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Abstract

The global economy entered the second half of 2026 on a resilient, though uneven, footing. Growth remained broadly steady, even as the pace of global disinflation moderated and tensions in West Asia continued to affect energy markets. These external developments continued to influence the domestic economic outlook during the month.

Against this backdrop, domestic economic activity remained resilient through July, although the pace of expansion moderated in some high-frequency indicators, including manufacturing and services PMI and e-way bill generation. Domestic demand, however, remained firm, with consumption and mobility indicators continuing to record healthy growth and freight activity remaining supportive. Easing input cost pressures provided some relief to business conditions, even as heightened external uncertainties continued to cloud the outlook

Within the real sector, industrial activity remained resilient in June 2026, with IIP growth accelerating to 7.3 per cent. At the same time, high-frequency indicators point to continued, albeit moderating, manufacturing activity. The Index of Core Industries grew by 5.4 per cent year-on-year in July 2026, moderating from 6.0 per cent in June, while cumulative growth during April–July 2026 strengthened to 4.3 per cent from 1.5 per cent in the corresponding period of the previous year. Business expectations remained expansionary, although near-term sentiment and input-cost pressures warrant monitoring. Developments in emerging technology-intensive sectors also point to the gradual strengthening of domestic technological and manufacturing capabilities, even as global uncertainties and supply-chain risks persist.

Agricultural activity remained broadly stable, although the kharif outlook was affected by uneven rainfall. As of 7 August 2026, kharif sowing stood 1.8 per cent below the corresponding period of last year, while cumulative rainfall during 1 June–2 August was 13 per cent below LPA, with substantial regional variation. Water availability provided some cushion, with reservoir storage at around 97 per cent of the ten-year average, while groundwater conditions remained largely stable. Foodgrain procurement also remained robust. Looking ahead, the emergence and persistence of El Niño conditions, with El Niño assessed as the dominant ENSO phase through March 2027, warrant close monitoring given their implications for rainfall, crop outcomes and food inflation.

On the price front, retail inflation edged up marginally to 4.45 per cent in July 2026, while core inflation remained stable and wholesale inflation moderated amid easing fuel-price pressures. Food inflation continued to rise, led by protein-rich foods, processed products, cereals and imported edible oils, although pressure on vegetable prices softened. Inflation remained concentrated in a limited set of supply-sensitive categories, prompting policy measures to ease cost pressures and ensure adequate supplies. With underlying inflationary pressures contained, the Monetary Policy Committee maintained the policy rate and a neutral stance, supported by Q1 headline inflation remaining below

earlier expectations. Looking ahead, food prices, global commodity trends and weather-related risks remain key factors shaping the inflation outlook.

Turning to the external sector, India continued to demonstrate unexpected strength in July 2026 amid heightened global uncertainty, with total exports of merchandise and services registering strong growth, led by robust merchandise exports. While higher merchandise import growth widened the merchandise trade deficit, the composition of imports remained indicative of firm domestic demand. The services trade surplus continued to provide an important cushion, offsetting 53 per cent of the merchandise trade deficit and mitigating the impact of the wider merchandise trade gap on the overall trade balance. Robust remittance inflows provided an additional cushion to the external sector and strengthened the resilience of the overall balance of payments. India's external position also remained supported by comfortable foreign exchange reserves, which stood at USD 707 billion as of 7 August 2026.

India's sustainable finance landscape is also evolving, with the bond market supporting the transition through sovereign, private-sector, public-sector and municipal issuances. The market's diverse issuer base and varied maturities highlight growing channels for financing sustainable development.

The labour market, meanwhile, remained robust, marked by rising labour force participation, lower unemployment and stronger hiring activity, with a favourable outlook for fresher hiring in the second half of 2026. At the same time, employer demand is increasingly shifting from knowledge assessment towards the evaluation of problem-solving capabilities and workplace effectiveness, underscoring the growing importance of skills development and adaptability alongside employment generation.

Overall, the domestic economy retained its vigour during the month. Domestic demand remained strong, while the external sector remained stable. However, food prices, weather conditions and global uncertainties will need to be closely monitored in the coming months.

Specifically, we are closely tracking the following global developments. One is the development in sovereign bond markets worldwide. The rise in yield can cut both ways. Our bond yields can rise in tandem. Or, if they don't, the spread compression can put pressure on the domestic currency. Second, the quest for investment capital from across the world, including by developed countries, as they seek to finance their fiscal spending and refinance their debts. This matters for the sustainable level of the current account deficit in developing countries with respect to the ease of financing. The third is the potential rise in the global average inflation rate due to higher prices for electronic goods and food commodities, the latter driven by dry weather and supply chain disruptions and the responses of central banks in developed countries to these developments. These will have implications for our monetary policy, domestic interest rates and the financing of the current account deficit.

Resilience amid persistent global uncertainty

1. The global economy entered the second half of 2026 with resilient but uneven growth amid a challenging geopolitical environment. The IMF's July 2026 World Economic Outlook projects global growth at 3.0 per cent in 2026 and 3.4 per cent in 2027, compared with 3.2 per cent in 2025. Economies linked to global technology value chains are benefiting from strong AI-driven investment, while energy-importing countries remain exposed to elevated commodity prices amid ongoing tensions in West Asia. Against this backdrop, India's domestic economic activity remained stable through July, with high-frequency indicators continuing to show resilience.

2. Domestic economic activity remained broadly stable through July, with high-frequency indicators pointing to continued activity, albeit at a slower pace amid heightened external uncertainties. E-way bill generation recorded its second-highest monthly level in July, indicating sustained goods movement despite some moderation in momentum. Electricity consumption remained firm, supported by ongoing economic activity and higher cooling demand amid warm, humid weather. Petrol and diesel consumption also recorded healthy growth, reflecting sustained transportation and commercial activity, as well as firm domestic demand.

3. Manufacturing activity continued to expand in July, although the pace moderated marginally, with the PMI Manufacturing index easing to 53.5 in July from 54.2 in June. The expansion remained supported by a sustained rise in new orders, particularly export orders. Also, input cost pressures eased to a five-month low, resulting moderate increase in output prices.

4. Services activity remained supported in July, with new business continuing to grow despite a moderation in the pace of expansion following several months of strong growth. The PMI Services index remained in the expansionary zone though declined to 53.3 in July from 57.4 in June. Hiring recorded a moderate rebound, while softer input cost pressures, alongside higher selling prices, supported an improvement in firms' profit margins. At the same time, freight activity remained firm, with port cargo traffic registering strong growth in July, and domestic air cargo traffic remaining robust in June.

5. Domestic demand continued to underpin economic activity in July, with strong momentum in automobile retail sales continuing across major segments. The growth was broad-based across rural and urban markets, with both segments registering firm growth. Air passenger traffic, however, moderated in June, amid higher costs and operational disruptions.

6. Looking ahead, the improvement in monsoon conditions and narrowing rainfall deficit are expected to support agricultural activity, Kharif sowing and rural incomes, providing further support to rural demand. RBI's forward-looking household surveys also indicate positive consumer sentiment and favourable expectations regarding economic conditions and spending. These factors are likely to provide continued support to

domestic activity, even as external uncertainties remain a key risk.

Performance of High-frequency indicators (YoY Growth, %)

Indicators	May-25	Jun-25	Jul-25		Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26
Economic Activity											
E-way bill generation	18.9	19.3	25.8		15.8	18.8	12.9	11.8	12.9	14.5	6.0
PMI manufacturing [#]	57.6	58.4	59.1		55.4	56.9	53.9	54.7	55.0	54.2	53.5
PMI Services [#]	58.8	60.4	60.5		58.5	58.1	57.5	58.8	59.8	57.4	53.3
Electricity consumption	-4.7	-2.1	2.8		3.8	1.0	0.8	3.5	10.6	11.4	10.6
Fuel consumption	1.1	0.5	-4.4		0.3	4.5	3.2	-6.5	-8.1	-3.5	2.9
Nine Core Industries	0.5	1.1	3.2		5.2	3.2	2.9	2.7	3.2	6.0	5.4
IIP	3.4	2.2	5.4		4.2	4.4	3.0	4.9	5.0	7.3	NA
Port Traffic	4.3	5.6	4.0		7.6	5.1	0.6	2.4	6.6	9.2	8.8
Air Cargo Traffic	2.3	2.6	4.8		8.7	18.5	10.8	7.0	10.7	9.4	NA
Domestic Demand											
Urban Auto Sales	2.6	7.3	-0.4		16.7	27.5	25.3	12.9	12.0	21.3	23.8
Rural Auto Sales	8.1	4.0	-7.1		19.3	25.7	27.2	14.4	7.7	22.2	27.9
Air Passenger Traffic	2.6	3.7	-2.5		3.1	-0.1	-1.3	-2.9	7.7	-1.2	NA

Source: AAI, GSTN, FADA, HSBC, MoSPI, DPIIT, CEA, PPAC

Note: # Absolute Values. NA-Not available

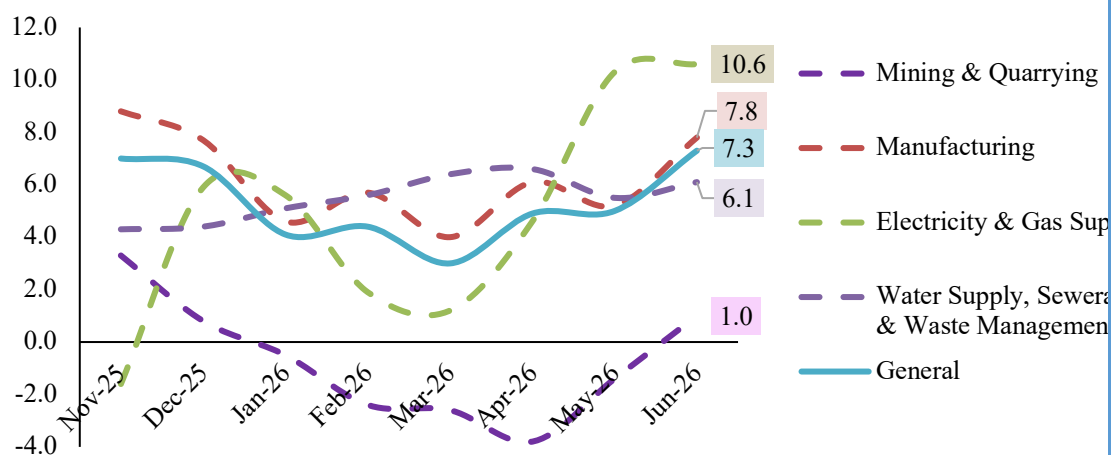
7. The aggregate momentum captured by these high-frequency indicators is examined in greater sectoral depth below, beginning with industry.

Industry and Infrastructure

8. Industrial activity strengthened in June, while high-frequency indicators point to continued, albeit moderating, expansion in manufacturing, and emerging developments in high-technology sectors suggest a deepening technology–manufacturing ecosystem. The Index of Industrial Production (IIP) recorded 7.3 per cent year-on-year growth in June 2026, accelerating from 5.0 per cent in May, supported by 7.8 per cent growth in manufacturing and 10.6 per cent growth in electricity and gas supply. The improvement was broad-based, with 19 of 23 manufacturing industry groups registering positive growth. Capital goods output grew by 14.2 per cent, while infrastructure and construction goods and intermediate goods grew by 7.5 per cent and 9.3 per cent, respectively. Cumulatively, IIP grew by 5.8 per cent during April–June 2026, compared with 3.4 per cent in the corresponding period of the previous year.¹

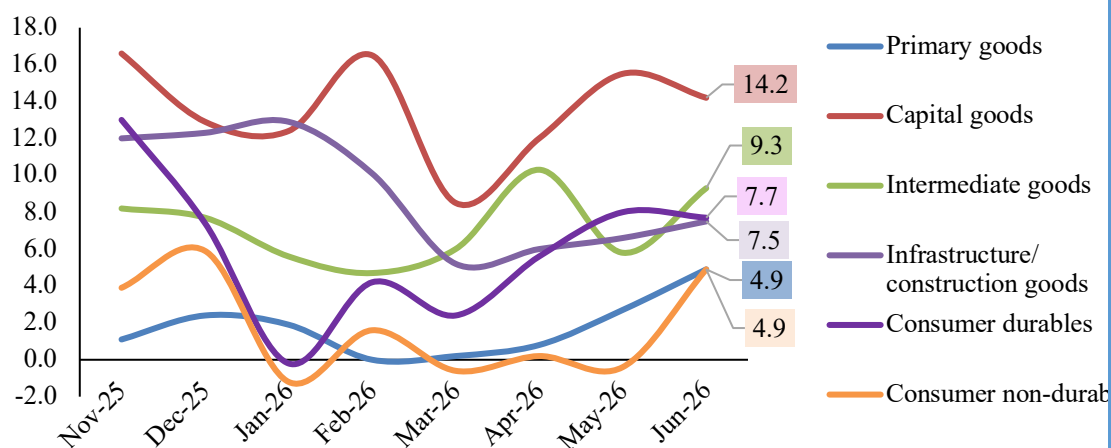
¹ Ministry of Statistics & Programme Implementation Press Release available at <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2290419&lang=2®=48>

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



Source: Ministry of Statistics and Programme Implementation

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

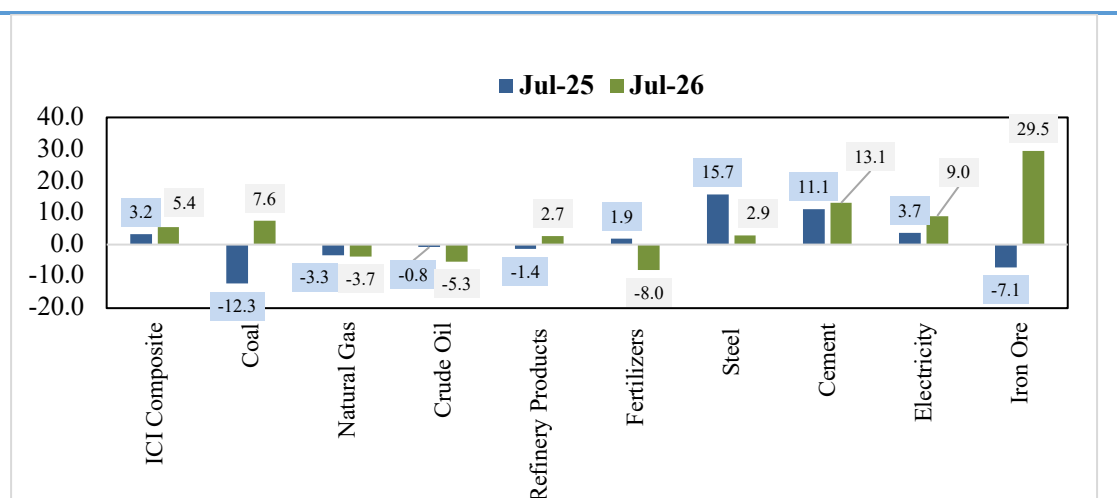


Source: Ministry of Statistics and Programme Implementation

9. The Index of Core Industries (ICI) recorded a year-on-year growth of 5.4 per cent (provisional) in July 2026, moderating from 6.0 per cent (final) in June 2026. The growth was driven primarily by robust y-o-y growth in Iron Ore (29.5 per cent), Cement (13.1 per cent), Electricity (9.0 per cent) and Coal (7.6 per cent), while Steel (2.9 per cent) and Refinery Products (2.7 per cent) also recorded positive growth. However, Natural Gas (-3.7 per cent), Crude Oil (-5.3 per cent) and Fertilisers (-8.0 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–July 2026–27, the cumulative y-o-y growth of the core industries stood at 4.3 per cent (provisional), compared with 1.5 per cent in the corresponding period of the previous year².

