



India's Economic Growth Outlook

This editorial is based on "[India's economy: From stable to positive](#)" which was published in The Indian Express 31/05/2024. The article highlights S&P Global's upgraded outlook on India from stable to positive, reflecting confidence in policy stability, economic reforms, and infrastructure investment

For Prelims: [India's economic growth](#), [World Economic Outlook](#), [Reserve Bank of India](#), [National Monetization Pipeline](#), [Retail inflation](#), [Make in India program](#), [PLI schemes](#), [India-UAE Comprehensive Economic Partnership Agreement](#), [Red Sea Crisis](#), [Fiscal deficit](#), [Gini coefficient](#), [E-commerce](#)

For Mains: Major Factors Propelling Economic Growth in India, Current Major Challenges in India's Economic Growth

[India's economic growth trajectory](#) has garnered global attention as the renowned ratings agency [S&P Global](#) has revised its outlook on the country from **stable to positive**. This development reflects the agency's assessment that policy stability, deepening economic reforms, and robust infrastructure investment will sustain **India's long-term growth prospects**.

With public investment and consumer momentum being the key drivers of near-term growth, targeted economic policies are required to shape India's trajectory toward achieving its aspirations of being the [third largest economy by 2027](#) and securing sustainable economic growth.

What are India's Recent Economic Growth Projections?

- **IMF Projection** ([World Economic Outlook, April 2024](#)): IMF raised India's GDP growth forecast for FY 2024-25 to **6.8%**, up 0.3 percentage points from its January 2024 projection.
 - For **FY 2025-26**, the IMF forecasts India's GDP growth at **6.5%**.
- **United Nations Projection (World Economic Situation and Prospects, mid-2024)**: India's economy is projected to grow by **6.9%** in 2024 and **6.6%** in 2025.
 - The **6.9%** growth forecast for 2024 is an upward revision from the earlier **6.2%** projection made in January 2024.
- **Reserve Bank of India**: The Reserve Bank of India expects India's real GDP to grow by **7%** in **2024-25**.
 - The GDP growth is pegged at **7.2%** in the June 2024 quarter, and is expected to moderate to **6.8%** in the September 2024 quarter

What are the Major Factors Propelling Economic Growth in India?

- **Strong Domestic Demand**: Robust [private consumption growth](#), driven by rising incomes and an expanding middle class. Private consumption expenditure grew by **3.5% year-over-year in Q3 of FY 2024**, according to Deloitte.

- Also, demand for luxury and premium goods and services is growing faster than demand for basic goods.
- **Robust Investment Activity:** Private investment grew by **10.6% year-over-year** in Q3 of FY 2024, indicating a strong revival in the private capital expenditure cycle.
 - Initiatives like the [National Monetization Pipeline](#) aim to unlock value in Brownfield infrastructure assets and attract private investment.
 - The IMF suggests that reforms to liberalize foreign investment and boost exports could further support growth.
 - Moreover, the Budgeted expenditure classified by the government as capex is projected to increase to about **₹11 trillion in 2024-25**, almost **4.5 times the level in 2014-15**.
- **Moderating Inflation:** Inflation has been on a downward trajectory, with [retail inflation](#) at **4.83% in April 2024**.
 - This provides a stable environment for businesses and consumers, encouraging spending and investment.
- **Manufacturing Resurgence:** The manufacturing sector grew by 11.6% year-over-year in Q3 of FY 2024, driven by initiatives like the [Make in India program](#) and [PLI schemes](#).
 - The government's push towards **self-reliance (Aatmanirbhar Bharat)** is boosting domestic manufacturing capabilities.
- **Services Sector Resilience:** The [services sector](#), which accounts for a significant share of India's GDP, grew by **7% year-over-year** in Q3 of FY 2024.
 - The IT and IT-enabled services sector continues to drive growth, supported by rising global demand for digital solutions.
 - With the easing of **Covid-19** restrictions, contact-intensive services like tourism, hospitality, and entertainment have witnessed a strong recovery.
 - The travel market in India is projected to reach **USD 125 Billion** by financial year **2027**.
- **Resilience to Global Headwinds:** Despite global economic uncertainties, geopolitical tensions ([Russia-Ukraine War](#)), disruption in supply chains ([Red Sea Crisis](#)) and **tightening financial conditions** in major economies like the US, India's domestic demand has remained relatively resilient.
 - In 2023, world food prices dropped significantly from their 2022 highs. However, India's food inflation remained high at **9.5% in December 2023**, contrasting with global deflation of **-10.1%**.
 - This insulation from external shocks has helped **sustain growth**, even as major economies face slowdowns or recessions.
- **Supply Chain Diversification:** Amid global supply chain disruptions, India has emerged as an attractive **alternative destination for manufacturing investments**, particularly in sectors like electronics and pharmaceuticals.
 - Trade agreements like [India-UAE Comprehensive Economic Partnership Agreement \(CEPA\)](#) have facilitated this supply chain diversification.

What are the Current Major Challenges in India's Economic Growth?

