



Whitepaper

India's Economic Survey 2025–26: Strategic Implications for Corporates



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Executive Summary

The Economic Survey 2025-26, tabled in Parliament on January 29, 2026, arrives at a moment of strategic consequence for Indian corporates. Beyond the headline numbers, 7.4% GDP growth, 1.7% inflation, ₹2 lakh crore in PLI investments, lies a fundamental reorientation of India's economic development model. This Survey does more than report past performance; it articulates a theory of state-led transformation that carries profound implications for how businesses should allocate capital, build capabilities, and position strategically over the next three to five years.

Three conceptual shifts distinguish this Survey from its predecessors and demand careful interpretation. First, the doctrine of 'Strategic Indispensability' replaces defensive self-reliance with offensive global positioning. Rather than merely reducing import dependence, India seeks to become so embedded in critical value chains that the global economy cannot function efficiently without Indian production. This ambition shapes everything from semiconductor policy to pharmaceutical manufacturing to services exports. Second, the 'Entrepreneurial State' framework rejects the binary of state versus market, instead proposing government as strategic risk-taker, capacity builder, and market shaper, particularly in infrastructure, advanced manufacturing, and R&D. Third, the Survey explicitly identifies state capacity as the binding constraint on growth, not capital or even skilled labor. Administrative reform, project execution capability, and bureaucratic risk tolerance emerge as critical bottlenecks requiring systematic attention.

The macroeconomic backdrop validates India's growth story while highlighting emerging constraints. Real GDP growth of 7.4% in FY26 represents the fourth consecutive year of India leading major economies, with medium-term potential anchored at 7%. Crucially, this growth coincides with historic disinflation, average inflation of 1.7% during April-December 2025 represents the lowest since the current CPI series began, declining sharply from 4.6% in FY25. This rare combination enables the RBI to maintain accommodative policy with the repo rate at 5.25% after cumulative 100 basis point cuts, creating favorable financing conditions. External buffers remain robust with forex reserves at USD 701.4 billion covering 11 months of imports, while the current account deficit moderated to 0.8% of GDP in H1 FY26.

Yet beneath these favorable aggregates, structural tensions persist. The labor market shows improvement, unemployment at 4.8%, employment at 56.2 crore persons, but quality concerns remain acute. The Survey's estimate that AI transition could impact 38 million organized sector employees by 2030 underscores the urgency of reskilling at scale. Female labor force participation, though rising to 35.3%, still reflects substantial untapped potential constrained by social norms and infrastructure gaps. R&D spending at 0.64% of GDP, with business sector contributing only 41% versus China's 77%, reveals innovation ecosystem weaknesses that policy interventions alone cannot immediately remedy.

For corporates, five strategic imperatives emerge with varying time horizons and risk profiles. First, infrastructure positioning requires immediate action. Public capital expenditure reaching 4% of GDP, ₹15.48 lakh crore in FY26 BE, creates a multi-year opportunity cycle in EPC, materials, logistics, and urban development. The 60% expansion in national highways, ten-fold increase in high-speed corridors, and 99.1% railway electrification generate sustained demand with reasonable visibility. However, firms must assess state capacity constraints and execution risks that could delay projects or compress margins. Second, PLI scheme leverage demands sophisticated evaluation. The ₹2 lakh crore in realized investment and ₹18.7 lakh crore in incremental production demonstrate program credibility, particularly in electronics (38.8% annual export growth). Yet sectoral performance varies markedly, and the transition from



The Survey marks three shifts: from self-reliance to Strategic Indispensability in global value chains, from state-versus-market thinking to an Entrepreneurial State that shapes and de-risks growth, and from capital constraints to state capacity as the binding limit on execution and outcomes.

production incentives to genuine competitiveness remains incomplete. Third, services sector dominance, contributing 56.4% of GVA with India ranking seventh globally in services exports, indicates sustained opportunities in IT, business services, and global capability centers, though wage inflation and retention challenges intensify.

Fourth, financial sector strength creates favorable conditions but demands vigilance. Banking NPAs at multi-decadal lows (GNPA 2.2%, NNPA 0.5%) with credit growth accelerating to 14.5% enables improved access to capital at competitive rates. Capital markets depth, ₹53 lakh crore mobilized over FY22-FY26, provides equity financing alternatives. However, sectoral credit concentration and household leverage warrant monitoring for early stress signals. Fifth, global trade positioning requires balancing opportunity and risk. While India's trade partnership diversity (index score 3.2) exceeds all Global North countries, providing resilience against tariff uncertainties, the broader retreat from globalization and supply chain weaponization creates headwinds for export-oriented strategies.

This analysis proceeds through eleven chapters examining the Survey's policy architecture, macroeconomic foundations, sectoral performance, and corporate implications. Rather than merely summarizing Survey content, we extract strategic insights relevant to firm-level decision-making across investment timing, capability building, risk management, and competitive positioning. The final chapters address implications for advisory firms, including Intueri, as the demand for macro-to-micro translation intensifies in an environment where policy increasingly shapes competitive advantage. The Survey should be read not as a forecast to be believed or doubted, but as a roadmap revealing where government will deploy resources, adjust incentives, and construct infrastructure, both physical and institutionally over the coming years.

This analysis concentrates on sectors where Intueri's expertise and client engagement is strongest: manufacturing, infrastructure, financial services, chemicals, textiles, and ESG/sustainability transitions. These sectors account for approximately 45% of India's GDP and represent areas where the Economic Survey's policy signals translate most directly into corporate strategic decisions. Consequently, we provide limited coverage of agriculture (despite 15.7% of GVA) and social sectors (education, healthcare, rural development), recognizing their macroeconomic importance while acknowledging limited direct relevance to our client base.

Similarly, we have not incorporated potential U.S. tariff changes into our scenarios, as the policy environment remains highly fluid with announcements changing frequently. Clients should monitor these developments separately and adjust scenarios accordingly when greater clarity emerges.

Chapter 1. Reading the Economic Survey as Policy Document

1.1 The Survey's Evolving Nature and Strategic Purpose

The Economic Survey occupies a unique position in India's policy architecture. Prepared by the Economic Division of the Department of Economic Affairs under the Chief Economic Adviser, it serves as the government's official economic assessment presented to Parliament ahead of the Union Budget. Since its separation from the Budget documents in 1964, the Survey has evolved from fiscal accounting to policy signaling, and more recently, to doctrinal articulation (Ministry of Finance, 2026a).

This evolution matters for how corporates should read the document. Early Surveys focused on macroeconomic reporting, GDP components, sectoral performance, and fiscal accounts. By the 2000s, Surveys began incorporating thematic chapters addressing specific policy challenges. The contemporary Survey, particularly the 2025-26 edition, advances explicit theoretical frameworks about the role of the state, the nature of global integration, and the sequencing of reforms. These frameworks reveal not just what government has done, but how it thinks about economic transformation and where it will direct future interventions.

Three audiences consume the Survey with different objectives. Policymakers use it to establish analytical baselines and justify Budget allocations. Academic economists engage it as data source and theoretical proposition to validate or critique. Corporate strategists and advisory firms extract signals about policy direction, resource deployment, and regulatory evolution. This third use case, translating Survey content into investment and strategic decisions, remains underutilized despite its potential value.

1.2 The 2025-26 Survey's Doctrinal Innovations

The 2025-26 Survey introduces three conceptual frameworks that represent genuine departures from previous thinking. Understanding these frameworks is essential for interpreting specific policy measures and anticipating future directions.

From Atmanirbharta to Strategic Indispensability

The concept of Atmanirbharta (self-reliance) dominated policy discourse from 2020 onward, particularly in response to pandemic disruptions and geopolitical tensions. However, pure self-reliance proves economically inefficient and technologically limiting in complex modern supply chains. The Survey proposes 'Strategic Indispensability' as evolution. Rather than withdrawing from global integration, India seeks to position itself such that critical global value chains cannot function efficiently without Indian participation. This requires identifying strategic nodes, semiconductors, active pharmaceutical ingredients, specialized chemicals, digital services, where India can build irreplaceable capabilities.

The distinction carries operational implications. Atmanirbharta encourages import substitution across broad categories, often accepting higher costs and lower quality for domestic production. Strategic Indispensability demands genuine competitiveness in selected domains, requiring firms to achieve global quality standards and cost structures while building scale. PLI schemes in electronics and pharmaceuticals embody this approach, incentivizing production while enforcing quality requirements and export targets. The semiconductor mission represents the most ambitious articulation, aiming to insert India into a value chain from which exclusion would be strategically costly for all participants.

The Entrepreneurial State Framework

The Survey challenges the conventional state-versus-market binary, drawing on Mariana Mazzucato's work on innovation policy and developmental state literature. The proposed 'Entrepreneurial State' doesn't crowd out private sector but rather structures uncertainty in ways that enable private risk-taking. This manifests through public

investment in infrastructure reducing project risks, R&D funding in early-stage technologies with uncertain commercial viability, and quality standards that force industrial upgrading.

Critically, the Survey acknowledges that effective entrepreneurial state requires reformed bureaucratic incentives. Current structures penalize honest errors while tolerating passive inaction, creating risk-averse decision-making that delays projects and stifles innovation. The call for distinguishing between bona fide errors and malfeasance, accelerating project clearances, and building specialized institutional capacity (like semiconductor mission) indicates recognition that state capability, not just expenditure levels, determines outcomes.

For corporates, this framework suggests that governments will play more active role in shaping market evolution through infrastructure provision, standard-setting, and strategic investment. Rather than simply responding to market signals, firms must anticipate and align with state-led development trajectories while contributing to their success through capacity building and execution.

State Capacity as Binding Constraint

Perhaps the Survey's most significant analytical contribution is explicitly naming state capacity as the binding growth constraint rather than capital availability or even skilled labor. This reframes policy debates. Traditional analysis asks whether government should intervene; capacity-constrained analysis asks whether government can execute interventions effectively. The distinction reshapes priorities from expanding program scope to improving program implementation, from announcing new initiatives to completing existing projects, from national-level policy to state and local execution capability.

Evidence supporting this diagnosis pervades the Survey even when not explicitly stated. Infrastructure projects face delays not from funding constraints but from land acquisition bottlenecks, environmental clearances, and inter-agency coordination failures. PLI schemes show varying sectoral performance reflecting differential implementation capacity rather than inherent sectoral characteristics. The emphasis on over 630 compliance reduction reforms across states reveals recognition that regulatory complexity overwhelms administrative capacity, creating deadweight compliance costs without corresponding benefits.

The corporate implication extends beyond waiting for administrative reform. Firms must build their own capacity to navigate complex regulatory environments, establish government relationships that facilitate rather than obstruct legitimate business activity, and sometimes fill state capacity gaps through private provision of public-good-adjacent services (skill development, logistics infrastructure, quality testing) when commercially viable.

1.3 Key Macroeconomic Indicators and Their Policy Interpretation

Table 1.1: Key Macroeconomic Indicators with Policy Interpretation

Indicator	FY26 Value	Strategic Significance
Real GDP Growth	7.4%	Fourth consecutive year leading major economies
GVA Growth	7.3%	Broad-based across agriculture, industry, services
Average Inflation (Apr-Dec 2025)	1.7%	Lowest since CPI series began; enables monetary easing
Repo Rate (Dec 2025)	5.25%	100 bps cumulative cut; supportive financing conditions
Forex Reserves (Jan 16, 2026)	USD 701.4 billion	11 months import cover; 94% of external debt
Current Account Deficit (H1 FY26)	0.8% of GDP	Down from 1.3%; services surplus critical

Fiscal Deficit (FY26 target)	<4.5% of GDP	Consolidation with growth; 3 rating upgrades
Public CapEx (FY26 BE)	₹15.48 lakh crore	4% of GDP; up from 2.7% pre-pandemic

Source: Ministry of Finance (2026a), Economic Survey 2025-26; Authors' analysis

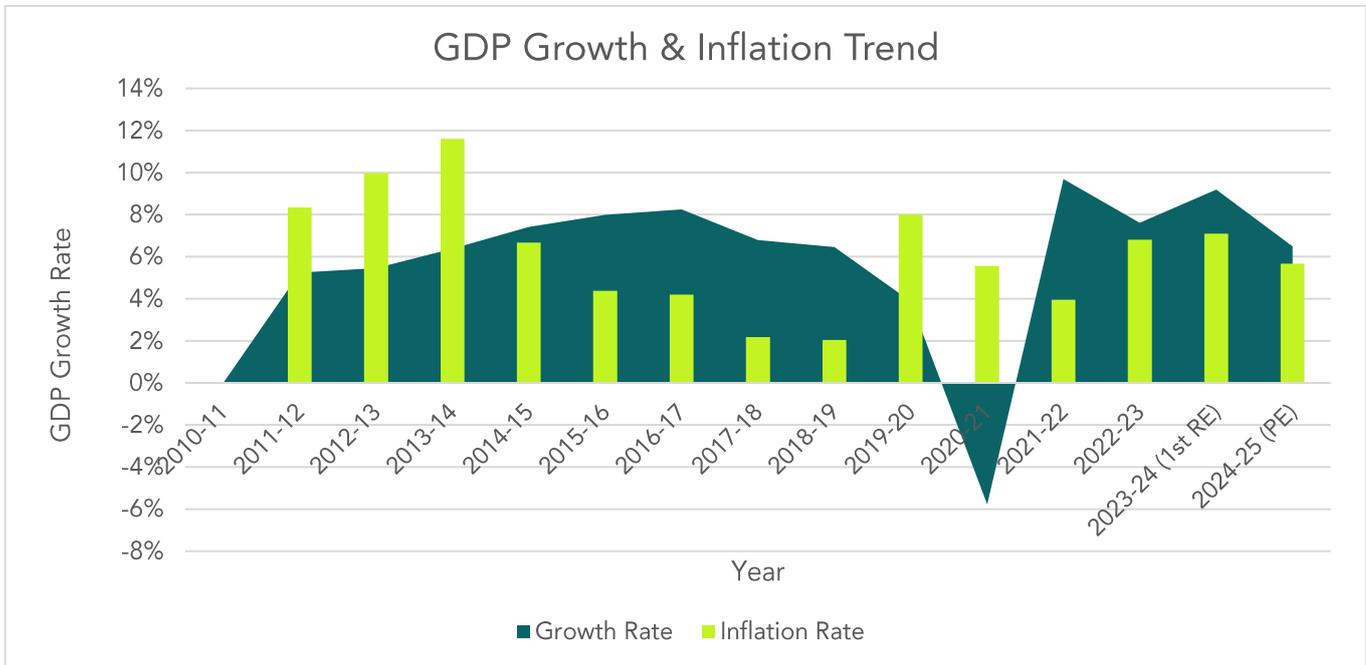


Figure 1.1: India's Growth–Inflation Combination (The “Goldilocks” Moment) (Source: Economic Survey 2025–26, RBI Annual Reports)

India's post-pandemic growth cycle is supply-driven, not demand-distorted, enabling policy space for rate cuts.

