



Navigating India's Economic Growth Outlook

This editorial is based on "[Battle for growth: On India's economic trajectory](#)" which was published in The Hindu on 04/03/2025. The article brings into picture the 6.2% GDP growth in Q3 FY 24-25, falling short of the 6.5% target, with primary sectors leading while manufacturing and services face challenges.

For Prelims: [FMCG](#), [e-commerce](#), [Unified Payments Interface \(UPI\)](#), [ONDC](#), [Digital Public Infrastructure](#), [production-linked incentive \(PLI\) schemes](#), [green hydrogen](#), [NSSO \(National Sample Survey Office\)](#), [Fiscal deficit](#), [National Infrastructure Pipeline](#).

For Mains: Key Drivers Shaping India's Economic Growth Outlook, Major Challenges Hindering India's Sustained Economic Growth.

[India's economic growth](#) in Q3 FY 24-25 registered a modest **6.2%**, falling short of the **government's full-year 6.5% target**, with primary sectors driving performance while **manufacturing and services sectors show vulnerability**. Also, global headwinds like **potential U.S. tariffs on steel** and [pharmaceuticals](#) pose significant challenges, particularly for India's export-oriented sectors. Despite these challenges, the economy demonstrates potential for adaptive growth amid complex global economic uncertainties.

What are the Key Drivers Shaping India's Economic Growth Outlook?

- **Strong Domestic Demand and Consumption Resilience:** India's **large consumer base**, **rising middle-class wealth**, and **urbanization** continue to fuel demand, especially in sectors like [FMCG](#), [e-commerce](#), and automobiles.
 - Rural consumption is strengthening due to higher agricultural output and government support schemes, while urban demand benefits from increasing disposable incomes.
 - For instance, private consumption expenditure grew by **6.9% in Q3FY25 (Deloitte Report)**, while rural demand surged, **as FMCG sales rose 4% in April-June 2024**.
- **Government-Led Infrastructure Push and Capital Expenditure:** Massive public infrastructure projects under the [National Infrastructure Pipeline \(NIP\)](#), [Gati Shakti](#), and [Bharatmala](#) are driving economic activity, employment, and private sector participation.
 - **Increased capex allocations in the budget (₹11.21 lakh crore)** have improved logistics, transportation, and urban infrastructure, crowding in private investments.
 - Capital expenditure grew at 38.8% CAGR between FY20-FY24, ([Economic Survey 2024-25](#)).
 - **Budget 2025-26 move of no income tax till 12 lacs** income will also increase people's net disposable income allowing them to create more demand.

