



DAILY EDITORIAL ANALYSIS

TOPIC

**STEERING THE INDIAN ECONOMY
AMIDST GLOBAL TROUBLES**

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STEERING THE INDIAN ECONOMY AMIDST GLOBAL TROUBLES

Context

- As the global economy faces trade wars, geopolitical tensions, and supply chain disruptions, India's ability to navigate these will depend on strategic recalibration by both policymakers and industry leaders.

India's Sectoral Vulnerabilities & Global Uncertainties

- Geopolitical Tensions and Trade Disruptions:** Ongoing conflicts, such as the **Israel-Iran standoff**, have heightened **risks to global oil prices and supply chains**.
 - India's reliance on energy imports makes it vulnerable to such shocks.
- Export Vulnerabilities:** India's export sectors — *particularly textiles, pharmaceuticals, electronics, and auto components* — are **heavily reliant on foreign markets** like the United States & European Countries.
 - Uncertainties in **tariff regimes** and the **threat of reciprocal duties by the USA** have created anxiety among exporters, especially MSMEs.
- Financial Market Volatility:** Escalating regional tensions, including with neighboring countries, have led to spikes in market volatility, as seen in the India **VIX index**.
- Capital Flow Uncertainty:** Foreign portfolio investment remains sensitive to global interest rate cycles, while domestic institutional investors have increased their share in Indian equities.

India's Readiness Amid Global Uncertainty

- Macroeconomic Resilience and Fiscal Discipline:** India has maintained a steady growth trajectory, with **real GDP projected to grow at 6.4% in FY25**—close to its decadal average, despite global turmoil.
 - India has adhered to fiscal consolidation targets, keeping the fiscal deficit in check while **increasing capital expenditure to ₹11.21 lakh crore** in 2025–26.
- Monetary Policy and Inflation Management:** Dual focus on **growth and price stability** has been a cornerstone of **India's macroeconomic strategy**.
 - Cutting the repo rate to 5.5% by RBI** to stimulate investment amid slowing credit growth.
 - Retail inflation controlled to 4.9% in 2024** and expected **to align with the 4% target in FY26**.
- Supply Chain Resilience and Industrial Strategy:** India has encouraged domestic capacity building in critical sectors such as electronics, pharmaceuticals, and renewable energy.
 - The **push for digital infrastructure and logistics modernization** has helped mitigate supply chain bottlenecks.
- External Sector Strength:** India's **foreign exchange reserves** stood at **over USD 640 billion by end-2024**, sufficient **to cover nearly 11 months of imports**.
 - A narrowing current account deficit and robust services exports have further cushioned the economy against external shocks.
- Strategic Trade Engagements:** A proposed **Bilateral Trade Agreement (BTA) with the US** and the recently concluded **Free Trade Agreement (FTA) with the UK** are seen as key steps.
 - However, India needs to ensure these agreements **secure zero tariffs in critical sectors** while safeguarding domestic priorities.
- Addressing **non-tariff barriers** and pursuing **mutual recognition agreements** are also vital.
- Long-Term Structural Reforms:** Expanding **Production-Linked Incentive (PLI) schemes to new sectors** like wearables and IoT devices is expected to boost manufacturing and attract foreign investment.
 - Regulatory simplification** and **next-generation reforms** proposed in recent Union Budgets are being fast-tracked.

Way Forward

- Strengthening External Sector Resilience:** India is pursuing bilateral trade agreements and expanding its PLI schemes to diversify export markets and reduce import dependence.
- Policy Stability and Institutional Strength:** The **RBI emphasizes India's 'ring-fenced' stability** — **monetary, financial, and political** — as a key buffer against global shocks.
 - Transparent and rule-based policymaking continues to inspire investor confidence.

- **Supply Chain Modernization:** Investments in logistics, digital infrastructure, and domestic manufacturing are helping India build resilience against global supply disruptions.
- **Strategic Global Positioning:** Indian Prime Minister has positioned **India as a** 'trusted friend' **and** 'engine of global growth', emphasizing people-centric development and inclusive prosperity.

Source: TH

Mains Practice Question

[Q] Evaluate India's policy responses aimed at maintaining growth and stability amid global economic uncertainties, geopolitical tensions and supply chain disruptions.

