

The Road Ahead: Inclusive and Sustainable Growth

**MCR HRD Institute, Hyderabad
2nd January, 2026**

Sustained Growth Momentum

Growth Projections for Select Economies (Real GDP, %)		
Country	2025	2026
United States	2	2.1
China	4.8	4.2
United Kingdom	1.3	1.3
Germany	0.2	0.9
France	0.7	0.9
Japan	1.1	0.6
Brazil	2.4	1.9
South Africa	1.1	1.2
India	6.6	6.2
Emerging and Developing Asian Countries	5.2	4.7

Despite global headwinds, India has demonstrated remarkable economic resilience, driven by consistent, growth-oriented policy measures.

- **IMF projects India's growth at 6.5% even in 2030**, reflecting stronger and more sustained growth than most economies.
- India is also on track to become the world's **fourth-largest economy by 2025**.

But India's Challenge is Unique

Despite strong economic growth, three key features define our economy:

65% of the population lives in **rural areas**, lacking basic amenities like good quality education, healthcare, and civic

46% of the population depends on **agriculture**, as source of primary livelihood.

80-90% of the workforce is in the **unorganised sector**, eking out a precarious livelihood.

Is the Indian State fulfilling its role?

Comparison of Various Development Indicators Among 50 Large Economies											
Rank	GDP Per Capita (PPP, 2019)	Life Expectancy (2019)	IMR (2019)	MMR (2017)	Out-of-Pocket- Expenditure on Healthcare (2018)	EYS (Expected Years of Schooling, 2019)	MYS (Mean Years of Schooling, 2020)	HDI (Human Development Index, 2020)	Power Consumption (Kwh Per capita, 2019)	Employment in Agriculture (% of total employment, 2019)	LFPR (Labor Force Participation Rate - female, 2018)
1	Switzerland	Hong Kong	Hong Kong	Hong Kong	South Africa	Australia	Germany	Norway	Norway	Singapore	Sweden
2	Ireland	Japan	Japan	Italy	France	Belgium	Canada	Ireland	Canada	Argentina	Switzerland
3	Norway	Switzerland	Finland	Norway	Netherlands	Sweden	Switzerland	Switzerland	Sweden	Hong Kong	Vietnam
4	Singapore	Spain	Norway	Poland	United States	Finland	United States	Hong Kong	UAE	Belgium	New Zealand
5	United States	Singapore	Sweden	Czech Republic	Thailand	Denmark	United Kingdom	Germany	United States	Israel	Netherlands
6	Denmark	Italy	Singapore	Finland	Ireland	New Zealand	Israel	Sweden	Finland	United Kingdom	Finland
7	Australia	South Korea	Czech Republic	Israel	Germany	Ireland	Norway	Australia	Taiwan	Germany	Denmark
8	Netherlands	Sweden	Spain	UAE	UAE	Netherlands	Finland	Netherlands	Saudi Arabia	United States	Norway
9	Sweden	Australia	Italy	Denmark	Japan	Norway	Japan	Denmark	South Korea	UAE	Canada
10	Austria	Norway	South Korea	Spain	New Zealand	Argentina	New Zealand	Finland	Australia	Canada	Germany
11	Finland	Israel	Belgium	Sweden	Denmark	Spain	Australia	Singapore	New Zealand	Sweden	Peru
12	Hong Kong	France	Austria	Austria	Sweden	United Kingdom	Czechia	United Kingdom	Singapore	Norway	Australia
13	Germany	Ireland	Ireland	Belgium	Czech Republic	Germany	Ireland	Belgium	France	Netherlands	United Kingdom
14	Belgium	Canada	Israel	Ireland	Norway	Hong Kong	Denmark	New Zealand	Switzerland	Denmark	Portugal
15	Canada	Netherlands	Australia	Japan	Saudi Arabia	Czechia	Austria	Canada	Israel	Saudi Arabia	Japan
16	Israel	Austria	Portugal	Netherlands	Canada	Turkey	Poland	United States	Austria	France	Austria
17	UAE	Finland	Germany	Switzerland	Colombia	Taiwan	Sweden	Austria	Czechia	Australia	Czech Republic
18	New Zealand	Belgium	Denmark	Australia	United Kingdom	South Korea	Netherlands	Israel	Japan	Switzerland	Singapore
19	United Kingdom	New Zealand	Netherlands	Germany	Turkey	Portugal	Hong Kong	Japan	Belgium	Czech Republic	Israel
20	Japan	United Kingdom	Switzerland	United Kingdom	Australia	Singapore	South Korea	South Korea	Netherlands	Japan	Spain
21	France	Denmark	United Kingdom	France	Austria	Chile	Russia	Spain	Russia	Austria	Russia
22	Italy	Germany	France	Portugal	Finland	Switzerland	Belgium	France	Germany	Finland	China
23	South Korea	Taiwan	Poland	Singapore	Belgium	United States	UAE	Czech Republic	Ireland	Italy	France
24	Spain	Portugal	Taiwan	New Zealand	Romania	Poland	Taiwan	Italy	Spain	Spain	United States
25	Taiwan	Chile	New Zealand	Canada	Poland	Canada	Singapore	UAE	China	Ireland	Ireland
26	Czech Republic	Czech Republic	Canada	Taiwan	Israel	Israel	France	Poland	Portugal	Taiwan	Thailand

