THEIR VIEW

Economic Survey: It lays out our growth choices amid uncertainty

Its theme of self-reliance may have its roots in the planning era but its substance has changed in the face of global turmoil

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The world has not experienced such high uncertainty as today since World War II ended 80 years ago. Can India sustain the high economic growth that it has maintained since the pandemic under such conditions—or even strengthen its growth potential? This is the central theme of the *Economic Survey 2025-26* released on Thursday. Without necessarily endorsing every point it makes, it must be recognized that the survey has emerged in recent years as a very detailed, evidence-based and sound analysis of the state of the Indian economy and the way forward, a 'must read' for any serious student of the Indian economy. It will take more than a few hours to do full justice to this detailed, 740-page document in this quick column. However, the chief economic advisor's recent column in *Mint*, the survey's preface and abstracts of each of the chapters provide its key takeaways.

Global uncertainty was already high prior to Donald Trump's second term as US President. But he has taken it to a whole new level by upending the global economic and geopolitical order. The survey points out, correctly, that throughout this turmoil, India has maintained high growth (7.4% projected for 2025-26) along with very low inflation. Macroeconomic stability has been supported by sustained fiscal-deficit reduction, high public infrastructure investment, strong bank balance sheets, a manageable current account deficit and low external debt. These earned India three credit rating upgrades last year.

However, emerging market economies such as India that run current account deficits—even manageable deficits—face the risk of international capital inflows reducing or even reversing during periods of high geopolitical uncertainty. Capital outflows lead to currency depreciation, which leads to more capital outflows. The rupee's depreciation has unfortunately accelerated; it dropped by over 6% last year. The survey makes the point that in this uncertain world, capital flows are not driven by sound macro-fundamentals and trade efficiency, but by geopolitics and strategic alliances. In this context, India is punching below its potential, as measured by the Lowy Institute's Power Gap score of (-)4, about the lowest in Asia.

How does India get to its potential? The survey looks at three potential scenarios: one where the outlook is similar to 2025 but with gradually rising uncertainty; a second scenario where geopolitical tensions become more intense, institutional shock absorbers turn weaker and trade-offs sharper between autonomy, growth and stability in a world of hyper-nationalism. Both of these scenarios get a subjective probability of 40-45% in the survey. A residual scenario with a 10-20% probability describes a more catastrophic economic breakdown. In all three scenarios, India is relatively well placed, thanks to its strong macroeconomic fundamentals, a large domestic market, a less financialized growth model and large foreign exchange reserves. These provide India some strategic autonomy. But this does not guarantee insulation from disruption of capital flows and the consequent impact on the rupee. What must India do?

On the fiscal policy front, the survey applauds the Centre's continuing fiscal consolidation, along with its thrust on public infrastructure investment. But it warns of falling expenditure quality in several states, rising unconditional transfers and revenue deficits, which are hurting investor confidence and driving up the cost of capital. Also, the survey identifies persistent current account deficits, which raise the cost of borrowing in global debt markets, as a major structural reason for the high cost of capital.

This points directly to the role of foreign trade. The survey recognizes the contribution of India's surplus in service exports in significantly offsetting the large deficit in merchandise trade, but suggests that infotech-enabled service exports are fragile, unlike the export of manufactured goods. That in turn leads the survey to an industrial policy stance that eschews protection for upstream industries (such as steel, other metals and fibres), which raises the cost of downstream manufacturing, and instead focuses on policy support for downstream manufacturers in facing global hyper-competition led by an export-dominant China.

The priority given to manufacturing over services and a parallel privileging of growth in GDP over growth in employment is embedded in the survey's overarching theme of self-reliance, which dates back to India's strategy of planned development in the 1950s. But the substance is different 75 years later, as is the context. Self-reliance is now combined with the idea of resilience—not just environmental in the context of climate change, but also against geopolitical shocks in a more uncertain world.

Three chapters bear special mention. One relates to AI and how India should adapt to it; a second is about urbanization and cities; and a third is on the relative roles of an entrepreneurial state *vis-à-vis* the private sector and citizens, whose priorities often drive public policies. For the latter, the survey poses a choice between immediate versus future gratification. While valid for many, there is not much to choose here for undernourished and underemployed citizens who need a social safety net for survival. Perhaps a middle path between the two extreme options is best.