- **Employment Challenges:** Despite steady GDP growth over the past decade, the lack of **substantial employment generation** ([jobless growth](#)) has remained a key policy challenge facing the government.
 - Unemployment rate in India was **8.1%** in April 2024, according to CMIE's Consumer Pyramids Household Survey.
- **Export Competitiveness Challenges:** Despite policy incentives, India's exports shrink 3% in FY24.
 - The merchandise trade deficit stood at **USD 19.1 billion** during April 2024, up from **USD 14.44 billion** during April 2023.
- **Potential Fiscal Slippage Risks:** The general government [fiscal deficit](#), while declining, is still projected at **6.8% of GDP by FY28** as per S&P Global.
 - Any deviation from the fiscal consolidation path could impact India's credit ratings and borrowing costs.
- **Skill Mismatch and Labor Quality:** India faces a skills mismatch between the available workforce and the requirements of the industry, **hindering productivity and job creation**.
 - A new study suggests that only **45% of Indian graduates** who apply for jobs are

employable, with the skills to meet the industry's rapidly-changing demands.

- **Income Inequality:** The gap between rich and poor in India remains wide. The [Gini coefficient](#), a measure of income inequality, stood at **0.4197 in 2022-23**.
 - India's wealth inequality is at a six-decade high with the **top 1% owning 40.1% of wealth**.
 - This means a large portion of the population has limited disposable income, hindering overall consumption growth.
- **Informal Sector Dominance:** A significant portion of India's workforce is employed in the [informal sector](#), characterized by low wages, minimal social security benefits, and limited productivity gains.
 - In terms of employment share the unorganized sector employs **83% of the work force** and 17% in the organized sector (**IMF**).
 - This informality hinders economic growth as it limits tax revenue and restricts formalization of the economy.
- **Infrastructure Bottlenecks:** Despite recent efforts, India's infrastructure deficit persists in areas like power, transportation, and logistics.
 - The [NITI Aayog](#) estimates that India needs to spend **USD 4.5 trillion** on infrastructure by 2040 to sustain its growth momentum.

What Measures can India Adopt to Accelerate Economic Growth?

- **Expanding Manufacturing Sector:** India needs to boost the manufacturing sector, creating more job opportunities to absorb the workforce transitioning from agriculture.
 - This can be facilitated by **providing targeted training programs** and incentives for industries to hire and skill agricultural workers, ensuring a **smooth transition and boosting overall productivity**.
 - Additionally, **promoting food processing industries** to expand income opportunities for farmers.
- **Gig Economy Skilling:** Partner with online platforms like **Uber and Meesho** to develop targeted **micro-skilling programs** relevant to the gig economy.
 - This equips youth with **in-demand skills** for immediate job opportunities.
 - Create a **national online marketplace for freelance work**, connecting skilled individuals with businesses across India. This empowers entrepreneurs and facilitates flexible work arrangements.
- **Export Processing Zones (EPZs) 2.0:** Establish new-age EPZs with a focus on **sustainability and technology**. Offering tax breaks and streamlined regulations to attract green technology and high-value manufacturing companies.
 - Providing financial incentives and training programs to equip small and medium enterprises (SMEs) for [e-commerce exports](#).
- **Smart Taxation and Revamped PPP:** Leverage technology for "**smart taxation**" to fill the **loopholes** in existing taxation systems and widening the tax base.
 - Partnering with **fintech companies** for innovative tax collection solutions.
 - Develop a new generation of PPPs with a focus on **risk-sharing and performance-based incentives**.
 - This attracts private capital for infrastructure projects while ensuring value for money.
- **Industry-Academia Collaboration:** Fostering stronger collaboration between universities and industries to develop **curriculum aligned with industry needs**.
 - Introducing a system of **micro-credentials and stackable certifications** that recognize specific skills.
 - This allows individuals to continuously upskill and adapt to changing job demands.
 - India can take inspiration from **Ireland's market-driven industry-academic partnerships**, which have effectively prepared the country's workforce for the emerging technologies.
- **Formalization Incentives:** Offering tax breaks and easier access to credit for **informal businesses that transition to the formal sector**. This incentivizes formalization and increases tax revenue.
 - Utilizing digital technologies to expand financial inclusion, providing access to bank accounts, micro-loans, and financial literacy programs for informal workers.

- **Green Infrastructure Bonds:** Issue green infrastructure bonds to attract private capital for sustainable infrastructure projects like [renewable energy](#) and [public transportation](#).
 - Utilizing [big data analytics](#) and [artificial intelligence](#) to identify critical infrastructure gaps and optimize resource allocation for project development.

Drishti Mains Question:

Recent economic assessments project continued growth for the Indian economy. Discuss the key factors driving this positive outlook.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims

Q. In the 'Index of Eight Core Industries', which one of the following is given the highest weight? (2015)

- (a) Coal production
- (b) Electricity generation
- (c) Fertilizer production
- (d) Steel production

Ans: (b)

Q. Increase in absolute and per capita real GNP do not connote a higher level of economic development, if: (2018)

- (a) Industrial output fails to keep pace with agricultural output.
- (b) Agricultural output fails to keep pace with industrial output.
- (c) Poverty and unemployment increase.
- (d) Imports grow faster than exports.

Ans: (c)

Q. In a given year in India, official poverty lines are higher in some States than in others because: (2019)

- (a) Poverty rates vary from State to State
- (b) Price levels vary from State to State
- (c) Gross State Product varies from State to State
- (d) Quality of public distribution varies from State to State

Ans: (b)

Mains

Q.1 "Industrial growth rate has lagged behind in the overall growth of Gross-Domestic-Product(GDP) in the post-reform period" Give reasons. How far the recent changes in Industrial Policy capable of increasing the

industrial growth rate? **(2017)**

Q.2 Normally countries shift from agriculture to industry and then later to services, but India shifted directly from agriculture to services. What are the reasons for the huge growth of services vis-a-vis the industry in the country? Can India become a developed country without a strong industrial base? **(2014)**

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