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27	Portugal	United States	Russia	South Korea	Spain	Austria	Romania	Portugal	Malaysia	South Korea	Hong Kong
28	Saudi Arabia	UAE	United States	Chile	Italy	Italy	Argentina	Saudi Arabia	Denmark	South Africa	Belgium
29	Poland	Poland	Saudi Arabia	Russia	Brazil	Saudi Arabia	Chile	Chile	Hong Kong	Portugal	Poland
30	Chile	Turkey	Romania	Saudi Arabia	Argentina	France	Italy	Argentina	Italy	Russia	Brazil
31	Romania	Colombia	Chile	Turkey	Switzerland	Brazil	Malaysia	Romania	United Kingdom	New Zealand	Colombia
32	Russia	Thailand	UAE	Uruguay	Peru	Japan	Spain	Russia	Poland	Chile	South Korea
33	Malaysia	China	China	Romania	Portugal	Russia	Saudi Arabia	Turkey	Chile	Brazil	Argentina
34	China	Argentina	Malaysia	China	Singapore	Peru	South Africa	Malaysia	South Africa	Poland	Romania
35	Mexico	Peru	Thailand	Malaysia	Hong Kong	Thailand	Peru	Mexico	Turkey	Malaysia	Chile
36	Argentina	Malaysia	Argentina	Mexico	South Korea	Mexico	Philippines	Peru	Argentina	Mexico	Italy
37	Turkey	Brazil	Turkey	Egypt	Chile	Colombia	Portugal	Thailand	Romania	Colombia	Indonesia
38	Brazil	Romania	Peru	Thailand	Indonesia	UAE	Mexico	Colombia	Brazil	Turkey	Malaysia
39	Thailand	Vietnam	Colombia	Argentina	Malaysia	Romania	Colombia	Brazil	Vietnam	Egypt	South Africa
40	Peru	Mexico	Mexico	Vietnam	Taiwan	China	Viet Nam	China	Thailand	Romania	UAE
41	Colombia	Saudi Arabia	Brazil	Brazil	China	South Africa	Indonesia	Indonesia	Mexico	Philippines	Taiwan
42	South Africa	Russia	Vietnam	Colombia	Russia	Malaysia	China	Philippines	Egypt	China	Nigeria
43	Indonesia	Bangladesh	Egypt	Peru	Mexico	Indonesia	Turkey	South Africa	Peru	Peru	Philippines
44	Philippines	Egypt	Indonesia	South Africa	Vietnam	Egypt	Brazil	Egypt	Colombia	Indonesia	Mexico
45	Egypt	Indonesia	Philippines	Philippines	Philippines	Philippines	Thailand	Vietnam	Indonesia	Thailand	Bangladesh
46	Vietnam	Philippines	Bangladesh	Pakistan	Pakistan	Vietnam	Egypt	India	India	Nigeria	Turkey
47	Nigeria	India	South Africa	India	Egypt	India	Nigeria	Bangladesh	Philippines	Pakistan	Saudi Arabia
48	India	Pakistan	India	Bangladesh	India	Bangladesh	India	Pakistan	Pakistan	Vietnam	Pakistan
49	Bangladesh	South Africa	Pakistan	Indonesia	Bangladesh	Nigeria	Bangladesh	Nigeria	Bangladesh	Bangladesh	India
50	Pakistan	Nigeria	Nigeria	Nigeria	Nigeria	Pakistan	Pakistan	*Taiwan	Nigeria	India	Egypt
*Taiwan is not included in UNDP's HDI rankings											

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34	China	Argentina	Malaysia	China	Singapore	Peru	South Africa	Malaysia	South Africa	Poland	Romania
35	Mexico	Peru	Thailand	Malaysia	Hong Kong	Thailand	Peru	Mexico	Turkey	Malaysia	Chile
36	Argentina	Malaysia	Argentina	Mexico	South Korea	Mexico	Philippines	Peru	Argentina	Mexico	Italy
37	Turkey	Brazil	Turkey	Egypt	Chile	Colombia	Portugal	Thailand	Romania	Colombia	Indonesia
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40	Peru	Mexico	Mexico	Vietnam	Taiwan	China	Viet Nam	China	Thailand	Romania	UAE
41	Colombia	Saudi Arabia	Brazil	Brazil	China	South Africa	Indonesia	Indonesia	Mexico	Philippines	Taiwan
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43	Indonesia	Bangladesh	Egypt	Peru	Mexico	Indonesia	Turkey	South Africa	Peru	Peru	Philippines
44	Philippines	Egypt	Indonesia	South Africa	Vietnam	Egypt	Brazil	Egypt	Colombia	Indonesia	Mexico
45	Egypt	Indonesia	Philippines	Philippines	Philippines	Philippines	Thailand	Vietnam	Indonesia	Thailand	Bangladesh
46	Vietnam	Philippines	Bangladesh	Pakistan	Pakistan	Vietnam	Egypt	India	India	Nigeria	Turkey
47	Nigeria	India	South Africa	India	Egypt	India	Nigeria	Bangladesh	Philippines	Pakistan	Saudi Arabia
48	India	Pakistan	India	Bangladesh	India	Bangladesh	India	Pakistan	Pakistan	Vietnam	Pakistan
49	Bangladesh	South Africa	Pakistan	Indonesia	Bangladesh	Nigeria	Bangladesh	Nigeria	Bangladesh	Bangladesh	India
50	Pakistan	Nigeria	Nigeria	Nigeria	Nigeria	Pakistan	Pakistan	*Taiwan	Nigeria	India	Egypt
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Crisis of Governance

