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**आर्थिक कार्य विभाग
DEPARTMENT OF
ECONOMIC AFFAIRS**

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Abstract

The Indian economy began FY27 on a firm footing, even as the global environment grew more uncertain. The conflict in West Asia disrupted energy markets and trade routes, testing economies across the world. Against this backdrop, India's real GDP grew by 7.8 per cent in the first quarter, the highest first-quarter growth in the current series. The expansion was broad-based, with manufacturing, construction and services all gaining strength. Domestic demand remained supportive, while investment emerged as an increasingly important driver of growth, with the investment rate reaching its highest level in the current series. Timely Government measures to secure energy supplies and critical inputs, together with the limited pass-through of global energy prices to domestic fuel prices, helped insulate domestic activity from the external shock.

Growth momentum has extended into Q2 FY27, though at a more measured pace. E-way bill generation and the manufacturing PMI have grown more slowly, while services activity firmed in August, driven by stronger new business and employment. Electricity and fuel consumption continue to register healthy growth, and bank credit has sustained its strong expansion. Production of capital goods and infrastructure goods points to continued strength in the investment cycle. Automobile sales have grown at a healthy pace across rural and urban markets, underscoring the breadth of consumption. Our nowcasting measure, unveiled in the Economic Survey earlier this year, anticipates a real GDP growth rate of 7.3 per cent in the fiscal second quarter.

Industrial sector performance remained firm in Q1 FY27, with real Industry GVA growth of 7.7 per cent year-on-year, led by 9.2 per cent growth in Manufacturing. More recent high-frequency indicators also point to continued expansion, although with some moderation: IIP grew by 6.7 per cent year-on-year in July, while the Index of Core Industries grew by 4.8 per cent and the Manufacturing PMI stood at 52.8 in August. Bank credit to industry also accelerated in July, with growth broad-based across enterprise-size categories. Sector-specific indicators remained supportive, while recent policy measures continued to deepen domestic capabilities across electronics and semiconductor value chains.

Domestic price pressures intensified across the retail, wholesale, and producer levels due to renewed global oil market pressures and weather-related volatility. Despite these pressures, the overall inflation landscape remains predominantly anchored, with a majority of the basket (~69 per cent of items) continuing to record inflation well below the 4 per cent target. Pressures became evident in some food commodities and consumer electronics amid El Niño-related risks and global DRAM chip price pressures.

Agricultural activity continued to receive support from adequate water availability, with groundwater conditions remaining largely stable across the country. While overall kharif sowing remained lower than the corresponding period of last year, area under pulses recorded

an increase. Despite deficient cumulative monsoon rainfall, available water resources continued to provide support to agricultural activity.

In August 2026, both merchandise and services exports recorded strong growth. Merchandise exports grew by 26.1 per cent (YoY), while slower growth in merchandise imports narrowed the merchandise trade deficit. At the same time, the services trade surplus offset 65 per cent of the merchandise trade deficit, thereby reducing the overall trade deficit. Thus, the simultaneous narrowing of both the merchandise trade deficit and the overall deficit reflects the country's robust trade performance. At the current run rate of nearly USD 400 billion in the first five months of the year, India's overall export value for the full financial year could approach a trillion US dollar. That is a very strong confirmation that India's trade agreements are providing impetus to India's exports. It can only get better from here, with more trade agreements on the anvil.

Strong capital inflows, driven by increased banking capital and higher net FDI inflows, supported the overall Balance of Payments. Concurrently, the foreign exchange reserves, which stood at USD 765.9 billion as of September 18, 2026, provide a substantial buffer against external sector vulnerabilities and enhance the resilience of India's external sector.

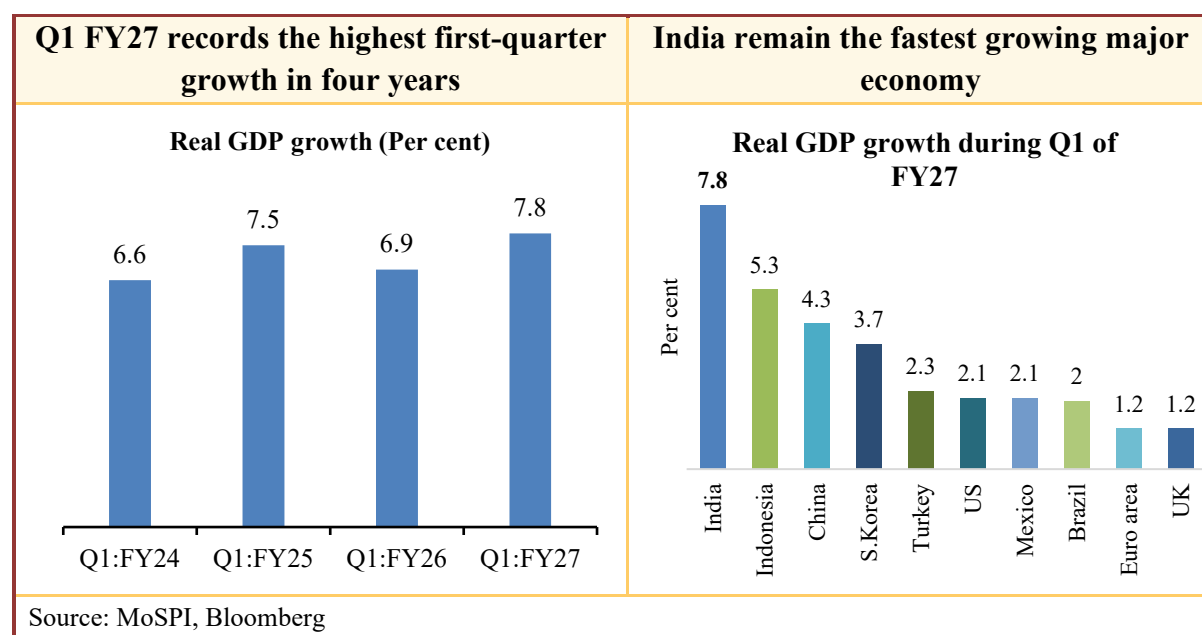
The labour market remains robust, with rising labour force participation, a declining unemployment rate, and improved hiring activity. The quarterly bulletin on unincorporated sector enterprises for the April–June 2026 quarter reports expansion in the sector (YoY) in both employment level and number of establishments, with females comprising one-third approximately of the total workforce. Meanwhile, in the education sector, the growing use of AI is reshaping and will continue to evolve pedagogy, curricula, and assessment practices, but the evidence suggests its impact on learning is mixed and depends on how it is used.

At the same time, global conditions have turned unfavourable again. Oil prices have spiked in September. Global bond yields have moved sharply higher and continue to climb. India's bond yield has gone up by less but the lower risk premium pressures the Indian rupee although there is every possibility that, over the medium term, investors would appreciate the fundamental reasons behind the lower risk premium on Indian debt. Trade relations with the United States remain unsettled with the passage of the Graham Bill through the Congress and its Presidential assent. It empowers the President to impose tariffs of up to 100 per cent on countries that purchase Russian crude oil. At the same time, the AI bubble has not begun its inevitable meaningful deflation. The AI story continues to drive capital investment and capital flows across borders. At the same time, developed countries are also racing to secure investments to finance their renewed manufacturing aspirations amidst increasing weaponisation of global supply chains. Thus, India, as do other developing nations, faces a stiff challenge to attract capital flows. Indications are, however, that foreign direct investment inflows, on a net basis, should do better this financial year than last. Thus, short-term pressure on Indian assets, including the currency, remains. Geopolitical and geoeconomic uncertainty mean that India cannot afford to rest on its post-Covid growth laurels. It has to be earned every quarter. That is the challenge for policymakers.

Growth momentum holds amid heightened global uncertainty

1. The Indian economy maintained its growth momentum in Q1 of FY27 while navigating a challenging external environment. The escalation of tensions in West Asia disrupted energy markets and trade routes, adding to uncertainty in an already uneven global economy. Domestic activity, nevertheless, remained firm, supported by strong domestic consumption and sustained investment.

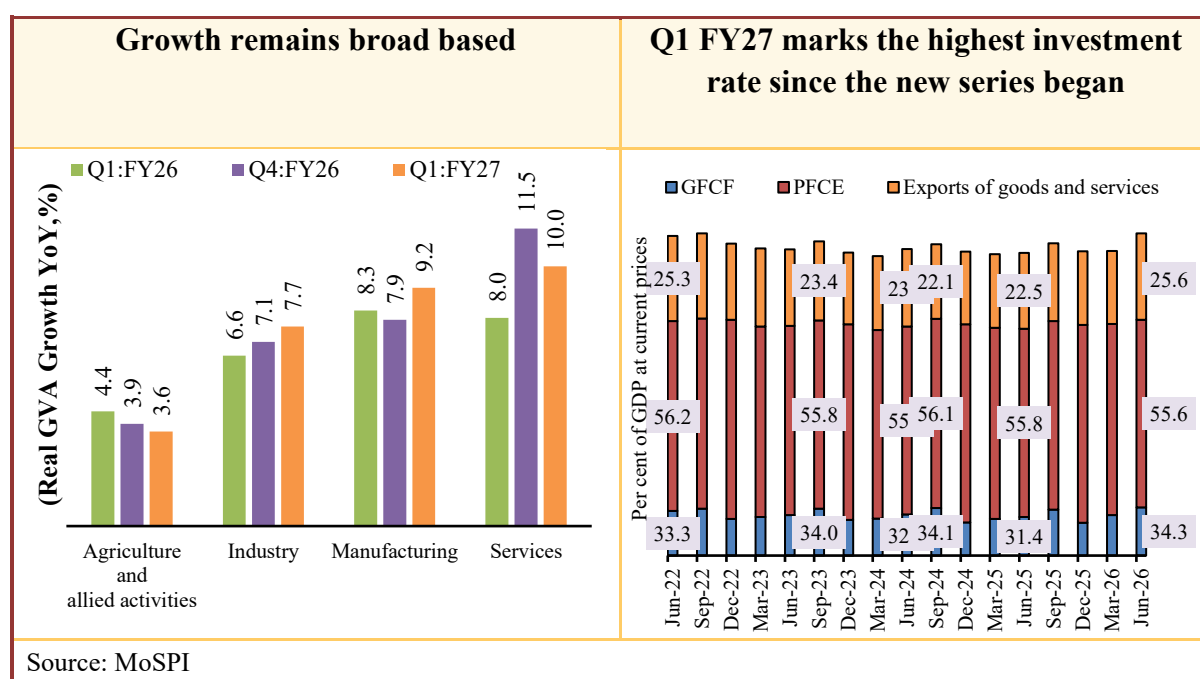
2. Ongoing reforms and other facilitating measures, alongside supportive monetary and financial conditions, helped limit the spillovers of the external shock to domestic activity. Multiple measures, including diversification of import sources, ensured the availability of critical inputs in securing energy supplies, minimising disruptions to domestic production. The relatively limited pass-through of higher global energy prices to domestic fuel prices helped contain the transmission of the external shock and protect household purchasing power. Monetary and financial measures supported liquidity and credit conditions, helping sustain the flow of financing to households and businesses. Continued public capital expenditure momentum, along with structural initiatives in manufacturing, infrastructure and energy security, supported the investment cycle.



3. Against this backdrop, real GDP grew by 7.8 per cent in Q1 FY27, while real GVA expanded by 8.2 per cent. This marked the strongest first-quarter GDP growth in the current series and provided a firm start to FY27. Nominal GDP grew by 10.3 per cent, while nominal GVA increased by 11.5 per cent. Growth remained broad-based, with services and industry providing support on the supply side, while robust domestic demand and strengthened investment activity provided impetus to the growth. The Q1 outcome also extends a period of above 7 per cent annual growth over the preceding three years, pointing to continuity in the underlying growth momentum.

Manufacturing growth strengthens alongside services

4. On the supply side, growth broadened across industry and services in Q1 FY27. Real GVA growth accelerated to 8.2 per cent from 7.0 per cent a year earlier, with the secondary and tertiary sectors recording stronger growth. The secondary sector grew by 8.6 per cent, up from 6.1 per cent, led by manufacturing, construction and utilities. Manufacturing growth increased to 9.2 per cent from 8.3 per cent, while construction accelerated to 7.7 per cent from 5.2 per cent. The pickup in manufacturing was broad-based, with stronger activity in electrical equipment, transport equipment, electronics and machinery. The tertiary sector remained the largest contributor to the expansion, growing by 10.0 per cent compared with 8.0 per cent a year earlier. Financial, real estate, IT and professional services grew by 12.1 per cent, reflecting continued strength in business and financial activity. Agriculture and allied activities grew by 3.6 per cent, providing a steady contribution to overall GVA growth.



Domestic demand continues to support growth as investment gains momentum

5. On the demand side, both domestic demand and investment continued to provide impetus to growth in Q1 FY27. Private consumption remained robust, with PFCE growth increasing to 7.1 per cent in Q1 of FY27 from 6.8 per cent a year earlier. At the same time, the growth rate of GFCF nearly doubled, from 5.8 per cent to 11.9 per cent. The share of GFCF in nominal GDP also rose to 34.3 per cent in Q1 OF FY27, the highest in the current series. The strengthening investment cycle was supported by continued public capital expenditure and was reflected in high-frequency indicators. Capital goods production grew by 15.2 per cent, compared with 8.8 per cent a year earlier, while infrastructure and construction goods production increased by 7.2 per cent from 6.1 per cent. Cement production and finished steel consumption also recorded higher growth during the quarter. Private consumption and GFCF each contributed around 4 percentage points each to real GDP growth in Q1 FY27. External demand also remained supportive despite disruptions to global trade and energy markets, with

the share of exports of goods and services increasing to 25.6 per cent of nominal GDP in Q1 FY27, from 22.5 per cent in the corresponding period last year.

6. The Q1 growth outcome also highlights the importance of understanding the underlying price and volume measures in the new National Accounts series. The following box explains the role of double deflation and its implications for interpreting the GDP deflator.

Box 1: Understanding Double Deflation

Q1 FY27 recorded real GDP growth of 7.8 per cent and nominal GDP growth of 10.3 per cent, implying a GDP deflator of about 2.3 per cent based on GDP at current and constant prices. During the same period, retail and wholesale inflation was much higher compared to the deflator amid the global developments. Differences in the movement of these price measures are to be expected, as the GDP deflator, the CPI and the WPI differ in coverage, weights and purpose.

CPI measures changes in prices paid by households for a defined basket of goods and services, while WPI primarily captures wholesale prices of goods and excludes services. The GDP deflator, in contrast, is an implicit price measure derived from GDP at current and constant prices. It covers the goods and services included in GDP, including consumption, investment, government expenditure and external trade, rather than a fixed basket. The new National Accounts series uses more than 300 item-level or item-group price indices, allowing for more granular measurement of price changes.

A key methodological change in the new series is the wider adoption of double deflation. GVA is the difference between output and intermediate consumption. Under double deflation, output is separately deflated using relevant output-price measures, while intermediate consumption is deflated using appropriate input-price measures. Real GVA is then obtained as the difference between the two. This approach captures differences in the movement of input and output prices. In the new series, double deflation has been adopted for manufacturing, replacing the earlier single-deflation approach.

Manufacturing illustrates this mechanism. In Q1 FY27, manufacturing GVA grew by 7.7 per cent at current prices and 9.2 per cent at constant prices, resulting in a negative implicit GVA deflator of around 1.5 per cent. This does not indicate a broad decline in manufacturing prices. Where input prices rise faster than output prices, nominal GVA can grow more slowly than real GVA when output and intermediate consumption are separately deflated. The resulting implicit GVA deflator therefore reflects the relative movement of input and output prices. MoSPI identified textiles and cotton ginning, basic metals, and rubber and plastic products among activities where input-price growth exceeded output-price growth during the quarter.

The expenditure side also helps explain the relatively low headline GDP deflator. The implicit deflator for private consumption was around 2.6 per cent, compared with about 5.0

per cent for government consumption and 7.6 per cent for investment, implying a domestic-demand deflator of around 4.5 per cent. External-sector price movements also mattered: the implicit export deflator was around 12.3 per cent, while the import deflator was about 32.3 per cent. Since imports enter GDP with a negative sign, the larger increase in import prices relative to export prices lowered the aggregate GDP deflator. Net taxes on products also had a negative implicit deflator during the quarter.

The relatively low GDP deflator therefore reflects the broader coverage and construction of the GDP price measure, as well as differences in price movements across production, expenditure and external trade. The wider use of double deflation and more granular price indicators in the new National Accounts series provides a more detailed basis for separating price and volume movements.

Performance of high-frequency indicators in Q2 of FY27

7. High-frequency indicators for July-August 2026 suggest some moderation in the pace of activity following the strong Q1 performance. E-way bill generation continued to expand, although at a slower pace, while the manufacturing PMI moderated in July and August but remained in expansion territory. Services activity, however, strengthened in August, supported by higher new business and employment. Energy demand also continued to expand, with electricity consumption recording double-digit growth, while petrol and diesel consumption also increased at a healthy pace. Bank credit growth remained strong at around 20.1 per cent as of 31 August, the strongest expansion in two years.

8. Investment activity also expanded in July, with IIP for capital goods recording double-digit growth, while infrastructure and construction goods continued to expand. Capital goods imports increased by 11.7 per cent year-on-year in July.

9. Demand conditions remained resilient in the second quarter (up to August). Automobile sales continued to grow at a healthy pace, with both two-wheelers and passenger vehicles contributing. Growth was also evident across rural and urban markets, indicating continued breadth in consumption demand.

