



India's Position in Global Economic Growth

For Prelims: [International Monetary Fund \(IMF\)](#), [Reserve Bank of India \(RBI\)](#), [Headline Inflation](#), [MGNREGA](#), [Gross Domestic Product \(GDP\)](#), [Fiscal Deficit](#)

For Mains: Issues and concerns in achieving its potential growth while achieving the fiscal deficit targets.

[Source: TH](#)

Why in News?

According to the [International Monetary Fund \(IMF\)](#), India's contribution to global economic growth is expected to rise by 2%, as 16% contribution will grow to 18% in the next five years due to India growing faster.

What are the Factors Contributing to India's Projected Growth?

- **Monsoon:**
 - While the overall rainfall was 6% below the expected during the [monsoon](#) season (due to 36% deficit rains in August), the spatial distribution is quite even. **Out of 36 states/UTs, 29 received normal/above-normal rains.**
 - The **SBI Monsoon Impact Index**, which considers the spatial distribution, has a value of 89.5, **faring much better than the full season index** value of 60.2 in 2022.
- **Continuous Thrust on Capital Expenditure:**
 - During the first five months of the current year (2023), the capital expenditure of the states as a percentage of the **budgeted target is at 25%, while the Centre's is at 37%**, which is higher than the previous years and reflecting renewed capital generation.
- **New Company Registrations:**
 - The robust new companies' registration depicts strong growth intentions. Around 93,000 companies were registered in the first half of 2023-24 as compared to 59,000 five years back.
 - It is interesting to note that the average daily registration of new companies increased to 622 in 2023-24 (an increase of 58%) from 395 in 2018-19.
- **Credit Growth:**
 - **All [scheduled commercial banks' \(SCBs\)](#) credit growth** (year-on-year) has been accelerating since early 2022. Aggregate deposits grew by 13.2% and credit by 20% till September. In the coming months, the Government expects credit demand to remain robust due to the festive season.
- **Formalization of the Economy:**
 - The growth in credit is attributed to the formalization of the Indian economy over the past decade. **People with no previous credit history are increasingly becoming integrated with the banking system.**
 - Approximately **40% of new credit accounts added in the last nine years are from individuals who had no prior credit history.** This group contributes to at least 10% of the incremental credit growth.

What are the Challenges Faced by India in Achieving its Projected Growth?

- **Weak Demand:**
 - The demand for goods and services in India has been stagnant or declining due to various factors, such as **low income growth**, [high inflation](#), [unemployment](#), and **the impact of the Covid-19 pandemic**.
 - This has **affected the consumption and investment levels in the economy, and reduced the tax revenue** for the government.
- **Unemployment:**
 - Despite rapid economic growth, unemployment remains a serious issue in both rural and urban areas. The Covid-19 pandemic has worsened the situation, **as many businesses have shut down or reduced their operations**, leading to job losses.
 - According to the [National Statistical Office's \(NSO\) Periodic Labour Force Survey \(PLFS\) report](#) for the year 2021-22, the unemployment rate for 2021-22 was 4.1%.
- **Poor Infrastructure:**
 - India **lacks adequate infrastructure, such as roads, railways, ports, power, water, and sanitation**, which hampers its economic development and competitiveness.
 - **According to the World Bank**, India's infrastructure gap is estimated to be around \$1.5 trillion. Poor infrastructure also affects the quality of life and health of the people, especially in rural areas.
- **Balance of Payments Deterioration:**
 - India has been running a **persistent current account deficit**, which means that its imports exceed its exports. This reflects its dependence on foreign goods and services, especially oil and gold, and its low export competitiveness.
 - India's exports and imports **decreased by 6.59% and 3.63%, respectively, in 2022 over 2021**. Given this pace, **It will be difficult to achieve the USD 2 trillion export target by 2030**.
- **Geopolitical Tensions:** India's geopolitical relationships, **including border disputes**, can impact **regional stability** and potentially affect economic prospects.
 - India is increasingly vulnerable to **global economic uncertainties, including ongoing wars and conflicts** that may lead to crude oil inflation and supply shortages.
 - **Trade Imbalances:** India faces trade imbalances with some of its major trading partners, which can impact its **economic growth and stability**.

Way Forward

- **Boosting Private Investment:** Private investment is a key driver of economic growth, as it increases productivity, innovation and competitiveness. The government has taken several initiatives to improve the [ease of doing business](#), reduce corporate tax, provide credit guarantees, and attract [foreign direct investment](#).
 - However, more reforms are needed in areas such as land, labour and logistics to reduce the cost and risk of doing business in India.
- **Increasing Competitiveness:** India needs to enhance its competitiveness in the global market by diversifying its exports, improving its infrastructure, promoting innovation and digitalization, and integrating with regional and global value chains.
 - The government has announced several schemes to support manufacturing, such as [Production Linked Incentive \(PLI\)](#), [Phased Manufacturing Programme \(PMP\)](#), and [Make in India](#).
 - However, these schemes need to be complemented by trade liberalization and regulatory simplification to ensure a level playing field for domestic and foreign firms.
- **Promoting Green Growth:** India has committed to reduce its carbon intensity and increase its [renewable energy](#) capacity as part of its [climate change goals](#). The government has also introduced green bonds to finance green infrastructure projects.
 - However, more efforts are needed to address the environmental challenges such as air pollution, water scarcity, waste management and biodiversity loss that pose a threat to India's growth and well-being.
- **Maintain Stability in the Economy:** India could maintain a stable and low inflation rate, which can foster confidence and investment. India could also ensure adequate liquidity and credit

availability for productive sectors, especially for small and medium enterprises. India could also develop its financial markets and institutions to facilitate savings and investment.

UPSC Civil Services Examination Previous Year Question (PYQ)

Prelims:

Q 1. A decrease in tax to GDP ratio of a country indicates which of the following? (2015)

1. Slowing economic growth rate
2. Less equitable distribution of national income

Select the correct answer using the code given below:

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

Ans: (a)

Mains:

Q 2. Do you agree with the view that steady GDP growth and low inflation have left the Indian economy in good shape? Give reasons in support of your arguments. **(2019)**

Q 3. Do you agree that the Indian economy has recently experienced V-shaped recovery? Give reasons in support of your answer. **(2021)**

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