

What Ails the Indian Economy? Crossroads and Recovery

S. Ramaswamy¹, S. Gnanasaranya², V. Kaveri³, M. S. Fathima Begam⁴,
S. Amutha⁵ and S. Arun⁶

¹Advisor -cum-Adjunct Professor (Economics), Corresponding Author, GTN Group of Institutions, Dindigul, Tamil Nadu, India

²Guest Faculty, Department of Lifelong Learning and Extension, The Gandhigram Rural Institute (DU), Dindigul, Tamil Nadu, India

³Head, Department of Management Studies, GTN Arts College (Autonomous), Dindigul, Tamil Nadu, India

⁴Associated Professor (Dean R and D), Department of History, GTN Arts College (Autonomous), Dindigul, Tamil Nadu, India

⁵Head, Department of Commerce (SSP), GTN Arts College (Autonomous), Dindigul, Tamil Nadu, India

⁶Assistant Professor, Department of Economics, GTN Arts College (Autonomous), Dindigul, Tamil Nadu, India

Abstract

Between 2014 and 2026, the Indian economy underwent a period of structural transformation, ambitious fiscal experimentation, and rapid digital public infrastructure rollout, maintaining its position as the world's fastest-growing major economy. However, beneath headline real Gross Domestic Product (GDP) growth rates averaging 6.5 per cent to 7.5 per cent, deep-seated structural vulnerabilities persisted. This paper provides a comprehensive economic diagnostic of India's macroeconomic performance across these twelve years. Utilising empirical evidence from central bank bulletins, multilateral financial institution evaluations, governmental surveys, and peer-reviewed scholarly literature, this study evaluates the core structural ailments afflicting the Indian growth model. The primary structural imbalance lies in the persistent growth-employment paradox. Despite strong national output, economic expansion has been characterised by premature deindustrialisation and jobless growth, where capital-intensive services dominate output while over 88.0 per cent of the workforce remains trapped in low-productivity informal employment or underemployment. Agriculture continues to absorb nearly 44.0 per cent of the population while generating less than 16.0 per cent of Gross Value Added (GVA), a distortion exacerbated by the COVID-19 pandemic's reverse migration shock and prolonged real wage stagnation in rural areas. Simultaneously, private corporate Gross Fixed Capital Formation (GFCF) remained muted despite historic corporate tax cuts, balance sheet cleanups, and the resolution of the Twin Balance Sheet Crisis through the Insolvency and Bankruptcy Code (IBC). The state was forced to step in as the primary engine of capital expenditure (Capex), building physical infrastructure but pushing combined general government debt to over 80.0 per cent of GDP. This investment slowdown, combined with post-pandemic income polarisation, produced a distinct K-shaped consumption trajectory, where affluent urban segments drove premium demand while low- and middle-income households faced compressed real financial savings and rising debt. Furthermore, persistent underinvestment in social infrastructure—specifically public healthcare and foundational education—threatens India's ability to reap its demographic dividend before population ageing sets in. This paper concludes that sustaining long-term, inclusive development requires shifting policy from an exclusive reliance on public capital spending toward structural interventions that enhance labour intensity in manufacturing, revitalise rural purchasing power, support micro-, small-, and medium-sized enterprises (MSMEs), and build robust human capital foundations. India's Economic Crossroads (2014–2026): Growth, Vulnerabilities, and the Path Forward.

Keywords: Indian Economy, Jobless Growth, Agrarian Distress, K-Shaped Recovery, Twin Balance Sheet Crisis, Human Capital Deficits.

1.0 Introduction

The economic evolution of India between 2014 and 2026 represents one of the most dynamic yet paradoxical chapters in modern development economics. Emerging from the macroeconomic instability of the early 2010s—characterised by high current account deficits, spiralling inflation, and inclusion in the "Fragile Five" global economies—India embarked on a decade of aggressive policy interventions (**Subramanian and Felman, 2019; World Bank, 2025**). The state executed landmark structural reforms, including the implementation of the Goods and Services Tax (GST) in 2017, the passage of the Insolvency and Bankruptcy Code (IBC) in 2016, a major corporate tax rationalisation in 2019, and the deployment of Digital Public Infrastructure (DPI) via the India Stack (**IMF, 2024; GoI, 2024**). These interventions successfully stabilised key macroeconomic indicators, expanded tax bases, and positioned India as a dominant global hub for technology services and global capability centres (**NITI Aayog, 2025**). However, a rigorous examination reveals that these headline achievements mask severe structural disequilibria within the domestic economy. India's growth model during this period deviated significantly from classical structural

transformation paradigms (Lewis, 1954; Rodrik, 2016). Rather than transitioning surplus labour smoothly from low-productivity agriculture into labour-intensive industrial manufacturing and subsequently into high-value services, India bypassed mass industrialisation. Manufacturing's share of Gross Value Added (GVA) remained stubbornly fixed between 15.0 per cent and 17.0 per cent, failing to reach national strategic goals despite targeted interventions such as the "Make in India" initiative and the Production Linked Incentive (PLI) schemes (GoI, 2023; NITI Aayog, 2026). Consequently, output growth became increasingly concentrated in capital-intensive and skill-intensive sectors, leaving the vast majority of the workforce competing for low-wage informal work or underemployed in rural agricultural holdings (Abraham and Kesar, 2025; Basole, 2022). Furthermore, the macroeconomic balance sheet shifted significantly over these twelve years. While the corporate and banking sectors successfully deleveraged following the resolution of the Twin Balance Sheet Crisis (RBI, 2020 and 2025), the burden of driving capital accumulation migrated onto the public balance sheet. Public capital expenditure expanded rapidly to build national highways, dedicated freight corridors, and digital networks, yet it failed to fully crowd in private corporate capital (IMF, 2025; GoI, 2026). At the household level, stagnating real wages in rural regions combined with elevated food inflation compressed purchasing power, leading to a polarised "K-shaped" economic recovery post-2020 (Azim Premji University, 2023; EPW, 2025). Wealth accumulation concentrated among top-income brackets, while lower-income households saw their net financial savings drop to historical lows while relying on credit to sustain basic consumption. This paper provides an empirical diagnostic of what ails the Indian economy between 2014 and 2026, evaluating the macroeconomic mechanisms driving these imbalances across eight core structural domains (ADB, 2025; OECD, 2025; UNDP, 2024; WEF, 2026).

Historical Context and Policy Baseline (2014–2026): The macroeconomic trajectory from 2014 to 2026 can be divided into three distinct policy phases: the initial stabilisation and formalisation push (2014–2019), the systemic shock and pandemic response phase (2020–2022), and the public Capex-led recovery phase (2023–2026) (GoI, 2024 and 2026). In the first phase, policy focused on supply-side modernisation, inflation targeting frameworks via the RBI, and market unification through GST (Lahiri, 2017; RBI, 2020). However, structural shocks such as the 2016 currency demonetisation and early GST implementation frictions disrupted cash-reliant informal supply chains and Micro, Small, and Medium Enterprises (MSMEs), depressing short-term growth before the 2020 global pandemic (EPW, 2018; World Bank, 2023). The second phase (2020–2022) exposed the precarious nature of informal employment and urban-to-rural labour linkages. The economic freeze forced millions of migrant workers back into rural areas, causing a structural reversal as agricultural employment expanded for the first time in decades (IHD and ILO, 2024). In response, the government executed targeted credit guarantees for MSMEs, direct digital cash transfers via the India Stack, and expanded food security distributions (IMF, 2024; NITI Aayog, 2022). In the third phase (2023–2026), macro policy pivoted toward state-driven capital expenditure as the primary locomotive of aggregate demand. Central government Capex rose past 3.3 per cent of GDP, building public infrastructure to lower logistics costs and improve national competitiveness (GoI, 2026; World Bank, 2025). Yet, despite clean bank balance sheets and high corporate profits, private corporate investment remained hesitant due to muted mass consumption and global geopolitical headwinds (Business Standard, 2025; IMF, 2025). Understanding this twelve-year path requires analysing how these policy choices interacted with underlying structural constraints in labour, capital, and social markets (OECD, 2025; WEF, 2026).

