

INDIA DEVELOPMENT UPDATE



April 2026



WORLD BANK GROUP

PREFACE

The India Development Update (IDU) summarizes recent developments in India's economy and places them in a medium-term and global context.

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ACRONYM AND ABBREVIATION

AI	Artificial Intelligence
AIDIS	All-India Debt and Investment Survey
ASUSE	Annual Survey of Unincorporated Sector Enterprises
AYUSH	Ayurveda, Yoga and Naturopathy, Unani, Siddha and Homeopathy
BE	Budget Estimates
bps	Basis Points
BSE	Bombay Stock Exchange
BSNL	Bharat Sanchar Nigam Limited
CAD	Current Account Deficit
CEPA	Comprehensive Economic Partnership Agreement
CETA	Comprehensive Economic and Trade Agreement
COICOP	Classification of Individual Consumption According to Purpose
CPI	Consumer Price Index
CRR	Cash Reserve Ratio
DISCOMs	Electricity Distribution Companies
ELI	Employment-Linked Incentive
EPF	Employees' Provident Fund
EPFO	Employees' Provident Fund Organisation
EU	European Union
FC	Finance Commission
FDI	Foreign Direct Investment
FPI	Foreign Portfolio Investment
FTA	Free Trade Agreement
FY	Fiscal Year
GDP	Gross Domestic Product
GEP	Global Economic Prospects
GSDP	Gross State Domestic Product
GST	Goods and Services Tax
GVA	Gross Value Added
HCES	Household Consumption Expenditure Survey
ICT	Information and Communication Technology
IDU	India Development Update
IIP	Index of Industrial Production
IMF	International Monetary Fund

INR	Indian Rupee
LAF	Liquidity Adjustment Facility
LMIC	Lower Middle-Income Country
LPG	Liquefied Petroleum Gas
LPI	Logistics Performance Index
MCA	Ministry of Corporate Affairs
MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
MoSPI	Ministry of Statistics and Programme Implementation
MSF	Marginal Standing Facility
MSMEs	Micro, Small and Medium Enterprises
NCTF	National Committee on Trade Facilitation
NSE	National Stock Exchange
NSO	National Statistics Office
OMC	Oil Marketing Companies
PFCE	Private Final Consumption Expenditure
PFMS	Public Financial Management System
PLFS	Periodic Labour Force Survey
PPIs	Producer Price Indices
PPP	Purchasing Power Parity
RBI	Reserve Bank of India
RE	Revised Estimates
SASCI	Scheme for Special Assistance to States for Capital Investment
SDF	Standing Deposit Facility
SLF	Standing Liquidity Facility
SNA	System of National Accounts
SUTs	Supply and Use Tables
TReDS	Trade Receivables Discounting System
UMICs	Upper Middle-Income Countries
UK	United Kingdom
US	United States of America
USD	US Dollar
VB-GRAMG	Viksit-Bharat Guarantee for Rozgar and Ajeevika Mission Gramin Act
WITS	World Integrated Trade Solution
WPI	Wholesale Price Index
WTO	World Trade Organization
y-o-y	Year-on-Year

1. EXECUTIVE SUMMARY¹

Despite heightened global trade tensions in FY26, India remained the fastest-growing major economy, with growth accelerating to 7.6 percent, up from 7.1 percent in FY25. The current account deficit stood at 1 percent of GDP, and fiscal consolidation continued, bringing the general government deficit to 7.4 percent of GDP. Employment rates remained stable, and formal job creation strengthened. In FY27, growth is projected at 6.6 percent, reflecting headwinds from the Middle East conflict. While India's strong macroeconomic buffers offer some protection against downside risks, the conflict underscores the importance of energy diversification, prudent fiscal management, and trade diversification. A technical Annex of this update discusses India's February 2026 GDP rebasing, which updated the base year to 2022-23. This process led to a downward revision of nominal GDP levels, reflecting a reassessment of the size of the informal economy.

The global economy has been more resilient than expected, but it now faces new headwinds from the Middle East conflict

Despite trade tensions and elevated policy uncertainty in 2025, global growth is estimated to have reached 2.7 percent.² This better-than-expected performance³ reflected front-loaded trade ahead of tariff increases, nimble supply-chain adaptations to rising trade barriers, and strong artificial intelligence (AI)-related investment in major markets. While global growth was expected to remain resilient at 2.6 percent in 2026 (World Bank Global Economic Prospect (GEP), January 2026), the ongoing conflict in the Middle East is creating unexpected headwinds. Elevated energy prices and supply chain disruptions—especially disruptions to shipping flows through the Strait of Hormuz—will increase inflationary pressures across economies, dampen private consumption, and erode investor confidence.

India's growth accelerated in FY26, despite global trade policy uncertainty

Despite an increase in US tariffs on India's merchandise exports in August 2025⁴, the Indian economy continued to be the fastest-growing major economy in FY26⁵. Growth accelerated to 7.6 percent in FY26, up from 7.1 percent in FY25, reflecting robust domestic demand supported by low inflation, income tax and Goods and Services Tax (GST) cuts, and more accommodative monetary conditions. Net exports contributed negatively to GDP growth as import growth accelerated. On the supply side, growth was supported by robust performance of manufacturing and services.

1 Growth projections in this Update are uncertain due to the evolving situation in the Middle East and its potential effects on oil and gas prices and supply. Growth may moderate to 6.6 percent (down from 7.2 percent in the absence of conflict), assuming an extended disruption in global energy (oil and gas) supply till end-2026. But a prolonged conflict poses a key downside risk.

2 World Bank, January 2026 Global Economic Prospects (GEP).

3 Versus a 2.3 percent projection in the June 2025 GEP edition.

4 In August 2025, the effective tariff rate on Indian goods exported to the US surged to about 36.2 percent, up from 2.4 percent before April 2025, following new tariffs that reached 50 percent. An interim US-India trade deal on February 9, 2026, reduced the 50 percent tariff rate to 18 percent. Subsequently, on February 20, 2026, the US Supreme Court ruled the reciprocal tariffs unlawful, and India is now subject to a 10 percent global tariff.

5 FY26 refers to the Fiscal year 2025/26 (April 2025-March 2026).

GDP rebasing lowered nominal GDP levels but revealed more stable, broad-based growth

In February 2026, India conducted a GDP rebasing, updating the base year for GDP estimates from 2011-12 to 2022-23 and broadening the data coverage of its national accounting. The level of nominal GDP was revised downwards by 3-4 percent in each of the last four fiscal years, starting in FY23, mainly reflecting a reassessment of the size of the informal economy. The revised estimates indicate that growth was less volatile and more broad-based than previously believed. A detailed discussion of the methodological changes and comparison with the previous series can be found in the technical annex.

Poverty has significantly declined over the past decade

Between 2011-12 and 2023-24, poverty measured using the Lower Middle-Income Country (LMIC) poverty line, the relevant benchmark for India's income status (\$4.20 per person per day, 2021 Purchasing Power Parity (PPP); approximately INR 82 in 2021 prices) fell from 57.7 to 16.1 percent (Box 2.1). Progress at the lower end of the distribution was equally striking. The proportion of people living in extreme poverty (defined as those living on less than \$3.00 per day in 2021 PPP or approximately INR 58 in 2021 prices) declined from 27.1 percent in 2011-12 to 2.6 percent in 2023-24.

Employment rates remained stable, and formal job creation strengthened

Labor force participation and employment rates remained stable across demographic groups, notwithstanding a modest uptick in female participation in rural areas. Growth in net new Employees' Provident Fund (EPF) subscribers, which captures formal employment creation, accelerated to nearly 14 percent year-on-year in April-July of FY26, compared to about 12 percent in the previous year. The launch of the Pradhan Mantri Viksit Bharat Rojgar Yojana⁶, the replacement of MGNREGA with the *Viksit-Bharat Guarantee for Rozgar and Aajeevika Mission Gramin Act (VB-GRAMG)*,⁷ and the adoption of four simplified Labor Codes signaled the government's commitment to support the creation of more and better jobs.

Declining food prices kept headline inflation low

Headline inflation averaged 1.9 percent between April 2025 and February 2026, compared to 4.7 percent in the same period of the previous year. This decline was primarily driven by falling food prices. Wholesale price inflation (WPI) averaged 0.4 percent in April 2025-February 2026, compared to around 2.3 percent in the same period of FY25, due to a sustained decline in food and fuel prices.

In June 2025, the RBI's accommodative policy stance shifted to neutral

The Reserve Bank of India (RBI) cut the policy rate by a cumulative 125 basis points (bps) between February and December 2025, down to 5.25 percent. Moderating inflation created room for monetary easing, allowing policy rate cuts to support growth amid trade policy uncertainty. However, the RBI changed its monetary policy stance from "accommodative" to "neutral" in June 2025, citing reduced room for additional growth support. The RBI viewed the scope for further rate cuts as limited, given earlier front-loaded monetary support—100 bps cuts between February and June—, ample liquidity, and risks of currency depreciation and capital outflows.

6 The Pradhan Mantri Viksit Bharat Rojgar Yojana is an employment-linked incentive (ELI) scheme launched by the central government in August 2025, aiming to boost formal job creation and expand social security coverage for first-time workers.

7 In December 2025, the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) was replaced by the Viksit Bharat Guarantee for Rozgar and Aajeevika Mission Gramin Act (VB-GRAMG). A key feature of the new act is the increase in the number of guaranteed rural employment days, from 100 to 125 days per household.

The current account deficit narrowed despite a widening trade deficit

The current account deficit (CAD) narrowed to 1 percent of GDP in the first three quarters of FY26 (from 1.3 percent over the same period of the previous year). Strong inward remittances and a larger services trade surplus more than compensated for a modest widening of the merchandise trade deficit. Despite U.S. tariffs, merchandise export growth picked up slightly year over year, while imports grew faster.

Trade uncertainty weakened the rupee (INR) and negatively impacted financial markets

Net foreign direct investment (FDI) inflows decreased from \$2.2 billion in April-January of FY25 to about \$1.7 billion in the same period of FY26. Net foreign portfolio investment (FPI) outflows reached US\$6.2 billion, amid global financial market volatility—associated with trade policy uncertainty—and portfolio reallocation towards advanced economies. Thus, the Indian Rupee depreciated against the US Dollar from an average of around 85 INR/USD in FY25 to 88.3 INR/USD in FY26. Despite a decline in foreign currency reserves, total foreign exchange reserves reached nearly \$730 billion by the end of February, largely thanks to the increased valuation of gold reserves. However, following the onset of the Middle East conflict, a combination of declining gold prices, large FPI outflows, and the central bank's forex operations led to a decline in total reserves to \$698 billion by the end of March.

Financial markets and the INR are facing renewed pressures

By the end of March 2026, the Indian rupee fell to an all-time low of around 95 INR/USD, driven by significant FPI outflows and heightened financial market volatility amid the conflict in the Middle East. As a result, Indian equity markets have experienced a correction of about 13 percent from the end of February to March 31, 2026.

The fiscal deficit narrowed, but debt increased

The central government stuck to its fiscal consolidation target, and the states' combined deficit remained stable, resulting in a consolidation of the general government deficit from 7.7 percent of GDP in FY25 to 7.4 percent in FY26. Revenue growth remained strong, as a sharp increase in non-tax revenues more than offset the impact of personal income tax changes and the rationalization of GST. Nominal growth in current and capital spending was modest. However, the debt-to-GDP ratio rose slightly from 84.1 percent in FY25 to 84.5 percent in FY26 due to weak nominal GDP growth. The fiscal deficit as a share of GDP and the debt-to-GDP ratio were also revised upwards following the downward revision of nominal GDP due to the GDP rebasing.

Growth is projected at 6.6 percent in FY27, amid the Middle East conflict

Headwinds from the Middle-East conflict are expected to soften India's otherwise strong growth momentum underpinned by a broad pro-growth reform agenda. Growth is now projected at 6.6 percent, as higher global energy prices and heightened uncertainty weigh on domestic and external demand. Private consumption growth is expected to slow modestly, as higher global oil and gas prices raise inflationary pressures—headline inflation is expected to rise by 90 basis points from the absence-of-conflict projection — dampening some of the boost from the reduction in GST rates. Government consumption growth is expected to slow, to offset higher subsidy outlays for cooking gas and fertilizers. Investment growth is also expected to moderate due to elevated uncertainty. Net exports are

expected to decelerate as shipping disruptions and lower growth in key trade partners weigh on external demand. In FY28, assuming a normalization in global energy supply and prices, growth is expected to accelerate to 7.2 percent.

The fiscal deficit is expected to widen in FY27

The general government fiscal deficit is projected to increase marginally to 7.6 percent of GDP in FY27 (versus 7.3 percent in the absence of the conflict), as higher energy prices will feed into higher spending on fertilizer and fuel subsidies, and excise duty cuts will contain revenue growth. Over the medium term, the overall fiscal deficit is projected to decline gradually, supported by continued consolidation in current spending and stabilization of capital expenditure as a share of GDP. The declining fiscal deficit, combined with projected higher nominal GDP growth, will help reduce the public debt-to-GDP ratio.

The CAD is expected to widen in FY27, then stabilize over the medium term

The CAD is expected to increase to 1.8 percent of GDP in FY27 (against 1.1 percent in the pre-conflict projection) due to a higher energy import bill. Over the medium term, the CAD is expected to average 1.1 percent of GDP, as growing exports are counterbalanced by increased capital goods imports. The CAD will remain adequately financed by expected foreign investment inflows, and foreign exchange reserves will continue to provide sufficient coverage for adverse external developments.

Risks to the medium-term outlook are tilted to the downside, as uncertainty persists over the duration and scale of the Middle East conflict

A prolonged conflict in the Middle East that continues to disrupt shipments or damage critical energy infrastructure could keep oil and natural gas prices elevated for a longer period and raise fertilizer input costs. Although India can absorb temporary shocks, its reliance on energy imports from the region leaves the external balance, inflation, and fiscal position vulnerable to an extended Middle East conflict. A disrupted labor market in Gulf economies (the origin for nearly 38 percent of India's remittance inflows) would lower the secondary income surplus. These factors would put additional pressure on the rupee. Fiscal risks would also rise if measures to limit fuel price pass-through to consumers—such as excise rate cuts and increased subsidies—are scaled up. Although energy-source diversification and policy buffers could mitigate the impact, persistently high global energy prices would eventually lead to higher retail inflation and weigh on domestic demand.

The conflict underscores the importance of maintaining reforms

Although India's macroeconomic buffers and policy interventions provide some insulation against downside risks, energy diversification, prudent fiscal management, and trade liberalization remain critical priorities. The conflict underscores the urgency of diversifying energy supplies, accelerating the transition to renewables, and maintaining a credible fiscal consolidation path. Advancing trade diversification through the implementation of recently concluded FTAs and the negotiation of new ones will also strengthen India's resilience in an increasingly fragmented global trade environment.

2. RECENT ECONOMIC DEVELOPMENTS

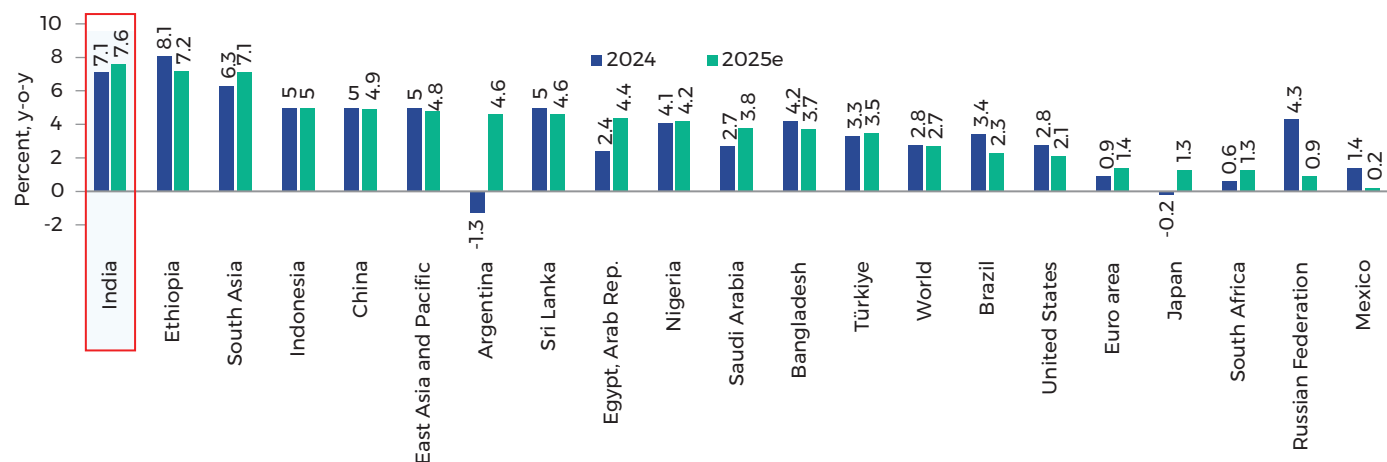
a. Real sector and inflation

Growth & labor market

The global economy proved more resilient than expected

Despite trade tensions and elevated policy uncertainty, global growth reached 2.7 percent in 2025, according to the World Bank, January 2026 [Global Economic Prospects](#) (GEP) (Figure 2.1). This better-than-expected performance⁸ reflected front-loaded trade ahead of tariff increases, nimble supply-chain adaptations to rising trade barriers, and strong AI-related investment in major markets.

FIGURE 2.1: Global growth held up better than expected in 2025



Source: NSO, and World Bank Global Economic Perspectives- January 2026.

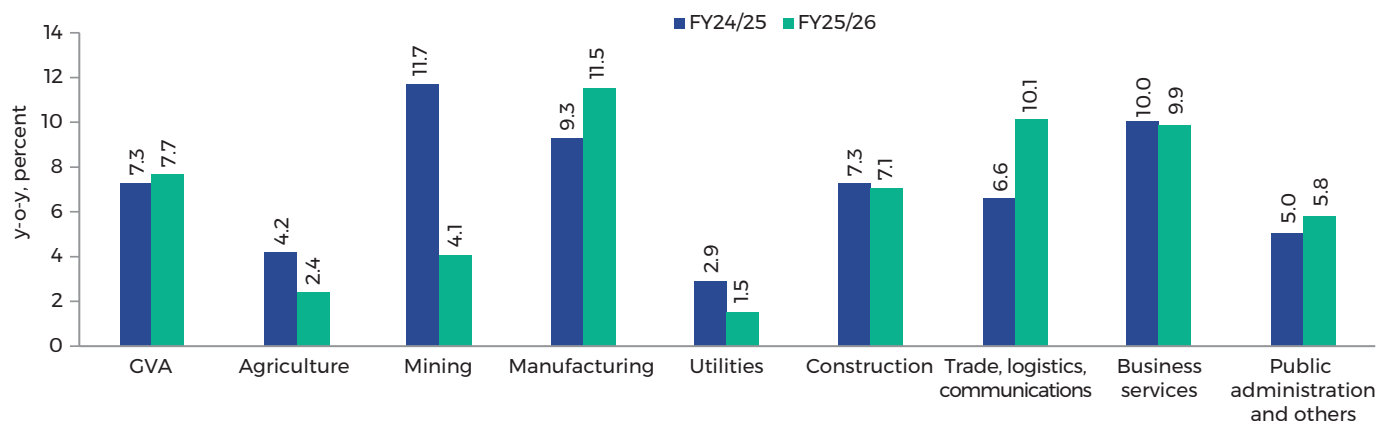
India's strong growth in FY26 was supported by manufacturing and traditional services

India remained the fastest-growing major economy in FY26, with GDP growth accelerating to 7.6 percent, up from 7.1 percent in FY25⁹. On the supply side, manufacturing strengthened, driven by automobiles and fast-moving (perishable) consumer goods. Services sector activity benefited from strong urban demand – reflected in retail trade, hospitality, transportation, and real estate services – and buoyant exports of financial and professional services (Figure 2.2). However, agricultural activity moderated due to slower growth in food-grain yields and a high base of comparison from the previous year.

⁸ Versus a 2.3 percent projection in the June 2025 GEP edition.

⁹ The GDP series in this report referred to the newly rebased GDP series released in February 2026, which updated the base year from 2011=2 to 2022-23. More detailed information on the rebasing exercise and its implications on GDP measurement is available in the Technical Annex of the report.

FIGURE 2.2: Real GVA growth was primarily driven by a sharp increase in traditional services and manufacturing activity



Source: NSO, CEIC, and World Bank staff calculations.

