

## Economic Growth in India

*“Today the country is moving at a fast pace towards becoming the third largest economy.” - PM Narendra Modi*

### Phases of Economic Growth

#### Phase 1- Pre-Liberalization Period (1947–1991) “Hindu Rate of Growth”

**GDP Growth:** ~3.5% annually (1950–1990).

#### Sector Composition change during (1950-51) to (1990-91)

Sector	1950-51 (% of GDP)	1990-91 (% of GDP)
Agriculture	51.9%	29.5%
Industry	11.1%	20.6%
Services	34.6%	49.6%

#### Key Features of Pre-liberalisation Economic Growth Phase

- **Planned Economic Framework-** Adoption of Five-Year Plans (starting 1951), with **strong state control (license Raj)**, focus on **self-reliance** and **import substitution (IS)**.
- **Agriculture-led Economy-** Agriculture contributed ~50% of GDP (1950s), and employed over 70% of the workforce.
- **Industrial Policy-** Emphasis on heavy industries (steel, machinery, power). Restriction of the private sector to certain areas.
- **Foreign Trade & Exchange Controls-** Exports were only ~5% of GDP (1960s–1980s). High tariffs and import restrictions - “closed economy.” Chronic balance-of-payments crises.

#### Phase 2- Liberalisation Reforms and Growth Take-Off (1991-2003)

**GDP Growth:** Accelerated to 5–6% annually.

**1991 Economic Crisis:** Foreign reserves were less than 3 weeks’ imports cover→ IMF bailout.

#### 1991 Reforms:

**Industrial Policy Reforms**

- Repeal of The Monopolies & Restrictive Trade Practices (MRTP) Act

- Abolition of Industrial licensing for all projects except in 18 industries.

#### **Trade Policy Reforms**

- Freer imports and exports (Regulation of imports by limited negative list)
- Rationalization of tariff structure and removal of quantitative restrictions (Reduction in import duty in consonance with Chelliah committee recommendations)
- Establishment of Trading Houses for promotion of exports.

#### **Promoting Foreign Investment**

- Automatic permission for FDI equity up to 51% in specified list of high technology and high-investment priority industries
- Establishment of Foreign Investment Promotion Board (FIPB) for FDI promotion.

**Rationalization of Exchange Rate Policy-** Devaluation of rupee by around 20 percent on account of rising inflation and making export competitive.

**Fiscal Reforms-** Major fiscal reforms in the Budget 1991-92:

- Reduction in fertilizer subsidy,
- Abolition of subsidy on sugar
- Disinvestment in select public sector undertakings
- Acceptance of major recommendations of the Tax Reforms Committee headed by Raja Chelliah.

#### **Monetary and Financial Sector Reforms**

- Reduction in **Statutory Liquidity Ratio (SLR)** and the **Cash Reserve Ratio (CRR)** in line with the recommendations of the Narasimhan Committee Report, 1991.
- Greater competition among public sector, private sector and foreign banks and elimination of administrative constraints.
- Statutory recognition to **Securities & Exchange Board of India (SEBI)** in 1992 on the basis of recommendations of the Narasimhan Committee.

#### **Sectoral Shifts**

- Rapid growth of the service sector (IT, BPO).
- Stagnation of Agricultural Growth (~3% growth).
- IT exports rose from \$150M in 1991 → \$12B in 2003

### **Phase 3- High Growth & Rising Inequality (2003–2011)**

**GDP Growth:** Averaged **8–9% (2003–08)**, second only to China.

#### **Sectoral Growth During the Period**

- Services contributed to **~57% of GDP** but employed only **~25% of workers**.
- The manufacturing sector remained stagnant (~16–17% of GDP).
- Agriculture shrank to **~15% of GDP**, still employed **~55% of the workforce**.
- There was substantial growth in FDI during the period, as it grew from \$4B (2000) → \$45B (2008).

**Rising inequality in Growth**

- There was a rapid decline in urban areas. However, the Urban-rural income divide widened.
- States like Gujarat, Maharashtra, Tamil Nadu surged; BIMARU states (Bihar, MP, Rajasthan, UP) lagged.

**Phase 4- Growth Slowdown & Policy Paralysis (2012–2014)**

**GDP Growth:** Fell to ~ 5% (2012–13).

**Major Factors of Slowdown**

- Policy gridlock (MoEFCC's NOC for environmental projects)
- Corruption scandals (Coal Gate, 2G scam),
- Twin Balance Sheet Problem (Increase in Bank's NPAs).

