



2025-2026

# ECONOMIC SURVEY: AN ANALYSIS





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# INTRODUCTION

## ECONOMIC SURVEY 2025-26

The Economic Survey 2025-26 comes forth as not only a diagnostic document but as a strategic narrative for policymaking under global disorder. It frames 2025 as a year marked by a sharp divergence between India's strongest macroeconomic performance in decades and a global system that no longer rewards macroeconomic virtue with stability, capital inflows or strategic insulation. The Survey asserts that India's policy challenge has shifted from managing growth to translating growth into power, resilience and credibility in a fractured global order. Unlike earlier Surveys that emphasised cyclical recovery or reform momentum, this Survey foregrounds geopolitics, capital flows, institutional capacity and behavioural discipline as the decisive variables for India's next phase.

The Survey documents a strong domestic macroeconomic backdrop:

- Growth accelerated through 2025 and is expected to exceed 7% for a full year, with momentum extending into FY27.
- The Union government achieved a fiscal deficit of 4.8% of GDP, outperforming the budgeted target of 4.9%, and announced a 4.4% target for FY26, fulfilling a medium-term consolidation promise made in 2021.
- Inflation is described as contained, core inflation subdued, liquidity conditions comfortable, banks healthy and credit growth respectable.

Structural and policy actions reinforced this momentum:

- A major overhaul of GST;
- Opening nuclear power generation to the private sector;
- Liberalisation of insurance to 100% FDI;
- Notification of the four labour codes;
- Rationalisation of environmental norms based on pollution potential;
- Suspension of indiscriminate Quality Control Orders affecting downstream industries.

India also received three sovereign credit rating upgrades in 2025, including an upgrade by S&P from BBB- to BBB; the first from a major agency in nearly two decades. The Survey firmly highlights that India's macroeconomic credentials are no longer in question; rather, the puzzle lies in why such credentials are failing to convert into currency strength and investor confidence.

Despite strong fundamentals, the Indian **rupee** underperformed in 2025, highlighting a structural vulnerability. The Survey attributes this to:

- A persistent merchandise trade deficit;
- Services exports and remittances being insufficient to fully offset it;
- Continued dependence on foreign capital inflows to sustain the balance of payments.

When capital flows weaken, currency stability becomes the adjustment variable, regardless of domestic strength. The Lowy Institute's Power Gap Index is cited to reinforce this concern that India's power gap score is -4.0, the lowest in Asia excluding Russia and North Korea.

The rupee is described as 'punching below its weight', undervalued relative to fundamentals, yet this undervaluation also causes investor hesitation rather than reassurance. The Survey implicitly challenges the assumption that growth and reform automatically generate strategic and financial insulation in today's world.

The Survey categorically outlines three probabilistic global scenarios, reflecting deep uncertainty:

- Managed disorder (40-45% probability):
  - Continued global growth with rising fragility;
  - Frequent financial stress episodes and trade frictions;
  - Governments intervening more actively to stabilise expectations.
- Disorderly multipolar breakdown (40-45% probability):
  - Intensified strategic rivalry;
  - Coercive trade, sanctions, supply-chain realignment;
  - Cross-border transmission of financial stress with weaker buffers.
- Systemic shock cascade (10-20% probability):
  - Interaction of financial, technological and geopolitical crises;
  - Potential macroeconomic consequences worse than the 2008 global financial crisis.

Financial markets are already pricing this fragility. For example, Gold prices surged sharply through 2025, reflecting geopolitical risk, financial tail risks and expectations of persistently negative real interest rates. Moreover, they have leveraged investments in AI infrastructure and rising Japanese government bond yields are flagged as early warning signals.

By assigning explicit probabilities, the Survey departs from cautious official prose and signals a recognition that systemic risk is no longer a tail event but a structural feature.

India is described as relatively better positioned than most economies due to:

- A large domestic market;
- A less financialised growth model;
- Strong foreign exchange reserves;
- Credible strategic autonomy.

However, none of the global scenarios guarantee insulation from capital flow disruptions and persistent pressure on the rupee. Rising incomes will inevitably lead to rising imports; hence, indigenisation alone cannot eliminate external vulnerability.

Policy priorities are reframed towards stability of supply, creation of buffers and redundancy as well as diversification of trade routes and payment systems. The Survey does argue that policy credibility, predictability and administrative discipline are no longer just virtues but strategic assets.

In this edition of the Survey, three themes receive special analytical weight, namely, artificial intelligence (AI), urban quality of life and state capacity, private sector behaviour and citizens' roles in achieving strategic resilience and indispensability. This reflects a shift from sectoral reporting to system-level diagnosis.

Not only this, the Survey advances a deeper claim, that India's high cost of capital is structural, not merely a function of policy rates or spreads. A country that persistently runs current account deficits must pay a risk premium to global capital. Economies with sustained external surpluses can finance domestic investment more cheaply and stably. Services exports have stabilised India's external position but are not a substitute for manufacturing exports. Since 2020, total exports grew at a CAGR of 9.4%, while merchandise exports grew at only 6.4%. Manufacturing exports are presented as essential not just for trade balance, but for currency stability, institutional upgrading and strategic influence.

The Survey stresses that industrial policy must balance strategic resilience, export competitiveness and avoidance of protection that taxes downstream sectors. Protection of upstream sectors without global discipline risks perpetuating inefficiency. The government is, indeed, identified as the key exogenous actor capable of shaping incentives through laws, taxes, tariffs, pricing of utilities and regulatory speed. Drawing on Mariana Mazzucato's concept, the survey calls for an entrepreneurial state, i.e.,

- One that acts under uncertainty;
- Structures risk rather than avoids it;
- Learns from experimentation;
- Corrects course without paralysis.

The Survey repeatedly emphasises that process reforms may matter more than policy reforms. In a democracy, institutions risk mistaking procedure for purpose, creating a 'Catch-22' where rules are followed but outcomes deteriorate. The success of reforms depends on how the state interacts with citizens and businesses. Recent state-level deregulation initiatives are cited as evidence that institutional reinvention is possible.

The Economic Survey 2025-26 reframes India's development challenge as a transition from macroeconomic success to strategic maturity. It recognises that growth, stability and reform momentum are necessary but insufficient as well as that global fragmentation has altered the payoff structure of economic virtue. The forward-looking challenge lies in converting growth into durable export capacity, building institutional and regulatory credibility as well as aligning state capacity, private enterprise and citizen behaviour.

The Survey's critical warning is that complacency rooted in recent success would be the greatest risk. Its guarded optimism rests on evidence of policy dynamism, institutional learning and a willingness to embrace delayed gratification.

In toto, the Survey is less a celebration of achievement and more a call to preparedness. It urges India to recognise that in an era of compounding shocks, resilience is not automatic, power is not proportional to size and strategic indispensability must be consciously built.



# Chapter 1

## STATE OF THE ECONOMY: PUSHING THE GROWTH FRONTIER

The Economic Survey situates India's macroeconomic performance against a fragile and diverging global economy, characterised by tariff escalations, geopolitical fragmentation, fiscal stress in advanced economies and policy uncertainty. Despite these headwinds, the Survey argues that India has successfully pushed its growth frontier, sustaining momentum through domestic demand, investment revival and services-led expansion.

### **Global Context: Stability Masking Structural Fragilities**

Global growth outcomes for 2025-26 appear more resilient than feared after the April 2025 tariff shocks, largely due to front-loaded spending, delayed tariff pass-throughs and selective trade agreements, particularly involving the US. However, the Survey critically notes that aggregate global growth masks divergence:

- The US economy is buoyed by AI-led investment, accounting for nearly half of recent GDP growth.
- Europe exhibits moderate and uneven growth, while China faces deflationary pressures linked to property sector stress, despite export resilience.

Monetary policy divergence across economies has intensified capital flow volatility, while elevated sovereign bond yields reflect investor anxiety over fiscal sustainability. A key structural shift highlighted is the resurgence of economic statecraft, where trade, technology, capital flows and fiscal tools are increasingly deployed for strategic rather than efficiency-driven objectives.

While near-term global stability is acknowledged, the Survey implicitly concedes that the global growth model of the 2010s, based on deep integration and rule-based trade, has weakened, raising long-term risks for export-led convergence strategies.

### **India's Growth Performance in FY26: Strong but Domestically Anchored**

#### **A. Headline Growth Outcomes**

- Real GDP growth for FY26 (FAE) is estimated at 7.4%, with GVA growth at 7.3%, reaffirming India as the fastest-growing major economy for the fourth consecutive year.
- Growth has exceeded earlier projections, indicating upside surprises from domestic demand and investment.

## **B. Demand-Side Drivers: Consumption and Investment Take the Lead**

### **Private Consumption (PFCE):**

- PFCE accounts for 61.5% of GDP in FY26, the highest share since FY12.
- PFCE growth of 7.5% in H1 FY26 exceeds both pre-pandemic trends and recent years.
- Consumption strength is broad-based, supported by moderating inflation, stable employment and strong rural demand aided by agricultural performance and GST rationalisation.

Implicit H2 estimates suggest a mild moderation in consumption growth, reminding that FAE-based extrapolations remain provisional and sensitive to revisions.

### **Investment (GFCF):**

- GFCF remains robust at 30% of GDP, well above the pre-pandemic average.
- H1 FY26 investment growth of 7.6% is driven by sustained public capital expenditure (capex), a sharp revival in private corporate investment announcements and a rising non-food bank credit and capacity utilisation above long-run averages.

The Survey convincingly establishes that India's growth is no longer consumption-only, but is supported by a durable investment cycle.

### **External Sector: Supportive but Not Dominant**

- Exports of goods and services grew by 5.9% in H1 FY26, outperforming the previous year and remaining above pre-pandemic averages.
- The export share in GDP (about 21.5%) has remained stable despite global trade disruptions.
- Services exports continue to offset volatility in merchandise exports, reinforcing India's structural comparative advantage.

While exports provide incremental support, the Survey implicitly accepts that India's growth trajectory is decisively inward-anchored, making it less vulnerable, but also less leveraged, to global upswings.

## **Supply-Side Dynamics: Services and Industry Outperform, Agriculture Stabilises**

### **A. Agriculture: Stability without Structural Acceleration**

- Agriculture and allied sectors are estimated to grow at 3.1% in FY26, below the long-term average.
- Crop output remains volatile, reflecting persistent productivity constraints, while allied activities (livestock, fisheries) grow steadily at 5-6%.
- Good monsoons and strong rabi sowing support rural incomes but do not alter the sector's structural ceiling.

## B. Industry: Momentum without Share Expansion

- Industrial GVA is projected to grow at 6.2%, led by manufacturing growth of 7.0%.
- The Survey addresses concerns over manufacturing's declining nominal share, attributing it to relative price effects and higher intermediate consumption, not output contraction.
- In real terms, manufacturing's GDP share remains stable at 17-18%, with GVO comparable to services.

The Survey subtly reframes 'deindustrialisation' as a measurement and price phenomenon, though it does not fully resolve concerns over employment intensity.

## C. Services: The Growth Anchor

- Services GVA growth accelerates to 9.1% in FY26, with H1 growth at 9.3%.
- High-frequency indicators confirm momentum across trade, finance, public services, logistics and transport.
- Services' GDP share rises to over 53%, reinforcing its role as India's primary growth stabiliser.

## Macroeconomic Fundamentals: Stability as an Enabler

### Inflation:

- Headline CPI inflation falls sharply to 1.7% (April-December FY26), driven by food price correction.
- Core inflation persistence is largely attributed to precious metals, with underlying demand pressures remaining muted.

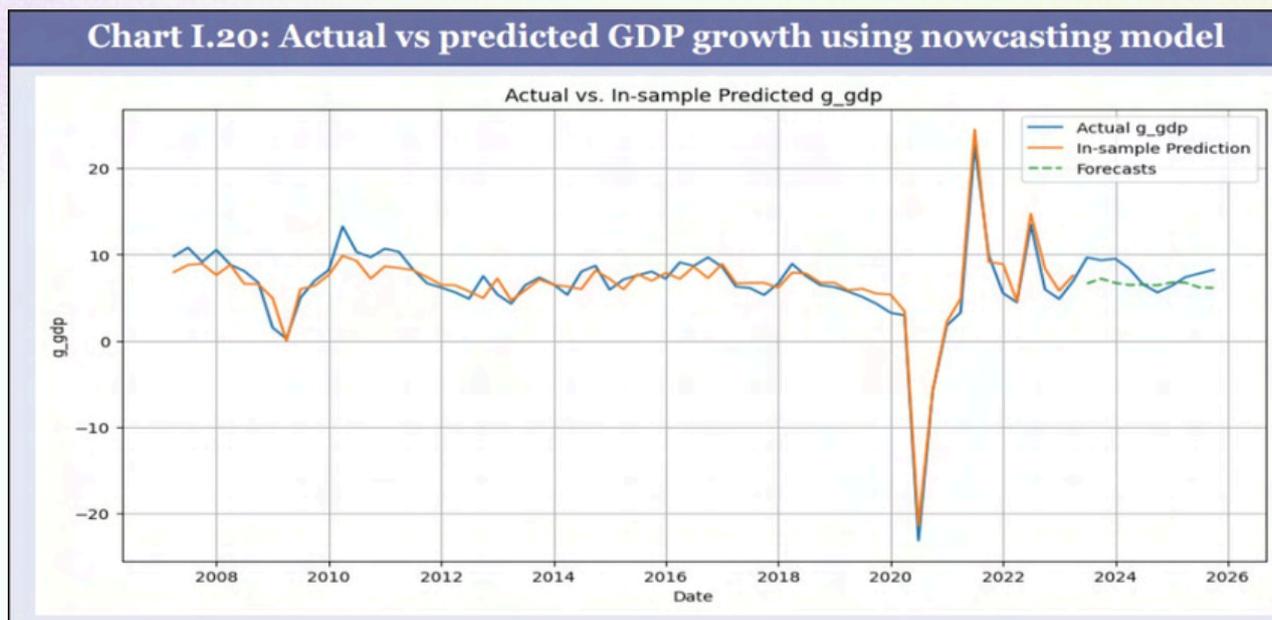
### Fiscal Policy:

- Fiscal consolidation has been achieved without sacrificing capital expenditure, with:
  - Rising capex share in total expenditure,
  - Effective capex reaching to about 4% of GDP,
  - Fiscal deficit on track for 4.4% of GDP.
- Markets have rewarded fiscal credibility through lower sovereign risk spreads and rating upgrades.

### Monetary Transmission:

- A cumulative 125 bps repo rate cut since February 2025 has transmitted effectively to lending rates.
- Banking sector balance sheets are at multi-decade health, supporting credit-led expansion.

## Analytical Innovation: Nowcasting and Data Reforms



- The Survey introduces an in-house GDP nowcasting model, estimating Q3 FY26 growth at 7%.
- The emphasis on high-frequency indicators reflects an institutional shift towards real-time macroeconomic monitoring.
- Extensive reforms to India's statistical system, including GDP, IIP and CPI rebasing, signal a move towards data readiness and policy agility.

The Survey presents a persuasive case that India has entered FY26 with rare macroeconomic alignment, i.e., strong growth, low inflation, fiscal discipline and financial sector stability. The upward revision of medium-term growth potential to 7% is grounded in domestic demand strength, investment revival and services resilience. However, the Survey also implicitly flags structural limits:

- Agricultural productivity constraints;
- Manufacturing's limited employment absorption
- Rising geopolitical and geo-economic fragmentation.

The forward challenge, therefore, lies not merely in sustaining growth, but in deepening its quality, through productivity-enhancing reforms, strategic indispensability in global value chains and institutional capacity to navigate an era where economics and geopolitics are inseparable. In sum, the Survey marks a confident but cautious assertion that India has pushed its growth frontier, but whether it can permanently shift it outward will depend on how effectively today's macro-stability is converted into long-term structural transformation.

# Chapter 2

## FISCAL DEVELOPMENTS: ANCHORING STABILITY THROUGH CREDIBLE CONSOLIDATION

The Survey positions fiscal policy as the principal anchor of macroeconomic stability in an era marked by elevated global public debt, constrained fiscal space and rising interest rates. Its central claim is that India's post-pandemic fiscal strategy has combined credible deficit consolidation with sustained public capex, distinguishing it from many peer economies that have struggled to unwind pandemic-era debt. Unlike episodic consolidation, the Survey emphasises a rules-based yet flexible fiscal glide path, where expenditure quality, rather than blunt compression, underpins fiscal adjustment. It, thus, frames fiscal consolidation not as an austerity exercise, but as a growth-compatible rebalancing of the State's balance sheet.

### Credible Fiscal Consolidation at the Centre

#### A. Deficit Reduction with Policy Flexibility

- The Central Government's fiscal deficit declined sharply from 9.2% of GDP in FY21 to 4.8% in FY25 (PA) and is budgeted at 4.4% in FY26, consistent with the medium-term target announced in FY22.
- Importantly, the revenue deficit has fallen to its lowest level since FY09, signalling a sustained improvement in expenditure quality.
- The primary deficit-to-GDP ratio has also declined steadily, implying that incremental borrowing is increasingly directed toward servicing past liabilities rather than financing current consumption.

Hence, the success of consolidation rests less on headline deficit compression and more on the structural shift away from revenue deficits, which enhances fiscal sustainability. However, interest payments still absorb 36.8% of net revenue receipts, highlighting persistent debt-service rigidity.

### Revenue Buoyancy: Structural Gains, Not Cyclical Windfalls

#### A. Strengthening of Revenue Receipts

- Revenue receipts rose from 8.5% of GDP in the pre-pandemic period (FY16-FY20) to 9.1% of GDP in the post-pandemic years (FY22-FY25).
- Gross tax revenue increased from 10.8% to 11.5% of GDP, reflecting both economic recovery and cumulative tax reforms.

## B. Direct Taxes as the Fiscal Backbone

- The share of direct taxes in total taxes increased from 51.9% pre-pandemic to 58.8% in FY25 (PA).
- Non-corporate taxes rose from 2.4% of GDP pre-pandemic to 3.7% in FY25, with an average buoyancy of 1.8 during FY23-FY25.
- The number of income tax returns filed increased from 6.9 crore in FY22 to 9.2 crore in FY25, reflecting formalisation and compliance gains.

The Survey has convincingly shown that India's revenue resilience is structural rather than inflation-driven, supported by compliance, data analytics, and behavioural nudges rather than rate hikes.

## C. Behavioural Governance and Compliance

- The NUDGE framework improved voluntary compliance, leading to:
  - Declaration of foreign assets worth ₹29,000 crore;
  - Additional tax collections exceeding ₹680 crore from deduction corrections;
  - Improved TDS compliance generating ₹4,825 crore in additional collections.

This marks a shift from enforcement-led taxation to trust-based, technology-enabled fiscal governance.

## Indirect Taxes and GST: Stability Amid Reform

- Gross GST collections during April-December 2025 stood at ₹17.4 lakh crore, with 6.7% YoY growth, broadly tracking nominal GDP.
- Registered GST taxpayers increased from 60 lakh in 2017 to over 1.5 crore, indicating deepening formalisation.
- The Survey does not forget to detail the GST 2.0 reform, introducing a simplified rate structure and large-scale rate rationalisation across essential goods, MSMEs, automobiles, textiles, healthcare and renewable energy.

While GST reforms are growth-supportive, the Survey acknowledges that revenue neutrality hinges on volume and compliance effects, making short-term collections sensitive to execution quality.

## Non-Tax Revenues and Asset Monetisation

- Non-tax revenues remained stable at around 1.4% of GDP, driven by a sharp rise in dividends and profits.
- Dividends and profits increased from ₹1.61 lakh crore in FY22 to ₹3.08 lakh crore in FY25 (PA), aided by:
  - RBI surplus transfer of ₹2.68 lakh crore in FY26,

- Improved profitability of CPSEs, whose net profits rose by 174% between FY20 and FY25.
- Market-based disinvestment and InvIT monetisation mobilised over ₹27,600 crore in FY26 (till December).

While non-tax revenues have strengthened, their dependence on RBI surplus transfers raises questions about long-term predictability, stressing the importance of systematic equity monetisation reforms.

## **Expenditure Rebalancing: From Consumption to Capital Formation**

### **A. Rationalisation of Revenue Expenditure**

- Revenue expenditure declined from 13.6% of GDP in FY22 to 10.9% in FY25, below the pre-pandemic average.
- Major subsidies fell from 1.9% of GDP in FY22 to 1.2% in FY25, even as food security coverage expanded to 78.9 crore beneficiaries.
- Direct Benefit Transfers generated estimated efficiency gains of ₹3.48 lakh crore over a decade.

Albeit, Interest payments remain elevated at 3.4% of GDP, constraining fiscal flexibility despite consolidation.

### **B. Capex as the Fiscal Pivot**

- Central capex increased from 1.7% of GDP pre-pandemic to 2.9% post-pandemic, while effective capex reached 4.0% of GDP in FY25.
- Roads and railways accounted for over half of capex, while transfers to States, telecom and urban infrastructure recorded double-digit growth.
- Capex rose by 28% YoY during April-November FY26, reinforcing the investment-led growth strategy.

### **State Finances: Emerging Stress Beneath Aggregate Stability**

- Combined State fiscal deficit stabilised at around 2.8% of GDP, but revenue deficits widened to 0.7% of GDP by FY25.
- The number of revenue-surplus States declined from 19 in FY19 to 11 in FY25, driven by slower revenue growth and rising discretionary cash transfers.
- The Centre's Special Assistance to States for Capital Investment (SASCI), totalling ₹4.5 lakh crore since FY21, has prevented crowding-out of State-level capex, which remained at about 2.4% of GDP.

The Survey sure does flag a growing fiscal moral hazard at the State level, where transfer-funded capex may coexist with rising revenue rigidities.

### Institutional and Process Reforms in Fiscal Management

- Just-in-Time fund releases reduced idle balances from ₹1.67 lakh crore (April 2024) to ₹0.4 lakh crore (January 2026).
- Route optimisation in the PDS generated annual savings of ₹250 crore and reduced CO<sub>2</sub> emissions by up to 35%.

These reforms signal a shift towards efficiency-driven fiscal governance, not merely expenditure expansion.

The Survey demonstrates that India's fiscal consolidation is credible, growth-compatible and institutionally anchored, distinguishing it from consolidation episodes driven by compression or cyclical luck. The reduction of deficits alongside rising capex marks a qualitative transformation in fiscal policy, reinforcing macroeconomic confidence and investor credibility. However, the forward challenge lies in managing rising interest burdens, ensuring GST reforms deliver sustained buoyancy and preventing State-level fiscal slippages driven by rigid, transfer-heavy spending.

Looking ahead, the commitment to converge towards a general government debt-to-GDP ratio of  $50 \pm 1\%$  provides a strong anchor, but its realisation will depend on preserving expenditure quality, deepening tax bases and aligning Centre-State incentives toward long-term asset creation.

In essence, the Survey argues that India has moved from fiscal firefighting to fiscal statecraft, yet sustaining this credibility will require resisting short-term populist pressures and doubling down on productivity-enhancing public investment.



# Chapter 3

## MONETARY MANAGEMENT AND FINANCIAL INTERMEDIATION: REFINING THE REGULATORY TOUCH

This chapter of the Survey situates India's monetary and financial framework within a globally volatile and fragmented financial order, marked by tariff shocks, geopolitical uncertainty, rising public debt and technology-driven risks. The central thesis is that India's monetary management in FY26 has combined policy agility with regulatory restraint, ensuring effective transmission while safeguarding financial stability. The Survey here, emphasises a refinement of the regulatory touch, moving away from blunt controls towards principle-based, consultative and technology-aware supervision. Monetary policy, banking stability, capital markets, non-bank finance and financial inclusion are treated as interlinked pillars rather than siloed domains.

### **Global Financial Conditions: Uncertainty as a Structural Feature**

- Global financial markets in CY2025 were marked by sharp volatility following US tariff announcements, reflected in a spike in risk premia, a temporary decline in global equity indices and a flight towards gold as a safe-haven asset.
- Although volatility moderated after partial policy reversals, the Survey reiterates that uncertainty has become persistent rather than episodic.
- Emerging risks highlighted include:
  - AI-driven herding behaviour in financial markets,
  - Concentration risks in technology stocks, with AI-linked stocks accounting for 75% of S&P 500 return since November 2022,
  - Rising global government debt and risk-taking by non-bank financial institutions.
- Stablecoins have emerged as a systemic consideration, with global market capitalisation reaching US \$305.4 billion by December 2025, raising the possibility of spillovers into the traditional financial system.

The chapter implicitly acknowledges that global finance is no longer a neutral allocator of capital, but a transmission channel for geopolitical and technological shocks, increasing the premium on domestic financial resilience.

### **Uncertainty and Capital Formation: Evidence from Indian Firms**

This Survey provides a study which displays firm-level empirical evidence on how uncertainty affects capital formation in India. Using data on 811 listed firms (2010-2024), the study finds that an uncertainty shock leads firms, on average, to reduce capital formation by 0.51% of net fixed assets over five years. The impact is heterogeneous:

- Mid-sized firms are the most vulnerable (4.7% of NFA),
- Large firms absorb shocks better due to internal buffers,
- Small firms display relative resilience due to agility.

Export-oriented firms and high-technology manufacturing sectors exhibit greater capex sensitivity to uncertainty. Services and traditional manufacturing also show greater investment persistence. Therefore, reviving private investment requires reducing regulatory and policy uncertainty, particularly for sectors with long gestation periods.

