

Economy Watch

Monitoring India's
macro-fiscal performance

March 2026

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Highlights

1. As per the Second Advance Estimates (SAE), India's real GDP (2023-24 base series) is estimated to grow by 7.6% in FY26, increasing from 7.1% in FY25.
2. Manufacturing PMI increased to a four-month high of 56.9 in February 2026 while services PMI was at 58.1. Considering the Flash PMI levels for March 2026, PMI manufacturing fell to a four-and-a-half-year low of 53.8 and PMI services eased to 57.2 amidst the West Asian crisis.
3. Growth in IIP fell to a three-month low of 4.8% in January 2026 from 8.0% in December 2025.
4. CPI inflation remained subdued in February 2026 at 3.2% as per the new 2024 base series, slightly higher than 2.7% in January 2026, whereas core CPI inflation remained stable at 3.4%.
5. Headline WPI inflation remained benign, though reflecting a marginal uptick to 2.1% in February 2026 from 1.8% in January 2026, reflecting higher inflation in fruits and oilseeds, alongside a moderation in the pace of contraction in prices of crude petroleum and pulses.
6. Gol's gross tax revenues (GTR) grew by 8.6% during April-January FY26 with growth in direct taxes at 9.3% and that in indirect taxes at 8.2%.
7. Gol's total expenditure grew by 3.4% during April-January FY26, with growth in revenue expenditure at 1.3% and that in capital expenditure at 11.2%.
8. Gol's fiscal and revenue deficits during April-January FY26 stood at 63% and 37.3% of their respective annual revised estimates.
9. Gross bank credit posted a robust growth of 14.6% in January 2026, close to its level of 14.5% in December 2025.
10. Net FDIs remained negative for the sixth successive month at US\$1.4 billion in January 2026. FPIs witnessed net outflows for the second successive month at US\$1.9 billion in January 2026.
11. Merchandise exports contracted by (-)0.8% in February 2026, led by a fall in petroleum exports, while growth in merchandise imports surged to 24.1% owing to higher growth in imports of electronic goods, crude, and coal and coke.
12. Merchandise trade deficit remained elevated at US\$27.1 billion in February 2026, although lower than US\$34.7 billion in January 2026, as exports contracted while imports surged.
13. Global crude price (average of WTI and Brent), increased to a seven-month high of US\$67.8/bbl. in February 2026. In March, this surged to US\$92.4/bbl. The price of Indian crude basket, which remained above the global crude price average in recent years, is expected to be nearly 33% higher than the global average in March 2026.
14. The OECD has projected global growth at 2.9% in 2026 and 3.0% in 2027 with India's FY27 and FY28 growth rates forecasted at 6.1% and 6.4% respectively.
15. The impact of the West Asian conflict, if it affects the full fiscal year of FY27, may lead to a fall in India's growth by up to 1% point and an increase in CPI inflation of about 1.5% points. In response, the Gol may need to deploy a substantive countercyclical policy.





Negotiating growth amid geopolitical challenges

The ongoing conflict in the Middle East has significantly disrupted global crude oil and energy markets by affecting supply, storage, transportation and prices. The price of Indian crude basket had surged to US\$147.2/bbl. by 24 March 2026 from an average level of US\$69.0/bbl. during February 2026. Even if the conflict is resolved in the near term, some of these disruptions may take considerable time to normalize. The magnitude of these effects may depend on the duration and intensity of supply-side disruptions and the pace at which production and transport logistics normalize. India, which imports nearly 90% of its crude oil requirements, is also highly dependent on imports of natural gas and fertilizers. Consequently, the Indian economy is particularly vulnerable to such external shocks, with the adverse effects likely to cascade across multiple sectors through strong forward and backward linkages with crude oil and energy.

Several sectors, including employment-intensive sectors like textiles, paints, chemicals, fertilizers, cement and tires, could be directly impacted. Any reduction in employment or incomes in these sectors may further dampen aggregate demand. As a result, both supply and demand conditions may be adversely affected by global oil market disturbances.

Early assessments show that private sector activity in India may have slowed down in March 2026. Considering the Flash PMI levels for March 2026 released on 24 March 2026, PMI manufacturing fell to a four-and-a-half-year low of 53.8 and PMI services eased to 57.2 owing to softer domestic demand weighing on new orders which rose at the slowest pace in more than three years. Further, cost pressures intensified as reflected by input costs and selling charges that increased at the fastest rates in 45 and seven months respectively¹.

If the impact persists throughout FY27, we estimate that India's real GDP growth could erode by around 1% point, while CPI inflation could rise by approximately 1.5% points from their baseline estimates of 7% and 4.0%, respectively. In response, the GoI may need to deploy a substantive countercyclical policy. It may also be prudent for the GoI to co-opt larger and more industrialized states into this countercyclical effort. Additional provisions may be made to augment the Economic Stabilization Fund introduced by the GoI in FY26.

Since the energy crisis has a worldwide effect, the OECD Global Economic Prospects March 2026 has projected global growth to moderate from 3.3% in 2025 to 2.9% in 2026. It also forecasted India's real GDP growth at 6.1% for FY27, lower than 7.6% in 2025 (FY26). Nonetheless, as per these projections, India continues to remain the fastest growing major economy with its 2026 (FY27) growth being more than twice the global growth.

The new GDP series, with the base year of FY23, was released on 27 February 2026, indicating salient changes in the methodology and coverage of GDP compilation in India. We have considered major changes and the relevant background in a special note in this issue of *Economy Watch* after this Foreword. We may take note of the revised real and nominal GDP growth rates in the post-COVID years as per the new series. Considering FY24, FY25 and FY26, the real GDP growth in the 2011-12 base series is 9.2%, 6.5% and 7.4% (FAE), respectively. These numbers have been revised to 7.2%, 7.1% and 7.6%, respectively. Further, the nominal GDP growth rates for these three years are 11.0%, 9.7% and 8.6%, respectively. In the old series, these were 12.0%, 9.8% and 8.0% (FAE), respectively. The revised real and nominal growth rates are marginally lower, on average, and less volatile.

It is also important to compare the implicit price deflator-based inflation for these three years. In the old series, annual deflator-based inflation rates were 2.6%, 3.1% and 0.5%, respectively, which have now been revised to 3.5%, 2.5% and 1.0%. The average of the latter rates is marginally higher compared to the corresponding average in the earlier series.

¹ <https://www.pmi.spglobal.com/Public/Home/PressRelease/347e54bef3694c41ba7d5425d585d7ef>



With respect to India's growth, high-frequency indicators for January and February 2026 indicate an ongoing growth momentum. However, there are early signals of some moderation owing to the challenges posed by the ongoing geopolitical uncertainties as reflected in Flash PMI numbers for March 2026 as indicated above. Manufacturing PMI increased to a four-month high of 56.9 in February 2026, driven by stronger domestic demand. Services PMI at 58.1 was broadly similar to its level of 58.5 in January 2026, signaling ongoing robust growth momentum. Considering the y-o-y monthly growth, February 2026 marked the fourth successive month of contraction in revenues. Growth in IIP fell to a three-month low of 4.8% in January 2026 from 8.0% in December 2025. Data released by Federation of Automobiles Dealers Association (FADA) show that retail sales of motor vehicles grew by 25.6% in February 2026 from 17.6% in January 2026, driven by strong growth in the retail sales of passenger vehicles and two-wheelers. Power data. Gross bank credit posted a robust growth of 14.6% in January 2026, close to its level of 14.5% in December 2025. Net FDIs remained negative for the sixth successive month at US\$1.4 billion in January 2026. Net FPIs witnessed outflows for the second successive month at US\$1.9 billion in January 2026.

Monthly gross GST collections fell from INR1.93 lakh crore in January 2026 to INR1.83 lakh crore in February 2026. Data from the CGA for the period April-December FY26 shows that Gol's GTR grew by 8.6% with growth in direct taxes at 9.3% and that in indirect taxes at 8.2%. Total expenditure grew by 3.4% during the first 10 months of FY26, with growth in revenue expenditure at 1.3% and that in capital expenditure at 11.2%. With this, Gol's fiscal and revenue deficits during April-January FY26 stood at 63% and 37.3% of their respective annual RE. More recently, the second supplementary demand for grants for FY26 with a net cash outgo of INR2.01 lakh crore was approved on 13 March 2026 by the Parliament. This includes INR19,423 crore on account of additional fertilizer subsidy, INR23,641 crore owing to additional food subsidy as part of the PM Garib Kalyan Anna Yojana, and about INR41,820 crore in defense services revenue expenditure. Further, the supplementary demand also included approval for inter-account transfers worth INR59,085 crore. These are meant to be allocated mainly to the Economic Stabilization Fund, a fund introduced in the RE of FY26 to meet unforeseen expenditure arising from volatile global conditions. The large size of the supplementary demands may have implications for Gol's fiscal deficit for FY26 (RE) and FY27 (BE).

CPI inflation remained subdued in February 2026 at 3.2% as per the new 2024 base series, slightly higher than 2.7% in January 2026. Core CPI inflation remained stable at 3.4% in February 2026. Headline WPI inflation was benign, though reflecting a marginal uptick to 2.1% in February 2026 from 1.8% in January 2026. The increase largely reflected higher inflation in fruits and oilseeds, alongside a moderation in the pace of contraction in prices of crude petroleum and pulses.

Merchandise exports contracted by (-)0.8% in February 2026, led by a fall in petroleum exports, while growth in merchandise imports surged to 24.1% owing to higher growth in imports of electronic goods, crude, and coal and coke. Merchandise trade deficit remained elevated at US\$27.1 billion in February 2026, although lower than US\$34.7 billion in January 2026, as exports contracted while imports surged.

The 16th Finance Commission (FC16) recently submitted its report to the President of India. The main highlights of its recommendations include the discontinuation of Article 275 grants, which are often referred to as revenue deficit grants (RDGs) and a set of devolution formulae which lowers the weight attached to equity considerations. Accordingly, some of the losing states are low fiscal capacity and large population states such as Madhya Pradesh, Uttar Pradesh and Bihar along with some of the northeastern states such as Arunachal Pradesh, Manipur and Meghalaya. The Commission's projections, relating to the years FY27-31, may have already become dated. The Commission could not incorporate the revenue effect of major GST changes brought about by the Gol in September 2025. It may also have overestimated India's nominal GDP growth, which is likely to average 10% in terms of the new GDP series, as compared to 11.0% assumed by the Commission. FC16 also did not provide for any effect on central and state finances following the 8th Pay Commission recommendations, which are expected to affect their expenditure FY28 onwards. The vertical and horizontal dimensions of the recommendations of FC16 are discussed in greater detail in the 'In focus' section of this issue of Economy Watch.



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Special Feature: India's 2022-23 base year GDP series

1.1 Introduction: Relevance of changing the base year

The base year of the national income account series in India has been changed from time to time to reflect the evolving structure of changes in the demand and output segments of GDP and GVA. The most recent base year was 2011-12 before its revision to 2022-23. Earlier this revision was undertaken more frequently. In the decades since 1990, we have had base years for the national income series of 1993-94, 1999-2000, 2004-05, and 2011-12. After 2011-12, there has been a relatively longer gap.

1.2 Methodological improvements and additional data coverage

The latest release with a base year of 2022-23 was on 27 February 2026 after several methodological improvements. These involved changes in the relative weights of output sectors and demand segments, better coverage by the use of additional and more disaggregated data including GST data and by better methods of scaling up economic activities of the informal sector and companies that are not covered by the Ministry of Corporate Affairs (MCA) database. This is expected to also facilitate better compilation of quarterly GDP/GVA series and state-level GSDP series. Further, the method for estimating quarterly data has been upgraded to better reflect international practices so that quarterly and annual data are better integrated and some of the sharp discontinuities in the quarterly data are smoothed out.

For capturing the activities of the informal sector and companies not reporting to the MCA, various rates and ratios have been used in the 2011-12 series. However, these ratios in the new series may be based on a number of detailed studies and may become more reliable.

The new series utilizes, for selected sectors, a double deflation method which involves using different deflators for output vis-à-vis intermediate goods. This has been applied to sectors where detailed data for outputs and inputs are available. This change may lead to a higher real growth for GVA as compared to that given in the earlier series. This is conditional upon the inflation of final outputs being higher than the inflation of inputs. In recent times, WPI, which reflects the movement of input prices or intermediate goods, has been relatively lower as compared to CPI inflation, which applies to final outputs. The WPI or input prices are generally sensitive to price movements of global commodities, particularly crude and metals.

In the compilation of the new series, data from recent Household Consumption Expenditure Survey of 2022-23 has been used reflecting a change in the shares of private and government final consumption expenditures (PFCE and GFCE) in aggregate GDP. The share of PFCE in both real and nominal terms has marginally fallen and that of GFCE has marginally increased.

These changes are likely to improve India's rating of the NSO data from category 'C' to a better category in terms of the IMF framework^[1] for assessing the reliability of a country's national income statistics.

The new GDP Series has generally uplifted magnitudes of national income aggregates at constant prices and reduced these at current prices. Accordingly, FY26 real GDP growth has increased to 7.6% (second advance estimates - SAE) in the 2022-23 base series as compared to 7.4% (FAE) in the 2011-12 series. On the basis of current prices, nominal growth has been shown to grow at 11.0% in FY24, 9.7% in FY25, and 8.6% in FY26. These may be compared with corresponding growth rates of 12.0%, 9.8% and 8.0% in the respective years, as per the old series. Thus, the volatility in the nominal growth series has come down marginally in the new series.

^[1] <https://www.imf.org/-/media/files/publications/cr/2025/english/1indea2025003-source-pdf.pdf>



Real GVA growth for FY26 stands at 7.7% in the new base series as compared to 7.3% in the old series. The main reason for the increase in real GVA growth is an increase in the growth of manufacturing to 11.5% in the new series as compared to 7.0% in the old series in FY26.

There are significant structural changes in the composition of output and demand.

1.3 Changes in the structure of output

On the output side, at constant prices, the share of agriculture has gone up and that of manufacturing and transport et. al. sector has gone down. The share of agriculture in total real GVA stands at 17.7% in FY26 as compared to 13.8% as per the 2011-12 series. On the other hand, the share of manufacturing has gone down to 16.2% from 17.1% and that of trade, transport et. al. to 14.3% from 18.5% in FY26. The share of manufacturing was falling in the earlier series over the period FY24 to FY26. It is now shown to be increasing. After agriculture, the biggest gainer in terms of shares is financial services et. al., which has a share of 26.1% in FY26. Its share also shows an increase over the last four years.

1.4 Changes in the structure of demand

In terms of demand segments, the share of private final consumption expenditure (PFCE) has become smaller in both real and nominal terms. The FY26 share of nominal PFCE is 56.7% which is quite close to its share in real terms at 55.7%. The PFCE growth in FY26 is higher at 7.7% as compared to 7.0% under the old base series.

There is also a significant change in the data for investment. Earlier there used to be a relatively larger difference between real and nominal shares of gross fixed capital formation (GFCF), with real GFCF being higher than the nominal GFCF by about 4% points. In the new series, this difference has come down sharply with the share of real GFCF at 32.0% and nominal GFCF at 31.7% in FY26.

The share of GFCF in nominal terms is higher under the new base. On the other hand, its share in real terms is lower at 32% as compared to 33.8% under the old base series. Considering three-year average GFCF/GDP ratio of 32.2% over the period FY24-26 and real GDP growth of 7.3% in the same period, the incremental capital output ratio (ICOR) in the new series comes out to be 4.4. This is comparable to the ICOR of the 2011-12 base series. Considering averages over the last three to four years, data appear to be realistic. India's ICOR tends to be a little lower than many industrial countries because of the high weight of services sectors in India's GDP which has a relatively lower ICOR as compared to industry.

1.5 Effects on Gol's fiscal parameters

Nominal GDP levels as per the 2022-23 series utilize output prices, or output prices in combination with prices of intermediates as per the double deflation method. The output prices broadly indicated by movements in CPI have been lower in recent quarters. CPI data have also been revised to a new base year of 2024. These factors have affected the nominal magnitudes of GDP although the implications may differ from sector to sector.

As discussed earlier, the nominal GDP series shows lower magnitudes in the 2022-23 series when compared to the 2011-12 series. Thus, the level of nominal GDP in FY26 is INR345.5 lakh crore as compared to INR357.1 lakh crore as per the old series. This has important implications for the fiscal aggregates. Gol's fiscal deficit in FY26 (RE) is estimated to now stand at 4.51% of GDP instead of 4.36% as per the 2011-12 series GDP nominal magnitude. Gol's debt to GDP ratio (as shown in the Statement of Liabilities in the FY27 Budget) in FY26 (RE) is also estimated to increase to 57.08% from 55.2% as per the old GDP series. The Gol's gross tax buoyancy in FY26 (RE) also falls from 0.93 to 0.86 because of higher nominal GDP growth.

With the revision of the base year to 2022-23 and the corresponding revisions in the methodology, India's GDP/GVA compilation matches IMF GDP compilation norms as detailed in 2008. However, more recently, national income compilation norms have again been revised in 2025. These are now being adopted by most multilateral agencies. India is likely to adopt it once the 2022-23 series is revised to a new base year after five years, that is, for 2027-28 which should become available by FY31.

