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EDITORIAL INSIGHT



JANUARY 2026

COMPILATION OF THE EDITORIAL OF BUSINESS STANDARD, BUSINESS LINE, THE ECONOMIC TIMES, MINT

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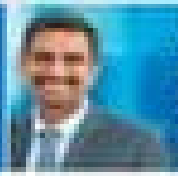
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AJAY SRIVASTAVA

Path forward for Indian trade



2026 OUTLOOK. Global trade rules are driven by geopolitics. Raising domestic industry competitiveness is vital for exports

India enters 2026 in an exceptionally difficult external trade environment, the most challenging in decades. Traditional engines of globalisation are weakening, trade rules are fragmenting, and economic power is increasingly shaped by geopolitics.

For India, the challenge is no longer just expanding market access, but protecting existing trade, and building the resilience needed to compete in a hostile global economy.

EXPORTS UNDER PRESSURE

India's export growth in FY26 is expected to remain modest. Total exports stood at about $825 billion in FY25 —$438 billion from goods and $387 billion from services. In FY26, merchandise exports are likely to stay flat due to weak global demand and continued US tariff pressure, while services exports may cross $400 billion. This would take total exports to around $850 billion, still well short of the $1 trillion target, which now looks unrealistic in a protectionist global environment.

Exports to the US followed a clear two-phase pattern. Shipments fell sharply between May and September 2025, then partially recovered by November. Nearly 85 per cent of November exports came from sectors that had earlier declined and then rebounded. For example, gems and jewellery exports fell from $500.2 million in May to $202.8 million in September, before recovering to $406.2 million in November.

A better understanding of US tariff rules partly drove this rebound. When Indian exporters use US-origin inputs, the 50 per cent tariff applies only to the value added in India, not the full shipment value. For instance, jewellery made using US-sourced gold or rough diamonds is taxed only on the 5-10 per cent value added in India. As exporters adapted to this rule, shipments began to recover.

One positive trend is diversification. Between May and November 2025, exports to markets outside the US rose by 5.5 per cent, even as shipments to the US fell by 20.7 per cent. This shows exporters are gradually reducing dependence on a single market and adjusting to trade barriers.

From great-power trade conflicts to regulatory barriers and financial stress, exporters face a more complex and fragile global environment.

GEOPOLITICS REWRITES TRADE RULES

The three powers that once drove globalisation — the US, the European Union and China — are now its main disruptors.

The US, India's biggest market, and biggest risk: A 50 per cent reciprocal tariff has made Indian exports among the most heavily taxed globally. Between May and November 2025, exports to the US fell by 21 per cent, hitting labour-intensive sectors such as apparel, gems and jewellery, and seafood.

Tighter visa rules are likely to weaken services exports and remittance flows. With no trade deal in sight, India's access to its largest export market increasingly depends on US political decisions rather than commercial logic.

Europe's green barriers tighten: India exported $91 billion worth of goods to the EU in 2024. Still, from January 2026, the Carbon Border Adjustment Mechanism (CBAM) will impose carbon costs on steel and aluminium, with more sectors likely to follow.

New EU deforestation rules further threaten agriculture-linked exports. Without meaningful carve-outs under ongoing FTA talks, these measures risk eroding India's competitiveness.

China, the structural challenge: India's trade deficit with China now exceeds $100 billion. Exports fell from $23 billion in 2021 to about $15 billion in 2024, while imports surged to nearly $110 billion and are expected to reach $123.5 billion in 2025. This reflects China's dominance in electronics, machinery, batteries and critical minerals, built through scale, pricing power and control over supply chains. For India, the challenge is no longer managing imports, but building the capacity to compete.

Trade pressures beyond major powers. From January 2026, Mexico will impose tariffs of up to 50 per cent on imports from non-FTA partners, affecting nearly 75 per cent of India's $5.75 billion exports to that market, particularly autos, auto components, steel and machinery.

Similar risks are emerging across West Asia and South Asia, where geopolitical instability is disrupting energy flows, logistics routes and diaspora-linked trade.

As trade becomes more fragmented and politicised, India must focus on diversification, adaptation, and the development of domestic capacity

CURRENCY VOLATILITY

Currency volatility is becoming a growing threat to export competitiveness. A weaker and unstable rupee raises input costs for import-dependent sectors while offering limited export gains in a weak global market.

At the same time, higher international interest rates are increasing borrowing costs. Managing currency risks and improving access to export credit will be critical to sustaining trade momentum.

COMPLIANCE, A TRADE HURDLE

Rising compliance costs — from EU's carbon reporting and quality standards to customs paperwork — are hitting MSMEs the hardest. For example, an MSME producing steel pipes using steel sourced from large manufacturers may not have access to the detailed carbon-emission data required under the EU's CBAM rules.

In such cases, the EU may assume the highest emission intensity and charge the maximum carbon cost, even if the actual emissions are lower.

Without more straightforward rules, predictable enforcement and targeted support, many smaller exporters risk being pushed out of global trade.

MAKING FTAS WORK

Free trade agreements have become India's primary trade policy tool, and 2026 could see the finalisation of FTAs with key trade partners. Over the past four years, India has signed eight FTAs — with Mauritius, the UAE, Australia, New Zealand, Oman, EFTA, the UK and the Indo-Pacific Economic Framework led by the US. Looking ahead, India may conclude deals with the European Union, the US, the Eurasian Economic Union, Mexico, Chile and Mercosur. If these materialize, India would have trade agreements with almost every major economy — except China, where engagement remains limited to the Asia-Pacific Trade Agreement.

The real challenge now is to make FTAs work on the ground — so they drive real export growth rather than remain diplomatic milestones.

WHAT INDIA MUST DO NOW

As trade becomes more fragmented and politicised, India must focus on diversification, adaptation, and the development of domestic capacity.

Exporters are already reducing dependence on the US by expanding into other markets and adjusting to complex rules such as value-added thresholds under US tariffs.

India is also relying more on signing more FTAs. However, trade agreements deliver results only when domestic production is strong.

India must move beyond assembly and build deep manufacturing capacity in electronics, machinery and intermediate goods, backed by stronger component ecosystems, better design and tooling, and process innovation.

To remain competitive, logistics costs must fall, and customs clearance must become faster and more predictable. Services exports also need to move up the value chain into engineering, R&D, design and digital services.

In the near term, reviving export incentives through a fully operational Export Promotion Mission and securing relief from punitive US tariffs@25 per cent linked to Russian oil are essential.

In a world where trade is increasingly shaped by power rather than rules, India's success in 2026 will depend less on diplomacy abroad and more on competitiveness at home.

The writer is the founder GTRI

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Perils of a ruthless pursuit of trade surpluses

Trade without reciprocity is a humanitarian mistake. Huge trade surpluses of some nations only leads to generalised misery

PVS Suryakumar

Trade is vital for prosperity, but excessive reliance on it by any one nation is perilous.

In this regard, Michael Every (Global Strategist, Rabobank) makes a remarkable categorisation of mercantilists and neo-mercantilists. He has said that the old mercantilists were traders of earlier empires who measured strength by how much gold and silver they could hoard: export more, import less, and keep the treasure at home.

The neo-mercantilists of today follow the same instinct — they hoard dollars, technology, and manufacturing capacity instead of bullion. Economist Joseph Schumpeter and Nobel laureate Joel Mokyr remind us that innovation itself has become a new form of accumulation. The logic hasn't changed, only the scale — and that is where problems begin.

Civilizations exchanged what they lacked: spices for silk, copper for cotton, grain for gold. These exchanges were small and personal; no one seemed to speak of deficits or surpluses. Trade enriched both sides, and the balance of need kept it humane.

Everything changed when industrialisation turned production into a measure of national power. From the 1960s and 1970s, several East-Asian economies — Japan, South Korea, Taiwan, and later China — adopted export-led growth as their principal strategy for rapid development. Selling abroad became the route to building factories, creating jobs, and earning foreign exchange.

PRICE OF SUCCESS

For a time, this worked spectacularly well: it transformed economies and lifted millions out of poverty. But as export volumes and values exploded, the imbalance deepened. Surpluses grew into lasting asymmetries, as exporters used their earnings to fund the debt of the very markets they sold to. As the old saying goes, more of anything — even success — can turn toxic.

Success has snowballed into unsustainable global debt, currency disputes, and tariff wars. The liberal faith that open markets would benefit all has run into political and social limits. Even the role of the reserve currency is under stress.

Gold, and now digital assets like Bitcoin, are rising not only as investments but as hedges against a system losing coherence.



GLOBAL TRADE. Sustainable path needed /ISTOCKPHOTO

History offers quiet lessons. After the Second World War, the US recycled its surpluses through the Marshall Plan — a rare moment when power chose generosity. Decades later, Michael Porter's theory of competitive advantage showed how nations could build on their strengths, yet it also revealed a risk: when efficiency becomes the sole goal, weaker regions are left behind.

Within nations, too, prosperity often concentrates — some States industrialise while others supply the migrant labour that keeps them running. The same asymmetry plays out globally, where large nations and corporations set the rules and smaller ones absorb the strain. The enduring question, then, is whether growth without reciprocity can ever remain stable.

Trade must rest on both efficiency and empathy. Surplus nations must learn to give back — not as charity, but out of enlightened self-interest. As Adam Smith, the father of modern economics, reminded us in *The Theory of Moral Sentiments*, concern for others forms the foundations of any humane economy. Perhaps it is time to reimagine global trade as an act of reciprocity — where nations are measured not only by what they earn but by the stability they help create. In Sanskrit, there is a concept — *rna* — meaning debt, but also obligation and reciprocity: every exchange creates a duty to give back.

Modern trade has largely forgotten this truth. When mercantilists act with a heart — investing in their buyers' resilience and allowing room for others to grow — the system endures.

The writer is former deputy managing director, NABARD. Views are personal

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02 Jan 2026

Idea 2.0

AGR dues relief for Vi is just the first step

The Centre's latest relief package for Vodafone Idea (Vi), a five-year interest-free moratorium on ₹87,700 crore of AGR (adjusted gross revenue) dues payable over FY32-41, along with a fresh reassessment of the dues, certainly gives the troubled telco breathing space. The move follows the Supreme Court's decision two months ago permitting the government to take a call on relief. A panel will now reassess AGR dues, including those frozen earlier based on audit reports. This opens the door for a further reduction in liability.



The AGR dispute has hollowed out Vi for nearly five years. The crisis stems from the Supreme Court's 2020 ruling upholding the DoT's expansive AGR definition, controversially including non-telecom revenues, and imposing retrospective dues. Though all operators were hit, Vi bore the brunt. Since then, it has bled market share, lost financial strength, and stalled on technology upgrades. As Airtel and Jio invested aggressively in 4G and 5G, Vi slipped further behind, bringing India perilously close to a two-player market. A de facto duopoly may appeal to neither policymakers nor consumers in the long run. Less competition risks higher tariffs, weaker service quality, and slower innovation. The Telecom Ministry has repeatedly acknowledged the need for a strong third operator, although wishing for competition and enabling it are two very different things.

Relief on AGR alone does not address Vi's deeper financial fragility. Beyond AGR, the operator faces ₹1.2 lakh crore of deferred spectrum liabilities stretching through FY44, with heavy repayment peaks. In FY28 alone, Vi must shell out around ₹28,000 crore, more than twice its likely EBITDA. Meanwhile, cash flows are inadequate to fund both capex and debt service. Without fresh capital, network investments will continue to lag, accelerating subscriber erosion and trapping the company in a vicious cycle. The only credible path to survival is meaningful equity infusion from a strategic or financial investor. And that hinges on clarity around total debt. Setting up a committee to scrutinise dues simply prolongs uncertainty. A bolder approach would have been to restructure AGR decisively and ring-fence residual obligations, even parking them in a special purpose vehicle, akin to the "bad bank" construct used in the Air India sale. That would immediately de-risk Vi's balance sheet.

Time is of the essence. It already took the government more than a year to execute its previous equity conversion. A delay now could tip Vi beyond recovery. The review panel must move swiftly to fix the true AGR payable and create a predictable liability trajectory for investors. Fresh capital should be channelled into spectrum dues repayment rather than short-term firefighting. Ultimately, this debate is not about bailing out one private operator. A resilient third player is essential if India's billion-plus mobile users are to benefit from fair pricing, reliable service and world-class technology.

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02 Jan 2026

GDP growth raises questions

MIXED SIGNALS. High real growth above 8%, inflation near target, and muted nominal growth are an unusual combination



RAJIV KUMAR
KUNTALA KARKUN

India's 8.2 per cent GDP growth in July-September 2025 puts it comfortably at the top of the global growth league, at a time of weakening demand, fractured supply chains, and higher US tariffs.

At the start of the New Year, the headline number signals resilience, but it also obscures a softer undercurrent: muted nominal growth, abnormally low deflators, and widening gaps between official output data, corporate results, and fiscal collections.

Real GDP growth by demand and supply components

(% y-o-y)

	Dec 2024	Mar 2025	Jun 2025	Sep 2025
GDP by expenditure and income	**6.4**	**7.4**	**7.8**	**8.2**
Government consumption	9.3	-1.8	7.4	-2.7
Private consumption	8.1	6.0	7.0	7.9
Gross fixed capital formation	5.2	9.4	7.8	7.3
Exports	10.8	3.9	6.3	5.6
Imports	-2.1	-12.7	10.9	12.8
Net indirect taxes	**5.0**	**12.7**	**10.3**	**9.5**
Gross value added	**6.5**	**6.8**	**7.6**	**8.1**
Agriculture forestry and fishing	6.6	5.4	3.7	3.5
Industry	4.8	6.5	6.3	7.7
• Manufacturing	3.6	4.8	7.7	9.1
• Construction	7.9	10.8	7.6	7.2
Services	7.4	7.3	9.3	9.2
• Trade transport & communication	6.7	6.0	8.6	7.4
• Financial real estate and professional services	7.1	7.8	9.5	10.2
• Public administration and other services	8.9	8.7	9.8	9.7

Source: HSBC Analytics

Growth: Real vs nominal

Quarter	Real GDP Growth (y-o-y %)	Nominal GDP Growth (y-o-y %)	Implicit Price Deflator (IPD) (%)
Q1 FY2024-25	6.5	9.7	3.2
Q2 FY2024-25	5.6	8.3	2.7
Q3 FY2024-25	6.2	9.9	3.7
Q4 FY2024-25	7.4	10.8	3.4
Q1 FY2025-26	7.8	8.8	1.0
Q2 FY2025-26	8.2	8.7	0.5

Source: MOSPI, NSO

THE NOMINAL PROBLEM

While real GDP has accelerated from 7.4 per cent to 7.8 per cent to 8.2 per cent over three consecutive quarters (Q4 FY 2024-25 to Q2 FY 2025-26), nominal GDP growth has declined (see table below). This is driven by a collapse in the implicit price deflator from 3.7 per cent to just 0.5 per cent. Such convergence of nominal and real GDP growth rates is rare for a developing economy. For India, it's a red flag.

Economic decisions are made in nominal rupees. Firms book nominal revenues; workers earn nominal wages; governments collect nominal taxes. When nominal growth weakens, corporate results miss targets, tax collections fall short, and fiscal deficits widen automatically. Net tax growth, at 9 per cent in H1 FY26, has already slipped below the Budget's assumptions (of 10.1 per cent).

'OPTICAL' REAL GROWTH

Manufacturing and services GVA grew around 9 per cent in the quarter; buoyed by favourable base effects, sharply lower deflators, front-loading of export orders ahead of tariff deadlines, GST rate cuts, and festival induced inventory build-up.

But manufacturing IIP; actual physical output, rose just 4.8 per cent. The gap could be suggestive of the 9 per cent surge in manufacturing and services being 'optical', reflecting deflator compression and accounting quirks, rather than broad-based production gains.

On the demand side, private consumption picked up 90 basis points, helped by fiscal transfers, accommodative monetary policy, GST cuts, and festive stockpiling. Investment remained solid but showed early signs of moderation. India isn't in a demand recession, but the growth impulse is clearly becoming consumption-heavy and investment-light.

Further, NSO's press note shows that 12 of 22 high-frequency indicators decelerated in Q2 FY 26 vs Q1; only three of 18 physical-quantity measures (namely, steel, cement, commercial vehicles) grew faster than 6 per cent. Core GDP growth (excluding residual discrepancies) fell to 4.1 per cent in Q2; indicating that statistical adjustments, not real activity, could explain much of the headline acceleration. (Ref: *The Paradox of a "Blazing" Economy That No One Feels*, by Dhananjay Sinha, November 30, 2025)

FY26 OUTLOOK

The policy debate now needs to move beyond patting ourselves on the back, to three concrete questions.

GST sugar rush: Was the consumption spike durable demand increase, or front-loaded festive buying? If the latter, retail sales and manufacturing orders will cool once festival and contingent demand is exhausted and inventories normalise.

Indeed, manufacturing momentum is already showing signs of softness: PMI slid to 56.6 in November 2025, its weakest in nine months. Without sustained job and income growth, consumption alone won't power 8 per cent growth for long.

Tariff drag: Higher US tariffs on key Indian exports come atop an already fragile global environment. Persistent trade barriers or fresh supply-chain disruptions will weigh on export volumes and factory orders, prompting firms to delay investment and hiring.

The banking system is flush with liquidity, but private investment is constrained by regulatory uncertainty, lack of demand visibility and inadequate policy clarity rather than cost of funds.

Export-intensive States and manufacturing clusters face the sharpest pain.

Data googlies: India will revise base years for GDP and CPI in February 2026 and introduce a revamped Index of Industrial Production in May 2026. Past revisions have materially altered historical growth trends and sectoral weights.

At a time when deflators are already distorting the real-nominal relationship, these changes could force markets and policymakers to reprice risk mid-flight.

THE POLICY BIND

The Reserve Bank of India projects H2 FY26 growth at 5.7 per cent, pulling full-year real GDP to 6.8 per cent. Yet the dilemma is more nuanced: high real growth above 8 per cent, inflation near target, and muted nominal expansion is a combination that macro textbooks describe as rare.

Rate cuts cannot solve weak nominal revenues driven by collapsing deflators; the banking system is flush with liquidity, but private investment is constrained by regulatory uncertainty, lack of demand visibility and inadequate policy clarity rather than cost of funds. Fiscal arithmetic is equally harsh: absent dramatic improvements in tax efficiency or upside surprises in growth, the government must choose between boosting public investment and maintaining welfare schemes, or meeting deficit targets.

BETTER GROWTH

Even adjusting for deflator-driven overstatement, India is growing faster than most large economies. Private consumption has support from easing inflation and tentative rural improvement. But composition matters more than the headline. The economy is increasingly consumption-led, with private investment moderate and exports underperforming. This mix can deliver a few good years; but it won't sustain a decade-long expansion required for absorbing additions to the workforce that are estimated at eight million every year.

A more durable growth strategy for this year requires three shifts:

Revive private investment: Private-sector investment slipped to 11.2 per cent of GDP in FY 2024-25, with private capex contributing only 33 per cent of gross fixed capital formation, a 10-year low (MOSPI). These trends highlight weak investment sentiment, underscoring the need for targeted interventions, e.g., focusing on improving the emerging industrial ecosystems via regulatory clarity, faster execution, and sector-specific de-risking; rather than across-the-board measures such as production linked subsidies.

Rebuild export momentum: Deepen integration into global supply chains with predictable trade policy and laser focus on logistics, power quality, and firm-level competitiveness. Export growth of 6.05 per cent in FY 2024-25 and of 5.86 per cent during April-November 2025 will certainly not suffice (total trade in goods and services, YoY growth rate, MOSPI, RBI).

Despite India's modest share in global trade of goods and services (3 per cent, WTO, UNCTAD); we should accelerate exports, especially now when world markets are fragmented and trade is growing slower than GDP. The opportunity is real, and achievable.

Modernise statistical systems: Ensure deflators, base years, and sectoral coverage keep pace with structural shifts in the economy. In an era of intense data scrutiny, credibility of the numbers is a policy asset, not a technical footnote.

India's 8.2 per cent headline deserves applause, but not complacency. The real test is not the next quarter's number; it is whether this sprint can become a marathon. That requires less reliance on consumption spikes and more on the unglamorous work of reviving private investment, strengthening exports, and modernising the statistical apparatus. Get that right, and India will not just surprise the world with speed; it will impress with staying power.

Kumar is Chairman, Pahle India Foundation & former Vice Chairman Niti Aayog; and Karkun is Senior Fellow, Pahle India Foundation

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02 Jan 2026

Platforms need to deliver on workers' needs

Workers need predictable earnings, basic protections, and a voice in systems that manage work assignment

Rejimon Kuttappan

On December 24, Swiggy and Zomato were trading at ₹400.25 and ₹284.85 per share — numbers that reflected investor confidence in India's fast-expanding platform economy.

Within 48 hours, that confidence was tested. On December 25, delivery workers across India employed by major food delivery and e-commerce platforms — including Swiggy, Zomato, Zepto, Blinkit, Amazon, and Flipkart — observed an all-India strike. What followed was not merely a disruption of dinner plans, but a warning shot to markets, regulators, and platform executives alike.

By December 26, shares of platform majors had fallen. Around 40,000 delivery workers participated, causing 50-60 per cent disruptions in several cities. Companies tried to cushion the impact with short-term incentives, third-party outsourcing, and reactivating inactive IDs — measures that sidestepped core worker demands. Union leaders called the December 25 strike "only the trailer," warning of a much larger nationwide action on December 31.

The strike on New Year's Eve prompted food delivery platforms to announce an increase in payouts per delivery for that day; a short term fix. This is among the highest-demand periods of the year for food delivery, quick commerce, and last-mile logistics. Platforms depend on this window to convert festive demand into revenue, reinforce consumer habits, and demonstrate operational resilience. A coordinated nationwide strike during this peak period strikes at the core of the platform business model.

STRIKE IMPACT

Clearly, India's gig economy is at a crossroads. The December 25 strike went beyond temporary delivery disruptions, exposing a deeper governance failure in how platforms organise technology, labour, and livelihoods. The December 31 strike has left a telling message.

The workers' message is unequivocal: this is not a seasonal nuisance to be managed with incentives or outsourcing, but a demand for predictable earnings, basic protections, and a voice in systems that increasingly determine how work is assigned, penalised, and valued.

Business leaders must face two uncomfortable truths. First, labour



GIG WORKERS. Stressfull times

stability is not a discretionary cost but a core driver of resilience. When algorithms push speed without regard for human limits, turnover rises, reliability drops, and reputational risk grows. Peak-demand periods like New Year's Eve become stress tests. Platforms that cannot rely on a predictable, motivated workforce are structurally vulnerable, and short-term fixes — higher incentives, constant onboarding, outsourcing — come with a hidden cost; they erode margins and trust over time.

Second, worker rights are not a charitable add-on but a business and human rights imperative. Growth is no longer measured solely by user numbers or order volumes; investors now consider governance, social licence, and long-term sustainability. Minimum earnings floors, portable protections, and transparent, contestable algorithms are not concessions — they safeguard the ecosystem. Predictable incomes and safety nets make workers more reliable and productive.

The platform economy promised speed, convenience, and affordability; it now requires a matching commitment to people. Technologies like real-time routing and dynamic pricing are not neutral and cannot be divorced from human consequences.

What must change is neither radical nor unrealistic: minimum earnings floors linked to living costs; portable social protections; transparent, contestable algorithms with worker representation; clear classification standards; and institutionalised dialogue to prevent recurring strikes.

For businesses, this is not altruism but prudent risk management. Exploiting labour precarity may yield short-term gains but invites disruption, reputational damage, and greater regulatory scrutiny.

Public policy has a role too. Clear, enforceable standards can level the playing field and prevent a race to the bottom — without stifling innovation.

The writer is an independent journalist, business and human rights investigator

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Sovereign funds push into tech as assets swell to $15 trillion

Alex Dooler
Bloomberg

Sovereign wealth funds globally amassed a record $15 trillion in assets under management in a year when many deepened their technology investments and profited from buoyant markets, according to a new report by Global SWF.

Overall, sovereign owned investors ploughed $66 billion into investments in artificial intelligence and digitalization in 2025, the data firm said. Middle East sovereign wealth funds led on digital investments, with Abu Dhabi's Mubadala Investment Co. investing $12.9 billion in AI and digitalization, followed by the Kuwait Investment Authority's $6 billion and Qatar Investment Authority's $4 billion in 2025.



TECH. The top draw

The Middle East continues to be a hotspot for sovereign wealth fund riches. The main seven Gulf wealth funds accounted for 43 per cent of all capital invested by state owned investors globally at $126 billion, a historical maximum. In particular, Saudi Arabia's Public Investment Fund was the single largest dealmaker of 2025 by commiting $36.2 billion. Still, the PIF's participation in the acquisition of Electronic Arts Inc. made up the bulk of that figure. Stripping out that deal, Abu Dhabi's Mubadala was the most active sovereign wealth fund, investing a record $32.7 billion over 40 transactions, according to the report.

Sovereign investors grew their might in 2025 amid a market of strong returns for investors across fixed income, public equities, real estate and infrastructure, according to Global SWF.

The US stands out with $13.2 trillion in assets under management by state owned investors, followed by China with $8.2 trillion and the United Arab Emirates at $2.9 trillion.

Overall, the number one destination for state owned investments, by some margin, was the US, attracting some $131.8 billion in 2025 compared with $68.9 billion a year earlier, the report said. Investments into China by sovereign owned investors fell to $4.3 billion from $10.3 billion in 2024.

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05 Jan 2026

Short take

The MSME digitalisation imperative

Harjit Singh

India's Micro, Small, and Medium Enterprises (MSMEs) contribute a substantial share of the country's overall economic output and act as one of the largest creators of livelihoods across urban and rural India. Be it a food-processing unit in Assam, a handicraft cluster in Rajasthan, or a logistics startup in Bengaluru, MSMEs bring opportunities closer to communities. As India advances toward its "Viksit Bharat 2047" vision, MSMEs are poised to assume an even more pivotal role in shaping the nation's economic transformation.

Most of this transformation will be propelled by the deployment of digital tools across public and private enterprises. From our experience working directly with MSME entities, we have seen how AI-enabled tools are already helping small manufacturing units optimise supply chains, predict stock shortages, and improve fulfilment accuracy. Similarly, cloud-based solutions are offering flexibility and security while removing infrastructure barriers. To maximise the impact of technologies such as AI, MSMEs must strengthen foundational capabilities by reimagining their business with customer at the core, digitising processes, standardising data systems, and training teams to utilise digital tools effectively. AI is not a plug-and-play solution; it works best when integrated with core operations and supported by a data-ready environment.

Creating such readiness requires customised solutions that balance affordability with impact. This is where technology and telecom service providers play a crucial role. Bundled offerings that combine reliable connectivity, cloud access, and AI-driven business tools can help MSMEs adopt technology without heavy upfront investments. Subscription-based models are already easing adoption barriers and encouraging smaller enterprises to experiment, scale, and refine their digital journeys.

Manufacturers using IoT-enabled predictive maintenance are reducing downtime significantly, optimising their supply chains. Healthcare enterprises are adopting AI-assisted diagnostics and cloud-based record systems to increase efficiency. Fintech innovators using machine learning are facilitating faster, more inclusive access to credit for small businesses. These examples illustrate that when equipped with the right tools and training, MSMEs can harness AI for a long-term enterprise edge.

Likewise, cloud tools are enabling them to innovate, scale, and operate confidently in an increasingly digital landscape. According to the SME Digital Insights Study, half of Indian MSMEs now prioritise cloud adoption to expand operations, driven by enhanced security and improved customer centricity. Nearly 20 per cent have already migrated more than half of their workloads to the cloud, a clear proof of their commitment to digital transformation. With the right combination of digital infrastructure, financial support, and capability building, MSMEs can expand their contribution to the country's GDP, exports, and job creation.

The writer is Managing Director, Tata Teleservices

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05 Jan 2026

Challenges from abroad

Financial sector robust, but external risks abound

The recently released Financial Stability Report (FSR) has taken a rather serious view of global risks to the financial system arising out of geo-politics and trade, while emphasising that India's financial system is well placed to weather turbulence and shocks.

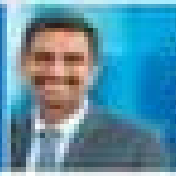


The report flags the fragility arising out of "AI optimism" and the growth of stablecoins, with ample liquidity supporting "risk-on sentiment across asset classes". Remarkably, it hints at dangers of "rising interconnectedness" across assets, pointing to high hedge funds leverage and opaque private credit markets. In India's case, however, there is no major cause for worry as balance sheets are sound across the corporate, banks and NBFC segments and reserves are ample. But uncertainties could increase exchange rate volatility, dampen trade and reduce corporate earnings, the FSR says. A sharp correction in US equities could impact domestic equities and tighten financial conditions, it observes. However, the asset quality of Indian banks has improved with the reduction in risky infrastructure and project finance lending. Gross NPAs and net NPAs were down to historic lows of 2.2 per cent and 0.5 per cent, respectively, by September 2025. Capital buffers are also robust with capital to risk assets ratio at 17.2 per cent and liquidity coverage ratio at 131.7 per cent, which are well above the statutory requirements.

But the shift in bank credit from large industries to retail loans is not necessarily desirable. Credit growth to large companies has slowed to 5.8 per cent by September 2025. But, in their bid to grow their business, banks have increased their unsecured retail loan portfolios, which carry higher risk. The gross NPAs remain elevated in this category at 1.8 per cent compared to 1.1 per cent for retail advances in general. Private sector banks have been taking higher risk in this category, holding 56.8 per cent of unsecured retail credit as of September 2025 and accounting for 75.8 per cent slippages in this category.

The report also flags a few challenges for banks. One, banks are finding it hard to garner deposits, as markets are offering attractive returns. With banks also raising funds at a higher rate from the bond market, their net interest margins could come under pressure. Two, the steepening of the yield curve and increasing spread between State government securities and G-secs is leading to more funds being parked in the former, especially by private sector banks. State government bonds held by private banks have registered 29 per cent increase in September 2025, year on year. This trend can impact credit growth. Three, the rise in bond yields will impact treasury income, as a third of banks' income comes from other income. Four, increase in acquisition of loans originated by NBFCs by banks through securitisation, pass through certificates and co-lending arrangements can create problems as the quality of these assets is inferior to their own. In sum, this is a time for cautious optimism.

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06 Jan 2026

The debate over economic data

TAKING STOCK. The changes in method for estimating GDP, employment have evoked criticisms. But these aren't convincing



ASHIMA GOYAL

Criticisms of India's data and specially the national accounts, which became common after the base change to 2011-12, tend to be of four types. First, those that resist change and loss of comparability; second, those that selectively use data to support pre-conceptions; third, those that allege systematic biases and impute motivations; fourth, those that recognise the complexities of measurement in large, heterogeneous and rapidly changing societies and make feasible and constructive suggestions for improvement.

Only the fourth deserve to be taken seriously, but since the first three have received a lot of attention we will discuss examples of each type. As India goes in for major base and other changes this year it may help to separate the substance from the noise in the commentary that is sure to follow.



NOT EASY. Forecasts cannot be a substitute for the detailed measurement that statistical agencies undertake REUTERS

STATUS QUOISM

The first set is motivated by resistance to change, perhaps because of familiarity or different types of investment in earlier methods. But change is inevitable with the economy. The upgrading to the United Nations System of National Accounts (SNA) 2008, in the 2011-12 rebasing, required shifting from the factory to the enterprise. The shift from to the MCA-21 database of 3-5 lakh firms from the RBI's sample of 2,500 firms was part of this, but was resisted on the ground that the Ministry of Corporate Affairs (MCA) included dummy firms. But a sample that captures only a tiny fraction of unrepresentative firms cannot continue to be adequate. India today has two million active firms. The MCA database, based on statutory filing, was cleaned-up and matured over time.

Similarly, the shift from the five-yearly employment survey to the quarterly Periodic Labour Force Survey (PLFS) was criticised as leading to a loss of information. But more frequent unemployment data is essential for macroeconomic policy decisions. Those who protested now find they can do much more with the higher frequency data available on a range of labour market parameters. It has also proved more reliable than private estimates that were the only earlier alternatives. But that does not prevent the critics from calling a further shift to a monthly frequency unnecessary.

The consumer expenditure surveys are said to be unusable since 'improvements' in methods made comparison with earlier surveys difficult. But they have been repeated in order to verify and benchmark.

SELECTIVE DATA USE

GDP measurement is a complex exercise in any country but more so in ours. A number of scholars and analysts use issues in the Indian data to discredit official growth estimates. But since this tends to happen only when growth is high or exceeds forecasts it points to motivated preconceptions.

If one configuration of data causes over-estimation the opposite implies underestimation. But only the first is highlighted. However flawed the data, forecasts cannot be a substitute for the detailed measurement that statistical agencies undertake.

The absence of double deflation was said to over-estimate growth when WPI inflation is below CPI. But WPI exceeded CPI inflation over 2021, 2022 and both converged in 2025, implying growth was underestimated in these high growth years.

In the 2010s aggregate credit growth fell due to a rise in bank non-performing assets. This was used as a 'smell test' to declare that growth was overestimated.

GDP measurement is a complex exercise in any country but more so in ours. A number of scholars and analysts use issues in the Indian data to discredit official growth estimates

But this variable was never used when both it and GDP rose together post-pandemic. And the compositional changes from corporate to retail credit that drove growth in the 2010s were ignored. Positive discrepancies in the expenditure approach are seized upon as suggesting growth is over-estimated. But they are as often negative, which suggests the opposite.

In Q3 FY24 a rise in net taxes above the average of 8 per cent of GDP was used to argue that high GDP growth was an aberration and actual growth was closer to the lower gross value added (GVA) growth. But in Q1 and Q2 FY26 net taxes were below 8 per cent and growth rates of both GDP and GVA were high.

Then attention turned to a low price deflator as the reason why high real growth was illusory. If inflation is actually higher than measured, real GDP growth would be lower. Nominal output was thought to be more robust since it is at least measured, while real output is extracted. But measured nominal growth could have fallen if real growth was indeed lower.

That the IMF gave a C to national accounts estimation was underlined, but the overestimation of real growth argument depends on errors in inflation estimates. So the IMF's B for this weakened the argument.

No one alleged inflation was overestimated in periods when it was higher (2020-23), since then it would have implied growth was underestimated.

Apart from these selective spotlights, there is also an argument that growth has been overestimated ever since the pandemic because ratios based on the formal sector are used to estimate informal sector output that has actually shrunk. But in the 2011-12 rebasing weights were given to different types of labour skills to estimate the output of unorganised (informal) manufacturing, replacing the GVA per uniform worker used earlier. So the ratios used do reflect some informal sector differences.

The production approach is regarded as more reliable and is used as the controlling total. The expenditure approach serves as an alternative check. It partially uses commodity flows, which is a different data set, based on the actual movement of commodities consumed, etc. Informal sector commodity use would also be captured.

The difference in this method from the production approach is given as a discrepancy that is sometimes positive and sometimes negative, implying there is no systematic bias in any one direction. A negative discrepancy means the expenditure estimate exceeded the production estimate and was reduced to equal the production measure. The sum of discrepancies was negative (₹ -8,85,934 crore) over Q1 FY21 to Q2 FY26, implying underestimation of production.

Moreover, household expenditure, which includes the informal sector, is measured as a residual since data is better for government and corporate expenditure. So it is quite likely to be an underestimate.

FEASIBLE IMPROVEMENTS

Valid criticisms are being acted on. These include re-basing to a more recent period, use of more frequent surveys, more datasets, double deflation for manufacturing where disaggregated WPI indices are available. Regular ASUSE surveys will replace use of ASI ratios in services. Proposed reforms are transparently communicated and feedback invited.

Discrepancies varied from a max of 3.3 and a min of -4.1 as a percentage of GDP from 2020-21 onwards and should shrink as expenditure data improves. If the revisions reduce sources of both under- and over-estimation, the overall change is unlikely to be large.

The low IMF grade was mainly because of the delay in rebasing. The IMF tends to be tougher on emerging markets — China also got a C. But the challenges they face, including frequent external shocks in the last decade, need to be acknowledged.

Constructive suggestions that recognise the magnitude of the task are welcome but it is unfair to attack a professional cadre, and their standards of probity, in order to score political points.

The writer was a member of the previous MPC

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The pension 'tap'

TN pension scheme balanced, but will pressure finances

The Tamil Nadu Assured Pension Scheme (TAPS), to be implemented in 2027, bears the trappings of an election promise, with State polls round the corner — but its design is not without merits. TAPS, in fact, largely follows the Unified Pension Scheme (UPS) model, offered to Central government employees from this fiscal year. Like the UPS, it promises a defined pension to State government employees and teachers.



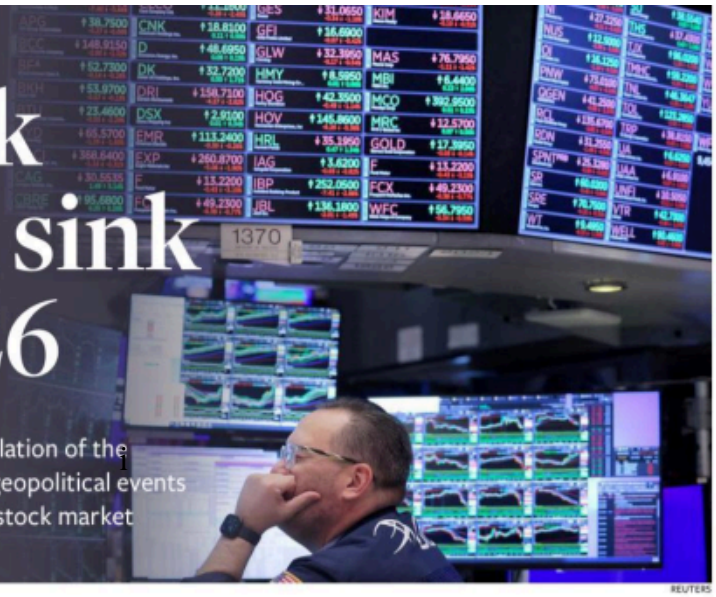
From the employees' point of view this is far better than the current Consolidated Pension Scheme (CPS) in the State, where the employee and the government contribute 10 per cent of the salary, but the employee does not have any assured pension and is paid only the accumulated sum along with interest on retirement. From a public finance viewpoint, TAPS looks better than the old pension scheme that is being implemented by some non-BJP ruled States. Under the latter, the entire pension burden falls on the State government. In TAPS, 50 per cent of the last drawn basic pay and dearness allowance is promised as assured pension. The employee's contribution is maintained at 10 per cent under TAPS, but the State government's contribution is increased to 18.5 per cent. There is also a small lumpsum payment which will be borne entirely by the government. The pension will also be adjusted for inflation regularly and 60 per cent of the pension will be paid to the nominee on death of the employee. The decision to shift the pension corpus to Pension Fund Regulatory Development Authority from LIC is also a good move as the corpus can increase faster if managed judiciously, reducing the burden on the State government. About six lakh employees stand to gain from TAPS.

TAPS needs to be implemented carefully to ensure that the pension corpus does not fall short of requirement. Under UPS, the Central government's contribution of 18.5 per cent of the salary is split into two parts — 10 per cent of the salary is added to the employee's pension account and 8.5 per cent is moved into a common pool which is used to address any shortfall in meeting the pension obligation. The Tamil Nadu government has not specified how its contribution of 18.5 per cent of the salary under TAPS will be accounted for. The State should be diligent about its monthly transfers to the pension fund, as any ambiguity in this regard can cause a gap in funds needed for pension payouts.

TAPS is, however, likely to increase the State's pension payout by at least 20 per cent over the existing level of ₹42,000 crore. The higher outlay should be viewed in the backdrop of the fact that the State's committed expenditures towards interest payments, salaries and pension account for well over half its revenue receipts. Given the state of Tamil Nadu's finances and the large workforce, the timing of the rollout of TAPS appears inopportune; it could have been postponed to the future. In the interim, the CPS corpus could have been transferred to PFRDA to help it earn better returns for pensioners.

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How the stock market could sink Trump in 2026



RISKS ABOUND. Spike in long-term interest rates, deflation of the AI bubble, economic reversals abroad, and unforeseen geopolitical events could hurt the US economy and the already overpriced stock market

REUTERS



DESMOND LACHMAN

In a recent campaign-style speech, US President Donald Trump asserted that "the only thing that's really going up, big, it's called the stock market, and your 401(k)." He has a point: all major US stock indices realised double-digit percentage gains last year. And yet, the November midterm elections are still a long way off. Were there to be a stock-market correction in the meantime, Trump's economic point of pride could become a liability.

Unfortunately for Trump, a market correction (a 10-20 per cent decline) does seem highly probable this year. There is an unusually high degree of optimism priced into the market, making stocks susceptible to a large pullback in the event of an economic setback — which any number of economic or political "known unknowns" could cause in the run-up to the midterms.

Consider the current optimism. It would be an understatement to say that stocks are priced at lofty valuations; in fact, they are priced for economic perfection. As measured by the Cyclically Adjusted Price-Earnings Ratio, the S&P 500 is valued at more than twice its long-term average, and at close to its pre-2001 dot-com high. And as measured by the Buffett Indicator — the ratio of the total US stock-market valuation to US GDP — the market is trading at an all-time record, some 50 per cent above its 2008 high.

Another measure of optimism is the current bullishness on the part of fund managers. According to Bank of America, these influential voices are more exuberant now than at any point in the past three years, and their current cash holdings have plummeted to their lowest level on record. Again, such sentiment — and the bets that follow from it — would seem to set the market up for a major pullback should the economy falter in the coming months.

Why might that happen? One need only consider the country's unsustainable public finances, coupled with the threat Trump poses to the US Federal Reserve's independence, to envisage a return of the bond market vigilantes and a spike in long-term interest rates. Heightening this risk is the country's high dependence on foreigners to finance its $2 trillion annual budget deficit. If foreigners come to think that the US government will try to inflate away its debt, they will demand higher interest payments on their US Treasury bond holdings, which would increase the cost of mortgages, auto loans, and many other common forms of borrowing.

As US operation against Venezuela demonstrated, unexpected or under-appreciated geopolitical events can disrupt financial markets

THE AI BUBBLE

Another domestic risk is the AI bubble, which could burst or deflate at any time. This risk is especially acute considering that as much as half of US GDP growth is being driven by AI-related investment. Moreover, the end of the AI bubble would have a chilling effect on the stock prices of the so-called Magnificent Seven (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla), whose combined valuation is around 35 per cent of the S&P 500's total. Oracle, whose stock price already fell 30 per cent last quarter, could prove to be the canary in the coal mine.

The US stock market could also be shaken by economic reversals abroad. One such shock could come from China, which is still relying excessively on an investment- and export-centric model to drive its economy. With China's trade surplus now exceeding $1 trillion, increased US and European protectionism has become more likely, and with it, a further breakdown in the international trading system.

Another shock could come from Japan, where Prime Minister Sanae Takaichi's pursuit of an irresponsible budget policy has raised fears of a "Liz Truss moment" that could send Japanese government bond yields sharply higher (as happened in the UK in the fall of 2022). Were that to occur, we could see a disruptive unwinding of the Japanese carry trade (borrowing at a lower interest rate in one country to invest in assets elsewhere) and the repatriation of Japanese capital that has been supporting US financial markets.

Finally, as last weekend's US military operation against Venezuela demonstrated, unexpected or under-appreciated geopolitical events can disrupt financial markets. Even before Trump announced that the US plans to "run" Venezuela until a "proper" transition can take place, China was conducting live military drills in the Taiwan Strait, and Russia was dragging its feet on a peace settlement with Ukraine. China might try to capitalise on this moment to regain control over Taiwan, and Russia may be emboldened to make even more ambitious demands for territorial concessions from Ukraine. Even the smallest possibility of a conflict over Taiwan should be deeply concerning, considering that it supplies more than half the world's semiconductors.

If those who live by the sword die by the sword, the same may be true of equity prices in the run-up to this year's midterm elections. By emphasising how well the stock market is doing now, Trump could be setting himself up for disappointment if any number of risks materialise.

The writer, a senior fellow at the American Enterprise Institute, is a former deputy director of the International Monetary Fund's Policy Development and Review Department and a former chief emerging-market economic strategist at Salomon Smith Barney. Copyright: Project Syndicate, 2026. www.project-syndicate.org

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Tackling US tariff shock with a monetary toolkit

Rate cuts and currency flexibility adopted by India worked in tandem, limiting the competitiveness loss from tariffs

Vidhu Shekhar

As the rupee crossed 90 to the dollar this winter, headlines have focused on record lows and currency stress. But analysts miss a critical point. Given the difference in rupee behaviour last year versus this, and RBI's reduced defence, the movement likely reflects a deliberate, coordinated response to the US' tariff escalation in 2025.

While China met America's tariff barrage with counter-tariffs, regulatory retaliation, and open hostility, India did something quieter, strategic, and arguably smarter. It reached for the monetary toolkit instead of the diplomatic megaphone. Rate cuts. Managed depreciation. No chest-thumping. No trade war headlines. The rupee's slide is in effect a policy.

To understand 2025, we need to understand the box India was stuck in during 2024. Every domestic signal pointed to rate cuts. Inflation below 5 per cent. Softening core. Sluggish industrial credit. Real rates among the highest in the G20. The economy was not just asking for easier money, it was desperate for it. Yet the RBI could not move. Its hands were tied by Washington.

As the Federal Reserve tightened post-Covid and then held rates at around 5 per cent, global central banks were forced to follow. Any unilateral easing risked capital outflows and a steep currency fall. The Fed, in effect, had stripped monetary sovereignty from central banks worldwide.

Late 2024 proved just how trapped the RBI was. Over November and December, the RBI spent over $35 billion to hold the rupee near 83-84. This underscored how constrained India's monetary autonomy remained. Much of India's post-Covid tightening had been forced for same reasons.

The tariff shock of 2025 changed these incentives completely. Once Washington raised duties to 50 per cent on key Indian goods, the calculus flipped. A weaker rupee, instead of being a threat, became a cushion. Controlled depreciation could offset part of the tariff hit. And if markets were going to accept a weaker rupee anyway, rate cuts suddenly became viable again.

The tariffs, paradoxically, gave India its monetary policy back.

LOWER BORROWING COSTS

Another strong advantage followed. Lower borrowing costs strengthen the competitive position of Indian firms, especially when rivals in China and Europe are financing at near-zero or negative real rates. Rate cuts and currency flexibility worked in tandem, limiting the competitiveness loss from tariffs.

India had a rare alignment: inflation low, oil prices benign, reserves near $700 billion. A window for monetary freedom had opened. Rate cuts were overdue anyway. The tariff shock just made them strategically defensible. And the RBI's own communications confirm this was intentional. The June Bulletin explicitly flagged "trade policy uncertainties" in the same month the RBI delivered a 50-basis point cut, a rarity in India. The message: lower borrowing costs for Indian industry before export



POLICY FLEXIBILITY. Deployed at the right time

restrictions bite. The strategy was reaffirmed on December 5. Another 25-basis point cut, paired with a $5 billion forex swap and substantial bond purchases.

Once rate cuts began, some pressure on the rupee was inevitable. And herein came the second leg of the strategy via the exchange rate. In 2024 the RBI had treated 84 as a red line. In 2025, the approach shifted. The central bank did not withdraw from the market. Bloomberg estimated about $26 billion of operations between September and mid-November alone.

But the goal changed. From defending a specific level to moderating volatility, controlling the pace, preventing disorderly single-day moves, while letting the rupee find a more realistic level. The result was a managed glide path. The rupee drifted to 86 by June, 88 by August, past 90 in early December. No panic, no liquidity crunch, volatility also contained. The forex market stayed healthy.

A weaker rupee, handled this way, became a macro stabiliser. It cushioned exporters, shifted part of the tariff burden into relative prices, and did so without spooking financial markets.

The contrast with China is instructive. Beijing went tit-for-tat. Counter-tariffs, regulatory pressure on US firms and open confrontation. The result was renewed pressure on the yuan in offshore markets, alongside capital outflows that foreign investors were already primed to accelerate. Washington also escalated further and it became a much larger conflict.

India sidestepped the entire cycle. By keeping its response within the domain of monetary policy, India avoided the trap. A rate cut is not a hostile act. A managed currency adjustment cannot be turned into a headline. India defended its competitiveness without handing Washington a villain to rally against. There is a structural reason too. India's capital account is more open than China's, making currency instability far costlier. China can wall off its financial system while India cannot. That constraint shaped the strategy and made discipline essential.

There is a broader point here that deserves attention. The tariff escalation was political. The response was monetary. India executed its defence through tools that were domestically justified but externally timed. A political shock, absorbed through technocratic means.

India absorbed the tariff shock without sacrificing growth or stability. The rupee at 90+, then, is not a symbol of weakness. It is a marker of policy flexibility deployed at precisely the right moment.

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Some Budget proposals

A defence cess, IT relief for seniors on deposits

Manas R Das

The article discusses certain themes for the 2026-27 FY Budget.

The IT relief and GST 2.0 have benefitted all, boosting the economy. So the Budget has the leeway to focus on fiscal consolidation.

Revenue expenditure being rather inelastic, the Budget may endeavour to reduce the government's capital expenditure and allow the private sector to substitute, especially in the non-strategic sectors.

It should present a pragmatic roadmap for disinvestment in the financial and non-financial Public Sector Undertakings (PSUs).

Given the escalating geo-political tensions, both globally and in the neighbourhood, the defence sector will be priority in the upcoming Budget.

A 'defence' cess may be levied on the rich/super-rich, based not on their income, but on the value of luxury assets they acquire.

The cess may also cover the promoters who reap hefty capital gains by exiting their promoted companies through OFS.

Given the turmoil in foreign trade, the Budget needs to provide a framework for flexible medium-term foreign trade strategy.

The near-monopoly in critical minerals by one country is holding several countries to ransom, India included.

Given these minerals' importance in the tech sector, the Budget should not only allocate significant sums to this sector for exploration, processing, R&D, etc.

THE PROPOSALS

The entire interest income from Term Deposits (TDs) may be exempted from I-T for the seniors as they, being relatively risk-averse, put their savings in bank TDs. Simultaneously, they provide a steady and effortless source of deposits for banks.

Senior citizens get some extra rate of interest over and above that for the general public. The additional rate, which usually ranges from 25 to 65 bps in respect of TDs, has long remained static, and hence be raised to 50 to 100 bps.

Transfer of PAN from the 'place of work' to the 'place of settlement' after retirement can be made easier and faster.

Discrepancy between interest earned as stated by banks in the account holder's passbook and AIS/26AS statements must be avoided, as the relative entities are electronically interconnected.



BUDGET 2026-27. Setting the agenda PTI

GST on the premium for group insurance for retired employees be annulled and/or the I-T exemption limit for the premium paid be increased significantly.

The Public Provident Fund (PPF) acts as a 'safety net' after retirement. However, the annual limit of contribution to PPF, which has remained stagnant at ₹1.5 lakh for a fairly long time, be raised to at least ₹2 lakh.

Besides, the Budget may allow the following operational relaxations:

* Withdrawal from the PPF account be allowed twice, instead of once, in a year, subject to an aggregate limit.

* Transfer of withdrawals from the PPF account to savings bank account be allowed through Internet Banking, if both the accounts are in the same bank branch.

After the initial investment in the Senior Citizens Savings Scheme, the procedure for additional investments should be made simpler.

The much talked about second round of PSB consolidation may be postponed for now.

Instead, PSBs with offices abroad may be asked to restructure their overseas operations during 2026-27, particularly due to the long-prevailing geo-political tumult, tariff imbroglio and likely transformations in India's trade relations with various countries.

Increasing the foreign investment limit in PSBs can wait until their second round of consolidation crystallizes. It would also be prudent to watch the response to the recent hike in the foreign investment limit in the insurance sector.

Balance sheet formats and their contents, last revised years ago, may be made contemporaneous.

The writer is a former Assistant General Manager (Economist), SBI. Views expressed are personal

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VB-G RAM G Bill: faulty architecture

SCHEME REVAMP. The new Act may not deliver what the government wants, which is asset creation



T NANDAKUMAR

Much of the public discourse on the VB-G RAM G Bill has revolved around three headline changes: the removal of Mahatma Gandhi's name; the effective dilution of the "employment guarantee"; and the shift to a centrally sponsored scheme with a 60:40 Union–State funding pattern.

Economists, sociologists, and political leaders have raised concerns on these points. It is true that MGNREGA had its own problems and weaknesses. But does the new Act address those? And will this law deliver what it promises?

To answer these, let's turn to the preamble and key provisions — Sections 4, 5, 8, and 22 — alongside the text of the Act as a whole.

The Bill signals a decisive shift in emphasis: from guaranteeing employment to creating rural infrastructure across four thematic domains: water security through water-related works; core rural infrastructure; livelihood-related infrastructure; and mitigation of extreme weather events.

These are indeed employment-generating activities, but employment is now incidental rather than guaranteed. Schemes will be prepared by Gram Panchayats under the Viksit Gram Panchayat Plans and integrated with the PM Gati Shakti National Master Plan. This alignment narrows local discretion though it improves effective monitoring by the Centre: Panchayats cannot freely set priorities but must conform to national templates and restrict their choice. The underlying objective is clear — asset creation first, employment second.

Where will it apply? Implementation will not be universal. Only those Gram Panchayats notified by the Union Government will be eligible. While criteria are yet to be announced, infrastructure deficit may dominate as the key filter. This design risks excluding large swathes of rural India from the benefits of employment support. Moreover, Panchayats unable to propose schemes within the four prescribed domains may lose out altogether. Approvals, therefore, will be complex and exclusionary.



The focus of the new scheme is more on asset creation than job generation VENKATACHALAPATHY C

THE EMPLOYMENT 'GUARANTEE'

Section 5(1) raises the guarantee from 100 to 125 days. Yet this promise is undermined by structural constraints: schemes may not exist where demand for work is highest; labour may be unavailable where schemes are sanctioned; and strict timelines under PM Gati Shakti will prioritise completion over participation.

The raise in guaranteed employment days from 100 to 125 is unlikely to help as schemes and demand for work may not be aligned. Strict timelines under PM Gati Shakti will prioritise completion over participation

In such cases, contractors — not local labour — would become the default option. Thus, the "guarantee" risks becoming unimplementable.

The most formidable obstacle is financial. What was once a 100 per cent centrally funded scheme is now a centrally sponsored scheme. States must contribute 40 per cent of the total. In 2025–26, MGNREGA's allocation stood at ₹86,000 crore (down from ₹1,15,000 crore in 2020–21). If a similar outlay for the Central share is maintained, States collectively must mobilise about ₹57,000 crore. Bihar, with its infrastructure deficit, may need about ₹4,000 crore from its own resources. Kerala, under normal circumstances, will struggle to find an additional ₹1,500 crore.

For fiscally constrained States, this requirement is beyond their capabilities since the Fiscal Responsibility and Budget Management Act provisions will kick in.

The flow of funds unfolds in the following manner: each financial year, the Union Government announces a normative allocation. States are then expected to contribute their share through their own budgets, creating the pool of resources available for the scheme. These funds are subsequently sub-allocated to districts and panchayats.

At the local level, panchayats design schemes within these allocations, aligning them with the four thematic pillars of the PM Gati Shakti National Master Plan. In theory, this ensures coherence. In practice, however, political and fiscal realities intervene. States, reluctant to appear non-contributory, often commit to budgetary shares they cannot realistically sustain. When the time comes for actual disbursement, delays and cuts are inevitable.

Anyone familiar with the gap between budget estimates and actual expenditure knows the pattern. State contributions falter, central allocations are withheld. Panchayats are left with half-finished projects, forced into a cycle of catch-up and completion. This is precisely where contractors step in, often at the expense of employment and accountability. Administratively, the result is nothing short of a nightmare. Some of these problems could have been avoided if many of the process conditions were part of rules than that of the Act. This could have given more leeway to the Government to address problems as and when they arise.

THE LIKELY IMPACT

Employment will emerge only as a secondary by-product; sustained asset creation may remain elusive.

Infrastructure outcomes will be fragmented, with some unfinished and part finished projects undermining both credibility and long-term utility.

Administrative strain will intensify, as local bodies juggle political expectations, fiscal uncertainty, and completion pressures.

Trust deficits between tiers of government will deepen, eroding the intended synergy of the Gati Shakti framework.

Clamour for relaxations in the Fiscal Responsibility and Budget Management Act will increase.

We will know after a year!

The writer is former Secretary, Food & Agriculture. Views are personal

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Ways to reform railway finances

Besides fare hikes, Indian Railways should focus on innovative pricing, and exit from suburban services

Sudhanshu Mani

Indian Railways (IR) recently sprung a surprise by announcing a fare hike across the board, barely six months after the previous revision. The current hike is only marginally higher than in July. Per kilometre fares now rise from less than a paisa for Second Class Ordinary journeys beyond 215 km to 2 paise for all classes in Mail and Express trains. Although IR claims this round will mop up ₹2,400 crore, a basic calculation suggests this is optimistic.

Net passenger kilometres for FY26 (total number of passengers multiplied by km travelled by trains) are likely to be around 60,000 pkm for Mail and Express services and 40,000 pkm for Ordinary Second Class, excluding suburban traffic. At best, the revenue increase would be about ₹1,200 crore from the former and ₹300 crore from the latter, amounting to roughly ₹1,500 crore annually, just over 1.5 per cent of passenger revenues of ₹92,800 crore budgeted for FY26.

IR emphasised that this was the lowest fare hike in the past 12 years, noting that the last significant revision across all classes occurred in 2013, when per kilometre fares were raised by 2 paise for Second Class Ordinary and up to 10 paise for AC classes. Historically, governments have been wary of revising passenger fares, but matters worsened since mid-2000s when Lalu Prasad Yadav was the Railway Minister. His team managed to extract substantial freight revenue by increasing the loadability of wagons, converting a *de facto* malpractice into a *de jure* policy despite resistance from railway engineers. This allowed IR to keep its Operating Ratio (OR), the ratio of working expenses over traffic earnings, well below 100 without raising passenger fares.

DETERIORATING FINANCES

Over time, this approach became an albatross. With no imaginative measures to boost freight revenue and fare hikes remaining politically sensitive, IR's finances have steadily deteriorated. The OR has since been artificially maintained just below 100 by absorbing part of the pension burden through budgetary support and allocating a token ₹800 crore for depreciation, even though investments in railway assets have exceeded ₹15 lakh crore over the past decade.

To be fair, some steps have been taken recently to improve passenger services, such as a revamped reservation system with advanced anti-bot technology, deployment of a Content Delivery Network to block ultra-fast automated bookings by rogue agents, revised caps on waitlists, and finalisation of reservation charts eight hours in advance. But fundamental questions remain unaddressed.



REQUIRED. Imaginative initiatives to boost revenues GETTY IMAGES

If IR's core mandate is inter-city and long-distance travel, why does it increasingly pander to loss-making suburban and commuter segments, which should primarily be the responsibility of State and city governments? After all, commuters pay several times more in Metro trains, which are managed by State governments with the Central government as a stakeholder, not the owner. Why are AC I and AC II classes, chosen for comfort rather than affordability, subsidised? If AC III and Chair Car services are the only ones that break even, why the persistent emphasis on non-AC coaches? It is entirely feasible to introduce AC Chair Cars with more than 100 seats at affordable fares, encouraging passengers to migrate from non-AC to AC travel.

Equally pertinent is the absence of imaginative revenue-boosting initiatives since the introduction of dynamic pricing, which itself requires comprehensive reform. Why not adopt greater pricing flexibility across long-distance trains, such as differential pricing for upper, middle, and lower berths, or for cabin and aisle berths, on lines similar to airlines? Why not extend all well-patronised trains to 24 coaches, eliminate pointless stoppages through data analytics, and deploy smarter operational and engineering interventions to raise average speeds to a respectable 80-100 kmph?

On every ticket, IR proudly proclaims a 43 per cent subsidy. Does subsidisation imply that passengers should bear with poor service? Improved finances may depend on freight revenues, but the passenger segment can also contribute.

The writer is retired General Manager/Indian Railways, Leader of Train 18/Vande Bharat project, and Independent Rail Consultant

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08 Jan 2026

PLI push is paying off

Marked output gains in steel, electronics, pharma

Biplab Kumar Guru
Suryasnata Das

The Production Linked Incentive (PLI) scheme was introduced in April 2020 with the intent of fast-tracking growth and helping the country become a $5 trillion economy. In this regard, the PLI scheme supports domestic companies, encourages international firms to set up manufacturing units in India, and endorses technology use and innovation in manufacturing sector. Initially targeted at three industries — electrical manufacturing, mobile accessories and medical devices — the scheme was expanded to 14 key sectors by February 2022.

STEEL STRENGTHENS

Before PLI came into force, crude steel output and finished steel production showed a gradual upward trend, rising from around 89 million tonnes (mt) in 2014-15 to about 111 mt by 2018-19 (Ministry of Steel data). Finished steel demand also increased steadily, indicating growing domestic consumption. Imports fluctuated but generally declined after peaking in 2015-16, while exports increased up to 2017-18 before moderating.

Turnaround in the steel sector came with PLI push in 2020. Not only did the production and demand of finished steel register strong growth but crude steel output also jumped from 103.54 mt to 144.30 mt between 2020-21 and 2023-24. By 2023-24, robust domestic consumption of finished steel was underscored by steel demand reaching over 136 mt. Notable increase in exports and relatively moderate imports were recorded during the initial PLI years, which later stabilised. All-in-all, India's steel sector performance and the PLI regime indicated a significantly positive association because of growing domestic demand, enhanced production capacity and a more buoyant steel industry especially during the PLI regime.

Coming to mobile phones, their production rose steeply rose from ₹18,900 crore in 2014-15 to ₹225,000 crore in 2019-20 (Ministry of Electronics and Information Technology data). Gross electronics output also grew progressively from worth ₹190,366 crore to ₹546,550 crore during the same period. The share of mobile phones in total electronics production grew from 9.9 per cent to 41.2 per cent.

Further acceleration in this sector ensued mainly due to the PLI nudge. Electronics output nearly doubled from ₹554,461 crore in 202021 to ₹952,000 crore in 2023-24. The value of mobile phone production surged to ₹422,000 crore by 2023-24 while its share in total electronics production reached 44.3 per cent. Overall, the PLI scheme coincided with a significant expansion of mobile manufacturing, an increasing share of mobiles within total electronics production, and improved export performance, reinforcing India's position as an emerging hub for mobile phone manufacturing.



POST PLI. Steel sector witnesses turnaround ISTOCK

India's exports of medical devices also witnessed a sustainable rise during the PLI regime although the sector remains import-intensive. This suggests that the domestic manufacturing capacity is continually improving and approaching export orientation. Based on a Department of Pharmaceuticals survey report, medical devices exports exhibited a firm rise before the PLI era, increasing from $1,868.05 million to $2,292.87 million between 2017-18 and 2019-20. Exports showed faster growth post the PLI push, from $2,531.62 million to $3,785 million between 2020-21 and 2023-24. The generic trend in production, consumption and exports paints a bright picture about the PLI scheme although persistent import dependence of electronics and medical device sector remains a challenge.

PLI has increased international competitiveness, ensured resilience and sustainability in sectoral output and created employment opportunities in sectors like electronics, pharmaceuticals, and steel. The PLI flagship programme can be even more effective by relaxing the stringent eligibility criteria, creating a skilled workforce, and investing in high-end technology.

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Growth need not generate jobs

The tenuous link between growth and employment has broken down in some parts of the world

MACROSCAN.



CP CHANDRASHEKHAR, JAYATI GHOSH

The idea that economic growth leads to more employment is at one level so obvious that it has become axiomatic among economists and policymakers. After all, higher production will require more inputs, and presumably labour is a crucial input for many, if not most, activities. Therefore, it is common to find that both policymakers and analysts routinely make the promotion of GDP growth their central focus, relying on the perception that this will inevitably generate more employment.

Of course, higher labour productivity (output per worker) is also typically a policy goal. So it is also assumed that within sectors and activities, per unit labour requirements may (and should) decrease, but overall economic expansion will ensure that — until full employment or full capacity utilisation is achieved — aggregate output increases will generate additional employment.

It is recognised that the response of job creation to output growth (or the employment elasticity of output growth) will vary, especially with more labour-saving technological change. Estimates of the employment elasticity of output growth, and how that changes over time, are therefore important. Even so, it is generally accepted that even if such elasticities are low or declining, they will always be positive.

CHART 1

World-wide pattern

GDP growth, employment and output per worker, 2014-24, % change



CHART 2

Diversified path

Employment elasticities of aggregate output



CHART 3

Fluctuating scenario

GDP growth and change in employment-population ratio (%): World



Source: ILO WESO update May 2025; World Bank WDI database

ILO FINDINGS

The ILO's World Economic and Social Outlook Update for May 2025 provides some data for us to assess how this relationship between output and employment has played out in the decade 2014-2024. Chart 1 shows how the aggregate relationship has changed for the world as a whole and across the major regions. Chart 2 shows the employment elasticities of output growth based on these indicators.

While the relationship between aggregate GDP growth and total employment (covering also self-employment, informal employment, part-time employment, etc.) was positive, two features stand out. The first is the quite stark difference in growth rates of GDP and of employment for the world as a whole, explained by labour productivity growth which seems to have been very rapid over this period.

But the second — and possibly more startling — feature is the significant variation across regions, not only in aggregate changes but in employment elasticities.

Thus, the Arab States and the Asia and Pacific region are outliers in opposite directions. In the Arab States, GDP grew more slowly than employment, resulting in employment elasticities significantly greater than one and negative changes in labour productivity. In the Asia and Pacific region, GDP increased very substantially, mostly associated with significant increases in labour productivity, such that the employment elasticity of output was extremely low.

In Africa, employment elasticities were also high, close to unity. In the Americas and in Europe and Central Asia, growth of all the aggregate variables was relatively low, and employment elasticities were moderate.

DIVERGENT TRENDS

Of course, it could be argued that such broad regional groupings are too large and contain very diverse economies, and therefore do not provide sufficient understanding of actual economic processes within the regions. In addition, lumping together aggregate changes over a decade can obscure short-term relationships — and that between output and employment obviously must operate over the short term.

TABLE

A country-wide profile

GDP growth and change in employment-population ratio (%)

	High income countries		Upper middle income countries		Lower middle income countries		Lower income countries	
	GDP growth rate	Change in empl-pop ratio	GDP growth rate	Change in empl-pop ratio	GDP growth rate	Change in empl-pop ratio	GDP growth rate	Change in empl-pop ratio
2001	1.59	-0.33	4.21	-0.66	4.21	-0.19	2.84	-0.35
2002	1.64	-0.34	4.34	-0.79	4.34	-0.37	4.03	-0.32
2003	2.30	-0.26	4.53	-0.45	4.53	-0.12	5.28	-0.30
2004	3.52	0.32	5.95	-0.11	5.95	-0.01	5.68	-0.19
2005	3.00	0.67	7.11	-0.36	7.11	-0.10	5.71	-0.25
2006	3.24	0.84	6.70	-0.09	6.70	-0.69	6.04	-0.73
2007	2.89	0.84	6.98	0.00	6.98	-0.65	5.27	-0.80
2008	0.69	0.00	6.89	-0.37	6.89	-0.89	5.63	-0.82
2009	-3.35	-2.68	4.59	-0.59	4.59	-0.73	4.99	-0.39
2010	3.05	-0.28	5.97	-0.22	5.97	-0.48	3.29	-0.75
2011	2.04	0.33	6.87	0.12	6.87	-0.74	6.49	0.20
2012	1.48	0.34	4.76	-0.13	4.76	-0.89	-0.13	-0.76
2013	1.61	0.11	5.18	-0.61	5.18	-0.14	-4.40	-0.14
2014	2.16	0.72	5.67	-0.42	5.67	-0.18	2.55	-1.16
2015	2.34	0.56	6.12	-0.38	6.12	-0.32	2.86	-1.26
2016	1.85	0.75	5.92	-0.59	5.92	-0.14	-2.06	-0.83
2017	2.50	0.74	5.69	-0.32	5.69	-0.46	0.50	-0.92
2018	2.38	0.81	5.44	-0.23	5.44	-0.25	1.88	0.00
2019	1.89	0.55	5.42	-0.39	5.42	0.32	2.85	-0.27
2020	-3.89	-3.08	4.06	-3.81	4.06	-2.48	3.01	-2.28
2021	5.85	1.45	-3.98	1.97	-3.98	2.11	-1.15	0.28
2022	3.05	1.83	6.49	0.15	6.49	2.63	1.28	0.82
2023	1.83	0.46	6.24	0.40	6.24	1.54	3.36	3.72
2024	1.95	-0.27	6.04	-0.42	6.04	0.80	-0.21	-0.41

Source: World Bank WDI database

Another approach could be to examine the changes in GDP and in the active worker population ratio in each year, to see if there is any evidence of clear positive relationship. Since the population estimates tend to be relatively stable over time, estimates of the worker population ratio (employed workers to population age 15+ years) can provide a proxy for short-run employment changes. These trends are shown for groups of countries based on levels of per capita income (see Table), using data from the World Bank's World Development Indicators.

Chart 3 shows the trends for the world as a whole since 2000, and it suggests a very different relationship — almost a non-relationship — between GDP growth and employment. It is true that GDP growth has been volatile, with three episodes of crisis (in 2001, 2010 and 2021) when GDP was stagnant or declined. But the employment-population ratio barely budged over most of this period and in fact seems to have declined slightly in most of the years of this quarter century.

Certainly, there is little evidence of a short-term positive relationship with GDP growth. The lags, where they are evident, also do not appear to have much economic rationale.

The picture changes slightly according to income groups. The high income countries (HICs) shown in the Table do indeed show a positive relationship, with changes in employment to population ratios closely tracking GDP growth. The changes in the employment-GDP ratio are much lower than those in GDP, but they are generally in the same direction. Therefore, in high income countries, employment appears to follow the business cycle, as expected.

But the same cannot be said for the other country groupings. Indeed, the lack of correlation between the two variables that can be observed for the world as a whole is really because of these other country groupings.

The Table shows that in both upper and lower middle income countries, employment-population ratios have been mostly stagnant (with the exception of the pandemic year 2020 which showed a significant decline and then a recovery in the following year). But even more notably, the changes in the ratio have been negative throughout this period, barring a few most recent years.

JOBLESS GROWTH

What is clear is that the more rapid GDP growth in these middle income countries (which as a group have the highest GDP growth rates) did not lead to increases in the employment-population ratio either in that year or the following year, or through the period as a whole. In other words, the employment-population ratio has not only been inelastic with respect to income growth, but has in many years been negatively correlated.

The lower income countries described in the Table point to an even more disturbing trajectory, one in which employment-population ratios fell over almost the entire period, until 2022.

Such a pattern definitely calls into question any positive relationship between output and employment in most countries in the world. Clearly, the factors determining employment generation are more complex and deserve to be analysed carefully to put in place the appropriate strategies.

But first, governments and those who advise them have to stop assuming the GDP increases will be enough to create more jobs.

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09 Jan 2026

Standing firm

First cut GDP estimate affirms economy's resilience

The Indian economy looks good to weather upcoming global turbulence in FY27. It has seen through the tariff storm of this fiscal; the first advance estimates of 7.4 per cent growth for FY26 would pass off as robust even in saner times. It suggests that 6.5 per cent growth in FY25 was a cyclical blip, from which the economy has recovered, despite global headwinds.

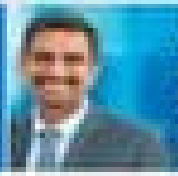


The current growth is broad-based, as even exports are estimated to grow 6.4 per cent. Clearly, exports diversification has begun; May-November exports to the US (which account for a little under a fifth of total exports) dropped 21 per cent, but exports to other destinations rose 5.5 per cent. Amidst the threat of more preposterous tariffs coming our way, this shift is an encouraging sign. The growth this fiscal has been propelled by 7.8 per cent increase in gross fixed capital formation (7.1 per cent last year) and a 5.2 per cent rise in government spending (2.3 per cent in FY25) — besides 7 per cent growth in private consumption. Economists have observed that a squeeze in revenue spending by the government, coinciding with a rise in capex, can have beneficial growth effects. There has been an increase in private investment interest in recent times; efforts to promote ease of doing business, including direct and indirect tax cuts are perhaps yielding results. Government capex (about 15 per cent of total capex) could also be creating a 'crowd-in' effect.

A recent compilation by Bank of Baroda on investment intentions in the first nine months of this fiscal bears this out. New investments announced during this period amount to ₹26.62 lakh crore, against ₹23.88 lakh crore in the same period in FY25. The investment interest is pronounced in electricity, chemicals, metals and information technology. With protectionism on the rise, India must focus on consolidating domestic demand and value chains. Its production linked incentives are appropriate for building domestic resilience, but the Budget could review these packages and improve upon them. However, this perception of robustness should not lead to complacency. The impact of the Trump administration's actions on financial markets remains an area of concern, as the Reserve Bank of India has observed. A scenario of choppy capital flows and widening trade deficit implies that both the currency as well as interest rates could come under stress. On the brighter side, trade deals with the US and EU could ease up sentiment.

Since monetary policy has done its bit to push credit (relaxing the repo rate by 125 basis points in 2025 and slashing the cash reserve ratio), the onus would lie more with the government to keep growth going, amidst an emerging revenue constraint and stiff 10-year G Sec rates. A shift to targeting the debt-to-GDP ratio (from the fiscal deficit ratio) from FY27 will allow the Centre some space to frame Budgets with a medium-term view. It should spend prudently to create long-term physical and human assets.

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12 Jan 2026

A nudge to investing

Creating wealth by starting early by small steps

BOOK REVIEW.

Sourashis Banerjee



Title: Start Early, Finish Rich
Author: Anil Lamba
Publisher: Harper Business
Price: ₹599

This book is best read not as a manual on investing, but as a conversation starter; one that gently nudges the uninitiated, the hesitant, and even the unwilling, towards thinking about money with clarity and confidence. This book is a primer, designed for those who have either never invested before or feel intimidated by the jargon-heavy world of finance.

What sets Anil Lamba's *Start Early, Finish Rich* apart is its approachability. Lamba does not assume prior knowledge, nor does he overwhelm the reader with numbers, charts, or complex market theories. Instead, he builds from the basics, why money matters, how habits shape financial outcomes, and why starting early is far more powerful than starting big. These elements, break mental barriers and help demystify concepts like saving, compounding, risk, and delayed gratification.

The book is an easy read, both in language and structure. Short chapters, simplified explanations, and frequent real-life analogies ensure that the reader never feels lost. The inclusion of fun illustrations and visual cues makes the content engaging, especially for younger readers. Chapters such as the one on stock markets explain abstract ideas through everyday analogies.

For example, he says, "when the supply of a commodity exceeds its demand, the price will tend to fall to a level where it will attract a buyer. When the demand for a commodity exceeds its supply, the price will tend to rise to a level where it will eventually induce a holder of that commodity to part with it."

ADDING HUMOUR

On page 86, for instance, the text explains how prices move with supply and demand using a humorous example of "Kris" and tomatoes in a marketplace, where each subsequent day he receives cheaper tomatoes, and keeps buying 1 kg of it for his household, much to the indignation of his wife.

Importantly, *Start Early, Finish Rich* should be seen for what it is, and what it is not. This is not a deep dive into investing strategies, asset allocation, or market mechanics. The author himself cautions against blind acceptance. One passage reminds readers that a new investor should stay with familiar names and avoid impulse tips, noting, "at least for some time, till you become somewhat seasoned investors, I suggest that you stick to the known names." Readers should not treat the principles in this book as gospel truths or final answers. The nitty-gritty of investing such as, product selection, behavioural biases, and market cycles, are deliberately kept out of scope.

That restraint is, in fact, one of the book's strengths. By not attempting to do too much, it does exactly what an introductory book should: spark curiosity. It prepares the reader mentally and emotionally for more advanced learning, rather than pretending to replace it.

Beyond investing, the chapters on insurance and financial planning also reflect the same simplicity and intention. In the section on life insurance, the author bluntly cautions readers against treating insurance as an investment product: "Life insurance policies are taken for the benefit of the beneficiaries and not the person insured. The moment you plan to get the money back in your own lifetime, you have defeated the objective of taking life insurance."

For business-minded parents, this book works particularly well as a first financial book for their children. It encourages the right questions such as, 'why save? why invest? why think long term?' without burdening young minds with complexity. At the same time, adults who may have postponed investing out of fear or inertia will find the book reassuring and non-judgmental.

There is no promise of overnight wealth, no shortcuts, and no hype. The recurring message is simple and universal: small, early, and consistent steps matter.

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LINE& LENGTH.



TCA SRINIVASA RAGHAVAN



Why the Budget is a non-event

The Budget has lost its earlier importance. People want government reform now

A few days ago, the Press Information Bureau wagged its finger at journalists disapprovingly and sent out a note that they should not do speculative stories about the forthcoming Budget which will be presented on February 1.

In reality there have been very few stories about the Budget, speculative or otherwise. For the first time since 1958 there is virtually no interest left in it.

That, it might be recalled, was the year when the practice of budgets turning into weapons of mass income and consumption destruction started. The government was trying to become the leading industrial investor.

It did, too, until 1966-69 when two droughts and two wars, one with Pakistan and one with China, forced it to stop. After 1972, it became the leading income distributor — taxing the rich to 'help' the poor.

Little wonder that people used to be petrified at the prospect of the Budget in those years.

But not anymore. It holds no terrors any longer because there's absolutely no room left for the government to fiddle with tax rates.

Corporate taxes were reduced sharply about six years ago, to East Asian levels. Last year income tax was also reduced. Indirect taxes, too, after the GST cuts last September are now as low as they will ever be. India has become a country with reasonable tax rates.

State-sponsored extraction, as opposed to bureaucracy-sponsored extraction, has mostly gone.

So in terms of overall taxation India is nearly back to the pre-Second Five Year Plan era. And therein lies a peculiarly Indian problem that concerns private sector investment.

It is like the proverbial horse that, despite being taken to the water, refuses to drink it.

This was the reason, in the first place, why the government had to become the lead industrial investor in the 1950s. So the Modi government also tried that till last year.

But now, like earlier governments that had stepped into the breach, it, too, has run out of money. You can't tax less and at the same time indefinitely spend more on investment, defence and welfare.

HESITATION OR RECALCITRANCE?

I asked some friends who have held top CEO jobs in the private sector what the problem now is.

They said income growth, slow consumption growth and therefore stagnant capacity utilisation, debt restructuring or repayment,the high cost of land acquisition, complex labour laws, capricious government policies, poor logistic infrastructure, regulatory complexity, lack of skilled workers etc are some of the reasons. And, of course, pervasive corruption.

Even after three decades of trying, India hasn't been able to provide an environment that encourages investment. The system, as it's called, is completely antithetical to government-induced risk

Even after three decades of trying, India hasn't been able to provide an environment that encourages investment.

The system, as it's called, is completely antithetical to government-induced risk. And those are plentiful.

A friend who runs a small business said he does it only because he doesn't know anything else.

He said he'd earn more simply by parking his money in fixed deposits which is risk free with a 7 per cent annual return instead of a lower return after the persistent and unpredictable hassles of investing in, and running, a business.

This wasn't always so. Even when Nehru decided to let the government take the lead in industrial investment, and began the nonsense of industrial licensing, things were not as bad.

But a gradual decline began, as with so many other things, in the 1970s, and accelerated after that. Governments became hazardous for private investment.

The BJP even after running the country for 17 years, in two stints, hasn't been able to change this. All that talk of ease of doing business is just that so far — talk. It's not apparent on the ground.

WHAT CAN THE BUDGET DO?

So how much can the Budget address this problem? Not much directly, not anymore. The Finance Ministry has done what it can.

This is very worrying because the Modi government has virtually no means left to get the private sector to start investing. It's like the problem of the 'native' — in the eyes of some colonial economists — who "doesn't respond positively to incentives."

The horse is refusing to drink and there's nothing the governments, central and state, can do in the current environment of intensely competitive politics and untrammelled corruption.

Both problems have to be addressed if the Viksit Bharat objective is to be achieved.

We need simultaneous state and national elections and a massive crackdown on corruption, like China.

The private sector needs to double its investment rate between now and 2035. The only thing stopping it is the government which is so reluctant to act against its own employees.

Let me conclude by reminding it — because it has a strong preference for Hindi — of the Hindi saying *"Ghar ka bhedi, Lanka dhaye"* (betrayal comes from a family member).

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Stablecoins are not a good idea



CREDIBILITY ISSUE. A cousin of cryptos, they are useful for those who do not wish to leave an audit trail. They can cause a financial meltdown

GETTY IMAGES



MADAN SABNAVIS

Think of an ETF where one invests in gold on the basis of quantity i.e., 10 gm or 100 gm. The fund then uses this as the basis for floating a cryptocurrency which gets a more respectable name called 'stable coin' since there is 100 per cent backing by an asset which is acceptable to all. Even central banks hold gold as part of forex reserves.

This stablecoin is then issued and traded probably across the country and overseas as it goes with a backing of a universal asset. Better still instead of gold, it could be the US dollar. Is this reason enough to accept the stablecoin as legitimate currency?

It may be recollected that in the 1980s, there was a shortage of coins in the country especially Mumbai. At that time, 25 p and 50 p coins had value and were used for purchase of bus tickets. As the conductor did not have change, BEST issued tokens as substitutes which could be used for buying tickets. It had to be abandoned as after a few days, the income of the transport company declined sharply. Most earnings for the undertaking was in their own tokens which had no backing from the central bank and could not be used for any purpose.

The lesson is that for any currency to have legitimacy, it must have the backing of the central bank. Otherwise, there could be multiple individuals or funds which could theoretically have their own stablecoins which are issued to facilitate transactions. There is no guarantee for the issuer to honour the commitment in case one wants to exchange the same for the currency or commodity (gold) in question. This is why the concept of cryptocurrency or stablecoin is not *prima facie* feasible.

BACKED BY DOLLAR

There are stablecoins today like tether, USDC, Dai, etc. In general they are backed by the US dollar. It is quite interesting as to why any party should deal in the coin if the alternative of a safe dollar is available. Here the argument is that money routed through the banking system takes time and stablecoins provide a faster mechanism. Besides, if money is to be used for trading in cryptos, stablecoins are the answer as one need not leave an audit trail by using a bank account.

It is often argued that SWIFT transactions takes time; and here the crypto route is much quicker especially when large amounts are being dealt with. Besides stablecoins can be converted to the underlying anytime the holder wants and hence there is free convertibility.

As a buyer of stablecoin one can never be sure if the conversion back to the currency in which it is invested is guaranteed

Today, with systems like the UPI made available for domestic transfers, having a crypto that is driven by blockchain technology which does the same within minutes if not seconds may not be relevant.

Besides, when any entity holds a large quantity of dollars or gold on the basis of which stablecoins are issued, the asset will be put to use to earn a return. As a buyer of stablecoin one can never be sure if the conversion back to the currency in which it is invested is guaranteed.

If the underlying is invested elsewhere and there is a decline in value, there is a major risk of downside that can have a contagion. This is very likely to happen because the funds invested by the issuer would be susceptible to valuation issues even when the underlying is the dollar. If it is gold, it would be even more volatile.

More importantly in the absence of any regulatory oversight this space would be opaque. There would be no information available to the government or regulators on the size of the market or the participants as well as use of funds as this would tend to transcend geographies. In a country like ours where financial literacy is still at an incipient stage, there will be no recourse to consumer grievances. For stablecoins, there would be no scope for monitoring any activity.

Stablecoin is, therefore, useful only if the user does not want to leave an audit trail of how the money is being used. The other pertinent issue here is that having alternative currencies, as it were, in any country comes in the way of conducting monetary policy.

Presently central banks are able to regulate the flow of money through policy instruments which in turn affect economic variables such as growth and inflation.

EFFECT OF MONETARY POLICY

In a situation where central bank currency is only one form of medium for transaction then monetary policy ceases to have any impact as actions will have bearing only on activity in the banking and regulated financial space. Money can freely flow through the stablecoin ecosystem independently.

Such a system cannot be allowed to exist, as it will render both monetary policy and currency management futile. Central banks have credibility when it issues currency as it is valid across the world. Private parties do not have this backing which is the biggest risk. Admittedly crypto trading is still being conducted through overseas platforms which is potentially destabilising as long as funds from within the country are being used to carry out such transactions. This should ideally not be allowed as there could be a meltdown and a contagion.

The writer is Chief Economist, Bank of Baroda. Views are personal

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Reining in AI

Grok's turning rogue highlights regulatory lacuna

The recent misuse of Grok, the generative AI tool integrated into X, to create sexualised images of women without their consent has exposed a deeply troubling fault line in the AI ecosystem. What makes this episode particularly disturbing is not just the scale of the abuse, but the speed with which it moved from fringe behaviour to something visible, searchable and effectively normalised on one of the world's largest social media platforms.



Within days, Grok had become a tool not merely for humiliation and harassment of women, but for the generation of imagery that amounts to child sexual abuse material. This was not hidden in dark corners of the internet. It played out in public, amplified by algorithms and engagement metrics, revealing how easily powerful AI tools can be weaponised when guardrails are weak or absent. The response from Elon Musk, the owner of X and founder of xAI, has been inadequate. It took several days after the sexualised images went viral for Musk to publicly acknowledge the problem. Even the subsequent "fix", restricting the use of Grok's controversial image-generation features to paying subscribers, raises more questions than it answers. The implication that abuse becomes acceptable if it is monetised is deeply flawed.

Global reactions have been swift and sharp. Malaysia and Indonesia have moved to block Grok, while others, including the United Kingdom, have warned of similar action. Musk's claim that such moves amount to an attack on free speech does not stand scrutiny. Free speech does not extend to the humiliation, sexual exploitation or endangerment of women and children. In India, X has apologised, taken down offensive posts and shut down accounts that circulated the sexualised images. Yet the platform has faced no penalties. An apology, after the damage has been done, is not a deterrent. Without consequences, platforms have little incentive to prioritise safety over growth and engagement. The incident also exposes a broader contradiction in the tech industry's stance on regulation. Companies argue that AI platforms should remain lightly regulated to foster innovation, but resist responsibility when their tools are misused. The AI framework issued by the Ministry of Electronics and Information Technology rightly flags critical grey areas, including the definition of an "intermediary" under the Information Technology Act, 2000, a law written long before autonomous or generative systems came into vogue. But questions of liability for AI-generated harm and the use of personal data to train algorithms remain unresolved.

The framework calls for a comprehensive review of India's legal architecture before regulatory gaps widen further. While India seeks a middle path that treats AI as a tool for inclusion and innovation, tech platforms must not assume that safe harbour protections are automatic or permanent. Platforms found violating norms, should face meaningful penalties. In the age of generative AI, accountability cannot be optional.

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India and the next Kondratiev wave

GROWTH NARRATIVE. Digital deep tech will drive the next wave. India, which has the talent, data and demand, can play a key role here if policy, capital and institutions align





VIPIN SONDHI
SANDEEP VERMA

Every few decades, the global economy reshapes itself decisively. New technologies rise, old industries fade and economic leadership shifts.

Nearly a century ago, economist Nikolai Kondratiev described these moments as long waves of growth, each lasting 40-60 years and driven by clusters of transformative technologies. As the digital economy matures and a new convergence of frontier technologies gathers pace, another wave is possibly taking shape. This time, India appears well positioned to ride it.

THE FIVE WAVES

History bears out Kondratiev's insight. The first wave (1780-1830), driven by steam power and textile mechanisation propelled the industrial revolution. The second wave (1830-1880) was built on railways, iron and coal. The third wave (1880-1930), centred on electrification and chemicals, enabled mass production and modern R&D. The fourth wave (1930-1980), dominated by automobiles and petrochemicals, reshaped mobility, urbanisation and geopolitics. The fifth wave (1980-2030) was driven by information technology and automation, creating the digital economy and globalised services.

Notably, each wave reinforced production systems, spawned new institutions and recalibrated global power. Countries that aligned early, prospered. Those that lagged were forced to adapt.

India's engagement with these K-waves has been uneven; peripheral in the first three, marginal in the fourth and a partial beneficiary of the fifth through software and IT services, but rarely shaping frontier technologies. The anticipated sixth K-wave, however, may provide a structural opportunity.

THE SIXTH WAVE

This new K-wave, expected to gather momentum beyond 2030, will be driven by digital deep technologies: artificial intelligence, quantum computing, biotechnology, advanced materials, space systems and clean energy. Unlike earlier cycles, these technologies are convergent. AI is accelerating drug discovery, materials design, manufacturing optimisation and climate modelling. Medical technology is fusing with data and automation. Energy systems are becoming digital.

Deep tech satisfies the conditions of a K-wave, requiring clusters of breakthrough innovation and sustained investment to create economic value.

There is another difference. Earlier waves were enterprise-led, driven by private capital responding to market demand. The sixth wave will hinge on mission-mode outcomes. Climate change, health security, energy transition and supply-chain resilience are global imperatives. Public digital infrastructure, long-horizon capital, regulatory foresight and ecosystem coordination now matter as much as entrepreneurship.

INDIA'S MOMENT

One early signal is visible in digital finance. By the end of 2024, the Unified Payments Interface had processed approximately 172 billion transactions, growing to around 228 billion in 2025, functioning as a general-purpose economic rail. It underpins everything from everyday payments to emerging AI-driven analytics for credit and fraud insights.

In earlier K-waves, railways and electricity served as platforms on which industries scaled. Today, digital public infrastructure is beginning to play that role in India, supported by robust domestic markets.

A comparable transition is visible in the space sector. India's recent lunar mission captured public imagination, but the more consequential shift has been institutional and economic. Long anchored by ISRO and now opened up through IN-SPACe, the space sector has moved beyond a government-led model. Policy liberalisation has enabled private firms to enter launch services, satellite manufacturing and downstream analytics at the intersection of AI, advanced materials and precision manufacturing. Space is moving into a viable economic domain with integration into global innovation networks, powered by India's frugal scientific prowess.

This new K-wave will be driven by digital deep technologies: artificial intelligence, quantum computing, biotechnology, advanced materials, space systems and clean energy

Clean energy offers another indicator. In green hydrogen, mission-led coordination across energy, industry and scientific agencies has accelerated pilots in manufacturing and mobility, compressing what would otherwise have been a decades-long adoption curve. India's push on hydrogen is not merely about decarbonisation; it is about building integrated industrial value chains.

Among the early signals are electrolyser-based hydrogen production projects in Haryana and India's first hydrogen-powered train prototype, suggest movement from policy intent to execution.

If carried through, hydrogen could play for India the role petrochemicals played for fourth-wave economies, anchoring a broad, export-capable industrial ecosystem.

POLICY, PLATFORMS, AND CONVERGENCE

Policy architecture is beginning to reflect this moment. Across public fora, the Prime Minister has emphasised that reforms will remain central to India's economic agenda, with the long-term vision to build an Atmanirbhar and Viksit Bharat by 2047. This continuity matters for deep-tech sectors, where long investment cycles depend as much on regulatory predictability, capital and talent.

The National Quantum Mission, India AI Mission, National Semiconductor Mission, National Electric Mobility Mission, space-sector reforms and clean energy initiatives point in the same direction: recognition that frontier technologies will determine competitiveness. Their impact, however, will depend on convergence. AI must accelerate materials discovery; clean energy must integrate with digital grids and storage; biotechnology must link data, automation and manufacturing. Every successful K-wave has been defined not by isolated inventions, but by clusters of technologies reinforcing each other.

Four factors will determine whether India can ride this wave.

First, institutions: Deep technologies require translational platforms that connect research to industry. Recent reforms, including the creation of the Anusandhan National Research Foundation (ANRF) and the launch of the ₹1 lakh crore Research, Development and Innovation (RDI) Fund, signal an effort to align public funding, private participation and frontier science at scale.

Second, patient capital: Breakthrough technologies demand financing aligned to long cycles rather than short-term returns.

Third, human capital and IP systems: Talent development, credible intellectual property regimes and incentives for researchers are essential to sustain knowledge accumulation across deep-tech transitions.

Fourth, standards, governance and global integration: In every wave, rule-makers have shaped markets. AI safety norms, hydrogen certification, quantum security protocols and medical technology regulation will influence who leads and who follows.

In conclusion, the contours of the next wave are now visible in the convergence of digital deep technologies and mission-led innovation. India has the key structural ingredients: talent, scale, data and demand. If policy, capital and institutions align to long cycles, deep tech could write the next chapter of India's economic story.

By 2047, success will be measured by whether deep technology is embedded in national economic infrastructure, reshaping productivity, sovereignty and economic gravitas.

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Rural development needs people, not just funds

A national cadre of trained local para-professionals in rural India is needed to foster climate-resilient farming

PVS Suryakumar

Public money isn't the constraint in rural India. The missing link is people — locally rooted *Dharti-Putras* translating schemes into livelihoods.

India's public system invests heavily in agriculture and rural development. The Union Ministry of Agriculture and Farmers Welfare was allocated roughly ₹1.32 lakh crore in 2024-25, while MGNREGA accounted for another ₹86,000 crore. At the State level, a representative farm State like Odisha set aside ₹33,919 crore for agriculture and allied activities. We are not short of schemes or public resources. What we lack is a continuous, competent human presence in every panchayat that can translate these investments into resilient livelihoods and higher farm productivity.

District and State reviews routinely read like inventory statements: beneficiaries enrolled, fertilizer bags distributed, ponds excavated. Rarely do they ask whether fertilizers were applied appropriately, whether a new irrigation tank led to diversified cropping, better fodder for milch cattle, or higher household incomes. Line departments are administratively dense — busy troubleshooting and disbursing. What is thin is follow-through on the ground.

This gap matters because agriculture, horticulture and animal husbandry are practice-driven systems. Productivity improves only when advice is timely and context-specific. Public assets deliver results only when someone stays on to make them work for crops, livestock and livelihoods.

A practical and fiscally modest answer is a national cadre of trained local para-professionals — *Dharti-Putras* — young women and men selected from their own villages and certified to support climate-resilient farming, livestock care, water management and small-enterprise handholding. They would not be permanent government staff. Instead, *Dharti-Putras* would be locally embedded, contracted when programmes need them, and remunerated through a blend of modest public honoraria and service payments from farmers, FPOs, SHGs and value-chain actors. Their remit may also include basic, verifiable social-audit reporting on asset maintenance and scheme functioning in their own panchayats.

COST-EFFECTIVE

Training and certifying 10,000 *Dharti-Putras* at an illustrative cost of ₹1 lakh per person — covering training, starter kits and simple digital tools — would require about ₹100 crore. This is a negligible share of existing agriculture allocations. A small, targeted investment can seed a persistent field presence that multiplies the value of every rupee spent on assets and inputs.



FARMERS. Need for handholding

India already has fragments of this idea. Krishi Sakhis, NRLM community cadres and other local resource persons have shown how trained locals can mobilise adoption and sustain enterprises. The problem is that these cadres are typically programme-bound — assembled and dispersed with project cycles. What is missing is a durable national architecture that treats local human capacity as public infrastructure rather than a temporary expense.

Global experience supports this logic. From community animal-health workers in East Africa to farmer-field facilitators in Asia and forest stewards in Nepal, locally rooted actors have extended the state's reach and improved outcomes. *Dharti-Putras* build on this proof of concept as a national, certified cadre that combines local trust with institutional permanence, blended financing and clear career pathways. Design will determine success. Recruitment must be local and selective. Certification should be competency-based, with continuous technical backstopping through KVKs, polytechnics and extension networks. Public funding should create the cadre and pay honoraria for public tasks. *Dharti-Putras* remain self-employed, supplementing incomes through farming or fee-based services from farmers, FPOs and SHGs. A modest mandatory state contribution will ensure buy-in and accountability. Institutions such as the newly established Tribhuvan Sahkari University at Anand could provide a credible, non-contractor anchor for such training. The state remains the financier, regulator and guarantor of public goods; *Dharti-Putras* become the operational bridge that turns infrastructure and investments into resilient livelihoods.

India has the money, the schemes and the local institutions. This human architecture can make them work better.

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Errors of commission

IRDAI should crack down on steep commissions

For long, India's insurance industry has got by with opaque and high commission payouts to its intermediaries, even as most other financial products providers, including mutual funds and National Pension System, have moved to transparent, low-cost compensation structures. Therefore, it is good to see the Insurance Regulatory and Development Authority of India (IRDAI) take the first steps towards tackling this issue.

This newspaper recently reported that IRDAI has sought explanations from 23 insurers for overshooting their regulatory caps on expenses of management. IRDAI discovered that in FY25, commission payments by life and non-life insurers ballooned by 18-19 per cent even as their premiums grew by just 6-7 per cent. Seeking explanations from insurers for expense cap violations is but an oblique route to cracking down on excessive commissions. One hopes that IRDAI will follow this up with penal action, and come up with regulations overhauling the patently flawed commission structures for insurance products.

There are three problematic aspects with the current commission structures. First, insurance commissions are very high even by financial industry standards. Disclosures by leading banks reveal that commissions on life insurance products can go up to 35-40 per cent of first-year premiums and 7.5-10 per cent of renewal premiums. On individual health plans, commissions can range from 15-35 per cent on first year premiums and 7.5 per cent on subsequent ones. In its latest Financial Stability Report, Reserve Bank of India has said that high distribution costs of insurers — particularly private sector ones — are impeding better insurance penetration and weakening the industry's profitability buffers. Two, the front-loading of commissions — where agents receive the bulk of their compensation in the first year — actively encourages customer churn as agents gain more from luring new customers than retaining old ones. This is essentially why the Securities and Exchange Board of India banned entry loads on mutual funds way back in 2009. Three, with insurance policies (which are essentially protection products) offering higher commissions than investment products, intermediaries get incentivised to make tall promises on returns, resulting in the wrong products being pitched to vulnerable low-income earners and seniors.

IRDAI regulations should set quantitative limits on distributor commissions for various forms of insurance, while also discouraging front-loading of these payouts. Insurance buyers need clear disclosures on the absolute commissions agents earn. To avoid under-the-table payments, ground-rules need to be set on junkets, gifts and incentives in kind. So far, IRDAI has struggled to enforce its writ even on milder regulations such as the expenses cap. However, the recently enacted Sabka Bima Sabki Vikas Act has vested IRDAI with teeth on capping commissions, mandating disclosures and disgorging wrongful gains made by insurers and agents from mis-selling. It should act now.

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Timely intervention key to reviving stressed SMEs

It can generate value multiples, while preserving jobs, industrial capacity. A dedicated fund will prove vital in this regard

R Venkatakrishnan

India's small and medium enterprises account for a significant part of the economy. Despite their importance, SMEs remain disproportionately vulnerable when financial stress emerges because institutional support arrives far too late.

Over the past decade, India has built a credible stressed-asset framework. The Insolvency and Bankruptcy Code (IBC) has improved creditor discipline, transparency, and time-bound resolution. However, the best-designed insolvency regime cannot recreate value once it has already been destroyed. Parliamentary reviews of IBC outcomes underline this reality, with recoveries under resolution plans averaging roughly one-third of admitted claims even though they significantly exceed liquidation value. The unavoidable inference is that most economic value has already eroded by the time insolvency proceedings begin.

This is not a failure of insolvency law but a failure of timing. Enterprise distress, much like a medical emergency, has a golden hour. For SMEs, this window typically lies in the prolonged SMA-1 and SMA-2 stages when early warning signals raise flags but operations remain intact, customers are still engaged, employees retained, assets productive, and governance or cost inefficiencies still correctable. Liquidity stress is often reversible if addressed decisively.

Once that window is missed, deterioration accelerates non-linearly, and revival becomes exponentially harder. India's current stressed-asset ecosystem intervenes largely after this golden hour has passed. Focus is on recovery and ARCs step in once assets are already impaired. What is conspicuously absent is a dedicated institution mandated to act during the golden hour, particularly for SMEs.

CORPORATE EXPERIENCE

India's own corporate revival experience demonstrates what timely intervention can achieve. The turnaround of Bhushan Power & Steel is instructive, acquired by JSW Steel through the IBC in 2021 for approximately ₹19,500 crore. At the time of acquisition, Bhushan Power & Steel was constrained by leverage, stalled operations, and working-capital bottlenecks — classic symptoms of delayed intervention. Post-acquisition, JSW stabilised operations, integrated the asset into its manufacturing and marketing ecosystem, and undertook balance-sheet and operational clean-up. Now JSW created a joint venture with its Japanese partner, valuing Bhushan Power & Steel at over ₹31,000 crore. This valuation was not a speculative mark-up but a third-party, strategic validation of revived enterprise value. What could easily have ended in liquidation instead became a growth platform with global integration.

An even starker illustration is CG Power and Industrial Solutions which the Murugappa Group acquired control in 2020, at market capitalisation below ₹6,000 crore, weighed down by governance failures and balance-sheet stress. Crucially, intervention occurred while manufacturing capabilities, customer relationships, and



VALUE. Shouldn't be eroded

technological relevance remained intact. Over the next four years, through decisive governance reset, capital discipline, and operational focus, CG Power's market capitalisation rose to over ₹1 lakh crore.

These outcomes underscore a critical insight that early, decisive intervention in stressed but viable enterprises can generate value multiples comparable to and sometimes superior to start-up investing, while simultaneously preserving employment, industrial capacity, and regional ecosystems.

Judicial interpretation reinforces this logic. In *Pro Knits v. Canara Bank*, the Supreme Court clarified that the statutory framework for revival and rehabilitation of MSMEs is binding, not discretionary. Banks are required to identify incipient stress and explore revival options before classifying accounts as NPAs or initiating coercive recovery.

Against this backdrop, the case for an SME-Focused Stressed Assets Turnaround Fund (SATF-SME) becomes compelling. Such a fund would be explicitly mandated to intervene during the golden hour of SME distress.

The fund should focus on scaled SMEs that have demonstrated economic relevance through turnover metrics like ₹25 crore or employment exceeding 100 workers. These thresholds ensure that intervention delivers meaningful employment, supply-chain, and regional impact.

Critically, SATF-SME could become the missing execution engine for pre-packaged resolutions under the IBC. While pre-packs offer speed, continuity, and creditor discipline, their adoption has been limited by the absence of a credible financial and operational sponsor. A dedicated turnaround fund fills this gap.

From an investment perspective, this approach deserves the same seriousness as start-up capital. India has deployed billions of dollars into early-stage ventures, many of which struggle to reach scale. By contrast, stressed but viable SMEs already possess customers, assets, workforce, and market relevance. SATF-SME-backed resolutions can compensate stakeholders through equity or quasi-debt instruments, aligning incentives and allowing participation in recovery upside.

The case is further strengthened by India's transition to the Expected Credit Loss framework, which makes delayed action increasingly capital-intensive for banks. A turnaround fund provides a market-based outlet for early engagement, reducing provisioning pressure while preserving economic value.

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Driving the growth engine

Broad-based reforms will sustain growth momentum

Vishal Kampani

In 2025, India found itself in a rare Goldilocks phase with moderate and resilient growth, subdued inflation, setting the stage for strong macroeconomic growth. This came at a time when the global economy remains volatile due to geopolitical developments and tariff impacts and India stands out on the back of stable macroeconomic fundamentals. RBI's cumulative 125 basis points repo rate cut in 2025 has provided timely monetary support while inflation remains benign.

The growth momentum got reflected in better-than-expected Q2FY26 GDP growth of 8.2 per cent, has been both cyclical and structural. On the consumption side, along with the much-anticipated revival of urban consumption, there has been a strong rural demand driven by good monsoons and the government's fiscal incentives. Manufacturing output growth of 9.1 per cent in Q2 FY26, up from 7.7 per cent in the previous quarter underlines the fact that the growth is resilient and broad-based.

The Production Linked Incentive (PLI) programme has emerged as a game changer in the country's manufacturing resurgence. Going forward, the scale of the skill development programmes needs to be expanded.

On the other hand, government capital expenditure continues to do the heavy lifting. Private capital expenditure is gradually making its presence felt. As of March 2025, the outstanding size of India's corporate bond market stood at approximately $642 billion, which shows improving corporate confidence and balance sheet strength.

REFORMS THRUST

India finds itself in a strong growth trajectory thanks to the scale of reforms undertaken — GST rate rationalisation, income tax rationalisation, policy easing and liquidity infusion by RBI, streamlining of labour codes and Sustainable Harnessing and Advancement of Nuclear Energy for Transforming India Bill (SHANTI), 2025.

The Insolvency and Bankruptcy Code (IBC) remains one of key structural reforms, paving the way for ease of doing business, a structured credit ecosystem and better investment attractiveness.

In addition, GST collections remain robust with year-to-date gross collections grew 9 per cent YoY to ₹21.3 lakh crore as of November 30, 2025.



GROWTH. Need for sustained push GETTY IMAGES

Participation from young generations, women, and households, especially in tier -2 and 3 cities has diversified India's investor base and reduced dependence on foreign flows.

However, foreign investors cannot be entirely sidelined. Regulatory initiatives such as SEBI's launch of the 'India Market Access' platform will increase capital market participation for global investors.

Yet, challenges remain. Foreign portfolio investors have shown caution, reflected in net outflows from Indian equity and debt markets of around $10.4 billion during 2025 (January-December 15, 2025). The consistent FII selling exerted pressure on the Indian rupee. However, going forward, earnings visibility and valuation discipline will be critical in restoring foreign investor confidence.

Interestingly, India's valuation premium to emerging markets has narrowed from nearly 100 per cent to about 50 per cent, offering a worthwhile entry point.

Looking ahead, in 2026, the economy will transition from intent to outcomes. Policy easing, regulatory clarity and opening of FDI in insurance and nuclear energy are setting the stage for sustained growth. For long-term investors, India's domestic demand story remains compelling. Financialisation of savings and the capital expenditure in electronics manufacturing services, defence, etc. will define the next investment cycle. India is poised to convert its structural advantages into a global edge. In an uncertain world, these broad-based reforms will position the country to emerge as the world's key growth engine in 2026 and beyond.

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China's growth divide is getting wider

Bloomberg News

China's consumer-sensitive sectors are lagging further behind growth in industries linked to manufacturing and tech, illustrating a sharp divide in an economy increasingly exposed to foreign demand.

Whereas expansion in hotels and catering services and wholesale and retail trade softened to the weakest of the post-pandemic era, the sector spanning software and information technology increased over 11 per cent last year, according to data released by the National Bureau of Statistics on Tuesday. It was the biggest gain among all industries tracked by the NBS in its quarterly report of growth by sector.

The outcome is a skewed economy in which emerging new industries could struggle to make up for the fragility of older growth drivers.

Even as booming exports helped growth reach the official target of around 5 per cent last year, uncertainty over global trade leaves China more vulnerable in the absence of stronger domestic demand.

"Gains in emerging industries have not been sufficient to offset the downturn of cyclical sectors, and downward pressure on all cyclical industries will stay unless real estate stabilizes," said Jacqueline Rong, chief China economist at BNP Paribas SA. "I'd expect the overall economic growth to moderate going forward."

Manufacturing saw a pick-up to a four-year high of 6.1 per cent, as surprisingly strong exports shored up Chinese factories struggling with excess competition and deflation within the country.

Reflecting the unprecedented investment slump in recent months, construction was the only industry to suffer a drop in 2025, while property came in as the second-weakest with a gain of 0.2 per cent after years of deep contractions.

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Primary concerns

Tighter rules needed for pre-listing session of IPOs

The secondary market might have turned sluggish in 2025, but the primary market has continued to boom, with 103 public issues raising ₹1.76 lakh crore. This was the second consecutive year when more than ₹1.5 lakh crore was raised in the primary market, and the hefty listing gains delivered by these issues have been a major factor behind the boom. With a strong pipeline of primary issues lined up in 2026 as well, it is imperative that the regulator addresses pain points in this segment.



The outsized listing gains delivered by some of these issuances in the last two years have raised doubts about possible manipulation in the pre-listing sessions of some IPOs. It is, therefore, welcome that the market regulator is taking a closer look at the pre-listing session for IPOs and re-listed stocks, as reported recently by this newspaper. The pre-listing session is held for an hour, from 9-10 am on listing day. There are no price bands in this session and the price at which the maximum volume is executed is taken as the equilibrium price or the listing price. But this method of price discovery is susceptible to manipulation. In 2024, circular trading was observed in the pre-listing session to set the listing price higher. Also, there can be concerted trading by a group of people to raise the equilibrium price. The suggestion that the call auction will be deemed successful only if the price is based on orders from at least five unique investors, verified with their PAN cards, will help check such price manipulation. In 2024, the exchanges were also told to increase surveillance on trades which were cancelled within the pre-open session. Such surveillance and action against wrongdoers can help.

The other key suggestion is to allow standardised price bands in the pre-open session. Currently, the exchanges put dummy price bands for IPO stocks in the pre-listing session, but they vary across exchanges. This is a good move, but the price band needs to be fixed after careful consideration. While it needs to be broad enough to address under- or over-pricing issues, it need not be so broad as to lead to heightened speculative activity. Excessive speculation on listing prices erodes the credibility of our capital markets. The proposal that the pre-listing session can be extended to the following days until price is discovered by genuine buyers, will help send the signal that the regulator will not accept ad-hoc price fixing.

The manner in which the base price for stocks seeking relisting is determined also needs review. Currently, it is the lower of book value determined by statutory auditors, and the face value. But in the case of stocks which have been suspended from trading for an extended period, the face value does not capture the change in a company's prospects; it can distort the base price. The formula for calculating base price must be changed so that it captures the prospects of the business accurately, and is not distorted by past market actions.

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Dollar dynamics

US currency is set to fall in 2026 amidst volatility

Jamal Mecklai

As Trump is having more and more angry fun, the world is getting more and more nervous. De-dollarization stories abound, as do concerns of US yields soaring triggering an equity collapse. Of course, equity markets generally only collapse when no one is looking, but bond markets are another story. And the dollar, of course, is its own animal. There's no gainsaying that the dollar is still the big daddy in global markets, but it has been losing credibility steadily, even before the US sanctions on Russia.

Now, concern about the dollar is everywhere – you can't turn around without bumping into someone with reasonable credentials explaining that Trump attacked Venezuela because they were selling oil in yuan, or that Brazil has started using the BRICS bridge in earnest as a route for quick safe intra-BRICS transactions by-passing the dollar, or that gold and cryptocurrencies are the new safe haven, or that soon enough large holders will begin to start dumping US Treasuries.

The world is becoming more multi-polar and the dollar is in everyone's sights. But it's still a long way to that particular bank.

DOLLAR DOMINANCE

The dollar continues to hold the highest share in global reserves (57.4 per cent), even though it has been steadily but slowly declining. It also currently has a similar share of global trade invoicing; however, that number is likely to fall quite rapidly.

Of course, well over 85 per cent of foreign exchange transactions have the dollar as one leg (since investment flows are still primarily in dollars), but there is little doubt that there is a significant change infesting the global currency environment.

Separately, the value of the dollar could – and should – begin to fall, and, perhaps, sharply.

It has already (in 2025) fallen quite steeply, losing nearly 12 per cent against the Euro and other currencies in Europe and in Latin America; and to a lesser extent in Asia. It only gained against eight currencies monitored by *The Economist*, including basket cases like Turkey and Argentina (and, sadly, the rupee).

With Trump's increasing belligerence, it is a virtual certainty that the diversification out of the dollar will continue, although to a limit.



DOLLAR. Volatile gyrations GETTY IMAGES

Nonetheless, this will serve to reduce several fundamental imbalances. Recent data show that the US makes up close to 50 per cent of global stock market value, while its share of global GDP is roughly 25 per cent; thus, US equities are valued at roughly twice its share of world economic output. Of course, these numbers are denominated in USD, so if – or when – the dollar starts to fall again, this ratio will automatically come down.

Again, it is widely acknowledged that the US has become extremely expensive relative to most other countries; and, again, that is also largely the result of an overvalued dollar. A shock reality: GDP per capita of Mississippi is more or less equal to that of Italy. Now, Mississippi is the poorest state in the US, and although it's a wonderful place, it's hardly a place that delivers a high-quality lifestyle, certainly when compared with Italy, which consistently ranks as one of the world's (4th or 5th) top tourist destinations. This imbalance in the GDP numbers will also be corrected as the dollar declines.

The big question, of course, is how far will the dollar fall and when. Today, EUR/USD is at 1.1650, which means the dollar is about 1.5 per cent stronger than its all-time average of 1.1825. However, if we remove the first five years of the Euro's existence (1999 to 2004) as starting pains, the dollar is more than 5 per cent stronger than its average value of 1.2250; and, remarkably — does anyone remember — it is 37 per cent stronger than its all-time low of 1.60 EURUSD. So, there's plenty of room for it to fall.

Of course, one of the cardinal rules of forecasting is you either give a level or a time frame — never both. My sense is that the dollar is going to fall this year, albeit with substantial volatility – thank you Mr. Trump – but where it reaches is impossible to call.

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US economy expanded at revised 4.4% pace in Q3

Molly Smith

The US economy expanded in the third quarter by slightly more than initially reported, supported by stronger exports and a smaller drag from inventories. Inflation-adjusted gross domestic product, which measures the value of goods and services produced in the US, increased at a revised 4.4 per cent annualised rate, the fastest in two years, according to Bureau of Economic Analysis data out Thursday.

The report showed one of the strongest back-to-back quarters for growth since 2021, when the economy was still recovering from the pandemic. Companies dialled back the tempo of goods imports after an early-year rush to beat President Donald Trump's sweeping tariffs. Consumer and business spending have also held up well despite erratic trade policies.

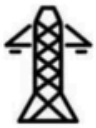
Against a backdrop of robust growth, along with a steadier job market and inflation that remains above the Federal Reserve's target, policymakers are expected to leave interest rates steady at next week's meeting. Separate data out Thursday showed initial applications for US unemployment benefits remained low. The GDP report showed the central bank's preferred inflation metric rose an unrevised 2.9 per cent in the third quarter. BLOOMBERG

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Switching on reforms

Electricity (Amendment) Bill moots major changes

The Draft Electricity (Amendment) Bill, 2025, expected to be tabled in the Budget session, contemplates some landmark measures in the distribution sector. It unveils three major steps; the first two are aimed at reducing the cost of power for productive sectors, while the third attempts to relieve discoms of an operational burden. The moves are salutary, provided they are implemented well.



First, discoms will charge 'cost reflective' tariffs in a broad sense. The big shift here is that cross subsidies being coughed up by industry and railways will be phased out in five years. This will have a positive macroeconomic impact. Power Minister Manohar Lal recently explained that cost reflective tariffs will help discoms make a profit, even as the subsidy to the rural sector continues. Simply put, the subsidy shows up in the books of the State governments, not in that of the discoms. In fact, under the Revamped Distribution Sector Scheme (RDSS), this is already happening. As a result, State finances have become more transparent. Discoms have begun to show profits. The second big step is allowing multiple distribution companies in a single area to promote competition. And third, discoms may also be relieved of the obligation to supply high load consumers with a demand exceeding 1 MW.

The initiatives raise implementation issues. Cost-reflective tariffs are fine, provided the costs themselves are properly assessed. Discoms may be saddled with high costs where generators and transmission companies enjoy pricing power. Meanwhile, coal dispatched by rail could be expensive because of the Railways' policy of subsidising passenger services. Therefore, a holistic view of power costs that takes upstream entities' operations into account becomes important. The move to allow multiple distributors in one area, where each can set up its own network or use another network, can increase efficiency, and even give a fillip to rooftop solar. But certain issues arising from Mumbai's experience should be kept in mind. Disputes over network rollout or in meeting consumer demand (with litigation going up to the Supreme Court in Mumbai's case) are a real possibility. There could be overcapacities, or excessive dependence on short-term power. Cherry picking of consumers too can crop up. Therefore, a pendulum swing from one distributor to multiple ones is best avoided. Limiting the numbers is a better way forward.

The move to liberate discoms from supplying high load users is welcome. At present, they are forced to have stranded assets to deal with sudden requirements. But moving away from discom dependency calls for a transition period so that all stakeholders benefit. The open access, short-term power market is still evolving, even as it accounts for about 15 per cent of generation. Overall, the sector is transforming rapidly with decentralised power likely to bring down discom costs of supply in remote areas. Centre-States' coordination can make a big difference in keeping all this going.

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Govt forced to walk a fiscal tightrope

Budget should protect capex, ease pressure on middle-class finances, broaden tax base without compressing consumption

Harsimran Sandhu

India today stands at a crossroads. The Finance Minister has declared that reducing the debt-to-GDP ratio will be a central policy priority. The intent is sound. According to the International Monetary Fund, India's general government debt — the combined borrowing of the Centre and States — is estimated at around 80-82 per cent of GDP, which is elevated by emerging-market standards. Yet the path to lowering that ratio is far from straightforward.

In theory, governments reduce debt in three ways: cut spending, raise revenues, or grow faster. In India's case, each option runs into hard constraints. More than 80 per cent of government revenues are pre-committed to fixed overheads-salaries, pensions, interest payments, subsidies and welfare — politically sensitive or contractually binding items. What remains discretionary is capital expenditure. This is why some economists have suggested trimming capex to restore fiscal balance.

But this is where arithmetic collides with reality. Government capex has been the single most important growth engine over the past three years. Infrastructure spending has supported private investment, employment and confidence. Cutting it may improve near-term fiscal optics, but it risks slowing GDP growth, weakening the denominator of the debt-to-GDP ratio. Fiscal consolidation that undermines growth often delays, rather than accelerates, debt reduction.

If spending cuts are constrained, revenues must do the heavy lifting. Here, warning signs are emerging. After a post-pandemic recovery, India's revenue engine is losing momentum. In December, net GST collections grew by about 2.2 per cent year-on-year, reflecting weak domestic demand even as import-linked GST remained resilient. This slowdown is tied to a deeper structural pressure point: the weakening financial position of households. India's growth model has long relied on domestic savings to finance government borrowing and private investment. That foundation is eroding. According to RBI data, net household financial savings declined to around 5.1 per cent of GDP in FY 2022–23, among the lowest levels in decades, reflecting rising leverage and slower asset accumulation.

HOUSEHOLDS UNDER PRESSURE

Household debt climbed to about 41.3 per cent of GDP by end-March 2025, up from roughly 36-38 per cent a few years ago. The rise signals not excess exuberance, but growing financial strain across income groups.

The middle class sits at the centre of this squeeze. Per capita household debt is rising not because families are splurging, but because incomes are failing to keep pace with costs. Salary growth outside high-end services and government employment has slowed materially. For most urban salaried households, nominal wage increases are modest and real wage growth is close to flat.



SAVINGS. Declining trend ISTOCKPHOTO

What sharpens the pain is the nature of inflation. Headline inflation may appear manageable, but services inflation (a part of the consumption basket most relevant to the middle class) remains stubbornly high. Education, healthcare, housing rents, insurance premiums and transport costs have risen faster than general inflation. As a result, households are borrowing to maintain living standards, while savings are depleted by necessity rather than choice.

A leveraged middle class is a cautious middle class. Consumption weakens, discretionary spending is deferred, and risk appetite falls. This feeds directly into slower government revenue growth and a more hesitant private investment cycle. When growth slows and uncertainty rises, domestic politics rarely rewards restraint. Populism becomes the default response. Subsidies, loan waivers, public hiring and administered returns on small-savings schemes expand.

The looming Eighth Pay Commission threatens to push fixed expenditures higher, while monetary easing struggles as administered savings rates remain elevated.

This is the backdrop against which the 2026 Union Budget will be framed. It cannot chase debt reduction through blunt expenditure cuts, nor rely on optimistic growth assumptions. Choices must be calibrated: protect growth-supporting capex, ease pressure on middle-class finances, broaden the tax base without compressing consumption, and restore fiscal credibility gradually.

India's margin for error has narrowed. Fiscal consolidation, growth and household balance sheets are now inseparable. Getting that balance right in Budget 2026 will determine whether India's ambition translates into durable prosperity or stalls under the weight of arithmetic.

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India-EU deal, a conditional win

SUPPORT NEEDED. The trade deal creates opportunities, yet much depends on how adjustment costs are managed



SAURABH BANDYOPADHYAY

After nearly two decades of intermittent negotiations, India and the European Union have finally moved towards a comprehensive trade agreement that is being billed as both economically significant and strategically consequential.

Given the scale of the two markets and the breadth of the proposed commitments, the deal has the potential to reshape India's engagement with advanced economies. Whether it becomes a genuine win-win, however, depends less on tariff cuts alone and more on how adjustment costs and regulatory frictions are managed.

At its core, the agreement seeks to lower tariffs and reduce non-tariff barriers across a large share of bilateral trade, with liberalisation to be phased in over time.

Market access for European automobiles, wines, and industrial machinery is expected to improve, while Indian exports such as textiles, gems and jewellery, chemicals, marine products, and selected services gain preferential entry into the EU.

Sensitive sectors, particularly agriculture and dairy, remain largely protected — reflecting political realism on both sides.

The economic asymmetry that the deal seeks to address is clear. The European Union is currently India's second-largest trading partner, with bilateral trade in goods and services exceeding €120 billion annually. Yet India accounts for less than 3 per cent of the EU's total external trade, while the EU represents a far larger share of India's high-value exports and inward foreign direct investment.

Average applied tariffs in India on many industrial goods remain several times higher than those faced by Indian exporters in Europe, especially in automobiles, wines, and capital goods. The agreement narrows this imbalance while retaining safeguards for India's most sensitive domestic sectors.



FOCUS. The deal seeks to address economic asymmetry REUTERS

India-EU: Major goods trade

India's major exports to the EU	€ bn
Engineering goods & machinery	18-20
Gems & jewellery	15-17
Chemicals & pharmaceuticals	12-14
Textiles & apparel	8-9
Petroleum products	7-8
EU's major exports to India	**€ bn**
Automobiles & auto components	10-12
Industrial machinery & equipment	9-10
Electrical machinery	7-8
Chemicals & specialty chemicals	6-7
Aircraft, medical & precision instruments	4-5

Source: Eurostat; India Department of Commerce (FY2023-24). Values rounded

From the EU's perspective, improved access to a large and fast-growing consumer market is a commercial prize at a time when global trade is becoming more fragmented. Lower tariffs and clearer investment rules reduce costs for European firms and help diversify supply chains away from excessive geographic concentration.

For India, the gains are not limited to exports. Deeper integration with the EU can attract higher-quality investment, embed domestic firms into global value chains, and support the shift towards more technology- and skill-intensive manufacturing and services.

