SHARP & TANNAN

ECONOMIC SURVEY

2025-26

INTRODUCTION

- The year 2025 ended with a challenging period of geopolitical conflicts, trade tensions and policy uncertainty for the global economy. Despite heightened uncertainties, global growth remains steady at 3.3%.

- The First Advance Estimates place India's real Gross Domestic Product ('GDP') growth at 7.4% in FY26, reaffirming India's position as one of the fastest-growing major economies.

- The key growth drivers of the Indian economy were
  - **Demand side**
    - Increased household spending, i.e. private final consumption expenditure ('PFCE'), contributing to 61.5% of GDP, the highest since FY12, clearly demonstrating that the growth was supported by domestic demand.
    - Investment, i.e. gross fixed capital formation ('GFCF'), contributed to 30% of GDP through sustained public capital expenditure and a revival in private investment activity as evident from corporate announcements.
  - **Supply side:** Manufacturing activity has gained traction, and services continue to drive overall expansion, led by steady performance in trade, transport, financial and professional services.

- In FY26, India concluded free trade agreements ('FTA's) with the European Union ('EU'), United Kingdom ('UK'), New Zealand and Oman, alongside economic cooperation with 10+ countries, opening new opportunities in automotive, aerospace, defence, manufacturing, science and technology, pharmaceuticals, fintech, and clean energy sectors. A wider FTA network strengthens India's trade strategy by securing market access amid global uncertainty.

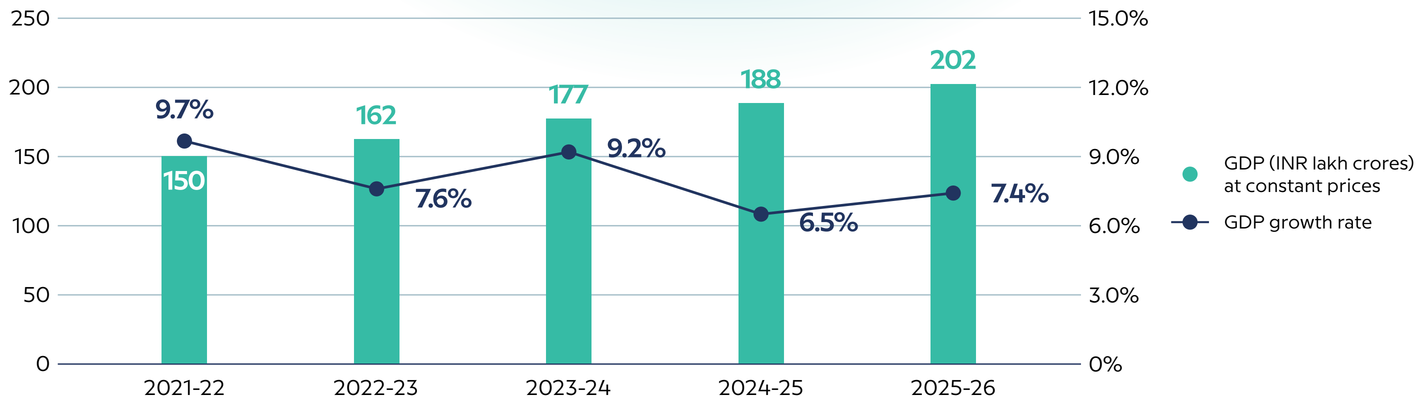
- The year 2025 also witnessed major economic reforms, including the rationalisation of tax structures, implementation of labour codes for labour market reforms, and financial sector deregulation, all of which are expected to strengthen the growth prospects.

With the uncertainties and risks still hovering over, India through its policy support, is keen on maintaining a balance between innovation and stability for achieving long-term economic growth. The Economic Survey 2025-26 concludes that India's medium term growth potential has strengthened to 7%, positioning the economy on a path of steady expansion amid global uncertainty.

