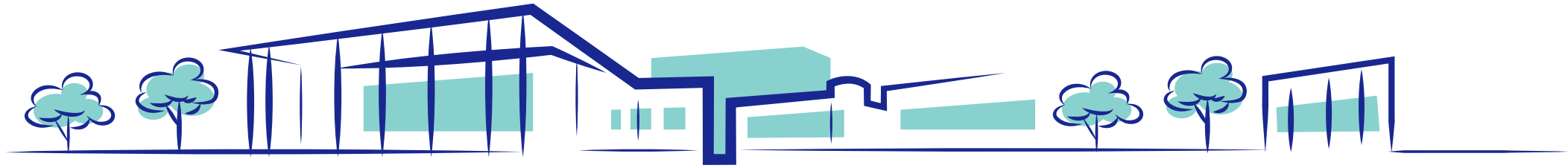
Programme Name: Special FC

The Macro economic outlook

Amir Ullah Khan

27 Oct 2026





Today’s plan

1. Trends and pitfalls
2. The unknown and the uncertain
3. Challenges
4. What does the data say
5. Opportunities ahead
6. Conclusion and takeaways

Learning Objectives

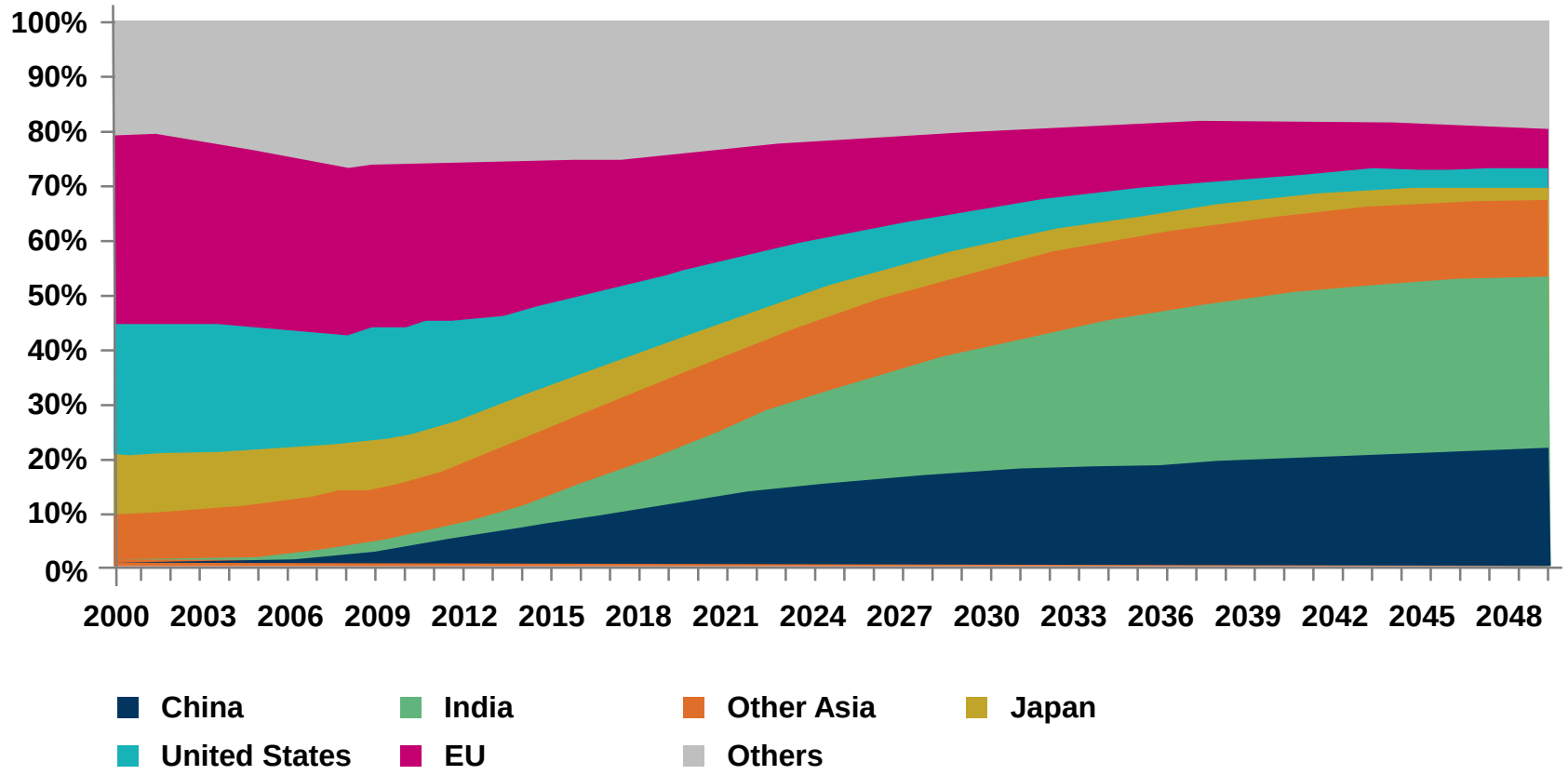


- *1. Understand the nature and complexity of economic thought*
- *2. Examine the impact on governance*
- *3. Does the bureaucracy have a role to play*