² Office of Economic Adviser, DPIIT, 'Provisional Estimates of Index of Core Industries for the month of July 2026 (Base Year 2022-23)'.

Index of Core Industries-Monthly YoY Growth (%) (July-25 vs July-26)



Source: Office of Economic Adviser, DPIIT, Ministry of Commerce & Industry.

10. High-frequency business activity indicators also point to continued, albeit moderating, expansion in manufacturing. The HSBC India Manufacturing PMI eased to 53.5 in July 2026 from 54.2 in June 2026, but remained above the neutral 50 mark, signalling continued expansion.³ The moderation reflected softer growth in output and new orders, although both continued to expand, while export demand and employment provided some support. The PMI therefore suggests that the underlying expansion in manufacturing remains intact, albeit with a moderation in pace.

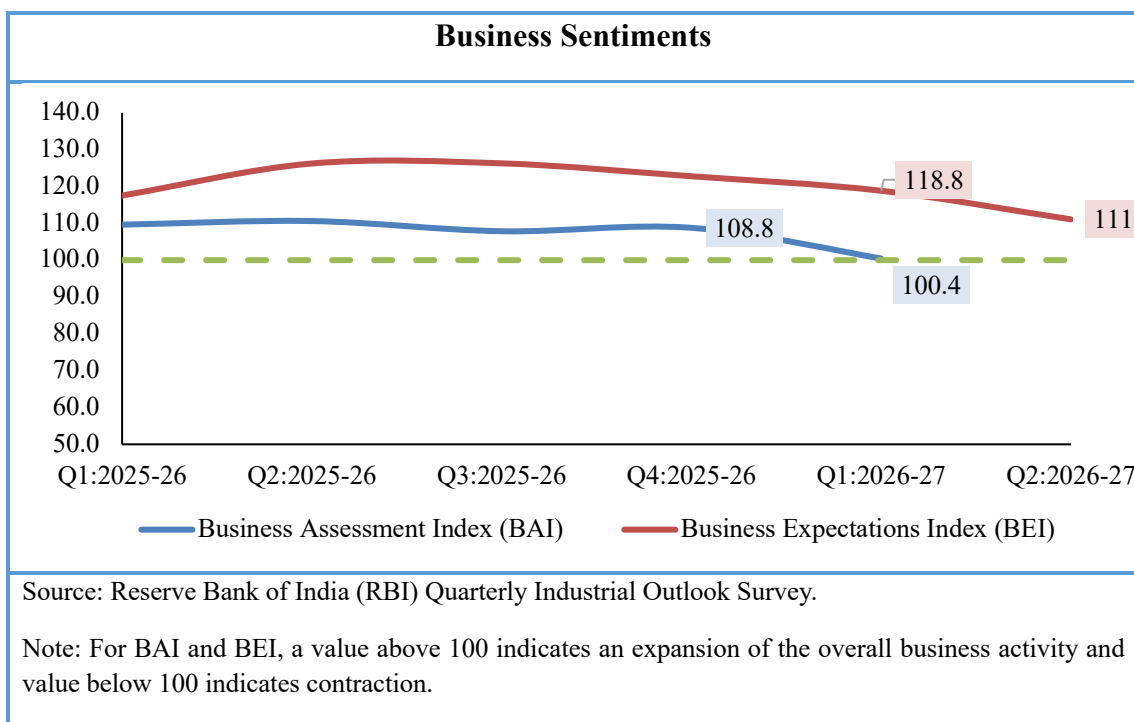
11. Forward-looking indicators present a mixed but improving outlook for manufacturing activity. The RBI's 114th Industrial Outlook Survey,⁴ based on responses from 1,202 manufacturing companies, the Business Assessment Index (BAI) declined to 100.4 in Q1:2026–27 from 108.8 in the previous quarter amid subdued demand and elevated cost pressures, although it remained above the expansion threshold of 100. The Business Expectations Index (BEI) for Q2 remained expansionary at 111.1, indicating continued, albeit cautious, optimism among manufacturers.⁵ Expectations for production, order books and capacity utilisation remained positive, while elevated input costs and pressure on profit margins continued to weigh on business sentiment.

<https://www.pib.gov.in/PressReleaseDetail.aspx?PRID=2301558®=48&lang=1>

³ Source: HSBC India Manufacturing PMI, S&P Global. A PMI reading above 50 indicates an expansion in manufacturing activity, while a reading below 50 indicates a contraction.

⁴ Reserve Bank of India, Industrial Outlook Survey of the Manufacturing Sector for Q1:2026–27, 114th Round (August 2026) available at <https://tinyurl.com/48yx4bdd>. The survey is non-statutory and response is voluntary. The survey assesses business sentiment for the current quarter and expectations for the ensuing quarter, based on qualitative responses on a set of indicators reflecting the perceptions of responding companies on various functional aspects.

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



12. Beyond aggregate industrial indicators, a number of recent indigenous technology developments across strategic and high-technology sectors indicate that India's industrial capabilities are increasingly shifting from technology adoption and assembly to indigenous design, engineering and product development. This emerging pattern is visible across space, aerospace and medical technology, where Indian firms and research institutions are developing sophisticated products and systems that have traditionally been dominated by a relatively small number of global technology providers.

13. The policy ecosystem supporting private participation in the space sector has also continued to strengthen. Recently, the Department of Space, through the Indian National Space Promotion and Authorisation Centre (IN-SPACe), introduced two incentive schemes—the Launch Services Price Support Scheme (LSPS) and the Price Support Scheme for Indian Entities.⁶ The schemes provide financial support for launch services and facilitate access to Department of Space/ISRO facilities, technical expertise, technology transfer and Earth-observation data, thereby supporting greater private-sector participation across the space value chain.

14. This momentum in indigenous space technology development has continued into August. Bengaluru-based Astrobase Space Technologies unveiled India's first privately built 800 kN Full-Flow Staged Combustion (FFSC) liquid oxygen–methane rocket engine, named EVEREST, on 7 August 2026, with the objective of developing reusable launch systems and domestic launch infrastructure.⁷ The project had earlier been selected under the IN-SPACe Technology Adoption Fund (TAF) in June 2026, underscoring the role of targeted support in advancing indigenous propulsion capabilities.⁸ This development reflects the growing technological ambition of India's private space sector

⁶ <https://www.inspace.gov.in/inspace> ; <https://tinyurl.com/ykts34sn>

⁷ <https://tinyurl.com/4tf35n2u>

⁸ <https://tinyurl.com/hj3z68rk>

and the emergence of domestic capabilities in advanced propulsion.

15. Similar developments are visible in aerospace and defence. On 22 July 2026, the DRDO's Gas Turbine Research Establishment (GTRE), in partnership with Hyderabad-based Azad Engineering, successfully realised and delivered India's first indigenous 350-kg thrust-class expendable turbojet engine.⁹ Jet-engine technology requires advanced metallurgy, precision engineering and stringent manufacturing standards and is mastered by only a limited number of countries. The development, therefore, represents not merely an indigenous product achievement but progress in the underlying engineering and manufacturing capabilities required for sophisticated aerospace systems.

16. Indigenous capabilities are also emerging in medical technology. Bengaluru-based start-up VoxelGrids has developed a 1.5-tesla MRI scanner.¹⁰ The scanner brings together domestic capabilities in key components and technologies, including magnets, electronics, software and image reconstruction. This development demonstrates the growing ability of Indian firms to develop complex medical equipment in areas that have traditionally relied heavily on imports, while underscoring the need for sustained domestic investment to support long-gestation technology development.

17. Taken together, these developments point to a gradual shift in India's industrial capabilities—from adopting and assembling technologies to designing, developing and manufacturing more sophisticated products domestically. Public R&D, policy support and private entrepreneurship are increasingly coming together to help translate technologies from research and prototypes into commercial products. This emerging ecosystem could deepen domestic capabilities in technology-intensive industries and create opportunities for higher-value manufacturing and exports.

18. A recent report by NITI Aayog, prepared in collaboration with CRISIL Intelligence,¹¹ provides a forward-looking assessment of sectors with potential to strengthen India's position in global manufacturing. Based on an assessment of 62 sectors, the report identifies 12 sectors with potential for global leadership and evaluates them on market opportunities, strategic relevance, financial viability and value-chain positioning. The report's cross-sectoral assessment highlights certain challenges to competitiveness, including import dependence on critical inputs, fragmented supply chains, infrastructure and logistics gaps, limited domestic value addition, technology constraints and skill shortages. It emphasises the need to move beyond assembly-led manufacturing towards deeper value-chain participation, supported by industrial clusters, technology, skills, targeted investment and stronger integration with global markets.

19. These domestic efforts are also unfolding against a global industrial landscape in which government support is increasingly shaping competitive outcomes, particularly in strategic and technology-intensive sectors, as discussed in the Box below.

⁹ Ministry of Defence Press Release available at <https://tinyurl.com/3xyrnudp>

¹⁰ <https://tinyurl.com/mpptdc3r>

¹¹ NITI Aayog (2026), Report on Key Sectors to Position India as a Global Manufacturing Hub, Volume I, August 2026, prepared in collaboration with CRISIL Intelligence; see pp. 27 and 263. <https://tinyurl.com/3kznkhw8>

Box 1: Global Rise in Industrial Subsidies and Implications for Industrial Competition

Industrial subsidies have become an increasingly prominent feature of global industrial policy, as governments seek to build capacity in strategic and emerging-technology sectors. This shift reflects the efforts to strengthen supply-chain resilience and technological self-reliance following the Covid-19 pandemic. It also has a strategic dimension: as some economies expand support to domestic producers, others face greater pressure to provide similar support to remain competitive in the same markets.

It is against this backdrop that new firm-level evidence from the OECD's *Manufacturing Groups and Industrial Corporations (MAGIC)* database puts these trends into perspective. Covering 525 large manufacturing groups across 15 sectors over 2005–24 and released publicly for the first time in June 2026,¹² the database provides new firm-level evidence on the scale and distribution of industrial subsidies.

Some of the **key findings** from the report are as follows:

- **Industrial subsidies have reached historically high levels.** Global industrial subsidies reached **USD 108 billion in 2024**, equivalent to **1.3 per cent of firms' revenue**, the second-highest level on record after the global financial crisis. Unlike the earlier peak, the recent increase appears to reflect a more sustained use of industrial policy rather than a temporary crisis response.
- **Support is concentrated in strategic and technology-intensive sectors.** Solar photovoltaic panels, semiconductors, aluminium, steel and shipbuilding recorded the highest subsidy-to-revenue ratios during 2005–24. These sectors are central to clean-energy transition, technological competitiveness and strategic supply chains.
- **The form of support varies across sectors.** The type of subsidy appears to reflect the financing needs of different industries. Capital-intensive and debt-dependent sectors such as steel and chemicals rely more on below-market finance, while R&D- and equity-intensive sectors such as semiconductors rely more heavily on tax concessions.
- **Support received by firms differs significantly across economies.** During 2005–24, firms based in India, Brazil and Indonesia received subsidies broadly comparable, in relative terms, to those received by firms based in North America, but considerably less than those received by firms based in China.
- **Subsidies are influencing competitive outcomes.** OECD research¹³ estimates that around **22 per cent of the global market-share gains of firms that expanded between 2005 and 2023 can be attributed to the subsidies they**

¹² Source: OECD (2026), OECD MAGIC Database of Industrial Subsidies, OECD Publishing, Paris, June 2026. DOI: 10.1787/ce94f33b-en; available at <https://tinyurl.com/2zyj536b>

¹³ OECD (2025), The Market Implications of Industrial Subsidies, OECD Trade Policy Papers, No. 296, OECD Publishing, Paris. DOI: 10.1787/e40b793f-en.

Box 1: Global Rise in Industrial Subsidies and Implications for Industrial Competition

received, rising to almost **60 per cent for China-based firms**. The OECD further finds that these market-share gains were not accompanied by corresponding increases in productivity or profitability, suggesting that subsidies may have enabled recipient firms to gain market share partly through lower prices.¹⁴

The OECD report also points to potential concentration risks in global supply chains. It cautions that large-scale subsidised production can affect global prices and place competitive pressure on producers in other economies, even in the absence of direct trade effects.

These findings point to a broader shift in global industrial competition, with subsidies becoming an increasingly persistent feature of strategic and technology-intensive sectors. This evolving landscape warrants close attention when assessing the factors shaping industrial competitiveness.

20. Against this backdrop, an important next step is to translate these emerging capabilities into products that can be produced at scale, competitively and to global standards. This will require continued investment in R&D, skilled manpower, testing and certification, stronger industry–research linkages and access to long-term capital. Scaling these capabilities could deepen domestic value addition and strengthen India’s capacity to develop and manufacture more technology-intensive products.

21. These developments are accompanied by a parallel shift in how sustainable activity is financed and expanded across the economy, as set out in the Box below.