Performance of High-frequency Indicators (Per cent, YoY)

Indicators	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26
Economic Activity								
E-way bill generation	15.8	18.8	12.9	11.8	12.9	14.5	6.0	7.7
PMI manufacturing#	55.4	56.9	53.9	54.7	55.0	54.2	53.5	52.8
PMI Services#	58.5	58.1	57.5	58.8	59.8	57.4	53.3	54.1
Electricity consumption	3.8	1.0	0.8	3.5	10.6	10.7	9.7	12.7
Fuel consumption@	4.1	4.8	7.9	2.6	2.1	6.5	9.8	7.3
Eight Core Industries	5.2	3.2	2.9	2.7	3.2	6.0	5.0	4.8
IIP	4.2	4.4	3.0	4.9	5.0	8.8	6.7	

Indicators	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26
Port Traffic	7.6	5.1	0.6	2.4	6.6	9.2	8.8	8.4
Air Cargo Traffic	8.7	18.5	10.8	7.0	10.7	9.4	4.2	
Domestic Demand								
Urban Auto Sales	16.7	27.5	25.3	12.9	12.0	21.3	23.8	15.2
Rural Auto Sales	19.3	25.7	27.2	14.4	7.7	22.2	27.9	19.8
Air Passenger Traffic	3.1	-0.1	-1.3	-2.9	7.7	-1.2	-4.7	
Investment and Construction								
Steel Consumption	8.2	7.9	14.0	8.4	9.1	7.5	6.6	5.8
Cement Production	11.3	9.1	4.7	8.3	8.4	9.9	12.7	12.5
Capital Goods Imports	16.2	10.8	10.5	11.2	12.5	26.5	11.7	
IIP-Capital Goods	12.4	16.5	8.5	12.0	15.5	17.9	16.1	
IIP-Infra goods	12.9	10.1	5.2	6.1	6.6	8.8	6.9	

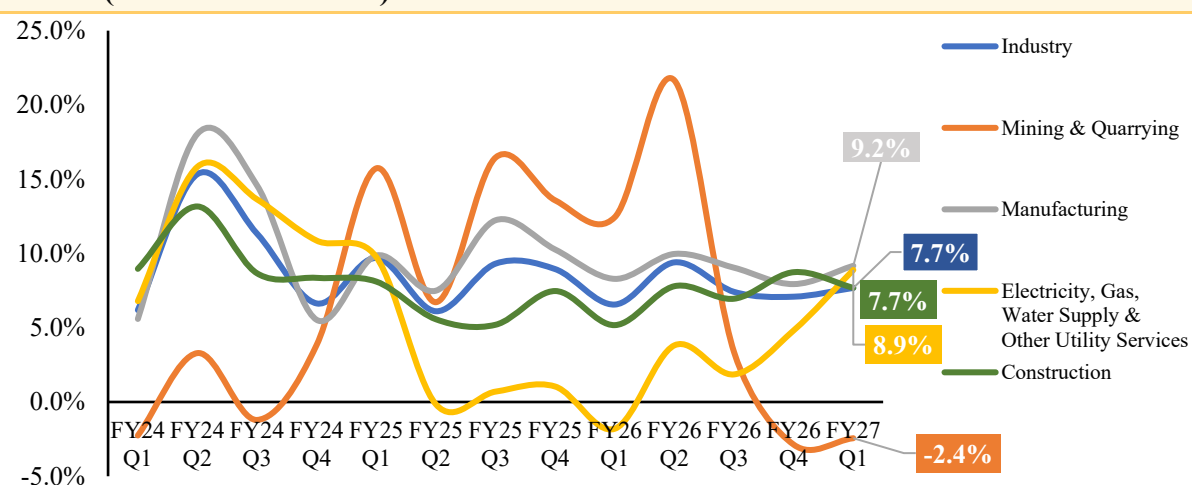
Source: GSTN, Ministry of Commerce & Industry, FADA, MoSPI, CEA, AAI, IPA, JPC

Note: # stands for Absolute Values. @ includes only high-speed diesel and motor spirit.

Industry and Infrastructure

10. Industrial activity strengthened in Q1 FY27, with real Industry GVA growing by 7.7 per cent year-on-year, compared with 6.6 per cent in Q1 FY26. The Secondary Sector grew by 8.6 per cent year-on-year, compared with 6.1 per cent a year earlier. Within Industry, Manufacturing led the expansion, recording real GVA growth of 9.2 per cent, up from 8.3 per cent in Q1 FY26. Electricity, Gas, Water Supply & Other Utility Services grew by 8.9 per cent, while Construction recorded growth of 7.7 per cent. Mining and Quarrying, however, contracted by 2.4 per cent.

Real GVA Growth of Industry and its Sub-sectors (YoY, %) — Quarterly, Constant Prices (Base Year: 2022-23)



Source: Ministry of Statistics and Programme Implementation

Note: Industry comprises Mining & Quarrying and the Secondary Sector. The Secondary Sector comprises Manufacturing; Electricity, Gas, Water Supply & Other Utility Services; and Construction.

Box 2: Understanding the Q1 FY27 Manufacturing Numbers

When the first-quarter GDP estimates for FY27 were released, the number that drew most technical scrutiny, was that of manufacturing, in which real GVA growth of 9.2 per cent was recorded against nominal growth of 7.7 per cent, producing an implicit GVA deflator of -1.5 per cent. At first glance, a negative deflator might suggest falling factory-gate prices. In reality, it reflects neither declining producer receipts nor weakening demand; instead, the structural transition to the **double deflation method** within the rebased national accounts framework.

To better capture the evolving economy, the base year was revised from 2011-12 to 2022-23, taking nominal manufacturing GVA to ₹38.6 lakh crore (14.7 per cent of GVA) in 2023-24.

Broadened coverage: The new framework broadens the traditional establishment-based factory boundaries by combining Ministry of Corporate Affairs (MCA) filings with the Annual Survey of Industries (ASI) and the Annual Survey of Unincorporated Sector Enterprises (ASUSE). This enterprise-wide approach captures centralized head-office management, research and development, supply-chain logistics, and auxiliary corporate services.

Independent deflation of output and intermediates: Crucially, the 2022-23 series establishes the empirical architecture needed to deflate manufacturing outputs and intermediate inputs independently. It does so by integrating annual estimates of 2022-23 and 2023-24 with the Supply and Use Table (SUT) framework and draws on granular GST mapping to eliminate statistical discrepancies.

$$\text{Real GVA} = \frac{\text{Nominal Output}}{P_{\text{output}}} - \frac{\text{Nominal Inputs}}{P_{\text{input}}}$$

The mechanics: Under the former single-deflation regime, nominal GVA was deflated using a single proxy (primarily WPI), conflating terms-of-trade shifts with physical volume. In contrast, the double deflation method deflates gross output and intermediate inputs (raw materials, energy, logistics) with distinct price indices.

It is also important to note that the implicit manufacturing GVA deflator differs conceptually from headline price measures such as WPI and CPI. While CPI and WPI are standalone, surveyed price indices tracking gross transaction values, the implicit GVA deflator is an endogenous residual that measures the net price per unit of domestic value added.

Since intermediate inputs constitute roughly 65 to 75 per cent of gross manufacturing output, the deflator strips out the cost of intermediate consumption and strongly magnifies the relative price difference between inputs and output. An asymmetric cost cycle, where raw material prices escalate faster than finished goods prices, naturally squeezes corporate

margins and slows nominal GVA growth. Beneath the surface, however, intermediate consumption is deflated by a higher price index, thus real intermediate inputs grow more slowly at constant prices, while preserving the resilience of real physical value addition.

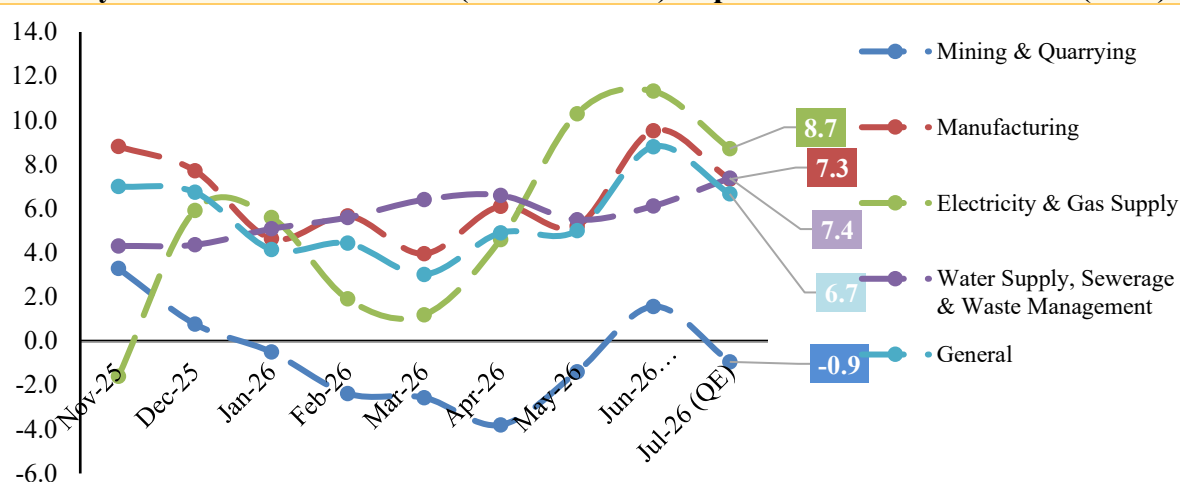
An adverse terms-of-trade shock compresses the net value-added, yielding an implicit negative deflator even as gross wholesale and retail price indices remain firmly in positive territory. During Q1 FY27, such an adverse terms-of-trade shock hit downstream producers. Upstream commodity inflation rose, crude petroleum and natural gas rose 69.5, 72.2, and 33.7 per cent across April, May, and June, while metal ore prices grew between 23.5 and 27.8 per cent monthly¹. For intermediate-heavy sectors such as basic metals, chemicals, and plastics/rubber, input inflation significantly outpaced output price adjustments. Because industrial throughput remained robust, corroborated by high-frequency IIP and steady corporate sales volumes, real GVA growth held firm at 9.2 per cent, and the compressed margins held nominal manufacturing growth to 7.7 per cent. Thus, the negative manufacturing deflator should be deciphered as the mechanical imprint of corporate margin absorption under double deflation and not reflective of any real economic deceleration in the sector.

11. More recent industrial production data indicate continued expansion. The Index of Industrial Production (IIP) recorded 6.7 per cent year-on-year growth in July 2026, compared with 8.8 per cent (revised) in June. Cumulatively, IIP grew by 6.3 per cent during April–July 2026-27, compared with 4.0 per cent in the corresponding period of the previous year. Manufacturing grew by 7.3 per cent and Electricity & Gas Supply by 8.7 per cent, while Mining & Quarrying contracted by 0.9 per cent. Manufacturing activity remained broad-based, with 19 of the 23 industry groups recording positive growth. Among use-based categories, Capital Goods grew by 16.1 per cent, Intermediate Goods by 10.0 per cent and Infrastructure/Construction Goods by 6.9 per cent. Consumer Durables recorded growth of 10.5 per cent, while Consumer Non-Durables contracted by 1.0 per cent.²

¹ Additional Information related to GDP Estimates Received After Release of Q1 Estimates of FY27,02 September 2026 <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2305896®=48&lang=2>

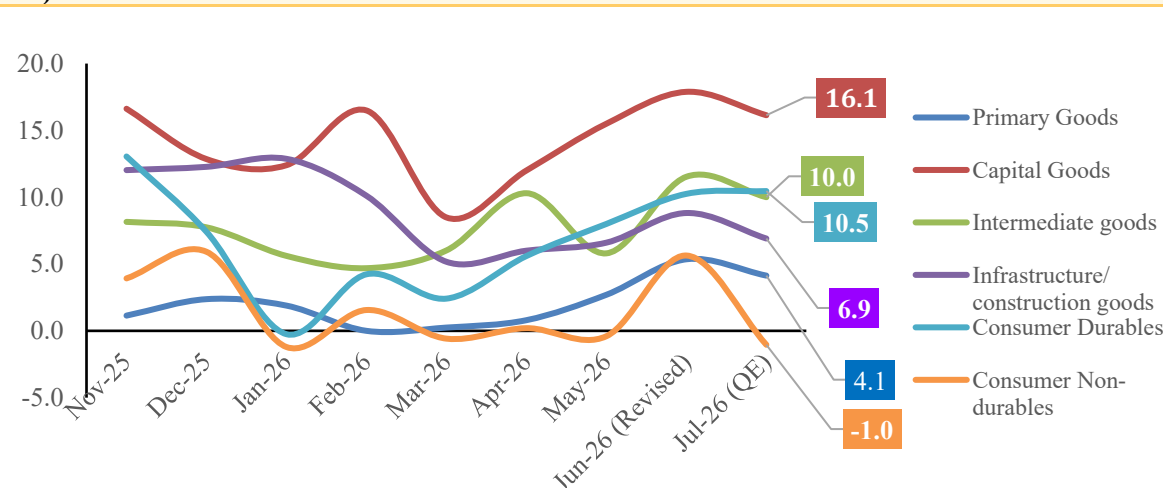
² Ministry of Statistics & Programme Implementation Press Release available at <https://www.pib.gov.in/PressReleaseDetail.aspx?PRID=2304222®=48>

Monthly YoY Growth rate of IIP (Base: 2022-23) as per Sectoral Classification (in %)



Source: Ministry of Statistics and Program Implementation

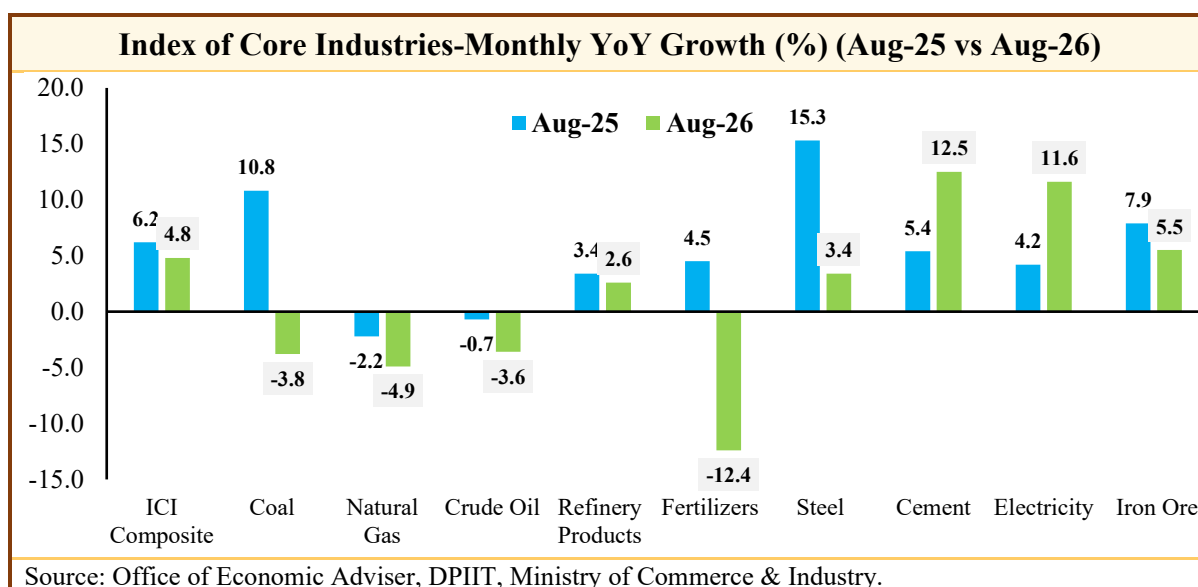
Monthly YoY Growth rate of IIP (Base: 2022-23) as per Use-Based Classification (in %)



Source: Ministry of Statistics and Program Implementation

12. The Index of Core Industries (ICI) recorded a YoY growth of 4.8 per cent (provisional) in August 2026, moderating from 5.0 per cent (final) in July 2026. The growth was supported by robust y-o-y expansion in Cement (12.5 percent) and Electricity (11.6 percent), while Iron Ore (5.5 percent), Steel (3.4 percent), and Refinery Products (2.6 percent) also recorded positive growth. However, Coal (-3.8 per cent), Natural Gas (-4.9 per cent), Crude Oil (-3.6 per cent), and Fertilizers (-12.4 per cent) contracted during the month. Iron Ore, Electricity, and Cement continued to be the major drivers of overall ICI growth during recent months. During April–August 2026–27, the cumulative y-o-y growth of the core industries stood at 4.3 per cent (provisional), compared with 2.4 per cent in the corresponding period of the previous year.³

³ Office of Economic Adviser, DPIIT, 'Provisional Estimates of Index of Core Industries for the month of August 2026, and Final Index for the month of July 2026 with Base Year 2022-23.



