MAINS Impact- 2025 – 01/02/2025

ECONOMIC SURVEY 2024-25

SYLLABUS:

GS 3 > Economic Development

REFERENCE NEWS:

India's Economic Survey for 2024-25 was tabled in Parliament on 31st January. Finance Minister Nirmala Sitharaman tabled the report in Lok Sabha before the Union Budget. The Survey reviews the **current financial year's economic performance** and identifies national challenges. It also suggests future reforms and growth strategies. A team led by Chief Economic Adviser V Anantha Nageswaran prepare the document.

ECONOMIC SURVEY:

The Economic Survey is an **annual document** prepared by the **Ministry of Finance** in India and presented to Parliament shortly before the Union Budget.

- It provides an in-depth analysis of the state of the Indian economy over the past fiscal year, outlines the performance of various sectors, and offers recommendations for future policy measures.
- **Economic Assessment:** Reviews macroeconomic developments and the performance of agriculture, industry, services external sectors etc. It examines trends in GDP growth, inflation, fiscal deficits, employment, and other important indicators.
- **Policy Analysis and Recommendations:** Evaluates the impact of past government policies and suggests measures to address economic challenges. It also outlines the government's priorities for the coming fiscal year, setting a framework that guides the formulation of the Union Budget.
- **Sectoral Reviews:** In addition to the overall performance of the economy, the survey provides detailed assessments of key sectors like infrastructure, education, health, and energy. It may also include special chapters on emerging areas such as digitalization, climate change, or structural reforms.
- **Statistical Data and Projections:** The survey compiles a wide range of statistical data and economic indicators. It includes both historical trends and projections, offering a basis for economic forecasting and policy planning.

PROSPECTS FOR THE INDIAN ECONOMY BASED ON ECONOMIC SURVEY 2024-25:

Overall Economic Growth

- **Real GDP Growth:** Estimated at **6.4% in FY25**, close to the **decadal average**.

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- **Projected Growth for FY26:** Expected to range between **6.3% and 6.8%**, balancing global uncertainties and domestic economic drivers.
- **Private Consumption:** Estimated to grow by **7.3%**, driven by rural demand recovery.
- **Real Gross Value Added (GVA):** Projected to grow by **6.4%** in FY25.

Sectoral Growth Trends

- **Agriculture and Allied Activities:** Expected to grow at **3.8% in FY25**. **Kharif Foodgrain Production** estimated at **1,647.05 LMT**, **5.7% higher** than the previous year. **Key drivers** are **Horticulture, livestock, and fisheries** showing strong growth, with the fisheries sector recording a **CAGR of 8.7%**.
- **Industry and Manufacturing:** Industrial growth estimated at **6.2% in FY25**, supported by infrastructure investments. India remains **one of the fastest-growing manufacturing economies** with a strong **PMI (Purchasing Managers' Index)**. **Drastic reduction in smartphone imports – 99% now manufactured domestically**.

- **Services Sector:** Estimated at **7.2% in FY25**, remaining the strongest contributor to GDP. **Services export growth surged to 12.8% in FY25** (up from 5.7% in FY24). India now ranks **2nd globally in telecommunications, computer, and information services exports** (UNCTAD). **Tourism Sector** contribution to GDP returned to **5% (pre-pandemic levels)**.

Inflation and Monetary Stability

- **Retail Inflation:** Declined from **5.4% in FY24 to 4.9% in FY25** (April-December).
- **Food Inflation:** Remains high at **8.4%**, driven by vegetable and pulse prices.
- **Future Target:** RBI and IMF project inflation aligning with **4% target in FY26**.

Fiscal and Investment Scenario

- **Capital Expenditure (Capex):** Grew by **8.2% YoY** post-general elections, continuing the upward trend from FY21 and now at **3.2% of GDP.**
- **Gross Tax Revenue (GTR):** Increased **10.7% YoY**, indicating **strong fiscal performance**.
- **MSME Support: ₹50,000 crore Self-Reliant India Fund** launched for MSME equity funding.
- Focus on **Ease of Doing Business 2.0** to reduce regulatory burdens.

External Sector and Trade

- **Merchandise Exports Growth:** Increased by **1.6% YoY (April-December 2024)**.
- **Services Exports:** Surged **12.8% YoY**.
- **Foreign Direct Investment (FDI):** Increased from **$47.2 billion (FY24) to $55.6 billion (FY25)**, marking a **17.9% YoY growth**.
- **Forex Reserves:** At **$640.3 billion**, covering **10.9 months of imports** and **90% of external debt**.
- **Current Account Deficit (CAD):** Remains at a **manageable 1.2% of GDP**.