FIGURE 2.3: Industrial activity rose with an expansion in manufacturing

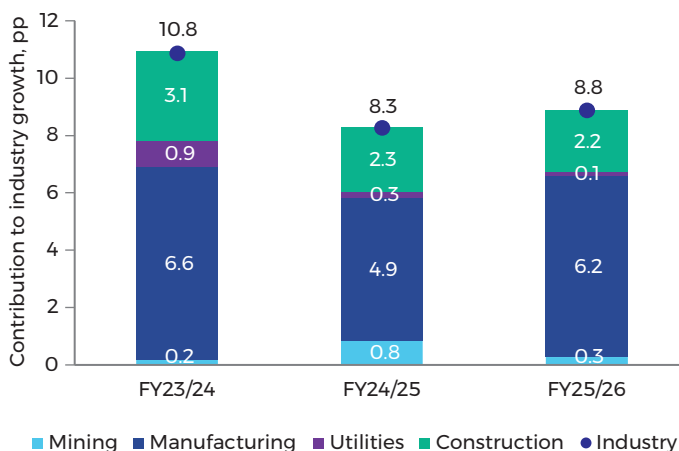
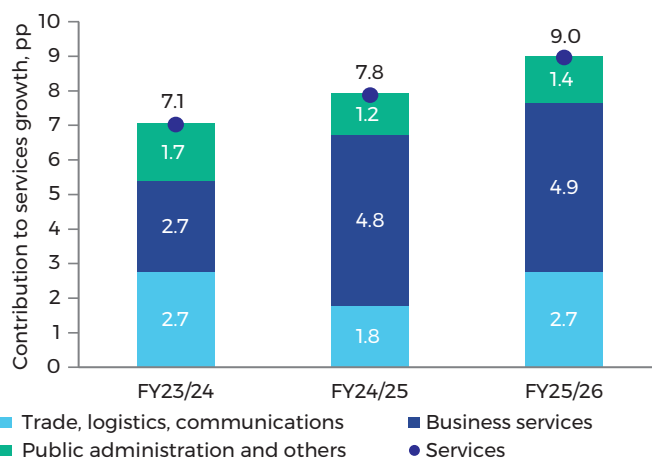


FIGURE 2.4: Services activity remained robust

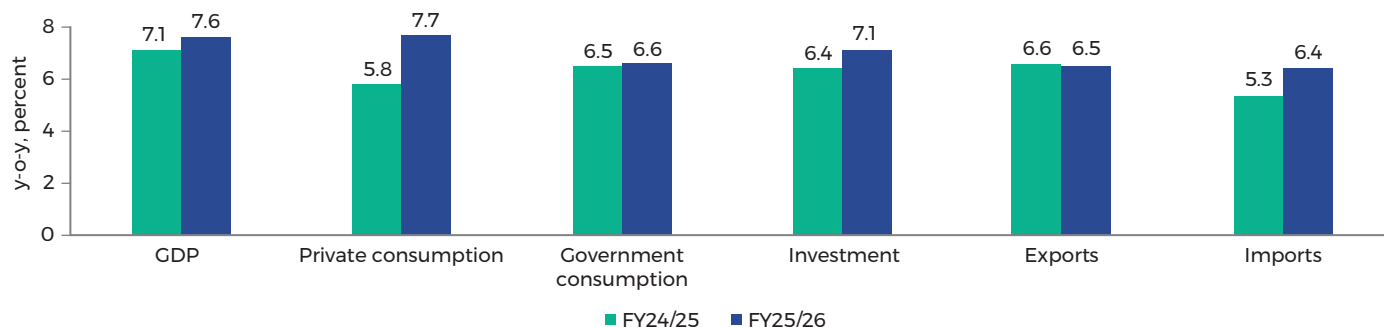


Source: NSO, CEIC, and World Bank staff calculations.

Robust domestic demand and resilient exports offset the drag from imports

On the demand side, private consumption increased by 7.7 percent y-o-y (Figure 2.5), supported by rising household disposable income amid low inflation, personal income tax cuts (announced in the Union Budget FY26), and the GST rationalization—which reduced the effective indirect tax rate. Investment growth also strengthened, with increases in private investment – especially in manufacturing plants and equipment— and public capital expenditure growth. However, net exports contributed negatively to GDP growth as import growth accelerated.

FIGURE 2.5: Private consumption and investment were the main drivers of growth



Note: Investment refers to Gross Fixed Capital Formation.

Source: MoSPI, CEIC, WBG Staff.

BOX 2.1: Monetary poverty trends using international poverty lines, 2011-12 to 2023-24¹⁰

India made substantial progress in reducing poverty between 2011-12 and 2023-24. Poverty measured using the LMIC poverty line (\$4.20 per person per day, 2021 PPP¹¹; roughly INR 82 in 2021 prices) fell sharply from 57.7 to 16.1 percent, corresponding to an annual reduction of 3.5 percentage points over the 12-year period (Figure 2.7)¹². In absolute terms, this translated into lifting 496 million people out of poverty.¹³ Despite this progress, about 232 million people remain poor relative to the LMIC poverty line, which serves as the relevant benchmark for India's income status. Extreme poverty—defined as those living on less than \$3.00 per day in 2021 PPP or about INR 58 in 2021 prices—declined from 27.1 percent in 2011-12 to 2.6 percent in 2023-24, leaving about 35 million people in extreme poverty (Figure 2.6).

FIGURE 2.6: Extreme poverty rate

■ 2011-12 ■ 2023-24

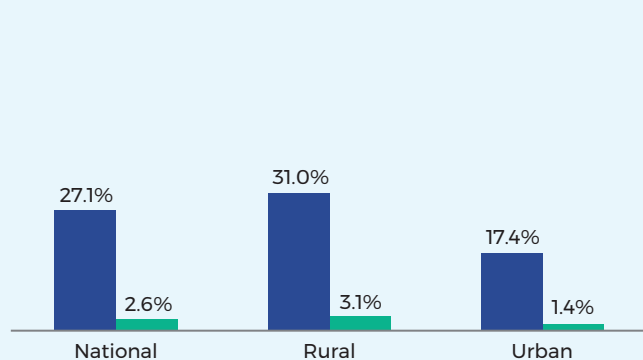
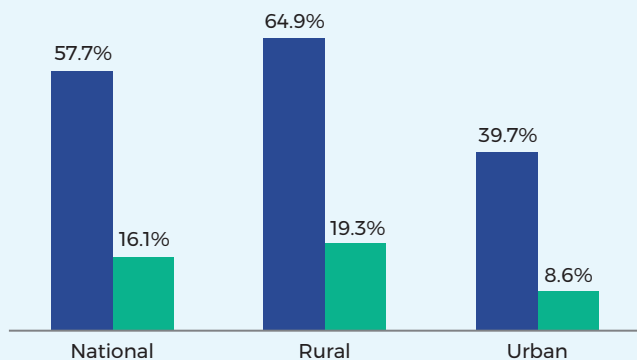


FIGURE 2.7: Moderate (LMIC) poverty rate

■ 2011-12 ■ 2023-24



Note: The welfare aggregate comprises spending on food and non-food goods that contribute to an individual's welfare. Details on the construction of India's welfare aggregate are documented in World Bank (2025).

Source: World Bank staff calculations based on the 2011-12 CES and 2023-24 HCES.

¹⁰ For details on the poverty trend with the 2023-24 HCES, refer to World Bank (2026, forthcoming).

¹¹ The international poverty lines were updated in June 2025 to reflect changes in the purchasing power parity and the national poverty lines of low-income countries, LMICs, and Upper Middle-Income Countries (UMICs). For further details, refer to Alfani, et al., *June 2025 Update to the Poverty and Inequality Platform (PIP)*. Global Poverty Monitoring Technical Note Washington, D.C.: World Bank, Group. <http://documents.worldbank.org/curated/en/099510306052516849>.

¹² This translates to a 10 percent annual reduction in poverty over the 12 years.

¹³ India population numbers from World Development Indicators and survey shares are used to estimate the count of people out of poverty. Refer to World Bank Poverty and Inequality Portal for the numbers <https://pip.worldbank.org/country-profiles/IND> and the methodology note for technical details on poverty estimates: World Bank, 2025. *India: Trends in Poverty, 2011-12 to 2022-23. Methodology Note*. Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/099060325033540333>.

Poverty declined substantially in both rural and urban areas, leading to a significant narrowing of the rural-urban gap. At the LMIC poverty line, rural poverty fell from 64.9 percent in 2011-12 to 19.3 percent in 2023-24, while urban poverty declined from 39.7 percent to 8.6 percent. A similar pattern is observed for extreme poverty, which declined from 30.7 to 3.1 percent in rural areas and from 17.4 percent to 1.4 percent in urban areas over the same period. This represents a significant narrowing of the rural-urban poverty gap, even as rural areas continue to account for a disproportionate share of the poor.

As with most household surveys in middle-income countries, the HCES also underrepresents high-income households (the “missing top”), leading to downward-biased estimates of consumption inequality. As a result, complementary data sources are needed to get a more complete picture of inequality in India.¹⁴ For instance, labor market data from PLFS show higher dispersion in earnings; the earnings Gini coefficient was 0.43 in 2023-24, with median monthly earnings among the top 10 percent earners being about 17 times higher than those of the bottom 10 percent.^{15,16}

Employment outcomes were stable in the first three quarters of FY26

Labor market indicators were broadly unchanged over the first three quarters of FY25/26¹⁷. Labor force participation and employment rates remained stable across demographic groups, notwithstanding a modest uptick in female participation in rural areas¹⁸ (Table 2.1). Youth unemployment persisted at high rates, especially among urban females (Figure 2.8). The composition of the status of employment of workers also remained broadly unchanged across quarters. Self-employment dominates in rural areas, while regular wage and salaried jobs are more prevalent in urban centers (Figure 2.9). Services provide the bulk of urban employment, while agriculture is the primary source of work in rural areas.

FIGURE 2.8: Unemployment rates vary significantly across demographic groups in Q3 FY26

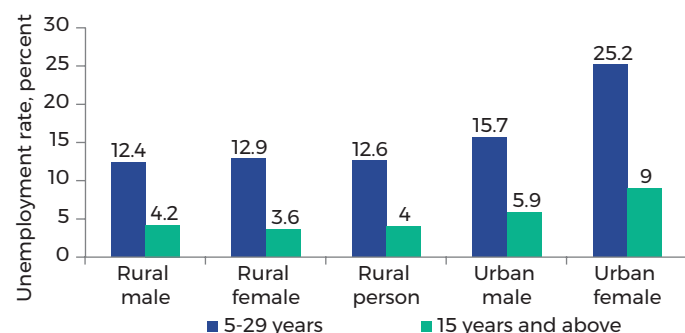
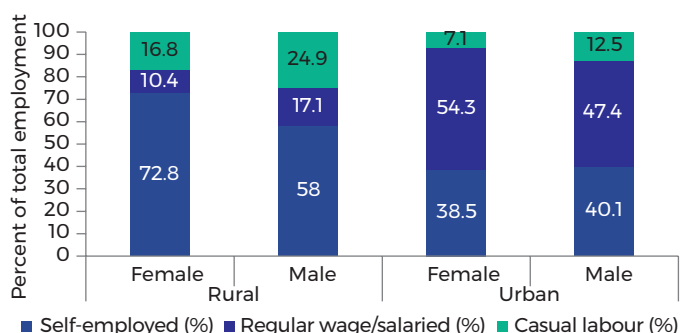


FIGURE 2.9: Rural employment dominated by self-employment



Note: the charts refer to labor market indicators in Q3 FY26 since there was no substantial variation over the first 3 quarters and data is comparable with pre-PLFS change methodology indicators.

Source: The PLFS Quarterly Report for October-December 2025.

14 The high-income households are likely underrepresented—common in household surveys in middle-income countries—suppressing consumption at the top of the distribution. Additionally, adjustments to a move from an expenditure to a welfare aggregate implied exclusion of some expenditure categories, compressing the distribution. Refer to the methodology note for technical details: World Bank, 2025. *India: Trends in Poverty, 2011-12 to 2022-23. Methodology Note*. Washington, D.C.: The World Bank Group. <http://documents.worldbank.org/curated/en/099060325033540333>.

15 In any country, consumption inequality is usually lower than income and wealth inequality. This is because high-income households tend to spend only a portion of their income, while low-income households usually spend most or all of income on basic needs. Government subsidies, informal support systems, and shared household consumption also reduce visible differences in consumption. Thus, income and consumption inequality are complementary measures to understand economic disparities in any country.

16 The World Inequality Database reports the Gini coefficient for income and wealth inequality at 64 and 75 in 2024. For details on the methodology and computations, please refer to <https://wid.world/data/>.

17 The PLFS underwent major changes starting in January 2025, which included expanded coverage of rural areas and a revised survey design. As a result, the data from the 2025 quarterly rounds are not comparable to previous rounds. The new rounds place strong emphasis on obtaining nationally representative estimates by improving sample rotation, stratification, and weighting to reflect updated population benchmarks.

18 Rural female labor force participation improved from 37 percent in April-June 2025 to nearly 40 percent in October-December 2025.

TABLE 2.1: Key Labor Market indicators (October-December 2025)

Current Weekly Status	Rural male	Rural female	Urban male	Urban female	All
15 years and above					
Labor force participation rate	78.8	39.4	75.1	25.5	55.8
Worker population ratio	75.5	37.9	70.7	23.2	53.1
Unemployment rate	4.2	3.6	5.9	9.0	4.8
Current Weekly Status 5-29 years					
Labor force participation rate	62.2	22.8	59.6	21.3	41.8
Worker population ratio	54.4	19.9	50.2	15.9	35.8
Unemployment rate	12.4	12.9	15.7	25.2	14.3

Source: The PLFS Quarterly Report for October-December 2025.

Labor market signals suggest stronger formal job creation and lower demand for unskilled non-agriculture manual work

Growth in net new Employees' Provident Fund (EPF)¹⁹ subscribers, which captures formal employment creation, accelerated to nearly 14 percent year-on-year in April-July, compared to about 12 percent in the previous year. In rural areas, demand for work²⁰ under the *Mahatma Gandhi National Rural Employment Guarantee Act* (MGNREGA) fell by over 15 percent year-on-year during April-December, compared to a 11 percent decline in the previous year, partially reflecting strong agricultural activity.

The government launched three major initiatives to promote formal job creation and expand employment support

In August 2025, the government launched the *Pradhan Mantri's Vikasit Bharat Rojgar Yojana*, an employment-linked incentive (ELI) scheme aimed at boosting formal job creation and expanding social security coverage for first-time workers. The scheme has two components: Scheme A provides direct income support of up to ₹15,000 to newly employed workers, while Scheme B offers a monthly subsidy to employers to incentivize the registration of new hires under the EPFO. In November 2025, the Government moved forward with the implementation of the four Labor Codes, which consolidate 29 existing labor laws to simplify compliance and promote formalization (Box 2.2). Finally, in mid-December 2025, the rural employment framework was overhauled with the replacement of MGNREGA by the *Vikasit-Bharat Guarantee for Rozgar and Ajeevika Mission Gramin Act* (VB-GRAMG). The new Act expands guaranteed rural employment from 100 to 125 days per household, introduces 60:40 cost-sharing with states, and strengthens decentralized planning through Viksit Gram Panchayat Plans.²¹

19 The Employee's Provident Fund is a government-backed voluntary retirement savings scheme.

20 Based on person days.

21 The 60:40 cost-sharing arrangement means that the central government pays 60 percent of the program cost while state governments pay 40 percent.

BOX 2.2: A unified labor framework and many states: Implementation matters

From Complexity to Simplicity

BEFORE: FRAGMENTED COMPLEXITY (Old Framework)

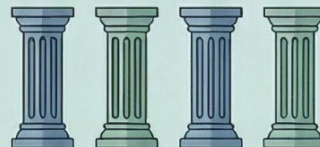


Consolidating the Old Framework: 29 separate Central Laws



- over 1,400 Regulations
- 181 Required Forms
- Multiple regional & sector-specific approvals

AFTER: STREAMLINED SIMPLICITY (Four Codes Framework)



• Four Coherent Pillars



- approx. 350 Regulations
- 73 Required Forms
- Single Pan-India Licensing (Unified National System)

The Four Pillars of the Framework



CODE ON WAGES

Standardizes wage definitions to ensure consistency in payroll management.



INDUSTRIAL RELATIONS CODE

Modernizes employer-employee relations rules, updates strike procedures, and raises layoff thresholds.



CODE ON SOCIAL SECURITY

Expands the social safety net, providing a broad framework for universal coverage.



OCCUPATIONAL SAFETY, HEALTH AND WORKING CONDITIONS CODE

Harmonizes safety standards across sectors and introduces digital systems for compliance monitoring.

STRENGTHENING WORKER PROTECTIONS



Statutory National Floor Wages: Legal floor to ensure baseline protection.



Social Security for the Gig Economy: Coverage extended to previously excluded gig and platform workers.

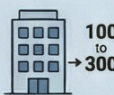


Digital-First Compliance: Digital systems like e-Shram monitor adherence to safety and wage standards.

ENHANCING MARKET FLEXIBILITY



Expanded Opportunity for Women: Night shifts allowed with specific safety and safeguard requirements.



Triple the Threshold for Layoff Approvals: Government permission requirement raised from 100 to 300 workers.

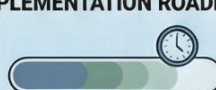


Recognition of Fixed-Term Employment (FTE): Formal engagement with equal benefits for project-based needs.

IMPLEMENTATION ROADMAP



The Concurrent List Requirement: Both Center and States must notify rules for legal effectiveness.



Staggered Rollout Progress: Ongoing formal notification process leads to temporary cross-state disparities.



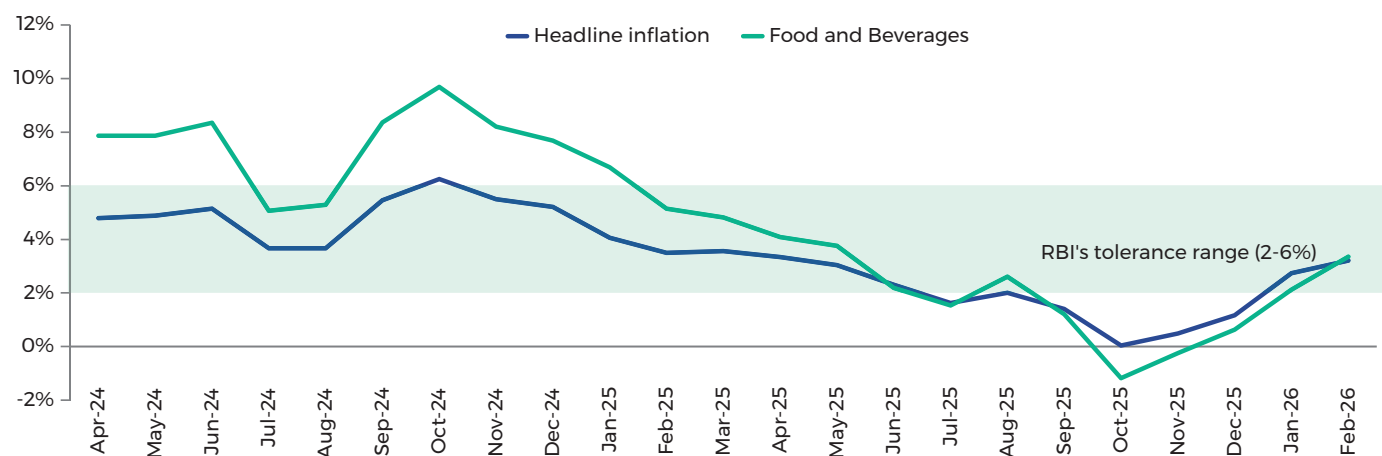
Need for Center-State Coordination: Harmonizing IT systems and administrative capacity is crucial for a unified market.

Inflation

Food disinflation kept headline inflation below target for most of FY26

Headline inflation remained below the RBI's 4 percent target for most of FY26. Average inflation between April 2025 and February 2026 was 1.9 percent, compared to 4.7 percent in the same period of the previous year. This decline was primarily driven by falling food prices, resulting from strong agricultural output thanks to favorable weather, along with ample cereal stocks and reduced import duties on pulses and edible oils.²² Inflation reached nearly zero in October 2025, before gradually rising to an average of 3 percent by January-February 2026 (Figure 2.10), as food prices recovered from a very low base. Also, methodological changes were introduced in the new CPI series, which now better captures consumer prices through improved data collection and broader coverage (see Box 2.3)²³.

FIGURE 2.10: Headline inflation declined to near zero in October 2025



Source: CEIC and World Bank staff calculations.

Note: The shaded portion represents the RBI's tolerance range (2-6 percent).

Core inflation²⁴ rose, driven largely by a surge in gold and silver prices

In contrast to headline inflation, core inflation (excluding food and fuel prices) rose from an average of 3.5 percent in April 2024-February 2025 to 4.1 percent in April-February of FY26 (Figure 2.11). This increase was mostly due to a spike in gold and silver prices, while other components of core inflation—such as health, education, and transportation prices—remained broadly stable in y-o-y terms. Core inflation eased to an average of 3.4 percent y-o-y in January-February 2026 under the new CPI series, primarily reflecting a mechanical decline due to methodological changes; ready-made food items were previously included in core categories (often inflating core inflation and underestimating food prices), but these items have been reclassified as part of food and beverages under the new series.

Wholesale price inflation moderated during most of FY26

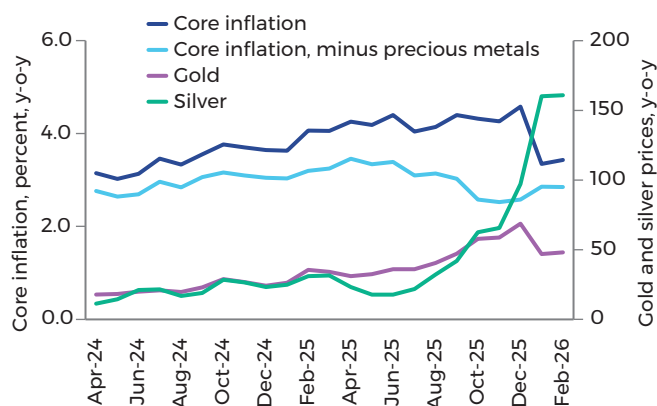
Wholesale price inflation averaged 0.4 percent in April 2025-February 2026, compared to around 2.3 percent in the previous year. The moderation was driven by a sustained decline in the prices of food items (agricultural commodities) and fuel. The Wholesale Price Index (WPI) increased to 2.1 percent in February, reflecting a rise in inflation of manufactured products, which account for the largest share of the WPI basket (Figure 2.12).

