On the Economy of West Bengal

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Abstract

This paper provides an exhaustive analysis of the structural dynamics, macroeconomic trajectory, and policy landscape of the West Bengal economy. Categorized as a mixed, middle-income developing social market economy, West Bengal currently stands as India's sixth-largest economy by nominal Gross State Domestic Product (GSDP).[2] However, this scale masks persistent challenges related to productivity and investment. The analysis confirms a strong structural shift towards tertiary sector dominance, contributing 55.30% of the GSDP.[2] While recent growth figures are robust (12% Nominal, 6.8% Real in 2024–25 FY) [2], historical industrial inertia, infrastructural deficits, and extreme Foreign Direct Investment (FDI) volatility constrain sustained high-value job creation. The state maintains fiscal stability regarding social expenditure, resulting in low poverty (8.60%) and low unemployment (3.4–6%) [2, 3], yet its low GSDP per capita ranking (21st nationally) highlights widespread underemployment and the necessity for a shift from volume-based labor absorption to productivity-driven growth. The paper assesses the potential impact of targeted 2023 policies aimed at logistics, industrial corridors, and export promotion.

The paper ends with "The End"

1 Introduction and Theoretical Framework

1.1 Contextualizing Regional Economic Trajectories

The economy of West Bengal occupies a crucial position in the Eastern Indian context, characterized by a substantial public sector presence and classifying as a lower-middle-income economy.[2] The state's capital, Kolkata, functions as the primary financial center for Eastern India, lending significant weight to the region's overall economic output and trade networks.[2] The current economic structure places West Bengal as the sixth-largest economy in India by nominal GSDP.[2] The prevailing analytical focus centers on understanding the structural transformation dynamics that have dictated the state's transition away from its historical industrial base toward a service-dominant model.

1.2 Historical Economic Path and the Deceleration Challenge

A critical historical trajectory dictates the current challenges faced by West Bengal: the sustained deceleration of its relative economic importance within the Indian Union. Data indicates that West Bengal's share of India's overall GDP has dwindled significantly, falling from 10.5% in 1960–61 to a meager 5.6% in 2023–24.[4] This decline establishes the primary long-term economic challenge for policymakers: overcoming decades of lost opportunity cost and inertia to recapture national economic relevance. This sustained downward trend confirms the narrative of historical industrial stagnation [5] and a failure to fully capture the benefits of post-1991 national economic liberalization. Overcoming this requires not merely growth that matches the national average, but sustained, accelerated expansion, driven by exceptional policy intervention and capital formation, particularly in infrastructure.

The primary objective of this study is to investigate whether the robust, recent growth momentum, highlighted by the 2024–25 estimates, signifies a genuine structural turnaround, or if it represents a cyclical recovery primarily driven by low-productivity service sector growth.

1.3 Key Macroeconomic Snapshot

The state demonstrates substantial economic scale, with the latest GSDP estimate reaching 20.3 lakh crore (US$240 billion) for the 2025–26 fiscal year.[2] Furthermore, growth figures for 2024–25 indicate a nominal growth rate of 12% and a corresponding real growth rate of 6.8%.[2]

Despite its considerable aggregate size, West Bengal faces significant hurdles in translating this growth into high standards of living. The GSDP Per Capita for 2025–26 FY is projected at 204,781 (US$2,400) [2], placing the state 21st in the national per capita rankings.[2] This disparity, where the state ranks 6th in GDP size but 21st in per capita income, indicates that the large population (estimated at 100 million in 2025) [2] heavily dilutes the economic output. The primary challenge is not merely expanding the GSDP pie, but substantially increasing the economic density and value-addition per citizen to lift the per capita rank. Consequently, structural reforms must prioritize productivity enhancement over simple output scale.

