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INTRODUCTION

The Indian economy is expected to achieve a growth rate of 7% or higher for FY24, with projections indicating continued growth in FY25 as well. If these projections for FY25 materialize, it will mark the fourth consecutive year of 7% or higher growth post-pandemic. This underscores the resilience and potential of the Indian economy, which bodes well for the future.

The global economy faces challenges in maintaining post-Covid recovery, including supply chain disruptions impacting trade flows, transportation costs, and inflation. However, having faced previous shocks, India expresses quiet confidence in weathering emerging disturbances. Emerging trends include the end of hyper-globalization in global manufacturing, challenges posed by Artificial Intelligence in services trade and employment, and the critical issue of energy transition, with a trade-off between economic growth and environmental sustainability. India is strategically navigating these challenges, emphasizing the need to lower logistics costs, invest in product quality, and transition to greener energy sources.

The Indian economy is better positioned to address these challenges due to policies adopted and implemented over the last decade, with historic infrastructure development and substantial public sector capital investment. The financial sector in India is robust, boasting a solid balance sheet, a willingness to lend, and double-digit non-food credit growth, excluding personal loans.

Indian Economy: Past, Present, and Future

- India's share of world income drastically decreased from 22.6% in 1700 to just 3.8% in 1952 when it gained independence. In the 1950s, the government implemented a strategy to attain economic self-sufficiency, free the economy from colonial restrictions, and promote growth and modernisation. During this period, rapid industrialisation, significant resource mobilisation, and investment in state-owned enterprises (SOEs) existed. However, the 1960s brought new challenges, such as the 1962 Sino-Indian war, the 1965-66 India-Pakistan war, and a severe drought in 1965, significantly impacting the Indian economy. High taxation rates and extensive economic control also slowed the economy, resulting in a decadal growth rate of just 4.1% in the 1960s.

- During the 1970s, India faced various economic and political issues, such as a sharp 57% devaluation of the rupee and the imposition of an Emergency in 1975, which resulted in limited civil liberties. These factors and global economic volatilities caused by the oil shock led to a significant decline in the average growth rate to 2.9%. However, in the following decade, the 1980s, India experienced an economic upturn driven by reform measures to improve domestic competitiveness. These initiatives included the removal of price controls, fiscal reforms, public sector restructuring, reductions in import duties, and de-licensing of domestic industries. Integration with the global economy was emphasised by promoting exports and fostering a more innovative and business-oriented environment. Though the GDP growth rate improved to 5.7% in the 1980s due to modest liberalisation and substantial government spending, external shocks such as the breakup of the Soviet Bloc and the Iraq-Kuwait war in 1990-1991 hurt trade and disturbed current account balances. This resulted in a balance of payment crisis, which required a bold response to revitalise the economy.

- The Balance-of-Payments (BoP) crisis 1991 and the subsequent reforms were crucial moments in India's economic development. The reforms aimed to dismantle the complex system of rules, permissions, and licenses, favouring state ownership of the means of production and ending the inward-looking trade strategy. Despite the positive impact of these reforms, the latter half of the 1990s witnessed a loss of growth momentum, coinciding with the East Asian financial crisis.

Contributing factors included setbacks to fiscal correction, a slowdown in agricultural growth due to lower-than-normal monsoon years, a deceleration in structural reforms, and frequent changes in government. Some attribute the downturn to monetary tightening in response to inflationary pressures. The real GDP growth averaged 5.8% per annum in the 1990s.

- During the early 2000s, India experienced sustained growth in its domestic economy, marked by better corporate performance and a favourable investment climate. Positive sentiments towards India also characterised this period as a preferred investment destination conducive to global liquidity conditions and interest rates. The transformative reforms implemented between 1998-2002 significantly contributed to the growth. Additionally, India experienced a global growth boom with substantial capital flows. During this period, various initiatives, such as Sarva Shiksha Abhiyan (SSA), National Rural Health Mission (NRHM), and National Rural Employment Guarantee Scheme (NREGS), were introduced. However, the global financial crisis 2008 exposed vulnerabilities in the growth trajectory, leading to the accumulation of bad debts in banks. The bad debt ratio reached double-digit, peaking at 11.2% in March 2018, with much of the bad debt originating between 2006 and 2008.

- Between 2009 and 2014, the Indian government attempted to maintain high economic growth by keeping fiscal deficits high and implementing a loose monetary policy for an extended period. This led to high inflation rates, with India experiencing annual double-digit inflation for five consecutive years, which helped to propel nominal GDP growth. However, this period was marked by significant twin deficits, with the fiscal deficit reaching 4.9% in FY13 and the current account deficit at 4.8% in FY13. Additionally, the Indian rupee was deemed overvalued. These challenges came to a head in 2013 when the Indian rupee sharply depreciated against the US dollar. Over these five years, the Indian rupee depreciated annually by 5.9%, ultimately leading to a stagnation in economic growth.

Lessons from the growth experience till 2014

- Firstly, the Indian economy experienced a significant transformation from closed to open. From 1950 to 1980, there were restrictions on technology, investment, and imports, with export subsidies and strict controls on manufacturing capacity. However, recognising the limitations of this controlled regime, pro-business reforms were introduced post-1980. These reforms included import liberalisation, export incentives, exchange rate policies, and expansionary fiscal policies. While these reforms were expected to enhance productivity and demand, unsustainable investments, questionable loans, opaque allocation of resources, and high fiscal deficits led to the Balance of Payments (BoP) crisis in 1990-91. This crisis prompted a complete overhaul of economic policies, transitioning towards a market economy. Substantial trade policy reforms and revamping industrial policies, including the withdrawal of industrial licensing and liberalisation of foreign direct investment (FDI), were introduced.

- Secondly, the Indian economy transitioned from the dominance of public investment to the co-existence of both public and private investment. The post-independence development strategy initially relied on the assumption that the public sector would generate savings for increased investment. However, by the 1970s, this expectation proved inaccurate, as the public sector was consuming savings rather than developing them. In the 1980s, the government began borrowing to meet revenue expenditure and finance public sector deficits and investments. This was evident in the significant rise in total public sector borrowings, increasing from 4.4% of the GDP in 1960-75 to 6% by 1980-81 and further to 9% by 1989-90. Subsequently, during the 1990s and 2000s, India's private sector emerged as the primary driver of growth and employment generation.

- Thirdly, technology emerged as a crucial driver of growth. In India's pre-liberalized era, foreign technologies were restricted due to resource limitations, a closed economy regime, and security concerns. Renowned Indian scientist Shri. R.A Mashelkar highlighted that India, following the path of 'techno nationalism,' developed self-reliance in technologies across civilian sectors and strategic domains like space, defence, nuclear energy, and supercomputers. From the 1980s onwards, India has gradually utilized technology to transform its economy.

- India's economic growth faced challenges in FY21 due to the global pandemic, resulting in a contraction of real GDP by 5.8%. However, the government's agile response, involving a comprehensive approach encompassing fiscal, monetary, and health measures, was crucial in supporting the country's economic recovery. Coupled with ongoing economic reforms, these measures are instrumental in mitigating the potentially long-lasting adverse effects of the crisis. Despite the conflict in Ukraine and disrupted supplies, the government effectively managed crude oil purchases at favourable prices, avoiding the need for an increase in retail prices of petrol and diesel for over eighteen months. Additionally, the government extended significant support to states, providing a 50-year interest-free loan of INR 1 lakh crore in FY23 and announcing another INR 1.3 lakh crore interest-free loan in FY24. States utilised a substantial portion of these loans for capital investments, witnessing a notable improvement in infrastructure development, including schools, rural roads, and electricity provision. Notably, states' capital expenditure increased by over 47% in the six months between April and September 2023 compared to the same period in the previous year, reflecting a positive impact on infrastructure enhancement.