- **Inefficient** state apparatus →
 - Substandard **public amenities**
 - **No decent education** in government schools
 - **Poor health care**
- Red Tapism & **unresponsive** bureaucracy →
 - All **pervasive corruption**
- Failure of **Rule of Law** →
 - **Criminalisation** of Politics
- **Money & muscle-power** in elections
 - Vicious **cycle of corruption**
 - Even honest public servants are **passive and helpless**

Political Distortions

- Where politics ought to be the solution, it has become the problem.
- While the broader democratic reform agenda requires **committed political will** and a **strong appetite for reform on a long-term basis**, challenges stemming from political distortions threaten to **derail domestic growth today**.

Fundamental Clash in Economic Vision

Fiscal Prudence and creating market conditions to enhance incomes and create wealth

Vs.

Clamour for short-term individual welfare and redistributive policies

Popular demand reinforcing short-term policies

- Across elections in major States, political parties have offered Individual Short-term Welfare (ISW) measures, or **'guarantees'**.
- While the extent of promises varies, the **emphasis** remains on short-term benefits.

WHAT NEXT?



- The **strong economic growth impulse** is our greatest hope for a **better democracy**.
- Higher incomes and better quality of life **promote better governance, citizen participation, and empowerment**.
- While welfare may take care of the immediate basic needs, **history has taught us that mere redistribution will not lead to improved lives for all**.