These indicators reveal more than economic performance; they demonstrate policy credibility and create enabling conditions for strategic initiatives. The three sovereign credit ratings upgrade in 2025, by Morningstar DBRS, S&P Global Ratings, and Rating and Investment Information Inc. validate fiscal management and reduce sovereign risk premium, lowering borrowing costs for both government and corporates. The 7.1 percentage point decline in general government debt-to-GDP since 2020 while maintaining 4% of GDP in capital expenditure demonstrates successful consolidation without growth sacrifice, countering claims that infrastructure investment necessarily expands deficits unsustainably.

The inflation-growth combination merits particular attention. Growth of 7.4% with inflation of 1.7% defies conventional Phillips curve relationships and traditional overheating concerns. This 'Goldilocks moment' stems from supply-side improvements favorable agricultural output, stable fuel prices, competitive services sector, rather than demand compression. Consequently, accommodative monetary policy (repo rate cuts, liquidity injection) appears sustainable without reigniting inflation, unlike situations where disinflation requires growth-damaging demand destruction.

For corporate planning, these macro conditions provide unusual clarity. Low inflation improves real purchasing power supporting consumption-driven sectors. Declining interest rates reduce cost of capital for investment and working capital. Stable exchange rate and strong forex reserves limit currency risk. Sustained public capex creates multi-year demand visibility in related sectors. However, this favorable environment coexists with global uncertainties, trade fragmentation, geopolitical tensions, technology disruptions requiring scenario planning even within broadly constructive domestic conditions.

1.4 Why This Survey Matters Distinctively for Corporate Strategy

Every Economic Survey provides data and analysis, but certain editions carry distinctive strategic value. The 2025-26 Survey matters for several reasons beyond its immediate content:

Policy Continuity and Commitment Signaling

The Survey demonstrates policy continuity on core elements, infrastructure investment, manufacturing incentives, fiscal consolidation providing confidence for multi-year capital allocation decisions. Public capex maintaining 4% of GDP commitment, PLI scheme expansion across sectors, and proposed GST 2.0 reforms signal sustained direction rather than stop-start interventions. This consistency enables firms to make irreversible investments (capacity expansion, technology acquisition, talent development) with reasonable confidence in policy stability.

Granular Evidence on Program Performance

Unlike previous Surveys that announced initiatives without performance metrics, the 2025-26 edition provides substantial evidence on PLI outcomes (₹2 lakh crore investment, ₹18.7 lakh crore production, 12.6 lakh jobs), infrastructure expansion (specific kilometers of highways, number of electrified rails, operational airports), and financial sector health (precise NPA ratios, credit growth rates). This transparency allows firms to assess program credibility and make evidence-based participation decisions rather than relying solely on policy rhetoric.

Explicit Risk Acknowledgment

The Survey acknowledges constraints and challenges rather than presenting unblemished optimism. Recognition of state capacity limits, R&D insufficiency (0.64% of GDP, business at 41%), AI disruption risk (38 million workers), and affordable housing shortage (30 million units) provide realistic assessment enabling better risk management. Corporate strategists can calibrate expectations and prepare contingencies rather than being surprised when announced initiatives face implementation challenges.

Having established the Survey's doctrinal framework and strategic importance, we turn to the macroeconomic fundamentals that underpin India's growth trajectory. Understanding these foundations, growth in drivers, inflation dynamics, fiscal position, external resilience, enables assessment of whether current performance represents sustainable structural improvement or favorable but temporary cyclical conditions.

Chapter 2. India's Macroeconomic Outlook: Growth, Stability, and Constraints

2.1 Decomposing Growth: Demand Drivers and Their Sustainability

India's 7.4% real GDP growth in FY26 represents the fourth consecutive year of leading major economies, but understanding this performance requires decomposing growth across demand components and assessing sustainability. The growth composition reveals both strengths and emerging pressures that shape corporate opportunities and risks.

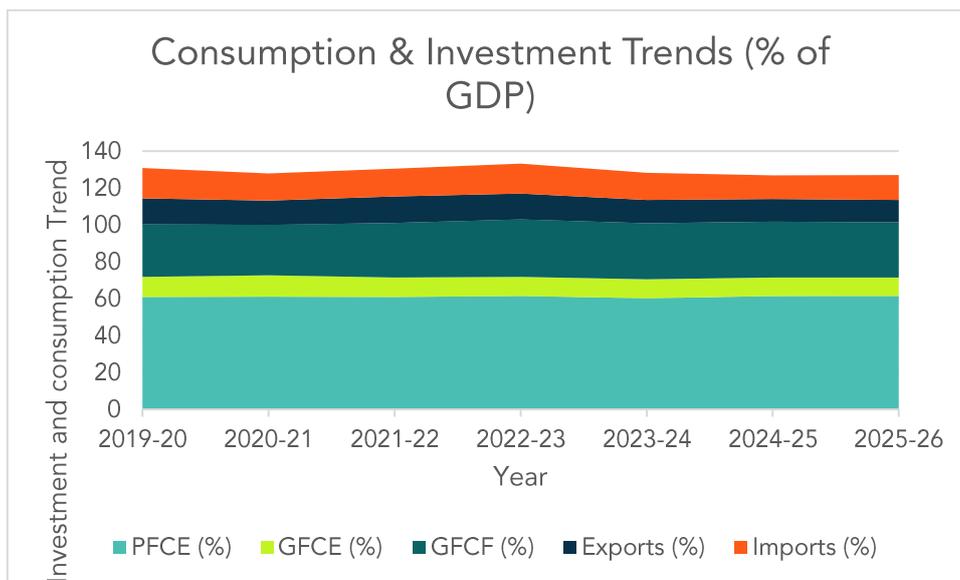


Figure 2.1: Consumption & Investment Trends (% of GDP) (Source: Table 1.6 - GDP Components at Current Prices, calculated as % of GDP)

Figure 2.4 tracks demand composition evolution, highlighting three critical trends. First, Private Final Consumption Expenditure (PFCE) maintained 60-61.5% of GDP throughout the period, reaching 61.5% in FY26, the highest since FY12, validating consumption-led growth narrative. Second, Gross Fixed Capital Formation (GFCF) stabilized around 30% after pandemic dip, indicating investment cycle firming though not yet at boom levels (35%+ historically precedes overheating).

Third, Government Final Consumption Expenditure (GFCE) declined from 11.6% (FY21 pandemic support) to 9.9% (FY26), creating fiscal space for capex while maintaining overall expenditure discipline. For corporates, sustained 61.5% consumption share justifies consumer-facing expansion, while 30% investment rate supports B2B capital goods demand. However, export share declining from 14.4% (FY22) to 12.1% (FY26) amid global uncertainties suggests prioritizing domestic market versus export dependence.

Private Consumption: The Dominant and Most Sustainable Driver

Private Final Consumption Expenditure (PFCE) rose to 61.5% of GDP, the highest level since FY12, growing 7.5% in H1 FY26. This consumption revival stems from multiple reinforcing factors. Real purchasing power improved dramatically as headline inflation averaged 1.7% versus nominal wage growth estimated at 8-10% across organized and unorganized sectors, creating substantial real income gains. Rural consumption benefited from favorable monsoons (agricultural GVA growing 3.6% versus 2.7% in H1 FY25), MSP increases for key crops, and MGNREGA allocation of ₹86,000 crore supporting rural employment. Urban consumption received support from tax rationalization measures (including proposed GST 2.0 with simplified two-rate structure) and employment gains in services and organized manufacturing (Ministry of Finance, 2026a).

The sustainability question centers on whether consumption growth continues if inflation normalizes. RBI and IMF project gradual inflation increase toward 4% in FY27, still within comfortable range but reducing real income gains from current historic lows. However, several factors support continued consumption strength. Household balance sheets improved through the pandemic with forced savings, reduced leverage, and rising financial asset values (equity wealth up ₹53 lakh crore since April 2020). Labor market tightening, particularly in services and skilled manufacturing, sustains wage pressure. Government spending on social services increased to 7.9% of GDP, providing income support to lower quintiles with high consumption propensity.

For consumer-facing businesses, this environment favors volume growth over pure pricing power. Categories benefiting from real income gains, discretionary goods, upgraded consumption, services spending, show stronger momentum than necessities. Geographic expansion into Tier 2-3 cities and rural markets, long discussed but inconsistently executed, becomes viable as real incomes and digital payments penetration improve infrastructure for organized retail and e-commerce.

Investment: Public Leads, Private Follows Gradually

Gross Fixed Capital Formation (GFCF) grew 7.8%, maintaining approximately 30% of GDP. However, composition matters critically. Public capital expenditure reached 4% of GDP (₹15.48 lakh crore in FY26 BE), up from 2.7% pre-pandemic, representing genuine structural increase rather than temporary stimulus. This public capex concentrates in infrastructure, roads, railways, ports, urban development, creating assets with long gestation but substantial externalities.

Private investment response shows encouraging signs but remains incomplete. Corporate investment announcements reached record levels, indicating firm intentions. Capacity utilization in manufacturing improved to healthy levels. Credit to industry accelerated. However, actual capital formation in private sector still lags pre-2012 peak levels relative to GDP. Several factors explain this hesitation despite favorable financing conditions and government incentives.

First, previous investment cycles (2006-2011) created excess capacity that took years to absorb, making firms cautious about capacity expansion versus sweating existing assets. Second, technological uncertainty, particularly around automation, artificial intelligence, and energy transition, creates option value in waiting for clarity before making irreversible investments. Third, global demand uncertainty from trade fragmentation makes export-oriented capacity expansion riskier. Fourth, some PLI sectors show strong private investment (electronics, pharmaceuticals) while others lag, reflecting sectoral variations in perceived opportunity.

The critical policy question centers on crowding-in dynamics. Does public capex crowd in private investment through improved infrastructure and reduced project risks, or crowd out through higher interest rates and resource competition? Current evidence suggests crowding-in dominates. Interest rates declined despite elevated public spending, credit growth accelerated, and corporate investment announcements increased. However, effectiveness depends on infrastructure quality (reducing logistics costs), project execution (actual completion versus announced spending), and complementary reforms (land acquisition, environmental clearances) that facilitate private projects.

Table 2.1: GDP Demand Composition with Drivers and Outlook

Component	Growth	GDP Share	Key Drivers/Constraints
Private Consumption (PFCE)	7.5% (H1)	61.5%	Real income gains, favorable monsoons, tax cuts
Investment (GFCF)	7.8%	~30%	Public capex leadership, private following gradually
Government Consumption	Moderate	~10%	Social spending up; efficiency focus on capex

Exports (Goods + Services)	6.1% (FY25)	~23%	Services strong (+13.6%); goods face headwinds
Imports (Goods + Services)	5.9% (Apr-Dec)	~25%	Resilient demand; some import substitution

Source: Ministry of Finance (2026a); PRS Legislative Research (2026); Authors' analysis

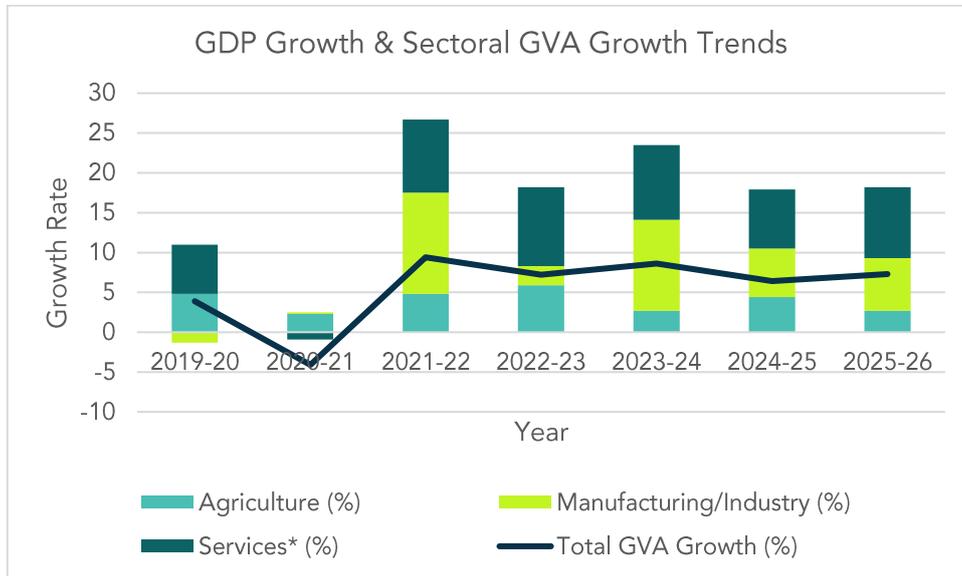


Figure 2.2: GDP Growth & Sectoral GVA Growth Trends (Ministry of Finance (2026a), Economic Survey 2025-26, Statistical Appendix Table 1.5)

Figure 2.1 reveals the structural evolution of India's growth drivers over the pandemic and recovery period. The dramatic -4.1% contraction in FY21 masked sectoral divergence, agriculture grew 2.3% providing food security buffer while services collapsed -0.9% from lockdowns. The subsequent recovery demonstrates services sector's dominance, contributing 8-9% growth consistently in FY22-FY26 even as overall growth moderated from the 9.4% post-pandemic rebound.

Manufacturing's volatility, from 11.4% in FY24 to 6.1% in FY25 to 6.6% in FY26, indicates that despite PLI schemes and infrastructure investment, India's manufacturing competitiveness remains incomplete. Agriculture's fluctuations (4.8% to 2.7% to 4.4% to 2.7%) reflect monsoon dependency despite irrigation expansion. For corporates, this pattern confirms that services-led growth continues, suggesting that even manufacturing-focused strategies must account for services demand as primary driver of overall economic momentum.

2.2 Inflation Dynamics: Understanding the Historic Moderation

Average headline retail inflation of 1.7% during April-December 2025 represents the lowest since the current CPI series began, declining from 4.6% in FY25. Among major emerging markets, India achieved one of the sharpest disinflation episodes, approximately 1.8 percentage points between 2024 and 2025 (Ministry of Finance, 2026a). This exceptional performance demands explanation beyond simply citing favorable base effects or temporary food price moderation.