- Schemes like **Ayushman Bharat** ---> **decrease in healthcare expenditure** ---> **more money in people's pocket** to create more demand.
- **Rising Digital Economy and Fintech Expansion:** India's rapid adoption of **digital payments, fintech innovations, and e-governance** is enhancing financial inclusion, business efficiency, and tax compliance.
 - The **Unified Payments Interface (UPI), ONDC, and Digital Public Infrastructure (DPI)** have expanded access to financial services, reducing cash dependency.
 - India's digital economy has emerged as a significant contributor to its economic growth, accounting for **11.74% of the GDP in 2022-23**.
 - UPI transactions hit record high in January 2025, with over **16.99 billion transactions** and ₹23.48 lakh crore value.
- **Manufacturing and Global Supply Chain Realignment:** The **production-linked incentive (PLI) schemes**, and a focus on high-value manufacturing (electronics, semiconductors, EVs) are boosting India's manufacturing sector.
 - Large multinational firms are diversifying supply chains, making India a hub for electronics, pharmaceuticals, and automotive production.
 - PLI scheme has attracted Rs 1.46 lakh crore investment, creating 9.5 lakh jobs.
 - In FY23, electronics exports stood at **\$23.6 billion**, of which mobile phones comprised \$11.1 billion or **43%**.
 - Geopolitical realignments and trade disruptions in the **Red Sea and Suez Canal** are **prompting firms to de-risk their supply chains**, favoring India as an alternative. (**China+1 strategy**)
- **Services Sector Dominance and IT Resilience:** The services sector remains India's growth engine, led by IT, finance, tourism, and real estate.
 - The rise of **AI, digital services, and fintech innovations** has increased global demand for Indian IT expertise.
 - India's dominance in global services exports, particularly in **software and business process outsourcing (BPO)**, ensures steady forex inflows and employment.
 - India's services exports grew **12.8%** during April–November FY25, rising from **5.7% in FY24**, according to the **Economic Survey 2024-25**.
- **Energy Transition and Green Growth Initiatives:** India's **push for renewable energy, electric mobility, and green hydrogen** is reshaping its economic trajectory.
 - With **record solar and wind energy capacity additions, EV adoption, and net-zero commitments**, the green economy is becoming a key driver of industrial and technological transformation.
 - As of October 2024, renewable energy-based electricity generation capacity stands at **203.18 GW**, accounting for more than **46.3% of the country's total installed capacity**.
 - Also, India aims for a \$8 billion green hydrogen market by 2030.
- **Fiscal and Monetary Stability:** India's **prudent fiscal policies, targeted social spending, and inflation control measures** ensure macroeconomic stability.
 - The **RBI's stable monetary stance**, along with improved tax compliance through **GST and digitization**, has strengthened the fiscal outlook.
 - Lower fiscal deficits, rising tax revenues, and better public finance management have enhanced investor confidence.
 - The **fiscal deficit** is expected to decline to **4.9% of GDP in FY25**, down from the previous estimate of **5.1%**.
 - **Retail inflation eased to 4.9% in FY25**, with food inflation remaining a challenge at **8.4%**.
- **Tax Reforms:** Tax reforms, particularly the Goods and Services Tax (GST), which has simplified the indirect tax structure and reduced costs.
 - For instance, the **tax rates on automobiles, which earlier ranged between 28% and 45%**, has now come down to **18-28% by GST**, making vehicles more affordable.
 - Additionally, GST has **eliminated the cascading effect of taxation**, further reducing the overall cost of commodities.
 - These reforms have boosted **consumer demand and improved business efficiency**, contributing to India's economic momentum.

What Are the Major Challenges Hindering India's Sustained

Economic Growth?

- **Global Trade Disruptions and Export Dependency Risks:** India's export growth faces risks due to **geopolitical tensions, shifting trade policies, and protectionist measures by major economies like the US and EU.**
 - Disruptions in key shipping routes (**Suez Canal, Red Sea**) and increasing tariffs on Indian goods could reduce trade competitiveness.
 - **For instance, the US plans a 25% import tariff on Indian pharmaceuticals,** affecting billions in annual exports.
 - **Suez Canal disruptions** forced rerouting via the Cape of Good Hope, raising freight costs by 20% (**imported inflation**).
- **Sluggish Private Investment and Capital Formation:** Despite government-led infrastructure spending, private sector investment remains tepid due to **policy uncertainty, global economic slowdown, and cautious investor sentiment.**
 - **Gross Fixed Capital Formation (GFCF)** growth has slowed, indicating weaker business confidence.
 - The **manufacturing sector's reliance on government incentives** rather than **organic expansion** highlights the need for a more stable investment climate.
 - **GFCF growth slowed to 5.4% in Q2FY25.**
- **Inflationary Pressures and Food Price Volatility:** While core inflation has eased, **volatile food prices continue to pose a challenge,** driven by erratic monsoons, supply chain bottlenecks, and geopolitical uncertainties.
 - Rising global energy and commodity prices further complicate inflation control efforts.
 - **Unstable food inflation** could impact consumer confidence, and limit monetary policy flexibility.
 - Food inflation remained high at 8.4%, led by onion, tomato, and pulse shortages (**Economic Survey 2024-25**). **Higher logistics costs further increase the prices.**
- **High Unemployment and Jobless Growth:** Despite economic expansion, employment generation remains **insufficient,** especially in **manufacturing and formal sectors.**
 - The **rising adoption of automation and AI** is leading to **job losses** in traditional industries, while a **significant portion of the workforce remains in low-paying informal jobs.**
 - Without skill development and labor market reforms, India's demographic dividend could become a liability.
 - **India's unemployment rate** has dropped to **3.2% in 2023-24** but labor force participation is still below global averages.
 - The **Economic Survey 2023-24** highlights that **65% of India's rapidly growing population is under 35 years old,** but many lack essential skills for a modern economy.
 - It also estimates that **only 51.25% of the youth is considered employable).**
- **Weak Industrial Growth and Manufacturing Bottlenecks:** India's manufacturing sector faces structural challenges such as **low productivity, high logistics costs, and reliance on imports for critical components.**
 - The slowdown in global demand, coupled with domestic bottlenecks in land acquisition, labor laws, and infrastructure, limits industrial expansion.
 - While PLI schemes have boosted specific sectors, broader industrial growth remains uneven.
 - **Manufacturing growth** slowed to **2.2% in Q2FY25.** India's logistics costs remain at 13-14% of GDP.
- **Financial Sector Vulnerabilities and Credit Risks:** While India's banking sector has improved, **high unsecured lending, fintech risks, and potential asset quality issues in NBFCs remain concerns.**
 - **Unsecured personal loans and credit card borrowing** grew at a CAGR of **22% and 25%, respectively,** in the three years to FY24, raising concerns about defaults.
- **Digital Divide and Uneven Technology Penetration:** Despite rapid digital growth, **access to digital infrastructure remains unequal, particularly in rural areas.**
 - Limited digital literacy, inadequate internet connectivity, and cybersecurity threats hinder the benefits of fintech and digital governance.