Components of Inclusive Growth

Fiscal prudence

Education

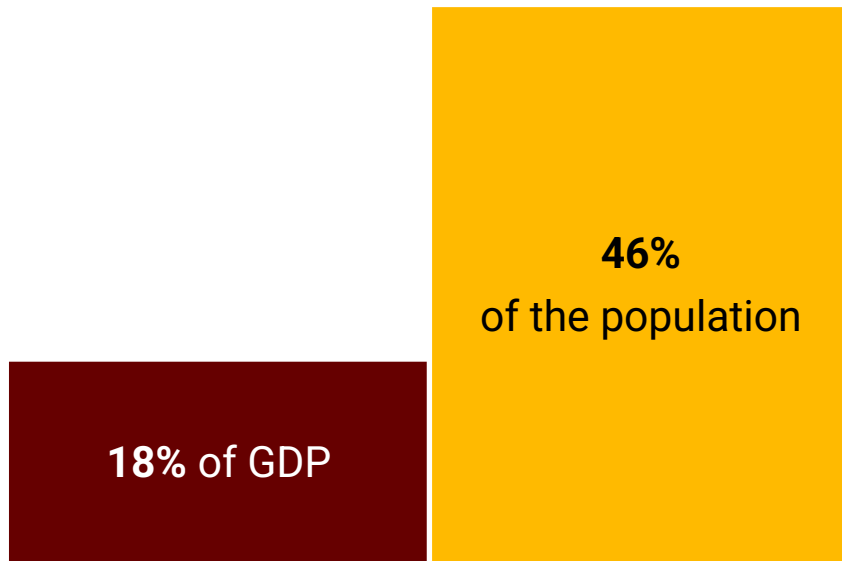
Healthcare

Rule of Law

**Small Town
Development**

The State of Rural Economy

Agriculture Sector in India



Urban Migration

53% of male migrants move to urban areas seeking employment opportunities

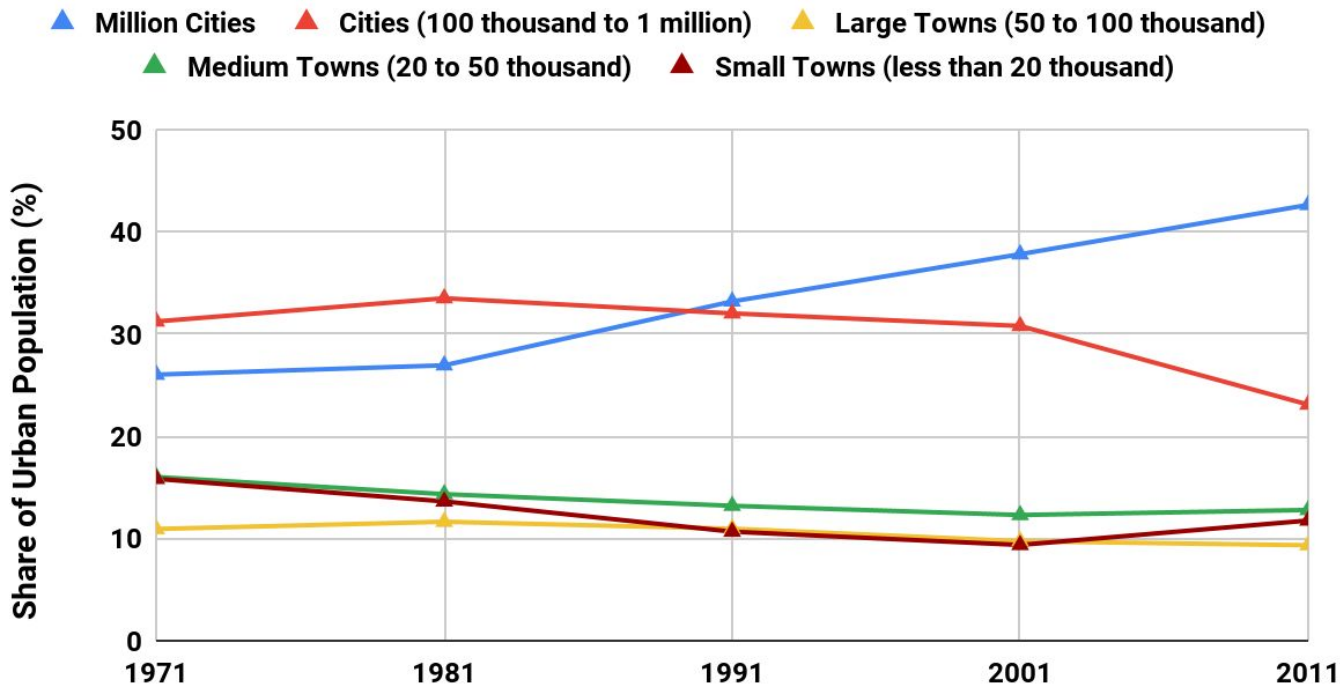
Inevitability of Urbanization

By 2036, 45% of India's population is projected to live in urban areas

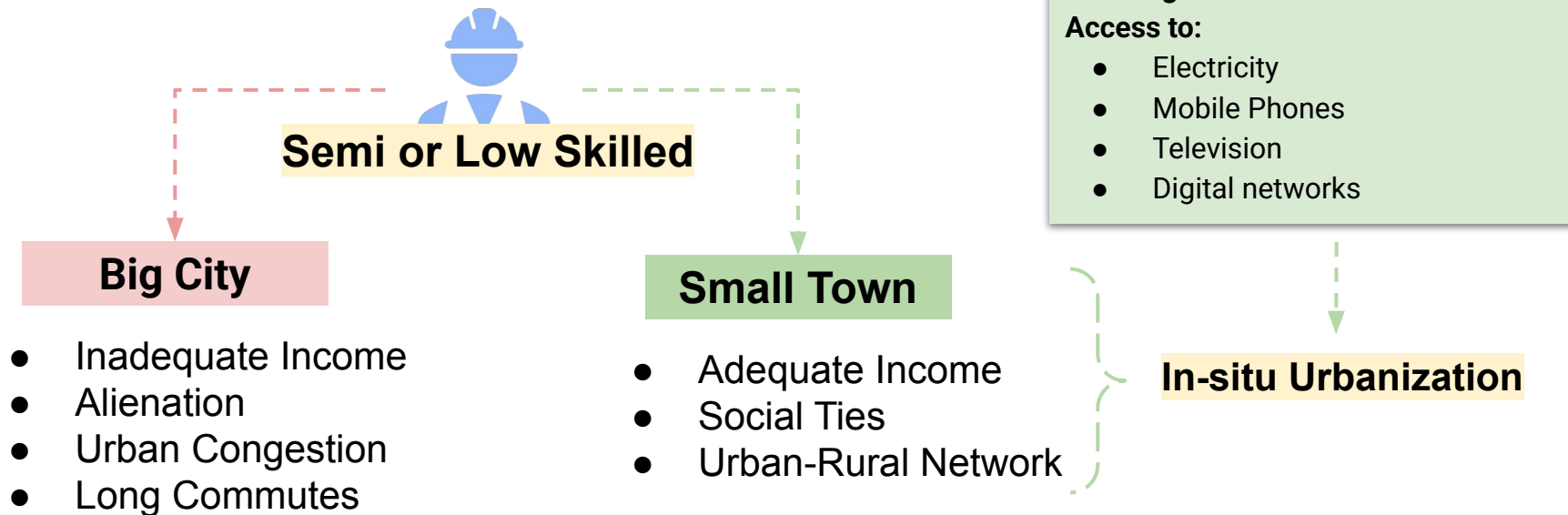
From villages, almost every able bodied young person is migrating to big cities in search of better livelihood opportunities.

Big City - The Primary Destination

Share of Urban Population by City Size class



Promotion of in-situ urbanisation to bridge the social, economic and physical gap between rural India and the big cities.



Small towns can transform into **hubs for labour-intensive manufacturing units**, providing jobs for the low and semi-skilled workforce from the neighbouring villages.



Identification

Village/Census Town/ Municipality:

- **At least one in every Assembly constituency**
- Natural economic hub
- Centrally located with adequate connectivity

Town Planning and Infrastructure Development

- Quality drinking water
- Stormwater drainage
- Transport networks
- Sanitation facilities

Rs.100 crores over 5 years per small town

Private Investment

- Construction
- Housing sites
- Services such as education and healthcare, and recreation

Vibrant Small Town

- Quality of life comparable to a big city
- Organic migration from villages

Small Town Development

CASE STUDIES

Brandix India Apparel City

Atchutapuram, Erstwhile Visakhapatnam District

- Employment: 22,000 (82% Women)
- Average Monthly Salary: ₹16,000 – ₹25,000
- Annual Exports: USD 300 million

