India’s economic freedom score is 56.5, making its economy the 120th freest in the 2020 Index. Its overall score has increased by 1.3 points, led by an increase in the business freedom score. India is ranked 28th among 42 countries in the Asia–Pacific region, and its overall score is well below the regional and world averages.

The Indian economy has languished in the mid-range of the mostly unfree category for nearly two decades. GDP growth over the past five years, however, has been robust. As the country continues to benefit from the effects of economic liberalization, economic growth has been driven by higher private domestic consumption.

In addition to taking steps to improve India’s fiscal health, the government needs to correct inadequacies in banking regulation and begin to privatize state-owned banks to increase financial freedom. Other Index indicators would likely improve with reforms in the tax code, the investment regime, and the labor code.

**BACKGROUND:** India is a stable democracy. Its people are 80 percent Hindu, but it is also home to one of the world’s largest Muslim populations. Prime Minister Narendra Modi, leader of the Bharatiya Janata Party (BJP), took office in 2014 and reinvigorated India’s foreign policy to balance China’s growing influence in South Asia and the Indian Ocean. Modi promised sweeping economic reforms, but results have been modest. Elections in 2019 resulted in a landslide victory for Modi’s BJP. India’s diverse economy encompasses traditional village farming, modern agriculture, handicrafts, and a wide range of modern industries. Capitalizing on its large educated, English-speaking population, India has become a major exporter of information technology services, business outsourcing services, and software workers.
Property rights are generally enforced in major metropolitan areas, although titling in some other urban and rural areas remains unclear. The judiciary is independent, but lower-level courts are understaffed, lack technology, and are rife with corruption. Most citizens have great difficulty securing justice. Prosecution of corruption has been effective only among the lower levels of the bureaucracy; senior bureaucrats have generally been spared.

India's positive reforms have made it easier to start a business, deal with construction permits, get electricity, obtain credit, pay taxes in Delhi and Mumbai, and trade across borders. Labor regulations are in flux and vary across the country. The government came under pressure in 2019 to reduce subsidies for fuel and agricultural commodities such as sugar, as well as general export subsidies.

The total value of exports and imports of goods and services equals 43.1 percent of GDP. The average applied tariff rate is 5.8 percent, and 375 nontariff measures are in force. India’s bureaucratic investment framework remains constrained by an unfavorable environment for new investment. Despite some liberalization, state-owned institutions dominate the banking sector and capital markets. Foreign participation is limited.