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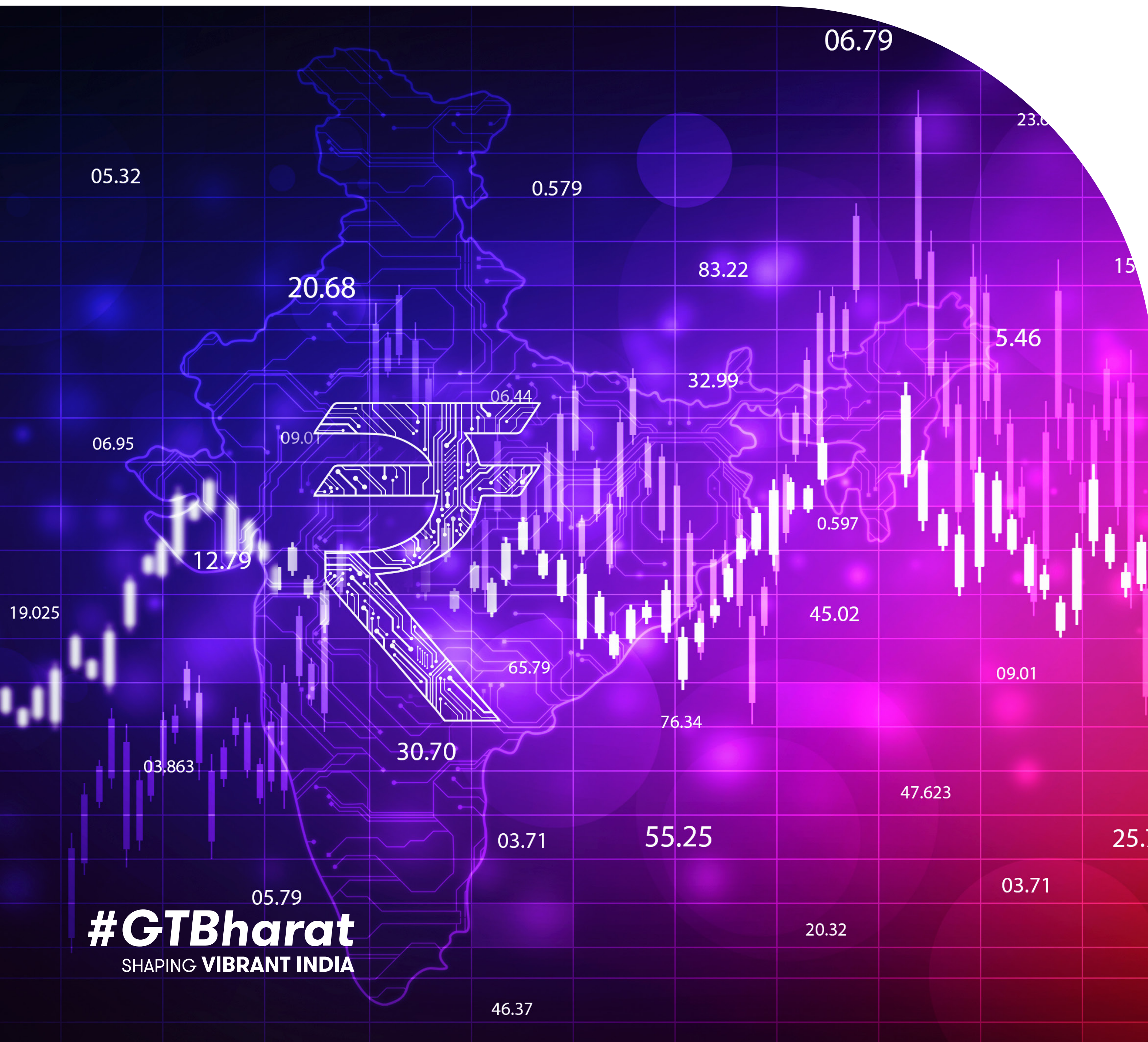
Economic Survey 2025-26: Strong domestic fundamentals anchor India’s growth outlook



India’s growth engine stronger than anticipated

India's economy is on a strong footing despite global uncertainty, retaining its position as the fastest-growing major economy for the fourth consecutive year. While real GDP growth in FY26 is estimated at 7.4%, the Economic Survey 2026 projects growth of 6.8–7.2% in FY 2026–27.