Apache Footwear

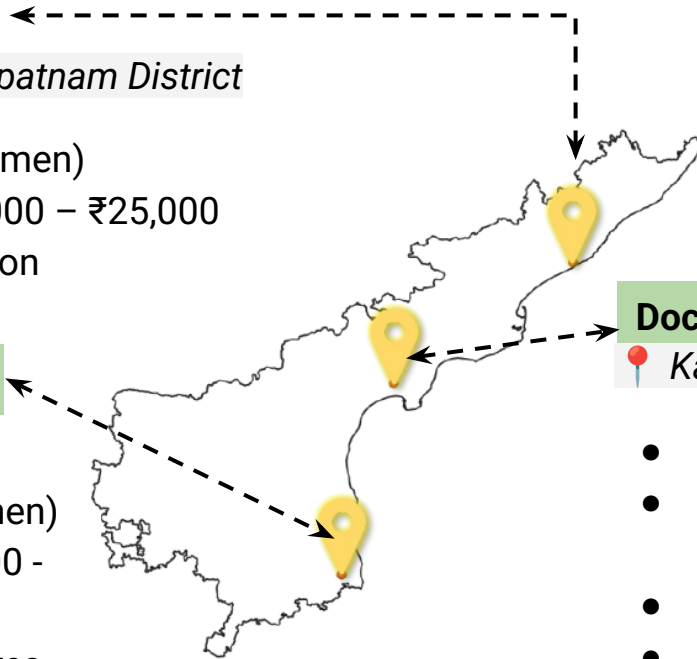
Tada, Erstwhile Chittoor District

- Employment: 12,547 (55% women)
- Average Monthly Salary: ₹25,000 - ₹35,000
- Annual Revenue: ₹1373.34 Crores (~80% exports)
- Ready to employ +2,000

Doctus

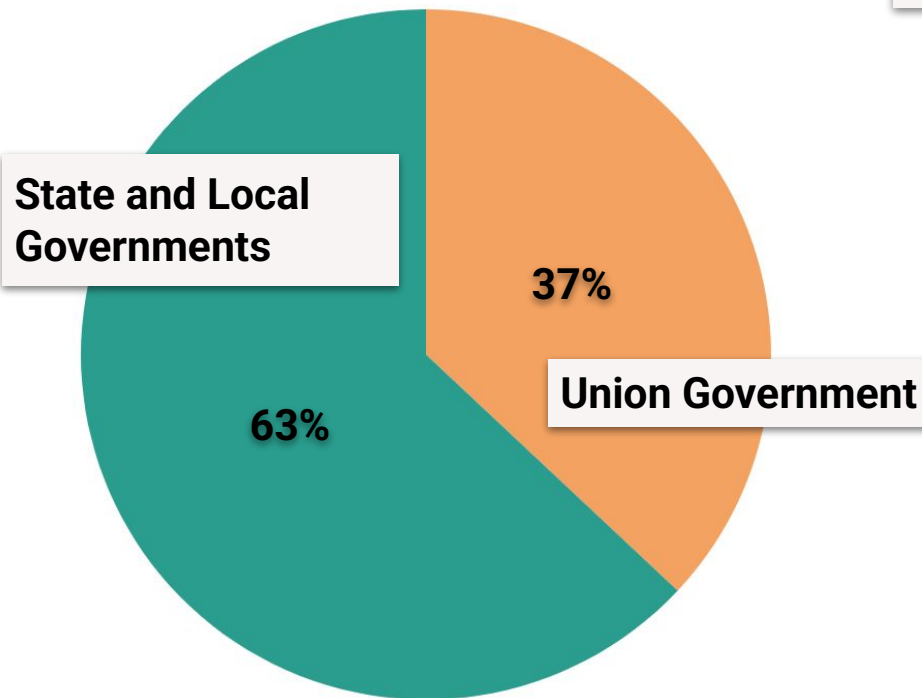
Kavuru, Erstwhile Guntur District

- Sector: Medical Coding
- Employment: 175 (over 50% Women)
- Average Monthly Salary: ₹20,000
- Ready to employ +500



Government Expenditure (FY 2024-25)

Crucial point often missed in the debate on Fiscal Federalism in India:



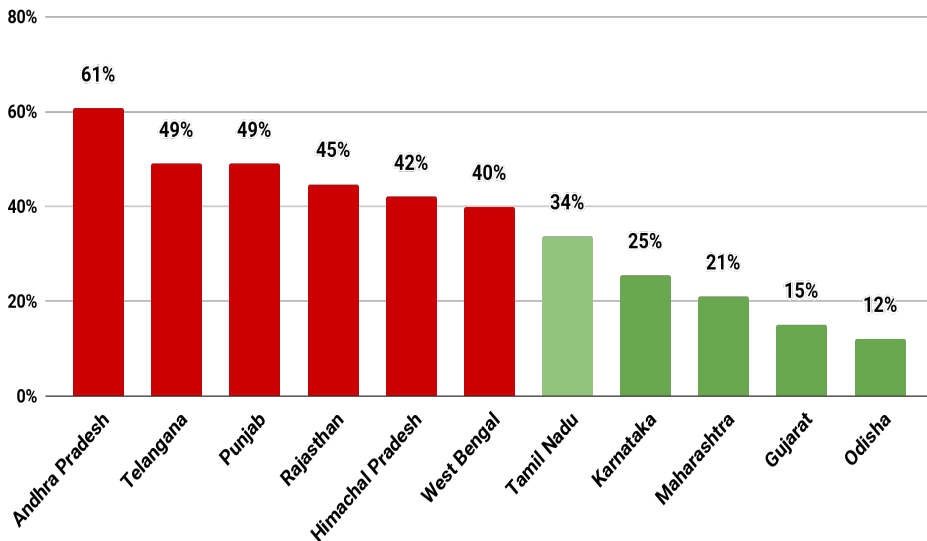
≈ **63%** of general government **expenditure** (including local government) occurs at the State level.