Source:
Economic Survey 2025-26
IMF World Economic Outlook, January 2026
RBI bulletin, January 2026

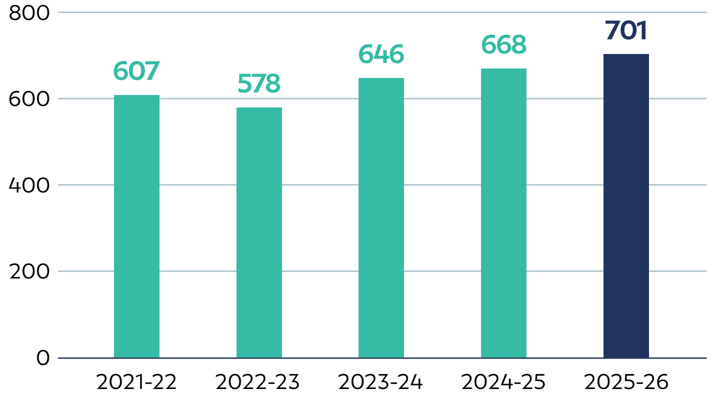
NUMBERS THAT MATTER

Gross domestic product (GDP) growth rate



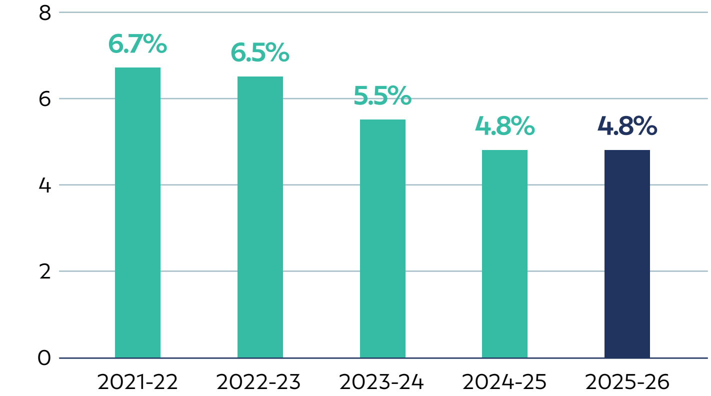
Foreign exchange reserves

In USD billion at year end



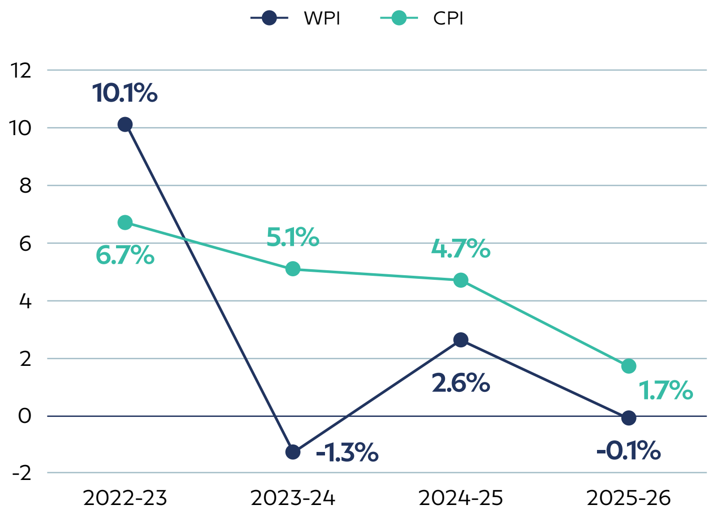
Fiscal deficit

% of GDP



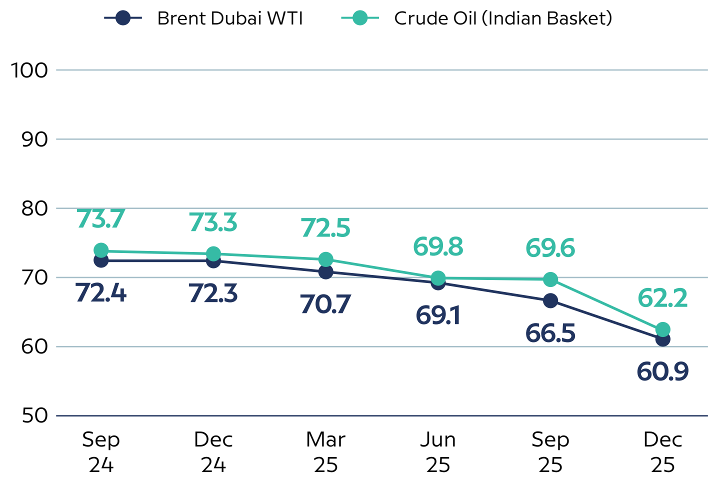
Inflation

Average



Crude oil prices

Price (US$/bbl)



