Report Summary
Economic Survey 2024-25

- The Finance Minister, Ms. Nirmala Sitharaman tabled the Economic Survey 2024-25 on January 31, 2025 in Parliament. Key highlights of the Survey include:

State of the economy

- **Gross Domestic Product (GDP):** The Economic Survey has estimated real GDP growth between 6.3% to 6.8% in 2025-26. In 2024-25, India's real GDP is estimated to grow by 6.4%. To become a developed nation by 2047, India would require sustained economic growth of around 8% every year for at least a decade. Sustained investments, improvement in consumer confidence, and pick-up in corporate wages will be important for supporting growth. Rural demand and anticipated decrease in food inflation is expected to provide an upside to near-term growth. Risks to growth include possible commodity price shocks and elevated trade and geopolitical uncertainties. To reinforce medium-term growth potential, India will need to improve its global competitiveness through structural reforms and deregulation.

- **Inflation:** Retail inflation decreased from 5.4% in 2023-24 to 4.9% in 2024-25 (April-December). This has been driven by reduction in input prices. India's food inflation has remained firm which has not been in line with global trends of stable or declining food inflation. Food inflation increased from 7.5% in 2023-24 to 8.4% in 2024-25 (April-December), primarily driven by commodities such as vegetables and pulses. This can be attributed to supply chain disruptions and reduced harvest of some food items. Vegetables are more susceptible to uneven weather compared to food grains. Certain measures to ensure long-term price stability include: (i) developing climate-resilient crop varieties, (ii) training farmers on best practices and use of high-yield and disease-resistant seeds, and (iii) robust data collection and analysis to monitor prices and stocks. The Survey noted that declining prices of imported commodities is favourable for India's domestic inflation.

- **Current account balance:** India's current account deficit (CAD) in the second quarter of 2024-25 was 1.2% of GDP as compared to 1.3% of GDP in the corresponding quarter of 2023-24. The recent increase in CAD can be attributed to an increase in merchandise trade deficit. This deficit increased to USD 75 billion in the second quarter of 2024-25 from USD 65 billion in the corresponding quarter of 2023-24. This was cushioned by an increase in net services receipts and private transfers. The Survey noted that India's CAD has been relatively contained compared to other countries such as Brazil and Australia. To remain competitive and improve participation in global supply chains, India must continue to reduce trade costs and improve export competitiveness.

- **Public finances:** The central government's indicators of fiscal discipline have progressively improved. The share of capital expenditure in total expenditure of the central government has improved since 2020-21 and was 21% in 2023-24. The Survey noted that fiscal management in the last four years kept the overall savings-investment gap from widening. This has ensured a comfortable financing of the CAD despite moderation in household savings.

Agriculture and allied activities

- Agriculture sector has recorded an annual average growth rate of 5% between 2016-17 and 2022-23. The sector grew at 3.5% in the second quarter of 2024-25. Sustained growth in the sector has been supported by remunerative prices, improved access to institutional credit, enhancement in productivity, and crop diversification. Agricultural income has increased by 5.2% annually over the past decade as compared to 6.2% for non-agricultural income.

- Crop yields in India are considerably lower compared to other countries. This highlights the need for improvements in productivity. Crop productivity is linked to on-farm and post-harvest inputs including access to quality seeds, better irrigation facilities, and improvements in soil health.

- The increasing significance of allied sectors such as animal husbandry, dairying, and fisheries, underscores the importance of diversification in the sector. By tapping into these sectors, farmers can create additional revenue streams that can act as buffers against volatility in traditional crop production. Challenges for the sector include climate change and water scarcity.

Industry

- The industrial sector grew by 6.2% in 2024-25, driven by robust growth in the electricity and construction sectors. Industrial growth declined to 3.6% in the second quarter of 2024-25 due to factors such as: (i) slowdown in manufacturing exports due to intensified trade competition and industrial policies of major trading nations, and (ii) unprecedented levels of monsoon which slowed down activities such as mining and construction.

- Gujarat, Maharashtra, Karnataka, and Tamil Nadu account for around 43% of the total industrial gross state value added. On the other hand, six north-eastern states (excluding Sikkim and Assam) account for only 0.7% of the industrial gross value added. The Survey noted that there is a need to focus on industrial strategies for unique geographies like the north-eastern region. States should make it easier to start and grow business operations.

Shrusti Singh
shrusti@prsindia.org

January 31, 2025

- India lags in research and development (R&D) with a significant gap across major sectors. The current expenditure on R&D is only 0.64% of GDP which is insufficient and lower than many countries. The Survey recommended fostering industry-academia collaboration, enhancing private sector participation, and prioritising applied research.

Services sector

- The services sector has grown an at average rate of 8.3% between 2022-23 and 2024-25. Its contribution to total gross value added has increased from 51% in 2013-14 to about 55% in 2024-25. So far in 2024-25, the services sector has supported GDP growth when manufacturing has been affected by slowing global merchandise trade.
- The Survey noted that there is a need for appropriate skilling of the labour force for sectoral growth. For this, efforts are needed at all tiers of government, private sector, and skilling institutions. In addition, there is a need to review and amend complicated procedures, regulations, and rules at the grassroot level that hinder the growth of the sector.

Infrastructure

- India's current infrastructure spending needs to be increased to meet development goals. Capital expenditure by the central government on major infrastructure sectors has increased at a rate of 39% from 2019-20 to 2023-24. Despite the measures taken by the central government along with states and public sector undertakings, there is still a significant unmet demand for infrastructure development. This needs to be filled with innovative modes of financing and greater private participation.
- There is a need to accelerate infrastructure investment over the next 20 years to sustain a high growth rate. These cannot be met by the public sector alone as there are binding budget constraints to different tiers of government. Private participation should accelerate in programme and project planning, financing, construction, maintenance, and monetisation.

Employment

- The annual unemployment rate for individuals aged 15 years and above has declined from 6% in 2017-18 to 3.2% in 2023-24. This recovery has been accompanied by an increase in the labour force participation rate and the worker-to-population ratio. The proportion of self-employed workers increased from 52% in 2017-18 to 58% in 2023-24 reflecting growing entrepreneurial activity and preference for flexible working conditions. However, the share of workers in regular/salaried jobs has decreased from 23% to 22%.
- Increasing flexibility in the labour market will create an enabling environment for businesses to grow. India's labour regulations impose extensive compliance requirements on businesses. Micromanaging regulations create unnecessary administrative burdens that hinder business growth.
- There is a need to focus on improving learning outcomes and employability. Improvement may be needed at: (i) the school level for basic language, mathematics, and science proficiency, and (ii) the higher education level by incorporating skills for new age technologies such as artificial intelligence and machine learning.

Deregulation

- There is a tendency for Indian firms to remain small. By doing so, they lose access to institutional capital, skilled talent, and technology infusion. The reason for not scaling up is to remain outside the regulatory radar and steer clear of labour and safety laws. The Survey noted that deregulation is critical for MSMEs rather than large enterprises as the latter usually find a way around compliance. Regulations hurt the ability of businesses to start and grow over time, and increase the cost of operational decisions.
- Indian firms cannot adhere to applicable regulations without hindering growth, investments, and job creation. For instance, exporting firms should have the flexibility to deploy more labour hours in months with a surge in orders. Faster economic growth would need central and state governments to implement reforms that allow small and medium enterprises to operate efficiently. Areas for deregulation include: (i) land, (ii) labour, (iii) transport, and (iv) logistics.