PAPER I - INDIAN ECONOMY & INDIAN FINANCIAL SYSTEM

Module A: INDIAN ECONOMIC ARCHITECTURE

Chapter 11: Issues facing Indian Economy

Topics in this chapter

- Issues Facing Indian Economy
- Poverty Alleviation
- Jobless growth
- Rising Inequalities
- Migration and excessive pressure on resources
- Possible remedies
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11.1 ISSUES FACING INDIAN ECONOMY

According to the National Statistical Office's (NSO) estimates, the Indian economy grew by **7.0% in the Financial Year 2023 (FY23) and an 8.2% in FY24**. The economy has shown resilience, having fully recovered from the contraction experienced during the pandemic. However, the pace of growth faces headwinds from global factors like geopolitical uncertainty, volatile energy prices, and a synchronized slowdown in major advanced economies.

Despite these challenges, India remains one of the world's fastest-growing major economies.

- The International Monetary Fund (IMF), in its **July 2025 World Economic Outlook**, projected that the Indian economy would grow by **around 6.5% in FY26**.
- Similarly, the World Bank, in its **mid-2025 global economic outlook report**, projected comparable growth for India in FY26, citing strong domestic demand and public investment.

For the foreseeable future, India is expected to remain the world's fastest-growing major economy.

The COVID-19 pandemic triggered a severe health and economic crisis. While the economy has recovered past its pre-pandemic level, the recovery has been characterized as **"K-shaped,"** with organized, formal sectors recovering strongly while the informal sector and vulnerable households continue to face challenges. In response, the government has focused on a twin-track approach: providing targeted social safety nets and boosting capital expenditure to revive long-term growth.

Some of India's most perplexing economic issues include:

- Sustaining high growth amid global uncertainty
- Jobless economic growth
- Persistent inflation concerns
- Chronic unemployment and under-employment
- Growing disparities in wealth distribution
- Improving human capital quality
- Infrastructure bottlenecks
- Overdependence on agriculture for employment
- Rising government debt
- Unplanned urbanization and migration

11.2 POVERTY ALLEVIATION

While the last official consumption-expenditure based poverty estimate dates back to **2011-12**, the government now primarily uses a broader measure. According to **NITI Aayog's National Multidimensional Poverty Index (MPI) Report ,**India has seen a remarkable decline in poverty. The report, released in **2023**, showed that the percentage of the population living in multidimensional poverty fell from **24.85% in 2015-16 to 14.96% in 2019-21**. The latest follow-up reports in 2024-25 continue to show this positive trend. Rural poverty rates remain higher than urban rates, but both have seen significant declines.

Poverty eradication is a major challenge of planned economic development. Poverty alleviation programs are designed to lower the rate of poverty in the country by providing adequate access to food, financial assistance, and other basic necessities.

Several major poverty alleviation programs continue to be crucial in India. Some of these include:

- Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)
- National Food Security Mission
- National Rural Livelihood Mission (NRLM)
- National Urban Livelihood Mission (NULM)
- Pradhan Mantri Jan Dhan Yojana (PMJDY)
- Pradhan Mantri Garib Kalyan Yojana (PMGKY)
- Prime Minister Street Vendor’s Atmanirbhar Nidhi - PM Svanidhi

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11.3 JOBLESS GROWTH

Jobless growth is an economic phenomenon where a country's economy (GDP) grows, but the level of employment stays the same or even **decreases**. This can be caused by several factors, including:

- A stronger reliance on capital-intensive industries (which use more machines) instead of labor-intensive industries (which use more people).
- Stringent labor laws **(Note: Recent labor code reforms aim to address this)**.
- Structural factors in the economy.

Economists often refer to Indian growth as having "jobless" characteristics. While historical data from the Census (2001-2011) showed a wide gap between labour force and employment growth, more recent data from the **Periodic Labour Force Survey (PLFS) presents a more nuanced picture**. **The annual PLFS report for 2023-24 showed that India's unemployment rate has fallen to a multi-year low**. However, economists raise concerns about the **quality of employment**, noting a significant share of new jobs are in agriculture and low-paying self-employment or unpaid family work.

One of the main reasons for this is that most of the recent economic growth has been driven by the knowledge-intensive services and capital-intensive manufacturing sectors, which do not create as many jobs for the low-skilled workforce.

