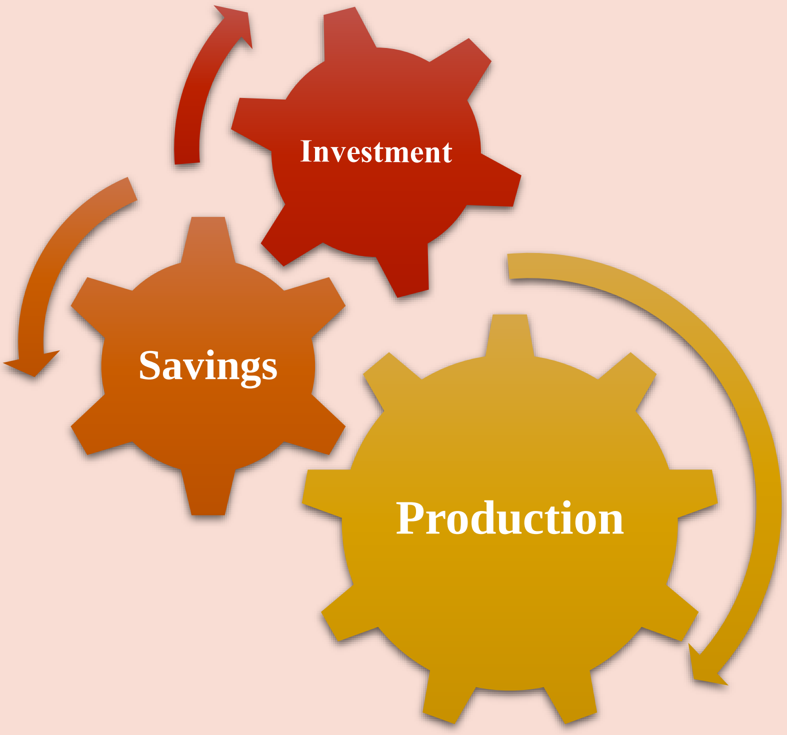
Economic Division

The Indian Economy: A Review

January 2024



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DEPARTMENT OF ECONOMIC AFFAIRS
सत्यमेव जयते

Table of Contents

PREFACE

We are pleased to present 'Indian Economy – A Review', which consists of two chapters. This is not the Economic Survey of India prepared by the Department of Economic Affairs. That will come before the full budget after the general elections. This review takes stock of the state of the Indian economy and its journey in the last ten years and offers a brief sketch of the outlook for the economy in the coming years. Chapter 1 provides an overview of the past, present and future of the Indian economy. Chapter 2 takes a more detailed look at the government's policies and progress on various parameters in different sectors.

It now appears very likely that the Indian economy will achieve a growth rate at or above 7% for FY24, and some predict it will achieve another year of 7% real growth in FY25 as well. If the prognosis for FY25 turns out to be right, that will mark the fourth year post-pandemic that the Indian economy will have grown at or over 7 per cent. That would be an impressive achievement, testifying to the resilience and potential of the Indian economy. It augurs well for the future.

Some economists[1] argue, with considerable merit, that not all growth is equal. They are right. It is one thing for India to grow at 8-9 per cent when the world economy is growing at 4 per cent, but it is another thing to grow at or above 7 per cent when the world economy is struggling to grow at 2 per cent. One unit of growth in the latter circumstance is qualitatively superior to the former. The marginal utility of growth in the second scenario is much higher.

The global economy is struggling to maintain its recovery post-Covid because successive shocks have buffeted it. Some of them, such as supply chain disruptions, have returned in 2024. If they persist, they will impact trade flows, transportation costs, economic output and inflation worldwide. India will not be exempt from it, but having faced and seen off COVID and the energy and commodity price shocks of 2022, India is quietly confident of weathering the emerging disturbances.

At least three trends will be with us in the coming years. The era of hyper-globalisation in global manufacturing is over. It does not mean that de-globalisation will be upon us any time soon, as countries are only now discovering the enormous integration of global supply chains that have taken place in the last few decades. So, an alternative to the globalisation of supply chains will take much longer to emerge if it ever does. However, that will not deter governments from pursuing onshoring and friend-shoring of production with a consequent impact on transportation, logistics costs, and, hence, the final prices of products. Recent events in the Red Sea may have brought back concerns over reliance on global supply chains, further

[1] Bhalla and Bhasin (2023): https://theprint.in/opinion/whose-economic-performance-was-better-upa-or-nda-growth-rates-dont-tell-the-whole-story/1928162/

aggravating the slower growth in global trade in 2023. In other words, exporting one's way to growth will not be easy. This reinforces the need to lower logistics costs and invest in product quality to hold on to and expand market share in areas where India has an advantage.

Closely related to this challenge is the advent of Artificial Intelligence with the profound and troubling questions it poses for growth in services trade and employment since technology might remove the advantage of cost competitiveness that countries exporting digital services enjoy.

Third and arguably the most important is the energy transition challenge. Concerns over rising temperatures have led to a single-minded focus on reducing carbon emissions amidst the determination that the emission of greenhouse gases, particularly carbon, is the most significant causal factor. This has led to persistent demands from international organisations and advanced nations on developing nations to wean themselves off fossil fuels and switch to greener energy even as technological and resource obstacles remain and are not on offer from developed countries. It is a reality that, in the short run, there is a trade-off between economic growth and energy transition. In a growth-challenged post-Covid global economy, countries can ill afford to sacrifice the former for the latter. India is walking the fine line between the two more skilfully than other nations, with installed non-fossil fuel-based power generation capacity running ahead of targets. Importantly, India's unwavering commitment to ensuring steady economic growth is generating resources for investment needed for climate change adaptation, building resilience, and mitigating emissions.

The Indian economy is better placed than ever to take on these three key challenges because of the policies adopted and implemented in the last decade. The Union government has built infrastructure at a historically unprecedented rate, and it has taken the overall public sector capital investment from ₹5.6 lakh crore in FY15 to ₹18.6 lakh crore in FY24, as per budget estimates. That is a rise of 3.3X. Whether the total length of highways, freight corridors, number of airports, metro rail networks or the trans-sea link, the ramp-up of physical and digital infrastructure in the last ten years is real, tangible and transformative.

The financial sector is healthy. Its balance sheet is stronger. It is willing to lend and is lending. Non-food credit growth, excluding personal loans, is growing at double-digit rates.

The pursuit of inclusive development finds Indian households in good financial health. Fifty-one crore bank accounts under Jan Dhan Yojana now have total deposits of over ₹2.1 lakh crore. Over 55 per cent of them are women. In Dec. 2019, household financial assets were 86.2 per cent of GDP; liabilities were 33.4 per cent of GDP. In March 2023, these numbers were 103.1 per cent and 37.6 per cent, respectively. So, Net Financial Assets of households were 52.8 per cent of GDP in Dec. 2019, and by March 2023, it had improved to 65.5 per cent of GDP.

The economy has created jobs; the unemployment rate has declined considerably from the peaks during Covid times. The labour force participation rate has increased, especially that of women. Net new subscribers to the Employee Provident Fund (EPF) have steadily risen post-Covid, especially among the younger population. Women are also enrolling more than ever in tertiary education. The Eleventh Edition of the CII-Wheebox India Skills Report based on the National Employability Test conducted by Wheebox[2] shows India's youth employability at 51.3 per cent, up from 33 per cent a decade ago. Institutional births are widely prevalent, and the infant mortality rate has declined, as has stunting. More remains to be done, however.

In 2014, the economy was beset with high fiscal and current account deficits and double-digit inflation. Now, inflation is under control, the fiscal deficit is trending lower, the current account deficit is just above one per cent of GDP, and foreign exchange reserves cover nearly eleven months of imports. It has been a journey from fragility to stability and strength.

Two things must be singled out here. The government's COVID management and the vaccination record have been instrumental in the quick recovery staged by the economy. Similarly, the deft management of the crude oil supply at reasonable prices in the last two years is noteworthy. Humans are not capable of appreciating the unseen - the mistakes not made and the risks avoided - but the counterfactuals are all around us. They cannot be missed.

As the government resolves longstanding problems such as deficient infrastructure and financial exclusion, aspirations rise, and expectations shift higher. That is actually a tribute to the policies and performance of the government.

Today, many young Indians not only aspire to a better life but are also confident that it will happen in their lifetime. They feel that they have a better life than their previous generations and that succeeding generations will do better than them. Nations and people have to believe in themselves for important changes to happen. Now, India does, and Indians do.

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[2]Wheebox is a 100% subsidiary of the ETS (Education Testing Service), headquartered in Princeton, New Jersey, United States. ETS conducts the well-known GRE and ToEFL exams globally.

01

CHAPTER

INDIAN ECONOMY: PAST, PRESENT AND FUTURE

"In 10 years, India has moved from the 10th largest economy of the world to the 5th largest economy of the world. In 10 years, India is now seen as a country with immense potential which is backed by impressive performance."

-Shri. Narendra Modi, Prime Minister of India

1.1 Over the course of the last decade, India has showcased a robust and resilient growth story driven by perseverance, ingenuity, and vision. In the face of unprecedented challenges such as the Covid pandemic and geopolitical conflicts, the Indian economy has demonstrated a remarkable ability to bounce back and convert challenges into opportunities while striving to achieve strong, sustainable, balanced, and inclusive growth. The present chapter takes a look at the Indian growth experience since independence, the state of the economy as of 2014, when the government under Prime Minister Modi assumed power, the key drivers of growth of the present decade, and the outlook till 2030.

The Indian Growth Story (1950 to 2014)

1.2 By the time India became independent, her share of world income had shrunk from 22.6 per cent in 1700 to 3.8 per cent in 1952[3]. To enable the economy to emerge from the shackles of the colonial regime as well as set itself on the path of growth and modernisation, the government in the 1950s adopted a strategy aimed at achieving economic sufficiency. This period was characterised by rapid industrialisation, which involved raising a massive amount of resources and investing them in the creation of large industrial state-owned enterprises (SOEs). The decadal average growth rate for this period (1952-60) was 3.9 per cent. However, the 1960s witnessed the Indian economy going through several doldrums. The 1962 Sino-Indian war and the 1965-66 India-Pakistan war, combined with severe drought in 1965, had significant repercussions on the Indian economy. High rates of taxation and pervasive control of the economy also played a key role in the growth trajectory of the economy slowing down during this period and posting a decadal growth rate of 4.1 per cent in the 1960s.

[3] https://mpra.ub.uni-muenchen.de/117838/2/75%20Years%20of%20Indian%20economy%20MPRA%20Paper%20Sebak%20Jana.pdf

The Indian Economy: A Review

1.3 The 1970s witnessed a devaluation of the Indian rupee by a sharp 57 per cent. The decade was also characterised by severe political instability and curtailing of civil liberties, including the imposition of Emergency in 1975. All of these developments resulted in a sharp downfall in the decadal average growth rate in the 1970s to 2.9 per cent. It is interesting to note that the 1970s was also a decade of severe volatilities in the global economy stemming from the oil shock. Economic growth slowed down in all parts of the world during the second half of the 1970s and the first half of the 1980s. This slowdown was reversed during the 1980s, primarily driven by the initiation of some reform measures aimed at increasing domestic competitiveness, including the removal of price controls, initiation of fiscal reforms, a revamp of the public sector, reductions in import duties, and de-licensing of the domestic industry. As part of greater integration with the global economy, measures were taken to promote exports. There was also a notable change in the entrepreneurial mindset, fostering a more innovative and business-oriented environment. The modest liberalisation combined with massive government spending led to GDP growth improving to 5.7 per cent in the 1980s. However, the external shock in the form of the breakup of the Soviet Bloc and the Iraq-Kuwait war adversely contributed to the trade and disrupted the current account balances during 1990–1991. The external crisis, unsustainable government spending, and internal sociopolitical environment led to the balance of payment crisis, which demanded a bold response to rejuvenate the economy[4].

1.4 The Balance-of-Payments (BoP) crisis of 1991 and the subsequent reforms are pivotal moments in India's economic trajectory. The key focus of these reforms involved removing the complex system of rules, permissions, and licenses, turning around the significant bias in favour of state ownership of the means of production and the expansion of public sector businesses, and putting an end to the inward-looking trade strategy. There was some loss of growth momentum in the latter half of the 1990s, which coincided with the onset of the East Asian financial crisis. Aggravating this were the setbacks to the fiscal correction process, the slowdown in agriculture growth affected by lower-than-normal monsoon years, some slackening in the pace of structural reforms, and frequent changes of governments. Monetary tightening in the face of inflationary pressures is also believed by some to have contributed to the slowdown over this period. All in all, the real GDP growth averaged 5.8 per cent per annum in the 1990s.

1.5 The early part of the 2000s witnessed sustained momentum in domestic economic activity, better corporate performance, a conducive investment climate, positive sentiments for India as a preferred investment destination, and encouraging global liquidity conditions/ interest rates. The growth dividends from the transformative reforms undertaken during the period 1998-2002 played a key role in this regard. There was a global growth boom, and capital flows to India boomed. Measures such as Sarva Shiksha Abhiyan (SSA), National Rural Health Mission (NRHM), and National Rural Employment Guarantee Scheme (NREGS), among

[4]Contextualizing the 1990s' Economic Reforms in India: A Politico-Economic Narrative | SpringerLink

others, were also put in place during this period. India's decadal average growth rate in the 2000s was 6.3 per cent per annum. However, the global financial crisis of 2008 exposed the fragile foundations of the growth spurt, and the edifice cracked. Bad debts in banks began to pile up. The bad debt ratio was soon to hit double-digit percentages. It crested at 11.2 per cent in the year ending March 2018. Much of the bad debt originated between 2006 and 2008[5].

