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TOPIC

**INDIA'S ECONOMIC CHALLENGES IN
2025: KEY REFORMS TO SUSTAINED
GROWTH**

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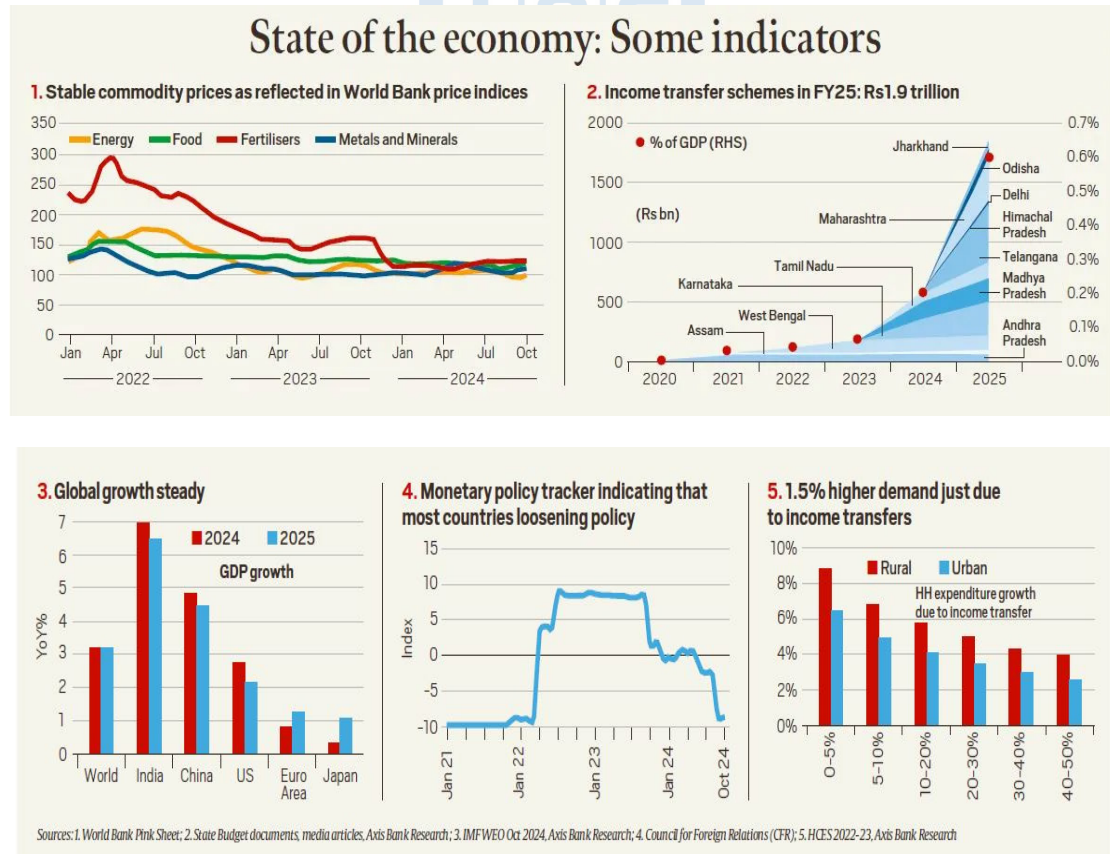
Context

- As India steps into 2025, its growth trajectory, while promising, faces several challenges that need to be addressed through comprehensive reforms to ensure sustained growth.

Economic Landscape of India (2025)

- GDP Growth:** Over the past three years, the Indian economy performed well above expectations, growing at 8.7% in FY22, 7.2% in FY23, and 8.2% in FY24, driven by public capital expenditure, substantial investments in **Global Capability Centres (GCCs)**, and surging service exports.
 - It slowed to 5.4% in the Q2 of the fiscal year 2024-25, a significant drop from the previous quarters that has been attributed to a combination of global geopolitical tensions, domestic inflation, and cautious private sector investment.
- Fiscal Prudence:** According to the IMF, a projected decline in fiscal deficit from 6.4% to 5.9% of GDP in FY24 will stabilize public debt at around 83% of GDP — a promising indicator of sustainability, given India's growth outlook.
 - The fiscal deficit target of 4.5% for FY2025-26 may allow room for increased government spending.
- Government Spending:** Increased government expenditure, particularly in infrastructure and social sectors, is expected to boost economic activity.
 - The recent **reduction in the Cash Reserve Ratio (CRR) by the RBI** has freed up funds for banks to lend, stimulating investment.
- Capital Expenditure:** The Union Budget 2023-24 allocated 10 lakh crore for capital investment, representing 3.3% of GDP.
 - National Infrastructure Pipeline (NIP)** aims to invest 111 lakh crore in infrastructure projects by 2025, covering sectors like energy, roads, railways, and urban development.

