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Global growth remains resilient but momentum is expected to moderate in 2026

Global economic activity remained broadly resilient towards the end of 2025, although major agencies continued to signal a moderation in growth momentum. The IMF's October 2025 World Economic Outlook projected global growth to slow from 3.3% in 2024 to 3.2% in 2025 and 3.1% in 2026, reflecting the impact of trade-policy uncertainty, softer demand in some advanced economies and uneven recovery across regions. Advanced economies were projected to grow at around 1.5%, while emerging market and developing economies were expected to remain stronger at just above 4%.

The OECD's December 2025 Economic Outlook also pointed to a similar moderation, projecting global GDP growth to ease from 3.2% in 2025 to 2.9% in 2026, before improving slightly to 3.1% in 2027. The outlook highlighted that global activity had remained more resilient than expected during 2025, but that higher trade barriers, elevated policy uncertainty and tighter financial conditions in some economies could weigh on investment and trade in 2026.

Global trade outperforms in 2025, but outlook weakens for 2026

Global trade performed better than earlier expected in 2025, helped by front-loading of shipments and strong demand for AI-related goods. The WTO's October 2025 Global Trade Outlook revised its forecast for world merchandise trade volume growth to 2.4% in 2025, up from the earlier estimate of 0.9%. However, the WTO projected a sharp slowdown to 0.5% in 2026, reflecting the fading of front-loading effects, weaker import demand and continuing policy uncertainty.

The WTO noted that AI-related goods supported trade growth during 2025. This included products linked to semiconductors, servers, data-centre equipment and other technology-related supply chains. However, the outlook for 2026 remained cautious because tariff changes and trade-policy uncertainty continued to affect business decisions, sourcing strategies and shipment patterns.

This suggests that global trade conditions entering 2026 were mixed. While technology-linked trade remained a bright spot, the broader trade environment was exposed to downside risks from protectionist measures, geopolitical tensions, inventory adjustments and slower demand in advanced economies.

INDIAN ECONOMY

India's growth momentum remains strong, supported by manufacturing and services

India's economy entered 2026 on a strong footing, supported by robust domestic demand, manufacturing activity and services growth. Real GDP grew by 8.2% in Q2 FY 2025–26, compared with 5.6% in Q2 FY 2024–25. Nominal GDP grew by 8.7% during the same quarter. The expansion was supported by strong growth in the secondary sector at 8.1% and the tertiary sector at 9.2%. Within the secondary sector, manufacturing grew by 9.1%, while construction expanded by 7.2%.

The strong Q2 performance reflected resilience in domestic demand and investment-linked activity. Manufacturing continued to benefit from higher production, policy support and improved capacity utilisation, while services remained supported by consumer demand, business activity, financial services, trade and transport-related segments.

The Reserve Bank of India also revised its FY 2025–26 growth projection upwards in its December 2025 policy review, with FY26 real GDP growth projected at 7.3%, compared with 6.8% in the October policy. This reflected better-than-expected growth momentum, softer inflation, favourable rural prospects and supportive financial conditions.

Manufacturing activity stays in expansion mode, despite some moderation

India's manufacturing sector remained in expansion territory towards the end of 2025, although the pace of growth moderated. The HSBC India Manufacturing PMI stood at 55.0 in December 2025, down from 56.6 in November, marking the slowest expansion in around two years. Despite the moderation, the reading remained well above the 50-mark, indicating continued improvement in manufacturing conditions.

S&P Global noted that India's manufacturing industry ended 2025 "in good shape", supported by a sharp rise in new business intakes and limited inflationary pressures. However, the data also pointed to softer growth in new export orders, suggesting that external demand conditions were less supportive than domestic demand.

Industrial production also improved sharply in November. India's Index of Industrial Production grew by 6.7% year-on-year in November 2025, compared with 0.4% in October 2025. The November expansion was driven by 8.0% growth in manufacturing, with basic metals, fabricated metal products, pharmaceuticals and motor vehicles contributing to the recovery. Mining also rebounded with 5.4% growth, supported by the end of the monsoon season and stronger metallic-mineral output.

Inflation remains comfortable, giving policy space

India's inflation environment remained favourable towards the end of 2025. The RBI lowered its CPI inflation forecast for FY 2025–26 to 2.0%, down from 2.6%, keeping inflation comfortably within the RBI's target band of 2–6%. The quarterly inflation path projected by the RBI showed CPI inflation at 0.6% in Q3 FY26 and 2.9% in Q4 FY26, before rising to 3.9% in Q1 FY27 and 4.0% in Q2 FY27.