Banking and Financial Sector

- **Credit Growth:** Continues at a **steady rate**, converging towards deposit growth.
- **Asset Quality: Gross Non-Performing Assets (GNPA) fell to a 12-year low of 2.6%. Capital-to-Risk Weighted Asset Ratio (CRAR)** remains strong at **16.7%**.
- **Stock Market Performance: BSE Market Capitalization to GDP Ratio at 136%**, far exceeding China (65%) and Brazil (37%).

Infrastructure and Renewable Energy

- **Infrastructure Capex Growth: 38.8% growth from FY20 to FY24**.
- **Railways: 2031 km of network expansion** between April-November 2024. **17 new Vande Bharat trains introduced**.
- **Renewable Energy Expansion:** Capacity addition in **solar and wind energy increased by 15.8% YoY**. **Non-fossil fuel sources account for 46.8% of installed capacity**.

Employment and Social Sector Reforms

- **Unemployment Rate:** Declined to **3.2% in 2023-24 (from 6.0% in 2017-18)**.
- **Health Expenditure:** Increased **government share from 29% (FY15) to 48% (FY22)**.

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- **Out-of-pocket health expenditure reduced from 62.6% to 39.4%**.
- **Skill Development:** PM-Internship Scheme emerging as a key employment catalyst.
- **Gini coefficient, a measure of inequality in consumption expenditure, is declining.** For rural areas it declined to 0.237 in 2023-24 from 0.266 in 2022-23, and for urban areas, it fell to 0.284 in 2023-24 from 0.314 in 2022-23.

CHALLENGES IN THE INDIAN ECONOMY ACROSS SECTORS AS PER ECONOMIC SURVEY:

Macroeconomic Challenges

- **Slower Growth than Required for Viksit Bharat 2047:** The survey warns that India **needs an 8% growth rate** for at least a decade to achieve developed nation status by 2047. The current trajectory of **6.3%-6.8% growth** may not be sufficient.
- **Geo-Economic Fragmentation (GEF):** Rising **trade restrictions, global protectionism**, and shifting economic alliances are affecting India's trade prospects. China's dominance in **global manufacturing and energy transition** adds pressure.
- **Weak Private Investment:** Corporate capital expenditure has **grown only 6%** from 2019-20 to 2023-24, compared to **16% in government spending** and **12% in household investments**.
- **Trust deficit between businesses and the government** due to excessive regulations.
- **Fiscal Constraints: Tax revenue growth is slow**, limiting the government's ability to maintain high infrastructure spending. Increasing **subsidies and liabilities** could pressure fiscal discipline.

Agriculture and Rural Economy

- **Low Productivity and Climate Risks:** The sector contributes **16% to GDP** but employs **over 40% of the workforce**, indicating **low productivity**. Climate change, erratic monsoons, and extreme weather events threaten crop yields.
- **Overdependence on Food Subsidies: Free food grain schemes like PMGKAY** support food security but add to fiscal burdens.
- **Slow Adoption of Agri-Tech and Diversification:** The **Kharif food grain production is expected at 1,647 LMT**, but lack of crop diversification and inefficient irrigation reduce sustainability. Fisheries and livestock are growing at **8.7% and 5.8% CAGR**, but investments in these sectors remain low.

Industrial Sector Challenges

- **Weak Manufacturing Exports: Manufacturing exports grew only 1.6% YoY**, impacted by **global demand slowdown** and aggressive trade policies of major economies. High input costs and **global supply chain disruptions** remain concerns.
- **Regulatory Bottlenecks in MSME Growth: Ease of Doing Business 2.0 reforms are still needed**, especially to reduce licensing burdens for small businesses. Lack of financial access for MSMEs despite a ₹50,000 crore Self-Reliant India Fund.
- **Impact of Monsoons on Industries:** Above-average monsoons disrupted **mining, construction, and manufacturing** in certain periods.

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Services Sector Challenges

- **Dependency on IT and Financial Services:** Services contribute **55.3% of GVA**, but the majority of growth comes from **IT, finance, and real estate**. Tourism and hospitality, which employ millions, are recovering but still face global uncertainties.
- **Barriers to AI and Digital Adoption: AI adoption is slow** due to infrastructure gaps and skill shortages. India needs **faster investment in automation and digital literacy** to remain competitive.