**Phase 5- Post-2014 Growth Divergence under Structural Shocks (2014–2019)**

**GDP Growth:** Initially ~7–8% but slowed to ~4% in 2019–20.

**Major Structural Shocks**

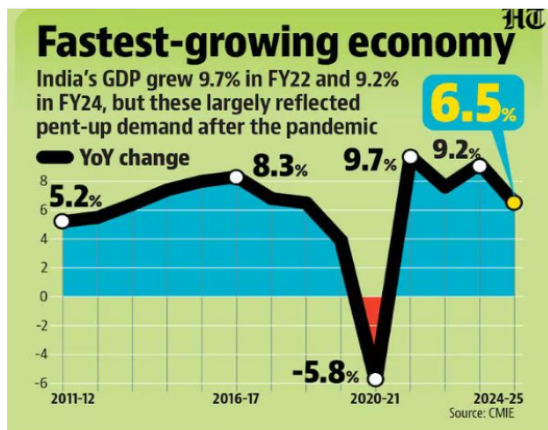
- **Demonetization (2016):** Hit informal & rural economy hardest.
- **GST rollout (2017):** Long-term reform, short-term disruption.

**Sectoral Growth Story**

- Services remained strong (IT exports rose to ~\$150B by 2019).
- Agriculture growth stagnated at ~2–3%.
- Manufacturing was stuck at ~16–17% of GDP (“missing middle”).
- Employment Puzzle- Informal jobs shrank; formal jobs grew slowly. Unemployment rose to 6–7% (CMIE Data 2018).

**Phase 6- Pandemic Slowdown & Post-Pandemic Recovery (2020–2022)**

**GDP Contraction:** India's GDP witnessed its worst contraction since Independence (-7.3% in FY 2020–21). However, the GDP recovered in FY 2021–22 and FY 2021–22.



**Pandemic Driven Poverty-** Pew Research estimated that around 75M Indians were pushed into poverty because of the Pandemic (2020).

**Post-Pandemic Economic Growth Recovery Debate**

**V shaped recovery vs K Shaped Recovery**

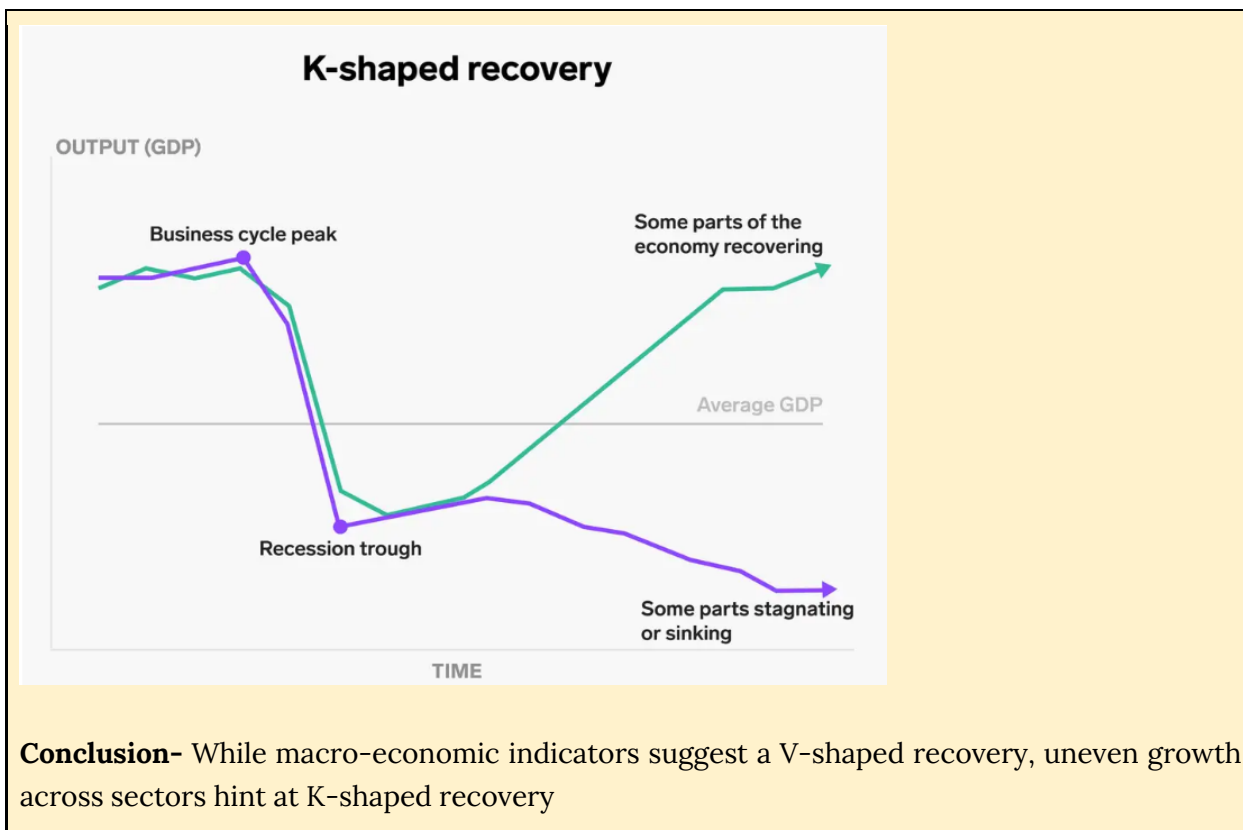
**V Shaped Recovery (On the Basis of Macro-economic Trends)-**