Retail inflation remained subdued in December 2025. All-India CPI inflation stood at 1.33% year-on-year in December, although it increased by 62 basis points compared with November. Food inflation remained soft, helping contain overall price pressures and supporting household purchasing power.

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The benign inflation environment gave monetary policy some flexibility. Lower inflation, together with strong growth, improved the near-term macroeconomic balance. However, policymakers continued to monitor risks from weather shocks, geopolitical developments, global commodity prices and external demand weakness.

External and trade conditions remain a key watchpoint

While domestic momentum remained strong, India's external environment continued to require close monitoring. The global trade outlook for 2026 was weak, with the WTO projecting world merchandise trade volume growth to slow to 0.5% in 2026 after stronger growth in 2025. This could affect export-oriented sectors, especially if demand from advanced economies moderates or tariff uncertainty persists.

The moderation in India's manufacturing PMI export orders also pointed to some pressure from external demand. While domestic new orders remained supportive, slower export-order growth indicated that global demand conditions could become a constraint for Indian manufacturers in 2026.

Overall, India entered January 2026 with a strong macroeconomic position: high GDP growth, expanding manufacturing and services activity, improving industrial production and low inflation. The key policy challenge for the coming months will be to sustain investment and consumption momentum while managing risks from global trade uncertainty, export demand moderation and external financial-market volatility.

WTO Launches Global Value Chain Development Report 2025

The WTO released the Global Value Chain Development Report 2025 on 15 December 2025. The report, the fifth edition in the biennial series, examines how global value chains are being reshaped by technological change, the green transition and shifting geopolitical conditions. The 2025 edition is titled “Rewiring GVCs in a Changing Global Economy” and uses updated value-added trade data, new network measures and case studies to assess how production networks are evolving.

The report’s central message is that global production is reorganising rather than retreating. It notes that regionalisation, digitalisation and sustainability pressures are redefining how value chains are structured and governed. The report also highlights that policymakers and firms are increasingly focused on resilience, risk management, strategic control over key technologies, inclusiveness and decarbonisation, rather than only efficiency and cost minimisation.

For businesses, the report points to a more complex GVC environment where firms may need to diversify sourcing, build resilience into supply chains, strengthen digital capabilities and align with sustainability expectations. The findings are particularly relevant for sectors such as electronics, semiconductors, clean energy, automotive components, chemicals, engineering goods and digital services, where supply-chain restructuring and strategic industrial policies are increasingly influencing trade and investment decisions.

Türkiye and UK advance enhanced FTA negotiations



The United Kingdom and Türkiye have completed the third round of negotiations on an Enhanced Free Trade Agreement in Ankara. The talks aim to upgrade the existing UK–Türkiye trade agreement into a broader and more modern framework covering goods, services, investment and regulatory cooperation.

Services were a major focus of the latest round, including financial services, professional and business services, domestic regulation, and temporary entry and stay for business persons. On goods, the two sides discussed customs procedures, trade facilitation and sanitary and phytosanitary measures.

The negotiations also covered labour practices, environmental cooperation, anti-corruption, intellectual property, public procurement, subsidies, state-owned enterprises and dispute settlement. Bilateral trade stood at around £28 billion on an annualised basis as of Q2 2025, making Türkiye the UK's 17th-largest trading partner. The fourth round is expected in early 2026.

China and South Korea to accelerate second-phase FTA negotiations



China and South Korea have agreed to speed up the second phase of negotiations under the China–Republic of Korea Free Trade Agreement. The decision was taken during a meeting in Beijing between China's Commerce Minister Wang Wentao and South Korea's Minister of Trade, Industry and Energy Kim Jung-kwan.

The second-phase negotiations are expected to deepen the existing FTA framework, with focus areas likely to include services, investment, industrial cooperation, emerging sectors and supply-chain stability. Both sides also discussed strengthening trade and investment cooperation, subnational economic links and dialogue on trade remedy issues.

The development is important for East Asian trade and supply chains, given the strong production linkages between China and South Korea in electronics, semiconductors, batteries, chemicals, machinery and intermediate goods. A deeper FTA framework could improve regulatory predictability and support smoother industrial and investment flows between the two economies.

