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Economic Research Department

Economic Survey 2025-26

The Economic Survey sets a prelude to the Budget. One of the key numbers to look out for in the survey is that of GDP growth in FY27. It is projected at 6.8-7.2%. We believe this to be a bit conservative. We are expecting growth next year to range between 7-7.5%. Notably, the report has revised the potential GDP of India upwards to 7% per annum from 6.5% p.a. three years ago. On the inflation front, the survey notes that stickiness in core CPI is largely on account of precious metals and excluding that both core and headline CPI remain muted. The outlook is also favourable given agriculture output and gradual pass-through of GST benefits. The key theme of the survey has been one of following "strategic sobriety rather than defensive pessimism". The report highlights ways to boost industrial growth, employment (particularly women participation), adoption of AI, and maintaining growth momentum amidst uncertain external environment.

Highlights:

- First advance estimate projects real GDP growth and GVA growth for FY26 to 7.4% and 7.3% respectively.
- Potential growth for India estimated at around 7%, while real GDP growth for FY27 projected at 6.8-7.2%.
- Centre's revenue receipts rose to 9.2% of GDP in FY25 (PA).
- GNPAs reach multi-decadal low of 2.2%in September 2025.
- 55.02 crore bank accounts opened as of March 2025 under PMJDY, with 36.63 crore in rural and semi-urban areas.
- Number of unique investors cross the 12-crore mark in September 2025, with nearly 25% being women.
- India's share of global merchandise exports nearly doubles from 1% to 1.8% between 2005 and 2024.
- Services exports touch an all-time high of US$ 387.6bn in FY25, growing by 13.6%.
- India remains the world's largest recipient of remittances, with inflows reaching US$ 135.4bn in FY25.
- India's foreign exchange reserves increased to US$ 701.4bn as of 16th January 2026, providing cover for 11 months imports and 94% of external debt.
- Domestic inflation averaged 1.7% for April-December 2025.
- India's foodgrain production is estimated to have reached 3577.3 lakh metric tonnes (LMT) in agriculture year (AY) 2024–25, an increase of 254.3 LMT over the previous year.
- More than Rs 4.09 lakh crore has been released to eligible farmers under PM-KISAN since its inception.

- Viksit Bharat- G RAM G is a comprehensive statutory overhaul of MGNREGA aligning rural employment with long-term vision of Viksit Bharat 2047.
- Manufacturing GVA grow by 7.72% in Q1 and 9.13% in Q2 of FY26, reflecting structural recovery.
- Production linked incentive (PLI) schemes across 14 sectors have attracted over Rs 2.0 lakh crore of actual investment, generating incremental production/sales exceeding Rs 18.7 lakh crore and over 12.6 lakh jobs as of September 2025.
- India semiconductor mission has advanced domestic capabilities, with 10 projects of about Rs 1.60 lakh crore of investment.
- High-speed corridors increase nearly ten-fold-from 550 km (FY14) to 5,364 km (FY26, up to December 2025); 3,500 km of railway added in FY26.
- India is the world's 3rd largest domestic aviation market, with the number of airports increasing from 74 in 2014 to 164 in 2025.
- Historic turnaround for discoms; recording a positive pat of Rs 2,701 crore in FY25 for the first time.
- India ranks 3rd globally in overall renewable energy and installed solar capacity.
- India becomes the fourth nation to achieve autonomous satellite docking (SpaDeX) capability.
- Gross enrolment ratio (GER) stands at 90.9, 90.3 and 78.7 at the primary, upper primary and secondary stages.
- India now has 23 IITs, 21 IIMs, and 20 AIIMS, alongside the establishment of two international IIT campuses in Zanzibar and Abu Dhabi.
- India accelerated maternal and child mortality reduction since 1990, outpacing global averages.
- As of January 2026, the E-Shram portal has successfully registered over 31 crore unorganised workers, 54% being women.
- Vacancies mobilised in the national career service portal exceeded 2.8 crore in FY25 and have already crossed 2.3 crore by September FY26.
- Multidimensional poverty index (MPI) as measured by Niti Aayog shows a decline from 55.3% in 2005-06 to 11.28% in 2022-23.
- Survey proposes disciplined swadeshi for strategic resilience: a calibrated three-tiered strategy that builds critical capabilities, reduces input costs, strengthens advanced manufacturing, and progresses from self-reliance to strategic indispensability.