²² The government cut basic customs duty on crude edible oils (palm, soybean, sunflower) from 20 percent to 10 percent. Low edible oil import duties have been in effect since end-May 2025, directly lowering retail prices during FY26.

²³ Data for food price inflation and core inflation refer to the base year 2012=100 till December and 2024=100 series for January and February.

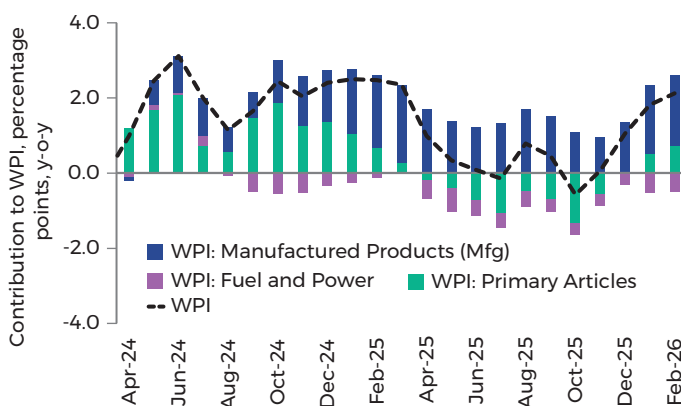
²⁴ MoSPI does not compile or publish core inflation data.

FIGURE 2.11: Core inflation rose throughout the first three quarters of FY26



Source: CEIC and World Bank staff calculations.

FIGURE 2.12: Wholesale price inflation has declined since early 2025



Source: CEIC and World Bank staff calculations.

BOX 2.3: CPI rebasing

The Ministry of Statistics and Programme Implementation (MoSPI) recently updated its methodology for calculating India's Consumer Price Index (CPI). The price base year was updated from 2012 to 2024. The 2023-24 Household Consumption Expenditure Survey (HCES) served as the basis for this update, enabling adjustments to the consumption basket, the weights for different consumption categories, and the system for collecting price data.

Major methodological changes include:

- **Updated weights for different categories in the consumer basket.** Weights for categories in the new consumer basket were revised to reflect current spending patterns. Weights for Food and beverages were reduced from around 46 percent to 37 percent, reflecting the lower share of food expenditure in household budgets (Figure 2.13). Higher weights were introduced for services, housing, transport, and communication, as a result of increasing urbanization, mobility, and service-led consumption.
- **Expanded basket.** About 98 percent of items remained unchanged. Items covered in the consumer basket expanded from 299 to 358 items, with 10 new services added. New items include rural housing, online media service provider and streaming services, value-added dairy products, barley and its products, pen drives and external hard disks, attendants, babysitters and exercise equipment. Obsolete items removed include VCR and DVD rentals, radios, cassette media, and horse-cart fares.
- **Better coverage of housing and rural consumption.** The new series now includes rural housing costs, improving the measurement of rural cost-of-living pressures. It also includes a more granular treatment of rent and housing services across rural and urban areas.
- **Improved price collection.** The revised series now covers a wider set of markets (more rural and urban price centers). It also includes online prices in large cities to better capture e-commerce.

Headline inflation trends remain broadly unchanged in the rebased series (Figure 2.14); however, inflation is now less food-driven. Lower food weight mechanically reduces headline fluctuations caused by volatile food prices. Instead, housing and services inflation components play a greater role in determining inflationary trends. As a result, CPI-linked benefits, such as dearness allowance revisions, pensions, wage indexation, and welfare schemes, will be more closely aligned with price trends.

FIGURE 2.13: Changes in CPI weights

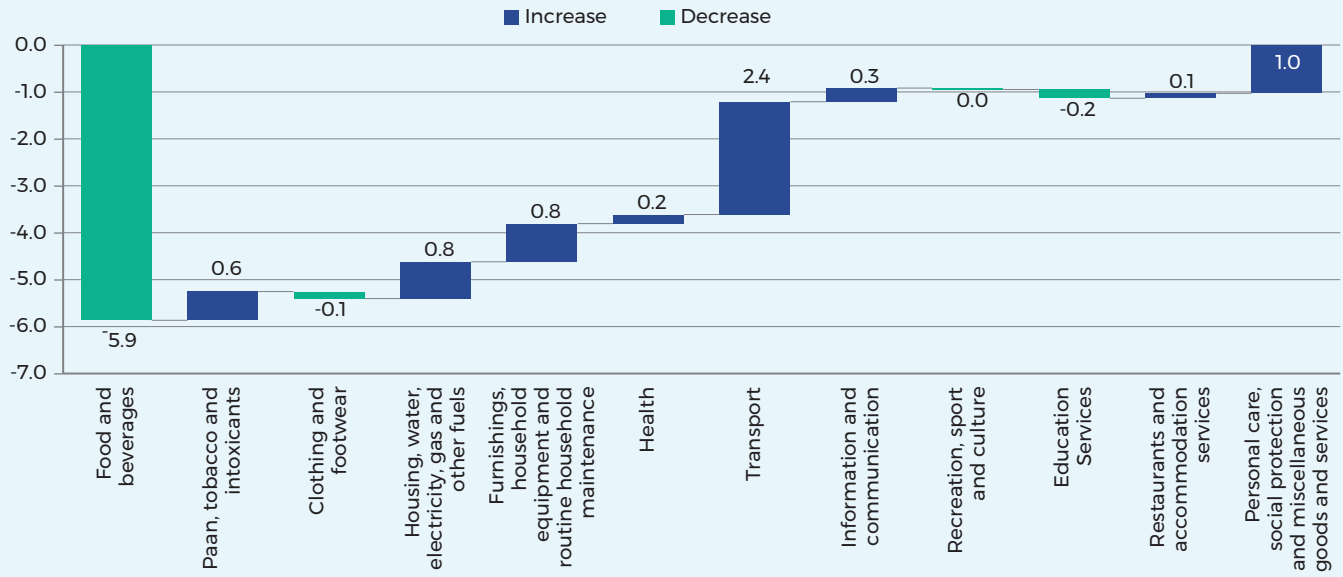
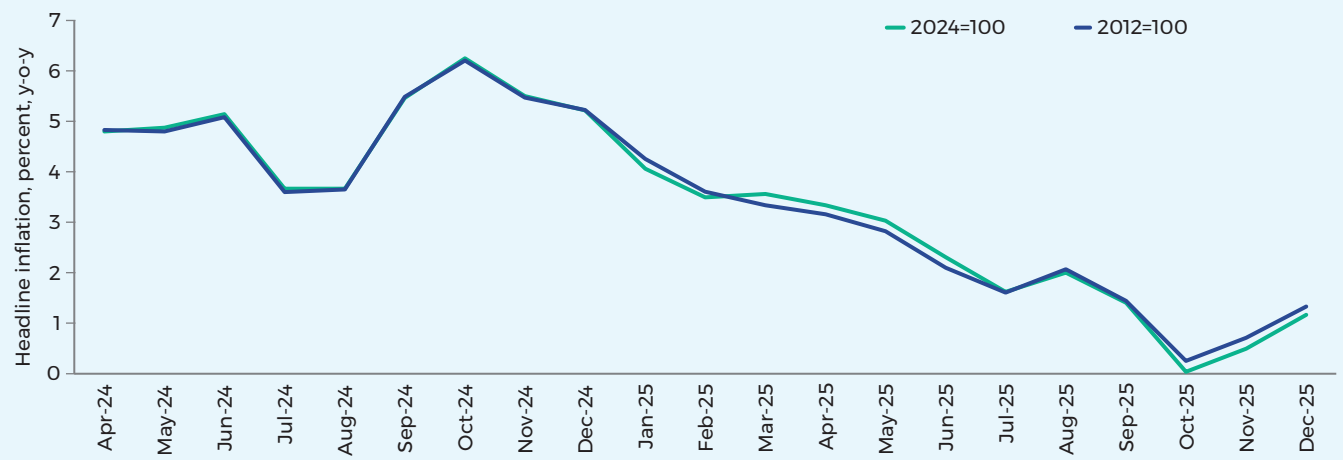


FIGURE 2.14: CPI rebasing had minimal impact on headline inflation



Source: MoSPI, World Bank staff calculations; The CPI2012=100 series and CPI2024=100 series are not directly comparable. The purpose of Figure 2.14 is not to compare the two series to highlight similar patterns, despite the changes in the methodology.

Monetary conditions eased amid low inflation

b. Monetary and financial sector

Monetary conditions have eased during FY26. The RBI cut the policy rate by a cumulative 125 basis points, down to 5.25 percent, between February and December 2025 (Figure 2.15). However, in June 2025, the RBI shifted its policy stance from “accommodative” to “neutral,” citing reduced room for additional growth support with future actions guided by evolving macroeconomic conditions and incoming data.²⁵ During its February 2026 meeting, given benign CPI inflation prospects

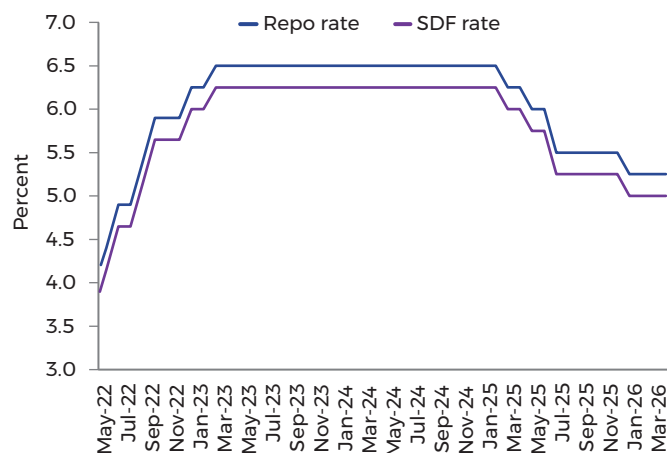
²⁵ In June 2025, the RBI described the cumulative 100 bps cuts in the repo rate since February 2025, along with the announced 100bps reduction in the Cash Reserve Ratio (CRR) for the second half of the calendar year 2025, as a “decisive front-loading” of monetary support. The RBI noted that there was only “limited space” for further action, as systemic liquidity was already in excess. Any additional easing could trigger excessive rupee depreciation and capital outflows amid a fragile global economy. As a result, the RBI shifted its policy stance to “neutral” to conserve “monetary ammunition” for potential future shocks while allowing time for the transmission of existing cuts into the real economy.

and a robust growth outlook, the RBI kept the policy repo rate unchanged and maintained a neutral stance, emphasizing that future actions will depend on how inflation and growth unfold as the new GDP and CPI series come into use.

Liquidity conditions normalized as policy easing took effect

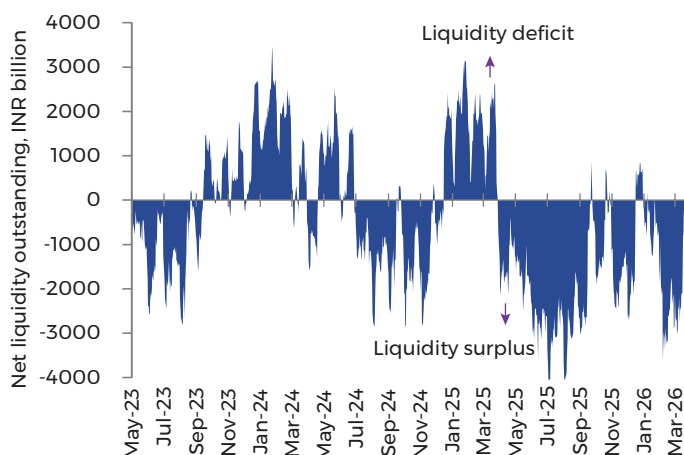
Liquidity conditions²⁶ shifted from tightness in the first 2.5 months of calendar year 2025 to a sustained surplus over the rest of the year, thanks to proactive measures by the RBI (Figure 2.16). To offset early 2025 liquidity drains caused by foreign exchange operations, increased cash demand, and higher government cash balances held with the RBI²⁷, the RBI implemented several measures to release additional liquidity for banks to lend: purchasing government bonds, conducting FX swaps, and gradually reducing the cash reserve ratio (CRR)—the RBI lowered the CRR by 100 basis points in total between June and November 2025. These measures ensured sustained liquidity and helped keep short-term interest rates near the policy rate. Overall, banking system liquidity remained in surplus until the end of FY26, although seasonal government cash movements occasionally led to short episodes of liquidity shortage. These shortages were managed through short-term liquidity operations and additional bond purchases.

FIGURE 2.15: The MPC has cut rates by 125 basis points since February 2025



Source: CEIC, RBI, World Bank staff calculations.

FIGURE 2.16: Liquidity conditions have eased since March 2025



Note: Net Liquidity is calculated as the amount outstanding under the Repo, Marginal Standing Facility (MSF) and Standing Liquidity Facility (SLF), (facilities under which commercial banks can borrow from the RBI) minus the amount outstanding under Reverse Repo and Standing Deposit Facility (facilities under which banks can keep deposits with the RBI). A positive number means that banks are borrowing more from the RBI than they have deposited, representing a liquidity deficit.

Source: RBI, CEIC, World Bank staff calculations.

The financial system remains broadly resilient

According to the RBI's *Financial Stability Report* (December 2025), India's financial system is resilient to global macrofinancial volatility, as reflected in improved banking system asset quality. The gross non-performing asset ratio of scheduled

²⁶ Liquidity conditions refer to the availability of funds in the banking system, measured by the net liquidity injected or absorbed by the RBI through repo, reverse repo, and other liquidity operations under the Liquidity Adjustment Facility (LAF). A net injection of liquidity into the banking system occurs when Commercial Banks borrow more from the RBI than they deposit. This situation is referred to as a liquidity deficit. On the other hand, when the RBI absorbs more liquidity than it injects, it is referred to as a liquidity surplus.

²⁷ Liquidity typically declines around tax payment deadlines as money is transferred from taxpayers' accounts in commercial banks to the government's cash balances held at the RBI.

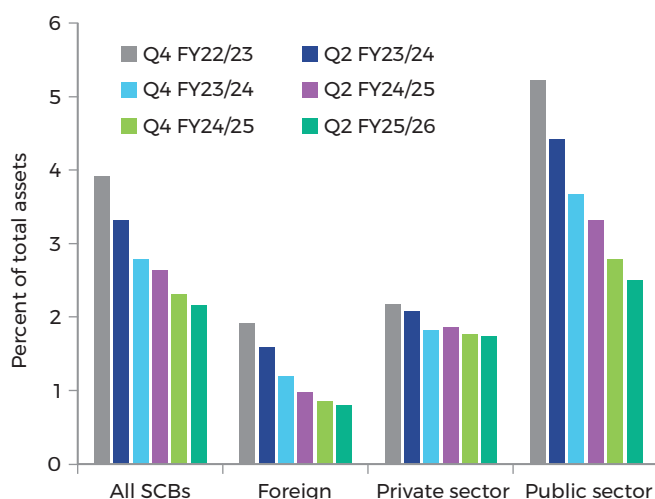
despite a volatile global environment

commercial banks declined to about 2.1 percent in September 2025 (Figure 2.17). However, the report also highlighted some emerging vulnerabilities, notably the expansion of unsecured retail credit, which has contributed to some extent to recent loan slippages; increasing borrower leverage due to multiple credit lines; and greater reliance on fintech-enabled lending channels.

Credit growth recovered in late 2025

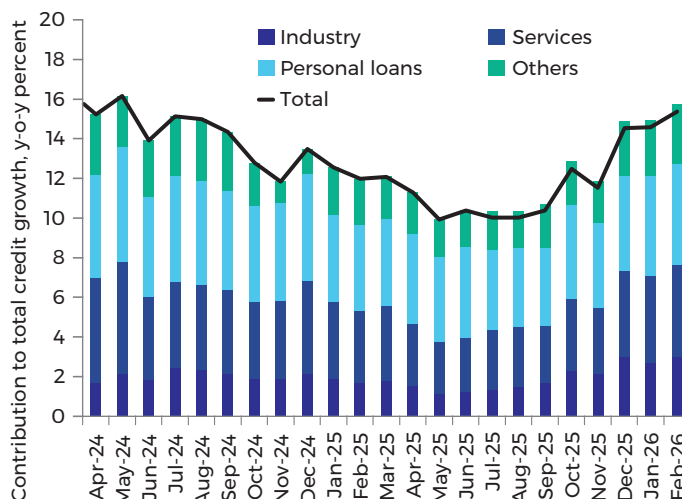
Due to increased regulatory measures, especially on unsecured retail lending, bank credit growth decelerated in FY25 and stagnated between April and September 2025. However, recent data suggest a rebound in credit activity since September 2025, with y-o-y growth reaching about 15 percent in December 2025, returning to pre-tightening levels (Figure 2.18). This recovery has been broad-based, primarily driven by renewed momentum in services and personal loans, as well as a gradual recovery in industry credit, which had previously been sluggish.

FIGURE 2.17: Gross NPAs have fallen across all banks



Source: RBI, World Bank Staff Calculations.

FIGURE 2.18: Credit growth started recovering



Note: From July 2024, the credit growth is calculated after excluding the impact of a merger of a scheduled commercial bank and a non-bank financial corporation.

Source: RBI, World Bank staff calculations.

Concerns about fiscal pressures led to an increase in long-term yields in the second half of 2025

Government 10-year bond yields rose from 6.2 percent in June 2025 to approximately 6.7 percent by early September and remained high thereafter (Figure 2.19). Meanwhile, short-term rates declined amid improved liquidity and policy rate cuts, leading to a steepening yield curve. The increase in long-term rates reflected concerns about fiscal pressures, including the impact of GST rationalization, which lowered overall effective indirect taxation; direct tax revenue growth that was weaker than in the previous year; front-loaded state bond issuance²⁸ that increased near-term supply; and lower expectations of further monetary policy rate cuts.

After recovering from the September 2024–March 2025

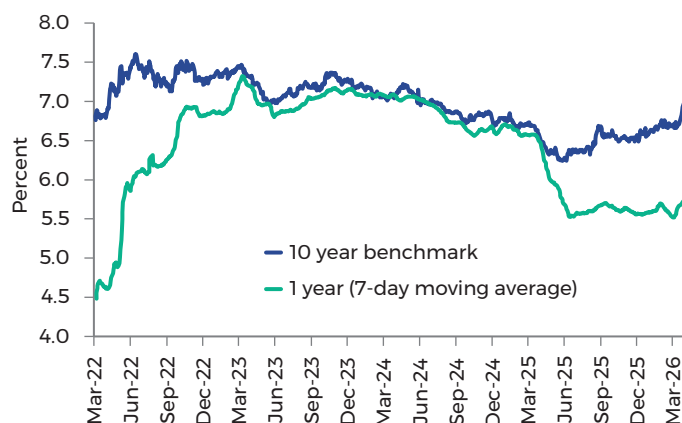
Indian equity benchmarks were volatile in 2025. Markets had already begun correcting from their September 2024 peak well before global trade uncertainty intensified. Following a decline in April 2025, the Nifty50 and Sensex recovered over the remainder of 2025, and briefly reached record levels in early 2026

28 State governments issued a large share of their planned bonds earlier in the year rather than spreading issuance evenly over time, increasing near-term bond supply.

decline, financial markets face new headwinds

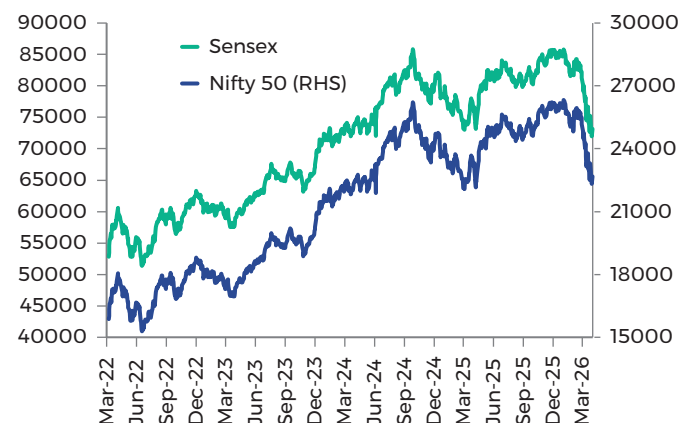
(Figure 2.20). Domestic institutional investors remained a key stabilizing force, investing more than INR 7.8 trillion in equity markets during 2025. Despite this recovery, overall returns in 2025 were modest as global macroeconomic uncertainty raised risk premia and trade policy risks weighed on growth and earnings expectations. Foreign portfolio investors were net sellers for a significant portion of 2025, withdrawing about ₹1.66 trillion (around \$18.9 billion) from Indian equities, with selling extending into early 2026. Flows turned positive in February 2026 following progress on the India-EU and India-US trade agreements. However, the onset of the Middle East conflict, the associated surge in global energy prices, and a renewed rise in global uncertainty triggered a significant correction in equity markets, with benchmark indices declining by about 13 percent between the end of February and March 31, 2026, alongside record foreign portfolio outflows of around \$12 billion in March. The steepest losses were concentrated in the financial, automobile, and energy-intensive sectors.

FIGURE 2.19: Short-term and long-term yields diverged



Source: RBI.

FIGURE 2.20: Financial markets are facing new headwinds from the conflict



Source: NSE and BSE Limited.

