SOCIO-ECONOMIC VOICES

"Geopolitical Risks Remain, But India's Economy Is Structurally More Resilient"

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"Global Bond Index Inclusion Can Make Capital Inflows Durable"

Intro: India's economy is going through a defining phase where foreign capital, government spending, inflation, oil prices and retail investing are reshaping the financial landscape. Behind the headlines lies a deeper story that could influence markets, businesses and everyday investors for years to come. **Indiastat** spoke to senior economist **Dr Geetima Das Krishna** to unpack the trends, risks and opportunities that deserve far more attention than the numbers making the news. An exclusive with senior journalist **Mahima Sharma** only on **Socio-economic Voices**.

MS: Foreign investors invested a record nearly $3 billion into Indian government bonds in June after tax exemptions and expectations of wider global bond index inclusion. Do you see this as a structural shift in India's debt market or simply a short-term response to tax policy?

Dr. Geetima: The June inflows were a result of various factors - tax exemption, RBI's expansion of FAR-eligible securities, a sharp oil price decline and a corresponding rupee recovery from a record low. The 10-year benchmark yield fell about 20 basis points to roughly 6.76-6.84% as a direct consequence.

Removing the tax friction eases the operation hurdle cited by Bloomberg for inclusion of Indian Bonds in Bloomberg Global Aggregate Index. It is estimated that a 1% weight in that index will result in additional $20-22 billion of passive inflows over 10-12 months — money that doesn't wait for "the perfect macro environment". Earlier India was included in the JPMorgan GBI-EM Index. These inclusions in global indices establish a template where benchmark-driven capital becomes a durable, recurring feature of the market rather than a one-off event.

This is a genuine structural change in India's policy architecture and market access, but the June inflow number itself is best read as an initial, amplified response rather than the new steady-state run-rate. But June's headline figure also benefited from other one-off factors that may not repeat every month. The competition from elevated US Treasury yields is real. This combined with a fresh geopolitical shock or renewed rupee volatility could reverse June's gains quickly — none of those risks have been eliminated by the tax reform itself.

If the monthly inflows settle into a new, materially higher baseline even in months without an oil tailwind, versus reverting toward pre-reform levels once the current favourable conditions fade, is the real test of which story is correct.

MS: India's April-May fiscal deficit reached ₹1.62 lakh crore or 9.6% of the FY27 target, while capital expenditure increased from ₹2.2 lakh crore to ₹2.5 lakh crore year-on-year. Is the current pace of government

spending fiscally prudent or does it increase medium-term borrowing risks?

Dr. Geetima: Let us first look at a few more monthly data points available at the Controller General of Accounts of India (CGA) website. It is true that the fiscal deficit in the first two months of this fiscal has reached Rs 1.62 lakh crore or 9.6% of FY27 target compared to 0.8% in FY26. We need to dig deeper into this headline number before we can come to any conclusion. The revenue side does throw some red flags. Gross tax revenue growth was a muted 1.8% year-on-year, well below what the FY27 Budget Estimate assumes for the full year. This is primarily because Excise duty collections contracted 20%, as duties on petrol and diesel were slashed — a policy choice aimed at cushioning consumers from the oil price volatility. Income taxes also grew at a tepid rate of 6.8% vs 17.7% estimated in the budget FY27. However, this short fall was partially offset by robust corporate tax and customs duty collections. Non-debt receipts grew at a slower pace as well.

The expenditure-mix looks prudent — capex is leading, not lagging last year's pace, which is the qualitatively "good" way to carry a deficit. Higher oil prices have increased the subsidy payment – both fuel and fertilizer.

It is too early to call this a crisis and the capex-led higher expenditure is the right kind of spending to run a deficit. However, revenue shortfalls and higher subsidy bills mean that medium-term borrowing risk is real and worth tracking closely. The fiscal deficit can be slightly higher than budgeted 4.3% if the government decides not to trim capital expenditure.

MS: AMFI data shows mutual fund assets under management recovered to ₹81.9 lakh crore in April 2026, an 11.2% monthly increase. How much of this growth reflects stronger markets versus genuine retail participation?

Dr. Geetima: The AMFI data shows that total AUM increased by about Rs 8.19 lakh crore in April. The net inflows, in the month, were Rs 3.22 lakh crore - 39% of AUM growth. Thus, around 61% of the AUM increase came from market appreciation. The Nifty had gained 7.5% month-on-month in April 2026, its highest monthly gain since January 2024, which alone explains a large chunk of the jump.

