

# FY27 outlook is of steady growth

Slippages in state finances could ripple through mkts, affecting govt bond yields

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The Economic Survey has projected real gross domestic product (GDP) growth in 2026-27 (FY27) in the range of 6.8-7.2 per cent, with domestic demand and investment expected to gain strength amid an uncertain economic environment.

“With domestic drivers playing a dominant role and macroeconomic stability well anchored, the balance of risks around growth remains broadly even,” the Survey said, highlighting that the outlook for FY27 is of steady growth amid global uncertainty —

requiring caution, but not pessimism.

The Survey observed that ongoing trade negotiations with the US are expected to conclude during the year and could help reduce uncertainty on the external front.

Stressing that the domestic economy is on a stable footing, it added that, given external uncertainties, it is important to maintain adequate buffers and policy credibility.

Terming 2025-26 (FY26) an unusually challenging year, with penal tariffs creating stress for



## DOMESTIC DEMAND AND INVESTMENT ARE EXPECTED TO GAIN STRENGTH AMID AN UNCERTAIN ECONOMIC ENVIRONMENT

## Hope on horizon

- Trade negotiations with the US likely to conclude during the year, reduce uncertainty
- India's medium term potential growth up to 7 per cent on the back of reforms momentum
- Domestic economy on stable footing but need for adequate buffers, policy credibility
- Domestic demand and investment to anchor growth in FY26
- 16th FC to play a critical role in shaping Centre-state fiscal relations

exporters and affecting business confidence, followed by the government's push for reforms such as goods and services tax rationalisation and deregulation, the Survey called FY27 a year of adjustment.

It said domestic demand and investment would continue to underpin economic growth in FY26.

India's economy is estimated to grow by 7.4 per cent in FY26, up from 6.5 per cent in 2024-25, according to the First Advance Estimates of GDP released by the National Statistics Office. The estimates reflect the economy's resilience despite persistent external headwinds.

The Survey highlighted that reforms momentum over the past three years, along with stronger corporate and financial sector balance sheets and rising formalisation of employment, has raised India's medium-term potential growth to 7 per cent.

Continued implementation and coordination across the Centre and states, it said, will be critical for sustaining this higher growth frontier and pushing it even higher.

On shifting the fiscal anchor from the fiscal deficit to a debt-to-GDP ratio target of 50 plus/minus 1 per cent by March 31, 2031, the Survey said the move provides the government flexi-

bility to fine-tune fiscal policy in response to emerging needs during the intervening period, amid a volatile and unpredictable geopolitical and geoeconomic environment.

“Once the current target is met and fiscal deficits decline gradually, a new Fiscal Responsibility and Budget Management target may be considered at the end of the Sixteenth Finance Commission period,” the Survey said.

The Survey added that returning to a rule-based regime is likely to be credible and durable if implemented after a period of lower global macroeconomic uncertainty, and once debt and deficit ratios move meaningfully closer to 50 per cent and 3 per cent of GDP, respectively.

The Survey said that emerging trends in state-level debt and deficits underscore the need for continued calibration, while raising concerns over some states' increasing reliance on unconditional cash transfer programmes.

It recommended improved targeting, periodic review, and outcome-oriented design to mitigate fiscal rigidities. The Survey called for fiscal policy focused on expanding productive capacity and income growth rather than creating permanent expenditure commitments.