India’s 8.2% GDP Growth – Momentum and Challenges

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GDP Growth Latest News

- India posted a robust 8.2% GDP growth, supported by strong manufacturing and services activity.
- However, the IMF assigned India a ‘Grade C’ in national income accounting, highlighting structural weaknesses and statistical gaps.

Current Growth Performance

- India’s economic output for the quarter reached **Rs. 48.63 lakh crore**, significantly higher than the previous year. The broad-based expansion shows that the current momentum goes beyond a mere post-pandemic rebound.
- **Manufacturing grew 9.1%**, indicating stronger industrial demand and higher capacity utilisation.
- **Services expanded 9.2%**, now forming 60% of GDP, with financial services at 10.2%, signalling buoyant credit growth and high transaction volumes.
- **Agriculture**, supported by improved reservoir levels and horticulture output, rose 3.5%, showing a slight improvement in rural incomes.

- Real GVA rose from Rs. 82.88 lakh crore to Rs. 89.41 lakh crore, confirming real value creation rather than price effects.
- Crucially, **nominal GDP grew only 8.8%**, showing that inflation, previously a major concern, remained under control through 2024-25.
- Household consumption grew 7.9%, reflecting resilient domestic demand.

Macroeconomic Stability Indicators

- Several macro indicators underline India's economic resilience:
    - Inflation eased, dipping even below target toward the end of 2024-25.
    - Bank credit growth remained strong, with well-capitalised banks holding buffers above regulatory norms.
    - Fiscal consolidation continued, supported by buoyant GST and direct tax revenues.
    - The current account deficit remained modest, helped by strong services exports and diversified forex reserves.
- These signals collectively suggest that India continues to grow even as global economic activity weakens.

IMF's Grade C Assessment: What It Means

- Despite India's strong growth numbers, the **IMF assigned India a 'Grade C'** for its national income accounting framework.
- This rating does not evaluate the GDP growth rate itself but the statistical system supporting it. Key shortcomings highlighted:
    - Use of an outdated base year (2011-12).
    - Dependence on the Wholesale Price Index (WPI) due to the absence of Producer Price Index (PPI) deflators.
    - Single deflation method, which introduces cyclical bias.
    - Significant gaps between production and expenditure data, indicating incomplete coverage of the informal sector and expenditure components.
    - Lack of seasonally adjusted data in quarterly accounts.
    - No consolidated datasets for States and local bodies after 2019.
- The IMF's view suggests that India's "statistical backbone" needs strengthening to match its economic muscle.

Uneven Recovery Across Sectors

- Despite strong headline numbers, the growth pattern shows unevenness:
    - Mining grew barely 0.04%, due to prolonged monsoon disruptions.
    - Electricity and utilities grew only 4.4%, affected by a mild winter, reducing peak load demand.
- These sectors are foundational for industrial growth. Their sluggish performance indicates that the recovery has not spread uniformly across the real economy.
- The sectoral contribution to GVA stands at: **Primary: 14%, Secondary: 26%, Tertiary: 60%**

- This structure mirrors a service-driven economy, but India's employment profile still remains heavily tilted toward low-productivity agriculture and informal services.

Structural Vulnerabilities

- India's long-term challenges, highlighted both by the RBI and IMF, include:
- **Weak Export Competitiveness**
    - Trade protectionism, tariff uncertainty, and global geopolitical tensions threaten India's export growth. Structural scaling of goods exports remains limited.
- **Labour Productivity Issues**
    - A mismatch exists between India's output structure and its employment structure. A large share of the workforce remains in low-productivity sectors.
- **Fragile Statistical and Institutional Capacity**
    - The absence of updated base years, comprehensive data, and modern statistical tools weakens policy evaluation.
- **External Pressures on the Rupee**
    - Although seemingly stable, the rupee continued to face downward pressure due to a strong U.S. dollar and fluctuating foreign capital flows.
- These issues do not negate India's growth achievement but underscore the need for deeper institutional reforms to sustain high growth over time.

Source: **TH**