Medium-term GDP growth potential has strengthened to around 7%, from about 6.5% last year, on the back of steady reforms and a stronger macroeconomic base. Even as the global environment remains uncertain, domestic demand and investment are likely to keep growth on track.

From an investment lens, the Survey delivers three clear signals. Inflation is no longer a binding constraint, with the headline Consumer Price Index (CPI) easing to a historic low of 1.7% in December 2025, while core inflation remains contained. Fiscal consolidation has shifted from intent to execution. The government has brought the fiscal deficit down from 9.2% of GDP in FY21 to 4.8% in FY25. It remains on track to meet its FY26 fiscal deficit target of 4.4% of GDP.

Most importantly, the quality of public spending has improved through a sustained tilt toward capital expenditure, lifting investment rates above 30% of GDP and crowding-in private investment.

The Survey has called for ‘strategic sobriety rather than defensive pessimism.’ As global volatility rises, India must secure supplies, create buffers and widen its economic routes, as the country pursues growth and resilience at once, running a marathon with the pace of a sprint.

> The Survey marks a clear shift away from short-term macro management toward a framework of delayed gratification, arguing that durable growth can only be built through sustained investment in productivity, institutions and factor markets. The Survey also reflects a maturing view of the state—less as a direct producer and more as an entrepreneurial catalyst that absorbs early risk, builds public goods and crowds in private investment. The underlying message is that India’s next phase of growth will be earned through efficiency, credibility and long-horizon policymaking, not stimulus alone.

Rishi Shah

Partner and Economic Advisory Leader
Grant Thornton Bharat

Domestic demand drives GDP growth

Private consumption grew 7%, accounting for 61.5% of GDP, the highest share since FY23. This reflects broad-based consumption momentum, supported by low inflation, stable employment and rising real purchasing power.

On the supply side, manufacturing picked up, contributing significantly to growth. The services sector remains a major growth engine, led by strong activity in trade, transport, financial services and professional services.

Private consumption now accounts for 61.5% of GDP - the highest share in over a decade - even as fiscal consolidation continues. With household spending growing 7.5% in the first half of FY26 and core inflation remaining subdued, the recovery in demand appears income-led rather than stimulus-driven. Policy focus has shifted toward protecting purchasing power through supply-side inflation management and stronger rural incomes, instead of short-term consumption pushes. The result is a healthier demand environment, where spending is becoming more regular and broad-based. For consumer-facing sectors, growth is increasingly volume-led and predictable, rather than reliant on episodic bursts of demand.

Naveen Malpani

Partner and Consumer Industry Leader
Grant Thornton Bharat

Exports in a changing global trade order

External demand also contributed to FY26 growth, with exports accounting for 21.6% of GDP. India's exports hit a record USD 825.3 billion in FY25, with momentum continuing into FY26. In April–December 2025, merchandise exports grew 2.4% despite higher tariffs imposed by the US, while services' exports rose 6.5%.

Merchandise imports increased 5.9%, but the widening goods trade deficit was offset by a larger services surplus and strong remittance inflows. As a result, the current account deficit stayed moderate at 0.8% of GDP in H1 FY26.

Ahead of the Economic Survey release, Prime Minister Narendra Modi referred to the India–EU Free Trade Agreement, describing it as a marker of India's forward momentum and expressed confidence that Indian manufacturers would leverage it to enhance capabilities and competitiveness.

The Economic Survey links the cost of capital to our export earnings, which is more skewed towards services rather than manufacturing, and articulates how services are less sticky than manufacturing and do not necessarily promote state efficiency. We expect the government to continue to focus on manufacturing-led growth through more bilateral trade partnerships, private capital reforms and regulatory reforms, as it has been doing. More than big bang reforms, it is the continuity in reforms that is expected from the upcoming Budget.