**Macro-economic Evidence supporting V-Shaped recovery**

- **GDP Growth Rebound-** After contraction of 7.3% in FY 2020-21, GDP growth rebounded with 9.1% growth in FY 2021-22, followed by 7.2% in FY 2022-23.
- **Services led revival-** IT, digital services, and financial sector led the growth revival.
- Increase in Corporate investment and profitability post pandemic.
- **Increase in Exports and FDI-** India's total exports touched a **new high of \$824.9 bn** in 2024-25.
- Increase in GST collections, with GST Collection crossing Rs. 1.6 lakh crore/month in 2023.

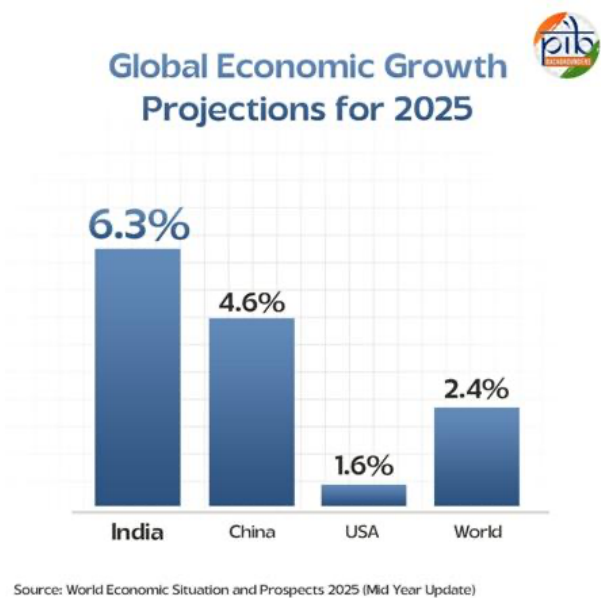
However, critics argue that the recovery has been K-shaped, as formal sectors and high-income groups rebounded faster, while informal sectors, small businesses , rural demand lagged behind, worsening inequality.

**K-shaped Recovery-** Large corporates, stock market, tech sector thrived during the COVID Pandemic. MSMEs, informal workers, women, and the rural economy were severely hit.



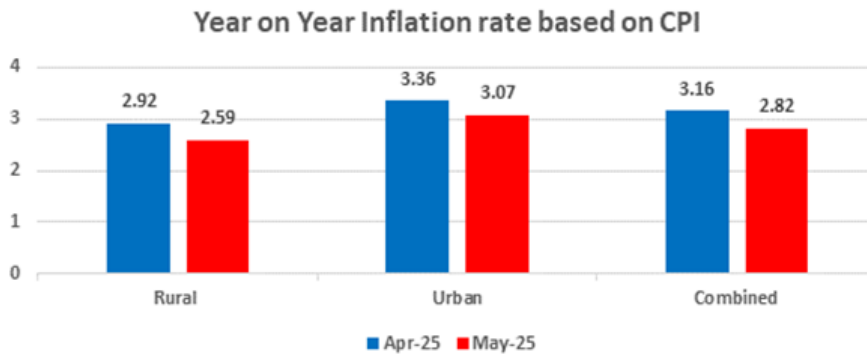
**Phase 7- Current Phase (2023–2025) – Uneven Growth, Rising Aspirations**

**GDP Growth:** India’s GDP grew **6.5%** in 2024–25, the highest among major economies.



**Fall in Inflation-** Inflation fell to **2.82%** in **May 2025**, the lowest level since February 2019.

**Inflation Under Control-** Inflation in India has eased sharply, offering relief to both households and businesses. Inflation fell to **2.82%** in **May 2025**, the lowest level since February 2019.

