



EDITORIAL: THE HINDU

GENERAL STUDIES 3: ECONOMY

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A SAGGING INDIA STORY

Overenthusiasm about India was so 2024. The Budget's task is to revive flagging momentum

Current Economic Slowdown

- **Momentum Loss:**
The Indian economy has significantly slowed down compared to the previous year. The optimism that India was outperforming global economic indicators has faded. Growth, though still higher than many global economies, is projected to decline to its lowest level since the pandemic.
- **Indicators of Slowdown:**
 - **Electricity Output:**
Electricity output, considered a reliable indicator of real economic activity, experienced its slowest growth since the pandemic, particularly during the second half of 2024. This reflects reduced industrial and economic activity.
 - **Industrial Activity:**
A noticeable slowdown in industrial production was observed toward the end of 2024, further confirming the decline in economic momentum.

Decline in Consumer Demand

- **FMCG Sector Performance:**
 - Fast-moving consumer goods (FMCG) companies saw weaker-than-expected sales during the critical festival season of October-November 2024.
 - Volume growth was limited to just 3%, and price growth was modest at 1-2%, reflecting subdued consumer purchasing power and demand.
- **Urban Slowdown:**
 - The slowdown in demand was particularly evident in urban areas, including major metropolitan cities, which traditionally drive consumption.
 - Unlike rural demand, urban demand issues are more challenging to address through government welfare measures.



- **Potential Causes of Decline:**

- Rising real estate prices, which reduce disposable income for other expenditures.
- Subdued wage growth, leading to weaker purchasing power.
- Persistent food inflation, eroding consumer budgets.
- High real interest rates, discouraging consumption and borrowing.

- **Consequences:**

- Slower domestic demand undermines one of the primary engines of India's growth story.
- Weak demand makes the Indian market less attractive to foreign investors and raises concerns about overcapacity for domestic companies.

Stock Market and Rupee Performance

- **Stock Market Decline:**

- Foreign investors sold over \$19 billion in Indian stocks since the final quarter of 2024, signaling reduced confidence in the Indian market.
- Indian markets, including the Nifty 50 index, have underperformed major global indices, with January 2025 marking a potential four-month losing streak—the first since 2001.
- Despite this underperformance, Indian market valuations remain higher than competitors, leaving little room for further earnings disappointments.

- **Rupee Depreciation:**

- The Indian rupee has weakened against the US dollar. While a weaker rupee can benefit merchandise exports by making them more competitive, concerns remain about its stabilization.
- The depreciation increases the cost of imports, especially energy, which feeds into inflation and pressures the economy.

Inflation and Interest Rate Expectations

- **Inflation Pressures:**

- The weakening rupee has increased import prices, particularly for energy, which contributes to inflationary pressures in the domestic economy.
- Sticky inflation complicates the Reserve Bank of India's (RBI) monetary policy decisions.



- **Interest Rate Delays:**

- Analysts had expected the RBI to cut interest rates by 50 basis points in early 2025 to stimulate growth. However, rising inflationary concerns have delayed these expectations, prolonging tighter monetary conditions.

Structural and Fiscal Strengths

- **Improved Tax Collection:**

- Direct tax collections in 2024 have surged significantly, outpacing indirect tax collections. This reflects stronger compliance and a broader tax base.

- **Controlled Revenue Expenditure:**

- The government has maintained tight control over revenue expenditure in recent years, except during the pandemic when additional spending was necessary.

- **Fiscal Reputation:**

- India has built a global reputation for fiscal discipline, maintaining clarity and transparency in budgetary policies. It is crucial to uphold this reputation amid current challenges.

Policy Opportunities for the Union Budget

- **Previous Budget Directions:**

- In the July 2024 Budget, the government had signaled three key policy shifts:
 1. Simplification and reform of the direct tax system to enhance compliance and fairness.
 2. Reversing protectionist trade policies by reducing tariffs to make India's economy more globally competitive.
 3. Establishing a consistent and predictable policy framework to boost investor confidence.

- **Low-Hanging Fruits:**

- There are several policy measures the government can implement quickly to restore confidence and momentum, such as addressing structural issues in taxation, trade, and investment policies.

- **Non-Tax Revenue Growth:**

- The government's cautious approach to non-tax revenue, such as through asset monetization or other avenues, may need to be revisited to unlock additional resources for growth.



Need for a Balanced Budget Approach

- **Countering Headwinds:**
 - The upcoming Union Budget must address growth challenges, inflation, and consumer demand while ensuring fiscal discipline and transparency.
- **Leveraging Strengths:**
 - India's structural advantages, such as robust tax collections and fiscal responsibility, provide a foundation to counter economic challenges.
- **Policy Continuity:**
 - Taking concrete steps to build on past policy directions in tax reforms, trade openness, and fiscal management will be crucial for reviving the "India growth story."

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