2 Macroeconomic Dynamics, Sectoral Structure, and Fiscal Health

2.1 GSDP Performance and Growth Decomposition

An in-depth analysis of the 2024–25 growth figures reveals a nominal growth of 12% juxtaposed against a real growth rate of 6.8%.[2] The difference between these figures, approximately 5.2 percentage points, represents the GSDP deflator. This calculated deflator is significantly higher than the reported Consumer Price Index (CPI) inflation rate of 3.63% recorded in June 2025 FY.[2]

This large gap between Nominal and Real growth, despite a relatively low reported CPI, suggests that significant price pressures are concentrated within non-consumer, investment-related goods, which are captured by the GSDP deflator. This indicates rising inflation in input factors crucial for production, such as construction materials, machinery, or industrial services. If input costs are rising sharply, it poses a notable threat to industrial revival efforts, dampening the competitiveness of the secondary sector's 26.93% contribution [2] and potentially discouraging capital formation necessary for large-scale manufacturing projects.

Table 1: Key Macroeconomic Indicators of West Bengal (FY 2024–26 Estimates)

Indicator	**Value**	**Reference Year**	**Source**
GSDP (Nominal Est.)	20.3 lakh crore (US$240 Bn)	2025–26 FY	[2]
Nominal Growth Rate	12.0%	2024–25 FY	[2]
Real Growth Rate	6.8%	2024–25 FY	[2]
GSDP Per Capita	204,781 (US$2,400)	2025–26 FY	[2]
Unemployment Rate	3.4%	2021–22	[2]
GSDP Share in All-India GDP	5.6%	2023–24 FY	[4]

2.2 Structural Transformation: Service-Led Dominance

The economy of West Bengal is fundamentally characterized by the dominance of the tertiary sector. The structural composition for 2024–25 is highly skewed towards services, which account for 55.30% of the GSDP. This is followed by the industry sector at 26.93% and agriculture at 17.77%.[2] The tertiary sector recorded the fastest growth rate among all sectors since 2011–12, contributing 56.99% to the state's Gross State Value Added (GSVA) in 2020–21.[6]

This reliance on services indicates that the state has bypassed the traditional manufacturing-led transition phase observed in many industrialized economies. While this drives overall economic growth, it potentially leads to lower productivity job growth, an effect implied by the low GSDP per capita rank (21st). The challenge is ensuring that this service-sector dominance is driven by high-value, knowledge-intensive services (such as IT/ITES) rather than exclusively by low-value informal services.

Table 2: Structural Composition of GSDP (2024–25 Estimates)

Sector	**Share of GSDP (%)**	**Key Characteristic**
Services	55.30	Tertiary sector dominance; fastest growth rate [6]
Industry	26.93	Manufacturing revival focus; subject to high input price inflation
Agriculture	17.77	Welfare protected; prone to output volatility

2.3 Fiscal Architecture and Expenditure Allocation

The state's fiscal health is defined by a government debt estimated at 37.98% of GSDP for the 2025–26 fiscal year [2], a figure that necessitates continuous monitoring to maintain debt sustainability.[7] In recent years, the fiscal framework was adapted; for instance, a 2022 amendment raised the fiscal deficit to GSDP ratio to 5% for 2021–22.[7] This likely permitted increased public expenditure, necessary to fund emergency welfare programs and social transfers in the post-pandemic period.

The State Budget for 2024–25 highlights clear priorities in expenditure allocation.[8] Significant capital is directed towards social sectors and welfare maintenance. Agriculture and Allied Activities received 22,620 crore, including 5,800 crore allocated for financial support through the Krishak Bandhu scheme. Education, Sports, Arts, and Culture received an even higher allocation of 47,470 crore, with significant sums dedicated to assistance for non-government primary and secondary schools.[8]

This heavy allocation towards welfare schemes and social services is effective for poverty reduction, which has seen the population below the poverty line drop to 8.60%.[2] However, this prioritizing of subsidies and social assistance, while politically and socially critical, creates a profound trade-off. It necessarily constrains the funding available for major capital expenditure required to remedy the acknowledged infrastructure deficiencies.[4] The current fiscal architecture maintains social stability and low poverty rates, but potentially perpetuates the infrastructure bottlenecks that are indispensable for achieving significant, sustained industrial expansion and long-term productive returns.