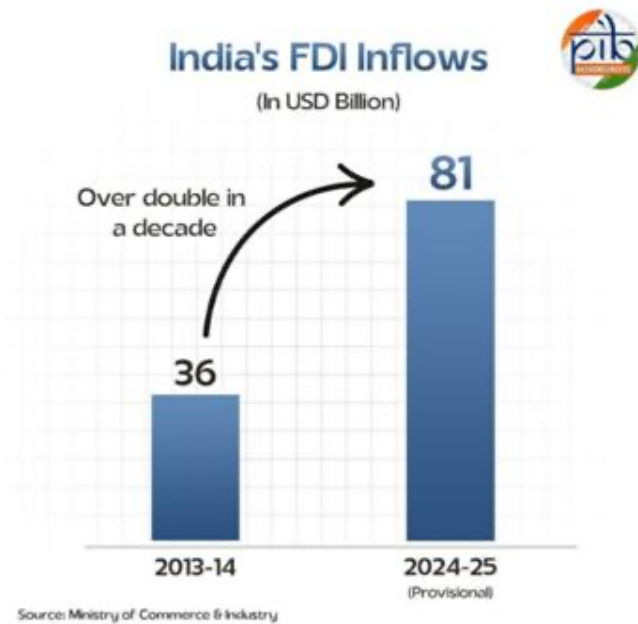


**Market Confidence at Record Levels-** India’s capital markets have become a powerful engine for economic growth by turning household savings into investments.

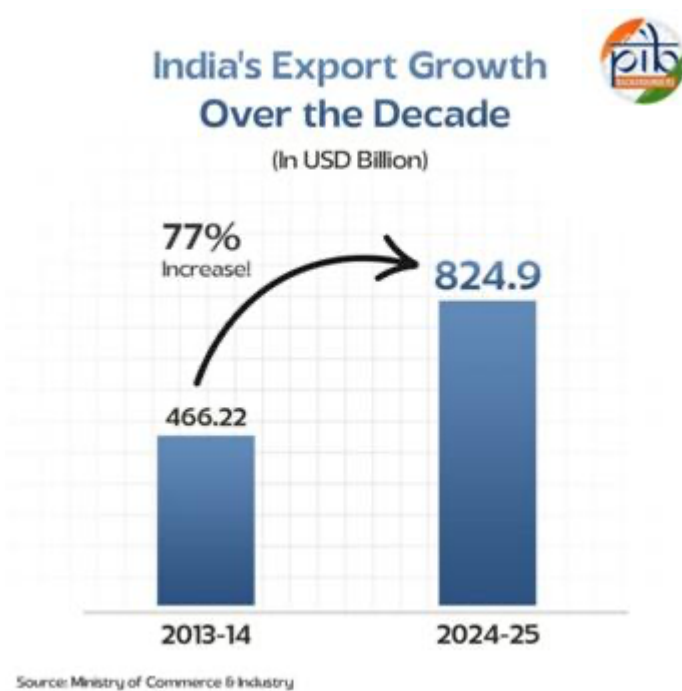


Source: Economic Survey of India (2024-25)

**Foreign Direct Investment (FDI)-** FDI inflows rose to a \$ 81.04 bn in FY 2024–25. This is more than double the \$ 36.05 bn received in FY 2013–14, showing long-term progress.



**Manufacturing and Exports-** India's total exports touched a new high of **\$824.9 bn** in 2024–25, marking a sharp rise from **\$466.22 bn** in 2013–14.



