



Policy Frameworks Underpinning India's Economic Strategy: Insights from The Economic Survey 2025–26

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ABSTRACT

India's economic policymaking in the mid-2020s reflects a decisive shift from short-term macroeconomic stabilisation toward long-term capacity building and productivity enhancement. The Economic Survey 2025–26 articulates this transition by integrating macroeconomic stability, public investment, fiscal credibility, industrial strategy, inclusion, climate resilience, and technology governance into a coherent growth framework. This paper analyses the key policy premises underlying India's contemporary economic strategy and explains important economic concepts such as cyclical demand management, capacity building, crowding-in of private investment, and fiscal sustainability in simplified terms. By linking theory with policy practice and real-world examples, this study makes India's economic policy framework accessible to students, educators, and practitioners.

KEY WORDS

India's economic policymaking, Macro-Economic, and stability.

INTRODUCTION

Economic policymaking in India has evolved significantly over the past decade, shaped by domestic structural challenges and a rapidly changing global environment. The COVID-19 pandemic, geopolitical tensions, climate risks, and technological disruptions have altered the nature of economic risks faced by both developed and developing economies. In response, policymakers are increasingly required to balance short-term economic stabilisation with long-term growth and resilience.

The Economic Survey 2025–26 reflects this changing policy philosophy. Rather than focusing narrowly on annual growth rates or short-term stimulus measures, the Survey presents a broader framework that emphasises macroeconomic stability, institutional capacity, productivity enhancement, and sustainability (Government of India, 2025). It signals a shift away from excessive reliance on cyclical demand management toward building the economy's productive capacity.

This paper examines the foundational ideas guiding India's current economic strategy as presented in the Survey. It explains core economic concepts embedded in the policy narrative and illustrates how these ideas are translated into practical policy actions.

Macroeconomic Stability as the Foundation of Growth

Macroeconomic stability refers to a condition in which key economic variables such as inflation, fiscal deficits, public debt, exchange rates, and financial system health remain within manageable and predictable ranges. Stable macroeconomic conditions reduce uncertainty for households and businesses and create an environment conducive to long-term investment.

The Economic Survey emphasises that sustained growth is not possible without macroeconomic stability, particularly in an environment marked by global uncertainty and financial volatility (Government of India, 2025; IMF, 2024). Inflation control is treated as a central pillar of stability because high and volatile inflation reduces real incomes, distorts price signals, and discourages savings and investment.

For example, when inflation rises sharply, households tend to cut discretionary spending, and businesses delay investment decisions due to uncertainty about costs and demand. The Survey notes that India has witnessed moderation in headline inflation compared to the immediate post pandemic period, supported by a credible inflation-targeting framework and improved monetary policy transmission (RBI, 2024)

Fiscal stability is equally important. Large and persistent fiscal deficits can crowd out private investment and raise borrowing costs. The Survey highlights that India has reduced general Government debt as a percentage of GDP since the pandemic peak while continuing to priorities growth-enhancing expenditure. This reflects an approach where fiscal discipline is used to build credibility rather than to impose austerity.

Cyclical Demand Management: Meaning and Limitations

Cyclical demand management refers to short-term policy measures used by Governments and central banks to stabilise economic fluctuations over the business cycle. During economic downturns, Governments may increase spending or cut taxes to stimulate demand, while central banks may lower interest rates. During periods of overheating, the opposite measures are taken to control inflation.

Such policies are effective for managing short-term shocks. For instance, during the pandemic, fiscal stimulus packages and accommodative monetary policy helped prevent a deeper economic contraction. However, the Economic Survey cautions that excessive reliance on cyclical demand management has limitations.

Demand-side stimulus does not automatically increase the economy's ability to produce goods and services. If supply constraints persist, increased demand may only lead to higher inflation rather than higher output. The Survey therefore argues that India's future growth cannot rely primarily on demand stimulus but must focus on expanding productive capacity. This recognition underpins the policy shift from cyclical management toward structural reforms and capacity building.

Capacity Building and Productive Potential

Capacity building in an economic context refers to enhancing the economy's ability to produce more efficiently and sustainably over the long term. It involves investment in physical infrastructure, human capital, technology, and institutions.

The Economic Survey adopts a production-function perspective, where output depends on labour, capital, and productivity. Improving capacity means increasing the quality and efficiency of these inputs. Infrastructure investment in roads, railways, ports, and logistics reduces transportation costs and improves market access. Digital public infrastructure improves service delivery, reduces transaction costs, and enhances transparency.

For example, improved logistics infrastructure allows manufacturers to source inputs more efficiently and reach markets faster, thereby increasing competitiveness. Similarly, digital platforms for public services reduce compliance costs for businesses and improve ease of doing business. By focusing on capacity building, policy aims to raise the economy's potential growth rate rather than merely boosting short-term output.