Drivers of India's growth in the last decade

- The government's economic policy focus aims to restore India's growth potential through various measures:
  - Getting the financial sector back on track
  - Easing business conditions to facilitate economic activity
  - Massively augmenting physical and digital infrastructure to enhance connectivity and competitiveness in the manufacturing sector.
- Diverse economic reforms have been undertaken to create a business-friendly environment, improve ease of living, and strengthen governance systems and processes.
- The credit boom in the first decade of the millennium led to a severe financial system crisis up to 2020, prompting reforms in the financial sector:
  - Recapitalization and merger of Public Sector Banks (PSB)
  - Amendment of the SARFAESI Act 2002
  - Enactment of the Insolvency and Bankruptcy Code 2016 (IBC)
  - IBC facilitates resolving distressed entities, rescuing 2,808 corporate debtors until September 2023.
- Regulatory frameworks have been simplified, with reforms such as the Real Estate (Regulation and Development) Act 2016 promoting transparent transactions and reducing black money circulation.
- Tax policy reforms post-2014, including the unified Goods and Services Tax (GST), reduced corporate and income tax rates, exemption of sovereign wealth funds and pension funds from taxes, and the removal of the Dividend Distribution tax, have enhanced the ease of living and doing business.
- The government has transitioned its engagement with the private sector, emphasising their role as co-partners in development. Initiatives like Aatmanirbhar Bharat and Make in India aim

to enhance manufacturing capabilities and exports.

- The decriminalisation of minor economic offences under the Companies Act of 2013 has significantly improved the ease of doing business.

- Reforms targeting Micro, Small, and Medium Enterprises (MSME) sectors include the Emergency Credit Line Guarantee Scheme (ECLGS), revised MSME definitions, introduction of TReDS, and non-tax benefits extension for MSMEs experiencing an upward status change.

- Large-scale public spending since 2014 has addressed infrastructure and logistics bottlenecks, with programs like Bharatmala, Sagarmala, electrification, railways upgradation, and UDAN contributing to modernising infrastructure.

- The use of technology and digital platforms has been a common thread in all reforms, contributing to India's digitalisation reforms, formalisation, higher financial inclusion, and increased economic opportunities.

- Inclusive growth policies have been a core focus, with efforts such as free gas connections for over 10.11 crore women, construction of 11.72 crore toilets for people with low incomes, opening 51.6 crore Jan Dhan accounts, registering 3.24 beneficiaries, building 2.6 crore pucca houses for people experiencing poverty, and facilitating 6.27 crore hospital admissions under the Ayushman Bharat Scheme. These initiatives aim to include traditionally excluded sections in the mainstream as both beneficiaries and active contributors to India's growth story.

Looking ahead

- India's growth is anticipated to remain robust, supported by macroeconomic and financial stability, with the official estimate for growth in FY24 at 7.3% and a gradual decline in headline inflation.

- Resilient service exports and lower oil import costs have reduced India's current account deficit to 1% of GDP in the first half of FY24.

- The growth outlook is anchored by factors such as the digital revolution, a supportive regulatory environment for entrepreneurship, measures targeting economic upliftment of vulnerable sections, development of niche manufacturing sectors, infrastructure building, and efforts to diversify the export basket.

- Reforms undertaken by the Union government over the past decade have laid the foundation for a resilient, partnership-based governance ecosystem, restoring the economy's ability to thrive.

- India is poised for sustained brisk growth in the coming years, with economic and financial cycles becoming increasingly robust.

- Sub-national government reforms, including streamlined regulatory obligations for MSMEs, ensuring land availability at reasonable prices, and addressing energy needs, will further accelerate economic growth.

- In 2023, India achieved a G20 Presidency, showcasing its role as a consensus builder on the global stage, along with significant milestones in space exploration and 5G deployment.

- Despite risks and uncertainties, India has demonstrated resilience and progress through timely policy actions, macro stability, and investments in infrastructure.

- With ongoing and forthcoming policy reforms, significant optimism and confidence exist in the Indian economy and its prospects.

- India confidently embarks on its 'Amrit Kaal', viewing challenges as stepping stones rather than obstacles to growth and inclusive development.

WHAT MADE THE INDIAN ECONOMY RESILIENT?

- Following the pandemic-induced contraction in FY21, the Indian economy has experienced two consecutive years of growth above 7%, with indications pointing towards a similar trend for FY24. In the first half of the current fiscal year, the real GDP grew by 7.7%, surpassing the same period in FY23. Despite global uncertainties, the overall growth rate may exceed the Reserve Bank of India's projection of 7%, per the First Advance Estimates by the National Statistical Office. Resilience extends beyond economic growth, with declining unemployment rates and robust performance in high-frequency indicators such as E-way bill generation, rail freight, and port cargo traffic. Smart COVID management, localised lockdowns, a rapid vaccination drive, and targeted fiscal and monetary policies were pivotal in preventing a sharp output contraction. Additionally, the strong balance sheets of public sector banks, budgetary discipline, and strategic measures like the Insolvency and Bankruptcy Code contributed to the economy's growth, showcasing India's ability to maintain stability and high growth amid global challenges.

Domestic Economy

- India's real GDP is projected to average 7.9% between FY22 and FY24, showcasing remarkable post-Covid recovery.

- Government initiatives, such as the Make in India mission and Production Linked Incentive (PLI) schemes, have propelled the manufacturing sector. The share of manufacturing in total Gross Value Added (GVA) increased from 17.2% in FY14 to 17.7% in FY24.

- The construction sector rebounded, with its share in total GVA recovering from 8.8% in FY14 to 8.7% in FY24, driven by measures like Real Estate Regulatory Authority (RERA) and increased government capex.

- The service sector's share in total GVA grew from 51.1% in FY14 to 54.6% in FY24, fueled by the government's digitalisation efforts, including the globally recognised India Stack.

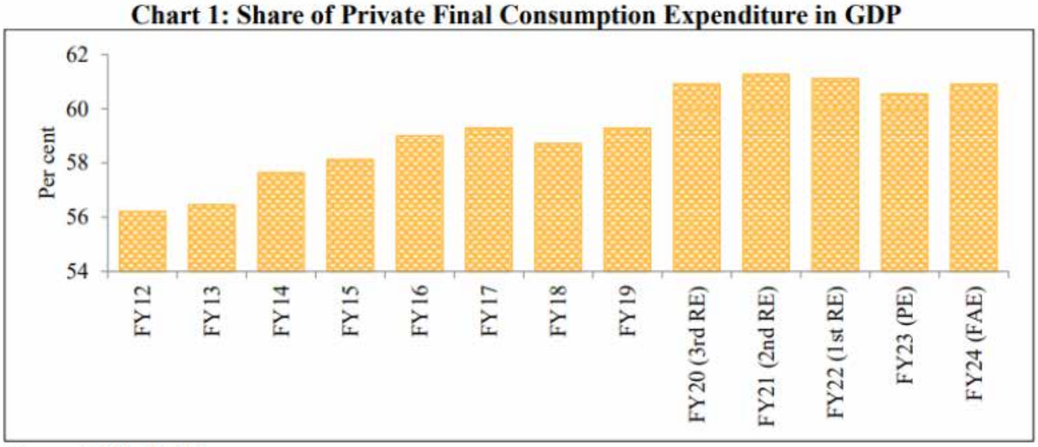
- Astute pandemic management, coupled with the Insolvency and Bankruptcy Code (IBC) and government capex, bolstered consumption and investment, contributing to the overall economic growth.