Supply-Side Factors: The Primary Drivers

Food and fuel, comprising 52.7% of the CPI basket, drove disinflation. Food inflation moderated dramatically from elevated 2023-24 levels due to favorable monsoons improving kharif and rabi crop prospects, government measures including stock releases and export restrictions on specific commodities (rice, wheat, onions), and higher production across vegetables, pulses, and spices. Fuel inflation remained benign as global crude oil prices stabilized in \$75-85/barrel range, below peaks of previous years, while domestic retail fuel prices stayed controlled through excise duty adjustments and OMC pricing restraint.

Core inflation (excluding food and fuel) also moderated though less dramatically, indicating broader disinflationary pressures beyond volatile components. Services inflation, typically sticky, showed moderation in categories like housing (rents), healthcare, and personal services. Goods inflation in manufactured products reflected competitive pressures, productivity improvements in specific sectors (particularly PLI sectors achieving scale economies), and stable input costs as global commodity prices moderated.

Demand Conditions: Balanced Rather Than Deficient

Crucially, disinflation occurred alongside robust 7.4% growth, not through demand compression. This distinguishes current disinflation from episodes where central banks induce recession to reduce inflation. Consumption grew 7.5%, investment 7.8%, suggesting demand remains healthy. Output gap estimates indicate the economy operates near potential rather than significantly below, implying limited slack that would normally generate disinflationary pressure through underutilized capacity.

This combination of growth and disinflation reflects supply-side improvements rather than demand-side weakness. Agricultural productivity gains, infrastructure reducing logistics costs, PLI-enabled manufacturing scale economies, and services sector efficiency from digitalization all expand supply capacity at pace matching or exceeding demand growth, preventing overheating while sustaining expansion.

Outlook and Policy Implications

RBI lowered its FY26 inflation forecast from 2.6% to 2.0%, while IMF projects 2.8% for FY26 and 4.0% for FY27, indicating gradual normalization toward the 4% target rather than sustained sub-2% rates. This outlook seems reasonable. Current 1.7% inflation reflects particularly favorable food conditions unlikely to persist indefinitely. Base effects will diminish as comparison periods normalize. Demand strength from consumption and investment should generate modest price pressures as supply-side improvements plateau.

For monetary policy, the historic disinflation created space for the RBI to reduce the repo rate cumulatively by 100 basis points to 5.25% between April and December 2025, complemented by 100 basis point CRR cut to 3.0% and ₹3.39 lakh crore liquidity injection through open market operations. These accommodative measures aimed to support growth without reigniting inflation, reflecting confidence that disinflationary forces have sufficient durability.

Corporate implications extend across cost structures, pricing strategies, and margin dynamics. Input cost pressures moderated across categories from agricultural commodities to industrial materials, improving gross margins in manufacturing and food processing. However, firms cannot assume this benign cost environment persists indefinitely. Gradual inflation normalization toward 4% will revive input cost pressures, requiring either productivity improvements or partial price pass-through to maintain margins. The window for volume-driven expansion without pricing pressure narrows as inflation normalizes, favoring aggressive capacity expansion and market share gains in the current environment.

2.3 Fiscal Position: Consolidation with Investment

India's fiscal narrative defies conventional wisdom that infrastructure investment necessarily expands deficits unsustainably. The government achieved fiscal consolidation, central fiscal deficit targeted below 4.5% of GDP in FY26, general government debt-to-GDP declining 7.1 percentage points since 2020, while expanding capital expenditure from 2.7% to 4% of GDP. This combination required both revenue enhancement and expenditure recomposition (Ministry of Finance, 2026a).

Revenue Performance: Buoyancy Returns

Central government revenue receipts increased from 8.5% of GDP during FY16-20 to 9.2% in FY25, driven by tax buoyancy rather than rate increases. Direct taxes showed particular strength, with income tax return filings rising from 6.9 crore in FY22 to 9.2 crore in FY25, reflecting formalization, compliance improvement, and income growth. Direct

taxes' share in total tax revenue reached 58.8% in FY25 versus 51.9% pre-pandemic, indicating progressive shift toward income and profits taxation away from regressive indirect taxes.

GST collections during April-December 2025 reached ₹17.4 lakh crore, growing 6.7% year-on-year, broadly tracking nominal GDP growth. High-frequency indicators show robust underlying activity, e-way bill volumes increased 21% year-on-year, electronic invoicing expanded coverage, and compliance metrics improved. The proposed GST 2.0 reforms with simplified two-rate structure (18% standard, 5% merit) aim to reduce distortions, improve compliance, and enhance manufacturing competitiveness versus current fragmented rate structure.

Non-corporate tax buoyancy, rising from 2.4% to 3.3% of GDP, reflects multiple factors: formalization bringing more economic activity into tax net, digital payment penetration creating transaction trails, improved administrative capacity through technology deployment, and tax base expansion as India adds taxpayers from growing middle class.

Expenditure Quality: Revenue to Capital Shift

The critical achievement lies in expenditure recomposition rather than pure compression. Total government expenditure as GDP share remained relatively stable, but composition shifted markedly toward capital from revenue spending. Revenue expenditure moderated through subsidy rationalization (though MGNREGA allocation maintained at ₹86,000 crore), administrative efficiency, and controlled establishment costs. This created fiscal space for capital expenditure expansion to 4% of GDP without proportionate deficit increase.

States maintained capital spending around 2.4% of GDP through central incentive schemes under Special Assistance to States for Capital Expenditure (SASCI). Combined central and state capex approaching 6.5% of GDP represents substantial public investment by international standards. However, effectiveness depends on execution quality, not just expenditure levels. Project completion rates, cost overruns, and asset utilization determine whether this spending generates proportionate growth and productivity benefits.

Debt Dynamics and Fiscal Credibility

General government debt-to-GDP declining 7.1 percentage points since 2020 while growth-adjusted interest rates remain favorable creates sustainable debt trajectory. The key fiscal indicator, primary balance (fiscal balance excluding interest payments), shows improvement, indicating underlying fiscal effort rather than merely benefiting from low interest costs.

Three sovereign credit rating upgrades in 2025 validate this fiscal discipline. Rating agencies specifically cited improved revenue mobilization, quality of expenditure, infrastructure focus, and commitment to consolidation path. These upgrades carry tangible benefits: lower sovereign risk premium reducing government borrowing costs, improved corporate borrowing terms internationally as country risk declines, and enhanced FPI (Foreign Portfolio Investment) inflows as India weight in bond indices increases with higher ratings.

For corporates, fiscal sustainability matters beyond abstract macroeconomic stability. Unsustainable deficits eventually crowd out private investment through higher interest rates, create inflation pressures complicating cost management, and generate currency depreciation risks affecting import-dependent firms. Current fiscal trajectory avoids these pathologies while providing infrastructure improvements that reduce business costs and expand market access.

State-Level Fiscal Divergence and Corporate Implications

While central government consolidation progresses (fiscal deficit <4.5% of GDP), state-level fiscal positions show substantial divergence. High-performing states (Gujarat, Karnataka, Tamil Nadu, Maharashtra) maintained fiscal deficit below 3% of Gross State Domestic Product (GSDP) while expanding capital expenditure to 3-4% of GSDP through revenue buoyancy and expenditure rationalization. These states benefited from central capital expenditure support (SASCI scheme) while demonstrating autonomous fiscal discipline.

Conversely, stressed states (Punjab, Rajasthan, Kerala, West Bengal) face fiscal deficits of 4-6% of GSDP, constrained capital spending (1.5-2% of GSDP), and elevated debt-to-GSDP ratios (35-40% versus 25-28% for high-performers). Revenue models remain stressed from freebies (free electricity, public transport, cash transfers) without corresponding tax base expansion.

Corporate location and investment decisions should incorporate state fiscal health. Infrastructure project execution, subsidy reliability, and business environment responsiveness correlate strongly with state fiscal discipline. States with fiscal stress face project payment delays (6-12 months typical), subsidy policy reversals, and reduced regulatory capacity. Firms planning multi-state expansion should weight state fiscal metrics alongside traditional factors (labor availability, infrastructure quality, market proximity) in site selection.

2.4 External Sector: Resilience Through Diversification

India's external position combines structural vulnerabilities (persistent current account deficit from goods trade) with emerging strengths (services surplus, remittance inflows, diversified trade partnerships) creating overall resilience despite global uncertainties.

Table 2.2: External Sector Indicators with Resilience Assessment

Indicator	Value/Status	Strategic Significance
Total Exports FY25	USD 825.3 billion	Record level; 6.1% YoY growth
Services Exports FY25	USD 387.5 billion	+13.6% YoY; offsets goods deficit
Merchandise Trade Balance	Deficit ~USD 280-300 billion	Structural; energy imports major component
Services Trade Surplus	~USD 160-180 billion	IT, business services, GCCs driving
Remittances FY25	USD 135.4 billion	Largest recipient globally; stable inflow
Current Account Deficit (H1 FY26)	0.8% of GDP	Manageable; down from 1.3% previous year
Forex Reserves (Jan 16, 2026)	USD 701.4 billion	11 months import cover; 94% of external debt
Trade Partnership Diversity (UNCTAD)	Index 3.2	Ranks 3rd in Global South; exceeds Global North

Source: Ministry of Finance (2026a); UNCTAD (2025); Authors' analysis

Services: The Unexpected Export Powerhouse

India's services exports hit an all-time high of USD 387.5 billion in FY25, growing 13.6% year-on-year, making India the world's seventh-largest services exporter. India's global services market share more than doubled from 2% in 2005 to 4.3% in 2024, indicating sustained competitiveness rather than temporary advantage. This services strength stems from multiple sources: IT and IT-enabled services maintaining dominance in software development, system integration, and business process services; global capability centers (GCCs) expanding rapidly as multinationals centralize complex functions in India; professional services including legal, consulting, and accounting gaining market share; and tourism and travel services recovering post-pandemic though not yet to full potential.

The durability of services exports merits examination. Unlike merchandise exports vulnerable to tariffs and logistics disruptions, many services, particularly digital services, face lower trade barriers and benefit from technology enabling remote delivery. However, risks include protectionist measures targeting service worker mobility (visa restrictions, local presence requirements), automation reducing demand for labor-arbitrage-based services (basic IT support, routine BPO), and competition from other emerging markets developing similar capabilities (Philippines in BPO, Eastern Europe in IT).

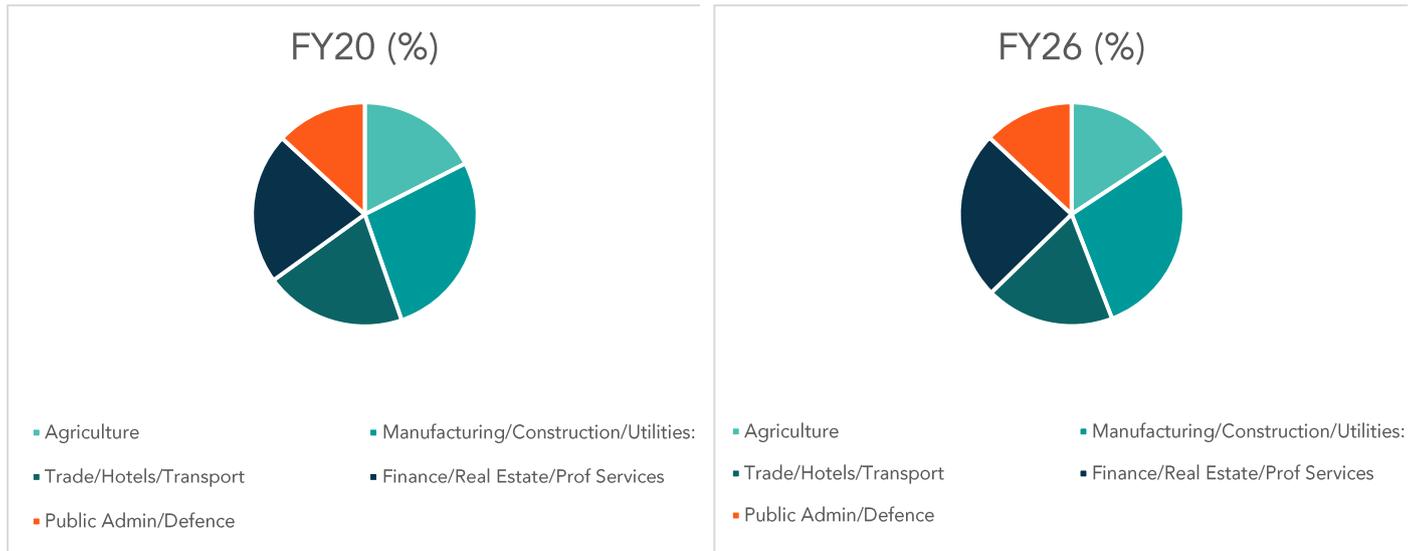


Figure 2.3: Sectoral Contribution to GVA (Source: Ministry of Finance (2026a), Economic Survey 2025-26, Statistical Appendix)

Figure 2.3 compares sectoral GVA composition between FY20 and FY26, revealing India's structural transformation. Services consolidated dominance from 55.3% to 55.9%, driven primarily by finance/real estate/professional services expanding from 21.9% to 24.4%, reflecting capital market deepening, real estate appreciation, and professional services growth. Industry increased marginally from 27.2% to 28.5%, suggesting PLI-driven manufacturing push has arrested decline but not achieved breakthrough transformation toward East Asian manufacturing shares (35-40% of GDP).

Agriculture declined from 17.5% to 15.7% despite government focus on doubling farmers' incomes, indicating structural shift toward higher productivity sectors. This pattern implies corporate strategies emphasizing manufacturing competitiveness must recognize services' sustained primacy, hybrid models linking manufacturing with services (servicification of manufacturing, GCCs supporting production) may prove more viable than pure manufacturing plays.

Merchandise Trade: Navigating Headwinds

Merchandise exports face more challenging environment. Growth moderated to 2.4% in FY26 (April-December) from higher previous years, reflecting global demand weakness, elevated tariff uncertainties, and competitive pressures. However, compositional shifts indicate structural progress. Electronics exports grew 35.1% year-on-year in FY26 (April-December), driven by mobile phone manufacturing under PLI scheme and component ecosystem development. Pharmaceutical exports maintained strength in generic APIs and formulations. Engineering goods showed resilience in capital equipment and auto components.

Merchandise trade deficit persists structurally, driven primarily by energy imports (crude oil, LNG, coal) and critical inputs (electronics components, specialized chemicals, machinery). Import substitution efforts show progress in specific categories but cannot eliminate deficit near-term given India's energy import dependence and industrial economy's input requirements. The relevant question is whether deficit remains financeable through services surplus, remittances, and capital inflows at sustainable exchange rate, current evidence suggests yes, but vulnerabilities emerge if multiple inflows weaken simultaneously.