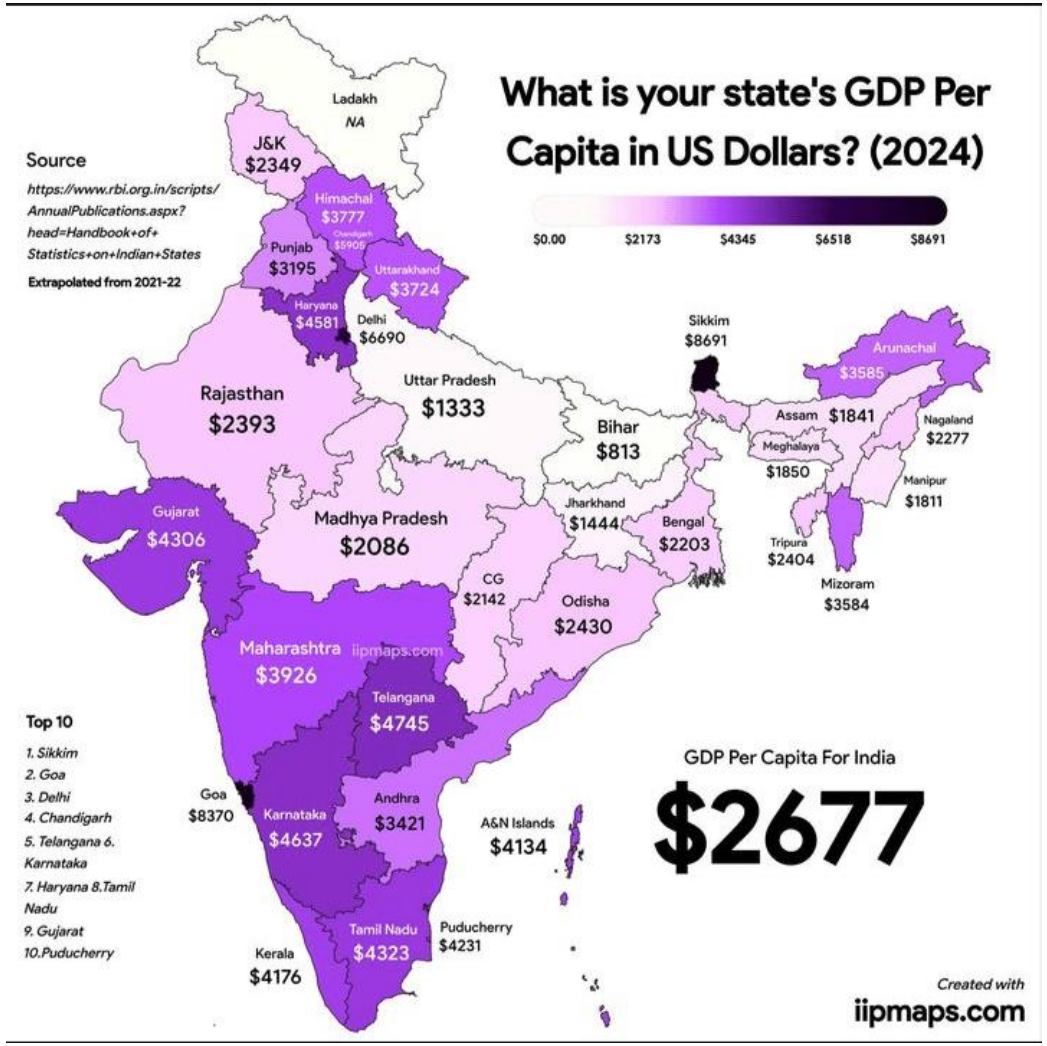
Why is India important?

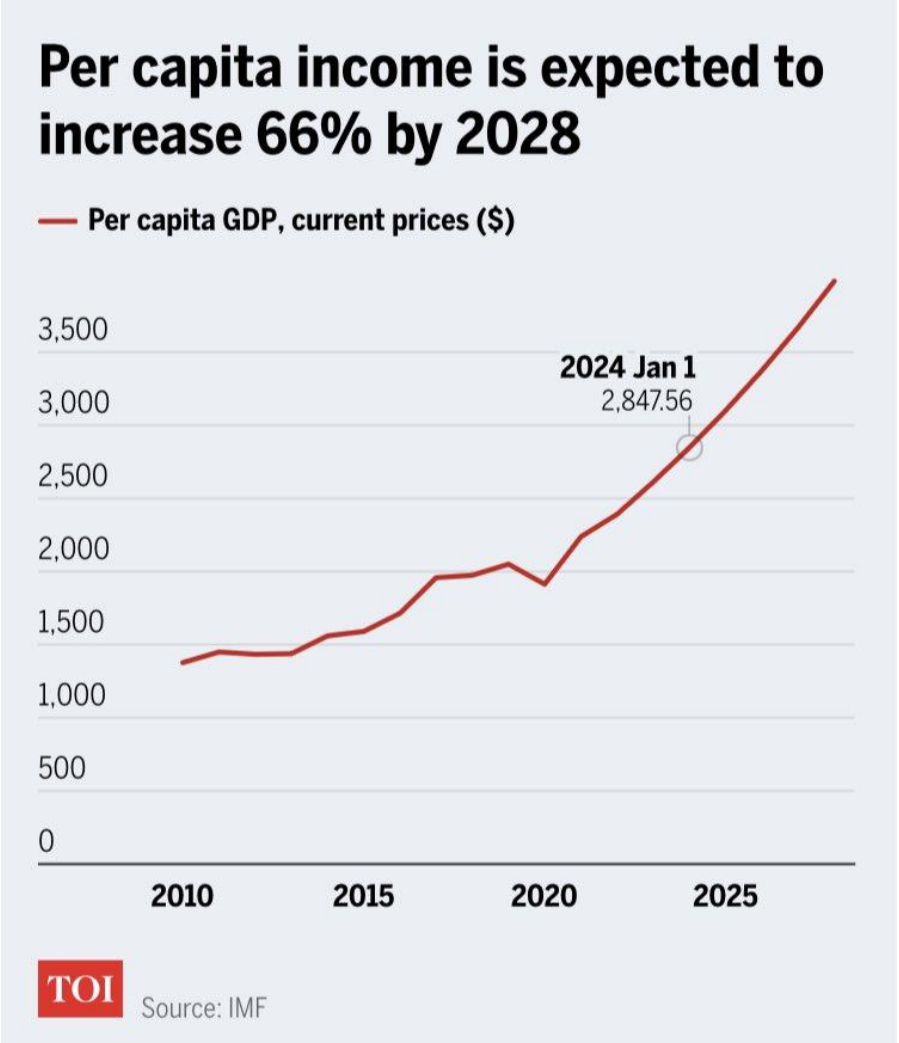
Middle Class market - Brookings' projection