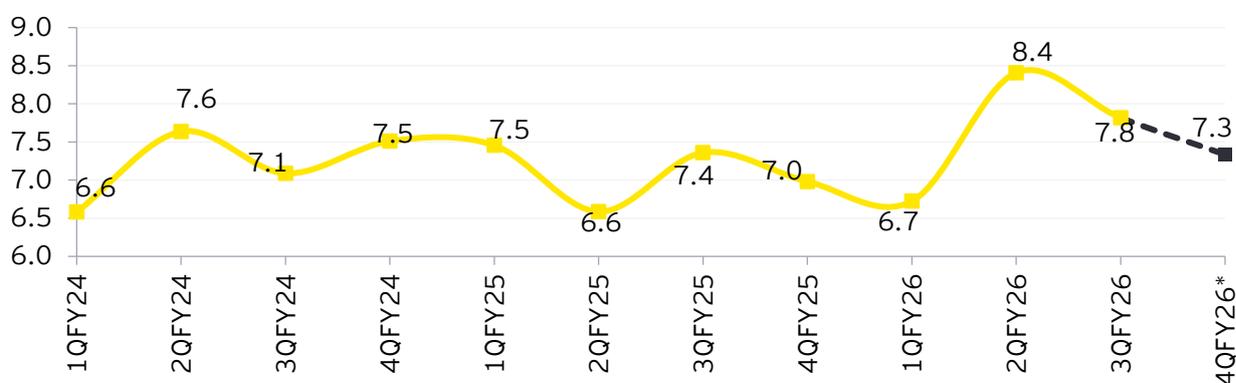


Growth: Real GDP grew by 7.8% in 3QFY26

2.1 GDP and GVA: Real growth estimated at 7.8% each in 3QFY26

- As per the 2023-24 base series of national accounts statistics, released by MoSPI on 27 February 2026, real GDP and GVA grew by 7.8% each in 3QFY26, moderating from 8.4% and 8.6% respectively in 2QFY26.
- The SAE of national accounts data show that India's real GDP (2023-24 base series) is estimated to grow by 7.6% in FY26, increasing from 7.1% in FY25. With this, the implicit 4QFY26 real GDP growth is estimated to be lower at 7.3% (Chart 1).

Chart 1: Real GDP growth (% , y-o-y)



Source: MoSPI, GoI; * implicitly derived

- On the demand side, real GDP growth in 3QFY26 was driven by a robust growth in private consumption expenditure and investment demand.
- Private final consumption expenditure (PFCE), the largest demand segment with an average annual share of 56.2% in real GDP during FY23 to FY26, posted a strong growth of 8.7% in 3QFY26, increasing from 8.0% in 2QFY26.
- Gross fixed capital formation (GFCF), a measure of investment demand, continued to show a healthy growth of 7.8% in 3QFY26, although moderating from 8.4% in 2QFY26.
- There was a moderation in the growth of government final consumption expenditure (GFCE) to 4.7% in 3QFY26 as compared to 6.6% in 2QFY26.
- With growth in exports at 5.6% being lower than that in imports at 8.6% in 3QFY26, the contribution of net exports to real GDP growth is estimated to be negative at (-)0.7% points compared to 0.7% points in 2QFY26.
- On the output side, real GVA growth in 3QFY26 was due to robust growth rates in manufacturing and the two key services sectors, namely, trade, transport et al. and financial, real estate et al. (Table 1).
- Growth in manufacturing GVA remained robust at 13.3% in 3QFY26, close to its level of 13.2% in 2QFY26. GVA in financial, real estate et al. and trade, transport et al. sectors also showed robust growth rates of 11.2% and 11.0% respectively in 3QFY26 as compared to 9.9% and 10.4% respectively in 2QFY26.
- Growth in agricultural sector eased to an eight-quarter low of 1.4% in 3QFY26 from 2.3% in 2QFY26.



- Nominal GDP growth in 3QFY26 was estimated at 8.9%, marginally higher as compared to 8.5% in 2QFY26. The overall implicit price deflator (IPD)-based inflation remained low at 1.0% in 3QFY26, although higher as compared to 0.1% in 2QFY26.

Table 1: Real GDP and GVA growth (% , annual)

Agg. demand	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	FY25	FY26 (SAE)
PFCE	5.6	6.0	5.6	9.2	8.0	8.7	5.8	7.7
GFCE	7.0	7.6	3.6	5.8	6.6	4.7	6.5	6.6
GFCF	6.6	6.3	6.2	4.9	8.4	7.8	6.4	7.1
EXP	3.1	10.5	5.4	6.6	10.2	5.6	6.6	6.5
IMP	4.6	2.9	5.5	7.4	5.9	8.6	5.3	6.4
GDP	6.6	7.4	7.0	6.7	8.4	7.8	7.1	7.6
<i>NExp. (% pts.)*</i>	-0.5	1.6	0.0	-0.4	0.7	-0.7	0.2	-0.1
<i>Output side</i>								
Agr.	4.1	5.8	3.8	4.2	2.3	1.4	4.2	2.4
Ming.	8.3	13.1	12.9	4.5	6.1	4.7	11.7	4.1
Mfg.	4.9	10.8	11.8	10.6	13.2	13.3	9.3	11.5
Elec.	-0.2	0.6	2.1	-1.9	3.9	1.5	2.9	1.5
Cons.	6.1	6.4	8.0	5.4	8.7	6.6	7.3	7.1
Trans.	6.6	6.7	6.3	9.4	10.4	11.0	6.6	10.1
Fin.	10.0	11.1	8.8	8.8	9.9	11.2	10.0	9.9
Publ.	6.0	4.4	3.2	4.3	6.9	4.5	5.0	5.8
GVA	6.5	7.8	7.1	7.0	8.6	7.8	7.3	7.7

Source: MoSPI

Note: *Contribution of net exports to real GDP growth

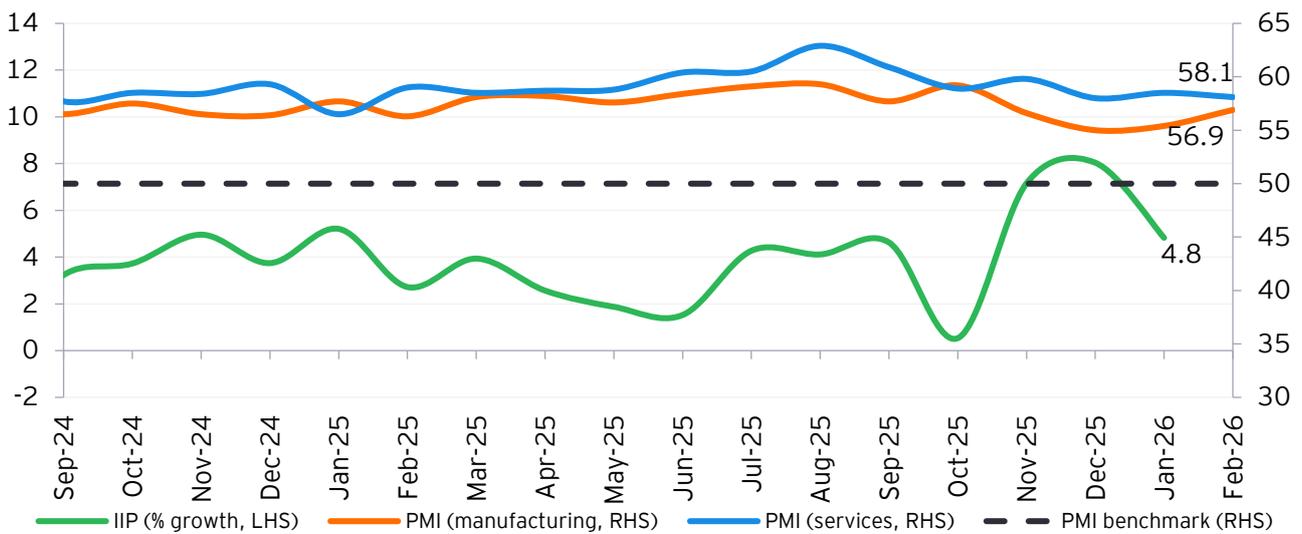
2.2 PMI: Reflecting faster growth in private sector activity, composite PMI Output Index increased to a three-month high of 58.9 in February 2026

- Manufacturing PMI (seasonally adjusted or sa) increased from 55.4 in January 2026 to a four-month high of 56.9 in February 2026 driven by a strong growth in new orders supported by domestic orders while growth in new export orders continued its slowing trend that began in mid-2025 (**Chart 2**). The February 2026 headline level remained well above the neutral mark of 50 as well as the long-run average of 53.6 covering the period April 2014 to February 2026.
- Services PMI (sa) at 58.1 in February 2026 was broadly similar to its level of 58.5 in January 2026. While new order growth slowed to a 13-month low amid rising competition, there was a notable pick up in international sales. The February 2026 headline level was higher than its long-run average of 53.2.
- The composite PMI Output Index (sa) rose from 58.4 in January 2026 to 58.9 in February 2026, reflecting the fastest pace of private sector activity growth in three months, buoyed by strong momentum in manufacturing.

Manufacturing PMI increased to a four-month high of 56.9 in February 2026 driven by stronger domestic demand. Services PMI at 58.1 was broadly similar to its level of 58.5 in January 2026.



Chart 2: PMI and IIP growth



Source: MoSPI and S&P Global

2.3 IIP: Grew by 4.8% in January 2026

- Overall IIP growth moderated to a three-month low of 4.8% in January 2026 from 8.0% (revised) in December 2025 (Chart 2) owing to a broad-based moderation in growth across key sub-industries.
- Manufacturing output, having the highest weight of 77.6% in overall IIP, grew at a slower pace of 4.8% in January 2026 as compared to 8.4% (revised) in December 2025. Growth in the output of mining, which is usually volatile, also slowed to 4.3% in January 2026 as compared to 6.9% in December 2025. The output of electricity sector grew by 5.1% in January 2026 as compared to 6.3% in December 2025.
- Within manufacturing, among the key sub-industries, food products (1.8%) and other non-metallic mineral products (9.9%) witnessed moderation in growth. Further, there was a contraction in the output of pharmaceutical products ((-)7.2%) and coke and refined petroleum products ((-)0.3%).
- Within the 'use-based' classification of industries, output of infrastructure/construction goods showed a robust growth of 13.7% in January 2026, increasing from 12.8% in December 2025. Growth in the output of consumer durables and capital goods moderated to 6.3% and 4.3% respectively in January 2026 from 12.4% and 8.3% in December 2025. Growth in the output of consumer non-durables, however, contracted by (-)2.7% in January 2026 following an 8%-plus growth for two consecutive months.
- Growth in the output of eight core infrastructure industries (Core IIP) slowed to 4.0% in January 2026 from 4.7% (revised) in December 2025. Among the key sub-industries, there was a moderation in the growth rates of output of cement (10.7%), steel (9.9%), electricity (3.8%) and coal (3.1%) in January 2026 as compared to their respective levels in December 2025. Output of crude oil contracted for the 13th successive month by (-)5.8% in January 2026.

Growth in IIP fell to a three-month low of 4.8% in January 2026 from 8.0% in December 2025.

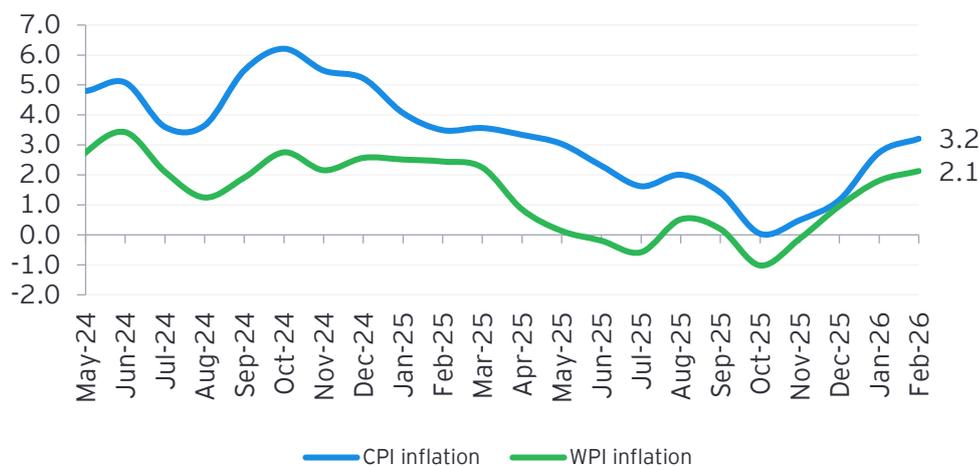


Inflation: CPI inflation increased marginally to 3.2% in February 2026

3.1 CPI inflation

- As per the new 2024 base series, CPI inflation remained benign at 3.2% in February 2026, though it edged up from 2.7% in January 2026 (Chart 3). Notably, headline CPI inflation had remained below the RBI's 4% target since January 2025, reflecting improved supply conditions, lower global crude prices, and subdued core price pressures.
- The marginal uptick in headline inflation was primarily driven by food inflation, which increased to 3.4% in February 2026 from 2.1% in the previous month. Within food items, inflation in vegetables, pulses and allied products turned positive at 0.13% in February 2026, reversing the deflation of (-)5.13% recorded in January 2026, largely due to seasonal supply moderation and a partial normalization of prices after sharp declines in the preceding month.
- Personal care, social protection and miscellaneous services continued to experience the highest inflation among all sub-groups, rising to 19.7% in February 2026 from 19.1% in January 2026. Inflation in precious metals and jewelry remained elevated, with gold/diamond/platinum jewelry and silver jewelry recording inflation levels of 48.2% and 160.8%, respectively, primarily driven by elevated global bullion prices and strong investment-driven demand.
- During the first two months of 2026, inflation moderated across certain discretionary and essential categories, including (a) clothing and footwear (2.8% from 3.0%), (b) health (1.9% from 2.2%), and (c) restaurants and accommodation services (2.7% from 2.9%).
- Inflation in transport services and equipment and information and communication services and equipment remained subdued at (-)0.05% and 0.2%, respectively, in February 2026, broadly unchanged from their January 2026 levels. The continued price stability in transport services reflects restrained fuel pass-through whereas that in communication services and equipment reflects technological cost efficiencies and competitive market conditions.

Chart 3: Inflation (y-o-y, in %)



CPI inflation remained subdued in February 2026 at 3.2% as per the new 2024 base series, slightly higher than 2.7% in January 2026. Core CPI inflation remained stable at 3.4% in February 2026.

Source: MoSPI, Office of the Economic Adviser, Government of India (GoI)



- Core CPI inflation² remained stable at 3.4% in February 2026, unchanged from its January 2026 level.

3.2 WPI inflation inched up to 2.1% in February 2026

- Headline WPI inflation remained benign, though reflecting a marginal uptick to 2.1% in February 2026 from 1.8% in January 2026 (**Chart 3**). The increase largely reflected higher inflation in fruits and oilseeds, alongside a moderation in the pace of contraction in prices of crude petroleum and pulses.
- The pace of contraction in price of pulses eased to (-)5.9% in February 2026 from (-)11.1% in January 2026, indicating a partial normalization of supply conditions. Fruit inflation increased to 3.6% from 1.8% over the same period, likely driven by seasonal factors and weather-related supply pressures.
- Oilseeds inflation rose sharply to 25.4% in February 2026 from 19.2% in the previous month, reflecting tight domestic availability and firm global prices.
- Vegetable inflation moderated to 4.7% in February 2026 from 6.8% in January 2026, mainly on account of a decline in inflation in tomatoes, following improved market arrivals.
- WPI food index-based inflation increased marginally to 1.8% in February 2026 from 1.4% in January 2026, mirroring mixed price movements across food sub-components.
- The pace of contraction in wholesale crude petroleum prices moderated significantly to (-)1.3% in February 2026 from (-)11.2% in January 2026, reflecting firmer global crude prices. This trend, however, is likely to reverse in March 2026, given the sharp spike in global crude prices triggered by escalating geopolitical uncertainties.
- Fuel and power inflation remained in non-positive territory for the 19th consecutive month, although the pace of contraction eased slightly to (-)3.8% in February 2026 from (-)4.0% in January 2026. The contraction in electricity prices also moderated to (-)3.0% from (-)3.6%, suggesting some pass-through from higher input costs.
- Inflation in manufactured products remained stable at 2.9% in February 2026, unchanged from January 2026. Within this category, however, inflation in manufactured basic metals eased to 4.4% from 6.0%, reflecting softer global metal prices and subdued domestic demand.
- Core WPI inflation remained broadly stable at a low level, inching up marginally to 3.3% in February 2026 from 3.2% in January 2026, indicating continued cost pressures but no significant broad-based acceleration.

² Sourced from RBI monthly bulletin March 2026

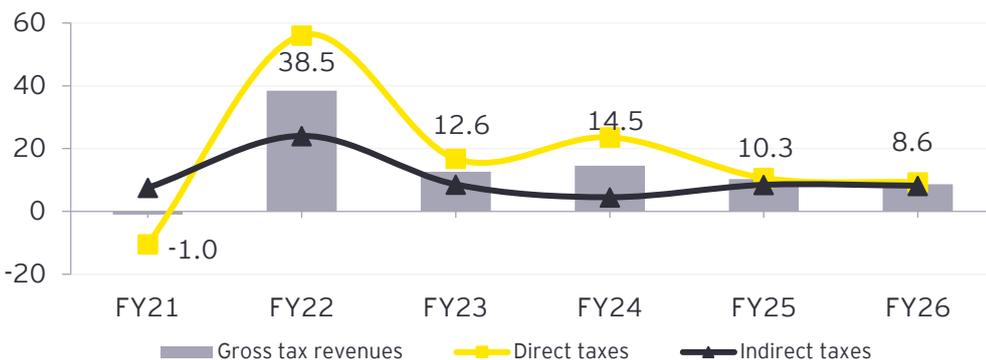


Fiscal: GoI's fiscal deficit during April-January FY26 stood at 63% of the revised estimate

4.1 Tax and non-tax revenues

- As per the CGA, GoI's GTR^(b) showed a growth of 8.6% during April-January FY26, lower than the growth rates in the corresponding periods of the last four years (FY22 to FY25) (Chart 4).
- An estimated growth of 3.1% (y-o-y) is required during the last two months of this fiscal year to achieve the FY26 revised target (RE) of GTR at INR40.8 lakh crore.
- Considering the GTR growth of 8.5% in first three quarters (April-December FY26) along with the nominal GDP growth of 8.6% during this period, tax buoyancy is estimated at close to 1.0.
- During April-January FY26, direct taxes^(a) grew by 9.3%, slightly lower than 10.7% during the corresponding period of FY25. Growth in indirect taxes^(a) during the first 10 months of FY26 was 8.2% compared to 8.5% during the corresponding period of FY25.
- PIT revenues showed a subdued growth of 4.9% during April-January FY26 compared to 22% in the corresponding period of FY25. This may partly be due to PIT rate rationalization measures announced in the FY26 Budget.
- CIT revenues grew by 14.7% during the first 10 months of FY26 as compared to a contraction of (-)0.6% during the corresponding period of FY25.
- Among indirect taxes, GoI's GST revenues showed a growth of 6.2% during April-January FY26, lower than 11.4% during the corresponding period of FY25. This may partly be attributable to the significant GST rate reductions undertaken in September 2025.
- Owing partly to a low base effect, union excise duties (UED) showed a growth of 10% during the first 10 months of FY26 compared to a contraction of (-)1.3% during the corresponding period of the previous year.