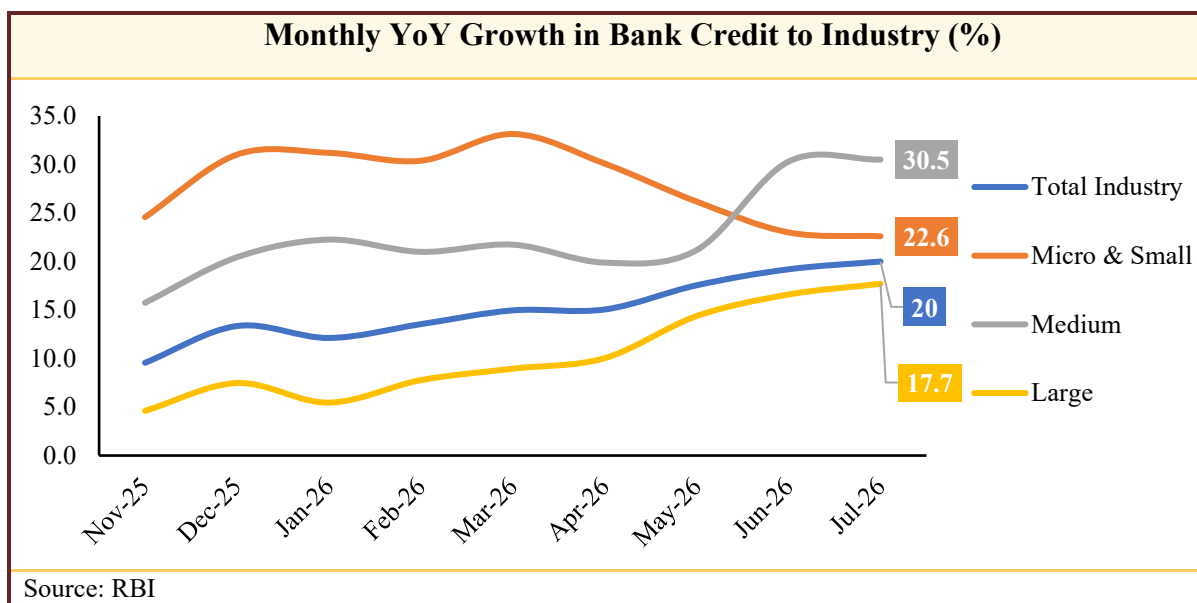
13. Manufacturing activity continued to expand in August, although the pace moderated, with the HSBC India Manufacturing PMI easing to 52.8 from 53.5 in July. The moderation reflected slower growth in output and new orders, while manufacturing employment declined for the first time in 30 months. At the same time, input-price inflation eased to a six-month low and selling-price inflation moderated to its weakest pace in 45 months.⁴

14. Bank credit to industry strengthened in July 2026, recording year-on-year growth of 20.0 percent, compared with 6.5 per cent in the corresponding period of the previous year. Credit growth was broad-based across industry size categories, with Medium-sized industries recording growth of 30.5 percent, followed by Micro & Small industries at 22.6 per cent and Large industries at 17.7 percent. The pick-up in industrial credit indicates stronger bank financing for industrial activity, bolstering ongoing industrial activity.⁵ Manufacturing capacity utilization also increased to 77.4 per cent in Q4 FY26 from 75.6 per cent in Q3 FY26, although the seasonally adjusted capacity utilization edged down by 30 basis points to 75.2 percent.⁶

⁴ Source: HSBC India Manufacturing PMI, S&P Global, August 2026. A PMI reading above 50 indicates an expansion in manufacturing activity, while a reading below 50 indicates a contraction.

⁵ Reserve Bank of India, 'Sectoral Deployment of Bank Credit – July 2026,' Press Release, 31 August 2026.

⁶ Reserve Bank of India, Order Books, Inventories and Capacity Utilisation Survey (OBICUS), 73rd Round, Q4 FY26, released 5 August 2026.



15. Beyond the aggregate industrial and financing indicators, sector-specific performance highlights the tangible impact of this credit support, especially in consumer-facing and infrastructure segments. Domestic automobile sales recorded broad-based year-on-year growth in August 2026, with passenger vehicle sales increasing by 36.5 per cent to 4.39 lakh units, three-wheeler sales by 22.8 per cent to 0.94 lakh units, and two-wheeler sales by 10.5 per cent to 20.35 lakh units. SIAM noted that a lower base in the corresponding period of the previous year partly supported the strong growth in August.⁷ Finished-steel consumption also increased by 3.9 per cent year-on-year to 14.3 million tonnes in August, while cumulative consumption during April–August 2026-27 grew by 7.0 percent.⁸

16. Parallel to this physical output growth, structural policy interventions rapidly progressed from approval to the implementation stage. On 17 August 2026, the Ministry of Electronics and Information Technology (MeitY) approved 31 additional proposals under the Electronics Components Manufacturing Scheme (ECMS), taking the total number of approved projects to 106. Of these, 38 plants had commenced manufacturing, while another 16 projects were at advanced stages of construction or machinery installation. The approved investment across the 106 projects stood at ₹69,548 crore. The latest approvals include components and inputs such as filters, coils, speakers, acetylene black, and electrolyte additives, reflecting an emphasis on expanding domestic manufacturing of components and raw materials beyond final assembly.⁹

17. Building on these component-level measures, broader policy support for the electronics and semiconductor ecosystem moved further towards implementation during August. Following its earlier approval, MeitY notified the ₹62,500 crore Mobile Phone Manufacturing Scheme (MPMS) on 21 August 2026, with a focus on increasing production scale, deepening

⁷ <https://www.siam.in/pressrelease-details.aspx?mpgid=53&pgidtrail=50&pid=620>

⁸ India's Steel Sector Continues Positive Growth Trend in Apr–Aug 2026, 03 September 2026 <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2306471&lang=2®=48>

⁹ ECMS Accelerates Electronics Manufacturing: 38 Plants Operational, 16 in Advanced Construction Stages, 17 August 2026 <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2300625&lang=1®=48>

domestic value addition, and strengthening the mobile manufacturing supply chain.¹⁰ On 31 August 2026, notifications were also issued for all six pillars of Semicon 2.0, covering chip design, semiconductor equipment and materials, fabrication, packaging and testing, research and development, and talent development. These notifications marked a further step in operationalizing the policy frameworks approved in July across different stages of the electronics and semiconductor manufacturing value chains.¹¹

18. Taken together, the recent sectoral developments and policy measures point to continued efforts to support manufacturing activity while deepening domestic capabilities in selected value chains. At the same time, the broader challenge remains to translate this progress into greater scale, higher domestic value addition, and stronger export competitiveness. Recent private-sector assessments provide perspectives on emerging strengths and areas where further progress could deepen India's manufacturing capabilities, as discussed in the Box below.

Box 3: India's Manufacturing — Building Scale and Deepening Value Chains¹²

India's manufacturing base has expanded over time, alongside the emergence of scale in several established and new manufacturing segments. BofA Global Research estimates that India's share of global manufacturing value added has increased from around 1 per cent to about 3 per cent over the past three decades. A recent Jefferies assessment also notes significant production scale in sectors such as steel, cement, automobiles, and refining, alongside expanding capabilities in newer areas, including electronics and solar manufacturing.

The two-wheeler industry illustrates how scale, localization, and engineering capabilities can translate into export competitiveness. Two-wheeler export volumes grew at a compound annual growth rate of 8 per cent during FY16 – FY26, crossing 5 million units in FY26, while export revenues reached around US\$4 billion. The export base also became more diversified, with the share of the top ten markets declining from 76 per cent of volumes in FY16 to 63 per cent in FY26. The BofA assessment associates this performance with production scale, engineering capabilities, a deep supplier ecosystem, and expanding distribution networks.

Electronics represents another area where manufacturing activity is moving towards deeper value-chain participation. According to Jefferies, electronics production more than doubled over the five years to FY26, while electronics exports increased by around five times, with smartphones emerging as India's largest exported product category in FY26. Bloomberg reports that more than 40 companies now manufacture components in India for Apple

¹⁰ Government Notifies ₹62,500 Cr Mobile Phone Manufacturing Scheme to Boost Global Competitiveness and Deepen Domestic Value Addition, 21 August 2026

<https://www.pib.gov.in/PressReleasePage.aspx?PRID=2302098&lang=2®=48>

¹¹ Union Minister Ashwini Vaishnaw addressed media on Semicon 2.0, 31 August 2026

<https://www.pib.gov.in/PressReleasePage.aspx?PRID=2304963&V=2&lang=2®=48>

¹² BofA Global Research, 7 September 2026, *Ten FAQs on India's Manufacturing Story*, India Viewpoint, and Jefferies Equity Research, 9 September 2026, *India's New Industrial Revolution*, 9 September 2026

devices, including chargers, lithium-ion cells, and metal chassis. At the same time, the domestic supplier ecosystem is still developing, with several components continuing to be imported, highlighting the scope for deeper localisation and domestic value addition.¹³ The next phase is increasingly focused on component manufacturing and backward integration, supported by initiatives such as ECMS and MPMS. Semiconductor manufacturing is also gradually moving from policy intent towards execution, with fabrication capacity under construction and packaging projects beginning production.

These developments suggest that experience accumulated in successful manufacturing segments can provide useful lessons for the broader industrial ecosystem. The next stage will be to extend scale and localisation across a wider set of industries, deepen domestic component and supplier networks, strengthen technology and skills, and expand integration with global markets. Continued improvements in supporting infrastructure, input efficiency, and market access can further reinforce the competitiveness and resilience of domestic manufacturing.

India's manufacturing story is therefore increasingly moving from building production scale towards deepening domestic value addition and technological capabilities. Broadening the experience of successful sectors across a larger part of the manufacturing base will be important for sustaining this transition.

Agriculture: Sowing, Rainfall, and Water Availability

19. **Sowing Status:** As on 04 September 2026, the area sown under Kharif crops is 1086.31 lakh ha as compared to 1104.00 lakh ha during the corresponding period of last year. About 421.82 lakh ha area coverage under Kharif Rice as compared to 438.19 lakh ha during the corresponding period of last year. In contrast, the area under pulses increased to 115.05 lakh ha from 113.66 lakh ha, registering a gain of 1.39 lakh ha. The major increase in area coverage has been reported in Uttar Pradesh, Jharkhand, Telangana, Rajasthan, Andhra Pradesh, and Madhya Pradesh¹⁴.

20. **Rainfall:** From 01 June to 02 September 2026, the All-India cumulative rainfall is 13 per cent lower than its Long Period Average (LPA), with regional variations. For the same period, of the 36 meteorological subdivisions, 12 recorded normal or above-normal rainfall, while 23 recorded deficient or large-deficient rainfall, and 1 recorded no rainfall. At the district level, among the 262 vulnerable districts monitored by the Crop Weather Watch Group (CWWG), 145 recorded normal or above-normal rainfall, while 116 recorded deficient or large-deficient rainfall, and 1 recorded no rainfall.

21. **Water Reservoir Status:** As on 03rd September 2026, the total live water storage in 178 important reservoirs across the country (monitored by CWC) is 129.870 billion cubic meters, which is 70.29 per cent of total live storage capacity (184.713 BCM). The current year's storage

¹³ <https://www.bloomberg.com/news/features/2026-08-05/apple-builds-iphone-production-capacity-in-india-to-hedge-its-china-risk?leadSource=verify%20wall>

¹⁴ Source: Ministry of Agriculture & Farmers Welfare, Government of India (CWWG).

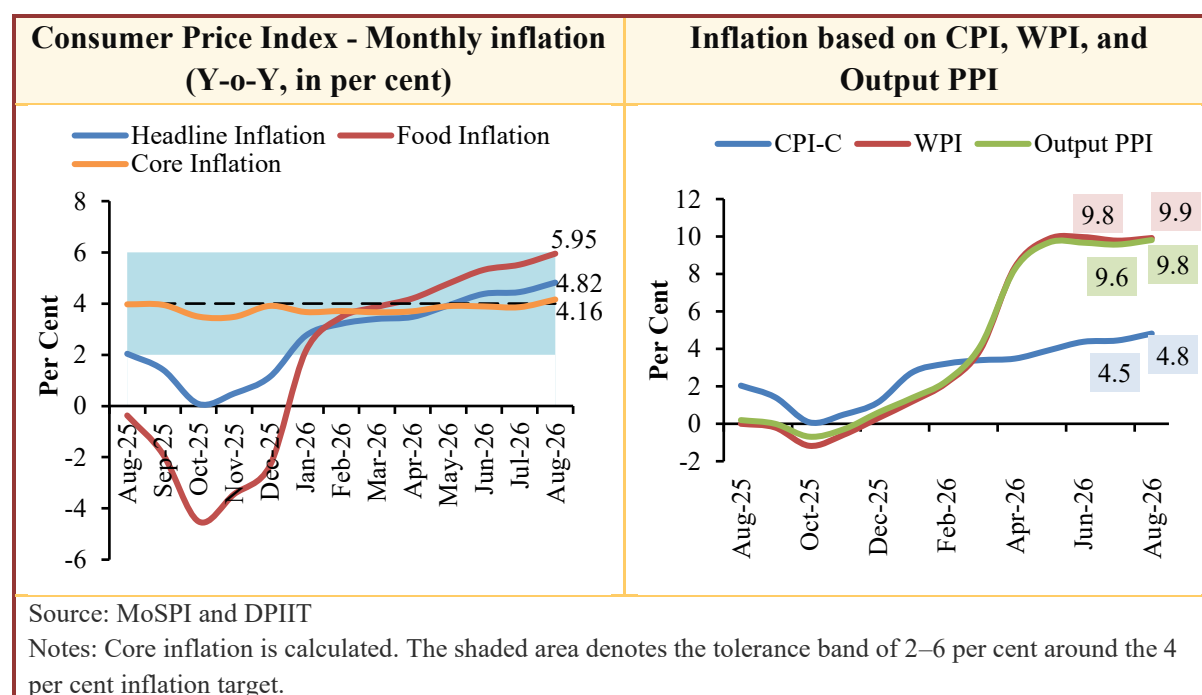
is nearly 81.58 per cent of last year's storage and 96.75 per cent of the average storage of the last ten years during the corresponding period. The overall storage position is lower than the corresponding period last year and lower than Normal storage during the corresponding period last year.

22. The groundwater situation remains largely stable across the country. Out of 9,085 monitoring wells, 87.8 per cent (7,977 wells) are in the normal category, while 12.2 per cent show varying degrees of groundwater drought. Approximately 69 per cent of the wells have groundwater levels within 10 metres below ground level, whereas only about 4 per cent have groundwater levels deeper than 40 metres, indicating good groundwater availability across most regions. Groundwater drought is predominantly mild and confined to limited areas. According to the Pre-Monsoon 2026 Groundwater Drought Index, groundwater conditions across the country are predominantly normal, with groundwater stress restricted to limited areas in a few states.

Inflationary pressures are building up

23. Inflation for households, wholesalers, and producers saw an uptick in August, amidst a flare-up in geopolitical tensions and weather-related vagaries. While the headline retail inflation rate, as measured by the Consumer Price Index (CPI), firmed up to 4.82 per cent in August, wholesale inflation (WPI) and producers' output price inflation (OPPI) quickened to 9.92 per cent and 9.81 per cent, respectively.

24. Food inflation (CFPI) hovered at about 5.9 per cent, while the core inflation¹⁵ that indicates underlying inflationary trends also edged up to 4.16 per cent in August, from 3.86 per cent in July.

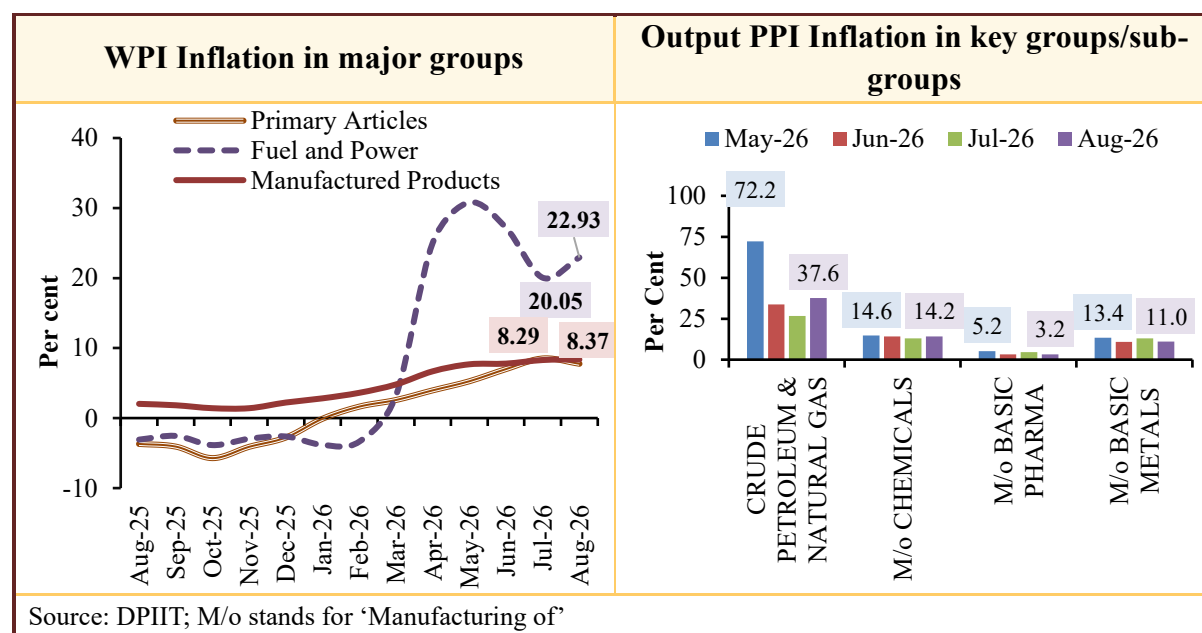


¹⁵ Core inflation measure is derived after excluding food, household and transport fuel. It represents 53% of the CPI basket.

25. Inflation in *primary articles* and *manufactured products*—two of the three categories of WPI—indicated some stability, albeit around 8 per cent over the past three months. In August, inflation in primary articles moderated slightly to 7.8 per cent (from ~8.5 per cent in July), while inflation in manufactured products held steady at around 8.4 per cent (8.3 per cent in July).

26. In contrast, inflation in the *fuel and power* category rebounded, rising close to around 23 per cent in August 2026 after cooling down to ~20 per cent in July 2026. It reflects the renewed pressures in the global oil market more directly. Within this category, year-on-year inflation pressures edged northwards in the crude petroleum and natural gas (~34 per cent) and mineral oils (~38 per cent) sub-groups in August.