## Monetary Policy Stance: Easing with Caution

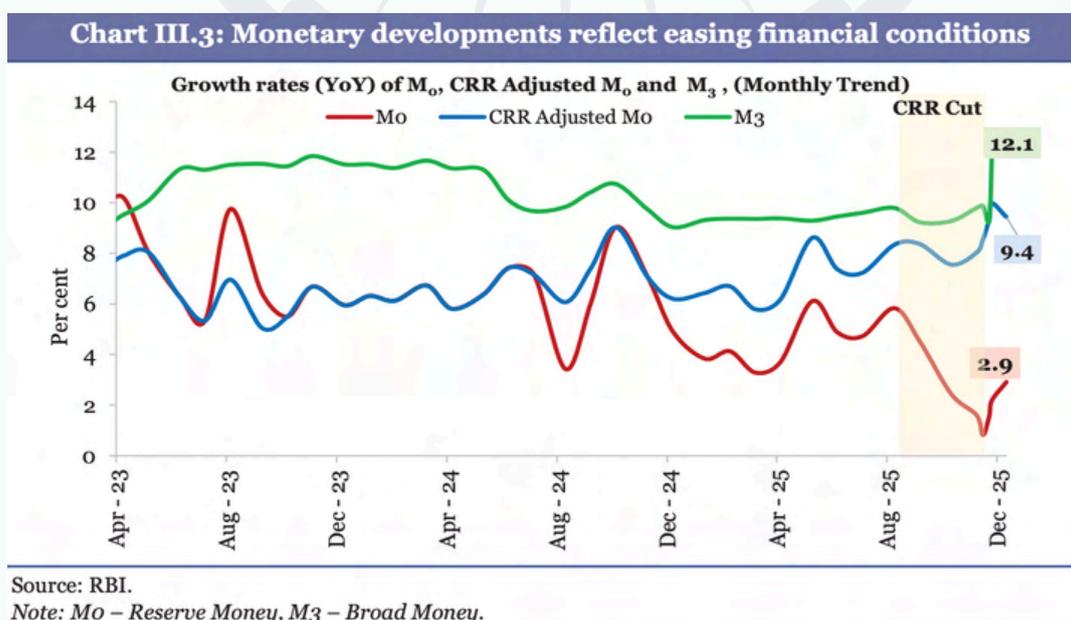
### A. Policy Rate and Stance

- In response to moderating inflation, the RBI reduced the repo rate cumulatively by 100 bps between April and December 2025, bringing it down to 5.25%.
- The Monetary Policy Committee (MPC) shifted its stance from accommodative to neutral in June 2025, retaining flexibility amid evolving conditions.

### B. Liquidity Augmentation

- The RBI reduced the cash reserve ratio (CRR) by 100 bps to 3.0%, releasing about ₹2.5 lakh crore of primary liquidity.
- Additional durable liquidity was injected via:
  - ₹2.39 lakh crore through OMOs (April-May 2025),
  - ₹1 lakh crore OMO purchases and a US \$5 billion forex swap in December 2025.
- Average system liquidity surplus rose to ₹1.89 lakh crore in FY26, compared to near-neutral conditions in FY25.

## Monetary Aggregates and Transmission Effectiveness



- CRR-adjusted reserve money (M0) growth stood at 9.4% (YoY) as of December 2025, indicating an expansionary stance despite headline M0 moderation.
- Broad money (M3) growth accelerated to 12.1%, driven by:
  - Deposit growth of 12.3%,
  - Bank credit growth of 14.1%.
- The money multiplier increased to 6.21, signalling improved financial intermediation.
- Transmission was strong:
  - Weighted average lending rates (WALR) on fresh loans declined by 64 bps,
  - WALR on outstanding loans declined by 56 bps, reaching their lowest levels since September 2022.

The Survey, thus, presents FY26 as a period of rare alignment between policy intent and market transmission, supported by surplus liquidity and strong bank balance sheets.

### **Banking Sector: Stability, Profitability and Credit Rebalancing**

- Scheduled commercial banks (SCBs) recorded:
  - Multi-decadal lows in GNPA ratios (2.2%),
  - Record-low net NPAs (0.5%),
  - Strong capital adequacy with CRAR at 17.2% (September 2025).
- Profitability improved, with:
  - PAT growth of 16.9% in FY25,
  - ROA stabilising at 1.3-1.4%,
  - ROE at 12.5% by September 2025.
- Credit growth moderated early in FY26 but rebounded to 14.5% YoY by December 2025.
- Sectorally:
  - Personal loans grew fastest (12.8%), driven by a 125% surge in gold loans,
  - MSME credit expanded sharply (21.8%), especially for micro and small enterprises (24.6%).

The rapid growth in collateral-backed retail lending and gold loans introduces potential pro-cyclicality risks if asset prices reverse.

### **Financial Intermediation Beyond Banks**

- The overall flow of resources to the commercial sector rose from ₹13.6 lakh crore (FY20) to ₹35.1 lakh crore (FY25), with a CAGR of 20.9%.
- In FY26 (April-December), total flows increased by 44.7% YoY.
- Non-bank sources played an increasing role:
  - External commercial borrowings surged,
  - FDI inflows rose by 67% YoY,
  - Corporate bond issuances by non-financial entities increased by 263% YoY.
- Large firms increasingly rely on market-based finance, while MSMEs remain bank-dependent.

## Regional Rural Banks (RRBs) and Financial Inclusion

RRB consolidation under the One-State-One-RRB principle reduced their number from 196 to 28. RRBs recorded:

- Net profits of ₹6.8 thousand crore in FY25,
- GNPA reduction to 5.4%, the lowest in 13 years,
- CRAR at an all-time high of 14.4%.

Priority sector lending consistently exceeded the 75% target, reinforcing their developmental role.

## Regulatory Reforms and the Turn to Principle-Based Supervision

- RBI introduced a Framework for Formulation of Regulations (May 2025), emphasising transparency, impact analysis and periodic review.
- Over 9,000 circulars were consolidated into 238 Master Directions, significantly reducing compliance complexity.
- PSBs rolled out digital credit assessment models (CAM) for MSMEs, sanctioning over ₹41.5 thousand crore in loans by November 2025.
- A dedicated regulatory review cell and an external Advisory Group on Regulation institutionalise continuous regulatory refinement.

## AI, Microfinance and Emerging Regulatory Frontiers

- AI adoption in Indian finance remains nascent, with only about 21% of institutions actively deploying AI.
- RBI's FREE-AI framework seeks to balance innovation with trust, guided by seven principles and six strategic pillars.
- The microfinance sector, while deepening inclusion (627 lakh borrowers), experienced stress in FY25 due to over-lending.
- Regulatory recalibration, lowering qualifying asset thresholds and strengthening self-regulation, has begun to stabilise the sector.

The Survey critically questions the financialisation of microfinance, arguing for a shift from scale-based metrics to household-level welfare indicators. India's monetary and financial system are presented as resilient, adaptive and increasingly sophisticated, underpinned by effective monetary transmission and strong institutional balance sheets. The emphasis on refining the regulatory touch, through simplification, principle-based oversight, and technological awareness, marks a shift from reactive regulation to anticipatory governance. Yet, emerging challenges loom, such as, AI-induced market concentration, household leverage via retail credit and financialisation pressures in inclusion-oriented sectors.

Going forward, the sustainability of India's financial architecture will depend on whether regulatory agility can keep pace with financial innovation, while ensuring that growth in intermediation continues to translate into stability, inclusion and long-term economic resilience. Ergo, the Survey argues that India's monetary and financial governance is no longer about tightening or loosening, but about calibrating with precision in an era of heightened uncertainty.

# Chapter 4

## EXTERNAL SECTOR: PLAYING THE LONG GAME

The Survey positions India's external sector within a structurally altered global order, marked by the retreat of hyper-globalisation and the rise of trade policy uncertainty, geopolitical fragmentation and security-driven economic decision-making. This Survey's central argument here is that India is 'playing the long game', prioritising resilience, diversification and capability-building over short-term export maximisation.

India's external performance is framed as characteristic of a large, rapidly growing economy: rising exports and imports in tandem, a persistent merchandise trade deficit and a structurally stabilising surplus in services. The emphasis is not merely on outcomes, but on structural shifts in trade composition, destination diversification as well as external buffers that enhance medium-term resilience.

### **Global Trade Environment: Uncertainty as the New Normal**

The Survey identifies a shift in the global trading system, driven by rising protectionism and retaliatory tariffs, strategic decoupling among major economies and the migration of national security considerations into trade and investment policy.

Global uncertainty indicators reached historic highs last year with the Trade Policy Uncertainty (TPU) Index rising by 1165.6% (YoY) in April last year. The Global Economic Policy Uncertainty (GEPU) Index too increased by 228.2% (YoY), the highest readings since their inception.

### **Trade patterns reflect this fragmentation:**

- Friend-shoring rebounded in CY2025;
- Near-shoring remained below pre-pandemic averages;
- Trade concentration increased, signalling accelerated trade among the largest economies.

The Survey, hence, underscores that global trade is no longer efficiency-driven alone; it is increasingly shaped by geopolitics, technology control and strategic alliances, complicating export-led growth strategies for EMDEs like India.

### **Global Trade Performance: Limited Upside Amid Fragmentation**

- Global trade volumes (goods and services) are projected to grow by 3.6% in CY2025, slowing sharply to 2.3% in CY2026, well below pre-pandemic norms.

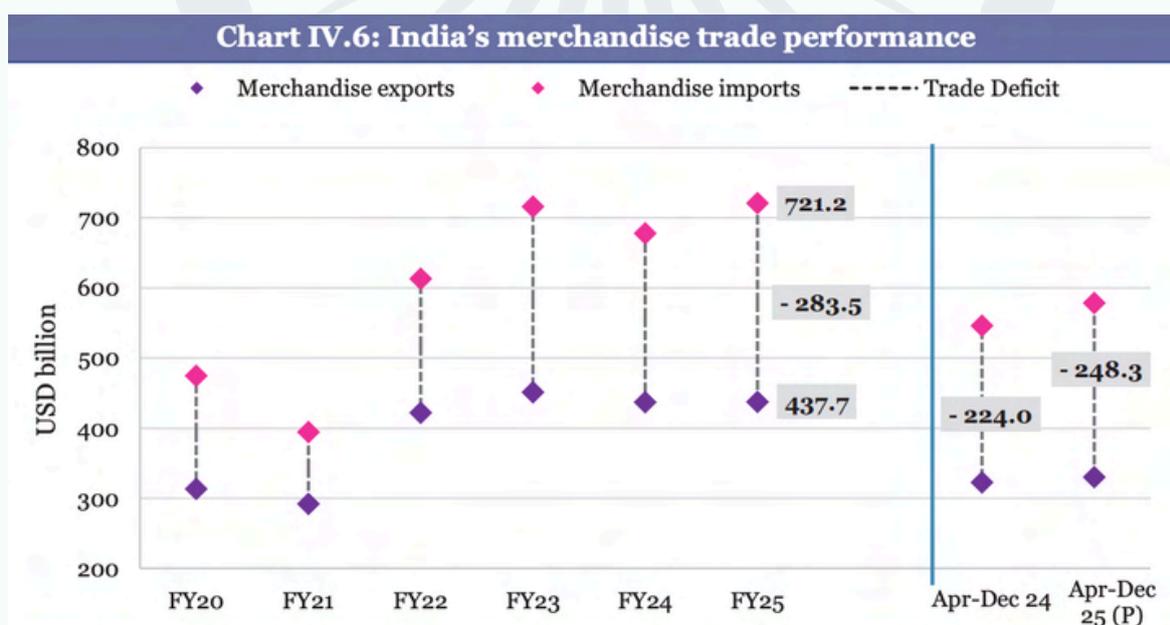
- While EMDE trade volumes are expected to grow faster than those of advanced economies, the Survey notes that trade policy uncertainty disproportionately affects EMDEs, given their greater dependence on external demand and global value chains.
- Front-loading of trade in anticipation of tariffs temporarily boosted volumes in 2025, but underlying fragmentation constrains sustained expansion.

### India's Aggregate Trade Performance: Scale with Stability

- India's total exports (merchandise and services) reached a record US \$825.3 billion in FY25, growing 6.1% (YoY).
- Services exports were the principal driver, expanding by 13.6% (YoY) in FY25.
- Total imports rose by 7.4% (YoY) to US \$919.9 billion, reflecting strong domestic demand.
- The overall trade deficit stood at US \$94.7 billion in FY25, cushioned significantly by the services trade surplus.
- Momentum continued in FY26:
  - During April-December 2025, exports rose 4.3% (YoY) to US \$634.3 billion;
  - Imports increased 4.9% (YoY) to US \$730.8 billion,
  - The trade deficit widened to US \$96.6 billion.

The Survey aptly frames rising trade deficits not as weakness, but as a natural corollary of high growth, where import demand for capital goods and intermediates expands alongside exports.

### Merchandise Trade: Beneath Aggregate Stagnation, Structural Strength



Source: Data for FY20-FY25 is retrieved from FTFA, Department of Commerce, (<https://tinyurl.com/mw864w62>). Data for April-Dec 24 and April-Dec 2025 is retrieved from the PIB press release of the Ministry of Commerce and Industry, dated 15 January 2026 (<https://tinyurl.com/3fp93r6d>).

Note: P- Provisional.

- Merchandise exports stood at US \$437.7 billion in FY25, broadly flat compared to FY24.
- However, non-petroleum, non-gems and jewellery exports, accounting for 78.7% of merchandise exports, grew by 7.5% (YoY) and reached a historic high of US \$374.3 billion.
- Export composition highlights structural shifts:
  - Petroleum product exports declined 24.7% (YoY) due to lower crude prices;
  - Telecom instrument exports surged 51.2% (YoY);
  - Drug formulations and biologicals grew 11.2% (YoY).
- Merchandise imports increased to US \$721.2 billion in FY25, driven by higher non-petroleum imports, particularly capital goods and electronic components.
- Consequently, the merchandise trade deficit widened to US \$283.5 billion in FY25.

Headline stagnation in merchandise exports masks a healthier underlying export basket, though it also reveals continued dependence on imported intermediates.

### **Agricultural Exports: High Potential, Policy-Driven Volatility**

- Agricultural exports rose from US \$34.5 billion in FY20 to US \$51.1 billion in FY25, recording a CAGR of 8.2%.
- Despite being the second-largest agricultural producer globally, India's share in global agricultural exports increased only from 1.1%(2000) to 2.2% (2024).
- Agricultural exports stagnated between FY23 and FY25, even as global agricultural exports expanded.
- The Survey critically flags frequent export bans, minimum export prices and ad hoc policy interventions as factors that disrupt supply chains and erode exporter credibility.

The Survey argues that domestic price stabilisation can coexist with export expansion through buffer stocks, PDS and market interventions, without resorting to disruptive trade restrictions.

### **PLI Sectors: Export Growth with Import Dependence**

- Exports from PLI sectors recorded an average annual growth rate of 10.6% during FY21-FY25.
- High-performing sectors include:
  - IT hardware (77.2% AAGR),
  - ACC batteries (45 %),
  - Electronics (38.8% ),
  - Solar PV (23.9%),
  - Specialty steel (22.5%).
- However, several sectors, especially solar PV and ACC batteries, also witnessed sharp import growth, reflecting reliance on imported inputs.
- The telecom sector stands out, with export growth alongside declining imports, signalling early success in import substitution.

PLI has catalysed scale and exports, but value addition remains constrained by imported intermediates, calling for the need for deeper domestic supply chains.

### ***Diversification of Trade Partners: Resilience through Reorientation***

- The Survey documents India's strategic diversification away from over-dependence on the US amid high effective tariffs.
- Despite declining exports to the US in several labour-intensive sectors during April-November 2025, India's total exports continued to grow, supported by alternative destinations such as the UAE, Europe, Africa and Southeast Asia.
- Import diversification is also evident:
  - Crude oil sourcing expanded to include the US, UAE, Egypt, Nigeria and Libya,
  - Reduced dependence on traditional suppliers like Russia and Saudi Arabia.

### ***Export Sophistication and Economic Complexity: The Structural Challenge***

- India ranked 44th out of 145 countries on the Economic Complexity Index (ECI) in 2023, unchanged since 2019.
- Exports remain concentrated in low- and mid-complexity products such as refined petroleum, diamonds, jewellery, medicines and rice.
- However, India ranks second globally on the Economic Complexity Outlook Index, indicating strong latent capability to diversify into more complex products.
- Realising this potential requires:
  - Scaling manufacturing ecosystems;
  - Consistent quality at scale;
  - Stronger R&D and innovation systems.

### ***Institutional and Strategic Responses***

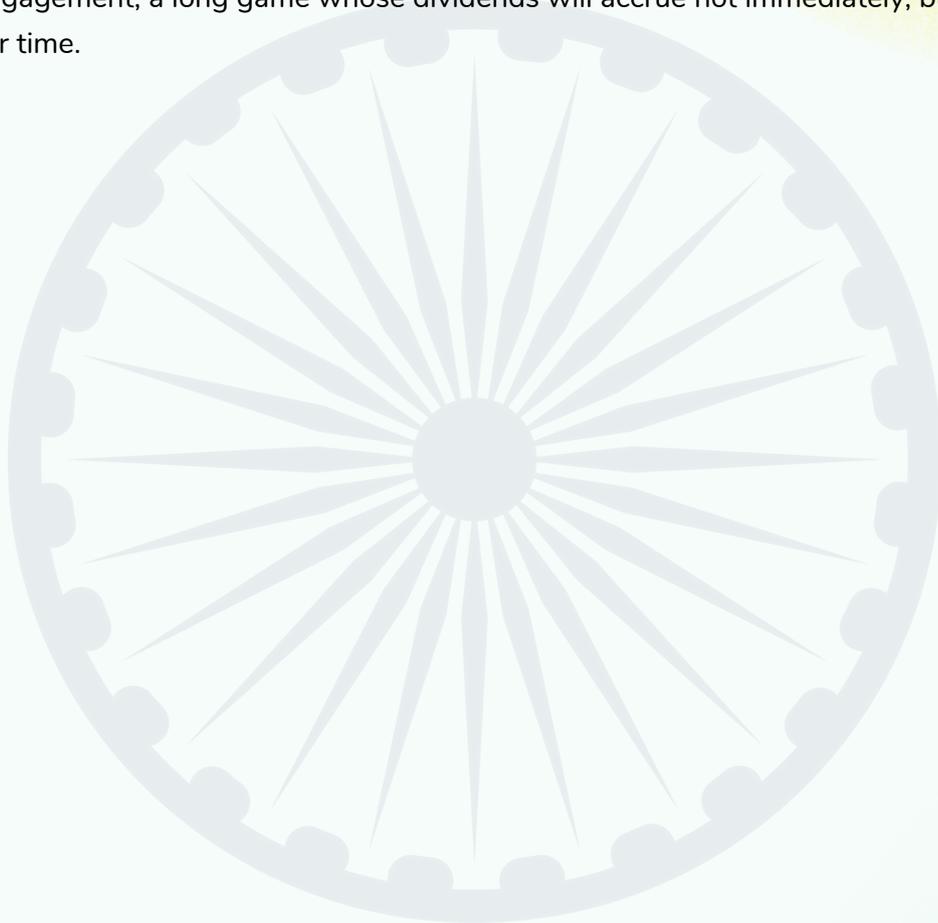
- The Survey advocates convergence between customs valuation and transfer pricing frameworks to reduce compliance costs and uncertainty for exporters.
- Recent trade agreements, notably with the UK and Oman, are positioned as tools for market access, tariff reduction and services mobility, particularly for labour-intensive and services sectors.
- Additionally, the pharmaceutical sector's adaptation to the TRIPS regime illustrates how external shocks can catalyse capability upgrading, diversification, and long-term competitiveness.

### ***Conclusion***

- The Survey argues that India's external sector has demonstrated remarkable resilience amid unprecedented global uncertainty, supported by services exports, diversification of markets as well as strong external buffers.
- However, the long game is not merely about withstanding shocks; it is about structural upgrading.

- Persisting challenges include:
  - Low export complexity;
  - Dependence on imported intermediates;
  - Policy-induced volatility in agricultural exports.
- Going forward, India's external strategy must focus on:
  - Moving decisively into high-complexity manufacturing and services;
  - Aligning trade policy with long-term export credibility;
  - Leveraging FTAs to embed Indian firms deeper into global value chains.

Fundamentally, the Survey makes a compelling case that India is no longer chasing trade volumes alone. The strategic objective is to reshape the quality, resilience and sophistication of its external engagement, a long game whose dividends will accrue not immediately, but decisively over time.



# Chapter 5

## INFLATION: TAMED AND ANCHORED

The Survey argues that India has transitioned from a phase of reactive inflation management to one of anchored price stability, even as global inflation dynamics remain uneven and fragile. The Survey sets India's inflation performance within a global context of post-pandemic disinflation, noting that India achieved one of the sharpest declines in headline inflation among major economies, without sacrificing growth. The overarching claim is that credible monetary policy, favourable supply-side conditions and proactive government interventions, particularly in food markets, have jointly contributed to inflation outcomes that are both low and stable. Importantly, the Survey does not treat inflation as a single aggregate phenomenon but disaggregates it across food, core, sectoral, regional and inter-temporal dimensions, enabling a more nuanced assessment.

### ***Global Inflation Context: Disinflation with Divergence***

- Global headline inflation declined from 8.7% in CY2022 to 4.2% in CY2025, reflecting easing commodity prices and tighter monetary policy worldwide.
- Inflation stabilised at 2-3% in advanced economies, while moderating to 5.3% in EMDEs, down from 9.7% at the peak.
- India recorded inflation of 2.8% in the comparable period, contrasting sharply with:
  - Persistent service inflation in the UK,
  - Wage-driven inflation in Japan,
  - Deflationary pressures in China.
- Global food and oil prices were significant disinflationary forces:
  - FAO food prices turned negative by October 2025,
  - OPEC basket oil prices declined by over 20% during CY2025.
- However, base metals, especially copper, saw renewed price pressures due to AI and data-centre demand, introducing medium-term risks.

The Survey rightly highlights that India's inflation moderation occurred during a benign global commodity cycle, implying that domestic success cannot be fully divorced from favourable external conditions.

### ***India's Disinflation Episode: Sharp, Broad-Based and Growth-Compatible***

- Among major EMDEs, India recorded a 1.8 percentage-point decline in headline inflation between 2024 and 2025, one of the steepest globally.
- This disinflation coincided with robust GDP growth of 8% in H1 FY26, demonstrating the absence of a growth-inflation trade-off.
- Rating agencies explicitly attributed this outcome to credible inflation targeting and well-anchored expectations, noting that CPI inflation has averaged 5.5% over the past three years, compared to frequent double-digit inflation prior to 2014.

### ***Domestic Inflation: Sustained Moderation in Headline CPI***

- Average CPI inflation declined steadily from 6.7% in FY23 to 1.7% in FY26 (April-December), the lowest average in the current CPI series.
- The disinflationary phase began in October 2024 and intensified through FY26:
  - Inflation fell from 3.2% in April 2025 to 1.4% in September 2025;
  - Touched a historic low of 0.3% in October 2025.
- WPI inflation remained consistently below CPI inflation and reinforced the disinflationary trend.

The coexistence of low CPI and subdued WPI suggests limited cost-push pressures, strengthening the case for a supply-driven disinflation.

### ***Food Inflation: The Principal Driver of Disinflation***

- Food inflation entered deflationary territory from June 2025, with October 2025 recording the largest monthly decline (-5.02%) in the CPI series.
- Key contributors:
  - Vegetables remained deeply negative for most of the year;
  - Pulses inflation declined continuously over nine months;
  - Spices stayed in deflation for nearly 18 months;
  - Cereals inflation fell from 6.2% (Jan 2025) to -0.4% (Dec 2025).
- Government interventions were central:
  - Strategic buffer stocking and calibrated imports in pulses;
  - Pre-emptive imposition of a 30% import duty on yellow peas in October 2025 to stabilise farmer incentives;
  - Active release of onion buffer stocks and expanded use of rail logistics to manage TOP (tomato-onion-potato) volatility.
- Edible oils, structurally import-dependent, were managed through counter-cyclical customs duty adjustments, with inflation moderating after duty reduction in June 2025.

While effective, this model remains administratively intensive and raises questions about long-term reliance on trade and stock interventions rather than deeper agricultural market reforms.

### ***Core Inflation: Sticky in Appearance, Benign in Substance***

- Headline core inflation rose from 3.5% in FY25 to about 4.3% in FY26, seemingly signalling persistence.
- However, the Survey demonstrates that this firmness is overwhelmingly driven by precious metals (gold and silver):
  - Excluding precious metals, core inflation declined from 3.4% (June 2025) to 2.3% (December 2025).
  - The wedge between standard core inflation and adjusted measures was as high as 235 basis points.

- Thus, underlying demand-side inflationary pressures remain subdued, with safe-haven asset prices distorting headline core readings.

This decomposition strengthens the argument that inflation expectations are anchored, though it also highlights the limitations of conventional core measures in periods of global uncertainty.

### ***Base Effects and Momentum: Accounting for Disinflation***

- The Survey decomposes inflation into base effects and momentum effects, showing that:
  - In 7 out of 9 months of FY26, the base effect exerted a dominant downward influence on inflation.
- While momentum effects were positive in some months, they were contained and episodic, reinforcing the narrative of structural moderation rather than temporary suppression.

### ***Sectoral Price Dynamics: Manufacturing under Relative Price Pressure***

- GDP deflator analysis reveals a long-term deterioration in manufacturing's terms of trade:
  - Manufacturing deflator rose to 1.41 (FY25, base FY12),
  - Agriculture deflator rose much faster to 2.17.
- Consequently:
  - Manufacturing's terms of trade relative to agriculture declined from 1.29 (FY05) to 0.65 (FY25),
  - Its share in nominal GVA fell to around 14%, despite stable real output shares.
- The Survey attributes this to:
  - Greater pricing power in agriculture (MSP-linked);
  - Service sector mark-ups;
  - Intense global competition and margin compression in manufacturing.

Persistently adverse price incentives may discourage manufacturing investment unless offset by productivity gains and supply-chain efficiencies.

### ***Regional Inflation Patterns: Convergence with Persistence***

- Rural inflation remained more volatile than urban inflation due to higher food weights, but declined faster once food prices softened.
- In FY26 (April-December), all States except Kerala and Lakshadweep remained within the RBI's 2-6% tolerance band.
- Over a longer horizon (2014-2025):
  - State-level inflation differentials show positive persistence, not purely transitory deviations;
  - Higher state-level wages and faster GSDP growth are associated with higher inflation;
  - Greater industrial output shares exert a dampening effect on inflation.
- GST implementation was found to be price-neutral at the state level.

