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DAILY EDITORIAL ANALYSIS

TOPIC

SHIFTING SHAPE WHEN ECONOMY GOES K-SHAPED

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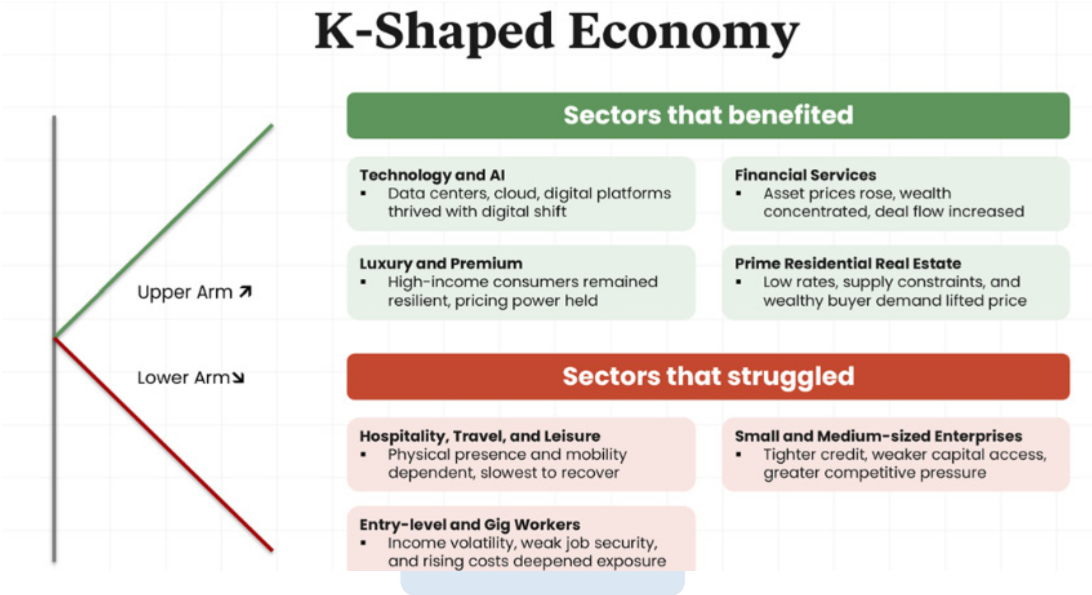
Context

- As India's growth estimates are being revised downward and household financial stress is increasing, concerns have emerged that the economy is moving toward a K-shaped pattern of growth.

What is the K-Shaped Economy?

- A K-shaped economy is a condition where **different sections of the economy move in opposite directions** at the same time.
- **The upper arm** of a K-Shaped represents people, sectors, and firms whose income, profits, and wealth are increasing.
- **The lower arm** represents households, workers, and small businesses whose incomes stagnate, debt rises, and economic conditions worsen.



How is India showing K-shaped characteristics?

- **Positive trends in Indian Economy (Upward arm):**
  - **The Service sector** is the main growth driver and a buffer against the slowdown of the global economy.
  - **The construction sector** is expanding, contributing to job creation and domestic demand.
  - **Some manufacturing sectors** are proving resilient, especially those tied to investment and infrastructure spending.
  - **Early corporate earnings** point towards healthy profit growth, suggesting large formal firms continue to benefit from stronger balance sheets and demand in premium segments.
  - **The banking sector** is in a healthy state with historically low NPAs, adequate capital adequacy buffers and improved asset quality.
- **Emerging vulnerabilities in Indian Economy (Downward arm):**
  - **Household debt** has increased to **48% of GDP** which indicates a rising dependence on borrowing by households.
    - A growth in retail credit is used for **consumption purposes** and not for housing, business expansion, or education, which raises concerns about debt sustainability.
  - **Gold loans have expanded** and many families are using higher gold prices to borrow larger amounts and roll over existing debt obligations.
  - **Lower-income households** account for a **larger share of fresh retail loan defaults** which points to concentrated financial stress among vulnerable borrowers.
  - **RBI consumer confidence surveys** show that urban confidence has declined for three consecutive rounds.

Structural causes of a K-shaped economy in India

- **Formalization shock:** GST and digital compliance have improved efficiency for large firms. However smaller informal enterprises have faced higher compliance and adjustment costs.
- **Unequal access to technology:** AI, automation and digital platforms benefit skilled workers and technology-intensive firms. The workers with limited digital skills risk displacement and income stagnation.
- **Asset inequality:** The rise in stock market and real-estate values mainly benefit households that already own financial and physical assets.
- **Jobless Growth:** GDP growth has not translated into sufficient quality employment opportunities, especially for youth and low-skilled workers.
- **Oil as the Swing factor:** India imports almost **nine-tenths** of its crude oil requirement, making global oil prices a critical determinant of domestic inflation, growth, and external stability.

Economic implications

- **Rising inequality:** A prolonged K-shaped pattern will widen income inequality, wealth inequality and regional disparities.
- **Weak aggregate demand:** If income growth is concentrated at the top, overall consumption demand may remain subdued because the rich have a lower marginal propensity to consume.
- **Social and political risks:** Continuous divergence will lead to declining consumer confidence, social frustration and pressure for populist policies.
- **The pipeline effect: Cost-push inflation:**
- Rising fuel and power prices increase the production and transportation costs in the economy. The higher input costs are **gradually passed on to consumers** with higher food and retail prices.
- The delayed transmission of energy costs into consumer inflation is called **"inflation waiting in the pipeline."**

Way Ahead

- **Supply-side management:** Inflation should be addressed through supply management before it becomes entrenched in the economy.
    - Timely imports of pulses, edible oils, and animal-feed ingredients, release of food stocks, improved logistics, and calibrated fuel-tax reductions can be more effective than relying solely on interest-rate hikes.
- **Debt-supported to income-supported consumption:** Faster job creation, real wage growth, lower household expenditure on health and education, and stronger protection against sudden income shocks are essential for sustaining consumption demand.
- **Protect capital expenditure:** Governments should protect capital expenditure on infrastructure, irrigation, power systems, schools, healthcare, and logistics, as these investments raise productivity and rural incomes in long terms.
- **Convert scientific capability into economic strategy:** Greater focus on semiconductors, advanced materials, biotechnology, clean energy, space technology, and defence manufacturing will help India move into high-value global supply chains.

Daily Mains Practice Question

[Q] India's recent growth pattern has raised concerns about a K-shaped economy. Examine the causes of K-shaped growth in India and discuss its implications for household consumption, inequality, and macroeconomic stability.

Source: IE