27. Sub-group inflation trends in the Output PPI (OPPI) reflected mixed movements in August 2026. Inflation in crude petroleum and natural gas rebounded to ~38 per cent in August after hitting a low of 26.6 per cent in July (following successive drops from June). It, however, remained below its peak of over 70 per cent in May 2026. Similarly, inflation in the manufacture of chemicals edged up slightly to ~14 per cent in August (from ~13 per cent in July). Conversely, basic metals eased to ~11 per cent in August (after rising to 13 per cent in July), while basic pharmaceutical products moderated to ~3 per cent in August (down from ~4 per cent in July).



28. The Input PPI inflation (month-on-month) moved into the deflationary zone in August to (-)1.6 per cent, after recording zero inflation in July.¹⁶

29. In Q1 FY27, trends across the 7 formal services monitored under the Service Producer Price Index (SPPI, Base Year 2022–23) exhibited sector-specific divergence. Air (Passenger) Service Price inflation surged to 31.94 per cent, primarily propelled by rising Aviation Turbine Fuel (ATF) input costs. In contrast, price momentum remained muted in segments such as Railway Freight (0.10 per cent) and Telecom (0.72 per cent).

30. Meanwhile, financial services such as Banking Services Price (BkSPI)¹⁷ (-3.35 per cent) and Securities Transactions (-1.32 per cent) experienced deflation. Lower lending rates, triggered by last year's 125 basis-point rate cuts and higher deposit rates (prompted by slower deposit growth amid a pickup in credit growth, which makes banks compete harder for deposits even as their lending yields fall), might have contributed to the compression of the Banking Service Price Index in Q1 of FY 27. Securities transaction deflation likely reflects a similar compression in brokerage/transaction charges amid intense competition (discount broking) and possibly lower yields/spreads in bond and money markets following the rate-cut cycle. While Insurance service price inflation was muted (0.98 per cent), the Management of Pension Funds Service Price Index and Banking Service Contribution Index (BkSCI)¹⁸ grew by 5-7 per cent.

Inflation numbers: geography and occupation group-wise

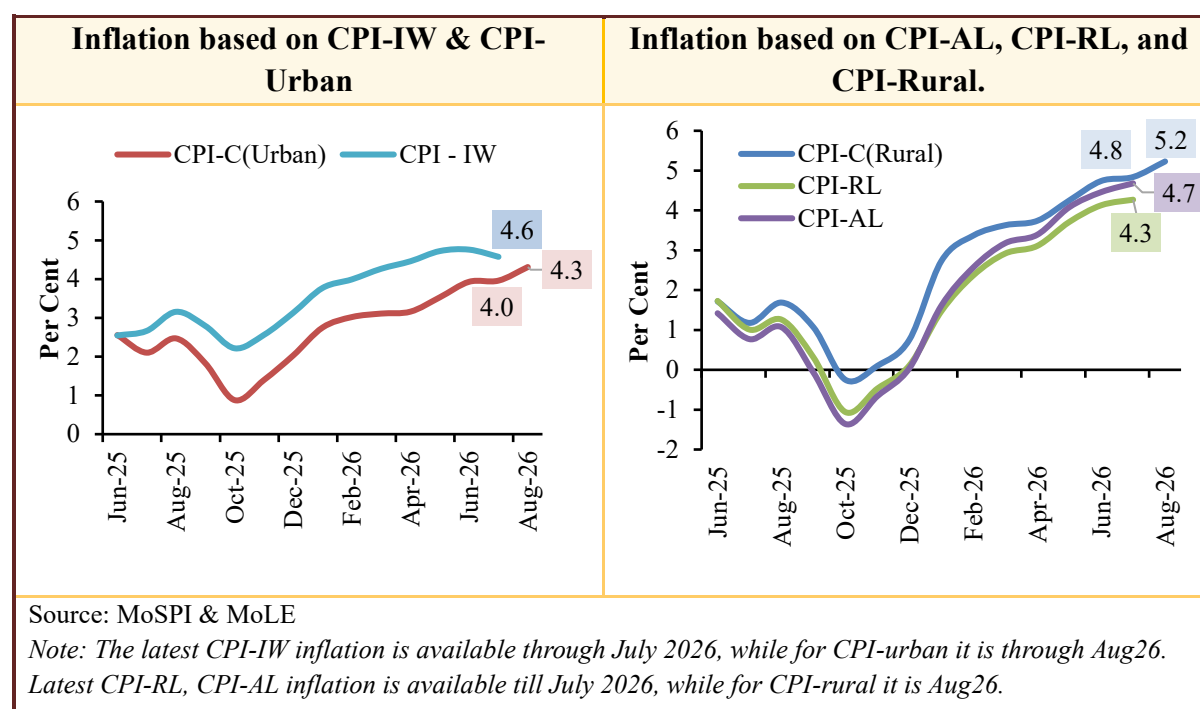
31. Retail inflation in rural areas recorded ~5 per cent in August *vis-à-vis* the urban areas' inflation print of ~4 per cent. Food inflation in rural areas (6.13 per cent) was higher than in urban centres (5.64 per cent). Given the higher weightage of food in the rural consumption basket, rural retail inflation tends to accelerate when food price pressures appear.

¹⁶ For Input PPI, index numbers are available from March 2026 onwards. Hence, year-on-year inflation could not be calculated

¹⁷ Banking Service Price Index (BkSPI) measures the rate of price inflation in banking services. Mathematically, it evaluates changes in explicit service fees and net interest rate spreads (the "price" of intermediation) while keeping deposit and loan quantities fixed at base-year levels, isolating pure rate variations.

¹⁸ The Banking Service Contribution Index (BkSCI) differs from BkSPI only in how the index is computed for Intermediation services. In BkSCI, the ratio of loans & deposits for the current year vis-à-vis the base year is used as the Implicit Price Deflator (IPD) to capture the changes in the price of intermediation services. BkSPI, majorly driven by Intermediation services, fell because it isolates the pure price of intermediation (interest rate spread compression at fixed base-year volumes). This signals that banks are effectively "charging less" per unit of intermediation services. BkSCI, using IPD on actual current-year loan/deposit volumes, captures the value generated, which rose by around 7 per cent in Q1 of FY27, as credit growth this year has been strong enough to offset margin compression. In short, banks are doing more business at thinner margins.

32. Observed across different occupation groups, agricultural and rural laborers' inflation was slightly lower than the average rural inflation. At the same time, for industrial workers, it was slightly higher than the average urban inflation in the same month.¹⁹

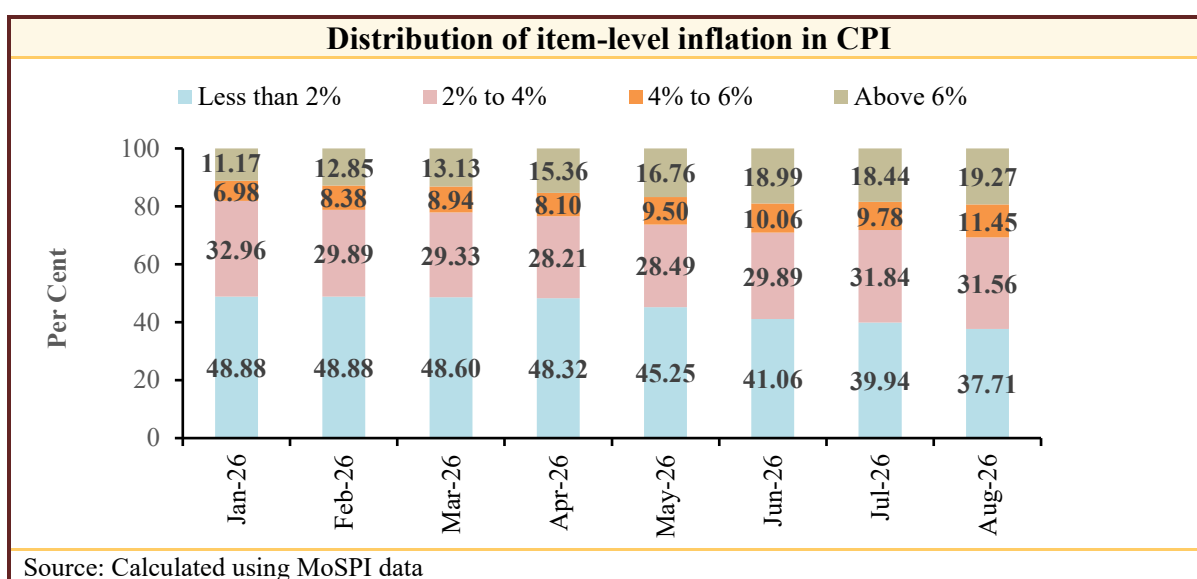


Price movements remain contained

33. In August, ten out of the 12 broad CPI divisions²⁰ recorded an uptick in inflation compared with their July print. Despite this uptick, the overall inflation landscape remains predominantly anchored, with a substantial majority of the basket (~69 per cent of items) continuing to record inflation well below the 4 per cent target. The share of items recording inflation above 4 per cent has remained reasonably steady in recent months (from ~29 per cent in June to ~31 per cent in August). Further, the majority of such items remains concentrated in five divisions: Transport (4.6 per cent), pan, tobacco & intoxicants (4.7 per cent), food and beverage serving services (5.7 per cent), restaurant & accommodation (8.4 per cent), and personal care et al. (15.2 per cent).

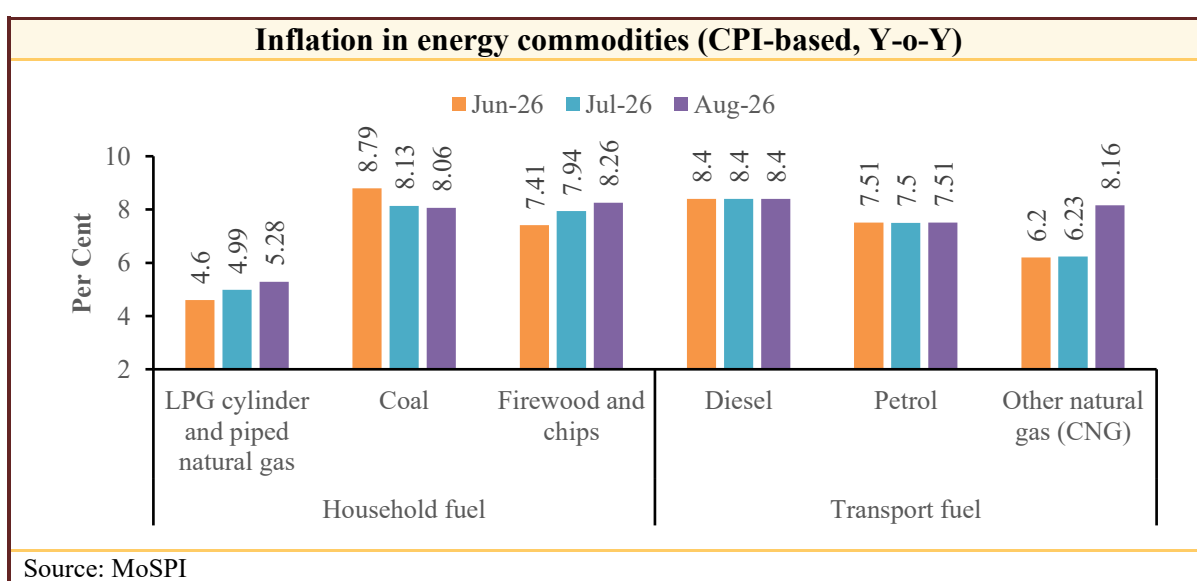
¹⁹ While Headline CPI measures inflation for the general population, based on the consumption basket of the entire population and is the index used for India's inflation-targeting framework, CPI-IW (Industrial Workers), CPI-AL (Agricultural Labourers) and CPI-RL (Rural Labourers) calculated by the Labour Bureau are occupation-specific indices, focused on manual labourers, with their item baskets and weights reflecting the consumption patterns of the respective groups, based on independent surveys carried out in such locations where they reside and in shops they frequent.

²⁰ The 12 CPI divisions are: Food & Beverages; Paan, tobacco & intoxicants; Clothing & Footwear; House, Water, Gas, Electricity & Other fuels; Furnishings, household equipment & routine household maintenance; Health; Transport; Information & Communication; Recreation, sport & culture; Education services; Restaurants & accommodation services; Personal care, social protection & miscellaneous goods and services.



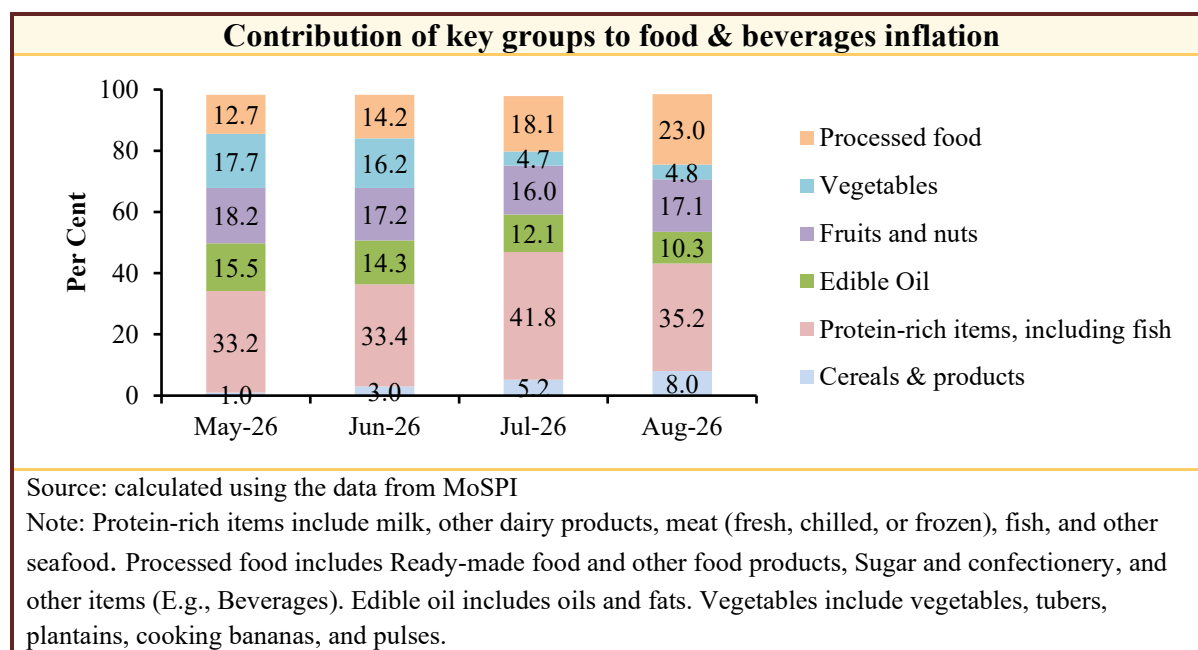
34. The higher inflation in the ‘personal care et al’ division has been observed for the past few months, owing to the elevated gold (35.5 per cent) and silver jewellery (107.1 per cent) prices. However, the inflation rate for silver jewellery fell slightly in August compared with July, while that of gold jewellery picked up moderately.

35. Retail inflation in the ‘restaurant & accommodation’ division has also been rising due to higher commercial LPG prices and also due to rising food (cereal) prices (~3 per cent), sugar prices (~24 per cent) and other miscellaneous items like ginger, garlic, etc. faced by establishments. This may have contributed to higher inflation in its cooked meals (7.4 per cent) & cooked snacks (9 per cent) sub-component. Transport as a Division recorded only a slight uptick to 4.6 per cent inflation in August, as compared to 4.4 per cent in July, as key fuels (petrol, diesel) did not see any further price hikes by the Oil Marketing Companies (OMCs).

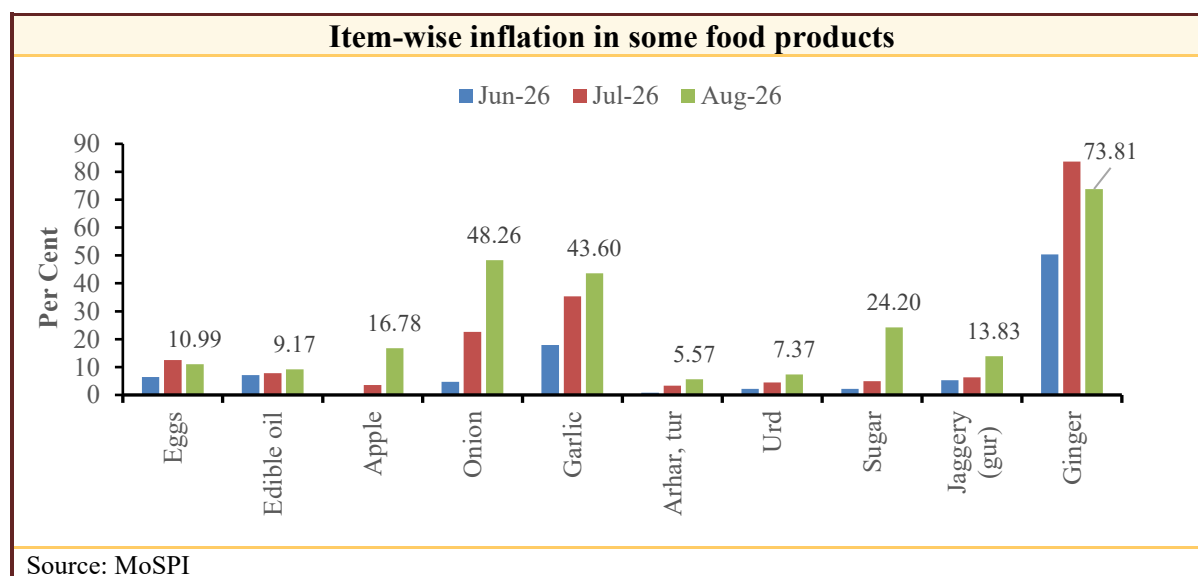


Food inflation

36. While food inflation, as measured by the Consumer Food Price Index (CFPI), picked up in August (5.95 per cent), the contributory dynamics remained largely similar to those in July. Protein-rich items (including fish) and processed foods (including sugar, confectionery, and beverages) emerged as the key contributors to food & beverage inflation. The contribution of cereals also accelerated from May to August. However, the contribution of vegetables (including pulses) as a group has narrowed drastically in recent months compared with the past few months. Edible oils' contribution has also moderated over the recent months.