Chart 4: Growth in central gross tax revenues during April-January (% , y-o-y)



GoI's GTR grew by 8.6% during April-January FY26 with growth in direct taxes at 9.3% and that in indirect taxes at 8.2%.

Source: Monthly Accounts, CGA, Government of India

Notes: (a) Direct taxes include personal income tax (excluding securities transaction tax) and corporation tax, and indirect taxes include union excise duties, arrears of service tax, customs duty, and GST (comprising CGST, UTGST IGST and GST compensation cess) (b) Other taxes comprise (1) securities transaction tax, (2) other receipts and (3) all other taxes including stamps and registration fees, state excise, taxes on sales, trade, vehicles etc. Other taxes are included in the GoI's GTR along with direct and indirect taxes.

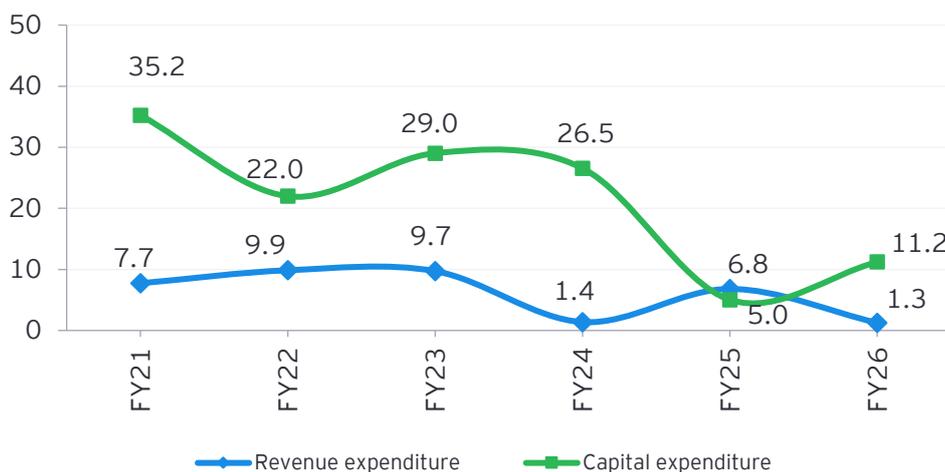


- Customs duties, which showed a contraction until November 2025 witnessed a pickup considering the period April-January FY26 with its growth at 15.5% during this period compared to 8.6% during the corresponding period of FY25.
- Gol's non-tax revenues showed a growth of 19.2% during April-January FY26 compared to 38.3% during the corresponding period of the previous year.
- Non-tax revenues of the Gol during April-January FY26 as a proportion of the annual RE stood at 83.5%, quite comparable to the average ratio of 83.9% during the corresponding period of the last three years (FY23 to FY25) based on actual data.
- Non-debt capital receipts of the Gol during April-January FY26 stood at 89.2% of the FY26 (RE) as a result of a significant downward revision of the RE to INR64,027 crore from the BE at INR76,000 crore. This is largely owing to a subdued expectation for Gol's disinvestment receipts which stand at INR33,837 crore as per the RE, lower than the BE at INR47,000 crore.
- As per the Department of Investment and Public Asset Management (DIPAM), Gol's disinvestment receipts as of 25 March 2026 were at INR16,217.12 crore, amounting to 47.9% of the FY26 RE.

4.2 Expenditures: Revenue and capital

- Growth in Gol's total expenditure was 3.4% during April-January FY26, lower than 6.4% during the corresponding period of FY25 (**Chart 5**).
- As a proportion of FY26 RE, total expenditure in the first 10 months stood at 74.3%, close to the three-year average ratio at 75.9% during FY23 to FY25 based on actual data.
- Gol's revenue expenditure grew by only 1.3% during April-January FY26, much lower than 6.8% during April-January FY25.
- Gol's capital expenditure continued to show a double-digit growth of 11.2%, higher than 5.0% during the corresponding period of the previous fiscal year.
- The second supplementary demand for grants for FY26 with a net cash outgo of INR2.01 lakh crore was approved on 13 March 2026 by the Parliament. This may have some implications on Gol's fiscal deficit for FY26.

Chart 5: Growth in central expenditures during April-January (% , y-o-y)



Gol's total expenditure grew by 3.4% during April-January FY26, with growth in revenue expenditure at 1.3% and that in capital expenditure at 11.2%.

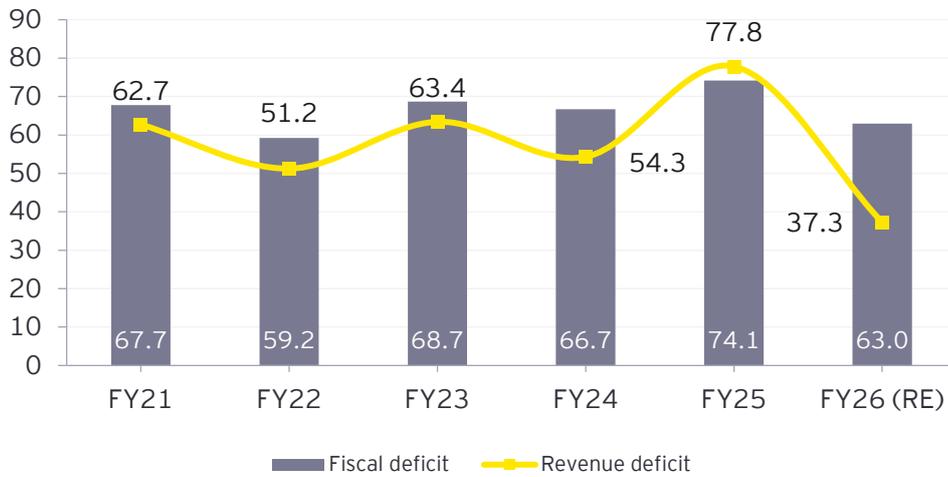
Source (basic data): Monthly Accounts, CGA, Government of India

4.3 Fiscal imbalance

- Gol's fiscal deficit during April-January FY26 was at 63% of FY26 (RE), lower than the corresponding ratios in the last three years based on actual data (**Chart 6**).
- Gol's revenue deficit during the first 10 months of FY26 was at 37.3% of FY26 (RE), lower than the corresponding ratios in the last five years based on actual data.



Chart 6: Fiscal and revenue deficit during April-January as a percentage of annual actuals (RE for FY26)



Gol's fiscal and revenue deficits during April-January FY26 stood at 63% and 37.3% of their respective annual revised estimates.

Source: Monthly Accounts, CGA, Government of India and MoSPI



Comparative trends: OECD projected world trade growth at 2.3% in 2026 and 2.8% in 2027

5.1 Export volumes of goods and services

- As per the OECD (Economic Outlook - December 2025), global trade growth for 2025 is estimated at 4.2%, reflecting stronger than expected front-loading in the first half of the year. Trade growth is projected to moderate to 2.3% in 2026 as the full effects of higher tariffs are felt, before recovering to 2.8% in 2027 as growth picks up.

- In the light of fast-evolving global trade and tariff scenarios, these projections may undergo considerable changes.

- In OECD's assessment, the composition of trade growth is different from the pre-pandemic period with the emerging market economies (EMEs) accounting for a larger share, even as all regions grow more slowly. In particular, the share of trade accounted for by the South-East Asian economies is expected to rise in 2026-

27. In contrast, the contribution of China is projected to weaken slightly, as trade growth slows, and the contribution of advanced economies (AEs) to global trade growth is expected to decline, especially that of Europe and the North American economies.

- Among AEs, in the US, growth in the volume of exports of goods and services is estimated at only 1.1% in 2025, the lowest since the contraction faced in the Covid affected year of 2020, owing to the retaliatory trade actions against new US tariffs, a strong dollar, and slowing global demand (**Table 2**). Growth in export volume is projected to improve to 2.3% in 2026 and 2.7% in 2027 led by a strong growth in tech-related exports.
- In Germany, after contracting for two successive years, a zero growth in export volume is estimated in 2025 owing to rising trade protection and increasing competition from China. Growth in export volumes is projected to recover only modestly to 1% in 2026 as high trade policy uncertainty and US tariffs are expected to hamper investment in export-oriented manufacturing and foreign demand.
- In Japan, the relatively high export growth of 3.4% in 2025 primarily reflects the front-loading of exports to the US. In 2026, export growth is projected to moderate to 0.9% with an improvement to 1.7% in 2027 supported by robust exports to non-US destinations.
- Among EMEs, growth in China's export volumes is estimated at 8.6% in 2025 reflecting the benefits from front-loading in anticipation of the tariffs. Higher tariffs on trade with the US are expected to contribute to lowering export volumes though the impact may be mitigated by lower administrative burdens on firms, a full VAT refund on exports, the critical nature of some trade and through stronger exports to other markets.

Table 2: Growth in export volumes of goods and services (% annual)

Country	2024	2025	2026	2027
World trade	3.9	4.2	2.3	2.8
US	3.6	1.1	2.3	2.7
Germany	-1.9	0.0	1.0	2.1
UK	0.6	3.0	1.0	1.4
Japan	0.7	3.4	0.9	1.7
Brazil	2.2	2.3	0.9	2.2
India*	6.3	2.3	2.6	3.2
China	16.8	8.6	2.6	4.0
South Africa	-2.8	-2.0	1.0	2.4

Source: OECD Economic Outlook, December 2025; *Data pertains to fiscal year



- In India, growth in the volume of export of goods and services is estimated to fall from 6.3% in 2024 (FY25) to 2.3% in 2025 (FY26), improving marginally to 2.6% in 2026 (FY27) and 3.2% in 2027 (FY28). These projections assume the imposition of 50% bilateral tariffs by the US. However, the conclusion of the Interim Agreement regarding reciprocal and mutually beneficial trade between India and the US in February 2026 may lead to an upward revision in export growth projections subsequently.

5.2 Import volumes of goods and services

- In the US, import volumes surged in early 2025 as firms front-loaded shipments ahead of the announced tariff increases. Since tariffs went into effect, import values of tariffed goods fell significantly relative to non-tariffed goods. Reflecting these dynamics, growth in the volume of import of goods and services in the US is estimated at 3.2% in 2025 followed by a contraction in 2026 (Table 3).
- In Germany, import growth is estimated to recover to 3.7% in 2025 as compared to a contraction in the last two years helped by a pickup in private consumption and private investment.
- Similarly, in Japan, strength in domestic private demand along with a new fiscal stimulus package boosting public consumption and investment is projected to keep growth in import volumes during 2025 to 2027 higher than that in 2024.

Table 3: Growth in import volumes of goods and services (% annual)

Country	2024	2025	2026	2027
US	5.8	3.2	-0.8	2.5
Germany	-0.4	3.7	2.2	2.6
UK	2.6	3.9	1.6	1.8
Japan	1.0	4.2	1.6	1.9
Brazil	13.6	6.5	0.5	2.3
India*	-3.7	13.5	2.0	3.2
China	4.9	0.1	1.6	2.6
South Africa	-6.4	0.8	2.4	2.7

Source: OECD Economic Outlook, December 2025; *Data pertains to fiscal year

- Among EMEs, China's import volume of goods and services is estimated to show a subdued growth of 0.1% in 2025 as consumption is expected to be dampened by high precautionary savings and the payback effect of the trade-in program that had led to front-loading of purchases of durable goods to benefit from lower prices. Import growth is projected to improve slightly to 1.6% in 2026 and 2.6% in 2027.
- In India, there was a contraction of (-)3.7% in the volume of import of goods and services in 2024 (FY25). Import growth is projected at a relatively high level of 13.5% in 2025 (FY26) owing to robust private consumption supported by rising real incomes with inflation remaining low and reduction in GST rates along with some favorable base effect. Subsequently, import volumes are projected to show much milder grow rates of 2% and 3.2% in 2026 (FY27) and 2027 (FY28) respectively.



In Focus: Decoding the recommendations of the 16th Finance Commission

6.1 Introduction

The report of the Sixteenth Finance Commission (FC16) was submitted to the Government of India on 17 November 2025 and made public on 1 February 2026. Unlike earlier Finance Commissions, which recommended grants to states under Article 275 of the Constitution, FC16 did not propose any grants to meet the assessed revenue needs of states.

The FC16 report can be examined under five main themes: (1) the vertical sharing of resources between the GoI and the states; (2) the horizontal distribution of resources among states, including changes in the tax devolution formula; (3) the decision to discontinue Article 275 grants for meeting states' assessed revenue needs; (4) the projections prepared by FC16; and (5) FC16's approach to fiscal consolidation at the level of the GoI and the states.

This issue of *Economy Watch* focuses on the first three themes. The remaining two issues relating to projections and fiscal consolidation, are proposed be discussed in the next issue of *Economy Watch*.

6.2 The vertical dimension

The vertical dimension refers to transfers from the GoI to the states, taken together. India's fiscal system has two levels of government—the Union and the states. Prior to the FC14, total FC transfers, which include tax devolution and FC grants, remained broadly stable as a share of the GoI's revenue receipts before transfers. These transfers can also be viewed as a share of nominal GDP.

FC14 marked a major change. It increased the states' share in the divisible pool of central taxes from 32% to 42%. FC14 also recommended grants to meet states' revenue needs under Article 275 of the Constitution. These are commonly known as revenue deficit grants. At the same time, the earlier system of plan grants to states was being phased out. However, the sharp increase in transfers recommended by FC14 was far larger than what can be explained by the discontinuation of plan grants alone.

Over time, however, transfers from the GoI to states through channels other than tax devolution have declined. While the GoI has continued to accept the core recommendations of FC14, FC15 and FC16 to devolve 42%/41% of the divisible pool to states, several other policy changes have reduced overall transfers to states.

1. The share of cesses and surcharges (levied by the GoI but not shared with states) has steadily increased relative to the GoI's gross revenue receipts before transfers.
2. The GoI has reduced its funding share for centrally sponsored schemes, shifting a larger financing burden to the states.
3. The GoI did not accept sector-specific and state-specific grants recommended by FC15.

After the recommendations of the FC16, additional changes further reduced transfers. These include:

4. Discontinuation of revenue deficit grants
5. A reduction in grants to local governments, relative to GDP, compared to the levels recommended by FC15.
6. A reduction in grants for disaster management, relative to GDP, compared to the levels recommended by FC15.
7. Increasing the share of states to 40% from 30% in the financing of VB-G RAM G while renaming MGNREGA

Taken together, these changes have almost fully offset the large increase in states' share in central taxes introduced by FC14. The impact of these measures is reflected in Table 4 and Chart 7. Total FC transfers (column (5) of **Table 4**) rose from 28.6% of the GoI's pre-transfer revenue receipts in FY15, the final year of



the FC13 period, to 35.1% in FY16, the first year of the FC14 award period. Transfers continued to increase and reached a peak of 37.2% in FY19.

It is important to note that FC14 not only raised the states' share in the divisible pool to 42% but also recommended revenue deficit grants averaging 1.9% of Gol's pre-transfer gross revenue receipts. In contrast, grants (column (6) of Table 4) outside the FC framework peaked at 19.1% in FY15 and then began to decline. By FY25, the latest year with actual data, this share had fallen to 10.9%. In the revised estimates for FY26, the final year of the FC15 award period, it is projected to fall further to 7.2%.

As a result, total transfers to states (column (7)) declined from a peak of 50.5% of the Gol's pre-transfer revenue receipts in FY20 (excluding the exceptional spike during the COVID-19 year) to 40.2% in FY26 under the revised estimates.

