

## 1. Examine the causes of low growth rates in the agriculture and manufacturing sectors in India. Suggest measures to enhance their productivity and contribution to GDP.

Agriculture and manufacturing are integral to India's economy, contributing approximately 18% and 17% to the Gross Domestic Product (GDP) and providing employment to a significant portion of the population. Despite their importance, both sectors have faced periods of sluggish growth due to various structural and policy challenges. In the fiscal year 2022-23, the agriculture sector grew by 3.5%, while the manufacturing sector experienced a contraction of 1.1% in the third quarter of 2023-24, according to data from the National Statistical Office (NSO). Addressing these challenges is crucial for enhancing productivity and bolstering their contributions to the nation's GDP.

### 1. Causes of Low Growth in Agriculture

#### a) Structural Challenges

- **Small and Fragmented Landholdings:** A significant portion of Indian farmers operate on small and scattered plots, limiting the adoption of modern farming techniques and economies of scale. According to the latest Agricultural Census, about 86% of farmers are small and marginal, which restricts the potential for large-scale farming practices.
- **Low Mechanization:** The prevalence of small landholdings makes it challenging to utilize advanced machinery effectively, leading to reliance on manual labor and outdated tools. India's farm mechanization rate stands at 40%, which is lower than that of China (60%) and the United States (95%).

#### b) Policy and Market Constraints

- **Inadequate Credit Access:** Many small and marginal farmers face difficulties in obtaining institutional credit, hindering their ability to invest in quality inputs and technology. For instance, farmers depend on the Minimum Support Price (MSP), but only about 6% of them benefit from MSP procurement, as highlighted by the Shanta Kumar Committee in 2015.
- **Market Inefficiencies:** Limited access to organized markets and the dominance of intermediaries often result in farmers not receiving fair prices for their produce. According to the National Bank for Agriculture and Rural Development (NABARD), approximately 30% of small farmers lack access to institutional credit.

#### c) Environmental and Climatic Factors

- **Dependence on Monsoons:** A substantial portion of Indian agriculture relies on monsoon rains, making it vulnerable to climatic variations and leading to inconsistent yields. The Department of Agriculture and Farmers Welfare reports that about 52% of the net sown area still depends on rainfall.
- **Soil Degradation:** Practices such as the overuse of chemical fertilizers have led to soil health deterioration, adversely affecting productivity. The Indian Council of Agricultural Research (ICAR) indicates that around 30% of India's land suffers from soil erosion and declining fertility.

### 2. Causes of Low Growth in Manufacturing

#### a) Structural and Policy Issues

- **Regulatory Complexities:** The manufacturing sector often faces a complex regulatory environment, leading to increased compliance costs and operational challenges. India ranks 40<sup>th</sup> in the Global Innovation Index 2023, indicating room for policy improvements.
- **Labor Market Rigidities:** Stringent labor laws can deter firms from scaling operations and adopting flexible employment practices.

#### b) Infrastructure Deficiencies

- **Logistics and Transportation:** Inadequate infrastructure leads to high logistics costs, making Indian manufacturing less competitive globally. Logistics costs in India account for 14% of GDP, compared to 8-10% in China and the United States.

- **Energy Supply:** Unreliable power supply affects manufacturing efficiency and increases operational costs.

### c) Technological and Skill Gaps

- **Limited R&D Investment:** Insufficient focus on research and development hampers innovation and the adoption of advanced manufacturing technologies. India spends 0.7% of its GDP on R&D, which is lower than China (2.4%) and the United States (2.8%).
- **Skill Mismatch:** The existing workforce often lacks the necessary skills for modern manufacturing processes, leading to productivity losses. According to the India Skills Report 2023, only 48% of India's workforce is considered employable.

