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EDITORIAL INSIGHT



MARCH 2026

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

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Fresh pain

Iran-Israel war can destabilise economies, markets

On February 28, the US and Israel launched an alarming attack on Iran, which has quickly intensified into a volley of strikes and counter-strikes enveloping countries with substantial US assets such as United Arab Emirates, Qatar, Bahrain and Jordan. Iran's Supreme Leader since 1989, Ayatollah Ali Khamenei has been killed in the attack, intensifying the sense of geopolitical uncertainty.

It is hard to say how long this war will carry on or what destructive turn it takes, especially if it drags in China and Russia in some form to support Iran. But it will surely disrupt the oil and global trade in general, with possible knock-on effects on capital and currency flows. India, which gets almost half its oil supplies through the Straits of Hormuz (about 2.6 million barrels per day), faces the risk of both supply and price shocks, especially because it cannot possibly fall back on Russian oil. Over $40 billion of its exports are routed through this region as well. In the worst case scenario, we could see plummeting markets, a pull-out of capital from emerging economies, spike in crude oil prices from $75 a barrel (by $5-$20, according to analysts) and an increase in shipping and insurance costs. As for the potential impact on India, a Reserve Bank of India study (2025) has estimated that a 10 per cent rise in global crude prices could raise headline inflation by 20 basis points. Even if pump prices are kept in check, higher input costs would raise wholesale prices and core inflation. Apart from fuel and commodity-induced price increases, the currency too could come under stress. Exporters, already coping with tariff turmoil and an uncertain business environment, may have to contend with further disruption, both in terms of logistics costs and global demand. This could widen the trade deficit.

In a dire scenario of an extended war with Iran's attacks on the Gulf states intensifying, remittances could suffer if expatriate Indian workers there choose to return. According to a March 2025 RBI paper on India's remittance economy, the diaspora in Gulf Cooperation Council countries, at about 9 million, accounts for half its total global diaspora. Over 40 per cent of the trade deficit is financed by $120 billion remittance flows. And, about 40 per cent of these flows are from the GCC countries. Meanwhile, capital flows have been unreliable on account of US-induced disorder. The RBI will have to keep a tab on the external account in these trying times, notwithstanding the fact that forex reserves are at comfortable levels.

These are but scenarios to be considered, and it may not turn out be that bad, after all. The Centre and RBI will have to keep a tab on inflation, and be alert to the developing situation. With strategic petroleum reserves and fuel stocks with oil companies enough to meet at least a month's demand, there is no cause for anxiety. India is food-secure. Yet, caution should be the watchword.

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LINE& LENGTH.



TCA SRINIVASA RAGHAVAN



Indian economy: Macro, 100. Micro 0

Indian business is subject to political, judicial and bureaucratic oppression

Why do successive governments of India manage the macro economy so well and make a complete dog's breakfast of the micro economy? This question was first asked in the late 1960s by Jagdish Bhagwati and the late TN Srinivasan.

As is to be expected in a bureaucratic state with a semi-colonial and semi-imperial outlook, no one paid a blind bit of attention to this highly perceptive insight and hugely uncomfortable question. But it remains valid even today.

Just look at the record of even governments that have tried to solve the problem. After nearly a dozen years, the three Modi governments have provided massive macroeconomic stability. But unfortunately nothing much has changed for the business environment. This, after trying quite hard since 2014 to improve the 'ease of doing business'.

The low rate of private investment is proof of the comprehensive failure of this effort. India remains a very bad place to do business in. Sharad Marathe, one of India's foremost economists between 1950 and 2008, put it baldly. "India is the only country that says to its businessmen, thou shalt not produce."

This is despite the fact that we have always needed an investment rate of at least 37-38 per cent. But we are stuck at about 30 per cent. China, and all of East Asia, managed to get close to or more than 40-plus per cent investment rate for three straight decades. That's why they are where they are now and we are where we are.

All this has been known for many years. But our political, administrative and, of late, sociological arrangements are such that we are unable to dig ourselves out of this very deep hole.

INSTITUTIONAL ARRANGEMENTS

Politics is about power and the way it is distributed in a country. In India there is very little clarity about this because the Constitution makers opted for the best design, forgetting that in these matters the best is the enemy of the good.

I am referring to the three lists that distribute power in the Union of India: the Central list, the States list and the Concurrent list. This last is a colonial abomination. It well and truly muddies the waters especially in economic matters because much of microeconomic policy and execution is a State subject.

The economic consequences of split jurisdiction are absurd. Thus while interest rates are a Central subject, wage rates are a State subject. However, environmental policy is both a Central and a State subject. These examples can be multiplied. Suffice it to say that we have glorious confusion. So what should be done? The answer is simple but politically very difficult. We should abolish the Concurrent list by transferring most items in it — notably those in which the Centre has very little interest — to the States list.

The point is this: the Concurrent list was necessary as a reassurance in 1950.

We should abolish the Concurrent list by transferring most items in it — notably those in which the Centre has very little interest — to the States list

It isn't any longer. Today it's just a hindrance and a handy provider of excuses for non-action by the Centre as well as the States.

In truth we have the worst aspects of both China and the US. In China there's virtually no independence for the provinces. In the US it's the federal government that's constrained by the freedom that the states have. In India both the Centre and the States constrain each other, which, I must say, is a new interpretation of "checks and balances".

As to the administrative aspects, they are easier to sort out, except when the sociological complications make them difficult. The central problem here is pervasive incompetence caused by flawed induction on the one hand and excessive job protections policies on the other. You can't employ the unfit and then keep them on for 35 years. Efficiency is the victim.

THREE BIG CONTRADICTIONS

There are three other huge contradictions. The judiciary tries to ensure "justice for all". The executive tries to ensure equity via distribution and redistribution. But absolutely no one tries to ensure efficiency.

Indeed, the persistent and extreme focus on equity, orchestrated by the Left, damages both justice and efficiency. We thus have the worst of all worlds, at least where the microeconomics of India is concerned. Indian business has been reduced to a sad Kafkaesque spectacle of political, judicial and bureaucratic oppression.

It is no one's case that equity and justice are not important. Of course they are. But should they come at the cost of efficiency to the extent that prevails in India? I mean why cripple your own racehorses? As that TV news anchor used to say, the nation wants to know. Or at least I do. Maybe you should too.

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Strong base

New GDP series affirms growth robustness

The new GDP series released for this year and the preceding two fiscals — with the base year shifted from 2011-12 to 2022-23 — provides some reason for cheer in these war-torn, deeply anxious times. The second advance estimate under the new series pegs real growth rate at 7.6 per cent this fiscal, against 7.4 per cent in the first advance estimate under the old series. The new dataset not just confirms the essential soundness of the economy, but also reaffirms faith in the reliability of our statistics.



The Centre has responded well to criticism on the accuracy of India's growth numbers (from the IMF in particular), by making methodological changes, incorporating high frequency data, such as GST collections, and weaving in survey findings with respect to employment and consumption. A real growth rate of 7.6 per cent for FY26 implies the same growth rate in Q4 as well. However, Q4 growth might dip on account of global headwinds; some analysts put it at 7.3 per cent. Likewise, the Centre's expectation of 7.4 per cent growth in FY27 might need to be calibrated, if the war carries on. A feature of this fiscal year's growth story has been the 11.5 per cent growth in manufacturing GVA, against 9.3 per cent in FY25 and 12.3 per cent in FY24. Agriculture has not fared too well, with GVA growth coming in at 2.4 per cent, against 4.2 per cent last year. Services GVA growth at 9 per cent marks an impressive rise over 7 per cent and 7.9 per cent, respectively, in FY24 and FY25. This could take a bit of a knock on global turbulence.

That said, the new GDP series does generate some food for thought. Real growth rates are up over the old series, but the actual size of the economy, or the nominal GDP, is down in each of these years. Nominal growth rates are not significantly different, but the new series' estimates are less volatile. But the smaller size of the economy itself seems curious, given that the inclusion of new data, such as GST collections to bolster the corporate data base, the unorganised enterprises survey as well as diverse data sources for agriculture, should have had a contrary effect. Nominal GDP is down by about 3.5 per cent in each of the three years in question. Private consumption is down by even more, while government expenditure and net exports are up. It is noteworthy that agriculture estimates have been bolstered by the inclusion of new data on fisheries, fodder and milk products. Yet, if the nominal GDP is lower, it perhaps suggests that the earlier process of extrapolation was not free of problems.

Besides including more datasets, the introduction of double deflators for output and input, respectively, to derive real GDP is a welcome improvement. It would reduce the distortions of using a single deflator with a WPI bias. Our GDP estimates, both real and nominal, should serve as accurate indicators for policymaking. India's statistical system has been regarded as among the best. The latest changes will bolster this reputation.

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04 Mar 2026

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The IBC paradox

From crony-killer to a decade of pendency

Ajai Garg

India's Insolvency and Bankruptcy Code (IBC) has forced credit discipline and ended the endless evergreening of stressed loans. The deterrence effect, rather than tribunal-led resolution outcomes, remains the Code's most consequential achievement.

That success, however, is now constrained by institutional capacity. As the Economic Survey 2025–26 notes, roughly 30,600 cases are pending before the National Company Law Tribunals. Long timelines compress recoveries as businesses bleed cash, assets deteriorate, employees leave, and disputes multiply.

Despite this constraint, the IBC has delivered tangible system-wide gains. The December 2025 Financial Stability Report placed the gross non-performing asset ratio at 2.1 per cent as of September 2025. A substantial volume of cases is resolved before admission because promoters understand that once a case enters the formal process, loss of control is a possibility. Data cited from the IBBI suggests that over 30,000 cases involving defaults of approximately ₹13.8 trillion were settled at the pre-admission stage as of December 2024.

Average resolution periods now stand at around 713 days overall, extending to roughly 853 days for cases closed in FY25. In asset-heavy industries such as steel or power, value erosion is gradual and often partially recoverable.

In contrast, sectors driven by technology, platforms, data, and network effects operate on a far more fragile value curve. As India's economy increasingly includes fintech, digital platforms, and crypto-linked businesses, the traditional insolvency timeline becomes more mismatched with commercial reality.

One frequently cited example is WazirX's restructuring under a Singapore scheme. Following a severe operational disruption caused by a cyber-attack by North Korean hackers stealing $235 million, the restructuring process prioritized speed, continuity of the platform, and early distribution of value rather than waiting for a final, fully litigated outcome.

Public reporting indicates that the Singapore High Court approved the restructuring plan in October 2025, 15 months after the disruption. The plan enabled an initial distribution of around 85 percent of rebalanced net liquid



INSOLVENCY CASES . Focus on outcomes /ISTOCKPHOTO

platform assets, with the remaining value represented through Recovery Tokens linked to future platform performance.

WazirX's recovery was run through a Singapore court sanctioned scheme (Zettai Pte Ltd), designed to keep the platform alive, distribute value early and avoid years of value-eroding litigation. The Singapore High Court sanctioned the scheme in mid-October 2025 after overwhelming creditor approval. WazirX resumed operations on October 24, 2025.

Quick distributions and hard going concern bias materially protect value in tech and platform businesses where delay destroys the product itself. The contrast with typical NCLT-led outcomes is stark. Indian insolvency processes routinely exceed two years, unsecured recoveries are often below 30 per cent, and liquidation is frequently chosen due to delays.

Seen through this lens, the IBC (Amendment) Bill, 2025 reads less like incremental tinkering and more like an attempt to realign the system with insolvency's economic logic. The Bill targets delay at the entry stage and tactical litigation.

Admission hearings had gradually evolved into mini trials, with tribunals exercising discretion even when debt and default were clear. The proposed shift from "may" to "shall" for admission within 14 days seeks to restore predictability. The introduction of a creditor-initiated, out-of-court commencement mechanism through CIIRP has the potential to materially reduce pendency.

Ultimately, insolvency reform must be judged by outcomes, not procedural neatness. The appropriate metric for reform is whether viable businesses exit distress faster with more value preserved.

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US Supreme Court's tariff ruling changes little

Trump can theoretically reimpose all the country-specific tariffs by using 'national security' and 'unfair trade practices' levers

Shang-Jin Wei

The US Supreme Court's rejection of Donald Trump's use of the International Emergency Economic Powers Act (IEEPA) to impose country-specific tariffs has generated an explosion of headlines and rabid denunciations from the president himself. But the ruling's economic impact on other countries and world trade is likely to be limited.

The IEEPA tariffs were probably already illegal under World Trade Organization rules, as they violated the principle of equal treatment. In any case, Trump has since imposed a new across-the-board 10 per cent tariff under a different law (Section 122 of the Trade Act of 1974), which he is threatening to raise to 15 per cent (the maximum allowed). Such a response is not good news for American households and firms, but it does bring the US closer to compliance with global trading rules.

In the near term, the new surcharge will create winners and losers. Before the IEEPA ruling, trade-weighted effective tariffs were roughly 36.8 per cent on Chinese exports, 22.3 per cent on India, 21.6 per cent on Vietnam, 23.5 per cent on Indonesia, 19.4 per cent on Thailand, 14.9 per cent on Japan, 12.8 per cent on South Korea, 11.6 per cent on Malaysia, and 6.7 per cent on Singapore. But now, with the new 10 per cent Section 122 tariffs, China's effective rate will fall to about 26.9 per cent, India's to 13.9 per cent, Vietnam's to 16 per cent, Indonesia's to 16.4 per cent, and Thailand's to 14.8 per cent, while Japan and South Korea will face modest increases to 13.5 per cent and 12 per cent, respectively.

Similarly, the European Union and the UK will be worse off than before the court's ruling, because they have made concessions to the US in their bilateral negotiations; but the concession from the US is in fact smaller than the removal of the IEEPA tariffs itself.

Trump's Trade Representative, Jamieson Greer, declared that the US will reconstruct the country-level tariffs through other means. Perhaps the winners and losers from the Supreme Court ruling are only temporary.

REIMPOSING PREVIOUS TARIFFS

The Trump administration has started a process of tapping into Section 232 (on national security) and Section 301 (on unfair trade practices) of the Trade Act of 1974 to restore many elements of the previous tariff landscape. Section 232 allows product-specific tariffs — such as a 25 per cent levy on steel — after a Commerce Department investigation, while Section 301 permits country-specific retaliation following a US Trade Representative inquiry. Because such investigations generally entail a great deal of discretion, Trump could theoretically reimpose all the country-specific tariffs that were in place before the Supreme Court's ruling.

While China appears to have benefited the most from the Supreme Court decision, the relief will be temporary. The first Trump administration already used a Section 301 investigation to justify its high tariffs on Chinese imports. The Biden administration concluded in a subsequent review that some of China's unfair trade practices had persisted and continued the Trump tariffs.



COURT RULING. Unlikely to alter US trade barriers significantly REUTERS

Trump can simply cite the Biden administration's review as a basis to introduce new tariffs, with rates potentially higher than the IEEPA ones. Though he may refrain from doing so before his visit to Beijing in April, he could make the announcement thereafter.

In principle, other countries can challenge unfair applications of Section 232 and Section 301 tariffs at the WTO, as both the EU and China have done in the past. But these efforts will not get very far, because the WTO Appellate Body has been inquorate since 2019, owing to America's refusal to allow new judicial appointments. Indeed, a WTO panel ruled in 2020 that the first Trump administration's 301 tariffs on China were not justified; but since the Appellate Body was not functioning, no final ruling could be issued.

The US has two additional advantages over other countries: its ability to "weaponize commerce" and its ability to "commercialize weapons." The US government can leverage its position as the world's largest importing market to extract concessions from others, and it can leverage allies' security dependencies to "induce" them into investment and trade concessions.

Trump's willingness to use both levers will make other governments think twice before taking the US to the WTO. For Japan, South Korea, and parts of Europe, security considerations would likely outweigh the benefits of litigation. The legal availability of a WTO dispute-settlement process is one thing; the political willingness to use it is quite another.

In the end, the Supreme Court's ruling on Trump's tariffs may modify the legal facade of US trade policy, as well as produce a brief surge of imports into the US. But it is unlikely to reduce the overall height — or significantly alter the country composition — of US trade barriers.

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05 Mar 2026

Lessons from Haryana

Need for tighter management of public funds

Kesavan Srinivasan

The recent banking scam in Haryana has sparked expected outrage, but our deeper concern should be on the emerging weaknesses in public financial management, not just the bank's internal controls. CAG has warned, to little avail, that the State government funds are being managed outside the conventional banking system in ways that diminish accountability and weaken the treasury's oversight.

Traditionally, the cash balances of both the Consolidated Fund and the Public Account of each State are maintained in a tightly controlled environment. Transactions flow through a limited number of designated bank branches to the link branch and are finally recorded in the State account maintained by the RBI in its Central Accounts Section. They are reported daily to the Accountant General and reconciled with the RBI, ensuring that government money remains within the AG's line of sight.

Alongside this, however, a parallel ecosystem emerged. Departments of the State government began drawing funds from the State account and depositing them into commercial bank accounts, in their names. This unauthorised and risky practice became widespread because it offered flexibility and a way to prevent budget lapses.

The CAG raised the issue with the RBI, urging either a ban or mandatory reporting to the AG, but neither occurred.

GROWING RISKS

The fund flow architecture for the Centrally Sponsored Schemes (CSS) mandated the creation of Single Nodal Accounts (SNA), held by the Project execution authorities, to prevent States from diverting CSS funds to their own programmes and to ensure the release of the State share in CSS.

The intention was sound: consolidate scheme funds, reduce idle balances in thousands of child accounts, and improve visibility. But the implementation created new risks, as every scheme in each State now had its own SNA, effectively multiplying the number of accounts outside the treasury's direct control. To use a cricketing metaphor, it set the field for bad bowling.

The Haryana case illustrates the scale of the problem. According to the accounts for 2024-25, ₹22,000 crore was transferred to SNA accounts, of which ₹7,742 crore remained unspent. Crucially, AG reported that the voucher-level details and supporting documents for that expenditure were not provided for audit.



STATE FUNDS. Tighter scrutiny

ISTOCK

When administrative units control large sums without real-time accounting oversight, the system becomes vulnerable — not by accident, but by design. A cursory analysis confirms this sorry state of affairs, that similar situation prevails in most States.

The holy grail of Public Financial Management is a Treasury Single Account (TSA) — a unified structure for routing all government receipts and payments, ensuring transparency, liquidity management, and fiscal discipline. Despite its progress in Digital Public Infrastructure, the Union government introduced the SNA framework for its CSS schemes, which States have copied for their own schemes. The SNA framework, though well-intentioned, fragments the treasury landscape and weakens the very controls that a TSA seeks to strengthen.

We know that the instant Haryana case involved the parking of funds for a State scheme called the Mukhiya Mantri Gramin Awas Yojana. The Haryana scam is therefore the logical consequence of a system that has allowed government funds to migrate outside the treasury and escape discipline. India must return to the foundational principles of public financial management: consolidation, transparency, and treasury control. Technology now enables scheme funds to be ring-fenced within the treasury-led banking system itself, eliminating the need for parallel banking structures, as they would then be subject to oversight by the RBI and the CAG. Until such reforms are undertaken, the system will remain vulnerable, and future scandals will become inevitable.

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PRASAD ASHOK THAKUR
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Strategy to secure critical minerals



SUPPLY PUSH. Exploration, mining, and refining of critical minerals are associated with capital and gestation periods, requiring government and private sector collaboration

Green transition and Artificial Intelligence (AI) waves are shaking the global economy like never before. At the epicentre of both these tsunamis are critical minerals, including minerals such as copper, lithium, cobalt, and rare earths. Their utility is ubiquitous — from consumer goods to defence equipment, clean energy, and advanced aerospace systems, among others. The supply-side levers of critical minerals, especially for refining and further processing, presently vest with a few nations, which are not always aligned with India's interests.

According to the International Energy Agency, China accounted for approximately 60 per cent of global rare earth mining output and 91 per cent of global production in the separation and refining stages in 2024.

As the global demand for critical minerals is expected to surge, primarily driven by clean energy and Artificial Intelligence/Machine Learning, India is racing against time, as other nations vie for the same resources. Critical minerals require substantial policy support and international cooperation to mitigate economic and energy security risks.

For India, achieving rapid and equitable growth, along with its net-zero ambitions, entails securing its supply chain of critical minerals. The Economic Survey 2025-26 highlighted the importance of critical minerals in India's green energy transition and industrial security.

Like China, India must invest vigorously in building infrastructure that supports the mining and processing of critical minerals. India is endowed with the world's fifth-largest reserves of rare earth elements, approximately 163.9 million tonnes of copper, and 44.9 million tonnes of cobalt ore reserves. These dormant reserves can be strategically leveraged by establishing an indigenous and integrated value chain.

While the country has demonstrated capabilities throughout the value chain at pilot scales in critical minerals, the near absence of commercially competitive large-scale downstream processing capacities is a crucial gap yet to be bridged.

The National Critical Mineral Mission (NCMM) 2025, with a target outlay of ₹34,000 crore ($3.8 billion) over seven years, is a welcome step. However, this is paltry compared to the requirements. In contrast, China invested $21.44 billion in critical minerals in 2024 alone. Although India can't match China's investment size, it can cleverly allocate its limited financial resources to attract private capital.

The 2026-27 Budget announcement of setting up rare-earth corridors, a subset of critical minerals, across the value chain, can strengthen India's critical mineral supply chain. Besides, the announcement of an exemption from Basic Customs Duty (BCD) on the import of capital goods used for the processing of critical minerals can support companies considering investing in refining and processing critical minerals, which are key to India's green manufacturing ambition.

FINANCIAL INTERVENTIONS

The exploration, mining, and refining of critical minerals are associated with high lead times, large-scale capital requirements, and extensive due diligence, while also being exposed to various uncertainties. The government can support the private sector in several ways, such as providing concessional and long-term loans, initial funding for refinery construction, and production tax credits.

As the principal and interest or dividend components are serviced by mining projects, they can be used exclusively for development of local projects

As critical mineral prices and demand are volatile, the government can support revenue stabilisation, such as contracts for difference (CfD), which provide a guaranteed price over a set period, and demand guarantees, to entice investors. The government's incentives, which can be tied to high environmental and social standards, could help unlock new supply. These incentives and risk mitigation instruments can put private investors in a comfortable position.

Technology plays a crucial role in the development of exploration, mining and refining. Artificial intelligence-driven geological analysis can significantly reduce drilling costs while increasing discovery success rates by more than three times.

Co-development of technology through public funding and financial incentives for innovation in the critical minerals supply chain can attract early-stage investors, mining corporations, and companies in the electronics, energy, and automotive sectors looking to hedge raw materials risks.

LOCAL COMMUNITIES

Critical minerals mining and processing are often associated with social unrest in local communities, as the latter are exposed to environmental hazards such as polluted water, land, and air. The government can also encourage the local community to become co-investors in a mining/processing project.

The public sector or a department within the Government can create a financial facility, managed by professionals, that provides capital in the form of debt or equity to local critical mining facilities. Over time, as the principal and interest or dividend components are serviced by the projects, they can be used exclusively for the development of local projects. Such a facility can ensure local community buy-ins and faster execution of projects.

MOVING MINERALS SEAMLESSLY

The world is expected to remain in the realm of geopolitical transnationalism and supply-chain uncertainty for the foreseeable future.

The government can support public sector undertakings and private firms in acquiring and developing critical mineral assets globally, while being sensitive to local aspirations. The Khanij Bidesh India Ltd. (KABIL) has established partnerships with the Critical Minerals Office (Australia), CAMYEN (an Argentine state-owned enterprise), and ENAMI (a Chilean state-owned mining company) to diversify supply chains for battery materials, helping India secure its critical mineral supply chain.

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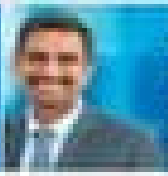

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Shippers not enthused by Trump's assurances

Weilun Soon
Ruth Liao
Serene Cheong

US President Donald Trump says the US will ensure the free flow of energy through the Persian Gulf with insurance guarantees and even naval escorts. But the shipping industry sees it — at best — as only a partial solution to a historic crisis.

"While President Trump's comments about insurance and tanker escorts caused a pullback in oil prices, we question how much planning has been done on the insurance backstop thus far and think there could be a number of challenges in executing this plan quickly," RBC Capital Markets LLC analysts said in a note.

US and Israeli strikes on Iran over the weekend have triggered a spiralling regional conflict and multiple attacks on vessels have now effectively closed off the Strait of Hormuz — the critical waterway connecting some of the world's biggest oil and gas producers with the rest of the world.

With ships unable or unwilling to transit the strait, producers cannot export, supertanker costs are skyrocketing and storage at many Persian Gulf refineries is filling up fast. The world's largest insurance mutuals have withdrawn war risk insurance cover for ships in the area.

"The core thing shipowners are thinking about is the real risk of loss," said Karnan Thirupathy, partner at Kennedys Law LLP who specialises in the commodities, shipping and insurance sectors. "No one goes into the trade if the risk of loss is simply too high."

OUTPUT CUTS

The effects have been swift. Iraq, the biggest Middle Eastern oil producer after Saudi Arabia, has already begun huge cuts to output and faces even deeper reductions, in the clearest sign yet of stress on suppliers in the region.



SHIPPING. In the crossfire REUTERS

Trump's solution involves tapping the US International Development Finance Corporation — an institution that typically helps the private sector to provide finance for developing countries — which will in turn support charterers, shipowners and key maritime insurers.

There is some international precedent. In November 2023, a facility was set up with partners including Lloyd's insurers and the Ukrainian government to provide affordable war risk insurance for ships underpinning Ukraine's maritime exports, particularly grain cargoes.

And the DFC has provided some assistance with war risk reinsurance, something it could repeat.

Still, an updated US-organised version to cover oil, gas and fuels across the Persian Gulf would be on a far larger scale, and more complex, given the number of producers and consumers involved.

Several shipowners said they would also be wary of tying their fortunes to a volatile US administration.

Trump's announcement did pare some oil price gains on Tuesday, but with limited details on hand, shipowners say they were cautious about both the insurance provision and the cost.

They asked not to be named as they are not authorised to speak to the media. BLOOMBERG

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Red flags in corporate tax revenue

Corporate tax collections are decelerating as companies stay in the old tax regime to take advantage of various incentives

POINT BLANK.



LOKESHWARRI SK

The new corporate tax regime, launched in 2019, had delivered a massive cut in corporate tax with effective tax rate lowered from the highest rate of 35 per cent to 25 per cent. Companies in the new corporate tax regime, however, had to forego all tax exemptions, incentives or deductions, including MAT credit.

If we take stock of the situation six years later, Indian companies have certainly benefitted from the tax cut. Effective tax rate of all companies has moved down from 29.5 per cent in FY18 to 22.5 per cent by FY24. But the expectations that private capex cycle will take off or job creation will improve have not been met. It can be argued that the demand contraction seen during the pandemic had impeded capital investment or that new capacities are being added in a few sectors such as chemicals, renewables and semiconductors, where demand is good.

Be that as it may, another interesting aspect is that many companies have not yet moved to the new corporate tax regime. Of the total taxable income in 2023-24, around 38 per cent continued to be under the old tax regime, paying tax at the rate of 30 per cent plus surcharge and cess.

This indicates that companies, especially the larger ones, have carried forward tax credits which they are using to reduce their tax liability. The effective tax liability of companies with taxable income exceeding ₹500 crore was just 18.8 per cent, as per latest available data.

With the decline in effective tax rate, corporate tax collections have also been decelerating. The Centre's move to clamp down on credits given for Minimum Alternate Tax and nudging companies to move to the new tax regime, need to be seen against this background.

LARGE COMPANIES, LOWER TAX

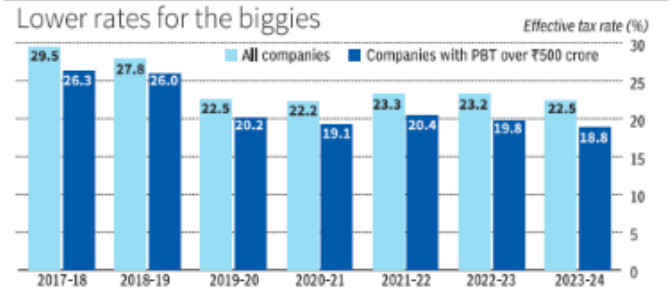
Larger companies, which account for a lion's share of taxable income, always paid lower tax, thanks to the battery of tax consultants employed by them to advise them on innovative means to reduce tax liability. But the gap between the tax rate of small and big companies appears to have widened of late.

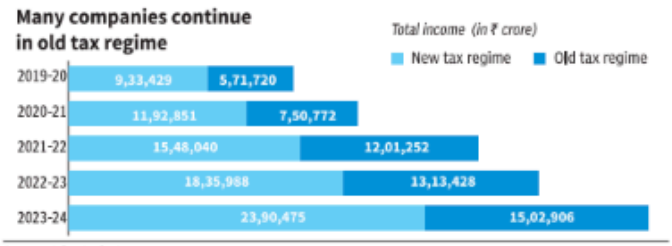
The effective tax rate of companies with profit before tax between 0 to 1 crore was 23.68 per cent in 2023-24. The tax rate moves lower as the size of the company increases with those with profit over ₹500 crore paying tax at the rate of 18.8 per cent only.

Further, the effective tax rate of larger companies has moved down 7.5 percentage points since FY18. The current rate of 18.8 per cent is below the effective tax rate of 22 per cent in the new corporate tax regime. With losses mounting during Covid, companies seem to have accumulated MAT credit which has helped them reduce their tax liability in the years following the pandemic. Other incentives which companies have been using as of FY24 are tax holidays provided to exporters located in Special Economic Zones, accelerated depreciation provided to manufacturing, power generation and transmission businesses, deduction of profits of infrastructure companies and deduction of profits in generation, transmission and distribution of power.

While the compounded annual growth in income tax collections was 15 per cent between FY18 and FY27 (BE), the growth in corporate tax is a much lower 8.9 per cent







Source: Union Budgets

WHAT THE BUDGET DID

In an ideal situation, it is good to lower tax incidence of companies so that they can improve their output and contribute to economic growth. But in the face of sluggish private capex and stagnating pay scales of private sector employees, the Centre cannot be faulted for plugging the gap that is allowing larger companies to lower their tax liability inordinately. With the gross tax revenue getting hit due to income tax and GST rationalisation, the Centre appears to be turning its attention towards corporate tax revenue now.

The Union Budget 2026 laid down that the companies in the old regime will no longer be allowed to use credit brought forward for MAT, to bring down their corporate tax liability. Such set off was being allowed only for companies in the new tax regime, and that too only partially. The rate of MAT was lowered from 15 to 14 per cent.

MAT was introduced in 1987 to check companies from claiming various deductions and exemptions to avoid paying tax. Therefore, if the tax liability of a company was lower than 15 per cent of its book profit, the company was required to pay MAT at the rate of 15 per cent to the exchequer.

However, companies were given a leeway that when the company paid MAT, the difference between tax liability and MAT paid could be carried forward for 15 years and used to reduce tax liability in future.

The Centre has now done away with the practice of allowing the excess tax paid under MAT to be carried forward. Any MAT credit brought forward from earlier years can be set off only up to 25 per cent of the tax liability for the year, and only in the new tax regime.

COLLECTIONS SLOWING

The move to restrict MAT credit and nudge companies to move to the new tax regime appears to be a result of slowing corporate tax collections in recent times.

While the compounded annual growth in income tax collections was 15 per cent between FY18 and FY27 (BE), the growth in corporate tax is a much lower 8.9 per cent. In FY18, corporate tax yielded ₹5.7 lakh crore, amounting to 58 per cent of direct tax collections. But by FY27 (BE), corporate tax is expected to raise ₹12.3 lakh crore, accounting for only 46 per cent of total direct tax collections

The slowing corporate tax collections are not due to decline in profitability, since profit growth of companies has picked up since FY24 with net profit growing in high double digits in many years. With companies becoming increasingly reluctant to pay tax, it will not be surprising if the Centre now turns its attention towards more measures to improve corporate tax collections.

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05 Mar 2026

Categorisation challenges

MF category tweaks may not curb proliferation

When the Securities and Exchange Board of India (SEBI) ushered in its mutual fund categorisation norms in 2017, its intent was to ensure standardisation and truthful labelling in mutual funds (MFs), while discouraging scheme proliferation. It succeeded in the first two but failed in the third. Therefore, it is moot if SEBI's latest changes to its categorisation norms will prove effective in rationalising the 2,000-odd MF schemes.

SEBI's new circular contains both minor and major tweaks. Minor changes include equity and hybrid funds being allowed to park residual funds in gold and silver instruments and Infrastructure Investment Trusts (InvITs). Gold can act as an effective hedge against equity volatility, but it is difficult to explain why silver, which is just as volatile as equities, would be a desirable addition to stock portfolios. The addition of InvITs, though, offers diversification benefits. In a bid to discourage sectoral/thematic fund launches, SEBI will now require fund houses to ensure that overlaps between their sector/theme funds and other equity funds never exceed 50 per cent. Fund houses have been given three years to comply. This is a welcome deterrent against the proliferation of me-too equity schemes.

But while SEBI has barred the gate on sectoral equity launches, it has significantly opened a new one for debt funds. Norms so far required debt funds to cap their single sector exposure to 25 per cent. Now SEBI has allowed fund houses to roll out single-sector debt funds in bonds rated AA+ and above. However, episodes such as the IL&FS and Dewan Housing Finance defaults, tell us that when a well-known entity in a sector defaults, the bond market instantly prices in higher credit and liquidity risks for all other players, irrespective of their credit ratings. It is important that investors be warned about contagion risks.

SEBI has decreed that AMCs can no longer accept subscriptions in solution-oriented funds and merge them into other schemes. This seems harsh. Though solution-oriented funds are no different from hybrid funds, they allowed less-aware investors to save towards goals such as children's education and retirement without having to take asset allocation calls. Abruptly winding up these popular funds and merging them with open-end funds which carry higher churn, will inconvenience investors. For goal-based needs, SEBI has mooted a new MF category of 'Lifecycle funds' with tenures ranging from 5 to 30 years. With the ability to automatically shift their asset mix as they approach maturity, lifecycle funds may be tax-efficient vehicles for investors looking to save towards long-term goals. However, they are complex products. It also seems unnecessary for the regulator to prescribe their precise asset allocation patterns and mandate heavy exit loads (1 to 3 per cent) on them. Overall, these changes may see fund houses cutting back on their thematic equity launches, only to fill the gap with new lifecycle and sectoral debt offerings.

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Pro-poor, capacity building schemes losing sheen

Money spent on several key schemes has been lower than Budget allocations. This will have implications for growth, welfare

Indranil De

India's growth is propelled by private consumption and investment, but government expenditure may have more latitude for spurring the economy.

The latter has a lot of bearing on agriculture and the allied sector. Along with climatic factors, technology and structural issues are major concerns.

The money spent on two major Central schemes — Pradhan Mantri Krishi Sinchai Yojana (PMKSY) and its Watershed Development component — was 22.86 per cent and 40.12 per cent less than the Budget allocation in 2025-26.

Further, the budgeted amount has been reduced by a whopping 20.25 per cent in 2026-27 as compared to 2025-26.

One major reason for low farm productivity is the overuse of urea. The agronomic benchmark for N:P:K is 4:2:1. Shockingly, it has deteriorated from 4:3.2:1 in 2009-10 to 9:4.1:1 in 2023-24. This may have prompted the government to reduce the budgeted urea subsidy by 1.76 per cent for the next financial year (FY).

Interestingly, there has been 6.37 per cent overspending of subsidy during the current FY. This is concerning as there was underspending on programmes (irrigation and watershed) having wider implications for the commons and poor, while subsidy programmes have seen overspending, which have long been criticised as disproportionately benefiting large farmers.

Similarly, Pradhan Mantri Kisan Samman Nidhi, an income support programme, has been successfully executed by spending the full budgeted amount. A 100 per cent Central funding may have benefitted the latter, but these successes do not compensate for irrigation programmes' underperformance. The success of a cash transfer or subsidy programme *vis-à-vis* public asset generation programme also indicate inefficiency in implementation.

CENTRAL PUSH

If State governments are unable to provide matching grants, then the Centre should allocate more funds and change the funding structure. Spending less than the budgeted amount also helped the Centre meet its fiscal deficit targets.

A 15.81 per cent underspending in Deendayal Antyodaya Yojana – National Rural Livelihood Mission (DAY-NRLM), a programme that funds SHG-bank credit linkage and generates livelihood activities, has direct implications in meeting credit needs of the rural poor. The SHE-Marts initiative, declared in the 2026-27 Budget, to promote women-led rural enterprises transitioning from SHGs to entrepreneurs, is laudable, but a more basic programme, DAY-NRLM, seems to be underperforming.

Low demand for credit by the rural poor may also be the reason for this,



UNDERSPENDING. In rural drinking water mission ASHOK R

suggesting demand constraint. A 13.71 per cent underspending has occurred this fiscal in the Prime Minister Employment Generation Programme, launched to support bank-financed subsidy for setting up microenterprises in the non-farm sector.

There has also been massive underperformance of the schemes in education and public health, with 15.20 per cent underspending in Pradhan Mantri Poshan Shakti Nirman in FY26.

There is only a marginal increment in Budget 2026-27 for this scheme, which hardly protects against inflation.

It is difficult to explain the merit of reducing the budgetary allocation in Pradhan Mantri Swasthya Suraksha Yojana, which was launched in 2006 to establish new AIIMS and modernise existing Government Medical Colleges, and thus reduce regional imbalance in health services. Social infrastructure is as important as any high-value project. Underspending in Jal Jeevan Mission (national Rural Drinking Water Mission) was to the tune of 74.63 per cent in the current FY.

Swachh Bharat Mission has also an underspending of 16.57 per cent in rural areas and 60 per cent in urban areas in the current FY. There has been a 42.11 per cent underspending in the Pradhan Mantri Gram Sadak Yojana, with no increment for the next FY, indicating a reduction in budgetary allocation in real terms.

If States' inability to finance matching grants is a reason for underperformance, then a 46.15 per cent increase in budgetary allocation for the public employment programmes MGNREGA and VB-G RAM G combined is meaningless. This is because States' share has increased from 25 per cent in MGNREGA to 40 per cent in VB-G RAM G, which replaces the MGNREGA.

An increase in unemployment would tighten the demand constraint and undermine growth. If administrative incapability is the reason behind underperformance, then administrative reforms should be conducted in mission mode. If budgetary constraint is the issue, then the Centre should step up revenue collection. In this context, the time is also ripe for introducing a wealth tax for a just and fairer society.

The writer is Professor and Axis Bank Chair, IRMA "Tribhuvan" Sahkari University. Views are personal

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Reforms vindicated

Uptick in GST collections, a welcome trend shift

The revival in GST revenue growth in February (8.1 and 7.9 per cent, in gross and net terms, respectively) indicates that consumption demand is responding well to the tax cuts in September. The upturn comes after four indifferent months; growth in net GST collections was flat in October, and negative in November and December, and mildly positive in January (2.8 per cent). Last month's collection seems like a trend-breaker, where the lower rates have been offset by demand. The Budget has pencilled in a 2.6 per cent drop in collections in FY27.



GST collections could better expectations, unless prolonged global headwinds act as a serious drag on the economy. Significantly, gross domestic GST revenue recorded 5.3 per cent growth in February, the rest of the growth coming from imports. Growth in auto sales including two-wheelers, three-wheelers, commercial and passenger vehicles were at a record high of 25.6 per cent in February. Other high frequency indicators — such as improvement in bank credit growth, higher e-way bills generation and PMI Manufacturing hitting a four-month high in February — too point towards good domestic demand.

Notwithstanding this positive all-India performance, there are inter-State variations. States with a large services segment have shown a stronger uptick in February. For instance, Karnataka recorded 11 per cent growth in SGST revenue, probably led by consumption by services sector employees. Similarly, Telangana has also reported 12 per cent growth in SGST collection. But States such as Tamil Nadu, Rajasthan and Madhya Pradesh continue to witness contraction in SGST revenue. While these variations are yet to be fully understood — it could be due to seasonal factors, statistical anomalies, or consumption patterns specific to a State — they could well change over time.

The Centre should now focus on other aspects, such as improving compliance and the technical infrastructure. GST has ushered in enterprise formalisation; the GST taxpayer base has increased from 60 lakh in 2017 to 1.5 crore in April 2025. Small businesses are jumping on to the GST bandwagon. Formalisation has picked up, but the informal economy is still estimated at about 45 per cent of GVA. GST must be reformed as a process that encourages on-boarding, through simplified registrations, tax return filings, input tax credit claims, fewer anomalies in the interpretation of provisions and an efficient refunds process. GST tribunals should play a facilitating role here. The tax authorities should not veer towards excesses in the pursuit of targets, more so where micro-enterprises are involved. A case in point is the booking of tea vendors in Karnataka last year on the basis of their UPI transactions. The pursuit of reforms, such as tax cuts, should be accompanied by ease of compliance for all businesses.

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Informal sector growth holds up

DATA POINTS. The new national accounts series shows that the informal sector has grown robustly in recent times



R GOPALAN
MC SINGHI

The Ministry of Statistics and Programme Implementation (MoSPI) released the new series of National Accounts with 2022-23 as its base on February 27, 2026. The new series has been introduced to address the concerns of quality of data and of a dated base.

The MoSPI informs that the new series improves compilation of private corporate institutional sector data by segregating activities in multi-activity enterprises. It also improves coverage of the unincorporated sector using annual survey data. It uses double deflation in the agriculture and manufacturing sectors and single extrapolation in the remaining sectors.

It incorporates updated rates and ratios from recent studies, extensively uses GST/new administrative data sources and synchronises production and expenditure side estimates better by integrating with Supply and Use Table (SUT) framework.

The new series uses 2022-23 as the base. It neutralises the impact of demonetisation, all India GST rollout and the pandemic, each of which overshadowed the growth, more particularly of the informal and MSME sectors. The GDP estimates based on the new series are, however, reasonably aligned to the old series.

Overall GDP in 2022-23 (the base year) at ₹23,761,232 crore is 96.4 per cent of the old series GDP at current prices. The ratio of new series to old series for other macro parameters is as follows: private final consumption expenditure, 90.3 per cent; gross value added, 96.4 per cent; and gross fixed capital formation, 96.4 per cent. Overall GDP growth at current prices for the new series during 2023-24, 2024-25 and 2025-26 are estimated at 11 per cent, 9.7 per cent and 8.6 per cent, respectively.

NO SURPRISES

The new GDCF/GDP ratio for 2023-24, 2024-25 and 2025-26 is estimated at 31.9 per cent, 31.6 per cent and 31.7 per cent, respectively. The new GDP series hardly surprises. With the incorporation of new data, one expected an increase in the value of the macro aggregates. However, they happen to be lower than the old estimates.



Overall economy and informal sector *(in ₹ cr)*

Overall economy	New Series 2022-23 base			Old Series 2011-12 base	
	2022-23	2023-24	2024-25	2022-23	2023-24
Gross Value Added	23,763,761	26,316,103	28,854,467	24,646,698	27,412,888
Gross Savings	7,772,917	9,517,450	11,113,324	8,244,048	9,259,186
Gross Capital Formation	8,626,876	9,624,575	10,447,228	8,695,888	9,624,795
Informal sector					
Gross Value Added	10,694,985	12,078,453	13,250,480	10,911,414	11,848,489
Gross Savings	5,225,437	5,963,550	6,900,602	5,010,475	5,461,259
Gross Capital Formation	3,674,635	4,094,766	4,425,126	3,614,851	3,844,515
Share of informal sector in overall macro parameters (per cent)					
Gross Value Added	45.0	45.9	45.9	44.3	43.2
Gross Savings	67.2	62.7	62.1	60.8	59.0
Gross Capital Formation	42.6	42.5	42.4	41.6	39.9

The availability of new data sets, new rates and ratios and quality enhancement were important for the informal sector. Data on corporate and government sectors are reasonably correct. With the availability of unincorporated enterprises data, the non-agricultural informal sector data on manufacturing, trade, transport and services are available on a regular basis.

The new series invalidates completely the general apprehension of near collapse of informal sector post demonetisation, GST rollout and the pandemic

Agriculture data, based on crop cutting survey, are reasonably better. It is generally believed that the informal sector, which contributes nearly 40 per cent of GVA, was relatively adversely affected because of structural changes in the economy such as demonetisation and GST and the pandemic, resulting in an overestimation of GDP on the basis of the formal sector data. It is, therefore, important to look at the informal sector's contribution to macro parameters in view of the latest data sets. The Table summarises key parameters of the informal sector in the old and new series of national accounts.

Three observations can be made from the Table. First, the informal sector has not witnessed any deterioration relative to other sectors (corporate and government). In fact, the informal sector has grown better than other sectors in gross value added, with growth in 2023-24 and 2024-25 being 12.9 per cent and 9.7 per cent respectively compared to economy wide growth of 10.7 per cent and 9.6 per cent. The share of the informal sector in GVA in new series is higher than in the old series.

Second, capital formation in the informal sector is poor. The investment/GVA ratio of the informal sector has been quite sticky at 33-34 per cent compared to nearly 38 per cent for the non-informal sector. This situation is the same in both the old and new series. Steady lower capital intensity could be a reason. However, the gap is not wide enough to suggest credit distortions or their crowding out.

Third, the share of the informal sector in total savings has declined rather sharply in the new series; an upsurge is seen only in 2022-23. One reason is that the sector is witnessing stress due to reducing profitability.

WHAT THE NEW SERIES REVEALS

The new series invalidates completely the general apprehension of near collapse of informal sector post demonetisation, GST rollout and the pandemic. The informal sector, particularly the non-agriculture segment, has been equally robust, though productivity growth and marketing tie-ups with established players is required.

Secondly, notwithstanding this invalidation, more disclosure is needed about the growth of the informal sector, as what the new series indicates is in contradiction to the growth seen in the quarterly surveys of unincorporated enterprises.

Third, with the investment/GDP ratio nearly stagnating for both the formal and informal sectors, measures for accelerating the ratio beyond their current levels are required. Underutilised capacity may provide some cushion; but with reducing product cycle due to innovation, destruction of excess capacity could occur.

The Union Budget does talk about support to innovation and legacy industries including MSMEs, but it still has not fully assessed the threats.

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PRATIM RANJAN BOSE



BLOOMBERG

It's time to step up India, Bangladesh ties

IMPACT OF WAR. For Bangladesh, better ties with India will help it weather the economic effects of the current Middle East crisis

The Middle-East crisis can, in fact, be a boon to India-Bangladesh relations. After the exit of the Muhammad Yunus-led interim administration, anti-India rhetoric has stopped. The newly elected Tarique Rahman government of the Bangladesh Nationalist Party (BNP) is giving every conceivable signal that it wants to restore ties.

The emerging economic crisis can only pave the ground for better ties. The combined setbacks — of the post-Covid supply chain disruption; aggressive monetary tightening by the US, pushing the dollar index to a record high; and the decline in global trade coupled with global inflation following the Ukraine crisis — have stalled Bangladesh's decade-long growth story under the Sheikh Hasina government.

The economy was showing early signs of stabilisation when Hasina was ousted from power. As of June 2024, inflation was 9.5 per cent, foreign exchange reserves improved and exports were on a recovery path. Remittances, however, suffered.

Bangladesh slipped into a debt-trap during the interim rule. Hasina borrowed to finance infrastructure projects. Yunus cut development expenditure by over 12 per cent yet public debt is up by 13-14 per cent. Added to this is the widening revenue gap. Dhaka is clearly meeting current expenditure through borrowings.

ECONOMIC DISTRESS

As an import-dependent economy, all economic activities in Bangladesh necessarily lead to imports. As of March 2026, private investments are at an 11-year low. Bank credit to the private sector is at a record low. Suppressed activities kept the forex position artificially stable but created a supply deficit of goods. Inflation is ruling high at 8.5 per cent. It crept up throughout the winter months.

To cut a long story short, the Yunus administration's moves to suppress political dissent, coupled with indiscriminate arrests and destruction of Awami League-affiliated businesses, hit the economy hard.

GDP growth was down from 4.22 per cent in 2023-24 to less than 3.5 per cent in 2024-25. Jobs were lost and poverty rose.

Bangladesh is now operating at a low equilibrium and may collapse at the slightest external shock. Prime Minister Tarique Rahman has an unenviable task of bringing both social and economic order. To complicate matters, he has promised the moon to voters.

Yunus survived much of the criticism by blaming Hasina but Tarique will not have that advantage. The interim administration signed a one-sided deal with the US three days prior to the election. Tarique's foreign minister — who was a key negotiator for Yunus — claimed that the pact was reached in consensus with the BNP.

Meanwhile, the patience of voters is running low after three-and-a-half years of economic struggle. The Islamists, who ruled the roost in the Yunus administration, are waiting to capitalise on grievances and capture power.

The situation is already tough, and the Iran crisis has made it worse. If the war continues for a few more weeks, it will have a devastating impact on the economy. Nothing short of a full-scale restoration of India-Bangladesh ties can help Tarique survive the imminent disaster.

Removing all barriers to trade and connectivity is an immediate requirement to combat inflation in Bangladesh. The new Tarique Rahman government must scrap all import curbs from India's North-East

REMOVE BARRIERS

Removing all barriers to trade and connectivity is an immediate requirement to combat inflation. Bangladesh suffers from high logistics costs. Corruption in the National Board of Revenue (NBR) led the Hasina administration to impose import restrictions through India's North-Eastern gates. Tarique must remove them.

A fully ready rail-connected terminal at Sabroom in Tripura, bordering the Chittagong Hill Tracts, has been waiting for inauguration since August 2024. Opening the route can reduce the price of staples — like eggs and wheat — in northern Bangladesh.

The Padma Bridge was supposed to pave the way for direct rail-based container movement between Kolkata and Dhaka. It can bring down transport costs substantially and make the turnaround faster. Work must be initiated on a war footing for trade facilitation. The US submarine attack off the Sri Lankan coast may severely impact trade in the Bay of Bengal. Before the Yunus administration came to power, Delhi was working to offer Bangladeshi exporters an opportunity to ship products through the Nhava Sheva port in Mumbai. Kolkata-Dhaka rail cargo movement can open up that opportunity.

Until that happens, India can reopen air-cargo transshipment through Delhi. The war has sent air fares through the roof, which were already higher from Bangladesh.

Disruptions in the Middle-East has increased shipping time and cost. The India-Bangladesh diesel pipeline helps Bangladesh cut delivery time and reduce the need for high capital blockage in inventories.

The pipeline, which now ends at Parbatipur in north Bangladesh, must be extended to Dhaka.

Desperate times need extraordinary measures. BNP thrived in the past on anti-India rhetoric and blamed Delhi for not supporting it. The time has come for the party to rewrite the rules.

That's a win-win for Delhi. For India, a thriving and prosperous Bangladesh will be less of a security concern.

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China sets lowest growth target since 1991

Bloomberg News

China set its most modest growth target in more than three decades, in a tacit acknowledgment that the model powering the country's rapid rise for four decades is showing strains.

The goal — a range of 4.5-5 per cent — was in a copy of the government's annual work report seen by Bloomberg News. It marks the first formal downgrade since 2023 and the least ambitious expansion goal since 1991.

While widely anticipated by economists, it carries symbolic weight in a country where growth figures function as political statements as much as economic forecasts. No target was set in 2020 because of the pandemic.

The shift signals Beijing's comfort with a slower pace while seeking more sustainable growth drivers to replace debt-fuelled property and infrastructure investment. A lower target also reduces the pressure on officials to deploy aggressive stimulus despite a volatile global trade environment.

Premier Li Qiang is expected to officially announce the target Thursday morning in Beijing. The report to the national parliament will also detail objectives for employment and inflation that will dictate the scale of 2026 fiscal support. The legislative session begins as external uncertainties threaten China's export-led recovery. Widening Middle East conflicts risk disrupting trade routes and complicate a summit between Chinese leader Xi Jinping and US President Donald Trump just weeks away.

Surging exports accounted for a third of China's 5 per cent growth last year, the highest share since 1997. This



CHINA. Growth worries

reliance highlights a deepening imbalance as efforts to boost domestic spending have so far failed to offset the impact of a property market collapse.

A conservative growth target would reduce the prospects of forceful stimulus. The government is reluctant to roll out sweeping easing as it did in previous downturns, for fear of worsening a record debt-to-GDP ratio and squeezing profit margins at state banks. Still, that remains above the 4.17 per cent average annual gain the government deems necessary for the next decade to double per capita GDP between 2020 and 2035. Xi sees achieving the milestone as a critical step to turn China into a "powerful modern socialist country" by mid-century.

That long-term vision depends on Chinese factories' ability to sell more and more goods to the world. However, that strategy is threatened by rising trade barriers prompted by China's record trade surpluses. The International Monetary Fund is among those warning that this imbalance is unsustainable without a major pivot toward consumption. However, the government has struggled to shift resources to households while prioritising industrial self-reliance for the sake of national security. A patchy social safety net and increasing working hours are also preventing individuals from spending more.

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09 Mar 2026

Stress management

CAD may widen, but is no cause for alarm

India's external account had been relatively stable over the past year, despite the US' tariff offensive and foreign portfolio outflows. This, however, could worsen if the US-Israel-Iran war drags on, essentially on account of the country's import dependence to meet crude oil demand.

The current account deficit (CAD) for the April to December 2025 period was $30.1 billion, which is about 1 per cent of GDP. This is an improvement from the $36.6 billion or 1.3 per cent of GDP in the same period of FY25. The CAD has remained in control, despite capital outflows and a rising merchandise trade deficit, thanks to services exports. Rising oil imports could alter this fragile equilibrium. The trade deficit in petroleum, oil and lubricants products already accounts for a significant 37 per cent of the total deficit in goods trade. According to estimates by economists, a $10 increase in crude oil price per barrel can expand India's CAD as a percentage of GDP by 30-40 basis points. The CAD had spiked to record highs during the previous Gulf wars in 1990s and in 2003.

Meanwhile, goods trade deficit increased 10 per cent to $251 billion between April and December 2025, partially due to disruptions caused to commodity exports on account of the tariffs. While the bilateral trade deals signed with the EU, the UK and the US may help in bridging this gap in non-oil goods, crude oil prices will likely end up widening the deficit. Capital account flows, too, could take an adverse turn. During geopolitical crises, global portfolio investors sell risky assets such as emerging market equities and move funds into safe havens such as gold. After being net buyers of Indian equity and debt in February, foreign portfolio investors have already pulled out ₹20,819 crore from Indian markets in the first week of March. Similarly, NRI deposits, which had already declined 16 per cent in the first three quarters of this fiscal year due to weakness in the rupee, can take a knock. About 40 per cent of inward remittances come from countries in West Asia such as the UAE, Saudi Arabia, Kuwait and Qatar. Foreign direct investment from this region can also be impacted as these countries rebuild their facilities.

Services exports have been a silver lining, mitigating the impact of a widening goods trade deficit. These exports amounted to $156 billion between April and December 2025, registering a growth of 15 per cent over the same period in FY25. With over 85 per cent of these channelled to the US, the UK and Europe, these exports may remain unaffected by the ongoing war — unless the conflict carries on, hurting IT services demand globally. The resilience displayed by services exports in times of crises is notable. Policy support to exports in segments such as accounting, technical and legal consultancy, is worth considering. With forex reserves at $728 billion, Reserve Bank of India can surely defend the currency. The situation is stressful, but manageable.

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Scaling TReDS for fostering MSME-led growth

The Budget has proposals that will make TReDS a vehicle for sustainable credit deepening, easing working capital stress

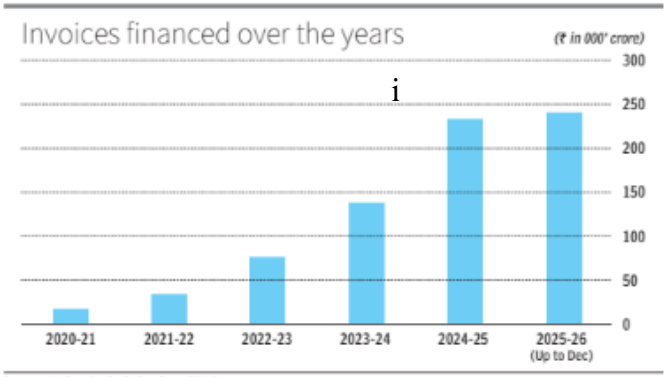
Nidhi Amit Satija
Abhinav Banka

In discussions on financial sector development, the focus often is on the supply of credit while underestimating the architecture through which credit flows. The Trade Receivables Discounting System (TReDS) is one such institutional innovation that addresses the chronic inefficiency of delayed payments to MSMEs and the resultant working capital stress. Budget 2026-27, read alongside the 2025 Financial Sector Assessment Program (FSAP) report of the World Bank, suggests that the government has recognised TReDS not merely as a fintech platform but as an instrument of structural reform.

More than ₹7.5 lakh crore has already been financed through TReDS since its inception. Annual volumes have crossed ₹2 lakh crore in recent years, and monthly throughput has exceeded ₹30,000 crore recently. Yet, when placed against the scale of India's MSME receivables, which run into several lakh crores at any point in time, TReDS penetration remains modest.

This divergence between the potential and actual outcomes is exactly the concern highlighted by the World Bank under FSAP.

Accordingly, the Bank recommended three interlinked measures: operationalising a second window and a credit guarantee scheme for factoring; incentivising large buyers to upload invoices and mandating such uploads for state-owned enterprises (SOEs); and leveraging CGTMSE through a first-loss portfolio approach with sound financial modelling and regulatory oversight. The latest Budget's proposals align, almost point by point, to these recommendations.



Source: Authors' calculation from RBI data

Consider first the proposal to mandate TReDS as the transaction settlement platform for all CPSEs' purchases from MSMEs. This is more than an administrative directive. It addresses the asymmetry of power in buyer-supplier relationships. When large public sector buyers delay invoice confirmation or payment, MSMEs bear the liquidity burden. By requiring CPSEs to transact through TReDS, the government introduces predictability, transparency and enforceability into the receivables chain. It also creates a benchmark for private corporates.

Second, the introduction of a CGTMSE-backed credit guarantee mechanism for invoice discounting directly operationalises the FSAP's call to scale factoring through risk-sharing and complements the RBI's recent decision to raise the collateral-free lending limit for MSMEs from ₹10 lakh to ₹20 lakh. While the higher unsecured limit lowers entry barriers for borrowers, a first-loss guarantee mitigates lender-side risk, addressing the core constraint in receivables financing, the perception and pricing of credit risk, rather than a shortage of liquidity. Together, these measures create a balanced framework that crowds in banks and NBFCs to expands MSMEs credit access.

INFORMATION SYMMETRY

Third, the linking of the Government e-Marketplace with TReDS reflects a recognition that information symmetry is foundational to efficient markets. Government e-Marketplace has become a significant channel for public procurement from MSMEs.

By enabling financiers on TReDS to access verified procurement data, the reform reduces due diligence costs, mitigates fraud risk and shortens turnaround times. In economic terms, it reduces transaction costs and enhances allocative efficiency.

Fourth, the proposal to develop TReDS receivables as asset-backed securities is perhaps the most forward-looking element. A secondary market for pooled receivables will allow financiers to recycle capital and diversify risk. It integrates invoice discounting into India's broader debt capital market ecosystem. In doing so, it also deepens financial markets, an objective that the FSAP consistently associates with resilience and growth.

MACROECONOMIC CONTEXT

When receivables are locked up, production cycles slow, investment gets deferred and credit costs rise. There is also a financial stability dimension as informal trade credit chains are opaque and can amplify stress during downturns. TReDS brings these exposures into a regulated framework under RBI's oversight. The combination of mandatory participation by CPSEs, calibrated credit guarantees and eventual securitisation enhance transparency while dispersing risk across a broader investor base. This, in turn, has positive bearing on reducing the NPA levels for the enterprises, particularly the small and medium ones.

In the journey towards becoming a developed economy, efficiency gains in working capital cycles may not capture headlines. Yet they cumulatively matter.

The writers are IES officers in the Ministry of Finance. Views are personal

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SAUMITRA BHADURI



Buybacks not a problem — it is policy volatility

COURSE CORRECTION. Tax policy swings fundamentally altered the economics of buybacks. Thankfully, Budget 2026 amendments will support revival of this credible payout instrument

GETTY IMAGES

While share buybacks are a routine corporate finance decision in the developed world, in India, they have been repeatedly shaped by evolving tax policies, often yielding unintended consequences. The recent Union Budget's decision to revisit buyback taxation is therefore not merely a technical correction, but a window into how India views corporate payouts, investor behaviour, and market discipline.

At a basic level, a share buyback is simply a company returning excess capital to its shareholders by purchasing its own shares. The economic logic is straightforward. When firms generate cash beyond their investment needs, buybacks allow capital to be returned efficiently without locking shareholders into recurring obligations, as dividends do. The buybacks also play a role in improving capital efficiency and signalling management confidence.

International data underscores how buybacks have become the norm. The global listed companies spent over $1.6 trillion on buybacks in 2022, the highest on record, up 22 per cent from 2021 and nearly tripling since 2012. S&P 500 companies alone repurchased $925 billion in 2024 and projected $1.075 trillion in 2025. In 2022, the global share of buybacks accounted for 94 per cent of the total dividends paid out by major companies worldwide, meaning buybacks were almost as large as dividends combined. This surge was primarily driven by North American firms, which bought back shares equivalent to 158 per cent of their dividends, along with strong contributions from oil & gas and technology sectors. In stark contrast, emerging markets, including India, lagged far behind, with buybacks representing only 18 per cent of dividends.

India's journey has been markedly different and volatile. Until 2013, dividends in India were taxed at the company level through the Dividend Distribution Tax (DDT), while share buybacks were taxed as capital gains in shareholders' hands, often at lower effective rates, incentivising buybacks. To limit this arbitrage, the Finance Act, 2013 introduced a company-level tax on buybacks while exempting shareholders. This parity was undone in 2020, when DDT was abolished, and dividends became taxable at slab rates in shareholders' hands, while the company-level buyback tax remained, sharply increasing the relative appeal of buybacks. As buybacks increasingly substituted dividends and allowed promoters to extract large payouts at low effective tax rates, concerns over revenue leakage and inequity re-emerged. These culminated in the Finance Act, 2024, which, from October 1, 2024, taxed buyback proceeds as deemed dividends in shareholders' hands. This change fundamentally altered the economics of buybacks. For high-income investors, the effective tax rate crossed 35 per cent, significantly higher than under the earlier regime.

India's buyback trends from FY20-25 corroborate this sharp volatility tied to tax policy swings. Buybacks peaked at ₹67,687 crore in FY19 amid favourable company-level taxation but fluctuated post-2020 DDT abolition — surging to ₹49,533 crore in FY21, then dipping amid regulatory curbs, before a FY24 revival at ₹49,314 crore. The October 2024 shift to shareholder slab-rate taxation triggered a historic plunge to ₹8,147 crore in FY25 (ratio to dividends at 1.4 per cent), reflecting promoter apathy.

While both dividends and share buybacks return surplus cash to shareholders, they differ fundamentally in how they signal firm quality, shape capital structure, and manage flexibility. Dividend payouts are a commitment device. Initiating or increasing dividends signals management's confidence in stable, recurring cash flows. Because dividend cuts are heavily penalised by markets, firms use dividends to convey long-term earnings sustainability and financial discipline. Dividends also cater to income-seeking investors — pension funds, insurance companies, and households — which helps anchor a stable shareholder base.

SIGNALLING INSTRUMENT

Buybacks, by contrast, are a flexible signalling instrument. They signal that management views the firm's shares as undervalued or that excess capital cannot be deployed profitably in new investments. Buybacks allow firms to return cash without committing to recurring payouts, making them attractive when cash flows are episodic or uncertainty is high. They also improve per-share metrics such as earnings per share and return on equity, and provide a mechanism to optimise capital structure by reducing excess equity.

The appropriate choice between dividend payouts and buybacks, therefore, depends on a firm's cash-flow stability, growth opportunities, ownership structure and investor clientele, as well as prevailing market conditions. Having credible access to both instruments is unambiguously welfare-enhancing, as it allows firms to tailor payouts efficiently while improving capital allocation and market signalling. Impeding this choice often leads to distortion, hoarding cash, or pursuing marginal investments, none of which necessarily improve economic efficiency or tax outcomes.

The way forward lies in a stable, predictable framework that treats dividends, buybacks, and capital gains consistently

In that light, the 2026 Budget marks a clear course correction by undoing the taxation of buybacks as shareholder-level dividends and taxing them as capital gains. To curb arbitrage, promoters face additional levies ensuring minimum effective rates of 22 per cent for companies and 30 per cent for others. Together, these changes restore two credible payout instruments, enabling firms to choose optimally and supporting a revival of buyback activity after the post-October 2024 slowdown.

India's repeated recalibration of buyback rules reflects its lack of confidence in markets to self-adjust and address every perceived arbitrage through tax intervention, often creating large distortions. The way forward lies in a stable, predictable framework that treats dividends, buybacks, and capital gains consistently, backed by strong disclosure and anti-abuse safeguards from the regulator. The correction in the Budget of 2026 should thus be seen less as a fix and more as an opportunity to commit to durable policy clarity.

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Ides of March

Oil storm from Gulf washing up on India's shores

Monday's surge in crude oil prices should set the alarm bells ringing in New Delhi. The price of benchmark Brent crude shot up 25 per cent to over $118 a barrel sending India's stock markets and the rupee on a tailspin. Prices softened by end of day but they are still around $105 a barrel. It is clear that oil markets are nervous.

Oil crises have never been good for the global economy. Whether it was 1973, 1979, 1991, 2008 or 2022, oil shocks have left a permanent scar impacting global growth for several years that followed. We could be looking at a repeat unless the war ends right away, which seems rather unlikely. For India, the crisis has rudely interrupted what was a Goldilocks period of rapid growth, low inflation and stable macroeconomic indicators. President Trump and Prime Minister Netanyahu, with their assault on Iran, have snatched the punch bowl away from what was set to be a rocking party for India's economy. Robust tailwinds have now turned into strong headwinds leaving the Centre with rather difficult options to navigate through the turbulence.

High oil prices coupled with scarcity will hit the economy through multiple channels. First, of course, is the direct impact. India imports more than 90 per cent of its oil needs. While the Centre is sanguine over available stocks of crude oil and petroleum products (will last about a month), the price shock will be a nasty blow. It is estimated that a 10 per cent rise in crude price will push up inflation by 35 basis points and shave 10 basis points off GDP growth. In addition, there will be the second order impact as a range of industries from airlines and transport to fertilizers, chemicals and petrochemicals feel the pinch of scarcity and a surge in input costs. And then there is the gas economy, natural gas and cooking gas. India imports over 65 per cent of its cooking gas, most of it from the Middle-East. The Centre's directive over the weekend to refineries to direct propane and butane for producing cooking gas is an indication of the delicate supply balance. Retail prices were also increased for both domestic and commercial consumers on Sunday. Supply of natural gas to industrial consumers has also been curtailed, which will have an impact on the economy.

The Centre has three options to manage the price shock. One, cut excise duty on fuels; two, pass on the price increase to consumers and three, fall back on the oil companies to absorb the shock. The Centre may prefer the last option as it is the least disruptive in the immediate context and there is precedent. The five national oil companies together have cash in hand of ₹95,000 crore (trailing 12 months to December 2025) but they also have net debt of about ₹4.23 lakh crore. And these companies are listed, with public shareholders. The option, therefore, can offer only limited comfort. The developing situation is probably the biggest challenge for the Centre since Covid and it needs to strategise carefully. To start with it should take citizens into confidence on the crisis they face rather than presenting an 'all-is-normal' face.

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CAPITAL IDEAS.



RICHA MISHRA



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Govt must build gas storage on a war footing

The Middle East crisis has put a severe strain on gas supplies. Creating more storage capacity is vital for dealing with it

The war between US-Israel and Iran has predictably led to an energy crisis for Asia. India is also among the three-largest energy consumers in the world — following China and the US.

If the prevailing situation continues at the Strait of Hormuz, for a price-sensitive consumer like India, higher oil prices will result in a terms-of-trade deterioration, while disruption in the Strait will also hit LNG supply.

India's energy demand is growing at the fastest rate among major global economies, driven by rapid industrialisation, urbanisation, and a rising population. The country remains highly dependent on external sources, importing over 85 per cent of its crude oil and nearly 50 per cent of its natural gas (LNG).

Not only will India face higher replacement costs for LNG cargoes, the price-sensitive sectors — particularly industrial users and smaller gas distributors — may need to rework their sourcing strategy.

REWORKING SUPPLY CONTRACTS

Key players such as Petronet LNG Ltd, India's largest LNG terminal operator, have already issued *force majeure* notices to its offtakers as its vessels cannot safely navigate the Strait to reach loading ports. This has also led to major gas marketers like GAIL (India) Ltd to rework their supply to customers in priority order.

According to information available, India operates eight major LNG terminals with a combined nameplate regasification and storage capacity of 52.7 MMTPA (million metric tonnes per annum). India currently holds about 21 days of LNG inventory, including stocks in transit. The government, reportedly, is working on mandating all LNG terminals to maintain an additional 10 per cent storage capacity beyond day-to-day requirements.

But, is this enough, given the growing demand? With the government increasing the share of natural gas in its energy mix from the current 6.7 per cent to 15 per cent by 2030, as part of its move to transition to a gas-based economy, shouldn't there a focused approach for creating storage facilities?

According to International Energy Agency, natural gas markets have gradually rebalanced in recent years following the major shock that followed Russia's invasion of Ukraine in February 2022. A wave of new LNG capacity between now and the end of this decade is expected to transform market dynamics.

"But markets remained tight in the first two months of 2026, and depleted storage coming out of the heating season in the Northern Hemisphere is set to increase the call on LNG in the months ahead. An extended loss of output from the Ras Laffan facility in Qatar could significantly exacerbate this market tightness. Production was shut down following an Iranian attack on the facility on March 2," it said.

The concerns are serious.

In his statement in Rajya Sabha on Monday on "The Situation in West Asia", the External Affairs Minister S Jaishankar said that "The region is key to our energy security and includes many important suppliers of oil and gas...In view of the implications of this conflict for our energy security, I also seek to address that particular concern. Government remains committed to ensuring that fully, taking into account, costs and risks of the energy markets. For us, the interests of the Indian consumer has and will always be the overriding priority.

While storage on strategic and commercial terms has been constructed for crude oil in India, for gas it remains woefully inadequate

Where required, Indian diplomacy has supported the endeavours of our energy enterprises in this volatile situation."

Qatar supplies 10-11 MTPA of LNG to India, which is 45 per cent of its imports. India has long-term agreements with Qatar, US, Russia, Australia, and UAE among others.

What is holding back the government from creating more storage capacity that will serve both our economic and strategic purposes?

According to Rajesh Mediratta, the MD & CEO of IGX, "In India, commercial storage needs economic justification, which is seemingly looking difficult because we don't have seasonal peaks as EU, China, US, Japan and Korea face. But I feel we should build underground storage for at least 10 per cent of our consumption or say one month equivalent of consumption. Taking our consumption as 70 bcm, 7bcm of strategic and 3 bcm of commercial, so 10 bcm of storage looks good."

In China 10 per cent storage is mandated by law for all city gas companies, he said.

NEED FOR URGENCY

While storage on strategic and commercial terms has been constructed for crude oil in India, the same is not the case for natural gas. The Oil Ministry had set up a task force to look into the matter.

The Petroleum and Natural Gas Regulator Board, which plays a key role to in facilitating oil and gas distribution to promote competitive markets, create infrastructure and protect consumer interest, has been nudging the government to set up storage infrastructure for fossil fuels.

"With rising consumption of gas, it is becoming imperative to create storages to meet demand during times of unexpected disruption in supply," the Board had suggested.

The Board had also made detailed presentation on the construction of the storage facilities.

With rising consumption of gas, even the proposed 10 per cent storage capacity may not be enough. So before it further strains the economy, strategic storage is needed. This will not only handle supply but also to help manage the volatile LNG market.

All developed economies having a significant share of gas in their energy mix have provision of 10-15 per cent gas storage. It also has commercial benefits.

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Export policy should move away from subsidies

Given the current geopolitical uncertainty, focus must be on improved logistics, digital infra, and resilient supply chains

Amal Krishnan
Brinda Muralikannan
Badri Narayanan Gopalakrishnan

For decades, India's export policy relied on incentives such as MEIS and RoDTEP, assuming price competitiveness would secure market share. Geopolitical tensions, climate-related regulations, and rising protectionism render subsidies and tax rebates increasingly inadequate as safeguards. The ongoing US-Israel war with Iran exemplifies this volatility.

These shocks highlight the need for resilience over fiscal offsets. Sanctions, technology controls, and friend-shoring have already fragmented supply chains. In this environment, competitiveness hinges on resilience, compliance, and reduced structural costs. It is high time that our export policy is redesigned to make it more resilient amid challenging times.

Budget 2026-27 gave early signs of the recognition of the need to build a resilient export sector by prioritising export credit, insurance, and trade infrastructure over direct transfers.

A ₹7,295 crore export credit package allocated ₹5,181 crore to interest subvention and ₹2,114 crore to collateral support, easing financing for MSMEs. Customs reforms extend duty deferment from 15 to 30 days for eligible AEO manufacturers. The ₹10 lakh cap on courier exports has been removed to boost e-commerce.

Duty-free import limits for seafood processing inputs rise from 1 per cent to 3 per cent of prior-year FOB turnover, curbing input cost exposure. Advance ruling validity extends from three to five years, and trusted trader clearances expand for predictability.

A ₹12.2 lakh crore public capex programme targets waterways, freight corridors, and coastal cargo to cut logistics costs (currently 7-8 per cent of GDP). The message is unequivocal: competitiveness will stem from lower finance costs, reduced port delays, and mitigated compliance risks, not post-export compensation.

India's recalibration mirrors reforms across developing economies. Vietnam has cut customs clearance to about 24 hours, and Bangladesh upgraded garment compliance and now hosts over 200 Leadership in Energy and Environmental Design (LEED) certified factories.

Similarly, India could lower port dwell time below 48 hours, widen export credit coverage and build sector specific compliance capacity to secure durable competitiveness beyond subsidy reimbursements.

The Budget marks the beginning of a structural transition from subsidies to systemic cost reduction, but its credibility will depend on measurable outcomes.



TRADE. Under uncertainty ISTOCKPHOTO

DELIVERY MATTERS

First, compliance capacity must move beyond advisory intent to measurable delivery. At least 50 major export clusters in steel, textiles, chemicals, and engineering goods should be equipped with accredited carbon accounting and life cycle assessment facilities within three years. Certification turnaround time should be reduced to under 30 days.

Second, export credit and insurance support must expand quantitatively. Insured export coverage should rise to at least 50 per cent of total merchandise exports, up from current lower penetration levels, and average claim settlement time should be capped at 60 days. Interest spreads for MSME exporters should narrow by at least 100 basis points relative to current lending rates to demonstrate real risk absorption.

Third, India's trade diplomacy must move from reactive litigation to proactive rule engagement by investing in technical trade diplomacy capacity, including sector-embedded climate and digital regulation experts, early regulatory monitoring systems, and formal impact assessments. The absence of early influence in frameworks such as CBAM shows that delayed participation reduces India's ability to influence sector coverage, calculation methods, and transition timelines.

Innovative export policies must increasingly focus on capability building rather than financial incentives. In a volatile global trading environment sustainable competitiveness will depend on regulatory readiness, digital infrastructure, and resilient supply chains.

If India complements the structural reforms initiated in the Budget with forward-looking initiatives such as export resilience planning, carbon competitiveness strategies and digital trade infrastructure, its export policy could evolve from reactive support to a comprehensive framework for long-term global competitiveness.

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Canada calling

Tie-ups spanning energy and education hold promise

Jyoti Vij

Canada's Prime Minister Mark Carney's visit to India came at a time when global trade and geopolitics are being reshaped by strategic competition, supply chain realignments and energy transitions. In that context, the visit was not merely a diplomatic engagement but an attempt to reposition India-Canada ties for a more uncertain and multipolar economic landscape.

The visit produced a wide range of agreements across trade, energy, technology and education. Yet the real significance of these outcomes lies not in the number of memoranda signed but in the structural direction they signal for the bilateral relationship.

The most consequential step was the signing of the Terms of Reference (ToR) for the India-Canada Comprehensive Economic Partnership Agreement (CEPA). While trade negotiations between the two countries have been discussed for over a decade, the renewed push suggests a recognition on both sides that economic engagement needs a stronger institutional framework.

MODEST TRADE FIGURES

Bilateral trade currently stands at $8.66 billion in 2024-25, a modest figure relative to the size of the two economies. The target of $50 billion by 2030 therefore represents more than numerical ambition — it reflects the possibility of integrating supply chains between a major advanced economy rich in natural resources and a rapidly growing industrial economy seeking inputs for manufacturing and energy transition.

For India, a trade agreement with Canada could improve access to resources critical to industrial growth, including energy and minerals. For Canada, deeper economic engagement with India offers diversification away from over-dependence on a few traditional markets. In an era where countries are actively seeking trusted economic partners, CEPA has the potential to transform a relationship that has historically underperformed relative to its potential.

Energy cooperation illustrates this shift particularly well. The long-term uranium supply agreement between India's Department of Atomic Energy and Cameco, one of the world's largest uranium producers, is strategically significant. India has



CANADIAN PM. Mark Carney has attempted to reposition ties REUTERS

set a target of achieving 100 GW of nuclear power capacity by 2047, and securing stable uranium supplies will be essential for that expansion. For Canada, one of the world's leading uranium exporters, the partnership provides a reliable long-term market. Equally important is the MoU on critical minerals cooperation, which reflects the growing centrality of minerals such as lithium, cobalt and rare earths to the global clean-energy economy. These materials underpin electric vehicles, battery storage and renewable technologies. By exploring cooperation in exploration, mining and processing, the two countries are positioning themselves within the emerging global race to secure critical mineral supply chains.

Talent mobility and education agreements are another pillar with long-term implications. The partnership between the All India Council for Technical Education and Mitacs to facilitate research internships for Indian students could strengthen academic collaboration and innovation ecosystems in both countries.

Agriculture cooperation also featured prominently, particularly through the proposal to establish a Pulse Protein Centre of Excellence at NIFTEM Kundli. Given that Canada is one of the world's largest producers of pulses and India is its largest consumer, this initiative could move the relationship beyond commodity trade towards food innovation, processing technologies and nutrition-focused research.

The decision to establish an India-Canada Defence Dialogue signals a recognition that economic and technological partnerships increasingly intersect with strategic considerations.

Taken together, the outcomes of the visit suggest a multi-dimensional strategic economic engagement.

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Bank credit may unlock REIT growth



THRUST AREA. Policy design must ensure bank lending to REITs is treated as an income-yield credit product rather than project finance



RAVI VARANASI

The Reserve Bank of India's proposal to allow banks to lend directly to Real Estate Investment Trusts (REITs) is a welcome and potentially transformative reform. It signals regulatory confidence in India's evolving real estate capital markets and recognises the growing importance of REITs as institutional financing vehicles.

However, the long-term success of this reform will depend less on the decision itself but more on how the lending framework is designed and supervised. Done well, this reform can accelerate capital formation and improve real estate governance. Done poorly, it risks recreating legacy real estate credit vulnerabilities that India has spent years trying to correct.

The opportunity is significant. So is the responsibility.

India's REIT ecosystem continues to lag global benchmarks in depth and scale. This gap persists despite significant expansion in modern logistics infrastructure, commercial office space and organised retail assets, sectors that typically anchor institutional real estate ownership worldwide.

One of the biggest structural constraints has been funding concentration.

Indian REITs have relied predominantly on capital market borrowing through equity issuance and listed debt. While this provides transparency and market discipline, it also introduces cyclicality. Fundraising windows depend heavily on market sentiment and interest rate cycles.

Allowing bank lending introduces financing diversification. It provides REITs with stable credit channels, improves acquisition flexibility and lowers cost of capital.

Most importantly, it strengthens the asset recycling mechanism that allows developers to monetise stabilised assets and redeploy capital into new infrastructure creation.

From a macro perspective, this aligns well with India's urbanisation and infrastructure growth trajectory.

Historically, India's banking sector has faced stress primarily from lending to real estate development projects rather than stabilised income-generating assets. REITs, by design, are fundamentally different from developers. They hold completed assets with rental cash flows, tenant diversification and disclosure standards. However, if lending frameworks fail to recognise these structural differences, banks may either overestimate or underestimate sector risks.

Policy design must therefore focus on ensuring that bank lending to REITs is treated as an income-yield credit product rather than project finance.

FIVE POLICY DESIGN PRINCIPLES

Cash flow-based lending frameworks must be mandatory: Traditional real estate lending in India has been asset or collateral driven. REIT lending must instead prioritise cash flow underwriting. Banks should be required to evaluate: lease tenure stability; tenant concentration exposure; occupancy track records; rental escalation visibility; and weighted average lease maturity profiles.

Globally, REIT credit evaluation is driven by rental yield resilience rather than asset valuation alone. Adopting similar frameworks will reduce credit cyclicality.

Allowing bank lending provides REITs with stable credit channels, improves acquisition flexibility and lowers cost of capital

Conservative leverage guardrails should be preserved: India's REIT regulations already prescribe leverage limits. Bank lending guidelines should align closely with these caps rather than creating parallel leverage build-up through layered debt structures. Prudential norms could consider: loan-to-value ceilings linked to stabilised asset valuations; debt service coverage ratio thresholds; and restrictions on refinancing that extends beyond underlying lease visibility

This would prevent excessive financial engineering while preserving capital discipline.

Exposure diversification norms for banks are essential: REIT assets are geographically and sectorally concentrated by nature. Bank exposure guidelines must therefore ensure diversification across: multiple REIT sponsors; different asset classes such as office, logistics and retail; and regional concentration risks

Concentration risk has historically amplified banking sector stress in real estate cycles. Preventing such clustering will be critical.

Encourage specialised real estate credit expertise within banks: One under-discussed challenge is the limited institutional experience Indian banks have in underwriting rental yield-based real estate financing at scale. The RBI could consider encouraging: dedicated real estate credit verticals within banks; sector-specific risk modelling frameworks; and data-driven performance monitoring of REIT assets

Over time, this would help create specialised credit capability comparable to global real estate lending markets.

Align lending incentives with long-term stability: REIT lending should ideally favour stabilised assets rather than aggressive acquisition-driven leverage expansion. Policy incentives could encourage lending structures tied to operational asset performance rather than speculative growth.

This would reinforce the core purpose of REITs as yield vehicles rather than leveraged asset accumulation platforms.

THE WAY FORWARD

The RBI's move deserves strong support. It reflects regulatory pragmatism and confidence in India's maturing financial architecture.

The next phase must focus on designing a robust, forward-looking prudential framework that recognises the unique risk profile of REIT financing. Policymakers, banks and market participants should treat this reform as an opportunity to build a globally competitive real estate financing ecosystem rather than merely expanding credit availability.

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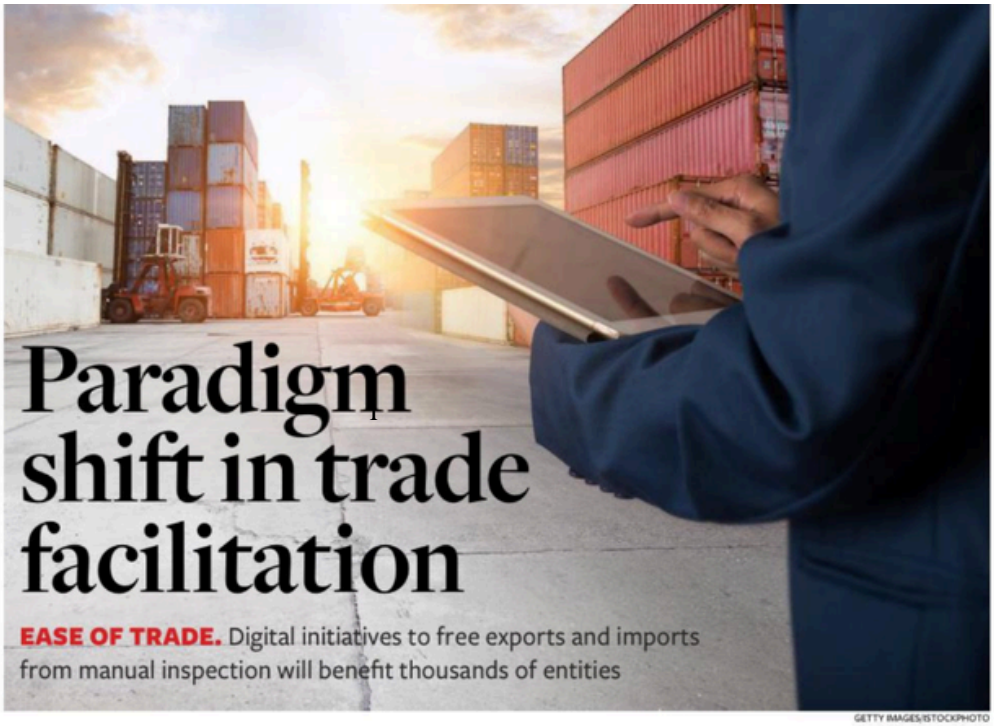
PRITAM BANERJEE

Paradigm shift in trade facilitation



EASE OF TRADE. Digital initiatives to free exports and imports from manual inspection will benefit thousands of entities

GETTY IMAGES/ISTOCKPHOTO

India has been chipping away at the impediments to the trade process. But the trade process remains complex, and a single transaction can spawn more than 20 documents, digital or otherwise, passing through an army of intermediaries. But recent policy developments can potentially deliver a systemic overhaul.

Building on the Modi government's earlier reforms on trade facilitation, the Digital Trade Facilitation Bill, 2026 can develop an integrated trade ecosystem that will allow seamless movement of trade consignment between factories or warehouses to and from the port wharf with no physical intrusion and minimum human interface.

The Digital Trade Facilitation Bill, 2026 grants legal equivalence to digital trade records.

Crucially, it extends recognition to documents of title and negotiable instruments, equating digital control with physical possession. By ensuring that electronic documents carry the same legal weight as paper documents, the Bill facilitates real-time transfers of rights and obligations.

Furthermore, by establishing full evidentiary validity in judicial proceedings, it dismantles archaic paper requirements.

But true transformation will occur when this modern legal framework enabling seamless, paperless compliance converges with the full suite of facilitation measures under the National Trade Facilitation Action Plans (NTFAP).

Customs TURANT Faceless Assessment first introduced in 2020 facilitates anonymised, remote appraisal of import declarations by specialised officer clusters irrespective of port of operations.

The TURANT framework now encompasses the full export-import spectrum, notably through the 2026 introduction of Auto Let Export Orders (Auto LEO) ensuring a truly port-agnostic and contactless experience for all Indian traders. This will potentially dismantle the old, localised bottlenecks. But the next phase is even more ambitious.

A pilot programme in Nhava Sheva has automated factory-stuffed container registration by using high-frequency readers to verify e-seals and update customs systems directly, eliminating all manual data entry.

Once adopted across all Indian ports handling containers, this will eliminate several hours from the trade logistics process and address congestion at port gates and approach roads.

BUDGET MEASURES

This Budget's 'Scan Every Container' initiative aims to eliminate manual container inspections, which currently often trigger significant delays and result in cargo damage. The objective is to deploy AI-driven scanners capable of real-time X-ray analysis to identify anomalies with a high degree of precision that surpasses human capacity.

The Customs Integrated System (CIS) will function as the foundational digital architecture underpinning this facilitation framework. The CIS is being designed as a single, scalable platform to integrate X-ray images, E-seal logs, and digital document trails into a single dashboard for risk-based clearance.

If the system knows the document is authentic (via the 2026 Bill), the E-seal is intact (via automated logs), and the AI-driven scan is clear, then cargo can move across India's borders without a human ever needing to break the container's seal.

The Budget's 'Scan Every Container' initiative aims to eliminate manual container inspections, which currently often trigger significant delays and result in cargo damage

Historically, benefits like Direct Port Delivery (DPD) and Direct Port Entry (DPE), that allow cargo to move directly between the factory and the ship was extended to large firms that typically qualified as higher order (tier 2 or tier 3) Authorized Economic Operators (AEO).

The expansion of the AEO programme benefits, specifically the creation of a broader 'Eligible Manufacturer' category in this year's Budget, is changing this. By lowering the threshold for trust, the government is effectively extending the 'port gate to the factory door' facilitation to thousands of more entities.

The expanded AEO benefits, the 2026 Customs reforms and the Digital Trade Facilitation Bill will empower manufacturer-exporters through factory self-sealing and e-seal auto-registration. As containers enter the port, automated sensors will read the e-seals, matching them against digital shipping bills for instant 'auto-gating' to the vessel stack.

For imports, TURANT will fast-track assessments, while AI-driven scans and Direct Port Delivery (DPD) protocols will accelerate handover. Furthermore, deferred duty payment facility for Tier 2/Tier 3 AEOs allow shipments to clear without payment delays, drastically reducing storage costs and demurrage.

Crucially, the 2026 Bill is designed with Technology Neutrality and Cross-border Recognition at its core.

By allowing for the recognition of foreign digital frameworks it enables India systems to "talk" to global ones. In addition, through mutual recognition, India's AEO programme is ensuring that India's trusted firms get green-channel treatment in major export markets.

EXPANDING THE SCOPE

While creating the 'Eligible Manufacturer' category is a positive first step, the government should expand the AEO programme to include a wider base of firms. The government must look at extending automatic AEO Tier 1 status to all GST-registered manufacturers who have paid a combined ₹5 crore in indirect taxes (Customs/GST) on average over the previous three years, provided they have no pending prosecutions or arrests under relevant fiscal acts.

This would bring over 90 per cent of trade-active manufacturing units into the AEO ambit. The CBIC should also pilot deferred duty schemes for Tier 1 AEOs, with a view towards eventual universal implementation across the AEO programme.

True reform moves beyond 'scanning every container' toward intelligence-led, risk-based interventions. To achieve this, Customs requires a robust Risk Management System (RMS) capable of multi-criteria assessment.

The writer is Head, Centre for WTO Studies, IIFT. Views are personal

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India braces for fuel crunch as war roils oil markets

Russian crude offers a short lifeline, but LPG and LNG shortages threaten restaurants and households across India

THE WIDER ANGLE.



PARAN BALAKRISHNAN

What's the one crucial figure to watch as missiles and drones fly across the Gulf? The answer may lie far from the battlefield: the rising price of petrol at US pumps.

When the war began, petrol was selling for $3 a gallon. It has since climbed to $3.40. That jump may not sound dramatic, but alarm bells are clanging in the Oval Office and at Mar-a-Lago, because rising fuel prices signal that public patience with an already unpopular war could evaporate quickly.

Is Donald Trump ready to call out the buglers and sound the retreat? Quite possibly. The petrol price jump and mounting economic toll may have spooked him. International markets increasingly are betting he may soon call it a day. Yet the larger question is what Israeli Prime Minister Benjamin Netanyahu will do next.

"We're breaking their bones, and we're not done yet," Netanyahu says. His mission is to wipe out Iran or shatter it into a patchwork of squabbling factions too busy with their own shootouts and bombings to threaten Israel, which would then be master of all it surveys.

For the moment, the global mood can best be gauged by the Brent crude index, the benchmark for global oil prices. Trading has been dizzying, with prices swinging wildly and touching $120 a barrel on Monday after starting 2026 at $60.

Amid reports that G7 nations were considering opening their strategic petroleum reserves, prices began sliding.

MARKETS CALMING DOWN

Markets calmed further after Trump declared the war is "very much complete", while warning of "worse strikes" if oil is not allowed to transit the crucial Strait of Hormuz. Iran, meanwhile, vows it will not allow "one litre of oil" to pass through Hormuz and is rejecting talk of a ceasefire. By Tuesday, crude had slipped back to about $88 a barrel.

Giving the market an extra boost was confirmation that Trump and Russian President Vladimir Putin discussed easing overall sanctions on Russian oil to help relieve global shortages during a Monday call.

India, which imports 85 per cent of its oil and gas needs, will be in a tricky position if the war drags on. Strategic reserves hold enough crude for roughly 26 days.

Trump has handed New Delhi a small lifeline by greenlighting purchases of Russian crude until the first week of April without reimposing punitive tariffs. Indian refiners have since bought 30 million barrels, and trade intelligence firm Kpler estimates 130 million barrels of Russian crude are moving across the world's seas.



GAS SUPPLIES. Feeling the pinch REUTERS

India, though, will not be the only buyer. China and other major importers are likely to compete fiercely for those cargoes, and unlike the heavily discounted Russian barrels that have flowed into India since the Ukraine war began, these shipments will not come cheap.

GAS TROUBLE

Yet, the greater crisis is swirling around LPG and LNG, the fuels that power everything from household cooking cylinders to factories.

Several Indian companies, including Petronet, Gujarat Gas and GAIL, have invoked *force majeure* clauses to cope with supply disruptions. More importantly, QatarEnergy, which produces about 20 per cent of the world's LNG, has also declared *force majeure* after an Iranian drone attack, warning it could take weeks to fully restart LNG production.

The consequences are already appearing on the ground. LPG shortages have forced some restaurants to shut temporarily or cut back on diners because they cannot secure enough cooking gas.

Even if the fighting ends within days, supply disruptions may linger.

Saudi Arabia's oil giant Aramco also suffered a blow when a drone strike forced it to shut operations at its Ras Tanura refinery. It expects to restore 70 per cent of supplies within days but warns of "catastrophic" global economic consequences if hostilities do not cease soon.

Perhaps Netanyahu, his Mossad agents and Trump might have benefited from a closer reading of Persian history. The Persians have been a formidable civilisation for millennia, as ancient as the Romans and Greeks.

Cyrus the Great founded the Achaemenid Empire around 550BC, building a vast realm stretching from India to Egypt.

In 480BC a smaller Greek fleet outwitted the Persian armada at the Battle of Salamis. Had the Greeks not triumphed, the course of European history might have been very different.

Now, more than 2,000 years later, another dramatic chapter in the Middle East's long and tangled history is being written.

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Germany can weather Iran war if it doesn't last long

Kamil Kowalcze

Germany's economy is expected to suffer only a minor setback from the war in Iran if the conflict doesn't escalate further, according to the German Institute for Economic Research in Berlin.

Higher oil and gas costs will reduce growth in Europe's biggest economy by about 0.1 to 0.2 percentage point this year, leaving expansion at around 1 per cent, said the institute, which is known by its acronym DIW. That outlook assumes that the biggest surge in energy prices linked to military intervention has already passed.

The inflation rate is expected to rise by roughly 0.4 percentage point because of higher energy costs, putting price growth at about 2.4 per cent in 2026 even without a further escalation of the conflict. DIW expects energy costs to ease "significantly" from April to June. Oil prices jumped above €100 ($115.95) a barrel after military strikes by the US and Israel on Iran. A corresponding sharp increase in gasoline and diesel costs in Germany prompted Friedrich Merz's government to set up a task force to monitor the situation.

While US President Donald Trump has said the war could end soon — contributing to a recent pullback in crude prices — the lack of visibility on how long it will last is weighing on the global economy. "It is important that politicians do their part to reduce uncertainty, which underscores how important it is to implement key reforms without hesitation," DIW president Marcel Fratzscher said in Berlin on Wednesday. Subsidising gasoline prices, as demanded by some lobby groups in Germany, would be a "serious mistake" because it would be expensive and result in a "misguided redistribution of wealth from people with low incomes to those with high incomes," Fratzscher said.

Germany's growth should remain supported by expansionary fiscal policy, said DIW, which is one of five key national institutes that monitor the economy. BLOOMBERG

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RAJASEKHAR VK

Implications of SC spectrum ruling



HIERARCHY ARTICULATED. The Supreme Court's spectrum ruling does not weaken the IBC. It clarifies that insolvency operates within, not above, constitutional ordering

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The Supreme Court's ruling that telecom spectrum cannot form part of the insolvency estate has been widely reported as a telecom decision. It is considerably more than that. It is a boundary marker in India's insolvency jurisprudence, with implications well beyond mobile networks.

At its core, the Court's reasoning is constitutionally straightforward. Spectrum is a scarce natural resource, owned by the people of India and held in trust by the State. This understanding reflects the constitutional conception of material resources of the community under Article 39(b), which places their control in the service of the common good. The right granted to a telecom operator is not proprietary ownership, but a limited and revocable privilege. Consequently, proceedings under the Insolvency and Bankruptcy Code cannot restructure the ownership or control of spectrum.

That formulation is constitutionally elegant. It is also structurally significant, with complex consequences.

For nearly a decade, the IBC has been understood as a dominant economic statute. Its *non obstante* clause, emphasis on creditor primacy and commercial wisdom, and "clean slate" philosophy created the expectation that once insolvency commenced, resolution would be governed by the Code across sectors. Spectrum now stands outside that assumption, marking the first emphatic articulation of a constitutional boundary to that ambition.

The deeper question is this: if insolvency cannot operate upon spectrum because it is a material resource of the community, what of other state-controlled resources?

Telecom is not unique in this architecture. Modern regulated industries are built on entitlements layered upon sovereign ownership.

Coal is allocated under statutory auction frameworks. Oil and natural gas exploration rights arise from sovereign grants and production sharing contracts. Electricity generation depends on licences and tariff regulation. Mining leases, airport slots, port concessions, sports broadcasting signals and inland waterways each exist within a comprehensive statutory regime in which the state retains underlying ownership and regulatory control.

The Court's reasoning places constitutional resource governance above insolvency prerogatives. That hierarchy may be theoretically sound. But it reshapes the financial expectations that have grown around regulated industries.

THE PARTICIPATION PARADOX

One under-explored aspect of the spectrum dispute is the state's dual posture: participant within insolvency, yet constitutional arbiter outside it. The Department of Telecommunications filed claims and engaged within the IBC framework.

Yet the judgment makes clear that the transfer or restructuring of spectrum cannot be determined by the commercial collective alone.

This creates a dissonance, because insolvency is designed as a creditor-driven process. Committees of Creditors evaluate viability, approve plans and exercise commercial wisdom. But in sectors anchored in sovereign allocation of resources, commercial consensus is no longer decisive; regulatory and constitutional considerations sit above it.

The result? A structural asymmetry. The government may appear in insolvency as a claimant for dues, yet stand outside it as constitutional trustee of the resource. That dual capacity is inherent in regulated industries. The ruling makes clear that the sovereign capacity prevails.

For lenders and resolution applicants, participation in the insolvency process does not exhaust regulatory authority. Resolution cannot be assumed to bind the state as trustee of a natural resource.

THE PHANTOM ASSET DILEMMA

The practical consequences for resolution professionals are significant.

Under the IBC, the resolution professional must preserve the corporate debtor as a going concern and invite plans based on the value of its business. In telecom, the business is inseparable from spectrum usage rights. Those rights appear on the balance sheet as intangible assets and underpin enterprise value.

The judgment does not deny the commercial value of those rights. But it clarifies that accounting recognition does not convert a privilege into an insolvency asset. Spectrum remains outside the estate. This produces an operational dilemma.

Insolvency law does not seek to transfer the underlying resource. It restructures the corporate entity that holds the licence. In theory, a change in control of a licensee, subject to regulatory approval, need not threaten sovereign ownership. The going concern objective therefore becomes regulator-dependent in a deeper way than in ordinary manufacturing or services sectors, with the regulator and the sovereign statutory framework setting the outer perimeter. Insolvency does not compel, restructure or redraw the underlying entitlement.

The apex court ruling reminds markets that in sectors anchored in sovereign allocation of scarce resources, constitutional control stands above commercial restructuring

The Code assumes that the business can travel through resolution. The judgment reminds markets that where the business rests on a sovereign grant, that travel is conditional.

NOT AN ABSOLUTE PROHIBITION

It is important not to overstate the reach of the ruling. The Court did not declare a change in control of a telecom company impossible. It held that insolvency cannot guide restructuring of ownership or control of spectrum. In other words, the IBC cannot compel or override the telecom regulatory regime, or any statutory regime governing comprehensive public resources.

This leaves open a narrower path. A resolution plan may still propose a change in control. The Department of Telecommunications may consider that proposal under its existing statutory framework, as it would in a merger or acquisition outside insolvency. Resolution applicants must not only negotiate with creditors; they must operate within a constitutional boundary that places sovereign control first.

The distinction is important, as the decisional centre of gravity now shifts from the commercial collective to the sectoral regulator. Insolvency becomes one process among others, not the master framework.

For markets, this means resolution in resource-linked sectors will increasingly resemble coordinated negotiation between creditors and regulators rather than a purely creditor-driven restructuring.

REPRICING REGULATED RISK

The financial implications are immediate. If spectrum usage rights cannot be treated as insolvency assets capable of transfer or monetisation, lenders must reassess how they evaluate similar entitlements. The same inquiry arises wherever enterprise value depends substantially on State-conferred licences or concessions.

Are banks financing proprietary assets, or access subject to pervasive regulatory control and constitutional doctrine?

The answer affects leverage, covenant structures, risk pricing and recovery modelling. In resource-intensive sectors, insolvency is no longer merely a balance-sheet exercise. It is embedded in public law. Lenders must treat it as a conditional privilege, not collateral in the conventional sense.

LEGISLATIVE CLARITY

The judgment exposes a broader structural issue. The IBC was drafted with distressed industrial and service enterprises in mind. It assumes that "assets" can be owned, transferred and realised. It does not draw a sharp distinction between proprietary assets and regulatory entitlements.

Companies in mining, energy, infrastructure and broadcasting will continue to enter insolvency when they default. The question is how far the insolvency framework can go in reorganising the entitlements on which those companies depend.

The judiciary has clarified the constitutional position: insolvency cannot rewrite sovereign control over public resources. The question is: how should insolvency and sectoral regulators interact in practice? Should there be defined timelines for regulatory decisions during CIRP? Should statutory frameworks expressly address transfer of licensed businesses in insolvency? These are questions for Parliament and policymakers.

The spectrum ruling does not weaken the IBC. It clarifies that insolvency operates within, not above, constitutional ordering. In its early years, the Code shifted power from promoters to creditors. In this judgment, the Court recalibrates the equation once more, reminding markets that in sectors anchored in sovereign allocation of scarce resources, constitutional control stands above commercial restructuring.

Telecom is the first arena in which this hierarchy has been tested and articulated so clearly.

The writer is a lawyer and former Judicial Member of the National Company Law Tribunal

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Economy may survive war supply shocks

WAGES OF WAR. The rupee and stock markets will remain volatile, but impact on growth and inflation may remain muted



MADAN SABNAVIS

The current oil crisis is the fourth in the last four years. The first episode took place when Russia invaded Ukraine which saw crude price moving from around $84/barrel in February 2022 to $117 in March and remaining in a higher range till September, when it moderated to $90/barrel before reverting to around $80/barrel in December.

Therefore, the higher prices lasted for almost nine months. In this episode, Russia was a major supplier of oil (third largest with share of 10-12 per cent). With a ban being imposed on imports by the western community, supplies were disrupted.

The second was the Israel-Palestine conflict in October 2023 but its price impact lasted for just about a month. This is because no oil producing country was involved in this conflict.

The third was a short lived war where the US and Israel attacked Iran in June 2025. Here too, the price impact was limited as Iran is not really a major supplier of oil to the world, with its share in global output at around 4 per cent and sanctions still in place.

The present war is different. To begin with, almost all the oil producing countries in West Asia are embroiled in this conflict, impacting production of oil and gas. Further, while Iran has not officially closed the Strait of Hormuz, ships will not sail through this passage, given the risks involved.

So, there has been greater disruption to the oil industry with shipping costs also going up for all goods passing this region. Significantly, an early end to the war looks unlikely. Ukraine has managed to hold on for four years now.

IMPACT ON INDIA

India imports around five million barrels a day which works out to around $180 billion (1.8 billion barrels annually) a year. Hence, if the price remains high for the entire year, for every $10 dollar increase in the price of oil, the import bill be up by $18 billion.

This can lead to an increase in current account deficit by 0.5 per cent of GDP, which should not be a serious issue for India as the balance is fairly comfortable today in the region of 1-1.5 per cent. Exports, however, would be impacted as petro-products are around $65-70 billion per annum, of which 15 per cent is headed to these vulnerable regions.

The immediate impact has been felt on the currency with the rupee crossing the psychological level of ₹92/$. It is likely to see increased volatility. This market will witness increased volatility. First, the US dollar will also be volatile with a possible tendency to strengthen. The Fed will hold the reins here.

Second, any news on oil and gas supply disruption will spook the rupee. Third, FPI flows will remain uncertain. While the India growth story will bring in the funds, the rupee volatility will lower potential returns. This can be a deterrent.

Fourth, the behaviour of exporters and importers will also hold a clue. In times of uncertainty, exporters hold back earnings, while importers may rush in to buy dollars, exacerbating the demand-supply situation. Lastly, RBI action in the coming days will be important as intervention in the market can quell speculative forces and bring in stability.

LIMITED GROWTH IMPACT

Concerns over growth may be less serious. While supply disruptions will cause problems to user industries such as fertilizers, chemical products among others, a decline in exports can also dent growth in GDP at the margin. The overall impact may not be more than 0.1-0.2 percentage points but would need monitoring for secondary effects of the war. The supply disruptions of gas and their impact on user industries will be more of an issue.

Inflation is likely to be under control unless the government decides to pass on the higher price of crude to the consumer, which has rarely happened.

When crude prices stayed low, the benefit did not go the consumer but to the OMCs. Higher crude prices may not hence lead to an increase in retail prices in the near future as this can be absorbed by the OMCs.

In fact, given the fragile global oil situation over the last four years, it may make sense to transfer all future surpluses to an emergency fund that can be used in times of crisis.

Further, OMCs do buy oil based on contracts struck with suppliers where the price formula is worked out in advance. Therefore, the increase seen today in the market may not be the price which is finally paid and would be lower. Also, hedging practices are pursued to cover for price risk to an extent.

The government would be monitoring the situation carefully. There are a few issues that merit attention. The first is whether anything can be done on excise duty or VAT (by States) if prices rise further.

Given the fragile global oil situation, it may make sense to transfer all future surpluses to an emergency fund that can be used in times of crisis

Second, the subsidy element is low today on LPG which is not an issue. In fact, the price was increased recently to partly offset the higher cost. But supplies are a concern on which a policy has already been indicated to ensure that essential services are not affected. Third, fertilizer prices need to be watched carefully as they affect the subsidy level as well its availability.

The stock market would continue to display yo-yo movements reflecting sentiment on a real time basis and hence will be hard to predict in the short run. This will be the case with global indices, too.

Last, the bond market has not been affected much. While forex intervention will draw out liquidity, the RBI has already announced OMOs which will be reassuring for the market.

Therefore, the length of the war will hold the clue to the final outcome. The government and RBI are seized of the matter and would take the appropriate steps to mitigate the risks. But markets for sure, will remain volatile.

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

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Why the ECA has been invoked for LPG supply

The war in Middle East has disrupted gas supplies. The government move is expected to ensure cooking gas for households

bl.explainer

Ramasamy Jayaprakash

The Union government invoked the Essential Commodities Act (ECA), 1955, to deal with supply disruption of natural gas due to the war in West Asia. The government has invoked its emergency powers enshrined under the Act to secure cooking gas to crores of households.

What is the Essential Commodities Act? When is it invoked and how does it help?

The Essential Commodities Act (ECA) of 1955 grants the Union government the power to "regulate or prohibit the production, supply, distribution, trade, and commerce of commodities" that are declared as 'essential' under the Act. This includes commodities such as food, fertilizers, drugs, and petroleum products. It can be modified by the Centre to add items to the list if need arises.

It is typically invoked during crisis to prevent hoarding, black marketing, price gouging and artificial shortages. With the ECA, the government can dictate production, storage, priority allocation and distribution, and fix price caps. The Act serves as a tool for the government to ensure that ordinary citizens are not cut off from basic necessities in times of crisis.



COOKING GAS. Securing supply ANI

Why did the government invoke ECA to secure LPG supplies?

India imports more than 60 per cent of its total LPG requirements, with almost 90 per cent of these imports coming from the Persian Gulf through the Strait of Hormuz. The ongoing US-Israel-Iran war has effectively halted vessel movements through this critical maritime chokepoint.

With only 25-30 days of LPG inventory available domestically, there is a threat of acute shortage of LPG cylinders in India. As there is little clarity on when this war will end, the government has invoked the ECA to help consumers deal with the crisis.

What are the orders given by the government to secure LPG supplies?

The orders from the Ministry of Petroleum and Natural Gas under the ECA and the new Natural Gas (Supply Regulation) Order, 2026 gives the following directives:

- All public and private refineries must divert propane, butane and other C3/C4 streams exclusively for LPG production.
- The entire additional LPG must be supplied only to the three public-sector oil marketing companies — IndianOil, BPCL and HPCL — for sale to domestic (household) consumers.
- No diversion for making petrochemicals allowed.
- A 25-day inter-booking period has been introduced for domestic consumers ordering cylinder refills to prevent hoarding.

What is the impact of the war in India? What is the shortfall likely to be?

With the choking at the Strait of Hormuz, India has been forced to scout for spot cargoes from distant sources such as the US, Norway and Algeria which might add to the cost. While there is no official announcements on the scale of potential shortfall, there are reports of commercial supplies being under severe pressure in cities such as Mumbai, Bengaluru, Chennai and Pune.

While roughly 25-30 days' stock provides a thin buffer, a longer conflict in West Asia could create considerable shortfall if supply from alternate sources are not scaled up fast enough.

Which sectors are likely to be hit the most by the LPG supply disruption?

The hardest hit are the hotels, restaurants, eateries, bakeries and food courts — many of which have already reported supply halts or cut down of the menu. There is also a fear of temporary shutdowns of hotels and restaurants. Other services such as gas crematoriums, laundry & ironing using gas are also reporting shortages.

How will the pooled gas pricing under the order work?

The uncertainties and the shortages could lead to price surge of LPG, affecting domestic consumers the most. To cushion the financial shock, the government has introduced a 'pooled pricing' mechanism.

GAIL (India) Ltd has been tasked with coordinating the reallocation of gas from lower-priority users to the top-priority sectors (domestic PNG, CNG, LPG plants and pipeline operations).

The Petroleum Planning & Analysis Cell (PPAC) will periodically calculate and notify a single 'pooled price' that averages the cost of diverted gas. The entities receiving the gas must give a legal undertaking to accept the pooled price, overriding prior contracts and pricing, to share the burden fairly.

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Germany can weather Iran war if it doesn't last long

Kamil Kowalcze

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Indian fertilizers' Hormuz choke

WAR PAIN. Given India's import dependence, a prolonged war can raise fertilizer prices straining the fisc and spurring inflation



RAM SINGH

The Iran-Israel war and resultant blockage of Strait of Hormuz, a critical chokepoint handling major energy and fertilizer feedstock flows, can destabilise global fuel, fertilizers and food markets.

For India, whose agricultural productivity depends heavily on imported fertilizers and energy-linked inputs, the conflict introduces serious vulnerabilities. Even if Iran facilitates uninterrupted access to India on this route, ongoing war operations have already led to rerouting of vessels, reduced ship availability, rising freight rates, refusal of insurance coverage or unaffordable high war-risk premiums and shutdown of gas terminals.

These conditions complicate the movement of bulk commodities from Middle Eastern export hubs. India imported fertilizers worth nearly $7.2 billion, accounting for 2.9 per cent of global fertilizer imports and ranking seventh worldwide, underscoring the country's structural integration with global fertilizer markets.

If the crisis prolongs, it could trigger fertilizer supply uncertainty, rising prices, larger subsidy burdens, and inflationary pressures across agriculture; therefore, it is important to decode these risks and explore the way forward.

SUPPLY-CHAIN DYNAMICS

India's fertilizer ecosystem is closely tied to global markets because domestic production is uneven across nutrient categories. While India has developed strong capacity in nitrogenous fertilizers, the country remains highly dependent on imports for phosphatic and potassic nutrients. India has highest vulnerability in Diammonium Phosphate (DAP) (see table).

India is the largest importer globally, accounting for 28.7 per cent of global DAP imports. Major suppliers include Saudi Arabia (24 per cent), Morocco (22 per cent), both in critical conflict zones affecting maritime access via Hormuz and Red Sea.

Any logistical disruption in these supply routes directly and adversely complicates fertilizer accessibility, availability and affordability as shipping delays and elevated freight costs can rapidly raise landed prices for Indian importers.

Similarly, India imported about $2.2 billion worth of urea, representing 7.2 per cent of global imports and 20-25 per cent of domestic requirements. Major suppliers such as Oman (15 per cent), and Saudi Arabia (9.5 per cent) are from conflict zone raising dependence on Russia (18 per cent) and associated price pressures.

Moreover, urea production depends heavily on natural gas because ammonia synthesis is energy intensive. If geopolitical tensions disrupt gas supply chains or maritime logistics in the Gulf region, the global cost of ammonia and urea production could increase sharply. Indeed, urea prices have already risen by around $80 per tonne, tightening availability and increasing import costs.

The risk extends beyond imports to domestic production as India operates more than 30 urea manufacturing plants, most of which rely on natural gas or naphtha feedstock. A considerable share of India's liquefied natural gas imports originates in the Gulf region and prolonged disruptions in LNG shipments can significantly raise production costs for Indian fertilizer manufacturers or reduce operational capacity. Thus, even domestically produced fertilizers remain indirectly exposed to geopolitical shocks through energy markets.

Diversifying import sources away from the Gulf nations, securing overseas mineral resources through investments and joint ventures and raising domestic capacity is the way forward

Potassic fertilizers represent a major vulnerability in India's fertilizer supply chain. Potassium chloride (MOP) shows near-total import dependence of about 95-100 per cent, with major suppliers including Russia and Canada. Similarly, NPK complex fertilizers, where imports meet nearly 35-45 per cent of domestic demand, depend heavily on imported raw materials such as phosphoric acid and potash. These patterns reveal the structural fragility of India's fertilizer system, which remains closely tied to global trade and energy-linked supply chains.

Logistics disruptions further aggravate the problem. Rising war-risk insurance premiums, vessel shortages, and rerouting of ships in Gulf waters increase freight costs and delay shipments. For bulk commodities like fertilizers, even modest increases in shipping costs can significantly raise the landed price of imports, thereby expanding India's fertilizer import bill during prolonged geopolitical turbulence.

Although India currently maintains fertilizer stocks exceeding two months of national consumption, providing a short-term buffer against immediate shortages, the principal risk lies in price escalation rather than physical scarcity. Higher international prices can increase the government's subsidy burden and strain fiscal balances while raising agricultural input costs and triggering broader cost-push inflation in food prices.

India's fertilizers trade dynamics

HSN code: Fertilizers	$ (million)	Share in world imports	Rank in world Imports	Key suppliers and their export share in the world	Import dependence
Total fertilizers	**7,229.2**	**2.9**	**7**	–	**20-25%**
310530: DAP	2,800.28	28.7	1	Saudi Arabia (24%) Morocco (22%) China (27%)	40-55%
310210: Urea	2,197.59	10.8	2	Oman (15%) Russia (18%) Saudi Arabia (9.5%)	20-25%
310420: Potassium chloride	1,134.97	6.1	4	Russia (30%) Canada (37.5%)	95-100%
310520: NPK	668.13	7.7	2	Russia (32.5%)	35-45%
310230: Ammonium nitrate	167.13	5	3	Russia (36%) Georgia (4%) Bulgaria (5.6%)	15-20%
310540: Ammonium phosphate	132.12	1.7	8	China (14.3%) Russia (22.4%)	20-30%
310221: Ammonium sulphate	81.5	2	13	China (70%)	10-20%
310430: Potassium sulphate	47.48	3.8	8	Taiwan (15%)	80-90%

Source: UN Comtrade, FAI

WAY FORWARD

To address these vulnerabilities, India must adopt a multi-layered strategy to strengthen fertilizer supply chain resilience. First, diversification of import sources is essential by diversifying procurement beyond the Gulf region, particularly from Russia, Canada, and South America. This can reduce excessive dependence on a single geopolitical corridor.

Second, India should intensify efforts to secure overseas mineral resources, especially phosphate rock and potash reserves. Correspondingly, strategic investments and joint ventures with resource-rich countries can ensure long-term supply stability while reducing exposure to volatile global markets.

Third, strengthening domestic production capacity remains crucial and continued investment in gas-based urea plants, modernization of fertilizer manufacturing infrastructure, and improved energy efficiency can enhance supply stability. Simultaneously, promoting nano-fertilizers and balanced nutrient use can reduce dependence on imported DAP and potash.

Moreover, encouraging pulses cultivation such as moong and urad after the rabi harvest can serve dual purposes, reducing pulses imports while enriching soils through natural nitrogen fixation and green manure, thereby lowering chemical fertilizer use.

Fourth, maintaining strategic fertilizer reserves will cushion the domestic market from global disruptions. Higher inventories during geopolitical uncertainty can stabilize prices and ensure timely supply during key agricultural seasons.

Finally, improving maritime logistics resilience is vital. Diversified shipping routes, stronger coordination between fertilizer importers and shipping companies, and mobilizing efforts of its P&I club for unrestricted insurance services can help sustain fertilizer flows during disruptions.

While current stocks provide short-term relief, the Hormuz crisis highlights deeper structural vulnerabilities. Strengthening diversification, domestic capacity, resource partnerships, and logistics resilience will be essential for safeguarding India's agricultural productivity and long-term food security.

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Why is there an LPG crisis and how to tackle it

Reports of LPG shortages have triggered panic buying and suspected hoarding, further straining the available stock

bl.explainer

Richa Mishra

Why is India facing a shortage in LPG?

High import dependency is a key reason for this. India imports roughly 60-62 per cent of its total LPG requirements. The surge in demand — partly due to the success of the Pradhan Mantri Ujjwala Yojana — is not being met by domestic production.

The ongoing US-Israel-Iran war has disrupted supplies passing through the Strait of Hormuz.

Unlike crude oil, India lacks large-scale strategic LPG reserves. Current storage capacity is estimated to last only about 22 days, which is insufficient for prolonged geopolitical disruptions.

What steps is the Centre taking to increase supply in the domestic market?

The government has implemented several emergency measures to deal with the crisis and is exploring long-term structural changes too.

A three-member committee of Executive Directors from three public sector oil refiners — IndianOil, Hindustan Petroleum and Bharat Petroleum — has been constituted to review allocations to restaurants, hotels and other commercial users and to ensure fair and transparent distribution of available LPG supplies.

What are the short-term emergency measures?

Short-Term emergency measures include invoking the Essential Commodities Act (ECA) to mandate all oil refineries — including private and SEZ-based units — to maximise LPG production. Refineries have been directed to stop using propane and butane for petrochemical manufacturing and instead divert these streams for the production of domestic LPG, increasing domestic production by around 28 per cent.

Under the Natural Gas (Supply Regulation) Order, 2026, the government has established a four-tier priority system where household Piped Natural Gas (PNG) and LPG production receive 100 per cent assured supply, while sectors like fertilizers and power face cuts.

The mandatory gap between domestic cylinder bookings has been increased from 21 to 25 days to prevent artificial scarcity and panic booking. The government is expanding the Delivery Authentication Code (DAC) system to 90 per cent of consumers to ensure cylinders aren't illegally diverted to the commercial market by distributors.

What are the long-term measures?

For the long term, it needs to work on diversification strategies like alternative sourcing.



LPG. Emergency measures REUTERS

To reduce reliance on the Strait of Hormuz, India has signed a long-term deal to import 2.2 million tonnes of LPG from the US Gulf Coast in 2026, which covers about 10 per cent of total imports.

It should be noted that India was importing approximately 60 per cent of its LPG requirements from Gulf countries such as Qatar, the UAE, Saudi Arabia, and Kuwait, while 40 per cent is produced domestically. Procurement has now been actively diversified, with cargoes being secured from the US, Norway, Canada, Algeria, and Russia, in addition to available Gulf sources.

Experts have recommended building dedicated underground LPG storage caverns similar to the Strategic Petroleum Reserves (SPR) for crude oil, which could provide a 45-60 day supply buffer during wars.

The Centre is encouraging a shift to e-cooking (induction stoves) and biogas to permanently lower the per-capita demand for LPG.

Do Indian companies have the capacities to produce more LPG?

Indian companies do have the capacity to increase LPG production, but it is technically and economically limited. While they have recently ramped up output by 28 per cent under emergency government orders, this only covers a small fraction of the total demand.

Indian refineries are currently operating at 100 per cent capacity or more. To squeeze out more LPG, they are diverting feedstock, using natural gas to extract additional LPG.

These measures have increased domestic production from roughly 37,000 tonnes per day to over 46,000 tonnes per day.

Refineries work by refinery design or yield limits and global market economics. Most Indian refineries are optimised to produce high-value fuels such as petrol and diesel. LPG is often a by-product of the refining process, and typical yields are only about 4-5 per cent of the total crude processed. It is difficult to significantly increase LPG without also producing more petrol and diesel, for which there may not be equivalent demand.

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Be cautious of joining CPTPP

ASIA-PACIFIC TRADE BLOC. Deep tariff cuts and restrictive trade policy provisions won't work in India's interests



SURENDAR SINGH

President Trump-led global trade disruption and the diminishing relevance of the WTO-led multilateral trading system have propelled countries across the world to enter into bilateral and regional trade deals to secure markets, diversify supply chains, and foster strategic partnerships. India, in this context, has recently concluded trade deals with the European Union and the US — two of the world's largest consumer markets, representing 43 per cent of global GDP. Now, there is an intense debate within the policy sphere that India should consider accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) — a 21st century trade agreement comprising economies such as Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, and the UK.

The gung-ho narrative on joining the CPTPP is based on two arguments. First, the CPTPP is the most comprehensive, high-standard, ambitious, and forward-looking trade agreement. It is one of the world's largest trading blocs, representing approximately 14 per cent of global GDP and 15 per cent of global trade, with a combined population of 600 million people. India's joining of the CPTPP provides the most optimal path for risk diversification and ensuring greater market access. Greater regulatory harmonisation of rules through the CPTPP will create a large market for Indian firms to plug into CPTPP-led global value chain networks.

SHAPING TRADE RULES?

Second, several countries, such as Indonesia, Uruguay, Costa Rica, South Korea, Taiwan, Ecuador and China, have submitted their applications for CPTPP membership. They also contend that the CPTPP holds promise and could emerge as an alternative framework for global trade governance in view of the weakening of the WTO-led multilateral trade order. Middle powers such as the EU, India, Brazil, South Korea and Canada should collaborate to make the CPTPP a protector of the rule-based global trading system. India should consider joining the CPTPP to shape future global trade rules. Moreover, it is not overshadowed by the disruptive and coercive economic policies of the US. Both arguments are plausible and compelling but require close scrutiny from both economic and legal perspectives.

The Table provides a broad overview of India's bilateral trade flows with



India's trade with CPTPP members ($ billion), 2024

	Exports	Imports	Trade balance	Trade agreements
Singapore	15.86	20.25	-4.39	India-Singapore CECA
Japan	5.83	18.82	-13	India Japan CEPA
Australia	7.81	14.61	-6.8	India Australia ECTA
Malaysia	8.16	12.49	-4.34	India Malaysia CECA
Vietnam	5.57	10.15	-4.58	India-ASEAN
United Kingdom	14.29	8.4	5.89	India-UK CETA
Peru	0.95	4.75	-3.8	Under negotiations
Canada	4.14	4.46	-0.32	Under negotiations
Mexico	5.72	2.92	2.8	Under negotiations
Chile	1.14	2.46	-1.33	India Chile PTA
New Zealand	0.63	0.54	0.09	Under negotiations
Brunei Darussalam	0.06	0.27	-0.21	India ASEAN

Source: ITC Trademap, 2026

CPTPP members in 2024. India's exports to the CPTPP countries were $70.16 billion, while its imports were $100.12 billion, resulting in a total trade deficit of $29.99 billion. A country level export-import analysis provides a far more nuanced perspective. Of the 12 CPTPP countries, India's trade deficit with nine of them has consistently increased. Interestingly, India has already signed trade agreements with eight CPTPP member countries (Singapore, Japan, Australia, Malaysia, Vietnam, the UK, Chile and Brunei). Together, these eight countries represent approximately 70 per cent GDP of the CPTPP members.

Given the deep tariff reduction commitments in the CPTPP for both industrial and agricultural products,

CPTPP provisions on government procurement state that each party must accord "immediately" and "unconditionally" no less than favourable treatment to the goods, services, and suppliers of any other party

there is a high risk of a sudden increase in imports, thereby further contributing to its trade deficit with CPTPP members. This will have adverse impact on our farmers, labourers and MSMEs. Moreover, it would also require upgrading our existing trade agreements to be on a par with CPTPP's disciplines to reduce the potential spaghetti bowl effects. Therefore, it is important to weigh the potential costs and benefits of the agreement at the sectoral and economic levels.

