

INDIA'S GROWTH STORY: THE ROAD AHEAD*

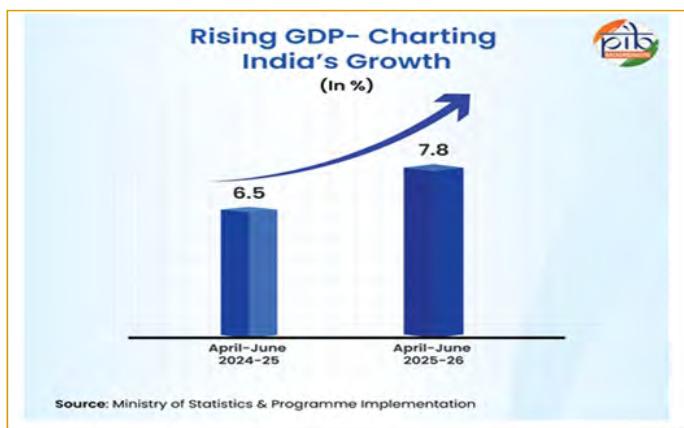
Speaker: V. Anantha Nageswaran

BREAKFAST
 Session

 Date: 04th October 2025 | Time: 08:00 – 09:15 hrs

Introduction

The discussion began on a candid note, acknowledging the challenge of addressing a topic as complex as India's economic outlook. The focus is on evaluating India's growth performance and structural reforms against the backdrop of global uncertainties, tariff shocks, and evolving trade dynamics. The speaker emphasizes a balanced approach—analyzing the short-term macroeconomic picture, identifying medium-term strengths, and addressing long-term structural challenges that will shape India's development trajectory.



Near-Term Economic Outlook

India's near-term growth performance has been stronger than initially anticipated. Recent quarterly data indicates a robust 7.8% real GDP growth in Q1, with projections for Q2 around 7%.

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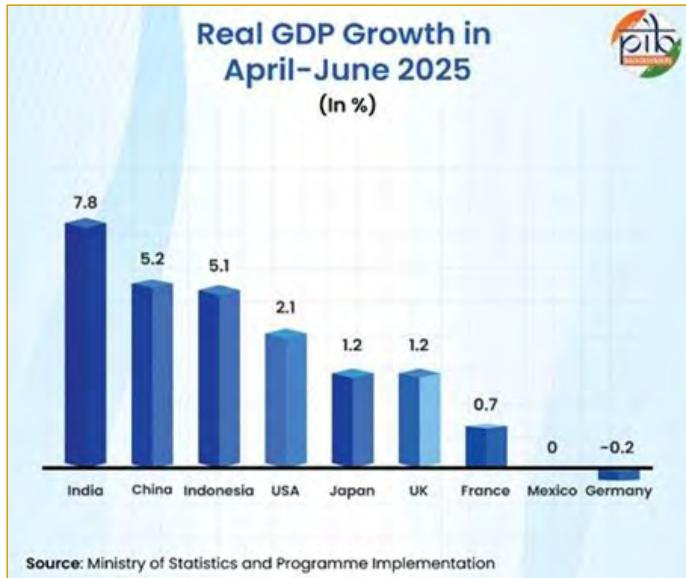
This resilience has prompted several institutions, including the RBI, to revise GDP forecasts upward to nearly 7%, despite the adverse effects of global tariff barriers. The primary driver has been strong domestic demand, supported by high-frequency indicators that reveal broad-based activity across sectors. While nominal GDP appears subdued due to wholesale price deflation, this reflects falling global commodity prices and China's overcapacity rather than weakness in domestic fundamentals. Importantly, India's national accounts methodology relies heavily on volume indicators rather than price deflators, ensuring that real GDP figures are not overstated. Overall, India's short-term growth outlook remains favorable, though the softness in nominal growth is a variable to monitor.

Near-Term Silver Linings

A number of recent policy interventions and market developments have created a supportive environment for growth.

