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EDITORIAL ANALYSIS

FY2025-26 in Review — India's Economic Year: Real Gains, Residual Risks



30 March 2026

CURATED & WRITTEN BY

**Bharat Choudhary**

UPSC Educator & Content Creator

[linkedin.com/in/epicbharat](https://www.linkedin.com/in/epicbharat)

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INTERVIEW ANGLE

"As FY2025-26 ends, India's GDP growth has moderated from the post-COVID bounce — is the moderation a temporary headwind or evidence of structural constraints on India's growth potential that require a different policy response?"

WHY IN NEWS

March 30, 2026 marks two days before the close of Financial Year 2025-26 — an occasion to assess India's economic performance across GDP growth, fiscal management, inflation control, export performance, and capital investment, as a new financial year begins.

THE GROWTH STORY — STRONG BUT MODERATING

FY2025-26 is drawing to a close with India maintaining its position as the world's fastest-growing major economy. The IMF's April 2026 projections place India's real GDP growth at approximately **6.5–7%** for FY26 — robust by global standards, but below the 8%+ peaks of FY23 and FY24 that followed COVID-era pent-up demand.

The moderation is traceable to three headwinds:

Global demand softness: India's merchandise exports (~\$430 billion) grew modestly in FY26, constrained by weak demand in Europe (near-recessionary) and China (structural slowdown). Services exports — India's star performer — continued growing, with IT-BPM, GCC (Global Capability Centres), and fintech services reaching record highs.

Private investment hesitancy: Despite the government's sustained capital expenditure push (Union Budget FY26 allocated Rs 11.1 lakh crore for capex), private sector investment has not matched the pace required. Corporate India has repaired balance sheets and cash flows post-COVID but remains cautious about capacity expansion in sectors with demand uncertainty.

Rural demand pressure: Agricultural distress from uneven monsoons in FY26 and persistent food inflation have suppressed rural consumption. FMCG companies reported muted rural volume growth in Q2–Q3 FY26, indicating consumption stress in rural households.

FISCAL MANAGEMENT — CONSOLIDATION ON TRACK

The Union Budget FY26 targeted a **fiscal deficit of 4.4% of GDP** — continuing the consolidation path from 5.1% (FY24) toward the stated goal of 4.5% by FY26 and 4.1% by FY27. Provisional data suggests India is on track to meet this target, aided by:

- **Strong GST collections:** Monthly GST revenues averaged above Rs 1.85 lakh crore in FY26 — a record performance
- **Direct tax buoyancy:** Corporate income tax and personal income tax collections grew ~18% year-on-year
- **Capex execution:** Capital expenditure reached ~92% of budget estimate by March 2026 — a significant improvement from historical under-execution patterns

The fiscal consolidation is being achieved without significant compression of capital expenditure — indicating quality adjustment rather than austerity-driven deficit reduction.

INFLATION — THE UNRESOLVED CHALLENGE

The **Consumer Price Index (CPI) inflation** averaged approximately 4.5% in FY26 — above the RBI's 4% target but within the 2–6% tolerance band. **Core inflation** (excluding food and fuel) has been relatively contained, suggesting that the demand-pull inflationary pressure has not been excessive. However, **food inflation** — driven by pulses, vegetables, and edible oils — has persistently exceeded 6–7%, creating real cost-of-living stress for lower-income households.

The RBI's **Flexible Inflation Targeting (FIT)** framework — retained unchanged in the March 2026 review for another 5-year period (2026–2031) at 4% CPI target with 2–6% band — provides the policy anchor. But food price volatility requires complementary agricultural policy responses (buffer stock management, import duty calibration, MSP rationalization) that lie beyond monetary policy's reach.

THE INVESTMENT-GROWTH IMPERATIVE

India's growth sustainability depends on one critical variable: **private investment revival**. The government has done its part — record capex, Production Linked Incentive (PLI) schemes across 14 sectors, infrastructure build-out through GatiShakti. But government investment can catalyse, not substitute for, private capital formation.

For FY27 and beyond, the key determinants of private investment are:

- **Demand visibility:** Will consumption sustain at levels that justify capacity expansion?
- **Credit access:** Can MSME and mid-sized companies access long-term credit at competitive rates?
- **Regulatory predictability:** Does the policy environment — tax, land, environment, labour — provide enough stability for 10-year investment decisions?

The Jan Vishwas amendments (decriminalisation), the DPDP framework (data governance clarity), and the proposed Competition Amendment regulations are all pieces of the regulatory environment that investors watch.

THE STRUCTURAL OPPORTUNITY

As FY26 closes, India stands at a structural inflection point. The **China+1 supply chain diversification** — global companies reducing China concentration in manufacturing — presents India with its most significant industrial opportunity in decades. Apple’s manufacturing expansion in India (Foxconn, Tata Electronics), the semiconductor assembly push (Micron, Tata Electronics), and the electronics PLI acceleration are early signals.

Whether India captures this opportunity at scale depends on reforms that are well-understood but difficult to deliver: **land acquisition reform, unified labour codes implementation, state-level infrastructure quality, and skill development at industrial scale.** FY27 begins with these as the agenda — not unknowns, but known priorities requiring political will and administrative capacity.

UPSC RELEVANCE

India GDP growth FY26 ~6.5–7%; fiscal deficit target 4.4% FY26; FIT framework retained (2026–2031); GST average FY26 ~Rs 1.85 lakh crore.

MAINS GS-3 (ECONOMY):

India’s growth drivers and constraints; fiscal consolidation; FIT framework review; private investment challenge; supply chain opportunity (China+1); PLI scheme.

ESSAY:

India’s economic **trajectory** — managing the transition from consumption-driven recovery to investment-driven sustained growth.

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FY2025-26 KEY INDICATORS:

India GDP growth (FY26 estimate): ~6.5–7%

Union Budget FY26 capex: Rs 11.1 lakh crore

Fiscal deficit target FY26: 4.4% of GDP

Monthly GST average (FY26): ~Rs 1.85 lakh crore (record)

CPI inflation average FY26: ~4.5% (above 4% target, within 2–6% band)

MONETARY POLICY:

FIT framework: Retained for 2026–2031; 4% CPI target; 2–6% tolerance band

RBI Governor: Sanjay Malhotra (appointed December 2024)

RBI Monetary Policy Committee (MPC): 6 members (3 RBI + 3 external, appointed by Central Government)

TRADE AND INVESTMENT:

India merchandise exports (FY26): ~\$430 billion

Services exports (FY26): ~\$350 billion (IT-BPM dominant)

PLI schemes: 14 sectors; allocated Rs 1.97 lakh crore over 5 years

GatiShakti National Master Plan: October 2021; integrates infrastructure of 16 ministries

OTHER RELEVANT FACTS:

Fiscal deficit path: 5.1% (FY24) → 4.9% (FY25) → 4.4% (FY26) → 4.1% (FY27 target)

Capital expenditure execution historically: ~75–80% of budget estimate; FY26 reached ~92%

China+1 supply chain: Global diversification strategy reducing China concentration in manufacturing

Micron Technology: US semiconductor firm; Rs 22,516 crore plant in Sanand, Gujarat (SACDi packaging, not fab)

Sources: [Mint](#), [Ministry of Finance](#), [RBI](#)

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