indiastat
focused on facts

SOCIO-ECONOMIC VOICES

“India Must Fix Gaps In Transport, Energy And Logistics to Support Consistent Growth”

Sher Singh Mehta,
Chief Economist and Econometrician,
Virtuoso Economics, New Delhi

“India Must Prioritise High-Potential Sectors & Supportive Policies to Boost Manufacturing GDP Share”

Intro: Did you know India has raised the income tax exemption limit to Rs. 1.28 million? This affects Rs. 1 trillion in revenue. Industrial production is at a six-month high. Renewable energy is growing fast and the government targets 100 GW of nuclear power by 2047. But what does this mean for jobs, real estate and economic growth? This week on **Socio-economic Voices**, we have eminent economist **Sher Singh Mehta** and senior journalist **Mahima Sharma** in an EXCLUSIVE discussion as the former breaks it down for us-tax, industry and energy-all in simple terms. Read here only on **Indiastat.**

MS: With the increase in the income tax exemption threshold from Rs. 700,000 to Rs. 1.28 million, resulting in an estimated revenue loss of Rs. 1 trillion. How do you assess the potential impact on government finances and public investment in the real estate sector?

SSM: Its potential impact is unlikely to significantly impact government finances, as a result of several mitigating factors and strategic fiscal measures.

The government has **shifted its fiscal strategy, using the debt-to-GDP ratio** as the primary fiscal anchor instead of the fiscal deficit. This long-term approach allows more flexibility in managing short-term revenue fluctuations. In **January 2025**, GST revenue increased by **12.3%** to **Rs. 1.96 lakh crore** (Hindustan Times). Total GST collections for **April-January FY2025** rose **9.4%** to **Rs. 18.29 lakh crore.** Strong indirect tax performance, driven by a boost in **urban consumption,** can help offset direct tax revenue losses. The Budget FY2026 sets a **10.1% nominal GDP growth** target, which appears achievable. Raising the tax exemption limit is expected to increase household consumption, investments and savings. This will boost economic activity and raise indirect tax collections, partially offsetting the direct tax revenue loss. Corporate tax revenue is projected to **grow by 10.4%** (PRS India), reflecting expected **higher corporate earnings.** This growth is aligned with the **10.1% nominal GDP** increase. Corporate tax gains may help counterbalance personal income tax losses. Rising profits and dividends, including RBI contributions, may boost non-tax revenues. Despite tax relief, the fiscal deficit is expected to decline from **4.8% in FY2025** to **4.4% in FY2026.** This shows fiscal discipline through moderate spending growth and a focus on fiscal consolidation. Simplifying TDS compliance should improve tax compliance and collections. Focusing on the debt-to-GDP ratio ensures a sustainable fiscal future, even with short-term revenue losses.

This budget strikes a balance between tax relief, targeted spending and fiscal prudence, ensuring a holistic and well-planned fiscal approach.

Now coming down to the Implications for the Real Estate Sector...

The rise in the income tax exemption threshold in the budget is likely to have a mixed impact on public investment in the real estate sector.

While the estimated revenue loss of around INR1 trillion may constrain direct public investment on housing projects, the budget introduces targeted measures to support the sector. SWAMIH Fund 2 has been allocated INR15,000 crore- aiming to complete an additional 1 lakh stalled housing units, **which demonstrates the government's commitment to addressing housing challenges.** This initiative is expected to provide relief to homebuyers and boost market confidence. **Further, the unveiling of the Rs. 1 lakh crore Urban Challenge Fund is set to increase urban infrastructure development, indirectly supporting real estate growth in Tier-II and Tier-III cities.**

Lastly, the budget's focus on stimulating private demand through increasing income tax exemption threshold and urban development funds indicates a shift towards facilitating market-driven growth rather than direct public investment. This approach might result in a more dynamic real estate landscape, albeit with potential challenges in addressing affordable housing needs without substantial direct public investment.

MS: The budget introduces a Nuclear Energy Mission aiming for 100 GW of nuclear power by 2047. Is this target realistic and does the budget provide a clear roadmap and sufficient funding to achieve it?

SSM: The success of the Nuclear Energy Mission is predicated on several key factors.

- First, the proposed legislative reforms to enable private sector participation must be implemented swiftly and provide clear risk-sharing frameworks to attract investment.
- Second, the rapid development and commercialisation of indigenous SMR technology is imperative, though it carries technological risks.
- Third, addressing infrastructure challenges, including land acquisition and fuel supply constraints, will be crucial for sustained growth.