Shares of Global Middle Class Consumption, 2000-2050

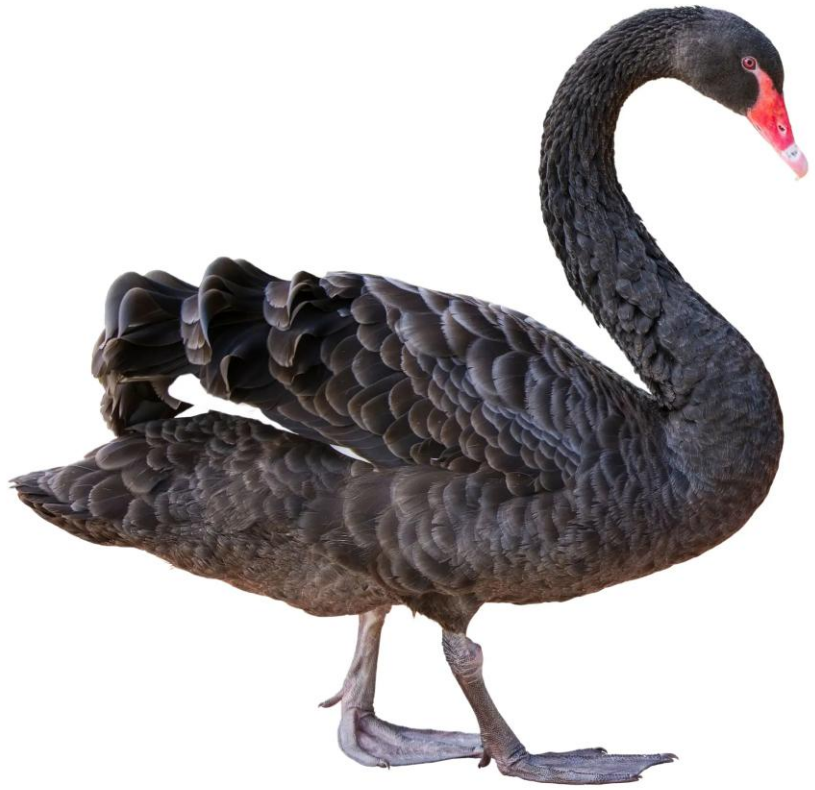


India’s Per Capita Income (in USD)





Leadership – What is unknown



- Defining the Black Swan

- “A Black Swan […] is an event with the following three attributes. First, it is an outlier… Second, it carries an extreme impact.”
- One single observation can invalidate a general statement derived from millennia of confirmatory sightings.”

Avoid being the Turkey

Thanksgiving



Fragility

- It illustrates… the fragility of our knowledge.”
- Taleb’s central argument: our models underestimate uncertainty.
- The turkey believes the butcher loves it—until Thanksgiving. A lesson in hidden risk.



The Black Swan

- This is Taleb's foundational metaphor - a single outlier can overturn centuries of assumptions.
  - Unpredictability,
  - Impact, and
  - Retrospective rationalization

- Unpredictable, uncertain and UGLY

Bayesian logic

Bias

- When you develop your opinions on the basis of weak evidence, you will have difficulty interpreting subsequent information that contradicts these opinions.
- A warning about cognitive rigidity and confirmation bias.

Rigidity

- Read books are far less valuable than unread ones… Let us call this collection of unread books an antilibrary.
- Taleb argues that what we don't know is more important than what we do.

Key Indicators

- **Real GDP Growth:** Projected at **7.1% for FY27**.
- **Inflation:** Headline **CPI inflation rose to 4.82%** in August 2026, driven primarily by volatile food and fuel costs. The RBI has adjusted its full-year **FY27 inflation forecast upward to 5.2%**.
- **Monetary Policy Stance:** The RBI has officially shifted from a "neutral" stance to **"calibrated tightening,"** raising the baseline **repo rate by 25 basis points to 5.50%**. This marks the first rate hike in nearly four years, signaling that near-term rate cuts are completely off the table.
- **External Buffers:** India's external sector remains resilient, backed by **foreign exchange reserves hovering around $734.6 billion**, providing nearly 11 months of import cover.

- Real GDP growth
- Inflation
- Tightening of the Monetary Policy
- Foreign Exchange reserves

Principal Economic Drivers

Investment and Credit Expansion: Gross Fixed Capital Formation grew by 12% in early FY27. Industrial credit growth has hit a decadal high of 20%, showcasing strong corporate and manufacturing intent.

Services Sector Domination: The tertiary sector continues to act as India's premier economic engine, growing at roughly 10% YoY, led by financial services, real estate, and professional capabilities.

Foreign Capital Inflows: Gross FDI flows rose by over 15% in the first quarter of FY27, positioned alongside record-level deployments into domestic debt instruments by overseas investors

- Credit growth
- Services sector
- FDI

Emerging Risks and Vulnerabilities

Broadening Price Pressures: Wholesale price inflation (WPI) surged to **9.9%**, and core retail inflation ticked up to **4.2%**. This indicates that supply-side food and energy spikes are slowly spilling over into wider goods and services.

Erratic Monsoons & El Niño: A deficient southwest monsoon has lowered reservoir levels, threatening upcoming rabi (winter) crop yields and potentially depressing rural consumption.

Global Headwinds: Escalating conflicts in West Asia, volatile crude oil prices (averaging close to $100/barrel), and a weakening rupee are compounding imported inflation risks.