1.6 During the period 2009-2014, the government tried to sustain high growth by running high fiscal deficits and keeping monetary policy too loose for long. Nominal GDP growth was high because of high inflation. India experienced annual double-digit inflation rates for five years from 2009 to 2014. The country had to contend with high twin deficits -both fiscal deficit (4.9 per cent in FY13) and current account deficit (4.8 per cent in FY13)-and the rupee was overvalued. It all came to a head in 2013 and the Indian rupee crashed against the US dollar. Between 2009 and 2014, the Indian rupee depreciated annually by 5.9 per cent. Economic growth stalled.

Lessons from the growth experience till 2014

1.7 The growth experience that has been elaborated on in the previous section provides some interesting insights into the key features whose accumulated impact characterised the Indian economy as was inherited by Prime Minister Modi's government in 2014.

1.8 ***First***, the **Indian economy transitioned from a closed economy to an open economy**[6]. The period from 1950-1980 was characterised by import substitution, export subsidies, and stringent restraints on technology and investment cooperation. Substantial controls on capacity expansion and licensing requirements for manufacturing industries were also imposed during this period. The post-1980 period featured several pro-business reforms amid the realisation that the controlled regime was not delivering the expected results. These policy changes included import liberalisation, export incentives, exchange rate policies, and expansionary fiscal policy. These reforms were argued to have a productivity-enhancing effect, as well as a demand-boosting effect facilitated by better credit availability and high levels of public expenditure[7]. Simultaneously, they were enabled by unsustainable investments and questionable loans, opaque allocation of natural resources, and high fiscal deficits fuelling high inflation and external imbalances, resulting in the BoP crisis of 1990-91. The BoP crisis triggered a complete overhauling of economic policies to a market economy. Significant trade policy reforms along with revamping of industrial policies, including the withdrawal of industrial licensing and liberalisation of foreign direct investment (FDI), were introduced.

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[5] https://www.indiatoday.in/india/story/raghuram-rajan-bad-loans-npa-crisis-1337357-2018-09-11
[6] https://pure.rug.nl/ws/portalfiles/portal/175341181/joes.12350.pdf
[7] Panagariya, A. (2005) The Triumph of India's Market Reforms: The Record of the 1980s and 1990s. Washington DC: Cato Institute

1.9 ***Second*, the Indian Economy transitioned from the dominance of public investment to the co-existence of public and private investment**. An important assumption in the choice of post-independence development strategy was the generation of public sector savings, which could be used for higher and higher levels of investment[8]. However, by the 1970s, this expectation was proved to be misplaced since rather than being generators of savings, they were becoming consumers of one. By the 1980s, the government began to borrow not only to meet its revenue expenditure but also to finance public sector deficits and investments, as was seen in the sharp increase in total public sector borrowings, which increased from 4.4 per cent of the GDP in 1960-75 to 6 per cent of the GDP by 1980-81, and further to 9 per cent by 1989-90. India's private sector[9] became the major engine of growth and employment generation during the 1990s and 2000s.

1.10 ***Third*, technology began to be identified as a key growth driver.** In pre-liberalised India[10], foreign technologies were denied because of a lack of resources, a closed economy regime, and due to security and strategic reasons. As noted by eminent Indian scientist Shri. R.A Mashelkar, "*It was through the path of 'techno nationalism' that India developed self-reliance through its technologies in both civilian sectors as well as strategic sectors such as space, defence, nuclear energy, and supercomputers*". Since the 1980s, India has been slowly and steadily using technology to transform its economy.

1.11 Notwithstanding some positive developments, it is pertinent to note that, at the time Prime Minister Modi assumed power in his first term in office in 2014, the state of the Indian economy was far from encouraging. The Indian economy was going through challenging times that culminated in lower than 5 per cent growth of GDP at factor cost at constant prices for two consecutive years, i.e. 2012-13 and 2013-14. WPI inflation in food articles, which averaged 12.2 per cent annually in the five years ending 2013-14, was significantly higher than non-food inflation. The accentuation of structural constraints was one of the factors contributing to sub-5 per cent growth. These structural constraints[11] included the following: -

- Difficulties in making quick decisions on project proposals affected the ease of doing business. This resulted in considerable project delays and insufficient complementary investments.
- Ill-targeted subsidies cramped the fiscal space for public investment and distorted the allocation of resources.

[8] https://home.fau.edu/sghosh/web/images/india%20talk.pdf

[9] https://www.adb.org/sites/default/files/linked-documents/cps-ind-2013-2017-psa.pdf

[10] https://mashelkar.com/articles/indias-technology-journey/#:~:text=It%20was%20through%20the%20path,%2C%20nuclear%20energy%2C%20and%20supercomputers.

[11] Chinoy, Sajjid Z. and Jahangir Aziz (2013), 'Why is India's growth at a 10-year low?', available at www.jpmorganmarkets.com; Mishra, Prachi (2013), 'Has India's Growth Story Withered?', Economic and Political Weekly, vol. XLVIII (15); and International Monetary Fund (IMF) (2014), World Economic Outlook (WEO), April.

- Low manufacturing base, especially of capital goods, and low-value addition in manufacturing.
- The presence of a large informal sector and inadequate labour absorption in the formal sector.
- Low agricultural productivity is attributable to a range of factors, including the significant presence of intermediaries in the different tiers of marketing, shortage of storage and processing infrastructure, inter-state movement of agricultural produce, etc.

2014-2024: Decade of transformative growth

1.12 Against this aforementioned context, Prime Minister Modi's government assumed power in 2014. Since then, the Indian economy has undergone many structural reforms that have strengthened its macroeconomic fundamentals. These reforms have led to India emerging as the fastest-growing economy among G20 economies. In 2023-24, as per current estimates, it is estimated to have grown 7.3 per cent on top of the 9.1 per cent (FY22) and 7.2 per cent (FY23) in the previous two years, and the economy is generating jobs. This impressive post-pandemic recovery has seen the urban unemployment rate decline to 6.6 per cent. Since May 2023, the number of net new subscribers to EPFO in the age group 18-25 years has consistently exceeded 55 per cent of the total net new EPF subscribers. The government has extended the Pradhan Mantri Gharib Kalyan Anna Yojana for 80 crore citizens for five more years until December 2028.

1.13 The government is building a road network and expanding rail and air networks at a record pace. India built 74 airports in the first 67 years after independence. It doubled that number in the last nine years. The number of universities was 723 in 2014, and it increased to 1,113 in 2023. More girls are now in higher education than boys. The Gross Enrolment Ratio (GER) for girls is 27.9 in 2020 vis-à-vis 12.7 per cent in FY10. Total enrolment in higher education was 3.4 crore in 2014. It has gone up to 4.1 crore students in 2023.

1.14 India's economic growth suffered in FY21 due to the global pandemic. Real GDP contracted 5.8 per cent. However, the government's agile response during this period through a broad range of fiscal, monetary, and health responses to the crisis supported India's economic recovery[12]. This, along with economic reforms, is helping to mitigate a longer-lasting adverse impact of the crisis.

1.15 Further, the government, despite the conflict in Ukraine and disrupted supplies, has managed crude oil purchases at the right price so that retail prices of petrol and diesel did not have to be increased for more than eighteen months. The government gave a 50-year interest-free loan of ₹1 lakh crore to states in FY23 and announced another ₹1.3 lakh crore of 50-year

[12]India's Economy to Rebound as Pandemic Prompts Reforms (imf.org)

interest-free loan in FY24. From April to November 2023, the states utilised more than ₹97,000 crore out of the ₹1.3 lakh crore of interest-free loans under the *Special Assistance to states for Capital Investment* that the Centre budgeted for FY24. Resultingly, the states are improving their infrastructure, like schools, rural roads, electricity provision, etc. States' capital expenditure was up more than 47 per cent in the six months between April-September 2023 compared to April-September 2022.

Drivers of India's growth in the last decade

1.16 The government's economic policy focus was to restore India's growth potential by getting the financial sector back on track, facilitating economic activity by easing conditions for business, and massively augmenting physical and digital infrastructure to enhance India's connectivity and, thus, the competitiveness of its manufacturing sector. With this vision to guide its policies, the government has undertaken diverse economic reforms to prepare the economy to grow at its potential by creating a business-friendly environment, improvising ease of living, and strengthening the governance systems and processes.

1.17 Following the credit boom in the first decade of the millennium, the Indian economy faced a severe financial system crisis up to 2020. The private non-financial sector's credit to GDP ratio, which had risen from 58.8 per cent in March 2000 to 113.6 per cent by December 2010, came down to 83.8 per cent in December 2018. As the banking, non-banking, and non-financial sectors de-leveraged their balance sheets, the government undertook several reforms to strengthen the financial sector. From the **recapitalisation and merger of Public Sector Banks (PSB) and amendment of the SARFAESI Act 2002 to enacting the Insolvency and Bankruptcy Code 2016 (IBC)**, these reforms have helped clean up the balance sheets of banks and corporates. The IBC has improved the business environment by providing a mechanism for an honourable exit to honest business failures. Today, thousands of debtors are resolving distress in the early stages due to the credible threat of the Code. Until September 2023, 2,808 corporate debtors have been rescued through the Code, either through resolution plans or through appeal/review/settlement or through withdrawal[13].

1.18 Simplification of regulatory frameworks has been integral to all the reforms undertaken since 2014. For instance, enacting the **Real Estate (Regulation and Development) Act 2016** has created a culture of transparent transactions, reducing the circulation of black money and is incentivising more investments into the sector. More than 1 lakh real estate projects and 72,012 real estate agents are registered under the provisions of the Act.

1.19 Further, to enhance the ease of living and ease of doing business, the **taxation ecosystem in the country has undergone substantial changes in the post-2014** period. Tax

[13]https://ibbi.gov.in/uploads/publication/b4ce3516920836e9ff9b1e816137bf97.pdf

policy reforms such as adopting a unified Goods and Services Tax (GST), reducing corporate and income tax rates, exemption of sovereign wealth funds and pension funds from taxes, and removing the Dividend Distribution tax have reduced the tax burden on individuals and businesses and removed the distortionary incentives from the economy. The transformational GST has enhanced the tax base, reduced compliances, ensured a free flow of goods across states, and led to the formalisation of the economy. The GST system has shown improved buoyancy over the pre-GST regime with consistently rising average monthly gross collections from ₹0.9 lakh crore in FY18 to ₹1.5 lakh crore in FY23. The number of GST taxpayers increased from 66 lakhs at its introduction to 1.4 crore in 2022, with a larger number of smaller businesses entering the regime.

1.20 A major reform over the last nine years is the transition in the **engagement of the government with the private sector for the development agenda**. The private sector is now entrusted as a co-partner in development. Accordingly, the government's disinvestment policy has been revived. A **New Public Sector Enterprise (PSE) Policy for Aatmanirbhar Bharat** has been introduced to minimise the presence of the government in the PSEs to only a few strategic sectors. Many initiatives have been introduced under the Aatmanirbhar Bharat and **Make in India programmes** to enhance India's manufacturing capabilities and exports across industries. Production Linked incentives (PLI) are being provided to firms to attract domestic and foreign investments and to develop global champions in the manufacturing industry. Strategic sectors, such as defence, mining, and space, have been opened up to enhance business opportunities for the private sector. The FDI policy has also been further liberalised, with most sectors now open for 100 per cent FDI under the automatic route.

1.21 **Decriminalising minor economic offences under the Companies Act of 2013** has significantly enhanced the ease of doing business over the past years. After the reform, more than 1400 default cases have been decided without resorting to the court. More than 4,00,000 companies have willingly rectified past defaults to avoid penalties under the Companies Act[14]. The government has also undertaken significant reforms over the past years to reduce policy uncertainty. Around 25,000 unnecessary compliances have been eliminated, and more than 1,400 archaic laws have been repealed. Abolishing the Angel tax and removing retrospective taxation reaffirm the government’s commitment in this direction.

1.22 The emphasis of the reforms for the private sector has not just been on large businesses. The **progressive reforms introduced by the government for the Micro, Small, and Medium Enterprises (MSME) sector** have supported smaller businesses to recover from the impact of the pandemic and grow further. Some of these are- the Emergency Credit Line Guarantee Scheme (ECLGS), revision in the definition of MSMEs under the ambit of Aatmanirbhar Bharat, the introduction of TReDS to address the delayed payments for MSMEs, the inclusion

[14] Economic Survey 2022-23

of retail and wholesale trades as MSMEs, and the extension of non-tax benefits for three years in case of an upward change in the status of MSME. All these investment incentives and initiatives to ease business compliances and remove policy uncertainties have created an ecosystem for start-ups to nurture. The number of recognised start-ups has increased from 452 in 2016 to more than 98,000 in 2023[15].

