Report Summary

Economic Survey 2025-26

- The Finance Minister, Ms. Nirmala Sitharaman, tabled the Economic Survey 2025-26 on January 29, 2026 in Parliament. Key highlights of the Survey include:

State of the economy

- **Gross Domestic Product (GDP):** Real GDP growth in 2026-27 is projected in the range of 6.8% to 7.2%. In 2025-26, GDP is estimated to grow by 7.4%, higher than 2024-25 (6.5%). Growth in 2025-26 is largely driven by domestic demand. The share of private final consumption expenditure rose to 61.5% in 2025-26, the highest level since 2011-12. Following factors are conducive for domestic economy: (i) healthier balance sheets across households, firms, and banks, (ii) support from public investment, (iii) resilient consumption demand, and (iv) improving private investment intentions. External uncertainties remain, including slower growth in major trading partners, trade disruptions arising from tariffs, and volatility in capital flows, which may affect exports and investor sentiment. The Survey estimated India's medium term GDP growth potential at 7%. It noted that this reflects compounding effect of sustained reforms with strong macroeconomic fundamentals.
- **Inflation:** Retail inflation declined from 4.6% in 2024-25 to 1.7% in 2025-26 (April-December). This has improved real purchasing power and supported consumption. Decline in inflation was driven by lower prices of food items such as vegetables, pulses, and spices. This was owing to favourable weather conditions and higher production. RBI and IMF project a gradual increase in headline inflation in 2026-27, within the target range of 4% (±2%). The Survey noted that challenges may arise from higher base metal prices due to demand pressures and supply disruptions, rising prices of gold and silver, and imported inflation due to currency depreciation.
- **External Sector:** India's current account deficit (CAD) in the first half of 2025-26 was 0.8% of GDP, lower than the first half of 2024-25 (1.3% of GDP). India's current account shows a trade deficit in goods, which is partly balanced by strong earnings from services and private transfers. The surplus in services has grown steadily due to strong position in IT and professional services. Remittances also remain a key source of external funding. FDI inflows in 2025 were USD 81 billion, 13% higher than the previous year. The Survey noted that FDI inflows remain below their potential, despite favourable macroeconomic fundamentals. Foreign portfolio investments have experienced fluctuations. Inflows have been tepid due to increased uncertainty.
- As of January 16, 2026, forex reserves covered about 11 months of imports and 94% of the external outstanding debt. Expansion of higher-value manufacturing exports and diversification of export destinations have helped sustain exports, despite the impact of high tariffs from USA. The Survey noted that a rise in immigration controls around the world may affect the growth in remittances. India's exports may also be impacted by global trade uncertainties. India must enhance its competitiveness and improve its attractiveness as an investment destination.

Government finances

- The central government is estimated to contain fiscal deficit to below 4.5% of GDP in 2025-26. Centre's revenue receipts have strengthened, increasing from 8.5% of GDP during 2016-20 to 9.1% of GDP during 2022-25. On the expenditure front, revenue expenditure has moderated driven by reduction in subsidy. At the same time, effective capital expenditure (including grants for capital assets) increased from average of 2.7% of GDP to 4% of GDP in 2024-25. GST rate revision is expected to support demand by lowering tax incidence and improving price competitiveness. Lower rates are also expected to strengthen compliance. Together, these could offset the impact of rate reduction on revenues.
- The central government has chosen to target debt-to-GDP ratio until 2031 instead of annual fiscal deficit targets under the FRBM law. The Survey noted that this allows needed policy flexibility in a highly uncertain global environment. Return to rule-based regime may be considered after 2031. It will be more credible and durable, once uncertainty has reduced and debt and deficits are meaningfully closer to 50% of GDP and 3% of GDP, respectively.
- Aggregate fiscal deficit of states rose to 3.2% of GDP in 2024-25. Only 11 states recorded a revenue surplus in 2024-25. Increasing reliance on cash transfers in states raises concerns about expenditure flexibility. These policies need to be balanced against the need for growth-enhancing investments.

Agriculture and allied activities

- Agriculture sector recorded the highest decadal growth between 2015-16 and 2024-25 (4.5%). Sub-sectors of livestock (7.1%), fishing (8.8%), and crops (3.5%) have observed a strong performance. The agriculture sector grew at 4.6% in 2024-25.
- Crop yields remain considerably lower and productivity remains constrained by multiple input and structural gaps. These include fragmented landholdings, inadequate marketing and storage infrastructure, and issues with access to inputs such as quality seeds and credit. Climate change also poses a significant challenge. Price and income support policies are important for protecting unstable farm

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incomes. Key priorities include: (i) improving productivity and resource sustainability, (ii) enhancing R&D, (iii) improving climate resilience, (iv) deepening private investments in infrastructure and food processing, and (v) expanding high-growth areas such as horticulture, dairy, poultry, and fisheries.