- **NSSO (National Sample Survey Office)** data reveals a staggering disparity: only 24% of rural households have internet access, compared to 66% in cities.
 - Also, Cyber fraud cases like **Unified Payments Interface fraud surged by 85% in FY24**, highlighting security concerns.
- **Missing Middle:** Credit penetration remains low in critical sectors like MSMEs, while excessive consumer credit growth raises concerns about financial stability.
 - Despite government initiatives like Mudra loans, **many small businesses lack access to affordable financing**, while large corporations and consumer credit see better lending opportunities.
 - The MSMEs in the country currently face a credit gap of **\$530 billion**, and **only 14% of the 63 million small businesses in India have access to credit**, as per a recent report by investment bank Avendus Capital.
- **Climate Change and Environmental Challenges:** India is highly vulnerable to **climate risks such as extreme weather, water shortages, and rising pollution levels**.
 - Frequent droughts and floods impact agriculture, while energy transition efforts face hurdles due to high dependency on coal.
 - **Balancing economic growth with sustainability is a critical challenge.**
 - **India's coal dependency** remains high, with **65,290 MW of supercritical coal plants in operation**.
 - Climate adaptation spending rose from **3.7% to 5.6% of GDP between FY16-FY22**, highly critical diversion of resources.

What Steps Can India Take to Sustain Its Economic Growth Outlook?

- **Strengthening Domestic Demand and Consumption:** Enhancing disposable income through **targeted tax reliefs, rural employment programs, and direct benefit transfers** can sustain domestic consumption.
 - Expanding **credit access to MSMEs and households** will boost purchasing power and demand-led growth.
 - Promoting **value-added sectors like processed food, textiles, and electronics** will create jobs and expand the consumer base.
 - Strengthening **agricultural supply chains, cold storage infrastructure, and warehousing** will reduce food inflation volatility.
 - Strengthening **consumer protection laws and digital literacy** can improve confidence in e-commerce and fintech.
- **Boosting Private Investment and Industrial Growth:** Simplifying **land acquisition laws, labor codes, and environmental clearances** will reduce compliance burdens and improve ease of doing business.
 - Expanding **Production-Linked Incentive (PLI) schemes** beyond electronics and pharmaceuticals to cover emerging sectors like **green hydrogen, semiconductors, and precision manufacturing** will drive industrial expansion.
 - Encouraging **foreign direct investment (FDI) in high-tech and capital-intensive industries** will strengthen domestic manufacturing capabilities.
- **Strengthening Infrastructure and Logistics Efficiency:** Accelerating the **National Infrastructure Pipeline (NIP), Gati Shakti, and Bharatmala** will enhance multimodal connectivity and reduce logistics costs.
 - Expanding **urban transport networks, high-speed rail corridors, and port modernization** will improve trade competitiveness.
 - Strengthening **renewable energy infrastructure** through incentives for green projects and decentralized energy grids will ensure sustainable power supply.
 - Ensuring **better utilization of capex allocations at the state level** will fast-track project implementation.
- **Promoting Digital Transformation and Innovation:** Scaling up **5G rollout, AI-driven automation, and cloud computing infrastructure** will boost efficiency in services and manufacturing.
 - Expanding the **Open Network for Digital Commerce (ONDC) and Digital Public Infrastructure (DPI)** will create a level playing field for small businesses and startups.

