a global leader in the services sector. The aspirational target set forth is to achieve a 10 per cent share in global services exports by 2047.

Foreign Direct Investment

58. During April-December 2025, gross Foreign Direct Investment (FDI) inflows increased to USD 73.3 billion from USD 63.1 billion in the corresponding period of the previous year. The rise indicates continued investor interest amid stable macroeconomic conditions. However, the level of inflows remains below their potential in a competitive global environment, where several emerging economies are proactively positioning themselves within global value chains (GVCs).



59. On the outflow side, repatriation by foreign investors remained elevated at around USD 44.4 billion during April-December 2025, broadly unchanged from USD 44.0 billion a year ago. The persistence of high repatriation suggests that a significant portion of gross inflows continues to be offset by exits and profit repatriation, limiting the translation of gross flows into durable net capital formation. In addition, outward FDI by Indian firms increased to USD 24.9 billion from USD 18.5 billion in the previous year, reflecting overseas expansion and portfolio rebalancing by domestic corporates.

60. As a result, net FDI was at USD 4.0 billion during April-December 2025, compared with USD 0.6 billion in the corresponding period last year. While this marks an improvement over a low base, net FDI remains low in relation to the scale of the economy and financing

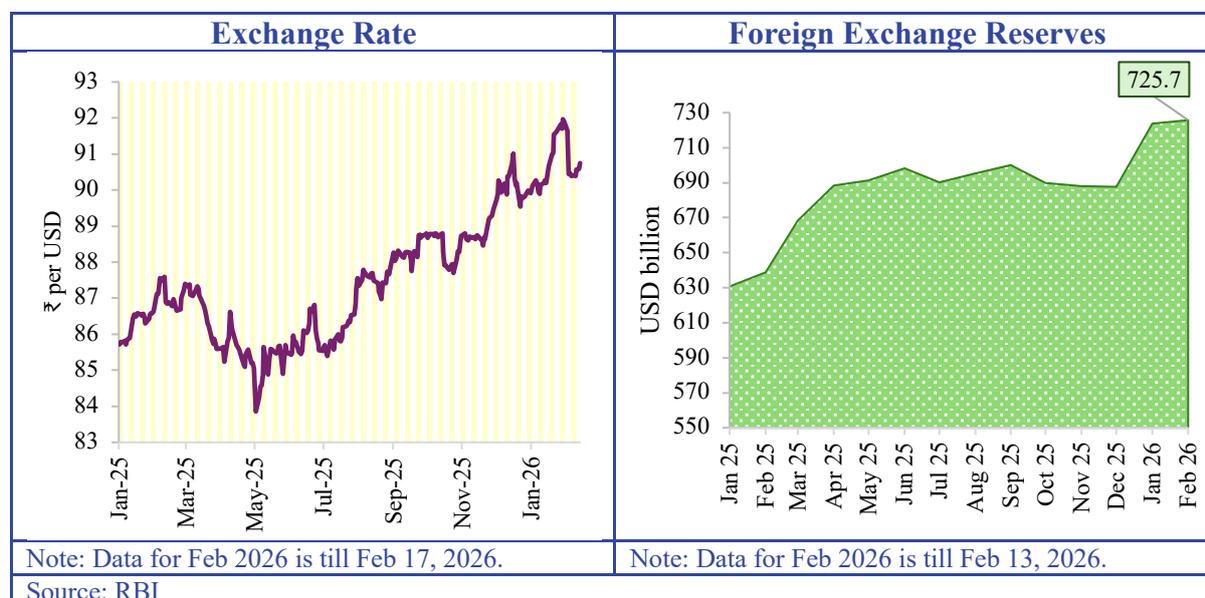
needs. As noted in the Economic Survey 2025-26 (Box IV.3), converting India’s macroeconomic strengths into sustained FDI inflows requires a targeted strategy to attract GVC anchors and reliable implementation of incentives and policy commitments. Strengthening these areas will be important for enhancing the scale and durability of capital inflows going forward.

Foreign Portfolio Investment

61. Foreign Portfolio Investment (FPI) flows during FY26 have been characterised by continuing net outflows for most of the recent period, reflecting tightening global financial conditions and risk aversion among investors. After recording net outflows in December 2025 and January 2026, FPI flows witnessed a turnaround in February (till February 24, 2026), with net inflows of around USD 4 billion. The improvement was broad-based, with both equity and debt segments registering positive flows. While the February inflows indicate some easing in pressures, portfolio flows remain sensitive to global financial developments and external monetary conditions.

Exchange Rate & Foreign Exchange Reserves

62. The rupee closed at ₹ 90.77 per US dollar on February 17, 2026, after touching a low of 91.96 on January 29, 2026. During FY 2025-26, INR has depreciated by 5.8 per cent (till February 17, 2026). With India and the USA reaching a framework for an Interim Agreement on reciprocal and mutually beneficial trade (Interim Agreement),³⁰ alongside resilient export performance, pressures on the rupee may ease going forward.



³⁰ [US-India Joint Statement, PIB](#)

63. India's foreign exchange reserves remain comfortable at USD 725.7 billion as of 13 February 2026, providing cover for more than 11.4 months of goods imports and ~ 97 per cent of the external debt outstanding as of the end of September 2025.

64. Overall, the external sector remains well-positioned, with the services surplus and stable FDI inflows supporting external financing amid volatile global conditions. Adequate foreign exchange reserves and improving trade diversification continue to strengthen India's ability to navigate external uncertainties.