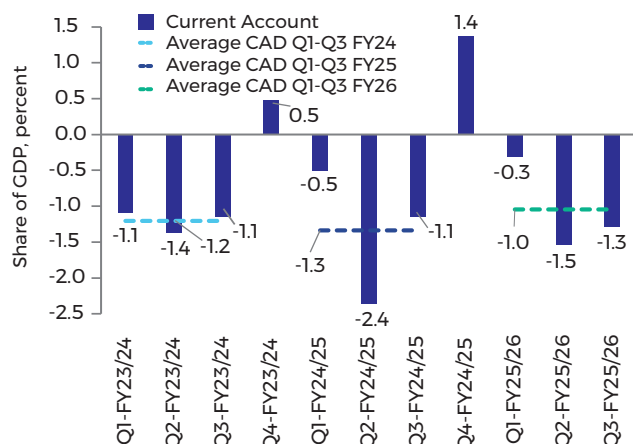
c. External sector

The current account deficit narrowed in the first three quarters of FY26

The current account deficit narrowed from 1.3 percent of GDP in the first three quarters of FY25, to 1.0 percent of GDP over the same period in FY26 (Figure 2.21). Strong remittance inflows and an increase in the services trade surplus more than compensated for a modest widening of the merchandise trade deficit (to 8.7 percent of GDP, from 8.3 percent- Figure 2.22). At the same time, the services trade surplus increased from around 4.9 percent to 5.4 percent of GDP; although services exports growth moderated, service imports growth fell even more due to a decline in imports of transport-related services, which account for over 15 percent of services imports, as well as slower growth in intellectual property rights imports²⁹ and other business services.

29 Acquisition of rights to use, license, or purchase intangible assets, such as patents, trademarks, designs, or copyrights, from foreign entities.

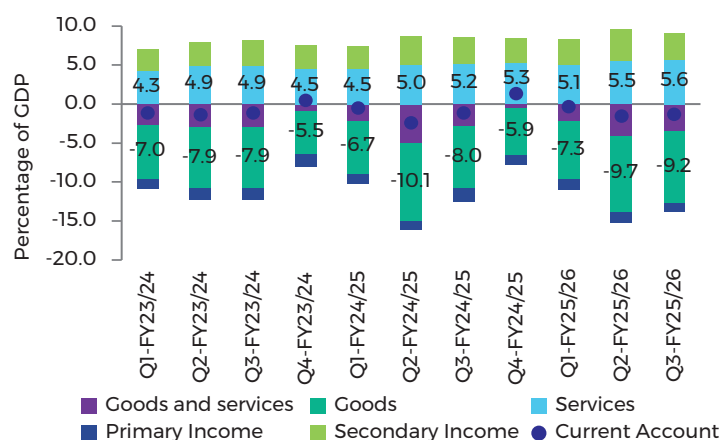
FIGURE 2.21: The current account deficit narrowed in the first three quarters of FY26...



Note: Dashed lines represent averages for the full fiscal year.

Source: CEIC, RBI, World Bank staff calculations.

FIGURE 2.22: ...despite a widening trade deficit



Source: CEIC, RBI, World Bank staff calculations.

Growth in merchandise imports slowed in the first three quarters of FY26

Merchandise imports grew by 8.6 percent y-o-y in April 2025-February 2026—driven by mineral fuels, electronics, precious stones, and fertilizers (Figure 2.23 and 2.24). Imports of non-oil commodities increased by 12.5 percent, while gold imports accelerated to around 8.5 percent, amid a surge in gold prices. The value of oil imports declined by 3 percent y-o-y, likely reflecting low global prices.

Merchandise exports growth picked up slightly

Despite global trade policy frictions, merchandise export growth accelerated from 0.1 percent in April 2024-February 2025 to 1.8 percent over the corresponding period of 2026. While petroleum exports, including re-exports of refined imported crude oil, declined due a combination of stagnating volumes and lower prices, non-oil exports increased by 5 percent y-o-y. This was largely driven by electronics exports, especially smartphones (which increased by over 22 percent) to the US, UAE, and EU.

FIGURE 2.23: Merchandise imports increased faster due to gold and capital goods imports...

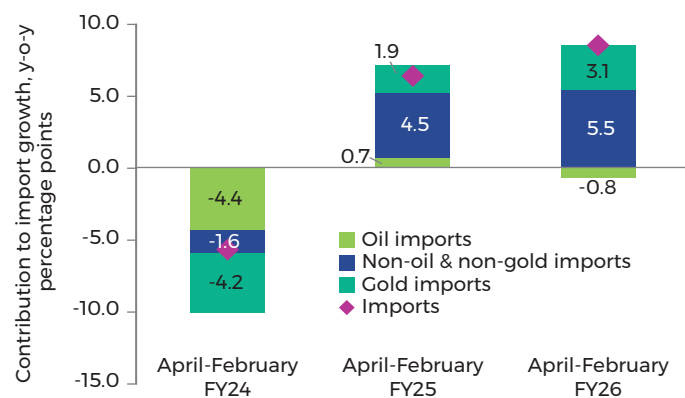
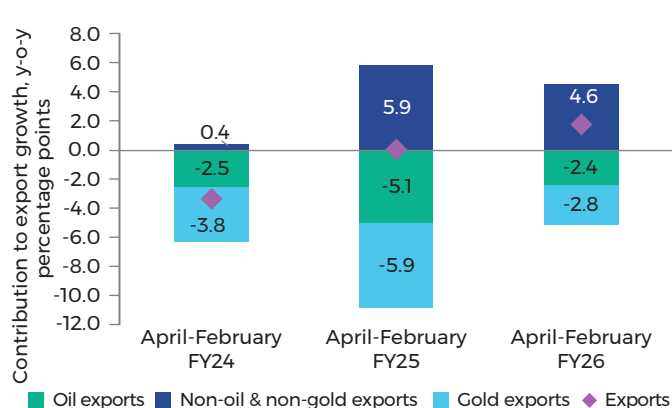


FIGURE 2.24: ...while exports only grew modestly

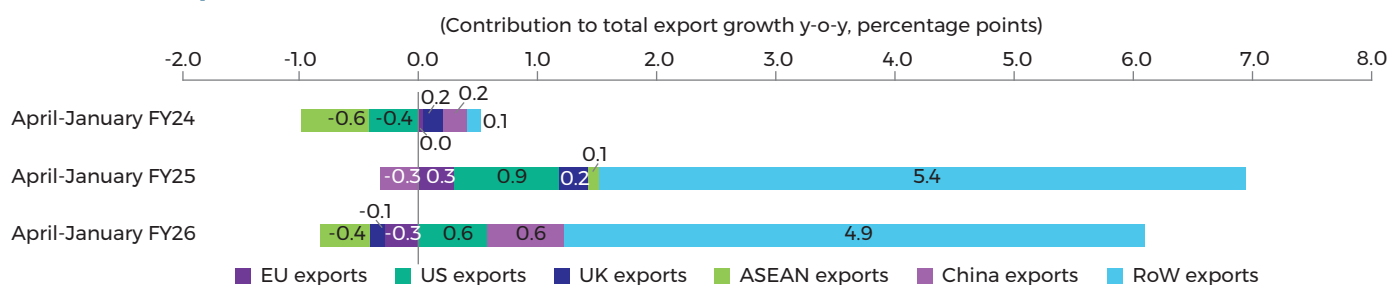


Source: CEIC, Ministry of Commerce and Industry, World Bank staff calculations.

Growth in total exports to the United States moderated

Export growth to the United States moderated only modestly in April 2025-January 2026 (Figure 2.25), to around 6 percent y-o-y in April 2025-January 2026, compared to around 9 percent in the same period of the previous year, despite the introduction of 50 percent tariffs since August 2025. This reflected a combination of frontloading of exports to the US in the first two quarters of the year, ahead of the onset of the tariffs, and an increase in exports of tariff-exempted goods. However, exports to the US contracted by an average of 17 percent y-o-y in January-February 2026 from a high base of comparison in the same period of the previous year.

FIGURE 2.25: Exports to US slowed



Source: CEIC, Ministry of Commerce and Industry, and World Bank staff calculations; Note: Country-wise data for February were not available for some country groups.

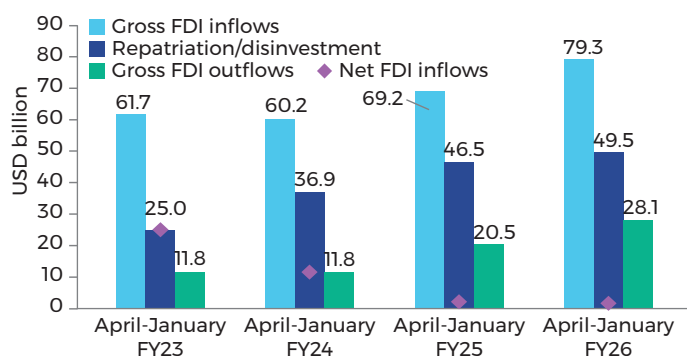
Net foreign direct investment remained subdued despite stronger gross inflows

Gross FDI inflows increased by nearly 15 percent y-o-y to \$79.3 billion in April 2025-January 2026, reflecting strong investor interest in services, manufacturing, and other export-oriented activities. At the same time, growth in profit repatriation by foreign investors slowed significantly from over 26 percent in April-January of FY25 to around 7 percent in the same period of FY26 (to \$49.5 billion). Growth of outward FDI by Indian firms abroad also moderated from over 74 percent in April-January of FY25 to around 37 percent in the same period of FY26 (by \$28.1 billion). As a result, net FDI inflows declined by 23.6 percent y-o-y (compared to a contraction of 81.2 percent in the previous year) to US\$1.6 billion in April-January of FY26 (from \$2.2 billion in FY25, Figure 2.26).

Net foreign portfolio investment inflow turned into an outflow during most of FY26

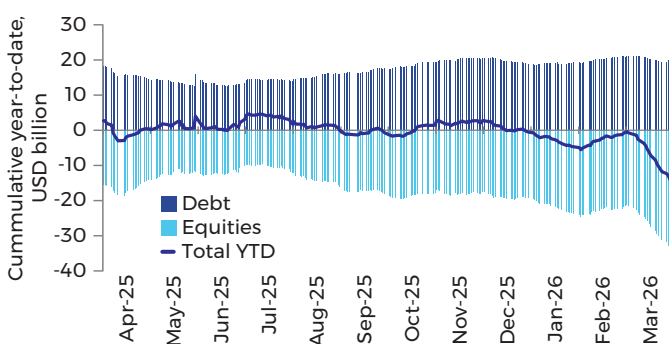
Net portfolio investment outflows reached \$6.2 billion in April-January of FY26, compared to net FPI inflows of \$3.5 billion in the same period of FY25 (Figure 2.27). After modest net inflows in the first quarter of FY26, portfolio flows reversed in the second quarter and deepened in the third quarters and deepened further in the fourth quarter amid global financial market volatility caused by the Middle-East conflict.

FIGURE 2.26: Net FDI inflows increased in FY26



Source: CEIC, RBI, World Bank staff calculations.

FIGURE 2.27: FPI flows into equity reversed sharply since the onset of the Middle East conflict

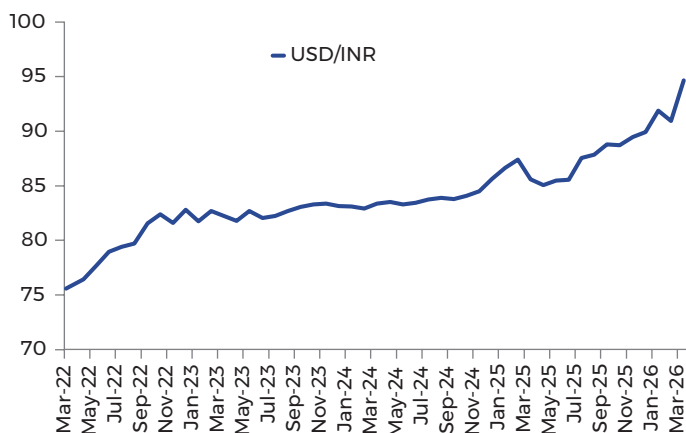


Source: CEIC, RBI, World Bank staff calculations.

The rupee depreciated on the back of foreign investment outflows

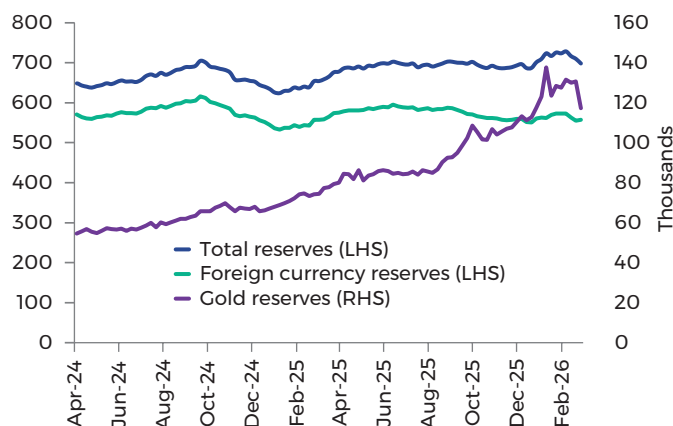
The rupee depreciated by an average of 5 percent y-o-y over April-March 2026 (Figure 2.28). Depreciation pressures stemmed from a widening merchandise trade deficit and net foreign investment outflows. However, these factors were partially offset by strong services exports, robust remittance inflows, and net sales of foreign exchange by the RBI to prevent sharp exchange rate volatility. At end-March the rupee fell to its lowest recorded level of 94.7 INR/USD due to large foreign portfolio outflows amid heightened financial market uncertainty stemming from the conflict in the Middle East. Despite a decline in foreign currency reserves, total foreign exchange reserves increased by \$ 63.1 billion over the fiscal year, reaching nearly \$730 billion by the end of February (Figure 2.29) (equivalent to over 11 months of import cover). This increase in total reserves resulted from the valuation of gold reserves, which increased by nearly 77 percent since the end of FY25 (Figure 2.29). However, due to falling gold prices and a large volume of FX operations by the RBI—following the onset of the Middle-East crisis at end of February—total reserves declined to \$698.3 billion as of March 20, 2026.

FIGURE 2.28: After a brief appreciation at the end of FY25, the INR depreciated steadily in April-August



Source: Haver, IMF, World Bank staff calculations.

FIGURE 2.29: Foreign reserves increased on the back of higher gold valuation prior to the onset of the conflict



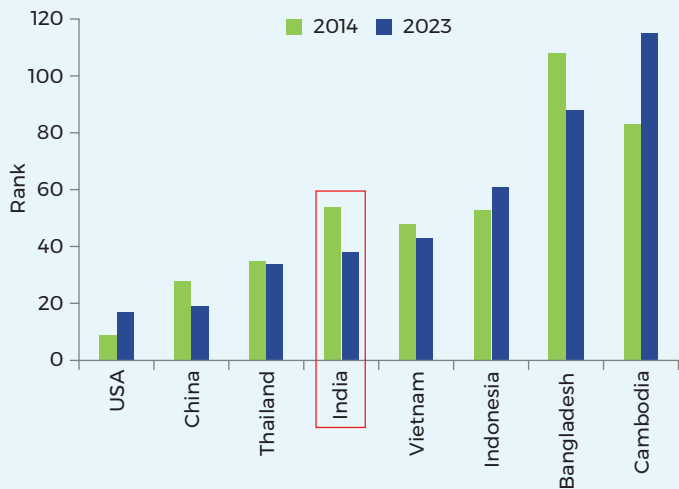
Source: CEIC, RBI, World Bank staff calculations.

BOX 2.4: Strengthening Export Competitiveness and Market Diversification: India's Recent Trade Policy Shifts

While the legal agreements remain subject to formal approval and implementation timelines (as of 16 March 2026), India has concluded several important trade deals, signaling a tangible move toward more predictable and facilitative trade frameworks and deepening integration with major economies across Europe, the Gulf, and the Asia-Pacific.

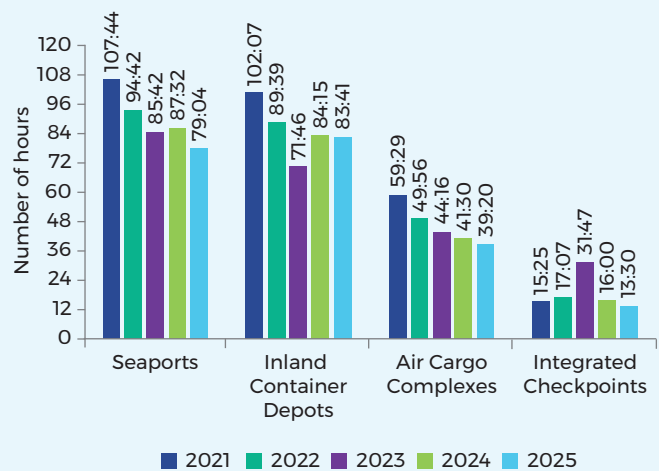
India aims to increase total exports to US\$2 trillion by 2030, from around US\$890 million in 2025. To achieve this goal, it has proactively improved logistics and trade facilitation in recent years. India's National Logistics Policy seeks to substantially reduce logistics costs, to bring them in line with global averages, while prioritizing digital technologies for efficiency. Early payoffs are already visible, with India reaching the 38th position in the World Bank's Logistics Performance Index in 2023 (Figure 2.30). Meanwhile, the National Committee on Trade Facilitation has achieved consistent progress in reducing import release times through digitalization, infrastructure improvement, and monitoring (Figure 2.31). India has also announced new trade related reforms in its latest Budget FY27, including a single platform for streamlined export incentives, rationalized tariffs by simplifying tariff structures and addressing inverted duty structure, tariff reduction on certain export products, and facilitating tax holidays and norms for foreign digital services providers.

FIGURE 2.30: LPI ranking vs. selected comparators



Source: World Bank LPI, 2024.

FIGURE 2.31: Import release time by entry point



Source: National Committee on Trade Facilitation (NCTF) 2025.

Since 2024, India has made significant strides toward a more open trade policy, underpinned by bilateral trade agreements with major partners. After concluding trade deals with four European Free Trade Association nations³⁰, the UK, Oman, and New Zealand (Details see Table 1), it finalized the “Mother of all deals” – the India–EU Free Trade Agreement (FTA) – on January 27, 2026³¹. The EU, taken together, is India’s largest trading partner, with bilateral goods trade valued at roughly €120 billion in 2024 (about 11.5 percent of India’s total goods trade; Figure 2.32) and services trade of €59.7 billion in 2023. The agreement provides India with zero-duty access for labor-intensive exports to the EU, while eliminating or reducing tariffs on more than 96 percent of the EU’s exports to India, by value. For service trade, the deal provides for easier visa access for Indian workers and students and gives privileged access for EU companies to India’s financial and maritime services. It also covers regulatory cooperation, rules of origin, sustainability provisions, and dispute settlement mechanisms, thus also aiming to reduce non-tariff barriers.

An interim trade agreement was reached with the US, but negotiations continue. In August 2025, the US—one of India’s largest trading partners—imposed a 50 percent tariff (25 percent reciprocal tariffs and an additional 25 percent related to India’s Russian oil purchases) on India’s goods exports (Figure 2.33). As a result, the estimated effective tariff rate on India’s goods exports to the US rose to about 36.2 percent, up from roughly 2.4 percent prior to April 2025 when the US started implementing reciprocal tariffs. An interim US–India trade arrangement was reached in February 2026, reducing the reciprocal tariff to 18 percent (see Table 2.2) and eliminating the 25 percent tariff related to Russian oil purchases. India, in return, agreed to eliminate or reduce tariffs on all US industrial goods and a range of agricultural products. These provisions, however, did not come into effect as the Supreme Court of the United States ruled the reciprocal tariffs unlawful. India is now subject to a 10 percent global tariff³² – corresponding to an average effective tariff rate at about 13 percent—imposed by the US under alternative authority.³³

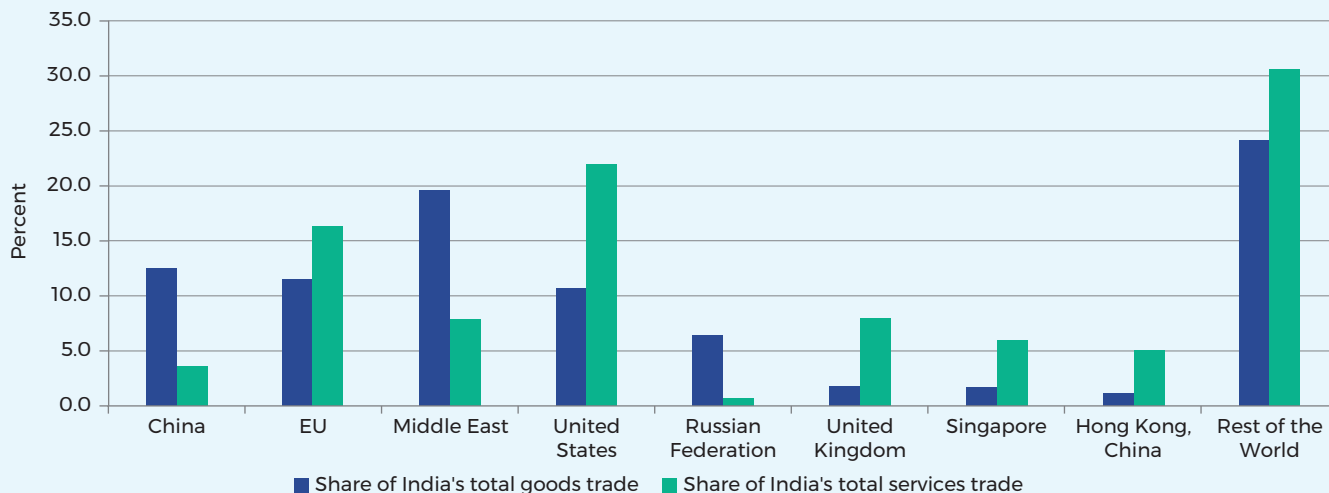
30 Iceland, Liechtenstein, Norway and Switzerland.