Forex Reserves and External Buffers

Forex reserves at USD 701.4 billion provide robust cushion against external shocks, covering approximately 11 months of imports and 94% of external debt. This reserve adequacy exceeds conventional metrics (3-6 months import cover) and provides central bank with ammunition to smooth exchange rate volatility without depleting buffers critically. The stable rupee despite global dollar strength reflects both reserve adequacy and improved current account position.

For corporates, external sector resilience has tangible implications. Import-dependent firms face lower currency risk with stable rupee and adequate reserves. Export-oriented businesses benefit from competitive exchange rate without severe volatility disrupting pricing. However, global trade environment deterioration, if tariffs escalate, global growth weakens substantially, or financial conditions tighten sharply, could test resilience despite current comfortable buffers.

Currency Dynamics and Hedging Imperatives

Despite robust forex reserves (\$701.4 billion), the rupee depreciated 2.1% against the dollar in FY26 (₹83.5 average versus ₹81.8 in FY25), underperforming Asian peers. This reflects India's structural current account deficit (0.8% of GDP, approximately \$28 billion annually) requiring continuous capital inflows to maintain stability. Rising gold prices, from \$1,950/oz (Jan 2025) to \$2,250/oz (Jan 2026), a 15% increase, indicate investor flight to safe assets amid global uncertainty, further pressuring emerging market currencies including the rupee.

However, sovereign rating upgrades—Morningstar DBRS (BBB High), S&P Global (BBB+), and Rating and Investment Information Inc. (A-) - in 2025 validate fiscal discipline and growth sustainability, potentially attracting \$15-20 billion additional FPI inflows. These offsetting forces create currency volatility rather than unidirectional pressure.

Corporate hedging strategies warrant review. Firms with unhedged dollar exposure (imports >₹50 crore annually) face 3-5% margin compression from rupee depreciation. Natural hedges (export revenues, dollar assets) provide partial offset, but many manufacturing firms importing components while selling domestically lack natural hedges. Japanese government bond yields rising from 0.2% to 1.1% increases hedging costs by 90 basis points, making selective hedging (50-70% of exposure) optimal versus full hedging or no hedging extremes.

2.5 Structural Constraints: The Binding Limitations on Growth

Despite favorable macroeconomic performance, the Survey acknowledges structural constraints that limit India's growth potential and require sustained policy attention. Understanding these constraints shapes realistic expectations and identifies where corporate strategy must adapt to persistent limitations rather than waiting for policy solutions.

Labor Market Quality and Skill Mismatches

While headline employment statistics show improvement, total employment at 56.2 crore persons, unemployment at 4.8%, LFPR at 56.1% quality concerns persist. The 31 crore workers registered on e-Shram (54% women) indicates massive informal sector, vulnerable to income shocks and lacking social security coverage. Female LFPR at 35.3%, though rising, remains substantially below male LFPR and international comparators, reflecting both social constraints and infrastructure gaps (transport, childcare, workplace safety).

The Survey's estimate that AI transition could impact 38 million organized sector employees by 2030 underscores skill mismatch urgency. Current education and training systems produce graduates misaligned with industry requirements, engineering graduates are unable to perform basic technical tasks, MBA graduates lacking practical business skills, ITI (Industrial Training Institute) certificate holders with obsolete skill sets. This mismatch creates paradox of unemployment alongside unfilled vacancies, with firms unable to find qualified candidates despite large graduate cohorts.

R&D and Innovation Ecosystem Weaknesses

National R&D expenditure at 0.64% of GDP remains insufficient for innovation-driven growth, particularly given manufacturing and services upgrading ambitions. More concerning, business sector contributes only 41% of R&D spending versus China's 77%, indicating limited private sector innovation investment. This reflects multiple factors: firms prefer acquiring proven technology over developing indigenously, given risks and time horizons; intellectual property protection concerns deter innovation investment despite legal improvements; industry-academia linkages remain weak, limiting technology transfer; and short-term profit pressures discourage long-gestation R&D projects.

The announced Research, Development and Innovation (RDI) Fund with ₹1 lakh crore outlay over six years and establishment of Anusandhan National Research Foundation (ANRF) address institutional gaps but cannot immediately overcome private sector innovation culture deficit. Changing firm behavior from technology adoption to technology creation requires sustained effort beyond funding availability.

Infrastructure Gaps Despite Expansion

Notwithstanding substantial infrastructure investment and measurable progress (60% highway expansion, 99.1% railway electrification), critical gaps persist. Urban infrastructure strains under rapid urbanization, housing shortage (30 million affordable units by 2030), inadequate public transport, water supply deficits (only 28% of urban wastewater treated), and solid waste management challenges. Last-mile connectivity remains problematic despite national highway expansion, with rural and peri-urban areas facing poor quality roads and limited logistics infrastructure.

These constraints impose real costs on businesses: logistics expenses consume 13-14% of GDP in India versus 8-9% in developed economies; urban congestion reduces productivity and increases commute times; housing unaffordability constrains labor mobility as workers cannot relocate to opportunity centers; and infrastructure unpredictability complicates supply chain planning.

The macroeconomic fundamentals examined in this chapter, robust growth, historic disinflation, fiscal consolidation with investment, external resilience, alongside persistent structural constraints, establish the foundation for understanding sectoral strategies. The government's central strategic response to these fundamentals' centers on public capital expenditure as growth lever and private investment catalyst. We turn next to analyzing this CapEx-led growth thesis, its theoretical foundations, empirical evidence, and corporate implications.

Chapter 3. Public Capital Expenditure as the Central Growth Lever

Public capital expenditure occupies the center of India's growth strategy, representing both empirical achievement and theoretical commitment. The expansion from 2.7% of GDP pre-pandemic to 4% in FY25, translating to ₹15.48 lakh crore in FY26 BE including state support, marks a structural shift rather than temporary counter-cyclical stimulus. Understanding this strategy requires examining its economic logic, evidence of effectiveness, execution challenges, and implications for private sector positioning.

3.1 The Economic Logic of CapEx-Led Growth

The case for public capital expenditure as growth driver rests on multiple economic mechanisms, each with varying empirical support and contextual applicability.

Direct Demand Generation and Multiplier Effects

Infrastructure spending creates immediate demand for construction services, materials (steel, cement, aggregates), equipment (machinery, vehicles), and labor. These direct effects multiply through backward linkages to input suppliers and forward linkages to service providers. Fiscal multiplier estimates for infrastructure investment in emerging markets range from 0.8 to 1.5, suggesting that one rupee of public capex generates 0.8 to 1.5 rupees of GDP growth, depending on economy's slack, import content, and crowding-in of private investment.

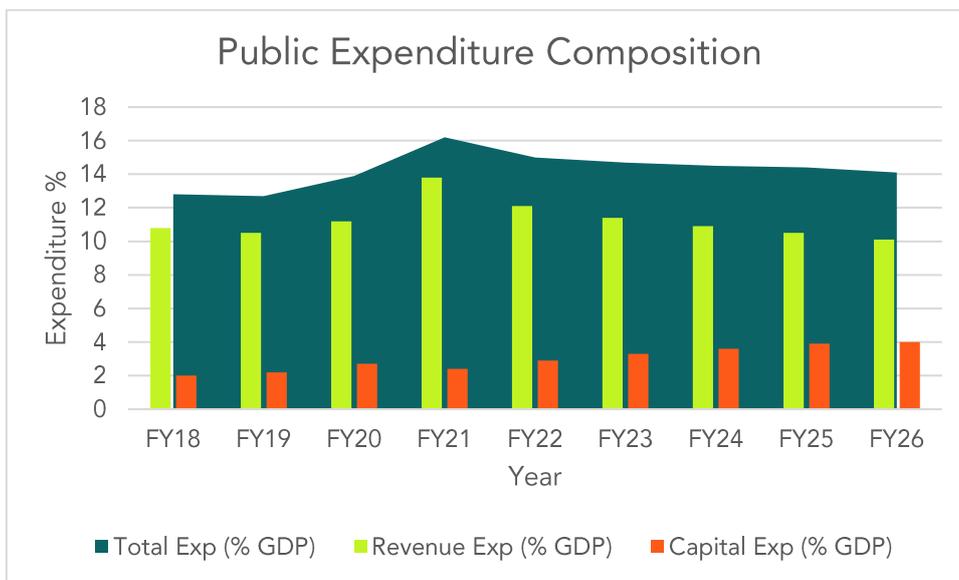


Figure 3.1: Public Expenditure Composition (Source: Survey main text & Budget documents)

Figure 3.1 illustrates fiscal recomposition toward productive capital spending. Revenue expenditure declined from 13.8% of GDP (FY21 pandemic peak) to 10.1% (FY26) through subsidy rationalization and efficiency improvements, while capital expenditure doubled from 2.0% (FY18) to 4.0% (FY26). This shift created infrastructure investment surge without proportionate deficit expansion, total expenditure declining from 16.2% to 14.1% demonstrates consolidation alongside growth orientation.

The 4% capital expenditure represents ₹15.48 lakh crore (FY26 BE), generating sustained demand for EPC contractors, materials suppliers, and equipment manufacturers. However, sustainability depends on execution, actual capex disbursement often lags budget allocations by 10-15% given project delays and capacity constraints. Corporates

should track quarterly capex utilization rates as leading indicator of whether announced spending translates to actual demand.

India's context suggests multipliers toward the higher end of this range. The economy operates near potential but not substantially above, providing some slack for demand expansion without severe inflation. Infrastructure import content has declined as local capacity expanded in steel, cement, and construction equipment, keeping more spending domestic. Most critically, infrastructure reduces costs and expands market access for private firms, creating crowding-in rather than crowding-out of private investment, the critical determinant of long-term multiplier magnitude.

Productivity Enhancement Through Transaction Cost Reduction

The more substantial economic benefit emerges through supply-side productivity improvement. Infrastructure reduces transaction costs across multiple dimensions: logistics costs decline as highways reduce travel time, dedicated freight corridors improve railway efficiency, and port upgrades speed cargo handling. Studies estimate India's logistics costs at 13-14% of GDP versus 8-9% in developed economies, suggesting substantial savings potential from infrastructure improvement. Energy costs decrease as transmission infrastructure reduces distribution losses (reduced from 23% to 15% over past decade, with further potential) and renewable energy connectivity expands. Market integration improves as transport infrastructure enables firms to consolidate production in scale-efficient locations while accessing geographically dispersed markets.

These productivity effects generate growth beyond initial demand stimulus. A highway connecting production center to consumption market doesn't just create construction jobs; it permanently reduces transport costs, enabling market expansion for firms, input cost reduction for manufacturers, and price benefits for consumers. These effects compound annually, unlike one-time demand stimulus that dissipates.

Crowding-In Private Investment Through Risk Reduction

Infrastructure investment signals government policy commitment, reducing uncertainty for private long-term projects. Project economics improve as infrastructure reduces input costs and expands market access, making previously marginal investments viable. Execution risks decline when public infrastructure provides reliable inputs (power, water, transport) reducing private project dependencies. This crowding-in effect multiplies initial public investment impact, if one rupee of public capex induces 1.5-2 rupees of private investment, total investment impact reaches 2.5-3 rupees, generating substantially higher growth than public spending alone.

However, crowding-in is not automatic. It requires complementary conditions: stable regulatory frameworks that don't retroactively change project terms, transparent land acquisition and environmental clearance processes that provide timeline certainty, and skilled project management capacity ensuring infrastructure quality and completion. When these conditions exist, infrastructure investment catalyzes private participation; when absent, public capex generates construction employment but limited growth beyond initial stimulus.

3.2 Empirical Evidence: Infrastructure Expansion and Impact

The Survey provides substantial evidence on infrastructure expansion across multiple sectors, enabling assessment of program scale and execution effectiveness.

Table 3.1: Infrastructure Development with Quantified Impacts

Infrastructure	FY14 Baseline	Current Status	Change	Economic Impact
National Highways	91,287 km (FY14)	146,572 km (Dec 2025)	+60%	Reduced avg transit time 20-25%
High-Speed Corridors	550 km (FY14)	5,364 km (FY26)	10x expansion	Enables 100+ kmph freight movement
Railway Electrification	~30% (FY14)	99.1% (Oct 2025)	Near-universal	Reduced energy costs, emissions

Rail Track Addition	, (FY14)	3,500 km/year (FY26)	Accelerating	Capacity expansion for freight, passenger
Operational Airports	74 (FY14)	164 (FY25)	+122%	3rd largest domestic aviation market
Electricity Distribution	23% losses	~15% losses	35% reduction	Reduced subsidy burden, theft
Rural Road Connectivity	Partial coverage	Expanding under PMGSY	Ongoing	Agricultural market access improved

Source: Ministry of Finance (2026a); India Brand Equity Foundation (2026); Sector-specific data; Authors' analysis

These metrics demonstrate genuine physical progress beyond financial allocations. The ten-fold expansion in high-speed corridors particularly impacts freight efficiency, enabling trucks to maintain 100+ kmph speeds versus 40-50 kmph on conventional roads, directly reducing logistics costs for manufacturers and traders. Railway electrification near 99.1% reduces energy costs (electricity cheaper than diesel for traction), decreases emissions supporting climate goals, and improves operational efficiency through reduced maintenance complexity.

The airport expansion from 74 to 164 transformed India into the third-largest domestic aviation market, benefiting business travel, tourism, and time-sensitive cargo. Regional connectivity improved substantially, with tier-2 and tier-3 cities gaining air connectivity previously concentrated in metros. This enables businesses to access previously remote markets, facilitates talent mobility as professionals can maintain family ties while working in distant cities, and supports tourism ecosystem development in regions with cultural or natural attractions but previously poor access.

3.3 Sectoral Allocation: Where Capital Flows and Why

Public capital expenditure concentrates on sectors with high externalities, natural monopoly characteristics, or strategic importance where private provision proves inadequate.

Transport Infrastructure: The Largest Allocation

Roads and highways receive the largest share of infrastructure spending, justified by broad economic impact and clear government responsibility. The national highway network expansion from 91,287 km to 146,572 km (+60%) includes not just new construction but also widening existing two-lane roads to four-lane or six-lane configurations, improving safety and capacity. The Bharatmala program focuses on economic corridors, border roads, and coastal connectivity, strategically targeting routes with high economic potential rather than uniform expansion.

Railway infrastructure modernization includes track doubling and electrification (99.1% complete), dedicated freight corridors connecting major economic centers, station redevelopment combining transport with commercial real estate, and high-speed rail projects (Mumbai-Ahmedabad Bullet Train as flagship). The freight corridor strategy particularly impacts manufacturing competitiveness by reducing rail freight costs and transit times, enabling firms to compete from inland locations versus coastal concentration.