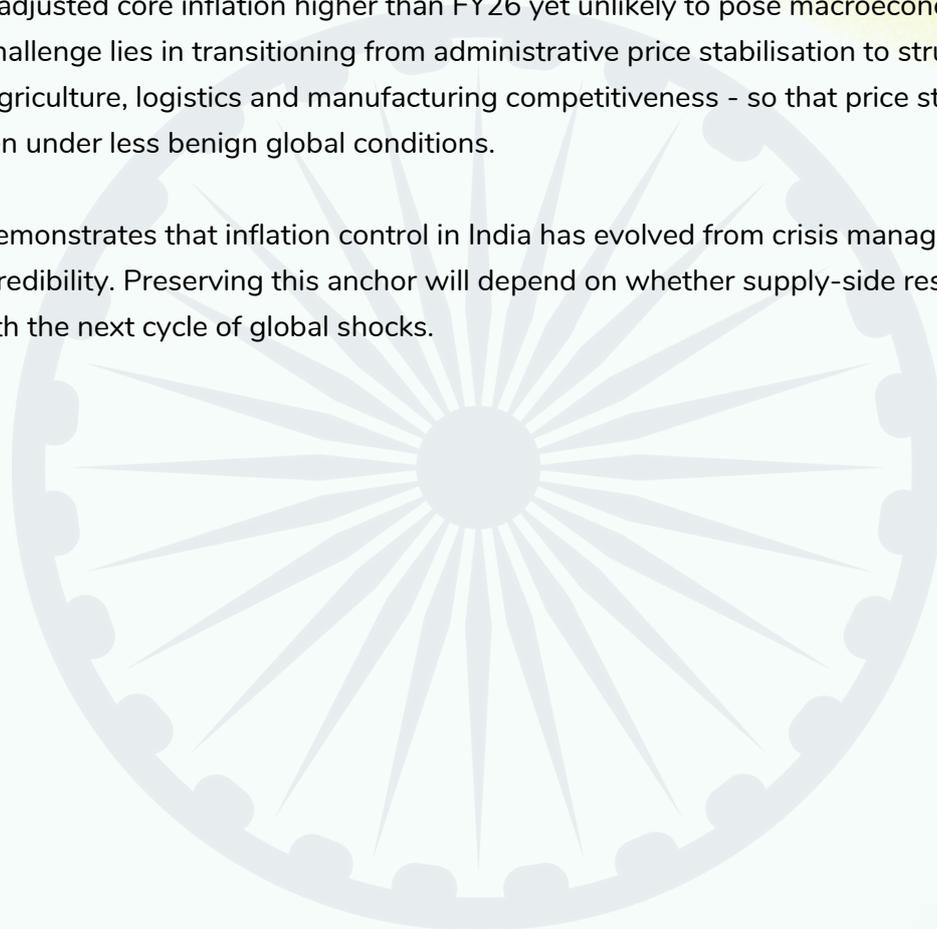
## **Conclusion**

The Survey makes a compelling case that India's inflation is not merely low, but credibly anchored, supported by monetary discipline, favourable agricultural outcomes and effective supply-side governance. However, the durability of this achievement will be tested by:

- Potential currency depreciation and imported inflation;
- Rising base-metal prices driven by energy transition and AI;
- Persistent global demand for precious metals that may cloud core inflation signals.

Looking ahead, inflation is expected to edge up in FY27, but remain within the target band, with headline and adjusted core inflation higher than FY26 yet unlikely to pose macroeconomic risks. The deeper challenge lies in transitioning from administrative price stabilisation to structural reforms - in agriculture, logistics and manufacturing competitiveness - so that price stability is sustained even under less benign global conditions.

The Survey demonstrates that inflation control in India has evolved from crisis management to institutional credibility. Preserving this anchor will depend on whether supply-side resilience can keep pace with the next cycle of global shocks.



# Chapter 6

## AGRICULTURE AND FOOD MANAGEMENT: RAISING PRODUCTIVITY, SECURING INCOMES AND ENSURING FOOD SECURITY

- The Economic Survey underscores that raising agricultural productivity while securing farmer incomes and ensuring national food security requires diversification beyond traditional cropping patterns, supported by structural reforms, targeted incentives, and institutional strengthening.
- Data from FY20–FY24 show that the overall agriculture sector recorded an average Gross Value Added (GVA) growth of 4.7 per cent, while crop agriculture grew at a comparatively lower rate of 4.0 per cent, indicating emerging limits to productivity gains within crop-centric systems.
- In contrast, livestock activities demonstrated stronger performance with an average GVA growth of 6.1 per cent, reflecting the role of allied sectors in stabilising farm incomes, absorbing risk, and enhancing value addition in rural economies.
- The fastest growth was observed in fishing and aquaculture, which recorded an average GVA growth of 7.2 per cent during FY20–FY24, highlighting fisheries as a high-potential sector for income diversification, nutrition security, and export growth.
- The Survey therefore emphasises a diversification-led agricultural strategy in which livestock, fisheries, and allied activities play a central role in improving income resilience and reducing overdependence on a narrow set of crops.

### Policy Considerations



#### Ethanol Pricing and Cropping Incentives

- Careful calibration of incentives is required to avoid unintended concentration across crops.



- Ethanol expansion to be pursued that supports both energy security and food and nutritional security.



#### Aligning Fertiliser Use with Agronomic Needs

- Fertiliser decisions need to be guided by soil health and crop requirements



- Input Distortion to Acre-Based Support



#### A Calibrated Approach to Crop Diversification

- Crop choices should reflect local soil, rainfall, and market conditions, ensuring economic and agronomic viability.



- Per-acre / per-quintal incentives cover transition losses; lower input costs improve profits

### **Policy and Institutional Support to Farmers**

- Government support to farmers is anchored in a comprehensive policy framework that includes the National Food Security and Nutrition Mission, National Mission on Edible Oils–Oilseeds, and National Mission on Edible Oil–Oil Palm, aimed at improving domestic availability of essential food commodities.
- Institutional capacity building is supported through Krishi Vigyan Kendras, alongside the promotion of Farmer Producer Organisations (FPOs) and cooperatives to improve aggregation, market access, and bargaining power for small and marginal farmers.
- Risk mitigation remains a priority through insurance coverage under the Pradhan Mantri Fasal Bima Yojana, complemented by productivity-enhancing initiatives such as Krishonnati Yojana and the Digital Agriculture Mission, which aims to improve data-driven decision-making and service delivery.

### **Input Support Measures**

- Input availability and affordability are addressed through provisions for high-yielding seeds, assured irrigation under the Pradhan Mantri Krishi Sinchayee Yojana, and scientific nutrient management enabled by Soil Health Cards.
- Fertiliser subsidies continue to play a key role in stabilising input costs, while access to affordable credit is facilitated through the Kisan Credit Card Scheme, supporting working capital needs across cropping cycles.
- Productivity and mechanisation are further strengthened through the establishment of Custom Hiring Centres, allowing smallholders to access farm machinery without incurring high capital costs.
- Sector-specific interventions include Food and Mouth Disease control programmes for livestock and targeted support for fisheries under the Pradhan Mantri Matsya Kisan Samridhi Sah-Yojana, reflecting a tailored approach to allied sectors.

### **Income Support to Farmers**

- Direct income support is provided through the Pradhan Mantri Kisan Samman Nidhi (PM-KISAN), ensuring predictable cash transfers to farming households.
- Price stability and income assurance are supported through the Minimum Support Price (MSP) regime, while long-term social security coverage for farmers is extended through schemes such as the PM Maandhan Yojana.

### **Policy Considerations Highlighted in the Survey**

- The Survey cautions that ethanol pricing and cropping incentives must be carefully calibrated to avoid unintended concentration of land and resources towards a narrow set of crops, while ensuring that ethanol expansion simultaneously supports energy security and food and nutritional security.

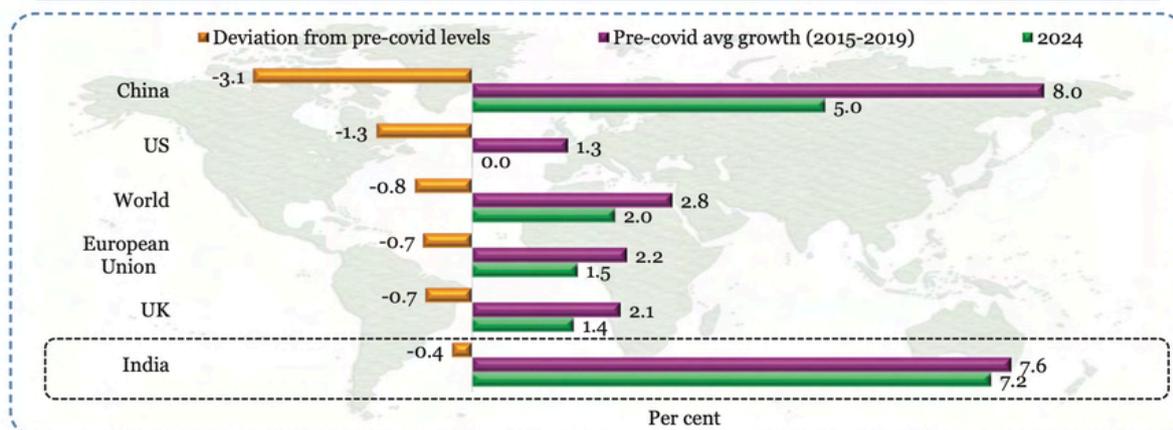
- Fertiliser use is recommended to be aligned more closely with agronomic needs, with fertiliser application guided by soil health and crop-specific requirements, and a gradual shift away from distortive input subsidies towards more rational, acreage-based support.
- Crop diversification strategies should adopt a calibrated, location-specific approach, reflecting variations in soil conditions, rainfall patterns, and market access to ensure both economic and agronomic viability.
- The Survey emphasises that per-acre or per-quintal incentives can help offset short-term transition losses during diversification, while lower input costs and improved productivity contribute to sustained profitability for farmers.



# Chapter 7

## SERVICES SECTOR: FROM STABILITY TO NEW FRONTIERS

### Resilient and steady: India's Services GVA growth outperforms global trends



#### Resilient Services Growth amid Global Slowdown

- India's services GVA growth stood at ~7.2% in 2024, markedly higher than the global average (~2.8%), the US (~1.3%), and the EU (~2.2%), highlighting the sector's role as a counter-cyclical anchor during a period of global economic deceleration.
- The deviation from pre-Covid growth for India remained limited at ~-0.4 percentage points, compared to sharper slowdowns in China (-3.1 pp) and advanced economies, underscoring stronger post-pandemic recovery dynamics.
- Services growth in India remained close to its pre-Covid average of ~7.6% (2015–2019), indicating structural resilience rather than a one-off rebound effect.
- Strong domestic demand, digitalisation, and export-oriented services jointly supported growth despite global trade and financial volatility.

#### Services as the Primary Engine of Economic Growth

- The services sector's share in GVA increased from ~51.3% in the pre-Covid period to ~53.6% by FY26, reaffirming its dominance in India's economic structure.
- Financial services, real estate, and professional services collectively expanded their contribution from ~22% to over 24% of GDP, reflecting deeper financialisation and urbanisation.
- Trade, hotels, transport, communication, and broadcasting services continued to provide broad-based employment-intensive growth, particularly in urban and peri-urban regions.
- Public administration, defence, and other services remained stable contributors, ensuring fiscal-led support to aggregate demand during periods of private investment moderation.

### **Strong Momentum in Business and Knowledge-Intensive Services**

- Services PMI consistently exceeded the long-run average of 53.3, reaching ~58.9 in Q3 FY26, signalling sustained expansion in output, new orders, and hiring.
- Knowledge-intensive segments such as IT, consulting, engineering services, and analytics recorded stronger order books, supported by global outsourcing and digital transformation demand.
- New business inflows and export orders improved despite weak global manufacturing trends, reflecting services-led trade resilience.
- Employment sub-indices pointed to continued formalisation and absorption of skilled labour in urban centres.

### **Services as the Backbone of Urban Employment**

- Services employ ~30% of India's total workforce, rising to 61.9% of total urban employment, making it the single largest source of livelihoods in cities.
- EPFO payroll data indicates that 51.7% of net formal employment additions are generated by services, exceeding manufacturing and construction combined.
- Growth in retail trade, logistics, hospitality, and digital platforms expanded employment opportunities for semi-skilled and service-oriented workers.
- The sector's employment elasticity remains higher than capital-intensive manufacturing, reinforcing its inclusiveness in India's growth model.

### **Services Exports and High-Value Segments**

#### **Software and Professional Services Driving Export Expansion**

- Software services export growth accelerated from 4.7% (FY16–FY20 average) to 13.5% during FY23–FY25, driven by cloud services, cybersecurity, AI integration, and enterprise digitalisation.
- Professional and management consulting services witnessed a sharp increase from 11.9% to 25.9% growth, reflecting rising global demand for Indian expertise in finance, compliance, design, and strategy services.
- Services exports continue to offset merchandise trade volatility, strengthening India's current account resilience.
- India's global market share in digitally delivered services continues to expand, supported by cost competitiveness and a large skilled workforce.

#### **Transport and Logistics: Scaling Connectivity**

- Port cargo traffic expanded from 494.2 MT (FY16–FY20 avg) to 672.9 MT in FY26, reflecting capacity augmentation and port modernisation initiatives.
- Air cargo volumes rose from 2.0 MT to 2.6 MT, indicating growing integration into global value chains and high-value trade.

- Air passenger traffic increased from 194 million to 275.5 million, driven by regional connectivity, tourism recovery, and business travel.
- Railway freight volumes grew from 751.7 MT to 1,070.8 MT, reinforcing multimodal logistics efficiency and lower transport costs.

### Space, Ocean, and Emerging Commercial Services

- India facilitated 393 foreign satellite launches between 2015–2024, establishing itself as a competitive and reliable global launch service provider.
- Space-related export earnings reached ~\$433 million, while NSIL revenues expanded from ₹322 crore (FY20) to ₹3,246 crore (FY25E).
- Satellite data services alone constitute a ~\$495 million market in 2024, with applications in agriculture, disaster management, urban planning, and climate monitoring.
- Ocean-based services via PPPs open new avenues in marine data, seabed mapping, and coastal infrastructure planning.

### Tourism Sector: Domestic Resilience with Emerging High-Value Segments

#### Strong Domestic and International Recovery

- Domestic tourist visits grew by 17.5% in 2024, driven by improved connectivity, pilgrimage tourism, and rising middle-class consumption.
- International tourist arrivals increased by 8.9%, supported by visa reforms, expanded air routes, and global travel normalisation.
- Domestic tourism remains the primary stabiliser of the sector, insulating it from global demand fluctuations.
- Tourism demand has broadened beyond metros into Tier-2 and Tier-3 destinations.



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### **Sustained Capacity Utilisation in Hospitality**

- Average hotel occupancy rates exceeded 60% during FY24–FY26, indicating sustained utilisation across business, leisure, and religious tourism.
- Higher occupancy translated into improved pricing power and profitability for hospitality enterprises.
- Ancillary services such as transport, food services, and event management benefited from sustained tourism demand.
- Urban employment in hospitality and allied services showed steady recovery post-pandemic.

### **High-Value Tourism Segments as Growth Multipliers**

- Medical and wellness tourism recorded an arrival CAGR of ~12% during 2009–2024, supported by cost-competitive healthcare and global accreditation.
- Long-distance trail tourism is being promoted to enhance livelihoods in remote and ecologically sensitive regions.
- Marina tourism and the blue economy aim to generate high-value coastal employment and port-linked services.
- These segments support higher per-capita tourist spending and longer average stays.

### **Media, Entertainment, and Creative Economy**

#### **Rapid Expansion of the Digital-First Entertainment Ecosystem**

- The media and entertainment sector reached ~₹2.5 trillion in 2024, with digital media contributing nearly one-third of total revenues.
- OTT platforms, online advertising, and creator-led content emerged as primary growth drivers.
- Rising smartphone penetration and affordable data continued to expand audience reach.
- Digital monetisation models strengthened revenue diversification across formats.

#### **Gaming, Animation, and Live Entertainment as Urban Growth Engines**

- Gaming revenues crossed ₹232 billion, supported by mobile gaming and esports growth.
- Animation and VFX revenues reached ₹103 billion, driven by global outsourcing and OTT demand.
- Live entertainment exceeded ₹100 billion, generating strong spillovers to tourism, hospitality, and urban services.

## Real Estate and Housing Services: A Sustained Upcycle

### Recovery in Urban Housing Demand

- Quarterly average housing sales increased from ~81.6 thousand units (FY22–FY24) to ~101.3 thousand units by FY25–FY26 (Q2).
- Demand was driven by end-users rather than speculative investors, improving market stability.
- Improved affordability, income growth, and regulatory reforms supported sustained momentum.
- Real estate services generated downstream demand in construction, finance, and urban infrastructure.

## IT and Technology Services: Global Innovation Hub

### Expansion of Global Capability Centres (GCCs)

- The number of GCCs increased from 1,430 in FY19 to 1,700 in FY24, reflecting 1.2x growth in five years.
- GCCs increasingly focus on high-value functions such as R&D, AI, product design, and analytics.
- India's talent depth and cost advantages continue to attract multinational investments.
- GCC expansion supports knowledge spillovers into the domestic startup ecosystem.

### Rapid Scaling of the GenAI Startup Ecosystem

- GenAI startups increased from 66 (H1 CY2023) to 240 (H1 CY2024) and 890 (H1 CY2025).
- India ranks as the world's third-largest startup ecosystem, with services and platforms at the core of AI deployment.
- Growth is driven by enterprise AI, language models, fintech, healthtech, and climate applications.
- The GenAI ecosystem strengthens India's positioning in next-generation digital services exports.



# Chapter 8

## INDUSTRY'S NEXT LEAP: STRUCTURAL TRANSFORMATION AND GLOBAL INTEGRATION

The chapter highlights that India's industrial sector is transitioning into a new phase, marked by a gradual shift from cost-based manufacturing towards technology-intensive, higher-value, and globally integrated production. It notes that, even amid global manufacturing challenges, India's industry has demonstrated resilience and recovery, supported by policy initiatives such as the PLI schemes and the National Manufacturing Mission, an increasing share of high-technology manufacturing, sustained infrastructure development, and broader access to diversified sources of finance.

India's future industrial competitiveness will depend less on cheap labour and more on strategic indispensability within Global Value Chains (GVCs) through innovation, MSME scaling, skilling, and logistics efficiency aligned with the vision of Viksit Bharat @2047.

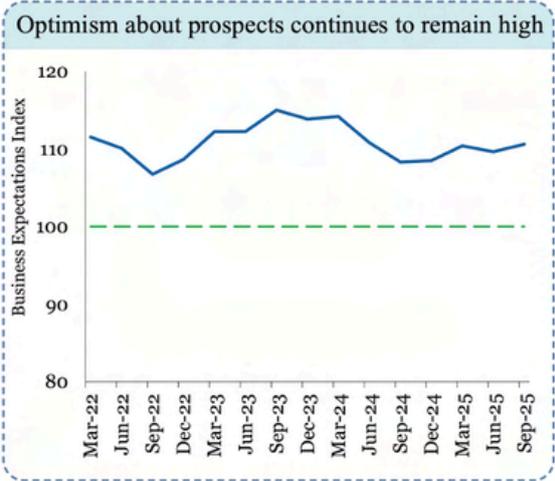
### Chapter At a Glance

Global manufacturing recovery remains uneven, with momentum shifting towards medium- and high-technology industries.

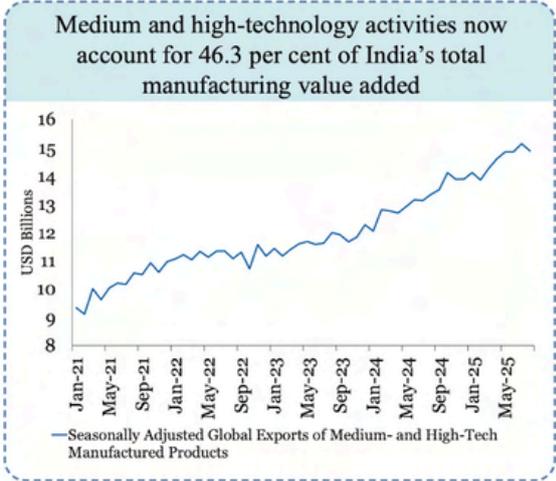
- India stands out as one of the fastest-growing industrial economies, even as advanced economies stagnate.
- Domestically, industrial GVA has rebounded strongly in FY26, reflecting structural not cyclical strength.
- India's manufacturing base is steadily moving up the value chain, especially in electronics, automobiles, pharmaceuticals, and capital goods.
- The PLI framework and the newly announced National Manufacturing Mission (NMM) provide long-term strategic direction.
- Financial deepening, innovation capacity, and MSME integration emerge as key enablers.

The chapter concludes with a roadmap anchored in five structural pillars to ensure sustained industrial ascent.

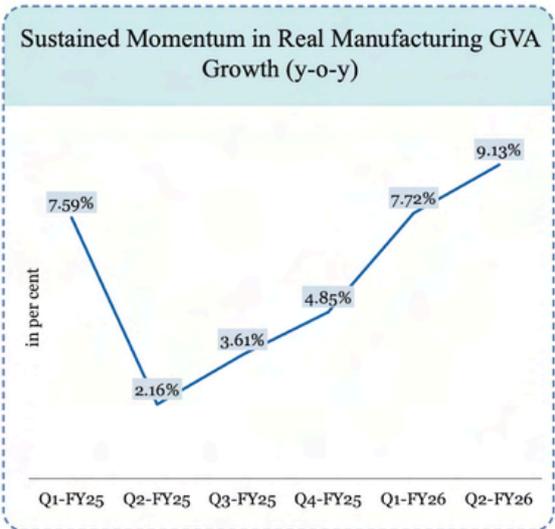
# Industry Performance: Growth, Resilience and Transformation



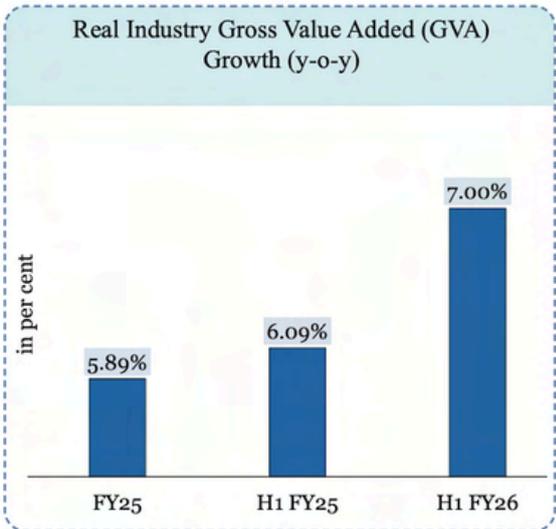
Source: Business Expectations Index (BEI) (RBI Industrial Outlook Survey of the Manufacturing Sector: Q2 FY26). Note: BEI >100-optimism; BEI<100 –pessimism.



Source: UNIDO Statistics.



Source: National Accounts Statistics, MoSPI.



Note: Industry comprises of four sub-sectors- Manufacturing; Electricity, Gas, Water Supply & Other Utility Services; Construction and Mining & Quarrying.  
Source: National Accounts Statistics, MoSPI.

## 1. Business Expectations Index (BEI): Optimism Remains High

- The Business Expectations Index (BEI) has remained consistently above 100 from March 2022 to September 2025.
- A BEI value above 100 indicates optimism among manufacturers about future business conditions.
- Despite minor fluctuations, the index mostly stays in the 108–115 range, signalling sustained confidence.
- The brief dips do not cross the pessimism threshold, showing resilience despite global uncertainties.
- Overall takeaway: Indian manufacturing sentiment remains positive and forward-looking.

Industry players continue to expect growth, demand stability, and favourable operating conditions.

## **2. Medium- and High-Technology Manufacturing Share & Exports**

- Medium- and high-tech manufacturing now accounts for 46.3% of India's total manufacturing value added.
- Global exports of medium- and high-tech manufactured products show a steady upward trend from 2021 to 2025.
- Export values increase from roughly USD 9 billion (Jan 2021) to about USD 15 billion (May 2025).
- Growth accelerates after 2023, reflecting structural upgrading and diversification of India's manufacturing base.

India is moving up the manufacturing value chain, away from low-tech production towards technology-intensive sectors.

## **3. Real Manufacturing Gross Value Added (GVA) Growth (Quarterly, y-o-y)**

- Manufacturing GVA growth shows a temporary slowdown in Q2 FY25 (2.16%), reflecting cyclical pressures.
- Growth rebounds steadily thereafter:
  - Q3 FY25: 3.61%
  - Q4 FY25: 4.85%
  - Q1 FY26: 7.72%
  - Q2 FY26: 9.13%
- The sharp rise in FY26 indicates strong recovery and momentum in manufacturing activity.

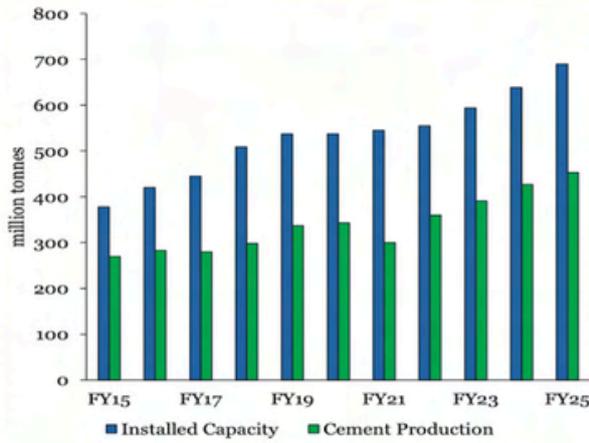
Manufacturing growth is not just recovering it is accelerating, suggesting structural strength rather than a short-term rebound.

## **4. Real Industry Gross Value Added (GVA) Growth (y-o-y)**

- Overall industry GVA growth improves steadily:
  - FY25: 5.89%
  - H1 FY25: 6.09%
  - H1 FY26: 7.00%
- Industry includes manufacturing, electricity, gas, water supply, construction, and mining.
- The rising trend highlights broad-based industrial expansion, not limited to one sector.

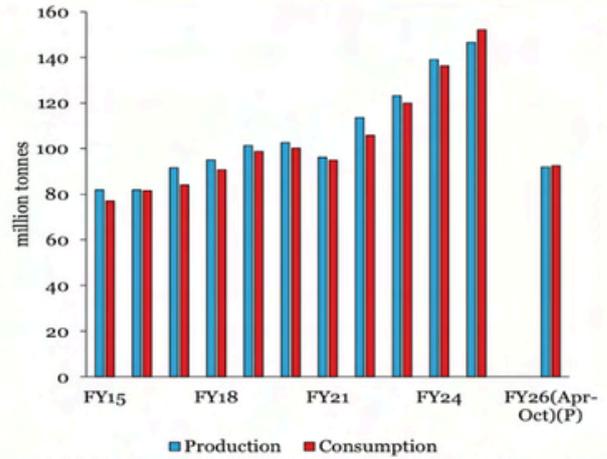
Industrial growth is becoming more balanced and widespread, reinforcing economic resilience.