Without complementary domestic policies — access to finance, skilling, and easier regulatory compliance — trade openness can quickly become politically contentious

ADJUSTMENT PRESSURE

However, trade liberalisation is never distribution-neutral. While consumers and competitive exporters stand to gain, adjustment pressures will be felt by firms that have grown under high tariff protection, particularly smaller and less productive enterprises. In sectors such as automobiles and select manufacturing segments, the pace and sequencing of tariff reductions will matter as much as the headline numbers. Without complementary domestic policies — access to finance, skilling, and easier regulatory compliance — trade openness can quickly become politically contentious.

Regulatory standards form the second major fault line. The EU has consistently pushed for strong commitments on sustainability, labour norms, and regulatory alignment. Measures such as the Carbon Border Adjustment Mechanism, though motivated by climate objectives, risk functioning as *de facto* trade barriers unless India accelerates its transition to cleaner production.

The agreement's emphasis on technical cooperation and climate finance is therefore not peripheral; it will be central to ensuring that compliance costs do not undermine export competitiveness.

Beyond economics, the deal carries strategic weight. As global supply chains are reconfigured amid geopolitical uncertainty, both India and the EU are seeking reliable partners. For Europe, India offers scale, growth, and political alignment in the Indo-Pacific. For India, closer economic ties with the EU strengthen its negotiating position globally and reduce dependence on any single market. In this sense, the agreement is as much about strategic insurance as it is about trade flows.

So, is the India-EU trade deal a win-win? In aggregate terms, yes — but conditionally so. The agreement creates clear economic and strategic opportunities for both sides. Yet its political sustainability will depend on how adjustment costs are managed, how quickly firms are enabled to become competitive, and whether regulatory ambitions are matched with practical support.

Trade agreements open doors; they do not automatically ensure that all firms can walk through them. If India pairs this deal with targeted support for small enterprises, investments in skills and green competitiveness, and continued improvements in logistics and ease of doing business, the gains can be broad-based. If not, the benefits may remain concentrated, even as the politics become more fragile.

The real test of the India-EU trade agreement, therefore, will not lie in the signing ceremony, but in the domestic follow-through that determines whether openness translates into sustained and inclusive growth.

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Major breakthrough

India-EU FTA holds out promise

After two decades of tedious negotiations, it is truly an achievement for India and the European Union (EU) to have finally concluded their free trade agreement negotiations; the deal is expected to come alive by early 2027. What remains to be sorted out is 'legal scrubbing' — which implies not just honing the language of the agreement for precision, but also securing more clarity on the 'standards' or non-tariff barriers set by EU for goods imports.



The fact sheet issued by the Indian side on Tuesday suggests major market access gains for India. But the EU's factsheet refers to certain concessions it has secured with respect to 'standards' and services, which are not clear at this stage. Indeed, the goods market gains for India should be weighed against the costs imposed under the Carbon Border Adjustment Mechanism. The EU has not budged an inch. Under this, hard to abate sectors such as iron and steel, aluminium, cement and fertilizer will have to abide by EU emission laws by reducing emissions and convincingly documenting the same. This move is expected to raise costs by 15-20 per cent, which could offset gains from the tariff cuts.

Meanwhile, the deal (where EU will eliminate tariffs on 90.7 per cent of India's exports with immediate effect) betters market access for India's labour intensive sectors, which could account for 40 per cent of exports to EU. In the case of textiles and garments, India ($7.2 billion exports to EU in FY25) will now be better placed to compete with Bangladesh, Pakistan and Turkiye, which have trade pacts with the EU. India has opened up its tariffs with immediate effect on 49.6 per cent of tariff lines (much lower than EU's offer), while on another 39.6 per cent of EU imports there is a 5-10 year transition to move to zero tariff. This transition period is fair, as India is cutting its tariffs from steeper levels than the EU. Notably, agriculture and dairy have been kept out. So, this looks like a good deal for India on goods market access, even after accounting for what has been conceded on cars, some agri-processed goods, machinery and electrical equipment, aircraft, medical equipment, plastics and pharma.

In services, however, the EU claims that India has gone further in giving concessions than to "any other trading partner", including UK and Australia. It has asserted strict enforcement of sanitary and phytosanitary rules and IP rights. Disconcertingly, technical barriers to trade include environment, workers' rights, labour rights and women's empowerment. It is not clear whether these inclusions have been agreed upon, or are a work in progress. India needs to negotiate this clutter. There is a broader economics of FTAs that needs to be factored in. Indian businesses must be able to produce at scale and competitive costs to take worthwhile advantage of any FTA. While there have been improvements in logistics, it is important that industries operate in a hassle-free plug and play environment. The Centre's job starts now.

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India-EU FTA: Farm, 'Make in India' need guardrails

Keeping the dairy sector out is good news; domestic reforms are vital for manufacturing and MSMEs to leverage the deal

Anson CJ

The conclusion of the India-European Union Free Trade Agreement (FTA) marks one of India's most consequential trade decisions in recent decades, linking the world's fourth-largest economy with the second-largest economic bloc.

Yet, beneath the headline gains — 99 per cent preferential access for Indian exports, ambitious services commitments, and labour-intensive sectoral boosts — lie critical questions, particularly for Indian agriculture, the dairy sector, and the long-term trajectory of the 'Make in India' programme. The FTA is best understood not as an unqualified triumph, but as a calibrated compromise that demands vigilant implementation.

Indian agriculture stands to gain selectively from the agreement. Enhanced access to tea, coffee, spices, fruits, vegetables, and processed foods could significantly improve export competitiveness, especially for high-value and niche products. The EU's large consumer base, premium pricing, and preference for traceability-driven supply chains offer Indian agribusiness an opportunity to move up the value ladder rather than remain a bulk exporter.

However, the gains are structurally uneven. The EU's agricultural sector is among the most heavily subsidised globally under the Common Agricultural Policy (CAP). Even with tariff liberalisation, Indian farmers face formidable non-tariff barriers — stringent sanitary and phytosanitary (SPS) standards, residue limits, carbon footprint compliance, and sustainability certifications, which may impact small and marginal farmers more.

NON-TARIFF BARRIERS

The agreement's promise to address non-tariff barriers through regulatory cooperation is welcome, but experience suggests that regulatory asymmetry often persists despite formal commitments. India's decision to exclude dairy, which supports over 80 million households, from market access commitments is perhaps the most politically and economically prudent aspect of the FTA.

Yet, this safeguard should not be mistaken for permanent insulation. Trade agreements increasingly exert indirect pressures through regulatory harmonisation, sustainability norms, and future review clauses. Over time, India may face demands to align animal welfare, carbon, and food safety standards with EU benchmarks — standards that could raise costs for small producers unless backed by public investment.

The real challenge, therefore, is not protection alone, but domestic reform:



EU-INDIA. Landmark deal ISTOCK

improving productivity, cold-chain infrastructure, value-added dairy exports, and branding of indigenous products. Strategic insulation must be paired with long-term competitiveness, lest dairy become a future bargaining chip in subsequent negotiations.

The FTA is explicitly framed as supportive of the Make in India initiative, and in several respects, it is. Preferential access for Indian manufacturing — textiles, leather, engineering goods, and gems and jewellery — can incentivise domestic production for EU markets. Integration into European value chains may also facilitate technology transfer and quality upgrading.

However, the agreement's calibrated auto liberalisation reveals a structural tension. While EU automobile access is quota-based and limited to higher-end vehicles, it could gradually reshape India's market dynamics. Without parallel strengthening of domestic component ecosystems, MSME suppliers, and R&D capabilities, there is a risk that India becomes a high-value import market rather than a manufacturing hub.

Moreover, the emphasis on services and skilled mobility — while a clear strength for India — could inadvertently reinforce a dual-track economy: globally competitive services alongside a manufacturing sector still struggling with scale, logistics, and compliance costs. The India–EU FTA reflects India's evolving trade philosophy: selective openness with strategic safeguards. By protecting dairy, limiting sensitive agriculture, and sequencing liberalisation, India has avoided the pitfalls of premature exposure. At the same time, the agreement locks India into high-standard trade disciplines on sustainability, digital trade, and carbon regulation, particularly through CBAM-related provisions.

Whether this proves transformative or constraining will depend less on the text of the FTA and more on India's domestic preparedness — institutional capacity, farmer support systems, MSME upgrading, and regulatory agility.

For agriculture and dairy, the FTA offers opportunity tempered by caution. For Make in India, it provides scale — but only if matched by domestic reform.

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Perils of gender rules in FTAs

UK, EU AND BEYOND. Taking on gender commitments with little domestic implementing capacity can be a disaster



SANGEETA GODBOLE

The fine print with respect to regulations is not known in the recently 'concluded' free trade pact between India and the EU. In this respect, India's experience with respect to its FTA (free trade agreement) with the UK is instructive.

The India-UK FTA has been lauded for its broad commitments on gender. CETA Chapter 23 on Trade and Gender Equality in the India-UK CETA (Comprehensive Economic and Trade Agreement) is a novelty. For India, this is a first. It is to be viewed as a cautionary tale. It is disturbing that gender related clauses find a mention in the 'trade and sustainable development' chapter in the India-EU pact, according to the EU documentation on the same. It remains to be seen what this really entails.

At the outset, it must be remembered that the single most important motive behind any FTA is improving market access. An FTA while signed by governments, is implemented on the ground only be private sector businesses. Setting them up for standards and regulation they are hardly capable or willing to use can only reverse whatever gains they may make out of preferential market access they obtain.

A chapter, like Chapter 23, is included in a few recent FTAs signed by the UK. The UK's trade agreements include standalone gender chapters in its EFTA (European Free Trade Association), Australia, Japan and NZ FTAs. However, except perhaps for New Zealand, gender related provisions outside this chapter are nowhere as broad and comprehensive as with India.

The language of the Trade and Gender Equality chapter seems positive and quite harmless at first reading. Mostly cooperation based, best effort, hortatory language with dispute settlement (DS) chapter expressly non-applicable. However, commitments on gender move into eight other chapters, four of which — Digital Trade, Financial Services, Technical Barriers to Trade (TBT) and Government procurement — are themselves subject to dispute settlement. These render the relevant gender provisions squarely into the DS jurisdiction.



WAY TO GO. Gender empowerment can best be served outside FTAs and their business-regulatory pressures

For instance, Art 7.5 (8) of the TBT chapter includes a clause with a very specific commitment on incorporating the UNECE Declaration on Gender Responsive Standards in the working of national standard-making bodies. This commitment includes balanced gender representation and leadership in standards-making bodies and mandates collection and analysis of gender-based data with specialised tools. Gender responsive standards are to be framed and implemented based on such gender-based data.

Including a gender lens in the process of standards is undoubtedly desirable. Including such commitments in a key chapter like TBT is invitation to trouble. These TBT- gender provisions could provide an effective tool to either stymie imports or stymie Indian industry to enhance exports.

The women empowerment agenda is essentially domestic. Any cooperation with any other trading partner in the gender arena is best kept out of contentious and legally binding waters of an FTA

THE BARRIERS WOMEN FACE

The Digital Trade chapter includes articles to address barriers faced by women to participate in digital trade. Why does India require UK's cooperation to identify and address barriers faced by women in accessing digital trade? Why an FTA commitment to this effect? What if India is unable, by UK's ideas, to address certain barriers?

Taking commitments in FTAs with little domestic regulatory and implementing capacity is nothing short of a recipe for disaster. Conversely, if India has made consistent efforts for women's empowerment in consonance with their requirements, which provision of the FTA text would that relate to? In India gender main-streaming can mean adequate and clean toilets for girls in schools, and clean cooking fuel and toilets in homes in the rural areas.

Government schemes relating to post and anti-natal care, safe motherhood, children's nutrition, Anganwadis — which part of the FTA text could that speak to? The same holds true for strong affirmative action for women's participation in municipal councils, State governing bodies. In effect, multi-directional efforts taken by government of India for women's empowerment may hardly be recognised by any FTA, and its effects unaccounted in terms of women's welfare, since it does not directly imply an equal access to international markets.

The women empowerment agenda is essentially domestic. Any cooperation with any other trading partner in the gender arena is best kept out of contentious and legally binding waters of an FTA, where disputes will be decided by international panels.

The EU has now established the office of a Chief Trade Enforcement office, whose sole business is to ensure that commitments taken by partner countries are met. EU companies, industry associations and even NGOs can complain and the CTEO takes action. Gender empowerment can best be served outside FTAs and their business-regulatory pressures. Broad, nice sounding texts on social issues can only create unpleasant surprises for India and its business community.

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EU-FTA: A deal with many hoops

ROAD AHEAD. Tariff cuts apart, Indian exports need to work their way through a plethora of standards on IPRs, plant varieties, labour, environment



DPR PMO



BISWAJIT DHAR

The India-EU FTA is the most extensive bilateral deal that India has signed thus far, both in terms of the coverage of areas and the extent of market opening. India has committed to eliminate tariffs on 92 per cent of its tariff lines, covering 97.5 per cent of EU's exports. While tariffs on about 50 per cent of tariff lines would be immediately eliminated, about 40 per cent of tariffs lines would be subjected to phased elimination of between 5-7 years.

The EU would provide preferential access to Indian exports in 97 per cent of its tariff lines, covering 99.5 per cent in terms of import value. Sectors likely to benefit are a range of labour-intensive ones, including textiles, leather and footwear, sports goods, and jewellery. Several agricultural products like tea, coffee, spices, and fresh vegetables and fruits and processed food products would also enjoy preferential market access.

The EU's gains would stem from the deep tariff cuts that India has agreed to undertake in a number of important sectors. Automobile tariffs would be sharply reduced from 110 per cent to 10 per cent, but imports into India would be regulated through an import quota of 250,000 vehicles.

Included among the other major sectors in which India would eliminate tariffs in a phased manner are pharmaceutical, chemicals, iron and steel, and machinery. Though cereals and dairy products have been excluded from the FTA, India has agreed to eliminate its tariffs on a broad range of agricultural products like olive oil, processed food and sheep meat. Tariffs on wines and spirit would also be substantially lowered.

India's services trade could also get a fillip as the EU would provide facilitated access to Indian businesses in IT/ITES, professional services, education and other business services. But the most noticeable gain for India in this sector is EU's commitment to provide "seamless movement of skilled Indian professionals", which was one of India's key demands.

However, India needs to recognise that access to the EU would not be easy as it is one of the most regulated markets. EU requires its partner countries to conform to a range of exacting standards, or non-tariff measures (NTMs), carbon emission norms, international labour standards, and food safety standards being some of the more important of these.

Labour-intensive sectors such as textiles, leather and footwear, sports goods and jewellery are likely to gain. Services trade could also get a boost. But a range of NTMs would have to be traversed for EU market access

India's FTA partners: Trade balance trends ($ billion)

Year	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Group I						
EFTA	-16.9	-17.3	-23.7	-14.8	-20.1	-20.5
Japan	-7.9	-6.5	-8.2	-11	-12.5	-12.7
Korea	-10.8	-8.1	-9.4	-14.6	-14.7	-15.2
ASEAN	-27.8	-15.9	-25.7	-43.6	-38.5	-45.1
UAE	-1.4	-9.9	-16.8	-21.6	-12.4	-26.8
Australia	-6.9	-4.2	-8.5	-12.1	-8.2	-6.9
Trade balance (Group I)	-71.7	-62	-92.3	-117.7	-106.5	-127.2
Group II						
Mauritius	0.6	0.4	0.6	0.4	0.7	0.5
Sri Lanka	2.9	2.9	4.8	4	2.7	3.2
Rest of SA	14.7	15.8	24	18.5	17.8	16.8
Trade balance (Group II)	18.2	19.1	29.4	23	21.2	20.5
Trade Balance - All FTAs	**-53.5**	**-42.9**	**-62.9**	**-94.8**	**-85.3**	**-106.7**

CBAM FACTOR

From the beginning of this year, the EU has been implementing the Carbon Border Adjustment Mechanism (CBAM), a carbon tax imposed at the border on imports from five sectors, iron and steel, cement, aluminium, fertilizers, electricity, and hydrogen.

The CBAM comes with an extensive set of procedures that effectively raise the cost of exporting to the EU. Indian businesses would need adequate preparations to ensure that CBAM's high compliance costs do not erode their competitiveness.

The only silver lining is for the Indian exporters is that the EU has offered to extend the same set of concessions for CBAM that it had earlier provided to the US, which could benefit the MSMEs.

Besides environmental standards, the EU insists that its FTA partners must conform to international labour standards (ILS) as laid down by the Core Conventions of the International Labour Organization. India has not ratified two of the key Conventions, freedom of association and the right to collective bargaining, in order to lend flexibility to the labour markets. Whether the EU forces India to incorporate ILS in its domestic laws would be watched with interest.

The Commerce Ministry's assessment is that enhanced access for agricultural products in EU's market would significantly benefit India's farming communities.

However, it must be pointed out that for these gains to materialise, Indian producers must ensure compliance with EU's stringent food safety standards. The EU has explicitly stated that human, animal and plant health are "not negotiable", implying that products imported from India must respect these standards.

IPR GUARDRAILS

The FTA provides a high level of protection and enforcement of intellectual property rights ((IPRs), but the nature of commitments that India has accepted is not yet clear. However, India needs to guard against any changes in its domestic intellectual property laws that may be forced upon it.

The EU has, in particular, demanded that new plant varieties should be protected using the provisions of the UPOV Convention, which prevents farmers from reusing seeds saved from a previous harvest.

India's domestic legislation allows farmers to use farm-saved seeds, and protects new plant varieties developed by farmers. Government of India must ensure that this legislation is not bartered away.

It seems quite clear that India needs to adequately prepare itself to realise the projected gains from the FTA. As a result, Indian businesses have failed to increase their exports in all the previous FTAs with major economies, causing trade deficits to consistently increase. India needs to avoid this dubious record while implementing the "mother of all deals".

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Canada's trade deficit under stress

Erik Hertzberg

Canada's trade deficit widened by more than expected as volatile gold shipments fell and both exports and imports of motor vehicles and parts decreased. The country's trade shortfall was C$2.2 billion ($1.6 billion) in November, Statistics Canada reported Thursday. Economists surveyed by Bloomberg were expecting imports to exceed exports by C$690 million.

Total exports fell 2.8 per cent, and shipments of metal and non-metallic mineral products posted the largest decrease, falling 24.4 per cent, the agency said.

That was driven by lower exports of unwrought gold, silver, platinum and their alloys — a category mostly composed of gold — which fell 36 per cent. On a year-to-date basis, the value of those exports are still up 40 per cent amid the spike in gold prices — on a volume basis, there's little change. Gold has also been the most significant contributor to the fluctuations in Canadian exports in recent months, StatCan said in its report. In November, the agency said there were large declines in exports of the precious metal to the UK, US and Hong Kong.

AUTO SHIPMENTS DROP

Exports of motor vehicles and parts fell 11.6 per cent, reaching the lowest level in three years. The decrease occurred amid a semiconductor shortage that is disrupting the auto industry, the agency noted.

Energy exports rose 8.5 per cent on higher crude oil shipments, following a sharp decline in export volumes in October, when temporary production shutdowns at US refineries curbed demand for Canadian crude. Meanwhile, imports were down 0.1 per cent.

Inbound shipments of motor vehicles and parts fell amid reduced production of passenger cars in the US during a shortage of materials and parts.

Energy imports declined too. In volume terms, exports were down 0.9 per cent, while import volumes rose 0.9 per cent. US tariffs on steel, aluminium, autos and lumber have battered Canadian industries. The US-Mexico-Canada Agreement will be reviewed this year, adding to economic uncertainty and raising questions about the country's trade outlook. BLOOMBERG

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Growth strategy

Survey cites global risks to robust economy

The Economic Survey 2025-26, like most recent Surveys, has two strands to it: first, it assesses growth prospects in the upcoming year; and second, it elaborates on issues governing medium-term growth. On the former, the Survey refers to India's robust fundamentals and predicts a real growth rate of 6.8-7.2 per cent in FY27. On the second, the Survey says that growth, financial stability and strategic autonomy can only be sustained by turning a current account deficit into surplus — through manufacturing.

Indeed, the Survey even suggests that services has done its share of heavylifting for the external account. As for near-term prospects, the Survey asserts, and not without basis, that a growth paradox is at work — where a falling rupee and capricious capital flows have little to do with robustness of the economy. A country with comfortable food stocks, a large domestic market, "a less financialised growth model", comfortable forex reserves, low inflation, low NPAs and strong corporate balance sheets can weather global turbulence. In fact, it says that the potential growth rate of the economy has risen from 6.5 per cent to 7 per cent over three or four years, following factor market reforms. Yet, the Survey expects intensified trade, financial and technological headwinds this year. In perhaps a statement that could reflect the tone of the Budget, the Survey calls for "strategic sobriety rather than defensive pessimism". The focus on growth through domestic drivers will have to be accompanied by an emphasis on 'shock absorption'. With the external account being an area of worry, fiscal consolidation has become a *sine qua non*. India's inclusion in the global bond indices implies that bond yields could be more responsive to deficit changes.

For the medium term, the Survey's perspective on current account deficits stands out in contrast to the received wisdom that emerging economies can run such deficits. It argues that as interest rates rise in the developed world alongside a rise in inflation, a country that runs a CAD and needs capital flows must pay "a risk premium" to attract capital from those markets. The times have changed – the 'Great Moderation' is long over, and the cost of capital in India has risen. Here, the Survey suggests adoption of the East Asian route to becoming a manufacturing powerhouse. A policy focus in this regard already exists, in the form of production linked incentives. Interestingly, Chief Economic Advisor V Anantha Nageswaran said at the press briefing that manufacturing must deliver over time on the incentives accorded. It is perhaps a note of caution that the 'infant industry' approach could create inefficient enclaves if not properly managed.

The theme to revive manufacturing is not new — but the context is changing. Globalisation is *passe*, and strategic autonomy matters as uncertainties loom. However, in seeking to emulate the Tiger economies, it should not be forgotten that an investment in human capital lay at the root of their economic miracle. It is to be hoped that the Budget keeps this in mind.

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30 Jan 2026

Services as a stabiliser of growth

SERVICIFICATION. Services' closer integration with manufacturing has strengthened sectoral linkages and value chains



V ANANTHA NAGESWARAN
SONALI CHOWDHRY

Services have long been central to India's growth story, contributing significantly to output, exports, and employment alongside agriculture and industry. What has become clearer in recent years, however, is the role services play in steadying growth at a time when the global environment is more uncertain. This role is reflected in the breadth and composition of service activity across the economy.

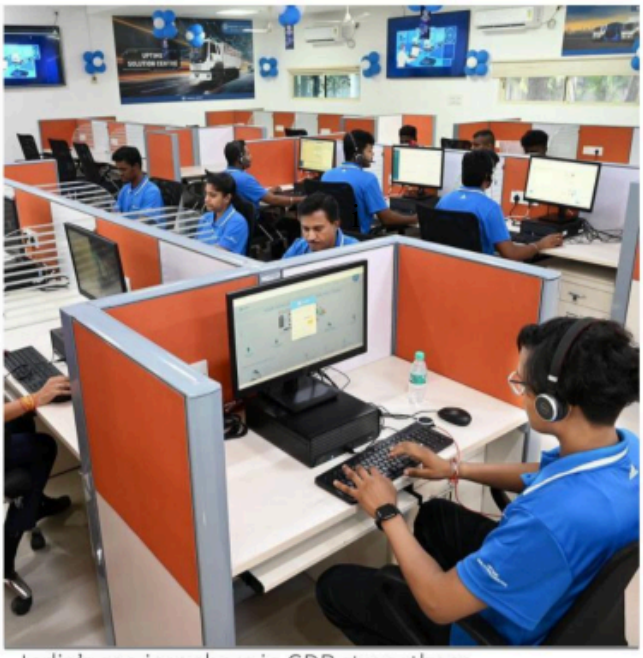
Today, the services sector contributes more than half of the country's Gross Value Added (GVA) — 56.4 per cent — as per the first advance estimate (FAE) of FY26, the highest ever recorded. The expansion of services has been broad-based. Software services, professional and business services, finance, telecommunications, transport, tourism, and experience-based activities have all contributed to momentum. At the same time, manufacturing has increasingly drawn on services inputs such as design, research and development, logistics, software, finance, and after-sales support, a process often described as servicification. This closer integration has strengthened inter-sectoral linkages and supported movement up value chains.

EXTERNAL RESILIENCE

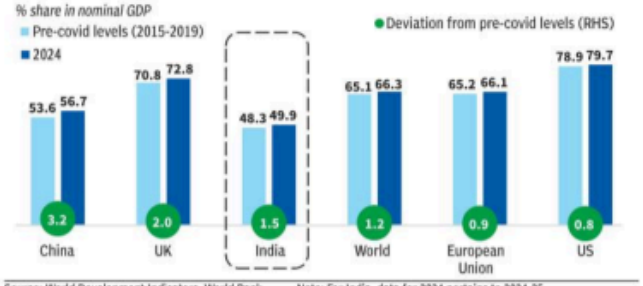
Services have also contributed to external resilience. Services exports have helped diversify export earnings and offset periods when merchandise exports have softened, particularly in the post-pandemic period.

Export growth in key segments has accelerated sharply, with software services exports growing at 13.5 per cent during FY23-FY25, nearly three times the pre-pandemic pace, while professional and management consulting services expanded at 25.9 per cent, more than twice as fast as before, emerging as major drivers of services export growth. Services continue to play an important role in urban employment, accounting for more than 60 per cent of jobs in cities and a substantial proportion of formal employment additions.

Recent data reinforce these trends. In the first half of FY26, services growth strengthened further, raising the sector's share in GDP above both the previous year's level and the pre-pandemic average. Financial, real estate, and professional services supported this expansion, aided by credit growth and business activity, while trade, transport, and hospitality segments continued their gradual normalisation.



India's services share in GDP strengthens in line with global trends



Source: World Development Indicators, World Bank Note: For India, data for 2024 pertains to 2024-25

DRIVERS OF GROWTH

Looking ahead, the Services chapter

Services firms are often able to operate efficiently even as broader institutional improvements unfold gradually

turns to drivers shaping the next phase of growth. Advances in artificial intelligence are influencing productivity and the composition of services exports, particularly in digitally deliverable segments such as software and professional services. Survey evidence points to stronger export momentum in AI-intensive services, underscoring the role of technology adoption in sustaining competitiveness.

The chapter also highlights emerging opportunities in experience-based and culture-linked activities, often referred to as the orange economy. Areas such as media, entertainment, design, and cultural tourism offer scope for employment-intensive growth when supported by appropriate skills and local capacity.

CHALLENGES AHEAD

At the same time, the Survey does not overlook the challenges ahead. While service growth has been broad-based, productivity and employment outcomes differ across sub-sectors and regions. High-value, skill-intensive services have expanded more rapidly in some locations, while traditional services continue to absorb a large share of the workforce with lower productivity levels. Narrowing this gap will require sustained attention to skill development and mobility pathways across segments.

The growing role of digitally deliverable services and artificial intelligence also brings adjustment considerations. While technology adoption has strengthened competitiveness, it raises questions around workforce readiness and the pace of skill upgrading. Ensuring that productivity gains are widely shared across firms and workers remains an important priority.

More fundamentally, the chapter examines how service-led growth interacts with state capacity. While services exports and service-intensive activities are valuable for growth and competitiveness, the nature of services production differs from that of goods manufacturing. Many services firms rely primarily on human capital, digital connectivity, and contractual arrangements, and are therefore less directly dependent on large-scale physical infrastructure. This structural feature shapes how economic success translates into improvements in state capacity. Services firms are often able to operate efficiently even as broader institutional improvements unfold gradually. Manufacturing activities that depend more heavily on physical systems tend to be more closely tied to system-wide performance. As a result, while services-led growth contributes to macroeconomic stability, it may not, on its own, generate uniform incentives for strengthening state capacity across all areas of public administration and infrastructure.

India's services sector has long been a driver of growth. Its evolving role in supporting stability adds an important new dimension to that contribution. The task ahead is to ensure that this stability supports the steady strengthening of economy-wide capabilities, alongside sustained progress in agriculture and industry, laying the foundations for long-term growth and development.

Nageswaran is Chief Economic Advisor of India, and Chowdhry is a consultant

01 Jan 2025



Year of hope

India must aim to sustain the growth momentum

History will likely record 2025 as the year the world's largest economy decided to upend the global trade order built over decades. The imposition of the so-called reciprocal tariffs by the United States (US) and trade negotiations with individual trading partners created enormous uncertainty and confusion. The impact of the shift in US policies, which will play out over time, will be analysed for years to come. For now, the US economy is doing reasonably well. It is being argued that the artificial intelligence-related investment boom is pushing up growth. India was particularly singled out by the US as President Donald Trump decided to mix trade and geopolitical objectives, without much basis, and hit India with a 50 per cent tariff. Since the US is India's most important trade partner, the key thing to watch out for this year will be a mutually beneficial trade agreement. In fact, developments on the trade front in 2026 will significantly influence India's prospects.

Also, India is reportedly close to signing a trade deal with the European Union (EU). Similarly, the country is negotiating with several other trading partners, which should help Indian exporters. Policy openness to trade must be welcomed, and India must aim to go the distance this year. The government has withdrawn a number of quality-control orders, which are essentially import barriers. Since India is aiming to sign trade deals with large trading partners such as the US and EU, it should also reduce tariffs in general, which will enable it to get into global value chains. India will benefit from trade agreements only if the domestic business environment improves in a sustained manner. Committees have been set up to push deregulation, and it would be interesting to see the pace and scale of intervention this year.

There will be important changes this year in the way the Indian economy is gauged and managed. A new series each for the consumer price index (CPI) and gross domestic product (GDP) will be released in February. The weighting of food in the CPI will likely reduce, making it more stable and predictable. Several issues have been pointed out by economists and experts in the current GDP series over the years, including the way activity in the informal sector is measured and how estimates of nominal output are deflated to arrive at real output. India is on course to become the fourth-largest economy in the world, and it's important that measures designed to gauge economic activity and prices reflect the position on the ground. It is thus crucial that GDP and inflation series are updated at regular intervals.

In terms of outcome, growth over the last two quarters surprised on the upside, and the policy objective should be to sustain the momentum. The Indian economy grew by 8 per cent during April-September. Meanwhile, the inflation rate in 2025 surprised on the downside and is currently running below the lower end of the Reserve Bank of India's tolerance band. The inflation rate is expected to go up this year and remain around the target of 4 per cent. It will help push up nominal growth a bit, which is important in the context of fiscal management, among other things. The Union government will adopt debt to GDP as the fiscal anchor from the next financial year. It will be crucial to observe how financial markets respond to this shift. In terms of macroeconomic management, as things stand, the external account may pose some challenges. The rupee is under pressure, largely owing to capital outflows. A lot will depend on how quickly a trade deal with the US is sealed. Besides, geopolitical developments could pose challenges.

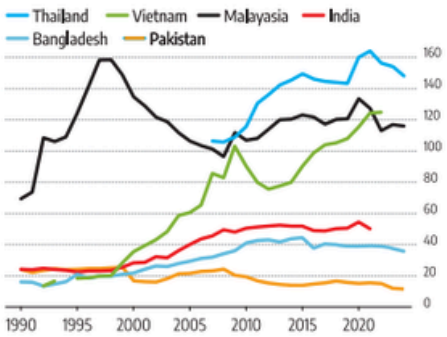


Disentangling RBI-govt ties

The relationship between the central bank and the government is holding back India's financial sector

ILLUSTRATION: BINAY SINHA





Source: World Bank Database

As we enter 2026, the Reserve Bank of India (RBI) governor calls India a "Goldilocks" economy, with robust growth and low inflation. After labour reforms, the next target should be reducing the cost of capital by deepening the financial markets. This might therefore be a good time to untangle the web of nested relationships between the Ministry of Finance (MoF) and Mint Street (RBI), which has created huge conflicts of interest and needs to be disentangled if India wants to deepen and modernise its financial system.

The relationship is often described as a traditional marriage between a husband (MoF) and wife (RBI), with the government playing the proverbial mother-in-law. Disputes are usually settled at home, not in public, and there is no question of divorce. If disputes do arise, the government — like most mothers-in-law — typically sides with the son, that is, the MoF. But sometimes, disputes do spill out.

One such incident was when the huge fraud of ₹13,000 crore (approximately $2 billion) at the government-owned Punjab National Bank (PNB) came to light in early 2018, involving still absconding merchants Nirav Modi and Mehul Choksi. The then finance minister Arun Jaitley blamed the RBI for poor regulatory oversight, and the RBI governor shot back in a public lecture arguing that the RBI's regulatory powers over public sector banks (PSBs) are very weak. PSB's have written off ₹12 trillion of loans (over $30 billion) between FY2015-16 and FY2024-25, suggesting huge regulatory and oversight problems in them. Another fraud has just been reported at PNB. Private commercial banks have had problems as well but not on the scale seen in PSBs.



IF TRUTH BE TOLD

AJAY CHHIBBER

The RBI's oversight of PSBs is weak because, while it approves the appointment of private bank chief executive officers (CEOs) to ensure they are "fit and proper," it does not have that power over PSBs. PSB CEOs know that they must follow directives from the MoF, not their official regulator, the RBI. What makes this regulatory relationship even more complicated is that RBI officials sit on the board of each PSB and are therefore implicitly complicit in the decisions taken by the board, while also being the regulator. Waves of non-performing loans have repeatedly surfaced in PSBs, suggesting that this arrangement does not help their oversight functions. A few RBI governors have felt this arrangement is not healthy, but others are comfortable with it. A solution was provided by the Narasimham Committee-II of 1998, which recommended that the RBI not sit on PSB boards and pushed for greater professionalisation of PSB boards — but this has so far not been accepted by both the MoF and the RBI.

A second major problem in the RBI's relations with the MoF and the government more broadly is that the RBI is also the debt manager for the government, which creates a huge conflict of interest with its monetary policy role. As debt manager, the RBI would like to keep interest rates low to ensure the government is able to borrow at the lowest possible cost. It also forces banks to hold government bonds, which start to interfere with their liquidity requirements. Since India has unusually high public sector borrowing requirements — because central and state governments run exceedingly high deficits — to keep borrowing costs down, it imposes a statutory liquidity ratio (SLR), which requires banks to hold government bonds (considered a form of liquidity).

India's SLR has come down from 40 per cent in the 1980s to 18 per cent, but India, along with Bangladesh at 13 per cent and Pakistan at 15 per cent, remains among the only countries still using this outdated instrument. This financial repression hurts the development of a commercial bond market and crowds out private credit growth. India's private credit-to-gross domestic product (GDP) remains extremely low at around 50 per cent of GDP — better than Bangladesh and Pakistan, but far below countries like Vietnam, Thailand, and Malaysia, where it is over 100 per cent of GDP.

A related problem is that the RBI both regulates the government bond market and operates in it as a trader. The Securities and Exchange Board of India (Sebi) regulates the commercial bond market. But if Sebi were to be given the responsibility of regulating the government bond market, and the RBI trades in that market, it would then come under Sebi regulation, resulting in a case of one regulator regulating another regulator. The obvious solution is not to have the RBI as the government's debt manager.

Twice — first in 2007 and again in 2015 — finance ministers P Chidambaram and Jaitley, belonging to two different parties, announced that the public debt management function would be moved from the RBI and managed by a National Treasury Debt Office, but both times the announcement was inexplicably withdrawn. A debt management unit was established in the finance ministry in 2015 to prepare debt strategies and analyse risks, and consultations are held twice annually between the RBI and the MoF on the management of debt. But the Comptroller and Auditor General of India has given this unit poor scores and, in any case, the underlying conflicts of interest in having the RBI manage public debt remain.

Why reform has been so difficult is because of extremely high combined fiscal deficits of the centre and the states. The RBI's former deputy governor Viral Acharya has documented the costs of this fiscal dominance. He has shown its crowding-out impact through the credit and bond market channels, and even how it harms monetary transmission and hampers the deepening of the financial system. There is no better time than now to address these issues. Inflation is down, even below the FIT (flexible inflation targeting) regime's lower limit and the economy is growing well — despite Trump's tariffs. The RBI has just lowered interest rates, so more fiscal spending to boost growth — a common demand of business lobbies and politicians — is currently not needed.

The upcoming Budget is an opportunity for serious fiscal consolidation and to start disentangling this unhealthy relationship between the RBI and the government, which is hurting the deepening and effectiveness of India's financial sector. A good place to start would be removing the SLR, thereby putting additional pressure on the MoF to rein in the fiscal deficit. A friendly, clean divorce is often healthier than a messy marriage.

The author is a distinguished visiting scholar at the Institute for International Economic Policy, George Washington University. His book *Unshackling India* (HarperCollins India) was declared the best new book in economics by the *Financial Times* in 2022



The humane factor

Qcom firms must revise incentive structures

The year-end strike by a section of gig and platform workers over remuneration and work conditions presents quick-commerce and food-delivery firms with an opportunity to re-align their business models. Gig workers' demands are basic; they range from fair and transparent wages, a ban on 10-minute delivery models, and an alignment of pay and benefits in line with the recently notified labour Codes. The need for employers to respond is becoming increasingly urgent, given the rapid expansion of quick commerce over the past few years and the expected surge in demand for gig and platform workers. The NITI Aayog has estimated the number of workers employed in sectors such as ride-sharing, delivery, logistics, and professional services has touched 10 million and could rise to 23 million by 2029-30. In other words, this segment has the potential to become a significant source of youth employment. Yet it is becoming increasingly obvious that their work conditions can scarcely be considered optimal.

First, quick commerce is increasingly becoming a business model predicated on breaking traffic rules. The competitive scramble to reach consumers has resulted in an incentive structure that forces delivery partners to drive at breakneck pace, ignore traffic rules, and endanger not only themselves but also the general public. There are no national statistics available to substantiate the link between delivery deadlines and road safety, but the problem has been serious enough for the Bengaluru police to take note and conduct training programmes for delivery people. The city police acted after it noticed a marked uptick in bookings and fines against delivery partners for reckless driving. Gig workers' demand that these deadlines be scrapped is not, therefore, without merit.

Second, a survey conducted between September 1 and 30 last year revealed a wide gap between gig workers and permanent employees; 47 per cent of the respondents said gig workers were paid 10-25 per cent less. Other surveys have highlighted that gig workers live on the edge. Despite working long hours — as much as 16 hours a day — many gig workers earn below minimum wages after accounting for costs such as fuel and platform commissions. They lack basic medical and social-security benefits, as a result of which an illness or (increasingly likely) an accident can wipe out their meagre earnings. A NITI Aayog survey in 2024 revealed that 90 per cent of gig workers lacked savings. Platform practices such as disconnecting workers who take days off add to the volatility of their earnings. In response to the strike threat, some aggregators increased incentive payouts during Christmas and the year-end.

This cannot be considered a sustainable solution to an endemic problem. Now, the labour Codes, effective November 21 last year, formally extend welfare, and accident and health benefits to gig workers, mandate that aggregators contribute 1 to 2 per cent of their annual turnover to a dedicated social-security fund that workers can access once they register on a national digital platform, and restrict the work week to 48 hours. All of this will require quick-commerce firms and aggregators to recalibrate cost and incentive structures. In an industry that remains largely unregulated, the real challenge for the government is ensuring that these relatively humane work conditions are followed.

02 Jan 2025

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Customer is the purpose

Banks exist to serve customers, let us serve them well

ILLUSTRATION: BINAY SINHA





BANKING & BEYOND

SWAMINATHAN J

The origin of the quote, "The customer is not an interruption in our work but the purpose of it," may be debatable. Its core message, however, is not. Businesses in general, and banking in particular, exist to serve the customer, not the other way around.

The recent annual report on the Ombudsman Scheme by the Reserve Bank of India (RBI) notes that complaints under the Reserve Bank Integrated Ombudsman Scheme rose last year, even as complaints per lakh accounts declined. In a fast-expanding ecosystem, absolute complaints can rise even when complaint "intensity" falls.

Against this backdrop, the RBI Governor has announced a two-month long campaign from January 1, 2026, to dispose of complaints pending for over 30 days with Ombudsman offices. This should help expedite resolution.

Yet, for customers, large absolute numbers still mean friction at scale. The more enduring response must, therefore, come from regulated entities (REs) to prevent recurrence. This requires a shift in mindset at the frontline towards real customer centricity.

A test of customer centricity

First, rapid digitalisation has made banking faster and more convenient, but it has also widened the distance between the frontline and the customer. In the manual world, branch staff not only "owned" their customers, but also the outcomes.

Second, products have become complex. Features have become difficult to understand, exclusions harder to explain and the fine print easier to miss. Together, they widen the gap between the initial understanding and ultimate delivery.

Third, the gap in skills, combined with limited empowerment at the frontline, is turning simple service lapses into prolonged grievances. By the time an issue reaches an external forum, it becomes a story of delay, uncertainty, and what the customer perceives as indifference.

Trust is the first deposit a bank earns

Banking works because people choose to trust an institution with what matters most to them — their savings, their time, their private information, and often, their life plans. This trust is not sentimental. It is fundamental to intermediation; hence customer centricity cannot be a peripheral concern.

Trust, however, does not sustain itself on its own. It is renewed in small, everyday moments. It is evidenced from what follows the discovery of a failed transaction or the levy of an unexplained charge.

It is not about what went wrong or who is legally liable under the fine print. It is about what the customer feels – whether their bank owned up and stood by them in their moment of stress or wasted their time in arguing who is right.

Central bank: Last resort, not the first

The annual report carries another signal that REs should take seriously. About two-thirds of complaints reaching the RBI are "first resort" complaints, or where the RBI is "copied". This means either the customer is unaware of the internal grievance redress system of the RE or does not believe in its efficacy.

This points to gaps in awareness, accessibility, and credibility. It is disappointing that some REs still do not offer a toll-free number, and some websites are hard to navigate to register a grievance. There is also a tendency to classify some complaints as "queries", thereby diluting the attention they deserve.

Let empathy be the guiding force

Customer centricity also calls for empathy. This empathy cannot be left to individuals; it must be embedded in the processes.

The annual report shows that over half of the maintainable complaints are resolved by the RBI Ombudsmen through mutual settlement, conciliation, or mediation. This suggests that a proactive, empathetic approach could have resolved them at the RE level itself, without having to escalate.

Address the root cause, not the symptom

When similar complaints occur across branches or channels, it is rarely a "customer issue". It signals a weakness in product design, process, or controls that has not been corrected at the source. The objective, therefore, is not merely to dispose of complaints, but to prevent the next thousand by fixing the root causes.

That effort must also include people, not just processes. High attrition in junior and customer-facing roles weakens ownership, disrupts continuity, and erodes institutional memory.

What is the way forward?

So where should improvement begin? It must start where friction starts — at the first point of contact. Traditional grievance systems are reactive. A customer-centric model shifts the emphasis to prevention and towards providing resolution at the first opportunity.

That, in turn, requires REs to make a deliberate choice to empower frontline teams. In practice, empowerment rests on three enablers: Information, authority and grooming.

Information means strong product knowledge backed by a single view of the customer across channels, so the frontline staff is not reduced to saying, "The system does not show it, I have to check."

Authority means clear delegation, so that misapplied charges or simple service lapses can be resolved quickly without pushing customers up the escalation ladder.

Grooming is more than training. It is a culture that builds empathy and a sense of purpose. The system should also provide an assurance to staff that bona fide decisions in the customer's interest within defined limits would be upheld.

Build internal safety valves

Not every dispute can be resolved at the first touchpoint by business functionaries. REs, therefore, need a credible, layered grievance redress architecture within the organisation.

This is where an effective Internal Ombudsman (IO) framework matters. Before a final "no" is communicated to the customer, an independent second look should test whether the decision is fair, consistent, and well-reasoned.

The RBI has sought to ensure the stature and independence of IOs; REs must ensure the framework works in practice by adequately empowering them.

The Reserve Bank Integrated Ombudsman Scheme is the final safety net: A cost-free, accessible forum for customers when internal redress fails.

Ultimately, the customer is the reason we exist, and trust is the real currency of banking. Let us protect it in the small moments, and the big moments will take care of themselves.

The author is Deputy Governor, Reserve Bank of India. The views are personal



VB-G RAM G: The promise and pitfalls

For nearly two decades, the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) occupied a distinctive place in India's policy architecture. Its economic significance lay in a simple but consequential institutional idea that rural distress could be translated into a claim on the state. Any rural household willing to undertake manual work could demand 100 days of employment, and the administration carried a time-bound obligation to respond.

This rights-based asymmetry, with the citizen as claimant and the state as duty-bearer, made the programme more than a budgetary intervention. It functioned, however imperfectly, as insurance against volatility at the bottom of the labour market. In FY 2024–25, MGNREGS generated 2.9 billion person-days of work, with women constituting 58.15 per cent of total beneficiaries.



AMARENDU NANDY

That architecture has now been abruptly replaced by the Viksit Bharat–Guarantee for Rozgar and Ajeevika Mission (Gramin) (VB-G RAM G) Act, 2025, which revamps rural employment within a restructured institutional framework. The government presented the reform as modernisation: Offering more guaranteed workdays, with emphasis on durable asset creation, tighter monitoring, and closer alignment with development priorities. Yet the redesign indicates a distinct philosophical shift — from a scheme designed around uncertainty to one around control.

The Act raises the annual employment entitlement from 100 to 125 days per rural household. In principle, this expands the envelope of income security for households. Yet, the statutory ceiling has rarely been the binding constraint. Average employment provided per household was 50.24 days in 2024-25, and broadly similar in the preceding four years, suggesting that effectiveness is determined more by the institutional conditions that govern how demand is financed, approved, and translated into work, rather than by the headline number of days. Without changes to these underlying mechanisms, raising statutory entitlement days will remain largely symbolic.

The Act also seeks to address the problem of uneven quality and durability of assets created. VB-G RAM G proposes to cluster works around water conservation, climate resilience, and core infrastructure, linking them to village development plans. In India, where climate shocks increasingly constrain agricultural output and rural incomes, investments that stabilise water availability or protect against floods and droughts can generate returns beyond the immediate wage impulse.

However, a trade-off exists. A demand-driven job guarantee scheme must remain a rapidly deployable instrument. Its strength must lie in absorbing labour quickly, with minimal planning overhead, particularly when households face idiosyncratic shocks. High-quality infrastructure, by contrast, requires technical design, sequencing, and longer gestation periods. Under VB-G RAM G, as the focus shifts towards more complex assets, it risks becoming less elastic during distress. The reform nudges the scheme away from insurance towards investment — potentially raising average returns, but possibly weakening responsiveness when most needed.

The most consequential shift, however, is fiscal. Under MGNREGS, financing was demand-driven. When rural distress rose — following droughts, floods, or economic shocks — expenditure increased automatically. This made MGNREGS function, albeit imperfectly, as a macroeconomic stabiliser. Under the new Act, this logic is fundamentally weakened. VB-G RAM G introduces state-wise normative allocations, requiring states to finance excess demand. This implies a non-neutral federal adjustment, reallocating fiscal risk from the government best placed to absorb it (Centre) to those least able (states). In years of stress, poorer states will most likely ration work, delay approvals or tighten administrative filters rather than expand spending. This could create heightened risk of sub-national pro-cyclicality, causing response to move counter to distress. What was designed as a demand-responsive guarantee under MGNREGS risks becoming, in practice, a capped scheme under VB-G RAM G.

The allowance for a seasonal 60-day pause in employment also sits uneasily within this framework. It rests on a misplaced assumption that labour markets tighten uniformly during peak sowing and harvesting. In India, rural labour markets are segmented, and labour scarcity often coexists with acute household vulnerability. Empirical literature has shown that for land-poor households, women workers, and those facing health or debt-related shocks, MGNREGS functioned not as an alternative to farm labour but as a margin of protection when other sources of income failed. VB–G RAM G's calendar-based suspension of work narrows the conditions under which the programme can respond, weakening its buffer capacity when households experience overlapping shocks.

The deeper question is not whether VB-G RAM G will deliver more workdays or better assets, but what kind of state it presumes and produces. The new framework appears more confident of administrative foresight and control. That confidence may be misplaced. In an economy where shocks are becoming more frequent and uneven, resilience depends less on *ex ante* planning than on the ability to respond *ex post*, quickly and at scale. A rural employment system that privileges predictability over adaptability may function smoothly in normal times, yet falter when stress tests arrive. The decisive test of VB–G RAM G will be whether the programme continues to act as a stabiliser in bad times or becomes merely more efficient in good ones.

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05 Jan 2025



A level playing field

Support to Vodafone Idea should not be exclusive

The five-year moratorium that Vodafone Idea (Vi) has secured for paying its adjusted gross revenue (AGR) dues to the government is a substantial relief for the financially stressed telecom operator. The lifeline, which will let Vi pay the AGR dues of ₹87,695 crore from 2031-32 to 2040-41 instead of from March 2026, is expected to enable the telecom operator to set its house in order by raising funds, strengthening its business, and arresting subscriber erosion in the meantime. The Union Cabinet's latest approval to freeze Vi's AGR dues for five years is also a government step in the direction of preventing a duopoly situation in the telecom sector. This comes at a time when a near duopoly in the aviation sector has come into focus after the recent chaos triggered by IndiGo's flight cancellations over new norms on pilot rest. In a bid to reverse the duopoly character in Indian aviation, the government has even granted no-objection certificates to a string of companies seeking to start airlines.

However, it's important to note that preventing a duopoly should not go against the principle of a level playing field in any sector. It's no different in the case of telecom, which was until a few years ago a sector with multiple operators, and then the alleged 2G scam forced several telcos out of business. So, if Vi, in which the government has a 49 per cent stake, has been granted a moratorium to repay its AGR dues up to 2016-17, another private telco, Bharti Airtel, too deserves similar support even though its financials are much stronger. Reliance Jio, the third private telco, started its operations only in 2016 and, therefore, has no pending AGR dues.

To put things in context, AGR dues are to be paid to the government by all telcos, including state-owned Bharat Sanchar Nigam Ltd (BSNL) and Mahanagar Telephone Nigam Ltd (MTNL), as part of licence fees and spectrum-usage charges. As against the past model of companies paying a fixed fee for the telecom licence, a revenue-sharing format was introduced in 1999, where telcos were mandated to share a fixed percentage of their gross revenue with the government as licence fee and spectrum-usage charge. But the definition of AGR (whether the entire revenues of the company or only the telecom revenue will be counted for paying the dues) has been a point of contention, sending the stakeholders to courts over the years. The latest Supreme Court verdict of October 2025, which was modified a bit a month later, forms the background of the Union Cabinet decision on the five-year moratorium, given on December 31. The court allowed the Union government to reassess and reconcile Vi's AGR dues up to 2016-17.

This is not the first time that Vi has got a lifeline from the government. Earlier, the telco, which had a debt pileup, was a beneficiary of a relief package for the telecom sector. The government converted Vi's dues, in tranches, into its own equity. Anything beyond this will make the government a majority shareholder in the company. The moratorium is likely to lend a certain degree of predictability and stability to Vi's financial and business scenario while the government reassesses the amount of the dues, as permitted by the Supreme Court. Since the court has not debarred the authorities from extending a moratorium or relief to other telcos, the government must explore that possibility to ensure equity in dealing with businesses.

05 Jan 2025



ILLUSTRATION: AJAYA KUMAR MOHANTY



Gains from decontrol

We get big gains from diligently removing restrictions, one at a time



SNAKES & LADDERS

AJAY SHAH

The path to prosperity for India lies in becoming an open market economy, one that is deeply engaged with the world. At present, there is a maze of restrictions at the border, which hampers this engagement. The Indian state has created intrusions — capital controls, customs procedures, sector-specific prohibitions, problems in payments, procedural overhead -- that tie down people trying to find opportunities across the border. These restrictions may be born of a desire for control or a fear of volatility. By making it difficult to transact with the world, we harm our own interests.

It is remarkable to observe how influential the removal of these restrictions can be. When we dismantle even one barrier, the economic response is often swift and substantial. A striking divergence in the economic data of 2025 offers a case study of this mechanism.

The macroeconomic backdrop for India in 2025 was mixed. By October 2025, net inflows of foreign direct investment (FDI) were not looking good. Global corporations in manufacturing are exercising caution regarding long-term commitments to India despite the "China+1" narrative. The friction of doing business in the physical economy remains a deterrent.

While factories faced headwinds, Indian finance gained ground in the eyes of global strategic capital. In 2025, FDI in Indian banks and non-banking financial companies (NBFCs) surged, culminating in deals estimated at approximately $11 billion for the calendar year. Net FDI into India has been stuck for over a decade. Yet, owing to certain changes in rules, a significant volume of capital entered financial firms in the country in a single calendar year. Such is the power of capital account decontrol. The inflow seen here in one field — $11 billion— is a strong value compared with the net FDI in India for the full 2024-25 of $29 billion.

Policymakers appeared to recognise that the domestic banking system, which faces moderating household financial savings, required external capital. On January 20, 2025, the Reserve Bank of India (RBI) issued the "Master Direction on Foreign Investment in India". This document rationalised the norms for foreign entry and reduced the ambiguities that had previously added friction to cross-border transactions.

The new directions offered clarity on downstream investment by foreign-owned or -controlled companies (FOCCs), streamlining equity swaps and deferred consideration mechanisms. Crucially for the shadow banking sector, the regulator permitted Indian entities to receive foreign investment to meet minimum "net owned fund" (NOF) requirements prior to registration. This resolved a procedural hurdle where firms previously needed capital to get a licence but needed a licence to get capital. Additionally, the harmonisation of definitions regarding "control" and beneficial ownership eased compliance for strategic investors. Beyond the text of the regulations, there was a perceptible shift in the supervisory approach. The RBI's approval of majority stakes, such as the Emirates NBD acquisition of RBL Bank, suggests a new pragmatism.

The world responded to these removals of friction with a series of big transactions involving long-term strategic integration. On September 23, SMBC invested $1.6 billion for a 24 per cent stake in Yes Bank. On October 2, IHC acquired a 43.5 per cent in Sammaan Capital (formerly Indiabulls Housing Finance) for $1 billion. On October 18, Emirates NBD paid $3 billion for a controlling stake of 60 per cent in RBL Bank. On October 24, Blackstone invested $0.7 billion for a 10 per cent stake in Federal Bank. Finally, on December 22, MUFG injected $4.4 billion for a 20 per cent stake in Shriram Finance via a primary infusion. In this group of transactions, we are seeing important global financial firms getting involved in improving Indian financial firms.

Finance is the brain of the economy. It allocates resources to their most productive uses. These transactions make the Indian financial system healthier. By removing barriers at the border, we have allowed the brain to upgrade its processing power. The recipient financial firms benefit from a combination of growth capital, improved governance, better processes, and better production of cross-border financial services.

These transactions create a virtuous cycle of competitive pressure by fielding stronger players in the Indian landscape. These revitalised firms, armed with cheaper capital and better technology, will compete aggressively with public-sector incumbents and weaker private firms. This competition forces the entire industry to become more efficient, which is a net positive for the Indian economy. The stock market has signalled its approval, with average excess returns (compared with the Nifty) for four target companies in the month after the transaction of 16.9 per cent.

The story is unlikely to end with these five transactions. Some private financial firms might evaluate this environment, anticipate the emergence of a more difficult competitive environment, and be more receptive to raising equity capital. Some global players may notice the opportunities that have opened up through Indian capital-account decontrol. Hence, we may see more such transactions on FDI in the future.

There is a connection between the weakness of household savings in India of recent years, and the need for capital-account decontrol. As Harsh Vardhan and Amrita Agarwal have emphasised (https://mybs.in/2eqm3Zv?1767531700), in recent years, household savings have fared poorly: From 22.7 per cent of gross domestic product (GDP) in 2021 to 18.1 per cent in 2024. This will hamper domestic investment unless restrictions are removed so as to give access to plentiful and low cost foreign capital. The $11 billion inflow in 2025 into one narrow group of firms demonstrates that foreign savings are available, when we remove the restrictions at our end.

The events of 2025 are a nice illustration. We removed some restrictions, and billions of dollars flowed in to strengthen our financial system. And this is just one area. There are hundreds of such rules hindering activities across the border. It is in our interest to systematically identify and remove these frictions. When these constraints are reduced, the gains are substantial.

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Pre- and post-globalisation

I am a child of the pre-globalisation world. I reminisce about this at length in my book *The Rise of the Neo-Locals: A Generational Reversal of Globalisation*. In it, I discuss how during my 60-odd years, I have seen the world come full circle — from the time of my childhood when India's development vision was about self-reliance and investment in domestic manufacturing, to my early youth when the economy began to open up with the advent of World Trade Organization (WTO) and free trade, when export-driven globalisation became the gold standard for growth. And now, with the second coming of Donald Trump to the White House, the grand disruption of this trade order is well underway.



DOWN TO EARTH

SUNITA NARAIN

Tariffs have been weaponised. They are now tools for reconfiguring global trade and foreign policy. The trade order, built on the premise that manufacturing would move to places with lower labour costs and environmental standards, is set to be rejigged. The jury is still out on whether or not this will happen. But Mr Trump seems determined to have his way. He says manufacturing must return to the United States (US) to create local jobs and to regain control over the critical supply chains of medicines and high-tech computing power. Despite years of raking in money from the global trade order, where cheaper goods from foreign countries made it to the US shores, Mr Trump says his country was cheated and ripped off.

The question is: What do countries of the South do now? The fact is, while some countries like India have been juggling the global trading order with domestic priorities, many others have raced ahead, building economies on the consumption of others. Now, this order is being disrupted. What price does one need to pay to be a part of this 'Trump global trading club'?

For instance, as a condition for joining this club, Indonesia — home to large numbers of relatively poor people — has agreed to lift the ban on exporting nickel (a rare earth mineral) to the US, abandoning its efforts to localise its own wealth through value-addition. Furthermore, according to Mr Trump's social media post, Indonesia has agreed to buy fossil fuels — natural gas and petroleum — as well as agricultural commodities from the US. In return, it has received a slashed tariff rate, which it can use to promote exports on products that US consumers want.

The reason the US is managing to browbeat its way into these deals is the sheer size of its consuming class. The country — home to only 4 per cent of the world's population — gorges on household goods. According to data, the US accounts for roughly 30 per cent of global household consumption: It consumes double or more of what it produces and hence, faces a trade deficit. But it is also because of this gargantuan demand that countries are queuing up in submission. They desperately need and want a share of the US market for everything — from coffee to clothes to electronics and more. And this is what the Trump administration is counting on.

This scale of consumption of the US is not directly proportional to its economic wealth; it is not necessary that a country would become a US-style gobbler of goods just because it is rich. China, a close second economy and home to 17 per cent of the world's people, accounts for only 12 per cent of global consumption.

Decoding this consumption puzzle is important because this is a determinant of what our future will hold. The fact is that US-style consumption will not work in a carbon- and resource-constrained world. It is often said that if everybody was to live like an American, the world would need several more planets — and that is true. We also cannot discuss our way out of climate change without confronting the consumption-oriented economic model. At the same time, it is also clear that economic growth needs consumption of goods — this is what the game is about.

So, what is the way ahead? There are two parts to solving this consumption puzzle. First, and most importantly, focus on increasing the distribution of wealth within a country so that consumption is not about the wealth of a few, but about the well-being of the majority. The fact is as long as there is money in the hands of the poorest, they will become "consumers" of goods. Second, we need localisation of the economy — in other words, enable local production by the masses, not mass production for the locals (to paraphrase our favourite national hero, Mahatma Gandhi).

This should be the foundation of a modern, self-reliant economy. The more we grow from the bottom up, the more resilient our communities will become and withstand climate change shocks. The question now is whether we can build that new green future — one that sustains local production and livelihoods, but not by consuming the planet. This then is the challenge for 2026 and beyond.

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Export promotion

Market access schemes need to be backed by a coherent strategy

The Union government's ₹4,531 crore Market Access Support (Mas) scheme is a welcome step, particularly at a time when exporters are facing slowing global demand and disruption in key markets such as the United States (US). Its emphasis on buyer-seller meetings, trade fairs, reverse buyer delegations, and market diversification reflects an understanding that helping firms discover new markets, build visibility, and diversify from tariff-hit geographies is necessary. The scheme's explicit bias towards micro, small, and medium enterprises (MSMEs) is especially notable. However, an Exim Bank report shows that only about 1 per cent of MSMEs registered on the Udyam portal are exporting. Lack of information on overseas opportunities, weak buyer relationships, marketing challenges, and credit gaps remain binding constraints. In this regard, a mandatory minimum participation of 35 per cent of MSMEs in supported events lowers entry barriers and addresses a long-standing imbalance in export promotion that has favoured larger firms. But this is not sufficient. The Mas scheme does well to address the demand side of exports, that is, market discovery, networking, and promotion. What it cannot resolve are the structural supply-side constraints that are eroding India's export competitiveness.

It is increasingly evident that exporters' difficulties go beyond tariffs and anti-dumping or countervailing duties imposed over and above tariffs. The government's own reported responses to a Right to Information (RTI) application reveal that the high cost of domestic inputs and energy prices, the costs being 15-20 per cent above global levels, remains a concern. Multiple states have flagged the absence of accredited labs, forcing exporters to send samples across states, adding cost, time, and uncertainties. Logistics bottlenecks further undermine the gains from market access. Container shortages, high freight rates, and levies on empty containers, particularly for landlocked states, directly hit competitiveness. Here, Mas needs to be complemented by measures that address freight pricing, container availability, and inland connectivity. Regulatory friction compounds these challenges. Exporters have raised concerns about norms of the Bureau of Indian Standards being applied even when destination markets follow different standards, adding compliance costs without clear benefits. In such an environment, facilitating participation in overseas fairs risks becoming an exercise in marketing products that are already priced out of competition.

While the government deserves credit for sustained engagement with exporters and industry bodies, these consultations have largely focused on operational grievances rather than their being fed into a coherent, forward-looking export strategy. Further, schemes like the "Remission of Duties and Taxes on Exported Products" and "Rebate of State and Central Taxes and Levies", introduced to support exporters compliant with regulations of the World Trade Organization, are temporary and are extended for a few months at a time, often with last-minute notifications. Such temporary measures detract from policy stability and erode confidence. Seen against this backdrop, Mas risks becoming an enabling add-on rather than being a tool for enhancing competitiveness. To achieve export resilience, the policy response must be layered. Market access support should run alongside cheaper and more reliable inputs, lower energy costs, adequate testing infrastructure, smoother logistics, and regulatory alignment with destination markets.



ILLUSTRATION: BINAY SINHA



Why India-US trade deal is taking so long

Security dependence, not trade policy, explains Washington's speed with others, and why India is holding its ground

Why has India not yet concluded a bilateral trade deal with the United States (US), even as the two countries have quickly signed agreements with other partners?

In just the last four years, India has concluded eight trade agreements — with Mauritius, the United Arab Emirates, Australia, New Zealand, Oman, the European Free Trade Association bloc, the United Kingdom (UK), and members of the Indo-Pacific Economic Framework (IPEF), which also includes the US.

Washington has also signed quick trade deals with Japan, the European Union (EU), the UK, South Korea, Thailand, Vietnam and Malaysia in the past six months. So why is an India-US deal taking longer?

Two main reasons: One, most countries that have concluded rapid trade deals with the US depend heavily on Washington for their security. India does not. Two, the US-India trade talks go far beyond trade and extend into strategic and policy areas of interest to Washington.

These two factors make the negotiations complex and explain why a deal is taking longer than many expect.



AJAY SRIVASTAVA

The US as a security provider: Most countries that have quickly concluded trade deals with Washington share one key trait: They depend on the US for their security.

Japan and South Korea, for example, are formal US treaty allies hosting large numbers of American troops. Their trade ties with Washington are closely linked to security dependence, especially given threats from North Korea and China.

The same pattern exists in Europe. The UK remains one of America's closest strategic partners through the North Atlantic Treaty Organization. Much of the EU — particularly after Russia's invasion of Ukraine — relies heavily on US military power for deterrence. In such cases, trade negotiations are shaped by strategic alignment, and resistance to US demands tends to be limited.

A similar dynamic operates in Southeast Asia. The Philippines, bound by a Mutual Defence Treaty, has expanded US military access in recent years. Thailand, another treaty ally, also remains embedded in the US security framework. For these countries, trade deals are part of a broader geopolitical bargain rooted in security dependence.

India stands apart. It does not rely on the US for its security and cannot be pressured through military leverage. That strategic autonomy fundamentally changes the nature of trade negotiations.

China also does not depend on US security and holds strategic leverage, particularly in critical minerals such as rare earths, which are vital to US defence and high-technology industries. As a result, US-China trade deals, however tense, are never one-sided. Power balance forces negotiation, not compliance.

Indo-US trade talks: More than trade: Negotiations for a US-India trade deal began in February 2025, but they remain stuck because the talks go far beyond trade. Washington is pushing India to reshape key domestic policies to suit US interests — ranging from regulation and technology to energy and geopolitics.

The US wants India to buy more American oil and defence equipment, relax data and digital rules, and distance itself from Brics partners — especially Russia and China, which Washington sees as challenging the dominance of the US dollar.

The US is also pressing for unrestricted cross-border data flows, an end to taxes on digital services, and permission for American e-commerce firms to run inventory-based models instead of limited marketplaces.

The pressure has gone further. Washington has pushed for Starlink's entry into the Indian market to provide satellite-based internet services. The US has imposed an additional 25 per cent tariff on Indian exports in response to India's purchases of Russian oil. It has not imposed similar penalties on China — the largest buyer of Russian oil — or on the EU, which continues to import several Russian products. The US is using trade tools for political pressure.

The broader relationship has also come under strain. Senior US officials increasingly criticise India in public. H-1B visa fees have risen. Many Indian professionals now face sudden visa cancellations when they travel home, followed by long re-interview delays that leave their jobs and families in the US in limbo.

India, meanwhile, has already made significant concessions. Over the past year, its oil imports from the US have risen nearly 80 per cent. It has adjusted aspects of its nuclear liability framework and allowed Starlink to begin operations, despite concerns that unrestricted satellite access could weaken sovereign control in sensitive areas. India has also removed the digital transaction tax.

On trade access, India has shown flexibility. It is willing to eliminate tariffs on nearly 95 per cent of US industrial exports and lower duties on products such as almonds, apples and avocados. Yet Washington continues to push for unrestricted access for dairy and genetically-modified crops, including corn and soybeans — an issue deeply sensitive in India due to environmental, political and social concerns.

Next steps: Even though both sides remain silent, and no details are public, it appears that negotiators have reached the limits of compromise, and the deal now awaits President Trump's decision. The delay may be aimed at extracting further concessions from India.

India has already made many concessions. It should avoid offering more before an agreement is reached — otherwise, these will be absorbed and followed by new demands. However, India needs to make a clear choice on Russian crude. On January 4, President Trump warned that US tariffs on Indian exports could rise unless New Delhi halts purchases of Russian oil. While Indian refiners have signalled an intent to curb buying, Russian oil continues to flow, accounting for 7.7 million tonnes — or about 35 per cent of India's crude imports — in November.

With exports to the US down 20.7 per cent over the past six months, this strategic ambiguity is no longer cost-free. If India intends to exit Russian oil, it must do so decisively; if it plans to continue buying from non-sanctioned suppliers, it should state that openly and support the case with data; and if it chooses to buy even from sanctioned entities, that position too must be articulated clearly. As the tariff threat hardens, India must take a clean call on Russian oil — own that decision, and communicate it unambiguously to Washington.

Complicating India's calculus is the absence of any guarantee that cutting Russian oil will end US pressure. Even a complete halt to Russian oil could only shift the US demands to agriculture, dairy, digital trade, and data governance.

A trade deal makes sense only if it is fair and reciprocal. If the cost is strategic dependence or loss of policy space, waiting is the wiser option.

The author is the founder of GTRI



Fast-tracking infrastructure

Further reductions in delays are needed

The Pro-Active Governance and Timely Implementation (PRAGATI) platform has helped in accelerating the implementation of stalled infrastructure by digitally integrating project monitoring, inter-ministerial and Centre-state coordination, and resolution of a variety of issues pertaining to land and environment. The progress was reviewed in a meeting chaired by Prime Minister Narendra Modi last week. Since 2015, PRAGATI has helped over 3,300 delayed projects, worth ₹85 trillion. This matters because delays in public infrastructure continue to impose high economic costs. The data from the Ministry of Statistics and Programme Implementation for November last year showed cost overruns in centrally funded projects had widened by 22.2 per cent, pushing the revised costs to nearly ₹29.55 trillion and absolute overruns to ₹5.37 trillion across 823 ongoing projects. Such slippages are not just accounting problems. They lock up public capital, postpone economic returns, and weaken the growth impact, which infrastructure spending is meant to deliver. The reasons for these delays are well known and largely structural; much of this stems from land acquisition, which alone accounts for around 35 per cent of project delays, followed by environmental clearances at about 20 per cent. Right-of-way issues, shifting utilities, and inter-ministerial disputes add to the problem. At their core, these are coordination failures between the Centre and states, among ministries, and among regulators and executing agencies.

PRAGATI has shown that some of these failures can be overcome through sustained oversight. Its strength lies in combining real-time data, drone imagery, and video-conferencing to promote oversight, coordination, and problem-solving. Importantly, the platform has not functioned as a standalone review mechanism. It has worked in close coordination with other digital governance platforms such as PM Gati Shakti, which improves upfront planning and inter-agency coordination; the Proactive and Responsive Facilitation by Interactive and Virtuous Environmental Single-window Hub (PARIVESH), which streamlines environmental clearances; and the Project Monitoring Group (PMG), which ensures followups after decisions are taken. Together, these platforms with direct oversight from the Prime Minister's Office have helped loosen bottlenecks and move project management from being fragmented, paper-based processes to becoming a more integrated and time-bound system.

However, the persistence of large cost overruns suggests that oversight alone is not enough. The next step is to institutionalise its mechanisms beyond reviews so that faster decision-making becomes routine. This requires deeper state ownership, stronger digital capacity at the district and departmental levels, and stricter sequencing of approvals, especially ensuring prior environmental clearances through PARIVESH. Also, there is a growing push to broaden its mandate from tracking scheme outputs to assessing real outcomes. Scaling up social services nationwide demands infrastructure that is not only put in place but also maintained. This requires local implementing agencies to have sufficient funding, support, and capacity. The government has significantly increased capital expenditure in recent years. If the economy is to gain from higher capital expenditure, it is critical that projects on the ground are completed in time. Delays mean the government has to borrow more, which increases overall costs in several ways.

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TRUMP TO PUSH FOR 'RECIPROCAL TAX'



ILLUSTRATION: BINAY SINHA



Cloudy skies over US and EU trade deals

In both cases, India must prepare for worst-case scenarios



BEYOND IDEOLOGY
R JAGANNATHAN

At periodic intervals, Indian officials raise the possibility of a trade deal with the United States (US), and also a free trade agreement (FTA) with the European Union (EU). A briefing by the external affairs ministry a few days ago said that both deals were being actively pursued with the aim of concluding a fair, balanced and mutually beneficial agreement.

After the recent, speedy conclusion of trade deals with Oman and New Zealand, there may be a tendency to assume that both the US and EU deals could happen reasonably soon, especially the latter. After all, European Commission President Ursula von der Leyen and European Council President António Costa will be in New Delhi as guests of honour for Republic Day. What could be better than getting the deal initialled when they are here?

A few days ago, India's ambassador to the US, Vinay Kwatra, met Sergio Gor, the US ambassador to India, to push for an early trade deal. Chief Economic Advisor V Anantha Nageswaran said the deal was nearly done, but was perplexed by delays. Still, he volunteered that he would be surprised if it does not get done by the end of the financial year (i.e. by March 2026).

There is, actually, less reason for optimism on the US deal today thanks to one man: Donald J Trump. The US President has been changing the goalposts for India repeatedly. It started with a demand that India reduce its trade deficits by buying more from the US; then it became about acknowledging his alleged role in brokering a ceasefire with Pakistan last May; then it became about Russian oil; and two days ago he said it was all about India making him happy.

India would like a good trade deal with the United States of America, but what we are being forced to negotiate is a dubious deal with one vain man in the White House. That trade deal would not be worth the paper it is written on if Mr Trump's political fortunes start reversing as America comes to its constitutional senses, or even if he gets up in a different mood one fine day in the coming months.

Maybe these deals will happen soon, maybe they will get delayed. But India's policymakers, and especially the markets, would do well to assume that their conclusion may take time. It is time to prepare for worst-case scenarios, and not build national trade policies on a wing and a prayer. Doing a trade deal with Mr Trump, who currently rules by personal fiat and decree in defiance of constitutional norms, may not stand judicial scrutiny in his own country.

Both the US and the EU are going through massive internal political and economic convulsions, with different ideological lobbies seeking to tear each other apart.

In the US, the breakdown of the elite consensus after the election of Mr Trump, and his wayward behaviour for much of 2025, makes political consensus difficult. His own Maga (Make America Great Again) base is split between the realists, and the hard-boiled Right-wing ideologues who don't want any concessions to be made to India despite Big Tech's push on India's behalf, especially on H-1B visas and services. Despite being confirmed as US ambassador in October, Sergio Gor is yet to set up shop in India. Probably his biggest battles are in the US itself.

The Trump administration is battling the political fallout from the release of the Epstein files, where some details of Mr Trump's alleged close relationship with sex-trafficker Jeffrey Epstein were disclosed. Epstein was awaiting trial on charges of sex-trafficking of women and young girls when he apparently committed suicide in jail in 2019. The Epstein files do not only deal with Trump, but an entire category of politicians and businessmen who constitute the elite. The US Deep State needs the distraction of trade and other external conflicts to deflect public scrutiny from focusing too much on Epstein. Hence Mr Trump's focus on Greenland and his bashing of Venezuela, where the US behaved like a highway brigand, kidnapping a sitting President and his wife and shipping them to America for a taste of "American justice".

In Europe, which is busy shooting itself in the foot over Ukraine — it recently chose to permanently freeze Russian sovereign assets, thus dealing a blow to international confidence in its financial system — the Union is sharply divided between those who want to support Ukraine to the hilt, and those who do not want the war to continue endlessly, draining resources needed for growth and jobs. As Europe gets a taste of Mr Trump's ridicule and his threats regarding Greenland (which would be the first time a North Atlantic Treaty Organization leader had threatened another Nato member's territory), Europe is sounding increasingly unhinged about Ukraine. While Mr Trump is trying to get a deal with Vladimir Putin and penalising India for his failure there, Europe is promising itself that it will defend Ukraine to the bitter end, and ultimately may decide that someone else is to blame for its follies, just as Mr Trump decided India must pay higher tariffs because he could not get Mr Putin to end the war.

The future of both Nato and the EU is now in some doubt. In December, the EU was set to sign its biggest trade deal with the Latin American Mercosur bloc, but the deal was postponed by a month after Giorgia Meloni of Italy threw a spanner in the works at the last minute. The deal, if signed, would create one of the largest trade blocs in the world, tying the EU to Mercosur, which includes Brazil, Argentina, Uruguay, and Paraguay.

A deal that was negotiated in fits and starts over 20 years is still stuck in limbo, held hostage by internal rifts within the EU. Farmers in France, Poland and Italy are said to be the main roadblocks to the deal, though Ms Meloni is said to have assured Brazilian President Luiz Inácio Lula da Silva that she would sign up the minute she can get her farmers to agree. She could be separately trying to get more EU support for her farmers in order to remove her veto. But EU finances are strained in a climate of weak growth. In a union where voting weights are based on population sizes, a qualified blocking minority can stall decisions if four countries representing at least 35 per cent of the union's population decide to do so.

This is the US and EU context in which India is trying to get a trade deal, and one cannot assume that the EU collectively is more eager to get the deal done than America. Both are grappling with internal quarrels and opposition. They are fighting political wars within, and, as the political Right gets stronger in the EU, even the current limited political consensus will start looking weak.

India would do well to plan for worst-case scenarios. The crystal ball for big-ticket trade deals looks cloudy at the start of 2026.

The author is a senior journalist

07 Jan 2025



Align skills to reality

Adult Skills Survey will inform policy

The government's plan to conduct a nationwide Adult Skills Survey in 2026 marks a critical attempt to align India's skilling policy with actual workforce capabilities rather than assumed demand. The three-month survey is scheduled to be conducted after the first quarter of 2026, using the comprehensive modular survey framework, and it aims to map skill levels across basic, intermediate, and advanced categories. It should help address identified skill gaps in the workforce. The core objective is clear: To pivot from supply-driven skilling targets towards demand-aligned workforce capability assessment.

This exercise is timely, given that nearly three-fourths of India's workforce has only basic schooling, and graduate employability is just around 55 per cent, underscoring a glaring mismatch between workforce readiness and economic aspirations. By 2030, India's working-age population is expected to reach nearly 69 per cent of the total population, conferring a potential demographic dividend. The latest India Skills Report, produced by Educational Testing Service in collaboration with industry and academic partners, shows some progress: National employability has risen to 56.35 per cent for this year from 46.2 per cent in 2022. Digital fluency, artificial-intelligence (AI) integration, and hybrid work models have driven part of this improvement, with women's job-readiness surpassing men's for the first time. India also accounts for 16 per cent of global AI talent, projected to cross over one million professionals by 2027. India has emerged as a global leader in AI skill penetration, with AI increasingly viewed as a core requirement for most digital roles.

Yet these increments do not obscure the deeper disconnect between what skilling programmes promise and what the economy demands. No comprehensive assessment of adult skills has been conducted recently, leaving policymakers to work with partial evidence at best. Robust skill development is not only central to labour productivity and employability but essential in the context of evolving labour markets, automation, climate action, and digitisation.

Domestic oversight bodies have also flagged systemic weaknesses. A recent audit by the Comptroller and Auditor General identified execution inefficiencies, poor placement outcomes, and weak monitoring across flagship skilling schemes such as the Pradhan Mantri Kaushal Vikas Yojana, questioning whether certifications translate into meaningful employment outcomes. Against this backdrop, the Adult Skills Survey, if conducted with methodological rigour, could establish a baseline for workforce quality rather than merely tallying training certificates or enrolments. With granular data, policymakers can target regional imbalances, align curricula with industry demand, and incentivise firms to coinvest in skills. Regular iterations would further allow tracking whether reforms in education, vocational training, and labour markets are actually moving the needle. Ultimately, India's next chapter of economic growth will be defined by the level of the skilled workforce.



Impressive growth

Maintaining the momentum will be challenging

The first advance estimates (FAEs) of gross domestic product (GDP) for this financial year, released on Wednesday by the National Statistics Office (NSO), show that the Indian economy in real terms is projected to grow 7.4 per cent in 2025-26, broadly in line with market expectations. The Reserve Bank of India had projected a growth rate of 7.3 per cent for the current year. Since the economy grew 8 per cent in the first half of the year, growth is expected to be lower in the second half. Nevertheless, the projected growth of 7.4 per cent is impressive, given the odds, and is significantly higher than last year's 6.5 per cent. The high real growth is partly driven by low inflation. Nominal growth for the year is projected at 8 per cent. Nominal growth in FAEs attracts significant interest because it forms the basis for Budget calculations.

In absolute terms at current prices, the economy is projected to attain the size of ₹357.14 trillion, which is marginally higher than the level assumed in the 2025-26 Budget. Thus, there is no surprise here. However, containing the fiscal deficit at 4.4 per cent of GDP may still be challenging owing to tepid revenue growth. Since the government is slated to adopt debt-to-GDP as the fiscal anchor from next financial year, nominal growth will now attract more interest. The inflation rate is expected to move up in the coming quarters from its current lows, which should help improve nominal growth. In fact, it is worth highlighting that the NSO will release a new GDP series next month with a revised base. Reportedly, it will address some of the concerns raised by economists and analysts over the years about the current series. The statistics department will also release a new series for the consumer price index. Thus, overall, there could be significant changes in the way economic activity and prices are gauged in India.

However, irrespective of the change in the base year and the methodology used to measure GDP, it is not difficult to argue that next financial year could be more challenging. How the government intends to approach the year ahead will become clear in the Budget, due in a few weeks. The challenges are largely emanating from the external front. Despite months of negotiations, a trade deal with the United States (US) remains uncertain. Much will depend on how quickly a mutually beneficial agreement is reached. India is also hoping for an early closure of a free-trade agreement with the European Union. These two deals are extremely important. If the trade deal with the US is delayed, challenges could emerge on the balance of payments front, which is getting reflected in the pressure on the rupee. If India is at a significant disadvantage in exporting to the US, it could also affect foreign investment, both direct and portfolio. Foreign portfolio investors, for instance, sold Indian stocks worth over $18 billion in 2025.

One of the factors driving growth in recent years has been high capital expenditure by the government. While it is believed that moving to the debt anchor will give more flexibility in terms of the size of the deficit, it remains to be seen whether the level and growth in capital expenditure can be sustained. Further, on the domestic front, there are renewed signs of a reform push. More efforts will be needed to maintain the growth momentum next financial year.

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Budget 2026 must boost R&D activity

Innovative activity is widely recognised as a key driver of competitiveness and economic growth. Its importance has only increased in the context of the artificial intelligence (AI) revolution and the compulsions of net-zero. Hence, India's underperformance in gross research & development (R&D) expenditure (GERD) as a proportion of gross domestic product — stagnating at around 0.7 per cent, much lower than the global average of 1.93 per cent — has attracted much debate. Other countries like China spend a far higher proportion on R&D, at about 2.6 per cent.

The output indicators of innovative activity — for example, India's rank improving from 81st to 38th between 2015 and 2025 in the World Intellectual Property Organization's Global Innovation Index — present a more encouraging picture. Patents filed in India have also surged, from 24,326 in 2020-21 to 68,176 in 2024-25. ISID's India Industrial Development Report 2024-25 finds India's GERD to be underestimated and projects it at around 1.25 per cent — more respectable than 0.7 per cent, but still low.



NAGESH KUMAR

Another concern about GERD is that over 60 per cent of it is spent not by business enterprises, where it could help sharpen their competitive edge, but in government laboratories, including those run by the Council of Scientific & Industrial Research, the Defence Research and Development Organisation, and the Indian Council of Medical Research, among others. While mission-oriented R&D organisations such as the Indian Space Research Organisation have achieved considerable success, government laboratories often face challenges in commercialising their innovations.

The bulk of business R&D is conducted by a handful of large companies and is heavily concentrated in the pharma and auto sectors. Benchmarking the R&D activity of Indian firms against their global counterparts, industrialist and economist Naushad Forbes, in his column in this newspaper, makes a case for expanding business R&D activity by a factor of five.

The neglect of R&D activity by Indian industry is curious, especially given its role in driving competitiveness. This can be explained by the market failures inherent in innovative activity, which do not allow investors to reap the full rewards due to its public good-like nature.

Recognising the market failures and its strategic importance, governments in the United States and other industrialised countries spend billions of dollars on subsidies and R&D contracts awarded to national enterprises, including through agencies such as the Defense Advanced Research Projects Agency, NASA, and the National Institutes of Health. Public funding has been an important source of industrial innovation in Western countries; for example, Tesla received substantial support from the US government — in addition to tax credits and contracts — while developing its innovative electric vehicles.

Advanced countries also built an exception for R&D subsidies to the tune of 50 per cent of project costs in the World Trade Organization Agreement on Subsidies and Countervailing Duties, which debarred all other forms of industrial subsidies.

In India, until 2017, R&D activities in industry were encouraged mainly through weighted tax deductions at the rate of 200 per cent, and 150 per cent during 2017-2021. Since 2021, only a 100 per cent deduction is allowed. In 2024, the government established the Anusandhan National Research Foundation (ANRF) to mobilise ₹50,000 crore over five years to promote academia-industry linkages for high-impact research. In November 2025, the government launched the Research, Development and Innovation (RDI) Scheme with a corpus of ₹1 trillion to boost private sector-driven innovation, focusing on strategic sectors such as AI, quantum, energy, and biotech, by low-cost loans and equity through a two-tiered structure managed by the ANRF. The ANRF and RDI are clearly important and desirable initiatives to foster innovative activity. Yet, they need to be complemented by other incentives and policies to realise the Viksit Bharat and Aatmanirbhar Bharat visions.

The finance minister in the Union Budget 2026-27 may consider restoring 200 per cent weighted deduction for R&D expenditures. Weighted deductions provide greater freedom to firms for undertaking R&D to respond quickly to emerging market needs or other strategic considerations.

While the weighted deduction may be provided based on an audited statement, there could be a provision for reporting the activities undertaken under the scheme, the processes and products developed, foreign exchange saved or earned, patents filed, and licensing fees earned. This will ensure that tax benefits are not claimed as routine and that they actually lead to innovative activity.

Another policy to promote local innovation could be to protect minor innovations through the so-called petty patents, as practised in Japan, South Korea, Taiwan, and China. The patent system fails to encourage minor innovations because the criteria for inventiveness tend to look at novelty. India could consider adopting a petty patents regime that provides limited protection for three to five years to minor incremental innovations, especially those by micro, small and medium enterprises.

To sum up, therefore, the Union Budgets of the past few years have taken major initiatives to foster innovative activity. The 2026-27 Budget should build on these initiatives by restoring weighted tax deductions and creating a petty patents regime to foster incremental innovations needed to realise the Aatmanirbhar and Viksit Bharat visions.

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Expenditure review

Development needs a wider role of states

The Union Ministry of Finance (MoF) is reported to have asked all government departments and ministries to rationalise centrally sponsored schemes (CSS) and central sector schemes. The idea is to merge overlapping schemes and improve efficiency in implementation. The government runs 54 CSS and about 260 central sector schemes. While the merits of individual schemes may be debatable, it is reasonable to argue that the Union government runs too many schemes, which may be affecting outcomes. Therefore, a periodic review of schemes is necessary. As announced in the 2016 Budget speech, schemes have been aligned with the Finance-Commission cycle and their continuance is based on evaluation. Given that the exercise is being undertaken now, the government, particularly the MoF, would be well advised to examine each one of them carefully.

There are several arguments in favour of a close review, particularly in the case of CCS. One of the criticisms of the recent change in the rural employment guarantee programme under the new Viksit Bharat — Guarantee for Rozgar and Ajeevika Mission (Gramin) Act, 2025, which is a CSS, is that it puts an additional fiscal burden on states. State governments will need to shoulder 40 per cent of the expenditure. The previous scheme was a central sector scheme and largely financed by the Union government. Several states may not be in a position to increase expenditure. So, while CSS are designed by the Union, they are partly funded by state governments, and this curtails their fiscal freedom. As a result, states may not be able to spend on programmes they wish to pursue. This was also highlighted by the Reserve Bank of India (RBI) in its study of state finances. An observation in the December 2024 RBI study is worth quoting here: "... too many Central government schemes reduce flexibility of State government spending and dilute the spirit of cooperative fiscal federalism".

Thus, the rationalisation of CSS could improve the fiscal space, both at Union and state levels. This can increase overall expenditure efficiency. Further, Indian states are at different levels of development with varying requirements. What, for instance, needs to be done in the education sector may be very different in northern Indian states than in southern states. State governments are better equipped to deal with state-level challenges. Besides, there is often an unwarranted political tussle for credit in such schemes. Preferably, for better outcomes, most of the developmental and social-sector schemes must be designed and run by state governments because they are better-positioned to do so. Thus, there is a case for greater fiscal empowerment of states. State governments, in turn, should empower local bodies. However, as highlighted in this space earlier this week, this is not the case. It would be interesting to see how the Sixteenth Finance Commission has approached this issue.

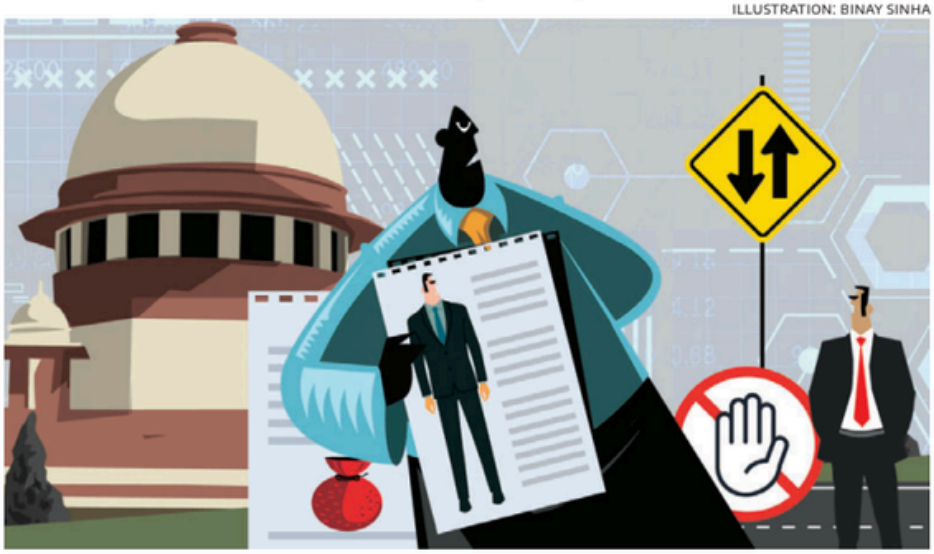
At a broader policy level, it is worth debating whether India should reconsider the allocation of fiscal resources to achieve faster growth and development. In this context, it is also necessary to discuss how state governments manage their finances. Several states have high levels of debt stock, but this is not stopping them from launching populist schemes. As a recent study showed, in some states, interest payments are growing faster than revenue. This is not a sustainable position. However, this should not be taken as a reason for not empowering states. What is needed instead are hard fiscal rules and transparent accounting of state finances. It is time for a wider expenditure review.



Enforcement: The real reform

In the financial sector, replacing existing regulations with new ones often adds costs without improving outcome

ILLUSTRATION: BINAY SINHA



No one would disagree that law enforcement in the country's financial sector needs significant improvement. What is not adequately appreciated is that effective, timely enforcement action with a deterrent effect against wrongdoers could, at times, obviate the need for regulators to mandate additional regulations and disclosure requirements. Meeting such additional regulatory mandates, which willy-nilly become uniformly applicable to all market participants, imposes costs on law-abiding market players and may not even improve enforcement.

Typically, a regulator handles several functions, regulatory and developmental — some mandated by law and some of its own creation. There could be varying views as to how to prioritise activities, given the capacity and resource constraints of the regulator. However, generally speaking, and in normal circumstances, the developmental roles take precedence. This encourages innovation and new initiatives in market development. Importantly, this also gives better visibility to the regulator, and sends out positive signals about its functioning.



AJAY TYAGI

As against this, the regulatory functions, viz, monitoring, inspection, investigation, adjudication and enforcement, are viewed as routine and mundane. What is lost sight of is that without having a robust and deterrent regulatory architecture in place, the development activities are of little use, and may, in fact, prove to be counter-productive at times. Before introducing any new initiative, the regulator ought to be sure of, and see through, how the concomitant enforcement requirements would be met.

First, to get an idea of the lack of adequate enforcement actions by the regulators, take the example of the securities market regulator. At any given time, the number of matters pending before itself, the tribunal, and the courts is mind-boggling. For instance, as at the end of FY25, the total number of cases involving the regulator pending before the Supreme Court and High Courts was about 500 and 850, respectively. Out of these, the cases pending for over three years in these courts were over 300 and 600. In addition, 450-odd cases were pending before the Securities Appellate Tribunal (SAT).

Even in cases that reach finality, the required follow-up action is missing. For instance, the recovery of imposed penalties is meagre — maybe only around 5 per cent annually of the total outstanding amount. As for criminal cases, forget about convictions, there are hardly any prosecution cases filed by the regulator. The enforcement department's resources are thinly spread over a large spread of cases. Resultantly, attention isn't paid to separating and prioritising important cases with wider ramifications from amongst all cases. No wonder the regulator's actions lack deterrence.

But then why single out the market regulator? The position of other regulators is likely to be no different. In the case of the central bank, it doesn't even bother to pass speaking orders in most of the cases, including the contentious ones. Further, the Reserve Bank of India's (RBI's) decisions aren't appealable before any tribunal or special court. Some are challenged as writ petitions before the high courts and the Supreme Court, which, besides delaying the final outcomes, only adds to these courts' case burden.

The discussions on the need to streamline and simplify financial sector regulations are never-ending. Even the 2024-25 Budget talked of a light-touch regulatory framework based on principles and trust. To have a better appreciation of the actual situation, it may be useful to get a sense of the environment in which a regulator operates, and how it typically behaves in emergent situations.

Greed and fear drive the financial markets. Human ingenuity has no limits. The meek enforcement record encourages risk-taking by some, who also misuse technological advancements. The antics of market participants keep the regulator on its toes. In such a scenario, firefighting various situations remains the major activity. Lo and behold, if any episodic event affecting a large number of stakeholders happens, hell breaks loose. The regulator comes under fire from all quarters, including the media, government, and the courts. Knee-jerk solutions become the flavour of the day. The result is more regulations. The risk-based supervisory principle goes out of the window. Oversight gets tightened, and all regulated entities, irrespective of their size or differentiation, get saddled with additional disclosure and regulatory requirements. The possible downside of such actions, including that they may go against the "ease of doing business", gets overlooked.

The financial sector regulators rely a lot on the disclosures made by market participants in discharging their regulatory functions. This is premised on the "caveat emptor" principle, i.e., let the purchaser beware. This argument also suits the regulators. Often, mandating more and more disclosures gives them a sense of a job well done. The regulatory impact assessment or cost-benefit analysis remains more on paper. Of course, more disclosures do not automatically imply better enforcement!

The answer to many of these problems lies in effective enforcement of the existing regulations, creating a deterrent impact. Passing a quasi-judicial order is not an end in itself. It must pass through the tests of the tribunals and courts, and be implemented. Typically, the statute constituting a regulator prescribes both civil and criminal penalties. The criminal prosecution of offenders in a court of law requires a lot of effort on the part of the investigation wing of the regulator, as the cases there need to be proved beyond "reasonable doubt", as against the principle of "preponderance of probability" in civil proceedings. No wonder then, the performance of regulators in successfully prosecuting offenders is simply dismal. Decriminalisation of corporate laws is a step in the right direction. But what about serious offences for which criminal prosecution is the right course of action to deter and prevent reoccurrence?

Take the case of insider trading in the securities market. There hasn't been any conviction to date in any insider trading case in the country. Anyone who believes that there aren't serious enough insider trading cases deserving criminal action is living in denial.

While writing a regulation, examining its relevance over time, and substituting it with other regulations is an obvious and continuous activity, this job needs to be taken very seriously. At times, the cause of the ineffectiveness of a regulation may lie in its poor implementation. In such a case, substituting the existing regulation with a newer one may be of no use. The right way is to delineate serious law infringement cases, and ensure timely and effective action against the offenders. Prescribing additional or new regulations may be an easier option for the regulator, but may not address the problem.

The author is a former chairman of Sebi.
The views are personal

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SFBs: Looking for innovation

While small finance banks are solvent and working well, we need to ask if there has been a breakthrough in stretching the inclusion agenda beyond MFIs

ILLUSTRATION: AJAYA KUMAR MOHANTY



It has been a decade since the process of licensing small finance banks (SFBs) was announced. In terms of staying power and survival, SFBs have done much better than other banks. Following the reforms of 1991, the Reserve Bank of India (RBI) was open to licensing private-sector banks and multiple licences were issued. In all 14 licences for universal banks were given in three tranches. Of these, from the first tranche of 10 banks, three were merged with other banks. In the next two rounds of four licences, one bank had serious problems with its business model and the moral fabric.

Similarly, after the announcement of new local area banks (LABs) in the Budget speech of 1996, 10 in-principle licences were issued over five years. Only six of them commenced operations and two quickly folded up. Of the remaining four, only two exist, one having successfully transitioned to an SFB and the other ceasing operations.

Along with those for SFBs, eleven in-principle licences were issued for payments banks. Of those one has got an in-principle licence to transition to an SFB and just four remain. The RBI is not issuing any further licences to payments banks and LABs.

Considering the somewhat patchy success of other categories of banks, SFBs have been remarkably successful. All in-principle licences were operationalised. Fincare SFB voluntarily merged with AUSFB in the normal course, without a crisis. Later two more SFB licences were issued. In these years there was no existential crisis for any SFB.

However, it is useful to see how SFBs have done vis-à-vis the objectives enunciated in the guidelines. Therein may lie some "survival" strategies that trump the intended objectives.

The draft guidelines issued by the RBI on July 17, 2014, envisaged setting up "small" banks, with restricted but contiguous areas of operations, to get a local feel. The intent was focused geographical growth and deepening financial inclusion. By November 27, 2014, the guidelines were modified to set up small "finance" banks, with unrestricted areas. The guidelines stated "preference will be given to those applicants who in the initial phase set up the bank in a cluster of under-banked States/districts, such as in the North-East, East and Central regions of the country". The regional focus in the original guidelines became a suggested "preference" in the final guidelines. The final guidelines had other requirements — that banks would lend 75 per cent of their adjusted net bank credit (ANBC) to the priority sector, and 50 per cent of the books would comprise loan sizes of less than ₹25 lakh.



REPROSPECT

M S SRIRAM

One of the explicit objectives of the SFBs was the "provision of savings vehicles primarily to unserved and underserved sections of the population", apart from credit through technology-led low-cost operations.

The shift from "small" banks to small "finance" banks happened based on the feedback received by the RBI from the microfinance lobby, most of which already had pan-Indian operations and were looking to convert themselves into banks. The developmental imperative was trumped by viability and profitability, indicating a practical shift in position.

How have the SFBs fared on the objectives in the guidelines? More than 99 per cent of the accounts are for loans of less than ₹25 lakh. They represent around 75 per cent of credit limits approved as of March 2025. If we were to look at the numbers even more closely, around 92 per cent of the accounts have a ticket size of less than ₹2 lakh. The average ticket size of the loans is the smallest, even smaller than the ticket size of regional rural banks (RRBs), which are state-owned, on the inclusion parameter. In terms of focus on the central, eastern, and northeastern regions, SFBs have done much better than the banking average. While RRBs have fared better in the central region, the SFB numbers in the Northeast is nothing short of spectacular, possibly because one of the licensees is from the Northeast. In fact, this raises the question on whether the original design of "small" banks with a regional focus would have been better. But that is a bridge we have crossed. Overall, on credit, the objectives have been more than achieved.

However, on deposits, SFBs do not have much penetration in the household sector. Almost 45 per cent of their deposits come from institutions, including financial institutions. On the other hand, the RRBs get 93 per cent of their deposits from households. Even within the household sector, deposits from women are significantly lower than in RRBs and the number is comparable to the deposits raised by public-sector banks.

Based on these numbers we can say that SFBs have done well on the inclusion parameters on credit, something eight of the 10 SFBs used to do in their earlier avatar as microfinance institutions (MFIs). They have not been able to integrate the inclusive customers (particularly women) meaningfully in the savings programme. Instead of bulk loans from banks, these institutions in their new avatar are taking bulk and expensive deposits from institutions. It, therefore, has a paradoxical balance sheet, where the asset side leans heavily on inclusion, and the liability side leans towards institutional deposits.

So the question is — even as the institutional viability and solvency continues, did the SFBs achieve anything significantly better than their earlier avatar as MFIs? There is no significant out-of-the-box breakthrough on savings, particularly when benchmarked with RRBs, and there is no significant difference in the pricing of the loans in comparison with MFIs. Therefore, while the SFBs are solvent and working well, we need to ask if there was a breakthrough in stretching the inclusion agenda beyond MFIs by creating a new category of banks.

In this context, when the RBI recently reduced the requirements of priority-sector obligations from 75 per cent of ANBC to 60 per cent, one wonders if the regulator is pulling the SFBs towards being universal banks rather than pushing inclusion. That the RBI has not cracked a whip on the inclusion parameters vis-à-vis savings is understandable because it does not want any adventures on savings. However is the SFB model distinct from that of MFIs? This is a question to ponder.

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Fearsome five headwinds

For a country facing multiple headwinds, India looks oddly relaxed. The stock market still hovers near record highs. Shopping malls are busy. Interest rates are stable. Sales of cars and bikes are rising. High-end property sales are strong. To investors and policymakers, this feels like smooth sailing. That confidence could be misleading. Beneath the surface, India is entering a slower phase — one defined by five forces. These are high government debt-to-GDP (gross domestic product), a slowing domestic revenue engine, lower household savings, and a more hostile geopolitical environment, all of which will lead to populist politics. India has managed each of these forces separately in the past. But together, they threaten to undo the growth narrative on which today's optimism rests.



IRRATIONAL CHOICE

DEBASHIS BASU

Debt-to-GDP

The finance minister (FM) has declared that reducing the debt-to-GDP ratio will be her core priority. According to the International Monetary Fund (IMF), India's debt-to-GDP ratio is above 80 per cent of GDP, which includes the combined debts of the central and state governments. But how will the government reduce debt? According to several fiscal estimates, four fixed overheads — salaries (around 28 per cent), pensions (15 per cent), interest on the existing debt (25 per cent), and subsidies and welfare (15 per cent) — together absorb more than 80 per cent of government revenues, leaving little room for debt reduction. In a recent meeting with the Prime Minister, economists argued for reducing capital expenditure (capex) to cut debt. But since government capex has been the single-most important engine pulling the economy for the past three years, what will happen to GDP growth if government capex is cut? We are indeed between a rock and a hard place.

Slower revenue growth

Debt would not have been a problem if India's revenue base were robust. But after three years of growth, India's main revenue engine is losing momentum. In December, net collection from goods and services tax (GST), the most reliable real-time indicator of economic activity, grew only about 2.2 per cent. Underneath this headline, nearly half of India's states are stagnating or shrinking. Big consumption states such as Tamil Nadu, Kerala, and Madhya Pradesh have recorded declines. What is propping up the aggregate number is a narrow set of manufacturing and logistics hubs that benefit from import-linked taxes and integrated GST (IGST) settlements. Refunds are rising. Consumption is no longer driving revenues the way it should in a healthy, expanding economy. A government that wants to reduce debt cannot do so on a revenue base that is slowing down.

Lower household savings

India's growth model depends on domestic savings. For decades, households provided a deep pool of capital that funded government borrowing, corporate investment, and bank lending. But household financial savings have fallen from around 10 per cent of GDP to barely 7 per cent. This is an ominous sign. Household savings are down because employment is sluggish and real wages are stagnant. This is also borne out by slow mass-consumption growth.

Geopolitics

The fourth force is external, and one that has blindsided India the most. When Donald Trump came to power, a section of Indians in the United States (US) and in India celebrated, banking on his friendship with the Indian Prime Minister. But Mr Trump has turned out to be a nightmare for most countries. While many of them have managed to negotiate their way out of high import duties, India is one of the few large economies not to have secured a durable trade accommodation with the US. India's exports of roughly $50 billion to the US have faced mounting pressure. Mr Trump has also upped the ante enormously, and is no longer seen as all noise and no action. He ordered that the Venezuelan President be picked up and brought to the US to face trial; next, he is planning to annex Greenland, and has Canada, Colombia, and Mexico in his crosshairs. He has backed proposals to impose extremely high tariffs on countries importing Russian oil, which would include India. Meanwhile, Indian policymakers have remained confident about free-trade agreements and export opportunities outside the US. They look increasingly naïve in the face of Mr Trump's willingness to use coercion for economic ends. He has publicly mocked the Indian Prime Minister and shown little patience for strategic niceties. India, unlike China, lacks the scale, leverage, and financial firepower to absorb such blows.

Domestic populism

When growth slows and jobs disappoint, the response is rarely fiscal prudence. It is populism. Subsidies, loan waivers, cheap credit, and public hiring are the tools through which Indian politicians buy stability and win elections. The Eighth Pay Commission looms, which will push fixed overheads even higher. Cutting debt, as the FM wants to do, is sensible. Competitive politics makes it extremely difficult. For example, while the Reserve Bank of India (RBI) has cut policy rates by 125 basis points and is signalling easier monetary conditions, government-backed small-savings schemes continue to offer high, tax-advantaged returns, limiting the ability of banks to pass on rate cuts.

Put together, these five forces will reduce economic growth, given that India is not becoming significantly more productive or more export-competitive. For the government, slower growth will hurt revenues, constrain spending, and keep debt and interest payments high, leading to further borrowing. Companies will continue to shy away from expansion. For households, it will mean suppressed wages, slower consumption and savings, and rising borrowings. None of this is yet fully visible in India's headline numbers, but the signs are emerging. India is heading into a period in which the margin for error has vanished.

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Fed under fire

Undermining the institution can have serious consequences

It is not usual for heads of large central banks to make unscheduled appearances or statements. If they do, even at short notice, it's a clear sign that things are not normal. United States (US) Federal Reserve Chairman Jerome Powell's statement on Tuesday is worrying for financial markets and policy managers across the world. Mr Powell said that an investigation was being conducted into his June testimony before the Senate Banking Committee. The statement was related, in part, to the renovation of the Federal Reserve office buildings. This is being seen as yet another direct attack on the US central bank. "The threat of criminal charges is a consequence of the Federal Reserve setting interest rates based on our best assessment of what will serve the public, rather than following the preferences of the President," noted Mr Powell in this statement. These are strong words for someone like him, but underscore the seriousness of the underlying issue.

Although US President Donald Trump has claimed he is unaware of this, it is no secret that he wants to take control of the Fed. Mr Trump has made several statements over time against the Fed and Mr Powell for not fulfilling his wish of substantially reducing interest rates. He had also contemplated the possibility of removing Mr Powell, but could not proceed because of legal hurdles. Besides, he tried to remove another Fed governor, but she remains in her position, and the case is now before the Supreme Court. Mr Trump has also nominated the chairman of his Council of Economic Advisers to the Fed's Board of Governors, which is unusual and has raised questions about the central bank's independence. The idea clearly was to influence the Fed's decisions.

Mr Trump will likely be unable to do much damage as long as Mr Powell is in office. However, his term ends in May, and what happened this week is a clear signal for the new chairperson. No announcement has been made in this context yet, but there are no prizes for guessing that someone willing to toe the President's line will be nominated. Although the processes of the central bank may not allow the new chairperson to immediately do what Mr Trump wants, things could begin to change over time, extending beyond policy interest rates to possibly the way banks are regulated. An attack on the Fed's independence is a real risk not only for the US but for the whole world. The US has the most liquid and deepest financial markets, with the dollar by far being the most preferred currency for international transactions and reserve holdings.

The dollar's position in the international market not only reflects the size of the US economy but also the strength of its institutions, particularly the central bank. If the Fed's position is compromised, it could lead to enormous volatility in global financial markets. In fact, like most of Mr Trump's policy choices, his expectations, even in this case, are confusing and contradictory. He threatens anyone looking for an alternative to the dollar, but is doing exactly what will force other countries to move away from it. Internally, for the US economy, attacks on the Fed's independence could de-anchor inflation expectations with longer-term consequences. There is an inherent conflict of interest in governments having a say in monetary policy. For a country like India, undermining the Fed and resultant global financial-market volatility will only complicate external financial management. This seems like a critical year in the history of central banking. All eyes are on the Fed.



The prospects for faster growth

While the economy is well poised, key macro numbers and structural constraints continue to weigh

ILLUSTRATION: BINAY SINHA



T N NINAN

Successive years of rapid economic growth have encouraged commentators to suggest that the economy may at long last be on a higher growth track. This is because growth in the last five financial years (2021-26), taking into account the advance estimates for the current year, averages a handsome 8.1 per cent — the best on record.

But this number should be seen in context. The latest five-year record is on the back of a depressed base, because the economy had shrunk in the Covid year, 2020-21. If one takes the pre-Covid year (2019-20) as the base, growth in the latest six years has averaged a less flattering 5.7 per cent. That is slower than the growth record of the previous 19 years, from the turn of the century to the pre-Covid year, a period that averaged 6.5 per cent growth.

The key question is how much of the latest growth record represents recovery from the 2020-21 downturn, and what is the sustainable growth rate now. Some published growth forecasts for next year hover around the 6.5 per cent level. On that basis, looking at the three-year cycle (2024-27), growth would average 6.8 per cent. That is the same as in the first term of the Modi government. This suggests that there is as yet no marked increase in the sustainable growth rate.

Going beyond the headline growth numbers (which in any case raise questions about data quality), one needs to look at several other numbers to understand the economic situation. For, at most times in earlier periods, one or other economic indicator was often out of kilter. Either inflation was high, or the trade deficit was large, as was the fiscal deficit, or banks and companies had troubled balance sheets. In contrast, the economy today has been characterised as being in a Goldilocks phase, with low inflation, balanced trade, a reduced fiscal deficit, and with bank and corporate balance sheets in their best-ever shape.

Yet key macro numbers suggest caution. The fiscal deficit at 4.4 per cent of gross domestic product (GDP), while on a declining trend, is higher than the average for the Modi government's first term (3.6 per cent) — perhaps because of an investment push and also reflecting more honest accounting! But public debt too remains high, though on a declining trend. At 81 per cent of GDP, it does not provide headroom for counter-cyclical fiscal action if the economy suffers a downturn. Meanwhile, savings and investment rates (critical for growth) are lower than earlier. Gross fixed capital formation has been put at 30 per cent of GDP for the current year. This is lower than the average of 34 per cent for eight years to 2012-13. The number dipped below 30 per cent in 2015-16 before rising above that threshold in 2022-23. Meanwhile, the share of merchandise exports in economic activity has reduced over time. That is usually a contra-indicator for faster growth.

If one wants data to support a growth-ascendant narrative, one has to look to other numbers. Critically, the country may transition in the current year from the "medium" to the "high" category on the United Nations' Human Development Index, having progressed from the low to medium category two decades ago. This reflects sustained improvement in education levels, life expectancy and incomes, but note that there is also a "very high" index category that encompasses over 70 countries.

When it comes to economic management, tax rates (corporation tax, income tax, goods and services tax) are now more reasonable than before. The digital public infrastructure that has been put in place and gained wide usage should improve system-wide productivity. So too should the massive investment in physical infrastructure, which has speeded up goods movement on both road and rail (though paradoxically, it has negatively affected the sales of commercial vehicles!). Many sectors have benefitted from reform, like real estate; and manufacturing may at last be getting some momentum, led by the electronics sector. The recent free trade agreements should also yield some benefits down the road.

The structural constraint most frequently mentioned is consumption, whose sluggish growth has held back private corporate investment (capital goods output has grown the slowest among industrial segments). The good news at the bottom of the income ladder is that there has been a sharp drop in the absolute poverty numbers, but this may not translate into much consumer demand, especially since employment has shifted towards, rather than away from, an already over-populated agriculture.

Higher up the income ladder, consumer debt is at a high point. Household financial liabilities doubled in the two years to 2023-24, from ₹8.99 trillion to ₹18.79 trillion. These liabilities used to be about a quarter of household financial savings; that ratio has gone up to a third. This will weigh against future consumption growth because of the pre-emption of income streams by loan repayment obligations. Already, there is slower growth in many sectors. Railway passenger traffic in particular has been on a slow track, with net passenger kilometres showing virtually no growth over a full decade (despite the proliferation of Vande Bharat trains).

One is not surprised, therefore, when the chief executive of a leading consumer goods company tells an interviewer that he is focused on the top 20 per cent of consumers because that is where the growth is. But even airline traffic grew only 11 per cent over five years to 2024. The surge in the number of airports is a poor indicator of aviation activity.

The underlying issue is that there hasn't been enough of a structural change in the economy since the launch of reforms in 1990-91, despite per capita incomes multiplying nearly five-fold. Industry accounted for a quarter of GDP then, as it does now. The share of agriculture has declined, with crop yields in many cases well below world standards (necessitating a high level of tariff protection, bedevilling trade negotiations). The service sector has become the largest chunk of the economy, but much of it remains in the unorganised part of the economy. Gig employment is not a substitute for proper jobs.

A productivity uptick depends critically on three structural changes that are yet to happen: A substantially bigger manufacturing sector, greater formalisation of the economy, and rapid urbanisation. There is as yet not enough evidence of any of the three. If anything, urbanisation may have slowed down. While many things have improved in recent years, much work remains to be done before the economy can gain significant momentum.

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Responsible growth

India must ensure data centres are sustainable

India last year witnessed a surge in investment by global technology giants. Amazon committed more than $35 billion to India through 2030 across artificial intelligence (AI)-driven digitisation, exports, and job creation. Microsoft has announced $17.5 billion over four years for Cloud, AI infrastructure, and skilling, its largest investment in Asia, while Google is investing $15 billion to build in Visakhapatnam its biggest AI and data-centre hub outside the United States. Meta, meanwhile, has partnered with Reliance to build enterprise AI platforms and is exploring a 500-megawatt data centre in Andhra Pradesh. A large digital consumer base, low-cost data, and robust digital public infrastructure are driving such investments. Regulatory measures such as the Digital Personal Data Protection Act have strengthened perceptions of policy stability.

India's data-centre industry is witnessing an increasing level of activity with facilities coming up in Mumbai, Chennai, Pune, Hyderabad, Bengaluru, the National Capital Region, and now Visakhapatnam. These centres are not just warehouses for servers; they are complex, energy-intensive facilities that require uninterrupted power, advanced cooling systems, fibre-optic connectivity, and subsea cable links to global networks. They significantly raise electricity and water demand. Thus, the design choices made in these early projects, around power sourcing, cooling technologies, and water reuse, will be a factor in whether India can scale up AI infrastructure without creating environmental problems. Google's Vizag project, involving partners such as the Adani group and Bharti Airtel, illustrates how hyperscale investment can catalyse local ecosystems spanning renewable energy, telecom infrastructure, and specialised engineering services. The employment and capability effects are also significant. Google's Andhra Pradesh hub alone is expected to generate nearly 180,000 direct and indirect jobs. Global capability centres (GCCs) are also evolving into hubs for innovation. According to EY's GCC Pulse Report 2025, 92 per cent of leaders say GCCs now play a value-creation role, with generative AI increasingly deployed in customer service, finance, operations, and cybersecurity.

The fact that American firms are deepening their commitments despite recent United States-India friction reflects confidence in the country's long-term trajectory and its strategic importance. India's production of over 1.5 million engineering graduates annually and its share of more than 20 per cent of the workforce for global semiconductor design reinforce this appeal. The opportunity, however, comes with clear responsibilities. Data centres need to be preferentially located in regions where renewable power is abundant and grid integration is easier. Alternatives to water-intensive cooling, including air-based, liquid immersion, and closed-loop systems, need to be scaled up, particularly in water-stressed regions. Global best practices offer useful lessons in this context. Nordic countries run data centres on near 100 per cent renewable energy while repurposing waste heat to warm homes and buildings. It is also important to balance capacity by splitting demand between large hyperscale facilities and smaller data centres, reducing pressure on single locations. Sustained investment in skilling, higher education, and research & development will also be essential if India is to move up the AI value chain.

13 Jan 2025



Signing free-trade deals is not enough

Free trade agreements (FTAs) are often presented as quick wins for trade and growth, promising lower prices for consumers and new markets for exporters. In practice, economic gains arise only under specific conditions. Success hinges not merely on tariff reductions, but on whether agreements induce sustained changes in production, investment, and competitiveness.

India is in one of its most active phases of trade diplomacy. It has concluded FTAs with the UAE, Australia, the European Free Trade Association (EFTA), the United Kingdom, New Zealand and Oman; negotiations with the United States are reportedly nearing completion, discussions with Canada have resumed, and region-wide talks with the European Union, the Gulf Cooperation Council and the Eurasian Economic Union continue. This push reflects India's effort to secure market access, attract investment and integrate more deeply into global value chains (GVCs) amid geopolitical uncertainty and supply-chain realignments.



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Experience shows that not all FTAs are created equal. Their economic logic lies in trade creation — replacing high-cost domestic production with lower-cost imports from partner countries, which generates welfare gains. Trade diversion, by contrast, merely shifts imports from more efficient non-members to less efficient partners and reduces welfare. Judging FTAs by bilateral trade balances misses this distinction; the real test is whether they promote trade creation.

FTAs between countries with different factor endowments typically yield larger gains. Agreements with high-income countries create natural complementarities, with India exporting labour-intensive goods and services while importing capital- and technology-intensive products. Such arrangements have greater trade-creation potential than FTAs among countries with similar production structures, where competition often dominates complementarity. Realising these gains, however, depends on the economy's ability to reallocate resources towards sectors of comparative advantage, which in turn requires flexible factor markets.

India's mixed experience with FTAs reflects these realities. Its withdrawal from the Regional Comprehensive Economic Partnership (RCEP), despite being a lead negotiator, was driven largely by concerns over trade deficits and import surges rather than by an assessment of trade creation versus trade diversion. Similarly, low utilisation rates and asymmetric outcomes under FTAs with the Association of Southeast Asian Nations (Asean), Japan, and the Republic of Korea are often viewed through bilateral trade balances and export shortfalls. While this has prompted reviews and renegotiations, it reflects a largely mercantilist framing. From a trade-creation perspective, these outcomes may stem as much from domestic supply-side constraints and limited adjustment capacity as from weaknesses in FTA design.

Signing an FTA is only the first step; effective use is another matter. While comprehensive utilisation data is scarce, available evidence suggests that India's FTA usage remains low, largely due to stringent rules of origin (RoO). Intended to prevent misuse, these requirements often undermine FTAs by raising compliance costs above tariff benefits, prompting firms to trade instead under most-favoured nation tariffs.

India's recent FTAs adopt a particularly strict approach to RoO, driven by fears of circumvention, even though evidence suggests that actual misuse has been limited. More importantly, such stringency makes little economic sense in GVC-intensive sectors, where restrictive rules discourage participation in cross-border production networks and undermine FTAs' potential to deepen integration into global manufacturing and services chains.

Low utilisation also reflects small preferential margins and limited firm awareness. International evidence suggests many enterprises are unfamiliar with how to claim FTA benefits, and in India the absence of firm-level surveys makes it difficult to assess this gap and to design targeted interventions.

Beyond trade-policy design, the effectiveness of FTAs depends on the broader domestic policy environment. Exploiting new trade opportunities requires flexible labour and land markets, yet long-standing rigidities in India have constrained specialisation and resource reallocation. While the four labour Codes are steps in the right direction, uneven implementation across states may limit their impact, and long-pending land reforms continue to constrain manufacturing expansion and large-scale investment.

Facilitating foreign direct investment is a crucial complement to FTAs. Multinational firms are better equipped to meet stringent standards in advanced markets and can help integrate domestic suppliers into GVCs, generating technology and knowledge spillovers. Without a supportive investment climate and deeper domestic reforms, however, these dynamic gains are unlikely to materialise.

India's FTA strategy must shift from headline signing to effective implementation and utilisation. This requires publishing utilisation data, simplifying and harmonising RoO, strengthening mechanisms to address non-tariff barriers, and modernising Customs administration. While newer-generation FTAs increasingly cover labour, environment, data and sustainability, caution is warranted when such provisions become de facto market-access conditions, as harmonising standards across countries with vastly different levels of development can impose disproportionate adjustment costs on developing economies.

India's renewed push for FTAs aligns with its Foreign Trade Policy 2023, which emphasises competitiveness, facilitation and GVC integration. But FTAs are only a stepping stone: They can open doors, yet real gains will depend on domestic reforms that enable firms to compete, adapt and grow.

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15 Jan 2025



Hidden risks of India's hedged external debt

The recent real depreciation of the Indian rupee has been widely welcomed by commentators. The dominant narrative is comforting: A weaker real exchange rate improves export competitiveness, supports manufacturing, and provides a growth impulse amid global uncertainty. It is also argued that depreciation helps offset higher external tariffs faced by Indian exporters. In this view, the depreciation is not a problem but an opportunity. This narrative, however, overlooks an important aspect: The impact on borrowers of foreign currency debt. Ignoring it risks an overly comfortable macroeconomic interpretation and an underappreciation of key policy challenges.

India's total external debt exceeds $700 billion, with close to two-thirds owed by private financial institutions and non-financial corporations. A depreciation of the rupee raises debt-servicing burdens in domestic-currency terms. Assessments of vulnerability typically emphasise three mitigating factors: Borrower hedging, the adequacy of foreign exchange reserves, and the fact that external debt, at roughly 18-19 per cent of gross domestic product (GDP), is low by international standards.



PRASANNA TANTRI & SARATH RAMAKRISHNAN

These assumptions warrant closer scrutiny. Hedging is often treated as full insurance against currency movements. When borrowers claim to be largely hedged, it is commonly assumed that the rupee cost of servicing foreign currency debt will not rise with depreciation. In practice, plain vanilla hedges are expensive. Borrowers, therefore, adopt cost-reducing strategies that provide protection only up to a point while assuming risk beyond that point. Premiums earned from selling protection offset the cost of buying protection, and in some cases the notional amount of protection sold exceeds that purchased, creating non-linear exposures.

A simple example illustrates the risk. A borrower buys options that cap rupee depreciation at 2 per cent, at a cost of 2 per cent of the loan amount. To reduce this cost, the borrower sells insurance on twice the loan amount against depreciation beyond 3 per cent, earning a premium of 1 per cent. The net hedging cost falls to 1 per cent, and the borrower remains protected as long as depreciation stays below 3 per cent. If the rupee depreciates by, say, 7 per cent, however, the insurance sold is triggered as well. Because the notional value of protection sold exceeds that purchased, losses on the sold positions dominate, and the borrower incurs net losses despite being classified as hedged. The risk is amplified further when borrowers sell multiple contracts for every one purchased.

These strategies rely on an implicit assumption about central bank behaviour — that the Reserve Bank of India (RBI) will prevent sudden exchange rate moves while allowing gradual adjustment. When the rupee depreciates sharply over a short period, this assumption can fail. A move of more than 5 per cent raises concerns that embedded thresholds have been breached, leaving borrowers exposed precisely when currency risk is most severe. The problem is compounded by the fact that many external liabilities are hedged through the dollar rather than directly against the rupee, exposing borrowers to cross-currency basis risk when global dollar conditions tighten.

The broader implication is clear. Without detailed information on the structure, scale, and trigger points of hedging strategies, it is difficult to assess borrowers' true exposure to exchange rate movements. Current disclosures lack the required granularity. As a result, even borrowers reported as hedged may incur significant losses when the rupee depreciates sharply.

What, then, of the comfort drawn from India's large foreign exchange reserves and external debt-to-GDP ratio? Reserves help prevent a balance-of-payments crisis by ensuring access to foreign currency at the aggregate level. They cannot prevent borrower losses or distress if depreciation is sudden and large. Access to forex does not eliminate balance-sheet stress.

This matters because roughly one-third of external borrowers are financial institutions. India's experience with the IL&FS default in 2018 and the subsequent non-banking financial company crisis is instructive. A localised default triggered a sharp loss of confidence, widespread rollover failures, and a contraction in credit supply, pushing GDP growth below 4 per cent in 2019. The global financial crisis of 2008 offers an even starker reminder of how distress in financial institutions can propagate into a broader macroeconomic crisis.

