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EDITORIAL ANALYSIS

Cyclical Cheer, Structural Worry: Reading India's Growth Before the GDP Print

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The Indian Express 29 August 2026 GS3

INTERVIEW ANGLE

"India's capital-labour ratio has risen for over two decades, and automation is making capital cheaper still. If labour keeps getting relatively more expensive to employ, what is the honest policy answer, and is it one any government can sell?"

Source: Original editorial ↗ The Indian Express

Every fact web-verified against primary sources

THE LIFT LINE

The good news is that growth held up through a war. The bad news is why: taxes were cut, rates were cut, and households borrowed. None of those can be done twice. India has bought itself time, and time is only valuable if something is done with it.

WHY THIS EDITORIAL MATTERS FOR YOUR EXAM

This is the single best available piece for the GS3 growth-and-development syllabus this month, because it does what most commentary does not: it separates **cyclical** from **structural** with numbers attached to each. It also supplies the two most examinable macro debates in India today, the stagnant private capex puzzle and the employment intensity of growth, in a form you can reproduce.

UPSC RELEVANCE

This column was written

BEFORE

the data.

GDP FOR THE APRIL TO JUNE 2026 QUARTER IS SCHEDULED FOR RELEASE BY THE NATIONAL STATISTICAL OFFICE ON 31 AUGUST 2026

and had

NOT

been published when this edition went out. The author's reference to a print "as high as 8 per cent" is a

FORECAST

, and forecasts in the market diverged widely: consensus around

7.2 PER CENT

, with individual estimates spanning

6.9 PER CENT (INDIA RATINGS)

to

8.0 PER CENT (SBI RESEARCH)

, including

BANK OF BARODA AT 7.0 TO 7.2 PER CENT

,

CAREEDGE AT 7.3 PER CENT

and

ICRA AT 7.0 PER CENT

, the last revised up from an earlier estimate of 6.4 to 6.6 per cent, against

7.8 PER CENT IN THE PRECEDING QUARTER

. The

RBI'S OWN FY27 PROJECTION, MADE AT THE AUGUST MPC, IS 6.7 PER CENT.

Do not carry a GDP figure into an answer as fact on the basis of this column.

BACKGROUND AND CONTEXT

Three background facts frame the argument.

First, the macro policy sequence of 2025. The Union Budget of **February 2025** delivered significant **direct tax relief**; **GST rates were rationalised in September 2025**; and the **Monetary Policy Committee** delivered cumulative easing amounting, in the author's assessment, to about **150 basis points** in effective terms, accompanied by regulatory relaxation in the financial sector. This was an unusually coordinated fiscal, monetary and regulatory push.

Second, the external shock. A **West Asia conflict** raised energy prices and was widely expected to dent Indian growth given the country's import dependence. India responded by **diversifying sourcing**, taking crude from Russia and liquefied natural gas from the United States and Oman, and, paradoxically, **importing about 17 per cent more energy than normal** in the quarter in order to prevent domestic shortages. The **fiscal balance absorbed the bulk of the price shock**, insulating the private sector at the cost of future fiscal room.

Third, the current monetary stance, as background. At its meeting on **3 to 5 August 2026**, the MPC under Governor **Sanjay Malhotra** held the **repo rate at 5.25 per cent** with a **neutral stance**, the Standing Deposit Facility at 5.00 per cent and the Marginal Standing Facility and Bank Rate at 5.50 per cent, and raised its **FY27 real GDP projection to 6.7 per cent**. The next meeting is scheduled for **5 to 7 October 2026**.

THE ANALYSIS

The column's structure is worth imitating: good news, then the mechanism behind the good news, then the observation that the mechanism cannot repeat.

On the good news, the evidence is broad rather than narrow. Autos, credit, exports and corporate earnings have all been pointing upward, which is a wider base than any single indicator. The three explanations offered are each defensible, and each is temporary in a different way.