3 Sectoral Deep Dive: Drivers and Decelerators

3.1 The Primary Sector: Agriculture and Allied Activities

Contributing 17.77% of the GSDP [2], the primary sector remains foundational for large portions of the population. In terms of output, foodgrain production was recorded at 18.770 Ton mn in 2023. This figure represents volatility, having decreased from the all-time high of 20.310 Ton mn recorded in 2022.[9] West Bengal is also a dominant producer of key cash crops, notably Jute. The Jute yield reached 2701.00 kg/hectare in 2022–23.[10]

Despite the volume of production, agricultural distress remains a continuing challenge.[4] Jute production, for example, is vulnerable to specific crop diseases like 'Hooghly wilt' [11], necessitating organized seed production and better farm management. While the financial support provided through schemes like Krishak Bandhu addresses farmer income stability [8], it does not inherently solve underlying productivity challenges or the urgent need for crop diversification away from volatile commodities.[4]

Table 3: Select Agricultural Production Data

Commodity	**Unit**	**Latest Output/Yield**	**Reference Year**
Foodgrains Production	Ton mn	18.770	2023 [9]
Previous Peak Foodgrains Output	Ton mn	20.310	2022 [9]
Jute Yield	kg/hectare	2701.00	2022–23 [10]

3.2 The Secondary Sector: Industrial Revival Efforts

Historical analysis confirms a deceleration of industrial performance in West Bengal [5], which fundamentally contributed to the state's decline in national GDP share.[4] To counteract this inertia, the government has adopted a strategy of policy prioritization, aiming to identify and support "Star" sectors.[5]

A notable shift in policy approach is evidenced by a cluster of targeted policy instruments introduced in 2023.[12] These policies focus heavily on infrastructural enablement rather than generalized industrial subsidies. Key among these are the West Bengal Logistics Policy, 2023, which aims to improve the modal share shift and foster integrated infrastructure [13], and the West Bengal Industrial and Economic Corridor Policy, 2023. The Corridor Policy seeks to address fundamental constraints like land availability and connectivity by creating dedicated land banks, integrated infrastructure, and promoting Private Sector Participation (PPP).[13] Furthermore, the West Bengal New and Renewable Energy Manufacturing Promotion Policy, 2023, targets investment in high-potential, future-ready sectors.[12]

This focus on niche, forward-looking sectors and logistical solutions represents an attempt to jump-start industrial growth by directly linking infrastructure to new investment corridors. The policies are aimed at solving core constraints like land and logistics.[13] The success of the state's industry, which currently stands at 26.93% of GSDP [2], will be directly contingent upon the execution efficiency of these 2023 Corridor and Logistics Policies, particularly regarding land aggregation and multimodal connectivity, which aligns with the national Gati Shakti Master Plan.[13] The MSME sector is deemed crucial for this 26.93% share, and policies such as the Policy on Ease of Doing Business (EoDB) 2021 [12] and the logistics initiatives are designed to facilitate its expansion.

3.3 The Tertiary Sector: The Engine of Growth

The tertiary sector has been the unequivocal engine of economic growth, consistently recording the fastest growth rate among all sectors since 2011–12 and contributing a commanding 55.30% share to the GSDP.[2, 6]

3.3.1 Information Technology and ITES

The Information Technology (IT) and Information Technology Enabled Services (ITES) industry in West Bengal contributes significantly to the national output, hosting global software majors including IBM, TCS, and PwC. The state specializes in software development, Big Data, Analytics, and System Integration.[14] The total exports from West Bengal stood at US$12.59 billion as of 2021–22.[6] IT and associated services form a critical, high-value component of the state's overall export performance, positioning India as a preferred investment destination for global IT companies.[14]

3.3.2 Tourism and Hospitality

The tourism sector has marked a recent and remarkable milestone, acting as a crucial, counter-cyclical economic stabilizer. The state welcomed a staggering 18.5 crore visitors in 2024, a rapid increase from 8.4 crore in 2022.[15] This exponential growth was accompanied by impressive private investment of INR 5,710 crore last year, supported by the establishment of 42 new luxury hotels.[15]