31 The deal awaits legal vetting, translation, and formal signing. It requires approval by EU Council, European Parliament consent, and approval by India’s Union Council of Ministers before entry into force.

32 For a country-specific tariff rate to be legally enforceable at the US border, it must be formally published either in the Federal Register or as guidance from US Customs and Border Protection, the agency responsible for collecting tariffs. The customs guidance for imposing temporary Section 122 duties was published on February 24, 2026, with rates set at 10 percent (not 15 percent) ([Customs guidance](#)). This means that when the Section 122 policy was actually imposed at the border, the tariff rate returned to 10 percent.

33 On March 11, 2026, The US Trade Representatives initiated Section 301 trade investigations across economies including India. Unlike the reciprocal tariff mechanism, Section 301 carries no cap on tariff rates, can target entire countries rather than specific sectors, and has no hard expiry date, as the indefinitely renewed China tariffs illustrate. The conclusions of these investigations are expected in July 2026.

FIGURE 2.32: India's top trading partners: goods and services



Source: World Integrated Trade Solution (WITS); WTO.

FIGURE 2.33: Timeline of US Tariff on India

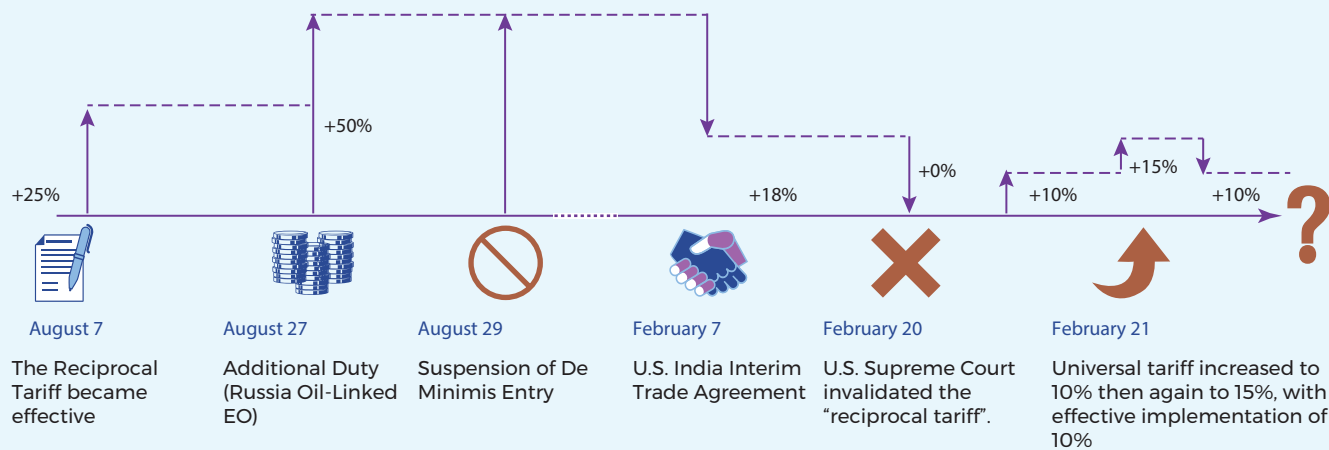


TABLE 2.2: Summary of India's recent trade deals and trade related reforms

Trade Deal	Status	Key Benefits for India	Key Benefits for the Counterpart
India-EFTA Trade & Economic Partnership (Iceland, Liechtenstein, Norway and Switzerland)	Signed 10 March 2024, effective 1 October 2025	Preferential tariff elimination on the majority of goods; deeper services and investment liberalization; \$100 billion investment pledge from EFTA over 15 years.	Access to a large and growing Indian market with reduced duties; investor protections; expanded services trade opportunities.
India-UK Comprehensive Economic & Trade Agreement (CETA)	Signed 24 July 2025	~99 percent duty-free access for Indian goods (textiles, marine, engineering goods, chemicals, pharma); easier services mobility; deeper market access; boost to exports.	UK exporters gain access to India with reduced duties on many goods (e.g., Scotch whisky over time); improved commercial cooperation and services integration.

Trade Deal	Status	Key Benefits for India	Key Benefits for the Counterpart
India-Oman Comprehensive Economic Partnership Agreement (CEPA)	Signed 18 Dec 2025.	Zero-duty access on ~99 percent of India's exports to Oman; services and investment openings; expanded professional mobility; FDI opportunities, including for AYUSH/traditional medicines.	Oman gains tariff reductions on many Indian goods; greater Indian FDI in services; expanded cooperation in services, health, and IT sectors.
India-New Zealand Free Trade Agreement	Concluded late 2025 (negotiated quickly).	Zero tariffs on 100 percent of Indian exports; tariff reductions on imported inputs; expanded services access (IT, professional, tourism, education); easier movement for skilled workers. (AajTak)	New Zealand exporters gain reduced tariffs on many commodities (e.g., lamb, wool, forestry products) and improved industrial and seafood access; quota improvements for key exports.
EU-India Free Trade Agreement	Concluded on 27 January 2026 but awaiting legal vetting, translation, and formal signing. Requires approval by EU Council, European Parliament consent, and approval by India's Union Council of Ministers before entry into force.	EU eliminates tariffs on 90 percent of tariff lines (99.3 percent by value), granting immediate zero duty on €33bn of exports (textiles, apparel, marine, leather, pharma, chemicals, gems); preferential access for tea, coffee, spices; expanded services access across 144 subsectors including IT and professional services; mobility framework for professionals; SME support and dispute settlement mechanism.	India liberalizes 86 percent of tariff lines (96.6 percent by value), sharply cutting auto tariffs (110 percent→10 percent with quota), eliminating/reducing duties on machinery, chemicals, pharma, aircraft, olive oil, wine and spirits; privileged access in financial and maritime services; stronger IP protection, sustainability commitments, and aligned rules of origin.
US-India Interim Trade Agreement	Framework agreement announced on February 6, 2026, but full agreement negotiations delayed due to the US Supreme Court ruling.	Reduction of U.S. reciprocal tariff from 25 percent to 18 percent (with removal of additional penalty tariff); elimination of U.S. tariffs on key Indian exports including generics, gems & diamonds, textiles, leather, chemicals, machinery; enhanced access for technology trade; clearer digital trade pathway.	India to eliminate/reduce tariffs on U.S. industrial and many agricultural goods; commitment to shift oil purchases toward US; ~\$500bn multi-year purchase commitment (energy, tech, agri, coal); removal of medical device and ICT import barriers; progress on digital trade disciplines and standards recognition; strengthened technology cooperation and rules of origin framework.
Export Incentives & Trade Support Reforms	Ongoing policy enhancements.	Rationalization of export incentives; GST relief; digital trade-facilitation (e-authorizations); targeted support for textiles, electronics, and SMEs.	These reforms enhance efficiency of trade with all partners by lowering costs and reducing barriers, benefiting global businesses interacting with India.

d. Fiscal developments and debt sustainability

The fiscal deficit of the central government narrowed in FY26, thanks to robust growth in non-tax revenues...

The central government's fiscal deficit narrowed to 4.5 percent of GDP in FY26, from 4.9 percent in FY25 (Figure 2.5). According to revised estimates, the center's total revenue increased from 9.7 to 9.9 percent of GDP in FY26 (Table 2.3), thanks to growth in non-tax revenues (up from 1.7 percent to 1.9 percent of GDP, primarily on account of higher dividends from the RBI and public sector enterprises) and a modest increase in corporate income taxes and disinvestment receipts from the sale of government shares in listed public sector companies (Figure 2.35 and 2.36). However, due to personal income tax changes introduced in the FY26 budget and the GST rate rationalization, effective from September 22, 2025 (see Box 2.5), personal income tax revenue fell from 3.9 to 3.8 percent of GDP, and GST revenue dropped from 3.2 to 3 percent of GDP.

FIGURE 2.34: The fiscal deficit narrowed in FY26

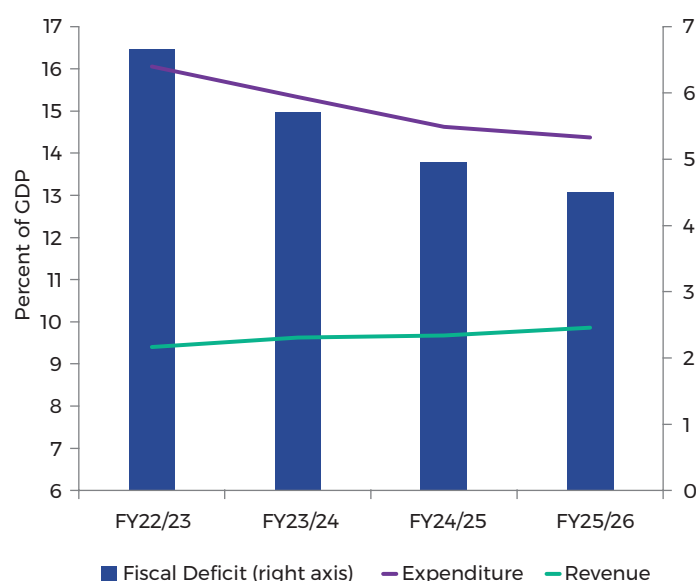
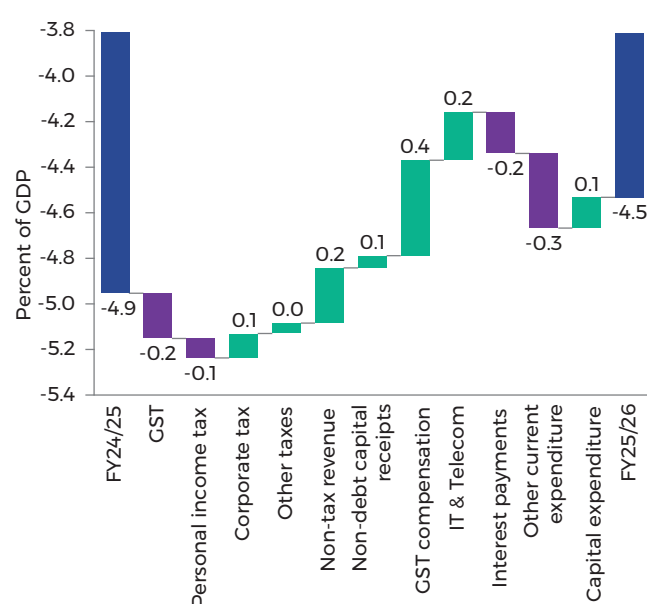


FIGURE 2.35: Non-tax revenue growth and expenditure consolidation helped reduce the fiscal deficit



Note: FY25 data are revised estimates. Data after FY23 expressed as a share of nominal GDP using the 2022-23 series.

Source: CEIC, Ministry of Finance, and World Bank staff calculations.

... and modest nominal growth in expenditure

At the same time, central government expenditures fell from 14.6 to 14.4 percent of GDP. While the overall composition of expenditures remained largely unchanged, capital expenditure growth slowed to 4.2 percent, down from 10.8 percent in FY25, partly due to lower capital transfers to Bharat Sanchar Nigam Limited (BSNL), the state-owned telecom company. Current expenditures increased by 7.4 percent, up from 3.1 percent in FY25. The primary drivers of the decline in total spending (as a share of GDP) included reductions in transfers to the GST Compensation Fund, following the discontinuation of GST compensation cess³⁴ and the decrease in capital transfers to BSNL. The largest increases in spending were related to interest payments and defense.

34 Even though the GST compensation cess has been discontinued, sin goods like tobacco and pan masala will be subject to increased central excise duties and a new Health Security cess to maintain or even increase the tax incidence on these goods.

BOX 2.5: Fiscal implications of personal income tax changes and GST 2.0

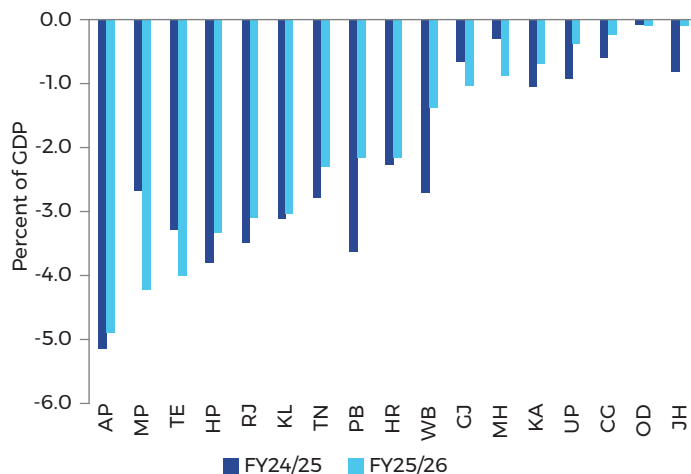
The government reduced personal income taxes in the Budget for FY26 to boost consumption. The Union Budget included several changes to the rates and structure of personal income tax. The tax-free income limit was raised from INR 300,000 to INR 400,000, tax slabs were revised upwards and the tax rebate was expanded so that individuals with taxable income up to INR 1,200,000 will not have to pay any income tax. These changes also resulted in lower effective tax rates for those earning more than these thresholds. At the time of the announcement, the government estimated a revenue loss of INR 1 trillion.

In September 2025, the government also implemented a GST reform aimed at streamlining the tax slabs and simplifying the tax structure. The (0, 5, 12, 18, and 28 percent) slab structure was rationalized into a (0, 5, 18, and 40 percent) structure, with two main rates – a 5 percent (merit rate) and a 18 percent (standard rate) – and an additional 40 percent (demerit rate) for luxury and “sin goods”. Most goods and services in the 12 percent slab were moved to the 5 percent slab, while most goods and services in the 28 percent slab were moved to the 18 percent slab. However, luxury goods, so called “sin goods”, and automobiles were moved from the 28 percent slab to the 40 percent slab to preserve revenues. Additionally, rates in the agriculture sector, particularly for fertilizers and farm equipment, were lowered. Rates for renewable equipment were also reduced to support the green transition. Labor-intensive industries, including textiles and handicrafts, also benefited from lower rates on their inputs. The government estimated a modest decline in revenues due to the reform of around INR 480 billion (0.15 percent of GDP).

Since October 2025, GST revenue growth has slowed considerably. After the GST reforms came into effect on September 22, 2025, year-on-year GST revenue growth slowed from 9.8 percent during April-September to 5.1 percent during October-January. If the trend observed in H1 FY26 had continued without the GST reform, revenue collection would have been INR 232 billion higher. As a result, the central government anticipates a contraction in GST revenue collection in FY27.

The fiscal impulse is visible in high frequency indicators of consumption. Following the GST rate rationalization and personal income tax cuts high frequency indicators of both rural and urban consumption improved, particularly automobile sales. GST rate cuts reduced prices for small cars, two-wheelers and commercial vehicles from 28 to 18 percent and that resulted in strong double-digit growth in sales and registrations of all these categories of vehicles.

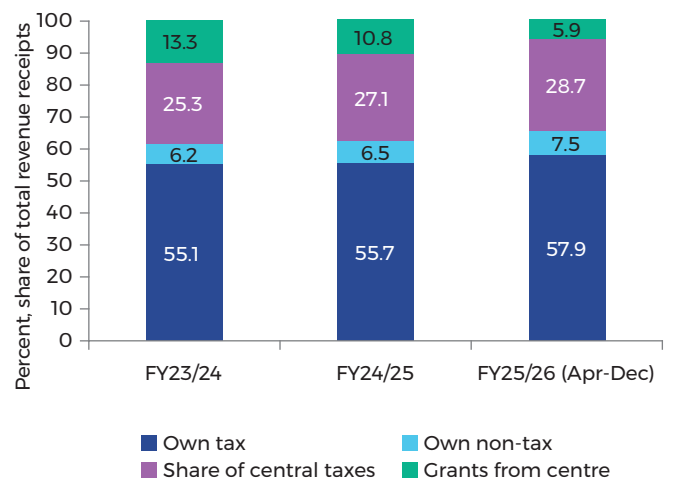
FIGURE 2.36: In the first three quarters of FY26, the fiscal deficit largely remained stable, relative to the same period of FY25



Note: Data based on monthly accounts.

Source: CAG and World Bank staff calculations.

FIGURE 2.37: The contribution of own-tax revenues and devolved taxes increased and central grants declined



The fiscal deficit of the states remained stable

The combined fiscal deficit of states is estimated to have remained at 3.3 percent of GDP³⁵ in FY26 (Figure 2.37). From April to December 2025, revenue collection increased by 6.9 percent y-o-y, driven by strong growth in tax revenues devolved from the central government (13 percent) and states' own non-tax revenues (10.8 percent) (Figure 2.38). However, grants from the central government fell by 14 percent y-o-y, mainly reflecting a reduction in revenue-deficit grants for certain states, as these grants were designed to be frontloaded during the first years of the 15th FC award period. The composition of spending shifted towards capital spending, which grew by 14.8 percent, while current spending only grew by 7.4 percent. Debt levels remained elevated for some large states, and aggregated state debt is estimated to have increased from 29.5 percent to 30.2 percent of GDP³⁶ (Figure 2.40). Strengthening state capacity and public financial management systems at the state level is crucial.

The public debt to GDP ratio increased

The general government fiscal deficit declined to 7.4 percent of GDP in FY26 (Figure 2.39) from 7.7 percent in FY25. However, due to a moderation in nominal GDP growth, public debt is estimated to have increased from 84.1 in FY25 to 84.9 percent of GDP in FY26.³⁷

FIGURE 2.38: The general government fiscal deficit declined in FY26, and the debt/GDP ratio increased marginally

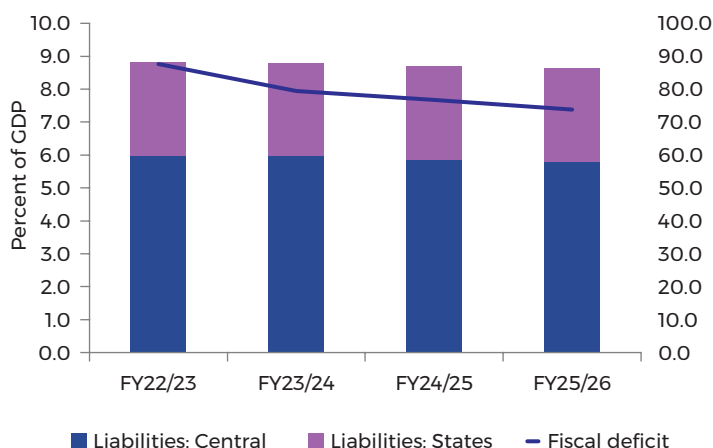
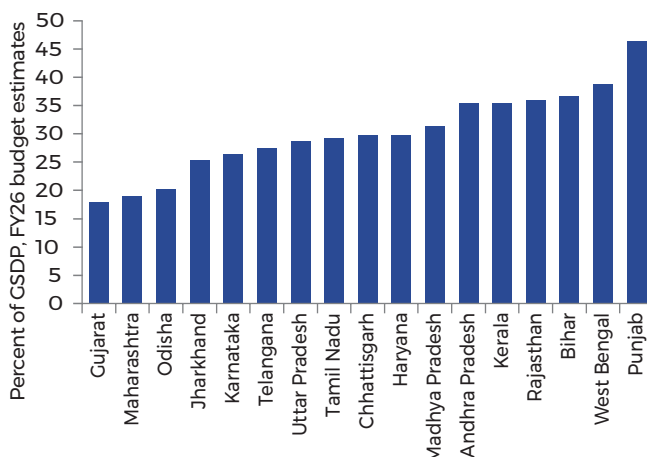


FIGURE 2.39: States' debt levels vary significantly



Note: General government fiscal balance adjusted for interest-free loans to states under the Scheme for Special Assistance to States for Capital Investment (SASCI).

Source: Ministry of Finance, RBI, MoSPI and World Bank staff calculations.

Financing needs were largely met from domestic sources

Sources of financing for government debt have remained stable over the past year, with domestic bond issuances accounting for around 70 percent of total borrowings for both the central and state governments. Most of the remaining financing needs are met through funds raised from household savings instruments (such as office deposits, savings certificates, and the Public Provident Fund) and pension funds of government employees held in the public account. External financing is estimated to have declined by over 56 percent in FY26, accounting for less than 1 percent of general government financing.

³⁵ Within the 3.5 percent of GSDP borrowing limit proposed by the central government (including the additional 0.5 percent of GSDP, conditional on the adoption of power sector reforms).

³⁶ Using nominal debt estimates from the RBI State Finances: A Study of Budgets 2025-26 report and nominal GDP as per the 2022-23 series.

³⁷ Both general government fiscal deficit and debt are World Bank staff estimates based on revised estimates for the central government, budget estimates for state governments and RBI data on debt using the 2022-23 nominal GDP series.

TABLE 2.3: Key fiscal indicators - Central Government

(percent of GDP)	FY23	FY24	FY25	FY26 (RE)	FY27 (BE)
Total Revenue	9.4	9.6	9.7	9.9	9.6
Tax	8.0	8.0	7.9	7.7	7.5
Non-tax	1.1	1.4	1.7	1.9	1.8
Non debt capital receipts	0.3	0.2	0.1	0.2	0.3
Total Expenditure	16.1	15.3	14.6	14.4	14.1
Current expenditure	13.2	12.1	11.3	11.2	10.9
Interest payments	3.6	3.7	3.5	3.7	3.7
Capital expenditure	2.8	3.3	3.3	3.2	3.2
Fiscal Deficit	6.7	5.7	4.9	4.5	4.5
Primary Deficit	3.1	2.0	1.4	0.8	0.8
Total liabilities	59.8	59.8	58.6	58.2	57.5

Note: According to the Central Government Budget released on February 2, 2026, prior to the GDP rebasing, the targets for the deficit-to-GDP and debt-to-GDP ratios for FY27 were set at 4.3 percent and 55.6 percent, respectively; a decrease from 4.4 percent and 56.1 percent in FY26.