Source: Economic Survey 2025-26

SECTORAL HIGHLIGHTS

AGRICULTURE & ALLIED

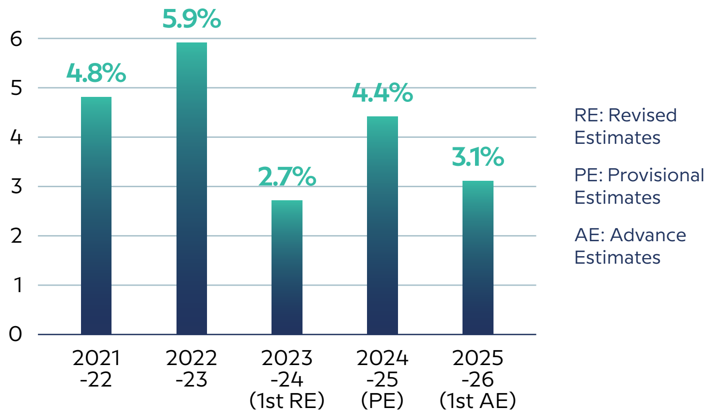
The agriculture, livestock, forestry, and fishing sector is estimated to contribute 15.2% to the nominal GDP in FY26. The sector's real Year-on-Year ('YoY') growth for FY26 is estimated at 3.1%.

While crop growth remains volatile, allied sectors like livestock and fisheries have shown stable expansion at rates of 5%-6%, acting as crucial growth engines.

The horticulture sector, accounting for nearly 33% of agricultural GVA, has emerged as a bright spot in the country's agricultural growth, underscoring a gradual diversification of agricultural output towards high-value crops.

India is the world's largest producer of dry onions, contributing nearly 25% of global output. It also ranks second worldwide in the production of vegetables, fruits and potatoes, with a share of 12%-13% in each category.

Annual growth rate of real gross value added (GVA) at basic prices



INDUSTRY

The sector is estimated to contribute 24% to India's nominal GDP in FY26 and is estimated to grow at 6.2%.

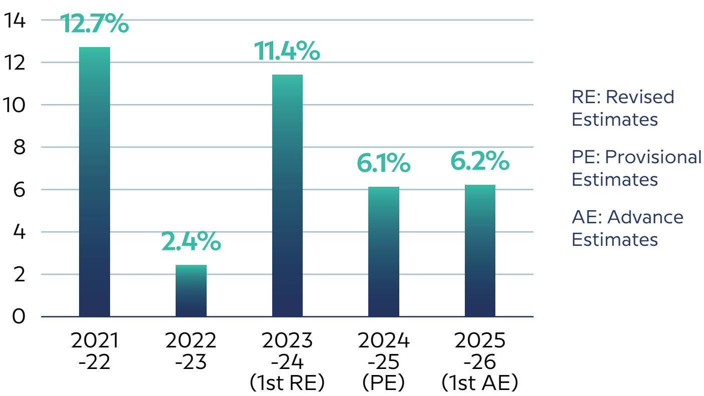
Medium and high-technology activities: These activities account for 46.3% of India's total manufacturing value added, enabling India's Competitive Industrial Performance ('CIP') ranking improve to 37 globally in 2023.

Impact of PLI schemes: The Production Linked Incentive ('PLI') schemes across 14 sectors have realised actual investments exceeding INR 2 lakh crore and generated over 12.60 lakh jobs as of September 2025.

Pharmaceutical leadership: Known as the 'pharmacy of the world,' India is the third-largest pharmaceutical industry by volume, meeting roughly 20% of global generics demand.

Electronics manufacturing success: India has emerged as the world's second-largest mobile phone manufacturer. The production value of mobile phones surged nearly 30-fold, from INR 18,000 crore in FY15 to INR 5.45 lakh crore in FY25.

Annual growth rate of real gross value added (GVA) at basic prices



SERVICES

The services sector is estimated to contribute 51.1% to India's nominal GDP. Within the sector, 'Financial, Real Estate and Professional Services' is the largest sub-component, accounting for 21.4% of GDP.

The sector is estimated to achieve a real YoY growth of 9.1% in FY26, accelerating from 7.2% in FY25.

