Indian Economic Resilience 2025 Strategic Priorities for 2026

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India's economic trajectory in 2025 presents a compelling case of resilience amid heightened global uncertainty. The year began with strong diplomatic momentum, symbolised by the Indian Prime Minister's early-year visit to Washington at the invitation of the newly elected US President. Expectations were high for a strengthened bilateral partnership, including the prospect of more than doubling the existing USD 200 billion trade volume. However, these hopes were soon dampened by the imposition of a 25% reciprocal tariff on all Indian exports to the United States, followed by the threat of an additional penal tariff on crude oil imports from Russia.

Despite these external shocks, India's macroeconomic performance grew and remained robust. Inflation declined sharply to 0.25% by mid-year, while GDP growth in the first two quarters–7.8% and 8.2%, respectively–exceeded most forecasts. Nevertheless, uncertainty over a bilateral trade agreement with the US, combined with the Reserve Bank of India's (RBI) decision in December to reduce the terminal policy rate to 5.25% after a prolonged tightening cycle, triggered a rapid depreciation of the rupee, crossing the line: ₹ 90/ $. This compelled the RBI to intervene heavily in the foreign exchange market, drawing down reserves to stabilise the currency.

These developments highlight the importance of a careful assessment of India's economic performance in 2025 and the structural challenges ahead. Such an evaluation is essential if India is to sustain and retain its position in 2026 as it has been hailed as the world's fastest-growing economy in 2025 by the International Monetary Fund (IMF).

Macroeconomic Performance in 2025

The IMF's initial projection of 6.3% GDP growth for 2025 was marginally revised downward to 6.2% following the US tariff measures. India also faced an effective tariff burden of nearly 50% on crude oil imports from Russia, significantly increasing costs for an economy heavily dependent on imported energy.

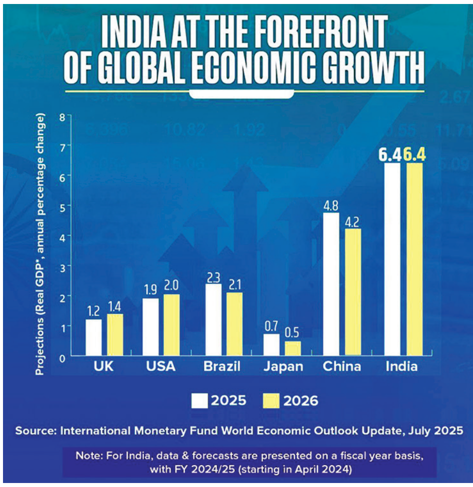
Yet India's macroeconomic fundamentals remained stable. Fiscal, trade, and current account deficits stayed within manageable limits. Inflation remained well below the RBI's 4% target for most of the year. Year-on-year CPI-based inflation reached a ten-year historic low of 0.25% in October, before a temporary rise in food prices pushed it up to 0.75% in November. Reflecting stronger-than-expected domestic demand and resilient investment activity, the Asian Development Bank (ADB) revised its growth estimate upward to 6.5%.

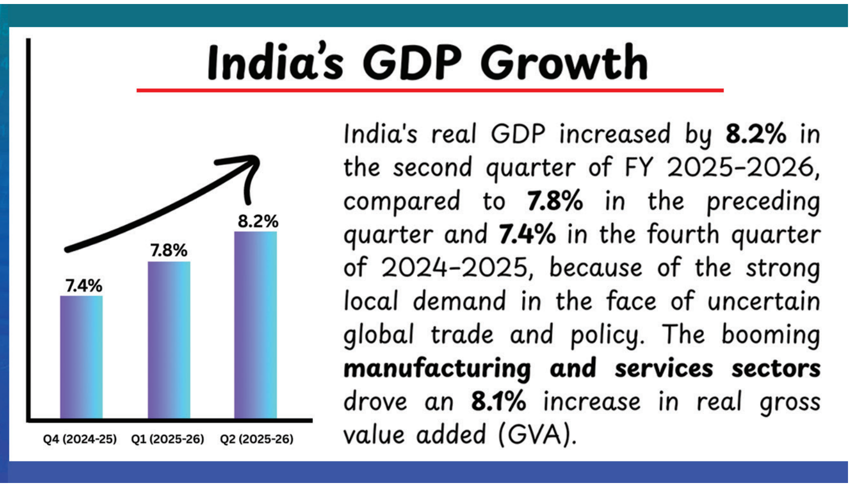
By year-end, India's economic performance was widely characterised as resilient. A combination of monetary easing, liquidity support, and fiscal measures including such as the rationalisation of the Goods and Services Tax—helped sustain domestic demand while keeping inflation under control.