Inflation and Price Volatility

- **Food Inflation Remains High: Food inflation increased to 8.4% in FY25**, driven by **high vegetable and pulse prices**. Volatility in **global commodity prices** adds uncertainty.
- **Fuel Price Instability:** While retail inflation softened to **4.9% (April-Dec 2024)**, **rising crude oil prices** remain a risk.

Infrastructure and Energy Sector

- **Slow Pace of Private Sector Participation: Public sector investment alone cannot meet India's infrastructure needs** over the next two decades. Private sector involvement in **railways, highways, and renewable energy** needs to be accelerated.
- **Power and Renewable Energy Growth Needs Acceleration: Renewable energy capacity increased by 15.8% YoY**, but **fossil fuels still dominate India's energy mix**. **Grid reliability and storage capacity are challenges** for solar and wind energy integration.

Financial Sector and Banking

- **Slow Credit Growth in Key Sectors:** While **bank credit has grown steadily**, key sectors like MSMEs and agriculture **still face financial barriers**. Rural credit availability needs further expansion.
- **Stock Market Volatility:** The **BSE Market Capitalization to GDP ratio is 136%**, much higher than China (65%) and Brazil (37%). **Global uncertainties, elections, and inflation risks** contribute to stock market fluctuations.

External Trade and Foreign Investments

- **Declining Merchandise Trade Balance: Exports grew by 6%**, but **merchandise trade grew only 1.6%**, indicating dependence on **services exports**. **India's trade deficit remains a concern** as global demand weakens.
- **Foreign Portfolio Investment (FPI) Volatility: FPI inflows have been unstable**, affected by **geopolitical tensions and U.S. monetary policy changes** leading to capital flight.
- **China's Dominance in Supply Chains:** India still depends on China for **key imports in electronics, pharmaceuticals, and energy transition materials**.

Employment and Workforce Challenges

- **Declining Informal Sector Growth:** Unemployment fell to **3.2% (FY24)**, but informal job creation is slowing. The **EPFO payroll data** suggests **formal employment growth is limited**.

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- **Skill Gaps in AI and Automation:** The adoption of **AI and Industry 4.0 is slow** due to **insufficient technical training**. Workforce needs **upskilling in digital technologies** to remain globally competitive.
- **Gender Employment Gap:** Women's labour force participation is improving but still below global averages. More focus is needed on **entrepreneurship and credit access for women-led businesses**.

Governance and Regulatory Hurdles

- **Need for Deregulation and Simplification of Business Rules:** The survey emphasizes that **government should "get out of the way" of businesses** by **reducing micro-management and trust deficit**. Excessive regulatory controls slow down **innovation and private sector expansion**.
- **Ease of Doing Business 2.0 Implementation Delays:** The survey calls for **state-led deregulation**, including **risk-based regulation, reducing tariffs, and simplifying compliance norms**.

WAY FORWARD:

- **Systematic Deregulation to Enhance Economic Freedom:**
    - Implement **Ease of Doing Business 2.0** at the **state level** to remove bottlenecks. Reduce tariffs, lower compliance costs, and apply **risk-based regulations**.
- **Strengthening Domestic Growth Drivers Amidst Global Uncertainty:**
    - Boost domestic manufacturing through **MSME growth, digitalization, and skilling initiatives**.
    - Reduce dependence on imports (especially from China) by **building resilient supply chains**.
    - **Encourage private investment** in infrastructure and emerging industries.
- **Enhancing Infrastructure Development for Long-Term Growth:**
    - Increase **private sector participation** through Public-Private Partnerships (PPP).
    - Expand **transportation, energy, and digital infrastructure**, including **railways, metro projects, and renewable energy**.
- **Boosting Private Investment and MSME Growth:**
    - Expand the **₹50,000 crore Self-Reliant India Fund** for MSME equity financing.
    - Strengthen financial support for **startups and small businesses**.
    - Promote **labour-intensive industries** such as textiles, leather, and tourism.
- **Agricultural Modernization and Climate-Resilient Farming:**
    - Encourage **crop diversification** (shift from paddy and sugarcane to millets and pulses).
    - Expand **micro-irrigation** under **PM Krishi Sinchayee Yojana (PMKSY)**.
    - Develop **climate-resilient crops** to counter erratic monsoons.
    - Promote **technology-driven farming** (precision agriculture, AI in farming).
- **Expanding Digital and AI-Led Economic Growth:**
    - Expand **AI adoption in governance, healthcare, and financial services**.
    - Promote **India as a global IT services hub** (services exports surged **12.8% YoY**).