Table 4: Total transfers as % of Gol's pre-transfer gross revenue receipts

FC period	Year	Tax devolution	FC grants	Total FC transfers	Non-FC grants	Total transfers	FC transfers yearly change (% points)	Total transfers yearly change (% points)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
FC12	FY06	21.8	5.7	27.5	11.0	38.5	2.5	2.2
FC12	FY07	22.1	5.1	27.2	11.1	38.3	-0.3	-0.2
FC12	FY08	22.7	3.9	26.6	12.1	38.8	-0.6	0.4
FC12	FY09	23.6	4.0	27.5	14.1	41.6	0.9	2.9
FC12	FY10	22.9	4.0	26.9	15.1	42.1	-0.6	0.4
FC13	FY11	22.2	3.1	25.3	12.5	37.8	-1.6	-4.3
FC13	FY12	25.7	4.4	30.1	13.2	43.3	4.8	5.5
FC13	FY13	25.2	3.9	29.0	11.3	40.4	-1.0	-2.9
FC13	FY14	24.2	4.0	28.3	10.5	38.8	-0.8	-1.6
FC13	FY15	24.1	4.5	28.6	19.1	47.7	0.3	8.9
FC14	FY16	30.1	5.0	35.1	13.3	48.4	6.5	0.7
FC14	FY17	31.1	4.8	35.9	9.6	45.5	0.8	-2.9
FC14	FY18	32.2	4.4	36.6	13.5	50.1	0.7	4.6
FC14	FY19	33.1	4.1	37.2	12.2	49.4	0.6	-0.7
FC14	FY20	28.1	5.3	33.4	17.2	50.5	-3.8	1.1
FC15	FY21	27.0	8.3	35.3	17.7	52.9	1.9	2.4
FC15	FY22	29.5	6.8	36.3	13.3	49.6	1.0	-3.3
FC15	FY23	28.8	5.2	34.0	14.4	48.4	-2.3	-1.3
FC15	FY24	29.6	3.9	33.4	12.0	45.4	-0.5	-2.9
FC15	FY25	30.1	2.8	32.9	10.9	43.7	-0.6	-1.7
FC15	FY26 (RE)	29.7	3.2	33.0	7.2	40.2	0.1	-3.5
FC16	FY27 (BE)	30.1	2.6	32.7	10.1	42.7	-0.2	2.6

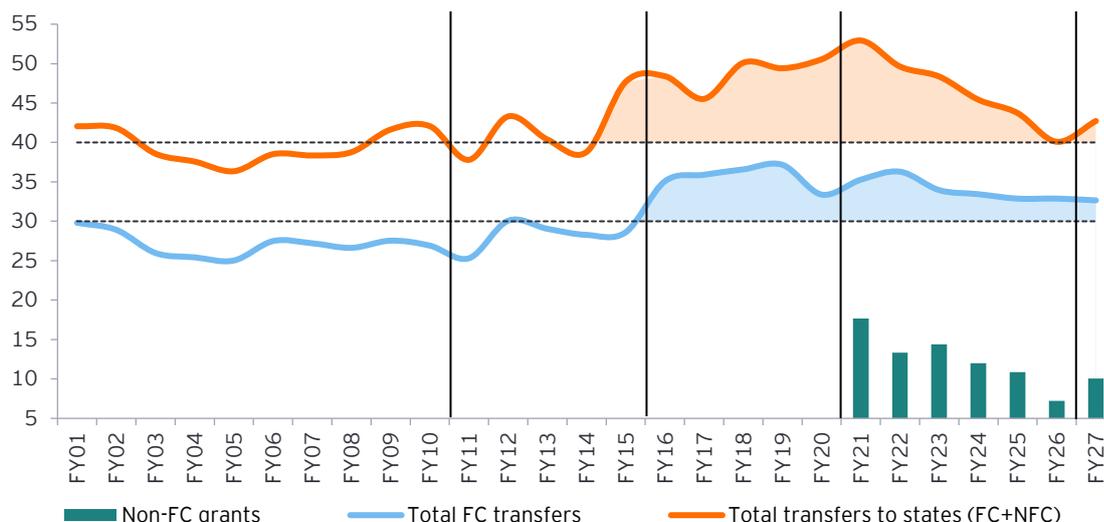
Source (basic data): IPFS, Union budget, CGA

Chart 7 indicates that the seven measures described above, together with the recommendations of the FC16, have almost completely offset the increase in transfers to states that resulted from the FC14. The small increase seen in the first year of the FC16 period is based only on budget estimates and may change once actual figures become available.

Most of the decline in the states' share has occurred through transfers outside the FC framework. In particular, it reflects a reduction in the Gol's funding share for centrally sponsored schemes including the VB-G-RAM-G employment scheme.



Chart 7: Trends in total transfers as % of Gol's pre-transfer gross revenue receipts



Source: IPFS, Union budget, CGA

The FC16 did not make any recommendations regarding cesses and surcharges, even though such levies are meant to be limited in scope and applied for specific purposes and time periods. By design, these levies should be clearly earmarked and should not be absorbed into the general revenues of the Gol.

Instead, FC16 proposed a “grand bargain” between the Gol and the states. It stated that “States would agree to a smaller share in the resulting larger divisible pool, with no loss of revenues to either side provided the Centre agreed to merge a large part of the cesses and surcharges in the regular taxes” (paragraph 7.67 of the FC16 report). Under Articles 270 and 280 of the Constitution, it is the responsibility of the Finance Commission to objectively determine the states’ share in the divisible pool of central taxes, while also making appropriate observations on cesses and surcharges. In this context, it may have been useful for the Commission to note that the sharp increase in cesses and surcharges requires closer examination in light of Constitutional principles.

At the same time, FC16 chose to discontinue the revenue deficit grants provided under Article 275 and did not recommend any state-specific or sector-specific grants. These decisions are expected to reduce the overall share of states in the Gol’s revenue receipts when compared to the FC15 period.

The vertical distribution of resources can also be examined from another perspective, that is, by looking at the combined revenues of the Gol and the states and assessing the share of states before and after transfers. States’ own revenues accounted for an average of 37.5% of the combined revenue receipts of the Gol and states across five FC periods (FC11 to FC15). After transfers, however, the states’ share increased significantly.

Specifically, the post-transfer share of states rose from an average of 62.6% during the FC11, FC12, and FC13 periods to an average of 67.4% during the FC14 and FC15 award periods. It should be noted that the number of states covered declined from 29 during the FC14 period to 28 during the FC15 period. Comparing FC14 alone with the average of FC11 to FC13, the post-transfer share of states increased by 5.5% points, from 62.6% to 68.1% of combined revenue receipts, as shown in Table 5.

Table 5: Share of states in combined revenue receipts of Gol and states: before and after transfers

FC	Years	Share of states before transfers	Transfers				Share of states after transfers
			Tax devolution	FC grants	Non-FC grants	Total transfers	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
FC11	FY01	39.1	14.8	3.3	7.5	25.6	64.7
FC11	FY02	39.6	14.1	3.4	7.8	25.3	64.8
FC11	FY03	39.1	13.3	2.5	7.7	23.5	62.5
FC11	FY04	38.0	13.6	2.2	7.5	23.3	61.3



FC	Years	Share of states before transfers	Transfers				Share of states after transfers
			Tax devolution	FC grants	Non-FC grants	Total transfers	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
FC11	FY05	37.3	13.6	2.1	7.1	22.8	60.1
FC12	FY06	36.8	13.8	3.6	7.0	24.4	61.1
FC12	FY07	36.3	14.1	3.3	7.1	24.4	60.8
FC12	FY08	32.9	15.2	2.6	8.1	26.0	58.9
FC12	FY09	34.7	15.4	2.6	9.2	27.2	61.9
FC12	FY10	37.5	14.3	2.5	9.5	26.3	63.8
FC13	FY11	35.0	14.4	2.0	8.1	24.6	59.6
FC13	FY12	38.9	15.7	2.7	8.1	26.5	65.4
FC13	FY13	39.5	15.2	2.3	6.9	24.4	63.9
FC13	FY14	38.6	14.9	2.5	6.5	23.8	62.4
FC13	FY15	38.9	14.8	2.7	11.7	29.2	68.0
FC14	FY16	37.7	18.7	3.1	8.3	30.1	67.8
FC14	FY17	35.4	20.1	3.1	6.2	29.4	64.8
FC14	FY18	38.4	19.8	2.7	8.3	30.9	69.3
FC14	FY19	38.3	20.4	2.5	7.6	30.5	68.8
FC14	FY20	38.8	17.2	3.3	10.5	30.9	69.8
FC15	FY21	37.7	16.8	5.2	11.0	33.0	70.7
FC15	FY22	35.9	18.9	4.3	8.5	31.8	67.7
FC15	FY23	38.5	17.7	3.2	8.9	29.7	68.2
FC15	FY24	37.6	18.5	2.4	7.5	28.4	65.9
FC15	FY25	36.5	19.1	1.8	6.9	27.8	64.3
FC15	FY26*	38.1	18.4	2.0	4.5	24.9	63.0
FC period averages							
FC11	FY01 to FY05	38.6	13.9	2.7	7.5	24.1	62.7
FC12	FY06 to FY10	35.7	14.6	2.9	8.2	25.6	61.3
FC13	FY11 to FY15	38.2	15.0	2.5	8.2	25.7	63.9
FC14	FY16 to FY20	37.7	19.2	2.9	8.2	30.4	68.1
FC15	FY21 to FY26	37.4	18.2	3.1	7.9	29.2	66.6

Source (basic data): IPFS, Union Budget, CGA

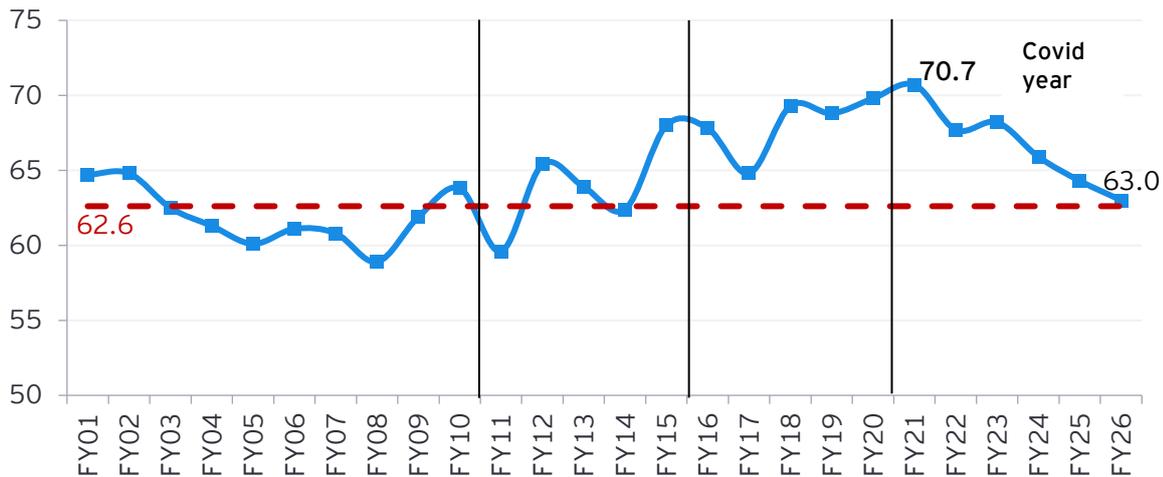
Note:*FY26 numbers contain BE for states and RE for Gol

However, as discussed earlier, grants outside the FC framework have steadily declined. The year-by-year pattern of states' post-transfer share, shown in **Chart 8**, indicates that this share has now almost returned to pre-FC14 levels, at around 64%. After accounting for FC16 transfers, it is expected to fall further to about 62.6%, or possibly lower.

This implies that the Gol has effectively regained its earlier share of combined revenue receipts after transfers, reaching about 37.4%. This level is close to its average share during the FC11 to FC13 periods. As discussed earlier, this outcome has resulted from a series of incremental policy changes rather than a single adjustment.



Chart 8: Share of states in combined revenue receipts of Gol and states: after transfers



Source: IPFS, Union Budget, CGA
 Note: *FY26 numbers contain BE for states and RE for Gol

Thus, these recommendations of FC16 do not appear to have effectively addressed the issues pertaining to the vertical dimension of transfers from the Gol to the states.

6.3 Discontinuation of revenue needs grants under Article 275

The Gol, in its memorandum to the FC16, had argued that revenue ‘needs’ grants may be discontinued. The FC16 noted “... the Union Government has favoured the discontinuation of RDGs...” (Paragraph 9.13 of FC16 Report, Volume 1). The Gol focused mainly on the vertical aspect of the RNG emanating from Article 275. These are also referred to as grants meant for meeting revenue deficits by the FC. However, Article 275 does not refer to any deficits. It refers to needs of states. This article is reproduced below:

Article 275. (1) Such sums as Parliament may by law provide shall be charged on the Consolidated Fund of India in each year as grants-in-aid of the revenues of such States as Parliament may determine to be in need of assistance, and different sums may be fixed for different States.

This implies that the Constitution places emphasis on assessing the ‘need of states’ through Parliament, but under Article 280 this assessment is required to be carried out by the FC. There is also a focus on the horizontal distribution of grants under Article 275, as the Constitution explicitly provides for different grant amounts for different states.

In practice, earlier FCs assessed a state’s revenue need using a clear framework as given below:

Assessed revenue need of a state = assessed expenditure need of that state - share of central taxes given to the state through tax devolution - assessed own revenue receipts

Under this approach, assessed expenditure needs formed the basis for determining whether a state required a revenue need grant. Total FC transfers to a state therefore consisted of two components: its share in the divisible pool of central taxes and its assessed revenue need after tax devolution. Once a state received transfers through these two channels, it was not expected to face any remaining revenue deficit under normative assessments.

If a state’s share in tax devolution was sufficient to fully cover its assessed expenditure needs, it did not receive a revenue need grant. In such cases, the determining factor for transfers was only the state’s share in the divisible pool of central taxes, and the state was assessed to be in revenue balance or surplus. In this way, earlier FCs ensured that no state was left with a revenue deficit on normative grounds.

The FC16’s decision to discontinue revenue need grants implies that several states are now likely to face assessed revenue deficits even after transfers. Unlike previous Commissions, however, FC16 has not presented detailed assessments of the finances of individual states for the award period. Instead, it has provided only limited aggregate information for states as a group.

The FC16 states, “Therefore, in continuation of the diminishing trend of the revenue deficit grants recommended by FC-15, which reduce to near-zero level by 2025-26, we do not recommend any revenue



deficit grants to States (Paragraph 9.50, FC16 report, Volume 1).” It estimates the aggregate revenue deficit of all states at only 0.3% of GDP in FY24 (Table 5.9 of FC16 Report, Volume 1). However, revenue surplus of surplus states cannot be balanced against revenue deficit of deficit states since surpluses of surplus states cannot be passed on to the deficit states. Thus, aggregating the revenue deficit of deficit states, gives an estimate of 0.8% of GDP for FY24, which is a large magnitude amounting to 6.4% of Gol’s pre-transfer gross revenue receipts in that year.

In any case, this relates to past developments, and the FC16 was expected to assess the revenue needs of individual states over its award period, which naturally depends on the devolution criteria adopted by the Commission. There is a requirement to reassess state-specific needs for the award period, particularly when the devolution criteria or their associated weights have undergone a change with respect to those used by FC15. However, the FC16 does not present state-wise assessments of fiscal positions for the award period, providing instead only aggregated information³. This limits transparency with respect to the application of its assessment framework.

The FC16 discusses the principles governing grants-in-aid under Article 275 largely by reproducing the earlier discussion of this subject by the FC01. In earlier periods, however, Finance Commissions were required under their Terms of Reference (ToR) to provide a clear, state-wise, normative assessment of fiscal positions. This enabled an explicit assessment of the revenue needs of individual states.

For example, in FC14 and FC15, the ToR stated:

“The Commission shall indicate the basis on which it has arrived at its findings and make available the State wise estimates of receipts and expenditure.” Clause 10. of ToR (dated 27 November, 2017) of FC15⁴, Clause 7. of ToR (dated 01 November 2014) of FC14.

The FC16 quotes the FC01 in para 9.19 to say, *“It was categorical in stating that the method of extending grants should avoid giving any impression that the Central Government have taken upon themselves the responsibility for helping the States to balance their budgets from year to year.”* However, the core purpose of the FC is to distribute available resources between the Gol and the states in a fair and balanced manner. Grants provided under Article 275 do not come from resources that belong independently to the Gol. Instead, the Gol’s own revenue position can be determined only after the overall sharing of resources between the Gol and the states is finalized under the relevant Constitutional provisions, particularly Articles 270 and 275.

A state’s revenue need depends on both the size and the distribution of tax devolution. If states, taken together, are assessed to be largely in revenue surplus, this would indicate that the FC has provided excessive tax devolution to some states. Conversely, if the Gol is assessed to remain in revenue deficit in most years, this would also suggest that tax devolution to states has been excessive. The role of the FC is therefore to ensure that, based on its assessments, neither the Gol nor individual states remain in persistent surplus or deficit. Temporary imbalances may occur in one or two years, but they should not continue throughout the entire award period.

In its assessment of the finances of the Gol and the states taken together, the FC16 provides only aggregate estimates. From these aggregates, overall fiscal patterns for the award period can be derived, but they do not allow an assessment of the revenue position of individual states.

Table 6: Revenue deficit(+)/surplus(-) assessed by FC16 (INR crore)

Item	2026-27	2027-28	2028-29	2029-30	2030-31
Union	482,000	409,000	292,000	141,000	-36,000
States [#]	56,359	-102,341	-277,757	-473,051	-691,715

Source: FC16 Report

[#]derived from Table 9.1 of the FC16 report (Volume 1), and Annexure 6.1 of FC16 report (Volume 2)

The two rows of **Table 6** show assessed revenue balance profiles of the Union and state governments during the FC16 award period. Deficits are shown with a positive sign and surpluses with a negative sign. In the first four years of the FC16 award period, the Union government is assessed to be in large revenue deficits. The states, on the other hand, are shown to be in large revenue surpluses when considered

³ As per data available on 13 March 2026 from <https://fincomindia.nic.in/>

⁴ <https://fincomindia.nic.in/asset/doc/commission-reports/XV-FC%20-VOL%20II%20Annexes.pdf>



together. This is indicative of continuing imbalance for both tiers of government which may have been attended to by a better design of vertical transfers.

The FC appears to have relied on a 'grand bargain' between the Gol and the states rather than explicitly deriving a distribution of their combined resources that is expected to place both in a position of near balance.

The decision to discontinue revenue deficit grants has significant implications for both the vertical and horizontal dimensions of state finances. From a vertical perspective, the overall share of transfers to states is expected to decline, as transfers are now largely limited to tax devolution, along with grants for local bodies and natural calamities. During the FC15 period (Second Report), covering FY22 to FY26, Article 275 grants amounted to about 0.197% of GDP. Under FC16, even grants to local governments have declined, falling to 0.29% of GDP from 0.33% during the FC15 period. Similarly, grants for natural calamities have been reduced to 0.08% of GDP under FC16, compared to 0.154% during FC15.