1.23 The government has made **large-scale public spending since 2014 to address the infrastructure and logistics bottlenecks** that have been a concern for investors for several decades. The effective Capital Expenditure by the Union government has risen from 2.8 per cent of GDP in the fiscal year ending March 2014 to 4.5 per cent in 2023-24 (BE). Dedicated programs for **road connectivity (Bharatmala), port infrastructure (Sagarmala), electrification, railways upgradation, and new airports/ air routes (UDAN),** among others, have enabled the modernisation of infrastructure. An overarching logistics ecosystem supports this enabling infrastructure through the National Logistics Policy 2022.

1.24 A common thread through all the reforms undertaken during the last nine years has been the **use of technology and digital platforms**. India's digitalisation reforms and the resulting efficiency gains in terms of greater formalisation, higher financial inclusion, and more economic opportunities stand as a model for other economies to follow. Digital infrastructure has enabled the creation of digital identities, improved access to finance, access to markets, reduced transaction costs, and improved tax collection and has provided the foundation for sustained and accelerated economic growth this decade.

1.25 Alongside all these measures, it is also important to recall that inclusive growth policies have also been at the core of India's policy over the last decade. Over 10.11 crore women have been given free gas connections[16], 11.72 crore toilets[17] have been built for the poor, 51.6 crore Jan Dhan accounts[18] have been opened, 3.24 beneficiaries have been registered, and 2.6 crore pucca houses[19] have been built for the poor people, and 6.27 crore hospital admissions[20] have been done under the Ayushman Bharat Scheme. These efforts have been targeted to ensure that the traditionally excluded sections of the society are bought into the mainstream so that they can not only be beneficiaries of India's growth story but also active contributors to the same.

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[15]https://pib.gov.in/PressReleasePage.aspx?PRID=1945152#:~:text=noti%EF%AC%81cation%20127%20(E)%20dated%2019th,on%2030th%20April%202023

[16] https://www.pmuy.gov.in/

[17]https://static.pib.gov.in/WriteReadData/specificdocs/documents/2023/may/doc2023527205601.pdf

[18]https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1985619#:~:text=As%20on%2029.11.,of%20State%20for%20Finance%20Dr.

[19] https://rhreporting.nic.in/netiay/DataAnalytics/PhysicalProgressRpt.aspx

[20] https://pmjay.gov.in/

Challenges Confronting the Indian Economy

1.26 The reform-led growth that was witnessed by the Indian economy over the course of the last nine years is not without its accompanying share of challenges. In this section, we mention some of them briefly.

1.27 ***First***, in an increasingly integrated global economy, India's growth outlook is not only a function of its domestic performance but also a reflection of the spillover effects of global developments. Increased geoeconomic fragmentation and the slowdown of hyper-globalisation are likely to result in further friend shoring and onshoring, which are already having repercussions on global trade and, subsequently, on global growth.

1.28 ***Second,*** the trade-off between energy security and economic growth versus energy transition is a multifaceted issue having various dimensions: geopolitical, technological, fiscal, economic and social, and the policy actions being pursued by individual countries impacting other economies.

1.29 ***Third***, the advent of Artificial Intelligence (AI) poses a big challenge to governments around the world due to the questions it poses to employment particularly in services sectors. This was recently highlighted in an IMF paper estimating that 40 per cent of global employment is exposed to AI, with the benefits of complementarity operating beside the risks of displacement.[21] Further, the paper suggests that developing economies must invest in infrastructure and a digitally skilled labour force to fully harness AI's potential.

1.30 ***Fourth***, domestically, ensuring the availability of a talented and appropriately skilled workforce to the industry, age-appropriate learning outcomes in schools at all levels and a healthy and fit population are important policy priorities in the coming years. A healthy, educated and skilled population augments the economically productive workforce.

Track record of overcoming challenges

1.31 The aforementioned challenges, however, are not insurmountable. These issues are very much part of the government's policy thrust. For instance, the Pradhan Mantri Kaushal Vikas Yojana (PMKVY) aims to enable Indian youth to take up relevant industry skill training that will help them secure a better livelihood. As of December 2023, around 1.3 crore candidates have received training under PMKVY, out of which around 24 lakh individuals have been placed[22]. Similarly, to mitigate the impact of climate change, focused efforts are being taken to

[21] Cazzaniga et al. 2024. "Gen-AI: Artificial Intelligence and the Future of Work." IMF Staff Discussion Note SDN2024/001, International Monetary Fund, Washington, DC.
[22] https://www.pmkvyofficial.org/

promote the manufacturing and use of renewable energy and shift away from coal, [23]which has resulted in renewable energy sources, including large hydropower, having a combined installed capacity of 179.57 GW as of November 2023[24].

1.32 Last but not least, India has delivered on converting some key disadvantages into strengths in the last decade. The odds of such success were deemed long. The government has proven them wrong. Over the last nine years, not only has the country grown at a macro level, but efforts have also been taken to ensure that each and every Indian becomes both the beneficiary and a driver of India's economic success. The harnessing of technology for inclusive growth is an example. Internet penetration in India, as per the 'Internet in India' report 2022, crossed the 50 per cent mark in 2022, growing more than three-fold since 2014. Aadhar has been a major game changer across domains in India. It has facilitated the transfer of over 34 lakh crores to more than 1167 crore beneficiaries under the Direct Benefit Transfer, and on average, more than 200 crore Aadhaar-based authentications are happening every month[25]. India has seen a leapfrogging in the financial inclusion space. Total beneficiaries under the Prime Minister's Jan Dhan Yojana were at 51.5 crore as of January 10, 2024, which is a 3.5-fold growth since March 2015. What is particularly noteworthy about this progress is that nearly 56 per cent of Jan Dhan account holders are women, and two-thirds of these accounts are in rural and semi-urban areas[26]. Technology was also key in enabling India to successfully deal with the scourge of the Covid pandemic. With the CoWin app, India has been successful in implementing one of the world's largest vaccination programs, with 221 crore vaccination doses administered to the population aged 18 years and above. Up to July 2023, India had launched 431 foreign satellites, out of which 396 had been launched since June 2014.

1.33 In sum, India's 'Mission Mode' approach to getting the better of festering challenges stands the country in good stead in meeting the current and emerging challenges.

Looking ahead

1.34 By all estimates, India's growth is expected to remain strong, supported by macroeconomic and financial stability. Presently, the official estimate for growth in FY24 stands at 7.3 per cent and the headline inflation is expected to gradually decline to the target. Resilient service exports and lower oil import costs have resulted in lowering India's current account deficit to 1 per cent of GDP in the first half of FY24[27]. This positive growth outlook is

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[23]https://www.imf.org/en/Publications/WP/Issues/2023/10/20/A-Framework-for-Climate-Change-Mitigation-in-India-535854
[24]https://www.investindia.gov.in/sector/renewable-energy#:~:text=Renewable%20energy%20sources%20have%20a,installed%20capacity%20of%20179.57%20GW
[25]https://blogs.worldbank.org/developmenttalk/indias-digital-transformation-could-be-game-changer-economic-development
[26]https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1952793
[27]https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=56991

anchored primarily by the digital revolution, a facilitating regulatory environment supportive of entrepreneurship, measures targeted at economic upliftment of the most vulnerable sections of the society, developing niche and complex manufacturing sectors while building the supporting physical infrastructure, and efforts directed at diversifying its export basket and moving toward higher value–added products[28]. Reforms undertaken over the last ten years by the Union government have formed the foundation of a resilient, partnership-based governance ecosystem and have restored the ability of the economy to grow healthily. There are good reasons to believe that India's economic and financial cycles have become longer and stronger. Consequently, India is poised for sustained brisk growth in the coming years. At the level of sub-national governments, reforms that would unleash the productive potential of India's MSMEs with streamlined regulatory and compliance obligations and sensitive enforcement, ensure land availability at reasonable prices and measures that would meet the energy needs of the growing economy will guarantee a further acceleration of economic growth.

1.35 Year 2023 was a landmark in India's status among the global comity of nations. By hosting a G20 Presidency that brought together member countries to agree on issues of key global concern, despite their ongoing differences on geopolitical matters, India marked its arrival as a key consensus builder on the global stage. This, along with an increasing share of India's GDP in global GDP, reflects the growing importance of the country in the global economic landscape. India also accomplished a remarkable feat as its Chandrayaan-3 spacecraft became the first in the world to successfully reach the South Pole of the Moon. The country was also able to achieve the fastest deployment of 5G globally. These are just snapshots from a wide array of areas wherein India and her economy have made major strides in the last decade.

1.36 In conclusion, India has been showing both resilience as well as progress despite all risks and uncertainties in the global economic landscape. Through timely and effective policy actions aimed at achieving macro stability and repairing the balance sheets of financial and non-financial sectors, as well as by investing significantly in building world-class physical and digital public infrastructure, India has been able to withstand the challenges, both domestic and global, and ensure that the economy continues to progress on a steady path. With the policy reforms that the government has already rolled out and which are on the anvil, there is significant optimism and confidence in the Indian economy and its prospects today. India embarks on her '*Amrit Kaal*' with confidence and the attitude that challenges to growth and inclusive development are stepping stones and not obstacles.

1.37 The path that India has traversed over the course of the last ten years is one that reflects not only the vision of the government but also the resilience and the determination of her citizens, which is founded on the basis of trust. Prime Minister Modi has aptly captured this

[28]India economic outlook | Deloitte Insights

resurgence of confidence of each and every Indian when he said: "*India's greatest strength is trust, our trust in each individual, trust of each individual in government, trust of each one in a bright future for the nation, and the world's faith in India as well. This trust is for our policies and practices. This trust is because of the determined steps with which we are moving forward towards a brighter future for India*.

WHAT MADE THE INDIAN ECONOMY RESILIENT?

02

CHAPTER

Introduction

2.1 The word 'resilience' is defined in the Cambridge dictionary as "the ability of a substance to return to its usual shape after being bent, stretched, or pressed." In recent years, if there is one major economy in the world that displayed that quality beyond any reasonable doubt, it is India. After the pandemic-induced contraction in FY21, the Indian economy recorded two years of above-7 per cent growth and looks set to repeat it for the third year in FY24. In the first half of the current financial year, the economy has grown 7.6 per cent in real terms compared to the first half of FY23. Barring unforeseen global developments and based on historical patterns of growth in the second half, the overall growth rate for the year may even exceed the Reserve Bank of India (RBI) projection of 7 per cent. The National Statistical Office, in its First Advance Estimates, has estimated India's real GDP to grow at 7.3 per cent in FY24, higher than the forecast made by various national and international agencies.

2.2 Resilience is on display, not just in terms of economic growth. The unemployment rate has declined, and economic activity continues to rise, as is evident in the healthy performance of high-frequency indicators. The volume of E-way bill generation continues to grow steadily. Rail freight traffic and port cargo traffic are growing at a healthy pace. The focus on infrastructure creation and demand for housing is driving construction activity, as reflected in increased steel consumption and cement production. In terms of mobility, which was most affected by the pandemic, the number of Indians taking air travel has exceeded the pre-Covid levels.

2.3 What contributed to India's resilience? For India, resilience is not a new phenomenon. Compared to some materially advanced societies, Indians have faced natural disasters with greater fortitude and have gone about rebuilding their lives with stoicism and determination. That has played a role in the post-Covid recovery, too.

2.4 Furthermore, resilience is not just the outcome of measures taken after the onset of the global pandemic. It is also an outcome of the policy decisions taken six years before the pandemic. Smart Covid management through localised lockdowns and rapid nationwide vaccination undoubtedly arrested a sharp output contraction. Alongside this, measured and targeted fiscal policy was provided for the poor and low-income households, while monetary policy ensured adequate liquidity as a lifeline for MSMEs. A large expansion of the government's capex budget in the last three years significantly drove high growth rates. Proactive inflation management by the government and RBI effectively countered the spiral in commodity prices triggered by the second global shock: the conflict in Ukraine.

2.5 Yet these measures alone cannot be credited for giving the Indian economy a 7 per cent plus growth in the last three years. Juxtaposed with these measures, for example, are the strong balance sheets of the public sector banks that trace their roots to the Asset Quality Review of the RBI, recapitalisation of banks, better provisioning and the enactment of the Insolvency and Bankruptcy Code (IBC). The fiscal discipline in the last ten years has enabled, to a large extent, the scaling up of the capital expenditure by the Union government. Dollar gyrations do not disrupt macroeconomic stability much and jeopardise growth as external debt has remained low. The simultaneous pursuit of energy security and energy transition has not derailed the economy from a high growth path, as these were underway before the pandemic. Domestic demand, which is the most important pillar that supports the Indian economy, is a phenomenon that predates the pandemic.

2.6 In this chapter, we focus on the measures that the government has taken in the past ten years in several aspects of public policy, which have contributed to the post-Covid economic resilience and set India on a path to sustained economic growth in the coming years. More specifically, these have been identified across four blocks in this chapter - Domestic Economy, Macroeconomic Stability, Human Resources and External Economy. Adaptation strategies and building resilience to Climate Change is the penultimate section. It provides a basis for continuing the pursuit of energy security along with energy transition without the two being in conflict. The concluding section, Outlook, discusses possible growth outturns of the Indian economy in the near term.