Urban Infrastructure: Addressing Quality-of-Life Deficits

Urban infrastructure spending addresses critical gaps in metros and growing tier-2 cities: metro rail systems expanding in over 20 cities, reducing congestion and commute times; water supply and sewerage infrastructure improving coverage and treatment capacity (though only 28% of urban wastewater currently treated, indicating substantial remaining gap); solid waste management systems handling increasing volumes from urbanization and consumption growth; and affordable housing initiatives addressing the estimated 30 million unit shortage by 2030.

The affordable housing shortage merits particular attention as binding constraint on labor mobility. Workers cannot relocate to opportunity centers (metros, industrial clusters) if housing costs consume excessive income shares or adequate housing remains unavailable. This constraint reduces labor market efficiency, keeping productive workers in lower-productivity locations. The Survey's emphasis on market-based wastewater reuse for industrial and construction

activities indicates recognition that infrastructure challenges require innovative solutions beyond traditional public provision.

Energy and Digital Infrastructure: Enabling Transitions

Energy infrastructure investment supports India's transition toward renewable energy and improved distribution. Transmission infrastructure connects renewable energy zones (solar in Rajasthan, Gujarat; wind in Tamil Nadu, Gujarat) to consumption centers. Distribution upgrades reduce technical and commercial losses from 23% to ~15%, improving utility finances and reducing subsidy burdens. Smart grid deployment enables demand management and distributed generation integration.

Digital infrastructure, though less capital-intensive than physical infrastructure, generates disproportionate productivity impact. Fiber optic network expansion, particularly BharatNet connecting gram panchayats, enables digital service delivery to rural areas. Data center capacity expansion supports cloud services and AI workloads. 5G rollout enables new applications in manufacturing (Industry 4.0), healthcare (telemedicine), and agriculture (precision farming). These investments complement physical infrastructure, with digital tools optimizing logistics, energy distribution, and service delivery.

3.4 Execution Challenges: From Allocation to Impact

Infrastructure's economic benefit depends critically on execution effectiveness. Allocation represents intention; completion determines impact. Multiple bottlenecks constrain execution, requiring attention beyond simply maintaining spending levels.

Land Acquisition: The Persistent Bottleneck

Land acquisition remains the single largest cause of project delays in India. Despite legal framework reforms (Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013), practical implementation faces challenges: social impact assessments and consent requirements extend timelines substantially; compensation determination involves complex valuation disputes; rehabilitation and resettlement obligations create long-term monitoring needs; and litigation over acquisition notices delays project commencement by years.

State variations in land acquisition efficiency create geographic disparities in infrastructure development. States with streamlined processes (Gujarat, Andhra Pradesh) attract more infrastructure projects and consequently private investment, while states with protracted land disputes see projects delayed or relocated. This reinforces regional inequalities as infrastructure-rich states become more attractive investment destinations, creating self-reinforcing divergence.

Environmental Clearances: Balancing Development and Sustainability

Environmental clearance processes involve multiple stages, screening, scoping, public consultation, expert appraisal, each consuming month or years. Recent reforms attempted to streamline processes while maintaining environmental safeguards, but implementation remains inconsistent. Projects in ecologically sensitive areas face particular scrutiny, sometimes appropriately (protecting Western Ghats, coastal zones) and sometimes excessive (routine projects delayed for minor concerns).

The challenge lies in distinguishing legitimate environmental protection from process-driven delay. Expedited clearance for projects with minimal environmental impact while rigorous assessment for genuinely risky projects would improve overall outcomes. Current system treats diverse projects, similarly, creating unnecessary delays for low-impact projects while potentially inadequate scrutiny for high-impact ones processed under time pressure.

Project Management Capacity: Skills and Execution

Infrastructure project management requires specialized skills in engineering, contract management, quality control, and stakeholder coordination. India faces capacity constraints across these dimensions: engineering capability exists but often concentrated in private consultants rather than government departments; contract management skills vary substantially, with sophisticated entities (NHAI, dedicated freight corridor corporation) performing well while others struggle; quality control during construction often inadequate, leading to premature deterioration requiring early reconstruction; and inter-agency coordination challenges when projects involve multiple government departments or federal-state interfaces.

The Survey's identification of state capacity as binding constraint directly addresses these execution limitations. Building institutional capacity, training project managers, establishing standard operating procedures, creating specialized implementing agencies, and developing performance measurement systems, proves as critical as maintaining budget allocations. Without execution capacity, spending targets may be met through low-quality projects that deteriorate quickly, providing limited economic benefit despite substantial expenditure.

3.5 Corporate Implications: Positioning for Infrastructure Opportunity

Sustained public capital expenditure at 4% of GDP creates multi-year opportunity cycle for firms across the infrastructure value chain. However, capitalizing on this opportunity requires understanding sector dynamics, competitive positioning, and risk management.

EPC and Construction: Direct Beneficiaries with Execution Risk

Engineering, Procurement, and Construction firms face sustained demand from infrastructure expansion. The 60% highway network expansion and 3,500 km annual rail track addition create order book visibility extending years forward. However, sector dynamics require careful strategic positioning. Large infrastructure projects are increasingly awarded to firms with proven execution track record, balance sheet strength to finance mobilization and working capital, and technical capability for complex projects (tunneling, bridge construction, difficult terrain). This concentrates opportunities among established players while smaller firms face entry barriers.

Margin dynamics reflect competitive intensity and execution risk. EPC margins remain compressed in commodity road construction as competition intensifies, but specialized segments (tunnels, complex bridges, metro rail systems) command premium margins given limited competition and higher barriers to entry. Project selection becomes critical, firms accepting projects with inadequate margins to maintain turnover face completion losses when cost overruns emerge, while selective bidding focusing on well-structured projects with reasonable risk allocation enables profitable growth.

Working capital intensity poses particular challenge. Infrastructure projects typically involve delayed payments, retention money, and reconciliation disputes. Firms require substantial working capital to bridge payment delays, putting pressure on smaller players with limited access to credit. Banking sector health (NPAs at historic lows, credit growing 14.5%) improves working capital financing availability, but firms must manage cash cycles carefully to avoid liquidity stress despite healthy order books.

Building Materials: Volume Growth with Competitive Pressure

Cement, steel, and aggregate suppliers benefit from sustained infrastructure demand. Cement consumption correlates closely with construction activity, with infrastructure projects consuming substantial volumes. Steel demand from rebar in concrete structures, structural steel in bridges, and rail track expansion creates sustained off-take. However, competitive dynamics constrain margin expansion despite volume growth.

Cement industry faces overcapacity in many regions, limiting pricing power despite demand growth. Strategic positioning requires balancing capacity expansion to capture volume growth against avoiding overcapacity that would

pressure margins. Location strategy becomes critical, capacity near infrastructure project clusters earns freight advantage versus distant capacity, while regions with limited existing capacity offer better pricing power. Sustainability pressures from carbon emissions create additional challenges, requiring investment in alternative fuels and carbon capture technology that increases costs without immediately generating premium pricing.

Steel sector dynamics differ somewhat as both infrastructure and manufacturing (particularly PLI-driven capacity expansion) drive demand. Specialization in long products (rebar, structural steel) for infrastructure versus flat products (sheets, coils) for manufacturing enables firms to position strategically. Infrastructure focus provides volume growth from public capex, while manufacturing exposure offers diversification and potentially better margins in specialty grades.

Infrastructure Finance: Capturing Long-Term Returns

Infrastructure's long gestation and stable cash flows (particularly for revenue-generating assets like toll roads, airports, ports) create attractive financing opportunities for patient capital. Infrastructure Investment Trusts (InvITs) enable infrastructure developers to monetize completed assets while recycling capital into new projects. Institutional investors (pension funds, insurance companies, sovereign wealth funds) seek long-duration assets to match liabilities and find infrastructure attractive.

However, financing success depends on asset quality and revenue certainty. Revenue-generating infrastructure with established traffic and clear tariff mechanisms (operational toll roads with historical traffic data, ports with long-term contracts) attracts financing at competitive rates. Social infrastructure without revenue streams (rural roads, government buildings) or projects with uncertain traffic (new highways in developing regions) require government support through viability gap funding, availability-based payments, or guarantees.

The banking sector's improved health (NPAs at 2.2%, credit growth 14.5%) enhances infrastructure financing availability. However, asset-liability mismatch remains concern as banks finance long-tenure infrastructure from shorter-tenure deposits, creating refinancing risk. NBFCs specializing in infrastructure finance, bond market development for infrastructure funding, and InvIT growth provide diversified financing sources reducing banking system dependence.

Logistics and Warehousing: Leveraging Connectivity Improvements

Infrastructure improvement directly benefits logistics providers through reduced transit times, lower vehicle operating costs on better roads, and improved last-mile connectivity. The 60% highway expansion and high-speed corridor development enable hub-and-spoke distribution models previously constrained by poor road connectivity. Logistics costs decline from 13-14% toward 10-11% of GDP improves competitiveness for all sectors relying on goods movement.

Warehousing strategy evolves with infrastructure development. Improved highways enable consolidation of warehouses in strategic locations (near ports, production clusters) serving larger geographic areas versus fragmented warehousing in every district. This consolidation improves inventory management, reduces total warehouse costs, and enables economies of scale in operations. However, it requires sophisticated IT systems for inventory visibility, demand forecasting, and route optimization.

E-commerce growth intersects with infrastructure improvement creating compounded opportunity. E-commerce penetration requires reliable logistics, timely delivery, package tracking, returns handling, that depends on infrastructure quality. As infrastructure improves, e-commerce viability extends to smaller towns and rural areas, expanding addressable market. Logistics firms that build capabilities in e-commerce fulfillment while leveraging infrastructure improvements can capture growing market share in expanding segments.

Real Estate and Urban Development: Infrastructure-Linked Appreciation

Infrastructure development drives real estate value appreciation through improved accessibility and amenity provision. Metro rail construction increases property values along corridors, particularly near stations. Highway development opens previously remote areas for residential and commercial development. Airport expansion enables surrounding area urbanization for aviation-related commercial activity, hospitality, and residential development for aviation employees.

However, the Survey's identification of affordable housing shortage (30 million units by 2030) suggests that mass-market housing offers greater opportunity and policy support than premium segments. Government schemes (PMAY - Pradhan Mantri Awas Yojana continuation), potential tax incentives, and infrastructure provision in peri-urban areas create enabling conditions for affordable housing development. Developers who can achieve cost efficiency through industrialized construction, scale economies, and efficient project management while maintaining acceptable quality standards can build substantial businesses addressing this shortage.

Urban infrastructure improvement, water supply, sewage, electricity, make previously undevelopable land viable for construction. Peri-urban areas with basic infrastructure can support residential development at affordable price points, if transport infrastructure (roads, metro, bus rapid transit) provides reasonable connectivity to employment centers. This creates phased development opportunity as infrastructure gradually extends into currently under-served areas.

While infrastructure investment provides the physical foundation for growth, India's industrial strategy centers on translating this foundation into manufacturing competitiveness and global value chain integration. The Production Linked Incentive schemes, semiconductor mission, and innovation initiatives represent the policy architecture for this manufacturing push. We examine next whether this industrial policy can deliver sustained competitiveness or merely temporary activity sustained by subsidies.

Chapter 4. Industrial Policy, Manufacturing Push, and Supply Chain Realignment

India's industrial policy framework represents a calculated departure from three decades of relative laissez-faire toward active state involvement in shaping manufacturing development. This shift, embodied in Production Linked Incentive schemes, the semiconductor mission, and quality control orders, signals recognition that industrial competitiveness in complex modern value chains requires more than factor cost advantage and macroeconomic stability. Understanding whether this policy architecture can deliver sustained competitiveness versus temporary subsidy-dependent activity requires examining both theoretical foundations and emerging empirical evidence.

4.1 The Manufacturing Competitiveness Challenge

Manufacturing contribution to India's GDP has stagnated around 15-17% for decades, despite successive government initiatives promising to raise this to 25%. This persistent underperformance reflects multiple binding constraints that policy must address simultaneously rather than sequentially.

Scale Economies and First-Mover Disadvantages

Modern manufacturing, particularly in electronics, automobiles, and machinery, exhibits substantial economies of scale. Firms achieve competitive unit costs only at production volumes enabling fixed cost amortization across millions of units. China and other East Asian economies established scale production decades ago, creating entrenched advantages in supply chain density, workforce skills, and technological learning. Indian firms entering these sectors face chicken-and-egg dilemmas: achieving competitive costs requires scale, but winning orders to build scale requires competitive costs.

This first-mover disadvantage justifies temporary protection or subsidies enabling domestic firms to traverse the learning curve and achieve minimum efficient scale. However, permanent protection leads to inefficiency, while premature subsidy withdrawal kills nascent industries before reaching viability. Calibrating incentive duration and withdrawal strategy becomes critical policy challenge.

Supply Chain Ecosystem Development

Complex manufacturing requires dense supplier ecosystems providing components, tooling, testing services, and maintenance support within short lead times and reasonable costs. Electronics manufacturing needs chip packaging, PCB fabrication, testing equipment, specialized chemicals, and clean room facilities. Automobile production requires stamping dies, casting facilities, electronics components, and testing infrastructure. These ecosystem elements cannot be imported economically for every production run; they must exist locally.

India's supplier ecosystems remain thin compared to China or Southeast Asia, particularly for electronics and precision engineering. Creating ecosystems requires coordination, anchor manufacturers provide demand certainty enabling supplier investments, while supplier presence attracts additional manufacturers. PLI schemes attempt to solve this coordination problem by subsidizing anchor manufacturers (Samsung, Foxconn in electronics) whose presence enables supplier ecosystem development around them.

Quality and Productivity Gaps

Indian manufacturing productivity lags international benchmarks across most sectors. Labor productivity (output per worker) stands at 30-40% of Chinese levels in comparable industries, capital productivity shows similar gaps, and total factor productivity (output per unit of all inputs combined) indicates efficiency deficits beyond simple factor intensity differences. These gaps reflect multiple sources: outdated machinery and technology in many firms, inadequate worker training and skill development, quality control process weaknesses leading to rejection and rework, and management practices focused on cost minimization over continuous improvement.

Addressing productivity requires investment in technology, training, and management capacity that many firms, particularly SMEs, struggle to finance. Quality Control Orders (QCOs) attempt to force productivity improvement by setting minimum quality standards, compelling firms to upgrade or exit. However, QCOs risk eliminating firms before they can upgrade if implementation timelines prove too aggressive or support for compliance insufficient.