Monetary and Financial Sector Developments

65. Keeping in view the domestic macroeconomic conditions and the outlook, the Monetary Policy Committee (MPC), in its February 2026 meeting, kept the repo rate unchanged at 5.25 per cent and continued its neutral stance. In the future, the MPC will be guided by changing macroeconomic conditions and outlooks, based on the new series of GDP and CPI, when determining the direction of monetary policy.

66. On the liquidity front, the system liquidity, as measured by the net position under the Liquidity Adjustment Facility (LAF), stands at a surplus. The average daily net absorption under LAF during October and November stood at ₹0.9 lakh crore and ₹1.9 lakh crore, respectively. The average daily net absorption under the LAF declined to ₹0.8 lakh crore in December 2025 and January 2026; however, in February 2026 (up to February 4), it increased to ₹1.8 lakh crore. The RBI emphasises its commitment to proactive liquidity management. It aims to ensure that the banking system has sufficient liquidity to meet the productive needs of the economy and to support the effective transmission of monetary policy. Furthermore, liquidity management will be pre-emptive, allowing for unexpected fluctuations in government balances, changes in currency in circulation, foreign exchange interventions, and other factors.

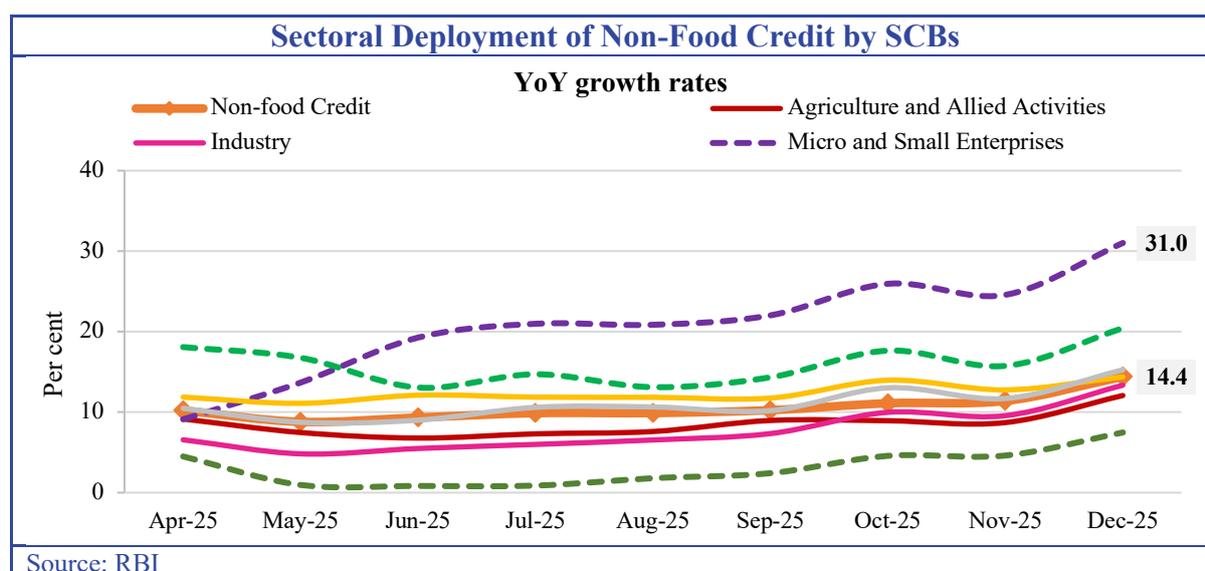
67. There has been effective transmission of monetary policy, as evidenced by the fact that, in response to the cumulative 125 bps cut in the policy repo rate, the weighted average lending rate of Scheduled Commercial Banks (SCBs) declined by 105 bps for fresh rupee loans during February-December 2025. During the same period, the weighted-average domestic term deposit rate on fresh deposits fell by 95 bps, while that on outstanding deposits decreased by 41 bps.

68. The total flow of resources from bank and non-bank sources to the commercial sector stood higher at ₹34.5 lakh crore in April-January FY 26 as compared to ₹25.5 lakh crore in the corresponding period of the previous financial year, registering a growth of 35 per cent. The primary sources of this growth have been non-food bank credit, amounting to ₹21.8 lakh crore,

and corporate bond issuances by non-financial entities, amounting to ₹2.5 lakh crore.³¹ As of January 15, 2026, it has registered an increase of 13.1 per cent, up from 11.5 per cent a year ago.³²

69. According to the most recent data on the sectoral distribution of bank credit by SCBs, as of December 2025, YoY growth rates for both overall bank credit and non-food credit have reached their highest levels in FY26, displaying growth rates of 14.5 per cent and 14.4 per cent, respectively and increasing from 11.2 per cent and 11.1 per cent in December 2024.

70. 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 services, with an increase of 15.3 per cent (YoY). A significant factor contributing to this growth is a rise in credit for shipping and computer software services, which have registered growth of (YoY) by 47.2 per cent and 33.9 per cent, respectively, increasing significantly, from 1.8 per cent and 18.3 per cent in December 2024.