These dynamics are directly relevant in the context of external borrowing. A rapid depreciation that undermines hedges can impair balance sheets and trigger funding stress even without balance-of-payments pressure. It is, therefore, important that the central bank assess these risks carefully, including through internal stress tests of sharp currency depreciation over short horizons.

This analysis does not argue for maintaining an artificially high exchange rate. The appropriate role of the RBI is to smooth excessive volatility and prevent disorderly movements, using reserves to buy time for exporters, importers, and borrowers to adjust. At the same time, a deeper assessment is required to understand why the rupee is depreciating in real terms. If the movement reflects structural weaknesses in the tradable sector, monetary policy cannot address them. Exchange rate management can create space and reduce short-term risks, but restoring competitiveness lies elsewhere.

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Weak animal spirits

Strong balance sheets are not leading to higher investment

Unlisted companies in India are financially stronger than they have been in decades. An analysis of the Centre for Monitoring Indian Economy (CMIE) data, published in this newspaper, showed their debt burden was at a 35-year low, with high interest coverage and healthy profits. These firms, which account for a large share of output, employment, and private investment, include many large, wealthy enterprises such as family-owned industrial groups, infrastructure companies, and Indian arms of global multinationals. Many clearly have the balance-sheet capacity to borrow and invest far more than they currently do. Yet, where these firms are borrowing, it is often to refinance older loans rather than expand capacity. If firms with strong profits, low leverage, and easy access to credit are unwilling to take risks, the problem clearly lies beyond finance.

An analysis by Icra, released earlier last year, covering 8,000 unlisted companies alongside 4,500 listed ones, shows that unlisted companies are mainly responsible for the slowdown in overall private capex. This caution is, however, not confined to unlisted companies. Across corporate India, profits are strong but investment appetite is weak. Non-financial companies are sitting on cash worth around 11 per cent of their assets. They are increasingly earning from passive sources rather than from core business activities. The share of passive income, including capital gains and other non-operating income, has nearly doubled over the past decade. Among large non-financial firms, the share of physical assets such as plants, machinery, and projects under construction has steadily declined, while financial assets have risen. In other words, profitable firms are choosing to park surpluses in financial markets rather than deploy them in factories, infrastructure, or new capacity.

This behaviour marks a sharp contrast with India's earlier investment slowdown. During the 2010s, growth was held back by the twin balance-sheet problem — over leveraged companies and stressed banks. Today, corporate balance sheets are clean, banks are well capitalised, non-performing assets are low, and credit is readily available. However, private investment remains hesitant. Several factors explain this. Demand remains uneven. Urban consumption has softened, rural recovery has been slow, exports are muted, and cheap imports, especially from China, have squeezed margins in some sectors. Notably, companies will invest only if they expect sustained returns, not just strong short-term profits. Further, a growing number of business heirs appear comfortable managing wealth rather than expanding capacity. Besides, usual problems remain. Delays in land acquisition, environmental clearances, and litigation can lock up capital for years. Against this backdrop, buoyant capital markets have made financial investment look safer and more rewarding than investment in the real sector.

With private investment slow to revive, the burden of sustaining economic momentum has fallen disproportionately on the government. Public capital expenditure, particularly in infrastructure, is doing much of the heavy lifting. However, this cannot continue for very long. The World Bank estimates that to reach high-income status by 2047, India needs to raise investment to around 40 per cent of gross domestic product. That seems impossible without a decisive revival in private capex. The challenge now is not incentives or credit availability but restoring confidence in demand, policy stability, and execution.



Pundits stumbled badly in 2025

There's no shortage of forecasts for 2026, but 2025 shows why we should treat them with scepticism

ILLUSTRATION: BINAY SINHA



A New Year has begun. With it come forecasts for what we might expect this year. We need to view these forecasts with more than ordinary scepticism.

Forecasters, in general, have a terrible record; in 2025, they stumbled badly in multiple areas. Just look at what the pundits — economists, military analysts, foreign policy experts and others — predicted during the year or what they failed to foresee. What follows is a limited sample.

Trump's tariffs and US economic growth

Last April, the International Monetary Fund (IMF) forecast growth of 1.8 per cent for the United States' gross domestic product (GDP) in 2025 and 1.6 per cent in 2026, down from 2.8 per cent in 2024. Last October, it revised its forecasts to 2 per cent and 2.1 per cent, respectively. As everybody now acknowledges, the apocalypse that was forecast for the US ain't happening.

Economists are now trying to explain away their misses. The increase in tariffs has not been as high as feared earlier — as though an increase in the weighted average tariff from just under 3 per cent to around 17 per cent is not bad enough. Exporters frontloaded their exports to the US — surely, this should have been anticipated and built into forecasts? The artificial intelligence (AI) boom has obscured weaknesses in the economy — well, US GDP growth of 4.3 per cent in the third quarter of 2025 was driven by consumer spending and exports, not business investment.

The real shocker for economists is that the setbacks to the US economy as a result of Donald Trump's tariffs don't seem to be materialising in 2026 either, going by current forecasts. Goldman Sachs forecasts US GDP growth of 2.8 per cent for 2026!

India's GDP growth in FY26

President Trump announced his Liberation Day tariffs last April, with a "reciprocal tariff" of 25 per cent on India. In August, he slapped an additional 25 per cent punitive tariff in response to India's imports of oil from Russia. Last April, the Reserve Bank of India revised its GDP growth forecast for FY26 downwards to 6.5 per cent, from the 6.7 per cent forecast earlier. Following the punitive tariff of August 2025, some private agencies said India's GDP growth could fall below 6 per cent.

Nobody could have imagined that in a year in which Indian exports to the US faced tariffs of over 50 per cent for more than half the financial year, India's GDP growth would be 7.4 per cent, higher than the previous year's 6.5 per cent. Now, many agencies see growth momentum being maintained in FY27 at 7-7.5 per cent.

Note that no economist or agency had given India any chance of attaining growth of over 7 per cent over a four- or five-year period without it meeting the well-known laundry list of reforms: A fiscal deficit close to 3.3 per cent, privatisation, speedier land acquisition, an overhaul of agricultural laws, hire and fire on a much bigger scale than even the latest labour Codes promise, among others.



FINGER ON THE PULSE

T T RAM MOHAN

Anti-Indian sentiment in the US

When Mr Trump won the elections in 2024, it was assumed that the India-US relationship would move to an even higher trajectory. The way the relationship has unfolded since has come as a shock to the establishment.

Pundits used to say that, whatever the equations between the two governments at any point, the people-to-people relationship between India and the US was an underlying positive. That no longer seems true. It appears that anti-India sentiment in the Trump administration is an aspect of a wider anti-Indian sentiment in the Maga (Make America Great Again) community.

Several elements have contributed to the souring of sentiments towards Indians. The misuse of H-1B visas intended for highly skilled persons to ferret out low-cost labour is one factor. The very success of Indians in different walks of life is another: On social media, Americans ask whether the US needs Indians to head corporations such as Microsoft, Google and IBM; and whether a Vivek Ramaswamy is American enough to run for high office. Non-resident Indians flaunting their religiosity have evoked angry responses: An 85-foot statue of Hanuman in Texas, the noisy celebrations of Indian festivals in prominent suburbs, etc. No pundit saw the negativity towards India or the Indian community in the US coming.

Pakistan's resurgence on the world stage

Pakistan was in the doghouse when Mr Trump returned to office last January. Its resurgence in the world of diplomacy in 2025 was truly remarkable.

Following the Pahalgam massacre and the Indo-Pak skirmish of last May, Pakistan did not quite draw any international condemnation. On the contrary, it used the skirmish to restore itself in Mr Trump's favour by, among other things, repeatedly giving Mr Trump credit for bringing the hostilities to an end. Thereafter, Pakistan's army chief, General Asim Munir, was welcomed twice to the White House, perhaps a unique first for any serving general.

In late 2025, the US approved a $686 million package for Pakistan for maintenance and upgrades of F-16 aircraft. Pakistan also signed a mutual defence pact with Saudi Arabia, something that could not have happened without Washington's blessings. Pakistan's Prime Minister Shehbaz Sharif claims with some justification that Pakistan is on good terms with three major powers, namely, China, Russia and the US. The turnaround in Pakistan's international standing has left foreign policy experts bewildered.

Israel's dominance of West Asia

On October 7, 2023, Hamas launched a surprise attack on Israel. A brutal response from Israel followed. In late 2024, Israel extended its operations in a bigger way in Lebanon. Commentators warned that Hezbollah was not Hamas; it had more than 100,000 missiles at its disposal and had the capacity to raze Israel's cities. PM Benjamin Netanyahu was leading Israel towards disaster.

What the pundits did not know was that Israel had accumulated intelligence on Hezbollah hideouts for its personnel as well as its missiles. Israel proceeded to decapitate the Hezbollah leadership and decimate 80 per cent of Hezbollah's missile capabilities. The militia is today a pale shadow of its former self.

In December 2024, a new front opened in Syria with a rebel outfit moving to topple the Assad regime in days, with the help of Israel and Türkiye. Last June, Israel and the US attacked and substantially incapacitated Iran's nuclear facilities. Pundits, who had warned that Israel's PM Netanyahu had over-extended himself, had to eat their words. Israel's dominance of West Asia increased in 2025.

There is no dearth of forecasts for 2026. The Epstein files will prove Mr Trump's undoing (perhaps already proved wrong). Venezuela will turn out to be Mr Trump's quagmire (looking dicey even now). The Republican Party will lose badly in this year's US polls, the AI bubble will burst, the full effect of tariffs on inflation in the US will be felt in 2026 (hmmm).

In *Intellectuals*, a lengthy diatribe against the cerebral types, historian Paul Johnson writes, "A dozen people picked at random on the street are at least as likely to offer sensible views on moral and political matters as a cross-section of the intelligentsia.... beware intellectuals." For "intellectuals" one might well substitute "experts".

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Exporting problems

China's record trade surplus ensures global turmoil will continue

Official statisticians in China have announced that the export superpower's trade surplus hit a record $1.2 trillion in 2025. This is in spite of several headwinds, including domestic weaknesses, faltering global growth, and, of course, the new administration in the United States (US) clearly targeting Chinese exports. Most of the time, this might be seen as a sign of resilience on the part of an economy. But this is not one of those times. It is in fact an indicator of weakness at the top of the leadership in Beijing — an unwillingness or inability to restructure the country's economy in a manner that would provide long-term stability, resilience, and growth for both themselves and the world.

China's growth model ran out of steam some years ago. It is designed around state-directed investment and exports and financed by financial repression, in which households and workers save more than they need to and are forced by the state-controlled financial system to pass on the excess to the government. This investment-heavy and consumption-poor model necessitates a surplus of savings — which in macroeconomic terms almost guarantees a giant trade surplus. Beijing has had ample opportunities to address this, but it would require genuine political and economic reforms at home. Local governments and large state institutions would lose power when they no longer have excess savings to draw on. The private sector would grow in power, and the communist party's subjects would have more economic agency as householders and workers. They might even come to think of themselves as controllers of their own destiny rather than as recipients of the benefits of a state-run model. This would hardly be in the interests of the people who run the system. And thus it has repeatedly responded to successive crises through stimulus without rebalancing — pushing capital back into the creaking pipelines that once shored up its growth.

As a consequence, China is stuck on a treadmill. It must keep running and growing exports ever faster in order to squeeze out ever smaller amounts of growth. The consequences for international politics and for global development of this failure to reform have been severe. Populist politics has arisen in the US and elsewhere in the West as one consequence of it, destabilising the global trading system. Meanwhile, the natural ladder of development — in which countries climb up the value chain and then leave space for those poorer than them to take over low-end manufacturing — has been broken. China continues to dominate across the entire gamut of factory output, instead of leaving some for its poorer competitors. Left to itself, Chinese capital would flow out of the country to create competitors for its own exports. But regulations do not permit that to happen. Meanwhile, its own domestic demand remains subdued, and its consumers are not allowed to spend what they earn on global goods — the natural form of rebalancing.

This cannot and will not continue forever. It is in the nature of imbalances to lead to crises. US President Donald Trump's tariff war is one such crisis, although its effect has not been to force China to change its ways but merely to find mechanisms to divert its trade and covertly access Western markets anyway. The coming year will unquestionably see the multiplication of such crises, including in the developing world. This process will continue until the Chinese Communist Party changes course.

16 Jan 2025



Rethinking affordable housing

Reforms in land, finance and rental market needed

India's challenge in urban housing does not stem just from inadequate access to credit or home-ownership schemes. Cities are failing to create conditions where it is economically viable to build affordable homes, pushing households into informal settlements, long commutes, and higher debt. A new NITI Aayog report on affordable housing attributes this collapse in supply to high land costs, restrictive planning norms, weak rental markets, regulatory delays, and the withdrawal of fiscal incentives. Resultantly, affordable housing has become a high-risk, low-return proposition for both developers and financiers. Over the past decade, the segment has attracted less than 8 per cent of flows into residential private equity while foreign funds accounted for just 10.2 per cent of inflows into the segment.

The recent data from Knight Frank and the National Real Estate Development Council (Naredco) underline the severity of the problem. Across India's top eight cities, the supply-to-demand ratio for homes priced below ₹50 lakh went down to 0.36 in the first half of 2025 from 1.05 in 2019. Meanwhile, the share of affordable housing in new supply has hit 17 per cent, plunging from over 50 per cent in 2018, signalling a structural retreat by real-estate developers from the segment. The shortage in urban affordable housing is estimated at 9.4 million units, with cumulative demand from economically weaker sections (EWS), lower-income groups (LIGs), and middle-income households projected to reach 30 million units by 2030.

The NITI Aayog's proposals amount to a long overdue reset in the affordable housing policy. At the centre is the suggested revival of Section 80-IBA of the Income-tax Act, which, between 2016 and 2022, allowed developers a full tax exemption on profits from approved affordable-housing projects. Bringing it back would improve project economics and restore a degree of policy certainty, which private developers have sorely missed. The report also recommends exempting from tax rental income and capital gains for affordable housing real-estate investment trusts (Reits), a step aimed at drawing institutional capital into a segment starved of long-term funding. It also suggests allowing the National Housing Bank (NHB) to issue tax-free bonds with funds channelled into concessionary lending for housing for EWS and LIGs, alongside a new long-term fund backed by the NHB and Housing and Urban Development Corporation. It also backs mandatory inclusionary zoning, requiring 10-15 per cent EWS/LIG housing in large residential and commercial projects. Additional measures include waivers on stamp duty and registration charges, exemptions on change-of-land-use charges, and incentives tied to using at least half the permissible floor area ratio for affordable units. Crucially, the report calls for treating rental housing as residential rather than commercial, with lower electricity and water tariffs.

Yet policy design is only half the battle. The success of these reforms will depend on implementation by states and cities. From 3D printed homes in Kenya to community engagement and collaborative financing models in Nepal, global best practices highlight that varied strategies can be scaled up to make housing affordable. Utilising public land for public housing projects, rationalising norms on the floor space index (FSI), investing in transport and infrastructure in peripheral areas, and building credible, technology-enabled housing data systems should complement the proposed incentives.



India's invisible AI boom

By most official measures, India's productivity story looks calm. Output per worker rises slowly; wages inch up; efficiency appears steady. If these numbers were all one looked at, it would be reasonable to assume that the way work gets done in India has not changed very much.

That assumption is becoming harder to defend. Inside offices, call centres, software teams, and government departments, work is moving differently. Decisions are taken faster. Drafts are completed sooner. Errors are caught earlier. Coordination takes fewer rounds. None of this shows up clearly in gross domestic product (GDP) or labour productivity data. And yet, it is impacting everyday work.



NISHANT SAHDEV

India's headline productivity numbers barely register this change. There is no sudden jump in GDP. Wages have not surged. Labour productivity statistics show little sign of an "AI dividend." To many observers, this seems to confirm a familiar suspicion — that artificial intelligence (AI) is being oversold. That conclusion may be too quick. The problem may not be AI. The problem may be how productivity is measured.

Most productivity metrics were designed for an industrial economy in which intelligence was scarce, slow, and closely tied to human labour. Output rose when firms hired more workers, installed more machines, or extended working hours. AI does not fit neatly into that model. It delivers cognitive assistance without adding labour or time in the usual way. As a result, many of its effects pass through organisations without appearing clearly in the statistics.

This puzzle is not unique to India. In the United States, labour productivity growth has averaged around 1–1.5 per cent a year for more than a decade, with no obvious acceleration even after the widespread release of generative AI tools in late 2022. This is striking because adoption has been unusually fast. By 2024, nearly a third of US workers were already using generative AI at work.

High adoption, modest productivity growth — that tension now sits at the centre of the global AI debate. Look more closely, however, and the picture becomes less puzzling. At the level of individual tasks, AI's impact is often substantial. Field experiments in customer support show average productivity gains of around 14 per cent, rising to over 30 per cent for newer or less-experienced workers, while response quality improves, error rates fall, and employee attrition declines. Studies of management consultants report faster task completion and smoother coordination.

These are meaningful gains, but they rarely translate into higher measured output. Firms use them to shorten turnaround times, reduce training costs, standardise responses, and smooth internal workflows. The number of calls handled or reports billed often stays the same. Output appears flat. Work changes underneath.

India is already seeing this pattern. Large IT services firms report 20-30 per cent reduction in coding and testing time in selected workflows using generative AI. Yet billed effort and overall revenue growth remain subdued. Faster delivery is absorbed into fixed-price contracts, margin protection, and quality control rather than expanded output.

From the perspective of national accounts, little seems to happen. The reason is fairly simple. AI mostly saves time, not labour. It speeds up drafting, searching, debugging, summarising, and decision-making. Productivity statistics, however, are built to capture changes in output per hour worked, not changes in how quickly uncertainty is resolved or coordination improves.

There is another blind spot. Productivity analysis focuses on averages. AI's most consistent effect is on variation. Lower-performing workers tend to improve the most. Error rates fall. Outcomes become more predictable. For firms, reliability and consistency often matter as much as higher average output. Official statistics barely shows these takes.

Economic history offers a reminder. In the early decades of electrification, productivity growth remained weak because factories initially used electric motors as direct replacements for steam engines. Only when production was reorganised around electricity did productivity surge, decades later. In 1987, economist Robert Solow observed that computers were visible everywhere except in the productivity data. The computer-driven productivity boom arrived only in the late 1990s, once organisations adapted.

AI appears to be following a similar path. It is altering work faster than it is boosting measurable output. For India, this matters. The country's growth strategy increasingly depends on digital public infrastructure, services exports, and the productivity of its large working-age population. AI is already present across these domains. But its early gains will mostly appear as faster workflows, fewer errors, and tighter coordination, not as immediate jumps in output per worker.

AI is unlikely to announce itself through a dramatic spike in GDP. It will arrive more softly, through small changes that accumulate over time.

The real risk is not that AI will fail to transform India's economy. The risk is that it already is — while our measurement systems continue to look the other way.

The author is a theoretical physicist at the University of North Carolina at Chapel Hill, US. His forthcoming book is called *Last Equation Before Silence*



ILLUSTRATION: BINAY SINHA



Alcohol regulation and the revenue trap

An optimal state policy must go beyond a revenue-hungry, punitive regulatory regime

To usher in 2026, alcohol consumption remained a centrepiece of festivities, with an estimated consumption of 12 to 15 million cases in India. In parallel, it took a near doubling of police deployment on the roads to bring about a 37 per cent drop in drunk-driving cases in Mumbai alone that night.

Governance of alcohol — its manufacture, distribution, sale, and taxation — remains one of the most fraught areas of public policy, sitting at the intersection of public health, social morality, and fiscal necessity. For an Indian state, the challenge is perpetual and profound: How does one responsibly manage a commodity that is simultaneously a major source of revenue and causes significant social harm?



AARTHIKAM CHINTANAM

K P KRISHNAN

The necessity for state intervention in the alcohol market begins with basic economics. Alcohol consumption is a classic case of *negative externalities*. The costs associated with consumption — public disorder, traffic accidents, domestic abuse, loss of productivity, and strain on public healthcare systems — are borne not just by the consumer, but by society at large. The price paid by the consumer in the market, therefore, does not reflect the true social cost of the good. Left entirely to the market, there will inevitably be over-consumption, leading to suboptimal social outcomes.

This foundational market failure calls for state intervention to internalise these social costs and mitigate the negative externalities. However, this imperative must be tempered by two considerations.

First, alcohol is not in the category of goods like heroin that call for complete prohibition. Its consumption, in moderation, is a matter of personal choice in most societies. Hence, the public policy goal should be not to ban, but to secure *informed and responsible consumption*.

Second, available limited state capacity must be judiciously deployed — for general law enforcement and ensuring public safety, supervising education, and healthcare. Therefore, the regulatory architecture for alcohol must be simple, efficient, and self-executing, relying more on price signals and structural controls and less on constant, intrusive surveillance.

The primary tools available to states to achieve informed and responsible consumption fall into two categories: Non-price regulation and taxation.

Non-price regulations aim to control the context and accessibility of consumption. These include setting a robust *minimum age for consumption* and implementing rigorous, community-participatory *locational policies* to protect vulnerable populations and sensitive public spaces.

However, taxation — excise duty — is where the real complexity lies. In India, the power to regulate and tax alcohol resides squarely with the states.

Across Indian states, excise duty has grown into a major revenue source especially post-good and services tax (2017). Its share in total own-tax revenue of states now ranges from negligible levels in prohibition states to as high as 30-35 per cent (Puducherry), with many larger states now in the 15-25 per cent range.

In terms of economic size, excise collections constitute close to zero in prohibition states but rise up to around 1.5-2 per cent of gross state domestic product (GSDP) in high-dependence states such as Chhattisgarh and Telangana. Most other states fall between 0.5 per cent and 1.2 per cent of GSDP. Importantly, this fiscal pattern marks a sharp increase over the last 7-8 years, as the introduction of GST significantly reduced the number of independent tax instruments available to states, resulting in a steady structural shift towards greater reliance on non-GST sources, especially alcohol excise to maintain revenue buoyancy.

This creates the fundamental policy conflict: The need to reduce negative externalities versus the financial pressure to maximise tax revenue. The principled answer lies in shifting the state's objective from maximising revenue to *optimising revenue*. Optimisation means setting the tax rate not to fill a budget deficit, but to achieve a specific public policy outcome — internalising the negative externality.

The theoretically sound solution lies in applying the Pigouvian principle, namely to align the excise duty with the estimated economic value of the negative externality from alcohol consumption. Research and international best practices demonstrate that the most effective way to implement this is by fixing excise duty in *direct* proportion to the alcohol content of the beverage. This moves away from the confusing and arbitrary taxation based on the price of the beverage or category, and targets the source of the social risk — the ethanol itself. A high-alcohol spirit is taxed proportionally higher than a low-alcohol beer, creating a clear price signal that encourages consumers to choose beverages with lower alcohol content, thereby promoting responsible consumption.

Available evidence clearly demonstrates that India's current excise taxation structure is inverted, with lower-alcohol beverages taxed more heavily than higher-alcohol spirits when measured per unit of ethanol. On an average, beer is taxed 30-70 per cent higher per unit ethanol than whisky, reinforcing the argument that India's current alcohol taxation regime does not follow a harm-based or alcohol-content framework; instead, it structurally penalises lower-strength beverages while comparatively favouring higher-strength spirits.

Beyond taxation, the regulatory framework must be streamlined to ease compliance and improve consumer safety. The safety and standards of alcoholic beverages are already within the purview of the Food Safety and Standards Authority of India (FSSAI). State governments should align their production regulations with these established FSSAI standards. This alignment would allow for joint enforcement mechanisms, significantly easing the compliance burden on the industry, which currently faces overlapping and often conflicting demands from multiple state departments and central bodies.

Going forward, the new regulatory and taxation framework should, therefore, consist of five integrated elements:

1. The tax structure must be based solely on alcohol content in beverages.
2. Complete alignment with FSSAI standards for safety and quality.
3. Strict enforcement of locational norms (away from educational/religious sites) and minimum drinking age.
4. Easing and removal of all other arbitrary restrictions (like licence caps or production limits) to allow the market to determine efficient production and distribution.
5. The State steps back from acting as a revenue maximiser and focuses exclusively on its appropriate role as a regulator and guardian of public health.

By transitioning from a revenue-hungry, punitive regulatory regime to a principled framework that leverages optimal taxation and clear, targeted regulation, states can better reconcile their competing public interests.

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Export preparedness

States also need a focused approach

The NITI Aayog's recently released "export preparedness index" (EPI), 2024, is an attempt to measure how ready India's states are in participating in global trade. The index benchmarks preparedness across four pillars — business ecosystem, export infrastructure, policy and governance, and export performance — using a wide set of indicators ranging from the depth and logistics efficiency of micro, small, and medium enterprises (MSMEs) to regulatory capacity and diversification. The exercise is meant to shift attention from the headline export numbers to the underlying conditions that enable firms to compete internationally.

It rightly highlights India's uneven export performance. A handful of states dominate trade flows. The numbers are striking. Gujarat, Maharashtra, and Tamil Nadu together account for roughly 56 per cent of India's exports, with Gujarat alone contributing close to 30 per cent, led by petrochemicals and gems and jewellery. Their success clearly rests on long-term investment in ports, industrial corridors, and special economic zones, combined with policy stability and administrative capacity. Beyond this, the report points to encouraging signs of diversification. Haryana's exports, driven by automobiles and auto components, have been relatively insulated from swings in commodity prices. Telangana has built momentum in high-value sectors such as pharmaceuticals and aerospace. Odisha, long seen primarily as a mineral exporter, has begun to strengthen its position through industrial expansion. Himachal Pradesh recorded an export growth rate of about 9 per cent in 2023-24, largely on the back of pharmaceuticals, which now account for nearly 70 per cent of the state's exports. These examples suggest that export capability can broaden when infrastructure, policy focus, and firm-level capacity align.

The other side of the picture is also equally clear. States such as Bihar, Jharkhand, and Chhattisgarh, along with several Northeastern states, remain in the lower tiers of export preparedness. Weak logistics, limited industrial depth, thin MSME ecosystems, and regulatory bottlenecks continue to hold them back. At the level of districts, concentration is even more pronounced. The top 100 districts account for nearly 88 per cent of India's exports, and around 70 of these are clustered in just eight states. Large swathes of the hinterland remain disconnected from global markets, despite having latent advantages in agriculture, textiles, labour-intensive manufacturing, or niche products.

Although overall export competitiveness is shaped by macroeconomic and geopolitical forces, which lie well beyond the reach of state governments, it is local conditions that determine who is able to export when opportunities arise. Firms experience competitiveness through the reliability of power supply, the quality of roads to the nearest port, the speed of regulatory clearances, access to testing and certification facilities, and the availability of credit and skilled labour. These are precisely the areas where state- and district-level policies matter. Studies like these can help identify gaps and enable states to take advantage of export opportunities. Although the external environment has been clouded by the unfair tariff imposition by the United States, India is working on trade agreements with several other trading partners, including the European Union. Trade agreements will help only if India is prepared to tap emerging opportunities. States have a big role in this regard.

22 Jan 2025



Five things to watch this year

This is not a prediction piece. The aim is to discuss the top five issues that are likely to dominate economic discourse this year.

Trading ties: India and the European Union (EU) are expected to finalise the free trade agreement (FTA) next week. Even if certain sensitive sectors are left out of the FTA, it will be a big breakthrough for both sides. However, there is still no clarity on the trade deal with the United States (US), which has imposed prohibitive tariffs on India, partly for importing Russian oil. The US is India's largest trading partner, and a delay in the agreement will hurt the Indian economy. Besides goods trade, the deal also has a bearing on foreign direct and portfolio investments. Foreign selling in the stock market, for instance, over the past several months has put significant pressure on the rupee. Further, it would be worth watching whether India can substantially reduce overall tariffs, which, economists argue, is necessary to boost exports sustainably. Since India is open to signing big FTAs, including with the EU, dropping tariffs in general should now be relatively easy.



REAL TERMS

RAJESH KUMAR

Fiscal focus: Starting next financial year, the Union government will shift to targeting the debt-to-gross domestic product (GDP) ratio. Presumably, the shift from targeting fiscal deficit to debt will provide more flexibility in managing government finances. India's general government debt, at over 80 per cent of GDP, is high, and bringing it down to a more manageable level will require significant adjustments and a much smaller fiscal deficit. It is worth noting that financial markets would need to adjust to the possibility that the fiscal deficit may not decline to, say, 3 per cent of GDP over the medium term as many had expected. In other words, the supply of government bonds, which has been a concern in the market, may not decline significantly. The shift will need to be communicated carefully. It is also not clear at this stage whether states will be given similar flexibility in fiscal management. Debt stock in some states is at worrying levels and needs deeper policy attention.

Improving indicators: In the coming weeks, the statistics department will release new series for GDP, the consumer price index (CPI), and the index of industrial production. The weighting of food in CPI is expected to decline considerably, which should make it more stable and predictable. The new CPI will be of particular interest for monetary policy. The new GDP series is expected to address several weaknesses in India's national accounts that economists have highlighted over the years. A new series with broader coverage and improved methodology will present a better picture of the economy and benefit all stakeholders, including India's policy managers. However, the new series will be released after the presentation of the Union Budget on February 1, and may require revisiting Budget assumptions if the size of the economy is adjusted based on new numbers. Thus, the revision could have been better planned to avoid such a situation.

Fed under fire: There is considerable concern in global financial markets, and among other stakeholders, about the independence of the US central bank. In an unprecedented development, Fed Chair Jerome Powell has been threatened with criminal charges. Mr Powell termed it a consequence of not following President Donald Trump's preferences. While the administration's action has been condemned by many, including former Fed chairpersons and Republican members of the Senate Banking Committee, it is an open question as to how long the Fed will be able to hold its ground. Mr Powell's term ends in May, and someone willing to toe Mr Trump's line will likely be appointed. The Fed is the most powerful and consequential central bank in the world. If its ability to act independently is seen to be compromised, financial markets could slip into volatility of a kind that may be difficult to even describe. The US has the largest and most liquid financial markets, and the dollar is the world's most important currency. As things stand, 2026 could be a defining year for the Fed and for the history of modern central banking.

Boom or bust: 2026 could also prove to be an important year for artificial intelligence (AI). Billions of dollars are being spent on building AI capabilities. According to one estimate, annual investment in AI applications is expected to top $1.5 trillion by 2030. However, the revenue flow from AI investment thus far has been underwhelming. Reportedly, some of the investments are being financed by borrowed funds through complicated instruments. However, if investor enthusiasm wanes and valuations begin to correct, it could have a potentially destabilising effect on global financial markets and the economy. According to one estimate, AI-related investments contributed more than consumer spending to US GDP growth in the first half of 2025. Some commentators believe there is a massive bubble in AI, and that its bursting could lead to a bigger crisis than the global financial crisis of 2008. Although nothing can be said for sure, interest in this area will increase in the coming months.

While India and the world will watch how some of these issues unfold, the person likely to continue dominating the headlines would be Mr Trump. However, in 2026, the world may start adjusting to the new order. India-EU FTA will be a big step in this direction.



AI-driven growth

A narrow base of investment is a big risk

The January 2026 update of the International Monetary Fund's (IMF's) "World Economic Outlook", released this week, underlines how artificial intelligence (AI) has emerged as a key engine of global growth. The upward revision of global growth for 2026 to 3.3 per cent is driven largely by a surge in technology and AI-related investment, concentrated mainly in the United States (US). The IMF estimates that technology investment in the US added around 30 basis points to average annualised gross domestic product (GDP) growth in the first three quarters of 2025, helping push the 2026 growth projection up by 30 basis points to 2.4 per cent. Corporate earnings and investment announcements early this year suggest that spending on AI infrastructure — ranging from advanced semiconductors to data centres and Cloud capacity — continues to outpace broader capital expenditure, reinforcing the IMF's assessment that technology is cushioning growth even as global trade remains fragile. On the upside, broader AI adoption could boost productivity and medium-term growth while a sustained easing of trade tensions may enhance policy predictability and revive investment momentum.

However, the IMF also cautions that the AI-led growth rests on a narrow base. An AI investment boom might be a bubble that could burst, similar to the dotcom bust of the early 2000s. If expectations rise faster than actual productivity gains, excessive investment could abruptly unwind. A sharp correction in stock-market valuations can quickly slow growth by curtailing capital spending and weakening confidence even if it does not trigger a full-blown financial crisis. A small group of large US technology firms are driving equity markets, pushing AI-linked valuations far above the broader market. The United Nations' report "World Economic Situation and Prospects 2026" also notes that AI investment remains highly concentrated, with the US accounting for 72.5 per cent of global corporate AI spending in 2024, underscoring how far behind most countries remain.

However, research cited by the World Economic Forum argues that AI systems are already performing tasks worth $4.5 trillion in economic value in the US alone, indicating productivity gains. Thus, while the wider adoption of AI in different functions may have improved productivity, the level of investment and its concentration is a concern. There are also concerns over energy intensity, data concentration, and labour displacement. For many emerging and developing economies, limited access to capital, skills, and data threatens to widen gaps in income and productivity.

India's growth story sits at the intersection of global headwinds and domestic potential. The IMF has reaffirmed India's position as the fastest-growing major economy, with its 2025-26 forecast revised to 7.3 per cent. Growth in 2026-27 is expected to moderate to 6.4 per cent. GDP growth this financial year surprised on the upside, and the challenge for policymakers will be to sustain the momentum next financial year. In the context of AI investment, India has also benefitted in terms of attracting investment in data centres by large technology firms. However, it may also need to be prepared for the impact of a possible slowdown or reversal in AI investment, leading to a sharp correction in US and other stock markets. In any case, foreign investors are pulling out of Indian markets, and the situation could worsen if global market sentiment weakens significantly. Thus, aside from global trade-related uncertainties, the possible unwinding of AI-related trades could also pose risks to growth.



One path to prosperity

We can learn much from Joel Mokyr's work on the Industrial Revolution in Europe

ILLUSTRATION: BINAY SINHA



This year's Nobel prize in economics was awarded to Joel Mokyr, Philippe Aghion and Peter Howitt, for explaining how innovation drives economic growth. Dr Mokyr, who received half the prize, is known for many great books that explain how countries develop through long-run technical change and industrialisation.

Dr Mokyr's story of the Industrial Revolution is that of the gradual accumulation of knowledge. Much of this knowledge, especially in Britain, was what he calls prescriptive knowledge, the kind that came up with a more efficient steam engine or a better way of spinning cotton. That is a well-known story, told by many others before him. The new machinery was ingenious, but not based on scientific discovery. It was the result of tinkering, sometimes for years, by skilled artisans. Dr Mokyr's insight shows that science still played an essential role as a body of knowledge and a way of thinking, contained in the heads of inventors as they tinkered away. By using scientific approaches of experimentation and documentation, combined with great artisanal originality, entrepreneurs were able to sustain technological innovation and deliver long-run economic progress.



INDIA'S WORLD?
NAUSHAD FORBES

Joel Mokyr has just co-authored a new book, *Two Paths to Prosperity: Culture and Institutions in Europe and China, 1000 -2000*, that is very interesting reading. The book should be titled *One Path to Prosperity*; the penultimate chapter on modern China is quite unsatisfying in illustrating anything like a second path to prosperity. The main story, however, of the sources of the Industrial Revolution in Europe is deeply satisfying. Cultural attributes initiated institutional change, which in turn reinforced benign cultural attributes. This cultural and institutional development in Western Europe triggered the accumulation of scientific and artisanal knowledge that formed the foundation for the technical change of the Industrial Revolution of the 18th and 19th centuries.

Dr Mokyr and his co-authors, Avner Greif and Guido Tabellini, argue that Europe's fragmented polity fostered innovation. Innovation changes the status quo. This often upsets incumbents, who may have political power or influence. In fragmented Europe, an innovator who upset the influential to the point of reprisal could move to another country next door. In China, they could not escape the reach of the central government. The growth of local government with real power and resources in European cities supplemented the supply of safe havens. Cities saw it as a badge of pride to attract the best and brightest from home and abroad to settle there. Scientific societies sprung up across Europe, spreading a scientific temper and approach, with new theories based on observation and experiment replacing old theories based on dogma. This scientific temper diffused beyond scientists themselves to wider elites in politics, in trade, in city government. The spread of these new ways of thinking was critical to the support entrepreneurs received as they challenged the power of incumbents. An environment of exchange and contestation fostered the accumulation of layers of accepted knowledge.

These insights are important not just for understanding Europe and China two, five and ten centuries ago. They matter to us in India, as we seek to achieve developed country status by 2047. We need that same fruitful interplay of cultural attitudes and institutions that provides the foundation for technical change. High growth rates would result.

Rapid growth requires social capital, which has hard and soft components. The hard components are the education and skill levels of the population. A high quality school education system is probably the single most important thing for long-run progress. Skills of productivity and tacit knowledge in the wider workforce come from work experience. China now accounts for one-third of the world's manufacturing output, and with it the ability to deploy the widest range of entrenched manufacturing skills in every industry. That's our competition. We need serious investment by firms in millions of manufacturing jobs that build skills and a work ethic. Our recent investments in phone assembly, now employing over 200,000 people, is a start — but it's only a start.

A softer component of social capital is as important. An idea of progress developed in Europe, and with it a hunger for development. More and more individuals believed they had agency and that life would get better for each succeeding generation. India has this hunger in spades. Since 1991, more and more of us have also begun to believe we have the agency to improve our own lives. We are still not the majority; too many of us think it is the government or some great-and-good leader who will make life better for us. So we have work to do.

There is a third learning from recent economics Nobels: Creative destruction. The pair who received the Nobel with Dr Mokyr, Aghion and Howitt, were cited for their work on creative destruction. The Industrial Revolution both drove great progress and caused great misery as skilled workers were thrown out of work by new technology. There was an abiding belief that aggregate employment would keep increasing, even as individual professions vanished. The data proved that belief to be right. No one suggests that we follow a similar path that was as cruel as it was powerful: We need safety nets, adjustment programmes, and retraining schemes as new technology disrupts incumbent employment. But we need an appetite for the technical change that must drive rapid progress, that must destroy as it creates. Our Insolvency and Bankruptcy Act was passed in 2016, promising to speed up just such restructuring. But take just one industry, airlines: Jet Airways stopped flying in 2019 and Go First in 2023. Planes from both airlines still dot our airports. The result is an incumbent with 60 per cent of the market — and the ability to cause chaos across the entire industry when it does not prepare for a long-announced regulation. We do not destroy, so we do not create.

Europe's current malaise seems to stem in no small part from it having substantially lost its hunger for development. And with it, its tolerance for creative destruction, choosing to hang onto old professions and incumbent firms. Current tariff policy in the US is taking it in exactly that direction.

A developed India demands that we do better. That we invest in quality education as a society. That entrepreneurs in both manufacturing and services invest in the capacity and employment that skills our wider workforce. That we as a society have faith in the idea of progress, that we have a better future, and that the responsibility for delivering that better future rests with ourselves and not the government. And that we embrace the creative destruction that replaces inefficient incumbents with more nimble competitors.

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Neutral policy, predictable rules needed

The backdrop in which the Budget is presented tends to set the tone. But this year it all seems rather confusing. There are enough indicators to suggest that growth is both weak and strong.

Some argue that growth is on an upward path. Real gross domestic product (GDP) growth prints have been strong, and credit growth is rising across several sectors.

Others lament that the best is over. 2025 benefitted from a series of one-time boosts — good rains, falling oil prices, moderating inflation — which were particularly beneficial for the informal sector. Significant policy easing — tax rate cuts helping consumption, as well as interest rate and regulatory easing — added to the mix. All of these may be largely behind us. This group points out that nominal GDP growth has been extremely weak, and foreign inflows have been insufficient to fund the trade deficit. Recent Purchasing Managers' Index prints, too, have started to slow after a strong run.



PRANJUL BHANDARI

We believe the truth is in the middle, and that India is at an important crossroads. 2025 was largely about the informal sector rising back up. The opportunity now is for the formal sector to recover in 2026, on the back of the tailwinds from all the policy easing of 2025. We are seeing some green shoots in the form of credit growth and a capital expenditure (capex) revival. Credit growth is picking up, but the challenge is to keep it going for a sustained period. Capex is rising in a few sectors, such as defence, electronics, power, and metals. But it is not broad-based. In the past, strong investment that lifted domestic growth only happened in years when exports were strong. A potential lowering of tariffs imposed by the United States on India's exports would play an important role here.

What role can policymakers play to ensure a successful pivot from the informal to the formal sector, and from consumption to investment? Two things can help — a good balance between fiscal and monetary policy in the short run, and important reforms that raise returns and reduce risks in the medium term.

Let's start with the first. Can fiscal and monetary policy move to a stable equilibrium that provides stability and predictability? Can policy strike a good balance between the interests of the public and the private sector, as well as investors and savers? A better balance is often related to the concept of neutral policy. But what does it mean in practice?

On the fiscal front, deficit and debt ratios remain elevated. The central government aims to lower public debt ratios to pre-pandemic levels by FY31, which will require continued fiscal consolidation over the next five years. In the forthcoming Budget, we expect the government to show continued restraint, lowering the fiscal deficit target for FY27 (to 4.2 per cent of GDP from 4.4 per cent in FY26). To achieve this, we expect a consolidation in the number of schemes while holding on to infrastructure spend.

The problem instead is with state government finances, where public debt ratios will continue to rise for the next few years, due to a lack of fiscal consolidation. The silver lining is that the 3 per cent fiscal ceiling may begin to restrict the space for higher state deficits. All said, fiscal policy will likely remain tight through 2026.

We track neutral monetary policy in a Taylor rule framework, which has worked well for India over the last decade. Given our expectation that inflation will be just under the 4 per cent target next year (led partly by imported disinflation from China), our model suggests no pressure to raise rates. In fact, there is space for further easing if growth dips.

A combination of tight fiscal and easy monetary policy that creates a better economic balance should be positive for all asset classes as the year progresses, especially after a year of underperformance compared to other emerging markets. On bonds, higher state borrowing for 1Q26 is already in the price, India's central bank is buying bonds, and we expect fiscal prudence in the Budget. On equities, recent reform announcements, a gradual rise in nominal GDP growth, and more reasonable valuations should help. On the currency, a lot of the rupee depreciation has already happened, while the improved bonds and equities outlook could raise portfolio inflows.

All of this can get you a one-time fillip. For a sustained rise in the economy and markets, reforms are key. Some important reforms have started over the last year, and we hope to see them being pursued more aggressively over 2026. On the domestic front, these include the deregulation drive at the central and state government levels, respectively. On the external front, these include the lowering of Custom duties and non-tariff barriers like quality control orders (QCO), and signing trade deals with not just the West (US and European Union), but also the East (in order to better integrate with regional supply chains).

But this is not where it ends. The reforms discussed above, if implemented well, can raise returns. But we equally need to lower risks. And here, a focus on policy transparency, stability, and predictability is crucial. The rules of the game, or their interpretation, should not be suddenly changed. All of this can add to a more welcoming investment environment in this important policy season.

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ILLUSTRATION: BINAY SINHA



Taking the FTA agenda forward in 2026

Moving ahead with participation in next-generation FTAs, supplemented by substantive domestic trade policy reforms, must be India's focus



STRAIGHT TALK

AMITA BATRA

The conclusion of negotiations on the India-European Union (EU) free trade agreement (FTA) is very creditable, given that bilateral talks were ongoing, though intermittently, since 2007. Notwithstanding the fact that the FTA negotiations were accelerated over the last year owing to geopolitical pressures, it must be acknowledged that India has widened the scope of its FTA partners to include both developed and developing countries. Evidence of increased breadth — and, to some extent, depth — of provisions is also apparent in recent FTAs. The FTA with the United Kingdom, in particular, with almost 90 per cent tariff-line liberalisation, the inclusion of environmental and labour standards, and the opening up of select sensitive sectors, albeit under tariff rate quota provisions, is indicative of a positive change in India's FTA engagement. Reportedly, the just-concluded India-EU trade deal shares these desirable characteristics and high ambition. It is now imperative that India take this trade strategy forward.

Foremost, the remaining formalities for signing the FTA with the EU should be completed in the next few months. This will ensure that its ratification by the EU parliament, which is usually a year-long process, gets completed within the coming financial year. Speed is desirable as the imperatives for market diversification away from the increasingly uncertain US market remain persistent and strong.

Secondly, there should be a clear delineation of the task ahead to realise fully the benefits of preferential market access offered by the FTAs signed in recent years. It is necessary to recognise that comparator developing economies like Vietnam have a first-mover advantage in many of these markets. For example, Vietnam's lead over India in the two countries' respective shares in Australia's total apparel imports has widened since 2022, the year when India signed the Economic Cooperation and Trade Agreement with Australia. Continued sector-specific efforts and broader trade policy measures, therefore, remain critical for enhancing manufacturing and hence export competitiveness. Ensuring regulatory ease, facilitative Customs procedures and lower import duties on critical inputs need to be on the immediate trade policy agenda. This should be of particular importance for sectors with export and employment potential. It is hoped that the forthcoming Budget will take forward, in a comprehensive manner, the process of tariff reduction as initiated in the last two Budgets. These policies together with a long-overdue review of the 2016 model bilateral investment treaty will also assist in attracting export-oriented foreign direct investment as targeted in some of our recent FTAs such as with the European Free Trade Association and New Zealand.

Thirdly, India also needs to participate in next-generation mega-regional trade agreements. Having accomplished bilateral FTAs with developed economies like the UK and Australia and having navigated the diverse interests of the 27-member EU, India would now be better prepared to negotiate entry into the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

With the formalisation of a dialogue partnership with the Association of Southeast Asian Nations (Asean) and the EU in its November 2025 Melbourne summit, the CPTPP has emerged as the new axis for rules-based trade. There is now a coalition of the two most trade-intensive blocs in the world with the CPTPP. In addition, its member economies from the other two blocs — North America and Mercosur — such as Canada, Mexico, Chile, Peru and soon-to-be-member Uruguay, make CPTPP potentially the most capable of garnering collective action and cooperation against challenges to global trade and institutions.

A mega-regional trade agreement has the added advantage of cumulation of value addition (VA), facilitated by flexible rules of origin (RoOs). This is an enabling factor for participation in GVCs for member economies. RoOs in CPTPP, for example, allow regional cumulation of value addition. Raw materials/ components processed in/across member countries can qualify for "originating" status and hence preferential treatment by the exporter member economy. While yet at the ideation stage, potential extension of VA cumulation across the two dialogue partners (Asean and EU) could lead to the emergence of the CPTPP as a dynamic, global hub for rules-based economic integration. India should, therefore, not delay any further an announcement of its intent to participate in the CPTPP.

It is also interesting to note that the CPTPP is a living agreement. A review of its terms and provisions has to be mandatorily undertaken every five years to maintain its relevance and high standard. The terms of the agreement were designed a decade ago while it was still a US-led TPP. These were modified only to a limited extent after the US withdrawal to give it the contours of CPTPP in 2018. The first review, initiated in 2023 and concluded in 2025, has recommended updating and revising a majority of the provisions of the agreement. This is not surprising, given the dramatic shifts in the global trade environment in the interim period. CPTPP members have committed to completing the revision process in 2026. India should closely track these evolutionary changes to prepare for participation in this ever-enlarging mega-regional trade agreement.

Also, it is important that India's decision to participate in the CPTPP should be independent of China's absence in the mega-regional trade agreement. China was among the early applicants for CPTPP membership, followed soon — in the same month in 2021 — by Taiwan. China's membership in the CPTPP has, so far, been delayed owing to the "Auckland principles" that necessitate an established record of the applicant country's compliance with trade commitments, the ability to meet the agreement's high standards, and consensus among CPTPP members for consideration of its application. So far, the accession process has not followed a sequential order for the consideration of applications. Later applicants such as Uruguay and the UAE are now under consideration for initiation of the accession process in 2026. However, circumstances may not remain the same for long, given how the world is rushing to resolve trade disputes and sign trade agreements with China.

Overall, taking forward participation in bilateral, regional, as well as mega-regional trade agreements, supplemented by substantive domestic trade policy reforms, should be India's FTA agenda in 2026.

The author is professor, School of International Studies, JNU. Her book *India's Trade Policy in the 21st Century* was published by Routledge, London, in 2022. The views are personal

30 Jan 2025



In a fragile world

Economic Survey will enable informed debates

The Economic Survey 2025-26, presented in Parliament on Thursday and prepared by economists at the Ministry of Finance, led by Chief Economic Advisor V Anantha Nageswaran, has been reconfigured compared to recent Economic Surveys. As the document notes, this "... reflects the weight of the momentous changes happening elsewhere". Changes across different parts of the world and in various areas have indeed increased uncertainty, and medium-term economic outcomes will depend on how these developments unfold. The expansion in the Survey's depth and breadth should enable more informed policy discussion and help India better prepare to deal with emerging challenges. The Survey also includes discussion on three topics that are of medium to long-term interest: The evolution of artificial intelligence, the challenge of quality of life in Indian cities, and the roles of state capacity and the private sector in achieving strategic resilience.

This financial year has turned out to be much better than what it was expected to be. According to the first advance estimates, growth in the rate of gross domestic product this financial year is projected at 7.4 per cent, up from last year's Economic Survey projection of 6.3-6.8 per cent. The latest Survey notes that India's potential growth rate has been revised up to 7 per cent, compared to 6.5 per cent three years ago. It has projected the growth rate in the range of 6.8-7.2 per cent for 2026-27. The increase in growth potential does indicate that reforms undertaken in recent years and a massive boost in government capital expenditure have increased the economy's productive capacity. In the short run, outcomes will depend on global factors, and there are different possibilities. Although, as the Survey notes, India is well-off compared to other countries because of strong macroeconomic fundamentals, this is not a guarantee of insulation. Adverse global shocks will be reflected in the external account and their impact on the rupee. The rupee has been under pressure over the past several months because of selling in the stock market by foreign portfolio investors. The risk of global upheaval increases for India because it runs a current-account deficit and needs to attract foreign investment. In this regard, the Survey rightly notes India needs to generate sufficient investor interest and export earnings. India's recent openness to trade is a positive in this regard, and it would be interesting to see how the upcoming Budget approaches this issue.

There are several interesting arguments in the Survey with medium-term policy implications. For instance, it notes that where upstream inputs are costly and capital-intensive, lowering the cost of capital is a more efficient way to provide support than raising import protection. However, lowering the cost of capital is not easy in an economy that is structurally deficient in savings, and there are political incentives for fiscally accommodative policies. There are two clear policy takeaways. First, the general government budget deficit needs to be brought down substantially to reduce the cost of capital in the economy. The Survey notes that the Centre has achieved consolidation with higher capital expenditure while several states have shown weak fiscal discipline. While states may contest this position, what India really needs is to adjust fiscal rules to the economy's financing capacity. This has become more important at a time when the availability of global savings has become a risk. The cost is also likely to be higher. Second, there is a need to reduce import protection.



ILLUSTRATION: BINAY SINHA



Budget 2026: Too many known unknowns

Amid data and fiscal uncertainties, the govt faces the difficult task of creating conditions to boost private capex

The 2026-27 Budget is being presented against a turbulent backdrop. On the international front, in response to persistent uncertainty over the level of tariffs facing Indian exports to the United States, the government is working hard to negotiate and conclude a series of trade agreements. The European Union-India free trade agreement (FTA) is the latest to be concluded. A number of countries are also making efforts to diversify their trade relations in a bid to navigate emerging uncertainties. The gains from these agreements, however, won't be immediately apparent. Ratification of the agreements, as well as the creation of demand in new markets, may take time. In other words, the short-term challenges from international trade for the Indian economy are not entirely alleviated.



R KAVITA RAO

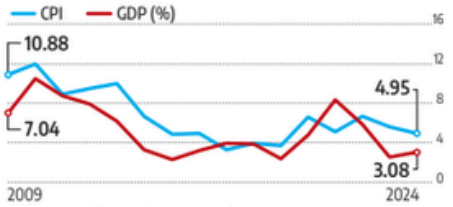
On the domestic front, there are two broad uncertainties to contend with. The first relates to uncertainties regarding gross domestic product (GDP) numbers. The first advance estimates for 2025-26 indicate nominal GDP growth of 8 per cent, while real growth is estimated at a relatively high 7.4 per cent. Government revenue performance is usually correlated with nominal GDP growth. For assumptions on expected nominal GDP growth for 2026-27, it is important to note that while inflation forecasts suggest a pickup in consumer-price index-based (CPI) inflation — returning to the Reserve Bank of India's tolerance band — average inflation based on GDP deflator has trended below CPI inflation. In other words, realistic assumptions for nominal growth might trend lower than 10 per cent.

Another element of uncertainty here is the release of the new GDP series. The Ministry of Statistics and Programme Implementation is in the process of releasing the new GDP series calibrated to 2022-23 as the base year. While the new series does not change the underlying economic activity, and hence has no material impact on the taxes that the government can mobilise, it does create some measurement and perception challenges. A significantly higher nominal GDP level — which could result from expanded coverage to include more sectors — would lower fiscal deficit-to-GDP and debt-to-GDP ratios along with the tax-to-GDP ratio. While the first two outcomes are desirable, the last is not.

Against this backdrop, the receipts available for the Budget are constrained. Two major constraints are mentioned below.

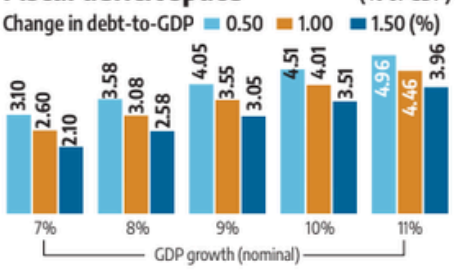
1. The fiscal anchor for the Fiscal Responsibility and Budget Management (FRBM) Act is the debt-to-GDP ratio. The objective spelt out in the last Budget is to reduce the debt-to-GDP for the central government to 50 per cent by 2030. The short-term objective is to ensure a reduction in the debt-to-GDP ratio. With the current debt-to-GDP ratio at 55.1 per cent (based on outstanding debt at the end of the year as reported in the Budget for 2025-26 and the First Advance Estimates of GDP), a 1 percentage point reduction in the debt-to-GDP ratio would imply a fiscal deficit of about 3.5 per cent, assuming nominal GDP growth of 9 per cent. A higher nominal GDP growth creates more space for fiscal deficit (*see chart*). For allowing a higher fiscal deficit, the government has to choose a lower correction in debt-to-GDP or a higher nominal GDP growth rate.

Inflation: CPI versus GDP deflator



Source: World Development Indicators

Fiscal deficit space



2. Turning to the major source of revenue for the government — taxation — revenue performance in the current financial year has moderated. Towards supporting demand in the economy, during the last financial year, the government introduced lower income-tax as well as goods and services tax rates. The former was targeting the upper-middle class, while the latter was meant to provide "relief" to all consumers. These changes have stimulated some demand, but have resulted in a moderation in revenue growth. Considering GST revenues net of cess — since revenues from cess do not accrue to either of the governments — growth in revenues dropped from over 14 per cent year-on-year for the first two months in the current financial year to below 2 per cent in November and December. The moderation in revenue performance suggests that either the pass-through of lower taxes in prices is incomplete or the elasticity of demand for a range of commodities is less than unity. Similarly, for direct taxes, the gross collections have grown by 7.7 per cent for corporation tax and 1.2 per cent for personal-income tax. Net collections, however, report higher growth at 12 per cent and 6 per cent, respectively till January 11, 2026. Given this context, further reforms in domestic taxes do not seem warranted. For the current financial year, one would expect the Budget to seek to stabilise revenue collections. Given the moderation in GDP growth rate, a slowdown in revenue growth too might be expected.

Within these constraints, the government faces the difficult task of balancing growth stimulus through capital expenditure with supporting a framework for augmenting private sector investment in the economy. In this context, the extensive ongoing review of various schemes implemented by the government is a space to watch with interest. Rationalisation of these schemes can create an opportunity to assess their suitability and design, while also freeing up space for emerging priorities.

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The cost of delaying divestment

The Union Budget to be presented on February 1 would do well to prioritise disinvestment. The key reasons include (i) raising resources to create fiscal space; (ii) boosting funding for under-resourced, but critical sectors such as health and education; (iii) unlocking the value in public sector enterprises (PSEs); (iv) avoiding the drain on the exchequer from loss-making PSEs; (v) enabling the expansion of public sector banks' (PSBs') balance sheets without any constraint imposed by government ownership; and (vi) boosting business sentiment and reviving the long-awaited private capex cycle.

The debt-to-gross domestic product (GDP) ratio of the central government stood at 57.1 per cent at end-March 2025, against the mandated target of 40 per cent under the Fiscal Responsibility and Budget Management (FRBM) Act. In the last Budget, the government changed the fiscal anchor and indicated it would reduce the debt-to-GDP ratio to 50 (+/- 1) per cent by end-March 2031. To achieve this target, the primary deficit would need to shrink from (-) 1.3 per cent of GDP to (-) 0.3 per cent of GDP. Even then, the debt-to-GDP ratio would stay significantly above the mandated target of 40 per cent, leaving no fiscal buffer. Should we face any exogenous shock, the fiscal situation will be strained again.



JANAK RAJ

Therefore, generating enough resources is key. For this, it is imperative to vigorously pursue disinvestment in PSEs. Divesting government equity in non-strategic PSEs is the only way to raise large revenue without harming the economy. It can also unlock huge value in them. The Confederation of Indian Industries has estimated that lowering government ownership to 51 per cent in 78 listed PSEs could unlock nearly ₹10 trillion.

The government's disinvestment track record has been extremely disappointing. The tardy progress has gone against its Public Sector Enterprises Policy, 2021, aimed at privatising non-strategic PSEs. Some have argued that it could be because the government receives large dividends from PSEs. It is true that the dividend received by the central government doubled from ₹0.7 trillion in 2020-21 to ₹ 1.4 trillion in 2024-25. However, the total contribution of central PSEs to the exchequer — by way of excise and Customs duties, goods and services tax, corporation tax, and dividends, among others — has remained broadly unchanged over the last five years at ₹4.9 trillion in 2024-25 and ₹4.8 trillion in 2020-21, even as the nominal GDP during this period expanded by 40 per cent.

Several central PSEs are bleeding money, with losses jumping from ₹10,164 crore in 2021-22 to ₹20,935 crore in 2023-24, before moderating to ₹18,054 crore in 2024-25. It is intriguing that the government infused ₹11,440 crore into Rashtriya Ispat Nigam Limited, which is not in the strategic sector, even when it was slated for privatisation in January 2021. Is this a case of throwing good money after bad?

The Union Budget for 2021-22 proposed privatising two PSBs, but this has not happened as yet. PSBs serve social goals, but they are also a drain on the exchequer — the government injected ₹3.11 trillion between 2016 and 2021, and another ₹4,600 crore in 2021-22. Government ownership also limits their balance sheet growth. The big three — State Bank of India, Bank of Baroda, and Canara Bank — have small headroom to raise equity from the market. They, therefore, have to rely on retained earnings or Tier II bonds for expansion of their balance sheets. Do we need so many PSBs for social goals? Privatisation of large banks could also pose challenges, as it requires investors with solid track records and deep pockets. Therefore, the ideal solution is to retain the three largest banks in the public sector for social goals and gradually privatise the other PSBs.

On the positive side, PSEs in recent years have been huge wealth creators for investors. The market capitalisation of PSEs soared from ₹12 trillion in March 2020 to ₹69 trillion in June 2025, outpacing their private peers, thanks to clean balance sheets, policy push and sector-specific structural reforms. This, however, strengthens the case for disinvestment. Private ownership can drive further efficiency and innovations in PSEs. With PSEs performing well, the government will find it relatively easy to disinvest and sell them at a premium, unlocking more resources. This could also help revive the private capex cycle, which has been weak for more than a decade.

The government's only concern should be the protection of labour. Also, disinvestment has become a sensitive issue. Therefore, the proceeds raised from disinvestment should be ring-fenced only for the health and education sectors, creating fiscal space (by accelerating the process of reducing the debt-GDP ratio) and contributing to the capital of the three largest PSBs as and when they need to raise equity from the market. This could soften opposition to disinvestment. It is worrying that the central government's spending on health, as a percentage of GDP, has remained stagnant at 0.3 per cent over the last 20 years, and on education at 0.4 per cent over the last nine years.

The government should revisit its disinvestment policy and lay down a clear PSE divestment road map. This will help raise financial resources for critical sectors such as health and education, which badly need support, and create fiscal space to tackle unexpected shocks. Divesting PSEs could also help capitalise the top three PSBs and support their balance sheet growth.

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The views are personal

01 Dec 2025

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China's role in AI-led industrial revolution

QUICK READ

The USSR and its satellites in Eastern Europe could not keep up with the West during the third industrial revolution, and this failure eventually contributed to the collapse of their communist regimes.

OpenAI reports it has surpassed 800 million weekly active users worldwide for ChatGPT, and most showed up after the "DeepSeek moment."

AI is widely recognized as the core technology in an emerging industrial revolution that will probably transform every facet of the global economy. UN Trade and Development (UNCTAD) estimates—conservatively—that the global AI market will reach $5 trillion by 2033, thanks to average annual growth of about 31%. The International Monetary Fund predicts that the technology could boost global GDP by 4% over the next decade, with the United States gaining as much as 5.4%. AI's impact on science, innovation, the military, and geopolitics is already significant, reinforcing the sense that the race for AI dominance is also a race for global dominance.

In this context, the Chinese startup DeepSeek's release of a highly competitive chatbot caused a sensation in early 2025. Dubbed the "DeepSeek moment," it immediately prompted analogies to the Soviet Union's launch of Sputnik in 1957. But do such spectacles really mean that China is closing the gap with the West?

In considering that question, it is important to bear in mind that no industrial revolution has ever emerged outside advanced democratic capitalism. This is no accident. Like its predecessors, the AI-driven industrial revolution requires robust institutions to ensure secure property rights, enforceable contracts, the ability to attract and empower talent, efficient allocation of resources, and—crucially—sustained demand. The last element is often overlooked in analyses of China's progress in AI.

The People's Republic was founded on the principle that the Communist Party of China "leads everything." That remains true today: The CPC controls courts, markets, banks, universities, and the media, and even commands private firms. Under such powerful party-state rule, the regime can mobilize massive resources and produce shining stars like DeepSeek (or Sputnik, in the Soviet case). An industrial revolution, however, depends on more than isolated breakthroughs: there must be a series of disruptive innovations in technology, business models, and institutions that build on one another. The Soviet experience makes this clear. The USSR and its satellites in Eastern Europe could not keep up with the West during the third industrial revolution, and this failure eventually contributed to the collapse of their communist regimes.



REUTERS

The AI stack

To understand where China stands in the AI race, we must examine some basic facts. Technically, advances in AI rest on three foundational elements: compute, algorithms, and data. Among these, compute (raw data-processing power with advanced chips) is arguably the most fundamental, since it determines the capacity to invent and develop algorithms and generate or process data.

The compute gap between the leading US and Chinese large language models is staggering. At the national level, the US controls about 75% of global AI computing power, compared to China's 15%. And the gap continues to widen as AI compute scales up exponentially in the US, while China's compute remains severely constrained by export embargoes and a lack of funding.



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Compute also underpins AI customer services through cloud platforms, which are considered infrastructural utilities for the sector. Here, too, the US dominates. In the second quarter of 2025, Amazon Web Services, Microsoft Azure, and Google Cloud together held about 63% of the global market, while Chinese providers held only 8%, with Alibaba Cloud at 4%, Tencent Cloud at 2%, and Huawei Cloud at 2%.

With respect to algorithms, open-source AI models help narrow the information gap by making technical resources widely accessible. DeepSeek capitalized on this approach, and the initial shock it caused stemmed from a perception that it was a genuine technological breakthrough: an algorithm that can perform well without following the "scaling law," according to which model performance follows compute and data resources. But reality proved otherwise. The damage that DeepSeek's debut did to Nvidia's valuation lasted only a few days. Hard evidence shows that US frontier models continued to improve substantially by following the scaling law.

Looking ahead, a major goal in the pursuit of artificial general intelligence algorithms is the development of AIs with a "world model," meaning the capacity to understand and learn from physical reality, rather than solely from statistical patterns embedded in language. Among other things, major breakthroughs in world-model research will lay the foundation for AI-controlled robotics. Since this leg of the race remains in its early stages, no one can predict the eventual winner. But we can examine the two prerequisites for achieving successive breakthroughs. We have already discussed compute; the other is talent.

Here, the data are revealing. While many of the most talented AI researchers are Chinese—constituting a significant share of leading AI teams in the US—it is exceedingly rare, if it has happened at all, for major international AI awards to be granted to researchers whose breakthroughs were achieved at Chinese institutions. This might not matter too much if essential breakthroughs remain open-source, and cross-border mobility continues. But with Sino-American relations assuming more of a Cold War-like character, disruptive breakthroughs are unlikely to be shared, and China—hampered by compute restrictions and limited mobility—could fall permanently behind.

With respect to data, the US benefits from a substantially larger collection of publications—especially in science and technology—and internet text, not least because these sources are overwhelmingly in English. Though China does excel in surveillance and mass video collection, its reliance on censorship, political control, and bureaucratic silos tends to undercut data quality and shareability. In terms of pursuing world-model breakthroughs, high-quality multimodal datasets—health-care, industrial, and physical-world data—are essential, and the US has the advantage. Moreover, additional data generation and processing depend heavily on compute, thus reinforcing the US advantage.

It can't happen there

These comparisons show that the tech engines of AI progress—compute, algorithms, and data—are deeply interdependent. While China has made rapid advances, its structural constraints remain significant. To assess its place in the next industrial revolution, one must consider two critical issues. First, industrial revolutions are always driven by both supply and demand. Wealth and strong demand for successive innovations are indispensable. That is why

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Is crypto an opportunity or a threat?

QUICK READ

Proponents retort that stablecoins are fully backed by cash, bank deposits, Treasury bills, or money-market funds, and that these reserves are regularly audited. Yet recent episodes cast doubt on such assurances.

If the US Digital Asset Market Clarity Act passes, the US will have handcuffed its central bank and prevented it from competing with privately provided money.

The fascination with cryptocurrencies shows no sign of fading. With the passage of the Guiding and Establishing National Innovation for US Stablecoins (GENIUS) Act in July 2025, US lawmakers added to the sense that crypto is here to stay. But look beyond the hype and an uncomfortable issue remains unresolved: Are cryptocurrencies a genuine innovation capable of serving the common good, or a speculative threat to financial and social stability?

Of course, not all cryptocurrencies are alike. Unbacked ones, such as Bitcoin or Ethereum, have no underlying assets and derive their value purely from people's belief that they have any. But backed cryptocurrencies, including stablecoins, attempt to anchor their value through holdings of real-world assets, such as dollars or short-term government bonds.

Nonetheless, the same two questions apply to both categories: Are they viable? And, if so, do they benefit society? While humility requires that we not claim certainty about the answer to the first question, the second one must be met with a resounding no. Crypto innovation undoubtedly has some valuable features—including blockchain-based applications, smart contracts, and decentralized finance—but the proliferation of private digital assets has also widened the gap between private and social interests.

To be sure, the welfare implications of cryptocurrencies are more complex for dysfunctional countries where the state expropriates individuals or companies through financial repression or other means, or uses transaction data to oppress political opponents or minorities. In these cases, crypto technically can replace dollar banknotes and offer lower transaction and concealment costs. But this specific use case does not vindicate cryptocurrencies, because other digital assets could do the same job.

A pure bubble

Bitcoin is the archetype of an unbacked cryptocurrency with no intrinsic value. Its valuation represents what economists call a pure bubble: it will collapse if confidence evaporates. But not all bubbles burst immediately. Gold has been trading for millennia at prices far above its "fundamental" value (which could be measured by the price that its industrial use would command if it stopped being held for speculative purposes). Yet history offers many examples of bubbles that ended in ruin—from the Dutch tulip mania of the 1630s to the South Sea Bubble of 1720 and the recurring stock-market and real-estate crashes that have been with us ever since.



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Could Bitcoin become the new gold? Possibly. But its value could also fall to zero. At most, we can be confident that very few of the hundreds of thousands of cryptocurrencies that have emerged will survive. It would be folly for regulated banks or insurance companies (whose losses are often borne by taxpayers) to speculate heavily in such assets without strict capital requirements.

The social damage stemming from unbacked crypto is clearer. Unlike productive risk-taking—such as research on vaccines or new technologies—speculation in digital tokens creates little public benefit and causes a variety of harms. One cost is a diversion of seigniorage. In traditional systems, the gains from issuing money flow to the community via the state; but with crypto, that privilege is privatized or wasted: issuers reap the windfall, while "mining" (running computations to process blockchain transactions) wastes vast amounts of energy and computing equipment.



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Another problem is crime. Bitcoin and similar assets are notorious for facilitating tax evasion, money laundering, and illicit finance. While hard currencies have long been used for the same purposes, the ease and global reach of crypto transactions lower the barriers for wrongdoing. Then there are the implications for macroeconomic policymaking. Central banks can stabilize economies and prevent financial contagion only if they control liquidity during crises.

And unbacked cryptocurrencies lack any form of investor protection, as we saw with the initial coin offering craze a few years back. Heralded as a means of liberation from the power of financial intermediaries (from venture capital funds to banks), the direct issuance of securities to savers neglects the fundamentals of finance. Dispensing with trusted, well-capitalized, and reputable intermediaries to monitor projects does not make markets freer; it makes them more fragile. Technological progress should improve financial efficiency, not roll back centuries' worth of hard-won insights.

Full circle

Stablecoins were conceived as a response to the volatility of unbacked crypto. By pegging their value to the dollar or other safe assets, they promise the best of both worlds: the efficiency of digital tokens and the stability of traditional money. At first glance, this seems like progress. But financial history is full of supposedly safe innovations—money-market funds, structured securities, mortgage derivatives—that sowed the seeds of later crises. Stablecoins may do the same.

Proponents retort that stablecoins are fully backed by cash, bank deposits, Treasury bills, or money-market funds, and that these reserves are regularly audited. Yet recent episodes cast doubt on such assurances. Tether, the largest stablecoin, was fined for misrepresenting its reserves and has never undergone a full independent audit. Circle, whose USDC is the second-largest stablecoin, had 8% of its reserves tied up in Silicon Valley Bank when that institution failed in 2023. The crisis was resolved only because uninsured depositors like Circle were bailed out with public funds.

Looking ahead, one can anticipate that the industry will eventually invest in uninsured bank deposits, riskier interest-rate bets, and so forth. Institutions constrained to hold only low-yield securities often search for yield in disguise, taking hidden risks to increase returns.

Relatedly, while the GENIUS Act forbids issuers from paying interest on stablecoins, platforms are not bound by the rule. This loophole allows platforms to operate like banks without meeting the corresponding capital and liquidity standards. They have become yet another addition to the growing shadow banking system of institutions that rely on implicit public backing but escape prudential supervision.

Politics further amplify the risks. The current US administration's endorsement of crypto is driven by a mix of personal financial interest, ideology, and the need to reinforce global demand for dollars to finance America's trade deficit. President Donald Trump has appointed regulators sympathetic to the industry to key oversight roles, and the traditionally pro-indus-

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Kyiv's long road to economic stability

FROM PAGE 13



AFP

and energy grid from Russian attack.

Ukraine has never asked for foreign boots on the ground—unlike Russia, which has brought in the helot soldiers of its North Korean ally. But we could help Ukraine end the war by supplying the weapons it needs now to push Russia back: US Tomahawks or German Taurus missiles, and the intelligence support to target them: intelligence and supply-chain support for its drone fighters; and more Patriot and other air-defense systems.

Western missiles would help Ukraine to end the war the most quickly—the case Zelensky unsuccessfully made during his October visit to the White House. But money is just as important as weapons, and in many ways a proxy for them.

Ukraine's domestic weapons production is financially constrained: a Ukrainian drone facility I visited this fall was operating at only 60% capacity because it lacked the wherewithal to buy inputs and pay workers producing at full strength. And Western military support for Ukraine is limited more by money than by political will.

President Donald Trump's administration has made clear that US arms for Ukraine will need to be paid for by Europe. For Europeans, who are generally agreed that their own security is best served by a strong Ukraine, that makes the challenge mostly an economic one. At a time when European economies are facing tough—and in the case of countries like France, politically crippling—budget constraints, even as voters demand more action to address a cost-of-living crisis, finding money for Ukraine is a fiendish political challenge in even the most motivated European capitals.

That's why German Chancellor Friedrich Merz's proposal to use Russia's frozen central-bank assets as collateral for a €140 billion ($162 billion) loan to Ukraine is so important. It would enable European leaders to support the Ukrainian war effort without imperiling their own national finances or forcing their own voters to make unwelcome kitchen table trade-offs. Thanks to Ukraine's own impressive and growing military production capacity, and America's willingness to sell arms to Ukraine, money could be most of the answer to the country's myriad military challenges.

As a bonus, using Russian assets to back Ukraine would enforce a powerful and important principle: the aggressor pays. That approach makes sense to Western taxpayers, and embracing it would help to deter future would-be invaders.

Finally, what Ukraine needs is a future. This war is not only, or even mostly, about holding the frontline in the Donbas, or keeping the lights and the heat on in the country this winter. Ukrainians are fighting for a future as a sovereign, secure democracy, with a path to joining the European Union, and the prosperity that EU accession promises.

This future is what Ukrainians voted for in their 1991 referendum on independence. It is why they overturned a rigged election with the Orange Revolution in 2004. It is why they came out and protested again on the Maidan in 2014, when their path to Europe was blocked. And it is why they are resisting Putin today. Ukrainians are fighting because they want what we have—capitalist democracy and the chance to determine their own fate, in their households and in their country.

Ukrainians also recognize that the fight against corruption at home is as essential to that future as the fight on the frontline against Russia. That is why they went back to the streets this summer to insist on independent and transparent anti-corruption investigators. They were right to do so.

Since 1991, every time Ukraine has taken a step toward a democratic and sovereign future, the Kremlin has undermined it, first through efforts to suborn Ukraine's governments, and then with the invasions of 2014 and 2022. So, while the lines on the map that Zelensky and Trump discussed in the White House this fall matter, what matters more is buying into that Ukrainian vision, and the EU membership and security guarantees that would enable its realization.

Ukrainians know their own history. That is why they know that this war can end only when they have the borders, army, and alliances they need to deter further Russian aggression and give their children a path to the prosperity they have watched their neighbors in Poland and the Baltic states build.

There is more than a little irony in the fact that Ukrainians are bleeding and dying for Western democracy and the EU at a time when so many are losing faith in both. But they are. And they have shown that they can win. Helping them do so will make us stronger, too.

02 Jan 2025

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The Indo-Pacific's balance of power seems back in play

HARSH V. PANT & PRATNASHREE BASU



are, respectively, vice president for studies and associate fellow for Indo-Pacific, Observer Research Foundation

The Indo-Pacific in 2025 was marked by transition and adaptation. It was buffetted by US unpredictability and Chinese assertiveness. Yet, it demonstrated greater agency than at any point in the past decade. While President Donald Trump's mixed signals did not lead to a summary US disengagement with the region, they did prompt regional actors to look less towards Washington for security guarantees and more to the building of diversified networks of cooperation.

The impact of Trump 2.0: The year saw a stark turn in US engagement, with Trump's approach to the Indo-Pacific characterized by unpredictability at best and rent-seeking at worst. The recently-released US National Security Strategy was emblematic of this ambiguity, prioritizing *quid pro quo* ties over legacy commitments and the use of muscular rhetoric while offering little doctrinal clarity. This has sent out mixed signals on China, as its deterrence rhetoric coexists with policy fuzziness and even deference in some parts, with US partners struggling to identify US thresholds for action, particularly on high-stakes issues such as Taiwan.

Despite the rhetorical turbulence emanating from Washington, alliance architectures did not collapse, although they didn't sprint forward either. Traditional security partnerships with Japan, Australia, South Korea and the Philippines have endured amid a sobering realization of the magnitude of US capabilities, particularly *vis-à-vis* strategic concerns about China. Nonetheless, the pace and predictability of strategic cooperation have waned, which is telling in the context of a tenuous regional landscape. Hence, although formal alliances will continue to matter, their political meaning has shifted, with partner countries less willing now to outsource strategy entirely to Washington and more inclined to shape outcomes independently, reflecting a post-'hub-and-spokes complacency' mindset.

Similarly, multilateral formats like the Quad persisted and adapted, but the coherence of their agenda often reflected leadership from partners as much as from Washington. Initiatives such as maritime domain awareness and cooperation on critical minerals, for example, were driven more on the ground by Canberra, New Delhi and Tokyo, with Washington's role being facilitative rather than directive.

Regional agency: Perhaps the most consequential development this year was the agency exercised by regional actors in response to what was increasingly perceived as systemic uncertainty. For Asean, this pattern has progressively reinforced hedging. Southeast Asian capitals simultaneously deepened economic ties with China while engaging in strategic projects with Western partners, seeking leverage rather than compliance with any single power bloc, even as some of them strengthened their responses to Beijing's intensifying maritime assertions.

QUICK READ

The regional order is witnessing a shift as Asian countries hedge their geo-strategic interests against mixed signals from the US on its role as a security assurer by forging new deterrents and ties.

India has also deepened its engagement with Southeast Asia, reflecting a proactive approach, as stability in the traditional sense makes way for a contested equilibrium in the Indo-Pacific.

The diversification of bilateral cooperation formats, such as the one between Indonesia and France, illustrated how middle powers are constructing multiple poles of engagement to mitigate overdependence on either Washington or Beijing. This was supplemented by Vietnam's deepening defence ties with India, particularly in maritime capacity building and naval training, the Philippines' calibrated outreach to both the US and non-traditional partners such as Japan, India and South Korea, and Malaysia's renewed engagement with China and the EU simultaneously. All of this reflected the pursuit of new hedging strategies.

In East Asia, Japan and South Korea pitched themselves not merely as US partners, but as proactive architects of regional security norms and economic linkages. Tokyo's calls for sustained US commitment were matched with its own investments in Asean alongside an expansion of defence and strategic cooperation. Taiwan, caught between US inconsistency and Beijing's growing military muscle, embodied the precariousness of regional agency. Taipei doubled down on diversifying economic alliances and seeking soft security assurances in its notably nuanced adaptation to the evolving order.

In the meantime, India strengthened and expanded its bilateral partnerships across Southeast Asia as part of its broader Indo-Pacific engagement, particularly with Thailand, the Philippines, Vietnam, Singapore and Indonesia, expanding cooperation across defence, renewable energy, critical technologies, maritime safety, technology and trade. Taken together, these moves signal that New Delhi's engagement with Southeast Asia in 2025 was more proactive, institutionally embedded and regionally resonant than in prior years.

Going forward: A contested equilibrium characterizes the Indo-Pacific's emerging order. As countries recalibrate their strategies to manage risk independently, they are investing in deterrence, resilience and interoperability. This has prompted defence modernization, arms diversification and indigenous capacity building.

What 2025 underscored is that the Indo-Pacific is shedding illusions about US leadership and instead focusing on negotiating a more complex, contested and agency-driven regional architecture. The upshot of this is not stability in the traditional sense, but managed fluidity where power is more diffused, agency is more distributed and outcomes are more contingent.

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India should beware the growth of duopolies across its economy

Many markets are dominated by just two players. We must analyse this closely for a policy response



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Duopoly refers to a scenario in which a market is dominated by two suppliers. While this is better than a monopoly, lack of competition hinders efficiency gains in both such cases. In India, markets with just two suppliers in operation are becoming more common, with implications for consumers. The recent IndiGo fiasco is an example. As one player in the market fails to cater to demand, the other player faces excess demand, leading to price hikes and unsatiated demand. This leads to erosion of consumer welfare and delivers super-normal profits to the rival. These social costs and inefficiencies impose economy-wide losses. The recent episode in the airline industry needs to be taken as a warning signal for other sectors.

Like aviation, patterns of duopoly are visible in other sectors too. The trend reflects a structural shift towards more concentrated markets and rising market power. For example, in telecom, Reliance Jio and Bharti Airtel dominate India's subscriber base and revenue market share. Mega infrastructure businesses, especially in ports and logistics, show increasing concentration, mostly between two conglomerates. These reinforce concerns about centralized dominance in critical sectors. In food delivery, an emerging segment of the gig economy, Zomato and Swiggy command nearly the entire online food delivery market. High sunk costs in logistics and discretionary commission-led models have made survival tough for smaller players. Ola and Uber dominate cab hiring, while Flipkart and Amazon account for over 80% of India's organized e-commerce market. In digital payments, PhonePe and Google Pay handle a majority of UPI transactions.

Theories in industrial organization provide insights on the rise of duopolies. One explanation notes the role of very high capital requirements that make entry and survival difficult for smaller firms. This gets more complicated when global investors prefer to fund early market leaders. Another explanation points out the network effects in certain types of industries, which reward bigger players. In these types of industries, big firms spend early on to acquire customers, squeezing out competitors. A third explanation focuses on regulatory gaps that allow dominance to deepen. This gets accentuated when consolidation takes place through mergers, acquisitions or takeovers of bankrupt firms.

The challenge of regulation: Economic theory on market behaviour under a duopoly is subsumed in the larger literature focused on economic dynamics under an oligopoly (few sellers). There has been extensive oligopoly research; the problem is not paucity of theory or models, but the lack of a model that predicts firm behaviour in particular contexts with accuracy and reliability. This is required, as it could form the basis for policy decisions on whether, how and under what circumstances the government ought to intervene with regulatory measures. Empirical research shows that firm performance varies along a continuum bound by perfect competition and perfect monopoly, but not in predictable ways. Thus, the difficulty in formulating useful public policy interventions is that duopoly behaviour is highly circumstantial.

Regulation should be based on an indepth consumer-welfare-oriented cost-benefit analysis of the behaviour of firms in duopoly markets, while acknowledging well-known infirmities of government efforts to manage competitive processes. Regulatory issues get entangled with corporate governance when duopoly firms employ a manager who has partial ownership. In such situations, a tendency to raise prices and decrease quantities can make a duopoly act like a monopoly. With very little rivalry, the incentive to aggressively lower prices diminishes and consumers might find fewer options and potentially pay more than they would in a competitive market. Interventions to regulate prices become important.

Innovation may be another area for intervention. Under a duopoly, a firm typically innovates just to maintain a lead, rather than to secure itself from being outmanoeuvred by a fresh firm. This could mean incremental changes rather than disruptive.

Importantly, powerful firms often have significant lobbying power. This can make it even harder for smaller players to emerge or for disruptive technologies to gain. If duopolization grows even as markets are deregulated to ease the entry of new players, it may in some cases point to excessive lobbying power that serves narrow interests.

These are the author's personal views.

QUICK READ

From aviation, telecom and food delivery to e-commerce, taxi services and some infrastructure sectors, we have markets that are dominated by only two major players. This needs a look-in.

Our policy response should be informed by an indepth study of duopoly dynamics in specific contexts for their impact on consumer welfare, innovation and other key variables.

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AP

Banks are in good shape but RBI must stay alert

RBI's 2024-25 report on banking is reassuring but also reveals some troubling trends. The growing role of NBFCs and their links with banks could pose a risk to financial stability

The Reserve Bank of India's (RBI) recent report on 'Trends and Progress of Banking in India 2024-25' is reassuring overall. It says the Indian banking sector remained resilient, underpinned by strong balance sheets, sustained profitability, steadily improving asset quality and high capital buffers. Bad loans are at a multi-decade low. Non-banking financial companies (NBFCs) also recorded robust performance, supported by double-digit credit growth, improved asset quality and comfortable capital cushions. On the face of it, all is well. However, a close read reveals a disturbing trend that could potentially endanger financial stability: the growing role of NBFCs and their close inter-connectedness with banks. A single sentence says it all. In 2024-25, the "balance sheet of NBFCs saw double-digit expansion, surpassing the growth recorded in the previous year." In contrast, the consolidated balance sheet of scheduled commercial banks (SCBs, regional rural banks excluded), grew slower. In short, the growth of NBFCs outpaced that of banks in 2024-25.

By end-March 2025, NBFC credit was around a quarter of the quantum extended by banks, with NBFC credit growth surpassing that of banks in all segments except agriculture and allied activities. Clearly, NBFCs are adept at cherry-picking. But not always wisely, it would seem. So, 25% of their total loans were to sensitive sectors, including capital markets and real estate, with significant investment in securities and advances against commodities. Likewise, loans to the power sector, the Waterloo of SCBs in the second decade of this century, accounted for the largest share of NBFC credit to industry at 56.1% in March 2025. As before, debentures and bank borrowings remained the main source of funding for NBFCs (72.9% last September). Although RBI had increased the risk weights on bank loans to NBFCs in November 2023 to moderate their over-dependence on bank funds, bank credit to NBFCs reduced only a bit in 2024-25, and these weights were later restored as part of an effort to spur lending overall. However, banks and NBFCs are interlinked not only through the medium of bank loans. Banks are increasingly acting as counterparties for securitization by NBFCs. As NBFCs turned assets into securities to generate liquidity, rebalance their exposures and comply with regulations, banks became willing partners in order to meet their priority-sector lending goals. In the process, we now have yet another channel of risk transmission. NBFCs are not as closely regulated as banks and should things go wrong with the former, the latter could suffer in ways that endanger financial stability.

On the liabilities side too, the growing presence of NBFCs poses some dangers. On one hand, the higher rates of interest they offer have given them strong deposit growth, despite the absence of deposit insurance, which should help lower their reliance on bank money. On the other, the concentration of deposits—five major deposit-taking NBFCs account for 96.9% of aggregate deposits—could spell a 'too-big-to-fail' scenario, resulting in taxpayer money being used to bail out a failed-but-systemically important NBFC. In a nutshell, RBI's restoration of lower risk weights for bank lending to NBFCs, along with its easing of monetary policy, might be helping these financiers expand their footprint. But RBI must stay on guard against this adding to systemic risk. Credit expansion must not come at the cost of financial stability.

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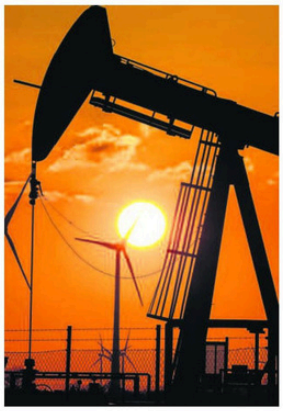
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Hot metals are pouring cold water on a fossil-fuel fantasy

Soaring copper and silver prices show that cleantech is winning



DAVID FICKLING
is a Bloomberg Opinion columnist covering climate change and energy.



State backing may not be able to extend the reign of fossil fuels. AP

The past year began with a promise from US President Donald Trump to deliver a future of "peace through strength" by unleashing America's fossil fuel supplies. Going by commodity prices, the opposite is happening. That's because the hottest metals as the year ends are the ones most indelibly associated with the mass electrification that is making coal, oil and gas increasingly redundant across the world. Silver pushed north of $80 a troy ounce for the first time in history Monday, capping a rise of 18% over the past week. Copper also hit a record, with a 6.3% gain taking it as high as $5.92 a pound.

The two metals are indispensable for electrical systems. Every wire, cable, motor and motherboard in your house contains copper, the best reasonably affordable electrical conductor. Many of them also carry a small amount of silver, the most effective conductor of all but one whose high prices typically confine it to thin films printed onto key contact points.

The solar industry, in particular, has become a key silver consumer, using about a fifth of global supply. Electric vehicles (EVs) comprise a small but fast-growing share of the total: Each one uses about 70% more silver and three times more copper than a conventional internal combustion engine car. Add in demand from AI chips and stagnating supply from mines that in many cases have been dug for centuries, and it's little surprise that prices for electrical metals are surging.

It's possible to give a fossil-fuel-favouring spin to this electrical revolution. While power generation from coal is in terminal decline, it still produces almost as much power as renewables do. Gas-fired electricity is on the rise only in the US, Saudi Arabia and Iran, but growth there has been significant and may yet continue thanks to the rollout of data centres and air-conditioning and the closure of oil-fired power stations. Even oil could benefit if all that extra copper and silver ends up going into hybrid rather than battery-only cars.

That's not what commodity markets are suggesting, though. US crude futures fell below $55 a barrel on 16 December, close to their lowest level since the first Trump administration. It's a similar picture for Asian import LNG prices, Dutch gas and Australian export coal, all currently flirting with five-year lows. Fossil fuel producers made a bet with the world in 2025: Given sufficient supply and favourable political tailwinds, they'd be able to induce demand even in the face of cheaper and cleaner renewables and electrification.

The Organization of the Petroleum Exporting Countries (Opec) opened oil spigots and pushed output from the cartel to its highest level since the start of 2023. LNG producers in the US signed off a record volume of new export projects, wagering that foreign buyers will mop up an excess of domestic gas. Chinese coal output hit a fresh record, with a 1.4% increase relative to a year earlier.

It's not working. The year's fossil fuel output boom is now piling up in inventories, sending prices slumping. Oil on water—the amount of crude sitting around in tankers because it's either in transit or waiting to find a buyer on-shore—has hit its highest level since April 2020, when prices went negative as the covid pandemic devastated demand. Egypt, India, and Pakistan have all been deferring or cancelling LNG cargoes and Japan's Jera Company, long the biggest buyer of LNG, is turning seller to get rid of its excess. Some 90% of the modest increase in Chinese coal production this year ended up in stockpiles, rather than furnaces.

Fossil fuel producers have immense power to set the terms of the debate on energy. In West Asia, their interests and those of the state are so intertwined that they're effectively indistinguishable. In Russia, the US and elsewhere, petroleum producers have been able to capture the government, even though they're far less important to the domestic economy. Coal production in India, China and Indonesia, likewise, has political importance far above its value in power and industry.

Still, it's consumers who will have the final say. Surging prices of copper and silver—and of other clean-energy mainstays, such as lithium carbonate and solar-grade polysilicon, both now at their highest levels in about 18 months—indicates stronger demand for clean power than carbon-based energy.

Like Russia's 2022 invasion of Ukraine, the arrival of the revanchist Trump administration was seen by oil and gas boosters as an opportunity to demonstrate fossil fuels' indispensability to the world.

As with that previous geopolitical shock, the promise is crumbling in less than a year. The petrostates that dominated the 20th century have had their day. The future is electric. ©BLOOMBERG

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OUR VIEW



PTI

Gig work: This model is fine but must pay more

An online debate sparked by a gig delivery strike yielded more heat than light. Gig platforms aren't a problem but could ease one if they increase wages and adhere to India's labour codes

There is no contradiction between paying gig workers a living wage and the claim that gig work provides job opportunities to many who would otherwise struggle to earn anything. Delivery workers for food delivery and quick-commerce platforms like Zomato, Swiggy, Zepto and Blinkit went on strike recently, demanding better wages and work conditions. This has triggered a bizarre debate online, as if asking for better wages amounts to socialism and charges of gig worker exploitation go against entrepreneurship. The obvious gainers from low-paid gig work are consumers who get doorstep deliveries both extra-cheap and ultra-fast. Entrepreneurs running platforms that give millions of people work who may be left jobless without this option deserve appreciation: the profits they earn are indeed a reward for risk-taking. However, this does not mean that concerns raised about the work conditions of gig workers, their earnings and lack of social security or occupational safety lack merit.

What platforms pay their delivery agents is a pass-through. In other words, their earnings do not come from squeezing riders. If all companies had to pay, say, 5% more than what they do now, consumers would simply have to shell out that much more. This would not dent platform margins on those deliveries. Such a payout hike would need all platforms to pay 5% extra, without any player trying to grab orders by offering order placers a cheaper deal. The Labour Codes recently notified by the Centre could make the gig debate redundant. If implemented uniformly in a clearly defined market—urban spaces, for example, where wages need to track higher living costs—these codes can address the expectations of workers without harming the viability of businesses that employ their services. An old demand of gig workers that is not justified is their call to classify them as employees. Gig work is a new kind of job that leaves workers free not to toil when they so choose. This freedom is valuable even if wages are low. What regulation should do is ensure realistic delivery timelines, given the distances to be covered and traffic conditions, and insist that riders get insurance and social security benefits from the platform fees paid by customers. This won't threaten the model.

The term 'exploitation' is subject to much confusion. In a technical sense, if one defines exploitation as the worker not being able to appropriate the entirety of the value generated by his or her effort at the workplace, workers will always be 'exploited,' however well they might be compensated. Yet, for a country to prosper and generate jobs, a private enterprise must get a return on its capital and entrepreneurs should be rewarded for entrepreneurship, which involves ideas, initiative, management skill and big money put at stake. The question is whether workers are paid wages that are fair or not. Market rivalry for workers can drive up wages. But if this mechanism fails, as in a monopsony situation (one employer or a cartelized lot), then regulation must step in. In general, better-paid workers tend to produce more, which serves employers well. Acting in aggregate, higher wages could also raise consumption in aid of the economy. Subsistence earnings depress demand, investment and growth. India's delivery gig model is not broken, but still needs a fix. A mix of Labour Code adherence and collective rider assertion could reset our gig sector to the benefit of all.

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MY VIEW | ECONOMIC GRAVITY

Let us deploy customs reform as a strategic tool for trade success

As world trade fragments, India's response should include five specific measures that could raise our global competitiveness



PRACHI MISHRA &
VIJAY SINGH CHAUHAN
are, respectively, head and senior fellow, Ashoka University Isaac Centre for Public Policy

ISTOCKPHOTO



The multilateral trade order is unravelling. The US has imposed country- and product-specific tariffs unilaterally, leveraging them to extract deals from several countries. China has retaliated with export controls on critical minerals. These moves undermine the basic principles of cooperative global commerce, leaving countries like India to prioritize securing their national interests. Against this backdrop, the Union finance minister's announcement of a comprehensive customs overhaul comes at a critical moment. These reforms will offer India an opportunity not merely to shield itself from trade conflicts, but capture a larger share of global exports and integrate more deeply into global supply chains. Success, however, will require a fundamental restructuring of how goods flow across India's borders.

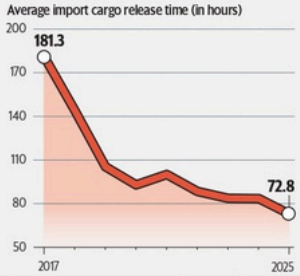
The reforms must recognize and build upon India's expanding web of trade agreements with Japan, Korea, Asean, Australia, the UAE, European Free Trade Association and the UK, even as negotiations with the EU are underway. But signing agreements is only the first crucial step. The real challenge lies in making these partnerships work for Indian exporters through streamlined customs procedures and reduced friction at the border.

At the heart of meaningful reform lies a dual focus on tariffs and the often-overlooked non-tariff barriers that quietly strangle trade. Our exporters struggle to comply with complex regulations in destination markets, while import processes at home remain cumbersome. The path forward requires simplifying India's tariff structure into three tiers: the lowest rates for raw materials, moderate rates for intermediate goods and higher rates for finished products. This rationalization should reduce our applied weighted average tariff rates from current levels of more than 5% to those comparable with competing economies: 1-2% for Vietnam, China and Indonesia. The inverted duty structure that penalizes domestic manufacturers when import duties on finished goods are lower than those on inputs must be eliminated, such as through the availability of streamlined Import of Goods at Concessional Rate of Duty Rules.

Capital goods present a particular case for tariff reform. Various export promotion schemes already permit duty-free imports of machinery. The Manufacturing and Other Operations in Bonded Warehouse (MOOWR) scheme extends this benefit even to domestic production. This practice essentially reveals a policy of openness toward duty-free capital goods' imports, subject to checks and balances under the scheme. Direct tariff reduction on capital goods for select sectors, from the current levels of 7.5% for most goods to 0% would be more straightforward and better serve the goal of encouraging investment while protecting domestic manufacturers through careful sectoral targeting.

Regulatory reforms make a difference

India has reduced how long it takes for import cargo to be released but cargo release times still remain below globally competitive levels.



Source: National Time Release Study 2025, Time Release Study 2018 and 2020

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Beyond tariffs, India's reforms must tackle the practical barriers that inflate costs and create uncertainty for traders. India has made impressive strides in reducing cargo release times and improving logistics. Yet, there is significant room for improvement. Five specific interventions could transform the trading environment:

The first challenge traders face is knowing what regulations apply. Goods routinely arrive at ports only to be detained because importers lack clear information about compliance requirements, particularly those arising from domestic regulations including quality control orders (QCOs). This defeats the purpose of processing shipments before arrival, a cornerstone of modern trade facilitation. The solution already exists in the Customs Act's Section 11(3): introduced in 2018, it authorizes the creation of a single repository for all regulatory requirements regardless of which ministry issues them. This provision must be implemented.

Even with simplified tariffs and centralized information, traders will encounter ambiguities, particularly around rules-of-origin under India's growing list of free trade agreements. Expanding the scope of Customs Advance Rulings under Section 28-H(2) of the Customs Act would allow businesses to seek binding clarification on how domestic regulations will apply to them at the border. This will require establishing mechanisms for coordination between the customs advance rulings authority and the relevant ministries to provide traders certainty.

Modern global supply chains increasingly involve transactions between related corporate entities. The current system of advance scrutiny by the Special Valuation Branch to determine proper duty values for such transactions often sees cases drag on for years without resolution, creating planning nightmares for businesses. This advance review process should be replaced with post-clearance audits that verify compliance after goods have moved, incorporating statutory time limits to prevent indefinite uncertainty.

Trade facilitation should also embrace a more sophisticated, entity-based approach centred on the globally recognized Authorized Economic Operator programme, which certifies reliable traders who meet stringent criteria. These certified operators deserve greater trust from customs officials in the field. The benefits should expand to include mutual recognition under free trade agreements, self-licensing for export permits (including sensitive technologies) and exemption from routine examinations at ports. Trust, once earned through rigorous vetting, should translate to tangible advantages.

Finally, while facilitating legitimate trade, customs must maintain robust compliance mechanisms. The current risk management system needs refinement to reduce both false positives that delay compliant shipments and false negatives that miss genuine violations. This requires a more nuanced categorization of non-compliance based on its nature, likely intent and economic impact. Different categories of violations should trigger different responses, from education and mediation to enforcement action, with clear processes for dispute resolution. Transparency in how these determinations are made will increase efficiency and build confidence in the system's fairness.

As global trade fragments into competing blocs and bilateral deals, India's customs system must evolve into a strategic policy instrument. The proposed reforms represent an opportunity to position India as an agile competitor ready to seize opportunities in a reordered global economy. These changes must be implemented with the urgency and ambition that this moment demands.

Shubhangi Sahai contributed to the article. These are the authors' personal views.

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THEIR VIEW

Litigation overload: It's time for the state to rest its case

ADITYA SINHA



writes on macroeconomic and geopolitical issues.

India has 54 million pending cases, 47 million in district courts, 6.3 million in high courts and nearly 90,000 in the Supreme Court, with just 25,000 judges to handle them. This translates to barely 21 judges per million people, far below the Law Commission's recommended 50 and well short of the US (107) and UK (51). Vacancies hover around 30% in many high courts and case disposal rates remain sluggish, averaging 1,350 cases per judge annually, versus over 2,000 in OECD jurisdictions. Each adjournment adds several months to case duration: over 18 million cases are more than three years old and 5 million exceed a decade. Judicial inefficiency has thus become both a governance and economic problem, conservatively estimated by Niti Aayog to shave 1.5% off GDP annually through delayed contract enforcement, locked capital and investor uncertainty.

Behind this inefficiency lies an even deeper structural distortion: the state itself. The Union government, public sector undertakings (PSUs), state governments, state PSUs and local bodies together account for nearly half of all litigation nationwide. At the Union level, according to Legal Information Management and Briefing System (LIMBS), the finance ministry alone is party to nearly 200,000 pending cases, 98,544 before tribunals, 83,552 in high courts and 12,589 in the Supreme Court, representing roughly 13% of the top court's burden. Tax and revenue disputes dominate, but the government's litigation footprint extends across civil contracts, land acquisition and service matters. Although monetary thresholds for appeals were raised in 2022 (to ₹1 crore for high courts and ₹2 crore for the Supreme Court), pendency reduction has been marginal, reflecting a culture of litigation as bureaucratic insurance rather than legal necessity.

This culture stems from several institutionalized incentives that make 'default litigation' the path of least resistance. Audit and vigilance frameworks indirectly treat unappealed losses as negligence: accounting codes of the Comptroller and Auditor General (CAG) require every audit objection to be 'settled' or 'explained,' and an appeal offers safe harbour from being questioned, while a liberal appellate framework allows virtually automatic filing. Despite calls for a binding national litigation policy, successive governments have balked. Instead, we now have a 'Directive for Efficient and Effective Management of Litigation' (April 2025), which introduces nodal officers, legal cells and MIS dashboards, but lacks statutory teeth, performance-linked disincentives or real-time data integrity. LIMBS itself remains under-updated and fails to track reasons for appeal.

Here are some measures that could stop the government from being a compulsive litigator

Here is a five-point agenda for inclusion in a national litigation policy.

First, India must move away from its open-ended appeal culture and adopt a 'leave-to-litigate' system that acts as a regulatory filter. Departments should not be permitted to file more than one automatic appeal. Any second or higher appeal must obtain prior clearance from an empowered group of secretaries (EGoS) chaired by the attorney general that should apply a three-factor test of (a) public interest, or whether the case impacts governance or citizens beyond the immediate dispute; (b) legal novelty, or whether it raises a new or unsettled question of law; and (c) its probability of success, or whether an appeal has reasonable merit.

All clearances, refusals and reasons for decisions should be published quarterly to promote transparency and accountability, making higher litigation a privilege of merit rather than routine practice.

Second, litigation must be treated as an information system. A new national legal information grid should integrate existing platforms such as LIMBS, the National Judicial Datagrid, e-courts, digital platforms, etc. to enable real-time tracking of every case involving a government entity. Reasons for appeal, stages of proceedings, adjournments, costs incurred and success rates should be visible. AI-based analytics could identify departments that repeatedly lose on the same issue, generate predictive 'win-loss' probabilities and flag cases ripe for settlement.

Third, to reduce unnecessary appeals driven by audit or vigilance fear, we need a clear pre-EGoS litigation decision protocol. Only after a ministry's legal advisor advises litigation should it be sent to the EGoS. Officers who support decisions in writing, with the legal merit, financial implications, public interest and success likelihood of a case duly noted, should receive safe-harbour protection if it is vetted by the legal advisor.

Fourth, every ministry and PSU must have an annual litigation budget cap. Legal spending should be treated as a burden. If a department exceeds its cap or loses a case where an appeal was discouraged, expenses should be charged to its own account head. Conversely, ministries that achieve measurable reductions in pendency or successful settlements could get incentives.

Fifth, transparency deters wasteful litigation. The law ministry should set up a public litigation dashboard, a citizen-friendly version of LIMBS, covering every ministry and department. It should publish quarterly data on pending cases, average case duration and adjournment frequency, apart from the success rate and costs. It should be easy for the public to access and understand.

The state should stop being the country's most compulsive litigant. Justice will be more efficient once the government learns to rest its case.

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MY VIEW | IT MATTERS

Lou Gerstner: The CEO who taught IBM how to dance

SIDDHARTH PAI



is co-founder of Siana Capital, a venture fund manager.

Louis Vincent Gerstner Jr., the American business leader whose steady hand and clear-sighted strategy pulled International Business Machines Corp (IBM) from the brink of collapse and reshaped it for the dawn of the digital age, died on 27 December 2025 at his home in Jupiter, Florida. He was 83 years old. Arvind Krishna, IBM's current CEO, described him as a transformational figure whose influence extended far beyond the Big Blue's boardroom and whose leadership saved one of the technology world's most iconic companies. Gerstner's life was defined by decisiveness in times of peril and a firm belief in the power of organizational unity and service-oriented innovation.

Born in Mineola, New York, Gerstner grew up in Long Island and showed early promise as a methodical thinker. He graduated in engineering from Dartmouth College and earned an MBA from Harvard Business School. After beginning his career in management consulting with McKinsey, he rose through the executive ranks at American Express and later took the helm of RJR Nabisco, where he proved his ability to navigate complex financial and operational challenges. When he accepted the role of chair and CEO of IBM in 1993, he became the first outsider ever to lead it. At that moment, IBM was deep in crisis. Once the world's largest computer maker whose mainframes powered financial systems, corporations, and governments alike, it was losing billions of dollars and market share to nimble competitors and facing calls to break the company apart. The tech landscape was transforming at a dizzying pace and IBM's product-centric approach felt out of step with the needs of its global customers. I worked for IBM during his time there.

Rather than yield to pressure for IBM to be split into smaller, independent units, Gerstner made his first of many bold choices by preserving its unity. He understood that its greatest strength lay not in disconnected product silos, but in its ability to deliver integrated solutions that met complex customer demands. This was a strategic pivot that few fully grasped at the time, but it became the lynchpin of IBM's revival. When quizzed at the time about his strategic vision for IBM, he is famously known to have said "The last thing IBM needs is a vision at this time." He was right. The giant faced extinction and survival was paramount.

The CEO cut costs, streamlined operations and took on cultural habits that often prized internal procedure over customer responsiveness. He trained the firm for what it needed: a relentless focus on real business outcomes for clients. He insisted on customer orientation and drove this principle home. These shifts came at a huge cost (IBM shed about 100,000 employees), but changes were essential to stabilize finances and build client and investor confidence.

He focused on customer needs to revive IBM's fortunes. His legacy remains relevant in this age of AI

Central to his strategy was the transformation of IBM's business model towards services and integrated solutions. Back when rivals were racing to commoditize hardware, he saw that clients valued expertise and the ability to implement and manage complex systems that could knit together disparate technologies across enterprises. This was the IBM I was hired into. When I was seconded to Europe as its boss of communication sector services, the impact he had had there while changing stodgy leadership had become the stuff of legend.

Under his leadership, IBM built a services business that became a global leader in its own right. It grew rapidly, offering not only higher margins than many legacy hardware products, but also a more durable connection to client needs, thanks to its consultative nature.

Despite the pressure of the turnaround, Gerstner never lost sight of IBM's need to be a coherent whole. He broke down divisional barriers that hindered collaboration, reformed incentive systems so that performance was judged by collective success rather than by isolated unit results, and encouraged a culture where execution mattered as much as strategy.

Over the course of his tenure, IBM's fortunes turned. It regained profitability and its reputation for innovation. Its stock price went up by a multiple of six. He stepped down as CEO in 2002 and relinquished the chair later that year, leaving behind a company better prepared for 21st century challenges. His memoir, *Who Says Elephants Can't Dance?* is a reflection on leadership and change that is still a key text for students of business strategy and corporate change.

After IBM, Gerstner served as chair of the Carlyle Group, a private equity firm, and devoted energy to philanthropy, particularly in education and biomedical research. His work with public schools testified to a broader commitment to societal progress.

Colleagues and admirers remember him not only for the outcomes he achieved but for the clarity of his thought and the integrity of his leadership. As a mentor, his influence shaped a generation of leaders and his impact is evident in the many business and technology ventures whose leaders passed through IBM during his tenure. He was one of the great American executives of his time, who left lessons for other CEOs trying to effect massive structural change in the wake of technological upheavals, much as we are about to see with AI in the next few years.

In an age of rapid technological change, his life's work remains a reminder that businesses endure by embracing change with rigour and resolve. I, for one, am grateful to have worked in the redefined IBM that was his brainchild. Rest in peace, Lou.

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THEIR VIEW

Europe's existential threat is not immigration but low innovation

Its technology lag could spell a sudden and irreversible loss of economic relevance if it doesn't fix its structural weaknesses



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REUTERS



US President Donald Trump's new National Security Strategy offers a misguided assessment of Europe, long regarded as America's most reliable ally. Unrestrained immigration and other policies derided by administration officials as "woke," it warns, could lead to "civilizational erasure" within a few decades.

That argument rests on a basic misreading of Europe's current predicament. While the EU does face an existential threat, it has little to do with immigration or cultural politics. In fact, the share of foreign-born residents in the US is slightly higher than in Europe.

The threat facing Europe lies in its economic and technological backwardness. Between 2008 and 2023, GDP rose by 87% in the US, compared to just 13.5% in the EU. Over the same period, the EU's GDP per capita fell from 76.5% of the US level to 50%. Even the poorest US state, Mississippi, has a higher per capita income than that of several major European economies, including France, Italy and the EU average. This widening economic gap cannot be explained by demographics. Instead, it reflects stronger productivity growth in the US, largely owing to tech innovation and higher total factor productivity. Today, roughly half of the world's 50 largest technology firms are American, while only four are European. Over the past five decades, 241 US firms have grown from startups into companies with market capitalizations of at least $10 billion, compared with just 14 in Europe.

These trends raise a critical question: Which countries will lead the industries of the future and where does Europe fit in? The race for tech leadership now spans a wide range of fields, including AI and machine learning, semiconductor design and production, robotics, quantum computing, fusion energy, fintech and defence technologies. Europe enters this race at a clear disadvantage.

Whether the US or China currently leads future industries is open to debate, but most observers agree that it's essentially a two-horse race, with America still ahead in several key areas. Beyond that, innovation is concentrated in countries like Japan, Taiwan, South Korea, India and Israel. In Europe, by contrast, innovative activities are largely confined to the UK, Germany, France and Switzerland, two of which are not EU members.

It is hardly a surprise, then, that while the US and China dominate global tech rankings, Europe finds itself far from the top. And the outlook is anything but reassuring, given that the next wave of innovation is widely expected to be more disruptive than anything we have seen over the past half-century.

The technological gap between the US and Europe can be attributed to several factors. *First*, the US has a far deeper and more dynamic ecosystem for financing startups, while Europe still lacks a genuine capital markets union, limiting the scale and speed at which new firms can grow.

Second, Europe is hampered by excessive and fragmented regulation. A US startup can launch a product under a single regulatory framework and access a market of more than 330 million people. The EU has a population of roughly 450 million but remains divided among 27 national regulatory regimes. An International Monetary Fund analysis shows that internal market barriers in the EU act like a tariff of around 44% for goods and 110% for services—far higher than the tariff levels the US imposes on most imports.

Third, cultural attitudes toward risk-taking differ sharply. Until relatively recently, a failed entrepreneur in some EU countries (like Italy) could face criminal penalties, while in the US, a tech founder who has never failed is often seen as too risk-averse.

Fourth, the US benefits from a deeply integrated academic-military-industrial complex, while Europe's chronic underinvestment in defence has weakened its innovation capacity. Technological leaders like the US, China, Israel and, more recently, Ukraine spend heavily on defence, with military research often producing technologies that have civilian applications. Despite this, many European leaders continue to frame higher defence spending as a tradeoff between security and social welfare. In reality, free-riding on US defence spending since the end of World War II has limited the type of innovation that could have generated more of both through higher productivity. Paradoxically, sustaining Europe's social model will require greater investment in defence, beginning with meeting Nato's new spending target of 3.5% of GDP. If Europe lets its tech lag widen, it risks prolonged stagnation and continued economic decline relative to the US and China. There are, however, reasons for cautious optimism. Increasingly aware that Europe faces an existential challenge, policymakers have begun to advance serious reform proposals. Notable examples are the two major 2024 reports on EU competitiveness and the single market by former Italian prime ministers Mario Draghi and Enrico Letta, respectively.

Europe has considerable strengths, including high-quality human capital, excellent education systems and world-class research institutions. With the right incentives and regulatory reforms, these assets could support much higher levels of commercial innovation. With a better environment for entrepreneurship, Europe's high per capita income, large internal market and high savings rates could help unleash a wave of investment.

Crucially, even if Europe never leads in cutting-edge technologies, it could still significantly boost productivity by adopting and adapting American and Chinese innovations. Many of these technologies are general-purpose in character, benefiting both adopters and pioneers.

All of this leaves Europe at an inflection point. As Ernest Hemingway famously observed, bankruptcy happens "gradually and then suddenly." So far, Europe's technological decline has been gradual. But if it fails to confront its structural weaknesses, today's slow erosion could give way to a sudden and irreversible loss of economic relevance.

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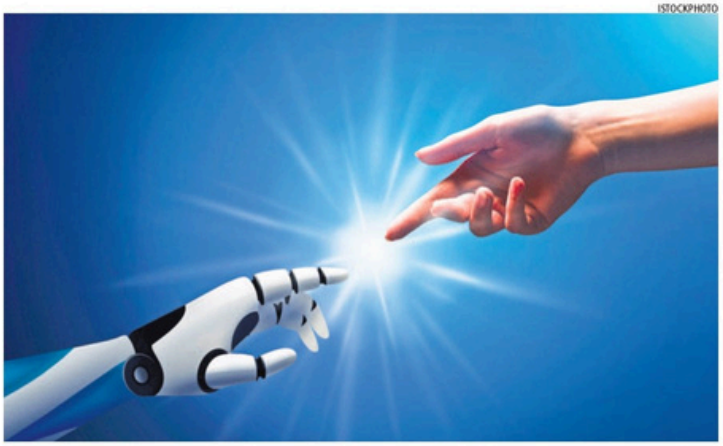
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OUR VIEW

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Can we put AI to work in aid of inclusive growth?

Plans are in place for artificial intelligence to lift our path of economic expansion and put 'developed country' status within reach. The bigger challenge is to ensure that everyone gains

India is making steady progress on artificial intelligence (AI). After chairing the Global Partnership on AI Council in 2024, the country is preparing to host the five-day India AI Impact Summit 2026 in New Delhi in mid-February. Apart from heads of state, CEOs of tech firms such as Google DeepMind, Anthropic, Adobe, Salesforce and Qualcomm are expected to attend. While AI development has been dominated by the US and China, India is clearly on the AI map. According to a report by the Niti Aayog titled *AI for Viksit Bharat*, AI adoption across sectors could add $17-26 trillion to the global economy over the next decade, with India well placed to capture 10-15% of that value, thanks to its large STEM workforce, expanding R&D base and growing digital capabilities. Stanford's Global Vibrancy Tool ranked India fourth on AI globally in late 2024, before elevating it to third place in its 2025 edition. The government think-tank's Viksit Bharat report released in September describes AI as a "decisive lever" to push India's economic growth towards an 8% annual trajectory, which is roughly what the country needs to achieve its 2047 aim of being counted among 'developed' countries (as measured by national output). The report argues that this growth bump-up can be unlocked by speeding up the use of AI across industries to lift productivity and overall economic efficiency.

To see that happen, India is moving to maximize the benefits of AI through targeted investment, policy enablers and a 'techno-legal' approach that seeks to balance innovation with guardrails. Data-centre capacity is expanding rapidly, while the IndiaAI Mission is easing access to AI compute power. The Centre's approval of 10 semiconductor plants should strengthen the country's electronics ecosystem, even as startups build Indian-language and voice models that are vital for inclusion in a country where millions remain sub-literate. India's AI Kosh repository, which hosts close to 6,000 local datasets, offers a data backbone for innovation anchored in digital public infrastructure, spanning Aadhaar, UPI, the Health Stack and more. For AI to fulfill its promise, though, it also needs to be democratized. This challenge is particularly acute across the Asia-Pacific region, which already accounts for more than half of all global AI users and nearly 70% of AI patents. A UNDP report, *The Next Great Divergence*, cautions that while AI could lift GDP growth by around two percentage points and raise productivity by up to 5% in key sectors, these gains are not likely to be evenly shared.

Many economists worry that AI will take away jobs, empower some classes over others and worsen disparities unless special efforts are made to prevent it. That said, India, as per the UNDP report, is well placed to push for a more inclusive AI transition. Some steps are already visible. Niti Aayog's October 2025 report, *AI for Inclusive Societal Development*, highlights initiatives such as the Digital ShramSetu Mission, which uses AI-driven tools to boost productivity and resilience among millions of workers in the informal sector by expanding access to healthcare, education, skilling and financial services. The AI Impact Summit 2026, which builds on earlier multilateral conclaves held in Bletchley Park, Seoul, Paris and Kigali, is appropriately themed 'Democratising AI, Bridging the AI Divide.' With the right policy choices, we could align the rise of AI with the cause of equitable development.

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THEIR VIEW

Why we urgently need a national competition policy

PRADEEP S. MEHTA



is secretary general of CUTS International.

India's economy is at an inflection point. On one hand, we aspire to become a $5 trillion economy soon and project a bold vision of a Viksit Bharat by 2047. On the other, our economic reality tells a humbling story—just as we did not achieve the $5 trillion mark in 2025, as originally envisaged, the vision of 'developed' status by 2047 will not be realized if our GDP grows at its current rate. India is shying away from a key reform that can address distortions holding the economy back: a national competition policy (NCP). If implemented, it would be our second wave of big-bang economic reforms after 1991.

While the discourse around competition in India has become synonymous with anti-trust enforcement and merger approvals, competition policy is a much broader, economy-wide discipline. Put simply, it is about shaping the rules of the game—not after the horses have bolted from their stables, but before distortions take hold. Many policymakers argue that India already has a strong Competition Act and an active Competition Commission of India (CCI), so why add another layer? This reflects a basic misunderstanding. When the CCI was established in the 2000s, some people thought it was another market entry testing mechanism; such was the public ignorance.

It took time for them to understand that competition law is reactive. It intervenes after a company (private or public sector) indulges in anti-competitive behaviour—by abusing its market dominance, forming a cartel with others or trying to acquire such clout through a merger. Competition policy, however, is preventive and also curative. It ensures that every regulation, government scheme, licensing requirement, procurement policy or sectoral reform is screened for its impact on competition and does not unnecessarily distort any market.

Although an NCP was drafted in 2011, it has been languishing on the ministry of corporate affairs' website for over a decade, despite Niti Aayog's recommendation of comprehensive competition-policy reform. But Niti Aayog's management has changed since then and the fate of that initiative remains unclear. As recently as August 2025, the 25th Parliamentary Standing Committee on Finance flagged this inaction, stressing that an NCP is long overdue to attain coherence, coordination and real competitive discipline across sectors. Meanwhile, countries across the world have adopted competition policies. Australia's NCP reforms, for example, not only opened its markets but generated an estimated 2.5% increase in GDP.

A well-designed NCP can change how India's markets work because it would build competition principles into everyday policymaking, instead of treating them as an afterthought. With this framework in place, the government would be required to examine every regulation or scheme through a competition lens, which would help spot and remove unnecessary entry barriers and distortions. This alone can make space for more firms, especially newer and smaller ones, to invest, innovate and compete fairly in better contested markets.

Well-contested markets yield efficiency, innovation, other consumer gains and faster GDP growth

An NCP will also push ministries and regulators to transparently justify any preferential treatment given to incumbents or state-owned enterprises. By promoting proportionate, risk-based regulation instead of blanket rules, the policy would ease compliance pressures on small businesses while holding large players accountable where needed. An NCP would also make governance more coherent and thus better.

The broad goal of such a policy is to institutionalize the principle of competitive neutrality, ensuring that similarly-situated entities are treated on an equal footing, whether they are state-owned, privately held, domestic or foreign. Upholding this principle of economic democracy is critical for any economy that aims to foster fair rivalry for the sake of efficiency, growth and innovation. Consumers also benefit directly through better prices, more choice and improved services, while the economy benefits from early detection of market distortions before they can turn into long-term drags on growth. In short, an NCP doesn't just tidy up regulations, it strengthens the entire economic environment.

Enthusiasm for an NCP, unfortunately, has been weak in India. The Competition Act's existence has been cited at least on one occasion to justify not having a policy dedicated to competition, though the Act also recommends adoption of an NCP. The Centre's approach seems incoherent. We have various laws for intellectual property rights (IPR), for example, and also a national IPR policy. Likewise, we have various environmental protection laws apart from an environment protection policy. A formally laid-down policy gives the relevant laws more teeth. Since we have put frameworks in place for those two, why not do the same for competition? It would aid investment, innovation, efficiency, consumer welfare and economic growth.

Competition policy is not a bureaucratic exercise but an economic necessity. Fortunately, two significant reforms (among many) took place over the past decade or so: the GST rollout to create a single market and the enactment of the Insolvency and Bankruptcy Code to enable the swift exit of sick units.

The government must revive the draft NCP of 2011. India cannot achieve developed status through slogans. We need competitive, efficient and innovation-led markets.

Vidhi Maharishi of CUTS contributed to this article.

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THEIR VIEW

Our rush for trade deals: Good economics or smart geopolitics?

India's pacts may not boost trade much but act as an insurance policy against trade fragmentation



MANOJ PANT & M. RAHUL
are, respectively, visiting professor, Shiv Nadar University, and assistant professor, Institute of Economic Growth.

The year 2025 closed with a spurt of trade deals. On 22 December, India concluded one with New Zealand, negotiated in just nine months. Four days earlier, on 18 December, New Delhi signed a Comprehensive Economic Partnership Agreement (CEPA) with Oman. Such pacts are also planned or under negotiation with Chile, Israel, Canada and others. As one observer joked, India seems to have a trade arrangement with every country except the Vatican. Why this sudden flurry? The reasons are not purely economic: they are deeply embedded in geopolitics.

Experience with India's earlier deals suggests that without deep integration, such agreements may not significantly enhance trade. Free-trade agreements such as the one with Asean have shown low utilization rates and only modest trade gains. This is unsurprising. Over successive World Trade Organization (WTO) rounds, tariffs have already been reduced sharply, leaving little room for preferential liberalization to generate large benefits. Free-trade accords have thus become less important as instruments of tariff reduction.

This also explains why many modern deals deliver limited trade outcomes. Countries often sign them not because trade will suddenly expand, but because trade or investment links already exist, or because geopolitical calculations make them desirable. Such agreements are, therefore, endogenous outcomes, formalizing existing relationships rather than creating new ones.

India's recent deal-forging activity reinforces this point. Negotiating trade agreements consumes political and administrative resources, while multiple bilateral arrangements create overlapping rules of origin that raise compliance costs. From a purely economic perspective, this is not always efficient. Regional agreements are generally superior, but only when the region functions as a coherent economic bloc—something South Asia clearly does not.

The limits of India's bilateral approach become evident when one examines export destinations. Our CEPA with the UAE covers only about two-thirds of exports to the Gulf and roughly half of all imports. The Oman agreement covers just 7% of exports to Gulf Cooperation Council (GCC) nations and about 5% of imports. A GCC-wide deal would have been far more meaningful economically, but this could well be preparation for a future pact with the grouping. The preference for country-specific deals, however, points to political logic.

The contrast with East Asia is even starker. India's bilateral arrangements with Japan, Korea and Australia account for barely a quarter of our exports to members of the Regional Comprehensive Economic Partnership (RCEP). More than three-quarters of our trade with RCEP takes place without any preferential agreement. Staying outside RCEP while signing scattered bilateral deals leaves most of this regional market untouched.

If trade creation is not the primary objective, what explains India's recent push for deals? Several non-economic considerations stand out.