To understand how much of the inflows was genuine retail participation, we need to look into the inflows into debt and equity markets.

It is seen that debt inflows of ₹2.47 lakh crore dominated the net flows (of which Rs 2.17 lakh crore in short term funds alone), meaning most new money went into treasury and cash management products rather than long duration gilt fund or retail equity. Equity net inflows were just ₹38,440 crore, representing only 4.7% of total AUM growth.

Meanwhile, folio count edged up modestly by about 14 lakh to 27.53 crore, with SIP-contribution at 9.65 crore—a genuine retail signal but with slower momentum.

It was seen that more SIP accounts were closing than opening even as total SIP money stayed near record highs. It suggests that the retail base is somewhat consolidating (existing investors increasing ticket sizes or fewer new entrants) rather than straightforwardly broadening of the retail base.

The headline 11.2% monthly jump in AUM was a market-recovery story first, a treasury-cycle story second and a retail-participation story a distant third in April.

MS: Equity mutual fund inflows moderated from about ₹38,440 crore in April to ₹22,908 crore in May. Should investors interpret this slowdown as healthy consolidation or an early sign of weakening retail confidence?

Dr. Geetima: Here we need to make a distinction between the gross and net inflows. The gross buying in May was Rs 57,600 crore against Rs 34,700 crore of redemptions. This tells us that retail and institutional investors weren't shying away from putting new money in — they were more willing to also take some off the table amid real macro uncertainties (an active war in West Asia, rupee weakness, oil volatility). That combination of steady new buying, somewhat higher selling is closer to healthy consolidation and not a complete confidence collapse.

That said, it is **important to monitor the slowdown in equity inflows.** If, going forward, gross inflows stay near May's level or recover while redemptions normalize as the Iran-related shock fades, that confirms consolidation. If gross inflows continue softening even as crude eases (as it has recently) and geopolitical tensions cool, that would be a more genuine signal of retail fatigue rather than event-driven caution.

MS: Debt mutual funds recorded record inflows of roughly ₹2.47 lakh crore in April 2026. Does this indicate that institutional investors are becoming more risk-averse or was it mainly driven by liquidity and treasury management?

Dr. Geetima: The data clearly shows that it's overwhelmingly a treasury or liquidity story, not a broad flight to safety.

The inflows of Rs 2.47 lakh crore total into debt funds include Rs 1.65 lakh crore in liquid funds and around Rs 80,000 crore in various short-duration funds. These are all cash-management categories with holding periods measured in days to a few months. These are mostly corporate treasury management funds though a small portion may be from retail investors.

On the other hand, gilt funds and long-duration funds — the categories that would actually signal a genuine flight to safety or duration bet — witnessed outflows continuing their trend from March.

AMFI itself attributed only part of the surge to investors' preference for safety amid market volatility, global uncertainties and evolving risk sentiment.

Thus, we can safely say that the surge in debt mutual fund inflows in April is primarily driven by liquidity and treasury management, with a secondary risk-aversion undertone. Most probably, a wait-and-watch strategy before deployment of the funds. There is not enough evidence that institutions are turning structurally cautious on India or making a defensive shift into long-duration safe assets.

However, if we consider this along with moderation of inflows into equity and increase in inflows to safe-haven gold dominated funds, this indicates a mild cautious backdrop among global uncertainty. The May/June data needs to be monitored.

MS: Having led investment promotion for Northeast India, what three measurable indicators—FDI inflows, private capex, logistics costs, export growth, employment or startup creation—best capture whether the region's investment strategy is actually succeeding?

Dr. Geetima: I would pick the three indicators that can capture whether the region's investment strategy is actually succeeding:

Private capex (non-government, non-PSU capital expenditure)
Private capex is the actual spending on plant, equipment and facilities by private companies, not MOUs signed at investment summits. Historically, MoUs signed at Investment Summit have been a poor predictor of realized investment across Indian states.

Employment (formal, non-agricultural job creation)
This indicator captures whether investment is translating into livelihood generation rather than sitting as capital-intensive infrastructure with limited local absorption. For example, Tata's OSAT semiconductor project at Rs 27,000 crore is projected to generate 15,000 direct and up to 13,000 indirect jobs, which gives a concrete, trackable benchmark.