- Impressive export growth, supported by government measures, including a rising share in world services exports, has further fueled the Indian economy.

Resilience of consumption demand

- Private Final Consumption Expenditure (PFCE) in GDP at current prices rose from an average of 58.4% in the eight years pre-pandemic to 60.8% in the last three years ending FY24.

Chart 1: Share of Private Final Consumption Expenditure in GDP



Source: NSO, MoSPI

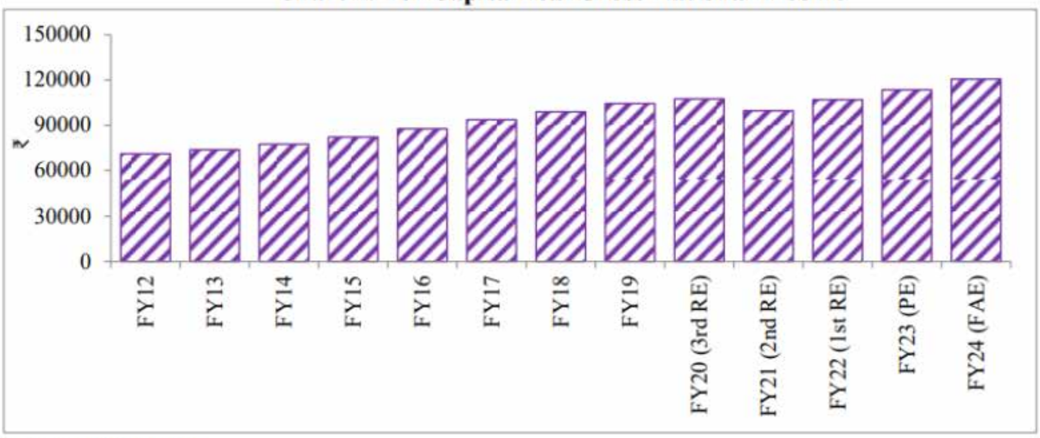
Note: RE stands for Revised Estimates, PE for Provisional Estimates and FAE for First Advance Estimates

- PFCE has played a pivotal role in post-Covid recovery, sustaining the economy amid geopolitical shocks, monetary tightening, and global demand challenges.

- A robust increase in Per Capita Real Gross National Income (GNI) nine years before the pandemic, with a CAGR of 5.3% from FY12 to FY20, laid the foundation for a secured consumption base.

- Market-friendly reforms, reduced compliance burden, simplified laws, and strategic disinvestment empowered the private sector, contributing to economic growth.

Chart 2: Per Capita Real Gross National Income



Source: NSO, MoSPI

Note: RE stands for Revised Estimates, PE for Provisional Estimates and FAE for First Advance Estimates

- Foreign investment promotion, investor-friendly policies, and nursing the financial sector back to health were critical factors in ensuring robust economic growth.

- PFCE growth is balanced across components, including durables, semi-durables, and services, with notable rebounds after the pandemic-induced disruptions.

- Astute COVID-19 management, increased market transparency, rising retail participation in the stock market, and infrastructure investments fueled PFCE.

- Emphasis on developing public digital infrastructure, highlighted in the Economic Survey 2022-23, played a crucial role in enhancing economic potential, facilitating pandemic response, and boosting consumption.

- Digitalization contributed to increased private consumption, witnessed through virtual healthcare visits, digital payments, and e-grocery shopping during the pandemic.

- Rural economic inclusiveness, driven by initiatives like Pradhan Mantri Jan Dhan Yojana (PMJDY) and Direct Benefit Transfer (DBT), narrowed the rural-urban divide and expanded the middle class, contributing to a sizable consumption base.

- The government's all-inclusive welfare approach is expected to further increase the consumption base through the expansion of the middle class, with projections indicating substantial growth in the coming years.

Enabling investment-led economic growth

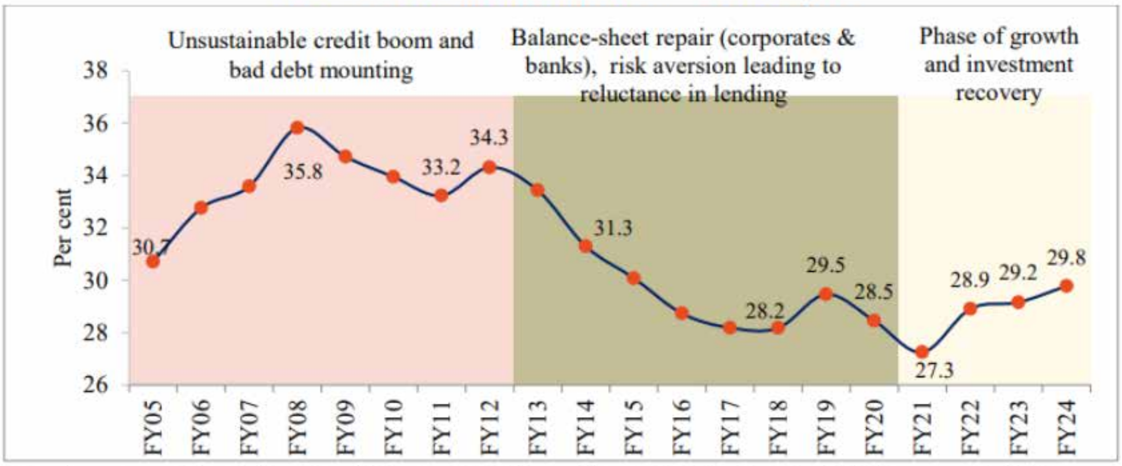
- The investment climate in India has transformed, making 'investment' a crucial driver of economic growth in recent years.

- The seemingly impressive investment rate in the millennium's first decade was unsustainable, driven by excessive borrowing and over-optimism.

- In the second decade, banks were reluctant to lend, and corporates had to trim balance sheets, leading to a decline in the investment share of GDP.

- Government initiatives, including recapitalisation of banks and industry restructuring, have resulted in more robust balance sheets, fostering growth in investments and credit over the last three years.

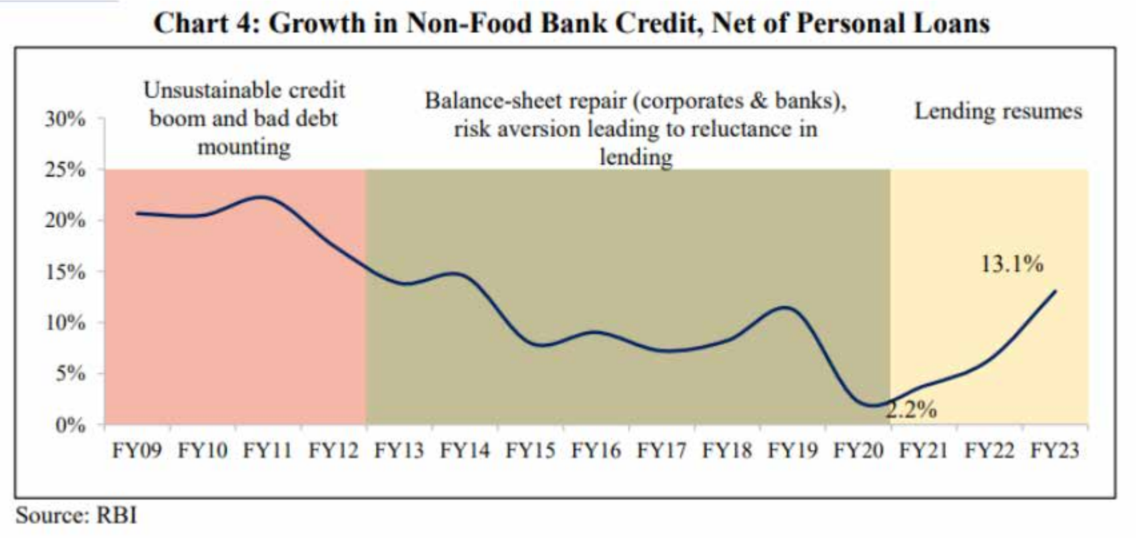
Chart 3-Trends in Investment rate over the years



Note: Investment Rate is the ratio of Nominal GFCF over Nominal GDP. Data for FY24 is as per the FAE

Source: NSO, MoSPI

- Private corporate investment has started to increase, and banks are responding with more significant credit disbursement, with non-food bank credit growth rebounding to 13% in FY23.

