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ECONOMY OBSERVER



Q2 2026

Overall Macroeconomic Context

India entered Q2 2026 from a position of relative macroeconomic strength, with the economy continuing to demonstrate resilience despite a volatile and uncertain global environment. Domestic economic activity remained robust, supported by steady private consumption, improving investment demand, and a strong services sector. Real GDP growth stood at 7.7% in FY2025–26, while investment activity remained firm, as reflected in capital goods growth of around 16% and continued infrastructure expansion.

Demand conditions remained supportive, particularly in services and contact-intensive sectors, while industrial activity continued to expand, with IIP growth at 4.9% in Apr 2026, led by manufacturing recovery. At the same time, financial conditions remained stable, with the RBI maintaining the policy repo rate at 5.25%, reflecting a calibrated and cautious monetary stance amid evolving risks.

The inflation environment, while within the target band, has begun to become less benign. Headline CPI inflation rose to 3.5% in Apr 2026, driven primarily by food prices, while wholesale price pressures intensified more sharply, with WPI inflation reaching 8.3%, led by fuel and commodity costs.

However, the external environment has become increasingly challenging during the quarter. Geopolitical tensions, particularly in West Asia, have led to a sharp increase in global commodity prices, with crude oil rising from USD 67 per barrel in Feb to over USD 114 per barrel in Apr 2026, significantly increasing input costs and import pressures. This has translated into rising external sector stress, with merchandise imports at USD 71.94 bn in Apr 2026 exceeding exports of USD 43.56 bn, contributing to a widening trade deficit and depreciation in the exchange rate towards INR 94/USD.

While India's macroeconomic fundamentals continue to provide a significant buffer with foreign exchange reserves of around USD 689 bn and a current account deficit contained at around 1% of GDP, these buffers have primarily cushioned the initial impact of external shocks. However, sustained external pressures are now tightening conditions, as elevated energy prices, supply-side disruptions, and global financial volatility increasingly weigh on domestic cost structures, external balances, and overall macroeconomic stability.



Projected Outlook: Stable Growth, Emerging Risks

	Oct-Dec 2025	Jan-Mar 2026	Estimation (Apr-Jun)* 2026
Repo Rate (%)	5.43	5.25	5.25
Reverse Repo Rate (%)	3.35	3.35	3.35
Marginal Standing Facility Rate (%)	5.68	5.50	5.50
Standing Deposit Facility Rate (%)	5.18	5.00	5.00
Bank Rate (%)	5.68	5.50	5.50
General CPI (%)	0.56	3.05	3.70
WPI (%)	-0.10	2.60	4.23
10 Year Government Securities (%)	6.55	6.78	6.83
91 days Treasury bill (%)	5.38	5.29	5.32
INR/USD Exchange Rate	89.11	91.32	94.00
Merchandise Exports (USD Mn)	1,41,481.43	1,06,006.17	1,12,000
Merchandise Imports (USD Mn)	1,98,877.74	2,00,561.99	2,06,000
Merchandise Trade Balance (USD Mn)	-84,396.31	-94,555.82	-94,000

The macroeconomic outlook remains stable, policy rates have remained broadly unchanged, while inflationary pressures are expected to rise gradually. At the same time, a widening trade deficit and depreciation in

the exchange rate indicate continued external sector risks. Amidst growing uncertainties, close monitoring of economic parameters remain crucial.



The image features a 3D bar chart with several vertical bars of varying heights, rendered in a dark blue-grey color. A glowing orange line graph is overlaid on the chart, showing an overall upward trend with some minor fluctuations. A large, glowing orange arrow points upwards and to the right, starting from the bottom left and ending at the top right, symbolizing growth and progress. The background is a dark, blurred blue-grey color with some bokeh light effects.

Economic Developments in Focus

Release of Finance Commission Report 2026-31

The report of the 16th Finance Commission for 2026-31 was tabled in Parliament on 1 Feb 2026. The Commission's recommendations broadly preserve continuity in India's fiscal federal framework while introducing a more performance-sensitive approach to inter-state transfers. The Commission has retained the states' vertical share in the divisible pool of central taxes at 41% but has recalibrated the horizontal devolution formula by raising the weight on population, introducing a new 10% weight for contribution to GDP, and removing the earlier tax and fiscal effort criterion. This marks a shift towards rewarding economic contribution, while still retaining a strong equalisation component through income distance. Among other parameters, weights have been decreased for Income Distance (45% to 42.5%), Demographic Performance (12.5% to 10%) and Area (15% to 10%). The weight for the population parameter has been increased to 17.5% from 15%.

At the same time, the Commission has streamlined grants by focusing them primarily on local bodies and disaster management, with total grants recommended at about Rs 9.47 lakh crore over the award period, while discontinuing several other grant categories used in the previous cycle. The report also places greater emphasis on fiscal discipline, including tighter state deficit and debt management, restrictions on off-budget borrowings, and stronger incentives for timely State Finance Commission awards and audited local body accounts. From a macroeconomic perspective, the recommendations suggest a move towards a more rules-based and efficiency-oriented fiscal transfer regime, which could improve transparency and fiscal sustainability, although the reduced scope of untied transfers may constrain fiscal flexibility for some states.