Analysis of few key issues

GDP growth: Economic Survey has pegged India's GDP growth for FY26 at 7.4%--in line with NSO's estimates and next year (FY27) growth is projected between 6.8-7.2%. These estimates appear to be slightly conservative as we expect growth in FY27 to range between 7-7.5%, on the back sustained momentum in consumption and public investment. The Survey notes that "outlook remains favourable; inflation is contained; rainfall and agricultural prospects are supportive; external liabilities are low; banks are healthy; liquidity conditions are comfortable; credit growth is respectable; corporate balance sheets are strong; and the overall flow of funds to the commercial sector is robust". India's potential growth has been revised upwards to 7% p.a. from 6.5% p.a. estimated three years ago.

The survey also outlines three different scenarios for 2026. To the **first case** it attaches a probability of 40-45%, wherein "there is a lingering concern that the negative effects of the ongoing global political and economic turmoil may manifest with a lag." Here the best case would be that "business is as in 2025, but one that becomes increasingly less secure and more fragile…Financial stress episodes, trade frictions, and geopolitical escalations do not lead to systemic collapse, but they do create volatility and require governments to intervene more actively to stabilise expectations".

In the **second scenario** (harsher outcome of the first case), "probability of a disorderly multipolar breakdown rises materially and cannot be treated as a tail risk. Under this outcome, strategic rivalry intensifies, the Russia–Ukraine conflict remains unresolved in a destabilising form...Trade becomes increasingly explicitly coercive, sanctions and countermeasures proliferate, supply chains are realigned under political pressure, and financial stress events are transmitted across borders with fewer buffers and weaker institutional shock absorbers". The survey attaches 40-45% probability to this scenario as well.

In the **third case** (10-20% probability of materialising this worst-case scenario), it notes that it is possible that "risk of a systemic shock cascade in which financial, technological, and geopolitical stresses amplify one another rather than unfolding independently. The recent phase of highly leveraged AI-infrastructure investment has exposed business models that are dependent on optimistic execution timelines…A correction in this segment would not end technological adoption, but it could tighten financial conditions, trigger risk aversion and spill over into broader capital markets. If such developments were to coincide with geopolitical escalation or trade disruption, the resulting interaction could produce a sharper contraction in liquidity…The macroeconomic consequences could be worse than those of the 2008 global financial crisis".

In all the three scenarios, India is expected to remain better off than the others, given its reliance on domestic market, less exposed financial system, and robust foreign exchange reserves. *In all three cases, risks will emanate from "disruption of capital flows and the consequent impact on the rupee".* As a result, it is advised that we adopt policies to generate investor interest and attract capital and also take measures to improve our export earnings.

Lower inflation has boosted real purchasing power: Price pressure remained largely contained. This was on account of sharp deflation in food prices supported by astute supply management policies of the government. This has allowed monetary policy to be accommodative and supportive of growth. However, stickiness of core inflation, largely led by spike in prices of precious metals, needs monitoring from monetary policy standpoint. The upcoming new CPI series will further give cue to evolving price dynamics. *However, the overall outlook remains favourable due to stable agricultural output, gradual pass-through of GST rate rationalisation and continued policy vigilance*. One important thing that has been highlighted is that the agricultural GDP deflator continued to grow at a faster pace compared to manufacturing. Thus, the terms of trade should be closely looked upon and fresh policies such as "Farm-to-Fork" should be explored more for reducing overall cost in the economy.

Financial & Banking sector: India's financial and monetary sectors have shown resilient performance in FY26. RBI has remained proactive and agile in order to effectively manage liquidity situation. To manage inflation, MPC had reduced rates, while injecting durable liquidity through CRR cuts and OMOs operations. These measures have resulted in effective transmission of lending rates with the lending rates of SCBs falling down. The survey highlighted the trend in broad money, with a growth of over 12% from 9% in the previous year, signalling how banks have efficiently managed the liquidity released through the CRR cut. Supported by strong fundamentals, the banking sector has remained robust amidst GNPA ratios falling down to multi decadal lows even as profit after tax has been increasing, given improved profitability and asset quality. Additionally, the CRAR of the SCBs has also remained strong as of Sep'25. On sectoral growth, within industry sector, MSME remains strong and continues reflect momentum. The recent revision in MSME classification along with the measures announced in the budget last year has also complemented growth in this segment. It was highlighted that the country's financial intermediation has undergone digital transformations, with innovations like UPI, Aadhar-enabled services, AI-driven credit score access, especially in rural and underserved areas. The survey noted that there over 12-crore unique investors with demat accounts and of this, one-fourth are women. The total count for demat account stands at 21.6 crore. Even the mutual fund industry has grown with 5.9 crore unique investors from both non-tier-1 and non-tier-2 cities.

