

# INDIA DEVELOPMENT UPDATE



April 2026



WORLD BANK GROUP

# 1. EXECUTIVE SUMMARY<sup>1</sup>

*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.<sup>2</sup> This better-than-expected performance<sup>3</sup> 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 2025<sup>4</sup>, the Indian economy continued to be the fastest-growing major economy in FY26<sup>5</sup>. 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 pre-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 Yojana<sup>6</sup>, the replacement of MGNREGA with the *Viksit-Bharat Guarantee for Rozgar and Aajeevika Mission Gramin Act* (VB-GRAMG),<sup>7</sup> 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.