Revision of Base year for GDP, IIP and Inflation Series

MoSPI's latest statistical revision is more than a routine rebasing exercise, as it introduces substantive methodological and coverage changes across GDP, IIP and CPI. For national accounts, the base year has been shifted from 2011–12 to 2022–23, which has been chosen as a recent normal post-pandemic year with robust and comprehensive data availability across sectors, making it a more appropriate benchmark for the new series. The revised GDP framework is designed to better capture India's evolving economic structure through improved treatment of multi-activity enterprises by segregating activities more precisely within the private corporate sector, stronger company-level estimation using updated administrative and filing-based data, and a more robust measurement of the unincorporated sector using recent survey evidence rather than older extrapolation methods. It also draws on a wider set of contemporary data sources including ASUSE, PLFS, GST and PFMS-and adopts NIC-2025 for improved sectoral classification and mapping, thereby enhancing coverage, consistency and alignment with current patterns of economic activity. More broadly, the revised series strengthens the benchmark-indicator approach used in annual and quarterly estimation, improves the statistical treatment of a formalising and increasingly services and digital-led economy, and brings the national accounts closer to international best practices in coverage, methodology and comparability. At the same time, the rebasing has resulted in a downward recalibration of nominal GDP levels relative to the earlier series, reflecting methodological refinements and improved source data rather than any deterioration in underlying economic fundamentals.

For industrial output, the IIP base year has also been revised to 2022–23, with the new series significantly expanding coverage to include minor minerals, rare earth minerals, gas supply, water supply sewerage and waste management. The product basket has been revised from the earlier series to 1,042 products mapped to 463 item groups, aligned with NIC-2025, while additional sub-indices have been introduced for renewable and non-renewable and for disaggregated mining categories covering fuel, metallic and non-metallic minerals. Methodological changes in IIP also include replacement of permanently closed units with comparable producing units, augmentation of the factory panel with newly commissioned large plants, and use of the geometric mean method for linking the old and new series.

For inflation, the CPI base year has been revised from 2012 to 2024 using the Household Consumption Expenditure Survey 2023–24, with a shift from 6 broad groups to 12 COICOP 2018 divisions, release of rural, urban and combined item-level indices at all-India and state level, and substantial updating of the item basket to reflect current consumption patterns. The revised series represents a significant structural recalibration of India's inflation measurement framework, with the weight of food and beverages reduced sharply from 45.86% to 36.75%, thereby lowering the disproportionate influence of high-frequency supply shocks in perishable items on headline inflation and improving the signal-to-noise ratio of inflation readings for monetary policy assessment. At the same time, the higher weights assigned to housing, transport and communication, and other services-intensive categories better reflect an increasingly

urbanised, formalising and digitally integrated economy; analytically, these categories tend to exhibit greater persistence and lower mean reversion than food prices, making them more informative for modelling core inflation dynamics, estimating inflation inertia and assessing medium-term price pressures. Methodologically, the new CPI series also strengthens its statistical foundations through the expansion of the item universe to 358 goods and services from 299 earlier, the systematic integration of e-commerce price data, and the adoption of the Jevons geometric mean formula, which together reduce substitution and aggregation biases, improve internal consistency and international comparability, and enhance the reliability of inflation decomposition, attribution and

pass-through analysis. New items include rural housing, online media and streaming services, value-added dairy products, barley products, digital storage devices, attendants, babysitters and exercise equipment, while obsolete items such as VCR/VCD/DVD players, radios, tape recorders, second-hand clothing, audio-video cassettes and coir or rope have been removed. Early simulations suggest differences of around 20–30 basis points across food price cycles, implying that the revised CPI may dampen extreme inflation prints, improve real-time signal extraction and reduce inflation-surprise risk, thereby providing a more coherent and analytically tractable nominal anchor for macroeconomic surveillance and policy formulation.



West Asia Crisis and Impact on the Economy

The intensification of the West Asia conflict in early 2026 has emerged as a significant external risk to India's near-term macroeconomic outlook, primarily through the channels of energy prices, trade logistics, imported inflation and financial market volatility. The Reserve Bank of India (RBI), in its Jun 2026 monetary policy statement, observed that as the West Asia conflict prolonged without any meaningful resolution, risks to both inflation and growth had increased, with elevated energy prices and continued supply disruptions posing downside risks to economic activity. At the same time, India entered this episode from a position of relative macroeconomic strength, with real GDP growth estimated at 7.7% in 2025-26, led by robust performance in manufacturing and services.