37. Observed granularly at the item level, inflationary upticks were noted for onion (~48 per cent), garlic (43.6 per cent), edible oils (~9 per cent), apples (~17 per cent), sugar (~24 per cent), and jaggery (~14 per cent). Inflation in eggs (~11 per cent), chicken (~14 per cent), urd (~7.3 per cent), and ginger (~74 per cent) was also notable.



38. A host of factors appears to be contributing to inflation in some of these items. For instance, unseasonal hail and rainfall in Maharashtra and Madhya Pradesh during March–April may have led to deterioration of stored onions from the last Rabi crop, reducing mandi arrivals and pushing up prices. However, to mitigate these price pressures, the Ministry of Consumer Affairs, Food & Public Distribution, initiated calibrated dispatches from its Price Stabilisation Fund (PSF) onion buffer starting on August 24. Utilising a hybrid transport model—including specialised "Kanda Express" rail rakes and road transport—over 2,290 MT of onions were dispatched to major consumption hubs across 19 cities (including Delhi-NCR, Chennai, Varanasi, and Lucknow) for subsidised retail distribution at ₹35/kg via NAFED, NCCF, and Kendriya Bhandar.²¹

39. Separately, lower sugarcane production, due to excess rainfall and red rot disease affecting the crop, may have exerted upward pressure on sugar prices. This may have been further exacerbated by increased demand ahead of the festive season and by tightening global sugar supplies/rising prices.²² However, to curb sharp domestic price hikes and prevent hoarding ahead of the peak festive season, the government permitted duty-free imports of up to 1 million tons of raw sugar until October 31. While granting operational flexibility to food processors ahead of the peak festive season, the government relaxed the stockholding limit for bulk consumers (consuming over 10 MT monthly) from 15 days to 30 days, requiring additional stocks to be sourced exclusively via imported sugar under the Advance Authorisation Scheme and Tariff Rate Quota (TRQ). While supply interventions led to a steep decline of nearly 25 per cent in ex-mill sugar prices, retail prices dropped by approximately 10 per cent (from ₹65/kg in August to ₹58.50/kg), prompting government appeals to wholesalers and retailers to pass on the full benefit of lower mill rates to end consumers.²³

40. Poultry and egg prices have been rising faster in the past few months. Increased preference for a protein-based diet might be a contributing factor.²⁴ At the same time, a rise in prices of key poultry feed ingredients such as maize and soybean meal might also be keeping cost-side pressures elevated in egg and poultry farming.²⁵

Global DRAM shortages are lifting consumer electronics inflation

41. Acute global shortages of consumer-grade DRAM memory chips²⁶—diverted primarily to support the artificial intelligence data center expansion—has pushed up consumer

²¹ <https://www.pib.gov.in/PressReleaseDetail.aspx?PRID=2305416®=48&lang=1>

²² <https://www.pib.gov.in/FactsheetDetails.aspx?id=150971&NoteId=150971&ModuleId=16®=40&lang=38>

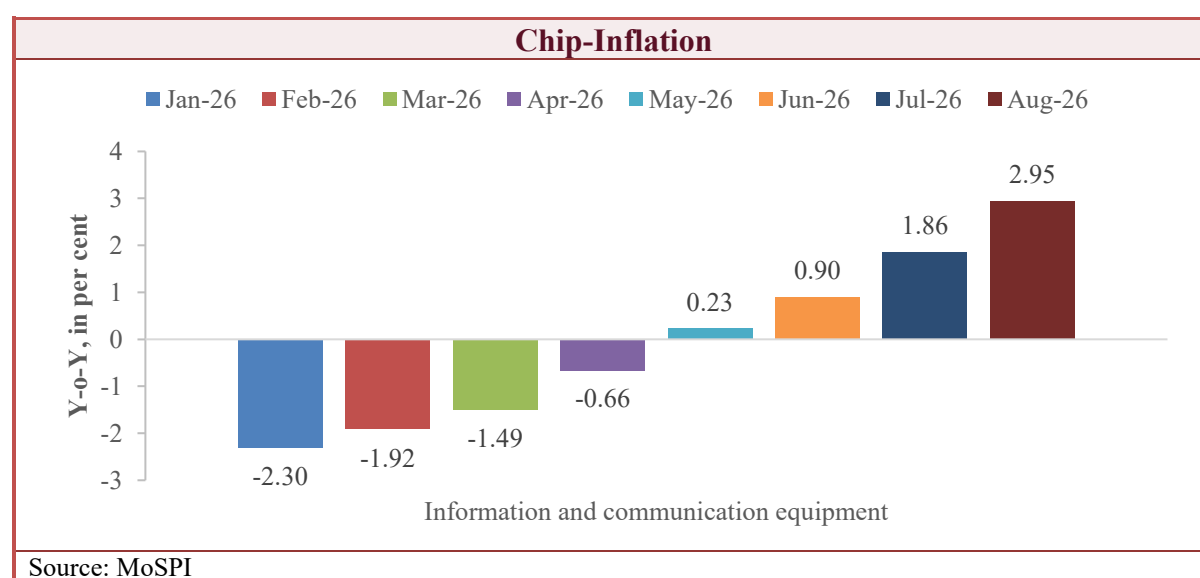
²³ <https://www.pib.gov.in/PressReleaseDetail.aspx?PRID=2311960®=48&lang=1>

²⁴ According to the Household Consumer Expenditure Survey of NSO, 2022-23 and 2023-24, the average per capita daily protein intake has increased from 59.3 gm to 61.8 gm in rural areas and from 58.8 gm to 63.4gm in urban areas between 2009-10 and 2023-24.

²⁵ National Egg Coordination Committee (NECC) have recently raised concerns over rising feed costs as well as transportation charges in the egg industry (<https://www.newindianexpress.com/states/tamil-nadu/2026/Jul/17/egg-prices-rise-as-input-costs-heat-stress-hit-poultry-sector-necc-2#:~:text=NECC%20chairman%20K,in%20production%20costs>). Globally also, the prices of soybean meal and maize have increased in August to \$403/mt and \$224/mt from \$398 and \$213/mt in July, respectively (World Bank Pink Sheet).

²⁶ Some industry estimates project the memory chip prices to remain elevated as major manufacturers prioritise high-margin AI data centre production over consumer electronics components. As of September 18, 2026, the spot price (sourced from *Bloomberg Terminal*) of Dynamic RAM 1-Gigabit (USD/chip) was ~807% higher y-o-y.

electronics prices. This is evidenced by the pickup in inflation for the ‘information and communication equipment’²⁷ category observed in recent months. (For August, it is ~3 per cent).



Global trade dynamics

42. The global trading environment in recent times is characterised by the increasing trade policy uncertainty, greater use of industrial policy, geopolitical tensions and a growing trend towards bilateral and regional trade arrangements. Despite these circumstances, the global trade has remained broadly resilient. According to the WTO’s latest estimates, world merchandise trade volume increased by 4.6 per cent in calendar year (CY) 2025, while services trade volume increased by 5.3 per cent.²⁸ Further, in Q1 of CY 2026, merchandise trade in volume terms increased by 3.2 per cent (YoY).²⁹

43. Against this backdrop, the importance of multilateralism lies in providing a common and predictable framework for trade, while allowing individual economies to pursue their domestic policy objectives within the agreed rules. The importance of this framework is underscored by the fact that, despite recent disruptions in the global trading environment, 72 per cent of global merchandise trade occurs on most-favoured-nation (MFN) tariff terms.

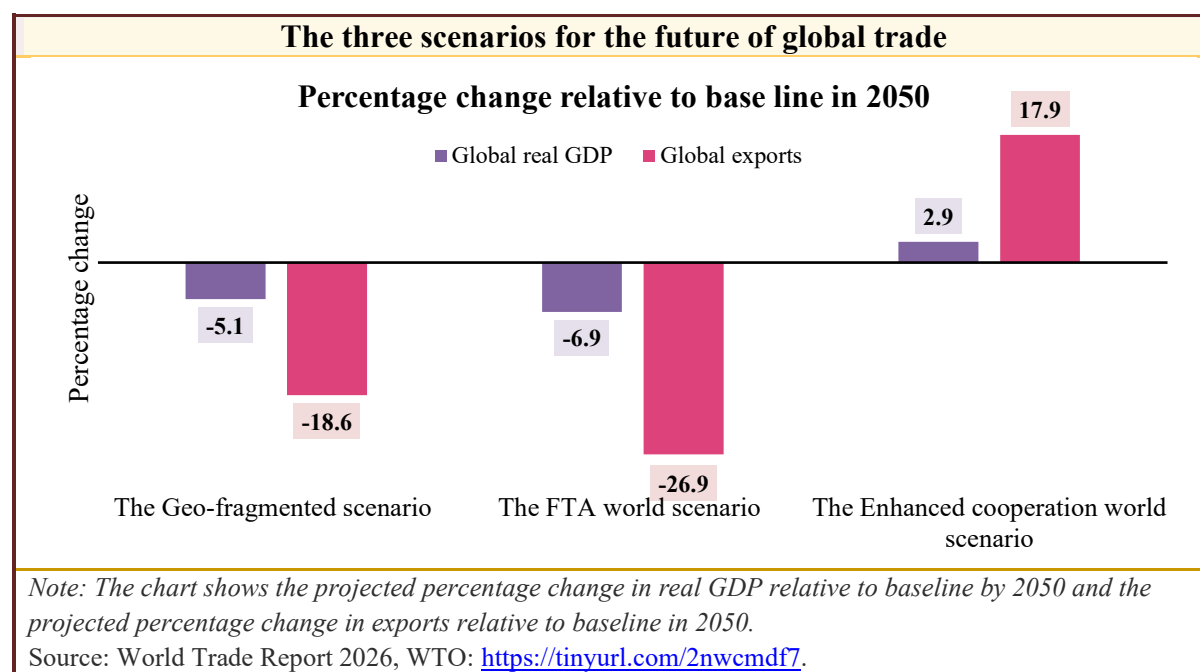
44. The economic significance of preserving the multilateral framework becomes clearer when the costs of fragmentation are considered. According to the WTO’s *World Trade Report 2026*, in a ‘geo-fragmented world’ scenario, in which trade is organised around geopolitical blocks, global GDP is projected to decline by 5.1 per cent, and global exports by 18.6 per cent relative to the baseline in 2050. In a ‘Free Trade Agreement (FTA) world’ scenario in which

²⁷ Note: Info & Comm. Equipment sub-index includes Telephone instrument (landline); Mobile handset; PC/Laptop/tablet and other peripherals, including software; Television; Headphone, earphone, ear pod, air pod, and bluetooth devices; Pen-drive and external hard disk.

²⁸ WTO, Global Trade Outlook and Statistics, March 2026: <https://tinyurl.com/mrxm7yj5>.

²⁹ WTO, Global goods trade resilient in the first quarter of 2026 despite war in Middle East, dated July 31, 2026: <https://tinyurl.com/4kjhnaef>.

the multilateral trading system is replaced by a network of FTAs with tariffs on non-FTA partners in a non-cooperative way, the reductions in global GDP and global exports are 6.9 per cent and 26.9 per cent, respectively. In contrast, in an ‘enhanced cooperation world’ scenario, wherein multilateral cooperation is reinforced and increased global integration, global GDP and global exports are projected to increase by 2.9 per cent and 17.9 per cent, respectively.³⁰



45. Thus, regional and bilateral trade agreements can provide additional impetus to market access and can complement the multilateral system when they operate within the WTO framework/rules. However, the costs of these arrangements become higher when they take place outside and are used to substitute the multilateral framework. In such a situation, the market access becomes more dependent on the terms negotiated between individual partners, while trade outside these arrangements faces less favourable conditions. This results in greater trade diversion, higher trade costs, and greater uncertainty.

46. These statistics reveal that the central challenge for the global trading system is to preserve the predictability and the objective of non-discrimination provided by multilateralism, while adapting to a more multipolar world.

India's approach to global integration

47. India's approach to global integration is particularly significant in this context. The country's strategy of Atmanirbhar Bharat, i.e., self-reliance, focuses on striking a balance between embracing greater openness in areas of opportunity and retaining the ability to safeguard its legitimate domestic concerns. There is an emphasis on developing domestic capabilities, building resilient supply chains, and enhancing technological capacity, thereby enabling the country to participate in global trade from a position of greater strength. At the same time, the government is also enhancing the country's trade resilience through its

³⁰ WTO, World Trade Report 2026: <https://tinyurl.com/2nwcmdf7>.

diversified trade strategy, which aims to expand market access, strengthen economic partnerships, and reduce reliance on any single export destination. The country is also committed to a predictable, rule-based, and development-oriented multilateral trading system with the WTO at its core. During India's BRICS Presidency, the 16th BRICS Trade Ministers' meeting highlighted the importance of strengthening the multilateral trading system. Further, as recognised in the BRICS New Delhi Declaration 2026, developing economies, including India, are seeking deeper integration into global value chains, stronger industrial capabilities and more resilient supply chains. Thus, India underscores the importance of a strong, transparent, and accountable multilateral trading system.

India's trade performance in August 2026

48. India's exports have shown an exemplary performance in a challenging global trade environment. During the period April-August FY27, the country's total exports (merchandise & services) increased by 15.5 per cent (YoY) to USD 399.3 billion.³¹ It is pertinent to note that merchandise exports have increased at a faster rate than services exports in the first five months of the current financial year (FY27). While merchandise exports registered a YoY growth of 17.8 per cent during the period April-August FY27, services exports grew by 12.9 per cent in the same period. Total imports grew at a marginally higher rate of 18 per cent (YoY), increasing to USD 459.7 billion from USD 389.5 billion. As a result, the overall trade deficit increased to USD 60.4 billion in April-August FY27 from USD 43.9 billion in the corresponding period of the previous year.

49. In contrast, in August 2026, total exports grew at a significantly higher rate of 25.4 per cent (YoY), reaching a record value of USD 82.7 billion. In comparison, total imports increased by 18.8 per cent (YoY), amounting to USD 92.1 billion. Consequently, the overall trade deficit decreased to USD 9.4 billion in August 2026 from USD 11.6 billion in August 2025, registering a 19 per cent (YoY) reduction.

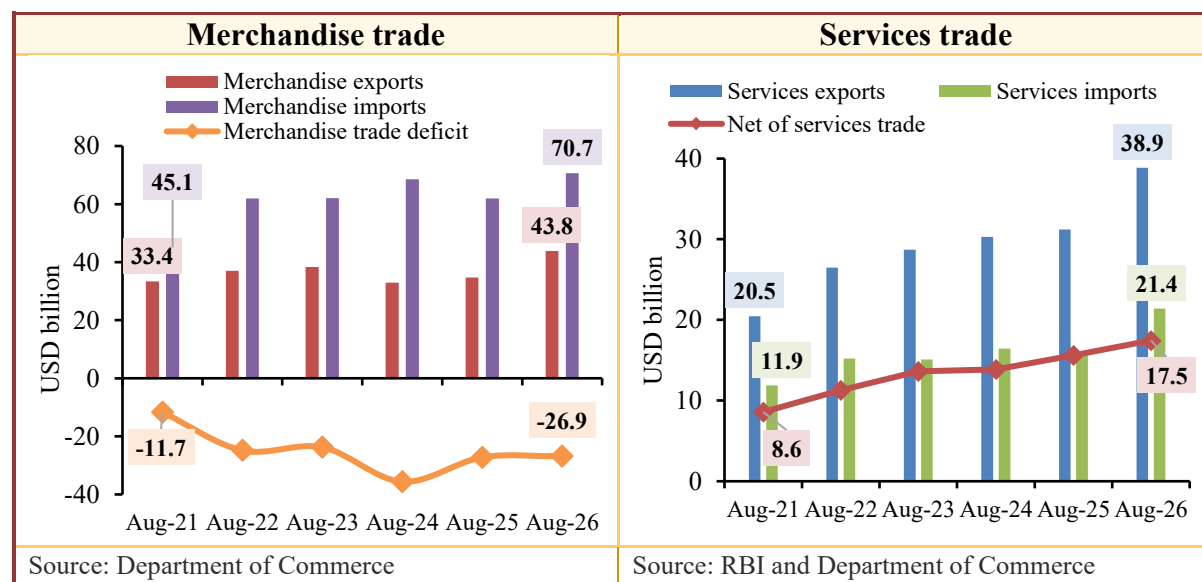
50. Merchandise exports growth marginally outpaced services exports growth in the month. While merchandise exports grew by 26.1 per cent (YoY) to USD 43.8 billion, the highest value for August, services exports grew by 24.6 per cent (YoY) to USD 38.9 billion. At the same time, merchandise imports grew by 14.1 per cent (YoY) to USD 70.7 billion. Slower growth in merchandise imports led to a narrowing of the merchandise trade deficit, which decreased to USD 26.9 billion in August 2026 from USD 27.2 billion in August 2025. Thus, in August 2026, both the overall and merchandise trade deficits decreased, reflecting the country's robust trade performance.