Furthermore, a standard argument in support of the CPTPP is that import liberalisation will allow Indian firms to participate in CPTPP-led value chain networks by enabling them to access competitive imports. The integration of Indian firms into GVCs is a working hypothesis, and its empirical evidence is highly contested. It is understandable that import liberalisation allows domestic firms to access competitive inputs which, in turn, improves their productivity and competitiveness. However, it is equally important to understand that the relationship between import liberalisation and the integration of Indian firms in GVCs is not linear. Liberalisation of imports undoubtedly provides firms with the flexibility to access cheap inputs, but it camouflages an important fact: it limits the potential scope of domestic value addition, thereby undermining the development of inter-sectoral linkages within the industrial sector. This is critical for the development of a robust domestic manufacturing sector.

WILL AFFECT POLICY FLEXIBILITY

The crucial question in the context of the ongoing discourse about India joining the CPTPP is how this move could severely undermine its trade policy flexibilities which are critical for pursuing policies vital for industrial development. This certainly requires an understanding of the legal text of the agreement and its potential implications. Some provisions of the agreement are worth examining.

First, the CPTPP chapter on market access commitments prohibits members from imposing export duties and taxes on their products. India's trade policy provides considerable flexibility in regulating exports through the imposition of duties and restrictions. In fact, it has most often used export restrictions in the case of agricultural, food and industrial products to address its food security concerns, domestic shortages, and high inflationary pressure.

Second, CPTPP provisions on government procurement state that each party must accord "immediately" and "unconditionally" no less than favourable treatment to the goods, services, and suppliers of any other party. This provision has direct implications for India as it would compel us to make changes in our domestic procurement policies to be in sync with CPTPP provisions. This will undermine our grand initiatives, such as Make in India and Atmanirbhar Bharat which often prioritise domestic suppliers to scale up local manufacturing. Furthermore, the CPTPP disciplines on digital trade, competition policy, state-owned enterprises, and investor-state dispute settlement are deeply influenced by neoliberal norms and values, restricting data localisation, cross-border data flows, industrial subsidies, public enterprises, and regulatory flexibility, thereby compromising India's development policy space under Atmanirbhar Bharat.

Finally, rosy estimates of the potential gains of joining the CPTPP should not be based on assumptions and selective interpretations. They often overstate aggregate efficiency gains while neglecting critical issues related to structural adjustments, policy flexibility, regulatory constraints and, most importantly, political economy implications.

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EU warns Iran conflict could push bloc's inflation

Jorge Valero

The European Union warned that its inflation rate could surpass 3 per cent this year if the war in the Middle East causes Brent oil prices to remain around $100 per barrel and gas prices stay elevated for an extended period. Under such a scenario, economic growth in 2026 would also take a hit. It would be as much as 0.4 percentage points lower than the 1.4 per cent pace forecast late last year, the EU's economy chief, Valdis Dombrovskis, told the bloc's finance ministers this week, according to people familiar with the matter.

In addition to oil prices, the scenario assumes European gas prices of around €75 ($87) per megawatt-hour for the rest of the year. The effect means inflation would be 0.7-1 percentage point above the 2.1 per cent previously projected for 2026.

A significant pickup in inflation could force the European Central Bank to raise interest rates in response, and traders have increased bets on such a move this year. The ECB's next decision is on March 19, though no hike is expected then.

The commissioner also warned that there could be additional downside effects on the economy from the conflict's impact on financial markets, trade and supply chains, the people said. European gas prices have surged since the outbreak of the war. They were trading at around €52 on Thursday, after approaching €70 earlier this week. Brent is near $100 a barrel.



VALDIS DOMBROVSKIS. EU's economy chief hazy about growth outlook

Dombrovskis told EU finance chiefs that indicators had recently been improving and the prospects for the economy were slightly better compared with the autumn, with growth of around 1.5 per cent and 1.6 per cent expected for this year and next, the people said, on condition of anonymity because the discussions were private.

But that outlook is now clouded by the war in Iran, which has spread across the region. Missiles and drones have hit energy facilities in countries including Saudi Arabia and Qatar, affecting LNG and oil output. In addition, the transit of oil tankers and other goods through the key Strait of Hormuz has come to a near halt. BLOOMBERG

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Tariff war 2.0

'Section 301' to the fore in US tariff offensive

Last week, the US fired two salvos under Section 301 of the Trade Act, 1974 — the first, a trade investigation into excess capacities in 15 countries and the EU, which includes India; and the second, an inquiry into the use of 'forced labour' against 59 countries and the EU, again including India. As the US Congressional Research Service (CRS) report observes, the investigations have been initiated "following a Supreme Court decision on (reciprocal) tariffs imposed under the International Emergency Economic Powers Act".



With reciprocal tariffs being struck down, a new arsenal is being lined up with the same intent — reducing individual trade deficits. Section 301 is likely to replace the existing 10-15 per cent tariffs in operation for five months under Section 122 of the same Act. Section 301 tariffs are reviewed after four years. If a country is indicted under a Section 301 inquiry, the US can impose tariffs or import curbs; suspend trade pact concessions; or force the other country to compensate the US. China has borne the brunt of Section 301 tariff actions. India has been targeted under 'Special 301' on intellectual property rights, and less so under the current provision.

However, there is a growing sense that the ruling on tariffs cannot be easily reversed. The US might have miscalculated by setting off Section 301 inquiries against countries that have entered into trade deals, such as Malaysia, Indonesia, Vietnam and Bangladesh. Malaysia has walked out on its deal with the US. Now, it would seem that countries or blocs which signed deals with the US are no better off than those that did not. Post the court order, a 10-15 per cent flat tariff applies to all, for now. In India's case, the reciprocal tariff rate of 18 per cent 'agreed' under the Indo-US 'interim framework' deal, has been nullified.

Now, the possibilities are bewildering. Probes into forced labour and industrial capacity may lead to a return of punitive tariffs. The indictments under Section 301 give the US the power to retaliate in sectors that are not specific to the area of inquiry — and this is actually allowed under Article 22 of the WTO's Dispute Settlement Understanding rules. The US perhaps believes that this may once again set off the old dynamic, of the world rushing back to the negotiation table. But countries are less likely to rush headlong into deals that may be upturned by the US on a whim. India should stick to its red lines on agriculture, data security and intellectual property, while agreeing to open up its goods sector, as it has done for other FTA partners. The joint statement allows for renegotiation if the circumstances change, as they indeed have. Geopolitical equations are fluid in the wake of the war. The Trump administration is under pressure not to destabilise US business and consumers, while the Congress too is keen to consider executive limits to the use of Section 301. India can afford to proceed calmly in its negotiations with US.

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PN3 was meant as an emergency measure

Press Note 3 amendment was long overdue. Chinese investments in India will create jobs and spur domestic value chains

Aditya Sinha

Gaius Plinius Secundus, aka Pliny the Elder, was not an economist, but he had views on trade deficits. In his *Naturalis Historia*, written around 77 CE, he complained that India, China, and Arabia were draining Rome of 100 million sesterces each year. The mercantilist instinct to block outflows, to restrict commerce with a rival is very old. It is also, as every economist since Adam Smith has noted, usually wrong.

India's trade deficit with China stood at $99.2 billion in FY25. Imports from China rose 11.52 per cent to $113.45 billion; exports contracted 14.5 per cent to $14.25 billion. Pliny would have recognised the anxiety. The policy India chose in April 2020, Press Note 3, restricting Chinese investment under para 3.1.1(a) of the Consolidated FDI Policy, he would have recognised too. He would not have called it wisdom.

On March 10, the Union Cabinet amended PN3. The data make a strong case for why this was overdue. One should acknowledge that geopolitical concerns also drove the original note, but this column is on the economic side.

From April 2000 to June 2025, China ranks 23rd among source countries of FDI equity inflow into India, $2,506 million, or 0.34 per cent of India's total of $747,510 million. Chinese FDI via the automatic route was $190 million in 2019 and $0.6 million by 2024.

Meanwhile, India absorbed $113.45 billion of Chinese goods in a single year. Over 25 years, India accumulated $2,506 million in Chinese capital. In one year, it absorbed Chinese goods at 45 times that amount.

ARGUMENTS AGAINST

Six arguments against PN3's continuation were visible from the data long before March 2026.

First, the emergency rationale expired with the pandemic. PN3's own text frames it as a response to "opportunistic takeovers/acquisitions of Indian companies due to the current COVID-19 pandemic." That pandemic ended. India's equity markets recovered and deepened. Emergency legislation retained after the emergency is not caution. It is bureaucratic sedimentation.

Second, the legal architecture was incoherent from the start. The phrase "beneficial owner" appeared in para 3.1.1(a) without definition, a gift to litigation and a burden to business. Two competing thresholds immediately emerged: 10 per cent under the Companies (Significant Beneficial Owners) Rules, 25 per cent under PMLA. The Foreign Investment Facilitation Portal (FIFP) promised decisions in 8-10 weeks; in practice, approvals took 6-10 months. Investment in consumer electronics, auto ancillaries, and renewables waited in the same queue as genuinely sensitive proposals. As Hayek observed, the curious task of economics is to demonstrate how little men know about what they imagine they can design. The FIFP ran this demonstration for five years.



INDIA. Luring investments /ISTOCKPHOTO

Third, the China Plus One opportunity required Chinese capital, not merely Chinese absence. Xenophon's *Poroi* argued that a city's strength depended on attracting foreign investors; Kautilya's *Arthashastra* made the same point from the other side of the Indus. Vietnam, Mexico, and South Korea attracted Chinese FDI while gaining US export share. India did neither.

Fourth, India's energy transition cannot bypass Chinese capital. China controls over 60 per cent of global battery production and more than 70 per cent of solar supply chains. Brazil and Turkey raised barriers to Chinese EV imports while simultaneously attracting Chinese FDI in the same sector, converting trade dependency into productive domestic investment.

India, with PN3, blocked the investment while import dependency continued unchecked. Bastiat wrote that every policy has effects that are seen and effects that are not. The seen effect of PN3 was a blocked PBOC shareholding. The unseen is, five years without Chinese EV capital anchoring a domestic battery ecosystem, while the trade deficit widened regardless.

Fifth, India's overall FDI trajectory was under sustained pressure throughout. Net FDI fell 62 per cent from $28 billion in FY23 to $10.6 billion in FY24. Investment intentions in renewables, AI, data centres, and EVs rose sharply, precisely the sectors where PN3 created procedural uncertainty. Bacon wrote in *Novum Organum* that intellectual failure stems from selective observation. PN3's architects observed the hit. They did not adequately observe the miss.

Sixth, private capital expenditure in India remains constrained because companies lack demand visibility while large-scale Chinese imports persist. Allowing Chinese investment under controlled conditions would internalise parts of the value chain: if Chinese firms manufacture locally, jobs and capabilities are built on Indian soil even if the capital originates across the border.

Perhaps one day it will be good to remember these five years, as evidence of how quickly an emergency measure becomes permanent furniture, and how long it can take to read numbers that were available all along.

Sinha writes on macroeconomics and geopolitics

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Electric kitchens

Centre should drive a shift from LPG to e-stoves

The cooking gas shortage in India caused by the war in Iran has exposed a serious policy lapse. That is, the extreme dependence on imported liquefied petroleum gas (LPG) to fire domestic and industrial kitchens. The country produces just 40 per cent of the cooking gas that it consumes with the rest almost fully coming from the Gulf region.

For a country that has been conscious of its excessive dependence on imported fossil fuels and has taken active policy measures to reduce consumption of petrol and diesel, it is strange that cooking gas went under the radar. A major reason is, of course, the messed up subsidy regime which has made it unattractive for refineries to produce more of the fuel. But there may be an opportunity in the crisis now. Even as the Centre grapples with the shortage now, trying short-term fixes such as asking refineries to divert their propane and butane output to produce cooking gas, the long-term strategy should be to structurally alter the demand dynamics. And that will be to find alternative fuels to fire our kitchens. Electricity is the best alternative. Indian consumers are not new to electric cooking, be it with microwaves or induction stoves. In fact, induction stoves have been flying off the shelves in the last two weeks as consumers seek a safe haven from the cooking gas uncertainty.

The big picture is that electric cooking is better than LPG. An October 2025 study by the Institute for Energy Economics and Financial Analysis points out that even at a unit rate of ₹8, induction cooking is 37 per cent cheaper. This is essentially because it is more efficient; 85 per cent of the energy is directly transferred to the vessel, whereas in the case of LPG 60 per cent escapes into the air. A wholesale shift can be managed, as most households, pan-India, have an electricity connection. To drive the shift, the Centre could consider a limited-period subsidy on quality electric stoves, akin to the one in place for EVs. A policy thrust that involves premier institutions would be well worth the effort — because what is required here is a safe and energy efficient design of e-stoves at affordable prices. Meanwhile, the current rush to pick up such stoves fearing LPG shortage, could spur the supply of sub-standard, unsafe stoves. The Centre should be watchful and manage this transition.

There is, of course, the question of the impact of this shift on power demand. Thermal power capacity utilisation, at 68 per cent, presents enough headroom for increased output. The renewables transition has arrived at a new inflexion point with a drop in battery prices as well as increased storage capacity. Using time-of-use tariffs and linking up the e-stove plan to the solar rooftop scheme will add impetus. In fact, a plan to shift to e-cooking is already in place. The 'National Efficient Cooking Programme', launched in late 2023, has presumably distributed 20 lakh induction stoves. It needs to scale up, with a plan. Finally, every crisis presents an opportunity to be efficient — and the LPG one is no exception.

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Anchoring corporate governance responsibility



BREAK THE SILOS. It is time to harmonise governance roles across laws and regulations to avoid diffusion of accountability

GETTY IMAGES/ISTOCKPHOTO

Governance systems function best when responsibility converges at a clear centre. Without such clarity, accountability risks dissolving into institutional ambiguity. Yet modern corporate governance frameworks disperse responsibility across boards, committees, executives, and compliance officers. The result is a proliferation of expressions describing those responsible for governance, without clearly identifying where responsibility ultimately rests.

India's corporate governance framework increasingly confronts this challenge. The expression "those charged with governance" (TCWG) illustrates this tension. A relatively recent entrant into the governance lexicon, the phrase carries an appealing air of inclusiveness. It suggests that someone must surely be responsible for oversight while appearing to democratise governance: almost anyone may potentially be charged with governance.

Auditing standards define TCWG as persons responsible for overseeing the strategic direction of the company and its accountability obligations. By this definition, the Board, the Audit Committee, and independent directors may all qualify as TCWG. At the same time, these standards task auditors to identify, at the start of the audit, who precisely constitutes TCWG within a company.

In practice, this task often resembles detective work, requiring auditors to reconstruct lines of authority and oversight from the institutional complexity of modern corporations. Importantly, a framework that seeks to make governance everyone's concern risks producing the opposite effect: when responsibility appears widely dispersed, it may feel like nobody's responsibility.

Part of the difficulty arises from India's layered regulatory landscape. Corporate governance as a discipline emerged within the company-securities law framework, where company law structures internal governance to align the interests of stakeholders, and securities regulation strengthens that structure for listed companies in the interest of investors and market integrity. Together, they constitute the core architecture of corporate governance. Within this architecture, the board represents the apex of governance responsibility.

The Companies Act, 2013 establishes the foundational governance structure for companies. At its apex stands the Board of Directors, entrusted with fiduciary duties and overall stewardship of the company. Beneath the board, the Act identifies Key Managerial Personnel, including the managing director or chief executive officer, the chief financial officer, and the company secretary, who exercise executive authority and carry operational and compliance responsibilities. Board committees, particularly the Audit Committee and the Nomination and Remuneration Committee, support specialised oversight functions. The Act also introduces an "officer who is in default", who bears statutory liability for compliance failures. Together, these provisions create a clear hierarchy of governance responsibility and individual accountability.

ADDITIONAL GOVERNANCE LAYER

For listed companies, securities regulation adds an additional governance layer above company law. These regulations expand the governance framework to include promoters and promoter groups, senior management, and specialised board committees. Significantly, securities regulation has elevated the position of the compliance officer, requiring that the role be placed not more than one level below the board.

The prominence of the compliance officer reflects an important evolution in the understanding of governance. In modern corporate systems, effective governance requires both oversight and operational enforcement. The compliance officer increasingly functions as the custodian of governance discipline within the organisation, ensuring regulatory compliance, validating disclosures, and serving as the interface between the company and regulators. In effect, the board provides strategic supervision, and the compliance officer operationalises the discipline of governance.

Different regulators will inevitably tailor governance structures to their specific objectives. What is needed, however, is conceptual alignment around a clear centre of responsibility

Over time, other governance frameworks, whether in financial reporting oversight or sector-specific regulation, have begun constructing parallel vocabularies of responsibility rather than building upon this foundation. Each framework identifies its own set of functionaries and institutions responsible for governance. The terminology differs, the scope varies, and the attribution of liability may shift depending on the governing framework. The result is a fragmented language of governance in which responsibility appears dispersed across regulatory silos.

This company-securities law architecture provides a coherent hierarchy of responsibility. The board exercises strategic oversight; executive management runs the enterprise; specialised officers ensure compliance and governance discipline. The difficulty arises when other regulatory frameworks develop their own governance terminology without clearly anchoring it in this architecture. Auditing standards speak of TCWG. Sectoral regulators prescribe roles such as chief compliance officers, principal officers, or appointed actuaries. These roles serve legitimate regulatory purposes, but their relationship to the underlying governance structure is not always clearly articulated.

The consequence is a proliferation of expressions — board, management, senior management, key managerial personnel, compliance officer, officer in default, and TCWG — that often refer to overlapping responsibilities but carry different legal implications.

Companies must navigate this patchwork when mapping accountability across regulatory regimes, while regulators must determine liability based on framework-specific definitions.

The solution does not lie in imposing identical terminology across all regulatory regimes. Different regulators will inevitably tailor governance structures to their specific objectives. What is needed, however, is conceptual alignment around a clear centre of responsibility. That centre already exists in the company-securities law framework. Other regulatory frameworks should build upon this structure. Where governance roles already exist within this framework, regulators should recognise and adopt them rather than create parallel designations.

Anchoring governance responsibility in this architecture would yield several benefits. It would significantly reduce interpretational ambiguity, simplify compliance mapping across regulatory frameworks, and strengthen the attribution of accountability. More importantly, it would restore clarity to corporate governance by ensuring that responsibility ultimately converges where the law intends it to reside.

India's corporate governance ecosystem has evolved significantly through reforms in company law, securities regulation, and financial reporting oversight. Yet the language used to describe governance responsibility has become increasingly fragmented. Harmonising this language by building upon the foundations of the company-securities law framework would not merely simplify regulatory design. It would strengthen the architecture of accountability itself.

Corporate governance must ultimately answer a simple question: who is responsible? A coherent regulatory framework must ensure that the answer is not scattered across statutes and regulators but anchored clearly within the governance structure of the company.

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Why a transition to natural farming is a necessity

We cannot easily control conflicts, wars or energy markets. But we can definitely redesign how we grow food

PVS Suryakumar

Human civilisation rests on a simple foundation: the ability to grow healthy and nutritious food reliably. That foundation is now under growing strain.

A disruption in energy or fertilizer markets can ripple through food systems faster than policy can respond. Modern agriculture is tightly linked to fossil fuels, global supply chains and ecological services — and when these links weaken, livelihoods and health suffer first.

The Fuel to Fork analysis by IPES-Food [2024/25] estimates that food systems consume nearly 40 per cent of petrochemicals and about 15 per cent of fossil fuels globally, tying every plate to volatile energy markets. The world is beginning to acknowledge this reality and must now find a way forward.

The system's industrial dependence compounds the risk. Analyses by Vaclav Smil and FAO suggest that about 40 per cent of global dietary protein intake depends on synthetic nitrogen fertilizer made via the energy intensive Haber-Bosch process. When energy tightens, fertilizer costs rise — and food prices follow. Current urea prices are already elevated (around $585/tonne), with analysts warning of $650-700/tonne under extended stress. Trade concentration amplifies this. According to Kpler's trade data (2024), over two-thirds of India's ammonia and sulphur imports originate in the Gulf region. So regional shocks quickly tighten global availability.

The scientific picture is also plain. The IPCC warns that, intensifying heat and shifting rainfall are already shortening growing windows. In India this is tangible: recent temperature spikes have lowered wheat yields in affected districts, and higher night-time temperatures reduce rice grain filling — material threats where wheat and rice anchor food security.

Given these multiple uncertainties, India's cropping patterns will need gradual diversification. Pulses, oilseeds and millets offer nutritional and ecological advantages, though consumer acceptance, processing ecosystems and agronomic adaptation will determine how far and how fast such shifts occur.

Ecological and health signals deepen the alarm. Global assessments (IPCC-AR6, IPBES, FAO) show biodiversity loss, pollinator declines and soil degradation are eroding ecological services destabilising yields. Public-health reviews (WHO) are increasingly concerned about chemical exposures and rising non-communicable diseases. These are not separate problems: degraded soils and chemical-laden foods undermine both production and public health.



HEALTHY FOOD. Reducing chemical use in agriculture is key

A sensible policy is neither one of panic, nor prohibition. A disciplined and financed transition — phased across crops, regions and over time — can reduce dependency while protecting farmers' welfare.

FOR A CREDIBLE TRANSITION

This has to be practical and subtle. First, improve nutrient-use efficiency and replace part of the input mix with biological alternatives where they are ready to deploy.

Second, fund public agricultural research on soil health, microbial partnerships and cropping systems that integrate trees, livestock and legumes and back it with extension. Third, redesign subsidies and procurement to reward soil health, improved soil carbon, biodiversity, and ecosystem services.

Finally, build markets and supply chains that pay for the public goods produced by ecological agriculture, so farmers who make the transition are not left isolated and unpaid for their stewardship.

India's embrace of natural farming can anchor this agenda and can be strategically phased temporally and spatially. Natural farming — with R&D, extension, assured markets and transition finance — can organically scale without forcing risky, abrupt change on farmers.

Gradually reducing chemical dependence in agriculture will make our food systems more resilient and healthier for both people and nature.

We cannot easily control conflicts, wars or energy markets. But we can definitely redesign how we grow food. If institutional incentives, research and markets align behind resilient, ecological farming, we will reduce fragility where it matters most — at the soil and at the plate.

The writer is former Deputy Managing Director, NABARD. Views are personal

Gulf oil behemoths deepen output cuts as Hormuz stays blocked

Salma El Wardany
Fiona MacDonald

The United Arab Emirates and Kuwait reduced oil output further as the effective closure of the Strait of Hormuz increases pressure on major producers with the Iran war stretching into its third week.

The UAE's production cut has deepened to about 1.5 million barrels a day, from 500,000 to 800,000 a day as of March 10, while Kuwait's has increased to near 1.3 million a day from half a million about a week ago, people familiar with the matter said, asking not to be identified because the data isn't public. Output cuts are rippling across the Gulf even as Saudi Arabia and the United Arab Emirates race to boost exports through alternative routes to bypass Hormuz. While some producers are also preemptively curtailing supply to delay the point at which they'd be forced to stop completely, the longer the war goes on the more time it will take take to bring output back to normal levels.

Saudi Arabia's output was down by 2 million to 2.5 million barrels a day as of a week ago, while Iraq's was down by about 2.9 million a day as the Hormuz crunch fills up storage, according to people familiar with the matter. Riyadh has been diverting millions of barrels to its export terminals on the Red Sea coast, allowing it to avoid the Strait of Hormuz.

The UAE, which has a bypass pipeline of its own, is also switching barrels away from the waterway. Its key oil port of Fujairah in the Gulf of Oman has come under increased drone attacks, causing brief halts in loadings.

BLOOMBERG

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Oil shock's impact on India's BoP

Oil shortages and price spike triggered by US-Israel war on Iran will hit India harder given its integration into global oil markets

MACROSCAN.



CP CHANDRASHEKHAR, JAYATI GHOSH

Uncertainty and shortages have roiled India's oil markets following the unwarranted bombings of Iranian civilian and military targets launched by the United States and Israel and Iran's predictable response to that unprovoked attack.

With India heavily reliant on oil imports and anywhere between 30 and 40 per cent of its crude imports and 80-90 per cent of its liquefied petroleum gas (LPG) imports sourced from and transiting through the Gulf region, the impact the war is having on the physical supply of oil and LPG and the prices of those supplies is a major shock to the economy.

Globally the war has shaken the world's oil markets for multiple reasons. First, the bombing of Iran threatens to shut down its oil production facilities for quite some time. Since Iran hosts a large oil reserve and was a major supplier to global markets till US sanctions were imposed on the country, that consequence does influence calculations of long-run supply and can therefore impact oil price trends.

Second, since Iran's response includes shutting off the Strait of Hormuz that is the easiest and most cost-effective route to service anywhere between a fifth and close to a third of the world's gas and oil demand, the impact on global supply is immediate. More so because the targets of Iran's retaliation include oil facilities in many oil- and gas-exporting Gulf states, which are seen as implicitly or explicitly facilitating US-Israeli aggression.

Third, large trading firms, like Vitol, Trafigura, Glencore and Gunvor, which are not necessarily large oil producers, dominate the global physical trade in oil, and are known to be secretive speculators for profit in commodity markets. This concentrated trade and speculation leads to an amplified impact of the war on oil prices, far beyond what is warranted by any supply shortfall. This speculative impact is highlighted by the huge volatility that oil prices have displayed around a rising trend.

Finally, this dominance of speculators means that any effort to redress demand-supply imbalances, as is sought to be done through the release from strategic reserves of 400 million barrels of oil by the members of the International Energy Agency, only sends out a signal that the crisis is serious and intensifies speculative activity. So long as uncertainty prevails, oil prices would soar to levels way beyond the so-called $100 psychological barrier.

IMPACT ON INDIA

The impacts from these consequences transmit to the Indian economy through multiple routes. Given India's import dependence for crude and gas, there is already talk of shortages that would affect, among others, households using LPG and oil-based means of transportation, truckers, and farmers using oil based fertilizers.

The rise in the price of a universal intermediate like oil would trigger "imported" inflation both because of the rise in the dollar price of oil and the depreciation of the rupee it precipitates. And the current account of India's balance of payments, crucial to sustaining the 'confidence' of foreign financial investors, which has been shored up by remittances and receipts from IT and IT-enabled services exports, will be hit by falling remittance inflows and a widening trade deficit.

Chart 1 illustrates the relationship between the price of India's oil import bill and the price of the Indian basket of crude (a weighted average of Oman, Dubai and Brent crude prices). The import bill has clearly been driven primarily by the average import price, with some signs of divergence. Since import data are yet to be released, the impact of the recent spike is yet to show itself, though a sharp rise is inevitable.

The rise in the price of a universal intermediate like oil would trigger "imported" inflation both because of the rise in the dollar price of oil and the depreciation of the rupee it precipitates

That rise can be damaging because India's aggregate imports have risen at a much faster rate than its oil imports since the end of the Covid pandemic (Chart 2). Clearly non-oil imports, including imports of non-necessities such as gold, have been rising, not least because of continuous liberalisation in the import trade and the associated reductions in import tariffs. A sharp rise in the oil import bill will only add to the vulnerability resulting from that longer term tendency.

TRADE BALANCE IMPACT

In the past there had been one factor mitigating the impact of oil import dependence on India's trade balance. With excess refinery capacity, India has been exporting refined products manufacture with imported crude, generating export revenues from its oil sector. In fact, as Chart 3 shows, the rise in imports of oil and products has been closely followed by export revenues in that category.

Given value addition through refining in India, the export revenues generated from these related oil imports would be large than the value of those imports. So, the deterioration in the oil trade balance following the pandemic would have been greater than reflected in Chart 3 if these exports had not occurred.

But, given the current loss of physical access to crude imports, the Indian government would possibly retain available imported supplies for domestic consumption, adversely affecting the export of refined products from private facilities. This would mean that the influence of the widening import bill on the oil trade balance would be significantly higher and the deterioration in the balance of payments larger.

The significance of this for the balance of trade comes through from Chart 4 which presents the relative roles of the oil and non-oil trade balances in determining India's overall trade balance. Much of the post-pandemic deterioration in the trade balance was on account of the worsening of the non-oil trade balance, with oil contributing only marginally to that downturn. That would change now, with adverse consequences.

In sum, the fact that the oil crisis, precipitated by the unwarranted attack on Iran, is resulting in both a physical shortage of supply as well as a spike in prices, would amplify its adverse effects on India's balance of payments, given the nature of its integration into global oil markets.

CHART 1

Price pain

Imported oil prices and India's oil import bill ($ million and $ per barrel)

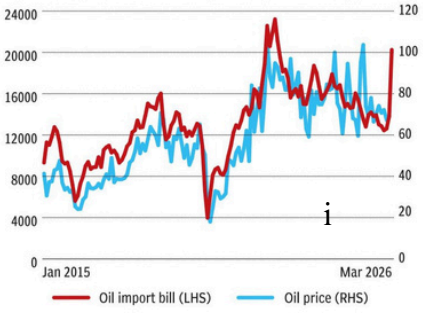


CHART 2

Import profile

Oil in India's import bill ($ million)

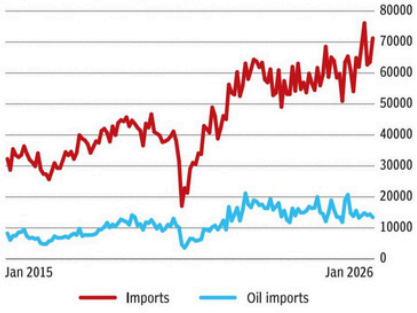


CHART 3

Export impact

India's oil trade balance ($ million)

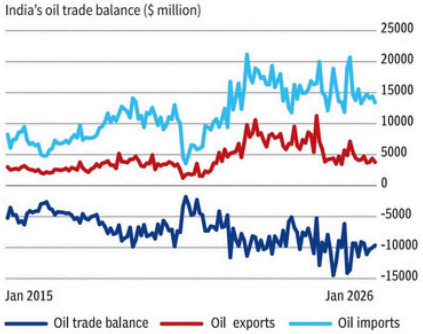
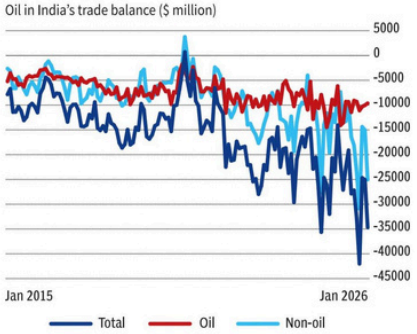


CHART 4

BoP impact

Oil in India's trade balance ($ million)



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Futility of cabotage law

Protection for Indian shipping is not beneficial

Jose Paul

The English word "cabotage", which has a Spanish origin, means trade or navigation in coastal waters and the right of a country to operate exclusively in coastal trade.

Such protection of national shipping under cabotage is designed to promote and protect domestic shipping and like India, the US, the UK, Japan, Australia, China and many other countries have reserved their coastal shipping to domestic services.

However, the Ministry of Ports, Shipping and Waterways, on January 21, 2026, scrapped three general orders issued in 2018 which had permitted foreign flag vessels to carry export/import containers meant for transshipment, empty containers for repositioning and select commodities on coastal routes without obtaining a licence from the Directorate General of Shipping.

For the last eight years foreign container shipping lines have availed themselves of this facility, and from April 21 this relaxation will cease to exist.

The government decided in 2018 to grant relaxation of cabotage law to foreign flagged ships only for container trade and that too for transshipment trade. The share of container traffic in the total cargo handled at Indian ports comes to about 22 per cent (352 million tonnes out of a total of 1.603 million tonnes).

Of this only about 25 per cent constitute transshipment trade, and, therefore, in actual practice the relaxation of cabotage law benefitted only to less than 8 per cent of India's total port traffic. Rolling back the relaxation of cabotage law for transshipment trade could result in diversion of Indian origin cargo to established regional hubs such as Port of Colombo, Port Klang, Tanjung Pelepas, Jebel Ali, Singapore which already handle a large part of India's transshipment volumes.

Does India have enough container vessels to serve the coastal transshipment trade?

India has about 30 feeder container ships with a total carrying capacity of about 56,000 TEUs. India has a coastline of 7,500 km with 12 major ports and at least about 20 commercially significant non-major ports. Indian container ship fleet is inadequate to service the requirements of Indian shippers efficiently and cost effectively.

Domestic container lines, under cargo reservation, tend to keep freight rates high. A liberalised environment, which fosters greater competition, results in lower freight rates.



INDIAN SHIPPING. In the clutches of protection PTI

The government is pinning it hopes on the recently established "Bharat Container Lines" to make an impact in the global container shipping market.

This is unlikely to happen in the near future due to the formidable entry barriers to the market.

The seven global giants in container shipping — Mediterranean Shipping Company, Maersk Lines, CMA CGM, COSCO Shipping Line, Hapag Lloyd, Ocean Network Express and Evergreen Marine have a huge fleet strength and control almost 78 per cent of the global container shipping market.

REFORMS IN CABOTAGE LAW

In the UK foreign flag ships are engaged in domestic shipping. Australia which relies on shipping for transport of 99 per cent of international trade maintains cabotage rule but foreign lines can apply for license to move domestic cargo. Indonesia has relaxed cabotage law for foreign flagged vessels that are serving Indonesia's oil and gas sectors.

In 2009 Malaysia relaxed its cabotage laws to permit foreign lines to carry domestic cargo. New Zealand deregularised coastal shipping and despite repeated efforts to reintroduce cabotage law such efforts have not succeeded. Economic logic suggests that restrictive practices stifle growth resulting often in unfulfilled potential.

Indian container shipping lines cannot afford to remain always under the umbrella of statutory protection and in the comfort of cargo reservation.

They should be able to compete with foreign shipping lines on service quality, pricing and operational performance.

The writer is a former Chairman of Mormugao Port Trust and an Adjunct Professor of Indian Maritime University, Chennai

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A VASUDEVAN



GETTY IMAGES

Policy action in times of geopolitical crises

CRISIS MANAGEMENT. It is time to think of an inventory policy to stock up critical goods in times of supply disruptions, arising out of political factors

The Middle East crisis that emerged at the end of February has added an uncertainty that is far more severe than any other event in the recent past. No one knows how long it will last — days, weeks or months, even after the completion of a fortnight since the eruption of the crisis. India's economic and political diplomacy and commitment to the ideology of peace with dignity, referred to often as multi-pluralism, is under severe threat.

One of the major consequences of the crisis is that prices of oil will go up and trigger inflation and the expectations thereof. This should worry India since it could disrupt the projections made in February of growth and inflation for the fiscal 2026-27.

Should India merely reset the economic projections or wait for some more time? The best option available is to wait and watch for the oft-mentioned price of oil to spike to $100 and over to even $150 per barrel. This is not something that the world has not experienced earlier.

In fact, the world has seen $100 per barrel and over of the marker oil, the Brent Crude, in at least seven calendar years since the global financial crisis of 2008. In a majority of these years, the main cause of such spikes involved Iran and China.

SUPPLY DISRUPTIONS

India should be more worried about the supply disruptions in respect of oil as well as critical minerals, and other goods including steel, electronic goods, chips, batteries, and edible oils as well as pulses. Identification of these commodities is not a serious challenge, though. What would be more worrisome is about how to build up inventories of these commodities, in case the crisis stretches for three to six months from now.

Superimposed on this is the need for building up inventories of defence equipment, including radars, missiles and more importantly drones in case the crisis triggers hostile activities from those not well disposed to the country.

India does not have, from most accounts, a sound well-tested inventory policy to take care of such an uncertainty. Trade deals concluded with some of the countries and a cluster of the European Union countries (EU) could help procure the commodities in question to a significant extent.

Will this be enough to take care of inventory costs? And who will bear such costs? Should we construct first a base scenario of maintaining inventories that would last for at least six months and build up more scenarios, if need be, as new developments emerge? As of now, there are no clear answers to these questions. And the opportunity costs could be high if the decisions about the inventory policy and inventory dynamics are not taken expeditiously.

Apart from oil, building up an inventory of critical minerals, and other goods including steel, electronic goods, chips, batteries, and edible oils as well as pulses is the challenge, especially if the war prolongs

The Indian authorities should not treat the crisis lightly and tinker with the overall situation of supply of goods and services in an ad hoc manner. They should also not hurry to reset the projections of February 2026 for the next fiscal year. Instead, they need to work out fiscal, monetary and governance strategies that necessarily involve a reform agenda, to achieve the projected numbers. This is the only way expectations of economic units (households, corporates, small and informal enterprises and government entities) about India's economic prospects could be influenced towards achieving the set goals.

MACRO POLICIES

This does not mean that there will be no volatilities in our interest rates, liquidity situation, exchange rates of most major currencies, gold and other precious goods, stocks, and fiscal receipts. After all, the uncertainties at the global level are so sharp that none of the economic variables are or can be pre-determinable.

Volatilities have to be managed through coordinated strategies for policy action. And what is important is to ensure that all the tiers of government at the Centre and States are committed to the tasks that lie ahead. The Centre should take the initiative right away.

Hopefully, issues such as the scarcity of cooking gas and fertilizers that are presently the major concerns of commercial kitchens, households and farmers would not overwhelm the governance mechanisms at all tiers of the government and disrupt the commitment to the pursuit of the current macro policy framework.

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AJAY SRIVASTAVA



PERIASAMY M

How to get a bigger pie of the EU garment market

MEASURING UP. Zero tariffs apart, focus on quality and synthetics and strengthening the weaving and processing sector will help

Indian industry has long argued that the EU's average tariffs of about 12 per cent put Indian products at a disadvantage, especially when key competitors enjoyed duty-free access — Bangladesh under the EU's Generalised Scheme of Preferences and Vietnam under its free-trade agreement with the EU. With the EU now agreeing to eliminate tariffs for this sector, the question is whether India's exports to the EU will surge.

The honest answer is: exports will rise as tariffs fall, but not dramatically on their own. The EU is a demanding and complex market, and achieving strong, sustained growth will require several additional actions. Let us understand with the example of Japan

The India-Japan FTA shows why tariff cuts by partner countries alone do not guarantee export growth. Japan, like the EU, is a developed economy that imports most of its garment requirements. When the India-Japan FTA came into force on August 1, 2011, Japan eliminated its 10 per cent duty on apparel from day one at India's request, raising hopes of a sharp rise in Indian garment exports. That surge never came.

Japan imported about $327 million worth of garments and made-ups from India in 2011. By 2024, imports had fallen to around $302 million, leaving India with barely a 1.1 per cent share of Japan's garment imports. The problem was not tariffs, but readiness. Many Indian suppliers were unable to meet Japan's demanding standards on quality, process discipline, and consistent, large-scale production.

The European Union is a key market for India's textile and apparel exports. In FY2025, India exported $37 billion worth of textiles, garments and made-ups globally, of which the EU accounted for $7.3 billion, or 19.8 per cent. The EU is especially important for garments, taking 28.4 per cent ($4.6 billion) of India's exports in this segment. To increase exports, we need to focus on the following actions.

FIRM-LEVEL INITIATIVES

Exporters to the EU know that producing a good-quality garment alone is not enough to access the market. European buyers require production in factories that follow strict, auditable processes and comply with multiple regulatory and buyer standards. These include EU textile labelling rules, REACH chemical regulations, emerging sustainability and traceability requirements, and buyer-mandated certifications such as ISO, SA8000, GOTS/GRS, and OEKO-TEX®.

Meeting these requirements — through audits, testing, traceability systems, REX registration, and worker training — typically costs ₹10-30 lakh in the first year. While organised exporters can manage this, it remains a barrier for smaller units.

Winning the speed game: For best results, Indian factories must also upgrade to become fast-fashion-industry (FFI) compliant, where most global sourcing now occurs. India has about 1,200 FFI-compliant factories, mainly in cotton, with far fewer in synthetics. Nearly 80 per cent of exporters still miss efficiency benchmarks such as Standard Allowed Minutes (SAM), limiting scale and speed. Expanding FFI-compliant capacity — especially in synthetics — is critical to winning orders from major buyers like Walmart, Zara, H&M, Gap, and online retailers such as Amazon and Zalando.

From cotton comfort to synthetic competitiveness: Synthetic and winter-wear products — such as sportswear, athleisure, fast fashion, and cold-weather clothing — now make up nearly 70 per cent of global garment demand. India missed this shift by staying largely cotton-focused, leaving factories underused outside the spring-summer season.

The result is a wide gap: while China exported about $113 billion of garments last year, Bangladesh $51 billion, and Vietnam $39 billion, India exported only around $16 billion. Limited focus on synthetics and winter-wear is a key reason.

The government has now removed a major constraint by abolishing Quality Control Orders (QCOs) on more than 20 key synthetic inputs such as polyester and viscose fibres and yarns, reducing costs and improving access to global raw materials. With zero-tariff access under the FTA, industry must expand into synthetic, blended, and winter-wear segments to achieve meaningful export growth.

Setting up design studios in Europe to co-create collections and respond quickly to trends can further strengthen competitiveness

From contract manufacturing to brand power: Even India's largest garment exporters, including billion-dollar firms, mostly operate as low-margin suppliers to global brands. This limits profits, bargaining power, and forces them into constant price competition. It is time for India's leading garment makers to move up the value chain by building their own designs, brands, and retail identities. By investing in in-house design teams, trend analysis, fast sampling, and small-batch production, firms can earn higher margins and reduce dependence on a few large buyers.

Setting up design studios in Europe to co-create collections and respond quickly to trends can further strengthen competitiveness. Competing on design and speed — not tariffs alone — is the key to long-term success.

GOVERNMENT LEVEL INITIATIVES

Over the past year, the government has fixed key weaknesses by removing QCOs on major synthetic inputs, easing labour rules to allow factory expansion and year-round operations, and correcting the inverted GST structure. Together, these reforms finally give India's synthetic garment industry a real shot at global competitiveness. However, to fully use the India-EU FTA opportunity, the following additional action is needed.

Strengthen weaving and processing sector — the weakest links in the textile value chain: India is a major yarn exporter but accounts for only 6 per cent of global fabric trade because its weaving and processing units remain small, informal, and outdated. Invest in large, modern, integrated weaving and processing parks to convert its yarn strength into true global fabric competitiveness. China's textile revolution started with this.

Do not incentivise the export of fibre or yarn: Current export rebates push India to ship fibre and yarn abroad at lower prices, starving domestic garment makers of affordable inputs. India should prioritise value-added exports, not raw materials.

Overhaul procedures: Advance authorisation allows exporters to import inputs duty-free, but rigid rules — such as matching fabric type, shade, and consumption with extreme precision — make it cumbersome. Bangladesh solved this by using value-based import entitlements, letting firms import inputs up to a fixed share of export value. India should adopt a similar approach.

Finally, extend the RoSCTL (Rebate of State and Central Taxes and Levies) scheme for garments and made-ups for at least five years to provide stability and confidence for long-term investment, as exporters need predictable policy support to plan capacity expansion, technology upgrades, and new product lines aligned with global demand.

The aforesaid action plan applies not only to boosting India's garment exports to the EU, but also to all labour-intensive exports to developed markets.

We have discussed for decades about upgrading garment and other labour intensive sectors, yet on the ground India continues to lose market share to smaller competitors such as Vietnam and Bangladesh — late entrants that moved faster with clearer strategies, compliance readiness, and supply-chain efficiency. If India is to reclaim its position in global trade, there may never be a better time to seize the opportunity.

The writer is Founder, GTRI

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Will foreign banks exiting UAE home in on India?

India has seldom been favoured as a regional headquarters. Better urban governance, currency convertibility could change this

Brijeshwar Singh

Energy shocks and a fall of remittance from the Gulf might occupy the energies of our policymakers for much of this year. These large issues, however, could lead us to overlook the banking shock in the UAE.

The UAE has more than a trillion dollars in banking assets, which are double the size of its GDP. India's GDP, at nearly $4 trillion, is eight times the UAE's but our banking assets (at less than $4 trillion) are only about three times the UAE's. The deep financialisation of the UAE is largely because it is an open economy that operates as a regional financial centre. The leading names operating in the region include Citibank , JP Morgan, HSBC, Credit Agricole, BNP Paribas and our own Bank of Baroda.

With oil, hospitality and tourism, trade and real estate sectors facing difficult times, the UAE banking sector will take a massive hit. International banks have largely shut down and pulled out their staff. They are seeking safe havens — for a change this means physical safety and not tax-free status.

While GIFT City may beckon these banks, it is unlikely they would move there. GIFT City is designed for the local investor seeking to invest in foreign assets, which is quite a different role. Also its location, in Gandhinagar, is not too attractive a place to live in and there are problems of talent attrition as well. It's more likely that these banks will prefer established financial centres like Mumbai or Chennai, if given some incentives.

India is not going to be a first choice for a Middle East headquarters. Even as a headquarters of an Asia level regional office India lags; WHO is one of the few international organisations to have a regional office here.

INDIA BYPASSED

It is somewhat surprising that the practice of bypassing India for a regional office has hardly changed in half a century. New excuses are found for the avoidance, such as Bengaluru's terrible traffic, Mumbai's overcrowding, Kolkata's dilapidated state and Delhi's life-threatening pollution. These are a reflection of poor urban governance more than anything else.

It is sometimes said in jest that the Minto-Morley reforms were our last serious look at urban governance. Municipal bodies (and district boards) then had the power to hire and fire staff rather freely — a much curtailed power a century later. In practice, few municipal politicians graduate to higher levels.



WELL STACKED. The UAE has more than a trillion dollars in banking assets

However, it is noteworthy that Chandigarh, which is a Union Territory, has escaped many urban problems. While there is no space for federally administered cities in our Constitution, Mumbai has expanded up to the Gujarat border near Dahanu. The Ahmedabad-Mumbai-Pune coast is turning into a giant megalopolis, with acutely divided political-authority and no overarching planning body. Foreign capital and foreign banks alike prefer stable, low risk urban environments. And federally administered cities could be a possible solution. Any relocation of banks from the UAE will become attractive only if our policymakers address the issues of currency convertibility and lowering of import tariffs. What is striking is that while the earliest concept papers on Bombay as a financial centre (like the Lovraj Kumar note) argued for trade liberalisation, tax incentives and limited currency convertibility, subsequent policy took the silo path. Each component was considered in isolation without any synergy. Our SEZs have no significant tax advantage since the introduction of MAT and the abolition of Section 10AA. GIFT City is not linked to a free port and it has no tariff advantages.

China used a dual currency system of both the Yuan and the Renminbi to gradually advance currency convertibility, and in the interim it used the tax haven of Hong Kong to access foreign capital. This path may not be feasible for us.

However, it is never too late to begin planning for a regional financial centre when our metropolises are mutating into megalopolises and our SEZs still have land to spare.

The writer is an economist who was formerly additional chief secretary of Tamil Nadu

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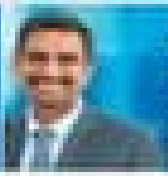



18 Mar 2026

Scenario planning

Centre faces massive challenge if war doesn't end soon

The Centre's move to carve out a ₹1 lakh crore Economic Stabilisation Fund from current year's Budget is timely. The Finance Ministry has also done well to draw up various scenarios on the impact of the war, now in its third week, and place these before Parliament. As for the first, the Fund will be created out of cash inflows as well as unspent allocations (or savings) of ministries, as FY26 draws to a close in a couple of weeks.



The Fund forms part of the ₹2.8 lakh crore supplementary demand for grants passed by the Lok Sabha a few days ago. The additional ₹1.8 lakh crore is directed towards increasing subsidy on food (by ₹23,641 crore under PM Garib Kalyan Yojana) and fertilizer (by ₹19,230 crore), besides defence outlay. The additional outlay for fertilizer subsidy is likely meant to absorb a war-induced increase in prices, while food subsidy might have been beefed up to deal with any livelihood distress and inflation — a recognition that the war could hit the economy in unexpected ways.

In an exercise in realistic stocktaking, Chief Economic Advisor V Anantha Nageswaran has laid out possibilities before the Standing Committee on Finance, whose report was tabled in Parliament on Tuesday. He has said that if price of oil stays at $130 a barrel for two or three quarters, retail inflation will rise to 5.5 per cent and real GDP growth will be down to 6.4 per cent in FY27, against 7.4 per cent this fiscal. Significantly, the current account deficit (CAD) will rise from the present level of 1.2 per cent to 3.2 per cent of GDP and the fiscal deficit from 4.4 per cent to 5.6 per cent. At $90 a barrel for a sustained period, however, the current projections of 7-7.4 per cent growth, 2 per cent inflation, a CAD of 1-1.2 per cent of GDP and a fiscal deficit of 4.4 per cent are likely to hold. A spike in CAD will pose major challenges to monetary authorities as well. It could occur on account of an impact on remittances, investments and exports, even as imports rise. But it appears that the Centre is in a position to absorb crude price increase up to $90 a barrel without passing it on to the consumer, the Fund working as a cushion.

The war will have stagflationary impact. Besides higher commodity prices for industrial oil and gas users, inputs and intermediates will turn costly. Exporters and MSMEs, generally speaking, can be hit by global headwinds and disruption of supply chains and working capital finance. Apart from controlling energy prices, the Centre can take a leaf out of the Covid playbook and roll out an emergency credit guarantee scheme. The Fund's corpus can be enhanced if required, to stabilise prices and provide credit support. Monetary policy will have to be accommodative to the extent possible. With good macros and reserves, there is every reason to believe that the worst-case scenario may not come true, even if one is prepared for it.

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19 Mar 2026

Course correction

The overvalued Indian market is facing a reality check

Indian markets have fallen sharply since the start of the US-Israel-Iran war; they have reacted to the disruption in supply of critical energy sources, and to crude breaching $100 per barrel. The benchmark Nifty50 index has lost around 7 per cent since the war began three weeks ago, akin to other global emerging market benchmarks. However, this fall may actually be beneficial to the long-term health of our markets.

Stocks from many sectors were unhinged from fundamentals. Retail investors who entered stock markets in large numbers post Covid, propelled a surge in demand for direct and indirect equity (through the mutual fund route). As a result, Indian stocks have been quite pricey, compared to other emerging markets. The Nifty50 traded at price-earnings multiple of 21.7 times towards the end of 2025. This was at a premium to benchmark indices of other EMs including China, South Korea, Brazil and South Africa which traded at PE multiples between 11 and 18. Stocks in consumption-oriented sectors such as FMCG, healthcare and retail trade traded at higher PE multiples of over 50 times. The absence of a deep correction since the Covid-low in March 2020, with declines not exceeding 20 per cent from the peak, had led to complacency with investors buying at every dip. Stocks remained elevated for too long. Owing to these higher valuations, foreign portfolio investors turned net sellers of India equity since September 2024, pulling out close to ₹3.5 lakh crore. The ongoing correction will help valuations to revert to their mean levels. The valuation of Nifty50 has cooled a bit, with the PE multiple declining to 19.51 times. But prices need to decline further.

And they well may. Given the multiple headwinds currently facing markets and the economy, investors should be prepared for further price corrections. If the war in West Asia prolongs, corporate margins are going to shrink, as fuel, logistics and input costs increase. Shortage of LPG and other fuel will likely further dent corporate bottomlines. The domestic economy, which was trotting along nicely before the onset of this war, is up against multiple first and second-order effects. Besides shocks in the form of prices, supplies and asset valuations, the sentiment factor, too, could hurt business. It does not help that there are just a few stocks in nascent, sought-after sectors such as AI and semiconductors.

The bottomline is that market corrections should happen when the underlying fundamentals change. After all, equities are not meant to be risk-free, and excesses created in bull and bear markets need to be ironed out. The Securities and Exchange Board of India should let markets follow their course, while watching out for any undue volatility caused by manipulation. The regulator, Association of Mutual Funds in India and other investor bodies should run awareness campaigns, advising investors to pursue long-term goals with realistic expectations.

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P ELANGO

India slips up on the LPG front



IN CRISIS MODE. India banked on the Middle East for almost all of its LPG imports, and failed to build strategic storage

My favourite management lesson used to be this: when cow gets into the ditch (which often happens when you run an oil and gas company), one has to first get the cow out of the ditch, figure out how it got there and then ensure it does not get there. These three common sense steps need to be taken sequentially and not simultaneously. Let's follow the same principle while analysing the "worrisome" scenario, as the government put it, in LPG supply.

The government is taking a series of measures including allocating priority for LPG usage, tightening the booking cycle, invoking the Essential Commodities Act to increase domestic production of LPG, securing safe passage for Indian flagged vessels to pass through the Strait of Hormuz and diversifying the LPG supply by sourcing from the US.

To know how we got into the current LPG situation requires understanding of some basics. A balanced mix of propane and butane is commonly known as liquefied petroleum gas (LPG). And it is produced in the process of converting crude oil into petroleum products such as petrol and diesel in the refineries. India has surplus refining capacity and was able to export about 65 million tonnes (mt) of petroleum products last year.

LARGE-SCALE IMPORTS

However, India imports 60 per cent of its LPG requirement and 90 per cent of that is from the Middle East, which means the vessels carrying the consignments have to necessarily pass through the Hormuz bottleneck. The first question is: when we have surplus refining capacity, why do we have to import LPG?

LPG production is highest (3-5 per cent) from light and sweet crude oil, but the Indian basket of crude (all the different types of crude that the country imports) has only 20 per cent light crude, as it is more expensive in international markets. Eighty per cent of crude that India imports consist of medium to heavy sour crude which are traded at a discount. However, modern Indian refineries with high complexity index are able to crack the heavy oil into export grade petroleum products. This process has some built in flexibility and that is how Indian refineries are able to increase the LPG production under the current emergency protocol.

Still this will not be sufficient as India consumes about 60 lakh LPG cylinders everyday, the largest in the world for household cooking. LPG coverage, post the successful PM Ujala Yojana, is more than 10 crore households. Other countries do not depend solely on LPG as cooking fuel; electric or piped gas cooking is more common. So in the current geopolitical conflict India has a unique problem to deal with.

In a way the current situation is similar to the oxygen shortage that hospitals across the country faced during the coronavirus pandemic.

India has no facilities for strategic storage of LPG reserves to meet a crisis, and the commercial storage the oil companies together hold can meet only less than 15 days of normal consumption. The cost of storing LPG isn't much when compared to the economic cost of shortage, perceived or real. The investment needed to create storage to meet one day's requirement is about ₹2,000 crore. Surface storage capacity can be custom built for large customer segments, and large sub-surface strategic storage capacity can be created in suitable caverns to meet crisis situations such as the current one.

As part of a robust energy security plan, we should have built a buffer of 45 days of surface and sub-surface storage (strategic and commercial) capacity

SKEWED SOURCING

In the energy security planning agenda, LPG seems to have missed its rightful place. And we ended up sourcing nearly all our LPG imports from the Middle East. The major alternative source is the US, which is the largest producer and exporter of LPG in the world and it hardly uses LPG as a cooking fuel. However the transit time will be about 45 days, as the vessels have to take a longer route to avoid the strait of Hormuz.

As part of a robust energy security plan, we should have thought through this scenario and built a buffer of 45 days of surface and sub-surface storage (strategic and commercial) capacity. It's better late than never, and planning should start at least now if we are to avoid a "cylinder in a ditch" situation.

Piped natural gas (PNG), compressed natural gas (CNG) and LNG are different modes of storing and transporting natural gas, which is produced directly from gas fields in Mumbai High, Krishna-Godavari offshore and in onshore fields of Gujarat, Rajasthan and Assam either along with oil as associated gas or independently as natural gas. The gas being predominantly methane, its storage will require expensive liquefaction and re-gasification process or reinjection in reservoirs.

Though LPG and natural gas can meet the same purpose, they are produced through different methods and by different entities. LPG is produced by downstream oil companies such as IOC, BPCL and HOCL in the public sector, and Reliance and Nayara Energy in the private sector.

Natural gas is produced by upstream players such as ONGC, OIL and a few independent oil companies in the private sector. Incidentally, India meets about 50 per cent of its natural gas requirements by importing LNG. Disruption in LNG imports has implications for the industrial sector, too.

Policy planners must give serious thought to electric cooking as an alternative option. Though it would be expensive, at least we will not be dependent on any other country. Ten crore households depending on imported fuel to cook their daily meal is no way to build national energy security.

The writer is former CEO, Cairn India, and former MD, HOEC

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GURBACHAN SINGH



For GDP growth that spurs happiness

NEW VISION. Four new industries can enhance growth as well as overall happiness in society

The former Chief Economic Advisor Arvind Subramanian, and his co-authors have concluded in their new study that the Indian economy has expanded by around 4-4.5 per cent on an average during 2011-2023 rather than the roughly 6 per cent as suggested by the official figures. After measurement, the question now is one of policy, which is anyway important.

How can we raise the growth rate of gross domestic product (GDP)? Also, we rank 118th on a list of 147 countries on the World Happiness Index! This fact is often ignored. This is even when happiness is taught as a subject in a place like Harvard University. The emphasis here is on unconventional wisdom and on select policies that can increase both GDP and happiness.

We will consider four "new" industries in India; these are small at present. These include, what are labelled here as, the safety industry, the cleanliness industry, the relocation industry, and the relaxation industry. There is a common thread linking the four industries.

There is actually a pressing demand for higher output from such industries. Also, there is a meaningful potential for supply, given the under-utilisation and misallocation of resources in India. So, additional GDP is possible, and this can increase happiness.

SAFETY INDUSTRY

Let us begin with the safety industry. The lack of safety is pervasive in India. Also, we need greater safety from "natural" calamities. Finally, citizens need safety from random "factors" like road rage, stampedes, gas leakages, hacking, fraud, encroachment, loan sharks, and so on. To see the policy solution, let us delve into some simple economics here.

Consider, to begin with, the simplified case in which the only input required for safety is manpower. To pay for this, people can be persuaded to pay a little more by reducing their spending to a very small extent on each of the very many other goods and services. But now some unemployed people will get jobs and incomes as the safety industry expands. Not only is the aggregate demand maintained, it is, in fact, raised. So is the output in the form of the services from the safety industry.

This contributes to GDP and happiness. In the more general case in which the additional inputs include not only manpower but also materials and equipment, the expansion possible in the safety industry is relatively less but still significant. We come now to the cleanliness industry.

The government launched the Swachh Bharat Mission in 2014 but it was, in effect, mainly about reducing open defecation. More generally, cleanliness remains a serious issue in public places. There are important concerns like dust, waste, debris, water logging, smoke, etc. The need for clean water can be hardly overemphasised. The air quality index (AQI) needs to be brought down drastically.

The economics of expanding the cleanliness industry is, similar to that in the case of the safety industry explained above. So, it may be skipped here. Next consider the relocation industry. The big cities are, by and large, congested in India.

RELOCATION INDUSTRY

An important reason is the high price of land, which is, in turn, due to factors like the License Raj in the real estate sector in much of urban India. On the other hand, the price of rural land is high due to factors like the Land Acquisition Act, 2013 though there has been some dilution at the State level. Overall, there is an additional factor, which keeps the price of land high in India.

Four new industries — safety, cleanliness, relocation and relaxation — are vital for creating jobs and spurring growth while also making our lives happier

This is financial repression in the financial sector, which has implications in terms of high demand for alternative assets like real estate. Even the public authorities are "hoarding" land on a large scale. Land is substantially underutilised and mis-allocated in India. Farmers own land that has a high "market" price but low fundamental value. Their farm incomes are low and they are unhappy.

On the other hand, the urban population lives in small and expensive homes; a large proportion of the citizens live in unauthorised colonies, and slums. They are also unhappy. This is when we have abundant land in the aggregate for all practical purposes. A change in policy can lower the average price of land. New cities including new hill stations can be built, or the existing small cities can be extended meaningfully.

This endeavour needs to be with the involvement of good real estate developers who can provide, or advise on providing, an entire ecosystem in which people are themselves willing to relocate in new places in a phased manner. We can have more construction in a planned way, higher output, employment, and happiness.

RELAXATION INDUSTRY

We have so far considered the safety industry, the cleanliness industry, and the relocation industry, which can also reduce the price of land. All this can be useful in expanding the relaxation industry. This includes a very diverse mix. It includes more public parks, theatres, clubs, museums, sports complexes, holiday resorts, and cycling. We can take it all further to include even our own version of pubs. The relaxation industry also includes economical open-air cafeterias once we have clean air, etc. Let us now come to something very different in the relaxation industry. The opposite of relaxation is stress. There is stress amongst the people who have cases stuck in courts and also amongst those who tolerate injustice because they cannot go to courts, given the massive time and money it takes. Precious resources in the economy are, in the meanwhile, under-utilised due to pending decisions.

There is a need to expand the judiciary by reallocating some public spending and by changing some policies. People will be less stressed, they can focus on work, rights can be clearer, and resources can be utilised, or utilised in a better way. This contributes to higher GDP and happiness.

The writer is an independent economist. He taught at Ashoka University, ISI (Delhi) and JNU

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Trump waives US shipping law for oil and gas

Century-old law waived to ease US pump prices

Jennifer A. Dlouhy

US President Donald Trump temporarily waived a century-old shipping mandate to lower the cost of transporting oil, gas and other commodities around the US, marking his latest bid to combat the rise in energy prices spurred by his war in Iran.

The President on Wednesday authorized foreign-flagged vessels to transport a range of commodities between US ports for the next 60 days. The short-term waiver of the Jones Act — a 1920 law designed to promote US shipbuilding — has been cast by the Trump administration as a way to ease the shipment of energy products vital to national security and prevent shortfalls that could disrupt military operations.

"President Trump's decision to issue a 60-day Jones Act waiver is just another step to mitigate the short-term disruptions to the oil market as the US military continues meeting the objectives of Operation Epic Fury," White House Press Secretary Karoline Leavitt said in a statement. "The Administration remains committed to continuing to strengthen our critical supply chains."

The Jones Act mandates that cargo carried between US ports must be transported on US-flagged, -built and -owned ships. The waiver exempts those requirements for some cargoes, allowing foreign vessels to temporarily ship several products. That includes coal, crude oil, refined petroleum products, natural gas, natural gas liquids, fertilizer, anything using refined petroleum products as a primary feedstock and other energy derivatives, according to White House officials who asked for anonymity because details of the authorization were not yet public.



OIL MOVEMENT. Price pain REUTERS

Waiving Jones Act restrictions could reduce pressure on prices by allowing lower-cost foreign tankers to move around the country. The action is poised to cut the price of shipping crude from the Gulf to refiners on the US East Coast and gasoline and diesel products to populated markets in the US Northeast.

Waiving the Jones Act could save East Coast motorists roughly 10 cents a gallon, according to a 2022 JPMorgan Chase & Co. estimate.

"The Jones Act prevents gasoline from being delivered by barge from the Houston Ship Channel to the Port of New York and other East Coast destinations because it makes shipping prohibitively expensive," said James Lucier, managing director at research group Capital Alpha Partners.

The action is one of a number of steps Trump has taken or proposed in recent days as he seeks to counter the spike in crude and gasoline prices during the war. BLOOMBERG

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23 Mar 2026

Demographic fixation

AP set to repeat failed pronatalist projects in China, Japan

The draft Population Management Policy recently unveiled by Andhra Pradesh Chief Minister N Chandrababu Naidu marks a continuation of the State's long record of intrusive demographic engineering. The new population policy attempts to raise fertility, from a total fertility rate of around 1.5 towards replacement levels by offering financial incentives for a third child, extended maternity benefits, subsidised fertility treatments and childcare support.



Among the southern States, AP has long stood apart for adopting a rigid, neo-Malthusian approach to population control, often at the expense of women's reproductive autonomy. The policies extended into coercive disincentives including barring couples with more than two children from contesting panchayat elections. Such measures effectively linked civic participation to reproductive behaviour, subordinating individual choice to demographic targets. By focusing narrowly on fertility reduction under the rubric of Reproductive and Child Health (RCH), AP allowed other critical dimensions of women's health to deteriorate. It now records one of the highest hysterectomy prevalence rates in the country at 8.7 per cent of the women aged 15-49, nearly three times the national average of 3 per cent. The rate of caesarean deliveries is similarly alarming at 42.4 per cent of institutional births, double the national average of 21.5 per cent. Equally concerning is the persistence of early marriage. Nearly 29 per cent of women aged 20-24 in the State were married before the age of 18, more so in rural areas. The State's aggressive population policy has prioritised demographic targets over holistic well-being.

These statistics point to systemic distortions in healthcare delivery where women's bodies become sites of medical and policy excess. The shift now underway does not dismantle this framework; it merely inverts its objective. International experience offers little comfort. Countries such as South Korea, Japan and China have all deployed extensive incentives to boost fertility, with limited or no success. The lesson here is that financial incentives may alter the timing of births but they rarely change the number of children families choose to have. Fertility decisions are shaped less by one-off financial incentives than by factors such as education and housing costs, career pressures and the difficulty of combining work and family life.

AP's policy raises a deeper concern about rights. Having once imposed limits on family size, the State now proposes to encourage larger families, without addressing the structural inequities that constrain women's choices. If demographic anxieties are driving this shift, there are less intrusive solutions. Labour shortages can be addressed through inter-State migration, especially from other populous States such as Uttar Pradesh and Bihar. The challenge is not the absence of people, but how effectively they are educated, employed and able to move to where opportunities exist.

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Realising solar power's potential for energy security

Decentralised solar's potential can be best realised by pushing localised consumption in the form of EV charging stations

TK Ramachandran
TR Shreyas

Recent geopolitical tensions in the Gulf have once again highlighted the fragility of global energy supply chains. For a country like India, heavily dependent on imported fossil fuels, improving energy security is both an economic and strategic priority. Diversifying energy sources — including nuclear power, biofuels, solar and wind — is therefore essential.

Among these, solar energy has emerged as a cornerstone of India's energy transition. The country has rapidly expanded solar capacity to 130 GW over the past decade through a mix of large solar parks and distributed rooftop installations. Yet as solar generation grows, new challenges are emerging in integrating it into our power systems and grids.

Large-scale solar (LSS) plants benefit from economies of scale and have driven much of India's solar capacity expansion. But they also depend heavily on transmission infrastructure to carry electricity from remote generation sites to urban consumption centres. Building these transmission corridors is expensive and time-consuming, and in several cases inadequate transmission capacity has delayed the evacuation of power from solar parks. This is in addition to T&D losses.

Rooftop solar systems offer a different model: generation close to the point of consumption. Programmes such as the PM Surya Ghar rooftop solar scheme seek to expand household solar adoption and reduce dependence on centralised power generation. In principle, this decentralised approach should reduce pressure on long-distance transmission networks.

However, distributed solar generation brings its own complications. When households generate more electricity than they consume, the surplus is typically fed back into the grid through net metering.

TWO-WAY FLOWS

Electricity networks, however, were historically designed for one-way flows — from large power plants to consumers. Managing two-way flows from thousands of rooftop installations can create operational challenges for distribution companies, including voltage fluctuations and grid instability during periods of high generation.

Utilities also worry about revenue losses when high-paying residential consumers offset their electricity purchases through rooftop solar. As a result, several States have introduced additional charges or restrictions that reduce the attractiveness of rooftop installations.

Technological solutions such as smart grids and battery storage can partly address these challenges. 'Time-of-day tariffs', for instance, can encourage consumers to shift electricity usage to periods when solar generation is abundant. Properly sized battery systems can store excess electricity generated during the day and release it in the evening when demand peaks.



ROOFTOP SOLAR. Several States have introduced additional charges

But another approach also deserves attention: aligning decentralised solar generation with decentralised consumption.

In many households, solar generation peaks during the daytime when residents are away at work and electricity demand is relatively low followed by a demand surge in the evening when solar generation falls. Other countries have faced similar problems: In California, grid operators call it the "duck curve". This mismatch results in surplus power being exported to the grid during the day and imported at night.

One way to absorb surplus daytime generation locally is through increase in local daytime consumption. Electric vehicle (EV) charging can be an option; specially since it fulfils our transportation energy needs also. India's EV transition is currently constrained by the limited availability of charging infrastructure.

Recognising this, the government has announced plans to expand public charging stations under the PM-DRIVE scheme.

There may be an opportunity to link these two initiatives.

Most rooftop solar installations under the PM Surya Ghar programme are relatively small, averaging around 3 kW. Individually, households may generate only modest surpluses during the day. However, when multiple installations within a neighbourhood or residential complex are considered together, the aggregated surplus could be substantial.

Residential colonies and apartment complexes, especially, could potentially pool excess solar generation to operate shared EV charging stations during the day. Such localised energy pooling could help absorb surplus electricity that would otherwise be exported to the grid in small, fluctuating quantities.

VOC Port at Tuticorin has done this at a large scale: localised solar power generation and a fleet of EV vehicles to add to local consumption which is highly cost-effective.

The benefits could be significant. Distribution companies would face fewer challenges in managing bidirectional flows and voltage fluctuations. The need for costly transmission infrastructure would be reduced. At the same time, EV users would gain access to more convenient charging

Ramachandran is former Secretary, MoPSW, GOI, and Shreyas is a public policy and IT consultant. Views are personal

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India's economy resilient despite West Asia headwinds

Nirmal K Minda

India's economy continues to grow rapidly, with GDP expected to rise by 7.6 per cent in FY 2026, and exports likely to stay steady at 6 per cent. Looking ahead, growth is expected to remain above 7 per cent in FY 2027, even as global growth is projected to fall below 3 per cent.

Despite geopolitical and tariff challenges, India has grown by more than 7 per cent over the past three years. The Purchasing Managers' Index at 56.9 for manufacturing and 58.1 for services was the highest among the top economies, the US, China and Germany, in February 2026.

India's export trajectory remains steady, increasing by around 6 per cent from April to February 2025-26, reaching $791 billion, up from $748 billion in the same period last year.

Exports are strongly supported by engineering goods, electronics, chemicals, gems and jewellery, and agricultural products. India has numerous diversification opportunities in advanced, emerging, and developing economies.

On the gas and energy front, India maintains a buffer through strategic petroleum reserves and significant commercial stocks, offering an energy cushion of 50-60 days that surpasses the global average. Additionally, India has diversified its crude import sources, drawing supplies from numerous countries, including Russia, the US, Canada, Brazil, and Mexico.

At the current juncture, strict oversight of supply chains must be enforced to prevent traders or intermediaries from hoarding petrol, diesel, and LPG.

Maintaining reliable fuel supply and



ECONOMY. Robust outlook REUTERS

public confidence are essential to avoid unnecessary market panic. A coordinated policy approach that includes supply monitoring and strategic stock management will help India navigate global energy fluctuations while safeguarding economic stability.

However, a prolonged US-Israel-Iran conflict could raise logistics costs and lead to price volatility, putting pressure on the transport, logistics, manufacturing, and consumer goods sectors.

MSMEs, which form the backbone of our journey towards Viksit Bharat, require support. Helping them become more resilient to global shocks will strengthen overall growth and job creation. Their working capital needs during global headwinds should be addressed.

The plug-and-play industrial development under the Bharat Industrial Development Scheme (BHAVYA) marks a historic breakthrough in India's manufacturing sector. A seamless, end-to-end ease-of-doing-business model, from approvals to operations, will meet the aspirations of a new India and contribute to the vision of Viksit Bharat.

The writer is President, ASSOCHAM

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Hazy signals from Iran war

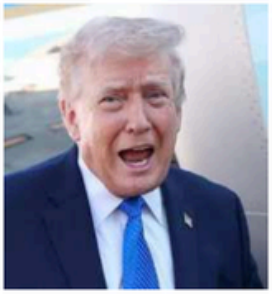
US' statements and actions are often contradictory

Sridhar Krishnaswami

If the objectives of starting the Iran war had been clear there would not have been a problem in deciphering the messages coming out of the US.

After joining hands with Israel and bombing nuclear facilities in Iran on February 28, Washington shifted its sights to regime change once Ayatollah Ali Khamenei was assassinated and the top line of the clerics wiped out in missile strikes by Israel.

But the ballgame soon changed when Teheran began striking Gulf nations that were seen supporting American war efforts.



SUBTLE SIGNS. Trump looking for a way out of the war mess REUTERS

IN THE DARK

While the conflict is into its fourth week, the international community is unaware of any steps being taken to de-escalate the situation but is witnessing conflicting statements and actions.

While US claims Iran is the "head of the snake for global terrorism", yet sanctions were lifted on its oil that were at sea — apparently about 140 million barrels — to facilitate the easing of oil prices that were roiling energy markets. However, Washington also put out word that steps would be taken to prevent Teheran from making money out of the sales. No one is sure though, how this is going to be done. Even Republican lawmakers don't seem happy. "Bombing Iran with one hand and buying Iran oil with the other," quipped one.

The conflicting messages are not confined to economics and trade. Militarily, President Trump announced that he was "winding down" the Iran war but almost in the same breath threatened to hit Iran hard should it obstruct transit through the Strait of Hormuz; reports indicate some 2,500 Marines were en route to the Gulf to augment the existing 50,000 or so already there.

Of course the additional boots does not mean that a land invasion is imminent or even on the cards. And the Pentagon is asking for an additional $200 billion for its Iran war efforts, a demand that is not sitting well with Congress.

While saying the war is "nearly complete" with little or nothing of Iran's military facilities left, the continued American and Israeli assault on Iranian infrastructure is baffling allies in Europe and Asia.

The Israeli hit on Iran's South Pars gas field brought forth a swift response on Qatar's LNG hub Ras Laffen. This threatens to further escalate retaliatory strikes to include the scores of desalination plants that are in the range of Iran's drones and missiles. Analysts believe that weaponisation of water will have disastrous consequences for the region.

The Trump administration claimed that it was not aware that Israel was going to strike South Pars; Tel Aviv, however, avers that Washington was in the loop.

In the maze of chatter are also subtle signals that President Trump is trying to wriggle out of the mess he has created.

And the first of the steps is in his saying that Israel has been told not to hit Iranian energy infrastructure. "I told him (Prime Minister Netanyahu) 'Don't do that, and he won't do that'". While Trump is still maintaining that he is not planning to land troops in Iran, the Israeli Prime Minister is wondering how the entire thing could be wrapped up without the "ground component".

BACK CHANNEL TALKS

Bringing the conflict to an end would face a larger problem if Tel Aviv keeps targeting individuals in the existing power structure in Iran. Even for back channel talks there must be moderates left to take decisions.

Leaving a vacuum at the top will only encourage attempts by fringe radical elements to grab power, the end result of which will not be in the interests of the international community.

The last thing Washington would want is a Teheran that is even more hell bent on going ahead with its nuclear weapons programme, intensifies its anti-Israel stance, or unleashes brutality on its people that would put previous regimes to shame.

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BRIAN JUDGE

Is the private credit boom going bust?



STRUCTURAL ISSUES. Signs of strain are already showing. The deals lack transparency, with layers of leverage, widespread self-dealing and offshore regulatory arbitrage

GETTY IMAGES/ISTOCKPHOTO

A defining feature of financial markets is that the most important information is often held by those least likely to reveal it. The system's inner workings are invisible to outside observers — which makes it all the more striking when leading Wall Street executives start sounding the alarm.

In October, JPMorgan Chase CEO Jamie Dimon warned of "cockroaches" lurking in the private credit market. His remarks quickly reverberated across the industry, with UBS Chairman Colm Kelleher pointing to the "looming systemic risk" posed by poorly regulated private credit, which he likened to the rating-agency failures that helped trigger the 2008 financial crisis. At its core, private credit is lending that takes place outside the traditional banking system. Loans are made by investment funds, often managed by firms that specialise in corporate buyouts.

Unlike bank loans or publicly traded bonds, these deals lack transparent pricing, an active secondary market, and meaningful regulatory oversight. Terms are negotiated privately, valuations are set internally, and the investors whose money is at risk — often pensioners and insurance policyholders — have virtually no ability to verify any of it.

Despite — or perhaps because of this opacity — private credit grew rapidly after the 2008 crisis, as banks pulled back from riskier lending and private credit funds rushed to fill the vacuum. Today, the industry manages roughly $3.5 trillion.

The rise of private credit is often framed as a story of financial innovation, with traditional banks retreating and nimbler private lenders stepping in. But a closer look reveals a troubling, eerily familiar pattern: layers of leverage, widespread self-dealing, offshore regulatory arbitrage, and a feedback loop that ties the savings of millions of retirees to risky bets on AI data centres, leveraged software companies, and bundled loans marketed as safe investments.

Much of this activity is driven by private equity. When private-equity firms acquire companies, they typically rely on debt provided by private credit funds. But the initial buyout is just the beginning, as portfolio companies often undergo multiple rounds of borrowing to finance additional acquisitions, re-financings, dividend recapitalisations, and restructurings.

A single deal can therefore generate several separate transactions. In many cases, the lender and the private-equity sponsor are affiliated, allowing the same parent company to collect fees on both sides of the deal while deploying other people's money — namely, retirees who believe their savings are safe.

Over the past decade, large alternative-asset managers have taken this model a step further by acquiring life-insurance companies. Apollo's 2022 merger with Athene, which has roughly $400 billion in assets and serves more than 535,000 policyholders, helped set the template: insurers provide a steady stream of capital, and affiliated asset managers channel it into private credit, with profits generated at every step, from insurance float to deal fees and carried interest. Nearly every major alternative-asset manager has since followed suit.

Traditional banks making similar loans operate under strict capital requirements. Unlike private credit funds, they must hold reserves against potential losses, submit to regulatory scrutiny that can force write-downs, recognise losses before borrowers default, and undergo stress tests whose results are publicly disclosed. Against this backdrop, it is hardly reassuring that roughly one-third of the US life-insurance industry's $6 trillion in assets is now invested in private credit.

Whether turmoil in private credit markets could trigger a broader financial crisis is impossible to know in advance, but that uncertainty is itself part of the risk

BERMUDA TRIANGLE STRATEGY

To boost returns, these firms employ what industry analysts call the "Bermuda Triangle" strategy, whereby a single sponsor controls three interlinked entities: a life insurer, an asset manager, and an offshore reinsurer. The insurer gathers premiums; the asset manager channels those funds into private credit deals it originates and prices; and the reinsurer — typically based in Bermuda or the Cayman Islands — assumes the insurer's liabilities under looser capital requirements than those imposed by US regulators.

The system is already showing signs of strain. Software companies, long a favoured target for private-equity buyouts because of their steady revenues and low capital expenditures, are being repriced as AI threatens widespread disruption. Private credit funds' exposure to the sector is an estimated $600-750 billion, fuelling liquidity pressures. Blue Owl recently restricted withdrawals from a $1.7 billion retail fund, and Blackstone's BCRED has recorded its largest net outflows since its inception. The shares of publicly traded alternative-asset managers have also fallen sharply.

These developments highlight a deeper structural problem. When the same firm originates a loan, holds it in a fund it manages, values it using its own models, and reports that value to an insurer it owns, the result is unlikely to reflect what an independent buyer would pay.

Whether turmoil in private credit markets could trigger a broader financial crisis is impossible to know in advance, but that uncertainty is itself part of the risk. Before 2008, few observers understood how vulnerabilities in the US subprime-mortgage market could cascade through the global financial system. There is no reason to assume that we have a better view of the risks in private credit markets today.

To be sure, none of this means a financial crisis is inevitable. But it does suggest that risk has migrated into less transparent structures, subject to lighter regulation yet still tied to government guarantees. The gains accrue to Wall Street, while the potential losses may once again fall on retirees and state insurance systems. In that sense, the echoes of 2008 are becoming hard to ignore.

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Plane truths

Airline ticket pricing should be transparent and fair

The Centre is justified in protecting passenger interests, by mandating that airlines make available at least 60 per cent of flight seats 'free' — that is, with no add-ons to the ticket price. The additional charges for such premium seats — which are typically towards the front of the aircraft or alongside windows and the aisle —sometimes account for between 5-10 per cent of the total fare. By also directing airlines to seat passengers on the same PNR together, the government has removed a pain point for travellers.



The new rules may not significantly impact finances of airlines as ancillary revenues — including seat prices, food and beverages and excess baggage — do not exceed 10 per cent of total revenues, in general. But they make a world of difference to passengers. There are two consumer concerns here: the price being paid; and whether this is disclosed upfront or concealed in hidden charges, only to be revealed when the 'payment' window comes up, as for example, convenience fee. Indeed, it is compelling to argue that in a free market, the government should not meddle with pricing decisions of business, but leave it to market forces instead. However, the question here is whether free market forces are really working in a duopoly market, one in which IndiGo is way ahead of Air India. To be sure, there have been both demand and supply side factors driving up prices. Geo-political disruptions have upset flight schedules and costs, while passenger traffic too has been rising sharply. Even in a more competitive market, prices would have risen; the question is, whether episodic price spurts are justified, and whether the consumer is duly informed about hidden charges while purchasing the ticket.

India is not alone in the matter of dealing with flyer-unfriendly practices. In 2024, the US' Department of Transportation came down on 'drip' pricing practices of airlines there and required the display of all fees at one go, though this was challenged in court. The UK issued similar norms on transparent pricing under a 2022 Act. The European Court of Justice recently ruled that airlines must refund the full amount paid — including booking fees — rather than slice up charges. The Centre should ask airlines and booking platforms to display the full cost of a ticket at the beginning of the booking process, rather than conceal it in convenience fees or seat pricing.

Rising passenger traffic conceals the fact that consumers are not a homogeneous lot — they could be corporate/institutional travellers, tourists, or budget-strapped individuals and families. Therefore, having more free seats is only fair. However, price regulation should be a light-touch affair — to monitor any unusual spike in prices, or hidden charges, while at the same time allowing demand and supply to adjust. In the long run, the best deal for consumers is to have more airlines. A level-playing field for smaller airlines is being attempted, but there's a long runway ahead.

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Petroyuan— a geopolitical signal

DOLLAR'S SWAY. Yuan is constrained by lack of capital account convertibility and PBOC control on exchange rate



RAM SINGH

Amid the Hormuz choke, Iran has signalled conditional openness to energy shipments by permitting oil cargo passage only if transactions are invoiced in Chinese-yuan (¥), a move widely seen as an attempt to challenge the long-standing dominance of the petrodollar system. This development has revived debate over whether the Petroyuan could emerge as an alternative currency for global energy trade.

However, replacing the dollar requires several structural attributes of an international currency, including deep and liquid financial markets, full capital convertibility, global investor trust, and reserve currency dominance, conditions that the renminbi still only partially meets. Therefore, decoding these structural constraints is essential to evaluate whether such shifts could realistically reshape global energy trade and what implications they may hold for India's energy security and financial stability.

PETROYUAN: THE CONSTRAINTS

Petroyuan is a signal, not a system, its growing use in energy trade reflects geopolitical intent to challenge dollar dominance, but structural constraints limit its emergence as a true global monetary alternative. First, from a monetary perspective, the ¥ remains only partially internationalised. According to the IMF, the Chinese-¥ accounts for 2-3 per cent of global foreign exchange reserves, compared with about 56 per cent held in US dollars (see table).

SWIFT data show that the ¥ accounts for 3-4 per cent of global payment transactions, even though China now invoices over 60 per cent of its trade in ¥, while the dollar still dominates with more than 40 per cent of global payments. A key constraint lies in China's continued reliance on capital controls.

Unlike the US dollar or euro, the ¥ is not fully convertible on the capital account, and its exchange rate remains managed by the PBOC. For energy exporters holding large trade surpluses, limited convertibility reduces the attractiveness of ¥ reserves. Moreover, wider ¥ use can constrain PBOC's monetary and liquidity management, particularly during inflationary cycles.

Petrodollar vs Petroyuan: Hype vs Reality

Dimension	Petrodollar (USD)	Petroyuan (RMB)
Monetary credibility & convertibility	Fully convertible currency; global reserve dominance (56% of global FX reserves). Independent central bank, Federal Reserve	Partially convertible currency with capital controls. RMB accounts for 2-3% of global reserves; exchange rate managed by PBOC
Financial market depth	Deep and liquid financial markets; US Treasury market >$26 trillion. Global investors can park oil revenues safely in dollar assets	Financial markets expanding but limited global participation; foreign holdings in Chinese bonds remain relatively low (<10%)
Forex & global payments role	USD dominates global payments (>40% via SWIFT) and >80% of global oil trade is dollar-denominated. India invoices over 85% trade in $	RMB accounts for 3-4% of global payments; limited use in global commodity pricing. Very limited use in India except in the case of some oil trade settlements with Russia
Institutional & regulatory framework	Strong rule of law, transparent financial regulations, investor protection, open capital markets	Regulatory opacity, strong state influence over banks and capital flows, limited investor protection perception
Energy trade & recycling mechanism	Oil exporters recycle petrodollars into US assets (Treasuries, equities, bonds). Large and liquid asset markets sustain system	Limited avenues to recycle large yuan surpluses globally; yuan-denominated oil futures exist but limited adoption
Geopolitical & strategic networks	Supported by US security alliances with Gulf oil producers and dominance of global financial infrastructure (SWIFT, dollar clearing)	China expanding influence via Belt and Road, currency swaps, and CIPS, but geopolitical trust and adoption remain limited

Source: Author's compilations based on IMF data inputs

Second, constraints within China's financial system limit the yuan's global role. Reserve currencies require deep and liquid markets capable of absorbing large international capital flows. The US Treasury market alone exceeds $26 trillion, offering a vast pool of safe assets for global investors and sovereign wealth funds.

Although China's government bond market is sizeable, around $20 trillion, foreign participation remains low, near 10 per cent of outstanding bonds. Capital controls, regulatory restrictions, and concerns over legal transparency discourage investors from holding large ¥-denominated assets. Moreover, China's financial system remains dominated by state-owned banks and policy-driven lending, weakening global confidence in market-based capital allocation.

Third, foreign-exchange recycling mechanisms for the ¥ remain limited. Under the petrodollar system, oil exporters particularly Gulf states, reinvest surplus revenues into US financial markets, especially US Treasuries and other dollar-denominated assets that provide liquidity, transparency, and legal certainty. China lacks a comparable ecosystem capable of absorbing large global energy surpluses. Although Shanghai hosts ¥-denominated oil futures, their trading volumes remain far smaller than benchmark Brent and WTI contracts.

India should strengthen the international role of the rupee through deeper domestic financial markets, and bilateral currency-swap arrangements

Geopolitical and institutional factors further reinforce dollar dominance. The US financial system is supported by global infrastructure such as SWIFT messaging networks, dollar clearing systems, extensive banking linkages and 'rule-of-law' unlike China's 'rule-by-law'.

Moreover, many energy exporters maintain deep strategic and security ties with the US, encouraging continued dollar invoicing. Despite China's currency swaps and Belt and Road settlements, most global oil contracts remain dollar-priced.

WAY FORWARD

Even as a geopolitical signal, Petroyuan-based invoicing warrants a nuanced policy debate in India, given its implications for energy security, monetary stability, and strategic autonomy. Given the dollar's liquidity, transparent pricing, and stable recycling, India should largely remain within the dollar-based system, while allowing selective ¥ invoicing to manage transactional flexibility, sanctions exposure, and growing unpredictability in US policy. Further, given the ¥'s partial convertibility, capital controls, shallow financial integration and state-controlled policy initiatives, it should be treated as a tactical tool, not a systemic alternative, with vigilance against excessive dependence on China's state-controlled financial ecosystem.

Second, India must simultaneously strengthen its export capabilities. Without a resilient balance of payments supported by strong export growth, India's ambition of rupee internationalisation will remain largely aspirational and confined to sanction-driven corridors.

In this context, India may explore emerging digital settlement architectures such as the mBridge platform, enabling corridor-specific payment arrangements with trusted partners. It is paramount given that India's existing rupee-trade settlement is also subject to risks of sanctions (Russia, Iran).

Third, strengthening foreign-exchange resilience remains essential. Maintaining robust and diversified reserve holdings including gradual integration of yuan in India's currency reserve amid opening of Chinese investment can be considered as a hedge to manage volatility arising from geopolitical shocks, commodity price fluctuations, or currency realignments in global energy markets amid escalating transactional opacity.

Fourth, India must deepen energy diplomacy beyond 'supplier diversification' to 'supplier integration' involving them as stakeholders in expanding its strategic reserve infrastructure. As India scales geo-economically and geo-strategically, its rise will certainly be tested under strategic rivalry and deterrence and, correspondingly, it must gradually scale crude oil and gas reserves to initially 90 days to become a member of IEA and eventually to 120-150 days.

Finally, India should gradually strengthen the international role of the rupee through deeper domestic financial markets, expanded bilateral currency-swap arrangements, and more resilient cross-border payment infrastructure. Such a balanced strategy, preserving dollar stability while cautiously expanding currency flexibility, will best safeguard India's energy trade, financial stability, and long-term strategic autonomy.

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PSUs and insolvency

Some invoke 'sovereign' function to bypass IBC

Pramod Srihari

The recent admission of insolvency proceedings against Cauvery Neeravari Nigam Limited (CNNL) by the NCLT has brought back the discussion of insolvency of public sector enterprises (PSEs). While the order was immediately stayed by the High Court of Karnataka and subsequently by the NCLAT, Chennai, it has reopened a larger institutional question — can state-owned enterprises invoke sovereign character to insulate themselves from a statute that is otherwise ownership-neutral? Can fiscal imprudence within PSEs can be shielded under the disguise of "sovereign functions," leaving contractors, vendors and lenders exposed to prolonged uncertainty.

The Insolvency and Bankruptcy Code 2016 (IBC) provides an option for re-hauling before destruction. There appears to be a recurring effort by certain PSEs to resist this by positioning themselves within the protective boundary of sovereign function.



NO CLARITY. On what is sovereign function under IBC ISTOCK

NATURE OF ENTITY

The issue surfaced prominently in *Hindustan Construction Company Limited v. Union of India*, where the Supreme Court observed that the National Highways Authority of India (NHAI), being an extended limb of the government functioning as a statutory body, could neither be operated by a resolution professional under the IBC nor be subjected to liquidation. The reasoning was rooted in the nature of the entity and the essential public functions it discharged.

It rests on the proposition that the IBC was conceived as a resolution framework and not a debt recovery tool, and therefore non-payment by a government enterprise, when linked to discharge of sovereign or public obligations, ought not to trigger insolvency consequences that may disrupt those functions.

The Code does not distinguish between private companies and government companies at the stage of admission, nor does it confer superlative discretion upon tribunals to carve out exemptions based on ownership or functional character.The 16th Finance Commission Report for 2026-31 paints a sobering picture of the financial health of State and Central PSEs. Nearly half of the SPSEs — 541 out of 1,107 — are either loss-making or report zero net profits, with a significant number remaining non-operational. During 2022-23, aggregate losses across SPEs amounted to ₹1.14 lakh crore.

Loss-making CPSEs recorded annual losses of ₹51,419 crore in the same period. In the electricity distribution segment alone, outstanding debt has reached ₹7.08 lakh crore in 2023-24. The report also suggests that Cabinet takes cognisance of enterprises incurring losses in three out of four consecutive years and consider closure, privatisation or continuation of them. It is also in the interest of the government to monetise the assets or to choose IBC as a route to provide closure of loss making or non-operational PSEs.

NCLT, born out of Companies Act 2013, has ostensibly been converted into a tribunal to adjudicate matters relating to insolvency. Whether it is constitutionally structured to conduct an expensive inquiry into the sovereign character of governmental functions so as to balance public law considerations against creditor rights requires further clarity. The High Courts in such circumstances become a natural forum to examine sovereign function claims, but the result is a fragmentation of the insolvency timeline that the Code was intended to compress.

A substantial proportion of PSEs operate in sectors that are sensitive and closely linked to public interest — irrigation, electricity distribution, transport infrastructure and other essential services. The insolvency framework now requires clarity and fine balance, ensuring that PSEs facing insolvency risk exercise financial prudence and contractual compliance, and clarity on what constitutes sovereign function under IBC. Clarity in this area will shape not only the future of distressed PSEs but also the balance between public purpose and commercial discipline.

The writer is a chartered accountant and insolvency professional

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Selling strategy

Larger stake offer, better pricing can aid IDBI Bank sale

Recent reports on the aborted strategic sale of IDBI Bank have raised questions about the structuring and pricing of the offer. The strategic sale seems to have been scrapped after bids from the two prospective buyers — Emirates NBD Bank and Fairfax India — fell short of the reserve price. An earlier attempt to privatise IDBI Bank in 2016 fell through due to high valuations demanded by the Centre.



Given the existing client base and business of the bank, it may not be too hard to find a strategic buyer wanting a foothold in the fast growing Indian banking industry. But the Centre should be more reasonable about the price and be open to giving full control to the buyer. IDBI Bank has turned around its operations since LIC bought a majority stake for ₹21,624 crore in 2019 to bail out the bank. Asset quality has improved, with net NPAs at 0.18 per cent and gross NPAs at 2.57 per cent towards the end of December 2025. The bank is well capitalised with Tier 1 capital at 23.53 per cent. Business growth is steady with credit growth of 15 per cent and deposit growth of 9 per cent in the third quarter of FY26 compared with the same quarter last fiscal year. While net interest margin has been squeezed slightly due to RBI's rate cuts, it still stands at a steady 3.52 per cent. Even so, there has been a sharp rise in stock price over the last six months, ahead of the proposed disinvestment. The IDBI stock has been ruling at about twice the levels of other mid-cap private sector banks. This market distortion needs to be recognised by the committee advising on reserve price for the disinvestment. If the stock price and market capitalisation were to be factored into the reserve price, it would be much higher than the fundamental value of the bank.

Advisers to the IDBI Bank disinvestment could have considered offering a higher stake to the strategic buyer. Offering 60.72 per cent stake, with the Union Government continuing to hold 15 per cent and the LIC 19 per cent, may not have been acceptable to the buyer, who may have been worried about undue interference in operations. The Centre and LIC can consider offloading their entire stake in IDBI Bank, as was done in some earlier strategic disinvestments two decades ago. This gives the buyer greater visibility on managing the business.

Alternatively, if the Centre is loathe to let go of control, it may be a good idea to divest partial stake through the offer for sale route. With the public shareholders holding only 4.6 per cent stake, the floating stock is quite small, leading to distortion in pricing of the IDBI stock. Increase in the floating stock can help improve price discovery and prevent stock price manipulation by speculators, which can aid pricing of future strategic sales. Broadly speaking, disinvestment should be seen as a structural reform exercise, and not a mere Budget entry to plug the fiscal deficit.

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India must aim to become a global aviation hub

The present war opens up an opportunity for India to model its airports and airlines along the lines of Dubai and Singapore

Jitamitra Desai

India, as the world's third-largest domestic aviation market and projected to become the third largest globally by 2030, the potential for growth is immense.

Yet much of the value generated by Indian passenger traffic bypasses the national economy, flowing instead into the sophisticated ecosystems of Dubai (DXB), Singapore (SIN), and Doha (DOH). Every year, millions of Indian travellers detour through these cities, enriching their airlines, MRO facilities, fuelling stations, and retail sectors.

Given the current geopolitical trends in the Middle East, the time is ripe for Indian aviation firms to swiftly occupy this space and transform India into a global aviation hub.

The highly successful models of Emirates Airlines/DXB and Singapore Airlines/SIN represent a holistic strategy that "integrates the airport with a strong anchor airline", driven by competitive policies, world-class infrastructure, and government-backed economics. In both Dubai and Singapore, aviation is seen as a strategic growth lever.

It begins with these hubs boasting infrastructure designed for seamless, high-volume transit. DXB and SIN are engineered for minimal connection times, with immigration (typically a bottleneck in most airports) being mostly automated, smooth in-transit security checks, and baggage handling that enables quick international-to-international transfers, all of which are cornerstones of the "hub-and-spoke" model.

A dominant "home/anchor carrier" is crucial for feeding any hub-and-spoke system. Singapore Airlines and Emirates Airlines operate extensive wide-body fleets, linking global cities to their "hubs" and then distributing passengers to smaller "spoke" destinations. They also invest heavily in MRO facilities and aircraft financing onshore, keeping the value within their respective ecosystems.

TAX INCENTIVES

In terms of costs, Dubai treats aviation turbine fuel (ATF) as a zero-tax export input, while Singapore exempts it from value-added tax (VAT), thereby directly linking prices to international benchmarks and significantly reducing operating costs. Another example is DXB that benefits from not having any "night-flying" restrictions, allowing Emirates Airlines to achieve industry-leading aircraft utilization rates.

To facilitate transfers from flights across the globe, Singapore has signed over 80 "open sky" agreements, allowing unlimited flights and fifth-freedom rights, thereby increasing connectivity dominated by Singapore Airlines. This aviation strategy is also seamlessly integrated with national tourism and trade goals. Changi Airport's "Jewel" complex and Dubai's transit tours exemplify this market model.



AVIATION. Flying high

The combinations of Singapore Airlines (controlling stake owned by Temasek Holdings) and Changi Airport Group (wholly controlled by the Singapore Government) as well as Emirates Airlines and Dubai Airport (owned entirely by the Investment Corporation of Dubai) are essentially state-owned entities. However, with India adopting the public-private partnership (PPP) model for its large metropolitan airports, a state-owned entity mechanism is not viable and therefore this hub airport-anchor airline combination can only be implemented by a private operator who owns either an airport or an airline.

The largest private firms operating in the aviation space in India are Adani Airports Holding Ltd (which controls eight airports in India, with the largest being Mumbai airport), GMR Group (which controls six airports in India and two internationally, with the largest being New Delhi airport), InterGlobe Aviation that owns IndiGo airlines (65 per cent domestic market share) and the Tata Sons that controls Air India (25 per cent domestic market share). If India aspires to be a global transit hub in the near future, the mantle of execution rests on one of these four companies.

Adopting this hub airport - full-service carrier airline synergistic model through a consortium of private firms is a strategic imperative, a path to transforming India from a major origin-destination (O-D) market into a global transit destination via a hub-and-spoke model, capturing significant economic dividends and strengthening global connectivity. A strong aviation hub along with an anchor carrier also strengthens India's geopolitical influence and "soft power", providing resilient connectivity and reliable cargo services crucial for trade and supply chains.

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AMARENDU NANDY



REUTERS

What does the oil shock mean for the economy?

RIPPLE EFFECT. Higher import bill and a sharper decline in terms-of-trade would weaken the rupee further and push up inflation, too

The ongoing US-Israel conflict with Iran, which has disrupted activity around the Strait of Hormuz, has revealed several weaknesses in India's macroeconomic position.

According to the Petroleum Planning and Analysis Cell (PPAC), India's crude oil basket averaged $69.01 in February. However, a month later, it has surged by about 112 per cent to $146.09 per barrel. India imports about 90 per cent of its crude oil, much of it from the Middle East, and a large portion of that supply moves through the Strait. For India, this means not only a higher import bill but also the risk of a sharper decline in the terms-of-trade. Essentially, the country would need to export more goods and services just to pay for the same amount of energy, which would mean a real income transfer to other countries.

This shock comes at a time when the external account is already under pressure. In February 2026, merchandise imports totalled $63.71 billion, while exports were only $36.61 billion, resulting in a monthly deficit of $27.1 billion. That deficit had already widened before crude prices began to rise, partly due to increased imports of gold and silver. Meanwhile, the rupee explores new lows every other day, increasing the domestic cost of imported oil and further straining the import bill.

Foreign investors have also started reacting to these vulnerabilities. Nearly ₹56,883 crore left Indian equities in the first half of March, adding pressure to the current-account strain. Unless oil prices drop or policy counteracts this cycle, we may see a familiar pattern emerge. The rupee could weaken further, the import bill could rise, and the higher import bill would then further weaken the rupee.

For the RBI, the more complex issue is inflation, as price rises from imported energy behave differently. It affects transport, fertilizer, LPG, and industrial intermediates. This type of inflation is broader and stickier, and it doesn't respond quickly to changes in domestic interest rates. Central banks can often overlook short-term supply shocks.

But a geopolitical oil shock that also weakens the exchange rate provides little comfort. Once currency devaluation influences energy prices, and energy costs drive core inflation, the transmission is already underway. March CPI will likely reflect some of that pressure. Thus, the RBI might face the tough choice of tightening policy amid a slowing investment cycle or holding back and risking a resurgence of inflation.

SOME DEFENCES

That said, India has some defences. Services exports from April to January reached $354 billion, remittances hit $135.4 billion in FY25, and foreign exchange reserves, although below their late-February peak after RBI intervention, remain over $715 billion. These buffers give policymakers some room to act calmly.

Right now, the top policy priority must be household access to energy. An LPG price shock is not distributionally neutral and affects lower-income households the most because cooking fuel is non-discretionary. If crude prices stay high, policymakers need to be clear about who bears the burden. We should avoid the usual habit of hiding costs in oil-marketing companies' balance sheets, as this only delays the necessary adjustments and makes future corrections more complicated.

The RBI might face the tough choice of tightening policy amid a slowing investment cycle or holding back and risking a resurgence of inflation

The second priority should be allowing the exchange rate to adjust. When the current account is under stress, some depreciation of the currency is not a policy failure; it is part of the adjustment.

Trying to maintain a fixed nominal rate that the balance of payments can no longer support will simply burn reserves and postpone necessary corrections. The RBI should definitely prevent chaotic depreciation, but it should not resist depreciation itself, as this could be costly.

Third, we must protect public capital expenditure. When fiscal pressure increases due to prolonged oil price shocks, essential investments in infrastructure, logistics, and energy diversification are often the first to be cut. However, this is the wrong trade-off. Reducing capital expenditure to manage a temporary revenue shock sacrifices long-term growth for short-term gain, especially when private investment is also likely to decline. In such situations, public capital expenditure becomes not just a driver of growth but also a stabiliser. Maintaining it during a commodity shock is crucial for sustaining medium-term growth.

Lastly, India has documented its vulnerability to the Strait of Hormuz in successive energy policy reports without significantly addressing it. The ongoing conflict has simply priced this risk. Every dollar increase in the Indian crude basket above its pre-war level is, in some sense, a tax on the failure to diversify earlier. Long-term contracts, diversified suppliers, and increased storage capacity must be integral to this adjustment.

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India-EU FTA, a 'circular' handshake

Axel Darut
Shalini Goyal Bhalla

The landmark Free Trade Agreement (FTA) between the European Union and India is not just a trade deal. It is a blueprint for circular globalisation.

The global economy is currently only 7.2 per cent circular, far from what climate stability requires. The EU-India FTA attempts to narrow this "Circular Gap" by embedding sustainability within trade architecture. The objective is not simply more trade, but trade that reduces material intensity and environmental risk.

One of the most consequential tests of this alignment lies in the EU's revamped Waste Shipment Regulation (WSR). India has formally applied to import certain non-hazardous EU waste streams, including high-grade metal scrap and recovered paper. The European Commission is currently reviewing India's capacity to manage these materials under environmentally sound management criteria. If the Commission identifies regulatory gaps, exports of green-listed materials could face restrictions by 2027.

If approved, however, the arrangement could secure flows such as the 2.3 million tonnes of recovered paper currently used by Indian mills. This would convert a traditional waste narrative into a strategic resource partnership: European secondary materials feeding Indian manufacturing, which in turn exports finished goods back to the EU. The FTA provides the framework. The WSR review will determine whether the circular loop closes.

DATA-BEARING ASSET

The most transformative element for Indian exporters is the EU's Ecodesign for Sustainable Products Regulation (ESPR) and its Digital Product Passport (DPP). Under this framework, every product becomes a data-bearing asset. A garment made in Tirupur or a pump manufactured in Pune must carry scannable information detailing durability, repairability, material composition, and environmental footprint. Compliance shifts from paperwork to embedded digital traceability.



TRADE DEAL. It expands opportunity, but its impact will not be determined by tariffs alone ISTOCK/OLEKSII LISKONIH

Initially perceived as a potential non-tariff barrier, the DPP is better understood as a competitive upgrade. Firms able to document circular performance gain credibility in a regulatory environment shaped by instruments such as the Corporate Sustainability Due Diligence Directive. However, the transition is uneven. Large, integrated manufacturers may adapt quickly. For smaller and unorganised enterprises, the technical and financial barrier of "circular data" is steep. The challenge is ensuring the DPP becomes a tool for formalisation rather than exclusion. If implemented inclusively, "Made in India" could evolve into "Circular by Design."

Between European regulatory ambition and Indian manufacturing scale lies an unresolved question: who finances circular compliance? For Indian MSMEs whether in knitwear clusters, brass component hubs, or recycling mills, ESPR, DPP, and WSR requirements translate into upfront investments in testing, digital systems, audits, and skilled compliance teams. This exposes a structural mismatch. EU rules are designed for firms with strong balance sheets and mature digital systems. Many Indian MSMEs operate on thin margins and limited access to patient capital. The FTA's success may depend less on tariff reductions than on financing models. Green finance and development finance must treat circular compliance as a productivity upgrade.

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The war opens up renewable energy pathway



GREEN ROAD. The Iran war has laid bare the fiscal strain of energy price volatility. States have to play a key role in the renewable push

GETTY IMAGES



VIBHUTI GARG
SALONI SACHDEVA MICHAEL

The Russia-Ukraine war, Covid-19 pandemic, and now the West Asia conflict have repeatedly exposed a persistent reality: Fuel systems remain highly vulnerable to global disruptions, triggering price spikes and fuel supply shocks. This has only strengthened the case for India to accelerate its shift to domestically produced electricity, increasingly powered by renewables.

In FY23, the Russia-Ukraine war pushed India's average crude price to $93 (₹8,600) per barrel, up 17.6 per cent from the average $79 (₹7,300) in FY2021-22. Following the tensions in West Asia, the price of Indian crude saw another surge, from $69 (₹6,400) per barrel in February 2026 to a month-to-date average of $114 (₹10,300) in March.

Similarly, global spot liquefied natural gas (LNG) prices spiked after Qatar, a key supplier to Asia, shut production, cutting 20 per cent of exports overnight. Meanwhile, In India, Adani Total Gas Ltd (ATGL) raised prices for commercial and industrial (C&I) customers from ₹40 ($0.43) to ₹119 ($1.27) per standard cubic metre. In the absence of gas, coal prices also rose around 14 per cent, a smaller increase compared to LNG, but still indicative of the ripple effects across the global energy market.

These swings highlight how global disruptions quickly raise energy costs, forcing governments to secure alternate supplies and protect consumers from price shocks.

FISCAL IMPACT

India's fossil fuel import burden is rising even without a proportional increase in volumes. Net crude and petroleum products imports increased from 220 million tonnes (mt) in FY24 to 229mt in FY25, while the import bill climbed from $108.6 billion (₹9,00,521 crore) to $116.4 billion (₹9,85,032 crore).

LNG imports also grew from 20 million metric tonne (mmt) in FY23 to 27mmt in FY25, even as the import bill fluctuated from $17 billion (₹137,210 crore) to $13.4 billion (₹110,994 crore) in FY24, before rising to $15 billion (₹1,25,953 crore) in FY25. This rising dependence on imported fuels keeps India vulnerable to global price swings, with a worsening tonne-per-dollar ratio indicating higher costs per unit of imports.

These pressures are not limited to oil and gas. India imported about 248.5mt of coal in FY25, marginally lower than in previous years. Imported coal prices had been easing between 2023 and 2025, but the West Asia conflict disrupted that trend, renewing upward pressure across global benchmarks.

As of March 16, Richards Bay (South Africa) coal price stood at $132.3/tonne (₹12,353/tonne) and Newcastle coal at $111.35/tonne (₹10,397/tonne), both remaining elevated. For India, the world's second-largest importer of coal importer and third-largest of oil, this carries significant macroeconomic risks. During peak demand periods, the power sector turns to expensive imported fuels, including coal, reinforcing dependence on volatile global markets.

With the electrification of cooking and mobility sectors, renewable energy will no longer be just a climate solution but emerge as a new domestic fuel

Every $10 (₹930) per barrel increase in crude prices is estimated to raise India's oil import bill by $14-16 billion (₹1,300-1,486 billion), amplifying fiscal pressures and widening the current account deficit.

SHIFT TO ELECTRIFICATION

Fortunately, India's electricity transition is underway. Its impact, though, will remain limited unless electrification accelerates across end-use sectors. Electricity accounts for only about 19 per cent of the total final energy consumption, and even with renewables supplying a quarter of that, clean energy remains a small share overall. This makes it critical to both expand electricity demand across end-use sectors and green it.

The potential for such a shift is increasingly visible across sectors. In cooking, a gradual move from LPG to induction cookstoves can reduce reliance on imported fuels. In transport, electric vehicles (EVs), which crossed 2 million registrations in 2025, are beginning to reduce oil demand in urban systems. In industry, accounting for 42 per cent of total electricity consumption, electric boilers, heat pumps and furnaces can replace fossil fuel use.

As these sectors electrify, renewable energy will no longer be just a climate solution but emerge as a new domestic fuel. As of February 2026, India has 266 gigawatt (GW) of installed renewable energy capacity, including large hydro, accounting for nearly 51 per cent of total installed power capacity. Solar alone has grown nearly 50-fold over the past decade — from 3GW in 2014 to about 143GW as of February 2026.

STATES WILL DRIVE TRANSITION

The current fuel disruptions highlight how India's energy transition will be shaped by States. As LPG supplies tightened, households rapidly shifted to electricity. In Gurugram, electricity consumption increased by over 80 lakh units in just nine days as households and small businesses switched to electric cooking, exhibiting how States with reliable power supply and higher renewable penetration are better placed for this transition.

The Indian States' Electricity Transition (SET) 2026 report by the Institute for Energy Economics and Financial Analysis (IEEFA) and Ember identifies Karnataka, Himachal Pradesh and Kerala as leaders in decarbonisation, better positioned to support electrification. Andhra Pradesh, highlighted in SET 2026 for its proactive policy and regulatory ecosystem, has already begun scaling e-cooking by deploying induction stoves in Anganwadi centres.

Going forward, State-specific actions on grid readiness and renewable integration will be critical. It is estimated that over 35GW of renewable capacity could face curtailment in FY27 due to transmission bottlenecks and grid constraints. Hence, building renewable capacity alone will not suffice, States must ensure power can be delivered, absorbed and used effectively.

For C&I consumers, unreliable electricity forces a fall back on expensive imported fuels. Expanding open access and short-term power markets can enable procurement of cheaper renewable electricity and avoid these alternatives. While energy shocks are inevitable, their impact will depend on India's preparedness — reducing reliance on imported fuels; building a flexible and domestic electricity system backed by resilient grids, storage, and green hydrogen; and securing critical minerals supply chains.

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Tax on mobile data usage isn't a good idea

Apart from being legally fragile, the tax would result in double taxation and price out marginal users

Mohan R Lavi

"No government can exist without taxation. The money must necessarily be levied on the people; and the grand art consists of levying so as not to oppress." This quote is believed to have been used between the 18th and 19th centuries while discussing the proper limits for taxation.

The government is reportedly examining a levy on mobile data consumption — a flat charge of ₹1 per GB — with the Department of Telecommunications asked to submit a feasibility report by September 2026.

The proposal, it is said, serves a dual purpose: augmenting telecom revenues and curbing the growing digital addiction among children. Both objectives, however admirable in isolation, do not justify the tax. The proposal is Constitutionally vulnerable and would be practically unworkable.

ATTRACTIVE REVENUE

The revenue rationale gives clear signs of double taxation. India consumed approximately 229 billion GB of mobile data in FY25. At ₹1 per GB, the projected revenue is around ₹22,900 crore. This figure sounds impressive until one remembers that consumers already pay 18 per cent GST on every mobile recharge. A data consumption levy would, in effect, be a second tax on the same transaction — once when the plan is purchased, and again each time the data is used.

The GST Council has carefully constructed a framework where the supply of telecom services is taxed at the point of service. Introducing a usage-based levy outside the GST architecture raises the question: Under which Entry of Schedule VII does Parliament derive the power to enact this? If it is treated as a tax on services, it must be within GST. If it is levied as a fee or cess, it must demonstrate a direct nexus with the service rendered. A flat per-GB charge with no regulatory quid pro quo satisfies neither description.

The second justification — reducing screen time among children — is also problematic. Taxation is a blunt tool which does not distinguish between who watches what on the same network. A ₹1 per GB levy falls with equal and indiscriminate force on everyone. If the concern is digital addiction among minors, the appropriate instruments are regulatory — age verification mechanisms, content restrictions, parental controls mandated under the Information Technology Act and its rules. To levy a general tax on the entire population to address the behavioural



DIGITAL ADDICTION. Use non-tax measures ISTOCKPHOTO

choices of a subset is disproportionate and could be challenged under Article 14 of the Constitution.

One must also examine what this proposal would do to India's digital achievement. Over the last decade, India has built one of the world's most envied digital ecosystems — affordable data, deep 4G penetration, and a rapidly expanding 5G network. The Economic Survey has also celebrated India's data democratisation. A consumption tax on data would effectively reverse this by pricing out the most marginal users — precisely those for whom digital access is still aspirational.

CONTRADICTIONS

There is another anomaly that is worth noting. Budget 2026 offers a tax holiday until 2047 to foreign cloud companies using Indian data centres. The government's intent here is clear — position India as a global hub for cloud and AI infrastructure, attract investments of over $200 billion, and integrate into global digital supply chains. But the data consumption tax proposal runs in the opposite direction. These two policies, considered together, reflect an internal contradiction.

The comparison with other jurisdictions is equally instructive. Most countries that seek to tax the digital economy do so by targeting the revenues of large technology platforms — the Googles and Metas of the world — rather than the consumption behaviour of ordinary citizens. A retail data tax of the kind being considered here has few precedents globally.

The better course is to rationalise the existing levy structure on telecom operators — spectrum usage charges, licence fees, and the AGR regime — rather than create new and legally fragile imposts. If digital addiction is a genuine public health concern, Parliament has the tools within the existing statutory framework to address it. What it need not do is to innovate new methods of taxation when existing regulations provide ample scope to augment revenues.

The writer is a chartered accountant

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Commercial pitch

IPL goes global with PE/VC entry, amidst questions

T-20 cricket has always been about mega bucks. But as the 19th edition of the Indian Premier League gets underway it is clear that its financialisation has assumed global proportions. This could alter the manner in which IPL monies are invested and its returns split between various stakeholders. PE/VC funding could reshape the commerce of cricket — and maybe the game itself.



Even before the first ball was bowled, it was the sale of franchises Royal Challengers Bengaluru (RCB) and Rajasthan Royals (RR) at eye-popping valuations — $1.78 billion for RCB and $1.63 billion for RR — that made big news. RCB was acquired by a consortium led by Aditya Birla Group, the Times Group, Bolt Ventures and Blackstone. RR was bought by a consortium led by US based tech entrepreneur Kal Somani, backed by US business families including Walmart. The entry of Blackstone and Walmart signals IPL turning into a global sporting property. To be sure, it has some way to go before it can catch up with NFL, NBA and English Premier League. But these two deals could also pave the way for other IPL franchises attracting foreign money. According to analysts, every IPL franchise now is worth more than $1.5 billion. IPL's business value stands at $18.5 billion and its brand value is $3.9 billion, according to Houlihan and Lokey, an NYSE-listed global investment bank. IPL's massive viewership is obviously the prime attraction for global investors. The 2025 season attracted 251 million TV viewers on Star Sports and 1,370 million viewers on the opening weekend on JioHotstar. The 2025 final attracted 678 million viewers on JioHotstar, the official streaming platform.

However, there are some concerns nevertheless over how much more the financial model can be expanded. The IPL has four major streams of revenues — media rights, sponsorships, ticket sales and franchise fees. The revenue model of IPL leans heavily on broadcast rights. BCCI shares almost 60 per cent of broadcast revenues with franchises. Though broadcast rights over the years have gone for huge sums, this seems to have plateaued with only one player bidding for it —JioHotstar that now also owns Star Sports. Ticket prices cannot be raised beyond a point. That leaves sponsorship and selling ad spots as cash cows. But will longer ad spots increase match duration and impact fan experience?

Foreign investors betting on the expansion of IPL into more franchises and matches could run up against scheduling problems with the international cricketing calendar and availability of foreign players. Cricket is perhaps the only global sport that is played across four formats — Tests, ODIs, T20 and the Hundred. The franchise-based model exists only in T20 and the Hundred. The rest are country-based formats. It remains to be seen how the globalised model plays out. Questions about what it does to the game *per se*, as well as cricket's parity or lack of it, with other sports will remain.

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LINE& LENGTH.



TCA SRINIVASA RAGHAVAN



This war will inflict severe economic pain

The government now needs to prepare the country for a period of erratic and limited supplies. Direct supply management poses an administrative challenge

It's now exactly 30 days since the US and Israel started the war against Iran. 30 because February has 28 days only and the fighting started on February 28.

Unless you are what's called 'hopelessly optimistic' or foolishly optimistic, you will concede that global output is not only about to shrink by a huge amount, perhaps a third or thereabouts. Germany thinks we are in for an 'economic catastrophe'.

Others may have a different estimate. But a massive shrinkage is around the corner. The only beneficiaries will be those who make and sell arms. But the expansion in their profits will not compensate for the losses of the rest.

This will not be the first time in human history for such a huge shrinkage. It's happened several times before. The last one was just five years ago after the Covid pandemic.

For the last 75 years various governments, whenever output has shrunk, have responded with Keynesian measures, spending more than they were earning as tax and other revenues. This has worked with varying degrees of success because the Keynesian solution assumes a deficiency in aggregate demand, not supply.

But this time it's the other way around. It's the supply that's going to be the problem. First of energy and then because of that, everything else. Unlike in the past, the problem can't be fixed by expanding central banks' balance sheets, that is, by massive government borrowing.

Specifically, no amount of deficit financing will restart the oil and gas wells in the Middle East for several years. They aren't like taps.

The US and Israel have thus kicked the global economy hard. For mind-boggling ineptitude this would be hard to beat.

WHAT IS TO BE DONE?

So what should governments do that will mitigate the impact of this kind of gigantic supply shock? One answer lies in ancient Indian and modern American history.

DD Kosambi, the great Marxist mathematician, pneumismatist and historian, wrote 70 years ago that by the end of 8th century Indian villages had become self-sufficient within small areas because trading with villages far away wasn't possible and thus limited supplies of many things. Those were the early trade groupings between villages in a 100-150 mile radius.

Rationing — limiting how much of something you can have — was imposed by the market itself because availability was both restricted and random. Consumption levels were very low anyway, so this sort of rationing didn't annoy the people.

Of course, energy supply wasn't the problem then because demand for it, unlike now, was entirely manageable. There was lots of wood available. This time it is not.

The shortages in energy and related supplies are going to cause a massive compression in global output. This has happened twice in the 20th century, that is, during the First and Second World Wars.

It's the supply that's going to be the problem. It can't be fixed by expanding central banks' balance sheets. Specifically, no amount of deficit financing will restart the oil and gas wells in the Middle East for several years

But even in those years, America didn't have to introduce rationing like Europe did, at least not very severe rationing anyway. Basically, it traded very little and was nearly self-sufficient.

So there we have it: we are going to see shrinking trade and self-sufficiency, just like in the 8th century. That will have to be the way ahead until the supply of energy from West Asia returns to its pre-February 28 levels, which experts say could take around five years.

SHORT SUPPLY IN INDIA

Indians are used to this state of affairs. The current generations have seen greater availability of things than the ones before 2000. But the idea itself is not alien. That makes the job easier for the government.

But the actual problem is different. The current lot of civil servants have no experience of direct supply management. We can expect them to make a gigantic mess of it because allocation and delivery is very, very hard to manage. That's the real danger the government faces today. I wonder if it's even aware of it.

The experience of food delivery during the Covid years was doubtless exemplary but that was because it was just wheat and rice that had to be delivered to everyone. Today, it's going to be very hard to deliver all the other essentials.

How, for example, will entitlement be determined, verified and executed? One can be sure that there is a good deal of thought being given to this but it's the State governments that have to do the actual work and their capacities are quite limited. Quite simply, they don't have trained staff and the administrative infrastructure for it.

Net-net, the government, having successfully quelled the panic over petrol and cooking gas, now needs to prepare the country for a period of erratic and limited supplies. The Prime Minister's speech in the Lok Sabha last week was only the first step in this preparation. A lot more needs to be done.

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Why the govt is pushing consumers to piped gas

This shift will reduce India's reliance on imported LPG and insulate the country from global supply shocks

bl.explainer

Richa Mishra

The blockade of the Strait of Hormuz following conflict between the US, Israel, and Iran has made India aggressively push for increasing the availability of natural gas and petroleum products. The Natural Gas and Petroleum Products Distribution Order, 2026 has been specifically designed to tackle several historical hurdles that have stalled the country's transition to a gas-based economy.

What is the government trying to do through the Natural Gas and Petroleum Products Distribution Order, 2026?

The government's primary goal through this order is to accelerate India's transition to a gas-based economy by mandating a shift from LPG cylinders to Piped Natural Gas (PNG) where infrastructure is available.

Issued under the Essential Commodities Act, 1955, the order focuses on — Mandatory PNG Transition, LPG Discontinuation, Faster Infrastructure Rollout, Access Rights, and Energy Security.

By promoting PNG, which has a higher domestic production than LPG, the government aims to reduce vulnerability to global supply disruptions, such as the one caused by the ongoing conflict in West Asia.

Why is the Centre trying to shift people from using LPG to PNG?

The move is primarily to strengthen national energy security and reduce the massive import bill. India imports approximately 60 per cent of its LPG, with nearly 90 per cent of those imports passing through the Strait of Hormuz.

Unlike LPG which arrives via ship and truck, PNG is delivered through fixed underground infrastructure that can be fed from diverse sources, mostly domestic fields and multiple import terminals, making it far more resilient to global shocks.

By forcing consumers with pipeline access to switch to PNG, the government can redirect limited LPG stocks to rural and remote regions where laying pipelines is not economically viable. In major metros, PNG is currently roughly 12-15 per cent cheaper than non-subsidised LPG. Besides, Consumers pay only for what they consume, eliminating "dead stock" left in cylinders and the need for upfront lump-sum payments.

How will the larger issue of gas availability be addressed?

The shift to PNG while gas supplies are tight may seem contradictory. But the government is using a Priority and Efficiency strategy to make it work.



PIPED GAS. The way forward

For example, under the Mandatory Sectoral Prioritization done under the Natural Gas Control Order, 2026, domestic PNG and Transport (CNG) now have the first right to all available gas (both domestic and cheap long-term imports). Experts say, it takes far less gas to power a kitchen than a factory. LPG is a heavier and more expensive fuel to manage than natural gas. The shift will also help in Supply Chain Savings.

Every urban household that shifts to PNG frees up a cylinder for a rural household where pipelines can't reach. This balances the total energy basket without needing an immediate 100 per cent increase in total gas volume.

According to information available as of March 2026, India has crossed 1.6 crore (16 million) domestic Piped Natural Gas (PNG) connections. The government aims to reach 5 crore (50 million) domestic PNG connections by 2030.

The gas for PNG and CNG comes from two main pools: Domestic administered price gas and imported gas.

Gas produced from domestic fields is sold at regulated, lower prices. Under the Order, 100 per cent of this gas is diverted to City Gas Distribution (CGD) companies. India has secured 20-year contracts with countries like the UAE and Qatar. This gas is ring-fenced — it cannot be sold to factories until the needs of homes and cars are met.

The government is mandating that domestic fields (like those in the KG Basin) prioritize City Gas Distribution (CGD) companies. Previously, gas producers sold to the highest bidder, mostly power plants. The government is shrinking the gas pool for industry to ensure the domestic PNG pool remains full.

India already produces 92 MMSCMD of natural gas domestically out of a total daily requirement of 191 MMSCMD. City gas distribution has expanded from 57 geographical areas in 2014 to over 300 today, according to the government.



A new beginning

New GDP series has improved the scope of estimation

The data from the much-awaited new series for gross domestic product (GDP), released last week by the Ministry of Statistics and Programme Implementation (Mospi), shows that the Indian economy is projected to grow 7.6 per cent this financial year. The first advance estimate, based on the old series, had calculated the rate to be 7.4 per cent. The data also showed the economy expanded by 7.8 per cent in the September-December quarter. The new series has improved the growth estimate for FY25 to 7.1 per cent from 6.5 per cent in terms of the old series. However, the rate for FY24 has been lowered by a sharp 2 percentage points to 7.2 per cent. Further, the size of the economy in nominal terms has been calculated to be ₹345.47 trillion this financial year, compared to ₹357.13 trillion in the first advance estimate, which was also used for Budget calculations. This difference is a bit surprising. Given the improved methodology and expanded data sources, analysts expected an increase.