4.2 PLI Schemes: Design, Performance, and Evolution

The Production Linked Incentive scheme represents India's most ambitious industrial policy intervention since liberalization. Launched in 2020 and expanded to 14 sectors with ₹1.97 lakh crore outlay, PLI provides incentives of 4-6% of incremental sales for firms achieving production and investment targets. Performance through September 2025, ₹2 lakh crore actual investment, ₹18.7 lakh crore incremental production, 12.6 lakh jobs, ₹8.2 lakh crore exports, demonstrates scale achievement beyond previous industrial policy attempts.

Electronics manufacturing, particularly mobile phones, showcases PLI success. Production grew from ₹1.8 lakh crore (FY18) to ₹4.1 lakh crore (FY24), with exports reaching ₹1.2 lakh crore. Global brands, Apple, Samsung, Xiaomi, established significant Indian manufacturing, with Apple producing 14% of global iPhones in India by 2025. Component manufacturing expanded to include PCBs, chargers, camera modules, and batteries, though core semiconductor fabrication remains absent.

The electronics success stems from specific enabling conditions: massive global demand providing scale opportunity once cost competitiveness achieved, China+1 diversification strategies by multinationals seeking supply chain risk reduction, India's large domestic market enabling firms to build volume before exporting, and government coordination between central PLI incentives and state-level infrastructure provision (dedicated electronics manufacturing clusters with power, water, testing facilities). However, technology intensity remains limited, assembly and testing rather than design or advanced component manufacturing, raising questions about value capture and upgrading trajectory.

Pharmaceutical PLI targets bulk drugs and advanced pharmaceutical products where India has competency but faces Chinese competition in active pharmaceutical ingredients (APIs). Investment commitments of ₹15,000+ crore across 215 applications aim to reduce API import dependence from 70% to 30-35%. Initial results show production in key APIs (paracetamol, ibuprofen, ciprofloxacin) that India previously imported almost entirely from China.

However, challenges persist. Chinese API manufacturers achieved scale and cost structures over decades that enable pricing below Indian production costs even before PLI subsidies. Indian pharmaceutical companies show reluctance to backward integrate into API manufacturing given lower margins versus formulation business. Environmental regulations on effluent treatment increase costs versus less stringent enforcement in competing countries. PLI success requires sustained subsidies until Indian firms achieve Chinese cost parity through scale and process improvements, potentially 5-7 years.

Not all PLI sectors replicate electronics success. Textile sector (garment manufacturing and MMF - Man-Made Fiber) shows modest uptake as Bangladesh and Vietnam maintain labor cost advantages and better trade access to key markets. Advanced chemistry cell (battery) manufacturing faces technology uncertainties (lithium-ion versus alternatives) and capital intensity creating entry barriers. Auto components show steady progress building on existing capabilities but limited transformation. Specialty steel attracted applications though production remains early-stage.



Technology intensity remains limited, assembly and testing rather than design or advanced component manufacturing

These variations indicate that PLI effectiveness depends on sector-specific conditions: existing capabilities to build upon, global demand growth creating expansion opportunity, technology maturity reducing obsolescence risk, and reasonable capital requirements enabling multiple participants. Sectors lacking these conditions face challenges converting PLI incentives into sustained competitive manufacturing.

4.3 Semiconductor Mission: Strategic Bet on Critical Technology

The India Semiconductor Mission, approved with ₹76,000 crore incentive framework, represents strategic positioning in semiconductors, the most critical technology of the 21st century underpinning everything from smartphones to satellites, automobiles to artificial intelligence. Ten projects approved across six states with cumulative investment of ₹1.60 lakh crore focus on assembly, testing, marking, and packaging (ATMP) and fabrication (fabs), though advanced logic chip fabrication (sub-7 nanometer nodes) remains beyond current ambitions.

Semiconductor policy extends beyond conventional economic cost-benefit calculation to strategic autonomy considerations. Supply chain disruptions during 2020-2022 demonstrated global semiconductor dependence, with automobile production halted, electronics shortages, and national security concerns about technology access. India imports nearly all semiconductors consumed domestically, creating vulnerability to supply disruptions and technology denial.

Building domestic semiconductor manufacturing capability, even in mature technologies (28 nanometer and above), provides strategic buffer against disruptions and demonstrates credibility as semiconductor manufacturing location for global companies. This credibility enables participating in semiconductor alliances (CHIPS Alliance, Indo-US semiconductor partnership) and accessing technology transfers that pure importers cannot command.

Semiconductor fabrication requires massive capital, \$5-10 billion for leading-edge fab, \$2-4 billion for mature-node fab, with technology obsolescence risk as node sizes shrink and process technologies evolve. ATMP facilities require less capital (\$500 million - \$1.5 billion) but face intense competition from Southeast Asian locations with established ecosystems.

India must build ecosystem elements absent currently: ultrapure water and chemical supply, continuous power with no interruptions, cleanroom construction expertise, specialized equipment maintenance, and trained engineers familiar with semiconductor processes. These ecosystem requirements explain why semiconductor manufacturing concentrates geographically (Taiwan, South Korea, China) rather than dispersing globally, collocation creates positive externalities through knowledge spillovers and specialized input availability.

Realistic Positioning: Mature Nodes and ATMP

India's semiconductor ambitions appropriately focus on mature nodes (28nm, 40nm, 65nm) and ATMP rather than competing in cutting-edge logic manufacturing (3nm, 5nm) dominated by TSMC and Samsung with decade-plus technological leads. Mature nodes serve substantial markets, power management, automotive electronics, industrial control, consumer IoT, with growing demand as these applications expand. ATMP addresses the backend of semiconductor manufacturing where India can establish capabilities faster than in fabrication.

This positioning provides learning foundation while avoiding impossible competition with established leaders. Success in mature nodes and ATMP could enable gradual upgrading toward more advanced capabilities over 10-15 year horizon, similar to trajectories followed by Taiwan, South Korea, and China, though without guarantee of equivalent success given competitive intensity and technology barriers.

Chapter 5. Financial Sector, Credit Deepening, and Risk Transmission

India's financial sector transformation from stressed balance sheets in 2016-2018 to current historic health enables corporate financing and creates investment opportunities. However, understanding risk transmission mechanisms and early warning indicators remains critical for corporate treasury and risk management functions.

5.1 Banking Sector: Health Metrics and Credit Dynamics

Gross NPAs declining to 2.2% and Net NPAs to 0.5% represent multi-decadal lows, reflecting asset quality cleanup, economic recovery, and improved underwriting standards. This health enables credit growth acceleration to 14.5% overall and 21.8% for MSMEs. For corporates, this translates to improved credit availability, competitive pricing, and willingness to finance expansion and working capital.

However, credit quality bears monitoring. Rapid credit growth, particularly in unsecured retail (personal loans, credit cards growing 20%+), can sow seeds of future stress if underwriting standards slip during competitive expansion. Corporate treasurers should assess banking partner credit portfolios, avoiding excessive concentration with lenders showing aggressive growth in riskier segments that may face future stress.

5.2 Capital Markets: Depth and Household Financialization

Primary market resource mobilization of ₹53 lakh crore over FY22-FY26 demonstrates capital market depth enabling equity financing at scale. Household equity ownership rising to 18.8% with ₹53 lakh crore wealth increase creates stable domestic investor base, reducing dependence on volatile foreign flows. Unique investors crossing 12 crore indicates broadening participation beyond traditional investor class.

This financialization creates both opportunity and risk for corporates. Opportunity: deeper equity markets enable growth capital raising without excessive leverage. Risk: heightened market sensitivity to corporate performance and governance, as retail investors increasingly hold stocks directly requiring transparent communication and consistent delivery. Corporate IR functions must evolve from institutional investor focus to broader stakeholder communication.

5.3 Risk Concentration and Early Warning Indicators

Despite overall health, pockets of concentration merit attention. Real estate and construction sectors, though improved, retain elevated exposure in some banks. Unsecured retail credit growth at 20%+ raises questions about borrower quality if economic conditions deteriorate. NBFCs, while providing valuable credit particularly to underserved segments, face asset-liability mismatches and refinancing risks if market conditions tighten.

Corporate risk managers should monitor: banking partner credit concentration by sector, NBFC refinancing access and cost trends as early warning of tightening conditions, commercial paper and short-term debt market spreads indicating credit availability, and regulatory communications from RBI on emerging concerns. These indicators provide advance signals before systemic stress materializes, enabling proactive risk management.

5.4 Corporate Finance Implications

Current environment favors strategic capital structure optimization. Low NPAs and competitive credit growth enable refinancing of expensive debt at lower rates, improving interest coverage. Capital market depth supports equity issuances for growth without excessive dilution. However, firms should use favorable conditions to strengthen balance sheets rather than over-leveraging, as financial cycles eventually turn.

Working capital financing shows particular improvement. MSME credit growth at 21.8% addresses a historic pain point for smaller firms. Trade credit availability improves as supplier confidence in buyer creditworthiness increases with

economic stability. Supply chain finance platforms leveraging digital infrastructure enable efficient working capital management. Firms should optimize working capital cycles, utilizing available credit for strategic inventory and receivables management rather than merely bridging operational shortfalls.

Chapter 6. Labour, Human Capital, and the Productivity Question

India's demographic dividend, working-age population growing while dependency ratios decline, represents either tremendous opportunity or looming crisis depending on skill development, employment generation, and productivity improvement. The Survey's labor market data and skill development initiatives reveal both progress and persistent gaps that constrain growth potential.

6.1 Employment Trends: Quantity Versus Quality

Total employment reaching 56.2 crore persons with unemployment declining to 4.8% suggests headline labor market health. However, quality metrics reveal challenges. The 31 crore workers registered on e-Shram operate in informal sector with irregular incomes, limited social security, and vulnerability to economic shocks. While this informality provides flexibility and entry opportunities for low-skilled workers, it also creates productivity constraints as informal firms remain small, under-capitalized, and technologically backward.

Female LFPR at 35.3%, though rising, indicates massive underutilization of human capital. International comparisons show female LFPR of 60-70% in developed and many emerging economies, suggesting India could substantially expand its effective workforce. Barriers include social norms restricting women's work in certain sectors or locations, inadequate transport infrastructure creating safety concerns for commuting women, limited childcare facilities forcing women to choose between caregiving and employment, and workplace cultures unwelcoming to female participation.

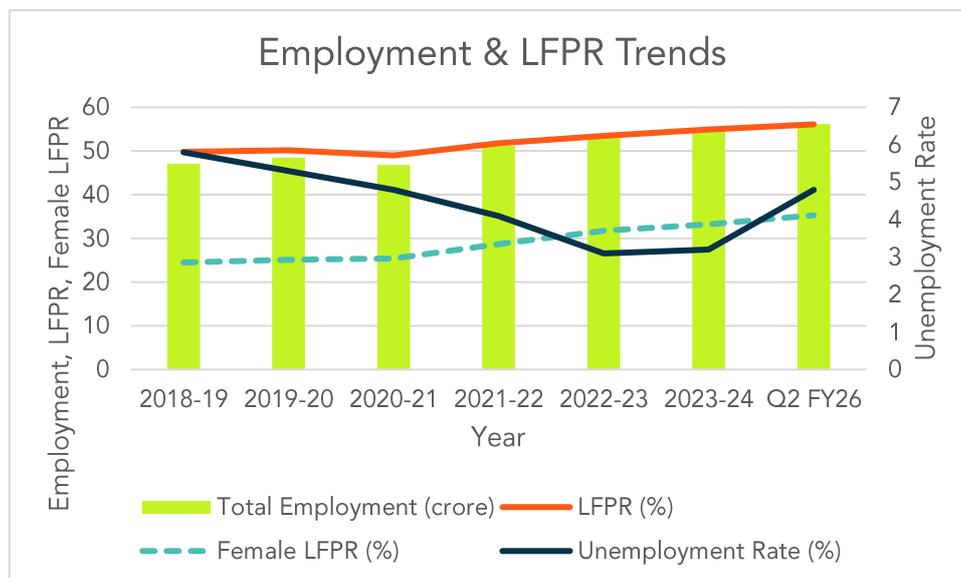


Figure 6.1: Employment & LFPR Trends (Source: Survey - PLFS data)

Figure 6.1 demonstrates labor market improvement alongside persistent challenges. Total employment recovered from pandemic trough (46.8 crore in FY21) to 56.2 crore in Q2 FY26, while LFPR increased from 49.0% to 56.1%, indicating labor force expansion alongside job creation, a healthier pattern than employment growth with declining LFPR (discouraged workers exiting).

However, female LFPR at 35.3%, though rising from 24.5% in FY19, remains substantially below male LFPR (~75%) and international comparators (60-70%). This represents 15-20 crore potentially employable women constrained by social norms, transport infrastructure, childcare availability, and workplace cultures. Corporates addressing these barriers through flexible work, safe transport, and inclusive policies can access underutilized talent pool, critical competitive

advantage as skilled labor markets tighten. Unemployment uptick to 4.8% in Q2 FY26 from 3.2% in FY24 warrants monitoring as potential early warning of growth moderation.

For corporates, these dynamics create both challenge and opportunity. Challenge: tight labor markets in skilled occupations drive wage inflation and retention difficulties, particularly in IT, engineering, and managerial roles where demand outpaced supply. Opportunity: firms that proactively address female participation barriers through flexible work arrangements, safe transport, childcare support, and inclusive cultures can access this underutilized talent pool, gaining competitive advantage in recruitment and retention.

6.2 The AI Disruption: 38 million Workers at Risk

The Survey's estimate that AI transition could impact 38 million organized sector employees by 2030 deserves careful interpretation. This doesn't mean 38 million job losses, but rather 38 million workers whose roles will change substantially, requiring new skills or risk displacement. Historical technology transitions, mechanization, computerization, internet, show net job creation alongside displacement, but transition periods create winners and losers with significant adjustment costs.

AI impact varies by occupation type. Routine cognitive tasks, data entry, basic accounting, customer service queries, document processing, face high automation risk as AI handles these efficiently. However, jobs requiring complex judgment, creativity, emotional intelligence, or physical dexterity in unstructured environments remain less susceptible near-term. The challenge: India's education system produces many workers for routine cognitive roles, creating mismatch as these roles automate.

Corporate response requires proactive reskilling at scale. Firms cannot wait for education system reforms to produce AI-ready workforce; they must invest in continuous learning, partnering with educational institutions to co-develop curricula, creating internal academies for technical and soft skill development, and fostering cultures of adaptability where workers expect and embrace continuous skill updating rather than static career trajectories.

AI Integration Timeline and Corporate Readiness

Recent developments accelerate AI integration timelines. IBM's CEO announced 30% workforce reduction over 5 years through AI-driven automation of back-office functions, validating the Survey's 38 million worker impact estimate as conservative. Financial services, IT support, and administrative roles face immediate displacement risk, while manufacturing, logistics, and professional services follow on 3–5-year horizon.