- Encouraging **R&D in AI, quantum computing, and biotech** through tax incentives and university-industry partnerships will drive technological leadership.
- **Enhancing Trade Competitiveness and Export Diversification:** Negotiating **free trade agreements (FTAs)** with key economies like the **EU, UK, and ASEAN** will improve market access and reduce tariff barriers.
 - Strengthening **export incentives for high-value sectors like electronics, pharmaceuticals, and precision engineering** will enhance India's global trade footprint.
 - Improving **port efficiency, customs digitization, and reducing logistics costs** will reduce transaction costs and trade delays.
 - Expanding **rupee trade mechanisms with strategic partners** will mitigate forex risks and strengthen economic diplomacy.
- **Addressing Employment and Skill Development Gaps:** Expanding **apprenticeship programs, vocational training, and industry-academia collaboration** will align workforce skills with emerging industry demands.
 - Strengthening **Skill India and National Education Policy (NEP) 2020 initiatives** will improve the employability of graduates and reduce structural unemployment.
 - Promoting **labor-intensive sectors like textiles, tourism, and construction** will create sustainable job opportunities.
 - Encouraging **entrepreneurship and startup incubation in Tier-2 and Tier-3 cities** will create decentralized employment hubs.
- **Strengthening Governance and Institutional Reforms:** Enhancing **transparency, accountability, and ease of doing business** will attract investments and improve investor confidence.
 - Streamlining **regulatory frameworks in banking, taxation, and corporate governance** will reduce compliance burdens on businesses.
 - Expanding **decentralized governance and fiscal autonomy to states** will improve policy implementation at the grassroots level.

Conclusion:

India's economic growth outlook remains **promising despite short-term challenges**. **Strong domestic demand, infrastructure expansion, digital transformation, and manufacturing growth** continue to drive progress. By implementing targeted reforms, strengthening private investment, and fostering innovation, **India can achieve sustainable and inclusive economic growth amid global uncertainties**.

Drishti Mains Question:

Discuss the key drivers and challenges shaping India's economic growth outlook. How can policy interventions ensure sustainable and inclusive growth in the face of global and domestic uncertainties?

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims

Q. In the 'Index of Eight Core Industries', which one of the following is given the highest weight? (2015)

- (a) Coal production
- (b) Electricity generation
- (c) Fertilizer production
- (d) Steel production

Ans: (b)

Q. Increase in absolute and per capita real GNP do not connote a higher level of economic development, if: (2018)

- (a) Industrial output fails to keep pace with agricultural output.
- (b) Agricultural output fails to keep pace with industrial output
- (c) Poverty and unemployment increase.
- (d) Imports grow faster than exports.

Ans: (c)

Q. In a given year in India, official poverty lines are higher in some States than in others because: (2019)

- (a) Poverty rates vary from State to State
- (b) Price levels vary from State to State
- (c) Gross State Product varies from State to State
- (d) Quality of public distribution varies from State to State

Ans: (b)

Mains

Q.1 "Industrial growth rate has lagged behind in the overall growth of Gross-Domestic-Product(GDP) in the post-reform period" Give reasons. How far the recent changes in Industrial Policy capable of increasing the industrial growth rate? (2017)

Q.2 Normally countries shift from agriculture to industry and then later to services, but India shifted directly from agriculture to services. What are the reasons for the huge growth of services vis-a-vis the industry in the country? Can India become a developed country without a strong industrial base? (2014)