Besides changing the base year to 2022-23, several elements have been introduced in the new series. For instance, the functions of multi-activity enterprises have been segregated, which will provide a clearer picture. The coverage of the unincorporated sector has been expanded through the use of survey data. The ministry has also used double deflation in agriculture and manufacturing. This addresses a big criticism of India's national accounts. The data on goods and services tax is also being used extensively. To address the discrepancies, which were another weak point in India's national accounts, the ministry has adopted the supply-and-use-table framework to minimise it.

However, despite the improvement in the overall framework, arguably, there is still work to be done. For instance, economists have long argued that India needs a producer price index, which would help provide a more accurate measure of the difference between nominal and real GDP. Furthermore, while the ministry is now using survey data for the unincorporated sector, the surveys themselves may have shortcomings due to dated economic census data. Other survey data may also have similar issues because the Census has been delayed. Be that as it may, it is worth noting that the new GDP series, together with the recently released consumer price index, will substantially improve data quality and enable stakeholders to make more informed decisions.

The launch of a new series also provides an opportunity to discuss some of the structural challenges India is facing. For instance, in the sectoral composition, the share of manufacturing has improved marginally to 13.3 per cent. If the Indian economy is to grow at higher rates in the medium to long term and create employment for its rising workforce, the contribution of manufacturing needs to substantially increase. The government has been aiming to push the share of manufacturing to 25 per cent of GDP for many years, but things are not moving in the desired way. On the fiscal front, the reduction in the size of GDP will marginally increase the fiscal deficit as a percentage of GDP to 4.5 per cent this year. However, as economists have underscored, this will make achieving the debt-to-GDP target of 50 (+/-) 1 per cent by FY31 more difficult.



Managing the fallout

West Asian conflict can be challenging for India

From rising fuel prices to a shrinking remittance economy and the safety of the Indian diaspora, the conflict between Iran, on one side, and the United States (US) and Israel, on the other, has underscored India's exposure to West Asia. Zero visibility on the endgame means India needs to deploy all the policy tools at its disposal to manage the consequences of the unpredictable conflict. Inevitably, fossil-fuel imports remain the biggest challenge if Iran chooses to block the Strait of Hormuz, which accounts for a fifth of the global flows of petroleum and liquefied natural gas. Although Tehran has not officially notified the closure of the strait, hundreds of shipments have already been suspended. Benchmark Brent crude oil also shot past $80 a barrel when the conflict broke out, before settling at $77 levels — the highest since June 2025, when the US attacked Iran's nuclear capabilities. India, the world's third-largest consumer of oil, buys over 80 per cent of its requirements from abroad. Over half of this comes from Iraq, Saudi Arabia, and Kuwait — a dependence that has grown as US pressure has forced a cutback in accessing cheaper Russian oil.

India's strategic oil reserves currently meet the country's oil demand for about 10 days (excluding the oil companies' reserves that can meet the demand for another 60 days) and a week's worth of fuel stocks, underlining the challenges arising from possible supply and price shocks. Serious efforts to build robust strategic reserves for oil and gas would be worthwhile. Oil imports account for 3.1 per cent of gross domestic product, and, according to a Nomura calculation, every 10 per cent rise in the price of oil worsens the current account by 0.4 percentage point. Although India has been running a modest current-account deficit, turmoil in financial markets could affect capital flows, which were anyway under pressure, and make financing more difficult. The rupee could come under renewed pressure.

Furthermore, the concurrent inflationary pressures will demand a rethink on budgetary and monetary assumptions. To be sure, India could diversify sourcing options, from Venezuela and the US, for example, but both are relatively costly. To leaven the impact on inflation, though not a big worry at the moment, the government could absorb part of the hit by reducing the central excise on petrol and diesel. A major impact could also be felt on the gas economy. India imports 85 per cent of its liquefied petroleum gas from the Gulf and has no strategic reserves.

In contrast to the relative flexibility to deal with fuel-supply disruption, India has fewer options when it comes to ensuring the safety of its roughly nine million diaspora members. In countries that are now on frontlines of Iranian attacks — Bahrain, Qatar, and the United Arab Emirates — Indians account for more than a third of the population. Most are employed in low-skilled jobs in construction and hospitality and they come from the poorer parts of Uttar Pradesh, Bihar, West Bengal, and Telangana, while skilled workers mostly belong to Kerala and Tamil Nadu. Evacuating such large numbers from these hot zones will be challenging in itself. The additional issue to contend with will be the diminution of remittances. West Asia remains the largest source of remittance after the US. An indefinite suspension of this source of money could impose fresh hardships on thousands of dependent families. Therefore, managing these multiple known unknowns will test the government in new ways. A lot will depend on how long the conflict lasts and in what ways it changes the geopolitics of the region.



A reset with Ottawa

India Canada ties have significantly improved

Canadian Prime Minister Mark Carney's visit to India caps a remarkable turnaround in bilateral relations. The turnaround has occurred since he took office. Ties that were once mired in acrimony have now developed ambition. In the joint statement issued following his meeting with Prime Minister Narendra Modi, the two countries have committed themselves to finalising a "Comprehensive Economic Partnership Agreement" by the end of the year. They have also pledged to double trade by the end of the decade. This occurs against the backdrop of Mr Carney's pledge, at the Munich Security Conference, to recast Canada's foreign policy around issue-based ties with what he called "middle powers". This followed, of course, a major breakdown in relations with its giant southern neighbour, the United States, following Donald Trump's reelection as President.

What is important, however, is that both sides have seen the wisdom of moving beyond the deep disagreements that surrounded the previous Ottawa administration's accusations of Indian involvement in the killing of a Sikh extremist on Canadian soil. New Delhi firmly denied any official involvement. Nationalist sentiments in both countries then took over the discussion and undermined any possibility of progress. These tensions lingered as long as then Canadian Prime Minister Justin Trudeau was in office. Mr Carney's ascent, however, has ushered in a period of pragmatism; slowly, normal diplomatic exchanges were restored.

New Delhi's new commitment to trade deals means that it shares an interest with Ottawa in increasing economic integration. For the Canadians, worried that their free-trade agreement with the United States and Mexico might not be renewed this year, new destinations are a must. Other shifts in New Delhi have heightened Canada's importance as a partner. For instance, the second iteration of the national asset monetisation pipeline, which includes assets such as highways, is an area where Canada's pension funds are envisaged to play a major role. They can also play an important part in India's quest to attract stable long-term capital. Liberalisation of the laws surrounding investment in and building nuclear facilities in India means that it will increase its demand for uranium, which too is a major Canadian export.

Energy security was a key focus of this visit, and its importance has been underscored by the surge in the price of natural gas following Iran's attack on Qatari infrastructure, which has led to a shutdown in production in the gas-rich emirate. Diversification of supply and sources is ever more vital. In this context, it is welcome that the government signed an agreement worth $1.9 billion with Cameco, which is expected to make available over 11,000 tonnes of uranium for nuclear-energy generation from 2027 to 2035. Equally important from the point of view of the next decades of growth and of economic security is that this summit included a memorandum of understanding on the supply of critical minerals, of which Canada has extensive reserves. Given the extensive complementarities between the Indian and Canadian economies, this reset in relations was badly needed. It is to the credit of both Prime Ministers that they have succeeded in clearing the air. New Delhi must now ensure that the continuing investigative and legal process in Canada does not throw up further roadblocks. Meanwhile, the Canadians hopefully will maintain their focus on an economic relationship that has a lot to offer both countries.



Preparing the economy for war

India must accept a more conflict-oriented world and prepare its economy for war

ILLUSTRATION: BINAY SINHA



One of Prime Minister Narendra Modi's statements that didn't age well is the one he made in Samarkand on the sidelines of the Shanghai Cooperation Organisation summit in September 2022. "I know that today's era is not of war..." he said in his meeting with Vladimir Putin. This was seven months after the Ukraine war had begun, and the world was criticising India for not taking a stand against Russian aggression. Today, not only has that war still not ended, but another major conflagration has reignited in West Asia, this time with America partnering Israel. Iran is retaliating not only against them but against neighbouring Islamic states as well. Last year, we too had a near war for four days with Pakistan after the Pahalgam terrorist attacks, and Pakistan, meanwhile, has launched its own war against Afghanistan. And we have not even listed the wars going on in Africa.



BEYOND IDEOLOGY

R JAGANNATHAN

Ideally, this should not be an era of war, given the common challenges humanity faces from multiple threats — from climate change to technological disruption — but this is clearly not an era for peace. For India, the current lull should be used to prepare ourselves for war so that we can prevent it from happening. The world over, rearmament is the name of the game. Europe is rearming, so is Japan. China and the United States never stopped their military arms race, and the Pakistan-China-Turkiye-Azerbaijan collaboration during Operation Sindoor tells us that our neighbourhood is just one miscalculation away from a wider sub-continental war where India may be fighting multiple forces, some seen, some unseen. Our eastern borders with Bangladesh, too, may not be as safe as they were under Sheikh Hasina, especially now that Jamaat-e-Islami is the main opposition party and has won most of its parliamentary seats in areas bordering India.

Wars are prevented only when potential adversaries know that they cannot win or achieve their objectives either by conflict or through the use of non-state operators and terrorism. In our neighbourhood, we have Pakistan, and Israel has Iran, which also sponsors terrorism against the Jewish state from multiple directions. The basis for the Israel-India friendship comes from a shared threat perception, of two countries living in the two most dangerous neighbourhoods in the world. But both have to fight their wars separately.

India has for too long been lackadaisical about defence and security spending. While this has changed under the Modi government, it is simply not happening fast enough in proportion to the threats emanating from global and neighbourhood forces. It took the Modi government several years to start ramping up domestic defence purchases and building indigenous capacities. Even while importing equipment, it was too hesitant. While ordering fighters from France in 2016-17, we did not consider whether the two squadrons ordered would be enough for our defence needs, when many more squadrons — from the MiGs to the Jaguars and Mirages — were past their sell-by date. We are now far below our sanctioned strength of 42 squadrons (at 30 or below), and rushing to buy 114 Rafales, which too won't come for several years. Our indigenous Advanced Medium Combat Aircraft (stealth fighter) programme is at least a decade away from production and deployment.

What is required is a change in our mindset from being a benign republic that chooses to roll with the punches rather than being prepared to fight. We need to accept the reality of a more conflict-oriented world. We do not need to become a war economy, but a war-adjacent one, one that can quickly turn its industrial and technological capability to produce war material, so that we can fight any war, deter any enemy. More so when modern wars may not be fought on the borders, but in the air, at sea, and in cyberspace, often using drones and missiles where no direct contact with the enemy is required.

The additional lesson to learn from the Ukraine and Iran wars is that being strong alone is not good enough if the other side is able to extend the war to domains like civilian and industrial infrastructure. Russia has been systematically demolishing Ukraine's power and other infrastructure, while Israel (unconscionably) did that in Gaza. Iran is now trying to do the same by attacking not just US and Israeli military targets, but also civilian targets in multiple countries, from Qatar to the UAE, Bahrain, Kuwait, Iraq, Oman, and even Saudi Arabia and Cyprus. This is the typical loser's gambit, where the weaker side tries to scorch the earth so badly that even its stronger enemies start wondering whether the fight is worth it. This is what we could expect from Pakistan, in case our conflicts go beyond days. They will target our civilian, industrial and services base. And, surely, they will try to generate communal tensions here so that our resolve is weakened as we fight as much on the internal front as the external one. Iran is trying to turn the Islamic street against its adversaries.

The following should be our priorities:

One, aggressively indigenise most of our fighting equipment, whether it is tanks, fighters, submarines, warships, or rocket and drone force. If needed, we should create some private monopolies with state support to enable the private sector to become defence champions by building production scale.

Two, rapidly scale up our cyber and information warfare capabilities.

Three, integrate civilian and defence industry partnerships so that civilian production capabilities can quickly be turned to war machinery when needed.

Four, integrate academia with the public and private sector defence units for a more aggressive technological upgrade.

Five, invest heavily in intelligence gathering, both through the use of technology and plain old human intelligence. The Ayatollah and the top leadership in Iran could not have been taken out only with eyes in the sky or tech eavesdropping.

Six, create protocols for state governments and the police to effectively coordinate civilian defence if industrial and civilian infrastructure is targeted. When power grids are down, refineries are hit, and water supplies are impacted due to missile strikes, we need to have effective leadership in civilian areas to keep the public calm while supplies are restored.

Seven, we must maintain sufficient stockpiles of not only war material, but also energy and other critical supplies, both for war and household use. The blocking of the Straits of Hormuz by the Iranians shows why reserves of oil will be vital to maintain our war capabilities and also serve our civilian needs.

Eight, we must have media and social media protocols in place for war-time so that our enemies do not use fake and misleading information to demoralise the population.

The world is not a safe place anymore, and we must be ready for anything our enemies throw at us.

The author is a senior journalist



Iran, oil, and India

The United States-Israel military operation against Iran has triggered retaliatory strikes across West Asia, escalating tensions. The direction, duration and consequences of the conflict all remain uncertain. For India, whether the current Goldilocks macro mix (low inflation, steady growth) can be sustained will depend on the oil price outlook, disruptions in the Strait of Hormuz and policy responses.

Oil and the Strait of Hormuz chokehold

India's dependence on oil imports from the Gulf and via the Strait of Hormuz is a source of vulnerability. India imports more than 85 per cent of its domestic oil needs, and Iraq, Saudi Arabia, the United Arab Emirates and Kuwait together comprise close to 46 per cent of crude oil imports.

The Strait of Hormuz is a critical chokepoint. Around 20 per cent of global oil supply transits this route, while for India, around half of crude oil and LNG imports, and 100 per cent of imported LPG currently pass through this Strait. Importantly, this comes at a time when India's crude oil shipments from Russia have moderated.



SONAL VARMA

Commercial operators and insurers have withdrawn from the route due to the conflict, and very large crude carrier spot rates have jumped by a whopping 1,100 per cent this year, rendering the Strait of Hormuz *de facto* closed.

It remains unclear how long the disruption will last, but the longer it lasts, the greater the risk of ripple effects across the supply chain. Sustained, elevated oil and gas prices increase transport costs, spill over into fertiliser prices and could lead to higher food prices.

A stagflationary shock...

The rise in oil prices is a stagflationary shock for a net oil importer like India, and it worsens the twin deficits. Higher energy costs weaken growth due to a squeeze in corporate profit margins; higher inflation can erode household real disposable incomes; and heightened uncertainty and financial market volatility can weaken confidence. On our estimates, every 10 per cent rise in oil price, if fully passed on to consumers, can lower gross domestic product (GDP) growth by 0.15 percentage point (pp), raise consumer price index-based inflation rate by 0.5 pp and worsen the current account by 0.4 per cent of gross domestic product (GDP). If the oil price increase is not passed on to consumers, the inflation and growth impact would likely be more muted, but the fiscal cost would be higher at about 0.15 per cent of GDP.

... but too early to panic

The implications of higher oil prices are adverse, but the economic impact also depends on the duration of the price shock. A sharp but temporary price spike is more manageable, whereas a sustained price rise would be more damaging. We don't know which scenario will prevail right now.

There are some stockpiles in case of disruptions. India's commercial crude stocks at 100 million barrels and strategic reserves at 39 million barrels combined roughly equate to 30 days of crude consumption and 60 days of crude supply from West Asia.

Oil marketing companies (OMCs) have some marketing margin buffer for both petrol and diesel to absorb higher crude oil price. We estimate OMCs can stay in the black until Brent crude oil prices sustainably cross $85 per barrel (bbl).

Importantly, India's starting position is much stronger. Underlying inflation has remained benign for over two years, and there are signs that cyclical growth will accelerate in the coming quarters due to the lagged effects of past policy easing, easier financial conditions, growth-oriented Budget, stable global growth, lower tariffs and recent trade deals.

External vulnerabilities remain the primary concern. At Brent oil prices of $80/bbl, the current account deficit will widen from less than 1 per cent of GDP in FY26 to slightly above 1.5 per cent in FY27. This is low by historical standards, but challenges remain from the capital account. Foreign portfolio investment outflows driven by global risk aversion, combined with ongoing foreign direct investment (FDI) repatriation by multinational companies and India's own outward direct investment could create balance of payments funding pressures in the short-term.

The policy toolkit

Given the elevated uncertainty, it is prudent to wait and watch for now. If this indeed proves to be a short-duration energy price shock, its spillovers should be manageable.

If oil prices remain elevated, the government may need to activate fiscal policy as the first line of defence. Fiscal intervention could include higher subsidies, domestic fuel excise tax cuts and lower import tariffs on crude oil and refined products. This involves a trade-off between growth and fiscal balances, but it acts as a bridge.

For monetary policy, elevated oil prices solidify the case for holding rates steady. This is a supply-side shock and has offsetting effects on growth (lower) and inflation (higher). Managing volatility in currency markets is the main priority, while monitoring any broadening of price pressures.

Finally, ensuring energy security requires diversifying energy sources towards the US, Canada, West Africa and Latin America, which may be more expensive, but are essential for resilience. Building a larger strategic petroleum reserve and accelerating renewable energy deployment to reduce fossil fuel import dependence are also important.

Ultimately, the Iran conflict may be a short-term risk, and if the conflict ends and Iran's sanctions are dismantled, India could also benefit from the increase in supply of crude oil over time. However, it is an important reminder that policies need to be in place to tackle the new reality of geopolitical fragmentation, where energy markets face both price shocks and supply chain vulnerabilities.

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Managing food economy

Procurement must be aligned with requirements

Public procurement and distribution are integral to India's food economy. However, the system is marred by inefficiencies and distortions at various levels. For instance, central stocks of rice and wheat stood at nearly 59.45 million tonnes against a buffer requirement of 21.41 million tonnes as of January 2026, which is 178 per cent above what is needed. While buffer norms are designed to ensure food security under the public distribution system (PDS) and meet emergency needs, persistent accumulation far beyond these levels signals structural policy inadequacies. The strain is visible on the ground. This newspaper recently reported on farmers' protests in Odisha over delays in paddy procurement despite receiving digital tokens at *mandis*. Meanwhile, Kerala is defending bonuses above the minimum support price (MSP). However, central stocks of rice held by Food Corporation of India (FCI) remain much above the buffer norms, raising concerns over surplus. Open-ended procurement at MSP, reinforced by state-level bonuses, has encouraged farmers to expand paddy acreage year after year, often at the cost of other important crops that India needs and soil quality.

In this regard, there are several policy challenges. Excess procurement strains storage capacity and inflates the food subsidy bill. Grain that is procured must be stored, transported, insured, and eventually distributed or exported. When stocks significantly exceed the buffer norms, carrying costs rise and valuable fiscal resources are tied up in maintaining surplus inventories. Food subsidies are one of the largest expenditure heads of the Union government, exceeding ₹2 trillion a year. Further, skewed incentives distort cropping patterns and worsen groundwater depletion in paddy-growing states. Paddy is a water-intensive crop with a water footprint estimated at 3,000-5,000 litres per kg. Its sustained higher production, especially in stressed states such as Punjab and Haryana with declining water tables, deepens ecological stress.

Assured procurement creates a predictable income stream and encourages farmers to stick with the rice-wheat cycle, even in agro-climatic zones better suited to other crops. Pulses and oilseeds, which enhance soil health, don't offer this level of price certainty. Agricultural economist Ashok Gulati recently noted that India "is buried under rice", with buffer stocks nearly four times the required levels even after free grain distribution to 800 million beneficiaries. Global markets are unable to absorb large volumes at favourable prices, making it costly to liquidate surplus stocks of rice. India has become the world's largest producer of rice, surpassing China. It is often difficult to offload surplus stocks because the cost in India is higher than the prevailing international prices.

The solution lies in gradually aligning procurement with PDS requirements instead of it remaining open-ended. State-level bonuses beyond MSP should be discouraged to avoid further distortions. At the same time, stronger and more credible incentives must be extended to pulses, oilseeds, and millets through assured procurement where necessary and better market linkages exist. Investment in decentralised storage can reduce wastage and carrying costs. The next phase of India's food economy management must focus on diversification, self-reliance, and sustainable agriculture with lower fiscal costs. The way forward should be protecting farmers' incomes without trapping Indian agriculture in a rice-wheat cycle.



Listing Tata Sons

It will help resolve multiple issues in the group

Recent developments in the Tata group have brought the focus back on the merit of the public listing of Tata Sons, the holding company of the salt-to-semiconductor conglomerate. Against the current backdrop of infighting within Tata Trusts — the largest shareholder of Tata Sons — and the absence of a consensus between the two sides on critical issues like leadership and the way forward in business, the importance of listing Tata Sons must be emphasised. Saddled with a complex ownership structure, listing it is expected to ring-fence the conglomerate from various risks. Tata Sons was designated an upper-layer non-banking financial company by the Reserve Bank of India (RBI) in September 2022, mandating its listing in three years. The RBI has not responded to the group's request seeking a change in classification from an upper-layer core investment company even after the deadline expired in September 2025. While nothing can stop Tata Sons from filing for an initial public offering (IPO), regulatory clarity on the matter would help in settling a long-pending issue.

The need for listing Tata Sons has gained importance after the latest developments at a Tata Sons board meeting on February 24. At this meeting, Noel Tata, chairman of Tata Trusts, the majority shareholder in Tata Sons, reportedly linked the issue of Tata Sons' listing to the renewal of N Chandrasekaran's term as its executive chairman. Mr Tata, who had six months ago recommended a third term for Mr Chandrasekaran, with Tata Trusts passing a resolution on this, is reported to have asked him at the meeting for an assurance that Tata Sons would remain private. Other conditions related to the profitability of some Tata entities were also part of the discussion on the renewal of Mr Chandrasekaran's term, leading to the decision getting deferred. A conditional renewal of the top leadership term, as reportedly proposed by Mr Tata, has not only sent out a message of uncertainty but has also raised a question mark on governance within the group.

As for the complexity of the shareholding structure, Tata Trusts, by definition a philanthropic organisation, owns 66 per cent in Tata Sons, which operates around 26 public listed companies and many other unlisted firms. Adding to the complexity, Mr Tata, who became chairman of Tata Trusts after Ratan Tata's passing in October 2024 and subsequently joined the Tata Sons board, holds top leadership positions in several Tata entities such as Trent, Voltas, and Tata Investment Corporation. He's also vice-chairman of Titan and Tata Steel. Also, the second-largest shareholder in Tata Sons is the Shapoorji Pallonji group, an infrastructure and construction major, with an 18 per cent stake. On its part, the Shapoorji Pallonji group, which has been engaged in a long-winding legal battle with the Tatas following Cyrus Mistry's ouster as Tata Sons chairman in October 2016, has been pressing for Tata Sons' listing to liquidate its stake and service the accumulated debt.

When a top business conglomerate such as the Tata group faces challenges repeatedly — the biggest being the boardroom ouster of Cyrus Mistry — uncertainty impacts the entire ecosystem. The government stepped in to resolve the crisis at Tata Trusts last year and is reported to be keeping a close watch again. It's for the Tatas to set its house in order now and listing Tata Sons is possibly the first step in that direction.



ILLUSTRATION: BINAY SINHA



Financial inclusion: From presence to participation

Inclusion succeeds when financial services are used regularly with confidence



BANKING & BEYOND

SWAMINATHAN J

Financial inclusion is often measured by access: Accounts opened, branches and agents added, and payment rails expanded. These are important foundations, but they are not the finish line.

The real test is whether every ordinary household and small enterprise can use financial services regularly at an affordable cost. As the architecture matures, the focus must move from presence to participation, from entry to everyday use.

Indeed, this shift is central to the National Strategy for Financial Inclusion (NSFI) 2025-30, launched last year by the Governor of the Reserve Bank of India. The strategy underlines that the mandate of inclusion goes beyond access and must ensure the effective use of financial services that improve people's well-being, as reflected in outcomes such as safety, security, resilience, and discipline.

What 'participation' looks like in everyday life: In simple terms, participation in the financial system means active use. It is the move from opening an account to using formal finance as a practical tool.

For most citizens, this becomes meaningful when everyday needs can be met smoothly: Making and receiving payments without friction, building savings even in small amounts, accessing credit at an affordable cost, while having access to the benefits of social safety nets such as insurance and pension. This is about enabling a basic bouquet of services that people can use consistently.

Why 'quality' matters: Usage by itself is not enough. If services are hard to use or opaque, customers may enter the system but not stay active in it. That is why quality matters.

In practical terms, quality has three elements: Fit, fair, and effective grievance redress. Fit requires products that align with customers' needs, circumstances and understanding. Fairness requires that customers have free choice and that product suitability is not compromised. Grievance redress requires quick, simple, and equitable resolution when things go wrong, anchored in customer protection.

What holds back participation: If presence has expanded, why does participation still lag in many areas? The answer is rarely a single factor.

To begin with, last-mile friction remains. For low-income customers, the "cost" of using finance is often time, travel, service uncertainty, connectivity problems, or failed authentication, not just fees. When these frictions play out, customers may use formal channels only intermittently.

Participation is also held back by product design and complexity. Even where services exist, they may not be usable. Complex terms, confusing interfaces, and credit products that do not consider irregular or seasonal cash flows can deter usage and increase customer vulnerability.

A third constraint is safety in a digital age. As more first-time users shift to digital channels, fraud risks can discourage continued usage. Where the outcome after a fraud is slow or uncertain, customers may reduce digital usage or return to cash.

Finally, serving small-value payments, micro savings, and small credit often cost more per unit. Deepening participation among such small-ticket users, therefore, requires solutions that use innovations to reduce unit costs without weakening safeguards.

Turning access into financial wellbeing: The purpose of inclusion is improved financial wellbeing, not just formal participation. What does this mean in practice?

First-time users often need gentle help, provided such assistance empowers them rather than creating dependency, and is coupled with safeguards that prevent misuse.

Participation deepens when products are simple and designed around everyday realities: Small, regular savings; insurance with clear coverage and a simple claims process; and appropriately sized credit with transparent pricing and repayment obligations that factor in variable incomes.

Behavioural design choices also matter. Goal-linked prompts can support better habits, whether it is saving for education or emergencies, maintaining a small buffer, or continuing pension contributions. Such prompts work best when they are simple, offered in familiar languages, and aligned with the customer's circumstances.

Finally, grievance redress has to be treated as part of the service, not as a separate afterthought. When problems are resolved quickly and fairly, participation strengthens.

Equally important is responsible finance that prevents harm. Credit can be empowering, but only when it is suitable. Over-borrowing undermines resilience, particularly for households with irregular cash flows.

Responsible underwriting, clear disclosures, and fair recovery practices are therefore essential if inclusion is to strengthen households rather than push them into stress.

Bankers have a key role, but incentives must be aligned: In many countries and communities, the banker is the practical guide to formal finance. Performed well, this role resembles basic financial advising: Explaining options in simple language, matching products to needs, and helping customers choose what is right.

Distribution channels, including bancassurance, can materially expand insurance and pension coverage. A neighbourhood bank branch that offers a bouquet of financial products is, therefore, helpful.

However, incentive structures should continue to focus on core branch business while progressively rewarding activities that broaden customer participation across financial products over time.

The road ahead: The Reserve Bank's recent policy initiatives have increasingly focused on improving customer outcomes at the last mile. Proposals to compensate customers for certain small-value losses in digital transactions, the review of the regulatory framework for Business Correspondents and the Lead Bank Scheme, and measures to tighten suitability standards and curb mis-selling all move in this direction.

Taken together, they reflect a clear shift from counting access points to strengthening the everyday experience of using formal finance. Progress is also tracked through composite metrics such as the Financial Inclusion Index, which factors in usage and quality alongside access. In tandem, these steps signal a shift from enabling entry to strengthening sustained and beneficial use.

The direction of travel is clear. India has built the rails of inclusion. The next task is to ensure these rails carry households and micro-enterprises to better outcomes, in ways that are visible in their everyday financial life.

This requires sustained attention to three things: Services that people can use regularly, products that fit their needs, and customer protection that resolves problems quickly and fairly.

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



Fraud safety net

New framework will improve trust in digital payments

The revolution in digital payments in India has transformed the way citizens transact. But it has also exposed users to growing incidents of cyber fraud. Given the seriousness of such concerns, the Reserve Bank of India (RBI) last week issued draft directions to review the framework for limiting customer liability in digital transactions by proposing changes to the existing guidelines on responsible business conduct given by the Department of Regulation. The proposal introduces a compensation mechanism for small-value digital frauds. Customers who lose up to ₹50,000 through fraudulent electronic transactions may receive compensation of up to 85 per cent of the loss or ₹25,000, whichever is lower, if the fraud is promptly reported. This is significant and will boost consumer confidence. The draft directions are expected to come into effect on July 1, 2026, after stakeholder consultation. The directions, among other things, will also clarify what constitutes "negligence" — by a bank or a customer.

The framework comes at a time when India's digital-payment ecosystem is rapidly expanding. Platforms built on the Unified Payments Interface (UPI), mobile wallets, and online banking have seen significant adoption, even in remote areas. However, phishing attacks, one-time-password scams, fake customer-care calls, and malware-based frauds have become increasingly common. The data from the RBI shows that during 2024-25, frauds involving the card and the internet accounted for 66.8 per cent of the total in numerical terms. Nearly 13,500 cases of card and internet frauds, involving ₹520 crore, were reported in 2024-25. The draft also proposes stronger customer-protection mechanisms, including mandatory SMS alerts for transactions above ₹500 and quick complaint-resolution timelines. Banks will be required to respond to customers within defined timeframes, which could reduce delays and procedural hurdles often faced by fraud victims. Partial reimbursement may also be available even where there is customer negligence if the fraud is reported within five days.

However, compensation alone cannot address the deeper challenges of digital fraud. Many incidents stem from low levels of digital literacy and a limited awareness of cyber risks. First-time users, elderly customers, and small merchants are particularly vulnerable to scams involving fake payment links or impersonation calls. Furthermore, coordination gaps among banks, telecom providers, and law-enforcement agencies often delay the freezing of fraudulent accounts and recovery of funds. The effectiveness of the proposed framework will, therefore, depend on how quickly banks deploy real-time fraud-detection systems and strengthen their internal cybersecurity infrastructure.

A broader ecosystem response is required. Banks need to invest more in tools that instantly flag suspicious transactions. Mandatory real-time alerts, transaction limits for high-risk activities, and stronger authentication systems could reduce the probability of fraud. Campaigns to elevate public awareness, through banks, regulators, and the National Cyber Crime Reporting Portal, are equally essential to educate users about common scam techniques. The aim should be to eliminate the possibility of such frauds. However, until that is achieved, the RBI's new framework will help enhance customer confidence. Importantly, the framework will require contributions from the RBI, the customer's bank, and the beneficiary bank to compensate the customer. This indicates that the central bank seriously intends to address the challenge.



ILLUSTRATION: AJAYA KUMAR MOHANTY



Lead-bank scheme: Still relevant?

In the changed circumstances, the structure of the state-level bankers' committee needs to be reimagined

When the Reserve Bank of India (RBI) released the new (draft) circular for the lead-bank scheme (LBS), several newspapers carried reports about the proposal to closely monitor credit/deposit (C/D) ratios in rural branches. However, a bit of digging into the past indicates that these are not new concerns but were part of the master circular issued in April last year.

The concerns articulated in the RBI circular do not have any fundamental changes; they continue to be:

- Expanding banks' presence in unbanked rural areas, making banking service universally accessible;
- Better deployment of credit based on a block-level identification of opportunities;
- Coordination with states and its developmental imperatives.

Apart from tinkering with the coordination mechanism by introducing multiple subcommittees, the draft circular was not newsworthy. Now that the circular is in the news, it is worth our while to examine the relevance of the LBS in current times. The previous review was in August 2009, when a high-powered committee chaired by Usha Thorat examined the issue. The conditions have significantly changed since. The growth of the microfinance sector has made loans available to women across geographies, to the extent that we have pockets of crisis due to over-lending. The branch licensing policy, which mandates 25 per cent of new branches should be in unbanked locations, has helped expand the physical outreach; the Jan Dhan Yojana has brought households to banks; new small-finance banks (SFBs) have been licensed; and the banking sector, including private banks, has consistently achieved the targets in priority-sector lending (PSL).

The circular talks of two objectives of the LBS:

- The first objective of "enhancing the flow of credit to priority sectors for achieving inclusive growth" is adequately addressed;
- The second objective — "deepening financial inclusion through improved access and usage of financial services" — needs attention.

The draft circular makes changes in the coordination structure, with subcommittees for inclusion and literacy; agriculture; micro, small, and medium enterprises (MSMEs); and payment systems. Even here, the tone of the circular focuses on the planning and dispensation of credit rather than addressing the changed ecosystem.



REPROSPECT

M S SRIRAM

The contextual framework of the LBS was rooted in pushing credit to excluded sections of society and needed district-level credit committees and preparing annual block- and district-level credit plans. Banks also had a clear service area. Most of these have been breached.

- The concept of a service area no longer exists, and with interconnected banking, even the concept of a home branch is becoming irrelevant;
- Many players in the credit market – microfinance institutions, gold-loan companies, and non-banking finance companies (NBFCs) — are dispensing credit while not being authorised to take deposits.
- The changes in the PSL architecture have incentivised lending to underserved areas by giving additional weights to underbanked districts, and with the tradability of PSL obligations through PSL certificates, there is a discovery of the opportunity sets.
- The RBI has reduced priority-sector obligations for SFBs from 75 per cent to 60 per cent of adjusted net bank credit. It has also reduced the threshold for qualifying assets to 60 per cent for NBFC-MFIs (microfinance institutions). Both these indicate the RBI's movement away from hard regulation to respecting the market forces.

In this context, the lead bank continuing to look at credit plans and monitor C/D ratios of banks makes little sense. MFIs and other players have been lending in districts where the C/D ratio is low with no permission to take deposits.

The priorities of financial inclusion in the current context are different.

First, there is a need to focus on savings-led inclusion. With the Jan Dhan Yojana and the architecture of business correspondents, there is near universalisation of bank accounts. But, there has been no campaign to get the poor to save money in safe places with a menu of options. There is a strong belief that the poor do not or cannot save. Savings is just a matter of managing cash flows, which the poor do much better than a sophisticated fund manager.

Second, the draft circular talks about payments and we see app-based payments visible ubiquitously. However, the account is linked to a device. The focus here should be to get each holder of a bank account an agency to digitally transact with her or his own personal device.

Third, and the most important aspect, would be consumer protection. For some reason financial literacy is always clubbed with inclusion. The framework should move towards customer rights, customer protection, and customer education. There is no point in teaching how to compound interest rates when people do not have choices.

The nomenclature of a "lead bank" is passe. In the changed circumstances the structure of the state-level bankers' committee needs to be reimagined, and the data of the financial sector needs to be integrated with a larger and broader coordination mechanism. Given that the RBI is trying to get a common regulatory framework for all regulated entities, it is important that it looks at the financial sector (encompassing banks, NBFCs and various subclassifications, payment systems, and others) in an integrated manner for purposes of evaluating the extent of inclusion and data analysis. The current circular is only a small incremental change with a large part of the legacy behind it.

Institutions like cooperatives, chit funds, pawnbrokers, and moneylenders — all regulated by state legislation — need to be integrated into this framework and they should come within the coordination ambit. The RBI should work with state governments to establish state-level financial-sector development and regulatory authorities that are empowered to insist on registration, and which collect data and regulate them in coordination with the central bank. This mechanism has worked well for urban cooperative banks. It has to be expanded to include other state-level initiatives for coordination on the developmental agenda.

There is a need for a high-powered committee with a new set of terms of reference that recognise the developments in the past 15 years and contextualise the changes. We have had enough tinkering.

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A simplistic bull case

A beguiling theory is doing the rounds in India's financial circles — that the country's stock market has become unusually attractive for foreign investors; if only the billion-dollar global funds with the best of talent wised up, they can grow their investment eight times in dollar terms over the next two decades.

According to this theory, India will enter a prolonged period of high growth, low inflation, and minimal currency depreciation, thanks to continued structural reforms, improved labour productivity, higher female labour-force participation, transition from an informal to a formal economy, and deeper credit penetration. Foreign investors would miss this "golden age" prosperity at their own peril.

This proposition rests on two heroic assumptions. First: India can sustain an 8 per cent annual growth rate for decades. Second: Inflation will remain subdued enough to prevent meaningful depreciation of the rupee.



IRRATIONAL CHOICE

DEBASHIS BASU

That easy 8% growth

In theory almost any economy can grow at 8 per cent for a few years. Doing so for decades is far rarer. It requires policy continuity, relentless implementation, and an ability to correct course when things go wrong. India faces several structural frictions. The most immediate is the weakness of private capital expenditure. During the boom preceding the 2008 global financial crisis, the country's investment rate rose to almost 38 per cent of gross domestic product (GDP), supporting several years of rapid expansion. Since then it has slipped back to the low 30s. Public spending on infrastructure has risen sharply, but government investment alone cannot replicate the dynamism of a broad private-investment cycle. Many firms remain cautious, wary of uneven demand and an uncertain global environment.

Second, a large share of India's workforce remains tied to agriculture, a sector that generates a far smaller share of national output. Manufacturing historically absorbs surplus rural labour during periods of rapid development. Countries such as South Korea and China achieved sustained growth above 8 per cent by shifting millions of workers to factories and export industries. India's expansion, by contrast, has leaned heavily on services, which employ a smaller slice of the workforce. The result is an economy that grows respectably without generating enough formal, high-productivity jobs.

Educational attainment has improved, yet the quality of schooling and the alignment between skills and industry needs remain uneven. Meanwhile, the machinery of the state — though capable of executing ambitious reforms — often struggles with the slower work of implementation. Regulatory complexity, patchy contract enforcement, and administrative fragmentation across states can delay projects and deter investors. Even after the introduction of goods and services tax (GST), intended to knit the country into a single market, businesses still grapple with compliance burdens and bureaucratic complexities.

Infrastructure has improved in recent years, particularly in roads, airports, and digital payments. Yet bottlenecks persist in logistics, urban planning, and electricity distribution — areas that influence productivity across the economy. India's urbanisation quality also remains relatively modest for a country at its income level, limiting the productivity gains that dense cities typically generate. Financial markets present another constraint. Although the banking system is healthier than it was a decade ago, access to long-term project finance remains limited and the corporate bond market is still shallow.

Finally, India's earlier growth surge coincided with a period of buoyant global trade and capital flows. Today's world is marked by slower trade growth and rising geopolitical tensions, which complicate efforts to expand export-led manufacturing. The country's growth story, therefore, rests increasingly on domestic reforms and investment. Without faster progress in shifting labour out of agriculture, strengthening human capital and reviving private investment, sustaining growth at 8 per cent will remain an aspiration rather than a baseline.

Inflation vs rupee

The second pillar of the "golden age" theory is that low inflation will prevent the rupee from depreciating meaningfully against the dollar. An analysis of the relationship between the annual depreciation of the rupee against the dollar and the annual consumer price index (CPI) inflation rate from 2000-24 reveals a weak to moderate positive linear correlation, with a Pearson correlation coefficient of approximately 0.31. Only 9-10 per cent of the variation in rupee depreciation can be linearly explained by inflation alone. Other key influences include global commodity prices (especially oil imports), capital flows and foreign investment trends, trade imbalances, monetary policy differentials between the Reserve Bank of India (RBI) and the US Federal Reserve, the RBI's active foreign-exchange intervention to manage volatility, and external shocks like geopolitical events or global risk aversion. For instance, episodes of sharp depreciation often align more closely with capital outflows or oil price spikes than with purely domestic inflation trends, while periods of rupee appreciation (negative depreciation) have occurred amid strong inflows even when inflation was moderate.

The vision of effortless prosperity — 8 per cent growth, low inflation, and a steadily strong currency — is appealing. But as an investment thesis, it is charmingly simplistic. Foreign investors, who have real money at stake and have sold Indian equities worth nearly $20 billion over the past 14 months, may appreciate the complexities better. They will certainly return when the arithmetic improves, not because armchair economists have declared a "golden age".

The writer is cofounder of www.moneylife.in and a trustee of the Moneylife Foundation; @Moneylifers



Rising external uncertainties

Iran war can complicate economic management

Attacks by the United States (US) and Israel on Iran have intensified, with no early end in sight. Since the objective of the war has not been clearly defined, the outcome is hard to guess. This has created a fair bit of uncertainty, particularly for a country like India. Since India imports more than 85 per cent of the oil it consumes, and most of it from West Asia, both rising prices and supply concerns can significantly complicate macroeconomic management. Brent crude oil prices, for instance, briefly surged on Monday to about $120 a barrel. Although India's fundamentals are stable, sustained higher prices of oil could put pressure on both external accounts and government finances. From India's macroeconomic standpoint, it is worth recalling that the Iran war has added to elevated levels of external uncertainties. India was subjected to punitive tariffs by the US in 2025. It was only in February that India and the US agreed to a trade deal. However, following the US Supreme Court judgment, it is not clear when the India-US trade agreement will be finalised.

The balance of payments (BoP) data for the third quarter (October-December 2025), released by the Reserve Bank of India last week, showed India faced a BoP deficit of over $24 billion during the quarter as against a deficit of about $10.9 billion in the previous quarter. India usually runs a current-account deficit (CAD), which is financed by flows on the capital account. However, if both the capital and current accounts slip into deficit for a sustained period, managing the external situation could become challenging. Foreign portfolio investors (FPIs), for example, have sold Indian stocks worth over $22 billion since January last year. One of the reasons for FPIs pulling out of India is global uncertainty. Things could become challenging if the Iran war continues for longer. For instance, the BSE Sensex, the stock-market benchmark, lost over 1.7 per cent on Monday. Thus, a lot will depend on when the war ends and what it achieves. The outlook could worsen if it results in greater instability instead of lasting peace in the region.

Economists expect a CAD of about 1 per cent of the country's gross domestic product (GDP) this financial year. This could increase to about 1.5 per cent in 2026-27. Estimates, however, can change, depending on the duration and outcomes of the war. Even if the CAD remains at the levels projected, financing could become a challenge if global uncertainty remains elevated. Notably, India did well when faced with disruption on trade. It continuously negotiated with the US and concluded the much-awaited trade deal with the European Union. However, in the present circumstances, it cannot influence outcomes. While India has high foreign-exchange reserves, worth over $728 billion, which will help reduce volatility in currency markets, a sustained deficit on the capital account will put pressure on the currency.

Higher energy prices will also affect government finances. Oil companies may find it difficult to pass on higher costs to consumers since retail prices are not updated regularly anymore. The government may choose to reduce taxes or fund under-recoveries directly from the Budget. Thus, government finances are likely to take a hit even if higher costs are partially absorbed in retail prices. The government may also have to allocate more for fertiliser subsidies. The latest data showed that several ministries are slow in spending. Therefore, some adjustment can be made this financial year to contain expenditure. For next financial year, again, a lot will depend on what happens in West Asia.

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A clear derating

Markets risk underperformance if we don't regain our growth credentials

If we look at data from January 1, 2025, to the end of February 2026, 14 months of heightened global volatility, we see some interesting trends. This period is before the Iran war and thus not affected by recent developments. Looking at exchange-traded funds as the barometer of individual market returns, we see that this has been a time of strong financial returns. Emerging market (EM) equities were up 51.4 per cent, international equities were up by 47 per cent, the United States rose by 18.4 per cent, and total world equity returns were 28.3 per cent.

In contrast, over this same 14 months period, India was down 0.7 per cent, the second-worst performing market in the world, with only Saudi Arabia performing worse. In fact, India and Saudi Arabia are the only two markets that are actually down (all returns in US dollar). This is when Korea has tripled, Brazil is up 80 per cent, and Taiwan has risen by more than 50 per cent.



AKASH PRAKASH

We have underperformed the EM benchmark by 5,000 basis points in just 14 months. Being overweight India has been a career finishing move! In this context, one can understand why nearly every foreign fund is currently underweight the country.

Absolute foreign ownership of the Indian market is at a 15-year low, and we see foreign portfolio investors (FPIs) selling on a daily basis. India has received zero net foreign flows over the last five years, a very long time indeed. What are some lessons from this period of unprecedented Indian underperformance?

First of all, there was, to my mind, a sense of complacency among policymakers. Our markets had done very well, and many other large EM countries were seen as uninvestable. We are the fastest-growing economy in the world — where else will FPIs go? This was the narrative. This myth has been debunked. If they wish, FPIs can totally ignore us. Five years of net zero flows. There are always choices for capital, and capital only chases potential returns. If we do not offer a good risk/return proposition, nobody will come.

In the above context, do we really need to further lower prospective returns by being the only large market in the world to impose capital gains taxes on foreign investors? Is the incremental tax revenue worth the loss of absolute capital flows?

There is also a clear derating underway for India. Valuation multiples are compressing. Multiples reflect investor confidence in growth rates and the duration of growth. Falling multiples imply less confidence in both. We are in the midst of what I call growth purgatory. We are transitioning from a growth multiple towards value. The investor base will also churn away from growth investors to value specialists. The transition period is the valley of death, as growth investors keep selling and the market drifts till it becomes cheap enough for the value folks to get attracted.

Given that India began this journey as the most expensive market in the world, we have a long way to go before we can be considered cheap and show up on value screens. The market will keep underperforming till the transition to a value multiple is complete. This can take years. Rather than wait for the market to become cheap, the better way to get out of this trap is to regain our growth credentials and, hence, the growth multiple.

India has derated as our growth slowed, earnings stalled and a narrative gained ground that we cannot innovate or manufacture. Just as we slowed to single-digit growth, markets like Korea saw earnings jump by 100 per cent.

We are seen as being behind in all the new technologies, be it electric vehicles (EVs), renewables, artificial intelligence (AI), or automation. AI is seen as undercutting our biggest edge, namely cheap, high-quality white-collar talent. Many feel that India will get caught in the middle-income trap.

We need to accelerate and give more confidence that our growth is sustainable. How do we deliver 7-8 per cent gross domestic product growth in the world of AI and trade barriers? Are we doing enough to fundamentally improve our productivity and competitiveness? We also need to highlight the work being done in India on newer technologies and how we can compete. It is not true that we cannot innovate — and we need to change this narrative.

As the AI trade moves on from semiconductors, data centres and electrification towards real-world applications and the services needed to propagate the new technology, this should also help India. As the market focuses attention on the return on investment of AI investments, our strengths will become more evident.

India has this ability to generate numerous long-term compounders, across industries, which is almost unique in the EM world. This has to come back into focus. Our growth is secular and predictable. The AI trade has supercharged growth across the EM world, but this is front-loaded and cyclical. Shareholder value is created through economic growth, entrepreneurial energy and disciplined capital allocation. India is a rare market with all three.

The other clear takeaway is the dependence of our markets on domestic flows. They have kept us afloat. Investors have made no money for almost two years now. We have to hope they remain patient and flows maintain their momentum. There can be no policy changes that may put these flows at risk.

At a time of no foreign flows, stagnating domestic flows and no returns, the initial public offering (IPO) markets have been incredibly robust. IPOs have raised nearly $43 billion over the last two years, with additional $100 billion raised through block sales and placements. This issuance and placements have sucked up all the new flows, reinforcing the lack of interest in the secondary markets. The flow of IPOs and placements has to slow down for the markets to deliver strong returns.

My own sense is that investors are already turning cautious and selective on these new issuances. Many of the proposed new issuances will not happen, and definitely not at the prices the sellers or bankers wish to see. Companies will have to be more flexible and realistic on valuations, or risk not being able to launch the issue at all.

India is a bit in the doghouse at the moment. There is record underperformance and under-ownership. Some of this is cyclical and will turn on its own. However, we also need to regain our growth credentials. For this, both the government and companies have a role to play, as do investors. We are sometimes our own harshest critic. I think our supposed lack of innovation and inability to compete are exaggerated, a narrative partly fed by investors themselves. I continue to believe that we will regain our growth momentum and will not be consigned to a value multiple. If I am right, then the coming months will prove to be a good time to invest. If I am wrong, then we have much more underperformance ahead of us.

The author is with Amansa Capital

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Why India needs Russian oil

India's oil security is becoming increasingly fragile. Over 80 per cent of its crude imports come from just two suppliers — West Asia and Russia — both now facing geopolitical stress. In this environment, resuming full purchases of Russian oil may not be a choice but a necessity. Here are eight reasons why.

First, West Asia — India's largest energy supply pillar — has become increasingly fragile. The war is spreading across the Gulf, while shipping through the Strait of Hormuz faces disruption, and attacks on oil facilities operated by Saudi Aramco and others have raised fears of falling production and supply shortages. India remains heavily dependent on the region: In 2025, about 48.7 per cent of its crude oil imports, 68.4 per cent of its LNG imports, and more than 91 per cent of its LPG imports came from West Asia. With crude oil and refined fuel stocks covering barely 30 days of consumption, India has little buffer against such shocks.



AJAY SRIVASTAVA

Second, the economic consequences of supply disruptions for India that imports 90 per cent of its crude oil needs could be severe. Oil prices have already risen 53 per cent, from $72 per barrel a day before the war began on February 28 to around $110 per barrel now. Another week of disruption could push prices above $100 per barrel, worsening India's current account deficit, weakening the rupee beyond 94 per dollar, and increasing inflation across the economy.

Third, India's energy security cannot realistically depend on short-term permissions issued by Washington. On March 5, the United States issued a one-month waiver allowing India to buy Russian oil cargoes already stranded at sea. The volumes involved are small and offer little real relief. India cannot manage its energy security through short-term permissions issued by the US government. More broadly, India and Russia are sovereign states, and their bilateral energy trade does not fall under US jurisdiction. Any such attempt by Washington should not be accepted.

Fourth, India's alternative supply options are limited. Imports from the US rose 82 per cent to $9.8 billion in 2025, but the US itself runs a net crude deficit and has limited spare export capacity. West African and Latin American crude can partly fill the gap, but only with higher freight costs and longer transit times. These constraints make it difficult for India to replace large volumes from its traditional suppliers.

Fifth, Russia has already proved to be a reliable supplier for India. Since the start of the Ukraine war, it has become India's largest crude oil source. In FY25, Russia supplied about 35 per cent of India's crude imports, worth around $50 billion. Supplies remained steady, but India gradually reduced purchases under US pressure. Discounted Russian oil helped shield India from global price spikes and lowered the country's import bill.

Sixth, the legal mechanism used to pressure India over Russian oil has collapsed. In August 2025, the US imposed a 25 per cent tariff on Indian exports to penalise purchases of Russian crude. But the policy quickly unravelled. On February 6, Washington withdrew the tariff after President Donald Trump said he had received assurances from the Indian Prime Minister on reducing Russian imports. Just two weeks later, on February 20, the US Supreme Court struck down the legal basis for those tariffs under the International Emergency Economic Powers Act (IEEPA), effectively collapsing the legal framework used to impose such trade pressure.

Seventh, Washington now has limited legal tools to impose new trade restrictions on India over Russian oil. Within hours of the court's judgment, the US introduced a uniform 10 per cent tariff under Section 122 of the Trade Act of 1974, but this measure applies equally to all countries and it cannot single out India for buying Russian oil. Other US trade laws also offer little scope. Section 232 of the Trade Expansion Act of 1962 permits tariffs on national security grounds but requires that they apply uniformly to all countries. Section 301 of the Trade Act of 1974 allows action against unfair trade practices harming US commerce, but it does not authorise penalties simply because a country imports oil from a third country. In practical terms, the legal and economic constraints that previously discouraged India from buying Russian oil have largely disappeared.

Eighth, other major economies like Europe are already adjusting their policies in response to energy realities. After following the US in imposing sweeping sanctions on Russian energy, the European Union now faces low gas storage levels, limited LNG capacity and disruptions to West Asian supply routes. As a result, the EU is urging Ukraine to allow Russian oil to transit through its territory again — an indication that energy security is beginning to override the sanctions framework Europe once supported.

The conclusion is straightforward. India should restore Russian oil imports to earlier levels while continuing to diversify supplies over the long term. In a volatile global market, energy security must take precedence over American pressure.

The author is the founder of GTRI



A broken model

China is unwilling to implement the reforms needed

When Chinese Premier Li Qiang revealed his draft "Government Work Report" last week, as the 14th National People's Congress (NPC) gathered for its annual legislative session, it set a sobering tone. The growth target for the economy was reduced from "around 5 per cent", the figure set since 2023, to a range of 4.5-5 per cent. This is the lowest since 1991. It accompanies a more pragmatic approach to managing the country's economy, one which recognises that Beijing's ability to stimulate growth is reaching its limits. Finance Minister Lan Fo'an admitted at a press conference that "China's government does not have unlimited funds". Even in the face of geopolitical uncertainties, the government has thus pared back its fiscal stimulus. A rapid buildup in debt since the pandemic has severely limited the fiscal headroom available to the government. China's non-financial debt-to-gross domestic product ratio is now over 300 per cent, and the same ratio for government debt is touching 90 per cent. Mr Lan further promised to severely cut "inefficient expenditure", reflecting President Xi Jinping's increasingly firm directives against wasteful projects, particularly by local governments.

China's model of growth has lasted far longer than it could have been expected, but it is finally running out of steam — or, alternatively, it ran out of steam some time ago, and the government is finally running out of the money needed to keep it going nonetheless. The basic model — financial repression of households raising capital, which the government then directs to investment and the creation of capacity, leading to exports of goods — is unsustainable in a world in which demand is not infinite and trade barriers are increasing. Besides, in China, productive capacity has grown too fast. Fixed-asset investment dropped in 2025, for the first time since 1989. Meanwhile, households are hesitant to increase spending at a time when real-estate prices are falling, and most mainlanders hold a large part of their wealth in immovable properties.

The long-term fix is well known, and has even become economic orthodoxy in Beijing — a rebalancing away from investment and exports to domestic demand. But this sits uneasily with the political mandate to keep growth high, and to increase self-sufficiency in the face of increased competition with the United States (US). And, regardless of US President Donald Trump's tariffs taking hold, Chinese export markets elsewhere continue to grow. Thus, while the narrative of a shift towards consumption has officially taken hold, policies are yet to fully support it. In effect, technological self-sufficiency takes priority over rebalancing. Mr Xi's own statements on the sidelines of the NPC, at a function where he reviewed the "Work Report", reiterated the importance of high-tech competitiveness — what he called investment in "new quality productive forces". Chinese provincial governments will no doubt be deeply perplexed by these confusing signals from the top leader: To invest heavily in technological self-sufficiency while avoiding possibly wasteful spending. Who can tell, at the tech frontier, what will be wasteful and what will not? The fundamental problem in China's economy is not just that its model is broken but that its leaders are unwilling to fully commit themselves to the reforms that they know they must implement.



Waiver danger

Repeated farm loan bailouts must be avoided

When the Maharashtra state Budget was tabled in the Legislative Assembly last week, the government followed through on one of its poll promises. While normally this would warrant congratulations all around, on this occasion there is a complication: The poll promise in question is the offer of waiving agricultural loans. The Punyashlok Ahilyadevi Holkar Farmers Loan Waiver Scheme, as it will be called, is hardly unique in the state's history. In fact, it is the third farm-loan waiver that Maharashtra governments have introduced in the past decade. Under the terms of the scheme, eligible farmers with overdue crop loans on September 30, 2025, will have their debt up to ₹2 lakh waived. In addition, those who have made regular loan repayments will nevertheless receive payments of up to ₹50,000. Although Maharashtra's debt as a percentage of gross state domestic product (GSDP) is about 19 per cent and lower than the national average, the state must desist from such populist measures. It also has a popular cash-distribution scheme for women.

India has a great deal of history of farm-loan waivers. They massively worsen the fiscal balance while not appreciably increasing agricultural welfare in the longer term. They also have problems in terms of moral hazard — there is little incentive to repay if farmers or any other interest group can, instead, lobby the government for a loan waiver. In this case, the state administration clearly thinks it is addressing the moral hazard essentially by making payments also to those who have repaid. But unless such repayments are complete, this will not solve the problem. And it worsens the other issue associated with farm-loan waivers, which is the burden it places on the exchequer. As Maharashtra's own history shows, the question is not just moral hazard for individuals — it is moral hazard for the entire sector, incentivising debt-fuelled expansion when there is every assumption that the risk will be subsequently socialised through government support. Given the nature of India's political economy, it is likely that such demands will also be made in other states.

The Reserve Bank of India, as the banking regulator, has warned precisely of this: Frequent farm-loan waivers driven by the political cycle have severely undermined the credit culture in the agricultural sector. In fact, it tends to affect the same group the government is trying to help. Banks and other financial institutions will be reluctant to lend to farmers because they have a clear incentive to default. Thus, it could end up affecting the flow of credit to farmers. The political links were made explicit by the RBI when it noted in 2019 that eight of the 10 such schemes declared over the previous five-year period had come within 90 days of elections.

The final point that must be considered is that such schemes ultimately do not end up helping the most vulnerable farmers. At most they reach about half the eligible beneficiaries, often far fewer, and those are usually the most privileged section. The larger question is why agricultural reform that allows for direct income support is still off the table. As long as agricultural subsidies at the level of the Union government are distorted, state politics will continue to revolve around such fiscally irresponsible policies. Besides, it is worth asking to what extent the new scheme can address the underlying structural issues if previous waivers did not resolve the problem.



Employment for growth

India needs a vibrant apprenticeship ecosystem

The NITI Aayog recently released a report titled "Revitalizing India's Apprenticeship Ecosystem", calling apprenticeship central to the Viksit Bharat 2047 vision. India's apprenticeship architecture is anchored in the Apprentices Act, 1961, operationalised through the National Apprenticeship Promotion Scheme (Naps), under the Ministry of Skill Development and Entrepreneurship, and the National Apprenticeship Training Scheme (Nats), under the Ministry of Education. The report notes that over 51,000 establishments were active under Naps as of FY25, but participation and completion vary sharply across states.

Despite recent expansion, India's apprenticeship ecosystem remains fragmented and uneven. In 2024-25, while 1.31 million candidates registered for apprenticeship, only 985,000 were engaged and barely 251,000 completed their training — exposing significant leakages between enrolment, engagement, and completion. There is also a stark asymmetry in industry participation: Medium and large enterprises constitute fewer than 30 per cent of active establishments but account for over 70 per cent of apprenticeship engagement, highlighting the limited contribution of smaller firms despite their dominance in overall employment. Weak linkages between educational institutions and industry further undermine programme effectiveness. Gender disparities also remain a major concern. Women account for only 18.2 per cent of the apprentice pool.

While the National Education Policy 2020 calls for integrating vocational education and "earning while learning", apprenticeships are not yet seamlessly embedded in higher education pathways. The apprenticeship-embedded degree programme is a step forward, but alignment with the national credit framework, stronger university participation, and clearer credit portability are required. To bridge these gaps, the report recommends establishing a consolidated national-apprenticeship mission, which would serve as an umbrella framework for all apprenticeship initiatives. It envisions a single-window digital interface called the national apprenticeship portal, which integrates information on diverse apprenticeship programmes and provides streamlined access through one common platform. It recommends creating an apprenticeship-engagement index to benchmark state performance, standardising evaluation and assessment protocols, and empowering district skill committees as local anchors. To widen participation, it proposes introducing an apprenticeship-linked incentive scheme that provides financial incentives to both employers and apprentices, particularly targeting aspirational districts, the Northeast, and women apprentices.

For industry, it suggests cluster-based consortia of micro, small, and medium enterprises, a startup apprenticeship programme, and expansion into gig and sunrise sectors such as electric mobility, green energy, and digital services. Targeted incentives for aspirational districts and women apprentices, alongside post-training support and social-security coverage, can be critical for improving retention and completion. Apprenticeships must move from being treated as a scheme to becoming a strategic pipeline for job-led growth. If effectively implemented, these reforms can strengthen India's education-to-employment bridge and help convert its demographic potential into sustained economic momentum.



Bank fraud: The blind spots of risk control

The recent ₹500-crore fraud in a private-sector bank is not merely another headline. It raises a deeper and more uncomfortable question: Why do such incidents continue despite sophisticated controls, advanced analytics and board-level oversight?

According to the latest Annual Report of the Reserve Bank of India, banks and financial institutions reported 23,953 frauds in 2024-25, involving ₹36,014 crore.

Nearly 92 per cent of the amount relates to advances. While there is no official break-up of employee-driven frauds, industry estimates suggest that 35-40 per cent of cases involve internal participation or collusion.

What makes these numbers worrying is that many such frauds continue for years before detection, suggesting that formal control frameworks often identify problems only after losses have already accumulated.



RAVI DUVVURU

Public debate has largely centred on digital frauds — phishing, mule accounts, and cybersecurity breaches. Those risks are real and rising. Yet internal fraud at the branch level remains an under-examined vulnerability.

When branches became sales engines

The structural shift began in the early 2000s when new-generation private sector banks redefined the role of the branch. Branches increasingly became sales-focused outlets, while operations were centralised for efficiency and cost control. Central Processing Centres brought greater standardisation and scale. But this also created blind spots.

The depth of branch-level processes reduced. Operational ownership became diffused. Customer relationships grew more transactional and often non-face-to-face. In many branches, daily conversations now revolve around targets; process discipline is assumed to be embedded elsewhere in the system.

Compounding this is the high attrition at the front-line. Relationship officers and sales executives frequently move between institutions, chasing better incentives. Rapid churn weakens institutional memory and dilutes accountability. When ownership is transient, supervision becomes episodic. Control thrives on continuity; attrition disrupts it. Fraud rarely begins with a systems breakdown. It usually begins with human vulnerability.

Incentives and signal distortion

Another structural evolution in banking has been the growing dependence on fee income from third-party products such as insurance, mutual funds and wealth products. Cross-selling is legitimate and commercially necessary. Diversified revenue streams strengthen banks.

However, when fee targets overshadow core banking metrics, behavioural distortions can emerge. Frontline staff is often evaluated as much on insurance premiums or mutual fund mobilisation as on deposit growth or credit quality.

Aggressive quarterly targets, combined with performance-linked incentives, can blur the line between suitability and salesmanship — and in extreme cases between compliance and circumvention.

The issue is not third-party distribution itself. It is distorted incentives. When revenue generation dominates the narrative, risk conversations inevitably recede. Risk dashboards capture historical anomalies; they rarely capture ethical stress building at the base of the organisation.

A question that risk management committees should ask after every such episode is this: Which dashboard predicted this? Institutions spend enormous effort tracking known risks. Far less time is spent anticipating behavioural risk created by incentive design, attrition and cultural dilution.

The controls that truly matter

Employee-driven fraud typically exposes foundational gaps. Are employee credit histories reviewed periodically, or only at the time of onboarding? Financial stress can be an early warning signal. Is staff rotation meaningful in sensitive roles? Does high attrition weaken maker-checker discipline? Does consequence management send a visible and credible signal? In many institutions, disciplinary outcomes remain opaque, weakening the deterrent value that visible accountability is meant to create.

Beyond Know Your Customer, do banks practise "Know Your Colleague"? Branches are visited by cluster heads, business heads, risk teams and auditors. But how often do these visits go beyond reviewing targets, cross-sell numbers and tick-box compliance? How frequently do leaders ask uncomfortable questions about staff pressure, process shortcuts or ethical grey zones?

Conduct risk cannot be embedded through e-learning modules alone. It requires visible supervision, engagement and example.

Culture is the real control

We often hear that "tone at the top" matters. It does. But tone without transmission is ineffective. If the message from leadership does not translate into behaviour at the branch counter, it remains rhetoric.

The real first line of defence is not the risk department. It is the operating staff — branch staff, call centre teams and sourcing executives. If they do not internalise risk ownership, no amount of capital can protect reputation. Financial losses can be absorbed. Reputational erosion cannot be recapitalised.

There is a tendency to design processes primarily to satisfy regulatory expectations. Compliance should be the starting point, not the destination. Controls designed merely to "meet regulatory requirements" become checklists. Controls designed out of institutional conviction become culture.

Technology will grow sharper. Artificial intelligence will detect anomalies faster. But fraud prevention will still depend on hiring discipline, rational incentive structures, frontline stability, credible supervision and visible consequence management.

If well-capitalised, technologically sophisticated banks continue to witness internal fraud, the problem is not capital. It is culture. And culture does not sit on a dashboard. It sits at the branch counter — defined by what the incentive sheet rewards.

The author is member of RBI's Advisory Group on Regulation, and founder and designated director, Duvvuru & Reddy LLP

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Rethinking FDI

Policy must evolve with changing realities

The Union Cabinet on Tuesday approved changes to rules governing investment from countries sharing land borders with India, otherwise called land-border countries (LBCs). This is a pragmatic decision. However, India's regime of foreign direct investment (FDI) needs to evolve with the changing global economic and geopolitical environment. The Union government had restricted FDI from LBCs in 2020 through Press Note 3. It was then argued that the change attempted to curb opportunistic acquisitions of Indian companies during the crisis caused by the pandemic. As a result, entities from countries that shared land borders with India were allowed to invest only through the government route. One of the reasons for the policy change was to restrict investment from China due to border tensions. Once those tensions eased and the pandemic's impact receded, Indian businesses started demanding a relaxation in restrictions. On its part, the government selectively allowed such investment from LBCs, particularly China. The success in developing an ecosystem for Apple Inc is a notable example.

Given the changes in the economic environment over the past few years, the government has done well to review the policy. Investment from entities with non-controlling LBC beneficial ownership of up to 10 per cent will now be permitted through the automatic route, subject to the applicable sectoral cap and other conditions. Investment will also be subject to reporting relevant information and details to the Department for Promotion of Industry and Internal Trade. Further, entities from LBCs wishing to invest in specific sectors — such as capital goods, electronic components, electronic capital goods, and polysilicon — will have their proposals processed and decided within 60 days. The Committee of Secretaries, under the Cabinet secretary, is empowered to revise the list. The guidelines note that the majority holding and control of the investee entity must be with resident Indian citizens or Indian entities controlled by resident Indian citizens.

The revised guidelines should help improve the ease of doing business and attract FDI. From a policy standpoint, it is not easy for any large country to exclude China, the world's second-largest economy, from its broader economic calculations. The decision also comes at an important juncture because India needs to attract FDI. Given the uncertainty in the global financial system, India is facing capital outflows and is running a deficit in the balance of payments. A sustained deficit on the capital account could significantly complicate external-sector management.

However, given the geopolitical sensitivities, there is a need to review the overall FDI regime. There are genuine concerns about China, and several countries across the world are calibrating their relations with the country. In the present context, scrutinising investment coming from specific countries may not be enough. Despite the guidelines on beneficiary ownership, it may not always be possible to determine whether investment coming from, say, Singapore or European countries is not from entities controlled by Chinese capital. Again, one could argue why interests should be protected only against Chinese capital. What India needs is to identify a set of sectors it views as strategic and which a hostile country can use to undermine its interests. In other words, India needs to spot sectors in which it will develop its own capabilities or be in partnership with select trusted countries. The rest can be liberally opened up for foreign investment. India needs large doses of foreign investment to supplement domestic savings to achieve higher growth rates. But in a world that is becoming increasingly unpredictable by the day, it must also safeguard its strategic interests.



ILLUSTRATION: BINAY SINHA



A tilted balance

The Finance Commission ignores Union govt's fiscal laxity while questioning state profligacy



POLICY PILLARS

M GOVINDA RAO

Given the asymmetric distribution in the assignment of revenue and expenditure powers between the Union and the states, the founding fathers of the Constitution provided for the appointment of Finance Commissions every five years to determine fiscal transfers through tax devolution and grants-in-aid to the states. The transfers are to be determined by assessing the revenue-raising capacities and expenditure needs arising from the assignments of the Union and the states. In making these assessments, judgements are unavoidable.

As Justice P V Rajamannar, the chairman of the Fourth Finance Commission, stated, the assessment is a "...gamble on the personal views of five persons, or a majority of them." Nevertheless, in exercising these judgements, they are expected to follow (i) the assignment system detailed in the Seventh Schedule; (ii) concerns about macroeconomic stability and the developmental needs of the Union and individual states; and (iii) clarity in functional domains. As the Commission is supposed to be an arbiter and a semi-judicial expert body, it is required to be impartial.

The Sixteenth Finance Commission states that its approach was to consider the "available" and "required" revenue resources with the Union and the states to bridge the gap and to estimate additional revenue effort and expenditure economy at both levels of government to "rework the available" and "required" resources, repeating the exercise until the acceptable balance is achieved. The shares in the divisible pool are determined in line with this balance (p.18).

While making the assessment of Union government finances, the Commission is quite appreciative of the restraint exercised by the Union government during the pandemic and the reduction in deficits and debt since the spike that took place in the pandemic year. However, it simply ignores the fact that, except in 2007-08, in none of the years since the FRBM Act was adopted in August, 2003 has the Union government complied with the deficit and debt targets set by successive Finance Commissions, on one pretext or another.

Ironically, the target itself should have been revised downwards as the household sector's financial savings, which determines the borrowing space, have steadily declined from 10 per cent in 2002-03, when the Twelfth Finance Commission determined the target, to 7.4 per cent in 2011-12 and further to 5.1 per cent in 2023-24. The Union government has been shifting goalposts and changing definitions or offering explanations for the slippages. With the aggregate fiscal deficit substantially exceeding the available borrowing space, the corporate sector is faced with an elevated cost of borrowing, vitiating the investment climate, or is forced to seek external funds to finance investments.

Even in making the assessments, the tilt comes out clearly. The Commission rightly flags the problems of the discoms and the profligacy arising from the proliferation of subsidies and transfers at the state level, but looks the other way when it comes to even greater largesse by the Union government.

Apart from the explicit subsidies given in the Budget, the Union government has approved multiple, massive, multi-year bailout packages for BSNL and MTNL, involving ₹2.3 trillion in combined relief packages (2019, 2022, 2023), 4G/5G spectrum allocation, and debt restructuring.

Under the Rozgar Mela initiated by the Prime Minister on October 22, 2022, aimed at recruiting one million personnel across Union government ministries and departments in mission mode, over 1.1 million appointment letters have already been issued.

Under the PM-KISAN scheme launched in February 2019 to provide income support to landholding farmer families across India, over ₹4.09 trillion has been disbursed to more than 110 million farmers until November 2025. Are these not transfers initiated for political reasons? These are only some examples. The Commission simply chose to ignore them.

The biggest twist in the tale is the Commission's treatment of the Centrally Sponsored Schemes (CSS) and their financing through cesses and surcharges. The Commission states that these schemes account for 50 per cent of the transfers from the Union to the states and constitute 1.5 per cent of gross domestic product. Given that states are required to contribute 40 per cent of the cost of these schemes, a substantially higher share of their funds gets conscripted to meet central priorities, violating the basic tenet of fiscal federalism (or Oates's decentralisation theorem).

Even as the Commission admits that there is no mechanism to review the efficacy and efficiency of these schemes, it states "the CSS have played a crucial role in the nation's development," and considers them an essential part of the Union's expenditure needs, making projections based on past trends.

Surely, there is a case for specific-purpose transfers in any federation to ensure minimum standards in respect of those services having significant nationwide externalities or "merit goods". But that requires defining minimum standards, estimating the expenditure required for the purpose, and monitoring their implementation. How many of the 80 umbrella schemes in operation follow this? While most of the schemes are micro-managed by requiring the states to prepare detailed budget under various components within each scheme, there are no clear outcome or even input targets defined. The failure to comply with conditionalities results in the distribution of funds to those states that comply, defeating the very purpose of ensuring minimum standards.

Besides, some of the schemes were the universalisation of schemes adopted earlier by some states. The mid-day meal scheme for schoolchildren, which is now called PM Poshan, was started by Tamil Nadu, and MGNREGA (now renamed G-RAM-G) evolved from the "Food for Work" programme of Maharashtra.

Indeed, the schemes like elementary education, basic healthcare and water supply and sanitation are important, but it is necessary to specify the minimum outcome standards, work out the finding requirements, design the schemes and implement them according to the ground situation in different states.

Economist Martin Feldstein suggested varying matching ratios among states in financing school education in the United States. ("Wealth Neutrality and Local Choice in Public Education", *American Economic Review*, March 1975; pp. 75-89). It is not enough to claim that the CSS have improved the service levels. The critical issue is whether they have achieved the objective of ensuring minimum standards, howsoever defined. Most of the schemes belong to functions in the State List. How can a Constitutional Commission endorse such encroachment by eroding the divisible pool of resources?

As mentioned earlier, these schemes are financed from the cesses and surcharges levied on taxes. Surely, there is justification for raising revenue by levying surcharges under Article 271 for meeting exigencies such as war, famine, and pandemics, but this cannot be used as a regular source to finance CSS by eroding the size of the divisible pool.

The Commission admits that the "economic efficiency argument dictates that reliance on cesses and surcharges as the sources of revenue except for short-term specific needs is undesirable", but it is unwilling even to express the view that the practice is pernicious and not in the interest of sound finance or healthy Union-state fiscal relations.

The author is former director, NIPFP.
The views are personal



Plan B for tariffs

USTR investigations are aimed to restrict imports

It was only a matter of time before the Donald Trump administration resorted to Plan B to impose tariffs. Last week, the United States Trade Representative (USTR) initiated investigations under Section 301 of the Trade Act, 1974. The so-called reciprocal tariffs imposed by US President Donald Trump last year under the International Emergency Economic Powers Act were recently set aside by the US Supreme Court. But the administration soon imposed a 10 per cent tariff under Section 122 of the Trade Act, which allows for up to 15 per cent tariffs for 150 days. Thus, it needs a more durable mechanism for tariffs. Tariffs are central to Mr Trump's economic agenda. The basic reasoning is that the US' trading partners, including close allies, have not been "fair" to the US. As a result, the US runs a large trade deficit, and higher tariffs are expected to restrict imports and boost American businesses.

The first investigation initiated by the USTR is against 16 countries or blocs, including India, for "structural excess capacity and production in manufacturing sectors", which are "adversely affecting US businesses". These are sectors in which the US, according to the USTR, seems to have lost substantial capacity or has fallen behind. They include aluminium, automobiles, batteries, chemicals, electronics, machine tools, steel, and transportation equipment. It has been argued that excess capacity in countries that are trading partners may result from intervention that increases domestic capacity and suppresses domestic demand. The second investigation, launched against 60 trading partners, and covering over 99 per cent of US imports (2024), relates to restricting the import of goods produced with forced labour. US laws prohibit the import of goods produced or manufactured by forced labour.

Clearly, the idea behind these investigations is to find ways to impose tariffs, possibly close to the reciprocal rate. However, this law also requires the trade representative to seek consultation with countries whose policies and practices are under investigation. This could lead to another round of negotiations. India did well over the past year by continuously engaging with the US despite a challenging backdrop. Since the trade agreement has not been finalised, India will need to continue the negotiations. In the context of the new investigations, India must convey that it is not using unfair means to boost exports. In fact, it is hard to argue for anyone that India has structural excess manufacturing capacity. Unlike many developing economies, India's growth is not export-driven. India runs a current-account deficit, which means it buys more from the world than it sells, and depends on foreign savings to bridge the savings-investment gap.

To be fair, India has run a trade surplus with the US, but economists have also shown that it is performing well below its potential even in labour-intensive goods. Similarly, given the level of industrial activity and availability of workers, the possibility of using forced labour is low. Besides, India's democracy is a natural safeguard against such practices. However, these investigations seem focused more on US interests than on the practices in other countries. So, it will be critical how the Indian side presents its case and how quickly trade uncertainties are addressed through an agreement. Nonetheless, it would be worth watching how investigation proceeds in the case of China, where the state actually directs capital allocation to build capacity and suppresses domestic demand.

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WORLD P12
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Automatic stabilisation for India

Inflation targeting plus floating exchange rate plus open capital account

ILLUSTRATION: AJAYA KUMAR MOHANTY





SNAKES & LADDERS

AJAY SHAH

In the last two weeks, war in West Asia has delivered a global economic downturn alongside an oil & gas shock. The transmission of this distress to India operates through four distinct channels: A physical gas shortage, elevated oil prices, a reduction in inward remittances, and a contraction in export demand from West Asia. This adds up to an adverse macroeconomic shock for India. How does the economy adjust to this external environment? What forces assist stabilisation? Some kinds of stabilisation require government action, while some happen for free ("automatic stabilisers"): They only require the government to watch from the sidelines.

The single-biggest path to economic adjustment for us, in this global mess, is the depreciation of the exchange rate. A weaker rupee initiates a change in relative prices, which helps the economy. It makes imported goods costlier. Faced with higher prices, the people of India will import less. They will shift their consumption and buy more from Indian firms, which bolsters domestic demand. On the external front, a weaker rupee means Indian exports are more competitive, so foreigners buy more from India. Furthermore, for products that are traded at global prices through goods arbitrage, such as steel, the domestic price is made by the global price times the exchange rate. For these firms, exchange-rate depreciation straightaway gives gains in the top line.

Let us pause to ask: Why does the rupee do all these nice things for India at a time when we need it most? Why does the rupee depreciate when faced with all this global distress? The key insight runs through capital flows. When adverse shocks hit India, global capital flows demand cheaper asset valuations in India. This reassessment of risk generates pressure on the currency market. Investors adjust their portfolios, capital flows respond, and the exchange rate moves downward.

In these bad times, we are seeing the whole machinery of the market economy humming. The capital account generates currency depreciation, and currency depreciation bolsters firms and jobs in India. It is a remarkable automatic stabiliser. The elegance of this mechanism is that it requires no movement from the Indian authorities or policymakers. There is no problem of building state capability. There is no problem of policy mistakes. All these good things just happen for free. The only mistakes that can happen are state interference in these natural market processes. It is quite something to behold — the quiet homeostasis of the price system.

Most of us in India, by now, have understood and appreciated this part of the story. There is a broad consensus that a weaker currency aids the economy during a crisis. But we are less willing to support the mirror image of this process: What happens in good times? These exact forces work in reverse in good times. In good times, we get a surge in capital flows, which fuels currency appreciation. Currency appreciation, by altering relative prices in the opposite direction, pulls back the firms and the jobs. Once again, it is an automatic stabiliser, which improves stability — through the spontaneous order of the price system, without requiring actions by government.

Overall, the combination of an open capital account and a flexible exchange rate gives us all this stabilisation for free. It adds up to an automatic stabiliser. In good times, it restrains irrational exuberance; in bad times, it staves off the doom. Many people in India like to oppose openness on the capital account and a market-determined exchange rate. A better understanding of the valuable contribution of these things in building macroeconomic stability for India will help.

Right now, India is doing badly, and we loudly see the gains from exchange-rate depreciation. Consequently, the central bank does not interfere in the market process. But at other times, it interferes in the market process in a discretionary way. This creates all kinds of problems.

The private sector has no idea what will happen when discretionary, unpredictable state action destabilises its expectations and spoils its decision making. When firms cannot model the exchange-rate regime, their choices regarding investment, capacity expansion, and currency hedging are impaired. Further, discretionary action runs into the problems of mistakes and limited state capability. The knowledge required to systematically beat the market and determine the "correct" exchange rate is not available to the state apparatus. While it sounds nice to say "of course, right now exchange-rate depreciation is in India's interests, but we reserve the right to interfere at future dates based on our judgement", at a deeper level, that is a bad regime to operate.

Economists have a grand framework for this landscape: "The impossible trinity". This is the idea that no country can have more than two of three features: Control of its exchange rate, control of its monetary policy, and the benefits of openness on the capital account. Any two of these are attainable; all three are not. If a central bank attempts to manage the exchange rate while capital flows freely, it loses control over domestic interest rates.

We in India have locked down one question. We know that we want control of our own monetary policy with an inflation target. Monetary policy — the short-term interest rate of the economy — will be devoted only to the pursuit of consumer price index stability at 4 per cent. Everyone in India has got this point.

To see the inflation-targeting reform through, we need the other two pieces. The government has to step out of activities on the exchange rate, and it has to step out of interference in the capital account. Both kinds of interference create contradictions, induce mistakes by firms, and hinder Indian economic growth. Embracing the automatic stabiliser of the open economy will give us a long-term, stable, harmonious arrangement that is best-suited to foster Indian success.

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Sustaining stability

Fallout of the Iran war must be sensibly managed

It remains unclear when the Iran war will end. The biggest reason for this uncertainty is the lack of clarity over the war's objectives. Iran is raising the cost, not only for the United States (US) and its allies in the region but also for the rest of the world. The effective blockade of the Strait of Hormuz has created a shortage in oil & gas and pushed up prices. After touching nearly $120 per barrel last week, prices of Brent crude oil are hovering around $100. Since India imports over 85 per cent of the crude oil it consumes, and the bulk of the oil comes from West Asia, it is significantly exposed to the crisis. Sustained higher prices, leading to prolonged risk aversion in the global financial system, can also expose other vulnerabilities.

Last week, Union Finance Minister Nirmala Sitharaman announced a ₹1 trillion economic stabilisation fund to enable India navigate such global headwinds. Money will come from existing appropriation and additional allocation, though the government is expected to meet the fiscal-deficit target of 4.4 per cent of gross domestic product (GDP) this financial year. Reallocating resources in a crisis is a sensible policy choice. However, a few points are worth making. Despite a sharp increase in crude oil prices, the government could be reluctant to let pump prices adjust, resulting in fiscal pressure. This is because even though prices of petrol and diesel are deregulated, they are not regularly adjusted to reflect market realities. Higher fertiliser subsidies too will lead to additional expenditure. The government may want to support exporters hit by the ongoing war. However, it is not clear how this fund will operate. It is also unclear whether this will be a permanent mechanism, to which money will be allocated every year. If yes, what will happen to the fund in a normal year? Thus, more operational clarity is needed. One of the basic problems in India's policy management is the lack of policy space to deal with incertitude because it usually runs a high fiscal deficit. Although the government has significantly reduced the fiscal deficit after a sharp increase in the pandemic year, it is still high, particularly when seen in the context of the economy's financing capacity.

Besides the difficulty in fiscal management, the war will also have implications for the external account. The rupee is under pressure. Higher prices of oil & gas will increase the import bill and widen the current-account deficit (CAD). Economists expect the CAD to be about 1.5 per cent of GDP in 2026-27, compared to around 1 per cent in 2025-26. However, a lot will depend on when the war ends and how oil prices move in the coming months. Risk aversion in global financial markets can make the financing of the CAD difficult. India is witnessing capital outflows, which may not reverse in a hurry if the crisis prolongs. Foreign portfolio investors, for instance, have sold India stocks worth over $25 billion since January 2025. There are suggestions to incentivise deposits from non-resident Indians. Although there is pressure on the external front, India has healthy foreign-exchange reserves, which can be used to reduce volatility in the foreign-exchange market to an extent. However, those should not be used to defend the currency. In the given circumstances, the rupee is expected to depreciate and it should be allowed to do so in an orderly way.



India in a disorderly world

New Delhi must move beyond trade agreements to build an informal coalition of middle powers to reassert the global rule of law

ILLUSTRATION: BINAY SINHA



India's greatest economic and diplomatic challenge in the short and medium term is the change in the global geopolitical system that is now underway. It began with the emergence of a government in the United States (US) that is transactional, amoral, and disdainful of the rule of law and multilateralism in international relations.

It has intensified with the war between Iran and the US and Israel, which has no justification under the rule of law agreed upon in the United Nations (UN) Charter. This is not the first time the US has acted in this manner. But unlike most of his predecessors, President Donald Trump made no attempt to secure UN approval and ignored altogether any sort of prior discussion, even with US allies.

The principal medium-term, geopolitics-related challenge that India will face is the drift of the US towards becoming an isolated and arrogant global power, or, more accurately, a global bully. This is a sad deterioration from the steady improvement in India-US relations started by President George W Bush and Prime Minister Manmohan Singh with the nuclear deal in 2008. India can no longer count on continued strengthening of relations with the US. In fact, it must be ready to accept the risks of sudden deterioration driven by a mercurial Trump, constrained only a little by his friendship with Prime Minister Narendra Modi.



NITIN DESAI

This challenge from the largest economic and military power in the world reminds me of what sometimes happened in the villages of India dominated by a single household with vast landholdings. While the accepted *jajmani* system generally ensured social stability, an occasional head of the dominating household over-asserted his power. This led to some organised resistance, mainly from the middle-level households in the village. That is what we need in the global geopolitical system, and that is what India must quietly pursue.

There are some signs of growing connectivity among the middle-power countries. One sign is the recent free-trade agreements that India has signed with the United Kingdom, the European Free Trade Association, and Australia, as well as the recently concluded negotiations with the European Union and the ongoing negotiations with the Mercosur group in South America. These agreements reduce India's dependence on the US and perhaps even on China.

One request that is pending is for India to join an agreement titled the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, or the CPTPP. This is a grouping of 12 countries that account for 15 per cent of the world economy. It does not include any of the great powers. But it includes middle-level powers like the UK, Japan, Mexico, Australia, and Canada.

Some other middle powers are considering joining. It is under consideration by India, though there are some parts of it, particularly on agriculture, that will be a major challenge for India to accept. From the broader perspective of countering the over-assertive powers of the US, and potentially of China, India must accept the compromises of the CPTPP. A strengthening of India's economic relationships with middle-power countries will be a basis for a related strengthening of diplomatic cooperation.

These new trade agreements are also important for what India must aim at to cope with the uncertainty of trade policy fomented by the US. Post-2000, infotech services were the major driver of export growth, with their share rising to $225 billion today and employing about 8 million white-collar skilled workers. The slowing down of this export growth and the decline in related employment growth from 8 per cent per year in the five years from 2010 to 2015 to less than half now are not just attributable to the trade policies of Mr Trump, but to a change in the nature of the infotech sector, with the rapid development and expansion of artificial intelligence (AI) services. In the long-term, India's strong promotion of AI domestically may correct the current slowdown. But in the short- and medium-term, India must rely more on manufactured product exports for maintaining its export earnings at a reasonable level. The trade agreements that it has signed with the middle-income powers will support this boost to goods exports. More than that, it will provide a basis for boosting growth in the states that are below the national average but which have the capacity to provide blue-collar workers for manufacturing plants.

A more difficult question is what India can do to cope with the disruption that is arising from the attack on Iran by the US and Israel and the spread of the war to the entire Gulf area. The immediate impact of the West Asia war is through the sharp rise in oil and gas prices, constraints in the movement of these through the Gulf, and a potential drop in remittances to India from West Asia, which amount to about $50 billion. The more serious impact of war will be felt if it continues well beyond the 5-6 weeks that the US says is enough to achieve its goals of destroying Iran's missile, nuclear and naval capacity.

The most serious impact of this will be on India, China and most other Asian countries because of their heavy dependence on oil and gas supplies from the Gulf area. The impact of such an extension and broadening of the war will drastically reduce India's prospects of becoming a developed state by 2047. The answers to what India can and should do depends heavily on how long the war will last. If the US withdraws from the war in a few weeks, the economic impact of the war may get diluted, provided Israel also steps down from its goal of breaking the religion-based ruling power of Iran. But at present there is no way of predicting the future of the war.

One thing that is essential is to prevent the war from escalating beyond the Gulf region and dragging on over a prolonged period. This is where a group of middle-power states, whose political and military influence cannot be ignored, can play a role. If they can use their significant political power to assert the importance of the international rule of law with the US and the other great military powers, they may help in reducing the risks of an extended war.

It will not be easy to persuade all middle powers to condemn the illegal attack launched by the US and Israel on Iran, though even the European allies of the US are noticeably discreet in supporting the action. However, it may be possible to persuade them to use their influence to restrict the scale of expansion and to become a neutralising, war-reduction force.

This is why the world needs effective action by middle-level powers. My hope is that India, which is pushing the agenda for peace and is a significant economic and military power in the world, can take a lead in moving beyond the many trade agreements it has negotiated with the middle-power countries to promote an informal peace-making coalition and reassertion of the global rule of law among these influential states.

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Why RBI's words matter now

The Reserve Bank of India (RBI) will announce its next monetary policy on April 9. While every meeting of the Monetary Policy Committee (MPC) draws close scrutiny, this one comes at a particularly critical juncture because of the conflict in West Asia. Even if the MPC leaves the policy rate unchanged, its communication will be crucial in calming financial markets amid heightened uncertainty. Markets will look for clear guidance on how the MPC interprets the uncertainty and what it implies for the future course of monetary policy.

In inflation-targeting economies such as India, communication is a key instrument of monetary policy. Financial markets analyse MPC statements and the governor's remarks for signals about the future path of interest rates. When central bank communication becomes complex or ambiguous, market volatility tends to rise (Sengupta and Mathur, 2019). This matters even more in periods of uncertainty, when investors and firms struggle to form clear expectations about the economic outlook.



MACRO PULSE

RAJESWARI SENGUPTA

Two main sources of uncertainty will shape the backdrop to the MPC's decision in the coming weeks.

The first is the war in West Asia. Until recently, India's macroeconomic conditions appeared stable, with strong growth and moderate inflation. That stability has quickly eroded.

The conflict has disrupted supplies of key commodities such as crude oil, natural gas, and fertilisers. India imports nearly 90 per cent of its crude oil, about half of its natural gas, and roughly a quarter to a third of its fertiliser needs, much of it from West Asia. Prolonged disruptions could push ually feed into food prices and headline inflation.

Inflation had already begun to edge up even before these shocks. The consumer price index (CPI)-based inflation rose to 3.2 per cent in February, a nine-month high. Although still below the RBI's 4 per cent target, the margin for comfort has narrowed compared with June 2025 to January 2026, when inflation averaged about 1.5 per cent.

At the same time, disruptions to global trade routes could hurt exports and production, given that West Asia accounts for roughly 15 per cent of India's exports. Higher energy costs may further weaken output and growth. Supply shortages often force adjustments that compress demand. The government has asked domestic gas producers to divert supplies towards households, reducing the availability for industries such as plastics, chemicals, fertilisers and aluminium. Restaurants and other service sectors that rely on gas may face higher costs and weaker sales. Rising jet fuel prices are also pushing up airfares, which could dampen travel and tourism demand.

This creates a policy dilemma for the MPC. Should it prioritise containing inflation and adopt a more hawkish stance, or support growth as uncertainty rises? The committee will also need to clarify whether the recent increase in inflationary pressures is likely to be temporary or could it generate second-round effects that require a policy response. Markets will look for clarity on how the MPC balances these risks, without which, uncertainty about the policy outlook will persist.

It is also worth noting that even though the RBI reduced the repo rate by a cumulative 125 basis points in fallen. The yield on the 10-year government security has risen to around 6.75-6.80 per cent, close to the levels seen before the rate-cutting cycle began. Normally, bond yields decline when policy rates fall. This divergence reflects rising uncertainty in financial markets. A clear articulation of the MPC's assessment of macroeconomic risks could help stabilise expectations and prevent further increases in yields during this volatile period.

The second source of uncertainty is the new CPI index introduced in February. The revision changes both the weightings assigned to items and the composition of the consumption basket, which has expanded from 299 to 358 items. The weight of food has fallen sharply from about 46 per cent to around 37 per cent. Within food, the share of volatile items such as cereals has declined, while relatively stable components such as protein-rich foods have gained importance. A lower food weight may make headline inflation less sensitive to temporary supply shocks, such as monsoon variability. If inflation becomes less volatile, monetary policy could also become more predictable.

But the implications are not automatic. Markets will want to understand how the MPC interprets the new index. Does the change in weightings alter its assessment of inflation dynamics? Will food shocks play a smaller role in policy decisions? Could the behaviour of core (non-food, non-fuel) inflation change? Clear communication on these questions will help stabilise expectations as the new CPI becomes the basis for monetary policy.

As the MPC prepares its April 9 statement, clarity of communication will matter as much as the policy decision itself. Minimising surprises and setting clear expectations will help ensure monetary policy remains effective in the volatile months ahead.

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ILLUSTRATION: BINAY SINHA



When resolution becomes recovery

A collective resolution framework is being repurposed into an enforcement mechanism

The Insolvency and Bankruptcy Code (IBC), 2016, promised a decisive break from India's creditor-driven, enforcement-heavy approach to corporate distress. It was conceived as a framework for rescuing viable businesses, preserving enterprise value, and resolving financial stress collectively. Over time, however, the Code has steadily morphed into the country's most potent debt recovery tool. The dominant narrative today is not how much stress the IBC has resolved, but how much money it has recovered.

This narrative is reinforced by official data. Central bank reports highlight that the IBC delivers the highest recoveries among all mechanisms, an average recovery rate of 37 per cent, compared to 32 per cent under Sarfaesi, 10 per cent through debt recovery tribunals (DRTs), and 2 per cent via Lok Adalats in 2024-25. The IBC alone accounted for 52 per cent of total bank recoveries in that year. Most publications foreground realisations by creditors under resolution plans. Public discourse and media coverage focus on "haircuts" as the primary metric for assessing the performance of the IBC.



RAGHAV PANDEY & M S SAHOO

This framing is deeply misleading. It glorifies recovery for what the IBC was never intended to be. The data is often cherry-picked, while critical qualifiers are ignored — that recoveries under the IBC are over and above the rescue of companies, which remains the Code's prime objective. The by-product of the IBC is compared with the primary output of other mechanisms; recoveries under resolution plans are highlighted, while the meagre recoveries through liquidation are overlooked; and outcomes for financial creditors dominate the narrative, masking the abysmal recoveries experienced by operational creditors.

This distortion is disturbing because the IBC is not a recovery legislation. On the contrary, once insolvency proceedings are initiated, the Code imposes a moratorium on all recovery actions, signalling a clear legislative departure from enforcement-driven outcomes. The statutory architecture is unambiguous. Section 65 explicitly penalises the initiation of insolvency proceedings for any purpose other than the resolution of insolvency.

The Supreme Court clarified this at the inception of the Code. In *Swiss Ribbons Pvt Ltd*, it characterised the IBC as a beneficial legislation intended to put the company back on its feet. It reiterated in *M/s HPCL Bio-Fuels Ltd* (2024) that recovery in insolvency proceedings is only incidental to resolution, not the main relief. This understanding aligns with the Uncitral Legislative Guide on Insolvency Law, which emphasises that insolvency law is not a means of debt enforcement.

Yet the gap between statutory command and operational reality has become a chasm. Two factors primarily explain this. The first is Section 29A. Of the 8,659 cases admitted into the corporate insolvency resolution process (Cirp), only about 1,300 have culminated in approved resolution plans. Meanwhile, nearly 30,000 cases, involving ₹14 trillion of debt, were withdrawn before admission. For every one case resolved through a plan, roughly 25 are withdrawn at the threshold. The ratio would be starker if cases dropped before or after the issue of notice of intent to trigger Cirp is included. There are also withdrawals after admission with the approval of the committee of creditors (CoC).

These withdrawals do not reflect the resolution of stress. They reflect settlement outside the IBC, or in its shadow. Section 29A, which renders many promoters ineligible to submit resolution plans once Cirp commences, creates a powerful deterrent. Faced with the existential threat of insolvency admission and likely loss of control, promoters often settle. The Code thus becomes leverage, an effective stick for extraction rather than a framework for restructuring. Though Section 29A warrants calibration, its deterrent role is undeniable. The problem lies not in its existence, but in how the ecosystem exploits it.

The second driver is the approach of financial creditors who comprise the CoC. These creditors possess sophisticated recovery machinery and a long-standing bias towards upfront cash over patient value maximisation through business turnaround. Recoveries under resolution plans are typically front-loaded; creditors rarely wait to realise value from post-resolution performance. This institutional disposition enables, and arguably legitimises, the perversion of the Code's purpose.

Together, these two factors allow creditors, both financial and operational, to weaponise the IBC for recovery rather than resolution. The pattern is fairly clear. Promoters frequently wait until Cirp admission before negotiating settlements, as acknowledged in *Glas Trust Company LLC* (2024), where the Supreme Court criticised attempts to bypass Section 12A through private settlements.

As a result, the insolvency application has become the opening salvo in negotiations: File first, negotiate later. The credible threat of Cirp admission, with its attendant reputational damage, collapse of credit lines, supply-chain disruption, and talent flight, concentrates the debtor's mind wonderfully. From the perspective of an individual creditor, this strategy may appear rational. Why engage in protracted restructuring negotiations when an IBC filing is so effective in extracting payment?

This is, however, corrosive for the system. The IBC was designed to address collective action problems and prevent a race for enforcement that destroys going-concern value. We are witnessing the opposite: Creditors racing to the courthouse not to preserve enterprise value collectively, but to secure individual recovery.

The Bankruptcy Law Reforms Committee assumed that insolvency would be triggered only after serious deliberation and exhaustion of bilateral options. That assumption has proved spectacularly wrong. The insolvency petition is no longer the end of negotiation; it is its commencement. Even when resolution succeeds, the damage inflicted during the process often leaves lasting scars.

The consequences are perverse. Solvent firms facing temporary liquidity stress can be dragged into Cirp for a single missed payment, while deeply insolvent firms may be ignored because there is nothing to extract. This drift must be arrested before it hardens into institutional culture. Once judges, practitioners, and creditors internalise the IBC as a recovery tool, reversal will be exceedingly difficult. The ecosystem will inevitably orient itself around extraction, not rescue.

The IBC trajectory will shape India's credit markets, investment behaviour, and economic growth for generations. Section 65 reflects Parliament's clear intent: Insolvency proceedings are for resolution, not recovery. Whether that intent is honoured depends less on legislative tinkering and more on a fundamental change in creditor approach. If that change does not come soon, the opportunity for course correction may be irretrievably lost. The choice is stark: A genuine resolution regime or a highly efficient recovery machine masquerading as insolvency law. The window is closing.

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Creative opportunities

India is moving up the value chain

Netflix recently launched a facility of Eyeline Studios in Hyderabad, underscoring that India's animation, visual effects, gaming, and comics (AVGC) industry is moving up the value chain. Equipped with advanced visual effects and virtual-production infrastructure, the centre will function as part of Eyeline's global network, which includes Los Angeles, Vancouver, London, and Seoul. For India, the significance lies not only in the physical investment but also in what it signals. Global studios now see the country not merely as a low-cost outsourcing base but as a location capable of contributing to high-end digital storytelling and production pipelines. Hyderabad's emergence as the site of this investment is itself revealing. As it is, the city hosts a mix of technology firms, film studios, and visual-effect companies, providing the creative and engineering capabilities required for a modern production ecosystem. The arrival of Eyeline reinforces the role of such clusters in shaping the next phase of India's creative industries, where film culture, digital technology, and global content demand intersect.

The larger opportunity lies in the rapid expansion of the AVGC ecosystem. India's media & entertainment sector was estimated at around ₹2.5 trillion in 2024 and is projected to reach about ₹3 trillion by 2027. Digital media already accounts for a growing share of revenues as streaming platforms, gaming networks, and creator-driven platforms reshape the way content is produced and consumed. Within this landscape, the animation & visual-effect segment alone generated about ₹10,300 crore in 2024 and is expected to grow at a healthy pace. Gaming, another pillar of the AVGC framework, too, is expanding at a faster pace. India's large base of smartphone users and a young population make it one of the world's largest gaming markets by user numbers. Equally important is the sector's employment potential. The government estimates that the sector could require close to two million professionals by 2030, reflecting its labour-intensive nature. Unlike many traditional sectors, AVGC combines creative skills with advanced digital capabilities, generating opportunities for artists, coders, designers, and engineers simultaneously.

The government also recognises the need for a dedicated talent pool. In the 2026-27 Union Budget, for instance, support has been proposed for the Indian Institute of Creative Technologies in Mumbai, with plans to establish AVGC content-creator labs in 15,000 secondary schools and 500 colleges across the country. The aim is to integrate animation, gaming, and digital storytelling skills with mainstream education and expose students early to emerging technologies. The convergence of artificial intelligence (AI), immersive technologies, and digital platforms is accelerating this transition. AI-assisted editing, multilingual dubbing tools, generative design systems, and virtual production environments are shortening production cycles while expanding the reach of content across languages and markets. For a country with deep storytelling traditions and a large pool of technically trained workers, this offers an opportunity to move further up the value chain of the global entertainment business. The entry of global studios such as Netflix into India's AVGC ecosystem highlights that creative technology is capable of generating export revenues, high-skill employment, and new forms of digital intellectual property.



Annual reports that matter

The annual report remains the most comprehensive communication between a company and its shareholders. As companies prepare their reports, the temptation is to complete the rituals for yet another year gone by. Financial statements; Compiled; The board's report; Assembled; Governance disclosures; Slotted into familiar templates. Designer; Engaged; Report; Despatched. The boxes are all ticked.

As Indian companies prepare their FY26 annual reports, they should treat the process as more than a compliance exercise. It is a test of whether boards view disclosure merely as a legal requirement or as an opportunity to build trust.



THE OCCASIONAL ASIDE

AMIT TANDON

The baseline is set by the Companies Act, 2013, and the disclosure framework prescribed by the Securities and Exchange Board of India (Sebi). Financial statements must be accompanied by granular notes. Related-party transactions require transparency and audit committee oversight. Corporate governance reports must detail board composition, committee meetings and remuneration structures. The Business Responsibility and Sustainability Report has brought environmental, social, and governance (ESG) metrics into the mainstream. It is obvious that regulators have steadily expanded the scope of mandatory disclosure, yet this rising regulatory volume has not always meant that annual reports are useful to their users.

The question companies must ask themselves is what can they disclose better? Start with the financials. Accounting standards may prescribe recognition and measurement, but clarity is a choice. Do companies explain what drove margins? Do they disaggregate revenue meaningfully? Do they discuss capital allocation decisions with candour — particularly where returns have lagged?

A company showing two years of falling margins doesn't give investors the information they need. They want to know whether input cost, inflation, capacity under-utilisation, or product-mix shifts drove that trend — and what management is doing about it. Boilerplate explanations lack the credibility that specificity builds.

Move to governance. Annual reports are replete with declarations that the board has "reviewed" risk management systems, "evaluated" performance and "ensured" compliance. Shareholders would benefit from knowing how. What were the key risks debated during the year? Outcome of the board evaluation. Broad thoughts on succession. Governance is no longer a checklist.

Sustainability reporting, too, is at an inflection point. Emissions data, water intensity, and diversity ratios are now table stakes for large, listed entities. The next step is integration. How do climate risks affect capital expenditure? How does attrition affect productivity? ESG metrics should migrate from annexures to the strategic core of the report. Indian corporations like those in renewable energy or consumer goods are already disclosing greenhouse gas emissions, water-use intensity, and supply-chain audits. But the next frontier is connecting these metrics to financial outcomes. How does water scarcity in key manufacturing hubs affect production forecasts? Does supplier non-compliance with labour norms risk brand reputation and hence sales?

Risk disclosure remains the weakest link; a risk section that reads like an insurance policy disclaimer does not serve its purpose. References to "macroeconomic headwinds" and "intense competition" offer little insight. Investors are better served by an honest articulation of concentration risks.

For example, supply-chain fragility — an auto parts manufacturer with heavy reliance on a single supplier could disclose efforts to diversify sourcing, expected timelines, and capex implications. Disclosure around geopolitical factors — tariffs, trade disruptions, supply-chain volatility — is rising sharply in other markets because investors demand real, company-specific context about how such issues affect operations.

The annual report also needs to reflect the digital age in which the company operates. Artificial intelligence (AI) and cybersecurity are no longer niche boardroom topics. Leading companies are disclosing AI governance frameworks, board-level AI expertise, and detailed cyber-risk management practices in their periodic reports. Cybersecurity disclosures increasingly describe the board's role, the risk frameworks used, incident response readiness and training efforts — not because it is trendy, but because stakeholders now see cyber risk as central to enterprise risk management and not a backroom concern.

Human capital disclosures deserve sharper focus as well. Attrition trends, leadership bench strength, skill investments and workplace culture indicators provide early signals about organisational resilience. In knowledge-driven sectors, these metrics are as material as plant capacity or debt ratios.

Accessibility also matters. In an era of electronic voting, the annual report must be structured for usability — searchable, navigable and written in plain language. Disclosures that are technically complete but practically opaque do not meet the spirit of accountability. Finally, as this is also the time when shareholder resolutions are presented, they should review the voting outcomes from the past year. Where more than 20 per cent of shareholders have dissented, boards should either provide a clearer explanation of their position or use the current shareholder meeting to take corrective action. Ideally, such engagement should be within 90 days of the voting results being published. Even so, doing this now will still send a strong signal that investor concerns are being heard.

Just as investors expect companies to go beyond mere regulatory compliance, the quality of disclosure should be judged not by the number of pages printed or metrics reported, but by the clarity it provides. Companies that can do so while reporting, will earn the trust of their stakeholders.

The forthcoming annual reports should, therefore, serve three objectives. First, they must comply with the law. Second, the disclosures should reflect the spirit of governance. And third, they should anticipate and answer investor questions, rather than leaving them to be addressed later in investor calls.

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Testing times for edtech

Deals and funding remain scarce

Upskilling firm UpGrad's offer to buy edtech platform Unacademy in an all-stock deal has raised a glimmer of hope for a business that has been floundering since post-lockdown back-to-school mandates dented their business models. A funding winter since 2022 is yet to show signs of receding. The collapse of Byju's, India's first high-profile edtech unicorn, amid accusations over questionable corporate governance and irregular practices, has dimmed the sector's allure. The post-pandemic struggles of platforms such as Unacademy and Noida-based Vedantu, once racehorses, have not helped the sector's cause, either.

The latest deal is UpGrad's second offer in two months. Talks in January fell through after differences over valuation surfaced. Cofounded by entrepreneur and film-producer Ronnie Screwvala, UpGrad is said to have proposed an all-stock valuation of $300 million. This was significantly lower than the $2.25 billion that Unacademy's investors were seeking and substantially below its peak valuation of $3.4 billion in 2021. In 2024, Unacademy's talks with Kota-based test-preparation major Allen Career Institute fell through for similar reasons. The potential revival of the deal (only a term sheet has been signed) should not, however, suggest that the sector is headed for recuperation. Further deals are unlikely to take place at the kind of headline-grabbing valuations of 2021 and 2022.

The outlook among investors is that raising fresh rounds of investment would entail promoters taking substantial haircuts (which the UpGrad-Unacademy deal implies). In 2024, a small bump in edtech funding raised hopes of the funding winter coming to an end. But in 2025, the number of deals is reported to have dropped to 31 from 48 in 2024 — way below 172 in the 2021 boom year and 95 in 2022 — and the lowest in a decade. Funding dropped from $572 million in 2024 to $240 million in 2025 — again, a steep fall from $4.78 billion in 2021 and $2.44 billion in 2022. The stock-market performance of Noida-headquartered PhysicsWallah, which became the first edtech to list, reflects the outlook. After listing in November last year at ₹145, the share now languishes at ₹80-86.

In many ways, the edtech sector exemplifies the perils of poor strategic thinking both by entrepreneurs and private-equity (PE)/venture-capital (VC) investors. Most edtech platforms revelled in hyper-growth during the pandemic years in the K-12 (kindergarten to Class 12) space as brick-and-mortar schools remained closed during the lockdown, riding high on ever higher valuations from PE/VC investors. Unsurprisingly, they struggled for relevance in the post-pandemic period, when schools reopened. Those in the test-preparation and coaching business have been unable to compete against experienced brick-and-mortar institutes. Both Byju's and Unacademy burned cash while attempting a hybrid online/offline model, vigorously acquiring startups, and expanding at a pace that ultimately impacted quality control. Falling profitability, layoffs, and restructuring inevitably followed. Investor preferences, too, seem to gyrate. In the post-pandemic era, upskilling, higher education, and professional learning were considered the more profitable options for edtech investment. Now, the advent of artificial intelligence is seeing investors pivot towards K-12 education, in which the ability of platforms to offer personalised education to school students will emerge as a key differentiator. But here, too, the funding thaw is yet to be seen.



India's invisible urban fault line

Indian cities are learning to do very modern things in very old ways. You can order groceries in 10 minutes, pay a street vendor with UPI, track your bus on an app, and work from a glass tower plugged into the global economy. Then the rain comes, a junction locks up, garbage spills onto the service lane, a footpath disappears under parked cars, and the city reverts to negotiation. That is the invisible fault line this year's Economic Survey also identifies: A weak civic compact between citizens and the state that leaves Indian cities struggling to convert investment into order and growth into liveability.

This is a more interesting diagnosis than the usual perspective that Indian cities simply need more money, more roads, and more flyovers. While they do need investment, they also need something harder to build and easier to ignore. Cities need a widely shared understanding that public rules are real, public space is shared, and compliance is not for the naïve.



CONURBATION

AMIT KAPOOR

What may appear abstract is, in fact, deeply practical. It determines whether traffic signals coordinate movement or simply function as suggestions, whether housing plans guide urban growth or are gradually hollowed out by exceptions and encroachments, and whether waste segregation campaigns reshape everyday habits or remain confined to PowerPoint slides.

India's cities are now too economically important for this to remain a side issue. Urban India already produces the bulk of national output and will absorb much of the country's future demographic and economic change. The World Bank has estimated that by 2036, India's towns and cities could account for around 70 per cent of gross domestic product (GDP). The standard urban conversation in India still tends to focus on physical infrastructure. Yet the harder truth is that cities are not merely engineering projects. They are large systems of cooperation among strangers. Their success depends on whether millions of people believe rules will be applied predictably and whether the state itself behaves as though enforcement is routine rather than theatrical.

In India, urban systems falter less because of a shortage of rules than because of weak expectations that those rules will hold. Studies of urban governance show that compliance depends heavily on perceived legitimacy and credible enforcement, not simply regulation density. In many Indian cities, the gap between rules and practice is visible in everyday coordination failures. Bengaluru commuters now lose roughly 168 hours a year to congestion, while average peak speed falls below 14 km/h, illustrating how behavioural and institutional frictions compound infrastructure limits. Such patterns are well-documented in urban economics: When enforcement appears uneven and procedures opaque, citizens rationally adapt. Signals become negotiable, regulations elastic, and informal workarounds gradually emerge as the practical operating system of the city.

India's urban history helps explain why this equilibrium has proven stubborn. Colonial municipalities were designed more to administer than to empower. Post-independence, urbanisation expanded at a speed that governance systems never fully matched. Cities grew outward, institutions remained fragmented, and informal arrangements filled the gap between official rules and lived reality. Over time, cities became a place where legality and practicality diverged.

This is visible in everything from land markets to traffic. India does not merely have congestion. It has a culture of negotiated movement. It does not merely have unaffordable housing. It has a planning system whose formal rigidity often pushes people towards informal solutions. It does not merely have waste problems. It has an urban commons problem, where the public realm is everyone's concern in theory and too often no one's responsibility in practice.

Even so, the picture is not bleak. Indian cities also contain evidence that civic norms can shift. Indore's improvement in sanitation was not just a matter of trucks and bins. It involved sustained signalling that rules would be followed, monitored and socially reinforced. Digital tolling, online building approvals and direct benefit systems all show that Indian urban governance can reduce friction when it chooses process over discretion. The lesson is not that technology will save the city. Technology without trust often just digitises dysfunction. The real lesson is that norms change when institutions become more credible. People adapt quickly to systems that are clear, fair and reliably enforced.

This has major implications for urban policy. The next generation of reform cannot be confined to capital expenditure. It has to include boring but foundational tasks: Clearer municipal accountability, fewer overlapping agencies, simpler rules, faster approvals, and more visible consequences for non-compliance. It also requires treating citizens as partners rather than as obstacles or passive recipients. Ward-level participation, resident monitoring, vendor integration, decentralised waste systems and neighbourhood stewardship are not sentimental add-ons. They are ways of rebuilding the civic bargain at a human scale.

The most relevant question for Indian urban policy now is not whether cities need more infrastructure. They do. The more important question is whether India can build cities where public systems are trusted enough, and public behaviour aligned enough for infrastructure to work as intended. The invisible fault line is not a metaphor for urban chaos. It is a description of a deeper institutional fragility in cities that look increasingly modern from above but remain unstable in everyday use. India's urban future will not be decided only by how much concrete it pours. It will be decided by whether it can make civic life less negotiable, public authority more credible, and shared spaces genuinely shared. Once that happens, Indian cities will not merely grow bigger — they will start working better.

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Pragmatic position

India must drive reforms at the WTO meeting

The 14th ministerial conference of the World Trade Organization (WTO) — the session to be held in Yaoundé, Cameroon, from March 26 to 29 — comes at a crucial juncture. Trade ministers from across the world are expected to discuss the challenges and opportunities facing the multilateral trading system and decide the agenda. The global trade order has been upended by the world's largest economy over the past one year, with little regard for well-settled trade principles. Given the state of current policy thinking in the United States (US) and its actions regarding the WTO over the past decade, it remains to be seen to what extent the multilateral forum can advance the trade agenda. Geopolitics has also become a bigger risk for trade.

As reported by this newspaper this week, India's position going into the conference is that the foundational aspects of the WTO should not change. These include issues such as consensus-driven decision-making at the forum and non-discriminatory tariff treatment by trading partners. Further, pending issues must be addressed before new items are added. The position is understandable. However, it must also be noted that the WTO has seen little progress over the years. The nature of world trade has changed in recent decades with the emergence of global value chains (GVCs). However, the consensus-driven decision-making process has not kept pace with the changes. As a result, countries have turned to free-trade agreements (FTAs), which are allowed under the rules, as an alternative to attain deeper integration and facilitate GVC-led trade.

While the terms of an FTA remain limited to only the countries doing the deal, outcomes of plurilateral negotiations can be included in the WTO rulebook with consensus. One such issue is the integration of the Investment Facilitation for Development Agreement. The idea is to facilitate investment by focusing on issues such as transparency, simplifying administrative processes and rules, and improving regulatory capacity. The agreement is supported by 128 of the 166 WTO members, including developed and least developed countries. India has opposed it, but it is hard to see why. India anyway needs to do all this to attract investment, which is absolutely necessary to grow at higher rates. Aside from the standpoint of macroeconomic management, where India needs foreign capital to supplement domestic savings to achieve higher growth, foreign capital also brings technology and can enable the country's integration into GVCs.

Equally important for the Cameroon conference is that several such issues, including the moratorium on ecommerce Customs, are likely to be discussed there. India must take a pragmatic position at multilateral forums and, more generally, in its trade and investment policies. Over the past year, India has shown considerable openness to trade and signed agreements such as those with the United Kingdom and the European Union. Although the fate of the agreement with the US remains uncertain, the initial framework reflected a pragmatic approach. India needs to carry forward the momentum and open itself to global trade. It is reported that India is considering joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. It must pursue this possibility. Exports can be a major source of growth, as demonstrated by a number of countries over the past few decades. The nature of global trade has changed, and India must adapt quickly. It can also be a major driver of reforms at the WTO.



ILLUSTRATION: BIINAY SINHA



Can companies buy their way into S&P 500?

Firms' behaviour suggests that they see a link between rating purchases and index inclusion

Few benchmarks matter more to financial investors than the S&P 500. Trillions of dollars track it directly, and many more are evaluated against it. Inclusion often boosts a firm's stock price, lowers its cost of capital, and confers prestige. Many corporate boards even tie executive compensation to performance relative to the index.

Given the S&P 500's influence, index membership should be determined objectively and transparently. Yet as a recently published research paper by Kun Li, Kelly Liu, and me shows, the process for adding companies allows for considerable discretion, potentially creating incentives for firms to purchase S&P's credit ratings in hopes of improving their chances of getting into the index. This is suggested by a key finding: Firms that recently obtained an S&P rating were more likely to be added to the S&P 500 than those that purchased ratings from Moody's.



SHANG-JIN WEI

When the working-paper version of our study first circulated in 2021, S&P strongly objected to our interpretation, emphasising that its index committee operates independently of its ratings business, with the two separated by a "Chinese wall." According to the company, the index team does not communicate with ratings analysts about firm-level decisions, and therefore, index inclusion cannot be influenced by ratings-related revenue. While we take this claim seriously, the data reveals patterns that are difficult to reconcile with full separation between S&P's index and ratings divisions.

S&P publishes detailed criteria for index inclusion, including minimum market capitalisation, liquidity, financial viability, and sector representation. Thus, we began with a simple question: How closely did decisions to include firms follow these stated rules? Using data from 1980 to 2018, we found that the published criteria explained no more than 15 per cent of additions to the S&P 500. Many firms that met all the criteria were passed over, while others were admitted despite seeming to fall short.

To be sure, there is nothing inherently wrong with discretion in stock-index construction, and S&P does not claim its methodology is purely mechanical. The index committee is expected to exercise judgement. But whenever discretion is involved, incentives matter.

With this in mind, we examined whether firms that recently purchased an S&P credit rating were more likely to be added to the index. S&P does not publicly disclose its rating fees, but estimates from other rating agencies suggest that they range from a few thousand dollars to several million. After accounting for the published selection criteria, we found a clear pattern: Firms that had recently obtained an S&P rating were significantly more likely to gain admission to the S&P 500. For non-member firms, the unconditional likelihood of being added to the index was 15.5 per cent; for firms that had recently purchased an S&P rating, it was 21.4 per cent. One possible explanation is that S&P tends to favour fast-growing firms, and that such companies are naturally more likely to issue debt and seek credit ratings. But if that were the whole story, we would expect to see the same pattern among firms that purchased ratings from Moody's, and we did not. If rating purchases simply reflect firm quality or growth prospects, the effect should not be specific to S&P.

Firms' behaviour further suggests that they see a link between rating purchases and index inclusion. When mergers among S&P 500 firms create openings for new additions, large non-member firms disproportionately increase their purchases of S&P ratings. Conversely, after a 2002 rule change that made foreign firms ineligible for inclusion, non-US firms listed on US exchanges sharply reduced their purchases of S&P ratings relative to Moody's. The implication is clear: When the prize disappears, so does demand. Taken together, these patterns suggest that firms believe purchasing S&P ratings increases their chances of joining the index.

What about another, more innocent explanation? S&P learns useful information during the ratings process, which helps it decide whether firms belong in the index. In that case, the correlation we observed between rating purchases and subsequent inclusion reflects improved information from the rating process rather than business incentives.

But this explanation is difficult to sustain. For starters, if index-addition decisions rely on non-public information obtained through the ratings process, that would mark a departure from S&P's published methodology, which does not indicate that private ratings information is used in index decisions.

Moreover, such information-sharing would seem at odds with S&P's public statements that the index committee and ratings department operate independently and do not exchange firm-specific data. In addition, the information uncovered during the rating process could just as easily lower a firm's chances of inclusion as raise them.

Lastly, when we looked at how companies performed after joining the S&P 500, we found no evidence that discretionary additions — including those associated with recent rating purchases — systematically outperformed rule-based additions or even firms that met the criteria but were passed over. In other words, discretion does not appear to lead to better outcomes.

Whether or not S&P 500 membership is literally for sale, the evidence suggests that firms behave as if it might be. And when companies believe that paying for ratings can improve their odds of inclusion in the index, the credibility of the admission process is at risk.

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Transparency needed

Public should know about the happenings at HDFC Bank

HDFC Bank is not an ordinary listed entity. It is India's largest private-sector bank and a systemically important body. It is also the second-most valuable company in the country, despite its stock being beaten down over the past couple of days. It is a widelyheld entity with foreign investors owning about a 48 per cent stake, while Indian institutional investors hold about 37 per cent. The sudden resignation of its chairman, therefore, cannot be treated as an ordinary event. Last week, Atanu Chakraborty, former secretary to the Department of Economic Affairs, resigned as part-time chairman and independent director, stating that certain practices of the bank were not in congruence with his personal "values and ethics". Given what is at stake, the explanation is inadequate and raises concerns about governance at the bank. There are several related questions that Mr Chakraborty, the bank, and the regulator need to address immediately.

Banking is an inherently unstable business, with short-term liabilities and long-term assets. If a large number of depositors start withdrawing their deposits, no bank will be able to fulfil its obligations. In today's connected world, this can happen even outside banking hours. Therefore, public trust in a banking entity must be actively maintained at all times. An abrupt exit at the top, along with possible governance concerns, can fuel rumours with potentially adverse consequences. Since the interests of millions of depositors and investors are involved, it is important to know about the bank practices that were not in line with the chairman's ethical values. Further, did he raise those issues with the bank board? If yes, how, and what was the board's response? It will also be important to know whether he approached the Reserve Bank of India (RBI) at any point.

Moreover, if things were not as desired for two years, what led to the resignation at this juncture, when the country and financial markets are grappling with a larger crisis? The stock markets are under pressure because of uncertainties related to the Iran war. The BSE Sensex, for instance, has fallen over 8 per cent in March so far. The last thing the markets need at this stage is governance issues at one of the largest of the listed companies. Further, since the RBI has a say in key appointments at private-sector banks — why there are such provisions is a different debate — it must also have a role in stopping abrupt exits. Was the regulator aware of the developments at the bank? The bank, on its part, did well to quickly appoint Keki Mistry interim part-time chairman and brief the regulator and investors. Mr Mistry has said that he would not have taken the responsibility if it did not align with his principles and the level of integrity he expects from the bank.

However, questions have been raised, and the bank has to open itself to further enquiries. It must let the stakeholders know the kind of concerns that were raised, if any, and what the management and the board did about them. Late last week, the bank asked three senior executives to leave, though it was unclear whether this was a consequence of Mr Chakraborty's exit. As things stand, the regulator must probe the matter if it's not already doing so, and inform the public about its findings at the earliest, along with the action taken by the regulator itself and the bank if there were gaps. The RBI must also make sure that such an abrupt exit does not happen again.



Gulf war: Are the effects priced in?

The United States-Israel war on Iran has entered the fourth week and the Indian benchmark indices are down 8 per cent. The first-order effects of the war are familiar to all of us, with the Strait of Hormuz effectively closed. Of India's imports, roughly 54 per cent of crude oil, 60 per cent of liquefied natural gas, and as much as 90 per cent of liquefied petroleum gas transit through Hormuz. Along with oil and gas, India faces a shortage of refined products like naphtha, aviation turbine fuel, and gasoil. Deeper vulnerability lies in food. Food production depends on diesel and fertiliser. Diesel runs tractors, irrigation pumps, and the transport system, which carries crops. Fertilisers — urea, ammonia, and phosphates — determine yields. More than 30 per cent of the global urea trade and roughly 20 per cent of ammonia and phosphate pass through Hormuz.



IRRATIONAL CHOICE

DEBASHIS BASU

The Gulf region is also a critical supplier of more than a third of global helium, a niche input indispensable for semiconductor and imaging machines. It accounts for around 30 per cent of global methanol production, a base chemical for plastics, paints, and fuels. It dominates sulphur exports — about 45 per cent of the world's total — which feed directly into fertiliser production. Sulphuric acid is used in the extraction of copper, cobalt, and nickel, which are used in transformers, batteries for electric vehicles, and advanced electronics. Even aluminium is affected: The Gulf produces roughly 9 per cent of global output and accounts for 22 per cent of supply outside China, leaving Europe and America exposed in sectors from automotives to construction. Investors now have to decide how much of these effects are priced in so far.

Consider aviation fuel, which accounts for 35-40 per cent of the cost of running an airline. A 10 per cent increase in fuel prices can cut operating profits by around 15 per cent, according to analysts. Add to this the complication of closing West Asian airspace and longer flight paths, and their margins erode further. In consumer goods, pressure is more diffused. Crude oil-linked packaging materials — polyethylene terephthalate (PET) chips, liquid paraffin, high-density polyethylene, and flexible laminates — account for roughly 15 per cent of operating costs, calculate analysts. Larger firms, with pricing power, can pass some of this on to customers; smaller, unorganised players cannot, accelerating a shift in market share. Glass production depends on natural gas. Textile producers rely on intermediates; disruption has already pushed polyester yarn prices up by 15-20 per cent. Cement avoids direct supply disruption but still suffers from price effects: Increase in fuel costs can reduce earnings, with an additional hit from higher polypropylene prices used in packaging. Tile producers in Morbi, Gujarat, have shut down due to lack of gas.

Each of these is a small cog. Together, they form a system that is bound to be affected by time and price. Over the past few weeks of shortages, very little has appeared amiss. But once inventories run down, in one to three months, replenishment will come at sharply higher costs, triggering a bigger hidden shock. The question is: How much of this has been priced in by the market? Markets react quickly to first-order shock — equities wobble, currencies weaken. By nature optimistic, investors tend to assume that normality will return soon. The second- and third-order effects are less visible. The broader fiscal arithmetic, and the effect on consumption, is treated as secondary concerns.

Every rise of $10 in crude oil adds $12 billion-15 billion to India's import bill. A sustained oil price above $80 risks pushing up the inflation rate beyond 4.5 per cent. This widens the current-account deficit towards 1.5-2 per cent of gross domestic product (GDP) and weakening the rupee, potentially past 95 to the dollar. Capital inflows will slow at a time the rupee is weakening and foreign portfolio investors are already exiting. Of the $130 billion-135 billion in annual remittances India gets, some $45 billion-50 billion comes from the Gulf. Even a 10 per cent decline would shave off inflows of $4 billion-5 billion.