Box 2: Developments in Sustainable Finance and the Green Economy

India’s transition towards a more sustainable economy is increasingly reflected in developments across financial markets and economic activity. Sustainable finance has expanded through a combination of thematic bond issuances, budgetary support and blended finance, alongside the use of regulatory and policy instruments to mobilise capital towards sustainable activities. This box focuses on the role of the bond market in supporting India’s sustainable development and financing its transition towards a greener economy.

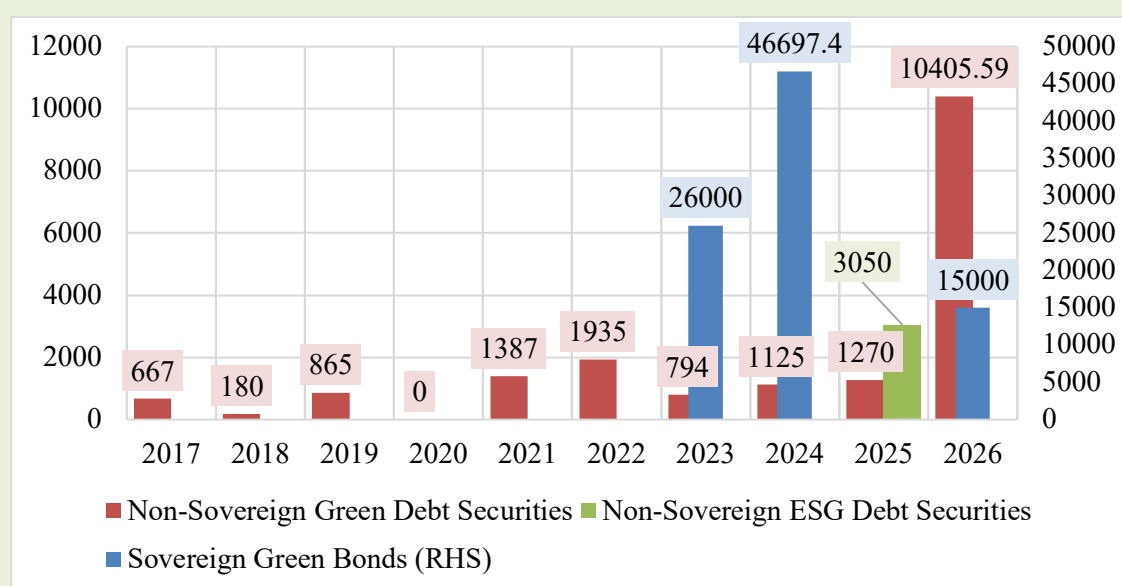
Thematic bonds in India are issued by a wide variety of players - public sector, sovereign, municipalities, and private sector, including corporates and financial institutions. The Sovereign Green Bonds (SGrBs) Framework (2022) governs the issuance of green bonds by the Central Government. The cumulative issuance of Sovereign green bonds since 2022 has been ₹87,697.40 crore, including ₹15,000 in SGrBs issued during FY27 (Aug 2026).

¹⁴ The analysis finds that subsidy-induced market-share gains were not accompanied by corresponding increases in investment or productivity, suggesting that the gains did not arise from efficiency improvements but instead could result from the ability of firms receiving subsidies to lower their prices or deter competitors from making investments.

Box 2: Developments in Sustainable Finance and the Green Economy

For other issuers, SEBI's framework for green debt securities provides the regulatory framework for green bonds, including specified categories such as blue, yellow and transition bonds, while SEBI's ESG Debt Securities framework covers social bonds, sustainability bonds and sustainability-linked bonds. The cumulative debt issuances under these frameworks since 2017 have also reached ₹21,679 crore as of 31st July 2026. Green securities accounted for the majority of issuances, while sustainability-linked securities have emerged as a smaller but growing segment.

Green Debt Securities Issuance by Year (₹ crore)



Source: Reserve Bank of India, Public Debt Management Cell, DEA and Securities and Exchange Board of India, 2026 data are Year-to-Date (YTD).

Agriculture

22. Agricultural activity during the ongoing kharif season remains broadly stable, although the progress of sowing and rainfall distribution warrant close monitoring. As per the Crop Weather Watch Group (CWWG) kharif sowing stood at 967.92 lakh hectares as on 7 August 2026, 1.8 per cent lower than the corresponding period of last year, with rice acreage at 344.78 lakh hectares compared with 360.67 lakh hectares a year earlier. The decline in aggregate acreage, however, needs to be assessed alongside the spatial distribution of rainfall and crop-wise developments.

23. The rainfall situation continues to be uneven. During 1 June–2 August 2026, cumulative rainfall was 13 per cent below the LPA, with significant regional variation: East and Northeast India recorded a 30 per cent deficit, South Peninsula 23 per cent and Northwest India 12 per cent, while Central India recorded a 4 per cent surplus. The latest

IMD assessment indicates that the all-India cumulative rainfall deficit remained at 13 per cent as of 19 August, although the deficit had narrowed from the much larger shortfall observed earlier in the season. The improvement in rainfall in parts of the country has supported kharif sowing; nevertheless, persistent regional deficits remain relevant for crop prospects and rural incomes.

24. The latest available sowing data also point to a relatively mixed picture by crop. As on 21 August, total kharif area stood at 1,056.7 lakh hectares, around 1.5 per cent below the corresponding period of last year. The decline was concentrated particularly in paddy, maize and soybean, while pulses acreage was marginally higher than a year earlier. This suggests that while the aggregate sowing position does not indicate an immediate, broad-based agricultural stress, developments in some crops, such as oilseeds, merit continued monitoring.

25. Water availability provides an additional buffer, although the reservoir position is somewhat weaker than last year. As on 6 August, live storage in 166 important reservoirs stood at 96.97 BCM, equivalent to 52.8 per cent of total live capacity and about 97 per cent of the ten-year average for the corresponding period; however, storage was only 73.3 per cent of the level recorded a year earlier. Groundwater conditions were relatively stable, with 87.8 per cent of monitored wells classified as normal. The relatively favourable position vis-à-vis the long-period average offers some alleviation against rainfall variability, though the lower year-on-year reservoir storage underscores the significance of adequate rainfall during the remainder of the monsoon.

26. Foodgrain procurement continues to provide an important supply-side buffer. Paddy procurement during KMS 2025-26 had reached 570.88 LMT by 31 July, compared with 542.38 LMT during the corresponding period of the previous season, while wheat procurement in RMS 2026-27 stood at 357.57 LMT against 299.75 LMT in the previous season. These stocks provide some resilience against temporary supply disruptions and can help moderate food-price pressures should production conditions weaken.

27. A more important emerging risk is the evolution of El Niño. The latest INCOIS Special El Niño Outlook Bulletin confirms that El Niño conditions had developed over the central Pacific by July 2026 and assigns an 80–98 per cent probability to El Niño remaining the dominant ENSO phase from August 2026 through March 2027. The persistence of El Niño raises the risk of a weaker or uneven monsoon and, consequently, of pressure on crop yields and food prices. At the same time, the assessment should remain measured, as the relationship between El Niño and agricultural outcomes is not one-to-one, and a country's irrigation, procurement and food-stock mechanisms provide important buffers.

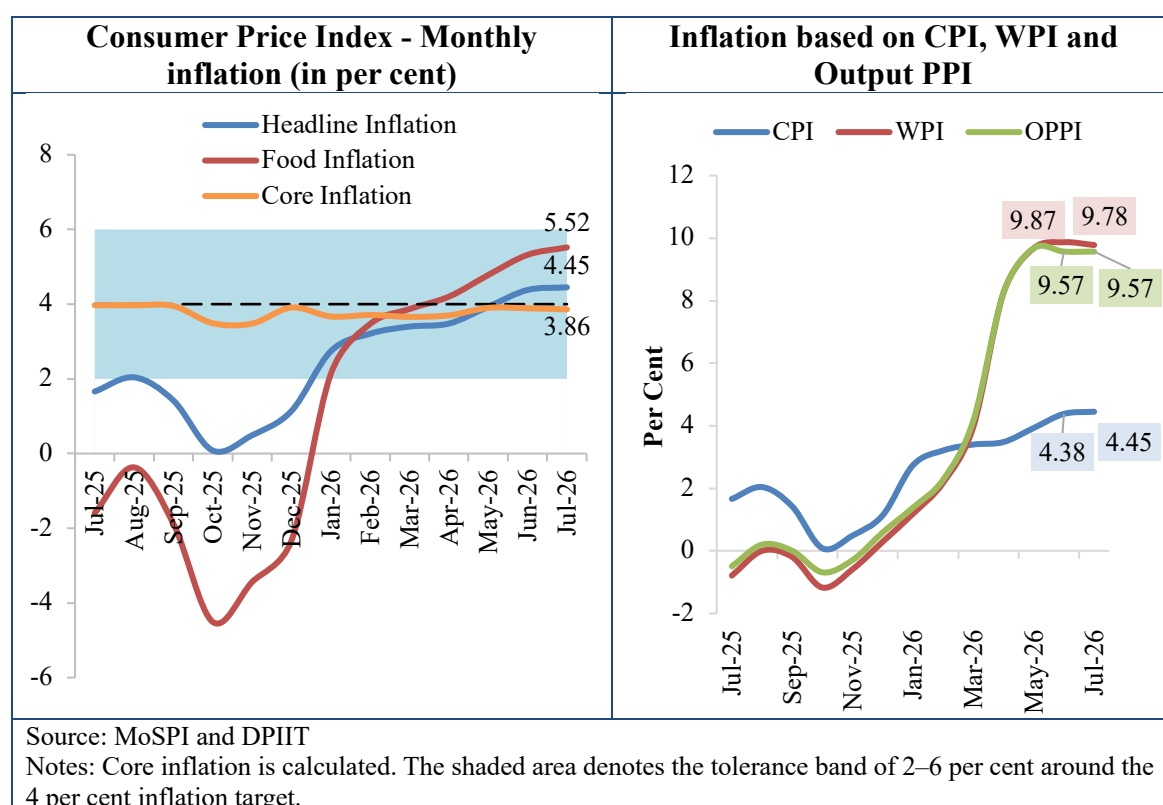
28. In the months ahead, particular attention may be required to pulses, oilseeds, rice and other rainfall-sensitive crops.

Inflation: recent developments

Retail inflation marginally inches up; wholesale inflation moderated

29. Retail inflation moved up modestly by 7 basis points (bps) to 4.45 per cent in July from 4.38 per cent in the previous month. The food inflation (5.52 per cent) outpaced the headline number, while the core inflation¹⁵, that indicates underlying inflationary trends remained stable at around 3.9 per cent in July 2026.

30. Wholesale Price Index (WPI)-based inflation moderated marginally to 9.78 per cent in July from 9.87 per cent in June, although it remained elevated; the Output Producer Price Index (OPPI)-based inflation, which closely tracks the WPI, stayed at the same level in July as in the previous month, at 9.6 per cent.

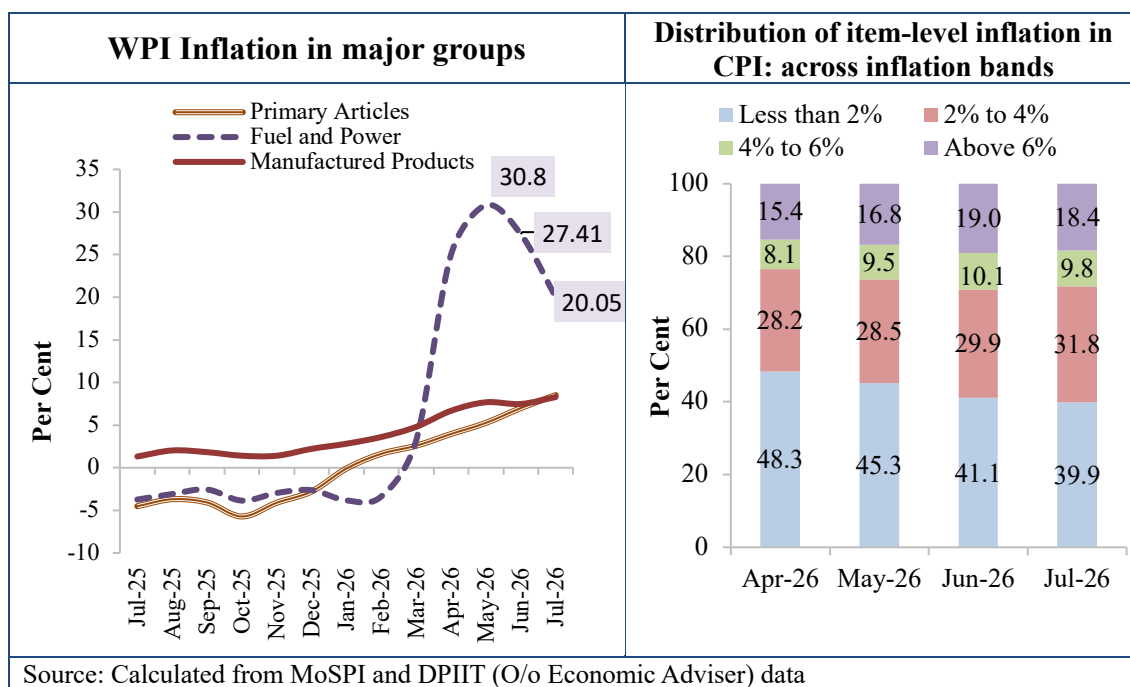


31. A significant moderation in the fuel category inflation (from 31 per cent in May 2026 to 20 per cent in July 2026) has been driving WPI inflation down, offsetting the marked inflationary pick-up in the primary articles (8.5 per cent) and manufactured products (8.3 per cent). While spillover to primary and manufactured goods is evident at the wholesale level, only a limited set of items seems to be driving retail inflation. At the CPI item level, the majority (71.8 per cent) remains firmly anchored below 4 per cent inflation in July 2026.