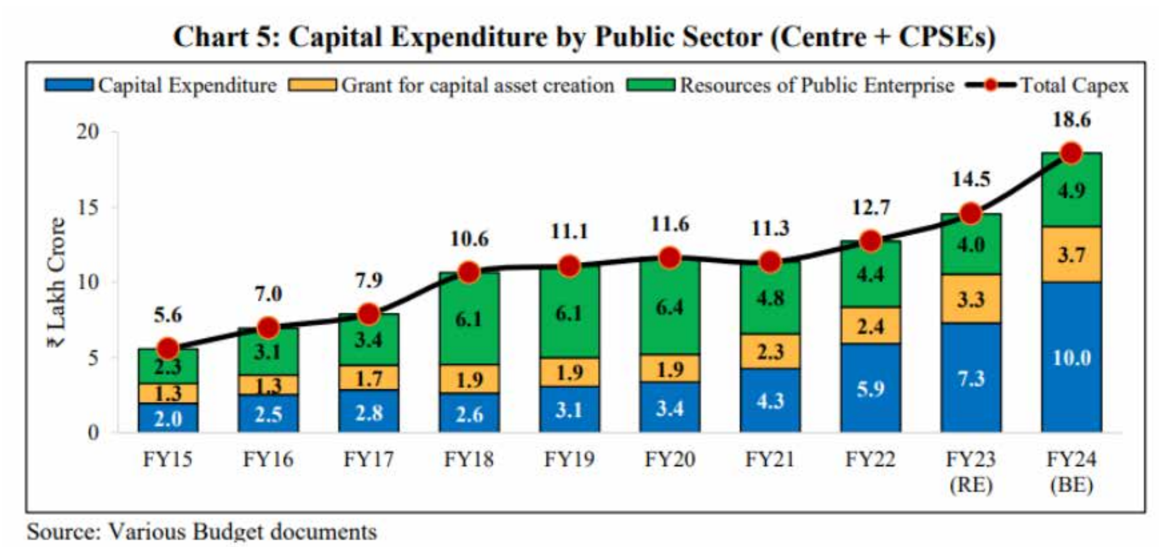


- The Union government played a significant role in sustaining investment growth during the period of balance sheet reduction, increasing capital expenditure from INR 5.6 lakh crore in FY15 to INR 18.6 lakh crore in FY24.

- The surge in capital expenditure, grants to states, and resources of Public Sector Enterprises (PSEs) facilitated the upscaling of capex, focusing on infrastructure investments to address supply-side deficiencies.

- Despite pandemic challenges, the government continued emphasising capital expenditure, rebalancing fiscal expenditure and creating fiscal space for infrastructure investments.

- Structural reforms, streamlined bureaucratic procedures, improved legal constraints, reduced corporate tax rates, and a uniform GST regime have created a supportive policy environment for investment.

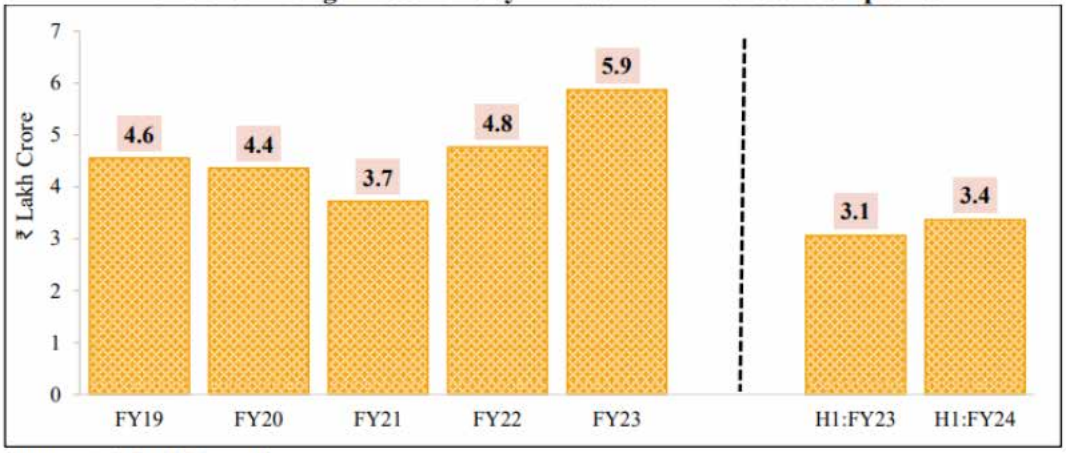


- Initiatives like the Pragati/Project Monitoring Group (PMG) mechanism have expedited the execution of delayed projects, resolving numerous issues and benefiting key infrastructure projects.

- Multiple indicators and industry reports suggest the emergence of green shoots in private capex upcycle in the post-pandemic years, with robust growth in capital goods and infrastructure/ construction sectors.

- Indices like the Index of Industrial Production (IIP) show strong growth, and corporate results indicate expanding private investment, with capital expenditure by Private Non-Financial Companies growing significantly in FY22, FY23, and H1 of FY24

Chart 6: Rising Investment by Private Non-Financial Companies



Source: Axis Bank Research

Note: Data is for a set of 3,336 companies

Agricultural Sector Policies Ensuring Food Security

- The agricultural sector, constituting 18% of India's GVA in FY24, is a crucial pillar of the economy, showing remarkable tenacity and resilience.

- Despite challenges from the global health crisis and climate variability, the sector has grown at an average annual rate of 3.7% from FY15 to FY23, contributing significantly to India's economic recovery.

- In FY23, the sector grew at 4.0%, demonstrating increased productivity and performance.

- Total food grains production for FY23 reached 329.7 million tonnes, marking a significant rise, and India maintains global dominance in various agricultural commodities.

- Agriculture exports surged to INR 4.2 lakh crore in FY23, showcasing India's potential to meet global food demand.

- Government measures, including increased Minimum Support Prices (MSPs) for crops and initiatives like PM-KISAN, PM-KMY, and PMFBY, provide financial and income support to farmers.

- Digital platforms like e-NAM have facilitated the online trading of agricultural commodities, connecting farmers, FPOs, buyers, and traders.

- Technology adoption, including affordable drone technology for farmers, and efforts to strengthen the cooperative movement contribute to enhancing farmers' access to resources and markets.

- Post-harvest infrastructure investments through the Agriculture Infrastructure Fund and sustainable agriculture practices are actively promoted.

- Ensuring food security remains a priority, with timely procurement and distribution of food grains under MSP operations and schemes like PM-AASHA and PMGKAY.

- Continuous innovation, policy consistency, and environmental considerations are crucial for sustaining the sector's growth and meeting evolving demands

Reform push to the Indian industry.

- Industrial growth accelerated to 7.1% per annum from FY15 to FY19, reaching 8% per annum by FY24, aided by multi-pronged reforms.