State of the economy: Some indicators



Key Concerns

- **Geopolitical Headwinds:** Global economic uncertainties, such as US policy shifts and geopolitical tensions, pose additional risks.
 - ◆ Changes in US economic policies, including fiscal measures and interest rates, can have a significant impact on India's economy.
 - ◆ Additionally, global trade dynamics and commodity prices can influence India's inflation and growth prospects.
- **Savings-investment Gap:** The **RBI's latest Financial Stability Report** shows net financial savings of households fell to 5.3% of GDP in FY23 from 7.3% in FY22, sharply below the 8% average of the previous decade.
- **Fiscal Prudence:** The RBI has flagged concerns over a sharp increase in expenditure by states on various subsidies, including farm loan waivers and cash transfers.
- **Other concerns** are private sector investment, employment generation and economic disparities etc.

Key Reforms and Initiatives

- **Goods and Services Tax (GST):** It unified the country into a single market, simplifying the tax structure and boosting revenue collections.
 - ◆ In FY 2023-24, GST collections soared to 20.18 lakh crore, averaging 1.68 lakh crore monthly.
- **Digital India initiative:** It has been a game-changer, driving technological adoption and innovation across sectors.
 - ◆ It has not only enhanced governance but also spurred the growth of over 150,000 startups, creating more than 1.5 million jobs.
- **Financial Inclusion and Poverty Reduction:** The **Pradhan Mantri Jan Dhan Yojana (PMJDY)** has transformed access to banking services, with over 53 crore accounts opened by October 2024.
 - ◆ It has brought millions of previously unbanked individuals into the formal financial fold, reducing economic inequality.
 - ◆ According to **NITI Aayog's report**, 24.82 crore people have escaped multidimensional poverty between 2013-14 and 2022-23.
- **Market Performance and Investor Confidence:** India's market performance has been exceptional, with benchmark indices rising 28% in FY 2023-24 while maintaining low volatility.
 - ◆ It has bolstered investor confidence, attracting significant foreign investments and further strengthening the economy.

Suggested Reforms for Sustained Economic Growth in India

- **Human Capital Development:** Investing in human capital is crucial for boosting labor productivity and overall economic growth.
 - ◆ It involves improving the quality of education, enhancing skill development programs, and ensuring access to basic healthcare.
 - ◆ The **Global Human Capital Report** highlights India's need to improve its human resource capital, which is essential for competing globally.
- **Technological Advancements:** Embracing technology is vital for increasing productivity and fostering innovation.
 - ◆ Enhancing technology readiness can significantly contribute to economic growth by improving efficiency across various sectors.
- **Labor Market Reforms:** Reforming labor laws to make them more flexible and industry-friendly is essential for attracting investments and creating jobs.

- ◆ The integration of platforms like the **e-Shram portal** aims to provide comprehensive services to labor, including employment and skilling opportunities.
- **Land and Property Reforms:** Efficient land administration and urban planning are critical for sustainable development.
 - ◆ The introduction of the **Unique Land Parcel Identification Number (ULPIN)** and the digitization of land records are steps towards improving land management and reducing disputes.
- **Financial Sector Reforms:** Strengthening the financial sector is key to supporting economic growth.
 - ◆ The government plans to release a strategy document outlining the future vision for the financial sector, focusing on increasing its size, capacity, and skills.
 - ◆ Simplifying rules for Foreign Direct Investment (FDI) and promoting the use of the Indian Rupee for overseas investments are also part of this strategy.
- **Tax Reforms:** The **Union Budget 2024-25** includes measures aimed at providing tax relief to the middle class, encouraging innovation, and fostering economic growth.
- **Infrastructure Development:** The **Production-Linked Incentive (PLI) scheme** aims to attract investments and enhance production capacity in key sectors. Developing sustainable infrastructure and promoting green technologies are also important for long-term growth.
- **Promoting Inclusive Growth:** Ensuring that economic growth benefits all sections of society is essential for sustainable development.
 - ◆ Government initiatives aimed at empowering the middle class, reducing poverty, and promoting social equity are critical for achieving inclusive growth.

Conclusion

- India's path to sustained economic growth requires a multifaceted approach, focusing on human capital, technological advancements, labor market reforms, land and property management, financial sector strengthening, tax simplification, infrastructure development, and inclusive growth.
- By implementing these key reforms, India can achieve its vision of becoming a \$55 trillion economy by 2047.

Source: BS



Mains Practice Question

Critically analyze the key economic challenges facing India. Discuss the role of reforms in ensuring sustained and inclusive economic growth.