While the budget provides a directional push, it lacks a detailed roadmap for financing and regulatory timelines. The ability to meet this target will depend on sustained political will, successful public-private partnerships (amendment of Atomic Energy Act and the Civil Liability for Nuclear Damage act need to be amended) and a significant rise in investments annually.

Further, ensuring effective policy implementation and resource allocation is an imperative.

Having stated the above, this target of 100 GW by 2047, while ambitious, faces some challenges in terms of funding, technological preparedness and policy implementation. The current nuclear capacity of 8.18 GW would need to increase at an unprecedented rate of around **4 GW (my calculation: To reach 100** GW by 2047 from 8.18 GW in 2025, India needs 91.82 GW in 22 years (2025–2047), averaging 4.17 GW/year annually) to meet this goal, far exceeding the historical growth rate of 0.34 GW per year **(my calculation is based on Nuclear capacity grew from 4.78 GW in 2014 to 8.18 GW in 2024** (growth in nuclear capacity).

MS: Given the global economic turmoil, what structural reforms do you believe are essential to sustain long-term economic growth?

SSM: Compellingly, India needs to undertake structural reforms vis-à-vis the labour market, education and skill development, infrastructure development, financial sector, manufacturing sector, digital economy and innovation and transition to green energy, in order to sustain its long-term growth - **amid global economic turmoil.**

In order to significantly boost productivity and formal job creation and improve the ease of doing business, the implementation of the four labour codes passed in 2020, which has been lagging at the state level -as per the European Commission, needs to be effectively implemented.

India must fully implement the **National Education Policy 2020** to improve education quality and help workers move to better-paying jobs. Investing in **infrastructure** is key for long-term growth. The **Rs. 111 trillion National Infrastructure Pipeline (NIP)** must be completed efficiently, with more public-private partnerships (PPP)—currently, the private sector's share is just **21%.** Faster approvals and smoother regulations are also needed.

India must also **fix gaps in transport, energy and logistics** to support growth.

Banks have improved, with **gross non-performing assets (GNPA) dropping below 4%**, but further **reforms** are needed to **increase credit flow** to productive sectors. A bigger challenge is **slower deposit growth**, as India's **savings and investment patterns are changing.** Strengthening the banking sector is crucial to tackling this shift.

India needs to strengthen **'Make in India'** to increase manufacturing's GDP share. The **PLI scheme** should cover more sectors, MSMEs need **better credit access** (set to improve post-budget) and **R&D investment** must rise (currently just **0.64% of GDP**). Simplifying taxes, supporting digital growth, encouraging start-ups and phased deregulation will further drive innovation and expansion.

MS: Industrial production hit a six-month high of 5.2% in November 2024, led by a 5.8% rise in manufacturing. Can this growth continue? Which sectors should policymakers focus on to sustain it?

SSM: Though recent growth in India's industrial production, particularly in the manufacturing sector, is encouraging, however in order to sustain such growth, **targeted policies, strategic sector prioritisation and focusing on key challenges** such as skill development and access to credit are imperative.

India needs to focus on high potential sectors and implement supportive policies to enhance the manufacturing sector's contribution to GDP to 25% (25% is widely known and that is why I have stated this figure) from 17% in FY 2022-2023 over the coming years and position itself as a global manufacturing hub.

The sectors that should be prioritised are high-tech manufacturing – electronics, electrical equipment and advanced machinery, which will help lower our import dependence and move up the value chain. Pharmaceuticals and biotechnology sector prioritisation can enhance both our domestic capabilities and export potential. Automotive and Auto components – simultaneous transition to electric and hybrid vehicles, while strengthening the auto components industry, could help maintain India's competitive edge in this sector.

Then green technologies need to be supported by focusing on renewable energy equipment and manufacturing and electric vehicle production. All this will help India to position itself as a leader in green manufacturing.

Finally, attempts to modernise the labour-intensive textile and apparels sector could help boost both employment and exports and help India to capitalise on trends vis-à-vis global supply chain diversification.

MS: India's renewable energy capacity addition reached a record 30 GW in 2024. How do you assess the economic implications of this expansion?

SSM: I think the addition of 30 GW of renewable energy capacity in 2024 is a significant milestone in India's energy transition. **There will be diverse and far reaching economic implications including job creation,** attracting of investments, manufacturing sector growth and rural development.

India's renewable energy sector is growing fast. The country aims to reach **500 GW of non-fossil fuel-based power** by 2030. This will create **millions of jobs**—in **2023 alone, 1.02 million people** were employed in this sector (IRENA 2024). As capacity expands, over **3 million jobs** are expected by 2030.