- The "Make in India" initiative and the Production Linked Incentive (PLI) scheme, covering 14 sectors with an outlay of INR 1.97 lakh crore, have significantly boosted production and exports.

- Startups under the Startup India initiative, numbering 1.14 lakh, have created over 12 lakh jobs, and digital commerce records over 6.3 million transactions.

- Regulatory reforms, including decriminalising 3,600 compliances, have improved the ease of doing business, and the Jan Vishwas Amendment Bill 2023 aims to decriminalise 183 provisions.

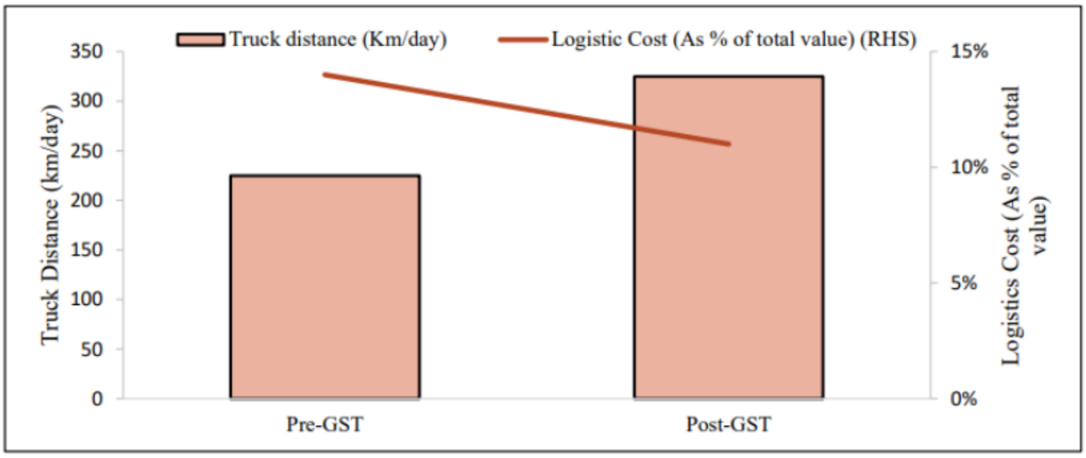
- Supportive measures for MSMEs include tax deductions for timely payments, registration on the Udyam portal, and initiatives like PM Vishwakarma with 48.8 lakh enrolments.

- Under Pradhan Mantri Mudra Yojana, INR 25.98 lakh crore has been disbursed, and the credit guarantee limit under CGTMSE increased to INR 5 crore, reflecting in a 16.8% average annual growth in credit provided by SCBs to micro and small enterprises.

- Logistics improvements, such as the Unified Logistics Interface Platform (ULIP), integrated with 699 industry players, and GST data integration, have led to a decline in logistics costs by 0.8 to 0.9% points of GDP between FY14 and FY22.

- Implementing GST reduced truck logistics costs, and measures to increase domestic steel production, coupled with a focus on affordable housing, resulted in a growth of around 12% per annum in the construction sector from FY22 to FY24.

Chart 12: Reduction in Logistics Cost for Trucks after implementation of GST accompanied by a rise in distance travelled per day



Source: Bernstein [Original source: data sourced from Ministry of Road Transport and Highways (MoRTH)]

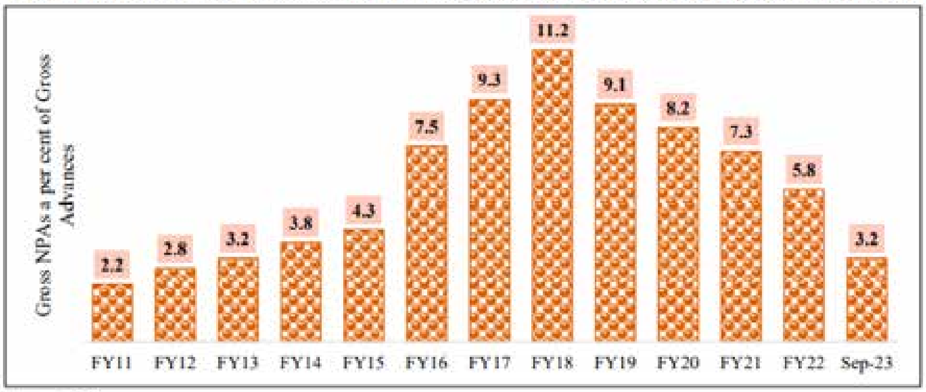
Digital Infrastructure and Delivery of Citizen-Centric Services

- India's world-class Digital Public Infrastructure (DPI), known as India Stack, played a crucial role during the pandemic, enabling online, paperless, and cashless digital access to various public and private services.
- The India Stack comprises three layers: Identity Layer (Aadhaar), Payments Layer (Unified Payments Interface - UPI, Aadhaar Payments Bridge, Aadhaar Enabled Payment Service), and Data Layer (Account Aggregator).
- The Identity Layer, through Aadhaar, provides digital identity to every Indian, facilitating services like direct benefit transfers and rapid growth in PMJDY accounts from 14.7 crore in March 2015 to 51.5 crore as of January 10, 2024.
- The Payments Layer, especially UPI, witnessed a significant increase in transactions from INR 0.07 lakh crore in FY17 to INR 143.4 lakh crore in FY24. The Data Layer transformed authentication and facilitated the KYC process, reducing e-KYC costs from INR 1000 to INR 5.
- During the pandemic, Aarogya Setu and CoWin apps facilitated tracking, containing the virus, and supporting vaccination efforts. PM eVIDYA and e-commerce platforms also utilised digital infrastructure effectively.
- India's e-commerce market is expected to reach US$ 163 billion by 2026, with online sales accounting for over 25% of sales across major non-grocery retail categories.
- The Account Aggregator, part of the Data Layer, has benefited around 4.5 million individuals and companies by providing easier access to financial services since its launch in August 2021.
- Enabling policies in the financial and telecommunications sector, along with initiatives like demonetisation, 100% FDI in telecom, and the GST rollout, supported the growth of India Stack.
- India's robust DPI has facilitated digital transformation, improved financial inclusion, and widened the tax base. The country is a leader in real-time payment transactions, and its fintech industry is among the fastest-growing globally.
- The impact of India's digital system is visible in the sharp increase in the share of services exports in GDP, with notable growth in business services exports between FY20 and FY23. Increased demand for digitisation post-pandemic has further encouraged the export of business services.

Credit creation is back

- Bank credit in recent years has shown remarkable growth, surpassing the growth in deposits, with non-food bank credit growing at 15% in FY23, the highest in the last ten years.

Chart 13: Declining Gross Non-Performing Assets of SCBs (as % of Gross Advances)



Source: RBI

- The banking sector's health improvement is attributed to significant reforms by the government and the RBI, which helped clean up the balance sheets of both banks and corporations.

- The 'twin balance sheet problem,' resulting from unsustainable credit and investment booms, led to a five-fold increase in GNPAs of Scheduled Commercial Banks (SCBs) from 2.2% in FY11 to 11.2% in FY18.

- The Asset Quality Review (AQR) and prompt corrective action (PCA) framework, along with the implementation of the Insolvency and Bankruptcy Code (IBC) in 2016, facilitated the resolution of bad debt and improved credit repayment culture.

- The IBC has rescued 808 corporate debtors through resolution plans, with realisations of 168.5% against the liquidation value and a study indicating significant post-resolution improvements in the performance of resolved firms.

- India's global ranking in resolving insolvency parameters improved from 136 to 52 in the first three years of IBC implementation.

