

SIGHTS FOR

INDIA'S ECONOMY RESILIENT DESPITE GLOBAL HEADWINDS

India's macroeconomic outlook remains constructive heading into FY27. Even with external uncertainties lingering, the Indian economy is expected to record healthy growth of 7% in FY27. The growth momentum will be supported by factors like comfortable inflation, lower interest rates and lower tax burden. While India's merchandise exports have come under pressure amid tariff uncertainties, the healthy services exports is expected to remain supportive of the external position.

India Remains an Attractive
FDI Destination



Cost Tailwinds Lift Cement Margins;
Yet 200-MT Expansion Caps Any
Price Breakout



Is Japan's Fiscal Trajectory Reaching
an Inflection Point?



NOTE FROM

SACHIN GUPTA

Chief Rating Officer & Executive Director



Indian Economy 2026: What's Going Right—and What Isn't

As India steps into 2026, the macroeconomic picture appears, at first glance, remarkably encouraging. Economic growth remains strong, with GDP expansion projected at over 7% for FY26 and a healthy 6.5–7% for FY27. Inflation is largely under control, interest rates remain reasonable, and the banking sector is in its strongest shape in over a decade, supported by low non-performing assets and robust corporate credit quality. Add to this a steadily declining fiscal deficit, a stabilising public debt profile, political continuity, and an increasing emphasis on structural reforms, and the narrative seems overwhelmingly positive.

Yet beneath this optimistic surface lie emerging challenges that warrant closer attention.

One concerning trend is the weakening of the Indian rupee, not only against the US dollar but also more sharply against other major currencies. Over the past year, the rupee has depreciated by over 15% against the British pound and the Euro. This has occurred despite a relatively contained current account deficit, indicating that the pressure is not driven by trade imbalances but by capital flows.

Foreign investment trends paint a sobering picture. Foreign portfolio investors recorded net outflows of nearly USD 18 billion in 2025, while net FDI has fallen sharply over the past four years—from USD 44 billion in FY22 to barely USD 0.5 billion in FY25. These declines signal more than a cyclical shift in sentiment.

The pressing question is whether this represents a temporary market phenomenon or a deeper structural issue.

Evidence increasingly points toward the latter. Globally, long-term capital is being redirected toward developed economies, especially the United States. Europe and Japan, too, are prioritising domestic investment in response to geopolitical uncertainty, reshoring trends, and strategic industrial policies. For emerging markets like India, this means heightened competition for global capital as large-scale foreign investment is essential for manufacturing growth and technological upgrading.

At the same time, global trade dynamics are shifting unfavourably. The tariff war of the past is expected to harden into a new reality of economic nationalism. Until a year ago, there was optimism that India would secure a favourable trade deal with the US and benefit from the “China+1” strategy. However, in 2026, this outlook has dimmed considerably. Rather than gaining export market share, India now risks losing competitiveness amid rising trade barriers and increasingly regionally concentrated supply chains.

Domestically, policy responses also suggest a tilt toward protectionism. Higher import tariffs on sectors such as steel and chemicals are intended to shield local producers from low-cost Chinese imports. While such measures may offer short-term relief to domestic industries, they also risk reducing competitiveness and limiting India's integration into global value chains—an essential driver of sustained export-led growth. The positive impact of the multiple Free Trade Agreements (FTAs), that India is signing is yet to be seen.

The broader concern is that India may be drifting toward a version of self-reliance that prioritises insulation over integration. ‘Atmanirbharta’, if pursued without a strong export strategy and global market access, risks becoming inward-looking. Economic history shows that large, fast-growing economies do not achieve prosperity by turning away from trade and foreign capital but by leveraging them to scale domestic capabilities.

India's ambition to become a “Viksit Bharat” hinges not only on strong domestic fundamentals but also on its ability to attract long-term investment and compete effectively in global markets. While the growth story remains intact for now, the warning signs—weak capital inflows, currency pressures, and rising trade barriers—suggest that sustaining this momentum will require a careful recalibration of economic strategy.



NOTE FROM

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Focus Area for the Union Budget

This year's Union Budget will be presented in the backdrop of healthy domestic growth and low inflation, even though on the external front, there continues to be a threat amidst geopolitical conflicts, trade barriers and weak global growth. This is an apt time for the Union Budget to focus on structural issues to help the country move toward more inclusive and sustainable growth, while bracing for global threats.

There are three broad areas that I would like to highlight for the Budget.

Focus on R&D and Innovation: The next leap of growth for India should be based on innovation and R&D. India's spending on R&D at around 0.7% of GDP is far below the 2.5-3% spending by innovation-led economies. Moreover, the private sector's share of India's R&D expenditure is only around 36%, compared with 70% in many other economies. In the last few years, patent filings in India have increased sharply, but they still account for a small share of global filings. India has the best talent, and there should be a concerted effort to drive innovation across the economy. The government should establish world-class research institutions in the country. Moreover, research in existing academic institutions should be strongly bolstered, and their linkages to the private sector and defence and space establishments should be strengthened. To engage the private sector, the Government can consider a Research Linked Incentive scheme (similar to the PLI scheme). This scheme could be outcome-based or resource-commitment-based.

Job Creation: India urgently needs to create enough jobs to tap into the country's demographic dividend. There is disguised unemployment in the agriculture sector that employs around 46% of India's total workforce. A strong push to agri-ancillary industries (such as horticulture and floriculture) and the agri-processing industry will help absorb the rural workforce more productively. There should also be a continued focus on skilling the rural workforce to enable absorption in other



sectors. As far as the manufacturing sector is concerned, the Government should identify a few sectors with high potential for export and employment generation, like electronics, pharmaceuticals, auto and auto-ancillary, textiles, footwear and create the whole ecosystem for attracting investment in these sectors. This could take the form of expanding existing industrial clusters and creating new, competitive clusters with complete infrastructure. Reducing regulatory hurdles and improving the EoDB will also go a long way toward enabling higher FDI in these sectors. In the services sector, the government should focus on segments such as ICT, finance, and healthcare that have strong employment-generating capacity. In many of these service sectors, India also performs strongly in exports.

Concerted support to the Agri sector: As the farm sector employs around 46% of India's workforce, the upcoming budget should continue to focus on increasing farmers' income. The government should consider increasing the allocation to the sector, which has averaged around 3% of total expenditure over the last five years. Focusing on R&D to improve productivity while making the sector resilient to climate change will go a long way in helping farmers. Moreover, creating opportunities for farmers to move into high-value segments such as agri-allied sectors, agri-processing, and agri-exports will help increase rural income.