32. The proportion of items in the higher inflation bracket of above 6 per cent,

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

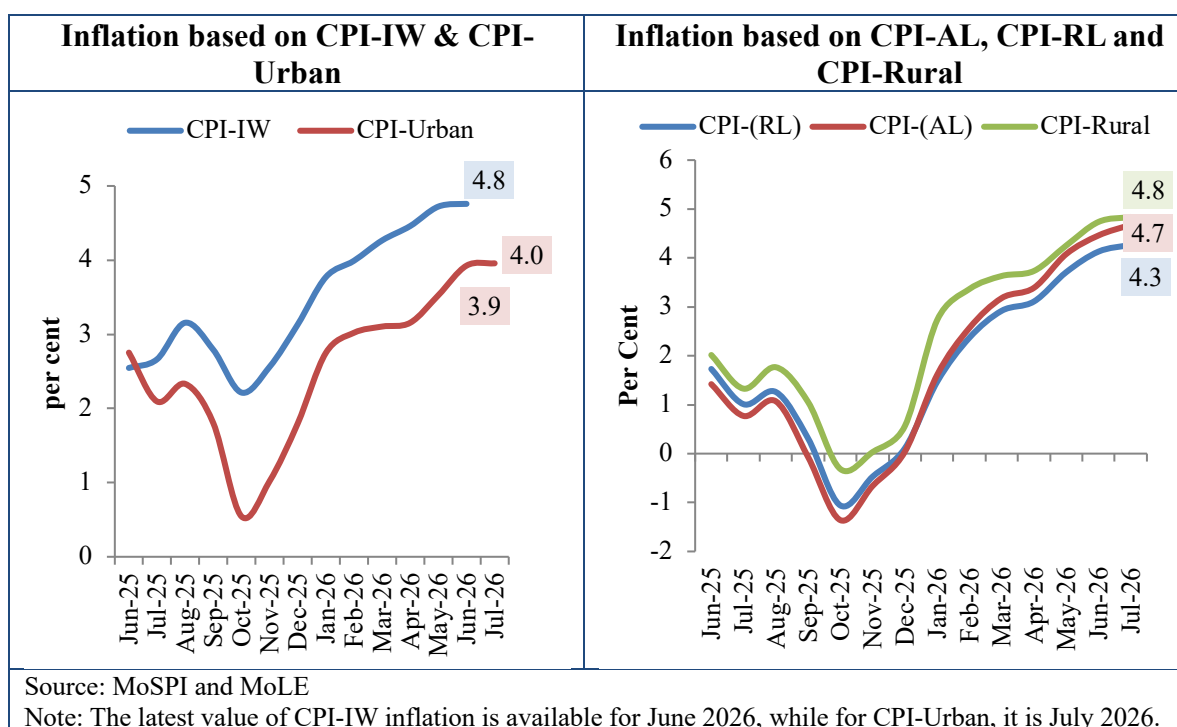
however, has increased from 15.4 per cent to 18.4 per cent between April and July. These items, largely, belong to five broad Divisions of the CPI basket, viz., pan, tobacco & intoxicants (4.8 per cent), transport (4.43 per cent), food and beverage serving services (5.24 per cent), restaurant & accommodation (7.72 per cent), and personal care et al. (14.8 per cent). In the remaining seven Divisions, inflation was below the 4 per cent mark.



Rising inflation for various occupational groups

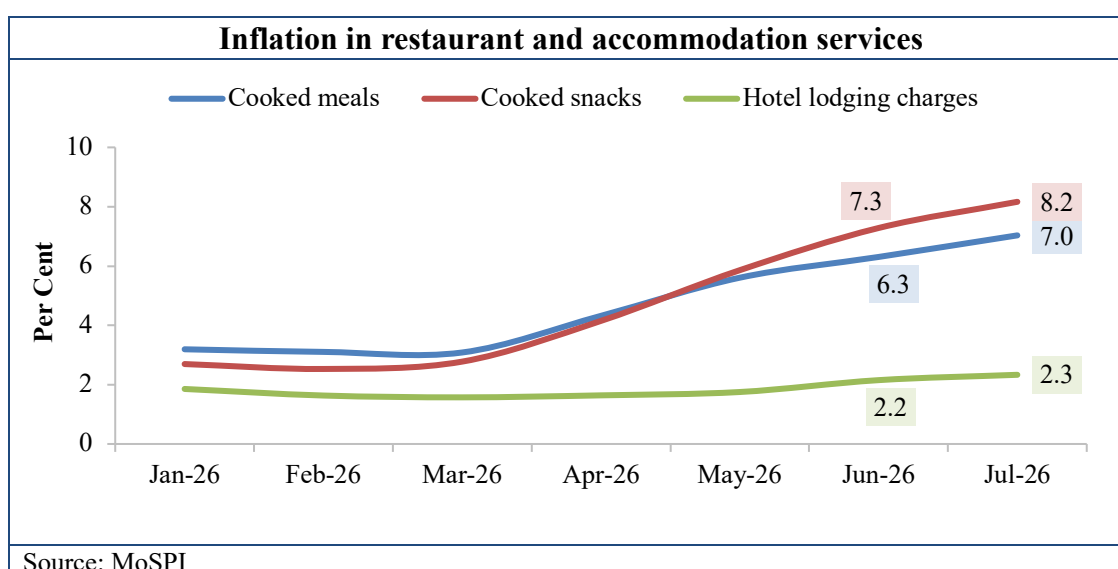
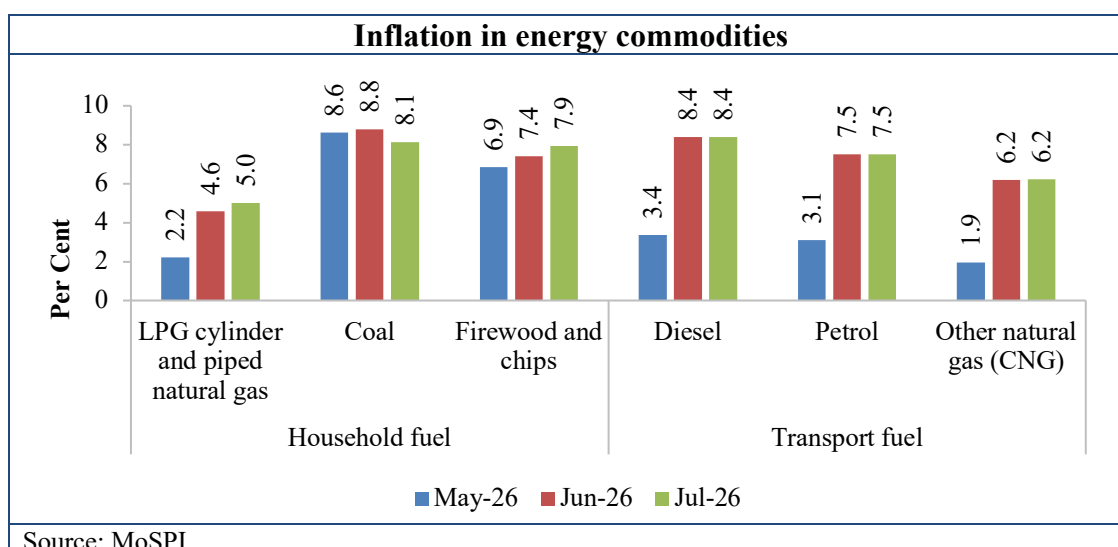
33. While Headline CPI measures inflation for the general population, based on the consumption basket of the entire population and is the index used for India's inflation-targeting framework, CPI-IW (Industrial Workers), CPI-AL (Agricultural Labourers) and CPI-RL (Rural Labourers) calculated by the Labour Bureau are occupation-specific indices, 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.

34. From the inflation measures based on CPI-IW, CPI-AL and CPI-RL, it can be seen that industrial workers, agricultural workers, and rural labourers have all experienced rising inflation over the past 10 months. Industrial workers face higher-than-average retail inflation compared to urban areas, while agricultural labourers and rural labourers experience inflation lower than that faced by rural areas in general. The trends in these occupation-specific indicators remained similar to those in general CPI measures; however, they were higher than the general CPI of 4.45 per cent.



Supply-sensitive segments face price pressures

35. Brent crude and Indian basket prices peaked in March–April 2026 before easing to \$83.4/bbl and \$82.0/bbl, respectively, in July. However, reflecting the lagged pass-through of earlier increases, inflation in pump prices of petrol, diesel, LPG and PNG remained elevated in July. Prices of substitute fuels such as coal and firewood also recorded higher inflation. At the same time, restaurant-cooked meals and snacks remained relatively expensive, with elevated fuel and food costs potentially contributing to higher prices in the restaurant sector.



36. Some of the recent measures undertaken by the Government aim to ease price pressures in cost-sensitive segments. Commercial LPG prices were reduced by about ₹200 per 19-kg cylinder across the country from August 1, 2026, following a ₹183 reduction in July, bringing the cumulative reduction to ₹383 per cylinder.¹⁶ To prevent diversion to exports, the Government also imposed windfall taxes on certain petroleum products.¹⁷

37. To curb rising sugar prices (which was 4.92 per cent in July compared to 2.17 per cent in June) and ensure adequate supply ahead of peak festive season demand, the

¹⁶ The actual magnitude of reduction varies from city to city

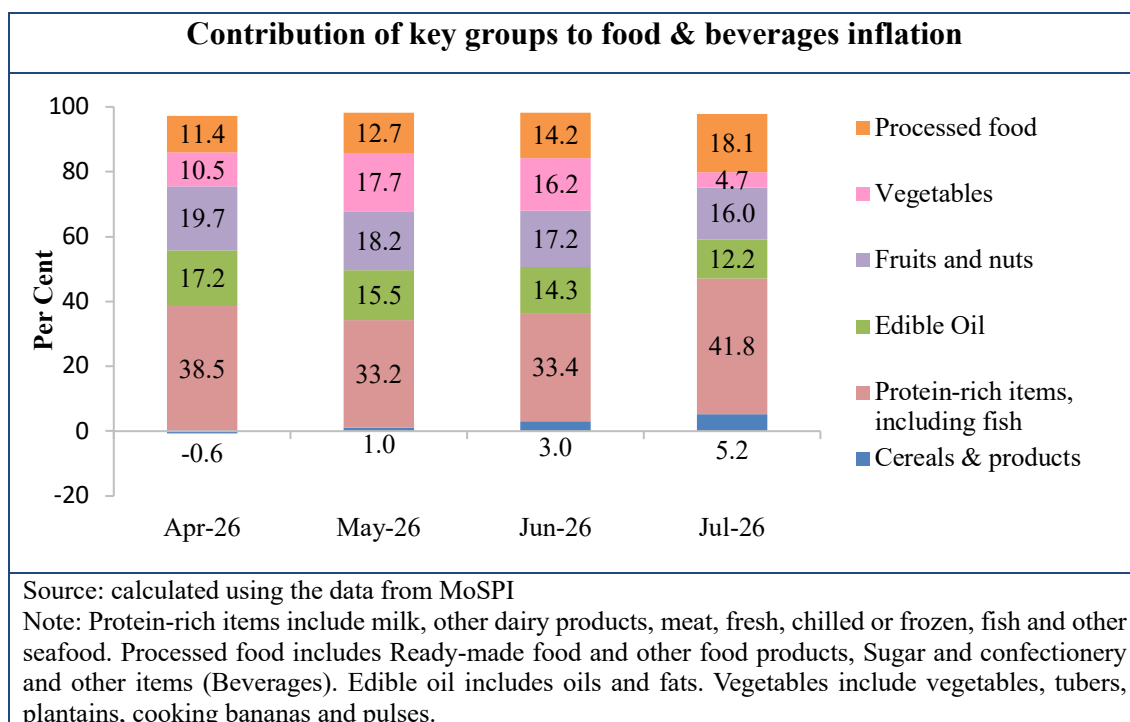
¹⁷ Effective August 3, 2026, the Special Additional Excise Duty and Road and Infrastructure Cess on petrol, diesel and ATF exports were revised upwards — the export duty on petrol has been raised to ₹3.5 per litre from ₹2.5 per litre, the total duty on diesel exports to ₹25.5 per litre from ₹15.5 per litre and the tax on aviation fuel to ₹22 per litre from ₹14.5 per litre. August 15 revision reduced diesel to ₹24/litre from ₹25.5, removed the petrol export duty entirely (down from ₹3.5), and cut ATF to ₹19.5/litre from ₹22

government¹⁸ has issued an order requiring bulk consumers using over 10 metric tonnes per month to restrict their sugar stockholdings to no more than 15 days of inventory. Effective from September 1 to November 30, 2026, this measure slashes the previous 30-day holding limit imposed in July and targets institutional buyers like confectioners, soft drink manufacturers, and sweetmeat sellers, while exempting government and local authority institutions. Driven by dry weather and patchy monsoons affecting sugarcane yields, and amid heightened seasonal consumption and new sources of demand for biofuels, the policy aims to prevent hoarding and stabilise prices. In addition, the government has issued a notification dated 20 August 2026, amending the import policy for raw sugar to allow 10 Lakh MT of duty-free imports under the tariff rate quota (TRQ) till October 31, 2026.¹⁹

Food inflation is firming up with a shift in key contributors

38. The Consumer Food Price Index (CFPI) inflation increased to 5.52 per cent in July 2026 from 5.32 per cent in June. The pace of food inflation rose by only 20 bps in July, compared with 54 bps in June and 58 bps in May. Food items such as milk, chicken, mutton, fish, refined oil, onion, and arhar/tur recorded notable inflation in July compared with their June print.

39. The protein-rich items (including fish) and processed food (including sugar, confectionery and beverages) have emerged as the key contributors to food & beverages inflation in July. Fruits and nuts have consistently contributed in July 2026, while cereals' contribution has accelerated from April to July.