≈55% of the Gross Revenues of the Union are transferred to the States.

Heads (₹ Crore)		2023-24	2024-25 RE	2025-26 BE
A	Gross Revenue of the Union Government	36,96,427	40,95,170	45,28,233
B	Resources Transferred to States and UTs with Legislatures	20,58,327	22,04,161	24,71,786
	- Devolution of States share in Taxes	11,29,494	12,86,885	14,22,444
	- Other Transfers including Finance Commission Grants and Centrally Sponsored Schemes	9,28,833	9,17,276	10,49,342
	Resource Transfer as % of Gross Revenue	55.7%	53.8%	54.6%
C	Net Revenue with the Union after Transfers (A-B)	16,38,100	18,91,009	20,56,447
D	Salaries and Pensions (including Defence)	7,44,272	8,24,490	₹8,52,409
E	Interest Payments	10,63,872	11,37,940	12,76,338
F	Structural Deficit of the Union (A-B-D-E)	-1,70,044.40	-₹71,421.47	-₹72,300.21

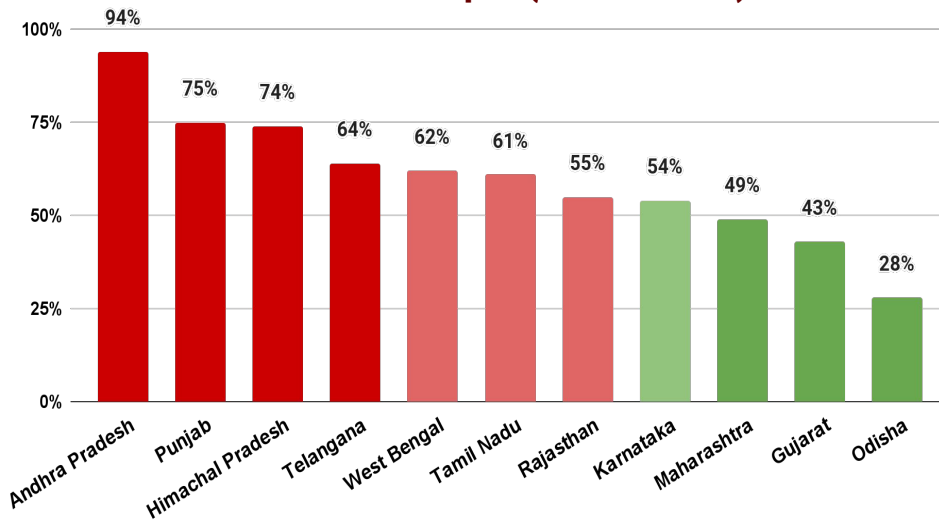
Source: Budget at a Glance, Union Budget Document of 2024-2025; .Expenditure Full Profile, Union Budget Documents of 2024-2025

Debt-to-GSDP ratio (2024-25 RE)*



FRBM Target:
20%

Committed Expenditure as a Share of Total Revenue Receipts (2024-25 RE)**



For many States, **expenditure on salaries, pensions, and interest payments exceeds own revenues.**
(Does not include welfare expenditure)

*Source: Respective State Budget Documents, 2025-26; Andhra Pradesh & Telangana – White Papers released by the State Governments

**Source: Respective State Budget Documents 2025–26; Andhra Pradesh and Telangana figures calculated by the FDR based on state White Papers; CAG Monthly Indicators; and Budget at a Glance.

A Framework for Fiscal Prudence: *Key Recommendations*

1. **Nil revenue deficit** as a condition to borrow under Article 293(4)

- a. *Phase out revenue deficit grants*
- b. *The Union be subject to the same rule, monitored by Parliament*

2. **Off-Budget borrowings & deferred bills** to reflect in budgets and for the application of Art 293(4)

3. One-time measure to restore the health of **fiscally stressed States**

4. **Independent, transparent, non-partisan** exercise of functions

5. Authoritative **data collection and monitoring** and real-time public disclosure

6. Tools like **fiscal stress test** could be explored

7. Conduct **ex-ante evaluation** of fiscal policies; **cost-benefit analysis** of large capital projects

8. **Sinking fund** for commitments posing future liabilities

- a. *In case of reversal to Old Pension Scheme (OPS)*
- b. *Defined-benefit, non-contributory, unfunded defense pensions*