The most immediate transmission channel has been through crude oil. The Petroleum Planning and Analysis Cell (PPAC) shows that crude oil prices rose sharply from USD 67.16 per barrel in Feb 2026 to USD 114.48 per barrel in Apr 2026, before easing to USD 106.23 per barrel in May 2026. Given India's structural dependence on imported crude, this increase quickly fed into the import bill. According to the Department of Commerce, merchandise imports in Apr 2026 stood at USD 71.94 bn, while merchandise exports were USD 43.56 bn; total exports of goods and services were estimated at USD 80.80 bn against total imports of USD 88.61 bn, leaving the overall trade balance at negative USD 7.81 bn. The non-petroleum imports rose to USD 53.32 bn in Apr 2026 from USD 44.68 bn a year earlier, indicating that the external cost shock was not confined to crude alone.

The external sector implications are material because a sustained elevation in oil and commodity prices tends to widen the merchandise trade gap, raise foreign exchange demand and increase pressure on the current account. RBI balance of payments data show that India's current account deficit had moderated to USD 30.1 bn (1% of GDP), during Apr-Dec 2025, supported by stronger net services receipts and personal transfers. RBI's weekly statistical supplement further shows that foreign exchange reserves stood at USD 688.9 bn as on May 2026. While strong macroeconomic buffers cushioned the economy initially, persistent external shocks are now tightening conditions and limiting the extent of that resilience.

The Office of the Economic Adviser reported that wholesale price inflation accelerated to 8.3% in Apr 2026, with fuel and power inflation rising to 24.71% and manufactured products inflation to 4.62%. On a month-on-month basis, the fuel and power index rose by 18.22% in April 2026, while the index for crude petroleum and natural gas within primary articles increased by 16.42% over Mar. At the retail level, RBI's May 2026 State of the Economy assessment noted that CPI inflation rose to 3.5% in Apr, mainly due to food, while core inflation remained steady, suggesting that the first-round impact of the shock was sharper in producer prices and traded inputs than in broad-based consumer demand conditions.

Beyond oil, the fertiliser channel has become an important amplifier of the cost shock because India remains dependent on imports for a significant part of its urea and phosphatic fertiliser requirements. India continues to

depend on imports of urea and phosphatic fertilizers to meet domestic demand. As of Mar 2026, the country held substantial stocks, 53.08 lakh metric tonnes (LMT) of urea, 21.80 LMT of Diammonium Phosphate (DAP), 7.98 LMT of Muriate of Potash (MOP) and 48.38 LMT of Nitrogen, Phosphorus, Potassium, and Sulfur (NPKS) which helped cushion immediate supply risk. At the same time, the Government has had to actively secure external supply through long-term arrangements, including 31 LMT of DAP/NPK annually from Saudi Arabia for five years beginning 2025-26. Mar 2026 also recorded arrangements of 30.10 lakh tonnes from Russia and 25 lakh tonnes from Morocco to strengthen India's fertiliser supply-chain. These measures underscore that global disruptions in West Asia affect India not only through crude oil, but also through fertiliser availability, import sourcing and the fiscal cost of maintaining domestic price stability.

The natural gas channel reinforces this pressure. In Mar 2026, the Government placed fertilizer plants under "Priority Sector-2" in the Natural Gas (Supply Regulation) Order, 2026, and mandated that such plants be supplied at least 70% of their average natural gas consumption of the previous six months. The official rationale was to protect domestic fertilizer production from global LNG supply disruptions linked to the ongoing conflict in the Middle East. Separately, PPAC notified the domestic natural gas price for Jun 2026 at USD 10.93 per MMBTU. Since gas is a key feedstock for urea production, these official interventions indicate that the West Asia crisis has raised not only import-side fertiliser risk but also the cost and continuity risks associated with domestic fertilizer production.

The logistics and shipping channel is similarly important from a broader macroeconomic perspective. RBI's State of the Economy (May 2026) noted that constricted shipping routes and trade flows increased global supply-chain

pressures to their highest level since 2022. However, higher transportation and logistics costs and refinery shutdowns exerted upward pressure on metals, fertilisers and food prices. In its Apr 2026 policy statement, RBI further warned that merchandise exports could be adversely impacted by disruptions to key shipping routes and by the concomitant rise in freight and insurance costs if the conflict becomes protracted. The statement also emphasised that higher international freight and insurance costs, together with supply-chain disruptions, would impair growth by constraining the availability of key inputs for downstream sectors. Accordingly, the West Asia shock is best understood not as an isolated energy event but as a broader imported cost shock affecting production, trade competitiveness and industrial input availability.

The West Asia conflict has raised the price of Indian crude basket sharply, widened the import bill, increased upstream inflation, intensified pressure on fertilizer subsidy management, and added uncertainty to exports through shipping and insurance costs. At the same time, India's macroeconomic buffers remain important stabilisers, real GDP growth in 2025-26 was 7.7%, the current account deficit for the full year was contained at 0.6% of GDP, and foreign exchange reserves remained sizeable at nearly USD 689 bn in mid-May 2026. These conditions provide resilience, but if the conflict remains prolonged or intensifies further, the pressure on the current account, exchange rate, subsidy burden and domestic cost conditions could increase materially in subsequent quarters.