Taken together, these changes imply a cumulative reduction in transfers to states, in vertical terms, of about 0.311% of GDP. This consists of the loss of revenue deficit grants, lower local government grants, and reduced natural calamity grants. This reduction amounts to about 2.39% of the Gol's gross revenue receipts where these receipts are estimated by FC16, compared to the corresponding level during FC15 period.

From a horizontal perspective, states whose inter-se share in tax devolution has been reduced under the revised devolution formula could have been compensated through Article 275 grants. With the discontinuation of these grants, such losses are no longer offset. As discussed in the next section, these losses are estimated to persist for two groups of states, namely a) large population, low-income states and b) small and/or hilly states.

An additional concern relates to FC16's projections for the growth and buoyancy of central taxes. These assumptions appear to have become outdated. These projections are proposed to be examined in detail in the next issue of *Economy Watch*.

6.4 Horizontal dimension: Devolution formulae

The FC16 used six criteria, listed in rows (1) to (6) of **Table 7**. In addition, it introduced a new criterion called a state's 'contribution to all-state GSDP'. The FC argued that this was an efficiency-based criterion. The implications of this criterion, especially when used together with the income distance criterion, are discussed below.

Table 7: Devolution criteria

#	Criteria	FC12	FC 13	FC 14	FC 15 (1 & 2)	FC16	FC16 minus FC15 (2)
1	Population	25.0	25.0	17.5	15.0	17.5	2.5
2	Demographic change/performance	-	-	10.0	12.5	10.0	-2.5
3	Income/fiscal capacity distance	50.0	47.5	50.0	45.0	42.5	-2.5
4	Area	10.0	10.0	15.0	15.0	10.0	-5.0
5	Contribution to all state GSDP					10.0	10.0
6	Forest cover	-	-	7.5	10.0	10.0	
7	Tax effort	7.5	-	-	2.5	--	-2.5
8	Fiscal discipline	7.5	17.5	-	-	--	

Source: Authors' compilation

Indian states differ widely in population size. For this reason, population is generally used as a scaling factor in devolution criteria. This means that larger states, in terms of population, receive a larger share. Such scaling reflects the idea that transfers are meant for citizens, with each citizen treated as broadly



comparable across states. Using population as a scaling factor also helps focus attention on per-capita transfers.

In FC16, the contribution criterion was defined using the square root of GSDP⁵. This choice creates a scaling problem. If FC16 had instead used per-capita GSDP and then scaled it by the population of each state, the resulting per-capita transfers, as illustrated by distributing a notional amount of INR1,00,000 crore, follows the pattern shown in **Chart 9**. This produces a linear and regressive outcome, where states with higher per-capita fiscal capacity receive higher per-capita transfers. However, FC16 did not adopt this approach. Under its formulation, the scaling factor is no longer population. Instead, it becomes the inverse of the product of the square roots of population and per-capita GSDP (for details see Technical Appendix: Infocus section). As a result, the implied per-capita distribution under the square-root formulation takes the form shown in **Chart 10**. This shows an uneven pattern in the middle-income range and a regressive pattern among higher-income states.

Chart 9: Per capita transfers under contribution criterion: without square root

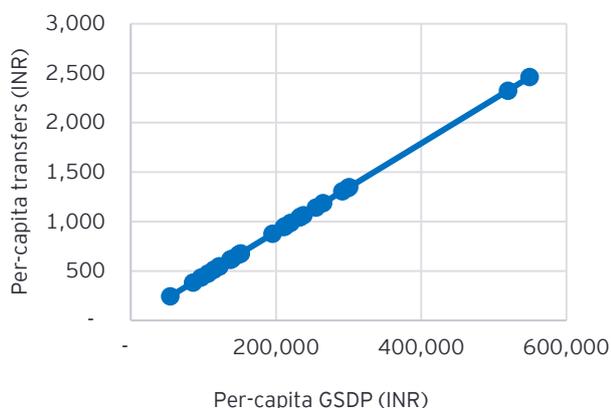
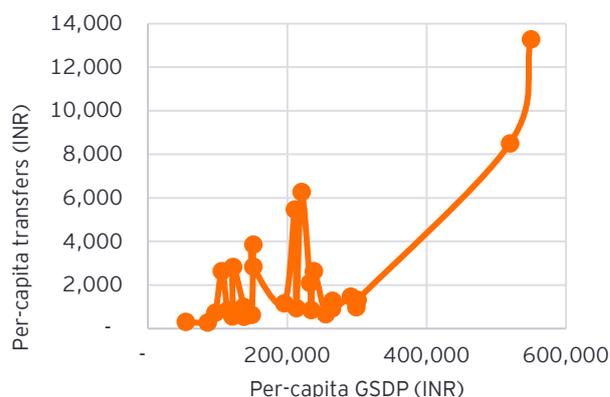


Chart 10: Per capita transfers under contribution criterion: with square root



Source: Authors' estimates

Note: On the X axis, states are ordered in terms of increasing per capita nominal GSDP

Two objectives, one instrument: Higher efficiency only means lower equity

The Tinbergen Rule states that to achieve a specific number of independent policy goals, a policymaker must have at least the same number of independent policy tools. In the context of fiscal transfers under FC16, there are two distinct objectives, equity and efficiency, which therefore require two separate tools. However, FC16 chose to rely on a single variable, namely per-capita GSDP, to address both objectives. The same variable is used in the income distance criterion to promote equity and in the contribution criterion to promote efficiency. Since no additional independent information is introduced, the overall impact is largely determined by the criterion that carries the higher weight. In the devolution formula, the income distance criterion has a higher weight. Even so, its intended equity impact is weakened when it is combined with the contribution criterion.

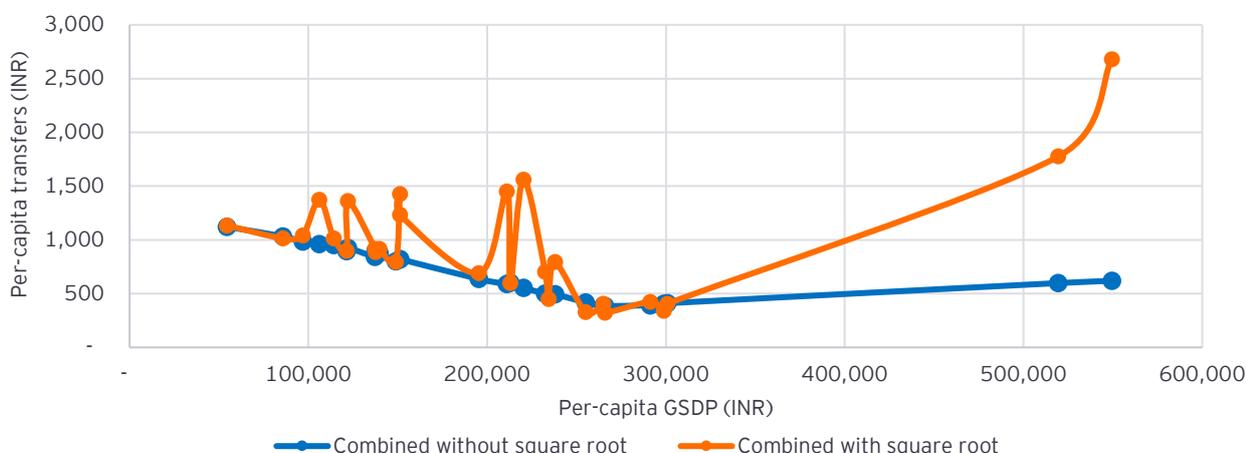
When these two criteria are combined⁶, as would be the case when considering all criteria together in the overall tax devolution formula, the resulting weighted per-capita transfers are shown in **Chart 11**. This shows that the combined criterion using the square-root formulation, is regressive at the higher end of the income scale and highly distorted for middle-income states.

⁵ For mathematical details, see Technical Appendix at the end of the document.

⁶ See Technical Appendix for more details.



Chart 11: Per capita transfers under combined criterion: with and without square root and using FC16 weight



Source: Authors' estimates

A more balanced outcome could have been achieved by using the contribution criterion without applying the square-root transformation, while retaining the same 10% weight. Alternatively, if the weight assigned to the contribution criterion had been reduced, the per-capita transfers would have been less regressive at the higher income levels.

Argument of efficiency

The efficiency argument provided by FC16 with respect to the 'contribution' criterion requires closer examination. It is important to distinguish between production efficiency and fiscal efficiency, as these are fundamentally different concepts. Production efficiency is a broad concept that is largely shaped by market forces. In particular, it is influenced by how factors of production such as capital and labor are distributed across states. These factors tend to move naturally towards more developed states. In India, this has led to a concentration of productive resources, including capital, skilled workers, and industry, especially in the southern and western states. As a result, per-capita GSDP differs widely across states. These differences reflect unequal production bases and create structural disparities in per-capita fiscal capacity that lie beyond the states' control.

Fiscal efficiency, by contrast, relates to how effectively and responsibly a state manages its public finances. It has two main components. The first is revenue effort, which refers to a state's ability and willingness to mobilize its own revenues, given its underlying fiscal capacity. The second is fiscal discipline, which refers to prudent fiscal management, reflected in indicators such as revenue and fiscal deficits when measured on a comparable basis across states. Earlier FCs explicitly incorporated these aspects through criteria such as tax effort and fiscal discipline. Fiscal efficiency is therefore distinct from production outcomes that are driven by market forces. Equalization transfers, defined by FC12 and widely used in countries such as Canada and Australia, are specifically designed to offset such market-induced disparities. Their objective is to ensure that all states are able to provide comparable levels of public services while making comparable revenue effort. The Constitution itself recognizes this logic. Articles 301 to 307 mandate the maintenance of an all-India common market. At the same time, productive capital in India is highly concentrated in a few states, particularly in the western and southern regions. As shown in **Table 8**, when states are grouped into four broad categories, the GS2 group alone accounted for nearly 83% of the concentration of productive capital stock in FY23 (Srivastava (2025)).

There are additional concerns with using per-capita GSDP in the devolution formula. For some northeastern states, a significant portion of per-capita GSDP is itself the result of fiscal transfers rather than underlying production efficiency. This creates a serious problem of endogeneity in the FC16 framework. Under the contribution criterion, per-capita GSDP determines transfers, while transfers in turn influence per-capita GSDP.



Table 8: Group-wise contribution (%) to concentration of productive capital stock measured by the Hirschman Herfindahl Index (HHI)

State group	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
GS1	14.3	18.0	15.7	17.1	15.8	18.1	17.1	14.9	15.0	14.8	16.4	16.3
GS2	84.2	80.6	83.2	81.7	83.1	81.1	82.0	84.3	84.3	84.6	82.9	82.9
NEH1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
NEH2	1.4	1.3	1.1	1.1	1.0	0.7	0.8	0.7	0.6	0.6	0.6	0.7

Source: Srivastava D.K. (2025). Equalization transfers in India and profiles of inequality (GIFT Discussion Paper Series 1/2026). Gulati Institute of Finance and Taxation

Note: GS2 group includes the following states: Punjab, Andhra Pradesh, Kerala, Maharashtra, Gujarat, Tamil Nadu, Haryana, Karnataka, Telangana and Goa

Further, even where state governments seek to promote GSDP growth, a key factor is investment in infrastructure. State Fiscal Responsibility Legislations contain an in-built bias in this regard, as they enable capital expenditure of 3% of GSDP assuming a revenue balance. This means that states with higher per-capita GSDP are able to spend more on infrastructure by design. The use of a regressive devolution criterion such as the contribution criterion risks reinforcing this built-in bias and further widening existing disparities.

Impact of FC16 tax devolution shares: estimated losses of losing states

When the six devolution criteria used by FC16 are considered together, a clear pattern emerges in the inter-se shares of states. Large-population and low-per-capita-income states, as well as small and/or hilly states, tend to lose out. For some states, these losses are substantial.

These losses have been examined both in terms of changes in state-wise shares (column (4) of **Table 9**) and in absolute amounts (columns (6) to (11)) over the FC16 five-year award period⁷ relative to FC15(2) award period. As shown in Table 9, the cumulative losses over the five-year period are significant for several states.

For the group of large-population and low-income states, including Madhya Pradesh, Uttar Pradesh and Bihar the total loss over the award period amounts to INR1,62,106 crore. For the group of small and/or hilly states, the cumulative loss is INR89,618 crore. If FC16 had assessed and provided revenue deficit grants, some of these losses could have been offset through grants under Article 275, and the overall pattern of losses across states would have been more even.

In contrast, most southern and western states have gained under the FC16 devolution formula. The states that have gained include Karnataka, Kerala, Gujarat, Haryana, Punjab, Andhra Pradesh, Assam, Maharashtra, Himachal Pradesh, Telangana, Mizoram, Jharkhand, Uttarakhand and Tamil Nadu. These gains and losses across states are largely the result of introducing the contribution criterion, along with changes made to the demographic performance criterion.

FC16 also reduced the weight assigned to the area criterion and modified the way floor (minimum) shares are built into this criterion. This has adversely affected the shares of several Northeastern and Himalayan states. These states have also been impacted by the introduction of differential weighting applied to open, moderately dense, and very dense forest categories within the forest criterion.

⁷ This has been done by taking the reduction in each state's share, measured in % points, and applying it to the total tax devolution estimated by FC16



Table 9: Loss of states under FC16 devolution formula vis-à-vis FC15 (2)

States	FC15 (2)	FC16	FC16 minus FC15	Loss as % of FC15 (2) share	FY27	FY28	FY29	FY30	FY31	FY27 to FY31
	%	%	% points	%	INR Cr					
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Group 1: Large population, low income states										
MP	7.85	7.347	-0.503	-6.4%	8,269	9,260	10,372	11,619	13,018	52,538
UP	17.939	17.619	-0.32	-1.8%	5,261	5,891	6,598	7,392	8,282	33,424
WB	7.523	7.215	-0.308	-4.1%	5,064	5,670	6,351	7,115	7,971	32,171
BH	10.058	9.948	-0.11	-1.1%	1,808	2,025	2,268	2,541	2,847	11,489
OD	4.528	4.42	-0.108	-2.4%	1,776	1,988	2,227	2,495	2,795	11,281
CH	3.407	3.304	-0.103	-3.0%	1,693	1,896	2,124	2,379	2,666	10,758
RJ	6.026	5.926	-0.1	-1.7%	1,644	1,841	2,062	2,310	2,588	10,445
Group 2: Low population and/or hilly states										
AR	1.757	1.354	-0.403	-22.9%	6,625	7,419	8,310	9,309	10,430	42,093
ML	0.767	0.631	-0.136	-17.7%	2,236	2,504	2,804	3,142	3,520	14,205
MN	0.716	0.626	-0.09	-12.6%	1,480	1,657	1,856	2,079	2,329	9,401
NL	0.569	0.481	-0.088	-15.5%	1,447	1,620	1,815	2,033	2,277	9,192
TR	0.708	0.641	-0.067	-9.5%	1,101	1,233	1,382	1,548	1,734	6,998
SK	0.388	0.335	-0.053	-13.7%	871	976	1,093	1,224	1,372	5,536
GA	0.386	0.365	-0.021	-5.4%	345	387	433	485	543	2,193
Total loss of losing states	62.622	60.212	-2.41	-3.8%	39,620	44,368	49,694	55,671	62,371	251,725
Large population, low income	57.331	55.779	-1.552	-2.7%	25,515	28,572	32,002	35,851	40,166	162,106
Small and/or hilly states	5.291	4.433	-0.858	-16.2%	14,106	15,796	17,692	19,820	22,205	89,618

Source: EY estimates

The purpose of fiscal transfers is to ensure that states receive resources in a manner that allows them to provide comparable levels of public and merit services, provided their citizens are willing to bear comparable levels of taxation. This serves an efficiency objective, as citizens should not be compelled to migrate from one state to another in search of better public services. Migration should instead be driven by differences in income opportunities, reflecting higher productivity in certain states.

The transfer mechanisms used by FCs so far have supported this equalisation objective, which promotes both equity and efficiency. These mechanisms have continued to function even as differences in per-capita GSDP across states have increased. As shown in Srivastava (2025)⁸, interstate inequality in per-capita GSDP has been rising in India. However, despite this trend, inequality in per-capita revenue expenditure excluding pensions, across states, has been declining. This indicates that fiscal transfers have played an important role in strengthening equalisation across states over time.

6.5 Subsidies and freebies

The FC16 makes observations on subsidies and freebies, noting that when these become permanent entitlements, they can adversely affect the long-term fiscal health of governments. These effects are mainly reflected in excessive growth of revenue expenditure, especially when such support takes the form of unconditional cash transfers. Such subsidies have weakened revenue balances at both the state and central levels.

⁸ Srivastava D.K. (2025). Equalization transfers in India and profiles of inequality (GIFT Discussion Paper Series 1/2026). Gulati Institute of Finance and Taxation



FC16 recommended that states should review and rationalize these subsidies and retain only those that are well targeted towards the poor. However, it may have been more effective if FC16 had undertaken a normative assessment of state-level expenditures and explicitly identified and excluded subsidies that were not justified. A similar normative review may also have been carried out for expenditures of the central government.

6.6 Concluding observations

The FC16 Report was tabled in Parliament along with the FY27 Union Budget on 01 February 2026. On the vertical dimension of transfers, it largely accepted the position set out in the memorandum of the GoI, which argued for discontinuing revenue deficit grants. For the first time, an FC has stopped using Article 275 to assess and address the revenue needs of states. Earlier FCs had determined these needs alongside their recommendations on tax devolution under Article 270.

FC16 did not provide state-wise assessments of revenue needs after taking into account each state's revenue effort and its share under the recommended tax devolution scheme. As a result, for most years of the award period, the Commission's assessments leave the central government with sizable revenue deficits, while state governments, taken together, are shown to be in revenue surplus. It may be noted, however, that revenue deficits of individual states cannot be offset by revenue surpluses of other states. Such state-specific positions could have been explicitly assessed and reported by FC16.

