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Economic Research Department

Economic Survey 2024-25

The Economic Survey has set a prelude to the Budget. One of the core numbers that is judiciously looked at is the forecast for GDP in FY26. This is kept at 6.3-6.8%, which is bit conservation and in tune with NSO estimate of 6.4%. We assume GDP deflator of around 3.5%, which would translate nominal GDP growth to 9.8-10.3% in FY26. This nominal GDP number is crucial from a fiscal standpoint as any deviation might be reflected in the key deficit ratios. The key theme of the Survey has been one of achieving sustainable growth through reducing the cost of business by deregulation, augmenting internal capacities for growth and paving the new way of energy transition.

GDP growth: Economic Survey has pegged India's GDP growth for FY26 between 6.3-6.8%. Incidentally, both the NSO and RBI expect a GDP growth of 6.4% in FY25. The Survey notes that the risks to the outlook are balanced even as external factors such as geo-political issues, trade conflicts and commodity price shocks can act as headwinds for the growth prospect. Growth will be supported by a pickup in rural consumption due to improved agricultural prospects and a recovery in manufacturing sector. Government capex will also continue to be an important driver of growth. Over the medium-term, the Survey notes that India requires a consistent growth of 8% on an average in the next decade or two, in order to achieve the Government's aim of Viksit Bharat. For this, the Survey suggests enhanced economic freedom which will involve systemic deregulation. Some of the areas which are identified include: allowing women to work in factory processes, rationalising norms for construction of commercial buildings across states, lowering tariffs on industrial use of electricity amongst others. The Survey essentially advocates for reducing regulatory control which stifles innovation and dynamism, as well as reducing the compliance burden. This will help in improving the ease of doing business and can help in unlocking India's true growth potential.

Inflation: The Survey acknowledged that CY24 has been a period of low inflation on global front, supported by synchronised monetary policy tightening and favourable global commodity prices. However, India stood as an outlier by certain volatile food items (contribution in inflation at 32.3% in FYTD25). The price spike visible in these items mainly emanated from a supply induced shock led by adverse weather conditions which effected not only production but also logistics. The Survey further pointed out that appropriate policy interventions of government and RBI has helped in keeping prices in check of late. Supply correction measures of the government such as stock limits on wheat, tur, open market sales of cereals, duty free import of certain pulses, building buffer stocks and subsidised sales in case of Onion, have enabled to address cap significant upsurge in the volatile items of CPI. For TOP (Tomato, Onion and Potato), the Survey identified that lean season should be accompanied by better transportation and logistics as sudden price surge happens during the period of difference between harvesting and transplanting period. On outlook of inflation, the Survey highlighted that downward bias in global commodity prices will help in inflation getting durably aligned to the targeted level. Further, on policy front, suggestions have been made for adequate R&D for developing climate-resilient crop varieties, improving logistical support and limiting crop damage, which will help in curbing supply side disruption to inflation.

Financial & Banking sector: India's banking sector performance in FY25 was marked by consistent improvement in profitability parameters, better asset quality and adequate capital position. On policy rate, transmission to lending rates happened at a faster pace relative to deposit rates, thus leading to stable overall yield on assets. The notable transformation that was witnessed in the financial market in the past one year was increased financialisation of domestic savings through persistent deepening of capital market and increased inclination towards equity-based financing. The survey highlighted certain data points such as the credit GDP ratio which still shows that India has the potential of maintaining a higher credit growth. Another research in the document showed that India's financial sector has the potential in expanding the credit outreach to private nonfinancial sector where the ratio of credit to private nonfinancial sector to GDP ratio is still lower than most of Advanced Economies (AEs). On outlook, the Survey remained optimistic with robust macro fundamentals of domestic economy and healthy balance sheet of corporates contributing to healthier balance sheet of banks. However, issues such as rising consumer credit and an increase in non-banking finance options calls for continued regulatory prudence. Thus it suggested that fine balancing between financial resilience and growth should be pursued simultaneously for maintaining financial stability.

External: Taking cognizance of the global trade conditions, the report highlighted that "India requires to assess the situation and develop a forward looking strategic trade roadmap that leverages its strength". India's share in global services has risen to 4.3% in 2023 from 1.9% in 2005. In 'Telecommunications, Computer, & Information Services', India is he 2nd largest exporter in the world with a market share of 10.2%. This momentum needs to be sustained. In 'other business services' India is the 3rd largest exporter in the world with a 7.2% share in world exports. In here, India has further potential to grow in international tourism and global transport networks

Investment and Infrastructure: The Economic Survey reiterated the need for scaling up infrastructure spending to boost growth. This involves physical, digital as well as social infrastructure. In this respect, the Survey notes that while there has been substantial progress made in raising public infrastructure spending, it needs to be supplemented by private sector capital expenditure as well. In this respect, the Survey suggests a coordinated effort from the government-both centre and state, financial institutions, project managers and the private sector to brainstorm specific strategies involving areas such as revenue sharing, project management, conflict resolution etc. Hence, there needs to be a greater emphasis on developing new public-private partnership models, with a greater thrust coming in from the private sector.

Industry: The Economic Survey noted the challenges in the global manufacturing space due to recurrent geo-political conflicts, supply chain disruptions, political instability etc. In India, manufacturing growth was constrained in Q2FY25 due to three main factors which included: lower export demand, higher rainfall impacting industries such as steel, cement and changes in timing of festivals. However, there have been pockets of growth such as automobiles, electronics and drugs and pharmaceuticals. The Survey presents an interesting analysis on interstate disparities in industrialisation. Based on this, a conclusion is drawn there exists a positive correlation between the states' score on the 'Ease of Doing Business' parameters and the level of industrial activity. Hence, there is a need for states to focus on undertaking business reforms on specific sectors or industries. For example, the Survey suggests adoption of focussed industrial strategies based on unique geographical features of different states such as the North East.