Investment is also rising. Between **April 2020 and September 2023,** India attracted **$6.1 billion in FDI** in renewable energy. This funding will drive **technological advancements** and **economic growth.**

Increasing renewable energy capacity will **reduce dependence on fossil fuel imports,** improving India's **trade balance** and **energy security** by shielding it from global energy price fluctuations. Growth in this sector is also **boosting domestic manufacturing,** especially in solar energy and creating **export opportunities** as companies move away from China's supply chains.

Rural areas will benefit too, as many **solar and wind projects** are set up there. These projects will **create local jobs, improve energy access** and bring **economic development** through land lease payments.

Finally, more renewable energy means **lower electricity costs.** India Ratings estimates **power prices will stay between Rs. 4.5-Rs. 5 per unit in FY 2025-26,** benefiting both **industries and consumers.** Expanding this sector is also crucial for **India's green hydrogen economy,** creating new **manufacturing and export opportunities.**

MS: The International Energy Agency (IEA) notes that India's clean energy investments have grown rapidly in the past three years. However, per capita income remains less than half of the world average. How can India balance the need for sustainable energy development with the imperative of poverty alleviation and economic growth?

SSM: India must balance clean energy development with poverty reduction and economic growth. As of 2024, **65% of Indians still face some form of energy poverty.** To address this, India must invest in renewable energy, promote domestic manufacturing and create green jobs.

A key priority is boosting domestic manufacturing of solar panels, batteries and other clean energy components through the PLI scheme. This will create jobs while strengthening India's clean energy sector.

Investment in clean energy must continue to rise. In 2023, India spent USD 68 billion on clean energy, a 40% jump from 2016-2020 (IEA.ORG). However, this needs to grow by another 20%. Keeping the cost of capital low will be crucial.

Energy efficiency programs have already saved Rs. 188,312 crore per year, improving economic competitiveness. By reducing the need for new power plants, these measures save billions in infrastructure costs—funds that can be used for job creation and growth.

The National Green Hydrogen Mission **received Rs. 600 crore in Budget FY2026.** Continued investment will attract private sector funds, increase hydrogen production and create new jobs, further driving economic growth.

MS: JSW Group's $35 billion investment in Maharashtra's infrastructure is a significant development. How do you anticipate this investment influencing regional economic growth and what broader implications might it have for India's infrastructure strategy?

SSM: JSW's investment in Maharashtra is a major step in India's growth. It covers steel manufacturing, renewable energy, EVs and solar energy, helping both regional and national development. **It will create 10,000 jobs across Chhatrapati Sambhaji Nagar, Gadchiroli and Nagpur.** It will be improving local economies and infrastructure, including land, water and power availability.

This investment also supports India's shift to green energy by introducing sustainable technologies. Gadchiroli is set to become India's Steel City, turning into a key industrial hub and reducing economic gaps within Maharashtra. **The improved transportation and energy infrastructure will attract more investment and boost efficiency.**

At the national level, this move aligns with the 'Make in India' initiative, strengthening domestic manufacturing, particularly in high-tech sectors like EVs and solar energy. It will reduce imports and position India as a global manufacturing hub. It also encourages foreign direct investment (FDI) and proves India's ability to handle large-scale projects.

This investment highlights public-private partnerships, ensuring strong national infrastructure. It promotes technology transfer, innovation and robust supply chains, attracting even more investments.

It also supports the National Infrastructure Pipeline (NIP), boosts renewable energy and helps India achieve net-zero emissions by 2070. Developing Gadchiroli aligns with India's plan to build specialised industrial clusters.

MS: SEBI plans to launch small-sized investment plans starting at Rs. 250 to encourage small investors to save regularly. With mutual fund penetration still low in India, how will this impact the investor base?

SSM: SEBI's proposal to introduce **small-sized investment plans** is a big step toward **financial inclusion.** It will allow more people, especially **low-income groups,** to start investing with small amounts. This will **expand the investor base** and help spread **financial education and awareness.**

The initiative aims to **break entry barriers** and make investing easier for millions. By encouraging systematic saving and disciplined investing, it will help create a culture of regular investments. This will democratise wealth creation and boost economic growth by bringing more people into the formal financial system.

India has **huge potential** for growth in investments. As of **November 2024,** the total number of mutual fund investors was **5.18 crore.** With **64% of the population in rural areas,** contributing **46% of GDP,** this initiative can **bring many underserved rural investors into the system.**

The demand for **SIPs (Systematic Investment Plans)** is already growing. **Monthly SIP contributions rose from Rs. 17,610 crore in December 2023 to Rs. 25,320 crore in November 2024.** Lower investment thresholds and digital payment options will make investing more accessible and affordable, especially for tech-savvy younger investors.