The discontinuation of RDGs and changes in allocations under grants for local bodies and natural calamities imply a cumulative reduction in transfers to states, in vertical terms, of about 0.311% of GDP, equivalent to 2.39% of FC16 projected GoI's gross revenue receipts.

On the horizontal dimension, FC16 introduced a new 'contribution' criterion based on a state's share in all-state GSDP. The Commission justified this criterion on grounds of efficiency. However, it is important to distinguish between production efficiency and fiscal efficiency. Production efficiency is driven by market forces and by the interstate allocation of productive capital and human resources. In India, these resources are highly concentrated in a limited number of states. The role of the FC is to ensure that, despite such market-driven differences in per-capita GSDP, the transfer system enables states to provide comparable standards of public and merit services, provided their citizens are willing to make comparable levels of tax or revenue effort. In this context, the use of the contribution criterion, especially through the square-root formulation of GSDP, introduces a scaling effect that may have reduced the equity of the overall per-capita transfer system.

When the six devolution criteria used by FC16 are considered together, the total loss over the FC16 award period for the group of large-population and low-income states including Madhya Pradesh, Uttar Pradesh, and Bihar amounts to INR1,62,106 crore compared to the FC15(2) award period. For the group of small and/or hilly states, the cumulative loss is INR89,618 crore.

FC16 recommended that states should review and rationalize subsidies and freebies, retaining only those that are well targeted towards the poor. However, it may have been more effective if FC16 had undertaken a normative assessment of state-level expenditures and explicitly identified and excluded subsidies that were not justified. A similar normative review may also have been carried out for expenditures of the central government.

There are several aspects of the FC16 report that merit further examination. First, the reliability of its projections for the award period needs to be assessed, particularly with respect to (a) assumptions on nominal growth, (b) the revenue impact of recent GST reforms, and (c) the implications of the forthcoming 8th Pay Commission award for central and state finances. Second, FC16's recommendations on fiscal consolidation at both the central and state levels also require closer scrutiny. These issues are proposed to be discussed in the next issue of *Economy Watch*.



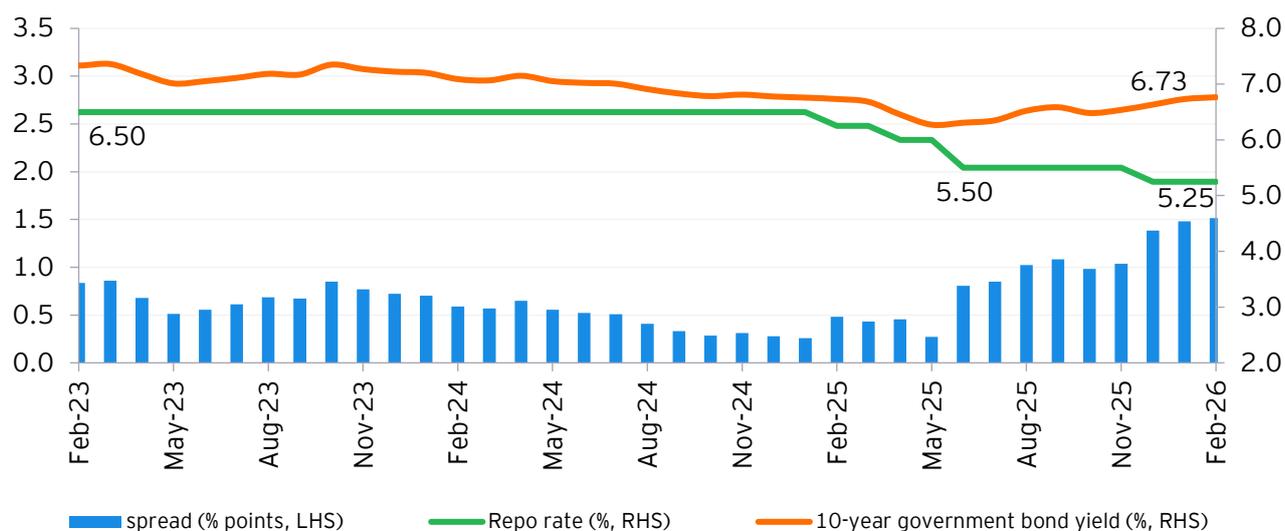
Money and Finance: Gross bank credit showed a robust growth of 14.6% in January 2026

7.1 Monetary sector

Monetary policy

- The Monetary Policy Committee (MPC) retained the repo rate at 5.25% (Chart 12) in its February 2026 monetary policy review while also maintaining a neutral policy stance.
- In RBI's assessment, the near-term inflation outlook remained benign largely owing to favorable food supply conditions supported by healthy kharif output, comfortable buffer stock of foodgrains and positive rabi sowing prospects. It assessed that core inflation is expected to be range bound, although it may temporarily experience volatility owing to movements in prices of precious metals.
- The RBI expects upside risks to inflation to emanate from heightened geopolitical uncertainty, volatility in global energy prices and adverse weather events.

Chart 12: Movements in the repo rate and 10-year government bond yield



Source: Database on Indian Economy, RBI

Money stock

- Growth in broad money stock (M3)⁹ increased to a 20-month high of 12.6% in February 2026 from 12.0% in January 2026 due to higher growth in narrow money.
- Growth in narrow money (M1), accelerated further to a five-year high of 18.0% in February 2026 from 16.8% in January 2026. This continued strong growth performance was due to an increase in the growth of currency with the public from 11.5% in January 2026 to 12.0% in February 2026 and a sustained growth in demand deposits at 26.5% in February 2026 as compared to 24.0% in January 2026.
- Growth in time deposits, the largest component of M3, increased marginally to 10.9% in February 2026 from 10.6% in January 2026.

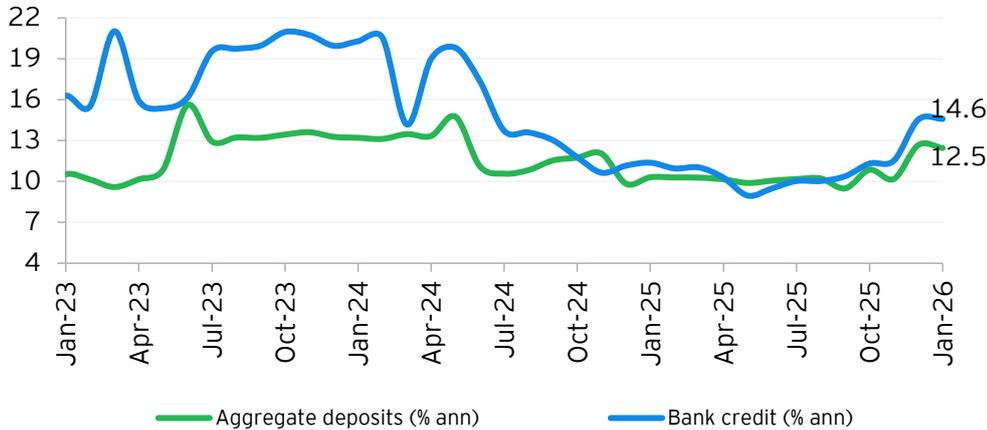
⁹ The RBI has stopped reporting data on 'Money Stock: components and sources' excluding the impact of merger of a non-bank with bank from 11-July-2025. Therefore, we have used M3 data that includes the impact of merger of a non-bank with a bank as reported by the RBI.



Aggregate credit and deposits

- Growth in gross bank credit¹⁰ remained strong at 14.6% in January 2026, close to its level of 14.5% in December 2025 (Chart 13).
- Non-food credit growth remained stable for the second successive month at 14.4% in January 2026 driven by higher growth rates in personal loans and credit to services sector.

Chart 13: Growth in credit and deposits



Gross bank credit posted a robust growth of 14.6% in January 2026, close to its level of 14.5% in December 2025.

Source: Database on Indian Economy, RBI

- Among the key segments of non-food credit, growth in credit to services sector, with an average share of about 27% in total non-food credit (last five years), was 15.5% in January 2026, close to its growth of 15.3% in December 2025.
- Personal loans (share close to 30% in total non-food credit) also showed a healthy growth of 14.9% in January 2026, increasing from 14.4% in December 2025. Among its sub-components, growth in vehicle loans increased to 17.1% in January 2026 from 16.5% in December 2025. Housing loans posted a stable growth of 11.1% in January 2026, similar to its level in December 2025. Loans for consumer durables, however, contracted for the third successive month by (-)4.0% in January 2026, as compared to (-)5.1% in December 2025.
- Outstanding credit to industries, having a share of about 25% on average in total non-food credit (last five years) posted a strong growth of 12.1% in January 2026 although remaining lower as compared to 13.3% in December 2025.
- Among major segments within industrial credit, growth in credit to infrastructure, having the largest share in industrial credit, was lower at 6.4% in January 2026 as compared to 7.2% in December 2025. Growth in credit to iron and steel and textiles also moderated to 8.2% and 10.0% respectively in January 2026 as compared to 9.5% and 11.8% in December 2025.
- Growth in credit to agricultural sector remained strong at 11.4% in January 2026, although moderating from 12.1% in December 2025.
- Growth in other non-food credit, i.e., non-food credit excluding credit to agriculture, industry, services and personal loans, was at 24.2% in January 2026, higher as compared to 20.8% in December 2025.
- Growth in aggregate deposits was lower at 12.5% in January 2026 compared to 12.7% in December 2025.

¹⁰ The RBI has stopped publishing data on bank credit and aggregate deposits excluding the impact of merger of a non-bank with a bank since July 2025. Hence, bank credit and aggregate deposits data analyzed here includes the impact of merger of a non-bank with a bank.



7.2 Financial sector

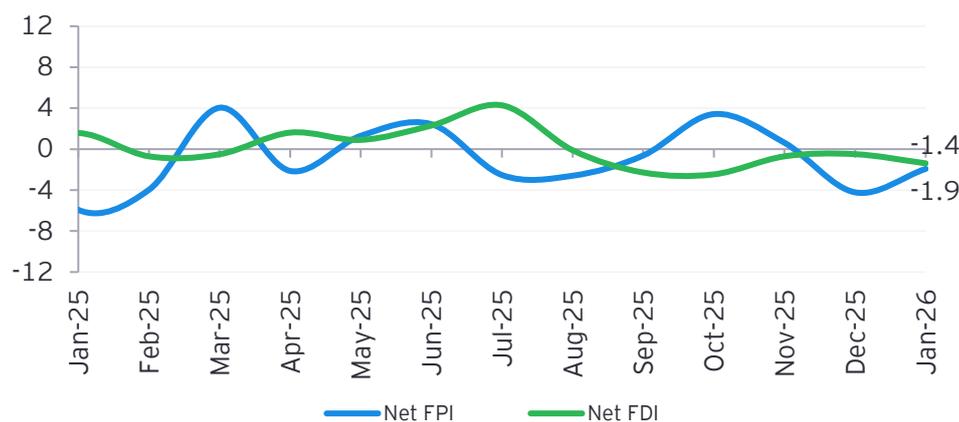
Interest rates

- As per the data released by the RBI in the second week of March 2026, the yield on 10-year government bonds (benchmark) increased for the fourth successive month to reach 6.77% in February 2026 from 6.73% in January 2026 (**Chart 16**). Benchmark bond yields have thus increased by a total of 28 basis points from a local trough seen in October 2025.
- The average interest rate on term deposits with a maturity period of more than one year at 6.26% in February 2026 was close to its level of 6.25% in January 2026, with actual rates ranging between 6.00% and 6.53%.
- The average MCLR was retained at 7.83% in January and February 2026, with the actual MCLR ranging between 7.70% and 7.95% during the month.
- WALR on 'Fresh Rupee Loans' (FRL) by SCBs increased by 39 basis points to 8.67% in January 2026 from 8.28% in December 2025.

FDI and FPI

- As per provisional data released by the RBI on 23 March 2026, overall foreign investments (FIs) witnessed outflows for the third successive month at US\$3.3 billion in January 2026, although marginally lower as compared to US\$4.7 billion (revised) in December 2025, driven by sustained net FPI and FDI outflows.

Chart 14: Net FDI and FPI inflows (US\$ billion)



Net FDIs remained negative for the sixth successive month at US\$1.4 billion in January 2026. FPIs witnessed net outflows for the second successive month at US\$1.9 billion in January 2026.

Source: Database on Indian Economy, RBI

- Net FPIs witnessed outflows for the second successive month in January 2026 at US\$1.9 billion following outflows of US\$4.2 billion in December 2025 (**Chart 14**).
- During April-January FY26, on a cumulated basis, net FPI outflows amounted to US\$6.2 billion compared to net inflows amounting to US\$3.5 billion during the corresponding period of FY25.
- Net FDIs remained negative for the sixth successive month with higher outflows of US\$1.4 billion in January 2026 as compared to US\$0.5 billion (revised) in December 2025. Gross FDI inflows at US\$5.7 billion in January 2026 was lower as compared to US\$8.5 billion in December 2025. Despite positive gross FDI inflows, net FDIs witnessed outflows due to sustained repatriation/disinvestment and FDI by India. Repatriation/disinvestment was lower at US\$4.9 billion in January 2026 as compared to US\$6.0 billion in December 2025, while FDI by India at US\$2.1 billion in January 2026 was also lower as compared to US\$3.0 billion in December 2025.
- On a cumulated basis, during April-January FY26, net FDI inflows were lower at US\$1.7 billion compared to US\$2.2 billion during the corresponding period of FY25. Gross FDI inflows during April-December FY26 at US\$79.3 billion were higher compared to US\$69.2 billion during the corresponding period of FY25.



Trade and CAB: Merchandise exports contracted by (-)0.8% in February 2026

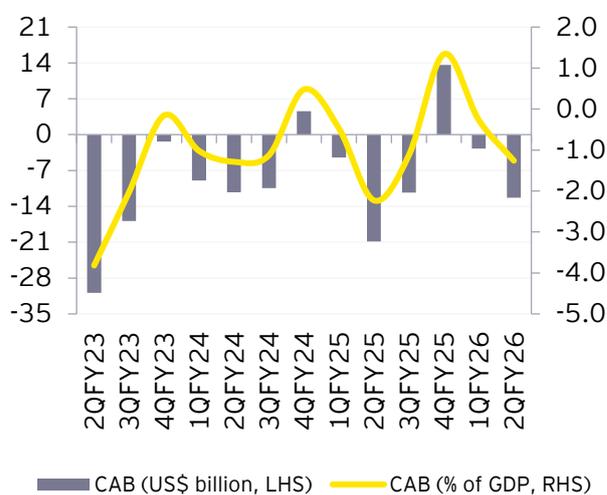
8.1 CAD widened to 1.3% of GDP in 2QFY26 from 0.3% in 1QFY26

- Led by a sharp increase in net merchandise trade deficit by 2.1% points of GDP accompanied by a 1.1% points improvement in net invisibles, current account deficit expanded to 1.3% in 2QFY26 from 0.3% of GDP in 1QFY26 (Table 10 and Chart 15).
- Net merchandise trade deficit widened to 9.0% of GDP in 2QFY26 from 6.8% in 1QFY26, as merchandise imports increased to a four-quarter high of 20.2% of GDP while merchandise exports remained stable at 11.2%. The increase in merchandise imports is primarily attributable to higher petroleum and fertilizer imports partly owing to higher prices of global commodities vis-à-vis those in 1QFY26.
- Net invisibles amounted to 7.7% of GDP in 2QFY26, its highest level since 2QFY09. Net invisibles were driven by both an increase in net services exports and net transfers.
- Over the first two quarters of FY26, net services exports widened to 5.2% of GDP from 4.8% and net transfers to a 53-quarter high of 3.7% from 3.1% of GDP.
- Net income outflows remained nearly stable at (-)1.2% relative to GDP in 2QFY26 compared to (-)1.3% in 1QFY26.

Table 10: Components of CAB (in US\$ billion)

Fiscal year	CAB as % of nominal GDP	CAB	Merchandise net	Invisibles * net
FY22	-1.2	-38.8	-189.5	150.7
FY23	-2.0	-67.1	-265.3	198.2
FY24	-0.7	-26.1	-244.9	218.8
FY25	-0.6	-23.1	-286.9	263.9
3QFY25	-1.1	-11.3	-79.3	68.0
4QFY25	1.3	13.6	-59.3	72.9
1QFY26	-0.3	-2.7	-68.9	66.1
2QFY26	-1.3	-12.3	-87.4	75.1

Chart 15: CAB



Source: Database on Indian Economy, RBI; Note: (-) deficit; (+) surplus; *invisibles include services, current transfers and income components

- Compared to 2QFY25, current account deficit in 2QFY26 eased by nearly 1.0% points of GDP to 1.3% from 2.2% of GDP, supported by robust expansion in services and merchandise exports and strong receipts from remittances.