India moves to 6th Position in Global GDP Ranking

India's move to sixth place in global GDP rankings reflects technical and currency related factors rather than any weakening in economic fundamentals. According to IMF World Economic Outlook (Apr 2026) estimates, India's nominal GDP in domestic currency rose from Rs 318 trn in 2024 to Rs 346.5 trn in 2025 and is projected to reach Rs 384.5 trn in 2026, implying nominal growth of about 8.9% in 2024–25 and nearly 11% in 2025–26, well above the pace recorded by most major economies. However, global rankings are measured in US dollars, making them highly sensitive to exchange-rate movements. The rupee's depreciation from an average of around 83.9 per US dollar in 2024 to about 87.2 in 2025, and toward 90–92 in early 2026, compressed India's GDP in dollar terms,

reducing nearly 9% domestic nominal growth in 2024–25 to around 5% in US dollar terms and lowering double-digit growth in 2025–26 to roughly 6% after conversion. This effect was compounded by the shift to a new GDP base year of 2022–23, which led to a one-time downward revision in nominal GDP levels, with 2024–25 estimates about 3.8% lower than under the previous series due solely to methodological changes and improved data coverage. Taken together, strong domestic growth, rupee depreciation and the statistical base revision explain India's lower position in the nominal dollar rankings, indicating that the change is technical in nature and not a sign of deteriorating economic performance.



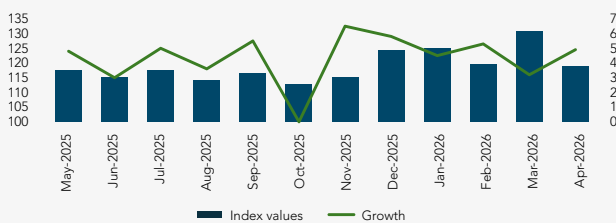


Macroeconomic Performance

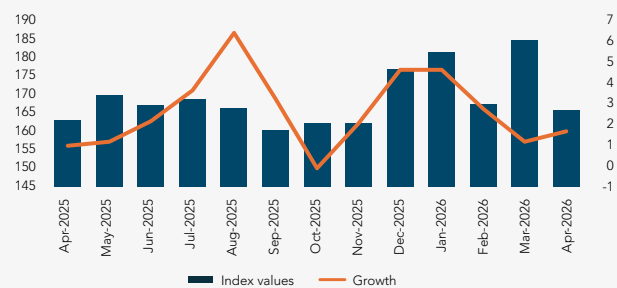
Industrial growth stays steady, led by capex and manufacturing

- Industrial output remained in expansion during the closing quarter of FY2025-26 and the beginning of FY2026-27, although with some moderation in momentum. Under the earlier IIP series (2011-12), growth stood at 4.8% in Jan, 5.2% in Feb, and 4.1% in Mar 2026, overall FY2025-26 IIP growth to around 4.1%.
- With the revision in the IIP base year from 2011-12 to 2022-23, the new series indicate that industrial output grew by 4.9% in Apr 2026, indicating continued resilience in industrial activity.
- The expansion continued to be led primarily by the manufacturing sector, which recorded 4.8%, 6.0%, and 4.3% growth during Jan-Mar and further improved to 6.2% in Apr 2026 under the revised series. Mining remained uneven, contracting by 5.1% in Apr, while electricity output recovered to 4.9% after weakening in Mar.
- On the use-based side, growth remained firmly investment-led, with Capital Goods expanding by around 16% and Infrastructure/Construction Goods by 7.1% in Apr, underscoring sustained capex and infrastructure activity. In contrast, the recovery in consumption remained gradual, with consumer non-durables rising by only 2.8%.
- The Index of Eight Core Industries reflected a softer trend, moderating from 4.7% in Jan to 2.3% in Feb, contracting by 0.4% in Mar, and recovering only modestly to 1.7% in Apr. Within the core sectors, steel and cement remained relatively strong, rising to 6.2% and 9.4%, respectively, in Apr, suggesting continued infrastructure execution.
- However, weakness in crude oil, coal, and electricity highlighted persistent stress in energy-related segments, amid a volatile global commodity environment and geopolitical disruptions.

IIP (Y/Y %)



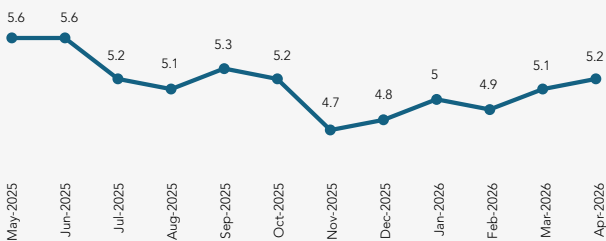
Performance of 8 Core Industries



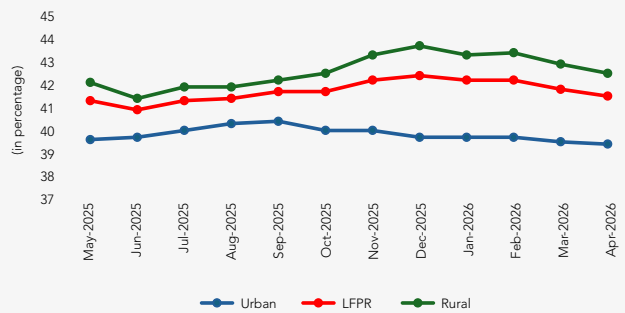
Labour market steady, with rising rural pressures