Crucially, the tourism model facilitates widespread distribution of economic benefits. West Bengal ranks first nationally in homestay registrations, boasting 5,322 operational units.[15] Unlike centralized, high-capital manufacturing projects, the homestay model facilitates micro-entrepreneurship and distributes income widely, including in rural and semi-urban areas. This sector is vital for balancing the low GDP per capita ranking (21st) [2] by generating low-barrier employment, compensating for the historical failure of large-scale industrial job creation. Religious and festival tourism, especially Durga Puja, stands out as a major annual economic driver.[15]

4 Investment Climate, Trade, and Regulatory Environment

4.1 Foreign Direct Investment (FDI) Trends

Foreign Direct Investment (FDI) in West Bengal is characterized by relatively low cumulative stock and high short-term volatility. The cumulative FDI stock recorded between October 2019 and December 2024 stood at 13,945.50 crore (US$1.6 billion).[2] Analysis of quarterly inflows reveals extreme fluctuations: the inflow data averaged 66.550 USD mn quarterly, yet peaked dramatically at 253.300 USD mn in June 2020 before crashing to a record low of 7.720 USD mn by September 2020.[16] The latest quarterly inflow (December 2024) was 71.080 USD mn.[16]

The extreme quarterly fluctuations in FDI inflows are highly concerning for stable, long-term capital deployment. Stable industrial growth requires consistent capital infusion. This high volatility suggests that foreign capital may be confined to specific, non-replicable projects (e.g., a one-time acquisition or land purchase) rather than broad, sustained Greenfield investment across the planned industrial corridors. This sporadic investment pattern indicates perceived risk and highlights the fragility of investment attraction.

4.2 Ease of Doing Business (EoDB) and Regulatory Framework

West Bengal currently ranks 10th in the Ease of Doing Business (EoDB).[3] This positioning indicates regulatory progress, placing it ahead of many states, though it significantly lags the top industrial states like Maharashtra and Gujarat.[3] In response, the state promulgated the Policy on Ease of Doing Business (EoDB) in 2021 [12] aimed at procedural simplification and transparency.

However, the EoDB rank of 10th is only marginally effective if political and bureaucratic bottlenecks continue to contribute to perceived risk, causing long-term industrial investors to hold back on sustained large-scale projects.[4]

4.3 Trade Performance and Export Promotion

The state demonstrates substantial export capability, with total exports amounting to 107,259 crore (US$13 billion) estimated for 2024–25.[2] The composition of exports reflects a bifurcated economy: it includes high-value, modern exports like IT services, metro rolling stock, and warships, alongside traditional, commodity-based exports such as gold products, tea, jute, marine products, and petrochemicals.[2]

This dual export structure implies that the economy simultaneously runs on high-value services and established traditional sectors. The high-value streams require R&D, high skill sets, and global market access, while traditional sectors rely on scale, technological upgrades, and supply chain resilience. The West Bengal Export Promotion Policy, 2023 [12], must differentiate strategies for these two streams to maximize growth, focusing on modernizing the traditional segment while further accelerating the growth of the IT and advanced manufacturing sectors.

Table 4: Investment and External Trade Metrics

Metric	Value/Rank	Period	Observation
Total Exports (Value)	US$13 Billion	2024–25 FY	Reflects bifurcated economy (high-tech & traditional) [2]
FDI Inflow (Dec 2024)	71.080 USD mn	Quarterly	Indicative of recent stabilization efforts [16]
FDI Inflow (Peak Volatility)	253.300 USD mn	June 2020	Highlighted risk due to extreme fluctuation [16]
Ease of Doing Business Rank	10th	Latest Available	Lags top industrial states [3]

5 Socio-Economic Development and Persistent Challenges

5.1 Labour Market Dynamics and Employment

West Bengal exhibits an interesting labor market anomaly. The state's unemployment rate has generally remained lower than the national average [3], standing at 3.4% in 2021–22 [2], and estimated at approximately 5.5–6% in 2023.[3] Furthermore, the state demonstrated significant resilience during the pandemic; unemployment peaked at only 7–8% in 2020, compared to a national surge of 23–24%.[3] This resilience is likely attributable to a large, resilient agricultural base and the quick absorption capacity of the expansive services and informal sectors.