1.1 The Growth-Employment Paradox: Jobless Growth and Structural Prematurity

The central structural ailment of the contemporary Indian economy is the decoupling of high GDP expansion from quality job creation. Standard development theory asserts that sustained economic growth transforms the labour force by pulling workers out of subsistence agriculture into high-productivity manufacturing and modern service industries (Lewis, 1954; Rodrik, 2016). In India, this classical structural transition has stalled, producing a phenomenon widely characterised as jobless growth (Abraham and Kesar, 2025; Basole, 2022). While aggregate economic output grew at globally leading rates between 2014 and 2026, labour absorption in formal, high-productivity sectors failed to keep pace with the demographic influx of over 7 to 8 million young entrants joining the labour market annually (IHD and ILO, 2024; World Bank, 2025). The underlying cause of this paradox is the capital-intensive nature of India's GVA expansion. Economic growth has been heavily driven by specialised services and automated industrial activities—such as Information Technology (IT), software engineering, financial services, and Global Capability Centres (GCCs)—which together generate over half of total national GVA (NITI Aayog, 2025; WEF, 2026). However, these advanced service sectors require high levels of human capital and absorb only a fraction of the total labour force. Meanwhile, sectors capable of absorbing mass low- and medium-skilled labour, such as garment manufacturing, leather production, basic electronics assembly, and construction, faced high logistics costs, land acquisition hurdles, rigid labour compliance frameworks, and intense import competition (GoI, 2023; OECD, 2025). As a result, the economy experienced a structural bottleneck: growth flourished in high-skill enclaves while the broader population remained constrained to low-tier service work, gig arrangements, or informal labour (Azim Premji University, 2023; NITI Aayog, 2022). The structural distortion in India's economic growth trajectory is clearly illustrated by the premature bypass of mass, labour-intensive manufacturing. Under standard economic development paradigms, economic growth relies on shifting surplus labour from low-productivity agriculture into labour-intensive manufacturing, before eventually transitioning toward high-value services. In India, however, this sequence has stalled. Agriculture continues to absorb approximately 43.0 per cent of the total national labour force while generating under 16.0 per cent of Gross Value Added (GVA), reflecting a severe productivity gap and persistent underemployment in rural regions. Rather than moving into factory-floor industrial jobs, labour effectively bypasses mass manufacturing, flowing directly toward an expanding services sector that contributes over 54.0 per cent to national GVA.

Crucially, this growth in services is capital- and skill-intensive—dominated by IT, financial services, and global capability centres—which absorbs only a small fraction of highly educated, skilled professionals. As a result, the vast majority of low- and unskilled labourers exiting rural agriculture are left out of formal white-collar or industrial roles, leaving them with little choice but to take low-productivity, low-wage jobs in the unorganised informal services sector. Furthermore, official labour statistics published by the Ministry of Statistics and Programme Implementation (MoSPI) through the Periodic Labour Force Surveys (PLFS) illustrate this structural market distortion. Although headline Unemployment Rates (UR) showed numerical declines post-2021, detailed disaggregation shows that this improvement was largely driven by increases in self-employment, unpaid family labour (particularly among rural women re-entering the workforce), and casual labour (MoSPI, 2024; State of Working India, 2023). The share of regular wage or salaried workers with formal employment benefits remained muted, while over 88.0 per cent of the total working population remained engaged in the informal economy without written contracts, pension coverage, or health and safety nets (IHD and ILO, 2024; GoI, 2025). The economy's structural inability to create formal wage employment at scale remains a primary barrier to long-term poverty alleviation and middle-class expansion (UNDP, 2024; World Bank, 2026).

Premature Deindustrialisation and the Service-Led Trap: A critical structural vulnerability within India's development path is premature deindustrialisation—a condition where an economy's industrial manufacturing sector begins to shrink or stagnate in GVA and employment share at a per capita income level far lower than that of advanced economies before their post-industrial transition (Rodrik, 2016; Basole, 2022). Despite high-profile state campaigns such as "Make in India" launched in 2014 and the allocation of trillion-rupee Production Linked Incentive (PLI) schemes across 14 manufacturing sectors since 2020, manufacturing's contribution to national GVA remained trapped in the 15.0 per cent to 17.0 per cent range (GoI, 2023; NITI Aayog, 2026). The PLI schemes successfully attracted capital-intensive manufacturing in specialised domains like smartphone assembly, pharmaceutical active ingredients, and advanced chemistry cell batteries (GoI, 2024). However, these capital-intensive production lines exhibit low labour elasticity, meaning that every unit of capital invested yields fewer direct shop-floor jobs than traditional labour-intensive sectors (Abraham and Kesar, 2025; ADB, 2025). Consequently, India became caught in a "service-led trap." Advanced services provided foreign exchange earnings, tax revenues, and strong urban GDP figures, but they could not serve as an employer of last resort for the millions of youth exiting rural school systems with basic education (Pratham Education Foundation, 2024). Low-skilled surplus labour bypassed factory employment entirely, flowing into low-productivity non-tradable services—such as informal retail, personal transport, and casual construction work—where real wages remained low (EPW, 2025). This lack of a robust, labour-absorbing manufacturing base limits productivity growth across the broader workforce (OECD, 2025; World Bank, 2025).

Labour Market Realities: Informalisation and Underemployment: The institutional reality of the Indian labour market between 2014 and 2026 is defined by persistent informalisation and hidden underemployment. According to data from the Periodic Labour Force Survey (PLFS), the informal sector continues to employ nearly nine out of every ten workers in the country (MoSPI, 2024; IHD and ILO, 2024). Informal employment spans both unregistered micro-enterprises operating outside formal tax and regulatory systems and informal contractual arrangements within registered formal firms (GoI, 2025). This structural informalisation deprives workers of wage stability, social security schemes, paid leave, and occupational health protections, leaving households vulnerable to sudden health or economic shocks (UNDP, 2024).

Table 1: Key Structural Parameters of the Indian Labour Market: Target vs. Reality (2014–2026)

Labour Market Parameter	Structural Status (2014–2026 Target vs. Reality)	Economic Consequences	Primary Data Sources
Informal Labour Share	Stagnant at ~88.0 per cent–90.0 per cent of total employment	Prevents social security coverage, depresses tax base, limits worker skill progression.	IHD and ILO (2024); MoSPI (2024)
Manufacturing GVA	Stagnant at ~15.0 per cent–17.0 per cent (Target: 25.0 per cent)	Causes premature deindustrialisation and weak shop-floor job creation	Ministry of Commerce (2023); NITI Aayog (2026)
Agricultural Labour Share	Elevated at ~43.0 per cent–45.0 per cent of workforce	Creates structural productivity gaps and rural underemployment	Basole (2022); World Bank (2025)
Real Rural Wage Growth	Near-zero or negative real growth	Compresses mass domestic consumption demand	EPW (2025); Labour Bureau (2025)

Underemployment—where individuals work fewer hours than desired or perform tasks far below their educational qualifications—remains a widespread structural issue (IHD and ILO, 2024). Millions of educated graduates accept low-paying gig roles, casual administrative tasks, or unpaid family agricultural work due to the scarcity of formal white-collar or technical blue-collar positions (CII and AIU, 2025; WEF, 2026). This misallocation of human resources limits overall labour productivity, dampens national income growth, and creates social friction among educated youth seeking upward mobility (Indian Express, 2024).