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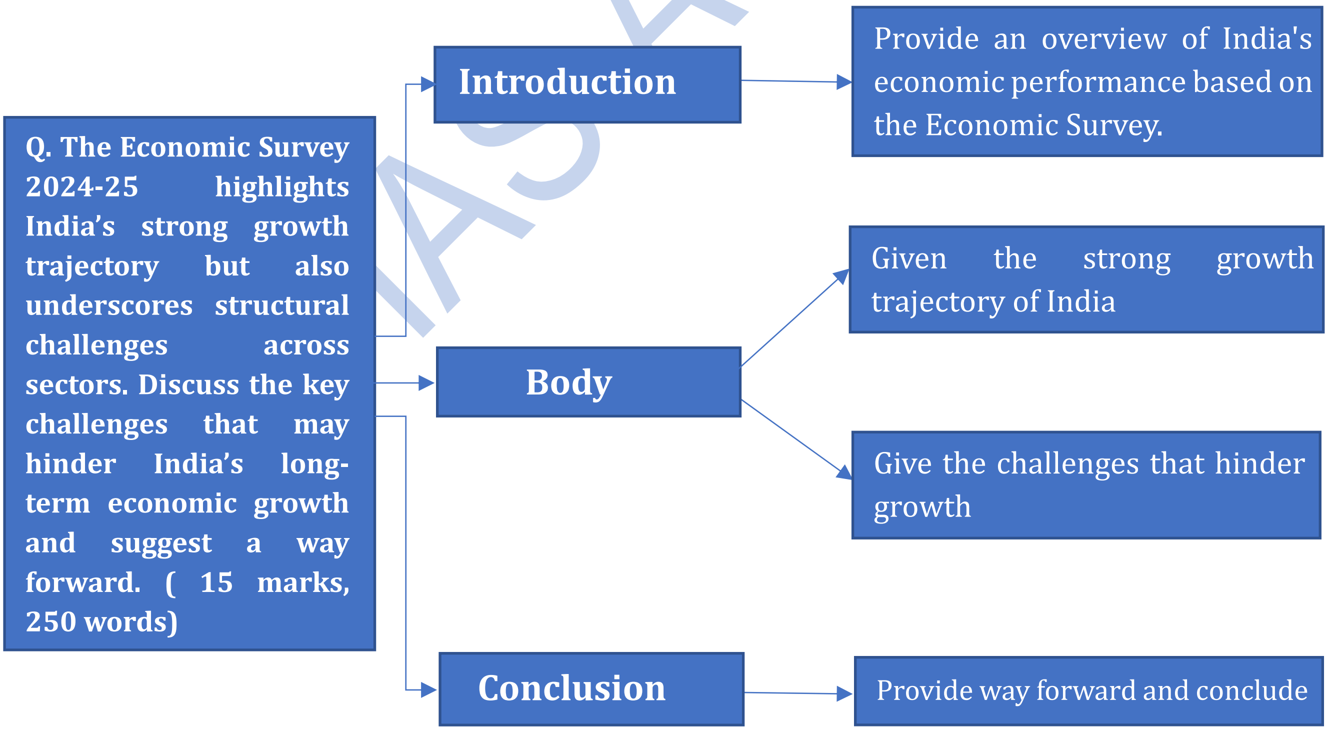
        - Strengthen **data security and AI policy framework**.
    - **Strengthening Financial Sector Stability:** Maintain **fiscal discipline** while supporting economic expansion.
        - Strengthen **the Insolvency and Bankruptcy Code (IBC)** to ensure faster resolution of stressed assets.
    - **Trade Policy and External Sector Strengthening:** Reduce reliance on **Chinese imports**, especially in **electronics, pharmaceuticals, and green energy materials**.
        - Expand trade with **Africa, Latin America, and ASEAN nations**.
        - Encourage **manufacturing-led exports** through the **PLI (Production-Linked Incentive) scheme**.
    - **AI and Workforce Adaptation:**
        - Integrate **AI-focused education and skill training** into mainstream curricula.
        - Strengthen **AI ethics and governance** to manage risks of automation.
        - Promote **collaborative AI development** between government, private sector, and academia.