TABLE

Growth Estimates of RBI, IMF and World Bank : A Comparison

Name of the Agencies	FY 2026 (Est)	FY 2027	Notes
International Agencies			
OECD	6.30%	6.70%	OECD raised FY 2026 estmate due to govt reforms and low inflation
IMF	6.5%	6.5%	Consistent with mid year tend
World Bank	6.7%	6.7%	From Global Prospects
Govt. Agencies			
Ministry of Finance	6.7%	6. 7%	Ministry of Finance own assessment
RBI	7.3%	6.5%	2025 estimate is based on Dec 5 MPC meeting. 2026 uses Survey of Professional Forecasters
Private Agencies			
Fitch Ratings	6.5%	6.5%	Stong domestic dmand and stable outlook
Moody's Analytics	6.6%	6.5%	Consumtion driven growth
Goldman Sachs	6.6%	6.4%	Invetment cycle
S&P Global	6.5%	6.5%	Strong domestic demand
CRISL	6.5%	6.5%	Rise in Private consumption and sevices exports





Growth Prospects for 2026

The IMF projects India's GDP growth at 6.5% for 2026, while the ADB offers a more optimistic estimate of 6.5%. Both institutions identify strong domestic demand, ongoing structural reforms, and the dynamism of the services sector as the primary drivers of growth.

India's growth premium over its peers remains substantial. IMF projections indicate that India will outperform China (4.8% in 2026), Indonesia (4.8%), and Brazil (2.2%). India's growth rate is also well above the global average (3.0–3.1%) and the emerging Asia average (4.7–5.1%). These upward revisions reinforce India's role as a key anchor of global economic expansion.

Comparative Drivers of Growth

India's growth model is increasingly driven by domestic demand, underpinned by rising consumption, strong public and private capital expenditure, and large-scale infrastructure development. Reforms in taxation, digital infrastructure, and the business environment have enhanced productivity and encouraged investment.

In contrast, China's growth remains constrained by distress in the property sector, elevated debt levels, and weak household confidence. Indonesia benefits from commodity exports and a growing middle class but lacks India's market depth. Brazil's growth remains cyclical, constrained by low investment and weak productivity gains.

Reform and Macro Framework

India's structural reforms—particularly in digital public infrastructure (UPI, Aadhaar), taxation, and financial inclusion—continue to support medium-term growth potential. Macroeconomic stability has been a notable strength.

China, by comparison, faces demographic decline and persistent structural imbalances, while Indonesia and Brazil struggle with institutional limitations and fiscal constraints.

Global Environment and Trade

India's relatively low dependence on exports reduces its vulnerability to global trade tensions compared with East Asian economies. China and other emerging Asian economies remain more exposed to tariffs, supply-chain disruptions, and geopolitical restrictions. Brazil and Indonesia are highly sensitive to commodity price cycles and shifts in global financial conditions.

External Risks

All major emerging economies face risks from tariff escalation, trade fragmentation, and geopolitical tensions. India remains vulnerable to oil price shocks, capital-flow volatility, and disruptions in global technology supply chains. China faces heightened exposure to trade and technology restrictions, while Indonesia and Brazil remain sensitive to fluctuations in commodity prices.

Domestic Challenges

India's key domestic vulnerabilities include labour-market challenges—particularly job quality and low female labour-force participation—fiscal pressures arising from large infrastructure and welfare commitments, and climate-related stresses such as extreme heat, water scarcity, and rapid urbanisation.

China's domestic risks stem from demographic decline, high debt levels, and ongoing property-sector restructuring. Indonesia and Brazil continue to grapple with fiscal instability and policy uncertainty.

Policy Implications

India's challenges are fundamentally structural rather than cyclical. Sustaining high growth will require continued reforms, improvements in employment quality, and careful fiscal management. Strengthening resilience to external shocks—especially in energy markets and global supply chains—will be critical.

While India remains the strongest growth performer among major emerging markets, deeper integration into global trade and technology networks also increases exposure to external risks. Policymakers must therefore balance openness with strategic risk management.

Outlook for 2027

The outlook for FY 2027 is broadly positive. The IMF projected 6.5% in 2035 and maintains the same rate of growth as is (Ministry of Finance) FY27, while the RBI and ADB, having anticipated in the range of 7.2–7.3% in 2025, Strong first-half FY26 GDP growth of around 8%, subdued inflation, and continued expansion in infrastructure and manufacturing underpin an optimistic figure 6.5% in the midst of uncertainties as the signing US-India trade treaty which will be in coming July.

However, risks persist. Fiscal constraints may limit government spending, renewed global trade tensions could disrupt supply chains, and climate-related challenges may intensify.

Conclusion

India's economic performance in 2026 demonstrates remarkable resilience amid global turbulence. Yet it also underscores a critical insight: high growth alone is not sufficient. Enhancing employment quality, ensuring fiscal sustainability, and accelerating climate adaptation must be central priorities.

As India enters 2026, the outlook is optimistic but contingent on prudent macroeconomic management and sustained structural reforms. Balancing strong domestic momentum with careful navigation of global uncertainties will determine whether India can retain its position as the world's fastest-growing major economy once again in 2026, as it was hailed so in 2025. ■

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