



EDITORIAL: INDIAN EXPRESS

GENERAL STUDIES 3: ECONOMY

DATE: 01.02.2025

TOPIC: GROWTH

INTRODUCTION: SLOWING ECONOMIC GROWTH AMID GLOBAL UNCERTAINTY

- **Economic Context:** India's economy is slowing down, with growth forecasts and key economic indicators reflecting weaker momentum than anticipated.
- **Growth Moderation:** The first advance growth estimate for FY24 stands at 6.4%, slightly below expectations and the Economic Survey's earlier projections of 6.5–7%. This is also lower than the pre-pandemic average of 6.6%.
- **Global Economic Landscape:** Global uncertainties, including geopolitical risks, diverging growth trajectories in major economies, and shifting trade policies, are adding pressure to India's growth prospects.

India's GDP Growth: Moderating Pace

- **Current Growth Rate:** India's GDP growth is projected at 6.4%, which is lower than the pre-pandemic decadal average of 6.6% and slower than earlier expectations of 6.5–7%.
- **Nominal GDP Growth:** The nominal GDP growth of 9.7% is below the budget's forecast of 10.5%, signaling a moderation in the economy's pace.
- **Long-Term Outlook:** India's GDP growth for FY25 is projected to be between 6.3% and 6.8%, suggesting a continued slowdown unless strategic reforms are implemented.

Global Economic Uncertainties and Risks

- **Global Growth Divergence:** Major economies are on divergent growth paths. The U.S. is expected to grow at its long-term trend rate of 2%, while China continues to experience slower growth, and Europe struggles to meet its growth potential.
- **Geopolitical Risks:** Uncertainties like potential trade tariffs, especially from the U.S., pose additional risks for India, considering the country's trade surplus with the U.S.
- **Economic Risks:** These global dynamics, coupled with evolving geopolitical risks, are key factors that India must navigate to maintain growth momentum.

Investment Landscape: Public vs. Private Investment

- **Public Investment-Driven Recovery:** Post-pandemic recovery has largely been driven by public sector spending and household investments, while private corporate investment has yet to exhibit sustained growth.



- **Need for Private Sector Investment:** For long-term economic growth, the private sector must take over as the primary driver of capital expenditure. This shift is essential for sustaining growth and competitiveness in a challenging global environment.
- **Competition for Investments:** India is not only competing with other emerging economies but also with developed nations that are trying to retain investments. Deregulation and structural reforms will be crucial in attracting and retaining investments.

Capital Expenditure and Fiscal Policy

- **Capex Growth Expectations:** The fiscal year's budget anticipated a slowdown in capital expenditure growth to 17.1%, down from 28.2% in FY23-24.
- **Delays in Projects:** Despite projected growth in capital expenditure, delayed and over-budget projects remain a significant concern. Nearly 40% of central sector projects are facing delays, making project execution efficiency critical.
- **Focus on Efficiency:** The government needs to improve project execution efficiency and enhance coordination with states to maximize returns on infrastructure investments.

Need for a Predictable Tariff Regime

- **Stable Tariff Policies:** A long-term, predictable tariff policy is essential for boosting investor confidence, particularly in the manufacturing sector.
- **Manufacturing Growth:** Establishing clear tariff structures will be crucial for attracting foreign and domestic investments in manufacturing, a key growth area for India.

Inflation and Monetary Policy Constraints

- **Inflation Trends:** While inflation is expected to decline, food inflation remains sticky, keeping overall inflation high and delaying potential interest rate cuts.
- **Agricultural Price Volatility:** Agricultural price volatility is a key concern. The government must focus on managing food price stability to reduce inflationary pressures.
- **Crisil's Forecast:** Crisil projects average retail inflation at 4.4% for the next fiscal year, assuming no significant weather disruptions and stable crude oil prices.

Strengthening Agricultural Resilience

- **Addressing Agricultural Vulnerabilities:** Investments in food processing, climate-resilient crops, and cold-chain logistics are essential to reducing food wastage and stabilizing prices.
- **Long-term Solutions:** Strengthening the agricultural supply chain will be vital for ensuring food security and mitigating the impact of inflationary shocks.



Energy Transition and Industrial Growth

- **Energy Transition Challenge:** A balanced approach to energy transition is necessary to maintain economic growth while ensuring energy security and sustainability.
- **Carbon-Intensive Growth:** India's industrial and infrastructure sectors are more carbon-intensive than the services sector, making the energy transition a complex challenge.
- **Renewable Energy Dependence:** While solar energy adoption is accelerating, India remains dependent on imports for key components like polysilicon, wafers, and ingots. A policy framework to boost domestic manufacturing is crucial.

Reforms to Enhance Business Competitiveness

- **Ease of Doing Business:** Further reforms are needed to improve India's ease of doing business, particularly in areas like labor laws, land acquisition, and tax regulations.
- **Coordinated Approach to Reforms:** The government's focus on improving logistics through the Gati Shakti plan should be extended to broader business reforms to enhance investment climate and ease regulatory bottlenecks.

Fiscal Consolidation Strategy

- **Fiscal Consolidation Challenges:** A measured approach to fiscal consolidation is crucial as nominal GDP growth slows, potentially diminishing fiscal gains.
- **Recalibrating Fiscal Deficit Path:** While India is likely to meet its fiscal targets due to lower-than-expected capital expenditure, the fiscal deficit reduction path may need recalibration to ensure fiscal flexibility.
- **Maintaining Flexibility:** Given the uncertain economic environment, maintaining fiscal flexibility while supporting growth is essential.

Challenges for Sustained Growth

- **Private Consumption:** The slow compounded annual growth rate (CAGR) of 4.8% since FY20 in private consumption is a key challenge, as consumption is a major driver of GDP.
- **Government Spending:** Limited fiscal expansion since 2019, with a CAGR of just 3.1%, suggests constrained government spending capacity.
- **Investment Stagnation:** Stagnation in both public and private sector capital expenditure (CAGR of 5.3% since 2014) presents a significant hurdle.
- **Net Exports:** Despite a narrowing trade deficit, the ongoing trade imbalance remains a challenge for sustained growth.



Conclusion: Path Forward for Sustained Growth

- **Reforms for Investment Attraction:** To sustain and accelerate economic growth, India must implement key reforms that focus on deregulation, boosting private investment, and improving the ease of doing business.
- **Focus on Structural Investments:** The government needs to streamline capital expenditure processes, reduce project delays, and ensure effective project execution.
- **Balancing Global Risks:** Navigating global economic uncertainties and managing inflationary pressures will require strategic policy adjustments, particularly in energy transition, agriculture, and fiscal policy.
- **Long-Term Growth Strategy:** A focused, multi-dimensional reform agenda is critical for maintaining India's position as the fastest-growing major economy while ensuring that growth is sustainable, inclusive, and resilient to external shocks.

Source: <https://indianexpress.com/article/opinion/columns/donald-trump-climate-change-global-threats-to-indias-growth-story-9810527/>