Domestic Economy

2.7 India's real GDP is estimated to grow at an average of 7.9 per cent between FY22 and FY24. Very few economies in the world, if any, have maintained the post-Covid recovery as consistently as the Indian economy has done.

2.8 The contribution to growth is due, in no small measure, to those sectors in which the government has taken specific measures. The share of manufacturing in total Gross Value Added (GVA), in volume terms, increased from 17.2 per cent in FY14 to 18.4 per cent in FY18 under the impact of the Make in India mission of the government. Based on the advance estimates released recently, the share has stayed robust at 17.7 per cent in FY24 on the back of the Production Linked Incentive (PLI) schemes rolled out by the government.

2.9 The share of construction in total GVA, in volume terms, was 8.8 per cent in FY14. After countering a sharp increase in the prices of real estate and the pandemic, the share has almost recovered to reach 8.7 per cent in FY24. A slight moderation in prices and wealth effect from the accumulated financial assets of the households has imparted buoyancy to the real estate market. The setting up of the Real Estate Regulatory Authority (RERA) is also the foundation for the uptick in real estate. In addition, and substantially, the significant upscaling of government capex underlies the recovery of the construction sector.

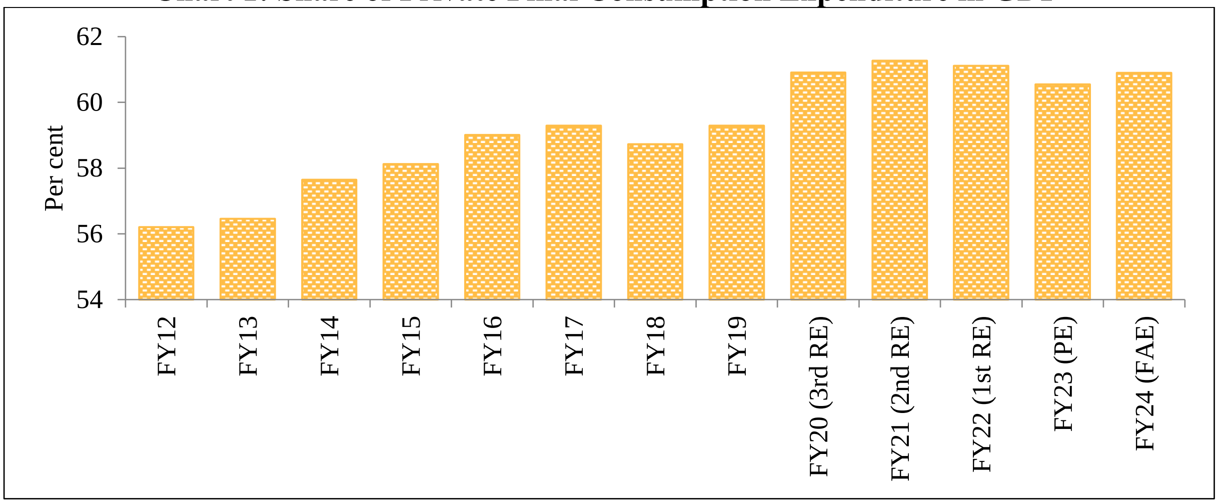
2.10 The share of services in total GVA, in volume terms, has risen from 51.1 per cent in FY14 to 54.6 per cent in FY24, as the pandemic and unlocking of the economy thereafter led to a surge in non-contact services. The service sector now has a substantive digital face curated by the government's drive towards digitalisation, now embodied in the globally recognised India Stack.

2.11 The growing strength in both domestic and external demand has sustained the response of the various sectors on the supply side. Astute management of the pandemic, along with IBC and government capex push, has strengthened consumption and investment. Impressive growth in exports, including a rising share in world services exports, backed by specific government measures, have helped external demand induce growth in the Indian economy.

Resilience of consumption demand

2.12 The share of Private Final Consumption Expenditure (PFCE) in GDP at current prices increased from an average of 58.4 per cent in the eight years preceding the onset of the pandemic to 60.8 per cent in the last three years ending FY24 (Chart 1).

Chart 1: Share of Private Final Consumption Expenditure in GDP



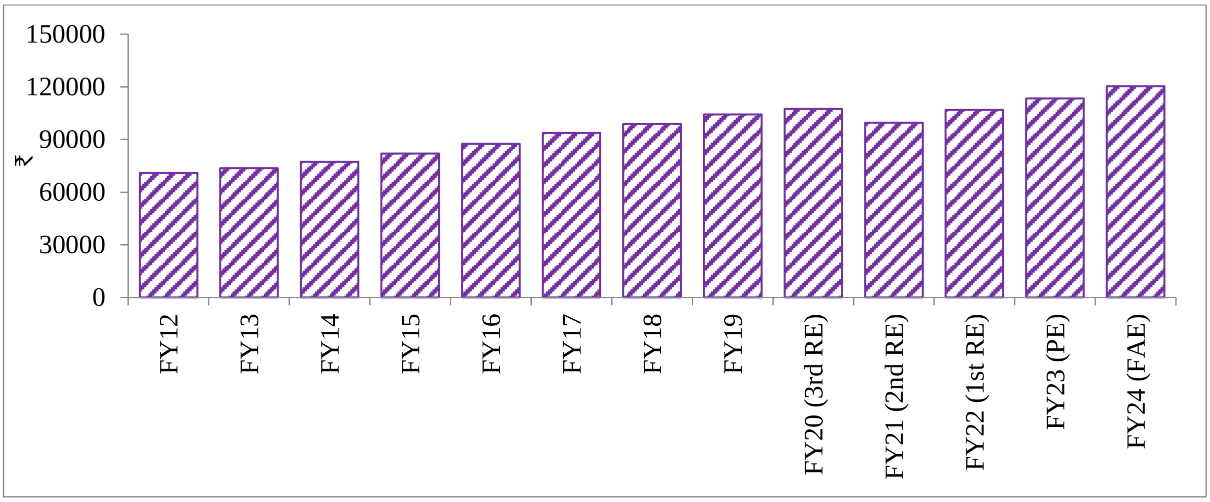
Source: NSO, MoSPI

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

2.13 PFCE has consequently emerged **as** a major growth driver post-Covid pandemic, playing a pivotal role in sustaining the economy amid external challenges brought in by geopolitical shocks, monetary tightening, and sluggish global demand. As PFCE is also contributing to the reinvigoration of private capital investment, it has lent resilience to the domestic demand in the Indian economy. This has aided India to emerge as the fastest-growing major economy in the past few years.

2.14 The secured consumption base resulted from the robust increase in Per Capita Real Gross National Income (GNI) in the nine years preceding the onset of the pandemic. The Per Capita Real GNI registered a compounded annual growth rate (CAGR) of 5.3 per cent from FY12 to FY20 (Chart 2). This is largely on account of the strong vision and roadmap laid by the government, focusing on growth at the macro level, and market-friendly reforms introduced that eased government regulations and gave the private sector much-needed impetus to grow. The reduced compliance burden, simplified laws, opening up various sectors, and strategic disinvestment of public sector enterprises have given space and opportunities to the private sector to grow.

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

2.15 Measures have also been taken to promote foreign investment. The government has put in place an investor-friendly policy wherein most sectors, except certain strategically important sectors, are open for 100 per cent FDI under the automatic route. Nursing the financial sector back to health is a signal contribution of policymakers. Pragmatic monetary policy and coordination of economic and monetary policies deserve mention, too, as contributory factors. All these reforms have ensured robust economic growth in the pre-pandemic years, which ultimately yielded gains for the entire population, as reflected in the sustained increase in per capita income.

2.16 The increase in PFCE is balanced across all components, including durables, semi durables and services. After witnessing a decline in FY21, durables and semi-durables registered growth of 22 per cent and 21.3 per cent, respectively, in FY22. Similarly, as demand for services rebounded with the easing of restrictions on social distancing, it also registered double-digit growth in FY22. Likewise, PFCE on transport, furnishings, recreation, and restaurants, significantly impacted by lockdowns, registered double-digit growth after the ebbing of the pandemic as mobility restrictions were eased. However, it was not just the release of pent-up demand that strengthened PFCE. Astute management of Covid-19 built a positive economic outlook and led people to believe in higher future incomes, inducing them to increase spending. The Securities and Exchange Board of India (SEBI) enabled enhanced market transparency, building investor confidence; the increase in retail participation in the stock market during lockdowns and subsequent increase in its market capitalisation generated the wealth effect to further fuel consumption. The growth in demat accounts over ten years has been phenomenal. The number of demat accounts in India increased to 13.9 crore at the end of December 2023, marking a 536 per cent growth from the total number of accounts as at the end of March 2014. Furthermore, as the pandemic started to ebb, the boost to infrastructure investment by the government – discussed in detail later - created additional employment and incomes, which also strengthened the PFCE.

2.17 Besides the structural reforms across various sectors, the government's emphasis on developing public digital infrastructure during the last few years has also been a game changer in enhancing the economic potential of individuals and businesses. Chapter 3 of Economic Survey 2022-23 discussed in detail the gains from digitalisation through enhanced financial inclusion, formalisation of the economy, efficient service delivery and transparent governance processes. Digitalisation directly helped to increase private consumption, both during the pre- and post-pandemic phases. With the onset of the pandemic, the Aarogya Setu and CoWin apps proved to be game changers, helping to track and contain the spread of the virus and facilitating the vaccination of many people in a short period. This boosted consumption by enabling an early reopening of the economy. During the pandemic, when mobility was restricted, there was a pronounced shift in virtual healthcare visits, digital payments, and the acceleration of e-grocery shopping. Digital payment systems like Unified Payments Interface (UPI), which has one of the largest platforms in the world, have aided the growth of e-commerce. The Global Payments Report 2023 projects e-commerce in India to register a CAGR of 16 per cent between 2022 and 2026, mainly driven by ease provided by UPI[29].

2.18 The consumption base was sizeable also because of the increasing social and economic inclusiveness of rural India, seen in government-driven financial inclusion, improvement in physical connectivity, and augmentation of livelihoods, among others. Pradhan Mantri Jan Dhan Yojana (PMJDY) provided access to low-cost bank accounts to a large unbanked population, and Direct Benefit Transfer (DBT) eased the transferring of benefits of various government schemes directly to these bank accounts. This has narrowed the rural-urban divide and increased the aspirations of the rural population, leading to higher spending on aspirational

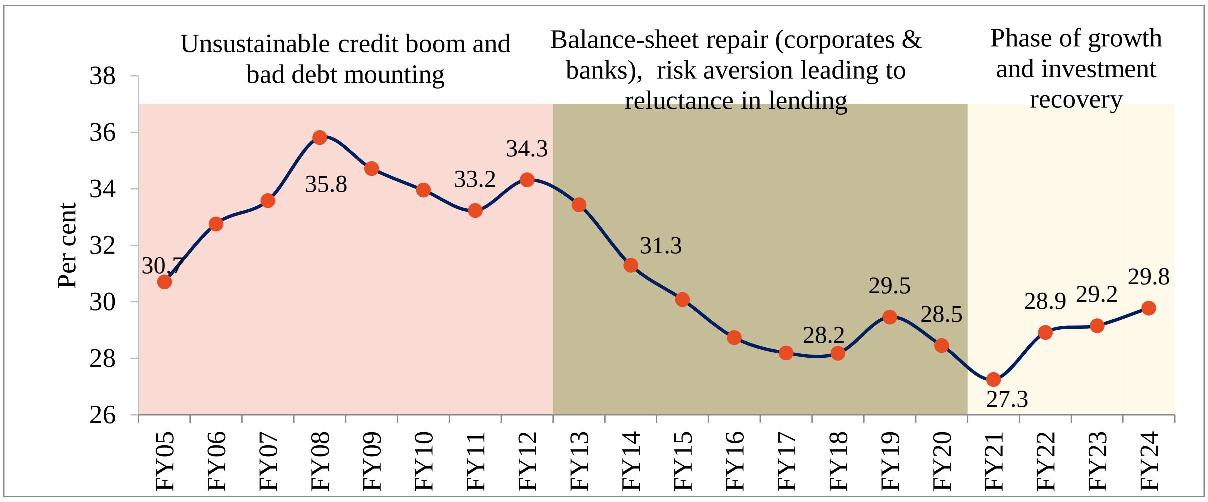
[29]https://rb.gy/d4junf

goods. The all-inclusive welfare approach of the government will further contribute to the increase of the consumption base through the expansion of the middle class. A study by the independent think tank People Research on India's Consumer Economy (PRICE) reports a substantial shift in the household income profile of India, with the middle class increasing from 432 million in 2021 to 715 million in 2031 and bulging up to nearly 1.02 billion in 2047[30].

Enabling investment-led economic growth

2.19 The investment climate in the country has transformed in recent years, leading to the emergence of 'investment' as a crucial driver of economic growth. The seemingly impressive investment rate in the first decade of the millennium was based on excessive borrowing and over-optimism, which eventually proved unsustainable. In the second decade, banks were reluctant to lend to corporates, and the corporates, in turn, had to trim their balance sheets by selling assets and paying off debts. Hence, the investment share of GDP came down in the second decade. These stresses on the balance sheets, which accumulated in the first decade, compounded the underlying macro fragility of the Indian economy with a high fiscal deficit, high current account deficit and sustained double-digit inflation, and the Indian economy was included in the infamous club of 'fragile-five' emerging economies. The government helped banks strengthen their balance sheets by recapitalising them and restructuring the industry. With stronger balance sheets in the non-financial corporate and banking sectors, growth in investments and credit are poised to increase in this decade, as is already evident in the data for the last three years (Charts 3 and 4).