Source: CEIC, MoSPI, World Bank staff calculations.

BOX 2.6: India's 16th Finance Commission (FC) recommendations and fiscal implications

The 16th Finance Commission (FC) has recommended a more disciplined approach to subnational fiscal management. While maintaining the vertical tax devolution at 41 percent of the divisible pool, the Commission recommended discontinuing grants-in-aid (revenue-deficit, state-specific, and sector-specific grants) to States for the period FY27 to FY31. This would be a significant reform as these grants amounted to about US\$11.5 billion on average per year over the 15th FC award period and, in some states, accounted for 28 percent of their total revenues. The rationale is to reduce reliance on gap-filling transfers and encourage states to strengthen their own fiscal positions. The Commission introduced a new criterion, “contribution to GDP,” into the horizontal devolution formula, assigning it a 10 percent weight. This change, which would not substantially alter the distribution of the inter-state shares of the horizontal devolution, aims to reward states that contribute more to national output, reflecting a balanced shift toward efficiency while maintaining an emphasis on equity in the allocation of FC transfers.

A tight fiscal consolidation path combined with reduced transfers could constrain state-level fiscal space if fully implemented. The Commission has also recommended a uniform fiscal deficit ceiling of 3 percent of GSDP for all states, starting in FY27, irrespective of their individual fiscal positions (see Figure 2.36 and Figure 2.39). Given many states' revenue-raising capacity constraints due to limited tax autonomy, the discontinuation of grants-in-aid could significantly tighten budget constraints for certain states, such as the Northeastern states, which have historically relied on these grants for a significant share of their revenues. Compliance with the recommended fiscal consolidation starting in FY27 will also be challenging, especially as many states currently struggle with very high fiscal deficits. The implementation of these recommendations will depend on the Central government, which has acknowledged or accepted them in principle at this time.

In addition to its recommendations for fiscal consolidation and grants-in-aid, the 16th FC has proposed a comprehensive structural reform agenda. To enhance macro-fiscal stability, the Commission proposed several key reforms for the power sector, subsidies, public sector enterprises, and centrally-sponsored schemes. These recommendations include privatizing or strategically restructuring loss-making electricity distribution companies (DISCOMs) to address ongoing financial losses, rationalizing state subsidies, and enhancing the efficiency and governance of public-sector enterprises at both state and central levels. Additionally, the Commission recommended streamlining centrally-sponsored schemes and eliminating off-budget borrowing by the states.

Finally, the Commission emphasized the need to strengthen local governments' capacity and resources. It has doubled the allocation of local government grants for its award period compared to the 15th FC allocation, with a greater focus on urbanization-related investments. Additionally, an urbanization-premium grant has been introduced to encourage the urban transition of Census towns. These reforms reflect the expected role of cities in delivering services efficiently and driving economic growth.

BOX 2.7: India's FY27 Union Budget and scenarios for medium-term debt reduction

India's fiscal framework is evolving toward medium-term sustainability while promoting growth-enhancing investments and reforms at the Union level, along with enhanced fiscal discipline at the State level. The FY27 Central Government Budget can be characterized in three ways: first, gradual fiscal consolidation while prioritizing growth-enhancing expenditures; second, structural reforms to encourage private investment; and third, a shift from short-term fiscal deficit targets to a medium-term framework anchored in public debt.

To support growth while maintaining gradual fiscal consolidation, the Central Government Budget for FY27 prioritizes strategic infrastructure investments and job-creation initiatives. The F26/27 budget aimed to reduce the fiscal deficit by only 0.1 percentage points of GDP, from 4.4 percent to 4.3 percent. The budget also increased allocation for infrastructure, urban development, housing, water supply, and employment-linked programs. This reflects the government's strategic goal of leveraging public investment to stimulate private sector activity, boost productivity growth, and support job creation.

The FY27 Budget includes several policy measures to strengthen domestic manufacturing and facilitate private investment, ultimately driving economic growth that could help reduce debt-to-GDP ratios. Targeted sectors include biopharma, critical minerals, chemicals, semiconductors, electronics, and textiles. The goal is to increase production capacity and foster ecosystem development, including skills formation and institutional support. The establishment of an Infrastructure Risk Guarantee Fund, which provides partial credit guarantees for infrastructure projects, aims to improve project bankability and encourage greater private participation. Additionally, the budget includes measures to support MSMEs and labor-intensive sectors by improving access to credit; leveraging the Trade Receivables Discounting System (TReDS)³⁸, the invoice discounting platform, and enhancing its linkages with public procurement; and streamlining compliance processes.

The central element of the Central government's new fiscal framework is the adoption of a debt-to-GDP ratio as the primary fiscal anchor, with a medium-term objective of reducing public debt to 50 ± 1 percent of GDP by FY30/31. By shifting from short-term fiscal deficit targets to a medium-term debt anchor, the Central Government aims to maintain flexibility in annual budget outcomes while focusing on medium-term objectives. The framework seeks to balance fiscal consolidation with the need for growth-enhancing public spending.

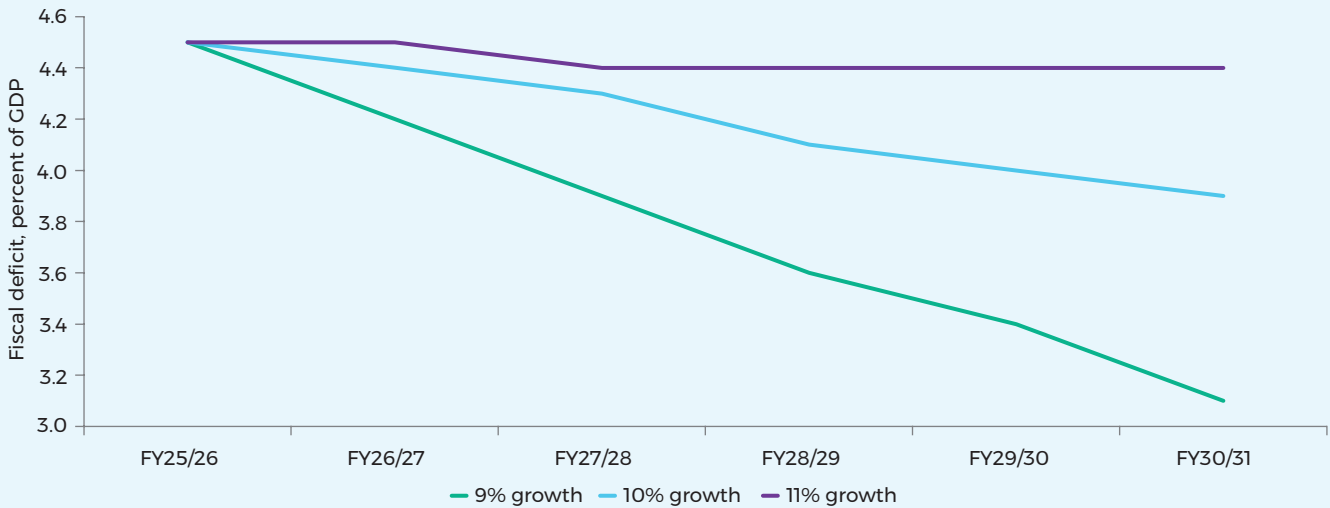
The drop in nominal GDP after GDP rebasing has increased the debt-to-GDP ratio. Following the GDP rebasing exercise, the central government's debt-to-GDP ratio jumped to 58.2 percentage points in FY26 (from around 56 percent using the old series). The fiscal consolidation path required to meet the central government's medium-term debt target of 50 ± 1 percent will depend on nominal GDP growth going forward.

38 TReDS is a digital platform regulated by the RBI that allows MSMEs to discount their trade receivables (invoices) from corporate buyers, including public sector entities. This process ensures quick access to liquidity and enables competitive bidding among multiple financiers, thereby providing low-cost and fast financing. This helps reduce working capital gaps for small businesses.

The magnitude of consolidation required to achieve the target will depend on growth outcomes. If nominal GDP growth averages around 11 percent, reaching the upper end of the debt target (51 percent) by FY30/31 could be achieved with marginal consolidation of the fiscal deficit from the current 4.5 percent to 4.4 percent. However, if nominal GDP growth averages 9 percent, sharp fiscal consolidation would be required, reducing the current fiscal deficit from 4.5 percent to 3.1 percent (Figure 2.41).

A consistent and gradual fiscal consolidation is required in the historical growth scenario. If nominal GDP growth remains aligned with its 3-year average of around 10 percent, a consistent and gradual reduction of the fiscal deficit to around 3.9 percent of GDP by FY30/31 will be enough to achieve the debt target. This will require both containing growth in expenditure and maintaining robust revenue growth.

FIGURE 2.40: Slower nominal growth will require sharper fiscal consolidation to achieve the medium-term debt target



Source: CEIC, MoSPI, World Bank staff calculations.

3. OUTLOOK

Global economic growth is projected to moderate

In the January 2026 edition of the World Bank's CEP, global growth was projected to slightly moderate to 2.6 percent in 2026 from 2.7 percent in 2025 due to heightened trade policy uncertainty and higher tariffs. Since then, the conflict in the Middle East has added a new potent source of uncertainty and it is likely that global growth projections will be adjusted downwards. Elevated energy prices and supply chain disruptions—especially disrupted shipping flows through the Strait of Hormuz—are expected to increase inflationary pressures across economies (particularly in energy import-dependent countries), dampen private consumption, and erode investor confidence.

India's GDP growth was initially projected at 7.2 percent in FY27...

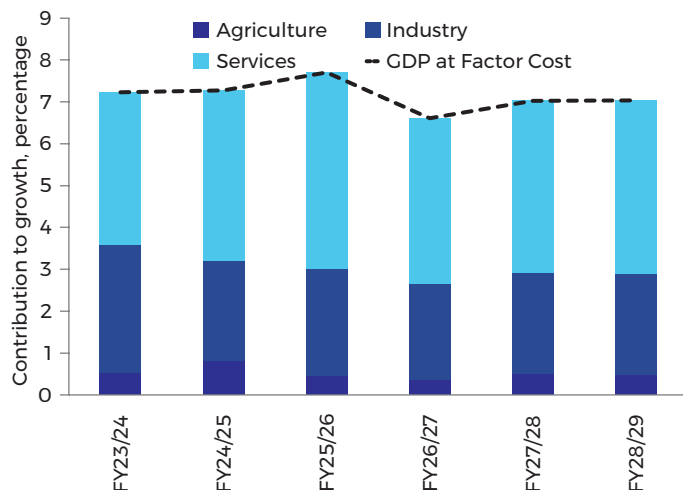
In the absence of the conflict, GDP growth was projected at 7.2 percent, reflecting a better-than-expected FY26 outturn, strong initial momentum in the last quarter as indicated by high-frequency data, and a broad pro-growth reform agenda. The latter includes the GST rationalization, labor market modernization through the new labor codes, SME support schemes, a landmark FTA with the EU, an agreement with the US to end the 50 percent US tariffs on Indian exports, reduced import tariffs on intermediate goods, and eased FDI regulations.

...with the conflict in the Middle East, India's economic growth is projected to moderate but remain strong

Growth is now projected at 6.6 percent in FY27, reflecting headwinds from the Middle East conflict—assuming an extended disruption in global energy (oil and gas) supply till end-2026³⁹. Private consumption is expected to slow modestly as higher global oil prices will raise inflationary pressures and reduce household disposable income. The reduction in GST rates introduced in September 2025 is expected to soften the impact of inflationary pressures. Government consumption is expected to slow, as efforts to preserve fiscal consolidation constrain nonessential current spending to offset higher subsidy outlays for cooking gas and fertilizers, as well as excise duty cuts. Investment growth is expected to be impacted by elevated global financial market volatility, which will affect market sentiment and delay investment decisions by firms. Merchandise exports may remain relatively resilient as US tariffs ease and new FTAs—particularly with the EU—come into effect—softening the impact of lower demand from Gulf countries. However, stronger import demand for capital goods will limit the overall contribution of net exports to growth.

39 The baseline scenario assumes severe disruptions to shipping through the Strait of Hormuz, coupled with reduced regional oil and gas supply, resulting in a global oil and gas supply reduction for several months, with shipping disruptions dissipating by late 2026..

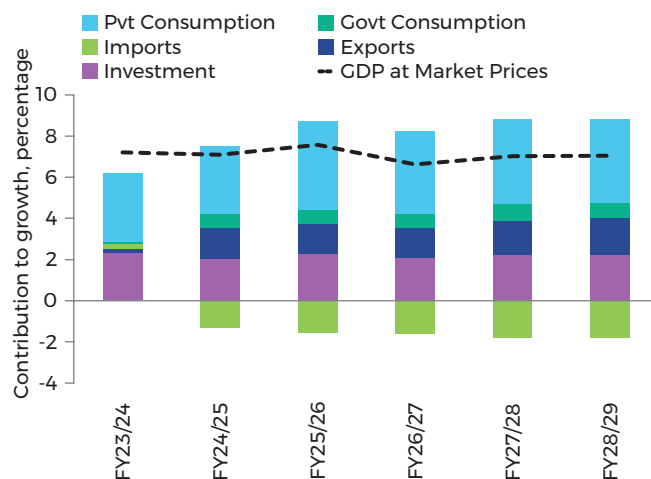
FIGURE 3.1: Industry and services growth expected to moderate in FY27



Note: *Others mainly include discrepancies.

Source: CEIC, MoSPI, and World Bank staff calculations. Growth in the services sector is expected to slow down due to a high base of comparison in FY26, along with a global slowdown that dampens demand for services exports.

FIGURE 3.2: A slight moderation in investment and consumption in FY27



Higher input costs due to external headwinds will weigh on most sectors

On the supply side, industrial activity is projected to moderate modestly in FY27 (Figure 3.1). Industrial activity will continue to be supported by manufacturing—particularly electronics, automobiles, and other tradable goods—benefiting from enhanced access to export markets and announced projects in the Union Budget for FY27. However, higher input costs and decreased export demand from the Gulf region will weigh on overall industrial growth. Business services are likely to be impacted by the global economic slowdown and higher input costs (particularly of LPG) will adversely impact food and accommodation services.

Growth is expected to remain stable over the medium term

In a baseline scenario that assumes a normalization of supply chain disruptions related to the Middle East conflict by late 2026, growth should rebound and average 7.1 over FY28-FY29. On the demand side, private consumption growth is expected to remain strong, while a sound financial sector and greater trade openness are expected to facilitate private investment. On the supply side, robust growth in the services sector will continue, supported by resilient services exports and stronger domestic demand. Manufacturing will benefit from government initiatives such as the policy support for strategic sectors and MSMEs, and deregulation aimed at reducing barriers to investment.

Headline inflation is expected to remain at the target over the medium term

Headline inflation is expected to rise to 4.9 percent in FY27, as food prices normalize from a low base and elevated global oil prices translate into higher transport and input costs (equivalent to a 90-basis-point increase from the absence of conflict baseline). The extent of pass-through of global energy prices is expected to be partial, as Oil Marketing Companies (OMC) and the government are expected to absorb some of the impact (through OMC’s profit margins and the government’s higher subsidy outlays for fertilizer and cooking gas, and reductions in excise duties on fuel) to prevent a sharp increase in domestic prices. Over the medium term, headline inflation is expected to moderate and converge toward the RBI’s 4 percent target, as headwinds from global oil and gas prices dissipate.

The CAD is expected to widen, then stabilize at around 1.1 percent of GDP over the medium term

The CAD is expected to increase to 1.8 percent of GDP in FY27 due to a higher oil import bill driven by price effects. Over the medium term, the CAD is expected to average 1.0 percent of GDP, with increased demand for capital goods imports. The deficit will be effectively financed by foreign direct investment (FDI) inflows, buoyed by bilateral trade agreements. Furthermore, structural reforms aimed at enhancing the business environment—such as reducing quality control orders—and recent budget announcements, including a tax holiday for data centers, will also encourage FDI. Foreign portfolio flows are expected to remain volatile amid heightened global uncertainty and financial market volatility. Foreign exchange reserves will continue to provide sufficient coverage for adverse external developments.

Fiscal consolidation is expected to continue, but at a slower pace

The general government fiscal deficit is projected to widen to 7.6 percent of GDP in FY27, as the government increases subsidy outlays and cuts excise duties⁴⁰ to contain domestic price increases driven by elevated global energy prices. However, overall expenditure is expected to be contained by reductions in non-essential current expenditures and slower public capex growth. Over the medium term, the overall fiscal deficit is projected to decline gradually, supported by continued consolidation in current spending and stabilization of capital expenditure as a share of GDP. Revenue losses from income tax cuts and the rationalization of GST rates are expected to be partly offset by strong non-tax revenue growth. The expected decline in the fiscal deficit and higher nominal GDP growth should contribute to a gradual reduction in the general government public debt-to-GDP ratio to below 81 percent by FY29.

Risks to the outlook are tilted to the downside

There are substantial downside risks to the outlook. A prolonged conflict in the Middle East that continues to disrupt shipments or damage critical energy infrastructure could keep oil and natural gas prices elevated for a longer period and raise fertilizer input costs. Although India can absorb temporary shocks, its reliance on energy imports from the region leaves the external balance, inflation, and fiscal position vulnerable. A disrupted labor market in Gulf economies (which account for nearly 38 percent of India's remittance inflows) could significantly lower remittances. Combined, these factors could further widen the CAD and put pressure on the rupee. Fiscal risks would also rise if measures to fully limit fuel-price pass-through to consumers—such as excise rate cuts and increased subsidies—reverse consolidation efforts. Although energy-source diversification and policy buffers provide some insulation from external shocks, persistently high global energy prices would eventually lead to higher retail inflation, weigh on domestic demand, and overall growth.

⁴⁰ Higher oil and fertilizer prices would increase fuel and fertilizer subsidy expenditure by 0.2 percentage points of GDP if higher input prices persisted for a year. Similarly, if the recently announced excise cuts of INR10/l remained in place through the financial year, revenues would fall by 0.4 percentage points as a share of GDP. In the baseline we assume that the price shock will be temporary and oil prices will moderate over the fiscal year so the overall effect on the fiscal deficit is smaller.

TABLE 3.1: Macroeconomic Outlook indicators

(percent y-o-y change, unless otherwise indicated)	FY24	FY25	FY26	FY27	FY28	FY29
Real GDP Growth, at constant market prices	7.2	7.1	7.6	6.6	7.2	7.0
Private Consumption	5.8	5.8	7.7	7.0	7.6	7.2
Government Consumption	0.6	6.5	6.6	6.3	7.8	7.2
Gross Fixed Capital Formation	7.3	6.4	7.1	6.7	7.1	7.0
Exports, Goods and Services	0.7	6.6	6.5	6.5	7.5	8.0
Imports, Goods and Services	-1.0	5.3	6.4	6.7	7.5	7.4
Real GDP Growth, at constant factor prices	7.2	7.3	7.7	6.6	7.2	7.0
Agriculture	2.6	4.2	2.4	2.0	3.0	3.0
Industry	10.9	8.3	8.8	7.5	8.0	7.9
Services	7.0	7.9	9.0	7.5	8.1	7.8
Inflation (Consumer Price Index)	5.4	4.6	2.3	4.9	4.4	4.0
Current Account Balance (% of GDP)	-0.7	-0.6	-1.0	-1.8	-1.3	-0.6
Net Foreign Direct Investment, Inflow (% of GDP)	0.3	0.0	0.5	0.6	0.7	0.6
Fiscal Balance (% of GDP)	-7.9	-7.7	-7.4	-7.6	-7.5	-7.2
Revenues (% of GDP)	21.3	22.6	23.1	23.1	22.7	22.6
Debt (% of GDP)	85.0	84.1	84.5	84.4	82.5	80.9
Primary Balance (% of GDP)	-2.7	-2.6	-2.3	-2.7	-2.7	-2.6

Source: CEIC, MoSPI, World Bank staff calculations.




4. TECHNICAL ANNEX: INDIA'S GDP REBASING SAME ECONOMY, DIFFERENT STORY?

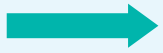
India rebased its GDP series from 2011-12 to 2022-23 as part of the regular exercise to improve the accuracy, relevance, and credibility of national accounts. Consistent with international practice, rebasing incorporates newer data sources, revised price and volume measures, strengthened supply-use tables for balancing demand and supply-side estimates, and closer alignment with international statistical standards. However, unlike most developing country rebasing episodes—which typically result in upward revisions to GDP levels and growth—India's rebasing led to a downward revision in nominal GDP levels, reflecting improved estimates of private consumption, the informal sector, and services value added. Revisions to historical growth rates varied across years, raising growth in more recent years and decreasing it in the years following COVID, resulting in smoother and more internally consistent growth profiles. Beyond growth and levels, the rebasing also affected GDP-denominated fiscal and external indicators (with upward revisions to fiscal-deficit-to-GDP, current-account-deficit-to-GDP, and debt-to-GDP ratios) and altered assessments of sectoral contributions, pointing to a broader-based growth than previously estimated, underscoring how methodological updates can reshape measured outcomes without altering the underlying economic reality.

What is GDP rebasing?