The biggest impact will be a worsening trade balance, higher inflation rates, a widening fiscal deficit, and lower tax revenues. Higher costs of fertilisers raise subsidy bills and shortages risk lower application by farmers, which in turn threatens yields. Governments can absorb some increase in fuel prices, but absorbing both fuel and fertiliser shocks is harder. At oil prices above $100, the fiscal cost of subsidies and tax cuts can exceed 1 per cent of GDP, says one estimate. Add fertiliser support to that, and the burden rises further and the deficit goes haywire. In response, the government will cut capital expenditure, which is India's main growth engine in recent years.

If the war continues, we will see a vicious cycle emerge. Energy drives up fertiliser costs, which lift food prices, causing higher inflation rates, which then feed into energy through currency depreciation. Rising costs from dearer fuel and fertilisers will leave households with less discretionary spending and tax revenues will soften. The system can absorb shocks in the first few weeks. Beyond that, the problem will appear through many small changes: A few percentage points off margins, a few weeks of delayed production, and a few basis points added to inflation. Each time, the markets will react. And because these changes will unfold slowly, they are easy to underestimate. Brace yourself for a bumpy ride.

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Things getting out of hand

US miscalculations keep West Asia on the boil

If evidence were needed, the West Asian war, which is entering the fourth week, has proved that the United States (US) has miscalculated the outcome of its attack, along with Israel, on Iran — just as it did with the invasion of Iraq in 2003. Despite being bombed in different parts of its territory and suffering assassinations of leaders, Tehran has signalled its intent to fight a sustained asymmetric war. Over the weekend, Iran struck close to Israeli nuclear facilities in Dimona and fired two ballistic missiles in Diego Garcia, a US-United Kingdom military base in the Indian Ocean in retaliation for US-Israeli attacks on its Natanz uranium-enrichment plant. By expanding the theatre of war in unexpected directions and revealing Iran's extended strike capabilities — potentially to European bases — Tehran has removed any credible off-ramp for US President Donald Trump.

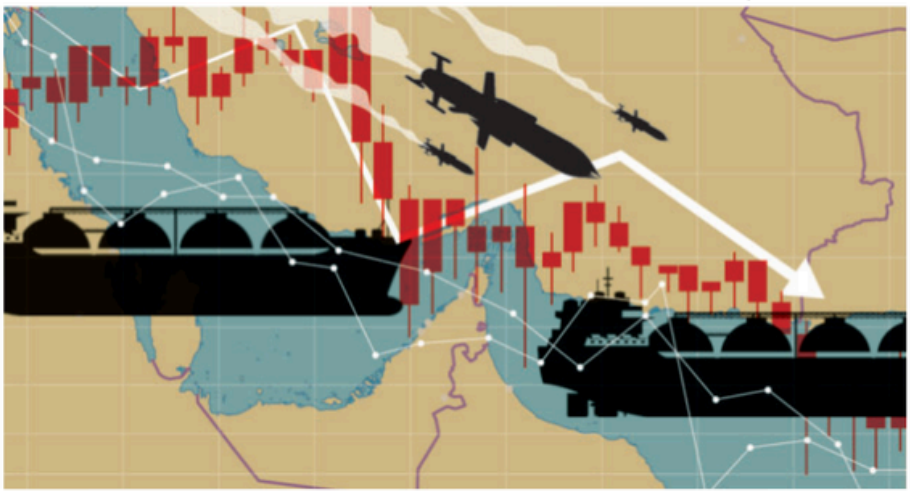
Now the US has threatened to attack Iranian power plants, forcing the rest of the world to grapple with adverse long-term consequences. With the objectives of the US and Israel clearly diverging, the prospect of an orderly conclusion appears remote. Dislocations in supply chains around the Straits and Iranian attacks on US allies have brought unprecedented disruption to the Gulf itself. Qatar, Iraq, Kuwait, and Bahrain have declared *force majeure* on energy exports, with Qatar declaring that it would take five years to revive its energy infrastructure. The region's status as a hub for tourism and global capital flows has been hit in lasting ways as the threat of terror groups rising from the ashes of the conflict — as the Islamic State of Iraq and Syria (ISIS) did in Iraq — gains traction. Soaring prices of global oil and gas have forced the US to resort to transactional policy announcements to contain the fallout, such as lifting sanctions on Russian oil companies and permitting the purchase of sanctioned oil already on the high seas. The unintended consequence has been to deliver significant gains for Moscow because it augments fossil-fuel revenues to finance flailing efforts to conquer Ukraine. China's ambitions for Taiwan have also gathered momentum, safe from the threat of US intervention.

With the US' military attention focused on the Gulf, Washington has shifted even more of the burden of support for Ukraine's defence (against Russia) to nations of the North Atlantic Treaty Organization (Nato). The US' Iranian adventure has widened the breach between Nato and the US, potentially weakening the alliance's ability to resist an enriched Russia's forays into Eastern Europe. Nato members stalled US requests to help secure the Straits. They have allied instead with Japan to issue a tepid statement expressing their readiness to contribute to "appropriate efforts" to ensure safe passage through the Straits.

The war's impact on global business is evident across financial markets, with almost every asset class and commodity showing the second-order effect of disruption in supply chains for crude oil. For India, the vulnerabilities are evident in the steadily weakening rupee and shortages of fuel and cooking gas, most of which is sourced from the Gulf. As a result, the Indian basket of crude oil has risen significantly higher in value than the global benchmark Brent crude. Impending state elections have restricted the government to raising pump prices only for premium fuel. With the world's most powerful nation allying with West Asia's most powerful nation in a war of destruction, more uncertainty, thus, remains the only certainty in the foreseeable future.



ILLUSTRATION: AJAYA KUMAR MOHANTY



Chaos & consequences

Trump's America is a unique historical problem: Global impact, zero accountability

The war in the Gulf might be over soon, but then again it might now. The United States (US) administration of President Donald Trump, the primary motive force behind the war, sends out contradictory signals on a daily basis. On Friday, it was reported that plans were being drawn up for a ground assault by US marines on specific aspects of Iranian coastal infrastructure, including the oil and gas terminals on Kharg Island. Shortly thereafter, however, Mr Trump said that the war might be "winding down" because the US was getting "very close" to meeting its military objectives.



POLICY RULES

MIHIR S SHARMA

One problem, of course, is that it is far from clear what those objectives are. Presumably they began with the plan to decapitate the Islamic Republic's leadership and minimise its ability to launch long-distance missiles, and hopefully also slow its weapons-grade nuclear programme. At various points since then the objective has seemed to expand to regime change, and to contract to degrading the Republican Guard's warfighting ability. At this point the main objective simply seems to be to reopen the Strait of Hormuz, through which a significant proportion of global fossil-fuel shipments travels.

Markets continue to respond positively to Mr Trump's throwaway statements, even though there is ample evidence that they rarely have any connection to his subsequent actions. For example, on March 9, they soared after he told a reporter that "the war is complete, pretty much", and then said publicly that the war would be "over pretty quickly".

The President has two competing requirements. First, he will want to end this war on terms that appear like it was worth getting into. And second, he has to try and ensure that its impact on American consumers is politically manageable. These clash because, for example, he has to simultaneously insist that the Iranian regime has become more isolated and economically insecure as a consequence of his actions – while also ensuring that the Iranian crude oil that is already on the high seas can be sold, in order to minimise spikes in oil prices.

This also means that he will not welcome outright destruction of Iran's energy infrastructure. Both Mr Trump and his defence secretary have said that they knew nothing about their ally Israel's attack on the world's largest natural-gas reserve, the South Pars field. Tel Aviv denied this claim, saying that the raid was coordinated with US forces.

These conflicting messages have essentially confused markets to the point where they are close to breaking down as information aggregators. The research firm Variant Perception said in a note on Thursday that the coming days would mark "peak uncertainty" about the war, and that gold and equities moving downwards together was a sign of panic-driven "tactical liquidation".

I suppose it is too much to expect the efficient markets' hypothesis to survive a world in which the future path of the world's single-most important economic indicator, the price of a barrel of Brent crude, depends on the impulses of one extremely unpredictable individual. However, there are nevertheless some indicators that are worth watching – perhaps because they reinforce the problematic dynamic that got us into this mess in the first place. One such is spreads between Brent, which tracks North Sea oil; Murban, which follows Gulf oil; and West Texas Intermediate. On Saturday, Murban hit $146.40 a barrel, while Brent was at $112 and WTI was just above $90. As its supply lines come under pressure, the world's most global market is fragmenting. Asian buyers will be hit harder than European, which in turn will suffer far more than American.

This gets to the heart of the perverse incentives that drive much of Mr Trump's behaviour. He has the power to set off -- in a distant part of the world -- a war that may run countless economies aground. But, even if it hurts every global economy, it hurts the US least of all. Partly because it is insulated by distance, as it always was, but also because if the vector for economic stress is fossil-fuel prices, the US is now a beneficiary of higher prices as well as a victim. Chevron's stock is 5-10 per cent higher since the first strikes on Iran, although the Dow Jones Industrial Average is down 7 per cent.

The US today is a unique historical problem. It has every incentive to create chaos elsewhere, since that relatively strengthens its economy at the expense of everyone else's, while the rest of the world has no real leverage over it, either politically or economically. Over the longer term, this sort of imbalance cannot persist.

The natural response will be one of two things. Either the rest of the world consolidates itself into a more effective bloc, viewing post-Trump America as a greater danger than its own rivalries; or it identifies specific mechanisms by which it can impose costs on the US.

The first dynamic is hard to imagine, but there are some straws in the wind. A recent poll by Politico asking citizens of major Western nations whether it was better to depend upon China or Mr Trump's America threw up some startling results. In Canada, 57 per cent went for China, as compared to 23 per cent for the US; in France, it was 34 per cent for China and 25 per cent for the US. Even in traditionally Atlanticist Britain, 42 per cent argued for Beijing, and Mr Trump's America only got 34 per cent. It's hard to make the case to these countries about a distant threat of possible economic coercion by China when they face a more imminent economic collapse driven by unilateral US actions.

The second seems even more difficult to picture. It is true that, for example, Japan, an oil importer deeply exposed to the Gulf crisis, has major holding of US Treasuries. Other countries have been muttering about de-dollarisation for a while. But putting these into practice will involve a painful and costly transition. But the worse that US behaviour gets, the more likely countries will be to take the risks involved in cutting it off.



Manufacturing push

Execution will be key to the success of industrial parks

The Union Cabinet's recent approval of the ₹33,660 crore BHAVYA (Bharat Audyogik Vikas Yojana) scheme to develop 100 plug-and-play industrial parks is a significant step towards strengthening India's manufacturing base, promoting job creation and improving facilitating business. Spread over about 33,000 acres and to be implemented in more than six years, these parks will provide pre-approved land, ready infrastructure, and integrated services, supported by robust single-window clearance systems and deregulation measures led by states. Financial assistance of up to ₹1 crore per acre will be provided for core infrastructure such as internal roads, underground utilities, drainage, and common facilities. Estimates suggest it could generate around 1.5 million direct jobs while strengthening domestic supply chains through cluster-based development.

Industrial nodes such as the Dholera Special Investment Region, the Shendra-Bidkin Industrial Area, Vikram Udyogpuri, and the Greater Noida Industrial Area highlight the potential of plug-and-play ecosystems, where pre-approved land, integrated infrastructure and multimodal connectivity enable faster industrialisation. The National Industrial Corridor Development Corporation, which is implementing 20 projects across 13 states, has demonstrated how such models can attract both micro, small, and medium enterprises (MSMEs) and large businesses by reducing entry barriers and improving project readiness. However, challenges such as construction delays and long completion timelines often raise costs and erode investor confidence.

Past experience also offers a cautionary lesson. Many industrial areas across states remain underutilised; for instance, some parks in Karnataka have only about 25 per cent of allotted units operational due to poor connectivity, weak governance, regulatory delays, and lack of demand. Similarly, several special economic zones and industrial corridors have struggled with various issues. Delays in synchronising internal infrastructure with external networks, such as highways, rail freight corridors, and ports, often leave parks operationally constrained. Even when land and basic facilities are ready, firms face bottlenecks in accessing reliable power, water, and digital connectivity, raising operating costs and reducing competitiveness. These gaps highlight that facilitating business is not merely about policy design but about consistent, on-ground implementation and coordination across agencies.

To succeed, BHAVYA must focus on execution. The scheme's emphasis on ensuring seamless last-mile connectivity through integration with PM Gati Shakti would reduce logistics costs and improve competitiveness. Reliable power, water, and digital infrastructure, supported by features such as underground utility corridors, must be guaranteed to ensure uninterrupted industrial operations. The scheme's challenge-based selection process must prioritise high-quality, investment-ready proposals, and promote sector-specific clustering in areas such as electronics, textiles, pharmaceuticals, and green manufacturing. Linking these parks with skilling ecosystems will be required so that employment generation is both inclusive and sustainable. In essence, BHAVYA emphasises ready ecosystems, integrated planning, and ease of doing business. This could help India deepen its manufacturing base, attract investment, and create jobs at scale. However, its success will depend on translating the ambitious design into efficient and functioning industrial ecosystems. It must also be highlighted that the development of industrial parks should not lead the government to lose focus on the rest of the country. An enabling business environment needs to be created across the land.

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India's hidden credit constraints

The credit problem may lie less in liquidity and more in how it is priced and regulated

ILLUSTRATION: BINAY SINHA



Even with abundant banking liquidity, banks continue to scramble for deposits. Overall, India's credit ecosystem remains small relative to the size of our economy.

All this reflects a combination of tax incentives, regulatory structures, and monetary conditions that suppress the attractiveness of fixed income and constrain credit expansion. In turn, this has wider implications for our asset markets and external balance.

Sizing the problem

Data from the Reserve Bank of India (RBI), the Securities and Exchange Board of India (Sebi), and the World Bank suggests that India is a global outlier in the relative size of our credit markets. India's domestic credit, across banks, non-bank finance companies, and corporate bonds, stands at just 60 per cent of equity market capitalisation. The global average is 115 per cent.

Even in the United States, with its equity culture, credit is 95 per cent of market capitalisation. In countries like Japan, Germany, and South Korea, this ranges between 125 per cent and 195 per cent. China, with its investment-heavy growth model, is at a staggering 310 per cent.

India's shallow credit base reflects structural constraints in credit formation.



POLICY IN PRACTICE

ANANTH NARAYAN

The pricing of fixed income

Low returns from fixed income weaken the foundations of our credit ecosystem.

First is the fiscal drag. Taxing interest income at marginal income tax rates makes it harder for post-tax returns to clear the expected inflation hurdle. In recent times, this has sparked a migration of household savings away from fixed income into equities. This, in turn, reduces the pool of long-term savings that underpin credit markets.

Second is the impact of monetary intervention. For FY26, the RBI will conduct record open market operation (OMO) bond purchases of ₹8 trillion, effectively absorbing 77 per cent of net central government bond supply through secondary market operations. While intended to inject liquidity and support growth, this anchors risk-free rates below where the market would otherwise clear the deficit.

Economists argue that cooling consumer price inflation justifies lower interest rates. However, in any market economy, prices should ultimately be determined by supply and demand. When rates are influenced by large-scale interventions, their signalling role becomes less clear.

All this results in fixed-income returns being seen as insufficient compensation for inflation and duration risk.

Regulatory constraints

Overlaying this are banking regulatory requirements such as the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR). These are global post-crisis standards to ensure the resilience of banks. Their system-wide effects merit attention.

LCR requires banks to hold high-quality liquid assets (HQLA) to cover a 30-day "stress" outflow. Regulations prescribe how flight risk is computed. Deposits over 30 days have zero imputed outflow. In contrast, "sticky" retail deposits under 30 days may carry a 7.5 per cent runoff, while "volatile" wholesale deposits may carry a 40 per cent outflow.

To manage LCR, banks prioritise term deposits, followed by retail demand deposits, with wholesale short-term deposits being a last resort. Any adverse shift in the mix forces banks to hold more HQLA, in turn requiring additional deposits. Similarly, NSFR demands "reliable stable funding", or deposits exceeding one year to back long-term lending. If there is insufficient growth in long-term deposits, long-term lending will be curtailed.

The deposit paradox

System-wide, deposits are created by bank lending, government spending funded by banks, or foreign exchange (FX) inflows. They are drained by the repayment of bank loans, an increase in currency in circulation (CIC), or FX outflows.

While loans create their own deposits, the LCR burden is neutralised only by term deposits. As the deposit mix shifts toward shorter-tenor or less stable categories, banks must hold more HQLA, necessitating additional funding.

Deposits from individuals have reduced from 60 per cent of all deposits 10 years ago to 52 per cent now, with no compensatory shift in the extent of term deposits. Alongside, any net FX outflows and CIC spikes drain deposits, and strain LCR management. While the ratio of CIC to deposits has remained under control, there have been FX outflows in recent years.

All this explains the current scramble for deposits, despite ample banking liquidity.

There is also a "fallacy of composition" here. LCR and NSFR address the idiosyncratic risks of a bank run. System-wide, a run usually reshuffles deposits between banks. While buffers enhance the resilience of individual banks, they overcompensate at an aggregate level, constraining the system-wide ability to lend.

External spillovers

With post-tax returns from fixed income struggling to beat inflation expectations, domestic flows into equities have risen. In recent times, this flow has outstripped fresh equity issuance, leading to pockets of overvaluation. This creates an environment conducive for foreign investors to pare exposure, likely contributing to the recent moderation in net foreign investment.

Low domestic interest rates also compress the dollar-rupee forward premium. Especially during times of currency volatility, this encourages the hedging of imports and rupee investments, discourages the hedging of exports, and induces domestic savers to invest overseas. These add pressure on the rupee while further reducing domestic deposits.

The path forward

Addressing these interconnected issues requires a calibrated and multi-pronged approach.

First, a gradual move towards a more asset-agnostic, savings-friendly taxation framework would allow risk-return considerations, rather than tax differentials, to guide asset allocation. This would help stabilise fixed-income flows, support balanced asset valuations, and create room for consistent foreign investments across asset classes.

Second, on LCR and NSFR, we must remain aligned with global best practices but avoid tightening beyond them. Additional buffers, while prudent in isolation, aggregate to a systemic burden that stifles the economy they aim to protect.

Third, monetary and currency interventions must be assessed not only for their immediate objectives, but also for their higher-order effects on savings behaviour, asset markets, and financial intermediation. This is especially crucial if the focus of intervention fluctuates periodically between currency stability and interest rate anchoring.

India's financial system has achieved significant depth in equity markets. The next phase of development requires a comparable strengthening of credit markets across banking and corporate bonds.

Without this, the paradox of liquidity without sufficient credit will likely persist.

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The views are personal



Effective oversight

Safety will be critical to the success of weight-loss drugs

Indian pharmaceutical companies over the past year have ramped up manufacturing capabilities in anticipation of March 20, when the patent on semaglutide, the molecule behind Danish pharma major Novo Nordisk's blockbuster weight-loss drugs Ozempic and Wegovy, expired. Building on India's capabilities as a producer of cost-effective generic drugs, domestically produced generic injectable and oral formulations of semaglutide are expected to hit the market soon. Generics from drug majors Cipla, Sun Pharma, Dr Reddy's Laboratories, Biocon, Natco, Zydus, and Mankind Pharma could cause these drug prices to plummet 50-70 per cent. Novo Nordisk's patents in Europe and the United States (US), India's biggest export markets for generics, will expire only in 2031, implying intense competition in the domestic market until then. This alone offers substantial gains for branded generics, given India's deteriorating health parameters. According to the National Family Health Survey 2019-21, 24 per cent of Indian women and 23 per cent of Indian men are overweight. This apart, some 77 million Indians suffer from Type 2 diabetes. Both are considered "lifestyle" diseases, the product of carb- and oil-heavy diets and inadequate exercise. Both diseases offer domestic manufacturers of generics large addressable markets. The market has already grown rapidly — from $16 million in 2021 to $100 million in 2025. It is expected to grow eightfold by 2030.

However, easier accessibility and greater affordability also carry risks. Chief among them is the question of quality. Had the US and European markets been open to these generics, the imposition of global standards under bodies like the US Food and Drug Administration would have ensured minimum standards of safety and veracity. But recent scandals over Indian-manufactured cough syrups, which caused the death of children in Central Asia and Africa, point to the gross inadequacy of drug regulation in this country. Indian generic manufacturers, therefore, bear a heavy responsibility in ensuring the safety of their products. Doing so is critical since the production of a large proportion of these generics will be subcontracted in response to anticipated demand surges. The danger of rampant counterfeiting — one of the Indian pharma business' most chronic and underestimated weaknesses — cannot be ignored. By one estimate, nearly 28 per cent of the drugs available in urban India could be spurious. High-demand, high-value drugs such as antibiotics or those for cardiac and cancer treatment are counterfeiters' principal targets. Weight-loss drugs could well join this list.

The Indian proclivity to self-medicate and access prescription drugs over the counter must also be considered. Medical practitioners have asserted that these drugs need to be administered with a strict diet and exercise regimen to work effectively and must be taken under strong supervision. Yet today, the drug is being prescribed not just by endocrinologists and cardiologists but also by gym instructors and beauticians with scant knowledge of patient physiognomy or the authority to do so. The temptation of increasingly obese Indians to opt for a cheap jab without proper medical examination can, therefore, almost be a foregone conclusion. The success of Indian branded weight-loss drugs in the domestic market will determine their ability to break into the lucrative markets of the West when patents expire after just five years. It is critical, therefore, for drug regulators and the medical community to ensure that unhealthy practices surrounding these drugs are kept to a minimum.



Low hopes, sharp divides

Trade ministers from 166 economies will meet in Yaoundé, Cameroon, from March 26 to 29 for the World Trade Organization's 14th Ministerial Conference (MC14), its top forum for setting priorities and negotiating global trade rules.

Expectations this time are low for an institution that governs 98 per cent of global trade, worth over $35 trillion, due to a deep divide over its direction. One group — led by India, South Africa and Brazil — wants to preserve consensus, inclusiveness, and a balance between development and trade. The other, led by advanced economies, is pushing for faster decisions and smaller group deals, often at the cost of WTO's core principles. The former warns this shift could weaken the WTO's multilateral foundations and sideline development concerns — effectively "kicking away the ladder" that once helped rich economies industrialise. This divide underpins most disagreements in WTO talks.



AJAY SRIVASTAVA

Here are six defining issues at MC14 — and what they are likely to deliver.

Agriculture: It remains central to India's WTO agenda, with its key demand that public stockholding for food security be treated as WTO-compliant. The major problem lies in the WTO's flawed subsidy formula, which uses 1986-88 reference prices and inflates India's support estimates by seven to eight times, pushing it artificially close to breaching limits.

The United States (US) and the European Union (EU) are not interested in correcting the formula and oppose broad exemptions, citing trade distortion risks, leaving India with only a temporary "peace clause" since 2013. With some countries seeking to reopen past commitments and positions sharply divided, prospects for a breakthrough at MC14 are slim.

The ecommerce moratorium: First agreed in 1998, it bans Customs duties on electronic transmissions, such as downloads and digital content. Developed countries, led by the US, want to make it permanent, locking in duty-free digital trade as the global economy shifts towards data and services. With the digital economy projected to grow from about $16 trillion today to nearly $50 trillion in the next two decades, driven by artificial intelligence, this Custom duty-fee free regime for electronic transmission largely benefits US technology firms that dominate cross-border digital trade.

India and other developing countries argue that the moratorium erodes their future tax base as trade shifts from physical goods to digital formats. They also contest its scope. Most developing countries believe digitally delivered services remain outside the moratorium, while the US and its allies seek to include them.

The likely outcome at MC14 is another temporary extension, preserving the uneasy compromise.

Plurilateral agreements: They are emerging as a systemic challenge to the WTO. India opposes them, arguing that they undermine consensus-based rulemaking by allowing a subset of countries to negotiate deals that are later brought into the WTO. This lets advanced economies push their priorities while sidestepping issues critical to developing countries, such as farm subsidies and special and differential treatment, risking a two-tier system dominated by a few.

At MC14, India faces pressure not to oppose the Investment Facilitation for Development (IFD) pact, which could set a precedent for adoption of more plurilateral deals. Having blocked it with South Africa at MC13, India may now stand alone as South Africa's position appears to be shifting, under pressure from other African countries linked to China's Belt and Road Initiative.

Special and differential treatment or SDT: The debate over SDT highlights a deeper fault line in the WTO. In 1995, developing countries accepted stricter rules on intellectual property and services in return for flexibilities such as longer transition periods and policy space. That bargain is now under strain. The US and the EU argue that large emerging economies should no longer receive such benefits and want SDT limited mainly to least-developed countries. India counters that development gaps remain wide and removing SDT without revisiting the original bargain would make the system more unequal. The dispute goes to the heart of fairness and legitimacy, with no resolution likely at MC14.

The WTO's dispute settlement system: Once its strongest pillar, it remains weakened. The Appellate Body has been non-functional since December 2019 after the US blocked new appointments. While panels continue to issue rulings, appeals "into the void" prevent final decisions, undermining enforceability. Interim arrangements exist but are partial and fragmented. India supports restoring a fully functional two-tier system, but the broader disagreement over reforms remains unresolved. MC14 is unlikely to change that.

Reform of WTO decision-making: This is equally divisive. Developed countries argue that the consensus principle slows progress and advocate more flexible approaches, including greater reliance on plurilaterals. India and others see consensus as the foundation of the system, ensuring that all members — large and small — have an equal voice. Diluting it would shift power towards major economies and weaken the development dimension of the WTO. Here, too, discussions will continue without resolution.

Continuity — not breakthrough — is the most likely outcome at MC14: Extensions, more talks, and few decisions. For India, the challenge will be to protect policy space and build effective coalitions in an increasingly divided system.

The author is the founder of GTRI



Fallout of war

India must prepare to minimise the damage

United States (US) President Donald Trump's statement on Monday, announcing a five-day pause on military strikes targeting Iranian energy infrastructure, raised hopes of a possible end to hostilities in West Asia, as was reflected in market reaction. However, the hope did not last long because Iranian officials said they were not negotiating with the US. Nevertheless, reports indicate that countries like Pakistan, Türkiye, and Egypt are talking to both sides to find a resolution. However, as things stand, it is unclear how and when the war will end. While Iran has suffered substantial damage, it has held its ground and is unwilling to compromise. Further attacks on energy infrastructure, as both sides had threatened, can lead to lasting consequences.

The war is in its fourth week and has already affected several countries, including India. The impact is being felt through different channels, though macro indicators may not capture everything. For instance, there is a shortage of different varieties of gas. The government rightly decided to prioritise household needs. However, this comes at a cost for businesses. There are reports that workers in industrial areas are moving back to their villages. Though the problem is not exactly comparable to Covid, which was a much bigger crisis, the closure of small businesses could lead to permanent output loss with possible medium-term implications. At this stage, it might be hard to assess the loss of output and its impact on employment. However, if the war doesn't end soon, both analysts and policymakers will have to start incorporating these factors into their analysis. Further, West Asia is not only a source of petroleum imports, it is also an important export destination for Indian goods. India exported goods worth about $57 billion in 2024-25 to the countries of the Gulf Cooperation Council. This may also be significantly dented, depending on how long the crisis lasts.

Besides a negative growth shock, a prolonged war will increase challenges in macroeconomic management. On the fiscal front, the government has thus far decided to selectively pass on the increase in the prices of crude oil and gas. This means oil companies are taking the hit, which will result in lower dividend payment to the government. The government may also have to compensate oil companies for underrecoveries on retail sales. A loss of output in general would affect both direct and indirect tax collection. The government recently announced an economic stabilisation fund of ₹1 trillion, though it is unclear when and how it will be used. The government may also have to allocate substantially more for fertiliser subsidies.

Although higher prices of energy have been selectively passed on, they may still push up the inflation rate. Lower production due to gas shortages in different areas will also be reflected in prices. While economists at the Reserve Bank of India (RBI) argued in its latest monthly bulletin that the situation requires close monitoring, the central bank's assessment will be known after the next meeting of the Monetary Policy Committee (scheduled for April 6-8). The RBI's immediate challenge is to manage the external sector. India is running a deficit on the balance of payments, and the data on foreign direct investment and foreign portfolio investment is not encouraging. Higher prices of oil will likely increase the current account deficit (CAD) from an estimated 1 per cent of gross domestic product for 2025-26. Financing a higher CAD could be challenging in the current global environment. It is perhaps time for the government and central bank to coordinate and prepare a response to minimise the damage and preserve macroeconomic stability.



Employment outcomes

India needs to create jobs for the educated

Azim Premji University's "State of Working India 2026" report, released last week, highlighted weak job absorption among the youth, especially graduates. With 367 million people in the 15-29 age group, India's economic future depends on whether this increasingly educated workforce can be productively absorbed into the labour market. The most striking concern is the scale of graduate unemployment. Nearly 40 per cent of graduates up to age 25 are unemployed, and about 20 per cent among those aged 25-29. However, this is not a temporary problem. Graduate unemployment has remained high for some time. The problem has worsened because the number of graduates has increased sharply.

Between 2004 and 2023, around 5 million graduates were added each year, but only about 2.8 million found employment. Only about 7 per cent of unemployed graduates manage to secure permanent salaried employment within a year. In absolute terms, about 11 million of the 63 million graduates aged 20-29 were unemployed as of 2023. The problem, therefore, is not a lack of education but a lack of salaried jobs. India added 83 million jobs between 2021-22 and 2023-24, but nearly 40 million were in agriculture, indicating informalisation rather than structural transformation. Much of this increase came from women entering self-employment or agriculture with low earnings. Salaried earnings have largely stagnated, and the graduate earnings premium has slowed, suggesting the supply of graduates is rising faster than the number of jobs created.

The root of the problem lies partly in the education system. The number of institutions of higher education has expanded from 1,644 since liberalisation to over 70,000 today and the number of industrial training institutes has increased nearly 300 per cent since the 2000s. However, expansion has often come at the cost of quality, leaving many graduates without market-relevant skills. Regional disparities remain significant, with states such as Bihar and Jharkhand still lagging in institutional availability. Further, while access to higher education has become more democratised, financial barriers remain significant, particularly in professional courses, so relatively rich students dominate high-paying fields while poorer students are concentrated in general degrees with weaker outcomes.

The report also highlights an important social transformation underway. Caste- and gender-based occupational segregation has declined, and younger workers are increasingly entering sectors beyond traditional occupational roles. Yet, this mobility is not matched by the creation of job opportunities in other non-farm sectors. Migration has increased, with young people from poorer states moving to more developed ones in search of work. The larger policy implication is clear. India's employment challenge is not just about job creation but also about quality jobs. There is a need for better alignment between education and industry demand, stronger vocational training linked to local industry, and strengthening job-matching systems like National Career Service to ease the college-to-work transition. One of the reasons India has not been able to create jobs at the scale required is the underperformance of the manufacturing sector. As India's demographic dividend is expected to peak around 2030, the State of Working India 2026 report serves as a timely reminder that the real measure of educational progress is how enrolment can be turned into employment.



Collateral-free loans: A risky bet

The Reserve Bank of India (RBI) has proposed that banks should not accept collateral for loans of up to ₹20 lakh extended to micro and small enterprises, while allowing the voluntary pledging of gold or silver. The intent is understandable. India's small firms rely heavily on collateral-based lending, and shifting towards cash-flow-based lending is a desirable long-term objective.

However, mandating such a shift is unlikely to solve the underlying problem. Credit markets operate under deep information gaps. Ignoring these gaps and banning collateral requirements risks making the financial system more fragile and may ultimately reduce the supply of credit rather than expand it.



PRASANNA TANTRI

To see why, consider why credit constraints exist. In most markets for goods, prices adjust until supply equals demand. If demand rises, prices increase and producers supply more. Credit markets behave differently. The classic work of Stiglitz and Weiss (1981) explains why. When lenders raise interest rates, they attract borrowers willing to take greater risks, while safer borrowers often exit because the higher rate is not worthwhile. As a result, the borrower pool becomes riskier as interest rates increase. This is adverse selection. There is also the problem of moral hazard. Once a borrower receives a loan, they may take actions that increase the chance of failure because they keep most of the upside while the lender bears much of the downside. A borrower may invest in a risky project or reduce effort after receiving the loan. Because of these problems, lenders do not always respond to higher loan demand by raising interest rates. Instead they ration credit, leaving some borrowers willing to pay higher rates without loans.

Collateral exists precisely to address these concerns. When lenders have limited information about a borrower's ability to generate cash flows and worry about post-loan behaviour, collateral changes incentives. By pledging an asset, the borrower signals seriousness and accepts that failure will impose a personal cost. This strengthens repayment incentives and gives lenders confidence to extend credit. Collateral also allows borrowers with weaker credit histories to regain access to credit markets. By pledging assets, they reassure lenders that repayment incentives exist even when past behaviour has created doubts.

The proposed regulation implicitly assumes that banks demand collateral because they are reluctant to assess business cash flows or because they exercise market power. It assumes that loan risk does not materially change if collateral is removed. Evidence from many countries suggests otherwise. Across both emerging and developed economies, secured loans tend to default more often than unsecured loans. This does not mean collateral causes default. Rather, lenders require collateral precisely from borrowers they perceive to be riskier. Without collateral protection, banks would face higher losses when lending to such borrowers.

If collateral is restricted, several outcomes are possible. Banks may deny credit to borrowers who would otherwise have received loans backed by collateral. Alternatively, banks may increasingly insist on gold or silver as collateral, which the regulation explicitly permits. This could create unintended consequences. Much of the collateral pledged by small firms consists of business assets such as machinery, vehicles, or equipment that are directly tied to the business. Requiring borrowers instead to pledge household gold or silver effectively means asking them to demonstrate higher personal wealth. Many small firms may own productive assets but may not possess household gold. Restricting acceptable collateral in this way may exclude precisely the borrowers the policy intends to help.

There is also a broader risk. If banks are pushed to lend without adequate safeguards, loan defaults may rise. India has already experienced the consequences of policy nudges in lending. Between roughly 2008 and 2018, large expansions of bank lending to infrastructure and related sectors were encouraged by policy signals and regulatory forbearance. The result was a major banking crisis marked by rising non-performing assets and stressed bank balance sheets.

If the goal is to expand credit access, a better approach is to reduce the frictions that prevent lenders from assessing risk and recovering loans. Strengthening creditor rights is one step. Even under the Sarfaesi framework, financial institutions often wait months or years before collateral can be effectively transferred or liquidated after default. Faster enforcement would reduce recovery costs and encourage lending. Improving information infrastructure is equally important. The development of the Unified Lending Interface and the requirement that credit scores be updated regularly are positive steps. These initiatives should be expanded. Encouraging competition in credit scoring, expanding data access, and developing alternative credit scores using government administrative data can significantly reduce information gaps.

In sum, the intent behind the RBI's proposal is laudable. But market failures are best addressed by removing frictions that impede the working of markets, not by prohibiting mechanisms that help them function despite those frictions. Mandating collateral-free lending risks shifting and postponing risk rather than solving the underlying problem.

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Energy self-reliance

Crisis an opportunity to increase fossil-fuel production

The oil-and-gas markets have responded with optimism to reports that the United States (US) administration has sent leaders in the Islamic Republic of Iran a 15-point agenda for ending the war in West Asia. The hopes sparked by this information have been enhanced by an apparent statement from the Iranian authorities that they will permit ships from "non-hostile" nations to go through the crucial Strait of Hormuz as long as they maintain contact with Iran and seek permission. While it is easy to understand the desire to see these as signs that the weeks-long crisis in the Gulf will end and the fossil-fuel markets return to normalcy, that might be too much to expect, given the mercurial natures of everyone involved in the US, Iran, and Israel. And, India should be prepared to pay higher than expected prices for imported energy in the foreseeable future.

One of the more important consequences of the weaponisation of trade chokepoints has been that some markets that were earlier global in nature, such as those for crude oil, have seen sharp variations in regional prices. For India, for example, the price of oil from the Gulf is far more relevant than the price of oil from Texas or the North Sea. By some estimates, this may mean that for a significant part of the coming few months, the price of the Indian basket of crude oil might be almost double of what it was over the past several months. It should go without saying that, if this is the case, it will put tremendous stress on both household and government finances.

The threat to India's political economy caused by a sharp spike in the price of energy is a sadly familiar prospect. This has been the case before — in 2013, in 1999, and earlier. The only real weapon that New Delhi has against this is not something that can be deployed at short notice: Greater energy independence. However, the current government has had more than a decade to develop this weapon. Since it took office in 2014, it has been blessed with a longer-than-normal run of manageable energy prices. In this period, it has taken some steps towards self-reliance in energy — for example, the ambitious targets for renewable-power capacity. But, in current circumstances, renewables are not a sufficient replacement for fossil fuels, particularly when it comes to the base load for power, and they will not be for many years to come. There is thus no alternative to increasing domestic exploration, extraction, and processing of oil and gas.

Unfortunately, on this crucial metric, the government has fallen short. In spite of some attempts at forward-looking changes to exploration policy, production has declined over 30 per cent since 2014. This is in spite of increasing domestic demand, which has risen alongside a growing economy. The introduction in 2016 of a new exploration and licensing policy did not substantively increase production or gain commercial interest. Production sharing was replaced with revenue sharing, but this meant that companies would see revenue a lot later in the project timeline, rendering them less interested. Data coverage for new open acreage remained too low, and price uncertainty persisted; Brazil, in comparison, has two or three times the level of exploration, thanks to investing in geological data. India clearly needs to work harder and learn from successes elsewhere. This crisis — or threat of crisis — should not be wasted but used as an opportunity to increase self-sufficiency.



Enabling environment

Proposed amendments to laws will facilitate business

The Union government recently introduced in the Lok Sabha the Corporate Laws (Amendment) Bill, 2026, to keep the related laws relevant to the fast-changing business environment. Although the Bill has been referred to the joint parliamentary committee for examination, a few of the proposed amendments are worth discussing. One of the most crucial amendments proposed in the Bill will allow the President to constitute one or more special Benches of the National Company Law Tribunal (NCLT) to dispose of any case under the Companies Act or the Insolvency and Bankruptcy Code, 2016. Experts, including those writing in this newspaper, have highlighted capacity constraints at the NCLT. It is arguably one of the biggest reasons for delays in resolving insolvencies, which currently take, on average, more than twice the time envisaged. Delay in the resolution of stressed assets can result in an avoidable loss of value.

In this context, it is worth noting that Parliament is also discussing the Insolvency and Bankruptcy Code (Amendment) Bill, 2025, which aims to quicken insolvency resolution. The insolvency-resolution framework could get a big boost, assuming both the Bills are passed. Besides, the Corporate Laws (Amendment) Bill proposes centralising merger applications at a single NCLT Bench. This will ease pressure on the entities concerned and speed up the merger process. In the context of corporate social responsibility (CSR), the amendment proposes to increase the mandatory net-profit threshold from ₹5 crore to ₹10 crore. Although the legal mandate on CSR itself is debatable, the increased threshold will be a relief for relatively small companies. Other amendments intend to ease the burden of compliance on smaller companies while tightening accountability norms for key managerial persons.

For many years, conflicts of interest in how audit firms operate have been a concern. Such firms also provide non-audit services, which can affect audit quality. One of the amendments proposes that the auditor or audit firms of a prescribed class of companies will not provide any non-audit services to the company or its holding or subsidiary companies. The condition will apply for three years after the audit firm finishes its term. This would address market concerns over audit quality to a great extent. The amendments also seek to ease the terms of buyback for certain classes of companies. Such companies, subject to some conditions, will now be able to make two offers a year. This would allow companies more flexibility in timing such offers, depending on market conditions.

Importantly, the Bill has provisions to bring the National Financial Reporting Authority (NFRA) on a par with other regulators. This will enable the NFRA to make regulations that govern the functioning of accounting entities. This should help improve accounting standards in the country. The NFRA, in its recent reports, has highlighted significant gaps in the functioning of accounting firms. The quality of financial reporting is extremely important, given that India is looking to attract large investment. Further, to improve compliance, the Bill also proposes facilitating the conversion of alternative investment funds structured as trusts into limited-liability partnerships. Notably, subject to some conditions, the Bill proposes allowing companies to hold annual general meetings and extraordinary general meetings through videoconferencing or other audiovisual modes. Overall, the Bill has several provisions to enable companies and improve the business environment.



ILLUSTRATION: BINAY SINHA



Energy crisis: Let prices adjust

Between rationing supply and letting fuel prices respond to changes, the latter offers a better long-term solution

The West Asia crisis has created a global shortage of crude oil as well as liquefied natural gas (LNG). Given India's exposure to imported fuels, the crisis has affected it as well. In response to the shortage and the perceived uncertainty over availability, the prices of crude oil and LNG internationally have been highly volatile. The price of Brent crude has gone up from $70 per barrel on February 26 to a high of $106 per barrel.

The cost of the Indian basket, however, has increased more sharply to over $156 per barrel due to disruptions in supplies from West Asia. Two challenges are emerging therefore — a shortage of supply as well as an increase in the cost of procurement. Efforts are being made to diversify the procurement of both ingredients of our energy basket, but these are likely to augment supplies only in a few months, given the logistical challenges. What does this crisis mean for India?



R KAVITA RAO

Any shortage in availability can be addressed either by allowing prices to adjust to eliminate the shortage or by rationing supply among competing users. Currently, the crisis is being managed by drawing down reserves of crude oil and by rationing liquefied petroleum gas (LPG) usage. Clearly, there are limits to managing the situation only with these tools. There are two emerging concerns with this policy response.

1. Perceived shortages create a black market for LPG along with hoarding behaviour.

2. The choice of rationing mechanism can have extended consequences — the government initially elected to protect consumers while partially withdrawing supplies to commercial users, including industry. Apart from the restaurants and hospitality sector, a number of industries are reported to be scaling back production or temporarily closing units. While fertiliser has been designated as a priority sector with assurances in supply of gas, tile manufacturing, tea, textiles and aluminium are reporting cutbacks. These, in turn, would cause second-round effects through reduced employment and lower production for these goods.

Perhaps it is time to consider price-based mechanisms to manage demand. Increase in price in the context of this sector in India can be considered in two ways — an increase in the cost of procurement can be passed forward as a higher price or, alternatively, an increase in price could be introduced to manage demand. Given that prices of imported fuels respond to global rather than local demand and supply, there could be a difference in the price change required in these two scenarios. In the presence of adequate supply, price management can address a number of alternative priorities. However, price plays a significantly different role of moderating demand in cases of shortage of supply. Given the current milieu, the demand-moderating impact of price increases should be the focus.

To explore this option further, an assessment of the persistence of the crisis is called for. While it is hoped that the crisis would be a short-term one with a return to "normalcy" soon, the repeated nature of dispute between Iran and US-Israel suggests that the disruption could be long drawn or recurring in nature. In other words, uncertainty in the availability of crude or LNG, as well as in associated costs, remains. In this context, can we use this crisis as an opportunity to trigger structural change in the composition of our energy mix, with reduced reliance on imported fossil fuels?

How can the government support/nudge such a transition? The transition would have two components — first, on the supply side of energy, identifying alternative energy sources where India could have a comparative advantage; and second, on the demand side, nudging and supporting transition from one form of energy to another. On the supply side, the government has in place a number of initiatives to encourage the expansion of capacity under renewables such as solar. There are announced initiatives for coal gasification and carbon capture technologies. Ethanol can be another substitute energy source to explore. A suitable product mix which augments energy sustainability and self-sufficiency might require support not just for investment, but also for undertaking research & development for long-term efficiency in resource use.

On the demand side, households have been encouraged to move from solid fuels such as biomass to LPG. Automobiles are being encouraged to shift from diesel to CNG, and now further to electric. Similar support would be required for industries that use LPG or other forms of crude oil derivatives to move to electricity as the primary energy source. The nudge can be sector-specific to begin with. All of this requires resource commitments from both the government and the private sector.

Fiscal impact: Consider the alternative scenarios. The current approach of rationing and price controls remains in place, or, alternatively, price is used as a tool to moderate demand. In the first scenario, if the supply of energy is lower, it would have an adverse impact on gross domestic product (GDP) growth. With higher costs of imported fossil fuels, if the costs are not passed forward, the balance would have to be met through budgetary support.

In the alternative scenario, if prices are adjusted to moderate demand, there would once again be an adverse impact on GDP growth, along with an increase in inflation. The fiscal balance might be better since revenues would be augmented both from higher petroleum taxes and implicit inflation taxes.

Clearly, the cost of borrowing for governments would be higher, but the government would have a nest egg to manage the new demands placed on it. The resources so mobilised could be earmarked for supporting the transition on both the demand and supply sides as discussed above, in addition to supporting the energy requirements of low-income households.

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Tamil Nadu: Moving on from good to great

With a gross domestic product (GDP) of $375 billion (₹31 trillion) and a per capita income 1.6 times the national average, Tamil Nadu (TN) is one of India's economic powerhouses. This marks a major improvement from 1991, when its per capita income was 0.85 times the all-India average.

The turnaround is the result of TN's faster growth following the 1991 reforms, with its per capita GDP growing at 5.8 per cent per annum, compared to 4.7 per cent for India as a whole (1994-2023). The state has now set an ambitious target of becoming a $1 trillion economy by 2030, which would translate into a per capita GDP of around $13,000.

As TN goes to the polls next month, it is critical for the next government to understand the factors that have fuelled its economic ascent over the last 30 years, and what it should now focus on to further accelerate growth and achieve its trillion-dollar GDP target.



SHISHIR GUPTA &
RISHITA SACHDEVA

Fast-growing states are typically strong in growth-inducing attributes — social and physical capital, and the quality of governance. TN is no exception. It has the highest gross enrolment ratio in higher education at 50 per cent, compared to an average of 28 per cent for major states. TN has zero dropouts up to Class 8, and in secondary education, dropout rates are half the national average.

It also has one of the lowest rates of child stunting at 25 per cent, compared to the national average of 35 per cent, according to the National Family Health Survey-5. Nearly 100 per cent of its villages are connected by all-weather roads. TN has managed to build these strong fundamentals while keeping the budget deficit at 3 per cent of GDP, and it has one of the lowest violent crime rates in the country. There do exist some weak links, such as road availability, which is 30 per cent lower than the national average. The state still does not allow more than eight hours of work and has one of the highest minimum wages, at about ₹480 per day for non-agricultural work, compared to ₹300-350 in Gujarat, Karnataka and Maharashtra.

To the extent that these state-wide strengths in fundamentals also manifest in the state's key economic centres (KECs), they become turbocharged, significantly boosting the state's overall growth. TN has four such KECs — Chennai urban agglomeration (UA), Coimbatore, Madurai, and Tiruchirappalli — which cumulatively account for about 50 per cent of its GDP, and grew at 9 per cent per annum, about 3 per cent faster than the rest of the state (2002-23). This average outperformance of TN's KECs, however, masks the fact that it is really the Chennai UA that drives this performance.

Chennai UA accounts for a third of TN's economy and grew at 10 per cent annually between 2002 and 2023. This stellar growth of the UA was led by the Kanchipuram district (Chennai UA comprises three districts, including Kanchipuram), which grew annually at 12 per cent. Both manufacturing and business services contributed to this fast growth, growing at 60 per cent and 80 per cent faster than the respective state-sector growth (2002-2023).

Active state support has played a big role in Kanchipuram's outperformance. It has the highest number of industrial parks in the state — eight out of 28 — including three major industrial parks. The Oragadam Park is famous for its automobile factories, with companies like Royal Enfield, Eicher Motors, and Daimler Truck. Sriperumbudur has emerged as an electronics hub since 2007 with factories of Samsung, Dell, and, more recently, Foxconn. And Siruseri is becoming an IT hub, especially after Tata Consultancy Services established its campus in 2012.

Realising Kanchipuram's potential and developing it into an economic powerhouse reaffirms the salience of focusing on existing centres, as opposed to trying to develop new centres from scratch. However, TN has not been able to replicate the success of Kanchipuram in other KECs, with Coimbatore growing at 7.9 per cent followed by Madurai and Tiruchirappalli growing at 6.6 per cent and 6 per cent, respectively between 2002 and 2023.

This lack of dynamism is evident in Coimbatore's share of the state's manufacturing GDP, which declined from 23 per cent to 19 per cent (2002-2023). This is largely due to moderate specialisation in textiles in Coimbatore and weak specialisation in financial services in Madurai and Tiruchirappalli.

The work is cut out for the next government to achieve the 2030 vision. First, keep improving the state-wide growth attributes. Though TN is strong in most areas, they rank around the median level when compared globally. The percentage of stunted children in the state is almost double that of Thailand, while China's gross enrolment ratio in tertiary education is 30 per cent higher. Second, develop Chennai UA as a world-class manufacturing and services hub. At around $100 billion GDP, it is still one-fourth the size of Guangzhou in China, indicating massive potential for growth. Third, alleviate constraints for faster growth of Madurai and Tiruchirappalli by deepening their specialisation in finance. Unleashing the growth of Coimbatore may require serious effort, since slower growth is endemic to all centres in India that specialise in labour-intensive industries. Tamil Nadu is a powerful story of how a state has turned around its economic performance by focusing on growth fundamentals. It should now take the lead and become the first $1 trillion economy in India.

The authors are economists. The views are personal



Modernising Indian corporate law

The Corporate Laws (Amendment) Bill, 2026, is a welcome step in the ongoing evolution of India's corporate regulatory framework. Introduced in the Lok Sabha on March 23, it proposes wide-ranging amendments to the Companies Act, 2013, and the Limited Liability Partnership (LLP) Act, 2008, to further ease of doing business while strengthening governance. Emphasis is on practicality -- removing friction from corporate action, making enforcement proportionate, modernising internal governance workflows, and concentrating regulatory discipline where it matters most.

The Bill has been referred to a joint parliamentary committee (JPC) for scrutiny and stakeholder inputs before it returns for final consideration.

A key feature is making compliance more proportionate to size while retaining governance discipline. The proposed expansion of the "small company" thresholds (paid-up capital from ₹10 crore to ₹20 crore; and the turnover from ₹100 crore to ₹200 crore) could bring more entities in the growth stage into a lighter compliance regime without lowering baseline standards. Additional fees for delayed filings are to be rationalised (including overall caps) and timelines for charge registration extended (the overall window up to 180 days), reducing punitive outcomes for procedural delays and supporting timely regularisation. Compliance requirements have been eased for small/one-person/dormant companies (one board meeting per year), and disclosures of director interest (under Form MBP-1) moved from the annual filing to a change-based trigger.



BHARAT VARADACHARI & RAJESH MODANI

It also aligns corporate law with modern capital and talent realities. Recognising contemporary share-linked reward instruments beyond traditional Esop (employee stock-option plans) reflects how companies structure incentives today. Buyback provisions have been proposed to be modernised: Expanded eligibility (including Esop/sweat equity and similar schemes), flexibility for prescribed classes to undertake up to two buybacks a year (subject to a minimum gap), clearer computation mechanics, and removing affidavit-based solvency verification. With safeguards built through rules, these changes can reduce interpretational disputes and improve capital-management agility, particularly where companies are returning surplus cash or managing dilution from incentive plans.

A third theme is digital-first governance with checks intact. Annual general meetings (AGMs) and extraordinary general meetings (EGMs) may be held in physical mode, through videoconferencing/audiovisual means, or in hybrid form (subject to conditions), enabling hybrid meetings if requested, where thresholds are met. At least one physical AGM every three years preserves periodic in-person shareholder interaction. EGMs through videoconferencing may be convened on shorter notice (at least seven days or as prescribed). As electronic service becomes the default for prescribed classes, governance emphasis shifts from dispatch to proof-of-service integrity, record-keeping, and stronger internal standard operating protocols.

Rationalising corporate social responsibility (CSR) aims to align obligations under this with capacity and reduce procedural slippage. The net-profit trigger rises from ₹5 crore to ₹10 crore (or as prescribed), the timeline for transferring unspent CSR amounts for ongoing projects has been extended from 30 to 90 days from year-end, and the thresholds for constituting CSR committee are proposed to be increased (₹50 lakh to ₹1 crore, or as prescribed). An enabling provision allows prescribed classes to be exempt from CSR subject to conditions, creating room for a more fact-based approach over time.

On corporate action and exits, several proposals can reduce procedural drag and improve predictability. Fast-track mergers/demergers become more workable through a 75 per cent "present and voting" approval threshold, and the jurisdiction of one Bench of the National Company Law Tribunal for schemes based on the transferee/resultant company can reduce multi-Bench filings. Restricting schemes for companies already in liquidation address overlap risks with insolvency processes. Strike-off grounds expand for inactive/non-filing companies, restoring prescribed categories shifts to regional directors, and summary liquidation is clarified, including the appointment of an official liquidator or a registered insolvency professional -- supporting quicker, more proportionate exits for low-risk closures.

The Bill proposes to streamline IFSC (International Financial Services Centre) compliance by moving IFSC entities to a foreign-currency standard for share capital and financial records, with INR presentation allowed only where the International Financial Services Centres Authority permits.

Finally, the move from criminalisation to proportionate enforcement is a welcome evolution. Routine defaults shift from fine/prosecution to civil penalties; adjudication matters by regional directors are expanded, freeing up NCLT time and enabling speedier resolution; and settlement and recovery mechanisms strengthen enforceability while reducing fear-based compliance. Pre-deposit requirements for certain appeals and higher compounding thresholds at the level of regional directors should encourage administrative closure over prolonged tribunal paths, while preserving remedies for genuine disputes.

Where the government can add disproportionate value is by sharpening last-mile mechanics so that intent translates into real experience. In incorporation, issues are often operational rather than legal: Wider acceptable address proofs/validity windows for cross-border execution, and a more responsive escalation mechanism at the processing stage would improve transparency and predictability. On exits, enabling a controlled mechanism to repatriate surplus funds during strike-off (after filing but before final order), expanding the practical reach of summary liquidation through thresholds and digital-first mechanics and considering a fast-track administrative exit for non-operational distressed entities (with safeguards) would strengthen capital recycling and investor confidence. Overall, the Bill is directionally strong, ie simpler where risk is low and sharper where the public interest is high. With last-mile refinements incorporated, it can deliver a more predictable and business-aligned corporate framework in practice.

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Reducing energy vulnerability

A tenfold increase in the share of renewables in the total energy supply is needed

ILLUSTRATION: AJAYA KUMAR MOHANTY





SNAKES & LADDERS

AJAY SHAH

The external environment has given us fresh concerns about our domestic vulnerabilities. The conflict involving Iran disrupts energy markets and alters the calculus of risk. For India, the macroeconomic implications of oil-price shocks have been a problem since the early 1970s. The structural weakness is visible in the data. Imported crude oil constitutes 21.7 per cent of the total energy supply. Imported natural gas accounts for an additional 2.6 per cent. These add up to a vulnerability of 24.3 per cent. The strategic literature in India has long documented the risks of this dependence, upon a politically unstable region. The intellectual consensus favours a transition. There is a ready answer: We are blessed, the Indian landmass receives abundant solar radiation. Modern technologies for renewables offer the foundations for energy independence.

Where are we in this journey? Over the past decade, modern renewables generation in India, measured in terajoules, grew by 8 per cent per year. This figure suggests motion. A growth rate of 8 per cent over a decade doubles absolute output. But with all this growth, we are really not in a good place. Modern renewables account for just 3.2 per cent of the energy supply. The achievement of decades of energy policy reduces to one number: Modern renewables at 3.2 per cent of the energy supply.

Modern economic growth is energy-intensive. Expanding gross domestic product (GDP) requires a commensurate expansion in energy supply. Demographics, urbanisation, and industrialisation guarantee that energy demand will scale up. The composition of this supply must undergo a structural transformation. At present, traditional biomass constitutes 20 per cent of the total energy supply. Economic modernisation implies the displacement of biomass. It involves deep electrification of industrial processes, transport logistics, and household consumption. To alter the macroeconomic profile and achieve energy security, the role of renewables cannot grow incrementally. The system requires an order of magnitude expansion. What is the path to renewables at 32 per cent of the total energy supply?

We took 20 years to get to a 3.2 per cent share. This won't go to 32 per cent quickly within the present paradigm. It requires foundational changes in energy policy. Incremental adjustments to subsidies or public-sector mandates will not bridge this gap. Three structural shifts are necessary to mobilise capital and align incentives.

The first element is the transformation of the electricity sector. The prevailing architecture operates on central planning. State entities design procurement, determine quantities, and administer prices. This institutional arrangement misallocates capital, deters risk-taking, and deters innovation. Central planning cannot process the complexity of a modern, decentralised grid dominated by intermittent sources of renewables. The system must transition to the price mechanism. The design of electricity markets must allow prices to clear based on supply and demand in real time.

Market prices and profit rates are the mechanisms that correctly organise economic activity. When the price system functions, it attracts private investment in renewables generation, transmission infrastructure, and energy storage. Capital flows toward solutions that resolve grid constraints. Akshay Jaitly and I have termed this deeper energy-sector transformation as "the lowest hanging fruit of the coconut tree" (http://bit.ly/4v5wLib). Central planners attempt to have a political-bureaucratic selection of the right technologies. Markets take risks and discover the lowest-cost solutions. The state must build the market framework within which millions of private agents optimise their energy production and consumption decisions based on unhindered price signals.

The second element involves the taxation of externalities. Energy choices involve hidden costs. The combustion of fossil fuels damages public health through particulate matter, contributes to climate change, and creates a strategic vulnerability for the country through imports of oil and gas from an unstable region. Economic theory addresses this market failure through Pigouvian taxation. A carbon tax is the optimal intervention for India. It establishes a price for carbon emission, altering relative prices across the economy away from dirty fuels.

When carbon-intensive activities become expensive, private firms adjust their supply chains. Capital is reallocated toward energy efficiency and renewable alternatives. A carbon tax uses the profit motive to drive the energy transition. The Indian economy is taxed very heavily and nobody wants more taxation. The path forward lies in a revenue-neutral reform of indirect taxes. The current goods and services tax (GST) involves multiple and very high rates, and complex classifications. This structure imposes compliance costs and distorts resource allocation. Revenues from carbon tax can finance the long-pending reform of going to a low, single-rate GST.

The third element is finance. Renewable energy is capital-intensive. The viability of projects depends on access to low-cost equity and long-term debt. A 10-fold increase in the renewable-energy share requires massive capital formation. The infrastructure build-out includes generation and storage capacity, grid expansion, and storage technologies. Big investment is required by the demand side, eg the shift to electric mobility. The balance sheet of the Indian state does not possess the capacity to finance this expansion. The domestic financial system is similarly constrained. The resource requirement exceeds domestic savings.

The solution lies in linking Indian infrastructure needs with global capital markets. Friction on the cross-border movement of capital increases the cost of financing. Regulatory barriers and hedging costs deter foreign direct investment and foreign portfolio investment. Financial liberalisation is required for the energy transition. Removing barriers to capital flows allows global savings to enter Indian clean energy projects, altering the mathematics of project finance.

Geopolitical friction helps clarify our economic reality. The dependence on imported fossil fuels is a constraint on Indian stability. Escaping this constraint requires abandoning the methods that produced it. The current outcome of a 3.2 per cent share of renewables is the output of central planning, unpriced externalities, and capital controls. To get to the desirable 32 per cent renewables share, we need to change course. This calls for an electricity system based on the price system, a carbon tax, and capital account convertibility.

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No end in sight

Iran war is escalating costs for the global economy

One month into the conflict between the United States (US)-Israel and Iran, there is little visibility on the endgame. Both sides have proposed conditions, which make it impossible for either belligerent to meet. The US' 15-point plan demanded from Tehran guarantees that would have emasculated the country's ability to defend itself against future attacks in a hostile region. Iran, in return, demanded counter-conditions such as lifting sanctions, ceasing assassinations of leaders, and guarantees against future US aggression.

This mutual intransigence — despite efforts by Pakistan, Egypt, Turkiye, and Saudi Arabia to broker a deal — is likely to inflict progressively heavier economic costs on the global economy. Countries in Asia heavily dependent on West Asian fossil fuel are already struggling to contain the inflationary impact and hardships of fuel shortages with adverse long-term consequences for their economies and government finances. For example, slashing the special additional excise duty on petrol and diesel by ₹10 per litre — to provide relief to oil-marketing companies, which are taking the hit — could pare Indian government revenues by between ₹1.2 trillion and ₹1.7 trillion on an annualised basis. More pain for the global economy is on the cards with the resumption of retaliatory attacks and the unanticipated escalation by Yemen's Houthis against Israel. This new front could threaten another key global trade route via the Suez Canal and the Red Sea.

Until now, the Iranian mining and blockading of the Strait of Hormuz, which accounts for a quarter of trade in seaborne oil and gas and is the main outlet for West Asian fossil-fuel producers, have caused oil prices to soar from $73 per barrel (for benchmark Brent crude) to $110-119, along with heavy shortages. Eastern Asia has been particularly hard hit as it sources 80-90 per cent of crude oil and natural gas via this route. Saudi Arabia sought to adjust to the blockade by increasing oil flows through its east-west overland pipeline to the Red Sea port of Yanbu, which eased pressure on prices of crude oil. That outlet, too, is now threatened along with trade between Asia and Europe. The Suez Canal/Red Sea accounts for a third of world container traffic, and the world has already experienced the impact of Houthi disruption in 2023 and 2024. Ships were forced to take the longer route down the west coast of Africa and around the Cape of Good Hope, causing a sharp rise in shipping costs, including insurance premiums, and adding to global inflationary pressures and disrupted supply chains.

It is increasingly evident that the US and Israel have seriously miscalculated Iran's responses and capabilities. The assassinations of Iran's political and security leaders have not compelled Tehran to surrender. On the contrary, it has deployed a range of weaponry, which has wrong footed its opponents time and again. Despite a month of pummelling Iran with the world's most sophisticated weaponry, US intelligence agencies reportedly reckon that only about a third of its missile arsenal and drone capability has been destroyed. They are unsure of the status of the rest. For a country that has planned for just this contingency — and has experience of prolonged warfare and hardship — a long-drawn asymmetric war of attrition is not seen as a disadvantage. But with a face-saving exit eluding the US and Israel, the prospect of lasting peace in West Asia appears increasingly remote.

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THEIR VIEW

Act in favour of homebuyers left in the lurch by property builders

India's Supreme Court has laid out the principle of protecting home investments. Follow it through



G.N. BAJPAI & PRAVEEN TIWARI
are, respectively, former chairman, Sebi and LIC; and former deputy comptroller and auditor general and member, National Financial Reporting Authority.

In a recent judgement in the *Supertech* case, the Supreme Court held that the focus of insolvency resolution in real estate cases should be on home completion rather than liquidation. We had argued for such an approach in our article in *Mint* on 7 October (*shorturl.at/mTftF*). This judgement should fundamentally alter the real estate insolvency process and bring relief to thousands of tormented homebuyers.

Its philosophical underpinnings must now permeate the legislative and regulatory regime governing the sector. It should include preventive and curative measures to straighten out kinks realtors exploit for their misdeeds. We discuss some important changes required.

The Supreme Court, in the *Mansi Brar* case, has directed the Insolvency and Bankruptcy Board of India (IBBI) to frame specific guidelines for real estate insolvencies. To have legal force, these should be issued as sector-specific regulations that must establish a legal framework for the completion and handover of housing units to homebuyers.

A workable option is to appoint turnaround specialists of proven integrity with experience in executing real estate projects as Resolution Professionals (RPs). They should have legal powers to arrange working capital, disgorge stolen funds, complete projects within an agreed timeframe and issue completion certificates. And, if need be, they can hire financial and legal experts in addition to the company's existing management team under insolvency.

The RP is a key person in the insolvency process with a mandate to resolve a housing project. The current practice of institutional financial creditors proposing the appointment of RP can create conflicts of interest and distortions if there is collusion with the corporate debtor. Hence, the authority to appoint an RP should rest with the IBBI, which may also receive recommendations from financial creditors.

Further, an RP should not be allowed to handle more than two projects at a time. According to data published on the website of one state Real Estate Regulatory Authority (RERA) that we reviewed, as of 22 February, only four RPs were handling 66% (186 out of 282) of all projects under litigation at the National Company Law Tribunal. They each had 90, 41, 31 and 24 projects, respectively. The question is whether one RP can effectively handle so many projects. IBBI, which regulates RPs, including their authorization, should prevent concentration.

Currently, an RP remains in charge of a project even after that authorization is suspended. This is so even in cases of misconduct: the IBBI should be empowered to initiate their removal from existing projects in such cases. Finally, since RPs discharge important public functions, insolvency regulations should designate them as public servants to promote accountability. As of now, their status is unclear. The Madras high court has held that an RP is a public servant, while the Delhi high court has held a contrary view.

While publication of accounts is mandatory for publicly-listed companies, private limited companies need not do so, enabling private real estate companies to avoid disclosure and transparency. Further, unlike shareholders, flat aspirants who fund the project do not even receive an electronic copy of the builder's financial statements. Thus, homebuyers are in the dark about the firm's operational effectiveness and efficacy until insolvency is declared.

Therefore, real estate companies (RECs) should also be declared as 'public interest entities' (PIEs) under the Companies Act, given the public interest involved, and RERA should track their disclosures. This will ensure transparency of their operations.

The Supreme Court has already underscored the importance of red flags as a preventive measure. Analysis of the MCA-21 database, which is a repository of corporate information maintained by the ministry of corporate affairs, can raise red flags for preventive action. The data should be analysed in real time, using advanced analytical tools and artificial intelligence. An institutional mechanism for identifying red flags can be an important measure to prevent corporate malfeasance and enable swift course correction.

Following a spate of frauds and insolvencies, in August 2020 China adopted a Three Red Lines Policy to prevent excessive debt accumulation in the real estate sector and reduce financial risks. India should develop its own policy based on domestic and international experience and harness the MCA-21 database for identifying red flags.

The law applies strict 'fit and proper' criteria for the appointment of directors of deposit-taking institutions such as banks. As housing projects are akin to collective investment schemes, agencies like RERA should review the 'fit and proper' status of the boards of insolvent builders to determine whether they remain fit and proper to oversee public interest entities in the future.

The development of real estate, especially housing, is essential for a prospering society. It also contributes significantly to economic growth. This broad sector, related industries included, can contribute up to 20% to India's GDP annually. And we cannot be a developed nation without an adequate housing stock.

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OUR VIEW


MINT

Our reset GDP statistics pack in some good news

The most heartening takeaway from India's new GDP estimates is a shift they reveal in the structural composition of growth. Manufacturing-sector output now leads from the front

Revised estimates of India's gross domestic product (GDP) released on Friday by the statistics ministry show a slightly smaller output pie than previously estimated, but testify to the Indian economy's resilience. The new GDP series with 2022-23 as its base year pegs growth in 2025-26 at 7.6%, higher than 7.4% estimated under the old series with base year 2011-12. The slowdown of 2024-25 also turns out far milder, with GDP expansion slowing to 7.1% from 7.2% the year before, instead of 6.5% from 9.2%. As for this fiscal year, growth in the third quarter ended December is now placed at 7.8%, a robust rate given how US tariffs began to kick in harder. Our growth impulses have been intact—and impressive. The most heartening takeaway, though, is a shift revealed in the structural composition of this momentum. The manufacturing sector now leads from the front. It has long been a laggard, but recorded a double-digit pace in 2023-24 and is seen on course to do so again this year. Some of this, doubtless, is the effect of reduced proxy use to estimate the informal sector's output, as the ministry now has a tracker in its Annual Survey of Unincorporated Sector Enterprises for a relatively direct data feed for estimation. But some of it can plausibly be explained by the improved use of deflators to adjust for inflation and get a closer fix on value added in the factory sector.

As a note with this new data series makes clear, changes wrought by a base-year update differ significantly from regular revisions in National Accounts. Globally, the latter "are made only on the basis of updated data becoming available without making any changes in the conceptual framework or using any new data source, to ensure strict comparison over years." In contrast, base-year resets include an overhaul of the country's output gauge to "capture structural changes in the economy, incorporate latest data sources, improve estimation methodologies and enhance coverage and accuracy." A proper analysis of trends over a longer haul awaits the release of 'back-series' data on earlier years, rather than just the three starting with 2023-24 released by the ministry. But with average GDP growth marking three dots on a trot at clips above 7%, the latest *Economic Survey*'s conjecture on India's potential growth rate having risen half a percentage point from 6.5% earlier does not seem misplaced.

The note lists several key improvements in the New GDP Series, two of which stand out. First, sharper coverage of our vast informal sector, thanks to survey inputs, is a clear plus; especially in the context of a statistical haze over how K-shaped our covid recovery may or may not have been. Second, to adjust for inflation, 'double deflation' of current values has been deployed in the farm and factory sectors (while other estimation methods are used elsewhere). The use of separate 'deflators' for output and inputs helps us avoid distortions of value addition caused by price volatility in such raw materials as oil or metals. However, the absence of a proper producer price index forces us to fall back on data from an outdated wholesale price index (base 2011-12), an anomaly that should be fixed once this index is rebased (as our retail price index recently was). Even so, together with increased items in the deflator basket, we can expect greater stability in India's growth numbers—with less 'statistical noise'—to pave the way for better-informed policy.

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MINT CURATOR

Is New York under Mamdani bent on overtaxing residents?

Expanded city services come at a cost voters may not understand



ALLISON SCHRAGER
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New York's mayor wants the city to provide free child-care starting at six weeks. AP

France is great. I visit a few times a year, and the food is fantastic, the museums are amazing and day care is free (or heavily subsidized) for toddlers aged 3 months or more. New York City, where I live, is also great, with pretty good food and architecture. The day care, not so much.

Of course that French day care comes at a steep price. The French—even the middle class—pay much more in taxes. According to the OECD, the average single earner pays 28% of their income in taxes, compared to 24% in the US. And that does not include the large consumption taxes that Europeans pay.

Now New York's mayor wants the city to provide free child-care starting at six weeks, among other free services. He has also promised New Yorkers that someone else would pay for it: the rich. Last week, reality caught up with these plans. If Mayor Zohran Mamdani cannot get the tax increases he wants on high earners and corporations, all New Yorkers will need to pay—in the form of higher property taxes now and, later, a bailout of the pension and health-care funds he plans to raid.

There is a lot to criticize here. The tax on high earners is poorly structured and raises the rate to such a level that it may cause serious economic damage. New York City already spends a fortune on its residents and provides subpar services. With its existing obligations and variable tax revenue, increasing the budget another 9% is certainly imprudent, to put it mildly.

And yet—even though I am a property owner in New York City, wouldn't be subject to the millionaire tax and am kept up at night by underfunded pensions—part of me hopes this tax comes to pass. Voters elected someone who promised to expand the services the city offers. If they want that, we should all pay for it.

It is not just New York that is flirting with fiscal nihilism. Polls reveal US voters want two things: higher taxes on the wealthy and more entitlements. In other words, free stuff someone else pays for.

To a degree, this is understandable: this is the richest society in the world. America should provide people with a minimum standard of living. And wealthier people are better positioned to pay a higher tax, even if they already pay a very large share of taxes, and there is only so much more you can tax them. A large welfare state can be justified because it reflects how much we, as a society, value security over growth, the collective good over individual flourishment.

Personally, I would prefer a smaller government, but reasonable people can disagree. Striking the right balance, however, requires that the costs and benefits be widely understood and broadly felt. Europe made its choice, opting for higher taxes for all and a lower standard of living in exchange for more security.

My concern is that Americans do not internalize these trade-offs. I have always used three criteria when judging how good a tax is: efficiency (does not create distortions), progressivity (collects more from those who have more) and feasibility (relatively easy to collect). Now I am adding salience to my list: that is, whether people understand the taxes they are paying and what they get for them.

Franklin D. Roosevelt had the same idea when he created Social Security, which is why the programme is funded through payroll taxes on everyone. People would feel more connected, he reasoned, to a programme they paid into.

Today salience is the last thing any politician wants from a tax. Almost everyone (except maybe billionaire investor Warren Buffett and US politician Mitt Romney) already thinks they pay too much in taxes.

Directly increasing taxes on anyone who makes less than $400,000 annually has become a political non-starter. Politicians have become addicted to promising more benefits—tax credits, health-care subsidies, now child care—that someone else pays for. Often the middle class ends up paying anyway. The cost of corporate taxes, for example, are largely borne by workers, but most people don't realize why their wages are lower.

As long as the taxes Americans pay are disconnected, there is no scope for fiscal discipline, let alone accountability for what we are already spending.

Odds are, people should be paying more. We all should—if we want our government to make good on its promises to pensioners, bondholders and the new and ever-growing population of beneficiaries.

New Yorkers are starting to have productive discussions about how much the city is already spending on schools, health benefits and all sorts of other things, and the impetus was the threat of higher property taxes in the city. Now imagine what the conversation would be like if we actually had to pay them.

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THEIR VIEW

The Russia-Ukraine war: Why peace is proving elusive

HARSH V. PANT &
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On 24 February 2022, Russian forces crossed into Ukraine with the objective of demilitarizing the country and deterring Kyiv from joining the North Atlantic Treaty Organization. Russian strategic planners expected a Ukrainian collapse within a fortnight. Four years on, Moscow has yet to achieve its core wartime objectives of gaining complete control over the regions of Donetsk, Luhansk, Kherson and Zaporizhzhia. The conflict has already surpassed the length of the Soviet military campaign against Nazi Germany, making it Russia's longest in Europe in over a century.

Despite Russian forces controlling the tempo across multiple axes, they have struggled to achieve a breakthrough, as Ukrainian resistance has slowed their advance, with high losses on both sides. Meanwhile, efforts to find a negotiated settlement have gained momentum, with Russian, Ukrainian and American interlocutors meeting at various levels and formats. The recent trilateral talks in Abu Dhabi have hinted at a more pragmatic approach, reflected in the participation of high-ranking political and military representatives from Russia and Ukraine, with deliberations on the implementation and modalities of monitoring a ceasefire. Yet, deep divergences in negotiating positions suggest that any peace without addressing these would be fragile.

State of the battlefield: Russia's military strategy seeks to exploit Ukraine's acute manpower shortage by deploying a swarm of troops across fronts in an attempt to spread the Ukrainian defence thin. As a result, Russian forces last year recaptured the Kursk region and opened a new front in Sumy, northeastern Ukraine. New gains were made in Donetsk with the capture of Pokrovsk, Myrnohrad and Siversk, as well as Huliapole in the Zaporizhzhia region. However, these gains are largely tactical rather than strategic, with Russia controlling only about one-fifth of Ukrainian territory. Domestically, Moscow faces mounting pressure from the high costs of financing the war, high interest rates, tightening sanctions and sustained Ukrainian strikes on energy infrastructure, all of which have resulted in the Russian economy overheating.

Despite severe manpower shortages, war fatigue and reduced overt US support compared to the Joe Biden US presidency, Kyiv has constrained the Russian advance thanks to European partners scaling up military aid. It has intensified strikes on Russian energy and military infrastructure and developed a comparative advantage in limited-arms warfare, particularly through AI-enabled drones and precision-guided tools. Also, changes in key appointments, including the introduction of a popular wartime figure and Russia hawk Lieutenant General Kyrylo Budanov, as Zelensky's chief of staff, have renewed confidence in Ukraine's negotiating position. Budanov is said to be in close contact with his Western counterparts. Taken together, Ukraine remains far from capitulation despite incremental Russian advances.

The great-power prestige of one side must be balanced with the sovereignty of the other for its resolution

Peace talks on shaky ground: Last February, negotiations resumed after the failure of early-2022 talks in Istanbul. They began in a bilateral US-Russia format, with Ukraine brought in later. By the end of 2025, after multiple rounds of negotiations, a 28-point framework was outlined and later condensed to 20 points by the US and Ukraine (redacting clauses that ran counter to Ukraine's sovereignty). But Moscow rejected the plan. Core divergences include the warring countries' irreconcilable positions on territory, security guarantees and ceasefire terms.

Kyiv has vehemently opposed any attempt at salami-slicing its sovereign territory, calling for the restoration of its 1991 borders. But Russia is firm that a ceasefire will be contingent on Ukraine's withdrawal from Donetsk, Luhansk, Kherson and Zaporizhzhia; it also wants Crimea recognized as Russian territory. On security guarantees for Ukraine, it rejects the Western understanding of it and argues that a Russian withdrawal must not enable Kyiv to regroup and launch a counteroffensive. Any peace agreement that does not address these issues is likely to be fragile and vulnerable to fresh escalation.

The way ahead: What's increasingly evident is that neither the ritualistic expansion of Western sanctions on Russia nor coercive pressure on Ukraine to accept a suboptimal settlement will in itself deliver sustainable peace. The limits of punitive maximalism and forced compromise are now stark. While the latest round of talks has stopped short of a breakthrough, it has kept the diplomatic channel ajar. The granular, technical negotiations that follow are likely to be more consequential.

These discussions could focus on areas where convergence, however modest, is possible: an exchange of prisoners of war, mutual restraint on targeting energy infrastructure, a halt to strikes on densely populated urban centres and the construction of structured pathways to address thorny questions of territory, security guarantees and the sequencing of a ceasefire. Such incrementalism may lack drama, but is often the precondition for strategic stabilization.

At its core, the dilemma is political as much as military. Crafting an arrangement that affords Moscow a face-saving exit, without eviscerating Kyiv's sovereign agency, is the central balancing act. Reconciling these competing imperatives—great power prestige and national self-determination—will determine whether diplomacy can move from managing conflict to resolving it.

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THEIR VIEW

India's innovation gap shows up in the financial data of our firms

Corporate India must recognize R&D as the foundation of long-term competitiveness before we can hope for breakthroughs



SAUMITRA BHADURI
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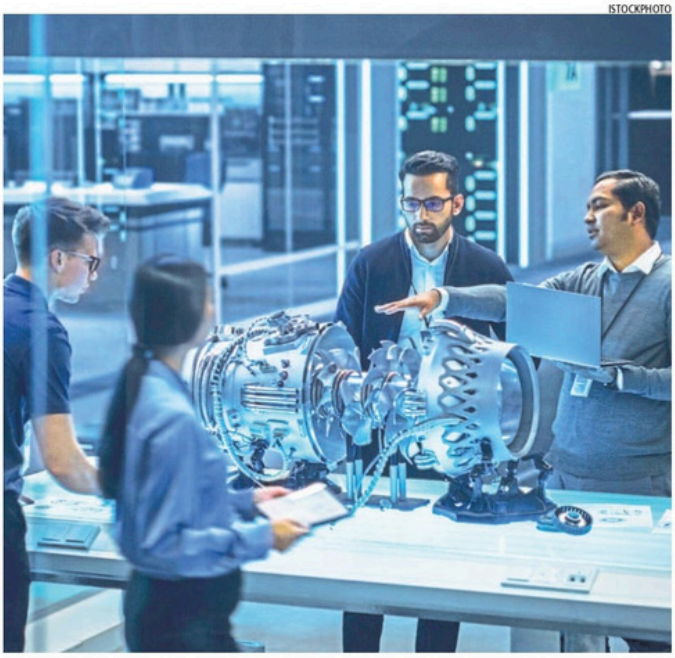

Technological innovation in all quarters is critical for accelerated economic growth. However, India's research and development (R&D) debate often focuses on public spending: how much the government allocates, which missions are launched and what headline targets are announced. The data, however, suggests that India's innovation shortfall is fundamentally an industry story. What distinguishes India from global technology leaders is not an absence of policy intent, but the reluctance of corporates to invest meaningfully in research.

The recent CTIER *Handbook on Technology and Innovation in India 2025* brings out a few critical aspects of India's innovation landscape. First, India's R&D expenditure remains structurally low. In 2023, it stood at 0.6% of GDP, the lowest among major innovation economies, and has been stuck in a narrow 0.6–0.9% band for more than three decades. Over the same period, peer economies have steadily intensified their commitment by gradually scaling up R&D investments. Israel and South Korea consistently spend over 4% of GDP on R&D, the US exceeds 3.5% and China has raised its R&D intensity to around 2.6%, reflecting sustained policy and industry commitment to tech leadership.

Second, India's R&D ecosystem is heavily dependent on the government. In 2023, the public sector accounted for 55% of total R&D expenditure, while industry contributed just 36% and higher education 9%. This contrasts sharply with global patterns. Industry finances roughly 75–80% of R&D in the US and China, over 70% in South Korea and Germany, and close to 80% in Israel, underscoring the centrality of corporates in advanced innovation.

Third, recent trends are particularly concerning. Industry's share of India's R&D has fallen from 41% in 2018 to 36% in 2023, even as higher education's share rose modestly from 7% to 9%. India's industrial R&D expenditure in 2023 was under $7.4 billion. As a stark contrast, Nvidia, which is ranked 26th among the world's top 2,500 R&D spenders, spends nearly as much as all of India's industry on R&D, while Alphabet, the top global R&D spender, spends almost five times that sum. Thus, at a time when corporate-driven R&D is driving frontier innovation globally, India's weakening industrial research effort signals a growing risk to long-term competitiveness.

The pattern of industrial R&D spending in India points to a strong concentration rather than broad-based technological diversification. Corporate research investment is largely confined to a limited set of sectors such as pharmaceuticals, automobiles, oil and gas, and software services. The first two of those together account for more than half our total industrial R&D expenditure, reflecting areas where firms benefit from established production strengths, regulatory familiarity and incremental innovation. By contrast, Indian industry invests relatively little in sectors that anchor global R&D activity, including electronic and electrical equipment, healthcare technologies, advanced manufacturing and industrial engineering.

This narrow focus has consequences. In 2023, as the handbook reports, 827 US and 679 Chinese corporates featured among the world's top 2,500 R&D spenders. India had just 22 corporates in that list. More telling is the sectoral absence. Strikingly, Indian corporates are missing from six of the ten most R&D-intensive global sectors, including electronic equipment and healthcare technology. Even where Indian corporates are present globally, such as in pharma, their R&D intensity remains below that of their international peers.

The behaviour of large Indian corporates further underscores this pattern. The top 100 R&D spenders account for nearly 78% of all industrial R&D in India, indicating a highly concentrated research landscape. Beyond a small group of conglomerates and established manufacturers, R&D spending drops off sharply. Many profitable Indian corporates with global revenues invest little in in-house research, relying instead on imported technology, licensing or incremental process improvements.

The handbook also highlights that India's innovation constraints are evident across the talent, research and intellectual property pipeline. In 2022, India had just 260 full-time researchers per million people, far below China's 1,849 and the US's 4,825, and trailing all comparable economies, with South Korea (9,435) and Taiwan (9,200) at the global frontier. While India performs better in doctoral output, producing 21,232 science and engineering PhDs in 2023, the third highest globally, this scale has not translated into high-impact research. India ranked fifth globally in publications, contributing 714,016 papers (5% of global output) during 2019–23, yet records among the lowest citation impact scores across peers. Weak industry linkages compound this gap as only 1% of publications involve industry collaboration, compared with over 6% in Japan and Germany, while international collaboration remains modest at around 30%. Patent data shows some progress. Resident filings exceeded non-resident applications at the Indian Patent Office in 2023, reversing earlier trends, but the scale remains well below China's local innovation system.

India's innovation gap is visible in corporate balance sheets, sectoral choices, the global absence of our firms from frontier technologies and quality research. India generates a large number of start-ups, but relatively few are built on proprietary hardware, advanced materials or complex engineering capabilities. Recent initiatives such as the Anusandhan National Research Foundation, India AI Mission, and the $12 billion Research, Development and Innovation fund reflect a recognition of this imbalance. Their success, however, will depend on whether they can reshape corporate behaviour rather than merely add incremental funding.

India's binding constraint is not capital availability, but risk appetite. Closing this R&D gap will require a decisive change in how Indian industry approaches research. Until R&D is recognized as the foundation of long-term competitiveness, this equilibrium is unlikely to shift. That, in turn, requires far deeper and more systematic collaboration between industry and academia to generate commercially relevant, patentable innovations. Unless R&D is internalized as the bedrock of long-term competitiveness rather than an optional adjunct to growth, this deficit will persist.

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MINT CURATOR

India's data abundance: Don't squander a valuable resource

It's an asset AI players are keen on and the country could leverage



CATHERINE THORBECKE
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India generates plenty of the kind of data that improves AI systems. ISTOCKPHOTO

India is fast becoming one of the world's biggest AI user bases. The question now is how it can turn that scale into superpower status rather than just training Silicon Valley for free.

That will be a tall order for a country largely caught flat-footed by the boom. But let's start with the basics: The three main building blocks of AI are talent, compute (including high-end chips and infrastructure) and data. India doesn't lack engineers, but it currently doesn't have foundational research training at scale or enough advanced processors at public labs and universities. What it has, in abundance, is data. It should treat this like a strategic asset instead of leaking it out as a free export.

It's a key reason US Big Tech is making a blitz for the market. With roughly a billion people online and a massive mobile-first population, India generates a torrent of the kind of human feedback that makes AI systems better on a daily basis. The world's most-populous country is the second-biggest user base of both OpenAI's ChatGPT and Anthropic's Claude after the US, while accounting for just a fraction of these platforms' revenue. The dynamic exposes how much more the market matters for training purposes right now than making money.

These free-to-use services and promotions aimed at Indian phone users come with a cost. It's part of a strategic Silicon Valley grab for Indian languages, voices and behaviours that will make foreign systems smarter first. The South Asian nation risks repeating a familiar historical pattern of exporting the raw materials for pennies then buying back imported models at a premium. Meanwhile, it will be left to absorb a job shock and social impacts at home.

India's linguistic diversity also raises the stakes. If models aren't trained on enough local speech and cultural contexts, they'll misunderstand users and become unreliable in classrooms, clinics, courts and even customer support settings. Closing this language gap sits at the heart of [the Indian government's] promise to democratize AI and make its impacts real for everyone from farmers to small-business owners, rather than just English-speaking elites.

At the same time, the AI future that the likes of Meta or OpenAI are selling—marked by personal agents and voice-powered ambient devices—won't work in India unless they can listen and speak local languages and get the nuances right.

Some startups, including Andreessen Horowitz-backed Poseidon AI and Big Tech-supported non-profit efforts, are already trying to crowdsource and create local language data-sets. New Delhi should be paying far more attention, not just because data-labelling and collection practices have a global reputation of being exploitative, but also because these efforts could anchor a domestic ecosystem. India can't demand "AI for all" while outsourcing the work of building a linguistic foundation. Done well, though, these data-sets can become infrastructure for its AI economy.

The same logic applies beyond language. India should push hard for the creation of specialized, high-impact and localized data-sets in sectors like health care or finance. AI can improve diagnostics and personalized care, but the most valuable data for accomplishing this still lies in largely inaccessible hospital systems. Privacy fears are real and should be taken seriously, but accessing this data could also mean saving lives. Unlocking and organizing it is the hard, unglamorous work that takes Modi's branding of "AI for good" beyond just slogans.

Ultimately, India's data reckoning should be about who controls this strategic input to AI and who captures the value from it. The answer isn't to wall off user outputs from the world. It's about finding creative solutions and leveraging them to set rules that reflect what's actually being extracted. If its peoples' data is a key ingredient for building advanced AI, the government should demand more than apps and marketing in return.

It can ask for partnerships that build capacity, including public compute commitments, access to high-end chips, serious training pipelines for AI researchers and collaborations that go beyond token commitments. New Delhi should also set norms that treat local data-sets as a public good and consider revenue-sharing models that maintain the upsides at home. Transparency is crucially important. Policymakers should require foreign model builders to disclose the kind of data that shaped their systems and how it has been evaluated for harms and biases in Indian contexts.

More than building foundation models, setting equitable data policies is where India has the biggest opportunity to truly lead the Global South in the AI era. Otherwise, it risks becoming an open mine and fuelling systems that automate local jobs, concentrate power abroad and deepen dependencies. ©BLOOMBERG

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THEIR VIEW

India Inc mustn't underplay climate litigation as a risk

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Climate litigation often feels like a distant Western concern, unfolding in American federal courts or European tribunals. Yet, the legal foundations that make such cases possible are now firmly in place in India. The shift has been gradual, almost quiet, but is unmistakable. What began as rights-based petitions against the state are evolving into a framework that can shape corporate conduct through disclosure rules, consumer law and project approvals.

One of the landmark climate-focused petitions in India, *Ridhima Pandey vs Union of India*, asked the judiciary to direct the government to do more to address climate change. The case relied on the constitutional right to life and India's international commitments. Although it has not produced sweeping orders, it signals that climate change can be framed as a legal duty, not merely a policy preference.

In the past 10-odd years, project-level challenges before the National Green Tribunal have also begun to reflect climate concerns. The tribunal, established to hear environmental disputes, is regularly examining whether impact assessments properly consider flood risks, coastal vulnerability and cumulative environmental harm. Courts have rarely halted projects solely because of climate arguments. Yet, they are increasingly questioning the quality and completeness of the project-approval process.

The more consequential change for corporate India has come from regulators rather than courtrooms. In 2021, the Securities and Exchange Board of India mandated Business Responsibility and Sustainability Reporting (BRSR) for large listed entities. In 2023, it introduced BRSR Core, requiring assurance of key sustainability metrics. These disclosures are not voluntary narratives. They require structured reporting on emissions, governance and climate risk. If such disclosures are misleading or incomplete in a material way, the issue moves beyond reputational damage into the domain of regulatory enforcement.

Consumer law has moved in parallel. In 2024, the Central Consumer Protection Authority issued Guidelines for Prevention and Regulation of Greenwashing. These guidelines clarify that environmental claims must be specific and supported by evidence. The Advertising Standards Council of India has also issued complementary guidance for advertisers. General phrases such as 'eco-friendly' or 'carbon-neutral' can no longer stand on their own. Claims must be clear about scope and conditions. The standards are moving from aspiration to proof.

International experience shows that once disclosure rules tighten and consumer standards are clarified, litigation follows. The Grantham Research Institute at the London School of Economics has documented a steady rise in climate cases since the 2015 Paris climate pact, which India has ratified. The Network for Greening the Financial System has examined how climate-related litigation can affect financial stability and corporate risk.

Sustainability compliance could put companies that fail to act earnestly in the legal dock

India's numbers are modest, but the regulatory groundwork suggests that disclosure enforcement, shareholder action and clearance litigation could rise sharply over the next 5-10 years. Disclosure mandates, consumer enforcement powers and an active environmental tribunal create clear points of accountability. For energy, infrastructure, finance and consumer-facing sectors, litigation risk is now annual-report material.

It would be unrealistic to expect a sudden surge in awards of large damages. Indian courts tend to move incrementally. Yet, over the next decade, disputes are likely to arise in three areas. *One*, regulators may test whether climate risks are properly described in annual and sustainability reports. *Two*, consumer authorities may scrutinize environmental marketing claims. *Three*, project approvals may face closer scrutiny where climate vulnerability appears to be understated.

Each category may produce only a limited number of cases each year. Taken together, however, they can change incentives for Indian businesses. Litigation need not be frequent to be influential. For company boards and senior management, the response does not require any grand gestures. It merely requires discipline. Climate risk should be treated like any other material risk, with documented analysis and corporate oversight.

Disclosures should reflect internal assessments rather than marketing language. Environmental claims should be checked against verifiable evidence before they are published. Impact assessments for major projects should address foreseeable climate risks in a transparent way. These steps are not simply about avoiding penalties. They create a record of reasoned decision-making. In court, that record often matters more than rhetoric.

The shift underway is not ideological. It is institutional. Once disclosure rules harden and consumer standards tighten, litigation becomes a compliance tool. Corporate India has long viewed climate through the lens of policy and public relations. That lens is narrowing. The next phase will be argued in affidavits and audit trails.

Courts rarely set out to design corporate strategy. Yet, through standards and precedent, they shape it. In India, that process has begun in earnest. Climate governance is becoming part of the legal framework within which companies will have to operate and grow. Those who recognize this early may find that careful preparation is less costly than reactive defence.

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THEIR VIEW

The Fed's next chief: Can Warsh do what this central bank needs?

If Kevin Warsh wins its staff and management over, he'd have a chance to reform this US institution and return it to excellence



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REUTERS



Kevin Warsh's nomination to succeed Jerome Powell as US Federal Reserve chair has triggered a predictable frenzy of speculation centred on a single, narrow question: How hard will he push for interest-rate cuts? While such conjecture may be entertaining, it misses the forest for the trees. To focus solely on rate cuts is to misunderstand the Fed's situation and the scale of the challenge awaiting its next leader.

Warsh inherits an institution that, by any historical measure, is deeply fractured internally and lacks credibility externally. One need not look far for evidence. The minutes of the most recent policy meeting read like a thesaurus, with a long list of qualifiers—"a few," "some," "several," "a number," "many" and "the vast majority"—signalling an unusually wide dispersion of views within the policy-setting Federal Open Market Committee (FOMC).

This internal friction reflects a complex American economic landscape, in which both components of the Fed's 'dual mandate,' price stability and maximum employment, are under pressure and FOMC members harbour differing sensitivities to them. It also reflects a certain defensiveness, triggered by US President Donald Trump's attacks on America's central bank, which have escalated during his second term.

Moreover, Fed policymakers are aware of enduring criticism over their handling of the 2021 inflation surge: by treating it as 'transitory' for too long, they inadvertently contributed to the current affordability crisis. The Fed has lately been receiving some of its lowest-ever scores on trust surveys.

Under these conditions, any incoming Fed chair would need time to establish the chair's authority, build consensus and restore the institution's credibility and standing. Having previously served on the Fed's Board of Governors, Warsh is too seasoned and too savvy to try to push the FOMC into politically motivated rate cuts. But even if he did desire cuts, he could not force the committee's hand, owing to its structure: the Fed chair is 'first among equals' in the FOMC, lacking a formal veto. And there is little reason to think the FOMC would rubber-stamp inappropriate rate cuts.

Warsh might be able to persuade his colleagues to adopt a more accommodative forward-looking posture, such as by highlighting labour-market risks and the promise of an AI-driven productivity surge, which could increase the economy's non-inflationary 'speed limit.' But whether or not he does would answer just one of the key questions about his leadership. Ultimately, the success of the 'Warsh Fed' will be measured not by the Fed funds rate alone, but by whether it includes an overhaul of outdated operational machinery and strengthens the underpinnings of balance-sheet policy.

The Fed has made repeated analytical and forecasting errors in recent years as well as supervisory lapses and monetary-policy slippages. Its excessive data dependency is one reason why: such a posture is fundamentally reactive, making it incompatible with the forward-looking strategic vision needed to devise policies that act with a lag.

Improving the Fed's record and restoring trust in its judgement will require Warsh to address a long list of problems. The FOMC's structure and process make it susceptible to groupthink and the institution has experienced mission creep. Its communication, especially at the press conference that follows each policy meeting, has often generated confusion rather than offering the clarity that effective 'forward policy guidance' demands. It is insufficiently accountable to the public. And its analytical models need a revamp. It does not help that several top policymakers have resigned over unproven allegations of financial irregularities.

Warsh has been vocal about many of these issues, including in his G-30 Spring Lecture last April. Now, he must tackle them head-on. The extent to which he succeeds will determine not only the Fed's future policy effectiveness but also the Fed's political independence at a time when the US economy is caught between the upside of innovation and the legacy of high debt, deficits and inequality.

Another pillar of the Warsh agenda must be the Fed's balance sheet. Since the 2008 global financial crisis, the Fed has sharply expanded its market footprint from roughly $1 trillion before the crisis to $9 trillion at its peak in 2022. This has contributed to surging wealth inequality and led to concerns—which Warsh and I share—about the central bank's interference in markets and the resulting inefficiencies overall in the allocation of resources throughout the economy.

This is not to say that Warsh should merely shrink the Fed's ledger. Rather, the Fed must establish a 'balance-sheet theory.' Just as economists debate the 'neutral' interest rate, the Fed needs a clearer framework for what constitutes a neutral or equilibrium level of market intervention via its balance-sheet operations.

I suspect the internal response to Kevin Warsh's leadership will mirror the reception of his G-30 Spring Lecture. After he finished, G-30 Chair Raghuram G. Rajan, a professor at the University of Chicago who has been International Monetary Fund chief economist and governor of India's central bank, commented that he "pretty much" agreed with everything Warsh said. If Warsh can win over Fed staff and management with similar effectiveness, the Warsh era may well deliver long-delayed reforms and a return to institutional excellence. ©2025/PROJECT SYNDICATE

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THEIR VIEW

The moral hazard of our fintech lending boom should worry us

Excessive retail credit has been piling up without collateral and a slight shock could trigger a crisis



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India's economy is growing fast. The speedometer looks impressive. The engine, however, is increasingly running on debt. The Reserve Bank of India's (RBI) *Financial Stability Report* published in December has a line that ought to cause senior bankers to spill their coffee: retail credit is no longer a tail risk; it has moved to the core. This is the regulatory equivalent of observing that smoke is now a structural feature of the building but evacuation might be premature.

Unsecured retail loans account for 53.1% of total retail slippages at scheduled commercial banks, even as their retail gross non-performing assets (GNPA) ratio sits at a comforting 1.8%. This is finance's oldest optical illusion: fixate on the average while the distribution quietly sharpens its knives. It always works—right up until it doesn't.

Crises do not arrive waving banners marked "excess credit" but disguised as innovation. As Adair Turner warns in *Between Debt and the Devil*, credit can grow to socially useless or dangerous levels long before it gets inflationary. Stable prices can end up as camouflage, as they often do. India's household credit boom fits this description.

Unsecured retail credit is growing at high double-digit rates, comfortably ahead of nominal GDP. Personal loans, credit cards and gold loans are doing the heavy lifting, while credit that builds productive capacity jogs behind. Banks have retreated to the retail foxhole not by choice, but because corporate credit demand is anaemic. In a world of thin margins, the 'high-yield' siren song of a 24% annual rate personal loan is irresistible to a balance sheet starved of industrial capital expenditure. This does not lead to capital formation. It is economic output in rented clothing. The bill is payable by households.

None of this is new. In 1920s America, instalment credit allowed households to buy cars long before incomes could support them. Consumption surged. Growth looked unstoppable. When wages failed to cooperate, debt did what it does: it quit pretending. The collapse was not psychological but mechanical.

Fintech has turbocharged India's version of that story. Its share of non-bank consumer loans has jumped to 8.9% from 7.3% barely a year earlier. More than 70% of fintech loans are unsecured. Over half go to borrowers under 35. Such credit is instant, modular and embedded. Borrowing is more of an app feature than a considered decision. And for platforms paid on loan origination, repayment is someone else's problem. The industry hails the 'Account Aggregator' framework as the answer to information asymmetry. Yet, even the best data is a rear-view mirror. An algorithm can predict a borrower's intent based on past UPI swipes, but it cannot forecast the borrower market's capacity to pay if underlying drivers like the gig economy begin to cool off.

Household debt has grown at roughly twice the pace of nominal GDP, reaching about $1.5 trillion. This is leverage, sliced thin and spread wide, reassuring everyone that no single default matters—until millions of them do. Risk has been atomized, which history suggests does not disappear, but synchronises.

For young Indians, credit bridges the gap between aspiration and income. Many iPhones, vacations, consumer durables and lifestyle spending are financed upfront. Repayment is deferred. As financial historian David Graeber noted, once debt is moralized, default becomes a personal failure rather than a design flaw. That is when trouble begins. In Korea before 1997, high leverage was tolerated because growth was strong and defaults were low. When capital flows reversed, balance sheets that looked resilient proved brittle.

Digital lending removes friction but preserves consequences. Algorithms trained only on good times allocate capital with exquisite confidence and no memory. Unsecured credit does not fail gracefully. It suddenly drops off a cliff—like America's subprime mezzanine tranches did. We in India are witnessing a 'democratization of distress.' By the time the GNPA ratio moves from 1.8% to 4%, the liquidity bridge will have already collapsed for non-bank financial companies that feed fintech firms.

Unsecured credit has thin recovery values and a nasty habit of herd defaults. A mild shock like a hiring slowdown, higher interest rates and marginally looser underwriting need not be dramatic. It merely needs to arrive.

Our regulatory framework treats unsecured retail credit as individually risky but systemically trivial. Risk weights were tightened, partly loosened and broadly remain indulgent. Provisioning is backward-looking. Capital buffers are calibrated for bank-level solvency, not for correlated household failure. Fintech lenders are lightly regulated and banks chase yield.

This is macroprudential policy stuck in a micro-prudential mindset. History suggests the cycle will not wait. Debt is a claim on the future. Credit is useful only up to a point after which it stops feeding growth and starts feeding on it.

Regulatory comfort in "small ticket sizes" ignores a basic law: a million pebbles falling together is still an avalanche. Should the brakes fail, the impact won't be cushioned by 'averages.' It will be felt all at once by a generation that spent its future before it earned it.

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OUR VIEW

AFP



The Iran war puts more than oil on India's radar

A flare-up in crude prices will worsen if lose-lose dynamics set in. Yet, that may be the milder fallout of the US-Israeli war on Iran. Uncertainty hangs thicker over its hard global impact

The American-Israeli attack on Iran raises a number of vital questions for India and the rest of the world, delving into which is necessary to make the best of a bad situation. The prices of oil and liquefied natural gas have begun to rise as Iran attempts to choke the Strait of Hormuz, through which about one in every fourth barrel of all seaborne crude oil moves. If this grip lasts, it will make energy imports dearer, weaken the rupee and give inflation a cost-push. India's central bank would need to keep knock-on effects under watch; likewise, at another level, the volume and direction of capital flows. For now, stockpiles of oil are in focus. If tankers that carry almost a fifth of the world's daily usage cannot exit the Gulf, import-reliant countries could soon run acutely short. The US and China have large reserves. Our strategic storage would easily help us tide over more than a week; plus oil companies have stocks too. Still, we may need to resume shipments from Black Sea ports if US and Venezuelan supplies cannot fill our gaps. Since high fuel costs would not suit US President Donald Trump as mid-term polls approach, his political interest lies in shrugging off the use of Russian oil to plug shortfalls. But then, Iran would need to ship oil out of the Gulf too, so its retaliatory blockade may be short-lived. As with any war, however, lose-lose dynamics risk setting in.

The war has already spread around the Gulf and Levant, with Saudi oil facilities targeted too, and if Iran-aligned Houthi forces in Yemen try to clamp the Suez Canal as well, already volatile freight and insurance costs could rise further. With China in the same boat as India, perhaps Asia's big two could exercise some diplomatic clout to minimize sealane disruption. How any scenario pans out depends on how long hostilities last. Reports suggest that Iran's battered regime is prepared to draw out the conflict and make it as costly for the US and Israel as possible. Whether the US-Israeli attack rallies Iranians in favour of the regime or against it is a matter of conjecture for now. Internally, what began as a rebellion born of economic hardship may turn into a test of the Islamic Republic's institutional frame and its ideological appeal. Given how Iran's alleged push for nuclear weapons led the geopolitical narrative in the war's run-up, all that's certain, unfortunately, is that other middle powers will take away the lesson that in a world whose rules can openly be flouted by the mighty, they are safer with an arsenal of nukes of their own than without one.

When Trump began his presidency with rhetoric of ending wars and focusing on America, the world had no inkling that the US would turn violator-in-chief of Pax Americana—the US-set world order based on a consensus of rules. Regime change in Venezuela has swiftly been followed by the same aim in Iran, with fist-waves over Greenland as an interlude. 'Might is right' has been spelt out as the new maxim. This makes an arms race all but inevitable: that too, with nuclear options back on the table. If Germany cannot count on the US defence umbrella, nor can Japan or South Korea. The world has grown fraught with geopolitical dangers we had hoped to leave behind. As the interest of countries in US power declines, so might their stake in its economic dominance. This could impact not just the US economy, which borrows a lot from abroad, but the world of capital as we know it. Uncertainty doesn't just hover over an oil bill. It foreshadows the future. India must prepare appropriately.

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THEIR VIEW

The 'orange economy' offers a path to inclusive growth

TULSI JAYAKUMAR



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A new term that entered the lexicon after India's budget for 2026-27 was the 'orange economy.' Synonymous with the creative economy, it is emerging as a formidable engine of growth that transcends traditional industrial boundaries. Once viewed as niche, the intersection of culture, technology and intellectual property now accounts for roughly 3.1% of global GDP and 6.2% of all employment. For a country like India, where recent budgetary initiatives recognize the strategic value of creative assets, the growth of this sector offers more than just economic expansion. It presents a data-driven pathway to greater gender parity and social inclusion.

The creative economy is inherently decentralized and knowledge-based, which makes it one of the most accessible entry points for marginalized communities and women. Unlike capital-intensive manufacturing or specialized technical sectors, creative industries rely on human capital and localized talent. Global data attests to this 'creative advantage': women make up almost half the workforce in cultural and creative industries worldwide, ranking the sector fourth globally in terms of female employment. In many developing countries, the gender gap is not only narrowing within the creative sector, but also reversing in some sub-sectors.

This trend is being helped along by targeted interventions in regions with demographic profiles similar to India's. For instance, the 'Drone Divas' initiative in South Africa trained women in drone operation for creative fields like cinematography and architecture, bridging digital and gender gaps in a male-dominated technical space. Similarly, in Kenya, a 'Wana Wake' music performance series and all-women sound-engineering programmes demonstrated that when structural barriers (such as a lack of female mentors and role models) are addressed, women thrive in technical-cultural roles previously closed to them. These examples provide a blueprint for steering India's creative economy so that women are not just participants but leaders and business owners.

The creative economy also acts as a catalyst for social inclusion by bringing marginalized perspectives into the mainstream. Creative expressions often serve as a medium for social commentary and advocacy, allowing communities that have historically been sidelined to reclaim their identity and economic agency. In post-apartheid South Africa, the creative sector has been instrumental in providing opportunities for non-Caucasian Africans, who now make up over 70% of the cultural workforce. The emancipatory potential of the arts is particularly relevant for India's diverse and youthful population. With nearly 50 million people employed in the creative sector globally, which is more than three times the number in the automotive industry, the scale of job opportunities is immense.

India's policy emphasis on creative sectors could help drive gender parity and social inclusion

India's policy focus on the Animation, Visual Effects, Gaming and Comics (AVGC) sector is a strategic move to capture this 'youth dividend.' By setting up specialized task forces and incentivizing creative labs, the government hopes to tap a dematerialized market where value lies in the digital code and artistic vision rather than physical raw materials. This shift is crucial for social inclusion: it allows a digital artist in a Tier-2 Indian city to compete in a global marketplace. However, with much of rural India lacking high-speed internet, the budgetary push must be paired with aggressive rural connectivity to ensure that the orange economy does not accentuate the digital divide or remain an exclusively urban phenomenon.

Another policy intervention required is a focus on 'formalization' to help creators register their businesses and gain access to growth resources and finance. Women in the crafts and fashion sectors often perceive their work as a side activity rather than a formal enterprise, and the transition from a hobby to a sustainable creative business is a significant hurdle for them. Intellectual property is the currency of this economy. Yet, many artists struggle to navigate complex copyright laws.

The resilience of the creative economy further bolsters the case for its prioritization. During the 2008-09 global financial crisis, while world trade in goods saw a steep decline, that in creative services remained remarkably resilient. This stability is vital for social inclusion, as it provides a safety net for informal workers who are most vulnerable to economic shocks. For India to harness this, our policy focus must shift to a holistic ecosystem approach that includes training in both creative and business skills, thus ensuring that 'stage-ready' artists also have 'market-ready' teams of managers and technical experts behind them.

Ultimately, the orange economy is not a zero-sum game: it is a feasible development option that aligns with several Sustainable Development Goals, including SDG 8 (decent work) and SDG 5 (gender equality). By investing in creative industries, India can turn its vast cultural heritage into a modern economic engine that rewards originality, while helping dismantle social and gender-based hierarchies. As the world moves towards a more digitized and services-oriented future, countries that treat creativity as a strategic asset will be the ones that achieve the most inclusive and sustainable growth. The evidence is clear: an investment in creative endeavours is an investment in a more equitable society.

These are the author's personal views.

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GUEST VIEW

Equip small businesses to drive India's e-commerce expansion

Half this sector's growth by 2030 could come from MSMEs if they're given appropriate digital tools



NEELESH MUNDRA & SOUMYADEEP GANGULY
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In today's 'digital-first' times, is it possible the last handwritten note you received was from a grateful small business thanking you for your purchase? These little touches—a personalized feedback request on WhatsApp or a delighted repost of your review on social media—can turn one-off transactions into sustained customer relationships. In these simple yet meaningful ways, small businesses across India are leaning on direct channels and tech infrastructure to connect with buyers.

India's over 60 million micro, small and medium enterprises (MSMEs) contribute roughly 30% of our gross domestic product (GDP). Small and scattered, they could drive half of India's e-commerce growth by 2030, growing especially fast in Tier-2 and Tier-3 cities. And their channel of choice to connect with buyers is increasingly direct-to-consumer (D2C). A survey of over 1,000 Indian MSMEs conducted by McKinsey to evaluate the e-commerce opportunity—and which forms a part of its report *The Great Unbundling of Indian E-commerce: MSMEs and the Direct-to-Consumer Revolution*—finds that these businesses are almost evenly split in their channel preferences: 47% rely on marketplaces while 53% favour D2C routes, reaching buyers through channels they can own and control, such as social media storefronts, independent websites and hyper-personalized WhatsApp or Telegram groups. D2C channels also appeal to these small businesses by virtue of being economically viable even at smaller order volumes and offering a platform for brand stories and customer engagement.

With D2C adoption among MSMEs growing three times faster than in traditional marketplaces, the D2C market could reach $60 billion in e-commerce sales in India by 2030 from $10-$12 billion today. However, they have pain points that range from a lack of insights into customer behaviour or product performance at the pre-sales stage to cart abandonment, the absence of buyer support mechanisms to see a sale through, limited courier options and challenges with tracking orders and returns (which must be managed in a way that doesn't undermine consumer trust). To resolve these, they need technological support and infrastructure.

There is a nearly $30 billion opportunity—50% of the projected D2C channel size by 2030—for service providers to step in with solutions that blend affordability with intuitive design, offer a range of features, leverage artificial intelligence (AI) for insight-driven decision-making, ensure strong data governance and support seamless omnichannel integration. Solutions for e-commerce sellers that integrate both software and hardware components function most effectively. The software layer—comprising the workflow layer, operations layer and intelligence layer—manages processes, day-to-day operations and data-driven decision-making; this is essential for virtually all sellers. The hardware layer, which includes warehousing, transportation and other physical assets, supports fulfilment and logistics at scale.

While structured marketplaces offer both software and hardware as a bundled package, MSMEs often do not require the full spectrum of physical infrastructure. At the market-entry stage, a bundled offering may be helpful, inspiring trust through solutions for reliable fulfilment, transparent pricing, secure payments, verified identities and consistent customer support. For fast-growing MSMEs, however, bundled solutions often create rigidities and fixed costs. Modular building blocks—payment gateways, checkout optimization, logistics integration, inventory tools, customer analytics and credit access—that let them pick and choose what they need are seen to offer the right flexibility and value for money.

For service providers, this is more than an opportunity to build software-as-a-service; it is a window to create the open commerce infrastructure of the future. Whether this includes developing point-of-sale software that works in vernacular languages, logistics platforms that ease delivery to remote pin codes or payment systems integrated with the Unified Payments Interface (UPI) and digital wallets, immense possibilities lie ahead.

Rapid D2C channel growth does not imply a decline in the traditional e-commerce marketplace. Market fragmentation will continue, with large e-commerce platforms remaining popular. Sales through such platforms could reach up to $100 billion by 2030.

MSMEs will remain at the heart of e-commerce, however, and can keep growing through new infrastructure. The Open Network for Digital Commerce (ONDC) architecture that unbundles marketplace functions into interoperable micro-services is an example of what's possible. In another example, an e-commerce enablement platform for MSMEs offers a full stack of modular unbundled solutions through plug-and-play architecture and pay-as-you-go pricing, allowing the merchant to select the most critical services.

These vital infrastructural rails can unleash the potential of Indian MSMEs. They need to be equipped with the right digital tools to engage consumers, expand their market reach, win loyalty and make repeat sales.

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OUR VIEW



This year's PF payout is good news for workers

The Employees' Provident Fund Organisation has held its interest rate unchanged at 8.25% despite policy rate cuts over the year by the Reserve Bank of India. And for good reason too

On a day when all newspapers, including business dailies, had little else but war news and its unsettling impact on oil prices, markets, exports, the economy and so on, news reports that India's Employees' Provident Fund Organisation (EPFO) has decided to retain its interest rate on PF deposits at 8.25% struck a welcome note of cheer. The rate, which was raised to 8.25% for 2023-24 from 8.15% the previous year, has been retained at that level since. For its more than 70 million active subscribers, this is good news. It indicates that the EPFO has not responded to a short-term rate cycle, but has been guided by commercial principles: the returns it has generated for its subscribers from its investments. This is important. Since February 2025, the Reserve Bank of India (RBI) has been on a credit-easing cycle. Nonetheless, the EPFO's Central Board of Trustees has wisely decided to look through these RBI rate cuts. Monetary policy typically influences only the short end of the yield curve. And, as observed even before the war turned calculations topsy-turvy, interest rates at the long end of the curve—on debt of longer duration, i.e.—have been edging higher. The yield on 10-year government securities on 27 February 2026 was 6.66%, up from a dip of 6.26% on 26 May 2025. A growing burden of public debt, large bond issuances by state governments and a larger fiscal deficit likely this year (and the next) after our nominal GDP was revised downward all mean rates are unlikely to come down.

In the past, EPFO payout rate decisions were often a matter of administrative convenience, and seen to be influenced by considerations of political economy. The latest call, however, is reportedly based on earnings from its investments. This is as it should be. There is no reason to deny PF account holders the benefit of higher returns. These are rightfully theirs. The argument often made in the past to justify lower payouts even when EPFO earnings could support a higher rate was that it must smoothen its payouts. The idea was that subscribers ought to get a reasonable return in bad years too. This proposition is not entirely without merit. But it discriminates against today's deposit holders in favour of tomorrow's. It also goes against the principle that in a market-driven economy, payouts must bear some relation to the returns made by the fund.

While public sector employees get lifelong pensions, India's vast majority of employees have no social security net (even if they hold formal jobs). In such a scenario, the EPFO plays a critical role in ensuring a modicum of retirement or job-loss security. Agreed, we now have the National Pension System (NPS), a 'defined contribution' product that is open to all and helps people save for old age. But its returns vary, depending on which fund was picked and whether the market has been in a bull or bear phase. As a ready reckoner in *Mint* last Monday shows, annualized NPS returns over a five-year period varied from about 16% for equity funds to 6.7% for government bond funds and 7.5% for corporate debt funds. PF holdings, in contrast, have delivered a steady return of 8%-plus for the past three years. For those who value a steady payback over flux—a promise that may have been attracting even equity investors over the past year or so, given how volatile stock prices have become—PF remains something to be thankful about.

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MY VIEW | EX MACHINA

An exponential phase of AI progress is finally upon us

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.

About a month ago, I built my first app. It was a simple speed-reader Chrome extension that is designed to display text one word at a time so I can read an article faster than normal. I managed to code the entire thing in one shot, using one of the frontier artificial intelligence (AI) models, and was quite frankly surprised at how easy it was to build. The AI even added, of its own accord, a feature that allowed me to increase the speed—so that within days, I was reading at 500 words per minute.

After that early (relatively easy) success, I grew more ambitious and started building increasingly complex applications—from a custom-built feed reader app to a minimal teleprompter that sits next to my laptop camera. I even made a few iOS games that are now available on the App Store. As my confidence grew, so did the ambition of the code I produced: the more I understood what AI was capable of, the more full-featured and well-designed my apps became. To the point where I now have three-four apps in various stages of development on my computer, and a GitHub page that is dark green with activity.

I am a lawyer who does not know how to code. I should not have been able to build an app, let alone the half-dozen apps I have so far. That I did is not because some latent programming talent has been unlocked within me, but because frontier AI models can now translate a plain-English description into working software.

Dario Amodei calls the current phase of AI progress "The Exponential." Until I used AI to prompt an app into existence, I don't think I fully understood what he meant. Having now immersed myself in AI-assisted coding for the better part of a month, I have a better appreciation for how dramatically things are about to change.

The purpose of technology has always been to improve efficiency and enhance productivity. Most new technologies do this linearly, automating steps that would otherwise have to be performed manually or short-circuiting sequences that were previously unavoidable. Frontier AI doesn't eliminate steps: it democratizes capabilities. It allows those who once relied on the skills of others to do things they were not previously capable of doing themselves. And by doing so, it unleashes exponential opportunity.

What does a world with exponential capabilities look like? Personally speaking, it will free me up to do things I never thought I could. I have, for instance, always felt that the legal software we use was not designed with my needs in mind and lacks features that I need. With my new-found coding capabilities, I can simply program those frustrations away, prompting little snippets of custom code into existence to address the deficiencies in my current set-up.

What is good for the goose will likely be good for the gander. Software companies that once relied on lawyers to draft privacy policies and terms of service for their applications will likely get them drafted by AI. As much as my fellow lawyers may not like to hear it, AI is already more than capable of producing documents for this purpose. I should know. I allowed AI to draft the terms of use of the apps that I've launched on the App Store.

What AI wonks had been forecasting has begun to reshape the way professionals do their jobs

As frontier AI improves, we will see similar exponentials unlock in various other sectors. Traditional capacity constraints that forced costly interdependencies will melt away, freeing entrepreneurs to build new offerings and deliver new forms of service. While this will affect traditional professions, it will also enable new ways of working, and policymakers around the world will need to balance the need to protect those disrupted by this technology with the opportunities it opens up for a new 'exponentially capable' workforce. As a country with a young and adaptable workforce, India should lean into this opportunity rather than attempt to preserve traditional professions that, in their current form, are sure to be disrupted.

So how should we prepare ourselves for what's coming?

In the first place, I believe we must be willing to redesign the systems that have served us well so far. What might have worked in the past is unlikely to be necessary in a world where skills can be invoked with a prompt. Take, for example, the traditional hierarchies of software deployment—developers, system integrators, hyperscalers—that have underpinned large-scale software services over the past few decades. In a world of exponential capabilities, the boundaries between different categories of service providers are likely to blur.

Of all countries, India is uniquely positioned to adapt to this new reality. After all, this is precisely what we did when we took the digital public infrastructure (DPI) approach. Instead of leveraging the vertically integrated software stack that was at the time widely believed to be the only way to achieve population-scale deployment, we built reusable, interoperable building blocks that dramatically reduced deployment costs. We need to apply that same iconoclastic approach to shape our AI future.

Cutting-edge AI does not just improve efficiency: it expands human capacity. By lowering entry barriers across disciplines, it gives individuals access to skills that were once scarce and expensive.

The exponential is not about machines becoming more intelligent as much as it is about people becoming more capable. And if we play our cards right, the exponential will not merely change industries. It will change who gets to build them.

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MY VIEW | ECONOMIC GRAVITY

The end of revenue deficit grants as a safety net: What to expect

The 16th Finance Commission's call to abolish these aims to reduce moral hazard but may hurt relatively prudent states too



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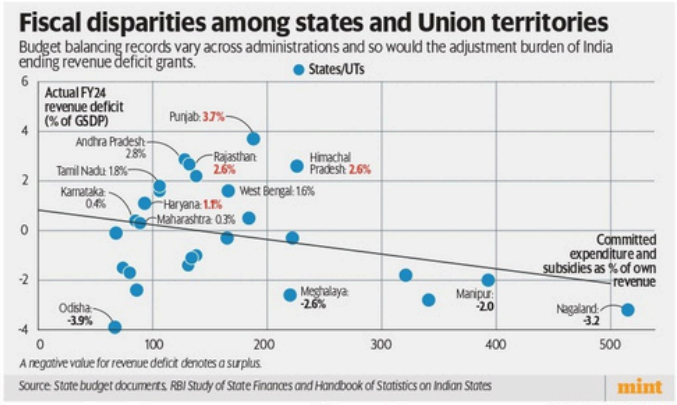

The 16th Finance Commission (FC) report, covering 2026-31, arrives at a consequential moment for India's fiscal federalism. It is wide-ranging, analytically rich and notable for making underlying data publicly available. It warrants careful examination.

Any FC begins with a fiscal asymmetry baked into the Indian Constitution. Following its three-list division, state governments account for roughly 60% of general government spending; but they collect only 36% of revenues. This vertical imbalance is inherent to India's federal design. The 16th FC has chosen not to alter vertical devolution, or the aggregate share of the divisible tax pool flowing to states. Therefore, this piece focuses on horizontal devolution—i.e., how that pool is distributed across states—and one significant change that the 16th FC has introduced.

On the horizontal side, the 16th FC report departs meaningfully from its predecessor. It introduces contribution to GDP as a new criterion, rewarding states for their share in national output. It revises the definition of 'demographic performance,' shifting from the (inverse of) total fertility rate to population growth between the 1971 and 2011 Censuses. It removes 'tax effort' as a criterion, a change with implications we will return to. The FC has tightened its role in making grant recommendations by tying local body transfers to strict audit and election milestones, making performance-based transfers the cornerstone of its architectural shift.

Yet, perhaps the single most consequential change is the abolition of revenue deficit grants (RDGs). The structural squeeze on state finances has deepened in recent years. The shareable pool has been quietly eroded by the proliferation of cesses and surcharges, which do not enter the divisible pool. These have grown to ₹6.8 trillion, a cumulative increase of more than 30% over five years. States have no equivalent constitutional authority to impose cesses. Since cess receipts are not always deployed for their statutorily stated purposes, they seem to constitute *de facto* tax revenues for the Centre that are not counted as part of the shareable pool of resources.

Against this backdrop, RDGs served an important compensatory function: they assisted the states that were unable to meet their spending obligations even after receiving their share of tax devolution. They functioned as a built-in fiscal backstop, an *ex-ante* compensatory mechanism designed to bridge projected revenue gaps. The FC's case for abolishing them is well-documented. The report shows that actual revenue deficits consistently exceeded the normative deficits that FCs had projected and sought to compensate. The number of states receiving grants and total amounts disbursed grew with each successive commission, with beneficiaries rising from 8 to 11 and then to 17 over the previous three FC periods. Revenue gap-filling had created an *ex-ante* moral hazard: states had weak incentives to improve their fiscal positions if their deficits would be covered regardless. The harder question is whether the adjustment burden falls proportionately on states where fiscal discipline was most lacking.


ANI

Our analysis of actual state revenue deficits for 2023-24, the best available proxy for what states would have received under a continuing RDG regime, reveals a less tidy picture. The states facing the steepest adjustment are not necessarily those that were the most fiscally profligate. If anything, the relationship points the other way.

We construct one measure of fiscal profligacy: the ratio of committed expenditures and subsidies to a state's own revenues. The states likely to face the largest revenue gap from the absence of RDGs—Punjab, Andhra Pradesh, Himachal Pradesh and Rajasthan—are not, by this measure, the most expansive spenders. Assam faces a projected gap of about 0.5% of GSDP, significant for a smaller economy, despite not ranking among the high committed-expenditure states. Analysis using 2025-26 budget estimates shows a consistent pattern.

This does not undermine the case for reform. Moral hazard is a genuine problem. But it does raise an important question about the transition design: what support exists for states with genuine structural revenue constraints, as distinct from willful fiscal profligacy? International evidence is clear that major economic reforms are more durable when the transition period accommodates those most exposed to adjustment costs.

The more tractable response lies on the revenue side. Restraining committed expenditures such as salaries, pensions and debt servicing, while also containing competitive transfers, is politically fraught. States facing pressure on welfare delivery tend to prioritize political survival over fiscal reform, fuelling the well-documented race for freebies. The 16th FC report engages with this reality at length.

Several states likely to face the largest adjustment burden also have below-average own tax and non-tax revenues. A two-pronged approach—expanding the tax base and improving collection efficiency—could materially strengthen their fiscal positions over the award period. Property tax reform stands out as an obvious lever, with demonstrable scope for improvement in states with growing urban populations and appreciating land values. How can we make property taxes administratively implementable, especially in states with greater spending needs? Strengthening the GST mechanism to increase state GST collections, following practices adopted by the Centre and better performing states, is another opportunity.

There is also an internal tension worth flagging. The removal of 'tax effort' as a criterion for horizontal devolution sits uneasily with the goal of fiscal self-reliance. The 16th FC report makes a strong assumption: "the contribution to GDP serves as a surrogate for efficiency-based criteria such as tax effort and fiscal discipline." If states are not *explicitly* rewarded for improving their own revenue mobilization, the incentive structure is incomplete and the transition away from deficit grants would be harder to sustain.

Overall, the 16th FC has made a considered decision in abolishing RDG, addressing a real problem in India's intergovernmental fiscal architecture. But the reform's success will depend on whether states with structural revenue gaps receive the support needed to close these through their own efforts. The report has laid out its diagnosis with clarity, but the harder work following the implementation lies ahead.

Shohan Mukherjee contributed to this piece.
These are the authors' personal views.