Chart 3-Trends in Investment rate over the years

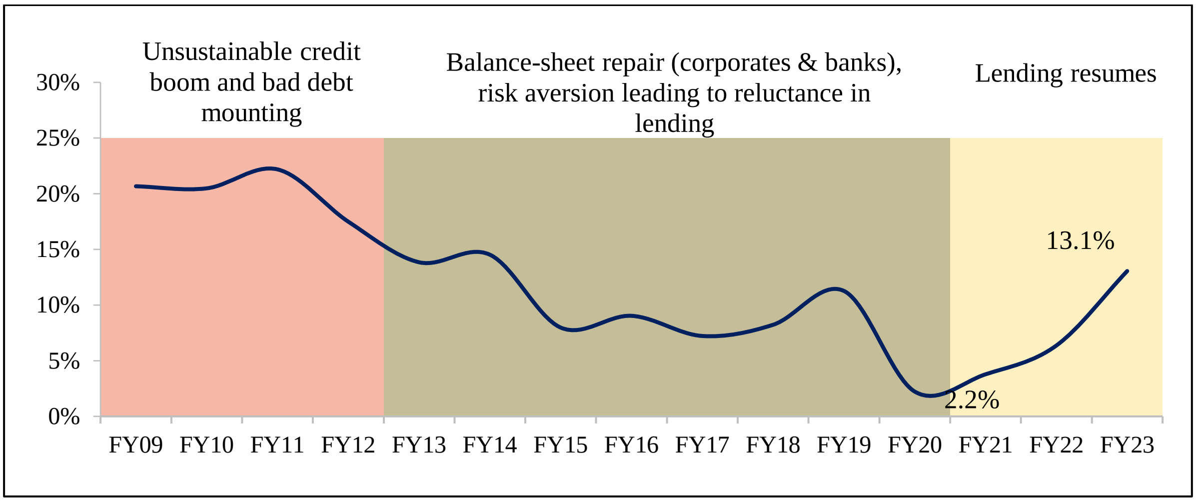


Note: Investment Rate is the ratio of Nominal GFCF over Nominal GDP
Data for FY24 is as per the First Advance Estimates
Source: NSO, MoSPI

[30] https://price360.in/publication-details.php?url=gearing-up-for-a-billionplus-middle-class-by-2047

2.20 The government's efforts over the past decade have resulted in positive economic outcomes. With numerous investment-boosting reforms and healthier balance sheets, private corporate investment has begun to crowd in, and banks are responding with greater credit disbursement. The non-food bank credit growth, net of personal loans, which had declined from above 20 per cent in 2008 to less than 10 per cent in FY 2016, has rebounded to reach 13 per cent in FY23 (Chart 4).

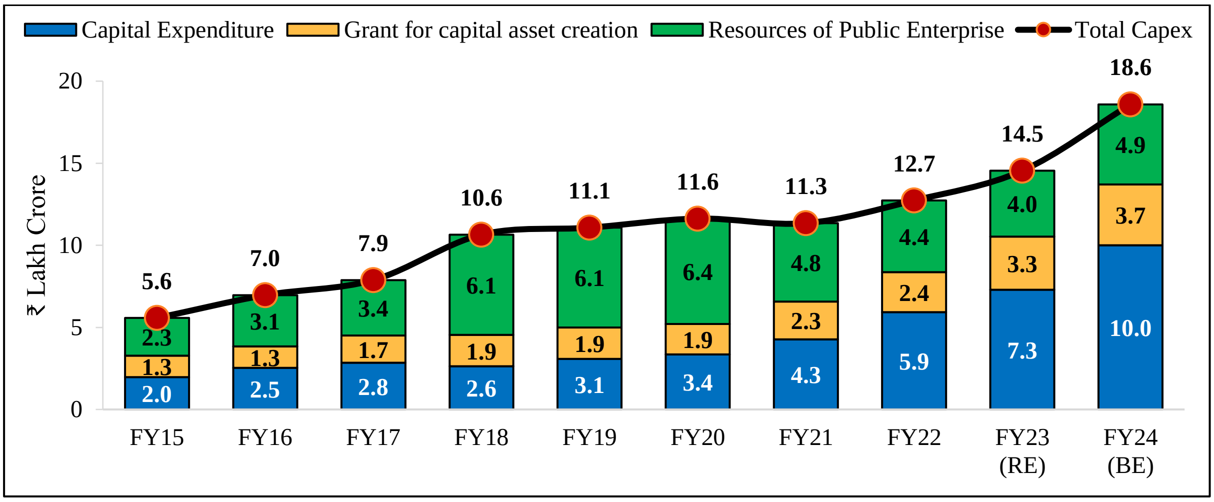
Chart 4: Growth in Non-Food Bank Credit, Net of Personal Loans



Source: RBI

2.21 During the period of balance sheet retrenchment in the financial and non-financial private corporate sector in the second decade of the new millennium, the Union government took on the mantle of sustaining investment growth and, consequently, employment generation in the economy. Effectively, the capital expenditure of the Public sector (including Union government capex, grants to the states for capital asset creation, and investment resources of the Central PSEs) has increased from ₹5.6 lakh crore in FY15 to ₹18.6 lakh crore in FY24 (Chart 5). During this period, the surge in capital expenditure was 5.1 times, grants to states for capital asset creation went up by 2.8 times and resources of PSEs increased by 2.1 times. To facilitate the upscaling of capex, the Union government rebalanced its fiscal expenditure, with capital spending rising from 12 per cent of total expenditure in FY18 to 22 per cent in FY24 (Budget Estimate). Notably, even during the pandemic years, when the spending was carefully targeted to cater to the basic needs of the population at the bottom of the pyramid, the government could create the fiscal space to continue the emphasis on its capex. The emphasis on infrastructure investments has further addressed the supply-side deficiencies that have bedevilled the Indian economy for a long time.

Chart 5: Capital Expenditure by Public Sector (Centre + CPSEs)

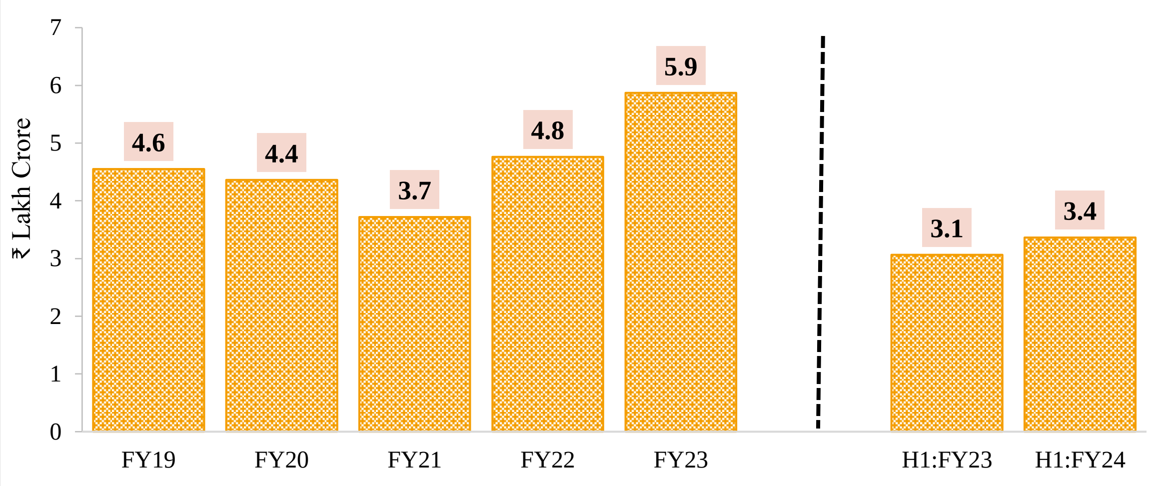


Source: Various Budget documents

2.22 Alongside, the government also sped up work on the large pipeline of infrastructure projects that had stalled due to construction delays, inefficient administrative processes, inadequate financing, and legal and land issues. Digitalising bureaucratic procedures, streamlining approvals of investment projects, easing legal constraints, creating a supportive tax eco-system with reduced corporate tax rates and a uniform GST regime, and opening new avenues for private investors have ensured a non-adversarial policy environment. For instance, the Pragati/ Project Monitoring Group (PMG) mechanism has been a game-changer in expediting the execution of long-delayed projects. Since June 2014, 2,169 projects worth ₹49.4 lakh crore have been on-boarded on the PMG portal. Of these, 676 projects worth ₹12.2 lakh crore have been commissioned. Projects such as the Eastern Dedicated Freight Corridor (resolved 201 issues out 214), Western Dedicated Freight Corridor (resolved 113 issues out of 118), Hyderabad Metro Rail project (55 issues resolved), and Jagdishpur - Haldia & Bokaro - Dhamra Pipeline Project (resolved 71 out of 75 issues) have immensely benefited from the mechanism. A more detailed description of the impact of many such structural and process reforms may be seen in Chapter 3 of Economic Survey 2022-23.

2.23 Multiple proxy indicators and industry reports point towards the emergence of the green shoots of a private capex upcycle in the post-pandemic years. The Index of Industrial Production (IIP) data shows that the capital goods index and infrastructure/construction goods index saw robust growth of 12.9 per cent and 8.4 per cent, respectively, in FY23. The indices have carried forward their momentum thus far into FY24 and have grown by 7.5 per cent and 11.1 per cent, respectively, on a cumulative basis till November 2023. The recent results of listed/unlisted corporates also indicate expanding private investment in the first half of FY24. As per Axis Bank Research, capital expenditure by Private Non-Financial Companies has grown by 28 per cent in FY22, 23 per cent in FY23 and 10 per cent in H1 of FY24 (Chart 6).

Chart 6: Rising Investment by Private Non-Financial Companies

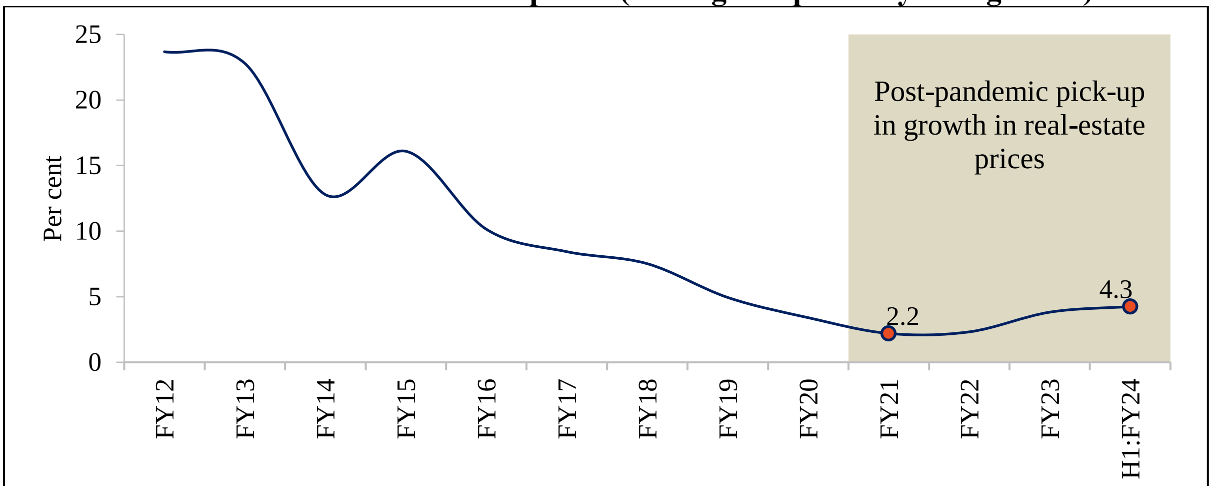


Source: Axis Bank Research
Note: Data is for a set of 3,336 companies

Rising household investments in real estate strengthens the investment rate

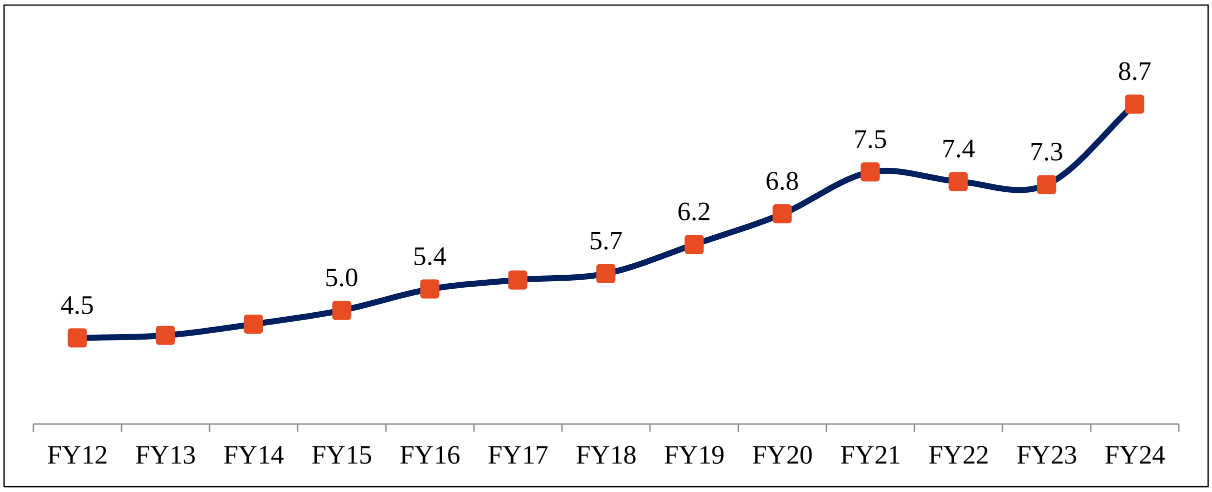
2.24 Household investment has also contributed to the recent strengthening of the investment rate. The household sector investment, which constitutes the largest share in the total Gross Fixed Capital Formation, was, in fact, on a rising trajectory just before the pandemic. This was driven by a gradual decline in growth in real-estate prices and a continued increase in bank credit for housing (Charts 7 and 8). After the pandemic, housing prices began to recover. The average annual growth in real-estate prices has increased from 2.3 per cent in FY22 to 3.8 per cent in FY23 and 4.3 per cent in H1 of FY24. That there has been an uptrend in housing sales and launches (Charts 9 and 10), despite an appreciation in real-estate prices and higher interest rates (Charts 7 and 11), attests to the strength of the recovery of incomes and optimism about the future.