**Current Sectoral Share in the Indian Economy**

- **Service Sector** remains the largest contributor- ~55%.
- **Industry Sector** (manufacturing, construction, electricity, etc.)- ~30% .
- **Agricultural Sector**- ~15%

**Startup Boom:** India became the 3rd largest startup ecosystem (~100+ unicorns).

**Inequality in the Current Growth Phase**

**Wealth Divide-** Top 1% hold over 40% of wealth (Oxfam).

**Regional Divide-** While South & West India are drivers of growth; North & East India lag behind.

**Drivers of Current Phase of Economic Growth in India**

<p><b>Infrastructure led Growth</b></p>	<ul style="list-style-type: none"> <li>● <b>PM Gati Shakti (2021)-</b> PM Gati Shakti has incorporated the infrastructure schemes of various Ministries and State Governments such as Bharatmala, Sagarmala, inland waterways, dry/land ports, and UDAN.</li> <li>● <b>Bharatmala Pariyojana (2017)-</b> It aims to develop about 26,000 km of economic corridors, along with the Golden Quadrilateral (GQ) and North-South and East-West (NS-EW) Corridors, to carry the majority of the freight traffic on roads.</li> <li>● <b>Sagarmala Project (2015)-</b> Aims at holistic port infrastructure development along the 7,516-km long coastline through modernisation, mechanisation and computerisation.</li> <li>● <b>UDAN-</b> Aims to boost air connectivity and infrastructure in remote/underserved areas; &amp; making flying affordable.</li> <li>● <b>Dedicated Freight Corridors (DFC)-</b> Specialized freight routes that boost transport capacity through faster transit, double-stack container trains, and heavy-haul trains, enhancing supply chains for industries.</li> <li>● <b>National Logistics Policy 2022-</b> Aims to achieve 'quick last-mile delivery', end transport-related challenges.</li> <li>● <b>Enhanced Capex-</b> Budget 2024-25, allocated Rs.11.11 lakh crore for Capital Expenditure.</li> </ul>
<p><b>Digitalised Growth</b></p>	<ul style="list-style-type: none"> <li>● <b>Digital India Programme-</b> The Digital India programme has accelerated connectivity and digital inclusion, expanding internet penetration from 25 crore in 2014 to nearly 97 crores in 2024.</li> <li>● <b>Internet Connectivity Push-</b> With BharatNet Project, 5G rollout and Bharat 6G vision, India is now the world's third-most digitalised economy, driving growth through technology-led transformation.</li> <li>● <b>UPI-</b> Has allowed seamless real-time payments (&gt;10B transactions/month).</li> </ul>
	<ul style="list-style-type: none"> <li>● <b>PLI Push-</b> The <b>Production Linked Incentive (PLI) Scheme,</b></li> </ul>

<b>Manufacturing Push</b>	<p>launched in 2020, has become a <b>gamechanger</b> for domestic manufacturing. It covers 14 sectors from electronics to textiles and is backed by a <b>₹1.97 lakh crore outlay</b>. It has attracted over ₹1.76 lakh crore in investments, enhanced exports, and created jobs- making India a stronger player in global value chains.</p> <ul style="list-style-type: none"> <li>● <b>Make in India Push-</b> The Make in India initiative, launched in 2014, has positioned India as a manufacturing hub with notable successes in railways, defence, toys, and electronics. India is now the world's second-largest mobile phone manufacturer, with over 300 factories compared to just two in 2014.</li> </ul>
<b>Banking and Financial Inclusion Reforms</b>	<ul style="list-style-type: none"> <li>● <b>Recapitalisation &amp; PSB Merger-</b> Consolidation of the banking sector so as to enhance the overall stability and performance of the banking system.</li> <li>● <b>Insolvency and Bankruptcy Code (IBC (2016))-</b> The IBC has significantly transformed India's insolvency framework. It has improved the recovery rates to ~40% (up from the ~20% under the previous frameworks).</li> <li>● <b>Pradhan Mantri Jan Dhan Yojana-</b> It has led to opening of over 56 crore accounts, with 55% held by women. It provides access to banking, credit, insurance, and pensions, forming the backbone for Direct Benefit Transfers and inclusive growth.</li> <li>● <b>JAM Trinity-</b> It aims seamless Direct Benefit transfer and reducing leakage of government subsidies by linking the Jan Dhan Accounts, Aadhar Cards, and Mobile numbers of Indian citizens.</li> </ul>
<b>Employment and Skill Development Push</b>	<ul style="list-style-type: none"> <li>● <b>PM Viksit Bharat Rozgar Yojana</b> targets 3.5 crore youth by incentivising new employment between 2025 and 2027.</li> <li>● <b>Skill India Mission</b> has trained over 6 crore citizens through PMKVY, JSS, and apprenticeship schemes, ensuring India's workforce is future ready.</li> </ul>
<b>Reforms Push</b>	<ul style="list-style-type: none"> <li>● <b>Tax Reforms-</b> GST and corporate tax rationalisation have simplified compliance and reduced costs, fostering a more business-friendly environment.</li> <li>● <b>RERA Reforms-</b> Increased transparency in real estate projects, with more than 1 lakh+ projects registered under RERA.</li> </ul>