- Credit growth
- Services sector
- FDI

Sectoral analysis

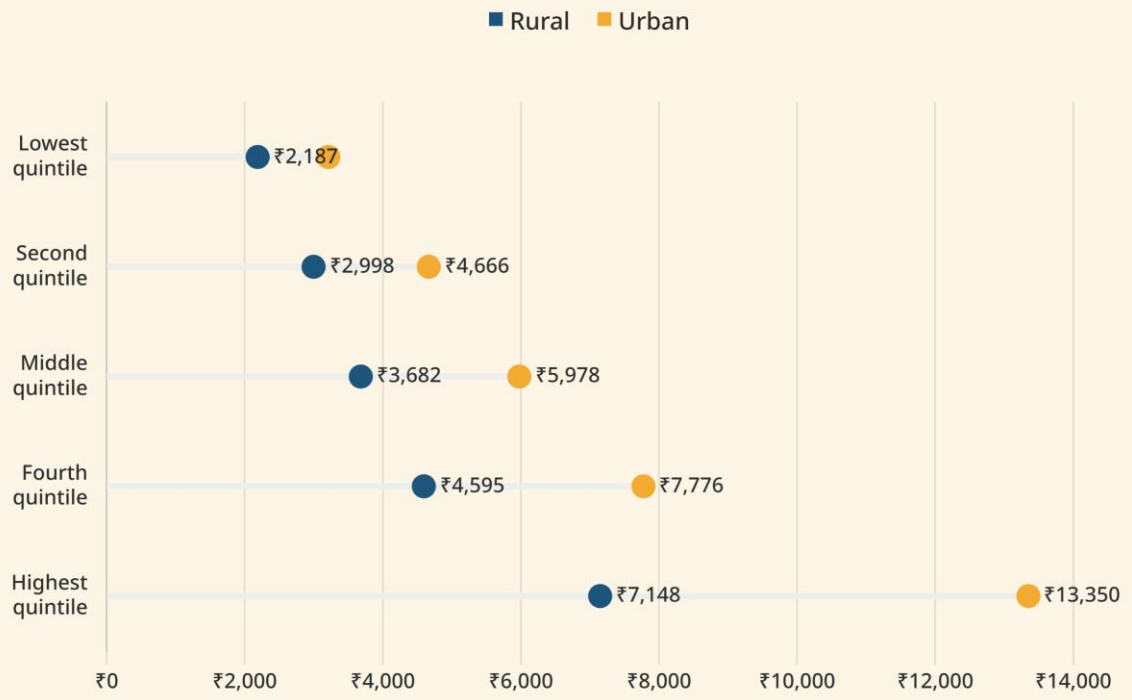
Comparative Sector Metrics

Economic Metric	Manufacturing Sector	Services Sector
GDP Contribution	~14%–17% (Target: 25%)	**Over 54%–55%**
Employment Share	~12%–14% (High low-skill scale)	~35%–40% (Highly concentrated in urban zones)
September 2026 PMI	**55.1** (7-month high)	**55.2** (3-month high)
Primary Growth Drivers	Electronics, Autos, Textiles, PLI Schemes	IT/ITeS, Global Capability Centers (GCCs), FinTech
Revenue Per Employee	$15,000 – $20,000	**$50,000 – $60,000** (IT-led)

Where do we stand

Monthly per capita expenditure among consumption classes (2024)

People in the top 20% of urban India spend nearly five times every month as those in the bottom 20%

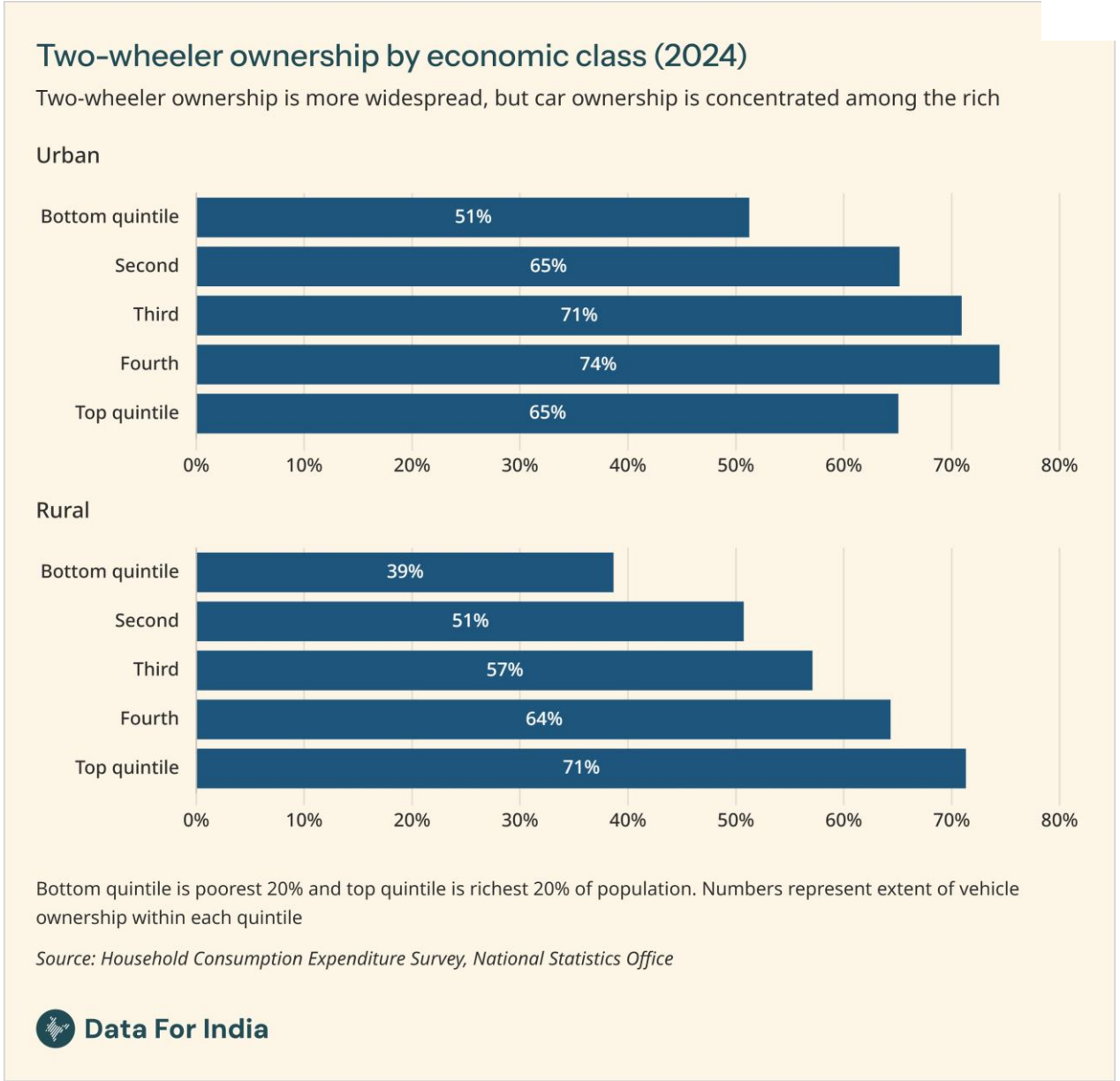


Each quintile represents a fifth of the population. Numbers represent average MPCE in that quintile.