1.2 Agrarian Distress and Rural Economy Stagnation

The rural economy, which sustains over 60.0 per cent of India's total population, experienced persistent structural pressure between 2014 and 2026. Agriculture continues to account for approximately 43.0 per cent to 45.0 per cent of total employment, yet its contribution to national Gross Value Added (GVA) dropped below 16.0 per cent (**GoI, 2025; MoSPI, 2024**). (Table 1) This disparity underscores a severe structural productivity gap between farming and the rest of the economy. Per capita income in the agricultural sector remains a fraction of non-agricultural urban incomes, sustaining a major economic divide between rural and urban households (**Basole, 2022; World Bank, 2025**). The agrarian crisis is rooted in several structural factors: extreme land fragmentation, rising input costs, high climate vulnerability, and inefficient market linkages (**CACP, 2024; FAO and WHO, 2025**). Over 85.0 per cent of Indian operational landholdings are classified as small and marginal (under two hectares), making it difficult for most farmers to achieve economies of scale, deploy advanced machinery, or secure formal institutional credit (**RBI, 2026**). The structural pressure on India's agrarian economy between 2014 and 2026 stems from a compounding chain of systemic bottlenecks that severely constrain rural prosperity. At the base of this crisis is extreme land fragmentation, with over 85.0 per cent of operational agricultural landholdings classified as small and marginal—measuring under two hectares. This lack of scale makes it exceptionally difficult for smallholders to adopt modern mechanisation, secure institutional credit, or achieve basic economies of scale. This structural vulnerability is further intensified by rising input cost inflation—such as elevated prices for fertilisers, diesel, hybrid seeds, and equipment—alongside increasing exposure to severe climate shocks like unseasonal heatwaves, monsoonal variability, and localised flooding. As cultivation costs rise and crop yields become increasingly volatile, farm profitability is squeezed. Consequently, this translates into stagnant real rural wages and eroded household purchasing power, depressing discretionary demand across the broader rural economy. Furthermore, despite government efforts to expand the Minimum Support Price (MSP) regime and digitise agricultural markets via the e-NAM platform, market realisation for non-staple crops remained volatile and exposed to intermediary exploitation (**NITI Aayog, 2025**). Compounding these structural bottlenecks was the near-stagnation of real rural wages across the latter half of the 2014–2026 period. Data compiled by the Labour Bureau and analysed across independent scholarly studies confirm that when adjusted for the Consumer Price Index for Agricultural Labourers (CPI-AL), real agricultural and non-agricultural rural wages experienced periods of flat or negative growth (**EPW, 2025; The Hindu, 2025**). This stagnation in purchasing power directly restricted aggregate domestic demand for basic consumer goods, two-wheelers, and fast-moving consumer goods (FMCG), acting as a drag on national economic momentum (**Business Today, 2025; Economic Times, 2025**).

The Reverse Migration Shock and Structural Reversion: The COVID-19 pandemic and subsequent national lockdowns in 2020 induced an unprecedented structural shock to the Indian labour market: a mass reverse migration of urban informal workers back to their ancestral villages (**Basole, 2022; World Bank, 2023**). Millions of casual labourers, construction workers, and service staff lost their urban livelihoods overnight and returned to the rural hinterlands. Uniquely in modern global economic history, this event reversed decades of gradual labour migration out of agriculture (**IHD and ILO, 2024; MoSPI, 2024**). The proportion of the national workforce engaged in agriculture spiked from approximately 42.5 per cent in 2019 to over 46.0 per cent between 2020 and 2022 (**World Bank, 2025**). The economic shock induced by the 2020 COVID-19 pandemic and subsequent national lockdowns triggered a major disruption in India's internal labour movement, forcing a mass reverse migration from urban industrial and service hubs back to rural hinterlands. Millions of vulnerable informal workers lost their urban livelihoods overnight and returned to their ancestral agricultural holdings. Uniquely in modern economic history, this influx caused a structural reversion, with the agricultural workforce spiking to over 46.0 per cent of total national employment as the rural sector acted as an informal employer of last resort. However, because these agricultural holdings were already constrained by fixed land boundaries and fragmentation, absorbing millions of returned workers led to severe underemployment and sharp declines in land-to-labour ratios. Without a corresponding expansion in agricultural land or technology, the additional labour diluted worker productivity, further depressing output per worker across the rural economy. This structural reversion turned the agricultural sector into an informal employer of last resort. While the farm sector prevented widespread starvation—supported by government grain distributions through the Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY)—the influx of labour onto fixed landholdings severely depressed output per worker (**GoI, 2025**). Even as urban economic activity normalised between 2023 and 2026, a substantial portion of this returned labour remained in rural areas, absorbed into low-productivity self-employment or government work schemes like the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) (**EPW, 2025; GoI, 2025**).

Input Costs, Terms of Trade, and Real Wage Stagnation: The economic viability of Indian agriculture between 2014 and 2026 was further challenged by a shift in agricultural terms of trade and input cost volatility. Global supply chain disruptions, geopolitical conflicts, and domestic policy shifts led to sharp price increases for essential agricultural inputs, including diesel, chemical fertilisers, pesticides, hybrid seeds, and farm electricity (**FAO and WHO, 2025**). While the central government allocated substantial subsidies to insulate farmers from international fertiliser shocks—especially post-2022—the net cost of cultivation rose faster than the output prices received by smallholders for non-procured crops (**CACP, 2024; GoI, 2026**). At the same time, climate change intensified operational risks for rural households (**IPCC, 2023; RBI, 2023**). Monsoonal shifts, unseasonal rain during harvest cycles, and extended heatwaves lowered crop yields and increased income volatility (**NITI Aayog, 2026**). Because rural landless labourers depend on agricultural performance for seasonal work, crop disruptions curtailed field employment, putting downward pressure on nominal wage growth (**Labour Bureau, 2025**). When combined with persistent

food inflation, real rural wages stagnated (**The Hindu, 2025**). This eroded the discretionary spending capacity of the rural population, weakening a critical pillar of domestic market demand (**Economic Times, 2025; World Bank, 2026**).

1.3 Private Investment Inaction and Dual Balance Sheet Hysteresis

A central macroeconomic puzzle of the 2014–2026 period was the prolonged sluggishness of private corporate Gross Fixed Capital Formation (GFCF). Standard macroeconomic theory predicts that when a government executes major corporate tax cuts, simplifies business regulations, cleans up the banking sector, and expands infrastructure spending, private corporate capital investment should accelerate (**IMF, 2025; World Bank, 2025**). In September 2019, the Indian government slashed base corporate tax rates from 30.0 per cent to 22.0 per cent for existing companies and to 15.0 per cent for new manufacturing entities, yielding significant revenue relief to private firms (**GoI, 2024**). However, private corporate Capex as a percentage of GDP remained below its historic peaks achieved in the mid-2000s (**Business Standard, 2025; RBI, 2025**). This investment shortfall was driven by a prolonged transition from a severe financial sector crisis to a period of corporate caution. The period from 2014 to 2020 was dominated by the "Twin Balance Sheet (TBS) Crisis"—a condition where overleveraged infrastructure and real estate conglomerates were unable to service their debts, leaving state-owned public sector banks burdened with Non-Performing Assets (NPAs) (**Subramanian and Felman, 2019; RBI, 2020**). The trajectory of India's corporate and banking financial dynamics between 2014 and 2026 was heavily shaped by the resolution of the Twin Balance Sheet Crisis. In the first phase (2014–2020), the financial system was constrained by a cyclical loop between overleveraged infrastructure conglomerates unable to service their debts and a public sector banking system burdened with severe Non-Performing Assets (NPAs). To resolve this structural deadlock, the state executed systemic interventions, notably introducing the Insolvency and Bankruptcy Code (IBC) in 2016 alongside bank recapitalisation programs and strict asset quality reviews by the Reserve Bank of India. While these measures successfully restored health to corporate and central bank balance sheets by 2023–2026—reducing bank NPAs to historical lows—they did not automatically trigger a private investment boom. Persistent low capacity utilisation across manufacturing sectors kept corporate management risk-averse, leading to balance sheet hysteresis where firms prioritised debt paydowns over large-scale greenfield capital expenditures. Consequently, private corporate investment continued to lag, forcing state-led public capital expenditure (Capex) to step in and fill the gap as the primary engine driving national infrastructure expansion and aggregate investment demand. The introduction of the Insolvency and Bankruptcy Code (IBC) in 2016, alongside bank recapitalisation programs and strict asset quality reviews by the RBI, resolved the systemic NPA crisis. By 2024–2026, bank balance sheets were healthier, with gross NPAs falling below 3.0 per cent, and corporate debt-to-equity ratios reaching multi-decade lows (**RBI Financial Stability Report, 2025**). Yet, despite clean balance sheets, private corporate investment did not experience a broad-based boom. Corporate boards remained cautious about committing capital to greenfield projects (**IMF, 2025**). This hesitation was driven by soft consumer demand across middle- and lower-income demographics, global trade uncertainties, and excess capacity in non-priority manufacturing sectors. Instead of deploying retained earnings into heavy industrial capacity or job-creating manufacturing hubs, large corporations prioritised debt paydowns, equity buybacks, mergers and acquisitions, or capital deployment into asset-light services and technology sectors (**Business Standard, 2025; EPW, 2026**).

