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A PRAGMATIC PICTURE: ON THE ECONOMIC SURVEY 2024-25

Introduction: India's Economic Growth Slowdown

- **Current Economic Situation:** India's economy is showing signs of a slowdown after four years of post-pandemic recovery. Key indicators like stock markets and the rupee are weakening, and core drivers of growth, including domestic demand and public sector capital expenditure, are losing steam.
- **Focus on Reform:** The Economic Survey 2024-25 emphasizes the importance of deregulation, structural reforms, and fostering economic freedom to sustain growth in the long term.

Investment Trends Over the Last Five Years

- **Government Capital Expenditure (Capex):** Between 2019-20 and 2023-24, government capital expenditure grew at a compounded annual growth rate (CAGR) of 16%.
- **Household Investments:** Household investments increased by 12%, which indicates strong domestic savings.
- **Corporate Investments:** Despite the reduction in the corporate tax rate, corporate investments lagged behind, growing at a modest 6%. This signals a lack of sufficient private sector confidence and investment activity.
- **Concerns Over Investment Weakness:** The overall weak performance in private investments presents a significant challenge for sustained economic growth.

Global Economic Uncertainty and Its Impact on India

- **Shifting Global Dynamics:** The economic uncertainty surrounding global trade and taxation policies, especially with the new U.S. administration, poses additional risks for India's growth prospects.
- **Retreat from Globalization:** The Economic Survey warns that as globalization recedes, India must turn its focus inward, relying on domestic growth drivers and policies to remain competitive and attract foreign investors.



GDP Growth Projections and Long-Term Concerns

- **Near-term Growth Projections:** The Economic Survey estimates that India's real GDP growth for 2024-25 will be around 6.4%, and for 2025-26, it may range from 6.3% to 6.8%, slightly lower than the previous year.
- **Long-Term Growth Goal:** To achieve its vision of becoming a developed nation by 2047, India must grow at 8% annually for at least a decade. Without transformative reforms, the economy may face stagnation.

Need for Economic Deregulation and Reform

- **Reducing Regulations:** While the government has implemented several reforms, the Economic Survey stresses that reducing unnecessary regulations is essential to foster sustainable growth.
- **Minimizing Micro-Management:** Excessive micro-management by the government is inhibiting business growth. There is a need to create a more business-friendly environment by streamlining processes.
- **Bridging the Trust Deficit:** The government needs to work on building trust with businesses and citizens to create a stable and predictable economic environment.

Ease of Doing Business and Market Reforms

- **Reducing Market Distortions:** The Economic Survey emphasizes the need for regulatory reform to eliminate market distortions caused by excessive controls.
- **“Minimum Necessary, Maximum Feasible” Approach:** The government should adopt a more flexible regulatory framework, focusing on the minimum necessary regulation that maximizes economic outcomes.
- **Accountability of Regulators:** Regulators should be held accountable for their actions, similar to how businesses are expected to comply with regulations. This will promote transparency and efficiency.

Empowering Small Businesses and Promoting Economic Freedom

- **Supporting Small Enterprises:** The Economic Survey stresses the importance of empowering small businesses by ensuring a level-playing field, which will enhance overall economic freedom.
- **Criticism of Recent Policies:** Some of the government's recent policy decisions, such as import restrictions, production-linked incentives (PLI), and unpredictable taxation measures, are criticized for resembling outdated economic policies from the 1970s.
- **Focus on Long-term Growth:** A greater emphasis on long-term economic freedom, without undue interference, will help unlock the potential of the small and medium enterprises (SMEs) sector.



Conclusion: Key Takeaways for the Budget

- **Government's Role in Reform:** The Economic Survey provides clear advice to the government to minimize unnecessary controls, trust businesses, and focus on fostering long-term economic freedom.
- **Focus on Structural Changes:** The key takeaway for the upcoming budget is the importance of implementing significant structural reforms, including easing business regulations and empowering the private sector.
- **Uncertainty of Implementation:** Whether the government will heed these recommendations and take concrete steps toward reform will become clearer when the upcoming Budget is presented. This will be critical in shaping India's economic trajectory in the coming years.

Final Thought

For India to achieve its ambitious goal of becoming a developed nation by 2047, it must transition from a reliance on government-driven growth to one fueled by private sector dynamism, supported by an efficient regulatory framework.

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