The **stimulus** is temporary because tax cuts and rate cuts are level changes, not permanent growth-rate changes: they raise output once and then wash out of the growth comparison. The **exchange rate boost** to non-oil exports is temporary because a **15 per cent real effective exchange rate depreciation** is a one-time competitiveness gain that erodes as domestic prices adjust. The **fiscal absorption of the oil shock** is not even temporary so much as deferred: the cost was moved from the private sector to the public balance sheet, where it will constrain capital spending later.

The core of the argument is the investment rate, and the numbers are the ones to memorise. Fixed investment remains at its **decadal average of about 32 per cent of GDP** and has not lifted. This despite rising public investment and real estate capital expenditure, because **corporate capex continues to languish at around 10 to 11 per cent of GDP**. The balance sheets of the **top 1,000 listed companies** show **no discernible pick-up in 2025-26**.

The public investment leg, which carried the recovery, is now weakening. Central capital expenditure grew about **30 per cent between 2020 and 2023**, then decelerated to **11 per cent in 2024** and to **just 1.6 per cent in 2025**, as the previous year's tax cuts consumed fiscal space. State capital expenditure is now growing **below nominal GDP**, with **cash transfer commitments** competing directly for the same rupee. Both legs of public investment are therefore slowing at the same moment that private investment has not started.

The explanation offered for corporate reluctance is the most economically literate part of the piece, and it is not about sentiment. Firms invest when they can see demand. **Capacity utilisation has been stuck in the 75 to 76 per cent range for a decade.** A firm operating at three-quarters of capacity has no reason to build more capacity. Add **Chinese overcapacity flooding world markets including India**, and caution becomes rational rather than timid.

The historical comparison is the clincher. **Export growth of about 16 per cent between 2003 and 2012** is what crowded in the private investment boom of that period. Post-pandemic, private consumption and exports grew at roughly **5 per cent** before the 2025 stimulus. **Investment follows demand; it does not lead it.**

The employment argument is where the column becomes genuinely uncomfortable. Urban consumption has been underpinned by white-collar jobs created through **Global Capability Centres** and services exports. That engine is decelerating: **services export growth in nominal dollar terms has halved to about 8 per cent** from **16 per cent** over the preceding four years, and **total employment across the major IT firms has been flat**. The author's phrase, that *the AI writing is on the wall*, is not decoration; it identifies a structural threat to the specific job category that has driven India's urban consumption.

Periodic Labour Force Survey data show the employment rate rising, but a significant share of new jobs are **self-employed** rather than **salaried**, though the mix improved in 2025. The share of the population working in **agriculture**, while falling, remains **above pre-pandemic levels**, which is a reversal of the structural transformation any developing economy needs.

Meanwhile consumption is being financed by borrowing. NBFC lending to households is growing at 20 per cent and **banks' unsecured personal lending momentum has risen to 25 per cent**, on top of a sharp increase in **household** leverage in recent years. The author's warning is measured but unmistakable: for this not to backfire, **household incomes must accelerate**. Credit-financed consumption is a bridge, and bridges have a far end.

The deepest question in the piece is the capital-labour ratio. India's has been **rising for more than two decades**. In a world of increasing automation and artificial intelligence, capital keeps getting relatively cheaper and labour relatively dearer. The author names bending this curve as the top policy priority, and lists the levers: **education, skilling, health, rationalising labour laws that raise the cost of employing workers, and directing scarce fiscal resources to labour-intensive sectors**. These are, as he says, old constraints facing a new challenge.

On exports, the diagnosis is equally blunt**. Goods exports have fallen from about 17 per cent of GDP a decade ago to 11 per cent.** Policymakers are credited for not succumbing to export pessimism, for signing a series of free trade agreements, for beginning to rationalise tariffs and **Quality Control Orders**, and for allowing the exchange rate to depreciate. But structural competitiveness requires more: enabling factor markets, decisive rationalisation of tariff and non-tariff barriers, and a holistic reduction of regulatory burden.