From the Twin Balance Sheet Syndrome to Private Caution: The resolution of the Twin Balance Sheet Syndrome between 2016 and 2023 successfully restored financial stability, but it did not automatically stimulate private animal spirits. The structural transition created a phenomenon known as balance sheet hysteresis: after years of distress and debt-clearing procedures under the IBC, corporate management structures became risk-averse, prioritising balance sheet flexibility over long-term capital commitments. Additionally, financial institutions altered their lending behaviour. Banks shifted their credit portfolios away from long-gestation corporate infrastructure loans toward retail consumer loans, housing debt, and personal credit lines (**RBI, 2025**). This shift created a structural mismatch in capital allocation. While consumer credit grew rapidly—funding urban consumption, vehicle purchases, and real estate—industrial credit growth remained modest (**RBI, 2026**). Private corporations that did invest relied heavily on internal cash accruals rather than bank debt financing. Consequently, smaller capital projects dominated private activity, while large-scale foundational infrastructure, urban transit systems, and power grids were left to public funding (**GoI, 2026; World Bank, 2025**). This lack of risk-tolerant private corporate capital limited the speed and scale of national capital accumulation.

Crowding-In Delays and Capacity Utilisation Bottlenecks: A primary reason for the delay in private corporate investment was capacity utilisation. Macroeconomic theory posits that private firms will not expand physical plant capacity until national capacity utilisation rates consistently cross a threshold of 75.0 per cent to 80.0 per cent. Throughout much of the 2014–2026 period, average capacity utilisation in Indian manufacturing hovered near or below this mark, depressed by uneven domestic demand and global headwinds (**Business Standard, 2025; OBICUS, 2025**). The central government's aggressive public infrastructure push—executed through landmark initiatives such as PM Gati Shakti, dedicated freight corridors, railway modernisation, and national highway expansion—was strategically designed to lower logistics costs and crowd in private corporate capital. However, the intended crowding-in mechanism faced structural friction between 2023 and 2026. Because manufacturing capacity utilisation rates hovered consistently below the 75.0 per cent to 78.0 per cent threshold across core industrial sectors, and broad-based mass domestic consumption remained constrained by a polarised K-shaped recovery, corporate boards remained hesitant to commit to large-scale greenfield investments. Consequently, while public capital expenditure successfully built foundational logistics networks, private corporate Capex remained selectively concentrated in niche growth areas like renewable energy and real estate, continuing to lag in mass employment-generating manufacturing

facilities. To bridge this investment gap, the central government executed a public Capex strategy, scaling up budget infrastructure allocations through programs like PM Gati Shakti, national highway expansion, and railway modernisation (**GoI, 2024, 2026**). The policy intent was to crowd in private investment by reducing logistics costs and creating baseline demand for cement, steel, and capital goods (**NITI Aayog, 2025; World Bank, 2025**). However, the crowding-in effect was delayed and uneven. While public spending successfully crowded in private investment in specific niches—such as renewable energy generation, telecom hardware, and premium commercial real estate—it failed to trigger a broader expansion in general manufacturing capacity (**IMF, 2025**). The private sector remained reluctant to build new production lines in the absence of sustained mass domestic purchasing power.

1.4 Consumption Polarisation: The K-Shaped Recovery

Following the economic disruptions of the 2020–2022 pandemic period, the recovery trajectory of the Indian domestic market was increasingly characterised by income and consumption polarisation. This phenomenon, described by economists as a "K-shaped recovery," represents a structural divergence where upper-income households experience wage growth, asset appreciation, and expanded consumption, while low- and middle-income households face stagnant real earnings, compressed financial savings, and rising debt burdens (**EPW, 2025; World Bank, 2026**). The post-2020 economic recovery in India diverged into a distinct, polarised K-shaped consumption trajectory over time. The upper arm of the trajectory, representing the top 10.0 per cent to 15.0 per cent of income earners, experienced sustained income stability, capital gains, and stock market wealth effects. This affluent demographic drove high demand across premium and luxury segments, including Sport Utility Vehicles (SUVs), high-end residential real estate, domestic and international aviation, and equity market investments. In contrast, the lower arm of the trajectory illustrates severe compression among the bottom 50.0 per cent to 60.0 per cent of households, comprising informal labourers, smallholder farmers, and low-wage casual workers. Trapped by stagnant real wages, informal employment traps, and persistent food inflation shocks, these households were forced to cut discretionary spending, leading to sluggish growth or volume contractions in entry-level two-wheelers, basic smartphones, and mass fast-moving consumer goods (FMCG). This polarisation is evident in sales data across consumer markets. At the upper arm of the "K," demand for premium and luxury goods grew rapidly between 2021 and 2026. Sales of high-end Sport Utility Vehicles (SUVs), premium residential housing developments, domestic and international air travel, and high-end consumer electronics recorded consistent double-digit growth rates (**WEF, 2026**). This demand was fueled by income stability among white-collar service professionals, high corporate profit margins, and wealth effects generated by strong retail equity market participation. Conversely, the lower arm of the "K" highlighted structural stress among rural households, informal workers, and lower-middle-class urban wage earners (**State of Working India, 2023**). Sales metrics for entry-level consumer goods—such as basic two-wheelers, entry-level passenger cars, budget smartphones, and mass-market fast-moving consumer goods (FMCG)—exhibited sluggish growth or volume contractions over the same period. Because the bottom 50.0 per cent of households spend a substantial share of their disposable income on essentials like food, health, and fuel, persistently elevated food inflation squeezed discretionary purchasing power.

Divergent Consumption Trajectories: The divergence in consumption patterns reflects deeper inequality within primary factor markets: capital and land returns grew faster than real labour wages. Capital owners, equity investors, and skilled technical professionals benefited from rising productivity and market concentration in formal industries (**NITI Aayog, 2025**). In contrast, unorganised labourers, smallholders, and casual gig workers experienced real earnings stagnation due to labour oversupply in informal sectors (**MoSPI, 2024**).

Table 2: K-Shaped Consumption Dynamics in India: Growth Performance and Household Impact (2020–2026)

Consumption Segment	Growth Performance (2020–2026)	Economic Drivers	Underlying Household Impact
Upper-Income (Top 10.0–15.0 per cent)	High Growth (Luxury SUVs, Premium Housing, Aviation)	White-collar wage growth, corporate profits, stock market wealth effects	Asset appreciation, high discretionary spending capacity
Lower/Middle-Income (Bottom 50.0–60.0 per cent)	Sluggish/Contracting (Two-wheelers, Entry Smartphones, Mass FMCG)	Real wage stagnation, food inflation shocks, informal employment traps	Compressed financial savings, reliance on consumer debt

This consumption divide has structural implications for sustainable macroeconomic growth (**IMF, 2025; World Bank, 2025**). An economy relying primarily on the top 10.0 per cent to 15.0 per cent of its population for discretionary demand faces a constrained home market. Premium demand alone cannot support mass manufacturing facilities or drive broad capacity utilisation across diverse consumer industries. Sustained corporate investment requires a growing, broad-based middle class with expanding real purchasing power. (**Table 2**)

Household Savings and Rising Debt Dynamics: A concerning signal of household financial stress between 2014 and 2026 was the trajectory of net household financial savings. According to data published in Reserve Bank of India annual bulletins, net household financial savings dropped from historical averages above 7.5 per cent of GDP in the pre-2020 era down to historically low levels of approximately 5.1 per cent to 5.3 per cent of GDP by FY24–FY25 (**RBI Annual Report, 2025; RBI Bulletin, 2025**). This decline indicates that households drew down on financial buffers to maintain basic living standards amidst post-

pandemic adjustment costs and living expenses. In the pre-2020 era, net household financial savings served as a crucial domestic investment buffer in India, historically averaging above 7.5 per cent of GDP. However, under the persistent pressures of post-2020 living expenses, elevated food inflation, and stagnant real earnings, net household financial savings dropped sharply to historical lows of approximately 5.1 per cent to 5.3 per cent of GDP between FY2024 and FY2026. To bridge these ongoing income shortfalls and maintain baseline consumption standards, middle- and lower-income families increasingly relied on debt, triggering a rapid surge in unsecured personal loans, micro-credit lines, and consumer borrowing that significantly heightened household financial vulnerability. Concurrently, household debt increased. Financial institutions expanded retail credit, driving rapid growth in unsecured personal loans, credit card balances, and buy-now-pay-later digital credit lines. While a portion of this credit expansion reflected financial inclusion and digital loan access, a significant share was utilised by lower- and middle-income families to manage income shortfalls, educational expenses, or out-of-pocket medical costs (**World Bank and WHO, 2024**). Rising debt service ratios relative to stagnant incomes leave households vulnerable to future economic shocks, posing risks to systemic financial stability.