Vivek Iyer

Partner and Regulatory Ecosystem Leader
Grant Thornton Bharat

The next phase of FDI

Net FDI inflows strengthened sharply in FY26, reaching USD 5.6 billion during April–November 2025, nearly seven times higher than a year earlier. While net inflows remain influenced by higher repatriation and overseas investments by Indian firms, this reflects both strong returns for foreign investors and India's growing global footprint.

Anchoring growth in financial stability

The Financial Sector Assessment Program (FSAP), conducted jointly by the International Monetary Fund (IMF) and the World Bank in 2025, noted a resilient, diversified, and inclusive financial system.

Overall, regulators have broadly balanced growth with stability, keeping the system open to capital flows while managing external volatility. This approach is reflected in improving financial indicators. Bank asset quality is at multi-decadal lows, with gross non-performing assets (NPA) at 2.2% and net NPAs at 0.5%. Credit growth has strengthened to 14.5%, signalling healthy demand and balance sheet confidence.

Financial inclusion has deepened through schemes such as Pradhan Mantri Jan Dhan Yojana (PMJDY) and Micro Units Development and Refinance Agency (MUDRA), alongside rising retail participation in capital markets. Since its launch in 2014, the PMJDY has opened 55.02 crore accounts as of March 2025, including 36.63 crore in rural and semi-urban areas, creating a broad-based foundation for formal financial access.

> Improved performance and efficiency in the regional rural banking space is a proactive step by the government towards holistically supporting state governments in promoting financial inclusion through digital architecture. This also has the potential to drive greater state-level growth, reduce dependence on cash-based transfers from the Union Government, enhance overall fiscal discipline, and help lower the cost of capital in the long term.

Vivek Iyer

Partner and Regulatory Ecosystem Leader
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Inclusive growth: Education, health and rural development

India has made steady progress in inclusive development, with higher education capacity rising from about 51,500 institutions in 2014–15 to more than 70,000 by 2025. The National Education Policy (NEP)-driven reforms have brought in greater quality, flexibility, and learner mobility.

Health outcomes have also strengthened, with sharp declines in maternal and child mortality. The Survey emphasises that consolidating these gains will require deeper investment in primary care and targeted efforts to close persistent regional gaps.

A decisive lever for inclusion remains women's economic participation, which remains constrained. The Survey calls for interventions, such as creches, flexible work arrangements and safer transit, to ensure India's demographic dividend is not weakened by a persistent gender gap.

Rural development has similarly broadened inclusion, supported by social sector spending rising to 7.9% of GDP in FY26. The next phase will depend on linking assets, skills and technology to enable more resilient and diversified rural livelihoods.

> The Economic Survey 2025–26 presents inclusion as a human-centric, converged model in which access to education, skills, finance, infrastructure, and social protection work together to expand opportunity and strengthen resilience. At the same time, investments, including the enhanced contribution from the private sector, in health, nutrition and secondary education, along with deeper financial inclusion and climate adaptive livelihoods, are improving long-term mobility for women, youth and rural communities

Kunal Sood

Partner and Inclusion Ecosystem Leader
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Employment and the rise of the gig economy

Employment remains broadly stable, supported by growth in formal jobs, the recognition of gig and platform workers under the labour codes, and the use of digital platforms, such as e-Shram and the National Career Service (NCS), for work opportunities.

The Survey highlights an expansion of the gig workforce, which grew by 55% from 77 lakh in FY21 to 1.2 crore in FY25, accounting for about 2% of total employment. This growth is due to widespread smartphone adoption and the scale-up of digital payments, with monthly UPI transactions exceeding 15 billion. The Survey also points to income pressures within the gig economy. Around 40% of gig workers earn less than INR 15,000 per month, which is below entry-level pay under the Seventh Pay Commission.

India's employment challenge stems from a mismatch between traditional skilling and the needs of a fast-evolving economy. While unemployment has declined to 3.2% and labour force participation has gone up to 57.9%, informal and low-productivity work continues to limit income security and mobility. The focus must shift to labour-market outcomes, with digital, green, advanced manufacturing and service-sector skills, supported by strong foundational and adaptive abilities, at the core. Industrial Training Institutes (ITIs) must become local workforce anchors, integrated with industry partnerships, apprenticeships, and local enterprise demand, in accordance with initiatives such as PM-SETU.