DATA AND INSTITUTIONS VAULT

Macro background:

- **GDP for April to June 2026: scheduled for release 31 August 2026.** Not published as of this edition
- Forecasts: consensus about **7.2 per cent**; range **6.9 per cent (India Ratings)** to **8.0 per cent (SBI Research)**; **Bank of Baroda 7.0 to 7.2**, **CareEdge 7.3**, **ICRA 7.0** (revised up from an earlier 6.4 to 6.6); preceding quarter **7.8 per cent**
- **RBI FY27 projection: 6.7 per cent** (August 2026 MPC)
- MPC **background**, **3 to 5 August 2026**: **repo 5.25 per cent**, stance **neutral**, **SDF 5.00 per cent**, **MSF and Bank Rate 5.50 per cent**; Governor **Sanjay Malhotra**; next meeting **5 to 7 October 2026**

The 2025 stimulus:

- **Direct tax cuts**, February 2025
- **GST rationalisation**, September 2025
- Effective policy rate easing of about **150 basis points**, with financial sector regulatory easing

External:

- Real effective exchange rate depreciation since 2025: about **15 per cent**
- Energy imports during the conflict quarter: about **17 per cent above normal**
- Sourcing diversification: crude from **Russia**; LNG from the **United States** and **Oman**
- **FCNR (Foreign Currency Non-Resident) deposit** inflows used as a stop-gap external buffer

Investment:

- Gross fixed investment: about **32 per cent of GDP**, its decadal average
- Corporate capex: about **10 to 11 per cent of GDP**; no pick-up across the **top 1,000 listed companies** in 2025-26
- Central capex growth: **about 30 per cent (2020-2023) → 11 per cent (2024) → 1.6 per cent (2025)**
- State capex now growing **below nominal GDP**
- **Capacity utilisation: 75 to 76 per cent**, range-bound for a decade

Employment and consumption:

- Services export growth: **halved to about 8 per cent** from **16 per cent** over the preceding four years
- Employment across major IT firms: **flat**
- **NBFC lending to households: 20 per cent** growth; **banks' unsecured personal lending momentum: 25 per cent**
- **PLFS**: employment rate rising, but a significant share of new jobs **self-employed** rather than **salaried**; mix improved in 2025
- Share of population in **agriculture** still **above pre-pandemic** levels

Trade:

- Goods exports: **17 per cent of GDP a decade ago → 11 per cent** now
- Instruments in play: **free trade agreements**, **tariff rationalisation**, **Quality Control Order (QCO)** pruning, exchange rate flexibility

Concepts and institutions to name:

- **Gross Fixed Capital Formation (GFCF)**: the national accounts measure of fixed investment
- **Global Capability Centres (GCCs)**: offshore corporate centres, the principal source of recent white-collar urban employment
- **National Statistical Office (NSO)** under **MoSPI**: publishes GDP estimates
- **Periodic Labour Force Survey (PLFS)**: the official employment survey
- **Crowding in**: the process by which public investment or export demand induces private investment, as against **crowding out**
- **Real Effective Exchange Rate (REER)**: trade-weighted, inflation-adjusted exchange rate; the measure of external competitiveness
- **Four labour codes**: Wages, Industrial Relations, Social Security, and Occupational Safety, Health and Working Conditions, consolidating 29 central laws