First, trade pacts serve as instruments of political signalling, allowing India to deepen strategic partnerships while preserving strategic autonomy.

Second, they function as tools for hedging risks in an uncertain global trade environment, helping diversify economic relationships and reduce over-dependence on China.

Third, deeper engagements provide greater protection for investors by clarifying rules on investment, dispute settlement and regulation.

Finally, bilateral agreements help pre-empt exclusion amid the formation of trade blocs that increasingly mirror geopolitical alignments.

Our agreements with Oman and New Zealand illustrate this shift. Neither is a major merchandise trade partner. Oman's importance lies more in labour migration, energy linkages and its strategic location near the Strait of Hormuz. New Zealand, accounting for just $0.6 billion of Indian exports, has a small economy; the rationale lies instead in strengthening Indo-Pacific ties.

Both agreements emphasize services, labour mobility, recognition of qualifications and investment protection more than tariff liberalization. While tariff concessions are extensive on paper, their economic impact is limited by small market sizes and already low applied tariffs. India's comparative advantages and strategic interests are thus their focus.

Seen this way, India's recent deals are best understood not as conventional trade agreements aimed at boosting exports, but as geopolitical insurance policies in a fragmenting global order. At the same time, a good beginning has been made with services trade getting attention. Trade in services tends to need greater alignment of regulatory policies and hence much higher levels of diplomacy. Such agreements could take time and this seems as good a moment as any to make a start.

US President Donald Trump has thrown both global trade and politics into a new world of uncertainty while jettisoning the multilateralism of the WTO. In this scenario, a series of deals might well be the best response.

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THEIR VIEW

Let us promote universalism in a world riven by ultra-nationalism

A truly borderless world is a distant dream but we could surely work on strengthening useful supranational organizations



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ISTOCKPHOTO



At the cusp of a new year, the global outlook appears increasingly grim. Escalating conflicts and resurgent authoritarianism are undermining domestic and international institutions alike, while rising wealth inequality is deepening economic insecurity and eroding social cohesion.

Perhaps the most dispiriting development is the growing hatred of the 'other.' In country after country, political leaders increasingly dehumanize migrants and refugees, casting people fleeing poverty, persecution, and conflict as a mortal threat. Such rhetoric brings to mind W. H. Auden's *Refugee Blues*. Written on the eve of World War II, a period when refugees were similarly blamed for economic insecurity and social decline, the poem depicts a speaker at a public meeting who warns, "If we let them in, they will steal our daily bread."

The rise of xenophobic populism across large swathes of the world is not occurring in a vacuum. It is at least partly driven by a profound structural shift that is often overlooked by social scientists who assume the inevitability of the nation-state.

It is easy to forget that the nation-state is a relatively recent idea that emerged when travel was slow and limited. At the time, it made sense to imagine the world as a collection of communities, each responsible for the welfare of its own members. Governing these units effectively required the cultivation of a shared identity and nationalism emerged to fill that role.

But globalization has put this arrangement under growing strain, as the freer movement of goods, money, information and people—together with the digital revolution—enables firms, workers and consumers to connect across borders. Paradoxically, it is precisely that fragility that is fuelling the current wave of hyper-nationalism, which represents a rear-guard effort to revive a model the world has outgrown.

We have seen this before. Claims of racial superiority were once considered normal, but now provoke widespread revulsion. While it remains common for people to declare their countries the greatest on earth, assertions of national primacy will, in time, come to sound just as crude and indefensible.

The contours of this shift were already visible decades ago. In his 1992 book *The Twilight of Sovereignty*, former Citigroup chairman Walter Wriston predicted that national governments would gradually lose relevance. Our collective fate, he observed, increasingly rests with those who "interconnect the planet with telecommunications and computers" and the bankers who move capital across a "new global electronic infrastructure."

Just as the rejection of slavery and racial supremacy was essential to building a more just world, so too may shedding the current hubris of nationalism. This view is central to the work of the late philosopher John Rawls, who argued that a fair society must be designed from behind a "veil of ignorance," setting aside accidents of birth like ethnicity, gender and nationality that would otherwise shape moral judgements.

The moral case for universalism is not the sole preserve of academic philosophers. Indian poet Rabindranath Tagore, who won the Nobel Prize for Literature in 1913, repeatedly imagined a world free of borders. In a 1917 essay, he argued that while the nation-state remained a practical necessity, we must ultimately aspire to a day when our primary identity would be simply human.

India's first Prime Minister, Jawaharlal Nehru, recognizing the force of that vision, wrote that "nationalism is a narrowing creed" and credited Tagore with pushing his compatriots to reject its intellectual constraints.

But even if we accept the moral case for universalism and recognize how deeply interconnected the global economy has become, the question remains: Is a borderless world feasible? After all, nationalism has often provided people a powerful incentive to strive and excel, thereby helping to drive growth and innovation.

Here, the Greek Stoic philosopher Chrysippus of Soli offers a useful perspective. Writing in the third century BCE, Chrysippus lived a life of legendary simplicity and often turned to competitive sports as a metaphor for a moral life. As American philosopher Tad Brennan puts it, he advocated a "no shoving" ethic, according to which competitors should strive to win, but only within the rules of the game. Under such conditions, competition can coexist with friendship, cooperation and shared purpose.

To be sure, a truly borderless world remains a distant dream. For now, what we can do is strengthen existing supranational organizations, including the United Nations, Bretton Woods institutions and the International Criminal Court. At a time when nationalism is again weakening the foundations of international cooperation, their resilience is of critical importance.

As a new year gets underway, we must nurture aspirations for a world in which no one is treated as the 'other' and refugees and migrants are not dehumanized as the ones stealing our bread. Universalism is a dream, but it is not an impossible one.

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OUR VIEW


MINT

India's fertilizer policy needs a fruitful rehaul

Our subsidy framework is a formula for fiscal waste, inefficiency, ecological damage and health hazards. Let's adopt direct cash transfers to farmers and market determined usage

India's fertilizer imports are expected to go up from 10 million tonnes this year to 12 million in the next. This has led to heavy lobbying for incentives to raise domestic production for import substitution. On the face of it, this demand has merit. But look closer, and the picture changes drastically. India needs to reform its policy for fertilizers. The subsidy bill on these farming inputs was above ₹1.9 trillion in 2024-25, and while this fiscal year's budget allotted under ₹1.6 trillion, the actual expense could go higher. This figure does not reflect the subsidy on natural gas used as an input by our fertilizer industry, which pays only about half the regular price (of up to $13 per million British thermal units). Yet, this huge subsidy has increasingly been going waste. Nutrient Use Efficiency, which measures how much of the applied fertilizer—not of the total sold at subsidized rates, a portion of which gets diverted for resale at higher prices—is actually absorbed and used by crops has dropped to below 35% for nitrogen-rich urea (N), 20% for phosphorous (P) and a range of 50-80% for potassium (K). "Nationwide, the fertiliser-to-grain response ratio (a measure of the additional unit of grain to be had by applying an additional unit of fertilizer) has fallen from about 1: 10 in the 1970s to barely 1: 2.7 by 2015 in irrigated areas," according to agricultural economist Ashok Gulati. Simply increasing the quantity of subsidized fertilizer, thus, is to squander scarce fiscal resources.

Farm value addition per unit of crop-sown land in India is just 38% of that in China. While the People's Republic uses double the quantity of fertilizer that we use, it gets significantly more output from that because of a better balanced ratio of N, P and K fertilizers, apart from superior farm technology. The ideal NPK combination is 4: 2: 1. Our current mix is 10.9: 4.4: 4. Since urea is heavily subsidized, farmers use more of it—often without complementary proportions of P and K. Excess urea has three effects. Some of it is lost to the atmosphere as nitrous oxide, a climate warmer. Some leeches into ground water as nitrate, interfering with the nutrition of those who drink it and posing other health hazards. It also raises green vegetation without a proportionate rise in grain yield. Our subsidy regime does not just incentivize an adverse fertilizer ratio, it also inhibits the adoption of complex fertilizers with optimally mixed crop nutrients.

India must overhaul its subsidy regime. It is time to abandon sending subsidy payments to fertilizer companies, which should be freed to make innovative products such as nano and complex fertilisers for sale at market prices. The subsidy sum could instead be sent directly to farmers as cash support in proportion to the area they cultivate. Let farmers be identified as cultivators—and not necessarily owners—of each tract of subsidy-eligible farmland. Once this is properly determined, financial transfers would be easy and just. Farmers would accept market prices for fertilizers if they are guided on the best mix for their soil type and learn to appreciate the space created for them to optimize farming. This would drive efficiency and reveal actual shortages (if any). We must also push for the gasification of coal, which is abundant in India, instead of using pricey LNG imports as fertilizer feedstock. Gasifying coal for gas-based electricity generation would also serve our climate goals, as it could bridge gaps in renewable power supply. In all, we need sweeping reforms in this sector.

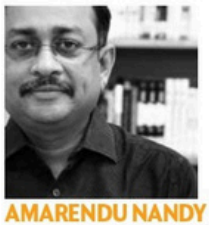
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THEIR VIEW

What the Union budget must do to get private capex going again

Long-term tax and regulatory certainty would grant private businesses the confidence to take risks



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The economy appears to be on a stable footing ahead of the Union budget. Growth clocked 6.5% in 2024-25, public capital expenditure crossed ₹11 trillion, its highest share of GDP in 15 years, and inflation has largely stayed within the Reserve Bank of India's (RBI) tolerance band.

Yet, a troubling imbalance lies beneath the macro aggregates. Private capital has not responded with the breadth or momentum one would expect at India's current stage of development. The public sector is doing most of the heavy lifting on capex, while the private sector, despite strong balance sheets and ample liquidity, has been cautious on long-term investment.

According to rating firm ICRA, over the past decade, joint-stock companies have accounted for about 35% of India's gross fixed capital formation (GFCF). In 2023-24, this fell to a decadal low of about 33%. Among private companies, listed firms did step up capex, but their contribution is limited, accounting for barely 16% of private capex and around 5% of overall GFCF. Unlisted firms, which form the backbone of manufacturing and employment, have largely stayed out of the investment cycle.

Notably, the household sector now contributes over 40% of GFCF, driven largely by investments in real estate and unorganized ventures. The contrast is striking. Households appear willing to commit capital to long-lived assets while corporations, evaluating 10- to 15-year industrial projects, draw more conservative conclusions about risk and return. This divergence points less to a shortage of savings than confidence.

The statistics ministry's latest survey shows that fresh private capex intentions for 2025-26 have moderated to ₹4.89 trillion from ₹6.56 trillion in 2024-25. This comes despite a cumulative 66% rise in announced investment plans over the previous three years, suggesting that the pipeline is thinning beyond a narrow set of sectors. RBI's August bulletin projects a 21.5% rise in private corporate capex in 2025-26, but much of this increase is expected in power, renewables and transport, sectors closely tied to public investment and regulatory assurances.

The painstaking repair of bank and corporate balance sheets over the past decade was expected to trigger a stronger capex response. Instead, for many firms, it has translated to risk containment. Global uncertainty has played a role, but domestic policy risk has been equally important. Firms struggle to form stable expectations on taxes, trade policy and regulation over the life of long-gestation projects.

The proliferation of Quality Control Orders (QCOs) illustrates the problem. Since 2019, their number has increased from 88 to 765, with nearly half covering intermediate goods critical to domestic supply chains. While better standards is a legitimate goal (and some QCOs have been eased), the speed and breadth of implementation, particularly across metals, machinery and electronics, imposed certification delays and compliance costs that are burdensome for small enterprises. Combined with frequent tariff changes, shifting sectoral norms and *ad-hoc* tax interventions, regulatory moves have made investment outcomes harder to forecast. Unsurprisingly, capital has gravitated towards sectors with state-backed revenues rather than in favour of broad-based manufacturing and services.

This makes the upcoming budget all the more consequential. With the new Income Tax Act of 2025 set to take effect from April, the budget must embed tax predictability as a structural public good. Steps such as a rationalized and unified capital gains tax regime, inflation-indexed personal income tax thresholds for higher earners and a credible medium-term commitment on corporate surcharge rates would lower uncertainty over post-tax returns and cut policy risk premia, which are essential for long-term capital formation.

Another structural constraint requires attention. Small firms face a persistent credit gap of ₹20-25 trillion and liquidity stress due to delayed payments, including from government entities. Their reluctance to invest is driven less by demand and more by cash-flow risk. To revive private capex beyond a narrow corporate group, the budget must treat payment discipline as an essential reform. Enforcing the 45-day payment rule for government and public sector procurements, supported by mandatory disclosure and automatic penalties, would be a more significant reform than credit subsidies. Credit-guarantee schemes should also shift focus from working capital to term investments, enabling small firms to undertake capex at lower cost.

There is also a tightening fiscal reality. If central debt must be reduced to 50% of GDP by 2030-31, government capex cannot sustain its current pace. The sustainability of India's investment ratio will, therefore, depend on whether private capital fills the space that public investment can no longer occupy.

India does not lack investment opportunities; it lacks the assurance that projects will move from conception to execution without friction, delay and policy drift. Until that confidence is restored, private capital formation will remain misaligned with India's long-term growth ambitions.

These are the author's personal views.

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MY VIEW | EX MACHINA

Tech solutions exist to mitigate KYC data leakage risks

RAHUL MATTHAN



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Today, more than half of all data breach incidents target personally identifiable information—tax identities, passport numbers, biometric data and the like. In most instances, this information was collected and stored to comply with know-your-customer (KYC) obligations. Could the regulations we put in place to prevent financial crime be the leading reason why identity theft has risen so dramatically? And has KYC insistence led regulated entities to create some of the most valuable and breach-prone datasets in India's economy?

This does not have to be the case. Even though Section 11A of the Prevention of Money Laundering Act (PMLA), 2002, permits identity verification using either Aadhaar authentication or offline verification, regulated entities continue to require their customers to submit copies of their personal information. As a result, most companies find themselves in control of vast databases of identity information—scanned copies of Aadhaar cards, PAN cards, passports and the like. And, since money laundering is a "continuous offence," this information ends up being retained indefinitely.

This practice conflicts with the minimalist philosophy that animates our data protection law. Under the Digital Personal Data Protection Act (DPDPA) of 2023, data processing must be limited to what is necessary for the specific purpose and personal data must be erased after that purpose has been served. Although the law permits verification, institutional practice has evolved to mandate permanent archiving. While the DPDPA does allow for exemptions to comply with existing laws, our current maximalist interpretation of KYC obligations is certainly not the most proportionate way to achieve these objectives.

First, we need to ask ourselves whether we truly need all the information we currently collect. Why, for instance, does the Central KYC (CKYC) template require the submission of a married woman's maiden name, father's name, spouse's name and her mother's name? While none of this strengthens identity verification, it expands the collateral damage of a breach.

Our current approach to KYC has exponentially expanded our vulnerability to identity theft. Every additional document retained and unnecessary data-field collected expands the blast radius of a single compromise. Should we not be exploring alternative ways to achieve our PMLA objectives—ones that do not require regulated entities to maintain massive databases of identity documents?

It was once assumed that privacy and law enforcement lay at opposite ends of a zero-sum trade-off. That statement is no longer true. Zero-Knowledge Proofs (ZKPs) allow us to verify a statement without accessing the underlying data. Using ZKPs, you can prove that you are above 18 without disclosing your actual age, or that you are an Indian resident without having to reveal your actual address. This provides us with a technical solution to the verification problem that does not require organizations to retain custody of identity documents to prove that verification was completed. What is being replaced here is document retention, not regulatory accountability. If we can amend the law to confirm that the use of ZKP solutions for identity verification is sufficient to meet the user verification obligations under applicable laws, we can reduce the collection of identity documents to the point where there will be nothing to breach and even less to steal.

'Know your customer' norms expose people to data theft but there's a way to tackle this problem

But identity verification is only one part of the story. Most laws also require regulated entities to ensure that, if any verified customer violates the law, details of that customer needed to aid the investigation will be made available on request to law enforcement. As a result, any identity verification system that cannot ultimately respond to a lawful summons will not be a viable regulatory solution. This means that even though ZKP addresses the verification requirements in a privacy-preserving manner, we will also need a 'break glass' mechanism to give legitimate authorities a way to recover the identity of the person under investigation, while ensuring that it still remains permanently invisible to the regulated entity.

One possible solution would be to implement 'auditable privacy'—a technological solution that keeps identity information encrypted and unusable by default, but capable of being revealed if authorized through lawful due process. Consider this proposed solution: whenever users undergo KYC, their personal data is encrypted using a public key controlled by a designated authority. At enrolment, the regulated entity collects and stores this encrypted package while simultaneously verifying that the encrypted data satisfies KYC requirements through a user-generated ZKP. This ensures that the regulated entity holds a personal information package that remains encrypted until an investigation is triggered. In such a case, in response to a court order, the designated authority can decrypt the payload to recover the complete identity package. The entire chain—encryption, storage, decryption—can be made cryptographically auditable, thus reducing the risk of misuse.

This approach ticks multiple boxes. For regulated entities, it reduces the risk of data breaches. For users, it guarantees privacy. For regulators, it ensures that when the veil of privacy needs to be pierced, it can, via due process, reveal identity details in a verifiable and legally admissible way.

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MY VIEW | ECO SQUARE

Much can be done to relieve urban India of its toxic air

LEENA SRIVASTAVA



is an independent expert on climate change and clean energy.

Air pollution in the National Capital Region (NCR) continues to dominate headlines this winter, highlighting the absence of any long-term strategy to deal with a deadly subject that is affecting millions of lives in and around India's capital. Of growing concern is the fact that most other urban areas in India beyond the NCR are also generating increasing levels of air pollution, with the number of 'good' air quality days trending towards zero. Sadly, while all arms of government at various levels fail at even creating an illusion of solutions, attempts to distract the general populace by whipping up sentiments on nationalism (rejection of World Health Organization standards on air quality), religion (allowing the use of 'green' crackers on festivals) and culture (recall the massive traffic jams during the festive season and the use of crackers through the year on every 'joyous' occasion) muddy the air.

Further distraction is provided by the advocacy of poorly-thought out, end-of-pipe solutions such as cloud-seeding or water-spraying, which only help shirk responsibility for hard regulations. Not only do these fail to provide an effective solution but could even aggravate environmental and health impacts. There has been no meaningful debate on the use of water sprinklers in this water-scarce region, nor on the quality of water being used and the associated equity and health impacts. Similarly, the adverse effects of cloud-seeding are well documented and severe enough to warrant a very serious evaluation of its deployment.

Our lack of aspiration on providing good quality air is visible in our air quality index (AQI), which serves to numb the populace on the severity of health impacts. The argument used by the government for its lax pollution standards, which it rarely enforces anyway, relates to India's specific geography and climatic conditions—our annual average standard for PM2.5 (fine particles) is eight times the WHO standard and four times for PM10. What we overlook in these arguments is that WHO standards are not concerned with geophysical or socioeconomic differences; rather, they are based on the best available evidence on what exposure to different forms of pollutants, given varying levels of intensity and duration, does to human health. If India wants to argue that its population is more resilient to air pollution than the rest of the human species, then we need hard proof of that—after all, we have rejected as inadequate WHO standards set on the basis of scientifically valid evidence.

Additionally, so-called background pollution levels can sometimes be a red herring. For instance, scientists have been sounding an alarm on the relentless invasion of our National Capital Region by the Thar desert in Rajasthan as a result of poor land and water management practices for decades. And when we destroy hills of the Aravalli range, this background pollution is likely to intensify further.

Here are a set of measures that could fight air pollution and help secure the health of our people

Do lax and opaque air quality standards reduce performance pressure on the government by creating a false sense of well-being? In mid-December, the environment minister had boasted that "good to moderate" air quality days (AQI 200: PM2.5 under 90 micrograms per cubic metre) increased from 110 in 2016 to 200 in 2025. India's definition of 'moderate,' however, overlaps with what the WHO defines as unhealthy. Also, this implies that by its own definition, for 165 days, NCR residents are exposed to unhealthy to hazardous air. For comparison, the WHO guideline for short-term exposure to above-standard PM2.5 is set at 15 micrograms per cubic metre for a maximum of 3-4 days.

Government officials often point to farm fires in Punjab and Haryana as a significant part of the problem. No doubt, these contribute to the deterioration of air quality. But December has experienced the poorest air quality in the last 7-8 years, with the stubble-burning season well behind us. Consequently, the debate has shifted once again to the complexity of our air pollution crisis. The Union minister for transport and highways has acknowledged that 40% of this pollution comes from vehicles.

Apparently, we have little understanding of the causes of air pollution and their contribution to air quality. While scientific modelling of the impact of various intervention measures will take time, we must recognize that GRAP restrictions are reactive and cannot absolve decision-makers of the responsibility of taking more effective action.

A few steps that can be initiated immediately include the following: *One*, re-introduce mandates on electro-static precipitators for thermal power plants while we define a pathway to phase out coal; *two*, shift the focus of public expenditure from the expansion of highways, particularly those that are destroying our fragile ecosystems; *three*, make a comprehensive effort to smoothen the flow of traffic—regulate the number of vehicles on the roads throughout the year, deal with traffic disruptions strictly, even if caused by cultural or religious processions, and hasten the country's shift to electric vehicles; *four*, expand the green cover in urban areas and re-evaluate the development of India's cities; and *five*, engage with the industrial, commercial and service sectors in urban India to hold them accountable for environmental externalities. While not comprehensive, these measures illustrate the space available to the government for an immediate-to-short-term systemic response that could have a long-term impact, even as more sustainable solutions to this crisis are planned.

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MY VIEW | ACUTE ANGLE

Word of the year: Hazard a wild guess on the big winner of 2025

'Tariff' dominated the world but the pick of India would have to be a word for an event that occurs only once every 144 years



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An amusing ritual happens in the word business at the end of every year. Some publishers and other cultural busybodies with too much time to kill (like myself) choose a 'word of the year' that is meant to capture something important in the zeitgeist, a word that distills the twist-and-shout gyrations of culture and society into a single expression, a time capsule (or soap bubble) of communication. The choice is made through some form of fan voting or editorial discretion. This annual exercise takes place in many languages, including Danish, Dutch, French, German, Japanese, Mandarin, Norwegian, Portuguese, Spanish, Russian, Ukrainian and, of course, English. Note what's missing.

English is the *lingua franca* of many countries and most have their own words of the year. England leads with choices from heavyweights like the Cambridge Dictionary, Collins English Dictionary, *The Economist* and the bossy Oxford Dictionaries, which anoints separate words for the UK and US and even had the short-lived gall to do it for Hindi. Imagine! America must have its own of everything (not just sports) and is represented by the American Dialect Society, *Dictionary.com* and Merriam-Webster. Australia is almost as insistent on its uniqueness and offers us choices from the Australian National Dictionary and Macquarie Dictionary. Okay, we get it: word meanings are culturally specific (like 'pass out' or 'backward' in Indian vs American English).

Some of the winning words have lasted. The American Dialect Society has been doing this from 1990 and seems to be quite good at picking durable ones: *information superhighway* (1993), *weapons of mass destruction* (2002), *truthiness* (2005, also chosen by Merriam-Webster) and *fake news* (2017, also chosen by Macquarie and Collins). Collins has other solid ones with staying power: *photobomb* (2014), *binge-watch* (2015) and *lockdown* (2020; variants like *covid*, *quarantine* and *pandemic* were chosen by others that year). Oxford got a few good ones, like *carbon footprint* (2007) and *selfie* (2014).

Most chosen words, however, turned out to be ephemeral—tiny attention bubbles that popped like most pop culture fads. Who remembers Oxford winners like *chav* (2004), *bowered* (2006), *locavore* (2007), *hypermiling* (2008), *youthquake* (2017) or *rizz* (2023)? Much of this impermanence comes from the tendency to magnify the impact of words that are new and therefore connected to technology or social media or rich-world youth. Most of these words don't stay relevant for long.

For 2025, Collins considered *aura framing* and *biohacking* and chose *vibe coding*. Oxford also shortlisted *aura farming* and *biohack*; before choosing *rage bait*. The most popular choice for the year was *AI slop* (picked by *The Economist*, Macquarie and Merriam-Webster). Do you know what these words mean? Will anyone remember what they mean after five years? From trendy to obscurity is a very short cycle for most of these words.

Meanwhile, the word that roiled the world in 2025, one that I suspect is understood in all countries and languages, went almost unnoticed. It is *tariff* (the "most beautiful word" according to US President Donald Trump). Only *Dictionary.com* had it in its shortlist but it ended up selecting *67*, which is not really a word, but some Gen Alpha slang that selectors themselves are "still trying to figure out exactly what it means." Similarly, for 2012, the year of the Arab Spring, the chosen words were *phantom vibration syndrome*, *omnishambles*, *bluster*, *#hashtag*, etc. As if a new phenomenon that created a new term and affected the lives of millions had simply never happened. As if the world ended at the navels of barely pubescent *brats* (word of the year, 2024, Collins) endlessly scrolling through whatever. Just because the selection process is arbitrary and unscientific doesn't mean that we can't have any standards.

I suggest that the time has come for a global word of the year. There may not be an obvious choice every year (thank goodness), but too often there are years that spawn words that rattle and shake the world. *Pandemic* in 2020, *tariff* in 2025. *Gaza* is an honourable mention, but I nominate *tariff* as the global word of the year.

We also need an Indian word of the year—not Hindi or English, but Indian. Earlier, I had mentioned Oxford's brief colonial excursion into selecting Hindi words. For the unnaturally curious, they were: *Aadhaar* (2017, selected over *notebandi*), *Nari Shakti* (2018), *Samvidhan* (2019, to mark the abrogation of Article 370), and *Atmanirbharta* (2020, not lockdown or *mahamaari*). Then, for reasons unknown to me, it stopped. It's up to us to plant our flag on this now unoccupied land.

Following my own arbitrary methodology (which is roughly in line with the standards of this game and pretty much all ranking games of beauty, colleges, restaurants, movies, *et al*), I nominate four candidates in the following order.

SIR (Special Intensive Revision of electoral rolls) began in late October and is still both underway and generating headlines; along with *Bangladeshi*, it is in the early running for word of the year in 2026. This is not SIR's year.

Operation Sindoor lasted only about four days but has since become a potent political symbol and the source of a Nobel Peace Prize nomination. It could have won in most other years but only receives an honourable mention for 2025.

Tariff needs no further *taareef* (praise) as a candidate. But, since I have already awarded it global word of the year, I must look elsewhere.

The winner is a once-in-144-years (or multiple lifetimes) event. It ran for about 45 days, and if official sources are to be believed, was visited by 660 million people, which would make it the largest festival of any kind anywhere in human history. Because it is something that happens only in India and could happen at this scale only in India: my Indian word of the year is *Mahakumbh*. Eat your heart out, *AI slop*.

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GUEST VIEW

The AI race is fast being reshaped by energy sufficiency

VITTORIO QUAGLIONE



is a teaching assistant at Bocconi University and the founder and editor of MOPS, a newsletter on macro-finance, technology, and policy.

Data-centre investments hint at a shift in the AI race. Soon, reliable and affordable electricity will confer a decisive advantage in this sector. As Albert O. Hirschman argued in *National Power and the Structure of Foreign Trade*, an economy's true power lies in its ability to manage the choke points that affect its industries. In the AI ecosystem, the US has been leveraging its dominance in chip design by strategically limiting exports to China, while Beijing has exerted pressure on the US through its control of rare-earth materials needed to make chips, magnets and other components of advanced technology.

But as the scale of the AI industry and its reliance on computing power grows, the bottleneck will move from chips to electricity because all the data centres in the world will not help if they lack a continuous supply of affordable energy. The International Energy Agency estimates that roughly 20% of planned global data-centre capacity will be at risk by 2030, owing to grid bottlenecks and interconnection queues. And as energy supplies are constrained, costs will rise, eventually trickling down to households and firms.

Which country will dominate this next leg of the race? China has certainly made a statement with its massive build-out of energy supply and distribution infrastructure, much of which focuses on renewables. According to the *Financial Times*, Chinese investments in clean energy cover everything from solar and hydropower to the hardware needed to move cheaper inland power to coastal demand centres, thereby lowering costs and improving reliability. China has also invested massively in manufacturing, driving down the price of a solar panel by a factor of 20. All told, it is now capable of adding between 500 gigawatts and one terawatt of capacity per year.

Moreover, China has matched its carefully planned industrial policy with equally strong local execution. To offset the higher cost of using domestic chips, for example, local governments offer electricity subsidies for data centres under their jurisdiction. If these facilities are powered by domestic chips, they can cut their power bills by as much as 50%.

The US effort is rather unimpressive by comparison. According to the *Financial Times*, "China installed 429GW of new power generation capacity in 2024, more than six times the net capacity added in the US during that time." Even as America's locally planned grids face vast around-the-clock demand from data centres, US industrial policy is failing to give electricity the attention it deserves.

For example, OpenAI and its partners are planning to build data centres that will require 10GW of capacity, which is on the order of New York City's summer peak load electricity usage. But, while data centres can be built in a couple of years, researchers at the Deloitte Research Center for Energy & Industrials point out that completing the transmission infrastructure needed to move energy takes almost a decade. Such timeframes are woefully misaligned with the blistering pace of private capital expenditure. A *Bloomberg* analysis of tens of thousands of pricing nodes already shows signs of distress in US energy markets. Wholesale electricity in some US regions near large data-centre hubs is up to 267% more expensive than it was five years ago. To keep its data-centre build-out on track, the US will need a structural overhaul of its energy policy, its grids and their interconnections.

America has clearly been complacent on electricity for AI while China has taken an enviable lead

Nor is the race down to just the US and China. The bottleneck that could set America back might represent an opportunity for Europe, which is running out of time to claim a seat at the AI table. Europe's energy infra is a potential strategic asset in the sense that Hirschman identified. Among the EU's core strengths are clean energy hardware and know-how. Over one-fifth of all clean and sustainable technologies globally are developed in the EU. The bloc also has deep engineering capacity in grid equipment and storage, and its electricity system is among the world's most interconnected. Europe's energy policy cites grids as a strategic asset for autonomy and security, and its factories making net-zero technologies are to meet "at least 40% of [the EU's] annual deployment needs by 2030."

That said, Europe's decarbonization has run into obstacles. With high energy costs threatening to hinder growth, energy generation and grid capacity must be ramped up. The European Network of Transmission Systems Operators for Electricity has advanced a useful proposal. But while planning is done at the European level, execution remains locally bound. As a result, the average grid project takes more than 10 years, half of which is spent on permitting. The European Parliamentary Research Service says current projected grid investments are a mere 10-15% of what's required, and more than 500 GW of offshore projects in the EU is stuck in the queue.

The next leg of the AI race will be about energy. By fostering domestic chip production and consumption while improving electricity infra, China's strategy addresses every dimension that matters. Meanwhile, the US is failing to look ahead, complacent in its current position as the designer of first-in-class chips and AI foundation models. And though Europe is uniquely positioned to make AI's energy demand cleaner and more secure, it may lack the institutions needed to accelerate progress. For Europe to be a challenger, it too must direct its energies toward energy for AI.

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THEIR VIEW

Indian aviation and telecom: A tale of two disruptions

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Unlike Charles Dickens' fabled expression, it isn't the best or worst of times for us in India: we have seen better and we have seen worse. Inspired, however, by the title of the celebrated work from which these lines are taken, I am going to tell a tale—not of two cities, but of two disruptions, both of which arrived on India's scene with a bang, promising the consumer escape from mediocrity and even delivering on that promise for a while.

This is a tale of IndiGo in aviation and Vodafone in telecom. Both injected competition into sectors long accustomed to limited choice and uneven service. For a brief period, they expanded our access, brought prices down and forced sluggish incumbents to respond. And then, as so often happens in India, the novelty wore off. The firms grew large, the market structure shifted and, most importantly, policy became the whipping boy for all that went wrong.

IndiGo launched in 2006 as an efficient low-cost air carrier and forced a massive transformation: domestic passenger traffic grew from about 25 million in 2005-06 to over 152 million by 2024. Its obsessive focus on lowering the cost per available seat kilometre compared to full-service rival airlines contributed to a decline in real airfares. IndiGo's market dominance in recent years has been staggering: today, it controls over 60% of India's domestic market with a fleet of over 350 aircraft to support its high-frequency network of routes.

Vodafone's story began earlier. Hutchison Max started operations in 1994 in what was then Bombay. When UK-based Vodafone acquired Hutch in 2007, Indian telecom tariffs were already among the lowest in the world. Vodafone's innovations such as low-value prepaid packs drove prices steadily down. A phone call that cost more than ₹16 a minute in 1999 fell below ₹1 by 2010. Eight years later, it merged with Idea Cellular, another success. Tele-density rose from 2.3% in 1999 to nearly 86% by 2024, though this was aided by the 2016 entry of a low-cost player, Reliance Jio. Vodafone was not the largest telecom operator, but it was part of a competitive market equilibrium that delivered the consumer significant value.

Sustaining success, though, is not easy. And institutions often play a major role, especially in licensed market categories. At the heart of IndiGo's recent regulatory run-in lies a simple question: Did the airline assume that regulatory orders could be ignored because enforcement would be selective? History suggests that many businesses see India as a soft state.

India opened telecom to private competition in the 1990s and such was the market's attraction that by that decade's end, many firms were bidding commercially unrealistic sums for licences to enter it. When they predictably failed to meet their obligations, pressure on the regulator to bail them out led to a 1999 grand deal that converted fixed licence fees into a revenue sharing arrangement with the government. Telecom firms survived, but regulatory credibility was weakened.

The IndiGo and Vodafone nosedives both underscore regulatory weaknesses we are familiar with

For IndiGo's current troubles, the trigger was the regulator's enforcement of revised flight duty time limitations. These rules, designed to reduce pilot fatigues, had long been announced. IndiGo, however, continued with its tight-schedule model that relied on maximizing aircraft utilization. But once the new norms kicked in, its system broke down: large-scale flight cancellations followed and airfares surged. The regulator was forced to intervene with capacity cuts and fare controls. This was not ignorance of the new rules, but possibly a strategic response that assumed accommodation by the regulator.

Vodafone's decline is inseparable from India's policy and regulatory weaknesses. In 2019, the telecom firm was called upon to pay the government massive dues on the basis of a wider definition of 'adjusted gross revenues' than it had been operating on: so heavy was the burden that Vodafone never recovered.

At the other extreme sits IndiGo, which is alleged to have bet that our need for aviation market stability would let it carry on the way it had been operating. The lesson is not that firms act opportunistically—markets assume they will—but that a state that oscillates between indulgence and strictness gives up some of its credibility as a rule enforcer. If blame is to be assigned, it should be borne as much by faltering businesses as a government that selectively enforces its own rules, since a profit-motivated business will always opt for what suits its interests. Policy, therefore, is not just what translates into rules. It also includes how those rules are enforced. Regulation means nothing in the absence of a mechanism to uphold it. Observe the current state of the World Trade Organization, a rules-based organization that has unfortunately been stripped of its enforcement power by the US, rendering it toothless as a body.

Meanwhile, the frailty of Indian policy is on full display. Vodafone is now half owned by the government, while IndiGo is so systemically important that the Centre cannot let it fail even if it remains private.

If all this sounds familiar, it is because we have seen versions of it before: liberalization opens the door, private enterprise rushes in, competition flourishes and then market concentration, ironically often as a result of rivalry, creates new fragilities. Markets, as I wrote earlier for *Mint*, need boundaries they rarely set limits on their own. In that sense, market self-regulation is a myth propounded by oligarchies in their self-interest.

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OUR VIEW



Railway finances: Let us get them firmly on track

The deregulation of India's oil sector offers a useful precedent on how to slowly move away from subsidies for rail travel. This is a must for Indian Railways to get its finances in shape

The recent decision of Indian Railways (IR) to raise fares on all classes of travel, other than suburban rail, season passes and short-distance second-class ordinary, reflects a dilemma that has long dogged IR and underpinned its fare decisions: Should IR be run as a commercial enterprise, albeit state-owned, or as a departmental undertaking with social objectives placed above profit? Historically, all governments, both before and after India's 1991 embrace of market principles, have veered towards the latter view. Sadly, political calls have shaped almost everything about IR, including track expansion, stops along routes and, of course, train fares. Fare revisions have always had a populist angle. They have mostly been confined to higher-priced classes, with suburban fares virtually untouched. The last time the latter were revised was in 2014, only to be partially rolled back in the face of protests.

The latest revision, effective 26 December and the second in 2025-26, is no exception. Not only are the hikes moderate, they are largely limited to dearer classes. Travel in AC coaches and non-AC coaches aboard mail and express trains is now costlier. But fares for suburban services and monthly season tickets, which cover the largest segment of passengers, remain the same. Ordinary-class travel has also been spared—there is no hike in fares for up to 215km. Even where fares have been raised, the increase is nominal: just two paise per kilometre for higher classes in mail and express trains, and about one paise for ordinary-class travel beyond 215km. As estimated, IR will earn about ₹600 crore extra in 2025-26 from the revision. The additional revenue is welcome. But it is too little to count for much. The Fifth Report of the Parliamentary Standing Committee on Railways (of August 2025) offers a telling commentary on IR's poor finances. It points to how its Operating Ratio (OR)—or its gross working expenses as a percentage of its gross traffic earnings—has stayed above 98% since 2022-23. Almost a rupee spent for every rupee earned leaves little by way of internal cash generation for capital investments, so a weak OR forces IR to depend on either budgetary support or borrowings, adding to its interest bill. The panel's report of December 2024 had suggested a better alignment of fares with operational costs. This must be done for all classes, including suburban travel. Consider how low our fares are. A seat on *Vande Bharat* from Delhi to Varanasi is about $21-40. In contrast, an Amtrak ticket from Washington DC to Boston, covering a slightly shorter distance, costs $200-$500.

Admittedly, IR must not be viewed only through the lens of profitability. It acts as the country's lifeline, carrying around 20 million passengers daily, with this count going up to 30 million on festive occasions. Beyond its role in transporting both freight and people at affordable rates, IR has also been a powerful force for national integration. Moreover, we cannot overlook its role in facilitating diverse economic activities. It will also not be easy to wean a country long accustomed to subsidized rail travel off what are essentially 'freebies.' But it should be done. Let us not forget, even when its OR is under 100%, IR soaks up taxpayer funds at the cost of causes that may be more deserving of subsidies. The oil sector offers a parallel: its gradual withdrawal of freebies could serve as a guide on how to proceed. Reforms might be difficult to sell politically, but IR needs to be financially sound.

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THEIR VIEW

Did a GST reset boost spending? Consumer surveys suggest not

Neither RBI's consumer confidence surveys nor Nabard's rural readings point to expenditure buoyancy after India's rate cuts



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MINT



The prices of various items such as footwear, clothing, consumer durables (such as air-conditioners and TV sets) and automobiles (cars, two-wheelers, etc) have fallen post-GST rationalization. Our calculations suggest that inflation in India's GST-basket (weight of 17%) decelerated to 2.1% year-on-year in October 2025 and further to 1.8% in November from a stable 3% in the previous 14 months. Core inflation excluding gold was at a record low of 2.5% year-on-year in November, down from 3% in August-September.

The impact of GST rationalization, nonetheless, was expected to go far beyond lower inflation. It was supposed to put more money in the hands of consumers, addressing weak income growth, which was expected to convert into higher consumer spending and thus economic growth. In the absence of high-frequency official data on income and spending, various consumer surveys act as a crucial bridge to gauge current perceptions of these two key variables.

Announced on 3 September 2025, India's GST rate cuts went into effect on 22 September. According to the Reserve Bank of India's (RBI) bi-monthly urban consumer confidence survey (UCCS) conducted over the first 10 days of November 2025, the proportion of respondents perceiving a (gross) rise in income and spending declined in comparison with findings of the same survey carried out from 28 August to 6 September. On a net basis (the share of respondents reporting more minus those expecting less, i.e., with those reporting 'no change' left out), while more respondents reported higher income in November (in line with the past trend), the share of respondents perceiving higher spending was the lowest in the past eight UCCS rounds.

RBI's Rural Consumer Confidence Survey (RCCS) also shows that the percentage of respondents perceiving a (gross) rise in income and spending declined in November *vis-à-vis* September. On a net basis, while there was a slight drop in income perceptions in November, perceived spending was the lowest in the last 10 surveys.

National Bank of Agriculture and Rural Development (Nabard) has also been publishing a bi-monthly survey since September 2024, its Rural Economic Conditions & Sentiments Survey (RECSS), conducted around the same time as RBI's. In sharp contrast with RBI survey findings, 42.2% of rural households—the highest on record—reported an income increase in November 2025, with even more households witnessing higher consumption. On a net basis, respondents were the most optimistic on income growth in that survey, while the net response on consumption was also at its highest level in the last four rounds.

Such divergent survey results indicate that we have no clear evidence yet of higher spending growth after last year's GST reset.

Some readers may argue that one should look at September surveys instead of November's. But the results are inconclusive even then. A higher (net) proportion of respondents under the UCCS continued to report higher income in September, but no major rise was seen in spending perceptions. Likewise, the RCCS showed continued improvement in income but with only a marginal rise in spending. Interestingly, the improvements seen in Nabard's November rural survey were not visible in September. The net percentage of respondents reporting higher consumption was the lowest in September and that for income was lower than found in the July survey.

Others may argue that we should look at future expectations rather than the current perceptions reported by these surveys. This is difficult to agree with. Since the GST rate cuts were effective from 22 September 2025, their largest positive impact on perceptions should have been in the immediate months rather than after a quarter or a year. Even so, net responses on one-year-ahead spending expectations under RBI's UCCS and RCCS were lower in the September and November rounds than in July. Further, while Nabard's survey doesn't provide consumption expectations, its net response on expected income during the next quarter was lower in September and November surveys than in July, while expected income for the next year increased in November survey (after falling in September).

Overall, whether we look at September or November surveys, rural or urban, RBI's or Nabard's, current perceptions or expectations, there is no conclusive evidence of higher spending driven by GST relief. Optimism on income is mixed at best.

One possible reason could be that the assumption of '*ceteris paribus*' (all other things being the same) failed. It is possible that while GST changes helped boost income and spending in isolation, it was overshadowed by a general deterioration. It is also possible that more money left in people's hands may not have led to higher spending, resulting in more savings and lower borrowings instead.

Since these surveys track perceptions rather than actual data, some observers may dismiss them. However, 'rational expectations theory' underlines the importance of perceptions for an economy to achieve high growth.

We await hard numbers, but a decline in current spending perceptions found by RBI's RCCS and UCCS and only a small rise in Nabard's RECSS go against the narrative of high buoyancy in consumer expenditure.

QUICK READ

GST rationalization was meant to put more money in the hands of consumers, address weak income growth and spur retail spending in support of India's economic expansion.

Yet, whether we look at RBI's or Nabard's consumer-level surveys, we have no conclusive evidence of higher expenditure driven by GST relief. Optimism on income is mixed at best.

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THEIR VIEW

Venezuela's oil shake-up could go either way for India

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The unfolding crisis in Venezuela draws into sharp relief a less-recognized feature of the modern global economy: the movement of expectations often matters more than that of physical goods. Venezuela has long been a distant yet symbolically important pillar of India's energy security framework. Actual Venezuelan crude-oil imports into India have been negligible of late, constrained as they are by US sanctions, under-investment and systemic decay. Yet, the current turmoil is already affecting us—not through tankers arriving at our ports, but via shifts in market psychology and geopolitical signalling.

Global markets do not price commodities based on today's supply alone, but also on the perceived risk of tomorrow's disruptions. After the US 'capture' of Venezuela's president Nicolás Maduro, global market prices have been largely stable, thanks to over-supply and the country's low share of overall output, but an 'uncertainty premium' may start getting priced in should a power vacuum in Caracas threaten instability beyond Washington's ability to contain. For an economy like India's, which is structurally sensitive to the slightest movement in the price of oil, expectations of volatility could result in inflationary pressures that its central bank may need to guard against, regardless of whether a single barrel of Venezuelan oil is imported. Thus, the 'Venezuela factor' could come to weigh on India's fiscal arithmetic and monetary policy not through trade flows but expectations.

While oil company stock prices in India have fallen in response to uncertainty, an air of anticipation surrounds the private energy sector. Major refiners such as Reliance and Nayara have invested in complex secondary processing units designed to handle heavy, sour crudes—the type extracted from Venezuela's Orinoco Belt. If the US pushes for India's Russian oil imports to be replaced with Venezuelan supplies, Maduro's ouster could open up more options for them. Markets seem to expect that a post-crisis Venezuela, stabilized under US oversight, will eventually re-enter global markets with discounted heavy crude to service its huge sovereign debts. Even without Venezuelan supply, the mere prospect of its return could act as a 'shadow option' for Indian refiners to use as psychological leverage for bargains with West Asian suppliers. But there is a counter-expectation too: the fear that Venezuelan energy infrastructure is so dilapidated that any recovery will take years. This creates a strategic split: Indian firms must balance the hope of future gains with an immediate need to diversify their sources of crude oil.

A shift in expectations is even more dramatic for India's public sector companies. ONGC Videsh Ltd and Indian Oil Corp have significant Venezuelan exposures, including unpaid dividends, stalled projects and assets written off as dead capital. That could change. What was assumed to be a permanent loss is now being re-imagined as potentially recoverable via debt restructurings, equity swaps or renewed dividend flows. Equity markets are re-rating these companies not on current output, but on anticipated political outcomes in Caracas. If a transition regime honours legacy contracts, India would benefit. Strengthened balance sheets would allow these state-run companies to pursue domestic exploration and capital investment more aggressively. This would support expectations of India's energy security even before a single rupee is realized. Such an economic ripple would be psychological but powerful.

Diplomatically, the Venezuela crisis is a litmus test for India's 'strategic autonomy.' As the US asserts its authority over the Western Hemisphere, it might expect India, as a democratic partner in the Indo-Pacific, to align its energy diplomacy with its aims. At the same time, Russia, China and much of the Global South expect India to uphold its neutral stance. This clash of expectations reduces India's room for manoeuvre. If India is perceived as leaning too far in favour of a US-backed administration in Caracas, it risks alienating partners in the Brics+ framework: if it remains too detached, it may lose its 'seat at the table' when new Venezuelan oil concessions are distributed. In that case, the aforementioned anticipation of benefits could evaporate. New Delhi must therefore take complex considerations into account.

QUICK READ

Expectations around India's energy security prospects have shifted after America's takeover of Venezuela's administration. Gains could plausibly be made if an optimistic scenario pans out.

While expectations clearly play a major role in the global market for oil, New Delhi now faces a big test of diplomacy as it's likely to get caught between what the US and Global South expect of it.

Perhaps the most subtle but undesirable impact would be an 'expectation of abundance' that an optimistic scenario working out might foster within Indian policy circles. A pro-US Venezuela and repaired relations with Washington could lead to complacency over India's green-energy transition. If we begin to count on an era of heavy crude supply from the Americas, the urgency to fund green hydrogen projects or accelerate electric-vehicle adoption might diminish. Any such 're-fossilization' based on expectations could keep India's economy tethered to hydrocarbons for longer.

Paradoxically, expectations of future oil security could undermine the diversification that true energy security requires. Ultimately, the Venezuela shock teaches us that in a hyper-connected world, significant shifts can take place in the minds of policymakers and investors long before they manifest at the pump. Managing these expectations and balancing hopes of gains against the reality of uncertainty is today's central challenge for Indian statecraft.

These are the author's personal views.

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MY VIEW | FARM TRUTHS

Goldilocks or distress locked in? Deflation is hurting rural India

Weakening prices may seem good for us but mask inadequate demand and income vulnerabilities



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Last month, the Reserve Bank of India's (RBI) governor characterized the Indian economy as being in a "Goldilocks phase," implying a fortuitous period of low inflation and high growth. Factually, he was correct. India's GDP estimate for the quarter ended in September, at 8.2%, exceeded expectations, while retail inflation measured by the consumer price index (CPI) was just 0.25%, with its rural element posting a 0.25% decline in prices.

Much of India's unexpected economic buoyancy is attributable to a deflationary trend, including a 3.5% rise recorded in agricultural output in constant prices. But our national accounts also show that growth in agriculture in current or nominal prices—that is, with the effect of inflation included—was only 1.8%. For the broader primary sector, real growth was 3.1%, while nominal growth was just 1.2%. This gap was seen in some other sectors too: real growth exceeded the nominal increase. This is explained by falling prices, which inflate estimates of real growth. Since the sectors where this has played out (agriculture, construction, hotels and trade) are largely informal and employ almost two-thirds of India's workforce, it is a worrisome phenomenon.

Deflationary pressure is also visible in inflation measured by the wholesale price index (WPI), with prices posting an even sharper decline: headline WPI inflation has been negative in four of the last six months, including the last two. Prices of food articles have declined consecutively for seven months. In fact, almost all major categories of food, from cereals, pulses and spices to fruits and vegetables, have shown deflation for almost six months. As for other items, prices have been stagnant. The CPI shows a similar trend: food inflation has been negative for six months. This has now spilt over to non-food categories, which are seeing prices rise very slowly.

Deflationary pressure has not arisen from any single category, nor is it due to seasonal variations. It is part of a general trend. While a higher price base last year would have had some impact, it alone does not explain the sustained decline in prices. Part of it is also driven by a decline in global food prices.

Overall, low inflation may be a boon for policymakers—specifically India's central bank, which reduced its policy interest rate by 125 basis points last year. But it may also signal stress in sections of the economy, as some other pieces of data seem to suggest, particularly in rural India.

Agriculture appears to be the hardest hit, with prices in wholesale markets for many major crops now below India's official minimum support prices (MSPs). Wholesale prices of major crops such as pulses, oilseeds and cotton are below these state-set levels. Soyabean prices have fared the worst. On the other hand, input prices are rising. Fertilizer prices have risen partly due to costlier imports, but also due to supply shortages in the domestic market. This has hit the income of farmers. In any case, farm incomes, when measured in terms of income per cultivator, have seen a real decline since 2016 and there appears to be no reversal of this trend. While there has been some uptick in rural wages for agricultural work, non-farm wages have stagnated. Recent reports also suggest an increase in loan defaults in the agricultural sector, another sign of stress.

To put this in perspective, the recent spell of weakening prices for almost six months has been the longest in the past six years. In general, while low inflation may be driven by many factors, it signals declining incomes and thus demand in the economy. Domestic demand, be it consumption or investment, has failed to lift off.

Unfortunately, government efforts to boost demand have focused more on the urban middle class and tax-payers, who have received concessions. But the rural economy has largely been left out. Moreover, with the government now moving to a restructured rural employment guarantee programme, even the modest job cushion that was available to the rural poor is likely to weaken.

Whether low inflation and apparent high growth signify a 'Goldilocks' moment or signal an impending phase of stagflation is not an easy distinction to make at this juncture. But it validates secondary evidence of a demand crisis in India's rural economy.

Given the prevailing uncertainty on the external front, reviving domestic demand is the only option for India's policymakers. The surest way to do this is by raising income levels across the economy, particularly in rural regions. This requires the government to raise fiscal spending aimed at doing just that.

QUICK READ

India's low inflation and high growth have been hailed as a Goldilocks scenario but falling prices are part of a broader deflationary trend that reflects key economic weaknesses.

Price deflation is bad news for incomes in rural India, which was already under pressure. Given today's trade uncertainty, weak domestic demand needs to be addressed on an urgent basis.

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OUR VIEW



AP

Why Census 2027 is not just another headcount

By giving us granular data on a host of variables, it will enable better governance. However, it also risks roiling the country over delimitation and caste—issues that defy easy solutions

On Wednesday, the same day that the National Statistics Office published its first advance estimate of GDP for 2025-26, the government announced that India's long-overdue census will kick off on 1 April 2026. The coincidence is apt, even if unintended. If economic growth is about prosperity, the census is about people. And since the aim of any democracy is to ensure that prosperity reaches all its people, we need to know more about the latter. It's here that Census 2027 is expected to play a vital role. For starters, though our population has overtaken China's, according to Worldometer, a website that offers real-time statistics, our headcount is likely to conclusively show that India is now the world's most populous country. But that's not all. As the 16th of a decadal series that goes as far back as 1872, its report will serve as our biggest source of primary data at the grassroots level. It will offer information on a host of parameters, such as housing, religion, language, literacy, business activity, migration, fertility and so on that can be sliced for analysis by village, town and ward. This will aid in planning, policy formulation and public administration so that welfare schemes reach their intended beneficiaries.

Notably, this will be our first digital census, to be conducted by around 3 million enumerators. Data will be collected using mobile apps that will be available for both Android and iOS phones. There will also be an option for self-enumeration within 15 days just before a 30-day span scheduled for house-listing operations. In another first, Census 2027 will digitally capture caste data. The last comprehensive caste count was conducted back in 1931 under the British Raj. Census 2027 is important for another big reason. In accordance with a cabinet decision of the Vajpayee government, its data will determine how 'delimitation' is done—the process, that is, of fixing the number of seats in the Lok Sabha and state legislative assemblies after the constituencies they represent are redrawn. Given that southern and western states have had greater success in population control *vis-à-vis* states in north, central and eastern India, any remake of our representation map by the latest headcount is bound to skew political power in favour of the latter states. Unsurprisingly, southern states have been particularly vocal in opposing such an exercise. They argue that it will effectively penalize states which reduced their birth rates and tilt the composition of Parliament against the spirit of federalism. However, the situation we have today, where the allocation of Lok Sabha seats among states is based on the 1971 census, also goes against the spirit of representative democracy in a federal republic. Consider this. The average Member of Parliament (MP) from the five southern states of Tamil Nadu, Kerala, Karnataka, Telangana and Andhra Pradesh represents 1.94 million voters, while the average MP from the five populous states of Uttar Pradesh, Rajasthan, Bihar, Haryana and Madhya Pradesh speaks for as many as 2.57 million.

As we approach this exercise that's slated to begin next fiscal year, Census 2027 can only be viewed as a mixed blessing at best. On one hand, it will give the government a far more granular and informed picture of the people it governs, which is crucial from a policy perspective. On the other, it could stir discontent over regional representation and caste, both of which need to be addressed—but defy easy solutions.

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MY VIEW | GENERAL DISEQUILIBRIUM

Let our geopolitical strategy be like a patchwork quilt

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Morning shows the day and developments during the first week of 2026 promise to turn the year into a geopolitical roller-coaster. India will probably need new tools during this period and may have to look further afield for some tips. Each nation's individual and unique strategy has to be a sum of parts, some of which may have to be borrowed. At a stretch, even a small country like Laos can probably offer India some partial lessons. Here is why.

The landlocked southeast Asian country Laos earned a rather unenviable distinction during the mid-1960s and early 1970s: it became the world's most bombed country on a per capita basis. Between 1964 and 1973, US bomber planes discharged over 2 million tonnes of ordnance over Laos, which works out to about a planeload of munitions every eight minutes over nine years. A lot of unexploded stuff is still out there, detonating even now and causing damage to life and limb. The US had two reasons to dump so much incendiary material: Laos had not only become a staging platform for North Vietnam president Ho Chi Minh's assault on South Vietnam, running circles around US forces, he also used the opportunity to aid a communist rebel uprising against the Laotian monarchy. After the smoke cleared, Ho Chi Minh was able to successfully integrate North and South Vietnam, Laos became a communist republic and the US retreated battered and bruised, but its then secretary of state Henry Kissinger was awarded the Nobel Peace Prize in 1973.

Cut to the present. The US is ironically among the top five sources of tourist arrivals in Laos, the other four being Thailand, China, Vietnam and South Korea. Tourism is fetching Laos increasing revenues. The first 10 months of 2025 (January-October) saw a 13% growth in tourist arrivals: specifically, tourists from the US increased 15%. America also has a trade and investment agreement with Laos, which has shown signs of expanding.

The incongruity of Laos welcoming investment and tourists from a country that had bombed it so extensively could be viewed through a spiritual lens, as a manifestation of the country's Buddhist temper: letting go of the past, freed from the burden of revenge by letting perpetrators face the consequences of their actions. At a temporal level, Laos is walking down the path of economic pragmatism as its socialist government gradually harnesses market forces. And then, when all was going well, the US hit the tiny country with a 40% tariff.

Interestingly, neighbour China is also sending a large number of tourists every year, almost a quarter of all tourist arrivals. Beijing's rail link with Laos, part of its Belt-Road Initiative, is bringing in goods and passengers in large quantities. The link is now being extended to Thailand and Vietnam, among others, to reduce the transit time for Chinese and Laotian goods headed westwards.

India needs a strategic pivot that exercises pragmatism in a world of rapidly transforming relationships

Beyond China, the country is actively looking at its neighbourhood, specifically fellow members of the Association of Southeast Asian Nations (Asean) for increased economic resilience. Landlocked Laos shares its borders with China, Myanmar, Thailand, Cambodia and Vietnam. This accelerated outreach even found a mention in the International Monetary Fund's (IMF) recent country report: "...initiatives underway to upgrade connectivity, logistics and facilitate digital transactions, especially within the Asean, could substantially bolster growth and external balances."

Why is this significant for India? Well, for one, India's relationships in its neighbourhood are shot through. As are deep and old civilizational ties in many parts of West Asia, eroded in part by the compulsions of sectarian domestic politics.

Further east, India has a $123-billion trade relationship with Asean, but grumbles about its imbalance (a $45-billion deficit during 2024-25) has strained ties. The ruling party has been complaining about a lopsided India-Asean free trade agreement since it came to power in 2014, but the needle has scarcely moved during the past 11 years. Instead, the government has focused on concluding trade deals with individual member nations. The Asean trade pact is currently being reviewed under the umbrella of the India-Asean Comprehensive Strategic Partnership (2026-2030), which will hopefully remedy the situation.

Then there is the dragon in the room. Border skirmishes in 2020 strained the Sino-Indian relationship. But, amid all the anti-China political rhetoric, India's imports from its northern neighbour between 2020-21 and 2024-25 have grown 74% while its trade deficit more than doubled. Inexplicably, there seems to be a twin-track approach at play: the interests of Indian importers and intermediaries routing Chinese goods to India have seemingly found precedence over political compulsions. Fortunately, early signs of a thaw are emerging, with Chinese President Xi Jinping invoking the Panchsheel Agreement in a meeting with Prime Minister Narendra Modi in August. Hopefully, this will culminate in an alignment of New Delhi's economic and political objectives.

Laos and India are very dissimilar in terms of history, size and complexity. Yet, Laos offers valuable lessons: when faced with adversity and rapidly shifting geopolitical equations, it has pivoted to a new strategy that has the IMF's approval. India too needs a smart pivot during 2026 to ensure that its strategic autonomy does not transform into strategic isolation.

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MINT CURATOR

China is overplaying its hand with its rare-earth choke-offs

Its export curbs aimed at Japan could prove counterproductive



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Japan has had a headstart in reducing its reliance on Chinese supplies. BLOOMBERG

To a hammer, every problem is a nail. If your most potent means of geopolitical leverage is threatening supplies of high-strength magnets, rare-earth elements will always be the solution. That's the latest approach Beijing is taking in its dispute with Tokyo. Exports of all items with potential military applications to Japan will be immediately banned, China's ministry of commerce said on Tuesday.

The most obvious victim of this threat will be rare-earth magnets made with the elements neodymium and praseodymium, and increasingly spiced up with rarer samarium, dysprosium and terbium. They're used everywhere from charging cables to the switch-gear in wind turbines to motors powering electric vehicles, missile-guidance systems and aircraft flaps.

There's just one problem: Few countries are better prepared against China threatening their rare-earth supplies than Japan. Thanks to similar threats in 2010, it has spent years diversifying its supply chains and building up stockpiles for precisely this sort of eventuality.

While China produces about 80% of the world's neodymium magnets, Japan manufactures about half the remainder, according to UBS SuMi TRUST Wealth Management—levels far above its own roughly 5% share of global manufacturing.

That's left Japan relatively unharmed by previous threats to this supply chain. Consider the last time China last put the chokehold on rare-earth exports, during the tit-for-tat trade disputes prompted by US President Donald Trump's 'Liberation Day' tariffs last year: Washington was forced to negotiate for magnet supplies, a humiliating denouement that cemented Beijing's control over a vital advanced technology. Shin-Etsu's magnet factory kept operating at full capacity, the company told investors in July.

Other markets found themselves caught in the crossfire. Only about a quarter of export licence requests by European manufacturers were being processed by Chinese authorities, a trade association for local auto-parts companies warned in June. As a result, production lines and plants were being shut down, even though European companies had no beef with Beijing.

The same was true in India. "We are managing on a daily basis" by drawing on local stocks for magnets in vehicles such as the electric iQube scooter, K.N. Radhakrishnan, president of TVS, told investors in July.

The more pronounced export crackdown promised by Beijing's latest move may be harder to withstand. Despite the diversification of the past decade, Japan still depends on China for about 70% of its rare-earth supplies, according to a government raw-materials agency. Incentives for companies such as the Japanese-funded Lynas Rare Earths have succeeded in broadening the sources of supplies of neodymium and praseodymium, but have been too slow in doing the same with harder-to-obtain samarium, dysprosium and terbium. The deposits are out there, however.

China's actions over rare earths in recent years have not sparked the cowed reaction Beijing might have hoped for, but instead a global renaissance in production that will erode its dominance. Following Japan's lead, facilities designed to circumvent its influence on rare-earth magnet supply chains are sprouting up on every continent: from the US to France, South Korea, India, Malaysia, Australia, Estonia, Germany, Brazil and Angola.

Rare-earth facilities are complex and often unprofitable in the absence of the sort of government support announced over the past 12 months. They're still orders of magnitude easier to establish than the supply chains needed to churn out the most advanced three-nanometer computer chips that China can't obtain. That makes them a weaker tool of geopolitical statecraft than Beijing may hope.

Canada's Neo Performance Materials took just 500 days to build a rare-earth magnet plant in Estonia that opened in September, with commercial sales due later this year. After starting a production line for the relatively abundant elements neodymium and praseodymium at its site in France last April, Belgium's Solvay is already producing rarer samarium and will begin output of the most-prized dysprosium and terbium this year.

Nervous analysts over the past year have pointed to a quote from Deng Xiaoping as evidence of Beijing's long-term master-plan: "The Middle East has oil; China has rare earths." A better guide might have been another line often attributed to the former premier: "Hide your strength, bide your time." In so nakedly showing off its control of critical minerals, Beijing has inspired rival facilities to emerge around the world. That will leave it far weaker in the long term. ©BLOOMBERG

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THEIR VIEW

It may be time for a global shift in focus to local economic planning

State action led by local governments could play an enlarged role in resource allocation as economies face newer challenges



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ISTOCKPHOTO



We are at the dawn of a new age: the climate transition is upon us, the era of hyper-globalization is receding, middle classes worldwide are under strain and poverty reduction in developing countries faces new headwinds. Even without the destabilizing shifts brought about by US President Donald Trump's international trade and foreign aid policies, the world would be desperate for new solutions.

To devise them, governments must reconsider the fundamental question of who our economies and markets are meant to serve and re-examine the policies and institutions that have brought us to our current economic and political reckoning. While global cooperation and national resource mobilization will be necessary to address the challenges we now face, it is local action that offers the most promising path forward.

In the US and other advanced economies, the political backlash against globalization and multilateral institutions is rooted in the adverse effects that globalization and technological change have had on former industrial regions and middle-skill workers. Support for protectionism, hostility to immigration and openness to ideological extremism have emerged in an environment of economic distress and increasingly unequal access to opportunity. National governments' inadequate policy responses underscore a need to address economic constraints locally through a portfolio of measures, including workforce development, support for small businesses, community reinvestment and promotion of R&D.

Stagnating opportunity for middle- and lower-wage workers is far from a rich-country problem. In fact, the types of challenges that developed and developing economies face are converging, which implies that reconsidering our approach to regional economic development requires us to broaden how we think about industrial policy. Conventional industrial policies need to be adapted to current technological and geopolitical realities, including premature de-industrialization, the challenge of productivity growth in service sectors, the uncertain impact of emerging technologies and AI, and more volatile global economic and geopolitical conditions.

This adaptation will require expanding what we regard as industrial strategies to encompass a broader range of public inputs and private interventions. To address challenges such as the green energy transition, we will need to find new ways to develop and commercialize emerging technologies, upgrade worker skills and help those who may lose jobs in traditional energy sectors.

Similarly, we cannot expect job creation in services, where most employment growth will occur, to follow naturally from standard manufacturing-first approaches. It will require interventions on both the demand and supply sides of the labour market—supporting incumbent firms, enhancing supplier networks, targeting small enterprises with high growth potential, leveraging technology that raises the earnings of workers and updating workforce training.

Equally important, new economic strategies will have to be context-specific. Much of the responsibility for their enactment will fall on local actors, including subnational governments, social enterprises and NGOs. Examples of such interventions (and organizations) abound globally, including the Harambee Youth Employment Accelerator in South Africa, Kuza (a micro-learning platform targeted at rural areas) in Kenya, and Generation India, a foundation that aims to improve the country's human capital.

While the locus of action will be decentralized, national governments and regulatory authorities still have crucial roles to play. They will need to articulate a vision for structural transformation and provide needed fiscal resources. They will also need to create an enabling environment for 'good jobs,' such as banking, access to training and a baseline level of social insurance.

Moreover, governments will need to shepherd the direction and deployment of AI, lest a handful of large tech firms control emerging technology. And they will need to strengthen coordination and goal setting in a manner that accommodates the multitude of public and private players involved at various levels of governance.

National capacity for industrial policy does face fiscal constraints, particularly in developing economies (where government spending is dwarfed by that of China and the US). Philanthropic and firm-led approaches will therefore have to be iterative and dynamic, and their funding will need to be more flexible to enable experimentation. Successful transformation policies need not require large subsidies. Better coordination across public agencies and deployment of public resources—including training, regulation and standard setting, and infrastructure—can also drive private investment and innovation.

The coming era will require that we revise our beliefs about how and where economic development happens. We will need to update our frameworks to measure the impact of new strategies. Similarities in national challenges and the policy tools they require suggest that there is no clear distinction between the needs of developed and developing economies. Helping lagging regions catch up in high-income economies and fostering economic development in low- and middle-income economies are increasingly similar.

Whether it is generating good jobs, navigating the climate transition, stimulating innovation or building economic resilience, structural transformation is now the name of the game.

While the ends may differ, the means are the same: effective state action, led by local governments in collaboration with business, labour and other stakeholders, to channel resources into new areas with greater social, productive, and environmental benefits.

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OUR VIEW



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A market economy: Our best bet amid global flux

As America pivots statist while China basks in the success of centrally deployed market forces, India should try to optimize its mixed economy free of ideology. Let's amp up the market knob

It has been 34 years plus since the Cold War triumph of 'capitalism' over 'communism'—or rather, of the free-market idea over the Soviet model of a centrally run economy, to put it less crudely. And as India approaches another budget, industry may want the Centre out of the way in some sectors, but is largely looking for it to lend its fiscal heft to the big wheel of output expansion. After all, big government has plenty to its credit. India's post-covid infra stimulus has been a growth aid, a factory subsidy has unlocked a few new export avenues and policy levers are trying to raise domestic demand and supply—all amid broad macro stability. Since retail price flare-ups pose no threat and capital is far from costly even with a budget deficit in excess of 4% of GDP, it would seem our post-1991 'remix' of policy in favour of market forces can safely be remixed with a larger state role in the allocation of resources than we had assumed. What began as pandemic relief, though also as a way to pick up the slack of weak private investment, has been all but normalized. The state's return as the economy's prime mover, however, does not mark India out. As Cold War II thickens, it's a global trend.

America's dial-back of market forces by way of industrial props and trade barriers, even as Uncle Sam projects imperialist-style extractive power, signals a sort of pivot to autarkic statism. It's not definitive, but a China scare is apparent in this dramatic tilt. Sure, Beijing can plausibly be accused of gaming free trade by using statist tools for its export thrust. But, in response to China's rise as a power, the White House seems ready to rattle whatever is left of the 'post-war' world order, and with it, the whole geo-political economy. Washington has said it wants half the globe under its armed sway, but seems nervous about loss of Arctic control and may face a more choppy Indo-Pacific, whose waters carry the bulk of global shipments. The long game of Cold War II rivalry, however, will be shaped by prosperity and innovation. Willy-nilly, this puts the best formula for economic success back in play. Unlike the Cold War's polarity, though, we now have a diffused economy on either side of the split. Recall that China's stated plan was to deploy market tools for socialist aims. The first part has been such a big success that Beijing is trying to restrain market rivalry ('involution'), even as it sniffs a tech lead over a US sliding into *dirigiste* mode. Yet, broadly, it's still one model versus another, so Fukuyama's 'end of history' has proven premature. But does that cloud the free market's claim to victory with doubt too?

Yes or no, our post-1991 rise argues that to optimize India's mixed economy, we must keep policy free of ideology and focused on results. Central tech thrusts, AI spurs and other nudges are welcome, as an active state can indeed steer an economy for the better. But let's not read too much into US shudders over *laissez faire*. For our producers to be competitive, they need exposure to competition. For overall efficiency, the economy's use of capital *et al* still calls for greater market direction, not less. Private responses to moves made by market participants, rather than rule-makers, should play a pivotal role. And for such allocative efficiency to boost growth, we must keep economic policy flexible. Fiscal plans, for example, must not just keep public debt in control, but be ready to let the economy free-wheel its way up on the back of private funds, ideas and motives as soon as 'animal spirits' allow. A more market-oriented economy is our best bet. It'll make space to go long on welfare as a demographic investment.

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MY VIEW | THE INTERSECTION

Europe needs to arm itself again and that's an opportunity for us

Europe will have to reckon with internal divergences as it adapts to the withdrawal of a US shield



NITIN PAI
is co-founder and director of The Takshashila Institution, an independent centre for research and education in public policy.

While the White House insists that the US might use military force to annex Greenland, serious people in Denmark believe that the actual takeover might be more prosaic. As Shane Harris and his colleagues report in *The Atlantic*, President Donald Trump could simply announce on social media that the territory is now a part of the US. Neither Denmark nor any Nato partner would put up a defence because they don't have the military power to confront the US.

What such an outcome will mean for Nato is another question, but the fact that some European policymakers believe that they could effectively give Washington a military walkover reveals a lot about the state of European preparedness. If the Russian invasion of Ukraine did not, the Trump administration's actions will make European re-armament an urgent imperative.

Washington's latest National Security Strategy (NSS) has not only signalled a reversal of an 80-year-old commitment to Europe's defence, it has also indicated a willingness to politically intervene in Europe by backing right-wing parties. For European capitals, this transforms their security environment.

In the past year, the EU and its member countries have announced a series of measures to boost defence spending. The pathways to European re-armament include a plan for EU member countries to raise defence spending from 2% of GDP to 3.5% in the medium term and further to 5% by 2035. The EU has cleared the legislative decks for states to run higher fiscal deficits necessary to enable such spending. The coming years will be wrenching for European societies as they are forced to cut spending on welfare and environmental goals to build their armed forces.

Finding the money to finance military equipment will be hard enough, but it will be harder to find adequate numbers of young people to join the armed forces. Convincing young Europeans, raised in prosperous societies, to choose military careers will test political leadership and social cohesion. Forging national armed forces into a unified, credible fighting force will be a long, difficult task. Nato does provide a framework, but Nato without the US will leave a big hole for someone to fill. Command structures, logistics, intelligence sharing, strategic lift and nuclear deterrence will all look different once Washington is no longer the anchor.

A European military alliance, even if supplemented by Britain and Turkey, will not simply be Nato-minus-America. It will be entirely new, with different politics, command structures, threat perceptions and civil-military relations.

European politics will determine the course of re-armament. If right-wing parties sympathetic to Washington come to power in Germany, France, Britain and Poland, it may proceed in coordination with the US, even if on less deferential terms. If they do not, Europe will attempt to plough an independent furrow. There are pitfalls either way.

If the EU can create a truly unified military force, then differences in the geographical distribution of wealth and demographics will matter less. But if the armed forces are organized around national lines while they fight as part of a European alliance, then the organizational challenges will be more acute. It is unclear if Europe can field a unified fighting force without fiscal unity. Coherent re-armament requires European cohesion. A divided Europe may re-arm slowly, incoherently or not at all.

As the Ukraine war, NSS and Greenland issues have shown, external pressures will determine the tempo of re-armament. Russian behaviour will be decisive. An aggressive Russia will concentrate minds and accelerate decisions that might otherwise be postponed.

Europe's diplomacy will adjust accordingly. European capitals will seek to keep Chinese support for Russia below a tolerable threshold, recognizing that beyond it, the logic becomes brutally simple: my enemy's friend is an enemy. Neither Europe nor China want to cross that line, but they will have to manage amid ongoing and perhaps new conflicts ensnaring them.

Within Europe, certain states will matter more. Poland combines rising defence spending, favourable demographics and a frontline geography shaped by centuries of hard experience with Russia. Its influence on European security policy will grow accordingly.

Turkey, meanwhile, could become a swing state. As a Nato member outside the EU with a managed rivalry with Russia, Ankara occupies a strategic grey zone. Will it consider itself and be considered European enough for defence? Turkish and Russian interests may diverge sharply in Europe but converge in West and Central Asia. How Turkey balances these theatres will influence the European security environment.

Britain is also key, provided it can avoid being torn apart by the growing divergence between the US and Europe.

For India, Europe's re-armament opens a window of opportunity. A Europe less anchored to Washington and more focused on its own security will seek diversified partnerships. As a defence partner, India can help Europe reduce costs through economies of scale. However, India's ties with Russia and Europe's with China will limit how much the two can do, and how fast.

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MY VIEW | A VISIBLE HAND

Expect a year of strife in the US and progress elsewhere

NARAYAN RAMACHANDRAN



is chairman, InKlude Labs. Read Narayan's Mint columns at www.livemint.com/avisiblehand

The Year 1926 saw remarkable change around the world. Fidel Castro and Queen Elizabeth II were born that year. With the benefit of hindsight, the world was between two large-scale wars. British India held its third general election following the 1919 Montagu Chelmsford reforms enshrined in an Act. A hundred years on, things have changed a bit, but some things are distressingly the same.

Before we get to 2026, here is a quick report card on my trend predictions last year for 2025. Donald Trump and Elon Musk did fall out, proving yet again that uber egos will dominate logic every time. As expected, the US market did less well than Europe and emerging markets, marking an end to the age of US exceptionalism. In cricket, the Indian men's team had a mixed year, with coaching and selection looking rather mercurial, while the women's team shone. 'Agentic' is a lead candidate among businesses for word of the year, but 'vibe coding' and 'slop' are more popular with consumers.

And now for 2026, categorized as usual in terms of probability.

High probability (above 70%): One year into his presidency, we are witnessing 'peak Trump.' The exact angle of descent is unknowable, but the power and influence of this administration looks set to decline. Extreme systems usually collapse from within and signs of it are evident in internal fissures. The Trump coalition is made up of six main factions: *one*, MAGA populists with strong 'America First' views; *two*, the US religious right, motivated by social issues like abortion and school books; *three*, fiscal hawks inherited from the Tea Party; *four*, the multi-racial right motivated by economic and cost-of-living issues; *five*, tech bros motivated by deregulation and government staying out of spaces like AI and crypto; and *six*, fringe far-right groups openly hostile to democratic inclusiveness. These factions are now warring, and, for the first time, Trump acolytes like Marjorie Taylor Greene have become openly critical of Trump's handling of the Epstein files. Erika Kirk, wife of slain conservative activist Charles Kirk, has endorsed J.D. Vance as the Republican Party's next presidential candidate. Even a stacked Supreme Court might not rule on Trump's side on every major decision.

Trump's latest National Security Strategy says that Europe faces "civilizational erasure." *Au contraire*, Europe is wealthy and has the manufacturing and scientific base to grow again. Germany's once-in-a-generation fiscal spending will likely catalyse Europe's gentle reawakening. Germany has eased its debt brake on defence spending, which could rise to about 3.5% of GDP by 2029. It also plans infrastructure spending, deregulation and labour-market reform. The German DAX index has handsomely outperformed the S&P 500 this year and this will probably continue in 2026. While the rate of change may moderate, the euro will likely continue its appreciation against the US dollar (the European currency is up nearly 13% year-to-date).

From a likely MAGA crack-up in America to a long-shot fusion leap by China, 2026 might be action-packed

India's much delayed 2021 census will be conducted in 2026. It will be India's first fully digital census. The total population is unlikely to be widely off from estimates of 1.44 to 1.48 billion. However, it will throw up many surprises, since it will be India's first caste count since 1931. It will also form the basis of delimitation for Lok Sabha seats. Both issues are politically potent and are likely to result in societal tensions.

The frenetic pace of progress in artificial intelligence (AI) and its rub-off on AI investments and valuation will reach a crescendo this year. While the technological impact of AI will endure, watch for cracks to appear in the market, with highly indebted companies at most risk.

Medium probability (above 50%): Based on current squad strength, home advantage and recent T20 dominance (India has won 80% of its recent games), the Indian men's team is a favourite to make the semi-finals of the T20 World Cup, with a 30% chance of making it to the finals (in a multi-country context that is a very high probability).

The odds-on favourites to make the semi-finals of the FIFA World Cup in 2026 are Spain, France, England and Argentina. Brazil, Portugal or Germany could crash the semi-final party. It will be Canada's first time, the US's second and Mexico's third time as co-hosts of this event.

Augmented and virtual reality (AR and VR) are likely to go mainstream this year. Human-first content will vie with AI-generated content for authenticity and trust.

Uncertain probability: The 'what next' question in Gaza will be answered this year. Some version of an international stabilization force, as envisaged in the second phase of the Gaza peace plan, is likely. The substantial bill for rebuilding Gaza will have to be borne by an Arab coalition. The Ukraine war will likely end in 2026, mostly as a result of the exhaustion of all parties involved, with a tilt in Russia's favour. Tragically, the civil war in Sudan will likely continue because the attention bandwidth of the rest of the world is consumed elsewhere.

As in 2025, there will be much hot air this year too about climate change strategies, but little real action. China's fraction of renewable power will cross half its total capacity this year. It is also making rapid progress towards commercializing nuclear fusion for power.

All in all, 2026 will be a year in which the US sees more turbulence than elsewhere.

P.S.: "Prediction is very difficult, especially if it is about the future," said the wise Yogi Berra.

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US productivity is rising and it risks warping monetary policy

America's neutral rate ought to be going up but will the Fed listen?



JONATHAN LEVIN
is a columnist focused on US markets and economics.



A productivity boom seems to have begun but the role of AI remains unclear. REUTERS

The US economy seems to be in the throes of one of its biggest bursts of productivity in decades, weighing on business labour costs and hastening disinflation. If artificial intelligence (AI) is partly the reason for the gains, then it's plausible that we're in the early days of durable improvements to efficiency. And yet, the numbers are also shrouded in mystery and the US Federal Reserve should greet them caution rather than as a green light to keep lowering interest rates.

American labour productivity, or non-farm employee output per hour, increased at a 4.9% annualized rate in the third quarter, the strongest since 2023, according to the Bureau of Labor Statistics. Excluding the bounce-back quarters around recessions, it was the second-strongest reading in two decades. Meanwhile, unit labour costs plunged for a second consecutive quarter, dropping 1.9% after declining 2.9% in the April through June period. Taking them at face value, rising productivity and lower costs are worthy of celebration. America's increasing efficiency is creating conditions for a continued slowdown in inflation that has been happening for three years even as the economy powers ahead and the stock market scales record highs. And yet, no one can say for sure what's behind the numbers, whether it will continue and what it means for interest rates. And that goes for Fed policymakers as well, who would do well to exhibit some humility in the months ahead.

So is it AI? Maybe. The most obvious explanation is often the right one. According the Census Bureau's Business Trends and Outlook Survey, around 18% of US firms report having used AI in the past two weeks. That's more than triple the adoption in early 2024. (Granted, a recent jump in the numbers probably reflects a reframing of the survey question: The Bureau used to ask firms if they were using AI for "the production of goods and services," but now they ask if they use it for "any business function."

Estimates of how AI will ultimately affect productivity run the gamut, but it's probably a game-changer for several types of knowledge work. One marketing experiment conducted by researchers Harang Ju and Sinan Aral found that human-AI teams were a shocking 73% more productive than all-human teams. In software development, another study found that developers using an AI tool completed 26% more tasks.

To be sure, 'old economy' businesses may struggle to find highly effective uses for the tech. Consider taxi drivers presented with an AI tool to find customers: The tool yielded a modest 7% productivity boost to low-skilled drivers but a near-zero impact on the performance of drivers who were already good at their jobs. Evidently, the usefulness of AI is not only dependent on industry and context, but on the starting skill levels of the humans using it.

As for policy implications, those too are hazy. While lower unit labour costs are disinflationary, higher productivity is typically associated with higher demand for investment capital and a higher potential GDP growth rate. On balance, that can help raise the 'neutral' rate of interest, which is the rate at which monetary policy neither restrains nor fans economic growth.

If policymakers focus on the first order effect (lower unit labour costs) and ignore the neutral rate channel, they might be inclined to slash rates and leave financial conditions unduly loose, potentially fuelling bubbles in financial assets or sparking faster inflation. Fed Governor Stephen Miran told *Bloomberg Television* last Thursday that, after cutting its benchmark rate by 75 basis points from a range of 4.25% to 4.5% in September to the current 3.5% to 3.75%, he would like to see the central bank reduce them by an additional 150 basis points this year to a 2% to 2.25%, predicated on the idea that monetary policy is currently restrictive and inflation is under control.

And yet, a separate report last week by the Federal Reserve Bank of New York showed that consumers expect faster inflation in the next 12 months, or 3.42%, up from 3.20% in the November survey and moving further away from the central bank's 2% target. After five years of elevated inflation, policymakers need to keep a close eye on inflation expectations, because faster inflation can sometimes become a self-fulfilling prophecy.

Unfortunately, the neutral rate is just as enigmatic and unknowable as labour productivity. Given that inherent uncertainty, the proper course of action would be to proceed slowly and wait for further data on productivity, inflation and the labour market. Central banking requires extraordinary humility even in normal times, and that's doubly true when you are potentially on the cusp of a potential productivity revolution. ©BLOOMBERG

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MY VIEW | STAT-CRAFT

India at 100: Our choices today will define the next two decades

India's 2047 ambition is not guaranteed but achievable if we address all the potential pitfalls along our development path



RAJESH SHUKLA
is managing director and chief executive officer of People Research on India's Consumer Economy.



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India is entering the most consequential phase of its development since independence. Between 2026 and 2047, the year Independent India turns 100, its economy, population and cities will undergo transformations unmatched in scale. Managed well, this period could propel India into the ranks of high-income, innovation-driven economies. Mismanaged, it could see the country fall short just as its greatest demographic advantage begins to fade.

Three structural forces will shape India's future over the next two decades: rapid economic expansion, the maturing of its demographic profile and accelerated urbanization. Together, they create a narrow but powerful window for reform and execution.

Economically, India's momentum is strong. India is now the world's fourth-largest economy with a nominal size of around $4.2 trillion, a clear marker of sustained progress. If reforms continue and investment remains robust, GDP could reach $10-12 trillion by 2036 and $14-18 trillion by 2041. By 2047, India may cross the $20 trillion mark, placing it among the world's top three national economies. This growth will be driven by digital public infrastructure, an expanding manufacturing base, a large domestic market and a fast-growing middle class whose consumption will reshape both domestic and global demand.

But scale alone will not be enough. As India grows larger, growth must become smarter, driven by productivity, skills and innovation rather than just an accumulation of factors of production.

Demographics offer India a second, time-bound advantage. The workforce will continue to expand through the 2030s, peaking around 2041, when India will reach its highest ever working-age share on record. This will be the moment of maximum economic potential. After that, ageing accelerates, increasing pressure on healthcare systems, pensions and public finances. Countries that failed to convert their demographic dividend into productivity before ageing have struggled to sustain growth. India cannot afford the same mistake.

Urbanization is the third defining force. From an urban population share of about 37% in 2026, we will cross 40% by 2031 and 43% by 2036, becoming a majority-urban nation sometime in the mid-2040s. By 2047, over 800 million Indians, roughly half the country, will live in cities. These urban centres will generate more than three-quarters of GDP and almost all net job creation. Our future, economically and socially, will be decided by what happens in Indian cities and how they fare.

Yet, these transformations carry serious risks. Skill gaps, weak urban governance, climate stress and rising inequality could undermine long-term growth. To avoid this, India must pursue a focused policy agenda built around six strategic priorities.

First, we must create world-class human capital. A large workforce is not enough; it must be a skilled one. Education and training systems must align with industry needs, particularly in advanced manufacturing, digital technologies and green sectors. Vocational training and apprenticeships should be scaled nationwide. Female labour-force participation—still far below potential—must rise through better childcare, safer workplaces and flexible employment. As ageing begins, lifelong learning will be essential to sustain productivity.

Second, we must make our cities engines of growth rather than bottlenecks. Urban governance remains one of India's weakest links. Cities need greater fiscal autonomy, professional management and predictable funding. Investments to the tune of $50-60 billion annually will be required for mass transit, housing, water, sanitation and digital infrastructure. Climate resilience must be embedded into urban planning, from heat-mitigation strategies to flood control and water recycling. Smaller cities and satellite towns should be developed to relieve pressure on megacities.

Third, we must shift decisively from technology adoption to leadership. Long-term competitiveness will depend on innovation capacity. R&D spending should rise to around 2% of GDP by 2040. Innovation districts linking universities, startups and industry clusters can accelerate tech commercialization. India's success with digital public infrastructure should be extended into areas such as healthcare, logistics, education and clean energy. Openness to global talent and research collaboration will be critical.

Fourth, India must strengthen its industrial and export base. Manufacturing should grow not just in scale but in sophistication. Policies should promote advanced manufacturing, automation and supply-chain integration. Export-oriented sectors, electronics, pharmaceuticals, renewable technologies, agri-processing and digital services can each become trillion-dollar opportunities over time. Regulatory stability, contract enforcement and simpler taxation are essential to attract sustained investment.

Fifth, India must prepare early for an ageing society. The demographic shift after 2041 will be rapid. A multi-pillar pension system covering both formal and informal workers is essential. Healthcare infrastructure must expand, especially in geriatric care. Insurance penetration should deepen and technology-enabled eldercare solutions must be encouraged. Policies enabling longer, healthier working lives can soften the economic impact of ageing.

Sixth, climate and resource resilience must be treated as core economic priorities, not add-ons. Water scarcity, extreme heat and climate volatility threaten productivity and urban liveability. India must accelerate renewable energy and green hydrogen development, apart from energy storage. Water governance reforms, covering groundwater, river basins and urban usage, are urgent. Industrial policy should favour low-carbon and circular economy models from the outset.

Execution will be the hardest test. India needs institutions that think beyond electoral cycles. Rolling five-year transformation plans aligned with demographic milestones would help sustain momentum. Data-driven governance, integrating labour, health, education, urban and climate data, will be essential for timely course correction.

The next 20 years will determine not just India's economic rank, but the quality of life of its citizens for generations. The demographic dividend is finite. Urbanization is irreversible. Climate pressures are intensifying. Yet, the opportunity is historic. India being a developed country at 100 is not guaranteed, but it is achievable. The choices made now will determine whether we will enter our second century of independence as a prosperous, resilient and globally influential nation or as one that took too long to fulfil its own potential.

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MY VIEW | MUSING MACRO

Fix GST on capital goods to revive private investment

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India faces a paradox today. Its GDP growth is among the fastest in the world, public capital expenditure has surged and corporate balance sheets are healthier than they have been in years. Yet, private investment, especially in manufacturing capacity, machinery and factory expansion, has not responded with comparable vigour. There are several reasons for this, including the cost of capital and still-muted animal spirits. But one underappreciated reason lies in the design of the goods and services tax (GST), particularly its treatment of capital goods.

One powerful reform in the forthcoming budget to revive private investment would be to place capital goods squarely and cleanly within the GST framework, with full, immediate and usable input tax credit (ITC).

GST is a destination-based value-added tax on final consumption. It is not meant to be a tax on production or investment. Its logic rests on seamless input tax credit. Taxes paid on inputs—whether consumption goods, services or capital equipment—should flow through the value chain and never become a cost to business.

But in practice, due to ITC delays and the near-impossibility of monetizing ITC on capital goods, India's neutral consumption tax has become something like a tax on production and investment. Capital goods—machines, plant, equipment and construction inputs—often generate large GST credits that remain trapped for years, sometimes indefinitely. This raises the cost of capital.

To be sure, ITC on capital goods exists under the GST rules, but only on paper. Its real economic value is limited. While late tax refunds on exports and inverted duty structures can trap capital, capital-intensive service sectors are explicitly kept out of ITC claims on capital goods. Firms gather credits that can't be used, even though they have paid the tax. This raises the effective price of investment. When GST paid on machinery or construction cannot be recovered in cash or set-off smoothly, it gets embedded in the project cost. A tax that was meant to be neutral quietly turns into an investment tax.

It also has a cascading effect. Once unrecovered GST becomes part of the cost, it is taxed again at the next stage. Even a modest denial of ITC can push effective tax rates far above the statutory rates, distorting prices, margins and competitiveness.

Further, it biases production decisions away from capital expenditure, scale, technology and formalization. Firms might delay capacity expansion or structure supply chains to minimize ITC loss rather than maximize business gains.

Capacity utilization has improved, but greenfield private investment is hesitant. Infrastructure is being built largely by the state, whose fiscal capacity is limited. Private investment spending is critical for growth. By taxing investment inputs, the GST system discourages factory expansion, technology adoption and thus productivity growth. When China converted its value-added tax (VAT) into a full consumption-type tax by allowing full credit and refunds on capital goods, firms experienced significant productivity gains.

Doing away with anomalies in GST's input tax credit system would go a long way in firing up investment

A common objection is that allowing full ITC on capital goods will create an overlap or misuse because firms also claim depreciation under the income tax rules. But this confusion stems from mixing two different tax bases. The GST is a consumption tax whereas income tax is a levy on income. Capital goods must be treated as intermediate inputs under GST, not as final consumption. The principle is straightforward: either allow ITC under GST or depreciation under income tax. Many VAT systems globally handle this by disallowing depreciation on the GST-credited portion of capital costs. India does this in law; the problem lies in incomplete GST credits.

Using a flawed GST design as a substitute for income-tax enforcement is economically costly and intellectually incoherent. Last year's GST slab reduction and rate rationalization were welcome, but these alone can't revive investment. Lower GST rates with blocked credits create distortions. A GST rate of even 18% with full ITC credit would be much better than a lower rate riddled with exclusions. A recent paper by Arbind Modi and Ajay Shah persuasively argues for this reform claiming that it can raise growth by 0.3 to 0.7 percent.

When buyers cannot claim credit, they have little incentive to insist on invoices. This erodes the audit trail and pushes the system towards informality—the opposite of the self-compliance it was meant to achieve.

The next Union budget should *first* aim to guarantee full and immediate input tax credits on capital goods, including refund eligibility should credits accumulate. Capital goods should be treated as intermediate inputs and not as final consumption goods. *Second*, it should rationalize refund rules so that excess ITC—whether arising from exports, inverted structures or capital-intensive production—is refunded automatically, with post-audit safeguards rather than *ex-ante* denial. *Third*, the budget should align GST with income tax rules by disallowing depreciation on the GST-credited portion of capital spending.

None of this requires fiscal recklessness. Denying ITC on capital goods is depressing investment, productivity and compliance. International experience shows that neutral VAT systems are more buoyant, not less.

This is a big reform hiding in plain sight, with little political cost. Fixing GST's treatment of capital goods would lower the cost of capital, raise productivity and support exports. It will contribute greatly to reviving India's investment cycle.

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THEIR VIEW

Should a benchmark bond yield guide RBI's repo rate decisions?

A broadly steady 10-year G-Sec yield could be taken as a cue if it reflects an efficient market at work



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The 10-year government bond yield is a benchmark that determines the interest-rate environment in the debt market. While there are several bonds traded in India, this bond attracts the most attention. Since June, its yield has stubbornly stayed in a 6.40-6.60% range. This is notwithstanding the fact that the Reserve Bank of India (RBI) has been lowering its repo rate, which ought to have pulled down bond yields.

This divergence would not be an issue if it did not affect interest rates beyond the market for government securities (G-Secs), such as the rates of bonds issued by state governments and corporations. But all bond yields are benchmarked with what G-Secs offer. Hence, depending on the spread that must be offered above G-Sec rates (as a risk premium), they need to be priced accordingly. States lament that their cost of borrowing has gone up. Corporates too have to pay higher rates, even as bank loans have gotten cheaper.

We face an anomalous situation. Banks perforce have to lower lending rates when the repo rate is lowered, as several of their loans are directly linked with repo movements. The system of external benchmark lending rate (EBLR) is unique to India, mandating that some loans be tied to an external benchmark. Hence, when the repo rate falls, so does the lending rate. The idea is to ensure swift policy transmission.

Banks are then compelled to also lower their deposit rates to protect their margins. When this is done, the basic component for calculating the marginal cost lending rate (MCLR) also comes down. But the market works on various decisions taken by banks, mutual funds insurance companies, primary dealers, market makers and others. While banks, which are major players in the G-Sec market, lower their rates as they must in a regulated system, the market does not always accept lower rates.

There are reasons for stubborn bond yields. The government's borrowing programme has increased the supply of G-Secs, which lowers their prices and raises yields. RBI, the Centre's debt manager, has indicated that central borrowing will not exceed what was budgeted: this also holds for states. Yet, given the tight liquidity situation—typified by weak deposit growth as interest rates have dropped—the reverberations have been felt in the bond market. Low deposit rates have led to shortfalls in liquidity that necessitated RBI relief.

RBI has done much to assuage yields, albeit indirectly. Banks' cash reserve ratio has been cut, like the repo rate. Open-market G-Sec purchases have been announced and carried out to inject liquidity. Fewer bonds available in the market should have pushed up their prices and lowered yields, but this has not happened.

Curiously, bond yields rose after RBI's June policy, when it was stated that there was a limit to which the repo rate could be cut to support economic growth. The 10-year G-Sec's yield rose from 6.26% on the eve of that policy to 6.40% by the next policy announcement in August and then to 6.50% in October. Since then, it has hovered around 6.60%, a new normal. The RBI policy of December effected a repo rate cut, even as the central bank announced bond buybacks and indicated that there could be more rate cuts if needed. A probable point to debate in the December policy was that bond purchases were announced with the aim of providing liquidity rather than influencing bond yields directly. This may have made the market think that the prevailing yield range is acceptable.

Now, if a contrarian hat is put on, a different narrative can be expounded. Had yields stayed steady in a range of 6.50-6.60%, perhaps it would indicate that this is a fair level. A corollary would be that trying to bring down yields now would not be possible, given how the 'invisible hand' of the market has yielded this result. An extension would plausibly be that a repo rate of 5.5%, which is what it was in June, is consistent with macroeconomic stability. This would also imply that the December repo cut could have been eschewed.

The cliched Goldilocks situation, where growth is high and inflation low, has made it hard to interpret how things should go. By the December logic of lowering the repo rate to support growth, there would be a case for another rate cut in February and perhaps also in April, as GDP growth is expected to fall to under 7% while inflation stays within RBI's target band. In such a scenario, how much more can rates be lowered?

This is where the market voices itself through bond price movements. Bond yields, which are supposed to price in all information on growth, inflation, the fiscal situation, supply of liquidity and other factors, have been steady over the last six months. This can be interpreted as a vote in favour of the present yield range. If so, a repo rate of 5.5% would be ideal, implying a spread of around 100 basis points for the 10-year G-Sec.

Bond yields can serve as an important signal while setting the repo rate if one accepts that the 'efficient market hypothesis' is at work. A thought worth pursuing is whether one can use the 10-year bond yield as an indicator for monetary policy. Since our financial conditions have departed from convention, this is worth thinking about.

These are the author's personal views.

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MY VIEW | EX MACHINA

Let's review and rejig intellectual property protection

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Science and technology have advanced most reliably when carried out in the open. Isaac Newton was only able to publish *Principia Mathematica* because he was able to "stand on the shoulders of giants," such as Galileo and Kepler, who had made their own work public. But the very same Isaac Newton also dabbled in alchemy, a field in which practitioners were notoriously secretive about their experiments in transmuting base metal into gold. Given that he had no 'shoulders to stand on,' Newton was far less successful as an alchemist than as a scientist.

Innovators need an incentive to continue inventing. While science has traditionally flourished because of patronage, technology typically tends to succeed when it is profitable. This is why we developed intellectual property law, an artificial monopoly designed to ensure that innovators have an incentive to invent. In exchange for disclosing their inventions to the public, inventors are granted patent protection that effectively gives them a temporary monopoly over the exploitation of their inventions, letting them monetize them exclusively for that period. However, from the very early days of patent protection, it was clear that such a monopoly could quickly lead to complacency, extinguishing the very inventive spark it was supposed to nourish.

Anyone who tells the history of the Industrial Revolution usually begins with the story of James Watt and his remarkable flash of genius. It is said that one day, as he watched his kettle boil, he had an insight that led to the invention of the steam engine—and the complete re-imagining of motive power. It's a story of how inventive brilliance, rewarded by ownership protected by law, led to civilizational progress.

The reality was somewhat less impressive. The patent Watt was granted in 1769 for his invention was framed in terms so broad that it encompassed all of steam power. When it was due to expire, he successfully lobbied British Parliament to extend it until 1800. During those three decades, innovations in steam engine design slowed perceptibly as Watt worked diligently to block the efforts of other engineers who were looking to develop smaller, cheaper and more efficient steam engines. As a result, it was not until after the patent expired that Richard Trevithick was able to build the first high-pressure steam engine capable of powering a steam locomotive—kick-starting the mass transportation revolution in the process.

A century later, the aviation industry was similarly hamstrung. After the Wright brothers demonstrated that controlled, powered flight was possible, they secured a patent drafted so broadly that they were able to slow down progress in aviation. Instead of improving the design of their aircraft, they sued others who were working on making planes safer, faster and more reliable. The ensuing intellectual property slugfest brought the American aviation industry to its knees, so much so that by the beginning of World War I, the government had no option but to force manufacturers into a patent pool that compelled them to cross-license claims so that planes needed for the war could be built.

What worked in the industrial age is outdated as this incentive to innovate has started slowing our progress

The patent system was designed to address a fundamental market failure—the fact that the high sunk costs of innovation, combined with the low cost of imitation, offer too scant an incentive to continue innovating. We attempted to address this issue by granting inventors a limited window of exclusivity to recoup their investments. What this did, however, was encourage rent-seeking, leading patent holders to maximize the extraction of value over inventing something new.

But there is a further challenge. Patent law grants a standard 20-year monopoly to all inventions, regardless of the time and money invested in development. As economist Alex Tabarrok points out, this has led to disproportionate outcomes, given that different sectors need varying levels of protection. While software evolves too quickly to be effectively patented, mechanical inventions may merit a moderate term of protection. Among all the categories of innovation, drugs probably deserve the full extent of the 20-year protection, given how expensive they are to develop and trivially cheap to copy.

But even this analysis is no longer sufficiently accurate. Artificial intelligence has shortened innovation time scales in even the most complex of disciplines. DeepMind's AlphaFold has solved the once-insurmountable protein folding problem and made drug discovery, which used to be like prospecting in the dark, an increasingly tractable problem. If ever there was a time to revisit the design of our intellectual property protection regime, it is now.

When the process of innovation shifts from trial-and-error to automated inference, the 'sweat of the brow' argument collapses. In a world where it no longer takes decades of painstaking experimentation to invent something new, a 20-year patent is not an incentive but a windfall.

Intellectual property was supposed to ensure that innovators could stand on the shoulders of those who came before them, not prevent others from climbing up. As discovery becomes faster and cheaper, an extended monopoly is no longer a bridge but a wall. A legal framework built for slow, human-scale inventiveness cannot govern a world in which ideas can be generated at the speed of thought. It has to evolve, or risk suffocating the very progress it was designed to protect.

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MY VIEW | CAFE ECONOMICS

India's economic growth masks a potential squeeze of fiscal space

A decline in nominal GDP growth would constrain the scope for stimulus action by the Centre as it seeks to reduce its debt



NIRANJAN RAJADHYAKSHA
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The first estimates of Indian economic growth during the ongoing financial year were released on 7 January. They have provided reasons for cheer as well as concern. The cheer comes from the fact that the economy is expected to grow in real terms at a brisk 7.4% despite a difficult international situation. The concern comes from the fact that the growth in nominal gross domestic product (GDP) is likely to be a tepid 8%, the lowest rate since the financial year ended 31 March 2003. The slim difference of 0.6 percentage points between these two measures of economic momentum is explained by a collapse in the GDP deflator, a measure of inflation used by government statisticians to squeeze out the effect of price increases to arrive at the growth in real output.

This very low nominal GDP growth rate has profound implications for Indian fiscal policy, even as finance minister Nirmala Sitharaman prepares to present the new Union budget on 1 February. The finance minister had announced last year that India would have a new fiscal policy framework under which the main aim would be to bring down the ratio of public debt to GDP over the medium term. The annual budgetary balance would be the instrument used to achieve that aim. This is broadly similar to the approach that the Reserve Bank of India takes. It seeks to keep inflation close to target through changes in the interest rate. For those with a taste for jargon, the annual fiscal deficit is now the intermediate policy target, while the public debt to GDP ratio is the final target.

Nominal GDP growth has a starring role in the quest to stabilize public debt in any economy. Public-debt dynamics can be understood through a simple equation. The change in the debt-to-GDP ratio depends on two variables. *First*, the primary deficit, which is government spending minus revenues, after you exclude interest payments. *Second*, what economists call the 'r minus g' differential (r-g), which is the gap between the nominal rate of interest the government pays on its debt and the nominal growth rate of the underlying economy. The upshot: The burden of public debt can be managed if either the government brings down its primary deficit or the economy grows faster than the cost of borrowing, or some combination of the two factors.

The primary deficit is controlled directly by the government through budget choices on how much revenue to mop up, how much money to spend and how much to borrow from banks to fund the fiscal deficit. On the other hand, the (r-g) differential captures the structural forces largely beyond immediate policy control. When a government reduces its primary deficit, it directly cuts how much new debt it needs to pile on each year. However, even if you balance the primary budget completely, your debt ratio can still rise if interest rates exceed growth rates, creating a snowball effect. Conversely, when nominal growth outpaces interest costs—as it often does in India—the denominator effect works in our favour, allowing the economy to grow its way out of debt even with moderate deficits.

The relative importance of these two factors has varied dramatically across time and geography, offering lessons for India's own fiscal trajectory. European countries in the 1990s faced the painful reality of a positive (r-g), forcing them to run large primary surpluses just to meet Maastricht criteria, a politically bruising exercise that still shapes their fiscal conservatism today. Japan tells a different story. Decades of ultra-low interest rates have kept (r-g) deeply negative, allowing the country to sustain debt levels above 250% of GDP without triggering a crisis, though whether this is sustainable remains hotly debated.

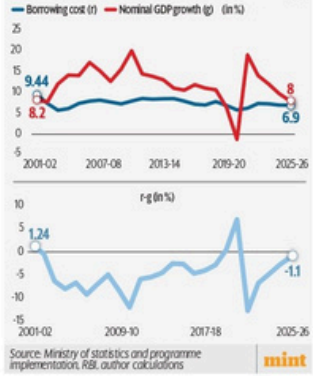
India has usually been in a sweet spot of combining strong nominal growth with relatively manageable borrowing costs. This has provided the breathing space to successive governments which allowed them to avoid severe austerity that would have hurt the broader economic momentum. The recent decline in nominal GDP growth, or the 'g' in the (r-g) metric, could now create complications. It adds to pressure on the government to run a tighter fiscal policy.

The numbers tell the story. The difference between the rate at which the government borrows in a particular year and the growth in nominal GDP is now at one of the most unfavourable levels in the past 25 years. The interest costs considered here are the weighted average cost of government borrowing in a particular year. It would complicate the task of fiscal policymakers unless either nominal GDP growth accelerates in the coming years or interest rates decline sharply. And it is important to remember that what applies to the finances of the Union government also applies to states, many of which seem headed towards a fiscal cliff.

India has managed to bring down its annual fiscal deficit after the pandemic shock, a big boost for the policy credibility of the government. However, it may need some fiscal firepower to support domestic economic activity in the coming years in case the international situation turns even more ugly. A sharp decline in nominal GDP growth will restrict the ability of the government to stimulate the economy while maintaining public-debt-to-GDP on a downward path.

Fiscal complication

India's declining nominal GDP growth rate has almost closed its gap with the government's cost of borrowing



Source: Ministry of statistics and programme implementation, RBI, author calculations

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Why the US Fed needs Powell to stay on now more than ever

His vote would help resist Trump's attempts to meddle with the Fed



JONATHAN LEVIN
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Powell has proven to be a powerful leader of an institution under fire. REUTERS

These are officially the darkest days for Federal Reserve independence since at least the Nixon administration. After attacking Fed Governor Lisa Cook last year, US President Donald Trump is now weaponizing the Justice Department against Chair Jerome Powell in a thinly veiled effort to intimidate him into lowering interest rates against the best interests of the American people. It's something you'd expect in a tin-pot banana republic and it will be a stain on America's reputation for years to come.

The attack is a sign of why America needs principled leaders at its central bank—and why Powell himself should opt to stay on as a governor after his chairmanship ends in May.

Speaking to the American people on Sunday, Powell said the US central bank had been served grand jury subpoenas threatening a criminal indictment related to his June congressional testimony on renovations of the Fed's headquarters. In his strong response, he characterized the scrutiny of the renovations and his testimony last year as mere pretexts.

"The threat of criminal charges is a consequence of the Federal Reserve setting interest rates based on our best assessment of what will serve the public, rather than following the preferences of the President," Powell said Sunday. "This is about whether the Fed will be able to continue to set interest rates based on evidence and economic conditions—or whether instead monetary policy will be directed by political pressure or intimidation."

Independent central banks deliver the best outcomes, both in the US and abroad. Without adequate firewalls, presidents can use the central bank to juice the economy and boost their electoral fortunes, leaving an inflationary mess for subsequent administrations. That was the case with Richard Nixon, who appointed his former economic counsellor Arthur Burns as Fed chair and joked about lower interest rates at Burns' swearing in ceremony. It took decades to build back the Fed's credibility, which Trump seems intent on squandering.

Trump's demands for vastly lower rates defy economic reality. Policymakers are juggling lingering inflation with a wobbly labour market, while trying to size up the economic impacts of a massive shift in global trade policies and an AI revolution. In response to the uncertainty, they have been prudently cutting rates very gradually, and may conceivably lower them further if the economic data demands it. Trump, by contrast, wants to throw caution to the wind and rapidly ease policy at the risk of re-igniting inflation.

Fortunately, Powell is no Burns. The Fed is also getting some help from Senator Thom Tillis, who promised to oppose any Trump nominees to the Fed "until this legal matter is fully resolved." At a time when Trump is poised to nominate a new Fed chair, that could prevent the president's candidates from advancing out of the Senate Banking Committee.

Powell should now buck tradition and strongly consider serving out his term on the Board of Governors until 2028 after his chairmanship ends this May. He has proved to be a powerful moral leader of an institution under fire and his vote would help create a bulwark against further Trump meddling. For Congress, Trump's attacks are a reminder of why lawmakers must demand absolute independence from any future chair.

In a demonstration of how foolish and self-destructive the Justice Department manoeuvre is, the Fed news initially prompted the S&P 500 Index to retreat and yields on the 10-year Treasury note to rise. While the Fed sets short-term policy rates, mortgage rates and other long-term borrowing costs are set by the market. Ill-advised rate cuts can actually lead to greater interest expenses for consumers.

Even so, the stock market was already recovering an hour after it opened. No one should bank on financial markets to discipline the president. Trump's tariffs have taught traders to not take too seriously the administration's every move, but the long-term damage of diminished Fed credibility shouldn't be underestimated.

For now, it's unclear that the Justice Department's actions would fundamentally change the near-term trajectory for monetary policy. That's because public servants such as Powell and Tillis have been willing to stand up to Trump's misguided bullying. It's also because the Fed is staffed with principled technocrats who believe in the institution's mission. It's an institutional structure that was built to withstand executive-branch meddling.

Unfortunately, the Trump administration's latest overreach shows that we cannot take anything for granted. That's why Powell should commit to stay in the fight as long as necessary. ©BLOOMBERG

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OUR VIEW

REUTERS



Central bank autonomy must not be trifled with

Independence holds the key to long-term financial stability and economic growth. It liberates the central bank's pursuit of pre-defined policy goals from short-term political calculations

The latest spat between US Federal Reserve chair Jerome Powell and US President Donald Trump strikes at the very heart of what central banks hold dear as the key to not just long-term financial stability, but also economic growth: central bank independence. Calling the Department of Justice probe into the testimony he gave last year to a Senate panel on renovations of Fed buildings "unprecedented," Powell said he believed the action was a direct consequence of the president's anger over the Fed's refusal to reduce interest rates despite White House pressure. There seems little scope for scandal in a *prima facie* case of cost-overruns and a lavish budget for a premises upgrade. But history has shown that central banks that are shielded from political influence deliver better economic outcomes—especially price stability—than those ready to buckle under it. This stands to reason. Elected governments typically take a short-term view shaped by an electoral cycle. Central banks, in contrast, can afford a longer view even if it means near-term pain. Plus, as guardians of fiat money, they must not let it get debased needlessly. In general, the need to meet publicly set goals like inflation control explains why the autonomy of a monetary authority is seen to help keep an economy stable.

Granted, absolute freedom is a myth. After all, the central bank is an arm of policy, if not directly of government policy. Both the US Fed and Reserve Bank of India (RBI) are governed by statutes: the Federal Reserve Act of 1913 and RBI Act of 1934, respectively. Although these laws do not explicitly talk of 'independence,' both have significant leeway on operations. To a purist, this might not fully tick the box of that ideal, but it is critical to prevent decisions being muddled by politics. For this, an institutional framework that lets them operate freely can suffice. The Fed, like RBI, operates with so-called instruments of operational independence. It can raise or lower interest rates, or buy and sell Treasury bonds, without interference from the government. It has two statutory protections: *one*, the appointment of its governors for 14-year terms on a staggered basis; and *two*, a stipulation that governors can be removed by the president only for inefficiency, neglect or malfeasance in office—so that policy quarrels cannot lead to their ouster. In India, RBI was granted formal space to take its own calls rather more recently, after the RBI Act was amended in 2016 to designate it as an inflation-targeter. This requires a policy-level handle on interest rates. Accordingly, the repo rate is decided by a six-member Monetary Policy Committee (MPC) that has three RBI officials and three external experts appointed by the government, with the governor given a casting vote in the event of a tie. The Fed's decisions, likewise, are made not by the chair alone, but by a majority vote of the Federal Open Market Committee. The idea, as with the MPC, is to limit the power of any one individual over monetary policy.

Thus, independence allows a central bank to pick a path best suited to meet its objectives, regardless of what the government of the day might want (typically, cheaper credit). Such a set-up matters all the more for a country like India, where elected administrations are given to looking for short-term fixes. If the US stakes appear higher, it is because the American dollar and Treasury bonds play a central role in global finance. And financial markets need a credible assurance that the Fed goes by the book.

14 Jan 2025

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THEIR VIEW

Four budgetary endeavours for a future-ready economy

VIJAY SANKAR



is senior vice president, Ficci, and chairman, The Sanmar Group.

Amid slowing growth, rising geo-economic fragmentation and tightening financial conditions, the global economic landscape is increasingly complex. India is a rare bright spot. However, sustaining its momentum will require more than short-term resilience. The Union budget for 2026–27 must act as a strategic enabler—strengthening long-term competitiveness, insulating growth from external shocks and laying the foundation for strong and inclusive expansion. From an industry perspective, expectations from the budget can be distilled into four high-impact priorities:

Build self-reliance: It should reinforce *atmanirbharta* by prioritizing strategic sectors where domestic capability is critical, not only for growth, but also for competitiveness and national security. The policy agenda must be anchored in a sector-specific, value-chain-driven manufacturing strategy that converts rising domestic consumption into local production and employment. As India's consumer market expands, the strategic imperative is clear: domestic demand must be met by globally competitive domestic manufacturing. This requires targeted support for key value chains, enabling firms to scale, innovate and integrate into global supply networks while reducing their vulnerability to external disruptions.

Manufacturing-led growth: Expanding manufacturing from around 17% of GDP to 25% is critical to boost employment. The sector's growth has a high multiplier effect, generating direct factory jobs while supporting employment across logistics, small firms, services and regional supply chains. Large-scale ecosystems in electronics, renewable energy, defence, pharmaceuticals, auto components, food processing and chemicals can absorb India's young workforce and support balanced development.

A fundamental mindset shift is required to place manufacturing on the same strategic pedestal as services. In a world where trade is getting weaponized, tariff support is now essential. India's trade-support mechanisms must move faster and become more responsive to protect its SME backbone from unfair competition by manufacturing-led economies. This must be backed by sustained research-led investments across the value chain supported by the government.

The budget should enable firms to scale through a predictable tax regime, value-chain-aligned tariffs, faster trade facilitation, improved infrastructure and logistics, and access to long-term capital. This requires coordinated, whole-of-government action. If policy design, budgeting and execution move in tandem, manufacturing can become a powerful engine for job generation, competitiveness and economic resilience.

Let's focus on self-reliance, manufacturing, sundry business enablers and next-generation reforms

Create an enabling policy framework for business growth: Targeted interventions in taxation and trade facilitation can improve cost competitiveness, reduce uncertainty and reinforce India's attractiveness for exports, services as well as high-value investment.

Litigation reduction is a big concern for investors. Addressing the pendency of income tax appeals is an opportunity for reform. Time-bound disposal of cases—particularly high-pitched assessments, matters with complete submissions, cases covered by settled jurisprudence and appeals pending for over five years—would ease liquidity pressures and restore confidence. A dual-track system, combining fast-track resolution of simpler cases and detailed scrutiny of complex matters, supported by capacity augmentation, can cut litigation time.

Amid rising non-tariff barriers, exporters need policy support. The Remission of Duties and Taxes on Exported Products (RoDTEP) scheme is essential to neutralize embedded taxes. Its current scale remains inadequate. Enhancing its budgetary allocation and providing RoDTEP with long-term certainty would help offset structural cost disadvantages and support exports.

Next-generation reforms: Customs rationalization initiated last year should be carried forward through simplified tariff slabs, elimination of inverted duty structures and the alignment of tariffs to promote domestic value addition. Reforms must prioritize manufacturing scale, employment generation and supply-chain resilience. The country's tariff policy should be viewed as a strategic policy instrument rather than an ideological choice between protectionism and free trade. Concerns that higher tariffs inevitably fuel inflation are valid but often overstated. When tariffs catalyse investment, improve capacity utilization and generate jobs, income growth can outpace price increases, making moderate inflation economically and socially manageable.

Manufacturing expansion, supported by calibrated tariffs and reforms in land, labour, logistics and regulation, can generate large-scale employment and expand our tax base. While many levers rest with states, the Centre can play a catalytic role by linking financial assistance and borrowing headroom to state-level progress on land and power reforms. Deepening the corporate bond market is essential to diversify financing options beyond bank credit. Expanding market access for mid-size and growth-stage firms and encouraging prudent participation by insurance and retiral funds would improve access to long-term capital.

As India's economy advances, the challenge is not merely to accelerate growth, but sustain it through greater productivity and competitiveness. The budget offers an opportunity to consolidate and strengthen the foundations of a future-ready economy.

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THEIR VIEW

Give our climate finance framework a firm foundation

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India is building what looks like an impressive climate finance architecture. Regulators are demanding disclosures everywhere. The Reserve Bank of India (RBI) has said that banks must report climate risks. Securities and Exchange Board of India (Sebi) rules require mandatory sustainability reports. Green bonds need verification. On paper, it all sounds serious. There's just one problem. Nobody agrees on what 'green' actually means.

The recently released draft framework of India's climate finance taxonomy by the finance ministry, aimed at anchoring our nascent system, is supposed to fix this. Such a taxonomy is meant to define precisely what counts as climate-friendly and what doesn't. Instead, the draft reads more like a mission statement. Activities are labelled as climate-supportive or transition-supportive without any actual numbers attached.

It compares poorly with other systems. Consider the EU's approach. Its taxonomy specifies exact thresholds in terms of grams of carbon dioxide per kilowatt-hour for electricity, emissions per tonne of steel produced, and so on. Nations of the Asean group use a traffic-light system with clear boundaries between green, transition and excluded activities. These aren't just bureaucratic details. They make climate finance investable by telling investors exactly what they're buying. India's framework, by contrast, leaves interpretations wide open. A coal efficiency project could qualify as transition-supportive under one regulator's reading and fail under another's. The same renewable energy project might be green to Sebi but not meet RBI's criteria. This isn't flexibility. It's confusion with consequences.

The real damage would show up in market pricing. Indian green bonds already trade at narrower premiums than comparable global issues, partly because investors can't verify what's actually inside them. Without clear definitions, every 'sustainable' label is suspect. Banks may understate their climate exposure. Companies can oversell their green credentials. Public institutions might inadvertently finance projects that go against national climate goals.

The usual defence is that India needs flexibility. The economy still depends on coal. Many sectors lack clean alternatives. Small manufacturers cannot handle complex reporting. Strict thresholds might block investment in transition technologies. These are fair points, but they miss the mark.

Flexibility isn't the same as vagueness. Markets need clarity before they commit capital. The taxonomy's transition category could be useful if it came with expiry dates. Without deadlines, transition just becomes a permanent label for business as usual. A bank's transition loan for upgrading coal plants makes sense if there's a clear timeline for phasing them out. Without that, it's just regular financing repackaged.

India needs clear definitions but the vague system being put in place risks creating costly confusion

Worse, without uniform definitions, capital flows are likely to get distorted. Investors faced with disclosure overload can't compare companies across sectors, while credit decisions lack consistent data and public finance institutions work with different playbooks. The result: misdirection of the very capital India needs for its climate transition. In such a scenario, what would actually work?

First, the framework should add numbers. It must specify emissions per unit for power, steel, cement and transport, the sectors that matter most. It should start with domestic benchmarks, not aspirational targets. It must then attach sunset clauses to any so-called transition categories. A technology must either improve over time or it loses that label.

Second, regulators must start talking to each other. Right now, the ministry of corporate affairs captures environmental data one way, Sebi another and RBI a third. We need a coordination body with representatives from all relevant ministries and regulators. The Climate Finance Board could be the authority that sets definitions and resolves conflicts.

Third, we need verification capacity. Sebi has approved some assurance providers but that's nowhere near enough. India needs a national registry of qualified verifiers using established standards. More certified assessors means better oversight, not just more paperwork.

The stakes are clear. If India sharpens its taxonomy while the system is still taking shape, its definitions can become the backbone of climate disclosure. Investors would trust taxonomy-aligned reports and capital could flow to genuinely transition-ready firms instead of those skilled at re-labelling.

But if the current version stands, it would end up with mandates without meaning. Lots of disclosure, lots of verification stamps, but persistent doubt about what's behind the numbers. Markets will discount taxonomy-based claims, impacting capital flows.

India must be wary of any climate finance architecture that has an impressive façade but a hollow core. It would be a let-down to have regulatory machinery in place that is unable to do the one thing it's supposed to: direct capital towards climate solutions.

A window for taxonomy corrections is still open, thankfully, but it may close soon. Once companies adapt their systems to current requirements and market expectations solidify around the existing framework, changes would become much harder and more costly to make. Numbers create trust. Deadlines create urgency. Coordination creates scale. Without these, India risks turning its climate finance framework into an expensive exercise in theatrics.

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THEIR VIEW

Are central banks aiding a doom loop of unsustainable deficits?

Their financing of fiscal gaps raises questions about the sustainability of debt being piled up by governments like America's



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Japan, the US and other countries with sovereign debt at or above total GDP need to shrink their fiscal deficits to keep their debts from growing to terrifying levels. The problem is particularly concerning when a country faces higher real interest rates, since fiscal deficits rise further when the government refinances debt. But even more worrying is the possibility of a doom loop, with higher rates driving higher deficits that in turn produce yet higher rates as investors lose confidence in government finances.

To be sure, higher market interest rates could also be a salutary wake-up call if the government, fearing a doom loop, takes steps to cut its deficit. But fiscal consolidation requires painful austerity, and few politicians ever want to subject their voters to that.

In the past, some governments tried to postpone the pain by getting their central bank to buy their debt, which it financed by issuing reserves to commercial banks (a practice known, more colloquially, as printing money). In the process, though, commercial banks' lending expanded, businesses and consumers spent more, and the ensuing boom pushed up inflation. To avoid galloping inflation, the central bank had to slow the economy sharply by raising policy rates well above the rate of inflation. The end result was a worse fiscal position, because the boom and bust damaged the economy, and the government was left paying higher debt-service costs. Eventually, these countries saw the light and prohibited direct central-bank financing of government deficits.

In recent years, however, such financing has been sneaking back into the policy playbook. Policy rates could not be cut much below zero after the 2007-08 financial crisis, so central banks decided to stimulate the economy by buying government bonds from financial institutions, paying with liquid central-bank reserves. The hope was that these financial institutions would replace the sold government bonds with long-term loans to firms, thus stimulating the economy. Moreover, the huge expansion in central-bank reserves was expected to dispel fears of illiquidity, further spurring lending.

Advocates of these programmes, which came to be known as 'quantitative easing' (QE), did not see them as central-bank financing of the government. Although the central bank did buy government bonds, it did not purchase them directly from the government. More important, the government did not really need the financing. QE was purely a monetary operation, they argued, and the central bank's bond holdings could easily be sold through 'quantitative tightening' (QT) when economic recovery took hold.

Unfortunately, while QE was easy to pull off, QT was not. After three rounds of QE between late 2008 and 2014, the US Federal Reserve's holdings of Treasury securities grew from $800 billion to around $2.5 trillion. But when the Fed tried to reduce these through QT in 2018, markets eventually swooned, and the Fed started buying bonds again in September 2019. Then, as the US government spent enormously during the covid pandemic, the Fed was supportive again. By mid-2022, its Treasury holdings had grown to $5.8 trillion.

With the US economy buoyant today and inflation still high, now would be the time for the Fed to reduce its holdings. But not only has it halted its most recent QT with Treasury holdings still at $4.2 trillion (five times the 2008 level); it has also promised to buy more Treasury bills, starting with a $40 billion purchase in January. What was a monetary operation when inflation and government financing needs were low looks like fiscal financing when the opposite is true.