### Cement: Increasing Installed Capacity and Production



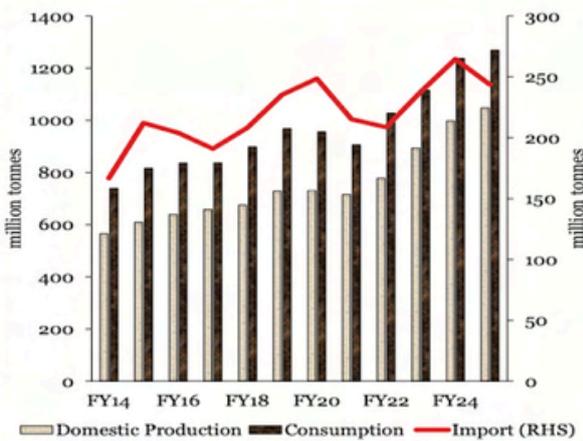
Source: Department for Promotion of Industry and Internal Trade (DPIIT).

### Finished Steel: Rising Production and Consumption



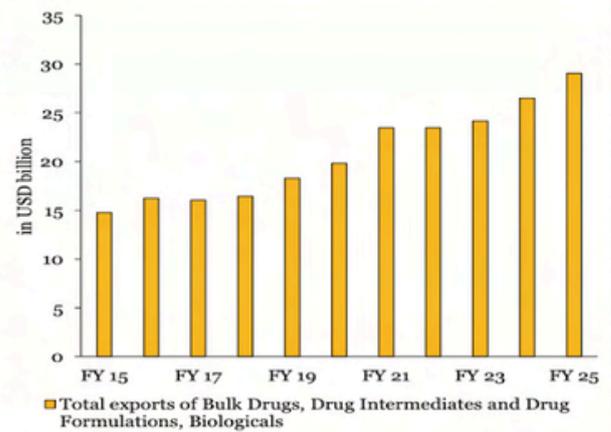
Source: Ministry of Steel.

### Coal: Rising Domestic Production and Lower Imports



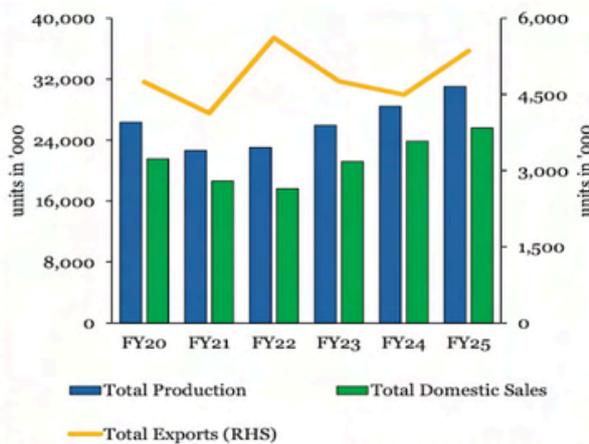
Source: Ministry of Coal.

### Growing Exports of Pharmaceutical Industry



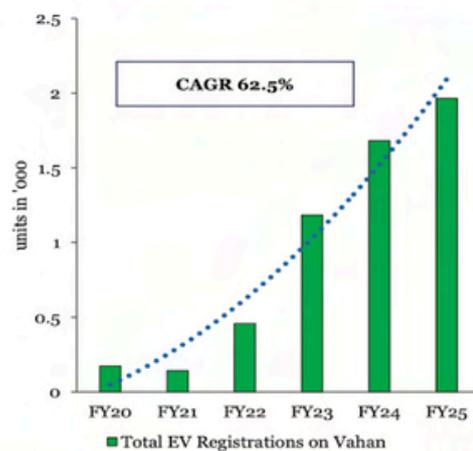
Source: Directorate General of Commercial Intelligence and Statistics.

### Production, Sales and Exports of Automobiles



Source: SIAM; Ministry of Heavy Industries.

### Growing EV registrations



Source: Ministry of Heavy Industries.

## **5. Cement Sector: Installed Capacity and Production**

- Installed cement capacity has increased steadily from FY15 to FY25.
- Capacity expanded from roughly 380 million tonnes to nearly 690 million tonnes.
- Cement production also rose consistently over the period.
- Production increased from about 270 million tonnes in FY15 to around 450 million tonnes in FY25.
- The gap between capacity and production indicates headroom for future demand growth.

## **6. Finished Steel: Production and Consumption**

- Finished steel production shows a steady upward trend from FY15 to FY25.
- Steel consumption has also increased broadly in line with production.
- Consumption closely tracks production, indicating strong domestic demand absorption.
- Both production and consumption reach their highest levels around FY25.
- Provisional data for FY26 (April–October) shows continued activity.

## **7. Coal Sector: Domestic Production, Consumption, and Imports**

- Domestic coal production has increased consistently from FY14 to FY25.
- Coal consumption has also risen, reflecting higher energy and industrial demand.
- Coal imports (right-hand axis) show a declining trend in recent years, particularly after FY21.
- The divergence between rising domestic production and falling imports suggests greater self-reliance in coal supply.
- Overall coal availability has improved through higher domestic output.

## **8. Pharmaceutical Industry: Export Growth**

- Pharmaceutical exports have shown a steady upward trend from FY15 to FY25.
- Export value increased from approximately USD 15 billion in FY15 to nearly USD 29 billion in FY25.
- Growth is visible across bulk drugs, intermediates, formulations, and biologicals.
- The export trajectory indicates expanding global market presence of Indian pharmaceuticals.

## **9. Automobile Sector: Production, Sales, and Exports**

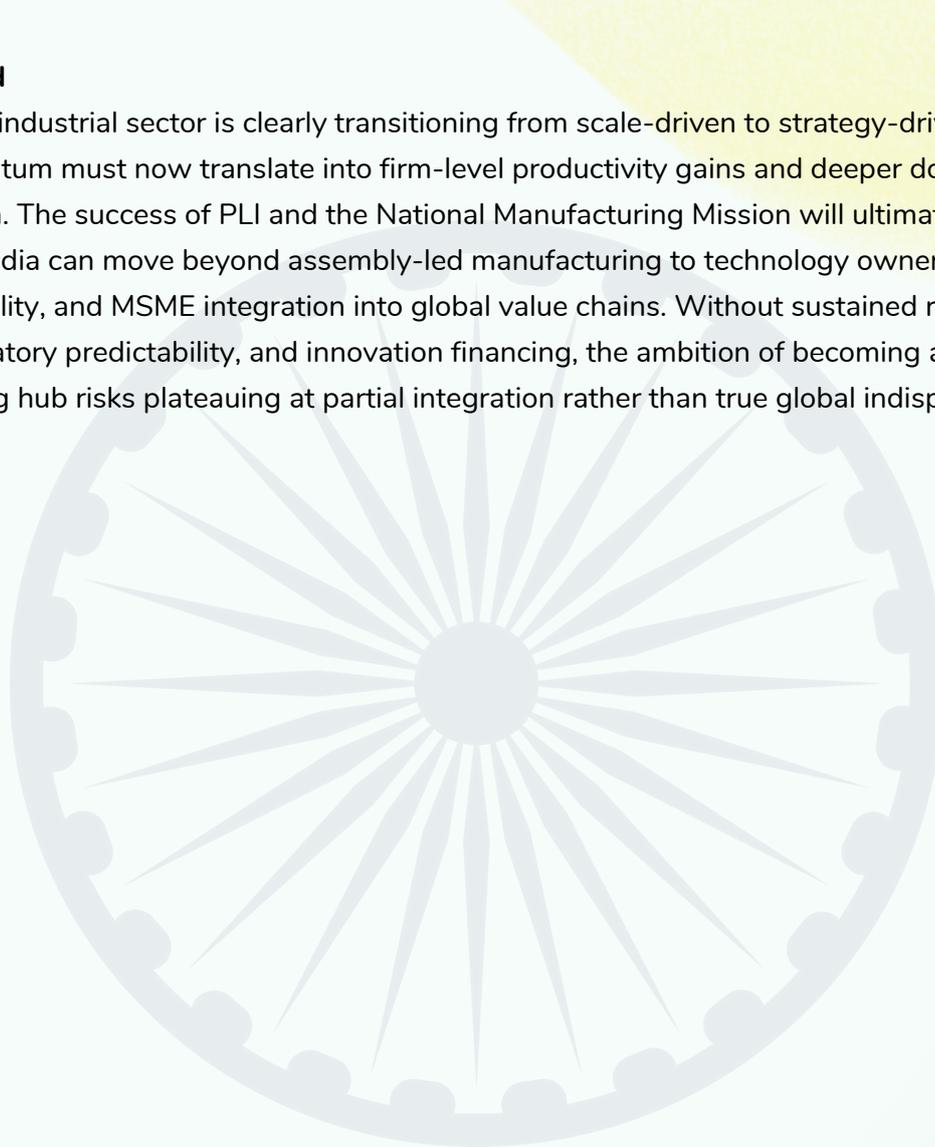
- Total automobile production declined during FY21–FY22 and then recovered strongly by FY25.
- Domestic sales follow a similar pattern, with a clear rebound after FY22.
- Automobile exports fluctuate but show an overall upward movement by FY25.
- FY25 records the highest production and domestic sales in the period shown.
- The sector reflects post-pandemic recovery and demand normalization.

## 10. Electric Vehicles (EVs): Registrations Growth

- EV registrations increased sharply from FY20 to FY25.
- Registrations rose from below 0.2 million units in FY20 to nearly 2 million units in FY25.
- The sector recorded a compound annual growth rate (CAGR) of 62.5%.
- Growth accelerates notably after FY22, indicating rapid adoption momentum.
- EV registrations data is based on the VAHAN portal.

### Way Forward

While India's industrial sector is clearly transitioning from scale-driven to strategy-driven growth, policy momentum must now translate into firm-level productivity gains and deeper domestic value addition. The success of PLI and the National Manufacturing Mission will ultimately depend on whether India can move beyond assembly-led manufacturing to technology ownership, design capability, and MSME integration into global value chains. Without sustained reforms in skilling, regulatory predictability, and innovation financing, the ambition of becoming a high-tech manufacturing hub risks plateauing at partial integration rather than true global indispensability.



# Chapter 9

## INVESTMENT AND INFRASTRUCTURE: STRENGTHENING CONNECTIVITY, CAPACITY AND COMPETITIVENESS

Chapter 9 of the Economic Survey 2025-26 emphasizes infrastructure as the central engine of India's medium- and long-term growth strategy, aligning with the vision of Viksit Bharat @2047. It highlights the sustained surge in public capital expenditure since FY15 (accelerated post-FY20), integrated multimodal planning through PM GatiShakti and the National Logistics Policy, rapid expansion of digital public infrastructure (DPI), and a structural shift in financing away from bank dependence toward diversified channels (NBFCs, InvITs, REITs, capital markets). The chapter underscores the high multiplier effects of infrastructure spending, the maturation of Public-Private Partnerships (PPPs) in core sectors, and the need for better project preparation, risk-sharing, and institutional capacity to reduce execution risks and crowd in private investment. It transitions into reviewing core physical infrastructure (starting with roads & highways) while noting that urban and social infrastructure are covered in later chapters.

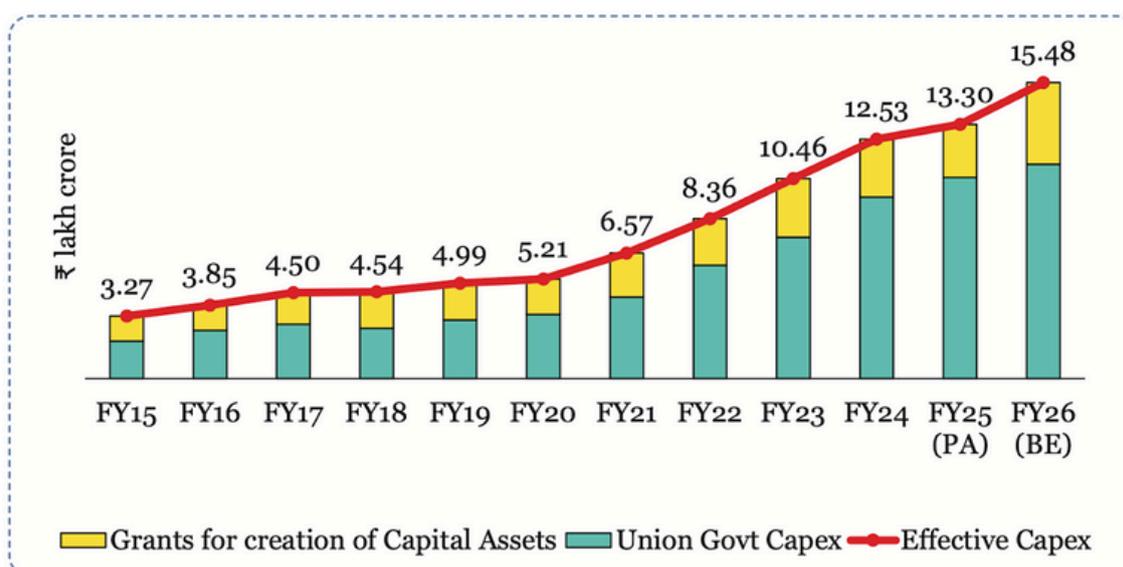
### Chapter At a Glance

The chapter portrays India's infrastructure journey as evolving from rapid asset creation to a more mature, integrated, efficiency-focused, and sustainability-oriented phase. Public capex has nearly doubled since FY22, delivering strong GDP multipliers (2.5–3.5×). Reforms like PM GatiShakti, National Logistics Policy, ULIP, and DPI platforms are reducing logistics costs and execution risks. Financing is diversifying rapidly with NBFC credit growing at 43.3% CAGR (FY20–FY25), InvITs/REITs mobilizing significant capital, and new RBI/SEBI guidelines improving regulatory clarity and long-term funding. PPPs have matured in roads, ports, power, and renewables, with India ranking among the top global recipients of private infrastructure investment. However, challenges remain in project preparation, time/cost overruns, sub-national capacity, public perception, and extending successful models to emerging/social sectors. The chapter calls for deeper private participation, nuanced risk-sharing, and system-level reforms to sustain momentum.

- **Public Capex Momentum:** Sustained rise since FY15, accelerated post-FY20; capex nearly doubled from FY22 to FY26 (BE); high multiplier effect positions infrastructure as core growth driver.
- **Integrated Planning & Reforms:** PM GatiShakti (multimodal GIS planning), PM GatiShakti Public, National Logistics Policy, ULIP, LEADS framework reduce logistics costs and improve manufacturing competitiveness.
- **Digital Backbone:** DPI (BharatNet, 5G, UPI, Aadhaar, DigiYatra, FASTag) acts as an economy-wide force multiplier for efficient, inclusive services.

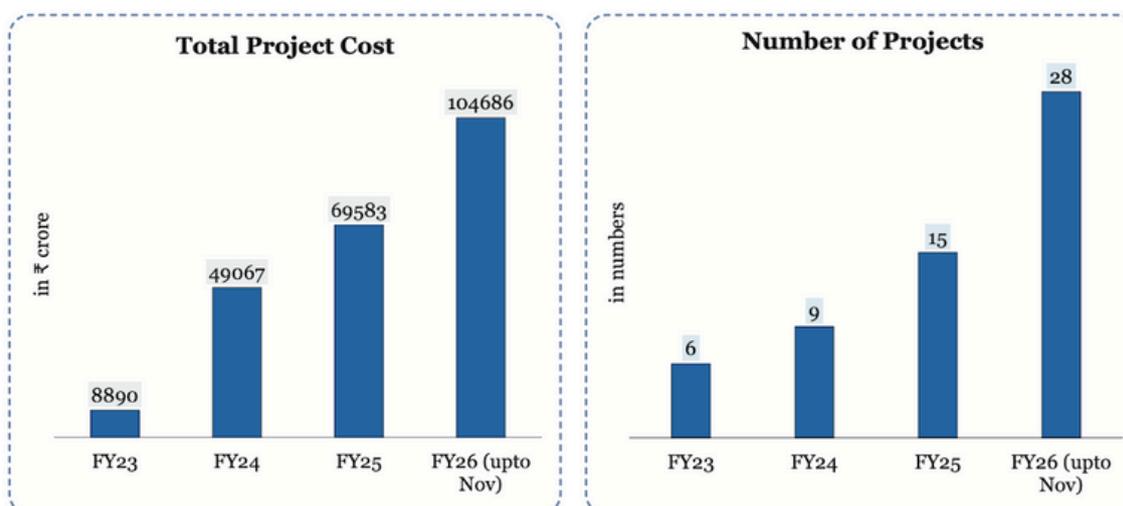
- **Financing Diversification:** Shift from bank-heavy to NBFCs, InvITs, REITs, capital markets; RBI Project Finance Directions 2025 improve DCCO treatment and regulatory alignment; SEBI SM-REIT framework and equity treatment for MF/SIF investments boost liquidity.
- **PPP Maturation:** India top global recipient of PPI; PPPAC approvals rising sharply; institutional mechanisms (VGF, IIPDF, standardized contracts, NIEI) strengthened; next phase requires extending maturity to emerging/social sectors with true “partnership” models, early risk-sharing, and better pre-construction preparation.
- **Challenges & Priorities:** Time/cost overruns due to weak DPRs, procurement, dispute resolution; sub-national capacity gaps, perception issues (“selling assets”); need for lifecycle costing, technology adoption, renegotiation frameworks, and encouraging private risk-taking in greenfield projects.

### Effective Capex has increased steadily since FY15



Source: Union Budget documents.

### Increase in Project Approvals by Public-Private Partnership Appraisal Committee



Source: PPP database, Department of Economic Affairs

Sustained public capex + crowding-in private capital via diversified financing and mature PPPs critical for efficiency, sustainability, competitiveness and Viksit Bharat @2047.

### **1. Effective Capital Expenditure (Capex): Long-term Trend**

- Effective capital expenditure has increased steadily since FY15.
- Effective capex rose from ₹3.27 lakh crore in FY15 to ₹15.48 lakh crore in FY26 (BE).
- The increase reflects combined spending through union government capex and grants for creation of capital assets.
- Growth in effective capex accelerates notably after FY21.
- The rise indicates a sustained public investment push over the medium term.

### **2. Composition of Effective Capex**

- Union Government capex constitutes the largest share of effective capex across all years.
- Grants for creation of capital assets show a gradual increase, contributing to state-level and decentralised capital formation.
- The combined effect strengthens overall public sector capital formation.

### **3. Public-Private Partnership (PPP) Project Approvals: Total Project Cost**

- Total project cost of PPP projects approved by the PPP Appraisal Committee has increased significantly:
  - FY23: ₹8,890 crore
  - FY24: ₹49,067 crore
  - FY25: ₹69,583 crore
  - FY26 (up to November): ₹1,04,686 crore
- The data shows a sharp rise in value of approved PPP projects over time.

### **4. Public-Private Partnership (PPP) Project Approvals: Number of Projects**

- The number of PPP projects approved has also increased:
  - FY23: 6 projects
  - FY24: 9 projects
  - FY25: 15 projects
  - FY26 (up to November): 28 projects
- Growth in project count indicates increasing use of PPP frameworks for infrastructure development.

### **5. National Highway Network Expansion**

- The total length of the National Highway network increased from 91,287 km in FY14 to 1,46,572 km by FY26 (up to December).

- This represents an increase of around 60% over the period.
- The expansion reflects sustained investment in road infrastructure.

## **6. Operational High-Speed Corridors**

- Operational high-speed corridors expanded from 550 km in FY14 to 5,364 km by FY26 (up to December).
- This indicates an almost ten-fold increase. The growth points to improved capacity for faster and more efficient road transport.

## **7. Railway Network Commissioning**

- Average annual commissioning of railway lines increased significantly:
  - 1,499 km per year during 2004-14
  - 3,118 km per year during 2014-24
- This reflects a doubling of rail network expansion pace.

## **8. Port Infrastructure Expansion and Cargo Handling**

- Total cargo handled at major and non-major ports increased from 1,052 million tonnes (FY15) to 1,602 million tonnes (FY25, provisional).
- Total port capacity rose from 1,561 million tonnes to 2,771 million tonnes over the same period.
- The data shows simultaneous capacity expansion and higher cargo throughput.

## **9. Container Vessel Turnaround Time**

- Average container vessel turnaround time reduced from 43.44 hours in FY15 to 30.08 hours in FY25. The reduction indicates improved port efficiency and logistics performance.

## **10. Inland Water Transport Cargo Movement**

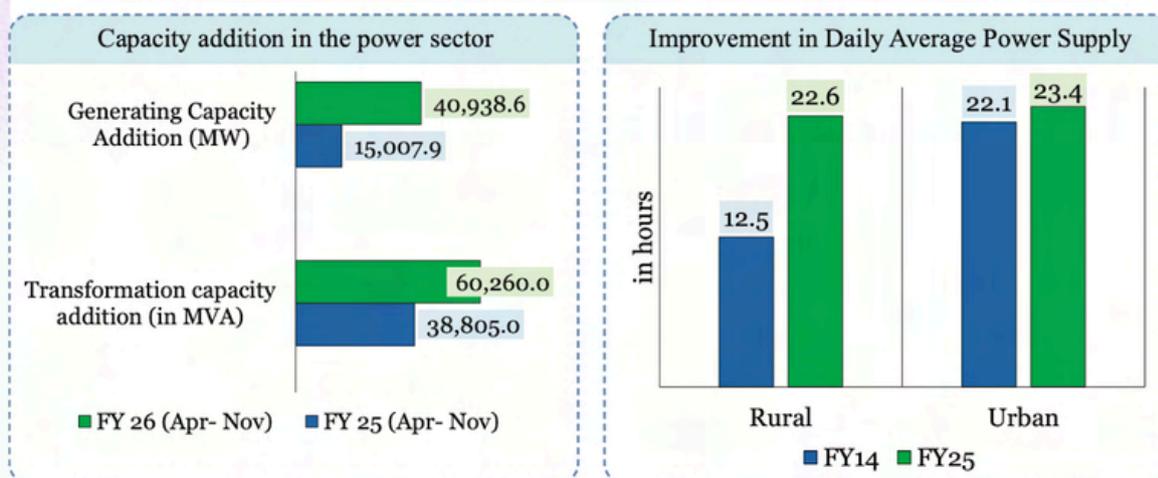
- Cargo movement through inland waterways increased from 18 million metric tonnes in 2013-14 to 146 million metric tonnes in 2024-25. This reflects significant growth in multimodal transport usage.

## **A. Power Sector Performance**

### **1. Capacity Addition in the Power Sector**

- Generating capacity addition during April-November:
  - FY26: 40,938.6 MW
  - FY25: 15,007.9 MW

## Power Sector



Source: Executive Summary Report (November 2025), Central Electricity Authority.

Source: Ministry of Power.

### Power Distribution Turnaround:

**Profit After Tax: ₹67,962 crore loss (FY14) → ₹2,701 crore profit (FY25)**

**AT&C Losses: 22.62% (FY14) → 15.04% (FY25)**

- Transformation capacity addition:
- FY26: 60,260 MVA
- FY25: 38,805 MVA
- Indicates accelerated capacity creation in FY26 compared to FY25.

### 2. Improvement in Daily Average Power Supply

- Rural daily average power supply increased from 12.5 hours in FY14 to 22.6 hours in FY25.
- Urban daily average power supply improved from 22.1 hours in FY14 to 23.4 hours in FY25.
- The data shows greater reliability and availability of electricity, especially in rural areas.

### 3. Power Distribution Turnaround

- Power distribution companies' Profit After Tax improved from a loss of ₹67,962 crore in FY14 to a profit of ₹2,701 crore in FY25.
- Aggregate Technical & Commercial (AT&C) losses reduced from 22.62% in FY14 to 15.04% in FY25. This reflects improved financial and operational performance of discoms.

## B. Progress in Digital Connectivity (BharatNet & Telecom Infrastructure)

### 1. BharatNet: Gram Panchayat Connectivity

- Gram Panchayats connected increased marginally from 2.09 lakh (Dec 2023) to 2.15 lakh (Dec 2025). This indicates near-universal GP-level connectivity under BharatNet.

## **2. Optical Fibre Cable (OFC) Deployment**

- Optical fibre cable laid expanded from 6.77 lakh km (Dec 2023) to 6.95 lakh km (Dec 2025).
- The steady increase reflects continued backbone infrastructure expansion.

## **3. High-Speed Broadband Connections**

- High-speed broadband connections increased significantly:
  - 8 lakh (Dec 2023)
  - 12 lakh (Dec 2024)
  - 14.07 lakh (Dec 2025)
- Indicates rapid last-mile broadband expansion.

## **C. Expansion of Telecom Access**

### **1. Growth in Total Telecom Connections**

- Total telecom connections increased from 933 million in 2014 to 1,231.38 million by 2025 (up to October). Growth observed across both urban and rural areas.

### **2. Urban and Rural Connectivity**

- Urban connections increased from 555.23 million (2014) to 689.61 million (2025).
- Rural connections rose from 377.78 million (2014) to 541.77 million (2025).
- Rural growth outpaced urban growth, narrowing the connectivity gap.

## **D. Internet and Broadband Connectivity**

### **1. Internet Connections**

- Internet connections expanded from 25.2 crore in 2014 to 101.78 crore by 2025 (up to September).
- Reflects a four-fold increase over the period.

### **2. Broadband Connections**

- Broadband connections increased from 6.1 crore in 2014 to 99.56 crore by 2025.
- Indicates rapid adoption of high-speed data services.

## **E. Affordability and Data Usage**

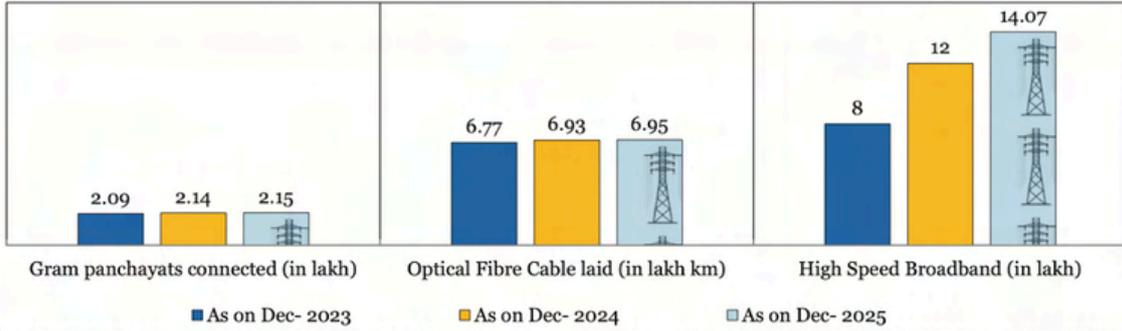
### **1. Average Revenue per GB (Wireless Data)**

- Average revenue per subscriber per GB declined from ₹268.97 in 2014 to ₹8.27 in 2025.
- Indicates a sharp reduction in data prices, improving affordability.