Source: Household Consumption Expenditure Survey, National Statistics Office

Data For India

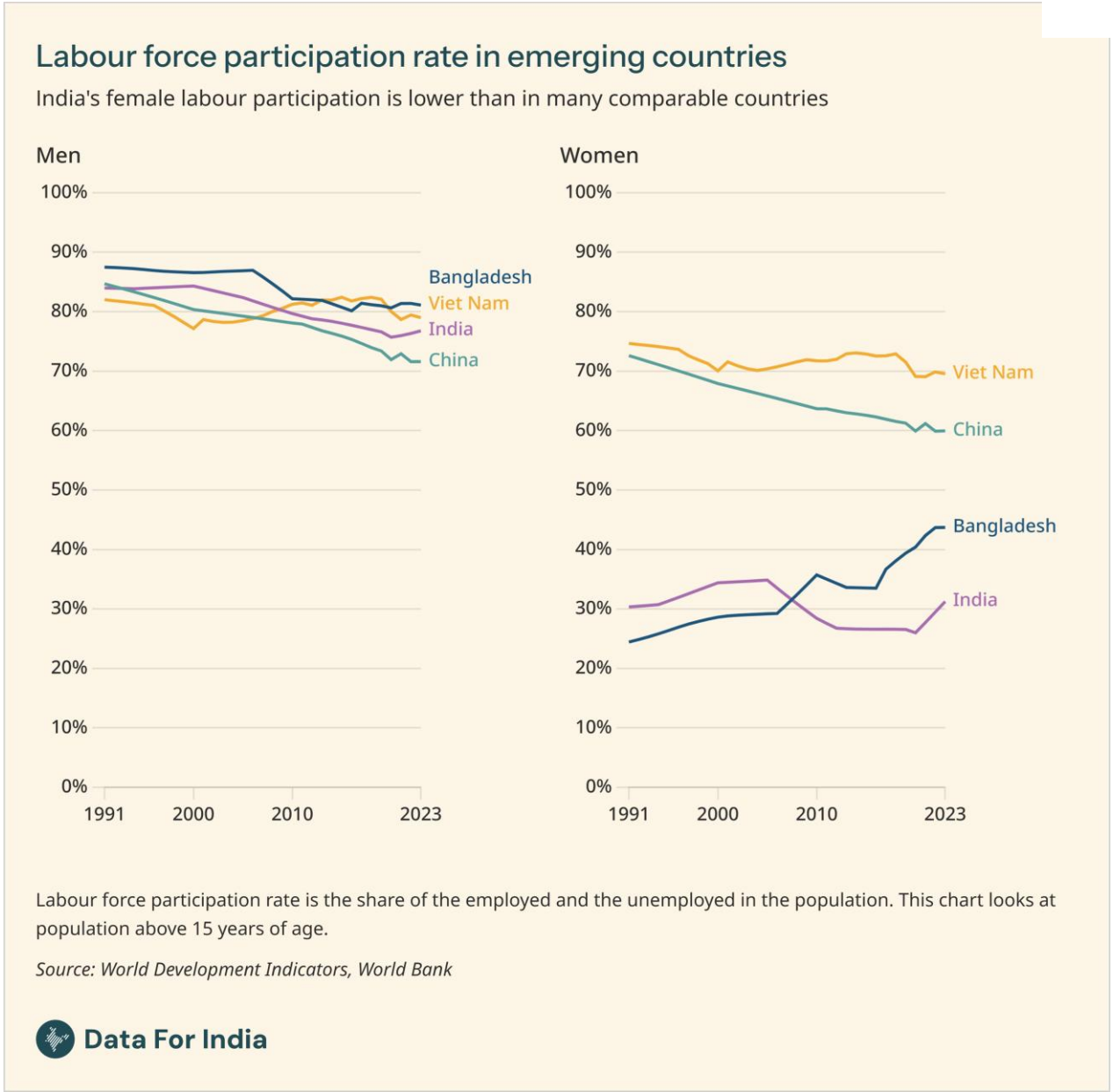
Income and consumption



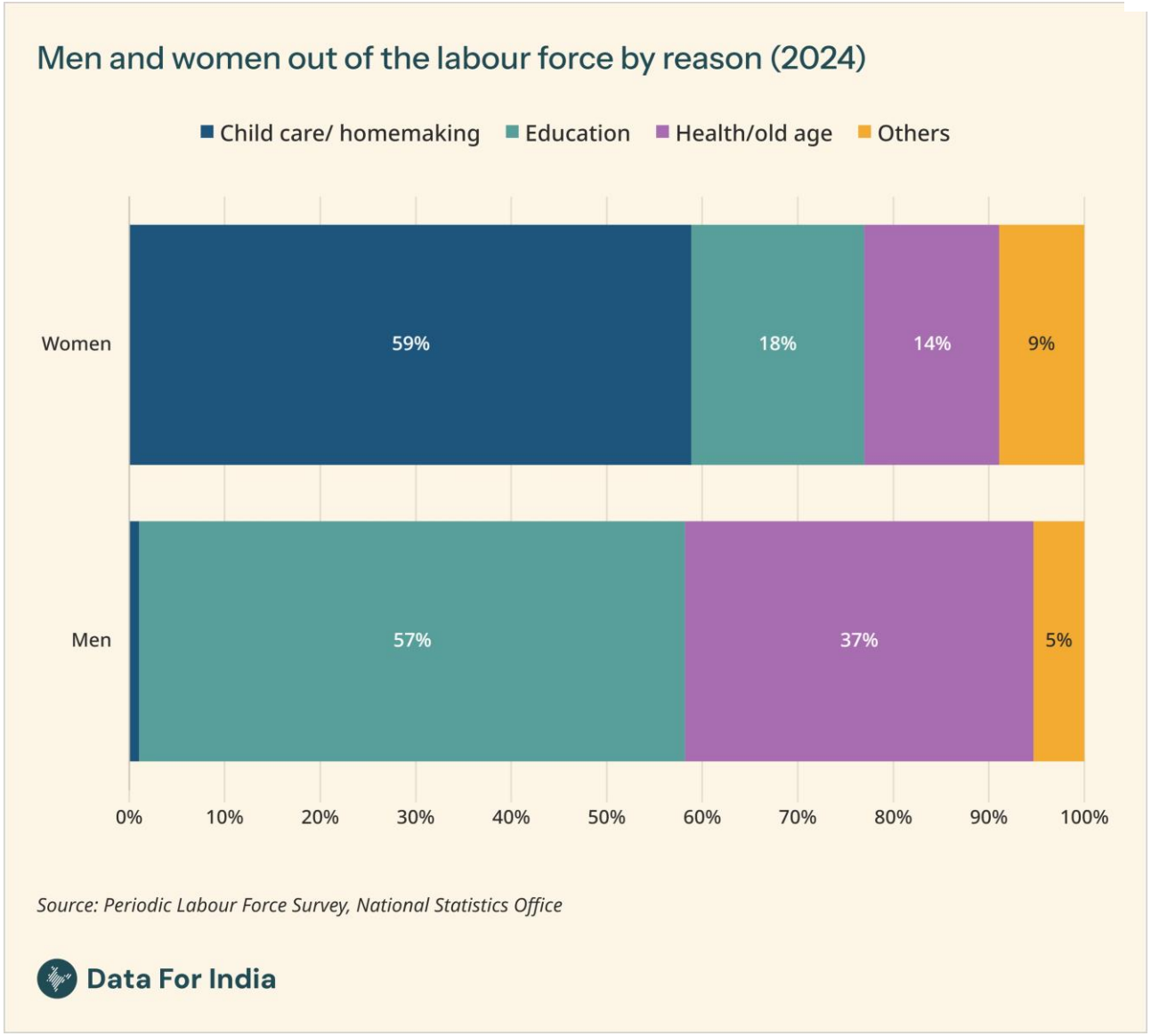
Economic survey



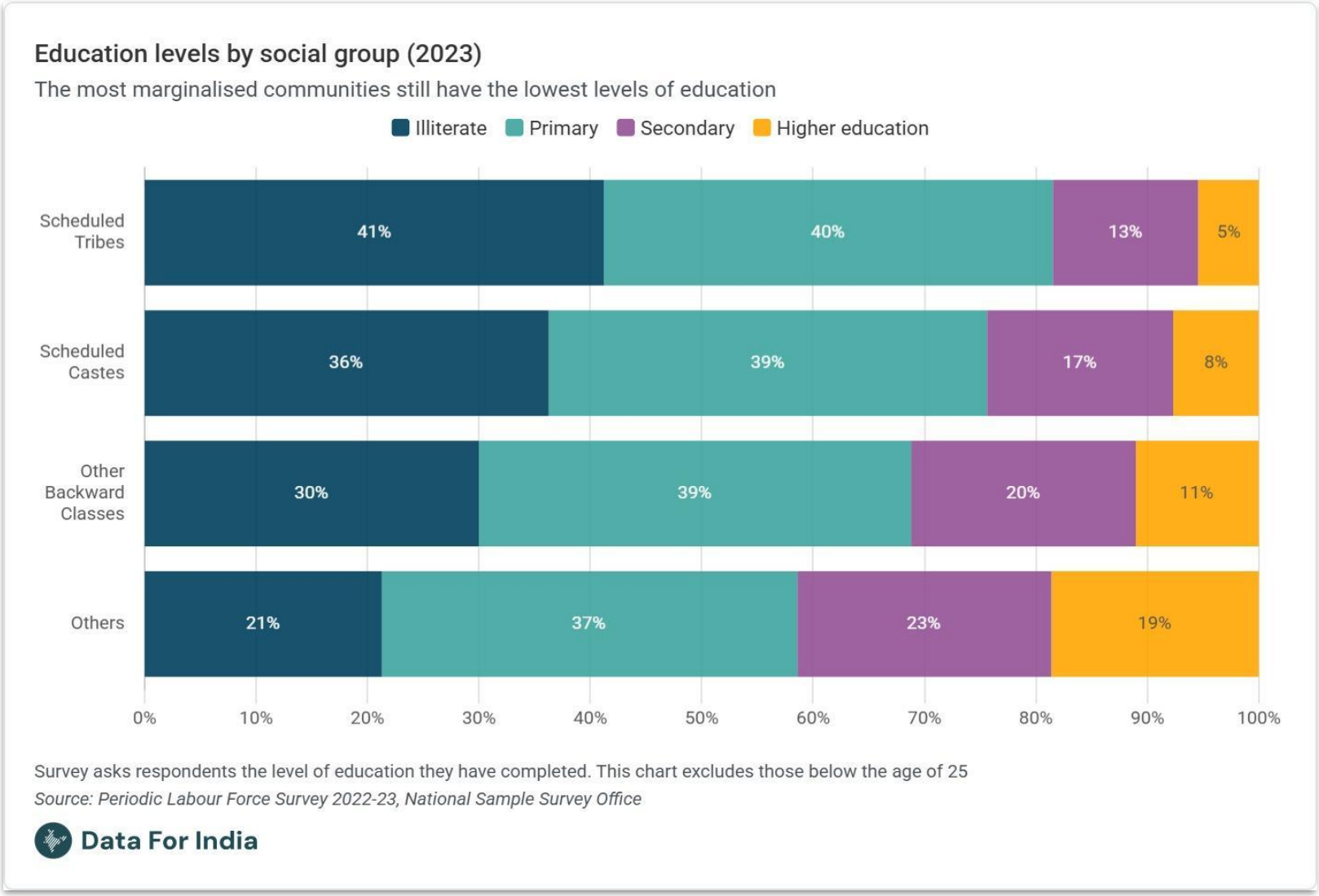
2. Labour force participation



Reasons


Men and women out of the labour force by reason (2024)
Child care/ homemaking
Education
Health/old age
Others
Women
59%
18%
14%
9%
Men
57%