51. In August 2026, merchandise exports experienced a broad-based growth. This is evident from the 22.7 per cent (YoY) increase in non-petroleum, non-gems and jewellery exports, which accounted for 79.2 per cent of total merchandise exports in the month. In absolute terms, merchandise exports increased by USD 9.1 billion, with petroleum products,

³¹ The latest data for services sector released by RBI is for July 2026. The data for August 2026 is an estimation.
(ii) Data for April-August 2025-26 and April-June 2026-27 has been revised on pro-rata basis using quarterly balance of payments data.

electronics, and engineering goods accounting for 85.1 per cent of this increase. Exports of electronic goods increased significantly by 89.8 per cent (YoY), contributing approximately 29 per cent of the month's merchandise export increase. Exports of petroleum products increased by 63.3 per cent (YoY). In comparison, the average price of the Indian crude basket rose by 30.5 per cent, suggesting that the increase in the export value of petroleum products is partly attributable to higher export volumes. Concurrently, exports of engineering goods increased by 24.9 per cent (YoY). The exports of other products, which exhibited high YoY growth, include iron ore, organic and inorganic chemicals, and textile products such as cotton yarn and fabrics, as well as man-made yarn and fabrics.³²

52. On the imports side, merchandise imports excluding petroleum, gems, and jewellery increased by 18.2 per cent (YoY), compared with a 14.1 per cent increase in total merchandise imports. This trend in imports, therefore, reflects strong domestic demand, including for critical inputs. In absolute terms, merchandise imports increased by USD 8.7 billion in August 2026 compared to August 2025. Imports of electronic goods, petroleum crude and products, and metalliferous ores and other minerals accounted for 84.5 per cent of this increase. Imports of electronic goods increased by 40.5 per cent (YoY) and contributed to 45.2 per cent of the month's merchandise import growth. At the same time, imports of petroleum crude and products increased by 25.8 per cent, and imports of metalliferous ores and other minerals increased by 63.3 per cent (YoY), contributing 39.3 per cent and 8 per cent respectively to the month's merchandise import growth. During the same period, gold imports declined by 57.7 per cent (YoY).



53. In August 2026, services exports increased by 24.6 per cent (YoY) and stood at USD 38.9 billion. At the same time, services imports grew by 37.4 per cent (YoY) to USD 21.4 billion. Consequently, the services trade surplus stood at USD 17.5 billion, increasing 11.9 per

³² Exports of iron ore increased by 126.3 per cent (YoY), approximately doubling from USD 0.07 billion in August 2025 to USD 0.15 billion in August 2026. Exports of organic and inorganic chemicals increased by 16.4 per cent (YoY), those of cotton yarn and fabrics increased by 13.8 per cent (YoY). Exports of man-made yarns and fabrics increased by 13.8 per cent (YoY).

cent (YoY). The services trade surplus offset 65 per cent of the merchandise trade deficit in the month, thereby providing a thrust to the country's overall trade performance.

54. According to the RBI's latest survey on Computer Software and Information Technology Enabled Services Exports for 2025-26, software services exports (excluding their sales through overseas commercial presence) exhibited an 8.2 per cent (YoY) increase to USD 221.4 billion in 2025-26 from USD 204.7 billion in 2024-25. The composition of these exports highlights the increasingly digital and remotely deliverable nature of India's services exports, with 91.7 per cent of software exports made through the off-site mode, compared to 90.7 per cent a year ago. While computer services exports continue to account for the largest share of software services exports, with their share rising to 69.3 per cent in 2025-26 from 67.4 per cent in 2024-25, the share of IT-enabled services declined from 32.6 per cent to 30.7 per cent over the same period. Within IT-enabled services, engineering services exports grew by 11.1 per cent (YoY) to USD 12 billion in 2025-26, while BPO services exports amounted to USD 56 billion in 2025-26 but remained broadly unchanged from their level in 2024-25.

55. Importantly, India's global presence in services is also extending beyond cross-border exports. This is evident from the robust growth of local software business by foreign affiliates of Indian companies, which increased by 28.7 per cent (YoY), rising to USD 17.9 billion in 2025-26 from USD 13.9 billion in 2024-25, with the US and the UK being the key locations. The US remains the largest destination for services exports with its share rising to 54.1 per cent in 2025-26 from 52.9 per cent in 2024-25. Europe is the second-largest destination, with a share of 31.8 per cent in 2025-26; the US and Europe together account for 85.9 per cent of the country's total service exports.³³

56. This trend suggests that Indian companies are increasingly combining exports of services from India with the expansion of the local businesses of their foreign affiliates to ensure resilience.

Developments in India's Balance of Payments

57. India's Balance of Payments (BoP) remained comfortable during the first four months of FY27 despite a widening current account deficit. Strong capital inflows, led by banking capital associated with FCNR(B) mobilisation and higher net FDI inflows, supported the BoP amid a rise in the external financing requirement. As a result, the overall balance recorded a surplus of USD 12.7 billion during April-July 2026, compared with a surplus of USD 4.8 billion in the corresponding period of the previous year.

Current Account Deficit

58. The current account recorded a deficit of USD 7.0 billion in July 2026, compared with a deficit of USD 3.2 billion in July 2025. This increase in the deficit reflected a widening of the merchandise trade deficit, which more than offset gains from services exports and transfer

³³ RBI's Survey on Computer Software and Information Technology Enabled Services Exports: 2024-25, dated November 04, 2025: <https://tinyurl.com/4z5prmnt>.

receipts. Cumulatively, the current account deficit widened to USD 11.2 billion in April-July 2026 from USD 6.6 billion a year earlier.

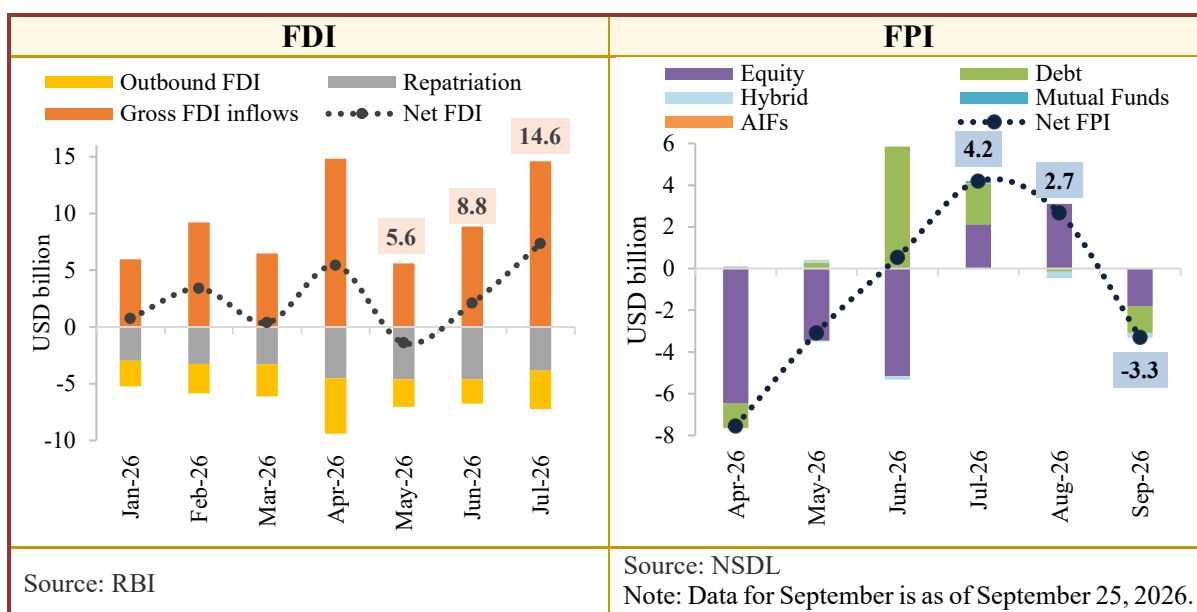
Performance of Major Items of India's Balance of Payments				
<i>(USD Billion)</i>				
Item	July 2025 PR	July 2026 P	April-July 2025 PR	April-July 2026 P
A. Current Account Balance	-3.2	-7.0	-6.6	-11.2
A.1 Net Merchandise	-28.2	-31.7	-97.1	-117.8
A.2 Net Services	16.4	17.6	64.3	69.3
A.3 Net Transfers	12.6	13.2	43.4	53.9
A.4 Net Income	-4.0	-6.1	-17.3	-16.6
B. Capital Account Balance	3.5	27.7	11.4	23.9
B.1 Net Foreign Direct Investment	4.5	7.3	9.7	13.4
B.2 Net Foreign Portfolio Investment	-2.5	4.1	-0.9	-5.5
B.3 Net External Commercial Borrowings	1.4	-2.3	6.8	-1.3
B.4 Net Short-term Credit to India	1.2	1.8	1.1	5.4
B.5 Net Banking Capital	6.0	18.4	4.4	21.1
B.6 Other Capital (Net)	-7.0	-1.6	-9.7	-9.3
C. Overall Balance (A+B)	0.3	20.8	4.8	12.7
PR: Partially Revised; and P: Preliminary.				
Note: 1. Errors and omissions are included under 'Other Capital'.				
2. Total of sub-components may not tally with aggregate due to rounding off.				
Source: Reserve Bank of India				

Capital Flows

59. At the same time, the capital account recorded a net inflow of USD 27.7 billion in July 2026, substantially higher than USD 3.5 billion in July 2025, driven primarily by strong banking capital inflows associated with FCNR(B) deposits. Moreover, during April-July 2026, the capital account surplus increased to USD 23.9 billion from USD 11.4 billion in the corresponding period of 2025.

Foreign Direct Investment

60. Gross FDI inflows remained robust at USD 43.9 billion during April-July 2026, following the record inflows of USD 97 billion in FY26. In July 2026 alone, gross FDI inflows amounted to USD 14.6 billion, accounting for nearly one-third of the inflows received during April-July 2026. The pace of gross FDI inflows during April-July 2026 indicates that inflows are on track to exceed the level recorded in FY26. At the same time, repatriation moderated to USD 17.6 billion, while overseas direct investment by Indian entities increased marginally to USD 12.8 billion during April-July 2026. As a result, net FDI inflows increased to USD 13.4 billion during the period. This increase in net FDI inflows reflects sustained foreign investor confidence in India's macroeconomic fundamentals and medium-term growth outlook, despite heightened global uncertainty.



Foreign Portfolio Investment

61. Portfolio investment flows remained volatile. After recording sustained net inflows during June-August 2026, foreign portfolio investment flows turned negative in September, with net FPI outflows amounting to USD 3.3 billion as of September 25, 2026. The outflow has been broad-based across equity, debt and hybrid instruments, highlighting the sensitivity of portfolio flows to shifts in global risk sentiment. Equity flows, which had turned positive during July and August 2026 amid more cautious sentiment towards AI-related investments in global markets, reversed in September. The recent pattern suggests that portfolio flows to India may benefit as investor preferences diversify and risk appetite towards emerging markets improves.

Other Capital Flows

62. Other capital flows, particularly banking capital, remained robust during July 2026. Net banking capital inflows increased to USD 18.4 billion in July 2026 from USD 6.0 billion in July 2025, largely reflecting a sharp rise in NRI deposits (USD 33.5 billion) associated with FCNR(B) mobilisation.³⁴

63. Box 4 examines the FCNR(B) swap facility in historical perspective and its role in supporting external financing conditions.

Box 4: Diaspora Capital and India's External Buffers: The FCNR(B) Swap Facility in Historical Perspective

In June 2026, the RBI introduced special swap facilities for FCNR(B) deposits, Overseas Foreign Currency Borrowings (OFCBs) and External Commercial Borrowings (ECBs) to strengthen external financing conditions amid heightened global uncertainty. Within less

³⁴ [Press Releases](#) | [Official Website of Reserve Bank of India](#)

than three months, FCNR(B) deposits alone mobilised USD 133 billion, while cumulative inflows across all three facilities reached USD 143.6 billion. The scale of mobilisation is unprecedented in India's history and substantially exceeds that achieved in earlier episodes of diaspora-linked financing.

International experience suggests that mobilising diaspora capital on a large scale is not easy. Although several countries have experimented with similar instruments, sustained success has largely been confined to India and Israel.³⁵ The contrasting experiences across countries indicate that the effectiveness of such instruments may depend on a range of country-specific factors.

Evolution of India's diaspora-financing instruments

India has periodically relied on diaspora-linked instruments during episodes of external stress or elevated financing requirements, although the instruments used and their scale have changed significantly over time.

Table 1: Major episodes of diaspora capital mobilisation in India

Year	Instrument	Amount mobilised
1991	India Development Bonds ³⁶	USD 1.6 billion
1998	Resurgent India Bonds ³⁷	USD 4.2 billion
2000	India Millennium Deposits ³⁸	USD 5.5 billion
2013	FCNR(B) swap facility	USD 26 billion
2026	FCNR(B) swap facility	USD 133 billion
Source: Ministry of Finance and RBI		

The first three episodes relied on dedicated foreign-currency instruments issued by the State Bank of India and targeted at overseas Indians. Together, the India Development Bonds (1991), Resurgent India Bonds (1998) and India Millennium Deposits (2000) mobilised over USD 11 billion.

³⁵ New Paths to Funding - Finance & Development June 2009, IMF:
<https://www.imf.org/external/pubs/ft/fandd/2009/06/pdf/ketkar.pdf>

³⁶ India Development Bonds are five-year foreign-currency bonds issued by SBI to NRIs/OCBs, denominated in USD and Pound sterling at interest rates of 9.5 per cent on USD bonds and 13.3 per cent on Pound sterling bonds.
[India's External Debt - A Status Report 2015-16](#)

³⁷ Resurgent India Bonds are five-year foreign-currency bonds issued by SBI to NRIs/OCBs, denominated in USD, Pound sterling and Deutsche Mark. The interest rates were 7.8 per cent on USD bonds, 8.0 per cent on Pound sterling bonds and 8.3 per cent on Deutsche Mark bonds.
[India's External Debt - A Status Report 2015-16](#)

³⁸ India Millennium Deposits are five-year foreign-currency deposits issued by SBI to NRIs, denominated in USD, Pound sterling and Euro with interest rates of 8.5 per cent on USD, 7.9 per cent on Pound sterling deposits and 6.9 per cent on Euro deposits.
[India's External Debt - A Status Report 2015-16](#)

The 2013 and 2026 initiatives adopted a different approach. Rather than issuing dedicated diaspora bonds, banks mobilised FCNR(B) deposits and were provided with a concessional swap facility by the RBI. This deposit-plus-swap framework enabled foreign-currency inflows to be channelled through the banking system, thereby augmenting foreign exchange reserves and providing rupee liquidity.

The policy context underlying these interventions also evolved over time. The 2013 FCNR(B) scheme was introduced during the taper tantrum and mobilised about USD 34 billion through FCNR(B) deposits and banks' overseas borrowings, helping stabilise financial markets and strengthen reserve buffers. By contrast, the 2026 facility was launched from a position of considerably stronger external fundamentals where foreign exchange reserves exceeded USD 700 billion, the current account deficit remained moderate, and access to external financing was not materially constrained. The objective was therefore not to address a financing shortfall, but to augment foreign-exchange buffers and reinforce confidence amid heightened global uncertainty.

Moreover, the 2026 mobilisation is particularly noteworthy because it occurred under a less favourable interest-rate environment than in 2013. While advanced-economy interest rates were near historic lows during the 2013 scheme,³⁹ global interest rates remained elevated in 2026, reducing the relative interest-rate advantage offered by FCNR(B) deposits. Yet the facility mobilised substantially larger inflows, suggesting that factors beyond conventional interest-rate arbitrage influenced depositor behaviour.

Beyond interest-rate arbitrage: Explaining the 2026 response

Academic literature on diaspora finance highlights that familiarity with domestic institutions, confidence in macroeconomic management and established financial relationships can influence investment decisions.⁴⁰ In addition, diaspora investors may be less sensitive to exchange-rate risk than other foreign investors because they are more likely to have a use for local currency.⁴¹ These factors tend to make diaspora-linked capital less sensitive to short-term fluctuations in relative returns than conventional portfolio flows. Moreover, several structural factors appear to have contributed to the strong response in India.

1. India possesses one of the world's largest overseas communities and remains the world's largest recipient of remittances.⁴² Remittance inflows reached a record USD 155.1 billion in FY26, reflecting the scale of overseas Indian savings and income generation capacity. This large stock of diaspora wealth provides a substantial pool

³⁹ IMF 2013 Pilot External Sector Report. <https://www.elibrary.imf.org/view/journals/007/2013/054/article-A001-en.xml>

⁴⁰ Leblang, D. (2010). Familiarity breeds investment: Diaspora networks and international investment. *American Political Science Review*, 104(3), 584–600. <https://doi.org/10.1017/S0003055410000201>

⁴¹ Ratha, D., & Plaza, S. (2011). *Harnessing diasporas*. *Finance & Development*, 48(3), 48-51. International Monetary Fund. <https://www.imf.org/external/pubs/ft/fandd/2011/09/pdf/ratha.pdf>

⁴² [Indian Diaspora Population was 34.5 million as of January 2025.](#)

of potential foreign-currency savings that can be mobilised during periods of uncertainty.

2. India also benefits from a well-established institutional infrastructure for engaging overseas Indians. FCNR(B) deposits are familiar products offered through a broad network of Authorised Dealer (AD) banks with established overseas relationships, robust repatriation mechanisms and long-standing customer relationships. Unlike a dedicated bond issuance, mobilisation can therefore occur rapidly through existing banking channels.
3. The credibility of the instrument has been further reinforced by India's track record. Earlier diaspora-linked instruments and the 2013 FCNR(B) scheme were redeemed without major market disruption, helping reduce perceived sovereign and counterparty risks for repeat depositors. This accumulated credibility constitutes an important advantage for countries seeking to mobilise diaspora savings

Future considerations

The immediate impact of the facility has been to strengthen India's external buffers. The mobilisation of USD 133 billion through FCNR(B) deposits and USD 143.6 billion under the overall scheme has augmented foreign exchange resources, improved external financing conditions and enhanced confidence in India's ability to withstand external shocks. At a time of heightened geopolitical and financial uncertainty, such buffers provide additional policy flexibility.