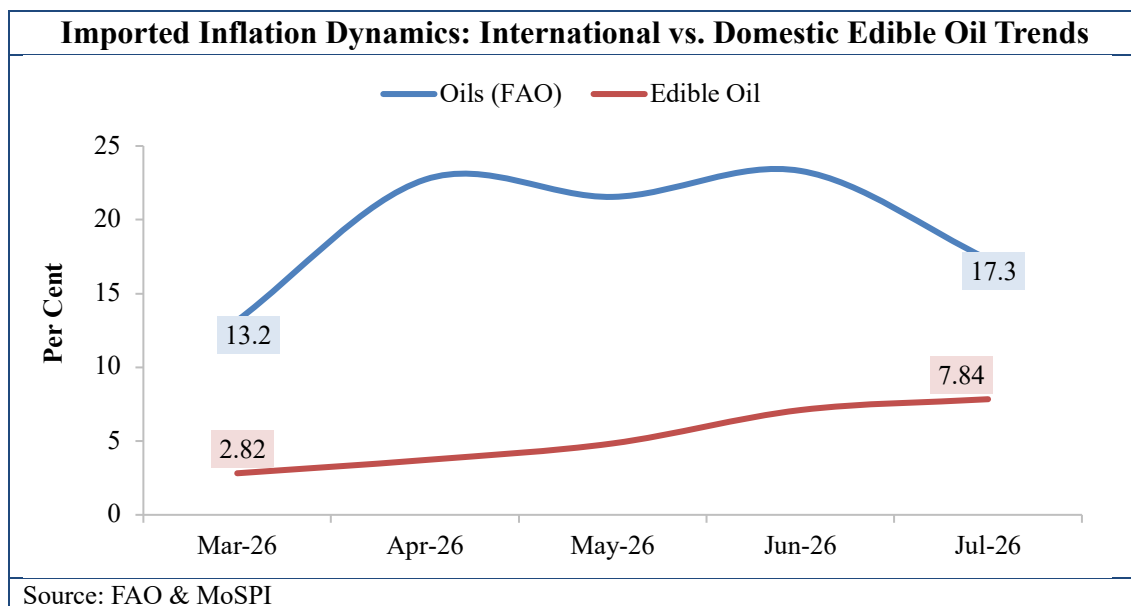


¹⁸ Source: [DFPD](#)

¹⁹ <https://www.dgft.gov.in/CP/?opt=notification>

40. Although the contribution of vegetables (including pulses) to overall inflation narrowed significantly in July compared with the preceding months, onion and garlic prices continued to record high inflation of 22 per cent and 35 per cent, respectively. Unseasonal hail and rainfall in Maharashtra and Madhya Pradesh during March–April led to deterioration of stored onion from the last Rabi crop, reducing mandi arrivals and pushing up prices. In contrast, tomato prices declined by 4 per cent in July, diverging from the usual seasonal increase. A well-distributed monsoon in Karnataka and Andhra Pradesh, along with strong arrivals from the hill regions of Himachal Pradesh, improved mandi supplies and brought tomato prices down.

41. The contribution of edible oils to domestic food inflation has moderated in recent months, and price pressures have been firming up. Globally, exportable supplies of vegetable oils have come under pressure due to the diversion of palm, soybean and rapeseed oils towards biofuel production as an alternative to petroleum diesel. The FAO Vegetable Oil Price Index remained elevated, with inflation at 17.3 per cent in July 2026. This global tightening has also affected India’s domestic edible oil market, which is predominantly dependent on imports of crude palm, soybean and sunflower oils. Consequently, domestic edible oil inflation rose steadily from 2.82 per cent in March to 7.84 per cent in July, reflecting the lagged pass-through of higher landed costs to retail prices, posing persistent upside risks to headline inflation.



Monetary Policy: maintained ‘neutral’ stance and policy rate unchanged

42. In its August 2026 meeting, the Monetary Policy Committee (MPC) kept the policy repo rate unchanged at 5.25 per cent and retained the ‘neutral’ stance. The central bank noted that higher inflation is mostly due to fuel and food, with few signs of generalisation of price pressures so far, and that core inflation, excluding precious metals, remains benign. Further, the realised headline inflation for Q1 (3.9 per cent) undershot RBI’s projections by 30 bps, reflecting limited pass-through of cost pressures. RBI projected that inflation might rise to 5.9 per cent by Q3 of FY27 before easing to 5.5 per cent in Q4 of FY27. Overall, for FY2027, the RBI has revised its inflation forecast

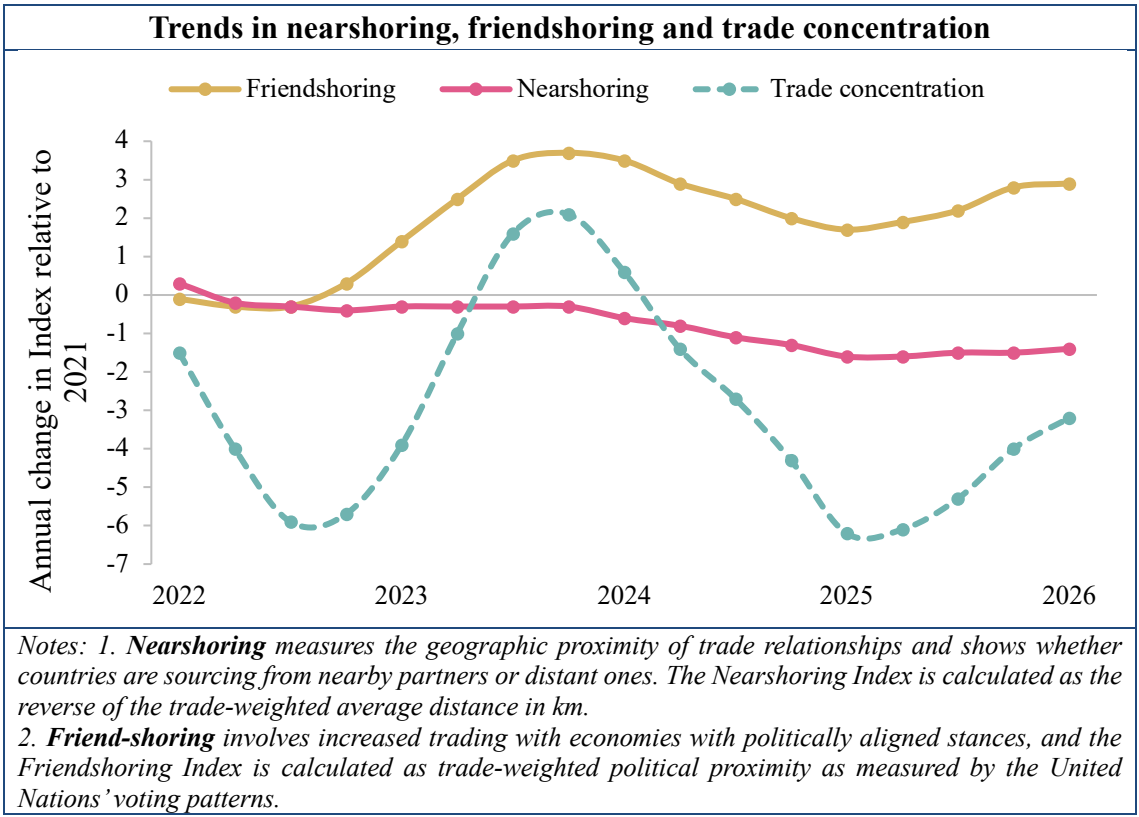
downward to 5 per cent from 5.1 per cent at the June meeting. However, the MPC minutes revealed a more hawkish shift in stance, surprising financial markets by dashing hopes of near-term rate cuts and indicating that the central bank’s next move is far more likely to be an upward rate adjustment.

Global trade dynamics

43. Geoeconomic factors are increasingly shaping bilateral trade patterns, as reflected in the evolving configuration of global trade relationships. This impact is visible in three emerging patterns, friendshoring, nearshoring and trade concentration, which capture, respectively, the growing importance of political alignment, geographic proximity and the concentration of trade among a small set of large economies.

44. Data from UNCTAD shows that in Q1 CY 2026, trade among the largest economies continues to follow the increasing trend observed since the beginning of CY 2025. In contrast, friendshoring, which indicates trade between politically aligned countries and had been rising since early CY 2025, has halted, suggesting that political alignment has not continued to strengthen as a driver of trade. At the same time, nearshoring, which measures trade growth between geographically proximate countries, has shown a modest acceleration in Q1 CY 2026 after remaining broadly flat through 2025, pointing to a gradual increase in the role of geographic proximity.²⁰

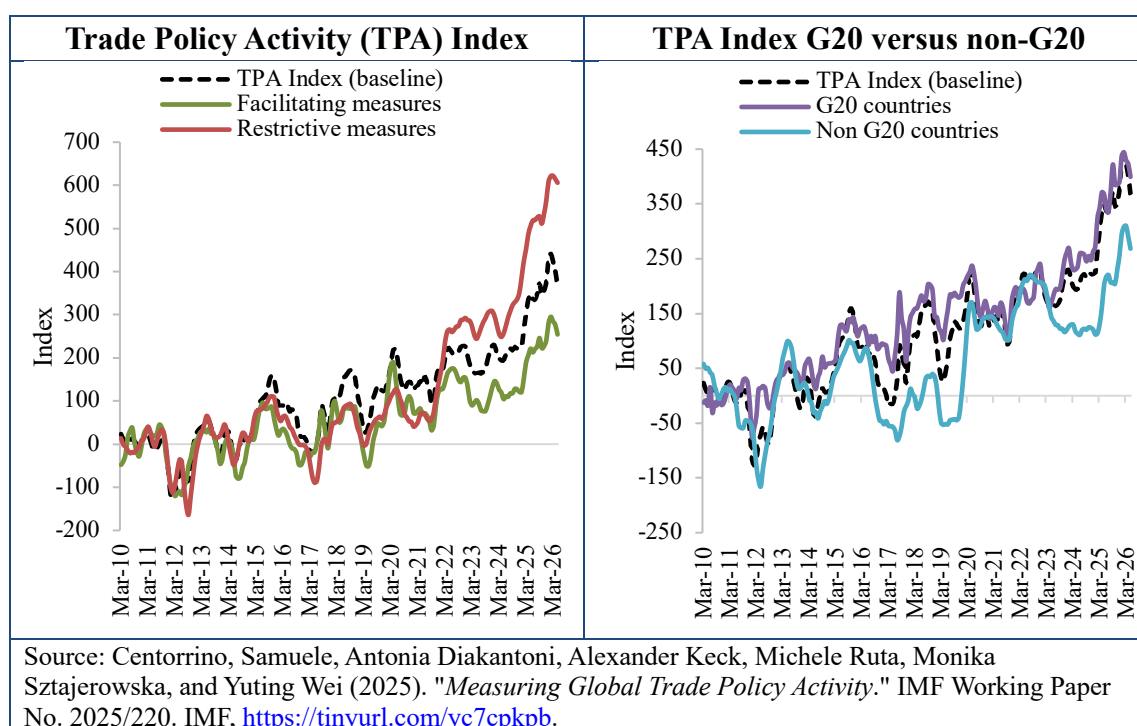
45. Taken together, these developments suggest that the ongoing reconfiguration of trade is neither uniform nor linear, with different dimensions of geoeconomic alignment exerting varying degrees of influence on global trade patterns.



²⁰ UNCTAD’s Global trade update, July-August 2026: <https://tinyurl.com/58c52v68>.

3. **Trade Concentration** describes how much of the global trade is concentrated in a small set of countries, and its index is calculated based on the Herfindahl concentration index.
Source: UNCTAD

46. The changing pattern of trade relationships is occurring alongside a broader intensification of global trade policy activity. The Trade Policy Activity (TPA) Index,²¹ averaged over January-May 2026, indicates that global trade policy activity was nearly twice its CY 2024 level and around a quarter higher than its CY 2025 average. This increase has been driven predominantly by restrictive measures, which have recorded the most significant rise across categories from CY 2025 through CY 2026. A more gradual but steady increase in subsidies and other measures has added to the overall rise in trade policy interventions. In contrast, facilitating measures have increased more modestly, widening the divergence between policies that restrict trade and those that ease it, a trend that first emerged in 2025.



47. Importantly, the increase in trade policy activity has not been confined to the largest economies. While the most pronounced peaks tend to be observed among G20 economies, the upward movement has been broad-based, with non-G20 economies also recording a marked increase in activity in the latest period.²²

²¹ The TPA Index, developed by economists from the WTO and the IMF, draws on a wide range of information on trade policy measures across a large number of economies and products. The Index captures global trade policy dynamics since the Global Financial Crisis in a timely and comprehensive way, at a monthly frequency. It treats records of a wide range of policy measures as imperfect signals of global trade policy activity and, using a Dynamic Factor Model, extracts their common dynamics. Tracking actual policy changes by governments complements existing broader indicators of trade policy uncertainty and geopolitical risk. The data draw primarily on two complementary trade policy monitoring sources: the WTO's Trade Monitoring Database (TMDB) and the Global Trade Alert (GTA) (<https://tinyurl.com/5bkyhtzc>).

²² World Trade Organisation (WTO) and International Monetary Fund (IMF) (2026), "Updated WTO-IMF TPA Index shows continued rise in global trade policy activity," Economic Research and Analysis, 23 July

48. Overall, these trends point to a changing global trade landscape, with shifts in trade relationships taking place alongside the growing tendency to use trade policy for broader objectives such as environmental sustainability, industrial policy and national security.

India's trade performance in July 2026

49. India's export performance continued its upward momentum in April-July 2026, with total exports (merchandise & services) reaching USD 316.4 billion, up 13.2 per cent (YoY) from USD 279.6 billion.²³ Total imports, however, increased at a faster pace of 17.3 per cent (YoY), to USD 365.9 billion from USD 311.9 billion earlier. Consequently, the total trade deficit stood at USD 49.4 billion in April-July 2026, compared with USD 32.3 billion in April-July 2025.

50. This trend was also evident in July 2026, when strong export growth was accompanied by a faster increase in imports, resulting in a widening trade deficit.

51. Merchandise exports grew by 19.6 per cent (YoY) in July 2026, significantly faster than services exports, which increased by 6.4 per cent (YoY). Thus, merchandise exports provided relatively stronger support to overall export growth during the month. Merchandise exports recorded a high of USD 44.2 billion, the highest value recorded for July. At the same time, merchandise imports increased to 76.2 billion, registering a growth rate of 17.5 per cent. This led to the merchandise trade deficit widening to USD 32 billion in July 2026, an increase of 14.7 per cent (YoY).

52. The growth in merchandise exports in July 2026 was broad-based, with non-petroleum, non-gems and jewellery exports, which accounted for 79.1 per cent of total merchandise exports during the month, registering robust growth of 14.9 per cent (YoY). However, a few major commodity groups accounted for a large share of the incremental growth. In absolute terms, merchandise exports in July 2026 rose by USD 7.3 billion from July 2025, with three commodity groups (petroleum products, electronic goods and engineering goods) accounting for 93.6 per cent of this increase. Petroleum products registered a growth of 67.6 per cent (YoY). During the same period, the average price of the Indian crude basket increased by 15.6 per cent.²⁴ Since the increase in the export value of petroleum products was substantially higher than the increase in crude oil prices, the rise in export value appears to have been partly supported by higher export volumes. The other major contributors were electronic goods and engineering goods, which increased by 57.4 per cent and 17.7 per cent (YoY), respectively.