71. Within the industry, the bank credit to the MSME sector continues to show momentum and remains robust. In December 2025, bank credit to this sector rose 27.7 per cent YoY, compared with 12.8 per cent in December 2024. Within the MSME sector, credit extended to micro and small enterprises increased by 31 per cent (YoY) in December 2025, up from 9.8 per cent in December 2024. The RBI, with a view to facilitating improved access to formal credit, supporting entrepreneurial activity and strengthening last-mile credit delivery for Micro and

³¹ Table 18(a): Flow of Financial Resources to Commercial Sector in India, RBI Monthly Bulletin, February, 2026: <https://tinyurl.com/4xd7myfb>

³² RBI Governor's Statement dated February 06, 2026: <https://tinyurl.com/56r26e28>

Small Enterprises (MSEs) with limited collateral, has decided to enhance the limit of collateral-free loans to MSEs from ₹10 lakh to ₹20 lakh.³³

72. This momentum in bank credit is expected to continue through the remainder of FY26. As per the RBI's latest bank lending survey for Q3 FY26, bankers assessed higher demand across most sectors during Q3 FY26 compared to previous quarters, and the majority of responding bankers indicated easier loan terms and conditions. Further, their expectations for Q4 FY26 indicate an improvement in the outlook for overall loan demand, mainly driven by the manufacturing, infrastructure, services, and retail/personal loan sectors. It is also expected that the easy terms and conditions for loans will continue to prevail during the quarter.

Financial sector developments

73. The Union Budget 2026-27 has announced several reforms across the financial sector. These include the setting up of a 'High Level Committee on Banking for Viksit Bharat'. This committee will comprehensively review the financial sector and align it with India's next phase of growth, while safeguarding financial stability, inclusion and consumer protection. The budget proposes restructuring the Power Finance Corporation and the Rural Electrification Corporation to achieve scale and improve efficiency in the Public Sector NBFCs.

74. To create a more contemporary, user-friendly framework for foreign investments consistent with India's evolving economic priorities, a comprehensive review of the Foreign Exchange Management (Non-debt Instruments) Rules has been proposed. Further, Individual Persons Resident Outside India (PROI) will be permitted to invest in equity instruments of listed Indian companies through the Portfolio Investment Scheme. It is proposed to increase the investment limit for an individual PROI under this scheme from 5 per cent to 10 per cent, with an overall investment limit for all individual PROIs set at 24 per cent, up from the current 10 per cent.

75. To encourage large cities to issue higher-value municipal bonds, an incentive of ₹100 crore for a single issuance of more than ₹1000 crore has been announced. For the corporate bond market, the introduction of the market-making framework and total return swaps has been announced.

76. In terms of the tax proposals, to discourage speculation, address systemic risks in the derivatives market, and ensure that household savings are deployed to build wealth, it has been proposed to raise the Securities Transaction Tax (STT) on futures from 0.02 per cent to 0.05 per cent. STT on options premium and exercise of options is proposed to be raised to 0.15 per cent from 0.1 per cent and 0.125 per cent, respectively.

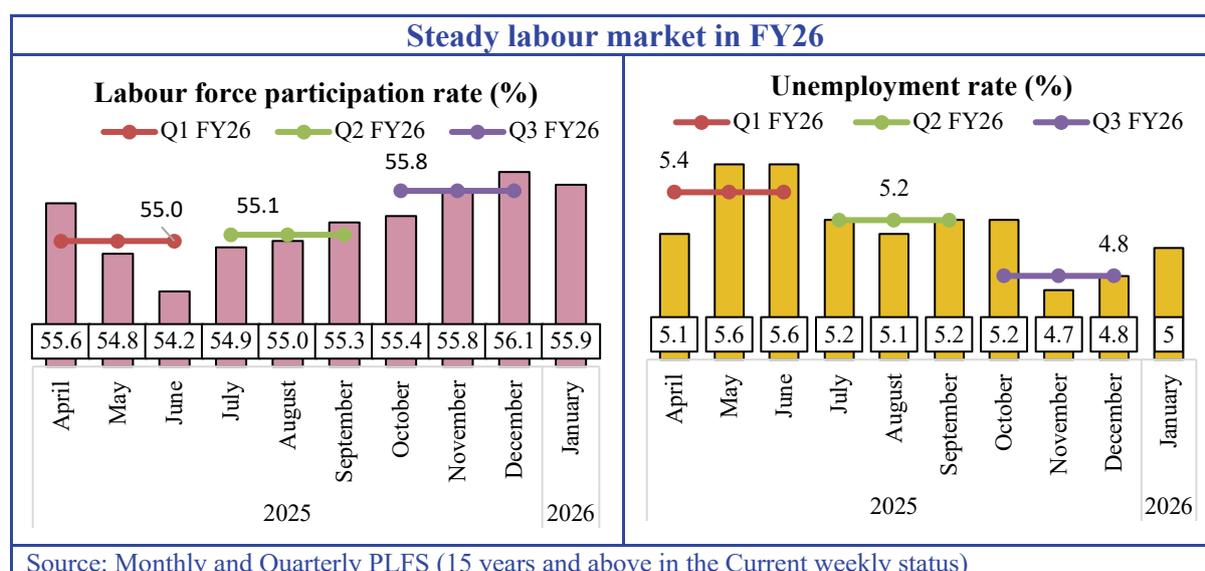
³³ RBI's Statement of Development and Regulatory Policies, dated February 06, 2026: <https://tinyurl.com/3xwr28s5>

Turning Aspiration into Achievement

77. Recent labour market indicators reflect an improving employment landscape driven by a combination of regulatory reforms, expanded social protection, and targeted skill development initiatives. The Union Budget 2026-27 maintains the government’s focus on creating jobs and enhancing employability, centred around the theme of harnessing “*Yuva Shakti*” through an emphasis on youth empowerment, skill development, and inclusive growth.