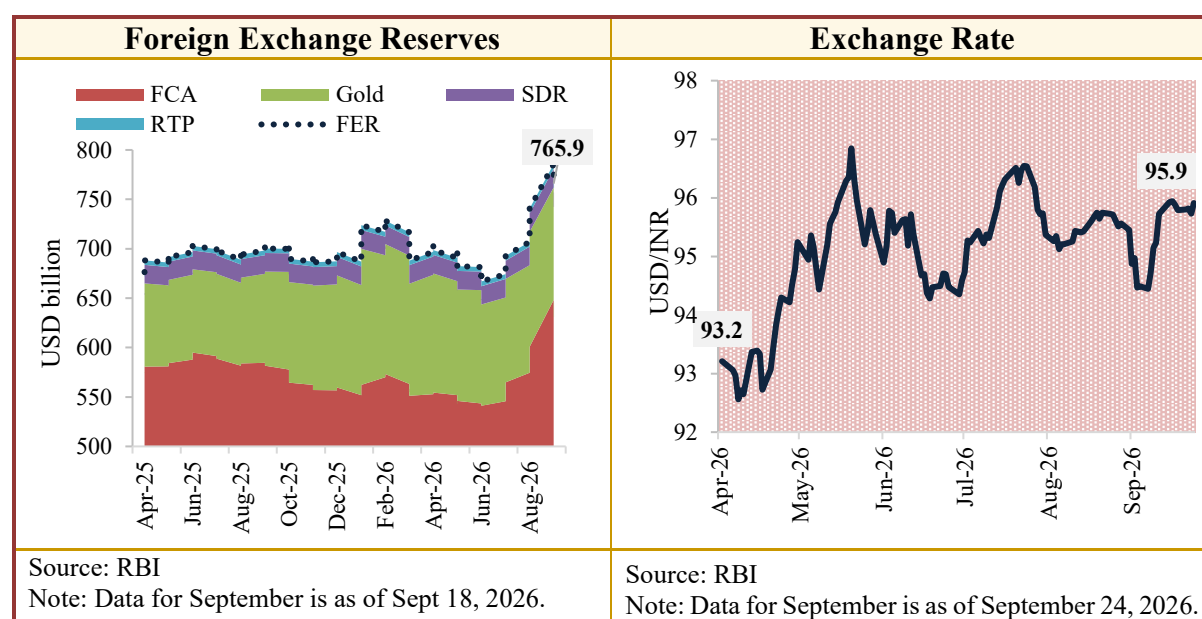
At the same time, FCNR(B) deposits represent debt-creating external liabilities. The associated foreign-currency liabilities will need to be serviced and repaid at maturity, while the swap facility entails hedging costs over the life of the deposits. In addition, the liquidity generated by large foreign exchange inflows may require sterilisation through liquidity-management operations. The experience of the 2013 FCNR(B) scheme nevertheless suggests that such liabilities can be managed smoothly when supported by adequate reserve buffers and prudent liquidity management.

Thus, the 2026 FCNR(B) mobilisation underscores an important feature of India's external sector: resilience is derived not only from the size of foreign exchange reserves but also from the diversity of financing channels available during periods of uncertainty. The scale and speed of mobilisation highlight the continuing relevance of diaspora-linked financing as a supplementary component of India's external financing architecture, reinforcing the country's capacity to manage external shocks while preserving macroeconomic stability.

Foreign Exchange Reserves & Exchange Rate

64. India's external sector continues to be supported by comfortable foreign exchange reserves. Foreign exchange reserves stood at USD 765.9 billion as of September 18, 2026,

providing import cover of around 11.1 months and covering 100.4 per cent of external debt (as of end-March 2026).



65. The Indian rupee (INR) depreciated by ~2.8 per cent against the US dollar (USD) during the current FY, moving from INR 93.2/USD on April 2, 2026, to INR 95.9/USD on September 24, 2026. Despite some depreciation pressures in September, the rupee remained broadly stable on a monthly average basis, averaging ₹95.3 per US dollar in September compared with ₹95.5 per US dollar in August 2026.⁴³

Resilient Labour Market

66. India's labour market has been resilient in the first five months of FY27 (April-August 2026) with rising participation, easing unemployment, strong white-collar hiring led by AI/ML-roles, and continued job expansion in the unincorporated sector.

67. According to the monthly Periodic Labour Force Survey Bulletin (PLFS) for August 2026, the labour force participation rate (LFPR)⁴⁴ (for persons aged 15 years and above) reached its five-month high, standing at 55.6 per cent, up from 55 per cent in August 2025.⁴⁵ This was accompanied by a low unemployment rate (UR)⁴⁶ to 5 per cent. This improvement is

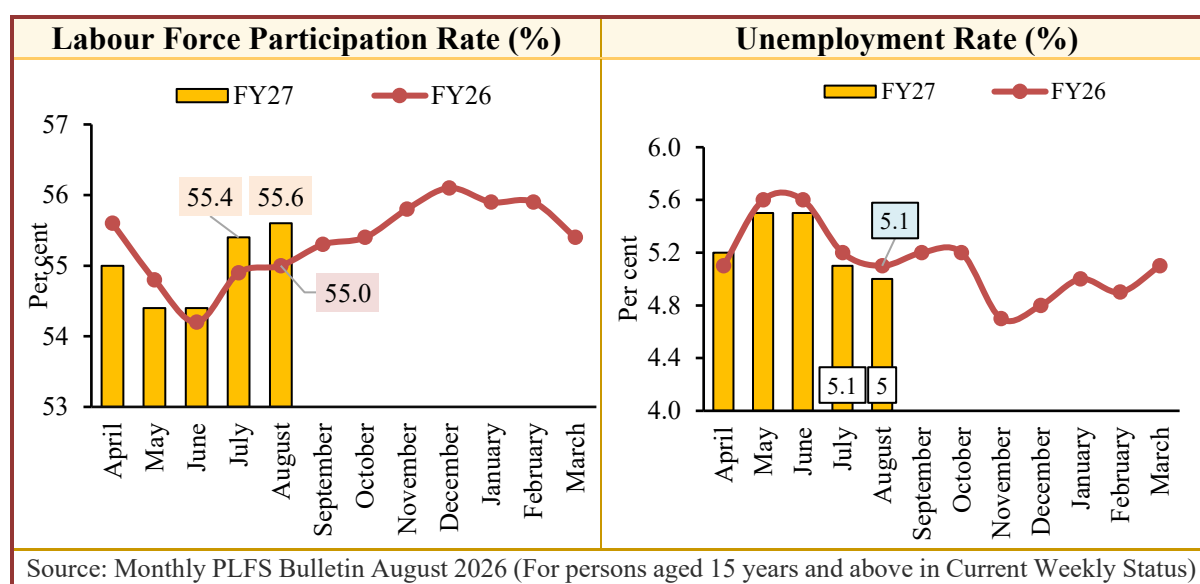
⁴³ September 2026 data represent the average for the period 1-24 September 2026.

⁴⁴ 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.

⁴⁵ PLFS Bulletin for August 2026: https://www.mospi.gov.in/uploads/publications_reports/publications_reports1789465291404_ba9c7140-0b83-481b-a5fd-a7ac121c476f_Monthly_Bulletin_Aug_2026.pdf

⁴⁶ 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.

driven by rural participation. The rural UR decreased from 4.5 per cent in July to 4.1 per cent in August 2026, reaching the lowest level since January 2026.



Unincorporated sector expansion

68. Employment in the unincorporated non-agricultural sector in India reached 13.7 crore in April-June 2026 (Q1 FY27), increasing by 6.55 per cent compared to Q1 of FY26, as reported by the Quarterly Bulletin of Unincorporated Sector Enterprises (QBUSE) report for Q1 FY27.⁴⁷ The sector comprises a total of 8.67 crore establishments⁴⁸, up 9.20 per cent YoY. The report indicates that self-employment remains the primary form of engagement in the unincorporated sector, with working owners⁴⁹ accounting for 62.38 per cent of the employment share in Q1 FY27. The share of hired workers declined from 24.38 per cent in Q1 FY26 to 22.77 per cent in Q1 FY27. Additionally, women accounted for 30.56 per cent of the sector's total workforce during the quarter, reflecting the sector's gender-inclusive engagement. In terms of digital adoption, 82.20 per cent of establishments actively use the internet, while 79.86 per cent use online financial services such as UPI, mobile wallets, or POS devices.

69. Ministry of Statistics and Programme Implementation (MoSPI) released the district estimates for the unincorporated sector based on the Annual Survey of Unincorporated Sector Enterprises (ASUSE) 2025. The report titled "The Unincorporated Sector at the District Level: Insights from the ASUSE 2025"⁵⁰ informs that one-third of all districts host more than 1 lakh

⁴⁷ The QBUSE is a quarterly publication of the Annual Survey of Unincorporated Sector Enterprises (ASUSE). It presents key estimates at more frequent intervals based on data collected during the quarters covered by ASUSE. QBUSE for April-June 2026:

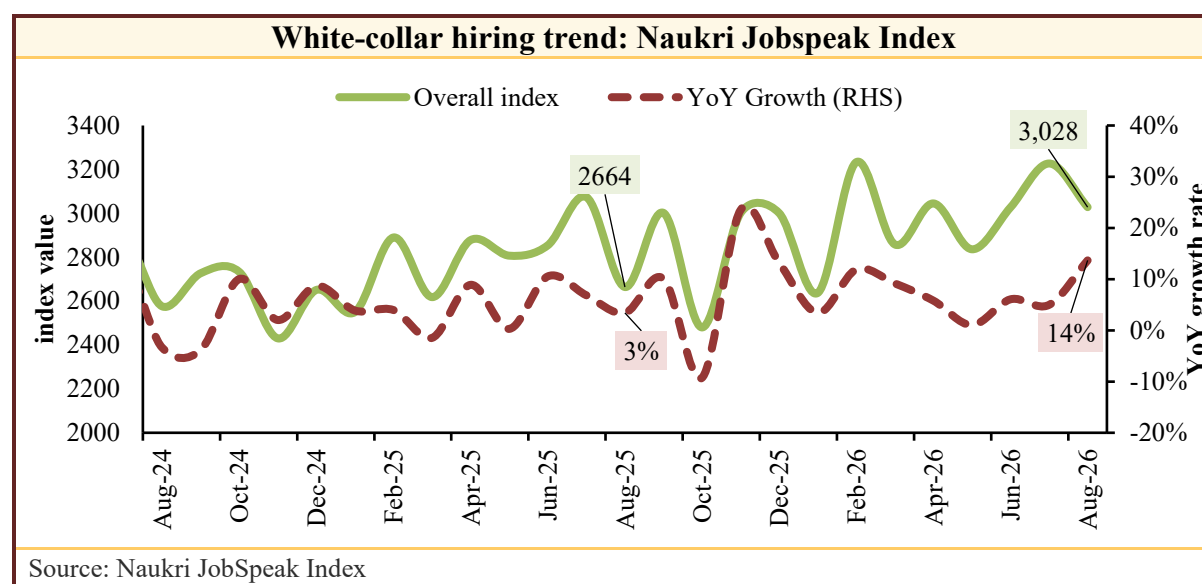
⁴⁸ Unincorporated non-agricultural establishments: Non-agricultural establishments which are not incorporated (i.e., neither registered under the Companies Act, 1956, nor under the Companies Act, 2013).

⁴⁹ "Working Owners" are individuals who own and operate their unincorporated businesses, and either work in them themselves or are involved in their management.

⁵⁰ Drawing upon ASUSE 2025 data, this report presents a comprehensive picture of the unincorporated sector at the district level through a balanced set of indicators covering the scale and structure of establishments, employment and emoluments, and economic performance. Estimates are given for 757 out of 770 districts available in the sampling frame during sample selection of ASUSE 2025, offering granular district-level insights based on nationally representative survey data.

unincorporated establishments, with 16 districts having over 5 lakh establishments. Additionally, there are significant variations in productivity across districts within the unincorporated sector. In around 331 districts, GVA per worker is estimated at ₹1–1.5 lakh, while in 280 districts it exceeds the all-India average of ₹1,56,539, indicating relatively higher labour productivity in these districts. Further, in line with the national estimates, women account for at least one-third of the total workforce in 237 districts. In comparison, in 25 districts, female workers constitute more than half of the workforce in the unincorporated sector.⁵¹

White-collar hiring driven by AI/ML roles



70. White-collar hiring experienced a significant increase in August 2026, with a 14 per cent year-over-year (YOY) growth (Naukri JobSpeak Index). The increase was driven by AI/ML roles and fresher hiring, which rose 31 per cent and 15 per cent YOY in August, respectively. In August, hiring increased in both IT and non-IT sectors. Specifically, Insurance saw a 12 per cent YOY growth, with IT following at 11 per cent. Banking and FMCG each grew by 10 per cent, while BPO/ITES, Oil & Gas, and Real Estate sectors each saw an 8 per cent increase.

Reshaping the education and learning ecosystem for the era of AI

71. In the last two editions of the MER (July and August 2026), the discussion has centred on how AI is reshaping labour demand and supply. The demand for industries has shifted beyond degree credentials to skill-based assessments, which, in turn, are reshaping which skills the workforce prioritises and how employability is assessed. In this edition, the MER focuses on the use of AI in knowledge systems and how it impacts learning and, consequently, education policies.

⁵¹ PIB Release of MoSPI dated 10 September 2026: <https://tinyurl.com/ysbbeaue>

72. The 2025 Program for International Student Assessment (PISA), published by the OECD⁵², found widespread use of AI for schoolwork across most countries and economies, with only 13.7 per cent of students reporting not using it.⁵³ Further, the Chegg Global Student Survey 2025 found that 80 per cent of surveyed undergraduate students globally use GenAI in their studies, while 84 per cent of Indian students reported using it.⁵⁴ The rise in AI use affects institutional governance frameworks. A study by FICCI and Ernst and Young-Parthenon in 2025 on AI adoption in higher education surveyed 30 higher education institutions in India and found that ~57 per cent already have an AI policy, ~40 per cent have introduced adaptive learning platforms, and are leveraging it for grading, with 87 per cent permitting the use of AI tools by students.⁵⁵ These findings suggest that the rise in student engagement with AI and its impact on learning will play a major role in shaping classroom policies, curriculum, pedagogy, assessment structures, and broader institutional governance frameworks as we move forward (See Box 5).

Box 5: Reshaping knowledge systems to prepare for AI

PISA 2025 reported the lowest OECD average performance in science, reading, and mathematics since PISA began tracking student learning in 2000. In reading, countries saw declines in foundational skills such as evaluating information, making connections across multiple sources, and thinking critically about texts. This was accompanied by a doubling of ‘hasty readers’ between 2018 and 2025, who rush through texts and give quick, incorrect answers.

This is not new or lone evidence. Various studies have reported declines in learning and cognitive abilities as a result of students' use of AI. A study conducted among school students in China in 2025 found that the use of Generative AI increased homework scores by 18 per cent and reduced homework time by 30 per cent, but lowered performance on monthly exams by 20 per cent, which the authors call the ‘*learning penalty*’ of using AI.⁵⁶ Longer-term effects were even more concerning, with scores on the college entrance exam (*Gaokao*)

⁵² OECD (2026), PISA 2025 Results (Volume I): Future-Ready Students, PISA, OECD Publishing, Paris, <https://doi.org/10.1787/73451bc5-en>.

⁵³ OECD average of the percentage of students reporting never or almost never having used AI chatbots for any of the schoolwork-related purposes examined in PISA

⁵⁴ Chegg’s Global Student Survey: 11,706 undergraduate students (aged 18-21 years) were surveyed across 15 countries in 2025 to better understand student experiences, needs, and expectations for tomorrow. The countries included in the research are: Australia, Brazil, Canada, India, Indonesia, Kenya, Malaysia, Mexico, Saudi Arabia, South Africa, South Korea, Spain, Turkey, the United Kingdom, and the United States. <https://www.chegg.org/global-student-survey-2025> The survey was conducted using an online methodology between the 1st and 23rd October 2024.

⁵⁵ Future-ready campuses: Unlocking the power of AI in higher education (October 2025) by FICCI and EY-P: <https://tinyurl.com/4aavsf98>

⁵⁶ The study used data from a survey regarding students' use of generative AI tools conducted in late June 2025. The survey covered 26,811 students in grades 7-12 across 5 junior high schools and 4 senior high schools, accounting for 90 per cent of all students enrolled for secondary education within the county. Stromberg, David, Lei, Victor and Wu, Yanhui. The Generative AI Learning Penalty: Evidence from Chinese Secondary Education (June 02, 2026). Available at SSRN: <https://ssrn.com/abstract=6868618> or <http://dx.doi.org/10.2139/ssrn.6868618>

and the high-school entrance exam (*Zhongkao*) declining by 18 per cent and 24 per cent, respectively. A 2026 report by the University of Technology, Sydney, provides evidence of the ‘*performance paradox*’ of AI use, where AI can boost a student’s performance on an immediate task while diminishing the durable learning which is the goal of education.⁵⁷ Another study in the UK in 2025, involving 666 participants, found a negative relationship between the frequency of AI use and critical thinking, with ‘*cognitive offloading*’ explaining this relationship.⁵⁸

In addition to its impact on learning, teachers and institutions are concerned with the use of AI for cheating. A guardian investigation conducted in the UK in 2024 found almost 7,000 proven cases of AI-assisted cheating across universities, on average 5 per 1,000 students, a big jump from previous years.⁵⁹

The Chegg 2025 survey findings add another dimension to the debate. Indian university students reported cost of tutoring and learning differences as strong drivers of GenAI use, alongside significant learning benefits. In addition, students recognise the limitations of AI use, as evidenced by 40 per cent of student users worrying about receiving inaccurate information. This creates a striking contradiction as students increasingly depend on AI while simultaneously recognising that its answers cannot always be trusted.⁶⁰

On the other hand, an experimental study conducted among U.S. university students in 2026 found that undergraduate students who utilised a chatbot to study an unfamiliar topic performed better on assessments. Importantly, the learning advantage persisted when students were tested again one week later, suggesting that AI can contribute to durable knowledge acquisition when used as a learning aid rather than a substitute for cognitive effort.⁶¹

Together, these results highlight an important point. AI use in schools and higher education is now widespread, and its effects on learning are not uniform; instead, the impact depends on how and how often it is used. Studies and reports have argued that durable learning requires a degree of ‘*desirable difficulty*’ with tasks that require students to generate their

⁵⁷ Lodge, J. M., & Loble, L. (2026). Artificial intelligence, cognitive offloading and implications for education. Australian Network for Quality Digital Education, University of Technology Sydney. <https://tinyurl.com/39x4kjj4>

⁵⁸ Gerlich, M. (2025). AI Tools in Society: Impacts on Cognitive Offloading and the Future of Critical Thinking. Societies. The study used 666 valid responses from participants in the UK. The sample was promoted online in the UK on different social media platforms to attract a diverse sample. Participants were categorised into three age groups: 17–25 years (young), 26–45 years (middle-aged), and 46 years+(older). https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5082524

⁵⁹ The Guardian (2025) Revealed: Thousands of UK university students caught cheating using AI. The Guardian. <https://tinyurl.com/mpr9xwd9> The Guardian contacted 155 universities under the Freedom of Information Act, requesting figures for proven cases of academic misconduct, plagiarism and AI misconduct in the last five years. Of these, 131 provided some data – though not every university had records for each year or category of misconduct.