FTAS/ BILATERALS

The UAE is Kenya's second-largest source of imports and sixth-largest export destination. Kenya exports tea, meat, fruits, vegetables and flowers to the UAE, while importing petroleum products, chemicals and machinery. Once ratified, the CEPA is expected to strengthen Kenyan export value chains and reinforce Kenya's role as a regional trade and investment hub.

Nigeria-UAE CEPA Opens New Market Access and Investment Pathways

Nigeria and the United Arab Emirates have signed a Comprehensive Economic Partnership Agreement (CEPA) aimed at expanding market access, encouraging investment flows, and strengthening Nigeria's role as a trade gateway into Africa. The agreement was signed on the sidelines of Abu Dhabi Sustainability Week and reflects the UAE's continued effort to deepen economic partnerships with key emerging markets.

Under the agreement, the UAE will eliminate tariffs on more than 7,000 Nigerian products, giving Nigerian exporters duty-free access to a major Gulf market. Covered products include fish and seafood, oil seeds, cereals, cotton, pharmaceuticals, and chemicals. In addition, tariffs on machinery, vehicles, electrical equipment, apparel, and furniture will be phased out over three to five years, supporting Nigeria's export-diversification and industrialisation agenda.



The CEPA also includes provisions beyond goods trade. Nigerian firms will be able to establish operations in the UAE through corporate entities, branches, and subsidiaries, improving their ability to access Gulf and wider Middle Eastern markets. The agreement also provides mobility benefits, allowing Nigerian business visitors to enter the UAE for up to 90 days within a year, while managers, executives, and specialists can relocate under renewable three-year arrangements.

The agreement is significant as it combines tariff liberalisation with investment, business establishment, and mobility provisions. For Nigeria, it offers a clearer pathway to expand non-oil exports and attract UAE investment into productive sectors. For the UAE, it strengthens commercial ties with Africa's largest economy and supports its position as a logistics, investment, and re-export hub linking Africa, the Gulf, and global markets.

EU-Ecuador Conclude Negotiations on Sustainable Investment Facilitation Agreement

The European Union and Ecuador have concluded negotiations on a Sustainable Investment Facilitation Agreement (SIFA), marking the EU's first agreement of this kind with a Latin American country. The agreement is intended to promote EU investment in Ecuador by improving regulatory predictability, reducing administrative barriers, and creating a more transparent and investor-friendly business environment.

Unlike a conventional trade agreement, the SIFA focuses on investment facilitation rather than tariff liberalisation. It seeks to simplify investment authorisation procedures, improve access to information on investment-related measures, strengthen stakeholder consultations, and establish focal points to improve communication between investors and public authorities. These measures are expected to benefit both EU and Ecuadorian

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investors by making the investment framework easier to navigate.

A key feature of the agreement is its strong sustainability orientation. The SIFA includes commitments on labour rights, environmental protection, implementation of ILO standards, the Paris Agreement, and responsible business conduct. It also includes a dedicated annex on sustainable energy and raw materials, both of which are priority areas for EU investors and Ecuador's economic development strategy.



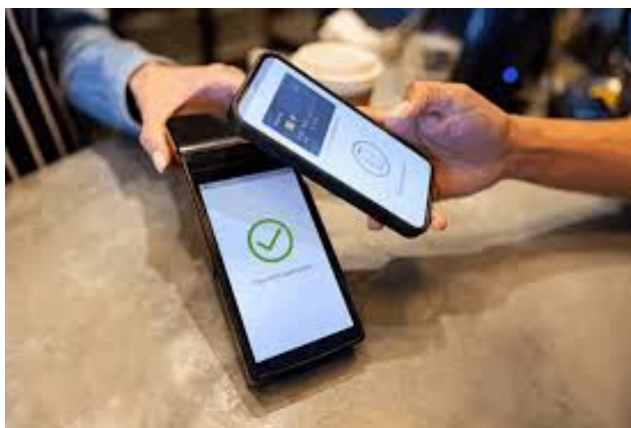
The agreement also builds on existing EU–Ecuador economic ties. EU foreign direct investment stock in Ecuador reached €8.2 billion in 2023, with investment concentrated in construction, business services, transport, storage and communications, and manufacturing. The EU will also support Ecuador through an €8 million project aimed at improving the investment climate and supporting the country's energy transition.