### **2. Average Monthly Data Consumption**

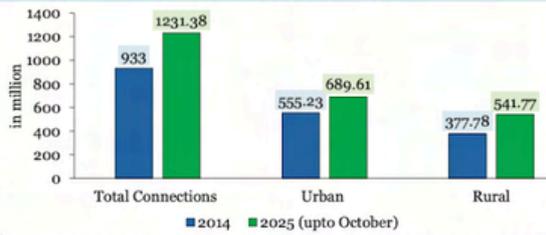
- Average monthly data usage per wireless subscriber increased from 0.06 GB in 2014 to 25.24 GB in 2025.
- Reflects a substantial increase in data consumption driven by affordability.

### Progress in Telecommunication Infrastructure (Bharat Net Progress)



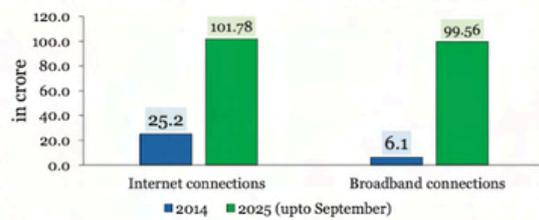
Source: Digital Bharat Nidhi Dashboard, Department of Telecommunications.

### Expansion of Telecom Access



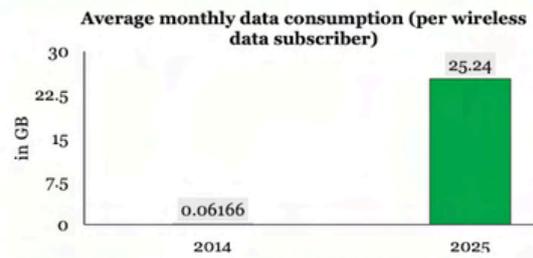
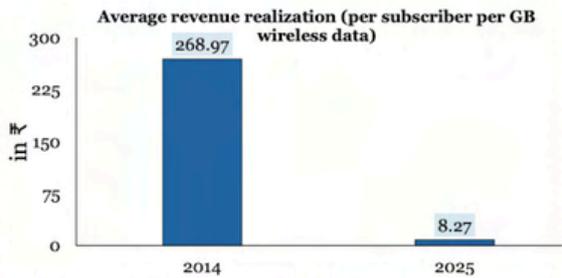
Source: Department of Telecommunications.

### Expansion of Internet and Broadband Connectivity



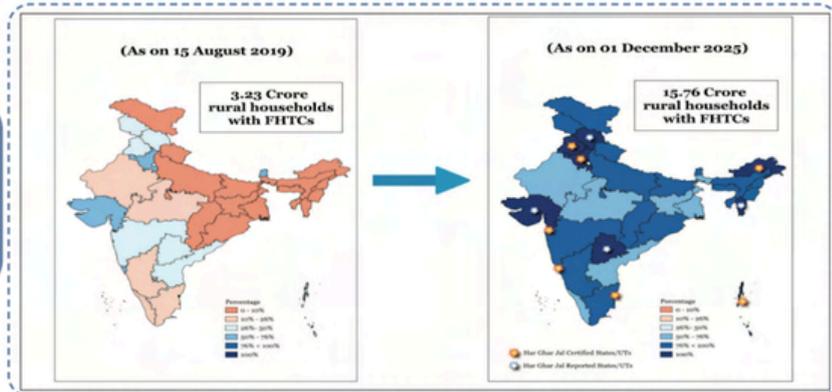
Source: Department of Telecommunications.

### Affordability Driving Surge in Monthly Data Consumption



Source: Department of Telecommunications. Note: Data for 2025 is as of September 2025

**Over 81% of rural households now have access to tap water under Jal Jeevan Mission**



Source: Jal Jeevan Mission Dashboard.

## F. Jal Jeevan Mission (Rural Water Connectivity)

### 1. Rural Tap Water Coverage

- Rural households with Functional Household Tap Connections (FHTCs) increased from 3.23 crore (August 2019) to 15.76 crore (December 2025).
- Over 81% of rural households now have access to tap water.
- The map shows broad-based geographic coverage across states.

## Way Forward

While the chapter convincingly demonstrates the transformative impact of sustained public capex and institutional reforms, it remains cautiously optimistic rather than fully candid about persistent execution risks: particularly chronic time and cost overruns, uneven state-level capacity, and the still-heavy reliance on bank balance sheets for greenfield projects. The emphasis on maturing PPPs in core sectors is welcome, but the transition to emerging and social sectors will require far more radical de-risking mechanisms and public-sector willingness to absorb early-stage risks than current frameworks provide. Without faster resolution of land, clearances, and dispute bottlenecks, and without decisively shifting perception from “asset sale” to long-term partnership, India risks squandering the multiplier gains already achieved and falling short of the ambitious Viksit Bharat infrastructure vision by 2047.



# Chapter 10

## ENVIRONMENT AND CLIMATE CHANGE: BUILDING A RESILIENT, COMPETITIVE AND DEVELOPMENT-DRIVEN INDIA

### The Resource Intensity Challenge of Renewable Energy

- The Economic Survey highlights that scaling solar energy is not only a generation challenge but also a material and energy-intensive process, with each gigawatt of solar capacity requiring approximately 18.5 tonnes of silver, 2,000–3,000 tonnes of polysilicon, and around 10,252 tonnes of aluminium.
- In addition to material inputs, solar power deployment entails significant upstream energy requirements, with silver production alone consuming approximately 4,625 MWh of energy per GW, equivalent to the annual electricity consumption of 350–400 households, while aluminium production requires 1,948,000 GJ per GW, sufficient to power over 100,000 households annually.



### Material Intensity of Wind Power

- Wind energy deployment similarly faces material constraints, with each gigawatt requiring approximately 2,866 tonnes of copper, which has a low yield of 0.6 per cent, resulting in total material movement of nearly 477,666.6 tonnes.
- Transporting materials for a single gigawatt of wind capacity entails approximately 1,194 truckloads, assuming 400-tonne trucks, underscoring the mining, logistics, and infrastructure footprint of renewable energy expansion.
- The Survey emphasises that scaling renewables must therefore account for mining capacity, material supply chains, and embedded energy costs, alongside generation targets.

## Nuclear Energy: A Pillar of India's Clean and Secure Energy Transition

### Why Nuclear Energy Matters

- The Survey positions nuclear energy as a critical component of India's clean energy transition due to its ability to provide 24/7 low-carbon baseload power, free from intermittency, thereby strengthening long-term energy security.
- Nuclear power is identified as essential for supporting energy-intensive and heavy industries, offering reliable, tech-ready electricity that complements renewable sources.
- The chapter also highlights nuclear energy's role in enabling hydrogen production, supporting transport fuels and industrial applications critical to deep decarbonisation.

### National Nuclear Energy Mission (2025–26)

#### Investment, Capacity Targets, and Policy Reforms

- The Union Budget 2025–26 allocates ₹20,000 crore to the National Nuclear Energy Mission, with a focus on developing five indigenously designed Small Modular Reactors (SMRs) targeted for operation by 2033, prioritising clean power and energy security.
- India's current nuclear capacity of 8,780 MW is planned to scale up significantly to 100 GW by 2047, aligning with long-term climate and energy goals.

#### SHANTI Act and Enabling Private Participation

- The SHANTI Act (December 2025) enables greater private and state participation in nuclear energy through a graded liability framework, while ensuring victim compensation and strengthening manufacturing, R&D, and innovation ecosystems.

### Energy Storage: Enabling Renewable Integration

#### Scale of Storage Requirement

- The Survey identifies energy storage as a key enabler for renewable energy integration, peak demand management, and long-term resource adequacy, estimating that India will require approximately 411 GWh of energy storage capacity by 2031–32.

#### Policy Recognition and Planning Integration

- Energy storage systems are now formally recognised under the Electricity Rules, included in the Harmonised Master List of Infrastructure, and treated as a core resource in power system planning under Resource Adequacy Plans.

#### Market Enablers and Deployment Support

- Market-enabling measures include waiver of inter-state transmission charges, permission for storage assets to provide ancillary services, a PLI scheme of ₹18,100 crore targeting 50 GWh of advanced chemistry cell (ACC) manufacturing, and VGF schemes covering approximately 43 GWh of battery energy storage systems (BESS).

## India's Energy Storage Requirement & Policy Push

 Energy storage is positioned as a key enabler for renewable integration, peak management, and long-term resource adequacy



### Requirements

India will require around 411 GWh of energy storage by 2031–32



### Policy Support

National Framework for Promoting Energy Storage Systems

Formally recognised under the Electricity Rules

Included in the Harmonised Master List of Infrastructure

A core resource in power system planning under Resource Adequacy Plans.



### Market enablers and Deployment support

Waiver of Inter-State Transmission System charges

Storage assets allowed to provide ancillary services

PLI scheme - ₹18,100 crore for 50 GWh ACC manufacturing

VGF schemes targeting ~43 GWh of BESS

### Streamlining Clearances and Compliance

- The launch of PARIVESH 3.0 introduces single-window digital clearances with post-approval monitoring, significantly improving transparency and efficiency in environmental approvals.
- Nationwide uniform guidelines for Consent to Establish and Operate have been introduced through amendments to the Water and Air Acts, reducing regulatory fragmentation.

### Strengthening Oversight and Accountability

- The introduction of third-party environmental audits under the Environment Audit Rules, 2025, strengthens compliance verification while reducing administrative burden.
- Updated graded industry classifications encourage better compliance by aligning regulatory intensity with pollution potential.

### Circular Economy and Legal Rationalisation

- Circular Economy Action Plans now cover 10 waste categories, supported by Extended Producer Responsibility (EPR) frameworks and a ban on single-use plastics.
- Decriminalisation under the Jan Vishwas Act amends multiple environmental laws, including the Environment (Protection) Act, Air Act, Water Act, Indian Forest Act, and Public Liability Insurance Act, shifting focus from punishment to compliance.
- Green belt requirements for industries have been rationalised based on pollution potential at the level of industrial estates and individual units.

## Recent Environmental Governance Reforms



### PARIVESH 3.0 – Single Window Clearances

Digital approvals & post-clearance monitoring



### Nation-wide uniform guidelines

Consent to Establish/Operate through amendments in Water & Air Acts



### Streamlined Mining Regulations

Critical, Strategic, and Atomic Minerals



### Third-Party Environmental Audits

Environment Audit Rules, 2025



### Updated Graded Industry classifications

Encourage better compliance



### Promoting Circular Economy

Circular Economy Action Plans covering 10 waste categories, Extended Producer Responsibility (EPR) frameworks for multiple waste streams, ban on Single use Plastics



### Decriminalisation through the Jan Vishwas Act

Public Liability Insurance Act, Environment (Protection) Act, 1986, Air Act, 1981 Indian Forest Act, 1927 and the Water Act, 1974



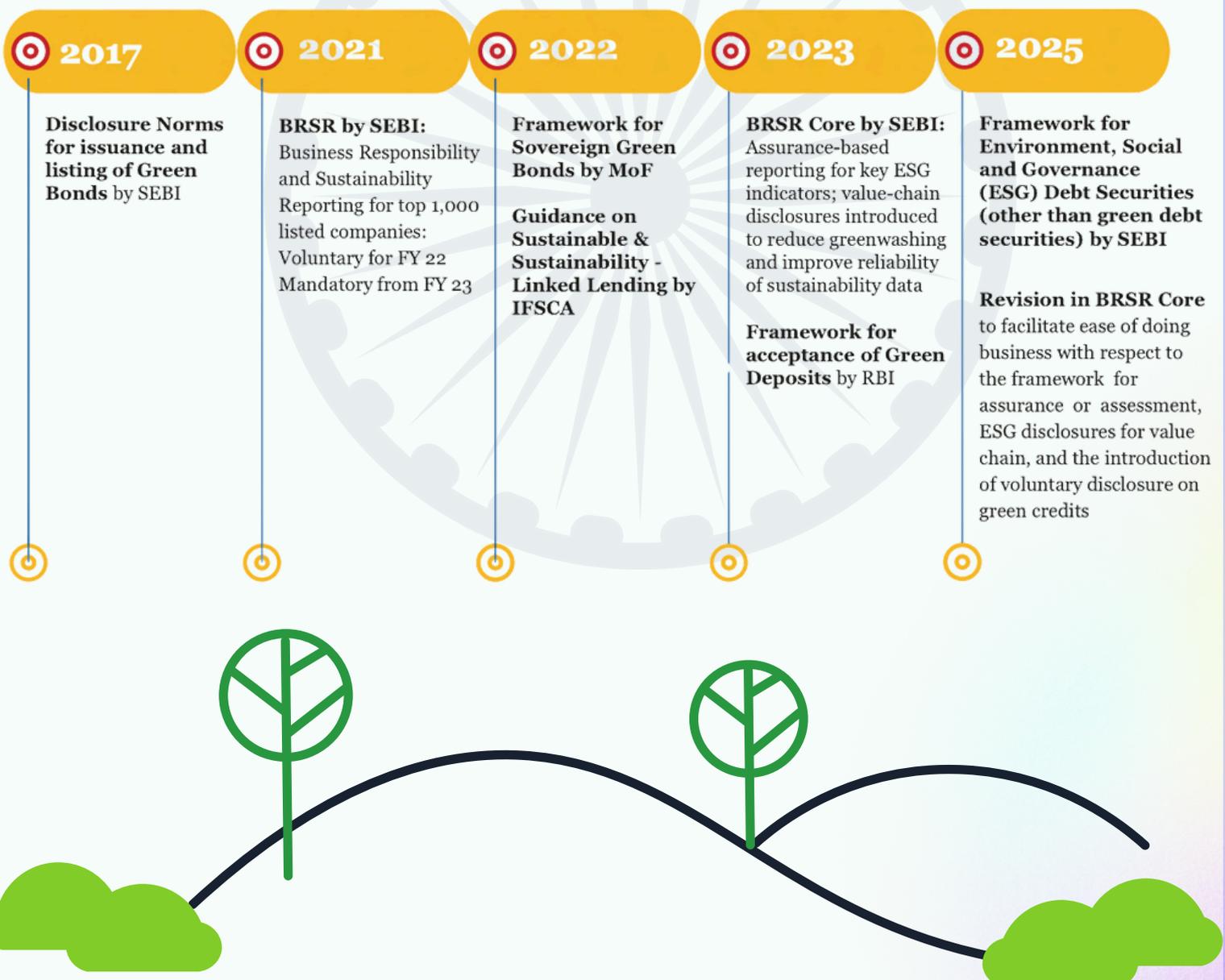
### Rationalised Green belt requirements for industries

based on the pollution potential of industrial estates/parks and individual industries

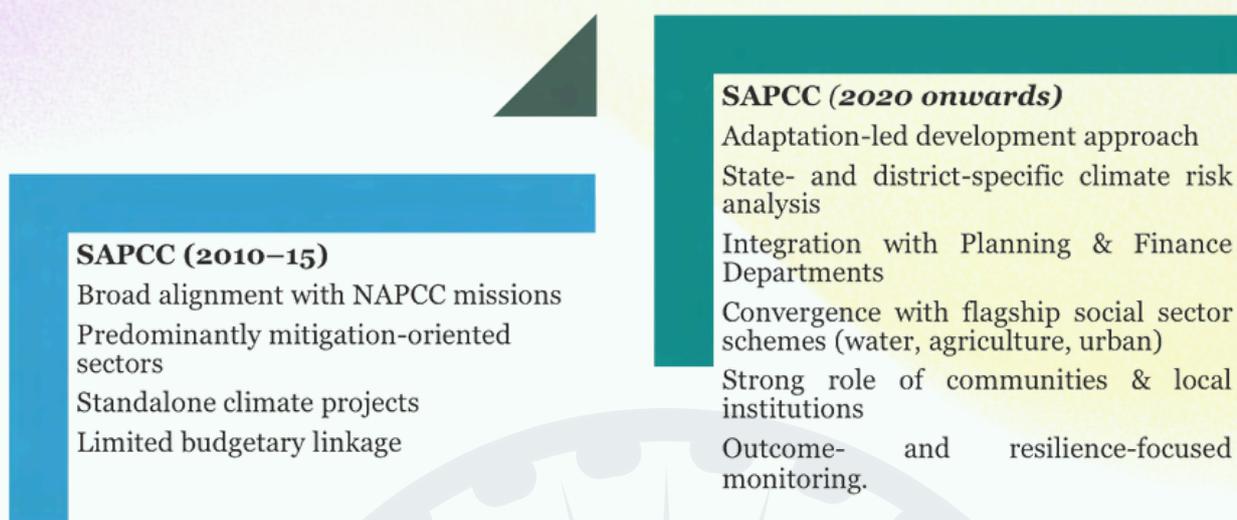
## Climate and Sustainable Finance: Key Milestones

### Evolution of India's Climate Finance Framework

- In 2017, SEBI introduced disclosure norms for the issuance and listing of green bonds, laying the foundation for India's sustainable finance market.
- The Business Responsibility and Sustainability Reporting (BRSR) framework was introduced by SEBI in 2021 for the top 1,000 listed companies, becoming mandatory from FY23.
- In 2022, the Ministry of Finance launched the framework for Sovereign Green Bonds, while IFSCA issued guidance on Sustainability-Linked Lending.
- The BRSR Core framework introduced in 2023 strengthened assurance-based ESG reporting, reduced greenwashing, and was complemented by RBI's framework for acceptance of Green Deposits.
- In 2025, SEBI expanded the framework to include ESG debt securities beyond green bonds, revised BRSR Core to ease compliance, and introduced voluntary disclosures on green credits.



## Evolution of State Action Plans on Climate Change (SAPCCs)



### From Mitigation to Adaptation-Led Development

- Early SAPCCs (2010–15) focused on broad alignment with National Action Plan on Climate Change (NAPCC) missions, were predominantly mitigation-oriented, and relied on standalone climate projects with limited budgetary integration.
- SAPCCs from 2020 onwards have shifted towards adaptation-led development, incorporating state- and district-specific climate risk assessments, deeper integration with planning and finance departments, convergence with flagship social sector schemes, and stronger roles for communities and local institutions.
- The revised approach emphasises outcome-based and resilience-focused monitoring, aligning climate action with developmental priorities.

### Key Takeaway

The Economic Survey underscores that India's climate strategy must balance ambition with realism by recognising material constraints, strengthening nuclear and storage capacities, reforming environmental governance, and aligning climate finance and state-level action with development outcomes.

# Chapter 11

## EDUCATION AND HEALTH: WHAT WORKS AND WHAT'S NEXT

This Chapter underscores education and health as interconnected pillars of human capital for India's Viksit Bharat vision. It highlights substantial progress in school access and quality under NEP 2020, higher education expansion, and health outcomes like sharp declines in mortality rates via initiatives such as Ayushman Bharat and immunisation drives. Emerging threats include rising obesity, non-communicable diseases (NCDs), ultra-processed foods (UPFs), and digital addiction among youth, necessitating preventive, behavioural, and regulatory shifts. The chapter showcases state-level good practices, community engagement, and digital integration while calling for outcome-focused reforms, equity, and lifecycle approaches to build a future-ready workforce and resilient population.

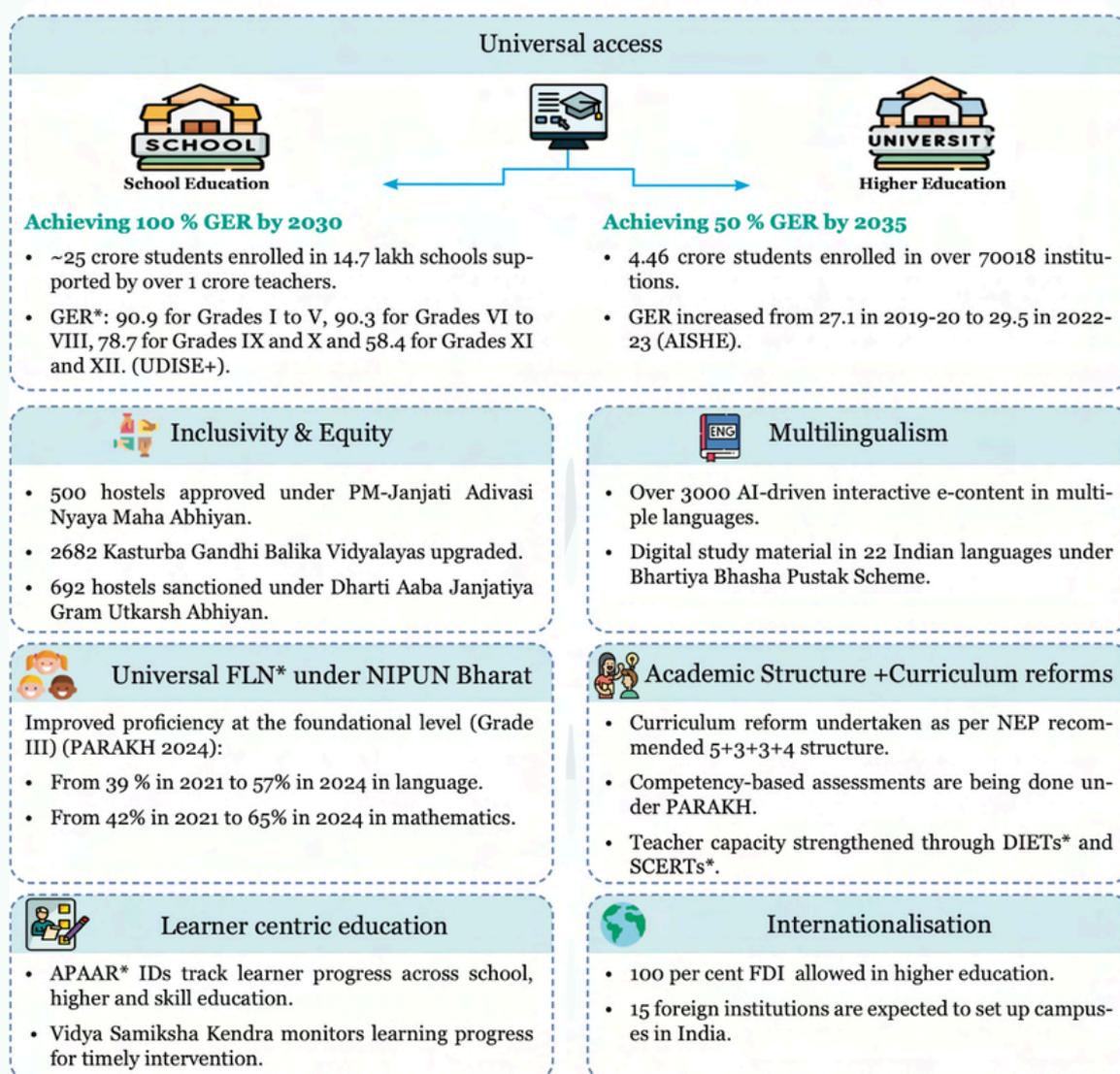
### Chapter At a Glance

The chapter frames human capital development as essential for inclusive growth, with education advancing through NEP-driven foundational literacy, vocational integration, and global outreach, alongside massive infrastructure and enrollment gains. Health improvements stem from targeted programmes reducing maternal/infant mortality and expanding primary care, but the double burden of undernutrition and obesity, coupled with digital addiction's mental health toll, poses risks to productivity and the demographic dividend. It emphasizes school-based interventions for nutrition/physical activity, social behaviour change communication (SBCC), regulatory curbs on UPFs/marketing, and mental health/digital wellness measures. Lessons from states like Maharashtra (peer learning), Rajasthan (Cash Plus SBCC), and others highlight scalable innovations. Future priorities include raising expected years of schooling (EYS), bridging disparities, preventing NCDs via lifestyle changes, and balancing digital benefits with safeguards for adaptive, accountable systems.

- **Education as Human Capital Foundation:** School system massive (24.69 crore students); NEP 2020 drives FLN, ECCE, vocational/digital skills, equity; progress via PM SHRI, ULLAS, NIPUN Bharat, DIKSHA, APAAR for tracking.
- **Access & Infrastructure Gains:** GER nearing universal in early/middle stages; basic facilities improved (e.g., girls' toilets 77% to 99%, drinking water 95% to 96%); co-location of AWCs/Balvatikas boosts pre-school access.
- **Challenges in Education:** Low secondary GER/NER (68.5%/52.2%); rural disparities, dropouts (44% for income), out-of-school adolescents (-2 crore aged 14-18); learning gaps, teacher shortages.
- **Higher Education Expansion:** HEIs up sharply; GER 29.5%; NCrf, ABC, flexible admissions; focus on multidisciplinary, vocational, internationalisation (e.g., foreign campuses).

- **Health Progress & Initiatives:** Mortality reductions via NHM, Ayushman Bharat (1.82 lakh AAMs, 42.66 crore teleconsultations); immunisation (U-WIN 60.98 crore doses); TB incidence down 21%.
- **Emerging Health Threats:** Double burden: undernutrition + obesity/NCDs (57% deaths); UPF surge, low protective foods intake; digital addiction impacts youth mental health, academics, productivity.
- **State Good Practices:** Maharashtra (peer-learning models); Rajasthan (Cash Plus SBCC for nutrition); Andhra Pradesh/Haryana/Odisha (community mobilisation, alumni involvement).
- **Recommendations & Outlook :** Preventive focus: UPF regulations (ad bans, taxes, warnings), school wellness policies, digital wellness curricula; raise EYS to 15; strengthen SBCC, community governance, data-driven monitoring for equity/sustainability.

## India's education landscape: Key achievements of NEP



GER: Gross Enrolment Ratio; APAAR: Automated Permanent Academic Account Registry; DIET: District Institute of Education and Training; SCERT: State Council of Educational Research and Training; FLN : Foundational literacy and numeracy

## A. Universal Access

### **School Education (Achieving 100% GER by 2030):**

- Approximately 25 crore students are enrolled in 14.7 lakh schools, supported by over 1 crore teachers.
- Gross Enrollment Ratio is 90.9 for Grades I to V, 90.3 for Grades VI to VIII, 78.7 for Grades IX and X, and 58.4 for Grades XI and XII (UDISE+).

### **Higher Education (Achieving 50% GER by 2035):**

- 4.46 crore students are enrolled in over 70018 institutions.
- GER increased from 27.1 in 2019-20 to 29.5 in 2022-23.