Industry

- The industrial sector grew by 7% in first half of 2025-26, higher than the previous year (6%). Manufacturing growth has recovered to 9% in the second quarter of 2025-26, after slowing down to 2.2% in the second quarter of 2024-25. Medium and high technology account for 46% of the total manufacturing value added, indicating more advanced production structures.
- Next phase of industrial growth will require a shift from an import substitution model to the one focused on scale, competitiveness, innovation, and deeper integration into global value chains. National expenditure on R&D is 0.64% of GDP which is insufficient and lower than many countries. Business sector has low contribution to R&D (41%) compared to countries such as China (77%). The Survey recommended increasing private investment in R&D and technology. It highlighted that promoting MSMEs is critical for effective supply chain participation, local value addition, and regional growth. Continued tariff rationalisation for intermediates and capital goods can enhance competitiveness.

Services

- The services sector accounted for 54% in GDP in the first half of 2025-26. The sector has grown by 9% in the first half of 2025-26, higher than the corresponding period in the previous year (7%). Financial, real estate, and professional services remain a key driver of growth.
- Services exports have grown at 14% between 2022-23 and 2024-25, driven by growth in software and professional services. Sustaining this growth will depend on continued diversification and movement up the value chain. Recent trade agreements are expected to offer extensive opportunities to the services sector. The sector can maintain its global position through productivity gains, continued innovation, industry-aligned skilling, and simplification of regulations. The Survey highlighted data centres, niche segments of tourism, and space and ocean services as emerging opportunities in services.

Employment

- Employment indicators remained stable with improving labour force participation. Unemployment rate fell to 3.2% in 2023-24, from 6% in 2017-18. Female labour force participation has increased from 23% in 2017-18 to 42% in 2023-24. 56.2 crore persons (15 years and above) were employed in the second quarter of 2025-26, reflecting addition of 8.7 lakh jobs compared to the first quarter. 57 lakh jobs were added in organised manufacturing between 2015-16 and 2024-25, with an annualised growth rate of 4%. The share of working owners among total employed workers was around 60% in second quarter of 2025-26, indicating a shift towards self-employment and entrepreneurial activities. 60% of the manufacturing sector employment was concentrated in seven states.
- The Survey noted that to fully harness demographic advantage, creating quality jobs with sustainable livelihoods is essential. Opportunities for vocational education at all levels are vital to improve capabilities of the labour force. A sharper emphasis on industry-driven skilling is required.
- Gig workers currently represent 2% of the total workforce. This is projected to increase to 6.7% by 2029-30. About 40% of gig workers earn less than Rs 15,000 per month. The Survey emphasised the increasing focus on social security, income support, and grievance redressal for these workers.

AI Adoption

- AI adoption increases the productivity of capital relative to labour. For a labour-abundant country like India, AI adoption presents a tension between aggregate productivity gains and employment. Key challenges in AI development in India include limited compute, scare financial resources for large-scale models, and limited participation in foundational AI research. The Survey noted that India's comparative advantage is not in replicating frontier-scale model development but in application-led innovation and human capital depth. It recommended prioritising: (i) open and interoperable systems, (ii) sector-specific models, (iii) shared infrastructure, and (iv) improving school education and skilling systems for adaption.

Climate change

- The Survey noted that critical minerals and storage systems represent two roadblocks to greater utilisation of renewable energy sources. It also highlighted that climate finance remains a binding constraint in overall adaptation and mitigation. Domestic resources are inadequate to meet the investment scale. Areas such as adaptation, urban infrastructure, hard-to-abate industries, and MSMEs remain underfunded.

Urbanisation

- Challenges in urban areas stem from supply-side constraints in land, housing, and mobility. Fragmented municipal governance and limited fiscal autonomy for cities are deeper institutional issues. The Survey observed that urban land needs to be unlocked through clearer titles, improved density norms, and transit-oriented development. Public transport should be strengthened and demand management initiatives such as congestion pricing should be adopted. Urban water, sanitation, and waste management systems must be more resource-efficient.