PRACTICE QUESTION:

Q. The Economic Survey 2024-25 highlights India's strong growth trajectory but also underscores structural challenges across sectors. Discuss the key challenges that may hinder India's long-term economic growth and suggest a way forward. (15 marks, 250 words)

APPROACH:



MODEL ANSWER:

The **Economic Survey 2024-25** presents an optimistic outlook for India's economy, projecting **GDP growth of 6.3-6.8% in FY26**. However, it highlights **structural bottlenecks** that could hinder long-term

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growth. To achieve **Viksit Bharat by 2047**, India must address these economic constraints through **deregulation, private sector participation, and policy reforms**.

INDIA'S STRONG GROWTH TRAJECTORY:

1. GDP & Economic Growth

- **Real GDP Growth:** Estimated at **6.4% in FY25**, above the global average.
- **Investment:** Capital expenditure (Capex) grew by **8.2% YoY**, supporting long-term growth.

2. Sectoral Performance

- **Manufacturing & Industry:** Industrial growth at **6.2%**, supported by **PLI schemes and infrastructure investment**.
- **Services Sector:** Grew at **7.2%**, with **IT & financial services exports rising by 12.8% YoY**.

3. Fiscal & Financial Strength

- **Foreign Exchange Reserves:** At **$640.3 billion**, covering **10.9 months of imports**.
- **Banking Stability:** NPAs at a **12-year low of 2.6%**, ensuring financial health.

4. Infrastructure & Digital Growth

- **Renewable Energy:** 15.8% YoY growth in solar & wind capacity, with **46.8% of total energy from non-fossil fuels**.
- **AI & Digital Economy:** India is the **2nd largest exporter of telecom & IT services globally**.

CHALLENGES HINDERING INDIA'S LONG-TERM GROWTH

1. Macroeconomic Challenges: India needs **8% GDP growth for the next two decades** to achieve developed-nation status. **Private investment remains weak**, growing only **6% compared to 16% in government spending**. Rising **geo-economic fragmentation (GEF)** and global trade restrictions pose risks to India's external sector.

2. Agricultural Challenges: Agriculture employs **over 40% of India's workforce** but contributes only **16% to GDP**, indicating low productivity. **Climate change and erratic monsoons** threaten food security. **Over-reliance on food subsidies (PMGKAY)** burdens fiscal resources.

3. Industrial Sector Challenges: Manufacturing exports grew only 1.6% YoY, showing weak global competitiveness. **MSMEs face regulatory bottlenecks**, limiting their ability to scale. **High logistics and compliance costs** reduce manufacturing efficiency.

4. Services Sector Constraints: Growth in **IT and financial services dominates**, while **tourism, AI, and digital innovation lag**. **Slow AI adoption and workforce skill gaps** impact digital transformation.

5. External Trade and Energy Security: India still **depends heavily on Chinese imports**, particularly for electronics and pharmaceuticals. **Trade deficit pressures** continue due to slow manufacturing exports. **Renewable energy expansion is slow**, with fossil fuels still dominant.

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WAY FORWARD SUGGESTED BY ECONOMIC SURVEY 2024-25

1. Systematic Deregulation and Business-Friendly Policies: Implement **Ease of Doing Business 2.0**, reducing compliance costs. Shift to **risk-based regulations** instead of excessive micromanagement.

2. Infrastructure Expansion & Renewable Energy Growth: Increase **PPP (Public-Private Partnerships)** in **transportation, logistics, and urban infrastructure**. Accelerate **solar and wind energy investments** to reduce fossil fuel dependency.

3. Strengthening Agriculture through Technology & Diversification: Promote **climate-resilient crops and AI-driven farming solutions**. Expand **micro-irrigation under PM Krishi Sinchayee Yojana (PMKSY)**.

4. Enhancing India's Digital and AI Competitiveness: Expand AI adoption across governance, finance, and healthcare. Invest in **AI-driven skill training for workforce transformation**.

5. Strengthening Financial Sector and Employment Growth: Improve **credit access for MSMEs and rural businesses**. Enhance **skill development and AI education** to ensure workforce adaptability.

The Economic Survey 2024-25 highlights that India's long-term economic success depends on **deregulation, private sector-led growth, and structural reforms**. Addressing challenges in **agriculture, manufacturing, trade, and employment** is critical to sustaining **high GDP growth** and achieving the goal of a **$10 trillion economy by 2047**.

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