37%
5%
0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
100%
Source: Periodic Labour Force Survey, National Statistics Office
Data For India

5. Education levels



Incentives

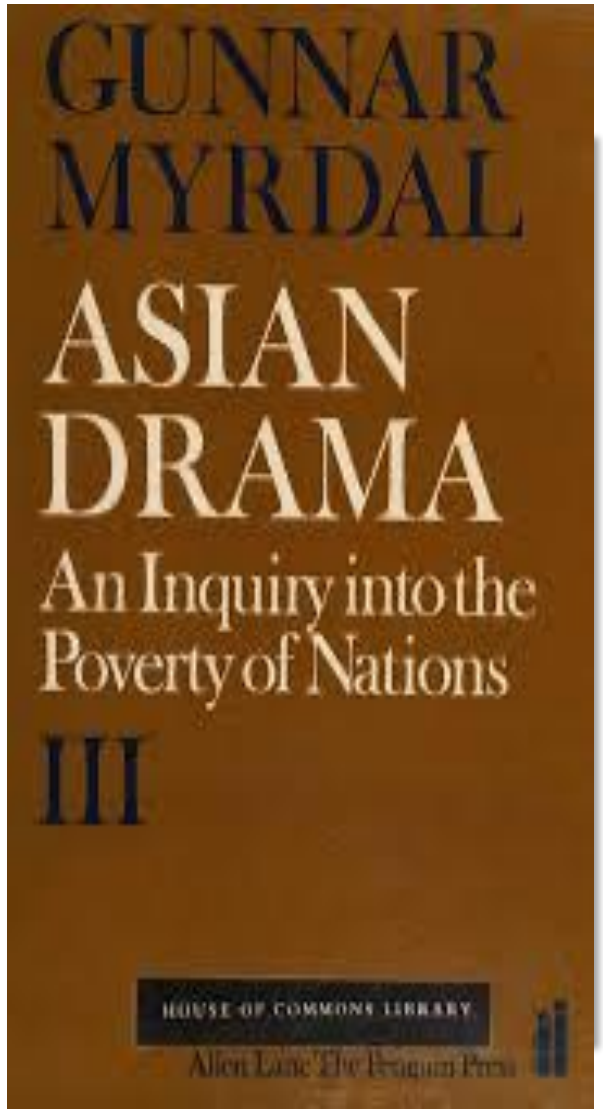
Business firms

- In 2016, Oliver Hart and Bengt Holmström looked at business firms and what kind of business ownership incentivises investment decisions,
- Why firms integrate or take to outsourcing their functions.