Labour market indicators continue their upward trend

78. The labour market continues to show steady improvement, as reflected in the latest quarterly Periodic Labour Force Survey (PLFS) estimates for October-December 2025 (Q3 FY26). Employment conditions remained steady during the quarter, with rising labour force participation alongside a gradual moderation in unemployment, indicating continued worker absorption across sectors. Average employment increased to 57.4 crore persons in Q3 FY26, up from 56.2 crore in Q2 FY26 (July-September 2025). Of the total employed aged 15 years and above in Q3 FY26, 40.2 crore were male and 17.2 crore were female.

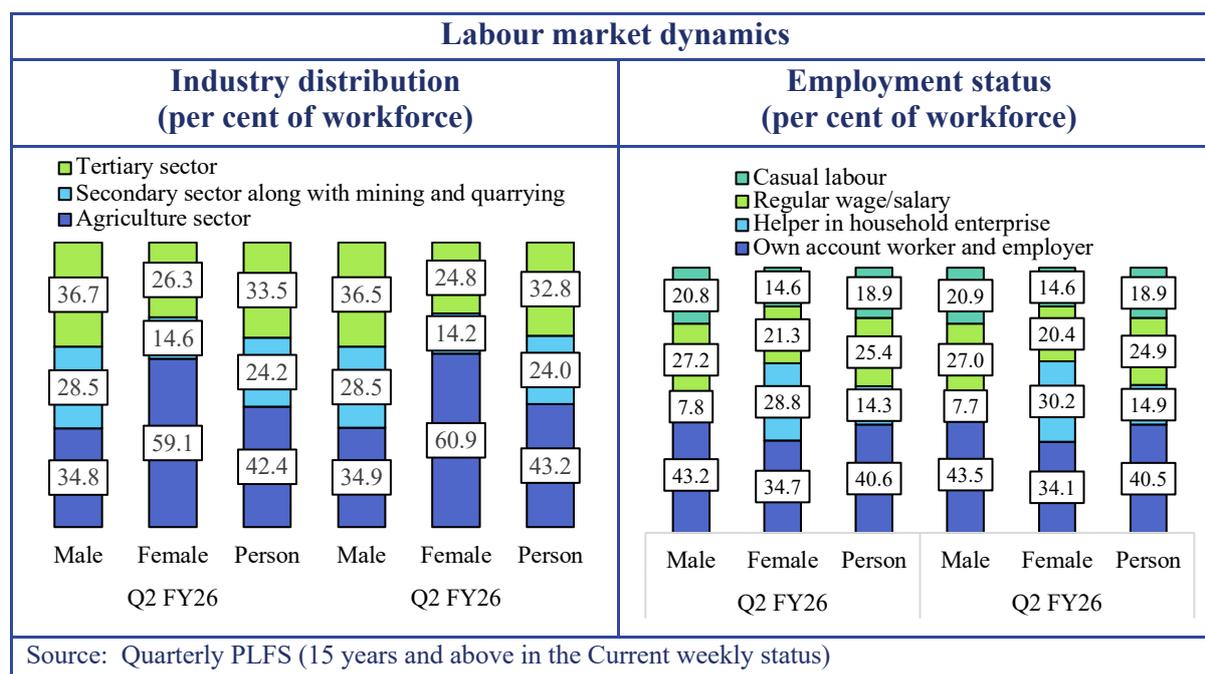


79. Examining the monthly trends, the January 2026 PLFS reports a labour force participation rate³⁴ of 55.9 per cent for persons aged 15 years and above, accompanied by an unemployment rate³⁵ of 5 per cent.

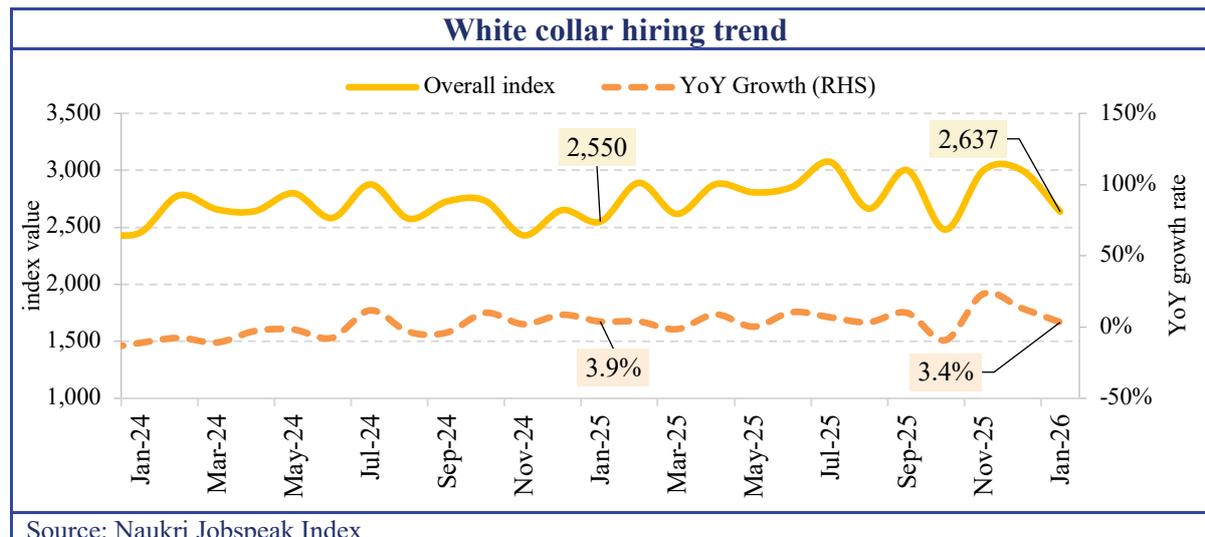
³⁴ Labour Force Participation Rate (LFPR) is defined as the percentage of the population in the labour force. Labour force, according to Current Weekly Status (CWS), is the number of persons either employed or unemployed on average in a week of 7 days preceding the date of the survey.