- Unemployment remained broadly stable in early 2026, with the overall unemployment rate (15+ years, CWS), rising marginally from 5% in Jan to 5.2% in Apr 2026, indicating only limited improvement in labour market conditions. The modest firming reflected seasonal rural slack, while heightened global uncertainty also likely restrained hiring momentum.
- Labour market conditions remained uneven across segments. Urban unemployment improved from 7% in Jan to 6.6% in Apr 2026, whereas rural unemployment rose from 4.2% to 4.6%, suggesting that labour market stress became more rural-led.
- At the same time, urban female unemployment fell to 8.5% in Apr, its lowest level since Apr 2025, but youth unemployment remained elevated at 15.3%, indicating that employment gains were not yet broad-based.
- The labour market recovery remained uneven, while the share of rural regular wage/salaried work rose to 15.5% in Jan-Mar 2026, broader hiring stayed constrained by global uncertainty, keeping support to demand mixed as relatively better urban conditions were offset by pressure on rural incomes and consumption.

Unemployment Rate



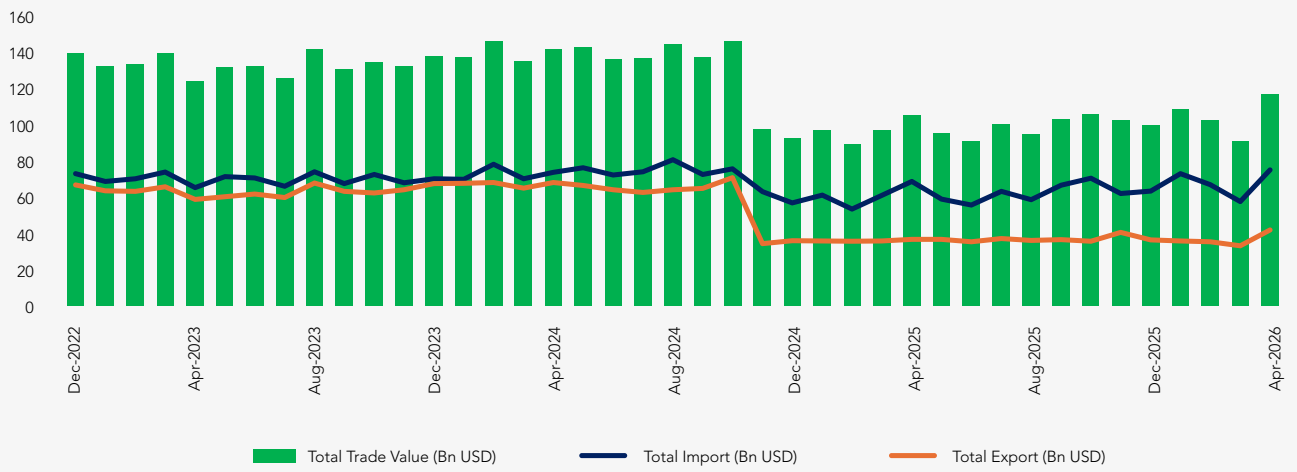
Trends in Labour Force Participation Rate (LFPR) Overall, Rural and Urban



External sector resilient, but oil risks pressure trade balance

- Exports remained resilient despite global uncertainty, with estimated total exports rising to USD 80.8 bn in Apr 2026 (+13.6% YoY) and merchandise exports to USD 43.56 bn (+13.8% YoY). Growth in engineering goods, electronics, petroleum products and pharmaceuticals helped sustain export momentum even as West Asia-related supply disruptions weighed on global trade conditions.
- Imports stayed elevated in Apr 2026, with estimated total imports at USD 88.61 bn and merchandise imports at USD 71.94 bn. The RBI noted that the widening in the merchandise deficit over Mar was driven mainly by crude oil and gold imports, reflecting the pass-through of geopolitical tensions and firmer commodity prices into India's import bill.
- The trade deficit remained under pressure despite healthy export growth, with the estimated overall trade balance at USD 7.81 bn in Apr 2026. Similarly, the Ministry's provisional Mar 2026 merchandise data showed exports of USD 38.92 bn against imports of USD 59.59 bn, indicating that higher imports continued to outweigh export gains.
- The current account position remained modest, even though merchandise trade pressures persisted. RBI's preliminary Q3 FY26 balance of payments placed the current account deficit at USD 13.2 bn (1.3% of GDP), while the Apr-Dec 2025 current account deficit moderated to USD 30.1 bn (1% of GDP) from USD 36.6 bn (1.3% of GDP) a year earlier, supported by stronger services receipts and remittances.
- External buffers remained strong, although currency pressures resurfaced in May. India's forex reserves stood at USD 688.89 bn as on 15 May 2026, after USD 696.99 bn on 8 May 2026, while the RBI noted that the rupee depreciated in May due to renewed geopolitical tensions and elevated crude oil prices. This indicates that reserves continued to provide an important cushion against external volatility.
- Capital flows were mixed during the period, with portfolio flows remaining weak but direct investment conditions improving at the margin. Net FPI outflows stood at Rs 2.18 trn, reflecting risk-off investor sentiment amid geopolitical uncertainty, while the RBI noted that net FDI remained positive in Mar for the second consecutive month.
- Overall, India's external sector remained resilient but more oil-sensitive in the near term. Strong net services receipts of USD 57.5 bn in Q3 FY26, and large reserve buffers continued to support the external position, but West Asia-related tensions raised risks through oil prices, freight costs and trade-route disruptions, making both the import bill and the rupee more vulnerable to external shocks.