Analysis

- Their work on contracts proved how the failure of contracts to link pay to performance can result in the principal agent framework collapsing.
- The skyrocketing compensation to CEOs(Tirole) and the increasing dissonance between market performance and top executive salaries would show up nearly everywhere, resulting is some of the more famous business crashes.

Failed to foresee the Economic Miracle



- Tensions between modernization ideals and deeply rooted traditional institutions
- The **soft state** - general lack of social discipline, where laws and regulations are weak, corruption is pervasive, and government edicts rarely filter down to effectively change society
- Economic development is hindered by non-economic factors like traditional attitudes, rigid social structures (such as the caste system in India), and cultural norms. .
- Low income, poor health, and inadequate education—are interrelated and mutually reinforcing, often creating a "vicious circle"

GAMBLING ON DEVELOPMENT

WHY SOME COUNTRIES WIN AND OTHERS LOSE



WHY NATIONS FAIL



DARON ACEMOGLU AND JAMES A. ROBINSON

Essential reading

Why Nations Fail

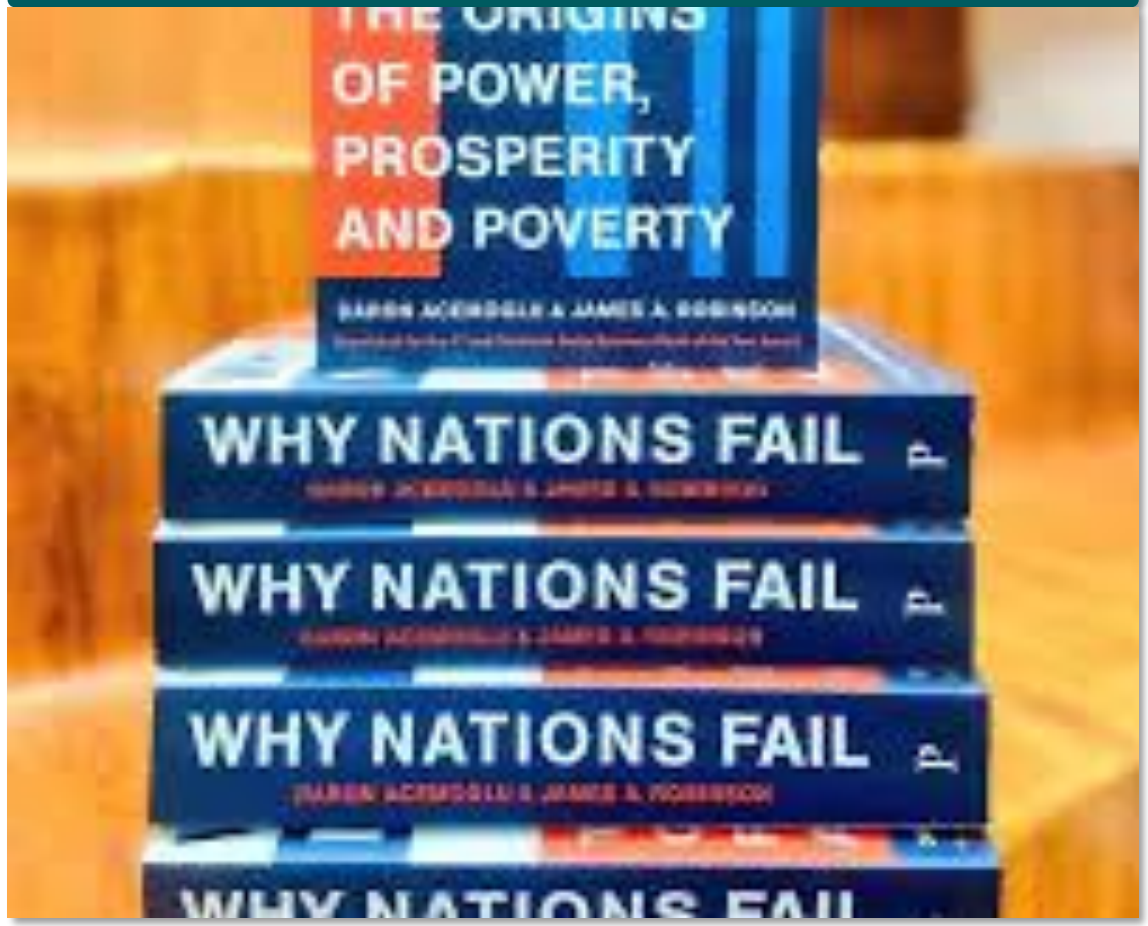
- Daron Acemoglu and James A. Robinson that explores why some nations succeed while others remain trapped in poverty. Inclusive institutions—both political and economic—are the key to long-term prosperity, while extractive institutions lead to stagnation and failure.

