

A year of adjustment — on several fronts



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The first chapter of the denser-than-usual Economic Survey for 2025-26 contains some telling lines. It categorises 2025-26 (FY26) as an unusually challenging year for the Indian economy on the external front and opines that FY27 will likely be a year of adjustment. We concur that adjustment is expected on several fronts.

In addition to what is referenced in the text, the Government of India (GoI) will transition to debt-to-GDP (gross domestic product) as the new fiscal anchor, even as we move from the 15th to the 16th Finance Commission's award period. Moreover, both GDP and inflation will move to new base years, prompting the market to adjust its forecasts and expectations.

The Survey highlights some important points around India's GDP growth in the near and medium terms. It projects growth to range between 6.8 per cent and 7.2 per cent in FY27, lower than the 7.4 per cent projected by the National Statistical Office (NSO) for FY26. This is despite the fact that domestic demand and investment are expected to further strengthen, providing some cushion against external shocks. We broadly concur with this assessment, with tailwinds from monetary easing, direct and indirect tax cuts, and subdued inflation likely to support domestic demand in the next financial year. However, we project the GDP growth rate to be slightly lower at 6.7 per cent (using the 2011-12 series) in FY27.

Notably, the Survey has unveiled a nowcasting model that estimates GDP growth for the third quarter of FY26 at 7 per cent, based on data available as of December 2025. This resonates with our estimate of 7.1-7.2 per cent for the quarter.

Interestingly, the Survey has raised the medium-term growth potential to 7.0 per cent from 6.5 per cent estimated in the Economic Survey 2022-23, aided by the reform momentum over the past three years, stronger corporate and financial-sector balance sheets, rising formalisation of employment, and continued improvements in tax administration. Our own assessment suggests the medium-term growth potential will be in the range of 6.5-7.0 per cent, with the

dim global outlook likely pulling down outcomes closer to the lower end of the band. With no respite around global uncertainty in sight, private capex is likely to remain uneven across sectors.

On inflation, while the Survey abstains from making forecasts, it predicts that both headline inflation and core inflation excluding precious metals will be higher in FY27 than in FY26, though this is unlikely to pose a concern. We expect the average headline retail inflation print to double to 4.0 per cent in FY27 (on the current base) from 2.0 per cent expected in FY26, thereby coinciding with the midpoint of the Monetary Policy Committee's (MPC's) target range of 2-6 per cent. Thus, we broadly concur with the arguments around comfort on the inflation front.

The shift to new base years (2022-23 for GDP and 2024 for the consumer price index) warrants reassessment of current growth-inflation dynamics and the outlook. These changes may also help resolve doubts about the strength of real GDP growth in recent quarters. Further, this could modify the forthcoming debt consolidation road map, which will be crucial in determining the available fiscal space for the GoI's discretionary spending.

On the fiscal front, the Survey highlights that India has reduced its General Government debt-to-GDP ratio by about 7.1 percentage points since 2020, while sustaining high public investment. The upcoming shift in the fiscal anchor for the GoI from annual fiscal deficit targets to the medium-term debt-to-GDP ratio is expected to sustain this momentum of debt consolidation. The GoI is set to reduce the debt-to-GDP ratio to 50 per cent (+/-1 per cent) by March 2031, from 56.1 per cent in the Budget estimate (BE) for FY26, implying modest fiscal compression over this period. The Survey presciently highlights that if this target is met, a new Fiscal Responsibility and Budget Management target may be considered, implying a reversion to annual fiscal deficit targets.

Finally, on the external sector and currency front, the Survey emphasises the need for strong export growth through an export-oriented policy to support a stable currency. This argument largely rests on boosting manufacturing exports, which appears to be an uphill task in the current global environment. Nevertheless, any regulatory easing and policy support on this account in the upcoming Budget will be a welcome step.

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