THE DEBATE

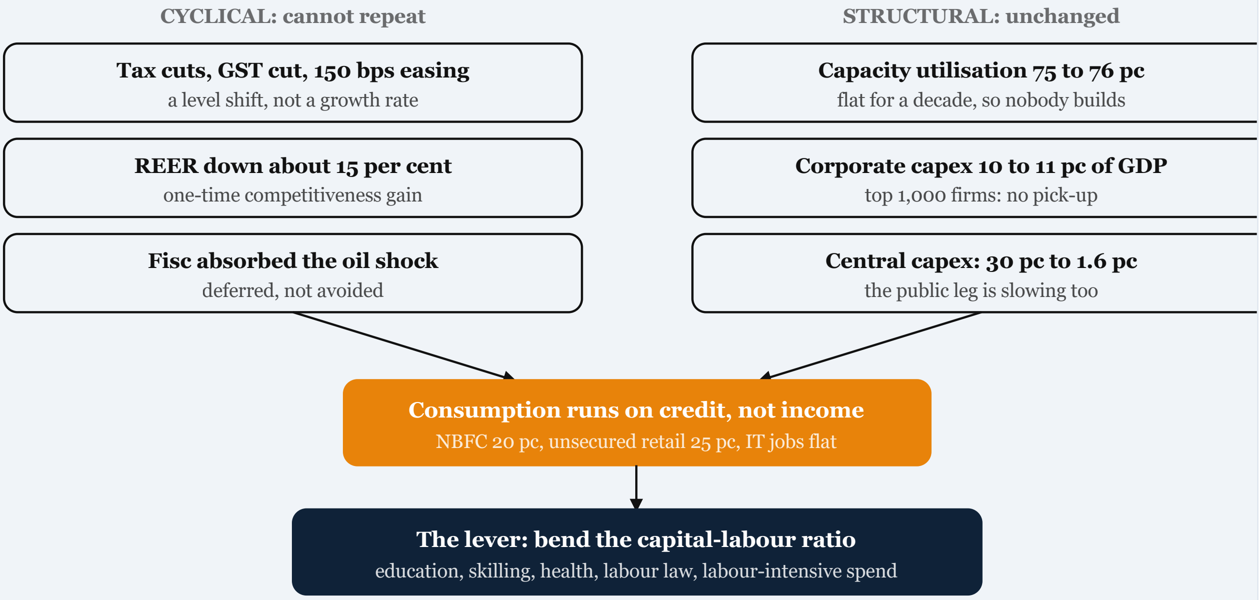
The strongest counter to the column is that the cyclical and the structural are not cleanly separable in a developing economy. Capacity utilisation is stuck at 75 to 76 per cent because demand has been weak; sustained demand raises utilisation, and once utilisation crosses the threshold at which firms fear running short of capacity, investment follows. On this reading, a demand-side stimulus is not an alternative to structural reform but its precondition, and the author's own historical example supports it: it was demand, in the form of 16 per cent export growth, that crowded in private capex between 2003 and 2012, not a factor-market reform.

A second counter concerns the credit warning. Household leverage has risen sharply, but from a low base by international standards, and it is being extended by **NBFCs and banks with clean balance sheets** after a long repair cycle. The systemic risk from 20 to 25 per cent growth in household credit is real but not immediate, and the correct policy response is macroprudential calibration, risk weights and provisioning norms, rather than a slowdown in consumption.

The strongest point in the column's favour is the arithmetic of public investment. Central capex growth falling from 30 per cent to 1.6 per cent, with state capex growing below nominal GDP and cash transfer commitments expanding, is not a matter of interpretation. Both public legs of investment are decelerating simultaneously, and no amount of optimism about the private cycle changes the fact that the public one is contracting.

The hardest question the column raises and does not resolve is the political economy of the labour-capital choice. Making labour cheaper relative to capital means, in practice, some combination of lowering the non-wage cost of employment, easing the rigidities that make formal hiring risky, and diverting fiscal support from capital-intensive incentive schemes towards labour-intensive sectors. Each of these creates identifiable losers immediately and diffuse winners later. That is the standard reform problem, and naming the priority does not by itself solve it.

DIAGRAM-IN-WORDS



The left column bought time. Only the bottom box converts it into growth.

Each cyclical driver on the left is a one-time gain that cannot be repeated, while every structural indicator on the right is where it was a decade ago. Because consumption is currently financed by household borrowing rather than rising incomes, the employment intensity of growth is the single variable that determines whether the upswing outlasts the stimulus.

HOW TO THINK ABOUT THIS

The master frame is the cyclical-structural distinction, and it is the most valuable analytical habit in the entire economy syllabus.

A **cyclical** improvement comes from the temporary state of demand, policy or the external environment. A **structural** improvement comes from a change in the economy's productive capacity: the capital stock, the skill level of the workforce, the efficiency of factor markets, the depth of institutions. Cyclical measures raise output now by borrowing from later; structural measures raise the ceiling permanently.

The diagnostic test is simple: **ask whether the driver can be repeated.** A tax cut cannot be repeated indefinitely. A 15 per cent currency depreciation cannot be repeated without inflationary consequences. A rate cut runs into the effective lower bound. Compare with education, port efficiency, or the ease of firm entry and exit, each of which raises the level permanently and can be improved again.