The political conclusion of negotiations marks the end of the negotiating phase. The European Commission and Ecuador will now proceed with their respective internal procedures for formal signature and conclusion.

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Ethiopia Launches National Digital Payment Strategy 2026–2030

Ethiopia launched its National Digital Payment Strategy 2026–2030 along with a new instant payments platform, signalling a major policy push toward a cash-lite and digitally inclusive economy. The five-year roadmap focuses on expanding digital payment adoption, improving interoperability across payment providers, strengthening public trust, modernising financial infrastructure and reducing access barriers for underserved communities, particularly rural populations. The strategy builds on Ethiopia's earlier Digital Ethiopia 2025 agenda and is now linked to the broader Digital Ethiopia 2030 initiative, which seeks to deepen digital transformation across governance, public services and economic activity.



A key element of the initiative is the instant payments system, which will provide core infrastructure for faster and more secure transactions. The platform is expected to support person-to-person transfers, QR-based payments, bulk disbursements and low-value cross-border transactions through cards, mobile wallets and digital banking channels. The strategy also envisages a National Data Exchange to improve information flows and widen access to essential services. For Ethiopia,

this represents a regulatory and infrastructure-led move to formalise digital transactions, improve financial inclusion and create stronger foundations for fintech-led economic activity.

Odisha Unveils Pharmaceutical and Medical Devices Policy, 2025

Odisha launched the Pharmaceutical and Medical Devices Policy, 2025 to position the state as an eastern India hub for pharmaceuticals, medical devices and healthcare-linked manufacturing. The policy aims to attract ₹25,000 crore investment and create 1 lakh jobs by 2030, while supporting investment, innovation, green manufacturing and local entrepreneurship. It also proposes dedicated industrial ecosystems for the sector, including pharmaceutical and medical-device parks, to strengthen Odisha's presence in India's life-sciences value chain.



The policy provides a targeted incentive package for eligible units. Key incentives include 30% capital subsidy on eligible plant and machinery, disbursed up to 6% per annum for five years, without an upper cap; 25% subsidy up to ₹1 crore for dedicated power infrastructure; and 50% subsidy on concessional land cost for units employing more than 200 Odisha-domiciled skilled workers. The official policy page also highlights green manufacturing incentives, including 25% subsidy on investment in green buildings, wastewater treatment, effluent treatment and deep-sea discharge facilities, up to ₹10 crore per industrial unit, and

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up to 50% capital subsidy for relevant equipment for units practicing at least 50% wastewater recovery through Zero Liquid Discharge.

For industry, the policy is significant because it combines manufacturing incentives with infrastructure, power, land and environmental-support measures. It is particularly relevant for pharmaceutical manufacturers, medical-device companies, MSMEs, R&D units, packaging and logistics players, and healthcare supply-chain investors looking to diversify manufacturing locations within India. The policy also aligns with India's broader objective of strengthening domestic production of critical healthcare products and reducing import dependence in medical devices.

Bihar Issues Pumped Storage Project Promotion Policy



Bihar issued the Policy for Promotion of Pumped Storage Project, 2025 to support large-scale energy storage, renewable-energy integration and grid balancing. The policy applies to pumped-storage projects above 25 MW and covers on-stream, off-stream open-loop and off-stream closed-loop project models.

It aims to attract private investment, create employment opportunities, generate revenue for the state and support compliance with renewable purchase and energy storage obligations. The policy identifies the Bihar State Power Generation Company Limited as the nodal agency for implementation, while project allocation may be made to central PSUs, state PSUs or private developers through defined allocation mechanisms.

The policy offers a wide set of investor-facing incentives to reduce project development costs and improve bankability. These include single-window clearance, deemed open access within 30 days for 25 years, electricity duty exemption for 15 years, 100% SGST reimbursement for five years, exemption from intra-state transmission charges, no free power claim, no water cess, and reimbursement of land-conversion charges and stamp-duty or registration fees for eligible land transactions. The policy also provides for right of first refusal for up to 80% of project capacity in certain cases, project execution timelines, land-use provisions and power evacuation responsibilities.

For the power sector, the policy is important because pumped storage can help Bihar manage renewable-energy variability, improve peak power availability and support long-duration storage requirements. It is relevant for renewable-energy developers, hydropower companies, storage investors, transmission utilities, engineering firms and equipment suppliers involved in turbines, pumps, transformers, substations, switchgear, conductors, control systems and evacuation infrastructure.



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