### **Inclusivity & Equity**

- 500 hostels approved under PM-Janjati Adivasi Nyaya Maha Abhiyan.
- 2682 Kasturba Gandhi Balika Vidyalayas upgraded.
- 692 hostels are sanctioned under Dharti Aaba Janjatiya Gram Utkarsh Abhiyan.

### **Multilingualism**

- Over 3000 AI-driven interactive e-content in multiple languages.
- Digital study material available in 22 Indian languages under Bhartiya Bhasha Pustak Scheme.

### **Universal FLN under NIPUN Bharat**

- Improved proficiency at the foundational level shows:
  - From 39% in 2021 to 57% in 2024 in language.
  - From 42% in 2021 to 65% in 2024 in mathematics.

### **Academic Structure + Curriculum Reforms**

- Curriculum reform undertaken as per NEP recommended 5+3+3+4 structure.
- Competency-based assessments are being done under PARAKH.
- Teacher capacity strengthened through DIETs and SCERTs.

### **Learner-centric Education**

- APAAR IDs track learner progress across school, higher, and skill education.
- Vidya Samiksha Kendra monitors learning progress for timely intervention.

### **Internationalisation**

- 100 percent FDI allowed in higher education.
- 15 foreign institutions are expected to set up campuses in India.

### **Strengthening Healthcare**

- **Infant Mortality Rate:** There has been a 37% drop in IMR over the past decade.
- **Life Expectancy:** Life expectancy in 2023 reached 70.3 years, a significant increase compared to 49.7 years in 1976.

- **Nutrition Intake (per capita):** There has been an increase in both calorie and protein intake.

## **B. Government Initiatives towards a Healthier Lifestyle**

### ***Awareness Initiatives for Tackling Obesity***

- "Eat right" campaign.
- 10% reduction in oil consumption.
- Khelo India and Fit India Movement.
- "Aaj se Thoda kam" Campaign.
- "Stop Obesity & Fight Obesity" Campaign.

### ***Technology Driven Initiatives***

- Establishment of Centres of Excellence for AI-driven reforms at AIIMS Delhi, AIIMS Rishikesh & PGIMER, Chandigarh.
- Clinical decision support system integrated with e-Sanjeevani.
- AI-based diabetic retinopathy screening.
- 14.32 crore beneficiaries registered under the U-Win portal.

### ***Mental Health: Combating Digital Addiction***

- Implementation of Safe Internet Guidelines for schools.
- Pragyatah Framework for screen-time planning for digital education.
- NCPDR guidelines on screen-time limits and online safety.
- Online Gaming Regulation Act, 2025.
- Tele-MANAS helpline providing 24x7 national mental health support.
- Specialized treatment available through the SHUT Clinic, NIMHANS.

## **C. Infrastructure Strengthening**

- Over 1.8 lakh Ayushman Arogya Mandir are operational, with a footfall of 506.50 crore.
- Nearly 3.78 lakh human resources have been provided to states.
- 42.78 crore Ayushman Bharat cards have been generated.

## **Way Forward**

The chapter effectively showcases India's strides in education access and health mortality reductions, yet it underplays the urgency of execution gaps, persistent low secondary retention, regional inequities, and the explosive rise in obesity/NCDs/digital addiction amid rapid urbanisation and digital penetration. While preventive rhetoric and state innovations are promising, the absence of bolder fiscal commitments, enforceable UPF regulations, or nationwide digital screen-time mandates risks undermining the demographic dividend. Without aggressive, multi-sectoral action to shift from curative to truly preventive paradigms and bridge implementation divides, these emerging threats could erode hard-won human capital gains, jeopardising Viksit Bharat's inclusive prosperity by 2047.



# Chapter 12

## EMPLOYMENT AND SKILL DEVELOPMENT: GETTING SKILLING RIGHT

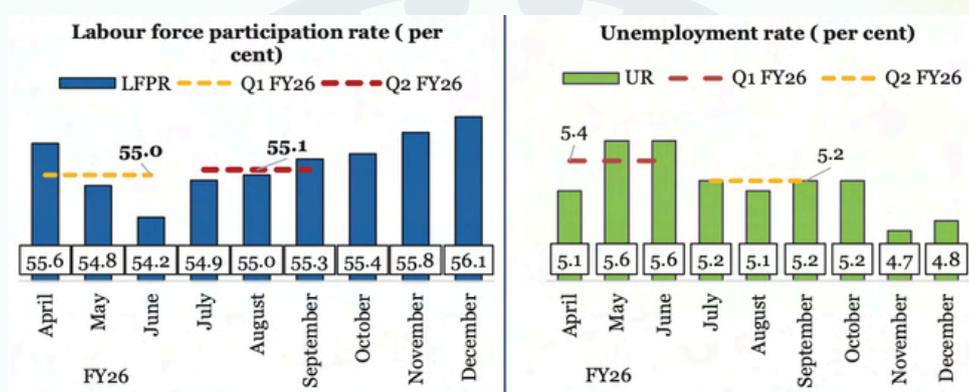
Chapter 12 of the Economic Survey 2025-26 portrays India's labour market as undergoing structural shifts driven by digitalisation, green transition, gig/platform work, and demographic changes. It highlights a steady job market with improving LFPR, declining unemployment, robust job creation across organised/unorganised sectors, and a shift in focus from job quantity to quality for inclusive, sustainable growth. The chapter emphasises harnessing the peaking demographic dividend (around 2030) while preparing for ageing via longevity dividend policies (preventive health, lifelong learning). Key reforms include the four Labour Codes (notified 2025) for balancing flexibility and worker rights, gig worker protections, female participation enablers (safe accommodation, hybrid work), and expanded social security. Skilling is central to bridging mismatches, boosting productivity, employability, and social mobility through vocational integration from school to higher education, apprenticeships, industry alignment, and digital platforms like SIDH and e-Shram.

### Chapter At a Glance

The chapter frames employment as pivotal to Viksit Bharat, with India's 56+ crore workforce offering immense potential amid a large working-age population peaking soon. It analyses supply-side levers for inclusive growth, covering employment trends (sectoral/gender distribution, gig expansion), Labour Codes' role in catalysing formal jobs and protections (especially for women/gig workers), and a re-strategised skill ecosystem. Emphasis is on early vocational exposure, apprenticeships (NAPS/NATS scaled), modular/flexible pathways (NCrF, multiple entry-exit), industry partnerships, outcome-focused funding, and digital tools for monitoring/upskilling. Challenges include skill mismatches, informal sector vulnerabilities, gig precarity, and preparing for future demands (AI, green jobs). The outlook stresses targeted skilling for youth/women in high-productivity sectors, lifelong learning, and adaptive policies to ensure quality jobs, upward mobility, and demographic dividend realisation before ageing intensifies.

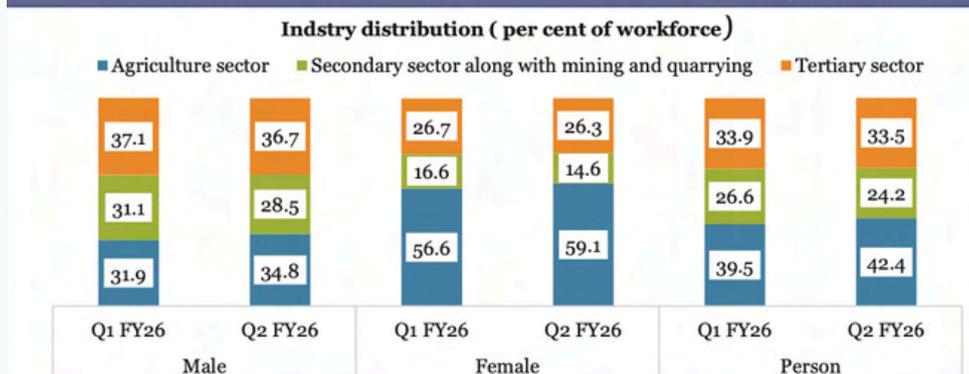
- **Labour Market Transformation** : Driven by digitalisation, green energy, gig/platform work; post-pandemic shift to quality jobs, inclusivity, sustainability.
- **Demographic Context**: Large working-age bulge (peak -2030); ageing onset requires longevity dividend via preventive health, NCD management, lifelong learning, age-friendly arrangements.
- **Employment Landscape**: Steady indicators: rising LFPR, falling UR, job creation in organised/unorganised; rural self-employment growth; gig sector expansion (55% rise FY21-25).

- **Labour Reforms:** Four Labour Codes (notified 2025) consolidate 29 laws; balance flexibility/competitiveness with worker rights; recognise gig workers for social security, portability, welfare funds.
- **Female & Gig Inclusion:** Barriers addressed via safe accommodation, hybrid/flexible work; gig protections (income, grievance redressal); e-Shram/SIDH integration for skilling/job linkages.
- **Skilling Ecosystem:** Vocational integration from school (mandatory Skill Education Grades VI-VIII, NIPUN Bharat links); higher ed reforms (NCrF, multiple entry-exit, apprenticeship-embedded degrees, SWAYAM Plus for emerging tech).
- **Initiatives & Scale:** PMKVY, NAPS/NATS expansion; industry-aligned, outcome-focused; digital monitoring (SIDH); apprenticeships in modern/gig/green sectors.
- **Challenges & Priorities:** Skill mismatches, informal vulnerabilities; need industry-led training, upskilling for mobility, targeted focus on youth/women/high-productivity sectors.



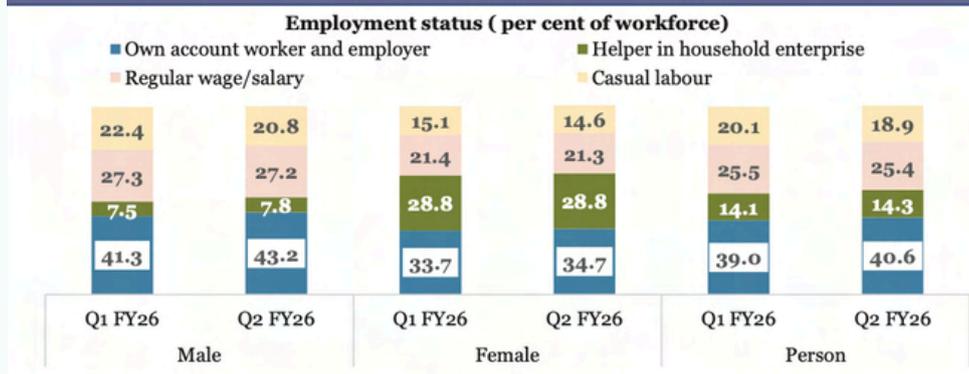
Source: PLFS Monthly and Quarterly Bulletin; Note: Age 15 years and above in CWS

**Chart XII. 2: Labour market dynamics in H1 FY26: Industry distribution**



Source: PLFS Quarterly Bulletin; Note: Age 15 years and above in CWS

**Chart XII. 3: Labour market dynamics in H1 FY26: Status**



Source: PLFS Quarterly Bulletin; Note: Age 15 years and above in CWS

## A. Labour Market Dynamics in H1 FY26

### 1. Labour Force Participation Rate (LFPR)

- LFPR remained broadly stable with a gradual upward trend during H1 FY26.
- Monthly LFPR ranged between 54.2% (June) and 56.1% (December).
- After a dip in early months (May–June), LFPR recovered steadily from July onwards.
- Average LFPR for:
  - Q1 FY26: -55.0%
  - Q2 FY26: -55.1%
- Indicates sustained labour force engagement across the period.

### 2. Unemployment Rate (UR)

- The unemployment rate showed moderation over the period.
- UR declined from 5.6% in May–June to 4.7–4.8% by November–December.
- Quarterly averages:
  - Q1 FY26: -5.4%
  - Q2 FY26: -5.2%
- Reflects improving employment absorption alongside stable participation.

## B. Industry Distribution of Workforce

### 3. Male Workforce Distribution

- Agriculture employment among males increased from 31.9% (Q1) to 34.8% (Q2).
- Secondary sector share declined from 31.1% to 28.5%.
- Tertiary sector share remained relatively stable at -37%.
- Indicates marginal reallocation toward agriculture in Q2.

### 4. Female Workforce Distribution

- Agriculture dominates female employment:
  - 56.6% (Q1 FY26) increasing to 59.1% (Q2 FY26).
- Secondary sector share declined from 16.6% to 14.6%.
- Tertiary sector employment decreased marginally from 26.7% to 26.3%.
- Highlights continued concentration of female workforce in agriculture.

### 5. Overall Workforce (Person)

- Agriculture share increased from 39.5% (Q1) to 42.4% (Q2).
- The secondary sector declined from 26.6% to 24.2%.
- The tertiary sector marginally declined from 33.9% to 33.5%.
- Suggests seasonal or cyclical shifts toward agriculture during Q2.



## C. Employment Status Distribution

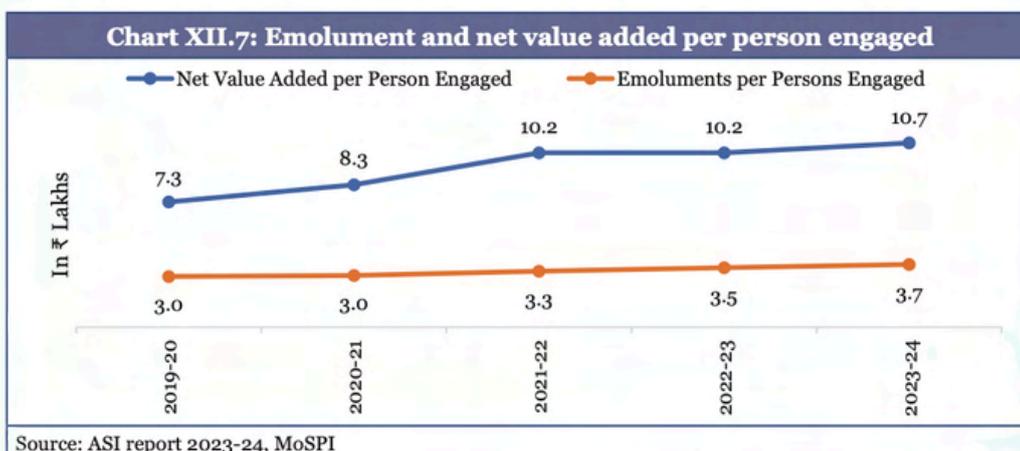
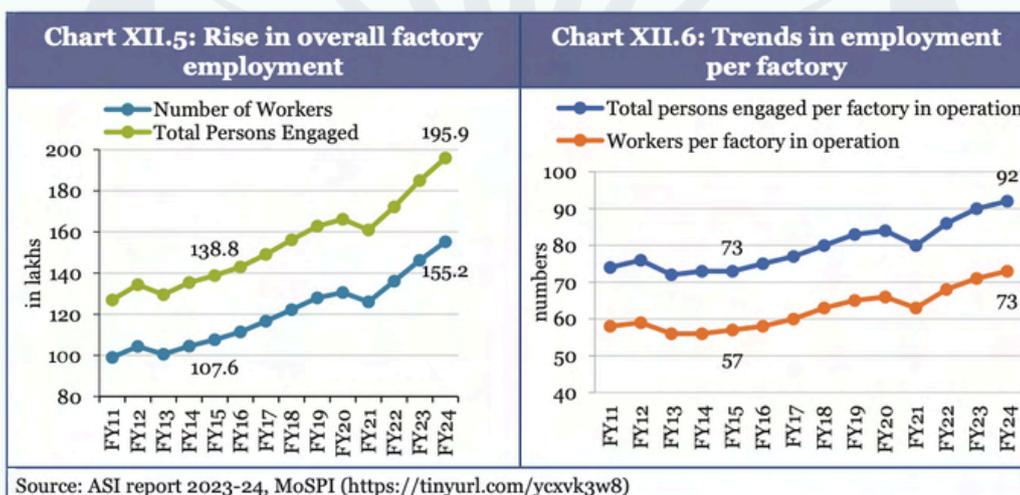
### 6. Male Employment Status

- Own-account workers & employers increased from 41.3% to 43.2%.
- Regular wage/salaried employment remained stable (-27%).
- Casual labour declined from 22.4% to 20.8%.
- Helpers in household enterprises increased marginally.
- Indicates improvement in employment quality among males.

### 7. Female Employment Status

- Own-account workers & employers increased from 33.7% to 34.7%.
- Helpers in household enterprises remained high and stable at 28.8%.
- Regular wage employment is stable at -21%.
- Casual labour declined from 15.1% to 14.6%.
- Reflects persistent informality and family-based employment among women.

## D. Factory Employment Trends (ASI Data)



12.22 In FY24, 22 per cent of the factories in operation employed 79 per cent of the manufacturing workforce, whereas small factories (with less than employees) accounted for 77 per cent of the total factories and only 21 per cent of the workforce.

## **8. Rise in Overall Factory Employment**

- Total persons engaged in factories increased steadily from 138.8 lakh (FY14) to 195.9 lakh (FY24).
- The number of workers rose from 107.6 lakh (FY14) to 155.2 lakh (FY24).
- Indicates sustained expansion in organised manufacturing employment over the last decade.

## **9. Employment per Factory**

- Average persons engaged per factory increased from 73 (FY14) to 92 (FY24).
- Average workers per factory rose from 57 (FY14) to 73 (FY24).
- Suggests scale expansion of factories, not just an increase in factory count.

## **E. Productivity and Wages**

### **10. Emoluments and Net Value Added (NVA) per Person**

- NVA per person engaged increased from ₹7.3 lakh (2019–20) to ₹10.7 lakh (2023–24).
- Emoluments per person rose from ₹3.0 lakh to ₹3.7 lakh over the same period.
- Reflects improvement in labour productivity and real earnings.

## **F. Employment Distribution by Factory Size**

### **11. Employment Trend by Factory Size**

- Factories with less than 50 workers constitute 65% of factories but employ only 12% of workers.
- Factories with more than 100 workers:
  - Represent -22% of factories
  - Employ -79% of the manufacturing workforce
- Highlights employment concentration in larger factories.
- Small factories (<100 workers) account for 77% of factories but only 21% of employment.
- Large factories pay higher wages and generate higher NVA per worker, indicating superior productivity.

## **G. Wages and Productivity by Factory Size**

### **12. Wages per Worker**

- Annual wages per worker increase consistently with factory size:
  - ₹1.4 lakh (0–14 workers)
  - ₹2.7 lakh (5000+ workers)
- Larger factories offer significantly better wage outcomes.

### **13. Labour Productivity (NVA per Worker)**

- NVA per person rises sharply with factory size:
  - ₹4.7 lakh (0–14 workers)
  - ₹17.5 lakh (5000+ workers)
- Confirms a strong scale–productivity relationship.

## H. Growth Comparison: Small vs Large Factories

### 14. CAGR (FY14–FY24)

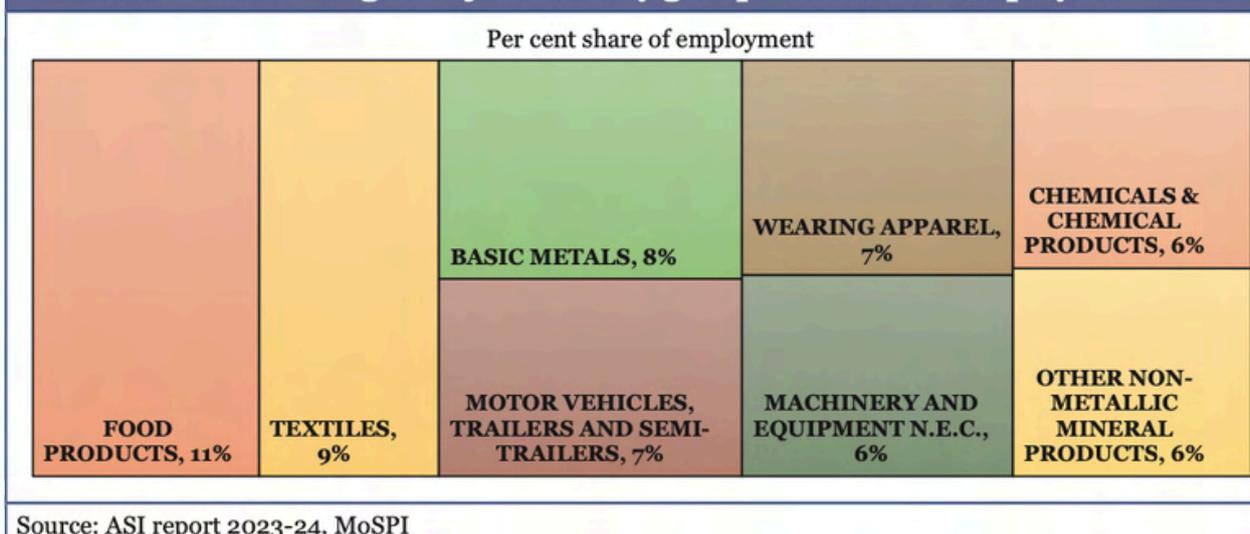
- Factories in operation:
  - Small (<100): 1% CAGR
  - Large (>100): 5% CAGR
- Total persons engaged (TPE):
  - Small: 2% CAGR
  - Large: 6% CAGR
- Workers:
  - Small: 2% CAGR
  - Large: 6% CAGR
- Indicates faster employment growth in large factories, improving employment quality.

## I. Geographic Concentration of Manufacturing Employment

### 15. State-wise Patterns

- States with higher share of large factories also show:
  - Higher Total Persons Engaged (TPE)
  - Higher labour productivity (NVA/TPE)
- Top employment-contributing states (-60% combined):
  - Tamil Nadu (15%)
  - Gujarat (13%)
  - Maharashtra (13%)
  - Uttar Pradesh (8%)
  - Karnataka (6%)
  - Haryana (6%)
  - Telangana (5%)

**Chart XII.12: Eight major industry groups in terms of employment**



## J. Industry-wise Employment Concentration

### 16. Major Industry Groups (Share of Employment)

- Food products: 11%
- Textiles: 9%
- Basic metals: 8%
- Wearing apparel: 7%
- Motor vehicles & trailers: 7%
- Machinery & equipment: 6%
- Chemicals & chemical products: 6%
- Other non-metallic mineral products: 6%
- Eight industries together account for -60% of organised manufacturing employment.

## K. Gig Workforce Distribution

### 17. Sector-wise Gig Employment (in lakhs)

- E-commerce: 37
- Logistics: 15
- BFSI: 10
- Manufacturing: 10
- Retail: 7
- Transportation: 6
- IT: 5
- Healthcare, ITeS, Construction, Education: -3 each
- Smaller shares in automotive, hospitality, infrastructure, telecom, and power.
- Gig employment is highly concentrated in service and platform-led sectors.

## Way Forward

While the chapter optimistically showcases improving labour indicators, gig formalisation, and skilling reforms as pathways to quality jobs and demographic gains, it glosses over persistent structural weaknesses, chronic skill mismatches, informal sector dominance, gig precarity despite protections, and slow female LFPR convergence to global levels. The reliance on Labour Codes' implementation for formalisation remains unproven in practice, and skilling efforts risk supply-driven overreach without deeper industry co-ownership or wage-linked outcomes. Without bolder measures to address wage stagnation, job quality in non-farm sectors, and rapid upskilling for AI/green transitions, India may squander its demographic window, facing underemployment traps and an ageing workforce ill-prepared for sustained productivity, ultimately jeopardising Viksit Bharat's inclusive prosperity goals by 2047.

# Chapter 13

## RURAL DEVELOPMENT AND SOCIAL PROGRESS: FROM PARTICIPATION TO PARTNERSHIP

This Chapter of the Economic Survey 2025-26 celebrates India's inclusive growth under "Sabka Saath, Sabka Vikas, Sabka Prayas, Sabka Vishwas," with sharp poverty reduction, narrowing inequalities, and enhanced basic services access. Rural transformation drives progress through infrastructure, employment reforms, technology adoption, local government/community participation, and a shift from government-led to community-driven models. It frames social mobility (inter- and intra-generational) as key to breaking inequality cycles, driven by health, education, skills, work, and protection. The chapter reviews poverty/inequality declines (via WB, NITI Aayog MPI, Tendulkar-line estimates), rising social sector expenditure, rural economy revival (livelihoods, digital integration, capacity building), and social justice initiatives for marginalised groups (e.g., disabilities, vulnerable communities). It highlights state innovations (e.g., Bihar's SJY, Kerala's models) and calls for participatory, sustainable rural growth preserving culture/environment.

### Chapter At a Glance

The chapter positions inclusive development as central to Viksit Bharat, emphasizing equality of opportunity, dignity, and empowerment of vulnerable/marginalised groups via affirmative action in education/health/skills/livelihoods. Poverty has plummeted dramatically (e.g., extreme poverty to 5.3% per revised WB IPL 2022-23; MPI to 11.28% in 2022-23), inequality narrowed via redistributive policies, consumption gains sharpest at bottom deciles (HCES 2023-24), and social protection expanded (e.g., coverage from 22% in 2016 to 64.3% in 2025). Rural focus shifts to community-led initiatives, technology (e.g., digital services, SHGs), infrastructure saturation (Jal Jeevan, electrification, sanitation), and non-farm livelihoods. Social justice enables inclusion for SC/ST/OBC/PwD via targeted support. Challenges remain in sustaining momentum, bridging gaps, and ensuring equitable, environmentally sensitive rural growth amid tech disruption/gig economy. Outlook stresses amplifying local innovation, decentralised economies, and partnerships for meaningful, sustainable progress.

- **Inclusive Growth Framework**

India's inclusive growth strategy is firmly rooted in the guiding principle of "Sabka Saath, Sabka Vikas, Sabka Prayas, Sabka Vishwas," which emphasises collective effort, broad-based development, public participation, and trust-building across all sections of society. Rural areas have emerged as the primary engine of this transformation, propelled by large-scale infrastructure investments that improve connectivity and access, targeted reforms in employment generation programmes, widespread adoption of digital technologies for service delivery and



livelihoods, and strengthened roles for local governments (Panchayati Raj institutions) and community-based organisations. A fundamental shift is underway from centrally designed, top-down schemes to genuinely community-driven initiatives, where local priorities, knowledge, and leadership shape implementation. This participatory approach is intended to make development outcomes more relevant, owned by beneficiaries, equitable, environmentally sustainable, and resilient over the long term.

- **Social Mobility Determinants**

Social mobility, both inter-generational (improvement in status compared to parents) and intra-generational (advancement within a person's lifetime), depends critically on several interconnected factors: access to quality health services and preventive care, equitable and high-quality education including lifelong learning opportunities, widespread diffusion of technology to bridge information and opportunity gaps, availability of decent work with fair wages, safe conditions, and growth prospects, and robust social protection systems backed by inclusive institutions. When these enablers are weak or unevenly distributed, low social mobility becomes entrenched, perpetuating historical inequalities and creating a vicious cycle where high income inequality further suppresses mobility. Government policies across multiple domains are deliberately designed to interrupt this cycle and generate a virtuous one, where improved access to these determinants enables sustained upward movement, reduces inequality over time, and contributes to stronger, more inclusive economic growth.

