Strategic Vision, Budget Inertia: The Gap Between India’s Economic Survey and FY27 Allocations

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The Economic Survey 2025-2026 was tabled in Parliament on January 29 and immediately sparked debate both inside and outside the Lok Sabha on the state of the Indian economy and the choices available to the country’s policymakers.

The key takeaways from the ES include:

- GDP growth remains resilient at an estimated 7.4% in FY26, with projections for FY27 at 6.8-7.2%.
- Inflation is under control, with CPI indices between April and December 2025 at 1.7%. (In turn, this had allowed the RBI to implement a supportive monetary policy in December and cut rates to 5.25%, which signals confidence that growth may continue) without inflation.
- Government capital expenditure has increased by over

400% since FY18. Relatedly, infrastructure has emerged as a central driver of medium-term growth, with the national highway network expanded by 60% in the last decade and the number of airports doubled in the same period.
- Total exports have reached a record high of USD 825 billion, with year-over-year growth at 6.1%. However, this was primarily driven by services exports, while goods trade continued to face global headwinds; although India's expansion of FTAs may break the stagnation.
- Indian banks appear remarkably healthy, with net NPA down to 0.5% by Q3 and year-on-year credit growth at 14.5%.

The survey also highlighted a range of challenges facing the Indian economy—such as financial bottlenecks in the country's energy transition, an increase in the number of state governments with large fiscal deficits, skill mismatches, urban infrastructure deficits, and so on.

While the ES 26 is over 700 pages and contains comprehensive economic analyses across a wide range of subjects and sectors, the document's strategic dimension stands out not for what it says but for what it omits.

It depicts a picture of 'strategic rivalry' between the US and China and a global realignment, captured by 'Pax Silica' around the value chains of AI, semiconductors, and critical minerals. The document heralds the end of the oil-and-steel age, replaced by an era where "compute" is the ultimate lever of power. For instance, it notes that the Indian rupee's recent depreciation is largely attributable to capital outflows to countries with more developed AI industries and to safe-haven assets. (It also argues that the rupee's downward spiral does not reflect India's economic fundamentals, but while a weak rupee may be good for exporters, India largely remains an import-dependent country.)

In this context, the most pertinent challenge before the Indian economic planners today is captured in a single sentence in the ES: “The policy question is no longer whether the state should encourage Swadeshi [self-reliance], but how it should do so without undermining efficiency, innovation, or global integration,” since assumptions about permanent access to inputs, technologies, and markets are no longer tenable.

The survey cautions against blanket protectionism and advocates for a “disciplined strategy” to “move from import substitution to strategic indispensability via strategic resilience.” If this is its key prescription, the advice is couched in “arcane language,” as a former Finance Secretary critiques, yet it nevertheless serves as an important signal.

It reflects a realization that while India has made steady progress in the expansion of ‘state capacity,’ which underpinned East Asian industrialization, it is yet to see meaningful success in value chain integration (China plus One) across key strategic sectors, which the ES itself reveals. As a recent editorial in *The Hindu* put it, “if trade negotiations have revealed anything, it is that India is not strategically vital to any merchandise supply chain.” Consequently, the ES has implied to policymakers that a heavy focus on indigenization and domestic value addition has come at the expense of foreign investment, and, given that efforts towards the former have largely failed, the country may now be better off if it pivots towards steady integration into supply chains by removing barriers.

At the same time, geopolitical hurdles have multiplied. Tech cooperation with the US stagnated last year, and it remains to be seen if the new trade deal can revive it. Meanwhile, despite the last ES’s advice, New Delhi has (thus far) decided not to open the country up to Chinese investments.

To its credit, the ES 26 warns that India cannot afford to play catch-up and is candid about the unfavorable environment that New Delhi will have to navigate. It assigns a 10-20% chance for a global economic recession worse than 2008, and its best-case scenario is conditions worse than FY25. The broad solution it offers to policymakers is this: take more risks in the service of reforms and structural transformation, even if you fail.

Yet, the Union Budget aligns very selectively with the Economic Survey's advice, and simply doubles down on a now-familiar template. On the macro-fiscal front, strong convergence is evident, with an emphasis on calibrated consolidation, with a fiscal deficit target of 4.3% for FY27. Public capital expenditure on infrastructure and digital infrastructure reached record levels, with tax holidays for data centers and related measures.

In key strategic domains, however, wide gaps persist between the survey and the budget. For instance, the ES dedicated an entire chapter to green finance. In contrast, the budget hardly mentioned it. The ES called for a comprehensive upgrade in export complexity, but the budget focused on procedural ease rather than deep industrial integration or export credit expansion. Even for the highly strategic chip sector, the much-anticipated Indian Semiconductor Mission 2.0 was allocated less than USD 100 million for this financial year, which falls radically short of expectations (for context, ISM 1.0 had a budgetary outlay of USD 10 billion over five years).

If New Delhi has a new strategy to address multiple and novel geo-economic challenges that threaten its rise to great-power status, it has yet to be fully articulated in the ES or the Budget.