1.5 Fiscal Constraints and the Capital Spending Balancing Act

Fiscal policy management between 2014 and 2026 required balancing competing demands: maintaining public capital expenditure, providing social safety nets, and pursuing fiscal consolidation targets (**IMF, 2025; GoI, 2024, 2026**). Following the macroeconomic disruptions of the pandemic, the central government recalibrated its fiscal budget, using state spending to offset muted private investment (**Business Standard, 2025**). The Union Budget shifted spending away from revenue expenditures and subsidies toward public capital formation, pushing central Capex allocations from ~2.0 per cent of GDP in FY18 to over 3.3 per cent–3.4 per cent of GDP by FY25–FY26 (**Union Budgets 2021–2026**). This public infrastructure push built physical logistics networks, including the construction of thousands of kilometres of national highways, dedicated freight corridors, port modernisation projects, and renewable energy parks (**World Bank, 2025**). However, executing this investment strategy while tax revenues were adjusting to structural changes proved fiscally challenging (**IMF, 2025; OECD, 2025**). Although GST collections expanded—routinely crossing ₹1.8 to ₹2.0 trillion monthly by 2025–2026—overall tax-to-GDP ratios hovered around 11.0 per cent to 12.0 per cent at the central level, limiting total public fiscal space. To bridge the lag in private corporate investment, the central government scaled up its public capital expenditure target to approximately 3.3 per cent to 3.4 per cent of GDP, directing state capital directly into physical infrastructure such as national highways, dedicated freight corridors, and port modernisation. However, executing this heavy capital spending push encountered tight fiscal constraints and debt overhead between 2024 and 2026, as combined general government debt remained elevated at 80.0 per cent to 83.0 per cent of GDP and debt servicing alone consumed over 25.0 per cent of central revenue receipts. Consequently, this high interest burden and fiscal tightness squeezed discretionary budgetary allocations for essential social infrastructure, restricting public expenditure growth in primary education, public health, and research and development. Consequently, the combined general government debt (Centre plus States) remained elevated, hovering between 80.0 per cent and 83.0 per cent of GDP throughout the 2021–2026 period (**IMF Article IV Consultation, 2025; RBI State Finances Report, 2025**). Debt servicing requirements absorb more than 25.0 per cent of central revenue receipts, creating structural rigidities in the budget (**NITI Aayog, 2026**). This high interest burden constrains the state's capacity to expand non-capital social spending, forcing a fiscal trade-off between building physical infrastructure and funding public health, basic education, and research and development. (**Table 3**)

Table 3: Key Fiscal Metrics of India's Macroeconomy: Trajectory, Implications, and Sources (2014–2026)

Fiscal Metric	Metric Level / Trajectory (2014–2026)	Macroeconomic Implications	Primary Policy Data Sources
Combined Public Debt	Elevated at ~80.0 per cent–83.0 per cent of GDP	Creates fiscal rigidities and limits shock-absorption capacity	IMF Article IV (2025); RBI (2025)
Central Public Capex	Expanded to ~3.3 per cent–3.4 per cent of GDP	Replaces weak private investment; builds public infrastructure	GoI (2026)
Debt Servicing Ratio	Consumes >25.0 per cent of central revenue receipts	Squeezes budget space for public health, education, and social protection	NITI Aayog (2026); OECD (2025)
Monthly GST Revenue	Scaled to ₹1.8–₹2.0 Trillion	Improves tax formalisation and indirect tax stability	Business Line (2024); GoI (2026)

Public Capex as the Sole Growth Engine: Given the sluggishness of private corporate Capex, state-led public capital expenditure served as the primary locomotive supporting aggregate demand and gross capital formation (**Business Standard, 2025**). Budget allocations were directed toward high-multiplier sectors: national highways under the Bharatmala program, railway network electrification, port capacity expansion via Sagarmala, and urban metro systems (**GoI, 2024, 2026**). These investments addressed long-standing infrastructure bottlenecks that had historically limited national competitiveness. However, relying primarily on public Capex to drive national growth presents structural limits (**IMF, 2025; OECD, 2025**). Public capital spending is concentrated in heavy civil construction projects that, while labour-intensive during the build phase, generate relatively few permanent operational jobs once complete (**Abraham and Kesar, 2025; World Bank, 2025**). Furthermore, because public Capex is financed through public borrowing, sustained high debt issuance risks crowding out private credit

markets or keeping domestic long-term borrowing costs elevated. Public investment can supplement, but cannot permanently replace, broad-based private corporate investment (**Business Standard, 2025; IMF, 2025**).

Fiscal Space and Sub-National Debt Pressures: The fiscal burden is particularly pronounced at the sub-national state level (**RBI State Finances Report, 2025**). Under India's constitutional framework, state governments carry primary responsibility for public social expenditures—including healthcare, primary education, agricultural extension services, and local police infrastructure (**GoI, 2025; NITI Aayog, 2026**). However, state government revenue generation capabilities remain constrained following the introduction of GST, which subsumed local state taxes into a shared framework (**RBI State Finances Report, 2025**). States faced additional fiscal pressure from off-budget liabilities, accumulated losses of state-owned power distribution companies (DISCOMs), and committed expenditure requirements like pensions and salary structures (**NITI Aayog, 2026**). To meet political demands, several state administrations expanded unconditional cash transfers and welfare subsidies (**EPW, 2025; Times of India, 2025**). While providing immediate income relief to poor households, these commitments squeezed state-level capital spending and reduced investments in local schools, primary health centres, and rural road maintenance (**OECD, 2025; World Bank, 2025**).

1.6 Human Capital Deficits: The Education and Healthcare Bottlenecks

A fundamental long-term challenge facing the Indian economy between 2014 and 2026 is the persistent underinvestment in human capital—specifically public education, technical training, and health infrastructure (**GoI, 2025; GoI, 2025; UNDP, 2024**). Demographic projections show that India possesses a young labour force, with a median age under 30 during this decade (**World Bank, 2025**). However, a demographic window yields an economic dividend only if the labour force is adequately healthy, skilled, and educated to perform high-productivity work (**IHD and ILO, 2024**). India's ongoing demographic window (2014–2040s)—characterised by a young median age of under 30—presents a time-bound opportunity to reap a demographic dividend, which fundamentally requires robust public investments in health and skilled education. However, the current reality of social infrastructure reveals a persistent funding gap: public health expenditure remains stagnant at approximately 1.3 per cent to 1.5 per cent of GDP, while public education spending hovers at just 2.9 per cent to 3.1 per cent of GDP. This chronic underfunding manifests in widespread primary learning deficits—as highlighted by ASER reports—and places a heavy burden on families through high out-of-pocket health expenses, threatening to undermine the nation's human capital development before the demographic window closes. Despite the national policy objective set in the National Education Policy (NEP) 2020 to raise public education spending to 6.0 per cent of GDP, total public spending on education (Central government plus States) hovered between 2.9 per cent and 3.1 per cent of GDP throughout the 2014–2026 period (**GoI, 2025; NITI Aayog, 2026**). Similarly, public health expenditure stagnated between 1.3 per cent and 1.5 per cent of GDP, remaining well below the National Health Policy target of 2.5 per cent (**GoI, 2025; WHO, 2025**). This relative underfunding of social infrastructure created persistent bottlenecks in labour force capabilities (**UNDP, 2024**). The result is a double burden: foundational learning deficits in primary and secondary schools, alongside a health system where out-of-pocket medical costs remain a primary driver of household debt and impoverishment (**Pratham Education Foundation, 2024; World Bank and WHO, 2024**). Without adequate public human capital investments, the Indian labour force faces structural challenges in transitioning from low-skill informal work to modern digital and industrial employment (**CII and AIU, 2025; WEF, 2026**).