Tarun Baijnath

Partner and Rural Development & Sustainable Livelihoods Leader
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Climate resilience as the new growth engine

The Survey prioritises climate resilience through climate-smart agriculture, water security, low-carbon infrastructure and a deepening green finance architecture, including sovereign green bonds and clearer taxonomies.

While per-capita emissions remain below those of advanced economies, India is highly exposed to climate risk, making the alignment of climate goals with jobs, investment and productivity essential.

Clean-energy deployment is already advancing at scale, with 38.61 GW of renewable capacity added during 2025–26 (up to 31 December 2025), led by solar and wind.

The Survey highlights strong momentum but flags execution priorities - accelerated storage and transmission build-out, risk-mitigation tools to improve project bankability, streamlined outcome-anchored approvals, and materials planning to avoid new dependencies.

Sovereign green bonds and a maturing sustainable finance framework are lowering capital costs for green infrastructure, while a domestic carbon credit market could enable cost-effective decarbonisation with robust baselines and Measurement, Reporting and Verification (MRV).

The Economic Survey 2025–26 marks a decisive shift in how India views energy storage - from an enabling technology to core national infrastructure. By quantifying storage requirements at over 336 GWh by 2030 and embedding storage across electricity rules, resource adequacy planning, market design, and financing frameworks, the Survey signals policy maturity. Measures such as VGF-backed BESS deployment, ACC manufacturing incentives, transmission charge waivers, and access to concessional global capital demonstrate a coordinated approach to scaling up. The Survey makes it clear that India's renewable ambitions will be realised not merely through capacity addition, but through a resilient, dispatchable, and investment-ready power system.

Amit Kumar
Partner and Climate Ecosystem Leader
Grant Thornton Bharat

Investment and infrastructure: Strengthening connectivity, capacity and competitiveness

India's infrastructure push has accelerated sharply, with central capital expenditure rising by 4.2 times from FY18 to FY26 and effective capex reaching INR 15.48 lakh crore, positioning it as a key driver of growth. Transport networks have expanded rapidly: the national highway network has grown 60% since FY14, high-speed corridors have increased nearly tenfold, and the rail network now spans 69,439 route km with 99.1% electrification.

India is now the world's third-largest domestic aviation market, with airports doubling from 74 to 164 since 2014, while power capacity has reached 509.74 GW, the demand–supply gap has closed, power distribution companies turned profitable in FY25, and renewables now make up nearly 50% of installed capacity.

Connectivity has improved, with tele-density at 86.76%, 5G coverage across 99.9% of districts, and clean tap water reaching over 81% of rural households under the Jal Jeevan Mission. India's space capabilities have also advanced, with successful autonomous satellite docking (SpaDeX) and rising private participation, strengthening national capacity and competitiveness.

A development-oriented pathway for India's AI ecosystem

The Survey advocates decentralised, application-led AI over capital-intensive frontier models, aligning adoption with India's structural realities—capital constraints, energy availability, institutional capacity, and market depth.

AI demand in India is emerging from practical development needs in healthcare, agriculture, education, urban governance, disaster management, and public administration, where frugal, context-specific solutions can reduce costs and expand access.

The Survey underscores the need for reforms to ensure AI adoption translates into inclusive and resilient growth. These include workforce preparation through foundational skills under the NEP 2020, proportionate regulation guided by an AI Economic Council, and stronger safety and data governance via an AI Safety Institute. Together, these measures frame AI as a tool to raise productivity, support dignified employment, and strengthen long-term economic resilience rather than displace it.

This year's Economic Survey strongly emphasises the impact AI and automation are having, and will continue to have, on India's socio-economic priorities. On the one hand, AI adoption is enabling the IT and ITES sectors to boost exports through high-value solutions and services, while global capability centres are expanding India's role in delivering advanced data and technology work, positioning the country as a global AI and innovation hub. On the other hand, the Survey cautions that long-term job displacement poses a significant employment challenge, demanding large-scale workforce reskilling. It also highlights the need for affordable, purpose-driven, frugal AI applications that address real societal problems at scale.