- Corporate profit margins and public sector banks' profit margins improved as lending resumed after the resolution of stressed assets and government measures, including recapitalisation.

Table 1: Key ratios of Public Sector Banks (figures in per cent)

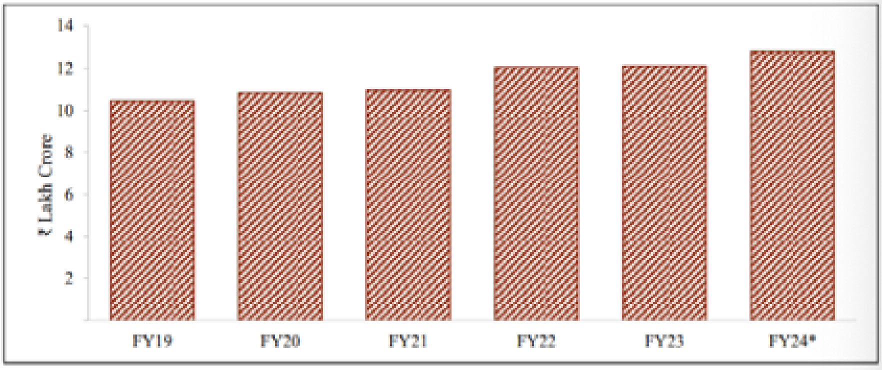
	2013-14	2022-23
Net Interest Margin (NIM)	2.45	2.72
Return on Assets (RoA)	0.50	0.79
Return on Equity (RoE)	8.48	12.35

Source: RBI

- The GNPA ratio started declining in March 2019, and regulatory intervention and recapitalisation improved the Credit Risk-Weighted Asset Ratio (CRAR), enabling banks to extend credit again.

- The RBI's measures, including easing repayment stress and the government's Emergency Credit Linked Guarantee Scheme (ECLGS), contributed to bank credit growth, particularly to MSMEs, with a CAGR of 14.2% from FY19 to FY24.

Chart 14: Bank Credit to the Infrastructure Sector



Source: RBI
Note: *Data for FY24 is as of 17th November 2023

- The enactment of IBC and amendments to the Banking Regulation Act marked a watershed in resolving financial stress in India, transforming the "twin balance sheet problem" into a "twin balance sheet advantage."

- The credit expansion by Non-Banking Financial Companies (NBFCs) has been robust, outpacing bank credit growth, driven by improved asset quality, capital levels, and liquidity.

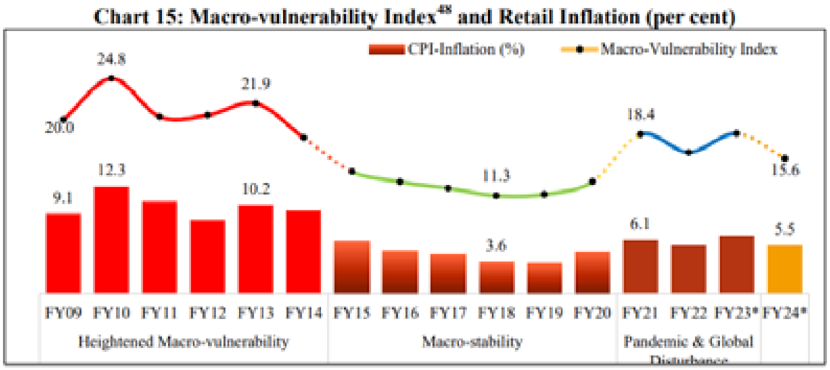
- Regulatory measures, including a revised scale-based regulatory framework and the extension of the PCA framework to NBFCs, have strengthened the sector, allowing supervisory intervention when necessary.

SAFEGUARDING MACROECONOMIC STABILITY

- The period between FY09 and FY14 experienced high average retail inflation of 10%, leading to significant macro-vulnerabilities. Since the introduction of flexible inflation-targeting within the band of 4 +/- 2%under the Monetary Policy Framework Agreement in FY16, retail inflation averaged 4.2%until FY20.

- The Price Stabilization Fund (PSF) set up in 2014-15 has effectively managed price volatility in essential agri-horticultural commodities. This, along with improved fiscal and external balances of the general government, has reduced macro-vulnerabilities and created buffers for challenging times.

Chart 15: Macro-vulnerability Index[48] and Retail Inflation (per cent)



Note: Retail Inflation from FY09 to FY12 is based on CPI-Industrial Workers released by the Labour Bureau, FY13 to FY24 (April-December) is based on CPI-Combined released by MoSPI
*Gross fiscal deficit data for FY23 is a Revised Estimate, and for FY24 is a Budget Estimate, Current Account Deficit data for FY24 is up to H1 (April-September)

- Maintaining inflation within the 2 to 6% was challenging during the COVID-19 pandemic and its aftermath, compounded by uneven weather conditions and disruptions in production, supply chains, and trade.

- Post-pandemic, FY22 witnessed an economic revival with increased growth and reduced inflation. However, by the end of FY22, global financial conditions worsened due to geopolitical conflicts and sanctions, leading to rising commodity prices and elevated inflation.

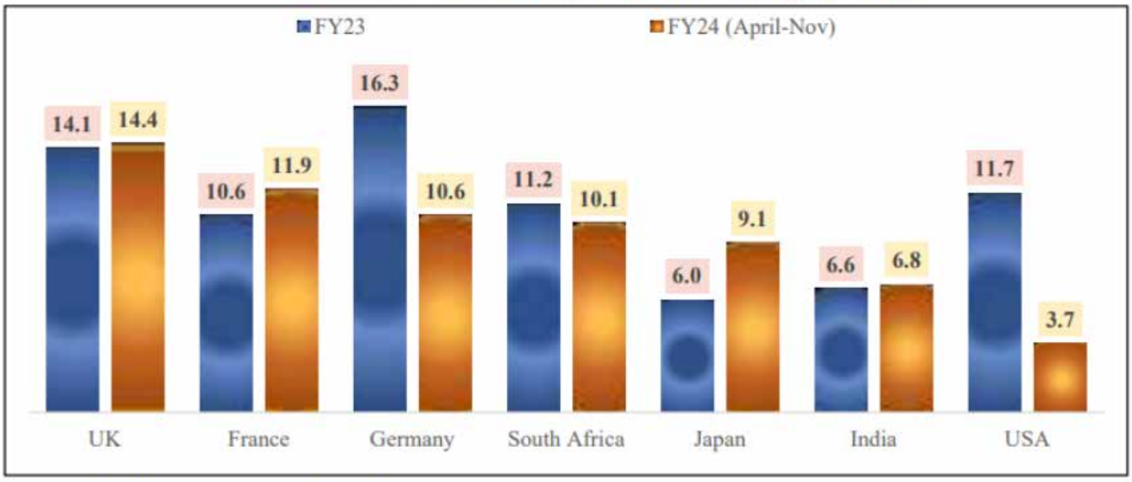
- The beginning of FY23 brought fresh challenges, including disruptions in global supplies of crude oil and natural gas due to the war in Ukraine and US sanctions. India diversified its energy supply sources to insulate the domestic economy from vulnerabilities, contributing to the revival of its growth.

- In FY24 (April-December), average retail inflation eased to 5.5%, driven by favourable core (non-food, non-fuel) inflation trends. The overall retail inflation is stable and within the notified tolerance band of 2 to 6%.

- Global challenges, including persistent food inflation, affected several developed economies. In India, untimely rains and weather-driven supply chain disruptions pressured specific food item prices. Supply-side initiatives, trade policy measures, and periodic open market releases helped manage inflationary pressures.