Public Capital Expenditure as a Growth Catalyst

Public capital expenditure refers to Government spending on long-term assets such as infrastructure, machinery, and public facilities. The Economic Survey places strong emphasis on capital expenditure as a central instrument of economic strategy.

Unlike revenue expenditure, which supports consumption, capital expenditure creates assets that generate returns over time. Infrastructure investments reduce production costs, improve connectivity, and enable private sector expansion. The Survey highlights a deliberate shift in Government spending toward asset creation, particularly in transport and logistics sectors (Government of India, 2025).

Key Sectors of Public Capital Expenditure Focus

Sector	Economic Impact
Roads and Highways	Reduced logistics costs, regional integration
Railways	Freight efficiency, mobility
Urban Infrastructure	Improved productivity and living standards
Digital Infrastructure	Market access and service efficiency

Public investment also plays a coordination role. In sectors where private investors hesitate due to high initial costs or long gestation periods, Government investment reduces risk and attracts private participation.

Crowding-In of Private Investment

Crowding-in refers to a situation where Government spending stimulates private investment rather than displacing it. This contrasts with crowding-out, where excessive Government borrowing raises interest rates and discourages private investment.

The Economic Survey argues that high-quality public capital expenditure crowds in private investment by improving infrastructure, reducing uncertainty, and enhancing project viability. For example, when the Government invests in highways and industrial corridors, it becomes more attractive for private firms to invest in factories, warehouses, and logistics services along these routes.

This crowding-in effect is particularly important for reviving the investment cycle and sustaining long-term growth.

Fiscal Policy and Debt Sustainability

Fiscal sustainability refers to the Government's ability to manage its finances without risking solvency or excessive inflation. The Economic Survey adopts a medium-term perspective on fiscal sustainability, linking debt dynamics to growth performance. Rather than focusing solely on annual deficit targets, the Survey emphasises the importance of productive expenditure that strengthens growth and revenue generation over time.

Capital expenditure is prioritized because it enhances the economy's capacity to service debt in the future. This approach reflects modern fiscal thinking, which recognizes that debt sustainability depends on the relationship between interest rates and growth rather than on arbitrary numerical thresholds (IMF, 2024).

Financial Sector Reforms and Cost of Capital

The cost of capital reflects the return that investors require for deploying their funds. A high cost of capital discourages investment and slows down the pace of growth. This survey identifies the relatively high cost of capital in India as a structural impediment. Reforms in the financial sector aim to deepen markets, improve credit allocation, and strengthen regulations.

The development of corporate bond markets has been highlighted as a means to provide long-term finance at competitive rates (RBI, 2024). However, this survey emphasizes that financial reforms alone are not sufficient. Bringing about a sustainable reduction in the cost of capital requires higher productivity, export competitiveness, and domestic savings, thereby reducing reliance on volatile external finance.

Industrial Strategy and Global Value Chains

In the Survey, industrial policy has been framed in the context of evolving global value chains. The competitiveness of manufacturing now relies less on cost alone and more on reliability, scale, and technological capability. The primary focus of policy initiatives is on enhancing 'Ease of Doing Business,' infrastructure, skill development, research and development, and the integration of MSMEs. These measures aim to position India as a reliable and indispensable partner within global manufacturing networks.

Inclusion as a Growth Enabler

Inclusive growth ensures that the benefits of economic expansion are widely shared. This Survey views inclusion as an input to growth rather than merely as a mechanism for redistribution. Furthermore, improvements in education, health, and financial inclusion boost labor productivity and expand domestic demand. Community-based organizations play a pivotal role in implementing livelihood programs and strengthening local economic participation (Government of India, 2025; World Bank, 2024).

Climate Adaptation and Development

Climate adaptation refers to measures that reduce vulnerability to climate risks. The Economic Survey integrates adaptation into development planning, emphasising public investment in resilient infrastructure and rural development. This approach reflects the understanding that resilience and growth objectives are complementary. Investments in climate-resilient infrastructure protect economic assets and livelihoods while supporting long-term development (UNDP, 2023).

Technology Governance and Trust

The rapid adoption of technologies such as artificial intelligence presents new economic opportunities and risks. The Survey highlights the importance of governance frameworks that ensure safety, transparency, and accountability. Clear regulatory boundaries for high-risk applications help build public trust and reduce uncertainty for innovators, thereby supporting sustainable technological adoption.

CONCLUSION

The Economic Survey 2025–26 presents a comprehensive framework for India's economic policymaking, grounded in macroeconomic stability, capacity building, and institutional reforms. By shifting its emphasis from cyclical demand management to long-term productivity growth, the Survey reflects an evolving understanding of sustainable development. Public investment, fiscal credibility, inclusion, and resilience are identified as mutually reinforcing pillars of growth. For students, scholars, and educators, this study offers valuable insights into the contemporary practice of economic policy in India.

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