Corporate AI readiness requires three parallel tracks.

- **Technical integration:** Deploying AI tools for routine tasks (document processing, customer queries, data analysis) within 12-18 months.
- **Workforce reskilling:** Training employees for AI-augmented roles emphasizing judgment, creativity, and relationship management that AI cannot replicate.
- **Business model evolution:** Identifying new revenue opportunities from AI capabilities – personalization at scale, predictive analytics, automated decision-making.

However, AI investment shows winner-take-most dynamics. Early movers establish data advantages and learning curves that late entrants struggle to overcome, suggesting that firms deferring AI adoption risk permanent competitive disadvantage despite short-term cost savings from delayed investment.

6.3 Skill Development: Persistent Gaps and New Approaches

India's skill development challenge extends beyond quantity to quality and relevance. Industrial Training Institutes (ITIs) produce 2.5 million graduates annually, but curriculum often lags industry requirements, equipment remains outdated, and faculty lack industry exposure. Engineering colleges graduate 1.5 million annually, yet industry estimates only 20-

30% possess employable technical and communication skills, creating paradox of unemployment alongside unfilled vacancies.

The industry-academia disconnect stems from structural issues. Academic incentives prioritize research publications over teaching effectiveness or industry collaboration. Curriculum approval processes move slowly, lagging rapid technological change. Faculty compensation and career paths discourage industry-experienced professionals from academic roles. Students focus on degree credentials rather than skill acquisition, creating misaligned incentives.

Addressing these gaps requires multi-pronged approach. Government initiatives include National Skills Qualification Framework standardizing competency levels, apprenticeship scheme expansion providing on-job training, and sector skill councils establishing industry-specific standards. However, progress remains incremental. Corporates increasingly establish captive training centers, hire for aptitude rather than specific skills with intensive onboarding programs, and partner with universities for co-designed courses with industry mentorship and internships.

6.4 Productivity Challenge: Beyond Labor Intensity

India's labor productivity (output per worker) at 30-40% of Chinese levels across comparable industries reflects not just capital intensity differences but skill deficits, management practices, and organizational efficiency. Simply adding capital without addressing these underlying factors yields diminishing returns, as evidenced by India's capital productivity also lagging international benchmarks.

Total Factor Productivity (TFP), output improvement beyond input increases, grows slowly in India compared to East Asian economies during comparable development stages. This suggests efficiency gains from technological adoption, process improvements, and organizational learning remain constrained. Factors include: limited R&D investment (0.64% of GDP, with business at 41%), weak technology absorption capacity even when technology is available, management practices focused on cost control over continuous improvement, and regulatory complexity diverting management attention from productivity to compliance.

For firms, productivity improvement offers competitive advantage more sustainable than cost reduction. Investments in automation, process digitization, worker training, and management capability development generate returns through superior efficiency rather than factor cost arbitrage. As wages rise with tightening labor markets, productivity-driven competitiveness becomes essential for maintaining profitability.

6.5 Strategic Implications for Firms

Labor market dynamics require strategic responses across talent acquisition, retention, and productivity. For talent acquisition: expand recruitment beyond traditional sources to tap underutilized pools (women, tier-2/3 city talent, mid-career switchers); invest in employer branding as labor markets tighten; develop apprenticeship and campus programs building talent pipelines early.

For retention: competitive compensation remains important but insufficient; career development opportunities, learning culture, and purposeful work increasingly matter to younger workforce; flexible work arrangements attract workers with family commitments, particularly women; and inclusive cultures retain diverse talent providing broader perspectives.

For productivity: systematic automation of routine tasks frees workers for higher-value activities; digital tools enable workflow optimization and real-time performance management; continuous learning programs keep skills current as technology evolves; and management training disseminates best practices improving organizational efficiency. These investments compound over time, creating sustainable competitive advantage as demographic dividend period progresses.

Chapter 7. Climate Economics, Sustainability, and Transition Risks

Climate considerations shift from peripheral CSR activity to core strategic concern as physical risks affect operations and transition risks reshape competitive dynamics. The Survey's framing of climate as macroeconomic risk validates this elevation, requiring systematic integration into corporate strategy, capital allocation, and risk management.

7.1 Physical Risks: Operational and Supply Chain Vulnerabilities

Physical climate risks, flooding, heat stress, water scarcity, extreme weather, increasingly disrupt operations and supply chains. Flooding affects coastal facilities and low-lying areas, disrupting production and damaging inventory. Heat stress reduces worker productivity (studies estimate 10-15% productivity loss at temperatures above 35°C) and increases cooling costs. Water scarcity constrains operations in water-intensive industries (textiles, chemicals, food processing) as groundwater depletes and seasonal availability becomes erratic.

Systematic risk assessment requires: mapping facility locations against flood zones, heat stress projections, and water stress areas; analyzing supply chain vulnerabilities where key suppliers face climate exposure; evaluating logistics route reliability as infrastructure faces climate stress; and assessing agricultural input availability for food processing and related industries as crop patterns shift with changing climate.

Mitigation strategies include: facility hardening through flood barriers, backup power, and water recycling systems; supply chain diversification reducing dependence on climate-vulnerable regions; logistics flexibility enabling route switching when primary corridors face disruption; and strategic inventory buffers for critical inputs vulnerable to climate-driven supply interruptions.

7.2 Transition Risks: Policy, Technology, and Market Shifts

Transition risks emerge from policy changes, technological evolution, and market preference shifts toward low-carbon alternatives. Carbon pricing mechanisms, whether explicit carbon taxes or implicit through regulatory compliance costs, increase operating expenses for carbon-intensive operations. Technology transitions, electric vehicles, renewable energy, green hydrogen, disrupt incumbent business models in automotive, power generation, and industrial processes. Market shifts, customer preference for sustainable products, investor ESG screening, green procurement by large buyers, create competitive disadvantages for firms lagging sustainability transition.

Sectoral exposure varies substantially. High transition risk sectors include: thermal power generation facing renewable energy competition and potential carbon pricing; fossil fuel extraction and refining confronting long-term demand decline; carbon-intensive manufacturing (cement, steel, chemicals) requiring technology and process shifts to remain competitive; and internal combustion vehicle manufacturing as electrification accelerates.

Managing transition risk requires strategic positioning. For high-exposure firms: early transition creates first-mover advantage before regulation forces expensive crash programs; gradual capability building in low-carbon technologies maintains competitiveness; and strategic partnerships accessing technologies or markets facilitating transition. For all firms: scenario planning exploring different transition speeds and policy stringencies enables robust strategy; technology monitoring identifying emerging alternatives to current processes; and stakeholder engagement shaping reasonable transition timelines balancing climate goals with economic viability.



Technology transitions, electric vehicles, renewable energy, green hydrogen, disrupt incumbent business models in automotive, power generation, and industrial processes.

7.3 Regulatory Evolution: ESG Disclosure and Compliance

ESG disclosure requirements intensify globally and domestically. SEBI mandates Business Responsibility and Sustainability Reporting (BRSR) for top listed companies, with BRSR Core requiring assurance for largest firms. International frameworks, TCFD, GRI, SASB, create reporting expectations for firms with international investors or customers. European Union's Carbon Border Adjustment Mechanism (CBAM) imposes carbon import taxes, affecting Indian exporters in steel, aluminum, cement, and fertilizers.

Compliance requires building internal capabilities: greenhouse gas emissions measurement across Scope 1 (direct), Scope 2 (purchased energy), and increasingly Scope 3 (value chain); sustainability reporting systems collecting and verifying ESG metrics; assurance processes as disclosure standards demand third-party verification; and governance structures with board oversight of climate risks and sustainability strategy.

Beyond compliance, leading firms derive strategic benefit from sustainability positioning: access to green finance (green bonds, sustainability-linked loans) at favorable pricing; customer preference particularly in B2B procurement where sustainability criteria influence vendor selection; investor attraction as ESG-focused funds expand; and talent attraction as workforce, particularly younger generations, increasingly values purpose-driven employers.

Emerging ESG Requirements and Compliance Deadlines

ESG regulatory requirements intensify over FY26-FY28, requiring proactive corporate preparation. SEBI's Business Responsibility and Sustainability Reporting (BRSR) Core framework mandates reasonable assurance (audit-equivalent verification) for top 1,000 listed companies from FY26, expanding to top 2,500 by FY28. Current limited assurance (management certification) proves insufficient, demanding enhanced data systems, internal controls, and third-party verification processes.

International ESG pressures accelerate parallel to domestic requirements. The European Union's Carbon Border Adjustment Mechanism (CBAM), effective October 2023 for reporting and January 2026 for financial impact, imposes carbon tariffs on imports of steel, aluminum, cement, fertilizers, electricity, and hydrogen. Indian exporters in these sectors face 20-30% cost disadvantage versus EU producers unless carbon intensity improves through technology adoption or carbon credits. CBAM compliance requires verified emissions data (Scope 1, 2, and Scope 3 from key suppliers), creating cascading requirements through supply chains.

Beyond compliance, ESG leadership creates competitive advantages. Access to green financing (green bonds, sustainability-linked loans) provides 25-50 basis points pricing benefit versus conventional debt. Multinational procurement increasingly mandates supplier ESG certifications, affecting market access. Talent attraction improves as workforce, particularly under-40 demographic, preferentially joins purpose-driven employers. Investor flows into ESG funds (\$2.3 trillion globally, growing 15-20% annually) favor high-ESG-rated companies, reducing cost of equity capital.

Climate scenario analysis should extend beyond 2030 Paris targets to 2050 net-zero commitments. Corporations in carbon-intensive sectors (steel, cement, chemicals, power generation) lacking credible decarbonization pathways face stranded asset risks as carbon prices rise, regulations tighten, and green alternatives achieve cost parity.

7.4 Strategic Responses and Capital Allocation

Integrating climate into capital allocation requires explicit carbon and climate risk pricing in investment decisions. Options include: internal carbon price (shadow price) applied to emissions-intensive projects, making low-carbon alternatives more attractive financially; climate scenario stress testing evaluating project robustness across different climate futures; and hurdle rate adjustments increasing required returns for climate-vulnerable or carbon-intensive projects.

Portfolio rebalancing shifts capital toward climate-resilient or transition-enabling activities: renewable energy investments for own consumption or sale; energy efficiency improvements reducing costs while lowering emissions;

circular economy business models minimizing resource consumption; and climate adaptation products and services (water-efficient technologies, heat-resistant materials, flood management solutions) capturing growing market opportunity.

However, transition costs are substantial and timeframes long, particularly for carbon-intensive industries. Firms face trade-offs between short-term profitability from existing high-carbon assets and long-term positioning for low-carbon future. Managing these trade-offs requires: phased transition plans balancing financial performance with climate progress; stakeholder communication explaining transition costs and timelines; and policy engagement advocating for transition support mechanisms (carbon pricing with revenue recycling, technology subsidies, just transition funding) enabling economically viable transformation.

Chapter 8. Digital Public Infrastructure and Productivity Spillovers

Digital Public Infrastructure represents India's distinctive innovation in leveraging technology for inclusive growth. Unlike traditional public infrastructure (roads, ports), DPI creates digital rails enabling private sector innovation and service delivery at unprecedented scale and cost efficiency. Understanding DPI capabilities and integration strategies enables firms to capture productivity benefits while contributing to ecosystem development.

8.1 DPI Architecture and Economic Impact

India's DPI stack comprises three layers: identity (Aadhaar), payments (UPI), and data exchange (Account Aggregator, DigiLocker). These layers create infrastructure for authentication, transactions, and information sharing without each entity building proprietary systems. UPI transactions exceeding 10 billion monthly demonstrate adoption at scale. Financial inclusion metrics, 55.02 crore Jan Dhan accounts, 36.63 crore in rural/semi-urban areas, show reach previously impossible through traditional banking infrastructure.

Economic impact manifests through multiple channels: transaction cost reduction as digital payments replace cash handling costs; market expansion as digital infrastructure enables serving previously economically unviable customers; innovation enablement through platforms creating markets for new services; and formalization as digital transactions create records bringing informal activity into documented economy.

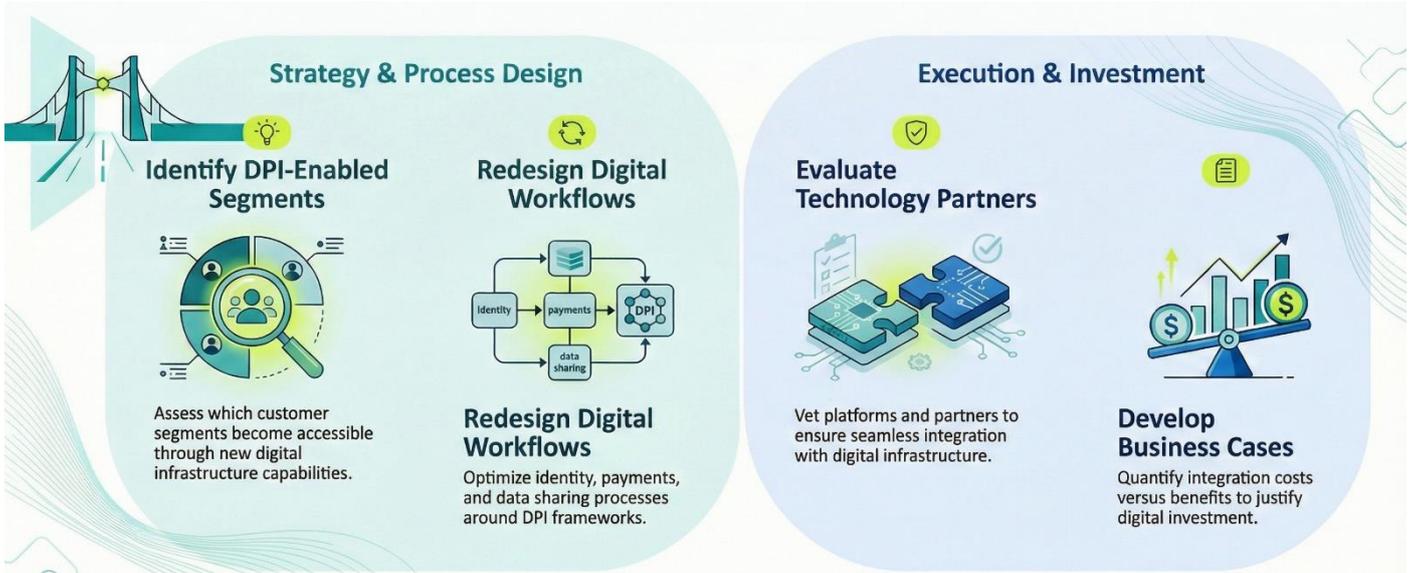
8.2 Corporate Integration Strategies

Firms leveraging DPI gain competitive advantages. Payment acceptance via UPI eliminates need for expensive point-of-sale infrastructure, enabling small merchants to accept digital payments. KYC processes using Aadhaar-based authentication reduce onboarding costs and friction. Credit assessment utilizing Account Aggregator framework (with customer consent) accesses bank statements digitally, improving underwriting while reducing documentation burden.