GDP rebasing is the process of updating the base year from which national accounts are estimated. Typically, it also involves introducing new and improved data sources to proxy economic activity. India—as most other countries—carries out fixed-weights GDP estimation; a base year serves as the reference year from which price structures are used as weights for future years' output in real GDP calculation (see Box 4.1). To account for changes in the structure of the economy over time—such as the emergence of new industries, technological shifts, or the evolution of the informal sector—it makes sense to periodically update the base. Replacing the outdated base year with a more recent year, commonly referred to as “rebasings”, incorporates new sectoral composition and more accurate relative prices, thereby providing a more accurate representation of the current economic structure.

BOX 4.1: Illustration of Fixed-weights GDP Estimation

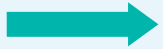
REAL VS. NOMINAL GDP CALCULATION				
Category	Prices in Year 0 (Base Year)	Output in Year 0	Prices in Year 1	Output in Year 1
Apple 	\$10	1000	\$12	1010
Car 	\$20000	1	\$21000	2
Books 	\$25	2000	\$26	2010



$$\begin{aligned}\text{Real/Nominal GDP in Year 0} &= \sum (\text{Price in year 0}) \times (\text{Output in year 0}) \\ &= \$10 \times 1000 + \$20000 \times 1 + \$25 \times 2000 = \$80000\end{aligned}$$

$$\begin{aligned}\text{Real GDP in Year 1} &= \sum (\text{Price in year 0}) \times (\text{Output in year 1}) \\ &= \$10 \times 1010 + \$20000 \times 2 + \$25 \times 2010 = \$100350\end{aligned}$$

$$\begin{aligned}\text{Nominal GDP in Year 1} &= \sum (\text{Price in year 1}) \times (\text{Output in year 1}) \\ &= \$12 \times 1010 + \$21000 \times 2 + \$26 \times 2010 = \$106380\end{aligned}$$



$$\begin{aligned}\text{Real GDP growth in Year 1} &= (\text{Real GDP in Year 1} - \text{Real GDP in Year 0}) / \text{Real GDP in Year 0} \times 100\% \\ &= (\$100350 - \$80000) / \$80000 \times 100\% = 25.4\%\end{aligned}$$

$$\begin{aligned}\text{Nominal GDP growth in Year 1} &= (\text{Nom GDP in Year 1} - \text{Nom GDP in Year 0}) / \text{Nom GDP in Year 0} \times 100\% \\ &= (\$106380 - \$80000) / \$80000 \times 100\% = 33.0\%\end{aligned}$$

GDP rebasing involves both statistical and methodological improvements, which can be grouped into four broad categories:

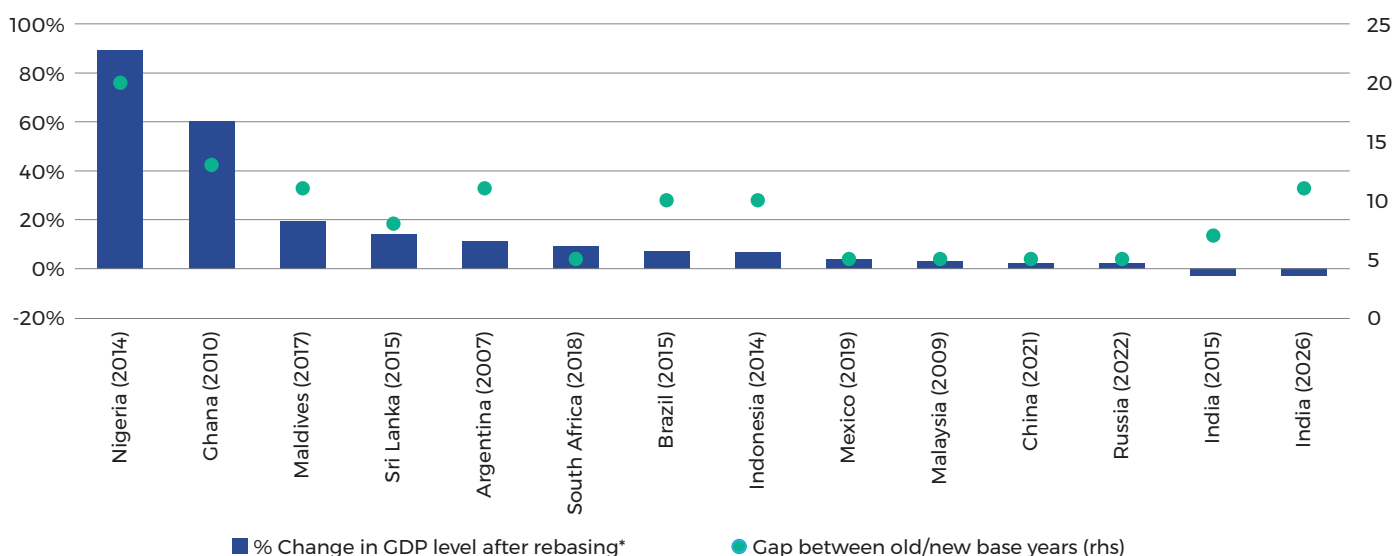
- **Incorporating new and richer data sources:** Rebasing often leverages new data sources (to proxy for real economic activity, which is too complex and large to be measured directly and entirely), such as tax records, business registries, corporate financial filings, and household surveys. The integration of these sources improves the benchmark estimates of GDP in the base year.
- **Using updated supply and use tables (SUTs):** GDP can be measured from the production side (adding up the value added generated by the economy), or from the demand side (aggregating all of the expenditures in the economy). The first method identifies which sector of the economy (agriculture, industry, or services) drove growth, and the latter identifies which source of demand (consumption, investment, or net exports) contributed to it. By construction, both approaches must yield the same result. In practice, that is not the case because of imperfect estimates, and the gap is recorded as “statistical discrepancies” on the expenditure side. It is important to minimize discrepancies, as large ones undermine the reliability of demand-side dynamics. SUTs match the availability of goods and services (i.e., production) with their uses (i.e., expenditure) from diverse sources and are used to reconcile the gap between the production and expenditure sides of GDP. As more and better data become available at the detailed sectoral level, the role of SUTs can be strengthened to reduce, or even eliminate, discrepancies, thereby enabling more accurate GDP estimation.
- **Improving deflator calculation:** Real GDP is typically—in most countries—derived by adjusting nominal GDP for price changes using a “deflator”. Identifying the deflator, however, is particularly difficult because it entails in reality a multiplicity of different price indices for different sectors and geographies. Updated deflators drawing on new producer price indices (PPIs), services price indices, and revamped CPI indices with updated consumption composition reduce price-measurement distortions and enhance the accuracy of aggregate and sectoral real GDP estimates.
- **Alignment with international standards:** As economies evolve, international statistical standards are periodically updated to reflect changes in economic structure and measurement practices,

such as the reclassification of industries and products. Alignment with updates to international standards is essential for maintaining cross-country comparability and for an appropriate representation of evolving economic structures.

Impact of GDP rebasing varies across countries

By changing how economic activity is measured, GDP rebasing can result in significant revisions to an economy's size and growth trajectory. For instance, if previously undervalued or excluded economic activities are captured or reweighted, this can lead to revisions in the size of the economy and past GDP growth rates. In addition, since many macroeconomic indicators—such as debt and the fiscal deficit—are expressed as a share of nominal GDP, rebasing mechanically changes those ratios. The direction and magnitude of the change in GDP levels depend on initial statistical gaps, the pace of structural transformation, and the scale of methodological changes.

FIGURE 4.1: Selected GDP rebasing cases after 2000: gaps between base years and magnitudes of nominal GDP level revisions



Note: * = “% change in GDP level after rebasing” is calculated as the percentage change between the new and old nominal GDP series in the new base year; “Gap between old/new base years” measures how many years there were between the old and new base year; the longer the gap, the old base year is more likely to deviate from the recent economic structure; numbers in the bracket shows the years when the rebased series were released.

Source: CEIC, Haver Analytics, World Bank staff calculations.

Economic Size

Most developing countries experience an increase in nominal GDP levels following a rebasing, with a few exceptions. Well-documented cases across Africa and Asia illustrate nominal GDP increase of 5–30 percent following a rebasing, with the largest effects typically observed where base years were particularly outdated. For instance, when Ghana updated its GDP base year after 13 years, nominal GDP increased by about 60 percent. Similarly, in Nigeria, Nominal GDP increased by nearly 90 percent, following a rebasing after about two decades (Figure 4.1). These upward revisions mostly reflect expanded coverage of previously under-measured activities, such as new types of services, the informal sector, digital transactions, and urban self-employment. Rebasing can also lead to downward revisions when outdated indicators used to estimate sectoral growth had overestimated actual outcomes. (Box 4.2).

Economic Growth

Historical growth rates, whether nominal or real, can rise, fall, or remain unchanged. Changes in GDP growth rates depend on the relative revisions to GDP levels across adjacent years. For instance, an emerging sector may initially grow slowly than the rest of the economy but later become a growth engine. Including this emerging sector in the revamped historical series lowers estimate growth in earlier years while raising growth in more recent years. More generally, methodological updates vary by year, leading to varying revisions in annual real GDP growth. Nevertheless, international experience indicates that rebasing typically smooths growth profiles by correcting data errors, capturing higher levels of economic diversification, and reducing volatile statistical inconsistencies, such as statistical discrepancies. For example, following Nigeria's 2025 rebasing (updating the base year from 2010 to 2019), GDP levels rose sharply by more than 40 percent, but growth rates for some earlier years were revised downward, mainly reflecting changes in estimated growth in the oil and telecom sectors (Figure 4.2). In the case of Kenya's rebasing in 2014, growth revisions were small, but volatility declined, especially in agriculture and services (Figure 4.3).

FIGURE 4.2: GDP level increased in Nigeria 2014 rebasing, but growth decreased for some years

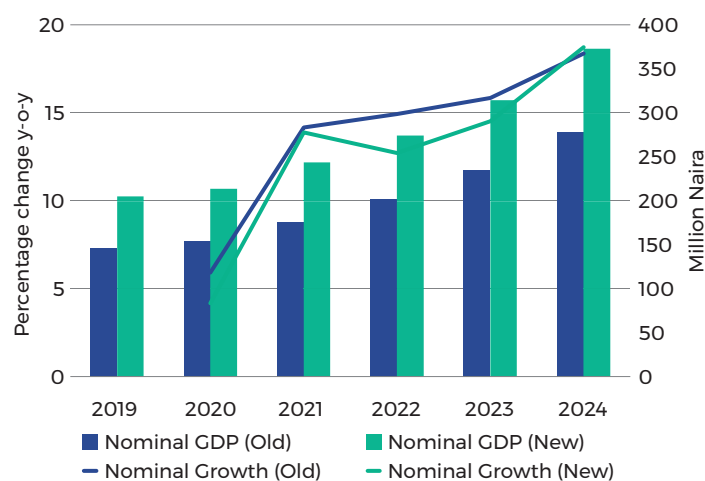
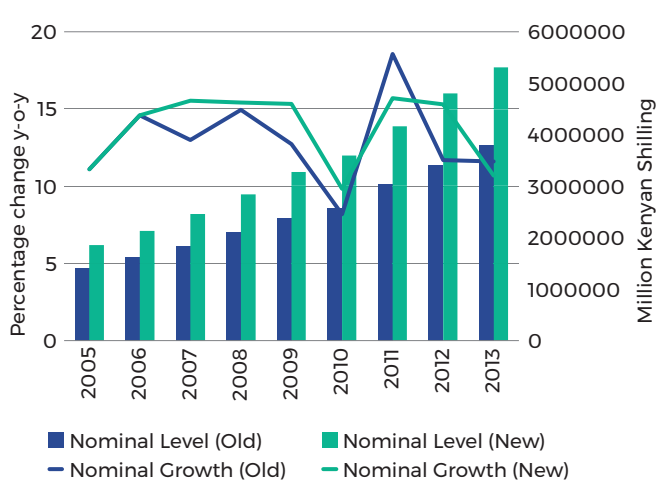


FIGURE 4.3: Small nominal growth revisions but less volatility in Kenya 2014 rebasing



Source: CEIC; Nigeria National Bureau of Statistics; Kenya National Bureau of Statistics.

GDP-denominated ratios

The mechanical impact on GDP-denominated ratios is mostly on fiscal and external account indicators.

Fiscal indicators, such as debt-to-GDP, and fiscal deficit ratios, improve mechanically following upward revisions to nominal GDP, even when the underlying fiscal position is unchanged. Similarly, external sector indicators, like current account balances and external debt ratios, would appear more favorable in GDP terms, while downward GDP revisions mechanically worsen these indicators. For example, following Nigeria's 2025 rebasing, nominal GDP increased by around 30 percent, mechanically lowering the total government debt-to-GDP ratio from around 52 percent to 39.8 percent, despite unchanged nominal debt.

Economic Narratives

Rebasing changes estimates of sectoral contribution to GDP and growth, thereby affecting how policymakers and analysts interpret an economy's growth and structural transformation.

Contributions from new or emerging sectors—such as ICT services, professional services, platform-based activity, urban self-employment, and household enterprises—are difficult to measure accurately with outdated

surveys. Rebasing incorporates these evolving patterns, providing critical and more accurate information to policymakers on fast-growing sectors, structural change, productivity, and diversification trends. In addition, the methodological improvements correct biases and enhance the credibility of statistics. For instance, India's 2015 rebasing lowered nominal GDP by about 3 percent, while revising real GDP growth in FY13/14 upward from 5.0 percent to 6.4 percent. The share of industry in GDP increased by 6 percentage points, and industrial growth was revised from 0.4 percent to 3.8 percent.

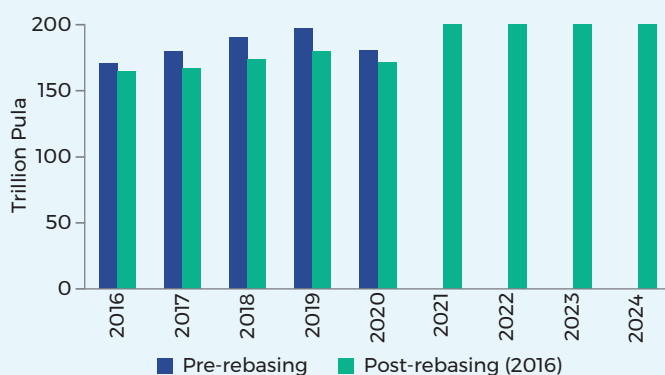
BOX 4.2: Cases where GDP levels were revised downwards: Botswana's 2021 rebasing and India's 2015 rebasing

While most developing countries experienced an upward revision in nominal GDP after rebasing, the opposite occurred in a handful of cases.

Botswana's GDP rebasing to a 2016 base year, published in 2021, resulted in a small downward revision of benchmark-year GDP of about 3.6 percent compared with previous estimates (Figure 4.4). The change mainly reflected methodological improvements and updated data sources, including the adoption of the 2008 System of National Accounts (SNA), the construction of Supply and Use Tables, new enterprise survey data, and a revised industrial classification system. A key driver of the downward revision was a large reduction in measured taxes on products (about 51.5 percent) after harmonizing the treatment of customs and excise revenues with regional rules under the Southern African Customs Union.

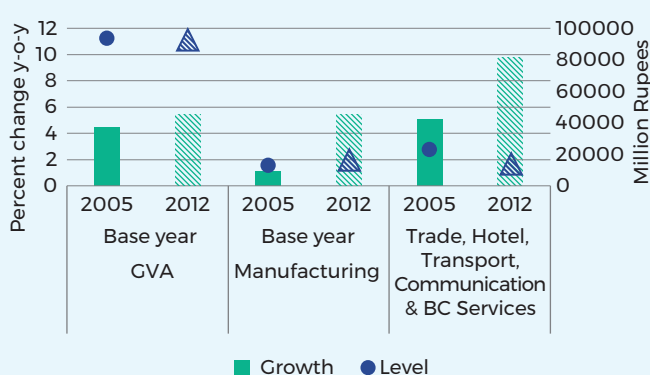
India's 2015 GDP rebasing also resulted in a modest downward revision of GDP levels of about 3 percent, largely due to revisions in the estimated size of the trade sector. The main reason was that improved data and methods indicated that trade activity, an important part of India's large services sector, had been somewhat overestimated in the earlier series. In particular, the revised estimates incorporated better information on private corporate firms and applied a more refined approach to measuring activity in the large unorganized segment of the trade sector.⁴¹ Together, these changes reduced the estimated value added in the trade sector in the base year, while modestly strengthening measured growth in subsequent years (Figure 4.5).

FIGURE 4.4: Botswana's nominal GDP levels declined by over 3.6 percent in the new base year



Source: CEIC.

FIGURE 4.5: India 2015 GDP rebasing: Key sectoral changes (Level and Growth Rates)



Source: MoSPI, CEIC, World Bank staff calculations.

41 In the earlier series, estimates for the trade sector relied on older surveys and indirect methods. Value added for private corporate firms (organized) was derived from sample studies conducted by the Reserve Bank of India, while activity in the unorganized sector was estimated using a labor-input approach that multiplied the number of workers by assumed productivity levels. In the revised series, new data sources, most notably the MCA21 corporate database maintained by the Ministry of Corporate Affairs, provided broader coverage of private corporate firms. Meanwhile, estimation methods for unorganized trade units were refined by differentiating productivity across types of workers.

India's 2026 GDP rebasing

What has changed?

In its 2026 GDP rebasing process, the National Statistics Office (NSO) updated the base year from 2011-12 to 2022-23 and introduced statistical and methodological enhancements aligned with the four broad objectives discussed earlier.

i. New data sources

The 2022-23 series incorporates new surveys and data sources. The new series uses data from the Household Consumption Expenditure Survey (HCES) 2022-23, Periodic Labour Force Survey (PLFS) available annually since 2017, Annual Survey of Unincorporated Sector Enterprises (ASUSE) 2022-23, and the All-India Debt and Investment Survey (AIDIS) 2019. New sources of data include MGT-7 filings⁴² with the Ministry of Corporate Affairs (MCA), the Statistical tables related to Banks in India, Goods and Services Tax (GST) filings, data from the Public Financial Management System (PFMS), updated rates and ratios from expert sectoral studies on grass and fodder, fisheries, milk and milk products, and transport services, and vehicle registration data. Together, these new data sources improve coverage and value-added estimation, particularly for the informal sector, and enhance the accuracy of sectoral allocation of economic activity.

- **The use of ASUSE and PLFS enables a more accurate measurement of informal sector activity.** In the 2011-12 series, detailed benchmark GVA estimates of the informal sector were calculated for the base year, while growth in the informal sector was indirectly estimated by extrapolating these benchmark estimates. In the 2022-23 series, the NSO relies on annual surveys, using productivity estimates from ASUSE and workforce estimates from PLFS, to estimate informal activity more directly.
- **The 2022-23 series relies on more regular household consumption surveys and production datasets to improve consumption estimates.** The previous 2011-12 series relied on the commodity flow approach, deriving consumption residually from production data for most items. The 2022-2023 series uses the HCES 2022-2023 along with population projections from the Ministry of Health and Family Welfare to derive benchmark estimates for 61 items, production volume measures for 34 items, and the commodity flow approach for the remaining items. Benchmark estimates will also be updated dynamically whenever new HCES results become available.

ii. The integration of the Supply-Use tables

The Supply-Use Tables (SUT) framework is integrated into annual accounts to eliminate or reduce statistical discrepancies. In the 2011-12 series, residual differences between demand- and supply-side estimates of GDP were reported as statistical discrepancies. The magnitude of these statistical discrepancies' contribution to y-o-y growth was very significant and did not diminish with subsequent data revisions. In the 2022-23 series, the NSO uses the SUT framework to balance the supply and use of goods and services in annual accounts, limiting discrepancies in early (advance) estimates and eliminating them in the final estimates.

⁴² Form MGT-7 is an annual mandatory electronic return filed by companies which captures non-financial information like governance, management and ownership. The forms will be used to capture better information on multi-activity corporate enterprises.

iii. Improvement in the calculation of the deflators

The 2022-23 series improves real GDP estimation through the use of double deflation in manufacturing and extrapolation methods in other sectors. The 2011-12 series were calculated using the single deflation method to estimate real GDP and real GVA, except for agriculture and transport sector. However, single deflation can lead to measurement errors if input and output prices move in opposite directions or at different rates. To address this issue, the 2022-23 series applies double deflation method to most manufacturing sectors. As double deflation is data-intensive and requires input-output tables or input price indices that are not available for all sectors, the series uses volume- or single-extrapolation methods elsewhere as a second-best alternative.

BOX 4.3: The difference between single deflation, double deflation, and volume extrapolation

Single deflation measures real value added by taking an industry's nominal value added and deflating it by a single price index. This implicitly assumes input and output prices change by the same magnitude and in the same direction, which may not always be the case. Double deflation fixes the problem by deflating outputs and inputs separately using their own price indexes before subtracting inputs from output.

Consider, for example, a simple economy with just two goods - wheat and bread, and wheat is used as an input for producing bread. Assuming prices and volumes change as described in the table below, single deflation and double deflation give different estimates of real value added. Since input prices are unchanged but output prices have increased, the single deflation method overstates growth in real value added compared with double deflation.