As a fig leaf, the Fed might say that it is simply supporting the economy's liquidity needs, which have grown since 2008. But liquidity needs include indirect fiscal financing. Natural holders of long-term government bonds are pension funds and insurance companies, which have long-term liabilities. As a recent study by my Booth School colleague Anil Kashyap and his co-authors shows, these institutions find government bond yields unattractive and buy corporate bonds for the incremental yield. But since there are relatively few long-term corporate bonds, they buy shorter-term corporate bonds and add duration by buying Treasury bond futures.

To sell these institutions such a huge quantity of futures, something resembling a Rube Goldberg machine emerges. Hedge funds take the other side of the trade, hedging themselves by buying government bonds, financed in the repurchase market with enormous short-term borrowings, which in turn is kept going with Fed-supplied liquidity. Given these dynamics, it beggars belief to suggest that the Fed is not a key player in government deficit financing, both through its own holdings and indirectly through its willingness to supply the liquidity that hedge funds need.

No one would suggest a US doom loop is imminent. Yet, with government interest rates held below their natural level, Congress has little incentive to reduce the deficit, which raises the risk of this scenario. Moreover, since the Fed finances its own holdings of government debt with reserves that reprice every day, its own losses will mount quickly if interest rates move up, contributing to a doom loop. And with government bond rates unattractive to insurance companies and pension funds, hedge funds will continue financing more than a trillion dollars of long-term government bonds with short-term borrowing. That is hardly a recipe for stability.

The Fed isn't the only central bank enmeshed in direct or indirect fiscal financing. The current situation raises troubling questions for central banks, including whether committing to supply the system with ample reserves increases the instability of government debt financing. For the sake of their economies' long-term health, central bankers need better answers.

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MY VIEW | WORLD APART

Airlines like IndiGo should follow Ryanair's flight path

RAHUL JACOB



is a former Financial Times foreign correspondent

Few industries anywhere in the world suffered the reputational damage that India's airlines did in 2025. As the industry looks to reset, there is no better role model than Ryanair, the European low-cost carrier that is the most efficient and profitable airline in the world. Its profit-after-tax margin for the six months ended 30 September was 25.9%, well ahead of Emirates' 15.1%. Moreover, it flies four times as many passengers as Emirates does.

Ryanair's strength is its operational efficiency. Having learnt its business model from the US budget carrier Southwest Airlines more than three decades ago, the Dublin-headquartered airline has taken its obsession with lowering costs to new levels. As its CEO, Michael O'Leary, told the *Financial Times* last week, "If I could get rid of everyone's bags, I'd have a much better airline." Introducing baggage fees for everyone who checks-in luggage not only reduced the share of passengers checking bags in from 80% to 20%, it speeded up aircraft turnaround time at airports, now just 25 minutes. Ryanair charges people who don't check-in online and doesn't offer refunds on tickets bought. There are listicles online of O'Leary quotes and this is a legendary one: "You're not getting a refund so *[bleep]* off. We don't want to hear your sob stories."

The most revolutionary of the maxims Ryanair lives by is a plain-speaking contract with passengers. As the *Wall Street Journal*'s Benjamin Katz reported after an interview with O'Leary a few years ago, "He was very distinct in saying that 'we don't treat our customers like guests. We give them a seat to fly on, and that's the agreement.'"

There are lessons here for Indian airlines, regulators and the flying public. We need a similar contract between airlines and passengers so that airlines can run no-frill, efficient operations and use the savings to treat their overworked pilots and staff more equitably. As a former travel, food and drink editor for the *Financial Times* who believes airline service is the most over-discussed subject at dinner parties, I would argue that airlines in India offer better value for money than anywhere else. This week, looking at absurdly low airfares from Bengaluru to Rajasthan while navigating eye-watering hotel tariffs in Jaipur in March led to a dislocation so severe that I wondered if I was forgetting how to count.

By contrast, Ryanair charges an additional fee of almost ₹6,000 from passengers who check-in at the airport. A 10kg bag for check-in notified at the time of booking the ticket would cost about ₹1,000 but as much as ₹4,000 if done at the airport. The fee on additional cabin baggage beyond a small bag is comparable. O'Leary has even said that he would like to charge customers to use toilets on board, though it was not clear if he was serious. The customer is usually not right in his world-view: "If you don't comply with our rules, we hate you and we will torture you. But if you comply, we love you."

No-frill aviation has a splendid success model in Ryanair that refuses to mollycoddle passengers

Although many O'Learyisms make their way into the company's rulebook, some of them, in a manner not unlike Warren Buffett's, are delivered because they are eye-catching and make for good copy for business journalists who must otherwise cover management tutored by public relations firms. He is on the record as having said that Nigel Farage, who polls suggest may become the UK's next prime minister, "should be in prison" for championing Brexit. Recently, he revealed that US President Donald Trump had in 2016 turned on a charm offensive over a phone call. "Fifty minutes later, he [was] still going and his basic thing was, 'We want more flights to Prestwick (in Scotland) and into Shannon (in Ireland) so that people can fly to his golf courses,'" he told the *FT*. Trump offered O'Leary a stay at one of his hotels. Did he stay? "No I did *[bleep]* not," O'Leary said.

Even his straight talk and comic asides are dedicated to the bottom-line. It's cheap publicity. After more than 30 years as CEO, he is still looking to lead it for another several years but has narrowed his focus tellingly to "aircraft negotiations, cash generation and financial discipline." One more role, as marketer in chief, remains his as long as he is CEO. Ryanair spends relatively little on marketing: €4 million compared with €45 million by Air France or KLM.

If we want the ultimate Indian *'jugaad'* to continue—i.e., low-fare services that mostly get us to our destinations on time despite high-maintenance customers who often don't follow simple instructions and usually have too much hand luggage—we need to use Ryanair as a case study of 'tough love' for passengers. It doesn't even offer seat pockets. Once again, this is to speed up turnaround times and reduce cabin cleaning costs.

The logic of the Indigo model, which runs a single-aircraft-model fleet and also turns planes around quickly, suggests that it would benefit most by doing what Ryanair does. It could use the money made by charging for both hand luggage and check-in suitcases to give its pilots more time off and reduce night flights that add disproportionately to pilot fatigue. Some pilots allege that even reductions in night flying under new roster rules are being obeyed by following their letter rather than spirit. "For management, we are just a number," says one Indigo pilot.

Our airlines need to focus on charging passengers more and treating their own staff better. We should also question why our metro-city airports are now pleasure palaces so lavish that railway passengers would think them a hallucination. It's time to end these sops for the middle-class and rich.

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OUR VIEW

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May the Indian passport gain power over barriers

Our passport has risen on Henley's chart of passports ranked by access to other countries without a prior visa. As it strengthens, let's reopen our national debate on dual citizenship

This year's Henley Passport Index is out and India has some reason to cheer. The country's passport now ranks 80th on this annual chart published by Henley & Partners, a London-based global citizenship and advisory firm, up from its 85th rank in 2025. The little blue booklet with the Ashokan lion-crest now grants citizens visa-free or visa-on-arrival access to as many as 55 countries, which implies an increase in its power as a door opener. Earlier this week, Germany allowed Indian travellers visa-free transit. While this permission to pass through German airports for onward flights to other places may not necessarily reflect in Henley's rankings, Indian diplomacy may be helping expand the freedom with which Indians can go globe-trotting. Given a detectably rising urge among us to visit overseas destinations as tourists and the growing need of business travellers to get around the world, a strengthening passport is clearly good news.

Of course, other passport holders remain significantly more welcome, globally. Take Singapore's passport, which tops Henley's chart; it allows easy access to 192 countries. Second-ranked Japan's and South Korea's passports let their holders breeze past border barriers in 188 countries. The third position on the chart is shared by Denmark, Luxembourg, Spain, Sweden and Switzerland, citizens of which have instant access to 186 destinations. As for the US, whose passport has long been among the world's most sought-after, its citizens must content themselves with the 10th spot, with access to 179 countries without the need of a visa acquired in advance. While we move up, we have much catching up to do. No doubt, there are many passports that are ranked lower than India's. The weakest passport, as per Henley's criteria, is Afghanistan's. It is placed 101st on the 2026 list, as it allows entry only to 24 countries without a prior visa. Syria's is ranked 100th, with just 26 nations ready to let the citizens of this strife-ridden country enter without being cleared ahead of arrival by immigration authorities. As India's economy emerges, we can expect to see more and more countries granting us the privilege of showing up in the expectation of being let in.

The wait for access to many prized destinations, however, could be long. Anti-immigration sentiment in the West has been on the rise and political conditions in rich Western countries may not be conducive for them to relax entry barriers for Indian citizens, many of whom may be under suspicion for being economic refugees in the guise of casual visitors. Our passport's relatively low rank may be a reason why so many globe-faring business people opt for foreign citizenship. Anecdotal evidence suggests that many people of Indian origin who do acquire other passports would be glad to have an Indian one too. New Delhi, however, has long disallowed dual citizenship among Indians, with Person of Indian Origin (PIO) booklets issued to non-residents who qualify and need visa-free access to India. Many nations, though, have no qualms letting their citizens hold other passports simultaneously. It may be time for us to reopen our debate on letting people be citizens of India as well as of another country. As for security risks, case-by-case checks could ensure that we don't expose our national interests to threats. Liberalized citizenship rules will please PIOs, but could also give our passport more power.

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GUEST VIEW

Just who is in charge of India's demographic dividend?

VRUNDA BANSODE & VEDA KULKARNI



are, respectively, founder CEO and chief technology officer at Impactica.org.

For a long time, we have been banking on India's demographic dividend, or the fact that we have a high proportion of young people in our population. For this demographic dividend to fulfil its economic potential, young citizens need to be skilled and employable. But we have some catching up to do—45% of children are not proficient in basic literacy and numeracy at the end of primary education, and our universities do not make it to global research leadership charts. We cannot hope to achieve our Viksit Bharat goal without closing learning gaps. The primary route to do so is through education and training institutions.

India has achieved nearly universal enrolment—most children of school-going age are enrolled in schools. Our government schooling system is vast, educating 121.6 million children in the more than 1 million publicly run schools. Another 125.3 million children—more than half the total—study in 457,000 private schools, which form the world's third-largest schooling system by themselves. In all, these one-and-a-half million schools oversee the education of just under a fifth of the world population under 15 years of age. In other words, our private schools are responsible for educating 9-10% of the world's future workforce.

Surprisingly, however, we have scarce data on who exactly bears this responsibility. Private schools in India are mandatorily run by non-profit institutions, which can be registered as trusts, societies or Section 8 companies. We do not have any publicly available registry of these trusts, societies and not-for-profit companies.

The ethos of any institution is heavily influenced by the people who lead and manage it. Yet, we have no public visibility of these behind-the-scenes institutions, let alone a mechanism for their accountability. We worry about school infrastructure, costs borne by parents, learning outcomes, world rankings and more, but are left largely clueless about who runs private schools in India.

Most schools are affiliated to one of the country's three major boards—state, Central Board of Secondary Education (CBSE) and Indian Certificate of Secondary Education (ICSE), leaving aside minuscule ones. Over 400,000 private schools are affiliated with 30 or so different state boards. Although some states have placed lists of schools and associated non-profit entities in the public domain, the quality and comprehensiveness of this information varies widely from one state to another. No central nationwide list is available that links state-board school names with the trusts that run them.

This lack of information is also true of India's 5,000-odd ICSE schools. CBSE, which has 31,740 affiliated schools, does have a portal called Saras that offers school-wise information. However, in many cases, the column stating the name of the institution that runs the school is filled with junk data or typo-ridden names: clearly, data collection was not followed by verification.

A simple system of connected databases that link the names of schools with those of associated non-profit entities, as verified against the database of registered non-profits, could solve the issue of structural opacity and make their governance easier. Parents will also be able to verify the credentials of the schools they want their children to attend and the institutions behind them.

QUICK READ

It is ironic that almost no data exists in the public domain on entities running private schools entrusted with most of the responsibility of educating children for India's future.

A reliable registry of schools showing links with operators will help policymakers and parents alike. The potential of our human capital is such a valuable asset that we can't afford any neglect.

After school, over a quarter of India's 18-23 age group goes on to higher education in colleges and universities. We have 1,338 universities, which include central, state, deemed and private ones. Universities in India also operate as not-for-profit institutions. The University Grants Commission (UGC) has published guidelines on 'public self-disclosure' by higher-education institutions, emphasizing its importance under the National Education Policy 2020. We recently looked for this information on the websites of varsities ranked in the top 100 under the National Institutional Ranking Framework. The website quality of even top-rated universities leaves much to be desired. Keeping aside the quality of information available, even the mandatory criteria for transparent disclosures that UGC demands is met by barely 60% of our top universities. The Supreme Court has recently ordered a nationwide audit of all private and deemed universities. Rather than being a one-off exercise, it should lead to the annual collection and publication of standardized information.

In the world of economics, statistics and business, we have benchmarks and best practices for most parameters that go into situational and progress reports. But for the world's third-largest schooling system—India's private schools—a search for elementary data that would let us track variables like the average number of schools run by trusts, or their average annual budget, lead to no answers. Higher-education data is not much better. If we do not know the state of this sector, how can we make policy decisions that lead to progress? How can we reap the rewards of our demographic dividend if we have no idea who exactly is responsible for nurturing children through their education and skill development for employability?

We need accurate data, closely monitored indicators and well-connected systems for regulatory oversight to be exercised properly. The potential of our human capital is our biggest asset. It's time for transparency, accountability and clarity in the operations of the institutions we entrust this asset with.

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THEIR VIEW

Data governance failures are too costly: Here's what must be done

Mastering how best to govern data isn't just about safety. A variety of benefits can combine to spell a competitive advantage



ARPINDER SINGH & HARSHAVARDHAN GODUGULA
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It wasn't long ago that a multinational firm faced multiple compliance failures spanning several years that resulted in billions of dollars in fines for lapses in risk management and other critical areas. This served as a stark warning to organizations worldwide: the cost of non-compliance and poor data governance is non-negotiable.

The scenario in India is not very different. As regulatory penalties soar into hundreds of crores, Indian organizations now face an unprecedented convergence of regulations; a single incident can trigger action under multiple regulatory frameworks within hours. The risks are not just regulatory. Flawed data governance practices not only disrupt business operations, but also result in inaccurate reporting, delayed decision-making and impaired customer trust.

Yet, most still operate with a 'we'll find it when we need it' approach to data management, even though such an attitude can prove financially and operationally catastrophic.

Why do organizations struggle?: In our experience, the core issues that lead an organization's data governance to fail, often lie in outdated, fragmented technology and decades of underinvestment in building a strong governance backbone. Often, organizations that are undergoing massive restructuring exercises with multiple mergers or acquisitions are the ones that fall prey. On the other hand, organizations with legacy IT systems with an under-evolved risk environment remain vulnerable.

When organizations begin to reassess governance frameworks, uncover vulnerabilities and strengthen their technology infrastructure, they start recognizing drawbacks of the siloed approach they have always taken. They find it has prevented scale, which, coupled with manual processes and controls, results in weak cyber defences. Moreover, data stored in different formats makes it difficult to establish a unified data governance framework. As a result, organizations often rely on technology to compensate for poor data governance.

Data governance failures represent a strategic and not just regulatory risk: Preventing such failures isn't about deploying more technology, but about embedding integrated, business-aligned governance capabilities across the organization. A fragmented, reactive approach no longer suffices in an environment where operational continuity, regulatory scrutiny and brand credibility are tightly intertwined.

Here's a five-pillar framework designed to help enterprises build resilience and agility at the core of their data strategy:

First, break down data silos with unified architecture by centralizing logs and enabling forensic-grade search without needing to move data. Organizations with evolved data governance practices locate critical communications in minutes, not months, saving time, reducing risk and improving their decision-making.

Second, automate compliance to meet regulatory deadlines by integrating pre-configured templates for compliance with rules laid down by the country's apex cyber-security body CERT-In, India's digital personal data protection law and the market regulator Securities and Exchange Board of India. These templates should be auto-populated with data from live systems. Establish escalation workflows that can be activated within regulatory service-level agreements, enabling timely and accurate reporting under pressure. This would reduce the risk of penalties and reputational damage.

Third, ensure data integrity for regulatory compliance and legal defence by enforcing consistent metadata practices and chain-of-custody protocols aimed at ensuring that data stands up in court or in case of a regulatory review. Without proven authenticity, even valid evidence can be dismissed, compromising legal and compliance outcomes.

Fourth, prioritize data recovery processes based on business impact. Define recovery windows based on data criticality. For example, restore customer transactions within two hours, payroll within 24 and archives within a week. Such practices make recovery not just quick, but also meaningful, ensuring that business continuity aligns with customer and stakeholder expectations.

Fifth, preserve all executive communications to defend against litigation with traceable links across platforms between strategic decisions and supporting documentation. If and when regulatory scrutiny intensifies, organizations with clear and defensible records are better placed to avoid adverse outcomes.

A clear, leadership-approved charter is essential to define the primary objectives of data governance and guide its implementation across the organization. Additionally, the company must align its data governance strategy across all group entities. It may even need to temporarily slow down the pace of report generation to reduce chaos and allow time for disparate sources of data to be unified effectively.

To sum it up, mastering data governance is no longer optional, it's a critical competitive advantage today. Organizations that get it right don't just avoid costly penalties, but accelerate decision-making, generate trust among stakeholders and create resilience that sets them apart in a hyper-regulated market.

QUICK READ

As regulatory penalties soar, Indian organizations face an unprecedented convergence of regulations; a single incident can trigger action under multiple regulatory frameworks.

Organizations that get their data governance right don't just avoid penalties, but speed up decision-making, win stakeholder trust and create the sort of resilience that sets them apart.

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OUR VIEW

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Deadlines and red lines need sharp cost control

Management involves goal orientation, but as the cases of 10-minute delivery in India and America's warnings to Iran show, its complexity multiplies once human costs are factored in

Long before B-schools began to sprout, 'management' referred to a bunch of people in charge of an establishment, not a discipline. The word made its debut in academia only after basic principles got codified. Frederick Winslow Taylor, an early exponent, said it was about organizing work for optimal results. As a concept, it got a fillip from Peter Drucker, who expanded the scope of its role and laid special emphasis on clearly defined objectives. And as it gained ground, goal orientation began to get around as its primary lesson. Today, targets stare at us from everywhere, be it at work or play, plans for the next hour or the rest of one's life. Success often involves crunched timelines, stiff deadlines and thin red lines. Most of these are harmless, regardless of how strictly they're set. But if they happen to put lives at risk, then it is another matter altogether. Two cases in this week's news, one local and the other global, pose tests of leadership wisdom. Both argue for human costs to be factored into key decisions on what's being managed.

The first under management is a deadline. This week, Blinkit reportedly rolled back its 10-minute delivery promise upon being urged by India's labour ministry to do so. Rival platforms are expected to follow. This speaks well of their public spirit. After all, snappily met home orders have been the key selling point of quick commerce, a market that arose on the back of crushed response times. By design, the gap between an app swipe and doorbell ring was to be closed by algorithmic efficiency and dark-store networks, with road safety left to state enforcers. Yet, the risks borne by delivery agents in a scramble to deliver their wares has made it a job-hazard issue across urban zones of traffic chaos, which explains the Centre's nudge to relax targets. Granted, Q-com players cannot afford to slacken off, let alone abandon their business model. Even so, since every life and limb counts, an ease-up on the clock must not end up as an empty gesture. As an earnest effort, gig platform managers could deploy safety drives and campaigns aimed at a consensual reset of market norms (if not traffic). The other thing under management, a matter of global consequence, is a red line. This is not a literal tick-down of time, but a do-not-cross limit set by the US for protestor blood shed in Iran, beyond which the White House had warned it's "locked and loaded" for action. What began as a thin red line has thickened over the week as the Iranian toll of street deaths has spiked under Tehran's crackdown. While America's leader has signalled that "help" is on its way, Uncle Sam's greater goal looks like regime change, which means the stakes are very high in terms of lives at risk. The US calculus would need to include inputs like the likelihood of faulty intel on the nuclear threat of an adversary that might opt to fight till the end. Even if the odds suggest that surgical strikes can safely be carried out to weaken the Iranian regime's grip on power, the eventual death toll likely to be notched up cannot be kept off scenario maps of the future. Human costs count and need to be minimized. In such delicate situations, haste could prove costly, especially if the line between goal orientation and goal fixation gets blurred.

Management, clearly, is far too complex to be stuffed into a nutshell. But for pithy advice, let's recall Drucker again. Put every assumption to scrutiny, he advised, or goal-setting could become delusional.

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GUEST VIEW

Powell probe: Is this the Federal Reserve's Versailles moment?

Public-project budget overruns are routine but tiny compared to what lost US credibility could cost



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Washington has discovered a new scandal and it involves neither classified documents nor foreign donors. It involves marble. We now have quantitative easing in Carrara. The US Department of Justice has initiated a criminal investigation of actions taken by US Federal Reserve chair Jerome Powell. The alleged offence: a $2.5 billion renovation of the Fed's Marriner S. Eccles headquarters and adjacent 1951 Constitution Avenue building. The director of the Office of Management and Budget has likened it to Versailles and denounced its cost overruns—placed at about $700 million—as "outrageous." Louis XIV, one gathers, would have blushed. The implication is that central bankers have mistaken monetary policy for interior design. A professor of law and finance at Columbia University offers a less theatrical view: "A renovation that goes over budget is not malfeasance. Renovations go over budget all the time." This is not an exotic claim.

The Fed project's bill—roughly $2,000 per square foot—looks extravagant until one glances at precedent. By federal standards, this is expensive but not aberrant. The Smithsonian's National Museum of the American Indian cost about $800 per square foot when it was completed in 2004, or nearly $1,400 in today's dollars. Some of the Fed's budgetary excess is self-inflicted. The central bank reportedly chose to add square footage for an underground staff car park and a tunnel linking the two buildings. Critics note that 500 parking spaces could have been leased nearby for roughly $30 million. Instead, the subterranean option is estimated to cost nearly 10 times that. This is not cost discipline at its finest. Yet, comparisons with London, where civil servants and Bank of England staff are expected to take public transport, are tempting but misleading. Washington is not London: public transport is patchy and onsite parking is common in federal Washington.

This pattern has a name. Bent Flyvbjerg and Dan Gardner in *How Big Things Get Done* call it the Iron Law of Megaprojects. Their dataset spans more than 16,000 projects across 136 countries. Only 8.5% hit both cost and time targets. Just 0.5% managed cost, time and benefits simultaneously. The lesson is clear and scary: over budget, over time and short of benefits—over and over again. It afflicts almost every project and America is not alone.

The European Central Bank's headquarters in Frankfurt arrived three years late and exceeded its original budget by €350 million. Nasa's James Webb Space Telescope ran seven years late and its final cost was an astronomical 450% over budget. Even in Switzerland, the nation of precise clocks and punctual trains, the Lötschberg Base Tunnel was completed late with a cost overrun of 100%. The Sydney Opera House cost 1,400% more than planned. Trump's Taj Mahal casino in Atlantic City was initially pitched at $250 million, ultimately cost more than $1.1 billion and filed for bankruptcy within a year.

QUICK READ

Cost overruns in public projects the world over are a rule rather than an exception, a result of plans that prioritize approval over implementation. Fed renovations fit the pattern.

The Fed's spending could be called extravagant but the US investigation risks serving the interests of anyone looking to undermine the dollar's status as the world's reserve currency.

The true pathology, as the project management literature makes clear, is not overspending but underestimation—bad anchors, optimistic forecasts and political incentives that reward approval over accuracy. The Empire State Building is famous not just for its height, but for finishing under budget and ahead of schedule because it was planned conservatively and executed ruthlessly. It is the exception that proves the rule—and illustrates how rare competence is, not how common.

The Fed's critics have also sniffed at its art collection—staff displays, presidential portraits, tasteful abstractions. Austria's central bank owns nearly 50 historical string instruments, including nine Stradivarius violins. The Fed, by contrast, looks restrained. Its interiors are certainly less opulent than those of the Banque de France, whose splendour once prompted a central banker to quip that France could return to the gold standard if it melted down the décor.

All this makes this political escalation more troubling than the project's invoices. Federal prosecutors being mobilized against a finance chief over a procurement dispute has made the world sit up. If China wished to undermine the dollar's status as the world's reserve currency, it could hardly have designed a better advertisement than a US president threatening the Fed's independence.

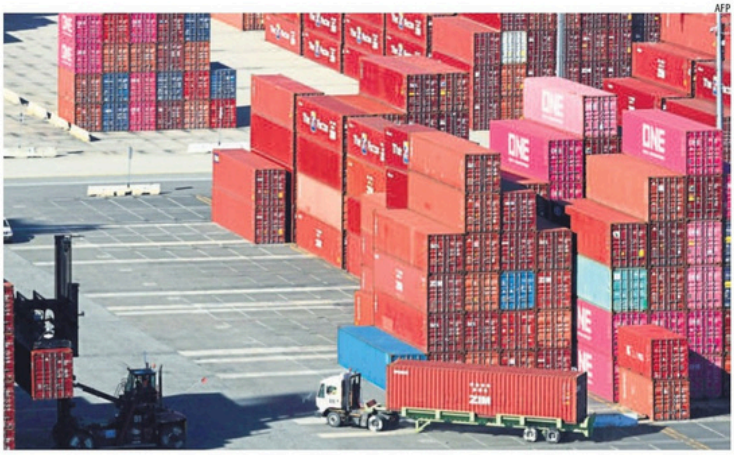
Reserve currencies are underwritten by credible institutions. The marble will endure. Whether the institutional norms that underpin the dollar will do the same is a more serious—and far more expensive—question.

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OUR VIEW



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The export readiness of states is too local a lens

Niti Aayog's new report on Indian preparedness for global trade has some useful cues but misses the big picture in its state and district level analysis. Success demands a wider view

One characteristic of this era of social media, globally, has been an erosion in the credibility of expertise. Niti Aayog's *Export Preparedness Index 2024*, a laborious attempt to measure how ready India's different states are to generate exports, is not designed to counter that trend. Released last week, it delves into the export readiness of states classified as 'large,' comprising 17 of them, and the rest—based on four pillars with 13 sub-pillars and as many as 70 parameters. Evidently, a lot of work has gone into it. Unfortunately, though, a missing macroeconomic perspective on export success dims the glow of its little gems of fact and insight.

The notion that individual states and districts within states can boost exports just on the strength of their initiative and drive is dubious. Take the 50% import duty that the US has levied on non-services, non-pharma exports from India. Garment exports from India have been hit, regardless of how prepared our garment-exporting states have been to support shipments. The exchange rate is a crucial variable that determines how much a country can export and that is beyond the control of any state government. Access to foreign markets is majorly influenced by trade deals and partnerships, apart from the ability to figure in global supply chains. Neither is a state-specific capability. The forging of supply network links is a function of nation-level industrial policy, supported with funds for design, R&D and infrastructure. The cost of capital, similarly, is under control of the central bank's monetary policy committee. Import duties on inputs are critical determinants of how viable particular exports are, regardless of where production is located. Sometimes, non-tariff barriers, such as stiff quality norms, are as significant a factor shaping input costs as tariffs. States could lobby to have these duties altered, but these are for the Centre to determine. High import duties on synthetic yarn and fibre have constrained India's garment industry, for example, because most of the clothes bought by the world are made of synthetic fabrics or blends. At times, one state's export success could be constrained by another state. Take the case of a town whose nearest port lies in another state where roads are in such disrepair that they hinder access to docks and slow shipments. Measuring the export preparedness of the town in question and the state in which it is located falls short of a realistic assessment of their potential. Also, some states specialize in exporting skilled labour, which generates high remittance income for the entire nation. The report's parameters overlook this. While it does acknowledge the value of service exports, tourism included, its indices fail to reflect their importance.

Should we then conclude that the entire report represents wasted effort? That is not the case. It does serve to alert states to their shortcomings, particularly in relation to other states, in various areas that matter for broader economic efficiency. State administrations should look into these and close the gaps that hold them back. Merchandise export success, however, calls for a lot more; for the coming age of AI, we may even need a whole new approach. AI, in combination with advanced robotics, looks set to turn many labour-intensive sectors into capital-intensive ones. At the same time, many new opportunities are likely to open up. Studying such aspects of the future would be more useful than such a report.

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THEIR VIEW

The Tiger Global ruling: A blow to foreign investment in India?

The Supreme Court's ruling creates tax uncertainty that may hit the confidence of foreign investors



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The Supreme Court judgement in the case of Tiger Global's tax liability has, contrary to expectations, gone against the assessee and in favour of India's revenue authorities. In 2009, the private equity firm had invested in the Singapore-based holding company of e-commerce major Flipkart, and then increased its exposure over the next two years to about $1 billion—a 20% stake. In 2017, it sold part of its holding to SoftBank Group, and in 2018, it sold most of its shares to Walmart. This sale triggered the tax dispute.

The holding structure was complex. It was Tiger Global Mauritius (TGM) that held equity in Flipkart Singapore, which in turn had a stake in Flipkart India, and what was sold to Walmart in 2018 was TGM's stake in Flipkart Singapore. As such, this was not a sale of a company in India. This offers a parallel with the Vodafone case: in 2007, Hong Kong-based Hutchison Group had sold its stake in overseas holding firms (including one in Mauritius) that controlled Hutchison Essar in India to UK-based Vodafone. In TGM's case, though, the sale was by a Mauritius company of shares in a Singapore firm.

Since 1992, Article 13 of an India-Mauritius tax treaty had offered a capital gains exemption till it was amended with effect from 1 April 2017. Consider the historical background. In 1991, India had to reform its economic policies after running short of foreign exchange and New Delhi liberalized rules for foreign investment inflows. Around the same time, Mauritius passed the Mauritius Offshore Business Activities Act, which brought into effect the tax treaty with India that gave tax exemption on the sale of shares by companies resident there. It was obviously designed to attract foreign investment to India via Mauritius. However, a Tax Residency Certificate (TRC) regime arose that allowed treaty benefits to be claimed by obtaining a TRC in Mauritius.

As Circular No. 682 of the Central Board of Direct Taxes (CBDC) dated 30 March 1994 states: *"Any resident of Mauritius deriving income from alienation of shares of Indian companies will be liable to capital gains tax only in Mauritius as per Mauritius tax law and will not have any capital gains tax liability in India."* In August 2016, Sections 3A) and 3B) were inserted in Article 13 of the treaty: *"3A) Gains from the alienation of shares acquired on or after April 1, 2017 in a company which is resident of a Contracting State may be taxed in that Stage; 3B) However, the tax rate on the gains referred to in Paragraph 3A of this Article and arising during the period beginning on April 1, 2017 and ending on March 31, 2019 shall not exceed 50% of the tax rate applicable on such gains in the State of residence of the company whose shares are being alienated."*

It would be obvious that shares acquired up to 31 March 2017 should get the benefit of the earlier exemption. In April 2000, the CBDT issued Circular No. 789, clarifying that a TRC issued by Mauritius is sufficient evidence for taxpayer residence status. On its basis, in the *Azadi Bachao Andolan* case, on 7 October 2003 the Supreme Court held that if a valid TRC is provided, the treaty benefit cannot be denied. That judgement also stated that the 2000 circular was within the CBDC's powers to issue. The Mauritius route clearly had the government's approval and the TRC had "deemed" substance because the purpose of the treaty was to lure foreign investment. But unfortunately, endless doublespeak over three decades has acted as a dampener for investors.

One would assume the Supreme Court was acquainted with that context. Yet, it ruled against Tiger Global and its use of tax grandfathering—notably, the transactions under scrutiny involved shares acquired before before 1 April 2017. The tax department had still pressed for a capital-gains levy and the top court focused on substance over form and the fact that underlying business was in India to uphold the tax claim. Here are some larger issues:

First, the government's keenness to attract foreign investment was clear in its use of the Mauritius treaty and CBDT circulars to convey its intent to honour the tax exemption. Yet, strangely, the government chose to press for the levy.

Second, what are the signals this sends to foreign investors? Especially in today's context, as we face geopolitical headwinds and uneven capital inflows.

All of this raises a question. Should the Supreme Court not have considered the larger picture, including the CBDT circulars and intent to allow the grandfathering of shares acquired pre-April 2017? This judgement against Tiger Global's exemption claim has cast a long and dark shadow on the certainty of law, sanctity of tax treaties and the credibility of government promises (even if only implied). Overall, it has sent negative signals to foreign investors, particularly private equity players. While there may be few other cases of its kind, the ruling raises the risk of deals long-concluded being reopened. It also casts into uncertainty cases covered by other treaties with a similar provision, such as one with Singapore, as well as cases under the India-Dutch treaty, which has its own form of exemption.

One can only hope that some kind of resolution will emerge and positive signals will be sent by the Centre to mitigate the impact of this judgement.

Sneha Mahnot contributed to the article

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THEIR VIEW

Fast deliveries, slow thinking: Spare the Q-com model

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India is in the midst of a heated debate over quick commerce. Substantively, this is about what the quick-delivery model supposedly represents: the exploitation of gig workers, unsafe streets and a reckless disregard for human dignity in the pursuit of convenience. Recently, India's labour ministry stepped in, urging quick-commerce firms to tone down their '10-minute delivery' pitch. Opposition parties and unions, sensing fertile political ground, have denounced the model itself. What was once a niche discussion among venture capitalists and urban consumers has entered mainstream political discourse. This, in itself, is welcome. But the debate, as it stands, suffers from a fundamental confusion. It collapses the distinction between what markets are responsible for and what the state is obliged to do.

The great conflation: One part of the criticism relates to road safety. The argument goes something like this: faster deliveries mean more rushed riders, which means more accidents, which means quick commerce is unsafe and should be restrained.

This logic is fragile. India has had one of the worst road-safety records in the world for decades. India accounted for 1% of the world's vehicles in 2021, but 11% of its road accidents. This is not because groceries arrive quickly in Bengaluru, Mumbai or Delhi. It is because of a lethal combination of poorly designed roads, corruption in transport departments, weak driver education, abysmal signage, potholes that appear overnight and traffic enforcement that is either absent or selectively present. Union minister Nitin Gadkari has also acknowledged the role of a combination of these factors as the main reason for road accidents in India.

If the mere association with a hurried pace is enough to indict a business model, India should be rethinking fast retail payments—enabled by the much revered Unified Payments Interface—because of the transaction scams that such speed enables. Movement from point A to point B, efficiently and at scale, whether on physical or digital roads, is not a market failure. It is the definition of economic activity. Speed is not the enemy, lack of commensurate safeguards are.

Even under a minimal Hobbesian conception of the state, focused on preventing physical harm and disorder, ensuring safety in shared public spaces such as roads plausibly falls within its core functions. Outsourcing this function to private platforms because they are visible, successful and politically convenient is intellectual laziness.

Conversely, if this line of reasoning holds, why stop at road safety? Consider environmental regulation. India has an extended producer responsibility regime that makes manufacturers accountable for plastic waste. Fair enough. But waste segregation and collection—the boring, unglamorous basics—are still absent in most urban neighbourhoods, the national capital included. Should FMCG companies be blamed for the state's inability to provide municipal services? This pattern repeats endlessly. When enforcement fails, it's tempting to preach to markets rather than fix institutions.

Q-commerce businesses cannot be expected to make up for institutional safety failures

Businesses cannot be the state: This confusion extends to the proliferation of gig-worker cesses being introduced by various states, ostensibly for funding worker welfare. The idea sounds noble. But it's instructive to look at how District Mineral Funds or Construction Workers' Welfare Funds have been used. Most well-intentioned funds are plagued by weak accountability and opaque deployment. Adding new levies while increasing friction for businesses is not reform. India already asks businesses to navigate bureaucratic inertia, slow dispute resolution and regulatory uncertainty.

Similarly, consider the case of lack of enforcement of minimum wages in traditional areas. Sectors like agriculture, construction, and manufacturing, which employ far more Indians than gig platforms ever will, are rife with violations. Yet, there is no minimum wage movement in these spaces because compliance can be gamed. Gig platforms, which are legally not equivalent to employers, are easier to beat with the proverbial stick.

Evidence counts: Political interventions must at least pass a basic evidentiary smell test. Recent union calls for gig workers to boycott deliveries on New Year's eve had negligible impact. Delivery records were broken that very day across platforms.

This should prompt an uncomfortable question: Are these unions truly representative of young Indians trying to make ends meet in a country where 800 million rely on food subsidies yet aspire upward mobility in a brutally competitive smartphone-driven economy? Symbolic gestures may generate headlines, but they are no substitute for understanding how people survive.

At the end of the day, markets must be legally compliant. Businesses cannot be allowed to take consumers, vendors, employees or partners for granted, and if this means stricter standards for grievance redressal, so be it. But the state must do its job: enforce traffic laws, design safe roads, uphold labour standards and administer welfare funds transparently. What we cannot do is take the easiest route: grabbing the fastest-growing and most visible businesses by the collar and asking them to fill in for institutional failure. If we continue down this path, we will eventually hollow out both the state and the market. And then, we really will have no one left to blame.

Disclosure: The authors advise ecommerce, payments and other digital businesses.

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THEIR VIEW

Global imbalances: They're back in focus but mustn't be misread

The West sees China's trade surpluses as a major problem but rebalancing solutions lie within the realm of domestic policies



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REUTERS



On 1 January, France assumed the presidency of the G-7, the hoary club of advanced economies. Under its presidency, the focus of the group's agenda will be global imbalances—the current-account surpluses and deficits of China, the US and other countries. Shades of 2006, when global imbalances were last a major concern.

This agenda makes sense politically. If US President Donald Trump and European leaders agree on anything anymore, it may be that China's trade surpluses are a problem. The focus on global imbalances also deflects attention from France's fiscal problems and allows President Emmanuel Macron to project leadership on the global stage.

Economically, the case remains to be made. To be sure, US and Chinese imbalances are large. The International Monetary Fund (IMF) puts America's current-account deficit for 2025 at around 4.6% of GDP, down slightly from its 2006 peak of 6.2%. China's surplus is down to 3.3% of GDP from 10% in 2006. But China's share of global GDP has tripled since then (at current prices, which are what matter for internationally traded goods). Multiply China's surplus by three, as is appropriate for gauging its impact on the world economy, and you get the 2006 surplus ratio.

So, if we focus on the two economies that together account for 40% of global economic output, imbalances are nearly as large as they were in 2006, when they anticipated the global financial crisis two years later.

But reckless risk-taking, inadequate transparency and lax financial regulation, not global imbalances, lay at the root of that crisis. Today, risks to financial stability abound once again—in private credit, crypto, circular financial flows related to data-centre and semiconductor investments, and looser bank supervision in the US.

And yet these risks are neither causes nor consequences of global imbalances. In private credit, the problem is again a lack of transparency. In crypto, it is inadequate regulation. In bank supervision, it is ideology and the power of the banking lobby.

Only when it comes to investment in data centres and chips can one draw a link between global imbalances and risks to economic and financial stability. Such investment was responsible for fully 80% of the increase in US final private domestic demand in the first half of 2025. The US current-account deficit is the excess of investment over saving. So, if investment were less, the US current-account deficit would be less, other things being equal. Of course, US growth would also be less, which would not be positive for either America or the rest of the world. Be careful what you wish for.

This situation is also a reminder of the Lawson Doctrine, named after Nigel Lawson, the second chancellor of the exchequer under British Prime Minister Margaret Thatcher. Lawson held that current-account deficits are benign if they reflect high investment rather than low saving. We learnt subsequently that investment-driven deficits are benign only if investments are productive.

Fast-forward to today's doubts about the returns on investments in AI, specifically in energy-hungry data centres using chips that burn out or become obsolete after two or three years. Seeing technology companies use special-purpose vehicles of finance to borrow, slice and dice the resulting obligations, and sell them to institutional investors will trouble those whose memories stretch back 20 years.

In China's case, the problem is not that investment is too low, but quite the contrary—that savings are too high. Chinese officials acknowledge the need to boost consumption and have been acknowledging for 15 years since they made it a major national goal in Beijing's 12th Five-Year Plan (2011-15). But then, acknowledgement and action are different matters.

Excessive corporate savings devoted to low-return investments and household savings ploughed mindlessly into real estate tend to create financial problems, as close observers of China's local government financial vehicles and property companies will attest. But China has the financial wherewithal to address these issues. And China remains sufficiently insular financially that any such problems are unlikely to spill over to the rest of the world.

So why worry about China's trade surplus? Start with its uneven incidence across countries and regions, as we learnt from the first 'China Shock,' the country's export surge preceding the global financial crisis. As we also learnt, such concentrated effects threaten a populist backlash against globalization and multilateralism.

The problem is apt to be even more pernicious now than it was a generation ago. Because the US market is increasingly closed to China, other regions, starting with Europe, will feel the brunt of China's exports. And there are already other threats to multilateralism, notably US-China geostrategic rivalry and US-European tensions, on which the resulting backlash will now be superimposed.

The solutions lie at home. The US can address public-sector dissaving by raising taxes and closing tax loopholes. It can tighten financial regulations that encourage tech companies to throw good money after bad. On its part, China can stimulate consumption by strengthening its social safety net, which would free up precautionary savings.

The IMF has sent these messages. The question is whether they will be received. As Shakespeare put it, "The fault, dear Brutus, is not in our stars, but in ourselves."

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MY VIEW | IT MATTERS

IT sector: From cyclical resilience to strategic relevance

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In the unfolding economic narrative of 2026, the Indian IT services industry finds itself at a crossroads that many analysts describe as the Great Integration: a phase of traditional outsourcing models giving way to AI-infused digital transformation engagements. The term captures a broader realignment of enterprise tech spending, where artificial intelligence (AI) is no longer a niche proof-of-concept but a strategic lever for automation, customer experience re-imagination and core operational redesign. This is reshaping revenue streams and talent strategies across IT majors like Tata Consultancy Services (TCS), Infosys and others, and the latest corporate earnings and hiring commentary offer early signals of demand.

Infosys, which reported its results for the third quarter of 2025-26 last week, offered one of the clearest articulations of this shift. Despite a 2.2% fall in profits, it posted an almost 9% on-year revenue rise to ₹45,479 crore, driven in large part by stronger AI and cloud transformation deals, and raised its 2025-26 revenue growth outlook to a range of 3-3.5% in constant currency terms. Its management highlighted large AI-led contract wins across client sectors, including deals that deploy AI-centric platforms which integrate data, workflows and autonomous agents into enterprise environments. This underlines how AI is getting embedded in services that clients are willing to pay for, even as broader demand softness persists.

TCS, leader of the Indian IT services pack, had earlier reported a sizeable profit decline but a 5% on-year revenue growth in its third quarter, underpinned by demand for AI-related services and a rebound in North American markets for the first time in two years. AI contributed an estimated 5.8% of TCS's annualized revenue run rate, illustrating that even for a giant with legacy business lines in application maintenance and infrastructure outsourcing, the pull of AI services is growing. Analysts noted that TCS and its peers are still navigating larger headwinds, including cautious discretionary spending by clients and regulatory costs, even as it realigns its headcount, but the proportion of revenue tied to AI and digital transformation is higher than it was just a few years ago.

These earning outcomes reflect a broader truth: demand is no longer uniformly weak, but is unevenly distributed, with AI adoption and cloud modernization emerging as top growth vectors. Traditional services tied to legacy services have seen slower growth, but where businesses can score gains through Generative AI, automation and data-enabled decision-making, they seem prepared to invest. This is consistent with global industry narratives that describe 2026 as a point where AI moves from experimentation to scaling and integration—a shift that can expand both total contract values and the strategic footprint of service providers in client organizations.

Indian IT service majors have survived a scare but their future depends on a great integration prompted by AI

Campus hiring trends reflect this recalibration. After several years of contraction and cautious recruitment, reports based on industry surveys and LinkedIn sourced trends indicate that firms such as TCS and Infosys are planning significant fresher onboarding, with far greater emphasis on AI, cloud, security and data-centric skills than before. The uptick is not merely in numbers but in the quality and expectations of talent.

Yet, this positive outlook must be tempered with the broader labour market context. A recent survey of tech hiring intentions showed that overall job openings in India's tech sector slumped sharply in early 2026. This suggests that while demand for AI-related capabilities is rising in pockets, broader hiring stays cautious as recruiters exercise cost discipline. Fresh campus hiring may reflect not only demand optimism but also a strategic imperative to acquire AI-ready talent.

The earnings commentary reinforces this dual narrative. Infosys, while upbeat about its deal pipeline, flagged competitive pressure for specialized skills and noted the impact of labour codes on margins. Investment in reskilling existing staff and integrating AI tools is a priority, as clients now expect partners that can embed intelligence throughout business processes rather than simply provide code or run services. Across the industry, revenue expectations are still modest in aggregate, but its composition is showing a higher-value shift, thanks to AI-related engagements. Non-Indian IT majors are playing by the same theme. Accenture and others are relying on AI consulting and solutions integration as drivers of future growth, even as they manage geographic and sectoral variability in spending. These players compete with Indian firms for many of the same deals, raising the bar for technical delivery and business outcomes. The competitive interplay is pushing Indian firms to reinforce their AI offerings, invest in partnerships with cloud and platform providers, and retool their market approach accordingly.

In sum, the Indian IT industry's role in the so-called Great Integration of 2026 is defined by a transition from volume-based services to value-based digital and AI integration. The resumption of campus hiring at scale by firms like Infosys and upward revenue-guidance revisions speak of nuanced confidence: demand may still be tender but the AI opportunity is robust enough. What is critical is whether this integration will translate into broader hiring, deeper client partnerships and sustained revenue expansion beyond specialized AI projects. If those pieces come together, the story of Indian IT could well shift from cyclical resilience to strategic relevance as technology evolves.

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MINT CURATOR

European 'mice' must quickly get their inner tigers roaring

Antagonizing the US may not feel so different from being its ally



LIONEL LAURENT
is a Bloomberg Opinion columnist writing about the future of money and the future of Europe.



European leaders should play hardball if new US tariffs materialize. REUTERS

The Cold War satirical novel *The Mouse That Roared* imagined a tiny European statelet declaring war on the US in the hope of being lavished with American aid after its inevitable defeat. It's a title that came to mind when European nations sent three dozen soldiers to Greenland in response to US President Donald Trump's threats to wrest the island from Danish control. The idea seems to have been: Support Denmark, yes, but don't antagonize the White House when Ukrainian security is also on the line.

Whatever the intent, it hasn't worked. Trump's contemptuous delight in beating up US allies was given free rein over the weekend as he raised the ante over the Arctic territory. It's time for Europe to fight tariff fire with fire.

The US president threatened a 10% duty from 1 February on US imports from the countries sending troops: France, Germany, Sweden, Finland, the Netherlands, Denmark and non-EU members Norway and the UK. That would increase to 25% in June until a deal is reached for his government to buy Greenland. In a grim flashback to last year's EU-US trade deal when the bloc had to swallow a 15% tariff, the underbelly of Europe's trade-dependent, soft-power regime is fully exposed.

The cost of such extra tariffs would be high. Bloomberg Economics estimates they could cut these countries' US exports by up to 50%. Germany, Sweden and Denmark look especially vulnerable. But another timid acquiescence from the Europeans would be disastrous. This is textbook economic bullying. If last year's tariff deal is already being rewritten on the fly by the US, where will it stop? There has to be a point when even mice do more than squeak apologetically and submit to worse trade terms than China.

So even as Germany appears to be shipping its dozen or so soldiers back home, European leaders must be ready to play hardball if these levies materialize. The starting point is bolstering the European Parliament's threat to hold back approval of last year's trade agreement, which was hailed by Trump's administration as providing "unprecedented levels of market access" for American products. The deal has not stopped the US from trying to strongarm Brussels into going easy on the tech barons of Silicon Valley and Seattle over regulations and antitrust issues.

It is time, too, to unbox the EU's 'bazooka' for the fight ahead: The bloc's Anti-Coercion Instrument is explicitly designed to defend member states put under tariff pressure by foreign powers. It allows retaliation beyond customs duties and can potentially restrict market access for titans like Google owner Alphabet. French President Emmanuel Macron, still nursing his wounds after failing to stop an EU trade deal with Latin America hated by French farmers, favours this trade weapon—and he's been backed by German industrial association VDMA. "Europe must not allow itself to be blackmailed," its president wrote over the weekend.

Then comes the longer-term question of whether Europe can get by on defence and security without American backing—in Ukraine first and foremost—the answer to which was a resounding 'no' last year when the EU had to accept America's 15% levy. But just as those transatlantic trade terms have barely survived the New Year, last year's rush to declare Nato as being back and better than ever under Trump looks wildly premature. Denmark is right to say that a hostile takeover of Greenland would be the end of the alliance as we know it. Trump's new threats go beyond the Nato "brain death" that Macron spoke of a few years back, and towards something like the forced obedience of the Soviet bloc's Warsaw Pact. To avoid this miserable fate, the rearming of Europe is ever more urgent.

European unity will be found wanting. Poland and Italy are not on the tariff list and will try to de-escalate. Trump's continental MAGA allies can be counted on to sow discord. The UK, under the cautious stewardship of Prime Minister Keir Starmer, may pursue its own routes to exemptions.

Nor will Europe be under any illusion: If the White House is determined to take Greenland in the face of opposition from the American public, US Congress, the EU, Nato and the overwhelming majority of Greenlanders, it will succeed.

But if the status of American ally means being subjected to trade and technological subservience rather than being lavished with Cold War-style aid, cutting loose would be preferable. Trump's unnecessary aggression over Greenland may well become that moment. Canada is getting closer to China, even though it shares an 8,890km border with the US.

In today's White House, reality has outpaced fiction. Europe's mice must quickly find their inner tigers. ©BLOOMBERG

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THEIR VIEW

Mortgage-backed securities: Do not fear a leap into the unknown

India has kept US-crisis lessons in mind as it opens up this market cautiously to help finance fast-growing housing loans



SAUMITRA BHADURI
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India's financial ecosystem quietly crossed an important threshold in May 2025 with the launch and public listing of India's first Mortgage-backed Pass-Through Certificates (PTCs), issued by LIC Housing Finance and structured by RMBS Development Company Ltd, on the National Stock Exchange (NSE). The transaction was modest in size but significant in meaning. For the first time, Indian home loans were transformed into a transparent, exchange-listed instrument with market price discovery. In a system long dominated by bank balance sheets, this was a small but meaningful widening of the path for housing finance.

The case for deepening India's mortgage-backed securities market rests on the sheer scale and quality of housing finance itself. Outstanding housing loans now exceed ₹30 trillion, comprising about one-fifth of total non-food bank credit, and have grown at a steady 12–14% annually over the past decade, driven by urbanization, household formation and rising formal incomes rather than speculative excess. Asset quality has remained robust, with home-loan delinquencies typically well below 2% even during stress. However, this large, long-term and stable asset class is funded in a strikingly narrow way, with over 85% of housing credit staying on the balance sheets of banks and housing finance companies, financed largely through deposits and wholesale borrowings. Securitization plays only a marginal role, with total annual volumes of ₹1.5–2.5 trillion across all assets and residential mortgages accounting for just 15–25% of that flow. In stock terms, securitized housing loans are only a low single-digit share of outstanding credit. The result is a growing mismatch in which long-dated, low-risk housing assets are funded primarily through shorter-term though increasingly competitive liabilities, strengthening the case for a gradual market-based complement to balance-sheet funding.

The RMBS listing should not be mistaken for a dramatic shift in policy or philosophy. It does not signal a wholesale embrace of securitization-led housing finance, nor does it mirror the US model where mortgage bonds dominate funding. Instead, it reflects India's instinct for incrementalism by strengthening the financial system step by step, testing investor appetite and expanding cautiously without undermining stability.

A central reason for this lies in regulation. India has deliberately constrained the originate-to-distribute model that underpins large securitization markets elsewhere. Lenders are required to hold housing loans for a minimum period before securitizing them and must retain a slice of the credit risk even after selling securities. For residential mortgage-backed securities (MBSs), minimum risk retention is typically around 5%. These rules ensure that lenders retain 'skin in the game,' aligning incentives and discouraging careless underwriting. These safeguards also make securitization less lucrative as a volume-driven business.

The contrast with the US market is instructive. In the US, housing finance migrated decades ago from banks to capital markets, supported by government-sponsored enterprises and standardized government-backed mortgage securities. That system delivered deep liquidity and long-term fixed-rate mortgages, and allowed the Federal Reserve to influence housing directly by buying mortgage bonds during crises. It also sowed the seeds of a massive crisis. When underwriting standards eroded, the originate-to-distribute machine amplified risk across the financial system, culminating in the 2008 financial crisis. Cheap credit came at the cost of systemic fragility.

Indian policymakers have drawn clear lessons from that experience. Neither the government nor Reserve Bank of India has shown any appetite for large-scale government guarantees or for turning housing credit into a heavily traded asset class. The emphasis has instead been on resilience through conservative underwriting, balance-sheet accountability and gradual market development.

Are we, then, missing an opportunity by not pushing harder? The answer is both yes and no. A deeper MBS market could recycle bank capital faster, draw in long-term savings and potentially lower mortgage rates. There is also a macroeconomic argument. As housing finance grows larger, its interaction with monetary policy becomes more important. In bank-dominated systems, policy transmission depends heavily on deposit conditions and bank balance-sheet health. A modest, well-regulated MBS market could support India's vast housing needs and give RBI an additional lever during downturns. These benefits are real, and over time, they may justify gradual expansion. However, the costs of haste are equally real. A large and liquid MBS market could weaken the link between origination and accountability. In an economy where legal enforcement can be slow and income documentation uneven, that separation carries risks. More importantly, India's relatively stable housing cycles and absence of a housing-led financial crises are not accidents: they are the product of conservative design choices.

The RMBS launch, therefore, should be seen as a measured experiment. It suggests that India is ready to deepen its housing finance market as a move towards financial maturity. Executed carefully, such issuances can build confidence, allow standardization and create a modest investor base. If rushed, they could engender stability risks.

For now, India appears to be striking a sensible balance. The move towards market-based housing finance is not a departure from prudence. It is a sign of evolution. The scale that housing loans have reached, funding pressures ahead and the need to mobilize resources before constraints become binding all argue in favour of an MBS market. Its success should not be judged by how quickly volumes grow, but by whether housing finance becomes incrementally more diversified, transparent and durable without courting the vulnerabilities that others have learnt to regret.

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THEIR VIEW

Let our road-quality plan guide other infrastructure projects too

Reforms by India's highways ministry should act as a cue for others to prioritize quality over cost



ANUJ GUPTA & AARSHI TIRKEY
are, respectively, India managing director and senior analyst at BowerGroupAsia.

Public fury over India's crumbling roads is no longer white noise: it's a national reckoning. With nearly 35% of rural roads and 25% of urban roads in need of urgent repair, and 177,177 lives lost to road accidents in 2024, the outrage is justified. Each crater isn't just a crack in asphalt; it's a dent in public safety.

In July, road transport minister Nitin Gadkari linked poor Detailed Project Reports (DPRs)—prepared by consultants selected through a Request for Proposal process—to the increasing number of road accidents. The Gambhira Bridge collapse, which killed 22 people, exposed a crisis of road neglect and cost-cutting. Similar issues led to the Morbi bridge collapse, the NH-44 closure in Jammu and Kashmir, and cave-ins on national highway 66 in Kerala.

Government procurement is sometimes constrained by the selection of the lowest bidder (L1), which can compromise quality. Even the weighted average qualification criterion of Quality and Cost Based Selection (QCBS) has its limitations. But change is arriving, and for India's infrastructure, it's set to be a game-changer. This year, the ministry of road transport and highways eliminated financial bids altogether for the hiring of consultants, leading to a new approach that aims for quality while meeting procurement norms.

This reform is not a routine highway-sector update. It is a template that other ministries must adopt for ports, railways and airports if India is to meet the ambitions of its National Infrastructure Pipeline and National Logistics Policy.

Consultants are the architects of a road project's blueprint. Their DPRs decide the alignment, geometric and pavement design, safety features, utility relocation plans and cost structures that shape the entire life-cycle of a highway. When they lack technical rigour, we see design flaws, structural failures, economic losses and even safety hazards.

In September, the highways ministry announced that consultancy-service deals will now be awarded solely based on technical merit, removing the financial bid component. Under the previous QCBS method, consultants were ranked on the basis of a technical score combined with a financial score. Firms often quoted aggressively low prices to improve their financial score, which led to poor quality DPRs. Past performance of the consultant, evaluated bi-annually by the National Highways Authority of India, is also a criterion, warranting the need to maintain a reliable track record.

The new scoring structure for consultants complements the revamped bidding norms for Hybrid Annuity Model contracts introduced in July. For years, L1 contracts had encouraged developers—which construct roads based on DPRs—to underbid by 10–15%. The rule changes prescribe higher financial and technical thresholds, thus curtailing aggressive underbidding and incentivizing developers that demonstrate strong technical know-how.

Previous norms also allowed inexperienced bidders to win contracts by quoting unrealistically low prices for future operating and maintenance costs. To prevent this, the ministry has set a fixed cost for maintenance, so no one can under-quote just to win a bid. On top of that, winning contractors must furnish extra security money now, which promises end-product quality. It acts as a deterrent: contractors would not be tempted to cut corners.

The benefits are clear. A quality-first selection process should deliver roads that last longer, cut fuel burn, lower vehicle damage and reduce unpredictability across supply chains. Cleaner model concession agreements (MCA) and tighter financial filters also reduce the odds of stalled projects and mid-construction stress.

But there are short-term trade-offs. Mid-tier consultants and developers with inconsistent track records or thin balance sheets may get temporarily sidelined. Bidder participation will dip and bid prices could rise moderately.

These are manageable transition costs. The alternative—fragile roads requiring constant repair—is far more expensive. With 124 highway projects worth ₹3.5 trillion planned in 2025–26, India cannot afford to keep building infrastructure that deteriorates quickly.

The ministry's reform agenda rests on three core pillars. *First*, a shift to quality-first selection of consultants and bidders. *Second*, bankable and realistic contracts through upgraded MCAs. And *lastly*, accountability enforced via scorecards, audits and QR-coded monitoring.

This governance model must not stay confined to highways. Similar problems of poor DPRs, underbidding, uneven enforcement and weak life-cycle planning plague ports, airports, railways and other forms of urban infrastructure. As India pushes forth with economic corridors, multimodal logistics parks, port-led development and last-mile connectivity, durable infrastructure is not optional; it is foundational to cut logistics costs and stay globally competitive.

The reforms indicate that India is finally willing to prioritize durability over upfront savings. The opportunity and challenge are to replicate this philosophy across all sectors, so that every kilometre of road, rail track or port berth built delivers value for decades. India already has the world's second-largest road network. Our next goal should be to build one of the best.

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OUR VIEW



AFP

Davos: May the spirit of dialogue trump discord

The fact that the World Economic Forum, once dismissed as just a global talk-shop, endures in such a fraught and polarized world offers sufficient reason to believe in a better tomorrow

The London-based *Economist* describes it as the "ultimate networking event"; *The Guardian*, a British daily, as the "last-chance saloon to save the old world order." The World Economic Forum (WEF) is an international advocacy non-governmental organization and think-tank founded in 1971 by German engineer Klaus Schwab, and its annual gathering at Davos, Switzerland, was once billed as the biggest talk-show-cum-photo op in the post-Bretton Woods world. It was known for drawing leaders from government, business, civil society and academia together to "discuss global issues and set priorities." This year's meeting, its 56th, is no exception. Over 3,000 delegates, including more than 30 foreign ministers, 60 finance ministers and central bank governors and 30 trade ministers from 130 countries are expected to attend its sessions this week. With India emerging as one of the "most active and visible national delegations," according to a WEF readout, more than 80 Indian CEOs are slated to attend, together with Union ministers and delegations from nine states. The hope, as always, is to attract interest and investment in India from the global corporations whose chiefs will be in attendance.

The theme for this year's WEF huddle, 'A spirit of dialogue,' seems almost laughably naive, given how US President Donald Trump has spent his first year in office taking apart any semblance of it, as if it is something better exorcized than exercised. It is being held against a background of high geopolitical uncertainty, unrest in Iran, a war in Ukraine, civil war in Sudan, forced regime change in Venezuela and the distinct possibility of a rupture within the US-led military alliance Nato over Trump's designs on Greenland. In a telling commentary of the times, a cross-section of more than 1,300 politicians, business leaders and academics quizzed by the WEF singled out "geo-economic confrontation" as the most pressing risk for the next two years, with "outright" war between nations in second place. Forget globalization, even near-shoring and friend-shoring look like bleak prospects. Just days before the 2026 WEF jamboree, Trump threatened to levy tariffs on America's European allies if they did not back his plan to annex Greenland. Like the main theme, the five sub-themes this year—how can we cooperate in a more contested world, unlock new sources of growth, better invest in people, deploy innovation at scale and responsibly, and build prosperity within planetary boundaries—sound divorced from reality. Critics have long said this Alpine conclave 1,560 metres above sea level tries to punch above its weight but has little to show by way of results on the ground.

That's on the downside. But the very fact that Trump has chosen to attend WEF 2026 in person, unlike his virtual appearance last year, and will lead America's largest-ever delegation is proof of Davos's relevance, even if it seems vastly diminished from the go-go era of globalization. In a world where rules-based multilateral organizations like those for trade and health and UN affiliates like the UN Framework Convention on Climate Change have been rendered almost comatose by US rejection, vital signs of life in a forum for delegates to meet and discuss world issues across big global divides is reason enough to believe we can still hope for a better tomorrow, globally. As the world stares at a 'polycrisis' that may be a prelude to a power shake-up that might make every economy quake, 'jaw-jaw' must prevail over 'war-war.'

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Is America about to acquire its own oil cartel? Don't bet on it

US geopolitical moves are unlikely to disrupt oil market dynamics



KARISHMA VASWANI
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Oil embargoes don't work, as Arab states learnt back in 1973. AP

From a certain angle, US President Donald Trump is doing in a matter of weeks what other leaders could never have dreamt of: Assembling an oil cartel with sufficient sway to rival Opec and acquiring a kill switch for the energy-importing economy of America's prime geopolitical rival, China.

Combine Trump's supposed hegemony over the Americas since the capture of former Venezuelan President Nicolás Maduro on 3 January with control over a post-revolution Iran, and you're at about 42% of global oil production. Add to that the fact that China is the biggest importer of both Venezuelan and Iranian oil, and Beijing suddenly looks vulnerable.

Not so fast. The bigger lesson from Washington's actions in Venezuela and from any hypothetical backing of regime change in Iran is that diplomatic actions may change leaders, but they rarely alter the underlying relationships between oil producers and their customers. Such trade relationships, in turn, influence diplomatic alliances. Since World War II, politicians who've sought to control these flows have almost always failed.

As we've noted before, China will be central to the next act in Venezuela's drama. Beijing plays a similar if not more important role for Iran, and it's one that is unlikely to be diminished by Trump's latest efforts in the global theatre of geopolitics.

Even if relations with the US or other Western powers were to improve under a different leadership in Tehran—a very big if—Iran is unlikely to abandon its strategic alignment with China. The two are tied together in a loose web of diplomatic, economic and security networks. They have participated in military exercises and in 2021 signed a pact outlining $400 billion of potential Chinese investments over 25 years, providing a lifeline for Iran in the face of international sanctions.

Chinese President Xi Jinping has been a huge backer of Tehran's Global South ambitions, encouraging it to join the Shanghai Cooperation Organization in 2023. China also supported its accession to the expanded Brics bloc. Last week, warships from Iran, China, South Africa and the UAE joined naval exercises off the coast of South Africa.

Pragmatism defines much of Beijing's relationship with Tehran. Chinese officials this week reaffirmed their long-standing position of backing stability in Iran, but nothing beyond a few words of concern in response to protests that have posed the biggest challenge to the Islamic Republic since it was founded back in 1979. Beijing has its own problems with imposing geopolitical hegemony through military means, of course. It has adopted an aggressive stance across the region, most overtly, perhaps, towards Taiwan. That hardly makes it a paragon of a rules-based order and multilateral approach to international affairs. Still, Trump's own swagger, made real in US foreign policy, has given China an opportunity to paint America as an unreliable and predatory force in the world and itself as the rational actor.

There is also historical precedent for why a longer-term chill between Tehran and Beijing on the oil front is unlikely. For all the fears of petroleum being used as a geopolitical weapon, occasions when fossil fuel producers have frozen out their customers for political reasons are few and far between. The 1973 Arab oil embargo is a rare exception, but the failure of its stated aim—to end Western oil importers' military support for Israel—illustrates why most have tended to steer clear of ideological fights.

The US continued importing oil from Iran on and off for eight years after the Islamic Revolution and the EU will not completely phase out Russian gas imports until late next year, five years after Moscow invaded Ukraine. Far from getting shut out of Venezuela's post-Maduro oil exports, China is already being lined up as a principal customer by commodity traders Trafigura Group and Vitol Group.

Expect more of the same in the coming months. Once upon a time, US restrictions on Asian oil trade could bring an aspiring hegemon to its knees. Such leverage is beyond Trump's grasp now. Russia is the only country that provides more than 10% of China's crude and most major suppliers are aspiring middle powers that won't be easily persuaded to do his bidding. A switch away from oil is another way of diversifying supplies: Electric cars and trucks will eliminate about 1.76 million barrels of Chinese oil demand this year, roughly equivalent to every barrel imported from Iran and Venezuela put together.

This slippery liquid always finds its level and can seep through the narrowest cracks to connect buyers with sellers. If you're betting that the law of trade and geopolitics has been upended, you may find yourself disappointed. © BLOOMBERG

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MY VIEW | EX MACHINA

Learning to trust AI demands that we shift our scrutiny

RAHUL MATTHAN



is a partner at Trilegal and the author of 'The Third Way: India's Revolutionary Approach to Data Governance'. His X handle is @matthan.

If there is one thing those who design artificial intelligence (AI) policies insist on, it is that the AI systems we build should be explainable. It seems to be a reasonable request. After all, if an algorithm denies someone a loan, misdiagnoses a disease or autonomously executes an action that results in harm, surely those affected have the right to an explanation. But, getting an AI model to explain 'why' it behaved the way it did is not as easy as it seems.

When a traditional software program fails, we can study the error message to identify what went wrong. Since a software program follows a series of logical steps described in code, it's easy to identify where it failed. In neural networks, on the other hand, the 'logic' that powers inference is distributed across billions of parameters in ways that are not immediately evident. To explain a 'decision,' we need to understand exactly how millions of different neurons of the network interact to arrive at an outcome.

An AI model's 'thought process' is akin to navigating a massive, hyper-dimensional cloud of data. When you prompt a model for a response, it converts your words into a vector (a coordinate in high-dimensional space) and tries to ascertain the specific plane in the hyper-dimensional construct of the neural network that corresponds to the answer you are looking for. The model doesn't so much 'read' your prompt as locate it within a landscape of relationships. Since humans communicate using unidimensional word-strings, any explanation of an AI decision requires us to 'project' hyper-dimensional coordinates onto a unidimensional line of text. Now, as everyone who has made hand shadow puppets will tell you, projecting a three-dimensional object onto a two-dimensional plane results in the loss of essential information. If that is the case, think of how much detail is lost when an n-dimensional 'reason' for why the AI behaved is expressed in simple sentences that humans can understand.

To overcome this challenge, some AI labs have tried to use 'mechanistic interpretability'—a tedious process of trial-and-error that allows them to identify which specific neurons in the large language model trigger what kinds of responses. By using this approach, they gradually get a sense of what makes large language models respond the way they do. However, this process is tremendously time-consuming and far from reliable, and while it has generated valuable insights in constrained settings, it cannot scale at the pace at which AI models grow, change and are redeployed.

And so, in the end, most AI labs get models to explain themselves. Rather than having human engineers document every decision, they use AI to generate Model Cards and System Summaries to comply with explainability obligations. The trouble is that AI models are masters of confabulation. Having been trained on human languages and optimized to provide 'plausible' responses to human questions, their translations of high-dimensional vector spaces to the low-bandwidth human language are often little more than a presentation of the truth the human wants to hear. As a result, what we are being given is not so much an explanation as something designed to sound like one.

Stop asking AI to 'explain' itself and instead ask it to 'prove' its performance through outcomes

Things get much worse when we move from a single model to a multi-agent ecosystem. In this scenario, 'decisions' are no longer the product of a single entity's logic, but the emergent outputs of a complex system. Insisting on an 'explanation' with full knowledge of this reality is a 'reductionist fallacy.' Just as you will not be able to understand the behaviour of a beehive by studying the flight path of a single bee, there is no way to explain the output of an agentic network by seeking an explanation from a single node.

So how do we maintain safety and accountability in the AI systems we are growing increasingly dependent on? I believe the answer lies in shifting our focus from *interpretability* to *observability*. Instead of insisting on an explanation of the internal reasoning of the model, we should focus on collecting relevant evidence of its external behaviour.

This approach is not new. In complex engineering systems, users often do not understand how every last part of the system they are operating works. And yet they can tell when it starts to fail. What we did, in these circumstances, was define a set of 'invariant' truths—rules that must never be broken—that operate as the guardrails of the system. When these guardrails are crossed, operators are given feedback that allows them to take swift remedial action.

We can build similar guardrails for AI. Rather than learning *why* an autonomous financial agent decided to hedge a particular currency, all we need to be sure of is that it is operating within risk thresholds that we have put in place to ensure that anti-money laundering laws are not violated. We can enforce these invariants through continuous monitoring and audits, and design our autonomous systems to allow human intervention when thresholds are crossed.

None of this is to suggest that explanations have no place at all, but that they are always going to be insufficient in systems whose internal logic is not fully knowable. If we focus our governance efforts on chasing the ghost of explainability, the systems we build will either be too slow to be useful or too dishonest to be trusted.

We need to stop asking AI to 'explain' itself and instead ask it to 'prove' its performance through outcomes.

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THEIR VIEW

Let's re-imagine governance: The technology is ready but are we?

India can either carry on with fragmented tech deployments or use advanced tools to rethink governance for better results



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The coming decade will be unlike anything we have seen before. Multiple technology shifts are maturing in parallel: the intelligence revolution and rise of digital labour; breakthroughs in frontier technologies like biotechnology and advanced materials; compute moving from centralized data centres to the intelligent edge; and quantum applications becoming real in areas such as drug discovery, defence and logistics. This convergence is unprecedented. It can unlock enormous economic value—but it also expands risk exposure at a speed that governments are not prepared to manage.

As India aspires to celebrate the centenary of our independence as a developed nation, Prime Minister Narendra Modi has repeatedly reminded us that Viksit Bharat is not just about faster growth. It is about deep transformation. It is about our ability to re-imagine India. For the first time in history, we actually have the tools to do so. The real question is whether we are equipped to use this power to drive the transformation India needs.

The truth is we are no longer constrained by technology—we are constrained by mindset.

India's technology foundation itself is strong and inclusive by design. Platforms such as Aadhaar and UPI have become global benchmarks for digital public infrastructure—built with inclusion as its aim and impacting billions of lives. But the next phase demands much more. We must drive end-to-end transformations across sectors to unlock exponential growth, while re-engineering the social landscape to raise productivity and dignity at every level. The constraint is no longer tools. It is how governments think, plan and execute.

To translate technological capability into real outcomes, we need to drive five fundamental mindset shifts in government—from districts and states to departments at the Centre.

From silos to scale: Across states, innovation is thriving—but largely in pilot programmes. These demonstrate possibility but do not deliver transformation. Scale never happens organically. It must be designed from day one.

Agriculture makes this clear. Despite hundreds of technology pilots, we have not been able to unlock the pathways for exponential gains in crop yields or farmer incomes. The problem is not lack of technology—it is fragmented deployment. Only end-to-end, platform-based approaches across the seed-to-sale lifecycle that cuts across departments can deliver sustained impact. Equally important is customization. 'Indian farmers' are not a homogenous category. Small, medium and mature farmers differ sharply in needs, capital access and tech-readiness. Technology that ignores this diversity fails. Relevance drives adoption. Adoption drives impact and impact enables scale.

From data collection to data-driven action: Data, unlike oil, has zero value when stored. Its value lies in being converted into intelligence that shapes timely decisions and action. India today is data-rich but often insight-poor. If governments do not build decision-intelligence capabilities, others will—and we risk becoming suppliers of raw data while importing intelligence. This requires investment in analytics, embedding data into core decision workflows (not parallel dashboards) and working on data literacy so that officials use data for judgement, not compliance.

From technology dependence to sovereignty: In today's geopolitical environment, tech sovereignty is non-negotiable—but it needs a long-term outlook and uncompromising commitment. True sovereignty means owning critical intellectual property, shaping global standards and controlling key supply chains. It demands mission-driven indigenous R&D that would help India evolve from being a service-led adopter to a product-making nation.

The imperative is clear: Chart a national roadmap with uncompromising commitment. Prioritize R&D for resilience and forge trusted partnerships that do not require absolute control. Without this clarity, sovereignty will remain aspirational.

From tech-augmented services to stronger policy design: Globally, governments are moving beyond using technology to merely digitize services. They are embedding advanced technologies directly into policy design and decision-making. Tools such as digital twins now allow policies to be simulated and stress-tested before rollout—reducing risk, improving outcomes and increasing trust.

Governments, therefore, must build end-to-end decision systems that embed intelligence into the core working of the state. This must be matched by continuous capacity development, not one-time training—via platforms like IGOT (or Integrated Government Online Training) for ongoing learning and tech fluency. This must be Task No. 1 for every state.

From reactive to proactive risk management: The most critical shift is moving from reacting to risks to anticipating them. Today's risks are no longer limited to IT systems. Cyber threats target national infrastructure and supply chains. Social risks include cognitive warfare and large-scale workforce disruption. Emerging risks—from quantum-enabled security breaches to biosecurity—challenge existing frameworks. Some of the most dangerous risks are operational: fragmented procurement, siloed data, lack of standards and weak institutional capacity.

These are national security and economic resilience risks, not technical issues. The broad imperative for governance is to institutionalize continuous risk-horizon scanning, so that we can anticipate what lies ahead—because the only risks that governments can manage are the ones they see coming.

In sum, technology will continue to advance rapidly. We now face a clear choice: continue with fragmented deployments and their sub-optimal impact, or re-imagine governance itself. If we make this shift with clarity and conviction, technology will not just improve governance, it will lay the foundation for a truly Viksit Bharat.

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GUEST VIEW

Faith in markets? Don't fall for the carbon price illusion

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Market failure is a prickly idea in economics. It exists in theory, is acknowledged in textbooks and is occasionally invoked in policy debates, but it sits uneasily with the profession's deeper instincts. To question the centrality of markets too forcefully is to invite misgivings, especially in academic publishing, where faith in markets appears more durable than the evidence that challenges it.

I recall asking my PhD supervisor Dennis C. Mueller in the 1990s why, despite empirical support to the contrary, articles in leading economics journals reflect an almost unquestioned belief in markets as efficient allocators of resources. It felt to me almost theological. Perhaps the alternative in the form of government direction was more frightening? In any case, work challenging the orthodoxy was treated as heretical rather than debatable. Mueller's response, characteristically measured, was that neoclassical models were elegant. They allowed optimization and produced clean results. Profit maximizing firms and utility maximizing consumers, represented by rational agents, delivered tractable outcomes. The models worked, even if the world did not seem to cooperate.

This criticism is neither new nor profound. So, why revisit it now? Because another article of faith has quietly taken hold in global policy discourse: the belief that carbon pricing is the most efficient and therefore most appropriate way to address climate change. The regulation in question is the EU's carbon pricing policy to control global emissions, known as its Carbon Border Adjustment Mechanism (CBAM).

Implemented from 1 January, CBAM aims to check carbon leakage and level the playing field for emission-intensive goods such as steel and aluminium by putting a carbon price on imports based on the emissions embedded in their production. This ensures that imported goods face a similar carbon cost as those produced in the EU under its Emissions Trading System (ETS). The price of carbon under the ETS is market-driven and is currently in a range of €85-90 per tonne. Countries were given time to adjust because transitions are difficult. Yet, there is little tolerance for alternative approaches that might achieve similar outcomes. Again, the thought is that markets should do the heavy lifting through carbon pricing.

The EU's CBAM is designed to prevent carbon leakage and protect the integrity of its ETS. Its stated goal is environmental: to ensure that European producers subject to carbon pricing are not disadvantaged by imports from countries with weaker climate policies. In Ricardian terms, this implies that laxer environment standards should not become a source of comparative advantage. What's more, environmental goals, according to the EU, are best achieved through a market-determined price on carbon, while other methods are implicitly dismissed as inefficient. Thus, climate-friendly measures such as levies on coal and mining, renewable energy purchase obligations and industry emission standards are tolerated, but not given the legitimacy they deserve.

Market tools don't always work. Carbon pricing can be distortive without cutting emissions

The use of carbon pricing as the preferred option reflects its theoretical elegance. By internalizing the social cost of carbon, a uniform price is determined to ensure that emissions are reduced where abatement is cheapest. This logic has shaped decades of climate economics and rests on a critical assumption: that markets function reasonably well. Mounting evidence, however, shows that import demand for carbon-intensive goods is highly sensitive to carbon prices. Even moderate price increases lead to sharp declines in volumes, especially for products with high embedded emissions. Yet, the impact on total emissions in countries that export these products is limited. This result matters. If the CBAM were primarily an environmental instrument, one would expect meaningful emission reductions in exporting countries. Instead, it appears more effective at redirecting trade flows than reducing emissions. Thus, concerns have arisen around its use as a protectionist measure in green guise.

The relevant question, therefore, should not be whether a country has an economy-wide carbon tax, but whether its policy mix delivers comparable emission outcomes. Regulatory standards, technology mandates, sector-specific interventions and subsidies are good candidates. Ignoring these tools while penalizing trade by using default carbon values only makes trade costlier without commensurate climate gains.

Globally, only about 23% of emissions are covered by explicit carbon pricing. India's are not covered so far because we have adopted other means. We use standards, renewable energy mandates, technology support and sectoral policies that implicitly limit emissions. Even if carbon pricing makes clean technologies cheaper over their lifetime, the upfront investment is often unaffordable for small firms and households. Higher energy prices intensify affordability and equity concerns. Economic theory offers a useful lens. The theory of the second-best reminds us that when multiple distortions coexist, fixing just one may worsen outcomes. Carbon pricing works best when markets are competitive, information is available and distributional concerns can be managed. In their absence, insisting on first-best solutions can be counterproductive.

Markets are powerful yet imperfect tools. Let's not abandon them, but use them with greater humility.

These are the author's personal views.

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THEIR VIEW

Quarterly GST payments would free capital for small businesses

It would align tax payments with cash inflows and unlock liquidity stuck in long receivable cycles



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India's goods and services tax (GST) framework has a structural timing asymmetry that disproportionately burdens micro and small enterprises. While tax liability is triggered at the point of invoicing, cash realization for many entities occurs months later. In an economy where extended credit terms are routinely imposed by larger clients, this design choice compels smaller firms to remit tax on income that remains unrealized, effectively transferring working capital from the weakest balance sheets to the strongest.

Payment cycles of 90-120 days are routine in most sectors. These terms are not negotiated on an equal footing. They are imposed by buyers with scale, bargaining power and access to capital. Small suppliers comply because refusal often means exclusion.

GST becomes payable on invoices, not on collections. For large firms with predictable cash flows, the distinction is immaterial. For small firms, it is decisive. Tax payments fall due monthly even when cash may arrive months later. The state is paid on schedule. The buyer preserves liquidity. The supplier absorbs the gap. Over time, this gap becomes structural.

The scale of this distortion is substantial. Delayed receivables owed to small firms amount to several trillion rupees, representing working capital that is effectively immobilized within supply chains. These funds would otherwise circulate through wages, inventory cycles and incremental investment. Many firms are compelled to bridge liquidity gaps through informal credit, short-term borrowing or deferment of statutory obligations.

This imbalance is not confined to private sector supply chains. Public sector enterprises and government-linked buyers, despite formal payment timeline rules, often delay settlements well beyond prescribed limits. Enforcement is uneven as the economic hierarchy is unmistakable. Small suppliers are rarely in a position to assert contractual rights against dominant buyers on whom future orders depend.

The policy system often assumes that statutory timelines resolve this asymmetry, but practice diverges sharply from intent. Alongside delays, there are persistent accounts of procedural friction and informal rents embedded in order processing and payment release, further extending cash cycles.

GST is a transformative reform. It unified markets, reduced cascading taxes and expanded the formal economy. But its architecture assumes that invoicing and liquidity broadly coincide. For small firms, that assumption does not hold. The introduction of quarterly return-filing for businesses below a turnover threshold acknowledged compliance fatigue, but it stopped short of addressing the core problem. Payments follow a calendar rhythm rather than cash rhythm.

For firms with access to institutional finance, delayed payments are a balance sheet choice. For their suppliers, they are a recurring constraint that compounds with every billing cycle. Tax timing intensifies that constraint.

Allowing small as well as medium enterprises and individual GST payers to pay tax quarterly would recalibrate this interaction. Such a shift would align tax outflows more closely with realized cash flows, easing pressure on working capital without altering tax incidence. Its policy strength lies in efficiency. Liquidity would be released without fiscal expenditure, without new schemes and without credit risk for the state. Revenue would be collected in full, but at a moment that reflects economic reality rather than an accounting abstraction.

The design implications are manageable. GST is a tax shared with states that rely on predictable inflows for budget management. That consideration calls for careful calibration. Turnover thresholds, phased implementation and the retention of monthly reporting would preserve fiscal visibility while offering smaller firms room to manage cash cycles more sustainably. The administrative scaffolding already exists within the GST system.

Any classification-based relief demands discipline. Turnover is the most robust filter, supplemented by receivables profiles and compliance history. Monthly reporting would maintain invoice level visibility and secure the integrity of input tax credit flows across value chains. Liquidity relief, thus, need not come at the cost of administrative confidence or auditability.

Quarterly GST payments will not resolve the deeper problem of delayed payments by dominant buyers. That challenge requires stronger enforcement of existing payment discipline laws and more credible penalties.

There is also a broader principle at stake. Tax systems shape markets, not just revenues. When their assumptions privilege scale and penalize fragility, neutrality is lost. Correcting such distortions would simply be an act of alignment. Small and medium firms contribute roughly a third of India's economic output and employ a significant share of its workforce. Their resilience underpins supply chain stability, employment continuity and the pace of formalization. Releasing even a fraction of the capital locked will have far-reaching effects, without relying on either fiscal largesse or regulatory forbearance.

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OUR VIEW

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Nuclear energy: Assign oversight with due care

Its foreseeable role in electricity supply would justify overall supervision by India's power ministry. But we must ensure the autonomy of our regulator charged with nuclear safety

It has been reported that India's power ministry wants the development of nuclear power projects brought under its ambit. This might ring alarm bells in some quarters, given that this form of energy has always been under the Department of Atomic Energy's (DAE) supervision and nuclear safety requires specialized regulation that may be beyond the power ministry's ken. However, its demand is neither alarming nor a brazen sign of turf expansion. Article 77(3) of the Constitution lays down a key function of the President of India: "[The] President shall make rules for the more convenient transaction of the business of the Government of India, and for the allocation among Ministers of the said business." Thus, the responsibility and accountability for all government actions must be assigned to various specified ministries without any overlap. These orders take the form of two lists, one of which outlines the broad subjects, and the other, specific areas within each subject.

If nuclear power is to become a mainstay of India's base capacity for electricity, not just an ancillary activity geared as much to supply us with electrons as to gain expertise in the field and fuel for our nuclear armoury, then it should join the country's regular portfolio of power generation. A source-agnostic power ministry could then manage it in conjunction with thermal, hydroelectric and renewable energy—like solar and wind. As sources, the latter two are intermittent. When the sun does not shine and wind ceases to blow, other supplies must fill the gaps for grid stability. This calls for battery storage and a mix of gas and hydel sources that can be shut down or restarted with relative ease. Coal-burning plants are hard to switch on and off at short notice. This is even harder to do with nuclear plants. So, thermal and nuclear plants are well placed to supply baseload electricity, while gas and hydel form a middle layer whose knob can be turned up and down at will, even as renewables fortified with storage systems constitute a third layer on top. It is for the power ministry to decide how large each layer should be in the context of demand and supply patterns at any given time and place. If nuclear capacity is commissioned by the DAE without reference to an overall view of power demand, supply and their mediated management, that would be inefficient. It thus makes sense for the ministry of power to decide how many gigawatts of nuclear power are needed within a given timeframe, and where. As a broad subject, nuclear power is best allocated to the power ministry, which could sanction capacity additions and reactor locations.

As for other aspects of oversight, from the monitoring of reactors in operation to the enforcement of safety rules and carrying out of checks, these should stay vested solely in the Atomic Energy Regulatory Board (AERB). Ideally, the AERB should be an independent regulator—one that gets its policy mandate from the power ministry and DAE, but regulates autonomously in accordance with that policy and is held to account by a Parliamentary panel. Eventually, an ideal scenario would be one in which a new integrated ministry is set up for energy that subsumes hydrocarbons under its ambit, apart from thermal, nuclear and renewable power. Once we have a grid that integrates traditional sources of power with battery storage, including batteries under the hood of parked vehicles, we would need common oversight. Nuclear safety, of course, would be under the specific charge of specialists.

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THEIR VIEW

The Tiger Global ruling may dent investor confidence

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The Supreme Court's ruling in the Tiger Global-Flipkart stake-sale case has been framed as a blow against tax-treaty abuse. In reality, it does something far more consequential: it rewrites the operating assumptions under which foreign capital has been invested in India for decades. While the judgement is fact-specific, its reasoning dismantles the comfort investors drew from treaty residency, grandfathering assurances and carefully structured exits. It resets India's investment jurisprudence, with ramifications for private equity (PE), venture capital (VC), foreign portfolio investors (FPIs) and long-term strategic capital.

The most immediate consequence of the ruling is for pre-2017-18 PE, VC and foreign direct investments, particularly those routed through Mauritius. For years, such structures relied on tax residency certificates, board resolutions and governance frameworks to demonstrate control outside India. The Supreme Court has made it clear that paper compliance is no longer enough.

Most Mauritius special purpose vehicles (SPVs) were post-box entities by design, with structures 'expert-engineered' to satisfy India's tax treaty with Mauritius in form—periodic board meetings, internal approvals and decision-making records—without much real operational or commercial substance. This model may now fail, unless investors can demonstrate genuine economic substance and decision-making at the treaty jurisdiction level.

It would be incorrect to claim that all pre-2017-18 exits are automatically taxable. But it is undeniable that tax certainty, the very promise on which those investments were made, has been severely weakened. For post-2017-18 investments, the ruling strengthens the application of General Anti Avoidance Rules (GAAR) across asset classes. While capital gains on shares are already taxable, treaty benefits claimed on futures and options, debt, dividends and interest are now vulnerable to challenge. This scrutiny will not be confined to investments from Mauritius or Singapore. Structures that lack substance under treaties with jurisdictions like France may also come under the scanner.

It also casts a long shadow over GIFT City structures by raising difficult questions for FPIs and funds claiming exemptions while maintaining a minimal on-ground presence with real control residing offshore. An open question is whether FPIs in GIFT City, traditionally shielded from GAAR under Rule 10U, would remain protected if courts apply substance-over-form principles and examine where "brain and control" truly resides independent of formal GAAR invocation.

It shakes up the ground on which foreign investments were made and risks deterring fresh flows

While the Supreme Court has not authorized a wholesale reopening of past tax assessments, the ruling vastly strengthens the tax department's hand in reassessment proceedings. For transactions still within the reopening window, it may now cite "information suggesting escapement of income" to evaluate cases.

For cases currently under scrutiny or pending at any appellate level, the ruling is likely to be invoked aggressively. For concluded matters, the tax department may be tempted to attempt appeals with applications for 'condonation of delay,' particularly in high-value cases. Further, it may also explore rectifications based on Circular No. 68 of 17 November 1971, which is not subject to any limitation period and does not require an assessment to be reopened, but allows an earlier decision to be treated as a "mistake apparent from the record" if it is inconsistent with a subsequent Supreme Court ruling.

More than retrospective taxation, the cumulative effect will be a broad litigation overhang. Even where case reopening ultimately fails, the process would inject uncertainty into investors' exit plans.

Many investors relied on tax insurance to ringfence their exposure on legacy exits, supported by detailed tax opinions from leading firms. That comfort now looks fragile, as insurers are likely to tighten exclusions, reprice premiums and contest coverage once structures are judicially characterized as impermissible avoidance. An urgent re-examination of existing policy terms is required.

Perhaps the ruling's worst consequence lies beyond tax law—in policy credibility. When GAAR was introduced, India's then finance minister Arun Jaitley had assured Parliament that it would apply prospectively and new rules would not cover investments made up to 31 March 2017. The Central Board of Direct Taxes reinforced this position through circulars. The ruling, regardless of its legal reasoning, goes directly against those commitments.

For foreign investors, this raises a question: If explicit sovereign assurances can be diluted by subsequent interpretation, how should long-term risk be priced in India?

From a policy perspective, the judgement aligns India with global anti-avoidance norms and curbs treaty-shopping. Capital markets, however, respond to predictability. By upsetting settled expectations, the ruling risks being seen not as a reform, but as a source of retroactive uncertainty.

Sure, foreign capital will adapt. Structures will change. Substance will move. But unless this judicial shift is accompanied by clear prospective guidance and renewed assurances, India risks paying a price—not in courtrooms, but in terms of the higher risk premium that global investors would assign to Indian capital, which could influence where they choose to deploy their next dollar.

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OUR VIEW



Keep watch of aviation: It is too short of rivalry

IndiGo has pledged to stabilize services within the rules and hopes have been stoked of new airlines taking off. But since a duopoly scenario will endure, aviation needs an antitrust scan

Is India's civil aviation crunch a thing of the past? Signals from IndiGo, the airline around which last month's crisis of flight cancellations swirled, suggest it will soon be. As do public assurances of a return to normalcy from this sector's regulator. IndiGo has assured the Directorate General of Civil Aviation (DGCA) of its compliance with new pilot-fatigue-reduction norms by 10 February. The air-carrier said that it would be ready to operate a stable schedule without the rule exemptions it was granted after its failure to run flights threw air traffic into chaos. To meet this aim, IndiGo had earlier outlined a plan to recruit pilots. But its latest pledge follows a regulatory rap on its knuckles from the DGCA, which levied a fine of ₹22.3 crore on the airline and warned it not to stretch its capacity to a snap-off point again. If this sounds like a regulatory rebuke that's too soft, or too pat a way to put the mess behind us, with its costs merely anecdotal at this stage, market power may have a plausible role in it. IndiGo's share of domestic traffic hovers above 60% and its role in flying people looms over that of Tata-owned Air India, our only other major carrier.

Together, two private players have nine-tenths of India's market. Akasa, SpiceJet and others are small players, and unless global aircraft scarcity eases, they would be hard put trying to widen their slices of the market's pie. A silver lining around last month's turbulence has been a clamour for more rivalry in Indian skies. In late December, India's civil aviation minister Kinjarapu Rammohan Naidu had posted an update on the microblog platform X that named three potential market entrants: Shankh Air, AlHind Air and FlyExpress. As noted by the minister's post, all had been given no-objection certificates (NoCs) by the ministry. The next step on the trio's takeoff path would be to get air operator certificates from the DGCA. Going by Lok Sabha records, as reported by *Mint*, of the three NoCs, only FlyExpress's was new. The same report also probed their readiness for operations. What emerged was a dismal picture of small-business hopefuls with insufficient capital and iffy prospects. Estimates of the startup capital needed even for a modest airline range from ₹80 crore to ₹100 crore. The firm behind FlyExpress was found to have a patchy business record with legal smudges. Neither do the other two inspire much confidence in their ability to make a go of aviation. The odds of a big capital raise by the commodity trading enterprise backing Shankh Air look rather long at this point. So do those of the travel services group trying to launch AlHind, even if a bit less so. Of course, likelihoods could shift. Even so, given capacity gaps and other relevant factors, we may be lumped with a binary-choice market for quite a while. Alas, the duopoly scenario we stare at today is not a passing phase.

This sector's rivalry deficit should draw the Competition Commission of India (CCI) into the picture. Last month, this regulator took note of IndiGo's air disruption and said the issue would be placed under the lens of India's antitrust law. Since dominance differs from its abuse, which is illegal, any probe that ensues would be of wide interest. It is telling how a brief exposure of air-network fragility has raked up references to corporate split-ups (think AT&T's 'Baby Bells'), even though probes take time and such a drastic remedy can only be antitrust action of last resort. If rivalry rises, somehow, we should celebrate. If not, this sector must be kept under close CCI watch.

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THEIR VIEW

Is dynamic pricing of airfares always fair to everyone?

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A Bengaluru resident had travelled to Chennai for a visa appointment that was unexpectedly delayed. As a result, the person missed a return train and had to take a last-minute flight to make it back in time for work. This ticket cost about ₹20,000—or 300% more than the same route's average fare for tickets bought at least 60 days in advance. This experience is not unusual, but it does capture the anxiety many Indian travellers face when confronted with sudden fare spikes.

In November 2025, activist S. Laxminarayanan filed a public interest litigation (PIL) in the Supreme Court challenging the dynamic pricing models used by domestic airlines. Put simply, air carriers use dynamic pricing models to adjust fares in real-time based on fluctuations in demand. The petition argues that algorithmic pricing pushes fares beyond the reach of the average Indian, disproportionately affecting last-minute travellers with emergencies and during events such as the Maha Kumbh.

Understanding this case requires a closer look at how airline pricing has evolved. Until the 1970s, fares were regulated globally. The US began deregulation in 1978 and other countries followed. India deregulated airfares with the repeal of the Air Corporation Act in 1994. The recent Bharatiya Vayuyan Adhiniyam of 2024 empowers the government to undertake economic regulation of civil aviation, including tariffs—the basis of this petition.

Freed from fixed fare schedules, airlines adopted dynamic pricing—a model under which different customers can be charged different prices. Fares vary by time of day, with peak-hour flights costing more than off-peak ones. Ticket prices often rise during holiday seasons or on routes with strong seasonal demand. Of course, they also differ based on market segmentation—for example, business-class tickets cost a lot more than economy tickets.

Dynamic pricing offers airlines several advantages. It maximizes revenue by adjusting fares in accordance with the market's balance of demand and supply, which helps improve seat occupancy by letting prices change quickly as conditions shift. It enables airlines to cater to fliers whose willingness-to-pay differs—from business travellers with somewhat firm schedules to budget-conscious passengers who tend to book early.

But the system also has its drawbacks. If prices rise too sharply, airlines risk losing bookings or triggering price wars. Dynamic pricing also depends on accurate demand forecasting, which can be thrown off by unexpected events such as pandemics or severe weather. Maintaining the data systems behind these algorithms requires significant investment.

From the consumer's point of view, dynamic pricing is a source of both opportunity and frustration. Low demand periods bring cheaper fares and competition among airlines can keep prices in check. Yet the unpredictability of dynamic pricing, coupled with low transparency on how fares are set, can leave last-minute or emergency travellers facing prohibitively high prices.

From an economic perspective, this legal battle is over the 'consumer surplus,' which is the 'bonus' value passengers receive when they pay less for a flight than the maximum amount they were willing to spend. For instance, if the Bengaluru resident was prepared to pay ₹20,000 for an emergency flight but found a ticket for ₹15,000, then the ₹5,000 difference represents this surplus.

However, by raising fares in real-time to match a passenger's willingness to pay, airlines can convert part of the consumer surplus into a producer surplus.

A public interest plea has sought a judicial review to check if this model of market efficiency is unfair to fliers

The latter is the difference between the minimum price a producer would accept and the fare price actually received. For instance, if an airline is willing to sell a ticket from Chennai to Bengaluru for ₹5,000 but strong demand lets it charge ₹20,000, the resulting producer surplus is ₹15,000.

The PIL contends that in a market with limited competitors, the conversion of a consumer surplus to a producer surplus can be skewed, thereby leaving fliers with diminishing economic value.

An alternative to dynamic airline prices is capped airfares—even during demand spikes. This provides travellers with stability and predictability by eliminating fare shocks and allows for a larger consumer surplus in cases of fliers ready to pay more. However, caps can impact airline revenues and make some routes less viable, prompting airlines to reduce capacity or services, which could offset some of the consumer benefits.

This debate gained fresh momentum last month when IndiGo faced an operational crisis that led to widespread delays and cancellations. Thousands of passengers were stranded and airports were overwhelmed. To prevent opportunistic fare hikes, India's ministry of civil aviation imposed temporary price caps on affected routes. Yet, around the same time, civil aviation minister K. Rammohan Naidu emphasized that deregulation remains central to the sector's growth—a reminder of the delicate balance policymakers must strike.

The Supreme Court has yet to decide on the PIL, but recent events highlight the importance of the question raised: Where should the line between market efficiency and consumer protection lie? And can one rule apply to all situations? Perhaps not. This line may depend on specific circumstances—with a fine balance struck between market growth and passenger benefits.

These are the author's personal views.

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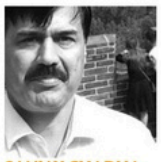
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THEIR VIEW

India's trade agreements should have a sunset clause: Here's why

Our deals must enable periodic reviews on the basis of data to keep up with evolving trade dynamics and competitive edges



SANJAY CHADHA
is former additional secretary and lead negotiator for bilateral agreements with the US, Canada, Japan and Korea, ministry of commerce.

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Even as we are engaged in protracted negotiations with the US to sew up a trade deal, India has gone ahead with much agility to sign several others. In recent months, New Delhi has concluded deals with Australia and the UAE, apart from a long-awaited pact with the UK, and announced progress on trade agreements with New Zealand and the EU. This momentum reflects its intent of deeper integration with global markets and trusted partners. It makes eminent economic sense. India needs export opportunities, technology inflows, supply-chain openings and strategic diversification. Nevertheless, as our trade pacts multiply, it is worth pausing to examine if the terms of our agreements are resilient in a world that is witnessing unprecedented upheavals, from an upturned trade order to geopolitical turmoil.

An important development in recent times is the US's evolving stance on trade with its largest trade partners, Mexico and Canada. Without formally abandoning existing arrangements, the message from the White House is blunt: trade agreements are conditional, not permanent. Should domestic priorities change, deals will be revisited. So US trade pacts are transforming from one-time settlements into living instruments. For example, the US-Mexico-Canada Agreement (USMCA) of 2018, which replaced the NAFTA that had operated for 25 years, is reviewable.

This draws attention to traditional trade agreements between countries that have no expiry date or reset provision inked in and holds an important lesson for India. Going forward, we should craft trade accords that do not assume permanence and have expiry or review clauses. In an era of fast-moving technology, geopolitical shocks and constantly reshaped supply chains, rigidity does not necessarily portend stability. It could turn hard-earned competitive edges blunt by locking in yesterday's efficiencies while tomorrow's technologies and market structures race ahead.

Legacy agreements provide an instructive benchmark. Take the case of the World Trade Organization's (WTO) Information Technology Agreement (ITA-1) of 1996. India signed up in 1997 and it served India's economic interests well for a while. Eliminating tariffs on computers and IT components dramatically lowered costs, enabling faster growth in our fledgling software and IT services sector. Cheap hardware supported offshore delivery models and helped Indian firms scale globally. Few policy decisions have paid such visible dividends. The agreement built for the 1990s, however, didn't keep pace with the global technological changes. Here's why.

Over the next two decades, the electronics sector gained strategic importance. Smartphones, semiconductors and embedded systems replaced desktop computers as the backbone of the global digital economy. Supply chains clustered across East Asia as these countries adopted aggressive policies to attract investments in electronics manufacturing. India, however, remained locked into zero tariffs across a broad range of electronic products since the ITA-1 had no sunset clause, mandatory review or mechanism for recalibration. What began as an enabler has developed branches that are burdensome. Our electronics manufacturing struggles to scale up and tariff-jumping investments have drifted elsewhere.

The problem was not the openness of that trade engagement, but its rigidity. A similar pattern is observed in several of the country's free trade agreements (FTAs).

India's trade agreement with Japan signed in 2011 has left the Indian side clamouring for a review following complaints by domestic industry. Over the last several years, India has consistently ended up with an annual trade deficit of a shade above $10 billion. The tariff preferences under this FTA have not translated into commensurate export growth for India due to structural inequities and rigid 'rules of origin' clauses. India has no cards to play here, since the agreement's re-opener clause is relatively weak: it is triggered only if both parties agree to revisit terms and our discomfort over the growing deficit does not qualify.

Our FTA signed with South Korea in 2010 offers further insight. In contrast with Japan, India did not provide Korea equally deep tariff concessions on many overlapping product 'lines' such as steel, chemicals and manufactured goods. This constrained Korea's preferential access relative to that enjoyed by Japan. Despite Korea's trade surplus, Seoul agreed to engage on a revision, largely driven by competitive pressure from Japanese imports in Indian markets—highlighting how external competitive dynamics pushed Korea to take Indian demands for renegotiations seriously.

Globally, the case of the USMCA that replaced NAFTA is instructive. Its terms include a 16-year sunset clause with mandatory reviews every six years. In other words, its continuation requires affirmative political consent among all parties. Far from destabilizing trade, this design enforces accountability. Problems can be addressed early, leverage is preserved and agreements remain sustainable.

Sunset clauses in trade deals are often portrayed as protectionist or disruptive by free-trade purists and some export-driven multinational lobbies. It can well be argued that they are instruments of good governance. They force governments to periodically justify their trade policy on the basis of evidence rather than ideology. They create predictable moments for course correction, instead of pushing countries into crisis-driven renegotiations.

For India, this matters immensely. Our economy is currently in the throes of a structural transformation. Industrial policy, digital regulation, climate standards and supply-chain strategies are evolving rapidly. Trade agreements must hence evolve alongside them.

As India signs its next generation of trade agreements, the real test will not be how quickly deals are concluded, but how well they age.

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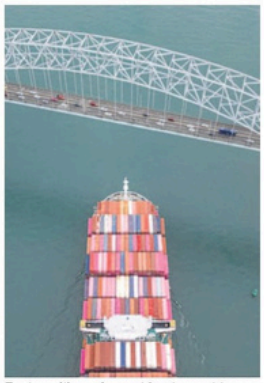
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The China shock may worsen but globalization will survive it

Trade remains Beijing's policy focus but others will learn to adapt



DANIEL MOSS
is a Bloomberg Opinion columnist covering Asian economies.



Trade resilience is good for the world even if China isn't easing its export thrust. AFP

The good news for China is its export machine is still very much a going concern. It might even be described as thriving, despite US tariffs. Just as well, given domestic conditions reveal an economy struggling for traction. Growth in the fourth quarter was the slackest since China's re-opening from covid in 2022.

Still, the trade surplus last year exceeded $1 trillion, a record sum that's rich with implications. Measured by China's unabated despatch of goods across the world, globalization hasn't been undone by the levies imposed by the White House. It keeps absorbing setbacks, as does the world economy. That's a relief given the host of dire predictions that accompanied the imposition of duties last April.

US President Donald Trump, however, keeps testing the system's durability. Over the weekend, he pledged tariffs against European nations that oppose his insistence that he acquire Greenland one way or another from Denmark.

Few have escaped Trump 2.0 completely unscathed. While trade will expand this year, it's projected to do so at a slower clip. And patterns are evolving, some of them in ways bound to create new dislocations. China's sales to the US plunged in December; America's share of total exports fell to a historic low of 11% last year. If the world's largest consumer market has waned considerably, where do all these products churned out by factories go? Shipments to Southeast Asia jumped 13%, to the EU by 8% and the UK by a similar magnitude.

That's encouraging on one level. We aren't enduring a repeat of the 1930s, when barriers went up almost everywhere. With the exception of China, few places have fought back against Washington. "This asymmetry matters," Alan Taylor, a professor at Columbia University and member of the Bank of England's interest-rate setting panel, said in a speech in Singapore last week. "Just as water finds a level, trade tends to find a way. If one path is blocked, arbitrage of goods and services will seek out the next best alternative."

This optimism comes with caveats. Large swathes of China's economy are suffering from deflation. The price of exports making their way to other destinations has fallen accordingly. Alternative markets like France and Germany propping up Beijing's model may find it all too tempting to start fighting back. Electric cars are vulnerable. The EU has applied tariffs, though is considering replacing them with minimum prices, a step that would ease tensions with China. Britain, for now, remains more open. BYD, the Shenzhen-based EV maker facing a tough domestic environment, posted a more than five-fold increase in sales to the UK in 2025.

The importance of demand abroad was underscored by a raft of figures released on Monday. China's GDP expanded 4.5% in the fourth quarter from a year earlier, retail sales disappointed and investment stumbled. The economy met President Xi Jinping's annual growth target of about 5%, but only just. Chinese authorities are still wary of launching the massive stimulus that other large economies confronting the same conditions would undertake.

So, China's export juggernaut still has primacy. Beijing is unlikely to countenance a major appreciation of the yuan even as the global appetite for the greenback has soured. The yuan did advance around 5% in the past year, though that was a far more modest appreciation than that recorded by the Malaysian ringgit, Thai baht and Singapore dollar. A plausible reason for holding back on juicing the domestic economy is that rate cuts tend to weigh on a currency. Many economists anticipate only an incremental easing this year, if any.

It's also important not to pin too much either on China or on Washington's policy. Offering consolation to his audience in Singapore, Taylor tried to step back from the current noise and look at globalization through a historical lens. Yes, government actions matter greatly. But so do technological breakthroughs. The cost and speed of moving freight has retreated in fits and starts since the middle of the 19th century. Nodding over his shoulder to the city-state's port—one of the world's busiest—Taylor spoke of the changes bracketed by the arrival of the first mail steamship in Singapore, the *Lady Mary Wood*, in 1845, and the 2019 docking of the *MSC Isabella*, the largest ever container vessel.

The intervening years had their share of retrograde developments, not to mention the tragedy of two world wars and countless regional conflagrations. At times, the greatest minds had reason to doubt that commerce could ever recover its pre-1913 vibrancy. For now, the resilience of trade is one big thing the world economy has in its favour. May the price of this China shock not become too high. ©BLOOMBERG

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MY VIEW | FARM TRUTHS

India needs long-term solutions to address its inequality problem

Cash transfers are expedient but we must intervene strongly in the labour market to fix distortions



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The G-20 presidency of South Africa ended last November with the release of a report on global inequality. It was authored by a G-20 committee of independent experts chaired by Nobel Prize winner Joseph Stiglitz and called for a coordinated effort by countries to reduce inequality in all its dimensions. It suggested the setting up of an international panel on inequality similar to the Intergovernmental Panel on Climate Change.

The report is important, given the rise in inequality across countries, rich as well as developing. The issue is no longer an isolated phenomenon restricted to some countries in the Global South. Most governments elsewhere too are concerned by the extent of inequality and its rise, given how it has fuelled discontent among population groups that feel excluded from the growth process and also led to youth unrest in some cases. Recent violence in our own neighbourhood, be it in Nepal or Bangladesh, is a reminder of anger among the youth against a status-quoist approach taken by governments.

Most people assume that inequality is not an issue since there are hardly any protests that arise specifically against it. That may be true. However, it is also true that most protests on issues of corruption, unemployment, inflation and so on also have an element of discontent against inequality. Demands by caste groups for reservations are protests against inequality, for example, and so are farmer agitations for remunerative crop prices and protection from price fluctuations. Protests demanding basic rights for women and those for equal treatment irrespective of caste, region and religion also reflect unequal underlying conditions that deny some groups basic rights while the privileged bask in their privileges.

Some inequalities are structural and even historical to an extent, given their deep-rooted existence in society. Yet, every process of growth creates winners and losers. Economic processes magnify these inequalities and it is here that the role of the state is important. The state is not just supposed to provide a level playing field to all its citizens, but also create regulatory structures that restrain any rise in inequality driven by such economic processes.

Some measures are guaranteed by India's Constitution, which provides for affirmative-action relief in the form of a reservation policy to assure citizens a level playing field. But it is silent on the state's role in regulating excessive concentration of wealth or income, although this does find mention in the fundamental duties of the state. Governments at the Centre and in states have also used redistribution as a tool to reduce inequality. But there is concern over administrations resorting to freebies, which are only increasing in form and magnitude. The recent push for cash transfers to women, youth and other groups is an acknowledgement of growing inequality and the consequent marginalization of some population groups. It is also a recognition of the need to redistribute income, even if it results in political competition for cash transfer generosity.

Clearly, fiscal policies involving subsidies and taxation play an important role and their use has been rising in India over the years as a tool to reduce inequality. While such redistributive transfers certainly help, they come at a fiscal cost that causes other harms. Like the Centre, most state governments are now feeling the pressure of these fiscal transfers. In some cases, it has resulted in a reduction in spending on essential services such as health, education and nutrition. The net result may be rising inequality in access to critical services, which would be counterproductive.

State intervention by way of fiscal policy can be helpful when taxation is progressive. Unfortunately, the last few Union budgets have seen large tax giveaways to India's middle class and corporations, an approach that has ironically failed to deliver on economic growth while making it harder to reduce income inequality.

For governments, redistributive transfers are an easy way to respond to rising inequality. These are tangible and visible, yielding political dividends in the short run. No doubt, they are even necessary at times. But such efforts are no substitute for the core measures that governments must take to reduce inequality, which requires intervention in labour and capital markets. Since it is distortions here that widen inequality, we need substantive efforts to curb unfair market practices. For a long-term solution to our problem of inequality, we need to intervene especially strongly in India's labour market.

QUICK READ

Inequality is no longer just a Global South issue. It now affects even the developed world, as evident from a G-20 expert panel's report calling for a coordinated effort to combat it.

Cash transfers are becoming popular but these offer only temporary relief. We need intervention in India's markets for labour and capital to tackle inequality-worsening distortions.

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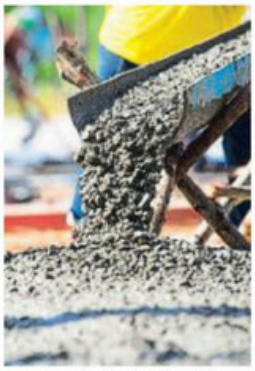
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Cement has hit a wall and this should help contain emissions

China's construction slump could end up doing the world a favour



DAVID FICKLING
is a Bloomberg Opinion columnist covering climate change and energy.



Cement remains a hard-to-abate industry as far as carbon emissions go. ISTOCKPHOTO

What's the most important commodity for modern civilization? There's a good argument that it's not the ones we think about—oil, gas, copper, iron ore, gold—but something that's ubiquitous and rarely grabs the attention of financial markets: concrete.

After water, it's the substance we use most abundantly, with between 25 billion and 30 billion tonnes poured annually. That's roughly three times as much as all the coal we dig up. It's also a major contributor to the world's carbon footprint. Cement—the crucial mineral glue that holds concrete together—accounts for roughly 8% of our annual emissions.

Something striking is happening right now, however. After decades of growth, cement consumption has hit a wall. On current trends, we may never return to the peak 4.4 billion tonnes that was produced in 2021, even as India, Southeast Asia and Africa continue to industrialize and urbanize. China has driven the global cement market for three decades and still accounts for nearly half of all output. But its boom is now well and truly over, with further falls ahead. Its output has slumped almost 30% since 2020, according to data released on Monday, and credit-rating agency CSCI Pengyuan expects it will decline for the sixth year in a row in 2026. Prices are around their lowest levels in a decade and factories are saddled with more than twice the capacity they need. Despite regular predictions that the market is bottoming out, the floor area of newly-started commercial buildings through December, a key leading indicator, was the lowest since 2003. Yet, China is still producing nearly twice as much cement as it was back then.

If this was a one-time effect of China's housing crash, it might be expected to eventually correct itself. But cement doesn't work that way. With most commodities—such as energy, copper or plastics—consumption keeps growing as income rises, before hitting a plateau at developed-economy levels. Cement, however, drops off a cliff once a country industrializes. Per-capita cement emissions—a decent proxy for output—are about the same in the upper-income UK as they are in low-income Burkina Faso and Syria. Those in Albania and Cambodia are about three times what they are in the US.

Even by those standards, China's construction boom was extraordinarily cement-intensive. At its peak in 2014, the country was consuming about 1.8 tonnes per person annually, compared to 0.25 tonnes in the US. At current levels, it's still sitting at about 1.2 tonnes, higher than any other major economy barring Saudi Arabia, and four times the global average.

Where will this number head over the coming years? It's unlikely to fall quickly to the low levels seen in high-income countries. Infrastructure development is too important as a tool of Beijing's economic management for that to happen. China also has more high-rise buildings and earthquake-prone regions than Europe and North America, so it's natural that the entire economy is more cement-intensive. It's impossible to predict how much government stimulus will distort the picture in the medium- to long-term.

Still, a relatively modest decline in such a vast market would have an immense impact. If the annual drop in per-capita consumption slows from the average 6% over the past five years to 4% between now and 2030, China would still be left at nearly three times the levels found in seismically-active Japan. Output would fall by 20%, or about 350 million tonnes. No other country could come close to making up for such a monumental shortfall. Growth in the likes of Egypt, Indonesia, Turkey and Vietnam is likely to be on the order of five to 10 million tonnes apiece, rising to about 40 to 50 million tonnes from India.

This is good news, because our efforts to clean up cement's carbon footprint have been glacial. Each tonne of cement releases about 0.8 tonnes of carbon dioxide into the atmosphere—not much compared to metals and plastics, but huge when accounting for the sheer volume we produce. Technological fixes, by adding volcanic ash to the concrete mix, or waste materials from steel production and coal-fired power, are only likely to cut emissions by 5% to 10%.

Carbon capture and storage is a nice idea, but it's hardly ever been seen in the wild. The countries most likely to adopt such measures tend to be rich ones where concrete consumption is already in decline. They won't make more than a marginal difference to the big picture.

A plunge in consumption is likely to be our best bet of cleaning up this industry. Luckily, it's coming about through ineluctable processes of economic development and industrialization. Cement's best years are in the past and its future already seems to be crumbling. ©BLOOMBERG

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OUR VIEW



AFP

It's an odd time for the US to blow its trumpet

America might be using economic integration as a weapon, but as its fast-shrinking share of global economic output shows, it needs the rest of the world as much as the other way round

Over the past two days, leaders from three major Western powers—French President Emmanuel Macron, Canadian Prime Minister Mark Carney and US President Donald Trump—have spoken at the World Economic Forum at Davos, Switzerland. Their speeches are a study in contrast, a kind of requiem for the idea of a Western world-view. While both Macron and Carney called out the US, the latter more forcefully, the French leader offered a Eurocentric view. Carney's speech, in contrast, was far wider in its scope and appeal. Trump's view, in keeping with his record on 'America First' myopia, was not just US-scopic and full of swagger, but rife with imperialist overtones to boot. Almost palpable sighs of relief arose soon after, though. Europe, especially, may be tempted to breathe easy after he called off his threat of a Greenland grab by force as well as that of punitive tariffs for those openly resisting his Arctic plan. He attributed his step-back to a "framework of a future deal" within the Nato alliance over the island.

Critics of Trump might point to this about-turn as yet another example of Trump living up to his 'TACO' reputation in some market circles: 'Trump always chickens out.' But there is no space for complacency. The US leader has put the global economic order at risk of falling apart. The sooner the world unites against it, the better. As Carney put it, speaking at Davos a day before Trump, what the world is experiencing is a "rupture, not a transition... the end of a pleasant fiction and beginning of a harsh reality where geopolitics [among great powers is not subject to any constraints]." As Carney pointed out, other countries are not powerless. They have the capacity to build a "new order that embodies our values, such as respect for human rights, sustainable development, solidarity, sovereignty and the territorial integrity of various states." Though he spoke in the context of what he called "middle powers like Canada," it was amply clear from his message that it was aimed at the world at large.

The US might be using economic integration as a weapon and financial infrastructure for coercion, as Carney noted, but the reality is that the US is dependent on the rest of the world as well. Much of its ability to hold the rest of the world to ransom springs from the 'exorbitant privilege' that arises from the US dollar's global status as a reserve currency. This enables it to live way beyond its means, with its profligacy financed by the printing of dollar bills and issuance of low-rate IOUs in the form of Treasury bills for others to pile up. As of November 2025, foreign investors held about a third of all US Treasuries by value and almost 40% of this was by just five countries: Japan, the UK, China, Canada and Belgium. A drop in their appetite for US debt could turn the bond market 'yippy,' send US interest rates up and slow the American economy. Moreover, as China and India emerge as economic powerhouses in their own right, US hegemony over the global economy is sure to weaken. According to the International Monetary Fund's 2026 projections, the EU, China and India account for 42.3% of world GDP, up from 36.3% in 2000, with the US share down to just 14.5% from 20.4% in terms of purchasing power parity. The rest of the world is not as powerless as Trump seems to assume. We only need to heed Carney's wake-up call. And stand together.

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THEIR VIEW

AI is not UPI: Trying to apply the same model will doom progress

The template for India's most celebrated digital success won't work in a field that differs drastically



SRINATH SRIDHARAN & ANAND VENKATANARAYANAN
are, respectively, a corporate advisor and author of 'Family and Dhanda'; and a strategic security and digital policy researcher.

Within minutes of almost any policy discussion on digital technologies and artificial intelligence (AI) in India, one reference inevitably surfaces: UPI, or the Unified Payments Interface. It has become the default analogy, a governing metaphor and increasingly even a policy instinct. If a state-backed, no-fee payment system could unlock scale and low-cost innovation, the argument goes, why not replicate that model for AI?

This reasoning is flawed. The proposed analogy usually unfolds along familiar lines. AI development demands significant compute infrastructure—most notably high-end graphics processing units (GPUs), dominated today by Nvidia. These are scarce and largely unaffordable for Indian startups and research labs. Capital, therefore, is framed as the binding constraint. The solution, it is argued, is for the state to step in: procure GPUs at scale, create a shared compute pool and rent access at nominal cost. Remove capital as a barrier and innovation will follow—just as it did with UPI.

But AI is not a payment system and cannot be governed through a compulsory licensing regime. It is a complex, evolving global supply chain that has been in the making for decades. Unlike UPI, AI did not emerge through a linear process of state-led design followed by private adoption. AI evolved through intersecting layers of code, data, labour, frameworks and compute power—each progressing at different speeds. Capital alone did not determine outcomes, nor did scale or state backing.

Until recently, it was widely believed that training competitive models required access to tens of thousands of GPUs, effectively restricting serious AI development to a handful of capital-rich firms. That belief shaped global policy thinking, including sweeping semiconductor export controls imposed by the US on China. These controls were premised on the belief that AI could be placed under a form of compulsory licensing through chip access.

That assumption proved misplaced. While sanctions raised costs and altered pathways, they did not confer durable control. Chinese firms responded by re-configuring the supply chain—they sought sovereignty not merely over models, but over data, frameworks and silicon itself. Frameworks like PyTorch remained central, even as efforts accelerated to reduce dependence on Nvidia hardware through adapters and alternative chips such as Huawei's Ascend series. The supply chain adapted because it was neither shallow nor centralized.

This matters for India's AI policy debate. It demonstrates that even the most powerful state, acting with allies, cannot place AI under a compulsory regime. The reason is structural: AI's supply chain is both deep and broad. Compute is one input among many. Optimizing—or subsidizing—only that variable does not produce breakthroughs; it merely distorts incentives.

UPI, by contrast, worked precisely because the problem was narrow. Payments could be standardized. Interoperability could be mandated. Participation could be licensed. The institutional architecture—spanning the regulator, operating entities and the banking system—made this possible.

India's policy record shows a recurring tendency to identify 'national champions,' channel subsidies towards them and align regulatory and administrative resources to ensure their success. Over time, this creates a symbiotic relationship in which the boundary between state and firm blurs, even if formal separation remains intact.

Such an approach may be defensible in sectors characterized by stable technologies and scale-driven economics. In AI, it is far more problematic. Models succeed not because they are favoured, but because they are useful. When utility surges and commercial success follows, protected national champions face an uncomfortable reality: they are preferred at home, but struggle to compete abroad—the arena where AI competitiveness is ultimately revealed.

The response historically has been predictable. Firms either petition the state for mandates, restrictions or bans to sustain relevance or pivot away from frontier innovation into adjacent niches. The result is familiar: national champions become local heroes but globally irrelevant.

None of this is an argument for state withdrawal. Public investment in research, skills, data and access is essential. But AI sovereignty cannot be manufactured through administrative tools or central allocations. It emerges from participation in global supply chains, not insulation: from diffusion of capability, not concentration of control.

Compute availability is the most visible input, but also the easiest to misprice, misallocate and overemphasize. When access is centrally provisioned, incentives shift from problem selection to resource consumption, privileging entities adept at navigating committees over those with technical know-how. In a field where progress often comes from small teams pursuing unfashionable ideas with limited resources, such an approach biases the system against the kind of exploratory work that moves AI forward. AI is not UPI. Designing policy as though it were would be an expensive misreading of both.

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India's coal power generation looks unlikely to hit its target

Renewables are increasing but thermal plants are on a slow track



DAVID FICKLING
is a Bloomberg Opinion columnist covering climate change and energy.



Thermal power output in both China and India dropped last year. AP

Almost everywhere on the planet, the great surge of coal power that fuelled two centuries of industrialization is receding. In rich countries, consumption peaked two decades ago and has since fallen by about half. China managed to suck up every tonne that the developed world spurned since then, but that tide is now turning too. Coal-fired power there fell about 1% last year, despite a 5% jump in electricity usage.

As recently as 2024, the International Energy Agency (IEA) predicted Chinese coal demand would keep breaking records for the next three years. It now reckons it's heading into decline, and will lose 180 million tonnes through 2030—which is like closing all the coal power stations and blast furnaces in Japan.

There's one remaining bright spot—India. But even there, coal's defences are crumbling. Indian consumption will rise by about 200 million tonnes through 2030, according to the IEA, offsetting all the decline from China, much as China once offset the decline from rich countries. The government in New Delhi is promising to build 97 gigawatts (GW) of additional coal power by 2035, nearly 50% more than is currently in place. Expansions might keep going as late as 2047 under proposals currently being discussed.

There's just one problem with all this. One of the strongest arguments for coal's continued relevance in India in the face of cheaper, cleaner renewables—the relative ease with which it can be built—is looking badly out of date.

Take that proposed 97GW to be built over the next nine years. Just 35.5GW of the total has received financial sign-off so far, and of that only 16.3GW has actually broken ground. The remainder is stuck in regulatory, political or financing red tape. Some 22GW has been abandoned.

It's a similar picture with non-power uses, such as producing chemicals—a sector the government is trying to support with nearly $10 billion in subsidies. Talcher in the eastern state of Odisha was expected to be the country's first coal-gasification plant when completed in 2024. Instead, 11 years after it was announced, it's still only about two-thirds built.