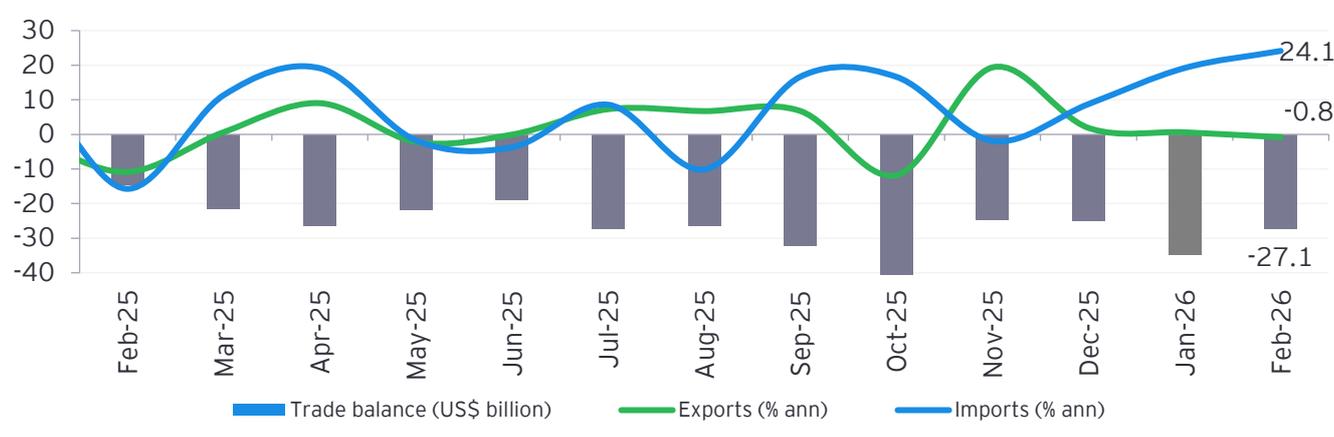


8.2 Merchandise trade and exchange rates

- Merchandise exports contracted by (-)0.8% in February 2026 as compared to a growth of 0.6% in January 2026 led by a fall in petroleum exports.
- Oil exports contracted by (-)40.1% in February 2026 compared to a growth of 8.5% in the previous month mainly led by a high base effect.
- Growth in electronic goods exports increased to 10.4% in February 2026 from 0.3% in the previous month whereas that in gems and jewelry turned positive at 4.1% from (-)23.0% over the same period.
- Exports of engineering goods continued to show relatively robust growth of 12.9% in February 2026. Chemical exports growth turned positive at 6.9% in February 2026 from (-)0.2% in January 2026.
- Merchandise imports growth surged to 24.1% in February 2026 (Chart 16), its highest level since August 2022, on account of higher growth in imports of electronic goods, crude, and coal and coke.
- Growth in imports of electronic goods increased to 33.4%, crude to 9.1%, coal and coke to 10.6%, and machinery to 23.5%, respectively, in February 2026 from 9.1%, (-)0.2%, (-)16.6% and 14.9%, respectively, in January 2026.
- Gold and silver imports continued to show high growth rates of 218.6% and 285.2% in February 2026 compared to 349.2% and 127.0% in the previous month, respectively.
- The pace of contraction of exports to the US eased to (-)12.9% in February 2026 from (-)21.8% in January 2026. On a cumulated basis, India's imports from the US grew by 15.7% during April to January FY26 while those from Russia contracted by (-)12.2% during this period.
- Growth in exports and imports, excluding oil/coal, gold/silver and jewelry, increased to 6.6% and 14.2% in February 2026 from 2.0% and 3.8% in January 2026.

Merchandise exports contracted by (-)0.8% in February 2026 led by a fall in petroleum exports while growth in merchandise imports surged to 24.1% owing to higher growth in imports of electronic goods, crude, and coal and coke.

Chart 16: Developments in merchandise trade



Source: Ministry of Commerce and Industry, GoI

- Merchandise trade deficit remained elevated at US\$27.1 billion in February 2026, although lower than US\$34.7 billion in January 2026, as exports contracted while growth in imports surged (Chart 16).
- Services trade surplus was elevated at US\$21.5 billion in January 2026, although marginally lower than US\$22.7 billion in December 2025 as both services exports and imports declined by comparable magnitudes from their respective levels in the previous month.
- Goods and services trade deficit widened to a three-month high of US\$13.1 billion in January 2026.
- The Indian Rupee remained nearly stable at INR90.7/US\$ in February 2026 (average) from INR90.8/US\$ in January 2026.



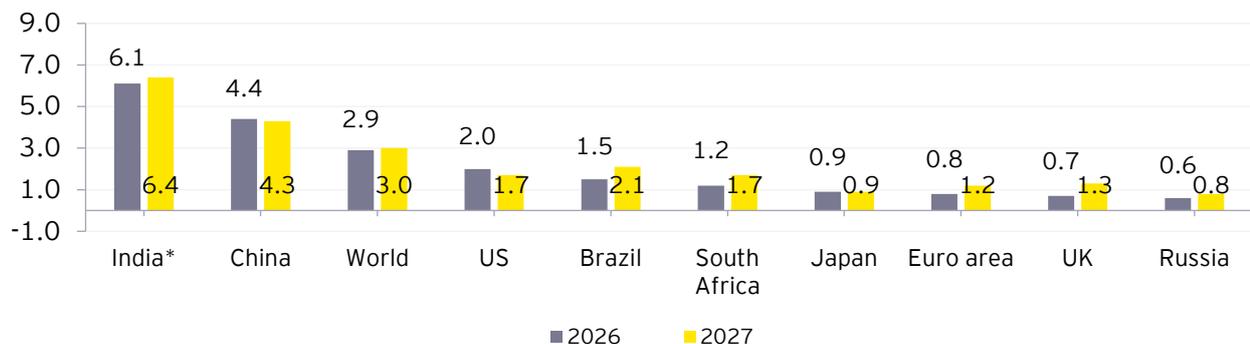
Global growth: OECD projected global growth at 2.9% in 2026 and 3.0% in 2027

9.1 Global growth outlook

- As per the OECD (Global Economic Prospects, Interim Report, March 2026), global growth is projected to fall from 3.3% in 2025 to 2.9% in 2026 before edging up to 3.0% in 2027 (Chart 17). These projections are conditional on a technical assumption that the current extent of energy market disruption moderates over time, with oil, gas and fertilizer prices declining gradually from mid-2026 onwards.
- The OECD observes that the energy price surge and the unpredictable nature of the evolving conflict in the Middle East is likely to raise costs and lower demand, offsetting the tailwinds from strong technology-related investment and production, lower effective tariff rates and the momentum carried over from 2025.
- GDP growth in the US is projected to moderate from 2.0% in 2026 to 1.7% in 2027, as strong AI-related investment is gradually offset by a slowdown in real income growth and consumer spending.
- Euro area GDP growth is anticipated to ease from 1.4% in 2025 to 0.8% in 2026, as higher energy prices weigh on activity, before increasing to 1.2% in 2027 helped by stronger defence spending.
- In the UK, planned fiscal tightening and higher energy prices are anticipated to keep growth subdued, though the impact is likely to be attenuated by lower policy interest rates next year, with GDP growth rising from 0.7% in 2026 to 1.3% in 2027.
- In Japan, business investment is expected to be supported by robust corporate profits and government subsidies, and new fiscal measures are likely to add to final demand, particularly in 2026. These positive forces are expected to be offset by the rising cost of energy imports, with growth projected to slightly ease from 1.2% in 2025 to 0.9% in both 2026 and 2027.
- In China, growth is anticipated to ease from 5.0% in 2025 to 4.4% in 2026 and 4.3% in 2027, as government subsidies for consumers end, energy import prices move higher, adjustment in the real estate sector continues and anti-involution measures weaken investment growth. Nonetheless, these factors are expected to be partially offset by a series of new infrastructure projects and the recent reduction in the effective tariff rate on imports to the US.

The OECD has projected global growth at 2.9% in 2026 and 3.0% in 2027 with India's FY27 and FY28 growth rates forecasted at 6.1% and 6.4% respectively.

Chart 17: Global growth projections (% annual)



Source: OECD Global Economic Prospects, Interim Report (March 2026)

*Data pertains to fiscal years

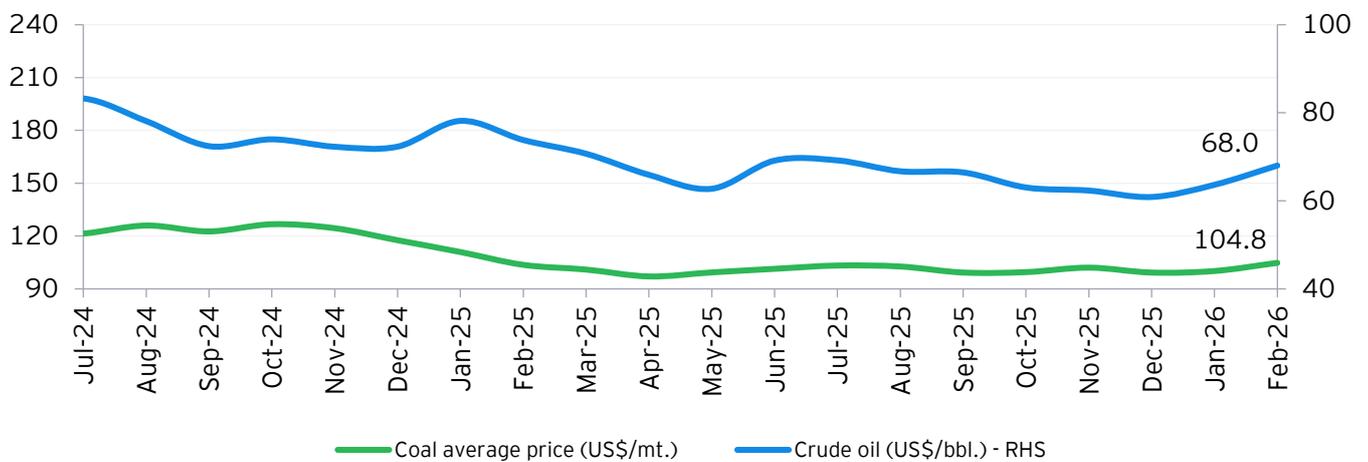


- In India, decline in US tariffs is expected to support growth though gas rationing may disrupt some production activities. Alongside fading fiscal support, growth is projected to ease from 7.6% in 2025 (FY26) to 6.1% in 2026 (FY27) before improving to 6.4% in 2027 (FY28). Despite a slight moderation in growth in FY27, India is projected to remain the fastest growing major economy in the world.

9.2 Global energy prices: Global crude price increased to a seven-month high of US\$68/bbl. in February 2026

- Average global crude price¹¹ increased from US\$63.7/bbl. in January 2026 to a seven-month high of US\$68/bbl. in February 2026 (**Chart 18**). On a daily basis, as on 24 March 2026, Brent and WTI crude prices soared to US\$100.2/bbl. and US\$92.3/bbl.¹², respectively, in the face of ongoing geopolitical challenges that have caused potential supply disruptions¹³.
- Average global coal price¹⁴ also showed a mild increase from US\$100.2/mt. in January 2026 to US\$104.8/mt. in February 2026.

Chart 18: Global crude and coal prices



Source (basic data): World Bank Pink Sheets, March 2026

¹¹ Simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh

¹² <https://oilprice.com/oil-price-charts/>

¹³ <https://economictimes.indiatimes.com/news/international/us/why-are-global-oil-prices-rising-now-and-will-brent-crude-go-from-72-48-to-80-per-barrel-in-next-jump-global-oil-price-rise-analysts-insights-and-market-outlook-explained-heres-what-should-investors-do-now/articleshow/128882384.cms?from=mdr>

¹⁴ Simple average of Australian and South African coal prices.

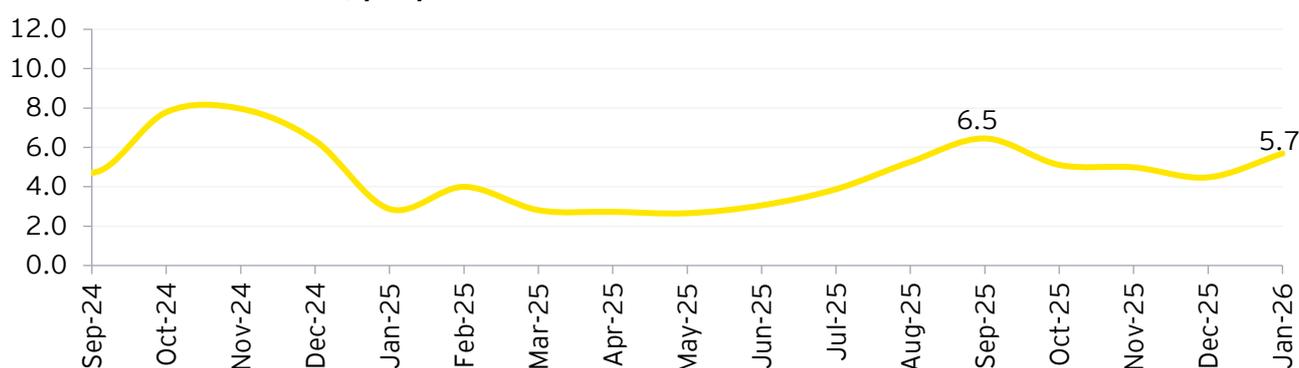


Index of Aggregate Demand (IAD): IAD grew by 5.7% in January 2026

10.1 Growth in IAD increased to 5.7% in January 2026

- IAD¹⁵ grew by 5.7% in January 2026, increasing from 4.5% in December 2025, largely driven by improving demand conditions in the manufacturing and services sectors (Chart 19 and Table 11).
- In the manufacturing sector, demand conditions recovered during the month as indicated by a pick-up in PMI manufacturing (sa) to 55.4 in January 2026, following two successive months of moderation in the index value.
- Demand conditions in the services sector also recovered, as indicated by a continuing high level of PMI services (sa) at 58.5 in January 2026, following 58.0 in December 2025.
- Demand conditions in the agricultural sector continued to remain strong, as indicated by a sustained double-digit growth in agricultural credit at 11.3% (sa) in January 2026, although marginally lower as compared to 12.0% in December 2025.

Chart 19: Growth in IAD (% y-o-y)



Source (Basic data): S&P - IHS Markit PMI, RBI and EY estimates

Table 11: IAD

Month	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26
IAD	183.2	185.9	187.3	190.7	189.1	189.0	189.1	188.7	190.0
Growth (% y-o-y)	2.7	3.1	3.9	5.3	6.5	5.1	5.0	4.5	5.7
Growth in agr. credit	7.4	6.7	7.4	7.6	9.0	9.0	8.8	12.0	11.3
Mfg. PMI*	7.6	8.4	9.1	9.3	7.7	9.2	6.6	5.0	5.4
Ser. PMI*	8.8	10.4	10.5	12.9	10.9	8.9	9.8	8.0	8.5

¹⁵ EY has developed an Index of Aggregate Demand (IAD) to reflect the monthly combined demand conditions in the agriculture, manufacturing, and services sectors. It considers the movements in PMI for manufacturing and services, both measured in seasonally adjusted (sa) terms, tracing the demand conditions in these sectors. Movements in the monthly agricultural credit off-take (sa) capture the demand conditions in the agricultural sector.



Capturing macro-fiscal trends: Data appendix

Table A1: Industrial growth indicators (annual, quarterly and monthly growth rates, y-o-y)

Fiscal year/ quarter/ month	IIP	Mining	Manufacturing	Electricity	Core IIP	Fiscal year/ quarter/ month	PMI mfg.	PMI ser.
	% change y-o-y							
FY22	11.4	12.2	11.8	7.9	10.4	FY22	54.0	52.3
FY23	5.2	5.8	4.7	8.9	7.8	FY23	55.6	57.3
FY24	5.9	7.5	5.5	7.1	7.6	FY24	57.2	60.3
FY25	4.0	2.9	3.9	5.1	4.4	FY25	57.4	59.2
4QFY25	4.0	2.4	4.2	4.6	4.3	4QFY25	57.4	58.0
1QFY26	2.0	-3.0	3.3	-1.5	1.5	1QFY26	58.1	59.3
2QFY26	4.3	-0.5	5.1	3.7	4.5	2QFY26	58.7	61.4
3QFY26	5.3	3.8	6.3	-0.9	2.3	3QFY26	56.9	58.9
Oct-25	0.5	-1.8	2.0	-6.9	-0.1	Nov-25	56.6	59.8
Nov-25	7.2	5.8	8.5	-1.5	2.1	Dec-25	55.0	58.0
Dec-25	8.0	6.9	8.4	6.3	4.7	Jan-26	55.4	58.5
Jan-26	4.8	4.3	4.8	5.1	4.0	Feb-26	56.9	58.1

Source: MoSPI, Office of the Economic Adviser, Ministry of Commerce and Industry and S&P Global

Table A2: Inflation indicators (annual, quarterly and monthly growth rates, y-o-y)

Fiscal year/ quarter/ month	CPI	Food and beverages	Housing and utilities [#]	Core CPI [*]	WPI	Food Price Index	Mfg. products	Fuel and power	Core WPI
	% change y-o-y (2024 base series)					% change y-o-y (2011-12 series)			
FY22	5.5	NA	NA	NA	13.0	6.8	11.1	32.5	11.0
FY23	6.6	NA	NA	NA	9.4	6.3	5.6	28.1	5.8
FY24	5.4	NA	NA	NA	-0.7	3.2	-1.7	-4.7	-1.4
FY25	4.6	NA	NA	NA	2.3	7.3	1.7	-1.3	0.7
4QFY25	3.7	NA	NA	NA	2.4	6.2	3.0	-1.0	1.4
1QFY26	2.9	NA	NA	NA	0.3	1.6	2.2	-3.9	1.0
2QFY26	1.7	NA	NA	NA	0.0	-1.3	2.3	-3.0	1.5
3QFY26	0.6	NA	NA	NA	-0.1	-2.6	1.7	-2.4	1.8
Nov-25	0.5	NA	NA	NA	-0.1	-2.5	1.5	-2.3	1.6
Dec-25	1.2	NA	NA	NA	1.0	-0.1	2.0	-2.3	2.3
Jan-26	2.7	2.1	1.5	3.4	1.8	1.4	2.9	-4.0	3.2
Feb-26	3.2	3.4	1.5	3.4	2.1	1.8	2.9	-3.8	3.3

Source: Office of the Economic Adviser, Ministry of Commerce and Industry and MoSPI

Note: CPI inflation is calculated on the basis of the 2024 base series that was released by the MoSPI in February 2026. Data for the CPI categories under the 2024 base series is not available for other months of the previous years and hence corresponding inflation estimates are unavailable.