INDIA'S ECONOMY RESILIENT DESPITE GLOBAL HEADWINDS

Global Economy Navigating Turbulent Waters

Global economic conditions remain challenging, with global growth expected to stay below pre-pandemic average levels. Furthermore, the maturing global value chains led to a slowdown in globalisation around 2012, with cross-border trade and investment losing momentum amid a surge in trade restrictions and rising geopolitical tensions.

Globally, a gradual shift away from the US dollar is underway as economies seek greater resilience in an uncertain global environment. There is a growing prominence of other actively traded currencies. Furthermore, the sharp rise in central banks' net purchases of gold indicates a shift toward asset safety and hedging against uncertainty.

Domestic Economy Remains on a Resilient Footing

The Indian economy has demonstrated relative resilience in FY26, with the GDP growth pegged at 7.4%, as per the First Advance Estimate (FAE). The growth momentum has been supported by income tax cuts, GST rate rationalisation, continued momentum in services exports, easing inflationary pressures and RBI rate cuts. The FY26 nominal GDP growth is seen at a low of 8% due to a low deflator. Overall, the domestic fundamentals remain largely resilient despite a turbulent global economic landscape. For FY27, we project real GDP growth at 7%, with

nominal GDP growth estimated at 10.1%.

CPI inflation stayed benign in the year so far, with 75% of the items in the CPI basket witnessing inflation below 4%, thereby implying broad-based moderation in inflation. While higher precious metal prices kept core inflation elevated, excluding precious metals, core inflation was 2.4% in November. Inflation bottomed out in October and is expected to rise to around 3% in Q4 FY26. CPI inflation is projected to average at 2.1% in FY26. With a low base of FY26, CPI inflation is expected to average 4% in FY27.

The Centre's gross tax collection recorded weak growth of 3.3% (y-o-y) in 8M FY26, compared with the budgeted 12.5% growth for the full year. However, non-tax revenues have risen sharply by 21%, aided by a higher RBI dividend of Rs 2.7 trillion. Revenue expenditure has risen by just 1.8% in 8MFY26, even as capital expenditure continued to record healthy double-digit growth. Overall, revenue shortfall from slower growth in tax collections is expected to be offset by the RBI's higher dividend transfer and lower revenue spending. We estimate that the government will meet its fiscal deficit target of 4.4% in FY26.

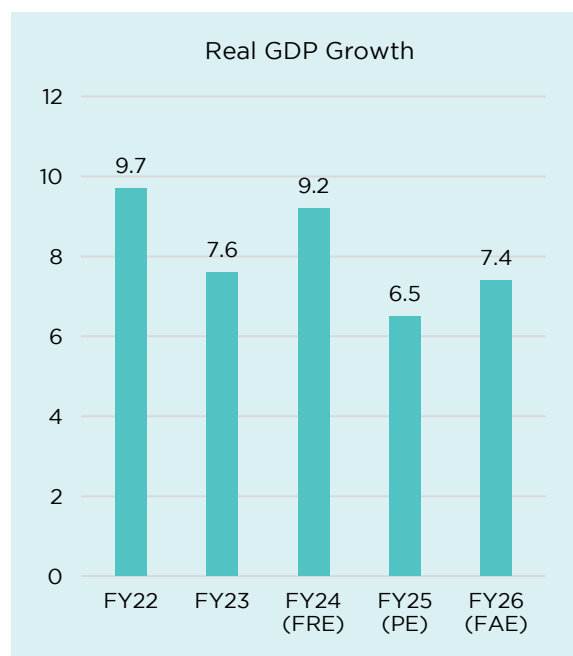
We expect the Centre to reduce the debt to around 50% (+/-1) by the end of FY31, from the estimated 56.1% in FY25. This is based on the assumption that nominal GDP growth averages ~10.7% over the next five years. Laying out a debt trajectory will give the Government the flexibility to adjust the fiscal deficit target each year, depending on growth prospects. The Government may proceed more slowly on fiscal consolidation, with the fiscal deficit-to-GDP likely to be budgeted at 4.2-4.3% in FY27.

India's capex cycle is showing early signs of revival, though the outlook remains cautious. Top sectors driving India Inc's capital expenditure include oil & gas (19% share), power (15%), telecom (10%), automobile

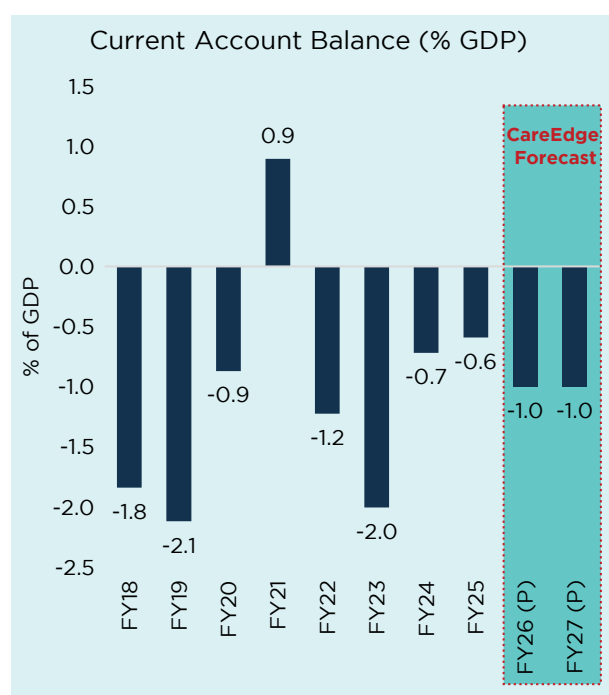
and ancillaries (9%), iron & steel (7%) and non-ferrous metals (5.5%). At the same time, order books of a sample of capital goods companies recorded a sharp 20.7% year-on-year growth in FY25, with the momentum continuing into H1 FY26. We estimate capex in the power generation sector (across listed and unlisted companies) to grow at a CAGR of 8% over FY26-FY28. Within this, investments in renewable energy (including storage) are expected to expand at a faster CAGR of 13% over the same period.