However, a relatively low unemployment rate coupled with a low GDP per capita (21st rank) indicates widespread underemployment and low-productivity work. The jobs being created—primarily in the service sector (e.g., tourism, retail, informal services)—are sufficient to classify individuals as employed (as per the Periodic Labour Force Survey's Usual Status approach) [7], but they do not generate high value or high wages. The state successfully manages labor volume but fails on value, necessitating a crucial shift in policy focus from mere job creation to job quality and skill enhancement.

5.2 Inequality and Human Development

The state has demonstrated considerable success in social metrics. Poverty reduction efforts have lowered the population below the poverty line to 8.60% in 2022–23.[2] Inequality is also relatively modest, with the Gini coefficient reported at 0.25 in 2023–24.[2] The Human Development Index (HDI) score is 0.661 (2023).[2]

While these low poverty and inequality metrics are positive, the sustainability of this stability is largely dependent on sustained fiscal transfers (such as Krishak Bandhu).[8] If economic growth were to falter, or if the debt burden (37.98% of GSDP) [2] were to necessitate fiscal contraction, these poverty metrics could reverse rapidly, especially given the historical industrial fragility.[4] The long-term objective must be to transition welfare-supported stability to growth-supported prosperity. This requires addressing the human capital development challenge [4] through sustained focus on education quality and skill training to match the needs of the high-growth IT/ITES and advanced manufacturing sectors.

5.3 Structural and Infrastructure Deficiencies

Persistent structural bottlenecks continue to dampen the investment climate. Infrastructure development remains inadequate, particularly in rural areas, acting as a crucial drag on potential industrial growth.[4] Furthermore, political and bureaucratic bottlenecks continue to impact the efficiency of capital deployment and deter long-term industrial investment.[4] Finally, agricultural distress persists, exacerbated by insufficient access to credit and formal markets.[4]

6 Conclusions and Policy Recommendations

West Bengal's economy is defined by a paradoxical combination of large scale (6th largest in India) and low productivity (21st in per capita income). It exhibits robust service-led growth and effective fiscal management of social expenditure, resulting in low poverty and unemployment. However, the economy remains fundamentally constrained by historical industrial inertia, significant infrastructural deficits, and extreme FDI volatility. The analysis suggests that the current growth trajectory, while positive, is insufficient to reverse the decades-long decline in the state's share of national GDP. The following recommendations are structurally necessary to transition the economy towards sustained, high-value growth:

1. **Industrial Competitiveness Implementation:** The success of the industrial sector hinges entirely on the rapid, stringent, and transparent implementation of the 2023 Logistics Policy and the Industrial and Economic Corridor Policy.[12, 13] This requires immediate execution of the dedicated land bank strategy and the rapid establishment of multimodal connectivity crucial for attracting sustained FDI and overcoming persistent infrastructural bottlenecks.[4]

2. **Capital Expenditure Rebalancing:** A strategic shift in budgetary focus is required. While social transfers provide stability, greater resources must be directed toward critical, high-impact capital expenditure necessary to boost long-term productive capacity. This includes sustained investment in power grids, urban infrastructure modernization, and digital connectivity to support high-value manufacturing and ITES growth.

3. **Agricultural Resilience and Value Addition:** The state should move beyond high-volume foodgrain production [9] and volatile cash crops like Jute [11] towards value-added processing. This involves strategic diversification into less volatile, export-oriented horticulture, aquaculture, and fisheries, leveraging existing resources and dedicated policies (such as the West Bengal Fisheries Investment Policy 2015).

4. **Human Capital Alignment:** To bridge the gap between low unemployment and low productivity, targeted skill development programs are essential. These programs must be explicitly aligned with the high-wage requirements of the high-growth sectors: advanced manufacturing, IT/ITES, and high-end tourism services, ensuring that the state's large labor pool can transition into high-value occupations.

The End