

Economic Survey FY26 projects real GDP growth of 6.8%-7.2% for FY27; raises potential growth to 7% from 6.5%

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Economic Survey 2025-26: Key Highlights I

Growth outlook and potential GDP	➢ The Survey projects real GDP growth for FY27 between 6.8%-7.2%, aided by strengthening domestic demand and investment. India's medium-term potential GDP growth has strengthened to 7% from 6.5% due to improvements in capital accumulation, labor input and total factor productivity.
Deepening long-term finance	➢ The proposed reforms to strengthen long-term capital markets are 1) rationalising tax treatment of debt instruments 2) creating credit enhancement facilities for lower-rated issuers 3) standardising securitisation structures and disclosures 4) building municipal financial capacity and pooled bond mechanisms 5) revising investment guidelines for long-term funds 6) strengthening financial market infrastructure and insolvency systems
State-level fiscal prudence	➢ There is a need for fiscal consolidation at the State-level, as investors increasingly assess general government finances due to inclusion of IGBs in global indices. The Survey notes emerging fiscal trade-offs at the State level, particularly unconditional cash transfers that risk crowding out resources for capital investments.
Global economy impact on INR	➢ The three potential scenarios for the global economy in 2026 – from managed disorder to disorderly multipolar breakdown to the risk of a systemic shock – underlie a common outcome i.e. the disruption of capital flows and rupee depreciation. The Survey warns that this outcome could endure beyond a year.
Merits of a weaker rupee	➢ Merchandise trade is more responsive to changes in the exchange rate with a weaker rupee improving the trade balance. The gains in goods trade tend to outweigh any loss in terms of outflows through the financial channel. Services trade is relatively inelastic, reflecting India's prowess in delivering quality and expertise.
Exports and credible currency	➢ The experience of East Asian economies shows that strong manufacturing exports preceded improvements in current account positions and currency credibility. Unlike services, the manufacturing sector anchors physical supply chains, absorbs large workforces, and generates durable trade surpluses when scaled.

Economic Survey 2025-26: Key Highlights II

Cost of capital & external deficit	➢ The high cost of capital in India is due to persistent current account deficits and dependence on foreign savings that drive payment of premium to global capital. In this context, sustained external surpluses can lead to durable fall in cost of capital.
Uncertainty and investment	➢ An uncertainty shock has a negative impact on a firm's capital formation, more so in case of mid-sized and high-tech manufacturing firms. This necessitates policy response that enhances predictability through deregulation and more stable laws.
Industrial policy	➢ Industrial policy has a role to play in strengthening the manufacturing sector by identifying parts of the production system that need protection and the ones that do not. The East Asian experience calls for caution in the kind of support extended to upstream sectors lest it entails higher costs for downstream manufacturing.
GVC participation	➢ To further manufacturing-led growth and deeper participation in GVC, there is need for coordination between transfer pricing (under income-tax law) and customs valuation (under customs law) to reduce compliance burden, enhance transparency in cross border trade, minimize disputes and improve ease of doing business.
Resurgence of economic statecraft	➢ The concept of economic statecraft involves use of economic tools to attain foreign policy or national security goals. In this context, a chapter on AI in the Survey, and reference to countries increasing their defence spending and focusing on emerging strategic industries could hold cues to allocations in the upcoming Budget.
Entrepreneurial state	➢ There are lessons for India from the concept of an entrepreneurial state that underpinned industrialization in East Asia and was marked by outcome-oriented bureaucracy, failure tolerance with learning, and credible withdrawal of support.
Strategic resilience and indispensability	➢ The Survey examines roles of state capacity and the private sector (including households) in enabling an economy's transition from import substitution to strategic resilience (ability to absorb shocks, preserve stability) and to strategic indispensability (ability to become source of reliability, capability, value for others).

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