- Supportive monetary policy by the Reserve Bank of India (RBI) played a crucial role. The RBI progressively increased the policy repo rate from 4% in April 2022 to 6.5% until February 2023, aiming to align inflation with the target while supporting growth.

Chart 16: Global Food Price Inflation (per cent)



Source: MoSPI for India and OECD for other countries

- The RBI projects that inflation would average 5.4% in FY24, within the notified tolerance level. Improvements in the fiscal balance of the general government and the external current account balance are likely to moderate macro vulnerabilities once again.

Human Resources: Dovetailing Growth with Capacitating Welfare

- The rising productivity of social sector spending has been coupled with a focus on universal access to basic amenities. The Union government expenditure on social services increased at a Compound Annual Growth Rate (CAGR) of 5.9% between FY12 and FY23. Capital expenditure on social services also grew by 8.1% CAGR over the same period, indicating the creation of societal assets.

- Programs for universal access to basic amenities, such as Ujjwala Yojana, PM-Jan Aarogya Yojana, PM-Jal Jeevan Mission, and PM-AWAS Yojana, have gained prominence. This approach builds social infrastructure for the future, empowering underprivileged segments of the Indian population and enabling them to improve their standard of living.

- The shift towards universalisation of basic amenities has been accompanied by a target-based, "bang for the buck" mechanism for budgetary allocation. The Output-Outcome Monitoring Framework for primary central sector and centrally sponsored schemes has been implemented since FY20, promoting transparency and accountability through real-time monitoring.

- The DBT scheme and Jan Dhan Yojana-Aadhaar-Mobile (JAM) trinity have enhanced fiscal efficiency and minimised leakages. The "One Nation One Ration Card" program, allowing seamless portability of ration cards across states for migrant workers, represents the institutionalisation of digital goods in welfare.

- Prioritizing social enablers is crucial, and investments in child immunisation and sanitation yield positive externalities, benefitting the least privileged and contributing to better health and education outcomes.

- Affordable social security schemes for unorganised sector workers, such as Atal Pension Yojana (APY), PM Jeevan Jyoti Yojana (PMJJY), and PM Suraksha Bima Yojana (PMSBY), have seen remarkable progress. The subscriber base of APY in December 2023 stands at 6.1 crore, 30 times the base in FY15.

- Large-scale infrastructure development serves as a pathway to translate growth enablers into development, with a significant multiplier impact on employment at the grassroots level.

- India's response to the COVID-19 crisis involved a phased approach and safety nets for vulnerable sections. The calibrated response addressed specific needs, including food security, credit for street vendors, and employment for returnee migrants, while allowing different sectors of the economy to recover at varying paces.

Employment situation in the past decade

- Over the past decade, India's employment landscape has undergone notable positive transformations, influenced by economic reforms, technological advancements, and a focus on skill development. Structural reforms promoting ease of doing business have been crucial for productive employment generation.

- According to the Periodic Labour Force Surveys (PLFS) by the National Statistical Organisation, the unemployment rate has substantially declined from 6% in 2017-18 to 3.2% in 2022-23. The labour force participation rate (LFPR) has increased from 49.8% to 57.9% during the same period, with a significant rise in rural female LFPR.

Table 3: Annual Labour Market Indicators (usual status, age 15 years and above)

(Values in per cent)

		Rural		Urban		Rural + Urban	
		2017-18	2022-23	2017-18	2022-23	2017-18	2022-23
Male	LFPR	76.4	80.2	74.5	74.5	75.8	78.5
	WPR	72.0	78.0	69.3	71.0	71.2	76.0
	UR	5.7	2.7	6.9	4.7	6.1	3.3
Female	LFPR	24.6	41.5	20.4	25.4	23.3	37.0
	WPR	23.7	40.7	18.2	23.5	22.0	35.9
	UR	3.8	1.8	10.8	7.5	5.6	2.9
Person	LFPR	50.7	60.8	47.6	50.4	49.8	57.9
	WPR	48.1	59.4	43.9	47.7	46.8	56.0
	UR	5.3	2.4	7.7	5.4	6.0	3.2

Source: Annual Periodic Labour Force Survey (PLFS)

- The organised sector job market conditions, measured by payroll data for the Employees' Provident Fund Organisation (EPFO), show a consistent year-on-year increase in payroll additions since 2018-19. The net payroll additions to EPFO tripled from 61 lakh in 2018-19 to 139 lakh in 2022-23, recovering swiftly from the pandemic impact.

- The gig economy has emerged as a noteworthy job generator, employing 77 lakh workers in FY21. The rise of the gig economy is particularly significant in tier-2 and tier-3 cities, providing job flexibility and entry-level opportunities.

- Despite positive trends, challenges persist, including formalising a burgeoning workforce, creating jobs in sectors that can absorb workers transitioning from agriculture, and ensuring social security benefits for those in regular wage/salaried employment.

- As India continues to address these challenges and embrace opportunities in the 21st century, the positive aspects of its evolving employment scenario contribute to sustained economic growth and social progress.

Skill Development and Entrepreneurship\

- Recognizing the significance of a skilled workforce in a rapidly changing global economy, the government has implemented proactive measures to enhance the employability of citizens. The National Skill Development Mission and the National Policy on Skill Development and Entrepreneurship were launched, focusing on vocational education and skill development under the National Education Policy (NEP) 2020.

- The Skill India Mission, initiated in 2015, has played a central role in the skill development landscape. Nearly 1.4 crore candidates have been trained under the PM Kaushal Vikas Yojana since 2015. The Skill India Digital platform was recently launched to simplify acquiring skills in India.

- The emphasis on mass skilling is yielding positive outcomes, with India's position in WorldSkills Competitions rising from 39 in 2011 to 11 in 2022. The employable percentage of final-year and pre-final-year students has increased from 33.9% in 2014 to 51.3% in 2024, according to the India Skills Report 2023.

- The transformative journey in skill development over the past decade provides a foundation for mainstreaming skilling into the education curriculum. There is an opportunity to upskill a significant portion of the existing workforce into future-relevant skills, particularly for the 72.6% of workers aged 15-59 years who did not receive any formal/informal vocational/technical training, as per the PLFS 2022-23 report.

- The integration of skilling into education and upskilling the existing workforce can be a powerful tool for employability. With a focus on reaching out to the youth who already have ten or more years of schooling, the education-skill continuum can contribute significantly to the Indian Miracle.

- As the nation continues to invest in human capital through skill development initiatives, the positive impact is expected to be felt across sectors, driving economic prosperity and social development.

INDIA'S EXTERNAL SECTOR: SAFELY NAVIGATING THROUGH UNCERTAINTIES

Merchandise trade depicted resilience.

- India's exports have displayed remarkable performance, achieving record-high levels since FY22. Merchandise exports rose by over 50%, and services exports increased by 120% over the past decade (FY13 to FY23). The highest-ever merchandise export of US$ 451.1 billion was achieved in FY23. However, the growth rate moderated in FY23 due to persisting geopolitical tensions.

- Merchandise imports grew by 16.8% in FY23, but the moderation in merchandise exports continued during FY24 (till November 2023) mainly due to weaker global demand. India's merchandise trade balance improved significantly from a deficit of US$ 189.2 billion in April-November 2022 to US$ 166.4 billion in April-November 2023 due to a decline in imports.

- While the export mix in principal commodity classification has not changed significantly, there has been progressive diversification in India's export basket, providing opportunities to add more quality and complexity to exports given existing capabilities.

- In the export of services, India has established itself as a knowledge-based economy, with software services exports consistently comprising almost half of total service exports. Following the pandemic year, business and financial services have experienced double-digit growth since FY22. The rise of Global Capability Centres in India reflects this change.