Chart 7: Trends in real-estate prices (Average of quarterly YoY growth)



Source: RBI
Note: The figure for H1 FY24 is an average of quarterly YoY growth for the first two quarters of FY24.

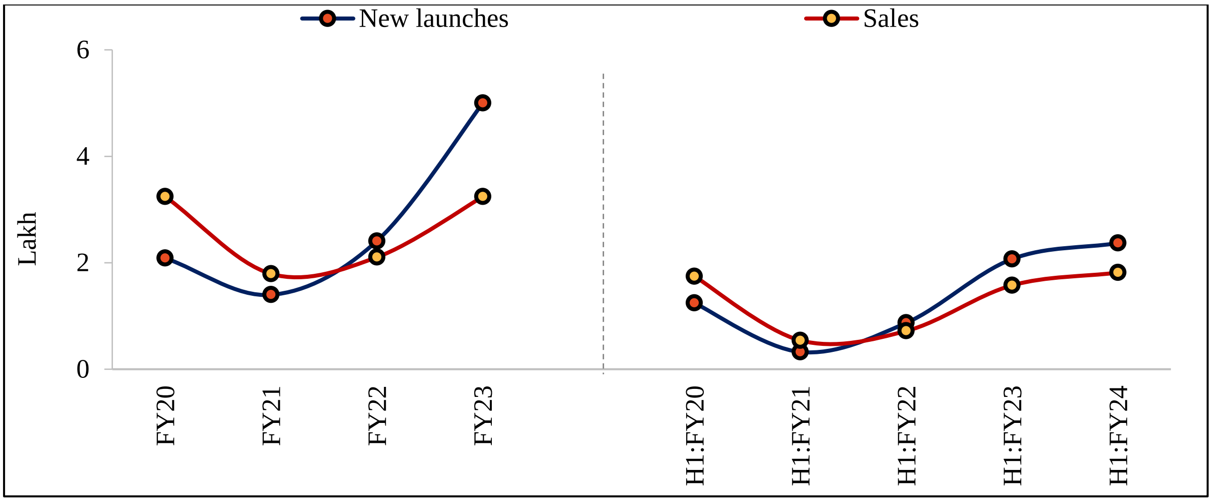
Chart 8: Bank Credit for Housing (as a per cent of GDP)



Source: MoSPI, RBI;

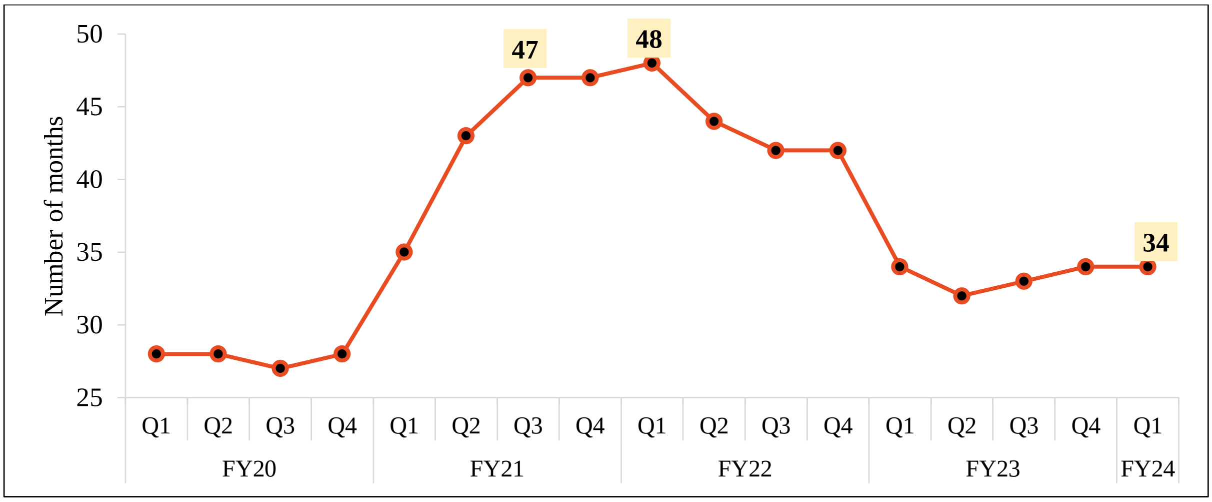
Note: The figure for Bank credit for FY24 is up to 17 November 2023, taken as a proportion of the GDP (First AE) for FY24.

Chart 9: Trends in housing sales and launches (in lakh)



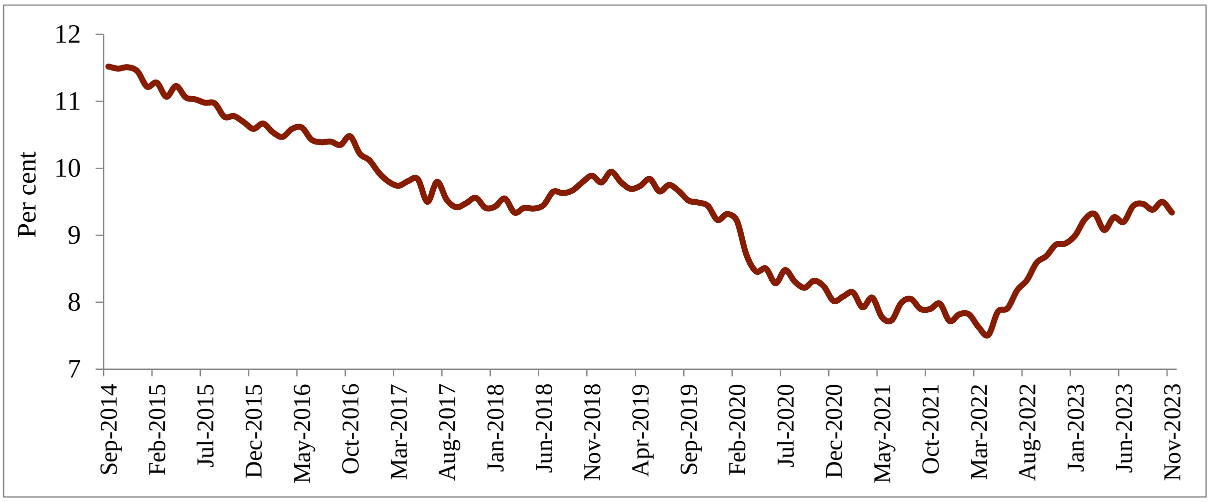
Source: PropTiger

Chart 10: Inventory overhang (in months)



Source: PropTiger

Chart 11: Monthly Fresh Rupee Loans WALR by Scheduled Commercial Banks



Source: RBI. Note: WALR- Weighted Average Lending Rate

2.25 Thus, we see that the overall investment rate of the economy for the last three years has consistently surpassed the levels of FY16 relative to GDP. The increase in investments is driven by all three sectors of the economy - public sector, private sector, and households, reflecting confidence in the future economic prospects of the country. This, in turn, will lay the foundation for sustained investment-led growth in the Indian economy over the next decade.

Agricultural Sector Policies Ensuring Food Security

2.26 The agricultural sector, which is estimated to constitute 18 per cent of India's GVA in FY24, is the bedrock of the nation's economy. Despite challenges posed by the global health crisis and variability in climate conditions, the sector has demonstrated remarkable tenacity and resilience, contributing significantly to India's economic recovery and development. The sector grew at a higher average annual rate of 3.7 per cent from FY15 to FY23 compared to 3.4 per cent from FY05 to FY14. For the year FY23, the sector grew at 4.0 per cent as compared to the previous year.

2.27 The total food grains production for FY23 was 329.7 million tonnes, marking a rise of 14.1 million tonnes compared to the previous year. The average food grain production per year in million tonnes was 289 in FY15 to FY23, compared to 233 in FY05 to FY14. Rice, wheat, pulses, Nutri/coarse cereals, and oilseeds witnessed record increases in production. India's global dominance extends across agricultural commodities, making it the largest producer of milk, pulses, and spices worldwide. Additionally, India ranks second-largest producer of fruits, vegetables, tea, farmed fish, sugarcane, wheat, rice, cotton, and sugar. The improved performance is also reflected in a substantial surge in agriculture exports, reaching ₹4.2 lakh crore in FY23, surpassing the previous year's records. Given opportunities and an appropriate policy setting, India’s farmers have demonstrated their capability to meet food demand of the rest of the world. The potential is still huge.

2.28 The Indian government has implemented several strategic measures to bolster the agriculture sector's growth and resilience. One notable intervention is the consistent increase in Minimum Support Prices (MSPs) for 22 Kharif and Rabi crops. Since the agricultural year 2018-19, the government has ensured a minimum of 50 per cent margin over the all-India weighted average cost of production for each crop covered under MSP. This price support also aims to reduce India's import dependence and foster diversification towards pulses, oil, and commercial crops. Accordingly, the highest increase in MSP was approved for lentil (masur) at ₹425 per quintal, followed by rapeseed and mustard at ₹200 per quintal in 2023-24.

2.29 The policy initiatives, such as Pradhan Mantri Kisan Maandhan Yojana (PM-KMY), Pradhan Mantri Kisan Samman Nidhi (PM-KISAN), and Pradhan Mantri Fasal Bima Yojana (PMFBY), have played a pivotal role in providing financial and income support to farmers. PM-KISAN, launched in 2019, supplements the financial needs of landholding farmers by transferring ₹6,000 per year in three equal four-monthly instalments. As of December 12, 2023, over ₹2.8 lakh crore have been transferred to more than 11 crore beneficiaries. Additionally, the government provides pension benefits to 23.4 lakh small and marginal farmers enrolled under the PM-KMY. The success of PMFBY, offering simple and affordable crop insurance against non-preventable natural causes, is evident from 55.5 crore farmer applications insured since 2016-17 and ₹1.5 lakh crore paid as claims.

2.30 The government has actively promoted digital inclusion and mechanisation to foster productivity. The launch of the digital platform e-NAM (National Agriculture Market) in 2016 has facilitated the integration of Agriculture Produce Marketing Committees (APMC) mandis and has provided multi-faceted benefits to farmers, farmer-producer organisations (FPOs), buyers and traders. The number of markets linked to the e-NAM platform has increased from 250 in 2016[31] to 1,389 in 2023, facilitating the online trading of 209 agriculture and horticulture commodities. The platform has witnessed the registration of over 1.8 crore farmers and 2.5 lakh traders, promoting market opportunities through a transparent price discovery system and online payment facility. Further, the value of trade on the platform has increased from ₹ 0.3 lakh crore in August 2017 to over ₹ 3 lakh crore in November 2023[32].

2.31 The government's push for technology adoption is evident in its efforts to make drone technology affordable to farmers. Financial assistance at 100 per cent of the drone cost and contingent expenditure has been provided for demonstrations on farmers' fields. In addition, the government is taking steps to strengthen the cooperative movement by computerising Primary Agricultural Credit Societies (PACS). The linkage of 62,318 functional PACS with NABARD through a single National Software Network reflects the commitment to improving the credit delivery systems in rural areas. The government has also created Agristack, a

[31]https://www.niti.gov.in/sites/default/files/2021-08/Working-Group-Report-Demand-Supply-30-07-21.pdf
[32]https://enam.gov.in/web/

federated architecture for effective planning, monitoring, policy-making, strategy formulation, and implementation of schemes. Collectively, these initiatives contribute to enhancing farmers' access to quality inputs, timely information, credit, insurance, and market opportunities, all at lower costs and higher convenience.

2.32 The focus on enhancement in post-harvest infrastructure investment through the Agriculture Infrastructure Fund (AIF) and Pradhan Mantri Kisan Sampada Yojana (PMKSY), adoption of sustainable agriculture practices like the Per Drop More Crop Component of the Pradhan Mantri Krishi Sinchayi Yojana (PMKSY-PDMC) and promotion of Natural Farming to transform agriculture making it more resilient.