³⁵ 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.

80. Primary sector dominated employment share in rural areas, with the majority of workers engaged in agriculture accounting for 58.5 per cent during Q3 FY26, up from 57.7 per cent in the previous quarter. In urban areas, the tertiary sector remained stable, accounting for 61.9 per cent of workers in Q3 FY26. Self-employment rose in both rural and urban areas. Even with the rise in the share of self-employed people in urban areas, regular wage employment (49.1 per cent) remained the dominant employment type. A gender-wise distribution shows relatively higher female participation in agriculture and self-employment, whereas male workers remain concentrated in the tertiary sector.



Source: Quarterly PLFS (15 years and above in the Current weekly status)



Source: Naukri Jobspeak Index

81. Other high-frequency indicators corroborate the improving labour market trends. According to the Naukri Jobspeak January 2026 report, white-collar hiring in India began in 2026 on a steady footing. The Naukri Jobspeak index experienced a 3 per cent rise (year-on-

year) in January 2026, driven by non-IT sectors such as BPO/ITES (+21 per cent), hospitality/travel (+15 per cent), insurance (+7 per cent), and Healthcare (+5 per cent). Fresher hiring increased by 8 per cent, signalling expansion of entry-level opportunities across sectors.

Policy response: expanding employment opportunities

82. The Union Budget 2026-27 adopts a sector-focused approach to employment and skilling, covering the primary sector (animal husbandry and high-value crops), labour-intensive manufacturing such as textiles, and services including healthcare and the care economy, tourism, sports and the creative (‘orange’) economy. The Budget responds to the labour market trends through a sector-wise employment ecosystem approach that links sectoral expansion with entrepreneurship, productivity and workforce participation outcomes. The key initiatives under this strategy are outlined below.

Sector-focused employment strategy³⁶

<p><i>Textile Sector:</i> Proposal of a Textile Expansion and Employment Scheme</p>	<ul style="list-style-type: none"> •Modernise traditional clusters with provision of capital support for machinery. •Upgrade technology used by traditional clusters. •Develop common testing and certification centres.
<p><i>Animal Husbandry Sector:</i> Initiatives to enhance entrepreneurship opportunities.</p>	<ul style="list-style-type: none"> •Proposal for a credit-linked subsidy programme. •Scale-up and modernise livestock enterprises. •Development of integrated-livestock, dairy and poultry-focused value chains. •Promote Livestock Farmer Producers Organisations.
<p><i>Agriculture Sector:</i> Initiatives for diversifying farm output and improving farmers' income.</p>	<ul style="list-style-type: none"> •Proposal to support high-value crops, including coconut, sandalwood, cocoa, and cashew, in coastal areas, Agar trees in the North East and nuts such as almonds, walnuts, and pine nuts in hilly regions.
<p><i>Women entrepreneurship promotion :</i> Announcement to establish Self-Help Entrepreneur (SHE) Marts.</p>	<ul style="list-style-type: none"> •SHE marts would be community-owned retail outlets managed by women. •Provide enhanced and innovative financing to women led enterprises.

³⁶ Budget Speech 2026-27: https://www.indiabudget.gov.in/doc/budget_speech.pdf

Strengthening employability and skill pathways

83. To sustain employment expansion, the Budget's skill development initiatives aim to align workforce capabilities with evolving sectoral demands. Complementing job creation measures, the focus is on improving employability by developing an ecosystem that connects students, skill training, industry requirements, and employment opportunities.