## 3. Measures to Enhance Productivity and GDP Contribution

### a) Agricultural Sector

- **Land Reforms:** Encouraging land consolidation and cooperative farming can help achieve economies of scale. For example, the Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) scheme provides income support to farmers, facilitating investment in land development. For instance, A comprehensive programme for the promotion of production, efficient supply, processing, and remunerative prices for fruits and vegetables will be launched. The programme has been allocated Rs 500 crore for 2025-26. It will target formation and participation of Farmer Producer Organisations and Cooperatives across states.
- **Enhancing Irrigation Facilities:** Investing in irrigation infrastructure can reduce dependence on monsoons and improve crop yields. The Pradhan Mantri Krishi Sinchai Yojana (PMKSY) aims to increase irrigated land coverage, which has risen from 48% to 55% in the last five years. The Union Budget for 2025-26, presented in Parliament on Saturday, February 1, allocated ₹8,259.85 crore to the Pradhan Mantri Krishi Sinchai Yojana (PMKSY), reinforcing the government's commitment to enhancing irrigation facilities and improving water-use efficiency in India's agriculture sector.
- **Access to Credit and Insurance:** Strengthening financial inclusion for farmers through schemes like the Kisan Credit Card (KCC) and the Agriculture Infrastructure Fund can provide the necessary capital for investments. For instance, in 2025-26, the government has allocated Rs 12,242 crore for the crop insurance scheme
- **Market Reforms:** Improving market access through initiatives like the National Agriculture Market (e-NAM) can ensure better price realization for farmers. For instance, In 2025-26, Rs 6,941 crore have been allocated to the PM-AASHA scheme.

### b) Manufacturing Sector

- **Simplifying Regulatory Framework:** Streamlining regulations can reduce compliance burdens and encourage investment. For instance, PLI Scheme.
- **Infrastructure Development:** Investing in transportation and energy infrastructure through initiatives like PM Gati Shakti, Bharatmala, and Sagarmala can lower operational costs and enhance competitiveness.
- **Promoting R&D and Innovation:** Incentivizing research and development through initiatives like the National Research Foundation and the Production-Linked Incentive (PLI) scheme.

Agriculture and manufacturing are crucial for Atmanirbhar Bharat- India's economic growth, job creation, and self-reliance. Structural reforms, technological adoption, and targeted policy interventions can enhance their productivity. By leveraging schemes like PMKSY, PLI, and PM Gati Shakti, India can achieve higher economic growth and become a global manufacturing hub.

## 2. Assess the impact of rupee depreciation on India's trade and economy. What policy interventions are required to stabilize the currency?

Rupee depreciation refers to the decline in the value of the Indian rupee relative to foreign currencies, particularly the US dollar. This means that more rupees are required to purchase the same amount of foreign currency than before. The depreciation of the Indian rupee has far-reaching implications for the nation's trade balance and broader economy. Understanding these impacts and implementing effective policy interventions are crucial for stabilizing the currency and ensuring economic resilience.

### Impact on Trade and Economy

#### Positive Impacts of Rupee Depreciation

##### 1. Boost to Exports:

- A weaker rupee makes Indian goods and services cheaper for foreign buyers, increasing the competitiveness of Indian exports.
- Example: India's merchandise exports reached \$447.46 billion in FY 2022-23, partly supported by a depreciated rupee.
- Sectors like IT services, textiles, pharmaceuticals, and gems/jewellery benefit significantly. For instance, IT exports accounted for over \$200 billion in FY 2023, aided by a weaker rupee.

##### 2. Improved Trade Balance:

- A depreciated rupee can help reduce the trade deficit by making imports more expensive and exports more attractive.
- Example: The overall trade deficit reduced from USD 121.6 billion in FY23 to USD 78.1 billion in FY24.

##### 3. Remittances and Foreign Investment:

- Non-Resident Indians (NRIs) benefit from a weaker rupee as they get more rupees for their foreign currency remittances.
- Example: The remittances by Indians employed overseas, was USD 106.6 billion in FY24, against USD 101.8 billion during the previous year.

##### 4. Tourism Revenue:

- A weaker rupee makes India a cheaper destination for foreign tourists, boosting tourism revenue.
- Example: Foreign tourist arrivals (FTAs) in India reached 6.19 million in 2022, contributing significantly to forex earnings.

##### 5. Government Schemes:

- Schemes like Production Linked Incentive (PLI) for sectors like electronics, textiles, and pharmaceuticals are further boosted by a weaker rupee, as it enhances export competitiveness.
- Example: The Production Linked Incentive (PLI) Schemes have made significant strides in transforming India's manufacturing landscape. As of August 2024, actual investments totalling ₹1.46 lakh crore have been realized.

