India’s economic freedom score is 56.5, making its economy the 121st freest in the 2021 Index. Its overall score is unchanged, with an improvement in business freedom offset by declines in judicial effectiveness and other scores. India is ranked 26th among 40 countries in the Asia-Pacific region, and its overall score is below the regional and world averages.

Again this year, the Indian economy remains in the mid-range of the mostly unfree category. A move toward greater economic freedom would require substantial and broad-based reforms. In addition to taking steps to improve fiscal health and strengthen the rule of law, the government would need to increase financial freedom and reform the tax code, the investment regime, and the labor code.

**IMPACT OF COVID-19:** As of December 1, 2020, 137,621 deaths had been attributed to the pandemic in India, and the economy was forecast to contract by 10.3 percent for the year.

**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 and well-educated English-speaking population, India has become a major exporter of information technology services, business outsourcing services, and software workers.
Although property rights are enforced in metropolitan areas, land titles in some other urban and rural areas are unclear. The judiciary is independent, but Indian courts are understaffed and lack the technology necessary to clear an enormous backlog. Large-scale political corruption scandals have repeatedly exposed bribery and other malfeasance, and there is little evidence to suggest that anticorruption laws are effective.

The top individual income tax rate is 30.9 percent, and the top corporate tax rate is 32.4 percent. Other taxes include a goods and services tax. The overall tax burden equals 11.2 percent of total domestic income. Government spending has amounted to 26.7 percent of total output (GDP) over the past three years, and budget deficits have averaged 6.7 percent of GDP. Public debt is equivalent to 71.9 percent of GDP.

The abolition of several filing fees in Delhi and Mumbai has made starting a business less expensive. Efforts to streamline the construction permitting process and lower the price of construction and building permits have also increased business freedom. Labor unrest is common. The government’s 2020 budget increased subsidies for fuels, liquid petroleum gas, and fertilizers.

India has 16 preferential trade agreements in force. The trade-weighted average tariff rate is 10.3 percent, and 357 nontariff measures are in effect. Foreign investment is screened, but ownership restrictions in some sectors have been reduced. The government has recapitalized state-owned banks, but the number of their nonperforming loans remains high. In 2020, measures were introduced to promote credit flows to small and medium-size enterprises.