On merchandise export performance, India's shipments to the US contracted by 0.4% during Sep-Nov 2025, compared with 17.8% growth in the preceding five months. Labour-intensive sectors such as gems and jewellery, textiles and ready-made garments have come under pressure. However, market shares for the UAE and Hong Kong have shown some rise in India's gems & jewellery exports, while the UAE and China have gained share in India's textile exports. There are early indications of a rising export market share to other destinations. Shifts in export market dynamics remain a key monitorable going ahead.

India's goods exports are projected to contract by ~1% in FY26 Vs 0.1% growth in FY25. However, the encouraging performance in services exports is likely to continue with a projected growth of 8.5% in FY26 Vs 13.6% in



Source: MOSPI, CareEdge; FRE: First Revised Estimates; PE: Provisional Estimates; FAE: First Advance Estimates



Source: RBI, CMIE, CareEdge

FY25. Overall, India's CAD is projected to remain ~1% of GDP in FY26 and FY27.

In terms of investment, while gross FDI inflows have improved over the past year, higher profit repatriation and increased FDI outflows from India have weighed on net FDI inflows. There has been strong growth in greenfield investments across sectors such as semiconductors, electronics, electrical equipment, EV components, and basic metals. Outward FDI from India averaged USD 22 billion in FY24-FY25, up 58% from the USD 14 billion average during FY21-FY23. Indian firms expanded their global footprint, particularly in Europe, South America, and Africa, with investments spanning sectors such as telecom, automotive, energy, defence, pharmaceuticals, ports, and steel.

India remains an attractive FDI destination with the risk-adjusted return on inward FDI remaining robust at 7.2%. India ranks second only to Indonesia among the major countries analysed. The risk-adjusted returns for some other emerging economies, such as Mexico (6.6%), South Africa (4.5%), and the Philippines (4.3%), are also high.

INDIA REMAINS AN ATTRACTIVE FDI DESTINATION

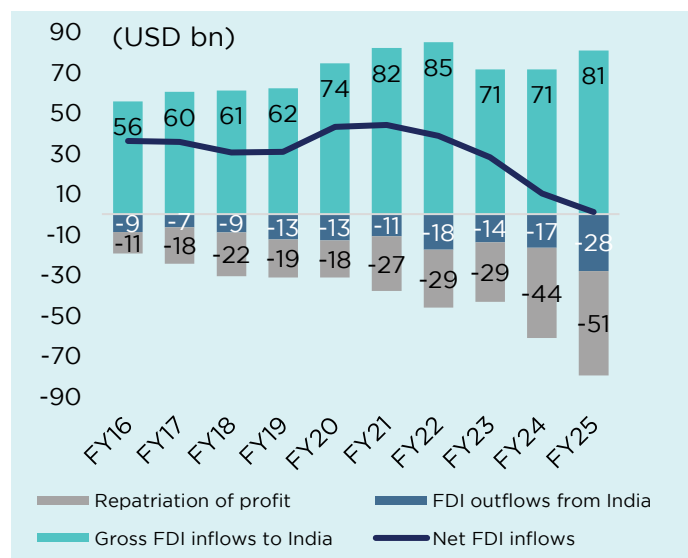
In the last five years, India's annual gross FDI inflows have hovered between USD 70 and 85 billion, recording a flat CAGR of around 2% (FY20-25). While gross inflows have improved, we also observe higher repatriation of profits by investors and FDI outflows from India. This has led to a sharp decline in net FDI inflows. Net FDI flows have fallen from USD 44 billion in FY20 to USD 1 billion in FY25. A foreign company's decision to reinvest or repatriate profits typically reflects its strategic priorities and capital allocation philosophy. Similarly, outward FDI growth indicates access to foreign resources and markets.

Global FDI Stayed Subdued

Given heightened global economic and geopolitical uncertainties, FDI flows have been weak in recent years.

Globally, FDI flows have continued to lag GDP growth. The ratio of global FDI flows to GDP declined to 1.3% in 2024, down from the post-pandemic peak of 2.4% in 2021. The erosion in FDI's share of global GDP has been a persistent trend since the 2008 GFC, when the ratio peaked at 5.3% in 2007. Over the years, the composition of global FDI has also changed. There has been a decline in Europe's share of global outward FDI and stagnation in flows

Foreign Direct Investment Flows in India



Source: CEIC, CareEdge

from the United States. Notably, China has experienced a significant increase in its share of global outward FDI. Its share has risen from almost negligible levels in the early 2000s to an average of ~11% in the post-pandemic years. Countries benefiting from the China+1 strategy—such as Vietnam and Mexico, as well as resource-rich nations in Africa—have experienced significant growth in inbound FDI. India's share in global FDI inflows fell to 2.4% from 2.9%, largely due to higher repatriation.

FDI flows into India

After remaining broadly stagnant at around USD 71 billion in FY23 and FY24, gross FDI inflows rose by 13% to USD 81 billion in FY25. However, a substantial rise in profit repatriation and outflows significantly weighed on net FDI inflows, which fell to just USD 10 billion in FY24 and further to USD 1 billion in FY25. In FY25, the services sector was the largest recipient of FDI equity, accounting for 19% of total inflows, followed by the computer software and hardware sector at 16%, and the trading and non-conventional energy sectors at 8% each. Among other major sectors, trading, non-conventional energy, automobiles, and chemicals (excluding fertilisers) recorded growth in FY25. However, FDI inflows to the drugs and pharmaceuticals and construction sectors contracted in FY25. According to UNCTAD, India has witnessed strong growth in greenfield projects within the manufacturing sector, driven by investments in semiconductors, electronics and electrical equipment, EV components, and basic metals. Greenfield investments in digital industries—such as cloud services and data centres—also increased significantly. India has also emerged as a leading global investor, with outward investment averaging USD 20 billion over the last three years (FY23-FY25), up from USD 8 billion in the pre-pandemic period (FY15-FY19). The 2025 World Investment Report noted a 20% increase in greenfield project announcements by Indian investors, placing India among the world's top 10 investor countries in 2024. Over the years, Indian companies have expanded their global footprint, particularly in Europe, South America, and Africa, investing across diverse industries such as telecommunications, automotive, mining, energy, defence, pharmaceuticals, ports, and steel.