However, integration requires upfront investment in systems and processes. APIs connecting to DPI platforms need development and testing. Legacy systems require updating to handle digital-first interactions. Staff training ensures effective utilization. Privacy and security controls must prevent misuse of accessed data. These investments pay back through operational efficiency and expanded market access, but require viewing DPI as strategic enabler rather than tactical cost reduction.

8.3 New Business Models Enabled by DPI

DPI enables business models previously infeasible. Microfinance at scale becomes viable as digital disbursement and collection reduce transaction costs below break-even for small-ticket loans. Micro-insurance leveraging digital payments and claims processing serves previously uninsurable low-income segments. Platform marketplaces connecting buyers and sellers rely on digital payments and trust frameworks. Telemedicine utilizing digital identity and payment infrastructure expands healthcare access to remote areas.



Advisory firms can help clients identify and execute DPI-enabled opportunities: assessing which customer segments become accessible with DPI capabilities; redesigning processes around digital identity, payments, and data sharing; evaluating technology partners and platforms for DPI integration; and developing business cases quantifying benefits versus integration costs to justify investments.

Chapter 9. Strategic Implications for Indian Corporates

Translating Economic Survey insights into corporate strategy requires bridging macroeconomic trends with firm-level decision-making across investment timing, competitive positioning, operational efficiency, and risk management. This chapter synthesizes Survey signals into actionable strategic frameworks.

9.1 Investment Timing and Capital Allocation Framework

Current macroeconomic environment, 7.4% growth, 1.7% inflation, accommodative monetary policy, public capex at 4% of GDP, creates favorable conditions for capacity expansion and strategic investments. However, timing requires balancing opportunity against execution risk and global uncertainties.

Investment decision framework should consider: Sector alignment with policy priorities (infrastructure, PLI sectors, digital services) providing tailwinds versus headwinds; Public infrastructure completion timelines affecting project economics, invest when infrastructure materializes, not merely when announced; Competitive positioning relative to peers, early movers capture market share but face execution risk, while fast followers learn from pioneers; and Financial capacity for sustained investment as opportunities often require multi-year commitments.

Capital allocation priorities in current environment: Infrastructure-related investments (EPC, materials, logistics) benefit from sustained public capex; Manufacturing capacity in PLI sectors captures incentives and emerging demand; Technology and automation investments improve productivity as labor costs rise; and Sustainability investments position for regulatory requirements and market preferences while potentially accessing green finance.

9.2 Competitive Positioning: Sectoral Winners and Losers

Survey signals indicate sectors poised for sustained growth versus those facing structural challenges. Winners include Infrastructure and construction benefiting from 4% of GDP public capex; PLI sectors (electronics, pharmaceuticals, specialty chemicals) with policy support and demand growth; Financial services capitalizing on credit deepening and household financialization; Services exports (IT, business services, GCCs) riding global demand; and Green economy (renewable energy, EVs, energy efficiency) with policy and market support.

Challenged sectors face headwinds requiring strategic repositioning: Traditional retail confronting e-commerce competition; Carbon-intensive manufacturing (thermal power, fossil fuels) navigating energy transition; Import-dependent sectors exposed to trade uncertainties; and Labor-intensive manufacturing competing with Bangladesh, Vietnam in garments without automation investments.

ESG as Sectoral Differentiator

Within traditional sectors, ESG performance increasingly determines competitive positioning. In textiles, sustainable manufacturing practices (water recycling, renewable energy, ethical sourcing) command 15-20% price premiums from European and North American brands implementing supply chain ESG requirements. Chemical manufacturers achieving ISO 14001 environmental certification and responsible care principles access multinational procurement versus uncertified competitors locked into domestic, price-sensitive markets.



The Survey indicates differentiated sectoral trajectories, with sustained momentum in infrastructure, PLI-linked manufacturing, financial services, services exports, and the green economy, driven by policy alignment and structural demand.

Conversely, ESG underperformers face market contraction. Coal-based power generators struggle with financing access as banks and institutional investors implement fossil fuel exclusion policies. Carbon-intensive cement manufacturers face CBAM costs on exports while domestic competitors adopting alternative fuels (municipal waste, biomass) gain cost and regulatory advantages.

The ESG divide creates sector bifurcation, leaders capturing premium segments and growth markets, laggards competing on price in shrinking conventional markets.

Strategic responses for challenged sectors: Diversification into adjacent higher-value segments; Technology adoption improving productivity to offset cost disadvantages; Export market diversification reducing concentration risk; and Strategic partnerships accessing capabilities or markets enabling transformation.

9.3 Operational Excellence and Productivity Imperatives

As wage costs rise with labor market tightening and raw material prices remain volatile, operational excellence becomes competitive differentiator. Priority areas include: Digital transformation of core processes (procurement, production, distribution) reducing costs and improving responsiveness; Supply chain optimization leveraging improved infrastructure while building resilience against disruptions; Energy efficiency reducing costs while addressing climate requirements; and Quality systems preventing defects and rework that erode margins.

Productivity measurement and management require: Establishing baseline metrics (output per worker, asset utilization, cycle times); Identifying bottlenecks through process mapping and analysis; Implementing improvements systematically with clear accountability; and Tracking progress with regular reviews and continuous improvement culture.

9.4 Risk Management: Scenario Planning and Resilience

Despite favorable domestic conditions, global uncertainties warrant robust risk management. Key risks include: Trade fragmentation and tariff escalation affecting exports and import costs; Geopolitical tensions disrupting supply chains or market access; Financial market volatility affecting funding access and cost; and Climate events disrupting operations or supply chains.

Three global scenarios merit systematic stress-testing in corporate planning.

- **Scenario 1: Accelerated Fragmentation** – Major economies erect higher tariff barriers (beyond current levels), technology transfer restrictions tighten, and supply chains fragment into competing blocs. Impact: Export-dependent sectors face 15-25% demand reduction; import-dependent manufacturing faces 20-30% input cost increases; services exports relatively insulated but visa restrictions constrain talent mobility.
- **Scenario 2: Synchronous Global Slowdown** – Advanced economies enter recession simultaneously, emerging markets face capital outflows, and commodity prices decline sharply. Impact: Aggregate demand compression affects all export sectors; domestic consumption slows as sentiment weakens; but input costs moderate providing margin relief; corporate funding costs rise as risk premia expand.
- **Scenario 3: Technology Disruption** – AI adoption accelerates beyond current projections, automation economics improve dramatically, and productivity gaps between adopters and laggards widen. Impact: Labor-intensive business models face existential threat; technology investment becomes strategic imperative; first-movers capture disproportionate advantages while fast-followers struggle.

Corporate scenario planning should assign 30-40% probability to baseline continuity, 25-30% each to Scenarios 1-2, and 15-20% to Scenario 3, adjusting capital allocation and capability building accordingly.

Risk mitigation strategies: Scenario planning exploring different risk materializations and response options; Geographic diversification of supply chains and markets reducing concentration; Financial flexibility through moderate leverage

and diversified funding sources; Insurance for insurable risks (property, business interruption, supply chain) transferring risk to carriers.

Board-level oversight requires: Regular risk reviews with management presentations on emerging threats; Stress testing key financial and operational metrics against adverse scenarios; Clear risk appetite statements guiding management decision-making; and Crisis response protocols enabling rapid action when risks materialize.

Chapter 10. Implications for Strategic Advisory

The evolving policy environment and complex strategic landscape create demand for advisory services that bridge macroeconomic analysis with firm-level strategy. Understanding how Economic Survey signals reshape client needs positions consultancies to deliver value in this environment.

10.1 Shifting Client Problem Statements

Traditional consulting questions, market entry, operational optimization, M&A evaluation, increasingly intertwine with policy-related considerations. Clients ask: How do PLI incentives affect our manufacturing footprint decisions? Should we accelerate or delay infrastructure-related investments given public capex trajectory? How do climate regulations reshape our competitive position and require investments? What does AI disruption mean for our workforce and skill requirements?

Navigating the Strategic Drivers of Industrial Evolution

Industrial evolution is currently shaped by a combination of government policy, infrastructure investment, environmental regulation, and technological disruption. This summary highlights the key strategic questions companies must address to maintain their competitive edge.

Policy and Infrastructure Drivers

PLI Incentives Impact Manufacturing Footprint

Financial incentives are a primary factor in determining where companies locate new production facilities.



Infrastructure Timing Linked to Public Capex

Public capital expenditure trajectories should dictate the acceleration or delay of private infrastructure investments.



Regulatory and Tech Transformation

Climate Regulations Reshape Competition

New environmental rules require targeted investments to maintain a strong competitive market position.



AI Reimagines Workforce Skill Needs

Disruption from AI is fundamentally altering labor requirements and essential skill sets for the future.



These questions require capabilities at the intersection of policy analysis, economic reasoning, and operational strategy combination many consultancies struggle to provide. Firms that develop this integrated capability can differentiate in serving clients navigating policy-shaped competitive environments.

10.2 High-Value Advisory Domains

Infrastructure strategy: Helping clients assess public capex opportunities, position competitively in EPC and materials, optimize logistics networks around infrastructure improvements, and structure infrastructure financing. **Policy navigation:** Advising on PLI applications, compliance strategies, regulatory risk assessment, and public-private partnership structuring.

Sustainability and transition: Developing net-zero roadmaps, evaluating climate risks and opportunities, designing ESG frameworks, and accessing green finance. **Talent and capability:** Creating reskilling strategies addressing AI disruption, organizational designs supporting innovation, and diversity initiatives expanding talent pools.

Digital transformation: Integrating DPI capabilities, redesigning customer journeys around digital infrastructure, and developing technology strategies aligned with India's digital ecosystem.

10.3 Differentiation Through Macro-Micro Translation

Many consultancies excel at operational improvement or technology implementation, but fewer bridge policy analysis with corporate strategy. This capability, translating Economic Survey insights into firm-level implications, creates differentiation. It requires: Deep understanding of policy intent and evolution beyond surface-level announcements; Ability to quantify policy impacts on specific business models and competitive dynamics; Sector-specific knowledge to assess which policies matter most for particular industries; and Practical implementation focus ensuring recommendations are actionable given client capabilities and constraints.

Building thought leadership around macro-to-micro translation through research publications, client seminars, and industry engagement positions firms as strategic partners rather than purely execution consultants. This positioning becomes particularly valuable as India's growth model increasingly combines public investment with private execution, requiring firms to understand both domains simultaneously.

Chapter 11. From Economic Survey to Strategic Action

11.1 Core Themes Demanding Corporate Attention

Several themes from the Survey transcend immediate policy announcements to shape medium-term strategic environment: Infrastructure as enduring foundation, public capex at 4% of GDP represent sustained commitment creating multi-year opportunities in construction, materials, logistics, and related sectors. Manufacturing momentum, LI performance demonstrates capability to attract investment and build production ecosystems, though long-term competitiveness requires continuous productivity improvement beyond subsidy period.

Services dominance, contribution of 56.4% to GVA and India's position as seventh-largest services exporter indicates services-led growth continues alongside manufacturing push. Financial sector strength, NPA reduction and credit growth create favorable conditions for leverage and growth capital, though vigilance on emerging risks remains essential. Climate integration, transition from peripheral CSR to core strategy accelerates, requiring systematic climate risk assessment and capital allocation adjustment.

11.2 Strategic Imperatives for the Next 3-5 Years

Firms face several imperatives over the planning horizon: Capacity building for scale and quality, moving beyond cost arbitrage to genuine competitiveness through scale economies, quality systems, and productivity improvement. Talent and technology investment, addressing AI disruption through reskilling while increasing R&D from inadequate current levels. Digital and physical infrastructure leverage, exploiting public infrastructure investments to reduce costs and expand markets while integrating digital public infrastructure into operations.

Climate resilience integration, embedding climate assessment in strategy and capital allocation while developing transition roadmaps. Global positioning in supply chains, capitalizing on supply chain diversification trends while managing execution challenges and quality requirements.

11.3 The Survey as Roadmap for Strategic Planning

This analysis deliberately excludes projected U.S. tariff impacts from our scenario planning, recognizing the highly fluid policy environment where announcements change weekly and implementation timelines remain uncertain. During analysis preparation (January-February 2026), proposed tariff levels ranged from 10% universal baseline to 60% on specific countries and sectors, with frequent modifications based on negotiation dynamics and domestic political considerations.

Rather than incorporating speculative tariff assumptions that would date rapidly, we recommend clients monitor U.S. trade policy developments through dedicated tracking and update export strategy, supply chain configuration, and pricing models quarterly as clarity emerges. The scenario frameworks provided (Scenarios 1-3) incorporate tariff uncertainty within the broader 'Accelerated Fragmentation' scenario but avoid specific tariff-level projections.

The Economic Survey should be read as roadmap indicating government's strategic direction and resource deployment rather than precise forecast. For corporates, this roadmap enables: Identifying sectors and activities receiving policy support and infrastructure investment; Anticipating regulatory evolution and compliance requirements; Assessing government capacity and commitment for announced initiatives; and Positioning for opportunities while managing risks from policy-driven transitions.

However, execution gaps between policy intention and implementation reality require tempering expectations. Infrastructure projects face delays, PLI sectors show varying success, and administrative capacity constraints slow program rollout. Successful corporate strategy accounts for these implementation realities, building flexibility and staging investments to match actual rather than announced progress.

11.4 Final Reflections

India's Economic Survey 2025-26 presents an economy in transformation, from cyclical recovery to structural change, from domestic focus to global integration, from factor accumulation to productivity-driven growth. The combination of macroeconomic stability, policy commitment to infrastructure and manufacturing, and financial sector health creates favorable environment for corporate investment and growth.

However, realizing this potential requires addressing structural constraints, state capacity for effective policy implementation, skill development matching industry requirements, R&D investment supporting innovation, and climate transition balancing growth with sustainability. These challenges demand sustained effort over years, not just policy announcements.

For firms that navigate this environment successfully, aligning strategy with policy direction, building capabilities for sustained competitiveness, managing risks while capturing opportunities, the trajectory offers substantial growth potential. For those that help clients make sense of this complexity and execute effectively, the demand for strategic insight and implementation support will remain strong as India pursues its development ambitions in an uncertain global environment.

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