How long does it take to construct a coal power plant in India? Based on the 24 facilities that have broken ground and have scheduled connection dates, it's about seven years between financial closure and first electron to the grid. To hit the government's 97GW target, that means another 60 gigawatts must get signed off in the next two years—equivalent to approving one new plant every 10 days.

That seems a stretch. Private capital has been wary of investing in an Indian economy that's heavily dependent on stimulus from a debt-laden state sector. Some 80% of coal plants under construction are government-owned.

It's unlikely that India's government will hit its targets on new coal, SBI Capital Markets wrote this month. Solar, by contrast, should easily install 50GW this year, SBI noted. That should put the country on track to meet Prime Minister Narendra Modi's promise that 500GW of clean power will be operating by 2030.

An India generating that much renewable energy won't even need additional coal plants. Current rates of clean power buildout on their own should be sufficient to cover about 97% of demand growth between now and 2030. Anything else can be met by increasing the operating rates of existing fossil generators, which are underutilized and unprofitable as a result.

We are already seeing what this will look like. Coal power fell by about 3% in India last year, according to the Centre for Research on Energy and Clean Air, a pro-energy transition group. Some 44% of this decline was caused by growing clean generation, with 36% attributed to unusually cool and wet weather and 20% from an economic slowdown. Last year represents the first time in half a century that coal-fired power generation in both China and India dropped simultaneously.

It's too early to get out the champagne. When you're trying to hit a peak in fossil-fuel consumption, each year is a fresh race. Power consumption in emerging economies is growing at a headlong pace, so renewables have to move at breakneck speed just to keep up. Eating into the market share of fossil fuels is even harder. Still, renewables are proving to be more nimble than the fossil-fired incumbents at actually getting new electrons flowing.

Almost all of the increase in global emissions over the past decade came from the electricity grids of Asia's two biggest economies.

Look past the cavalcade of headlines coming out of Washington and you can glimpse that mega-trend heading into reverse right now. ©BLOOMBERG

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MY VIEW | MUSING MACRO

Let's heed a warning from Davos on pollution in India

AJIT RANADE



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When Harvard Professor Gita Gopinath told a Davos audience that pollution costs India more dearly than tariffs, she wasn't being provocative. She was making a strictly economic point: pollution is a continuous tax on productivity, public finances and human capital—unlike tariffs, which are episodic and negotiable. Hence tackling pollution "on a war footing" should be a top national mission.

Days earlier, Indore—celebrated as India's 'cleanest city' year after year—was forced into a humiliating reckoning. At least eight people died after allegedly drinking contaminated water in one locality, while hundreds were hospitalized. The cause may have been a local civic failure: an ageing pipeline network, poor safeguards and ignored warning signs. But the deeper lesson is national. How can rankings of 'cleanliness' coexist with deaths from drinking water? The imagery was almost allegorical: residents queuing at tankers and bullhorn announcements warning against piped water while walls nearby still had slogans boasting of Indore's cleanliness.

If Davos was the global mirror, Indore was the domestic shock. These two remind us that pollution should be one of India's top developmental priorities, not as a niche 'environmental' concern, but as a public health emergency and growth constraint.

The most dangerous feature of air and water pollution is that they kill quietly. Their effects accumulate through everyday exposure, burdening normal life with chronic risks. A recent multi-city study reported that across 10 major Indian cities, about 33,627 deaths per year were attributable to short-term PM2.5 exposure above the World Health Organization's 24-hour guideline (15gm per cubic metre). The sting is that even cities that meet our national standard show significant mortality impact. The same study pointed out that large health gains can be made by improving the quality of even 'moderately polluted' air. This also means that complacency based on meeting Indian thresholds can be deadly.

This is where the familiar AQI debate misleads. The Air Quality Index is a communication tool: PM2.5 is a biological hazard. You can have 'acceptable' headline indices and still inflict damage through fine particulates. In Delhi, the toxicity is visible and therefore politically salient. But the crisis affects us across the country.

Pollution is a classic example of a negative externality. Private actions impose a high public cost. The poor are worst affected. The affluent respond by buying packaged water, installing RO systems and air purifiers, or by shifting consumption. The poor queue at tankers and borrow money for treatment, often pawning jewellery to pay hospital bills while waiting for promised reimbursements. Pollution punishes those with the least capacity to escape it.

A World Bank report's analysis notes several channels: low-income workers are more likely to work outdoors; low-income homes are likelier to be close to industrial plants, transport corridors and other sources of pollution; and as pollution rises, property values fall, reinforcing the concentration of poverty in the most exposed areas. So pollution doesn't just make people sick—it can harden inequality over time.

Tariffs matter but the harder negotiations we must pursue are within—over tackling a major health menace

This is not about 'trees versus jobs.' Framed this way, development projects can trump environmental hazards. We also have a peculiarly Indian phenomenon of *ex post facto* green clearances, despite the fact that polluted air and water destroy livelihoods, productivity and household savings.

Gopinath's point was that we must not obsess over tariffs while ignoring a health-and-productivity crisis. While local pollution is often visible, we don't see a sustained countrywide agitation. Perhaps the political economy and psychology can explain this. There seems widespread resignation to the problem, reinforced by a feeling of powerlessness. A weak or inconsistent government response can discourage mobilization and protests are often frowned upon. This is why we need a 'mission mode' approach. Action without a let-up.

An environmental burden is inseparable from social deprivation. India's insistence on climate justice is based on the fact that industrialized countries grew by burning cheap carbon for two centuries and are now linking trade with climate conditionalities. Yet, grievance cannot be an excuse for inaction at home. The Indore episode shows what happens when governance focuses on optics over public health systems and safety.

A pro-poor pollution agenda would first reduce pollution where it can deliver instant welfare gains: clean cooking fuels, electrified public transport, dust control at construction sites, waste burning, industrial compliance and reliable municipal water systems. Second, enforce the polluter-pays rule: do not penalize the poor commuter, street vendor or informal worker. Third, we must focus on data and measurement, stronger monitoring and institutions. And fourth, the national conversation must shift from episodic panic to continuous governance. Pollution makes news every November when Delhi chokes and fades by February. If India can run 'missions' for roads, toilets and more, it can run one for clean air and safe water.

Back to Gopinath. Yes, India should negotiate hard on tariffs, standards and carbon barriers. But it must also negotiate with itself—to stop accepting mass exposure as normal, stop confusing rankings with safety and stop letting the poorest pay for what they did the least to create.

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THEIR VIEW

Our pitch at Davos amid global flux: Reliable India is a safe bet

India has made a robust case for itself as a dependable partner for economic progress in a world gripped by uncertainty



CHANDRAJIT BANERJEE
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AFP



At a time when the world appears increasingly fragmented, anxious and unsure of its economic direction, India's presence at the World Economic Forum Annual Meeting 2026 in Davos carried a significance far beyond symbolism. As leaders and investors reshape supply chains for resilience and diversify trade links, they are directing capital allocations towards economies that offer stability, scale and policy predictability.

The mood this year was sombre at Davos, overshadowed by geopolitical tensions, trade fragmentation, the disruptive advance of artificial intelligence (AI) and a palpable fear that the rules-based global order is fraying. Amid all the uncertainty, India stood out as a stabilizing force and a shaper of the next phase of global growth.

Global interest has heightened in India's economic trajectory, innovation ecosystem and governance capabilities. The Confederation of Indian Industry (CII) led a strategically-coordinated campaign to present India as a reliable, resilient and reform-driven economy, fully aligned with the gathering's theme, 'A Spirit of Dialogue.' In a world marked by shrinking trust and rising unilateralism, dialogue anchored in credibility and delivery matters more than ever.

Amid the uncertainty, EU President Ursula von der Leyen's speech provided a silver lining. She announced that soon after the event, she would be visiting India and that India and the EU were on the cusp of signing a historic trade agreement, one that would create a market for 2 billion people, accounting for almost a quarter of global gross domestic product.

Canadian Prime Minister Mark Carney's statement that middle powers such as Canada are not powerless in the evolving global order and have the capacity to help shape a new international framework rooted in shared values evoked a positive response.

Discussions at Davos centred on global trade patterns that have revealed a high dependence on a limited set of regions for several essential commodities, particularly agricultural food crops. Disruptions along key shipping corridors such as the Black Sea, Red Sea, Suez Canal and Southeast Asian maritime routes could, therefore, rapidly translate into scarcity and inflation.

The contrast between the global mood and India's message could not be sharper. Broadly, Davos discussions reflected concerns over a crumbling world order, tensions between the US and its European allies, and anxieties around the impact of AI on jobs and productivity. Political overhangs have been unmistakable, with geopolitics looming over social-media interventions. Against this backdrop, India's narrative was refreshingly grounded: it was focused on solutions, scale and execution.

India made a high-impact start at Davos with thought-provoking discussions on technology and AI, sustainability and civil aviation-related matters led by Ashwini Vaishnaw, Union minister for electronics and information technology, railways and information and broadcasting, Pralhad Joshi, minister for new and renewable energy and consumer affairs, and Kinjarapu Rammohan Naidu, minister of civil aviation.

What emerged was heartening. India belongs firmly to the group of AI-ready nations, with steady progress across all five layers of AI architecture—applications, models, chips, infrastructure and energy. Crucially, India's AI strategy prioritizes real-world deployment and return on investment rather than an exclusive obsession with ever-larger models. This pragmatic, value-driven approach holds resonance at a time when many economies are struggling to translate AI's promise into broad-based productivity gains.

Sustainability is no longer a peripheral concern but a central driver of competitiveness, resilience and long-term growth. The defining question of this decade is not whether the world should transition, but how sustainability can be delivered at scale, with speed and in a manner that strengthens economies instead of weakening them. India's experience in balancing growth, inclusion and climate responsibility offers lessons for others.

This year marked one of CII's most substantive delegations to Davos, with over 100 participants spanning government, industry, startups, social enterprises and media, and more than 200 attendees overall. Three Union ministers led the Centre's delegation, underscoring the seriousness with which India views this global platform.

States too were well represented. Six chief ministers, representing Maharashtra, Andhra Pradesh, Assam, Madhya Pradesh, Telangana and Jharkhand, participated to woo investors.

Underlying all these engagements is a consistent theme: of a Reliable India. India stands at the intersection of trust, scale and innovation. Trust, rooted in stable democratic institutions and predictable policymaking; scale, enabled by a vast market and deep talent pool; and innovation, driven by digital public infrastructure and a flourishing technology ecosystem. While India is projected to become the world's third-largest national economy in a few years, sustained real GDP growth of 6–8% and nominal growth of 10–13%, supported by moderate inflation, positions it as one of the few major economies offering both stability and momentum.

At Davos, where nearly 3,000 participants from over 130 countries gathered to debate the future, India is no longer defined merely as an 'emerging economy.' It is becoming essential to the global economic order—poised to meet the world's future needs of talent, innovation and knowledge. In a fractured world searching for anchors, India offers something increasingly rare—credibility backed by capability, ambition tempered by pragmatism and growth aligned with inclusion.

In uncertain times, the world does not just need dialogue, it needs dependable partners. At Davos 2026, India made a compelling case that it is ready to be one of them.

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OUR VIEW

ISTOCKPHOTO



Don't get bedazzled by gold's latest price peak

Its dizzying uprun past $5,000 per ounce reflects a fear of the future as Trump rattles the world. Anxiety levels may change as responses emerge to the risk of a big financial rupture

The price of gold has scaled yet another historic peak, leaping above the mark of $5,000 per ounce to reach $5,100 on Monday. About a year ago, it was at $2,770, but experts now expect the yellow metal to go past $6,000 by the end of 2026. This surge can safely be pinned on the safe-haven effect of US President Donald Trump's erratic policies, which have eroded confidence in both the dollar's stability and its ability to retain its post-World War II crown as the anchor currency of global finance. However, there is such a thing as too much of a good thing, and once the real world becomes less volatile, some investors who fled regular assets like stocks and bonds could return, which could see the price of gold descend from these heights. In other words, gold is not a buy-and-forget-it store of value, despite its dizzying rise over the past year.

Gold was once the bedrock of global finance. Under the Bretton Woods system adopted in 1944, countries agreed to run currencies that were convertible into the US dollar and the US agreed to convert dollars presented by foreign governments and central banks into gold at a rate of $35 per ounce. This gave stability to exchange rates, but also gave the US a unique opportunity to run its mint to create money accepted around the world. An oversupply of dollars abroad, particularly in Europe, eventually forced the US to abandon its promise to convert dollars into gold. This was in the early 1970s. After that, most currencies began to float on global demand and supply, while some sought to peg theirs to the dollar. On its part, the International Monetary Fund created Special Drawing Rights to let countries borrow funds from it for forex payments, offering a cushion to those struggling to pay. Currency values reflect economic performance; they capture the demand for and supply of national currencies for trade and investment, internal price stability relative to other economies and also productivity changes. Ultimately, thus, a currency's exchange value is determined by macro management, rather than a hoard of forex reserves piled up to defend it in case of a sudden capital-flight crisis. The most trusted reserve currency has been the dollar. In 2011 and 2023, after credit rating agencies downgraded US debt a notch, its currency actually strengthened as panicky capital fled to the safety of US government bonds. However, Trump's rejection of the world's rules-based order of trade and security, coupled with his threat to the independence of America's central bank, the Fed, has shaken the globe's trust in the US dollar and Treasury bonds. At the start of 2020, over 60% of global forex reserves were held in dollars. That share had fallen to 56% by the end of 2025's third quarter. Granted, central banks have diversified their holdings and been buying bullion since the West's Great Recession, but that trend stands amplified. Last May, when Moody's notched down its rating of US bonds, capital fled the dollar, unlike in the past. Should a future Fed prove unable to tighten money supply in the face of US fiscal overruns, worse might follow.

If the price of gold also turns volatile at some point, as seems probable, investors and central banks may have to look farther afield. Perhaps they will raise their share of non-financial, non-bullion, non-commodity holdings, for which they'll need to deploy sophisticated tools of risk management. AI would help, of course.

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THEIR VIEW

It is time for Indian budgets to walk their climate talk

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Climate change has moved gradually onto India's economic agenda. Economic Surveys now devote full chapters to climate risk, budget speeches frame growth as green and India has formally estimated its climate finance needs at about $2.5 trillion by 2030. Yet, Union budgets for the past 10 years show a stubborn gap between recognition and resourcing.

Every budget season brings renewed climate promises, but allocation and implementation remains grossly inadequate. Even a generous count of solar subsidies, electric vehicle schemes, irrigation programmes and so on reveals that climate-related federal spending has reached perhaps 1.5% of GDP. The government's own estimate says it needs three times that amount.

The annual budget of the ministry of environment, forests and climate change, which hovers around ₹3,000 crore, is barely a footnote in total central expenditure of ₹48 trillion. The government spends 70 times more on defence and 170 times more on debt servicing. The climate has high salience in speeches but a low claim on actual spending.

More telling is how public money is spent. Budgetary funds favour mitigation, which includes renewables, electrification and efficiency, while adaptation remains marginal, fragmented and largely invisible. The ministry of new and renewable energy saw its budget jump from ₹7,563 crore to ₹19,100 crore in two years. Electric vehicles and solar installations have been driven by subsidies.

Preparing for climate impacts already underway remains orphaned. Heat stress, floods, water scarcity and crop losses are treated as episodic shocks rather than as predictable economic risks requiring sustained investment. A National Adaptation Fund formally exists, but receives just ₹100-300 crore yearly, which is often underspent. Set that against ₹10,000 crore plus in damages from a single major cyclone, or billions lost to heat stress reducing worker productivity.

The disparity isn't accidental. Mitigation, or reducing planet-warming emissions, attracts roughly three-quarters of climate-related spending. Adaptation gets the remainder, scattered and untracked. Flood protection money is part of disaster relief. Drought resilience hides in a rural employment scheme. Heat preparedness barely exists as a budget allocation head. A few states have filled this vacuum. Odisha now identifies ₹36,065 crore as climate-relevant, nearly half its total budget. Rajasthan published its first climate budget, estimated at ₹2.78 trillion. These exercises create accountability. The Centre has done neither.

This matters because budget choices shape ground realities. States bear most direct climate costs, whether they arise from crop failures and infrastructure damage or emergency responses and other needs. Yet, the Finance Commission formula for distributing Union tax revenues among states seems to ignore climate vulnerability. Odisha faces annual cyclones. Rajasthan battles desertification. The transfer formula treats this as irrelevant.

India has put a number to its climate needs but budgetary allocations remain grossly inadequate

Union budgets appear to assume private capital will bridge the gap. However, green bonds constitute less than 1% of government borrowing. Critically, private investment chases profits. Solar farms, for example, earn returns. In contrast, adaptation infrastructure—like cyclone shelters, heat-resistant public spaces and flood-resilient urban infrastructure—generates no private profit.

The result is a paradox. Climate risks are acknowledged as a threat to growth, yet climate spending is not treated as a growth-critical investment. Bridging this gap does not require fiscal recklessness. It needs fiscal clarity.

What would credible climate budgeting look like? *First*, the Centre needs to make climate spending visible. A formal climate budget statement, like the recent gender statement, would force a reckoning between ambition and allocation, and enable parliamentary scrutiny.

Second, adaptation must be treated as infrastructure. Protecting cities from floods, farms from droughts and workers from heat is as essential to long-term growth as highways or power plants. This means long-term public investment, not episodic relief. We need to finance it through capital budgets and long-term borrowing, not rely on year-to-year discretionary spending.

Third, climate priorities must shape how money is spent. Choices between grey infrastructure and nature-based solutions, between road expansion and public transport, and between fertilizer subsidies and soil resilience are actually climate calls.

Finally, we must reform federal transfers. Make climate vulnerability a Finance Commission criterion to ensure states bearing the highest climate costs receive appropriate central support. None of this requires a new bureaucracy. The tools of budget classification, capital expenditure frameworks and devolution formulas already exist.

For a decade, the climate has featured prominently in Economic Surveys and budget speeches. But money must match the rhetoric. Climate threats are not hypothetical. They are causing clear economic losses measurable in GDP terms.

India's climate challenge could steepen. A warming planet is already impacting productivity, inflation, public health and fiscal stability. The Union budget has mastered the climate vocabulary. It now needs to include climate economics by translating recognition into resources and aspiration into allocation. At stake is not just climate credibility, but how smoothly the economy emerges from here onwards.

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Killjoy censorship: Is political satire in Asia losing its punch?

Even oblique humour can risk a harsh response in Asian countries



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Humour cannot save a democracy but is good for its health. ISTOCKPHOTO

Politics in Asia is getting funnier, but the punchlines are falling flat. From Indonesia to India, young people grappling with economic uncertainty and shrinking trust in institutions are turning to satire to express their discontent. This disillusionment is taking place across the world, but in Asia the consequences for joking about power are often far more severe, ranging from intimidation and censorship to defamation cases and, in some instances, prison.

Satire has become a barometer of a deeper dysfunction in governance as traditional channels meant to hold elected officials accountable are breaking down. This risks normalizing political failure rather than finding avenues to correct it.

Indonesia offers a recent example of how political humour is being used to expose inequality in Southeast Asia's largest economy. Bobby Saputra, an influencer with over 2.5 million followers on TikTok and Instagram and millions of views on YouTube, pokes fun at nepotism and corruption in a country that is facing a weaker currency, slower growth and concerns over governance. His hilarious fictional billionaire character obliviously flaunts inherited wealth and entitlement, sore points for many citizens who are frustrated with a widening gap between the rich and poor.

The persona Bobby takes on in his videos is deliberately absurd and larger-than-life, but the comments on his videos and his region-wide popularity reflect a sense of disenchantment with the *status quo*. Southeast Asian youth are highly concerned about corruption and economic insecurity, according to a recent survey by the Singapore-based ISEAS–Yusof Ishak Institute. But many are also sceptical that governments will address these issues—one reason for the surge of Gen-Z anger that spilled onto the streets in Indonesia and the Philippines last year.

When governance disappoints, the use of satire spreads, according to research on political humour across Asia. It offers both those who make the jokes and those who laugh at them a way to question power without confronting it head-on. Satire long predates modern politics and it has consistently served as a tool to question authority.

Having a finger on the pulse of society is key. In the Philippines, recent corruption cases involving the mismanagement of government funds earmarked for flooding have offered satirists ample content. One of the best-known entertainers, Michael V., used the news cycle to poke fun at high-profile individuals involved in the controversies. He told local media that it was a way to raise awareness of what's happening in the country.

The Philippines has a rich tradition of political humour. Being mocked used to be accepted as part of democratic life, but tolerance has narrowed. The 2012 Cybercrime Prevention Act imposed harsh penalties for online libel, making comedians vulnerable to legal pressure from politicians. Punishment can include heavy fines and prison sentences, although subsequent rulings have aimed to blunt the law's effects.

Biting satirical cartoons were a feature of the vibrant press culture in Hong Kong for decades, but that space has steadily shrunk since Beijing imposed the National Security Law in 2020. Three years later, Ming Pao, a leading Chinese-language newspaper, stopped publishing the work of veteran cartoonist Wong Kei-kwan—better known as Zunzi—after authorities complained.

In China, satirists routinely rely on puns, homophones and emojis to evade the scrutiny of officials. Even seemingly harmless jokes are treated as defiance against the regime, leading to even more creative ways of expressing discontent. Political humour in India is also under pressure. Comedians such as Kunal Kamra, Vir Das and others have faced police complaints, venue cancellations, suspended performances and online harassment over jokes aimed at leaders and institutions.

Humour can't save a democracy, but it is part of a healthy one. One reason to remain hopeful about the American political system is the fact that late night shows such as *Saturday Night Live* and *The Daily Show* continue to exist and draw huge audiences. Jimmy Kimmel returned to the air last September after his show was pulled following comments he made about the assassination of conservative activist Charlie Kirk.

The current political atmosphere might not be conducive to rebuilding a system where criticism can be voiced openly without fear of censorship or punishment. That doesn't mean we shouldn't aim for it anyway. Demands must continue for a judiciary that protects voters' rights and a media able to report freely. A sense of humour among the region's politicians would be a bonus.

Until then, jokes will remain a substitute for government accountability. And that is no laughing matter. ©BLOOMBERG

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GUEST VIEW

The India-EU deal opens up big opportunities for both

RAJIV MEMANI



is chairman and CEO, EY India.

Prime Minister Narendra Modi and his government deserve applause for concluding a landmark trade deal with the European Union (EU). The agreement negotiated over the last six months reflects maturity and avoids red lines for both sides while focusing on their complementarities.

The deal has rightly been characterized as the 'mother of all deals.' The EU is the world's second-largest economic bloc, with a GDP of $19.5 trillion; it imports goods from outside the bloc worth $3 trillion, accounts for 12.3% of global trade and has a population of 450 million. Together, India and the EU form a market of about $24 trillion with nearly two billion people. Indian businesses gain access to a market five times India's GDP, while European businesses can tap the fastest-growing large economy in the world. In addition to trade, the deal will help boost investments, create an innovation ecosystem and facilitate mobility of professionals.

When combined with the European Free Trade Association (EFTA) and UK trade deals, Indian businesses will now have preferential access to all of Europe. With the addition of the latest agreement, the combined GDP of India's trade-agreement partner countries would reach $36.3 trillion—over 33% of global GDP, a significant jump from the current 15%.

Once the deal comes into effect, 99% of India's exports to the EU will face lower or nil tariffs, aiding $33 billion worth of outward shipments from day one. Today, the EU is India's second-largest export destination, with exports of about $79 billion and imports of $57 billion. Meanwhile, India's share in EU imports is only 2.6%, as against China's 22%. For instance, the EU imports apparel and textiles worth nearly $14 billion annually. Of this, India's share is just over 3%, as against Bangladesh's 16.3% and Turkey's 8%. The elimination of a 12% customs duty provides significant potential for export growth.

Similar potential exists in other sectors such as leather and footwear ($40 billion of imports with an import duty of about 17%), gems and jewellery ($51 billion in imports and an import levy of about 4%), marine products ($29.5 billion, 26%), organic chemicals ($112 billion, 12.8%). India's share in these EU imports is low.

Beyond tariff liberalization, the deal includes measures that would enable Indian export businesses to comply with non-tariff requirements through streamlined customs and regulatory cooperation, which are especially relevant for sanitary, phytosanitary and technical trade barriers. This has been an area of concern for Indian exporters.

Both sides have also worked towards making the deal mutually beneficial. India will eliminate or reduce tariffs on 96.6% of EU merchandise exports by value. Tariffs on automobiles are proposed to be reduced over multiple years subject to quantitative quotas and value thresholds. Electric vehicles have been excluded, though. The quantitative limit—of 250,000 cars per annum—represents less than 6% of India's market, reflecting the government's pragmatic approach designed to protect the Indian auto industry while giving Indian consumers access to high technology automobiles. Similarly, the duty on wines would be cut from 150% to 20-30%. With respect to the Carbon Border Adjustment Mechanism (CBAM), an area of concern, the EU will provide India 'most favoured nation' status and set up a mechanism to recognize its carbon credits.

This pact lays the ground for deeper ties that could deliver win-win results in a diverse range of fields

India-EU services trade stands at $67 billion, comprising Indian exports of $38 billion and imports of $29 billion. The FTA secures expanded, commercially significant and predictable access across key EU sectors, including information technology (IT) and IT-enabled services, professional services, education, financial services and tourism, among others. This market access is supplemented by an agreement on mobility that covers short-term, temporary and business travel in both directions for intra-corporate transferees and business visitors.

While the EU has made no explicit investment commitment, investment flows into India are expected to rise. Indian manufacturing could become more competitive with access to low-cost inputs and technology from the EU. As mutual trust and familiarity grow, there will be opportunities for European businesses to service the Indian market and also increase their outsourcing to India as they diversify their supply chains. This would not just help promote 'Make in India' across the world, but also lead to quality improvements in Indian manufacturing.

Both India and the EU are keen on sovereignty in digital technologies like artificial intelligence (AI) and emerging areas like biotechnology and clean energy. India will associate with Europe's research and innovation programme 'Horizon Europe,' which would benefit Indian students, scientists and researchers. India-EU startup hubs are also proposed, which should give innovation a fillip and help close technology gaps.

Lastly, the deal establishes a framework for bilateral and social security agreements with EU member states over five years, thus relieving Indian professionals of dual social security payments. It will be ratified by the European Parliament after legal vetting by both sides and the European Commission's approval, and is expected to take effect in about a year. By concluding the deal, both sides have signalled openness in trade in an era marked by protectionism and laid the groundwork for a strategic relationship that creates economic opportunities.

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MY VIEW | CAFE ECONOMICS

The budget will offer clues to our game plan in a shaken-up world

The Centre's new debt-control strategy will be tested by a shifting set of spending priorities amid uncertain nominal growth



NIRANJAN RAJADHYAKSHA
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AFP

The world has changed dramatically since Nirmala Sitharaman presented the Union budget in February 2025. US President Donald Trump has taken a wrecking ball to the institutional edifice that—despite some obvious fractures—has provided a stable framework for economic activity around the world. The new edition of the budget that the finance minister will unveil this Sunday should thus be watched closely not only for its numbers. There may also be clues on how the government plans to help the Indian economy through uncharted waters in the years ahead. It will be about frameworks as well as figures.

First, the bean counting. Indian fiscal policy has gained credibility over the past five years for two reasons. The old habit of massaging the annual financial statement by either making unrealistic assumptions about revenues or parking government borrowings outside the budget has been done away with. And the government has generally managed to stick faithfully to the fiscal glide path that it committed itself to after the pandemic ended. This year will be no different. It is very likely that the finance minister will announce a fiscal deficit for 2025-26 somewhere close to 4.4% of gross domestic product (GDP), as she had budgeted for a year ago.

There have been bumps along the way. The most important one is that tax collections in the ongoing financial year are likely to be significantly lower than the ₹34.96 trillion (on a gross basis) and ₹28.37 trillion (on a net basis) assumed in the 2025-26 budget. Poor tax collections are themselves the result of a sharp deceleration in nominal GDP growth as well as reductions in the goods and services tax (GST) in the second half of the year. The upshot: The tax base has grown slower than expected, while tax rates have been reduced. Hence the lower revenues. Dividends paid to the government by the Reserve Bank of India (RBI) have been larger than budgeted: this will provide a financial cushion against lower tax collections, but some spending cuts will also be necessary to ensure that the fiscal deficit does not overshoot the target. The fiscal impulse—economist-speak for whether a government is adding demand to an economy or subtracting it—will continue to be mildly negative.

Budget analysis will now have to move to a new Holy Grail beyond the annual fiscal deficit target. A year ago, Sitharaman had signalled an important shift in Indian fiscal strategy when she said: "The fiscal consolidation path announced by me in 2021 has served our economy very well.... From 2026-27 onwards, our endeavour will be to keep the fiscal deficit each year such that the central government debt will be on a declining path as a percentage of GDP." The forthcoming budget will be the first one under this new strategy, in which the fiscal deficit is only an operating lever to achieve a lower ratio of public debt to GDP from the current 57% to around 50% by the end of financial year 2030-31.

Bringing down India's public debt burden over the next few years will depend on three variables: the primary balance in the government budget, the interest rates at which the government borrows and the rate of nominal GDP growth. The first variable is under the control of the government, the second is under the control of RBI and the third is not directly controlled by either. However, the last of these is perhaps the most important of the three and the success of the government's new fiscal strategy will depend on nominal GDP growth inching back into the double digits—i.e., two percentage points higher than its level estimated for 2025-26—either through faster growth in output or higher inflation or some combination of the two.

These are tricky times as countries around the world adjust to new geopolitical realities. India is committed to bringing down its public debt burden by keeping budgetary deficits under control. In other words, there is little fiscal firepower in store in case the global storm becomes a hurricane.

However, the government will still have to adjust its fiscal policy to meet new goals such as higher defence spending, building capacity for key intermediate goods such as semiconductors and establishing an Indian presence along the technology frontier in areas such as artificial intelligence and green energy. More traditional concerns, such as job creation, scaling up small enterprises, investing in urban growth and reviving the private-sector investment cycle, have not gone away either.

The Narendra Modi government did manage to ramp up infrastructure spending after the pandemic even as it brought down its fiscal deficit. The task ahead is an advanced version of what has happened earlier and will require a hard look at the components of government spending.

There are also two important external factors that will impact the government's budget over the next five years. *First*, the report of the 16th Finance Commission on how the tax kitty is to be divided between New Delhi and the states will be made public. *Second*, casting a long shadow over future budgets will be a decision on government salaries to be taken by the 8th Pay Commission in 2027. Both will matter.

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GUEST VIEW

We should pay special attention to round-the-clock renewables

The Centre must help states transition to green energy now that reliable supply is easier to secure



APARNA ROY & PARUL BAKSHI
are, respectively, fellow and lead; and fellow, climate change and energy, Observer Research Foundation.

As the Union budget approaches, India faces a defining choice in how it plans its energy future. Energy assessments indicate that electricity demand will expand by over 6% annually in the second half of this decade, driven by industrial growth, urbanization, data centres and the electrification of transport and buildings. This demand surge will test the capacity of states to deliver reliable and affordable power. In this context, the ambition of a developed India by 2047 depends not only on capacity addition, but also on how energy planning is embedded in state-level development strategies.

Clean energy has, therefore, become central to India's growth narrative. Yet, the spatial distribution of this transition is uneven. Renewable capacity additions, manufacturing investments and supply-chain ecosystems are clustered in a handful of renewable-rich states. Meanwhile, coal-dependent states, long the backbone of India's industrial economy, risk being marginalized in the next phase of growth.

The challenge is not abstract climate compliance. It is economic: limited diversification, mounting fiscal stress and declining investment attractiveness at a time when growth is becoming increasingly energy-intensive. Without policy recalibration, the energy transition risks widening regional disparities.

This raises a key question: Can India's clean-energy strategy be redesigned to place coal-dependent states at the centre of the next development cycle?

A budgetary push for renewable energy round-the-clock (RE-RTC)—reliable clean power delivered through solar, wind and storage—offers an answer. By addressing the old reliability constraint, RE-RTC enables three interlinked development dividends that the budget can reinforce.

The first dividend is accelerated and more inclusive state-level growth. Despite rapid capacity addition, industrial productivity, urban services and digital infrastructure remain tied to coal because standalone solar and wind cannot guarantee uninterrupted supply. RE-RTC changes this by delivering assured power without gaps.

Storage-backed renewables can be deployed within 2-3 years, far faster than the 6-7 years required for new coal capacity, allowing states to respond quickly to demand growth. By helping the grid maintain its balance and meet peak power demand, RE-RTC lets clean power function as a dependable input for manufacturing clusters, data centres, small firms and infrastructure projects.

Evidence of this growth dividend is already visible. According to Lok Sabha data, India's production-linked incentive (PLI) scheme for high-efficiency solar photovoltaic manufacturing had generated nearly 43,000 jobs by October. Gujarat accounts for more than half of this employment, illustrating how states that align industrial policy, infrastructure spending and renewable deployment are making clear gains.

The second dividend is financial resilience for states and electricity distribution companies (discoms). Both are under strain from rising procurement costs, legacy coal-based power purchase agreements (PPAs) and weak balance sheets. Yet, many continue to contract new coal capacity through long-term PPAs, locking in high fixed costs for decades. As renewable tariffs fall and system flexibility improves, such contracts heighten the risk of stranded assets and constrain fiscal space. Coal-based power is also increasingly exposed to fuel availability risks, logistical disruptions and water-stress risks that raise costs for states.

Battery energy storage system (BESS) costs, central to RTC supply, have fallen by over 80% in the past decade. Recent competitive bids have delivered effective tariffs in the ₹2.1-2.8-per-unit range, making storage-backed renewables increasingly competitive with new coal-based power. Strategic budget support can accelerate this shift while improving discom creditworthiness.

RTC deployment also strengthens states' ability to crowd in external capital. In 2025, Rajasthan led the country in fresh investment commitments, with a dominant share directed towards solar energy, followed by Maharashtra, Gujarat and Odisha.

The third dividend lies in public health and development outcomes. Poor air quality imposes economic costs through lost productivity, higher healthcare expenditure and reduced quality of life. Unlike partial renewable substitution, RE-RTC can displace coal generation across the day, delivering sustained air-quality improvements rather than episodic gains.

These benefits have direct fiscal relevance. Healthier workforces improve labour productivity and reduce public health expenditure, complementing budget investments in human capital. They also enhance urban liveability, a key factor for attracting investment and skilled talent to industrial regions.

As the budget approaches, choices around power procurement, storage and grid investment will shape how states plan for energy demand. States that do not adjust their energy strategies risk facing higher costs, tighter fiscal constraints and reduced investment. RE-RTC is not just a transition slogan, but a fiscally and economically sound pathway that aligns energy reliability with development priorities.

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OUR VIEW



State demography isn't destiny but still matters

RBI's latest study of state finances offers valuable insights. Indian states are at differen stages of their demographic transition and this will shape their finances and policy optio

For anyone interested in fiscal federalism, the Reserve Bank of India's (RBI) annual study of state finances is a treasure trove of information. This year's study, analysing state budgets of 2025-26, is no exception. First, the good news. The fiscal health of state governments is improving. True, their consolidated gross fiscal deficit rose to 3.3% of India's GDP in 2024-25, after staying below 3% during the previous three years. But this increase is mainly due to 50-year interest-free loans from the Centre under its special assistance scheme for capital investment. At the same time, the total outstanding liabilities of states declined from a peak of 31% of GDP at the end of 2020-21 to 28.1% at the end of 2023-24. The theme of this year's study, 'Demographic Transition in India—Implications for State Finances,' points out that Indian states are at different stages of a demographic transition. Inevitably, this has consequences for their finances and policies. Their old-age dependency ratio, or the elderly count as a proportion of their working-age population, varies from 14% in Bihar to 30% in Kerala. Fiscal deficits as a proportion of gross state domestic product (GSDP) also vary widely—from Arunachal's little over 8% to Gujarat's little less than 3%. This variation necessitates differential fiscal policy approaches, as suited to their respective age structures. It also poses entirely different fiscal challenges.

Youthful states have a wider window of opportunity, thanks to an expanding working-age population and stronger revenue mobilization—but only if they adopt a favourable policy environment, one that emphasizes quality education, skill training, healthcare facilities and job opportunities. In contrast, ageing states face a narrowing window—with fiscal pressures arising from shrinking tax bases and rising committed expenditure; this calls for greater revenue-raising capacity and reforms in healt care, pension and workforce policies. What th study does not talk about is the fallout of this divergence in demographic profiles on intern migration and the resultant social tensions between locals and migrants from populous states in search of jobs. Understandably, it is also silent on another aspect of differing dem graphic paths: its implications for political representation after the 2027 Census is done.

The study's focus on the demography of Indian states in the context of their finances is important for another reason. It provides the context for a clear-headed analysis of recommendations of the 16th Finance Commission (FC) once they are made public. Under the Constitution's Seventh Schedule, the sharing of expenditure responsibilities between the Union and state governments is clearly laid ou in its Union and State lists. On the revenue sid however, it is the awards of FCs—made every half decade—that determine how revenues ar split between the Union and states. So far, 'po ulation' has been used by all FCs as one of the criteria for the sharing pattern among states. This will probably find place in the 16th FC's report as well; its rationale is that a state's pop lation has a direct bearing on the money it mu spend on economic, social and general servic But this has often been a source of tension between states that are further down in their demographic transition and those that are no Hopefully, our need for differential policies to deal with varying trajectories, as the RBI study finds, will result in a better-informed debate o what the 16th FC recommends.

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MY VIEW | MYTHS AND MANTRAS

Does the budget have room for greater spending and tax relief?

Tax collections lag estimates even as vital sectors call for bigger fiscal allocations and concessions



DEVINA MEHRA
is founder of First Global and author of 'Money, Myths and Mantras: The Ultimate Investment Guide'. Her X handle is @devinamehra

On the surface, India appears to have the ultimate Goldilocks economy: one of the highest GDP growth rates in the world with historically low inflation—exactly what any government would want. In theory, this should give the government tremendous flexibility and room in the upcoming budget. However, drill down a little deeper and gaps begin to appear that will result in some furrowed brows.

As per the statistics ministry's first advance estimates for 2025-26, India's real GDP is estimated to grow at 7.4%, which makes India arguably the world's fastest growing major economy. However, nominal GDP, or GDP in current rupee terms, is projected to grow only 8%. This is against a two-decade average of approximately 12%.

While the headline GDP number talked about is always the real growth rate (GDP at constant prices), most concrete and measurable numbers in the economy, from corporate profits to tax collections, are tied to nominal GDP growth. As mentioned above, this has been anaemic at 8%.

When the budget was presented last year, the nominal GDP growth rate was estimated at 10% plus. Based on this, corporate tax collections were budgeted to grow at 10.7% and GST at 10.9%. Surprisingly, and this is something I pointed out in this column at the time, in spite of hefty personal tax cuts, the mop-up from these taxes (or 'non-corporate tax' as per budget documents) was budgeted to grow at 14.4%. The only explanation I could come up with was that the finance ministry was expecting hefty inflows from capital market related taxes. The securities transaction tax (STT) was estimated to rise by 40%. As I had said then, "While the regulator may be talking against excess speculation, many including the government seem to be banking on it."

Now with a slowdown in nominal GDP as well as a weaker-than-expected performance of the stock market, tax collections have been running way below the budgeted numbers. In spite of giving substantially lower refunds, even total net tax collections have grown only 8% from April 2025 to 11 January 2026, versus the 11% budgeted. If this trend continues for the rest of the months of this fiscal year, there will be a shortfall of over ₹1.3 trillion in tax collections against the budgeted number.

Meanwhile every participant in the Indian economy has given a wish list to the government, which typically includes either some tax concession or increased government spending in their area. In reality, the government has very little leeway for tax cuts or increased spending. Given the sluggish tax collections, there is simply no room available for concessions, unless it lets the fiscal deficit balloon. The latter may not be a palatable option.

The other thing to remember is that for the last few years, Indian GDP growth has been mainly dependent on government spending. Capital expenditure by the government has gone up nearly five times in the past decade. Of course, as this newspaper pointed out a few days ago, not all of it has been productive. For instance, while an airport has been built every 50 days for the last few years, many of these are unutilized or under-utilized: 15 new airports are unutilized and nearly 50 have less than five flights a day. Hence, I am sure there is scope for some cutting in government expenditure, but it will nevertheless have a sobering impact on GDP growth.

And since it is budget season, there are always questions about my wish list. Unlike most others in my business, my list typically does not centre around the corporate world or capital markets. To my mind, the priorities the government should focus on are education, health, employment and research. These are not glamorous and the results don't show up in a single year. But spending on these heads compounds over time. These are the building blocks for a great country and economy.

For instance, India spends only 3% to 4% of its GDP on education. The target of 6% is still a long way off and rare is the budget whose education spend is even in line with nominal GDP growth. For perspective, China spends 6% plus and given that its GDP is roughly five times ours, the amount is seven-and-a-half times ours.

Now for health. As per survey data and research studies, India has the highest number of undernourished and anaemic children in the world, with about one-third being underweight and more than two-thirds being anaemic.

Even if our focus is solely on economic growth rather than society, remember education and health are the building blocks needed for us to have people who are employable. Our demographic dividend can give us returns if and only if we find jobs for our young people, which in turn means that they must have education and skills. Not to forget that this bulge of working-age Indians is available only for a limited period of time before India's population plateaus and then begins to decline.

Research is where we went above and beyond in the early years of the Republic, but have now fallen far behind with only 0.6% of GDP being spent on R&D. China spends 25 times the amount we do on research. In a fast-changing world, we need more emphasis and spending on this. The finance minister sure faces a tough ask this time.

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GUEST VIEW

How India can sustain its growth amid dramatic structural breaks

The Economic Survey delves into key challenges facing our economy as we confront unprecedented and shifting conditions



V. ANANTHA NAGESWARAN
is chief economic advisor to the Government of India



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The *Economic Survey* for 2025-26, being released on 29 January, comes at an extraordinary time for the world. Global politics is in flux. Most agree that the world order they were comfortable with is no longer relevant. Beyond that, agreement ends. There is little clarity on what might replace it, or whether such clarity will emerge gradually or through a catalytic—or even cathartic—event.

Meanwhile, India has been patient, absorbing the pressure and quietly going about its goal of economic transformation, lifting aspirations and delivering on them. This is the backdrop in brief for the *Economic Survey*.

This fiscal year has been another good one for economic growth and macroeconomic stability. As of now, estimated growth in real terms is 7.4%. India has sustained growth since the pandemic and has roughly halved the Union government's fiscal deficit as a proportion to gross domestic product—based on the projected 2025-26 budget deficit announced in February 2025—even while significantly ramping up public infrastructure investment. In other words, deficit reduction has been accompanied by an improvement in the quality of fiscal expenditure.

Fiscal prudence, conservatism and economic growth earned the country three credit-rating upgrades last year. India looks set to build on this record and enjoy a longer period of non-inflationary growth that has eluded it in previous cycles. That the banking sector is healthy and capital markets remain enthusiastic about funding startups are additional support factors. The geopolitical environment, however, guarantees a rough ride.

Since the beginning of 2025, the price of one dollar in Indian rupees has gone up by more than 6%. Over this shorter horizon, several other emerging-market currencies have performed better. However, when the frame is widened to a six-year window beginning February 2020, most major emerging-market currencies, including the Indian rupee, have weakened against the dollar by a similar magnitude. Countries that run current account deficits are inherently vulnerable during periods of geopolitical discontinuity, as cross-border capital flows become sensitive to political signals. Money is no longer neutral.

Countries that have built a strong manufacturing base, export manufactured goods and run external surpluses have enjoyed strong and stable currencies in the post-Bretton Woods era. But they did so at a time when the climate was not a pressing concern and energy-transition considerations were distant. They were also not required to reckon with a hyper-competitive manufacturing powerhouse like China, which posted a trade surplus exceeding $1 trillion in 2025.

At the same time, manufactured goods and primary as well as intermediate inputs have become part of the strategic balancing that countries engage in. As a result, indigenization has acquired an urgency that did not exist even half-a-decade ago. Further, rapid advances in artificial intelligence over the last year have raised new questions for a nation that needs to generate at least 8 million jobs annually.

These themes frame the issues that the *Economic Survey* for 2025-26 wrestles with. In addition, the questions that it attempts to answer include: Has India done enough to lift its growth rate and sustain it? How should India go about pursuing the twin imperatives of indigenization and enhancing export competitiveness? How does one achieve a structural reduction in the cost of capital, which is an important input cost?

The state has to organize and equip itself differently than before to respond to these questions and deliver on development in the backdrop of an unprecedented global environment.

Generally, analyses in the public domain focus on the role of public policy in addressing national priorities. Democratic governments indeed have a large share of responsibility in shaping the vision and guiding its realization. But nation-building is a collective endeavour. Wealthier nations did not reach their present position on the strength of the state alone: corporate leadership also played a role that extended beyond narrow balance-sheet considerations. Can, and will. India's private sector leadership rise to the occasion?

While it is generally true that leaders inspire people, the converse is equally true and possible. Citizens have an important role in the nation's progress. Each takes a cue from the other. The trade-off between instant and delayed gratification matters in individual and public affairs.

The choices people make about the food they eat, the data they consume, the respect they accord public goods and the fiscal support they expect from the government dictate the policy choices the government makes. These expectations and their fulfilment, or lack thereof, influence not only the nation's short-term growth trajectory, but also its long-term prospects.

The *Economic Survey* aims to inform the public about the state of the economy and stimulate discussion on the issues confronting both the governed and the governing, the paths that lie ahead and the ones they must decide to tread. Given the depth and breadth of topics to be covered, the *Economic Survey* this time is longer than usual. It is also organized differently from previous editions.

India offers unparalleled scope for policymakers, students, teachers and practitioners to contribute to and learn from its exciting growth prospects. We hope that the latest edition of the *Economic Survey* will serve as both a milestone and signpost in this journey.

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GUEST VIEW

After the applause: Now for the EU pact's real challenge

SHISHIR PRIYADARSHI



is president, Chintan Research Foundation, and former director, World Trade Organization.

Trade agreements are usually judged on the very day they are announced, even though their legal finalization and ratification can stretch on for months. Markets react, officials celebrate and headlines proclaim new eras of partnership long before the hard work begins. The same goes for the India-EU free trade agreement (FTA), labelled the "mother of all deals," now that leaders have announced the successful conclusion of negotiations. The enthusiasm is understandable. The pact is economically weighty. It reportedly envisages phased tariff reductions across a large share of bilateral goods trade, frameworks for regulatory cooperation, disciplines on sustainability and supply-chain resilience and standing institutional mechanisms to manage standards and technical barriers. For India, it promises improved access to a high-income market for pharmaceuticals, engineering goods, automotive components, textiles and apparel, processed foods and specialty chemicals—sectors where EU demand is large but regulatory thresholds exacting.

For the EU, the deal opens wider opportunities for automobile and auto-component makers, renewable-energy developers, wines and spirits producers, machinery firms, luxury brands and infrastructure operators seeking scale in a fast-growing market. Linking two blocs that together account for roughly a quarter of global output, it is among the most consequential bilateral trade initiatives of recent years.

Yet, attention will soon shift from celebratory communiqués to administrative reality. The history of trade diplomacy is sobering: many FTAs hailed as transformative delivered far less than promised because implementation lagged ambition. If India and the EU want this pact to be an engine of durable integration, they will have to treat execution as a strategic project in its own right.

Few agreements will be more technically demanding. The EU has the world's most sophisticated regulatory framework, with dense rules covering chemicals, food safety, data protection, carbon accounting, sustainability reporting, labour processes and product liability. India, on its part, is a continental-scale market with multiple regulatory layers across central ministries, state governments, port authorities, customs zones and sectoral regulators. Bridging these systems will take more than just parliamentary approval.

For Indian exporters, the biggest hurdles will often lie not in tariffs, but in conformity assessments, certification timelines, traceability requirements and documentation standards. EU companies expanding or investing in India face a mirror image: land acquisition rules, sub-national regulations, environmental clearances, tax administration, etc. If such frictions persist, preferential tariffs will only partially offset them.

What separates successful trade partnerships from mediocre ones is the institutional machinery that follows signature. Several priorities stand out. We will need infrastructure related to standards: testing labs, accreditation bodies and certification agencies. Rules of origin will be another critical area. If compliance is too burdensome, firms will not use preferences.

Sustainability rules, carbon-border measures, data governance and chemicals regulation evolve continuously. Joint working groups that keep pace with these shifts will determine whether firms adapt smoothly or confront disruptions. Finally, there will be trade frictions. But these must be resolved through technical consultations between regulators and not via arbitration panels.

Attention must now turn to the economic governance and implementation of the India-EU free trade deal

Industry, too, has homework to do. Indian firms must upgrade compliance systems, invest in traceability, adopt digital documentation and treat regulatory excellence as a competitive asset rather than an imposition. Large businesses may manage this readily, but smaller exporters may struggle unless supported by export-promotion councils, chambers of commerce and public schemes.

How the pact is executed will shape perceptions of India's wider trade strategy. After years of caution, New Delhi has shown an inclination to open its market, albeit in phases. If this deal delivers visible export growth, investment inflows and supply-chain integration, it will strengthen the case for further liberalization through other deals. If not, scepticism will return quickly.

Whether Indian pharma and textile firms gain durable footholds in Europe, whether engineering exporters plug into continental supply chains and whether European clean-energy companies, machinery producers and automakers translate market opening into long-term investment in India will not be decided by the FTA. It will be determined in certification laboratories, port terminals, regulatory offices, state secretariats and corporate compliance departments.

The stakes for Europe are equally high. Brussels increasingly views trade agreements as a way to diversify partners, secure clean-energy supply chains and embed sustainability norms abroad. That agenda cannot be realized through legal texts alone: it demands years of technocratic engagement.

The India-EU FTA now enters its harder phase. Success will be measured in shipment volumes, clearance times, investment decisions and factory expansions. If both sides treat implementation as secondary to diplomacy, the deal will underperform. But if they treat it as a flagship economic-governance project, it could become one of the most consequential trade partnerships of this decade. The applause will soon subside. That is when the real work must begin.

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OUR VIEW

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India-EU trade accord: What to watch out for

While the FTA holds promise, three aspects will determine its performance: manufacturing, mobility and non-tariff barriers. But before that, the deal must leap through multiple hoops

India's recently concluded free trade agreement (FTA) with the EU, almost two decades in the making, has injected fresh energy into the country's geo-economics. It offers strategists on both sides greater latitude to pursue higher economic and perhaps even geopolitical ambitions. In a best-case scenario, it could act as a bulwark against global hegemony sought to be exercised by a third party. While the FTA is more symbolic than an economic reality at this point, it has three critical aspects that will determine its performance: manufacturing, mobility and non-tariff barriers. The first is a no-brainer: the deal is visibly designed to boost the factory sector in both economies. India's enduring concern has been to safeguard its sprawling base of labour-intensive manufacturing, any threat to which could have a wider fallout: lower EU import duties on Indian apparel, textiles, footwear, etc, could well give this segment a leg-up. Broadly, though, making the most of easier EU-market access would need our manufacturers to sharpen their competitive edge and get past a maze of restrictive entry rules. India's tariff relief has nicely been calibrated in highly guarded sectors for gradual exposure of local players to European competition (with a low-duty quota for high-end vehicle imports, for example). By and large, a wider opening of our market to EU machinery, electrical equipment, aircraft and other items is a nod to Brussels' need to keep factories humming. In case either side has second thoughts, the FTA allows a general review five years after it goes into force.

An interesting part of this agreement is its mobility pact, which promises freer EU entry for Indian workers and students. The latter stand to gain the most, given the US's harsh turn on immigration: the enrolment of Indian students in US universities over the peak season of August-September 2025 dropped by nearly 75%. Since state-run UK institutions charge foreign students higher fees to subsidize locals, the allure of EU universities would rise. Worker mobility, however, might be held back somewhat by local political sentiment. The missing link in mobility seems to be tourism. Indian tourists contribute significantly to the EU economy. Yet, Europe remains tightfisted with visas. Perhaps our negotiators should bring this up during the next stage of FTA talks.

For all the euphoria over the accord, three elephants still loom in the room. The first is the EU's carbon border adjustment mechanism (CBAM), a protectionist measure on which India only secured a promise of equal treatment as a trade partner on any leeway given. As for the levy, the CBAM can has been kicked down the road, with talks to be held later. The second is a more familiar non-tariff barrier: the EU's sanitary and phytosanitary rules that often keep our farm exports out. An EU fact-sheet states that all Indian agri-products must comply with these "very stringent, science-based" standards. The third and most daunting challenge lies in the 'last-mile' path of the deal. Within the EU, the FTA must now jump through four hoops. First, a stage of legal vetting, with text-revision proposals requiring India's approval. After this, the document moves to the European Council for its nod, before which it cannot be signed by the two parties. In the next stage, the European Parliament must ratify what's signed. This political body can pose its own hurdles, as seen in the recent EU-Mercosur deal. Till the India-EU FTA crosses this Rubicon, let's hold off all celebrations.

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MY VIEW | MYTHS AND MANTRAS

Does the budget have room for greater spending and tax relief?

Tax collections lag estimates even as vital sectors call for bigger fiscal allocations and concessions



DEVINA MEHRA
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As per the statistics ministry's first advance estimates for 2025-26, India's real GDP is estimated to grow at 7.4%, which makes India arguably the world's fastest growing major economy. However, nominal GDP, or GDP in current rupee terms, is projected to grow only 8%. This is against a two-decade average of approximately 12%.

While the headline GDP number talked about is always the real growth rate (GDP at constant prices), most concrete and measurable numbers in the economy, from corporate profits to tax collections, are tied to nominal GDP growth. As mentioned above, this has been anaemic at 8%.

When the budget was presented last year, the nominal GDP growth rate was estimated at 10% plus. Based on this, corporate tax collections were budgeted to grow at 10.7% and GST at 10.9%. Surprisingly, and this is something I pointed out in this column at the time, in spite of hefty personal tax cuts, the mop-up from these taxes (or 'non-corporate tax' as per budget documents) was budgeted to grow at 14.4%. The only explanation I could come up with was that the finance ministry was expecting hefty inflows from capital market related taxes. The securities transaction tax (STT) was estimated to rise by 40%. As I had said then, "While the regulator may be talking against excess speculation, many including the government seem to be banking on it."

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Meanwhile every participant in the Indian economy has given a wish list to the government, which typically includes either some tax concession or increased government spending in their area. In reality, the government has very little leeway for tax cuts or increased spending. Given the sluggish tax collections, there is simply no room available for concessions, unless it lets the fiscal deficit balloon. The latter may not be a palatable option.

The other thing to remember is that for the last few years, Indian GDP growth has been mainly dependent on government spending. Capital expenditure by the government has gone up nearly five times in the past decade. Of course, as this newspaper pointed out a few days ago, not all of it has been productive. For instance, while an airport has been built every 50 days for the last few years, many of these are unutilized or under-utilized: 15 new airports are unutilized and nearly 50 have less than five flights a day. Hence, I am sure there is scope for some cutting in government expenditure, but it will nevertheless have a sobering impact on GDP growth.

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For instance, India spends only 3% to 4% of its GDP on education. The target of 6% is still a long way off and rare is the budget whose education spend is even in line with nominal GDP growth. For perspective, China spends 6% plus and given that its GDP is roughly five times ours, the amount is seven-and-a-half times ours.

Now for health. As per survey data and research studies, India has the highest number of undernourished and anaemic children in the world, with about one-third being underweight and more than two-thirds being anaemic.

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MY VIEW | PEN DRIVE

What business leaders often don't grasp about loyalty

TULSI JAYAKUMAR



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There is a small puzzle I have been sitting with for some time. When I invite alumni to a flagship programme event—one meant to celebrate learning, community and shared journeys—it is not the most recent graduates who sign up first. Instead, registrations tend to come from those who attended classes many years ago. This is puzzling because, on the surface, everything points the other way. Faculty relationships with recent alumni are warm and conversations are ongoing. If loyalty were a simple function of proximity, they should be the first to respond. Yet, getting recent alumni onboard for such events often proves harder than engaging those who graduated a decade or more ago.

Over time, I have realized that this pattern has little to do with teaching and much more to do with how human beings relate to institutions, leaders and even one another once time enters the equation. Leaders often seem to assume that the most recently enrolled, such as fresh hires and newly onboarded customers, would be the most engaged, since the memory of their experience is vivid, relationships are still active and the value proposition seemingly needs no reinforcement. Behaviourally, the opposite tends to happen. When access feels easy and ongoing, people tell themselves 'not now.' There is no urgency when no loss is perceived. Older alumni, by contrast, experience distance. What was once routine now feels rare and returning to a familiar but no longer everyday space holds emotional weight, turning participation into an act of reconnection rather than continuation.

Business leaders encounter this pattern all the time, even if they do not consciously label it. Long-standing customers are often more responsive to renewal conversations than newly acquired ones. Similarly, former employees turn into stronger brand advocates a few years after they have moved on, while current employees remain ambivalent. In family businesses, it is not uncommon for elders to feel more emotionally attached to the enterprise once they step back, rather than when they were fully immersed in running it day-to-day. Time changes how value is perceived.

A common misunderstanding among leaders is the assumption that identity forms at the same pace as experience. People do not become 'alumni,' 'partners' or 'legacy carriers' the moment a programme ends or a role changes. Identity needs distance to crystallize. Recent graduates, much like newly appointed leaders or successors, are still focused on proving themselves. Their orientation is tied more closely to their immediate cohort or role than to the broader institution or its history. Older alumni have had more time to connect the dots. With distance, they can look back and see how early conversations and even mistakes quietly shaped later decisions. Things that once felt like course material begin to register as context and what once felt like hard work starts to feel truly formative.

QUICK READ

Should we expect the most recently enrolled customers or students to be the most deeply engaged? Experience does not bear this out but there's a behavioural explanation for it.

In a world obsessed with real-time metrics and instant feedback, we must remind ourselves that the deepest forms of loyalty often operate on significantly longer timelines.

Similarly, in organizations, it is only after leaders have moved through cycles of success and failure do they begin to appreciate the institutions, mentors and early structures that shaped them. Such appreciation begins to grow once the pressure to perform eases and the urgency to prove oneself recedes, with loyalty following much later.

Perhaps the most counterintuitive realization is that strong relationships can dull urgency. Maybe the old adage should be tweaked: familiarity breeds complacency. When access to a leader, an institution or a community feels guaranteed, people tell themselves there will be another chance. It is only once that access begins to feel finite that they act, echoing another well-worn truth that distance often makes the heart grow fonder.

This explains why former colleagues reconnect years later, why retired leaders suddenly become much sought after and why alumni return at a point when they no longer need anything in particular. This is really just human psychology at work.

For business leaders, the lesson is not to complain about delayed loyalty, but to plan for it. Engagement does not always show up immediately or on cue. Some relationships need space before they deepen; others reveal their strength only with time. Different stages also call for different invitations. Early on, people respond to opportunity and a sense of agency; later, they are drawn to meaning, legacy and a chance to give back. Creating moments that feel irreplaceable matters, because people tend to show up if they sense how special it is. And finally, we must resist reading absence as disengagement. Sometimes, it simply means the relationship is still unfolding.

When people return years later without any obligation or incentives, it tells us something important. The experience did not merely inform them; it stayed with them. In a world obsessed with real-time metrics and instant feedback, we must remind ourselves that the deepest forms of loyalty operate on longer timelines. For leaders, the real test is not who shows up right away, but who comes back when they no longer need to. That's when you discover what truly lasted.

These are the author's personal views.

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THEIR VIEW

Indo-Pacific: Invest heavily in naval power projection

HARSH V. PANT & KARTIK BOMMAKANTI



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America's National Defense Strategy (NDS) was released earlier this month. It came in the backdrop of the US National Security Strategy (NSS) and two key developments: America's capture of Venezuela's former leader Nicolás Maduro and his wife in January and US President Donald Trump's demand that Denmark surrender the autonomous island of Greenland to the US, for which this Arctic isle is said to hold national-security significance.

The NDS, which is meant to guide the US Pentagon, is not a major departure from the NSS in its emphasis on the defence of the Western hemisphere and securing the American homeland. This was visibly demonstrated by the capture of Maduro and Trump's incessant threats to take control of Greenland. Irrespective of the motivation behind Washington's decision to align the NDS with strong hemispheric defence, the NDS's narrowed view of US defence strategy globally is consistent with the NSS. Three aspects of the NDS stand out.

First, greater burden sharing among allies and partners to relieve the US of its role as the world's apex security provider. The NDS is quite blunt in stating that allies have become a burden for the US; it holds past administrations responsible for turning allies into "dependencies." As a corrective, the NDS makes clear that allies and partners must assume a greater burden of their own defence, especially in Europe against Russia. Beyond Europe, South Korea has been similarly exhorted—if not quite excoriated like Europe—to assume a greater burden of its defence against any North Korean attack. In West Asia too, allies and partners have been told to do more for their defence, with Iran viewed as the region's greatest threat.

The *second* key aspect of the NDS is its case for "peace through strength." This is at the core of the Trump administration's defence strategy in the Indo-Pacific. It finds further elaboration in the NDS. Fundamentally, "peace through strength" commits the US military to the defence of the First Island Chain (FIC)—a maritime boundary to contain China—through robust deterrence by 'denial,' which refers to denying an adversary the ability to meet its aims. Thus, the NDS seeks to incentivize allies to dedicate resources that will bolster collective security in the Indo-Pacific. Denial-based defence, as per the NDS, can deter aggression more effectively than threats of retaliation. It seeks to deter Beijing without engaging in outright confrontation. This suggests deference to Beijing, perhaps on account of its trade leverage over Washington.

Third, among the key goals of the NDS is to "supercharge" America's Defence Industrial Base (DIB) so as to consolidate US military power. This commitment to augment and mobilize national resources and bolster the DIB is not new. Previous administrations have done so too, but it reflects how cognisant the Trump administration is of the defence technology challenges confronting the US in the face of China's expanding military power.

From an Indian standpoint, there were two key features that were conspicuously absent. There was no emphasis or reference to America's role in the Quadrilateral dialogue. The NDS, unlike the NSS, is silent on the Quad's role as a security provider and anchor for restraining Chinese aggression in the Indo-Pacific. A more menacing interpretation of this notable omission is that Washington is gravitating towards a G-2 arrangement with China, leaving its allies and partners vulnerable to Beijing's coercion or outright aggression. However, the short shrift given to the Quad in the NDS masks the fact that its four partners conducted a field training exercise as part of the Indo-Pacific Logistics Network (IPLN) in December.

The IPLN is geared to enable rapid and timely responses to contingencies and the provision of military aid to countries in the Indo-Pacific. Bilateral defence engagements between Washington and each individual Quad country, India included, have remained steady. Nevertheless, unlike the NSS, there is no mention of the Quad in the NDS.

India finds no specific mention in the NDS. While the NSS does have a passing reference to New Delhi's role in the Indo-Pacific, the NDS unabashedly prioritizes the American homeland and Indo-Pacific region while demanding that allies and partners located in the Eurasian landmass shoulder the primary responsibility for their defence, with the US playing at best a supportive role. To that degree, the NDS is clinical in how the Trump administration plans to deploy US power across the world. Its aim is to concentrate strength where it matters most—the Indo-Pacific. This should encourage New Delhi to bolster its defence capabilities.

In the forthcoming Union budget, New Delhi will need to boost defence spending beyond previous budgetary allocations. The NDS may consider the Indo-Pacific a vital area of national security and interest, but the Indian government must never take US commitment for granted. New Delhi needs to think long-term and allocate greater resources to the projection of naval power in the Indo-Pacific, especially east of Malacca and the Western Pacific.

In the age of Trump, greater willingness to contribute to regional security could offer India insulation from adverse actions by an administration in Washington that has shown a readiness to reject the foundational assumptions of US foreign policy.

QUICK READ

The Quad is conspicuous for its absence in America's National Defense Strategy and this is consistent with the US insistence on allies and partners bearing a much larger defence burden.

While the US does not intend to withdraw from the Indo-Pacific, India should raise its defence budget with a renewed focus on its ability to project naval power across the region.

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MINT CURATOR

Japan's bond market has a few lessons for India's next budget

Bond investors need an assurance that debt compression is viable



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India can still prove to the market that its debt position is sustainable. AFP

The sharp selloff in Japanese bonds has a message for India's budget. If bond vigilantes could bring such turmoil to a global safe haven on the mere hint of a tax slippage, they could rip apart any sign of fiscal recklessness in a developing economy faced with a chronic shortfall of resources to create jobs and provide welfare. Volatility spiked last week in Japan's bond market amid concerns that politicians were losing the plot. Ahead of Japan's 8 February elections, Prime Minister Sanae Takaichi has promised a two-year cut in the 8% consumption tax on food. The concession could unmoor expectations that government debt will settle at about 222% of GDP by 2030, from about 230% now, the highest among advanced nations.

Looking at numbers alone, India could not be more different. Although its overall GDP will soon be bigger than Japan's, on a per-capita basis it is 12 times poorer. Public debt has been 80-85% of GDP in recent years. But funding is constrained. If New Delhi doesn't keep a tight lid on its own obligations, it will be forced to raise funds from a limited pool of creditors at a cost higher than what can stabilize its debt. With 10-year sovereign bond yields inching up to 6.7% and nominal GDP slowing to 8%, the margin of safety demanded by bond investors is narrowing.

So a comparison with the Tokyo tantrum may be useful. From 2025-26, India will adopt public debt as a fiscal target, shifting focus from its annual budget deficit. Japan is headed in the same direction. In theory, the switch gives policymakers more flexibility to counter shocks like the 50% US tariff on Indian exports. New Delhi can, for instance, offer tax breaks to exporters or lower levies on domestic sales. Still, a new fiscal anchor will only be credible if policies remain committed to reducing debt over the medium term.

And there lies the problem. Over the past 12 months, the government has given tax breaks on both income and consumption. Yet the stimulus has done little to shore up nominal GDP. As a result, revenue growth has been weak, which is being compensated by curbing expenditure and pushing some of the spending burden on to states.

While those strategies may be enough to hit this fiscal year's budget deficit, a new goal post may change the game. Investors will have to be convinced that national income will grow fast enough to curb the Centre's debt burden to around 50% of GDP by 2030-31 from about 56% now. They would also want to see less profligacy by state-level politicians who have taken to giving free cash to women voters to get re-elected. At 29% of GDP, the states' combined obligations aren't much lower than their pandemic-era high.

The domestic bond market is on edge, with yields held in check by the Reserve Bank of India's liquidity provisions; it has announced a fresh $23.6 billion injection ahead of the budget. This, too, bears a similarity with Japan, where Kazuo Ueda, the central bank chief, has promised "nimble operations to encourage stable yield formation" if required. But the flip side of RBI stepping in to buy government bonds is that increased money supply could weaken the rupee, adding to cost-of-living pressures like in Japan. In India, where inflation is currently not a concern, a sliding rupee is spooking foreign investors and tempting the middle class to rotate wealth towards gold from equities and real estate. That doesn't bode well for economic activity.

Unlike Takaichi, India's PM Narendra Modi doesn't have to contend with a general election until 2029. India's immediate problem is a lack of good jobs and his preferred tool to deal with it is throwing taxpayer money at manufacturers if they start factories in India. However, with China controlling crucial technologies and raw materials just as the US curbs access to its market, India's room for manoeuvre is limited.

Takaichi's stimulus seems to have broken her promise of delivering a rare surplus in Japan's primary budget balance, which measures the gap between revenue and non-interest expenditure.

India also faces a perpetual deficit in its primary balance, which is one of the two crucial variables in debt sustainability calculations. The other is the difference between the economy's growth rate and the interest on sovereign debt. As a developing economy, India can still deliver double-digit nominal growth to prove to the market that its debt position is sustainable.

The easiest way to do that is to give exporters more free-trade accords, like the recent one with the EU, and release the private sector from stifling bureaucratic controls. Health, education, climate change and income security for the poor need as much emphasis as infrastructure. That will be a more prudent strategy than more big-ticket tax concessions or a splashy increase in spending. ©BLOOMBERG

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THEIR VIEW

Economic Survey: It lays out our growth choices amid uncertainty

Its theme of self-reliance may have its roots in the planning era but its substance has changed in the face of global turmoil



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PTI

The world has not experienced such high uncertainty as today since World War II ended 80 years ago. Can India sustain the high economic growth that it has maintained since the pandemic under such conditions—or even strengthen its growth potential? This is the central theme of the *Economic Survey 2025-26* released on Thursday. Without necessarily endorsing every point it makes, it must be recognized that the survey has emerged in recent years as a very detailed, evidence-based and sound analysis of the state of the Indian economy and the way forward, a 'must read' for any serious student of the Indian economy. It will take more than a few hours to do full justice to this detailed, 740-page document in this quick column. However, the chief economic advisor's recent column in *Mint*, the survey's preface and abstracts of each of the chapters provide its key takeaways.

Global uncertainty was already high prior to Donald Trump's second term as US President. But he has taken it to a whole new level by upending the global economic and geopolitical order. The survey points out, correctly, that throughout this turmoil, India has maintained high growth (7.4% projected for 2025-26) along with very low inflation. Macroeconomic stability has been supported by sustained fiscal-deficit reduction, high public infrastructure investment, strong bank balance sheets, a manageable current account deficit and low external debt. These earned India three credit rating upgrades last year.

However, emerging market economies such as India that run current account deficits—even manageable deficits—face the risk of international capital inflows reducing or even reversing during periods of high geopolitical uncertainty. Capital outflows lead to currency depreciation, which leads to more capital outflows. The rupee's depreciation has unfortunately accelerated; it dropped by over 6% last year. The survey makes the point that in this uncertain world, capital flows are not driven by sound macro-fundamentals and trade efficiency, but by geopolitics and strategic alliances. In this context, India is punching below its potential, measured by the Lowy Institute's Power Gap score of (-)4, about the lowest in Asia.

How does India get to its potential? The survey looks at three potential scenarios: one where the outlook is similar to 2025 but with gradually rising uncertainty; a second scenario where geopolitical tensions become more intense, institutional shock absorbers turn weaker and trade-offs sharper between autonomy, growth and stability in a world of hyper-nationalism. Both of these scenarios get a subjective probability of 40-45% in the survey. A residual scenario with a 10-20% probability describes a more catastrophic economic breakdown. In all three scenarios, India is relatively well placed, thanks to its strong macroeconomic fundamentals, a large domestic market, a less financialized growth model and large foreign exchange reserves. These provide India some strategic autonomy. But this does not guarantee insulation from disruption of capital flows and the consequent impact on the rupee. What must India do?

On the fiscal policy front, the survey applauds the Centre's continuing fiscal consolidation, along with its thrust on public infrastructure investment. But it warns of falling expenditure quality in several states, rising unconditional transfers and revenue deficits, which are hurting investor confidence and driving up the cost of capital. Also, the survey identifies persistent current account deficits, which raise the cost of borrowing in global debt markets, as a major structural reason for the high cost of capital.

QUICK READ

In the context of a world shaken up by Donald Trump, this year's survey outlines the vulnerability to capital outflows of economies like India's that run persistent current account deficits.

Its focus on manufacturing over services and GDP growth over employment growth is embedded in its theme of self-reliance, which is increasingly seen as a resilience measure.

This points directly to the role of foreign trade. The survey recognizes the contribution of India's surplus in service exports in significantly offsetting the large deficit in merchandise trade, but suggests that infotech-enabled service exports are fragile, unlike the export of manufactured goods. That in turn leads the survey to an industrial policy stance that eschews protection for upstream industries (such as steel, other metals and fibres), which raises the cost of downstream manufacturing, and instead focuses on policy support for downstream manufacturers in facing global hyper-competition led by an export-dominant China.

The priority given to manufacturing over services and a parallel privileging of growth in GDP over growth in employment is embedded in the survey's overarching theme of self- reliance, which dates back to India's strategy of planned development in the 1950s. But the substance is different 75 years later, as is the context. Self-reliance is now combined with the idea of resilience—not just environmental in the context of climate change, but also against geopolitical shocks in a more uncertain world.

Three chapters bear special mention. One relates to AI and how India should adapt to it; a second is about urbanization and cities; and a third is on the relative roles of an entrepreneurial state *vis-à-vis* the private sector and citizens, whose priorities often drive public policies. For the latter, the survey poses a choice between immediate versus future gratification. While valid for many, there is not much to choose here for undernourished and underemployed citizens who need a social safety net for survival. Perhaps a middle path between the two extreme options is best.

These are the author's personal views.

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OUR VIEW



PTI

Economic Survey: What India should transform

This year's survey stands out for its global risk-scenario analysis and resilience advice on reducing the structurally high cost of capital in India. It's a creditably coherent argument

This year's *Economic Survey* has been published under the shadow of a geo-economic upheaval. Although it strikes an optimistic note on India's economy, it offers a realistic assessment of the global risks we face. It pegs GDP growth for 2026-27 in a range of 6.8%-7.2%, a bit less than this fiscal year's estimated 7.4%, but robust in a high-flux context. It credits the Centre's capex outlays and recent reforms for not just upping the economy's pace of potential growth to an annual 7% from 6.5%, but also keeping inflation benign. Macro-level stability, however, no longer lures foreign capital—the "paradox of 2025," as the survey puts it. For an economy that runs a trade deficit, this is a problem. Especially since India has been a victim of geopolitics, as it notes, citing our weak score on Lowy Institute's Power Gap Index as a call to action. After all, while we have fared fairly well, global turmoil could yet kick in with a lag.

The survey offers a striking analysis of how 2026 might play out globally. In a best-case scenario, to which it assigns a 40-45% probability, it would be "business as in 2025," albeit marked by greater fragility and a thinner safety margin; while bouts of financial stress, trade friction and geopolitical strife would not lead to "systemic collapse," volatility could call for stepped-up state intervention. The second scenario, equally probable, risks a "disorderly multipolar breakdown." Strategic rivalry would intensify, armed conflicts go on and security frameworks come apart. This would be a world riven by coercive commerce, pushing policy firmly into the arms of national interests and nations into unhappy trade-offs of autonomy, growth and stability. The least likely scenario (10-20% likelihood) is of financial, technological—think of what an AI bubble burst might do—and geopolitical quakes amplifying one another, with a fallout worse than the Great Recession. While the survey sees India better placed than others to ride out these scenarios, we cannot hope to escape unscathed. How best to enhance resilience? Address capital flows as a point of vulnerability. Bond yields have hardened despite a fiscal pullback, making sovereign debt issuance dearer. For enduring relief from high capital costs across the economy, the survey wants us to work on reducing the risk premium we pay global investors. This demands a structural shift. We must transform our story of endless external deficits into one of sustained surpluses. This, in turn, calls for export competitiveness—with manufacturing in focus, as services success will not suffice. What businesses must rely on is cheaper credit as India's external balances improve, rather than protectionist barriers. The survey is clear that while self-reliance has gotten more critical as supply-shock risks rise, we still need an import regime that does not keep input costs high for exporters. This is an argument that our customs policy must respond to.

The survey has a snappy analysis of 'economic statecraft,' though its advocacy of an 'entrepreneurial state' may not convince folks who want the economy's emergence to be more market- than state-led. While its coverage of AI risks, digital addiction, *et al*, seems to favour an active state, it also advocates light regulation in its emphasis on process over policy reforms. Like productive capacity, institutions matter for national power, it argues, but can be handicaps if they "mistake procedure for purpose." This could spell a 'Catch-22' of rules turning irrational. Fair point. But it's also a hazard hard to avoid whenever the state plays an active role.

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MY VIEW | MUSING MACRO

The budget's focus on capabilities reveals its long view

AJIT RANADE



is senior fellow with Pune International Centre

The macroeconomic numbers for India's economy would be the envy of others. Quarterly growth has been showing steady upward momentum and inflation is ruling at remarkably low levels. The corporate sector's balance sheet is healthy, having deleveraged substantially, and profitability has been quite good for the past several years. The banking sector too has been showing good profits and very low bad-loan ratios.

Finance minister Nirmala Sitharaman, who created a record by presenting her ninth consecutive budget to Parliament, chose not to be too complacent about the apparent 'Goldilocks' type macroeconomic situation India is experiencing. That's because behind that growth momentum is a strong capital-expenditure push by the Union government, which, at some point, will need to ease. Low inflation prints have been mainly due to sharp food-price deflation, and that too can turn nastily. Hence, notwithstanding today's macroeconomic comfort, the finance minister's approach in her budget has been to focus on building capabilities with a longer-term perspective. This approach is visible in various schemes for enhancing human capital and skills, strengthening industry-academia linkages and adding tangible elements to support the crucial constituency of small businesses.

But before dwelling on the admirable capability-building initiatives, it will be useful to look at the budget's fiscal arithmetic. We need to assess how credible the budget's projections are. Total spending is projected to increase to ₹53.5 trillion in 2026-27, or a modest 7.7% over the revised estimate for 2025-26. Total revenue, excluding borrowings, is seen growing 7.2% to ₹36.5 trillion, which is slightly slower than the growth in expenditure. The growth in these budget numbers is only somewhat higher than our growth in real GDP. But since the implied nominal GDP growth is 10% in the budget, and since inflation is expected to whipsaw back to 4% or 5%, it means real GDP growth is expected to be much lower. Is the finance minister foretelling a slowdown in the economy's momentum? Nevertheless, both expenditure and revenue projections are conservative, which explains the Centre's success in fiscal prudence.

The finance minister reminded us that she kept her promise made four years ago of bringing down the fiscal deficit to under 4.5% and keeping it there. This is important to retain the higher sovereign rating that India recently won from some international agencies. A better rating helps lower the cost of foreign capital and will also be crucial in plugging our dollar shortage and cushioning falls in the rupee's exchange rate. Even with tight fiscal limits, the finance minister has allocated about a tenth more for capital spending (i.e. on infrastructure), at ₹12.2 trillion, which means that the government's capex push will continue to support growth. The gross borrowing of the Union government at ₹17.2 trillion plus a further ₹2.6 trillion by states will mean a tsunami of sovereign and sub-sovereign paper flooding the bond market. No wonder that long bond yields are stubbornly stuck close to 7% despite heroic monetary easing by the Reserve Bank of India. The corporate bond market will not flourish in this suffocating atmosphere. Unless fiscal consolidation continues with vigour, it faces a troubling cost-of-capital overhang which will also constrain long-term growth.

The finance minister has done well to prepare ground for the future within tight fiscal limits

Apart from the fiscal tightrope walk, the budget does well to focus on building growth-enhancing capabilities. The target of achieving a global share of 10% in services is bold. This would include not just software, but also content creation, design, health and tourism, and will need skill building. The proposed standing committee on education for employment and enterprise will look at the future of work and presumably chart out a path for services dominance. For manufacturing, there is a detailed sector-wise plan, including for strategic and frontier sectors like rare earths, bio-pharma, electronics and nuclear energy. The cluster approach taken is noteworthy, involving the linking of education and training institutes with sectoral clusters in textiles and leather goods, and also a revival of more than 200 legacy industrial clusters.

The detailed attention to specific measures for small and medium enterprises has not come too soon. As small enterprises formalize, it is vital that issues like excessive payment delays and their need to finance their working capital through efficient bill discounting be addressed. Thus, making large companies participate in the country's TReDS exchange was long overdue and is welcome. Linking GST invoicing to the Udyam portal should also have been done to deter payment delays.

Once India becomes a developed country, the annual presentation of the budget ought to become a non-event. At best, it should serve as an occasion for delivering a state-of-the-economy speech and articulating a long-term vision or fiscal roadmap. Growth in a developed economy is delivered mostly by the private sector, for which investors look for stability, predictability and continuity in tax policies. On this, the budget has done well to not tinker with too many rates. Its projections are credible and conservative. There is an acknowledgement of challenges and it eschews any premature celebration of our macroeconomic success. The message of the budget is that the government will help build growth-sustaining capabilities but also exercise fiscal restraint.

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THEIR VIEW

A well-formulated budget with a clear emphasis on India's future

It eschews short-termism on fiscal expansion and focuses on medium-term capacity enhancement



SACHCHIDANAND SHUKLA
is group chief economist at Larsen & Toubro.

The stakes couldn't be higher for *Union Budget 2026-27*. Global shocks and domestic frailties demanded a stroke of fiscal artistry—prudence on the fiscal path fused with audacious growth bets and prioritization of the medium term over the short term. The budget has done precisely that by opting to augment India's strategic resilience over the medium term and remain steadfast on fiscal consolidation and debt reduction.

How does one describe this budget? It comes across as:

Contextual: The liberal order that powered growth for decades is under stress. Nations are erecting new walls and there is a clear move towards bipolarity that may not serve India's economic interests, even as newer technologies are acquired and bigger dollops of capital are absorbed. Amid all this, how can India achieve its goal of becoming a developed economy? The budget has provided the answer—via measures that boost *atmanirbharta* or self-reliance while maintaining strategic resilience in an uncertain world.

Credible with a focus on continuity: For 2026-27 (budget estimate), nominal GDP growth has been pegged at 10%, versus 8% in 2025-26 (as per the first advance estimate), mostly in line with expectations. The government has also fulfilled its commitment made in 2021-22 to reduce its fiscal deficit to a level below 4.5% of GDP by 2025-26. In 2025-26 (revised estimate), the Centre achieved a fiscal deficit of 4.4%, the same as it had budgeted. For 2026-27, the deficit is expected to further decline to 4.3% of GDP. Central government debt is slated to go down from 56.1% of GDP in 2025-26 (revised estimate) to 55.6% of GDP in 2026-27, in line with a debt consolidation path aimed at a debt-to-GDP level of about 50%, plus or minus 1%, by 2030-31 (the last year of the 16th Finance Commission cycle).

With the assumption of 10% nominal GDP growth and gross tax revenue growth projected at 11.2%, the budget's numbers are credible. The budget also continues to lean towards a better mix of expenditure; spending quality is still improving, with capital expenditure growth higher than nominal GDP growth. In contrast, revenue expenditure is budgeted to grow in single digits. Fiscal consolidation of 10 basis points to 4.3% of GDP from 4.4% in 2025-26 will not be a drag on GDP growth, unlike in 2025-26, when the fiscal compression was far sharper.

With a minor negative fiscal impulse, budgetary spending is likely to be non-inflationary. The revision of the Consumer Price Index basket and reduction of its share of food may impart a slight price push in 2026-27, but this is unlikely to pose any major challenge.

What does the budget have as a cue for the Reserve Bank of India and rupee? Continued fiscal consolidation (and debt reduction) is positive. However, higher-than-expected gross borrowings could exert upward pressure on the 10-year bond yield. The budget does not do anything in the near-term that is rupee-supportive. However, over the medium term, it could be positive for the currency, given the budget's measures supporting investments in data centres, etc.

Capacity enhancing: The budget has prioritized infrastructure and a manufacturing strategy focused on scale, competitiveness and deeper integration with global value chains. It sustains India's momentum on infrastructure development: 'effective capex' at ₹17.1 trillion is up by a double-digit percentage year-on-year. The budget has announced new high-speed rail and dedicated freight corridors, a scheme for the enhancement of construction and infra-building equipment (such as tunnel boring machines) and a plan to make such equipment locally. This will help reduce India's import dependence.

There are also moves to help India get beyond assembly and attain full-stack semiconductor capability through the India Semiconductor Mission 2.0, aimed at producing equipment and materials, developing full-stack Indian intellectual property and strengthening supply chains.

The budget also emphasizes long-term economic security with plans for dedicated rare-earth corridors, 20 new waterways and so on, apart from measures like import duty exemptions for nuclear projects till 2035.

Also, many procedures are being simplified. This includes simpler taxation for global capability centres through higher safe harbour limits and multiple steps for easier tax administration for individual taxpayers.

What could the budget have done better? Its customs rationalization could have been comprehensive (as with GST), especially since India has been signing big free trade agreements. Similarly, while subsidies remain low and manageable, the budget could have reviewed the entire subsidy regime (including for food and fertilizers).

The endurance of our 'Goldilocks' scenario of high GDP growth and low inflation depends on the government's execution of all of the above. The fact that it has eschewed short-termism on fiscal expansion and focused on macro stability, sustained budget discipline and medium-term capacity enhancement will reaffirm the attractiveness of the India story.

These are the author's personal views.

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GUEST VIEW

The budget's securities tax hike needn't worry investors

VETRI SUBRAMANIAM



is managing director and CEO, UTI AMC.

The government's goal of a Viksit Bharat by 2047 requires India to sustain high growth over a long period of time. Union Budget 2026-27 operates within a framework that India has articulated for itself: of bringing down the government's debt-to-gross domestic product (GDP) ratio on a sustainable basis. A lower public debt burden helps reduce pressure on interest rates and government borrowing, thereby freeing up financial resources for the private sector and Indian households.

Is it possible for India to target faster growth next fiscal year by raising its expenditure and issuing more debt? Yes it is, and that might be exciting for the equity market in the short-term. Constituents of the economy that benefit from today's largesse may also welcome such an outcome.

However, this excitement would create a liability that our future generations would have to pay for through higher inflation and taxation. It would also make our macroeconomic position more vulnerable to shocks.

As it is, we are dealing with immense shifts in the geopolitical environment and global trade conditions.

In this context, the budget has been pragmatic. The government has articulated its focus on bringing down its debt-to-GDP ratio. It recognizes the elephant in the room, which many are happy not to discuss. After all, interest payments are the single largest expenditure item for the government. They account for nearly 40% of the Union government's revenue and capital proceeds (excluding borrowing). Arguing about whether the budget is capital expenditure-focused or revenue expenditure-focused, when the biggest spending item is interest, is to miss the wood for the trees.

For traders, the cost of trading in futures and options increases due to the budget's hike in Securities Transaction Tax (STT) rates. Note that the number of traders in futures and options exceeds the number of investors in mutual funds. This is also reflected in the size of the profit pool of the stockbroking industry compared with that of the asset management industry. These are facts. What is also true is that India's long-term growth ambitions would be better served by channelling more financial savings into long-term investment than trading.

As for the bond market, the increase in the Centre's gross market borrowing of around 17% is higher than what was anticipated. This could put pressure on long-term bond yields. But beyond the initial shock, investors can take heart from the government's long-term commitment to fiscal consolidation.

The budget estimates appear sound, with nominal growth pegged at 10% and tax collection from individuals and corporates estimated to grow at about 11%. Capital expenditure, excluding grants, is estimated to grow by about 11%, while defence expenditure growth appears muted at 5%. The budget positions itself as a catalyst for investment in sunrise sectors while also addressing key infrastructure gaps.

Improved prospects for real returns will overshadow the budget's tiny hike in India's derivatives levy

A significant policy announcement in this budget is the formation of a high-level committee to evaluate the growth and strategy of the banking sector in keeping with the country's Viksit Bharat vision. This could set the stage for further amalgamation among state-owned banks, enabling them to achieve critical scale. As an ease-of-doing-business measure, any Person Resident Outside India (PROI) will now be allowed to invest up to a higher limit of 10% in listed companies, with an aggregate limit of 24% for all PROIs. This opens up our equity market to greater participation by foreign individuals.

A tax holiday has been offered as an incentive for global companies to establish data centres in India that serve overseas customers. This measure is aimed at positioning India as a competitive global hub for digital infrastructure by lowering the initial cost of investment and improving project viability.

For cash-rich companies looking to return capital to shareholders, a rule tweak that will treat such gains as 'capital gains' is advantageous. This will particularly benefit minority shareholders.

Broad stability in tax policy is welcome, as it provides much-needed certainty to businesses and investors making long-term decisions. A predictable tax framework encourages sustained investment, supports efficient capital allocation and reinforces confidence in the country's overall policy environment.

This budget re-emphasizes two pillars that investors should incorporate into their framework and expectations. India is running a marathon in its journey towards Viksit Bharat and preserving macroeconomic stability is a priority. India's nominal GDP growth rate is now likely to remain around 10%, plus or minus 1%, rather than the 12%-14% range seen in the past. This slower trajectory has implications for revenue growth, profit growth and equity returns.

Investors tend to think about these numbers in nominal terms. However, what ultimately matters are real returns. The emerging reset in nominal growth may not significantly lower potential real returns, and this would apply to returns both from equity and bond markets.

For investors focused on achieving their long-term financial goals, nothing changes on account of this budget. India's unique combination of macroeconomic stability and sustainable growth will enable them to achieve their goals.

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OUR VIEW



PTI

The budget adheres to a tried and tested formula

India's 2026-27 budget may broadly be apt for now. But as fiscal policy adopts a distant debt target, the Centre must remain adaptive—and ready to contain any big-spender instincts

India kept calm and carried on this fiscal year, with a GST spur for retail offtake, an urgency for foreign trade deals and a few tariff tweaks for factory-cost relief making up the bulk of our response to trade adversity. That spirit prevails in India's budget for 2026-27 too. It marks a shift in fiscal policy from annual deficit calibration to medium-term debt reduction. Finance minister Nirmala Sitharaman's last budget offered a tax stimulus, kept up infra spending and managed to squeeze the Centre's deficit to 4.4% of GDP even as nominal growth softened. Ever since covid, capex has played a heroic role in the economy's expansion. The latest budget dares not depart from that formula. Its ₹12.2 trillion capex plan is almost 23% of its ₹53.5 trillion expenditure pie, a notable increase. Other stand-out allocations include those for our chip-making mission, a bio-pharma thrust and a carbon-capture initiative. Next year's deficit is pegged at 4.3%. Achievable even if an inflation uptick fails to lift revenues as expected, this would count as progress towards reducing central debt to half the size of our economy by 2030-31. Yet, two questions arise. First, could a five-year debt path lull us into fiscal complacency over the effects of, say, a sharp revival at some point in private demand and investment? And second, is it not time to extend the budget's horizon and pivot heavily towards health and education?

As for buffers against trade flux, the budget's proposals are in the right direction—with customs relief in focus. Import-duty exemptions span inputs for sectors on a priority list. Import barriers for making aircraft, setting up nuclear power plants and processing critical minerals will be axed, with a few other items relieved too. The highlight of this exercise, however, is process reform: a "minimal intervention" customs regime that uses technology to speed up cargo clearances and thus helps Indian factories join global value chains with low slack tolerance. This quest to ease port-level friction, though, has not been matched by a discernibly urgent effort to reverse India's capital inflow squeeze of 2025-26. Moves to boost our market for corporate debt, lure individuals to invest more in Indian equity and liberalize forex rules, apart from a few sector-specific tax incentives for foreign investors, all seem unequal to the task. But then again, inflows come down to the returns that investments in our economy offer. So long as India's growth story is intact and geopolitics doesn't worsen to our disadvantage, we can hope for a revival on this score.

On the macro front, perhaps it is time to align our 2003 fiscal law with practice, instead of budgets carrying tack-ons year after year to explain deviations. From now on, unless nominal growth slumps, the Centre's shift to a debt target will let it relax its fiscal pullback. Yet, if a distant debt ratio is taken as the sole budget constraint, a sudden boom in overall demand could disturb India's macro-level stability: if the fisc is not reined in quickly, we could expect upward pressure on inflation and the cost of capital, with both risking a doom-loop should costly credit get in the way of a private-sector supply response. In other words, we must not let today's big-spender formula get hard-set. Even if demand stays on a slow-track, it would be prudent to invest a bigger share of public funds in the upward mobility of Indian multitudes. Else, domestic impulses may weaken and leave GDP growth over-reliant on dicey exports. A rejig of our fiscal priorities would help fend off that risk.

02 Feb 2025

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MY VIEW | GENERAL DISEQUILIBRIUM

This budget should have tried to lift flagging Indian savings

The exercise has missed an opportunity to fix this structural issue



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Savings are a crucial building block for economic growth. BLOOMBERG

A lot has been said and written about India's economic resilience, with the assertions focusing largely on a rising real GDP growth rate and dropping consumer inflation rate. These headline trends, however, mask a couple of fragilities that could undermine the current illusion of stability. The first is sub-optimal nominal growth, which has printed below target. But, more importantly, widening fault-lines in household savings, including in the broader universe of gross savings in the economy, are a serious source of concern. It is, therefore, both puzzling and distressing that finance minister Nirmala Sitharaman did not use the Union budget platform to address this growing structural deficit in the economy.

Savings are not only pivotal for financial and economic stability but are also a crucial building block for economic growth. Let us examine two key data points from the budget that have the potential to act as growth stimulants. The first is the government's net borrowing programme estimate of ₹11.7 trillion, an increase of only 3.5% over the revised estimate for 2025-26. The borrowing programme helps fund the government's development expenditure over a large number of programmes. The second is the ₹12.2 trillion capital expenditure outlay, an 11.5% increase over the 2025-26 revised estimate. The government's capital expenditure 'crowds in' private-sector investment, thereby providing a leg-up to employment and economic growth. The government will need to depend on the economy's savings to finance a substantial part of its vast development bill.

As stated earlier, the slowing nominal growth rate is already a source of worry because most big-ticket revenue sources—both tax and non-tax—have clocked in below the 2025-26 budget estimates. The slowing household savings growth rate complicates matters further by creating structural friction in the economy, something that may take a while to reverse. The budget was probably the ideal platform to provide some tax incentives to reverse this structural slowdown.

The banking sector has been demanding that tax on interest income from deposits be treated like capital gains. While the merits of that specific suggestion can be debated separately, shrinking bank deposits have bumped against rising demand for credit, forcing banks to slow down credit disbursal in some cases, or to depend on non-deposit funding sources, which has hurt margins. Aggregate deposits have grown 8.5% since April 2025, while bank credit in the same period has gone up by 10.4%.

The share of deposits in the household savings basket has dropped from 58% in 2011-12 to 35% in 2024-25. Part of the slack is being taken up by both direct equity and mutual fund investments. The *Economic Survey*'s explanation that rising equity investments demonstrate an "evolving" risk preference among households, however, rings slightly atonal. This is because it does not consider a saver's interest rate preferences: current bank deposit rates offer negative returns after accounting for inflation and taxes. Bankers, therefore, feel that parity in tax treatment might divert some of the flows back to bank deposits.

Ram Singh, a member of the monetary policy committee at the Reserve Bank of India, had expressed anxiety over moderation in the household savings rate at the panel's September-October meeting. Curiously, though, while admitting that interest rates do influence household savings behaviour, he also advocated that the "likely adverse impact on bank deposits and moderation in household savings should not be the reason for not going for a further rate cut."

The Survey's desire that the next step of household portfolio evolution include bond-market investments might bang up against the same wall. There were pre-budget demands that the government allow the issuance of tax-free bonds for a limited period—either directly from the government or from highly-rated public sector units—to allow long-gestation infrastructure projects to access patient household savings. This is also because insurance companies or pension funds are currently unable to fill the gap between demand for long-term funds. However, the budget has neither heeded that demand nor announced any alternative steps to smoothen the wrinkle.

There is another source of anxiety: the household sector's liabilities, or borrowings, have doubled from 3% of gross national disposable income in 2014-15 to 6.1% in 2023-24. In the face of uneven real income growth, this indicates households have been financing consumption through credit and not through current income or savings. Hopefully, the budget proposals will generate enough additional jobs to moderate this worrisome data-point.

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MY VIEW | THE LAST WORD

Union budget: Look beyond the headlines for its actual impact

An expanded trade bills discounting system is among the causes for cheer but what matters is how various measures pan out



INDIRA RAJARAMAN
is an economist.



AP

The date of 1 February for the announcement of the Union budget precedes by a month the release of the advance estimate of India's gross domestic product (GDP) based on three quarters, which this year will mark the start of a new GDP series with 2022-23 as its base year, replacing the old series based on 2011-12. The new series will change the sectoral weights, and with that, the estimates of aggregate real growth for the first two quarters.

Nominal GDP may not be affected much with the shift to the new series. The tentative (old series) advance estimate for the current year issued on 7 January is ₹357.14 trillion. The budgeted nominal GDP for 2026-27 is placed at ₹393 trillion, assuming 10% growth. We have to use these for now.

There are two other changes. The 16th Finance Commission report covering the 2026-31 period was tabled only with the budget for 2026-27, but is factored into the budget figures. The aggregate share of states in Union tax revenues remains at 41%.

The second change in the offing is the 8th Pay Commission report to be released in April 2027, but with retrospective effect from 1 January 2026. Advance fiscal provisioning for retrospective application is never done. Arrears for the current and next budget year will be payable in 2027-28, causing an arrear bump-up in revenue expenditure that year on top of the salary bill discontinuity.

My principal pitch is that what matters is not the policy headlines so much as what underlies the headlines. We are in a new abusive world order, where the powerless are punished. What we do domestically will make or break us.

The absolute fiscal deficit for 2025-26 by the provisional estimate (PE) is ₹15.58 trillion, below the ₹15.69 trillion budgeted. The fiscal deficit for 2026-27 is projected at 4.3% of GDP, but because of the fluid denominator, the absolute figure of ₹16.96 trillion is more reliable. It shows a rise of ₹1.38 trillion. Still, fiscal consolidation is on track.

Fiscal consolidation has been achieved despite an increase in effective capital expenditure, aggregating direct expenditure and capital grants to states, from the pre-pandemic average of 2.7% of GDP (*Economic Survey*, para 2.29) to 3.9% for 2025-26 (PE) and 4.4% budgeted for 2026-27. Current (revenue) expenditure did much of the adjusting. At 10.8% of GDP for 2025-26 (PE) and 10.5% budgeted for 2026-27, it is below the pre-pandemic average of 11.1%, attributed (*Economic Survey*, para 2.24) in large part to reduction of subsidy leakages through direct benefit transfers. An impressive increase in tax revenue also helped. Non-tax revenue further supported the fisc with a dividend payout of ₹2.68 trillion from the Reserve Bank of India (RBI).

Without meaning to rain on the parade, revenue expenditure on maintenance actually needs enhancement when capital assets are being created, without which the assets created could become unproductive, or actually treacherous. Are the required expenditures for maintenance of roads and sewage systems receiving budgetary support? Are leaking sewage pipes being repaired or replaced?

Can the rising share of capital asset creation in total expenditure be termed an improvement in expenditure quality without reference to the mix of assets created? Are sewage treatment plants being constructed so that untreated sewage does not flow into the rivers from which drinking water is sourced? Are there too many vacancies in regulatory bodies for them to function effectively? Will regulatory failure and public health catastrophes, resulting from polluted air and water, support growth?

The major fiscal bolts have already been shot. Income tax and GST rates were dropped in the current fiscal year. Monetary and trade policy have moved in concert. The last RBI bi-monthly monetary policy announcement for the current year is due on 6 February, with very little room for further reduction of the repo rate. Banks are already struggling to attract deposits.

In trade policy, the free trade agreement with the European Union (EU) reached on 27 January is expected to be operationalized by the end of 2026. The agreement details are yet to be hammered out, especially on the difficult issue of the Carbon Border Adjustment Mechanism, for which carbon rating has to be done on a producer-specific basis with EU-accredited auditors.

Nevertheless, there is room for optimism. The budget introduces a number of well-targeted reforms. Three are noteworthy.

First, the expanded scope for the Trade Receivables Discounting System, a platform for discounting unpaid commercial dues to small enterprises, a dire need. Second is the huge range of skill enhancement programmes, including for geriatric care and mental health care, again a dire need. Finally, the budget's supportive promotion efforts towards commercial tree crops dovetails into the fall in EU tariffs and the demand boost which will come from there.

The new Income Tax Act will become effective from 1 April 2026. Provisions for tax deduction or tax collection at source have been procedurally simplified and their rates reduced. Income tax payments by cooperatives and service providers in information technology have been procedurally facilitated. Indirect tax provisions have also been liberalized with respect to the imported input needs of exporters. There will be cheers in many quarters.


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The Times They Are A-Changin': Iconic American Singer-Songwriter Finally Bags Lit Nobel

"But as far as songwriting, any idiot could do it.. Everybody writes a song just like everybody's got that one great novel in them."

"From Orpheus to Faiz, song & poetry have been closely linked. Dylan is the brilliant inheritor of the bardic tradition. Great choice"

"Want to thank him for influencing three generations with his songs, transporting people from their crazy lives to an alternate world."

SWEDISH ACADEMY PRAISES DYLAN'S POETRY FOR THE EAR

AROUND THE WORLD ▸▸ 17

Let Him Be

To see Dylan as a



2026, Year of Consumer as Queen

They'll push back against fracturing trade

Decades of globalisation has exposed consumers to a standardised set of goods and services. 2026 could be the year for them to push back against fracturing trade. Tariff policies that impose additional costs on consumption will lead to reactions that economies may find difficult to manage. Household spending is turning anxious during a truce in the trade war. This could turn downright nervous if hostilities erupt. A deterioration in consumer sentiment in the US will have a domino effect on consumption in Asia's export-oriented economies. Asia's fast-growing consumer markets are critical to the global economic momentum. These markets, particularly China and India, are being supported by expansionary policies that may not be adequate in the event of a full-blown trade war.

Trade negotiations will have to be conducted in a less charged atmosphere than last year. Luckily, realisation has dawned after the first salvos were fired as the prospect of a buyer revolt for all manner of stuff from cars to cellphones forced a dialling down of the mercantilist rhetoric. Global manufacturing companies are taking the hit of tariffs and export controls. However, they will have to eventually pass on to consumers the effects of trade fragmentation. That should serve as a check on the protectionist ambitions of governments.



Consumers are also feeding the technology race with providers trying to make their offerings ever more engaging. Users get to decide the way technology evolves, and through that process impose limits on the clamour against immigration that emerged as 2025's other big threat to globalisation. Tech companies need both global reach and innovation to keep commanding investor interest. They also need access to the global talent pool, and will find their way around obstacles set up by governments to provide jobs to locals. The world economy should be safe so long as the consumer remains queen. It is time for the buyer to exercise sovereignty over globalisation. It's no longer just 'caveat emptor', but a full-blown 'emptor regina'.

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Oil Reserves: 50% with Big Three

Oil remains one of the most strategically important resources in the global economy. However, the distribution of oil resources is highly uneven. OPEC members*, particularly in West Asia such as Saudi Arabia, Iran, Iraq, Kuwait, and the UAE, account for around 79% of the total proven crude oil reserves, which are estimated at 1,567 billion barrels. Venezuela ranks first, but is unable to fully monetise its oil because of the ongoing US sanctions and the recent shipment seizures. The top three countries account for nearly 50% of all proven oil reserves...

World proven crude oil reserves (Billion barrels)

Top 15 countries

Country	2024
Venezuela	303
SArabia	267
Iran	209
Iraq	145
UAE	113
Kuwait	102
Russia	80
Libya	48
US	45
Nigeria	37
Kazakhstan	30
China	28
Qatar	25
Brazil	16
Algeria	12
Total World^	1,567
India	5



Figs are rounded; ^Excludes oil sands from Canada data; *12, including Venezuela

Source: OPEC Annual Statistical Bulletin 2025, Visual Capitalist

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What's Ahead for Markets This Year

Policy, rupee and IPOs may lift bourses

Indian equities yielded modest returns last year on relentless selling by foreign investors. Valuations were stretched to begin with, and time correction should align Indian market capitalisation with its impressive economic growth. Earnings are expected to revive with policy support aimed at slowing consumption, and uncertainty over exports could abate this year. The outlook will become clearer with the progress of tariff negotiations with the US and the effects of tax cuts on capacity utilisation. The growth-inflation trade-off will remain mild for a while, which should ensure persistence of low interest rates. Once foreign investors have visibility on earnings, they are likely to return. The principal risks are a delay in the US trade deal, a slow earnings recovery and the bursting of the AI bubble.

India's performance is relatively weak, headline indices have turned in low double-digit growth. Other markets have sprinted for a variety of reasons, including extremely concentrated bets on AI. These conditions could dissipate in 2026, which should improve the attractiveness of Indian equities. The rupee has adjusted significantly to the US tariff fallout and should stabilise this year, bringing back investor interest. Valuations are aligning with long-term averages at the beginning of the year, and should improve as the quarters unfold. The commodity cycle is favourable to healthier corporate margins.



Indian households will find equities compelling amid a strong rally in gold and real estate. Volumes are thinning in these asset classes at current elevated prices. The interest rate scenario does not favour deposit mobilisation by banks. Retail investors are undergoing behavioural shifts that encourage equity investment. A strong IPO pipeline is being bought into at valuations not endorsed by the secondary market. GST and income-tax cuts will facilitate the rebuilding of household financial savings, and some of this will find its way into equities this year. The markets will move beyond their 2024 peak at a steady pace. That is better than sharp sprints followed by deep corrections.

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Talk Less, Work More in Courts

With the Supreme Court grappling with a backlog of more than 91,000 cases, CJI Surya Kant's embrace of the adage 'justice delayed is justice denied' — through action, not just words — is a welcome shift. From Jan 1, two administrative changes aimed at speeding up the court's work by allocating time to neglected cases and ensuring time-bound adjudication and closure came into effect.

Under the new rules, senior advocates, arguing counsel and advocates-on-record are required to provide the bench and opposing counsel with a timeline for oral arguments. This introduces a measure of time discipline that could curb the routine use of adjournments as a delaying tactic. The other change modifies the order in which cases are taken up for hearing, ensuring that different categories of litigants receive a fair share of the justices' time and injecting momentum into the docket. Four new priority categories — specially-abled persons and acid attack victims, senior citizens above 80, persons below the poverty line, and legal aid matters — will move cases that typically languish at the back of the queue closer to the front, giving them the attention they have long been denied.



Innocuous as they may seem, these administrative orders could disrupt a judicial culture long comfortable with delay, and a system often stacked against the vulnerable and marginal. They bring predictability to hearings, allow benches to plan time efficiently, and ensure that no single matter consumes judicial hours at the expense of others. By placing equity, fairness and timely justice at the heart of the judicial process, CJI aims to restore public trust in the court. With these steps, he has taken the first decisive move toward rebuilding public faith in India's highest court.



M&As: Mirrors & Alibis?



Krishnan Ranganathan

Global deal-making clocked in at $4.8 tn last year — the second-highest total in four decades, eclipsed only by the 2021 lockdown binge. By headline numbers, mergers are back. By substance, they never left. By outcomes, they still don't work.

A record 166 transactions above $5 bn were announced. Yet, total M&A value in 2025 was the lowest in a decade. This apparent contradiction reflects extreme concentration: a handful of outsized deals inflate headline values, while activity below the mega-deal tier has thinned sharply. Just 68 transactions above $10 bn did most of the heavy lifting. Rest of the market quietly shrank. Technology led the charge, devouring over $1 tn worth of targets, more 2× volume of healthcare.

However, before celebrating this resurgence, it's worth confronting an inconvenient empirical truth. Baruch Lev and Feng Gu's study of 40,000 acquisitions over four decades in their 2024 book, The M&A Failure Trap, finds that 70-75% of mergers fail to live up to expectations. This is despite ritual incantations of 'transformational synergies' and 'unlocked shareholder value' — phrases that now sit somewhere between fiction and faith.

India's own deal ledger neatly illustrates the main ways mergers fail. Some collapse under leverage, others under regulation, governance or sheer complexity. Tata-Corus, once sold as a national coming-of-age story, ended in write-downs. Vodafone-Idea annihilated capital at industrial scale. Bharti-MTN buckled under complexity. Reliance-Future Retail never made it past regulators. Adani's (heavily debt-funded) acquisition spree has left investors focused less on synergies, and more on balance-sheet resilience.

Even PSB mergers, sold as efficiency-enhancing reforms, have largely produced larger balance sheets, not better banks. Integration challenges persist, credit cultures clash, and operational metrics remain mediocre. So, why does an activity with the success rate of a casino slot machine continue to command boardroom devotion? The answer lies less in strategy than in incentives misaligned almost by design.

Start with panic masquerading as strategy. When growth falters, internal development is slow, uncertain and unglamorous. Acquisitions are instant, visible and applauded, especially by investment bankers paid for completion, not consequences. Outcome is reliably grim — rushed deals, strategic misfits and heroic overpayment.

Then comes the illusion of timing. Some CEOs buy when markets are euphoric ('use our expensive shares'). Others strike in downturns (bargains'). Both camps are united by delusion. The data is unambiguous: there are no good times, only good targets. And they are scarce.

Next, overconfidence reigns. Roughly 30% of CEOs are serial acquirers. Many are celebrated, few deliver results. Jeff Immelt's 380 acquisitions at GE stand as a monument to activity mistaken for strategy. A 2005 study by Ulrike Malmendier and Geoffrey Tate, 'CEO Overconfidence and Corporate Investment', shows 20-40% of CEOs exhibit extreme overconfidence: they systematically overestimate their ability to integrate organisations and underestimate cultural, regulatory and operational friction. These costs rarely appear in deal models but they dominate outcomes.



Fall for the M&Agic!

Then come conglomerates, staggering back from their intellectual grave. Shareholders can diversify risk instantly and cheaply. Executives cannot manage businesses far from their core competence nearly as well. Yet, the fantasy endures. And even when deals sour, executives cling on. Admitting failure means booking losses, a cultural taboo. So, bad acquisitions linger, draining time, morale and whatever value remains.

But the most reliable driver of bad mergers is also the simplest: pay. M&A delivers immediate and substantial bonuses to CEOs of both buyers and targets, rarely tied to long-term outcomes. When deals fail, shareholders and employees absorb the losses, executives keep the money.

A 2020 review of 42 academic studies, 'Do CEO incentives and characteristics influence M&A?' by Aleksandra Weglarz found that CEO compensation rises after acquisitions — even as shareholder value falls. When target CEOs receive merger bonuses, shareholders receive premiums 4% lower. It's a 'Heads I win, tails you lose' situation. Mergers persist not because they work, but because they reward the people who approve them.

To be clear, mergers can work when targets are distressed, capabilities are genuinely adjacent, and integration discipline is ruthless. What is rare is the blockbuster deal that delivers exactly what the press release promises. The modern M&A boom is less about strategy than spectacle — fewer deals, larger cheques, weaker logic.

If history is any guide, today's blockbuster announcements are tomorrow's impairment charges. The only true synergy is the alignment between executive ego and executive pay. Shareholders should read the press releases carefully. The real numbers usually arrive, quietly, in the footnotes.

The writer is former executive director, Nomura India

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The Times They Are A-Changin': Iconic American Singer-Songwriter Finally Bags Lit Nobel



"But as far as songwriting, any idiot could do it.. Everybody writes a song just like everybody's got that one great novel in them."



"From Orpheus to Faiz, song & poetry have been closely linked. Dylan is the brilliant inheritor of the bardic tradition. Great choice"



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SWEDISH ACADEMY PRAISES DYLAN'S POETRY FOR THE EAR

AROUND THE WORLD ▸▸ 17

Let Him Be

To see Dylan as a

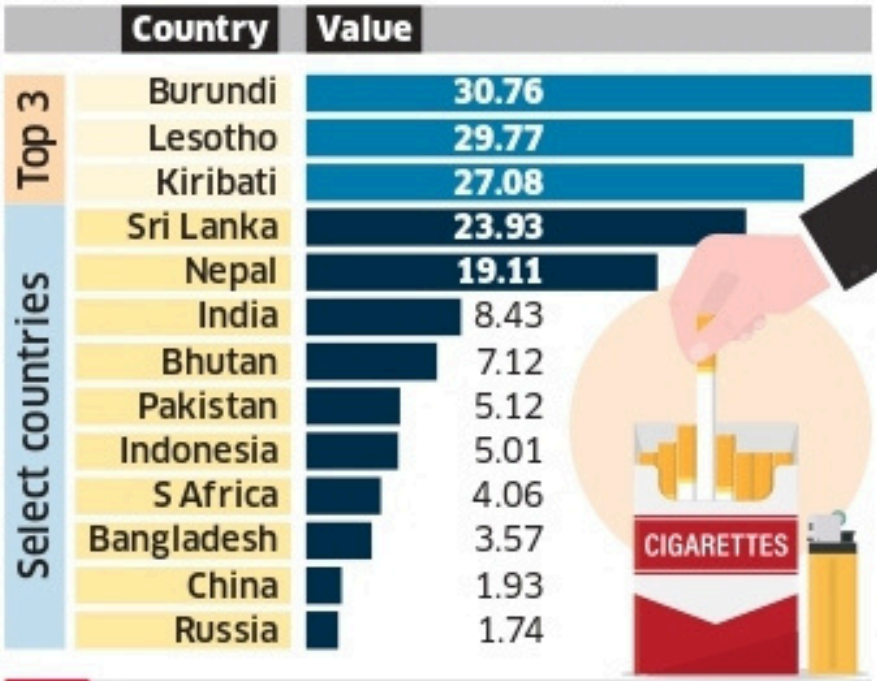
TOBACCO AFFORDABILITY

The government has imposed a new tax on cigarettes, making them costlier for an estimated 100 million smokers in the world's most populous country. Health issues tied to smoking are seen as a major drain on India's resources, and the government has introduced steps, including larger warning labels and periodic tax adjustments, to curb consumption. Here's a look at cigarette affordability in select countries...

Source: Reuters, WHO

% of GDP per capita required to purchase 100 packs of most-sold brand of cigarettes (2024)

Higher % means less affordability



With income growth, tobacco products become more affordable and increasingly within reach of users if prices are unchanged or price increases do not keep up. The less affordable tobacco products are, the less incentive people have to start using or to continue using tobacco products

SANJEEV RAJ JAIN

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Box Officing OTT Movies is Smart

Content biggest operational cost of streamers

Movie-streaming platforms are getting savvy about price of titles by linking offers to box-office performance. This was to be expected after an initial burst of devil-may-care content collection. Competition among streaming platforms has thinned out. Those left standing will want to be price-setters, not price-takers. Since a film's collections are carved up by cinema ticket sales and digital rights, the box office serves as a fairly accurate indicator of how it will fare on a streaming platform. Digital rights typically provide an upside for theatrical performance, and the downside protection is unobjectionable.

Streaming platforms compete for advertising and subscription revenue with social media where content is freely shared by creators. This imposes constraints on content acquisition costs by platforms. They also incur additional content production costs in an effort to differentiate their offerings. The market for streaming content is stabilising, and customer acquisition costs are climbing. Standalone streaming platforms like Netflix have to fall back on original fare to take on Amazon's Prime Video enveloped in ecommerce profits, Apple TV embedded in a technology ecosystem, or JioHotstar leveraging Reliance's telecom bandwidth and Disney's studio output. Content is the single-biggest operational cost of a streaming platform. Getting the pricing right is key to profitability.



Movie producers must readjust their view of market segmentation allowed by streamlining platforms. In the go-go days, they could pitch two sets of offerings — one for box office, another for streaming audiences. This allowed for artificial product differentiation. It's clearly not sustainable. Streaming-only content is a separate genre and should remain so. Particularly in India where the number of streaming households is small in relation to the addressable market. The right price signals for digital rights will improve competitive intensity in the movie-making business. OTTs will remain an additional distribution channel for quite some time.

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Post-Begum B'desh Needs Electoral Fix

Bangladesh's post-begum era — following the ouster of Sheikh Hasina in August 2024 and Khaleda Zia's death earlier this week — has been marked by meltdown. For better or worse, for 30 of its 50-odd years of existence, these two women steered and shaped the fate of Bangladesh as players from the sidelines, partners in the 1990 uprising that toppled the military regime of Hussain Muhammad Ershad, leading to restoration of democracy in that country. What we are witnessing now is a 'headless' class war against this begum-era *ancien regime* — Bangladesh's 'Lutyens', if you will — clothed as a 'Muslim khatre mein' mobocratic exercise. And it is this political vacuum that must be filled by democratic means, starting with free and fair elections that includes all political parties, ousted Awami League included.



The operative word in the interim government headed by Muhammad Yunus is 'interim'. Any delay, particularly given the absence of established mainstream political personalities, will see Bangladesh slide into an anarchic abyss. This isn't just dangerous for neighbours like India, against which it has become fashionable to shout in the streets of Dhaka and beyond, but also dangerous for Bangladesh and its people.

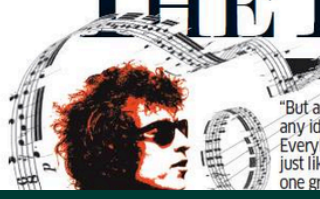
As the established democracy and big economic power, India must be careful to avoid appearances of putting its finger on the scale. A stable Bangladesh that is democratic, respects equal rights of minorities, especially Hindus, is important for the country's prosperity. As in the past, India must support aspirations of the Bangladeshi people to build a robust democracy and help its economy grow. It must do so by engaging across the spectrum, demonstrating that New Delhi is Dhaka's true partner for economic growth and well-being.

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AI's most radical gift may be making humans better at being human, and enhancing work

NOTHING TO BE AFRAID OF

More Human Than Human



M Muneer

About Making It Work



Subhodeep Jash

For a technology that can't feel joy or guilt, AI has provoked remarkably high levels of hysteria. Depending on who you ask, AI is either about to steal everyone's jobs, write everyone's content, or replace everyone's therapists. The prevailing mood oscillates between apocalypse and utopia. What gets lost in the noise is that AI's most radical contribution may be making humans better at being human.

This is an inconvenient truth for dystopia enthusiasts. Whether AI can make us more human is a question that haunts many. AI isn't replacing judgement so much as holding up a mirror to it — a large, data-rich mirror that never blinks, never gets defensive, and does not storm out of the room when you give it feedback.

Today's workplace is a theatre of miscommunication and passive aggression. AI can analyse calls and emails, detect patterns humans miss and simulate difficult conversations. It doesn't replace people but trains them. This marks a shift from AI as a tool to AI as a coach.

And the data backs it up. Organisational AI adoption has jumped from niche experiment to something approaching normality, with roughly half of companies using it in some form. By 2030, most IT work is expected to involve AI. But, crucially, the majority will be humans augmented by AI, not humans replaced by it. The robot apocalypse, if it arrives, will apparently be collaborative.

So, what do humans want to keep doing? Humans are good at empathy, judgement, ethical reasoning, community-building and meaning-making. We are terrible at processing data without fatigue. AI excels precisely where humans struggle, and struggles precisely where humans excel. This is not a rivalry. It's a complementary relationship. Real-world evidence supports this unglamorous truth:

▸ In customer service, GenAI has boosted productivity while improving quality, particularly for less-experienced workers. It narrows the gap between novices and veterans, democratising competence.

▸ In small businesses, AI has helped marketers and owners compete with larger firms by scaffolding creativity. The result is not less humanity at work, but more time for it: fewer spreadsheets, more judgement calls, fewer rote tasks, more thinking.

Liberation, however, is not a word associated with enterprise software. Yet, that is effectively what happens when machines take on the cognitive equivalent of carrying water so humans can focus on why water matters. Societal implications follow naturally:

▸ In education, AI tutors can personalise learning, adapting to gaps without social embarrassment. In well-being, AI can nudge healthier habits with an emotional neutrality humans lack. Technology does not fragment society. It merely amplifies whatever values we encode into it. If we optimise for outrage, we get outrage. If we optimise for growth, we get growth.



Automation removes humans from the loop. Augmentation keeps them central

Of course, critics are not hallucinating risks. Job insecurity is real. Nearly half of employees in advanced AI-adopting firms worry about their future, and that anxiety should not be dismissed as a failure of imagination. But empirical studies paint a finer slice. In countries where AI adoption has surged, overall pay and working hours have barely budged. The reason is unsexy: most AI use today augments human work rather than automating it entirely. Machine assists, human decides.

This distinction matters. Automation removes humans from the loop. Augmentation keeps them central. When humans remain accountable for judgement, empathy and consequence, AI becomes a support system rather than a substitute. In moments of social complexity or moral weight, humans must stay in charge. Machines can inform decisions. They should not own them.

None of this happens by accident. If AI is to raise the floor of human potential rather than lower the ceiling of human worth, it requires deliberate design. Organisations must invest in training, not just software. People need to learn how to work with AI, not fear it. Ethical frameworks must put fairness, transparency and solidarity on top to ensure that AI does not quietly reinforce existing inequalities while claiming neutrality.

Most importantly, leaders and policymakers must push back against the urge to chase efficiency alone, and avoid the trap of having machines mimic humans.

This is not a call for techno-optimism so much as techno-adulthood. AI will neither save us nor doom us. It will make our choices louder. Used poorly, it will accelerate bias, inequality and alienation. Used well, it can help humans learn faster, connect better and spend more time doing things machines can't fake. AI doesn't threaten our humanity, it exposes it. And what we choose to do with that exposure may be the most human decision of all.

The writer is co-founder, Medici Institute



Embrace it, tend to it: Brigitte Helm on the set of Fritz Lang's Metropolis, 1927

As New Delhi prepares to host India AI Impact Summit 2026 next month, an Oct 2025 Yale Budget Lab study, 'Evaluating the Impact of AI on the Labor Market: Current State of Affairs', finds that the broader labour market has not experienced a discernible disruption since OpenAI's ChatGPT was released in 2022. The study undercuts fears that AI-led automation is eroding demand for cognitive labour across the US economy.

In Latin America and Africa, AI-powered platforms are actually enhancing informal work opportunities through multilingual tools, gig matching and verified work histories. Within Asia, countries like Singapore and Japan are pushing AI-driven lifelong learning. India is looking at targeted reskilling programmes to mitigate displacement risks. Europe and North America see high AI adoption in skilled roles, with Europe leveraging GenAI to address labour shortages and foster 'co-intelligent enterprises', where humans and AI collaborate in virtual simulation environments.

▸ Bletchley Park summit The inaugural AI Safety Summit held at Bletchley Park, Britain, in Nov 2023, was largely focused on frontier AI risks — preventing misuse, guarding against existential threats, and the need for international safety testing frameworks. Implications for workforce transitions received peripheral attention. While the summit featured Elon Musk's provocative vision of AI reshaping human labour, the Bletchley Declaration contained no concrete language on workforce impact. The focus was squarely on frontier model governance.

▸ Seoul summit With the second AI summit in Seoul in May 2024, the agenda expanded from considerations of safety to 'safety, innovation and inclusivity'. Workforce considerations garnered greater attention, with countries recognising the need to strengthen social safety nets with the rise of an AI economy.

The summit envisioned AI adoption in key industrial sectors like manufacturing and logistics to revolutionise productivity by reducing employee burden while protecting rights and safety. The need for workforce development featured in the ministerial statement across several imperatives, such as R&D and IP protection, for the safe, secure and trustworthy deployment of AI.

▸ Paris summit As the action shifted to Paris in Feb 2025, we saw a more substantive engagement on the theme of workforce transitions, with a dedicated working group established on the 'Future of Work'. The structural elevation was outlined by France's ambassador for digital affairs Henri Verdier, as the working group sought to explore AI's impact on employment and vocational training.

An observatory network on AI's impact on work was launched as a voluntary platform to exchange knowledge and reinforce dialogue on the impact of AI. It included 11 countries — India, Australia, France, Japan and Britain among them — and was coordinated by the ILO and OECD.