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AI developers should shrug off intellectual property leakages

Anthropic's complaint against three Chinese labs illustrates why



MIHIR SHARMA
is a Bloomberg Opinion columnist.



As with the pharma industry, AI players will need to tolerate clones. ISTOCKPHOTO

Anthropic's latest complaint against three Chinese labs is a warning sign for Silicon Valley: Don't expect to earn too much from the competitive edge your model gives you. Companies from the developing world will line up to swim across your moat, if they can—and neither the US government nor your lawyers will be able to help you. As the music industry and Big Pharma could tell them, nobody will eliminate your rivals, you have to accommodate them.

The company says it has pretty solid evidence that DeepSeek, MiniMax and Moonshot ran "industrial-scale campaigns" to "illicitly extract" the capabilities of its own model, Claude. That involved over 24,000 accounts that Anthropic described as fraudulent and 16 million exchanges that were "in violation of our terms of service and regional access restrictions."

There's just one problem: Laws that are unenforceable might get ignored. And if they are both unenforceable and profitable to break, then they will almost certainly be brushed aside.

It might sound like this is straightforward theft or even industrial espionage. Anthropic owns Claude and these three labs in China are stealing it. Unfortunately, that doesn't hold up to closer examination. First, 'distillation'—what DeepSeek *et al* are accused of—is, as the American company itself admits, a "widely used and legitimate training method."

Where it gets murky is when your competitor decides to use that legitimate tactic to try and narrow the gap between the two of you. Anthropic says this is 'illicit,' which is one of the most wonderfully misleading words in the English language. It can mean 'illegal.' But it could also mean 'frowned upon by custom and morality.'

In this case, the wronged party wants us to think the first, when it can really only claim the second. But many legal scholars argue that generative AI companies probably do not own rights over either their models or the output of those models. That's why the three Chinese upstarts can't be accused of theft.

Instead, they are 'in violation of the terms of reference.' As everyone who has grown up on the internet can guess, only three people have probably ever read 'terms of reference' online: the first three lawyers to log on to the World Wide Web in 1993. After that, even they must have started clicking through automatically. People can be and are successfully prosecuted for unauthorized access to systems or for copyright infringement—but not for breaching a website's terms of reference.

Such claims don't seem to have real legal force at the moment. But even if they do, Silicon Valley will have to deal with an additional problem: How will they enforce them across the world?

The more important that AI becomes and the more revenue that the frontline labs try to make from it, the more likely it is that both governments and companies in other parts of the globe will refuse to comply with Silicon Valley's expectations and Washington's demands.

Look at pharmaceuticals, for example. India never accepted the notion that life-saving drugs could be fully protected. If a generics manufacturer could replicate it through a different process, they were allowed to. The same will happen with AI: If it is possible to copy it, distil it, break the licence or force it open politically, then countries will allow—perhaps even encourage—their companies to do it.

Distillation by hostile or irresponsible actors is a genuine concern. A frontline model that's stripped of safety and privacy guardrails could lead to nightmare scenarios. But then, if the US is forcing Anthropic to ditch its own safety pledges—as the Pentagon is trying to do—can it really complain about other governments?

Companies can't rely on US law to protect them internationally. They will have to throw more resources into preventing distillation at this scale and simultaneously expose their systems to millions of queries, while preventing any combination of those queries from revealing too much to any one hidden actor.

Perhaps some brilliant technical counter-measures will succeed at this task. But, right now, it seems like a tough ask.

The music industry could remind Silicon Valley that it ended piracy not by complaining about the law but by making products more accessible and raising revenues elsewhere. Big Pharma had to accept compulsory licensing by governments, as well as make its peace with the generics sector. They did so because otherwise they faced the possibility that the very idea of intellectual property would be contested.

The lesson seems to be: Give the world a stake in the system you want to legitimize, or it will find a way to break it. Illicitly perhaps, but they won't care. ©BLOOMBERG

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GUEST VIEW

Agentic advertising: Why the ad agency needs to sit up

ARTHA SINHA



senior advisory
ssional.

Last quarter, in the middle of a polite marketing review, a chief financial officer (CFO) asked a question that landed with unusual precision. It wasn't whether the campaign was working or what the return on investment was. It was something quieter. More structural. More dangerous: "Why do we still need all of this?"

I've been in enough rooms to know this isn't a stray provocation. It arrives after the quarterly numbers, in that pause before someone suggests coffee. The chief marketing officer grows careful. The agency side avoids eye contact. The CFO, once a courteous participant in creative conversations, has stopped pretending she doesn't have an opinion. The industry calls it AI anxiety. That's flattering. Anxiety is what you feel before an exam you might still pass. What is underway is an architectural reckoning. We are arriving at it about 18 months late.

The line that aged badly. Not long ago, I was speaking on Generative AI to a room full of senior leaders. Midway through, a celebrated creative director leaned back and declared: "AI can do the dishes. I will continue to create." The room laughed. It was a good line. It also aged rather fast. Technology doesn't have to listen to dismissals.

What has emerged since aren't just smarter content-making tools, but Agentic AI systems that observe, decide, optimize and iterate—continuously, often in near real time—without waiting to be asked. Artificial intelligence (AI) is not an instrument: it is now the operator. The old comfort was that the machine would always need a human to hand it a brief. That comfort is evaporating.

What's breaking. For decades, the agency model rested on scarcity: good creative judgement was rare and agencies packaged it. A client brought a brief. The agency retreated. Weeks later, a campaign emerged, wrapped in craft and presented with theatre. Effectiveness was measured after the fact. Inefficiency was tolerated because the output was presumed to be human magic.

Agentic systems don't just improve a step. They reject that sequence. They watch behaviour, test variants and learn what lands for which audience at which moment in the journey. When creative generation, media optimization, audience intelligence and performance feedback sit inside the same self-improving loop, effectiveness stops being a post-campaign PowerPoint presentation. It becomes a built-in feature of the system. That is not "a better agency." That is a new definition of marketing.

The arithmetic nobody wants to do. Then comes the arithmetic. Agentic systems are faster than agency workflow, cheaper than retainer structures and in a growing number of tasks, not obviously worse than human-led work. In some areas, they are better.

This isn't because machines have developed taste, but because they run on what the industry long treated as supporting evidence rather than primary fuel: continuous, granular data intelligence. Human strategists spot a pattern once. Agentic systems find thousands at once and act on them before an insights deck can be formatted.

The CFO is not conducting a philosophical inquiry into the soul of creativity. She is doing arithmetic, which is getting hard to argue with.

QUICK READ

The advertising industry has spent two years debating whether artificial intelligence can be creative. Meanwhile, the audience engagement business has undergone a structural shift.

Agentic AI is not just a tool but a leap for marketing. Agencies will have to give up creativity myths while doubling down on context, cultural reading and other things that machines still struggle with.

What survives and what exits. So, is human judgement dead? No. Taste will matter. Cultural intelligence will matter more as content becomes cheap and what becomes scarce is the discernment to know what should exist at all. The ability to understand what a brand should mean in a particular society, at a particular moment, remains stubbornly human. But the comfortable middle is under pressure: work produced slowly; elegant decks that rarely meet the market; reverence for process over outcome; the old drawbridge line—'You wouldn't understand, it's a creative thing.'

These are losing protective cover because no serious brand owner is happy with the idea that a 'brand' is a mystical element that depends on the occasional brainwave of one maverick marketer or an inspired agency flourish delivered with an obnoxious production budget. The new expectation is deconstruction: marketing broken into measurable, improving units—creative, media, audience and commercial intelligence all connected and all accountable.

Re-imagine the agency. The future agency will not survive by bolting AI tools onto an unchanged operating model. That is cosmetic surgery on a structural problem. The agency has to become something more demanding: an intelligence operating system that orchestrates multiple learning loops at once. Less a supplier of campaigns and more a platform that magnifies and coordinates distributed intelligence. The conductor, not soloist. More importantly, a platform, not performer.

This is not a smaller role. It is a harder one. It requires agencies to relinquish some comfortable myths about creativity while doubling down on what machines still struggle to replicate: taste, context, cultural reading, narrative coherence, ethical calibration. But it begins with a simple act of honesty. Stop defending a model because it has been there. Start designing one because the writing on the wall is now in legible font.

The agencies that respond with structural clarity will orchestrate an intelligence layer for their clients. The rest will continue to produce occasionally beautiful work for a steadily shrinking audience.

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MY VIEW | FARM TRUTHS

India's new GDP series improves estimates but also has grey areas

We await back data to analyse trends in the context of changes in the relative size of broad sectors



HIMANSHU
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Last week, India's statistics ministry released its first estimates of gross domestic product (GDP) and other associated national accounts data with 2022-23 as the base year for a new GDP series. This is the second major economic indicator after the consumer price index (CPI) to have seen a base revision. Both these indicators had been using 2011-12 as base year, rendering them more than a decade old. But similar to the CPI revision, the one in the national accounts is also not just a technical re-basing. It also makes several methodological changes and uses new as well as revised sources.

Besides using new data-sets, the two national surveys by the National Statistical Office (NSO) and administrative data from several ministries, the new series also uses revised rates and ratios for arriving at estimates of gross value added (GVA). The use of outdated rates and ratios had been a long-standing criticism of national account estimates. Hence, revising them to recent years is likely to improve the quality of the data. Among the new datasets that the revised series relies on are the Periodic Labour Force Survey (PLFS) and the Annual Survey of Unincorporated Sector Enterprises (ASUSE). Both of these are now carried out annually, which not only improves estimates in the base year but also future estimations. Their use is also important given the country's large informal sector. The availability of these surveys helps capture a better picture of activity in the unorganized sector, compared to the earlier series.

The second major improvement is the adoption of double deflation as a method to arrive at GVA estimates, unlike in the earlier series. While the absence of producer price indices for many sectors, especially services, restricts its use, the revised series is able to adopt this measurement method for agriculture and manufacturing where data permits. For other sectors, it uses a volume extrapolation method.

These changes help improve our GDP and GVA estimates, thanks to better and more frequent data. The shift has resulted in revisions in national accounts aggregates for past years, with data released for 2022-23, 2023-24 and 2024-25. One change that stands out is a downward revision in the estimates: nominal GDP in 2022-23 is lower by about 3% than in the old series and by 3.8% in each of the two subsequent years. This is unusual but not surprising given the nature of changes. However, even a slightly smaller GDP poses a problem for the government as it alters fiscal deficits of the past and complicates the latest budget's arithmetic too.

Also, estimates for private final consumption expenditure (PFCE) have been lowered by almost 10%. This again is sharp and indicates a smaller share of PFCE in GDP than earlier believed.

Also, overall growth rates between 2022-23 and 2024-25 for which final estimates are available have been slashed. Compared to the earlier three-year average of 7.8%, growth has been revised down to 7.25%. Much of this is due to a cut in 2023-24 growth to 7.2% under the revised series from 9.2% earlier. This decline comes despite the manufacturing sector's faster growth under the new series.

However, the new series also raises questions on the structure of India's economy and growth rate trends. One noteworthy aspect is how sectoral shares of GDP have changed. The share of agriculture in GVA now stands at 20% as against 18.1% in the earlier series. This share was 18.5% in 2011-12 by the last base revision and 19% in 2004-05 by the revision at the time. With an average growth of more than 6% since 2004-05, agriculture has seen an increase in its share rather than a decline. Now take manufacturing. Its share declined from 17.4% in 2011-12 based on the earlier series to 14.7% under the new series in 2022-23. Services, of course, make up the bulk of GDP. A fuller analysis of some of these trends for a proper assessment of the health of the economy as well as the relative performance of sectors will have to wait for the back series to be made available later this year.

What is also important is that revisions in the CPI and national accounts just released are part of a broader exercise to overhaul the statistical database of the Indian economy. Two of these, a revised wholesale price index (WPI) and index of industrial production (IIP), are likely to be made available later this year with a new base year of 2022-23.

The updated data from these will likely improve GDP estimates further. More importantly, these together will allow for a better understanding of the structure of the economy and the drivers of change over time.

QUICK READ

Recent changes made by India's statistics ministry in GDP data estimation should give us a better understanding of how different sectors of the economy have been performing.

Services form the bulk of our GDP but how the shares of agriculture and manufacturing have shifted in recent decades needs a thorough examination to help sharpen policy formulation.

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MY VIEW | THE LAST WORD

Fiscal support for states over the next five years: Is it adequate?

Overall statutory flows to states shrink as a slice of the divisible pool but the Centre's capital grants scheme could compensate



INDIRA RAJARAMAN
is an economist.

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The day after the Union Budget on 1 February, US tariffs on Indian exports fell from 50% to 25%, and further to a promise of 18% through a trade deal. Later, the US Supreme Court verdict against 'reciprocal' tariffs resulted in a uniform levy of 10% on all countries, including India, possibly rising to 15%. Wherever it settles, there is some reprieve for labour-intensive export sectors. But that prospect is now overshadowed by the fear of what renewed hostilities in West Asia will do to trade flows and the price of oil.

The advance estimate of GDP released a month after the Union budget is ₹345.5 trillion for the current fiscal year. At the budget projection of 10% nominal GDP growth next year from the new base, the estimated GDP for 2026-27 drops from ₹393 trillion to ₹380 trillion. Does the nominal growth rate itself need to be upped from 10% because of the real impact of trade deals with the EU and US?

The trade deals are a long way from being finalized. Their impact on India's GDP growth rate will be visible only in 2027-28. That is also the year in which the new pay scales of the 8th Pay Commission will become operative, with arrears due for 15 months. The resulting rise in fiscal expenditure in 2027-28 may possibly get offset by higher growth in GDP and tax revenues that year. But for 2026-27, it is best to leave the nominal growth rate at the budgeted 10% because of new uncertainties around trade and oil prices.

The Union budget announced acceptance of all recommendations of the 16th Finance Commission (FC) for the years 2026-31. But because the FC report was downloadable only after the budget speech, no FC-related grievances were aired while the budget speech was on. This was the first speech in recent years which ran with no interruptions from House members.

The 16th FC adopts the same 41% tax share for states (of gross central tax revenue excluding cesses and surcharges) prescribed by the 15th FC, which initially went with the 42% tax share of the 14th FC. It was reduced to 41% when Jammu and Kashmir (J&K) state was given Union territory status (and so fiscally folded into the Union). The 16th FC could have opted to revert conditionally to 42% when the Supreme Court's order restoring statehood to J&K is implemented, but chose not to.

Finance Commissions also recommend absolute grants to states. If accepted by the government, the sum of the tax share and grants constitutes the aggregate statutory commitment to states for five years. The 16th FC prescribes only two grants (both accepted). The 15th FC had five, of which three were accepted and two rejected.

Both FCs have the same tax share of 41%, but the 16th FC's overall statutory provision with two grants added on works out to 44.7% of shareable Union tax revenues (as projected), lower than the 49.3 % of the 15th FC with only its three accepted grants included. This comparison in terms of percentages is perfectly valid, although of course actual tax share receipts are a function of realized tax receipts which often differ from FC projections.

The two rejected 15th FC grants were among those dropped by the 16th FC. In addition, the 16th FC has abolished the revenue deficit grant for states whose current expenditures exceed the sum of projected revenues including tax share receipts. Its abolition, however, need not be mourned because it was problematic, for several reasons not possible to delineate here.

In view of the 16th FC's smaller number of grants, it could have been more generous with the two prescribed: for local bodies and disaster assistance.

QUICK READ

Given the fewer grants made by the 16th Finance Commission, it could have been more generous with the two it has prescribed: for local bodies and disaster assistance.

Thankfully, states also get non-statutory capital grants from the Centre. Its special assistance scheme for capital investment funds public projects that the country cannot do without.

Local governments (i.e. municipalities and panchayats) are responsible for the maintenance of water supply, sewerage and rainwater drainage. The ministry of health, in response to a Parliamentary question, quoted a study showing a staggering rise after 2021 in killer water-borne diseases like cholera, typhoid, leptospirosis and various types of hepatitis.

Groundwater and pollution monitoring (at state government level) is handicapped by unfilled vacancies, for lack of resources to meet salaries.

The local grant is ₹7.9 trillion for the five years 2026-31. But 18.3% of the total is subject to performance conditionalities like having to increase local tax revenue, and at the state level, raising fiscal transfers to local bodies. Undisbursed performance grants will be deflected to performers (para 10.101 of the report), which will worsen the inequality of disease incidence both within and between states.

Fortunately, states get other non-statutory capital grants from the Centre. The hugely popular Scheme for Special Assistance to States for Capital Investment (SASCI) provides funding from which sewage and waste treatment plants can be built or repaired, mechanical cleaners installed and leaking pipes replaced. The choice of capital projects is left to states, although in recent years an increasing proportion is hedged by other reform conditionalities.

SASCI is budgeted at ₹1.85 trillion for 2026-27, as against the statutory local grant for the year of ₹1.01 trillion. What matters critically is whether SASCI funding is used by states to redress the disastrous rise in incidence of water-borne diseases.

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OUR VIEW



BLOOMBERG

Shock and Awe 2.0: Has China beaten a retreat?

China's Gulf diplomacy could end up under the Iran war's rubble even as its economy defies revival plans. Beijing has scaled back its GDP target. Its global power ambitions? Maybe not

This century's big story was supposed to be the rise of China amid a scramble by the US to secure a second 'American century,' as the 20th was branded. Of late, though, Beijing's ambition seems to have lost some of the ballast imparted by President Xi Jinping's 2013 ascent to China's top. For all its ties with Iran and outreach to West Asia, heralded by a patch-up it brokered across the Gulf in 2023, China's role in the war that rages today is either negligible or invisible. A pre-emptive air campaign by the US and Israel to disarm Iran has not just trumped America's 'Shock and Awe' of 2003 against Iraq in ferocity, it threatens to leave Chinese diplomacy under the region's rubble as Tehran hits out at US-allied Gulf states. Back home, Beijing seems at a loss over how to revive its economy. On Thursday, it notched down its GDP growth target to a range of 4.5%-5%, its lowest goal since 1991. True, Xi talks about 'common prosperity' as a priority. Also, like any economy, China's gets harder to expand as it matures. Given how it derives its heft from economic success and fought to fend off trade adversity, however, China's air of resignation over its slowdown seems odd. Its pace of output growth, at an average of just above 5% over the past three calendar years, has lagged India's average of 7.3% from fiscal 2023-24 to 2025-26. The 'fastest growing major economy' race has been a no-contest since covid. Granted, the People's Republic's real rivalry is with the US, not us. Yet, to project power some day beyond its borders, or even across the Taiwan Strait, it needs all the dynamism it can muster.

As the outline of China's 15th five-year plan (2026–2030) indicates, its key aim is to achieve "productive forces" of "new quality," code for AI and deeptech, with an energy transition and common prosperity as themes. Structurally, "internal circulation" remains a major goal—the hope that its economy can rely more on local commerce than global trade as it emerges above the $20 trillion level (about two-thirds America's). While China's state-aided export thrust remains the stuff of legend, domestic drivers are proving hard to fire up. It has been unable to counter the ill effects of its long property slump, let alone reverse deflationary pressures, even as it faces trade turmoil and a potential war-led energy crunch. Internally, softening prices have been taking a toll. As of now, it has too much capacity in too many sectors. Its consumer price index was flat in 2025 and went negative in January, like its producer index has long been. Deflation does not just deprive businesses of pricing power, it nudges people to sit on their cash and put off discretionary spending for later. It also increases debt burdens in real terms and hits credit offtake. As for policy, stimulus efforts have only shown mild results so far. Last year, China cheapened credit, widened its fiscal deficit to 4%, doubled its 'trade-in' subsidy for retail purchases and issued extra bonds. But its GDP growth path refuses to look up, even as trade partners accuse it of exporting deflation.

On the global stage, could China be going back to Deng Xiaoping's dictum of "Hide your strength, bide your time"? Analysts who see it playing a long game suspect a tactical retreat on Beijing's part while it watches its archrival inflame West Asia, assesses America's tech edge and awaits a chance to 're-unite' Taiwan. Even if this is so, China's future role depends critically on how its economy performs. As the plot of this century's geo-rivalry thickens, we in India must keep events and strengths under close watch.

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MY VIEW | GENERAL DISEQUILIBRIUM

Solutions to India's external adversities reside at home

RAJRISHI SINGHAL



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If you thought 2025 was a tough transition, 2026 now seems to have plenty more surprises in store. India, in particular, has to trek through two tricky minefields over the next 10 months: energy security and technological flux. These two prickly issues will have to fight for the political leadership's mind-space, cluttered as it is with tricky geopolitics, rising unemployment, sticky economic growth and an always-on electoral cycle. There's another daunting challenge: dealing with a mercurial world leader with rapidly shifting objectives.

A face in Greek mythology is said to have launched a thousand ships. In contemporary times, there is a world leader who has been subjected to multiple names. US president Donald Trump has been called many things, especially in his second term, but the term 'neo-royalist' has gained much traction. In a *Foreign Affairs* article, Harvard University professor Stephen M. Walt called him a "predatory hegemon." There have been other appellations too: realist, isolationist, mercantilist, nationalist, imperialist. The list will definitely expand during the remainder of his presidency.

Immediately, though, America's unilateral attack on Iran may fetch Trump some more names, but they would be materially different from all the previous ones. This is because willy-nilly the conflict has multiple business dynamics at its core. The official reasons behind the Iran attacks, ostensibly at the prodding of Israeli Prime Minister Benjamin Netanyahu, are still unclear with the goalposts being shifted every day: while one day it was obliterating Iran's nuclear capability, the next day it was regime change. But, through this all, somebody or some people are making a lot of money.

Take oil, a commodity that sees prices spike every time there is a conflict in West Asia. Spot Brent crude prices on the New York Mercantile Exchange have jumped by around 37% in less than three months. Brent is the benchmark for over 65% of the world's globally traded oil, which includes oil from the Gulf region. In sympathy, spot West Texas Intermediate prices—a benchmark for North American oil—also jumped over 37% during the same period, even though most of its originating oilfields are far removed from the conflict zone. Leading US oil company ConocoPhillips has seen its share price jump by 30% during the same period. Ditto for many other US-based oil companies. No prizes for guessing the winners here.

Here is an interesting aside. Trump and his officials promised to solve the looming oil shortage by declaring that the US navy would escort tankers through the narrow Strait of Hormuz, as well as pledging that US government agencies will underwrite political risk insurance for tankers. And then, just about when spot Brent crude prices were about to relent, a US submarine sank an Iranian warship on 4 March. The next morning, Brent crude price resumed its northward journey.

The government must focus on basic economic principles, job creation and private sector investment

The scent of a war has always benefitted defence company stock prices. Lockheed Martin, a leading US-based aerospace and defence technology company, has seen its stock price shoot up by over 50% in less than three months. The stock price of Northrop Grumman, another large defence contractor for the US government, is up by around 38%.

The war effort is quietly mining another goldfield. Columbia University professor Rajiv Sethi has been writing regularly about how anonymous punters have made tidy sums betting on prediction markets (such as, Polymarket or Kalshi) about the exact date of Nicolás Maduro's abduction or the precise dates of US strikes on Iran. News agency *Associated Press* reported mid-February that two Israelis had been charged for using classified information to place bets on future military operations (*tinyurl.com/y6hua84r*).

While all this points to a clear emerging trend (and perhaps deserving of an appropriate moniker), it makes planning and strategy a quagmire. In fact, whatever the motivations and rationales for the war, it has profound consequences for India's energy security. As an economy dependent on net imported petroleum products, India's dilemma will be whether to reach out to Russia again for cheaper oil, with full knowledge of the likely punitive consequences. There are multiple cost-benefit angles to consider when weighing, on one hand, cheaper oil from Russia coupled with probably higher US tariffs against more expensive oil from the US but lower import tariffs on the other. The big unknown here is the duration of the conflict. Add to this the artificial intelligence disruption coming down the road, which is likely to undermine India's services export capabilities, a crucial source of support for the country's balance of payments. In short, when added to the cumulative effect of elevated energy costs, weak capital flows and a currency under pressure, both inflation and growth rates are likely to feel the impact.

India will need to explore multiple scenarios to reinforce its economic and strategic security. In all economic negotiations over the past 30 years, India has used its market size and demographics as a bargaining chip. However, there are now signs that negotiators on the other side of the table see this as jejune and fraying.

It is clear that the government has to get back to basic economic principles and policies that prioritize private sector investment and domestic employment, away from a misplaced focus on sectarian politics.

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OUR VIEW

ISTOCKPHOTO



Deploy municipal bonds to upgrade Indian cities

Urban local bodies could use these instruments to mobilize funds and modernize our cities. But we must strengthen the market for this paper first. Here are some measures that'll help

Urbanization and economic development. One mirrors the other. Urban India accounts for over 63% of GDP, with this share expected to rise to 75% by 2030, and more than 600 million people are projected to live in our cities by 2036. One would imagine urban quality of life and infrastructure are on top of policy minds. In the words of the 16th Finance Commission, "Cities concentrate resources, including physical and human capital, infrastructure and civil amenities, thereby fostering consumption, innovation and employment opportunities." But unless cities have proper mobility, water, sanitation, clean air, living spaces, amenities and governance, India's urban rush will only result in glorified slums. Urban Local Bodies (ULBs), which must create the ecosystem needed to nurture the orderly growth of these modern habitats, claim they lack the resources required to set up state-of-the-art infra. The truth is more nuanced. Most ULBs are reluctant to tap the most obvious sources of local revenue: property taxes and user charges. They prefer to depend on state or central transfers. This is where municipal bonds, or munis, come in. These are debt instruments issued by cities to fund day-to-day obligations and finance projects like educational, transit or sewerage systems.

Munis are not new to India. The first were issued by Bengaluru in 1997. But the market for these bonds has stayed lacklustre. Government programmes like the Atal Mission for Rejuvenation and Urban Transformation (Amrut) and Smart Cities Mission are yet to move the needle on munis. According to a September 2025 paper put out by the Securities and Exchange Board of India (Sebi), only 29 municipal corporations had issued bonds totalling ₹4,240.3 crore with tenors ranging from four to 10 years and interest rates in a range from 7.59% to 10.23%. Part of the reason is the low credibility of our ULBs. Given Sebi's 2015 guidelines, only munis with a credit rating of BBB and above from a top credit rating agency in India can be issued to the public. The underlying logic, to improve confidence in these instruments, cannot be faulted. The problem is that most ULBs are either unrated or below investment grade.

One way to improve muni offtake is to ensure they are backed by ring-fenced cash flows that are deposited into escrow accounts. These can then be supported by security mechanisms like debt service or sinking fund accounts and interest payment accounts. A structured 'waterfall' for prioritized debt servicing would enable bond issuances to get better credit ratings even when municipal finances are modest. Efforts by the ministry of housing and urban affairs to strengthen the ecosystem through incentives should also help. Under Amrut 2.0, for instance, ULBs can receive ₹13 crore per ₹100 crore raised (up to ₹26 crore) as grant support. For those seeking a second round, the bonds must qualify as 'green' under Sebi's framework for non-convertible securities and the funds raised should be used for climate-aligned sectors like water, sanitation, renewable energy and urban resilience. The opportunities are huge; as is the need for funds. While the market for munis is largely untapped, for institutional investors like pension funds and insurers looking to park long-term funds, they are an obvious answer. It is now for ULBs to turn to them and strike two birds with one stone: get much-needed funds and provide urban residents with sorely-needed infrastructure.

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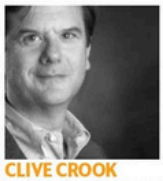
MINT CURATOR

The Iran war has amplified big risks faced by the US economy

America was already pushing limits when it decided to wage war



CLIVE CROOK
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America's public debt is testing its limit of sustainability. AFP

US President Donald J. Trump's extraordinary gamble in attacking Iran and risking a wider conflagration in West Asia dials up the economic hazards facing the US economy from 'very high"' to 'extreme.' This new stress compounds a series of other pressures already facing the economy, which is now even more unlikely to emerge unscathed.

The near danger is a setback in financial markets that gets out of hand. In many ways, some such reversal was already overdue, given the apparent overvaluation of US equities, the weight placed by tariffs on the economy's back, a still-deteriorating fiscal outlook and stubborn inflation. Add the risks of spiking energy prices, trade interruption and global political turbulence.

Inflation is a cause for concern. The core producer price index, which excludes food and energy, increased by 0.8% in January, markedly higher than expected. Its main components feed into the Fed's preferred metric, core PCE inflation. That's running at 3% in the year to December, still much higher than the Fed's 2% target. On Monday the Institute for Supply Management supplied more such evidence: It said the price of manufacturing inputs is rising at the fastest rate since 2022.

Energy inflation would arrive on top of this already-troubling prospect. Energy prices rose as the strikes on Iran began and analysts are contemplating oil at over $100 a barrel, up from $65 before the offensive. As always, there's a reassuring best-case scenario: If all goes well, a quick campaign followed by a power shift in Tehran might lift the threat of future conflict and improve confidence in the global energy infrastructure, which could bring oil prices lower than they were before. But if the conflict continues and widens, energy facilities comes under sustained attack and the Strait of Hormuz stays shut, $100 a barrel might be decidedly optimistic.

Echoes of the 1970s: A lasting spike in oil prices would mean stagflation: higher inflation plus slower growth, a combination that the Fed is powerless to defeat. Granted, the US is a now a net exporter of oil, so the domestic growth penalty would be less this time. But the shock would still be global, the net effect on the US would still be stagflationary and it would compound existing inflationary pressures.

Look at America's fiscal-policy backstop. Whether the US still has one is very much in question. Even before the Supreme Court overturned so-called reciprocal tariffs, the outlook for public borrowing was testing limits. Budget deficits at 6% of GDP, even with the economy at full employment and comfortably quiescent interest rates, mean that public debt will continue to grow faster than the economy. That's what 'unsustainable' means.

The tariff setback will deprive the US government of around $150 billion a year of expected revenue. It might also have to refund tariffs already collected. To make good the shortfall, Trump has announced a new global tariff of 10% rising to 15% under Section 122 of the 1974 Trade Act: he also promised 'investigations' that could lead to new taxes under other authorities – actions that threaten to upend trade deals with numerous partners. In short, the court's ruling guarantees two things: less revenue than previously expected, combined with even greater uncertainty about the future tariff regime.

Section 122 tariffs can only be imposed for 150 days without Congress's approval. They are probably illegal because their rationale—the need to address "fundamental international payments problems" including "large and serious balance-of-payments deficits"—arguably doesn't apply. The US has a big current-account deficit, financed by an equally big capital-account surplus, but no BoP gap. Other tools are legally questionable as well, because they mostly rely on some kind of urgent need to block trade.

Congress seems remarkably unconcerned about this presidential abuse of its trade laws. Having gifted these supposedly limited delegations of power to the White House, it now just watches as one bogus emergency follows another. But litigation has stepped up. The legal setback underlines the fragility of the broader tariff strategy. As long as import taxes can't be relied on and until Congress is forced to take budget control seriously, the revenue shortfall will worsen and high fiscal uncertainty will prevail. As a result, Washington will have little or no fiscal space [for a real crisis].

Uncertainty off the scale might be the hammer blow. At a certain point, confidence tested again could mean everything suddenly gives way. How much disruption can the US economy, for all its strengths, absorb? US trade and budget policies were already gambling with financial disaster. With the Iran strikes, the White House has doubled down again. ©BLOOMBERG


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MY VIEW | A VISIBLE HAND

Is it time for India to allow event prediction markets?

NARAYAN RAMACHANDRAN



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Khamenei Out." That was the title of an event wager on the prediction market Kalshi. On the website of its rival, Polymarket, wagers were being made on "the timing of the Iran war" just before it began. Posts by Bubblemaps, a blockchain analytics tool, on X indicate that six accounts collectively pocketed $1.2 million in profit from Polymarket bets. These bets were funded in the hours immediately before Saturday's action began.

After Israel and the US began combat operations against Iran on 28 February morning by Iran time, newer wagers began showing up. "Iran regime fall by?" "New Iranian regime in by?" "Next Supreme Leader of Iran?" "Reza Pahlavi return by?" These were the titles of some of the more popular wagers on the site. Each of the bets has a probability associated with it. As a predictor, you must either bet for or against that outcome. For instance, 28% believe that the price of oil will reach $100 and 45% believe that it will cross $90 by 31 March (the exact details of the oil futures contract are specified in the wager). There are, of course, related wagers such as "who will be the 2028 Republican nominee for President"? Interestingly, since the war in Iran began, US Vice President J.D. Vance's probability remains unchanged at about 42%. This translates to 21:29 odds of Vance making it as the party's nominee. On the same bet, Ron De Santis and incumbent President Donald Trump are tied at 2.5%.

Polymarket and Kalshi are America's two big prediction markets. Kalshi is the original federally regulated US exchange, offering event contracts across politics, economics, sports and more. The US Commodity Futures Trading Commission (CFTC) regulates it. Polymarket is a much newer blockchain-based platform, native to Web 3, that boasts significant liquidity and global access. Newer entrants like Railbird Exchange (CFTC regulated) and Novig (sports first) are expanding the marketplace with focused services. Kalshi supports all normal methods of cash transfer as well as crypto wallets. Polymarket is restricted to certain types of cryptocurrencies like Ethereum, Bitcoin and Solana. They are all converted to USDC.e, which is a form of stablecoin with a bridge to Circle's stablecoin USDC.

Apart from their payment protocols, regulated prediction markets like Kalshi and Railbird differ from Polymarket in their approach to 'insiders.' "Having an edge to the market is a good thing," Polymarket CEO Shayne Coplan said in response to questions about inside information on the platform. Coplan said the company has focused on the ethics of insider transactions, before adding that it was "sort of an inevitability that this will happen, and there's a lot of benefits from it." The acceptance of 'inside information' is a double-edged sword, and my personal wager (maybe I can put it up on the site) is that it will not withstand regulatory scrutiny.

Their global rise has been quite spectacular and their appeal is undeniable even if insider trading questions swirl

Another way that Polymarket is different is that it does not charge a commission fee (yet). It has recently begun to charge a fee for some high frequency bets. Kalshi and others regularly charge a 'house fee' for wagers. A recent academic analysis, using a metric called the Brier Score, found that 'superforecasters' outperformed Polymarket prices, but a blend of the two was more accurate than either alone. As defined by Philip Tetlock in a book with the same name, superforecasters are individuals who possess an extraordinary, statistically validated ability to predict future events with greater accuracy than domain experts or analysts.

Because Polymarket was born to function without CFTC regulation and uses blockchain technology with crypto wallets, it attracts a lot of global attention and wagering. For instance, 71% of those betting on the question believe that India's Congress Party will win Kerala's assembly poll. Surprising in relative terms, only 68% believe that the Dravida Munnetra Kazhagam (DMK) will win state elections in Tamil Nadu. The chance of victory for matinee idol Vijay's new party TVK is only 16%, according to wagers on Polymarket. To be fair, only a modest amount of money has been wagered on these bets (less than $100,000). Neither of these legislative elections has yet been scheduled by the Election Commission of India. Recently, Polymarket has bought a licensed American firm to allow it to operate within the US.

Beyond elections, sports is a major category for such betting. For the Indian Premier League (IPL) in 2026, 16% believe that the Mumbai Indians will win, with 12% betting on many of the other IPL teams. In a multi-team context, 16% is quite high but not extraordinary. Spain enjoys similar odds in the FIFA World Cup to be held this summer in North America.

Will prediction markets come to India? Should they be permitted? If they can be addictive, must they be disallowed? We do know that India has a lot of 'events' that people could bet on. You could bet on everything from the sighting of the Eid moon to whether Royal Challengers Bengaluru will be permanently barred from using Chinnaswamy stadium. We also know that 95% of the retail volume on Indian stock exchanges are for 'day trading' purposes, revealing a preference for wagering. And so, given a large number of events and a visible predilection for wagers, should we not legalize and regulate it? Shall we bet on that?

P.S.: "Those who have knowledge don't predict. Those who predict don't have knowledge," said the enigmatic Lao Tzu.

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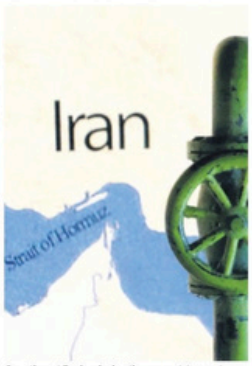
MINT CURATOR

Battle of pipelines: A Hormuz bypass could ease an oil choke

It would calm the market even if a fraction of Gulf supply gets out



JAVIER BLAS
is a Bloomberg Opinion columnist covering energy and commodities.



Saudi and Emirati pipelines could supply up to 7 million barrels a day. REUTERS

Iran's strategy in its war with the US and Israel is clear: Impose an intolerable economic cost on US President Donald Trump, forcing him to abandon his 'war of choice' as American petrol prices surge. Is there any way the Islamic Republic's blueprint for survival can fail? Yes, if its old regional nemesis, Saudi Arabia, can step in to cushion the global oil market.

Enter the East-West pipeline, a 1,200km conduit crisscrossing the Arabian Peninsula from the Gulf to the Red Sea. Its *raison d'être* is to meet this historic moment. Riyadh built it 45 years ago thinking that one day Tehran would manage to do what was then unthinkable and halt shipments through the Strait of Hormuz.

The strait is a chokepoint for about 20 million barrels a day of crude and refined products—a fifth of global consumption. The Saudi pipeline can't offset all of that, but it can provide a workaround for as much as 5 million daily barrels. Another pipeline, owned by the UAE, offers a separate bypass option to the Gulf of Oman for 1.5 million barrels. In an emergency, the UAE can probably push it close to 2 million.

Together, these pipelines can slow if not stop runaway petroleum prices if both countries can get enough tankers into the loading ports where the oil ends up. Recently, about 25 supertankers, each capable of loading about 2 million barrels, shifted course and were headed towards the new pickup points. It remains to be seen how the ports will cope with these armadas.

The loss of supply since the first strikes on Iran has been so brutal that oil prices jumped well above $100 a barrel, rising 20% in just a few seconds when markets opened on Sunday. But maybe the pipeline bypasses can delay further gains, buying time for Trump. The White House is still betting that it can finish the war before the petroleum pressure becomes unbearable.

"We figured oil prices would go up, which they will," Trump told reporters on Saturday night. "They will also come down. They'll come down very fast. And we will have gotten rid of a major, major cancer on the face of the Earth."

The strategy appears to have been designed on the fly as the war didn't go as planned. To succeed, Trump needs the Saudi-UAE bypass pipelines to make a difference. Second, he needs to end the war in days rather than weeks—or at the very least get some supertankers in and out of the Strait of Hormuz in that timeframe. The pipelines are only temporary cushions. Finally, he needs the region's oil production, refining and loading facilities to emerge from the war relatively unscathed, to allow for a rapid resumption of exports.

All are enormous wagers. What's clear is the inadequacy of the assumptions Washington made ahead of the war.

On Sunday, state-owned Saudi Aramco was simultaneously loading three very large crude carriers (VLCCs) at its Yanbu and Al Muajjiz terminals on the Red Sea. This is evidence that it is diverting as much oil as possible away from the Hormuz route. Adnoc, Abu Dhabi's state producer, was loading another VLCC at Fujairah, outside the strait. The scale of the operation at these three sites is unprecedented.

Will it work? In real terms, adjusted by the cumulative impact of inflation, oil is still well below previous spikes. The $139-a-barrel reached in March 2022 after Russia invaded Ukraine is about $157 in today's money. The $147.50-a-barrel touched in July 2008 is equivalent to about $205 a barrel now. Plus the price impact has been short-lived so far, measured in days rather than months or quarters. For an oil spike to become a full-blown crisis, the price needs to move higher and stay there for a time. But as the days of bombings and counter-attacks turn into weeks, it will start to hurt the market.

And there are new dangers. Saudi Arabia and the UAE are walking a security tightrope. Diverting oil via workaround pipelines is part of their commitment to keep energy markets supplied no matter what. But their actions clearly help Washington and may invite further military retaliation from Tehran. As more tankers head to new loading points outside the Gulf, there's nervousness among industry officials in Riyadh and Abu Dhabi that these pipelines, their pumping stations and even ports will be attacked by Iranian drones.

Sunni Arab states in the Gulf have long had tense relations with Iran, a Shia-majority country. And yet, in recent years Riyadh and Abu Dhabi have sought to improve relations with Tehran. Oil is dragging them into the latest conflict—with unknown consequences for the region and beyond.

Increasingly, Gulf War 3 resembles some episodes of World War II. Think about the Battle of the Atlantic, where Germany tried to cut off Britain's supply of essential commodities. Now, it's the Battle of Pipelines. ©BLOOMBERG

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MY VIEW | STAT-CRAFT

Consumption moves in leaps as Indian homes increase earnings

A study reveals step-ladder jumps and shifts in the durables that households in India purchase as they ascend income slabs



RAJESH SHUKLA
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Conventional economic narratives often assume that consumption rises smoothly with income. As households earn more, they are expected to spend more—a linear and predictable relationship. Yet, empirical evidence from PRICE's ICE 360 survey suggests that household asset ownership in India is more discontinuous. It is also structurally revealing. Income growth does not produce gradual increments in demand across all categories. Instead, it generates inflexion points, thresholds at which entire categories of goods unlock rapidly.

This distinction is not semantic. It changes how we understand middle-class expansion, how firms allocate capital and how policymakers interpret rising incomes. The relationship between income and asset ownership can be measured statistically in three ways: correlation (does ownership systematically move with income?), income elasticity (how responsive is ownership to percentage income change?) and acceleration thresholds (at what income band does adoption steepen most sharply?). Taken together, these measures reveal a staircase rather than a slope.

Consider the first major inflexion point: annual household incomes of roughly ₹7–8 lakh. At this level, ownership of smartphones, refrigerators and colour TV sets accelerates materially. The smartphone, in particular, demonstrates near-luxury characteristics despite its relatively modest ticket size. With a correlation of 0.95 with income and an elasticity of 1.79, smartphone ownership increases more than proportionally as incomes rise. This suggests that digital connectivity is not merely a functional purchase but an aspirational marker. The ₹7–8 lakh band represents the moment when households move beyond subsistence and enter a consumption phase defined by social participation, digital integration and lifestyle upgradation.

The second structural breakpoint emerges around ₹10–12 lakh. At this income tier, ownership of air-conditioners (ACs), inverters, microwaves and computers begins to accelerate meaningfully. These goods are less about access and more about convenience and quality of life. Their elasticities cluster around unity, indicating that income growth in this band has powerful leverage over adoption. The shift from refrigerators to ACs is telling: the former address food preservation and necessity; the latter address comfort and discretionary well-being. As incomes rise past this level, consumption spending moves from durable utility to experiential enhancement.

The most pronounced discontinuity, however, appears beyond ₹12–14 lakh, particularly in car ownership. Among all assets examined, cars exhibit the highest correlation with income (0.97) and the highest elasticity (1.88). Ownership remains minimal across lower deciles but accelerates sharply once households cross this income gate, with an even stronger take-off beyond ₹18 lakh. This pattern reflects both financial constraints and psychological thresholds. Car purchases typically require surplus income, creditworthiness and urban infrastructure compatibility. They also function as visible status markers. In this sense, cars are uniquely income-driven assets, not merely because they are expensive, but because their adoption depends on a confluence of economic stability and aspirational signalling.

Washing machines display a similar though less dramatic pattern, with disproportionate gains concentrated in households earning above ₹14 lakh. These categories illustrate an important macroeconomic point: high-value durable growth is concentrated in upper-middle-income households. Premium products sell in threshold markets, not broad-base markets.

Equally revealing is what declines as incomes rise. Bicycle ownership demonstrates a strong negative correlation with income (−0.91) and negative elasticity. Feature phones show similar substitution effects. Rising income does not simply add goods to a household portfolio: it reorganizes it. Lower-tier mobility gives way to motorized transport; basic communication devices are replaced by smartphones. Consumption, in other words, is structurally transformative, not merely additive.

These findings have important applied implications, particularly for consumer-facing businesses.

First, they caution against overreliance on average income metrics. A district's mean income tells us little about which households are crossing critical thresholds. Growth concentrated just below ₹7 lakh may not unlock new demand, while modest increases that push households above ₹8 lakh could generate disproportionate consumption effects. Firms that track threshold transitions rather than aggregate averages are better placed to anticipate category expansion.

Second, the data reinforces the centrality of the middle class in driving volume growth. Categories such as TV sets and refrigerators are already broadly penetrated within middle-income bands, suggesting that future growth in these segments will rely more on replacement cycles and feature upgrades than on first-time adoption. In contrast, comfort and premium durables require targeted strategies focused on households approaching the ₹10–14 lakh band.

Third, these thresholds underscore the developmental dimension of income mobility. When households cross ₹7–8 lakh, they enter the digital mainstream. When they cross ₹10–12 lakh, they begin investing in comfort infrastructure. When they exceed ₹14 lakh, they participate in higher-value durable markets. Economic mobility, therefore, alters patterns of energy consumption, urban transport, credit use and digital engagement. Policymakers concerned with infrastructure planning, credit access and energy demand would do well to anticipate these non-linear transitions.

In summary, India's consumption story is not linear; it is gated. Income growth unlocks successive tiers of demand at distinct breakpoints. Smartphones mark the first aspirational leap. ACs and inverters signify the comfort shift. Cars embody the affluence threshold. Meanwhile, bicycles and feature phones fade as symbols of constrained mobility and limited connectivity. Understanding these income gates, rather than relying on aggregate averages, offers a more precise map of India's evolving consumer economy.

As millions of households ascend the income ladder, they will not merely spend more, but spend differently. The key to anticipating India's next consumption wave lies not in the slope of income growth, but in the thresholds it crosses.

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MY VIEW | MUSING MACRO

India's provident fund payout: A rate that doesn't bend

AJIT RANADE



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Last week, the Central Board of Trustees (CBT) of India's Employees' Provident Fund Organisation (EPFO) fixed the fund's interest-rate payout at 8.25% for 2025-26, the third year in a row at that rate. The decision covers the retirement savings of 73.7 million formal-sector workers. It was received, as usual, with union relief. But can India's monetary policy work when so large a part of its savings system is immune to it?

In 2025, the Reserve Bank of India (RBI) cut its benchmark repo rate four times by a cumulative 125 basis points from 6.5% to 5.25%, the most aggressive easing cycle since 2019. Consumer price inflation fell to 1.33% in December. The logic of lower rates was clear: reduce the cost of capital and let monetary easing reach businesses, borrowers and consumers. Monetary transmission, however, requires the entire interest rate architecture to move together: it isn't.

The EPF rate at 8.25% is 300 basis points above the repo rate. Even the 10-year government bond, which carries duration risk that an EPF depositor does not, yields about 6.7%. The EPF rate exceeds it by 155 basis points. This gap between the market benchmark for long-term sovereign borrowing and a guaranteed administered return on workers' retirement savings is not a marginal inefficiency but a structural anomaly.

To make the numbers work, the EPFO's investment sub-committee had to dip into reserves. Retaining the 8.25% rate is projected to produce a deficit of ₹944 crore in what the fund is expected to earn this year against the interest it has decided to pay. This shortfall will be filled by drawing down the surplus carried over from prior years. The deficit has been growing. The four-decade low of the EPF rate was 8.10% in 2021-22. Since then, it has only moved up or stayed put. The ratchet works in only one direction.

This would matter less if the EPFO operated on the margins of India's savings system. Its corpus stands at about ₹31 trillion. Total outstanding balances in small savings instruments—Public Provident Fund (PPF), National Savings Certificate, Sukanya Samriddhi Yojana and Senior Citizens Savings Scheme—amount to roughly ₹38 trillion and are projected to grow next year. Life Insurance Corporation manages a corpus of around ₹60 trillion, much of it in guaranteed-return investment structures. The administered savings universe is not a carve-out. It is the bedrock of Indian household finance.

The consequences run deeper than the EPFO balance sheet. When a pool this large earns 8.25% on a guaranteed tax-efficient basis, it sets a floor for the entire fixed-income market. Banks cannot aggressively cut deposit rates when formal-sector workers have a safer, better-paying alternative. Corporate bond issuers must price issues above that floor. How this affects expectations is perhaps more damaging: if the government's own retirement fund signals 8.25% as a reasonable return, investors will discount corporate bonds, infrastructure finance and long-duration private investment against that benchmark. Rate cuts work through expectations. A 300 basis point gap between the policy rate and a government guarantee creates the kind of dissonance that prevents monetary easing from translating into private investment.

The EPFO's rate of interest must track market dynamics for it not to weaken monetary policy transmission

Since 2001, four separate committees headed by RBI Deputy Governors have recommended linking administered rates to a formula anchored in market benchmarks—typically, a rolling average of G-Sec yields with a modest and transparent spread. The logic is not that workers should earn less, but that rates should move with markets, so that monetary signals can travel through the full savings system. That recommendation was adopted partially for small savings—and shelved each time the formula produced inconvenient results. The EPFO is not even subject to the partial formula.

The contrast with other economies is instructive. Singapore's Central Provident Fund pegs its Special Account rate to the 10-year government security yield plus 1%; Malaysia's EPF declares dividends based on actual investment performance; Switzerland calibrates its minimum pension rate by market conditions. Even in countries that administer returns on mandatory savings, the norm is formula-linkage to a market benchmark and not a rate fixed by a politically influential body.

That political economy also shows in the rate differential between EPF and PPF, which is open to ordinary citizens and earns 7.1%, 115 basis points less than the EPF rate. This gap reflects no difference in risk: both are sovereign-guaranteed instruments. It reflects a difference in representation. EPF members have elected trade union officials to sit on the CBT, with a formal voice in the rate decision. PPF investors have none.

The governance structure compounds the problem. The EPF rate is set by the CBT under the Union labour ministry and is then ratified by the finance ministry. This means that the finance ministry concurs with a decision that undermines RBI's rate cuts.

The question for policymakers is not whether workers deserve good returns—they do. It is whether an artificially high rate funded from reserves and uncoupled from any market formula is a sustainable anchor for such a significant chunk of our savings system. India's monetary policy committee operates with independence and rigour, but it lacks a coordination mechanism to ensure that the savings system responds, even with a lag, to its signals.

RBI cut rates by 125 basis points last year. The EPF rate did not budge. This gap is a policy inconsistency hiding in plain sight.

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OUR VIEW

ISTOCKPHOTO



Oil shock shudders need not scare equity holders

The Iran war has made oil spike and equities slide. While RBI could steady the rupee with its dollar stash, investors should focus on what stocks are worth instead of capital gains

After nine days of denial, the hard reality of an oil shock seems to have hit home. In the second week of joint US-Israel attacks on Iran, crude oil prices have leapt into three digits, with Brent within sniffing distance of $120 per barrel at one point. The oil spike battered stocks across Asia as plumes of smoke began to look like clouds of stagflation on the not-so-distant horizon. India's benchmark BSE Sensex slid nearly 3.2% on Monday morning before it recovered a bit to settle around 1.7% down at 77,566. The rupee hit a record low of 92.35 to the dollar. That Iran's chokehold on Gulf oil supply hasn't eased bodes ill for our economy. After all, we import nearly nine of every 10 barrels we consume. Costlier crude would not just soak up extra dollars amid trade headwinds and weak capital inflows, but also fiscal resources if fuel tax cuts are used as shock absorbers for inflation—which may anyway prove hard to quell should energy relief elude us for weeks on end. Our 'Goldilocks' run of rapid GDP growth and price stability is clearly at risk, unless the heat of fuel-pump prices in America makes the White House blink and call off the Iran war.

For now, though, the odds of that happening seem long, with the US yet to display signs of material success—say, on easing Iran's oil clamp—and a defiant regime in Tehran having dug itself in for a battle of attrition. In such a test of pain limits, what each side can endure is a significant factor. Tehran's deployment of an energy shock, evident in its threat to cargo ships trying to exit the Gulf, has willy-nilly placed oil facilities within the sights of its firepower. Even though overland pipelines could offer an alternate export path for about a third of the Gulf's daily output, the region's oil wells may soon have to tighten their spigots shut as storage capacity runs out and 'force majeure' calls multiply. With the price of crude oil so volatile, this is an appropriate moment for both warring sides to look for off-ramps. Since Washington is given to shifting goals as it goes along, it should have little trouble spinning a victory tale, while Tehran could claim any outcome as a win that leaves the Islamic Republic intact. No less relieved would be America's Gulf allies, wary as they must surely be of being dragged into hostilities with the ravages of Israel's Gaza war still fresh in public memory.

Investors in India may feel no less trapped by the war's shockwaves. As with any panic, stock prices could suffer more than a calm analysis would justify. Of late, retail investments via mutual funds have struggled to make up for foreign bulk buyers pulling out of the market. These outflows seem unlikely to reverse without rupee stability, although currency support would require the Reserve Bank of India to stretch the span of time across which it fights volatility. As for local investors, beaten-down share prices may have thrown up bargains for a buy-the-dips game of portfolio addition. But in general, equity investors now need to elongate their investment horizon and focus on stock yields instead of just capital gains. The war might have made the earnings outlook of some companies hazy, but a value orientation would help identify those that are placed well to reward shareholders with profits. Even if it is hard not to track what one's holdings are worth if encashed right away, focusing on what shares yield as dividends over the years is a good way to ride out this phase.


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GUEST VIEW

Equal opportunities for women can result in economic wonders

Well crafted and implemented laws that empower women can easily lift an economy's performance



INDERMIT GILL & TEA TRUMBIC
are, respectively, chief economist and senior vice president, development economics, at the World Bank; and lead of the World Bank's Women, Business and the Law project.

In 2012, facing a shrinking labour force and economic stagnation, then-Japanese Prime Minister Abe Shinzō bet on women. To encourage more women to work, his government rolled out a series of reforms, including expanded childcare, enhanced parental leave and tax incentives for firms that promoted women. By 2019, 2.5 million additional women were employed, female labour-force participation reached 67% and job placement for graduates was nearly universal. The conclusion: When barriers to women's workforce participation are removed, economic outcomes improve.

Today, developing economies face the opposite challenge: a massive youth bulge. Over the next 10-15 years, 1.2 billion young people will enter the labour market in these economies, which are expected to generate only about 400 million jobs over that period, implying an unprecedented jobs deficit.

Ensuring that young women have the same opportunities as men to participate fully in the economy will be crucial to turbocharging growth and employment. As more women join the workforce on equal terms, they will increasingly start businesses and create jobs. Research shows that in most countries, closing the opportunity gap could boost GDP by as much as 20%.

In recent decades, dozens of countries have taken the first step towards supporting women's economic participation by reforming family, labour and financial laws. As a result, women today have about two-thirds of the legal rights that men enjoy, up from barely half at the turn of the century.

But too many countries fail to take the next step. The World Bank's *Women, Business and the Law 2026* report shows that even where protections exist on paper, fewer than half the policies and services needed to implement them are in place. And a new enforcement index reveals that these laws are applied only about half the time, creating a gap between legal rights and lived reality.

Today, only 4% of women worldwide live in countries that recognize nearly full legal equality, while none of the 190 countries covered by the *Women, Business and the Law 2026* report provides women with the same legal environment as men across all 10 assessed areas.

The biggest gap is in safety. Limited and inconsistent protection from gender-related violence prevents women from joining and remaining in the workforce. Similarly, laws against sexual harassment vary considerably depending on the environment: 143 countries ban it at work, but only 90 address it online, 63 in education and just 36 in public spaces.

Another weak area is entrepreneurship. Women can legally start businesses in most countries, but they still face obstacles to securing funding. Only about half of all countries support equal access to credit. The lack of diversity in leadership is another barrier to entrepreneurship, as just 40 countries require minimum representation of women on corporate boards.

Childcare is the third-weakest area, with the lack of affordable and high-quality services keeping too many women out of paid work. While 146 countries regulate childcare services for children under the age of three, fewer than half (66) set comprehensive quality standards, like caregiver-to-child ratios, group-size limits, education or training requirements and mandatory periodic inspections. And only 78 offer financial or tax support to families.

These deficiencies depress labour-force participation rates, reduce hours worked and slow formal employment and firm creation, all of which are vital to long-run growth, tax revenues and economic resilience.

The good news is that governments have started to address the most problematic areas over the last few years: 22 economies, many in Latin America and the Caribbean, enacted reforms to improve women's safety. Six of them—Belize, Bolivia, Bulgaria, Peru, Suriname and Zambia—raised the legal minimum age for marriage or removed the parental-consent exception, closing a loophole that enabled child marriage. Seven economies—Argentina, Brazil, Mali, San Marino, Sri Lanka, the UK and Uruguay—introduced or strengthened cyber harassment laws.

Some progress has also been made on building supportive frameworks for entrepreneurship, with 21 reforms across 19 economies. Suriname's Trade Register Act allows women to register businesses in the same way men do, removing a long-standing structural barrier. Ecuador's Organic Law to Promote the Economy of Ecuadorian Women Entrepreneurs bans gender-based discrimination in credit evaluation, adds oversight and introduces sanctions for non-compliance. Thirteen economies strengthened women's representation on corporate boards. But overall, implementation has been uneven.

For governments seeking more jobs and growth, the question isn't if they can afford to close the opportunity gap for women, but how they can afford not to. By aligning laws that empower women with systemic changes, enforcement mechanisms and public reporting standards, policymakers can track results, adjust strategies and show that gender equality delivers measurable economic returns.

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MY VIEW | EX MACHINA

India must leverage its data for access to top AI models

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.

Last week, I wrote about how frontier artificial intelligence (AI) has begun to improve exponentially—to the point where it is not just introducing linear improvements in functionality, but literally augmenting capabilities. Personally, this became evident when I realized I could code anything I could imagine, allowing me to create various applications and programs to eliminate micro-frustrations in my workflow. I am sure that those in other domains are experiencing similar capability uplifts.

According to scaling laws, a model's performance will improve so long as increasingly large amounts of compute power and data are used to train it. For many years now, leading AI labs in the US have been proving that thesis at an eye-watering scale. It feels like those investments have begun to pay off, particularly over the past six months. Across the board, frontier models have begun to demonstrate dramatic improvements—both in the quality and accuracy of their outputs and in what they can do.

For countries like India, advanced AI that not only reduces friction but also unlocks brand new capabilities presents exponential opportunities for advancement. By blurring the boundaries between domains and professions, it can expand the scope of what is possible, allowing those who use it to do far more than before. This makes brand-new pathways available through which the potential of AI can be harnessed across all domains—from healthcare and education to governance.

But just as these exponential capabilities of AI open up new opportunities to transform our industries and markets, they also expose us to new vulnerabilities. At present, the transformative capabilities of AI are only available in frontier models offered by top American AI companies. Open-source AI, which countries like India have relied on so far, seems to be slowly falling behind the cutting edge of what is possible, and while we have made tremendous strides with our own foundation models, they are still behind the state of the art on several key parameters.

Today, access to leading AI models is only available through application programming interfaces (APIs), which would not have been a problem had it not been for the geopolitical uncertainty of the current moment. Any country whose AI future depends on API access to solutions from leading AI labs risks having the core infrastructure on which it depends pulled out from under it should geopolitical winds shift—much like access to the Swift financial network was weaponized during the conflict in Ukraine. When core national capabilities depend on access to technology under foreign control, our sovereignty will only last as long as remote servers remain accessible.

So, how does India navigate its way ahead?

History has shown that strategic concessions can be extracted from technology providers seeking market access. When the Brazilian Air Force acquired advanced military aircraft in the 1960s and 70s, the government, through state-owned enterprise Embraer, required that foreign suppliers transfer manufacturing know-how to Brazilian engineers and facilities. As a result, Embraer grew from a military supplier into one of the world's most successful commercial aircraft makers, competing globally with Boeing and Airbus in the regional jet category. When Samsung licensed early DRAM technology from Micron, it invested aggressively in manufacturing scale and process improvements to the point that it eventually outcompeted its licensor. The massive electronics supply chain that grew out of this is now one of the world's most sophisticated. Throughout the 1990s and 2000s, China made market access explicitly conditional on foreign companies forging joint ventures with Chinese partners and enforcing technology transfer under the terms of those agreements. This is how China developed the process expertise it currently has across a range of sectors, allowing it to dominate the global industrial value chain.

Time is running out to strike deals with AI majors that minimize the geopolitical risk of AI denial

The question of the moment is this: What leverage does India have to achieve its goals in the AI race?

As the largest user base for AI technology outside the US, India generates enormous volumes of behavioural, transactional and social data. This is exactly the kind of real-world interaction data that AI companies need to improve their models. India also possesses vast repositories of traditional knowledge, cultural information and community practices that could provide AI models with much-needed context.

In a paper that I presented as chair of the Expert Engagement Group on the New Deal for Data under the India AI Summit, I argued that one option available to a country like India is to make access to this data conditional on AI companies depositing the weights of all AI models enriched by Indian data in Indian facilities under a model escrow agreement. This would ensure that, if for any reason API access is cut off, Indian companies can continue to access the AI models they need locally. This would let India safeguard its AI sovereignty by strategically deploying one of its most valuable assets—its data. If successful, India could become the first country to leverage data as a strategic currency in the AI era.

If we are to do this, we must act swiftly. Once AI models approach human-level performance across domains, any data advantage we currently have will disappear. And with it, the leverage we need to secure our technological sovereignty.

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THEIR VIEW

Subsidy raj: Why an ancient grain dole should haunt us

ADITYA SINHA



is a public policy professional.

In 123 BCE, Gaius Gracchus passed the *lex frumentaria*, a law mandating that the Roman state sell grain to citizens at a fixed below-market price. The aim was modest: stabilize food prices, protect the poor. Within two generations, it had become free distribution. By the Augustus era, 200,000 Romans were on the rolls: by the Aurelian, 600,000, and pork had been added to the ration. Historians still argue whether this generosity strengthened Roman cohesion or hastened the ruin of its treasury. It was probably both.

The Asian Development Bank (ADB), in a study commissioned by the 16th Finance Commission (FC), has added up India's subsidies and transfers with unusual thoroughness. The numbers are not reassuring. Start with their scale. The Union government spent ₹6.33 trillion on subsidies and transfers in 2023-24, up from ₹2.76 trillion in 2018-19, a compounded annual growth rate of 21%. This is before one adjusts for what governments prefer not to report. The ADB study found that official figures undercount actual subsidy expenditure by about ₹3 trillion at the state level alone: dozens of schemes, pensions, loan waivers, investment promotion subsidies and electricity shortfalls are simply not classified as subsidies. Now add off-budget borrowings. For instance, Andhra Pradesh has parked ₹35,100 crore of food subsidy liabilities in its Civil Supplies Corporation and has ₹26,466 crore in power discom debt. Kerala has quietly accumulated ₹11,733 crore in off-budget social security pension liabilities through a corporation created for that purpose. The numbers that governments report and what they owe rarely match.

The 16th FC notes that state unconditional transfers have grown at 28.8% annually since 2018-19 and are projected to reach ₹4.14 trillion in 2025-26. Large-group cash transfer schemes grew 53.6% over the same period. In 2018-19, only Telangana allocated more than 10% of its revenue expenditure to unconditional transfers. By 2025-26 budget estimates, nine states are at that level. The composition of what India calls a subsidy has shifted too. Unconditional cash transfers, which accounted for 16% of state subsidy spending in 2018-19, are projected to account for 47.4% by 2025-26.

The pendulum has swung from subsidized food to cash handouts, which distort the economy less but are no less fiscally treacherous if done without close targeting.

This matters because money is finite. The 16th FC found a statistically significant negative relationship between subsidy expenditure and capital outlay. Every rupee that goes into an unconditional transfer is, at the margin, a rupee that does not build a road, school or a hospital.

Six of India's nine states spending over 5% of revenue expenditure on unconditional transfers have a revenue deficit. In effect, they are borrowing to give money away.

Now consider what the money actually buys. In Tamil Nadu, 89.5% of all households receive free electricity, 85.2% of the wealthiest quintile included. In Punjab, 75.1% of the richest households get free power. The 16th FC calls this "somewhat regressive." These states are spending thousands of crores subsidizing electricity for people who can comfortably pay for it, while pleading fiscal stress when it comes to settling their electricity discom dues. Punjab's power subsidy consumed 15.5% of its total revenue expenditure in 2023-24. Across all Indian states, the total electricity subsidy bill reached ₹2.60 trillion, more than double the ₹1.29 trillion figure of 2018-19.

The 16th Finance Commission has echoed past FCs in warning us about the harsh fiscal fallout of wanton freebies

The power sector deserves a special mention because it illustrates how the same problem haunts us even after repeated discom bailouts, revealing perfect institutional memory and little institutional learning. The Centre restructured discom debt in 2001. It restructured it again in 2012 via the Financial Restructuring Plan, which only seven states signed up for and none met its improvement conditions. It restructured it once more in 2015 through Uday, under which states issued ₹2.32 trillion in bonds. Total discom debt today stands at ₹7.42 trillion, up from ₹4.71 trillion in 2018-19.

We have seen three bailouts in 25 years. The 16th FC diplomatically calls this a "loss-debt-bailout cycle." A less diplomatic observer might call it a perpetual motion machine, except that the 'energy input' in this case is the taxpayer's money.

Then there is the question of who is actually receiving these subsidies. Andhra Pradesh found that 9% of its social security pension beneficiaries were ineligible or wrongly included. Another 0.6%, on examination, were found to be deceased.

The 16th FC's recommendations are sensible: sunset clauses for non-merit transfers, rigorous exclusion criteria, no off-budget borrowing for subsidy financing and standardized disclosure across states. The ADB study adds independent fiscal monitoring and performance-based conditionalities. None of this is new. The 13th FC had said much the same. The 14th and 15th FCs echoed it. Now the 16th FC has said it again.

The problem isn't diagnosis. The ailment is well known. But will the political economy of competitive federalism, where states watch each other's transfer schemes the way traders watch index futures, permit any government to be the first to stop?

Gaius Gracchus, incidentally, was killed for trying to reform the Roman grain dole, not for creating it. Posterity noted the irony. Perhaps ours will too.

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MY VIEW | CAFE ECONOMICS

Hormuz and other chokepoints are forcing big shifts in strategy

The Cold War-style weaponization of supply bottlenecks is leaving nations with strategic options that India is familiar with



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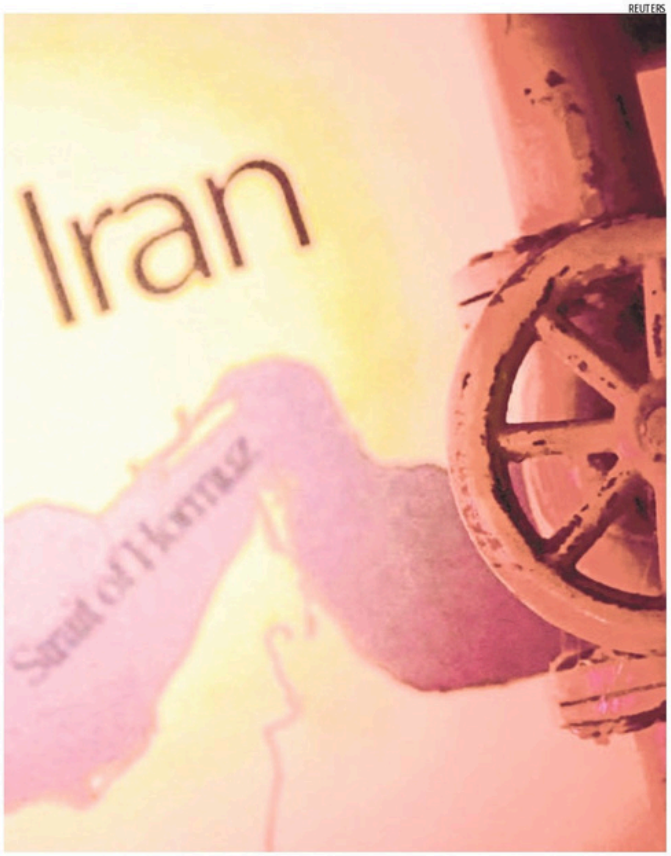
REUTERS



The closure of the narrow shipping lane that runs through the Strait of Hormuz has disrupted the flow of crude oil from Gulf producers to countries around the world. Energy prices have spiked. Iran closed this route in response to the bombing of its territory by the US and Israel. The ongoing episode is a reminder of the importance of chokepoints in an interdependent world, or bottlenecks that countries can use for strategic leverage in uncertain times.

The Strait of Hormuz is a chokepoint created by geology, but there are many other types as well—financial, technological and mineral, for example. The denial of advanced semiconductors to one country or of rare earth minerals to another are two examples of chokepoints that have been used in recent years by the US and China, respectively.

Chokepoints only matter in an interdependent world. However, their overuse is likely to push countries at the receiving end to reduce the same interdependence. So those in control of them must perform a delicate balancing act between weaponizing interdependence and maintaining it at the same time. It is a conceit to think that anyone at all knows where this delicate balance lies. The result is endemic uncertainty.

In his 2025 book *Chokepoints: How Economic Warfare Is Changing the World*, Edward Fishman has proposed a useful analytical framework to think about the problem. He writes about "an impossible trinity of economic interdependence, economic security and geopolitical competition." The world can have only two of these three at any one point of time and never all three together. He then uses this framework to look at what happened in the world after 1945.

The Cold War era was marked by geopolitical competition between two blocs. Countries in each bloc secured economic stability by reducing interdependence with countries in the rival bloc. Then came the era of globalization after the collapse of the Soviet Union. The end of geopolitical competition allowed countries to expand interdependence even as they achieved economic security.

The world we are in has brought back geopolitical competition. Countries will have to choose between interdependence and economic security. It is a tough choice, given the realities of global supply chains as well as challenges such as climate change that need close international cooperation. "The Age of Economic Warfare will likely end when the chokepoints upon which it depends no longer squeeze so tight," predicts Fishman, though he adds that this will only play out over a decade or so.

The uneven distribution of chokepoints means that only a few countries can use them for leverage over others. Some chokepoints emerge from network effects such as printing the global currency or controlling global technology standards. These are sticky. However, this does not mean that the rest have to only sit back to suffer in silence. Or become vassal states. They too have options that can provide them with some degree of freedom in a world of bullies.

Three options are worth mentioning here.

First, the most straightforward response is reducing reliance on any single chokepoint by diversifying trade routes, currency reserves, technology suppliers and diplomatic partnerships.

Second, smaller states individually have little leverage over more powerful countries, but they can work together in a coordinated way.

Third, some smaller states have managed exposure not by reducing connections, but by carefully managing their position across competing networks through strategic ambiguity or maintaining ties to rival hubs so that no single power can credibly threaten full exclusion.

In the case of India, the sheer size of its internal market and growth potential is a negotiating chip that is not available to smaller countries. The size of the market is not just in terms of goods, but also the information that Indian consumers give to global technology platforms, some of which is used to train algorithms. That is an advantage.

The brave new world of renewed geopolitical competition—and the weaponization of interdependence—will necessarily make countries pursue economic security. However, this shift will not be a costless affair. This column has earlier noted that the quest for economic resilience in the face of global uncertainty in effect means that stocks will be prioritized over flows, and governments, companies and consumers will either directly or indirectly have to pay the costs of these risk buffers. (See 'Resilience isn't costless but even the private sector is in need of it' *bit.ly/4s4FGOQ*)

Fishman has written in his book that the world could be moving back to the Cold War era of geopolitical competition in which economic security grows in importance. That was one reason why the newly independent Indian nation chose to focus on the production of key intermediate goods such as steel and capital goods such as machine tools as well as on building a network of research institutes. Both Jawaharlal Nehru and Vallabhbhai Patel—despite their disagreements on economic policy—saw the need to build industrial depth in a dangerous world. After some initial success, that strategy eventually led to neither resilience nor economic efficiency.

The intent as well as hard lessons from that era are still relevant to our times.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GUEST VIEW

Why we mustn't misread Adam Smith's Invisible Hand

KRISHNAN RANGANATHAN



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In 1776, the year 13 American colonies declared independence from Britain, Adam Smith published his magnum opus *An Inquiry into the Nature and Causes of the Wealth of Nations*. 9 March marked the 250th anniversary of its publication. While breathless praise for it was aired in many parts of the world, residents of Smith's Scottish hometown Kirkcaldy opted for a characteristically quiet pragmatism: a modest Heritage Centre and a plaque on a brick wall marking the spot where his childhood home was unceremoniously razed in the 19th century.

Globally, to the Right, Smith is the patron saint of 'greed is good,' a man whose book Thatcher reportedly brandished in her handbag like a holy relic. To the Left, he is the grandfather of market fundamentalism.

The reality, though, is inconvenient. The most famous term in economics—the 'invisible hand'—is perhaps also the most misunderstood. Smith used this phrase only three times in his entire published corpus. He never used it to describe the magic of the price mechanism. Instead, Smith's 'hand' was a literary flourish borrowed, perhaps with a wink, from Shakespeare's *Macbeth*. While the 'invisible hand' gets the limelight, Smith's actual policy prescriptions often favoured the 'visible hand' of the state. He laid the foundation for modern tax systems based on fairness, certainty, convenience and efficiency. He advocated for public education to prevent the "stupid and ignorant" state of mind that repetitive work might induce among workers—a warning that resonates today as we grapple with the 'algorithmic deskilling' of the modern workforce. He even supported legal caps on interest rates, a stance that would align him more with consumer-rights advocates than with payday lenders.

The popular caricature of Smith as an apologist for selfishness collapses the moment one reads the opening line of his other masterpiece, *The Theory of Moral Sentiments*: "How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others." Smith's argument of the butcher and baker feeding us out of self-interest wasn't that greed is a virtue, but that humans are capable of empathy-led bargaining. He once noted that no one ever saw two dogs make a "fair and deliberate exchange of one bone for another" because canines are hopelessly selfish. Humans, by contrast, must put themselves in the shoes of their customers to succeed. While 'purpose-led brands' and 'stakeholder capitalism' may seem like recent inventions, Smith was already arguing that markets at their best are social exercises in mutual empathy. This is a theory that would likely baffle a high-frequency trader for whom the customer is merely a millisecond of latency.

Contrary to Smith's reputation as a 'market fundamentalist,' much of *The Wealth of Nations* is a sharp critique of crony capitalism, though it appears mostly in the second half of the book. Many readers never get that far, which is a pity.

Smith loathed the East India Company, describing it as a parasitic monopoly that forced taxpayers to fund "extraordinary waste" and "fraud." In one passage, he criticizes its exports of opium (produced largely in Bihar) to other Asian markets. Smith's critique of the mercantile system finds a modern parallel in our debates over Big Tech's 'walled gardens' and the rent-seeking behaviour of today's monopolies.

Long before the 2008-09 crisis (and subsequent bailouts), Smith cautioned that directors of joint-stock companies who manage "other people's money" would inevitably succumb to "negligence and profusion" compared with private business partners who risk their own wealth. It was the original warning against the 'moral hazard' that still haunts modern finance.

QUICK READ

Adam Smith's 'The Wealth of Nations' is 250 years old and still widely misinterpreted to cast him as an apologist for selfishness and promoter of greed. This caricature is false.

An actual reading of the classic would take the myth apart of his 'market fundamentalism.' To him, exchange is about mutual empathy and an economy is ultimately a human conversation.

If Smith's reputation as a market fundamentalist is exaggerated, so too is his reputation as an intellectual revolutionary.

Was his ideas original? Barely. Free Trade? François Quesnay beat him to it. Division of labour? Plato had recognized its benefits two millennia earlier. Even Smith's famous pin factory may have been borrowed from a French encyclopedia. Joseph Schumpeter famously asserted that *The Wealth of Nations* "does not contain a single analytic idea, principle, or method that was entirely new in 1776."

Smith, however, was perhaps the greatest synthesizer economics has known. He took the scattered ideas of his time and wove them into a coherent narrative of economic modernity. A study of JSTOR references between 1930 and 2005 showed Smith to be by far the most heavily cited of the world's economic 'greats,' with these citations beating the total of Marx, Marshall and Keynes combined.

Legend says that Smith was so absent-minded that he once brewed a pot of bread and butter and wondered why his 'tea' tasted terrible. Most ironically, he got the 'labour theory of value' spectacularly wrong, inadvertently laying the groundwork for Marxist exploitation theory; yet, in the world of ideas, the synthesizer of ideas often outlives the specialist.

Two-and-a-half centuries on, Smith's *The Wealth of Nations* is less a sacred text than a reminder of something uncomfortable: in a world of automated trading and cold data, this classic reminds us that the economy is still a human conversation at its heart.

Smith did not give us a doctrine. He gave us a way of thinking.

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MINT CURATOR

India's e-commerce boom has a dark side: Digital deception

Businesses and scammers seem easily able to exploit people online



ANDY MUKHERJEE
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The manipulation of people's expenditure choices is rampant. ISTOCKPHOTO

Digital commerce in India has become a theatre of quiet deception. Sellers cheat by design, and in the rush of a 10-minute grocery delivery, hundreds of millions of consumers rarely notice they are being fleeced.

In 1919, John Maynard Keynes marvelled at the Londoner who could order by phone "various products of the whole earth" from his bed while sipping his morning tea. A century later, India has democratized this convenience through cheap smartphones and a national system of instant mobile payments, overtaking the US to emerge as the second-largest e-retail market after China by number of shoppers.

Yet, this innovation is being hijacked by 'dark patterns'—design elements that trick users into overpaying or paying for things they never wanted. This global scourge has assumed chaotic proportions in India. From legacy banks and duopolistic airlines to venture-backed startups, all businesses seem to be gaming their digital interface. While digital commerce has exploded, the guardrails remain weak. Merchants are exploiting the gap between a newly connected population and online regulation that is only just starting to find its teeth.

A 2024 study across 26 countries by the International Consumer Protection and Enforcement Network found that 76% of websites and apps employed some kind of manipulation of customer choice. For India, however, the number was as high as 98%, according to a separate survey by the country's Advertising Standards Council.

India's aviation industry has been at the cutting edge of sharp practices. In 2024, regulators highlighted how IndiGo, the largest domestic carrier, shamed customers into buying insurance. Buttons to decline the option were labelled, "No, I will take the risk." Authorities also investigated the obscuring of the users' ability to skip the paid seat-selection option, forcing them to opt for expensive preferential seating.

Deceit abounds even in competitive sectors. Zepto was recently fined for auto-enrolling buyers into premium subscriptions, among other things. Its US rivals operating in India faced scrutiny for fees that appear only at the checkout, wiping out the discounts advertised on the product page. Although Walmart-owned Flipkart and other platforms submitted self- or third-party audit declarations in November, the consumer protection authority is currently verifying their claims that they have eliminated dark patterns.

Sachin Taparia, founder of a New Delhi-based community engagement forum, has written to India's securities regulator with suggestions for a form that all listed companies—and those waiting to go public—must sign. It lists 14 malpractices that work differently on the consumer's psyche.

These retail manoeuvres are the gateway to a more dangerous frontier: the financial sector. While a hidden fee on a grocery bill is a nuisance, the banking sector's embrace of dark patterns represents a systemic breach of trust. Despite a central bank order to eliminate these practices by July, a recent survey found that half of customers still encounter them. The most egregious malpractice involves the unethical harvesting of user information. In one instance, a consumer who merely clicked a credit-card ad was bombarded with phone calls by bank officials who already had his personal financial details.

In the EU, such a data breach would trigger penalties of up to 4% of global revenue. In India, companies shrug off minuscule fines as a cost of doing business. Zepto's fine was just ₹7 lakh.

When banks keep data guardrails intentionally weak, information leaks. As I wrote last year, this fuels 'digital arrests'—a sophisticated scam where gangs, often based overseas, pose as law enforcers to accuse affluent Indians of money laundering, human trafficking or drug smuggling. These con artists succeed because they have acquired granular details about their victims' finances—often leaked or sold through the same porous systems that banks use to nudge customers into products designed to buttress their balance sheets rather than benefit borrowers.

A fundamental disregard for an individual's choice and data sovereignty is the dark side of India's digital gold rush. Keynes, who began his career at the India Office, helping manage a subcontinent's finances from a desk in London, marvelled at the consumerism of his day as a pinnacle of pre-World War I globalization. He couldn't possibly have imagined a future where bedside convenience would be weaponized in a country he thought about more as a producer than a consumer; where the telephone's pocket-sized successor is used not by an administrator to serve a citizen of the empire, but by a rapacious business algorithm or a criminal to surveil and entrap a target. ©BLOOMBERG

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OUR VIEW


REUTERS

War-struck rupee: Time for crisis management?

India needs a judicious mix of administrative and central bank action to deal with the Iran war's fallout on its currency. We must explore all options—tighter forex controls included

'It depends' is almost always the right answer to any big question," said Linus Torvalds, the software genius behind the Linux operating system's kernel. As the Indian rupee continues to weaken, one of today's big questions is this: What policy options does India have? The right answer is that it depends—on how long the war continues. More specifically, on how long the Strait of Hormuz remains shut to oil tankers. The price of Brent crude oil hit a high of nearly $120 per barrel on 9 March, surging by about 66% since the Iran war started on 28 February. Brent has dipped, but threatens to go into three digits again. We import almost 90% of our crude-oil needs and a larger proportion of our natural gas, with a sizeable portion of these shipments now trapped in the Gulf by the war. This dims the prognosis for our trade deficit, inflation, fiscal position and rupee's value against the dollar.

The rupee was Asia's worst-performing major currency in 2025. It was suffering from capital market outflows and weak net foreign direct investment (FDI) even before the war started. And has been on a downward path since. On Thursday, it again tested a historic low of 92.35 to the dollar. Foreign institutional investors have reportedly pulled out more than ₹21,000 crore from Indian markets in March so far. The Gulf states are home to some 10 million Indian expats who account for 38% of our inward remittances. Prolonged hostilities are bound to impact the money sent home from that warzone. Meanwhile, as importers rush to take cover, dollar demand is sure to rise. Unless peace returns swiftly and energy markets calm down—the Hormuz choke's effect could outlast the choke itself—the war will worsen the rupee's underlying weakness.

What should India's government and central bank do? Administrative measures such as raising the price of cooking gas (with tighter rationing) and relaxing FDI norms further to attract more inflows could help. So may diplomacy to get more oil released globally from storage facilities. But only at the margin. As for the Reserve Bank of India (RBI), an obvious—though not necessarily wise—response would be to combine a hike in its policy rate with market intervention in support of the rupee by selling dollars from its chest of foreign-exchange reserves ($728 billion on 27 February). But costlier credit could hurt GDP growth and current inflation forecasts do not warrant it. While RBI has been intervening periodically to stem the rupee's decline, no central bank can withstand market forces indefinitely. Moreover, it has long been RBI's officially stated position (even if not entirely believed) that it does not target any level but intervenes in the market only to reduce volatility.

In such a scenario, if the war goes on, we might have to resort to tried-and-tested policy options such as incentivizing inflows from non-resident Indians and easing external commercial borrowings, both of which would have costs to consider. We may also need to revisit ideas that would mark a retreat from the liberalization goal of full rupee convertibility. Temporary curbs on current account transactions and lower limits on outward remittances are not ideal from a globalization perspective, but would conserve dollars and ease the 'trilemma' effect of rupee support resulting in tighter monetary conditions in the economy. Since these are not normal times, taking one step backwards to take two steps forward later may not be a bad idea. Let's keep all options open.

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THEIR VIEW

Warsh might be in for a rude awakening at the US Fed

NOURIEL ROUBINI



is professor emeritus of economics at New York University's Stern School of Business and author of 'MegaThreats: Ten Dangerous Trends That Imperil Our Future, and How to Survive Them'

Now that Kevin Warsh has been nominated as the next chair of the US Federal Reserve Board, it is worth asking how different a Warsh Fed would be from the current one. President Donald Trump had made it clear that he wants a Fed chair who will push for lower policy rates to juice the US economy and support his broader agenda. But Warsh has a history of monetary hawkishness, voicing concerns about the risk of excessive inflation even during the depths of the post-2008 deflationary cycle. Moreover, he is a mainstream globalist who favours free trade and immigration, not a protectionist-nativist MAGA ideologue.

So, why did Trump choose him? Aside from the need to calm markets spooked by his attacks on Fed independence, one reason may be that Warsh believes that AI and other technological innovations will reduce inflation and thus allow for lower policy rates.

But there is a problem here: If AI reduces inflation, it would do so through higher GDP and productivity growth, implying the need for a higher equilibrium inflation-adjusted policy rate and real long-term rate, even if lower inflation implies a potentially lower nominal policy rate. On net, then, AI would not necessarily justify a lower neutral federal funds rate. If Warsh and Trump's other ally on the Fed board, Stephen Miran, think otherwise, they may be in for a nasty surprise.

A second possible reason is that Warsh has voiced support for credit-easing policies. But there could be a problem here, too. With Trump-appointee Michelle Bowman now in charge of bank supervision, a Warsh Fed will probably accelerate efforts to ease credit conditions even at the risk of fuelling credit and asset bubbles. And that, in turn, could undermine financial stability at a time when markets are already frothy, leverage is high and private credit is wobbling.

Warsh argues that unwinding the Fed's balance sheet will allow it to reduce policy rates more sharply on the logic that quantitative tightening (QT) causes financial conditions to tighten. But he is wrong about this. Under the post-2008 regime, interest rates on excess reserves paid to banks nullify the impact of those reserves on credit creation and financial conditions. That is why the Fed has been able to reduce its balance sheet by 25% without triggering tighter financial conditions. There is no reason to think that more QT will justify much lower policy rates.

Warsh's opposition to the current ample-reserves regime may come back to bite him. After all, the recent aggressive QT policy already put so much stress on the repo and money markets that the Fed had to revert to backdoor quantitative easing (through the purchase of short-term bills and reverse repos) last December. If Warsh truly wants to avoid new emergency QE episodes, he should favour rather than oppose ample excess reserves.

Moreover, Warsh has suggested that he may support a new Fed-Treasury accord in which monetary policy would be further removed from fiscal policy and public-debt management. For example, this could mean reducing the Fed's balance sheet and buying short-term public debt rather than long-term bonds, as was the case before the 2008-09 financial crisis. But putting aside the fact that this could also phase out the current ample-reserves regime, further reducing the Fed's holdings of long-term bonds would force the Treasury to double down on its Activist Treasury Issuance (ATI) policy, implying that there would be even more manipulation of the market for long-term debt and mortgage-backed securities. A new Fed-Treasury accord could lead to even more backdoor ATI and more mixing of monetary and fiscal policy, the exact opposite of the arrangement's stated goal. These are real risks.

Warsh has also decried the Fed's 'mission creep' into issues such as financial stability, climate change and inequality. But financial stability needs to be a Fed objective, especially if other Fed policies could lead to excessive credit easing. Moreover, since climate change could affect financial stability, given large stocks of potentially distressed, impaired or stranded assets in real estate and other sectors, it would not be appropriate to ignore the issue.

And in the face of a 'K-shaped' recovery, where many households survive from paycheque to paycheque while a privileged few grow wealthier than ever, ignoring inequality may turn out to be a mistake, especially if it is exacerbated by AI.

Fortunately, the Fed chair is not a monarch. Warsh will have only one vote out of 12 on the Federal Open Market Committee (FOMC). Though he will be 'first among equals,' he cannot bully the rate-setting panel into doing whatever he wants. That is good news for markets, given how misguided some of Warsh's stated positions are.

Recent data suggest that US growth remains above potential—in fact, it could even accelerate this year after a modest soft patch last year—while inflation stays stubbornly above the Fed's 2% target. So, even the single rate cut that the FOMC has penciled in for 2026 may not be justified. With other risks looming, like the Iran war lasting long enough to send oil prices higher and pressure inflation and its expectations up, the Fed may find itself raising rates, rather than cutting them.

Once confirmed, Warsh will quickly get a reality check. The views he has expressed are unlikely to survive an encounter with the real world.

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QUICK READ

US President Donald Trump may have nominated Kevin Warsh to head the Fed because of Warsh's open views on how credit can be eased but the assumptions made by the nominee could be faulty.

AI, for instance, may not lower inflation while the US neutral rate might actually rise. A shrunk Fed balance sheet may not help either. Perhaps Warsh should be prepared for a reality check.

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GUEST VIEW

Green innovation must drive our next phase of growth

KRIS GOPALAKRISHNAN



is co-founder, Infosys.

The world is at an inflection point. We have entered the age of artificial intelligence (AI), an era in which 'intelligence' is becoming cheap, fast and widely accessible. This will unlock breakthroughs across sectors: from agriculture to healthcare and manufacturing to education. But it also forces us to confront a hard truth: the AI revolution has a real physical footprint.

Training and running large AI models demands significant energy, compute infrastructure and water for cooling. Scaling AI without rethinking efficiency and energy sources risks building tomorrow's digital economy on yesterday's carbon curve. The opportunity—and responsibility—of this moment is clear: the next phase of economic growth must be powered by green innovation and AI must become part of the climate solution, not an accelerant of the problem.

That is why 'green innovation and entrepreneurship' is vital. The most competitive economies will be those that combine four must-dos: build and deploy AI; reduce the energy and resource intensity of digital systems; use AI to decarbonize the economy, including agriculture, industry, mobility and power; and build EcoAI literacy at scale.

AI's energy challenge can become an innovation engine. The energy intensity of AI is not just a constraint: it can be a catalyst for innovation. It pushes entrepreneurs towards 'efficient-by-design' systems: smaller models where possible, smarter inference, better chips, better cooling, better scheduling of workloads and deeper integration with renewables. For instance, the Indian Institute of Science's work on GaN 2D materials such as graphene and memristors is enabling low-power chips and memory that can run AI far more efficiently. Similarly, brain research at IIT Madras is enabling neuromorphic chips that deliver intelligence with a much smaller energy footprint. It pushes us towards new business models where performance is measured not only by accuracy, but by 'outcomes per watt per rupee.'

More importantly, AI can help us solve the very problem it creates. AI can improve grid forecasting and balancing, reduce industrial wastage, optimize logistics, accelerate materials discovery and make agriculture more climate-resilient. Consider IIT Ropar's iHub, AWaDH, its agriculture and water development hub supported by the National Mission on Interdisciplinary Cyber-Physical Systems. Insofar as research is concerned, AWaDH has built solutions such as a 'Digital Entomologist' (with global research institutes), which is a solar-powered AI biodiversity sensor that uses motion-sensing cameras to detect and count insect species. The data it generates feeds into a Biodiversity Index of Farms, which helps measure on-farm biodiversity over time.

AI could help India harness innovative ideas aimed at a climate-friendly economy of the future

The opportunities are equally compelling. A recent report by The Council on Energy, Environment and Water (CEEW) estimated that by 2047, India's 'green economy'—which includes our energy transition, circular economy and bio-economy—could generate $1.1 trillion in market value and 48 million jobs.

Support sustainability startups and inclusive green entrepreneurship. Strong innovation ecosystems are crucial for green entrepreneurship to grow. Today, incubators are increasingly backing early-stage sustainability and climate-tech startups that build infrastructure to make clean energy adoption and resource-efficiency easier to deploy at scale.

At the same time, green innovation is not only about high-tech labs and large balance sheets. Some of the most powerful climate solutions emerge when sustainability is tied to livelihoods and inclusion. Industree Foundation, for example, helps rural women build stable livelihoods by creating women-owned collectives. It also leverages digital platforms to expand markets for climate-positive products by linking these producer collectives to global buyers, so sustainable products can scale beyond local markets. Similarly, the Office of the Principal Scientific Adviser to the Government of India has developed a Village Readiness Level framework, building on the traditional technology readiness level (TRL) metric, to evaluate innovations suited for deployment in rural India.

EcoAI literacy. Finally, none of this scales without education. There is increasing emphasis on AI literacy today, but that alone is insufficient. What we need is EcoAI literacy. It would allow students to see how AI changes the choices people face, read AI outputs with a questioning mind (not blindly accept recommendations) and understand real trade-offs across nature, society, technology and the economy. It also means they can take part in shared decision-making, such as community stewardship of water, energy or public services, and reflect on the ethical and ecological consequences of what a group decides to do.

Schools and colleges can weave this into the curriculum across subjects: use real local cases in projects (water use, waste, air quality, energy bills), teach students to critique AI tools and dashboards in assignments, run simulations and debates on policy trade-offs, and assess students on reasoning, impact and responsible action—not just tool usage.

If India gets this right by mobilizing entrepreneurs, investors, researchers and educators, we can drive the next phase of growth in a way that is globally competitive and climate-positive. The age of AI can also be the age of green innovation.

N. Dayasindhu and Krishnan Narayanan, co-founders of Itihaasa Research and Digital, contributed to this article.

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MINT CURATOR

A Fed that lacks independence may lead the US to fiscal chaos

It would attract bond market vigilantes and drive up interest rates



BILL DUDLEY
is a Bloomberg Opinion columnist.



America's federal debt is testing its limit by historical standards. AP

The US fiscal outlook continues to worsen. The non-partisan Congressional Budget Office (CBO) projects the country will run annual budget deficits of about 6% of GDP per year over the next 10 years. This would push the total federal debt burden (relative to the size of the economy) to new highs, far exceeding the peak before World War II.

Several factors are at play. *First*, the US population is ageing. The number of retirees will grow quickly as the baby boomer generation retires, increasing the cost of Medicare and Social Security spending. At the same time, America's crackdown on immigration and falling fertility rates will cause the number of workers to stagnant.

Second, last year's One Big Beautiful Bill Act (OBBBA) reduced corporate and personal income tax revenue considerably more than it cut spending. The CBO projects the OBBBA will boost the US deficit by $4.7 trillion over 10 years. The CBO estimated this will be partially offset by $3 trillion in revenue generated by higher tariffs, but the forecast may be too optimistic after the US Supreme Court ruled that tariffs enacted under the International Emergency Economic Powers Act (IEEPA) were illegal: the revenue raised under that authority needs to be refunded.

Although the Trump administration has vowed to replace this lost revenue with new tariffs, the legislative authority that is available to do so is limited. For example, the 10% across-the-board tariffs the administration imposed using its Section 122 authority, which allows the president to impose tariffs to address "balance-of-payments deficits," has not been used before. Moreover, this authority is temporary, only lasting for 150 days unless extended by Congress. Similarly, levies imposed under Section 301 authority—sector-specific tariffs against countries engaged in unfair trade practices—are not broad-based and require formal investigations and findings before they can be implemented.

Third, the CBO's defence spending projections are likely to be much too low. Even before the US-Israeli war with Iran commenced, US President Donald Trump was seeking to increase defence spending in fiscal 2026-27 to $1.5 trillion, up from $893 billion in fiscal 2024-25. In contrast, the CBO assumes defence spending in fiscal 2026-27 will only be 1% higher than in 2024-25. Moreover, the war will undoubtedly generate additional costs. The Center for Strategic and International Studies estimates the conflict is costing the US about $1 billion per day.

Fourth, the CBO projects debt service will reach 4.6% of GDP in 2036, up from 3.3% in 2026. Large budget deficits are increasing the amount of federal debt and the interest expense needed to service the shortfall. In addition, the average interest rate on the debt continues to rise as the low-cost debt issued between 2009 and 2022 matures and is refinanced at higher interest rates.

The debt service problem is one reason why the Trump administration seems intent on seizing control of the Federal Reserve and cutting short-term interest rates. Lower rates help the fiscal outlook in three ways: lower debt service costs, faster economic growth that generates more tax revenue and faster inflation that reduces the real debt burden.

Over the next decade, the CBO expects there will be a 2 percentage-point gap between the annual budget deficit (6%) and nominal GDP growth (4%). Consequently, the federal debt-to-GDP ratio will rise by about 2% each year. But if growth and inflation were each a percentage higher, then nominal GDP growth would be 6%.

Wouldn't that solve the fiscal sustainability problem? Unfortunately, not in practice. First, any acceleration in the pace of economic growth would be short-lived as the economy ultimately hits its resource limits. Perhaps AI could relax those constraints, but that is highly speculative at this point. The CBO already includes the impact of AI on productivity growth in its estimates, but it is small. The CBO assumes AI will only boost productivity growth by about 0.1% each year.

Second, if the inflation rate rose and the Fed's independence were compromised, inflation expectations would increase, pushing up yields on longer-dated Treasury securities as well as the government's debt service costs.

As the economist Herb Stein observed, "If something cannot go on forever, it will stop." Markets are ignoring the nation's increasingly unsustainable fiscal path and the absence of political will to tackle it.

If the Fed's independence is compromised, that could be the trigger that brings bond market vigilantes back, and, with them, the sort of market turbulence that would force the US administration and Congress to change course. ©BLOOMBERG

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THEIR VIEW

Are we facing an AI nightmare? Scenario planning should begin

Our best hope is that job losses are minimal and the AI industry doesn't turn oligopolistic but we can't count on this outcome



RAGHURAM G. RAJAN
is a professor of finance at the University of Chicago Booth School of Business, former governor of RBI and co-author of 'Breaking the Mold: India's Untraveled Path to Prosperity'

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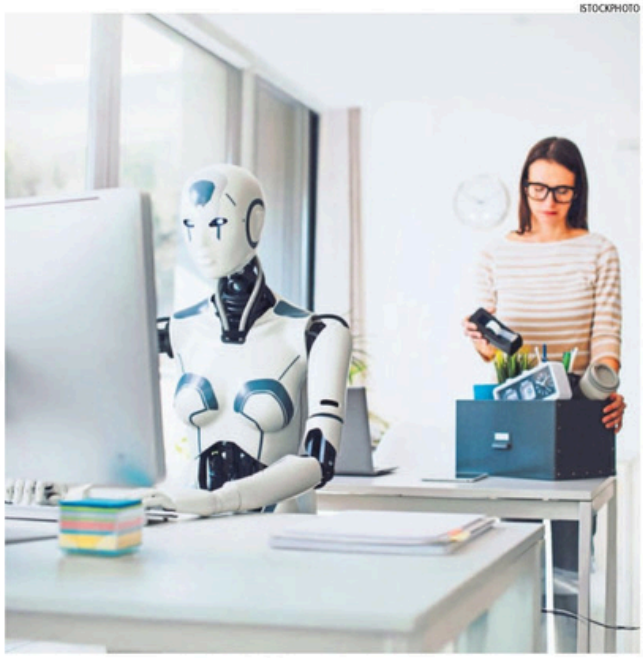

The small equity-research shop Citrini recently sent a panic through financial markets when it outlined a scenario in which AI ends most white-collar employment by 2028, with dire consequences for the broader economy. But this forecast is surely too pessimistic in some respects. Outside a few sectors, like software, frictions to adoption and sheer inertia will probably slow the pace of change. This has always been the case. For example, although automated telephone exchanges were possible in the 1920s, the last human telephone operator in the US was not replaced until the 1980s.

Moreover, the technology itself is always only one variable. There also must be processes and structures around it to assure customers of reliable service. This is where incumbents have an advantage over challengers, even if they do not use the latest technology. And even if incumbents are displaced, the new opportunities created by AI-induced cost reductions and productivity enhancements need not lead only to more AI. They may also require the work of humans—as with the internet and the rise of influencers.

Still, in some ways, the Citrini post is not pessimistic enough. Even setting aside the possibility that we might all become slaves to some AI overlord, the broader economic outcomes depend on how good AI gets and how fast; the pace of adoption by users; who profits from it; and how society reacts. Given all these variables, some extreme scenarios are indeed conceivable.

Consider, for example, a future in which a few differentiated platforms (say, Anthropic or Meta) reach a level of generalized AI that allows them to outpace the competition and steadily charge user firms high prices. These dominant platforms would generate enormous profits, augmenting the incomes of their employees (who will be few, because AI will cull their ranks) and their shareholders. At the same time, the many firms relying on their services would be willing to pay because AI would raise their own productivity, allowing them to shed more white-collar workers.

These unemployed workers would then look for work in adjacent industries where AI has not yet rendered their skills useless. But if those jobs are few, they will join lines for work as gardeners, waiters and shop assistants, further depressing wages for these occupations. Assuming that AI displaces cognitive tasks before skilled physical ones, machinists, plumbers and masons may still have work until robots become sophisticated enough. But over time, competition for those jobs will also increase as white-collar workers retrain. The pain will spread and only the AI platforms and their investors will benefit. Or will they?

Before answering that, consider another 'competitive' scenario in which no platforms 'win' because there is little differentiation between ChatGPT 33.2, Gemini 25 and the rest. Although this scenario may still devastate white-collar jobs, prices for AI will be low and productivity benefits will flow through the economy, as will the profits. Spared from enormous AI bills, user firms could cut prices and expand production to meet rising demand, implying more jobs elsewhere. There would be far less pain than in the first scenario because cheaper goods and services would take worker savings further.

Not only do current trends suggest that this second scenario is more likely than an AI oligopoly, but the government could take steps to ensure that it materializes, for example, through AI price regulations or a refusal to protect AI model builders from those who copy them. Would-be AI oligarchs should not assume that society will defend their enormous profits even as their products cause widespread job losses and hardship.

Of course, AI incumbents will lobby aggressively, corrupting some legislators to block regulation. They will mount public campaigns, using their channels of influence to argue (not entirely incorrectly) that regulation will be ham-handed, harming efficiency and innovation while aiding geopolitical rivals. But if AI-induced pain is indeed widespread, the political impetus for intervention will remain strong.

Even if the state fails to ensure competitive AI prices, it can tax oligopolistic AI providers, their employees and their shareholders to compensate the affected. The difficulty here lies in targeting. How do you identify those with supernormal AI profits? How do you support those harmed, given how hard it's been to assist trade-affected workers in the past? And how do you distinguish between an AI displaced worker and a worker laid off because of adverse business conditions or incompetence?

To avoid some of these questions, there will probably be a push for generous unemployment support regardless of the cause: a step towards an eventual universal basic income. But this poses a problem too. Even if fiscally strapped governments can raise sufficient revenues, there will still be many jobs that require human workers. Overly generous unemployment benefits would push up the wages employers must offer to coax workers out of unemployment, further reducing job creation.

Ultimately, there are no easy public responses to the problem of large-scale but not universal joblessness. Societies will have to experiment creatively, improving the safety net somewhat, while encouraging businesses to create jobs and reskill workers where possible. At the same time, if any of the AI platforms racing to achieve a near-monopoly does reach its goal, policy reactions will almost certainly impair its profits. How, then, will these companies' massive debts be serviced? Will a financial crisis follow?

The best we can hope for is a Goldilocks scenario where the AI rollout is not so fast that workers cannot learn how to augment their jobs with AI, rather than being displaced; and where the AI industry is not too oligopolistic, so that the benefits accrue to society more broadly.

Imaginative commentaries like the Citrini post force us to think about what might happen if the AI story turns out differently. Now is the time to map out the possible scenarios and start preparing for them.

Akhil Rajan also contributed to this commentary.

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OUR VIEW



India must think ahead of its stabilization fund

The government's new fiscal buffer could help cushion households against a near-term war shock but we need a wider policy response to address our longer-range energy vulnerability

The government's ₹57,300 crore economic stabilization fund has come at the right time, allowing its fiscal math to adjust to sudden geo-political headwinds and supply chain disruptions. This is a text-book policy response, as the fund is designed to act as a shock absorber. It could help diffuse external economic jolts of the Iran war. These are extraordinary times and the Centre should place pain reduction for households over the accuracy of its fiscal arithmetic, even though finance minister Nirmala Sitharaman told Parliament that unplanned expenditure will not unsettle its deficit target for 2025-26. The stabilization fund, introduced on 13 March through a supplementary demand for grants, affords the government headroom to meet the war-driven spike in energy prices while holding down price-lines for families across the country. The Centre also sought Parliamentary approval for a separate fund to neutralize a rise in fertilizer prices and restore supplies for the farm sector. The fund's adequacy is uncertain, like much else right now, but shock-waves from the war and the hardships caused by them hold out some important lessons for India's economic strategy and management.

First, we must undo India's lackadaisical approach to reducing energy import dependence by aggressively exploring and exploiting hydrocarbon reserves in our own backyard. It is nobody's case that this is an environmentally flawed idea, not to mention how anachronistic it might seem in this day and age; but given the economy's reliance on oil and gas for the foreseeable future, the government should draft a new hydrocarbon policy that opens up fresh reserves for exploitation at optimal cost. The entire chain—surveys, exploration, drilling, refining and marketing—needs a close look to weed out inefficiency. While it is true that this will not be enough to meet domestic demand, it would go some way to bolster our energy security. The second must-do for reduced vulnerability is to enhance strategic reserve capacity significantly. Apart from oil marketing companies, whose stockpiles of crude and its products fluctuate, India's special purpose company set up to hold strategic reserves has a total capacity of only 5.33 million tonnes. Or just about 40 million barrels. With daily usage expected to touch 6 million barrels over 2026, that is woefully little. Clearly, we must expand how much can be held for emergency release.

Admittedly, these are medium-term plans. In the long run, India needs to reduce its dependence on fossil fuels, hydrocarbons included, by multiplying its renewable energy infrastructure. The government, to be fair, has been placing policy emphasis on a ramp-up of solar and wind power capacity, the former down to the household level. Yet, multiple glitches and vested interests seem to have held back key aspects of the green transition. Also, patchy charging networks constrain the adoption of electric mobility. The Centre must focus on easing these bottlenecks. Although its green initiatives have attracted global recognition, particularly the International Solar Alliance, New Delhi's geopolitical position needs to be clarified. This is moot in the light of New Delhi's current Brics+ presidency: it must use this to seek peaceful resolutions of all conflicts around the world, not least the one that has set the Gulf aflame. Historically, India's diplomacy and principled stand have won it wide global respect. It's time to reclaim such gains.

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GUEST VIEW

Chinese engagement: India has struck an optimal new balance

New Delhi's Press Note 3 revision opens up economic opportunities without compromising security



CHANDRAJIT BANERJEE
is director general, Confederation of Indian Industry

India's recalibration of its approach to Chinese investments marks an important moment in the evolution of India-China economic ties. The revised framework under Press Note 3 (PN3) signals a pragmatic attempt to balance India's strategic and security considerations with the economic opportunities that carefully structured investment from China could bring. PN3 was issued in covid year 2020 to prevent opportunistic takeovers of Indian firms. It was a year marked by high tension after a border conflict with China.

The objective of the revised PN3 framework is clear: to enable Indian companies to gain access to new technologies, deepen domestic value addition, integrate more effectively with global value chains and expand manufacturing capabilities. As India seeks to strengthen its position in emerging sectors and advanced manufacturing, carefully structured partnerships with technologically capable economies can help accelerate this process.

India's economic relationship with China has historically been marked by a sharp imbalance between trade and investment. While China is India's largest source of imports and among its important export destinations, Chinese investment in India is limited.

Foreign direct investment (FDI) equity inflows from China between 2000 and 2020 were just $2.4 billion, or 0.45% of the $522 billion India received from around 160 countries (including NRI inflows). After the introduction of PN3, requiring government approval for investments from land-bordering countries, Chinese FDI fell to $67.35 million or 0.034% of the money India got between 2021 and 2024.

This contrasts sharply with China's outward FDI trends since 2000-01, around the time it joined the World Trade Organization. By the end of the decade, China had emerged as a leading global investor, a position reinforced by its Belt and Road Initiative.

Hong Kong, Singapore, Germany and the UK are major recipients of Chinese FDI, while the UAE and Switzerland are emerging partners. The sectoral focus has also shifted significantly—from raw material acquisition to high-technology manufacturing, R&D, energy systems and infrastructure, including sectors such as mining, metals, consumer products, technology, media and telecommunications.

These trends are relevant as India considers how best to leverage prioritized investment flows to strengthen its industrial ecosystem. The sectors identified in the recent PN3 revision—including electronic capital goods, components, polysilicon and ingot-wafer production—are areas where deeper integration with global supply chains can significantly enhance India's manufacturing competitiveness.

Importantly, the revised framework reflects a calibrated approach. Investor entities with non-controlling beneficial ownership of up to 10% are now permitted through the automatic route, without requiring prior government approval, while being subject to sectoral caps, entry routes and regulatory conditions. The investee entity must report the information to the department for promotion of industry and internal trade.

For investments requiring approval, the government has indicated it will be provided within 60 days. Crucially, the framework also specifies that resident Indian entities or citizens must retain majority shareholding and control of the investee entity at all times. These provisions ensure that while capital, technology and manufacturing expertise may be leveraged, strategic oversight and control stays in India.

This approach aligns with India's ambition to emerge as a global hub for emerging technologies and Industry 5.0. Technologies such as digital twins, artificial intelligence, Internet of Things, big data analytics and collaborative robots are expected to shape the next phase of manufacturing transformation. China's focus on R&D and strong intellectual property output through high-value patent filings can make technology partnerships beneficial to India in select sectors.

At the same time, India's engagement with China inevitably has a strategic dimension. A persistent concern has been India's widening trade deficit, now at over $100 billion. India's dependence on imports from China is particularly pronounced in areas such as industrial machinery, electronics, semiconductors and components required for the country's green and digital transitions.

Addressing this imbalance requires diversification of supply chains and enhanced domestic manufacturing. In this context, well-designed investment partnerships that promote local production, technology transfer and export capacity could help reduce structural dependence while strengthening India's role in global supply chains.

A pragmatic approach balancing economic opportunity with strategic caution is key. Safeguards such as majority Indian ownership, reporting requirements and sectoral approvals enable collaboration without compromising security. The amended PN3 comes at a time when countries are resetting bilateral relationships. New alignments and strategic engagements with restored partners are the need of the hour to catalyse India's development ambitions.

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Porsche's strategy is holding it back: Exclusivity is its strength

Broadening its customer base risks denting its still high valuation



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Porsche would benefit from taking a page out of Ferrari's book. BLOOMBERG

In normal times, being Porsche's boss would rank as one of the world's most desirable jobs. But I do not envy new Chief Executive Officer Michael Leiters one bit.

Barely two months after taking the helm, he made a decent fist on Wednesday of outlining what ails the German sportscar manufacturer and providing the first hints of how he plans to put things right. He's committed to restoring the company's "former glory" and insists Porsche "represents a compelling recovery story."

But investors hoping his arrival marks an immediate start of better times for the storied brand could be disappointed. Not only will reviving Porsche take a long time, it could also cost more than shareholders were hoping.

As a former CEO of McLaren, and chief technology officer at Ferrari, Leiters was a fine choice to succeed Oliver Blume, who will now focus exclusively on running Volkswagen rather than trying unsuccessfully to manage both companies.

But Leiters has a lot on his plate. Porsche unarguably is an iconic brand with a first-class heritage, but its recent strategy seems like a tale of misjudgement and hubris. Its approach of "modern luxury with scale benefits" turned out to be far inferior to Ferrari's more exclusive model of selling comparatively few cars at higher prices.

The claim on the corporate website to be operating in a "structural growth environment" feels like wishful thinking. Porsche's vehicle sales fell 10% last year, though that's due partly to gaps in its model lineup. It won't exceed the €40 billion ($46 billion) of revenue generated in 2024 until new products like the petrol version of its Macan SUV arrive in 2028, according to estimates compiled by *Bloomberg*. A 1% operating margin in 2025 is derisory and the roughly 6.5% return on sales promised for this year is hardly thrilling.

Meanwhile, the carmaker's laudable electrification efforts got ahead of what its customers wanted, as well as the US's shifting fuel economy and emission regulations. The Chinese market, which for years provided Porsche with buckets of cash, has delivered a lesson in humility. Porsche's electric vehicle offerings are too expensive for ultra-competitive China and efforts to downsize the dealer network there continue.

Leiters concedes that reviving Porsche will "take time" and that the cost structure has become "bloated."

Fortunately, it can still rely on wealthy US customers. But the 15% tariff on imported vehicles imposed by the White House, plus the stronger euro, have upset its profit calculations.

The company might have to consider what was unthinkable for a proudly German brand: building an American factory. There's no decision on that yet and Leiters gave the impression that it is not likely to happen quickly and would be a "huge investment."

After booking more than €3 billion of extraordinary charges last year, in part for retooling its electric vehicle strategy, management is forecasting another high three-digit million euros of exceptional costs this year. Unfortunately, Porsche can't say the financial burdens needed to reposition itself will end there.

I've argued before that a much smaller Porsche could be a more valuable one. But Jefferies analyst Philippe Houchois reckons it "may have gone too far down the road of brand extension and dilution to reverse course."

Leiters says that he will prioritize high sticker prices over selling more cars. His strategy, however, combines both 'luxury' and 'premium'—or "exclusivity combined with approachability."

I worry that chasing this broader customer base could put Porsche's still elevated market valuation at risk.

The shares trade at 17 times this year's estimated earnings. That's well below Ferrari's opulent 30 times or so, but much higher than premium automakers BMW and Mercedes-Benz, which are on 8 and 9 times respectively.

Porsche needs to show it has more in common with the Italian prancing horse than its German peers. While Porsche's average selling prices remain far superior to Mercedes and BMW, it can do more to elevate the brand. Encouragingly, it's considering new models or derivatives positioned above the two-door cash cow, the Porsche 911.

Leiters declined to say whether this means he will back a hypercar like the company's electric Mission X concept or the beloved hybrid 918 Spyder that was launched more than a decade ago. Doing so would signal he hasn't given up on chasing Ferrari.

But like the rest of Porsche's revival, it will not be cheap. ©BLOOMBERG

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Should economic policymakers put consumers or workers first?

It needn't be a binary choice if we adopt productivist policies that give workers both a voice and tech-based performance tools



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What is an economy for? Since Adam Smith, economists have given a straightforward answer to this question: the economy increases our consumption possibilities. A well-functioning economy is one that offers a widening array of ever-more affordable goods and services, from food and consumer items to housing and transportation. A poorly-functioning economy is one of scarcity, where the goods and services consumers seek are either unavailable or too expensive.

This consumer-based view has traditionally been closely associated with academic economists and technocrats. But today, it pervades current thinking in progressive circles.

In the US, the Democratic Party's opposition to President Donald Trump has coalesced around the theme of 'affordability,' a clearly consumerist perspective. Similarly, the 'abundance' agenda popularized by journalists Ezra Klein and Derek Thompson prioritizes expanding the availability of goods and services, albeit across a broader spectrum than consumer goods, one that includes housing, transportation and renewable energy.

But there is an alternative perspective on the economy that emphasizes a different side of human nature and human needs. People are both consumers and producers. We derive meaning, social recognition and life satisfaction as much from the work that we do as from the goods and services we consume—if not more so. Our jobs provide us with community, dignity and identity.

That is why job loss is associated with declines in individual well-being that are multiples of the income drop generated by unemployment. It is also why so much of our current social and political polarization, and the associated rise in authoritarian populism, can be traced to the scarring of labour markets in left-behind regions caused by de-industrialization, austerity and globalization. When decent jobs disappear permanently, the consequences extend significantly beyond the immediate losses in income and consumption.

These views of the economy—consumption versus jobs—imply very different policy frameworks and remedies. Consider long-term care, a large and growing industry that in the US today employs several times as many workers as the automotive industry. Much discussion about this sector is framed in terms of the challenge of 'a shortage of workers.' That is a consumerist perspective: policy analysis focuses on the availability of cheap care services to seniors.

The jobs-focused perspective states the challenge differently: as one of creating good work in long-term care services. The prospect of better jobs would attract more workers to the sector and increase supply alongside job quality.

Or turn to the renewables industry, such as solar panels and wind turbines. The cheapest way to expand deployment of renewables and accelerate the transition away from fossil fuels is to rely on imports from China, the world leader in the sector. A jobs-oriented perspective, by contrast, would advocate a more balanced approach that seeks opportunities to generate domestic employment as well. Spain pursues this strategy and leads Europe in both utility-scale domestic production of renewable power and energy price reduction.

Finally, consider housing. Productivity in home construction has stagnated in recent years in the US, in part because of safety regulations and union rules. A consumerist perspective, as in the abundance agenda, would focus on reducing red tape.

Yet many of the regulations that slow down construction also reduce workplace injuries. Fatalities and non-fatal injuries in construction have fallen dramatically in the US since the 1970s, thanks to workplace-safety rules. How do we trade off the improvement in worker well-being these rules have enabled against the loss in home availability to the population at large? A good-jobs focus should make us more sympathetic to rules and regulations that sacrifice some efficiency if the outcome is better, safer and less precarious work.

To improve living standards and personal dignity, policymakers must adopt both perspectives. The two approaches often offer conflicting remedies, but an economic strategy that promotes worker-friendly productivity enhancements can kill two birds with one stone. In principle, organizational and technological innovations that increase productivity both improve working conditions and enhance the availability of goods and services. But in too many cases, workers reap only a small share of the benefits. Digital platforms and automated warehouses have increased labour productivity significantly, but the bulk of the benefits have gone to companies such as Uber and Amazon.

As a new paper by Massachusetts Institute of Technology economists Daron Acemoglu, David Autor and Simon Johnson argues, companies often face distorted incentives when they decide which technologies to adopt and deploy.

They might, for example, prefer hierarchical, efficiency-focused systems that maintain tight control over workers and intensify the division of labour. But artificial intelligence (AI) and other new technologies can also be used to enhance workers' autonomy, give them more responsibilities and allow them to perform a wider range of more sophisticated tasks. In long-term care, for instance, decentralized team-based service provision can enhance job quality while increasing productivity through reduced turnover and hospital expenses.

Policymakers need not make a stark choice between an economy that serves consumers and one that serves workers. Productivist policies that enhance the voice of worker but also empower them through organizational and technological innovations can achieve progress on both fronts. But such policies do require a different mindset, one that balances the consumerist perspective with adequate attention to the importance of good jobs.

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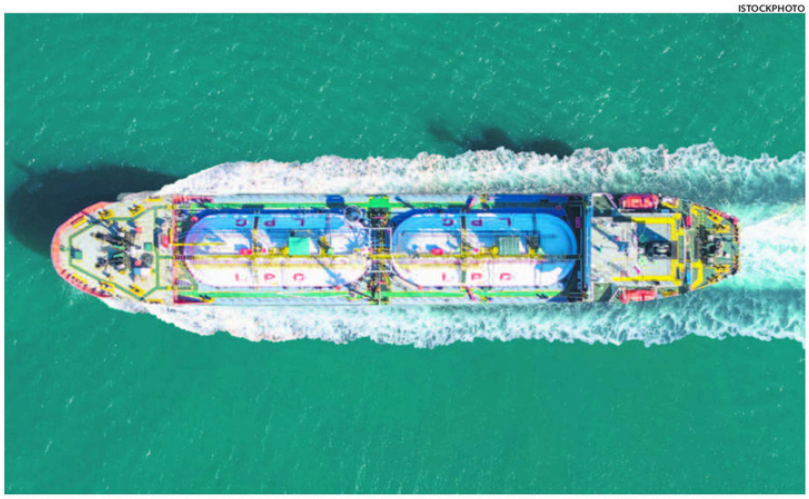

Energy security calls for robust central planning

The government has taken measures to overcome India's gas shortage even as the need to plug gaps in long-range energy planning glares at us. The role of the state would need to heighten

The nationwide shortage of cooking gas over the past week should abate soon, given that import supplies are on their way to Indian shores even as domestic refiners have been asked to bump up production. The crippling shortage of this item of mass consumption that has proven to be the Achilles heel of our energy security calculus partly owes its origin to well-intentioned policy efforts to shift households from kerosene to liquefied petroleum gas (LPG), a cleaner fuel. While only half of India's population had access to LPG in 2010, its coverage is nearly complete today. Our import dependency in meeting this demand, which now stands at around 60%, has risen not just because Indian production has not kept up, but also on account of an inherent technical limitation. While a refinery can convert up to about 14% of its input crude into kerosene, its LPG output typically does not exceed 4%. In one instance during the first decade of this century, the government nudged a private refiner to forsake churning out export-oriented aviation turbine fuel (or jet kerosene) for the supply of less remunerative regular kerosene in the Indian market to avert disruptions and price shocks. While this policy approach has been in scant evidence, we face the larger issue of widening supply gaps left by commercial and strategic interests. How we address them matters in the context of global energy volatility.

Over the past decade, India's strategic initiatives for energy security have largely focused on raw-material sufficiency. The government created special storage facilities to hold reserves of crude oil, though not petroleum products. After the disruption caused by the Iran war's outbreak, it asked refiners to maximize LPG output. This ramp-up, however, will not suffice to plug India's shortfall. Nor do refiners have an incentive to set up special capacity just for emergency supplies. No doubt, diversifying procurement away from Gulf suppliers is a good idea even if it proves to be more expensive. This is being done, but needs to be strengthened through long-term agreements with institutional oversight of such supplies. Indeed, the whole process needs to be guided by a robust policy framework designed to manage our energy transition. A key aim is to depend less on imports, for which renewables and local sourcing must both expand faster. Optimizing this is a complex exercise that straddles central and state departments in pursuit of targets. Gas usage efficiency, meanwhile, requires us to hasten the rollout of pipelines across the country. In the wake of the current crisis, the Centre has prioritized the supply of piped gas to household consumers. However, this network does not have enough connections at this point to curtail the rush for LPG cylinders. Getting it right requires an optimal national design.

The current crisis also highlights how we must invigorate oil and gas exploration efforts within the country. After all, oil accounts for 25-30% of our primary energy mix and almost 90% of it is imported; natural gas makes up around 6.5% of that mix, with about half our requirement met through imports. The recent turn of events in West Asia heralds an era of geo-economics in which the role of the state is ascendant. This is amply clear when it comes to energy in general and hydrocarbons in particular. The key to this sector's governance lies in better planning.

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MY VIEW | EX MACHINA

Needed: A farm revolution led by AI-driven automation

RAHUL MATTHAN



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Toyota's factory in Woodstock, Ontario, will soon deploy Digit, a humanoid robot from Agility Robotics, on its production floor. These bipedal machines will unload auto parts from warehouse tuggers and onto the production line—work that until now was performed by humans. Toyota chose humanoid robots because its factories are designed for people. By using robots that move like humans, Toyota can automate without redesigning its assembly lines.

On the face of it, this is a small efficiency improvement. But it is a signal of something far larger: the rise of embodied AI and its potential to reshape the global economy. It indicates a future in which countries that build robots will prosper while those that rely on labour supply will struggle.

Just as mechanization replaced physical labour, artificial intelligence has begun to automate cognitive work. For decades, white-collar jobs were immune to automation. That assumption is collapsing. As AI becomes embedded in machines and gains the ability to interact with the physical world, it will breach the final barrier between software and labour.

Toyota is not the only company using robots. Intuitive Surgical's da Vinci robots are being used in hospitals around the world and have already completed millions of procedures. Waymo vehicles now complete over 150,000 trips per week, proving that AI-embedded physical systems can operate at scale in unstructured and unpredictable environments. Tesla's Optimus range of humanoid robots is in production and is projected to scale significantly by the end of the decade.

As interesting as this sounds, rapid automation is likely to have serious repercussions on society, especially in developing economies. A recent paper in *Labour Economics* argues that the consequences may be so large that normal market adjustments—cheaper labour, lower interest rates or currency depreciation—will not be enough to offset the resulting employment shock. The diffusion of embodied AI could dramatically widen the gap between developing and developed economies.

This could not come at a worse moment for India. With nearly 800 million people under 35, we are experiencing the largest demographic bulge in human history. This youth bulge was supposed to power India's rise, but if embodied AI is on track to replace labour faster than the economy can absorb it, our demographic dividend could quickly become a demographic disaster.

There may, however, be a way out. Countries that produce robots—rather than import them—should be better placed to ride out the robot revolution. Those that make robots could develop engineering expertise, capture export revenues and build industrial ecosystems that may cushion the labour shock. This suggests that to take advantage of our demographic dividend, we need to actively encourage the manufacture of embodied machines.

Advances in AI and robotics offer India a chance to boost the productivity of farms as well as factories

How might we go about doing this? One approach might be to identify domestic use cases for embodied AI to develop natural markets for local robotic solutions.

Among the many challenges India faces, agricultural productivity is a core concern. With the average size of farm holdings hovering at about a hectare, not only is agriculture in India economically unviable for the most part, it has become a poverty trap that has locked 12.5 million smallholder families into subsistence living. Of all the problems we most urgently need to solve, finding a path out of this developmental crisis ranks near the top.

Historically, every successful industrial economy has passed through the same transition: labour first moves from farms to factories and then into services. India has, however, struggled to make this transition from farms to factories.

This suggests that if there is one area worth focusing on, it is the use of automation in agriculture to hasten the transition of our economy to industrial production. Since we also need to develop domestic markets for embodied AI, it makes sense to promote companies that embed modern AI technologies in machines designed for use in agricultural settings. If India can become the world's testbed for agricultural robotics, it could also become a global supplier of those machines.

This is not as far-fetched as it might seem. A Bengaluru startup, Niqo Robotics, has already developed an AI-powered precision sprayer that uses computer vision to identify individual plants and apply agrochemicals with millimetre-level accuracy. By running AI directly on edge devices, the system allows farmers to retrofit existing tractors and use them even in locations with constrained bandwidth, sharply reducing both input costs and environmental damage.