First, recent direct and indirect tax cuts have significantly improved disposable incomes. Families earning up to ₹26.75 lakh now fall under the zero-tax bracket, providing a

substantial boost to consumption.



Complementing this, the GST Council has lowered rates on various daily-use and discretionary items, further stimulating demand across income groups.

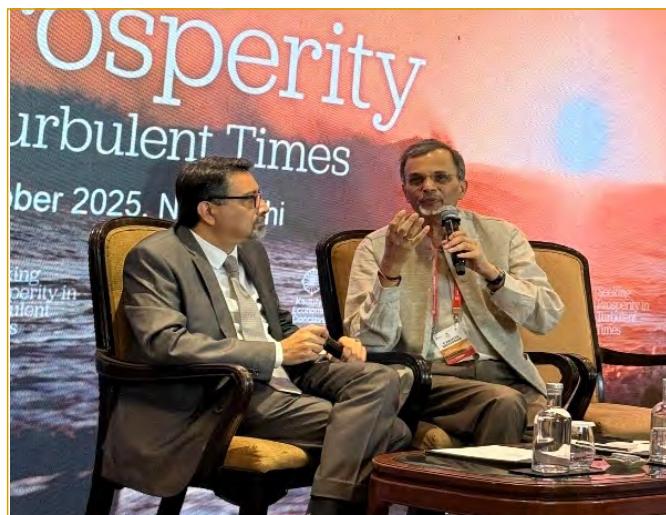
Second, the cost of capital has been falling steadily. The 10-year government bond yield now stands around 6.6%, down from 9% a decade ago. This, coupled with multiple international rating upgrades, enhances investor confidence and reduces borrowing costs for businesses and households

Third, the inflation outlook remains benign, with weak wholesale price trends, a favorable monsoon, and GST rate cuts contributing to a stable price environment. This creates space for the Reserve Bank of India to consider calibrated rate reductions.

Fourth, regulatory reforms by the RBI have improved credit flows to key commercial sectors, representing a quiet yet significant structural improvement.

Fifth, the Employment Linked Incentive Scheme-backed by a ₹1 trillion allocation-seeks to encourage formal job creation across industries.

Lastly, global energy prices have moderated due to increased OPEC supply and efficiency gains, offering relief on the current account and containing imported inflation.



Picture from the session

Medium-Term Structural Strengths

India's medium-term prospects are anchored in strong infrastructure investments and digital transformation. The government's sustained focus on physical connectivity, logistics upgrades, and digital platforms has enhanced productivity and efficiency. The formalization of MSMEs through digital registration and compliance frameworks has expanded access to finance and improved transparency.

Reforms in the MSME sector have been particularly noteworthy. Enhanced turnover thresholds have reduced the fear of losing small-business status, thereby encouraging



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firms to scale up. Tax incentives linked to timely payments and robust credit guarantee schemes have further strengthened liquidity. MSME credit growth has now reached 20%, outpacing overall credit expansion. Together, these measures foster a more inclusive growth model and position MSMEs as a central driver of employment and innovation.

Structural Challenges and Headwinds

Despite these gains, India faces structural headwinds that require nuanced policy responses. The global production paradigm remains heavily capital- and technology-intensive, posing challenges for a labor-abundant economy like India. Automation and AI adoption risk reducing job intensity, underlining the need for employment strategies that emphasize vocational training, lifelong learning, and entrepreneurship.

Energy transition is another critical area of tension. While the global shift toward renewables is essential, the notion of “cheap” green energy often overlooks hidden system costs related to storage, grid modernization, and subsidies. Policymakers must therefore balance affordability, security, and sustainability to ensure energy remains a growth enabler.

Demographic shifts also warrant attention. The younger population, though large, faces health and productivity risks stemming from sedentary lifestyles and poor nutrition. Quality of human capital, not just its quantity, will determine India's future competitiveness.

Finally, state capacity remains uneven. While governance gaps persist, India's past growth experience suggests that economic momentum can coexist with incremental institutional reforms. The greater challenge now lies in adapting to disruptive forces like AI, climate risks, and global trade realignments.

