New Challenges: How to maintain domestic resilience in the midst of rising global inflation

Dr. T. K. Jayaraman

India's economic prospects remain relatively strong despite a worsening global environment, but the country's long-term success will depend not merely on maintaining high growth rates but on improving productivity, competitiveness, and efficiency. The central theme emerging from current economic developments is that India must transition from being viewed primarily as a low-cost economy to becoming a high-productivity and innovation-driven economy.

TABLE 1

IMF Real GDP Growth Rates World and others

Country/ Region	2024 Actual	2025 Actual	2026 Full-Year Forecast
India	7.00%	6.50%	7.00%
China	4.80%	4.50%	4.50%
United States	2.80%	2.00%	2.30%
United Kingdom	1.10%	1.20%	1.30%
Euro Area	0.90%	1.20%	1.10%
World	3.30%	3.50%	3.10%

Source: IMF World Economic Outlook 2026

According to International Monetary Fund's October 2026 World Economic Report, world real GDP growth is expected to moderate to a low 3.1% in 2026 from 3.5 % in in 2025 amid heightened geopolitical tensions, particularly the conflict in West Asia. These developments have disrupted trade flows, raised energy prices, and revived inflationary pressures across both advanced and emerging economies. For policymakers around the world, the principal challenge is balancing economic growth with price stability.

Major central banks have already begun responding to these pressures. The US Federal Reserve has tightened monetary policy on September 16. The interest rate funds rate range was increased to 3.75%-4.0% by 25 basis points in response to rising inflation risks linked to higher energy costs and geopolitical uncertainty. Inflation has also accelerated in the Euro Area and the United Kingdom, where policymakers face the difficult task of restraining prices without undermining already fragile economic growth. Rising transport costs as a result of increase in prices of diesel and petrol are significant contributors to inflationary pressures across developed economies.

India's remarkable resilience

Against this background, India continues to display remarkable resilience. Strong domestic demand, sustained public investment in infrastructure, and robust services exports have enabled the economy to maintain momentum even as growth weakens elsewhere. Consumption remains the dominant driver of economic activity, supported by urbanisation, rising incomes, expanding digital connectivity, and the growth of the middle class. At the same time, government investment in roads, railways, airports, ports, logistics corridors, and digital infrastructure has strengthened productive capacity and improved economic efficiency. Nevertheless, India is not immune to global developments. Rising oil prices, fluctuations in capital flows, exchange-rate pressures, and slower global demand continue to influence domestic macroeconomic conditions.

The Reserve Bank of India (RBI) has to pursue a careful balancing ac% first rate increase since early 2023. The decision reflected growing inflationary concerns arising from a weakening rupee, higher global energy prices, and tighter monetary policies across major economies. Inflation in India has remained above the central bank's target rate of 4% although still within the official tolerance band of 4% +2% = 6% . India's current inflation dynamics are driven by both demand-pull and cost-push factors.

Strong domestic demand has contributed to upward pressure on prices in some sectors, while rising energy costs and supply-side disruptions have intensified inflationary concerns. Food inflation remains particularly important , as food weather patterns, storage systems, transportation networks, and supply-chain efficiency all play important roles in determining inflation outcomes. RBI cannot directly address supply-side shocks. Higher interest rates cannot produce additional agricultural output or lower international crude-oil prices. What central banks can do is prevent temporary price shocks from influencing longer-term inflation expectations. RBI has to distinguish between short-term supply disruptions and more persistent inflationary pressures when formulating policy.

"Call for Regime Change" by street protestors

In recent weeks, an additional source of uncertainty has emerged through large-scale street protests led by the Leader of the Opposition. He has resorted to extra- institutional methods beyond parliament. While peaceful democratic protests are an important feature of India's political system, prolonged political mobilization resulting in closure of shops during festival season for regime change, when the elections are due only in 2029 can affect business confidence and investor sentiment. The stock market's performance during the past week has reflected investor caution regarding the potential economic consequences of prolonged protests. If demonstrations remain peaceful and limited in duration, the effects on economic activity are likely to

TABLE 2 Average Brent Price ($/barrell, Consumer Price Index Based Monthly inflation (y-on-y); Core inflation in USA, Euro Area, UK