Agriculture and Food management: Agriculture and allied sector have played pivotal role in enhancing national income and employment. It contributes 16% to country's GDP and supports 46% of the total population. Despite challenges, it has grown at a robust pace of 5% for the last 5-years. In the past, agriculture income has increased by 5.2% annually against 6.2% for non-agriculture income and 5.8% for overall economy. It has been noted that the agriculture foodgrain production is projected to reach 1647 lakh metric tonne in 2024, higher by 89.4 lakh metric tonne from the previous year. The horticulture sector is turning out to be one of the fast growing industry and more productive and profitable than traditional agriculture sector. Furthermore, floriculture sector is turning to be one of the sunrise sector with 100% export orientation. On MSP, government has raised the MSP in FY25 for Arhar and Bajra by 59% and 77% respectively. On allied sectors, fisheries, animal husbandry can help framers create additional streams of income. In order to enhance productivity, widespread adoption of digital technologies will be helpful. Additionally, further support will be provided by e-NAM, FPO and other cooperatives that will help in price discovery and market efficiency. Government has taken a range of initiatives with the aim to enhance productivity and raise farmer income, including per drop more crop (PDMC) scheme under the National Mission on Sustainable agriculture (NMSA). Moreover digital initiatives like E-NAMs and digital agriculture mission are proposed for adoption on new technologies and enhance price discovery mechanisms. A program such as PM-KISAN has been launched to provide income support to farmers through defined remunerative prices. Government's commitment towards food security is reflected through the PMGKAY, with the provision of free foodgrains. It was further extended for another 5-years starting from 1 Jan 2024. In FY25, the claim processing under Modified Interest Subvention Scheme (MISS) has been digitised under the Kisan Rin Portal (KRP) with the aim of faster capturing and settlement of MISS claims. Over 5.9cr farmers are getting benefits under this scheme.

On food management, government is committed to achieving the 100% e-KYC compliance and this aligns with the One Nation, One Ration card scheme (ONOROC), thereby allowing beneficiaries to complete e-KYC anywhere.

Climate and Environment: Adaption matters: The country has an installed capacity of electricity generation of 2,13,701 megawatts from non-fossil fuel sources and this accounts for 46.8% of the total capacity. The ambition to achieve the status of developed nation by 2047, is based on the vision of inclusive and sustainable development. The India-led movement, lifestyle for environment (LiFE) is based on raising country's sustainability efforts. These measures are expected to save consumers US$ 440bn by 2030 through lower prices and reduced consumption.

Social sector-extending reach and driving empowerment: The growing importance of this sector, has been matched with general government social sector expenditure, growing at CAGR of 15% from FY21 to FY25. The share of government health expenditure in total expenditure has grown from 29% in FY15 to 48% in FY22. There has been progress made in development of rural infrastructure, housing, drinking water and health infrastructure. The social sector initiative have lowered the inequalities and increased consumption spending. The GINI coefficient which is a measure of inequality for consumption expenditure has been on the downward trend in past few years.

Employment and AI: The survey highlighted that in the post-pandemic era, supported by recovery in economic activity and greater formalisation of workforce, labour market indicators have shown significant improvement. Unemployment rate is down to 3.2% (203-24) from 6% in 2017-18. Net EPFO additions have risen to 131 lakh in FY24 (61 lakh in 2018-19). Almost 61% of the additions have come from age group less than 29 years. Self-employed in total workforce has risen to 58.4% (2023-24) from 52.2% (2017-18). Female labour participation has nearly doubled from 23.3% in 2017-18 to 41.7% in 2023-24. Going forward, as pointed out in last year's economic survey, India will need to generate 75.8 lakh jobs annually, until 2030, to engage its working age population. To do so, the survey notes that it important that wages gain momentum. Notably, "while corporate profitability soared to a 15-year peak in FY24, wages have lagged". Thus "to secure long-term stability a fair and reasonable distribution of income between capital and labour is imperative". To boost employment, corporates should also look at flexible working hours and removal of restrictions on overtime hours that can be undertaken and overtime wages that can be earned. Sector-wise, digital economy and renewable energy sector is poised to create large employment opportunities, especially for women.

The survey cautioned that "India's economy is predominantly service-oriented, with a large portion of its IT workforce engaged in low-value-added services. These roles are particularly vulnerable to automation, as companies may replace labour with technology to reduce costs". Thus, to deal with this, it is extremely important that institutions are revamped to prepare our workforce for medium and high skilled jobs. India has time to do so, as AI industry is at the infant stage right now, and it will take time for companies to use it in a full-fledged manner. Using AI will also require scaling up of infrastructure, which will also take time. This period should be utilised for upskilling of our workforce

SMEs: The report notes the progress made in government schemes targeting MSMEs and also recognises the challenges that remain. One key roadblock identified is that a lot of small companies want to remain small to avoid regulatory radar. This then impedes upon formalisation, labour productivity and innovation. To deal with this problem the survey has suggested that “thoughtful deregulation” should take place. States will have to play an important role in building the right ecosystem for the growth of SMEs. For this reason, “ease of doing business (EODB) 2.0 should be state government led initiate”. Reduction in compliance burden, tariffs and fees, simplification and digitisation of processes, and applying risk-based regulation will hold the key to unleash SMEs’ true potential. The survey bats for small businesses being empowered and given a level playing field to support growth and innovation

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