The second frame is that investment follows demand. Aspirants frequently write that private investment is low because of high interest rates, or taxes, or sentiment, and then recommend incentives. The evidence in this column points elsewhere: **at 75 per cent capacity utilisation, no interest rate makes new capacity rational.** The binding constraint is visible demand, which is why the 2003-2012 export boom crowded in capex and why post-pandemic incentive schemes have not. Carry this into any question on the private capex cycle or on production-linked incentives.

The third frame is the composition of consumption growth. Consumption financed by rising incomes is sustainable; consumption financed by rising leverage is a loan against future consumption. Whenever you see strong consumption figures, look for the income counterpart. If household credit is growing at 20 to 25 per cent while wages and salaried employment are flat, the demand is real today and borrowed from tomorrow.

The fourth, and the one most likely to appear in future papers, is the factor-price question in the age of automation. India's development model has assumed that abundant labour is its comparative advantage. A rising capital-labour ratio over two decades, now accelerated by artificial intelligence, is that assumption weakening in real time. The policy implication is uncomfortable: making labour attractive relative to capital requires reducing the cost and risk of employing people, which touches labour law, social security financing and the design of incentive schemes that currently subsidise capital.

WAY FORWARD

Treat the employment intensity of growth as the primary objective, not a by-product. Every fiscal instrument should be assessed by the jobs per rupee it creates, which would shift the balance from capital subsidies towards labour-intensive manufacturing, construction, tourism, textiles, food processing and care work.

Complete and operationalise labour law reform. The four labour codes consolidate 29 central laws, but consolidation is not reform unless it reduces the cost and legal risk of formal hiring. The examinable tension is between worker protection and hiring incentive, and both sides of it deserve to be stated.

Protect public capital expenditure inside the fiscal envelope. With central capex growth at 1.6 per cent and state capex growing below nominal GDP, the composition of public spending, and specifically the trade-off with expanding cash transfer commitments, is now a first-order growth question rather than an accounting one.

Pursue export competitiveness through cost reduction, not incentive. Continue rationalising tariffs and Quality Control Orders, reduce logistics costs, and use the FTA pipeline for market access. Goods exports at 11 per cent of GDP, down from 17 per cent, is the number that has to move.

Calibrate household credit macroprudentially before it becomes a problem. Risk weights, provisioning and lending standards for unsecured retail and NBFC household exposure are the appropriate instruments, applied while balance sheets are still clean.

Invest in human capital as economic infrastructure. Education, skilling and health are usually filed under welfare. In an economy whose principal constraint is the productivity of labour relative to capital, they are the supply side.

PYQ LINKAGE AND PRACTICE

Connects to standing UPSC themes on **jobless growth**, **the investment rate and crowding in**, **the effects of liberalisation**, **inclusive growth**, and **the impact of technology on employment**, and pairs naturally with questions on the demographic dividend and on production-linked incentive schemes.

Practice question: *“India’s recent growth has been driven more by cyclical stimulus than by structural improvement. Critically examine this proposition with reference to the investment rate, capacity utilisation and the employment intensity of output.”* (250 words)

Sources: The Indian Express, Reserve Bank of India, MoSPI

Source: Cyclical Cheer, Structural Worry: Reading India's Growth Before the GDP Print — Ujiyari.com | Free UPSC & State PCS Editorial Analysis

KEY ARGUMENTS AT A GLANCE

Writing in the Indian Express, the head of Asia Economics at J.P. Morgan argues that India's apparent resilience through the West Asia conflict is real but cyclical, produced by a coordinated fiscal, monetary and regulatory stimulus, and that the structural determinants of long-run growth, principally the investment rate and the employment intensity of output, have not improved and are in some respects deteriorating.