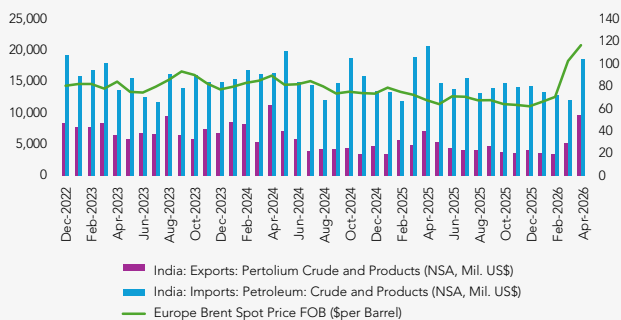
India's Total Trade Value



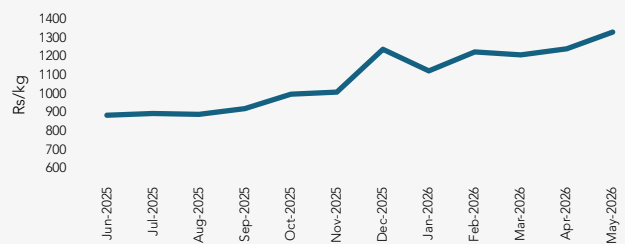
Global commodity shock lifts input costs for industry

- Commodity conditions remained challenging for India during Jan-May 2026, with higher crude and metal prices alongside soft steel output keeping input costs elevated.
- Crude conditions turned adverse for India during Jan-Apr 2026 amid continued West Asia tensions, with higher Brent prices and rising petroleum trade values increasing risks to the oil import bill, fuel inflation and downstream cost pressures.
- Base metal prices (Nickel, Aluminium, Zinc) continued their upward trajectory, supported by sustained industrial demand and tighter supply conditions, particularly as input requirements from manufacturing and infrastructure segments remained strong.
- Copper prices displayed moderate volatility while maintaining an overall upward trend, reflecting sensitivity to short-term demand fluctuations and global market signals, but underpinned by steady consumption from electrical and industrial applications.
- Coal production saw a sharp decline after reaching a recent peak, while crude steel output remained range-bound with intermittent fluctuations, indicating short-term supply adjustments and operational variability despite stable underlying demand from core industrial sectors.

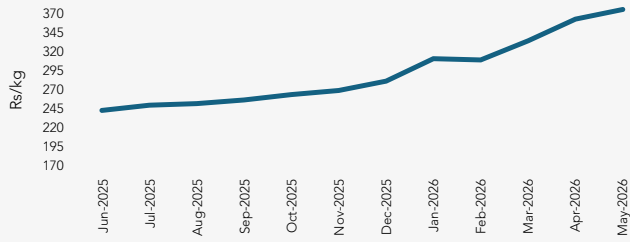
Brent Crude Oil



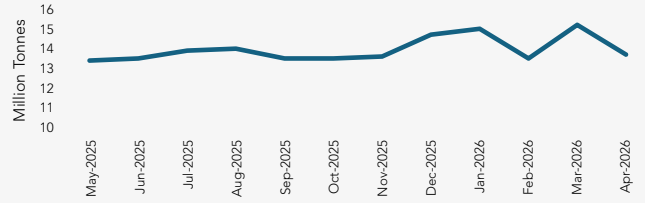
Copper (Market Price)



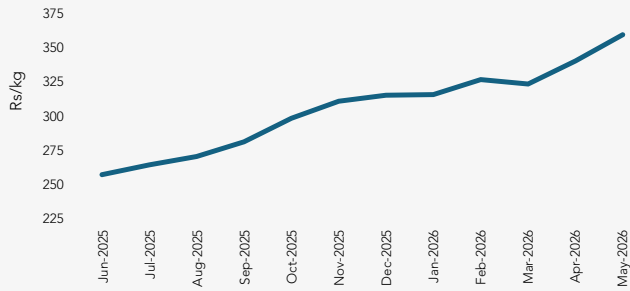
Aluminium (Market Price)