53. At the same time, some sectors recorded a moderation in exports. In particular, exports of several employment-intensive sectors, including readymade garments, leather

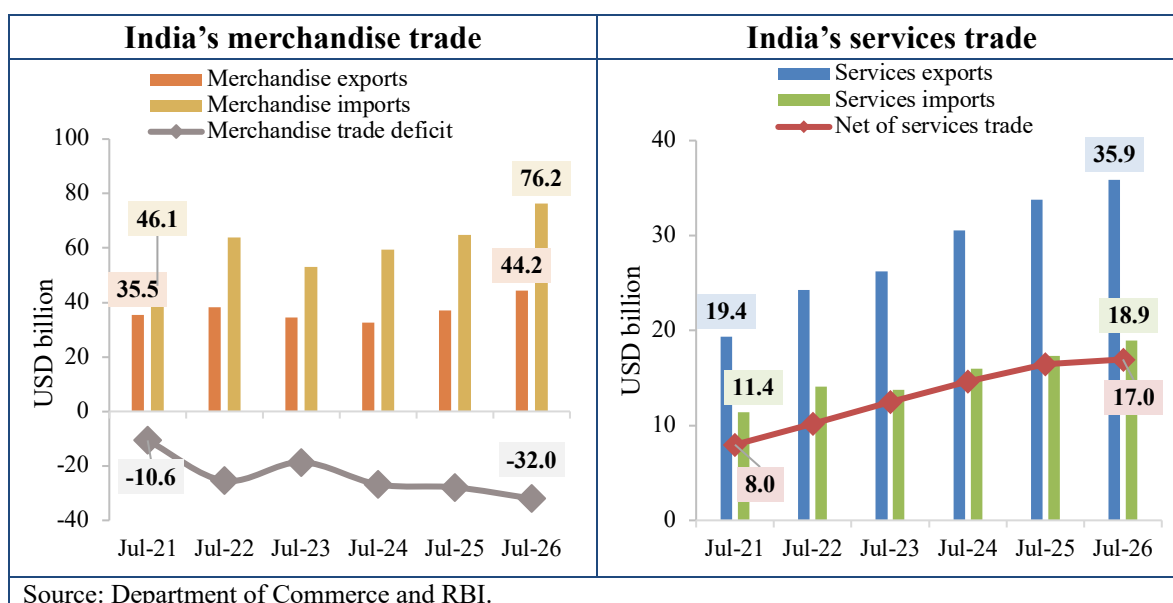
2026: <https://tinyurl.com/5bkyhtzc>.

²³ The latest data for the services sector released by the RBI is for June 2026. The data for July 2026 is an estimation. The data for April-July 2025-26 has been revised on a pro-rata basis using quarterly balance of payments data.

²⁴ As per PPAC's data, the average crude oil FOB price (Indian Basket) stood at USD 82.04 per barrel in July 2026 and USD 70.95 per barrel in July 2025.

and leather products, carpets, gems and jewellery and ceramic products and glassware, declined (YoY).²⁵

54. On the import side, the composition of merchandise imports provides further context for the widening merchandise trade deficit. Imports excluding petroleum, gold, and silver, which are commodities not significantly affected by international price movements, increased by 19.5 per cent (YoY), faster than the overall merchandise imports growth of 17.5 per cent. Within precious metals, gold imports increased modestly by 4.8 per cent, while silver imports decreased by 66.1 per cent (YoY). At the same time, imports of fertilisers increased by 55.4 per cent (YoY), electronic goods by 46 per cent, non-ferrous metals by 19.8 per cent, and machinery (electrical and non-electrical) by 13.8 per cent. This observed import pattern indicates that the widening merchandise trade deficit is accompanied by firm domestic demand, as reflected in the broad-based increase in imports beyond petroleum and precious metals.



55. India's services trade surplus has consistently absorbed a large share of the merchandise trade deficit and provided thrust to the country's overall trade performance. In July 2026, services exports grew by 6.4 per cent (YoY) to USD 35.9 billion, while the services imports grew by 9.5 per cent (YoY) to USD 18.9 billion. As a result, the services trade surplus stood at USD 17.0 billion in July 2026, increasing from USD 16.4 billion in July 2025. The services trade surplus offset 53 per cent of the merchandise trade deficit, thereby cushioning the impact of the wider goods trade gap on the overall trade balance.

Strengthening multilateral engagements

56. Alongside these near-term trade developments, India has continued to pursue initiatives to strengthen trade resilience, diversify markets and deepen integration into

²⁵ Exports of readymade garments, leather and leather products, carpets, gems and jewellery, and ceramic products and glassware declined by 4.5 per cent, 5.6 per cent, 1.5 per cent, 2.7 per cent and 16.4 per cent, (YoY), respectively.

global value chains. During its current BRICS Presidency, the 16th BRICS Trade Ministers' Meeting highlighted the importance of strengthening the multilateral trading system, expanding intra-BRICS trade, supporting the interests of farmers and developing economies, and widening participation in global trade. The Meeting reaffirmed the WTO's central role in a rules-based, development-oriented trading system, emphasising Special and Differential Treatment for developing countries and policy space for food and livelihood security.

57. In this context, BRICS members introduced measures to boost MSME participation in international markets, including the Jaipur Consensus and Credit Assessment Frameworks for export-oriented MSMEs to address trade-finance constraints. Additionally, the Workplan on the Internationalisation of MSMEs aims to enhance global market access. Cooperation on global value chains advanced through the Shared Understanding and the GVC Action Plan 2026–2030, focusing on resilient and diversified supply chains and investment. The principles for digitally delivered services also promote cross-border cooperation. These efforts, along with progress toward the Strategy for BRICS Economic Partnership 2030, aim to promote trade diversification and expand India's export opportunities.

Developments in India's Balance of Payments

Current Account Deficit

58. The current account balance moved into deficit in June 2026, recording a shortfall of USD 6.2 billion, compared with a USD 1.2 billion surplus in the corresponding month of 2025. On a cumulative basis, the current account deficit widened marginally to USD 3.1 billion in April-June 2026 from USD 2.9 billion in the previous year. This decline was driven by a larger merchandise trade deficit, which outweighed a resilient services surplus and consistent transfer receipts.

Major Items of India's Balance of Payments				
(USD billion)				
Item	June 2025 PR	June 2026 P	April-June 2025 PR	April-June 2026 P
A. Current Account Balance	1.2	-6.2	-2.9	-3.1
A.1 Net Merchandise	-19.2	-30.2	-68.9	-85.7
A.2 Net Services	16.2	17.9	47.9	52.2
A.3 Net Transfers	10.9	11.9	30.9	41.4
A.4 Net Income	-6.8	-5.8	-12.8	-11.1
B. Capital Account Balance	-1.6	9.1	7.4	-5.0
B.1 Net Foreign Direct Investment	2.3	1.3	4.8	7.8
B.2 Net Foreign Portfolio Investment	2.4	2.5	1.6	-9.6
B.3 Net External Commercial Borrowings	-0.4	-0.5	5.3	-0.1
B.4 Net Short-term Credit to India	0.3	1.6	-0.1	3.5
B.5 Net Banking Capital	-3.2	8.2	-1.6	3.5

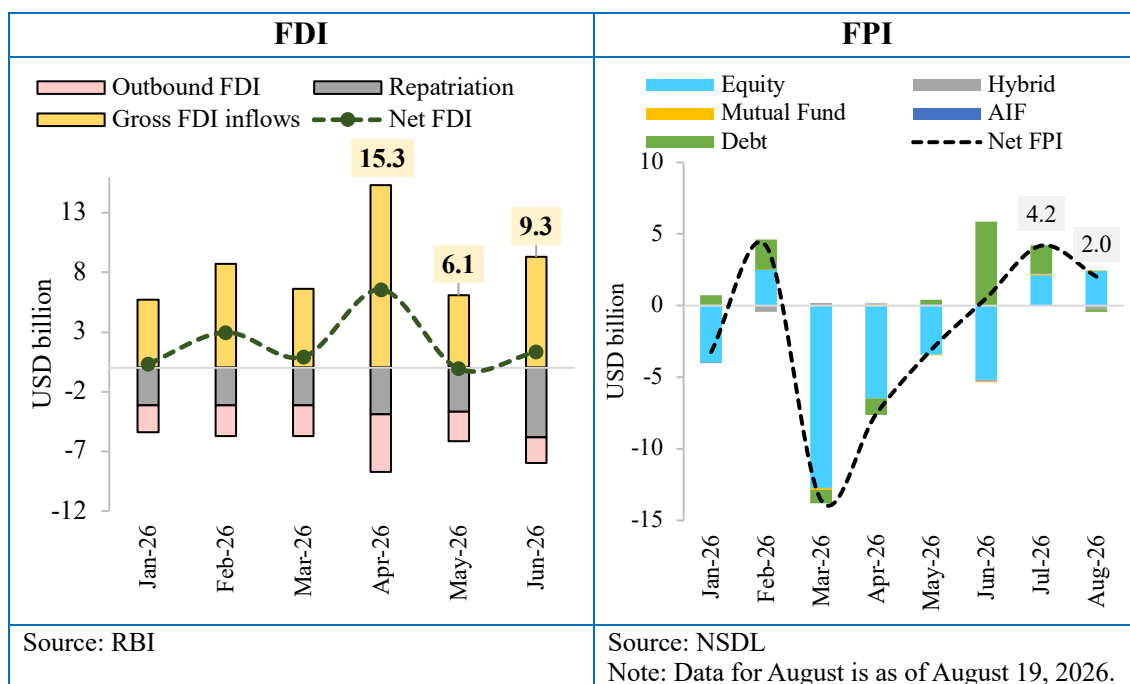
B.6 Other Capital (Net)	-3.1	-4.0	-2.6	-10.1
C. Overall Balance (A+B)	-0.4	2.9	4.5	-8.1
PR: Partially Revised; and P: Preliminary.				
Note: 1. Errors and omissions are included under 'Other Capital'.				
2. Total of sub-components may not tally with the aggregate due to rounding off.				

Capital Flows

59. The capital account recorded a net inflow of USD 9.1 billion in June 2026, supported by a sharp pickup in FCNR (B) deposits and sustained FPI inflows. However, cumulatively, the capital account recorded a net outflow of USD 5.0 billion during April-June 2026, as large FPI outflows earlier in the quarter outweighed the recovery in June. Consequently, the overall BoP recorded a deficit of USD 8.1 billion during April-June 2026, compared with a surplus of USD 4.5 billion a year earlier.

Foreign Direct Investment

60. Net FDI increased to USD 7.8 billion during April-June 2026 from USD 4.8 billion in the corresponding period of 2025. Higher gross FDI inflows of USD 30.7 billion supported the improvement. At the same time, the combined outflows from repatriation and overseas direct investment by Indian entities remained broadly stable at USD 22.8 billion. Thus, net FDI continued to provide a stable source of financing amid heightened global uncertainty.



Foreign Portfolio Investment

61. FPI flows have shown a sustained recovery since mid-2026. Net FPI inflows strengthened to USD 4.2 billion in July and continued at USD 2.0 billion in the first three weeks of August (as of August 19). This recovery has been underpinned chiefly by debt inflows through the General Limit and the Fully Accessible Route (FAR), even as the equity segment remains volatile.

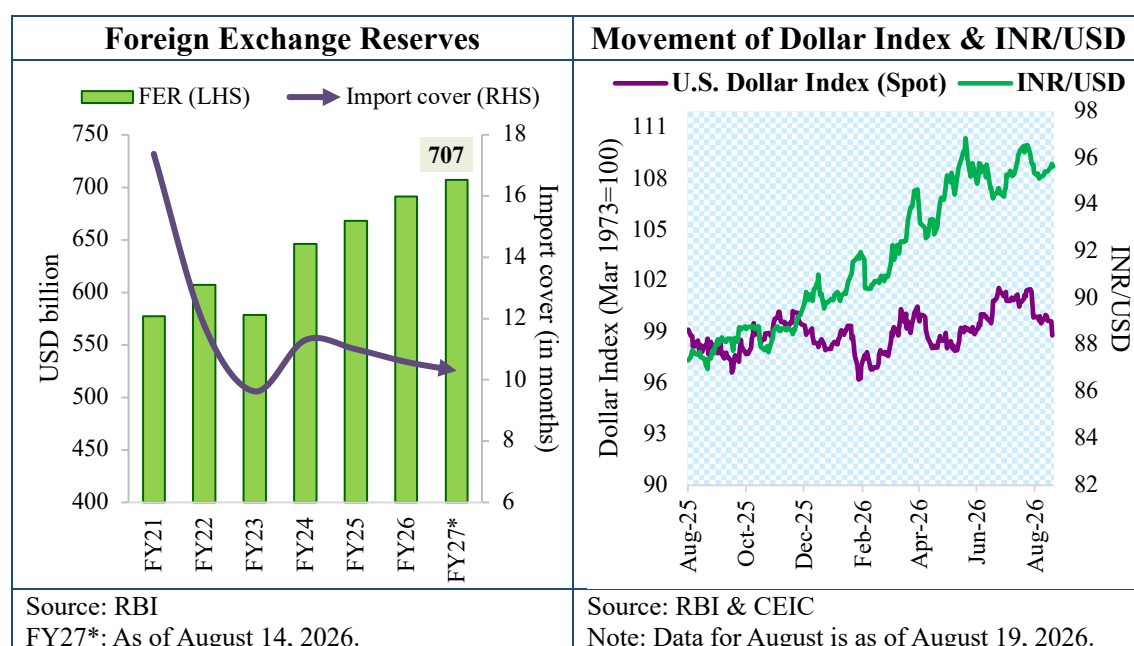
Other capital flows

62. Other capital account components, particularly banking capital and short-term trade credit, strengthened during June 2026. Banking capital recorded net inflows of USD 8.2 billion during the month, while net short-term trade credit inflows stood at USD 1.6 billion.