This is just one example of how India could embed AI into farm machines to improve efficiencies. We could see the development of harvest robots designed for crops like cotton, chilli, tomato and onion, which require manual picking and sorting. To raise agricultural productivity, we could look to deploy automated soil-sensing solutions that can dynamically provide farmers customized insights about their land. Thanks to AI-embedded soil moisture sensors, it should be possible to significantly reduce water and pesticide usage on farms.

Every successful economy mechanized its farms before building its factories. We may have to do both at once—and we may have less time than we think.

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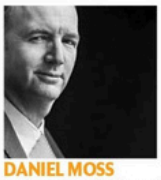
Policymakers must steer clear of gimmicks as oil prices go up

Conservation calls that recall the 70s' oil shock are unlikely to help



DANIEL MOSS
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Energy-saving advice is no substitute for prudent macro management. ISTOCKPHOTO

We have been here before. In the 1970s, US President Gerald Ford urged Americans to combat escalating energy costs in response to the Arab-Israeli war. His Whip Inflation Now (Win) initiative encouraged people to grow vegetables in their yards, car pool and use cold water in the laundry. 'Win' badges were churned out and Ford loved pinning them on lapels. Even ex-Beatle George Harrison got one during a White House visit.

The exercise was more public relations than serious policy. But half a century on, Asian leaders are asking people to again adapt their habits as oil and gas prices jump due to conflict in West Asia: Work in short sleeves, ease up on the air-conditioning and skip the elevator, they are advised. Now, as then, these measures are not a substitute for effective monetary or fiscal practices. At best, they represent a short holding pattern.

Cutting back is one of the first things human beings can control. But their role will be a minor one if the current conflict, which began with an attack on Iran by Israel and the US, is prolonged. What is needed are hard decisions on budgets and interest rates. Fiscal bosses and central banks will be reluctant to deviate greatly from their path before fighting erupted on 28 February. They might get lucky and not have to do much, but it's better to plan than hope. Forthright indications that they will do what's necessary is a minimum.

The duration of the conflict—which the International Energy Agency rates as the biggest ever oil-supply disruption—will determine the path of the world economy, on which Asia's export powerhouses hinge. If there's a conclusion soon, as the White House has suggested, the impact won't be huge. Inflation, which policymakers have wrestled down from its post-covid high, need not flare dramatically and a sharp global downturn could be avoided. The current economic expansion withstood US tariffs imposed almost a year ago.

Despite Asia's impressive financial and commercial advances since the 1973 war that produced the first oil shock, the region remains dependent in significant ways on events far away. This is a necessary wake-up call to the Asia-rising narrative.

There are important differences between now and the 70s. The US today is the world's largest oil producer and a net energy exporter, thanks to the shale boom. Most central banks enjoy significant independence that was rare then. And while inflation jumped after covid, it never reached the heights of half a century ago.

Central banks, nevertheless, need to call this moment correctly. A slew of officials are slated to meet this week, including the Federal Reserve, European Central Bank and Bank of Japan. At this early stage, expressing an absolute commitment to containing inflation should suffice. Actions can follow—if required. Panic, alarmism and a response that strikes investors as knee-jerk have no place. Only the Reserve Bank of Australia, which has been loudly fretting about inflation for some months, is forecast to hike rates imminently.

One thing ought to be apparent: For now, rate cuts aren't on the cards. And the duration of pauses is likely to be shorter. Bond markets have sold off on fears that inflation will reignite. In Europe, there's serious talk from officials about lessons of 2021-22, when rates were perceived to be slow to rise. The concern is legitimate, given the ECB's primary mandate of price stability, but tightening too hastily can risk economic growth. A growing number of economists predict that the BoJ will lift borrowing costs in April, much sooner than expected. Further rate reductions by the Fed anytime soon are hard to justify.

A generation of central bankers grew up with the moral of the 1970s deeply entrenched: Policy was indecisive in the years after the Yom Kippur War. But what would've been the ideal approach at the time? Hindsight is clearer than foresight, former Fed Vice Chair Alan Blinder wrote in his book, *A Monetary and Fiscal History of the United States, 1961-2021*. Blinder notes that the term 'supply shock' wasn't popularized until later that decade. And inflation wasn't the only scourge: the 1973-75 recession was a nasty one. Misery spread well beyond the US.

Ultimately, back in the 70s, there needed to be clear-sighted monetary and fiscal settings that recognized the new order. Ford wore the Win badge himself. When it came to George Harrison, the Beatles' guitarist returned the favour with a button that said 'Om.'

The 38th occupant of the White House tried valiantly to set an example, but the global economy didn't get very far.

Today, central banks and finance ministers need more than gimmicks. Even if all things must pass, substance has rarely mattered more. ©BLOOMBERG

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THEIR VIEW

Reform GST: India should fix its distortive input tax credit chain

Credit neutrality would end tax cascades, reduce costs, improve compliance and strengthen India's export competitiveness



VIJAY L. KELKAR, ARBIND MODI & RAHUL RENAVIKAR
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AFP



India's goods and services tax (GST) still struggles with a basic design problem: the integrity of its input tax credit (ITC) chain. The recent rate rationalization simplified slabs, but its merger of the 12% category with the 5% slab largely applies to supplies where ITC is restricted or unavailable. In such cases, the system resembles cascading turnover-style taxation and weakens the value-added tax (VAT) principle of credit and tax neutrality. So, beyond rate adjustments, deeper structural issues remain. The proliferation of amendments and layered restrictions has made the law increasingly intricate and compromised ITC chain integrity. Without restoring credit neutrality, simplification of rates alone cannot make GST function as a true VAT.

The Union budget for 2026-27 offered an opportunity to complete this unfinished reform. Industry had expected rationalization of the ITC framework, which remains the most distortionary feature of the current system. That opportunity was missed. The result is continued working-capital blockage, avoidable tax cascades and high compliance costs for businesses.

A well-designed GST would be a destination-based consumption tax in which business-to-business transactions are tax-neutral. Taxes paid on inputs, input services and capital goods are fully creditable against output tax, ensuring that tax is levied only on the value added and never becomes a business burden. Preventing tax cascades across the value chain preserves competitiveness in both domestic and export markets.

International experience shows that the strength of a GST lies less in its rate structure and more in the breadth of its base and integrity of its credit mechanism. Countries with minimal exclusions and seamless credit chains achieve higher revenue productivity alongside lower compliance costs. A fragmented base with blocked credits, in contrast, distorts investment and production decisions.

India's ITC framework departs from that principle in significant ways. Multiple restrictions, conditionalities and outright denials of credit have converted what should be a pass-through tax into a cost-imposing one. Blocked credit implies a cascade that raises production cost. For instance, GST paid on immovable capital goods is denied to service providers and restricted for manufacturers to plant and machinery. Yet, such capital goods are not 'consumed': they are used to conduct business operations. Denial of immediate credit in these cases effectively taxes investment itself.

The problem is compounded by the exclusion of major sectors such as petroleum, electricity, real estate and alcohol from GST coverage. Taxes paid on these cannot be used as credits against GST liabilities and therefore become embedded in downstream costs. Structurally, thus, India's GST is an incomplete VAT. When key inputs lie outside its ambit, the credit chain remains patchy and hidden taxes accumulate within production. This ultimately burdens consumers. If India aims to improve the ease of doing business and attract global supply chains, restoring the integrity of the GST credit chain must become central to its tax reform agenda.

The consequences are particularly visible in the export sector. Under the GST framework, exports are intended to be zero-rated so that domestic taxes do not raise export prices. In practice, however, denial of upstream credits and delays in refunds embed unrecoverable taxes into the cost structure of exporters. When taxes paid on inputs, services or capital goods cannot be fully recovered, exporters must finance these amounts through additional working capital. This raises costs and weakens their price edge in global markets, especially in thin-margin sectors. In an increasingly competitive trade environment, even small cost disadvantages can erode market share.

The distortion is worse in sectors where supplies fall under the 5% rate with restricted ITC. In such cases, ITC on capital goods is either not allowed or significantly curtailed. So GST effectively acts as a tax on production. The tax base, in effect, shifts from consumption to investment. Firms investing in machinery, logistics infrastructure or technology in these sectors cannot fully recover the taxes paid on capital equipment.

The implications are significant. *First*, higher investment costs discourage capacity expansion and modernization in export-oriented sectors. *Second*, domestic producers operating under truncated credit regimes may find themselves at a disadvantage relative to foreign suppliers that benefit from full VAT neutrality. This can encourage greater reliance on imports in certain fields. *Third*, by raising the cost of capital formation, such restrictions undermine productivity growth and the development of globally competitive manufacturing ecosystems.

In addition, restrictions on credit for capital goods distort relative prices within a production system. Firms facing higher effective tax costs on domestic investment may delay modernization or substitute local products with imported intermediates and finished goods produced under fully creditable VAT regimes abroad. Over time, such asymmetries weaken domestic value addition and reduce the attractiveness of India as a location for globally integrated supply chains. An inadequate ITC mechanism deters 'friend shoring' by international players. Restoring full creditability for business inputs and capital goods is thus essential not only for tax neutrality, but also for the sake of India's industrial competitiveness.

We have let a tax designed for consumption influence where firms locate manufacturing facilities, how much they invest and whether they participate in global supply chains.

If India aspires to become a global manufacturing hub, GST must function as a genuine VAT. We must eliminate blocked credits unrelated to personal consumption, gradually draw excluded sectors into the GST base and ensure time-bound refunds supported by full digitization. Restoring credit neutrality would reduce costs, improve compliance and strengthen export competitiveness. The next phase of GST reform must therefore focus on ITC.

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GUEST VIEW

New rules for acquisition finance deepen this market

MOHIT BHATIA & ZUBIN MEHTA



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The Reserve Bank of India's (RBI) February 2026 amendments of its Credit Facilities Directions, together with the overhaul of its framework for external commercial borrowings (ECBs), has recast India's acquisition finance regime and opened a regulated channel for bank-led acquisitions.

RBI's new directions allow banks in India to extend 'acquisition finance' to non-financial corporates in the country or their subsidiary or step-down special purpose vehicles (SPVs) so that they can acquire strategic 'control' through equity shares or compulsorily convertible debentures in a domestic or foreign target, where the transaction is a long-term strategic investment for value creation. Incremental acquisitions that cross thresholds of 26%, 51%, 75% or 90% of voting rights are covered by this.

Acquirers will need to demonstrate a net worth of ₹500 crore and positive net profit in each of the preceding three years, and unlisted acquirers will need to additionally hold a BBB- or higher credit rating. The quantum and equity contribution rules cap bank financing at 75% of the assessed 'acquisition value,' with the acquirer contributing at least 25% from its own funds. For unlisted targets, two independent valuations are required and the lower one applies. Listed acquirers may bridge this contribution for up to 12 months, subject to a clearly identified equity take-out, secured status if bridged by a bank, and no dilution of the acquisition finance security package.

Post-acquisition, the acquirer's debt-to-equity ratio must not exceed 3:1. There is now a mandatory requirement of a corporate guarantee from the parent or holding group of the acquirer: it will be interesting to see how this works in the case of established companies under listed or large corporate houses. The security must include a pledge over acquired shares or compulsorily convertible debentures subject to the 30% per-bank shareholding ceiling under Indian banking regulations. This explicit on-recourse requirement is a deliberate departure from the non-recourse leveraged buyout conventions common in international markets, signalling RBI's intent to prevent fund-style leveraged structures from amplifying financial sector risk.

The acquisition directions expressly contemplate refinancing of the target's existing debt where it is integral to the acquisition. This will be particularly relevant where legacy indebtedness is secured over shares or assets central to the deal, or where existing lenders withhold consent for change of control or security creation. Crucially, such refinancing is excluded from a bank's capital market exposure computation.

The new concentration risk management directions cap a bank's aggregate capital market exposure at 40% of eligible capital, with a sub-limit of 20% for acquisition finance. A separate bright-line rule applies to overseas branches of Indian banks participating in acquisition finance syndications: their aggregate participation in any deal may not exceed 20% of its total funding.

Strategic buyout deals will be easier to fund but RBI has also taken care to emphasize prudence

Delivering on the mandatory share pledge interacts with the Foreign Exchange Management Act's framework for non-debt instruments in ways that matter for deal structuring. While pledges to secure ECBs of Indian borrowers or *bona fide* credit facilities for Indian companies are broadly permitted, friction arises in inbound structures: where a foreign acquirer raises an offshore loan (not an ECB) and deploys its proceeds for investment in India, a pledge over Indian target shares is not within the scope of automatic pledge permissions. This creates a level-playing field concern, as offshore branches of Indian banks will need to mandatorily cap their exposure to 20% of deal funding, given that a pledge is mandatory under the acquisition directions, while foreign investment regulations do not permit a pledge for inbound acquisition financing.

The central bank's new ECB framework clarifies that 'acquisition of control' is a permitted end-use for ECB proceeds—a significant departure from the earlier restricted position. RBI has also removed the prescriptive all-in-cost ceiling and standardized minimum average maturity at three years for most ECBs. These changes open a meaningful offshore debt channel within a clear supervisory framework.

The new reforms appear to be designed for strategic corporates, not financial sponsors. Eligible borrowers must be non-financial companies and SPVs are permitted only as step-downs of qualifying acquirers. Many private equity funds execute acquisitions through freshly-formed SPVs or foreign-owned entities lacking three years of profits or the requisite net worth. The 3:1 leverage cap and mandatory recourse further distance the framework from the thinly capitalized non-recourse models that sponsors favour. Sponsor-led transactions will likely gravitate towards private credit. ECBs or seasoned portfolio platforms that meet the acquirer-level filters.

The reforms offer a coherent if conservative path for bank-led acquisition finance in India. Strategic corporates with balance-sheet quality can now access competitive senior bank funds domestically. Sponsors seeking non-recourse high-leverage structures must weigh the ECB route and private credit against the acquisition directions recourse and leverage constraints—and anticipate pledge-permission frictions while structuring inbound deals. Our acquisition finance market has materially deepened, but on terms that emphasize prudence.

These are the authors' personal views.

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GUEST VIEW

Why India requires a specialized institution for transition finance

It would brighten India's prospects of simultaneously achieving its Viksit Bharat and net-zero goals



ABHINAV JINDAL & SHWETA RAI
are, respectively, an energy economist, and vice president at a private Indian bank.

India's Viksit Bharat 2047 vision requires a massive expansion of infrastructure and manufacturing, highlighted by the $1.3 trillion National Infrastructure Pipeline. However, achieving this alongside India's net-zero 2070 target poses a financing challenge: investment must jump from $14.7 trillion to $22.7 trillion for a full green transition. To remain globally competitive amid tightening carbon border rules, key sectors such as steel and cement must decarbonize rapidly. This double mandate necessitates a specialized transition finance institution.

The EU's Carbon Border Adjustment Mechanism presents a threat to Indian exports like steel and aluminium. From 2026, exporters could face an additional tax burden of 25% and price disadvantages of 15-22%. To maintain market access, production must shift rapidly to lower-emission processes.

Domestically, India's carbon credit trading scheme and green steel frameworks are making emission compliance mandatory. While our voluntary carbon market could reach $20-40 billion by 2030, high-emitting sectors and small and medium firms face back-breaking capital requirements. As global value chains pivot to mandatory disclosures and net-zero commitments, we need a dedicated financial institution to provide low-cost capital.

The scale, tenor and technological uncertainty of decarbonization investments exceed the risk appetite of commercial banks. Unlike typical greenfield projects, transition finance often targets the retrofitting of legacy assets with uncertain returns and payback periods of 15-25 years, creating an asset-liability mismatch for banks reliant on short-term deposits. Further, many transition technologies remain commercially untested in India, exposing lenders to default risks from technical underperformance and carbon price volatility.

These challenges are compounded by a lack of specialized technical expertise; as highlighted in the Reserve Bank of India's (RBI) 2022 discussion paper on *Climate Risk and Sustainable Finance*, domestic financial institutions lack the data and scenario-analysis capabilities to accurately price climate risk. Also, India's historical experience with stressed infrastructure assets has entrenched a deep risk aversion *vis-a-vis* heavy industry. Consequently, commercial lenders prioritize near-term returns over long-term systemic benefits, leading to chronic under-provision of capital.

Taken together, relying solely on existing banks and non-bank financial companies would lead to chronic under-provisioning of transition finance, delayed decarbonization and elevated systemic climate risk.

International experience shows that specialized public financial institutions can bridge the transition gap through technical expertise and risk-sharing. Germany's KfW provides long-tenor, concessional financing for green innovation, using sovereign backing to fund projects deemed too risky by commercial lenders. Similarly, the European Investment Bank has been repositioned as a climate bank; it uses blended finance and guarantees to de-risk large-scale decarbonization. The UK Infrastructure Bank illustrates this model, offering patient capital to crowd in private investment for net-zero technologies. These examples show that accelerating transition investments at scale requires three pillars: concessional funding, specialized technical appraisals and structured risk-sharing mechanisms.

Indian policy discourse, led by Niti Aayog, emphasizes the need for specialized financing to help small businesses and heavy industries decarbonize without losing competitiveness. Proposals include a national green financing body to act as an intermediary, addressing coordination failures and information asymmetry in the transition ecosystem.

India's success in scaling renewable energy offers a proven blueprint. The coordinated efforts of Power Finance Corporation, Rural Electrification Corporation and Solar Energy Corporation of India demonstrate how specialized architecture and policy clarity can drive structural change. To replicate this for the broader net-zero transition, the proposed institution could be administratively anchored under the ministry of finance. A governing council that includes RBI, Niti Aayog and sectoral ministries could ensure that fiscal policy and financial stability are aligned with industrial decarbonization pathways.

In sum, given the external and domestic environment, India's transition finance needs are urgent and non-negotiable and hence require a dedicated transition finance institution with the capacity to provide patient capital, undertake rigorous technical appraisals and align domestic flows of finance with global climate and trade regimes. Such a body would also unify and operationalize a credible transition taxonomy to deliver much-needed transparency, consistency and simplicity for industry. Setting it up would count as a strategic move to ensure that India's pathway to net-zero is orderly, competitive and aligned with the broader national objective of building a resilient and globally integrated economy. In other words, a dedicated transition finance body can help transform climate commitments into a desirable growth formula.

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OUR VIEW



MINT

Fertilizer reform: Strike while the prices are hot

As urea and gas get dearer, relief from the fiscal cost of an outdated subsidy regime is one reason to adopt direct transfers instead. Climate and farm output benefits are another

On 7 January, *Mint* made a case for reforming India's highly inefficient regime of fertilizer production, pricing and distribution, and for switching over from product subsidization to income support for farmers. This imperative has since been sprung centre-stage by a war in West Asia that has disrupted our imports of urea and its feedstock gas, both of which form large shares of domestic usage and have seen global prices flare up. The fiscal burden that this imposes on the government should be enough to trigger action. The longer we retain the *status quo*, the worse this war's likely impact will be through inflated import bills, which look poised to enlarge rapidly if peace proves elusive. In general, India privileges the fertilizer industry for allocations of natural gas, but right now, its allotment has been slashed by 30%, while prices have been held firm, as the Centre prioritizes piped natural gas supply to homes for cooking and the compressed kind used by vehicles as a fuel.

In recent times, half of India's natural gas requirement has been met by shipments, the bulk of them from Qatar in its liquefied form, LNG. Our reliance on this Gulf state for LNG has dropped from above 80% to below 50% over the years as we diversified our sources to include the US, UAE, Oman, Australia and Mozambique. However, Iran's clamp on the Strait of Hormuz—or attempt to play gatekeeper—has cut off LNG supplies to big buyers like Japan, South Korea and Taiwan, which are now in a scramble for options that has pushed up LNG prices in the global spot market. Even for those with contracts, pricing is typically linked to oil price indices such as the Japanese Crude Cocktail, and when oil gets dearer, so do these contracted supplies. Should India cling to its outdated fertilizer subsidy regime, the public money needed to fund it would bloat. Even if Hormuz opens up to pre-war levels of traffic and production resumes at the LNG plants in the Gulf that have been shut down, the ripple effect of this supply shock could keep the dollar price of gas high and the rupee weak, making it that much harder for the government to keep its spending in check.

Fertilizer reform would both ease pressure on the fisc and raise the efficiency of India's crop production. Heavily subsidized urea releases nitrous oxide into the air, a global warming gas, and pollutes the ground water with nitrates. To boost farm output, we need a judicious mix of fertilizers. While the ideal proportion of nitrogenous (N), phosphatic (P) and potassic (K) fertilizers is 4: 2: 1, a long-running subsidy skew in favour of N has resulted in an N: P: K farm ratio of 10.9: 4.4: 4. This depresses nutrient conversion into grain by plants and partly explains why our agricultural value addition per unit of crop area is only 38% of China's. To secure a mix of fertilizer types that is optimal for crop output, India should rid fertilizer prices of their subsidy. An artificial incentive to use a specific fertilizer over others only distorts market choices and masks demand patterns that would otherwise reflect what farmers deem best for their farms. The money saved by putting an end to a distortive subsidy regime could be sent to individual farmers as income support in proportion to the area they cultivate, so that cultivators have no reason to complain. A cost-benefit analysis rarely makes such a robust case for reform. And there's no better time to act than now.

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THEIR VIEW

How climate stress impacts corporate real-estate assets

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India's corporate skyline has expanded rapidly over the past three decades. Tech campuses in Bengaluru and Hyderabad, logistics parks along the Delhi-Mumbai industrial corridor and multiple warehouse clusters on city outskirts reflect a country building the infrastructure of a modern economy. Yet, much of this expansion has been planned around connectivity, labour access and land prices. Climate risk has rarely figured in the blueprint.

That omission is becoming harder to ignore. Floods, extreme heat and infrastructure breakdowns are increasingly shaping the reliability and value of corporate real estate. The 2015 Chennai floods offered a stark illustration, causing industrial property losses estimated at around ₹14,600 crore, according to a report on building climate resilience for Indian industry. Events like these are not isolated shocks. They are signals of a deeper structural risk embedded in the built-up environment.

Corporate property is especially exposed because it is designed to last. Office parks, warehouses and campuses are typically built with a life-span of 30-50 years. Once a facility is constructed in a vulnerable location, the investment is effectively locked in. Flood-prone land, rising temperatures or fragile infrastructure can gradually erode the reliability of assets that companies depend on for operations.

Extreme heat has emerged as one of the most pervasive pressures in recent times. India's cities can be as much as 6° Celsius warmer than surrounding rural areas because of the urban heat island effect, as research by World Resources Institute shows. For large corporate campuses and data-heavy office buildings, this translates directly into higher electricity consumption for cooling. Power systems designed for milder conditions can come under severe strain during prolonged heatwaves.

Logistical infrastructure faces a different kind of exposure. Warehouses and distribution hubs are often located on the edges of cities where land is cheaper and access to highways is easier. These areas are often former wetlands or low-lying floodplains. Heavy rainfall can overwhelm drainage systems, cut road access and damage inventory. As supply chains become more time-sensitive, even short disruptions can ripple through corporate operations.

Risks extend beyond physical damage. Climate stress increasingly affects the economics of property assets. Cooling costs rise as temperatures climb. Insurance premiums may increase in areas with repeated disasters. Worker productivity falls when heat becomes extreme. The Institute of Risk Management estimates that heat-related productivity losses already cost India tens of billions of dollars annually and could threaten several percentage points of GDP by the end of this decade.

Business site decisions are turning into climate bets with the value of property at stake

Investors are beginning to treat these pressures as financial variables rather than environmental concerns. Property portfolios are increasingly assessed for exposure to physical climate hazards such as floods and heatwaves, according to the OECD, a club of rich nations. For companies with large real estate footprints, resilience may soon matter as much as location.

That shift is beginning to influence how corporate infrastructure is planned. One response is better information. Companies are starting to incorporate climate hazard maps and heat projections into location decisions, avoiding sites prone to floods or extreme heat exposure. The practice is already visible in sectors such as data centres, where developers increasingly factor climate risks into site decisions.

Building design is also evolving. India's policy framework for construction emphasizes structures that can withstand rising temperatures and other climate stresses. Architects are turning to techniques that reduce heat absorption and cooling demand, including reflective materials, improved ventilation and building orientation that minimizes solar exposure. Flood-prone sites are increasingly incorporating raised foundations and improved drainage.

Green infrastructure is another emerging tool. Expanding tree cover and permeable landscapes can lower local temperatures and absorb excess rainwater during storms, urban adaptation research supported by the International Finance Corporation shows. Corporate campuses that integrate parks, shaded walkways and natural water retention areas not only improve work conditions for staff but also reduce flood risk.

Even logistics infrastructure is beginning to adapt. Developers are building warehouses that meet green certification standards, which often include better insulation, water management systems and more efficient energy use. India's stock of green-certified warehousing space could quadruple by the end of the 2020s as institutional investors push for more resilient assets, according to JLL, a property consultancy.

India's corporate real estate boom is far from over. New industrial corridors, tech clusters and logistic networks will continue to reshape its landscape. However, the next generation of corporate infrastructure will be judged not only by how efficiently it supports growth, but by how well it withstands the pressures of a changing climate.

Companies that treat resilience as a design principle rather than an afterthought may find that their safest assets are also the most valuable. In the coming years, corporate India's geographical map may be shaped as much by climate science as by economics.

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THEIR VIEW

Geo-economic warriors should think twice: They endanger us all

National strategies that weaponize trade equations, essential supplies and financial systems are prone to dangerous errors



BARRY EICHENGREEN
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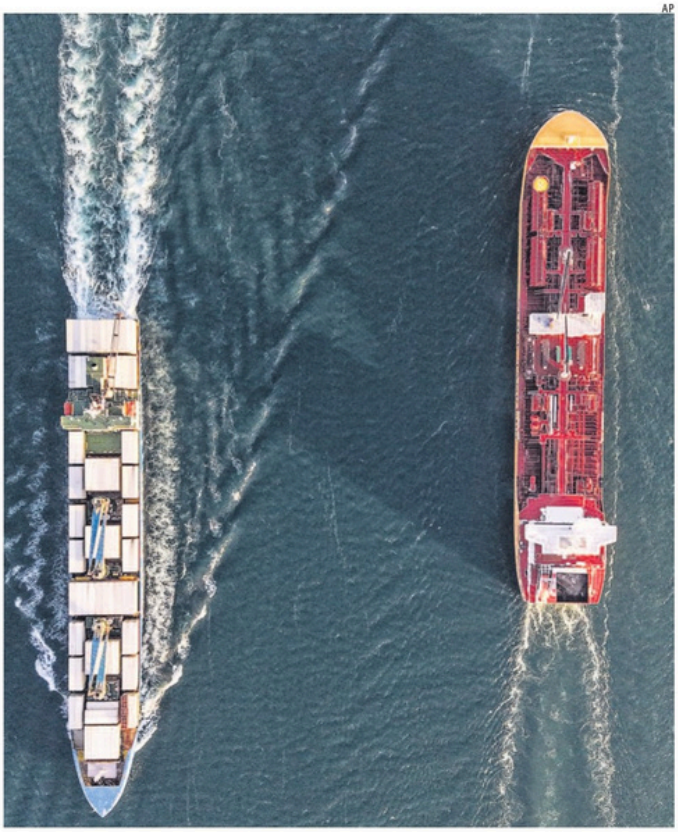

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In 1945, at World War II's close, the economist Albert O. Hirschman published *National Power and the Structure of Foreign Trade*, in which he analyzed how nation-states shape trade patterns to their strategic advantage.

The book sank like a stone. It garnered just a brief summary in the *American Political Science Review* and was rarely if ever cited by other economists and authors.

Today, Hirschman and the field he invented, known as 'geo-economics,' have re-emerged with a vengeance, building on his seminal ideas. These start with his 'influence effect,' which showed how a dominant state could structure its trade so that disruptions hurt its partners more than itself. By threatening to withhold exports or market access, this dominant state could then coerce and extract concessions from its partners.

In the last year, we have seen multiple instances of US President Donald Trump using tariffs and export controls to coerce countries to invest in the United States or grant US firms favoured market access. Unlike Hitler's Germany, Hirschman's original example, the Trump administration can't be credited with having consciously shaped US trade to amplify this effect. Trump inherited a large US market and America's high-tech leadership, which granted him leverage. However, the resulting strategy is the same.

Hirschman also pointed to a second mechanism, the 'supply effect,' where trade is used to stockpile resources and channel transactions toward reliable partners, strengthening economic resilience and limiting vulnerability to foreign influence. Today, we see countries friendshoring their trade and investment, enhancing their self-sufficiency in semiconductors, and stockpiling rare earths. The more things change...

But some things have not remained the same. International financial markets, having fallen into disarray in the 1930s, were inactive when Hirschman was writing. Now, by contrast, they are a major arena for geo-economics. The US notably capitalized on Russia's financial dependence following the full-scale invasion of Ukraine in 2022 by freezing the Kremlin's overseas dollar deposits and denying it access to the US correspondent banking system.

China uses its Belt and Road Initiative (BRI) not only to build secure supply chains, but also to cultivate other countries' dependence on its financial resources. Those other countries are not unaware: in 2023, Italy terminated its participation in the BRI precisely because of uneasiness about its financial dependence on China.

Critics of financial sanctions worry that such measures will erode the leverage of governments applying them. Russia and other countries worried that they too will find themselves on the sharp end of US sanctions have an incentive to seek other ways to hold foreign assets and make foreign payments.

Russia is pushing its System for Transfer of Financial Messages (SPFS) into the domain of cross-border transactions. A more serious competitor for the dollar and US correspondent banking system is China's Cross-Border Interbank Payment System (CIPS), now with some 1,700 banks participating directly and indirectly. Analysts warn that willy-nilly use of sanctions will lend more impetus to such initiatives and thus end up undermining the global role of the American dollar, eliminating America's ability to leverage finance to its advantage.

Similarly, countries like China that are on the receiving end of US export controls have reason to accelerate their own investments in dual-use (civilian and military) technologies. If so, the US may end up facing an even more powerful and technologically sophisticated rival as a result of its geopolitical measures.

Such responses should not come as a surprise. They are exactly what Hirschman's framework would lead one to expect: countries targeted by America's 'influence effect' would resort to their own 'supply effects' to limit their vulnerability.

Targeted countries will also retaliate in an effort to deter aggressive action by the initiator. Hirschman devoted little attention to this, given the power imbalance between Nazi Germany and the Central and Eastern European countries it targeted. By contrast, today's China possesses leverage. It responded to Trump's tariffs and export controls with tariffs on US products, export controls on critical minerals and investment restrictions for US companies.

Late last year, the two countries drew back from the brink, negotiating a 'tactical truce' to de-escalate their trade war. But their tit-for-tat retaliation could easily have spiralled out of control. This danger remains. Now that the American Supreme Court has forced Trump to reconfigure his 'reciprocal' tariffs, the entire situation will have to be revisited.

This is our dangerous new world. It is one of alarming parallels between nuclear deterrence theory and Hirschman's geo-economic theory. As with nuclear weapons, the consequences of miscalculation by those wielding geo-economic weapons would be devastating.

The globalization to which we have grown accustomed has survived recessions, financial crises and a worldwide pandemic. It is not clear that it will survive escalating geo-economic conflicts. Geo-economic warriors should think twice. They proceed at their—or, more precisely, our—peril.

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OUR VIEW



MINT

IDBI Bank's sell-off: Its delay should mystify us

The government's decision to mark time on this bank's privatization is a puzzle. Its rationale is clear and the stage for it was set long ago. Low bids shouldn't get in the way of a stake sale

It is unfortunate that India's government has decided to call off the privatization of IDBI Bank for now, as reports indicate. The disappointment is that this decision was reportedly taken in response to poor investor interest—as seen in low bids for the 61% stake on offer to corporate bidders. There are many reasons behind the process of what we in India like to call 'disinvestment,' a euphemism coined as a political shield against critics. The money it raises is just one reason. It pales in front of another motive, one that has long been regarded as a free-market principle. Namely, that governments should not be in any business that the private sector can do as well, if not better. It was this aspect of India's market reform agenda that led successive administrations to disinvest in a host of state-run undertakings across sectors over the past three decades. It was an exercise that culminated in the most difficult and perhaps controversial sell-off of all, that of Air India in January 2022.

For a government that has been keen to demonstrate its ability to bite the bullet on contentious reforms such as those related to labour, its call on IDBI Bank is puzzling. It risks sending mixed signals on the Centre's commitment to structural reforms. This puzzle is deepened by the government's rejection of revenue maximization as its main motive for selling stakes in publicly held enterprises. To be sure, banking is a strategic sector—especially in an emerging economy like ours where public ownership of banks helps serve policy ends like financial inclusion. But we already have 12 public sector banks (PSBs) with a strong presence in this field: they account for 53.5% of all loans, against private lenders' share of 41.5% (at the end of 2025), and about 60% of all bank deposits, according to a 2024 State Bank of India report. In such a scenario, turning IDBI Bank over to private control would not have upset the applecart of PSB dominance of Indian banking. Moreover, the process has long been in the works. After state-owned LIC bought a 51% stake in January 2019 when IDBI Bank was under stress, the cabinet committee on economic affairs gave an in-principle nod for its privatization way back in 2021. By then, an equity issuance had taken LIC's share below half. The plan was for the government to sell 30.48% of the bank's equity pie, with LIC offloading another 30.24%. Finance minister Nirmala Sitharaman's budget speech on 1 February five years ago had set a target for the sale's completion within fiscal 2021-22—only to have the deadline breached time and again.

Ironically, foreign investors have lately shown considerable interest in our banking sector. The Reserve Bank of India's (RBI) approval of Warburg Pincus's 10% investment in IDFC First Bank in July 2025 was followed by a significant stake taken by Japan SMBC in Yes Bank last September. That's not all. Last October, RBL Bank received funds from Emirates NBD, which was reportedly also one of the bidders for IDBI Bank in the aborted auction. Earlier this year, a Blackstone affiliate obtained regulatory approval for investing in Federal Bank. While some of these investments could be attributed to RBI's recently relaxed stance on foreign ownership, it also reflects greater global interest in the country's banking space. All of this gives the Centre's decision to mark time on IDBI Bank's sell-off an air of mystery.

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Multilateralism is more relevant than ever as power games shift

Global institutions are indispensable to emerging economies in need of a better deal as the world's rules-based order wobbles



SHISHIR PRIYADARSHI
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The international system is entering a phase that increasingly resembles an earlier era of geopolitics—one defined less by shared rules and more by competing spheres of influence. Signals emerging from Washington's strategic thinking, particularly during the presidency of Donald Trump, point to a worldview in which power, leverage and bilateral bargaining take precedence over the norms and institutions that have guided global governance for decades.

With the next Ministerial Conference of the World Trade Organization (WTO) approaching, the future of multilateralism is in the spotlight. Ministers from across the world will discuss the future of global trade rules at a time when the multilateral system is already under strain—from stalled negotiations and dispute settlement paralysis to the growing preference among major economies for bilateral and plurilateral arrangements.

Against this backdrop, the broader geopolitical shift towards spheres of influence and transactional diplomacy raises a fundamental question: Can the WTO remain a credible platform for collective rulemaking or will it gradually be sidelined by power-driven bargaining among the largest economies? This matters profoundly for developing countries, given that a functioning multilateral system is one of the few mechanisms capable of balancing asymmetries of power in global trade.

At the heart of this changing world order is the return of spheres of influence as an organizing principle of international politics. In the decades following the Cold War, the prevailing assumption was that the world was moving towards a rules-based order. Multilateral institutions were designed to provide platforms where countries could negotiate, resolve disputes and pursue collective solutions to global challenges.

That assumption is now under strain. Major powers are increasingly comfortable with the idea that different regions may fall under the strategic influence of particular states. Rather than relying primarily on universal institutions, they are turning to arrangements that reflect geopolitical alignments and power hierarchies.

This does not necessarily imply the abandonment of international institutions. But it does suggest that decisions once expected to emerge from multilateral negotiations are being influenced by strategic bargaining among major powers.

A key driver of this shift is the growing emphasis on bilateral relationships. Washington's strategic posture has increasingly prioritized direct alignments with individual partners rather than broad multilateral frameworks. Bilateral agreements allow greater flexibility, faster negotiations and, most importantly, greater leverage.

From a tactical perspective, bilateralism offers advantages for powerful countries. Negotiating one-on-one enables them to shape outcomes more effectively than within large forums where smaller states can collectively influence the agenda.

Yet, these dynamics challenge the broader international system: as negotiations shift in favour of bilateral arrangements, the imbalance between large and small economies becomes more pronounced, weakening the design of multilateral institutions in levelling the playing field.

Another dimension of the emerging geopolitical environment is the changing value of formal commitments. In this worldview, traditional diplomatic agreements institutionalized through treaties and outcome documents are increasingly seen as secondary to immediate negotiating leverage.

Policy decisions in such a framework are shaped less by institutional obligations and more by transactional calculations. What matters most is the balance of advantage in any given negotiation: who holds leverage, who requires access and what concessions can be extracted.

For many countries, this approach heightens uncertainty in international relations. Agreements once assumed to be stable may become subject to renegotiation, while strategic commitments can evolve quickly depending on domestic politics or economic pressures. Such flexibility may benefit powerful states capable of rapidly adjusting their negotiating position, but it complicates long-term planning for others.

The Global South faces an important strategic question: How can they protect their interests in a world where rules are becoming more fluid and power asymmetries more visible? The answer lies in strengthening multilateralism, not abandoning it.

Ironically, the more strain global institutions face, the more indispensable they become for developing countries as smaller economies depend on multilateral frameworks that provide them with transparency, predictability and dispute resolution. They also allow coalitions of countries to shape global rules in ways that would be impossible through purely bilateral channels.

The Global South, therefore, has a strong incentive to safeguard these institutions. This does not mean defending the *status quo* blindly, but reforming them for new realities. The task is clear: To ensure that the rules of the international system are not written solely through power, but participation, negotiation and shared responsibility.

Developing countries collectively represent the majority of the world's population and a growing share of global economic activity. If they act together, they can shape the future of international institutions rather than simply reacting to the preferences of major powers.

India can contribute to this effort. As one of the largest economies in the developing world and an increasingly influential diplomatic actor, India has advocated for a more inclusive and representative global order, demonstrating through its leadership in forums such as the G20 that multilateral diplomacy remains both possible and necessary.

The challenge ahead is not simply to preserve existing institutions but adapt them to a more contested geopolitical landscape. That will require creativity, coalition-building and a willingness to reform outdated structures while preserving the core principles of collective governance.

The world may be entering a new era of strategic competition and regional influence. But that does not make multilateralism obsolete. On the contrary, it makes it indispensable.

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India should prepare for a world realigned after the West Asia war

We must stay away from foreign wars but not miss opportunities in a likely reset of global relations



NITIN PAI
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It is impossible to tell how and when the current war in West Asia will end because we do not know what the United States—specifically President Donald Trump—wants out of it. Israel wants to expand through military domination of the region. Iran wishes the same but at this point is likely to be content with regime survival and deterrence. The Gulf's Arab states sought to create space for stability and growth by outsourcing security to the US, but have come to realize that they cannot escape the strategic costs of such an arrangement. It is unclear what Trump's political goals are and how they might affect Washington's geopolitical interests in the region.

So we cannot predict the course of this increasingly destructive war with any degree of confidence. However, we can already discern trends that indicate that it will lead to a reordering of the world to our west. India must prepare for this potential geopolitical shift.

As Narayan Ramachandran noted in his *Mint* column a few weeks before the US attacked Iran, fissures within the Trump coalition are highly likely to weaken the power and influence of his administration. The war will accelerate and exacerbate those divisions. Prominent right-wing figures like Marjorie Taylor Greene, Tucker Carlson and Joe Kent have called out Trump for being led by the Israeli lobby to go to war despite it being unclear how it serves America's own interest. Many of the technology industry titans who backed Trump are worried about the economic damage that the war has already caused and Vice President J.D. Vance has kept his distance from it. The issue has split the Democrats too, with the younger lot disapproving of the pro-Israel stance of the party establishment.

Therefore, however the war ends, the US-Israel relationship will not be what it was earlier. Even if Iran were to completely capitulate tomorrow, enough questions have already been raised about how the Israeli government led the US into this war for Washington to continue extending an effective *carte blanche* to Tel Aviv. The extent of this divergence depends on military outcomes, the extent of economic damage, its distribution, domestic political developments in the US and the positions of European and Arab countries, especially if international law throws up uncomfortable decisions at inconvenient times. While it is extremely hard to see Washington become antagonistic to Israel, it can calibrate how much political, diplomatic and military support it is prepared to extend, thereby constraining Israel's future behaviour.

Israel is also losing the support of important European Union members. Nearly half of the EU countries have now taken positions critical of Israel in some form. Netherlands, Belgium, Sweden, Denmark, Italy, France and Germany have taken diplomatic and economic actions adverse to Israeli interests. While EU leaders publicly criticize Iran for bombing energy infrastructure and routes in the Gulf states, it is not lost on European societies that the economic shocks they are suffering are a result of a deliberate US and Israeli choice to start this war. The EU and its member countries are unlikely to distinguish themselves by taking bold positions on their own. They'll probably follow the US lead on this issue.

This war is a watershed moment for how the Gulf Cooperation Council (GCC) countries see their security. They can now calculate the actual benefits and costs of the US security umbrella that covers them. Despite asymmetry in military technology, Iran has been able to impose severe strategic costs on the UAE, Bahrain, Kuwait, Qatar and Saudi Arabia by exploiting economic asymmetry. Even if most Iranian missiles are intercepted above Arab skies, the psychology underpinning the Gulf's prosperity has been damaged. And even if, as has been reported, the US did not prioritize Israel's defence over that of the GCC states, the realization that it might do so is not lost on the region's elite.

We should therefore expect some strategic reorientation, perhaps through a Gulf-led military alliance that might include Egypt, Turkey and Pakistan. The Pakistani military establishment will surely be rubbing its hands in anticipation of the rewards it can secure by offering both military manpower and nuclear weapons.

Many other relationships will come under stress. It is unclear what will happen to the Arab-Israeli rapprochement that America cobbled up, especially if Washington's own relations with the two sides worsen. West Asia can drive another wedge in the relationship between the EU and the US, especially if a longer war causes severe pain in the lives of ordinary people in Europe. Trump's taunts and insults will become harder for European leaders to swallow if their economies face crises of Washington's making.

The upshot is that many of these new alignments are opportunities for India if New Delhi plays it right. It is important to remember that Iran is a potential ally in the Kautilyan calculus. As I argued in my previous column, at this time India's interests are best served by non-involvement. Let's Stay Away and Keep Away (SAKA) from foreign wars. Once the warring world solves its simultaneous equations, it will compute that India is a necessary factor in every solution.

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Delayed justice is crushing consumer rights in India

RAJRISHI SINGHAL



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Indian trade negotiators and diplomats soliciting foreign investment never miss an opportunity to showcase the country's swelling middle and its robust legal system as the cornerstone of a vibrant democracy. Data emerging from recent research, however, shows both these bragging points to be over-wrought and unsaleable today.

The size of India's vaunted middle-class is projected to go from 500 million individuals currently to over 700 million in 4-5 years. This expansion is expected to translate into growing consumption of goods and services, apart from increased household outlays on education, healthcare and investment products. Speculating on how much of this will come to pass is a parlour game. What is really critical here is the *ceteris paribus* premise, that consumption will keep growing, all other things remaining constant. What merits examination is whether ideal conditions exist for consumption and whether the consumer is being served. Various studies unambiguously show that the system is loaded against the individual consumer, as the December 2025 Indigo flights fiasco so visibly demonstrated.

The team that publishes the annual *India Justice Report* has now come out with a *Consumer Justice Report 2026*, which assesses the capacity of quasi-judicial grievance redressal commissions across the country. What emerges from the findings is not a pretty sight. The problem with consumer redressal commissions echoes a structural and deep-seated deficiency that plagues all tribunals and appellate bodies.

A little background might be helpful here. The Consumer Protection Act of 2019, which replaced its namesake legislation of 1986 vintage, retained the original legislation's three-tier consumer disputes redressal structure, but rebalanced their territorial and commercial jurisdictions to make these platforms more accessible for consumers. These commissions were set up across district, state and national levels to adjudicate consumer complaints, specifically to remedy complaints about defects in goods sold or deficient services rendered. Alongside, the new Act also introduced a Central Consumer Protection Authority as a regulatory organization to guard against violation of consumer rights, misleading advertisements and unfair trade practices. The Authority's record has been demonstrably patchy so far.

Three glaring shortcomings emerge from the *Consumer Justice Report 2026* findings. These lacunae, apart from highlighting a dysfunctional consumer justice system, also put a question mark over the assumptions made for India's ambitious economic growth projections, namely that growing consumption by a growing middle class will turbocharge growth impulses.

The collapse of institutional grievance redressal could hinder India's economic resurgence

The first is a glaring lack of capacity at all levels of the consumer justice delivery system, with key personnel missing to enable timely and fair grievance redressal. No president has been appointed in multiple district and state commissions; across 29 states and six Union territories, the president's post was vacant in 17 states. This is a major roadblock to dispute resolution because case allocation or scheduling becomes difficult without an administrative head. Even where a president has been appointed, the typical commission lacks the full complement of sanctioned members, or has staff shortages across different levels—only 60% of the 159 sanctioned members for states have been appointed. Uttar Pradesh reduced the sanctioned strength for its state commission from 10 to 4 members and was still able to appoint only one member.

Second is the unconscionable lack of gender diversity, with low women's participation at the leadership and even staff level. This is true for advanced states as well: Maharashtra has only 8.3% women's representation in its state commissions. Assam fares even worse with only 7% women representation. The frequently used excuse for low gender diversity, a paucity of qualified women in the country's legal profession, seems largely unfounded.

Third, and related to the first two gaps, is the high pendency of cases. Lack of personnel in these critical quasi-judicial organizations invariably leads to swelling pendency of cases and delays in adjudication. Maharashtra's state commission (encompassing four circuit and two regional benches) and 40 district commissions received about 91,500 complaints during 2020-24, but were able to dispose of only 65% of the cases. In 19 state commissions where 2025 data was available, 35% of cases were pending for more than three years.

The dysfunction in consumer redressal commissions not only mirrors problems plaguing various tribunals, but also reveals a political unwillingness to enable an efficient judicial system. The government's lackadaisical approach to tribunals has even invited adverse comments from the Supreme Court (SC) on numerous occasions because it has a direct effect of increasing the caseload for high courts and the SC.

It has been speculated that the reason for the political system's aversion to setting things right might be the SC's past ruling that tribunals, as quasi-judicial bodies, should have the same independence as judicial bodies; the chief justice even observed on 19 November 2025 that the government had "chosen" to continually disregard the court's judgements on tribunals. It is indeed unfortunate that things have come to such a pass because it hinders stable economic growth and weakens individual rights.

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AFP

Could Hormuz flare up into a dollar-yuan war?

The conflict in West Asia hasn't just seen oil weaponized by Iran, it raises the potential of a currency war that might need to join the scenario calculus of RBI and other central banks

As reports emerged last week on which ships Iran had let through the Strait of Hormuz, India-bound carriers of LPG among them, one group was no surprise: vessels carrying Iranian crude exports. By data analytics firm Kpler's estimate, Iran's oil shipments kept up an average daily pace of 1.3-1.4 million barrels in March amid hostilities with the US and Israel. Most of it was headed for China, reportedly, bought by small refiners paying in Chinese yuan. In contrast, the Gulf states that sell the world's most valuable traded commodity in dollars have found their oil trapped. For decades, a 'currency war' has meant a game of mutual devaluation to cheapen exports for a trade edge. Is Hormuz a flashpoint that could spark off a new kind—a petro-currency war? As the world's dominant exporter, the People's Republic has converted about half its trade into yuan. As gatekeeper of the world's most cheaply extracted oil, the Islamic Republic followed last week's strikes at oil and gas facilities across the Gulf with a glower at the US alignment of regional monarchies, urging a rethink.

Oil trade in dollars has long helped anchor the greenback's global liquidity, even after the US quit redeeming it for gold. Since the Iran war began, the dollar has reversed its tariff-led slide, thanks to a jump in demand for dollars as crude, gas and other imports got costlier for importers. Its dominance of trade payments underpins the US role as the global issuer of reserve money. This may have kept the dollar too strong for US industrial competitiveness, but it also grants America a privilege. It can stretch its fiscal deficit and pile up debt easily, since it gets to borrow cheaply from countries that buy its bonds or export capital to it in other ways. This spells a key economic advantage: low cost of capital. Yet, its joint attack on Iran with Israel has driven up its bond yields as inflation risks arise. A tariff-wielding White House has sent mixed signals on its dollar policy, but its ultimatum to Iran on opening the Strait of Hormuz is part of an oil calculus, like its eye on Iran's Kharg export terminal. If China is quietly eyeing a stake in the outcome of a long battle for Hormuz, its pay-off plausibly includes a crude-invoice shift in favour of the yuan. To be sure, a currency war has not yet erupted, but the risk of one is no longer trivial.

Where does this war leave the Indian rupee? Hit hard, unfortunately. With our trade gap set to widen amid scant capital flows, the Reserve Bank of India's (RBI) circuit-breaker role is in focus. As selling dollars also sponges up rupee liquidity, RBI's open-market bond buying must increase to neutralize a dry-up. This loop of action has a limit, though, which means the rupee may have to weaken further for interest rates not to get pushed up. Given today's conditions, a rupee slide seems more likely to stoke inflation than boost exports, so RBI should calibrate its actions judiciously. Since RBI's other major trade-off between rates of exchange and lending arises from partial rupee convertibility, tighter curbs on some capital outflows may ease its task. But it would signal a macro crisis and take a severe inflow crunch to justify. For an optimal currency policy for the Indian economy to suggest itself, the dust of war must settle. On current trends, a dollar-yuan face-off cannot be ruled out. Central banks may need to diversify their scenario analysis accordingly. Geopolitical flux may have turned even 'black swan' events grey.

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Crude thinking: It's a bad idea for the US to toy with oil prices

Manipulating the oil futures market would be much too distortive



JAVIER BLAS
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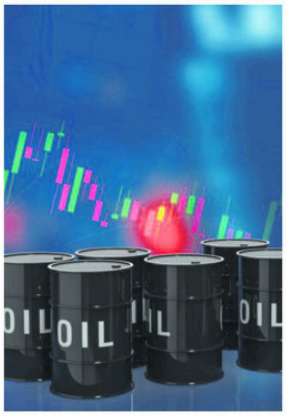

Steering oil prices differs from influencing currency or interest rates. ISTOCKPHOTO

In the shadow of the Iran war, with crude hovering around $100 a barrel, the allure of a quick fix for energy inflation is understandable. But intervening directly in financial markets by taking a bearish short position in oil—which the US Treasury says it's been discussing—is a terrible idea.

Selling oil futures would be a desperate ploy, born of panic about rising US gasoline and diesel retail prices ahead of the midterm elections. History is littered with American politicians who thought they knew better than the market, such as President Richard Nixon who imposed energy price controls after the 1970s' oil crisis. It did not lower prices, but it brought shortages and mile-long lines at gas stations.

The oil futures and options market isn't a casino where the US government can appoint itself as the house that always wins. It's the beating heart of the energy industry, where Texas oil producers go to hedge their price exposure, Asian refiners lock in costs and everyone else can take a view. The oil price is set every day by millions of transactions in the physical and derivatives markets, each with a different opinion about supply, demand and inventories. The government's role is to safeguard that process, not distort it.

Commodity markets thrive on transparency and rules-based trading. When Uncle Sam steps in, it erodes confidence—investors flee, liquidity dries up, price discovery moves into the shadows and hedging becomes costlier. The CEO of CME, the platform for the largest oil derivatives market where West Texas Intermediate trades, said earlier this month that intervention would be a "biblical disaster."

Trying to steer oil prices is different from influencing currencies or interest rates; there, the government can print dollars. Say the US was to short oil via a trade involving futures, options or, more discreetly, swaps. It would be selling the equivalent of an IOU in the energy world. Even in the best scenario, any resulting price drop would only be temporary as selling paper barrels doesn't create physical barrels that refiners can buy. In the worst case, it would expose American taxpayers to huge losses if prices moved against the government.

The Biden administration also considered intervening in the financial oil market after prices soared to $125 a barrel following the Russian invasion of Ukraine. The idea was quickly abandoned—and rightly so.

For several days earlier this month, speculation was rampant that America was thinking of shorting oil futures. In private, US officials acknowledged it was one possibility, alongside tapping the country's Strategic Petroleum Reserve and easing energy sanctions on Russia. On 13 March, US Interior Secretary Doug Burgum publicly confirmed it was a live option. "We have a lot of smart people working in this administration—a lot of smart people work in the energy trading market." In his own words, the plan was "an intervention to try to manipulate and lower prices."

Credit to Burgum for calling it what it would be—manipulation. Credit, too, for noting that it would "require enormous amounts of capital." Treasury Secretary Scott Bessent was more sceptical, telling *CNBC* on Monday he was "not sure under what authority or what auspices" an intervention could take place. In any case, "we haven't done" it, he told *CNBC*. That wasn't enough to convince many oil traders, who noted Bessent hadn't ruled out an intervention; after all, he said "we haven't" rather than "we won't."

Perhaps the administration wants ambiguity to persist—another tool in its verbal arsenal. By talking for several days about potential intervention, first by privately reaching out to bankers and traders and then going public, officials have probably succeeded in curbing the surge in oil prices. Let's hope that's all they want to do.

This administration may ultimately abandon the possibility of intervention. But it's still trying to shape the curve of the financial oil market via a novel use of the country's strategic reserves. In previous emergency use of the SPR, the White House simply sold the barrels; this time, it has structured the release as a loan. Whoever wins the auction for those reserve barrels will have to return them, with interest, by 2027-2028. The net result: short-term oil prices are falling, but long-term prices have risen, as traders anticipate the extra demand to return to barrels into the SPR. The oil curve has flattened, echoing the Federal Reserve's methods of flattening the US interest rate curve.

It's another unwelcome indication that the American government seems more focused on making a buck than solving the underlying supply crunch; the role of those "smart people" described by Burgum is to re-open the Strait of Hormuz. If they want to trade oil, they should not do it by using America's balance sheet. ©BLOOMBERG

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MY VIEW | A VISIBLE HAND

India's LPG adoption success story is being choked dry

NARAYAN RAMACHANDRAN



is chairman, InKlude Labs. Read Narayan's Mint columns at www.livemint.com/avisiblehand

Growing up in Kerala, it was a weekly ritual to spark the firewood and get ready for an oil bath. The weather was warm enough during the week to use the plentiful water from a running tap or well. The firewood had to be kept dry and was allocated pride of place in the outhouse to be brought out in small batches for weekly baths or cooking. In an unexpected twist, many parts of India are having to return to this tradition of burning firewood.

Liquefied petroleum gas (LPG) is a fuel commonly used in Indian households and commercial establishments for cooking purposes. It is most often a combination of propane and butane. An almost-fully-burning clean fuel, it has replaced firewood and kerosene in most Indian kitchens. LPG is produced as a byproduct of natural gas liquids (NGL) extraction or as a distillate product from the oil refinery process. The cost of extraction as a byproduct is much lower than as a distillate, which explains to some degree why India still relies on LPG imports rather than on domestic oil distillation for its full annual requirement.

The global demand for LPG is over 340 million tonnes annually. India's consumption of LPG, almost entirely for cooking, is approximately one-tenth of the world's consumption at around 31.3 million tonnes. The household sector, utilizing 14.2kg cylinders, accounts for the overwhelming bulk, approximately 87% of total consumption. The commercial sector (restaurants mainly) uses 19kg, 47.5kg or 425kg cylinders and accounts for 13% of total usage.

For nearly 40 years after the late 60s, India saw a gradual uptake of LPG as a kitchen fuel. Most households continued to use a mix of coal, firewood, kerosene and LPG during that time. The 2011 census showed that 29% of Indian households were using LPG; it was 62% in 2016 and has reached 'near saturation' levels today. India has a little over 300 million households and now has 330 million gas connections, which implies full penetration. The government's scheme to convert the population to clean burning fuel has been a success. If you add the fact that its LPG subsidy has been specifically aimed at poor households using an Aadhaar-based direct benefit transfer (DBT) mechanism, it can be deemed a spectacular success. The online process for ordering refills and a transparent scorecard for LPG distributors that uses a star rating system has resulted in much greater empowerment of LPG consumers.

This grand success has an Achilles heel. Nearly 60% of India's LPG needs are imported and nearly 90% of that is sourced from the Gulf. Our biggest source countries are the UAE, Qatar, Saudi Arabia and Kuwait. Bringing these imports using ships called VLGCs (Very Large Gas Carriers) requires transit through the Strait of Hormuz. Each VLGC carries about 50,000 tonnes of LPG. India needs about 400 such ships a year, a little more than one a day, to fulfill its import demand expected to reach 20 million tonnes. The Strait of Hormuz, named for the Zoroastrian divinity Ahura Mazda, has become a major chokepoint in the ongoing war between the US and Iran.

The country's switch to clean cooking gas was impressive but it's now time for kitchens to go electric

The near-term strategy for Indian homes is to practise LPG conservation. Using pressure cookers and communal cooking can reduce cooking time substantially. Using electricity for peripheral cooking tasks like water boiling and making tea diversifies the use of energy. Cooking with induction stoves saves about 30% of the heat for the same cooking task. Only when direct heat is used for charring, like that used to make *rotis*, is gas a better alternative. Beyond measures at the household level, India must continue its diplomacy with Iran to get more ships through Hormuz. Every three ships that pass through the strait gives India two days of LPG supply. India should also increase purchases from Saudi Arabia, Russia and the US. Saudi Arabian LPG could be contracted through its Red Sea ports. Red Sea transit will require passage through the Bab el-Mandeb Strait. This strait is sandwiched between Yemen and Djibouti and could also be targeted if Houthis in Yemen join the fight, although Iran itself struck a Saudi hydrocarbon target on the Red Sea coast after its South Pars gas-field was hit.

Longer term, India must scale its domestic production and increase strategic storage of LPG. India's storage capacity is placed at about 150,000 tonnes, or two days of demand, and it should expand to at least 30 days of demand. As India proceeds towards its net-zero emissions target set for 2070, it is important to promote electricity-based alternatives. This can and should be achieved concurrently with the grid being decarbonized.

I ran a scenario analysis through Claude with the following assumption: blended adoption between rural and urban households rises from 8% today to 25% in 2030 to 45% in 2035. The analysis projects LPG demand will drop to about 21 million tonnes by 2035, which can be met with increased domestic production and limited imports. The increase in power requirement due to this is about 100 terawatt hours per year or 4% extra, which is easily plannable. In the same way that India switched from earlier cooking fuels to LPG, it must begin an aggressive transition to electricity-based cooking. Ahura Mazda, the 'father of fire,' would approve.

P.S: "If it weren't for electricity, we would be watching television by candlelight," said Comedian George Gobel.

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China and India are poised to score big on weight-loss drugs

Generic makers rushed in after Ozempic went off-patent in both



JULIANA LIU
is a columnist for Bloomberg Opinion's Asia team, covering corporate strategy and management in the region.



Low-cost producers of generic versions could expand into export markets. AP

The simultaneous patent expiry of Ozempic's active ingredient in China and India on Friday was a watershed moment. Until now, these weight-loss drugs have been available largely to people with means. The launch of affordable generic versions will be a levelling force in healthcare, with global consequences.

That's because the world's two most-populous countries aren't just consumers. They also have pharmaceutical firms that are capable of exploiting this moment to reshape the market for metabolic therapies, affecting the earnings of incumbents Novo Nordisk and Eli Lilly. It would be driven by demand from large populations suffering from chronic ailments like obesity and diabetes that can be treated with these medicines that mimic the effect of the natural hormone glucagon-like peptide-1 (GLP-1), which regulates appetite and blood sugar.

Public health will benefit most. According to the *Lancet*, China had 402 million people living with obesity five years ago. That number will grow 56% by 2050 to nearly half the population. India had 180 million individuals with the disease in 2021, with the figure expected to more than double to 450 million in about 25 years. Obesity is known to increase the risks of diabetes, coronary artery disease, hypertension, stroke and other conditions.

While Novo Nordisk has slashed the price of Wegovy (which uses semaglutide, the same ingredient in Ozempic), in China and India in anticipation of the patent loss, its offerings are still too expensive for most people. In China, where weight-loss drugs fall outside insurance coverage, price will be the decisive factor in whether millions begin medical treatment. Many diabetes patients are managing their condition with less effective older medications. Switching to generic semaglutide could result in superior glycemic and weight control, reducing the risk of long-term complications, Nadim Anwer, pharma analyst at GlobalData, told me. Competition could bring prices down to $50 a month, which is much cheaper than in the West.

China has more than 10 companies, including CSPC Pharmaceutical Group Ltd. and Huisheng Biopharmaceutical, developing generic versions. Local media say it will take another half year for the medicines to be available. India is expected to have dozens of options within months.

Even if the drugs are a game changer, they're not a silver bullet. And they can be tricky to get right. The medicines have been associated with loss of muscle mass and even malnutrition. There's a question mark about depression. Countries need to train health workers to deliver long-term care to support the treatment and invest in prevention by encouraging exercise and proper nutrition, according to Johanna Ralston, CEO of World Obesity Federation. China and India's chronically short-staffed, under-funded healthcare systems may struggle to do that, but they must commit to comprehensive care if the drugs become widely available.

The commercial opportunity in these drugs is clear. Even though China did not originate GLP-1 treatments, it dominates the research pipeline, with more than 100 drugs in development, around 40% of the global total, according to Citeline's Pharmaprojects. Over the past two years, therapies originating from China have comprised the majority of global GLP-1-related dealmaking by both value and deal volume. In fact, Pfizer will soon enter the market for weight-loss drugs after years of trying—by licensing a Chinese product after its own efforts fell flat.

This is not a surprise for those watching the trajectory of China's pharmaceutical development. Over the past five years, drugmakers have started introducing experimental therapies and signing multi-billion-dollar licensing deals to bring them to global markets. Established companies are looking for shortcuts to expand their offerings—since many are facing an upcoming 'revenue cliff' with lucrative patents on blockbuster drugs expiring.

And because the patent for semaglutide has already expired in Canada and is poised to do so in Brazil and Turkey, Chinese and Indian generics could become significant players if they receive regulatory approval. With China already the world's biggest supplier of active pharma ingredients, the components in drugs that produce the intended therapeutic effects, its suppliers can make money in those markets, too.

Ozempic went viral for helping people lose weight after its launch as a diabetes injection in 2018. The sheer effectiveness of this class of drugs has advanced the idea that obesity is a chronic disease. Now affordable generics won't just make them more widely available, but also give Asian drugmakers a bigger slice of the growing business.

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THEIR VIEW

Why chaos in Washington can't hold California's economy back

The Democrat-led state foresaw trouble and took policy action early to insulate its prosperity from chaotic federal governance



GAVIN NEWSOM & LENNY MENDONCA
are, respectively, governor of California; and senior partner emeritus, McKinsey & Company, and former chief economic and business advisor to the state of California.

ISTOCKPHOTO



There is a paradox at the heart of the US economy. As the federal government imposes sweeping tariffs, signals hostility to multilateral trade and unnerves long-term investors with erratic policymaking, one state has emerged as the most reliable US address for global capital: California, the world's fourth-largest economy and America's second-largest exporting state with $188 billion in annual goods exports. In 2024, California's GDP grew by 6%, outpacing the US, China and Germany.

This is not a partisan provocation, but a statement grounded in hard data and direct experience: We built the institutional architecture that has made the state resilient in the face of federal policy volatility. As governor and as the former chief economic and business advisor who helped design California's international investment strategy (an initiative now run by Dee Dee Myers), we undertook trade missions to Europe, Asia, Canada and Latin America: direct government-to-business outreach; and long-term investment compacts.

Now that strategy is paying off. Nearly 19,000 foreign-owned enterprises operate in California, supporting more than 814,000 jobs and paying an estimated $89 billion in wages to Californians—a figure that grew even as federal trade policy turned inward. The US Bureau of Economic Analysis confirms that California consistently ranks among the top two or three states on foreign direct investment.

To be sure, the headwinds President Donald Trump's administration has created must be acknowledged. Tariffs raise input costs across supply chains and policy unpredictability suppresses long-term capital commitments that drive investment. No state, however large, is fully insulated from national macroeconomic conditions.

California's 61,000-plus exporters face real exposure from retaliatory tariffs, as do the farmers and ranchers whose top export markets—Mexico, Canada and China—have been targeted by federal trade policy. But for the international firms that remain committed to the US market, the question is not whether to invest, but where. Here, California offers something that Washington currently cannot: predictability. Clear emissions standards create demand certainty for clean-energy investment and well-established labour protections reduce long-term litigation risk. With its commitment to a green transition, California stands out for international makers of electric vehicles (EVs) and other supplies across the battery supply chain.

As an executive from UK-based Octopus Energy recently put it, California's "supportive policy and world-class entrepreneurship" make it "an ideal place to back long-term investment partnerships." That assessment accompanied a nearly $1 billion commitment to invest in California's cleantech sector. Many other international investors have set up shop in California for the same reasons. Our clean-energy sector employs more than a half-million workers and is growing three times faster than the overall economy.

Three sectors illustrate California's pattern of success most clearly. In cleantech and climate infrastructure, the state's Advanced Clean Cars regulations, cap-and-trade system and nation-leading renewables standards create demand certainty for investors in solar, battery storage, hydrogen and EV infrastructure need. Having added more than 30,000 megawatts of new clean energy and storage capacity since 2019, California now generates 67% of its electricity from clean sources and it is building toward 100% by 2045. Such an ambitious, yet achievable, target creates a durable investment runway that extends far beyond any single federal administration.

Likewise, in life sciences and biotech, California's world-leading research universities, regulatory expertise and cluster effects in the Bay Area and San Diego continue to attract European and Asian pharma and medical-tech capital at record rates. In AI and digital infrastructure, California's venture ecosystem and strong lead in talent and compute capacity make it the default destination for international tech investment—a position re-inforced by federal ambivalence towards AI governance that has created a regulatory vacuum that California is beginning to fill.

These sectors and many others are attracting substantial capital for innovation and the scaling of companies that will define our future. Some business leaders are sceptical of California's regulatory environment and they are not wrong to say that the cost of doing business in California remains high. Reforms of the permit process are in progress but incomplete, even as housing affordability constrains the labour market—a challenge that demands sustained attention.

But such problems are not solved overnight. Our Jobs First Economic Blueprint acknowledges the work that needs to be done. Meanwhile, foreign investors are making comparative judgements: The relevant question is not whether a jurisdiction is perfect, but whether it offers the best available combination of market scale, institutional stability, workforce quality and regulatory predictability for a given investment strategy. On that measure, for a widening range of investment categories, California's advantages remain formidable.

Our investment framework was always intended to be durable across administrations and economic cycles. And now the international relationships, sector-specific compacts and regulatory certainty we have established are proving resilient in a turbulent national environment, vindicating our strategy. California's experience holds lessons that extend well beyond our state. In a global economy characterized by rising geopolitical friction and policy volatility, predictability and openness are competitive advantages. Jurisdictions that understand this will attract the capital, talent and partnerships that determine long-term prosperity. California did not wait for Washington. It drew its own conclusions, built its own institutions accordingly and is reaping the rewards.

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OUR VIEW



LPG scarcity: We need a full-spectrum response

With second-order impacts of an LPG shortage in evidence, India must employ additional ways to plug supply gaps and double down on fostering a mass transition to electric cooking

Liquefied petroleum gas (LPG) is one of the products facing a global supply crunch today, thanks to the Iran war. The result is more than a cooking gas shortage in India. In order to prioritize the availability of cooking gas for homes, the government reduced supplies to commercial establishments. Although strictures were eased a little, scarcity-hit eateries have shut down in several towns and cities. Other impacts have been in evidence too. A large proportion of the urban poor who live in slums and informal rental housing fail to qualify for LPG supply from oil marketing companies, leave alone subsidized connections under the Centre's Ujjwala Scheme: they mostly buy their LPG in 5kg cylinders filled with gas meant for commercial use and have been the worst affected by the current shortfall. Migrant workers employed by eateries starved of LPG have found themselves out of work. Like other migrant workers, many have struggled to keep kitchen stoves running. Faced with livelihood losses and unaffordable means of cooking food, many are headed back home from their cities of employment. The LPG dislocation has been so sharp, it could take weeks to recover from it even after supplies normalize—for which the war must end and the Gulf's hydrocarbon facilities repaired. India is staring at an LPG scarcity that could stretch from the short to medium term.

One way out is for LPG production at domestic refineries to rise. This can be achieved through tweaks of the usual refining process and the use of catalysts. Of course, refiners would have to forgo some of their high-value petrol output in favour of LPG. There are limits to how far a refinery's output mix can be altered, but the use of lighter crude can also help increase its LPG yield. Yet, such a step-up can make up for only a fraction of our lost imports from the Gulf. India must shop around for LPG from other major producers such as the US, Canada and Russia, even if it means paying a higher price. The higher cost must be passed on to consumers for them to modify their consumption either by reducing gas use or making it more efficient: the poor, of course, would need help. Thankfully, with minor tweaks, LPG stoves can be adapted for piped natural gas (PNG). So, homes in areas where piped gas is available should be shifted to PNG. Urban gas suppliers have reportedly been pushed into action. But this is a stopgap solution, since we also face a shortage of natural gas: the war has clamped most of our imports, which fulfil about half the country's consumption. Over the medium term, thus, India must shift to cooking with electricity derived from domestic coal and renewable energy, as *Mint* has argued earlier.

This switch could start with homes that have reliable electricity and can afford the extra cost of induction stoves and the special utensils that are magnetized by such stoves to generate an electric current in their walls, resistance to which creates heat. To foster electric cooking on a mass scale, we must strengthen grids at the national, state, zonal, divisional, sub-divisional and feeder levels to bear the higher load that induction stoves would call for. Many buildings would need to be rewired, too. Building codes should be amended to require circuitry that can sustain electric cooking. This is the direction in which policy needs to turn. Stopgap measures are needed, but we must not labour under the illusion that our hydrocarbon supply chain will snap back to a sustainable normal.

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THEIR VIEW

The bulge in government bonds held by RBI could be put to work

This pile-up has been remarkable and bond earnings can be deployed for infrastructure creation



MADAN SABNAVIS
is chief economist, Bank of Baroda, and author of 'Corporate Quirks: The Darker Side of the Sun'

The Reserve Bank of India's (RBI) balance sheet shows that the amount of government paper (including treasury bills) held as on 28 February was ₹21.34 trillion. It was ₹15.58 trillion in March 2025. With RBI's recently announced open market operations (OMOs), which will probably continue this month, the amount will only increase. The increase so far of ₹5.76 trillion in RBI holdings of government paper is remarkable. An increase of this scale has never been witnessed earlier. Is there an explanation?

Through OMOs, RBI is buying securities from banks to help augment their liquidity. This is usually carried out when liquidity is under pressure, which has been the case this year for a various reasons. First, growth in bank deposits has been weak due to a migration of funds to mutual funds. Second, growth in credit has been faster. Further, RBI has been selling dollars in the market at various moments to stabilize the rupee. This sucks out domestic liquidity, which is then replenished through the purchase of government paper. Note that the rupee weakened by about 7% from 85.60 against the dollar on 2 April 2025 to 91.68 on 6 March 2026.

RBI holdings of government paper have increased: this is tantamount to deficit monetization. But income on securities adds to its surplus, which is transferred to the Centre. Can this surplus be used for loans to private infra projects?

The history of RBI involvement in supporting budgets is quite interesting. Starting from automatic monetization, under which 4.6% of treasury bills were once issued by the government to RBI for funding the deficit, the system has come a long way. There was also private placement of central debt with RBI during liquidity stress: RBI subsequently sold these holdings in the market once conditions improved. In the late 90s, we shifted to the market becoming the sole point of contact for the government, with primary dealers introduced to underwrite government issuances and ensure full subscription. However, with frequent OMOs in recent times, there has been a tendency for that debt to be transferred to RBI and held by it.

The central bank's holdings of central government paper stood at 13.5% of such debt last September, up from 11.2% a year earlier. These holdings tend to increase when RBI intervenes more in foreign exchange and bond markets. In a way, this is the cost of central bank intervention. Larger holdings also increase RBI's income, in turn contributing to the annual surpluses it earns.

This brings RBI surpluses into the frame. These have risen remarkably from ₹50,000 crore in 2017-18 to ₹2.69 trillion in 2025-26. This was after recommendations made by the Bimal Jalan panel were adopted. In the last seven years, RBI's surplus has averaged ₹1.32 trillion and ₹2.4 trillion in the last two. The interesting thing here is that if this transfer of ₹2.69 trillion, which is part of the non-tax revenue of the government, is seen together with RBI's net incremental holdings of government paper, the sum of ₹8.45 trillion is equivalent to 54% of the fiscal deficit for 2025-26. This is fairly strong support by RBI to contain disruptions in the bond market. In the absence of such interventions, the Indian bond market would have been under tremendous pressure and yields would have hardened.

The 10-year government bond yield has been fairly stable in the 6.60% range thanks to aggressive OMO support. Without it, the Centre's borrowing programme would have been a challenge to fulfil, especially at a time when commercial credit has steadily been picking up. RBI's repo rate was lowered to 5.25% last year, but there has been limited movement after its rather aggressive rate cut last June, followed by a 25-basis-point cut in December.

The low repo rate has led to a situation in which banks have not been able to mobilize deposits from their retail customers. Banks have taken recourse to the market for certificates of deposit and bulk deposits, which cost more.

Relatively high 10-year bond yields alongside OMOs indicate that interest rates cannot be reduced any further. The government's net borrowing programme has been pegged at ₹11.7 trillion in 2026-27, around the same as in 2025-26. With the economy likely to grow by over 7% in 2026-27, notwithstanding war effects, growth in credit could be in the 12-14% range. Much will depend on how the stock market performs, as this will influence investment choices by households. In 2024-25 and 2025-26, they showed a proclivity to capital market avenues. If this sustains, RBI's OMOs may again be significant.

Surpluses of RBI support the budget but could also be transferred to a separate fund that can be used specifically for financing infrastructure development. The money can also be used by the government for lending to private enterprise through public financial institutions like public sector banks. This will widen the fiscal deficit but aid private investment, which has been lagging. The interest on such loans can flow back to the government as revenue in future years. It will effectively hand the baton over to private players for infrastructure investment while the government fine-tunes its own efforts in this area.

These are the author's personal views.

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THEIR VIEW

America's Section 301 probes of Indian industries should fall flat

Baseless charges levelled by the US must be countered effectively to fend off this new tariff threat



R.V. ANURADHA & PRACHI PRIYA
are, respectively, partner, Clarus Law Associates and a Mumbai-based economist.

The randomness of Donald Trump's tariffs has underscored that a state of flux for businesses is the only constant. That this has been inflicted by one of the chief architects of the World Trade Organization (WTO)'s rules of global trade is ironic, as it has left us with this mockery of a rules-based order.

Last April, the US President alleged that foreign trade and economic practices had created a national emergency and imposed tariffs across imports from all countries. Ten months later, the US Supreme Court ruled that they were unlawful. Soon after, Trump threatened other "powerful alternatives" and imposed a 10% tariff on all imports on the ground that the US had a balance-of-payment crisis. This action too has no legal basis and 24 US states have challenged it in US courts.

Meanwhile, Section 301 proceedings under the US Trade Act have been initiated. These empower the US Trade Representative (USTR) to investigate the 'unfair trade practices' of other countries. One initiated move alleges "structural excess capacity and production in manufacturing sectors" while another is on the "failure to impose and effectively enforce a prohibition on the importation of goods produced with forced labour." India has been named in both, along with other countries.

India has faced Section 301 proceedings before with respect to intellectual property and its digital services tax, but these did not result in any punitive unilateral US tariffs. From 1995 till 2017, when Trump first took office, the US used its Section 301 proceedings as a complement to WTO dispute settlement. That is no longer the case.

Section 301 proceedings are like an open-for-all. Written comments are due by mid-April and a public hearing is scheduled for 28 April. Submissions and counters will be part of the public record. In parallel, government-to-government negotiations will go on.

While Trump has not minced words on what he sees as a forgone conclusion of the probes, Indian industry should get active, seeking support from US importers to highlight how tariffs hurt American consumers as well as businesses.

The Section 301 notice alleges that India has excess capacity in solar modules, steel, petrochemicals, textiles, health and unspecified "other industries." The USTR's reasoning rests on India's $42 billion goods trade surplus with it, overlooking the fact that the US runs a services surplus with India.

Let us examine the sectors cited. In steel, India's annual production of about 152 million tonnes broadly tracks domestic demand, and it has been a net importer over the last three years. Its about 200 million tonne capacity is consistent with long-gestation investments to meet future needs. Capacity for future demand cannot be built overnight.

Construction goods show a similar pattern: cement output of about 450 million tonnes is mostly absorbed domestically, with per-capita consumption (of about 290kg) far below the global average (about 550kg); prospective capacity expansion (to about 650 million tonnes) aligns with internal growth and would not leave a surplus for export. While a few segments such as ceramics may exhibit large export volumes, India's broader construction materials ecosystem is clearly driven by local demand.

In solar modules, the increase in installed capacity cannot be seen in isolation. Key drivers for this include India's net-zero pathway (with a target of 500GW of non-fossil fuel capacity by 2030) and policy mandates like Renewable Consumption Obligation aimed to boost domestic consumption, rather than export ambitions alone. While the US is a key importer of Indian modules, India's ~7% share in America's overall imports is modest and their cost is pushed up by the US's non-China sourcing trade mandate.

Petrochemicals undercut the surplus narrative too: Indian capacity is 52.3 million tonnes, production 42.1 million tonnes and domestic consumption about 52.5 million tonnes; imports fill the gap.

The "excess capacity" charge is unpersuasive even in export-oriented sectors. In pharmaceuticals, India accounts for about 20% of global volumes but only 3-4% of value (versus the 45% US share), consistent with a generics-led model that complements rather than displaces the US patented-drug market. India is also largely import dependent in medical equipment, with the bulk coming from the US. In textiles, exports of $37-38 billion versus $9-10 billion of imports translate to just 3.9% of global exports, far below China's 34% figure (and below Vietnam's and Bangladesh's too). In the auto sector, domestic demand absorbs 25-26 million vehicles; exports are about 5.4 million (16% of output), largely to units of foreign companies that use India as a node in global supply chains.

Businesses typically align investments with demand projections. That is common sense, not an unfair practice. Moreover, the sectors targeted are not monolithic. Painting diverse product segments with a single 'excess capacity' brush obscures segment-wise dynamics.

The government needs to work closely with Indian industry to contest America's absurd claims. Hard facts and clear legal and economic logic could help achieve equitable outcomes.

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GUEST VIEW

Let's work on stepping up India's agri exports to the EU

ARPITA MUKHERJEE & LATIKA KHATWANI



are, respectively, professor and research assistant, Indian Council for Research on International Economic Relations.

The India-European Union free trade agreement (FTA) has reduced tariffs on many agricultural exports, but these alone won't secure market access unless our exporters meet high EU import standards and sustainable production requirements. The EU, through its Green Deal and subsequent directives such as those on deforestation (EUDR) and Corporate Sustainability Due Diligence (EUCS3D), has implemented stiff regulations covering food safety, soil health and environmental and labour standards, including rules on greenhouse gas emissions and the wages, health, gender balance, age adequacy and work conditions of workers. These issues are covered under different chapters of the India-EU trade deal. In the chapter on Trade and Sustainable Development, for example, both sides commit to environment protection, labour standards and sustainable production across the agricultural value chain.

The EU is among India's top agri-export markets, accounting for over 10% ($5.25 billion) of our exports in 2024-25. While the FTA will help reduce tariffs and enhance the export prospects of marine products, grapes and other items, some of our core export items like rice and tobacco do not get any tariff reduction. In 2024-25, unmanufactured tobacco was India's third-largest agri-export to the EU, accounting for 9.7% of such exports ($511.8 million) while basmati rice ranked eighth with a share of 4.5% ($236.9 million). Securing export markets for such products is a necessity and requires meeting EU standards.

Indian rice exporters have been under the EU's scanner for food safety, stubble burning and child labour. Between 2020 and 2025, 136 notifications were issued to the EU's Rapid Alert System for Food and Feed on Indian rice exports, of which 77 were due to tricyclazole, a pesticide banned in the EU since 2016. In the case of tobacco, excessive use of inorganic fertilizers, mono-cropping and poor quality of irrigation water have been degrading soil fertility. Curing tobacco leaves in wood-fired barns leads to significant greenhouse gas emissions. Labour related issues like lower wages for women and migrant workers and occupational hazards such as green tobacco sickness have been cited by multiple studies. If we don't address them, we may lose the EU market to our competitors.

Most Indian farmers and small-and-medium-enterprise (SME) exporters lack knowledge about the EU's requirements and don't have funds for investment in technology and processes. They often go for the cheapest option rather than the best.

Foreign direct investment (FDI) is not allowed in many agricultural fields, making it difficult for EU importers and manufacturers to work with supply chain partners here. In fact, many of them are unable to connect beyond Tier 1 suppliers. There is an urgent need for supply chain traceability.

Our farmers and small firms must make the most of new export openings but they will require a lot of help

India's Tobacco Board assigns origin codes to bales of Flue-cured Virginia tobacco, but there is no farm traceability for Burley. There is hardly any traceability to the field for rice—most sourcing is done from *mandis*.

Our survey of EU importers found that from a distance, they are unable to manoeuvre through our fragmented supply chain. Indian farmers and SMEs are often not told that their products are for export, so that they don't demand higher prices. This leads to a situation where they get low prices while their cost of production must rise to meet sustainability requirements. Lack of awareness about carbon credits keeps them from claiming these.

Government agencies like the Tobacco Board and National Institute for Research in Chemical Agriculture have identified key risks and set targets to reduce the use of fertilizers by 20% and of pesticides by 50% within a stipulated period. They have also identified technologies to help meet EU requirements, but implementation requires funding. Our survey found that while some Indian companies are working with farmers, these efforts need to scale up quickly.

There are many complexities. As part of India-EU talks on an investment agreement, some stakeholders want FDI restrictions to protect certain agricultural fields. Policies on direct sourcing from farmers vary across states. The Centre had tried to let the private sector source directly from farmers through its farm bills, but these were withdrawn in the face of opposition. FDI is prohibited in tobacco manufacturing and EU companies don't know how they can invest in SMEs, as suggested in the EUCS3D. Meanwhile, some of our competitor countries have allowed FDI in support of exports. Brazil and Indonesia allow FDI in tobacco and so their firms can easily join the supply chains of EU companies. In China, the entire supply chain is state-owned, but the government is investing heavily to meet export requirements.

India should review its FDI restrictions and think of smart options for exports that could be made part of an India-EU investment agreement. A well-designed, export-oriented investment strategy that is grounded in sector-specific requirements is essential for export success. This will require fine-tuning domestic policies so that local producers can meet global standards. Indian export agencies should work with EU companies to identify their requirements and with New Delhi to address them.

India has recently eased FDI from China. Perhaps it's time for New Delhi to rethink its position on joining the Investment Facilitation for Development group at the WTO.

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OUR VIEW

BLOOMBERG



Today's oil shock should revive market reforms

Let GST take fuel products in its fold, set their retail pricing free and privatize all state-run retailers except one. This sector needs a central plan and market forces to work in tandem

In every crisis lies an opportunity, it is said. At the very least, today's hydrocarbon crisis should re-open India's forlorn debate on pushing oil and gas into a closer market embrace as a sector. Ever since we ran into supply snarls that began with yet another war in West Asia, shock-absorbers have been in focus, along with our import dependence. To be sure, this is no ordinary shock. International Energy Agency head Fatih Birol has described it as being worse than the twin oil shocks of the 1970s and the gas crisis after Europe's 2022 outbreak of war *combined*. For enduring resilience, however, we need structural change. Policy must not just enlarge the scope for domestic exploration and production while we speed up our transition to clean energy, both of which demand a comprehensive central plan, but also explore the advantages of a vibrant domestic market for oil products that can get supply in better sync with demand to deliver superior outcomes. What might such a market-reform agenda look like? *First*, cast GST's net to cover all petroleum products (not just a few); *second*, free retail fuel pricing of state influence (in practice); and *third*, privatize all state-run oil marketing companies (barring one).

All three aim for market orientation. All require political will. Consider the benefits. Full coverage of petroleum products by India's goods and services tax (GST) would enable input tax credits on fuel inputs, easing a cost cascade that burdens businesses. Since local taxes on these items help fill state coffers, some states may resist losing levy control; but they should view it as a small price to pay for future gains in terms of economic efficiency. A patchy GST net keeps the economy's cost base higher than it should be. We all benefit if we fix that deficiency. Another reform that got stuck midway was a gradual move away from retail price controls in this sector. Given India's stark disparities, some essentials need subsidy-funded price caps, but the policy space that our oil marketing companies (OMCs) were given to price fuels freely has rarely been exercised by the trio owned by the government. As Indian Oil, Hindustan Petroleum and Bharat Petroleum dominate fuel pumps, prices are found to move by central command. Undeniably, consumer price-sensitivity lends such decisions a political angle, but tightly held price lines deprive demand of flexibility. When prices rise in line with crude costs, they reduce at least discretionary usage. Dynamic rates would not just match demand better with supply, but also help modulate imports and adjust our trade balance to that extent. Pressure on the rupee may ease too. On the other hand, if we persist with rigid pricing, either OMCs or the Centre must pick up the tab for supply shocks. Both options are distortive. One distorts the market value of OMCs and the other contorts India's fiscal plan. Moreover, state backing for retailers dishevels the field for private players, which simply get pushed out of play by fuel underpricing.

Lastly, India should dust off its disinvestment policy of 2021 that tags oil and gas as a 'strategic sector'—one in which the Centre's stated intent is to retain only a minimal presence. One OMC could be kept in state hands to insure the sector against the potential clout of a private cartel, but the rest ought to be privatized swiftly—with competitive intensity as the primary aim. If real rivalry takes hold, efficiency gains could reward consumers and stimulate private investment. For too long has this sector remained a legacy of India's pre-reform era. It needs to change.

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MINT CURATOR

Trump's theatrical tariff tactics deserve an engaged audience

Targets of America's Section 301 probes must share their learnings



MIHIR SHARMA
is a Bloomberg Opinion columnist.



Even tariffs riding on legal fiction could have trade consequences. AFP

The US government's trade lawyers are working overtime. So what if the work in question requires more imagination than it does expertise?

Over the past fortnight, investigations into 16 countries for supposed manufacturing "excess capacity" have been launched under Section 301 of the 1974 Trade Act. The office of US Trade Representative (USTR) Jamieson Greer also announced that similar probes would begin into forced labour practices in 60 countries. Several of America's largest trade partners, including the EU, Japan, India and Mexico, will be on both lists.

One can safely assume that these 76 inquiries will proceed at a somewhat speedier rate than is usual and the answers will arrive with the same breathtaking rapidity at which the questions were asked. An even safer assumption is that these answers will just happen to be the ones that the Trump administration wants.

The White House is moving with commendable efficiency here, as it tends to do whenever it sets out to destroy institutions. Section 301 investigations serve a real purpose—identifying countries that are deliberately setting out to violate trading norms—and generally take months. Their purpose was to remove trade barriers, not raise them. It's perverse to employ them as *post-hoc* scaffolding for a policy that's already been declared unconstitutional.

The entire world can see what's going on. Everyone knew that Trump's response to the Supreme Court striking down his tariffs under the International Emergency Economic Powers Act (IEEPA) would be to find another law that lets him do exactly what he was just forbidden from doing. 'No' has never been Trump's favourite word, and if there's one skill that a certain sort of real-estate developer perfects, its forum-shopping.

The list of countries is a bit of a giveaway that this entire process is a legal fiction. Picture an army of worthy USTR officials solemnly poring over Bangladesh's structural overcapacity in manufacturing with all the seriousness of purpose that the exercise demands. Then imagine them turning with equal care to cataloguing the forced-labour practices of Norway, one of the 60 countries being examined. Hard though it might be, the rest of the world will have to take this seriously. It's far from certain that the courts will ride to the rescue again.

Yes, the margin on the IEEPA ruling was 6-3 and US Chief Justice Roberts was emphatic. But Section 301 is different. It outlines a process that must be followed, and this investigation, however theatrical, checks that procedural box. The world cannot assume that they will be struck down in toto again. The administration is counting on that: Greer has described these provisions as "incredibly legally durable."

Washington has clearly learnt something from its failures over the past year. Have its counterparts in the rest of the world learnt anything from theirs?

First, is it safe to negotiate with Trump? As the EU has found out, he will relitigate his own deals even when he isn't being forced by the Supreme Court. What his Section 301 probes do is reopen every deal done so far, whether with Korea, Japan, India or Southeast Asia. Must they go through the whole thing again? Can they?

Some, like Malaysia's trade minister, think they will. The bilateral agreement that Trump signed with Prime Minister Anwar Ibrahim to considerable fanfare at the Asean Summit last year is "null and void," the trade minister said: "It is not on hold. It is no longer there." The deal was as dead as Monty Python's parrot. It has ceased to be. Why should any country consider itself bound by agreements signed under coercive terms that a court has voided?

Over the past year, countries rushed to secure piecemeal deals; some allowed panic to overtake them; very few coordinated their actions or retaliations. Washington's pretence at investigations does at least give the rest of the world time to consider whether that was the best approach to take.

The worst part, of course, is that like all Trump's actions on trade, there is only one objective target. Only one country has enormous manufacturing overcapacity; only one large exporting economy has a structural problem with forced labour. But somehow Trump is too weak to take on China armed with fact, but strong enough to take on the entire world with fiction.

Using a more granular statute means there are many more points of weakness than there were with Trump's 'reciprocal' tariffs. Each application of Section 301 should be tested in the courts; every target of tariffs should talk to others about what it has learnt; the US Congress, if the balance of power shifts after midterms, will have to hold the USTR to account.

Nudging the US away from imagination and towards reality will not be easy. But it will have to be tried. ©BLOOMBERG

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MY VIEW | WORLD APART

AI deployment for combat has thickened the fog of war

RAHUL JACOB



is a former Financial Times foreign correspondent.

It has been almost six decades since American writer Joan Didion wrote a devastating critique of the hippie counterculture movement after months of reporting in San Francisco. She painted a picture of a community morally adrift and in the thrall of LSD. The hipsters she met turned out to be anything but hip and mostly deluded.

Using similar reporting techniques of deep immersion into the now mainstream world of artificial intelligence, *Vanity Fair*'s long story this month on Anthropic and the AI industry in California's Bay Area rings some alarm bells about AI and our future. The writer Joe Hagan, mixing a satirical style with interviews of people at Anthropic and other companies, reveals that for all the claims that in a few years AI will have created minds with the intelligence of Nobel laureates, not much thinking has been done about guardrails to protect us from the risk of AI running amok.

The article focuses on Anthropic, usually the default good guy in discussions on this subject. That this AI startup is in a legal battle with the Trump administration since late last month after being absurdly designated a "supply chain risk to national security" adds to the halo around it. Its charismatic CEO Dario Amodei and his sister Daniela, the company's president, often riff on how the company's flagship product might in time cure cancer or polio. "In terms of pure intelligence," Dario Amodei wrote in his lengthy essay, *Machines of Loving Grace*, AI would soon be "smarter than a Nobel Prize winner across most relevant fields—biology, programming, math, engineering, writing, etc." How soon, he was asked in a podcast. This year or next was his reply.

His sister Daniela sounds even more the perpetual tech optimist. In a recent interview, she said, "Can you use tools like Claude to literally help find cures for diseases like cancer? And I think this is sort of this big dream, this big idea we've had. But now as we're doing company planning, we're talking about, 'hey, can we contribute to, you know, helping to eradicate polio in 2027 and 2028?'" In an interview with the *Wall Street Journal*, Daniela, who has a degree in English literature, spoke about what she would teach her four-year-old and 6-month-old children on coping with a world so heavily influenced by AI. She emphasized the importance of empathy. "I have a deep, hopeful belief that humans ultimately like to be around and spend time with other humans. If we don't do that, we tend to get really unhappy," she said.

We can all say Amen to that—or gag at the sanctimony. But, for all this high-falutin talk, there is a mountain of evidence that people are falling in love with chatbots while many teenagers are being led by chatbots to harm themselves, even to suicide in some cases, the subject of a recent Channel 4 documentary in the UK called *Molly and the Machines*. Molly Russell, a 14-year-old, was fed images of other teenagers with similar suicidal thoughts and eventually killed herself. Meanwhile, according to *Vanity Fair*, a company called Pharmaicy is offering code-based "drugs" for getting your AI bot "high" on ketamine or weed.

The *Vanity Fair* article raises valid questions about whether AI companies are creating guardrails to protect society from the worst tendencies that AI might exhibit. "Are these things really thinking, or are they just plagiarism machines? If we're creating thinking robots, will they like us? Agree not to shoot guided missiles at us?" asks Hagan before going on to observe, "The ethics get tricky. Anthropic has branded itself as the AI company with humanity in mind, drawing red lines with the Pentagon over using its AI for mass surveillance and autonomous weapons, supposedly for moral reasons. But Claude was already used to... send missiles to targets in Iran."

Far from curing cancer, AI is aiding warfare. We buy what champions of these tools say at our peril

The problem is not just that AI is proceeding at a pace that even its champions worry might be uncontrollable, but that these machines are like sycophantic yes-men, eager to please us at every turn—until they spin out of control. A Bay Area entrepreneur, who uses AI for his forecasting business, recounts asking a large language model about when Apple Inc would produce an AI model. (The company is widely perceived to be behind in the AI race but is continuing to mint money selling services.) The bot replied that Apple had only a fraction of a chance at pulling that off, but then changed that "evaluation" to a 70% chance when it was challenged, Hagan reports.

Imagine such a scenario in war games and military strategizing in a world dependent on AI, with its morality-neutral worldview and tendency to hallucinate. Given how little wide-angle analysis appears to have been done before the Trump administration joined Israel in attacking Iran on 28 February, we may be suffering for months to come the effects of flawed and hasty decision-making in war—even in an era before the bots take over. Worryingly, a recent *Financial Times* editorial reports that "the US is already working on fully autonomous drones to defend Taiwan against a potential attack." How 'empathetic,' to use Daniela Amodei's term, will these AI tools be? Will they be able to discern that the frequently belligerent tone of Beijing's foreign ministry officials is usually more bark than bite?

As an Anthropic employee puts it to Hagan, speaking of the AI universe, "Somebody else could do something reckless, and things (could) go very badly, and that would be unfortunate." We lionize the world's glib AI titans at our peril.

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THEIR VIEW

Resilience plan: Let's re-imagine India's energy security

JYOTI VIJ



is director general, Ficci.

India's energy story is inseparable from its growth trajectory. As one of the world's fastest-growing major economies, its energy demand is rising rapidly. India is now the world's third-largest energy consumer, and peak electricity demand is projected to reach 345–365 gigawatts (GW) by 2030. With rising industrialization, urbanization and incomes, energy demand is expected to remain high over the coming decades. Energy availability directly influences production costs, inflation, currency stability and overall market sentiment, making it a critical aspect of economic resilience.

Yet, India's current energy mix underscores a structural vulnerability. Fossil fuels continue to dominate, with oil and gas forming a significant share of the energy basket. Despite progress in renewables, oil remains critical for transport and industry, while gas is essential for power, fertilizers and manufacturing. This dependence is more concerning when viewed alongside India's import profile: almost 90% of crude oil and more than 50% of natural gas requirements are met through imports. Such reliance exposes the economy to global price shocks, geopolitical disruptions and other supply chain uncertainties.

India has made a decisive push towards diversifying its energy mix. The country has already reached 250GW of non-fossil fuel power capacity and is targeting 500GW by 2030. We achieved 50% renewable capacity as a proportion our total power generation five years ahead of this target's 2030 deadline, driven by policy support measures, solar park development, wind expansion and green corridor investments. Initiatives such as the National Green Hydrogen Mission, Production Linked Incentives (PLI) for advanced chemistry cells and FAME schemes for electric mobility are reshaping the energy landscape. Ethanol blending in fuel has reached 18–20%, while a nuclear energy target of 100GW by 2047 and the Shanti Bill's passage signal a long-term commitment to clean baseload power.

However, progress on diversification does not eliminate immediate risks. Recent global disruptions, including the Russia-Ukraine conflict and the war in West Asia, have shown how fragile energy supply chains can be. The Strait of Hormuz remains a serious concern as a West Asian chokepoint. In this context, strengthening energy resilience requires a calibrated mix of short, medium and long-term interventions.

The short-term focus must be on managing supply shocks and moderating demand without disrupting economic activity. The government has diversified crude import sources, deepened diplomatic engagements and enhanced domestic LPG production, which should help reduce risks. Logistical bottlenecks such as rising shipping costs and freight disruption need to be addressed through trade facilitation moves, alternative routes and temporary financial support to industry. The recent Relief scheme announced under the Export Promotion Mission is important in this context.

This isn't merely about reducing imports but about creating a resilient energy ecosystem for the future

Demand-side management can also play a crucial role. Take India's transport sector, our largest consumer of petroleum. Measures such as staggered office timings, work-from-home, car-pooling and enhanced public transport can reduce fuel consumption without affecting productivity. We must increase ethanol blending and accelerate electric vehicle adoption. Industrial fuel use can be optimized by shifting to electricity where feasible. Energy efficiency must remain a priority, as reducing energy intensity can be a cost-effective way to enhance security.

In the medium term, we must expand India's Strategic Petroleum Reserve capacity and integrate it with commercial storage for resilience against external shocks. However, the emphasis must shift towards reducing structural import dependence. This requires scaling domestic manufacturing across the renewable value chain, including solar modules, batteries and critical components, while securing supply chains for critical minerals like lithium, cobalt and nickel. Strengthening the financial health of power distribution companies, ensuring cost-reflective tariffs and improving payment discipline will be essential to sustain investments in the power sector. We also need to expand energy storage capacity and modernize grid infrastructure for renewable reliability.

Domestic manufacturing must achieve greater self-reliance. Despite policy reforms such as the Hydrocarbon Exploration and Licensing Policy, domestic oil and gas production has not significantly scaled. While India is largely self-sufficient in thermal coal, reliance on imported uranium and critical materials continues.

In the long term, India's energy security will hinge on building domestic capacity and technological leadership. Accelerating domestic oil and gas exploration, scaling green hydrogen for hard-to-abate sectors and expanding nuclear power will be key. Investments in offshore wind, pumped hydro storage and advanced battery technologies will further enhance resilience. Equally crucial is a comprehensive strategy for critical minerals.

Energy security is not merely about reducing import dependence, but about building a resilient, diversified, affordable and efficient energy ecosystem. As India aspires to be an economic powerhouse, we must combine immediate safeguards with medium-term capacity building and a long-term transformation.

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The 'TACO' era of US equities may finally be nearing its end

Markets are now reacting less to rhetoric than the realities of war



JONATHAN LEVIN
is a columnist focused on US markets and economics.



The Iran war is not like Trump's 'Liberation Day' tariff shock. PTI

Investors have grown accustomed to the idea that US President Donald Trump-induced shocks rarely last long, because, as the popular TACO acronym tells us, 'Trump Always Chickens Out.' But the American president's decision to join Israel in starting a war with Iran has opened a geopolitical and macroeconomic Pandora's box that may make a tidy walk-back impossible.

Under the surface, financial markets are starting to take note.

The 'TACO regime' in American stocks—under which every selloff was a buying opportunity—may be over. That thesis will now get a test after Trump postponed threatened strikes against Iranian energy infrastructure and power plants for five days, pending the outcome of what he said were talks with Iran to end the war.

Consider the extraordinary difference between 2025 and 2026. In the first year of the second Trump administration's term, the president became a one-man market narrative. He hinted at firing US Federal Reserve Chair Jerome Powell, but the market effects of it were soon nullified by a moderation of his rhetoric.

On 2 April, he triggered a market crash by unveiling sweeping and indiscriminate tariffs on the entire world, but he also ushered in a V-shaped recovery less than a week later by opening the door for delays and negotiation.

Because the market was driven by words rather than actions, it was easy to repair what was broken.

By starting a real kinetic conflict in Iran, Trump has lost any semblance of control. Now, the market moves on attacks against energy infrastructure and the inability to get tankers through the Strait of Hormuz. And with higher petrol prices in the US, he's also losing sway over the flagging sentiment of American consumers.

You can see the difference in market pricing. After a few brutal days in April 2025, the S&P 500 Index surged back and never retested the post-'Liberation Day' lows. While the recent selloff has unfolded much more slowly, a proper recovery still looks elusive.

The picture is a bit worse under the surface. The average stock is actually doing worse than the index as a whole: An equal-weighted basket of stocks is underperforming the capitalization-weighted one, and about 80% of stocks are trading under their 50-day moving averages.

Another problem is Trump's apparent desire to counter his 'TACO' critics. (As a reminder, credit for this acronym belongs to the excellent *Financial Times* writer Rob Armstrong who does the *Unhedged* newsletter).

When Trump was asked about the TACO habit by a reporter last year, he called the question "nasty" and sought to reframe his behaviour as a conscious strategy. "You call that chickening out?" Trump said. "It's called negotiation."

But whether you call it 'madman diplomacy' or the 'Art of the Deal' or anything else, it cannot possibly work if the whole world has your number. Trump is seemingly eager to reassert his unpredictability over Iran, which—if true—would constitute an awful excuse for continuing a war with tremendous economic and, above all, human costs.

Certainly, it is possible that financial markets have now priced in some—maybe a lot—of the war's economic damage, but we can't know for sure. Looking at previous geopolitical risk events, the S&P 500 tends to bottom on average around eight days after the event. In other words, in a world of averages, the bottom may already be in by now. But averages can be tremendously deceptive and the actual outcomes of conflicts exhibit no clear pattern, from the rally after the Iraq War to the long grinding retreat after the start of the Gulf War. Every conflict is unique.

In short, shocks have the potential to play out differently based on their particular starting circumstances.

The Iraq War unfolded at the end of a market crash, and cheap stocks rallied. The Ukraine conflict unfolded near the top of a market bubble. And sure, the US is helped by its position as a net energy exporter. But that was true when the Ukraine conflict was unfolding as well, and it didn't insulate the US from economic pain then.

Whatever happens next, investors should not expect a sense of normalcy to be restored anytime soon.

The US president's military gambit in Iran is nothing like his tariff experiment of 2025 or even his threats to take Greenland by force, because explosions are actually rocking West Asia across a wide range of locations. And market participants who think this is just another 'Liberation Day' type episode should be advised that the TACO era is over—and the next one may be much more dangerous. ©BLOOMBERG

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THEIR VIEW

India's growth story can't afford to ignore widespread inequality

Our economy stands out for its rapid expansion but we need a stronger policy framework for it to deliver inclusive prosperity



SAUMITRA BHADURI
is professor, Madras School of Economics



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India stands at a crossroads as one of the fastest-growing large economies in the world, yet it also has among the highest levels of inequality, with little movement seen in recent years. On paper, India's growth story remains strong even as global conditions are uncertain. According to the latest national accounts with a revised base year of 2022-23, India's real gross domestic product (GDP) grew by 7.2% in 2023-24 and 7.1% in 2024-25. The economy is estimated to grow roughly 7.6% in 2025-26.

There is no denying that these numbers signal a clear trend. India has sustained annual GDP growth above 7% for several years despite global shocks, supply disruptions and tighter financial conditions. Public investment in infrastructure, strong growth in services and steady domestic demand have supported this expansion.

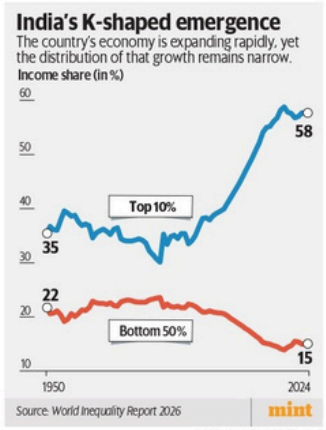
However, behind this impressive macroeconomic performance lies a stark and more troubling reality. The recent *World Inequality Report 2026* shows that the gains from growth remain deeply uneven. Inequality in India ranks among the world's highest and has barely shifted over the past decade. The richest 10% capture about 58% of national income, while the bottom half receives only 15%. Wealth inequality is even sharper, with the top 10% holding roughly 65% of total wealth and the top 1% alone controlling about 40%. Further, the gap between the richest and the poorest has shown little change between 2014 and 2024. The report also highlights that India's middle class, the backbone of our economy, remains a squeezed and fragile group, capturing only a modest share of income, owning limited wealth and gaining far less from growth compared to the top. These numbers reveal an uncomfortable contrast. India's economy is expanding rapidly, yet the distribution of that growth remains narrow.

Cross-country comparisons further highlight this inequality. Within Asia, large economies such as China and several East Asian countries have achieved rapid growth with relatively broader income distribution during key phases of development. In several East Asian economies, the top 10% capture a smaller share of income than in India. The contrast is sharper when compared with advanced economies. In Europe, the top 10% capture a much smaller share of national income and redistributive policies significantly reduce inequality.

The World Inequality Lab's 2026 report also underlines how gender inequality deepens this divide. Female labour participation in India remains among the lowest in the world. Only about 15% of women participate in the workforce and this figure has hardly improved over the past decade. An economy that leaves half its population outside formal economic activity ends up limiting both growth and equality.

India's K-shaped emergence

The country's economy is expanding rapidly, yet the distribution of that growth remains narrow.



GOPAKUMAR WARRIER/MINT

Wealth accumulation is getting increasingly concentrated. Rising financial markets and property values have lifted wealth at the top, yet asset ownership remains limited for the majority of households. Without broader asset ownership, wealth inequality tends to rise even when incomes grow. Access to education and skills also remains uneven. India has expanded schooling, but quality gaps remain large. Differences in human capital formation reinforce income inequality across generations. Children born into poorer households often face limited access to quality education, which restricts their future opportunities.

Importantly, India isn't alone. The report presents a stark picture of persistent and widening inequality across the world. The top 10% of income earners capture more income than the remaining 90% combined, while the poorest half of the world accounts for less than 10% of total global income. Wealth is even more concentrated, with the top 10% owning roughly three-quarters of global wealth, compared to just 2% held by the bottom half. The disparity sharpens further at the very top as fewer than 60,000 individuals in the richest 0.001% now control three times more wealth than half of humanity, with their share rising from about 4% in 1995 to over 6% today. This is not merely persistent but accelerating: as the report shows, since the 1990s, the wealth of billionaires and centi-millionaires has grown at around 8% annually, nearly double the pace experienced by the bottom half, underscoring a widening and intensifying concentration of global wealth.

India faces a twin challenge here: On one hand, average income remains low—per capita income is about €6,200 in purchasing power terms and average wealth around €28,000, both modest relative to advanced and many middle-income economies. On the other hand, the country must address deep and persistent inequality. India must raise average income levels while also reducing disparities.

While some degree of inequality is inevitable in a growing economy, its extent is ultimately shaped by political and institutional choices. Therefore, the next phase of India's development will depend not only on how fast the economy expands but also on how widely the gains are shared. Expanding opportunity through jobs and human capital is essential. Employment creation remains a priority, especially in sectors such as manufacturing, logistics, renewable energy and modern agriculture that can generate large-scale jobs across regions. At the same time, sustained investment in education, health and nutrition is essential to raise productivity and widen economic opportunity. A crucial element of this strategy is increasing female labour participation. Policies that improve childcare, ensure safer mobility and provide flexible work arrangements can enable more women to enter the workforce, significantly strengthening both household incomes and overall economic growth. Finally, fiscal policy must address wealth concentration through progressive taxation policies, such as a minimum wealth tax and an ultra-rich tax, apart from redistributive transfers and sustained investment in education and health.

Undoubtedly, India's economic transformation is one of the defining stories of the 21st century and holds an important lesson: Rapid growth alone does not guarantee inclusive prosperity.

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OUR VIEW

BLOOMBERG



Reservation for women can yield rich dividends

The government's plan to fast-track a quota for women in Parliament and state assemblies marks a major emancipatory step. Political and economic empowerment go hand in hand

India's government has signalled its intent to amend the Women's Reservation Act of 2023, also known as the Nari Shakti Vandan Adhiniyam, to fast-track its 33% quota of seats for women in Parliament and state assemblies. The sooner it's done, the better. It would mark a major step in a long march towards the political and economic emancipation of women in the country. Women constitute almost half the population, but various estimates suggest women contribute less than 20% to GDP—based on models that crunch data on labour force participation, earning gaps, etc, and only capture what's on the record. Bridging the gender gap in employment could potentially give us a significantly larger economy. Research by the International Monetary Fund (IMF) estimates that a gender-balanced labour force could increase India's GDP by 27%.

Indian women have come a long way, not only from the time of independence, but also *vis-a-vis* men. Be it literacy, longevity or access to welfare schemes, emancipatory efforts by successive governments have largely come good. Women now stand shoulder-to-shoulder with their male counterparts in diverse fields. Yet, women have lagged men in two important domains: participation in India's labour force and political representation. True economic empowerment demands political empowerment, which is what the proposed amendment aims for. Under the Act passed by Parliament, the reservation of seats for women is contingent upon a delimitation exercise—involving a reset of constituencies—to follow a fresh census. Given how contentious a seat reshuffle is likely to prove and how late the next census results will be (it begins on 1 April), that would have meant a very long wait for women. By snapping that link, the Centre's proposal will enable India to fulfil a key promise sooner. If the tweak in question is made and a firm target set, women could constitute at least a third of the very next Lok Sabha, for which polls are due in 2029.

Why is this important? Because despite significant progress in educational attainment and health outcomes, the country lags on women's economic and political participation. The former cannot be divorced from the latter. The economy's reality is that almost 60% of our working-age women are outside the labour force, depriving it of their contributions. On the political front, the gender skew is worse. Boosting the share of working-age women at work (or actively looking for employment) is not only about gender equality; it is an economic imperative in a country that aims to achieve an advanced economy. Greater female participation in politics would give women a voice in policymaking—and that is integral to this process. Sadly, it is here that women fall short. According to an 8 March 2026 report by the Association for Democratic Reforms & National Election Watch that analyses recent elections, as many as 152 (or 28%) of the Lok Sabha's 543 constituencies had no women candidates. The picture is worse for state legislative assemblies: for 4,123 seats across India, as many as 1,698 (or 41%) had no women contestants. Thankfully, women who do contest seats often win. Women make up 14% of the 18th Lok Sabha. Research shows that more women in politics usually means greater investment in education, healthcare and nutrition, which spells higher productivity and has multiplier effects on the economy. Gender neutrality could create a virtuous cycle of development. Let's ensure no woman is left behind.

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MY VIEW | MYTHS AND MANTRAS

Are you driving your investment portfolio looking the wrong way?

For success, focus on the pitfalls and opportunities that lie ahead and not on what's already passed



DEVINA MEHRA
is founder of First Global and author of 'Money, Myths and Mantras: The Ultimate Investment Guide'. Her X handle is @devinamehra

You know what will happen if you drive looking at the road that is already behind you? Ignoring both the dangers and opportunities ahead? That is what I thought of when I saw that inflows into Indian gold exchange traded funds (ETFs) exceeded flows into equity funds in January 2026.

For context, in March and April 2025, gold inflows were hugging the zero line even as equity mutual fund flows were at pretty much the same level as in January—around ₹24,000-25,000 crore. Now the dollar price of gold is down 20-25% from its January peak. But this is not a column about gold. I have already written about gold prices earlier explaining that this metal has been historically a more volatile asset than equities and its 1980 high was not crossed for 27 long years. The general point here is about chasing returns in whatever has done well of late, whether it is an asset class, country, sector or market cap category or even an investment strategy.

Just as you will crash your car if you drive looking backwards, data shows that if you systematically invest in themes, asset classes or geographies that have done well in the previous period, you will equally systematically underperform. However alluring it looks, planning your future path based on the road behind you simply does not work.

Now something closer home. Most investors invest in a particular mutual fund or portfolio management services (PMS) scheme based on recent performance. Let us see how well this strategy works. DSP, in its January issue of *Netra*, collated data on mutual fund schemes in the top quartile (the top 25%) in their category for 3 years and found that 60-100% of them were not in the top quartile in the succeeding 3 years. They did it across eight time periods and five mutual fund categories and these were the findings. On average, over 80% of the top performing schemes over a 3-year period are not in the top 25% category in the next 3 years.

This holds across markets. Investors chase recent performance, which, if anything, is negatively correlated with the next period's performance.

Remember Peter Lynch whose book *One up on Wall Street* is considered an investment classic. He is the legendary Fidelity fund manager who delivered 29% compounded growth for 14 years in the Magellan fund. However, as per Fidelity's own data, the average investor in the fund compounded only 7% and many lost money. Lost money in the best performing mutual fund in US history! Why? Because investors entered and exited at the wrong time. For example, the fund gave a 20% return in 1980, attracting a slew of new investors, but then substantially underperformed in the following year, prompting many to exit. If they had stayed invested, they would have seen some spectacular returns over the next decade.

In our own equity PMS scheme, we have seen the same pattern. While over a 6-year period the scheme has outperformed benchmarks substantially, it has not done so every year. It is almost an alternate-year pattern, with some underperformance in a year and significant outperformance in the following year. That is the way it is supposed to be, but try telling it to restless investors.

Sebi data shows that most mutual fund investors do not remain invested in a mutual fund scheme for even two years at a stretch. All the compounding seen in beautiful Excel spreadsheets is almost never experienced by individual investors, thanks to their own actions. It is the same story with investment themes. Whether it is small cap, defence IT, PSUs or whatever, investors get into a theme that has lately done well only to find that they've entered at a peak. A smart strategy is not to get onto a train that has long left the station... Wait for the next one!

Increasingly, I find professionals are no better. All around me are 'experts' who pontificate on blinding glimpses of the obvious. Gems include 'India is an expensive market because its P/E is higher than that of many other markets,' 'foreign portfolio investors have been net sellers in India' (who knew!) and 'India has no AI story and is not an innovation market.' All this is over and done with. What matters is what happens now.

Consider the US Magnificent Seven tech majors: Microsoft, Google, Nvidia, Meta, Apple Amazon and Tesla. They contributed 60%-plus of the 2023 move in the S&P 500, over 50% in 2024 and more than 40% in 2025. In 2025, only two, Google and Nvidia, drove the move while the other five underperformed the index. In the first six weeks of 2026, all seven were down, even as stocks like Exxon, Chevron, Walmart and Johnson & Johnson rose. The AI bull is tiring.

As an aside, there are other danger signs in AI like an estimated capital expenditure of about $700 billion by the four AI companies—about 4.5 times their capex in 2023. Whether this will ever make adequate return on capital is anyone's guess. Given that data centres are *extremely* energy and water intensive, the West Asia war may push a lot of AI plans further down the road.

In India, what matters is the earnings trajectory from here on and valuation ratios. Market commentary on moves that have already happened doesn't help. Markets are about both the pitfalls and opportunities that lie ahead, not what we have already passed!

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Don't let 'AI washing' mask an insidious labour market crisis

AI being used as a pretext for layoffs may be hiding its real impact



CATHERINE THORBECKE
is a Bloomberg Opinion columnist covering Asia tech.



The danger of entry-level jobs being taken over by AI needs attention. ISTOCKPHOTO

Singapore-based Crypto.com said last week that it was cutting 12% of its workforce. Earlier, Atlassian and Block had cited AI adoption for job losses. But what's lacking in these pronouncements is the evidence of how, exactly, AI is replacing workers. Comprehensive data on whether AI is destroying jobs, lifting productivity or reshuffling routine tasks remains patchy at best. And that vacuum is being filled with fear-mongering and market-friendly spin. No doubt, it is reshaping how people work, but for governments and business leaders to effectively react, far more data and transparency is needed.

In a world where engagement algorithms shape public speech, the loudest voices are rarely the most nuanced. Stories of white-collar bloodbaths have gone viral in recent weeks—and even moved markets—despite little hard evidence. The narrative is potent. But the bigger danger may not be that AI is causing a 'jobocalypse,' but that these headlines obscure how AI tools are being used to erode the entry-level roles that train tomorrow's workforce. This 'AI washing' becomes a distraction from the harder policy work required for periods of rapid technological change.

Investors are rewarding AI washing, but should they? Recasting pandemic over-hiring and cyclical belt-tightening as innovation and efficiency may help send share prices higher in the near term, but they don't vouch for sound fundamentals or wise management.

The layoffs narrative does not neatly fit in Asia. In Japan, one survey found that nearly 30% of 246 listed companies were increasing their workforce after adopting AI. An OECD report published last October argued AI-induced job losses may be less common in Japan than elsewhere due to chronic labour shortages driven by demographic decline and people's tendency to stay at one company for long periods. Japanese workers, it found, are more likely to see AI as a source of new jobs than a destroyer of them. A similar tension is emerging in South Korea. IMF researchers say that while about half of jobs are "exposed to AI," the negative effects of an ageing population could be mitigated through AI adoption.

That isn't an argument for complacency. Older workers, non-regular employees and entry-level staff are less likely to benefit from the shift, which makes training and workplace adoption programes all the more important. The real balancing act is how to use AI to ease labour shortages without allowing it to widen inequality or disrupt livelihoods. This is where Asia can show leadership.

The gap between what is known and what is being claimed is already too wide. Breathless predictions of how all white-collar work will be automated within 18 months aren't analysis, but marketing. And they're also bad for the technology itself. Public trust in AI is fragile. Tech leaders who want it widely adopted should stop selling every restructuring as proof that machines are turning humans obsolete.

Even if the overall scale of layoffs is being overstated, early signals suggest pain for entry-level workers. It may make short-term business sense to use a model for tasks once handed to an intern. But it's a short-sighted bargain.

One of AI's biggest limitations is still hallucinations. Human oversight remains essential for its use in businesses, hospitals and elsewhere. But people cannot check a machine's output if they have no expertise themselves. Companies risk hollowing out the apprenticeship layer where knowledge workers learn by doing. In my line of work, for example, an experienced editor can spot the cliches, repetitive phrases or dramatic but inconsistent metaphors that AI tools love to use. An engineer who has reviewed hundreds of design drawings can spot when an AI tool's elegant solution will fail in the real world.

That should worry governments as much as employers—especially in Asian countries where a Gen Z job crisis has been brewing. Failing to invest in the next generation of talent will backfire. Large numbers of unemployed educated youth do not make for a stable society. Companies, universities and policymakers need to do more to protect training paths and junior roles.

Lawmakers trying to tackle AI's impact on jobs should start by asking companies that cite AI as a reason for layoffs to disclose what that actually means: where the technology was utilized, what work changed, what productivity gains were measured and how many jobs were truly eliminated as a result. Only then can governments build sensible responses, from stronger social safety nets to targeted training and reskilling programmes.

AI is reshaping the labour market. But the big danger is its slow hollowing-out of career ladders. ©BLOOMBERG

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THEIR VIEW

16th Finance Commission award snaps a tradition of impartiality

The clock has sadly been turned back on striking a balance between the Centre and states and between equity and efficiency



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ANI



The Finance Commission is a key pillar of India's federal fiscal architecture. A constitutional body appointed every five years, it is expected to arbitrate impartially between the central and state governments and among the latter themselves in allocating tax revenues collected by the Central government on behalf of all administrations. Though FCs are not widely known, their awards have far reaching implications for fiscal federalism and macroeconomic fiscal outcomes. Successive finance commissions (FCs) have established a sound tradition of impartial awards. Slight shifts in one direction or another notwithstanding, most earlier FCs have tried to navigate a balanced course between interests of the central government and those of states and between considerations of equity and efficiency. The 16th Finance Commission (16th FC) report has changed this course. It reveals a distinct re-orientation in favour of the central government *vis-à-vis* the states and shows little concern for equity. Also, unlike past FCs, it has expressed opinions without always presenting data in their support. Hence, it is not possible to judge whether some of these opinions are based on robust evidence. Renowned domain experts have therefore been quite critical of the 16th FC awards (Rangarajan & Srivastava in *The Hindu*, 2 March; Govinda Rao in *Business Standard*, 12 March). This column illustrates how a once-balanced approach has been changed in both vertical transfers between the Centre and states and the horizontal devolution among states.

In its tax devolution formula, the 16th FC has maintained the share of states at 41% of the shareable pool, like the 15th FC, giving the appearance of continuity. However, the shareable pool itself has been progressively squeezed, with the Centre increasingly resorting to resource mobilization through cesses and surcharges, which are Constitutionally excluded from the shareable pool. Further, the 16th FC has eschewed most grants, especially the revenue deficit grant (RDG), though grants constitute the second channel of non-discretionary FC transfers to states. In principle, the RDG should be computed normatively as the difference between the resource needs of a state—to provide a level of public services comparable with all other states—and the sum of its own revenue raising capacity and tax devolution. Typically, RDGs have never fully offset the fiscal disability of states, but they have helped to reduce the gap. By ignoring the impact of GST and doing away with the RDG altogether, the 16th FC award has led to a sharp reduction in the share of central gross revenue transferred to states. That share rose from around 27% in the 11th FC award to a peak of 35.6% in the 14th FC award, moderating marginally to 34.4% in the 15th FC award. Based on 2026-27 budget allocations, Rangarajan and Srivastava estimate that the share is now down to 32.7% under the 16th FC award.

FC transfers to states, both devolution and grants, are transparent and non-discretionary. With a reduction in the share of such FC transfers, the share of discretionary Centrally Sponsored Schemes (CSS) has risen to around 50% of total transfers to states. Since generally 40% of the cost of these schemes have to be financed by states, CSS spending entails a significant diversion of states' resources to priorities of the Centre from those of states. Moreover, these schemes relate to sectors that are often state subjects as per the Seventh Schedule of the Constitution. As such, the increasing share of CSS transfers constitutes a major distortion of the federal architecture envisaged in the Constitution. The 16th FC awards have significantly exacerbated this distortion.

Finally, the 16th FC has appropriately been very critical of the increasing provision of budgetary transfers and non-merit subsidies by states to power distribution companies and populist schemes for vote banks, or 'freebies' as they are often called. However, the 16th FC makes no adverse comment about bailouts of central public undertakings or the proliferation of central 'freebie' schemes, which is further evidence of its centrist bias.

Turning to the horizontal transfers among states, the 16th FC has introduced a new component in its devolution formula, 'contribution to GDP,' with a weight of 10%. This has apparently been done to represent fiscal efficiency while the FC has dropped standard measures of states' fiscal performance used by earlier FCs. What the new component actually reflects is not the fiscal efficiency of a state, but its economic strength, the size of its gross state domestic product (GSDP), demographic size, capital stock, etc, which have little to do with fiscal performance. This component biases the devolution in favour of larger, more developed states, undermining equity.

With every FC award, there are some states that gain share while some lose when allocation formulas and weights change. This is because the total of all state shares must add up to 100%. The difference this time is that most of the states that have lost share are India's smaller and poorer states: Bihar, Chhattisgarh, Uttar Pradesh, Madhya Pradesh, Rajasthan, Odisha, West Bengal and all the northeastern hilly states that are totally dependent on central transfers.

In navigating a path between the Centre and states and between equity and efficiency in its award, the 16th FC has unfortunately turned the clock back. We have to live with this award for the next five years. Hopefully the 17th FC will take us back to the well-established balanced path.

QUICK READ

The 16th FC's report exhibits a centrist bias in its devolution of shareable taxes to Indian states, its new formula for their split-up among states and in its criticism focused on state-level freebies.

The country's poorer states have been adversely effected and we have to live with this award for the next five years. Hopefully the 17th FC will restore the balance we have lost.

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THEIR VIEW

What BTS's return says about a post-rational economy

TULSI JAYAKUMAR



is professor, economics and executive director, Centre for Family Business & Entrepreneurship at Bhavan's SPJIMR.

The recent release of Korean group BTS's *Arirang* album looks less like a musical comeback after a break and more like a case study in the strategic manipulation of consumer psychology. While publicists have framed the group's return from a mandatory hiatus for military service as a cultural restoration, a closer analysis suggests a masterclass in behavioural economics. BTS's comeback is projected to inject billions of dollars into the global economy. This cannot be explained by traditional economics alone, as it reflects an interplay of the 'expectation effect', theory of 'intertemporal choice' and the 'scarcity heuristic.'