Learning Deficits and the Employability Gap: Despite near-universal enrollment rates in primary education, learning outcome metrics highlight persistent educational deficits (**Pratham Education Foundation, 2024**). Standardised assessments compiled annually by the Annual Status of Education Report (ASER) confirm that a significant proportion of rural grade-5 students struggle to read a grade-2 level text or perform basic subtraction. The post-2020 school closures further widened learning gaps, disproportionately affecting rural and lower-income students who lacked digital access for remote learning (**GoI, 2025; World Bank, 2023**). At the higher education and vocational level, this foundational deficit manifests as a severe employability gap (**CII and AIU, 2025; WEF, 2026**). National corporate skill surveys consistently report that less than 50.0 per cent of higher education and engineering graduates possess the practical technical, analytical, or communication skills required for employment in formal industries. The structural bottleneck within India's human capital pipeline stems from a compounding educational gap that begins at the foundational level and extends into the labour market. At the primary and secondary schooling levels, persistent foundational reading and mathematics deficits—as documented in annual ASER evaluations—create early learning gaps for millions of students. As these cohorts progress into the higher education system, the institutional mismatch deepens due to theory-heavy curricula, outdated syllabi, and minimal practical vocational training. This cumulative disconnect results in a severe labour market outcome characterised by a stark employability gap, where less than 50.0 per cent of university and technical graduates are deemed job-ready by corporate employers. Consequently, high graduate unemployment coexists alongside acute industry shortages of skilled technical and digital personnel, dampening overall national labour productivity. This misalignment creates a dual labour market problem: widespread unemployment among educated youth coexists with acute shortages of skilled technicians, specialised engineers, and digital specialists (**IHD and ILO, 2024; WEF, 2026**). The higher education system produces millions of degree holders annually, but rigid curricula, limited practical training, and inadequate faculty capacity leave many unequipped for modern industry demands (**NITI Aayog, 2025**).

Health System Vulnerabilities and Economic Out-of-Pocket Drag: India's public health infrastructure faced structural challenges between 2014 and 2026, characterised by underfunded primary health centres (PHCs), regional bed shortages, and an

uneven distribution of qualified medical professionals between urban and rural areas (GoI, 2025; WHO, 2025). The introduction of the flagship Ayushman Bharat Pradhan Mantri Jan Arogya Yojana (PM-JAY) in 2018 expanded secondary and tertiary hospitalisation insurance for the bottom 40.0 per cent of the population, helping cushion low-income families against health shocks (World Bank, 2023). However, PM-JAY primarily covers inpatient hospitalisations, leaving outpatient care, diagnostic tests, and ongoing pharmaceutical costs uncovered. Out-of-Pocket Expenditure (OOPE) accounts for nearly half of total health spending in the country (WHO, 2025). This high out-of-pocket healthcare burden acts as a financial drain on household savings (RBI, 2025; World Bank and WHO, 2024). Millions of middle- and lower-income families are pushed back into debt or poverty each year due to catastrophic health expenses (UNDP, 2024). Illness and malnutrition lower worker productivity and lead to lost working days, creating a hidden drag on overall economic efficiency (FAO, 2025; WHO, 2025).

1.7 Structural Reforms and Institutional Transitions

The period between 2014 and 2026 saw major structural economic reforms designed to unify the national market, formalise the shadow economy, and modernise transactions (IMF, 2024; GoI, 2024; World Bank, 2025). These initiatives—including the 2016 currency demonetisation, the 2017 introduction of the Goods and Services Tax (GST), the Insolvency and Bankruptcy Code (IBC), and the rollout of Digital Public Infrastructure (DPI)—reconfigured the country's institutional framework (Lahiri, 2017; World Bank, 2023). The structural reforms executed between 2014 and 2026—most notably Demonetisation in 2016, the Goods and Services Tax (GST) rollout in 2017, and the Insolvency and Bankruptcy Code (IBC) framework in 2016—reconfigured India's economic and institutional landscape. While these interventions successfully achieved modernisation goals by driving a rapid acceleration in digital payments and establishing a unified national tax architecture, the transition realities introduced significant structural friction. Micro, Small, and Medium Enterprises (MSMEs) faced severe compliance burdens, capital realignments, and liquidity strains, which accelerated market share consolidation toward larger organised corporate entities. While these reforms built modern financial and administrative systems, the transition created short- to medium-term compliance friction (Business Line, 2024; EPW, 2018; Lahiri, 2017). Formalisation drives often operate by increasing administrative and tax compliance requirements (Business Line, 2024). Larger corporations, equipped with legal, accounting, and IT systems, adapted quickly and expanded their market share (Business Standard, 2025). Conversely, Micro, Small, and Medium Enterprises (MSMEs), which lack extensive capital buffers and operate on narrow margins, experienced structural stress (Azim Premji University, 2023; EPW, 2018). This dynamic accelerated market consolidation toward organised corporate leaders, changing the competitive landscape for small businesses.

Demonetisation (2016) and Formalisation Dynamics: In November 2016, the central government executed a major currency reform, invalidating 86.0 per cent of the circulating currency overnight (Lahiri, 2017). The official policy objectives were to curb undeclared wealth, reduce the cash-based shadow economy, promote digital payments, and broaden the formal tax base. In terms of transaction digitisation, the liquidity squeeze accelerated the adoption of digital wallets and laid the groundwork for the rapid scaling of the Unified Payments Interface (UPI) (IMF, 2024; World Bank, 2023). The withdrawal of high-denomination currency in November 2016, which instantly removed 86.0 per cent of the circulating cash from the Indian economy, produced a dual macroeconomic outcome. On one hand, the cash shortage accelerated the adoption of digital transactions and laid the institutional foundation for the rapid scaling of the Unified Payments Interface (UPI). On the other hand, the sudden liquidity drain imposed a severe operational shock on the cash-dependent informal economy. Unorganised supply chains, micro, small, and medium-sized enterprises (MSMEs), and rural agricultural produce markets suffered acute cash starvation, accelerating the closure of vulnerable micro-enterprises and shifting market share toward larger organised competitors. However, the immediate liquidity shock fell heavily on the cash-dependent informal economy (EPW, 2018). Smallholder agricultural markets, informal trade networks, MSME supply chains, and daily wage construction sectors experienced operational disruptions (Lahiri, 2017). While large corporate entities migrated to digital banking options, many unorganised micro-enterprises faced revenue losses or shut down. Rather than transforming informal businesses into thriving formal entities, the cash shock accelerated the mortality of vulnerable micro-enterprises, redistributing market share to larger, organised competitors (Azim Premji University, 2023; Business Standard, 2025).

Goods and Services Tax (GST) Integration: Implemented in July 2017, the Goods and Services Tax (GST) represented a major indirect tax reform, replacing a complex network of central and state levies with a unified national indirect tax architecture (GoI, 2024). GST eliminated cascading tax structures, streamlined inter-state freight transport through the e-way bill system, and created a unified national market (World Bank, 2025). Over time, system stabilisation and enhanced data matching brought GST collections from ₹1.8 to ₹2.0 trillion monthly by FY25–FY26, expanding central and state revenue bases (Business Line, 2024).

Table 4: Major Structural Policy Reforms in India: Objectives, Transition Realities, and Impacts

Policy Reform	Intended Objective	Structural	Transition Realities and Side Effects	Key Citations
Demonetisation (2016)	Reduce shadow economy, accelerate transaction digitisation		Cash liquidity shock to MSMEs and agricultural trade; accelerated small-firm closure	EPW (2018); Lahiri (2017)
GST Rollout (2017)	Unify national market, remove cascading taxes		High initial compliance costs; market share consolidation toward organised firms	Business Line (2024); World Bank (2025)
IBC (2016)	Clean up bank NPAs, resolve corporate distress		Resolved Twin Balance Sheet crisis; liquidation delays and high haircuts remained.	RBI (2020, 2025); Subramanian and Felman (2019)
Digital Public Infrastructure	Expand financial inclusion, lower transaction costs		Onboarded hundreds of millions to digital rails; gig jobs lack formal social safety nets	IMF (2024); NITI Aayog (2022); World Bank (2023)

However, the design and implementation of GST introduced compliance challenges for smaller enterprises. Multiple tax rate slabs, frequent filing requirement revisions, and complex input tax credit (ITC) reconciliation rules disproportionately burdened MSMEs with limited accounting resources (**Table 4**). Because formal buyers required tax-compliant invoices to claim input credits, businesses shifted toward compliant corporate suppliers. This accelerated formalisation via market consolidation, often at the expense of informal small-scale suppliers.