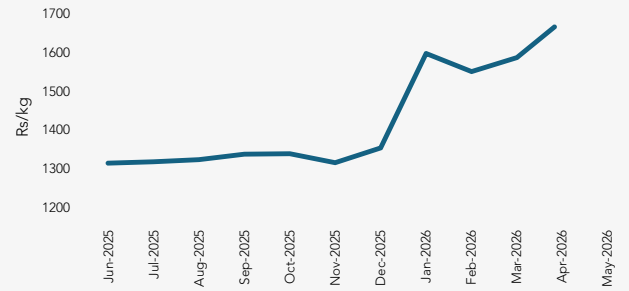
Crude Steel Production



Zinc (Market Price)



Nickel (Market Price)



Wholesale inflation accelerates on energy-led pressures

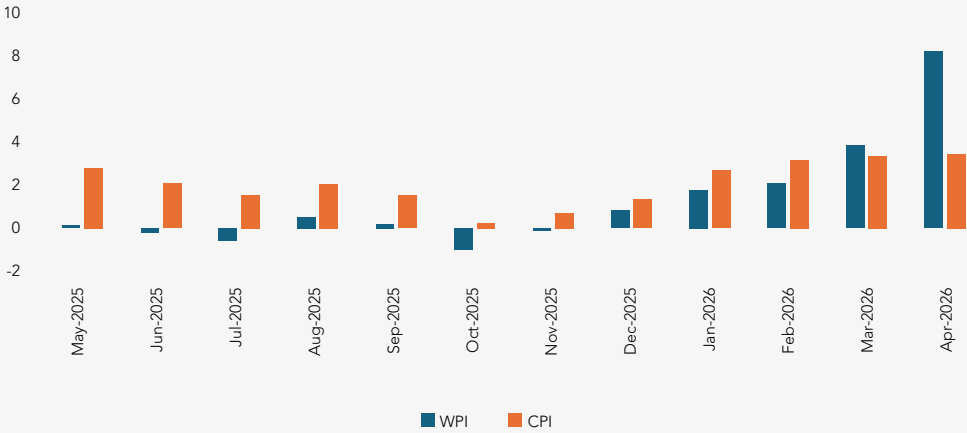
- Wholesale price inflation strengthened progressively during the first four months of 2026, rising from 1.68% in Jan to 8.30% in Apr, indicating a sharp build-up in producer-side price pressures by the start of Q1 FY27. The acceleration was largely driven by a rise in global commodity prices, particularly energy, amid geopolitical tensions in West Asia, which disrupted supply routes and increased freight and input costs.
- The Apr surge was led mainly by fuel and power inflation, which rose to 24.71%, while inflation in Primary Articles and Manufactured Products increased to 9.17% and 4.62%, respectively. This suggests that the WPI spike was driven more by higher fuel and raw material costs than by broad-based food inflation, with upstream commodity pressures increasingly feeding into wholesale prices.
- Commodity pass-through intensified in Apr, with crude petroleum & natural gas inflation at 67.18%, crude petroleum at 88.06%, and basic metals at 7.00%, reflecting the impact of disrupted energy flows and higher freight costs on domestic wholesale prices.
- Producer price pressures also broadened across manufacturing, with 21 of 22 manufacturing groups recording month-on-month price increases in Apr, led by basic metals, chemicals, textiles and food products, indicating that input cost pressures were no longer confined to energy and had begun to spread more widely across industrial production.



Food-led inflation nudges CPI higher, broader price pressures remain contained

- Headline CPI inflation showed a gradual firming trend during Jan-Apr 2026, rising from 2.75% in Jan to 3.48% in Apr. This suggests that retail inflation was moving up from a relatively soft base, driven more by emerging price pressures in specific categories than by any broad-based demand surge.
- The increase in CPI was led primarily by food inflation, which rose more sharply than headline inflation during the period. Food inflation increased from 2.13% in Jan to 4.2% in Apr, compared with headline CPI moving from 2.75% to 3.48%, indicating that the inflation trajectory remained largely food-led while broader underlying inflation pressures stayed relatively contained.
- Category-wise, the main upside pressure came from food and selected services. Food & Beverages inflation rose from 2.11% in Jan to 4.01% in Apr, while Restaurants & Accommodation inflation reached 4.2% in Apr. Within food, inflation remained concentrated in a few volatile items such as tomato and cauliflower, indicating that the rise in prices was not uniform across the basket.
- Inflation pressures were relatively stronger in rural areas than in urban centres during Feb-Apr 2026. Rural headline CPI rose from 3.37% to 3.74%, compared with 3.02% to 3.16% in urban areas, reflecting the greater sensitivity of rural consumption baskets to food inflation, which accelerated during the period.
- However, inflation did not appear fully broad-based, as several key non-food categories remained subdued. Transport inflation stayed around 0% -0.01%, Information & Communication remained at 0.25%-0.50%, and housing inflation was contained at 2.05%-2.15%. This indicates that while food and some service components lifted headline CPI, generalized price pressures across the broader consumption basket were still limited.
- From a macro-risk perspective, geopolitical tensions in West Asia added upside risk to inflation through possible pressures on energy prices, freight costs and supply chains. However, despite these risks, CPI inflation remained within the RBI's 2%-6% tolerance band and below the 4% target level through Apr 2026.