✓ SUPPORTING

- Three factors explain the pick-up: a joint stimulus in 2025 comprising direct tax cuts in February, GST rationalisation in September and an effective 150 basis points of policy rate cuts with regulatory easing; accelerating non-oil exports helped by a near 15 per cent depreciation in the real effective exchange rate since 2025 and lower US tariffs; and a swift response to the conflict that diversified energy sourcing while the fisc absorbed most of the oil price shock.
- The investment picture is the sobering counterpoint: fixed investment remains at its decadal average of about 32 per cent of GDP, corporate capex languishes at 10 to 11 per cent of GDP with no discernible pick-up in the balance sheets of the top 1,000 listed companies in 2025-26, and central capital expenditure growth has collapsed from 30 per cent between 2020 and 2023 to 11 per cent in 2024 and just 1.6 per cent in 2025.
- Corporate capex will not revive without demand visibility, and capacity utilisation has been stuck in the 75 to 76 per cent range for a decade while Chinese overcapacity floods world and Indian markets; the historical precedent is that 16 per cent export growth between 2003 and 2012 is what crowded in private investment, against roughly 5 per cent growth in post-pandemic consumption and exports.
- Consumption is currently being financed by credit rather than income, with NBFC lending to households growing at 20 per cent and banks' unsecured personal lending momentum at 25 per cent on top of a sharp rise in household leverage, while service export growth has halved to 8 per cent and employment across major IT firms has been flat, which places the burden squarely on raising household incomes.

⚠ COUNTER

Cyclical and structural are not cleanly separable in a developing economy: sustained high demand itself raises capacity utilisation, pulls forward corporate investment and converts a cyclical upswing into a structural one, so a policy of stimulating demand while gradually reforming factor markets may be the realistic sequence rather than a substitute for reform; and India's clean corporate and bank balance sheets mean the credit expansion begins from an unusually safe base.

→ **WAY FORWARD**

Bend the capital-labour ratio deliberately: invest in education, skilling and health, rationalise labour laws that raise the cost of employing workers, and direct scarce fiscal resources towards labour-intensive sectors. Complement this by making exports structurally competitive through decisive tariff and non-tariff rationalisation, continued Quality Control Order pruning, deregulation, and use of the FTA pipeline, so that private capex is crowded in by visible demand rather than coaxed by incentives.

MAINS ANSWER FRAMEWORK

QUESTION

India's recent growth resilience has been substantially cyclical, driven by tax cuts, rate cuts and credit expansion. Examine the structural constraints on sustaining high growth, with particular reference to the investment rate, the employment challenge and the declining share of goods exports in GDP. (250 words)

INTRODUCTION

India's macroeconomic headlines are about to look strong, with the first-quarter GDP print due at the end of August and high-frequency indicators in autos, credit, exports and corporate earnings all pointing upward despite a West Asia conflict that was expected to damage growth. The analytically important question is not whether the number is good, but what produced it and whether the producing forces can persist.

BODY

The resilience is attributable to three identifiable causes, and all three are cyclical or one-off. A coordinated stimulus in 2025 delivered direct tax cuts, GST rationalisation and an effective 150 basis points of monetary easing alongside regulatory relaxation.

Non-oil exports accelerated on the back of a near 15 per cent real effective exchange rate depreciation and reduced US tariffs. And the policy response to the oil shock was fast, with energy sourcing diversified and the fiscal balance absorbing the price increase to insulate the private sector, a choice that transfers the cost to future fiscal space rather than eliminating it.

Against this, the structural indicators have not moved. Fixed investment sits at its decadal average of about 32 per cent of GDP, corporate capex at 10 to 11 per cent, and capacity utilisation has been range-bound at 75 to 76 per cent for ten years, which is precisely why firms will not build.

Public investment, which carried the post-Covid recovery, has decelerated sharply as tax cuts consumed fiscal space. Consumption is being financed by household credit growing at 20 to 25 per cent rather than by rising incomes, and the white-collar services engine has weakened, with service export growth halving and IT employment flat.

CONCLUSION

The binding constraint is the employment intensity of growth. India's capital-labour ratio has risen for more than two decades and artificial intelligence is accelerating the trend, so making labour a more attractive factor of production, through education, skilling, health, labour law rationalisation and fiscal support to labour-intensive sectors, is the central policy task.

Cyclical strength buys the time to do it; it does not substitute for doing it.

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