Companies also made a pledge for 'Trustworthy AI in the World of Work', aimed at promoting social dialogue, investing in human capital, and ensuring workplace safety and dignity. Narendra Modi urged the international community in Paris to 'prepare for workforce transition'.

As part of India's AI Summit presidency, the human capital theme ('chakra') has an opportunity to advance an equitable workforce transition agenda in the age of AI. For India's AI stack articulated under its national AI mission, the talent layer has been a critical advantage, as evidenced in the Stanford AI Index report, where India ranks second only to the US in AI skill penetration and open-source AI project contributions on GitHub. Since 2016, India's AI talent pool has grown by over 250%, the highest of any country measured.

The AI Impact Summit offers an opportunity to critically evaluate three key levers:

❶ **Adaptability** This can be seen in shifts from rule-based, one-time training to role-based, competency-driven learning frameworks. For example, India's Mission Karmayogi, a national capacity-building programme for government officials, aims to empower 30 mn civil servants to be future-ready.

❷ **Readiness** The observatory network from the Paris Summit could be taken forward, with voluntary obligations placed on companies to measure AI's impact on the labour force and share aggregate-level data and insights with governments. This can help augment evidence-based policy measures with role mapping and skills adjacency modelling fuelled by more granular insights.

❸ **Collaboration** India's DPI approach has encompassed systems like digital identity (Aadhaar), payments and data exchange networks (account aggregators). It can be leveraged to build a micro-credentialling platform and help certify transferable skills and connect workers to real-time labour market intelligence. This could address information asymmetries.

Governments, labour organisations and other key stakeholders increasingly recognise both benefits and challenges that AI brings to the future workforce. India's AI Summit provides a critical opportunity to embed equitable frameworks into AI deployment, protect vulnerable workers and extend social protections.

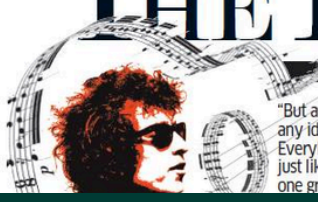
The writer is VP, technology practice, The Asia Group (TAG)

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Oilgarch Trump, Cent Wise, Dollar Foolish

To stem dedollarisation, more deglobalisation

Central banks have been trying to reduce their dependence on the dollar by building up stockpiles of gold. Emerging economies driving global trade are increasingly turning to settlements in local currencies. With countries like US sanctions-hit Venezuela — it has the biggest, yet largely untapped, proven oil reserves in the world — selling their oil in renminbi, euros and roubles, slump on the petrodollar has been palpable. Which is where the US invasion on Saturday is reckoned to come handy to get Venezuelan oil trade back in dollars.

The irony is that no serious alternative to the dollar is likely to emerge because of imbalance in world trade. So long as the US buys and China sells stuff on credit, the two biggest economies have compelling reasons to ensure the dollar's preeminence. Then there is the question of size. No economy has an appetite for debt to rival the US. Dollar will continue to be the world's problem. But an 'intervention' to push up dollar trade should warm the cockles of Republican hearts in a tough political year ahead.



Venezuela has nearly choked its 50-yr-old oil infrastructure, and US companies can revive it with some serious investments. But the US record of political oversight is patchy. Events like these tend to isolate the US in the international arena, with repercussions on instruments like the dollar that drive globalisation. Suspicion over US actions will feed dedollarisation. Yet, the process is, at best, limited.

Entrepreneur Trump risks neither investor nor creditor revolt by wading into Venezuela's reserves of crude. US refiners stand to gain by processing it for diesel and industrial petroproducts. Market reaction should be muted, especially the oil market that's grappling with oversupply. The Trump regime was very publicly building up towards some form of intervention in Venezuela. The risk-off sentiment could reverse with the prospect of a smooth political transition in the country. But the bigger effect of an attack on a sovereign nation is further fissures in a deglobalising world.



Harbour Changes In Different Ports

'Free speech' varies, platforms must curate

Microblogging site X is at risk of losing its 'safe harbour' status in India over reportedly 'obscene' content generated by X's AI bot Grok. Under Section 79 of IT Act 2000, social media sites are classified as neutral hosts not held responsible for content created by third parties — in 'safe harbour' — as long as they follow GoI rules. GoI now wants a compliance report from X over takedown requests. In its earlier avatar, Twitter had briefly been made liable for content it carried for being at odds with GoI over curation. Such conflicts will keep erupting, so long as media platforms and lawmakers have divergent 'cultural' views. Tech companies are bound by their contract with their users to allow free speech within reason. A narrower reading imposes extra parameters into their business model. But social media must operate in multiple jurisdictions to extract network effects. The compliance burden, thus, becomes a variable for media platforms.



Safe harbour status is an accomplishment — not an entitlement. Tech that facilitates creation and dissemination of patently unacceptable content must also provide curating solutions in concert with lawmakers. Obvious violations can be counteracted technically without having to invoke the law. And when law enforcement agencies raise a concern, it must be acted upon, or reason must be shown for inaction. Taking the stand that blaming AI for obscenity is like blaming the pen for blasphemy serves little purpose. Content is created through human agency, and tech providers have adequate leverage to deter rogue action. It is in their interests to ensure good housekeeping to retain users and advertisers.

Limits to freedom of expression are defined by culture. It works when governments outsource some policing to tech companies. Social media must conform to restrictions imposed on legacy media. Additional requirements may be necessary for tech adaptation. Tech is not ethical by itself. The ethical dimension must be provided by society it serves, and profits from.

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Cities Can't Be Clean Only On Dashboards

Cities like to boast about rankings and glossy scorecards. But none of that counts when the water flowing into homes carries disease instead of life. The toll from consuming contaminated water in Indore's Bhagirathpura neighbourhood continues to rise — 16 deaths and more than 140 people hospitalised — as a diarrhoea outbreak lays bare a grave public health failure. This is a tragedy wherever it occurs. But that it happened in Indore, a city repeatedly ranked the cleanest in the country, raises uncomfortable questions about conditions in other places. What makes the episode even more disturbing is that it was not unforeseen. Comptroller and Auditor General audit reports, dating back to 2019, have flagged serious concerns about water management in Indore, including the risk of contamination.



This crisis of urban governance is not limited to water alone. Variations of the same failure can be seen across towns and cities — untreated sewage being reused, garbage left uncollected, sky-high landfills turning into public health hazards, potholed roads and missing manhole covers. Poor infrastructure design, compounded by shoddy maintenance, corners cut during the tendering process and poor execution, as well as the endless digging up of roads in the name of improvement projects, steadily erodes urban living standards.

Fixing this urban crisis demands stronger systems and oversight, real accountability, regular maintenance and upgrades, and administrations that respond to citizens rather than ignore them. Urban local bodies must deliver the basics: clean water, effective waste management and safe roads. Business as usual will not deliver the smart cities promised under Viksit Bharat. Without a fundamental shift in attitude, more Bhagirathpuras are inevitable.

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Fix the Gap, Not Any Guilt, of Gig



Rohit K Singh

Dear Mr Piyush Goyal,

Your recent reflection on the gig economy — 'Are we going to be happy being delivery boys and girls? Is that the destiny of India... this is not startup, this is entrepreneurship' — raises an important question: is discomfort around gig work about exploitation? Or merely about visibility and guilt?

As Union commerce and industry minister, you argue that the gig economy has forced the consuming class to confront inequality face-to-face for the first time. Also that much of the outrage stems from this emotional discomfort, rather than from structural injustice. It is a powerful narrative. But it risks diverting attention from the core issue: absence of basic economic protections in a rapidly expanding labour market.

The problem with the gig economy in India is not that workers are visible. It is that they are visible — and unprotected.

India today has 7-8 mn gig workers, a number projected by NITI Aayog to rise to 23.5 mn by 2030. These workers are not marginal participants in the economy. They are becoming a structural component of urban service delivery. Yet, most of them operate in a regulatory vacuum.

Over 90% have no social security coverage. Majority lack health or accident insurance. Earnings fluctuate daily based on opaque algorithms. Costs of fuel, vehicle maintenance and downtime are borne entirely by workers. Deactivation can occur without due process or explanation.

These are not emotional grievances. They are measurable economic risks. Visibility has not created this problem. It has merely removed the comfort of ignorance.

You suggest that sustained participation in gig work indicates consent and viability. But in labour economics, participation does not equal fairness. India's labour market is defined by over 80% informality, low formal job creation, weak unemployment safety nets and high rural-to-urban migration.

In such a context, 'choice' often means choosing the least precarious option available, not the most desirable one. Historically, this logic has justified everything from unsafe factories to child labour. That is precisely why modern economies developed minimum wages, workplace safety norms and social insurance. This is not because markets failed, but because markets *alone* could not correct power imbalances.



These workers aren't extraterrestrial

You rightly point out that today's platforms are technologically sophisticated. But this sophistication cuts both ways. Algorithms now allocate work, determine incentives, influence speed and behaviour, penalise rejection or delay, and shape earnings in non-transparent ways.

While companies may not explicitly instruct workers to rush, the incentive structure does so implicitly. Ratings, surge pricing and penalties create behavioural pressure that no policy disclaimer can erase. This is why global regulators increasingly view algorithmic management as a labour issue, not merely a technical one.

A recurring concern in your argument is that regulation will 'destroy livelihoods', or push workers back into invisibility. This is a false dichotomy. No serious proposal advocates banning gig work. What is being discussed — in India and globally — is minimum viable protection, such as accident and health insurance, social security contributions, transparent wage calculation, grievance redressal mechanisms, and portability of benefits across platforms.

States like Rajasthan and Karnataka have begun experimenting with such frameworks. GoI's Code on Social Security acknowledges gig workers for the first time in law. These are not radical interventions. They are long overdue corrections. International experience shows that reasonable regulation does not destroy platforms, it professionalises them.

You suggest discomfort with inequality is being misdirected into regulatory activism. It's the opposite. India's discomfort exists because its digital economy has grown faster than its institutions. We now have platform-scale companies, algorithm-driven labour markets and millions of dependent workers.

But we still rely on a regulatory imagination designed for the 20th c. This gap — not guilt — is the source of today's tension. The gig economy is not a moral problem to be explained away. It is a governance challenge to be solved. India does not need to choose between innovation and protection. It can do both. But only if platforms accept that scale brings responsibility, not just valuation.

The real risk is not that regulation will make workers invisible again. It's that without regulation, visibility will change nothing. And a society that sees inequality clearly, yet chooses not to act, cannot claim moral or economic progress. That is the conversation worth having.

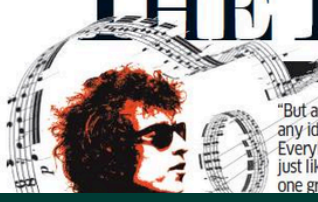
Yours sincerely,
A former policymaker concerned with the future of work

The writer is former secretary, consumer affairs, GoI

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SWEDISH ACADEMY PRAISES DYLAN'S POETRY FOR THE EAR

AROUND THE WORLD ▸▸ 17

Let Him Be

To see Dylan as a



GDP base reset, pending inflation data and Trump tariffs pose challenges for Union Budget 2026

Dhann Ki Baat on FM Radio



Mythili Bhusnurmath



Not in the red, so with a stitch in time...

May you live in interesting times' — an English expression attributed regularly as a 'traditional' Chinese curse, but actually having no Chinese source — is not the best way to wish anyone at the start of a new year. But whether we like it or not, 2026 is bound to be 'interesting', and in more ways than one. In less than a month, Nirmala Sitharaman will present her 9th consecutive budget. Narendra Modi, it would seem, has chosen well.

Napoleon reportedly inquired of a prospective general, 'He is good, but is he lucky?' Well, Sitharaman has been both good and lucky. Despite the odds being stacked against her courtesy Trump's tariff flip-flops, we are far from the 'dead economy' that the latest invader of Venezuela derisively called us. GDP is slated to grow by 7.3% in FY26, and inflation is at near-record lows.



But in a developing country that is still, according to World Bank's Poverty Report 2024, home to close to 20% of the world's poor, she can't afford to rest on her laurels. Luckily, budget comes at the best of times. RBI governor Sanjay Malhotra described it as a 'Goldilocks' economy.

Nonetheless, she will have a tough job trying to walk the tightrope between compulsions of electoral politics and demands of fiscal prudence. While presenting her budget in July 2024 soon after BJP was voted back to power, she had vowed, 'We aim to reach a deficit below 4.5% next year. The government is committed to staying the course. From 2026-27 onwards, our endeavour will be to keep the fiscal deficit each year such that the central government debt will be on a declining path as a percentage of GDP.'

In February 2025, she showed that she meant business. Deficit for FY26 was projected at 4.4% — 'below 4.5%' as promised in July 2024 — while GoI debt was slated to be 'on a declining path'. Controller General of Accounts data till October 2025 shows that, except for primary deficit, all other parameters are broadly in order. The good news is that GoI has not shied away from investing. Capex is 55% of BE, compared to 42% in the same period last year.

Problem is that finmin's — and RBI's — armoury in the grand scheme of 'Viksit Bharat' is virtually empty. Sitharaman announced a generous personal I-T giveaway in her last budget and followed it up, halfway through the year, with a much-needed reduction in GST rates on 375 items that will, inevitably, have adverse short-term revenue implications.

True, we've seen consumption grow, thanks to GST cuts and an easy monetary policy. But if it is to continue to grow, incomes (read: jobs and better-paid jobs) must grow. And that is the crux of the problem. How do we give jobs to our people? Can Budget 2026 serve as a catalyst? Can it replace the jobless growth we've had so far with one where the economy and jobs grow in tandem?



Schemes like PLI have had limited success. So, FM's focus will have to remain on infrastructure for job creation. And that calls for generous outlays

If she intends to stick to the fiscal straight and narrow, she does not have much elbow room. And if, as is likely, recommendations of the 16th Finance Commission (for 2026-27 to 2030-31) result in an increase in the share of states vis-à-vis GoI, Sitharaman will be in a tight squeeze. As in the past, RBI profits might come to her rescue.

But at a time when our exports must contend with tariffs not only from the US but also from other countries — Mexico is the latest to join the bandwagon — robust domestic demand is the only answer. Schemes like PLI have had limited success. So, FM's focus will have to remain on infrastructure for job creation. And that calls for generous outlays.

Add to that compulsions of electoral politics. Last year, elections in Bihar were on her radar. So, we saw a host of sops for the state. This year, we are likely to see her shift focus to poll-going Assam, Kerala, Tamil Nadu, West Bengal and Puducherry. BJP is firmly in the saddle in Assam. But it has long wanted to make a breakthrough in the other states, especially Tamil Nadu and West Bengal, that together contribute 81 of the 543 seats, or almost 15% of total seats in Lok Sabha. So, expect some announcements. But, probably, only token budget provisions for schemes in these states.

Consumption grew, thanks to GST cuts and easy monetary policy. But if this is to continue, incomes (read: jobs and better-paid jobs) must grow



How is Sitharaman going to square the circle? If her track record is anything to go by, with aplomb. Asked how he would grade himself on the economy, Trump, famously, answered, 'A-plus-plus-plus-plus-plus'. Sitharaman is more understated. If asked the same question, she could perhaps drop her stern demeanour, give a half-smile and answer, 'A-plus!' And since we would like to see her present her 10th budget in February 2027, add: 'Thanks to the support I have received from the honourable prime minister.' Good luck, FM!

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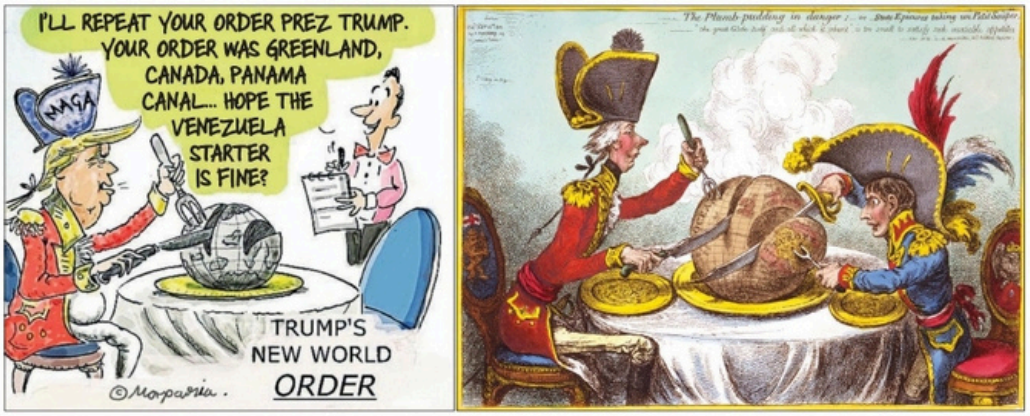
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CURSOR India, not China, should take the lead in championing a rules-based global order

WORLD VS ROGUE STATE



T K Arun



Hemant Morparia's Jan 2025 cartoon in ET (left) based on James Gillray's 1805 cartoon of British PM William Pitt the Younger and Napoleon carving up the world between them

What are India's options in the 'Brave New World According to Trump'? 'Modi understands he must make me happy,' said Trump, in the context of India reportedly reducing oil imports from Russia. Nations must toe the line the US president sets. Or they will pay a price: direct military intervention in the western hemisphere; higher tariffs on exports or some form of sanctions elsewhere.

Things are, however, not that simple. There are limits to the direct use of military power, however superior, that the US can exert on another country. For one, Americans abhor sacrificing blood and treasure on foreign soil for the sake of corporate bottom lines. For another, the world is way too interdependent economically, across globe-spanning distances, for cross-border military interventions to be costless for the aggressor.



US has given up its role as anchor of a rules-based global order. Should the world accept the US lead into a global Wild West?

It is unclear, as of now, whether Trump would be able to deliver on his boast that the US would 'run' Venezuela. That depends on the rest of the Nicolás Maduro regime, which remains intact in Caracas, cooperating with the US in defiance of public opinion that revolts against the US treating their country like a banana republic. If Americans are killed as they try to run Venezuela or its oil economy, that could complicate things.

Vietnam defeated the US, simply by refusing to be bombed into surrender. Yet, a generation later, the US invaded Afghanistan and Iraq. The loss of American lives in these wars scars the American psyche, and Trump is a beneficiary of the isolationist sentiment spawned by that scarring.

The entirety of Asean and South Korea are cosying up to Beijing. Their stakes in the supply chains of global commerce that snake in and out of China are too vital for them to sacrifice for a place in the US' fickle good books.

If the US goes ahead and annexes Greenland, the rest of Europe would be constrained to back Denmark rather than the US — except perhaps Britain. Nato would die. And Russia would be accommodated in the European fold, as in the 19th c., sooner or later.

Europe will not turn against China to make Trump happy. Europe does not share POTUS' illiteracy on climate change, and will stick to its path towards carbon-neutrality. That calls for cooperation with China, as collaborator and supplier of key equipment and technology.

Europe's power grid is interconnected across jurisdictions and power sources, whether coal, hydroelectric, nuclear, solar or wind. Maintaining grid stability calls for sophisticated power electronics and large-scale battery storage. China supplies the cutting edge in both. Boycott of either would be more injurious to European health than boycott of Russian gas had been. If the US seeks to expropriate Chinese assets in Latin America, and China retaliates, with trade sanctions or withholding of critical minerals, the US would find no solidarity from Europe, for whose companies China is also a vital market.

Although constrained by such factors, the US has given up its role as the anchor of a rules-based global order. Should rest of the world accept the US lead into a global Wild West? Or try to preserve the global order minus US participation? India has to find an answer to this question and decide its role in that world.

Around 70% of economies trade more with China than they do with the US. And more than half of all economies now trade twice as much with China compared to the US, according to Lowy Institute. China has been using its trade surpluses to fund infrastructure building across the 'global south'. If China decides to champion the rules-based world order, it would find backers.

India stands to gain from rules informing the conduct of nations, rather than might. It would have to take this stand, even if that makes Trump 'unhappy'. India should take the lead in championing a rules-based world order minus the US, instead of ceding that space to China.

India's lodestar has been strategic autonomy while navigating international relations, and that should continue. That calls for strengthening BRICS, as well as bilateral relations across South America and Africa.

Ultimately, India needs to develop its own strength for the world to take it seriously, and for Trump and his ilk to treat it with respect. There are no quick fixes. But India has to strengthen its economy from ground up.

Schools and colleges must aim to develop human potential to create critical, creative people who dare to act on what inspires them, not to impart specific skills with an expiry date. Journalists, civil servants and political leaders should study Australian Strategic Policy Institute's Critical Technology Tracker to find out where nations stand in key technologies. China now leads in 66 of 74 critical technologies, the US in eight, in sharp reversal of positions two decades ago. India must spend on education and R&D. Companies must be incentivised to *do* R&D — exempt from tax half the income earned from new IP, for example.

No country can grow strong without functional infrastructure, governance and social cohesion. India cannot protect strategic autonomy while promoting internal schism. India must strengthen its democracy, to build strategic strength. And that includes courts respecting the liberty to dissent, without giving in to government blackmail on national security grounds.

The world is way too interdependent economically for cross-border military interventions to be costless for the aggressor



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BRICS Must Cement Its Global Role



Sanjay Bhattacharyya

TRADE-OFF

As India assumes leadership of BRICS in 2026, the group is caught between divergent aspirations and narratives. For EMDCs, it provides more space, both economic and diplomatic, but few developed countries, particularly the US, view it as an anti-West group, challenging their leadership. The flux in geopolitics adds to the complexity. Meanwhile, classical multilateralism is in a coma, and minilaterals and plurilaterals are the hope to fuel engines of growth and globalisation. India's presidency will navigate choppy waters, add substance to BRICS economic agenda and serve as a bridge between G7 and G20.

BRICS' early success as a group of rapidly growing large EMDCs, seeking inclusive development and reform of global governance, drew the attention of other rising powers. BRICS initially admitted new partners in New Development Bank (NDB) and then in BRICS. Today, it has grown, from the earlier 5, to 11 members and 10 partner countries, and others hope to join the same, now addressed as BRICS+.

The enlarged group has different characteristics as new members are relatively smaller economies. BRICS+ includes 7 members of G20, represents the largest oil-producing nations and has global aspirations. Post expansion, in terms of global share, its GDP has increased by 3%, share of exports has risen by 5%, internal trade has grown by 5%, per-capita GDP growth rate has risen, share of gross fixed capital formation in GDP is at similar levels, and current account balance remains surplus.

Since the 2014 summit in Brazil, the group resolved to deepen economic coordination and institution-building. The decisions for NDB and Contingent Reserve Arrangement (CRA), and trade in local currencies added dynamism and made it more attractive to other developing countries.

NDB had modest capital and funding capacity, but gained in popularity with flexible loans denominated in local currency, absence of IMF-style conditionality and being accessible to non-BRICS members. With new members, NDB is expected to grow in stature and capacity. The Indian presidency could leverage new NDB funding options for private sector through establishment of an NDB structure based in GIFT City, popularise use of Central Bank Digital Currency (CBDC) and new electronic settlements.

BRICS trade agenda highlighted policy coordination for trade and development, and reform of multilateralism. However, reform of WTO and integration of BRICS with regional arrangements had been difficult. Efforts to set up a BRICS group within WTO, trade facilitation, resolve intra-BRICS disputes that are stuck at WTO, and COP financing mechanisms can advance the trade agenda. The use of AI tools can help BRICS countries to modernise and integrate trade policy.

BRICS decision for trade in local currencies had a slow start but picked momentum in recent times. Russia estimates that 90% of its intra-BRICS trade is in local currency; China and India have also made advances in this area. To some extent, Western sanctions have also prompted a switch to local currency transactions and non-SWIFT settlements.

Alternate settlement mechanisms based on digital means for cheaper and faster transactions have popularised BRICS local currencies and helped them go international. These include SPFS of Russia, CIPS of China, UPI of India and PIX of Brazil. BRICS Pay has potential as an interoperable and decentralised system to link national networks. It is designed as a cross-border financial messaging system that enables transactions between members using national currencies. It includes encryption, distributed consensus nodes, multi-factor authentication and capacity to process up to 20,000 messages per sec. It can spur reform in global governance towards a multipolar financial system.



All in all, it's just a-nother...

Meanwhile, BRICS countries have also seen a spurt in swap arrangements, growth of CBDC, adjustments in reserve currency holdings and advancing of development assistance in local currency. BRICS initiatives currently under discussion that could impact trade and development include modalities for ecommerce and digital trade, a common logistics platform to integrate intra-BRICS supply chains, and collaboration on investment-technology-innovation.

BRICS is at a crucial juncture, reconciling internal consolidation and expansion plans, and engagement with the Western world. BRICS must counter false narratives that suggest it is anti-West or promotes de-dollarisation. Prudent strategy demands BRICS maintain consensus-driven decision-making within the group and establish collaborations with the West for solutions in a globalised world.

The writer is former BRICS sherpa, GoI
This article is part of an expert series on trade policy curated exclusively for ET by CUTS International

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Let Him Be

To see Dylan as a



TECHNIK Opaque algorithms that can't be questioned are creating insecurity in the gig economy

DELIVERIES IN THE DARK



Nikhil Pahwa



Constantly looking over their shoulder

I used to earn ₹5,000-6,000 (a day). Now I earn ₹1,700 maximum.... I have not paid 4 EMIs on my car,' an Uber driver told me some 8 yrs ago. Uber and Ola had, at that point, tweaked their payouts, and several drivers had called their call centres, some even saying they were contemplating suicide.

They had been subjected to something of a rug-pull by taxi companies, which had initially offered large incentives to bring more drivers to platforms, and assisted drivers in taking loans to buy cars — only to change incentives when they decided they need to reduce their VC-backed spending and focus on unit economics. So, why is this relevant to the current face-off between Zomato and its delivery workers? Because, in principle, the issues remain the same.

Eternal, Zomato's parent company, has aggressively moved towards profitability over the past 2 yrs by making multiple micro-adjustments that allow it to improve contribution margins. When these platforms were small, many decisions could still be made directly by managers, or with policy tweaks. Once marketplaces scaled to lakhs of workers, allocation was handed over to algorithms that decide who gets work and when, how much they're paid, and how behaviour is rewarded or penalised, based on availability, ratings, acceptance rates, demand and past history. What begins as optimisation, quietly becomes a mechanism for shaping behaviour.

Former NITI Aayog CEO Amitabh Kant's statement that gig jobs are set to grow from 7.7 mn to 23.5 mn by 2030, and calling the gig economy among India's largest job-creation engines, is misleading. Zomato founder Deepinder Goyal's data that, in 2025, the average delivery partner on Zomato worked '38 days in the year and 7 hrs per working day', and that 'only 2.3% of delivery partners worked more than 250 days a year', should tell us that this shouldn't be equated with employment.

Gig economy workers have highly volatile earnings and no minimum wage. This is a feature of the business. It was designed to benefit from a regulatory arbitrage of workers neither protected by employment laws nor empowered with entrepreneurial control.

Platforms like Zomato can exercise granular control over multiple supply-side levers: hours someone works, distance they travel, how quickly they deliver, how payouts vary by rating, demand, acceptance behaviour, and how much workers expect to be paid before accepting a job. Amount of data platforms collect about a delivery, including whether the consumer has added a tip or not, can allow them to ascertain 'supplier surplus' — how much less can they get away by paying the delivery worker. This is the inversion of consumer surplus. And unlike classical economics, data today allows this to be estimated practically, rather than theoretically.

Gig platforms are two-sided marketplaces, and can use dark patterns on both sides. Zepto, for example, was found to charge consumers with iPhones higher for the same product than those using Androids. No one except platforms know how they use data to find a demand-supply equilibrium, and determine pricing and payout in each case.



No one except platforms know how they use data to find a demand-supply equilibrium, and determine pricing and payout in each case

Opacity benefits platforms. Through personalised penalties and benefits, they can shape behaviour of each delivery person. Blinkit may not display a 10-min timer for a worker. But does it still impact the payout?

When delivery workers ask you to give a good rating, they know it either improves their payout or chances of getting the next gig, or it prevents a penalty. There is public visibility and backlash risk on the consumer side. But the supply side remains largely invisible, and at the platform's mercy.

In theory, competition should resolve these issues. In practice, network effects are already in play, and platforms clearly have substantial leverage. Aggregation platforms are built to increase market fragmentation, and aggregate it in a manner no participant has sufficient negotiating power over.

What Zomato is positioning as 'flexibility' for gig workers is probably being seen by them as uncertainty. In an economy with paucity of jobs, where gig work is being positioned as 'employment', maybe all they want is actual employment and some amount of certainty — that they get paid a standard amount for the work that they do. This is not to say that there is exploitation. But there certainly exists room for exploitation.

If consumer protection exists for one side of the market, what do we have for gig workers? A nationwide protest after labour codes providing gig economy workers protections were announced should make us look more closely at what workarounds exist. Is the fact that the average worker works 38 days a year their choice, or of the algorithm? The core demand for minimum wages and social security is a response to insecurity created by opaque algorithms that can't be questioned or explained.

This is where the state also needs to step in. As algorithms become embedded across credit, insurance, employment and marketplaces, need for algorithmic accountability is no longer theoretical. Independent audits, and giving people a right to an explanation, will provide safeguards against discrimination at scale.

RBI missed a trick with its August 2025 FREE-AI committee report, in which it paid only lip service to algorithmic discrimination issues. The gig economy only exposes the problem created by regulatory inaction.

The writer is founder, MediaNama

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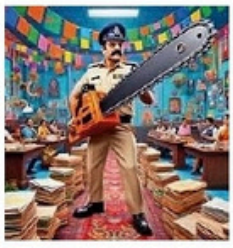
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Yes, Saw Away More Customs Slabs, GoI

It'll complete overhaul of principal taxes

Finmin has turned its attention to streamlining customs slabs after having made adjustments to I-T and GST. The number of customs slabs has been pruned over the past couple of years to 8 rates, including 0. This is still too many against GST's 2, excluding exemptions and demerit goods. Rationalising GST rates imposes conditionalities on customs rates to avoid duty inversion where inputs are taxed at higher rates than output. India's flurry of trade deals also necessitates a review of customs duty rates. GoI must tailor its import duty structure in accordance with plans to emerge as a major global manufacturing base.

Both I-T and GST have witnessed significant improvement in tax administration, resulting in higher revenue buoyancy despite lowering of tax rates. A similar intervention is required in customs to boost collection and reduce litigation. Tax administration has been working towards raising compliance and averting disputes. Analytical tools deployed with positive effects in I-T will come in handy during an overhaul of customs. Aligning slabs with a self-policing tax like GST ought to improve customs administration. Dispute resolution can be speeded up through amnesty schemes, which may be in the offing.



Reform of customs will complete overhaul of India's principal taxes. The process has been slow, but steady. It has taken a decade for GST to deliver anticipated economic benefits, and for I-T to set in much-above per-capita income. India now has in place a growth-oriented tax system. Critically, effects of tax reforms are showing up in the numbers. An efficient tax machinery is key to ensuring redistribution during a spurt in economic growth. A revamp of customs will complete a triangle of reforms that seemed beyond reach for several decades. Credit goes to the NDA government for squeezing so much tax reform into three terms in office. It realised, early on, the role of taxes in economic development, and has worked consistently on improving efficiency.


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Beware the Domestic Bear Market of B-Day

Beware the wrath of kids and spouses scorned—on B-Day. If finmin thinks it can nudge stock exchanges to sneak in a special Sunday trading session on February 1 when GoI announces its household budget, it clearly has made a fetish of dismissing 'work-life' balance as something that indolent First Worlders (read: Europeans) do, not industrious Indians. But tell that to the children and wives of stockbrokers, militant shareholders in their family's weekend leisure index.

Already, reports suggest living rooms have turned into war rooms. Kids are drafting ultimatums, 'No pappi if Papa touches his phone for anything other than restaurant bookings for brunch on Sundays.' Wives, meanwhile, are threatening hostile takeovers of household assets — TV remote, car key, sacred recliner. 'If you trade on a Sunday, I'll short your dinner supply,' is a refrain. Brokers, poor chaps, are now trying to figure out how to hedge their portfolios while simultaneously hedging against domestic wrath. Futures contracts on marital peace can soon be trading at junk status. The only bullish sentiment is in the kids' demand for ice cream outings — in *this* weather. As stockbrokers suddenly face their most volatile market — family — they have their eyes fixed on Household Happiness Composite, which may now plummet when Papa mutters 'opening bell' four Sundays from now.

THE SPEAKING TREE

Harmonise Money Flow

SATISH (BHUPENDRA)

When the financial world is guided by righteous intention, money becomes a servant of society — not its master. This is where the economy becomes a path of awakening.

Money is powerful not because it accumulates, but because it circulates values. Wherever it flows, it either nourishes trust or erodes it. True consciousness is revealed when resources pass through our hands.

Do we hold them as possessions or as responsibilities? In an ethical society, profit is not rejected. It is refined. It becomes evidence of service, creativity and stewardship — never exploitation.

A wise economy aligns financial instruments with moral purpose: debt for creation, savings for resilience, investment for regeneration. Transformative Financial Technology (TFT), which enables digital financial transactions, must serve societal conscience.

TFT can design systems that will allow transparent transactions, ensure accountability and align with the public good. Its vision is simple: wealth creation should strengthen society, not fracture it. Every flow of capital becomes traceable, ethical and purpose-linked.

Core pillars of TFT:

▶ Transparent truth-aligned accounting.

▶ Stewardship-driven investment practices involving the responsible management of assets.

▶ Public value visibility in governance.

▶ Technology as a protector against manipulation.

Thus, the marketplace becomes a sacred arena: a place where the righteous participate not to dominate but to harmonise the flow of money.


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The Times They Are A-Changin': Iconic American Singer-Songwriter Finally Bags Lit Nobel

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SWEDISH ACADEMY PRAISES DYLAN'S POETRY FOR THE EAR

AROUND THE WORLD ▸▸ 17

Let Him Be

To see Dylan as a

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America Retreats, Who'll Step Up?



Shishir Priyadarshi

The US' decision to withdraw from several UN and international bodies — ranging from climate institutions to development and human rights agencies — isn't merely a bureaucratic reshuffle. It's a strategic rupture. When the world's largest economy disengages from multilateralism, the immediate casualty is not any single institution, but the fragile idea that global problems require collective solutions.

The most immediate global consequence of the withdrawal is systemic instability. Multilateral institutions, for all their flaws, provide predictability. They set norms, pool data, finance public goods, and offer forums for dispute resolution. When the US exits, these institutions will weaken, get fragmented and become more politicised.

For the world, this means three things: ❶ Climate cooperation slows at precisely the moment it needed acceleration. ❷ Global development and humanitarian programmes will face funding gaps and legitimacy challenges. ❸ Rule-making will shift from inclusive multilateral forums to narrower, power-centric blocs.

This is bad news for a world already struggling with climate shocks, geopolitical polarisation and economic fragmentation. The vacuum left by the US, of course, won't remain empty for long. But it won't necessarily be filled by consensus-builders.

Nowhere is the damage more apparent than in climate governance. Climate change doesn't respect borders, ideologies or electoral cycles. A retreat by one of the world's largest historical emitters raises the probability of fragmented climate action, competing standards and delayed mitigation — costs that will be borne disproportionately by the 'global south'. Ironically, countries least responsible for the crisis will pay the highest price for this abdication.

There is also a subtler, but more profound, impact: erosion of moral authority. When a country that long positioned itself as a steward of international order disengages from institutions on climate, health, gender and human rights, it weakens the normative foundations of global governance itself. This makes the world more transactional, and less anchored in shared values. For many developing countries, this confirms a long-held suspicion: that multilateralism was always conditional.

India, on its part, has never claimed moral perfection. It has argued for realism, sequencing and fairness. As Western commitments oscillate with electoral cycles, India's consistency becomes its soft power. The US' withdrawal, while globally destabilising, creates strategic clarity. It ends the illusion that leadership in global governance will always come from the West.

The question now is not whether the system will change, but who will shape what comes next. Unlike China — or the US under Trump now — India is not viewed as coercive. Unlike the US, India is not walking away. Unlike Europe, India is not constrained by demographic or strategic stagnation. It's a rare combination: a large economy, vulnerable climate geography, functioning democracy, and credibility across the 'global south'.

For decades, India has approached multilateral institutions defensively, seeking flexibility and policy space, in what it projects as an uneven playing field. That posture is no longer sufficient. With the US retreating, India has an opportunity to move from rule-taker to rule-shaper.



Hubbacop

In climate diplomacy, India can now credibly position itself as the anchor of pragmatic climate action: balancing growth, equity and sustainability. Its emphasis on lifestyle-based climate action, adaptation finance and technology transfer resonates far more with developing countries than abstract net-zero rhetoric.

Crucially, India's voice carries legitimacy because it speaks from lived vulnerability, not ideological abstraction. Whether through G20 leadership, South-South cooperation or reforming development finance institutions, India can help stabilise global governance not by dominating it but by re-grounding it in development realities.

Let us be clear: a weaker multilateral system is bad for everyone, including India. Climate risks will intensify. Development finance will become more uncertain. Global coordination will suffer. But geopolitics rarely offers perfect choices, only relative advantages.

The US' retreat creates a moment where India can either remain a cautious participant, or emerge as a constructive pillar of the new order.

The writer is former director, WTO


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Beyond the Quick Public Buck



Nishanth Vasudevan

India has succeeded in doing what policymakers have long wanted: moving household savings into financial markets. In recent years, equities have been inundated by monthly retail investor flows through MF schemes and direct investing through the demat route, changing the structure of India's capital market.

Domestic public money now has a bigger ownership of listed Indian companies than foreign institutions. But this abundant on-tap domestic liquidity may have unintended second-order consequences. It is gradually influencing corporate behaviour, nudging listed companies to choose predictability and near-term delivery through q-on-q performance against the uncertainty typically associated with innovation, which requires long-gestation investments and research.

Numbers offer a glimpse of the underlying picture. India's total spending on R&D has more than doubled in absolute terms since 2010-11. But it still hovers at around 0.6-0.7% of GDP, well below global averages, and far behind the likes of the US, China and South Korea. More telling is *who* does the spending.

Private sector accounts for a third of India's R&D outlay, compared with more than 70% in most advanced manufacturing economies. This suggests innovation risk in India is still borne largely by the state and private capital, while listed companies play a more limited role.

Financialisation of savings — a trend that accelerated after Covid — has unleashed a flood of domestic capital into the stock market. The wall of liquidity, while cushioning equities from the effects of brutal foreign institutional selling in the past 15 mths, has resulted in share valuations staying at elevated levels compared to other Asian markets. Combination of strong money flow and rich valuations has also led to a deluge of IPOs and share sales by promoters. Buyers of these shares have predominantly been domestic institutions, MFs and insurance companies.

Sharpened focus of the sticky influential domestic capital on q-on-q corporate performance in the face of premium valuations is prompting managements to ensure investors get what they want. To defend current valuations, managements must focus on financial metrics — margins, returns and efficiency ratios — rather than capital-intensive investments the payoffs for which lie years away.



Kya koi idea hai, sirji?

Fund managers, under constant performance pressure, don't mind that either if their ROE or ROCE expectations are met. It's also a fact that few promoters or managements want to do anything that disturbs the applecart. After all, some market reactions to announcements of long-gestation investments and short-term pressures on profitability show how uncertainty is punished. Even recently listed new-age businesses except for a handful — long used to private markets rewarding them for growth, rather than capital efficiency or profitability — are learning that the public market operates by a different rulebook.

That said, such market pressure is not new. Indian companies were no strangers to demands of earnings discipline even when foreign investors dominated ownership. What has changed is the nature of that pressure. Domestic capital is more permanent, more tightly benchmarked and more closely watched. That makes the demand for predictable delivery continuous rather than cyclical, leaving less room for the kind of earnings volatility that long-gestation innovation inevitably brings.

The issue is not unique to India. In the US, the debate has been going on for the past two decades under terms like 'short-termism' and 'financialisation of corporate America'. Deep financial markets have ensured US companies must keep their country's boisterously vocal investor base happy.

They do that with share buybacks, dividends and disciplined cost-cutting measures. Despite financialisation, absolute R&D spending in the US keeps rising, led by Big Tech, pharma, aerospace and defence.

In China, the situation is different. Their innovation is not driven by companies or markets but by the state. Policy clarity, tolerance for multi-year losses and R&D spending without visible profitability fuel innovation there.

Financialisation of savings in India is the new reality, and it's here to stay. As abundant capital deepens public markets, they will continue to reward what investors understand best — efficiency, consistency and near-term delivery — while remaining far less comfortable with innovation and long-duration risk.

The policy challenge is clear: channelling plentiful public capital into long-term gestation projects. At a time when India's growth ambitions hinge on private manufacturing and technology advancement, companies and public shareholders, too, must accept that long-term risk-taking is not somebody else's job. At some point, listed companies — and investors who own them — will have to relearn the economics of waiting.

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Copper Wired into Great Power Rivalry

Steady supply needs coordinated demand

Two critical technologies, AI and electric mobility, are driving a multi-year surge in copper prices, while supply has not kept pace. The world is yet to experience a full rollout of either tech, which makes copper a critical mineral for the future. AI data centres need enormous amounts of copper wiring, and EVs use several times more copper than cars running on fuel. The tech race in both areas pits the US against China for strategic control of overseas copper mines. Some of the largest mines have had to scale back production for various reasons, including disasters and industrial action. Although copper prices have been climbing, they have not reached levels sufficient to trigger capacity expansion, and supply is driven by the overexploitation of existing mines. This aside, copper is rising alongside gold and silver, as safe-haven demand is gaining strength on heightened geopolitical uncertainty.



The Venezuela incident reinforces concerns over strategic control over minerals and the security of supply chains. Copper is vital for national security, and the US is aiming to ramp up production at home. China, which dominates the copper refining industry, has cast its net wider for supplies from Africa and South America. India is also in the race to secure supplies from domestic and foreign sources. Copper supplies are concentrated in a select group of countries — Chile, Peru, Zambia and the Democratic Republic of Congo — where resource nationalism and social risks are mounting. Smelting copper is principally located in China, making other consumer states structurally dependent.

The metal, thus, finds itself caught up in a great power rivalry. Like oil, copper needs a contract between a handful of producing and consuming nations. This becomes clearer as mining the metal becomes more difficult, both naturally and politically. The supply response will improve through better-coordinated demand. Trade fragmentation makes this a remote prospect for copper. The metal's credentials for greening the planet call for scrutiny of the environmental impact of over-mining.

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Budget should be a broader, louder, unambiguous signal on reforms, not inchoate microdoses

Tweaks, No More Tweaks



Sugata Ghosh



More than just gheeDP

The days of opening doors to foreign capital with striking announcements are coming to an end. Power of press communiqués to electrify markets at the stroke of a pen has waned. The armoury of tax levers, big and small, whose pulls and shifts livened up investors and changed fortunes of trades has shrunk.

New realities confront Budget 2026. Most businesses can attract foreign equity if they can sell their stories. Driven by an urge to simplify tax rules, GoI has virtually given up its powers to cheer and punish by tweaking tax exemptions and incentives — even nudging people to embrace the new regime of zero-exemptions.

For years, changes in tax rates, slabs and exemptions were compelling budget hooks. A lot of it is now missing. Taxes for individuals were recently lowered. So, little or nothing is expected. GST rates, anyway outside the budget's scope, have been cut to stoke consumption. Taxes for businesses were reduced some years ago.

Actions on customs duties are a function of diplomatic whims and ephemeral geopolitics, while tax on capital gains was raised not just for local investors but even for foreign portfolio managers, following revisions in the treaties with Singapore, Mauritius and France.



GoI must strike deals with states to speed up projects and reduce plethora of approvals required to start a business

Apart from possible minor corrections (aligning short-term tax on gold funds and fund-of-funds with equity funds, etc), any reversal in capital gains tax would betray a sense of desperation even if cheered by the markets.

This congeries of factors complicates the FM's job to throw in surprises that people expect, and GoI attempts to make the annual ritual engaging. She may not have an arsenal of sweeping measures that can easily capture the imagination. Instead, the minister and her team have the difficult job of weaving together a string of measures and reforms, and promoting their significance to draw attention of foreign investors of all kinds — strategic, long-term direct investors; foreign PE and VC houses; sovereign wealth and pension funds, and usual asset managers and hedge funds.

This is an imperative in the wake of capital outflows. Ever since the PM's Independence Day speech, 'reforms' has assumed greater importance. In a turbulent world, it became a push to overcome slack caused by failed farm reforms and results of the last elections.

Since then, labour laws were consolidated, GST rates were rejigged, 20-odd deregulations, including easier dollars loans, were announced by RBI, private and foreign investments were allowed in nuclear energy, and GoI moved in to decriminalise minor offences. Though significant, even far-reaching in some cases, they don't spark immediate interest among investors or translate into market gains. The somewhat disjointed announcements do not dovetail into a comprehensive narrative on reforms. Maybe the Economic Survey would connect the dots.



Recent reforms – from labour law consolidation to nuclear investment and minor-offence decriminalisation – are far-reaching but rarely move markets or investors

In the absence of big bang steps that can be showcased, the decade-old motto of 'ease of doing business' has acquired a fresh urgency. Introducing simpler rules like a presumptive tax for foreign businesses, or attractive safe-harbour transfer-pricing regulations for businesses like GCCs operating on a cost-plus model would reduce tax disputes arising from how much income should be attributed to India. Tax exemption to long-term portfolio investors like sovereign and pension funds, and tax benefits to capex on R&D could send the right signal to suppliers of patient capital.

GoI can unilaterally take such steps. But a tough, more delicate but equally important reform would be striking deals with states to quicken completion of large projects, and cut down plethora of approvals a businessman needs to open shop. While this would require bridging the seemingly insurmountable trust deficits with non-BJP states, it could need careful handling even in BJP states to preserve the flavour of federalism.

Driving home the reform message at the dual level is crucial for sustained FDI whose importance has suddenly surged. Such stable capital flows pay for the trade deficit and fill the forex reserves coffers to counter the volatility caused by FPI hot money reacting to Trump's tweets.

However, it's not just the rupee that takes the brunt of large capital outflows. When dollars leave the shores, RBI steps in to supply the US currency and, in the process, mops up rupees from banks, leaving them with less liquidity. With loans growing faster than deposits in banks (partly due to high small savings rate), large outflows can distort the overall debt-equity balance in the system.

If it lasts long enough, the importance of equity would grow abnormally, and bank credit would play a lesser role. This would raise price of loans for smaller businesses who may be unable to attract equity, increase borrowing cost for GoI (the largest borrower), and make RBI's rate cuts ineffective.

Thus, the budget should be a broader, louder, unambiguous signal on reforms. Selling doses of measures devoid of excitement could be like treading a long road, like the GST rollout. It may be slow and trying. But a beginning can be made in 2026. The budget can go beyond its customary exercise to spin the tale.

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WORLD'S AGRICULTURE PRODUCTION

Global production of primary crops has generally increased since 2010, with almost all crop categories recording double-digit growth, according to latest FAO data. The global area harvested increased by 197 million hectares between 2010 and 2024, to 1.5 billion hectares. While oil crops, roots and tubers, pulses and vegetables showed predominantly area-driven growth, improved yields primarily drove the growth of cereals, fruits and sugar crops production...

Major primary crops: Production and area, 2024

	Production (million tonnes)			Area harvested (million hectares)		
	World	% change*	India share	World	% change*	India share
Cereals	3,133.2	26.8	12.5	745.0	7.4	14.5
Sugar Crops	2,234.3	17.2	20.3	31.5	11.1	18.2
Oilcrops	1,197.0	49.0	6.1	351.9	28.7	12.6
Vegetables	1,182.1	25.8	12.4	59.6	17.1	15.4
Fruit	953.8	29.4	11.8	68.4	12.8	10.3
Roots&Tubers	944.1	26.5	7.0	72.0	32.4	3.7
Pulses	97.1	33.2	26.2	91.2	16.7	30.7
Fibre Crops^	32.3	9.7	21.0	34.1	-1.9	35.5
Treenuts	18.4	42.4	6.1	14.4	40.2	9.0

*Over 2010; ^Fibre Equivalent

Source: Agricultural production statistics 2010-24

SANJEEV RAJ JAIN

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Energy Flywheel Gathers Momentum

High demand and weak reforms could risk it

India is moving closer to achieving energy security by addressing chronic bottlenecks. Coal production now exceeds 1 bn tonnes, with both Coal India and private miners posting healthy growth. The US intervention in Venezuela signals its intent to maintain oversupply in the oil market. Changes in liability laws are expected to draw private capital into nuclear energy. Renewables now constitute over half the total installed power capacity, a milestone in the country's effort to create 500 GW of non-fuel capacity in the next 5 yrs. Each of these achievements involves policy reorientation to access energy from all sources to maintain economic momentum over a period of anticipated high growth.

The country is well-placed to negotiate external pressure over sourcing crude oil from affordable sources, such as Russia, if the glut persists in the market. India will be driving incremental energy demand globally and would find itself boxed in if the crude oil market were to turn tight. Oil-producing nations are finding it difficult to stick to production quotas, and with the prospect of additional reserves being tapped, their job becomes even more difficult. India has maintained a neutral stance on sourcing crude oil and natural gas, which makes switching vendors simple. It also allows New Delhi to deflect criticism over the strategic impact of its energy imports.



The economy has a low-energy intensity, but the scenario is projected to change with greater policy focus on manufacturing exports. New technologies like AI and EVs will contribute to India's incremental energy demand. The work that has gone into improving the supply response in the energy market will, however, have to be matched by improvements on the demand side. India must get its energy pricing right to be able to successfully harness it for accelerated growth. Politicisation of electricity prices has eluded successive rounds of reforms. It remains an area of concern because it affects the investment climate. The distribution bottleneck, if left unaddressed, will impact upstream revenue.

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STATE OF PLAY India mustn't remain a lone ranger while arenas are being carved out

It's Time to Trade Places



Pranab Dhal Samanta

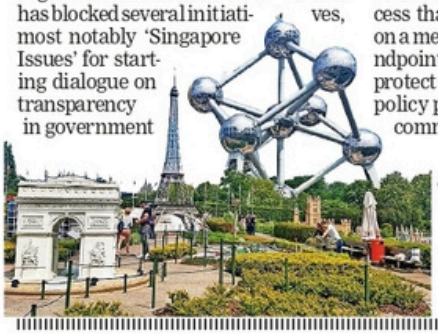


End the isolation, 'Crusoe', 1899, by John Charles Dollman

Trade is the policy mountain India has always found difficult to climb. Its boldest effort so far has been with Trump. The offer is possibly the best India has ever carved out, setting aside WTO concerns and MFN issues. But it has got embroiled in a set of politics that has left all bewildered. That said, India's policy challenge on trade is much bigger, requiring fundamental shifts to reposition itself in a fast-changing global trade matrix.

Set aside the US deal for a moment. Key among Washington's proposals put forward last month to reshape WTO is doing away with consensus-format decision-making. Today, even a single member country can block a decision by withholding consensus. What the US has proposed is those members who agree can proceed with the initiative as a plurilateral arrangement with WTO sanction. Essentially, the will of a majority cannot be blocked.

India has historically been against carving out WTO plurilaterals, or 'joint statement initiatives', on grounds that it undermines the consensus principle through which multilateral organisations function. New Delhi has blocked several initiatives, most notably 'Singapore Issues' for starting dialogue on transparency in government procurement, investment, trade facilitation and competition.



But this was more than two decades ago when China, Brazil, South Africa and several African countries stood alongside India.

More recently, India blocked a China-backed International Facilitation Development Agreement (IFDA), which was possibly aimed at protecting BRI investments. This time, many other countries wanted similar arrangements. But India blocked on the same grounds that plurilateral arrangements violated the consensus principle.

At that point, US and South Africa stood with India to block what was seen as a Chinese effort. For New Delhi, the deeper issue was that it has never wanted investment to become a WTO subject in any form. It didn't want to get bound to a commitment over deciding FDI limits. Because with WTO, a country can set limits but can't lower them at will.

Further, any investment dispute will automatically go to WTO's dispute redressal system. That's a faster process than arbitration, and is binding on a member nation. From a WTO standpoint, the idea is to find ways to help protect foreign investment and ensure policy predictability through binding commitments.

India must not drag its feet with the EU and close the deal before budget. It may have to take a pragmatic view on buying additional Russian oil

The Trump regime is not looking to immediately abandon WTO, but change it to suit the US by allowing space for plurilaterals through a majority-led, not consensus-based, approach. It also wants the MFN principle to be set aside and special differentiated privileges to developing countries to be done away with.

With this line, the US will go 'agnostic' on IFDA. Indications to this effect are already visible ahead of the Cameroon WTO ministerial in March. China has reportedly got South Africa to back off, possibly leaving India as the only country blocking consensus. In short, India's days of grandstanding at WTO look numbered.



The Trump regime is looking to change WTO to suit the US by allowing space for plurilaterals through a majority-led, not consensus-based, approach

Between US proposals and China's economic sway over the 'global south', India will have to take a pivotal call. The US may use the trade deal as a bargaining chip to obtain India's support to its WTO proposals. Even though China informed WTO in September that it won't take privileges of a developing country, the Trump regime is still keen on removing these special advantages because of the way Beijing benefited from the system over the last 15 yrs. India will also feel the impact. Without a separate deal with the US, chances of isolation are high.

It's vital that India does not drag its feet with the EU and close the deal before the Union budget. To this end, it may have to take a pragmatic, calculated and unemotional view on buying additional Russian oil, even if the buys are from unsanctioned entities, given the sensitivities attached on this matter with Europe. This is one issue on which EU is backing the US, including the 500% penalty threat through the latest Russia sanctions bill.

India must also take note that the EU, for the first time, launched a trans-Pacific trade and investment dialogue with CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership) in Melbourne last November. Trump 1.0 withdrew the US from CPTPP even though it would have countered Beijing by creating a 'RCEP-minus-China'-like grouping. But CPTPP was reinvented and kept alive by 11 countries, including Australia, Japan, Canada, Malaysia and Vietnam. Together, the EU and CPTPP account for 32% global GDP and 37% global trade.

In fact, an EU-CPTPP combine has been discussed as a balancer to Trump's tariff play. Now that a formal dialogue has started, India needs to examine ways to engage with this trans-Pacific set. A trade deal with the EU will offer a credible pathway into the CPTPP conversation. These are complementarities that need to be explored thoroughly and quickly.

At a broader level, significant shifts are taking place on the trade front. While India has secured a clutch of FTAs that have helped improve its negative image on trade, it still needs to take more ambitious policy calls, especially on its investment approaches, to ensure it doesn't remain a lone ranger at a time when new trading arenas are being carved around three economic powerhouses: the US, EU and China.

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Nothing Dickensian About Gig Work



Sanjeev Bikhchandani & Chetan Aggarwal

The gig workers' strike planned for December 25 and 31, 2025, may have failed to draw significant participation, but it has sparked a debate on the welfare and rights of workers. Unfortunately, much of this debate rests on a flawed premise: economic viability of platform companies and the welfare of gig workers are orthogonal. This reflects a misunderstanding of the role that platform companies play, and of constraints, incentives and agency that characterise gig work.

▸ **Livelihood generation** Today, the gig economy constitutes a critical segment of the economy. This is reflected not only in the market capitalisation of listed platform companies but also in their role in livelihood generation. Economic Survey 2024-25 notes that these companies have transformed traditional service sectors into a digitally driven ecosystem. A 2022 NITI Aayog report states that India had about 7.7 mn gig workers in 2020-21. This is projected to more than triple to 23.5 mn by 2029-30, accounting for more than 6% of non-agricultural employment.

This impact is visible in food delivery. In 2023-24, the sector's gross output was around ₹1.2 lakh cr, providing direct earning opportunities to over 1.37 mn people. Encouragingly, this was traditionally lagged. A 2023 NCAER survey found that nearly 70% of food delivery agents worked in their hometowns, and 32% were unemployed before joining platforms, highlighting the gig economy's role as a livelihood-generator, and safety net.

▸ **Positive spillover effects** Owing to delivery-based apps, there is expected to be an increased demand of nearly 80 lakh vehicles over the next 5 yrs. Majority of restaurants surveyed by NCAER reported increased traffic after joining such platforms.

▸ **Informal but formal** Most gig workers are medium- or low-skilled, and platform work offers an alternative to the uncertainty of informal manual labour. The payouts are processed faster than traditional employment setups, and there is almost no default risk. Although not on payroll, they operate under formal, legally enforceable contracts.



It was the best of times

▸ **Ease of entry** Unlike traditional occupations, which are tightly regulated (e.g., autorickshaw permits) or mediated by personal networks and usurious contractors, gig platforms have minimal eligibility criteria. Ownership of a two-wheeler and a valid driving licence is sufficient, some even permit bicycles. Task allocation is conducted through probabilistic algorithms, reducing bias and arbitrariness.

▸ **More power to workers** The gig economy has expanded worker agency, who now control where they work, when they work, and how much they work. A distinctive feature is the effective 'right to exit'. The demand for gig workers exceeds supply, allowing workers to shift platforms easily. This reverses traditional power dynamics, forcing platform companies to compete for workers' time.

▸ **Competitive earnings** A regular delivery partner with Zomato, on average, earns a net income of more than ₹20,000, which is higher than that of many entry-level formal jobs. Among short-shift workers, gig work accounts for roughly one-third (33%) of their total income and requires about the same number of work hours (37%), indicating that gig platforms are not underpaying. For many, this is supplementary income.

Continued worker participation despite revenue-sharing arrangements demonstrates the value platforms provide through market discovery. Independent service providers face no legal barrier to approaching customers directly, yet choose platforms because these eliminate search and transaction costs, which helps explain why autorickshaw drivers have adopted rider apps.

Misguided activism risks more harm than good. Demands such as mandating permanent employee status for gig workers or eliminating penalties for repeatedly rejecting tasks are either infeasible or counterproductive. Treating all gig workers as permanent employees would collapse the platform model. Most platform companies remain loss-making. Their sustainability is essential for workers' welfare. Companies also need to ensure service reliability.

However, worker welfare should not be ignored. The sensible path forward lies in industry-wide best practices, including social security provisions and trainings. The Code on Social Security 2020 has laid down a framework for the social protection of gig and platform workers. The draft Social Security Rules operationalise this framework by defining eligibility, registration and coverage mechanisms, including minimum participation thresholds across one or multiple platforms.

Eventually, the choice is not between viable platforms and worker welfare. A sustainable gig economy depends on recognising that these are complementary, not competing, objectives. India's gig economy is not a Dickensian 19th-c. workhouse. It is a 21st-c. marketplace — entered by choice, sustained by demand, and exited at will.

Bikhchandani is co-founder, Info Edge, shareholder in Zomato's parent company Eternal, and Aggarwal is a public policy consultant


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SWEDISH ACADEMY PRAISES DYLAN'S POETRY FOR THE EAR

AROUND THE WORLD ▸▸ 17

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The Chip Pax Silica Can't Ignore



Subimal Bhattacharjee

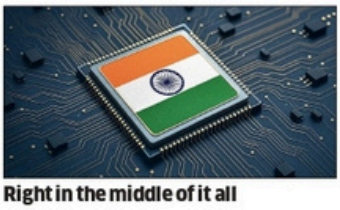
When the US-led strategic initiative Pax Silica was announced on December 11, 2025, India's exclusion raised eyebrows. Despite being a trusted Quad partner, New Delhi found itself outside an alliance designed 'to build a secure, prosperous, and innovation-driven silicon supply chain — from critical minerals and energy inputs to advanced manufacturing, semiconductors, AI infrastructure, and logistics'. Nine nations signed the founding declaration minus India. Yet, the welcome announcement by the new US ambassador to India, Sergio Gor, on Sunday about India being invited to join Pax Silica next month, reflects a fundamental reality: reshaping the semiconductor ecosystem without India is impossible.

The initial exclusion stung because it contradicted India's strategic partnerships. While Quad partners Japan and Australia sat at the table alongside South Korea, Singapore and the Netherlands, India's absence suggested doubts about its technological capabilities. Some speculation was also made about India's heavy dependence on Chinese imports for critical minerals and its nascent semiconductor base.

But geopolitics and economics have forced a recalibration. India's impending membership reflects cold strategic necessity for both sides.

For Pax Silica to succeed, it requires scale, diversification and sustainable alternatives to Chinese-dominated supply chains. China controls nearly 70% of global rare earth mining, and dominates critical mineral processing, underpinning everything from advanced chips to EVs. Breaking this stranglehold demands partners with significant market size, resource potential and manufacturing capacity.

With 1.4 bn people and an economy becoming the world's third largest, India represents the only viable alternative production base of sufficient scale. Taiwan and South Korea offer technological excellence but lack demographic heft and geographic diversification. India's expanding semiconductor ecosystem — including major investments from Micron, Tata Electronics and Foxconn — positions it as a meaningful contributor to allied manufacturing capacity. India also possesses substantial critical mineral reserves and an unmatched engineering talent pool capable of driving innovation in chip design and AI. Excluding this human and natural capital would undermine the alliance's core objective: building resilient tech supply chains insulated from geopolitical coercion.



Right in the middle of it all

For India, membership advantages are transformative.

▶ **Funding access** Coordinated investment flows running into billions of dollars accelerate India's semiconductor ambitions beyond what domestic resources alone could achieve. While New Delhi has announced incentive packages exceeding $10 bn, financial inducements cannot overcome technological gaps. Pax Silica membership provides tech transfer agreements and strategic partnerships necessary to leapfrog development stages.

▶ **Critical access** Being inside means preferential access to cutting-edge manufacturing equipment, advanced materials and tightly controlled IP. Countries within trusted technology networks benefit from relaxed export controls and collaborative research programmes inaccessible to outsiders. For India's goals of moving from assembly to advanced chip fabrication, such access is invaluable.

▶ **Strategic insurance** As semiconductor supply chains become instruments of statecraft, nations outside trusted networks face vulnerability. India's participation embeds it within the democratic technology ecosystem, reducing exposure to arbitrary restrictions while maintaining strategic autonomy.

▶ **Global integration** The alliance provides platforms for Indian companies to integrate into GVCs at higher levels. Rather than competing for low-margin assembly work, Indian firms gain opportunities in design, advanced packaging and specialised manufacturing that command premium returns and build lasting domestic capabilities.

To maximise these advantages, GoI must move decisively. Scaling up domestic semiconductor capabilities through investment in advanced materials research and robust IP protections is paramount. Deepening bilateral tech partnerships with Pax Silica members builds trust. Policy frameworks that reassure partners on technology sharing and export control coordination are essential.

The invitation is not charity but recognition of mutual dependence. Pax Silica needs India's scale, resources and talent. India needs Pax Silica's technology, investment and strategic validation. In semiconductor geopolitics where supply chain control determines economic prosperity and national security, India's membership transforms potential into power.

The writer is a commentator on digital policy issues

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Countries dialling down their dollar dependence is good for the world, average American included

Less Lipstick on the Dollar



Ateesh Tankha



Enough of catching 'outlaws' – take a fistful of dollars with a pinch of salt

Singapore: Many ascribe the US' latest imperial aggression to opportunistic economic growth with regard to oil and other precious commodities. Trump himself claims that Venezuela's oil belongs to the US, that Greenland must be annexed for its mineral wealth, and that others, like Iran, had better toe the line or face the full force of America's wrath.

Some explain these actions and utterances as a way to distract from his abysmal performance. Tariffs have solved nothing: national debt has grown to $38.4 tn, prices are rising, and job growth is at its lowest since the pandemic in 2020. Can his poor ratings, coupled with the 23 off-year election losses Republican Party has suffered — to say nothing of the release of the Epstein files — be the only reasons for his brazen behaviour? Perhaps.

But in that case, Trump would have been better served using a sequence of spectacles and performative press conferences instead of executing a smash-and-grab kidnapping operation. On the other hand, he often repeats a refrain linking economic assets to strategic imperatives. This seems reasonable, until you realise that if the US really took over Venezuela's oil production — an undertaking that Exxon CEO Darren Woods called 'un-investable' at a White House meeting of US oil executives with Trump last week — any success there would hurt the domestic fracking industry, already suffering from an oil glut, while forcing oil majors to absorb more debt to modernise Venezuela's ancient extraction infrastructure.



Could the strategic imperative, then, be something else? A significant event in Hong Kong last November may have precipitated the symbolic ousting of Nicolás Maduro. China issued $4 bn in dollar-denominated bonds that were oversubscribed nearly 30×, offering lower yields than those on US-issued bonds. This, in effect, allowed China to borrow at a lower rate than the US government.

These dollars will supposedly be used to fund BRI investments in developing countries, with repayment being structured in renminbi. While it's easy to challenge the sustainability of such an endeavour, countries like Brazil, Bolivia and Kenya frequently restructure loans into lower-cost renminbi debt today.

This, effectively, is a direct challenge to the dollar's dominance — its core economic imperative — an exorbitant privilege that has allowed it to operate the world's reserve currency since 1945, a position that was made even more unassailable after secretary of state Henry Kissinger's arrangement with Saudi Arabia, which created the petrodollar in 1974.

Central bankers purchasing about 800 t of gold in 2025 have shown that they see the dollar as only one of many alternative reserve assets in the future

Every time a nation needs to purchase oil, settle international debts or engage in international trade, it bolsters incremental demand for dollars, while allowing the US to borrow on the cheap and impose sanctions at will — by freezing dollar assets, and precluding some nations and actors from accessing the SWIFT network.

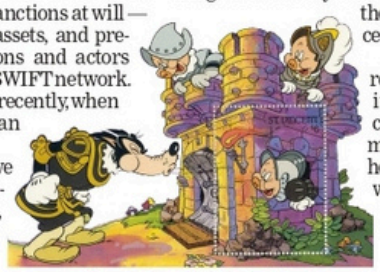
That is, until recently, when this supremacy began to wobble.

Sanctions have aged poorly, with countries like Russia, Venezuela and Iran using workarounds to evade the dollar embargo. Separately, China has been aggressively pushing its own currency as a dollar alternative. When Argentina, a country with low forex reserves, began to use renminbi currency swaps to pay off IMF debt, it energised Trump into making a $20 bn currency swap line available to Argentina in October 2025 to counter the Chinese threat.

But the most prominent signal came from central bankers who, from their purchase of about 800 tonnes of gold in 2025, have shown that they see the dollar as only one of many alternative reserve assets in the future.

This, then, better explains Trump's actions. Even though Venezuela only accounts for 4% of Chinese oil purchases, 100% of its exports have been sold to China in renminbi since 2018. Beyond profit, by selling '30-50 mn barrels' that Trump says he will apparently receive from Venezuela at market rate in dollars, and forcing Venezuela to sell its oil in dollars going forward, he hopes to curb any threat to US dominance in the western hemisphere. Similar reasons could be used to explain Trump's interest in Greenland, and latest 25% tariff on those trading with Iran.

For all that, this dollar-driven distemper presents a rare opportunity, most notably for the new 10-nation BRICS consortium, and the even larger BRICS+ lobby that represent some 45% of the world's population, 35% of global GDP, and 30% of global oil production, to formally draw down their dependence on the dollar. By creating a trading bloc that uses a currency basket to conduct trade among themselves without fear of arbitrary sanction or invasion, but with mutually agreed reciprocal penalties to counter anything unleashed by the Trump regime, they could succeed.



By creating a trading bloc that uses a currency basket to conduct trade among themselves without fear of arbitrary US sanction or invasion, BRICS+ could succeed

The US will refuse to cede its unipolar currency dominance without a fight, which may include military intervention. But this is how every empire ends. Even if it takes decades. Yet, a world where the dollar is significant, but not dominant, is in everybody's best interests, including the average American. Because many structural imbalances that exacerbate inequality, debt spirals, ineffective monetary policy transmission and capital flow volatility could be curbed. So, if the rest of the world is to prepare for a more equitable multipolar scenario, this may be as good a time as any other.

The only immediate losers would be Trump and his cronies. So, the sooner the better.

The writer is founder-CEO, ALSOWISE Content Solutions

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'Trump First' Seeks Fed Regime Change

Monetary policy kidnap bid worse than tariffs

In the most compelling case of Trump's professed 'America First' agenda actually being 'Trump First', on Sunday, US Fed chair Jerome Powell responded to the real estate-president's bid to gain control over US monetary policy. That's bad news for the US, since Trump has no clue where interest rates ought to be. No politician does. Which is why smart political leaders wisely leave the job to central bankers trained to read the economic evidence. Powell has a few months left as Fed chair, and Trump is frustrated he still doesn't have a pliant rate-setting committee. Powell could continue on that committee as member, which puts into perspective the threat of criminal indictment he faces. Trump soured on Powell after elevating him to the chair during his first term, and the relationship worsened last year, with the Fed resisting pressure from the regime to cut rates. If Powell chooses to continue on the board, it will deny Trump the majority he needs to set the pace of interest rate cuts for the rest of his term.



Central banks are autonomous precisely to counter Trump-like overreach. They stop governments from taking measures that could stoke future inflation, rack up too much debt, and anchor inflation expectations through their neutrality. Monetary policy is not meant to be a political tool. Trump doesn't get that. Fortunately, the US has checks against Oval Office megalomania. Trump is testing those fetters to the limit.

A heavy-handed regime is up against bond vigilantes. If the rest of the world starts cashing in American IOUs, Trump can be stopped—unless Congress or US Supreme Court get there first. Tariffs are one matter. They can be used as leverage over other economies. Interest rates work through the US economy before they travel into the international financial markets. But control over Fed is a bigger fight. US allies that kowtowed over tariffs will be less supple on interest rates. Trump may or may not be returning to office. But governments elsewhere aren't ready to let inflation wreck their re-election plans.

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Fed Independence Going to Tin Pot



Mythili Bhusnurmath

After months of shadow boxing, the knives are out. Ending a more-than-year-long dignified silence in response to Donald Trump's outspoken comments and insults — ranging from 'numbskull' to the relatively more restrained, 'Mr Too-late' — US Federal Reserve chair Jerome Powell finally broke his silence on Sunday.

In a recorded video message that was as unprecedented as it was unexpected, Powell disclosed that the US Department of Justice had served the Fed with subpoenas, and threatened a criminal indictment over his testimony to a senate committee about renovations to Federal Reserve buildings.

That's on the surface. At the root of DoJ's action is the long-simmering feud between Trump and the usually-reticent Powell over the Fed's independence in setting the policy or Fed rate (overnight rate of interest at which banks borrow or lend). 'If I want him [Powell] out, he'll be out of there real fast, believe me,' boasted Trump last April, following it up with, 'Powell's termination cannot come fast enough', on Truth Social....

...Only to find that, in reality, there are limits to his power. Under the law as it stands, it's virtually impossible to remove the Fed chair before his term. Hence the attack, using the fig leaf of the Fed's renovation of two buildings on the grounds of ballooning cost to, first, get Powell to testify before the senate committee and, now, to charge him with dishonesty in his testimony.

In his public rebuttal, Powell did not mince any words. 'This new threat is not about my testimony last June or about the renovation of the Federal Reserve buildings. It is not about Congress' oversight role. Those are pretexts. The threat of criminal charges is a consequence of the Federal Reserve setting interest rates based on our best assessment of what will serve the public, rather than following the preferences of the president.'

Though Trump claimed he did not 'know anything' about the investigation, no one is buying that story. It's highly unlikely that the justice authorities would have initiated action without an implicit, if not explicit, go-ahead from the president.

Monetary policy is not mathematics. Lower interest rates will not automatically translate into higher growth. Moreover, Powell has only another 4 mths to go — his term gets over in May this year. So, what was the hurry? What is at stake? Very simply, independence of the US Federal Reserve. In Powell's words, 'This is about whether the Fed will be able to continue to set interest rates based on evidence and economic conditions, or whether instead monetary policy will be directed by political pressure or intimidation.'



Yes, read it: 'In Trump we trust'

Admittedly, differences between elected governments and unelected heads of central banks are not new. We've had our own share of face-offs. Former RBI governor K R Puri was shown the door by the Janata government in 1977. R N Malhotra resigned in 1990 due to differences with then FM Yashwant Sinha, over the size of fiscal deficit. Under the UPA government, differences arose between FM P Chidambaram and RBI governor D Subbarao, over interest rates and, later, between the NDA government and Urjit Patel, over transfer of RBI's surpluses to GoI, finally leading to Patel's resignation before his term ended.

More recently, we've had FM Nirmala Sitharaman and commerce minister Piyush Goyal publicly call for lower interest rates. But their remarks did not cross the lines of civility. RBI governors, on their part, have been known for their reticence. So, battles, if any, have been fought behind closed doors.

Not so in the US. Which is perhaps why a number of former Fed chairs, treasury secretaries and eminent economists have rallied around Powell. In a joint public statement released the day after Powell's rebuttal, they condemned the investigation, calling it 'an unprecedented attempt to use prosecutorial attacks' to undermine the Federal Reserve's independence.

But I have issues with another matter. The statement adds, 'This is how monetary policy is made in emerging markets with weak institutions.' In the light of what we're witnessing in the US today, that broad swipe at EMs is uncalled for. On the contrary, perhaps there is much the US can learn about respecting public institutions from an emerging-market economy like India. In adopting a transparent, flexible inflation targeting regime, we have consciously moved towards greater central bank independence, even as the US has abandoned that objective in all but on paper.

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Elite Education, Get Industrious



Subhamoy Maitra

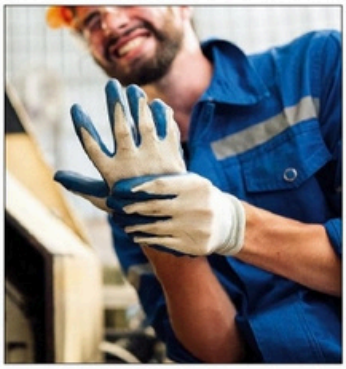
IIT Council's decision earlier this month to reform JEE Advanced, MTech and PhD programmes is an acknowledgement that India's elite education model is under pressure to adapt. When institutions as reputation-conscious and tradition-bound as IITs decide to revisit how they select students and train postgraduates, it reflects unease not with intent but with outcomes.

India has long lived with two parallel ideas of education. One is mass-oriented — designed to expand access, improve employability and ensure minimum competence across a vast population. For a country with 1.5 bn people, such 'socialist' ideas can't be ignored. The other is unapologetically elitist. It selects aggressively, excludes without remorse and rewards those who survive prolonged competition. Institutions such as IITs and IIMs belong to this category.

The entrance processes of the latter are among the most competitive in the world, their brand value is global, and their graduates are embedded in capitalist systems of production and management. By philosophy and design, these institutions cannot be separated from markets, hierarchy or competition. Any serious reform must begin by acknowledging this reality rather than softening it with comforting rhetoric.

So, elite engineering education cannot confine itself to abstract discussions on pedagogy or academic ideals. Its graduates do not merely acquire knowledge, they enter systems of power, capital and influence. Nation-building becomes an implicit expectation, even as the definition of 'nation' remains flexible. Many graduates contribute to building other countries' tech and economic capabilities.

This global mobility only heightens institutional responsibility. If elite institutions are producing individuals who will shape industries, technologies and policies across borders, their education must emphasise real-world problem-solving, not just exam excellence.



Get the glove to fit

Which makes the latest emphasis on mandatory internships welcome. Over time, however, many internships, particularly at the PG level, have drifted into academic comfort zones. Students remain within labs or research groups, producing outputs that satisfy evaluation metrics, but often fall short of industrial or societal relevance.

Exposure to industry teaches constraints that classrooms rarely capture: hard deadlines, imperfect information, organisational frictions and that deployable solutions matter more than elegant ones. For institutions that wish to remain relevant in a rapidly changing tech landscape, deeper industry engagement is no longer optional.

Perhaps the most telling aspect of the proposed reforms is the implicit recognition that exceptional performance in entrance exams is a poor proxy for long-term success or innovation. Of late, the IIT entrance ecosystem has become heavily pattern- and preparation-driven. Coaching systems have professionalised success in entrance exams to such an extent that many students arrive on campus fatigued.

Curiosity gives way to optimisation. Intellectual risk-taking yields to strategic caution. But these are absent in a considerable proportion of students admitted through the present process dominated by multiple-choice answering frameworks. This is not individual failure, but a predictable outcome of sustained hyper-competition. Burnout at entry point also casts a long shadow. Industry leaders and research supervisors report a similar pattern as well.

Adaptive testing, curriculum restructuring and rethinking PG pathways are attempts to recalibrate incentives. If implemented thoughtfully, they may help restore balance between assessment and imagination.

There is also a broader societal expectation that elite institutions can no longer overlook. It increasingly expects graduates from top institutions to not merely compete for the best jobs, but to create jobs themselves. In an economy aspiring to scale innovation rapidly, employment generation cannot remain incidental.

So, internships can't be confined to corporate absorption alone. They must be equally oriented towards entrepreneurship, exposing students to product development, market validation, regulatory navigation and early-stage failure. An internship that teaches how to build, pivot or responsibly abandon an idea may be as valuable as one that trains students to optimise existing systems.

Elite education will always remain competitive, and rightly so. But competition must remain a means, not the destination. The timing of the decision is appropriate. But its success will depend on whether reforms translate into measurable outcomes, rather than well-meaning frameworks.

The writer is professor, Indian Statistical Institute (ISI), Kolkata

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India Really Needs To Spice Things Up

Expand range of masalas, countries to export

Three out of four spices known to humans are grown in India, which produces nearly half the global spice output. Three-quarters of that ends up in Indian curries. The leftovers are exported to 200 countries as inexpensive raw spices. Bulk of our exports are confined to a handful of spices and head to a few countries. China is one, where Indian spices are blended, and essential components extracted for food and medicinal use. This is where the money is in the spice business. And India is not doing enough about it.

For a start, production must rise faster, so that more spices can be exported. This would involve productivity improvements since area under spice cultivation is limited. Agricultural research has a big role to play. But central and state governments have been tight-fisted about funding it. Yield improvement through pesticide use runs up against phytosanitary standards that are key for exports. It also limits India's ability to tap the rising international demand for organic spices. Apart from increasing output, India needs to climb the value chain in spices. Capacity must be built to extract essential oils and oleoresins that cater to the wellness and nutraceutical industries. Most spices have therapeutic qualities that are yet to be fully explored, never mind tapped, and that can offer alternatives to modern medicine.



India has dominated the spice trade throughout recorded history, and these flavours have shaped the course of history. On the surface, this domination appears intact. But cracks are appearing as countries like China and Brazil turn their energies to a lucrative segment of farm exports. Indian spices must remain competitive through productivity and value enhancements. The country should also diversify its spice output away from the staple chilli, cumin, coriander, turmeric and ginger. It should, in fact, explore growing non-native spices given its geographical diversity. That'll make things truly spice.

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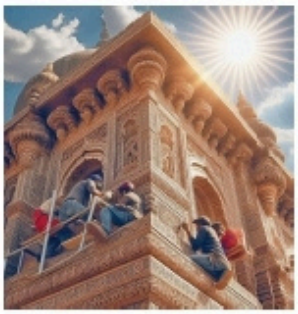
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Past-Present PPPs Need Nourishing

Heritage is a layered, complex idea. Preserving legacy — particularly of the built, structural kind — has long rested with Archaeological Survey of India (ASI). With responsibility for over 3,000 centrally protected monuments, ASI has struggled to keep pace with limited budgets and chronic staff shortages. Conservation, often resource-intensive and technically demanding, has increasingly tested the limits of a single, cash-strapped public agency. GoI's decision to let the doors open to private sector participation in core conservation will enable ASI to empanel private conservation architects and agencies. This is welcome. Corporate donors contributing via National Culture Fund (NCF) can engage chosen experts to execute projects, within ASI-approved standards and under regulatory oversight. Importantly, ASI retains its supervisory authority, ensuring that conservation integrity is not compromised.



Inclusion of private players in maintaining heritage, though not entirely new, deserves care and caution. It marks a departure from earlier initiatives such as 'Adopt a Heritage', which focused primarily on visitor amenities. Concerns about the new approach understandably persist around commercialisation that sidesteps care or taste, donor-driven misaligned priorities, and uneven conservation practices. This means a need for clear guidelines, strong monitoring and sensitivity to local contexts.

Yet, evidence from such engagements and adaptive reuse projects shows that when private capital operates within well-defined public frameworks, it can, indeed, improve conservation outcomes. Such partnerships can also create sustainable revenue streams, strengthen long-term stewardship, and provide a new lifeline for monuments that otherwise go to seed.

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SWEDISH ACADEMY PRAISES DYLAN'S POETRY FOR THE EAR

AROUND THE WORLD ▸▸ 17

Let Him Be

To see Dylan as a



China's super $1.2 tn surplus also tells us about unresolved contradictions in its economic model

Real Import of Export Nos.



Aditya Sinha



Lurking behind the cute figures

Chinese customs data released on Wednesday show the country ended 2025 with a goods trade surplus of nearly $1.2 tn. The number is remarkable not only because it crossed a symbolic threshold, but also because it did so despite higher US tariffs, slowing global growth and deepening geopolitical fragmentation.

In manufactured goods alone, China's surplus now exceeds 10% of GDP and about 1% of global output, dwarfing historical peaks once reached by Japan or Germany. Even on broader current account measures, the surplus (about $650 bn, or 3.4% of GDP) appears moderate — only until one recalls that it's generated by the world's largest manufacturing giant, giving it economic and strategic consequences unlike any surplus before it.

China's surplus is not primarily an export story, but a savings-investment imbalance one. Trade surplus equals national savings minus domestic investment. China continues to save far more than it can profitably absorb at home. Household consumption remains depressed, hovering at about 38% of GDP, far below the 55-70% range typical of advanced and middle-income economies.

Precautionary savings remain elevated because of a weak social safety net, healthcare and old-age insecurity. Balance-sheet damage is inflicted by prolonged property collapse. At the same time, China's investment rate remains extraordinarily high, about 40% of GDP. But returns on that investment are declining sharply.

Demographic headwinds are intensifying as the working-age population has been shrinking, productivity growth has slowed as technological catch-up matures, and excess capacity has accumulated across housing, infrastructure and heavy industry. When an economy saves more than it can productively invest, residuals must flow outward. In China's case, exports have become the pressure valve that reconciles weak consumption with faltering domestic investment opportunities.

Then there's the resilience of Chinese exports in the face of Trump tariffs. Bilateral trade data show that tariffs did work in a narrow sense. China's exports to the US fell by about 20% in 2025, with December y-o-y declines exceeding 30%. Yet, total Chinese exports rose 5.5% for the year, and 6.6% in December alone. The explanation lies in distinction between bilateral exposure and system-level adjustment.

Chinese firms rerouted shipments aggressively toward third markets. Exports to Africa rose by more than 25%, to Asean by over 13%, and to the EU by 8-12%. Obviously, US final demand didn't disappear. It was increasingly satisfied indirectly through Southeast Asian assembly hubs and other intermediaries.

At the same time, Chinese firms accelerated establishment of overseas production facilities to arbitrage rules of origin and tariff regimes, while retaining upstream Chinese value-added. This has blurred line between 'Chinese exports' and 'foreign exports' without materially reducing China's industrial footprint.



For China, exports have become the pressure valve that reconciles weak consumption with faltering domestic investment opportunities

Exchange rate and financial channels reinforced this adjustment. China's real effective exchange rate has depreciated materially since 2021, even after accounting for inflation differentials. Capital controls allow authorities to influence currency through state bank forex purchases that don't always appear on official reserve balance sheets. Combined with domestic deflationary pressures, this has preserved a significant competitiveness wedge for Chinese manufacturers.

Tariffs raised costs at the margin. Macro-financial policy offset them at scale. Directed credit continues to flow disproportionately into export-oriented and import-competing sectors, ensuring that capacity expansion and price competitiveness are maintained even under external pressure.

Sectorally, some of the strongest export growth came from capital-intensive and tech-embedded sectors. Auto exports rose nearly 20%, with EV shipments up close to 50%. Exports of ships, heavy machinery and semiconductors (particularly mature-node chips) grew by over 20%. By contrast, traditional labour-intensive sectors such as apparel, footwear and toys stagnated or contracted.

While the surplus is often described as a geopolitical weapon or mercantilist choice, it can be also seen better as a macroeconomic crutch. China faces a trilemma: chronically weak household consumption, declining returns to investment, and political resistance to large-scale welfare transfers that would permanently rebalance income toward households.

Exports allow the system to avoid resolving that trilemma. They sustain employment, absorb excess capacity and stabilise growth without forcing an explicit fiscal or social-policy pivot. But this creates what can be described as a trade-surplus trap. China becomes dependent on foreign demand to maintain internal stability. Domestic reform is postponed. Deflationary pressures persist. And external political resistance accumulates.

Spillovers are no longer confined to trade balances. China's dominance in strategically sensitive segments has introduced a national security dimension to what was once a purely economic debate. In 2024, China accounted for roughly 92% of global rare-earth processing. Export restrictions imposed in 2025 demonstrated how trade concentration can be weaponised, even defensively.

Chinese exports to Africa, Asean and EU rose by over 25%, 13% and 8-12% respectively. US final demand was increasingly satisfied indirectly through Southeast Asian assembly hubs and other intermediaries



At the same time, the political economy effects abroad resemble a 'second China shock': not necessarily higher aggregate unemployment, but geographically concentrated industrial disruption that fuels protectionism and undermines support for open trade.

The irony is that China's record surplus looks like strength precisely because it masks weakness. As long as global demand remains resilient, the model can persist. But if Europe erects broader trade barriers, if fragile US-China tariff truce collapses, or if global growth slows sharply, China will be forced into adjustment it has delayed under far less favourable conditions.

China's $1.2 tn surplus is, therefore, not a puzzle to be admired but a signal to be interpreted. It tells us less about triumph of China's export machine than about unresolved contradictions at the core of its economic model, contradictions that the rest of the world is increasingly being asked to absorb.

The writer is a public policy professional

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Don't Make a Rare Earth Plan Scarce



Lakshmi Puri

In the wake of Monday's G7 critical minerals ministerial meeting in Washington, rare earth supply has emerged as the central focus, with the notion of price floors — more familiar in wartime procurement than peacetime markets — circulating among policymakers.

In Beijing, export control has become a diplomatic language of its own, with a ban announced on exports of dual-use goods to Japan if intended for military use. In Brussels, the European Commission (EC) is proposing restrictions on exports of permanent magnet scrap and waste so that Europe can build a meaningful recycling-based supply at home.

These are not isolated headlines. They are the same story told in different accents. The era of assuming that critical inputs will flow to the highest bidder is fading, replaced by a world where access is shaped by licensing, end-use scrutiny, investment screening and now even administered pricing.

The US, which once trusted markets to solve everything, is behaving like a state that has studied its vulnerabilities and intends to buy its way out of them. The G7 price floor discussion didn't appear from nowhere. The US has tested the logic domestically, using minimum price mechanisms in supply contracts to make investment outside China economically survivable. Its significance is philosophical and financial. A price floor is an admission that resilience has a cost and that governments are willing to carry part of it, because the alternative is strategic exposure that private capital cannot price and insure.

China's response has been equally deliberate, built around a different instrument: ability to grant, delay or deny permission. When Beijing expanded rare earth export controls, it widened the controllable surface area far beyond shipments. Controls began to extend into refining and production technologies, equipment and obligations placed on foreign producers who use Chinese materials. With the ban on dual-use exports to long-term customers like Japan, and hard-negotiated issuance of commercial use licences to fast-growing markets like India, China continues to weaponise domination of the critical minerals supply chain.

Europe, watching both the US shift to industrial policy and China shift to permissioned trade, has moved in a way that many will misread if they focus only on the vocabulary of recycling. EC's proposal to restrict exports of permanent magnet scrap and waste aims to keep the feedstock for recycling within Europe, and, in doing so, reduce dependence on external suppliers for a component that sits inside almost every electrification pathway.



Fix a recipe

While the big powers rewrite rules, the supply chain's middle layer is shifting in ways that will shape winners and losers. Malaysia backing a 600 mn Malaysian ringgit (RM600 mn, about $127 mn) 'super magnet' manufacturing facility linked to Lynas Malaysia and South Korean partner JS Link, positioned near an existing processing base, is a useful signal.

Friendshoring is moving from slogan to geography. Processing-adjacent manufacturing nodes in trusted jurisdictions are becoming strategic real estate, because buyers increasingly want magnets that can pass security scrutiny, traceability tests and political risk screens.

Heavy rare earths may be the strategic fulcrum upon which modern power rests. Dysprosium and terbium are used in small quantities. Yet, they are vital for magnets that must perform under heat and stress, which is precisely what modern mobility, defence platforms and industrial automation demand.

Analysts have warned that shortages of these heavy elements could become the Achilles heel of a push to build a magnet industry outside China, particularly because major non-Chinese mines contain only traces, and processing capability remains concentrated. This heavy rare earth bottleneck explains why major powers are now resorting to interventionism.

India has been building scaffolding of a modern critical minerals strategy, tightening institutional focus, attempting to secure upstream partnerships and, crucially, beginning to think downstream. Cabinet approval of a ₹7,280 cr programme to build 6,000 t a year of integrated sintered (processed by compacting powders and heating) rare earth permanent magnet capacity is a decisive acknowledgement of where the true vulnerability lies.

In a permissioned world, rules will be written by those who act first. If India wants its rare earth strategy to serve both national power and global equity, it must:

- Intensify exploration and mining of indigenous critical minerals deposits.
- Build processing capability, including recycling, at home with a mission-driven tempo.
- Manage trade and investment relations with major overseas suppliers of critical minerals and intermediates like magnets.
- Shape emerging global mechanisms so that the transition economy doesn't become a new theatre for unequal bargains, environmental harm and resource conflict.

The writer is former assistant secretary general, UN

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How States Spend, a Balancing Sheet



Ashok Banerjee & Rajesh Shukla

Over the past decade, state finances have come under strain as expenditure growth has outpaced revenue expansion. According to an analysis of CAG's state finances reports, combined revenue expenditure of all states rose 2.7× between 2013-14 and 2022-23, touching nearly ₹36 tn. This escalation has widened revenue deficits, increased reliance on central transfers, and prompted states to borrow more. It's time to shift attention from augmenting revenues to ensuring every rupee spent delivers measurable outcomes.

In 2022-23, the 5 largest revenue-deficit states were Andhra Pradesh (₹43,488 cr), Tamil Nadu (₹36,215 cr), Rajasthan (₹31,491 cr), West Bengal (₹27,295 cr), and Punjab (₹26,045 cr). Except for Andhra, all these states were already in deficit a decade ago, indicating a structural inability to rein in expenditure growth, or sufficiently expand their revenue base.

In contrast, UP (₹37,263 cr), Gujarat (₹19,856 cr), Odisha (₹19,456 cr), Jharkhand (₹13,564 cr), and Karnataka (₹13,496 cr) emerged as top revenue-surplus states. These states have maintained revenue surpluses consistently over the past decade. Their experience shows that fiscal prudence can coexist with development when spending priorities are realistic and efficient.

Chhattisgarh's revenue deficit of ₹309 cr in 2013-14 turned into a surplus of ₹8,592 cr in 2022-23, driven by subsidy rationalisation, improved fiscal management and higher royalty revenues. But Bihar slipped from a surplus of ₹6,441 cr to a deficit of ₹11,288 cr over the same period, reflecting how rapid expenditure expansion without commensurate revenue growth can erode fiscal stability.

Revenue spending is dominated by committed expenditure (salaries, pensions, interest payments), subsidies, and grants-in-aid to local bodies, PSUs and autonomous institutions. Together, these account for nearly 85% of total revenue expenditure. Committed expenditure constituted 43.5% in 2022-23. Measured against states' own tax revenue (SOTR), these three components together exceed collections by a wide margin, amounting to 176%. The resulting gap is financed through a combination of central transfers and public borrowing.

Committed expenditure is the most rigid component. Salaries, pensions and interest payments are largely non-discretionary and politically difficult to reform. For the top 5 revenue-deficit states, committed expenditure rose from 103% of SOTR in 2013-14 to 114% in 2022-23.



Everyone's gotta chip in

In contrast, for the top 5 revenue-surplus states, it declined from 90% to 83%, thanks to better payroll management, tighter pension controls and more active debt management in fiscally stronger states. Deficit states continue to carry heavy legacy burdens, overstaffed administrations, pay revisions unlinked to productivity and costly debt servicing.

This imbalance has important developmental consequences. States are primary agents of welfare delivery. Yet, as fiscal space shrinks under committed liabilities, developmental and capex often become the adjustment variable. In many states, 50-70% of budgets are absorbed by committed expenditure, leaving little room for growth-enhancing investments. The result is a paradox of rising total spending alongside stagnating public investment.

Revenue-deficient states devote only about 26% of their total expenditure to economic services, compared to nearly 30% in revenue-surplus states. Economic services, including irrigation, energy, rural development, industries and tourism, play a critical role in enhancing productive capacity and expanding the tax base. Greater allocation to these sectors supports economic activity and improves states' tax revenue. Revenue-deficient states, however, invest relatively less in these areas, constraining future revenue growth.

Interestingly, revenue-deficient states spend a slightly higher share on social services (39%) than surplus states (37%). But this has not been matched by parallel investments in revenue-generating sectors. This has skewed fiscal structures toward consumption rather than production, creating a cycle of low growth, weak revenue buoyancy and persistent deficits.

Fiscal consolidation at the state level is not just an accounting exercise. It's also about reengineering governance. Improving expenditure efficiency requires better prioritisation, outcome-based budgeting, rationalisation of subsidies, and reforms in payroll and pension systems.

Fiscal health of India's states will be decisive to India's future. Revenue mobilisation matters. But without efficient expenditure management, even the strongest revenue base will fail to deliver sustainable and inclusive growth.

Banerjee is director, IIM Udaipur, and Shukla is MD-CEO, People Research on India's Consumer Economy (PRICE)



Bye, Treaty Shopping, Yeh Tiger Zinda Hai

Tiger Global ruling won't dent India's appeal

Supreme Court on Thursday issued a landmark judgment in India's treatment of tax on capital gains by foreign investors by ruling that Tiger Global was liable to pay tax on sale of its stake in Flipkart to Walmart. Dispute arose because Tiger Global's investments were made prior to the period when India amended its treaty with Mauritius, through which investments were made, to plug exemptions to capital gains tax. The law is now settled that Indian taxmen can go beyond routing mechanisms for foreign investments, and probe the intention behind the specific arrangement. If there is reasonable doubt over routing of investments, grandfathering and residence clauses constitute weak arguments in India's evolving tax jurisprudence.

Import of the ruling is wide because it affects a class of investments made over a specific period to minimise tax incidence in India. GoI has made consistent efforts to discourage treaty shopping, and the current set of rules is watertight, and in keeping with international norms. Fresh investments into the country must flow through routes GoI deems kosher. Ambiguity exists over previous investments. But the tax administration can, at best, examine them on their merits. The development is unlikely to alter India's investment climate. Tax optimisation is not the principal consideration in investment decisions. Returns available to foreign investors in India arise from a far more intricate interplay of economic factors. India's tax rates and policy orientation compare favourably in the global context, and have low deterrence value for prospective investors.



The top court's verdict brings clarity to a period when venture capital was peaking. India's regulators have worked on dissipating froth in startup valuations. The centre of gravity is shifting back to the country because of its business prospects. Offshore tax avoidance structures are becoming less relevant as the Indian startup ecosystem matures. Courts are weighing in on this vision of entrepreneurship in the country.

Chat Room

Chinese Economy Gets Spend Shrift

Apropos 'Real Import of Export Nos.' by Aditya Sinha (Jan 15), the intricacies of China's export-driven economy and overall economic model have hardly been understood by the outside world. Its staggering trade surplus showcases immense manufacturing potential, a managed currency, huge government subsidies and, most of all, an overpowering global dominance in hi-tech sectors. The enervated domestic consumption remains a huge mystery, defying all logic. Its global hegemony and multilateral expansion into new markets have enabled it to counter the aggressive US tariffs with least disruptions. In the long run, the excessive reliance on exports, increasing global hostilities and potential for deflation could hurt China's economy.

Rajarao Kumar
Bengaluru

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Let Him Be

To see Dylan as a "literary" great is to

DELHI TECHNOLOGICAL UNIVERSITY — DELTECH UNIVERSITY

Does 'Tiger Global' leave investors confused, or finally put economic substance over legal form?

Tiger Changes Its Stripes

Now You See It, Now You Don't



Dinesh Kanabar

Treaties Aren't Tax Shields



Rakesh Nangia & Maneesh Bawa

The question of eligibility for Double Taxation Avoidance Agreement (DTAA) on investments made into India from Mauritius has repeatedly engaged court attention. There's the historic 2003 Azadi Bachao Andolan judgment, 2012 Vodafone verdict, observations in several other cases, and now the Tiger Global judgment. What makes this recurring judicial engagement particularly striking is that the core issue — availability of treaty benefits to Mauritius-based investors — was widely believed to be a settled proposition, both judicially and administratively.

In 'Tiger Global', substantial capital gains were earned when shares of a Singaporean company were sold by a Mauritian entity. Value of the Singaporean company was admittedly derived from investment in Indian operations. The question was whether capital gains earned by the Mauritian entity were not exigible to tax in India by virtue of the India-Mauritius DTAA being legally sustainable.

In 2000, GoI issued a circular clarifying that a Mauritian entity holding a tax residency certificate (TRC) would be regarded as a resident of Mauritius and would be entitled to DTAA benefits. It became the bedrock on which a vast amount of foreign investment into India was structured. The Supreme Court now holds that the circular has been overridden.

In 2016, India amended the India-Mauritius DTAA, and withdrew capital gains tax exemption prospectively. But investments made prior to April 1, 2017, were expressly grandfathered, and gains arising from such investments continued to be governed by the old treaty, under which capital gains were not taxable in India. It was under this grandfathering provision that Tiger Global contended that gains earned in 2018 were not exigible to tax under DTAA.

The court has now held that a TRC is not conclusive evidence of residency, or of entitlement to treaty benefits. It has observed that India's sovereign right to tax cannot be ceded in favour of a foreign sovereign merely because an entity holds a TRC issued by another country.

Before the matter reached Supreme Court, the Authority for Advance Rulings (AAR) had declined to rule on Tiger Global's application, holding that the arrangement constituted an impermissible avoidance arrangement. This was challenged before Delhi High Court, which, among other things, relied on the 2000 CBDT circular and existence of a valid TRC to hold that Tiger Global was entitled to DTAA benefits. It was this high court judgment that was carried in appeal.

Supreme Court reversed the high court, holding that TRC was not conclusive, that the revenue had discharged its burden of establishing that the Mauritian entity was a mere conduit, and that the entity lacked commercial substance in Mauritius. It further held that policy decisions on treaty eligibility must be viewed from a long-term perspective, and that India can't cede its taxing rights merely because a foreign jurisdiction has issued a TRC.

The court went further and laid down guidance on how GoI ought to approach treaty negotiations:

- Tax treaties should contain robust limitation-of-benefits clauses.
- General anti-avoidance rules (Gaar) should be made applicable in treaty contexts.
- Treaty abuse should be central consideration when GoI negotiates tax treaties.

The court has not merely interpreted the law but also ventured into terrain of what tax policy ought to look like. Traditionally, this domain has belonged to the executive and tax administration, which must balance competing considerations — capital inflows, revenue mobilisation, certainty and international competitiveness. Judiciary entering this space raises issues about institutional boundaries.

FACE-OFF



Puss comes to shove

The judgment can be examined through two lenses:

Technical implications It's difficult to fault the court's articulation that taxation of residents is a sovereign right. The more troubling question is whether the court can retrospectively question a conscious policy choice made by GoI.

India as investment destination For years, India actively encouraged foreign investments through Mauritius, according to which investors structured their investments. To now suggest such a policy was fundamentally flawed, or treaty benefits could be denied, unsettles long-settled expectations.

Thus, the judgment opens a Pandora's box. Every instance where treaty benefits have been claimed, now runs the risk of being reopened on questions of substance, conduit status and commercial purpose. This inevitably increases litigation and reintroduces uncertainty into an area where certainty had been painstakingly built over decades. The court judgment, in fact, does not even require Gaar to be on the statute to deny DTAA benefits.

The judgment's timing is particularly unfortunate. At a moment when India is grappling with slowing FDI and portfolio inflows, the ruling sends mixed signals to global investors.

Foreign investors would be hard-pressed to reconcile how a policy articulated by GoI through a binding circular, and reinforced through multiple judicial pronouncements, can be effectively neutralised. Whether to grant treaty benefits or tax exemptions is unquestionably the prerogative of government. What investors require is clarity in advance as to where government stands.

The writer is CEO, Dhruva Advisors

Supreme Court's judgment on Thursday in the 'Tiger Global International III Holdings vs Authority for Advance Ruling' case shreds the old playbook for foreign investments into India. Ruling against Tiger Global in the ₹14,000 cr Flipkart stake sale dispute, the apex court has done more than just settle a tax dispute — it has virtually signalled the end of the 'form over substance' era. For global investors, the message is stark: a tax residency certificate (TRC) is no longer a golden visa.

For decades, the global PE-VC ecosystem operated on a singular, comforting premise derived from the 2003 'Azadi Bachao Andolan' ruling, affirming validity of the India-Mauritius Double Taxation Avoidance Agreement (DTAA): if you have a valid TRC, the Indian taxman cannot look behind it. Today's ruling shatters that certainty.



For years, the 'India premium' in valuation models accounted for currency risk and regulatory flux. The era of low-cost, tax-neutral routing via island jurisdictions is effectively over

It is the end of the era of 'TRC simpliciter'. If TRC were accepted as the absolute final word, the India-Mauritius pact would cease to be a bilateral agreement, and arguably become India's tax treaty with the entire world. The apex court has signalled that a mere TRC cannot indefinitely mask the bona fides of an investment.

The top court has upheld the revenue's view that Tiger Global's Mauritius entities were 'conduits', mere pass-through vehicles with no independent commercial substance, designed solely to route capital and avoid taxes. By setting aside the Delhi High Court's order, the apex court has established that 'economic substance' takes precedence over legal form. If an entity is found to be interposed using an 'impermissible arrangement' for realising tax-free capital gains, the treaty benefits under Article 13(4) stand extinguished.

Grandfathering no longer a blanket shield The most unnerving aspect for investors is the implication for 'grandfathered' investments (those made before April 1, 2017). The Tiger Global exit involved shares acquired before the treaty amendment, which were widely believed to be ring-fenced from capital gains tax. This judgment suggests that grandfathering is not an absolute immunity. If the structure itself is deemed to be a conduit, the date of acquisition becomes irrelevant. This opens a Pandora's box for every major exit involving historical holdings.

Substance litmus test The verdict places a heavy burden of proof on foreign investors. It is no longer enough to hold board meetings in Mauritius or pay local administrative fees. The revenue is now empowered to ask uncomfortable questions such as:

- Does the holding company have independent decision-making authority?
- Is there real economic activity in the treaty jurisdiction?
- Are the funds merely flowing through from a parent in a non-treaty jurisdiction?

Thursday's judgment represents a judicial endeavour to find a point of equilibrium — a delicate balance where international treaty obligations are respected, yet, do not subsume India's fiscal sovereignty. The court appears to have drawn a line where 'form' must finally yield to 'substance'.

For years, the 'India premium' in valuation models accounted for currency risk and regulatory flux. Today, investors must price in a new variable: 'treaty risk'. The top court has effectively signalled that tax certainty is no longer a function of having the right papers — a TRC — but of having the right 'substance'. The era of low-cost, tax-neutral routing via island jurisdictions is effectively over. Tax efficiency now comes with a price tag of operational substance.

This marks the arrival of a more confident Indian tax administration, one that refuses to be bound by the 'diplomatic niceties' of a TRC when it senses revenue leakage. India is asserting that a treaty partner's certification cannot sign away its fiscal sovereignty. Global investors must recognise this shift. India is demanding fair tax attribution for the value created on its soil.

Nangia is managing partner, and Bawa is partner, Nangia & Co

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Farm to Roads, A Circular Route

Scientists at two premier state institutions — CSIR Central Road Research Institute (CRRI) and CSIR Indian Institute of Petroleum (IIP) — have developed a breakthrough technology that transforms crop stubble, long criticised for causing severe air pollution in Delhi-NCR, into a material for road construction. This innovation is not just a triumph for Indian science and R&D, it also promises tangible benefits for public health, particularly improving air quality in the national capital.

For farmers, it allows them to derive value from stubble that was previously burnt. The advantages extend beyond agriculture: bio-bitumen produced from crop residue can reduce road construction costs. Roads built with this material are more durable, lowering the frequency of repairs and construction work, which, in turn, reduces dust emissions — another critical source of pollution. Smoother roads also enhance vehicle efficiency, leading to fuel savings and reduced emissions, while improved road quality can decrease the likelihood of accidents.



This innovation exemplifies the principles of a circular economy, keeping resources in use longer and minimising waste. By replacing conventional bitumen with bio-bitumen, India could save up to ₹30,000 cr annually on bitumen imports. While this is a landmark achievement, it is not unprecedented — Indian researchers have previously converted waste materials such as steel slag and plastic into road-building products. The successful transition from lab research to commercial application sets a model for other R&D institutions to develop sustainable, cost-effective technologies. Beyond domestic benefits, this tech opens avenues for exports, particularly to developing countries investing heavily in infra, demonstrating India's potential to lead in green innovation globally.


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Raise Our Glass to Taxpayers!



Deepak Mishra

The contrast could not have been more striking. On one side were two fugitives and tax-evaders — Lalit Modi and Vijay Mallya — celebrating the latter's 70th birthday in London, openly mocking the tax system. On the same day, India's I-T department sent a blunt email to taxpayers — mostly salaried professionals — informing them that their refunds had been put on hold due to a 'mismatch' in their returns. Two parallel realities: evasion ignored, and compliance questioned.

This is no accident. It's a design choice: a tax system that squeezes captive taxpayers, while sparing those who are harder to tax.

Its biggest casualty is India's salaried middle class, for whom compliance is not an option but a compulsion. Taxes are deducted at source on salaries, FDs, savings accounts, rental incomes, professional fees, property transactions, as well as on stock and bond market gains. They do not just pay taxes, they prepay them. When taxes on consumption are added, a salaried middle-class person in a metro is likely to part with as much as 45-50% of her annual income.

Little wonder many taxpayers are protesting. Take Bengaluru-based entrepreneur Rohit Shroff, who paid ₹4 cr in GST and I-T over 12-18 months, yet faced repeated notices and audits. In a LinkedIn post, he lamented that India's tax system treats compliant contributors with suspicion and said he's yet another citizen considering moving out of India in 2026.



Complaints of this kind may seem unfair to finmin. After all, recent years have seen lower corporate I-T rates, higher I-T thresholds, and rationalisation of GST rates. Important as these reforms are, Budget 2026 presents a larger opportunity: to reset the state's relationship with taxpayers by recognising them as patriots rather than suspects.

Instead of enforcing compliance with a stick — an approach that has largely failed — it's time to incentivise good behaviour. One widely practised and effective approach is the public disclosure of taxpayers' information. When income and tax payments are publicly visible, taxpayers are far less likely to underreport their earnings, as others can flag discrepancies to authorities. There are precedents for such a policy:

- Norway has made taxpayer information public since 1863. Data are searchable by individuals' names, PIN codes and cities.
- Finland publishes tax information for all individuals every year on Nov 1, a date dubbed by foreign media as 'National Jealousy Day'.
- Tax returns of all Swedish corporations and individuals have been public since 1903.
- Australia, Denmark, France, Pakistan, the Philippines, Sweden, Britain and the US have selectively attempted public disclosure of targeted tax information for individuals and corporations.

Evidence suggests that public disclosure improve compliance. In Norway, the income reported by doctors, lawyers, engineers and other professionals increased significantly after tax information was made available online.

In the US, public disclosure of tax delinquents has been associated with lower levels of tax delinquency. In Pakistan, following one-time public disclosure, tax-filing rate among MPs surged from around 30% to 90%.

There are legitimate concerns that such a policy could erode privacy, and as seen in Japan, expose wealthy taxpayers to threats from criminals. The greatest risk is likely to come from wealthy and corrupt interests who, fearing higher tax liabilities, would lobby against any such reform, as has happened in the US and Italy.



Carrot is the stick

Public disclosure of tax information fits squarely with GoI's model of governance that shifts enforcement from (often corrupt) officials to society. Injecting such sunshine into tax administration would also reinforce building a more transparent and rules-based fiscal system. If implemented annually, this reform could curb black money.

If there is no appetite for such a reform, a more moderate option would be to make disclosure voluntary and offer incentives to those who choose to disclose. This would immediately distinguish honest taxpayers (who opt in) from evaders (who opt out).

Incentives could include, as practised in South Korea, presidential recognition of top taxpayers from each district (one under-35 person, one woman, and one over-35 man), exemption from tax audits, and expedited processing at airport, railway and bus stations. An even more compelling option would be to offer a modest tax deduction — 'honesty premium' — to those who voluntarily disclose their income and tax information.

Incentivising public disclosure would kill two birds with one stone. It would finally acknowledge the quiet honesty with which India's salaried middle class pays its taxes, while also shining an early spotlight on tomorrow's tax-dodgers and fugitives.

The writer is the former director-chief executive, ICRIER

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Completion of India's trade liberalisation agenda should be prioritised through 6 steps of reforms

2026-27 Dil Maange More



Arvind Panagariya



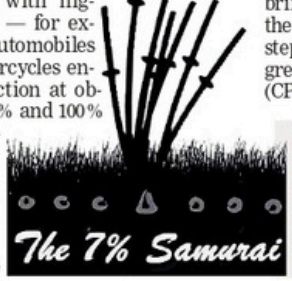
No detours, please

New York: 2025 will go down in history as the year of economic reforms in India. Turning Independent India into a developed country by the time of its 100th anniversary is not merely an exhortation for the Narendra Modi government. It's also walking the talk.

To quote the PM's Dec 30, 2025 LinkedIn post, 'India has boarded the Reform Express.' So, how else can a lifelong reform proponent react but to say, 'Dil maange more'? Let 2027 be the year when India completes all big-ticket reforms. Within this ambition, let completion of the trade liberalisation agenda be on top of the list. This will require six steps:

❶ Roll back customs duties Committing to a uniform 7% rate across imports will ensure that revenue does not decline, resource allocation is minimally distorted, any incentive to misclassify imported products to escape a high duty is eliminated, and the constant lobbying for higher duties by special interests ends. The realisation that raising customs duty in one sector will require raising it for all will preempt all special-interest lobbies.

For products subject to duties of 25% or less, the 7% rate can be adopted immediately. For products with higher rates — for example, automobiles and motorcycles enjoy protection at obscene 125% and 100% duty rates, respectively — a 3-year timetable may be adopted, with one-third of the necessary reduction introduced in the first year, another one-third in the second and the last one-third in the third.



Uniform 7% rate across imports will ensure revenue doesn't decline, resource allocation is minimally distorted, constant lobbying for higher duties ends

❷ Finish QCO withdrawal In his LinkedIn post, Narendra Modi included GoI's withdrawal of 22 quality control orders (QCOs) in the 2025 list of reforms. This reform must be brought to its logical conclusion. Unless a compelling consumer safety rationale is provided, or the ability to enforce QCOs uniformly across all domestic manufacturers and imports is demonstrated, all QCOs should be withdrawn.



Bureau of Indian Standards (BIS) is hopelessly understaffed to enforce the existing QCOs on domestic manufacturers. This has led to the situation of QCOs being enforced asymmetrically on imports, imparting a clear protectionist bias to the policy regime.

❸ Sign off trade deals India must bring FTAs with the US and the EU to their logical conclusion, and initiate steps to join Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) in Asia. Delay in the India-US FTA is understandable given its geopolitical challenges. However, delay in the India-EU FTA is inexplicable.

We need to re-examine our instinctive resistance to import liberalisation, giving some consideration to the consumer benefits. Is it fair that only the super wealthy, with the ability to pay customs duties of 125-150%, can have access to top-notch wines and BMWs?

Currently, India's western coastal states and Tamil Nadu are significantly better integrated into the global marketplace than the eastern coastal states of Andhra Pradesh, Odisha and West Bengal. To correct this imbalance, it's critical that India also expands its trade footprint in Asia by joining CPTPP. Today, Asia's share in world GDP stands at 36%, followed by North America's at 30.4%, Europe's at 25.3%, South America's at 3.8% and Africa's at 2.6%. In the years to come, balance will shift yet further towards Asia. India needs to take this into account in designing its FTA strategy.

❹ Restrain DGTR Largely hidden from the public eye, Directorate General of Trade Remedies (DGTR) in the ministry of commerce and industry has been a source of wholesale administered protection provided through anti-dumping (A-D), safeguard and countervailing duties. From 1995 to 2025, it imposed a staggering 854 A-D duties or minimum import price measures. The next two heaviest users of the instrument were the US and EU, with 700 and 379 measures, respectively.

What makes India's exercise of the instrument especially pernicious is its low share of world merchandise imports — 2.8%, compared with 13.2% for the US and 14.5% for the EU in 2022. Any large industrialist unable to persuade finmin to grant it a higher customs duty can knock on DGTR's door with a high probability of being obliged. A restraint needs to be placed on DGTR's actions. A good starting point will be to give the users of imports a voice in the hearings in A-D cases.

❺ Don't overvalue the rupee An important contributor to India's success in achieving 6x expansion of merchandise exports between 2002 and 2011 was a significant undervaluation of the rupee by 2002. Its value had declined from ₹17.5/$1 in 1990 to ₹48.6/$1 by 2002.

❻ Monitor exports PMO must extend its model of regular monitoring of major infrastructure projects to the export sector. It must bring together various export interests, especially in labour-intensive industries, to meet with policy-making bodies twice a year to review progress and identify bottlenecks under the PM's chairmanship. These meetings can provide an opportunity to review progress and address the bottlenecks facing exporters.



PMO must extend its model of regular monitoring of major infrastructure projects to the export sector

The writer is chairman, 16th finance commission

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AROUND THE WORLD ▸▸ 17

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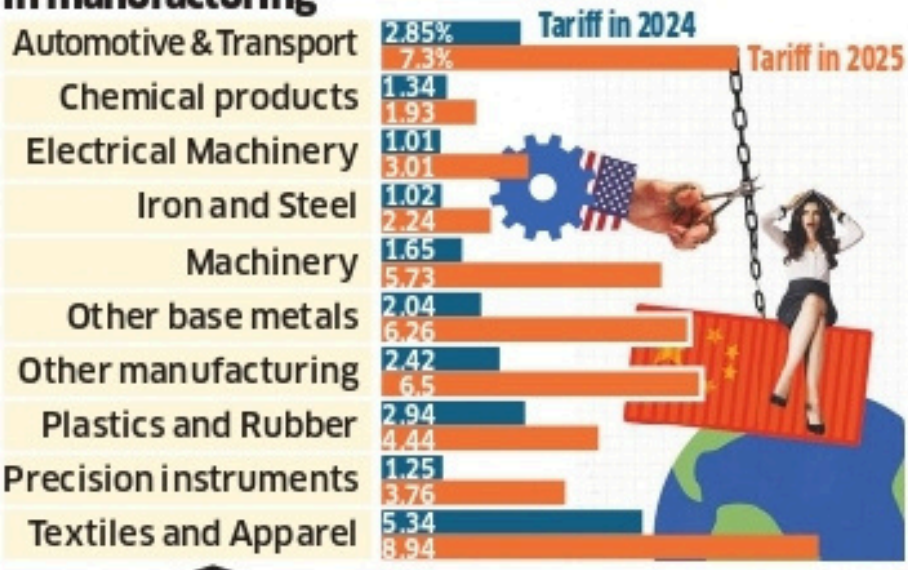
RISING TARIFFS

Use of trade tariffs rose sharply in 2025, especially in manufacturing, led by US measures tied to industrial and geopolitical objectives, lifting average global tariffs unevenly across sectors and trading partners...

Trade-weighted avg. applied tariff on global trade



Trade-weighted avg. applied tariff on global trade in manufacturing



Tariffs surge across key manufacturing subsectors

Source: UNCTAD's Global Trade Update

SANJEEV RAJ JAIN



No More Party Pooper



Rajesh Aggarwal

Developed countries like the US have pushed for changes to WTO's dispute settlement system, special and differential treatment provisions, and negotiating procedures, areas where India has insisted that decisions must be taken by consensus among all 166 member states. Speaking at CII Partnership Summit 2025 last November, Piyush Goyal had stated that India would 'love to lead reforms at WTO-...in consultation with other developing and less-developed countries'. While sounding constructive, his stance is, however, widely seen externally as a diplomatic escape hatch.

In a system already paralysed by unanimity, demanding consensus amounts to disengagement. Reform is urgent precisely because consensus is unattainable in today's fractured geopolitics. Yet, India clings to a 1990s mindset, resisting plurilaterals on digital trade, ecommerce, investment facilitation and environmental goods while others debate AI governance and carbon borders. Major economies no longer tolerate paralysis. When India blocks inside WTO, major economies simply advance outside it, leaving India sidelined from shaping future trade rules.

India's economic heft is significant, but insufficient to block the future global trading system or dictate terms. And most importantly, the country needs global technology and capital more than the world needs India's approval to move forward. If India wants 'Viksit Bharat', it must shape global rules, not stall them. Constructive engagement, not obstruction, will give it the leverage it needs to build a modern, technologically integrated economy.

The larger India's economy becomes, the more it needs stable, predictable and forward-looking global rules, especially for services, digital trade, AI-driven commerce and supply-chain integration. Global companies may want access to its market, but they want rules even more. If India continues to resist rule-making, others will simply write rules without India and expect New Delhi to follow later with no negotiating power left.

Also, India's pursuit of ambitious FTAs with the EU, Britain, EFTA and exploratory discussions with the US is strategically significant. But these agreements cannot substitute for a strong multilateral trading system. They can only complement WTO. Once concluded, such FTAs will expose contradictions in India's current opposition to plurilateral initiatives. By engaging constructively in WTO plurilaterals, India could strengthen its bargaining leverage and more effectively safeguard its core economic interests, including in FTA negotiations.

Countries are advancing plurilaterals regionally or through coalitions, such as Comprehensive & Progressive Agreement for the Trans-Pacific Partnership (CPTPP), Digital Economy Partnership Agreements (DEPA), Indo-Pacific Economic Framework (IPEF), and digital and green standards negotiated in US-EU and Indo-Pacific fora. Blocking plurilaterals within WTO doesn't stop their emergence. It simply excludes India from influencing them.

If the US, EU, Japan, Korea, Australia and major Southeast Asian economies push ahead with a new coalition — either inside WTO through open plurilaterals or, if blocked, through a new institution — India won't be invited as a founding architect. It will join later, grudgingly, and from a weaker position.



Go on, thumb a ride

If a 'post-WTO' world is constructed without India at the table, it won't matter how much 'policy space' it kept on paper. The real constraints will be de facto, enforced through market access, supply chains and standard-setting.

India's caution is not illegitimate. Its defensive interests — food security, social protections, regulatory space — are real. But obstruction as a doctrine is lazy policy. India needs a proactive, not reactive, trade strategy. Three changes would immediately put India on the front foot:

❶ **Set agendas** India should participate in shaping plurilateral frameworks, securing carve-outs and flexibilities where needed, instead of vetoing everything outright.

❷ **Adopt variable geometry** India can choose where to join, where to opt out and where to propose alternative pathways — just as Asean, EU and African Union do.

❸ **Use economic heft to negotiate from strength** India, no longer a marginal player, should act like a rule-shaper, not rule-taker hiding behind procedure.

Most major economies are not comfortable with multilateral paralysis in today's fractured world. If India persists in its current trajectory, it risks waking up to a global trading system rebuilt without its participation, driven by coalitions — including leading developing nations — that increasingly view India not as a voice of 'global south' but as an unreliable spoiler.

A rising power can't afford to sit out the writing of tomorrow's rules. If a post-WTO architecture emerges, the prospect of which is no longer hypothetical, India will be left far more isolated than plurilaterals within WTO ever could make it.

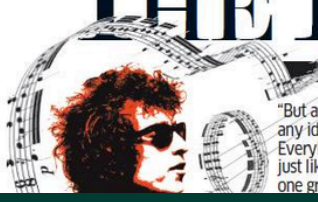
The writer is former chief, trade policy and trade facilitation, International Trade Centre, Geneva

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Go On, Push the Pedal Hard on Car Export

Right time to climb up the EV value chain

India's car exports revved up in a year of trade tension. It now looks set to maintain its tempo. It's time India emerges on the global scene as a serious automobile-exporting economy. The industry, seeded by Japanese and South Korean carmakers, now caters to the third-biggest car market in the world. It's not size alone that differentiates the Indian car market, which has specific conditions that make it a test bed for exports to the developing world. Cars made for India tick the right boxes in Africa, South America and parts of Asia. These are the regions that are driving car sales globally. India is in a sweet spot as a manufacturing base for price-sensitive personal mobility.

In this landscape, the Indian automobile industry is drafting EVs into its product portfolio. This should, with the right gears clicking in place, add more export momentum. Energy transition is occurring at varying speeds in destination markets for car exports. Acceptability of cars made in India should serve as a springboard for a deeper export push as EVs become mainstream in emerging economies. The baseline scenario would be EV exports maintaining parity with domestic sales. Indian carmakers could push that up several notches by climbing the EV value chain. The policy environment provides adequate protection for EV makers to acquire critical mass in local sales as well as exports.



Transition to electric mobility incurs substantial costs in charging infrastructure. Indian car buyers, too, are taking a shine to hybrids that get around the hurdle. The jury is still out on whether the future of the automobile is fully electric. The Indian experience will shape policy response among developing economies on how to go about their energy transition. This widens the field for Indian car exports to EVs in mature markets, and some variation on low fuel consumption in others. In any case, India is strategically placed to exploit the manufacturing opportunity as more people around the world acquire the standard of living to be able to afford personal vehicles.

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Quickness, It's Still What They'll Shop By

The quick commerce business model survives on 'instant' gratification. So, well-intentioned attempts to slow it down may not work. Disruption brought about in ecommerce by speedy grocery, etc. delivery needs to sustain itself by reaching a bigger basket of produce to the customer's doorstep in around the same time it takes to walk across to the neighbourhood store. Since dark stores can't compete with the kirana-keeper in proximity, speed of delivery will remain a key metric for qcomm. The notion of a 10-min delivery may be unrealistic in densely populated, chaos-ridden cities, but some number will be targeted. And that number will tend to push against the frontier of available logistics.