Attractive Returns on FDI in India

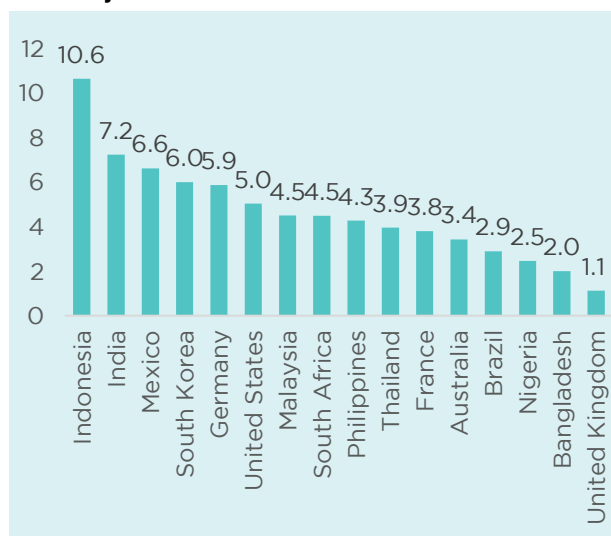
Despite a slowdown in net inflows, we find that the return on inward FDI in India remains robust. We have estimated returns on inward FDI as FDI equity income receipts expressed as a percentage of the total inward FDI stock. To account for the time lag between investment and income generation, we use a two-year lag in the stock of inward FDI.

We have calculated FDI returns as follows:

$$\text{FDI Return}_t = \frac{\text{Direct Investment Income}_{t-2}}{\text{Inward FDI Stock}_{t-2}}$$

In addition to analysing average FDI returns, we examine return volatility over the past decade. This analysis is further extended to compute the risk-adjusted return, defined as the ratio of the 10-year average return to its standard deviation. Assessing risk-adjusted returns is important, as some economies with higher nominal returns may also exhibit greater volatility. Our analysis

Risk-Adjusted Return



Source: CareEdge Estimates, CEIC, IMF. Risk-Adjusted Return = Absolute Return divided by Standard Deviation

indicates that India's average return on inward FDI remains robust at 7.3%, outperforming many emerging and developed economies. While a few emerging markets, such as Bangladesh, Nigeria, and Malaysia, report higher average returns, these are accompanied by significantly greater volatility. When we look at risk-adjusted return—measured as the ratio of average absolute return to standard deviation—India ranks second only to Indonesia among the major countries analysed, highlighting relative stability and attractiveness.

Conclusion

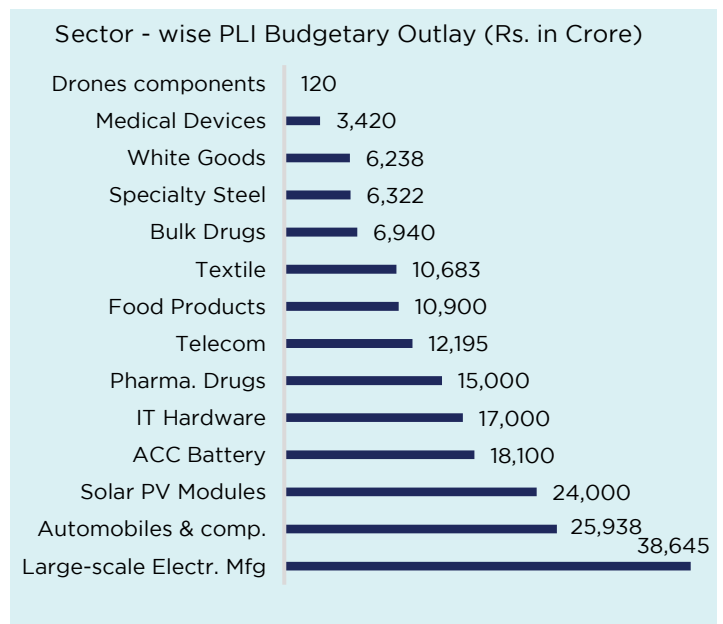
For India, while gross FDI inflows have remained healthy, net inflows have moderated due to higher profit repatriation and increased outward FDI. We believe average FDI returns in India remain attractive, with the country ranking among the top performers on a risk-adjusted basis. Emerging sectors such as semiconductors, electric vehicles, battery storage, and data centres are increasingly attractive destinations for FDI. Looking ahead, India's ability to attract stable, diversified FDI will be strengthened by continued reforms to its financial and regulatory frameworks and by a focus on improving infrastructure and reducing logistics costs. Recent factor-market reforms also represent a step in the right direction. Further, there is a need for deeper global linkages and a pragmatic approach to engaging new investment partners, while continuing to enhance ease of doing business.

PLI SCHEME: A MIXED BAG WITH 12% DISBURSEMENT OF INCENTIVES

- Total budgetary outlay towards the Performance Linked Incentive (PLI) scheme covering 14 sectors stands at Rs 1.97 lakh crore. By contrast, aggregate PLI disbursements up to September 2025 stood low at Rs 23,946 crore, representing only 12% of the total envisaged PLI disbursement. However, the pace of disbursement has shown signs of a pickup, with Rs 10,112 crore in incentives disbursed during FY25, with further disbursements of Rs 19,742 crore expected during FY26.
- Despite a slow start, there are encouraging signs with actual cumulative investments of about Rs 2 lakh crore and incremental production of over Rs 18.7 lakh crore achieved as of September 2025 under the scheme. However, many sectors remain in the investment or scale-up phase of their five-year targets.
- Electronics manufacturing (especially mobile phone) has emerged as a standout performer, with production rising 146% from Rs 2.13 lakh crore in FY21 to Rs 5.45 lakh crore in FY25, aided by USD 4 billion FDI inflows, 70% of which came to PLI beneficiaries.
- Pharmaceuticals [Key Starting Materials (KSMs)/Active Pharmaceutical Ingredients (APIs)] have achieved strong domestic value addition and export growth. India transitioned from a net importer of certain bulk drugs in FY22 to a net exporter for these by FY25, reflecting improved supply-chain resilience.

- Medical devices have scaled up rapidly during FY21-FY25, with 21 projects manufacturing 54 high-end products, reducing import dependence and boosting exports.
- Under the PLI-ACC (Advanced Chemistry Cell) scheme and PLI for High-Efficiency Solar PV Modules, there is slower progress due to changing technology and declining costs. However, sizable solar PV module capacity is expected to be commissioned in FY26 & FY27, implying a significant incentive outlay once production commences.