Global export leadership: India is now the world's seventh-largest services exporter, with its share in the global commercial services exports rising from 2% in 2005 to 4.3% in 2024.

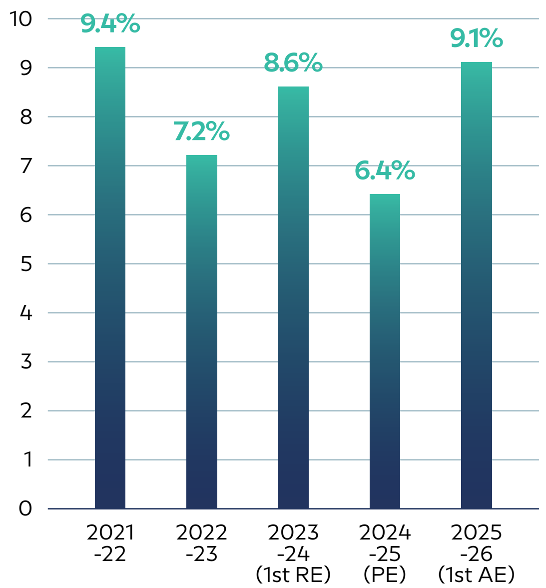
Software and business services: Software services remain the anchor of the sector, accounting for over 40% of total services exports. Management and professional consulting services have also seen their share of exports rise to 18.3%.

Technology and AI expansion: India possesses the world's third-largest technology start-up ecosystem, with approximately 32,000 to 35,000 start-ups. The number of active generative AI start-ups increased more than threefold to over 890 by early 2025.

Digital connectivity: Internet subscriptions in India have reached 101.8 crore as of September 2025, supported by a massive decline in wireless data prices.

FDI magnet: Services sector is the largest recipient of foreign investment, accounting for an average of 80.2% of total FDI inflows into India between FY23 and FY25.