63. The special USD-INR swap facilities announced by the Reserve Bank of India for FCNR(B) deposits, External Commercial Borrowings (ECBs) and Overseas Foreign Currency Borrowings (OFCBs) continue to support foreign currency inflows. As of August 22, 2026, cumulative inflows under these facilities had reached USD 72.8 billion.²⁶ Given the encouraging response, RBI has restricted fresh FCNR(B) mobilisation under the facility to deposits booked by August 31, 2026, as against September 30, 2026, announced earlier,²⁷ while the window for ECBs and OFCBs remains open till December 31, 2026.

Foreign Exchange Reserves & Exchange Rate

64. India's external sector continues to be supported by comfortable foreign exchange reserves, aided by the strong response to the RBI's swap facility, operationalised on June 08, 2026. As of August 14, 2026, foreign exchange reserves stood at USD 716.9 billion, providing import cover of around 10.5 months and covering 94 per cent of external debt (as of end-March 2026).



65. The rupee depreciated by about 4.9 per cent against the US dollar between

²⁶ This comprises USD 65.4 billion through FCNR(B) deposits, USD 4.9 billion through OFCBs and USD 2.6 billion through the ECBs.

(https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=63426)

²⁷ The Swaps under this facility, i.e. FCNR(B) deposits, may be availed with RBI till September 11, 2026.

February 27, 2026, and August 20, 2026. Further in the current financial year 2026-27, the rupee depreciated by about 0.9 per cent against the US dollar between March 30, 2026, and August 20, 2026. This movement was broadly in line with trends across several other currencies, including the Indonesian Rupiah (4.2 per cent), Philippine Peso (1.5 per cent), Thai Baht (0.2 per cent) and the Malaysian Ringgit (0.3 per cent). These currency movements occurred amid heightened geopolitical uncertainty, elevated crude oil prices and periodic shifts in global risk sentiment.

66. Overall, India's external sector navigated a turbulent quarter with underlying resilience. During April-June 2026, the current account deficit widened, and the capital account recorded outflows, largely driven by transient FPI pressures. The pressures have since reversed due to the recent measures, which are now visibly attracting capital, as reflected in the sharp rise in banking capital inflows and reserves. This, along with the recent FTAs including the UK, Oman, EFTA-TEPA, and those to be implemented with the EU²⁸ and New Zealand,²⁹ offers India's exporters a more level playing field and a path to diversify. Taken together, sustained services and merchandise export performance, and comfortable reserves are expected to help preserve external sector stability through the remainder of the year, even as the global environment remains uncertain.

67. Underpinning this external resilience is a domestic economy whose labour market has continued to firm, as the following section sets out.

Labour market developments

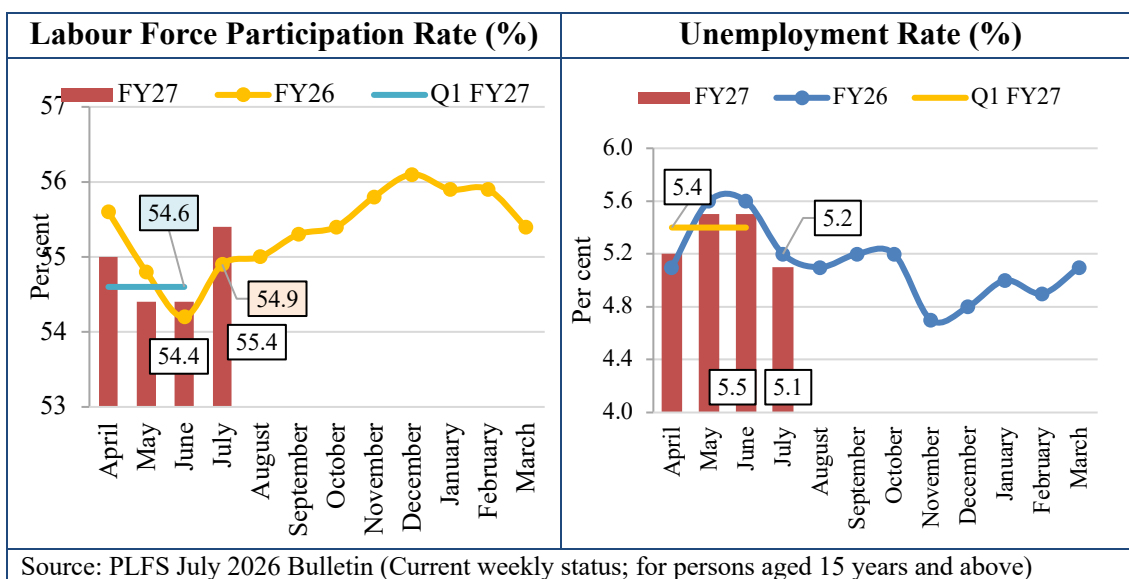
68. The labour market indicators reflect a steadily improving job market, with rising labour force participation and declining unemployment, alongside an increase in hiring activity. According to the latest monthly Periodic Labour Force Survey (PLFS) data, the Labour Force Participation Rate (LFPR)³⁰ (for individuals aged 15 and above in current weekly status) for July 2026 increased to 55.4 per cent compared to 54.9 per cent in July 2025. The overall Unemployment Rate (UR) stood at 5.1 per cent in July 2026, compared to 5.2 per cent in July 2025.³¹

²⁸ Signed on January 27, 2026.

²⁹ Signed on April 27, 2026.

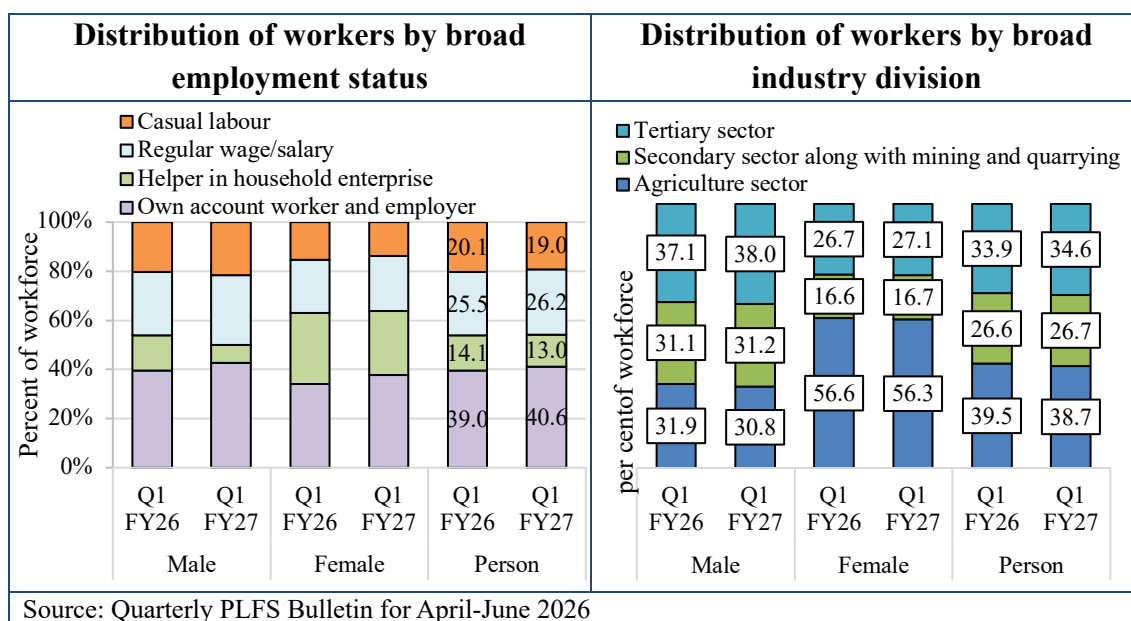
³⁰ Labour Force Participation Rate (LFPR) is defined as the percentage of the population in the labour force. Labour force, according to Current Weekly Status (CWS), is the number of persons either employed or unemployed on average in a week of 7 days preceding the date of the survey.

³¹ Monthly PLFS for July 2026: <https://www.mospi.gov.in/publications-reports>



69. In line with the monthly trends in Q1 FY27 (April-June 2026), the quarterly Periodic Labour Force Survey (PLFS) estimates for Q1 FY27 (April-June 2026) show some softening in the job market. The estimated LFPR stood at 54.6 per cent, compared with 55 per cent in Q1 FY26, with a stable UR of 5.4 per cent. Average employment stood at 56.6 crore persons in Q4 FY26. Of the total employed aged 15 years and above in Q4 FY26, 40.2 crore were male and 16.4 crore were female.³²

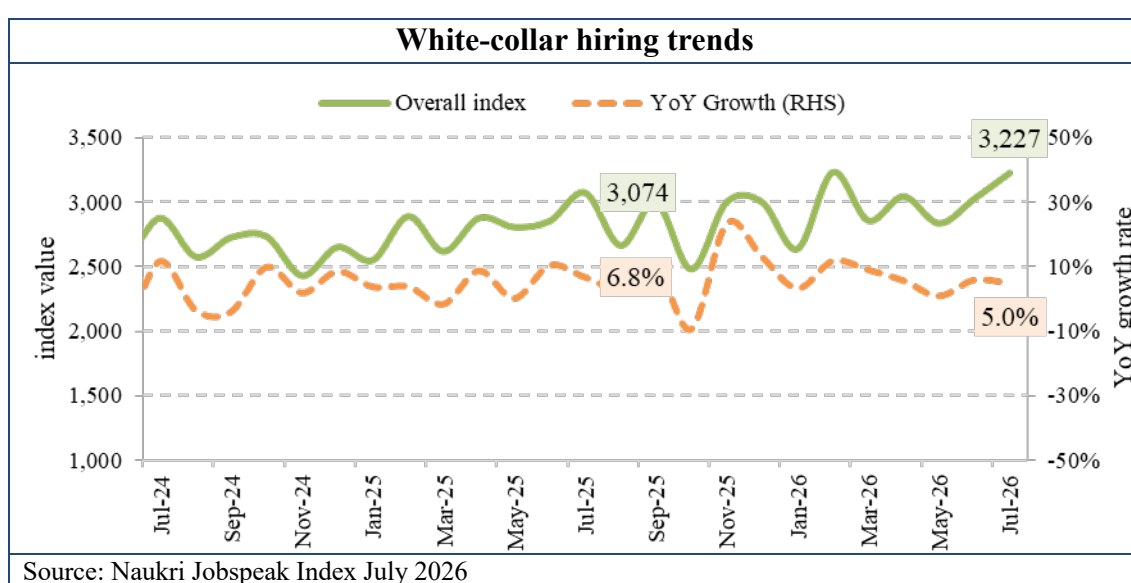
70. Quarterly employment patterns show a modest shift in employment structure, with increase in regular wage/salaried employment. At the same time, the rise in secondary and tertiary sector employment indicates a sectoral shift in employment opportunities in Q1 FY27 compared to Q1 FY26.



³² Quarterly PLFS for April-June 2026: <https://www.mospi.gov.in/publications-reports>

White-collar hiring

71. Beyond official estimates, the high-frequency hiring indicator reflects an improvement in the job market in July 2026. The NaukriJob Speak index, a key indicator of white-collar hiring in India, points to a job market steadily gaining momentum, with a 5 per cent year-on-year rise in July 2026. The revival in IT hiring (+6 per cent YoY), sustained demand for AI specialists (AI/ML hiring increased by 33 per cent), and recruitment of freshers (+6 per cent) suggest that hiring demand is being driven by a future-ready workforce. The non-IT sector continued its hiring expansion, driven by Insurance (+10 per cent), followed by real estate (+8 per cent), healthcare (+6 per cent), business process outsourcing-information technology-enabled services (+5 per cent), fast-moving consumer goods (+5 per cent), and retail (+3 per cent).



Changing demands of the labour market

72. The sustained momentum in AI/ML role hiring, as reflected in the Naukri Jobspeak Index, is a sign of AI's impact in actively reshaping labour market demand. With organisations rapidly integrating AI in operations, there is an increasing need for skilled talent to drive this transformation. India is strategically positioned to take a leading role in the global AI talent landscape, with a large working-age population. This opportunity can be reaped through rapidly scaling the right skills.

73. The July 2026 edition of the MER documented the supply-side response to India's AI moment, focusing on rising higher-education enrolment, specialised streams, and a strengthening of the skills ranking. This edition of the MER shifts focus to the demand side, examining how employer hiring behaviour has changed with the adoption of AI (See Box 3).

Box 3: The changing shape of labour market demand

According to TeamLease EdTech's Career Outlook Report for July-December 2026³³ (H2 CY2026), 75 per cent of employers surveyed across India intend to hire freshers in the second half of the year (from 73 per cent in HY1), with E-commerce & Tech Start-ups and Retail at 93 per cent hiring intent, and manufacturing at 89 per cent.³⁴ This reflects a strong entry-level demand driven by digital adoption, consumer market expansion, and industry growth. According to the report, the in-demand roles (AI Application Developer, Jr. Semiconductor Design Engineer, Data Centre Operations Associate, Programmatic Advertising Associate, Inventory & Dispatch Executive) span traditional engineering, e-commerce, and marketing, showing that labour demand is diversifying across sectors rather than concentrating in IT services alone.

While there is an increase in demand for freshers, the aggregate numbers mask the underlying changes in the demand component. The TeamLease report finds that employers are becoming more selective in their hiring. There is a growing demand for accountability, attention to detail, critical thinking, work ethic, and adaptability, alongside domain skills such as full-stack engineering, cloud security, and business analytics, being treated as baseline hiring criteria rather than add-ons.

This shift in demand is supported by the India Skills Report (ISR) 2026, which states that AI and automation literacy are considered foundational skills across all professional disciplines. According to the report, STEM (Science, Technology, Engineering, and Mathematics) and data analytics continue to rank among the top employability requirements, alongside business communication, problem-solving, and emotional intelligence.³⁵

Today, AI is integral to daily work, transforming the requirements for skilled labour and workforce development. TeamLease report states that AI and automation are reducing the need for routine entry-level tasks, thereby increasing expectations for freshers to make meaningful contributions from the start.

These findings emphasise a transition in the labour market from prioritising credentials to focusing on capabilities. ISR 2026 finds AI, data analytics and automation-related roles are the biggest drivers of computer science (80 per cent) and IT (78 per cent) graduate employability.³⁶ Thus, applied, technology-specific skills are gaining traction in hiring.