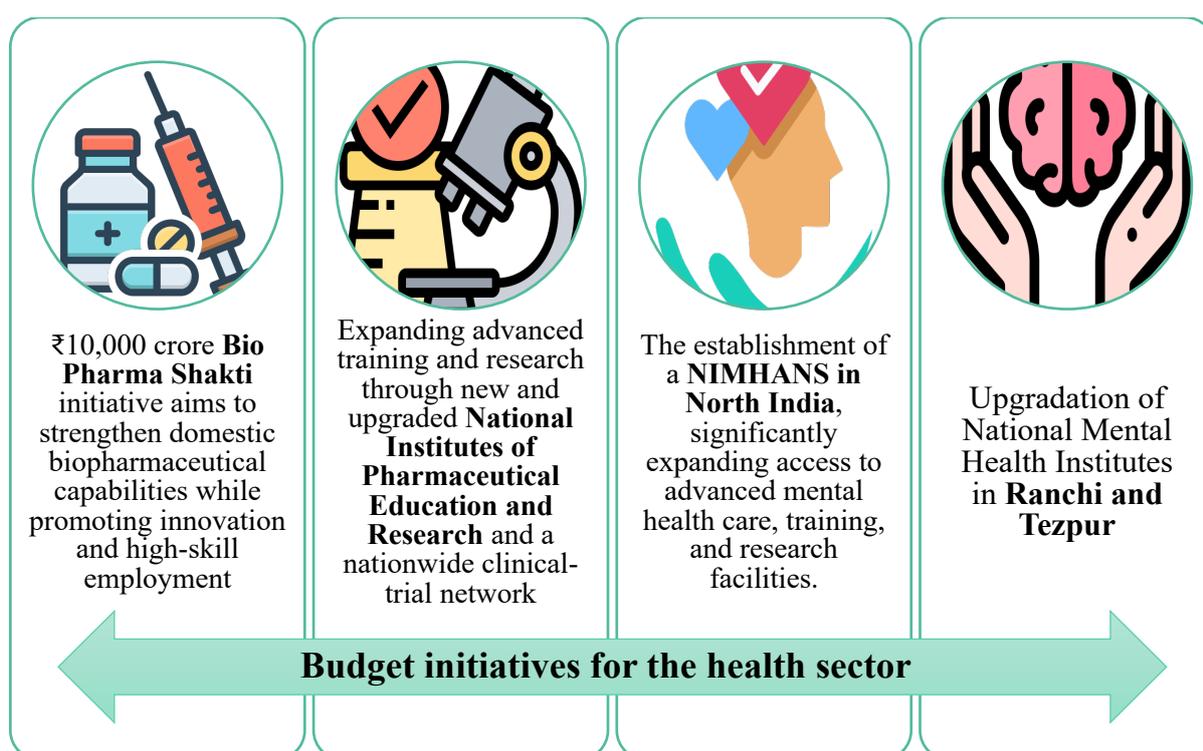
Initiatives for skilling the youth³⁷

<p><i>Setting up 'High-Powered Education to Employment and Enterprise' Standing Committee</i></p>	<ul style="list-style-type: none"> •To recommend measures focused on the Services Sector, prioritising areas to optimise growth, employment, and exports. •To assess the impact of emerging technologies on jobs and skill requirements and propose measures thereof
<p><i>Initiatives for Tourism Sector</i></p>	<ul style="list-style-type: none"> •Proposal for structured skilling of guides. •Upgradation of the National Institute of Hospitality. •Creation of a National Destination Digital Knowledge grid.
<p><i>Sports Sector: Strengthening skilling ecosystem under Khelo India Mission</i></p>	<ul style="list-style-type: none"> •Development of structured talent pathways. •Setting up training centres at multiple levels. •Development of coaches and support staff. •Integration of sports science and technology.
<p><i>Health Sector Initiatives</i></p>	<ul style="list-style-type: none"> •Proposal to upgrade and set up institutions for Allied Health Professionals (AHPs): 100,000 AHPs over the next 5 years. •Proposal to establish 3 All India Institutes of Ayurveda.
<p><i>Initiatives to strengthen Care Economy</i></p>	<ul style="list-style-type: none"> •Development of a comprehensive <i>care ecosystem</i> covering geriatric and allied care services. •Development of NSQF-aligned programmes to train multiskilled caregivers: train 1.5 lakh caregivers.
<p><i>Initiatives for Orange Economy</i></p>	<ul style="list-style-type: none"> •Proposal to support the Indian Institute of Creative Technologies, Mumbai, to establish animation, visual effects, gaming and comics (AVGC) content creator labs in 15,000 secondary schools and 500 colleges.
<p><i>Proposal for Divyangjan Kaushal Yojana</i></p>	<ul style="list-style-type: none"> •The scheme would provide skilling for the IT, AVGC sectors, hospitality and food and beverages sectors, offering task-oriented and process-driven roles, which are suitable for Divyangjans.
<p><i>Initiatives for Animal husbandry sector</i></p>	<ul style="list-style-type: none"> •Proposal of a loan-linked capital subsidy support scheme to establish veterinary and paravet colleges, veterinary hospitals, diagnostic laboratories and breeding facilities in the private sector.

³⁷ Ibid note 36 above

Education and healthcare: the foundation of developing the ‘Yuva Shakti’

84. Complementing skill development, the Budget strengthens foundational human capital through education to equip India’s youth with the knowledge and skills needed for future growth and innovation. It underscores the commitment to inclusive education, with allocations to the Ministry of Education increasing by over 8 per cent in FY27 compared to FY26 (Budget Estimates (BE)).³⁸ Further, to improve skill development and the quality of education, five university townships are proposed along industrial and logistics corridors. The proposal to establish a girls’ hostel in every district aims to address mobility and safety constraints arising from long study and laboratory hours in higher education institutions. By reducing these barriers, the measure is expected to facilitate greater participation of women in higher education, particularly in STEM (Science, Technology, Engineering and Mathematics) disciplines. This aligns with the Economic Survey 2025-26 recommendation to expand female enrolment in STEM as a pathway to improving women’s economic participation. Scientific learning is promoted through the proposal to develop and upgrade major telescopes and astronomy infrastructure. Additionally, a new National Institute of Design is proposed for the eastern region of India.³⁹



85. Alongside education, healthcare investments support workforce productivity and participation. The allocation to the health sector has been increased by 10 per cent from the

³⁸ Yuva Shakti Driven Budget 2026-27: <https://tinyurl.com/mreks8rh>

³⁹ Ibid note 36 above

revised estimates for FY26.⁴⁰ Several ongoing schemes, such as *PM Jan Arogya Yojana*, *PM Ayushman Bharat Infrastructure Mission*, *Pradhan Mantri Swasthya Suraksha Yojana*, and the National Health Mission, saw increased allocations, reflecting the Government's sustained focus on strengthening access to healthcare, infrastructure, service delivery, and human resource capacity.⁴¹ Alongside service delivery, the focus is on building a research-driven healthcare ecosystem that combines advanced therapeutics, training, and mental health infrastructure.

