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Press Release

Economic Survey 2024-25: A Reality Check

Time to give a hard push to private sector investments and job creation

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The Economic Survey for 2024-25 highlights the resilience of the Indian economy while acknowledging a growth slowdown, particularly in the manufacturing sector. While the GDP growth estimates appear to be converging to 6.4% for FY25, there is clearly an uncertainty on the growth outlook in the upcoming fiscal with the Survey putting up a wide range between 6.3%-6.8% for FY26.

India's agriculture sector has shown a good comeback after a weak FY24, mainly due to a better monsoon; a record Kharif production has contributed to rural income growth, driving the consumer demand in the economy. On the other hand, a fracture in urban demand has emerged as a significant concern for the overall growth trajectory. This decline in urban consumption is also accompanied by a moderation in Gross Fixed Capital Formation (GFCF), which slowed from 10.1% in H1 FY24 to 6.4% in H1 FY25 which can be partly attributed to the election factor. Adding on to the headwinds, private sector investments have belied hopes of a healthy growth, impacted by global demand and trade uncertainties due to geopolitical tensions.

While the health of the service sector remained fairly robust, the industrial sector visibly witnessed a sluggishness. Manufacturing exports continued to be under the weather, impacted by economic challenges in key destination countries and heightened trade competition, alongside shifting industrial policies in major trading nations.

Headline consumer inflation (CPI) averaged 4.9% between April and December 2024, lower than the levels earlier but food inflation, particularly that of vegetables, pulses, and grains, has emerged as a persistent concern. In terms of fiscal performance, the report card looks good for FY25, with an estimated 10.7% YoY growth in gross tax revenues, although net tax collections were lower due to higher devolution to states.

Investment growth has seen a moderation, a combination of both a pause in public spending related to elections and a more cautious private sector outlook. However, government expenditure on infrastructure, particularly in sectors like transportation, energy, and defence, has witnessed a pickup from Q3FY25, setting the stage for an investment acceleration post-election. As global uncertainties subside and policy reforms encourage greater private investment, the investment climate in India is expected to improve. The government's focus on supply-side reforms and ease of doing business will be critical in this regard.

The survey has rightly delved deep into the challenges of employment generation. It has pointed out the need to generate 78.5 lakh non-farm jobs annually until 2030 to accommodate India's growing working-age population productively. While overall employment growth has been moderately healthy, there is a visible shift in the employment pattern. Self-employment has grown significantly, rising from 52.2% in 2017-18 to 58.4% in 2023-24, reflecting a shift towards entrepreneurship and in favour of flexible work arrangements. Meanwhile, the share of regular salaried jobs has declined slightly from 22.8% to 21.7%. Agriculture remains the main source of employment, with its share rising from 44.1% in 2017-18 to 46.1% in 2023-24, while the share of employment in industry and services sectors has declined, with manufacturing falling from 12.1% to 11.4% and services from 31.1% to 29.7%. This further makes a case for generating more employment avenues for the world's most populous country.

Given the current economic realities, several key priorities are expected to shape the government's fiscal agenda. These include a strong push for increased private sector investments, particularly in the manufacturing sector, facilitation for job creation, along with a continued focus on sustainable infrastructure development. Furthermore, the government is likely to introduce policy measures to boost agricultural productivity and tackle the ongoing challenge of high food inflation. Importantly, the government is expected to reaffirm its commitment to fiscal consolidation, targeting a fiscal deficit of 4.5% or potentially even lower for FY26; achieving this target, however may necessitate some moderation in the growth of public capital expenditure and subsidies.

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