External: The Economic Survey highlighted that the global trading environment has undergone a significant shift in 2025 leading to higher fragmentation. This has been attributed to increased protectionism, competition for critical raw materials as well as unilateral trade policies followed by few countries based on domestic concerns. As a result, the trade policy uncertainty index rose by a staggering 1165.6% in Apr'25 (when the US Liberation Day tariffs were announced), while the global economic policy uncertainty index also registered a 225% increase in the same period. Against this backdrop, India's external sector has shown significant resilience. Interestingly, exports of finished products such as electronics have increased, while India's stronghold on pharma exports also remains intact. Apart from this, the report also notes the success of the PLI scheme in promoting integration into global value chains (IT hardware, ACC batteries, specialty steel and solar PV) and import substitution (telecom). On the other hand, a few sectors such as auto, textiles, pharma, medical devices, bulk drugs/APIs and drones have expanded, but still remain dependent on imported inputs. *It was also noted that there are signs of India's export diversification to other destinations after the US tariffs came into effect.* Even so, there is scope for further improvement. The Survey also noted that India has large underutilised productive capabilities primarily for production of more sophisticated products. This will also require scaling up of domestic manufacturing system, stringent quality standards and R&D. India's share in global agriculture exports remained small at 2.2% in 2024, even as it is the second largest producer of agricultural products globally. Services exports have increased sharply, with share of the US falling in favour of Europe. For remittances, a steady growth has been recorded even though the composition has changed. AEs such as the US and UK have replaced the GCC countries as the top contributor to inward remittances into India. As a result, India's external position as reflected through the Balance of Payment has remained strong with the CAD remaining largely subdued. The report notes that the weakness in FDI inflows into India stems largely from a depressed global investment climate. However, it suggests that a comprehensive and co-ordinated effort across governments would be needed to improve the domestic investment climate. It also said that improving export competitiveness is crucial for a stable currency. For this, a targeted approach would be needed, aimed primarily at improving India's manufacturing exports. This will involve strategies to reduce manufacturing costs, improve logistics infrastructure, reduce inverted duty structures, and lowering regulatory expenses.

Industry: The Economic Survey noted the industrial sector has strengthened as it has registered 7.1% growth in H1 even as the global economy witnessed persistent headwinds. The manufacturing sector registered sharp growth both in Q1 (7.7%) and Q2FY26 (9.1%), suggesting structural recovery. As of Sep'25, the PLI schemes have generated incremental production/sales to the tune of Rs 18.7 lakh crore with over 2.6 lakh jobs created with an actual investment of Rs 2 lakh crore. *Medium and high-technology manufacturing has a 46.3% share in India's manufacturing value addition. India's semiconductor mission has also advanced with 10 semiconductor and packaging projects across multiple states, with investment of Rs 1.6 lakh crore. In the last decade, the automotive industry has registered a 33% growth in productio*n. Several measures have been adopted to promote manufacturing of electric vehicles in India, and this has pushed the growth of EV registrations in recent times. The survey noted that electronics sector has made significant transformations recently and has emerged as the 3rd largest export category (from 7th largest) in FY25. This has been supported by expansion in mobile manufacturing which has registered a 30-fold increase in production to reach Rs 5.45 Lakh crore in FY25 (from Rs 18,000 crore in FY15). India's pharma sector meets 20% of the global generics demand and is 3rd largest in volume terms. The sector has an annual turnover of Rs 4.72 lakh crore in FY25 with exports growth of 7% in CAGR for the period of FY15-25. For the future, the survey offers guidance on next phase of industrialization which requires a shift from the model focused on import substitution to focussing on scale, innovation, competitiveness and integration with GVCs. The need to build strategic reliance though diversification instead of being self-reliant in every segment. For this, higher participation is needed from private sector across various segments such as technology, R&D, skills and other quality systems.

Employment and skills: The report notes that government's recent initiatives such as reforming the labour codes and plugging the gaps in MG-NREGA scheme in VB- G RAM G scheme as expected to provide further boost to employment growth in the country. It is highlighted that "women's participation rose steadily from 48% to 58.1 % between FY14 and FY25 in rural employment". Going forward, adoption of AI where possible and skilling our labour-abundant country in areas where adoption of AI is still a challenge will be critical. As per the report "based on a survey of 1993 firms by McKinsey, 88% of organisations surveyed in 2025 reported that they are utilising AI in at least one of their business functions. Of those using it, 31% are in the process of scaling its application across the organisation, while 7% have already fully deployed and integrated AI". However, these results are still more relevant for more advanced economies. For India specifically, to improve women participation in workforce we will have to focus on: improving access to STEM, improving urban mobility, expanding affordable housing for working women, and care economy. Also, "on the skills front, flexible vocational pathways starting at the school level will be required, going forward…targeted skilling for women and youth in high productivity sectors will be critical for inclusive outcomes".

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