Gambling on Development

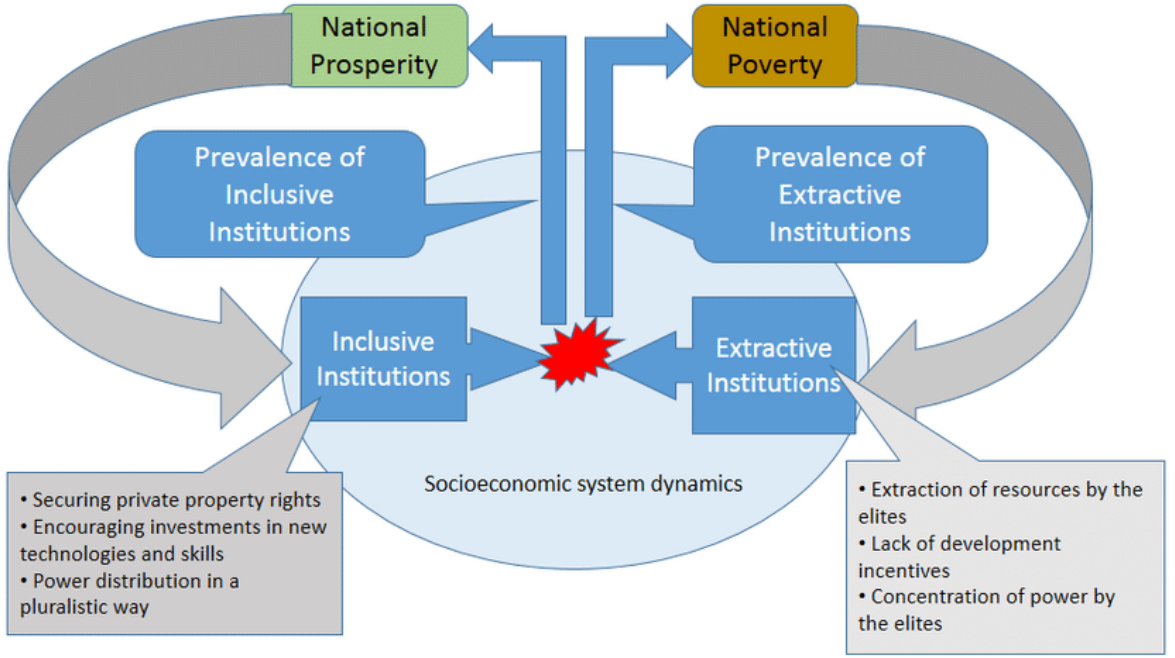
- Stefan Dercon argues that a country's economic success is not determined by a specific set of policies, but by whether its elite prioritize **long-term growth** over short-term self-interest. This is a "gamble" because elites must risk their current power and immediate wealth for the uncertain, distant rewards of a more prosperous nation

Leadership - Institutions

Prosperity



Institutions



Elite capture



Egypt – the whales
Sierra Leone – colonial legacy
Botswana

The South recovers from the Jim Crow laws 1877 - 1965

The Development Bargain - a commitment by local elites to prioritize long-term growth over immediate rent-seeking. Success depends on a credible political agreement, realistic institutional capacity, and the ability to learn from failures.

Gambling on Development

Innovation and Growth

Joel Mokyr

- Identified the "Industrial Enlightenment" as a prerequisite for growth.
- Progress requires the merging of **propositional knowledge** (scientific theory) with **prescriptive knowledge** (practical application).

Philippe Aghion & Peter Howitt

- Formalised the theory of **"Creative Destruction"**.
- Growth is driven by new innovations that render older technologies and firms obsolete, creating a "restless" but productive system.
- Ready to shrug legacy?

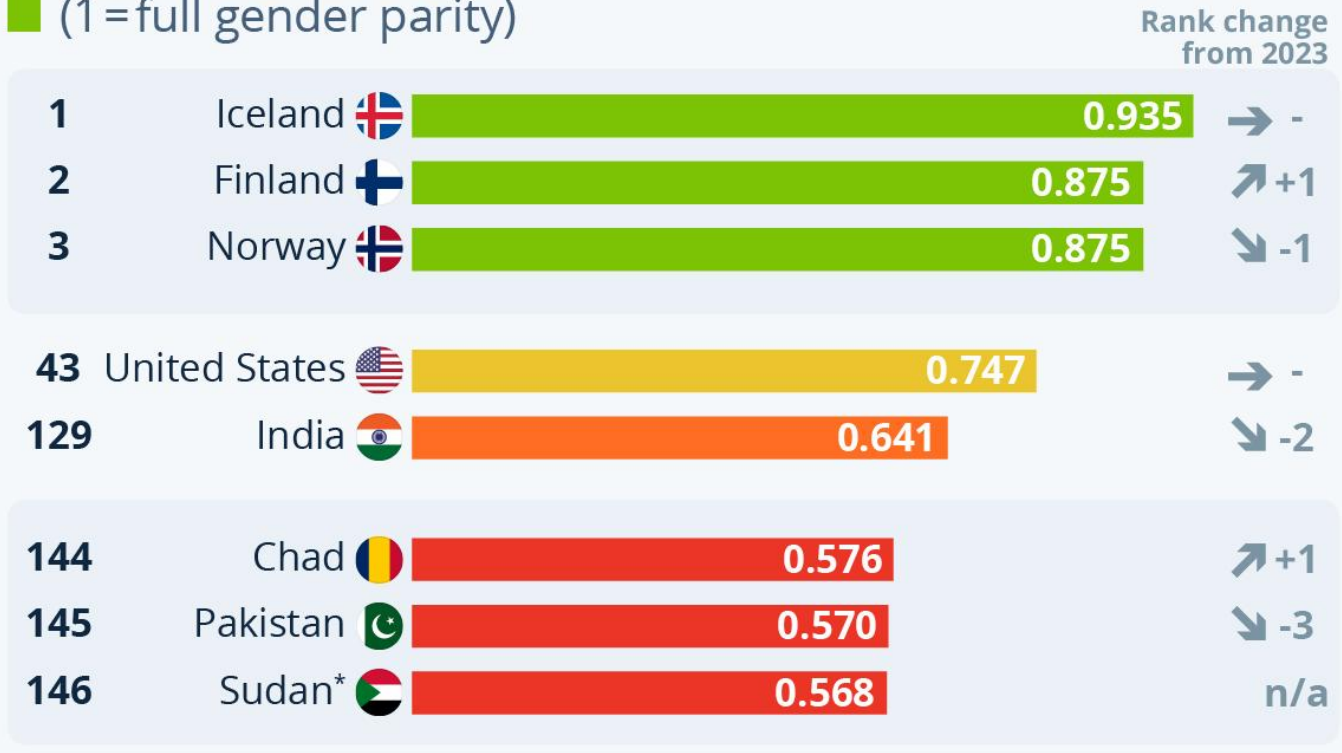
Leadership quandary

A central question is why leaders would choose "bad" institutions.

- While inclusive institutions grow the overall "pie," they often cause the current elite to lose their absolute control.
- Elites would rather have a larger slice of a small, stagnant pie than a smaller slice of a much larger, growing one

Best and Worst Countries for Gender Equality

Global Gender Gap Index 2024 rankings
(1 = full gender parity)



* New to index in 2024
Based on the following indicators: Economic participation and opportunity, educational attainment, health and survival, political empowerment

Source: World Economic Forum

statista