Logistics costs
This is the most NE-specific indicator in the list, because the Northeast region is a landlocked region with difficult terrain. Connectivity is the actual constraint increasing the logistic costs. If logistics costs stay stubbornly high despite the government investments in infrastructure, that's the earliest and clearest signal the strategy isn't converting inputs into outcomes, well before capex or employment data would show it.

Other indicators do not clearly reflect the investment scenario.

FDI inflows are misleading for the NE region. Foreign investors may come to this region after initial investments in other major states and thus, may not show up in FDI (greenfield) investment data. Investments from bordering countries are constrained by government approvals.

Next, export growth, though a promising longer-term indicator, may currently be volatile with low base and few products (mostly tea, bamboo, oil and some agri-processing). Startup creation may not reflect that real survival rate, revenue generation etc.

Private capex confirms investors are putting real money in, employment confirms that money is creating livelihoods and logistics costs confirm the underlying structural bottleneck the whole strategy targets is actually being resolved — not just funded.

MS: India's GDP growth for FY2025-26 is estimated at 7.7%, while the RBI has maintained the repo rate at 5.25%. Do you believe monetary policy is appropriately balanced between supporting growth and containing inflation risks?

Dr. Geetima: In the RBI's June 2026 MPC, it has maintained a "neutral" stance. But it has cut the FY27 growth forecast to 6.6% from 6.9%, while simultaneously raising the FY27 CPI inflation forecast to 5.1% from 4.6%. Current headline CPI was 3.5% in April 2026, is below the RBI's 4% medium-term target, even as the forward-looking risk has clearly worsened.

With the repo rate at 5.25% against current CPI of 3.5%, the real policy rate is only around 1.5-1.75 percentage points positive —arguably close to neutral. That's not a stance actively choking off growth, which fits with an economy that just posted 7.7% growth in FY25-26.

The RBI has explicitly said it wants to wait for clarity on the war, monsoon and global supply chains before acting further. The "neutral" stance provides RBI the flexibility to cut if growth deteriorates faster than the 6.6% forecast or hold/tighten if the oil-driven inflation risk materializes.

I believe it is reasonably well-calibrated stance — real rates are low enough not to be a genuine drag on the strong growth already achieved and the hold is defensible given inflation risk is rising even though current inflation is low, plus real external constraints (rupee, capital outflows) that a cut would aggravate. Economists are divided in their opinion. Some would argue a still-positive real rate is unnecessarily tight given the growth deceleration, others would argue the RBI is right to stay cautious given how quickly the inflation forecast has moved — and I belong to the later camp.

MS: Oil prices eased after recent geopolitical tensions, helping improve investor sentiment toward India. How sensitive is India's macroeconomic outlook to every $10 change in Brent crude prices and which sectors gain or lose the most?

Dr. Geetima: India imports almost 85% of its crude oil requirement and so is sensitive to any sustained change in the price. However, India's sensitivity has actually declined structurally as crude imports as a share of GDP have nearly halved from 9% in 2013 to around 4.8% today. Thus, oil shocks matter, but less than in the 2011–13 era, when sustained crude above $100 pushed India's CAD past 4% of GDP and the rupee lost nearly 20% of its value over 18 months.

A $10/barrel higher crude price (with $65/bbl baseline) will increase India's annual oil import bill and translate to additional $20 billion to India’s Current Account Deficit (CAD) – about 0.5% of GDP. According to RBI's own estimate (RBI's October 2025 Monetary Policy Report), a 10% rise in crude oil prices from baseline could push inflation up by about 30 basis points and cut GDP growth by roughly 15 basis points, assuming full pass-through to domestic prices. Higher oil prices also drive the dollar demand feeding into rupee depreciation.

The transmission is fairly quick for CAD and currency, slower for inflation and growth — the macro effects take months to show up and years to fully absorb.

Sectors that lose are Oil Marketing Companies, Companies dealing with various crude derivatives (like Paints, Tyre, Chemicals, Plastics), as well as Aviation, Auto, Logistics, Cement sectors. Sectors that are rate sensitive due to higher inflation (like Banks, NBFCs) and rupee-sensitive (through higher import cost due to rupee depreciation) are also indirectly hit.

Sectors that gain or are more insulated are Upstream oil companies, IT service, Pharma, Power or Utilities, Renewable energy etc.