As of September 2025, a total of 806 applications had been approved under the scheme, backed by an overall budgetary outlay of Rs 1.97 lakh crore across 14 sectors as follows;



Source: PIB, CARE Edge Ratings

Incentive Disbursement Trends

S. No.	Period	Incentive Disbursed (in Rs. Crore)
1	FY23	2,968
2	FY24	6,753
3	FY25	10,112
4	H1FY26	4,113
	TOTAL	23,946

While high-momentum sectors have driven much of the early gains under PLI, few sectors continue to progress more slowly due to longer gestation periods, technology gaps, supply-chain dependencies and competitive pressures. In response, the Government has adopted a flexible approach—extending timelines, reopening applications in phased tranches and relaxing select conditions, including recent adjustments under the textile PLI—to ensure broader sectoral participation. These measures, along with the creation of new supplier and vendor networks around anchor units, are expected to deepen MSME integration and strengthen value-chain linkages.

“As against total PLI outlay, though disbursement stood low at 12%, it has been largely successful in achieving the desired results in terms of investment, incremental production/sales and job creation. As against the initial expectations of investments of Rs 3.48 lakh crore, incremental production/sales of Rs 29 lakh crore, and creation of around 39 lakh additional jobs, the scheme has facilitated actual investments of about Rs 2 lakh crore, supported incremental production/sales of over Rs 18.7 lakh crore and generated more than 12.6 lakh direct and indirect jobs across these sectors by September 2025,” said Arti Roy, Associate Director, CareEdge Ratings.

“With several companies approaching or completing their milestones, incentive disbursements under the PLI scheme are expected to accelerate, as reflected from the Government’s upward revision of the FY26 outlay to Rs 19,742 crore. Going forward, the PLI framework is poised to deliver stronger outcomes by driving scale, fostering greater technology adoption, and deepening domestic

value chains. These developments will not only enhance India’s global competitiveness but also position the country as a key player in high-growth sectors such as electronics, automobiles, pharmaceuticals, and medical devices, reinforcing its integration into global value chains,” said Hardik Shah, Director, CareEdge Ratings.

“CareEdge Ratings believes that the PLI scheme has been a well-structured initiative that has laid the foundation for India’s manufacturing transformation by targeting strategically critical sectors for deepening India’s manufacturing footprint. While initial progress has been gradual due to the scheme’s design—requiring significant upfront capital investments and the achievement of defined production thresholds—the trajectory is now gaining momentum. Exports from PLI-supported sectors have crossed Rs 7.5 lakh crore, accounting for nearly 6–7% of India’s total merchandise exports, led by electronics and pharmaceuticals. Electronics alone recorded a 775% surge led by smartphone exports, positioning India as a global hub for smartphone manufacturing. Going forward, disbursements under the PLI scheme are expected to increase substantially from FY27 to FY28, as a large share of solar PV module manufacturing capacity is expected to be commissioned,” said Ranjan Sharma, Senior Director, CareEdge Ratings.



IS JAPAN'S FISCAL TRAJECTORY REACHING AN INFLECTION POINT?



Recently, Japan's long-term bond yields have climbed to their highest levels in decades. With sovereign debt levels already high, this development has raised attention about its fiscal profile.

Japan's fiscal challenges are not recent. Japan (**CareEdge AA-/Stable**) remains an outlier in sovereign debt dynamics, with gross general government debt at ~236% of GDP in 2024, one of the highest among advanced economies.

Despite high debt levels, what has navigated Japan's fiscal trajectory till now?

Certain supportive conditions have enabled the country to manage its high debt levels to date. These conditions include ultra-low accommodative monetary policy, which has kept the borrowing costs low, thus ensuring debt affordability. Another supportive reason is the lower interest costs (r) compared to its nominal economic growth (g). As per the debt sustainability framework (IMF), debt remains manageable when the effective interest rate on government borrowing is lower than the rate of nominal GDP growth, i.e., interest-growth differential ($r-g$) is negative. This negative differential can partly/ fully offset the

impact of primary deficits, thus keeping the debt ratio stable. This dynamic has supported Japan's debt trajectory during FY 2012-19. Despite near-stagnant nominal growth, ultra-low interest rates kept ($r-g$) negative, partially offsetting the impact of persistent primary deficits and maintaining stable debt levels. Additionally, nearly 87% of public debt is held domestically, with the Bank of Japan (BOJ) alone accounting for approximately 45%. The relatively longer maturity profile of government bonds and the stable domestic investor base have provided comfort. Moreover, the yen's role as a reserve currency provides an additional layer of stability, reinforcing investor confidence and mitigating refinancing risks.

Key economic buffers are now shifting

Japan is currently undergoing a significant shift in its economic and fiscal policy landscape. The economy has exited its deflationary phase, with inflation returning and remaining persistently above target. In response, the central bank, BOJ, has ended its decades-long zero-interest-rate policy (ZIRP) and has gradually increased the policy rate to 0.5% in early 2025. Although this reflation has been a long-standing policy objective, the rise in prices and their stickiness have kept real incomes compressed, affecting private consumption and, consequently, economic growth. Additionally, external pressures, including risks from global tariffs, have contributed to uneven economic development.

To counter these risks, the current administration is adopting an expansionary fiscal policy stance.

Meanwhile, the recently announced fiscal stimulus (~3.5% of GDP, one of the largest since the pandemic) could boost near-term growth prospects but has also raised concerns about fiscal slippage.

Consequently, markets are reassessing the risks associated with Japan's fiscal trajectory, driving long-term government bond yields to multi-year highs (~1.7% in Nov 2025, from nearly zero before the pandemic). This rise has intensified pressure on the yen. Further, abrupt shifts in global financial conditions have contributed to the pronounced increase in currency fluctuations in recent years.

What are the implications?

Once these higher yields translate into higher borrowing costs, it can reverse the benefits of debt affordability. For instance, even a modest annual increase of 0.1 percentage point in the effective interest rate could significantly increase the interest burden in the medium term. The resulting widening gap between the primary balance and overall fiscal balance reflects the higher interest burden (Exhibit 1).

Consequently, the fiscal outlook is projected to deteriorate, as Japan's fiscal rigidities are likely to persist. The rising burden of public expenditure and a relatively populist policy stance are likely to further widen the fiscal balance (~6% of GDP). This could be compounded by continued low growth, which could test the (r-g) dynamics. The narrowing of this differential could occur at a relatively faster

pace, thereby reducing the buffers. Should this materialise, debt ratios are expected to rise beyond 2029.