Amit Khanna

Partner and Automation Ecosystem Leader
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Strengthening productivity and resilience in agriculture and food systems

Agriculture and allied activities remain a core pillar of India's economy, contributing about 16% of GDP and supporting nearly 46% of the population. A favourable monsoon raised foodgrain output to an estimated 3,577.3 lakh metric tonnes in AY 2024–25, led by higher production of rice and wheat, alongside robust gains in maize and Shree Anna (nutri cereals), reinforcing both food security and dietary diversification.

The Survey highlights both structural shifts and enduring constraints. Horticulture now contributes about 33% of agricultural GVA and surpassed foodgrain production in 2024–25, signalling a move towards higher-value crops. However, climate variability, water stress, uneven irrigation coverage, and crop-specific yield gaps continue to limit productivity, underscoring the need for agro-climatically aligned cropping patterns, climate-resilient practices, and improved risk management.

To improve market efficiency and farm incomes, policy focus remains on infrastructure, digital integration, and income support. Investments through the Agriculture Infrastructure Fund, infrastructure under the Integrated Scheme for Agriculture Marketing (ISAM), and the National Agriculture Market (eNAM) - now covering over 1.79 crore farmers across 1,522 mandis - aim to strengthen price discovery and logistics. These efforts are complemented by minimum support price (MSP) assurance, Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) income support and pension coverage under Pradhan Mantri Kisan Maandhan Yojana (PMKMY), collectively seeking to raise productivity, stabilise incomes and enhance resilience in India’s food and farming systems.

“India’s agriculture and allied sectors have sustained a growth rate of 4.45% in the last 10 years — the highest in 50 years. This momentum is increasingly driven by the livestock and fisheries sectors, both of which recorded double-digit growth last year, far outperforming the more volatile crop segment and boosting export earnings. A closer look shows that private sector investment in livestock and fisheries is significantly higher than in crops.”

Chirag Jain
Partner and Food Processing Industry Leader
Grant Thornton Bharat

Balancing self-reliance with global engagement

The Survey rejects broad protectionism, advocating selective indigenisation in critical inputs and technologies alongside deep Global Value Chain (GVC) integration. The objective is to embed resilience within openness - balancing strategic self-reliance with global participation. This strategy is supported by industrial GVA growth of about 7% in real terms in H1 FY26 and strengthening manufacturing momentum, signalling structural recovery.

India's GVC integration remains shallow, with backward participation at about 17.2%, well below peers that leverage imported intermediates to scale exports and domestic value addition. This gap is most visible among MSMEs and mid-sized exporters - accounting for nearly 48.6% of exports - held back by high input tariffs, inverted duty structures, and coordination and logistics costs.

Evidence from electronics manufacturing shows that higher foreign content can co-exist with rising domestic value addition. India's production-linked incentive (PLI) experience reinforces this: across 14 sectors, over INR 2 lakh crore in realised investment has generated INR 18.7 lakh crore in incremental output and 12.6 lakh jobs, demonstrating how scale-oriented, risk-reducing policy elicits strong firm response.

Conclusion

Three years ago, the Economic Survey placed India's potential growth at 6.5%, with reforms expected to lift it to 7–8% over the medium term. That expectation has now been realised. On the back of strong growth performance, sustained public investment, a healthier financial system, and continued deregulation and policy reforms, the Survey upgrades India's potential growth to 7% per annum, even amid a challenging geopolitical environment.

While largely positive about growth, the Economic Survey does caution that India must build institutional capacity to manage the geopolitical risks that accompany its rising global influence. The Survey characterises 2026 as a phase of "managed disorder", a world that remains integrated but increasingly distrustful, with thinner safety margins where even minor shocks can amplify volatility. Sustaining growth will require India to maximise domestic demand and investment while simultaneously building buffers, redundancy, and liquidity to absorb shocks.

Against this backdrop, the Union Budget 2025-26 is expected to reinforce the Survey's emphasis on discipline and resilience. It is expected to support domestic demand and investment while strengthening buffers, redundancy and liquidity to help the economy absorb future shocks.

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