MS: India has introduced tax changes to make government securities more attractive for foreign investors. Could greater dependence on foreign debt investors increase India's vulnerability during periods of global risk-off sentiment or do the benefits outweigh the risks?

Dr. Geetima: On June 5, 2026, India announced the Income-tax (Amendment) Ordinance, exempting foreign institutional investors and the Bank for International Settlements from tax on both interest income and 12.5% long-term capital gains from government securities, retrospective to April 1, 2026. Moreover, the RBI expanded the range of G-Secs open to non-resident investors and removed limits on short-term investment, concentration and individual securities for FPIs and raised investment limits for NRIs and OCI holders. The timing was crucial: Foreign investors have sold Indian equities worth $27.6 billion since January 2026, versus $18.9 billion for all of 2025 and the government is explicitly trying to offset that with debt inflows.

The foreign portfolio debt is considered "hot money" which moves out whenever risk appetite sours. Market participants are split on how this amendment will pane out. These measures address only one aspect of the foreign investment equation. Currency volatility remains a key consideration, since a weakening rupee can erode local-currency gains for foreign investors regardless of the tax treatment and that concern has become more relevant amid global uncertainty.

The foreign G-sec ownership in India is at a very low level. India isn't moving from "closed" to "dangerously exposed" but it is moving from "almost entirely domestically funded" to "modestly more internationalized." The risk is real but, at present, the deep domestic investor base and large reserve buffer mean the benefits — cheaper effective borrowing costs, rupee support and deeper market liquidity — plausibly outweigh the risks.

MS: Drawing on both your fixed-income research and Invest India experience, which single macroeconomic indicator would you monitor most closely over the next six months—bond yields, private investment, inflation, fiscal deficit, FPI flows or employment. Please share why?

Dr. Geetima: Bond yields — specifically the 10-year G-sec yield — is the one I'd watch most closely.

The other five indicators are all real and important, but each of these are lag indicators, a single-factor read and not a high frequency data. Bond yields are different as they're a live, daily, forward-looking indicator that synthesizes almost every macro indicator into a single factor.

A widening fiscal deficit with higher borrowing expectations will push up bond yields much before the actual announcement of the borrowing calendar. Bond yields price in forward inflation expectations faster than actual CPI prints do. If the market starts pricing in either a forced hike (inflation surprise) or a delayed cut (growth disappointment), the yield curve shrinks even before the RBI's next MPC meeting. A durable FPI flow or a one-off oil-driven spike will show up directly in yield movements before it shows up anywhere else.

In effect, bond yields are the aggregator variable — a sustained, unexplained rise in the 10-year would be an early warning that several of the other five (fiscal slippage, FPI reversal, inflation risk, growth disappointment) are deteriorating together, often before they show up cleanly in its own data release.

It is not that bond yields are more important than other macro indicators. Yields are the best early-warning composite signal in near term. If I had to pick a second indicator to pair with bond yield for a fuller picture, it would be FPI flows into debt specifically, since they explain why yields are moving, not just that they're moving.

About Dr. Geetima Das Krishna

Dr. Geetima has more than two decades of experience in research, policy, strategy, consulting and teaching spanning both the corporate world and academics. Currently she is working as Policy and Strategy Head at Social Alpha. Until recently, she was heading the Northeast and UTs team at Invest India, DPIIT, GoI with the mandate of facilitating investment in those regions. Before that, she was leading the macro-economic research unit in the Centre for Policy Research, New Delhi. Previously, she was an Addl. Vice president at Reliance Asset Management Co Ltd handling very focused macro research for the Fixed Income Investment team. She holds an MS in computer engineering from Florida, USA, MBA in Finance and Investments from New York and a PhD (Economics) from IIFT, Delhi. She has authored a book on Indian Bond Market. Some of the research reports, articles are published in leading Journals/national financial dailies which have enriched public debate and provided policy inputs.

About the Interviewer

Mahima Sharma is an Independent Journalist based in Delhi NCR. She has been in the field of TV, Print & Online Journalism since 2005 and previously an additional three years in allied media. In her span of work she has been associated with CNN-News18, ANI - Asian News International (A collaboration with Reuters), Voice of India, Hindustan Times and various other top media brands of their times. In recent times, she has diversified her work as a Digital Media Marketing Consultant & Content Strategist as well. Starting March 2021, she is also a pan-India

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