Strategic Responses and Policy Directions

In response to rising global tariffs, India must deploy multiple strategies. Firms can absorb costs through efficiency gains, renegotiate margins with importers, and diversify markets via Free Trade Agreements. Integrating more deeply with Southeast Asian value chains and offering targeted, not blanket, relief to affected sectors can also cushion the impact.

Attracting foreign investment is another priority. Recent liberalization measures now allow 100% FDI in sectors such as defense, space, nuclear energy, and drones, helping India target \$100 billion in gross inflows. Complementary reforms in local governance, tax stability, and logistics infrastructure are vital for sustaining investor confidence.

Innovation is central to long-term competitiveness. Although India's R&D spending remains below 1% of GDP, recent initiatives like the two-tiered TRL (Technology Readiness Level) funds—one for early-stage innovation and another for commercialization—aim to crowd-in private investment and emulate the success of India's pharmaceutical research

model.

On the domestic front, deregulation and governance reforms should prioritize reducing compliance burdens and transaction costs. The policy orientation must evolve from "Ease of Doing Business" to the "Ease of Being Honest," ensuring that transparency and trust drive entrepreneurship. Labor policy, likewise, must balance the rights of those employed with the right to employment for those seeking work. In a world of weakening global trade, India's path will increasingly rely on domestic demand, infrastructure-led investment, and private capital formation.

Long-Term Growth Vision

Sustaining 8–9% growth over the long term requires India to chart its own development path, distinct from East Asia's export-led model. Given the missed window of early globalization and ongoing global fragmentation, India must build a resilient, domestic-demand-led economy that harnesses innovation and inclusion. The pillars of this strategy include smart deregulation, a robust skilling and lifelong learning ecosystem, a balanced and sustainable energy mix, deeper industrialization through FDI and R&D, infrastructure-led productivity gains, and continuous investment in human capital and health.

Additional Insights from the Session

The session provided further analytical clarity on several dimensions of India's growth outlook. India's real GDP estimates are computed first and

subsequently inflated to derive nominal GDP, thereby countering allegations that higher growth figures merely reflect wholesale price deflation. Movements in nominal GDP incorporate both WPI and CPI trends, with WPI being sensitive to import prices shaped by China's competitiveness. Recent measures, including indirect tax relief introduced in September 2025, have reinforced consumption and business sentiment, while interest rate management by the Monetary Policy Committee (MPC) and ongoing RBI liberalization measures continue to support macroeconomic stability. Improved sovereign credit ratings were noted as indicative of investor confidence. The discussion also underscored emerging demographic challenges, highlighting that India's demographic dividend is increasingly constrained by rising obesity, inadequate physical fitness, and mental health issues among youth, necessitating stronger health and human capital interventions.

From a structural perspective, India's digital transformation has deepened, with UPI transaction volumes surpassing those of Europe and America combined, though the expansion of energy-intensive data centres poses sustainability considerations. Energy intensity improvements have enhanced efficiency, and low energy prices, despite geopolitical tensions in the Gulf, have been sustained by increased OPEC supply. However, renewable energy adoption remains contingent upon subsidies due to elevated system-level costs and demand management constraints. In



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the MSME sector, a notable behavioural reform links tax exemptions to actual payment completion, promoting timely settlements and advancing formalization. India's development pathway diverges from East Asia's export-led model, emphasizing a domestic-demand-driven, innovation-oriented, and inclusive growth strategy as the foundation for long-term resilience.

Key Takeaways

India's economic fundamentals remain strong, with real GDP growth near 7%, robust consumption, and improving credit conditions. Fiscal and monetary levers are aligned to support expansion, while FDI liberalization and innovation funding create fresh opportunities. However, addressing challenges such as energy affordability, AI-led labor shifts, and human capital quality is essential. The medium-to long-term agenda must focus on deepening reforms, empowering MSMEs, incentivizing R&D, and sustaining inclusive, job-rich growth.

India's growth story is no longer about navigating crises—it is about shaping a future of resilience, opportunity, and equitable prosperity.



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