- Total exports (merchandise plus services) have increased since FY22, reaching US$ 781.4 billion in FY23. Efforts are being made to enhance production capacity and export promotion, aiming for a target of US$ 2 trillion in exports by 2030. Policy measures include setting export targets, monitoring, providing export credit insurance services, encouraging banks to offer affordable export credit to MSME exporters, and facilitating exploration of new markets and product diversification.

Comfortable balance on current account

- Service exports, with a CAGR of 7.1% during FY12 to FY23, along with remittances with a CAGR of 4.5% during the same period, contributed to India's current account balance staying within a comfortable range, particularly after FY14.

- The current account deficit (CAD) for the first half (H1) of FY24 decreased to US$ 17.5 billion from US$ 48.8 billion in the same period the previous year, representing a decline of 64.1%. This improvement was driven by broad-based improvements in both merchandise trade and invisibles.

- India is the largest recipient of worker remittances globally, receiving US$ 125 billion in 2023. The remittances have benefited from a gradual structural shift in Indian migrants' key destinations, moving from low-skilled, informal employment to high-skilled jobs in high-income countries like the United States, the United Kingdom, and East Asia. A change in qualifications supports this shift.

- According to the World Migration Report 2022, nearly 36% of India's remittances are attributable to high-skilled Indian migrants in top high-income destinations, primarily high-tech sectors. In FY23, private transfer receipts, mainly representing Indian remittances, reached a record US$ 112.5 billion, growing at 26.2%, with a healthy growth of 11.2% in FY22. During April-September 2023, private transfer receipts amounted to US$ 55.2 billion, reflecting a 4.1% increase compared to the previous year's corresponding period.

Capital account

- The positive balance on the capital account compensated for the negative balance on the current account during H1 of FY24, leading to the accretion of foreign exchange reserves by US$ 27 billion since the end of FY23. The capital account witnessed an upsurge of 88.2% YoY in H1 of FY24, mainly due to higher inflows of foreign investment into India, both direct and portfolio.

- Stability in the rupee against other currencies during FY24, easing global inflationary pressures, and expectations of future rate cuts prompted foreign portfolio investors (FPIs) to increase their exposure to Indian markets by US$ 28.8 billion in H1 of FY24, compared to an outflow of US$ 7.8 billion in H1 of FY23. This trend is indicative of a positive momentum in FPIs.

- Various measures have been taken to simplify and rationalise the Foreign Portfolio Investment (FPI) regulatory regime, making it easier for FPIs to participate in different segments, including currency derivatives, and streamlining the onboarding process. The implementation of the online Common Application Form (CAF) and additional disclosures for mitigating concerns related to concentrated FPI investments in a single entity have been undertaken.

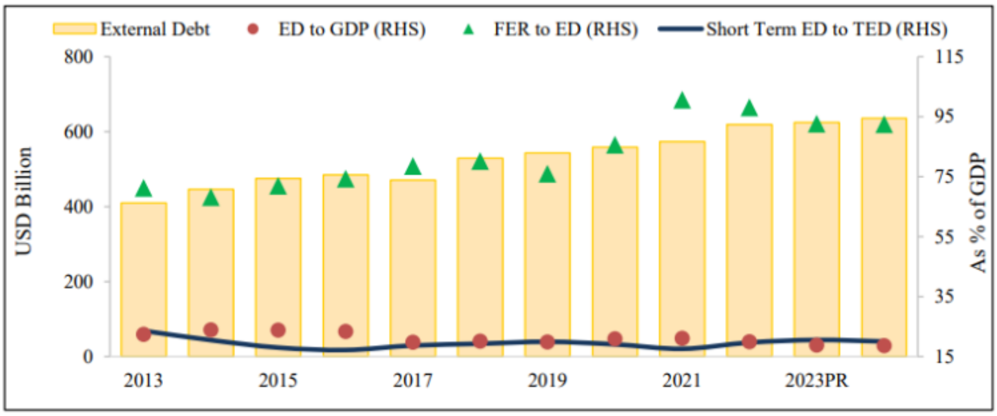
- subdued global trends have influenced Foreign Direct Investment (FDI) in India, but India remains a preferred destination for investors. The country's sizeable young workforce and a substantial middle-class population contribute to its attractiveness. The CAGR for FDI in India during FY13-FY23 was 28.0%.

- India's cumulative FDI inflows increased from US$ 305.3 billion in the ten years between FY05 and FY14 to US$ 596.5 billion in the nine years between FY15 and FY23. Despite the shock of the pandemic and European conflicts, India's FDI inflows were higher in the latter period, reflecting its resilience and appeal to global investors.

- The exchange rate of the Rupee against the US Dollar remained stable during FY24, supported by macroeconomic stability and improvements in India's external position. The foreign exchange reserves stood at US$ 623.2 billion as of December 29, 2023, covering more than ten months of imports.

- India's external debt, amounting to US$ 635.3 billion by the end of September 2023, is considered comfortable and has been prudently managed. The external debt as a ratio to GDP fell to 18.6% at the end of September 2023 from 22.4% at the end of March 2013. The short-term debt was 20.1% of the Total External Debt (TED) at the end of September 2023.

Chart 18: India's External Debt Position and Vulnerability Indicators



Source: RBI; Note: PR - Partially Revised, P - Provisional; ED – external debt, FER – foreign exchange reserves, TED – total external debt

- The net International Investment Position (NIIP) to GDP ratio, indicating a country's creditworthiness, declined consistently over the past decade, reaching -11.3% at end-September 2023 from -18.2% at end-March 2014. India's IIP position has remained stable, with total liabilities increasing by 6.5% YoY and total assets rising by 10.2% YoY as of end-September 2023.

OUTLOOK

- Over the past ten years, India has undergone significant economic growth, moving from the 10th largest economy to the 5th largest, with a GDP of US$ 3.7 trillion (estimated for FY24). Despite challenges such as the pandemic and macro imbalances, the country has demonstrated economic resilience thanks to various reforms implemented during this period.

- The government aims to elevate India's position further, projecting to become the third-largest economy in the world in the next three years, with a GDP of US$ 5 trillion. A higher goal is to become a 'developed country' by 2047. The continued journey of reforms, including state participation, is crucial for achieving these goals.

- The domestic demand has been a critical driver of the economy, with robust growth in private consumption and investment. Substantive and incremental reforms have played a significant role in strengthening the supply side, including infrastructure investment and measures to boost manufacturing.

- The growth rate is expected to rise above 7% by 2030, supported by factors such as rapid infrastructure development, strengthened balance sheets through the Insolvency and Bankruptcy Code (IBC), expanding digital infrastructure, technological progress, human capital formation, and an increasingly favourable investment climate.

- The adoption of the Goods and Services Tax (GST) has unified domestic markets, incentivised larger-scale production and reducing logistics costs. Expanding the tax base is expected to enhance the finances of both Union and state governments, facilitating growth-enhancing public expenditures.

- Despite a relatively uninspiring global economic backdrop, India's internal strengths have maintained a compounded annual growth rate of 7.4% between 2014 and 2019. Notwithstanding unfavourable global conditions, the ability to grow positions India for future growth, potentially becoming a US$ 7 trillion economy by 2030.

- Priority areas for future reforms include skilling, learning outcomes, health, energy security, reducing the compliance burden for Micro, Small, and Medium Enterprises (MSMEs), and gender balancing in the labour force. Despite potential geopolitical risks, achieving a US$ 7 trillion economy by 2030 would be a significant milestone in improving the quality of life and standard of living for the Indian people.

For more information:
Ministry of Finance, Department of Economic Affairs
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