86. Overall, the Budget proposes an integrated employment strategy by aligning sectoral initiatives with investments in skilling, education and health. Together, these measures strengthen labour demand and workforce capabilities, supporting sustained employment growth.

Inclusive social sector allocations

87. The focus on '*Sabka Sath, Sabka Vikas*' is strengthened through higher allocations for vulnerable groups. The share of the gender budget in the total Union Budget has risen to 9.37 per cent in FY27 from 8.86 per cent in FY26, with over ₹5 lakh crore allocated for the welfare of women and girls, an increase of over 11 per cent compared to FY26 (BE).⁴²

88. Higher allocations for children are reflected in expanded support to the Department of School Education, which saw a 6.4 per cent increase in FY27 (BE) compared to FY26 (BE). Enhanced allocations to key school education flagship schemes (such as Samagra Shiksha (+20 per cent)) in FY27 over the previous year's levels reflect a strengthened focus on school education and child development.⁴³

89. In addition, the Budget proposes the Divyang Sahara Yojana to enhance accessibility by supporting the production of assistive devices, strengthening PM Divyasha Kendras, and establishing Assistive Technology Marts, thereby enabling greater participation of Divyangjans and senior citizens in education, work, and daily life.

90. Together, the employment, skilling, education, health, and inclusive expenditure measures position growth and social protection as mutually reinforcing pillars, supporting broad-based, inclusive economic participation.

⁴⁰ Budget at a glance 2026-27: https://www.indiabudget.gov.in/doc/Budget_at_Glance/budget_at_a_glance.pdf

⁴¹ PIB release of MoHFW dated 1 February 2026: <https://tinyurl.com/5yh6x8ac>

⁴² Statement 13 Gender Budget 2026-27: <https://www.indiabudget.gov.in/doc/eb/stat13.pdf> ; Budget at a glance 2026-27: https://www.indiabudget.gov.in/doc/Budget_at_Glance/budget_at_a_glance.pdf and PIB release of the Ministry of Women and Child Development dated 1 February 2026: <https://tinyurl.com/5fxe9w7j>

⁴³ Ministry of Education demand no. 25 Department of School Education and Literacy: <https://www.indiabudget.gov.in/doc/eb/sbe25.pdf>

Conclusion and Outlook

91. India's economy has maintained strong momentum in FY26, with real GDP growth estimated at 7.6 per cent and real GVA growth at 7.7 per cent. Economic activity in January 2026 remained broad-based, supported by strong high-frequency indicators, including robust logistics activity, expanding PMI indices and sustained demand conditions, pointing to continued growth momentum.

92. The external sector is stable despite elevated global trade uncertainty. Moreover, India's active trade diplomacy, including progress on the India-EU FTA, the India-US Interim Trade Arrangement and the India-Oman CEPA, together with Budget initiatives aimed at improving trade facilitation, logistics efficiency and export competitiveness, is expected to diversify export destinations and strengthen external resilience over the medium term.

93. The US-Israel strikes on Iran on 28 February 2026, killing Iranian Supreme Leader Ali Khamenei and sparking retaliatory threats, has disrupted shipping through the Strait of Hormuz - world's most critical oil chokepoint handling 20 per cent of global oil flows - and damages to key energy infrastructure assets in the Middle East, mark a pivotal escalation echoing the 1991 Gulf War oil shocks, potentially reshaping global energy geopolitics for decades. This conflict has already driven Brent crude up around 9 per cent to near \$80/bbl. and LNG prices by around 50 per cent. Despite the country's high import dependency on crude oil, it has sufficient foreign exchange reserves, a low CAD (which stands at 0.8 per cent of GDP in H1 FY26), and low inflation rates, which collectively allow it to effectively mitigate the impacts of rising global crude oil prices and ensure domestic energy security. However, if the crisis persists, it could have material implications for the exchange rate and the current account deficit and could stoke inflationary pressures (which otherwise have supportive supply-side dynamics). Subdued capital flows, accentuated by a flight to safety, could put pressure on the currency. Some sectors dependent on LNG and crude, like fertilisers and petrochemicals, could be affected if the crisis is prolonged.

94. Labour market conditions have continued to strengthen, supported by improving employment trends. Budget measures focused on skilling, human capital development and sector-specific employment initiatives are expected to further support workforce participation and enhance employability.

95. Looking ahead, the policy framework outlined in the Union Budget 2026-27 provides a strong anchor for sustaining growth. It combines continued fiscal consolidation with sustained capital expenditure and sector-focused initiatives covering manufacturing, agriculture, MSMEs, infrastructure and human capital development. These measures are expected to strengthen productivity, investment and employment dynamics across sectors. External developments, including global growth conditions, trade dynamics, commodity price

movements and geopolitical factors, will continue to shape the outlook. Nevertheless, strong macroeconomic fundamentals and continued reform momentum position the economy well for expansion. In view of positive developments, including recent successful trade deals and consecutive strong growth of 7+ over the previous three years, real GDP growth has been upgraded to 7.0-7.4 per cent for FY27.