⁶⁰ Ibid note 54 above

⁶¹ Contractor, Z., & Reyes, G. (2026). Experimental Evidence on the Learning Impact of Generative AI. IZA Discussion Paper No. 18792. <https://arxiv.org/abs/2607.08849> A sample of 256 undergraduate students at Middlebury College, Vermont, USA, participated in the study.

own answers, which can yield stronger long-term retention than passive exposure to correct answers. AI, when used simply as an answer provider or problem solver, risks turning active learning into passive consumption.⁶² Where AI substitutes for effort, learning suffers, and where it supports effort, it can accelerate learning and bridge gaps in access to tutoring and personalised support. The question for policymakers is not whether to allow AI, but how to shape its use so it functions as a ladder rather than a crutch for the students.

Globally, policymakers have realised the importance of guardrails on the use of AI in learning. Policies range from precautionary bans (New York City's ban on student use of AI until high school.⁶³) to mandatory, age-tiered curriculum integration and AI-integrated teaching and resources (China)⁶⁴, to responsible integration in the classroom (Japan)⁶⁵, to principles-based national frameworks (Australia⁶⁶), to binding safety and consent regulation (the UK⁶⁷, the EU⁶⁸, Florida⁶⁹), and a pedagogy-first and students-at-the-centre framework (Singapore)⁷⁰

MIT's Ad Hoc Committee on AI Use in Teaching, Learning, and Research Training (August 2026) offers a practical template for higher education institutions to follow for the AI world.⁷¹ The template recommends redesigning assessment and grading around an '*AI-aware*' world. This requires moving toward a social and experiential classroom, with assignments and assessments redesigned to provide feedback on the outcomes that matter, alongside community-building and AI-free interaction and assessment. Further, it recommends embedding AI in each discipline while investing in residential, shared, in-person experience rather than treating AI literacy as a separate technical skill. The template suggests treating policy response as an ongoing institutional infrastructure through standing committees, continuous feedback, and peer learning, rather than a one-time policy or curriculum update.

India's AI-in-education strategy spans AI literacy, integration in curriculum, skilling, and access. National Education Policy 2020 and National Curriculum Framework for School Education 2023 embed AI into schooling from the foundational years, with CBSE rolling out an AI and Computational Thinking curriculum for Classes III–VIII from 2026-27⁷², alongside a finalised Class IX–XII curriculum. SOAR (Skilling for AI Readiness) delivers AI literacy modules for students and teachers. DIKSHA (Digital Infrastructure for Knowledge Sharing) uses AI for inclusivity through AI-based keyword search in videos and

⁶² Ibid note 57 above

⁶³ <https://tinyurl.com/2w2fthek>

⁶⁴ <https://cset.georgetown.edu/publication/china-ai-plus-education-action-plan/>

⁶⁵ <https://www.mext.go.jp/zyoukatsu/ai/moral-ai/assets/pdf/20260324.pdf>

⁶⁶ Australian Framework for Generative Artificial Intelligence (AI) in Schools: <https://tinyurl.com/ysdunxcx>

⁶⁷ Guidance Generative artificial intelligence (AI) in education: <https://tinyurl.com/f4met2su>

⁶⁸ EU: <https://aiadopt.eu/en/insights/eu-ai-act-education>

⁶⁹ Florida: <https://tinyurl.com/ysuds7pw>

⁷⁰ Ministry of Education Singapore: <https://tinyurl.com/y7whem97>

⁷¹ Report of MIT's AdHoc Committee on AI Use in Teaching, Learning, and Research Training August 13, 2026 : <https://aiandeducation.mit.edu/report/#26-no-one-size-fits-all>

⁷² PIB release of M/o education dated 5 August 2026: <https://tinyurl.com/ynknsjfb>

a read-aloud feature for visually impaired students. The All India Council for Technical Education and the University Grants Commission have made AI mandatory across IT courses.⁷³

In addition to the curriculum rollout, policy may focus on developing guidelines for supervised AI use by students under teacher or parent supervision, rather than open access. Counselling of parents and students on understanding the difference between AI as a scaffold and AI as a substitute for effort. Extending the existing NISHTHA and SOAR training model to cover responsible AI use in classrooms would be useful. Schools could also adopt a '*flipped-classroom model*'⁷⁴, which shifts AI-assisted content delivery outside class time, freeing classroom hours for discussion and analytical problem-solving and allowing the '*productive struggle*' that drives real learning.

⁷³ PIB release dated 3 March 2026: <https://tinyurl.com/5eers7sk>

⁷⁴ <https://bokcenter.harvard.edu/flipped-classrooms>

Outlook & Conclusion

73. Looking ahead, the economy enters Q2 FY27 with a position of strength. The recent sovereign rating upgrade underscores the strengthening of India's economic fundamentals, with Japan Credit Rating Agency raising India's rating from BBB+ to A- in September 2026. Most high-frequency indicators point to continued economic activity in the early part of Q2. Monsoon conditions have been more favourable than earlier anticipated, with kharif sowing close to last year's levels across several crops. This supports the outlook for agricultural output and rural demand, although rabi prospects will require monitoring. Nevertheless, external risks persist, with renewed geopolitical tensions and the growing weaponisation of supply chains, keeping energy prices volatile, tightening global financial conditions, and disrupting trade routes. Sustaining growth will therefore require preserving macroeconomic stability and strengthening economic resilience.

74. Overall, industrial activity remained resilient, supported by strong manufacturing GVA growth, continued expansion in industrial production and strengthening bank credit to industry. Recent sectoral indicators and policy developments also point to continued deepening of manufacturing capabilities in selected value chains. Going forward, sustaining industrial momentum while increasing scale, domestic value addition, supply-chain depth and export competitiveness will remain important for broadening the manufacturing base.

75. Going forward, the progress of kharif crops will remain contingent on the spatial distribution of rainfall during the remaining monsoon period. Available reservoir storage and largely stable groundwater conditions provide support to irrigation and agricultural activity.

76. India's economic outlook faces some upside inflation risks driven by compounding climate, geopolitical, and monetary headwinds. A strong El Niño event could pose risks to the upcoming Rabi crop through heat stress and reduced soil moisture, although a positive Indian Ocean Dipole (IOD) may partially offset these effects. Geopolitical tensions and elevated crude oil prices could also add to imported inflation pressures, particularly amid the U.S. Federal Reserve's 25 bps rate hike in September. In this backdrop, the RBI's recent open market operations to absorb excess system liquidity could help maintain balanced financial conditions and contain any undue demand-side overheating. Meanwhile, festive demand and higher input costs could add some near-term pressure to prices. However, proactive supply-side and market measures by the Government could help contain these upside risks and provide a cushion against temporary price pressures.

77. India's external sector remains resilient, supported by strong services exports, robust remittance inflows, comfortable foreign exchange reserves and sustained capital inflows.

78. Overall, the labour market has demonstrated resilience amid the rapidly changing dynamics driven by the growing adoption of AI. However, the latest bi-monthly RBI's Consumer Confidence Survey for Rural and Urban areas⁷⁵, indicate that households across both

⁷⁵ The survey collects current perceptions (*vis-à-vis* a year ago) and one-year-ahead expectations of households on the general economic situation, employment scenario, overall price situation, own income and spending. The

rural and urban areas remain pessimistic about immediate job availability, with sentiment weakening in both areas. Meanwhile, expectations for the year ahead remained optimistic, indicating households are optimistic about improvements in the labour market over the coming year, despite short-term challenges. The divergence between current pessimistic sentiment and positive future expectations highlights the need to strengthen near-term job creation by improving access to employment opportunities, demand-linked skilling and improving job matching mechanisms.

79. In sum, the domestic economy continues to display resilience in a challenging global environment. It is a big strength in an otherwise difficult global situation. Over time, investors will come to appreciate the resilience and the sustenance of high growth in India in the post-Covid years. For now, investor interest in India is not low but cautious. Near-term uncertainties pertaining to the state of the trade relationship with the United States, tariff pressures, uncertainty with respect to crude oil prices and supply and the absence of an India-angle to the AI-related global developments cast a shadow on India as an attractive investment destination. Over time, as some of these clouds inevitably dissipate, India's intrinsic growth potential will earn the attention it deserves from investors.

80. In the meantime, India cannot afford to take its growth performance for granted. Geopolitical polarisation may be worsening amidst apparent bonhomie. Supply-chain weaponisation is intensifying and global supply shocks in diverse sectors such as energy, metals, electronics, food and semiconductors are beginning to emerge. Inflation arising due to supply shocks will also restrain economic growth. Interest rates in developed world are rising sharply. It will spill over into domestic bond yields as well. Apart from that, it means cross-border capital flows will slow as higher interest rates will persuade many investors to stay invested in domestic markets amidst pervasive and rising global uncertainty. Sustained high-quality, consistent and reasonably swift decision-making will reassure investors. More importantly, India must work on ensuring that the economy is more competition-friendly rather than business-friendly. Only a competitive economy will become a successful, innovative, and manufacturing economy. Improved governance and enhanced state capacity at all levels of the government hold the key to a competitive Indian economy.

survey was conducted during July 11-20, 2026, covering 5,987 respondents across 19 major cities for the urban survey and 8,581 respondents across all Indian states and three major Union Territories for the rural survey.
<https://rbi.org.in/scripts/Publications.aspx?Publication=Bimonthly>

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Performance of High Frequency Indicators

Data Title	Unit	YTD Period/As at the end of	Year to Date			Year to Date (YoY Growth)		
			2024- 25	2025- 26	2026- 27	2024- 25	2025- 26	2026- 27
Agriculture								
Fertiliser Sales	Lakh Tonnes	Apr-May*	85.9	58.3	64	-0.5	-32.1	9.8
Domestic Tractor Sales	Lakh	Apr-Aug	3.7	4.2	4.9	-0.27	11.9	17.1
Foodgrain Production	Mn Tonnes	3rd AE	357.7	376.5	-	7.7	5.3	-
Reservoir Level	Bn Cu. Metres	10th Sep	153.8	163.4	130.4	37.7	6.3	-20.2
Wheat Procurement (RMS)	LMT	1st Mar-16th Sep	265.9	299.8	356.8	2	12.8	19
Kharif Sowing (Foodgrain)	Mn Hectare	11th Sep	72.8	74.3	72.8	4.7	2.1	-2
Rainfall	Millimetre	17th Sep	867.4	869.1	686.4	17	0.2	-21
Credit to Agriculture and allied activities	₹ Lakh crore	31st Jul	21.6	23.1	27.1	18.1	7.3	17
Industry								
IIP	Index	Apr-Jul	110.9	115.3	122.6	7.4	4	6.3
9-Core Industries	Index	Apr-Aug	111.6	114.3	119.2	4.9	2.4	4.3
Domestic Auto Sales	Lakh	Apr-Aug	97.7	97	116.7	13.6	-0.7	20.3
PMI Manufacturing	Index	Apr-Aug	58	58.5	54	0	0.5	-4.5
Power consumption	Billion kWh	Apr-Aug	746.9	748.9	820	5.2	0.3	9.5
Natural gas production	Bn Cu. Metres	Apr-Jul	12.1	11.8	11.2	3.9	-3.1	-4.3
Cement production	Index	Apr-Aug	109.9	118.3	130.5	1.1	7.6	10.3
Steel consumption	Mn Tonnes	Apr-Jul	12.1	13.1	14.1	14.1	8.7	7
Inflation								
CPI-C	Index	Apr-Aug	100.1	102.6	106.9	4.4	2.5	4.2
WPI	Index	Apr-Aug	100.6	100.4	110	1.7	-0.2	9.6

CFPI	Index	Apr-Aug	102.1	102.1	107.4	7.5	0	5.2
Services								
Domestic Air Passenger Traffic	Lakh	Apr-Jul	1071.8	1108.3	1109.5	6	3.4	0.1
Port Cargo Traffic	Million tonnes	Apr-Aug	348.1	364.3	390.4	5	4.7	7.2
PMI Services	Index	Apr-Aug	60.5	60.3	56.7	-0.3	-0.3	-3.6
Fuel Consumption	Million tonnes	Apr-Aug	99.7	100.1	96.2	3.8	0.4	-3.9
UPI (Volume)	Crore	Apr-Aug	7062.4	9444.2	11643.2	46.6	33.7	23.3
E-Way Bill Volume	Crore	Apr-Aug	51	62.2	68.5	15.9	22	10.1
Fiscal Sector								
Gross tax revenue (Central Govt)	₹ Lakh crore	Apr-Jul	10.8	10.9	12.2	21.3	0.8	11.4
Revenue Expenditure	₹ Lakh crore	Apr-Jul	10.4	12.2	13.1	-2.3	17.1	7.8
Capital Expenditure	₹ Lakh crore	Apr-Jul	2.6	3.5	4.5	-17.6	32.8	29.9
Fiscal Deficit	₹ Lakh crore	Apr-Jul	2.8	4.7	4.6	-54.3	69.1	-2.8
Primary Deficit	₹ Lakh crore	Apr-Jul	-0.5	0.2	0.3	-116.7	-142.6	31.5
GST Collection	₹ Lakh crore	Apr-Aug	8.5	9.4	10.4	10.3	10.5	11
External Sector								
Merchandise exports	USD Billion	Apr-Aug	179.6	183.2	215.9	1.7	2	17.8
Non-petroleum exports	USD Billion	Apr-Aug	147.3	157.9	180.6	4.2	7.2	14.4
Merchandise imports	USD Billion	Apr-Aug	300.1	307.1	363	9.2	2.3	18.2
Non-oil imports	USD Billion	Apr-Aug	222	229	267.4	8.3	3.2	16.8
Non-oil non-gold/silver imports	USD Billion	Apr-Aug	196.1	210.2	248.2	4.7	7.2	18.1
Net FDI	USD Billion	Apr-July	3.5	9.7	13.4	-7.1	175	38.1
Exchange Rate (Average)	INR/USD	Aug	83.9	87.5	95.5	-1.3	-4.1	-8.3
Foreign Exchange Reserves	USD Billion	Aug	682.2	695.4	751.8	14	1.9	8.1
Import Cover	Months	Aug	11	11.4	11	-	-	-
Monetary and Financial								
Total Bank Credit	₹ Lakh crore	15-Sep	170.5	188	223.3	13.3	10.3	18.8
Non-Food Credit	₹ Lakh crore	15-Sep	170.3	187.6	222.2	13.3	10.2	18.5

10-Year Bond Yields	Per cent	18-Sep	6.84	6.57	7.08	-40	-27	51
Repo Rate	Per cent	18-Sep	6.5	5.5	5.25		-15	-5
Currency in Circulation	₹ Lakh crore	15-Sep	35.1	38.2	43	6.1	8.7	12.8
M0	₹ Lakh crore	15-Sep	46.7	48.9	52.7	5.8	3.7	6.4
Employment								
Net payroll additions under EPFO	Lakh	Apr-Jul	44.7	69	-	-3.1	54.4	-
Number of persons demanded employment under MGNREGA/VB G RAM G	Crore	Aug	1.9	1.4	1.5	-17.1	-25.4	9.2
Unemployment Rate	Per cent	Aug	-	5.1	5	-	-	-10
Subscriber Additions: National Pension Scheme (NPS)	Lakh	Apr-Jun	2.5	4.2	2.4	41.5	66.1	-44.4
* For fertiliser sales, data for June 2026 is not available. Although July 2026 data is available, the YTD period has been restricted to April–May across all years to maintain comparability.								

Notes on Performance of HFIs:

- For all indicators except CPI-C, WPI, CFPI, Fiscal deficit, Primary deficit, Exchange rate, 10-year bond yield, repo rate, MGNREGA and unemployment rate, colour shading is based on percentiles: values in the top 90th percentile are shaded green, those in the bottom 10th percentile are red, and growth rates near zero are shown in yellow, with intermediate shades reflecting relative performance. For the indicators listed above, the colour interpretation is reversed.
- The performance of the repo rate, 10-yr bond yield, and unemployment rate variables is presented in basis points, not as growth rates.
- PMI growth is the difference between the index values of two years. GST collection is calculated as the sum of the central, state, and integrated GST.