Overall, this initiative will broaden the investor base, promote financial literacy and encourage long-term wealth building for millions.

MS: The RBI's Financial Inclusion Index rose from 60.1 in March 2023 to 64.2 in March 2024, showing progress in financial access. However, many people, especially in rural areas, are still outside the formal financial system. What strategies can help bring more people into banking, digital payments and investments?

SSM: A significant portion of the population remains outside the formal financial system, particularly in rural and underserved areas. To enhance financial inclusion, it is recommended to expand digital infrastructure and connectivity, increase the spread of financial literacy programs, promote gender-inclusive financial services, customise financial products for rural requirements to better serve rural populations, foster private-public partnerships, utilise data analytics for targeted interventions, address cultural and behavioural patterns and have inclusive banking schemes. The power of financial technology should be used. **Technological innovation, policy reforms and grassroot level engagement has the potential to substantially increase financial inclusion.**

A major barrier to financial inclusion in rural areas is the limited digital infrastructure. High speed internet connectivity should be prioritised in all rural areas, subsidising smart-phones with data plans for low-income individuals can be contemplated in underserved regions. Then, develop targeted financial literacy programs for different demographic groups, particularly women and rural populations and integrate financial education in the curriculum of schools – **a key measure to significantly enhance financial inclusion in India over the coming decade.** Further, for widespread dissemination of financial knowledge use social media and mobile apps. Then, improve digital literacy among women – only 44% of women transact regularly – using digital banking. Designing of financial products tailored to women's needs and preferences must be prioritised and increase the number of women banking agents and financial advisors.

A tech-driven financial ecosystem is pivotal for long-term financial inclusion. AI can be leveraged and advanced automation too, in order to provide personalised, accessible and secure financial services. Further, attempts should be made to establish public-private task forces to address challenges specific to financial inclusion and partnerships between banks, MFIs and technology providers should be encouraged to develop innovative solutions and there should be use of big data analytics for targeted interventions and identify underserved populations and their specific needs. Finally, design culturally sensitive financial products and communication strategies.

MS: India's labor market is expected to see a 6.33% expansion in the first half of FY25, up from about 4.2% in H2 FY24. What sectors are anticipated to drive this growth and how can policy frameworks support sustainable job creation in these areas?

SSM: India's growth in the coming years will be driven by **eight key sectors:**

- e-commerce,
- manufacturing and engineering,
- logistics,
- construction and real estate,
- travel and hospitality,
- agriculture and agrochemicals,
- healthcare and pharmaceuticals
- electric vehicles (EVs) with related infrastructure

To create **sustainable jobs,** policies should focus on **skill development, infrastructure growth and support for emerging sectors** like EVs, green supply chains and **5G logistics.** Businesses should be encouraged to invest in these areas through **regulatory support and incentives.**

Policies must **support technology adoption and worker reskilling** for digital jobs. The **Union Budget 2024-25** emphasises **green jobs** and continued incentives for green investments will drive job growth. MSMEs should receive financial aid and training to transition to eco-friendly practices.

Supporting **initiatives like the Anusandhan National Research Fund** and venture capital for the space economy will boost high-skilled jobs in research and innovation.

India needs scalable skill training aligned with industry needs. **Policies should ensure social protection, workforce upskilling** and **digital transformation** across industries. **Public-private partnerships** in infrastructure projects will help drive long-term sustainable employment.

ABOUT SHER SINGH MEHTA

Sher Singh Mehta is a macroeconomist, industry analyst and time series econometrician with expertise in 22 economies and 11 sectors. He is the Chief Economist and Econometrician at Virtuoso Economics, New Delhi. With over 20 years of experience in London and New Delhi, he helps organisations steer global economic trends and investment environments through data-driven and qualitative research.

He is passionate about vocational education in econometrics, economics and finance. He provides training in econometrics. He has also written finance and investment blogs for a London-based firm. He is also the author of a best-selling book on economic indicators.

INDIASTAT INITIATIVES

indiastatdistricts

A storehouse of socio-economic statistical of 620 districts. A cluster of 11 associate websites

indiastatelections

Provides election data for all 543 parliamentary and 4120 state assembly constituencies

indiastatpublications

A collection of election and reference books in print, ebook & web based access formats

indiastatmedia

Provides infographics and short-videos on socio-economic and electoral topics

indiastatpro

An e-resource providing socio-economic statistical information about India, its states, sectors, regions, and districts.

indiastatfacts

A one-stop-app for all who are craving for the latest economic facts and figures of India.

indiastatedu

One-of-a-kind online learning platform offering specialised courses and also providing interactive learning.

24 years of serving socio-economic and electoral research fraternity in india and abroad