### Negative Impacts of Rupee Depreciation

#### 1. Higher Import Costs:

- A weaker rupee increases the cost of imports, particularly for critical items like crude oil, electronics, and machinery.
- Example: India imported 232.5 million tonnes of crude oil; import dependence on crude oil increased to 87.7% in 2023-24.

#### 2. Inflationary Pressures:

- Higher import costs lead to cost-push inflation, especially for fuel and essential commodities.
- Example: Retail inflation (CPI) averaged 6.7% in FY 2022-23, partly due to rising fuel and edible oil prices caused by rupee depreciation.

### 3. Increased Debt Burden:

- A weaker rupee increases the cost of servicing foreign-denominated debt for Indian companies and the government.
- **Example:** India's external debt rose to \$ 682.3 billion as of June 2024, up 2 percent over March 2024 and 8.5 percent over June 2023, data released by the Reserve Bank showed.

### 4. Impact on Current Account Deficit (CAD):

- While exports may rise, the higher cost of imports can widen the CAD if export growth does not offset import costs.
- **Example:** India's Current Account Deficit (CAD) moderated to 1.2 % of GDP in Q2 FY25 against 1.3 % of GDP in Q2 FY24

### 5. Foreign Investor Sentiment:

- A depreciating rupee can erode foreign investor confidence, leading to capital outflows from equity and debt markets.
- **Example:** Foreign portfolio investors (FPIs) have withdrawn equities worth over Rs 1 lakh crore from Indian markets in the first two months of 2025, according to data released by the National Securities Depository Limited (NSDL).

## Policy Interventions to Stabilize the Currency

### 1. Monetary Policy Adjustments

- **Interest Rate Policy:** The RBI can raise policy rates to attract foreign capital, making rupee-denominated assets more attractive. For example, a series of measured rate hikes have been used in the past to temper inflation and support the currency.
- **Foreign Exchange Swaps:** Recent interventions include conducting large-scale foreign exchange swap auctions—such as a \$10 billion three-year dollar/rupee swap—to infuse liquidity and ease short-term pressures on the rupee.

### 2. Fiscal Policy and Structural Reforms

- **Fiscal Consolidation:** Reducing the fiscal deficit by rationalizing government expenditure and boosting revenue collection can improve macroeconomic stability. A lower fiscal deficit enhances investor confidence, which is critical for currency stability.
- **Export Promotion:** Enhancing export competitiveness through infrastructural improvements, simplified export procedures, and export incentives (e.g., duty drawback schemes) can help balance the trade deficit.

### 3. Sector-Specific Schemes and Initiatives

- **Atmanirbhar Bharat:** This initiative aims to reduce import dependency by boosting domestic manufacturing and encouraging the use of indigenous technology. By enhancing self-reliance, the scheme helps mitigate external vulnerabilities that often trigger rupee depreciation.
- **Make in India and PM Gati Shakti:** These programs focus on improving manufacturing efficiency, streamlining logistics, and reducing production costs, which in turn can make Indian goods more competitive globally and reduce the need for imports.
- **Boosting Forex Reserves:** Policies aimed at attracting stable long-term investments— including liberalizing foreign investment norms and encouraging institutional investors— can help build robust foreign exchange reserves to act as a buffer against external shocks.

### 4. Managing External Debt and Diversifying Reserve Assets

- **Sustainable Borrowing:** Prudent management of external debt levels reduces vulnerability to currency fluctuations. Maintaining a sustainable level of foreign debt ensures that any depreciation does not exacerbate debt-servicing costs.
- **Diversification of Reserves:** Building a diversified portfolio of reserve assets can cushion the impact of rupee volatility and provide a stable base for intervention when necessary.

## Conclusion

While rupee depreciation can offer temporary competitive gains to exporters, its adverse impacts on import costs, inflation, and investor sentiment present significant challenges. A combination of monetary tightening, fiscal consolidation, and structural reforms—underpinned by flagship schemes like Atmanirbhar Bharat, Make in India, and PM Gati Shakti—can help stabilize the rupee. These interventions not only address short-term volatility but also pave the way for a more resilient and competitive long-term economic outlook for India.