These are the author's personal views.

QUICK READ

In the context of a world shaken up by Donald Trump, this year's survey outlines the vulnerability to capital outflows of economies like India's that run persistent current account deficits.

Its focus on manufacturing over services and GDP growth over employment growth is embedded in its theme of self-reliance, which is increasingly seen as a resilience measure.

MINT CURATOR

Japan's bond market has a few lessons for India's next budget

Bond investors need an assurance that debt compression is viable

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India can still prove to the market that its debt position is sustainable. AFP

The sharp selloff in Japanese bonds has a message for India's budget. If bond vigilantes could bring such turmoil to a global safe haven on the mere hint of a tax slippage, they could rip apart any sign of fiscal recklessness in a developing economy faced with a chronic shortfall of resources to create jobs and provide welfare. Volatility spiked last week in Japan's bond market amid concerns that politicians were losing the plot. Ahead of Japan's 8 February elections, Prime Minister Sanae Takaichi has promised a two-year cut in the 8% consumption tax on food. The concession could unmoor expectations that government debt will settle at about 222% of GDP by 2030, from about 230% now, the highest among advanced nations.

Looking at numbers alone, India could not be more different. Although its overall GDP will soon be bigger than Japan's, on a per-capita basis it is 12 times poorer. Public debt has been 80-85% of GDP in recent years. But funding is constrained. If New Delhi doesn't keep a tight lid on its own obligations, it will be forced to raise funds from a limited pool of creditors at a cost higher than what can stabilize its debt. With 10-year sovereign bond yields inching up to 6.7% and nominal GDP slowing to 8%, the margin of safety demanded by bond investors is narrowing.

So a comparison with the Tokyo tantrum may be useful. From 2025-26, India will adopt public debt as a fiscal target, shifting focus from its annual budget deficit. Japan is headed in the same direction. In theory, the switch gives policymakers more flexibility to counter shocks like the 50% US tariff on Indian exports. New Delhi can, for instance, offer tax breaks to exporters or lower levies on domestic sales. Still, a new fiscal anchor will only be credible if policies remain committed to reducing debt over the medium term.

And there lies the problem. Over the past 12 months, the government has given tax breaks on both income and consumption. Yet the stimulus has done little to shore up nominal GDP. As a result, revenue growth has been weak, which is being compensated by curbing expenditure and pushing some of the spending burden on to states.

While those strategies may be enough to hit this fiscal year's budget deficit, a new goal post may change the game. Investors will have to be convinced that national income will grow fast enough to curb the Centre's debt burden to around 50% of GDP by 2030-31 from about 56% now. They would also want to see less profligacy by state-level politicians who have taken to giving free cash to women voters to get re-elected. At 29% of GDP, the states' combined obligations aren't much lower than their pandemic-era high.

The domestic bond market is on edge, with yields held in check by the Reserve Bank of India's liquidity provisions; it has announced a fresh $23.6 billion injection ahead of the budget. This, too, bears a similarity with Japan, where Kazuo Ueda, the central bank chief, has promised "nimble operations to encourage stable yield formation" if required. But the flip side of RBI stepping in to buy government bonds is that increased money supply could weaken the rupee, adding to cost-of-living pressures like in Japan. In India, where inflation is currently not a concern, a sliding rupee is spooking foreign investors and tempting the middle class to rotate wealth towards gold from equities and real estate. That doesn't bode well for economic activity.

Unlike Takaichi, India's PM Narendra Modi doesn't have to contend with a general election until 2029. India's immediate problem is a lack of good jobs and his preferred tool to deal with it is throwing taxpayer money at manufacturers if they start factories in India. However, with China controlling crucial technologies and raw materials just as the US curbs access to its market, India's room for manoeuvre is limited.

Takaichi's stimulus seems to have broken her promise of delivering a rare surplus in Japan's primary budget balance, which measures the gap between revenue and non-interest expenditure.

India also faces a perpetual deficit in its primary balance, which is one of the two crucial variables in debt sustainability calculations. The other is the difference between the economy's growth rate and the interest on sovereign debt. As a developing economy, India can still deliver double-digit nominal growth to prove to the market that its debt position is sustainable.

The easiest way to do that is to give exporters more free-trade accords, like the recent one with the EU, and release the private sector from stifling bureaucratic controls. Health, education, climate change and income security for the poor need as much emphasis as infrastructure. That will be a more prudent strategy than more big-ticket tax concessions or a splashy increase in spending.