2.33 Ensuring food security is a cornerstone of government policies, especially for vulnerable populations. Timely and efficient procurement and distribution of food grains are paramount. Over 830 Lakh Metric Tons (LMT) of paddy have been procured for the Central Pool up to June 19, 2023, under MSP operations. The ongoing paddy procurement operations for the Kharif Marketing Season of 2022-23 have benefitted over 1.2 crore farmers, with an MSP outflow of ₹1.7 lakh crore directly transferred into their accounts. Wheat procurement in the current season, up to June 19, 2023, has surpassed last year's total procurement by 74 LMT, reaching 262 LMT. Further, to ensure remunerative prices to the farmers for their produce, the government introduced the Pradhan Mantri Annadata Aay Sanrakshan Abhiyan (PM-AASHA) scheme in 2018. In addition to these procurement operations, the Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY) launched during the Covid-19 outbreak to provide free food grains to about 81.4 crore beneficiaries (Antyodaya Anna Yojana households and Priority Households beneficiaries) under the PMGKAY have been extended for five years starting from January 1, 2024.

2.34 While the agriculture sector has performed well consistently, continuous innovation in farming practices, crop variety improvements, and technology adoption are essential to meet the growing demands for diversified and nutritious food baskets. Further, policy consistency and continuity that expand market and production choices for farmers, which, at the same time, keep the larger environmental and ecological considerations and natural resources availability and demand in the country, will be useful in encouraging farmers to adopt new technologies and practices.

Reform push to the Indian industry

2.35 Industrial growth accelerated to 7.1 per cent per annum from FY15 to FY19, compared to 5.5 per cent in the preceding five-year block of FY10 to FY14. The advent of the Covid-19 pandemic in March 2020, its contagion and attendant damages during FY21 caused a short-lived industrial contraction. However, on the strength of the multi-pronged reforms in recent years, the Indian Industry is likely to record a robust 8 per cent growth per annum during the triennium ending March 2024, as indicated by the first advance estimates of National Accounts for FY24. The strategic initiatives undertaken by the government, before and in the wake of the pandemic, not only mitigated challenges but also propelled the growth of the sector.

2.36 The government took targeted measures under the ‘Make in India’ initiative to bolster domestic manufacturing and promote self-reliance across various industries. At the forefront is the PLI scheme, covering 14 sectors, designed to incentivise manufacturers to increase production and exports. Under the PLI Scheme, involving an outlay of ₹1.97 lakh crore, 746 applications were approved till the end of December 2023, with 176 MSMEs being direct beneficiaries. The scheme witnessed over ₹1.07 lakh crore of investment, leading to production/sales of ₹8.7 lakh crore and employment generation of over 7 lakh. The scheme has witnessed exports exceeding ₹3.4 lakh crore, with significant contributions from sectors such as Large-Scale Electronics Manufacturing, Pharmaceuticals, Food Processing, and Telecom and networking products. Some of the most notable achievements under the PLI scheme included the sizeable increase in value addition in mobile manufacturing, import substitution achieved in telecom, a significant reduction in the import of raw materials in the pharma sector, a jump in the turnover in the drones’ sector and considerable improvement in the domestic sourcing of raw materials in food processing.

2.37 The 1.14 lakh startups (as of October 2023) recognised by the government under the Startup India initiative have reported the creation of more than 12 lakh jobs. The Open Network for Digital Commerce has recorded more than 6.3 million transactions in November 2023. Regulatory reforms, including the decriminalisation of 3,600 compliances, have improved the ease of doing business. The Jan Vishwas Amendment Bill 2023, passed by the Parliament, proposes to decriminalise 183 provisions across 42 Central Acts administered by 19 Ministries/Departments.

2.38 MSMEs are becoming increasingly vibrant and dynamic, with the supportive measures implemented by the government. The Union Budget for FY24 has facilitated the timely receipt of payments for MSMEs by allowing a tax deduction for expenditure incurred on payments made to them only when payment is actually made. Sections 15 to 24 of the Micro, Small and Medium Enterprises Development Act, 2006, mandate that a buyer is liable to pay interest on delayed payments to MSMEs. Since payment of such interest is considered penal in nature, no deduction for such interest is allowed under section 37 of the Income Tax Act, 1961. The Udyam portal and the Udyam Assist Platform (UAP) have helped consolidate the information on MSMEs, with 2.24 crore MSMEs registered on the Udyam portal and about 1.2 crore units registered on the UAP. The PM Vishwakarma, introduced in September 2023, offering holistic end-to-end support to the artisans and craftspeople, has already attracted 48.8 lakh enrolments as of the end of December 2023.

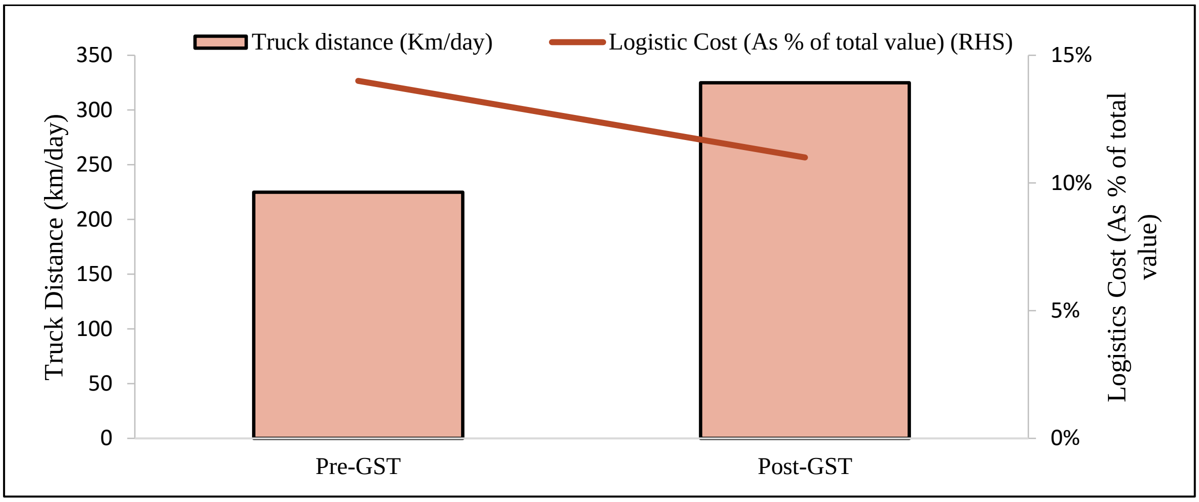
2.39 Under the Pradhan Mantri Mudra Yojana, loans amounting to ₹25.98 lakh crore have so far been disbursed to non-corporate, non-farm small and micro enterprises. The limit of credit guarantee under the Credit Guarantee Fund Trust for Micro & Small Enterprises (CGTMSE) was raised from ₹2 crore to ₹5 crore in April 2023, and its corpus increased to enable additional credit. Under the Emergency Credit Line Guarantee Scheme (ECLGS), announced under the Aatmanirbhar Bharat package, guarantees to the tune of ₹2.4 lakh crore have been provided. The combined effect is evidenced in the impressive average annual growth of 16.8 per cent in the credit provided by the scheduled commercial banks (SCBs) to the micro and small enterprises during the last two years. The MSME portfolio of SCBs has exhibited improvement, as the Gross Non-Performing Assets Ratio (GNPA) declined to 4.7 per cent in September 2023 from 7.7 per cent in September 2022.

2.40 The Unified Logistics Interface Platform (ULIP), under the National Logistics Policy, is integrated with 35 systems of 8 different Ministries and has 699 industry players registered on it. The platform intends to simplify and improve the efficiency of logistics processes for registered users. GST data is also being integrated with ULIP to provide multi-modal cargo tracking and demand-supply mapping for trade. An NCAER Study published in December 2023 has shown that the logistics cost in the economy has declined by 0.8 to 0.9 percentage points of GDP between FY14 and FY22[33].

2.41 A report by Bernstein, "India's Promise: The Prosaic Path to Sustained Growth", highlights that there has been a significant reduction in logistics cost (as a per cent of total value) for trucks after the implementation of the GST, accompanied by a rise in the distance travelled per day (Chart 12). Similarly, the average turnaround time (per day) at major ports has gone down from 4.2 days during FY04-FY14 to 2.9 days during FY14-FY22. The government's massive push for capex not only reduced logistics costs but also bolstered the construction industry. This, coupled with the measures to increase domestic steel production and the focus on affordable housing, has helped India achieve a growth of around 12 per cent per annum in construction from FY22 to FY24.

[33] https://www.ncaer.org/wp-content/uploads/2023/12/NCAER_Report_LogisticsCost2023.pdf

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

2.42 With the onset of the pandemic, economic activity was thrown into disarray. The government, however, quickly got its act together to resurrect the economy. As the economic recovery gathered momentum and the pandemic ebbed, newly acquired strengths became visible. India's world-class digital public infrastructure (DPI), honed and widely used during the pandemic, is a perfect example. India's DPI, also referred to as India Stack, has enabled online, paperless, and cashless digital access to various public and private services. In so doing, it has enabled rapid completion of remotely triggered transactions in several areas until recently seen as time-consuming contact-intensive engagements. India Stack has given a digital face to the country's services sector.

2.43 The India Stack consists of three interconnected layers -The Identity Layer (Aadhaar), the Payments Layer (Unified Payments Interface, Aadhaar Payments Bridge, Aadhaar Enabled Payment Service) and the Data Layer (Account Aggregator). The Identity Layer has been pivotal in providing a digital identity to every Indian. Before Aadhaar, only one in 25 citizens had any form of formal identification, and just one in four had bank accounts. The Payments Layer enabled an enormous surge of cashless payments, both in value and volume terms. The UPI easily substituted for cash payments when safe distancing was the norm during the pandemic. The value of transactions conducted on the UPI platform has increased multifold from ₹0.07 lakh crore in FY17 to ₹143.4 lakh crore in FY24 (April-December 2023). The Data Layer transformed the authentication ecosystem in India and facilitated the KYC process, reducing the cost of conducting e-KYC from ₹1000 to ₹5[34].

[34] https://www.imf.org/-/media/Files/Publications/WP/2023/English/wpiea2023078-print-pdf.ashx

2.44 The PMJDY, launched in 2014, put to great use the Indian Stack to enable direct benefit transfers straight into the bank account of the beneficiary using the Aadhar and the mobile connect. In an exemplary upscaling of public services, the PMJDY accounts have grown three-fold from 14.7 crore in March 2015 to 51.5 crore as of January 10, 2024, bringing a significant proportion of India's population into the formal banking system. This has been accompanied by a rise in the average deposit per account. DBT mode has so far (December 2023) transferred more than ₹33.6 lakh crore. The DBT has led to the removal of duplicate/fake beneficiaries and the plugging of leakages. As a result, a real savings of ₹2.7 lakh crore (as of March 2022) has accrued to the government.

2.45 During the pandemic, the Aarogya Setu and CoWin apps helped to track and contain the spread of the virus and facilitate the vaccination of many people in a short period. Using this digital infrastructure, India was able to provide support to many households quickly. In the first months of the pandemic, about 87 per cent of poor households received at least one benefit[35]. PM eVIDYA was another initiative launched with the use of digital technology to bridge learning gaps during the pandemic. The digital world has also built several e-commerce platforms for merchandise, food, and transport services that proved critical during the lockdowns. As per a report by UNICOMMERCE on 'India E-Commerce Index 2023'[36], the overall order volume witnessed a growth of 26.2 per cent in FY23, indicating a flourishing e-commerce landscape in India, supported by a 23.5 per cent rise in annual Gross Merchandise Value (GMV) as compared to FY22. India's e-commerce market is expected to reach USD 163 billion by 2026, with online sales accounting for over 25 per cent of the sales across major non-grocery retail categories. The proliferation of internet connectivity and smartphones in India, coupled with rapid urbanisation and the rising influence of India's middle class, have propelled the e-commerce market.

2.46 The IMF's Working Paper on 'Stacking Up the Benefits: Lessons from India's Digital Journey' highlights that as of March 2023, roughly 4.5 million individuals and companies have benefited from easier access to financial services through the Account Aggregator since it was first launched in August 2021. The Digital Document Execution platform of National E-Governance Services Limited (NeSL), an Information Utility set up under the IBC, is one such financial service that rapidly completes the loan documentation of a beneficiary. With the payment layers capturing the credit and spending behaviour of the borrower and, in the process, the default risk, the use of collaterals is diminishing in cases where the risk is negligible.