Annual growth rate of real gross value added (GVA) at basic prices



RE: Revised Estimates

PE: Provisional Estimates

AE: Advance Estimates

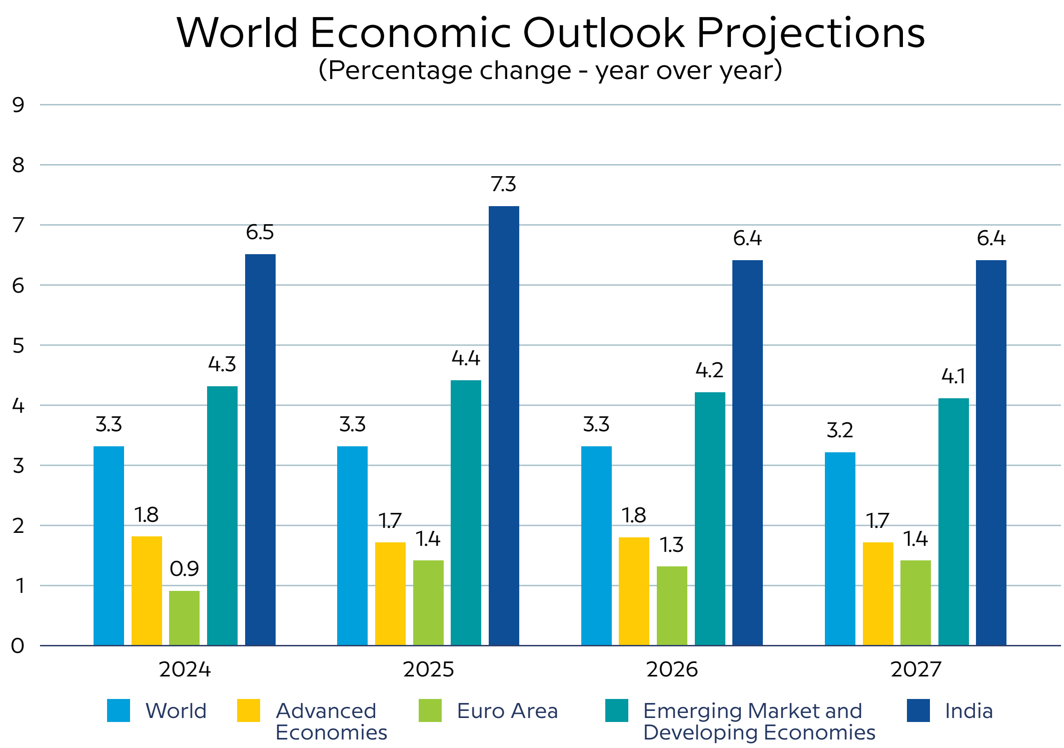
ECONOMIC PERFORMANCE

GLOBAL ECONOMY

- For FY2026-27, global growth is projected to remain steady at around 3.3%, broadly in line with 2025. This performance resulted from-headwinds from shifting trade policies being offset by tailwinds from surging investment related to technology, including artificial intelligence ('AI'), backed by fiscal and monetary support.
- World trade growth is expected to slow to 2.6% in 2026 and projected to recover to 3.1% in 2027. Global inflation is expected to decline from an estimated 4.1% in 2025 to 3.8% in 2026 and further to 3.4% in 2027.
- Growth projections for major advanced economies ('AE'), i.e. the United States of America (US), UK and Euro area) are revised upward. Among emerging market and developing economies ('EMDE's), growth remains robust, led by India and China.
- Global commodity prices recorded divergent movements. Energy prices have softened, food price index declined for the fourth consecutive month in December 2025. Crude oil prices stayed range-bound despite supply constraints due to the geopolitical tensions. Industrial metal prices surged recently due to supply constraints and tariff-related uncertainties.

INDIAN ECONOMY

- The Indian economy remained resilient in 2025–26, with real GDP growth rising to 7.4%. As per the International Monetary Fund ('IMF'), the growth in India reflects the better-than expected outturn in the third quarter of the year and a strong momentum in the fourth.
- A strong rebound in the manufacturing sector and continued buoyancy in services boosted growth in gross value added ('GVA').
- Domestic demand continues to drive growth in FY26, with private consumption reaching 61.5% of GDP. The strength in consumption reflects a supportive macroeconomic environment, characterised by low inflation, stable employment conditions, and rising real purchasing power.
- Investment activity strengthened in FY26, with GFCF growing by 7.8% and its share remaining steady at 30% of GDP.
- Gross FDI inflows have remained resilient, supported by equity investments and greenfield projects, while portfolio flows have been volatile, reflecting global financial conditions.
- However, the Balance of Payments ('BOP') deficit, coupled with market uncertainty over the outcome of the US trade deal has exerted pressure on the Indian Rupee, causing it to weaken.



International Monetary Fund - World Economic Outlook Update, January 2026

ECONOMIC OUTLOOK

The global economy remains dim over the medium term, with downside risks dominating. Inflation across economies has trended downward, and monetary policies are expected to become more accommodative and supportive of growth. However, certain key risks like failure of the AI boom and the protraction of trade conflicts would further weaken the global outlook.

For India, these conditions may result in slower growth in key trading partners and tariff-induced disruptions in trade and capital flows may weigh heavily on exports and investor sentiment. Ongoing US negotiations, once concluded, may bring certainty on the external front.

Against a backdrop of a fragile and divergent global outlook, the current economic survey assesses India as 'an economy on a stable footing.'

We discuss some relevant indicators.

Exports

Total exports reached USD 825.3 billion in FY25 and USD 418.5 billion in H1 FY26 driven by a strong growth in services exports.

Despite heightened tariffs imposed by the United States, merchandise exports grew by 2.4% (April–December 2025), while non-petroleum, non-gems and jewellery exports increased by 6% YoY, signalling sustained strength in India's core export basket.

The exports of petroleum products declined by 24.7% YoY, amid softer crude oil prices.

Imports

Merchandise imports increased by 6.3% YoY, amounting to USD 721.2 billion, primarily driven by a rise in non-petroleum, non-gems and jewellery imports, which increased to USD 446.5 billion from USD 421 billion in FY24.

Imports of electronic components, telecom instruments, and computer hardware also experienced significant growth.

Fiscal revenue

The gross tax revenue collection has progressed robustly during the year with direct tax collections reaching nearly 53% of the budgeted annual target (as of November 2025). Indirect tax collections also remained strong despite lower inflation and import volatility, with gross GST collections recording multiple all-time highs during the year.

Forex reserves

Forex reserves (USD 701.4 billion as of 16 January 2026) cover more than 11 months of its imports and approximately 94% of the external debt outstanding as of the end of September 2025.