Year 2025	Benchmark Brent Crude Price $ /Barrell	USA CPI Infl. %	USA Core Infl. Rate (%)	USA Policy Int. Rate (%) Range	Euro Area CPI Infl. %	Euro Area Core Infl. Rate (%)	Euro Area Policy Int. Rate (%)	UK CPI Infl. %	UK Core Infl. Rate %)	UK Policy Int. Rate (%)
Jan	79.27	3.0	3.3	4.25-4.50	2.50	2.70	3.00	3.5	3.7	4.75
April	68.13	2.8	3.8	4.25-4.50	2.20	2.70	2.75	3.7	3.8	4.50
July	71.04	3.1	3.8	4.25-4.50	2.00	2.30	2.50	3.8	3.8	4.25
Oct	64.54	3.0	2.6	3.50-3.75	1.70	2.40	2.25	3.8	3.4	4.00
Dec	62.54	2.7	2.6	3.50-3.75	1.90	2.30	2.00	3.8	3.2	3.00
2026										
Jan	66.6	2.5	2.5	3,50-3,75	1.70	2.20	2.00	3.0	3.1	3.75
Feb	71.1	2.5	3.5	3.50-3.75	1.90	2.40	2.00	3.0	3.2	3.75
March	103.13	2.6	4.5	3.50-3.75	2.60	2.30	2.00	3.1	3.2	3.75
April	117.29	2.8	5.5	3.50-3.75	3.00	2.20	2.00	2.8	3.1	3.75
May	101.15	2.9	6.5	3.50-3.75	3.20	2.60	2.25	2.8	2.6	3.75
June	85.4	2.5	7.5	3.50-3.75	2.80	2.40	2.25	2.6	2.6	3.75
July	83.76	2.5	8.5	3.50-3.75	2.90	2.50	2.25	2.6	2.6	3.75
Aug	91.08	2.4	9.5	3.50-3.75	3.20	2.40	2.50	3.1	2.6	3.75
Sept	116.96	2.6	10.5	3.75-4.00	3.80	2.50	2.50	3.8	2.8	NA
Oct	113.43	NA		3.75-4.00	NA	NA	NA	NA	NA	NA
Nov	TBA	NA								
Dec	TBA	NA								

Source :Trading Economics - 2026

be modest. However, disruptions affect transportation, logistics networks, retail activity, or commercial operations over an extended period, are likely to affect growth and aggravate inflation alike. They would weaken consumer and business confidence, Should these conditions persist, RBI may have to resort to further repo-rate increase.

Beyond these short-term concerns, India's medium-term growth prospects remain

favourable. The country benefits from a large domestic market, a rapidly expanding services sector, improving infrastructure, and substantial human-resource advantages. Exports of information technology services, professional services, financial services, and business-process outsourcing continue to generate valuable foreign-exchange earnings and support economic growth.

India's external sector India's growth is vulnerable to shifts in global investor sentiment. Periods of international uncertainty often trigger capital outflows from emerging markets, placing downward pressure on currencies. A weaker rupee can improve export competitiveness, but it also raises the domestic cost of imported commodities, energy, machinery, and industrial inputs. This trade-off complicates both monetary and exchange-rate management. India's sizeable foreign-exchange reserves at $ 721 billion (as of October 30) provide an important buffer against external shocks. Adequate reserves enhance investor confidence, support import financing, and give policymakers greater flexibility during periods of market stress.

Nevertheless, reserve levels alone cannot guarantee economic stability. Long-term resilience depends on sound macroeconomic policies, sustainable growth, and prudent management of the external sector. A critical theme emerging from India's development experience is that exchange-rate movements and falling real exchange rate (nominal rate adjusted by the ratio of domestic price and the word price indices), and low production costs can provide only temporary advantages. Sustainable competitiveness ultimately depends on productivity growth, technological upgrading, efficient logistics, strong infrastructure, and skilled human capital.

Foreign-Exchange Reserves and Intervention Costs

India's foreign-exchange reserves provide a substantial buffer against external shocks. They help meet import requirements, support confidence in the country's external position, and provide the RBI with flexibility when responding to disorderly market conditions.

However, reserve movements must be interpreted carefully. Changes in reported reserves can reflect foreign-exchange intervention, valuation effects arising from movements in major currencies, changes in gold prices, and other balance-sheet adjustments.