To solve the problem of jobless growth, the following steps are critical:

- **Encourage Entrepreneurship**: Promote entrepreneurial instincts through programs like Start-up India and Stand-up India.
- **Reform the Education System**: Implement the National Education Policy (NEP) effectively to develop skill sets that are in demand.
- **Promote Labour-Intensive Industries**: Boost sectors like food processing, textiles, tourism, and construction through policies like the **Production Linked Incentive (PLI) schemes**.

11.4 RISING INEQUALITIES

While India has one of the world's fastest-growing economies, it also has one of the most unequal societies. Inequality has remained a significant challenge. The rich are growing richer at a much faster rate, while the poor continue to struggle for access to quality education and healthcare.

The **World Inequality Report (2024/2025 Edition)** continues to highlight the scale of this problem in India:

- The top 10% of the population earns **approximately 58%** of the national income.
- The top 1% alone earns **over 22%** of the national income.
- In contrast, the share of the bottom 50% of the population remains **around 13-14%**.

According to the latest reports from **Oxfam International**:

- The top 10% of the Indian population controls **over 70%** of the entire national wealth.
- The wealth generated continues to be disproportionately captured by the wealthiest segments of the population.

The post-pandemic K-shaped recovery has potentially worsened these inequalities. To solve the issue of inequality, the government can take the following steps:

- **Increase Spending on Public Services:** Increase government spending on healthcare, education, and social security.
- **Invest in R&D and Innovation:** More investment in these areas can create new opportunities for everyone.
- **Progressive Taxation:** Directly reduce income disparities by ensuring the tax system is progressive and compliant.
- **Incentivize Profit Sharing:** Give tax breaks to corporations that share more of their profits with their workers.

11.5 MIGRATION AND EXCESSIVE PRESSURE ON RESOURCES

Migration is the movement of people from one location to another, usually to take advantage of better economic opportunities. Migration is a worldwide phenomenon that is influenced by many factors, including social, political, cultural, environmental, health, and educational reasons.

The link between environmental changes and migration is very complex. Environmental pressures (like droughts or floods) can drive out-migration from an area. On the other hand, in-migration can impact the landscape at the destination. The influx of migrants into unplanned urban settlements often leads to excessive pressure on local resources like water, housing, and sanitation infrastructure, contributing to environmental degradation.

11.6 POSSIBLE REMEDIES

The migration issue is likely to worsen in the coming years as climate change increases the frequency of extreme environmental events. The migration of people from rural areas to cities is rising, creating a new middle class with hopes for better living standards. Some possible remedies to manage this issue are:

- **Promoting Rural Opportunities:** Promoting agriculture and agri-businesses will be extremely beneficial. A special effort is needed to create non-farm sector jobs for farmers as close to their homes as possible.
- **Regional Cooperation**: Regional cooperation and planning can help to minimize the negative impact of migration while maintaining its integrity.

- **Addressing Root Causes:** Governments must promote stability, education, and diverse career opportunities in source regions to reduce the causes of distress migration.
- **Data-Driven Policies:** The collection, analysis, and use of trustworthy data on migration and labor markets is critical for developing effective policies.

11.7 POST-PANDEMIC ECONOMIC LANDSCAPE

The COVID-19 pandemic was a major shock to the global and Indian economies. The Indian economy has since recovered, with GDP surpassing pre-pandemic levels, but the pandemic has left lasting impacts or "scarring effects."

The pandemic exacerbated a pre-existing cyclical slowdown. While initial estimates suggested a long recovery period, strong public capital expenditure and robust domestic demand have accelerated the process. The **RBI's assessment in 2025** indicates that while the economy has recovered well, **private consumption, particularly in rural areas, remains a key area to monitor**. The Russia-Ukraine war and subsequent geopolitical events have structurally altered global supply chains and commodity prices, posing persistent risks.

The virus altered the economy's demand dynamics, and supply bottlenecks have emerged as a risk to the domestic economy. However, certain factors are driving growth:

- **A sustained push on government capital expenditure (Capex)**, particularly in infrastructure.
- A strong drive towards digitalization and a booming fintech ecosystem.
- Increasing prospects for new investment from **Production Linked Incentive (PLI) schemes**.

- Growth in sunrise sectors like e-commerce, start-ups, and renewable energy.

Most importantly, to ensure sustained high growth, India needs to prioritize the development of world-class infrastructure in health and education.