Foreign direct investments ('FDI')

In April-November 2025, gross FDI inflows strengthened further to USD 64.7 billion, compared with USD 55.8 billion in April-November 2024. The magnitude of inflows during the first eight months of the year highlights sustained investor confidence despite a subdued global environment and reflects the underlying strength of India's digital economy, as well as the continued policy emphasis on manufacturing and infrastructure.

Money market and financial intermediation

Reflecting the strength of India's financial ecosystem, the primary markets in FY26 (up to December 2025) remained resilient and vibrant, leading the world in initial public offer ('IPO') issuances. This strong performance was underpinned by sound macroeconomic fundamentals, robust investor participation and the continued finetuning of regulatory frameworks by SEBI.

India's primary markets continued to attract both domestic and international investors, reinforcing the country's position as a key driver of global capital formation.

India's primary markets have been instrumental in channelising savings into productive investments, mobilising a total of INR 53 lakh crore through equity and debt issuances.

IPO volumes in FY26 (up to December 2025) were 20% higher than FY25, and the amount mobilised was 10% higher than the corresponding period of FY25.

Future-ready digital infrastructure

India's telecom sector has undergone a significant transformation, driven by initiatives such as 5G deployment, 6G research, BharatNet, and Digital Bharat Nidhi, and is advancing toward self-reliance, enhanced security, and global leadership.

The sector expanded rapidly over the last decade, accompanied by a sustained improvement in tele-density from 75.23% to 86.76%.

Key developments include:

- Nationwide 5G rollout
- Advances in 5G/6G Innovation
- Rural Connectivity Expansion
- Strengthening Domestic Telecom Manufacturing
- R&D and Technology Development Support
- Citizen-Centric and Security Measures
- Efficient Infrastructure and Spectrum Management

For further information, please contact:

Ahmedabad

A1/01, Safal Profitaire, Corporate Road,
Prahalad Nagar, Ahmedabad – 380015,
Gujarat.
Phone: (91) (79) 2970 2082

Bengaluru

103 & 203, Midford House,
1, Midford Gardens, off MG. Road,
Bengaluru – 560001, Karnataka.
Phone: (91) (80) 2555 0987, 2555 0989

Chennai

Parsn Manere, A Wing Third Floor,
602, Anna Salai, Chennai – 600006,
Tamil Nadu.
Phone: (91) (44) 2827 4368, 2822 9534

Coimbatore

09, Verivada Street, Red Fields,
Puliakulam, Coimbatore – 641045,
Tamil Nadu.
Phone: (91) (422) 356 6556

Goa

SF9, GHB Commercial-cum-residential complex,
Journalist colony road, Alto Betim, Porvorim
Berdez, Goa – 403251
Phone: (91) 98201 58575, (91) 98202 84584

Hyderabad

Dwarka Pride, Plot No: 4/1, Survey No: 64
Huda Techno Enclave,
Madhapur Serilingampally Mandal,
Hyderabad – 500081, Telangana.
Phone: (91) 97278 95000

Mumbai – Churchgate

Ravindra Annexe, 194,
Churchgate Reclamation, Dinshaw Vachha Road,
Mumbai – 400020, Maharashtra.
Phone: (91) (22) 2286 9900-48 / 2204 7722

Mumbai – Nariman Point

87, Nariman Bhavan,
227 Nariman Point,
Mumbai – 400021, Maharashtra.
Phone: (91) (22) 6153 7500, 2202 2224 / 8857

New Delhi

1512-13, Ansal Tower,
38, Nehru Place,
New Delhi – 110019.
Phone: (91) (11) 4703 6803

New Delhi

902, Chiranjiv Tower,
43, Nehru Place,
New Delhi – 110019.
Phone: (91) (11) 4103 2506, 4103 3506

Pune

802, Lloyds Chambers,
Dr. Ambedkar Road, Opp. Ambedkar Bhavan,
Pune – 411011, Maharashtra.
Phone: (91) (20) 2605 0802

Vadodara

Aurum Complex, 8th Floor, West Wing,
Behind HP Vasna Petrol Pump,
Makrand Desai Road,
Vadodara – 390007, Gujarat.
Phone: (91) 97268 95000, (91) 97278 95000

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