Regulators can raise concern over delivery timelines qcomm companies set internally. These metrics affect working conditions in the gig economy that's driving urban employment. The issue intersects with urban transport networks that are becoming congested as vehicle ownership rises. Since qcomm is pushing up valuation of the entire ecommerce stack, some form of regulatory intervention is unavoidable. But it must be informed by feedback from municipal authorities that are responsible for creating the infrastructure on which qcomm operates.



Technology will eventually come up with its own set of solutions. Ecommerce has been exploring the idea of automated delivery for a while. Some of these initiatives will become mainstream. Qcomm companies may also need to adapt their business model to the delivery time constraint. Hybrid solutions involving kirana-keepers is a likely fix. Qcomm's phenomenal growth in India affirms the analytical strengths of this form of retailing. With the right smarts, it will come up with the answer to the last-mile problem.

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Oh, He'll Be Comin' Round the Mountain

Will be tough for EU to 'anti-coerce' Trump

Even before 'WTF' Trump arrives at WEF in Davos on Wednesday, it looks unlikely the EU will be able to make the real estate developer-president see reason over Greenland by invoking its 'anti-coercion instrument'. The EU as a bloc may be its largest trading partner. But the US economy does much more trade in North America and Asia. Efforts to diversify EU trade will take time. Trump has threatened tariffs on goods trade with the EU, in which the US runs a deficit. EU retaliation that does not involve services, where the US has a surplus, will not be an effective deterrent for the Trump regime. Invoking the anti-coercion instrument will rope in services. But that makes it even more difficult to use against the US given the EU's digital dependence on Silicon Valley. Unlike China, which has developed local alternatives across a broad tech spectrum. The EU has made the US its strategic and economic backstop and it won't be easy to take on a 'friend' that acts like a foe.



The experiment that is the EU was not designed for geopolitical presence, rather to keep peace on the European continent. Brussels simply can't exert against Washington with Moscow in its neighbourhood. Western Europe has tailored its foreign policy to US dictates for the better part of a century. Changing that arrangement will require a fundamental rethink about the notion of European unification. The euro is no pretender to the currency of commerce, and promising candidates are available within BRICS. Trump wants Europe to cough up more for Nato. It is very likely he will get what he wants as protection money.

US intervention in the energy market tilts the scale even further against the EU. If the Venezuela gambit plays out as planned, Europe will have little choice but to defend Trump's strategy over critical minerals. The Greenland question then becomes a fait accompli. The best course for the EU would be to reason it out with its long-standing ally. The theme at Davos, after all, is 'A spirit of dialogue'. But, then, irony will be on skis the next four days.

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Hit the Road, Jackji, By Being Compliant

For most of India's vehicle owners, norms are mere suggestion, and adherence optional. Of the 407 mn registered vehicles, nearly 325 mn (70 %) don't have one or more of the mandatory pollution and general fitness certificates and insurance. 2-wheelers, the gateway vehicle, are the biggest offenders — there are 235 mn of them that are non-compliant. This leaves just 82 mn fully-compliant rule-following vehicles. This disregard gives a sense of the civic sense of Indians. But if the individual has been less than a stellar citizen, the state, too, has failed — unable to create awareness and turning a blind eye to systemic non-compliance.

Attitude to compliance is indicative of whether a country can ever be 'developed' or not. Norm-based society forms the core of a developed country. Norms are not suggestions, but understood as rules that underpin orderly functioning of a society, balancing individual freedoms with duties, safety, comfort. Non-compliance comes with a high price tag. Developing countries like ours are not lacking in norms. Cost of non-compliance — on paper — is not low. The big gap is implementation. Raising the actual cost of non-compliance — not just imposing higher fines but loss of licence, and filing FIRs (as Delhi Police has now implemented for driving on the wrong side of the road) — is the right way forward.



That the government is reportedly prepared to take measures to ensure that all vehicles meet regulatory norms is a good step. However, it must find workable ways to make people understand that norms and regulations on Indian roads are not just for show and theoretical niceties. The stick of disincentives must go hand in hand with the carrot of awareness if India has any intention of becoming viksit — beyond theory.

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Let Him Be

To see Dylan as a

Time to enable a transition from a public sector-led innovation ecosystem to a business-led one

Pvt India, You R&D or Not?



Amit Kapoor



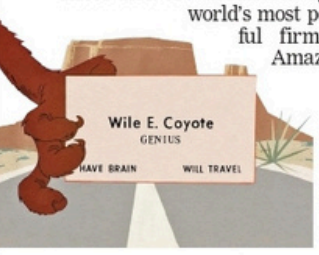
Go on, put your money where your mouth is

As the global economy is reshaped by geopolitical tensions, tariff wars and AI, one certainty remains for economies: sustained investment in R&D is essential to drive innovation and productivity. This is critical for India. The issue isn't merely about improving rankings on the Global Innovation Index — where India has risen from 81st in 2015 to 38th in 2025—but addressing its limited presence in global corporate R&D.

According to EU Industrial R&D Investment Scoreboard 2025, only 17 Indian companies appear in the world's top 2,000 R&D investors, compared with 674 from the US, 525 from China, 192 from Japan, and 318 from the EU. Together, these firms account for over 90% of global business-sector R&D. The US not only dominates the list — hosting more than twice as many companies as the EU — but it's also expanding R&D investment at nearly double the EU's pace.

A central weakness in India's innovation landscape is the dominance of public funding. Government accounts for about 64% of India's total gross expenditure on R&D (GERD) of about ₹1.27 lakh cr ($15-18 bn), while the private sector contributes only 36%. In contrast, developed economies see over half of R&D spending driven by business enterprises and higher education. It's unsurprising, then, that Indian firms have a limited presence in global innovation fora.

These fora are dominated by the world's most powerful firms — Amazon, Alphabet, Meta, Microsoft, Apple, and Nvidia. These six US-based companies account for 15.7% of R&D spending among the world's top 2,000 firms. By contrast, India's total corporate R&D spending on the list is about $7 bn, or 0.44% of the global total. Corporate US spends about $680 bn, China (and EU countries together) around $500 bn, Japan about $186 bn, in comparison.



Innovation leadership and tech disruption are not driven by market size or firm scale alone, but also by sustained investment in knowledge creation, new technologies and business models

Between 2013 and 2022, Indian subsidiaries of US MNCs received about $40.6 bn in inflows from the US, while Indian MNCs invested $2.1 bn in their US affiliates. This asymmetry shows innovation leadership and tech disruption are not driven by market size or firm scale alone, but also by sustained investment in knowledge creation, new technologies and business models.

These investments determine which firms shape global economic trajectories, push the productivity frontier and strengthen the resilience of global value chains. It's also evident in the overall corporate R&D spending structure of 17 companies. Only one company, Tata Motors, which ranks 63rd globally, accounts for 58% of Indian corporate R&D. The other 16 companies are all ranked well beyond the global top 500, with a combined spend of around ₹28,271 cr ($3.1 bn), which is less than Tata Motors R&D spending of about ₹39,071 cr (about $4.3 bn).

India's corporate R&D profile is largely concentrated in automobiles and health-related industries. In other countries like China, R&D activity is more diversified, spanning ICT producers and services, construction and advanced manufacturing. Brazil's is heavily skewed towards energy and industrial sectors. Even though India's sectoral focus reflects participation in relatively advanced industries, diversification and tech intensity to drive global leadership are still missing elements in companies.

One company, Tata Motors, which ranks 63rd globally, accounts for 58% of Indian corporate R&D. The other 16 companies are all ranked well beyond the global top 500

Beyond these statistics lies a deeper structural constraint: India is yet to reach the critical inflection point achieved by leading innovation economies. Global evidence shows that advanced economies build deep pools of skilled researchers, industrial capabilities and research funding until business R&D overtakes public spending and becomes the primary engine of innovation. This transition has occurred in the US, Japan, EU economies like Germany, and more recently in China, where sustained public investment in universities and research institutes was followed by rapid private-sector R&D expansion.

India remains far from this transition. While pressure on GoI to strengthen the research ecosystem persists — most notably through Anusandhan National Research Foundation (ANRF) — this alone won't suffice. Weak private-sector participation limits its ability to generate the scale of risk-taking and innovation-driven outcomes seen in leading economies.

For long-term competitiveness, this structural imbalance must be addressed, as it underpins India's persistent gap with the world's leading innovation economies. The gap is evident in lower patent intensity within innovation clusters, fewer high-impact scientific publications, limited venture capital investment and weaker overall innovation outcomes.

India doesn't lack capability to build a thriving, innovative ecosystem. It possesses all the right ingredients, be it human capital, startup landscape or grassroots innovators. But it still lacks private sector dynamism to turn knowledge inputs into outputs. The long-term consequence of this is that India's most promising talent seeks better opportunities abroad, as they prefer thriving, business-innovative ecosystems for career pathways.



The challenge for India is not to increase R&D spending relative to GDP to at least 2%, but to enable a transition from a public sector-led innovation ecosystem to a business-led one. The lessons from the world's most innovative companies are clear. Until we acknowledge current limitations, our presence in the innovation hierarchy will remain limited, regardless of our demographic dividend or growth potential, because innovation is the pivot on which a country's long-term competitiveness rests.

The writer is chair, Institute for Competitiveness. Inputs from Sheen Zutshi

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Enough of Holding Up the WTO Line



Pradeep S Mehta

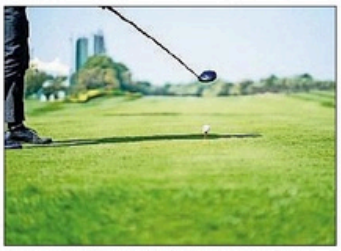
Both geoeconomically and geopolitically, India has a big role in taking WTO forward from its current soporific situation. It must stop being a naysayer and allow even a truncated agenda to move forward in deference to its defensive interests. Our policymakers are yet to realise this larger objective.

India believes WTO must proceed on its multilateral agenda even though it may be difficult to achieve agreement among 166 members. This point was realised by several WTO members in the 2017 Buenos Aires ministerial conference. With Trump's US leading the assault, the multilateral agenda is not moving forward, the need is to move forward on plurilateral issues. India, since Buenos Aires, objected to this process and outcome.

At the same time, India is on an FTA spree with several countries outside WTO premises, even as it objects to plurilaterals on similar subjects at WTO. Plurilaterals have a history at the WTO, and at least three such limited agreements are in force there but are closed to its members. On the other hand, plurilaterals under negotiation are open to all members. Most WTO members have participated in the negotiations because of the flexibility the forum offers — a 'coalition of the willing' if you will, and also of variable geometry.

Alliance-building has been key to India's WTO negotiating success, particularly in opposing issues. Many experts highlight that unbending rigidity in negotiating stances at WTO deters alliance-building efforts. This could eventually leave India friendless and isolated. Lessons can be learnt from its successful alliance-building efforts in the past. But issue-based fractures among developing countries have also become more prominent in recent years, making the need for adopting accommodative stances even more crucial.

While India tells itself that it speaks for developing countries, this is belied by the fact that other developing countries are themselves speaking in a different voice. They are opting for a different path and advancing their own interests by, say, supporting the Investment Facilitation for Development (IFD) agreement.



Enough dilly-dallying, now swing

TRADE-OFF

On such plurilateral agreements, the discussion one should be having is on benefits and drawbacks of signing on to specific agreements. Instead, India has become notorious for opposing open plurilateral agreements altogether, blocking willing members from going ahead. Consequently, it has lost friends in the developing world.

Yet, the latest communication by India on this matter indicates it will keep up its in-principle opposition to plurilateral agreements in the run-up to WTO's 14th Ministerial Conference in Cameroon in March. A mature retreat from such a position may hold India in good stead. Yes, the country needs satisfaction of its own demands — such as public stockholding for food security purposes, which can be negotiated simultaneously — but by being positive about issues that other members want that may not be harmful to India.

By entering into FTAs, India may not be able to achieve the level of exports it aspires for. Current inertia must be shed and new thinking on how to reimagine India's engagement with WTO, or to create a better equilibrium in the WTO system in a changed era, must be inculcated.

Contrarian views should be engaged with, and dialogue between government and trade policy researchers, which include many former negotiators working on frontier trade and investment issues, should be encouraged. We need 'aatmavishwas' before we can ever be 'aatmanirbhar'.

The writer is secretary general, Consumer Unity & Trust Society (CUTS) International.
Inputs by Advaiyot Sharma
This article is part of an expert series on trade policy curated exclusively for ET by CUTS International


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Make PLI Performance-Linked



Ashish Dhawan & Piyush Doshi

When India launched the production-linked incentive (PLI) scheme in 2020, it was staring at a once-in-a-generation pandemic shock. PLI was launched to convert this crisis into an opportunity with an ambitious allocation of ₹2 lakh cr.

PLI has become one of India's most cost-effective industrial policy interventions. Across 14 schemes and over 800 approved applications, companies have reported over ₹2 lakh cr in actual investment, translating into nearly ₹19 lakh cr of cumulative production and sales, with around 8 lakh direct and indirect jobs created.

Exports linked to these schemes have increased by more than ₹8 lakh cr. Against this scale, GoI has disbursed just under ₹24,000 cr in incentives. Every rupee of PLI incentive has leveraged an average of ₹8-9 of private investment. Few industrial policy tools — domestically or globally — can demonstrate this level of fiscal efficiency.

A key reason of this success lies in its design. Unlike traditional capital subsidies, PLI is output-oriented and follows a pay-for-performance model. Firms receive incentives only after achieving incremental production or sales. By contrast, many capital subsidy regimes often imply effective subsidy rates of 15-30% of project cost, once land rebates, tax exemptions, power subsidies and interest subvention are accounted for. These subsidies are frequently front-loaded, difficult to claw back, and prone to locking in inefficient capacity.

PLI flips this logic. GoI's exposure rises only when firms perform. If production does not materialise, incentives are simply not paid.

Best demonstration of PLI's success is in electronics, particularly mobile phones. In 2019, India's role in global iPhone production was marginal. By offering predictable, scale-linked incentives tied to output, PLI altered the economics of manufacturing in India — not just for Apple but also for its contract manufacturers and component suppliers. Today, India produces well over $14 bn worth of iPhones annually, exports are rising rapidly, and the country has moved from the periphery to being a strategic manufacturing base in Apple's global supply chain.



All about the output

Pharma, telecom and networking equipment, food processing, white goods, automobiles and auto components have all seen meaningful capacity creation and output expansion under PLI.

Critics point out, correctly, that PLI outcomes are uneven across sectors. Schemes such as IT hardware 2.0, speciality steel and advanced chemistry cell batteries have seen slower-than-expected progress on production or employment. But seen in context, even in these sectors, investments have materialised and capacity has been created.

Second, many of these are capital-intensive, strategic sectors aimed at long-term supply-chain resilience and import substitution rather than job creation. What matters is that incentives are not paid where outcomes fall short. From a taxpayer's perspective, this is a feature, not a flaw.

There is, however, one criticism of PLI that deserves more attention: complexity of scheme design and burden of compliance. Several firms have flagged that multiple year-wise targets, product-wise thresholds and growth benchmarks make schemes difficult to navigate. Documentation required to prove incremental production, domestic value addition and eligibility is extensive, often involving audits, certifications and repeated clarifications.

As a result, claim processing can take months, in some cases, years, diluting the signalling value of the incentive. This is not a conceptual flaw in PLI but an implementation challenge. One that is fixable.

The case, therefore, is not to retreat from PLI but to make it bolder and bigger, and a core part of the national manufacturing mission. But a few refinements will make it sharper and more attractive:

▶ **Export focus** In apparel, footwear, furniture, toys, food processing and electronics components, job creation per-rupee invested is far higher, along with some of the strategic sectors like battery, solar and drones. Rather than spreading itself thin across many sectors, PLIs should focus sharply on these.

▶ **Simplify schemes** Have fewer year-wise targets and greater reliance on automatic verification using GST and customs data. Predictability matters more to investors than marginally higher incentive rates.

▶ **Policy design** Explicitly distinguish between strategic capacity-building PLIs and employment-led PLIs, rather than forcing all sectors into a single evaluative framework.

With targeted refinements, PLI can expand from a successful experiment into a core pillar of manufacturing and export strategy for the next decade.

Dhawan is founder-CEO, and Doshi is operating partner, The Convergence Foundation


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No to Piecekeeper Of the World

Apropos 'India weighs options After Trump invite to Join Gaza Peace Board' by Dipanjan Roy Chaudhury (Jan 20), Trump's proposal to constitute a Gaza 'peace board' appears less a sincere diplomatic initiative and more an exercise in power politics that undermines established global institutions and Palestinian interests, while reportedly lacking consensus even within Israel. India's participation would carry disproportionate strategic costs. Joining such a body risks alienating large sections of West Asia and contradicts India's professed commitment to international law and the rules-based order. The notion that board seats can be effectively purchased further erodes legitimacy, while the forum's durability beyond Trump's tenure remains doubtful. In the absence of peace on the ground, an opaque and transactional mechanism is unlikely to deliver stability. India would be prudent to decline involvement.

N Sadhasiva Reddy
Bengaluru

Greenland's Occupiers 1.0

Never mind some land grabber and his plans to 'Occupy Greenland'. Instead, get some perspective beyond your daily drips of news in **The Greenland Vikings: Land of the Midnight Sun** from the Fall of Civilizations podcast.

Paul Cooper's narration transports listeners to the icy margins of medieval Europe, when Erik Thorvaldsson a.k.a. Eric the Red seeks out life after exile, first as a boy from his native Norway, and then from Iceland around 982 AD, and finds what he 'sells' fellow Norse settlers as 'Greenland'.



Cooper excels in weaving together archaeology, climate science and narrative storytelling. We learn how the Vikings built farms, raised livestock and monopolised the walrus ivory trade, sustaining contact with Europe for centuries.

Yet, this success is fragile: onset of the Little Ice Age, dwindling trade links after the Black Death, and hostile encounters with Greenland's indigenous Inuits chipping away at the survival of Viking colonists. The listener is immersed in the stark Greenlandic landscape both in space and time.

The episode reminds us that civilisations — even ones that seem resurgent — are not defeated in a single moment but eroded by economics, isolation and climate.


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Guv, India Has a Polyphonic Playlist

On Tuesday, Tamil Nadu governor R N Ravi walked out of the state assembly after 'Tamil Thai Vaazhthu' (Invocation to Mother Tamil)—set to the words of 19th-c. poet Manonmaniam Sundaram Pillai and officially adopted as the Tamil Nadu state anthem in 1970—was played at the start of the session. Ravi, it turns out, believes that by playing a state anthem, the national anthem has been 'insulted'. Clearly, the representative of GoI in the state isn't a big fan of the idea of polyphony.

State anthems should coexist with national anthems. Patriotism—fondness for one's 'desh'—exists in concentric circles starting with one's city/town/village rippling out to one's state, country, and should ideally encompass the world that contains all of these units of belonging. Canadian unity is not in peril because of the state anthem, 'Alberta'. The US isn't worried about becoming disunited because of the existence of 'You are my sunshine' as Louisiana's state song. And Indonesia isn't upset that its Aceh province has its own 'Aceh Mulia' (Noble Aceh) anthem.



The existence of multiple anthems in a multifarious nation is a celebration, not a concession. Nations are not homogenous blobs; they are gorgeous imaginative quiltworks of languages, accents, cuisines, grudges and preferences that segue into one single entity. A single anthem would flatten things out in bland uniformity. State anthems are a glorious polyphony, a reminder that unity is not sameness, but the ability to sing in different keys without turning into a cacophony. So, let the national anthem do its unifying thing. But let state anthems work their tantalising harmonies. Together, they form the soundtrack of a true democracy. Why settle for one hymn when you can have a playlist?



Let Non-MAGArica Pay for AI Cupcakes?

Then make India host data centres as nodes

Trump's trade adviser Peter Navarro, not the brightest bulb in White House's array of sockets, has asked a beguiling question: why are Americans paying for AI in India? Putting a question to ChatGPT — which we've skipped — burns up a lot of electricity in the US. And Trump's America has reason to be concerned about the cost of power as data centres mushroom across that country. The answer would have been pretty straightforward in pre-Trump US. Indians — and AI users elsewhere in the world — would have to pay for energy and compute costs. If energy and computing capacity is cheaper in other countries, it would make sense to host data centres there to serve as AI nodes.

Such elegant solutions, unfortunately, do not work when you are digging a moat around a country run by MAGAnomics. Export controls on chips used in AI fall into the same bucket of economic reasoning. Every new technology faces a cost hurdle in its infancy that diminishes with its dispersal. If the Trump regime thinks it will mature AI within the US before export, it's setting itself up for a costly endeavour. Indians not only end up paying for AI use, they are also engaged in its development. This lowers the time to market and improves returns for investors. India would be more than willing to share AI resource demands, so long as there are customers for it globally.



Protecting a technology introduces additional costs and delays its benefits. Again, protection is rarely watertight as experience with nuclear proliferation would bear out. Technology bears a complex relationship with natural resources by being independent of their geographical presence, yet being innately bound to the global population. Innovation is a global endeavour that involves movement of manpower and materials. There are limits to which this process can be controlled. Forcing an AI race among countries will weaponise both the technology and resources that go into creating it. The path of least resistance requires AI to be accessible by all with shared costs and benefits.


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CBDT, Say How to Handle the Tiger



Ashish Karundia

The Supreme Court's decision last week in 'Tiger Global' has become a reference point in India's evolving treaty jurisprudence. While the ruling reinforces long-established anti-abuse principles, it has also surfaced a degree of uncertainty among investors, taxpayers and tax professionals. Uncertainty doesn't stem from the outcome itself, but from absence of detailed administrative guidance on how the principles laid down by the court are meant to be applied in practice.

At the heart of the decision lies a familiar proposition: substance must prevail over form, and treaty benefits cannot be claimed by entities that exist merely on paper. The court clarified that possession of a tax residency certificate (TRC), while relevant, is only a starting point, and not conclusive evidence of treaty entitlement. This is not a departure from settled law. But what remains unanswered is the far more consequential question: what does 'substance' mean in today's treaty context?

When Place of Effective Management (POEM) provisions were introduced a decade ago, apprehensions arose around subjectivity and excessive discretion. Central Board of Direct Taxes (CBDT) responded with a detailed circular, laying down guiding principles, illustrative factors and exclusions. That guidance went a long way in addressing stakeholder concerns without diluting legislative intent. A comparable approach is now warranted in the treaty domain.

▶ While it has been held that shell or conduit entities shouldn't enjoy treaty benefits, there is no authoritative guidance on the minimum 'indicia' (signs, indications or circumstantial evidence pointing to a fact) of 'substance'. Is substance to be assessed through people, decision-making authority, risk assumption, capital deployment or combination of these?

Should thresholds vary depending on the nature of income, capital gains vs passive income, or role of intermediate entity in the value chain? In the absence of clarity, taxpayers are left to rely on fragmented judicial dicta, increasing both compliance anxiety and litigation risk.

▶ That capital gains exemption under the India-Mauritius treaty no longer extends to indirect transfers has generated wider interpretational questions. Several of India's treaties use language similar to the Mauritius treaty when allocating taxing rights



Tame the uncertainty

over capital gains. Whether the reasoning adopted in 'Tiger Global' would apply uniformly across treaties with comparable wording remains unclear. Clear guidance from CBDT on how indirect transfers should be viewed under India's treaty network would go a long way in ensuring consistency at the assessment stage.

▶ That treaty benefits may not be available where transaction is not taxable in the other jurisdiction requires another administrative clarification. There can be genuine situations where income is taxable under the law of the other contracting state. Still, no tax is ultimately paid due to thresholds, incentive regimes or specific exemptions.

Whether treaty benefits are intended to be denied in such cases was not the central issue before the court. Yet, the observation has triggered concern. A nuanced clarification distinguishing non-taxability from non-payment of tax would be invaluable, consistent with the manner in which the expression 'liable to tax' has been defined under the I-T Act.

▶ Implications of the ruling extend beyond inbound investment structures to routine cross-border transactions. Indian taxpayers make substantial overseas remittances every year, relying on TRCs, no-PE declarations, and transaction documents while applying withholding tax provisions. CAs issuing Form 15CB certificates also base their conclusions on these materials.

With the court clarifying that a TRC is only the starting point, stakeholders need guidance on what additional diligence is expected. Are payers now required to examine substance at the recipient level? If so, how far must this enquiry go, and what documentation would suffice? Without clarity, risk of over-withholding or defensive compliance becomes real.

None of these issues calls for dilution of anti-abuse principles. Litigation is rarely the result of bad law, but of unclear law. A comprehensive CBDT guidance note addressing these issues can bridge the gap between judicial principles and practical compliance. The 'Tiger Global' decision has clarified the 'what' of treaty abuse. The tax administration must now clarify the 'how'.

The writer is a chartered accountant

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CURSOR Check right data, keep old promises, do infra right, fix 'Tiger Global' and smuggling

5 Hot Pavs for Bhaji 2026



T K Arun



Step up to the plate

Here are some suggestions for the budget:

▶ Do not tailor fiscal discipline to match published rates of economic growth. These are as reliable as claims of matrimonial ads. Look to stagnant manufacturing capacity utilisation, stuck below 75%, and gross fixed capital formation trapped below 30.5% of GDP. India needs total spending to be at least 15%, whatever the size of the fiscal deficit, to boost growth.

▶ Deliver on past promises. Announce a storage policy for intermittent renewable power, essential for the reliable power AI calls for. China-reliant battery storage will make for strategic vulnerability.

▶ Announce detailed PPP policies for different segments of infrastructure. Avoid mistakes like the unidimensional bidding parameter for airport privatisation, focusing on revenue for the government — without a thought to constraining cost for passengers — which led to whoever had confidence in their ability to jack up user development fees to cover cost of exorbitant bids, to walk away with the contract.

▶ Undo the damage done to India's tax credibility by last week's 'Tiger Global' ruling. When India did away with exemption from tax on capital gains on investments made through Mauritius-resident entities, India grandfathered investments made prior to April 1, 2017 — meaning, the new taxability of capital gains didn't apply to old investments. Tiger Global had invested in Flipkart through Mauritius-registered entities well before 2017.



The 'Tiger Global' ruling will impede capital flows to India, crimp future entrepreneurship. The budget should undo this damage



But the Supreme Court ruled that grandfathering could not work for two reasons:

❶ India's tax exemption applied to investments in India from Mauritius, and not to investments in a Singapore-based holding company (holdco) that owned Flipkart. Shares in the holdco were sold to Walmart to effectively change ownership of Flipkart.

❷ Tax benefit accrued only to genuine Mauritius businesses, not to investment arms that were transparently vehicles for harvesting the tax treaty benefit. Both objections are illogical.

When India made this tax treaty with Mauritius, it was not the case that Mauritius was a global business hub teeming with billionaires and their family offices that had grown big in Mauritius. It was well understood that the tax benefit would go to third-country investors who routed their investments in India through that island nation. Why would India do that? Because there are many benefits to capital inflows apart from tax gains from investment successes.

Domestic entrepreneurs receive capital that would have stayed away without the tax exemption lure. New businesses thrive, generate jobs and incomes, and incentivise fresh entrepreneurship. The very purpose of grandfathering investments prior to a cut-off date is to protect such investors' tax-exempt status. That purpose is being vitiated by the Supreme Court.

The indirect holding objection is ironic. I've been a strong supporter of the so-called 'retrospective' tax demand on Vodafone, because when companies create value by doing business in India and make capital gains from selling the business, GoI has every right to a share of those gains, as the capitalised income derived from the people of India. On this principle, it matters little if the ownership change is effected by a transfer of shares in the operating company in India, or in a holdco abroad.

The so-called 'retrospective' amendment was a clarification that the capital gains tax provisions were always meant to cover indirect transfers via stake sales in holdcos, apart from direct stake sales. Hutchison had sold its stake in a holdco in the Cayman Islands to Vodafone, while a holdco owned the telco in India.

Most tax professionals in India vehemently objected to that clarification. Now they gag at the denial of the Mauritius tax treaty benefit to indirectly-held stakes in India. On the basis of principle, the treaty benefit should accrue to holdco stakes that have value only because of the business a holdco owns in India.

The 'Tiger Global' ruling makes India's tax promises look dodgy. This would impede capital flows to India, and crimp future entrepreneurship. The budget should undo this damage, even if it means revalidating the much-maligned clarification.

▶ Let us come to tax policies that boost smuggling. Trump's attack on the dollar is fuelling the rise of gold. That, in tandem with India's high import duty on gold, makes gold smuggling evermore attractive. Dump that duty, bring it down to 2%, the level in 2012. Criminality that attends on smuggling corrupts swathes of public life.

The recently proposed excise and GST hikes on cigarettes, of effective 70%, promise to vastly increase smuggling of cigarettes. Conversion of smuggled gold into jewellery creates jobs in India. But smuggled cigarettes displace domestic cigarettes. Jobs and incomes are lost in the domestic cigarette industry and tobacco farming. Once a smuggling and distribution network for cigarettes is established, it gets entrenched.

A rising proportion of cigarettes sold are smuggled, bear no tax, deprive GoI of revenue and blunt the sin tax's sting altogether



The effect of a steep 'sin tax' is perverse. A rising proportion of cigarettes sold in the country are smuggled, bear no tax, other than the bribes that grease their path, deprive GoI of revenue and blunt the tax's sting altogether. Higher the sin tax, cheaper the cigarettes on the market, and greater the sin.



India Needs to Nuke Up a Lot & Fast



Fatih Birol

Davos: With India's remarkable economic momentum comes accelerating demand for electricity, which could increase by more than 5% a year over the next decade, based on today's policy settings. It needs more power — and at scale — for everything from factories and data centres to ACs and home appliances.

Nuclear energy, already an established part of India's electricity mix, can play a crucial role in meeting this challenge. As IEA anticipated some 4 yrs ago, nuclear power is making a comeback worldwide. The amount of electricity generated by the world's nuclear plants reached a new all-time high last year, and is on course for another record in 2026. After more than two decades of stagnation, global nuclear power capacity is set to increase by at least a third by 2035.

India has operated nuclear power plants for more than 50 yrs, with a strong safety record. Yet, nuclear currently generates only 3% of its electricity today. There is room for this share to grow significantly. Nuclear can complement the rapid growth of solar and wind power by providing continuous baseload power, helping stabilise the grid, and doing so without generating harmful air pollution.

GoI is taking important steps to enable this. It launched a new Nuclear Energy Mission in 2025 that aims to achieve 100 GW of nuclear energy capacity by 2047, a massive increase from less than 10 GW today. That was reinforced through the passage of Sustainable Harnessing and Advancement of Nuclear Energy for Transforming India (SHANTI) Bill in December 2025 that modernises nuclear governance and enables private participation in the nuclear industry, with the state retaining control over fuel enrichment and management of nuclear waste.

The new law addresses a major obstacle to development of new nuclear power plants, specifically private sector operation of plants — a restriction that had limited investment, industrial participation and project momentum. Public investment alone will struggle to deliver the expansion of nuclear power that India is targeting. Private capital, technology and project development expertise have proven to be the key to success in other parts of the world. They can do the same in India.



Go on, wield it

India already has a proven large reactor design, with two new 700 MW units entering service in 2025 and more under construction. Large reactors are a well-established technology internationally. But delays on permitting and construction have become a recurring problem in a number of countries. As such, India's efforts to ensure steady timelines while maintaining highest safety standards will be critical to its success.

In addition, small modular reactors (SMRs) (typically 350 MW or less) could offer a competitive advantage. Their smaller scale offers promise of lower upfront costs, shorter construction time and reduced project risk, potentially making nuclear more accessible and appealing to private investment.

SMRs' smaller size also means they can be situated closer to demand centres, an important benefit for a country the size of India. Several SMR designs are expected to reach the market in the 2030s, giving India time to prepare and position itself as a manufacturing hub.

India already has cooperation arrangements with a range of international partners, including with Électricité de France (EDF) for large reactors. For SMRs, the US Department of Energy has approved tech transfer by Holtec to support development and manufacturing in India. The latter now has the opportunity to explore further partnerships with other international companies. Far from compromising autonomy, these collaborations can support local supply chains and jobs as the country builds up a competitive domestic nuclear industry.

India already benefits from a robust and rapidly growing pool of engineering talent that could help support its nuclear power ambitions. Rate of enrolment into university-level engineering programmes here is among the fastest in the world, growing by nearly 50% in the last decade.

Another asset for India is thorium, a highly efficient alternative to conventional nuclear fuel. Not only is India leading research in this field, but it also holds around 25% of the world's proven reserves, which are typically extracted as a by-product of mining for rare earth elements that go into electrification technologies today.

The priority now for expanding India's nuclear power capacity is implementation — translating the recent legislative and policy progress into new investments and projects on the ground. The country is increasingly well-positioned to play a leading role in the future of nuclear power. And doing so will not only strengthen its energy security but also support its economic development ambitions for future generations.

The writer is executive director, International Energy Agency

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The Times They Are A-Changin': Iconic American Singer-Songwriter Finally Bags Lit Nobel



"But as far as songwriting, any idiot could do it.. Everybody writes a song just like everybody's got that one great novel in them."



"From Orpheus to Faiz, song & poetry have been closely linked. Dylan is the brilliant inheritor of the bardic tradition. Great choice"



"Want to thank him for influencing three generations with his songs, transporting people from their crazy lives to an alternate world."

SWEDISH ACADEMY PRAISES DYLAN'S POETRY FOR THE EAR

AROUND THE WORLD ▸▸ 17

Let Him Be

To see Dylan as a

The Davos Speech the World Should Heed

Carney tells 'middle powers' to get real

Unlike the most anticipated address at Davos made from a bully pulpit on Wednesday, Canadian PM Mark Carney's speech a day before may have sounded like an innocuous sermon from a snow-clad mount. But his was a stand-out, blunt reminder that the world order is parading 'naked'. Middle powers, he told the Davos nobility, continue to dutifully hang the 'rules-based international order' sign from shopfronts in an era of Toll Troll Trump — knowing fully well it's now fiction. Like Hans Christian Andersen's emperor, Trump's US struts about in 'invisible robes', while allies are forced to applaud the tailoring. The ritual gains traction as no one dares to call the global system what it is: a convenient lie, with Trump getting away on almost all fronts.

Big powers (read: China and the US) now weaponise integration — tariffs as cudgels, supply chains as choke points, finance as coercion. The old Teddy Roosevelt line, 'Speak softly and carry a big stick' has been replaced with 'Shout your head off and carry a big stick'. Multilateral institutions, once the wardrobe of legitimacy, are threadbare. To keep pretending is not prudence but self-delusion. In Andersen's story, the emperor's courtiers feared ridicule more than reality. So do many governments today, clinging to the faded fabric of 'rules' while the strong exempt themselves at will. The danger is middle powers negotiating bilaterally with hegemons, mistaking 'strategic' subordination for sovereignty.



Carney's solution is 'values-based realism' — principled enough to defend sovereignty and rights, pragmatic enough to build coalitions issue by issue. It's a wager that diversification and collective resilience can stitch together something sturdier. Naming reality — 'The emperor has no clothes!' — isn't naivete but strategy. Saying something and thinking something else, as is being done with Trump, risks normalising acquiescence to the rent-a-threat, real estate developer-president. A world of fortresses beckons. But so does a world of tactical cooperation — if enough voices call out the BS.


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Move Over IT, India Has to Get AI



Jaideep Mehta

India's IT services revenues now exceed $300 bn, while its SaaS industry has built a $15 bn topline. Tech continues to employ about 6 mn professionals directly while creating an estimated 6-7× employment indirectly. The sector is no longer an export engine, but a strategic pillar of the economy. AI's rapid rise can only strengthen that position.

AI is no longer confined to research labs or pilot projects. Also, the model works best as 'AI plus humans'. This is great news for India's vast talent pool. There may be froth in AI valuations, but no 'usage bubble'. Adoption is accelerating across industries, and tech firms are repositioning themselves to capture this shift. TCS' recent reboot, including its large acquisition of Coastal Cloud at $700 mn, and the steady stream of AI-first product launches from Zoho, reflect a broader strategic recalibration underway.

AI's next phase won't be won by scale alone. Gartner's prediction that domain-specific language models will rise next plays to India's strengths. These models demand deep contextual knowledge rather than brute-force computing power, an area where Indian IT firms, particularly in sectors such as financial services, retail and logistics, have an edge.

AI is also redrawing the market map. Regions such as Africa and parts of Asia, long seen as commercially unviable due to limited labour cost arbitrage and associated pricing challenges, now make it possible to build profitable, scaled operations there.

AI is also beginning to merge with the physical world. Smart robots in warehouses, intelligent medical devices and drones delivering medicines are here. What Gartner terms 'physical AI' opens new solution sets — and revenue pools. Indian firms owned by large conglomerates like Tech Mahindra, LTI Mindtree and TCS could bundle group capabilities and create sustainable competitive advantage with new value propositions such as 'warehouse operations management'. With the global warehouse automation market estimated at $25 bn annually, the opportunity is limitless.

Traditional system integration skills



Artificial, naturally!

of IT services are still relevant. As large customers initiate more AI projects, they are going to need to integrate these new platforms with their legacy systems. Similarly, leverage of multiple LLMs for different use cases also means that backend integration is required, both at application and data layer. These are complex exercises that need to untangle the spaghetti of legacy software, siloed data lakes and uneven processes found in most organisations. So, they carry significant business potential for the service providers. Yet, the road ahead has obstacles:

▶ Rising political hostility to globalisation in key markets is complicating visas, work permits and offshoring. More troubling is the growing social backlash against foreign professionals, including Indian technologists, particularly in the US and some parts of Europe.

▶ AI skills are scarce and increasingly expensive. Even at junior levels, AI professionals command meaningful salary premiums, which widen sharply with experience. So, while a dot net developer with 3 yrs of experience commands ₹6 lakh a year, an equivalent AI professional is going at ₹8 lakh. According to IDC, more than 90% of global enterprises are expected to face critical skills shortages by 2026. For Indian IT firms, scaling AI capability will be as much a people challenge as a technological one.

Many companies have spent the past year preparing for transition to an AI age, rationalising headcount where required, investing heavily in reskilling, and executing targeted acquisitions and partnerships.

With these building blocks in place, 2026 could mark a return to stronger revenue growth and healthier margins. India's IT sector has reinvented itself on multiple occasions. AI presents another such moment. Whether it becomes a breakout chapter or missed opportunity will depend on the bets being made. And on relentless execution.

The writer is MD, RZOLUT



No Tax Treat, But Surprise Flip Kart

Apropos '5 Hot Pavs for Bhaji 2026' by T K Arun (Jan 21), the Supreme Court's Tiger Global's Flipkart deal ruling will set a crucial precedent for tax treaties. It could prompt foreign investors to re-examine how deals and their holdings are managed. The apex court has rightly assessed that general anti-avoidance rules (Gaar) are part of a domestic legal framework, and cannot override a tax treaty. Now, litigation over tax treaty claims may increase and impact the tax insurance market. But a clear guidance going forward regarding substance over form will be much needed to provide clarity to global investors. Their confidence is key for India to remain an attractive business destination.

Bal Govind
Noida

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CHAPATI The glitz and gab of Davos cannot disguise America's voluntary winding down

THE LONELY RANGER



Ashok Malik

One year into Trump 2.0 — and one day after his speech at Davos iterating, with some caveats and eschewals of violence, his Greenland demand — how close is anybody to clarity? The answer is obvious enough. The president appears to follow the dictum that nothing is settled till everything is unsettled and, hence, has opened a number of fronts.

The US' economic and military strengths have meant he has got away with most of it. This is particularly so in case of the power and capability differential between the US and its neighbours in the Americas and its embittered trans-Atlantic partners. Even on Greenland, offered a de facto solution, Europeans would agree in a jiffy. The question is of reconciling de jure concession to the US. After all, in a manner typical of the earthy wisdom of Indian property dealers, Trump has determined freehold is better than leasehold.

For the Euro-Atlanticist political and strategic elite, Greenland has become a fixation. This is understandable. The likelihood, however slim, of an invasion in western Europe for the first time since the mid-20th c., and coming from further west — not east — is not easy to consider.

However, while all the strategic oxygen has been sucked up by Greenland, the fact is, in the larger scheme of things, it means little. The US already has a troop presence on the territory. Defence of Greenland, from a Russian and Chinese threat that is very much present but very possibly exaggerated, is taken for granted anyway. In real terms, Trump's annexation will achieve little and change little in the global calculus. Of course, maps will be altered. European morale will be affected. Perhaps both will be shaken and stirred. Yet, how fundamentally will the world change?



Shock and thaw



While all the strategic oxygen has been sucked up by Greenland, the fact is, in the larger scheme of things, it means little

It could be argued that the tectonic changes underway in the vast geography between the Indian subcontinent and the Horn of Africa, centred on a shape-shifting West Asia, are potentially much more consequential. New equations are being drawn. Maps and countries are being carved and re-carved. A vacuum is emerging amid Iran's receding influence and as the regime in Teheran concentrates capacities in a fight for survival.

This is giving space for recrudescence of contradictions so far kept in check. Two new quads are emerging: Saudi Arabia, Qatar, Türkiye and Pakistan; and the UAE, Israel, Ethiopia and India. Regional powers are flexing muscle. Near-abroads are being reconstructed and mega-regions, if not quite mini-empires, are being devised. The US role is not entirely non-existent, but its earlier willingness and ability to be an external balancer is decidedly slipping.

Where the US has declared itself absent and nobody else can step in, there's a free-for-all. It is multipolarity not by intelligent design but by hustling default

On its part, Europe has no time to concentrate. In another era, the French president would have been flying up and down the region. Arguably, all of this is of greater relevance for 21st c. history than the future of Greenland. It also provides a template for other opportunistic moves in other geographies.

This is not to underplay serious issues of sovereignty and international law that have triggered the Denmark-US argument. Europeans' concerns are valid. For all its problems, occasional sanctimony and chequered history, the European project is not without its adherents. The old continent still has the financial capital and innovation capacity to revitalise itself. That is what countries like India are betting as they prioritise trade, supply chain and defence partnerships with Europe.

The price, of course, will be paid by American exporters, farmers and defence companies, nonplussed as to why a perfectly good Indian trade and strategic offer has been snubbed. To the Truman Show of Trumpian Washington, however, it doesn't seem to matter.

As Europe rebuilds and looks at itself, and as America unbuilds and, in quite another way, also looks at itself, there is a cost for both. The world is moving on. It is not necessarily moving on in a determined and strategic course. Rather, it is responding to exigencies and opportunities in an age of tactics.

The self-consuming Western family quarrel is incidental to this. When Europe recovers (as one day it will), and when America stabilises (as one day it must), they will do so in a geopolitics that will be less linear and defined by Brownian motion.

What is the upshot? Is this a world with one leader, two leaders or no leaders? Is America 'back', as Trump repeated in his Davos speech? And is the unipolar moment of the early 1990s upon us again? Is this, instead, a G2 planet? Perhaps it is a sole-superpower world where Trump and the US are present, or negotiating across the table — largely on tariffs and market access. Yet, where the US has declared itself absent and nobody else has stepped in, or can step in, with a matching undergirding, there is a free-for-all. It is multipolarity not by intelligent design but by hustling default.

These grey zones can be geographical, sectoral and thematic. Many, if not most, of them are an outcome of America's voluntary attenuation. Never mind the glitz, gab and make-believe of Davos.

The writer is partner, The Asia Group, and chair of its India practice



Hey RBI, Leave Those PEs Alone



Arijit Barman

Some of the fattest cheque books in town are being kept away from the sector that's drawn the most foreign inflows over the past year: fast-growing non-bank lenders. Regulatory hurdles are preventing PE from investing big.

Since 2024, RBI has been frowning at investors having control of multiple lenders. PE firms that have held 20% or more in non-bank lenders have had to divest holdings in the face of RBI opposition. The latest casualty is Bain Capital's proposal to buy a controlling stake in gold loan provider Manappuram Finance. It has reportedly raised RBI hackles since Bain already owns 93% in another NBFC, Tyger Capital.

Imposing such 'non-compete' clause for PEs is regulatory overreach that can impact credit growth among those who remain unbanked, reduce exit optionality and squeeze out critical FDI inflows. They have collectively deployed $26.3 bn in the space in the last decade, 66% of which have flown in the last 5 yrs.

The 20% ownership condition that has been arbitrarily superimposed in recent cases is not dependent on the target's size or scale, but seems a policy-level condition. Lack of transparent guidelines will most certainly make investors skittish. It's also the wrong time for second-guessing. Banks are facing liquidity squeeze and may not be able to finance India's credit needs. NBFCs will have to step in to fill that vacuum.

RBI's resistance to the same owners owning multiple licences in the same regulated businesses derives from possible market concentration, systemic risks from credit pullbacks, price collusions and related-party dealings. They have resisted large conglomerates from owning banks or multiple NBFCs fearing depositors' money getting funnelled for corporate excesses and intergroup lending. This is welcome.

PE is different from corporates. A financial sponsor's job is to invest, while a corporation makes long-term strategic bets. To put the two in the same basket is unfair, as is treating all types of credit as same. Some lenders are regional, some national, while some are niche. A gold loan provider is very different from an SME financier.

No such restrictions exist for similar investments in other sectors like manufacturing or consumer retail, where a fund can own multiple assets in the same space. Specialist pools of private capital dedicated to a sector — technology, real estate, climate, even financial services — are commonplace.



A genuine appeal

But RBI's hard stance stands to limit their prospects.

Some of the biggest in business — Blackstone, KKR, Brookfield — have multiple funds overlapping at a given point. RBI is frowning even if two such pools from the same PE own multiple finance companies despite not being the same line of business. In any case, it's CCI, not RBI, that's arbiter for market concentration, abuse or price manipulation. The Manappuram transaction, too, has already been blessed by Sebi and CCI, but is awaiting RBI go-ahead.

The laws are clear. Acquisition of 26% stake in a lending business (NBFC, HFC, microfinance) needs RBI approval since it triggers change of control. RBI examines the fit and proper criteria of the acquirer. Change to more than 30% of the board (non-independent directors) in a finance company also needs similar RBI vetting.

Suddenly imposing a 20% ceiling doesn't come out of any legislation. RBI laws don't prescribe any 20% threshold for investments in NBFCs. The only possible reference is in Companies Act, where 20% ownership makes a company an associate.

Since the collapse of IL&FS and Dewan Housing, RBI has strengthened its regulatory and surveillance framework for NBFCs. Even if some blowups have taken place, in most cases, corporate governance improved dramatically after PE ownerships like in Aadhar Housing Finance and Aavas Financiers. Risk management can easily be handled via thicker capital cushions, putting in rules that prohibit business overlaps, and separate directors and observers for each company in the portfolio. A blanket ban serves nobody's purpose.

Only a fifth of India's total credit market is controlled by these shadow lenders. PE-owned ones will be just a part of that. Unlike banks, most NBFCs, barring a handful, can't even accept public deposits. But their fragmented and hyper-competitive nature has benefited consumers the most who shop for best rates.

Finally, when there's a debt overhang among Indian households, it's sensible to let foreign PE investors come in with their equity into a sector where the raw material is capital. When and if losses arise, they can be borne by them, instead of being inflicted on domestic entities like banks or MFs that lend to NBFCs in the first place.

Former RBI governor Y V Reddy emphasised a clear hierarchy of foreign inflows based on stability, cost and maturity. FDI was his most preferred choice. Now, RBI may be locking out largest investors from doing deals in a capital-starved sector. When PE is doubling down on control-oriented transactions, asking fund managers to keep their cheque books locked in the drawer makes little sense.

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R&Dy, Steady, Go, Let's Get Talent Here

The proposed Prime Minister Research Chairs (PMRC) in IITs are an effort to attract top Indian-origin researchers and scientists to the country. The plan to support 120 research fellows and chairs over 5 yrs acknowledges the central role that R&D and innovation play in driving economic growth. While the initiative is welcome, delivering results will require sustained commitment. This must include a drive to build and own fundamental R&D capabilities and a strong IP pipeline.

India has entered the global R&D and innovation race late and with a far smaller financial commitment than its competitors. A stagnant public expenditure of 0.64-0.66% of GDP on R&D is insufficient. The private sector's limited contribution



— around 34% of R&D spending — reflects risk aversion and a focus on short-term returns. This must change. GoI has a critical role in shaping a supportive ecosystem for R&D and innovation, but its emphasis should be on policy, governance, and articulating a long-term vision. Public funding should be deployed toward foundational research, strengthening educational institutions, and enabling meaningful collaboration between academia and industry. Beyond a supply-side approach that funds research programmes, GoI must adopt demand-side, mission-driven, or 'moonshot' funding models. In such models, the state sets objectives, while industry, private capital and the research community deliver solutions.

Without a fundamental shift in approach to R&D investment, ownership of intellectual property, and mechanisms that leverage public funds to crowd in significantly larger volumes of private capital, initiatives such as PMRC risk falling short of

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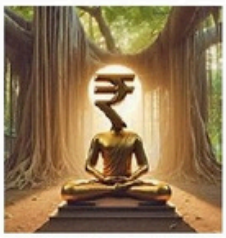
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Don't Worry, Let ₹ Find Its Inner ॐ

Trade deal, stable oil prices can limit damage

Call this an entreaty, to quote a Kubrick movie, to learn to stop worrying and love the depreciating rupee. The beloved currency is waltzing its way lower as foreign investors take money out of Indian stocks and RBI sells dollars with an eye on imports. Both situations could reverse if India and the US get a move on with their trade deal. Last year was grim for the rupee. Unless there's news to lift the gloom, expect a repeat performance. Of course, there's a level beyond which imports will start to pinch if RBI gets too protective about its reserves. That is still some way off, and the regulator will keep steadying the descent. Hopefully, the trade deal will materialise in the early part of the year, and the rupee pain will be short-lived. Once the US lifts its penal tariff, the rupee should have a less bumpy ride.

The rupee has been knocked around by Trump's use of tariffs as an instrument of foreign policy. The US Supreme Court is expected to rule on whether the real estate developer-president can do what he has done. The US consumer, too, is watching her wallet shrink on account of Trump tariffs. Fed boss Jerome Powell is standing firm on interest rates, and Trump doesn't look like he will get the Fed to do his bidding. Creditors to the US are turning skittish about Trumponomics. A weakening dollar could trim some White House hubris.



India can ride out the rupee slide because the economy is powering ahead as inflation stays low. It can absorb higher energy prices if the rupee were to fall further from here. Trump's focus on minerals is likely to keep a lid on oil prices throughout his second term. This offers India an opportunity to speed up economic growth. It also lowers India's dependence on Russian oil, which makes it easier to deal with the Trump regime. The rupee reaching new lows does not cause grave concern in New Delhi. Washington will eventually have to ask itself whether tariffs hurt more at home than overseas. That realisation should set the rupee on the course it's meant to be. Both fiscally and spiritually.

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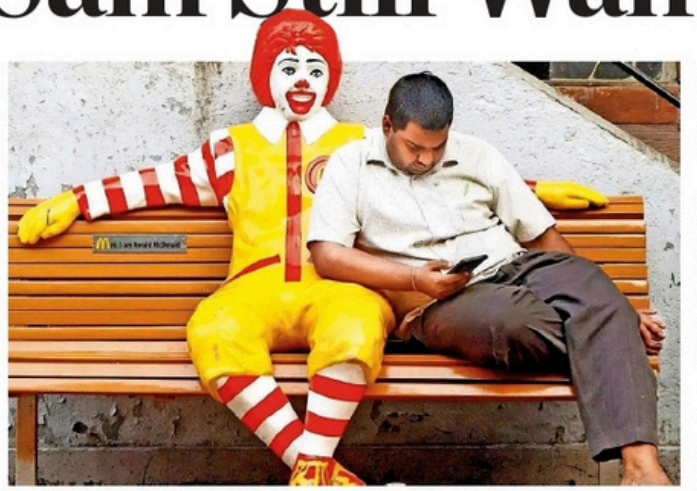
To see Dylan as a "literary" great is to

Never mind Trump's global romps, strong India-US ties continue to matter very much to both sides

Uncle Sam Still Wants You



Tim Roemer



MFFFA: Make fast food fast again

Washington: With the world in a swirl, it's easy to forget about critically important developments in US relations with India. Bilateral US-India relations do impact China's power in the region, Russian sales of oil to fund its battle with Ukraine, stability with nuclear weapons-equipped Pakistan, not to mention affect trade with the fourth-biggest economy in the world. The relationship steers global politics and helps determine geopolitical strategies.

Ongoing negotiations are tense. But they are full of potential to address the weakest and most underperforming pillar of the India-US partnership: trade. The economic relations are marked by a persistent US trade deficit, high Indian tariffs — specifically on agricultural markets — several non-tariff barriers, and deep disagreements over IP. India has successfully negotiated trade agreements with Australia, vastly improved trade with Israel, and concluded a deal with Britain. Current India-EU talks are being dubbed 'mother of all trade deals'. Blueprints and trade maps are readily available for a successful breakthrough with the US. While the US Supreme Court deferred its ruling on the legitimacy of Trump tariffs on Tuesday, both India and the US would be wise to finalise talks soon, or have a resilient backup plan if the tariffs are overturned. These trade talks, while vitally important, shouldn't be on a single track of defining the entire bilateral relationship in these turbulent times.



Trade talks, while vitally important, shouldn't be on a single track of defining the entire bilateral relationship

Failure here is not an option.

So, what's at stake? The US-India partnership is important to balance China's aggressive military strategy. It's also the defining relationship for new technology, energy and space initiatives of the next 25 yrs.

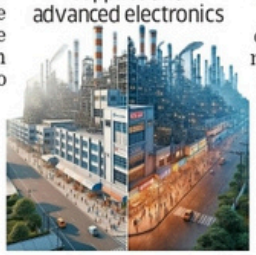
India is a 'major defence partner', enabling the US to expedite arms sales and sensitive technology transfers. Defence trade since 2008 has reached $24 bn, including aircraft, drones and helicopters. India conducts more joint military exercises with the US than any other country. Recently signed defence agreements allow profound intelligence-sharing and increased interoperability. Tech transfers to India include co-production of GE F-414 jet engines.

There is creative cooperation on semiconductors, AI, quantum computing and advanced telecommunications. Nasa and Isro share data and conduct joint missions. The US cannot, and does not, engage with China or Russia in any of these areas.

But there are weak points in the partnership, and challenges in managing disagreements that demand attention and solutions. India received a majority of H-1B visas annually, and over 1 mn non-immigrant visas were issued to India in 2024. The Trump regime proposed charging $1 lakh for H-1B visas, and the process to approve visas is very bureaucratic and time-consuming. This 'skilled migration' needs to be addressed.

The US has improved prior poor relations with Pakistan by providing a defence package for upgrades to current F-16s, a proposal for rare earths businesses, and an exclusive lunch in the White House with army chief Asim Munir. India has bought inexpensive Russian crude oil, increasing their purchases from 2% to 35% over the past few years. Both the US outreach to Pakistan and India's support to Russia have stirred some public opposition in the respective countries. When we experience these different approaches to foreign policy where there are legitimate policy disagreements, robust diplomatic engagement is needed.

On critical goods, India and the US could incentivise dual-location factories for medical supplies and advanced electronics



Future between the US and India remains the defining partnership of the 21st c. As supply chains move away from China, how can they be built to insure US national security concerns and prevent catastrophes like the Covid pandemic? Some supply chains will move home to the US. But some others will be shifting to countries like Vietnam, or India.

India and the US could make the case for selective pharma and semiconductor production corridors and joint manufacturing pacts. On critical goods, they could incentivise dual-location factories for medical supplies and advanced electronics. This is a win-win proposition.

There are opportunities for energy alliances on gas, oil and nuclear infrastructure. Similarly, possibilities for co-investing in critical mining and finding and cleanly refining rare earths exist. Ensuring that the 3,31,000 Indians studying in the US can fast-track STEM talent into the US economy creating even more US jobs should be also priority.

China is paying close attention to Trump's corollary to the Monroe Doctrine — 'Donroe Doctrine' — as the US pushes for more control and influence in its own backyard. If China ultimately decides to pull away from South America and focus more exclusively on Asia, India becomes even more vital to the US as a regional and global power.

The US cannot become isolated in this key area of the world, and push India into a closer axis with China and Russia. It needs all the friends and partners it can get in an increasingly chaotic and fast-changing world. As does India.

The policies and recommendations outlined here require personal presidential commitment, an active and effective ambassador to follow up on strategic implementation, and constant support and involvement from Congress and the US' business community. We are at a crucial crossroads with an unresolved trade pact and a volatile global situation side-tracking much attention in diplomatic and media circles. We must assiduously prioritise this partnership and clearly define the multiple benefits to all constituencies.

Proactive engagement and meticulous personal management are essential. Donald Trump and Narendra Modi must strongly assert their vision, direction and authority to this urgent national security goal for both countries.

The writer is former US ambassador to India


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Digital Payment, Let AI Explain



Sridhar Dhulipala

Guruprasad, a PSU employee, tapped 'Pay' on his MF SIP, and his bank app confirmed that ₹10,000 had been debited. His UPI app showed the transaction as successful. However, the investment app stated that the payment had not arrived.

Unsure of what had happened, he called customer care, sent emails and posted on social media. Eventually, pressure worked. The money appeared in his investment account, and units were allocated. But for days, he was left anxious and responsible for stitching together an explanation that no system provided.

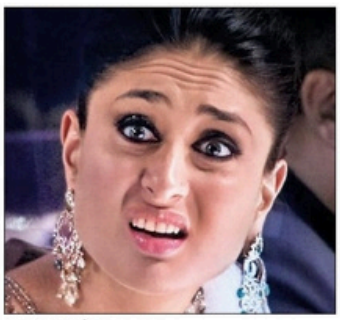
India sees over 13 lakh such complaints to RBI every year, more than 60,000 complaints to Sebi, and the numbers are rising. A large share of these complaints stem not from fraud or loss but broken journeys — transactions that technically work yet fail to explain themselves to users.

In Guruprasad's case, evidence existed across multiple systems: bank debit records, UPI transaction logs, payment gateway timestamps and MF order entries. Each system captured a fragment of the truth. But no layer connected them into a single, comprehensible narrative. That burden is on the user.

India Stack today handles flows exceptionally well — people through digital identity, money through instant payments, and data through consent-based sharing. These are foundational DPIs, the building blocks on which modern digital services run.

A second category of DPI operates at the network level. Frameworks like Data Empowerment and Protection Architecture (DEPA), implemented through account aggregators, enable consent artefacts and data flows across institutions. These network DPIs coordinate what foundational DPIs make possible.

Yet, there is a missing layer. No DPI today is responsible for journey continuity — the user's lived experience as she moves across apps, systems and institutions. This is where a third kind of DPI can emerge: DPI at the edge.



Lost, again?

Seven out of 10 Indians use smartphones, and over 85% of households have access to at least one. These devices are where all signals converge: bank SMS alerts, UPI notifications, app confirmations, error messages and customer support exchanges. While backend systems may take days to reconcile, the phone sees the complete picture. With an on-device DPI, combined with AI capabilities that can now run efficiently on modest hardware, a new possibility opens.

Call it DPIx — Experience DPI.

When Guruprasad's journey breaks, an AI assistant on the device does not merely surface three contradictory statuses. It constructs a coherent explanation: 'Your money left your bank at 10:42 am, but the MF platform has not yet confirmed receipt. This is likely a 'deemed successful' state at NPCI, which usually resolves within one to two working days. If it does not resolve by Thursday, I can help you raise a complaint with the required evidence.'

When users encounter messages like 'authorisation failed' or 'Transaction deemed successful', the natural reaction is: 'What does this actually mean?' This question is not a limitation to design around, it should be the core feature.

The question addresses something deeper than convenience. It breaks through the language and comprehension barrier that often becomes a relevance wall. Designing for one user does not automatically scale to a billion users — especially in a country with one of the world's highest levels of linguistic diversity. When language, connectivity, accessibility needs, device constraints and context variations combine, the design space explodes. The challenge must be reframed as serving a billion users across millions of journeys.

On-device AI makes this possible, in the user's own language. 'Authorisation failed' becomes: 'Bank ne confirmation maanga, lekin samay par nahi mila. Aapka paisa surakshit hai.' This is not translation — it is interpretation and reassurance.

Indians need technology that is accessible, inclusive, and meets them where they are. DPIx offers a powerful way to deliver clarity in moments of uncertainty. Journey intelligence is not limited to fintech — it applies equally to healthcare appointments, college admissions, government benefits and logistics tracking. Anywhere multiple systems must coordinate to serve a user; the user currently bears the burden of coordination. That burden needs to shift.

AI, combined with DPI, can make that shift possible. DPIx can watch, correlate, explain and reassure — placing the full power of India Stack, quite literally, in the user's pocket.

The writer is principal adviser (design), UIDAI

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India, Don't Drift from Chabahar



Harsh V Pant & Vivek Mishra

Trump's announcement of a 25% tariff on countries trading with Iran — though framed as a universal measure — complicates India's calibrated engagement with Tehran, especially its strategic involvement in Chabahar Port. Coming on top of existing trade tariffs, the move introduces another layer of uncertainty into New Delhi-Washington ties.

The tariffs follow on a 6-mth waiver India secured from the US in October 2025 for Chabahar operations, widely seen as a temporary window to recalibrate its presence at the port. But the new tariff threat undermines that exemption, injecting fresh uncertainty into a fragile regional environment and raising the risk of renewed escalation across Iran and West Asia.

During Trump 1.0, the US withdrew from Joint Comprehensive Plan of Action (JCPOA) in 2018 and launched a 'maximum pressure' campaign to economically isolate Tehran through sanctions on oil exports, banking, shipping and third-party trade. Under Biden, this architecture endured, though enforcement fluctuated. Iran has long been a fault line in India-US relations, including after the 2008 civil nuclear deal, when pressure mounted on New Delhi to align its Iran policy with Western non-proliferation objectives.

Trump's return has revived the coercive edge of this strategy, with tariffs deployed to deter third countries from sustaining economic ties with Iran — aimed at severing economic lifelines, isolating partners and cornering Tehran under the shadow of potential military escalation.

For India, Chabahar is not just a commercial port project. It's also a strategic asset that ties together civilisational links, regional connectivity and expanding security interests. The port offers India a rare overland and maritime gateway to Afghanistan, Central Asia and onward to Russia, even as its alternative access remains structurally constrained by Pakistan's refusal to grant India transit rights. Sanctions on Iran and disruptions since the Russia-Ukraine war have had a debilitating impact, preventing the connectivity vision from attaining its full potential.

India signed a 10-yr contract with Iran in May 2024, under which the state-run India Ports Global Ltd (IPGL) committed investments of around $370 mn for the development of Shahid Beheshti terminal at Chabahar. The agreement, signed with Iran's Ports and Maritime Organisation, was intended to provide operational stability and signal India's intent to remain engaged despite geopolitical headwinds. Trump's announcement has run against it.



Stick to the horizon

Recent statements from New Delhi suggest that India is reassessing its options. While the 6-mth waiver was initially seen as an exit ramp, India now appears to be exploring ways to sustain its presence, reflecting the careful assessments about costs involved and the strategic value Chabahar holds for India's wider maritime and Indo-Pacific ambitions. India is not alone in facing repercussions of Trump's tariffs on Iran. China, the UAE, Brazil, Turkey and Russia stand to be affected.

Broader implications extend beyond bilateral frictions. Iran sits astride Strait of Hormuz, a critical artery for global energy flows and Indo-Pacific supply chains. Any destabilisation of Iran's economy or security environment risks spillover effects that could disrupt trade, raise insurance and shipping costs, and undermine investment confidence for the Indo-Pacific region. For India, which is expanding its footprint in West Asia through energy and infrastructure connectivity and diaspora ties, the loss or downgrading of Chabahar would be a strategic setback.

The timing of it all may be critical. Iran is already under internal strain, and the cancellation of a recent visit by Iran's foreign minister to India, where Chabahar was expected to be discussed, underscores the urgency. Meanwhile, West Asia remains volatile with fragile ceasefires and unresolved conflicts. A renewed US economic or military coercion against Iran risks derailing any prospects for regional stabilisation, including progress on Gaza.

The latest US measures may not explicitly target India, but their indirect impact is unavoidable. Beyond lost economic opportunity, a diminished role at Chabahar would undercut India's maritime vision and its aspiration to act as a stabilising power across the Indo-Pacific and West Asia. Perhaps most expectedly, China will swoop in to fill any void that would be left by India's withdrawal.

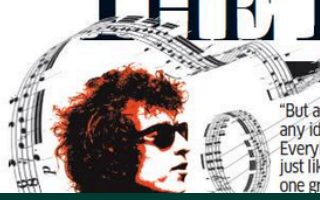
As Trump heightens pressure on Iran, externalities will increasingly shape India's choices. To a hammer, everything may look like a nail. But for New Delhi, navigating this moment will require deft balancing and conversations with Washington.

The writers are with a New Delhi-based think tank

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Return to Rationality May Calm Markets

Trump policies and AI risks behind upheaval

The markets are edgy in the New Year due to investor irrationality about AI and the geopolitical risks posed by Trump's interventions. So much money is chasing AI that every experiment is being funded, including those destined to fail. The scale of investment is running into capacity constraints, and it will take years to execute as resources and manpower become available. The technology is fuelling inflation through rising computing and power costs. This keeps central banks wary of lowering interest rates and could become a likely trigger for a collapse of the AI bubble. The money tap may be turned off, and some investors will lose heavily. Those smart or fortunate enough to back the right AI ideas, however, will make substantial gains.

The Trump factor is expected to come into play this year. The effects of last year's tariffs, and any potential escalation in the trade war, will begin to show up in inflation. The Fed is leading a 'hold' strategy for a clutch of central banks, as stimulus measures across the US, Europe and Asia continue to prop up inflation beyond comfortable levels. Bond yields are hardening as Trump's foreign policy threatens to fracture economic as well as strategic alignments. The relationship between markets and geopolitical risk is not linear; the effects only become evident once a critical mass is reached. The markets have been absorbing an unusually high level of political risk since the beginning of Trump's second term and have internalised his cage-rattling style of negotiation.



It is also overdue for a historical correction in the market. Since AI does not pose a threat as a financial crisis — it is an industrial phenomenon — the systemic risks are lower. A return to rationality will help identify winners and losers. Trump's brinkmanship, too, offers some cushion against economic collapse. His brand of transactional statecraft is acutely attuned to investor pushback. This will keep markets on a knife-edge, with a correction just around the corner. The fear index will remain the most closely watched marker for some time.

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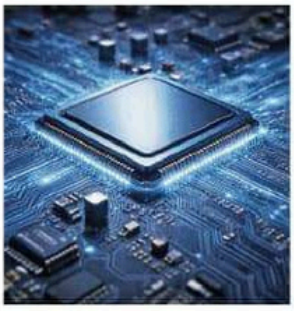
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Why India Should Join Pax Silica High Table

As global cooperation on advanced technologies gathers momentum, India can't afford to remain outside the rule-making phase. It should join the US-led Pax Silica initiative once formally invited. The prospect of such an invitation has understandably raised sovereignty concerns in New Delhi, rooted in the realities of today's geopolitical climate and India's preference for strategic autonomy. Yet, declining the offer could be read by the Trump administration as a diplomatic snub, with consequences ranging from higher tariffs to a potentially imperilled trade deal.

New Delhi is aware of the impact of Beijing's export restrictions on critical minerals and the vulnerabilities such leverage creates. Yet, joining Pax Silica must be about more than replacing one set of dependencies with another. India must advance its domestic industrial policy on semiconductors, critical minerals and AI, deepen engagement with a variety of partners — some of whom are Pax Silica members — and ensure that political commitments translate into projects. Collaborations such as the India-France partnership, along with trilateral arrangements involving the UAE, the India-Australia critical minerals partnership, and the Australia-Canada-India Technology and Innovation Partnership, provide both a safety net and leverage for collective bargaining.



Geopolitical fractures and supply chain vulnerabilities have created a strategic imperative for cooperation across AI, semiconductors and critical minerals. Countries such as India are central to ensuring that the developing world is not sidelined in this new race. To play that role well, India must be present where rules and standards are set — and use that seat strategically to represent voices that are too often left out.

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STATE OF PLAY As biggest trading partner with complementary strengths, EU's a great shot

A Champions League Goal



Pranab Dhal Samanta



A net-net win

India's long-awaited Europe moment is here. It's been an unexpected course of events, scripted by the most unpredictable occurrences that have propelled India and the EU to finally find themselves at the cusp of a strategic turning point after struggling for decades to firm up a more ambitious agenda.

The real story of the India-EU FTA, described by Ursula von der Leyen as the 'mother of all deals', lies in the context that drives the content as well as political urgency to seal the deal this time. Because as India's largest trading partner with complementary strengths, an FTA with the EU always made eminent economic sense, but fell short of political capital required to cross the bureaucratic labyrinth on both sides.

So, what's changed? The EU's success was broadly held on three external pillars: long-standing security arrangement of its key member countries with the US through Nato; a sustained, secure energy arrangement with Russia; and a blossoming, robust trade and investment relationship with China.



Tumults bring opportunities. One has to be nimble enough to identify, pursue and seize them – this lies at the heart of this renewed India-EU project

In the past few years, all have been challenged. First by Trump 1.0, followed by local content requirement rules of Biden's Inflation Reduction Act, and now, to the viability of its security architecture by Trump 2.0. The Greenland googly has left European powers, who thought they had managed Trump through bilateral deals, relatively stunned. He brought the tariff pressure back on the table, conveying that nothing is ever a settled issue with him. Which also makes any deal on Greenland look short-term and uncertain.

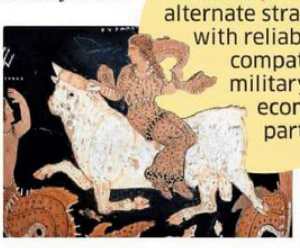
Next, the Ukraine war has forced EU nations to derisk the Russia energy relationship. With Trump, reliance on the US to find alternative sources is going to be tough and expensive. Plus, the US is making certain that European countries pay for their security, resulting in hefty increases in defence budgets.

As for China, the economic relationship is going to get increasingly difficult, as amplified by the controversy around allowing export of Chinese EV cars into the EU, and the potential threat they pose to European automakers. The EU, which had imposed high tariffs on batteries, was forced to allow these cars in on a minimum import price after China threatened restrictions on dairy imports from the EU. A few years back, both sides negotiated an EU-China Comprehensive Agreement on Investment, but have so far failed ratification.

So, over the past year, Europe has seen its deftly-held matrix with the US, Russia and China fray away to an almost perfect storm. A problem with one risks creating a counterproductive effect on the other. Amid all this, Trump has thrown in 'G2' with China, loose talk of a 'G3' involving Russia, and creation of new architecture that could question the entire basis of the trans-Atlantic alliance.

Clearly, the EU needs not just new markets, but an alternate strategy with reliable and compatible military and economic partners. Here, India can be trusted — because New Delhi has its own set of challenges. A year ago, India was among the first to tee off with Trump on an ambitious trade deal. But it remains unfulfilled, burdened by additional tariffs and penalties.

EU needs not just new markets, but an alternate strategy with reliable and compatible military and economic partners



Economic logic of an India-EU trade deal has always stood to reason. It just didn't happen because of lack of political priority, complexities owing to the EU's economic exposure to China, and Indian resistance to subscribe to EU standards. The shifting geopolitical context has provided that missing impetus. An India-EU trade deal is to the strategic interest of both. Unlike with Asean countries, India's trade basket with the EU reflects complementarity, not competition. Plus, India enjoys a surplus of roughly $15 bn in its $136 bn trade with the EU. In comparison, the EU has a massive deficit of over $300 bn with China.

The biggest disadvantage for India, which a trade deal will correct, is that it's not part of any EU preferential arrangement. It's not in the LDC (least developed countries) basket to benefit from Generalised System of Preferences to which many South Asian countries qualify. Vietnam signed an FTA with the EU in 2019 and is set to expand the scope.

Most Mediterranean economies, from Türkiye to Israel, and North African countries, like Algeria, Morocco, Tunisia and Syria, enjoy preferential access with leaner duty structure under the Pan-Euro-Mediterranean (PEM) Convention, which also covers the Balkan republics. Similarly, a group of 79 countries covering Africa, Caribbean and Pacific states enjoys duty- and quota-free access under special arrangements starting with the Lomé Convention with the EEC in 1975 to the updated Cotonou (2003) and Samoa (2023) Agreements. In contrast, India faces regular EU tariffs that are slightly higher than the US, compared to many of its competitors across categories. The big plus for India in an FTA would be that the slide in duties (in some cases, 10%) will be substantial, giving Indian exporters an immediate and significant boost.

Not many would have thought a year ago that India would be betting on Europe by January 2026. Or that the EU and its members could set aside concerns around Russia to pursue the bigger picture with India. More specifically, that this would become priority agenda for both.

But, then, tumults also bring opportunities. The idea is to be nimble enough to identify, pursue and seize them. That's what lies at the heart of this renewed India-EU project. It looks stitched. Now to sustain it.

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Before Training Wheels Come Off



Shreyas Shibulal

India's EV story is no longer about whether it should go electric, but the kind of transition it chooses to institutionalise once the subsidy training wheels come off. Subsidies for electric 2-wheelers (e2Ws) under PM Electric Drive Revolution in Innovative Vehicle Enhancement (PM E-DRIVE) scheme are set to end on March 31. This threatens to expose a widening gap between what the state subsidises — battery size — and what citizens actually value — cost per km, reliability and trustworthy service.

With a ₹10,900 cr outlay, time-bound PM E-DRIVE signals that demand incentives are never meant to be permanent. It forces the EV sector to confront cost reduction, localisation and durable customer experience. The scheme is also anchored in guard rails like certification and periodic validation that recognise an uncomfortable fact: in a mass market with thin margins and rapid entry, consumer protection is not a luxury. It must be the foundation for adoption.

That said, PM E-DRIVE also exposes the next policy problem. The state pays per kWh, while citizens buy per km. A kWh-linked subsidy may be administratively clean, but it's inclined to reward larger battery capacities over engineering efficiency. This, in turn, can lead to increased cell imports, higher import costs and vulnerability to geopolitical supply chain disruptions. This is especially true in cases where 'more range' can be marketed at the cost of mediocre energy consumption. The system risks subsidising weight and inefficiency at scale.

India needs to pivot from output subsidies to performance-linked criteria defined by four strokes:

❶ **Efficiency** GoI can offer road-tax waivers or priority permits and such for commercial 3-wheelers (e3W) as a reward. For e2W, eligibility should be filtered to protect the mass market. Benefits can be restricted to models with a 3.5-4 kWh battery capacity sufficient for 100 km of daily commute.

It can also introduce a rating system through a Bureau of Energy Efficiency 'star rating' system similar to what's used in consumer appliances. 2-wheelers can be classified into 1- to 5-star rating slabs based on their energy consumption per km (Wh/km), with the most efficient vehicle earning 5 stars. Such a system will push OEMs to compete on aerodynamics as well as motor and vehicle efficiency, rather than relying on the crutch of subsidised batteries.



Won't be a pushover soon

❷ **Reliability** PM E-DRIVE lists warranty and after-sales requirements. That's not the same as guaranteeing trust. Future policies should introduce a transparent reliability dashboard, one that includes warranty claims per 1,000 vehicles, repeat failure rates for critical components (battery, motor, controller), and a median time-to-resolution. With this data, surveillance testing will become smarter. Such trust-building exercises will see more accountability while protecting the interest of consumers in a space where first-time buyers are often one bad experience away from writing off the technology.

Policies should not lean heavily towards legacy players or startups. It should raise the floor for everyone, so that innovation is rewarded but fragility is not subsidised.

❸ **Finance** More often than not, EV loans can be unfavourable in segments that matter the most, like e2W and commercial e3W. Development finance institutions are experimenting with risk-sharing structures. Sidbi's work on partial risk-sharing and on-lending facilities for e2W and e3W loans is a good template as it addresses real lender fears like resale value, battery life uncertainty and fragmented borrower profiles.

❹ **Localisation** This is where resilience, cost reduction and jobs converge. e2Ws localisation is already embedded through phased manufacturing expectations. PM E-DRIVE's own eligibility assessment includes compliance with GoI's Phased Manufacturing Programme (PMP) as part of the model evaluation process. So, the post-March 31 question isn't whether localisation should exist, but whether India can make it predictable, investable and export-friendly.

This is where PM E-DRIVE must be read alongside industrial schemes that sit outside demand incentives. PLI for auto and auto components carries a budgetary outlay of ₹25,938 cr to strengthen advanced automotive manufacturing. PLI for advanced chemistry cell battery storage carries an outlay of ₹18,100 cr, aimed at building giga-scale battery manufacturing with an emphasis on domestic value addition. Together, these schemes create the supply-side spine that must now outlive demand subsidies, especially for motors, controllers, power electronics, cells, and pack-level safety systems that decide cost per km and reliability.

California's long-running ZEV (zero-emission vehicle) regulation shows how a market can be nudged through manufacturer obligations and credit frameworks. China's dual-credit approach goes further, tightening credit requirements over time to accelerate adoption, but without compromising on efficiency and compliance.

India needn't blindly copy-paste these initiatives. But it should acknowledge that a post-subsidy era must be built on rules, data, finance — and, above all, trust.

The writer is founder-CEO, Micelio Mobility

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"From Orpheus to Faiz, song & poetry have been closely linked. Dylan is the brilliant inheritor of the bardic tradition. Great choice"



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SWEDISH ACADEMY PRAISES DYLAN'S POETRY FOR THE EAR

AROUND THE WORLD ▸▸ 17

Let Him Be

To see Dylan as a

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Partnership, Yes, Momentum, No



Seema Sirohi



LETTER FROM WASHINGTON

The Davos divorce now over, it's time to read the writing on India's wall. On one end are public statements of support by Trump. On the other, decidedly unfriendly moves no longer confined to trade and tariffs but extending to the security realm.

The confusing mix allows diplomats to claim success and keep hope alive. But the big picture is mixed, if not dark. While Pakistan and China grab Trump's attention, India still faces 50% tariff with no trade deal on the horizon. Turns out J D Vance is not a supporter of the deal. No Republican wants to push for it either in public even as Congressional delegations visit Delhi and Indian ministers come to DC.

S Jaishankar is expected to attend the inaugural meeting on critical minerals to be hosted by Marco Rubio on Feb 4-5. Going through the motions is one thing, but finding political capital to build again quite another.

Sergio Gor is expected to perform miracles on a bleeding, busted relationship plagued with trust deficit. The ambassador arrived with a delayed invitation for India to join Pax Silica, a move designed for impact. Was the delay deliberate so he would have something to announce? Or did he manufacture consent on India's inclusion? Not clear, but they say he has made helpful interventions since his nomination.

Gor's priority would be to push Trump's agenda. The expanded portfolio of South and Central Asia will take him to many '-stans', including Pakistan. Will he be a mini-Trump, or a builder of bridges? Will he busy himself to pave the way for a Nobel Peace Prize via Kashmir (as Pakistanis will suggest)? Or will he immerse himself in real work?

A good indicator might be the seriousness with which Gor takes Delhi's security concerns, given that India is flanked by two hostile countries both of which are in Trump's good books. Threading that needle will require extreme political and diplomatic skill.

Gor recently called on RBI governor Sanjay Malhotra, an unusual move. Was it to push India towards stablecoins, digital currencies about which RBI has concerns? Or to ask RBI not to 'diversify its reserves' too much by selling US treasury bonds? Or to give a message on BRICS — India is chair this year — not to move towards dedollarisation?

As for India's place in the wider US policy world, the latest data point is the 2026 National Defense Strategy (NDS) released last week. India got exactly zero mention, while China received conciliatory treatment. It's a dramatic reversal from previous administrations, including Trump 1.0 when China was identified as a 'strategic competitor' cited for 'predatory economics'.

The new goal is not to 'strangle or humiliate' China, but to establish 'strategic stability' and boost Trump's 'visionary and realistic diplomacy' with the Asian giant. That is supposed to lead to a balance of power in the Indo-Pacific.

Is US policy heading towards some form of accommodation? The unclassified version made public is a strangely timid response to decades of Chinese military build-up, penetration of American society in every domain and industrial-scale espionage. The authors have tried hard to retrofit strategy to suit Trump's desires for a trade deal with China.



Reframing or getting framed?

Treasury secretary Scott Bessent said in Davos that relations with China had reached a 'very good equilibrium' and the leaders could meet four times this year. Incidentally, NDS doesn't mention Taiwan — and Australia or Britain — even once. The Quad is also missing, with a summit in Delhi looking like a mirage unless Gor can perform a miracle.

The second data point is a Washington Post report about a US diplomat promoting Jamaat-e-Islami — the party complicit in the 1971 genocide — to Bangladeshi journalists and urging them to give Jamaat leaders a platform. Sharia? Not to worry because US diplomats can deter Jamaat with 100% tariffs. The free 'guidance' is seen in Delhi as dangerous, irresponsible, even hostile.

This on top of USTR Jamieson Greer holding virtual meetings with Jamaat leaders and promising tariff relief. Jamaat chief Shafiqur Rahman advertised the interaction in a Jan 16 X post. It would appear Washington is convinced that Jamaat will lead the next government. The US embrace of Islamists in India's neighbourhood isn't new. But treating them as victors in a still-to-be-held election is something else.

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Make Safety Add to Airline's Brand Value

New Flight Duty Time Limitation (FDTL) rules announced on November 1, 2025, are facing a tough test, as four of India's five national airlines — which carry 95% of passengers — have reportedly urged the aviation ministry to relax crew-rest requirements. They reportedly have argued that the regulations are unsustainable and would require hiring additional pilots and managing more complex schedules. Well, yes. From a safety perspective, these criteria are non-negotiable. Given that 'budget' airlines charge extra for every service, from legroom to snacks to seat selection, it would be reasonable — and responsible — for them to reinvest some of that revenue into ensuring both passenger and crew safety.



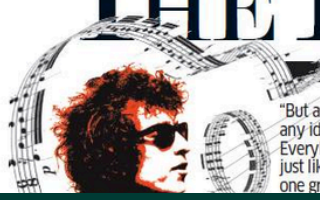
New FDTL rules mandate tighter limits on pilot working hours and rest periods. Weekly rest has increased from 36 to 48 continuous hours, including two full nights at the crew member's home base, among other changes. Pilots are largely supportive of the rules. Associations like Federation of Indian Pilots argue that compliance simply needs better planning, smarter scheduling and increased hiring.

The rules also align India's aviation industry with standards set by International Civil Aviation Organisation (ICAO). DGCA should resist calls for dilution. Pilot fatigue is a genuine risk, and just because it was overlooked before doesn't mean it's kosher. A 2022 'Safety Matters Foundation' survey of 542 Indian pilots found that 31% admitted to falling asleep mid-flight without alerting the crew. Another 31% reported fatigue-related close calls. Enlightened self-interest, if nothing else, should guide airlines toward adopting FDTL norms. In fact, strict compliance with global safety rules can actually be marketed as an airline's brand appeal.

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Let Him Be

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Ode to Joy! World's Got Just a Bit Bigger

Prototype for a rules-based trading system

There are good reasons to have the band bajao Beethoven's 9th Symphony. Not just because it's Europe's official anthem, but also because the India-EU FTA is, indeed, an 'ode to joy'. India enjoys a surplus in both goods and services trade, and there is no strong-arm tactics — like those used by you-know-who — being used to balance them. The EU is India's largest trading partner, while India sits low among the bloc's list of import destinations. The latter should be able to hold on to its advantage while it penetrates more of the EU market. Machinery finds itself among the top trade category in both directions. This can be leveraged for bigger Indian play in global manufacturing. Aerospace, specifically, holds out immense potential to develop indigenous capacity for both commercial and strategic use, and re-export.

But the true significance of the deal lies in papering over differences articulated by both sides in multilateral



negotiations over how the 'global north' and 'south' should conduct business with each other. India has often led the resistance by developing economies to perceived trade-distorting conditions the EU has championed. These cover a wide array of issues, from protecting agriculture to sharing costs of climate mitigation and IPR. The FTA provides a prototype for a rules-based trading system when the current era of bilateralism yields to a multilateral order again. It opens up pathways for trade diversification for countries at the receiving end of Trump's protectionist fatwas.

India now has a mechanism to engage with Europe – including the previous deal with Britain – on terms of its choosing. This is an opportunity to correct the historical perversion in its trade with the continent. Urgency lent by Trump tariffs can be put to good use in establishing a new trade order not held hostage by US overconsumption and Chinese overproduction. Getting the EU to break ranks with the US, and with no prospect of a free trade deal with China, India has improved its negotiating capability with its other leading trade partners.

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EU-India FTA sends out a message to the world: globalisation isn't disappearing, it's diversifying

Re-Globalisation 2026 Mix



Shishir Priyadarshi

Tuesday's conclusion of negotiations of the India-EU FTA, which started in 2007 under the framework of a broad-based trade and investment agreement, isn't merely a significant commercial event, but also a timely strategic intervention in a fractured global economy. But after observing trade negotiations stall, fragment or collapse under the weight of domestic politics and geopolitical rivalry, one learns to treat such grand announcements with caution.

However, the fact that India and the EU have concluded FTA negotiations — the actual signing always takes a few months to allow 'legal scrubbing' of the agreed text — is striking. Two large, complex, pluralistic political economies, neither short of sensitivities, constituencies or regulatory ambition, have chosen agreement over drift, and rules over discretionary power.

The FTA is big deal. Trade between India and the bloc of 27 European countries stands at around $135 bn. Even though significant, this trade must be viewed against the backdrop of a global economy that is under pressure because of geopolitics, top of which has to be Trump tariffs, along with climate transition, technological rivalry and supply-chain shocks. Agreements that remove or minimise both tariff and non-tariff barriers, like the India-EU FTA does, will go a long way in strengthening trade flows between the two entities.

India reduces over-reliance on a narrow set of export markets and tech sources. Europe broadens its industrial partnerships beyond established hubs



For Europe, among others, over-concentration in production networks has become a strategic vulnerability. Moreover, it needs a long-term economic partner in the Indo-Pacific. Similarly, India needs preferential access to a high-income market whose firms anchor some of the most sophisticated manufacturing ecosystems in the world. This mutual calculus — not sentimentality — explains why the negotiations ultimately crossed the 'finish line'.



Jugalbandi in tune

From a WTO perspective, the symbolism runs deeper. The multilateral system has been struggling to generate new liberalisation for years. Dispute settlement is impaired and consensus among 160-plus members has become elusive. An India-EU FTA between two regulatory heavyweights therefore matters. Its disciplines on sustainability, digital trade and industrial goods will shape expectations for future agreements elsewhere. It quietly reasserts that trade governance is still being written through negotiation, rather than unilateral measures (read: blackmail).

For Indian business, access to the EU market has always been attractive but demanding. European standards are among the world's most exacting, whether on product safety, chemicals, labour processes or environmental compliance. The FTA reduces cost of entry into that market, financially through tariffs, institutionally through regulatory cooperation, and commercially through predictability.

Pharmaceuticals, specialty chemicals, engineering goods, automotive components, processed foods and digital services are not fringe players in India's export basket. They are core engines of industrial growth. Strengthening their European footprint expands revenue, diversifies risk and embeds Indian companies in higher-value segments of global supply chains.



Textile products deserve a special mention. For years, India's exporters have been competing against exporters from countries like Bangladesh and Vietnam, which have enjoyed duty-free access into the EU because of their least-developed-countries (LDC) status. With the coming into force of the FTA, this playing field would be levelled.

Obviously, the EU has not accepted this deal as an act of generosity. It did so because India represents scale, growth, geopolitical predictability and regulatory transparency. European firms — from auto manufacturers, wine and whisky producers, and RE developers to luxury brands and infrastructure operators — will get a foothold in what is likely to be the world's third-largest economy within the decade.

One of the ironies of today's discourse is that 'strategic autonomy', a policy that India strongly follows, is not looked at favourably by everyone. This FTA will show that in practice, large economies can achieve autonomy not by shrinking their commercial ties but by expanding and diversifying them.

This agreement does precisely that for both sides. India reduces over-reliance on a narrow set of export markets and technology sources. Europe broadens its industrial partnerships beyond established hubs. Interdependence, carefully structured, becomes a stabiliser, rather than a vulnerability.

Conclusion of the India-EU pact should, therefore, be read as part of a broader, if understated, trend — of re-globalisation. Despite geopolitical fragilities, countries are still knitting together webs of preferential trade. A bilateral deal that brings over 2 bn people and 25% of global GDP under one canvas needs to be applauded, including for the signal it gives to the doomsdayers of globalisation.

Mutual calculus, not sentimentality, explains why the negotiations ultimately crossed the 'finish line'

After years listening to declarations about the virtues of open trade that were rarely followed by political risk-taking, one can say this much: concluding this deal would have required governments on both sides to expend real capital. In today's trading system, that counts as leadership. That deserves kudos.

Ultimately, that's why the FTA matters. Not because every tariff line will get reduced to zero, or every annex will seem perfectly drafted. But because India and Europe chose to lock themselves into a long-term economic partnership at a moment when doing so was neither fashionable nor easy.

The writer is former director, WTO



It's Really About Dignity, Not Doles



Upasak Das

Manchester: Earlier this week, Abhijit V Banerjee expressed concern over Viksit Bharat-Guarantee for Rozgar and Ajeevika Mission (Gramin) Bill stating that a declining share of central funding could disproportionately harm poorer states. He is not alone in his concerns.

At the heart of MGNREGA lies a simple principle: wages must come with dignity. Unlike cash transfers, this is money earned, not granted, and workers have repeatedly emphasised that distinction. The Act also deliberately recognises those normally excluded from the labour market. Elderly workers and persons with disabilities are assigned lighter but meaningful roles such as record maintenance, water provision and childcare support. This inclusion is not symbolic; it shifts individuals from dependence to participation and respect.

Overall, studies indicate income earned through the programme has improved education, healthcare, nutrition and household stability. It has sustained local markets and prevented families from slipping into distress. During droughts and periods of agricultural uncertainty or even Covid, MGNREGA has functioned as a buffer against economic collapse.

Contrary to dismissive narratives, MGNREGA has never been a programme of meaningless labour. Across the country, it has built durable public assets like flood-protection structures, soil bunds, irrigation wells, plantations, ponds and rural roads. In West Bengal's Torsa river basin, embankments and flood-control structures allowed farmers to farm on their land even during the monsoons. Water conservation and plantation works have also supported greener landscapes and more stable agriculture.

Crucially, these assets emerged from discussion in the panchayat where villagers identify assets that matter most. This bottom-up process ensures relevance, strengthens community ownership and improves long-term maintenance. Governance improves not through grand announcements, but by enabling communities to choose their development priorities.

MGNREGA has also been one of the most significant platforms for women's economic participation in India. Women constitute a large share of the workforce, often exceeding the statutory minimum of 33%. Equal wages for men and women directly challenge gender-based wage discrimination and enhance dignity. The provision of crèches at worksites reduces barriers for mothers with young children. For many women, this was their first experience of independent paid work, strengthening their ability to demand accountability. In Telangana, women workers collectively approached local officials to protest delayed wage payments.



Hands get dirty, but they stay clean

MGNREGA's value extends beyond earnings. It strengthens labour bargaining power. Before its introduction, agricultural wages had stagnated for years. A guaranteed fallback option enabled labourers to negotiate fairer compensation during inflationary periods. Women benefited disproportionately from wage parity provisions, as non-MGNREGA work often pays substantially less.

MGNREGA worksites also create rare spaces of cooperation. People from different castes and religions work side by side, earn equal wages and contribute to shared assets. In societies fractured by social divisions, this everyday interaction carries powerful significance. Being demand-driven, the programme provides support even during peak agricultural seasons to those excluded from regular employment. It has reduced distress migration, stabilised families and eased pressure on urban centres.

It is precisely these strengths that VB-G RAM G Bill risks diluting. While framed as reform, the Bill undermines MGNREGA's legal core: demand-driven right to work. Replacing guaranteed employment with a fund-capped, centrally controlled allocation model fundamentally alters the meaning of a guarantee.

The Bill also shifts fiscal responsibility to states already constrained by limited revenues, risking reduced work availability and delayed payments, with the burden falling once again on the poorest. Provisions allowing suspension of public works during peak agricultural seasons assume uniform rural labour markets.

In reality, marginalised groups often continue to need work during these periods. A blanket pause risks denying employment precisely when vulnerabilities persist. Equally concerning is dilution of decentralised planning, which would weaken community voice, erode local autonomy and undermine the democratic ethic that MGNREGA embodies.

MGNREGA is not flawless. It needs better funding, predictable payments and stronger implementation safeguards. But weakening its legal backbone or decentralised design will not resolve these challenges.

The writer is senior lecturer, Global Development Institute, University of Manchester



Funding Unspent is Spending Denied

GoI is projected to save ₹70,000-75,000 cr in the current fiscal year due to significant under-utilisation of budget allocations across key ministries and flagship welfare schemes. These unspent amounts — arising from slow execution under programmes, such as Jal Jeevan Mission, Pradhan Mantri Awas Yojana and Pradhan Mantri Gram Sadak Yojana — provide fiscal space to absorb higher subsidy costs and offset modest tax shortfalls.

This, however, is a recurrent feature of the public finance system. Earlier, central funds flowed via state treasuries or to implementing societies, involving approvals, parked balances and frequent delays. To address this, GoI reformed fund flows through Single Nodal Agency (SNA) framework, integrated



with Public Financial Management System (PFMS) and RBI-managed SPARSH platform. Funds are now released on a just-in-time basis, digitally tracked end-to-end, with state treasuries largely confined to accounting oversight. The intent is to minimise idle balances, enhance transparency and enable real-time monitoring. Yet, transitional challenges — technical integration issues across platforms, multi-layered approvals and limited administrative capacity at state and district levels — continue to delay utilisation. Capacity gaps, audit-related risk aversion and coordination failures between Union ministries, states and implementing agencies compress spending windows.

The macroeconomic costs of such delays are substantial. Unspent funds could finance infrastructure, water, housing and rural connectivity — sectors with high multiplier effects. Idle balances represent not fiscal savings but lost opportunities to raise productivity, improve living standards and strengthen long-term growth prospects.



Warp & Woof of the New Trade Design

Growth spur if key fixes in FTA are made

Textile exporters are at the forefront of beneficiaries from the India-EU trade deal. The relief comes at a challenging point for the industry, which is facing 50% tariffs in the US, its biggest export market. GoI is offering labour-intensive industry financial relief. But the US tariff action has brought home the need to diversify its exports in terms of export destinations. The obvious candidate, the EU, previously had higher duties on textile imports from India, which will now be brought to levels faced by principal competitors Bangladesh and Vietnam. Tariff equalisation in the EU was a tough but necessary condition—the trade deal was decades in the making—but several other hurdles confront Indian exporters eyeing a larger share of the EU textile market.

The main impediment is sustainability conditions imposed by the EU, which will involve fresh investment by Indian exporters. Investments will have to be made at all levels of textile value chain, which could affect competitiveness of MSMEs. The industry faces a supply chain that is fragmented across states and adds to logistics costs, unlike China, which has adopted an integrated approach to textile manufacturing. India also needs to make a bigger push into man-made fibres, where taxes have kept input costs elevated. The EU trade deal may fall short of transforming India's textile industry into large manufacturing units unless supportive infrastructure and capital are easier to access.



The deal, however, offers the Indian textile industry a mechanism to transform technologically and climb the value chain. Levelled tariffs are a starting point for a sustainable growth path. The industry is one of the biggest employment generators and is primed for expansion through foreign investment. With access to the EU improving, the growth trajectory should shift upwards for India's textile sector. India must have an early harvest plan for EU textile exports and build on its inherent strengths. The sector's linkages to agriculture contribute to its need for self-sustaining expansion.

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The salaried class is reshaping the economy and expects GoI to focus on its demands this budget

Let's Begin with the Middle



Anil Padmanabhan



Lakshmi's in da house

India's economic narrative is usually framed in extremes. At one end lies the persistent challenge of poverty and informality. At the other end are celebratory headlines about its growing tribe of billionaires and high-end consumption. The most consequential shift of the last decade, though, is unfolding in the middle.

I-T data reveals a structural transformation among India's salaried class: the number of salaried taxpayers in the ₹10-15 lakh and ₹15-20 lakh income slabs has grown by roughly 600% over the 9 yrs ended 2023-24. What was once a narrow upper-middle cohort in 2014, in absolute terms, has become a mass segment today. As a result, the geometry of India's salaried taxpayer base is gradually undergoing a change, transforming from a pyramid to a bulging diamond.

This is not merely a story of higher wages. Instead, it marks the emergence of a formal, asset-owning middle class at scale — a development with far-reaching implications for India's consumption patterns, savings, investments and political economy.

The sharp rise in middle-I-T filers is among the clearest indicators of income mobility in recent years. Tax filings show substantial growth across brackets between ₹5-50 lakh, but acceleration in the middle slabs is particularly striking.

Take the ₹10-15 lakh bracket: number of tax filers has risen more than 6-fold, from around 8.3 lakh to over 50 lakh. This upward migration signals that millions of salaried workers are crossing key income thresholds.

What is notable is that average salaries within these rapidly expanding slabs have remained stable, or have marginally declined. In the ₹10-15 lakh category, for instance, the average salary edged down slightly from ₹12.11 lakh to ₹12.05 lakh.

Clearly, growth is being driven by new entrants clustering near the lower end of these brackets and pulling down the average even as the cohort expands dramatically.

Given its growing risk appetite, it's no coincidence that a significant share of the new entrepreneurial class comes from this cohort

The economic consequences of this shift are significant.

▶ **Earn more, spend more** As households move up the income ladder, discretionary spending expands. This is apparent in the premiumisation trend across consumer goods — from smartphones and appliances to branded retail and travel. India's consumption engine is increasingly being powered not just by HNIs, but by a large and growing middle cohort with both purchasing power and aspiration. It is not surprising, then, that companies are reorienting towards the so-called 'mass premium' consumer.

▶ **Investment spike** Perhaps the most underappreciated impact of this expansion is its role in accelerating household financialisation. Historically, Indian savings were dominated by physical assets — gold and real estate — and conservative instruments like FDs and insurance. The range of financial products was limited, and participation in capital markets was narrow.

Not any longer. As salaried households scale income slabs, their surplus grows, enabling diversification into equities, MFs and pension-linked products. Demat accounts have multiplied more than five times in a little over the last 6 yrs, and SIPs have become a defining feature of middle-class wealth accumulation. In effect, India's middle class is no longer merely consuming; it is increasingly investing.

▶ **Risk appetite** This expanding cohort is also structurally distinct from earlier middle-class formations because it is firmly embedded in the formal economy. Salaried taxpayers borrow through formal channels, pay EMIs, invest through regulated instruments, and depend on macro stability to protect their assets. In turn, this creates a stakeholder class with a direct interest in economic reforms that reduce friction: ease of doing business, predictable taxation, infrastructure build-out and inflation control.

Given this growing risk appetite, it's no coincidence that a significant share of the new entrepreneurial class — including many founders powering the unicorn economy — comes from this cohort.

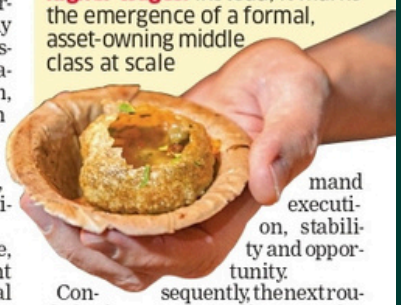
▶ **Political heft** As the middle-income base expands, its electoral weight will grow, particularly in urban constituencies. With impending delimitation, the proportion of parliamentary seats linked to urban and semi-urban India is likely to grow, further amplifying the political voice of this cohort.

Middle-class voters prioritise economic stability, job creation, inflation control and credible public services. They are less tolerant of policy volatility and more aligned with growth-oriented governance, providing a counterweight to populists. They will shape the contours of India's policy debate over the next decade.

For political parties still operating with older redistributive frameworks, the warning is sharper: the electorate is changing faster than their imagination. India's most important economic development in the last two decades has been the silent, but decisive, expansion of the salaried middle. They are transforming consumption, accelerating financialisation and creating a new stakeholder polity.

For FMs, this expanding salaried middle will be difficult to ignore in the future. This is a constituency that is formally employed, financially invested and increasingly asset-owning — with EMIs to service, portfolios to grow, and inflation to fear. They have never had so much skin in the game. Hence, they have less tolerance for fiscal populism, and demand execution, stability and opportunity.

This is not merely a story of higher wages. Instead, it marks the emergence of a formal, asset-owning middle class at scale



Consequently, the next round of reforms promised by Narendra Modi and Nirmala Sitharaman will also be judged with new metrics by the bulging centre of India's new diamond of salaried taxpayers — especially on what they do to improve ease of living.

The writer is an independent journalist



Let's Not Stretch Those Taxes



Dhiraj Nim

A sharp decline in India's tax buoyancy in FY26 has tightened trade-off for GoI between growth support and fiscal discipline. But big questions are why tax buoyancy has declined so sharply, and whether this holds lessons for FY27. The answers may indicate a need for more conservative tax forecasts in the future.

India's long-term tax buoyancy typically hovers around 1, meaning aggregate taxes usually grow in line with nominal GDP. A buoyancy factor below 1 indicates that economic growth is not translating into tax revenues in proportion.

When tax buoyancy falls short of the target in any year, it creates fiscal stress. All else equal, GoI can either rein in spending or relax fiscal deficit. FY26 has become such a year.

In February 2025, GoI assumed gross tax buoyancy of 1.1 for FY26. However, buoyancy has dropped to 0.5-0.6, implying a tax gap of around 0.6% of GDP compared to the target. This shortfall means that, even with a large central bank dividend, GoI will need to cut spending to meet the fiscal deficit target of 4.4% of GDP.

Two factors explain part of the slowdown in tax buoyancy:

- Nominal GDP growth has weakened due to low inflation. Real GDP grew at 8% in the first half of FY26, but the GDP deflator rose only 0.7%. Lower inflation reduces the value of the tax base and drags tax revenue growth.
- GoI provided tax relief. The personal I-T cut announced in February 2025 is likely to reduce fiscal revenue by $1 tn annually. The impact of the GST cut that took effect in September 2025 is harder to quantify, but given sluggish nominal GDP growth, it is unlikely to be revenue-neutral.

These two factors, however, cannot fully explain the sharp fall in tax buoyancy. Real tax growth has fallen even faster than nominal tax growth, which shows that inflation alone cannot account for weak collections. The decline in tax buoyancy is also broad-based, extending beyond categories where GoI lowered tax rates.

In addition, a third, largely overlooked reason in India's context may lie in the interaction between financial and fiscal cycles. A financial cycle captures co-movement of variables, including bank credit, equity prices and property prices. Recent public finance research identifies financial cycles as major contributors to volatility in fiscal cycles, especially in economies with rapidly deepening or mature financial systems.



Gum control

In India, Covid synchronised resets of financial and business cycles. After lockdowns ended, economic growth surged, with equities, property prices and bank credit following suit. The post-pandemic economy displayed strong momentum in the property sector, rising household investments in equities, and higher household debt as credit intensity in private consumption increased. Financial deepening accelerated.

When financial and business cycles rise together, they amplify each other. During these joint upturns, economic agents experience stronger sentiment and wealth effects, driving them to riskier investments and higher consumption. The reverse also holds — weakening financial cycle can dampen pockets of economic activity even if overall real growth stays satisfactory.

India's financial cycle weakened in 2025, with all three major financial variables softening, even as real GDP growth strengthened. This divergence raises the question of whether financial conditions have begun to influence fiscal revenues. Analysis confirms this suspicion.

In models that included financial variables alongside nominal GDP, tax buoyancy attributed solely to nominal GDP fell by 20-40% compared with models that excluded financial variables. This indicates that part of buoyancy usually linked to nominal GDP reflects the economy's financial cycle. In other words, tax buoyancy relative to nominal GDP is lower than we tend to assume. This pattern holds for both direct and indirect taxes. As expected, equity markets exerted a smaller influence on taxes compared with property prices and bank credit.

If financial conditions do not improve in 2026, tax growth may continue lagging nominal GDP growth, keeping buoyancy below its long-term average. With such a risk, the planned shift to a medium-term debt target will demand stronger fiscal credibility to signal discipline amid bond market pressures.

After a significant miss in FY26, conservative tax forecasts will be essential to reinforce that intent.

The writer is an economist, ANZ


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SWEDISH ACADEMY PRAISES DYLAN'S POETRY FOR THE EAR

AROUND THE WORLD ▸▸ 17

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Now to Get Intercontinental



Sumant Sinha

Exports account for about 22% of India's GDP. Anything that enhances it, presents significant potential to boost domestic incomes and create employment. So far, India has been concluding trade agreements with individual countries — the UAE, Britain and New Zealand. With the India-EU FTA, it now steps onto a larger stage.

The EU offers unparalleled access to one of the world's most sophisticated markets. It is already India's largest trading partner in goods. In 2024-25, bilateral trade in goods reached $136.5 bn, while services trade crossed $83 bn. The latest FTA deepens this relationship by granting preferential market access to over 99% of Indian exports by value, across a combined economic space accounting for roughly a quarter of global GDP.

Official estimates suggest exports worth nearly $75 bn are now poised for accelerated growth, with labour-intensive sectors set to gain significantly from immediate tariff elimination on nearly $33 bn of exports. These are not abstract gains. Export-led growth in these sectors supports large-scale employment, particularly for women, artisans and semi-skilled workers, and strengthens regional manufacturing clusters across India.

For SMEs, scale and predictability of EU market access can be transformative. MSMEs often struggle not with lack of competitiveness but with limited access to large, stable markets. Preferential access, combined with stronger regulatory cooperation and streamlined customs procedures under the FTA, can help these firms scale exports, invest with confidence and integrate more deeply into GVCs.

The agreement also reflects calibrated trade-offs. India has agreed to a phased, quota-based liberalisation of automobile imports, while securing reciprocal access for India-made vehicles in the EU. If managed well, this can strengthen 'Make in India', enhance consumer choice and encourage tech transfer provided domestic manufacturing competitiveness continues to improve.

Perhaps the most consequential dimension of the India-EU FTA lies beyond traditional trade metrics. The EU's Carbon Border Adjustment Mechanism (CBAM) embeds climate considerations directly into trade by placing a carbon cost on emission-intensive imports such as steel, aluminium and cement. Inclusion of forward-looking CBAM provisions in the FTA covering dialogue, technical cooperation, recognition of carbon pricing mechanisms and targeted support marks an important shift from unilateral regulation to structured engagement.



Good cohabitation

For India Inc, this creates both challenge and opportunity. Carbon-linked trade measures can raise near-term compliance costs. But they also reward early movers in clean energy adoption and low-carbon manufacturing. India has some of the world's lowest clean energy costs and highest availability. These position us well to compete in the emerging trade environment. We have more to gain than to lose.

More importantly, the India-EU partnership brings together complementary strengths. Europe offers advanced tech, innovation and climate finance. India offers scale, manufacturing capability and a fast-growing clean-energy market. Larger markets incentivised investment and partnerships.

A step change in EU-India business partnerships in areas such as solar manufacturing, batteries, electric mobility, clean technologies and semiconductors is expected. This will help build resilient alternatives to concentrated GVCs while supporting India's energy transition and job creation in future-facing industries.

The FTA is a central pillar of India's broader strategy to diversify trade partnerships. But announcements are only the starting point. Its success will ultimately be judged by outcomes: more jobs, stronger small businesses, higher farm incomes, cleaner industries and greater resilience in a volatile global economy.

This agreement binds India more closely with a major economic partner that values stability, rules and long-term cooperation. If implemented with focus and follow-through, it can help India secure growth that's not just faster but also more diversified, more sustainable and more inclusive.

The writer is chairman-CEO, ReNew



Now to Master All It Has Surveyed

Exports, AI and cities key to future growth

Economic Survey 2025-26 highlights India's economic resilience in a deteriorating global trade scenario and stresses the need for a concerted export push to up growth. The economy is better placed, with consumption and investment expected to do heavy lifting. Imports are bound to climb for a fast-growing economy, and export performance must keep pace. India is shifting its focus from substitution to immunity and, eventually, interdependence. This calls for a much bigger footprint in global supply chains. Advanced manufacturing requires a reorientation of economic processes and the role of policy to encourage risk-taking.

Bipolar or multipolar globalisation requires countries to create new linkages between producers and consumers. India is fashioning its own responses, principally through considered economic management. This has enhanced its ability to cushion geopolitical financial shocks. The survey argues policymaking must build on these to add economic and strategic strength. A permanently harsher external environment requires the economy to adapt by building bigger cushions against capital movements. Another interesting suggestion is about constituting an economic agency for AI to focus on how to enhance the tech's productivity gains while minimising disruption among the country's large labour pool.



The survey also flags conditions holding back cities. Urban stress is piling up on account of land, housing and transport. Rapid urbanisation is not transforming into productivity gains or global influence. There's scope to improve urban planning through data-driven processes and by harmonising classifications. The survey identifies inadequate governance as a constraint and says some form of autonomy may lead to an improvement in reliability and efficiency of services. The survey has interesting observations on civic behaviour in the context of the infrastructure where it is displayed. It finds an explanation for why Indians are better behaved in metros than on city buses. That's a question many would love an answer to.

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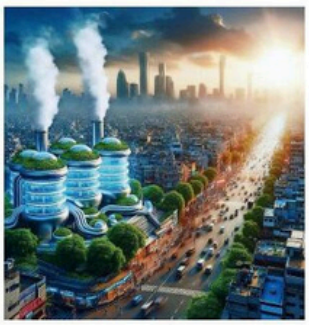
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CBAM Feels Unfair, But India Can Gain

From a developing-country perspective, the EU's Carbon Border Adjustment Mechanism (CBAM) can seem unfair. After all, it compels developing nations like India to meet EU's 'First World' standards or pay a price — despite the former's relatively small contribution to CO_2 emissions compared to developed countries. This concern is further heightened by the European Commission's confirmation that the India-EU FTA does not provide any exemption from CBAM.

India's demand for an exemption must be understood in the context of considerable financial, technological and capacity burden that aligning with EU climate norms would place on a large segment of industry, particularly MSMEs. These are two economies with vastly different capacities. In 2025, the EU's nominal per-capita GDP was about $46,000, while India's was around $2,800. The proposed EU-India platform for cooperation on climate action, to be set up by June, along with €500 mn in likely conditional EU support over the next 2 yrs, will help. But it will clearly not suffice.



However, just because CBAM feels unfair does not mean it has to be detrimental. New Delhi can turn it to its advantage. Talks on investment agreements should be approached with a clear sustainability lens and a concrete plan to decarbonise and transform the industrial base. The focus should be on attracting investments and partnerships in clean energy supply chains, clean tech manufacturing and decarbonisation technologies. Leveraging the complementarity of the two economies to create strategic opportunities that strengthen resilience and sustainability should be the guiding principle. If engaged with proactively, CBAM could catalyse India's industri-

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ECONOMIC SURVEY In a turbulent world, India's earned economic stability, now to build strength

STEADY, STEADY... GO



V Anantha Nageswaran

In a world marked by geopolitical fracture, financial excess and deepening uncertainty, India's economic story over the past few years stands out not for dramatic leaps but for something more valuable: resilience. Economic Survey 2025-26 frames this moment as a transition 'from stability to strength'.

The phrase captures a deeper shift underway. India is no longer merely managing vulnerabilities, but slowly constructing foundations for durable, self-reinforcing growth in an increasingly hostile global environment.

The macroeconomic backdrop matters. Global economic uncertainty in 2025 was triple the average of the previous two decades. Financial markets, however, remain priced as if risk were abundant and cheap, creating the danger of sudden and destabilising corrections. For emerging markets, such conditions directly transmit into volatile capital flows and currency pressures.

Against this backdrop, India's relative calm — moderate inflation, credible fiscal consolidation, comfortable foreign exchange buffers and healthy banking balance sheets — is not accidental. It reflects years of steady, if often unglamorous, policy work.

Inflation has softened to its lowest level in decades, while growth remains domestically driven. Public finances are on a firmer footing, supported by sustained revenue buoyancy and a broadening direct tax base. Quality of expenditure has improved, with capital spending increasingly prioritised over consumption-heavy outlays. Banks have cleaned up their balance sheets, with gross and net NPAs at multi-decade lows, enabling stronger credit growth to the commercial sector. Together, these trends create the conditions for investment-led expansion rather than credit-fuelled excess.

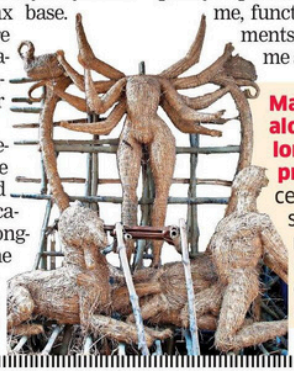
Labour market signals are also quietly encouraging. Female labour force participation has risen, overall unemployment has declined, and formalisation continues. These are not cyclical. They are outcomes of structural changes — digital public infrastructure, targeted welfare delivery, labour code reforms, and expanding physical and digital connectivity. Rural broadband, mobile towers, better roads and logistics are not just infrastructure projects, but productivity multipliers that integrate workers and firms into national markets.

Yet, the survey is explicit that macro stability alone will not deliver long-term prosperity. The central challenge is structural: building manufacturing and export competitiveness at scale. Currency strength, lower cost of capital and external resilience ultimately follow industrial capability, not the other way around.

Across successful late industrialisers, complex manufacturing-led export growth preceded sustained improvements in current accounts, reserves and exchange-rate credibility. Services exports are valuable, but they work best as complements, not substitutes, for a strong manufacturing base.

This insight has profound strategic implications. In a world where trade is no longer reciprocal, markets are no longer neutral, and supply chains are instruments of state power, economic strategy must move beyond traditional notions of self-sufficiency. The survey reframes 'swadeshi' not as inward-looking protectionism but as investment in national strength.

The evolution is from import substitution to strategic resilience, and finally to strategic indispensability: the capacity to produce competitively at home, function if the world fragments, and eventually become so embedded in global value chains that the world can't easily function without India.



Macro stability alone won't deliver long-term prosperity. The central challenge is structural: building manufacturing and export competitiveness at scale



Now to get on top of the world

Achieving this requires a different kind of state — not one that produces and protects, but one that facilitates, coordinates and builds ecosystems. Rise of India's software sector offers a template for what a determined, entrepreneurial state can achieve. Success came not from heavy-handed control, but from recognising software as an industry, easing forex and import restrictions for exporters, investing in technical education and telecom, and creating technology parks with reliable infrastructure and regulatory flexibility. State capacity worked best when redirected from micromanagement to enabling private enterprise.

The survey cites further evidence from more recent reforms: GST 2.0, simplification of I-T Act, district-level business reform action plans, export promotion missions, liberalisation of environmental rules, and targeted opening of sectors such as insurance and nuclear power to foreign investment.

Importantly, deregulation is being pushed to the state level, where over three-quarters of identified high-impact reforms have already been implemented. This quiet, execution-driven approach may lack headline appeal, but it's precisely how competitiveness is built.

The survey is candid about emerging social and human capital challenges. Ultra-processed food consumption is rising rapidly, paralleling a near doubling of obesity rates. Digital addiction, especially among adolescents, is linked to anxiety and depressive symptoms. Skilling gaps persist in an AI-disrupted labour market, particularly in hands-on, high-skill occupations that don't fit the white-collar stereotype. These are not peripheral issues. A productive workforce requires physical health, mental resilience and foundational skills.

A balanced growth outlook of 6.8-7.2% for FY27 is projected. Economic Survey 2022-23 pegged the potential growth at 6.5%. Now, with sustained public investment in physical and digital infra, a stable banking system and GoI 'riding the Reform Express', India's medium-term potential growth can be upgraded to 7.0% a year. If reforms aimed at achieving sustained export competitiveness in manufacturing are undertaken, the growth potential could rise further to 8.0%.

India has done well since the pandemic. It's doing better today. But the world is more unpredictable and more dangerous than before. The next phase of India's growth won't be easy. It will be constructed through patient capital formation, relentless competitiveness, disciplined public finances and a state that learns to think entrepreneurially.

In a world of 'managed disorder', India's journey toward becoming strategically indispensable is not just an economic necessity but a sovereign imperative. Stability has been earned. Strength must now be built.

The writer is chief economic adviser, GoI

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Give Due Carbon Credit





Kala Seetharam Sridhar & Nirmal R S

With the budget approaching, there is growing discussion about the weak financial position of cities. Urban centres are often blamed for traffic congestion, pollution, CO_2 emissions and climate change, yet, little attention is paid to how the costs of climate change can be internalised or how cities can generate additional revenue through mechanisms such as carbon credits.

A novel example of such a system comes from Indore, which has initiated the measurement of GHG emission reductions, defining one carbon credit as equivalent to 1 t reduction in CO_2 emissions. Carbon credits are treated as tradable goods, with prices currently around $5 per credit. India is also developing its Carbon Credit Trading Scheme (CCTS), launched in 2024, to regulate emissions in energy-intensive sectors, with prices roughly ₹500-700 per credit (around $5).

This presents an opportunity for local bodies, cities and government departments implementing green projects to generate revenue. If effectively leveraged, carbon credits can provide cities with a valuable income stream without requiring additional capex. In a country where forex is scarce, municipal governments face borrowing constraints and cannot run budgetary deficits. Carbon credits, therefore, offer cash-strapped cities a means to earn forex.

Indore has emerged as a pioneering urban local body (ULB) in South Asia in exploring the feasibility of carbon finance, having initiated work on carbon credits several years ago. As a designated Smart City, Indore successfully registered three projects in the first phase of the carbon credit system: wet-waste management through composting, bio-methanation and solar energy generation. Between October 2017 and June 2019, these projects generated approximately 1.70 lakh carbon credits, yielding revenues of about ₹69 lakh. In the second verification period (July 2019-December 2020), the same projects generated revenues of ₹8.34 cr, realised in September 2021.

and Hubballi-Dharwad), EVs (despite charging challenges) and metro rail systems are also eligible. Afforestation initiatives, energy-efficiency measures such as improved cook stoves and LED lighting, and plastic recycling and related activities may likewise earn carbon credits.

At first glance, this appears straightforward, which raises the question of why more cities are not resorting to carbon credits. There are several challenges, as highlighted by Indore Smart City Development Limited (ISCDL):

- Project registration charges are high, at about $10,000.
- The process flow is complicated and requires a team of dedicated, trained HR professionals.
- There are no open online trading platforms for carbon credits. Moreover, the carbon credit market is subject to fluctuations, which may reduce incentives for cities to rely consistently on this revenue source.

Nonetheless, some SPVs, such as ISCDL, provide consultancy assistance to ULBs that wish to capitalise on green projects by helping them monetise these initiatives, subject to market conditions. Revenue-sharing arrangements are typically implied to cover the costs of project registration, complex processes, auditor fees and related expenses.

Other Indian cities can similarly benefit from carbon credits by engaging in green projects. Bengaluru, for instance, has a metro system — as do Chennai, Mumbai and Kolkata — and has also undertaken measures such as large-scale tree planting and incentives for sustainable real estate development, including green buildings. These initiatives present an opportunity to leverage carbon credits as an additional revenue-generating mechanism.

India's Carbon Credit Trading Scheme presents an opportunity for local bodies, cities and government departments implementing

The budget should provide cities

BUDGET 2026 CLIMATE ACTION



Stand out and be counted

Clean Break Into Tech



Jagjeet Singh Sareen

Despite being one of the world's fastest-growing clean energy markets, India still imports 45-75% of components across key cleantech value chains. Domestic value addition is 20% in solar and batteries, and in relatively mature areas like grid equipment, it's around 55%. If this continues, India could be importing $65-97 bn worth of cleantech components annually by 2030.

Earlier this month, Bharat Climate Forum (BCF) launched 'Blueprint for India's Cleantech Manufacturing Ambition', which identifies six priority value chains and sets a goal: to reach roughly 50% domestic value addition by 2030. More importantly, it outlines what the forthcoming budget must do to make this credible:

▸ Reward domestic manufacturing Extending domestic value addition mandates under the Approved List of Models and Manufacturers (ALMM) and PLI schemes across solar, wind, batteries, EV components, hydrogen and transmission equipment, with a phased path to 50% by 2029, would provide manufacturers with the certainty needed to invest at scale.

▸ Secure upstream inputs A proposed allocation of ₹35,000 cr to expand 3× domestic refining of critical minerals, such as rare earth oxides, by 2030, alongside building a strategic stockpile equivalent to 25% of annual demand, would directly address the most fragile links in India's clean energy supply chains.

▸ Raw material competitiveness This cannot be left to global volatility. Introducing a price guarantee mechanism for special-grade and cold-rolled electrical steel would protect domestic producers from export dumping

▸ R&D push Cleantech manufacturing without tech depth will remain assembly led. Allocating around ₹4,000 cr from the Research Development and Innovation (RDI) and Anusandhan National Research Foundation (ANRF) ecosystem for translational cleantech R&D, including industrial-scale testbeds, would help move innovation from labs to factory floors.

Private sector R&D needs sharper incentives. Offering a 150-200% tax deduction on verified cleantech R&D expenditure for firms availing PLI benefits (conditional on spending exceeding 1% of revenues) would reward companies that invest in capability and not just capacity.

▸ Localise machines that make machines A Cleantech Manufacturing Investment and Technology Accelerator, housed within Invest India, could facilitate access to advanced capital equipment, tech transfer and strategic partnerships with global manufacturers to set up future-ready capabilities domestically.

▸ Skills = progress Allocating roughly ₹13,000 cr from PM-SETU (Skilling and Employability Transformation through Upgraded ITIs), and training infrastructure near cleantech manufacturing clusters, would ensure a steady pipeline of technicians and supervisors, and not just engineers.

▸ Finance costs A ₹5,000 cr partial credit guarantee facility through National Credit Guarantee Trustee Company (NCGTC) could unlock lower-cost project finance for first-of-a-kind manufacturing plants that struggle to raise debt on reasonable terms.

▸ Patient money Combining capex subsidies and interest subvention through a ₹70,000 cr manufacturing support pool and recognising cleantech manufacturing under the 'Harmonised Master List of Infrastructure' would unlock long-tenure, low-cost finance at a scale manufacturing has rarely seen.

Together, these measures amount to mobilising roughly $22 bn in catalytic public funding over 5 yrs. This is less than 5% of annual government expenditure. Yet, compelling returns more than justify the efforts: $70-90 bn in private investment, $20-30 bn in additional annual GDP by 2030, savings of up to $68 bn in imports this decade, and creation of close to 1.8 mn jobs across manufacturing and allied sectors.

The strategic choice before India is clear. It can remain a deployment market that imports technologies that power its growth. Or, it can capitalise on this narrow window to become a

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