The reversal of ZIRP and rising yields, along with currency volatility, could weaken Japan's carry trade mechanism (borrowing cheaply in Japan to invest in higher-yielding assets abroad). The BoJ holds a hawkish stance, diverging from the recent dovish bias of other leading economies, including the United States. A narrower interest rate differential between Japan and the U.S. can therefore challenge its carry trade position.

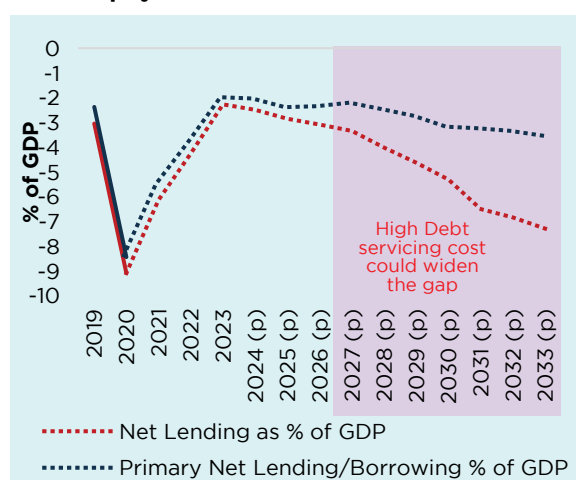
Are there buffers to offset these consequences?

Yes, in the form of a robust public sector balance sheet, a strong external position and a still negative growth interest differential.

- The exceptionally low borrowing costs have enabled the public sector to expand its balance sheet by investing in a wide array of assets, including domestic equities, foreign bonds, and overseas equities. These investments are now reflected in Japan's public sector balance sheet, where government and BoJ holdings together exceed 100% of GDP in financial assets.
- Japan's rising fiscal risks are also counterbalanced by its strong external position. Japan's extensive asset base, spanning highly liquid foreign exchange reserves and government deposits, and semi-liquid pools, provides buffers that can limit the translation of liabilities into solvency concerns.
- Japan's still-negative (r-g) is expected to partially offset the negative primary deficit, thus could support the fiscal profile in the near term. While there is a shift away from accommodative policies, the recent pick-up in inflation has kept the effective nominal interest rate below the pace of nominal GDP growth. These dynamics could help manage the risks to the debt-to-GDP ratio in the near term.

We believe that there are offsets available to Japan's credit profile. Yet the pace of change in fiscal stance, the trajectory of interest rates, and nominal growth will determine the adequacy of buffers.

Widening deficit with higher burden of interest payments



Source: IMF, CGIL Calculations

Note: Projections are derived from Article IV, IMF, April 2025

REGULATORY AMENDMENTS SET TO DRIVE HIGHER INSURANCE PENETRATION



The Insurance Laws (Amendment) Bill, 2025, “Sabka Bima, Sabki Raksha,” was passed in the Rajya Sabha on December 17, 2025. It updates regulations for insurers, reinsurers, and intermediaries to better align the sector with India’s economic growth, capital markets, and consumer protection goals.

It amends the Insurance Act, 1938; the Life Insurance Corporation Act, 1956; and the IRDAI Act, 1999, to permit 100% FDI, reduce net-owned fund requirements for foreign reinsurers, and strengthen IRDAI’s authority over insurers and intermediaries.

The bill regulates commissions, establishes a Policyholders’ Education and Protection Fund, and improves procedural efficiency through higher thresholds for share transfers.

Additionally, the Bill supports India’s long-term objective of achieving universal insurance coverage by 2047. However, certain reforms, such as composite licences, relaxed capital norms for new insurers, captive insurers, and open agent architecture, are not included in the bill and remain for future consideration.

Key Changes

FDI Limit Increases to 100% in Insurance

The amendment bill increases the FDI limit in insurance companies to 100% from the current 74% cap. Of the 60 insurers and reinsurers (24 life, 34 non-life, and two reinsurers), six smaller insurers are already

operating at the 70–74% foreign ownership threshold. For these firms, the higher limit offers additional room for further capital infusion by existing foreign promoters without changing their structure, supporting solvency as capital requirements grow. For about 11 mid-sized insurers with a 49% foreign stake, the change permits gradual increases in ownership and will broaden the capital pool. The reform is likely to ease capital constraints for certain players and aid consolidation.

Lowering Entry Barriers by Reducing Net Owned Funds Requirement for Foreign Reinsurers

To strengthen India’s reinsurance capacity and enhance risk absorption within the domestic market, the bill proposes a substantial reduction in net-owned fund requirements for foreign reinsurers, from Rs 5,000 crore to Rs 1,000 crore. By easing this requirement, the bill lowers the entry barrier for international reinsurers, especially specialised players. This reform is likely to boost competition in the reinsurance market. Importantly, this net-owned fund will remain within the domestic market, supporting local insurers and increasing the availability of reinsurance capacity in India. These reinsurance players will then be able to attract larger pools or firms to support their business.

Extending Regulatory Flexibility to SEZs and IFSCs

The bill expands the central government’s authority to implement or amend provisions of the Insurance Act for insurers in Special Economic Zones (SEZs). It also extends these powers to International Financial Services Centres (IFSCs) located within SEZs. This enables the creation of customised regulatory frameworks for these zones, facilitating cross-border insurance operations and promoting the growth of IFSCs as insurance hubs.

Expanding the Definition of Insurance Intermediaries

Recognising the changing landscape of insurance distribution, the bill broadens the statutory definition of intermediaries to include Managing General Agents (MGAs). This mirrors the growing involvement of specialised entities in underwriting support, policy administration, and digital record-keeping.

Establishing Policyholders' Education and Protection Fund: A Dedicated Safeguard

The bill proposes establishing a Policyholders' Education and Protection Fund to be administered by IRDAI. The Fund is designed to support initiatives that enhance consumer awareness and safeguard policyholder interests. Funding sources include grants and donations from governments, regulators, and institutions; penalties collected by IRDAI and other sources, as may be prescribed by regulations. As of 30th November, 2025, NSE's Investment Protection Fund (IPF) corpus stands at Rs 2,754 crore, while MCX's IPF corpus is around Rs 296 crore. The corpus can be used to increase awareness in India.

Strengthening IRDAI's Supervisory Authority

The bill enhances IRDAI's authority by allowing it to approve schemes of arrangement, override an insurer's board when necessary, regulate agent and intermediary payments and disclosures, and expand inspection powers to intermediaries. These measures aim to improve governance.

