World Bank Revises India’s GDP Growth Estimate

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Why in News?

The World Bank (WB) revised its forecast for India’s GDP growth to 7% for FY25 from 6.6% previously, citing increases in household real estate investments and investments in infrastructure.

Highlights of the WB’s Forecast on the Indian Economy:

- **GDP growth:** India was the fastest-growing major economy at 8.2% last fiscal and is expected to grow at 7% this fiscal year and 6.7% in FY26.
- **Industrial growth:** It is expected to slow to 7.3% in FY26 compared to 7.6% in FY25. Industrial growth has recovered to 9.5% in FY24 after Covid-19 related disruptions.

- **Gross Fixed Capital Formation (GFCF):** GFCF is expected to slow to 7.8% in FY25 compared to 9.0% in FY24. The GFCF growth rate stood at 6.6% in FY23.
- **Service sector growth:** Amid a globally weakening IT investment climate, the service sector growth is also expected to slip to 7.4% in FY25 and to 7.1 per cent in FY26, compared to 7.6 per cent in FY24.
- **Agricultural growth:** It is expected to register a sharp jump to 4.1% in FY25, compared to 1.4% in FY24.
- **Export-Import:** The World Bank predicted 7.2% growth in the exports of goods and services during FY25 compared to FY24. The growth of imports is expected to be 4.1% in FY25 compared to 10.9% in FY24.

Opportunities and Challenges for the Indian Economy:

- **Export sector:**
    - **India can expand its export portfolio** by increasing its exports of electronics, green technology items, textiles, garments, and footwear in addition to its strengths in IT, business services, and pharmaceuticals.
    - However, India has been **losing ground to rivals in the labour-intensive** apparel and footwear sectors.
    - India’s share in global apparel exports fell from 4% in 2018 to 3% in 2022 due to increased production costs and decreasing productivity.
    - Meanwhile, countries like **Bangladesh, Vietnam, Poland, Germany, and France** have managed to increase their global export share in major job-creating sectors by up to 2% between 2015 to 2022.
- **Trade barriers:**
    - The global trade landscape has witnessed **increased protectionism** in recent years. The post-pandemic reconfiguration of global value chains has created opportunities for India.
    - **India has boosted its competitiveness** through the National Logistics Policy (**NLP**) and digital initiatives that are reducing trade costs.
    - However, tariff and non-tariff barriers have increased and could limit the potential for trade-focused investments.
- **Current account deficit (CAD):**
    - The CAD stood at 0.7% in FY24 compared to 2% in FY23.
    - **Foreign exchange reserves** reached an all-time high of $670.1 billion (in August 2023), equivalent to 11 months’ worth of spending, thanks to a falling CAD and robust inflows from foreign portfolio investments.
    - However, the WB predicted a steady widening of the CAD from 1.1% in FY25 to 1.2% in FY26 and 1.6% in FY27.
- **Jobs in India:**
    - While India is the fastest-growing major economy, **urban youth unemployment remains high at 17%.**
    - Jobs in India generated directly and indirectly connected to international trade have declined over the last decade.
    - The country has missed out on the export opportunity presented by China’s withdrawal from labour-intensive manufacturing sectors.

- To create more trade-related jobs, **India can integrate more deeply into global value chains**, which will also create opportunities for innovation and productivity growth.

Q.1. What is the National Logistics Policy (NLP)?

India’s NLP is a transformative initiative launched by the government (in 2022) to increase efficiency across the logistics and supply chain sector. It aims to decrease the overall logistics cost from an estimated 13-14% of the GDP to a competitive 8%, aligning India with global standards.

Q.2. Why is the growth of labour-intensive sectors important for India?

According to the International Labour Organization (ILO), there is “no alternative” for India to have growth led by labour-intensive manufacturing at least for the next 10 years to absorb seven-eight million youths who will join the labour force annually.

Source: World Bank pegs India’s growth at 7% in FY25 | IE | IE