Digital Public Infrastructure (DPI) and the Gig Economy: India's deployment of Digital Public Infrastructure (DPI)—comprising biometric digital identity (Aadhaar), inter-bank payment rails (UPI), and consent-based data frameworks (Account Aggregator)—gained international recognition (**IMF, 2024; World Bank, 2023**). DPI lowered transaction costs, enabled direct benefit transfers (DBT) that reduced leakage in social welfare programs, and expanded financial access to historically unbanked populations. The rollout of Digital Public Infrastructure (DPI)—comprising foundational digital identity systems, the Unified Payments Interface (UPI), and Account Aggregator frameworks—substantially lowered transaction friction and enabled efficient, leakage-free Direct Benefit Transfers (DBT). Concurrently, this digital backbone enabled the rapid expansion of the platform-based gig economy, creating flexible, low-barrier entry-level work opportunities for urban youth across ride-hailing, food delivery, and logistics. However, this shift also institutionalised a new tier of precarious work, as gig platform positions operate largely outside traditional labour frameworks, leaving workers without formal employment contracts, social security safety nets, or minimum wage protections. Concurrently, DPI enabled the rapid expansion of the platform-based gig economy (**ILO, 2025**). Millions of urban youth found work as platform drivers, delivery workers, and quick-commerce logistics staff. While offering flexible entry-level employment, these platform roles exist in a regulatory grey zone (**GoI, 2025**). Gig platform workers are classified as independent contractors rather than formal employees, leaving them without minimum wage guarantees, health insurance, accident cover, or pension contributions (**NITI Aayog, 2022**). Consequently, digital infrastructure enabled flexible employment matching, but expanded a new tier of digitally tracked, low-wage informal work.

1.8 External Sector Vulnerabilities, Energy Transitions, and Climate Risks

Between 2014 and 2026, India's economic performance was exposed to global economic shocks, shifting trade patterns, and climate change risks (**ADB, 2025; IPCC, 2023; World Bank, 2026**). Despite growth in software service exports and strong remittance inflows, India's merchandise trade deficit persisted (**GoI, 2026; RBI, 2026**). The economy remains dependent on imported crude oil, natural gas, coking coal, high-tech electronic components, and advanced machinery. This import dependency leaves domestic price levels and current account balances vulnerable to international commodity swings and geopolitical disruptions (**IMF, 2025**). The external sector and domestic stability of the Indian economy face compounding vulnerabilities driven by geopolitical instability and climate risks. Geopolitical conflicts and global supply chain disruptions directly drive import bill spikes, particularly for crucial inputs like crude oil, natural gas, intermediate electronics, and specialised industrial components. Simultaneously, climate shocks—manifesting as extreme heatwaves, unseasonal rainfall, and monsoonal variability—severely distort domestic crop yields and agricultural output. Together, these twin external and environmental shocks translate into broad macroeconomic risks, amplifying current account pressures, triggering sharp spikes in retail food inflation, and creating fiscal drag through increased subsidy requirements and emergency support interventions. Simultaneously, climate change became an active macroeconomic risk factor (**IPCC, 2023; RBI, 2023**). Extreme heatwaves, monsoonal shifts, and flooding caused frequent disruptions to agricultural production, industrial operations, and physical supply chains. Managing climate risks requires balancing the capital expenditure needed for renewable energy transitions to keep domestic power generation costs affordable for manufacturing industries (**WEF, 2025; World Bank, 2025**).

Trade Deficits and External Headwinds: India's structural merchandise trade deficit expanded over the 2014–2026 period, reaching historic highs during global energy price surges (**GoI, 2026; RBI, 2026**). Although net services exports—driven by IT services and booming Global Capability Centres (GCCs)—and worker remittances provided a balance-of-payments buffer, the merchandise deficit highlighted underlying trade competitiveness challenges (**NITI Aayog, 2025; World Bank, 2026**). Imports

were driven not only by crude oil and gas requirements, but also by intermediate manufacturing inputs, active pharmaceutical ingredients (APIs), and electronics components. Attempting to address import dependence via tariffs and domestic assembly schemes yielded mixed outcomes (**GoI, 2023**). Tariff hikes on intermediate components aimed to protect domestic production, but occasionally raised input costs for domestic export industries (**ADB, 2025; OECD, 2025**). Furthermore, global trade dynamics shifted away from multilateral trade agreements toward friend-shoring, regional trade blocks, and green protectionist measures like the European Union's Carbon Border Adjustment Mechanism (CBAM). These external trade barriers create structural challenges for Indian heavy industrial exporters seeking new markets (**WEF, 2025**).

Climate Change as a Macro-Critical Shock: India ranks among the world's most vulnerable economies to climate change impacts (**IPCC, 2023; Global Climate Risk Index, 2024**). Between 2014 and 2026, climate events shifted from long-term environmental projections to immediate macroeconomic shocks (**RBI, 2023; NITI Aayog, 2026**). Spring heatwaves in key northern farming states repeatedly reduced wheat yields, forcing the government to impose export bans to stabilise domestic food security (**CACP, 2024; GoI, 2025**). Monsoon unpredictability disrupted crop cycles, causing sharp spikes in retail vegetable inflation (Consumer Price Index - CPI) and requiring central bank interventions to stabilise inflation expectations (**CACP, 2024; RBI, 2026**). Climate extremes—such as severe spring heatwaves, localised urban flooding, and heightened monsoonal variability—act as direct physical shocks that induce agricultural yield losses and trigger persistent retail food inflation spikes. These supply-side agricultural disruptions translate directly into macro-financial pressures across the broader economy. To anchor inflation expectations amidst rising food prices, the central bank is frequently forced to maintain a restrictive monetary policy stance, while the government relies on policy interventions like intermittent agricultural export bans to protect domestic supply. Furthermore, severe heatwaves and flooding cause loss of working hours and lowered labour productivity in outdoor infrastructure construction and industrial manufacturing, creating a physical and macroeconomic drag on growth. Beyond agriculture, climate extremes impact industrial productivity and physical infrastructure (**IPCC, 2023; WEF, 2025**). Extreme heat events reduce working hours for construction, informal labour, and outdoor manufacturing. Addressing these risks requires substantial investments in climate-resilient urban infrastructure, grid modernisation, storage technologies, and green hydrogen systems. Navigating this green transition while keeping industrial energy tariffs competitive represents a key policy challenge.

1.9 Conclusion

The diagnostic assessment of the Indian economy between 2014 and 2026 presents a picture of structural contrast, where macroeconomic resilience exists alongside persistent real-economy imbalances. On one hand, India built modern financial infrastructure, achieved rapid digital adoption, expanded national highways and logistics corridors, and stabilised bank balance sheets, while the state used fiscal expansion for public capital expenditure and direct benefit transfer frameworks that reduced welfare leakages, alongside thriving high-skilled service sectors that positioned the country as a global hub for software exports and capability centres. On the other hand, severe structural challenges remain, starting with a growth-employment paradox and premature deindustrialisation where capital-intensive expansion fails to generate formal jobs for entering youth. This is compounded by persistent agrarian distress rooted in land fragmentation, input cost volatility, climate risks, and stagnant real rural wages, as well as a sluggish private corporate investment cycle that failed to spur broad-based capital formation despite corporate tax cuts and cleaned balance sheets. Furthermore, the post-2020 recovery displayed a polarised K-shaped consumption pattern, where thriving upper-income demand contrasted with compressed financial savings and rising unsecured debt burdens among middle- and lower-income households, while persistent underinvestment in human capital continued to yield primary learning deficits, graduate unemployment, and high out-of-pocket health costs. To ensure long-term, inclusive development, the post-2026 economic framework relies on four core policy priorities: shifting industrial policy toward labour-intensive mass manufacturing like textiles, footwear, and food processing to absorb surplus labour; revitalising rural purchasing power and expanding credit to MSMEs to rebuild domestic demand; scaling social investments by raising public spending on healthcare toward 2.5 per cent of GDP and education toward 6.0 per cent of GDP to close learning gaps and protect against medical impoverishment; and executing a green transition through resilient infrastructure and modernised grids to navigate climate risks without losing competitiveness. Addressing these hurdles ultimately demands a structural pivot in national policy, where state-led infrastructure spending is complemented by targeted support for job-creating manufacturing sectors, fiscal resources are reallocated toward human capital to prepare the workforce for a modern digital economy, and rural purchasing power, MSMEs, and gig or informal social safety nets are strengthened to transition from an enclave-driven recovery to a broad-based, sustainable development model.