Empowered to Oversee Corporate Restructuring

To strengthen IRDAI's authority to approve schemes of arrangement, including mergers, demergers, and reverse mergers. This enhances regulatory oversight by safeguarding policyholders' interests during structural alterations. It offers a transparent framework for coordinated consolidation, promotes operational efficiency, and reduces risks linked to sudden ownership or management changes.

Rationalising Share Transfer Approvals

Under the current regulatory framework, any transfer of shares exceeding 1% of an insurer's paid-up capital requires prior approval from the IRDAI. The bill suggests increasing the threshold to 5%, thereby reducing procedural hurdles in ownership transactions. This amendment is expected to streamline routine share transfers and enhance the ease of doing business for listed insurers.

Insurance Co-operatives: Enabling Grassroots Participation

The bill eliminates the mandatory minimum paid-up capital requirement of Rs 100 crore for insurance cooperative societies involved in life, general, or health insurance. This aims to promote community-based and region-specific insurance models, support financial inclusion in underserved areas, and enable smaller entities to participate without facing high capital barriers. It would allow established cooperative ecosystems in agriculture, farming, and the dairy industry, as well as product and industrial clusters, to develop end-user or purpose-specific cooperative insurance businesses. Currently, India has very few cooperative insurers, but the government plans to establish a major cooperative insurance company, utilising networks such as PACS to serve the extensive co-op sector. Although cooperative insurance models are common worldwide, their presence in India remains limited.

Conclusion

According to Sanjay Agarwal, Senior Director of CareEdge Ratings, "The Insurance Laws (Amendment) Bill, 2025, strengthens India's insurance framework by raising the FDI limit to 100%, enhancing IRDAI's powers, easing capital requirements, modernising intermediaries, and reinforcing policyholder protection. For insurers already operating close to the 74% foreign ownership cap, the enhanced limit provides additional headroom for incremental capital infusion by existing foreign promoters, supporting growth and solvency. Collectively, these measures are expected to improve insurance penetration, operational efficiency, and market resilience, advancing insurance for all by 2047. Additionally, with IRDAI approval, governance will be easier. However, particular areas, such as composite licensing, flexible capital norms, captive insurers, broader product distribution, investment norms, and open agent architecture, remain unaddressed. Overall, it works a fine balance between enabling regulations and overregulations."

COST TAILWINDS LIFT CEMENT MARGINS; YET 200-MT EXPANSION CAPS ANY PRICE BREAKOUT

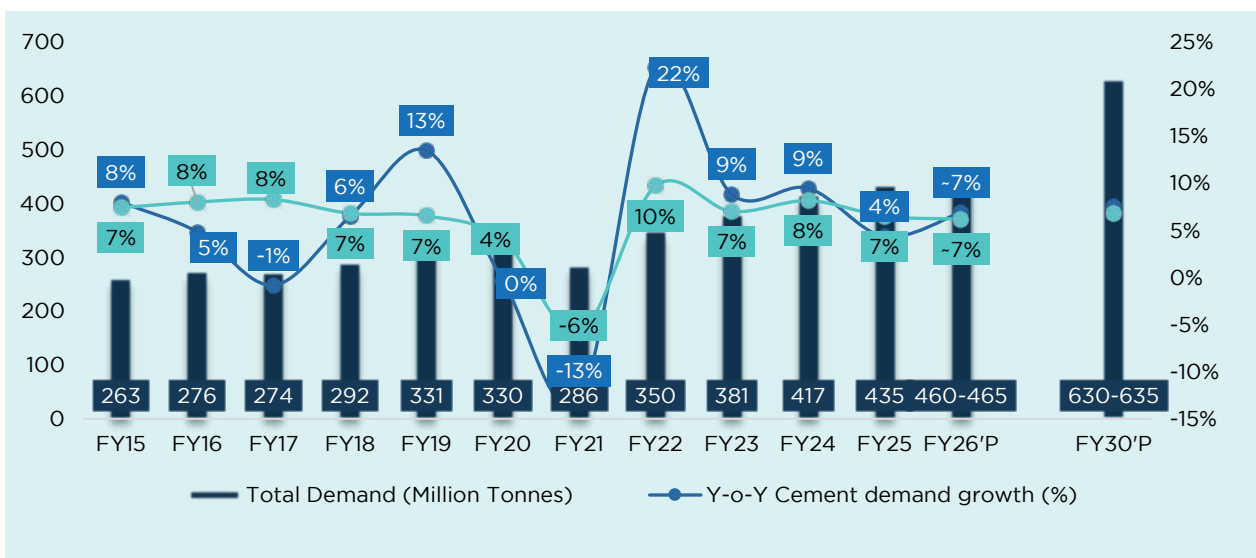
India's cement sector enters FY26 after a volatile phase, with early signs of stabilisation as demand recovers, costs soften and profitability improves. The medium-term outlook will hinge on demand momentum, accelerated capacity additions and competitive intensity.

Demand Outlook: Recovery Led by Rural Housing and Public Infrastructure

Sector demand is expected to grow by ~7% in FY26, rebounding from ~4-5% growth last year, with rural housing emerging as

the key driver. An above-normal monsoon, improved farm incomes and the GST rate cut (reducing cement prices by ~Rs 30-35 per bag) are supporting affordability and sentiment in semi-urban and rural markets

Infrastructure demand remains supportive, led by execution of state projects, metros and expressways, alongside a pickup in central capex in H1FY26, despite a muted highway award cycle. Urban housing continues to see traction in the premium segment, though new launches slowed in early FY26, with the benefits of lower interest rates likely to materialise in H2FY26.



Source: CMIE, Industry, CareEdge Ratings

Pricing and Realisations: A Measured Recovery After a Difficult FY25

Price traction in the cement industry has remained weak over the past two years, with average NSR declining from Rs 5,611 per tonne in FY23 to about Rs 5,250 per tonne in FY25, driven by heightened competition, demand moderation and softer input costs. FY25 was among the most challenging years for cement realisations, with pan-India prices falling to around Rs 5,250 per tonne due to a weak first half, intense competitive pressure and new supply additions. FY26 has, however, begun on a relatively firmer footing. Realisations declined by nearly 5% at the pan-India level in FY25, though the magnitude of correction varied across regions, while muted demand and lower costs constrained pricing actions.

The first quarter of FY26 delivered the first year-on-year increase in realisations since late FY24. Price recovery was most pronounced in the South, where sharp declines in the previous year had created a low base. Sequentially, second-quarter prices softened due to monsoon seasonality and GST pass-through, but remained higher than year-ago levels, providing support to profitability.