³³ The Teamlease Career Outlook Report, HY2 2026, examines employer hiring intent for freshers and degree apprentices across India for July-December 2026. Based on responses from 1,097 employers, the report analyses hiring trends across industries, cities, qualifications, job roles, domain skills, soft skills and degree-apprenticeship opportunities. The survey was carried out between May 2026 and July 2026 <https://www.teamleasetechnology.com/reports.html>

³⁴ Hiring Intent is a measure which represents the percentage of employers likely to hire fresh graduates during the six-month time period that is in consideration.

³⁵ India Skill Report 2026. <https://wheebox.com/india-skills-report.htm>

³⁶ Employability is measured by drawing insights from over 1 lakh candidates who participated in the Global Employability Test (G.E.T.) The ETS Wheebox Global Employability Test is a standardised online skill evaluation designed to measure the job readiness of India's youth in alignment with evolving

In this regard, Nasscom's AI-Native Talent Index, launched in July 2026, assesses how India's workforce is adapting to this shift in demand. The index is a first-of-its-kind, multi-dimensional benchmark that assesses how effectively individuals work, learn, and build with AI while retaining independent judgment and strong technical foundations.³⁷ India's early-career technology talent recorded an overall Index score of 62, placing it within the AI-proficient talent category. More than 90 per cent of India's early-career technology talent are either AI-native or AI-proficient, with the majority falling into the AI-proficient archetype.³⁸ The cohort shows strengths in AI Judgment, Foundational Skills, and Responsible AI use, but faces notable gaps in AI Orchestration and Technical Foundations. The score highlights that future skill development must focus on building advanced skills like engineering judgment, AI orchestration, and technical expertise.

The TeamLease report indicates that employers expect freshers to be familiar with AI tools and digital platforms. Further, freshers are expected to be ready for their jobs by completing internships and projects prior to joining. Skills such as communication, collaboration, adaptability and workplace professionalism are now expected at entry. The ISR 2026 reports that hybrid-work competencies such as adaptability, time management, and cross-border communication are increasingly rated as essential by employers. Taken together, these findings point to a shifting education-to-employment transition, with workers increasingly expected to arrive job-ready, equipped with practical skills that were traditionally acquired through on-the-job learning.

The changing nature of labour demand reflects that skill requirements extend beyond technical skills. Early signals of this shift are already evident on campus. Placement outcomes this year point to a labour market rewarding readiness and specialisation. IIT Roorkee's first graduating batch in Data Science & AI achieved 100 per cent placements with recruiters including Amazon, Microsoft, Goldman Sachs and Databricks.³⁹ The core engineering courses continue to be in demand, as reflected by the 100 per cent placement observed at Anna University in Chennai for Mechanical, Electrical, and Electronics Engineering (EEE), Production Engineering, Printing Technology, and Ceramic Technology.⁴⁰ These campus placement data are consistent

global workforce demands. The 2026 test was conducted across higher education institutions, technical universities, vocational centres, and polytechnic institutions, as well as in select international partner regions

³⁷ Based on responses from over 1,700 early-career professionals and students, the Index evaluates capability across eleven dimensions and classifies individuals into four archetypes. 1. **AI-NATIVE**: AI embedded into work, learning, and decision-making with a score: 71–100; 2. **AI-PROFICIENT**: Regular user, strong functional integration (Score: 51–70); 3. **AI-ENABLED**: Uses AI for assistance, episodic dependence (Score: 26–50) and 4. **AI-AWARE**: Knows tools, limited integration (Score: <25) <https://tinyurl.com/5fefdu74>

³⁸ Early-career talent includes final year college students for computer science and related courses, and employees in the technology sector with up to 3 years of experience.

³⁹ <https://engineering.careers360.com/articles/iit-roorkees-first-ai-batch-achieves-100-placements-highest-package-stats-jee-advanced>

⁴⁰ <https://timesofindia.indiatimes.com/city/chennai/six-core-engineering-courses-at-anna-university-register-100-placements/articleshow/132813270.cms>

with TeamLease's finding that Manufacturing and Engineering & Infrastructure are among the strongest-demand sectors.

With the changing nature of work, employers place greater emphasis on worker readiness, adaptability, and continuous learning, with degree apprenticeships and short-cycle certifications emerging as key skilling strategies to close the demand gap. According to Teamlease, the manufacturing, Engineering & Infrastructure, and Information Technology sectors show the strongest intent to hire *Degree Apprentices*, underscoring the relevance of earn-and-learn pathways. Employers suggest certifications such as Cloud Security, AI Engineering, and VLSI/Semiconductor Design that freshers can undertake to directly increase their employability. These courses indicate a maturing market in which short-cycle credentials are becoming a reliable signal of job readiness. This is reinforced by student demand reported in ISR 2026, with 92.8 per cent of students reporting actively seeking internships, indicating that both employers and students increasingly treat practical exposure, rather than additional classroom theory, as the real lever for employability.

These findings reflect a shift in employer hiring criteria, from testing what candidates know to testing how effectively they think and work. The workforce has adapted quickly to using AI, but more slowly to the skills of orchestration and evaluation. Narrowing this gap at scale will require redesigning apprenticeships and curricula around judgment and AI-assisted problem-solving rather than routine execution. Universities and colleges should be encouraged to provide apprenticeship-embedded degree programmes. Further strengthening industry-academia linkages to keep courses aligned with employer needs and tracking AI readiness through standardised benchmarks are essential for guiding policy and institutional responses.

Recognising these shifts in the labour markets, the Hon'ble Prime Minister, in his speech on the country's 80th Independence Day, announced that one crore youth would be trained in AI skills over the next year. The initiative would help equip India's youth with the capability to lead in the world of AI.⁴¹

⁴¹ PM announces AI skilling of 1 crore youth in one year: <https://tinyurl.com/3kc6dz98>

Outlook and Conclusion

The global economy remains uncertain because of growth, oil prices and different interest-rate policies. Despite these external risks, India's economic activity, inflation and external position have remained relatively stable.

Domestic economic activity remains steady, with resilient domestic demand providing support amid some moderation in the pace of expansion. Going ahead, easing cost pressures and firm demand conditions are expected to support activity, although the external environment remains a key source of uncertainty.

Overall, India's industrial sector has demonstrated resilience amid a challenging external environment, with manufacturing activity continuing to expand alongside gradual strengthening of domestic technological capabilities. Going forward, sustained efforts to strengthen R&D, skills, supply chain resilience and enabling infrastructure will be important for supporting industrial competitiveness and strengthening the capacity to respond to global disruptions.

The outlook for domestic food inflation and agricultural output remains cautious, with an intensifying El Niño expected to peak in late 2026. This could pose downside risks to crop yields during the late-August flowering and grain-formation stages, while also affecting soil moisture and the winter temperatures required for the upcoming Rabi crops, particularly wheat and mustard. Kharif sowing has gained momentum following the intensification of monsoon rains across large parts of the country, although acreage remains below last year's level.⁴² Elevated food inflation, by absorbing a larger share of household disposable income, could constrain spending on non-food discretionary items⁴³, thereby limiting the extent to which cost-side pressures are passed through to final consumer prices.

Overall, the external sector remains well-positioned to absorb the pressures arising from the changing global trade dynamics and volatile global financial conditions. While the current account deficit widened marginally in Q1 FY27, the subsequent recovery in capital flows, a resilient services surplus, and comfortable foreign exchange reserves provide important buffers against external developments. India's continued engagement

⁴² As of August 14, 2026, total Kharif sowing is lower by 2.02 per cent year-on-year:

<https://www.pib.gov.in/PressReleasePage.aspx?PRID=2300628®=48&lang=2>

⁴³ The expansion in the consumer non-durable segment of the Index of Industrial Production (IIP) has been modest recently. In Q1 FY27 (Apr–Jun), IIP shows that Capital Goods expand at 14.0 per cent, Intermediate Goods at 8.5 per cent, and Infrastructure/Construction Goods at 6.8 per cent. Conversely, end-consumer segments lag significantly: Consumer Non-Durables (FMCG) grew by a meagre 1.5 per cent in Q1 (contracting by -0.4 per cent in May before a modest 4.9 per cent uptick in June), while Consumer Durables logged 7.2 per cent.

through BRICS, including initiatives to expand intra-BRICS trade, strengthen MSME participation in international markets and build resilient global value chains, is expected to support export diversification and market access. Taken together, these developments provide a supportive foundation for maintaining external sector stability, even as global uncertainties persist.

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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	-0.5	-32.1	9.8
Domestic Tractor Sales	Lakh	Apr-Jul	3.2	3.5	4.2	0.6	9.0	18.9
Foodgrain Production	Mn Tonnes	3rd AE	357.7	376.5	-	7.7	5.3	-
Reservoir Level	Bn Cu. Metres	13th Aug	124.0	135.6	109.1	12.7	9.4	-19.6
Wheat Procurement (RMS)	LMT	1st Mar-18th Aug	265.9	299.8	356.8	2.0	12.8	19.0
Kharif Sowing (Foodgrain)	Mn Hectare	14th Aug	64.5	67.9	66.0	0.8	5.4	-2.8
Rainfall	Milimeter	17th Aug	622.2	600.3	518.7	11.6	-3.5	-13.6
Credit to Agriculture and allied activities	₹ Lakh crore	30th Jun	21.6	23.1	26.9	17.5	6.7	16.8
Industry								
IIP	Index	Apr-Jun	112.0	114.7	121.3	7.4	2.4	5.8
9-Core Industries	Index	Apr-Jul	112.7	114.4	119.3	6.5	1.5	4.3
Domestic Auto Sales	Lakh	Apr-Jul	77.5	75.6	92.2	15.3	-2.5	22.0
PMI Manufacturing	Index	Apr-Jul	58.2	58.3	54.4	0.3	0.1	-4.0
Power consumption	Billion kWh	Apr-Jul	602.4	599.1	652.5	9.9	-0.5	8.9
Natural gas production	Bn Cu. Metres	Apr-Jun	9.1	8.8	8.4	5.7	-2.9	-4.6
Cement production	Index	Apr-Jul	111.4	120.5	132.4	2.0	8.2	9.9
Steel consumption	Mn Tonnes	Apr-Jul	12.0	13.0	14.0	15.1	8.4	7.7

Inflation								
CPI-C	Index	Apr-Jul	99.8	102.3	106.5	4.6	2.6	4.1
WPI	Index	Apr-Jul	100.5	100.3	109.8	1.8	-0.2	9.5
CFPI	Index	Apr-Jul	101.4	101.5	106.6	8.0	0.1	5.0
Services								
Domestic Air Passenger Traffic	Lakh	Apr-Jun	810.0	853.2	866.5	5.6	5.3	1.6
Port Cargo Traffic	Million tonnes	Apr-Jun	208.4	220.0	233.6	4.1	5.6	6.2
PMI Services	Index	Apr-Jul	60.5	59.6	57.3	-0.5	-0.9	-2.3
Fuel Consumption	Million tonnes	Apr-Jul	81.4	80.9	77.8	5.5	-0.6	-3.9
UPI (Volume)	Crore	Apr-Jul	5566.1	7443.4	9192.3	48.1	33.7	23.5
E-Way Bill Volume	Crore	Apr-Jul	40.5	49.3	54.6	16.8	21.9	10.7
Fiscal Indicators								
Gross tax revenue (Central Govt)	₹ Lakh crore	Apr-June	8.3	8.7	9	23.7	4.6	3.7
Revenue Expenditure	₹ Lakh crore	Apr-June	7.9	9.5	10.2	2.2	20.0	7.4
Capital Expenditure	₹ Lakh crore	Apr-June	1.8	2.8	3.4	-35.0	52.0	23.7
Fiscal Deficit	₹ Lakh crore	Apr-June	1.4	2.8	3.1	-69.9	106.9	9.7
Primary Deficit	₹ Lakh crore	Apr-June	-1.3	-1.1	-0.4	-161.8	-17.9	-63.4
GST Collection	₹ Lakh crore	Apr-July	6.9	7.7	8.4	10.2	11.4	10.1
External Sector								
Merchandise exports	USD Billion	Apr-Jul	146.7	148.5	173.8	6.0	1.2	17.0
Non-petroleum exports	USD Billion	Apr-Jul	118.6	127.3	143.6	5.3	7.4	12.8
Merchandise imports	USD Billion	Apr-Jul	231.6	245.1	292.4	8.8	5.8	19.3
Non-oil imports	USD Billion	Apr-Jul	165.6	180.3	213.5	4.0	8.9	18.4
Non-oil non-gold/silver imports	USD Billion	Apr-Jul	153.3	167.4	197.6	4.8	9.2	18.0
Net FDI	USD Billion	Apr-Jun	6.2	4.8	7.8	31.9	-22.6	62.5

Exchange Rate (Average)	INR/USD	Jul	83.6	86.1	95.8	-1.6	-3	-10.1
Foreign Exchange Reserves	USD Billion	Jul	670.6	690.1	692.9	10.7	2.9	0.4
Import Cover	Months	Jul	11	11.5	10.1	-	-	-
Monetary and Financial								
Total Bank Credit	₹ Lakh crore	15 Jul	168.1	184.7	217.3	14.0	9.9	17.7
Non-Food Credit	₹ Lakh crore	15 Jul	167.8	184.1	216.1	14.0	9.7	17.4
10-Year Bond Yields	Per cent	17 Jul	7.00	6.31	6.78	-8	-69	47
Repo Rate	Per cent	24 Jul	6.50	5.50	5.25	0	-15	-5
Currency in Circulation	₹ Lakh crore	15 Jul	35.7	38.1	43.0	6.6	6.6	12.8
M0	₹ Lakh crore	15 Jul	46.8	49.6	52.3	5.8	3.7	6.4
Employment								
Net payroll additions under EPFO	Lakh	Apr-July	44.7	69.0	-	-3.1	54.4	-
Number of person demanded employment under MGNREGA/VB G RAM G	Crore	July	2.2	2.0	1.2	-21.6	-11.5	-38.1
Unemployment Rate	Per cent	July	-	5.2	5.1	-	-	-10.0
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, CPFI, Fiscal deficit, Primary deficit, Exchange rate, 10-year bond yield, repo rate, MGNREGA and unemployment rate, colour shading is based on percentiles: values in the top 90th percentile are shaded green, those in the bottom 10th percentile are red, and growth rates near zero are shown in yellow, with intermediate shades reflecting relative performance. For the indicators listed above, the colour interpretation is reversed.
- 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.