[#]Housing and utilities include Housing, water, electricity, gas and other fuels; ^{*}sourced from RBI monthly Bulletin



Table A3: Fiscal indicators (annual growth rates, cumulated monthly growth rates, y-o-y, unless otherwise specified)

Fiscal year/month	Gross tax revenue	Corporate tax	Income tax	Direct taxes*	Indirect taxes**	Fiscal deficit % of GDP	Revenue deficit % of GDP
FY23	12.7	16.0	19.7	17.8	7.2	6.5	4.0
FY24	13.5	10.3	25.4	17.9	8.5	5.5	2.5
FY25	9.5	8.3	18.2	13.6	4.3	4.8	1.7
FY26 (RE over FY25act.)	7.4	12.4	6.2	9.0	5.2	4.4	1.5
FY27 (BE over FY25RE)	8.0	11.0	11.7	11.4	3.0	4.3	1.5
Cumulated growth (% , y-o-y)						% of budgeted target	
Jun-25	4.6	-1.2	-0.5	-0.8	11.5	17.9	6.4
Jul-25	0.8	7.6	-9.9	-4.3	6.9	29.9	28.9
Aug-25	0.8	2.1	-2.5	-1.0	2.9	38.1	37.9
Sep-25	2.8	1.1	4.7	3.1	2.8	36.5	5.2
Oct-25	4.0	5.2	6.9	6.1	1.7	52.6	46.7
Nov-25	3.3	7.8	6.8	7.2	-1.0	62.3	68.2
Dec-25	8.5	12.4	4.2	8.0	9.7	54.9#	21.6#
Jan-26	8.6	14.7	4.9	9.3	8.2	63.0#	37.3#

Source: Monthly Accounts, Controller General of Accounts, Government of India, Union Budget documents; # indicates that the values as percent of revised estimates; annual data is sourced from Union Budget documents.

* Includes corporation tax and income tax

** Includes customs duty, excise duty, service tax, CGST, UTGST, IGST and GST compensation cess

Fiscal year/month	CGST	UTGST	IGST	GST compensation cess	Total GST
INR crore					
FY26 (RE)	9,58,480	5,019	0	88,000	10,51,499
FY27 (BE)	10,19,020	5,485	0	0	10,24,505
Jun-25	76,739	288	-6,118	13,319	84,228
Jul-25	79,902	336	-15,405	11,980	76,813
Aug-25	78,877	372	-11,537	11,655	79,367
Sep-25	76,234	529	-9,208	11,212	78,767
Oct-25	86,871	522	-20,968	7,331	73,756
Nov-25	82,866	1,697	-30,714	3,901	57,750
Dec-25	74,142	463	76,161	5,373	1,56,139
Jan-26	87,680	1,134	-8,750	5,696	85,760

Source: Monthly Accounts, Controller General of Accounts, Government of India, Union Budget documents

Note: IGST revenues are subject to final settlement



Table A4: Monetary and financial indicators (annual, quarterly and monthly growth rates, y-o-y)

Fiscal year/ month	Repo rate (end of period)	Fiscal year/ quarter/ month	Bank credit	Agg. deposits	Net FDI	Net FPI	Fiscal year/ quarter/ month	M1	M3	10-year govt. bond yield	FX reserves
	%		% change y-o-y		US\$ billion			% change y-o-y		%	US\$ billion
Mar-25	6.25	FY22	7.0	9.7	38.6	-16.8	FY22	10.7	8.8	6.40	617.6
Apr-25	6.00	FY23	14.4	9.5	28.0	-5.2	FY23	6.9	9.0	7.35	578.4
May-25	6.00	FY24	18.6	13.0	10.2	44.1	FY24	7.3	11.6	7.16	645.6
Jun-25	5.50	FY25	13.5	11.3	1.0	3.6	FY25	7.9	9.4	6.88	665.4
Jul-25	5.50	4QFY25	11.1	10.3	0.4	-5.9	4QFY25	7.9	9.4	6.72	665.4
Aug-25	5.50	1QFY26	9.6	10.0	4.8	1.6	1QFY26	12.1	9.5	6.34	702.8
Sep-25	5.50	2QFY26	10.1	10.0	1.9	-5.7	2QFY26	11.4	9.2	6.49	700.2
Oct-25	5.50	3QFY26	12.5	11.2	-3.7	-0.2	3QFY26	17.4	12.1	6.55	696.6
Nov-25	5.50	Oct-25	11.3	10.9	-2.5	3.4	Nov-25	12.5	9.9	6.54	686.2
Dec-25	5.25	Nov-25	11.5	10.2	-0.7	0.6	Dec-25	17.4	12.1	6.63	696.6
Jan-26	5.25	Dec-25	14.5	12.7	-0.5	-4.2	Jan-26	16.8	12.0	6.73	723.8
Feb-26	5.25	Jan-26	14.6	12.5	-1.4	-1.9	Feb-26	18.0	12.6	6.77	728.5

Source: Database on Indian Economy - RBI

Table A5: External trade and US Dollar Index

Fiscal year/ quarter/ month	External trade indicators (annual, quarterly and monthly growth rates)							Calendar year	DXY
	Exports	Imports	Trade balance	Ex. rate (avg.)	Crude prices (avg.)	Coal prices (avg.)			
	% change y-o-y		US\$ billion	INR/US\$	US\$/bbl.	US\$/mt.			
FY22	44.8	56.0	-191.0	74.5	78.4	164.8	2022	104.0	
FY23	6.0	16.8	-268.5	80.4	92.7	283.4	2023	103.4	
FY24	-2.3	-5.3	-241.1	82.8	81.1	126.4	2024	104.2	
FY25	0.1	6.2	-282.8	84.6	77.1	118.2	2025	100.8	
4QFY25	-4.3	1.6	-59.4	86.7	74.2	105.2	1QCY25	106.7	
1QFY26	2.1	4.2	-67.1	85.6	65.9	99.3	2QCY25	99.7	
2QFY26	6.9	4.3	-86.0	87.3	67.5	101.8	3QCY25	98.0	
3QFY26	2.1	7.9	-91.3	89.1	62.1	100.3	4QCY25	99.0	
Nov-25	19.4	-1.9	-24.5	88.8	62.3	102.1	Nov-25	99.7	
Dec-25	1.9	8.8	-25.0	90.1	60.9	99.3	Dec-25	98.5	
Jan-26	0.6	19.2	-34.7	90.8	63.7	100.2	Jan-26	98.3	
Feb-26	-0.8	24.1	-27.1	90.7	68.0	104.8	Feb-26	97.4	

Source: Ministry of Commerce and Industry, Refinitiv, Database on Indian Economy - RBI, Pink Sheet - World Bank



Table A6: Global growth

Calendar year	Growth (annual)			
	World GDP	Adv. econ.	Emer. econ.	India [#]
	% change y-o-y			
2019	2.9	1.9	3.7	3.9
2020	-2.7	-4.0	-1.7	-5.8
2021	6.6	6.0	7.0	9.7
2022	3.6	2.9	4.1	7.6
2023	3.5	1.7	4.7	9.2
2024	3.3	1.8	4.3	6.5
2025*	3.3	1.7	4.4	7.3
2026*	3.3	1.8	4.2	6.4
2027*	3.2	1.7	4.1	6.4
2028**	3.2	1.7	4.1	6.5
2029**	3.2	1.6	4.1	6.5
2030**	3.1	1.5	4.0	6.5

Source: IMF WEO January 2026; * indicates projections as per the January 2026 WEO Update; ** indicates projections # data is on fiscal year basis



Table A7: Macroeconomic aggregates (annual and quarterly real growth rates, % change y-o-y)

Fiscal year/quarter	Output: Major sectors									IPD inflation
	GVA	Agr.	Ming.	Mfg.	Elec.	Cons.	Trans.	Fin.	Publ.	GVA
FY24	7.2	2.6	2.4	12.7	10.7	9.9	10.1	5.5	6.8	3.3
FY25 (FRE)	7.3	4.2	11.7	9.3	2.9	7.3	6.6	10.0	5.0	2.2
FY26 (SAE)	7.7	2.4	4.1	11.5	1.5	7.1	10.1	9.9	5.8	0.9
3QFY24	6.7	1.4	1.5	15.2	12.6	8.7	8.8	4.8	7.3	3.2
4QFY24	7.6	2.7	5.3	7.0	10.3	8.7	11.3	8.6	9.7	2.6
1QFY25	7.6	2.6	11.9	9.4	9.2	8.7	6.9	10.3	6.9	2.3
2QFY25	6.5	4.1	8.3	4.9	-0.2	6.1	6.6	10.0	6.0	1.7
3QFY25	7.8	5.8	13.1	10.8	0.6	6.4	6.7	11.1	4.4	2.4
4QFY25	7.1	3.8	12.9	11.8	2.1	8.0	6.3	8.8	3.2	2.4
1QFY26	7.0	4.2	4.5	10.6	-1.9	5.4	9.4	8.8	4.3	1.4
2QFY26	8.6	2.3	6.1	13.2	3.9	8.7	10.4	9.9	6.9	0.6
3QFY26	7.8	1.4	4.7	13.3	1.5	6.6	11.0	11.2	4.5	0.3

Source: National Accounts Statistics, MoSPI

Note: Data is as per 2022-23 base series

*Growth numbers for FY26 pertain to the Second advance estimates (FAE) of National Account Statistics released on 27 February 2026. Growth numbers for FY25 are based on First Revised estimates released on 27 February 2026.

Fiscal year/quarter	Expenditure components						IPD inflation
	GDP	PFCE	GFCE	GFCF	EX	IM	GDP
FY24	7.2	5.8	0.6	7.3	0.7	-1.0	3.5
FY25 (FRE)	7.1	5.8	6.5	6.4	6.6	5.3	2.5
FY26 (SAE)	7.6	7.7	6.6	7.1	6.5	6.4	1.0
3QFY24	7.1	5.4	0.9	6.2	0.9	0.1	3.4
4QFY24	7.5	6.0	2.5	6.1	6.4	-9.7	3.7
1QFY25	7.5	6.1	7.5	6.5	7.3	8.3	2.8
2QFY25	6.6	5.6	7.0	6.6	3.1	4.6	2.1
3QFY25	7.4	6.0	7.6	6.3	10.5	2.9	2.6
4QFY25	7.0	5.6	3.6	6.2	5.4	5.5	2.4
1QFY26	6.7	9.2	5.8	4.9	6.6	7.4	1.6
2QFY26	8.4	8.0	6.6	8.4	10.2	5.9	0.1
3QFY26	7.8	8.7	4.7	7.8	5.6	8.6	1.0

Source: National Accounts Statistics, MoSPI

Note: Data is as per 2022-23 base series

*Growth numbers for FY26 pertain to the Second advance estimates (FAE) of National Account Statistics released on 27 February 2026. Growth numbers for FY25 are based on First Revised estimates released on 27 February 2026



Technical appendix: In Focus section

12.1 FC16's contribution criterion

The FC16's formula for the inter-se share of a state (C_i) under the contribution criterion may be represented as below:

$$C_i = \frac{Y_i^{1/2}}{\sum Y_i^{1/2}} = \frac{N_i^{1/2} \cdot y_i^{1/2}}{\sum N_i^{1/2} \cdot y_i^{1/2}} = B \cdot N_i^{1/2} \cdot y_i^{1/2} \quad (1)$$

where $B = \frac{1}{\sum N_i^{1/2} \cdot y_i^{1/2}}$, Y_i = GSDP of state i , y_i = Per capita GSDP of state i , N_i = Population of state i

Multiplying and dividing by $N_i^{1/2} \cdot y_i^{1/2}$, we can rewrite equation (1) as:

$$C_i = \frac{B \cdot N_i \cdot y_i}{N_i^{1/2} \cdot y_i^{1/2}}$$

Thus, per capita share under square root of GSDP formula

$$c_i = \frac{B \cdot y_i}{N_i^{1/2} \cdot y_i^{1/2}} \quad (2)$$

Alternatively, the share of a state in all-state GSDP without using the square roots (Q_i) may be written as:

$$Q_i = \frac{Y_i}{\sum Y_i} = \frac{N_i \cdot y_i}{\sum N_i \cdot y_i} = A \cdot N_i \cdot y_i \quad (3)$$

where $A = \frac{1}{\sum N_i \cdot y_i}$ is a constant

In this case, per capita share of a state can be written as:

$$q_i = A \cdot y_i \quad (4)$$

12.2 Combined criterion for contribution and distance formulae

Under Distance criterion, share of a state is given by:

$$D_i = \frac{N_i(y^* - y_i)}{\sum N_i(y^* - y_i)}$$

where y^* is the benchmark per capita GSDP from which distances of other states are measured

$$D_i = Z \cdot N_i(y^* - y_i) \text{ where } Z = \frac{1}{\sum N_i(y^* - y_i)} = \text{constant}$$

Per capita share under income distance criterion is given by

$$d_i = Z \cdot (y^* - y_i) \quad (5)$$

In the way income distance formula has been used by FCs in India, the per capita share for a set of states is kept equal by giving them an artificial per capita distance equal to the per capita distance of the benchmark states. Thus, equation (5) can be written as:

$$d_i = Z \cdot (y^* - y_i) \quad (6a) \text{ for } i=1, \dots, y_m \text{ where } y_m \text{ is the benchmark state.}$$

$$d_i = d^* \quad (6b) \text{ for } i=y_{m+1}, \dots, y_n \text{ for states with per capita GSDP higher than } y_m$$

Using income distance criterion along with contribution criterion, since both are functions of y_i we can derive a weighted combination as follows.

Weights to distance and contribution criterion may be defined as w_d and w_c respectively

Using equations (2) and (5), the combined per capita share of a state may be given as

$$b_i = \frac{w_d Z(y^* - y_i) + \left(\frac{w_c B y_i}{N_i^{1/2} \cdot y_i^{1/2}} \right)}{w_d + w_c}$$

$$b_i = \frac{1}{w_d + w_c} \left[w_d \cdot Z y^* - y_i \left\{ w_d Z - \frac{w_c B}{N_i^{1/2} \cdot y_i^{1/2}} \right\} \right] = q^* - q_i \cdot y_i$$

$$\text{where } q^* = \frac{1}{w_d + w_c} [w_d \cdot Z \cdot y^*]$$

$$\text{and } q_i = \frac{1}{w_d + w_c} \left[w_d \cdot Z - \frac{w_c B}{N_i^{1/2} \cdot y_i^{1/2}} \right]$$

Here $w_d = 42.5\%$ and $w_c = 10\%$.



List of abbreviations

Sr. no.	Abbreviations	Description
1	AD	Aggregate demand
2	AEs	Advanced economies
3	Agr.	Agriculture, forests and fishing
4	AY	Assessment year
5	Bcm	Billion cubic meters
6	bbl.	Barrel
7	BE	Budget estimate
8	CAB	Current account balance
9	CGA	Comptroller General of Accounts
10	CGST	Central Goods and Services Tax
11	CIT	Corporate income tax
12	Cons.	Construction
13	CPI	Consumer Price Index
14	COVID-19	Coronavirus disease 2019
15	CPSE	Central public-sector enterprise
16	CRAR	Credit to Risk- weighted Assets Ratio
17	Disc.	Discrepancies
18	ECBs	External Commercial borrowings
19	Elec.	Electricity, gas, water supply and other utility services
20	EMDEs	Emerging Market and Developing Economies
21	EXP	Exports
22	FAE	First advance estimates
23	FC	Finance Commission
24	FII	Foreign investment inflows
25	Fin.	Financial, real estate and professional services
26	FPI	Foreign portfolio investment
27	FRBMA	Fiscal Responsibility and Budget Management Act
28	FRL	Fiscal Responsibility Legislation
29	FY	Fiscal year (April–March)
30	GDP	Gross Domestic Product
31	GFCE	Government final consumption expenditure
32	GFCF	Gross fixed capital formation
33	GoI	Government of India
34	G-secs	Government securities



Sr. no.	Abbreviations	Description
35	GST	Goods and Services Tax
36	GVA	Gross value added
37	IAD	Index of Aggregate Demand
38	IBE	Interim budget estimates
39	ICRIER	Indian Council for Research on International Economic Relations
40	IEA	International Energy Agency
41	IGST	Integrated Goods and Services Tax
42	IIP	Index of Industrial Production
43	IMF	International Monetary Fund
44	IMI	Index of Macro Imbalance
45	IMP	Imports
46	INR	Indian Rupee
47	IPD	Implicit price deflator
48	MCLR	Marginal cost of funds-based lending rate
49	Mfg.	Manufacturing
50	MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
51	Ming.	Mining and quarrying
52	m-o-m	Month-on-month
53	Mt	Metric ton
54	MoSPI	Ministry of Statistics and Programme Implementation
55	MPC	Monetary Policy Committee
56	MPF	Monetary Policy Framework
57	n.i.e	Not indicated elsewhere
58	NEXP	Net exports (exports minus imports of goods and services)
59	NSO	National Statistical Office
60	NSSO	National Sample Survey Organisation
61	NPA	Non-performing assets
62	OECD	Organization for Economic Co-operation and Development
63	OPEC	Organization of the Petroleum Exporting Countries
64	PFCE	Private final consumption expenditure
65	PIT	Personal income tax
66	PMI	Purchasing Managers' Index (reference value = 50)
67	PoL	Petroleum oil and lubricants
68	PPP	Purchasing power parity
69	PSBR	Public sector borrowing requirement
70	PSU/PSE	Public sector undertaking/public sector enterprises
71	RE	Revised estimates
72	REE	Rare earth elements



Sr. no.	Abbreviations	Description
73	RBI	Reserve Bank of India
74	sa	Seasonally adjusted
75	SLR	Statutory Liquidity Ratio
76	Trans.	trade, hotels, transport, communication and services related to broadcasting
77	US\$	US Dollar
78	UNCTAD	United Nations
79	UTGST	Union Territory Goods and Services Tax
80	WALR	weighted average lending rate
81	WHO	World Health Organization
82	WPI	Wholesale Price Index
83	y-o-y	year-on-year
84	1HFY20	first half of fiscal year 2019-20, i.e., April 2019-September 2019



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