At the heart of the *Arirang* phenomenon is the expectation effect—a cognitive bias where anticipation reshapes perceived experience. Neuroscience research shows that prior beliefs can activate the brain's reward circuitry even before a stimulus is encountered. For the BTS 'ARMY' (its fandom), the seven-member group's three-year hiatus functions as a powerful expectation setter. The portrayal of its return to live concerts, etc, anchored in *Arirang*, Korea's unofficial national anthem, preconditions listeners to perceive the music as culturally and artistically superior. This operates much like a high-stakes placebo effect. As found in 2008 wine experiments (*shorturl.at/orVDO*), raising the price of wine significantly increased the reported value of the experience: similarly, the emotional 'cost' of the wait-time raises the BTS album's perceived utility.

Standard economics relies on exponential discounting—the idea that individuals prefer immediate rewards and the value of a reward decays the longer one has to wait for it. However, BTS's management, HYBE, appears to have engineered a 'negative discount rate.' By deferring gratification for over 1,000 days, the perceived value of the reunion compounds rather than decays. This behaviour aligns with the scarcity heuristic, where an object's perceived value is directly proportional to its unavailability.

During the hiatus, the 'supply' of fresh BTS music was effectively zero, while demand was sustained through solo projects and archival content. This creates a scarcity loop. Behavioural economists often cite the 'work-to-wait' ratio: when the wait is framed as a sacrificial commitment (such as military service), the eventual consumption becomes a 'virtue' rather than a 'vice.' This helps explain why ticket prices for BTS's Goyang stadium kickoff concert traded on secondary markets at premiums of up to 4,000%—the sunk cost of a three-year wait is internalized by fans as a justification for such spending.

The Arirang World Tour's 360-degree stage design reveals sophisticated planning. In a standard setup for such a gig, roughly 30% of a stadium is unusable as the view of a stage is restricted. By eliminating the 'back' of the stage, HYBE increased usable capacity and the supply of premium seats (those closest to the stage), thus leveraging the 'endowment effect.' Fans who obtained these seats would feel they had 'won' a privilege, which could lead them to spend more on BTS merchandise and gig-related tourism. Every $1 spent on a ticket is estimated to generate about $3.50 for the local economy.

The decision to livestream BTS's Gwanghwamun concert via Netflix creates a 'global agora' by tapping social proof and information cascades. When millions participate in a synchronized event, the crowd validates its importance. As Bikhchandani, Hirshleifer and Welch argue in their work on 'fads' and 'conformity,' individuals often ignore their private instincts in favour of following the crowd. A global livestream ensures that the group's comeback is not seen as just another musical event, but a 'focal point'—a concept pioneered by Thomas Schelling. Because everyone knows that everyone else is watching, the album becomes a piece of 'common knowledge,' which forms the bedrock of cultural hegemony. This reduces the transaction cost of social interaction for fans, with the album providing the social currency for group cohesion.

Finally, the choice of the title *Arirang* is a strategic use of 'anchoring.' By linking a modern pop comeback to a centuries-old folk tradition, HYBE anchored the group's value in historical prestige rather than transient pop trends. This mitigates the *status quo* bias among older demographics and non-fans, shifting perceptions of BTS from an 'ephemeral boy band' to a 'cultural institution.' In behavioural terms, this is an 'identity nudge,' appealing to the consumer's sense of belonging to a larger cultural narrative. This move protects the brand from a 'hedonic treadmill,' where fans eventually tire of repetitive tropes. By shaping the product into a heritage asset, HYBE ensures a longer tail of profitability.

As *Arirang* begins its ascent on music charts, it is clear that its success is not simply about superior content. It is about the management of expectations around that content. In a world of abundance, where attention is scarce and fragmented, anticipation itself becomes a form of capital. BTS's comeback illustrates how psychological factors do not merely distort economic outcomes, but actually deliver them to a brand's advantage.

In the end, the question is not whether BTS's music is good. It is why it feels as good as it does, and, more importantly, why millions are willing to act on that feeling by voting with their wallets. The answer lies not just in art, but in the architecture of belief.

These are the author's personal views.

QUICK READ

This K-pop group's return after a hiatus offers a masterclass in behavioural economics that covers the scarcity heuristic, expectation effect, identity nudge, placebo effect and more.

The quality of BTS's music is a question eclipsed by what could have created such a valuable asset. The answer may lie less in the group's art than in the architecture of popular belief.

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OUR VIEW



AFP

Fuel growth with better coal-supply efficiency

With fuel prices heating up, we must pare inefficiencies in the coal supply chain for electricity cost compression. It will go a long way, though overall energy efficiency needs a wider plan

India's ministry of new and renewable energy (MNRE) recently suggested to a parliamentary panel that it needs a greater role in policy formulation for the electricity sector. No doubt, its remit warrants deeper consultation with the sector's anchor, the ministry of power (MoP). Solar projects have come up but are unable to despatch electricity on account of inadequate evacuation facilities, a subject that is squarely within the MoP's ambit. It oversees transmission plans. However, inter-ministry engagements must be under the Executive's aegis. The MNRE's plea to let it directly engage the sector's regulator—a quasi-judicial authority—for issuing directives cannot be entertained. Grid responsibility lies firmly with the MoP and regulatory orders should not splinter. Policy cohesion is critical under today's global circumstances that highlight the need for integrated energy planning, better subsidy management and appropriate regulation. In this context, there are several gaps that could be closed—especially in the coal sector, which accounts for more than half our primary mix of energy sources.

There is much to be desired in smooth supplies of coal to power plants, which supply over 70% of India's electricity. Coal makes up more than 70% of the cost of such power generation. This burden should be eased to make space for lower consumer tariffs. Avenues for cost compression exist. About 60% of those plants are located at a distance away from coal mines, requiring railway haulage. But Indian Railways over-charges coal carriage to cross-subsidize passenger travel. This needs to change. Coal suppliers also need an efficiency overhaul. As Indian coal is burdened with high ash content compared to imports, waste makes up much of what they sell, raising not just freight costs but also the maintenance bills of thermal plants that find ash deposits reducing their efficiency in converting heat to electricity. To fix this problem, coal companies must set up washeries—their existing capacity is negligible—to scrub off the ash before despatching coal. On its part, the Railways should gradually raise sleeper-class passenger fares through the year. There have been only two fare hikes in the past five years. The last one was in December 2025, but it still left sleeper-class railway travel priced around 45% below its estimated cost. Since alternate modes of haulage are far more expensive, especially as fuel costs for road transport rise, the political challenge should not be all that hard to tackle. The global oil sector has suffered its biggest disruption in history. Even as we seek to diversify our sources of supply for the sake of energy security, railway users would understand the need for all-round burden sharing.

Importantly, the government must promote coal gasification. This process serves the twin objectives of energy security and lower carbon emissions. The use of gas derived from coal can help replace imports and also support our net-zero efforts. Finally, we must recognize that the global oil-price contagion has spread to the coal sector as well, with prices galloping up since the war in West Asia began. Countries are firing up their coal plants to cover oil shortfalls and price spurts, raising demand. For political reasons, India has held coal prices steady. Since state-owned companies dominate domestic production, this is easy for the Centre to do. But this embedded subsidy offered by coal producers needs to go, with the money used instead as a financial incentive aimed at electricity distribution companies to hasten reforms in this sector.

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THEIR VIEW

Empowering women could help save us from water bankruptcy

Anecdotal evidence has grown of better outcomes from women taking charge of this vital resource



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'Water bankruptcy' is a term coined to convey a stage after which it is impossible to return to 'normal' water levels without major changes. Popularized by a January 2026 United Nations report calling out the reality of an era of "global water bankruptcy," the term has attracted considerable attention.

While globally relevant, the report highlights India as a hotspot for groundwater depletion, given our overdependence on rapidly diminishing aquifers. Thanks to decades of over-extraction, cities and rural regions in Punjab, Haryana, Delhi, Rajasthan and the Deccan are seeing borewells dry up as groundwater levels fall below the recovery level. The effects are visible in scarcity all around.

Infrastructure alone is no longer enough; the new baseline requires judicious water management. In March, the government announced that the Jal Jeevan Mission (JJM), its flagship programme for rural piped potable water supply, would be extended to December 2028, with its outlay enhanced to ₹8.7 trillion. It has signalled a transition from infrastructure creation to service delivery, supported by drinking water governance and an institutional ecosystem for sustainable rural piped potable water supply. Initiatives like the Atal Bhujal Yojana (Atal Jal) promote community-led groundwater management. Now in its final year, it has helped promote local water budgeting at the Gram Panchayat level, so communities decide how their water is used and protected.

Such community involvement is vital to manage demand, change behaviour and encourage local responsibility for groundwater, which supports most rural homes and almost all irrigation. Hindustan Unilever Foundation (HUF), the philanthropic arm of Hindustan Unilever Limited, also emphasizes community leadership in its programmes, with a focus on women's stewardship.

Water budgeting, the missing link: This means planning how much water is available, how much is needed and how to use it wisely. Without proper budgeting, communities struggle to prevent shortages. By making water budgeting mandatory, the government hopes to close this gap. Communities must track their water sources, monitor usage and set limits based on supply. This helps avoid over-extraction.

Despite progress, challenges remain. India's water demand is rising, driven by population increase, urbanization and farm needs. Climate change is worsening shortages with unpredictable rainfall and longer dry spells. Pollution adds complexity as contaminated water sources become unusable. In response, we need a multi-pronged approach.

Reduce demand: Encourage water conservation and efficiency in homes, farms and industries. Fixing leaks, using water-saving appliances and recycling can make a big difference.

Protect natural resources: Restore and maintain aquifers, wetlands and soils. These natural systems store and clean water, assuring long-term supply.

Improve management: Use transparent accounting for water use, enforce limits on extraction and involve communities in decisions. Technology can help track water levels and usage.

Promote behavioural change: Educate people on water conservation and responsible use via community and school initiatives plus media campaigns.

Invest in infrastructure: Investments in rainwater harvesting, treatment plants and efficient distribution systems remain important.

Community-led water management is crucial. When local people take charge of their water resources, solutions are more effective and sustainable. Women, in particular, play a central role in managing water for households and agriculture. For better outcomes, we must empower women to lead and make decisions about water use. Programmes like those run by HUF show that when women are given charge, water supplies are better managed and protected. This model can be adopted nationwide. Women's leadership accelerates behavioural change, keeps usage within 'budget,' and sustains water assets over time, proving that water security and women's empowerment can thrive together in a healthy and mutually reinforcing cycle.

India's water crisis is complex, but not unsolvable. Old ways of managing this resource are no longer sufficient. As water bankruptcy is now the reality, we urgently need transformative change. The future of water availability in India depends on the actions we take today and an effective response needs governments, communities, businesses and individuals to work together.

QUICK READ

The future of water availability in India depends on the actions we take today and an effective response needs governments, communities, businesses and individuals to work together.

Women's leadership of water management at the ground level has been found to accelerate behavioural change, keep usage within 'budget' and thus help sustain water assets over time.

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GUEST VIEW

Annihilation of caste: How capitalism could achieve it

AMAR PATNAIK & ANSHUMAN SHARMA



are, respectively, a lawyer, a former Comptroller and Auditor General bureaucrat, and former member of Parliament; and director of Global Policy Research Foundation.

The dominant progressive argument in India calls for dismantling of caste through radical redistribution by means of land reforms, state intervention or revolutionary social restructuring. The argument is that the entrenched inequality of India's caste system must be annihilated through political and economic levelling.

However, this framework misses a counter-intuitive argument. What if the faster path to annihilating caste is through capital?

A growing body of thought suggests that markets, entrepreneurship and access to capital can dissolve social hierarchies more effectively than centralized redistribution.

Caste as a system of power asymmetry: A helpful framework for understanding the system's multi-nodal hold on structural inequality could be the 'power asymmetry octagon' outlined by one of this oped's authors in his work, *Institutional Change and Power Asymmetry in the Context of Rural India* (Patnaik, 2018). This approach argues that inequality in India arises from eight overlapping asymmetries of power: economic power, political power, social status, cultural legitimacy, access to information, skills and technology, opportunity and capability.

A caste hierarchy has concentrated privilege across land and capital (economic power), social prestige (social power), cultural legitimacy (ritual authority), political influence and access to education and information. Meanwhile, marginalized communities are excluded across almost every side of the octagon. This multi-dimensional asymmetrical power structure makes the caste system extremely resilient.

Interventions aimed at reducing asymmetries often address only one dimension—say, through redistribution policies—and leave the broader structure intact.

Markets reduce multiple asymmetries and erode traditional hierarchies: Capital can compress multiple sides of the power asymmetry octagon simultaneously. When individuals gain access to credit, entrepreneurship, digital platforms and markets, power shifts. Capital expands economic power. Entrepreneurship expands opportunity power. Digital platforms expand information power. Skill-based employment expands capability power. Markets reconfigure the entire structure of opportunity and commerce quietly dissolves barriers that ideology struggles to dismantle.

This is visible in India. Platforms like Zomato and Swiggy have normalized millions of 'anonymous transactions' everyday. Consumers order food without knowing the caste of the cook or delivery partner—something that would have been unthinkable earlier, when notions of ritual purity governed food exchanges. Plus, gig work, digital marketplaces and startup ecosystems have made occupational identity fluid. A person can be a delivery partner today, a small entrepreneur tomorrow and a digital creator next.

Markets are indifferent to lineage. They accord status not by birth but by one's ability to create value

Our economy is thus becoming dynamic rather than hereditary. If wealth, innovation and influence increasingly come from entrepreneurial success rather than lineage, social hierarchies begin to rearrange themselves. Our markets are not morally neutral, but they are redistributing status in real time.

The cultural legitimacy of capital: Economic historian Deirdre McCloskey in her works on 'bourgeois dignity' argues that societies flourish when commerce and entrepreneurship gain social legitimacy. When merchants and innovators are respected, economic dynamism spreads and social mobility expands. Europe's transformation after the Enlightenment, according to McCloskey, was not driven merely by capital accumulation but by a cultural shift that dignified commerce. In enterprising societies, individuals from modest backgrounds could rise through markets. Our economy is seeing a similar shift. Economic participation increasingly depends on what one can build or deliver rather than on one's birth. While caste asks who one was born to, markets ask: Can you create value?

Bottom of the pyramid capitalism: Chandra Bhan Prasad has argued that capitalism may be the most effective emancipatory force for historically marginalized communities. He argues that Dalit entrepreneurship, business networks and private sector participation represents not just economic advancement but a structural challenge to caste hierarchy. When the once-marginalized become employers, investors and entrepreneurs, they alter power across multiple dimensions of Patnaik's octagon. This is not just symbolic mobility as the ability to generate value in an economy changes status perceptions.

Redistribution versus mobility: The former attempts to level inequality by reallocating existing wealth. This can address immediate deprivation, but can't transform structural opportunity the way capital formation can.

Markets are not morally neutral, but since they are active agents of status redistribution, they offer us a path to the annihilation of caste—one of India's most urgent moral and social goals. Caste is resilient because it is embedded in both culture and the economy. Ideology-driven cultural reform and political mobilization has struggled to achieve it. However, markets and capital, if widely accessible, have the capacity to reduce several asymmetries simultaneously and annihilate caste. Not because markets are morally superior, but because they are structurally indifferent to lineage.

If India can democratize capital deeply enough, caste may not need to be overthrown through any dramatic action. It may simply become economically obsolete.

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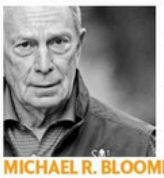
Washington's war on statistics will leave everybody worse off

Dodgy data could have severe economic and social consequences



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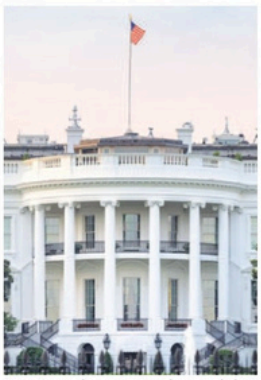

Fears have arisen over America's statistical system losing its integrity. ISTOCKPHOTO

We have a saying at Bloomberg, one we brought with us to New York City Hall: "If you can't measure it, you can't manage it." The federal government is now in danger of proving just how much truth those words hold.

For over a century, Republicans and Democrats have agreed on the need for objective data to inform their debates. In the 1890s, when the Senate commissioned a novel study of prices and wages, Senator Nelson Aldrich, a Republican and staunch protectionist, explained the rationale: "There was no expectation that the members of the committee would agree about the political or even the economic bearings of the facts ascertained; but all were desirous that hereafter there should be no reason to question the integrity of the facts."

Or, as New York Senator Pat Moynihan would later put it, "Everyone is entitled to their own opinions, but not their own facts."

Those common-sense and bipartisan sentiments helped produce a statistical system that became recognized as the global gold standard, one that delivers immense value for American citizens for its relatively modest cost, about 0.1% of the federal budget. The categories of data collection are endless—inflation, employment, crime and many others—because they are invaluable.

Government officials rely on this data as they make decisions about allocating resources to tackle problems and as they determine whether policies and programmes are working. If you think government is inefficient and ineffective now, wait until you see it operate without good data.

Business leaders are even more dependent on this data as they make planning and investment decisions.

Nevertheless, the US administration has been undermining the integrity of the country's statistical system by playing politics with it. When, for example, the Bureau of Labor Statistics (BLS) delivered a downbeat jobs report last year, the president abruptly fired its commissioner. After introducing deep cuts in food stamps for the poor, officials cancelled a survey measuring how many people were going hungry. Data on inflation, education, farm wages, police misconduct and federal employee morale have also suffered or disappeared amid staff and budget reductions.

The potential harm goes well beyond transparency. To give just one example: The BLS that reduced data collection could at times change its estimates of year-over-year inflation by 0.1 percentage point—a variation that, small as it might seem, can alter Social Security benefits by billions of dollars a year while also potentially leading to financial-market inefficiencies that slow investment and growth.

Making matters worse, the attack on the integrity of federal data is undermining the private sector's confidence in it—and that uncertainty can also be a drag on the economy. Otherwise obscure technical changes now inevitably raise questions about political motivation and data reliability.

That's not to say the statistical system is perfect, of course. It's idiosyncratic, clunky, sprawling and flawed. Some 13 principal statistical agencies and about 100 other programmes present users with different interfaces that often produce frustration. Many agencies struggle to maintain data quality as people become increasingly difficult to reach with traditional surveys.

The right way to address such shortcomings is to do what successful companies do: invest in modernization. Shift from expensive phone calls and visits to online responses. Share data across agencies and incorporate private suppliers to improve accuracy and avoid duplication. Take advantage of automation and artificial intelligence. This would entail big upfront costs to build a new system while simultaneously maintaining the old—but, done right, it would save money in the long run.

The US Congress never anticipated an assault on federal data. Only four of America's 13 principal statistical agencies enjoy any significant statutory protections, and even those are weak. Legislators should strengthen those protections and provide the resources and oversight needed to modernize systems. The Senate should also use its confirmation power to reject nominees with partisan or ideological biases who seem likely to fudge numbers or weaken the integrity of data collection. It was encouraging to see senators raise concerns about the partisanship of a nominee to lead the BLS, leading the White House to drop him.

There's another saying that I've long lived by in business and government: "In God we trust. Everyone else: Bring data." But if the federal government makes it so that data can't be trusted, God help us.

We have no shortage of complex and difficult problems in America. And trying to solve them without high-quality, nonpartisan and trustworthy data is sure to make them worse. ©BLOOMBERG

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GUEST VIEW

We must rethink insider lending in cases of corporate insolvency

Related-party creditors of insolvent firms should be asked to show that the credit extended was not actually equity in disguise



M. S. SAHOO & DHANYA JHA
are, respectively, former chairman, Insolvency and Bankruptcy Board of India, and an emeritus fellow of the Insolvency Law Academy; and a student at Rajiv Gandhi National University of Law, Punjab.



Should insiders that lend to their own companies stand in the same queue as arm's-length creditors in insolvency? The answer, at least in liquidation, is largely 'yes' under the Insolvency and Bankruptcy Code of 2016. A promoter may support its company by infusing equity in the guise of debt through a group entity. If the company later enters insolvency, the creditor, despite having enjoyed informational and structural advantages and effectively provided risk capital, may still rank alongside external financial creditors.

Judicial decisions reaffirm this. In *Times Innovative Media Ltd*, the appellant contended that the related-party creditor should be treated as an equity investor and be placed at the bottom of the liquidation waterfall. The appellate authority rejected the contention, holding that since the statutory waterfall makes no distinction between related and unrelated creditors, a claim cannot be subordinated merely because the creditor is related to the debtor.

This approach aligns with the Supreme Court's reasoning in the *M. Rajagopalan* case in the context of distribution under resolution plans. The court clarified that the Code does not mandate identical treatment for all creditors within the same class, nor does it prohibit differential treatment. Distribution under a resolution plan largely falls within the commercial wisdom of the committee of creditors (CoC).

Related parties occupy a peculiar position in the insolvency framework. The Code bars related-party financial creditors from participating in the CoC to avoid conflict of interest and disqualifies related parties of ineligible promoters from submitting resolution plans to preserve process integrity. It subjects their transactions to heightened scrutiny through longer look-back periods and avoidance mechanisms to unwind deals favouring insiders. These safeguards recognize the potential for abuse inherent in their position.

Yet, in the liquidation waterfall, related-party lenders rank *pari passu* with unrelated ones. This can create distortions: it dilutes recoveries for arm's-length creditors, enables promoters to strategically structure or recharacterize intra-group funding as debt in anticipation of distress, and rewards insiders by allowing what is risk capital to recover ahead of those who assumed genuine commercial risk.

In India, the concern is amplified because financial creditors rank above operational creditors. The outcome is counterintuitive: an insider lender whose funding closely resembles equity recovers ahead of an external supplier who extended trade credit on arm's-length terms. This raises a question: Should the insolvency framework remain blind to the structural advantages insiders possess?

Many insolvency regimes address this concern through doctrines such as equitable subordination in US bankruptcy jurisprudence. This empowers courts to subordinate a creditor's claim in certain circumstances. Courts typically apply a three-pronged test: the claimant must have engaged in inequitable conduct; the misconduct must have injured other creditors or conferred an unfair advantage on the claimant; and subordination must not be inconsistent with the statutory scheme. The principle reinforced is that insiders should not benefit from their own misconduct.

Other jurisdictions rely on statutory rules. In Germany, most shareholder loans are automatically subordinated below unsecured creditor claims. Spain similarly places certain related-party debts near the bottom of the priority ladder. These frameworks reflect a legislative judgement that insider funding often resembles equity more than arm's-length debt.

International guidance reflects similar concerns. The United Nations Commission on International Trade Law's Legislative Guide on Insolvency Law recognizes that related parties are more likely to possess early knowledge of the debtor's financial distress and may have received preferential treatment. It, therefore, recommends special treatment for certain related-party claims, including subordination where appropriate.

Indian insolvency law provides no comparable mechanism for subordinating insider claims based on inequitable advantage. Adjudicating authorities cannot override the statutory waterfall on grounds of fairness alone. Any change in the treatment of related-party claims must, therefore, come through legislative reform.

The Code is built on two guiding principles: maximization of value and balancing stakeholder interests. Treating insider lenders identically to external creditors, without examining the economic substance of their claims, risks undermining both. The Code already recognizes that those responsible for a company's distress should not regain control through the resolution process. The same logic should inform how insolvency proceeds are distributed. Where insider lending is structured to secure an unfair advantage over external creditors, the law must have the capacity to correct it.

A carefully designed framework for subordinating related-party claims could address this concern without discouraging legitimate intra-group financing. The objective should not be to penalize insider lending, but to clearly distinguish between genuine commercial credit and opportunistic positioning. Where insider credit is extended on arm's-length terms and for legitimate business purposes, it should be respected as debt. But where the structure reveals an attempt to game the insolvency waterfall, the law should respond accordingly.

One approach would be to introduce a rebuttable presumption that related-party financial claims be subordinated below unsecured third-party claims. During the claims verification process, the resolution professional could identify related-party claims separately and seek enhanced disclosures on the commercial rationale for such a loan, its terms and whether equity was a realistic alternative to it. Where the transaction withstands scrutiny, the claim would be treated as debt. Where it does not, the claim could be subordinated to reflect its true economic character.

A regime that overlooks the distinctive position of insiders risks undermining the fairness that insolvency law seeks to achieve. Creditors who assume genuine commercial risk should not stand on the same footing as insiders who can structure their support as debt. Closing this gap would strengthen the fairness and credibility of India's insolvency framework.

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GUEST VIEW

Digital fraud compensation: It's now for banks to tighten security

RBI's directions should push lenders to invest in high-end systems designed to safeguard customers



ABHINAV BANSAL & SUBHAJIT BASU
are, respectively, managing director, senior partner and APAC head, risk and compliance, Boston Consulting Group (BCG); and principal, risk and data science, BCG.

The Reserve Bank of India's (RBI) draft amendment directions released this month are timely and appropriate. These will hopefully persuade banks to prioritize resource deployment for controlling digital fraud overall and not just in payments. While the Indian economy has benefitted significantly from digital infrastructure, including for payments, the time is right to step up the institutional capacity to keep digital fraud in check. This will enhance adoption of the digital infrastructure by providing a safety net for retail victims. By proposing a compensation mechanism for victims of digital frauds ranging from phishing to coerced money transfers, the central bank is acknowledging something the numbers have been saying for years: fraud in India is not a payment-rail problem. It is a systemic one.

RBI is in lockstep with global regulators: Major global regulators have been moving towards hard liability frameworks on the understanding that sophisticated digital frauds can't be stopped by warning consumers alone.

In the UK, the Payment Systems Regulator's mandatory reimbursement rules came into force in October 2024, requiring payment service providers (PSPs) to split losses equally between the sending and receiving institution up to £85,000. A receiving bank that permits mule accounts on its platform now bears a direct financial cost for that failure. The EU went further under its PSD3 framework: its Parliament and Council reached a provisional political agreement in November 2025. If a fraudster impersonates a PSP and tricks a customer into a transfer, the PSP owes a full refund with no ceiling. Singapore's Monetary Authority deployed its Shared Responsibility Framework on a waterfall principle: Financial institutions pay when controls fail, telecom firms pay if SMS channels are exploited and only when both have met their obligations does the loss fall on the customer. Scam cases fell 26% in the first half of 2025 itself. Regulators in other major economies such as the US, Australia and New Zealand are at various stages of applying such regulations.

RBI's current draft focuses on digital frauds below ₹50,000: each victim may claim compensation only once in a lifetime. This should go a long way in bolstering the confidence of the economically weak, although more effort may be required by the whole ecosystem. The framework runs for one year. After that, RBI has signalled it will progressively shift more cost onto banks, sharpening their incentive to prevent fraud rather than absorb its aftermath.

Digital fraud beyond small tickets: India recorded over 2.8 million cybercrime complaints on the National Cyber Crime Reporting Portal in 2025, a 24% jump over 2024. Financial losses reached ₹22,495 crore. Investment-related scams dominated, accounting for 76% of total losses and 35% of all cases: fake trading platforms, Ponzi schemes and crypto traps run on WhatsApp and Telegram groups. Within banking, RBI's *Annual Report* for 2024-25 recorded 13,516 digital payment fraud cases, representing 56.5% of all banking frauds, with losses of ₹520 crore. One in five families with a UPI user has been hit at least once, yet 51% never file a complaint so official figures understate the reality.

Pre-emptive fraud detection: While exceptional players exist, the typical players in India's banking and payment ecosystem may not be keeping pace with an evolving and ever-sophisticated adversary. The reason may not be capability so much as lack of prioritization. Some industry players that have highly evolved digital processes in terms of customer onboarding and loan decision-making may have relatively underdeveloped fraud detection systems. They still run on transaction velocity thresholds, geographic flags, fixed transaction caps and other outdated mechanisms engineered for a different era of payments. These generate false positives that frustrate genuine customers and false negatives that let sophisticated fraud through.

Wider adoption of advanced tools, such as graph-network models that map mule account networks, detect synthetic identities, apply behavioural biometrics and are linked with suspect-mobile databases, would help. The systems needed to run these models require capital commitments, which most institutions have deferred.

We need systemic capability: India's fraud ecosystem requires shared infrastructure—an inter-bank fraud intelligence platform run by a specialized bureau for fraud signals, mule account identifiers, device fingerprints and emerging attack patterns to be exchanged in real-time across the financial system. Fraudsters exploit information gaps between institutions, often using the same ploys to attack banks successively. Lack of communication imposes higher costs on bank account holders than need be.

RBI's draft sets a compensation floor. However, it cannot reduce the volume of frauds that makes compensation necessary. Whether institutions build upon it, driven by considerations of customer service and operational resilience, is the question that will determine whether Indian consumers find themselves better protected.

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| OUR VIEW



REUTERS

Meta-Google ruling: AI labs must pay attention

A judicial verdict on the harms caused by addictive-by-design social media spotlights the menace of reckless digital innovation just as AI-guided warfare raises global risks skyhigh

In an age of unprecedented tech evolution, the law can easily fall behind the curve: all too often, legislation fails to keep pace. Yet, precedents matter. Last week, a jury in the US held Google and Meta liable for social-media platforms designed to be addictive, thus exposing underage users to health risks they left unflagged. The news was duly welcomed with sighs of relief. At last, social media was being hauled up by the US justice system. What objections to harmful posts could not do, given how America shields free speech and social-media platforms for what users post, a lawsuit that put YouTube and Instagram in the dock has done. A 20-year-old plaintiff was awarded damages that look tiny against the $132.2 billion and $60.5 billion made last year by their respective owners, Google's parent Alphabet and Mark Zuckerberg's Meta. However, since a tidal wave of similar lawsuits is on its way, these megacorps are set to escalate their defence. Rather than pay the penalty, they plan to appeal the verdict. Their likely hope: the addiction bit could yet be proven flaky, which would let them off the hook. In all this, the question of Big Tech's liability echoes an old battle against Big Tobacco. And that's also why this case is a wake-up call for the US tech industry. Now that artificial intelligence (AI) has driven the stakes skyhigh on what counts as reckless or wilful harm by digital design, even if done indirectly, its quest for profit might face tighter tests of justice even in the 'land of the free.'

For decades, US tobacco firms looked the other way as evidence mounted of smoking risks. A scandal led to a big verdict in 2006 that held America's market leader guilty not just of hiding how addictive and risky its products were, but also lacing them with stuff to make them harder to quit. As for social media, a whistleblower at Facebook (now Meta) alleged in 2021 that the company was aware of various harms, but user-engagement for profits took priority. The plaintiff who won last week was found to have suffered anxiety, depression and body dysmorphia, but the case pivoted on whether app addiction was to blame. Snap and TikTok, also accused, went for quiet settlements. Google and Meta fought on liberty, even as they sought to trash the argument that dopamine hits delivered by their apps made them irresistible. But app features like infinite scrolls and algorithmic feeds were not just held to be addictive, but wilfully designed to hook eyeballs. Given what we know of the brain's reward circuitry and how dopamine lights up our synapses, plus the revealed conduct of the accused, the US jury's call was correct. It also explains why some countries want to keep under-16s off social media.

How historic will last week's decision prove? That depends on how it impacts future cases. Social media acting like a drug might have clinched *KGM vs Meta Platforms et al*, but the case was broadly about digital products that put people in harm's way through a profit chase that's either rash or unethical. That should ring an AI bell. Alarm over how AI is evolving has been hushed by an American triad: an arms race with China, Big Tech's clout and free-market theory. With calls for restraint reduced to cries in the wilderness, America risks letting loose AI tools that could menace us all. Warfare in the age of AI should focus minds. Likewise, the risk of lives taken wantonly by AI weapons deployed to act on their own by rogue actors. What lawmakers are wont to overlook (or encourage), perhaps the pursuit of justice could restrain.


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"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."

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"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

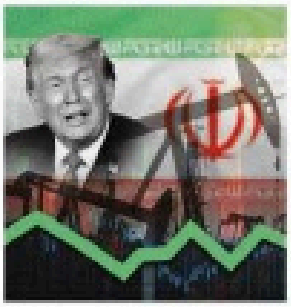
Let Him Be

To see Dylan as a

Should Be a Short Sputter in Pipelines

The fallout of US-Israeli strikes on Iran on energy markets is likely to increase short-term volatility rather than long-term fundamentals of the energy market. Iran has limited capability to sustain a blockade of the Strait of Hormuz, given the US military presence in the Persian Gulf, and Tehran will isolate itself further by missile strikes on its energy-exporting neighbours. Disruption to Iran's oil exports will have a marginal impact on global crude prices, which may be magnified by the closure of the shipping lanes. Natural gas faces greater volatility due to low stockpiles in importing nations.

India is particularly susceptible to diversion of the energy trade through the Persian Gulf because of its dependence on imports from the region. It is also affected by rising shipping costs on account of its maritime energy imports. Retail prices have, however, remained frozen for an extended period as India has purposefully diversified its energy sources to lower concentration risk. Glut in the global energy market should cushion the impact of escalating tensions in West Asia.



Iran's ability to escalate the conflict is limited by behavioural changes in its regime that the US is hoping to achieve. A further degradation of its military capabilities would challenge its national integrity. Pressure is mounting in Iran over economic hardships brought on by sanctions. A successor regime may find its options for dealing with restive ethnic minorities shrinking if it significantly loses air power. Trump should have support at home so long as he does not commit troops on the ground in Iran. After Venezuela, Iran may provide him with another success in strategically choking China's energy sources.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AROUND THE WORLD ▸▸ 17

Let Him Be

To see Dylan as a

America Intervenes, Hold On to the Rails

Instability as policy just got more unstable

So, one thing has been cleared up: Trump is not the isolationist he's often made to be. Saturday's attack on Iran with 'fait accomplice' Israel is a logical follow-up on an arc that dates back to Trump 1.0, when he ordered a drone attack that killed Iran's Quds Force commander Qasem Soleimani in January 2020. The June 2025 attack on Iranian nuclear facilities — that Trump declared to have 'completely and totally obliterated' — was a shove to test the negotiation table. The latest act of war is a cessation of negotiations.

An intervention on this scale doesn't have a single cause but multiple, layered ones. The cited one — Iran's nuclear development capabilities — is the least convincing. But Trump hasn't been big on 'need to convince for action' at home or abroad. So, his purported bid to act as catalyst for 'regime change,' and appeal to the Iranian people 'to take over their country' — even as the attack has killed civilians, including almost 150 in a primary school in Minab in southern Iran — is as waffling as it seems. Whether the 'preventive' war — a war started to stop a war that hasn't started — declared by Benjamin Netanyahu will convince Israeli voters to repose their electoral faith in him after charges of fraud and bribery will be known in a few months' time. In the US, mid-term elections also can find a MAGA-neocon narrative.



With the death of Ayatollah Ali Khamenei in the strikes, the Islamic regime will find itself weakened — and thereby more liable to take a leaf out of Israel's 'Samson doctrine': perceiving existential defeat, 'take everyone down' with it. This isn't just bad news for Iranians, many of whom who have endured decades of sufferance of a despotic regime, but for the region and beyond. For all its closeness to Tehran, Beijing is unlikely to take a detour from its 'China First' project to take on the US and its Gulf 'bases' and come to Iran's help beyond providing 'market-testable' armaments. India, on its part, can be silently thankful that its latest show of friendship in the form of a prime ministerial visit to Israel was with the belligerent side, and not with its other, 'more dependable' ally that appears to be badly hit — and will, on its part, cause further hits across the region.

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AROUND THE WORLD ▸▸ 17

Let Him Be

To see Dylan as a "literary" great is to

Contradictions in Trump's war on Iran are glaring, and unlikely to end the way he thinks it will

America in a Tehran Hurry



Manoj Joshi



Reply to all: An Iranian missile strike on Tel Aviv on Saturday

There is something inherently uncomfortable about the targeted killing of a foreign leader. Even so, the death of Ayatollah Ali Khamenei is unlikely to change things very much. The Iranian theocracy has long prepared for the passing of the 85-year-old. On Sunday, pressured by his MAGA base, Donald Trump is again floating off-ramps that could allow the Iranian clerical system to survive, Venezuela-style, if Tehran accepts fresh US ultimatums.

But the issue is trust. In June 2025, Israel struck Iran derailing Iran-US negotiations. Last Friday, Oman's foreign minister Badr bin Hamad al Busaidi had stated that a peace deal was within reach and Iran had agreed it would 'never, ever' possess nuclear material for a bomb and would accept full verification by IAEA. He said he had conveyed this directly to US veep JD Vance. So, diplomacy could have worked, but the Americans chose war.

Within hours — citing the nuclear issue — Israel and the US launched attacks on Iran. Trump claimed negotiations had failed and he invoked Iran's long record of hostility, stretching back to the 1979 hostage crisis. His public statements framed the action as essential to US security, regional stability clearly being secondary. The sequence suggests that war was the objective from the outset, and that diplomacy served as a pretext for seeking Iran's strategic capitulation.



The US and Israel started this war. But it will require Iran's vote to end it. When, how and why that will happen is not easy to foresee

For a president openly lobbying for the Nobel Peace Prize, Trump's record is striking. In less than a year, he struck Iran in June 2025, attacked Venezuela and abducted its president in January 2026, and has now returned to war with Tehran. He has threatened Cuba and carried out sporadic bombing in Nigeria. This is not the profile of a peacemaker, but a warmonger.

After withdrawing from 2015 Joint Comprehensive Plan of Action (JCPOA), a European-led agreement endorsed by UNSC that constrained Iran's nuclear programme, Trump now asserts that Iran continued nuclear development and sought missiles capable of reaching the US. This comes just eight months after he declared that the earlier US bombing had effectively destroyed Iran's nuclear infrastructure. The contradictions are glaring.

Washington's maximalist approach has ensured that the clerical establishment, Islamic Revolutionary Guards Corps (IRGC) and Basij militia will fight on. The larger question is whether ordinary Iranians will rise against the regime whose record of economic mismanagement and suppression of dissent is well-known. The US is highly unlikely to commit ground forces to engineer regime change. But without them, external pressure alone rarely topples entrenched systems.

Moreover, Iran isn't a simple hierarchical state that collapses if a single node is removed. Its hybrid structure — combining clerical oversight, republican institutions, security organs and patronage networks — has proved resilient during repeated waves of protest. Leadership transitions may alter internal balances, but they don't automatically produce systemic change.

'Regime change' is a potent slogan, but vague strategy. In Iran's case, it could mean elimination of one generation of clerical leaders, only to be replaced by another. It could mean IRGC consolidating power into a more overt military dictatorship. Neither outcome necessarily means a more peaceful or democratic Iran.

It also isn't clear whether airpower alone can deliver such sweeping political objectives. Even in contexts of overwhelming asymmetry, sustained bombing has rarely eradicated deeply embedded movements. Israel's struggle against Hamas underscores the limits. In the US, there is scant appetite for another large-scale ground war in West Asia — a restraint that is wise, given the costly and inconclusive US experiences in Iraq and Afghanistan.

The conflict has already assumed a regional dimension. Israel struck targets across Iran over the weekend, and Iran retaliated with missiles aimed at Israel and US bases in the region, which has had the effect of closing down one of the busiest aviation hubs in the world.

States such as Saudi Arabia and the UAE, which had hoped to avoid direct entanglement, have now lined up more firmly behind Washington. China and Russia have condemned the joint Israeli-US action but have so far limited themselves to rhetoric.

Consequences of escalation extend far beyond Iran. Tehran has now closed the Strait of Hormuz. Roughly 20% of global oil supplies transit this narrow waterway, including about half of India's and China's oil and substantial shares of LNG. Any sustained disruption would send global energy prices soaring, with cascading effects on inflation and growth worldwide. Washington may calculate that higher prices would advantage US energy exports. But the broader global shock would be severe.



Washington's maximalist approach has ensured the clerical establishment, Revolutionary Guards and Basij militia will fight on. But will ordinary Iranians rise against the regime?

With Khamenei gone, Iran is undeniably at a moment of transition. Bombing can destroy targets, but it cannot alone reshape politics. Even disaffected people are unlikely to align with foreign attackers. Especially in West Asia where the aftermath of US-led interventions has meant chaos and civil war in Iraq, Libya, Syria and further east in Afghanistan.

As for the US, it had hoped after last June's Iran bombing and the Venezuela experience, that the war would be a low-cost enterprise. But that does not look like being the case. The US and Israel started this war. But it will require Iran's vote to end it. When, how and why that will happen is not easy to foresee.

The writer is distinguished fellow, Observer Research Foundation, New Delhi

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Data Muscle Can Shape Policy



Mythili Bhusnurmath

Last week, GoI received a shot in the arm following the release of GDP figures under the revised series. Nirmala Sitharaman is not given to hyperbole. But she could, perhaps, borrow from Donald Trump's State of the Union address in February: 'The roaring economy is roaring like never before.'

Not only are we the fastest-growing major economy for the 4th year running, but growth in FY26 is estimated at 7.6%, up from 7.4% in the first AE (under the old series) released in January. Even better, the higher growth comes on the back of an upwardly revised number of 7.1% in FY25, against 6.5% in the old series. Best of all, the structural composition of growth has shifted. From a scenario where growth was led by (wasteful?) public administration, it is now led by three employment-intensive sectors — manufacturing, trade, hotels, communications and construction.

The most remarkable turnaround story is in the manufacturing sector. Long considered a laggard, it recorded double-digit growth rates in FY24 and FY26, with average growth in value-added terms topping 11% in the last 3 years. Some of this is, possibly, explained by improved use of deflators (double deflation, where both output and input prices are available) to get a proper assessment of the value added in the sector.

But some of this is also because of the reduced use of proxies to estimate the contribution of the informal sector, as MOSPI now has access to (better) primary sources of information like Annual Survey of Unincorporated Sector Enterprises (ASUSE). This is good news. It suggests the informal sector is in better shape than widely believed earlier and the erstwhile K-shaped recovery is becoming more broad-based.

The only niggling worry is the relatively poor showing of the primary sector, and within that, of agriculture, where the contribution in value-added terms is estimated to fall to a 3-year low of 2.4% in FY26. In current prices, the fall is even more marked — from 9.2% in FY25 to 0.3% in FY26.

'We are data dependent' is a phrase dear to all central banks, including RBI. Fiscal authorities, in contrast, don't make much of a fetish about data dependency, partly because fiscal decisions are, essentially, in the political economy domain and, hence, are coloured more by political considerations and less by cold numbers. Nonetheless, data is the bedrock on which all fiscal policies — spending and tax policies — must be based.

The problem is when a new series replaces the old, the scale of revisions is magnified manifold. As with the last revision a decade ago, the new series will, doubtless, give rise to endless debate. What is indisputable, however, is that the revised series is a significant step toward a more accurate and credible measurement of the economy.

Prior to the revision, India's economic data was benchmarked to a hopelessly outdated structure of the economy as it existed in 2011-12. Since then, the economy has changed dramatically, with the emergence of new industries such as RE and digital services and changes in consumption patterns and investment behaviour.

Unfortunately, as far as the fisc is concerned, numbers have come too late — almost a month after the budget was presented. So, not only is the absolute FY26 GDP number under the new series (₹3.45 lakh cr) short of the ₹3.57 lakh cr assumed in the budget, it's well below the FY27 estimate of ₹3.93 lakh cr, suggesting GoI might have to tighten its purse strings to reach its fiscal deficit target of 4.3% next fiscal. Members of MPC are better placed. With more than a month to go before the next meeting of MPC, there is enough time to digest the numbers and tweak policy accordingly.



Power ahead

Macroeconomic numbers hold a mirror to the economy, even if, as former YV Reddy once said, 'In India, not only the future but even the past is uncertain.' Decision-makers rely on economic statistics to provide a picture of the health of the economy — more importantly, to frame appropriate policy.

Revisions are not unique to India. The bigger problem is that our numbers come with a long lag; in the case of GDP numbers, the final numbers are known only after 2 years. Hopefully, the lag will be less going forward, and base revisions will happen every 5 years instead of the present 10. The latest GDP series, with a new base (2022-23), revised methodology for better measurement of the informal and services sectors, and expanded coverage, is bound to reflect the health of the economy better.

In November 2025, India's national accounts data received a 'C' grade from IMF, citing coverage gaps, including an outdated base year, limited recent benchmark data, gaps in measurement of the informal sector and continued reliance on single deflation methods for estimating real GDP. With the latest revised series, MOSPI has largely addressed these gaps, paving the way for more evidence-based policy.

But as the events of the past two days have shown, the past is no guide to the future.

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Asia Pacific Trade Trends

In 2005, 55.6% of Asia's merchandise trade took place within Asia, with China accounting for 13.5% of total. Two decades later (in 2024), the intra-Asia share is nearly unchanged at around 56%, but China's share has risen. Over the same period, the shares of EU+UK & N America have gone down. Similar pattern is seen in services trade...

Geographic structure of trade in Asia and the Pacific (%)



Notes: Values expressed as percentage of the region's total trade value (sum of exports and imports). N America covers Canada, Mexico & the US **Source:** ADB

SANJEEV RAJ JAIN


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Two Middle Powers Give Stability a Shot

Against the raging backdrop of the US-Israel war against Iran, two 'confident middle' powers, Canada and India, have taken a big step to inject stability, predictability and growth into their partnership. Signalling the closing of a chapter of strained bilateral ties, Mark Carney and Narendra Modi expanded ties to reinforce the idea of an international order that reflects the idea of 'Vasudhaiva Kutumbakam' — One Earth, One Family, One Future. This is not mere rhetoric, but in contradistinction to the current trend of #MeFirst.

Starting with the bilateral, the leaders articulated a multipronged 360° engagement. This includes finalising Comprehensive Economic Partnership Agreement (CEPA), expected to double two-way trade to $51 bn by 2030; strengthening the energy partnership with a $1.9 bn uranium deal, enhancing LNG and LPG trade, and advancing critical minerals and tech partnerships. It also includes improving talent and people-to-people engagement, and fostering partnerships in AI and space and expanding defence cooperation.



Building economic strength at home and diversifying partnerships abroad have become the mantra, making securing of energy and critical mineral supply chains and finalisation of FTAs de rigueur. This is a response to the tailspin caused by Trump tariffs, upending of old alliances and erosion of assiduously built partnerships. Canada-India ties can provide a pathway for a rules-based order that can strengthen economic resilience, promote sustainable development and address global challenges. It can be a decisive step towards reinforced fit-for-purpose international order. Whether it succeeds, or ends up as a transactional engagement, will depend on how New Delhi and Ottawa engage in the coming years.

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CHAPATI Attacks on the region, drones aimed at Abu Dhabi & Dubai, are unsettling for India

OUR GULF OF GOOD HOPE



Ashok Malik



AFP

Smoke on the water: Jebel Ali port, Dubai, after Iranian strike on Sunday

Almost exactly four years ago, as Russia's invasion of Ukraine began, New Delhi was frustrated. Just as the world was starting to make slow recovery from the pandemic, as the Indian economy was hoping to build on a brave budget, the very glimpse of advance was blurred by a war nobody needed. In spring 2026, India, its prime minister, and its economic and foreign policy managers find themselves in a similar situation, indeed one even more fraught, in West Asia.

The conflict between the US-Israel and an enraged Iran is not a neat, Manichean binary. Neither does India have the luxury of pondering and delineating normative niceties. It finds itself in the eye of the storm, at least adjacent to it. It has pressing decisions to take in the here and now. A triaging of its foreign policy priorities and strategic imperatives is inevitable.

New Delhi's immediate concern will be the spreading of conflict to Gulf states. With some 10 mn Indians living there, this region is an extension of India's strategic geography. At stake are not merely golden visas and HNIs buying second homes in Dubai. From agriculture to energy, supply chains run back and forth. The region is a growing market for India.

To take an example, Indian exports to Saudi Arabia were at about $1 bn in 2000, but are touching $12 bn 25 yrs on. Countries such as the UAE and Oman are among India's closest friends. Abu Dhabi is perhaps the West Asian capital city — even global capital city — with which New Delhi coordinates most.

From financial flows and inbound investments to sales targets for Indian manufacturing, Gulf Arab countries are crucial to India's expanded neighbourhood. The UAE, where Indian guest workers are present across the value chain — construction site to C-suite — is intrinsic to India's 'Think West' thrust.

Attacks on the region, and the idea of drones aimed at Abu Dhabi and Dubai, are certain to unsettle India. This is not a matter of snubbing Iran, or not being mindful of its emotions. It is simply fear that India's friends and the Indian people's interests could become collateral damage.

At stake are not merely golden visas and HNIs buying second homes in Dubai. From agriculture to energy, supply chains run back and forth. The region is a growing market for India



Since 2014, India's building of relations with modernising Arab monarchies has been given a new energy by GoI. It's one of Modi's signature successes. Yet, this built on foundations that already indicated a national consensus. It began with the Vajpayee government and then foreign minister Jaswant Singh's visit to the UAE. It continued under Manmohan Singh — till the telecom and aviation scandals caused setbacks and jeopardised India's investment credibility. The NDA government repaired the damage and injected a new momentum.



Iran will remain part of India's regional strategy. The average Indian's respect for Iran as a society and nation is of a very high order, something the average US policymaker won't easily understand

Much of this was a recognition of mutual needs in a post-oil and, if not post-American, at least less-American world. In terms of sectors, it explains why India and the UAE, for example, have connectivity, semiconductors, AI, RE, green hydrogen and nuclear technology within the ambit of collaboration.

As for strategic alignment, it denotes why the defence, especially maritime, relationship between India and more than one Gulf country is a bet on burden-sharing. This is essential in an age when US ability to play a traditional net security provider role is domestically constrained.

Hope was for a calibrated US recession. Dread was of a sudden US recession. But a maverick, impetuous US posture poses a wholly different risk paradigm. When this crisis is over, India and its Arab partners will need to factor in that new reality. This week has been the Gulf's 'Europe moment' — its own wake-up call.

Where does that leave Iran? While New Delhi is not as strategically proximate to Tehran as it is to Abu Dhabi, India has always had a working relationship with Iran. It is, and will remain, part of India's regional strategy, requiring cooperation in intelligence and security, and in vicinal geographies such as Afghanistan and Central Asia. Remember, India's Covaxin vaccine was used in Iran. Irrespective of the regime of the day, the average Indian's respect for Iran as a society and nation is of a very high order. This does shape perceptions.

Admittedly, this is not something the average Washington policymaker will easily understand, or be able to reconcile. However, it does explain why, notwithstanding any bilateral differences, India cannot but see the assassination of Ayatollah Ali Khamenei and the Islamic regime's top leadership as an egregious, reckless violation.

Having said that, India has always had misgivings about Iran's nuclear programme and promotion of proxy militias and terror auxiliaries. In the UPA years, on three occasions — in 2005, 2006 and 2009 — India voted against Iran at IAEA. A West Asian and geopolitical triaging — more accurately, a triaging between different sets of imperfect choices — was resorted to even back then. Why should it be different today, when India has so much more at stake in the region?

The writer is partner, The Asia Group, and chair of its India practice

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Nobel War Laureate



Seema Sirohi

Trump's war of choice against Iran may be the most consequential decision yet by the 'president of peace'. The conflict is spreading faster than justifications used to launch it. Iran reacted with an unprecedented wave of strikes against US military bases and civilian targets in Gulf countries. Hezbollah is activated. Oil prices are climbing.

Trump came into office vowing to measure his success by ending wars and counting 'the wars we never get into'. The report card is red on both counts. Claims of ending wars are disputed in some cases by the parties concerned, while his active military interventions have climbed to nine after a year in office.

It's a stunning, striking reversal of an important foreign policy plank that won him hardcore support among MAGA and grudging acknowledgement by left-liberals. At least he wasn't a warmonger. Turns out he isn't shy to use the US military for risky missions despite generals desperately leaking information on low ammunition stocks and overextended carrier deployments.

If the Iran gamble pays off — it's no Venezuela extraction mission — history books may look kindly at Trump. 'Operation Epic Fury' has already claimed Ayatollah Ali Khamenei, his son, Iran's defence minister, and several other regime leaders. Success of US and Israeli intelligence gathered over months was impressive, drawing sighs of 'wish we could…' in many capitals.

But what if the gamble doesn't work and draws West Asia into a wider conflict, a goal Iran would aim for? Trump hasn't made a coherent case against Iran, how it posed an 'imminent threat', or what precisely would end the war. On offer is a list of past sins, Iran's support of proxy militias, and unproven claims it has long-range missiles that could reach the US.

Iran's nuclear programme was also used as a reason, even though Trump repeatedly told the world the US military had 'obliterated' it last June. The definition of 'obliterate' stands amended.

The US-Israeli attacks, stated war objective of regime change in Iran, and Tehran's threats to wrap the region in fire, can spawn years of political and economic instability. It's a leap into the unknown. One need remember only Iraq and years of turmoil and terrorism.



LETTER FROM WASHINGTON

As with Iraq in the days building up to the latest attacks, diplomacy with Iran was abandoned without a real explanation. Oman's foreign minister Badr bin Hamad Al Busaidi, who played a crucial role in mediating talks between the US and Iran, assured the world on Friday that a peace deal was within reach. That Iran was discussing 'zero stockpiling' of enriched uranium (read: it couldn't make a bomb), and that it was ready for 'full and comprehensive verification' under international authority. Iran was open to discussing everything and a breakthrough was imminent.



Stroking world domination

On Saturday, US and Israeli forces attacked Iran anyway. Diplomacy was cover to give time for a military build-up in the region. The decision to strike had already been made by Trump and Netanyahu. The rest was political theatre. And settling of scores. Tehran's uninterrupted chant of 'Death to America' since the Islamic Revolution has alarmed every US administration. But rarely was it seen as a credible reason to declare war.

What changed? One reason was the classic pairing of Netanyahu and Trump. Israeli PM's political life depends on what the US president can do to help his survival. Constant war is one answer. Netanyahu is also lucky to have Mike Huckabee as US ambassador, an evangelical Christian who believes the modern state of Israel is the fulfilment of biblical prophecy.

Huckabee created a storm recently when he said 'it would be fine' if Israel took all of West Asia because that's how the boundaries are defined in the Bible. He doesn't believe in a two-state solution, or calling descendants of people who lived in British-controlled Palestine as 'Palestinians'.

A second reason could be Trump's declining poll numbers, a fact that weighs heavily on the White House as midterm elections approach. Rewind to 2012 when the real estate developer was watching the scene to decide whether he should enter politics and throwing barbs. 'Now that Obama's poll numbers are in tailspin — watch for him to launch a strike in Libya or Iran. He is desperate.' There's a lot of merry recall of Trump's earlier social media posts.

The question of whether the Iranian regime actually crumbles, or grows another head and continues harder and harsher down the path remains to be seen. Iran's ruling establishment is threaded and activated through multiple layers. Successors, and their successors, for important positions are already named in a system with a multi-layered contingency plan that's been thought through over many years of sanctions and threats.


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Joint Venture That'll Hold Beyond the War

Long, long ago last week, before the US and Israel ignited the whole of West Asia over a weekend, Prime Minister Narendra Modi visited Israel. Benjamin Netanyahu's announcement of a 'hexagon of alliances... that see eye to eye on the reality, challenges, and goals against radical adversaries' was seen in the context of both countries' fight against terrorism. Even after war broke out, this context holds. Modi's address in the Knesset — coming as it did just before GoI released its first counterterrorism policy — was unequivocal in India standing with Israel on this matter. As did his rider: no cause justifies the killing of civilians, a statement that takes on special gravity with the war.

Formal India-Israel relationship, just three decades old, has received a big push in the last 10 yrs. Defence-related engagements are older, and remain core to the alliance. Deals of up to $10 bn have been signed, including tech transfer across four major elements of Israel's multilayered missile defence, and offensive and defensive drones. Other pillars are investment and trade. The two countries launched the first round of negotiations for an FTA, with 16 MoUs related to agriculture, AI, education and innovation signed.



West Asia is a key arena for the US-China shadow fight — Beijing's muted response being conspicuous in the current war so far. India's prep to protect its interests against an expansionist China, and with an unstable US stepping out of its backyard, is one reason for the India-Middle East-Europe Economic Corridor (IMEC), for which stronger strategic India-Israel ties are needed. Whatever the endgame of the ongoing war will be — and Netanyahu's fate in Israel's election this year — the latest bump-up in India-Israel relations will endure.

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To see Dylan as a "literary" great is to

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CURSOR Unions should form cooperatives that own and run units in the informal sector

TUNE IN, TURN ON, CO-OP



T K Arun



Capitalism in new colours

Less than a fortnight ago, GoI launched Bharat Taxi, a co-operative of drivers to compete with mobility platforms like Uber and Ola. Why does it not occur to our trade unions to organise workers into cooperatives, instead of letting government take the initiative?

Government intervention in co-ops is the route for bureaucratic and political capture. Co-ops come under the control of Registrar of Cooperatives, and of the ruling party or parties, whose functionaries in government wield control over the registrar. The only co-ops that serve its members, rather than assorted politicians, are the 'Amul-model' cooperatives, insulated from government interference.

India's trade unions do have a history of organising co-ops. Indian Coffee Board Workers' Cooperative was formed by communist trade union leaders, led by A K Gopalan, after the Coffee Board shut down coffee houses and laid off workers. The cooperative has run Indian Coffee Houses successfully for decades.

In Kerala, laid-off bidi workers were organised into a co-op that launched a rival bidi brand, called Dinesh, in north Kerala. Kerala Dinesh Beedi Cooperative was a successful operation so long as smoking was mainstream, and the bidi, a popular smoke.



Unions are conditioned to see employers and workers as 'class enemies'. If the cooperative owned by workers is their employer, that enmity becomes unreal

But Kerala's co-ops predated unions. The movement has its roots in social reform. At the turn of the 20th c., social reform movements, against caste and against outdated traditions within castes, changed conservative Kerala society forever. These social reform movements unleashed societal dynamics that allowed Kerala to realise the Constitution's goal of democracy to a greater extent than in other states.

A reformer named Vagbhatananda advised young, unemployed youth who approached him for guidance to form a cooperative and bid for public works projects. They formed Uralungal Labour Contract Cooperative Society in 1925, and bid successfully for some road works. It never looked back. Today, the co-op has a turnover of ₹1,400 cr, has built and owns a cyber park that serves as an SEZ, office complexes, tourism projects and a craft village. It's the preferred contractor for public works.

Today, emergence of gig work not just creates an opportunity to give gig workers an organisational structure from within which to operate, but also an imperative to form an organisational structure that would provide them with at least some of the protections that regular employees receive—healthcare, safe working conditions, retirement benefits and other bits of social security.

The new labour code on social security does cover gig workers. Given the informal arrangements within which much of gig work takes place, it would be challenging to enforce official norms. It would be simpler to organise gig workers into a cooperative that provides for all worker protections, and builds cost into the fee for services of the gig worker that the co-op charges the platform.

Indian Coffee Board Workers' Cooperative was formed after Coffee Board shut down coffee houses and laid off workers. The cooperative has run Indian Coffee Houses successfully for decades

A strike by gig workers on New Year's Eve had triggered much online debate about their exploitation at the hands of platforms that engage them. Notably, the money not spent on the gig worker's welfare goes to enrich not the platform but the consumer, who gets the service at a rock-bottom price. If cost of the gig worker's welfare is included in the cost of the service, it takes away nothing from the platform's revenues, but only serves to increase the cost to the consumer by a tiny fraction.

Platforms are affected only if such costs are borne by some of them, but not by their competition. If the law could uniformly be enforced, and all platforms pay their gig worker benefits as prescribed, it would be a level playing field for platforms and consumers would pay for workers' benefits. If gig workers were agglomerated by a cooperative, which gave them their benefits and built the cost into fees it charges platforms for gig worker services availed of from the co-op, the effect would be the same as successful enforcement of the code on platforms.

Drivers, house help, electricians, plumbers, beauticians, home nurses and assorted other functions are eminently amenable to being offered by worker co-ops. Workers might have much enthusiasm to offer, but may not have the knowledge or skill to successfully run co-ops. This is where unions come in handy. Organising workers is their job. They can hire professionals, leveraging the scale they have.



Why have unions not ventured into forming co-ops except as stray forms of relief for laid-off workers? This has to do with ideology rather than practicality. Unions are conditioned to see employers and workers as 'class enemies'. If the cooperative owned by workers is their employer, that enmity becomes unreal. As direct producers who also control the production process, co-op members must reckon with the responsibilities of management and even entrepreneurship. Unions would much rather shirk this complexity, and save themselves from being branded as 'class collaborators' and betrayers by some of their comrades.

It is time unions turned their attention to giving participation in the process of globalised growth the broadest social base possible. Even as they continue with traditional union work in formal sectors, if unions form cooperatives that own and run units in the informal sector, workers would be better off, by far, than they are at present.

Who is afraid to be owner, worker and comrade all turned into one?

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Anthropicology, a Human Condition



Subimal Bhattacharjee

Last week, Donald Trump ordered every federal agency to stop using Anthropic's AI technology, designating the San Francisco company a 'supply chain risk to national security'. US defence secretary Pete Hegseth went further, announcing that any contractor or partner of Anthropic doing business with the US military must cease all commercial activity with the company.

The issue started after Anthropic refused to remove two restrictions from its Pentagon contract: its Claude models could not be used for, one, mass surveillance of US citizens, and, two, to power fully autonomous weapons — systems that select and kill targets without human involvement. The supply chain designation, if it survives legal challenge, could force any company with Pentagon ties to sever relationships with Anthropic, a potentially devastating blow to a company valued at $380 bn whose revenue depends heavily on enterprise contracts.

Facing Trump's 6-mth deadline, the company threatened to sue, calling the designation 'legally unsound', and warning that it would 'set a dangerous precedent for any American company that negotiates with the government'.

The feud can be traced back to a $200 mn Department of War contract signed in July 2025. Anthropic had embedded ethical guard rails into the contract that Pentagon found unacceptable. Military officials insisted they needed AI cleared for 'any lawful use' — in other words, they wanted language that allowed those guard rails to be, in Anthropic's words, 'disregarded at will'.

Anthropic CEO Dario Amodei countered that mass domestic surveillance 'constitutes a violation of fundamental rights', and that current AI models are 'simply not reliable enough' to make lethal targeting decisions without oversight. Interestingly, Anthropic's restrictions had not blocked a single military mission. This was never about operational necessity. It was about who holds the levers of control.

Human stakes are easy to underestimate amid Washington's political politics. But the two red lines Anthropic drew represent the most consequential questions of the AI age. AI-powered mass surveillance is not a camera on a street corner. It's the capacity to track millions simultaneously, flag dissent and build behavioural profiles at scale. The difference between a government that watches some of its people and one that watches all of them, all the time, is the difference between authority and totalitarianism.



Altman & Amodei, hand-to-hand combat?

Autonomous weapons raise equally grave concerns. AI systems hallucinate and misidentify. Unlike human soldiers, they carry no moral hesitation. A drone that selects a target algorithmically and fires without human review is not a warrior — it's a replicable process, deployable at scale, impossible to recall. Allowing current-generation AI to make irreversible life-and-death decisions is not a military efficiency gain. It is a civilisational gamble.

OpenAI's entry complicates the picture. Within hours of Anthropic's expulsion, OpenAI announced a deal to provide AI to Pentagon's classified networks. Sam Altman claimed his company holds identical red lines — no mass surveillance, no autonomous lethal decisions, humans in the loop. But the critical question is whether OpenAI's safeguards carry the same binding contractual weight that Anthropic did, or whether they are aspirational language dressed up as policy.

Google's trajectory is instructive. The tech giant quietly updated its ethical guidelines last year to remove earlier pledges against weapons development and surveillance applications. Without a press session or public debate, it just revised policy documents that few people read. This is how principles erode and the role of tech giants becomes worrisome. OpenAI risks the same quiet capitulation if its safeguards lack enforcement mechanisms.

For the broader tech industry, the stakes extend further still. Anthropic attempted something novel: asserting that AI developers bear ongoing responsibility for how their technology is deployed, even after agreements are signed. Pentagon's furious response, and White House's swift punishment, reveal how threatening that idea is to traditional military procurement logic, where contractors build to specification and cede all control thereafter.

There is a valid reason for that and, so far, it has worked well. But the rapid development of AI capabilities has altered the situation. If the principle of AI developers as moral stakeholders, not mere vendors, survives Anthropic's defeat, it could reshape the industry's entire relationship with government clients.

The battle over two contract clauses is, at its core, a battle over something far larger: whether those who build powerful technology bear any enduring responsibility for how it's turned against other humans. Pentagon has said no, Anthropic, yes. OpenAI is telling us it agrees with Anthropic, while signing the Pentagon's deal.

The writer is a commentator on digital policy issues

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Why the Short War Can Get Long



Deepika Saraswat

Last weekend, Donald Trump launched 'Operation Epic Fury' targeting key government and military sites in Iran. His declared objective was to crush the Iranian theocratic regime and end an ostensible 'nuclear threat' perceived by Washington. Trump's framing of 'preventive war' was inconsistent with his repeated claims that Iran's nuclear facilities were 'obliterated' by US strikes in June 2025. Essentially, the US-Israeli war on Iran is a war of choice aimed at seizing an opportunity to transform the regional geopolitical order.

Notably, the US began mobilising significant naval and air assets in the region about 2 mths ago, when a currency collapse in Iran triggered renewed mass protests. As the protests came to focus on demands for fundamental political change and transition, Benjamin Netanyahu visited the US to urge Trump to relaunch an offensive against Iran's missile capabilities. For both Israel and the US, Iran's internal fragility and military vulnerabilities offered a narrow opportunity to make the final push against Tehran.

The US objective, both during negotiations and the current war, has been to disarm Iran of its missile capabilities, and retaliatory force against the US and Israel. However, Trump's earlier threats to intervene in support of Iranian protesters, and current framing of the goals of war as 'freedom' for Iran, points to the core US and Israeli goal of creating a 'New West Asia', free from the Islamic republic and its influence in the region.

For Tehran, Trump's coercive diplomacy of using the threat of attack to compel it to accept 'zero enrichment' and dismantle its missile programme left it with a choice between strategic surrender and a war of survival. As of now, it has chosen the latter.

Iran revised its initial position of calibrated response designed to avoid a full-blown war with the US, and is now taken to the option of full aggressive response, inviting further US-Israeli aggression. Despite suffering leadership decapitation, Tehran has mounted immediate and significant retaliation to target US bases in the Gulf states, Jordan and Israel.



Stars & strife: US embassy, Riyadh, early Tuesday

Learning lessons from decapitative strikes during last year's '12-day war' with Israel, Islamic Revolutionary Guard Corps (IRGC) had further decentralised command and control to ensure not only flexibility and speed, but also survivability in the face of a superior force. By regionalising the conflict in the initial phase, Tehran has succeeded in increasing costs and risks for the Gulf states and create regional pressure on the US to halt the war.

Tehran is trying to impose a new deterrence equation that spells out the fact that broader Gulf security cannot be insulated from the trajectory of escalation and pressures against Iran — and that hosting US bases amounts to insecurity for Gulf states. The latter have so far resisted being drawn as direct parties to the conflict that risks inviting further escalation on their territory.

Iran's Navy has created disruptions in critical energy and shipping routes in the Strait of Hormuz. Tehran does not need to physically close the strait. The navy issued a warning that no ship will be allowed to pass the strait, followed by a drone attack on Dubai's Jebel Ali port and a tanker off the coast of Oman, resulting in spikes in risk premiums and plummeting shipping volumes.

Given that one-fifth of global energy flows pass through the Hormuz Strait, if the war stretches on, risks will be felt globally. Asian economies, including India, which rely heavily on Gulf oil and gas, will be particularly vulnerable to economic shocks. For India, safety of some 9 mn Indians working in the region is a big concern. New Delhi will have to make a proactive diplomatic outreach to push for de-escalation, while preparing for a mammoth evacuation exercise.

The writer is associate fellow, Manohar Parrikar Institute for Defence Studies and Analyses, New Delhi

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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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That Sinking Feeling About Trump Regime

The sinking of Iranian navy frigate IRIS Dena in Indian Ocean's littoral space defies not just the logic of what the US considers to be strategy, but the logic of war — calling it whatever notwithstanding — itself. The vessel was returning from joint naval exercises off India's east coast, and was torpedoed by a US submarine. The geographic location of the hostile act is a matter of concern for India, and that this may have led to GoI finally condoling Ali Khamenei's assassination is more than understandable.

The Trump regime is sounding increasingly garbled, its narratives contradictory yarns depending on who's saying it — Donald Trump, Marco Rubio, Pete Hegseth.... The sinking of a non-combative Iranian asset falls in this category of confusion. What was intended by the act? It certainly couldn't have been to neutralise a vessel off the coast of Sri Lanka, as far from the theatre of war as can be. Instead, it has brought about serious questions to be asked about US accountability and objectives. Being left to manage the fallout of Trump's actions is not a good enough reason.



India has been unnecessarily put in an uncomfortable position. Fending off questions about India's authority in its neighbourhood is not what 'strategic autonomy' is supposed to deliver. The US is increasingly guilty of playing the bull in the global china shop. It is one thing to have an 'America First' set of policies, quite another to make it 'America First, Second, Third...' at the cost of other countries, including friendly ones like India. The ongoing crisis started last weekend by the Trump regime underscores a stark reality: global stability now hinges on actions driven more by sketchy, regressive unilateral ambition than diplomacy. This cannot continue.

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Crudely Put, We're Energy Insecure



Sanjeev Choudhary

Last June, when the US and Israel bombed Iran, I asked a senior refinery executive handling crude procurement how he would deal with a closure of the Strait of Hormuz. His response was blunt: such an event could not really be planned for. History suggested it would never happen. The strait had remained open even during wars. The US would not allow it to shut. The world would push back against Iran. And Iran itself depended on open waters to import essentials and export oil.

This view was widely shared. Even when US-Israeli strikes on Iran resumed on Feb 28, many in the industry believed escalation would be contained quickly.

That confidence now looks misplaced. With the strait effectively shut, key export facilities hit, and no clear end to the conflict, supply disruptions are real. Oil and gas flows from the Gulf have stopped. Gas marketers have begun rationing supplies to industries, LPG users have been warned, and rural households may face slower refills if the conflict drags on.

India's petroleum ministry says oil stocks are adequate. But thin LPG and LNG inventories are already showing strain. India is better placed in petrol, diesel and ATF as it exports these fuels. But if disruption in the Gulf — which supplies half of India's crude, 90% of LPG, and most LNG — persists, rationing could spread. Replacing these volumes will be difficult when the world is scrambling for alternatives and most spare production capacity also sits in the Gulf.

No country can fully shield itself from a shock like the strangling of Hormuz. Energy security does not mean self-sufficiency. It means resilience — ability to absorb shocks without immediate economic disruption. In normal times, India has managed supply well, diversifying crude sources, expanding spot purchases and giving refiners greater commercial flexibility.

But diversification has limits. Oil and gas markets remain shaped by a handful of producers, and the heavy concentration of supply in West Asia means disruption near Hormuz affects *all* buyers. Without buffers, countries are forced into the spot market just as freight, insurance and benchmark prices surge together.

This is where India's preparedness appears thinner. Strategic petroleum reserves were created precisely for such emergencies. Yet, they remain modest and partly filled. Capacity has been stuck at 5.33 mn metric tonnes for nearly a decade. Expansion has been slow, reflecting reluctance to spend on new caverns. It took almost a decade to settle on a PPP model and bring in a private player for a commercial cavern.

By Oct 2024, existing reserves were only about two-thirds full, according to a parliamentary panel. In both 2023-24 and 2025-26, finance ministry allocated ₹5,000 cr in the Union budget to fill reserves, and later withdrew the provision.



The strait got narrower

The allocation itself was small. Yet, even this was withdrawn for a sector that has contributed ₹36.9 lakh cr to the exchequer over 5 yrs, including ₹15.7 lakh cr in excise collections by the Centre alone. Similarly, India has studied underground gas storage for years but built none, largely because of cost concerns.

Contrast with China is striking. Beijing has treated stockpiling as a core strategic tool. In 2025, China is estimated to have added between 0.4 and 1.1 mn barrels a day to crude inventories. For context, India's total daily consumption is 5 mn barrels.

China's total crude stocks are estimated at 1.1-1.3 bn barrels, equivalent to 110-140 days of import cover. India's crude stocks on Mar 3, according to a petroleum ministry official, could cover 25 days of consumption. Another 25 days of refined products take the total to 50 days. Last month, oil minister Hardeep Puri told Parliament that the country had oil storage capacity of 74 days. But in a real crisis, it is inventory, not capacity, that counts.

China's stockpiling reflects a strategic judgement that supply shocks are increasingly likely in a turbulent geopolitical environment. Its revised Energy Law, effective Jan 2025, embeds stockpiling obligations in law and introduces 'corporate social responsibility reserves', shifting part of the responsibility to companies. India places no such obligation on its refiners.

India appears to have operated on a different assumption: that global supply would remain ample and choke points would stay open. It worked in stable times. It's being tested now.

Energy security ultimately means buying time — days and weeks to adjust supply chains, manage demand and stabilise markets. The current crisis suggests that while India improved commercial agility, it underinvested in shock absorption.

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Trade breakthroughs make India a compelling long-term bet for investors facing global uncertainties

Reaching Destination 8%



Krishnamurthy V Subramanian

If foreign investors want to grow their investments 8× in dollar terms over the next two decades, they should invest in India now. Even as war in West Asia roils global markets, India's trade agreements with both the US and the EU is the critical signal that long-horizon investors can ignore only at their peril.

Post-Covid, India has entered a phase of economic expansion that's both powerful and durable. By advancing structural reforms, India can sustain 8% real growth for the next two decades. This estimate rests on structural realities that set India apart.

Start with the sheer room to grow. India's per-capita GDP is roughly $3,000 today. Even after two decades of 8% growth, it would remain below $30,000, a level at which labour productivity has historically continued to climb. Then consider untapped labour and capital. India's female labour-force participation has nearly doubled in 6 yrs, rising from 23% in 2018 to 42% in 2024, and significant scope remains.

Nearly half the economy is still informal. So, formalisation alone can drive productivity gains for decades. Credit penetration, at about 60% of GDP, lags far behind the global average of roughly 180%.



Over two decades till 2016, inflation exceeded 7% on average, pushing the rupee to depreciate by 3.5-4% annually, diluting dollar returns. Following implementation of the inflation-targeting framework, inflation has averaged 5%



All aboard



THALINOMICS

Given that India's leapfrogging in the digital economy, the potential for sound credit growth to fuel productivity is substantial.

Unlike advanced economies that must push the productivity frontier to grow, much of India's growth comes from catch-up, with some critical sectors also innovating at the frontier. Cross-country productivity data bear this out: India's productivity growth has averaged about 2.5% since 2014, nearly double the 1.3% recorded from 2002 to 2013.

For foreign investors, this moment is exceptional because 8% real growth can deliver about 11% growth in nominal dollars. In the past, India's rapid growth carried a penalty. Over two decades ending in 2016, inflation exceeded 7% on average, pushing the rupee to depreciate by 3.5-4% annually, thereby diluting dollar returns.

That regime has changed. Following implementation of the inflation-targeting framework in 2016, inflation has averaged 5%, despite pandemic-era disruptions and war-driven commodity shocks. With inflation roughly 2 percentage points lower, rupee depreciation has correspondingly fallen to about 2.5% annually over the last decade, 1.5-2 percentage points less than the historical rate.

Note that these are averages measured over a decade, not movements over a few volatile months. In practice, the average results from extended periods of rupee stability, punctuated by brief episodes of sharp adjustment as has happened in the last few months.

Looking ahead, given the supply-side push following Covid, I expect inflation to anchor at 4%. The 3 percentage-point decrease in inflation (compared to 7% historical) would lead to a similar 3 percentage-point decrease in average rupee depreciation, settling it near 1% annually on average. This estimate is conservative: it doesn't factor in the possibility of higher US inflation driven by the US' considerably weaker fiscal position and growing threats to its central bank's independence. The estimate also does not account for faster real appreciation of the rupee from India's accelerating productivity and greater global integration in the traded sectors of the economy.

The economic arithmetic for 11% dollar return is simple: 8% real growth, plus 4% inflation, minus 1% depreciation. This projection is consistent with historical experience. Over multiple 25-year periods in the past, India has delivered more than 8.5% annual growth in nominal US dollars. Adding the 3 percentage-point reduction in inflation, you get 11.5% annual growth even using historical data.

At 11% annual return, investments double every 6-and-a-half years. Over two decades, that means three doublings. So, an investor who allocates $1 mn today could grow it to $8 million by 2047. No other large economy offers foreign investors such large multiplication in their investments.

Downside risks are primarily domestic: speed of structural reforms keeping pace with economic ambition. Policymakers must undertake necessary reforms to deliver average growth of 8% in the next two decades. Because 8% growth would increase our real per-capita income 1.5× by 2047 than if growth were only 6%.



The economic arithmetic for 11% dollar return is simple: 8% real growth, plus 4% inflation, minus 1% depreciation. So, an investor who allocates $1 mn today could grow it to $8 mn by 2047

Despite increased global uncertainty, citing the global economic situation as a cause for sub-8% growth can't stand up to scrutiny. Roughly 60% of India's GDP comes from domestic consumption, over 30% from domestic investment, over 10% from domestic government spending, and only 1.5-2% from foreign investment. Thus, nearly all of India's GDP stems from domestic factors with trade, as measured by exports minus imports, accounting for a small proportion.

The ongoing conflict in West Asia may temporarily elevate crude oil prices, but won't have long-run impact. A material risk stems from the impact of AI on software jobs, because these high-paying jobs matter significantly for domestic consumption.

India's fiscal and monetary policies have entrenched macroeconomic stability to complement its growth potential. Now, with landmark trade access to the world's two largest markets, the question that foreign investors must ask is not whether India will grow, but whether they will position themselves to benefit from it.

The writer is former chief economic adviser, GoI

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Hitting Where It Hurts Most: Wealth



Anjana Menon

Less than a week into the Israel-US war against Iran, the playbook is already fraying. By targeting the GCC region, Iran has taken the US' global capitalist footprint hostage, upsetting traditional warfare calibrations.

Over 50 carefully planned years, Arab Gulf states morphed from oil fields into glittering cities of steel and glass that make London and New York look dated. For the world's comfort-seekers, there is no better place than the tax-free hubs of West Asia, giving 'expats' (read: immigrants) the life they want. There's promise of predictability, safety, ease of living, and a tameness disrupted only by a fierce restaurant and mall culture. Geographically at the centre of the world, straddling multiple time-zones, it's nearly a perfect place. Danger is not in the Gulf's vocabulary. Safe haven is. That is, until last week.

Today, that carefully cultivated positioning is at risk. Iranian drones are crashing into airports, missiles slamming strategic US radars and occasionally hitting Western assets, Amazon data centres among them. Iran, faced with a do-or-die moment, has turned its focus on the one thing that makes the world take note: economic warfare.

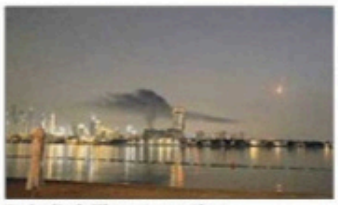
The Gulf model of prosperity is built on a single natural resource the world badly needs: black gold. Disproportionate wealth amassed from selling oil built world-class infra, attracted talent, and transformed a dusty, torrid barrenscape into a formidable global financial hub. Leftover petrodollars then found their way back to the US, keeping US stock markets buoyant, funding cash-guzzling AI companies, and acting as conduit for capital travelling the globe.

This partnership generated bilateral trade of $80 bn in 2023 alone. 70% of Fortune 500 companies have their regional headquarters in Arab states, with Dubai leading the way. The tax-averse super-rich, nationality notwithstanding, have made the region their home.

Meanwhile, GCC sovereign wealth funds, diversifying from oil riches, have increased investments in US companies with a war chest the size of India's GDP. Blackstone, Nvidia, Cisco… all have something to lose if the Gulf region destabilises. Saudi Public Investment Fund's $55 bn takeover of Electronic Arts, completed alongside Jared Kushner's investment firm, makes even Trump's son-in-law more than a bystander in the Gulf's prosperity. Any slack in these investments, or disruption caused by instability, could strangle easy capital-keeping US ambitions afloat. It's the worst kind of margin call on American business.

Iran, starved of money and resources by the Western world, has already signalled its intent to squeeze the Gulf's lucrative petrodollar stream by jamming the Strait of Hormuz. It's a busy thoroughfare for Arab nations exporting oil and gas, and importing everything they consume. Smooth traffic through the Hormuz keeps the lights on for energy buyers the world over. Already, Maersk has stopped shipping to the region and QatarEnergy has cancelled LNG contracts citing force majeure.

Iran knows only too well that an oil shock would dent already fragile Western economies, where rising cost of living and fewer jobs are a headache for governments. An oil price spike would make even neutral countries like Japan, or booming countries like India, less willing to turn a blind eye to a protracted war. Oil inflation will dent their growth prospects and increase citizen anger.



Dubai's falling star rating

Then there are the MNCs of GCC. While they may tune out drone warnings and calm nervous employees for a few weeks, their patience will wear thin if no endgame is in sight. Uncertainty is bad for business. Disruption is even worse.

Of course, the US and Israel may alter this trajectory with a military pounding Iran cannot withstand, severely denting the latter's counterattack. Still, a decapitated Iran may decide its only chance of survival is to drag the war. By making affluent Gulf states collateral, and its elite residents nervous, pressure on Washington to broker peace won't come from diplomats, but from Wall Street, influential boardrooms and Silicon Valley billionaires.

A businessman-turned-president may not understand the language of war, or even geopolitics. But one can hardly argue that Trump isn't fluent in the language of money.

The writer advises companies on strategy and stakeholder intelligence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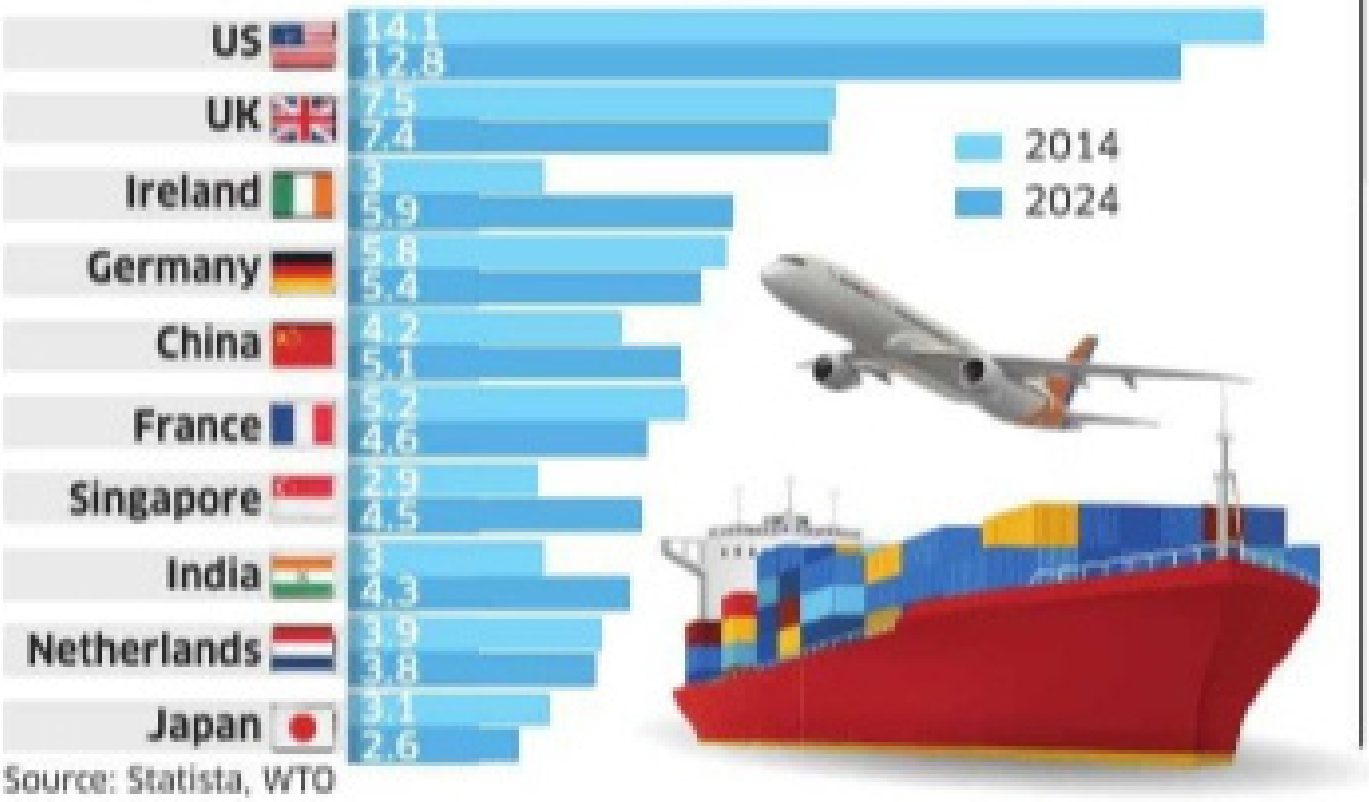
Global Services Exports

The US and the UK remain by far the world's top exporters of commercial services, together accounting for about one-fifth of the global total. Compared to a decade ago, the lineup of the top 10 exporters remains unchanged, though the rankings shifted. Ireland, India and China have made notable gains over the past decade, with their respective shares gaining 2.9, 1.3 and 0.9 percentage points.

Leading exporters of commercial services (in % of global exports)



Source: Statista, WTO

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Firming Up Pharma 2.0





Manish Sabharwal & Nilesh Gupta

The Sufi concept of Lauh-e-Azal (Tablet of Eternity), where everything that happens to everyone is already written, echoes the concepts of kismet, bhagya, and destiny. But India's pharma industry defies these notions: no one predicted that a country ranked 128th in per-capita GDP would make 60% of the world's medicines, save patients $2 tn over the last 10 yrs, operate a third of FDA-authorised medicine factories, and sell in 200 countries. The 85% reduction in AIDS and TB deaths would not have happened without India's production of antiretrovirals and Rifampicin.

This is not trade. This is life support. Replicating the manufacturing success of Indian pharma — 200 bn of the 400 bn pills Americans swallowed last year were made in India — feels like the best medicine for India's most embarrassing economic statistic: 45% of the labour force works on farms. China's position as the world's factory may feel unchallengeable today, but India's pharma factories demonstrate the powerful possibilities of smart policy partnering determined entrepreneurs.

Smart policy choices are often forgotten. We know the power of modern medicine: the world's richest man 200 yrs ago, Nathan Rothschild, died of an infection that would today be cured by a ₹20 antibiotic. But this antibiotic wouldn't cost ₹20 without two decisions by two governments — India's Patents Act of 1970, and America's Hatch-Waxman Act of 1984.

The first replaced product patents with process patents to create a 35-yr window for Indian entrepreneurs. In the 1960s, medicines cost more in India than in Europe, and Western pharma companies had begun to neglect infectious diseases. The second enabled generics to go from 1% of prescriptions in America to 90% today. Despite the private sector's otherwise warranted cribbing about the ease of doing business, medicines wouldn't be globally affordable, universally available, or 'Made in India' without two decisions by governments on opposite sides of the planet.

But smart policy is insufficient. Global competitiveness comes from entrepreneurs with the courage, imagination and discipline to risk capital, sleep and their name. India has created the world's largest democracy on the infertile soil of the world's most hierarchical and diverse society. Why haven't we created the world's largest economy? Why does China have 5× India's per-capita GDP, even though it was the same in 1990?

Could it be the vilification of entrepreneurs under the licence raj? Nehru once told J R D Tata he hated the word 'profit'. That was an unfair and incomplete view of the world that weakened India by treating entrepreneurs as adversaries, rather than recognising Arthur Schopenhauer's distinction between talent and genius: 'Talent hits a target that no one else can hit; genius hits a target that no one else can see.'

People like Cipla's Yusuf Hamied, Dr Reddy's Anji Reddy, Ranbaxy's Parvinder Singh, Sun's Dilip Shanghvi, Zydus Cadila's Ramanbhai Patel, and Lupin's Desh Bandhu Gupta saw what nobody else did. These entrepreneurs matter more to India than their revenues, exports or profits because they have raised India's soft and hard power.

China became the world's factory by undertaking a textbook transition of farm workers to manufacturing by attracting foreign investment. India's transition from farm to services — the fastest-growing formal-sector employment is in logistics, sales and customer services — is novel but insufficient. India is the only country with the scale, talent and trust to challenge China's manufacturing dominance, but manufacturing employs only 11% of our labour force (the same as the post-industrial US).

This factory drought has two main reasons:

▶ **Regulatory cholesterol** Labour laws, tax and customs rules governing the circular movement of raw materials and finished goods, national building codes, land laws, etc.

▶ **State capacity** Connectivity, infrastructure, government school learning outcomes, contract enforcement, a 'prohibited till permitted' mentality, etc.

We became the pharmacy of the world by overcoming these constraints through global certifications and integration, export-driven learning, quality discipline, meritocratic organisations, and sophisticated product supply chains. This foundation for 'Made in India' led to 'Made *for* India'; domestic sales of pharma companies equal their exports ($30 bn each). From one Indian pharma company in the top 10 in 1970 to only one MNC in the top 10 today. Pharma is not an exception but evidence.

The world's economic gravity is shifting to Asia. This relative decline makes the periodic, marginally racist Western rants masquerading as research understandable. Years ago, they looked down on China's iPhone manufacturing capacity because it only got them 2% of the phone's retail price. A Western pharma CEO suggested that Indian generic pharma companies' capabilities made them 'pirates'.

Recent propaganda suggests 'software coolies' are dyslexic or doomed by AI. All three criticisms display ignorance of sequential economic learning, the path to adjacencies, the human capital spiral from learning-by-doing, the power of huge home markets, and the ingenuity of our entrepreneurs.

Indian manufacturing is moving upwards, but it must expand its global market share by learning from our pharma companies, which dominate global medicine-making, because they internalised advice from Ayn Rand's The Fountainhead: 'The question isn't who is going to let me; it's who is going to stop me.' Nothing stops us.



Keep it cooking

Sabharwal is chairman, TeamLease Services, and Gupta is MD, Lupin

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With fires raging in West Asia, India's calm, calculated ascent offers a different path for progress

Safe Anchor in a Swirling World



Gautam Adani

The ongoing crisis in West Asia serves as a stark reminder that the world we live in is far more fragile than we often care to admit. It's in times of global volatility that the true value of a mature democracy is revealed.

It's easy to criticise from the sidelines. But one must occasionally step back from the noise of annual balance sheets or 24-hr news cycles to look at progress through a decadal lens. India's journey over the last 10 yrs has not just been a story of growth, but a masterclass in democratic restraint and institutional maturity.



GoI's strategic pivot toward capex has been significant – from 1.7% of GDP in 2016 to nearly 3.3% in 2025. This is a structural shift that prioritises long-term productivity over short-term political gratification

Democratic maturity is often invisible. It doesn't announce itself through dramatic headlines, but through steady, disciplined choices made over time. During the pandemic, many advanced economies treated their balance sheets like Monopoly money, unleashing unprecedented fiscal expansions. India's response, by contrast, reflected a remarkable degree of restraint.

Adoption of a formal inflation-targeting framework anchored expectations and brought stability to the macro environment. Over the past decade, inflation has averaged close to 5%, a dramatic improvement from the double-digit volatility that defined 2009-13. This shift has quietly transformed India's economic reputation from 'fragile economy' to being increasingly viewed as a 'fortress of stability'.

Equally significant has been GoI's strategic pivot toward capex — rising from 1.7% of GDP in 2016 to nearly 3.3% in 2025. This is a structural shift that prioritises long-term productivity over short-term political gratification.

Infrastructure is the quiet backbone of sovereignty. A resilient port network keeps trade moving when oceans grow uncertain. A strong power grid ensures factories continue to operate even when fuel markets fluctuate. Logistics corridors compress time across a continent-sized nation, unlocking productivity across thousands of miles.

Over the past decade, India has treated infra not merely as construction but as strategic capacity. New ports, expanded airports, RE parks, highways, rail corridors and digital networks have created a physical and tech foundation capable of supporting the ambitions of a $10 tn economy. Transformation is visible in ways statistics alone cannot capture. Cargo that once took days now moves in hours. Regions once disconnected now participate in national and global supply chains.

In much of the Western world, tech companies are often seen as rivals to the state. In India, the state chose a different path — it built tech as public infra. Result is the remarkable digital ecosystem, 'India Stack', a system that has quietly transformed how democracy interacts with its citizens.



Finding amrit in all the churn

Through Aadhaar, over a billion Indians now possess a verifiable digital identity. Through UPI, billions of financial transactions move seamlessly every month across the country. But the most profound transformation has occurred through the direct benefit transfer system. By linking Aadhaar with bank accounts and mobile networks, India eliminated layers of intermediaries that once absorbed a large share of welfare spending. Since its inception, more than ₹34 lakh cr has been transferred directly to citizens.

India's electorate is becoming increasingly performance-driven. Voters are rewarding outcomes — electricity in homes, roads connecting villages, reliable water supply — rather than relying solely on identity or ideology.

Perhaps the clearest sign of India's growing maturity lies in its foreign policy. The past decade has been marked by sharp geopolitical polarisation of 'us' and 'them'. India has resisted that binary. Whether navigating energy markets during ongoing conflicts, or championing the voice of developing economies in global fora, India has consistently pursued 'strategic autonomy' grounded in national interest.

Through fiscal discipline, strategic infrastructure investment, digital public infrastructure, and an unwavering commitment to democratic processes, India has demonstrated that stability and progress can advance together. Of course, challenges — from urbanisation pressures to employment generation — remain. But institutional foundations laid provide a far stronger platform to address them.

As the fires in West Asia remind us of the high cost of instability, India's calm, calculated ascent offers a different path, one where democratic values and decisive growth are not in conflict, but are the very engines of a nation's permanence. In a world searching for anchors, India is quietly becoming one.

The writer is founder-chairman, Adani Group

India's electorate is becoming increasingly performance-driven. Voters are rewarding outcomes – electricity in homes, roads connecting villages, reliable water supply – rather than relying solely on identity or ideology



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Pay Attention to Dry Facts About Water

If spring is here, summer can't be far behind — bringing a sharp, seasonal focus back to India's water crisis. Recent research from Birbal Sahni Institute of Palaeosciences, utilising 400 yrs of tree-ring data, confirms that the last two decades have seen the driest spring seasons in the Western Himalayas since the early 1600s. This historical collapse aligns with the International Centre for Integrated Mountain Development's (ICIMOD) 2025-26 Hindu Kush Himalaya (HKH) Snow Updates, which highlight a 'snow drought' triggered by weakened 'western disturbances' and rising temperatures. This warming creates a thermal threshold where moisture that once fell as snow now arrives as rain.



Without the 'natural dam' of slow-melting ice to regulate the flow, the hydrological cycle has turned volatile. Winter brings flash floods, while summers are left bone-dry. We are rapidly approaching 'peak water', a temporary surge in glacial melt that will be followed by a steady, permanent decline in Indus and Ganga basins by mid-century. To prevent taps downstream from running dry, HKH must be managed as a single ecosystem, moving past fragmented borders to share real-time hydrological data.

Shift to 'climate-adaptive governance' is the only way to stabilise the subcontinent's lifeblood. Infrastructure must also transform, utilising adaptive storage to capture erratic winter rain and reinforced engineering to withstand glacial lake outburst floods (Glofs). We must 'green the vertical deserts' by pivoting to precision agriculture and re-evaluating large-scale hydro in favour of solar. Global climate finance must prioritise these water towers. Survival of people downstream depends on securing the Himalayas today. We can't afford to let rivers run dry.


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It's Not Oil, Let's Step On the Gas Reserves

With India back to buying Russian crude, the country has built up its immunity to an oil shock arising from the US-Israel war against Iran. Russian oil derisks India's exposure to production cutbacks in the Persian Gulf, or an extended closure of the Hormuz Strait. Additional Russian supply also has a damping effect on global oil prices, thereby reducing the intensity of the current surge. India has strategic oil reserves for 45 days of consumption, half the recommended length of 90 days. Additional capacity is coming up, and should be supplemented with creative sourcing to tide over the current crisis.

India's perspective on natural gas is a study in contrast. There is hardly any storage capacity for LNG in the country. Imports from principal source Qatar are conducted for just-in-time delivery. The natural gas market is even more concentrated in West Asia. Alternative supplies can't offset serious production cuts in the region. So, gas prices tend to be more volatile during an energy shock as consuming nations like India grapple with inadequate storage infra, and are forced to buy in the spot market. The knock-on effect on the fertiliser industry, biggest consumer of natural gas, is absorbed by subsidies that show up in the fiscal arithmetic. Apart from tiding over the current crisis through alternative supply from Russia and the US, India must apply itself to the question of strategic LNG reserves.



A combo of coal-fired electricity generation and incomplete pass-through of international energy prices don't provide as much cushion as adequate storage. The infra can pay for itself by reducing the need to cap energy prices. Episodic volatility in the energy market has a correlation with climbing geopolitical tension. This should be a good time to speed up energy transport and storage infrastructure. Short-lived spikes in energy pricing can lead to complacency that can be costly in the long run.

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Oil Prices, Fuel to Put a Stop to War?

Energy shock may give US an exit clause

Oil prices have finally boiled over. The world economy has lost more than a day's worth of oil supply as the Hormuz Strait, through which 20% of global oil passes each day, remains shut. Investors accustomed to short spikes in energy prices due to geopolitical tension are now staring at production cuts in the Persian Gulf. Iraq and Kuwait have followed Qatar in shutting down energy infra vulnerable to Iranian strikes. Israel and the US must factor in the likelihood of a swift end to the war in West Asia receding.

Energy-importing nations are deploying strategic reserves where available while they tap into alternate sources of supply. Exporters of refined petroleum, including India, have the option of dialling down overseas sales to keep prices in check at home. China, with the world's largest strategic reserves, has instructed its refiners to suspend exports. As national interests take over the oil trade, the war acquires a truly global dimension. Australia, for instance, imports almost all its petrol, diesel and jet fuel from refineries in Singapore, South Korea and Japan that principally process crude from the Persian Gulf.



The US exports both crude oil and refined petroleum. Yet, prices have started climbing at fuel pumps before the latest surge in crude prices. Inflation in the US is running above target, and the bond market is moving in anticipation of the US Fed turning hawkish on interest rates. That will not go down well with Trump's agenda to fight a limited war. A limited energy shock may, however, provide him with whatever outcome he chooses to declare 'victory' on social media. After all, there was no final objective set out in the US attempt at 'regime change from air'. The endeavour will become significantly more difficult for Trump if he has to commit boots on the ground.

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STATE OF PLAY Fast changes in W Asia require India to perform high-wire diplo-dexterity

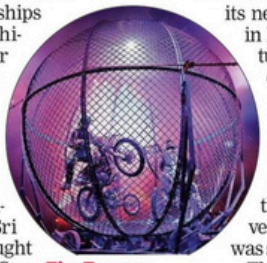
Tricky Trapezing Above Us



Pranab Dhal Samanta

More than a week into the US-Israel war against Iran, it's a trapeze act, not a moral or ideological test, for India. This involves four points of power — the US, Iran, Gulf countries and Israel — with each of whom India has a significant relationship that not only mustn't collide but become leverage in a worsening conflict zone.

Take the Iranian ship IRIS Lavan now docked in Kochi. It was the first of three Iranian ships in the Indian Ocean, which had turned off their AIS transponders to avoid detection, that reached out for help, and upon confirmation from India, made a dash for Kochi. The other two were presumably closer to the Sri Lankan coast and sought to go in that direction. One made it, the other was sunk by a US submarine.



The Trump regime now knows that India is vital to any of its plans to regulate oil prices

A worried Colombo, amid US offensive intent, sought guidance from New Delhi on how to go about matters with the other ship, which had made it into Sri Lankan waters. Thus, the 'Kochi model' was devised. India assured Iran of the crew's safety, but also made certain that they would be separated from the ship and stayed elsewhere. So, it was clear to the US that the docked Iranian ship was no longer a military asset available for combat.

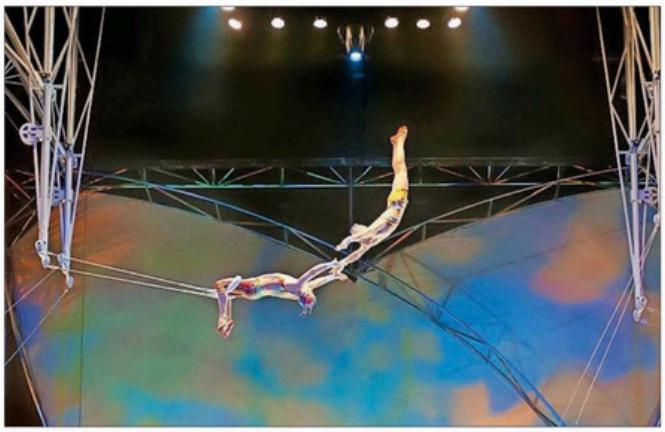
Sri Lanka adopted the same approach as Washington saw merit in the arrangement, while Tehran felt reassured that its crew members were safe. For India, all key players, including a vital neighbour, were satisfied with the outcome, which also ensured no further spread of military action in the Indian Ocean.

The next big act is on oil. India is the second-largest importer of oil in the world. The biggest importer, China, is not sensitive to US concerns, buying supplies from wherever it wants. The Trump regime penalised India with 25% additional tariffs for purchasing Russian oil, which, incidentally, was done with the understanding of the previous Biden administration to keep oil prices stable during the Russia-Ukraine war.

India reduced purchases as Trump sanctioned Russian oil entities. But, now, the same price stability argument is back on the table. Only the theatre of conflict is different. It took detailed conversations between India and US for the latter to figure out that, as among the biggest consumers, India will have to shore up supplies for its needs through purchases in large quantities that, in turn, could drive up prices. It's, thus, in Washington's interest now to ensure immediate availability (not future 'Venezuela promises') of crude to India. And that's how the 30-day waiver to buy Russian crude was suggested.

This was when crude was well below $100. At today's fluctuating prices, the US will have to be more flexible while working out options. This is an act that India as a major oil consumer will play repeatedly depending on how the war progresses. What's important is that the Trump regime now knows that India is vital to any of its plans to regulate oil prices, which have hit an upward spiral with supplies through the Hormuz Strait drying up.

There's also a specific India-US bilateral act to this diplomatic trapeze for India: to keep the political messaging with Trump on the right track. For this, it is important to keep trade talks going despite uncertainty following the US Supreme Court's order against Trump tariffs. Some trading partners of the US have put a pause on talks. But India needs to fashion a more practical approach.



Swinging it on multiple fronts

There's less tariff uncertainty for Indian exporters now. Tariffs, post-SCOTUS order, are 15%. If Trump does succeed in finding ways to continue his policy of imposing non-WTO-compliant tariffs in the months ahead, then the post-deal tariff for India will be 18%. So, there's predictability to Indian business that tariffs will be in the 15-18% range regardless of which way the tide shifts in the US.

More broadly, the political plus of taking Trump's words seriously, despite challenges posed to him by the SCOTUS order, far outweighs the downsides to pausing conversations — especially when risks on business are minimal.

Now, to the Gulf countries. The bitterness from India's neutral positioning in the First Gulf War when Iraq invaded Kuwait has not en fully forgotten, given that many of the kingdoms are dynasty-run regimes that build on political memories of royal lines. This time, New Delhi's shift has been decisive in showing solidarity with Gulf countries.



New Delhi's shift from the First Gulf War days has been decisive in showing solidarity with Gulf countries

There are over 9 mn Indians in these countries who run the risk of being victims of collateral damage. They also remain central to India's energy security. Thus the need to make a practical shift.

The last — and perhaps the least complicated — is India's Israel act. As New Delhi moves through this diplomatic trapeze, the only expectation from Israel would be political understanding of India's priorities, be it allowing an Iranian vessel entry, or working with GCC countries as they seek to find ways to de-escalate.

In sum, it's almost a daily trapeze for India as fast-paced developments change the landscape sooner than expected. The political test now is not necessarily the doors India shuts with the stand it takes, but those it manages to keep open — and keep revolving to secure its own interests.

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West Asian Squeeze on China



Saibal Dasgupta

The US-China strategic competition landscape is shifting. China's deep structural dependence on foreign crude — importing 70% of its oil needs — makes it extremely vulnerable in a situation where the US is set to exercise its dominance over West Asia. Closely linked to oil imports is China's manufacturing capability, and its role as the world's biggest trader.

The US is looking towards a victory over Iran that would create new pathways for Washington to intensify its stranglehold over oil-producing Gulf countries and to dominate the supply lines. So, Beijing's stakes are very high. Nearly 37% of Chinese imports come from sources covered by US sanctions, with Iran contributing about 14%, Russia 20% and Venezuela 4%. These sources supply heavily discounted crude, making it possible for the 'factory of the world' to produce cheaply.

China's customers, including India, may also end up paying a premium on Chinese goods with world crude prices rising and supplies to Chinese manufacturers being restricted. Beijing's power to bargain with the US with its rare earth supplies has suddenly weakened. Anxious about the emerging scenario, last week, China set its GDP growth target for 2026 at 4.5-5%, the lowest since the early 1990s.

So, why has Iran's allies and BRICS partners China and Russia seemingly stayed out of the West Asia conflict? Xi Jinping doesn't want to confront Donald Trump at this stage, when some objectives like 'mainlanding' Taiwan remain unfulfilled. Reports about China-Iran intelligence-sharing need to be taken with a handful of salt. Beijing did help out Tehran with military supplies after the US attack last June.

There is sufficient evidence to show that China shipped sodium perchlorate, a key solid-fuel oxidiser for ballistic missiles and drones, to Iran. Tehran also received HQ-9B batteries shortly after the June 24 ceasefire, plus ongoing HQ-16 and HQ-17AE surface-to-air missile batteries, and loitering munitions (kamikaze drones). But will the Chinese risk supplying more ammunition to help Iran hold fort as long as possible?

The US-Israel war against Iran has also exposed capabilities of China-made air defence systems. The HQ-9 series, including HQ-9B, is among China's top long-range systems, comparable to the Russian S-300. US-Israel reportedly used a combination of superior technology and ground intelligence to break through Tehran's air defence.



Through a glass darkly

This development affects China in two ways. Its market for air defence systems has been severely hit. What is worse is that several countries including the US, Taiwan and India — which earlier exposed Chinese air defence systems in Pakistan — have been able to collect useful data on dealing with these weaponries. But China is yet to sell its most advanced versions that include HQ-19 anti-ballistic missile system — that rivals the US THAAD (Terminal High Altitude Area Defence) — and HQ-29 exo-atmospheric interceptor.

Military analysts are divided about how long Iran will be able to fight back, even if it means damaging economic infrastructure across the Gulf. Some believe Iran has created scores of independent command structures, each of which can act on its own, even if the top layer of leadership is destroyed. If true, the war will be a prolonged one with countries like Saudi Arabia, the UAE, Qatar, Kuwait and Oman suffering serious damage. This damage is not limited to physical infrastructure. Dubai's image as a 'safe haven' has already been tarnished.

So, what happens to the American image of a 'tough, fighting nation' if it is unable, or unwilling, to protect its allies in West Asia? Gulf rulers are already worried about the public anti-US noise and 'the street' questioning their loyalty to Washington.

Never mind the latest bluster from Washington. The Trump regime needs to look for an exit strategy if there are signs that the war can stretch over weeks, causing serious damage to its allies in West Asia. A prolonged war that erodes US influence might put China in an advantageous position. China is not just the biggest buyer of oil. Its overall trade with West Asia is also much bigger than the US'.

The writer is former ToI correspondent in Beijing



Food Labelling Isn't Anti-Industry



Arun Gupta

Supreme Court's Feb 10 order on front-of-pack labelling (FOPL) of prepackaged foods will go down as a milestone. Reviewing FSSAI's compliance affidavit, the court stated that it was 'not satisfied' and observed, prima facie, that the exercise undertaken so far 'has not yielded any positive or good result', and asked FSSAI to consider using warning labels. This is a moment that warrants attention.

Over the past few years, regulatory conversation has revolved around the proposed Indian Nutrition Rating (INR), a star-based system that aggregates positive and negative nutrients into a composite score. While the model was presented as aligned with global practice, public health experts noted that the system could be confusing for the public, and may not adequately identify unhealthy foods. It has not yet been operationalised in India. FSSAI's latest affidavit has referenced further consultations, additional research, mapping exercises and absence of stakeholder consensus.

This consensus is being sought between the public and food industry. What should we expect? The top court's reaction suggests that an incremental process without a visible outcome that should benefit people may no longer be acceptable, as it would defeat the purpose of regulation.

This matters because packaged and ultra-processed foods (UPF) are increasingly accessible across income groups. India is also experiencing a rise in obesity, early-onset diabetes, hypertension and cardiovascular diseases.

FOPL sits at the intersection of consumer rights, public health and market regulation. It does not prohibit the sale of food products, nor does it restrict trade. It simply requires that risk be communicated clearly and prominently at point of purchase.

Distinction between 'information' and 'warning' is crucial. Numerical nutrition tables on the back of packages presume time, literacy and calculation. Star ratings presume that an averaged score can meaningfully represent complex health risks. Warning labels, by contrast, function as immediate alerts, signalling when a product is high in sugar, salt or saturated fat and, thus, ensuring well-informed choices.

Several nations have adopted interpretive warning systems. Evidence from these countries suggests two effects: consumers shift choices at the margin, and manufacturers reformulate products to avoid warnings.

For industry, this should not be read as anti-business. Clear warning frameworks create regulatory certainty. They reward reformulation, innovation and transparency. Companies that proactively reduce sugar or sodium content are better positioned in a warning-based regime than those relying on marketing or health halos.

For regulators, the challenge is constitutional as much as technical. The top court's reaffirmation that the matter concerns the right to health elevates the discussion beyond administrative discretion. When health risks are material and foreseeable, the state's obligation is not merely to facilitate information but to prevent concealment of the fact that these products may lead to overconsumption and related health harms.



Look before you eat

The 4-week window granted to FSSAI is more than a procedural deadline. It's a supervisory checkpoint. The authority must now demonstrate that its response moves from consultation to the decision long demanded by public health experts. Of course, the food industry has never wanted it for reasons of commerce and profitability.

The debate should not be framed as public health v. industry. Nor should it be caricatured as paternalism. Modern consumer markets depend on trust. Transparent risk disclosure strengthens, rather than weakens, market functioning. When risks are clear, consumers can exercise choice meaningfully. Companies should compete on product quality, focus on real or whole food products, engage in local economies, and avoid chemical or cosmetic colours and flavours.

India stands at a regulatory crossroads. It can continue with extended consultations and incremental refinements. Or it can implement a clear, mandatory and enforceable FOPL warning system that aligns with constitutional expectations and global best practice.

The coming weeks will reveal whether India's food regulation framework rises to that expectation. The issue has been reframed around the right to health. For a country that's both a vast consumer market and a strategic growth frontier for global food corporations, this moment carries international consequences.

Compliance with the court's direction would not be regulatory overreach. It would be constitutional stewardship. It would place India among the few major economies willing to act decisively in the public health interest. This is an opportunity the health ministry should not miss.

The writer is convenor, Nutrition Advocacy in Public Interest (NAPi)

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Can Cricket Industrialise Kashmir?



Swaminathan S Anklesaria Aiyar

SWAMISPEAK

J&K's stunning Ranji Trophy win last month should elicit more than just cheers. Can cricket become a new force to industrialise the Union territory where all else has failed? The potential is astonishingly high.

Industrialisation is essential to create jobs and reduce youth alienation there. But conventional attempts through subsidies and public sector investments have achieved little, while breeding corruption and waste.

Kashmir lacks conventional industrial raw materials. It lies in a remote corner of India with no market to its north, west or east. Connections with consumer markets to its south with the rest of India are dismal. Industrialists avoid J&K because of risks of terrorism, wars with Pakistan and political uncertainties.

Yet, Kashmir possesses one natural advantage: it's the only place in the world, save England, that grows the variety of willow trees needed for cricket bats. English willow is the best in quality. So, English bats are very expensive and unaffordable for the millions of people playing cricket in developing countries. That leaves bulk of the market to India.

Britain's Gunn & Moore sells bats online for $265. By contrast, bats made from Kashmir willow can be dirt cheap. One online offering is for just ₹120 ($1.30). Kashmir can hugely increase its value addition by ensuring quality.

Kashmir's natural willow stands have been shrinking ominously to meet roaring demand. Farm forestry is possible. But willows take up to 30 yrs to mature. So, farm foresters prefer the fast-growing poplar. Kashmir's forest management is notoriously corrupt and incompetent. The region has ample wetlands and riverbanks suitable for willow cultivation.

GoI must launch a scheme in mission mode, with private sector partnership. That will increase willow supplies sufficiently to increase bat production 10× on a sustainable basis. Demand for bats is rising with rising incomes increasing the number of households that can afford to buy a Kashmir willow bat.

Kashmir's production of willow clefts for bats has reportedly increased from 3 lakh to 30 lakh in the last decade. The vast majority of clefts are converted into bats in two manufacturing hubs, Jalandhar in Punjab and Meerut in UP.

Top companies there — Sareen Sports (SS), Sanspareil Greenlands (SG), BD Mahajan (BDM), MRF, etc — have over decades developed a global reputation for quality. They produce high-end bats (using both English and Kashmiri willow) and medium-end ones, and have become major exporters.

A cricket bat is a carefully engineered product. The cleft must be repeatedly machine-pressed to improve durability and strength, the blade shaped precisely, and the handle (made of South Indian cane) attached securely. Developing such capabilities in Kashmir will not be easy. Existing Kashmiri companies have poor reputations.

Ideally, Jalandhar and Meerut companies will have to be induced to manufacture in Kashmir through capital subsidies and preferential supplies of willow, and partnerships with the UT government in willow plantations. These companies have a deep long-term interest in increased willow supplies of assured quality.

But like all businessmen, they'll avoid locations where infrastructure is poor, and agitations and violence can disrupt production and profitability. This means Kashmir Valley is unsuitable, in the short run at any rate, for a new initiative. But Jammu has stable conditions and good transport infra and can become a manufacturing hub.

Rise of lucrative T20 leagues has made cricket very attractive to young players, offering enormous financial rewards and global visibility. This has sparked rapid proliferation of cricketing academies and coaching centres, now a significant service industry.

Jalandhar and Meerut have shown that once a cricket bat manufacturing cluster emerges, a wide range of ancillaries will follow. Cricket balls are hand-stitched, requiring skilled labour that's very expensive in England but inexpensive in India. Protective gear such as pads, gloves and helmets are important ancillaries. So are stumps, cricket shoes and training equipment.

The potential global market is enormous. The sport is spreading to new countries as shown by their participation in this year's T20 World Cup. South Asian diasporic US has the maximum potential.

In India as well as Pakistan, manufacturing hubs for one sport lead in time to diversification into equipment for multiple sports. Sialkot began with hand-stitched footballs and gradually expanded into equipment for cricket and other sports. Cities in J&K can do the same.

The task will take time and effort. But Kashmir's unique raw material advantage in willow must become the launching pad for its emergence as a global quality sports equipment producer that employs millions.



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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"



"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

PEAS IN A PODCAST

Riding the Trade Winds

Trade is everywhere in the news right now. But beyond tariffs and policy debates, trade is really a human story — about communities that built networks, took big risks and quietly reshaped entire economies. One remarkable example is the Nattukottai Chettiars of Tamil Nadu, whose financial influence once stretched across British Asia.

The Incredible India Travel podcast episode **The Merchant Kings of Chettinad** reveals how the Chettiars were far more than traders. They were lenders, financiers and investors, moving money and credit across regions from Sri Lanka to Myanmar. Their success ran on trust — tight family ties and community networks that allowed them to move capital quickly and reliably across Southeast Asia.



When a tsunami wiped out many of their coastal ventures, the Chettiars pivoted inland, expanding into banking, moneylending and gem trading. Their famous Chettinad mansions were built with Italian marble, Belgian glass and Burmese teak. WW2 and the rise of modern banking eroded their lending networks. Many of those grand homes (pic) have been restored as heritage hotels, offering travellers a chance to step inside a remarkable chapter of India's trading past.

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For India Inc, Oil Can Be the New Data

Trump's ever-excited announcement of investment by Reliance in a Texas oil refinery — an announcement yet to be confirmed by the company — seems to be the president extracting his investment promises. Our industry champions could do well to step up and follow suit. It can certainly help India and the US to rebalance trade. The US has had a goods trade deficit with India of $58 bn in 2025, while it ran up a small surplus in services trade of about $102 mn in 2024. The two countries are negotiating an agreement to expand bilateral trade with a cautionary eye on persistent US deficits. An easy way out is for India to increase its energy imports from the US. India Inc can also help play a bigger role in shaping the country's geopolitical strategy through such transactional dealings with an openly transactional regime.



The US exports both shale oil and refined petroleum like petrol, diesel and jet fuel. But American refining capacity is geared towards imported heavy crude varieties, and shale oil has to be exported. This introduces inefficiency in the US energy market that can be set right through fresh investment in refining. On India's part, it has been diversifying its energy supplies as a geopolitical risk management strategy. The economy needs an energy-from-all-sources approach to sustain its growth rate. It must also make provisions for a higher energy intensity of growth.

It's relatively easier for the US and India to find common ground over trade in energy and arms, than over trade in food. Global energy trade is being rerouted by conflict, and India is charting its own course during a phase of heightened volatility. Offshore energy investments provide a mechanism to offset the country's dependence on imports. Smart sourcing can cover the gaps in India's energy transport and storage infrastructure. It also helps to increase market access for India's manufacturing exports, which eventually should be able to pay for energy from overseas. It looks like oil is the new data, and India Inc can get its second act going.

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Dig Our Own Backyard



Dhiraj Nayyar

For all its many strengths, the Indian economy has a chronic Achilles heel: massive import dependence. Nowhere is this more acute than in oil, gas and other minerals, which together account for 50% of total imports, necessary for most economic activity.

India has suffered macroeconomic consequences of oil shocks earlier. The 1991 balance of payment crisis was precipitated by the First Gulf War. But in the Trumpian world, dependency is much worse. Economics is now weaponised. Countries openly exploit and target weakness. Look at the US dictating terms to India on Russian oil. Or China dictating terms to the US on rare earths.

The new resource nationalism unleashed by Trump means that tiny Zimbabwe can hold China to ransom by suspending exports of lithium. India needs to address this vulnerability on a war footing.

The fundamental problem lies in the policy paradigm that governs the natural resources sector. Foundation for the current paradigm was laid in Modi 1.0. In essence, it was a reactive policy framework, a response to alleged corruption in allocation of natural resources in the previous administration.

The underlying logic was this: a discretionary allocation of mines/oilfields/spectrum is prone to corruption. So, auctions are the way forward to end corruption and bring transparency in natural resources. The primary objective of the policy was to root out corruption.

An auction regime was additionally attractive because it would generate more revenue for GoI. Increasing production and ending import dependency were never the guiding principle behind the policy framework.

Unsurprisingly, the major success of this government has been attracting good premiums for GoI — and without scams. However, import dependency has not come down. For oil, it has increased marginally. For gold and copper, it's 99.5% and 95% respectively. Even coal and iron ore, in which India is more than abundant, are imported.

The new world (dis)order is the perfect moment to rethink and recalibrate the policy framework for below-the-ground resources. It's time that production takes centre stage without compromising on transparency. Three things are required: deregulation, greater private participation, particularly in existing but under-producing assets, and a new exploration policy for minerals.

Importance of eliminating cumbersome processes and extensive bureaucracy cannot be overstated. In oil and gas, GoI has introduced reformed laws, which are globally benchmarked. Despite this, global majors are choosing geographies like Libya, Trinidad and Namibia over India. The missing piece for India is in ease of doing business. The maze of permissions and rules needs to be eliminated. The best way forward is self-certification. GoI creates a rulebook with which investors must comply. An audit can always be conducted to verify compliance.

To enhance production in the short term, GoI should consider inviting private participation in many of its underperforming mining companies. Hindustan Copper, which owns 40% of India's copper reserves, reached a production peak in 2018-19, and has seen a 16% decline in production since then, despite record copper prices.

In Karnataka's Hutti gold mines, India's only active gold mine, production has been stagnant for a decade at around 1.5 tonnes a year. India's demand is 700-800 tonnes a year.

In mining, a radical change in exploration policy is also required. For resources where exploration has been done by state agencies and there are proven reserves, auctions can stay. The goal should not be to maximise revenue but to incentivise rapid production.

For resources that are not explored (currently, 70% of India's geological potential), auctions cannot work. It's impossible to put a price on something unknown. Global practice is to allow specialist exploration companies to undertake their activities in places of their choosing (the government publishes a menu).

If they fail to find anything, the loss is theirs. But if they make a discovery, the reward is theirs — they must be allowed to sell it to the highest bidder. There is no room for corruption here. The existing system, which requires explorers to submit their discovery to GoI for a fee, will not attract investors.

GoI must act quickly for energy and mineral security. It's imperative for macroeconomic stability, strategic autonomy, jobs and growth.



Change the contours

The writer is chief economist, Vedanta



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It's time a system for third-party verification of implementation of investment is put in place

How Green is Your MoU?



M Muneer



Coming to an FDI shore near you

On Wednesday, Trump announced on social media that a '$300 bn' deal has been struck by which America First Refining (AFR) will be opening the 'first new US oil refinery in 50 years in Brownsville, Texas' with investment from India's 'largest privately held energy company, Reliance'. Till Thursday, Reliance made no statement on its part about the 'deal'.

In a subsequent FT report, AFR placed the cost of the project at '$4 bn'. So, what's the extra $296 bn that Trump hollered about? AFR explained: the $300 bn figure was based on the calculation that the refinery would purchase and process 1.2 bn barrels of shale oil at an estimated value of $125 bn, and produce 50 bn gallons of refined product at around $175 bn. And so — voila! — a '$300 bn deal'.

Trump, of course, is hardly alone in turning 'plans' and 'commitments' to 'done deals'. This is a man who has intermittently declared that a war is over when it's pretty clear that it's still raging. But every Indian state, from Gujarat and UP to Kerala and West Bengal, holds global investment summits regularly, boasting of billions of dollars in investment promises from global companies. Last month at the Delhi AI Impact Summit, the figure pledged was of over $200 bn.

In such a romanticised landscape lovingly painted by politicians, corporates and media alike, tech giants like Amazon, Microsoft and Google have flooded eye-popping pledges to pour tens of billions into India's digital economy and infrastructure. This week, the Trump government just returned the gesture.

You'd think this ticker of global promises would make India the envy of any prospective investor. But step back from the hype, and a sobering truth emerges: the yawning gap between flashy declarations and actual implementation.

On paper, these numbers are staggering:

- Amazon pledged over $35 bn in India to expand logistics, AI and exports by 2030.
- Microsoft committed $17.5 bn to cloud and AI infrastructure in India.
- Google said it'll invest about $15 bn to create a major AI hub.

Add to this a barrage of MNC interest in data centres, semiconductors and supply chain investments. Investment summit brochures now read like glossy annual reports.

Yes, FDI inflows surged to over $80 bn in 2024-25. This paints a fantastic picture of capital inflow, high global confidence, and MNC trust in the India growth story. But who funded the projects? Did they ultimately arrive? Actual investments on the ground tell a very different story.



Yes, FDI inflows surged to over $80 bn in 2024-25. But who funded the projects? Did they ultimately arrive? Actual investments on the ground tell a very different story

Across India, actual data-crunching suggests that MoUs historically convert into real investments only in a minority of cases. Many agreements remain just on paper, because they're non-binding letters of intent, not legally enforceable commitments.

Even when states claim high conversion rates, evidence is patchy, and details buried in government press notes rather than audited public data. Some local officials boast of '77% conversion'. But nowhere is there a central, transparent audit confirming these claims. Investment pledges are usually spread out over a decade or more. That's convenient for headlines today, but harder to verify tomorrow.

MoUs strikingly abound in global investor meets. They are the preferred instrument at high-profile events for governments to boast huge headline figures, corporates to signal intent without committing capital immediately, and ambiguous timelines that stretch over years.

But MoUs aren't guarantees. They don't require funds to be infused on schedule, or measurable job creation. They are promises on paper. What's striking is the absence of a central audit or public scoreboard, which systematically tracks how many of these billions pledged have actually materialised into capex, jobs created, factories built or products made.

So, where does the money really go? Despite the noise, FDI inflow figures do show real cash. But it doesn't always align with headline pledges: the $80 bn in FDI inflows in 2024-25 ticks up year over year. But FDI isn't synonymous with deployed capital. It includes flows already captured by ongoing operations, reinvested earnings and non-binding equity pledges.