**Current Challenges facing the Indian Economy**

<b>Slowing Private Investment &amp; Weak Domestic Demand</b>	<ul style="list-style-type: none"> <li>● <b>Declining investment ratio:</b> Gross fixed capital formation (investment-to-GDP) has dropped from ~39–42% (2006–10) to ~33% in 2023. Private investment has halved—from 18% to 9.8% of GDP.</li> <li>● <b>Subdued domestic demand-</b> The share of private consumption in India's GDP fell from <b>58.1%</b> in FY22 to <b>55.8%</b> in FY24.</li> <li>● <b>Decline in Household Savings-</b> Household financial savings dropped from 7.3% of GDP (FY22) to 5.3% (FY23). This is well below the decadal average of ~8% of GDP.</li> </ul>
<b>Global Headwinds</b>	<ul style="list-style-type: none"> <li>● <b>US-imposed tariffs-</b> New 50% tariffs on Indian exports could cut growth by 0.5–0.6% in 2025–26, affecting up to 55% of India's \$87B exports to the US.</li> <li>● <b>Geopolitical Tensions and Supply Chain Disruptions-</b> Russia-Ukraine War, Middle East Crisis (Gulf of Hormuz crisis), and increased frequency of cyber and non-state actors attacks (Red sea crisis).</li> <li>● <b>Monetary tightening-</b> Synchronised monetary tightening by the central banks, has caused capital flight, leading to currency depreciation.</li> </ul>
<b>Fiscal Stress &amp; Low Tax Base</b>	<ul style="list-style-type: none"> <li>● <b>High debt servicing burden:</b> Roughly 25% of government revenue goes toward servicing debt, which leads to crowding out of key investments.</li> <li>● <b>Low tax-to-GDP ratio:</b> India's tax-to-GDP ratio (~11.7%) lags behind peers like the UK and France (24%+).</li> </ul>
<b>Infrastructure, Credit, and Institutional Constraints</b>	<ul style="list-style-type: none"> <li>● <b>High logistics costs-</b> India's logistics costs (at <b>13–18%</b> of GDP), far exceed the global benchmark of 8%.</li> <li>● <b>Credit slowdown &amp; NBFC stress-</b> Lending by NBFCs has contracted (loans down 13%), long-term and education loans have fallen sharply.</li> <li>● <b>Regulatory inefficiencies:</b> Delays in land acquisition, approvals, and corruption hinder business environment and speed of execution.</li> </ul>
<b>Inequality, Poverty, &amp; Social Imbalances</b>	<ul style="list-style-type: none"> <li>● <b>Skewed asset distribution:</b> Top 1% owns over 40% of wealth, while bottom 50% holds just 3% (Oxfam Report).</li> <li>● <b>Socio-economic disparities:</b> Half the population lives on ₹100–150/day, India's per-capita income ranks India behind Bangladesh.</li> </ul>

	<ul style="list-style-type: none"> <li>● <b>Hunger and malnutrition:</b> India ranks 105th of 127 countries on the Global Hunger Index.</li> </ul>
<b>Climate Vulnerabilities &amp; Resource Pressures</b>	<ul style="list-style-type: none"> <li>● <b>Looming Water Scarcity:</b> India's water shortage has exacerbated <b>Zero day risks</b> and threaten food security. India ranks as the 7th most climate-vulnerable nation.</li> <li>● <b>Inflation from weather shocks:</b> Food inflation spiked due to weather-linked production disruptions, fueling broader inflationary pressures.</li> </ul>
<b>Employment &amp; Labor Market Stresses</b>	<ul style="list-style-type: none"> <li>● <b>AI based automation threats-</b> AI-driven automation threatens job security affecting about 40% of Global Jobs.</li> <li>● <b>Increasing Informalisation-</b> There has been slow down in the formal job sector and increase in <b>gig economy employment</b>. (77 lakh (7.7 million) workers in 2020-21 which is projected to increase to 2.35 crore (23.5 million) workers by 2029-30).</li> </ul>