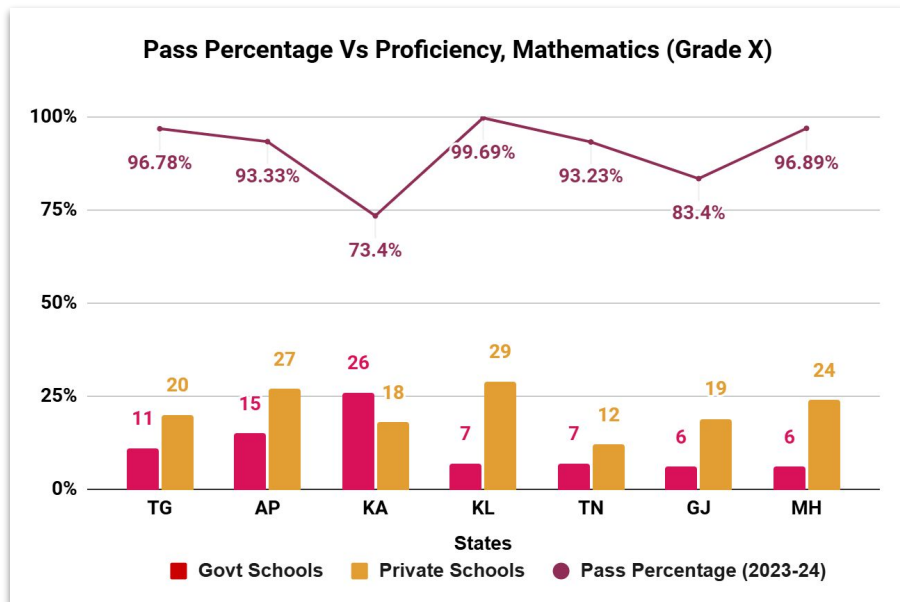
9. Switch to an **accrual-based accounting system**

Art 293 as a tool to ensure fiscal discipline

Independent monitoring & oversight of public expenditure

Protect **intergenerational equity** & ensure **long-term health** of public finances

Poor learning outcomes across States and across management types

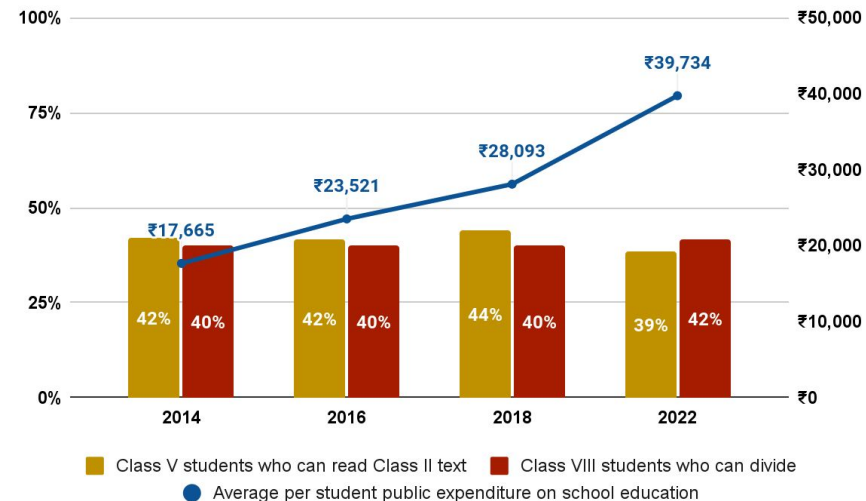


Note: TG - Telangana, AP - Andhra Pradesh, KA - Karnataka, KL - Kerala, TN - Tamil Nadu, GJ - Gujarat, MH - Maharashtra.

Source: Proficiency levels: National Achievement Survey 2021; Pass Percentage, 2023-24: Newspaper Reports

More expenditure by itself is not leading to better outcomes

Expenditure vs Outcomes, Government School Education



Sources: ASER Reports, U-DISE, Analysis of Budgeted Expenditure on Education Reports

Components of an effective assessment framework

Stress-free continuous assessments from Grade 6, not one high-stakes test.

Local inspection & monitoring supported by 2-3% current government teachers

Detention policy from Grade 6 supported by regular assessments and remedial support.

- Current grade-level assessment focus on **rote memorisation** over conceptual understanding and application of concepts.
- The emphasis should shift to **application of knowledge, critical thinking, and problem-solving abilities**.
- An assessment framework that **tests and rewards real learning** will dramatically **alter the incentives** for all stakeholders.

This single intervention would then drive the **STUDENTS, TEACHERS, PARENTS, SCHOOL ADMINISTRATION**, and the market in general to **strive for 'success' on these redefined terms**, leading to better outcomes in the existing milieu **without causing much disruption or friction**.

The lack of accessible and effective public health care is debilitating, often having catastrophic consequences for the poorest households.

Besides the immense potential for growth and jobs in the healthcare sector, ensuring universal access to quality health care will ensure that avoidable suffering is minimised and productivity of the poorest is not unduly diminished.