- **Poverty Reduction Achievements**

India has recorded remarkable progress in poverty alleviation across multiple measurement frameworks. Extreme poverty, using the World Bank's revised international poverty line of \$3 per day (2021 PPP), stood at just 5.3 percent in 2022-23. The share of the population in the lower-middle-income category was 23.9 percent, while multidimensional poverty according to the World Bank's methodology was 15.5 percent. The NITI Aayog's National Multidimensional Poverty Index shows a steep decline from 55.3 percent in 2005-06 to 11.28 percent in 2022-23. Using the older Tendulkar methodology, poverty fell from 21.9 percent in 2011-12 to an estimated 2.3 percent in 2023-24. These reductions have been broad-based, occurring across most states and in both rural and urban areas, reflecting the combined impact of economic growth, targeted welfare transfers, infrastructure expansion, and livelihood diversification.

- **Inequality & Consumption Gains**

Consumption-based inequality has shown a clear declining trend as measured by the Household Consumption Expenditure Survey (HCES) 2023-24. The sharpest growth in Monthly Per Capita Consumption Expenditure (MPCE) has occurred among the bottom 5–10 percent of the population in both rural and urban areas, indicating that gains are accruing disproportionately to lower-income groups. A range of redistributive instruments, including direct benefit transfers (DBT), food and fuel subsidies, old-age pensions, rural employment guarantees, and overall social sector spending, have played a pivotal role in driving these equitable consumption outcomes and narrowing disparities.



- **Social Sector Expenditure**

General government expenditure on social services has maintained a strong upward trajectory, registering a compound annual growth rate (CAGR) of approximately 12 percent between FY22 and the budgeted estimates for FY26. This spending is projected to reach around 7.9 percent of GDP in FY26 (BE). Sustained increases in allocations for education and health have been particularly consistent, reflecting the government's strategic priority on building human capital as a foundation for long-term inclusive growth.

- **Rural Economy Developments**

The rural economy is experiencing a broad-based revival driven by the creation of localised livelihood opportunities, grassroots innovation, and strengthened community institutions. Self-Help Groups under the Deendayal Antyodaya Yojana – National Rural Livelihoods Mission (DAY-NRLM) now cover more than 10 crore women, enabling financial inclusion, collective enterprise, and enhanced bargaining power. Infrastructure coverage has reached near-saturation levels, with 99.6 percent of rural households having access to improved drinking water sources, universal household electrification, and Open Defecation Free Plus (ODF+) status across villages. Non-farm self-employment has risen significantly, diversifying income sources beyond agriculture. Community mobilisation, technology integration (digital payments, e-services, market linkages), and capacity building at the grassroots level remain the key drivers of this structural shift toward a more resilient and productive rural economy.

- **State Innovations & Good Practices**

Several states have developed innovative, context-specific models that demonstrate scalable pathways for poverty graduation and vulnerability reduction. Bihar's Satat Jeevikoparjan Yojana exemplifies the "Graduation approach," providing sequenced support, including asset transfers, training, hand-holding, and market linkages, to ultra-poor women to enable sustainable livelihoods. Kerala has implemented comprehensive systems for identifying and addressing multiple dimensions of vulnerability at the local level. States that started with higher initial levels of multidimensional poverty have generally recorded larger absolute reductions, underscoring the effectiveness of focused, high-intensity interventions in poorer regions.

- **Social Justice & Inclusion**

Targeted affirmative action and support programmes continue for persons with disabilities (PwD), including economic and entrepreneurial assistance, digital and technological empowerment, skill development, and barrier-free access provisions. Similar focused efforts address the needs of Scheduled Castes (SC), Scheduled Tribes (ST), Other Backward Classes (OBC), and other marginalised groups through scholarships, reservations, hostels, livelihood schemes, and legal safeguards. These measures aim to dismantle structural barriers and create enabling environments for socio-economic advancement. Protections for workers in the gig and platform economy, including social security and grievance mechanisms, are also being strengthened (as discussed in detail in Chapter 12).



## A. Progress in State-wise Incidence of Multidimensional Poverty (Headcount Ratio, per cent | 2015–16 to 2022–23)

### Overall Trend

- The incidence of multidimensional poverty has declined sharply across all states between 2015–16 and 2022–23.
- States that earlier recorded high poverty levels show substantial reductions over the period.
- The colour shift from red/orange to green/yellow indicates broad-based improvement.

### Situation in 2015–16

- Several large states recorded high multidimensional poverty headcount ratios:
  - Bihar (51.9%), Jharkhand (41.1%), Uttar Pradesh (37.6%), Madhya Pradesh (36.6%), Chhattisgarh (29.9%).
- Eastern and central India had concentrated poverty pockets.
- Southern states and some northern hill states showed relatively lower poverty incidence.

### Situation in 2022–23

- Multidimensional poverty levels declined significantly in most states:
  - Bihar reduced to 26.6%
  - Uttar Pradesh to 17.4%
  - Madhya Pradesh to 15.0%
  - Jharkhand to 8.6%
- Many southern states now record single-digit poverty rates:
  - Tamil Nadu (1.4%)
  - Kerala (3.8%)
  - Karnataka (5.7%)
  - Telangana (4.2%)
- Several northern states moved into low-poverty categories (below 10%).

### Regional Patterns

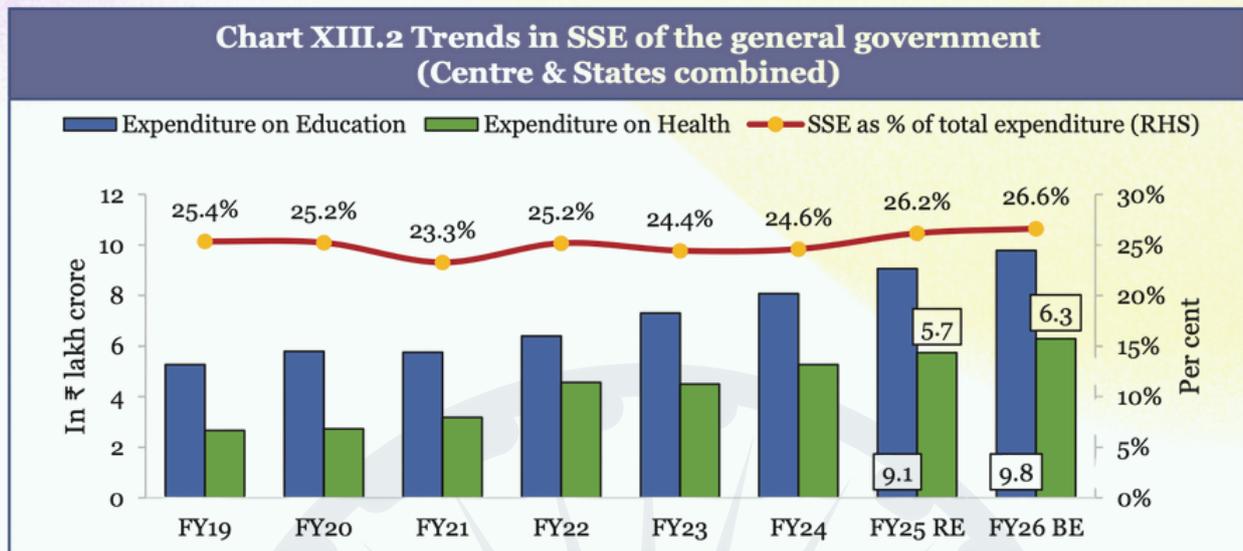
- Central and eastern states, though still relatively higher than others, show the largest absolute reductions.
- Southern and western states exhibit consistently low poverty incidence by 2022–23.
- The inter-state disparity in poverty levels has narrowed over time.

### Key Takeaways from the Comparison

- The decline is not limited to a few states but is visible nationwide.
- High-population states account for a large share of the overall poverty reduction.
- The maps reflect structural improvements across health, education, and living standards, which are dimensions captured by the multidimensional poverty index.



**B. Chart on Expenditure as Percentage of GDP  
(Social Sector Expenditure - SSE, Education, and Health)**



- This bar + line chart tracks general government expenditure (Centre + States) on education, health, and overall social services (SSE) as a percentage of GDP from FY19 to FY26 (BE).
- **SSE (red line with markers):** Shows a fluctuating but upward trend post-FY22. Starts at ~6.8% in FY19–FY20, rises to 7.5–7.6% in FY21, dips to ~7.0% in FY24–FY25 (RE), then recovers to 7.7% in FY25 (RE) and reaches 7.9% in FY26 (BE). This reflects sustained priority on social spending despite fiscal pressures, with a CAGR of ~12% in absolute terms since FY22.
- **Education expenditure (blue bars):** Relatively stable around 2.7–2.9% of GDP across the period. Peaks at 2.9% in FY20–FY21, dips slightly to 2.7% in most recent years, and remains at 2.7% in FY26 (BE). Indicates consistent but modest allocation relative to overall SSE.
- **Health expenditure (green bars):** Shows gradual improvement, starting at 1.4% in FY19–FY20, rising to 1.9% in FY22, then stabilising around 1.7–1.8% in later years (1.8% in FY26 BE). The increase highlights post-pandemic focus on health infrastructure and schemes like Ayushman Bharat.
- Key takeaway: SSE has risen to ~7.9% of GDP in FY26 (BE), driven by health gains and steady education spending, underscoring human capital investment for inclusive rural/social progress.



### C. Urban-Rural Gaps in Child Nutrition (NFHS-5, 2019-21)

- The bar chart compares the percentage of children under 5 years in urban (blue) vs. rural (orange) areas across four indicators: stunted, wasted, underweight, and overweight.
- **Stunted** (low height-for-age): Rural 37.3% vs. Urban 30.1% , clear rural disadvantage (~7.2 percentage point gap), indicating chronic undernutrition higher in villages.
- **Wasted** (low weight-for-height): Rural 19.5% vs. Urban 18.5% , small rural gap (~1 point), acute malnutrition similar but slightly worse rurally.
- **Underweight** (low weight-for-age): Rural 33.8% vs. Urban 27.3% , significant rural gap (~6.5 points), reflecting combined acute/chronic issues.
- **Overweight** (high weight-for-height): Rural 3.2% vs. Urban 4.2% , reverse pattern, with urban children slightly more prone to overweight (emerging double burden).
- Key takeaway: Persistent rural-urban divide in undernutrition (stunting/underweight higher rurally), but overweight/obesity emerging more in urban areas; highlights need for targeted rural nutrition interventions amid double burden of malnutrition.

### D. Reforming MGNREGA for Viksit Bharat

- This section contrasts old MGNREGS with new Viksit Bharat Guarantee for Rozgar and Aajeevika Mission (Gramin) Act 2025 (VB G-RAM G).
- **Days of employment:** MGNREGS , 100 days per household; VB G-RAM G , 125 days guaranteed (increased entitlement).
- **Focus of works:** MGNREGS , multiple/scattered categories with limited strategic focus; VB G-RAM G , four priority areas (water security, rural infrastructure, livelihoods, climate resilience/extreme weather mitigation).
- **Unemployment Allowance:** MGNREGS , payable if not provided, but with disentanglement clause; VB G-RAM G , clearer accountability, disentanglement clauses removed for stronger rights-based approach.
- **Pause window:** MGNREGS , no explicit statutory provision; VB G-RAM G , states can notify up to 60-day pauses during peak sowing/harvesting to avoid labour shortage for agriculture.
- **Funding approach:** Both demand-driven, but VB G-RAM G adds state-wise normative allocations based on objective parameters for equity/fairness/balanced regional development.
- **Local planning:** Both Gram Panchayat-centric, but VB G-RAM G emphasises decentralised, participatory, bottom-up planning via Gram Sabha-led Viksit GP plans with convergence and infrastructure integration.
- Key takeaway: The reform modernises MGNREGA by extending days, sharpening focus on climate/resilience, enhancing accountability/rights, and aligning with agricultural seasons for better rural livelihood support.



## E. NRLM – Empowering Rural Communities (From SHGs to Lakhpati Didis)

- Survey highlights Deendayal Antyodaya Yojana – National Rural Livelihoods Mission (DAY-NRLM) achievements in women empowerment and rural enterprises.
- **1.49 lakh 'Bank Sakhi' women:** Delivering financial services at grassroots.
- **3.95 lakh new rural businesses:** Drive non-farm enterprises.
- **Social inclusion:** Driven by 5,500 Gender Resource Centres & 35 lakh Gender Point Persons.
- **Saras & Aajeevika Brand:** Path to 3 crore Lakhpati Didis via marketing support, dedicated stores, e-commerce tie-ups.
- **9 lakh trained CRPs:** Help with livelihood, health, market interventions.
- **Enhanced connectivity:** Under Aajeevika Express Yojana.
- Key takeaway: NRLM has scaled women's SHGs into powerful economic agents (>10 crore women covered), promoting financial inclusion, non-farm livelihoods, gender equity, and the 'Lakhpati Didi' vision for prosperous rural women.

### Way Forward

The chapter triumphantly charts dramatic poverty declines and rural gains as evidence of inclusive success, yet it risks over-optimism by downplaying persistent structural vulnerabilities, regional disparities in MPI reductions, rural-urban consumption gaps (still -70%), informal sector dominance, climate/agricultural risks to livelihoods, and implementation inconsistencies in community-driven models. While redistributive spending and schemes like DAY-NRLM/SJY are lauded, deeper challenges in skill mismatches, gig precarity, and ensuring quality over quantity in social protection remain under-emphasised. Without bolder decentralisation, fiscal sustainability at state levels, climate-resilient rural strategies, and rigorous outcome monitoring beyond headcount ratios, these gains could plateau or reverse, undermining the shift from participation to true partnership and threatening Viksit Bharat's vision of equitable, sustainable prosperity by 2047.



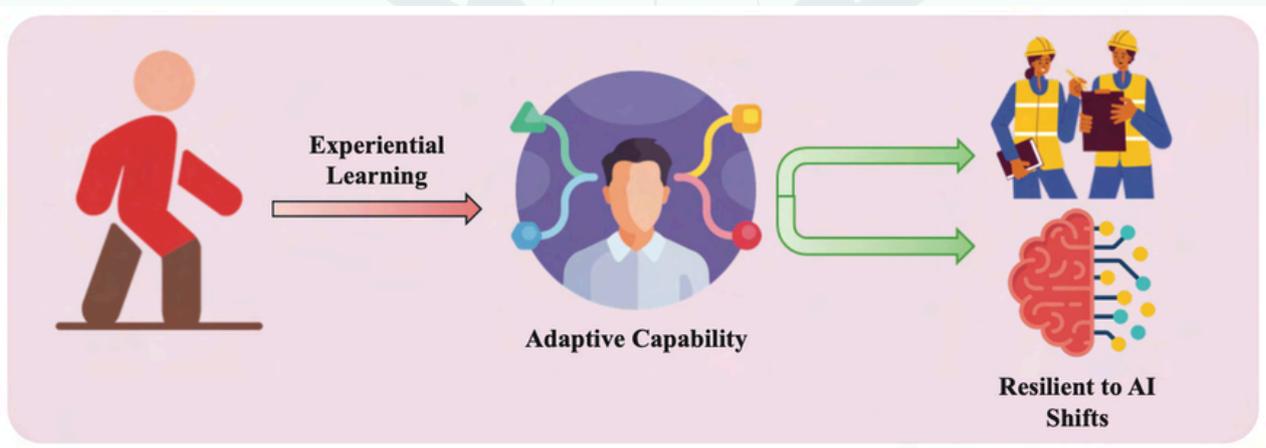
# Chapter 14

## EVOLUTION OF THE AI ECOSYSTEM IN INDIA: THE WAY FORWARD

The Economic Survey positions India at a pivotal moment in the global AI landscape, driven by its unprecedented digital scale of nearly 1 billion connected individuals through wireless and broadband networks, generating massive volumes of human-generated data that can act as a core factor input for AI development.

### Human Capital for AI: Building a Future-Ready Workforce

- The Survey argues that preparing India's workforce for AI requires reimagining education-to-work transitions through flexible, integrated, and credit-bearing pathways that begin early, linking high school education with earn-and-learn models such as apprenticeships and project-based work, and culminating in university-level qualifications that embed real-world experience.
- Recognising that AI adoption will reshape labour demand unevenly, the chapter highlights the need to address skill shortages in high-potential, understaffed sectors such as metalwork, early childhood education, culinary arts, and other hands-on professions, where human-centric expertise complements automation rather than competes with it.
- The Survey emphasises a future-ready workforce model that prioritises experiential learning, adaptability, and resilience, enabling workers to continuously reskill and remain productive amid rapid AI-driven shifts, rather than relying solely on narrow cognitive or credential-based specialisation.



## Data as a Strategic Resource: India's AI-Era Framework

### India's Digital Scale as a Global Advantage

- With nearly one billion digitally connected citizens, India possesses a uniquely large and diverse pool of human-generated data across sectors such as healthcare, education, agriculture, and governance, positioning data as a strategic national asset critical for training context-specific AI models.

### Three Core Objectives of the Data Localisation Framework



- The Survey outlines three guiding objectives for India's data governance approach: preserving openness to global innovation and investment flows, ensuring oversight through auditability and transparency, and retaining domestic value by building India's own AI capabilities rather than exporting raw data value abroad.
- It highlights that sectoral data generated domestically, particularly in healthcare, education, and agriculture, can significantly improve AI model relevance for India's developmental challenges, while also helping bridge skill gaps, raise worker productivity, and support bottom-up problem solving.

### Incentive-Based Regulation for Data and AI

- Instead of restrictive mandates, the Survey advocates menu-based compliance options that encourage firms to contribute to domestic value creation through mechanisms such as local training of AI models, running upskilling programmes, and financial contributions towards domestic research and development.
- The proposed regulatory approach focuses on positive incentives, where firms contributing to domestic AI capacity benefit from reduced audits, faster regulatory clearances, and preferential access to government datasets, while the state leverages its role as a data steward to shape innovation outcomes.

## Navigating Trade-Offs in India's AI Ecosystem

- The Survey highlights a key policy trade-off between concentrating resources in frontier AI development, typically dominated by a few firms with advanced capabilities and scale, versus promoting AI applications, which involve a more diverse set of firms delivering sector-specific solutions aligned with local needs.
- Rapid AI scale-up can deliver cost reductions and productivity gains, but may also lead to slower diffusion and limited labour absorption, prompting the Survey to stress the importance of balancing productivity enhancements with inclusive adoption that augments rather than displaces workers.
- While proprietary AI models provide incentives to innovate and push technological frontiers, open-source systems enable shared innovation, faster adaptation, and wider participation, requiring policy choices that balance competitive advantage with ecosystem openness.
- The chapter notes the efficiency of large, centralised data centres in supporting powerful AI models, while also recognising the growing relevance of small, decentralised models and local compute for energy efficiency, resilience, and context-specific deployment.
- Finally, the Survey underscores the trade-off between regulation, which imposes fixed compliance costs but strengthens safety and trust, and innovation, which thrives on speed and diffusion but carries risks of misuse, making calibrated, adaptive regulation essential for sustaining long-term AI growth.

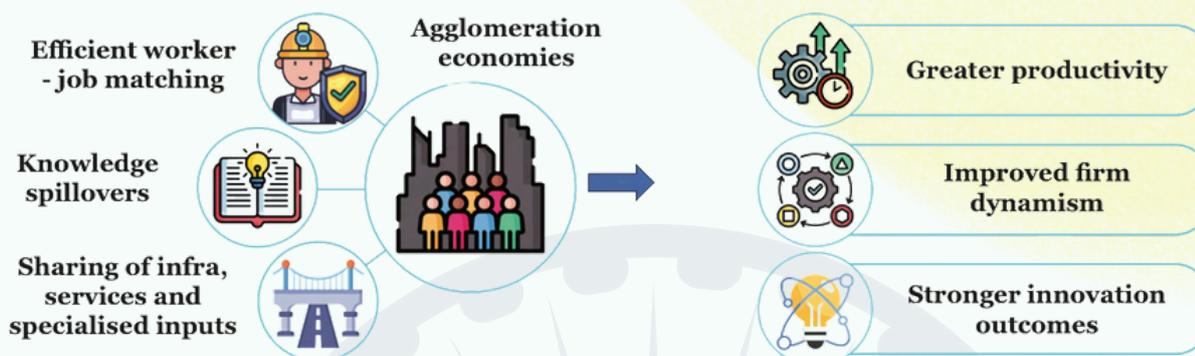
### Key Takeaway

- The Economic Survey concludes that India's AI strategy must be grounded in human capital development, strategic data governance, and incentive-based regulation, while carefully navigating trade-offs between scale, inclusion, openness, and safety to ensure that AI-driven growth remains both globally competitive and domestically transformative.

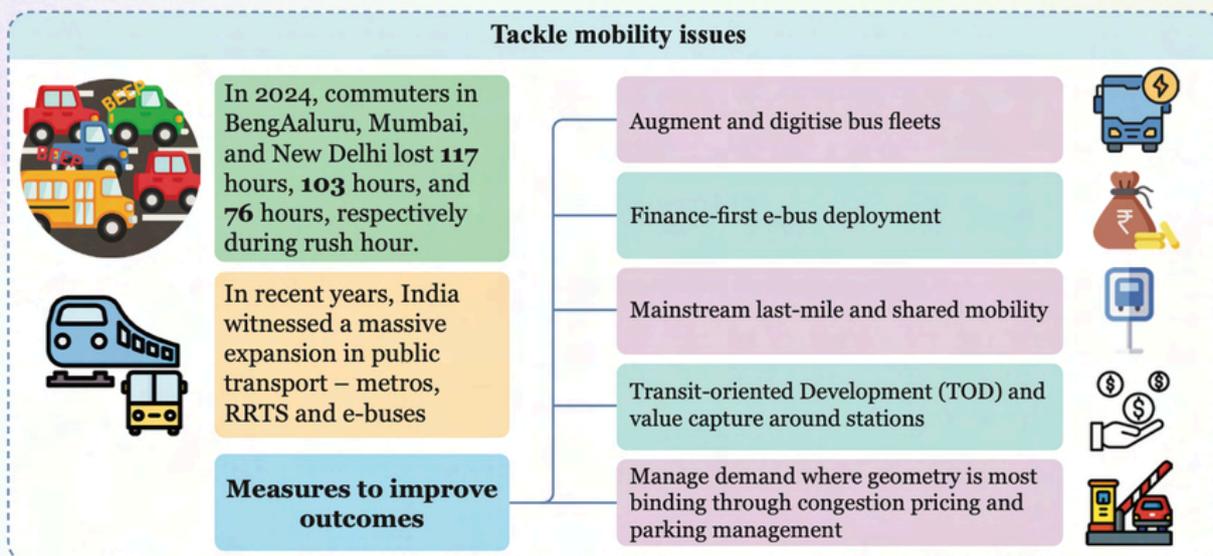
# Chapter 15

## URBANISATION:

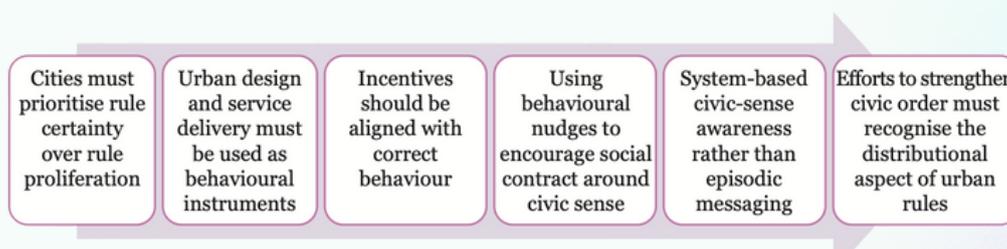
### MAKING INDIA'S CITIES WORK FOR ITS CITIZENS



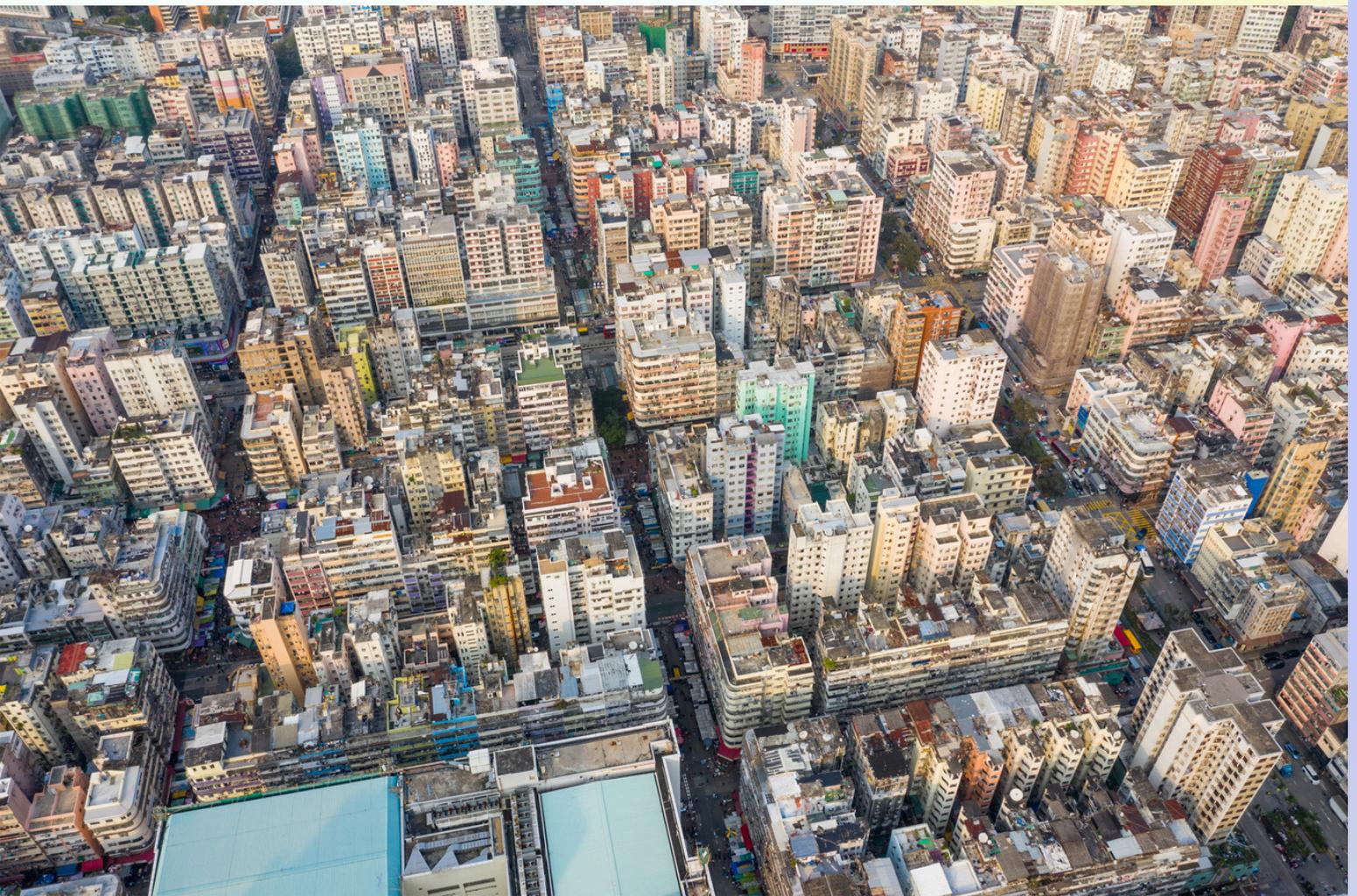
- India's urbanisation trajectory is increasingly central to its economic future, as cities concentrate labour, capital, and innovation, but the Economic Survey stresses that the focus must shift from managing urban expansion to ensuring cities function efficiently for citizens through better land use, mobility, governance, and civic behaviour.
- The Survey highlights that agglomeration economies—arising from efficient worker–job matching, knowledge spillovers, and the sharing of infrastructure and specialised inputs—drive higher productivity, stronger firm dynamism, and improved innovation outcomes, provided urban density is well managed through supportive policy frameworks.
- A major constraint identified is India's low land productivity, with Floor Space Index (FSI) levels across Indian cities significantly lower than those in global cities such as New York, Shanghai, and Singapore, leading to horizontal urban sprawl, longer commuting distances, and higher infrastructure costs.
- To address this, the Survey emphasises the need to unlock land productivity by increasing FSI at scale across cities, improving land titling and transaction ease through measures such as the National Generic Document Registration System, and reducing development control regulations alongside parallel investments in mobility, sanitation, and waste management.
- Urban congestion has emerged as a major economic cost, with data from 2024 showing that commuters in Bengaluru lost 117 hours annually during peak hours, compared to 103 hours in Mumbai and 76 hours in New Delhi, underscoring the urgency of mobility reforms.
- While India has made significant progress in expanding public transport infrastructure through metros, regional rapid transit systems, and electric buses, the Survey calls for integrated mobility solutions including the augmentation and digitisation of bus fleets, finance-first deployment of e-buses, and mainstreaming of last-mile and shared mobility.
- The chapter further recommends Transit-Oriented Development (TOD) and value capture mechanisms around transit stations, along with demand-side measures such as congestion pricing and parking management, to improve travel efficiency where road geometry imposes binding constraints.