FDI isn't synonymous with deployed capital. It includes flows already captured by ongoing operations, reinvested earnings and non-binding equity pledges

There's a crucial difference between announced future investment and money actually spent today. Many big promises are simply 'expected inflows over many years' — projections and planning figures, not delivered capital.

This is not to deny that India has become a far more attractive destination for global capital than ever before. Large tech and services commitments are real, and backed by operational plans. But overuse of vague pledges and long timelines turns foreign investment into a kind of PR exercise.

The investment story needs third-party verification of implementation:

- Independent audits of why certain MoUs didn't progress.
- Clear disclosure of actual capital commitments vs theoretical ones.
- Public tracking of progress toward job creation and capacity expansion.

Until then, the spectacle of corporate commitments will continue to resemble political manifestos more than hard economics — vast in promise, opaque in delivery, and frustratingly hard to quantify.

The writer is co-founder, Medici Institute for Innovation


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Stabilisation Fund Can Be a Shock Absorber

India's economic stabilisation fund is a timely initiative, and GoI can take credit for creating it without undue fiscal stress. The extra cushion against external shocks will come in handy while negotiating the crisis in West Asia. It helps to sequester the money when the economy is going through a period of robust growth and low inflation. A fund dedicated to tiding over temporary volatility in commodity markets frees up policy space for longer-term macroeconomic management. The anti-volatility fund will be a worthwhile addition to the countercyclical policy toolkit at a time when global shocks are rising to coincide with India's increasing exposure to them.

Since the beginning of the decade, GoI has had to negotiate a pandemic, energy and food shocks, as well as tariff wars. The incidence of external shocks is climbing as structural adjustments relieve domestic economic pressure. Improved welfare delivery and accelerated capex have made the economy more resilient, yet it still depends on imports for food, energy and manufacturing inputs. Rising productivity exposes the economy more to resource inadequacy, whether natural gas or rare earth minerals. A financial backstop is useful as the economy draws up its energy transition pathways.



Stabilisation funds have a successful record across the world, and India's experience is likely to be favourable. Principally, they address the need for risk mitigation without slackening fiscal discipline or threatening macroeconomic stability. They also complement efforts to develop storage infrastructure across commodities that make up a sizeable portion of India's trade with the world. Setting up the fund is, of course, the easy bit. Putting it to the best use takes some effort.



Fertilise a Bio Pathway



Jagjeet S Sareen

The closing of the Hormuz Strait has again brought into sharp focus India's need to curb its fertiliser imports. Perhaps, as a timely reminder, the closing comes just as India is getting ready for the kharif sowing season.

In 2025, Rabobank ranked India among the most-exposed countries to a sustained Hormuz closure. Unlike crude oil, it doesn't have strategic reserves for nitrogen fertiliser. So, whatever is in the pipeline is what Indian farmers have to work with.

Add to this, about three-fifths of urea imports come from Oman, Saudi Arabia and Qatar, and the Gulf's share rises when the UAE is included. Consequently, India's fertiliser subsidy bill stood at a revised estimate of ₹1.86 lakh cr in 2025-26, over 40% of GoI's subsidy spending. The figure will only grow as the Hormuz closure reroutes supply chains and raises shipping costs.

Decades of intensive chemical fertiliser use have depleted India's soil to the extent that import dependency is structural. The country's NPK (nitrogen-phosphorus-potassium) application ratio has deteriorated to 10.9:4.4:1 against an agronomic benchmark of 4:2:1. Even so, only a small portion is absorbed by crops. The rest is lost through volatilisation, denitrification, runoff and leaching, posing a problem for soil emissions and groundwater.

ICRIER estimates return on fertiliser subsidy spending to be roughly 88 paise per rupee, against more than ₹per rupee spent on agricultural R&D. India is spending ₹1.86 lakh cr on the former and ₹2,481 cr on National Mission on Natural Farming.

Biofertilisers are living microbial inputs, including bacteria and fungi that fix nitrogen, solubilise phosphate and support soil biology. They are made domestically and, in most cases, cost less than their chemical equivalents. Provided quality is consistent and farmers receive guidance on application, they can work.

Sikkim has gone 100% organic for its 76,000 ha of farmland. Equally encouraging is Andhra Pradesh's community-managed natural farming programme, which has reached more than 1 mn farmers through linked accounts, and input costs have fallen within a few seasons.

India's biofertiliser sector has grown since 2015. But the bigger obstacle is not whether biological inputs work, but how the market around them is organised. The sector is fragmented: mostly small regional producers, uneven enforcement of quality standards and little last-mile advisory. Also, commercial biofertilisers receive no subsidy while chemical fertilisers receive nearly ₹1.86 lakh cr a year.



Spray of hope

Three decisions on biofertilisers ar needed:

❶ Include them in the nutrient-based subsidy framework. Agricultu re minister Shivraj Chouhan has proposed moving fertiliser subsidies toward DBT and letting farmers choose inputs based on agronomic needs, rather than subsidy prices. If the shift happens, biofertilisers will become a realistic option. Redirectin even a portion of subsidy toward biological alternatives would reduce import exposure and improve soil health over time.

❷ Bio-Input Resource Centre (BRC) network under NMNF needs quality control. About 10,000 BRCs are being set up to expand distribution. But their inputs must be reliable and properly formulated for farmers to implement them. Private companies with genuine technical depth in biological inputs are obvious implementation partners here, accountabl for product outcomes rather than the volumes supplied.

❸ Approval timelines for new micr bial strains under Schedule VI also need attention. Biofertiliser product have short shelf lives, and the marke moves on quickly. So, faster approval with stronger post-market surveillar ce would foster both innovation and consistent quality.

A transition toward biofertilisers and natural farming will be slower and more uneven. They are not full replacements for chemical inputs, bu rather a new system that will coexist for some time. Their near-term utilit is to lower India's import bills, ease pressure on soils and reduce costs fo farmers who have no affordable alternative.

It's not a perfect solution. But it's much needed. And the Hormuz closu re shows why.

The writer is co-host, Bharat Climate Foru

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Up, Up Airline Capacity & Be Away

Refuel cheap in W Asia by flying there more

India's freeze on bilateral flying rights is coming under strain as airfares mount on international routes. The freeze caps the seat capacity on vital corridors like those to the Gulf-West Asia, as Indian airlines await aircraft deliveries to bulk up their fleets. Surging jet fuel prices due to the ongoing conflict in West Asia have added to the pressure on airfares, while airlines in India remain disadvantaged by high central and state taxes. Since jet fuel lies outside GST's ambit, it will take a broader political consensus for any effective reduction in levies. Additional airport capacity coming on stream offers another reason to raise airline capacity on principal routes.

These arguments are not persuasive enough. India is expected to drive the growth in international aviation over the next two decades, and it would be difficult to justify that growth occurring on overseas airlines. Indian carriers have to work around fuel cost disadvantages to compete effectively with airlines in the Gulf whose owners also own oil wells. The way out is for Indian aircraft refuelling cheap in West Asia, which requires them to fly more to the region. Protection offered by frozen capacity levels the field for Indian airlines while their orders for jets are fulfilled. New airport capacity in the country also benefits if Indian carriers move sufficiently large numbers of passengers to be able to create domestic transit hubs.



Aircraft delivery schedules are not the sole capacity constraint confronting Indian aviation. The sector needs to scale up in terms of manpower and maintenance as well. Scaling up in ancillary segments of the aviation ecosystem benefits from quantitative protection to Indian airlines through frozen bilaterals. Premature withdrawal of capped capacity could expose Indian aviation to intensive price competition from entrenched players who enjoy location and fuel cost advantages. These, however, do not add up to the power of originating traffic. A policy that has served Indian airlines well over the past decade should not be reversed prematurely.



Dig for Gold Infra in Our Backyard



oonam K Sidhu

a recent order, Sebi directed mutual nds to use domestic stock exchange ot prices to value their physical gold d silver holdings from April 1. At esent, they rely on prices published London Bullion Market Associaon (LBMA).

ndia's MF industry manages nearly 0 lakh cr in assets, while gold ETFs d gold funds account for about ₹70,000 around 1% of industry assets. hysical gold holdings through ETFs e estimated at 65-70 t. Yet, this regulary shift reveals deeper structural atures of India's gold economy, and nts at a broader strategic direction.

Sebi's motivation is practical. AMCs lued gold using the LBMA AM ice and then applied adjustments: nverting ounces into grams, transting dollars into rupees, adding nport duties and taxes, and estimang domestic premiums or discounts. hese layers introduced discretion. fferent fund houses could apply fferent adjustments, meaning that o funds holding identical gold ight report marginally different net set values (NAVs).

By switching to domestically-polled ot prices published by Indian exanges, this subjectivity has been moved. The change improves transparency and consistency in valuation.

Another reason the shift makes sense lies in divergence between international and domestic gold prices. Indian gold prices don't mirror LBMA prices converted into rupees. They incorporate import duties, taxes, logistics costs, exchange-rate movements and local demand conditions. RBI statistics indicate that the difference between Mumbai gold prices and London reference price (after currency conversion) has averaged several thousand rupees per 10 g in recent years.

The spread has widened, as import duties and local premiums have fluctuated with policy changes and seasonal demand. When the domestic market systematically trades away from the global benchmark, a valuation method built on LBMA-plus adjustments becomes increasingly approximate. A domestic reference price is, therefore, more accurate for Indian investors.

The move carries a broader institutional signal. India is the world's second-largest consumer of gold, accounting for roughly one-fifth of global demand. Yet, it has had limited influence over how gold prices are formed. Global benchmarks remain concentrated in Western financial centres — primarily London's over-the-counter bullion market, and New York's COMEX futures market. Asia dominates physical demand, but the financial infrastructure of price discovery largely sits outside the region.

China has attempted to shift this balance by developing Shanghai Gold Exchange, and introducing Shanghai Gold Benchmark in 2016. India has taken smaller steps, including launching India International Bullion Exchange (IIBX) in GIFT City. India's shift away from LBMA-linked valuation is a modest step toward acknowledging that the price of gold in India may increasingly be determined in India itself.

Indian households are estimated to hold 25,000-27,000 t of gold, one of the largest private stocks in the world. At current prices, this is worth well over $1.5 tn. At the same time, India imports 700-900 t of gold annually, creating recurring pressure on CAD.

Successive governments have tried to shift gold demand from physical metal into financial instruments. Sovereign gold bonds (SGBs) launched in 2015 allowed investors to gain exposure to gold prices while earning a small interest rate. Gold ETFs and gold MFs were intended to offer similar exposure.

Gold monetisation schemes have attempted, with limited success, to mobilise idle household gold deposits into the banking system. Progress has been minimal, and financial gold products remain a tiny fraction of total gold holdings.

Regulators, however, continue to build the infrastructure needed if these markets expand in the future. The shift toward domestic price benchmarks can be seen as part of that infrastructure-building process. If gold ETFs and financial gold products grow significantly, the benchmark used for valuation will become increasingly important.

One possibility is that such regulatory steps are laying the groundwork for a larger policy shift. A large share of Indian households' gold holdings remains outside the formal financial system. Some countries have experimented with ways to bring these stocks into the financial net: Italy has explored tax-based disclosure of undeclared gold holdings, while Turkey has encouraged households to deposit jewellery with banks under its gold-banking programme.

Whether India attempts a similar mobilisation effort remains uncertain. But if such a policy emerges, financial architecture now being built around domestic pricing, bullion exchanges and gold funds may prove to be an important precursor. Even small technical reforms could be laying the groundwork for integrating India's vast private gold stock into the formal economy.

Play the glitter



The writer is former principal DG, I-T (administration), New Delhi

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Debate over land, holding back industrialisation, remains an unsolved development puzzle

The Unmoved Bengal Files



Subhamoy Maitra



Ma, politics, manush

West Bengal goes to the polls next month. Employment remains one of the state's most persistent economic challenges. For decades, it has struggled to generate sufficient industrial jobs for its large and educated workforce.

Part of the problem lies in long historical processes: policy decisions, such as the freight equalisation regime, weakened eastern India's industrial advantage, while both central governments and successive state administrations failed to build a durable industrial strategy. Political leadership across different eras has often preferred rhetoric over difficult structural reform. In recent years, repeated controversies over recruitment exams and allegations of corruption in public hiring have further deepened uncertainty around government employment.

Yet, West Bengal's post-Independence political economy can't be understood without acknowledging one major success: land reform. The Left Front government's redistribution policies strengthened rural security and empowered millions of small cultivators. That transformation altered agrarian relations in the state, and remains one of the most significant social changes in modern Bengal. At the same time, however, the state's industrial base steadily weakened.



In Indian law, ownership is rarely absolute. Citizens function closer to raiyats – holders of recorded rights – while the state retains ultimate authority over land

By the early 2000s, the Left Front leadership attempted to reverse this trend. Under chief minister Buddhadeb Bhattacharjee, the government argued that agricultural progress should lead to industrial expansion. But the strategy collided with the land movements of Singur and Nandigram. Protests over land acquisition transformed property rights into a powerful political issue, and contributed to the rise of TMC under Mamata Banerjee in 2011. Nearly two decades later, legacy of those movements still shapes industrial policy in West Bengal.

STATE OF STATES 2026

Part of the difficulty lies in the legal structure of land ownership. In Indian law, ownership is rarely absolute. Citizens function closer to raiyats — holders of recorded rights — while the state retains ultimate authority over land. Even when individuals hold legal title, their rights largely extend only to the surface, while minerals and natural resources beneath the soil belong to the state. Once excavation becomes possible, disputes over industrial use of land often emerge.

Consider the Deocha-Pachami mining project in Birbhum district. Spread across more than 3,000 acres, the site is believed to contain one of India's largest coal deposits. Projects of this scale highlight the distinction between surface ownership and sub-surface mineral rights. Even where individuals hold land titles, the coal beneath remains a state resource. Government assessments indicate that much of the land consists of rocky terrain or state-owned land, rather than fertile agricultural fields, unlike Singur's productive farmland.

The state government has assured that no land will be forcibly acquired, and that affected families will receive compensation and rehabilitation packages. Yet, even a small number of unwilling landholders can stall such projects. Sections of the local tribal population have expressed concerns about land loss and forest access, arguing that procedures under Forest Rights Act have not been fully implemented.

Reports of clashes between villagers and police have surfaced intermittently. Even without major opposition mobilisation, the project illustrates how land disputes can impede industrial initiatives.

Another example, in a slightly different context, lies near Kolkata. The closed Hindustan Motors factory in Uttarpara occupies more than 300 acres in a rapidly urbanising corridor. The state government moved to reclaim unused land and repurpose it for new industrial activity, arguing that idle industrial land should be redeployed to generate employment.

Hindustan Motors challenged the move in court, raising questions about transparency and workers' claims. Ultimately, both Calcutta High Court, and later Supreme Court, upheld the state government's position. Yet, despite the favourable judgment, substantial new industrial activity has yet to emerge on the site.

The political symbolism of land resurfaced earlier this year in Singur. On January 18, 2026, Prime Minister Narendra Modi visited the Hooghly district town to inaugurate development projects. On January 28, chief minister Banerjee addressed a public meeting at the same location. Events revived speculation that Singur might finally see a new industrial initiative. Yet, neither platform has produced a concrete roadmap.

In contrast, urbanisation has historically faced less resistance in West Bengal. Planned townships such as Kalyani, Ashokenagar and Bidhannagar developed with minimal protest. Rajarhat's emergence as a major urban cluster did not trigger protests comparable to Singur. Industrial land acquisition, however, remains politically-sensitive.

Today, before next month's assembly election, political priorities appear different. Welfare programmes dominate the state government's electoral strategy, while the opposition BJP emphasises identity and national political narratives. At the same time, spread of political patronage networks and localised lumpenisation have often complicated the growth of small enterprises and MSMEs, sectors that depend on predictable governance and stable business conditions.

In this context, the employment challenge becomes even more troubling.



Spread of political patronage networks and localised lumpenisation have often complicated growth of small enterprises and MSMEs

Without significant industrial investment, the state's ability to generate durable jobs remains limited. The global environment also offers little comfort. With wars and geopolitical tensions disrupting trade, supply chains and energy markets, economic uncertainty may deepen rather than ease.

For West Bengal, where deep industrialisation already appears elusive, such instability could make the search for sustainable employment even harder. The debate over land — from Singur to Deocha-Pachami — therefore, remains unresolved, not merely as political memory but as a reminder of a development puzzle still awaiting a solution.

The writer is professor, Indian Statistical Institute, Kolkata


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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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New Club Med for New Markets



Antonio Tajani

The conflict in West Asia has ushered in a period of significant international instability. Alongside the tragedy of war, profound effects on global economic balances are also emerging.

Tensions affecting the Gulf and Strait of Hormuz highlight the vulnerability of some of the world's main arteries of international trade. The ongoing crisis is already exerting strong inflationary pressure on gas, oil and other strategic goods such as fertilisers, with knock-on effects on global food prices. When these critical hubs are exposed to geopolitical tensions, urgency of strengthening security and diversification of trade routes becomes clear.

Europe has faced a similar challenge. Russia's aggression against Ukraine necessitated a rapid diversification of energy supply sources. Within a few months, we re-evaluated infrastructure, supply chains and partnerships to ensure security and continuity for our economic systems. Today, the crisis in West Asia calls for a comparable reflection regarding trade routes. In this context, India-Middle East-Europe Economic Corridor (IMEC) takes on particular importance.

This is not merely a line on a map, but a potential reorganisation of logistical networks and industrial value chains connecting India, the Gulf and Europe, capable of reshaping trade flows and reinforcing the Mediterranean's role as a strategic hub linking Asia and Europe, with potential benefits for Italy estimated at up to €26 bn ($29.8 bn).

When global trade routes change, economic geographies change as well. New commercial corridors create new logistical and productive hinterlands: territories that attract investment, host distribution centres and develop industrial activities connected to international value chains. If one of the main European gateways for these routes is the Mediterranean — in particular, the Northern Adriatic — its natural reach cannot be limited to Western European markets alone. It will inevitably extend to Central Europe and the Western Balkans, which serve as the geographical and infrastructural bridge between the Mediterranean and heart of the continent.



Trieste, with destiny

Owing to their geographical position, proximity to European markets and progressive alignment with EU standards, the Western Balkans can become an integral part of this new logistics architecture — not merely a transit area but a genuine economic hinterland for routes connecting Asia and Europe, capable of attracting investment and strengthening regional value chains. The region's infra will also benefit from this evolution, helping to manage and distribute a portion of the commercial flows arriving in Europe via the corridor.

Within this scenario, the Mediterranean once again assumes strategic centrality. Italy, due to its geographical position, serves as a logistics platform connecting Europe, Asia and Africa. Its port system represents one of Europe's major strategic infrastructures — an extensive network linking the Mediterranean to Europe's main economic and industrial corridors.

Within this system, the Northern Adriatic occupies a privileged position in connecting the Mediterranean with Central Europe. Trieste, by virtue of its history, location and infrastructure links, represents one of the most natural hubs within this network. It is, therefore, no coincidence that Trieste is hosting two important events dedicated to regional cooperation and emerging economic routes today: celebrations marking the 30th anniversary of the Central European Initiative (CEI), and a forum on IMEC.

These occasions will provide an opportunity to discuss the future of connectivity between the Mediterranean, Balkans and Central Europe, with the participation of ministers from Balkan countries, senior representatives of states involved in IMEC, and business leaders, highlighting the strategic role of this region in developing new logistics and industrial value chains between Asia and Europe.

Strengthening the links between the Mediterranean, Europe and the Indo-Pacific enhances the economic security of our continent. In this new geography of global trade routes, Italy can play a leading role.

The writer is deputy PM-foreign minister, Italy

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Businesses Can Fight War-Fed Ecocide

By stepping up pace of clean energy use

Remember climate change? Planetary degradation serious enough for the world to take action — barring the Trump lot, that is, who still thinks it to be as real as Santa? Wars, especially the latest one across West Asia, have been releasing gargantuan quantities of burning oil and gas, making what was anyway a steep task of reducing GHG emissions, now seem downright pointless. According to a 'One Earth' study, Israel's attacks on Gaza alone generated some 33 mn t of CO_2-equivalent, an amount comparable to 7.6 mn petrol-powered cars. 'Initiative on GHG Accounting of War' data shows Russia's war against Ukraine has already caused more than 300 mn t of additional emissions, equivalent to France's annual output.

Iranian foreign minister Abbas Araghchi has stated that Israeli strikes on fuel storage facilities in Tehran have caused 'ecocide', causing long-term damage to residents' health and well-being, with possible soil and groundwater pollution affecting future generations. Everyone waging war — and contributing to it, not the least the global weapons industry — is a contributor to a mass ecocide. Wars are, by definition, sites of major fires, toxic smoke and destruction. So, should we now be numbed into inaction? There is a smarter alternative: to let bombed refineries, disrupted shipping lines, sky-rocketing costs of crude, natural gas and LNG push countries to step up pace of clean energy use. Smart businesses should leverage this multi-crisis to provide alternatives — pushing ahead with electrification to compete with fossil fuels. Consumer demand for uninterrupted energy supplies at affordable prices can push government to make regulatory changes — such as revisiting electricity tariff design — earlier thought of as near-impossible.



Transition away from fossil fuels was never going to happen overnight. But with the pendulum now swinging to the extreme end of ecological suicide because of wars, consumer demand and business opportunities can at least push for a shift that is palliative, logical and, indeed, profitable.

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Keep at It to Stall Inflation as it Creeps

Inflation is creeping up. Conflict in the Persian Gulf is likely to add to pressure. The effect, though, should be muted by transient surge in energy prices and their incomplete transmission at the retail level. There will be knock-on effects on metals and other commodities in line with the duration of trade disruption. Stable core inflation is expected to create the space for an extended period of accommodative monetary policy, which may be called for to curb financial market volatility caused by the West Asia situation. The rupee's slide will contribute to an extended pause in interest rates.

Risks to growth from geopolitical uncertainty are higher. Surging metal prices pose challenges to industrial growth.



Domestic demand remains resilient on the back of tax cuts. But exports have been squeezed by US tariffs and are likely to face extended shipping disruptions. The trade scenario remains uncertain due to new US investigations involving India, and expected delays in signing a deal with Washington. Downside risks to growth will also weigh in favour of monetary accommodation, particularly if data indicate a further loss of economic momentum. It will take months after the West Asia conflict ends for global supply chains to stabilise. Policymaking will be cautious over this extended window.

Need for stability on the export front will become more evident as the stimulus for domestic consumption runs its course. Consumption is accelerating sequentially. But government expenditure and private investment could do with some vigour. India may not have to deal with a full-blown energy shock yet. But it will have to keep working on its growth drivers.

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In Dire Strait Of Hormuz



Seema Sirohi

LETTER FROM WASHINGTON

It's Week 3 and Trump's biggest challenge is to Make the Strait of Hormuz Great Again — free of Iranian mines and missiles, and flowing to the old rhythms. He wants help. But no one seems to be coming.

The US-Israeli bombing of Iran for 18 days has come down to a face-off at Hormuz, a vital, crucial oil lifeline for the world. Iran has laid mines and threatened to drone tankers of hostile powers. Not one litre of oil can go through without Iranian military's approval.

Hormuz accounts for one-fifth, or about 20%, of global oil flows. Last heard, an average of 20 mn barrels moved through the waterway in 2023. Also important is the flow of fertilisers, since a third of global trade goes through the strait. Sowing season starts next month. India, the largest importer of urea, was already forced to ask China, the largest producer, to ease export restrictions on the fertiliser.

In short, Hormuz blocked is calamity unlocked with global economic impact of the kind the US war president and the Israeli (perpetually-at-) war prime minister didn't plan for. Now, the mighty must defend a waterway — 150 km long, but only 24 km wide at its narrowest, nastiest point. Going back in history, Babur recognised its vast importance and talked about how trading almonds meant carrying them from distant Central Asia to the Hormuz to reach lucrative markets.

Trump spent time personally calling European allies over the weekend, asking them to send warships to the strait that currently looks like Gurgaon-on-sea at rush hour. Tankers and ships are lined up and waiting to exit. But several leaders he asked have either refused, or got an acute case of hesitation.

Italy's Giorgia Meloni had distanced herself from her friend before he even got a chance to ask.

As things currently stand: Japan is obfuscating, Britain is pondering — although conservatives in both countries want their governments to help, as they see logic in Trump's claim that they are more dependent on oil coming through Hormuz than he is.

France will help only in defensive operations. China is mum, and Russia is smiling. Germany said a hard 'nein', with defence minister Boris Pistorius spelling it out: 'This is not our war, we have not started it… [Besides], what can a handful or two handfuls of European frigates do in the Strait of Hormuz that the powerful US Navy cannot do?' Ouch.

For the record, the US Navy was the first to refuse to get in the line of Iranian drones. It announced last week it wasn't ready to escort ships through the strait. A premature declaration from energy secretary Chris Wright last Thursday that the US Navy will soon escort oil tankers was shot down by the White House faster than you could say Hormuz.

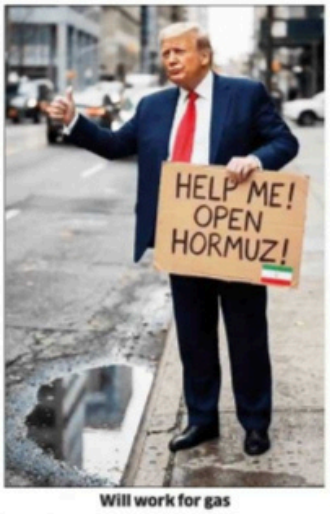
Iran's weaponisation of the waterway is asymmetric warfare that any war gamer worth his/her salt would have envisioned.

Iran's new/old leaders have declared the US and its allies won't be allowed peaceful passage through the Hormuz. Everyone else is welcome to sail through — provided there's a good quid pro quo for Tehran in the shape of desperately needed supplies. So far, two Indian, one Pakistani, and one Turkish vessel have been cleared.

Tehran's tactics are proving effective. For now. But its real ally may turn out to be American public opinion if the Democrats can galvanise their constituencies. So far, the Dems' message is all over the place. Almost as scattered as Trump's own, even though conservative analysts insist they see method in the madness. They see an arc from Venezuela to Iran to Cuba bending towards China in terms of reducing Beijing's presence from the western hemisphere to West Asia.

Trump did say on Monday he believed he would have the 'honour' of taking Cuba. 'Whether I free it, take it. Think I can do anything I want with it.' The statement is significant since the US and Cuba are in talks aimed at reaching accommodation after decades of hostility.

That accommodation means removal of President Miguel Díaz-Canel from office. Cuba is squeezed with no oil and electricity. And it can't do a Hormuz.



Will work for gas

Hormuz blocked is calamity unlocked with global economic impact of the kind the US war president and the Israeli (perpetually-at-)war prime minister didn't plan for

Oil's Fair in Love and War



Neeraj Kaushal

EYES WIDE SHUT

New York: How high will price of crude oil rise? The answer depends on another question: how long will the US-Israel war against Iran last? And the answer to this second question depends on a third question: how long can Donald Trump continue the war without worrying about its repercussions on the forthcoming mid-term elections?

The longer the conflict continues, the tighter the global supply of oil and gas will become, and the higher prices will climb, and the greater would become Trump's chances of losing the House, or Senate to Democrats in the mid-terms.

In the first three weeks of the war, crude prices have already risen by roughly 50% from their pre-war levels. That's a sharp increase, but still modest compared with earlier oil shocks in West Asia.

During the first oil crisis in October 1973, when Opec imposed an embargo on countries that supported Israel during the Yom Kippur War, crude prices quadrupled. The second oil shock followed the 1979 Iranian Revolution, when oil prices surged roughly two-and-a-half times. Disruption in oil supplies after Saddam Hussein's 1991 invasion of Kuwait nearly doubled the price of crude.

History suggests that oil prices could rise far beyond what we have seen so far. Risk of natural gas price increase is much higher, because it's more difficult to store and transport. Goldman Sachs analysts have projected that if LNG flows through the Strait of Hormuz are completely halted for a month, Dutch natural gas, or TTF (Title Transfer Facility), could approach €74/MWh, an increase of 136%. If the disruption lasts 2 mths, European natural gas prices could rise to more than €100/MWh.

Ironically, perhaps the only thing that can push Trump to end the war is price of gas and oil. Having launched the war, he faces enormous pressure to continue it until he can claim a clear victory — either by dismantling Iran's capacity to build a nuclear weapon or by engineering regime change in Tehran. The latter goal appears unrealistic.

Achieving the former would likely require several more weeks, if not months, of sustained military operations. So, Trump finds himself fighting the war while watching two indicators closely: global oil price, and performance of the US stock market.

As long as Iran constricts the Strait of Hormuz, which carries about one-fifth of the world's oil, higher oil and gas prices are inevitable. What is truly striking is that Washington did not foresee this most predictable retaliation. Did the US think it can bomb the hell out of Iran, and Iran would do nothing in response?

Trump has repeatedly argued that higher oil prices benefit the US because the country is now a net exporter of energy. That claim is partly true. Yet, oil prices are set in the global market. A disruption in supply anywhere in the world pushes prices up everywhere, including at US gas stations.

If current market forecasts prove correct, the political cost of rising energy prices could quickly outweigh the strategic gains of continuing the war. In that case, Trump may find it difficult to sustain the conflict for more than a few weeks.

US voters are acutely sensitive to gasoline prices. Trump won his second term in part by promising to bring inflation under control. Since the war began, gas prices in the US increased by roughly 20%, and diesel prices by about 37%. Higher diesel prices ripple through the entire economy, especially the food supply chain, because fruit, vegetables and other goods must be transported long distances. Rising transportation costs inevitably translate into higher food prices for consumers.

Trump has 'demanded' other countries to come forward in protecting vessels in the Strait of Hormuz. So far, US allies he had earlier rebuffed through Trump tariffs and jibes against Nato members have stayed away. As expected, Trump is quite unhappy with this raft of refusals. He has threatened that Nato faced 'a very bad future'.

The US may be able to wage the war militarily. But it may struggle to sustain it politically — both abroad and at home. If oil prices continue their upward march, and American voters begin to feel the pain at pumps and grocery stores, pressure on the White House will intensify.

In the end, the trajectory of the war may be determined less by events on the battlefield than by numbers flashing on gas station signs across the US.

The writer is professor of social policy, Columbia University, US

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Sing the Body Electric



Arijit Barman

If the US-Israel war against Iran teaches anything, it's this: now is the moment to rethink our energy transition and expand the role of electrons in the economy. They already power Indian homes. The next leap is to scale them for industry.

Until recently, 'electro-states' — economies shifting from fossil fuels to electrification — felt like a distant ideal. But Iran's reprisals on oil and gas infrastructure across the Gulf show how even cheap tools like drones can destabilise global energy markets.

A defining metric of an electro-state is the share of total final energy demand supplied by electricity. Across solar, wind, EVs, batteries and rail, China has built the world's largest clean-energy supply chain and leads both in production capacity and in the pace and scale of deployment. The shift reflects strategic intent and geopolitical leverage more than morality. Economies still run on fossil fuels. Petrostates — from Gulf monarchies to Russia and the US — have long used control of oil, coal and gas to influence the global order. Fast-growing economies like China and India have imported these fuels to industrialise, at significant environmental and fiscal cost.

Of late, nations with abundant sun and wind are trying to flip the equation. A combination of industrial policy, subsidies and long-term investments has made Beijing an indispensable player in the global energy transition value chain. Since 2019, China's solar panel export volumes have trebled. That should be India's cue, too.

China will still need 600 GWh to meet electricity growth in line with the 2026 projections of China Electricity Council, despite their breakneck buildouts. India will be no different. Fossil fuels like crude and natural gas are essential. Much like China, coal-fired thermal power has made a comeback in recent quarters and has absorbed much of the short-term war-induced pain in domestic power grids.

But RE coupled with battery storage is taking over electricity supply. Our data centres are fed by discom power, which, in turn, draws 30-40% of clean power. From transportation to smart buildings, everything that can economically electrify is going electric, pushing up the share of electrons in GDP to 18-20%.

Half of India's crude oil demand comes from the transport sector. With Indian Railways leading the charge in electrification, it is changing fast. Automobiles are changing gears. 60% of our 3-wheeler sales are now electric, the highest in the world, while 1.27 mn electric 2-wheelers were sold last year alone, a 40% y-o-y jump. Even electric cars have exceeded 5% of sales, at 60% lower oil demand per person than China, and are undercutting ICE vehicles on price.

A scramble for renewable options won't stop our reliance on imports, with know-how replacing crude oil to make us a technology colony of China — which controls the lion's share of solar manufacturing and battery supply chains — instead. But in the long run, cheaper electricity is the only way to catalyse homegrown manufacturing, a multi-decade lost opportunity for us. Consistently high costs of electricity — double those of peers — have forever hamstrung our efforts.

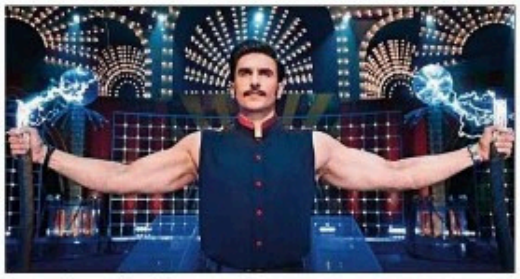
India generates a third more economic output per unit of energy than China today, says Ember. This is primarily a function of the nature of our industrial growth. Unlike China's construction-driven, manufacturing-led development path, India's economy has been services-led. India's cement and steel demand is a fraction of China's. But newer or even mature technologies like electrolysers can accelerate change.

Unlike West Asia, which still relies on gas as feedstock, local players are shifting to green fertiliser and aluminium — two major gas users — using alternatives like hydrogen. Yet, fragmented decision-making and incumbent inertia have slowed National Green Hydrogen Mission's 5 MMT target. Execution and policy focus, especially amid volatile crude prices, will be critical to push energy-intensive sectors like petrochemicals to adapt.

If a robust electronics ecosystem underpins an electric future, the near-sixfold rise of emerging national champions is telling. So is the leap in domestic mobile phone output — from 2 mn units in 2014 to 300 mn a decade later. These capabilities are spilling into adjacent sectors — solar panels, batteries and EVs — while upstream capacity is catching up: solar cell manufacturing, negligible a decade ago, now stands at 18 GW.

The specks inside the atom have already powered the Third Industrial Revolution — digital. They may hold the key to the fourth that's already upon us.

arijit.barman@timesofindia.com



Expand our circuit

STEP UP TO THE PLATE

Joia

Milan

Milan has always been a city of high-octane fashion and deep-rooted tradition. But tucked away from the frantic pace of the Duomo is Joia, a sanctuary that redefined the Italian food scene long before 'plant-based' became a buzzword.

Stepping inside feels like a serene departure from the bustling Milanese streets. Founded by Swiss chef Pietro Leemann in 1989, Joia holds the distinction of being the first vegetarian spot in Europe to snag a Michelin star. Today, under the creative eyes of Sauro Ricci and Raffaele Minghini, that legacy continues.



The menu leans heavily into organic, biodynamic ingredients, often skipping eggs and dairy entirely. But do not expect a simple salad, plates are vibrant works of art with whimsical names like Ombelico del mondo (Navel of the world).

There's a distinct Asian influence at play — think roasted eggplant with miso and ginger juice — blended seamlessly with local Italian gems like Cicerale chickpeas. Whether you're stopping for a refined Piatto Quadro lunch or a full tasting menu, the experience is bright, understated and nourishing. It's a rare spot where the food transcends the kitchen, leaving you with a lingering sense of edible wonder.

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PUBLIC INTEREST Rebased GDP shows higher growth estimate – which looks overestimated

Demand, an Explanation?



Rathin Roy



Inflating the deflator

There has been much technical chatter about rebased GDP. MoSPI has done an honest and consultative revision of the methodology to calculate and estimate GDP. There is no attempt at jiggery-pokery. This is reassuring. However, uneasy questions remain about, one, relationship between growth and inflation; two, relationship of multi-year growth trends with other economic and sectoral trends.

There is little reason for economic stakeholders to worry about a rebasing and methodological improvement exercise. Any resultant change in GDP estimate for the crossover year (FY26 in the current case) will be a one-time business. The pre-rebasing growth estimate was 7.2% real growth. The new rebasing raises that to 7.6%.

The uneasiness has to do with the nominal growth estimate: 8.6%, implying a deflator of 1%, the same as with the old series. This is puzzling. Digging a little deeper, goods inflation has been negative for 10 quarters. This has led to a significant jump in the growth rate of manufacturing GVA, which has been revised to 11.5% from 7%. A significant part of this is due to the negative deflator. But a negative deflator would indicate a severe demand problem as nothing has happened on the productivity front, or to prices of global goods. Hence, there is good reason to postulate that manufacturing growth and, therefore, GDP growth is being overestimated.

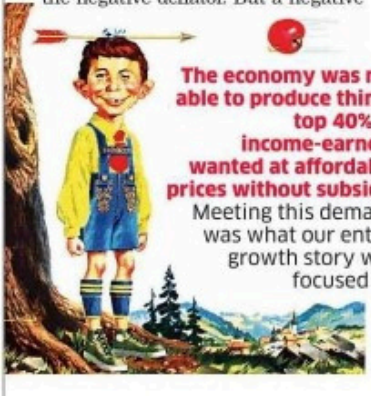
This unusually low difference between real and nominal growth also has analytical relevance for the India growth story.

▶ It is important to realise that GDP calculations involve first measuring nominal growth. This fell dramatically from 14.2% in FY23 to an estimated 8.6% in FY26. The higher real GDP growth is attributable to a sharp disinflation, and negative inflation in manufacturing.

▶ Many economic indicators that would fuel a growth in domestic demand are constrained, as these respond to nominal growth. Real wages, for instance, are either constant or falling over past 8 yrs, as nominal wage growth has been less than CPI inflation. This obviously depresses domestic demand.

▶ Fiscal deficit-GDP ratio is calculated as a percentage of nominal (not real) GDP. With a collapse in the nominal growth rate, and the post-Covid need to cut fiscal deficit, expansionary government spending is curtailed, further depressing demand.

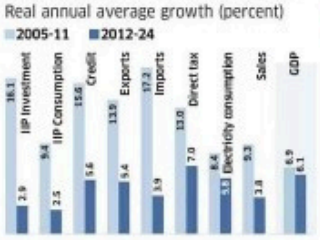
Disconnect between growth numbers and multi-year trends in things that contribute to growth have been a topic of discussion for some time. Arvind Subramanian has been arguing that GDP growth in India is overestimated.



The economy was not able to produce things top 40% of income-earners wanted at affordable prices without subsidy. Meeting this demand was what our entire growth story was focused on

Growth Rates of Macro Indicators and of GDP

Real annual average growth (percent)



I was initially not in agreement with him, though I did agree that the economy was stagnating. I argue that this would, eventually, lead to a middle-income trap as there was a structural demand problem. The economy was not able to produce things that the top 40% of Indian income earners wanted at affordable prices without subsidy.

Our entire growth story was focused on meeting demand of the top 10% of income-earners, and subsidy-induced spending by everyone else. This demand problem was already reflecting in stagnating private investment, an ever-increasing share of what I term 'compensatory' expenditures, stagnating real wages and a declining share of manufacturing in GDP.

But in a March 2026 paper, with new evidence, 'India's 20 Years of GDP Misestimation: New Evidence', Abhishek Anand, Josh Felman and Arvind Subramanian show convincingly that growth was overestimated over the past 12 yrs. This means that the stalling of the growth process has occurred sooner than I anticipated.

Apart from stagnating real wages and declining manufacturing growth, data show how consumption plus every macroeconomic and financial supply-side indicator has been growing more slowly over time. The sharp fall in nominal growth in recent years is consistent with these trends. They puzzle only if compared with real growth.

What then, to make of real growth?

▶ If real growth was overestimated across the last 10 yrs, then total GDP is smaller than we had thought. This means a smaller consumption, investment and demand base, and that we are not the 4th-largest economy.

▶ The trend real growth rate of the economy over the last decade (excluding the Covid fall and spike) has been just 6%. When CEA V Anantha Nageswaran estimated that real growth would be 7% or less over the past 3 yrs, I thought he was being prudently cautious. Turns out, he was, in fact, wildly aspirational. To achieve 'Viksit Bharat' — even habitually late à la Indian Railways — we will have to increase growth by 200 bps every year for the next 25 yrs.

But what is to be done to unlock higher growth? Given declining nominal growth, and decline in consumption, private investment and sales over the past decade, it's clear that the India growth story faces a severe demand problem. Export-led growth is not an available option. India was not, and is not, a major exporter. It will continue to have a structural CAD over the next 5 yrs. Given the current geopolitical situation, to assume any reversal in that trend is a fool's errand.

There are pathways to a solution. But GoI must listen. And economists trained in the days of the Washington Consensus must stop bleating their tired mantra of labour and capital market reforms and supply-side fixes. The clear and present danger is a structural demand problem that is now upon us.

The writer is former member, EAC-PM

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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

REMITTANCES AT RISK

The Gulf economies host millions of foreign workers from South Asia, Southeast Asia, and Africa who send home billions of dollars in remittances each year. In 2021, the top 15 countries accounted for $133 billion in remittances, representing 99% of all remittances originating from Gulf countries...

Main countries exposed to remittances loss (2021)

Total amount of remittances received from Gulf countries as a share of GDP (%)



Nepal	8.10%
Jordan	7.50
Lebanon	7.10
Pakistan	5.60
Egypt	5.50
Sri Lanka	2.90
Bangladesh	2.80
Philippines	2.50
India	1.60
Sudan	1.50
Afghanistan	1.10
Occupied Palestinian territory	0.60
Indonesia	0.40
Myanmar	0.30
Somalia	0.30

Source: data360.worldbank.org/en/dataset/WB_KNOMAD, FAO information note



Why Every Side Needs India Now



Arnie Guha

Toronto: In early 2000, still reeling from watching an Indian Airlines plane sit on a Kandahar tarmac while the Taliban dictated terms and New Delhi agonised, I had argued for a Washington-New Delhi-Tel Aviv security triangle.

The argument was geographic, and logical. India and Israel parenthesise 'the terror corridor' — a long, lethal arc running from Pakistan through Afghanistan, Iran, Lebanon to Gaza. Actors across that arc were never identical. But both India and Israel lived inside the blast radius of overlapping networks, state sponsors and ideologies of asymmetric violence.

Washington was the natural anchor: prime target of many of the same adversaries, indispensable military reach, and the only power capable of giving such an alignment both teeth and legitimacy. 25 yrs later, that triangle exists in recognisable form. But the anchor has come loose.

The US of 2026 launched a war against Iran without a broad coalition, with no visible exit strategy, and without appearing to calculate fully that Iran's most effective weapon of retaliation might not be a missile but a choke point. Roughly 20% of the world's petroleum liquids normally passes through a narrow channel that Tehran has now shown it can effectively choke. Brent crude is above $100.

The same regime whose strikes helped trigger the Hormuz crisis is now easing sanctions on Russian oil to manage the economic blowback, thereby boosting Vladimir Putin at the very moment it lectures allies about energy dependence. Washington remains a superpower. But it no longer appears a strategically consistent one. That leaves the other two vertices of the triangle standing in a far more complex alignment.

The architecture proposed in 2000 had, in fact, already been taking shape for decades, although largely covertly, occasionally acknowledged, and now difficult to ignore. The record is striking. Israeli military assistance reached India during the 1962 China war, discreetly and amid political sensitivity. Backchannel intelligence ties between R&AW and Mossad date back to 1968, on Indira Gandhi's instruction.

In the early 1980s, India and Israel were widely reported to have explored a joint strike on Pakistan's Kahuta nuclear facility. By 1992, when India finally formalised relations with Israel, the two countries had maintained discreet security ties for decades. Today, India remains one of Israel's most important arms customers, with Israeli technology woven into India's defence architecture at multiple levels.

Yet, the 'marriage made in heaven', to quote Benjamin Netanyahu, now faces its most gruelling earthly test.

Iran, whose Islamic Revolutionary Guard Corps has effectively closed the world's most critical oil choke point, has at least one Iranian ship, IRIS Lavan, sitting in safe harbour in India. Tehran has negotiated passage for Indian-flagged tankers through waters it has largely denied to Western-linked vessels, effectively treating India as a privileged neutral in a conflict against one of India's closest security partners.

This is not a contradiction. It is the payoff from a hedge maintained over decades. The 'terror corridor' in 2000 is today also an energy corridor. From the Strait of Hormuz to the International North-South Transport Corridor (INSTC), a multimodal route linking Mumbai to St Petersburg via Iran, India sits at the mouth of it all.

India kept Chabahar, its strategically critical port on Iran's Gulf of Oman coast, and New Delhi's primary overland route to Afghanistan and Central Asia that sidesteps Pakistan entirely — alive through successive rounds of US sanctions, maintaining relationships with patience while the West engaged and withdrew on its own erratic schedules.



We need to talk

India now holds something very few nations do: functional, productive relationships with Iran, Israel, Russia, the Gulf states and the US simultaneously. This may be the most sophisticated exercise of strategic autonomy in modern Indian history.

Indeed, where Nehru's non-alignment was, at least in theory, a form of principled abstention — a desire to stay out of the fray — today's India, under Narendra Modi and S Jaishankar, is practicing active, multi-vector engagement. India is no longer merely avoiding alignment. It is operating as an indispensable node in a network with few other common points.

The triangle of 2000 needs a new geometry. Washington remains relevant for its capital markets and technology. But it can no longer serve as the sole anchor. India and Israel now constitute a bilateral core in which India provides diplomatic depth that Israel structurally lacks — no Iran channel, no strategic Russia channel, no standing in fora like OIC. While Israel provides intelligence and technological depth that complements India's scale.

The strategic equation has shifted, perhaps decisively. The country that once needed Washington to anchor its security now occupies a singular diplomatic position that may yet help construct an off-ramp from a war that one of its closest security partners helped start.

India did not choose this moment. But it has been preparing for something like this for 50 yrs.

The writer is chair, advisory board, Green College, University of British Columbia, Canada

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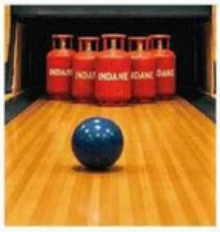
Ease of Passage, Not Running Out of Gas

Improving supplies should lessen LPG queues

GoI has approved extra LPG allocation for commercial use as domestic production rises. States will now receive half of their regular requirement of cooking gas used in eateries and restaurants that have struggled for fuel since the US-Israel war against Iran began. GoI had invoked emergency powers to direct refiners to maximise LPG output shortly after hostilities broke out. This supply is coming on stream. Apart from domestic output, LPG vessels, including from the Persian Gulf, have delivered cargoes. India is also increasing gas imports from Russia and shipments are expected next month. The US is another source for import diversification in the stated Indian strategy of seeking energy from all available sources.

The domestic LPG supply chain is being monitored for hoarding and diversion. GoI is using the crisis to nudge users towards piped gas, whose supply is less vulnerable to disruption and distribution is easier to monitor. City gas grids have been told to fast-track commercial connections, and eateries have been asked to explore alternative energy sources such as electricity. Improving supplies should lessen queues at LPG dealerships, which are in the headlines and are contributing to a bunching up of demand.



There is no global alternative to the Persian Gulf for natural gas. The rest of the world doesn't have enough reserves. Yet, a temporary disruption to supply from West Asia is manageable. Russia is sitting on gas that Europe has stopped buying after the Ukraine war. The Trump regime has a stated goal of ramping up its energy exports, including gas. Price of natural gas will remain elevated as countries like India negotiate in the spot market. Securing a steady supply won't be too difficult for countries so long as they shell out more for gas and for shipping it. Shortage felt by commercial consumers of LPG should ease in the next few weeks, which also appears to be the likely duration of the conflict in West Asia. Residual disruption after a cessation of hostilities will be easier to manage.

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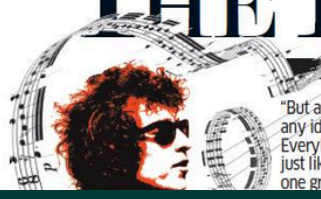

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Let Him Be

To see Dylan as a "literary" great is to...

The US-Israel war against Iran is rolling into unrestricted warfare – until oil and gas inventories last

Some Serious Strait Talking



Neelkanth Mishra



Monster move

The war in West Asia is now like a chess endgame in which one side is trying to survive by running down the clock, and the other is racing against time to checkmate. In their 1999 book, Unrestricted Warfare: Two Air Force Senior Colonels on Scenarios for War and the Operational Art in an Era of Globalisation, Chinese colonels Qiao Liang and Wang Xiangsu wrote that war is no longer confined to the battlefield or soldiers. That a weaker nation can retaliate against a stronger one by attacking the latter's 'soft' underbelly like financial markets. Iran has deployed this tactic by disrupting global energy supplies through the Strait of Hormuz.

Of the 7% of global energy supply that flows through the strait, some can be offset by:

- **Alternative routes,** like Saudi Arabia quadrupling throughput of its east-west pipeline.
- **Other providers,** like oil from Russia, Iran or Kazakhstan.
- **Other energy sources,** like India shifting from gas to coal for electricity.

But nearly 4% of energy supply may remain disrupted. Which means 4% of global GDP. Economic damage may be exacerbated by supply-chain disruptions (tile shortages hurting house construction, scarcity of fertiliser, helium, sulphur, carbon black, etc), and reflexivity (financial market turbulence). Despite efficiency gains, this can hurt global GDP by more than 3%.

Market volatility may be an essential condition for end of war. Markets still expect an early end. That should change by mid-April as inventories deplete, and supply chain stress compounds



This would occur through higher prices. When supply is abruptly curtailed, like now, prices rise to a level where some buyers cannot afford it, and economic activity is disrupted. Jump in prices since the Hormuz Strait closed suggests that this process is already on. This is likely to intensify.

In the near term, inventories help. IEA estimates these at 8.2 bn barrels in early March, or 78 days of total supply. While in theory, as net disruption may only be around 10% of supplies, inventories can last for many more days, not all will be drawn down, as there is no clarity on how long supplies remain disrupted. Over time, holders may slow inventory release, as they begin to prioritise energy security over gains from higher prices.

Duration of closure of the strait will also affect how quickly supplies normalise once it is reopened. If the closure ends in a few weeks, the global economy could recover in a quarter. But if it lasts a few months, stabilisation may take several quarters. Gas or oil wells once capped take time to restart. There is limited capacity to move energy, and hoarding is likely once supplies restart.

Decision-makers track financial markets, which move in advance and, like neural networks, display collective intelligence even if no individual has perfect foresight. Market volatility may, thus, be an essential condition for the end of war.

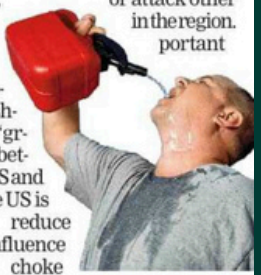
Markets have not panicked yet. Prices of oil contracts a few months out suggest markets still expect an early end to the conflict. That should change by mid-April as inventories deplete, and supply chain stress compounds. Resulting market turbulence and sustained high fuel prices in the US would be politically costly for the US regime. Even for China, which accounts for 45% of receipts for Tehran, and is at the table, a global slowdown will be costly.

This explains strategies of the two warring sides. The June 2025 strikes on Iran by the US likely forewarned Tehran that in the absence of air defences, they needed to prepare to survive long enough for global markets to get stressed and force the US to some agreement. That may have meant multiple levels of succession-planning and decentralisation of operations.

The US, aware that it cannot declare 'mission accomplished' till ships are flowing freely through the Hormuz Strait again, has tried, unsuccessfully, to get allies to help in opening it up, and is buying more time by removing sanctions on Russian and Iranian oil and getting IEA members to release strategic reserves.

Perhaps accepting that regime change in Iran is unlikely, the US and Israel are racing to maximise damage to the current Iranian administration, and to get some bargaining chips before financial market turbulence forces them to negotiate in return for a reopening of the strait.

The US-Israel tried to take Kharg Island — through which most of Iran's exports are routed — have now threatened to take out power plants, and could try to block Iranian shipments through the Gulf of Oman. They run the risk of escalating the conflict, potentially forcing Iran to use Houthis to close the Red Sea route, or attack other oil assets in the region.



As important as this battle's outcome is the shape of the 'grand war' between the US and China. The US is trying to reduce Chinese influence on global choke points like the Panama Canal (and Venezuela), the Hormuz Strait (China has a dual-use facility in Jask), and the Red Sea.

While China is betting on renewable power, US wants large volumes and low prices of oil and gas

Another important dimension to their conflict is energy. While China is betting on renewable power, US wants large volumes and low prices of oil and gas, which are 72% of its energy mix.

So, even as high energy prices hurt India's growth, inflation and rupee in the near term — and are a warning for the future — they may not last long. Risks to that view can come from possible longer-term damage to energy facilities in West Asia, and Iran's government lacking sufficient control on its regions to implement a peace deal.

The writer is chief economist, Axis Bank

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STATE OF PLAY From Nowruz to Easter, a bridge for Trump to build – or is it a bridge too far?

Hormuz, Escalation or Exit?



Pranab Dhal Samanta



In the shade, or shady?

Trump may have delayed his plans, but he's marked out the contours of the next level of escalation in the US-Israel war on Iran by identifying power plants as legitimate targets in case Tehran doesn't back off on blocking the Strait of Hormuz. Targeting energy infrastructure is a leaf straight out of the Russia playbook against Ukraine, where the West has had to invest large sums in ensuring the Ukrainian grid keeps functioning despite Russian attacks.

What would happen if Trump were to execute his earlier threat? It's a high-risk strategy, and that's why the reportedly new round of talks, subsequently denied by Iran. Iran has already said it will respond by targeting power utilities of Gulf countries and, possibly, even desalination plants. This would mean the West may have to step in, à la Ukraine, to help these countries economically hit hardest by the closure of Hormuz.



If the war stretches, consequences will weigh heavy on Trump economically and politically. Hence a revisit to talks

In fact, in an unusual turn of events, Gulf countries have recently floated a Chapter 7 UNSCR against Iran for blocking the strait, calling for UN-backed use of force to ensure freedom of navigation as per international law. This is the second GCC-sponsored resolution this month, the first to talk about 'use of force'. The draft is believed to also mention the option of imposing UN-backed sanctions on Iran if it digs in its heels.

Tehran, for its part, will count on Russia, and China, to veto any such resolution. While that politics plays out in New York, there will be cascading effects — both intended and unintended — of any such escalation.

In the first round, militarily the conflict will take an ugly turn as more civilian infrastructure becomes legitimate targets. 'Ukrainisation' of the war will begin with Iran aiming to cause maximum civilian damage in the region, further provoking US-Israel retaliation aimed at securing Hormuz. This won't be easy and may require troops on the ground, which will lead to a longer stand-off, unless Iran relents. But Gulf countries *will* need protection for energy and other civilian infra, raising the cost of war.

Over the past few years, 24 countries have pooled in resources to raise €1.8 bn as part of the Ukraine Energy Support Fund. Last December, through one of the most complex logistical exercises ever carried out, an entire thermal power plant involving 2,400 t of equipment was relocated from Lithuania to Ukraine, adding to the 9,200-odd power generators and 7,000-plus transformers to help Kyiv tide over the crisis following Russian attacks on its energy infra.

The US will have to factor in similar assistance to Gulf countries if Iran were to target their energy infrastructure. It will also need to take into account reluctance of its European allies to get involved in this war. After all, Trump pulled out of many US commitments to Ukraine, including contribution to the energy support fund.

So, the path up the escalation ladder for the US will mean it having to take the call on driving home the ground advantage to achieve military victory *at all costs*. It could work best for US if Iran capitulates quickly through a short ground offensive. But if it stretches, consequences will weigh heavy on Trump economically and politically. Hence a revisit to talks.

Iran, on the other hand, will look for support from Russia and China, as it tries to hold on to Hormuz, its best leverage. In fact, it has, in the past two days, stopped all traffic across the Hormuz on safety grounds, telling trusted interlocutors that it fears attacks could be engineered on foreign ships and wrongly blamed on Iran.

The final pivot of escalation for the US is political with external and domestic dimensions. On the first count, the chasm between the Trump regime and its European allies will grow. Will this force Trump to rethink the US line on the Ukraine war, try talking to Russia, and prioritise a deal in West Asia? This is a strategic imponderable for now. But a recalibration can't be ruled out now that Russian oil is temporarily off sanctions.

On the domestic front, Trump continues to hold on to his MAGA base despite criticism. But a longer commitment into a seemingly 'forever war' will not give him the sort of political impetus he's looking for, given his campaign slogan against long-drawn wars. And for this reason, a 'victory', even if it means a deal on Hormuz, might be an acceptable takeaway as the Iranian government survives to live another day.

But Iran will want more predictability against future attacks in such a deal. Already, military assessments on Iran's hidden capabilities, including nuclear, are being scrutinised again, especially after its missile hit on far-off Diego Garcia, which conveyed an Iranian ballistic missile capability of 4,000 km. Though Iran has not confirmed it, the incident has rattled all who had assessed that Tehran didn't have capabilities to hit beyond 2,000 km. So, Iran will drive a tough bargain.



Chasm between the Trump regime and its European allies will grow. Will this force Trump to try talking to Russia, and prioritise a deal in West Asia?

Either way, Trump's political timeline has spanned itself out between the escalation during Eid/Nowruz and what he can achieve by Easter on April 5. Else, the war is likely to enter a more dangerous, violent and potentially uncontrollable phase — one that will not just disrupt economic realities but also potentially upset political order.

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Not STEM, But STEAMpunk



Rohit K Singh

If you grew up in the 70s-80s, the brightest students were steered into science streams, IIT being the ultimate dream. Engineering or medicine became the gold standard of success. Literature, philosophy or history was admired, but quietly dismissed as an impractical indulgence. In a country emerging from scarcity, STEM was not merely an academic preference, it was a survival strategy.

AI is now dismantling that hierarchy. This does not mean science and engineering are losing importance. The AI revolution rests on extraordinary breakthroughs in maths, computing and data science. But the premium is moving away from those who *merely* execute technical tasks towards those who can frame problems, interpret complexity and communicate insight. AI's rise is restoring the importance of capabilities long cultivated by humanities — from STEM to STEM + Arts = STEAM.

For decades, subjects were valued less for what they revealed about the world and more for the salaries they promised. Engineering degrees became the most reliable hedge against economic uncertainty. The system produced exceptional engineers. But it also narrowed our imagination about what intelligence looks like. AI is forcing a rethink. LLMs can generate code, summarise research papers and analyse complex datasets within seconds. The question is no longer, 'Can you code?' It's 'Can you ask the right question?'

Prompt engineering captures this transformation. The quality of an AI system's output depends on clarity and nuance of its instructions. Crafting those requires linguistic precision, conceptual clarity and contextual awareness, capabilities that liberal arts education encourages.

Sam Altman says the effectiveness of LLMs depends on the quality of human prompts and supervision. The most powerful users of AI are not necessarily the best programmers, but those who can frame problems clearly and guide machines towards meaningful outcomes.

Communication is becoming a strategic capability in the AI economy. The engineer who can explain algorithmic risk to a corporate board, the policymaker who can translate data privacy concerns into regulation — these individuals operate at the intersection of tech and society, and increasingly shape the trajectory of innovation.



Artificial, eh?

When introducing iPad in 2010, Steve Jobs argued that the most transformative innovations emerge at the intersection of tech and the liberal arts. Apple's success, he suggested, was not a triumph of engineering but of design, psychology and storytelling. He himself cultivated a deep sense of design after attending calligraphy classes in college.

AI is making that intersection even more important. Machines excel at pattern recognition and prediction. What they lack is judgement. Questions about fairness in algorithmic decision-making, accountability for automated systems or the ethical deployment of AI cannot be answered through maths alone. They require perspectives drawn from philosophy, history, sociology and law. As AI begins to influence hiring, lending, healthcare and governance, stakes of these questions become enormous.

Tension between scientific precision and human interpretation is hardly new. In a celebrated 1930 conversation in Berlin, Einstein and Tagore debated the nature of truth. Einstein argued that scientific truth exists independent of human perception. Tagore countered that truth ultimately acquires meaning through human consciousness and cultural understanding. Nearly a century later, AI's rise is reviving that debate in unexpected ways. Machines may process data efficiently, but the interpretation of meaning, values and purpose remains profoundly human.

India's own technological journey illustrates the importance of this broader perspective. Success of DPI such as Aadhaar, UPI and India Stack did not emerge from engineering excellence alone. It required regulatory imagination, policy design and the ability to build trust among citizens.

The next phase of India's AI journey will require a similarly interdisciplinary approach. Our education system, however, is built around high-stakes exams and narrow academic funnels that privilege technical disciplines while marginalising broader intellectual exploration. While this model produced technical excellence, it often discouraged curiosity across fields. In the age of AI, such rigidity becomes a disadvantage.

Students trained only in routine technical tasks risk seeing those skills automated. What endures is cognitive agility, the capacity to keep learning, think critically and move across domains. Advantage will shift from narrow specialisation to integration: connecting technological capability with human context. A product designer who understands behavioural psychology. A policy expert who grasps ML.

Ironically, rise of intelligent machines is increasing the value of uniquely human qualities — curiosity, creativity, empathy and storytelling. Real AI disruption is not technological alone but also intellectual.

The future will neither belong to STEM alone, nor solely to humanities. It will belong to those who can stand at their intersection, combining analytical precision with human insight. In the age of intelligent machines, the most valuable skill may no longer be solving equations. It will be asking better questions than machines can.

The writer is former secretary, GoI


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Upturned by Big ₹upee Movements

RBI may have to delay monetary easing

Rupee's taking a knock as the US-Israel war against Iran enters its fourth week with little signs of likely de-escalation —with the usual Trumpian doublespeak. Oil prices are now 50% higher than when hostilities began, which is straining foreign investor outlook about India's growth prospects. Capital flight out of Indian equities is adding pressure on rupee as the energy shock props up safe-haven demand for dollar. RBI has no preset level to defend for rupee. Yet, the central bank's intervening to ensure an orderly descent. Rupee's not the worst performer among the emerging market pack that's vulnerable to a sustained rise in energy prices. Forex reserves are down on both central bank intervention and higher dollar demand from oil refiners.

The Indian currency's trajectory will be shaped by how the country addresses its vulnerabilities to the energy shock. Dollar is also currently valued beyond a justifiable level as a safe haven. It's reacting to signals of escalation that keeps the situation fluid for RBI — the greenback dipped on Trump's decision not to bomb Iran's power infrastructure a day after he threatened to do so if Iran doesn't let go of its chokehold on the Hormuz Strait. RBI is comfortable with current level of reserves. It will have additional reason to keep interest rates on hold while it assesses the impact of the energy shock on growth and inflation. Incomplete transmission of fuel price increases will weigh on downside risks to growth.



Sustained high energy prices will widen India's current account deficit, and increase the food and fertiliser subsidy burden. RBI may have to delay monetary easing as it smoothes out rupee volatility. Short positions on Asian currencies have moved higher, while speculative activity in the oil futures market could be spilling over into the forex market. RBI will have to tackle heightened volatility as a precondition to stabilising their economies. Indian companies' forex hedges tend to favour limited volatility at a low cost. These are being upturned by big rupee movements.

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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

Making MoUntains Out of Molehills

Audit pledges that translate to investments

We so do love the 'MoU'. After all, a memorandum of understanding *sounds* like a firm handshake and a done deal. But what it is, is a non-legally binding document between parties. So, when UP government signed a ₹25,000 cr MoU with Puch AI — a 1-yr-old Bengaluru-based startup with revenue of less than ₹50 lakh a year, and not much else to talk about — and CM Adityanath announced on Monday that the company would 'introduce AI parks, large-scale data centre infrastructure, AI commons, and an AI university in the state', we should take it with a Galgotias cloud server-full of salt. To be fair, Adityanath subsequently clarified gingerly that the MoU is 'a preliminary step before detailed due diligence and project evaluation gets done'. Indeed, a single date doth not a marriage make.

UP is hardly the only state where 'investment pledges', usually spread over a decade or more, are bandied about as slam dunks. At Bengal Global Business Summit 2025 alone, Mamata Banerjee announced ₹4.4 lakh cr 'investment proposals'. Only about 3% of such proposals from earlier summits, though, have reportedly concretised. Beyond the photo-ops and waxing eloquent, MoUs act as clickbait with their fantastical pledges to pour billions. Amazon pledged over $35 bn to expand logistics, AI and exports in India by 2030. Microsoft committed to $17.5 bn to cloud and AI infra, while Google promised investment of $15 bn to create a major AI hub. Puch AI's $2.8-odd bn MoU stands on far less firm ground.



Adityanath earlier claimed that UP has attracted 'more than ₹45 lakh cr in MoUs' in the last 8-9 yrs. The thing is, only about 9% of those agreements have reportedly turned into projects in which money actually flows and production has begun. Good intentions are great. But the proof of the MoU pudding is in the investing. Let there be white papers, with independent audits of why some MoUs didn't progress beyond the 'preliminary' stage, and transparency regarding actual capital commitments. By now, we have wised up enough to not make MoUntains out of molehills.


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Ease of Doing War in Era of 'Precise Mass'

It has been 24 days since the US-Israel attacked Iran with the expectation, bordering on surety, that the theocratic Iranian leadership would be destroyed, and the war would be a short one. It's an assessment that another global leader had made earlier for another war being fought for the last 4 yrs in Europe. Yet, both these conflicts show little signs of coming to an end, despite Trump's 5-day 'interregnum' in which Israel and Iran continue to trade missiles as if the US is a 'silly' pacifist state.

What we see in West Asia is a demonstration of the transformation of warfare and, with it, the nature of war — when the battlefield has entered what political scientist Michael Horowitz calls the 'era of precise mass' — intersection of high-volume, low-cost drone swarm technology with sophisticated guidance that allows smaller states and non-state actors to achieve mass, a capability once reserved for industrial nations.



The cost of war has escalated. But the cost of *waging* war has plummeted to bargain price. State-of-art precision, the haute couture of deftech, is still premium. But like prêt-à-porter changed fashion markets, mass precision and speed have transformed warfare, making it possible to stand one's ground despite lacking a stealth bomber. Success now needs the entire value chain of speed, precision and dispensability. But the 'democratisation' of weaponry through mass precision, making it possible to wage war at different price points, is just one aspect of 'discount wars'. Checks and balances — the rules of the game — have cheapened to dysfunction. Which is why the high 'ease of declaring war' index shown by the likes of Putin, Netanyahu and Trump for whom *casus belli* — reason for war — can be made up along the way.

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While bourses look at when uncertainty prices itself into valuations, Trump plays blackjack

War, When, How, What

'How Long?' is What Counts



Ananya Roy

Indian stock markets have been taking one knock after another this month, as geopolitical tensions in West Asia triggered by the US-Israel war against Iran have escalated sharply. Despite Trump's latest 'Let's talk' interregnum, while Israel and Iran continue to trade missiles and drones, Nifty 50 has corrected meaningfully from its recent highs, midcaps have lost momentum, and oil prices have once again moved to centre stage.

For a country that imports nearly 90% of its crude requirement, with almost half of those imports moving through the Strait of Hormuz, any disruption in West Asia immediately becomes India's macro story (read: headache). The question investors are asking is simple: is this another temporary geopolitical shock? Or is it the beginning of something more structural?

The sharp jump in crude prices has implications far beyond fuel costs. Rising crude widens India's import bill, pushes inflation higher, weakens rupee, widens the twin deficits and complicates RBI's policy path. Despite the macro pressure, the market reaction has not been uniform. Historically, geopolitical shocks tend to split markets, rather than drag everything down equally. This time is no different.

Upstream oil producers have held up relatively well, benefiting from rising crude realisations. Defence stocks have also shown some resilience, supported by expectations of sustained global military spending. Shipping segments exposed to tanker freight routes have seen selective strength.

On the other hand, oil marketing companies face margin pressure when pump prices remain indirectly capped. Aviation companies are vulnerable because ATF accounts for 35-40% of operating costs. City gas distributors and fertiliser companies remain exposed to higher LNG procurement costs if disruptions persist.

Meanwhile, the policy dilemma has returned, placing analysts' projections on shaky ground. Higher oil prices typically create a twin challenge for India — inflation rises, even as growth slows. Estimates suggest that a sustained crude spike could add 50-75 bps to inflation, while shaving 20-30 bps off growth expectations.

That puts policymakers in a tight corner. Cutting rates too early risks weakening rupee further and triggering capital outflows, especially after the US Fed signalled a slower pace of easing. Keeping policy tight for too long risks delaying earnings recovery that markets had just started tasting in the December quarter.

That said, India enters this phase from a position of relative strength compared to previous oil shocks. Forex reserves remain comfortable. Strategic reserves and commercial inventories provide short-term buffers. And diversified sourcing, including Russian crude, has already reduced dependence on any single corridor, even as negotiations have recently allowed a handful of Indian tankers through the Hormuz Strait.

These cushions matter, and crucially so, if the war gets resolved over the next few weeks, as 'promised' by Trump, one of the two belligerents. If supply disruptions remain temporary and crude stabilises around the $80-85 mark, the macro impact could remain manageable. India's inventory buffers provide roughly a month of breathing room even if shipping routes face intermittent disruption.

But wars often look most dangerous at the point of maximum uncertainty. Markets tend to price worst-case scenarios first, and revise them later. Earlier this week, Trump posted that the US was in 'productive' negotiations with Iran, which prompted a temporary pause of 5 days in planned strikes on Iran's energy infrastructure, raising hopes of a near-term cooling of tensions. Iran, however, quickly denied that any such talks were underway, underscoring how fragile and headline-driven, the current easing in risk sentiment may be.

Making matters worse, unlike earlier geopolitical episodes, recent attacks have targeted energy infrastructure. Restoration timelines for such assets tend to stretch into months, rather than weeks. That increases the probability that commodity volatility could persist longer than markets initially expected.



Speculation will tear us apart

Historically, such phases tend to compress valuations faster than they damage long-term earnings trajectories, especially in structurally-strong economies like India. Once uncertainty around oil stabilises, investor attention usually shifts back toward domestic growth drivers, capex momentum and earnings visibility — the 'boring stuff'. In fact, dispersion created by geopolitical shocks often opens selective opportunities across sectors that remain fundamentally intact, but temporarily repriced.

The key variable to watch now is duration. If the conflict remains contained within weeks, the current correction could look like a sentiment-driven adjustment. If energy disruptions persist longer, markets may need to reprice growth expectations more meaningfully.

For long-term investors, phases like these are less about predicting headlines, and more about recognising when uncertainty begins to price itself into valuations. Because once geopolitical clouds clear, markets typically move faster than investors expect.

The writer is founder, Credibull Capital

He's Pac-Man, Or Pax Man?



Seema Sirohi



LETTER FROM WASHINGTON

It's Week 4, and signals of peace are in the air. Or, more appropriately, hints of compromise. The US and Israel have relentlessly pounded Iran for three weeks, yet faced serious retaliation and ballistic missiles coming their way.

Gulf countries have suffered physical and psychological damage, the mirage of being tax and luxury havens lies shattered along with the glass covering. They are reportedly moving closer to joining the fight. But they realise their investment in America has not exactly translated into influence over Trump's decision-making — he didn't veto Israel's target list. Gulf countries had warned against attacks on Iran's oil fields, but Israel attacked the South Pars gas field anyway, which led to Tehran's retaliation against important Arab energy facilities.

Trump is looking for ways to exit, but he is also sending more men and firepower to the region. The mixed signals won't inspire confidence in Tehran — it has Hormuz-sized leverage, battered though it may be. The strait has to reopen for the US to declare victory.

It is in this fading light that one should look at Trump's latest moves at deal-making. On Monday, *before* the markets opened, he announced a 5-day pause in the war after claiming 'productive' talks with Iran and hinting at 'a very serious chance' for a deal. Oil prices dropped, stocks jumped and the markets rallied. Depending on what he says on the fifth day *after* the markets close, the world will have a clearer sense of US motives.

On Monday, Trump announced a 5-day pause in the war. Depending on what he says on the fifth day after the markets close, the world will have a clearer sense of US motives

This time, VP J D Vance, a known war sceptic and potential inheritor of Trump's crown, has been added to the negotiating team of Steve Witkoff and Jared Kushner, two real estate men in charge of complex political negotiations around the world. US nuclear experts have exposed the duo's inexperience in nuclear matters and how they failed to understand the complexities of Iran's offer on enriched uranium. Everyone interested in peace is hoping for real experts to be included in the team this time around.

At first blush, Tehran called Trump's latest deal-making 'psychological warfare', market manipulation, and an effort to buy time for his military plans. It's true that 5,000 Marines are headed to the war theatre along with more ships and sailors. A show of American power? The exhibition is not aimed just at Iran but others (read: China and Russia) as well.

Speaker of Iran's parliament Mohammad Bagher Ghalibaf, who is being projected in the US media as an interlocutor, said on X that Trump's offer was designed to 'escape the quagmire in which the US and Israel are trapped'. Be that as it may, social media is an active battlefield alongside the real one.

If America's war on Iraq was 'brought to you live' by embedded reporters marvelling at smart bombs exploding, this one is about clever memes and impressive posts on X. Iranian officials are trolling Trump in English, some of it actually funny. But the more serious battle is over who can put out longer, more data-filled feeds on X. AI-aided stars of the game can connect dots you never saw or knew existed.

Pro-Trump experts see a grand design in the incessant flow of contradictory announcements from the president. Peace one day, obliteration the next is a master politician at work simultaneously speaking to different audiences: oil and stock markets, MAGA faithful, the religious right and world leaders. He times his posts for real-life advantage.

But is something stirring even if real motives are cloudy? Are all parties on board, especially Israel? Iranian officials have acknowledged messages were exchanged through Egypt and Türkiye in which they laid out their conditions — no future aggression, reparations and recognition of their legitimate rights (which could stretch from Hormuz to uranium enrichment to lifting of sanctions).

Pakistan is playing mediator, successfully parleying its multi-engagement in the region and with Washington for better survival conditions. No mean achievement. Reports say the talks are likely to be held in Islamabad this week. In short, Asim Munir has managed to defer the dilemma of choosing between Saudi Arabia, an all-weather provider with a mutual security pact, and Iran, a neighbour that can punish, if necessary.

India, with multiple stakes, old friendships in the region and a 'strategic partnership' with the US, had chosen to limit its diplomacy to getting tankers out of Hormuz — that is, until Tuesday, when Narendra Modi and S Jaishankar spoke to Trump and Marco Rubio respectively. Sergio Gor almost certainly arranging the first exchange after Pakistani-US inter-action may have caused New Delhi heartburn.

Meanwhile, Pakistan with limited resources has burrowed deeper into Trump's world and West Asia's complex matrix.

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To see Dylan as a

India's Shiny New Habit Needs Polish

Digital gold needs independent regulation

Young Indians have taken a shine to digital gold that allows them to buy the metal in tiny amounts on their smartphones. Gold sold by fintech firms is not as tightly regulated as gold ETFs or sovereign gold bonds (SGBs), so its popularity has increased the urgency for stronger custody and audit monitoring. The industry is regulating itself and has sought GoI's help with oversight, which should prop up digital gold transaction volumes. Convenience of buying small amounts of gold all through the year has enormous scope to alter consumer behaviour. Most gold micro-savers are below 35, and their preferences could become mainstream as the cohort expands.

Before their recent retracement (about ₹14.7 per g in India on Wednesday), gold prices had rallied due to geopolitical uncertainty and had squeezed demand for traditional jewellery. Surging safe-haven demand for bullion has made the larger ticket size of jewellery unaffordable for many. Besides, jewellery sales are seasonal, which bunches up demand. Digital gold provides an alternative distribution channel without these legacy limitations. Beyond these, however, the habit of buying small amounts could help wean Indians off their obsession with gold as they are exposed to a wide array of financial savings options. Investor choice ought to improve if it is as convenient to buy gold as it is to buy stocks or bonds. India's energetic fintechs have products to cater to all tastes among retail investors.



Rules for digital gold under consideration will seek to enhance disclosure over vault practices through third-party audits. Digital gold must be backed by physical gold. Bullion holdings must not be hedged or held as reserves. Custody receipts must ensure gold remains allocated to the customer irrespective of the distributor. Independent inventory audits, vault security standards and insured storage are other aspects that need to be harmonised. Digital gold is a business model in search of regulation. GoI must deliver on the industry's legitimate expectations.

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Firms operating in AI-enabled markets need to anticipate, govern and own competition risks

Will Machines Take the Fall?



Aparna Mehra, Krithika Ramesh & Sarthak Mishra



No humans, the buck stops with you lot

AI is no longer a mere back-office efficiency tool. Across sectors, AI systems are increasingly making decisions that shape market outcomes. As firms deploy algorithms to optimise prices, rank products, personalise offers and manage supply chains, competition authorities worldwide are grappling with a fundamental question: how should competition law respond when market conduct is driven not by human deliberation but by machines or systems?

The regulatory answer is less dramatic than headlines suggest, but potentially more consequential. Rather than rewriting competition law from scratch, regulators appear to be recalibrating how responsibility is assessed — shifting focus from human intent towards attribution, foreseeability and control over AI systems.



Regulators have been clear that the absence of human intent does not immunise firms from liability. Training or deploying an algorithm that produces anti-competitive outcomes is still conduct attributable to the firm

Competition regulators have been consistent in recognising that AI can enhance efficiency, lower costs and intensify competition. At the same time, they have identified a recurring set of competition risks associated with algorithmic decision-making. One such risk is algorithmic collusion.

Pricing algorithms that learn from market data and respond to competitors' behaviour can, in some circumstances, converge on price-aligned outcomes without any explicit agreement between firms. This risk is amplified where multiple competitors rely on the same third-party pricing software, creating what authorities describe as 'hub-and-spoke' coordination through shared tools.

Global trends confirm this concern. Competition agencies and authorities in G7 have extensively documented how 'self-learning' algorithms can drift into tacit collusion. In the US, Department of Justice's recent action against RealPage, a provider of property management software, alleges that using shared software to price rents constitutes a modern cartel.

The lesson here is stark: using third-party software does not immunise a company from liability. As US enforcers noted, 'training a machine to break the law is still breaking the law'.

To prove a cartel exists, regulators look for a 'meeting of minds' — a 'smoky room' agreement, or a trail of emails, WhatsApp messages, or any form of evidence where competitors agree to fix prices. But what happens when the collusion is engineered not by humans but by machines?

Autonomous systems can optimise toward profit-maximising outcomes, learn from repeated interactions and adapt behaviour over time, sometimes producing results that resemble collusion without any planning or coordination. Establishing a 'meeting of minds' is far more difficult when decisions are decentralised across algorithms reacting to data rather than conversations and communications between executives.

At the same time, regulators have been clear that the absence of human intent does *not* immunise firms from liability. As several authorities have put it, training or deploying an algorithm that produces anti-competitive outcomes is still conduct attributable to the firm.

Indian regulators are acutely aware of this gap. Recent regulatory discussions indicate a pivot in how liability is viewed. We are seeing a shift from human intent-based liability ('Did you mean to collude?') to attribution-based accountability ('Did you control the system that colluded?').

This view also featured in discussions at the India AI Impact Summit 2026 last month, where policymakers, industry participants and academics repeatedly returned to the question of who bears responsibility when autonomous systems influence market outcomes. The consensus building across jurisdictions is that if you deploy the AI, you own the outcome. It does not matter if the algorithm is a 'black box', or if it was purchased from a third-party vendor. The deployer is responsible for the governance, risk management and ultimate behaviour of that system.

Competition authorities, in particular, appear to be converging on the view that auditability, transparency and internal oversight are essential for effective enforcement in AI-driven markets. Where algorithms influence prices, rankings or access to consumers, regulators are signalling that firms must be able to explain, not necessarily every line of code, but the logic, data sources and guard rails governing those systems.

Firms are expected to understand mainly:

- How their AI systems function.
- What data they rely on.
- How outputs are generated.
- Whether those outputs could foreseeably distort competition.

An effective self-audit must ask the hard questions: does this pricing tool use non-public competitor data? Does the algorithm prioritise our own products over rivals (self-preferencing)? Can we explain why the AI made a specific pricing decision?

For businesses, there are three concrete implications:

1. Understanding AI systems is no longer just a technical or ethical concern. It's becoming a competition law obligation. Firms cannot rely on 'black box' explanations when algorithms influence market outcomes.
2. Documentation matters. Clear records of design choices, data sources, monitoring processes and human oversight can be critical in demonstrating that risks were assessed and managed. In fast-moving AI markets, governance may matter as much as outcomes.
3. Firms should expect enforcement to follow understanding. Competition authorities are still building internal expertise. But their expectations are clear. As regulators become more comfortable interrogating algorithms, the margin for plausible deniability is likely to shrink.



Pricing algorithms that learn from market data and respond to competitors' behaviour can converge on price-aligned outcomes without any explicit agreement between firms

AI doesn't require a wholesale rewrite of competition law. But it's quietly reshaping how responsibility is assigned. For firms operating in AI-enabled markets, the question is no longer whether algorithms can create competition risks. It's whether those risks are being anticipated, governed and owned.

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Independents, Dependable?



Rentala Chandrashekhar

The recent resignation of HDFC Bank chairman and independent director (ID) Atanu Chakraborty has once again brought the role of IDs into focus. The starting point for any enquiry into his exit — the bank has appointed three law firms to review the circumstances surrounding it — must be the mode of appointment of IDs.

Typically, the proposal to appoint an ID is initiated by the management or owners of a firm, and they almost always have their way. Many of these appointments also carry significant compensation. Consequently, there is an inherent tilt in favour of the management.

Assuming an ID is not swayed by these factors, what should the role be? Is it to find fault in proposals or assign blame when plans fail? Or to offer constructive criticism that advances the company's business agenda?

The role of IDs is neither to obstruct nor to approve proposals regardless of their shortcomings. From both a business and an executive perspective, it's important for the board to project consensus in its decisions. Implementation marked by hesitancy, or carried out while constantly looking over one's shoulder, can lead to suboptimal outcomes.

No employee would like to be caught in board-level crossfire and become a collateral victim. Hence, it may often be necessary for IDs to go along with a decision they disagree with, provided this happens after a threadbare discussion. Formal dissent should be the exception. For both IDs and the company, parting of ways is better than frequent acrimony.

The other problem is lengthy board notes, which usually run into over 1,000 pages. Poring through them in less than a week is rarely infallible, even after due diligence. Who is responsible for what is contained in fine print or lengthy annexures? Excessively onerous responsibilities cast on IDs have deterred many right-thinking people from accepting such roles.

There could be concerns relating to matters not brought before the board. How would IDs get to know about them? Through disgruntled employees, or whispers in the market? IDs must be careful in going down that path. It could lend heft to factionalism in the organisation, a not-so unfamiliar malaise. Or, it could lead to unforeseen outcomes where the media, too, plays a role, even if unwittingly. Exercised with discrimination, however, this could be one way to keep management on its toes, since it decides what goes before the board beyond its delegated powers.

In the case of HDFC Bank, yet another strand is reported: excessive involvement of the former chairman in operational decisions, leading to tensions with management. While one could have some sympathy for a chairperson trying to delve deeper when he or she suspects irregularities, it's evident that some insulation needs to be provided to management for exercising their freedom within delegated powers.

The distinction could well be between *ex ante* and *ex post* involvement in day-to-day management decision-making. If such involvement occurs at the proposal formulation stage, it could avoidably cloud judgement of IDs when board consideration arises, thereby undermining independence.

Shorn of legalese, the core issues are straightforward. Yet, surrounding them are nuances that cannot be captured in their entirety by rules and guidelines. That is where human nature comes into play. Even so, there are many issues here that warrant serious introspection by regulators and lawmakers.

Qualifications, familiarity with extant guidelines on conduct and responsibility, and mode of appointment of IDs need review. A well-balanced definition of their liability is warranted, as also limits of their sphere of activity. For sectors where a regulator exists, greater engagement in the appointment of IDs is called for. Furthermore, a more vigorous approach by MCA to maintaining a panel of IDs is indicated.

The answers to questions posed at the outset in the HDFC Bank case can only be given by Chakraborty and the management. But observations highlighted provide a framework for outsiders to view these developments. It's heartening to note that the management and RBI seem to be moving to address concerns. It would be desirable for Chakraborty to elaborate on the specific concerns he had, at least to the banking regulator. That is the minimum the system owes to investors and depositors.

The role of IDs is neither to obstruct nor to approve proposals regardless of their shortcomings. It's important for the board to project consensus in its decisions

The writer is former president, Nasscom

HDFC Exit Fallout



Fix the deposit

Clarity Begins At Home



Mitu Samarnath Jha

HDFC Bank chairman Atanu Chakraborty's exit is a reminder that reputation isn't shaped by events alone. It's shaped also by how those events are explained, understood and absorbed. A vague initial statement from the chair, followed by governance-heavy reassurance instead of visible change, and then three senior executives being asked to leave over misselling concerns — each development was manageable on its own. Together, they created uncertainty. And that uncertainty didn't stay outside, it travelled inward first, before spilling outward.

Action does speak louder than words. So, here's the uncomfortable truth about reputation: it isn't protected by external messaging alone. It must be demonstrated through action and experience. Which is why employees are the biggest stakeholders. Yet, most companies miss this nuance while dealing with a crisis.

When a company hits a public crisis, friends, family, vendors and even bankers start texting or calling employees for the real story. Even though everyone is glued to the news, they usually trust what insiders say far more.

Without clear internal communication, employees start filling the information gaps on their own, creating several versions of the story across teams. These mixed narratives tend to leak out quickly into the wider ecosystem, damaging the company's reputation even before any official word or press release is issued.

This was evident during the crisis at Byju's, where months of postponed financial disclosures, auditor resignations and layoffs caused a lot of internal confusion. Employees were not clear on the company's finances and leadership decisions. As a result, there were several versions of the situation circulating informally, eventually shaping external perception.

Similar patterns, although on a lesser scale, were seen at IndusInd Bank, where leadership changes and business updates unfolded in phases. It left enough room for speculation before communication finally caught up.

Given that information leakage within an organisation happens regardless of the reality of the situation, the main mission should be structured management of the internal narrative. While companies often rush to engage with their investors, regulators, customers and the media during a crisis, they need to know that their reputation won't be steady until they share the real story with their own team.

While an uninformed member of staff often seems to carry on business as usual after a crisis, they tend to carry a sense of quiet caution that hinders their decision-making ability. Approvals stretch, interactions slow down and judgement calls become more guarded. This behaviour is driven by fear and lack of clarity.

Over time, operations continue, but confidence weakens. Customers also feel the difference through slower responses, cautious engagement and hesitation in frontline interactions. All that eventually impacts the business outcome.

Given these risks, organisations should recognise that the first audience that needs clarity during any crisis is their employees. They need the full picture and space to ask direct questions: who is accountable? How should decisions be taken now? Has the risk threshold shifted? What changes in practice for my team?

For this to work, organisations need crisis-ready internal communication structures built well in advance — functioning like dormant response cells that activate when required. This includes pre-identified communication cells, trained internal Spocs and structured information flows that can quickly percolate across teams. These networks prevent information vacuums and ensure consistency.

Just sending an organisation-wide email acts like a broadcast message, which is treated more like a tick-in-the-box activity. A focused interactive session in small groups conducted through these Spocs, where they acknowledge employee concerns, share structured information to allay fears, add clarity and provide a holding statement that employees can use if anyone reaches out, can turn employees into brand advocates.

As the HDFC Bank episode unfolded, speculation spread rapidly through social media and 'trusted sources', fuelling distorted narratives about safety of its deposits, governance practices and more. Episodes like this test the resilience of employees first. From sales and call centres to investor relations, they are the ones fielding anxious customers and investors — often without the clarity they need.

Therefore, clarity must start inside. Only if employees are aligned, informed and confident can they become the strongest bulwark against misinformation, turning every interaction into an opportunity to reassure, reinforce credibility and protect trust.

The writer is CEO, Eminence Strategy Consulting

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Meta, Google Declared 'Digital Drug' Dealers

Parental oversight must share the burden

A California court's ruling that Google and Meta harmed the mental health of a 20-yr-old when she was a minor — she started using YouTube when she was 6 and Instagram when 9 — by design to encourage addiction could be a watershed in how lawmakers approach social media. The trial went into elements such as infinite scrolling, algorithmic suggestions and autoplay, as well as internal company communications that indicated executives were aware of the effects of social media on children. This places the verdict in the same category of judgments that were delivered against tobacco companies in the US, which led to restrictions on advertising that eventually led to the decline of smoking. Though significant, the penalties against Meta and Google are a single instance — although more such cases are winding their way through American courtrooms — and far removed from the enormous settlement Big Tobacco reached with the majority of US states.



Meta and Google argued they are working on improving internal systems to deny access to social media and streaming video to children. However, the genie is out of the bottle, and tech platforms will find themselves subjected to tighter scrutiny under the law. Their claims of being content-agnostic are not cutting ice with a growing segment of society, and they could find their safe harbour status under threat. Damages are token — the jury awarded the plaintiff $6 mn in damages, a molecular amount for the Big Tech duo, which will appeal. Yet, the opening salvo has been delivered.

Consumers, on their part, cannot push the entire burden of social media addiction on tech platforms. Parental oversight has been a strong counterforce to TV and gaming addiction, and can play a similar role. Extra safeguards may be needed because of the explosion of devices on which social media is consumed. Mental health in formative years is a complex interplay of familial, social and technological issues. Addressing them would need a broader response than simply restricting social media.

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Pakistan's Got Itself In the Larger Frame

Even Dalal St is acquainted with 'dalal' — literally, broker or intermediary — often carrying negative connotations of being a fixer or tout. In that sense, India is, indeed, not a dalal nation. But, then, neither is it perceived by the world at large as being a potential mediator in the still very-much-raging US-Israel war against Iran — despite some voices suggesting that India use its 'strategic autonomy' to reach out to all sides. Pakistan has no such qualms. It's trying to use the chips it has, and has reached out to the Trump regime that has been increasingly asking for — and perhaps fantasising about — negotiations with Tehran. Understandably, after the last round of talks with the US in Oman, Iran is once bitten twice shy. Enter Pakistan, which is seeking to leverage its 'closeness' to Trump, Saudi Arabian support, and an 'insurance' against mutual antagonist Iran by tapping the 'umma'.



In the process, Islamabad has got a toehold in the larger geopolitical picture as an actor, no matter if it's a cameo. So far, its campaign has not fallen flat. Iran is keeping its options open, stating that Pakistan is among the 'many countries' that have approached it with the offer to mediate, and praised it for 'good intentions'. Ironically, Islamabad had earlier turned down Iran's offer to mediate in the ongoing Af-Pak conflict. But the present is what matters, and even as the White House on Thursday described potential US-Iran peace talks in Pakistan as 'speculation', with negotiation itself speculative, Islamabad slipping itself into the 'talks' narrative is diplomatically smart.

Whether anything comes of Pakistani virtue-signalling will be known sooner or later. But ending the war by hook or via Islamabad is a worthwhile endeavour, even in theory.

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Looking for a Certain Tax Reform



Ashish Karundia

When I-T Act 2025 comes into force on April 1, it will represent more than legislative housekeeping. It offers an opportunity to embed certainty, consistency and technological alignment into India's direct-tax administration at the inception of a new statute. If accompanied by calibrated administrative measures, the new law can reduce litigation and advance ease of doing business.

A statutory rewrite inevitably resets interpretative baselines. This makes the present moment particularly suited for institutionalising structured guidance. India's tax administration issued detailed I-T manuals until the 1930s, which contained an overview of each provision, articulated the department's interpretation with reasoning, and reconciled conflicting judicial views.

Reintroducing a modern, digital I-T manual aligned to the 2025 Act could reduce interpretative divergence. By enabling both officers and taxpayers to operate within a shared interpretative framework, it would reduce disputes arising from inconsistent readings of the same provision. Effectively, it would function as an interpretative anchor for the statute. Certainty, however, can't rest on interpretation alone. It must also be embedded in the system architecture.

India's direct tax litigation burden remains substantial. Data indicate that more than 5 lakh direct tax appeals are pending, involving disputed demands exceeding ₹14-16 lakh cr. Value of contested direct tax demands has risen sharply over the past few years, nearly doubling in a short span. A meaningful portion of this litigation arises not from interpretative disagreement but from procedural lapses, computational inconsistencies, jurisdictional defects and technological misalignment.

The next reform frontier, therefore, lies in designing systems that prevent avoidable disputes at source.

▸ **Pre-issuance approval validation** The tax portal shouldn't permit generation of notices or orders unless the requisite statutory approvals (where required) are digitally recorded and verified within the system. A system-level validation layer would eliminate disputes on whether appropriate approval existed at the time of issuance.

▸ **Time-bar enforcement controls** Automated restrictions should prevent issuance of notices or orders (such as uploads on taxpayer's PAN/TAN through email, SMS, etc) beyond statutory limitation periods, with advance 30-day alerts for approaching deadlines.

▸ **Computation engine cross-verification** Tax, surcharge and interest calculations should undergo permutation-based validation checks for each type of taxpayer before processing, reducing arithmetic disputes. In recent years, rate-differential disputes involving trusts, AOPs and updated returns have stemmed from computational inconsistencies rather than interpretative disagreements.

▸ **Automatic interest on delayed refunds** Many rectification applications relate only to the grant of statutory interest where refund credits are delayed after determination. The system should automatically compute and grant interest, including consequential interest where legally warranted, without requiring separate representations.



Aim to ease

▸ **Entity continuity mapping in restructurings** The system should auto-link PAN and historical records of the erstwhile entity with the successor entity, ensuring proceedings for earlier years are correctly addressed. Litigation arising from notices issued to non-existent entities illustrates the need for structural continuity mapping within the system itself.

▸ **Compliance nudges for TDS/TCS** Automated communication to deductees and collectees regarding deposit status could reduce downstream disputes relating to credit denial or non-deposit. Early visibility would prevent cascading consequences at the assessment stage.

Each of these measures is preventive, rather than corrective. By embedding statutory discipline into the system architecture, disputes arising from procedural infirmities, computational inaccuracies or entity misidentification can be substantially curtailed.

The objective should be to ensure that uncertainty is addressed at inception, rather than allowed to mature into entrenched appellate disputes.

The 2025 Act provides a rare opportunity to shift from reactive dispute resolution to proactive dispute prevention. A structured interpretative manual, technology that mirrors statutory safeguards, and timely clarificatory interventions together form a coherent certainty framework. If these complementary measures accompany statutory rollout, the reform won't merely simplify language but also strengthen trust.

The writer is a chartered accountant


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Follow Her Lead & Lead the Way





Aarti Madhusudan & Kakul Misra

When we talk about gender-diverse leadership, the conversation often ends at representation: increasing parliamentary seats to accommodate 1/3rd women's quota, as the government is reportedly planning, how many women sit on boards and C-suites.... But representation is just a start. Gender-diverse leadership does not mean a few women breaking into the 'boys' club' at decision-making levels. It must shape how governance is approached.

At its core, diversity in leadership reframes power from domination to stewardship. Organisations perform better when a diversity of voices is meaningfully heard and integrated, informed by contextual intelligence, shared responsibility and inclusive decision-making. But diversity is only one side of the coin, hollow without the other: inclusion.

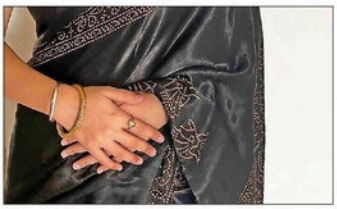
A 2021 London Business School-SQW report, 'Board Diversity and Effectiveness in FTSE 350 Companies', revealed that companies that diversify but don't embed inclusion often default to competitive, hierarchical dynamics that reinforce, rather than change, status quo. But when women directors are integrated well, boards produce more unified decisions and experience higher stock returns.

A key finding was that benefits of gender diversity in boardrooms, especially in financial performance, are strongest after 3-5 yrs, highlighting that benefits of women's leadership emerge through investment, patience and long-term stability. Women leaders bring in valuable perspectives in navigating intergenerational talent dynamics, helping organisations build inclusive cultures that attract, retain and empower diverse talent.

From a strategic standpoint, there is robust evidence that gender-diverse decision contexts correlate with better innovation outcomes. A 2014 Ready-Now Leaders study found that organisations with at least 30% women in leadership roles are 12× likely to be in the top 20% for financial performance.

But it's not just about performance. It is about equity, resilience and legitimacy. Take healthcare, where women make up roughly 70% of the global workforce (and 90% of nursing and midwifery), but occupy only about 25% of leadership roles. When women are absent from decision-making, entire dimensions of strategic risk — like health inequities or community vulnerability — can go unaddressed.

Generations of learnt and observed behaviour orient women leaders to address risk and resilience with more confidence, especially in under-resourced contexts, such as maternal and



She-suite

healthcare policies. Power without accountability is not leadership. India's growing number of talented women can create social good, while also creating a new, unique framing of role models for the next gen of leaders.

As AI systems develop rapidly, it becomes urgent to develop and expand capacities essential for human flourishing — relational intelligence (RQ), trust-building, tension navigation and creating meaning with others. This 'intelligence of attunement' is a vital trait for any leader, but especially for women championing a new model of leadership: blending social purpose with performance.

Existing corporate and public institutions still value certain behavioural archetypes: assertiveness, decisiveness without consultation and command-and-control authority that align with patriarchal norms. Women leaders who exhibit relational and inclusive styles can be penalised for those very behaviours that drive organisational learning and legitimacy. Unless governance norms evolve, women will remain not just under-represented but undervalued.

Implications extend beyond corporate performance. Inclusive governance fosters social trust and strengthens institutions' capacity to serve diverse constituencies, and often even creates new customer segments. This is where gender-diverse leadership matures into practice: by making inclusion structural. It means designing boards that integrate diverse perspectives into how agendas are set, risks are framed, accountability flows.

Social sector, shaped by mission orientation, community engagement and systems thinking, is uniquely positioned to model this transformation. Governance here must reflect lived realities. When boards co-create accountability with stakeholders, ground strategy in equitable values as much as financial targets, they demonstrate that women's leadership ethos is compatible with rigorous governance.

If we let gender-diverse leadership shape governance, boards will become places where collective, contextual, human-centred wisdom matters as much as individual authority. Leadership will shift from being an elite rung to a shared practice. And organisations will be better equipped to navigate 21st-c. complexity — not because they have women leaders but because they lead more holistically.

Madhusudan is founder, Governance Counts, and Misra is director, strategic capacity building, Indian School of Development Management (ISDM), Noida

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Sanjay Malhotra's Baptism by Fire



Sugata Ghosh

'Maybe, it won't come to that.' A perverse logic pervades most forecasts on the war's economic consequences. The unstated refrain is that some solution, not a neat resolution, but a cold peace, the kind of hostile truce one can imagine between racists and fanatics, would emerge. After a while, the intensity of conflict would diminish, though not go away, and another stretch of West Asia would become a troubled zone while the rest of the world gets on with life.

It's a quiet hope for many strategists even as the turbulence turns murkier. They are unable to predict beyond April, assess how inflation would behave — a number that's not just a function of oil, but several product prices pushed up by longer voyages. No one is sure when higher intermediate product prices would creep into wholesale prices and how fast consumer prices would catch up.

They are caught in a more complex world where calculations must factor in commodity prices as well as quantities and availability. It could take months for trade to normalise even after the Strait of Hormuz fully opens. It's futile to borrow from the Russia-Ukraine war which today looks like a simplistic template. And, how the war would impact the FY26 numbers, and how much would spill over to FY27 can only be a guess.

In a world like this, Sanjay Malhotra will announce the financial year's first monetary policy on April 8. It will be his acid test. Many governors have had baptism by fire. Lehman collapsed less than a fortnight after Duvvuri Subbarao took charge in September 2008. Raghuram Rajan walked into the winds of taper tantrum in 2015. Like his predecessor Shaktikanta Das, who faced Covid a year after taking charge, Malhotra must deal with the war volatility and disruptions, which would dampen growth and stoke inflation.

Like banks and bond houses it regulates, RBI faces a challenge. In the April and October policies, RBI forecasts crude and exchange rate over the next 2 years. The estimates go into its model and policy. But with oil and markets tossed between Trump's tweets, that exercise is now a shot in the dark.

Still, if Malhotra has a way and the rupee does not come under a fresh fierce attack, he could prefer a 'lower for longer' approach to rates, avoid an April hike which would betray a sense of panic and view the turmoil as a transitory supply shock. A resistance to hike amid growth headwinds stems from Das' playbook to avoid local measures that amplify global shocks.



So, plans?

So, RBI intervened in forex and bought gilts to prevent shooting bond yields that would have sparked higher mark-to-market losses and sell-off of bank stocks. But as inflation hardens, Malhotra must take a call on raising rates while balancing the probability of downside to growth. An inflation above 4.5% would be within RBI's target band, but an unchanged policy rate of 5.25% would go against the preferred real rate of 1% or slightly higher.

Monetary policy can take sudden turns, particularly when the guv is not a hard-boiled economist and is more receptive to views. Das, who held rates at the onset of the Ukraine war in February 2022, began a surprise tightening from early May, soon after IMF meeting.

A few things favour RBI. Unlike in Covid or the financial meltdown, no one today expects the central bank to be the first line of defence. And, with GoI partly absorbing inflationary pressures by avoiding a fuel price rise, RBI can focus more on growth.

However, firefighting war-induced uncertainties may stretch longer than feared. Who would mediate? What would the US project as a win? What would Iran get in return? There are no answers as the world has forgotten the price it paid for the lack of humility of victors in modern history — something that weighed heavily on 20th century's economic policymakers. Today, central banks and policymakers confront new odds — as narratives eclipse facts, the victor and the vanquished can't be distinguished.

Someday, the madness would ebb. Still, the problem that dogs India would remain: a deficit BoP, with more dollars flowing out than coming in. It may worsen after the war. Amid foreign equity outflows and low direct investments, GoI and RBI must use every ammunition to increase dollar supply and back INR.

Not just emergency measures like slashing banks' forex speculative book after the rupee breached 94. Or, possible steps like making exporters sell dollars sooner; holding variable reverse repo auctions to raise short-term rates and make betting against the INR costlier; lowering individual overseas remittance limit; announcing a special NRI deposit scheme through SBI amid fears that remittances from the Gulf may be hit.

Much more must be done to deepen the dollar pool: fast track clearance of FDI proposals, relaxing rules to attract FDI from China and Hong Kong as far as politically acceptable; stop misuse of overseas direct investments and push GoI bonds in more global indices — after all, foreign investment in bonds has been stickier than FPI equity bets. Till BoP stays red, Malhotra and his army would continue defending the rate and rupee long after the war is over.

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India and countries like Pakistan are inactive and active for safety of their citizens and economies

Meddle East Meditations



Ashok Malik



Making moves

Domestic discourse on the latest Gulf War took a puzzling turn this past week. Has Islamabad re-established its strategic weight? Should India have taken on the role of peacemaker and mediator? The questions are silly and reductionist. They flow from an all-weather obsession with Pakistan.

They also mis-appreciate the primary purpose of foreign policy: sheltering of one's own citizens and economy. This is what all countries troubled by the conflict are attempting to do. Even mediation is only resorted to if it serves this objective, not otherwise.

CHAPATI

For Narendra Modi, managing India's immediate energy security and preventing Indian assets from being targeted in any military escalation are key priorities. In this, at least so far, GoI's diplomacy has met reasonable success. The good luck may not last. But it will not be for want of effort.

Pakistan is trying to achieve the same goals for its people. So are several other affected countries across Asia and the Indo-Pacific, from the gates of Europe to the Philippines and Australia. Structural disruption in energy and fertiliser supplies, inflation surges and an incalculable growth shock are widespread fears. Collectively, these will take a toll on the 2026-27 business year.

Further down, rebuilding regional and global economies might well take us into the early 2030s. With its multiple crises, from the pandemic onwards, future historians could interpret the 2020s as a lost decade for the world economy. That is the enormity of what we face. In the circumstances, India and Pakistan are hardly each other's problem.

Where is the conflict situated? Nobody is certain of the floor. There are countervailing interests and, therefore, pressures on Donald Trump. Gulf states have become frontline targets. A reckless US-Israel intervention has jeopardised Gulf countries' modernisation programme. It has shaken an economic model focused on urbanisation and connectivity, innovation, technology, financial services, and a welcoming tourism and expat experience. It has left Iran more relevant as a coercive actor.

Any post-conflict scenario will require greater military and internal security spending by Gulf states. They will also be vulnerable to different types of Iranian influence ops. Bahrain, for instance, is a Shia country with a Sunni monarch. Along with the UAE and Saudi Arabia, it's urging Trump to 'finish what you started'. In real terms this means freeing the Strait of Hormuz from an Iranian chokehold.

This, in turn, would involve not just a US assault on one or more islands off Iran's southern coast, but perhaps a longer-term occupation, even if eventually under a multinational rubric. How would this square with Trump's 'stay home' commitment to his MAGA base?



Pakistan, Türkiye, Egypt and Saudi Arabia are working towards a frozen outcome, with Iranian capabilities more intact than Gulf states would want. Their imperatives, too, would appear legitimate

To be fair, it's not as if Gulf states are blind to Iran's enhanced importance. This is a reality. Nuisance value is the ultimate leverage in global politics. As regional economies are reconstructed, accommodation and incentivisation of Iran is inevitable. Gulf states would only want more cards in their hands when this process begins.

Other countries are nudging Trump differently. Pakistan, Türkiye, Egypt and Saudi Arabia — with the first hosting the other three in a 2-day foreign ministerial talks in Islamabad to de-escalate the US-Israel war on Iran — are working towards a frozen outcome, with Iranian capabilities more intact than Gulf states would want. Their imperatives, too, would appear legitimate.

These three countries have among the most professional militaries in the Muslim world. They are wary of being drawn into an expanding unrest. Pakistan, for example, has a security pact with Saudi Arabia. Understandably, it does not want this invoked. Or to get into war with Iran on somebody else's behalf.

An Iran that's fragmented, or where the theocratic government doesn't hold, is also a concern. This will likely lead to Kurdish and Baloch insurgencies that could spill over to Türkiye and Pakistan respectively. Further, Islamabad, Ankara and Cairo — as well as Teheran — are all potential losers should GCC-centric geo-economic and connectivity mega-projects advance.

India-Middle East-Europe Economic Corridor (IMEEC) is a challenge to all of them, and the setback it has suffered has been noted. To that end, any continued pressure that constricts Gulf economies' ambitions and salience is useful. When, and at which point, on the graph the X axis of Iran's military degradation (on Gulf states' wish list) will meet the Y axis of Iran's political destabilisation (mediator states' nightmare) will determine the region's course.

Finally, there's Israel. Will it stop fighting even if the others do? Notwithstanding a busy and industrious bilateral corridor, India's and Israel's regional strategies are diverging. Trade, multi-modal connectivity endeavours and a calibrated economic normalisation that finesses politics: Israel is not buying into this template. It has doubled down on containment.



A reckless US-Israel intervention has jeopardised Gulf countries' modernisation programme. It has shaken an economic model, and has left Iran more relevant as a coercive actor

Given its moves in Lebanon and Syria, it's exploring territorial expansionism as a security buffer. The likelihood — or risk — of new political maps in West Asia is at its highest in decades.

Given all this, India needs to protect its flanks, be mindful of its strategic equities in Gulf states, and its working relationships with almost all stakeholders. Modi has wisely recognised this is a time for caution and, to the extent possible, for shielding the national economy. It is not a moment for adventurism. Masterly inactivity is a storied diplomatic tradition. It has its merits today.

The author is partner, The Asia Group, and chair of its India practice

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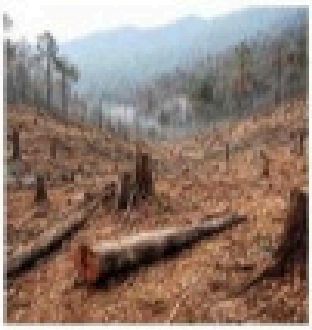
Mere Lip Service Won't Save Our Rich Forests

The systematic ravaging of the Aravallis' ecological wealth by Aravalli-belt states — whether for mining, forest resources, or 'development' — is a story as old as the hills. Yet a more insidious layer of institutional decay has recently surfaced: a high-stakes jurisdictional turf war between two senior IFS officers in Haryana, a state that possesses an almost single-minded focus on flattening the Aravallis. The catalyst is the illegal felling of over 1,000 khair trees within the protected Kalesar Wildlife Sanctuary. Make no mistake: the fight between the two officers is not a valiant struggle to protect the canopy. Instead, it is a cynical, post-facto dispute over who has the 'legal authority' to investigate the theft long after the timber has been hauled away.



This systemic rot is not an isolated Haryana phenomenon — it is a regional epidemic. A 2022 CarbonCopy investigation revealed illegal extraction of Khair from Suhelwa Wildlife Sanctuary in UP. The motive is commercial: the tree's heartwood produces kattha, the lifeblood of India's multi-billion dollar pan masala industry. Demand is so insatiable that Suhelwa has been hollowed out, transformed into a 'ghost forest' where organised syndicates operate with the quiet complicity of compromised departments. This lucrative 'kattha boom' has now migrated into the fragile Himalayan foothills.

At the end of the day, these cases pull back the curtain on an ugly truth: bureaucratic ringfencing and jurisdictional buck-passing are not mere accidents of governance. They are deliberate mechanisms designed to shield high-ranking officials from accountability, allowing them to pay lip service to the conservation of our precious forests while presiding over their steady li-

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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."



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AROUND THE WORLD ▸▸ 17

Let Him Be

To see Dylan as a

Petrochem Price Surge Hitting Economy Hard

GoI must intervene to keep retail prices low

A clutch of industries that use petrochemicals as inputs, from pharmaceuticals and paints to textiles and toys, is facing the brunt of the Iran conflict as refiners have passed on the surge in crude oil and natural gas prices. Some of the downstream sectors in the petrochemicals complex are labour-intensive small enterprises with low pricing power, such as textile units where distress is showing up in employment figures. These industries are looking at an extended spell of margin pressure as input costs are unlikely to subside till global petrochemicals supply chain recovers, possibly only months after hostilities end in the Persian Gulf.

There's cause for GoI's intervention for sectors directly affected by the energy price pass-through to dampen its effect on generalised inflation. This could range from fiscal to trade support. Even signals from GoI that it is considering relief will help dial down sentiment, with consequences for prices. Inflation had been creeping up before the Iran conflict, and once petrochem buyers start raising prices, these will show up in the headline numbers. The incomplete transmission of energy costs through food and fuel may not be enough, given the extent of rise in petrochem prices.



India's Goldilocks economic scenario of strong growth and low inflation is over. Effects of petrochem inflation are not as immediate as fuel—these appear with a lag. Packaging price rises show up in new inventory that arrives in the market with a delay. Petrochem use is almost universal in consumer goods, and the ticket shock, though slow and imperceptible, shows up over time. The price transmission works through labour-intensive industries and affects lower-income consumers. The market is pricing in uncertainty, and there is a likelihood petrochem prices will keep rising independent of how the Iran crisis resolves. Monetary policy will have to adjust for the persistent pressure. These adjustments may need to be front-loaded.



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MANAGING WASTE

It is estimated that 2.56 billion tonnes of municipal solid waste was generated globally in 2022, according to a World Bank report. This waste, by weight, is not evenly generated across geographical regions. High-income countries, while comprising 16% of the global population, generated 29% of the world's waste in 2022 and had the highest per capita waste generation. Regionally, East Asia and the Pacific generated the largest share of global waste at 33%, whereas West Asia and North Africa produced the least at 6%...



Municipal solid waste generation by region

	Kg per capita per day	Million tonnes per year	Collection rates (% weight)	Uncontrolled waste, mt/yr
North America	2.25	311	100%	<1
Europe & Central Asia	1.22	415	96%	33
LatAm & Caribbean	1.05	249	86%	65
East Asia & Pacific	0.98	849	90%	123
West Asia & N Africa	0.90	161	79%	87
Sub-Saharan Africa	0.52	231	31%	215
South Asia	0.49	346	67%	246
WORLD	0.88	2,562	83%	789

Note: Controlled waste refers specifically to all collected waste that is treated on facilities other than dumpsites

Source: What a Waste 3.0

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Take Companies Act Beyond ESOPs Fables

Evolving with corp tastes on compensation

Earlier this month, Nirmala Sitharaman introduced fresh amendments to the Companies Act, which, among other matters, recognise new instruments for executive compensation. This is much welcome. The company law is being refined to add esoteric varieties of sweat equity. These perform the same function as employee stock options, with a twist. Employers issue Esops to align employee and shareholder interests. If an employee stays long enough and the company's shares climb, the argument runs, everybody is happy. But it doesn't work that way all the time. Share prices are volatile, and employees could be disappointed when their shares are vested. Then there are limits to how much equity a company can divvy up among its employees without diluting control. That's where restricted stock units and stock appreciation rights come in handy.



Unlike Esops, employees don't need to 'buy' restricted stock units. These are granted by a company at the end of a period, and the employee does benefit every time so long as the shares are worth something. Stock appreciation rights is simply a cash or equity bonus of the share price delta. These are improvements over the vanilla Esop — where the employee bears some risk — and are taxed accordingly. The further these instruments move away from employers and employees sharing business risk, the closer they move towards being income, and will be taxed as such in the new company law that is undergoing parliamentary scrutiny.

Which raises the question about the purpose they serve beyond companies locking in talent. Employers prefer refined versions of sweat equity because they don't have to worry about diluting equity. There is also no 'cost' to these exercises, which makes them less risky. Accounting requirements for restricted stock units and stock appreciation rights are less demanding. Which is why companies prefer them. The law is evolving with corporate tastes on employee compensation. It's an admission that companies and their staff need fancier ways of ensuring everyone puts their weight behind the wheel.

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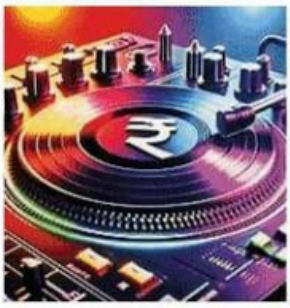
MACROECONOMICS

Expect More Funky Moves from RBI

RBI's direction to banks to cap their foreign exchange positions at $100 mn is a signal that the central bank may be open to other forms of capital controls. Unwinding by banks has thrown up arbitrage opportunities for companies between onshore spot market for dollars and forwards market. This limits rupee's ability to recover, unless RBI draws up a broader fence around the demand for dollars. Uncertainty in the energy market will keep demand for dollars elevated, and more unconventional moves by RBI can't be ruled out. Although it's premature to speculate whether the central bank might consider special schemes to raise dollars from India's large pool of overseas workers.



Rupee's decline in March has been unusually severe, and RBI is drawing on its emergency playbook to stabilise the currency. Impact of higher energy prices on India's economic outlook is yet to be determined. Foreign portfolio investment-selling has intensified since US-Israel war on Iran broke out. RBI's intervention to steady the rupee has run into strong dollar demand from energy importers. The directive to banks to cut back their dollar holdings will contribute to market volatility because of large open positions and short window for unwinding.

Rupee has logged its worst yearly performance in over a decade on US tariff action and the Persian Gulf crisis. Central bank intervention is likely to slow the decline. But the underlying pressures will persist as inflation spikes globally and the world economy tilts towards a recession. RBI has managed to keep rupee a 'middle of the pack' performer since hostilities began. Maintaining its place may become tougher if the conflict widens.

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Beleaguered Tehran has played the Hormuz gambit well to gain strategic advantage over US

Keep on the Strait & Narrow



Kingshuk Chatterjee



On choppy waters

Four weeks since Iran came under combined attack from the US and Israel, even its enemies acknowledge that Tehran is holding up considerably well. After more than 10,000 US strikes and over 3,000 Israeli bombs dropped on the Iranian capital, its ayatollah Ali Khamenei and a large number of political and military functionaries killed, much of its military capabilities badly degraded, Iran should no longer appear to be the menace it was made out to be.

That Tehran is still in the fight is not simply on account of its demonstrated ability to get many of its missiles and drones past Israel's aerial defence systems. It's also that by closing the Strait of Hormuz to international shipping, Tehran has managed to ratchet up costs of the war for its adversaries so much that Donald Trump is under pressure from within the US establishment to dial down.

The Hormuz Strait is a 104-mile stretch of waterway connecting the Persian Gulf with the Gulf of Oman, 24 miles at its narrowest and 60 miles at its widest point. Connecting oil-rich coasts of the Persian Gulf, it accounts for 20% of world's oil and gas traffic, nearly a third of the world's fertilisers, and quite a few of other oil-based industrial products. Much of this narrow channel on the Omani side is not deep enough for most vessels, which, thus, necessarily have to pass through territorial waters of Iran.

The mere possibility that a stray mine could blow up a merchant vessel is certain to spike both shipping costs and insurance premium for a long time to come



In normal times, Iran does not come a cropper. But under attack, Iran is refusing passage to any vessel that may either belong to its enemies or their allies, and letting only a few vessels through on a case-to-case basis. There are even unconfirmed reports that IRGC is collecting hefty tolls in Chinese yuan while allowing ships to pass. In doing this, Tehran is not guilty of violating the UN Convention on the Law of the Sea (UNCLOS) because, like the US, Iran signed the convention but didn't ratify it. Tehran is invoking, instead, the principle of the Montreux Convention of 1936, which allows Türkiye to close the Straits of Dardanelles and Bosphorus to enemy vessels in times of war.

Closure of Hormuz has stopped the supply of oil and associated commodities from Iraq, Iran, Kuwait, Qatar, Bahrain and much of Saudi Arabia and the UAE, thereby pushing global oil prices past $100 a barrel. It has also brought to grief economies worldwide dependent on gas supply from the Gulf, and promises short-to medium-term dislocation for a broad swathe of economic activities ranging from agriculture to pharmaceuticals, not to speak of a strong inflationary push in consumer prices.

For decades, Iran factored the closure of Hormuz into its defence policy as a measure of area denial in the event of any asymmetric conflict with a far superior military force. Transgressed upon by Israel and the US from February 28, Tehran's retaliatory strikes with missiles and combat drones targeted not only Israelis and Americans but also US assets in the neighbouring Gulf states. Nevertheless, Tehran did not quite have the military capabilities to ward off its enemies. Hence its resorting to the closure of Hormuz.

Medium- to long-term prospective economic repercussions of the blockade aside, the impact on money markets and forthcoming US midterm elections seem to have rattled Trump. Playing with options of further escalation and diplomacy seeking an exit strategy, he seems to be pursuing both. After hinting at occupation of Kharg Island — the principal off-shore embarkation point of Iranian oil exports — in a bid to end the blockade, he seems to be considering occupation of smaller but strategically significant islands (Abu Musa, Greater and Lesser Tunbs, Larak), and maybe even of the mountainous coasts overlooking Hormuz.

Iran has been preparing for this predictable US strategy for the last 40 yrs. Americans could still make short work of the Iranian naval forces (mostly speedboats and other smaller vessels), and even their on-shore missile and drone launchers over a period of time. But if Iran lays mines in the Strait's shipping channels, it would take a much longer time to clear them even with the minesweepers, of which the US presently has few.

The mere possibility that a stray mine could blow up a merchant vessel is certain to spike both shipping costs and insurance premium for a long time to come. Hence, experts are warning global oil prices could rise above $150 a barrel unless the conflict is brought to an end quickly.

Hence, diplomacy. Attacked twice within the last year while negotiations were ongoing, Iran refuses to sit down for talks with the US any more. A back channel seems to have been opened through Islamabad, and Trump's reported '15-Point Proposal' has been answered with Tehran's 'Five Points'. While the US insists on Tehran abandoning the nuclear option, chatter suggests Iran is stressing on guarantees against future US and Israeli aggression. Having offered a unilateral pause on attacks against Iranian energy installations till March 27, Trump has now extended it to April 6 to give the 'successful' back-channel diplomacy a chance — even as he mobilises troops with an eye to the possibility of putting boots on the ground.

For decades, Iran factored the closure of Hormuz into its defence policy as a measure of area denial in the event of any asymmetric conflict with a far superior military force



It's clear that regime change in Tehran is no longer on the menu. Whether Trump actually dials down and persuades Israel to back off, or decides to escalate the conflict to force reluctant Iranians to the negotiation table, and gets stranded in a 'forever war', remains to be seen. That beleaguered Tehran played the Hormuz gambit well to gain strategic advantage, despite being militarily worsted, need not be doubted.

The writer is professor of history, Calcutta University

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Target Set, Aim, Release



Urmi A Goswami

Last week, the Union Cabinet approved India's updated nationally determined contributions (NDC) for 2031-35. Coming as it did after several missed self-imposed 'soft' deadlines, the response was of relief — followed by disappointment. Targets set by the 5th-largest economy do not compare well to its past ambition and record. Yet, if there is a fit case for not judging a book by its cover, India's NDC 3.0 is it.

New Delhi has stuck to the formula set out in the two earlier rounds — three quantified goals and five qualitative ones. Pledging to increase share of non-fossil fuels in the installed electricity generation capacity to 60% from the 2030 target of 50%, reducing emissions intensity of the economy by 47% from 2005 level — the current target is 45% — and increasing nature-based carbon sink to 3.5-4 bn tonnes over 2005 stocks from 2.5-3 bn tonnes by 2030.

At first pass, the targets appear to be modest, considering what has already been achieved. In February, non-fossil fuel sources accounted for 52% of installed capacity, reduced emissions intensity of the economy by 36% from 2005 levels by 2020, and created 2.3 bn tonnes of nature-based (forest and trees) carbon sink by 2021.

Look beyond the headline numbers and India's NDC 3.0 is significant for its timing. In announcing its NDCs at a time when the world is grappling with a major energy disruption, India telegraphed its continued commitment to multilateral endeavour to tackle climate change as encapsulated in the Paris Agreement, and UN Framework Convention. It's a commitment to move away from fossil fuels, the primary contributor to runaway global warming.

A clear message has been sent out to those who see climate action as unnecessary, green and clean energy as a hoax, and climate change as a long con. It also sends out a signal to those who doubted India's commitment to climate action and multilateralism. India has come to terms with its disappointment at Baku, and is ready to get off the bench. It won't shy away from owning up to actions it is taking and its commitments. It's a reiteration that tackling climate change requires collaboration and cooperation among all stakeholders.

Perhaps the long wait, peppered by glimpses from NITI Aayog's 'Viksit Bharat-Net Zero' scenarios, the CEA's generation adequacy report, doubling of nominal GDP in the past decade, and growth projection of above 6%, have raised expectations. India's RE journey over the last decade has been impressive. In 2025, India added nearly 50 GW of RE capacity of which solar accounted for about 39 GW. The big concern was about curtailment of RE capacity due to transmission adequacy and grid security.

According to energy think tank Ember, India lost 2.3 TWh of solar generation in the second half of 2025. Crisil Rating reports that as much as 35 GW of renewable capacity risks curtailment in FY27 because of grid inadequacy. Ensuring continued flow of investments in greening the electricity system will require investing in a grid fit for purpose — one that can handle integrated distributed energy resources, address cybersecurity concerns of an increasing digitalised system, and account for physical risk, be it from drones and hybrid warfare, or extreme heat, floods and drought due to climate change.

As a growing economy that is yet to peak its emissions, India has set an emissions intensity target, a pledge to have a smaller GHG footprint even as it develops. Efficiency in process and resource use will help. But without technological shifts and breakthroughs at scale and cost, the big gains may not be that easy. Battery storage technologies, green hydrogen and low-carbon biofuels are among the tech interventions that can accelerate the decarbonisation process.

The easy pickings are mostly done with. Hard work of bringing about policy and regulatory changes to accelerate electrification and decarbonisation, and to attract necessary investments, must be priority. India has always been a cautious player, promising only so much, as it knows it can deliver, preferring to overachieve than overpromise. NDC 3.0 targets may be modest. But it says loud and clear that India is back and open for business.



Follow the arrow

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After falling by 33% between 2000 and 2015, the out-of-school population has risen for the seventh year in a row, up 3% since 2015 and reaching 273 million in 2024. This means that one in six children, adolescents and youth worldwide are excluded from education. And this out-of-school population excludes an estimated 13 million more in 10 of the countries most affected by conflict...



NOT IN SCHOOL

Out-of-school population (millions)

	Primary	Lower secondary	Upper secondary
Sub-Saharan Africa	39	32	37
N Africa & Western Asia	9	5	9
Central & Southern Asia	19	16	60
Eastern & Southeastern Asia	7	7	17
Oceania	0.3	0.2	1
LatAm & the Caribbean	2	2	5
Europe & Northern America	2	1	2
WORLD	**79**	**64**	**130**
Nigeria	9	4	6
India	7	9	43
China	4	4	9
Pakistan	6	3	8



Source: Global Education Monitoring Report

Figures are rounded

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