	Year 1	Year 2
Bread prices	10	12
Wheat prices	5	5
Bread quantity	100	120
Wheat quantity	100	120
Nominal output	1000	1440
Nominal input	500	600
Nominal value added	500	840
Real value added (Single deflation using output prices) = Nominal value added/Output price index		= 840/1.2 = 700
Real value added (double deflation) = Real output - Real input		Real output = 1440/1.2 = 1200
Real output = Nominal output/output price index		Real input = 600/1 = 600
Real input = Nominal input/input price index		Real value added = 600
Real value added (volume extrapolation) = Base year nominal value added x Output quantity index		= 500 x 1.2 = 600

Volume extrapolation takes the base year value added and scales it by output volume growth. This makes it a useful second-best method when reliable input price indexes are unavailable. However, volume extrapolation only gives the right answer when input and output volumes happen to grow at the same rate, keeping the ratio of inputs to outputs stable. While this is a good approximation in the short term, over time, the input-output ratio can change due to technological progress, relative price changes, and supply chain restructuring. For this reason, statistical agencies that rely on volume extrapolation for practical reasons typically try to update the base year for GDP estimates more frequently.

A critical part of this GDP rebasing exercise is the dynamic adjustment of the relative weights used to construct the deflators, to accurately reflect the evolving structure of the economy. The 2011-12 GDP series used different methods in each sub-sector to adjust nominal GDP for changes in prices and “deflate” it to real GDP. The relative weights for constructing the deflators for each sub-sector were fixed at their 2011-12 level. However, since then, the relative weights have changed, and the rebasing exercise has updated them to accurately reflect the economy's structure. Moreover, going forward, these weights will be dynamically updated over time using the latest available micro-surveys and volume data for some sectors.

iv. Alignment with international standards

The rebased series aligns with international standards such as SNA 2008 and COICOP 2018. Several changes have been made to align more closely with the System of National Accounts (SNA) 2008 standards, including the integration of Supply-Use Tables, the institutional classification, asset categories for gross fixed capital formation, and the valuation of pension entitlements and imputed rent. In addition, the classification and naming of the sub-components of Private Final Consumption Expenditure (PFCE) have been changed from the 1999 standards to the newer COICOP 2018 standards. This will improve international comparability and analytical utility of India's GDP estimates.

BOX 4.4: Rebasing CPI and IIP

Besides GDP, India also released the rebased Consumer Price Index (CPI) in February 2026, and will publish the rebased Index of Industrial Production (IIP) series in May.

The CPI series is rebased to 2024, with an updated consumption basket. The weights of the CPI basket are aligned with the HCES 2023-24, which shows a significant decline in the share of food items in the average consumption basket, and an increase in the share of services. The updated CPI also expands coverage of housing costs, digital goods, and prices collected from e-commerce platforms.

The updated IIP series is expected to adopt a chain-linked index⁴³ that allows more flexible weight adjustments. Besides replacing the old 2011-12 base with 2022-23, the IIP is expected to shift to a chain-based index that allows annual revisions to sectoral and industry weights. This would mark a departure from the fixed-base system, which often struggles to keep pace with evolving economic structures and the emergence of new production lines. The move is expected to improve the ability of the IIP to track real-time economic momentum.

TABLE 4.1: Summary of methodological changes

Series	Methodology in the old series	Proposed changes in new series	Implications
CPI	Base year: 2012 Consumption basket based on consumer expenditure survey 2011/12	Base year: 2024 Consumption basket updated based on HCES 2023/24	Consumption basket will reflect actual consumption patterns, reduced weight of food in consumption basket
IIP	Base year: 2011-12 Fixed weight index	No fixed base year Chain-linked index	More representative of industrial structure but frequent revisions

⁴³ Chain-linked indices compare changes in a time series relative to the previous period and the base year. This allows weights of sub-components to be updated dynamically unlike a fixed-base index in which component weights are fixed in the base period.

What are the implications for India's growth story?

In the 2022-23 revised series, India's quarterly economic growth between FY24 to FY26 appears less volatile and more broad-based. In the new series, growth between FY24 and FY26 has been less volatile (Figure 4.6), the contribution of statistical discrepancies to GDP growth has fallen (Figure 4.7), and volatility in deflators, especially for services, has declined. The deflator for the manufacturing sector has become negative through the comparable period following the adoption of the double deflation method, indicating a sharper fall in input prices than output prices (Figures 4.8 and 4.9). Growth appears more broad-based: on the supply side, services and industry sectors expanded by an average of 9.6 and 8.0 percent, respectively, while on the demand side, investment and private consumption grew at broadly similar rates of 6.4 percent and 6.9 percent. In contrast, for the same period, growth was more volatile in the old series, especially for manufacturing (Figure 4.10 and 4.11). On the demand side, investment growth (7.9 percent on average) was more robust than consumption growth (6.6 percent on average) (Figures 4.12 and 4.13).

FIGURE 4.6. In the new series, real GDP growth is more stable...

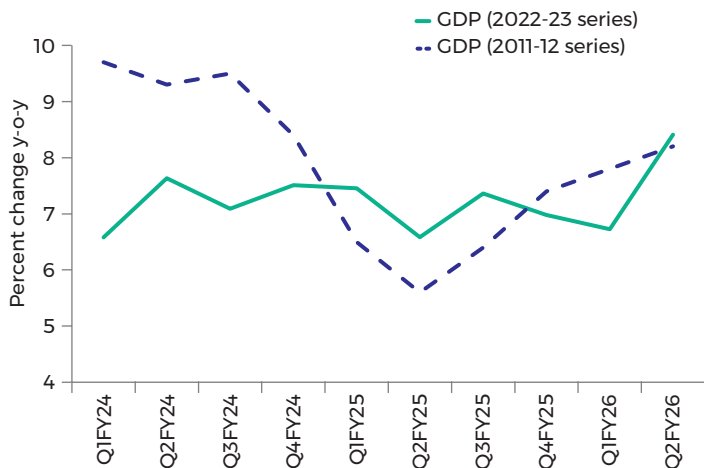


FIGURE 4.7. ...and discrepancies contribution to growth has declined

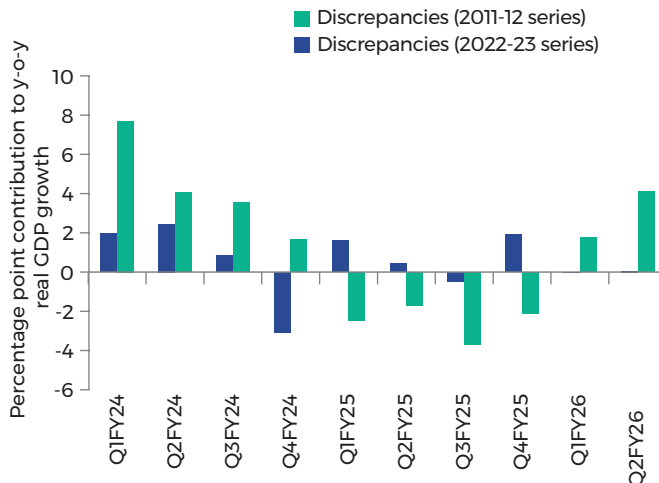


FIGURE 4.8. The GDP deflator is less volatile...

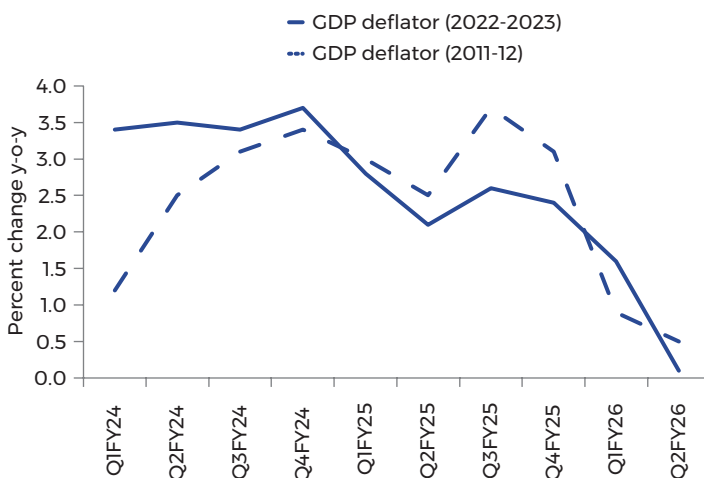
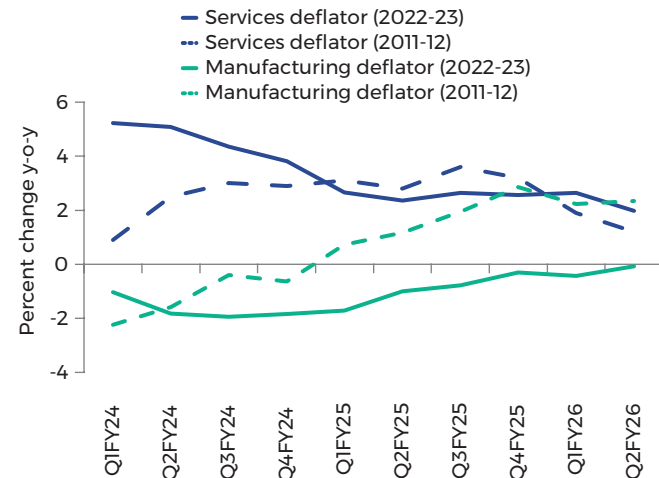


FIGURE 4.9. ...primarily due to the services deflator



Source: NSO, MoSPI and World Bank staff calculations.

FIGURE 4.10. Industry growth was revised up over the last four quarters...

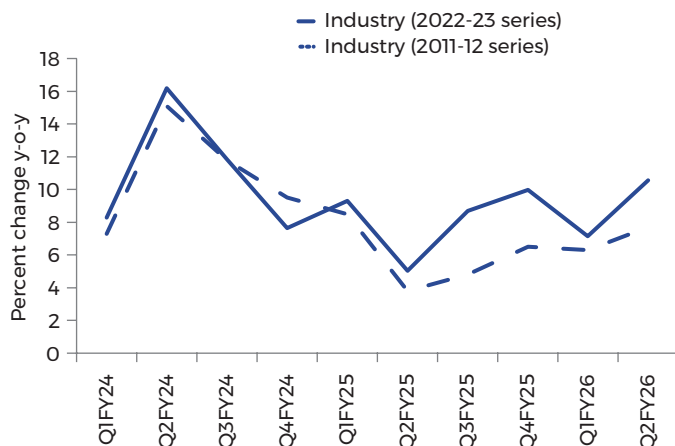


FIGURE 4.11. ... and services growth was revised down in FY24

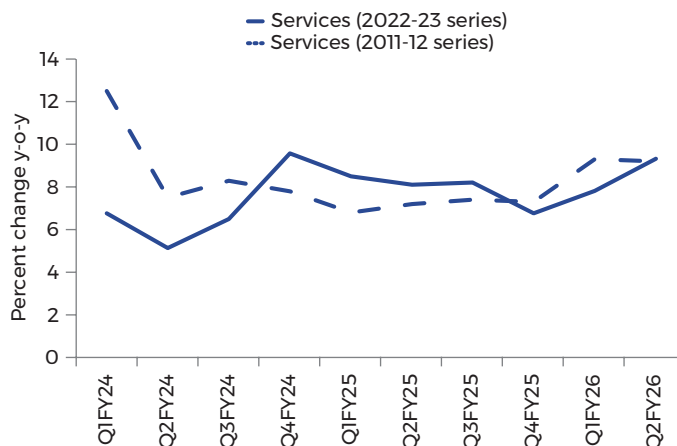


FIGURE 4.12 Private consumption growth became more stable...

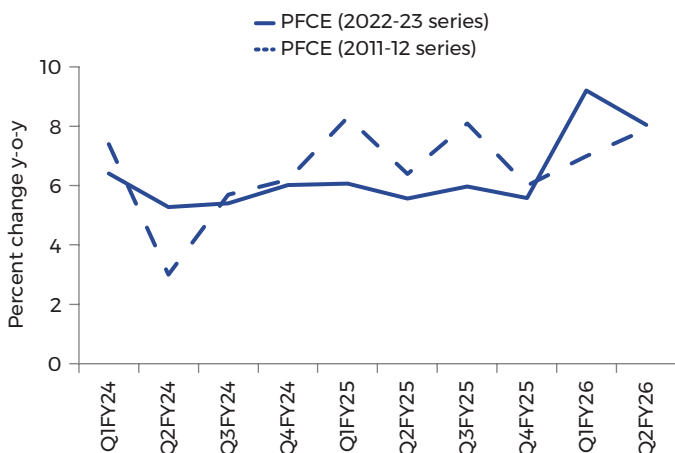
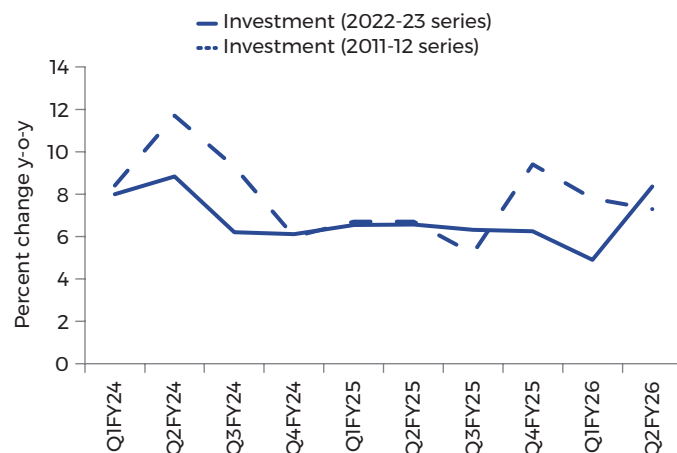


FIGURE 4.13 ...as did investment growth



Source: NSO, MoSPI and World Bank staff calculations.

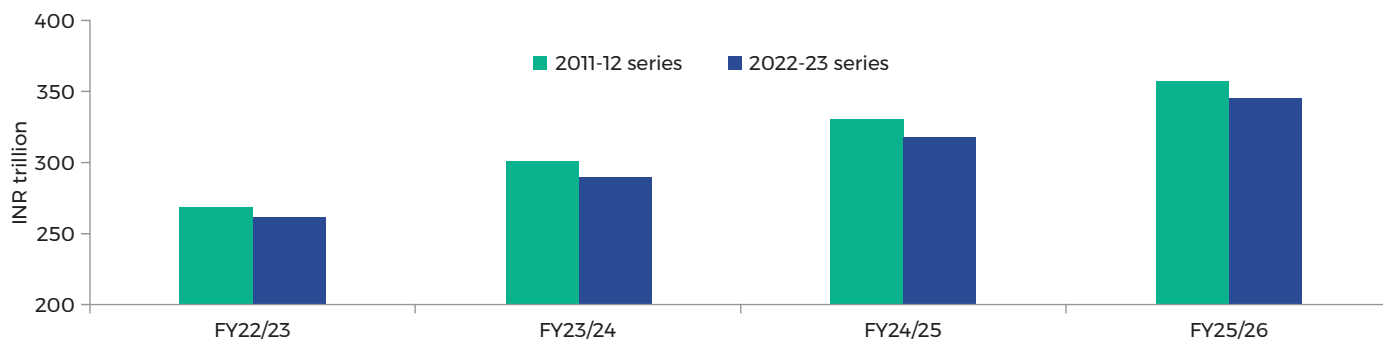
Real GDP growth is revised downward for FY24 and upwards for FY25 and FY26. Real GDP growth in FY24 is revised downwards from 9.2 percent to 7.2 percent, primarily due to downward revisions in government consumption and investment growth on the demand side, and in services growth on the supply side. Consequently, real GDP growth for FY25 is revised upwards from 6.5 percent to 7.1 percent, on account of a lower base and faster growth in manufacturing and services. The advance estimate for FY26 is also revised upwards from 7.4 to 7.6 percent.

Nominal GDP in the new base year (FY23) was revised downward by about 3.0 percent relative to the previous series. Nominal GDP estimates of FY24 and FY 25 were revised down by 3.8 percent and those for H1 FY26 were revised down by 6.4 percent. (Figure 4.14).

This downward revision mainly reflects lower value added on the supply side and lower private consumption expenditures on the demand side. On the supply side, estimates of value added in the “Trade, Hotels, Transport, Communication & Services related to Broadcasting, Storage” subsector are revised downwards by 26 percent while estimates of value added in the “Agriculture, Livestock, Forestry and

Fishing” as well as “Financial, Real Estate, IT, Professional Services & Ownership of Dwelling” subsectors are revised upwards by 6.9 and 7.5 percent, respectively. From an institutional perspective the contribution of the private non-financial corporate sector decreased along with the household sector while value added by the government sector increased. On the demand side, private final consumption expenditure and imports are revised down by 9.7 percent and 3.5 percent, respectively, while government final consumption expenditure is revised up by 4.8 percent. The large negative statistical discrepancy in the earlier series is corrected and reallocated across expenditure components using supply-use tables, contributing to more internally consistent growth estimates.

FIGURE 4.14. Nominal GDP levels fell in the new series



Source: MoSPI, World Bank staff calculations.

A downward revision of nominal GDP modestly increased India's fiscal and current account indicators. The downward revision of nominal GDP affects macro stability indicators expressed as a share of GDP, including the current account deficit, the fiscal deficit, and public debt. While the impact on the fiscal deficit and the current account is modest, the impact on public debt is more pronounced since debt is a stock variable and of larger magnitude than flow variables like the fiscal deficit. General government public debt in FY26 is estimated to have increased from 82 percent using the 2011-12 series to 84 percent using the 2022-23 series. Central government debt also increased from 56 to 58 percent of GDP. The government’s medium term debt target has some flexibility with a target band of 50 ± 1 percent of GDP, which can accommodate the statistical recalibration in debt levels.

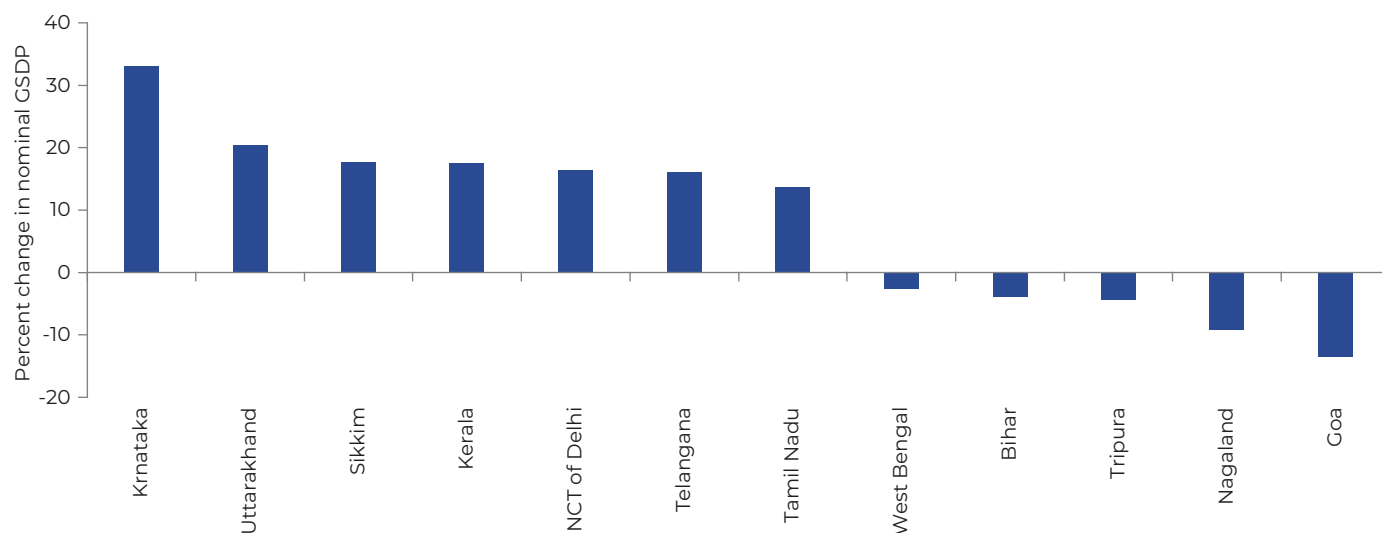
Tying the loose ends: Bridging historical data and rebasing subnational GDP

Communication has been effective. Ensuring continuity and usability of the revised series will be equally important. The NSO has proactively communicated about the objectives and timelines of the rebasing, published detailed methodological notes for consultation, and explained remaining data limitations. However, good practice also recommends constructing historical series through systematic back-casting and bridging methods. The NSO expects to publish a back series in a year’s time, and this will be critical for users to reconcile differences and preserve analytical continuity.

A revision of subnational GDP could result in significant changes in state GDP levels, with implications for subnational fiscal stability. A revision in subnational GDP can vary substantially across states depending on differences in economic structure, pace of structural transformation, and how well state-

level activities were captured in old data sources. For example, during India's 2015 GDP rebasing, when the base year was updated from 2004-05 to 2011-12, Gross State Domestic Product (GSDP) levels increased significantly in some states, while they fell in others. A key factor was the introduction of the corporate database from the Ministry of Corporate Affairs (MCA-21) for estimating gross value added, which had limited granularity for attributing economic activity accurately at the state level and treated non-reporting firms differently than earlier data sources. As a result, states with relatively larger unorganized sectors or differing representation of corporate activity in the new dataset experienced larger output adjustments (Figure 4.15). In the new GDP series, the regional attribution of economic activity based on GST data could yield similarly large changes. This will also have fiscal implications for the states, as GSDP levels play an important role in deciding states' borrowing limits (which are measured as a share of GSDP). Moreover, the states' relative GDP levels are used to calculate their shares in the horizontal devolution of taxes by the Finance Commission.

FIGURE 4.15: GSDP increased significantly in richer, more urbanized states and declined in lower-income states in the previous GDP rebasing (2011-12)



Note: Percent change between nominal GDP using 2011-12 series and 2004-05 series across all three comparable years.



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