Major challenge today

Accessible, affordable, effective
and accountable curative
primary care

Approaches to reform

Incorporate elements of choice and
competition

Public-funded but privately
delivered care

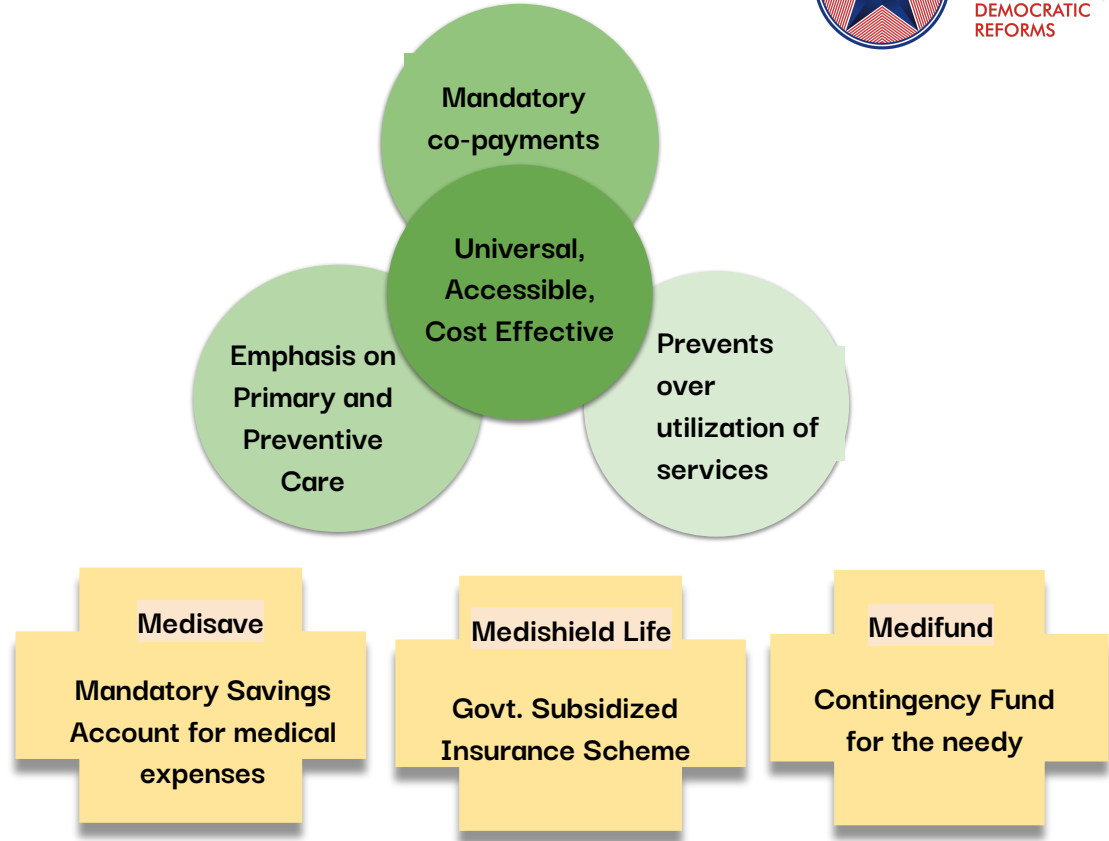
Focus on small towns

Primary Care

- 80% care- Private
- Family Doctor System
- Accessible

Tertiary Care

- 80% care- Public
- Strong Referral System
- Heavily Subsidized



Swift & fair justice in courts is perhaps the single biggest silent unmet need in the country.

Several crores of families are **suffering in silence** either due to protracted proceedings or enduring injustices in lieu of such proceedings.

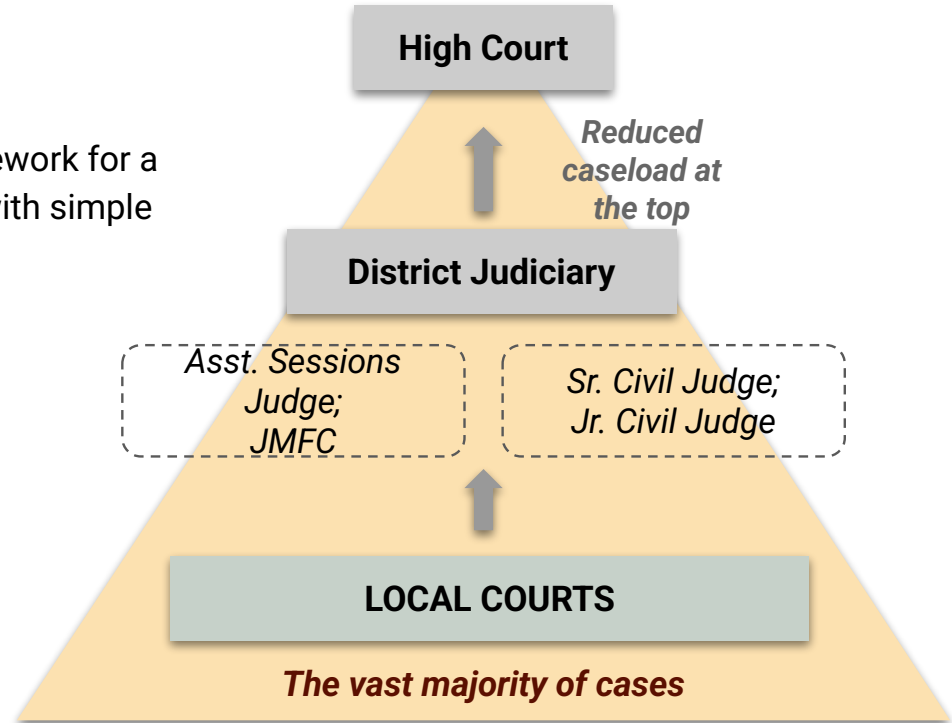
Without **urgent and serious course correction**, public order, safety and security will be increasingly endangered.

An improvement in civil and criminal justice delivery at the lower end, **focusing on urban areas as well as safety of women** would directly affect the everyday lives of most citizens.

Means to Citizen-centric Governance

The Gram Nyayalayas Act, 2008 gives a robust framework for a system of Local Courts that will swiftly & fairly deal with simple cases, both criminal and civil.

- Less serious offences & disputes
- Summary procedures
- Local language
- Swift, time-bound trials
- Court in the Mandal/Taluk headquarters



“But it has always been difficult to interest politicians in reform because of the **slow rate of social pay-off** compared with **the short-term political costs** of change.”

— Douglas Wass