- In urban waste management, the Survey documents substantial improvements, noting that door-to-door municipal solid waste collection, which was negligible in 2014–15, now covers 98 per cent of urban wards in 2024–25, supported by a national fleet of approximately 2.5 lakh waste collection vehicles.
- Technological integration has strengthened service delivery, with GPS-enabled waste collection vehicles and integrated command centres operational in many cities to monitor collection routes and improve efficiency.
- Waste processing capacity has increased sharply over the past decade, rising from 16 per cent in 2014–15 to 80 per cent in 2024–25, reflecting sustained investments in urban waste infrastructure.
- The experience of Indore, India’s cleanest city, is highlighted as a case study in behavioural change, demonstrating how reinforcing waste segregation practices, ensuring leadership buy-in, enforcing strict penalties, and mobilising religious leaders, local influencers, and school students can shift public attitudes towards cleanliness.
- The Survey underscores that developing social order and civic sense is as critical as building physical infrastructure, advocating for rule certainty over rule proliferation and the use of urban design and service delivery as behavioural instruments.
- It recommends aligning incentives with correct civic behaviour, deploying system-based behavioural nudges rather than episodic awareness campaigns, and embedding civic-sense awareness into everyday urban services.
- Importantly, the chapter recognises that efforts to strengthen civic order must account for the distributional impacts of urban rules to ensure fairness and inclusivity across different social and economic groups.



- Looking ahead, the Survey broadens the conception of urban success by emphasising non-tangible dimensions such as treating time as a central urban resource, designing streets as social infrastructure, encouraging creative density, and integrating informal economic systems into formal urban planning.
- The chapter concludes that India's growth story will increasingly be shaped by its cities, and that coordinated reforms across land, mobility, governance, and behavioural domains are essential to building productive, liveable, and citizen-centric urban centres.





# Chapter 16

## (Part 1)

### FROM IMPORT SUBSTITUTION TO STRATEGIC RESILIENCE AND STRATEGIC INDISPENSABILITY

The Survey marks a conceptual departure from conventional growth diagnostics, arguing that macroeconomic stability is no longer India's binding constraint. India enters the second half of the 2020s with:

- Potential growth shifting towards 7.0%;
- Capital formation exceeding 30% of GDP,
- A healthy banking system and robust credit intermediation;
- A manageable current account deficit, ample forex reserves and strong remittance inflows.

Yet, the Survey contends that in a world defined by geopolitical fragmentation, strategic trade, volatile capital flows and rapid technological disruption, the decisive variable is now the depth and quality of state capacity, not macroeconomic management alone.

- The central analytical move is to reframe India's development challenge as a transition:
  - from import substitution;
  - to strategic resilience; and ultimately
  - to strategic indispensability - a state in which India becomes a source of reliability and value for the global system rather than merely a shock-absorber.

#### ***A Changing Global Order: Why the Old Growth Model No Longer Suffices***

- The Survey locates today's uncertainty within a longer arc of global disruption:
  - The collapse of the TMT and internet bubble (early 2000s);
  - China's WTO accession and subsequent manufacturing dominance;
  - The Global Financial Crisis of 2008 and prolonged monetary accommodation in advanced economies.
- Prolonged ultra-loose monetary policy led to what Alberto Gallo termed the '**QE Infinity Trap**', where liquidity inflated asset prices without stimulating productive investment.
- COVID-19 further amplified global debt, social disaffection, and political instability, accelerating the erosion of the post-Cold War economic order.
- Trade has shifted from multilateralism to bilateralism and export licensing, with beggar-thy-neighbour policies becoming increasingly common.

The Survey persuasively argues that globalisation as a neutral, rule-based system has ended, forcing countries like India to rethink openness not as an article of faith but as a strategic choice.

## ***Technology, Energy, and New Strategic Scarcities***

- The global bet on AI is reshaping energy and resource demand:
  - Data-centre electricity consumption is projected to rise sharply across regions
  - Copper prices surged by nearly 20% in 2025 due to AI-related demand.
- The US Pax Silica initiative and the GENIUS Act (July 2025) reflect a strategic push to dominate AI ecosystems and digital currencies, with potential spillovers for EMDE capital flows.
- These developments extend strategic vulnerability beyond rare earths and semiconductors to basic industrial metals and energy systems.

The Survey strength lies in recognising that future supply shocks may arise from ‘ordinary’ inputs, challenging India’s traditional understanding of strategic sectors.

## ***India’s External Stability: Resilient, but Structurally Constrained***

- India has managed external accounts prudently:
  - Rising foreign exchange reserves;
  - Manageable external debt;
  - No systemic crises in recent years.
- However, the source of stability matters:
  - External financing has relied heavily on portfolio flows and debt inflows, which are inherently reversible;
  - Persistent goods trade deficits, only partially offset by services exports and remittances, make India dependent on capital inflows.
- In FY25-26, high market valuations, US tariff actions and geopolitical signals triggered portfolio outflows that FDI inflows could not fully offset.
- Currency depreciation, thus, remains the primary adjustment mechanism under stress.

The Survey indicates a hard constraint: without sustained manufacturing export capability, macroeconomic buffers can smooth volatility but not eliminate vulnerability.

## ***The Case for Disciplined Swadeshi: Beyond Ideology***

Swadeshi is reframed not as autarky, but as a strategic instrument in a world of export controls, technology denial and carbon border measures. The Survey explicitly rejects blanket import substitution, noting India’s own history where protection bred complacency and inefficiency. Import substitution is justified only when:

- Domestic production is feasible but blocked by coordination failures;
- Protection is temporary, time-bound, and performance-linked;
- Export discipline is built into the support framework;
- The good is strategically critical despite cost disadvantages.

Permanent protection, inverted duty structures, and sheltering poor-quality producers are identified as pathways to fragility, not strength.

### ***A Tiered Framework for Strategic Indigenisation***

The Survey introduces a **three-tier framework** to discipline indigenisation:

#### **Tier I: Critical Vulnerabilities**

- Goods with concentrated global supply and high strategic urgency (e.g., fertiliser inputs, APIs, power electronics, telecom equipment).
- Objective: Assured availability under stress, not short-term efficiency.
- Policy stance: Demand assurance, procurement alignment, standards and time-bound support.

#### **Tier II: Economically Feasible Capabilities**

- Sectors where domestic production is viable but impeded by scale or coordination failures (e.g., industrial machinery, EV drivetrains, non-critical medical devices).
- Objective: Competitiveness upgrading and export readiness.
- Support must be conditional on productivity, cost convergence and export exposure.

#### **Tier III: Low Strategic Urgency / High-Cost Substitution**

- Goods with diversified global supply or high domestic substitution costs.
- Strategy: Restraint, diversification, inventory buffers rather than localisation.

The framework explicitly acknowledges that restraint itself is a form of strategic discipline, a nuance often absent in industrial policy debates.

#### ***Input Costs as Economic Infrastructure***

- The Survey identifies input costs - raw materials, intermediates, energy, logistics and compliance - as systemic constraints on competitiveness.
- Tariff inversion is highlighted as a key distortion that penalises downstream producers and discourages deep value addition.
- A National Input Cost Reduction Strategy is proposed, treating input prices as infrastructure-like variables with economy-wide effects.
- The logic is rule-based:
  - Widely used inputs should not be protected once domestic capacity exists;
  - Protection that raises downstream costs without strategic justification should be rationalised.

This shifts the policy lens from protecting producers to empowering value chains, aligning resilience with export competitiveness.

## ***Manufacturing as a Disciplining System***

- Advanced manufacturing is presented not merely as a growth engine, but as an institutional stress test:
  - It exposes weaknesses in logistics, standards, regulation, skills and dispute resolution.
- Unlike sheltered sectors, manufacturing survival depends on execution, reliability and global benchmarks, not negotiation or discretion.
- Learning is emphasised as cumulative and conditional:
  - Early inefficiency is acceptable;
  - Permanent shelter is not.
- Services-led growth, while successful, cannot substitute for manufacturing due to:
  - Lower employment absorption;
  - Weaker backward linkages;
  - Limited ability to anchor physical supply chains.

## ***East Asia Revisited: The Institutional Lesson***

- The Survey distils East Asia's experience into institutional principles:
  - **Japan:** Outcome-oriented bureaucracy with failure tolerance.
  - **South Korea:** Ruthless withdrawal of support for underperformers.
  - **Singapore:** Regulatory flexibility combined with strict enforcement.
  - **Vietnam:** Relentless cost reduction and institutional learning.
- The common thread is the entrepreneurial state:
  - Willing to experiment;
  - Tolerant of failure;
  - Credible in exiting from failed bets.

Without institutional reform, similar-looking policies in India risk producing radically different, and inferior, outcomes.

## ***From Resilience to Indispensability: A Strategic Escalation***

- The Survey formalises the conceptual progression:
  - Import Substitution → Strategic Resilience → Strategic Indispensability.
- Strategic indispensability is defined as embedding India into global systems such that:
  - Supply chains cannot function smoothly without India,
  - Indian exports are trusted by default,
  - India gains influence without coercion.
- The Asia Power Index 2025 reveals India's negative Power Gap:
  - Despite major-power status, India ranks lower in economic relationships, indicating under-translation of resources into influence.

## ***Manufacturing Exports and Currency Strength***

- Import growth is inevitable with rising incomes, as illustrated by China's experience.
- Currency strength is not created by monetary policy alone but by:
  - Reliable export earnings;
  - Productive external assets;
  - Reduced dependence on volatile capital inflows.
- India's currency remains structurally soft because manufacturing exports have not yet scaled sufficiently to offset goods imports.
- Services exports, while impressive, are necessary but insufficient to anchor long-term external strength.

## ***Global Value Chains as the Route to Indispensability***

- Nearly half of developed-country imports from China originate from supply chains of about 50 multinational firms.
- Attracting such firms is not about prestige but ecosystem formation:
  - Suppliers follow anchor firms;
  - Skills deepen;
  - Standards rise;
  - Exports become endogenous.
- FDI quality matters as much as quantity; anchor investors accelerate capability formation and currency resilience.

## **Conclusion**

The Survey makes a forceful case that Aatmanirbhar Bharat must evolve from a defensive doctrine to a strategy of confident global integration. Import substitution is only the starting point; strategic resilience is necessary but insufficient. The ultimate objective is strategic indispensability, where India becomes a node others cannot bypass. This transition demands:

- Disciplined, time-bound industrial policy;
- Systematic input-cost reduction;
- Manufacturing-led export capability;
- An entrepreneurial state capable of learning, enforcing discipline and exiting failed bets.

The Survey's core warning is stark: without institutional alignment between intent and execution, Swadeshi risks degenerating into protectionism. Conversely, if aligned, it can become the foundation for India's emergence as a source of global stability and opportunity in a fractured world.

The Survey reframes development not as growth alone, but as the ability to shape interdependence. Whether India can complete this transition will depend less on slogans and more on its willingness to reimagine the state itself.

# Chapter 16

## (Part 2)

### BUILDING STRATEGIC RESILIENCE AND STRATEGIC INDISPENSABILITY: THE ROLE OF THE STATE, THE PRIVATE SECTOR AND THE CITIZENS

The Survey shifts the analytical focus from what India should do (industrial strategy, resilience, indispensability) to how it can be done, arguing that state capacity, rather than policy intent or resource availability, is now the binding constraint. It establishes India at a historically distinct juncture: a large democracy that has achieved macroeconomic stability and sustained growth, but now operates in a fragmented, high-uncertainty global order where execution, coordination and credibility matter more than policy declarations.

Strategic resilience and strategic indispensability, therefore, are presented not merely as economic outcomes but as institutional achievements, co-produced by the State, the private sector, and citizens. The Survey's central thesis is that incentive structures, accountability frameworks and behavioural norms, rather than the absence of ideas, now determine India's developmental ceiling.

#### ***Re-conceptualising State Capacity: From Intent to Execution***

- State capacity is defined not as the size of government or fiscal resources, but as the ability of the State to '**get the right things done**', spanning policy design, implementation and delivery.
- Weak outcomes are attributed less to policy failure and more to institutional incentives that penalise risk-taking and learning.
- The Survey identifies a systemic bias towards:
  - Procedural correctness over problem-solving;
  - Retrospective scrutiny over ex-ante judgement;
  - Compliance metrics over long-term capability creation.
- This results in bureaucratic risk aversion, where inaction becomes safer than action under uncertainty.

The Survey implicitly challenges the conventional reform narrative that focuses on '**more reforms**', arguing instead for better institutional alignment between incentives, uncertainty, and accountability.

## ***Why Entrepreneurial Governance Is Institutionally Hard***

- The Survey argues that entrepreneurial governance is incompatible with systems that treat all failure as culpability.
- India's institutional environment exhibits '**irreversibility creep**', where:
  - Temporary measures become permanent;
  - Pilot interventions harden into entitlements;
  - Officials avoid experimentation to escape future scrutiny.
- Comparative experience (Japan, Korea, Singapore) shows that successful states created bounded institutional spaces where:
  - Experimentation was allowed;
  - Accountability rules were differentiated;
  - Learning was prioritised over blame.
- For India, proposed mechanisms include:
  - Mission-based cells;
  - Regulatory sandboxes beyond fintech;
  - Legal protection for good-faith decisions;
  - Ex-post review mechanisms focused on learning.

The Survey is candid in acknowledging that entrepreneurial governance cannot be system-wide, but must be selectively enabled within legally and institutionally bounded domains.

## ***Accountability, Democracy, and the Architecture of Learning***

- Democratic governance adds complexity: political leadership is responsive but short-horizon; bureaucracy provides continuity but risks insularity.
- The Survey stresses a division of labour:
  - Political leadership sets direction;
  - Bureaucracy discovers pathways and adapts instruments;
  - Institutions must absorb error without collapsing into paralysis or permissiveness.
- Effective accountability should:
  - Judge decisions based on information available at the time;
  - Clearly distinguish good-faith error from malfeasance;
  - Penalise inertia as visibly as misconduct.
- Without such recalibration, institutions drift toward delay as a defensive strategy.

## ***Hysteresis and Policy Reversibility: The Hidden Risk***

- The Survey introduces hysteresis as a core institutional risk: when policies become politically or legally irreversible, experimentation disappears.
- Subsidies, protection regimes, exemptions and discretionary approvals are especially prone to this dynamic.

- The Survey proposes three design principles to preserve reversibility:
  - Staffing: small, stable, analytically capable teams insulated from routine policing.
  - Processes: sunset clauses, staged scaling, mandatory post-implementation reviews.
  - Mindsets: valuing transparent course correction over rigid consistency.

The core warning is explicit: a state that cannot reverse cannot learn; a state that cannot learn cannot adapt.

### ***Transparency, RTI, and the Costs of Over-Disclosure***

- The Survey offers a rare critical examination of the RTI Act, acknowledging its democratic importance while highlighting unintended consequences.
- India's RTI regime is among the most expansive globally, with limited protection for:
  - Internal deliberations;
  - Draft notes;
  - Policy brainstorming.
- Comparative evidence from the UK, US, Sweden and the World Bank shows stronger safeguards for candid internal discussion.
- The Survey does not argue for dilution, but for re-balancing transparency with decision-making effectiveness, so accountability focuses on final decisions rather than preliminary thought processes.

The Survey raises a politically sensitive but analytically rigorous point: maximum transparency is not synonymous with maximum governance capacity.

### ***Organisational Design and Outcome Ownership***

- State capability is shown to depend critically on how responsibilities and authority are organised.
- Purely functional structures struggle in complex, interdependent missions due to:
  - Diffused accountability;
  - Blurred priorities;
  - Weak feedback loops.
- The Survey advocates:
  - Mission-oriented and cluster-based structures;
  - Clear ownership of outcomes, even when actions are distributed.
- Private-sector analogies (divisional and matrix structures) are used to show that coordination works only when accountability is clearly located.
- The State Support Mission of NITI Aayog is cited as an institutional attempt to strengthen state-level capacity through SITs and knowledge partnerships.

### ***State Capacity as a Human System: Mission Karmayogi***

- The Survey emphasises that institutions act through individuals; therefore, state capability is also a human and cultural system.
- Mission Karmayogi is positioned as a response to:
  - Legacy command-and-control administrative structures;
  - Citizen expectations for responsiveness and fairness;
  - The need for judgement, ethics, and systems thinking in governance.
- Key features highlighted:
  - Continuous learning and competency mapping;
  - Flexibility in team formation;
  - Emphasis on citizen-centric service and feedback loops.

The programme is explicitly grounded in civilisational values of duty, service, unity, seeking an Indian pathway to administrative reform rather than wholesale institutional transplantation.

### ***Regulatory Capacity: Design over Discretion***

- Regulation is treated as a core component of state capacity, not a peripheral function.
- Regulators exercise quasi-legislative, executive and judicial powers, making institutional design critical to legitimacy.
- The Survey outlines principles of regulatory capacity:
  - Clear separation between regulations and guidance;
  - Internal separation of rule-making, enforcement, and adjudication;
  - Strong, independent governing boards;
  - Proportional enforcement and due process;
  - Democratic anchoring through transparency and parliamentary oversight.
- The Survey argues for:
  - Single-tier approvals;
  - Statutory timelines;
  - Deemed approvals (as under competition law);
  - Accountability for regulatory delay, recognising the time value of money.

### ***The Private Corporate Sector: From Rent-Seeking to Nation-Building***

- The Survey offers a candid critique of Indian corporate behaviour:
  - Preference for regulatory arbitrage and protected margins;
  - Short capital horizons;
  - Low R&D intensity and limited appetite for frontier manufacturing.
- Such behaviour weakens demand for rule-based institutions and perpetuates discretion.
- The Survey contrasts this with historical precedents where firms internalised national purpose (post-war US, Germany, Japan, East Asia).

- The argument is not moralistic but structural: productive, globally competitive firms act as forcing mechanisms for higher state capacity.
- Strategic resilience requires a corporate sector to invest in skills and technology, accept long gestation periods and compete at global standards rather than seek protection.

### ***Citizens, Norms, and the Social Foundations of Capability***

- The Survey extends state capacity beyond institutions to everyday citizen behaviour.
- Enforcement-heavy governance is costly; internalised norms reduce administrative burden.
- Issues highlighted are weak ethic of the commons; preference for short-term convenience over system reliability; and difficulty with delayed gratification.
- The Survey links personal discipline; care for public spaces; respect for rules; and lifelong learning - to the ability of large systems (ports, logistics, cities) to function reliably.
- Development is framed as co-produced, occurring in homes, workplaces and communities - not only in ministries.

### ***Delayed Gratification and Long-Horizon Capability***

- Sustained competitiveness requires acceptance of near-term costs for uncertain future returns.
- The Survey argues that as economies mature, reliability matters more than ingenuity and reliability cannot be legislated; it must be culturally internalised.
- Where delayed gratification erodes, institutions compensate with enforcement, slowing progress and raising friction.

### ***Conclusion***

The Survey advances a profound shift in India's development discourse: strategic resilience and indispensability are not policy artefacts but institutional and societal achievements. India must:

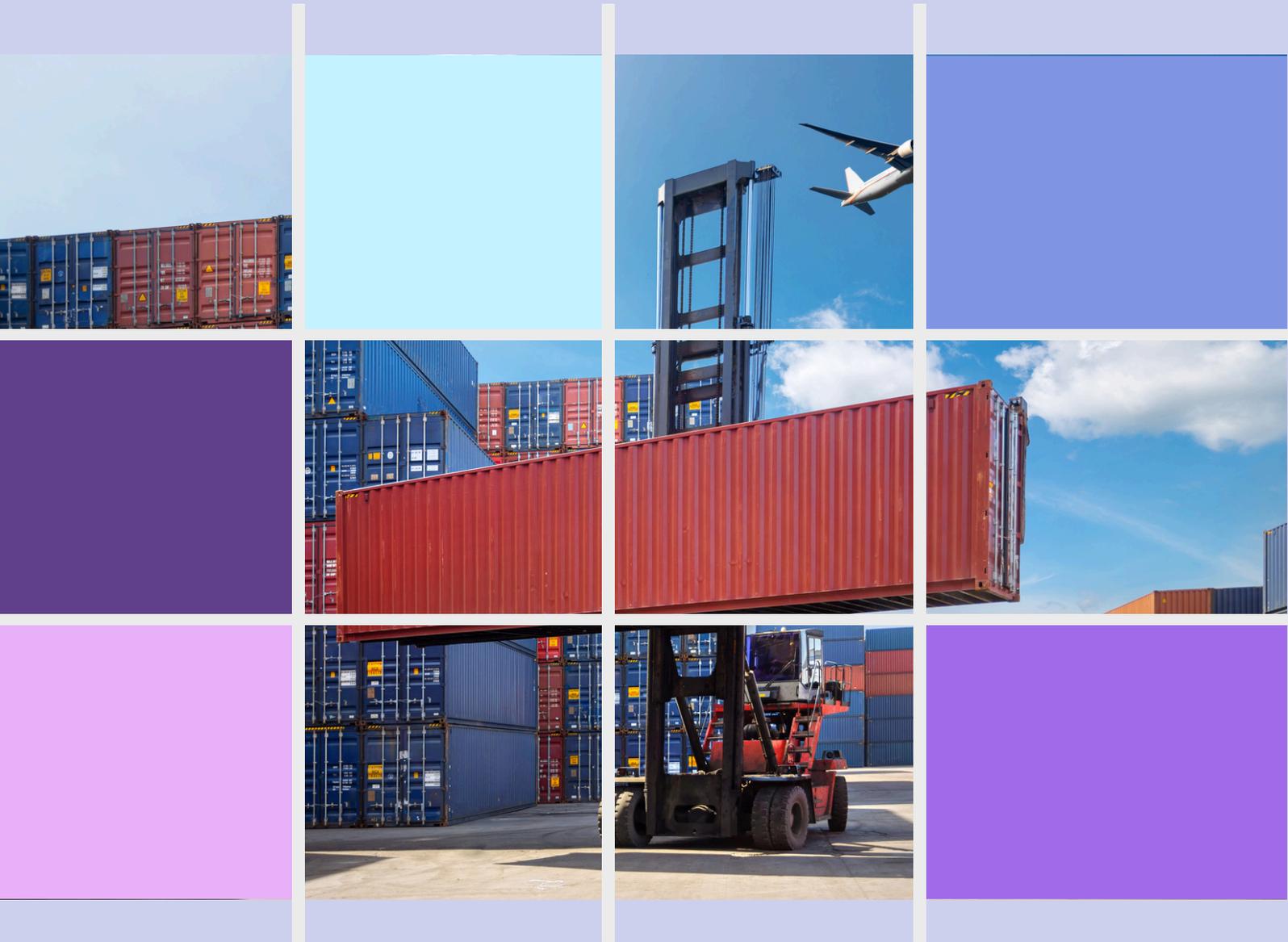
- Redesign accountability to enable learning;
- Create bounded spaces for experimentation;
- Strengthen regulatory design and organisational clarity.

The private sector must move from rent-seeking to capability-building and internalise long-term national interest within corporate strategy. While citizens must internalise norms of reliability, responsibility, and delayed gratification.

The Survey's critical warning is that without alignment across these three actors, even the best strategies will underperform. Conversely, if incentives, institutions, and norms align, India can move beyond defensive resilience towards strategic indispensability, becoming a reliable, trusted and irreplaceable node in a fractured global order.

Ergo, the Survey reframes development as a question not of ambition, but of collective discipline and institutional maturity. The long game, it argues, will be won not by dramatic reforms alone, but by the quiet, cumulative strengthening of state capacity, corporate purpose and civic responsibility.





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