Despite this improvement, sustained price growth remains unlikely in the near term. Competitive intensity is expected to stay elevated, particularly in oversupplied regions, keeping FY26 price growth limited to low single-digit levels. Meaningful pricing power is unlikely until capacity utilisation sustains above 70–75%, which appears improbable given the ongoing commissioning pipeline.

Cost Tailwinds Drive Margin Recovery as Fuel Prices Ease

FY26 has witnessed moderation in the sector's cost curve. Imported coal prices declined 7–8% YoY in H1, while pet coke prices, despite a mid-year uptick, remained manageable. The favourable fuel environment, alongside higher adoption of WHRS, green power, alternative fuels and blending, is expected to reduce power and fuel costs by 3–5%. Logistics efficiencies and improved multimodal transport have further eased cost pressures. Supported by improving realisations, EBITDA per tonne recovered sharply from FY25 lows. Industry profitability in FY26 is expected to stabilise at Rs 950–980 per tonne, with additional efficiency gains potentially adding Rs 50–100 per tonne over FY27–FY28.

Supply Dynamics: Capacity Additions to Keep Utilisation Under Check

A key theme influencing the medium-term

outlook is the scale of expansion currently underway. Between FY26 and FY28, cumulative additions could surpass 180–200 million tonnes, driven by both greenfield projects and the ramp-up of previously underutilised assets acquired during the recent consolidation phase. This influx is anticipated to keep industry utilisation below 70% until FY26–FY27, with a slight dip during the monsoon quarters.

The consolidation cycle over the past three years has significantly reshaped market structure. By FY28, the top four players may control nearly 60–65% of total capacity. While this consolidation has bolstered balance sheets and enhanced cost competitiveness, it has not led to stronger pricing discipline due to the fragmented nature of regional markets and the aggressive capital expenditure plans of larger players.

CareEdge Ratings' View

India's cement industry is entering one of its most capacity-intensive phases, with 180–200 million tonnes of new supply expected over FY26–FY28. While demand growth remains healthy at 7.25–8.25%, pan-India capacity utilisation is unlikely to cross 75% in the medium term, constraining pricing power. Consequently, FY26 realisations are expected to see only a low single-digit YoY improvement.

FY26 is shaping up as a transitional year, marked by rising demand, firmer margins and a back-ended recovery in realisations, albeit offset by a large supply pipeline. The long-term outlook remains positive, supported by low per-capita cement consumption in India and sustained focus on public infrastructure and affordable housing. "The next two years will require a careful balance between growth aspirations and financial discipline, especially amid an intensive capex cycle," said Ravleen Sethi, Director, CareEdge Ratings.

From a credit perspective, the sector remains stable. Large players continue to maintain conservative leverage, with net debt-to-EBITDA expected to improve to below 1.2x in FY26. For mid-sized players, lower fuel costs and modest price recovery offer relief, though competitive intensity and working capital pressures remain key monitorable.

HEAT MAP AND PROJECTION TABLE

		Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25
PMI-M	Unit	56.4	57.7	56.3	58.1	58.2	57.6	58.4	59.1	59.3	57.7	59.2	56.6	55.0
PMI-S	Unit	59.3	56.5	59.0	58.5	58.7	58.8	60.4	60.5	62.9	60.9	58.9	59.8	58.0
GST Collections	Rs lakh crore	1.6	2.0	1.8	2.0	2.4	2.0	1.8	2.0	1.9	1.9	2.0	1.8	1.7
E-Way Bill	Crore	11.2	11.8	11.2	12.5	11.9	12.3	11.9	13.2	12.9	13.2	12.7	13.0	13.8
Air Passenger Traffic	Crore	3.8	3.7	3.5	3.6	3.6	3.5	3.4	3.2	3.3	3.2	3.5	3.8	
PV Sales	Lakh	3.5	4.1	3.9	4.1	3.6	3.7	3.5	3.7	3.6	4.0	4.7	4.4	
2-3-Wheeler Sales	Lakh	15.6	19.9	18.6	21.1	19.0	21.2	20.5	21.1	23.8	27.2	27.6	25.3	
Tractor Sales	Lakh	0.6	0.7	0.7	0.9	0.9	1.0	1.2	0.7	0.7	1.5	1.7	1.0	0.8
IIP	y-o-y%	3.7	5.2	2.7	3.9	2.6	1.9	1.5	4.3	4.1	4.6	0.5	6.7	
Core Sector	y-o-y%	5.1	5.1	3.4	4.5	1.0	1.2	2.2	3.7	6.5	3.3	-0.1	1.8	
Power Consumption	y-o-y%	5.9	2.7	-0.8	6.7	2.2	-4.9	-1.5	2.1	4.3	3.2	-6.0	-0.8	6.1
Petroleum Consumption	y-o-y%	2.0	3.0	-5.2	-3.1	0.2	1.1	0.5	-4.4	4.8	7.0	-1.5	2.8	5.3
Outstanding Bank Credit - Total	y-o-y%	11.2	11.4	11.0	11.0	10.3	9.0	9.5	10.0	10.0	10.4	12.5	11.5	
Capital Goods Import	y-o-y%	4.9	15.5	-0.5	8.6	21.5	14.3	2.6	12.2	-1.3	10.1	8.7	13.1	
Merchandise Exports	y-o-y%	-1.5	-2.7	-10.8	0.8	-3.8	-1.2	-1.3	13.3	5.8	6.1	-12.4	19.3	

Indicator	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26 Forecast
Gross Domestic Product (y-o-y%)	6.8	6.5	3.9	-5.8	9.7	7.6	9.2	6.5	7.4 #
CPI Inflation (y-o-y%)	3.6	3.4	4.8	6.2	5.5	6.7	5.4	4.6	2.1
Fiscal Deficit (As % of GDP)	3.5	3.4	4.6	9.2	6.8	6.4	5.6	4.8	4.4
Current Account Balance (As % of GDP)*	-1.8	-2.1	-0.9	0.9	-1.2	-2.0	-0.7	-0.6	-1.0
10-Year G-Sec Yield (%) (Fiscal year-end)	7.3	7.5	6.1	6.3	6.8	7.3	7.1	6.6	6.4-6.6

As per the first advanced estimates; *(-) Deficit / (+) Surplus; Fiscal deficit data for FY26 is budget estimate.

About Us

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