References

- [1] Abraham, V., and Kesar, S. (2025). Trajectories of Labour Market Transitions in the Indian Economy. *World Development*, 195, Article 107029.
- [2] ADB. (2025). Asian Development Outlook 2025: Growth Dynamics in South Asia. Asian Development Bank.
- [3] Azim Premji University. (2023). State of Working India 2023: Social Identities and Labour Market Outcomes. Centre for Sustainable Employment, Azim Premji University.

- [4] Basole, A. (2022). Structural Transformation and Employment Generation in India: Past Performance and the Way Forward. *Indian Journal of Labour Economics*, 65(2), 295–320.
- [5] Business Line. (2024, November 12). GST Compliance and MSME Structural Challenges: A Seven-Year Appraisal. *Hindu Business Line*.
- [6] Business Standard. (2025, April 18). Private Capex Recovery Remains Localised Despite Clean Corporate Balance Sheets. *Business Standard*.
- [7] Business Today. (2025, January 10). K-Shaped Recovery Dynamics: Luxury Sectors Surge While Entry-Level Demand Lags. *Business Today*.
- [8] CII and AIU. (2025). *India Skills Report, The Future of Work, Talent, and Employability in India*. Wheebox, Confederation of Indian Industry, and Association of Indian Universities.
- [9] EPW. (2018). Demonetisation and the Informal Economy: Evaluating Structural Shocks. *Economic and Political Weekly*, 53(12), 25–32.
- [10] EPW. (2025). Stagnation in Real Rural Wages: Trends, Drivers, and Welfare Implications. *Economic and Political Weekly*, 60(8), 34–41.
- [11] EPW. (2026). Macroeconomic Overview: India's Industrial Structure and Service Growth Divergence. *Economic and Political Weekly*, 61(12), 15–22.
- [12] *Economic Times*. (2025, February 22). Rural Wage Growth and Consumer Sentiment: An Empirical Analysis. *The Economic Times*.
- [13] FAO and WHO. (2025). *Climate Risks, Agrarian Livelihoods, and Food Security in South Asia*. United Nations.
- [14] *Financial Express*. (2025, May 14). Household Financial Savings Trends and Unsecured Consumer Credit Growth. *Financial Express*.
- [15] *Global Climate Risk Index*. (2024). Who Suffers Most From Extreme Weather Events? Weather-Related Loss Events 2023–2024. *Germanwatch*.
- [16] GoI. (2024). *Price Policy for Kharif Crops: The Academic Year 2024–25*. Commission for Agricultural Costs and Prices, Ministry of Agriculture and Farmers Welfare, Government of India.
- [17] GoI. (2023). *Review of Make in India and PLI Scheme Performance*. Ministry of Commerce and Industry, Government of India.
- [18] GoI. (2024). *Economic Survey 2023–24*. Ministry of Finance, Government of India.
- [19] GoI. (2024). *Periodic Labour Force Survey (PLFS) Annual Report 2023–24*. Ministry of Statistics and Programme Implementation, Government of India.
- [20] GoI. (2025). *Annual Report 2024–25*. Ministry of Agriculture and Farmers Welfare, Government of India.
- [21] GoI. (2025). *MGNREGA Employment Outcomes and Rural Wage Security Report*. Ministry of Rural Development, Government of India.
- [22] GoI. (2025). *National Achievement Survey Report 2024–25*. Ministry of Education, Government of India.
- [23] GoI. (2025). *National Health Accounts Estimates for India (2022–23)*. Ministry of Health and Family Welfare, Government of India.
- [24] GoI. (2025). *Report on Social Security Coverage and Informal Worker Registration*. Ministry of Labour and Employment, Government of India.
- [25] GoI. (2026). *Economic Survey 2025–26*. Ministry of Finance, Government of India.
- [26] GoI. (2026). *Foreign Trade Statistics and Merchandise Balance Sheet*. Ministry of Commerce and Industry, Government of India.
- [27] *India Today*. (2025, March 5). Employment Generation and Skill Development Challenges in Urban Centres. *India Today*.
- [28] *Indian Express*. (2024, December 20). Formalisation vs Informal Reality: Tracking India's Labour Market Changes. *The Indian Express*.
- [29] IHD and ILO. (2024). *India Employment Report 2024: Youth Employment, Education, and Skills*. International Labour Organisation.
- [30] I. (2023). *Climate Change 2023: Synthesis Report*. Contribution of Working Groups I, II and III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change. IPCC.
- [31] ILO. (2025). *Decent Work in the Platform Economy: Global Trends and Policy Interventions*. International Labour Organisation.

- [32] IMF. (2024). Stacking Up the Benefits: Lessons From India's Digital Public Infrastructure (IMF Working Paper No. WP/24/88). International Monetary Fund.
- [33] IMF. (2025). India: Staff Report for the 2025 Article IV Consultation (IMF Country Report No. 25/12). International Monetary Fund.
- [34] Labour Bureau. (2025). Wage Rate Index and Rural Wage Statistics Annual Bulletin. Ministry of Labour and Employment, Government of India.
- [35] Lahiri, A. (2017). The Great Indian Demonetisation. *Journal of Economic Perspectives*, 31(3), 53–74.
- [36] Lewis, W. A. (1954). Economic Development With Unlimited Supplies of Labour. *The Manchester School*, 22(2), 139–191.
- [37] NITI Aayog. (2022). Booster or Barrier? India's Booming Gig and Platform Economy. Government of India.
- [38] NITI Aayog. (2025). India's Services Sector: Insights From Employment Trends and State-Level Dynamics. Government of India.
- [39] NITI Aayog. (2026). Fiscal Policy Choices and Long-Term Public Expenditure Strategy. Government of India.
- [40] OECD. (2025). OECD Economic Surveys: India 2025. OECD Publishing.
- [41] PEF. (2024). Annual Status of Education Report (ASER) 2023: Beyond Basics. Pratham Education Foundation.
- [42] RBI. (2020). Report on Trend and Progress of Banking in India 2019–20. Reserve Bank of India.
- [43] RBI. (2023). Report on Currency and Finance 2022–23: Towards a Greener, Cleaner India. Reserve Bank of India.
- [44] RBI. (2025). Financial Stability Report (December 2025). Reserve Bank of India.
- [45] RBI. (2026). RBI Annual Report 2025–26. Reserve Bank of India.
- [46] Rodrik, D. (2016). Premature Deindustrialisation. *Journal of Economic Growth*, 21(1), 1–33.
- [47] State of Working India. (2023). Social Identities and Labour Market Outcomes. Azim Premji University.
- [48] Subramanian, A., and Felman, J. (2019). India's Great Slowdown: What Happened? What's the Way Out? (CID Faculty Working Paper No. 370). Harvard University Centre for International Development.
- [49] The Hindu. (2025, January 26). Evaluating Real Wage Trajectories in Rural India. The Hindu.
- [50] Times of India. (2025, June 11). Infrastructure Capital Expenditure and Fiscal Space Management. The Times of India.
- [51] UNDP. (2024). Human Development Report 2023/2024: Breaking the Gridlock. United Nations Development Programme.
- [52] WEF. (2025). The Global Risks Report 2025. World Economic Forum.
- [53] WEF. (2026). The Future of Jobs Report 2026. World Economic Forum.
- [54] WHO. (2025). World Health Statistics 2025: Monitoring Health for the SDGs. World Health Organisation.
- [55] World Bank and WHO. (2024). Global Monitoring Report on Financial Protection in Health 2023. World Health Organisation and World Bank.
- [56] World Bank. (2023). India Development Update: Springing Forward, Standing Tall. World Bank.
- [57] World Bank. (2025). India Economic Update: Infrastructure Investment, Digital Scale, and Formalisation. World Bank.
- [58] World Bank. (2026). Global Economic Prospects: South Asia Regional Overview. World Bank.

Copyright & License:

© Authors retain the copyright of this article. This work is published under the Creative Commons Attribution 4.0 International License (CC BY 4.0), permitting unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.