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MY VIEW | PEN DRIVE

What business leaders often don't grasp about loyalty

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There is a small puzzle I have been sitting with for some time. When I invite alumni to a flagship programme event—one meant to celebrate learning, community and shared journeys—it is not the most recent graduates who sign up first. Instead, registrations tend to come from those who attended classes many years ago. This is puzzling because, on the surface, everything points the other way. Faculty relationships with recent alumni are warm and conversations are ongoing. If loyalty were a simple function of proximity, they should be the first to respond. Yet, getting recent alumni onboard for such events often proves harder than engaging those who graduated a decade or more ago.

Over time, I have realized that this pattern has little to do with teaching and much more to do with how human beings relate to institutions, leaders and even one another once time enters the equation. Leaders often seem to assume that the most recently enrolled, such as fresh hires and newly onboarded customers, would be the most engaged, since the memory of their experience is vivid, relationships are still active and the value proposition seemingly needs no reinforcement. Behaviourally, the opposite tends to happen. When access feels easy and ongoing, people tell themselves 'not now.' There is no urgency when no loss is perceived. Older alumni, by contrast, experience distance. What was once routine now feels rare and returning to a familiar but no longer everyday space holds emotional weight, turning participation into an act of reconnection rather than continuation.

Business leaders encounter this pattern all the time, even if they do not consciously label it. Long-standing customers are often more responsive to renewal conversations than newly acquired ones. Similarly, former employees turn into stronger brand advocates a few years after they have moved on, while current employees remain ambivalent. In family businesses, it is not uncommon for elders to feel more emotionally attached to the enterprise once they step back, rather than when they were fully immersed in running it day-to-day. Time changes how value is perceived.

A common misunderstanding among leaders is the assumption that identity forms at the same pace as experience. People do not become 'alumni,' 'partners' or 'legacy carriers' the moment a programme ends or a role changes. Identity needs distance to crystallize. Recent graduates, much like newly appointed leaders or successors, are still focused on proving themselves. Their orientation is tied more closely to their immediate cohort or role than to the broader institution or its history. Older alumni have had more time to connect the dots. With distance, they can look back and see how early conversations and even mistakes quietly shaped later decisions. Things that once felt like course material begin to register as context and what once felt like hard work starts to feel truly formative.

Similarly, in organizations, it is only after leaders have moved through cycles of success and failure do they begin to appreciate the institutions, mentors and early structures that shaped them. Such appreciation begins to grow once the pressure to perform eases and the urgency to prove oneself recedes, with loyalty following much later.

Perhaps the most counterintuitive realization is that strong relationships can dull urgency. Maybe the old adage should be tweaked: familiarity breeds complacency. When access to a leader, an institution or a community feels guaranteed, people tell themselves there will be another chance. It is only once that access begins to feel finite that they act, echoing another well-worn truth that distance often makes the heart grow fonder.

This explains why former colleagues reconnect years later, why retired leaders suddenly become much sought after and why alumni return at a point when they no longer need anything in particular. This is really just human psychology at work.

For business leaders, the lesson is not to complain about delayed loyalty, but to plan for it. Engagement does not always show up immediately or on cue. Some relationships need space before they deepen; others reveal their strength only with time. Different stages also call for different invitations. Early on, people respond to opportunity and a sense of agency; later, they are drawn to meaning, legacy and a chance to give back. Creating moments that feel irreplaceable matters, because people tend to show up if they sense how special it is. And finally, we must resist reading absence as disengagement. Sometimes, it simply means the relationship is still unfolding.

When people return years later without any obligation or incentives, it tells us something important. The experience did not merely inform them; it stayed with them. In a world obsessed with real-time metrics and instant feedback, we must remind ourselves that the deepest forms of loyalty operate on longer timelines. For leaders, the real test is not who shows up right away, but who comes back when they no longer need to. That's when you discover what truly lasted.

These are the author's personal views.

QUICK READ

Should we expect the most recently enrolled customers or students to be the most deeply engaged? Experience does not bear this out but there's a behavioural explanation for it.

In a world obsessed with real-time metrics and instant feedback, we must remind ourselves that the deepest forms of loyalty often operate on significantly longer timelines.