CPI & WPI (Y/Y %)



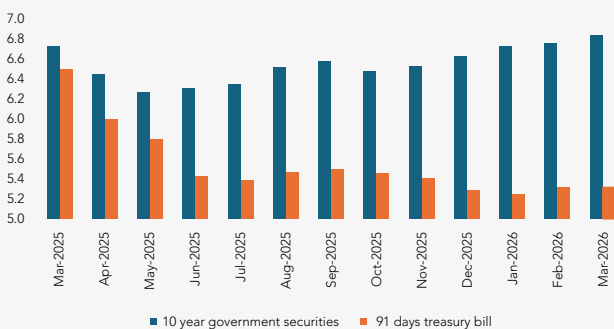
Note: - From January 2026, CPI was rebased to 2024=100 using HCES 2023-24 weights, with MoSPI adopting a more granular 12-division COICOP 2018 framework and an updated consumption basket.



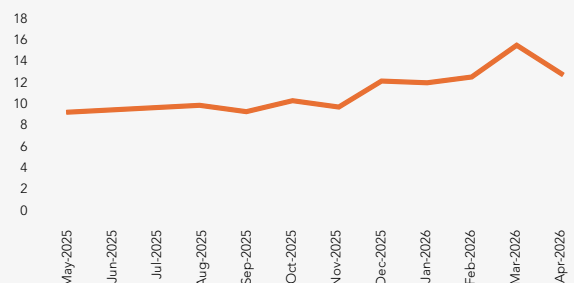
Policy unchanged, but markets react to global risk pressures

- The Reserve Bank of India maintained the policy repo rate at 5.25% in both the Feb and Apr 2026 monetary policy reviews, while keeping the MSF/Bank Rate at 5.5%, and the monetary policy stance neutral. This reflected a cautious policy approach; while domestic inflation remained broadly contained, escalating geopolitical tensions in West Asia heightened risks through higher crude prices, supply-chain disruptions and imported inflation, warranting continued policy flexibility over further easing.
- System liquidity remained in surplus, although the surplus moderated from Rs 5 trn at end-Feb 2026 to Rs 3.04 trn at end-Apr 2026. Despite comfortable liquidity conditions, the RBI continued to deploy liquidity management measures, including VRR operations, FX swaps and OMO purchases, to prevent any sudden tightening in domestic funding conditions amid heightened geopolitical uncertainty and volatile capital flows.
- Short-term money market rates remained broadly aligned with the policy corridor, but market yields firmed during the period, with the 91-day Treasury Bill yield rising to 5.52% in May and the 10-year G-sec yield remaining around 7%. The hardening in yields reflected higher inflation-risk premia arising from the oil price shock, elevated freight and insurance costs, and firm global sovereign yields linked to the continuing West Asia conflict.
- Domestic financial conditions remained supportive, with non-food credit growth staying close to 16% in Mar-Apr 2026, led by continued strength in services and industrial credit. This indicates that domestic demand conditions remained resilient, even as geopolitical developments began to pose upside risks through higher imported input costs and tighter external financial conditions.

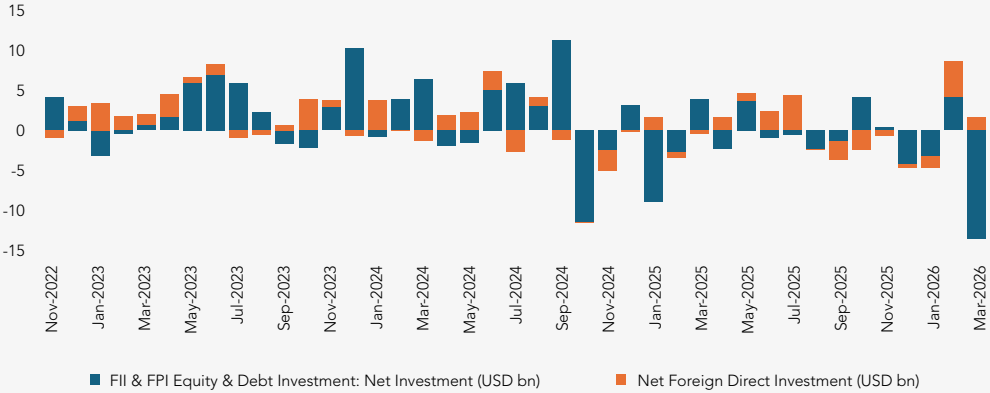
Treasury bill and Government Securities



Money Stock (Y/Y %)



FDI, FII & FPI



Economy Observer is a Quarterly report that shares an in-depth analysis on key macroeconomic developments in India and provides a monthly forecast of key economic indicators, providing insight into the expected direction of the Indian economy.

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