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Performance of High-Frequency Indicators

Data Title	Unit	YTD Period/As at the end of	Year to Date			Year to Date (YoY Growth)		
			2023-24	2024-25	2025-26	2023-24	2024-25	2025-26
Agriculture								
Fertiliser Sales	Mn Tonnes	Apr-Nov	427.1	444.5	453.3	6.6	4.1	2.4
Domestic Tractor Sales	Lakh	Apr-Jan	8.0	7.6	8.0	-5.0	5.4	22.1
Foodgrain Production	Mn Tonnes	1st AE	332.3	357.7	173.3	0.8	7.7	-51.6
Rice Procurement (KMS)	LMT	Sept-3 rd Mar	470.5	499.1	497.8	-6.1	6.1	-0.3
Rabi Sowing (Foodgrain)	Mn Hectare	30th Jan	55.2	56.7	58.0	-7.9	2.7	2.2
Credit to Agri & allied activities	₹ Lakh crore	Jan	20.1	22.5	25.1	20.0	12.2	11.4
Industry								
IIP	Index	Apr - Jan	145.3	151.4	157.4	6.0	4.2	4.0
8-Core Industries	Index	Apr - Jan	156.0	163.3	167.9	7.7	4.5	2.8
Domestic Auto sales	Lakh	Apr - Jan	185.5	202.6	218.0	11.8	9.2	7.6
PMI Manufacturing	Index	Apr - Feb	57.0	57.4	57.6	1.5	0.4	0.2
Power consumption	Billion kWh	Apr - Jan	1356.1	1414.9	1428.1	7.7	4.3	0.9
Natural gas production	Bn Cu. Metres	Apr - Dec	27.2	27.3	26.4	5.2	0.3	-3.4
Cement production	Index	Apr - Jan	181.9	189.8	208.1	9.0	4.3	9.6
Steel consumption	Mn Tonnes	Apr - Jan	112.7	125.5	133.6	14.7	11.3	6.5

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
Inflation								
CPI-C	Index	Apr - Jan	96.8	101.5	103.3	5.4	4.8	1.8
WPI	Index	Apr - Jan	151.4	154.9	155.2	-0.9	2.3	0.2
CFPI	Index	Apr - Jan	96.5	104.2	103.1	7.3	8.0	-1.1
Services								
Domestic Air Passenger Traffic	Lakh	Apr - Jan	2544	2767	2819	15.3	8.7	1.9
Port Cargo Traffic	Million tonnes	Apr - Jan	677.9	699.8	755.6	4.8	3.2	8.0
PMI Services	Index	Apr - Feb	60.2	59.3	59.6	3.0	-0.9	0.3
Fuel Consumption	Million tonnes	Apr - Jan	192.5	199.1	202.2	5.1	3.4	1.6
UPI (Volume)	Crore	Apr - Jan	10562	15146	19858	56.4	43.4	31.1
E-Way Bill Volume	Crore	Apr - Feb	100.8	118.0	141.9	16.3	17.1	20.3
Fiscal Indicators								
Gross tax revenue (Central Govt)	₹ Lakh crore	Apr - Jan	27.1	29.8	32.4	14.5	10.3	8.6
Revenue Expenditure	₹ Lakh crore	Apr - Jan	26.3	28.1	28.5	1.4	6.8	1.3
Capital Expenditure	₹ Lakh crore	Apr - Jan	7.2	7.6	8.4	26.5	5.0	11.2
Fiscal Deficit	₹ Lakh crore	Apr - Jan	11.0	11.7	9.8	-7.4	6.1	-16.1
Primary Deficit	₹ Lakh crore	Apr - Jan	2.8	2.9	-0.1	-37.9	4.7	-
GST Collection	₹ Lakh crore	Apr - Feb	17.1	18.7	20.3	11.7	9.6	8.3

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
External Sector								
Merchandise exports	USD Billion	April-Jan	354.0	358.7	366.6	-4.9	1.3	2.2
Non-petroleum exports	USD Billion	April-Jan	283.4	306.0	320.9	-2.5	7.9	4.9
Merchandise imports	USD Billion	April-Jan	560.3	606.1	649.9	-6.8	8.2	7.2
Net FDI	USD Billion	Apr-Dec	7.9	0.6	4.0	-63.7	-92.5	573.6
Exchange Rate (Average)	INR/USD	Feb	83.0	87.1	90.7	-0.4	-4.7	-4.1
Foreign Exchange Reserves	USD Billion	Jan	620	630.6	723.8	7.9	1.7	14.8
Import Cover	Months	Jan	10.6	11.0	11	-	-	-
Monetary and Financial								
Non-Food Credit	₹ Lakh crore	15 Feb	161.7	179.4	203.5	20.6	10.9	13.4
10-Year Bond Yields	Per cent	20 Feb	7.09	6.73	6.78	-30.0	-36.0	5.0
Repo Rate	Per cent	20 Feb	6.50	6.25	5.25	0.0	-25.0	-100.0
Currency in Circulation	₹ Lakh crore	15 Feb	34.5	36.5	40.4	2.3	3.7	10.8
M0	₹ Lakh crore	15 Feb	45.6	47.1	49.4	5.2	2.5	4.7
Employment								
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-Jan	28.3	25.7	21.5	2.3	-9.3	-16.3
Urban Unemployment Rate	Per cent	Oct-Dec	6.5	6.4	6.7	-70.0	-10.0	30.0
Subscriber Additions: National Pension Scheme (NPS)	Lakh	Apr-Nov	5.8	5.4	8.2	15.3	-7.5	53.4

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 rates.