Consequently, a decline in headline reserves cannot automatically be attributed entirely to dollar sales. Similarly, gross foreign-exchange operations should not be interpreted as equivalent to a net loss of reserves. Spot transactions, forward positions, and other operations must be assessed together to understand their actual effects on the central bank's external position.

TABLE 3
India: Benhmark Crude Oil price, CPI Based Consumer Inflation (y-on-y) and REPO in percent) for 2025 and 2026

Year and Month	Benchmark Brent Ave Crude Price $/Barrel	CPI Inflation %	REPO %
2025 Month			
Jan	79.27	4.26	6.50
April	68.13	3.16	6.00
July	71.04	1.60	5.50
Oct	64.54	0.25	5.00
2026 Month			
Jan	66.6	2.44	5.25
Feb	71.1	3.21	5.25
March	103.13	3.40	5.25
April	117.29	3.48	5.25
May	101.15	3.93	5.25
June	85.4	4.38	5.25
July	83.76	4.44	5.25
Aug	91.08	4.83	5.25
Sept	116.96	5.54	5.25
Oct	113.43	TBA	5.50

Source: Trading Economics - 2026

TABLE 4
India: Monthly Key Indicators of External Sector : 2026

Month (2026)	Foreign Exchange Reserves (USD Billion)	Nominal Exchange Rate (Rs/US$)	40-Currency Trade-Weighted REER (Base: 2015-16=100)	Estimated Monthly Net RBI Intervention (Dollar Sales)
January	$688.50	90.73	92.4	Negligible / Net Purchases
February	$690.20	90.77	92.15	Negligible / Net Purchases
March	$691.10	92.9	91.8	$2.5 Billion
April	$675.40	93.4	92.72	$8.1 Billion
May	$668.00	95.44	90.1	$12.0 Billion
June	$684.00	95	91.26	Net Inflows (FCNR Scheme Init)
July	$716.90	95.92	90.37	Net Inflows (FCNR Scheme Peak)
August	$752.10	95.43	91.75	Net Inflows ($43.3B FCNR Gross)
September	$765.90	95.45	90.8	$19.8 Billion
October (Latest)	$721.00	95.73	89.95	$51.0 Billion (Cumulative Peak)

Sources : Economic Times and Financial Express news as reported on Daily basis
All Figures are approximate. Finalized report will be released in RBI Monthly Bulletin in November 2026

The relevant policy question is whether reserves remain adequate relative to the country's external financing requirements, import bill, and potential short-term capital outflows. India's reserve position should therefore be assessed using a range of indicators, including import cover, short-term external debt, the current-account balance, and the composition of capital flows. A strong reserve buffer can reduce vulnerability to external shocks, but it cannot substitute for sustainable macroeconomic policies.

Exchange-Rate Depreciation and Export Competitiveness

A weaker rupee can improve the price competitiveness of Indian exports by reducing their foreign-currency prices, provided that domestic costs and profit margins do not adjust in ways that eliminate the advantage. The benefits are likely to vary across sectors.

Industries with a high proportion of domestic inputs may gain more from depreciation than industries that depend heavily on imported machinery, components, or energy. Exporters with substantial foreign-currency liabilities may also face higher debt-servicing costs.

The overall effect on the trade balance depends on the responsiveness of export and import volumes to changes in relative prices. It also depends on contractual arrangements, the availability of domestic substitutes, and the time required for producers to adjust. Depreciation is therefore not an automatic route to greater competitiveness.

Need for quickening economic transformation

Particular attention must be directed towards education and skills development to meet the persistence of graduate unemployment, which are due to shortages of appropriately skilled workers. This mismatch between educational outcomes and labour-market requirements has become a growing challenge. Educational institutions, vocational training system industry must therefore work more closely together to enhance employability and adaptability. Stronger foundations starting from primary and middle school levels in mathematics, physical sciences and technical skills are essential for India to remain competitive in technology-driven global economy. ■



— Dr TK Jayaraman, a former Senior Economist at Asian Development Bank, Manila (1982-1997), is a Fullbright Scholar and an East West Centre grantee for his doctoral studies in Economics at University of Hawaii, Honolulu (1968- 75) and was a post doctoral Fellow at University of Canterbury, Christchurch, New Zealand, (1997-98). He was a Professor of Economics at the Fiji National University, Nasinu campus, Fiji Islands (1998-2027). His website is www.tkjayaraman.com