2.47 A set of enabling policies in the financial and telecommunications sector supported the growth of India Stack. Demonetisation led to a surge in the use of non-cash forms of payment. Allowing 100 per cent FDI in the telecom sector under the automatic route and the prohibition

[35]https://www.imf.org/en/Publications/WP/Issues/2023/03/31/Stacking-up-the-Benefits-Lessons-from-Indias-Digital-Journey-531692
[36]https://rb.gy/16vbjo

of discriminatory data tariffs increased competition in the telecommunications market. The entry of a new network operator in 2016 lowered the cost of mobile data, leading to a jump in data usage. Average monthly data consumption per wireless data subscriber increased almost 300 times to 18.4 GB in June 2023 from 61.7 MB in March 2014. Tariffs for mobile services have reduced exponentially, with mobile data tariffs declining from ₹269/GB in 2014 to ₹10.1/GB in 2023[37]. Further, India has the third lowest average data tariff per GB. The India stack not only facilitated the GST rollout in 2017 but also evolved itself through the feedback loop. The GSTN served about 140 lakh active taxpayers in April 2023, up from 105 lakhs in April 2018.

2.48 India's robust DPI has played a pivotal role in enabling the country's digital transformation, providing citizen-centric and transparent governance services. This has improved financial inclusion and benefited the larger economy by increasing formalisation and widening the tax base. The Bank for International Settlements noted in December 2019 that what India achieved with respect to its financial inclusion in the last eight to ten years had, on average, taken 47 years, going by the experience of other countries[38]. A report by ACI Worldwide (Real-time payments) highlights that India was a leader in Global Real-time payment transactions in 2022. These are the digital pillars on which the services sector stands today. India’s fast-growing population, world-class DPI and proactive regulations have underpinned the growth of the Fintech industry. India is among the fastest-growing fintech markets in the World, hailing as the third-largest growing fintech economy after the USA and the UK[39].

2.49 The impact of the country’s robust digital system is also visible in the export of services. There has been a sharp increase in the share of services exports in GDP, with notable growth witnessed in business services exports between FY20 and FY23. Increased demand for digitisation and preference for online delivery of services post the outbreak of the pandemic has encouraged the export of business services. The sharp increase in business services exports is also linked to the sudden proliferation of Global Capability Centres (GCC) in India. The availability of a highly-skilled workforce capable of research and innovation, using high-end technology, and possessing managerial skills has led to the setting up of GCC in India to support the conglomerates in significant corporate functions[40]. This, together with vastly improved digital and physical infrastructure, imparts a competitive edge to India as a favoured destination for GCCs.A Bloomberg article, “*Goldman’s Biggest Office Beyond New York Attests to India’s Rise*”[41], highlights that GCCs account for more than 1 per cent of India’s GDP,

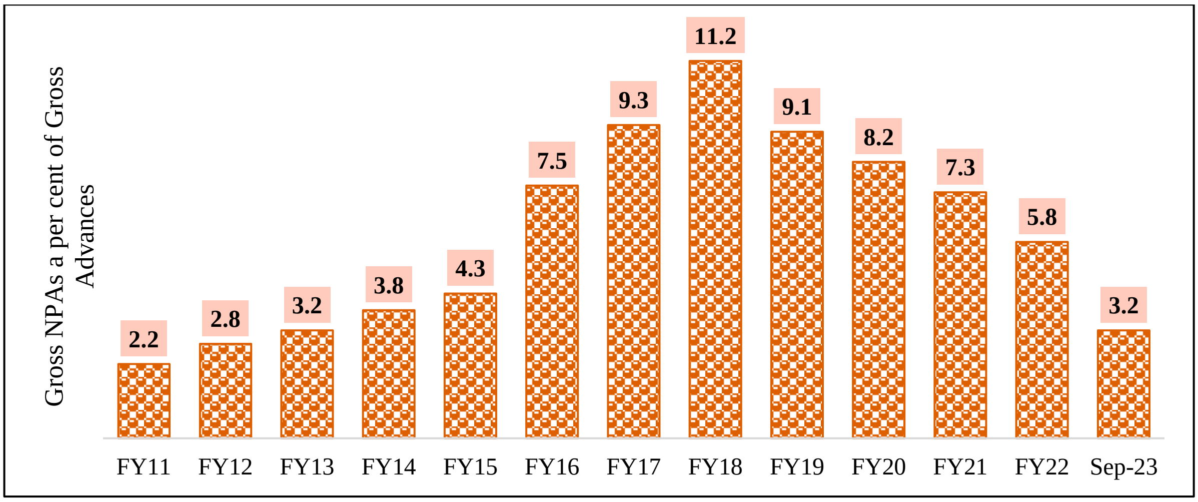
[37] https://pib.gov.in/PressReleasePage.aspx?PRID=1948815
[38] https://www.bis.org/publ/bppdf/bispap106.pdf
[39] https://finnovating.com/fintech-global-vision-report/
[40]https://community.nasscom.in/communities/gcc/india-gcc-trends-quarterly-analysis-q4cy2022
[41]https://www.bloomberg.com/news/newsletters/2023-06-14/goldman-s-biggest-office-outside-new-york-marks-india-s-rise

imparting resilience to India's services exports. Through GCC and other business services, India also exports professional business services composed of Research and Development (R&D), Management Consulting and Public Relations, and Engineering services, among others. Increased demand for digitisation and preference for online delivery of services post the outbreak of the pandemic also encouraged the export of business services.

Credit creation is back

2.50 Bank credit, in recent years, has shown phenomenal growth, outpacing the growth in deposits on the back of sustained demand momentum and robust economic recovery after the Covid-19 pandemic. The growth in non-food bank credit at 15 per cent in FY23 was the highest in the last ten years. This would not have been possible without a significant improvement in the banking sector's health. Even as credit growth surged, asset quality across all SCB groups kept improving, with GNPAs (gross non-performing assets) and Net NPAs relative to the total advances dropping to a multi-year low in September 2023 (Chart 13).

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



Source: RBI

2.51 The improvement in the banking sector's health is striking when compared to the lows it had sunk to following the developments in the first decade of the millennium. 'India's Medium-Term Growth Outlook: With Optimism and Hope' of Economic Survey 2023 highlights that the implementation of reforms by the government and the RBI helped clean up the balance sheets of the banking and the corporate sectors[42]. As discussed in Para 2.19 above, the unsustainable credit and investment booms contributed to the emergence of the "twin balance sheet problem" in the economy. Relative to gross advances, the GNPAs of SCBs rose almost five-fold from 2.2 per cent in FY11 to 11.2 per cent in FY18 (Chart 12), as loans extended in the boom years of 2003-08 and again between 2012 and 2014 turned sour. As

[42]https://www.indiabudget.gov.in/economicsurvey/doc/eschapter/echap02.pdf

GNPAs rose, growth in bank credit moderated between FY15 and FY18, burdened by the piling-up of GNPAs. A statistically significant negative correlation (-0.5) between the Gross NPAs and credit growth shows that the banks' credit supply was severely constrained due to stress in their balance sheet during the second decade[43].

2.52 The deterioration in the asset quality of Indian banks became visible after the RBI implemented the 'Asset Quality Review' (AQR) and prompt corrective action (PCA) framework in FY15 to increase transparency in the financial sector. This was the first step for instilling resilience in the financial sector – an admittance of what the true liabilities are. The government then took the second major step of building further resilience by enacting the IBC in 2016, along with the amendment of the Banking Regulation Act of 1949. This facilitated a speedier resolution of bad debt and helped improve the credit repayment culture. The latest data from the Insolvency and Bankruptcy Board of India (IBBI) shows that the IBC has rescued 808 corporate debtors through resolution plans, with realisations of 168.5 per cent against the liquidation value and 32 per cent as against the admitted claims of the creditors. A study by the Indian Institute of Management: Ahmedabad on IBC highlights that the resolved firms that went through the resolution process under the IBC have witnessed a significant improvement in their performance in the post-resolution period compared to the period prior to the insolvency (76 per cent increase in average sales, 50 per cent rise in average employee expenses, 50 per cent rise in average total assets of resolved firms, among others)[44]. M.S Sahoo's article on "A Performance Appraisal of IBC" showcases that the firms have witnessed an improvement in their performance, which led to robust balance sheets with prudent leverage and an interest coverage ratio exceeding 3.5. Corporate governance, too, has witnessed improvement, as evident in a decline in related party transactions post-IBC, as per a study by the Centre for Advanced Financial Research. India's global ranking in terms of resolving insolvency parameters improved from 136 to 52 in the first three years of IBC implementation[45]. Profit margins of the public sector banks (PSBs) started to improve as lending resumed on the back of various measures taken by the government, including recapitalisation (Table 1). After the record low of 2018, corporate profit margins also increased as the resolution of stressed assets saved cost on debt servicing.

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

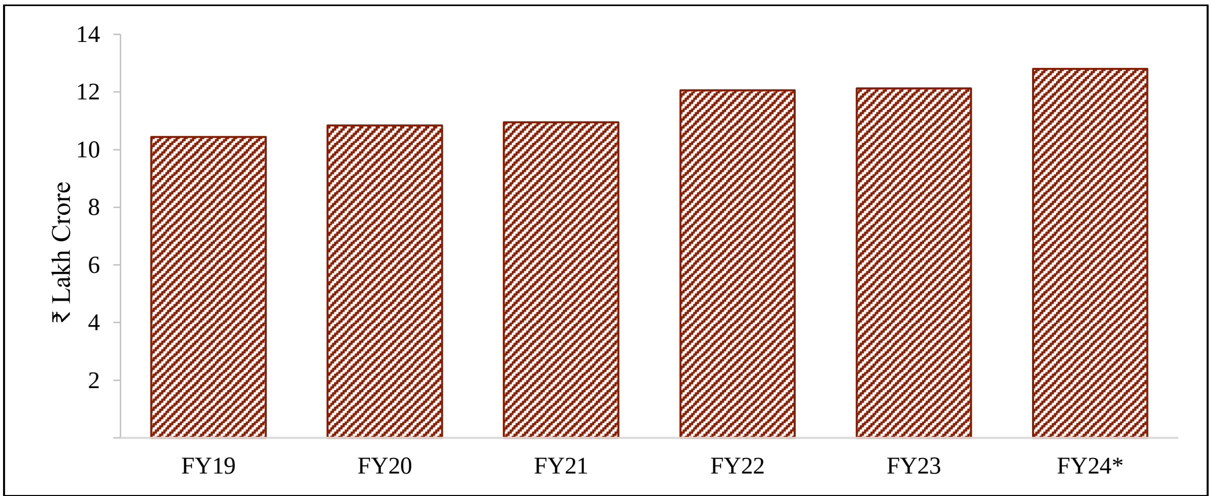
	2013-14	**2022-23**
Net Interest Margin (NIM)	2.45	2.72
Return on Assets (RoA)	0.50	0.79
Return on Equity (RoE)	8.48	12.35

Source: RBI

[43] Muduli, S. and Behera, H., 2021. Bank capital and monetary policy transmission in India. Macroeconomics and Finance in Emerging Market Economies, pp.1-25. (https://bit.ly/3J9xvNG)
[44] https://ibbi.gov.in/uploads/whatsnew/37833a4cfcba02255949f3920133c3bd.pdf
[45] https://www.business-standard.com/opinion/columns/a-performance-appraisal-of-ibc-124011500998_1.html

2.53 As the resolution progressed, the GNPA ratio started declining and has been downward since March 2019. The trend continued even during the pandemic period, led by increasing deleveraging and regulatory intervention. Parallelly, as recapitalisation continued, the Credit to Risk-Weighted Asset Ratio (CRAR) improved, helping many weak PSBs to come out of the prompt corrective action framework of the RBI. The banks became ready to extend credit again, and so they did with the onset of the pandemic after the RBI and the government had kick-started the credit growth cycle. While the RBI eased repayment stress, the government launched the Emergency Credit Linked Guarantee Scheme (ECLGS) to extend large volumes of credit to MSMEs. Bank credit to MSMEs registered a Compound Annual Growth Rate (CAGR) of 14.2 per cent from FY19 to FY24 (as of November 17, 2023). The government's recent emphasis on capital expenditure has further strengthened the credit cycle, as seen in the growing bank credit disbursal to the infrastructure sector. Between FY19 and FY24 (as of November 17, 2023), bank credit to the infrastructure sector registered a CAGR of 4.2 per cent (Chart 14).

Chart 14: Bank Credit to the Infrastructure Sector



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

2.54 The enactment of IBC and the amendment to the Banking Regulation Act of 1949 have truly marked a watershed in the evolution of the regime for the resolution of financial stress in India, empowering creditors to deal with troubled financial assets in a transparent and time-bound manner. Furthermore, the government's budgetary support has made the banks well-capitalised to absorb losses even during times of adverse stress. The financial resilience of the banking sector is expected to further increase with the merger of public sector banks. The government and the RBI have ensured that the "twin balance sheet problem" of corporates and banks converted to "twin balance sheet advantage".

2.55 Alongside the high growth in bank credit, the credit expansion by NBFCs has also been strong, in fact, stronger than the growth in bank credit, driven by a marked improvement in their asset quality, capital levels and liquidity. A series of measures have been implemented, and they have played an important role in strengthening the NBFCs. To mention a few, considering the growing size, complexity, and interconnectedness of NBFCs, a revised scale-based regulatory framework has been implemented to harmonise the regulations of NBFCs with those of banks, wherever appropriate. The formal PCA framework was extended to NBFCs to enable supervisory intervention at appropriate times and require the supervised entity to initiate and implement remedial measures in a timely manner to restore its financial health.

Evolving financial markets to support the investment needs of a growing economy

2.56 Indian financial markets have gone from strength to strength over the last decade. While their development continues to attract many participants, their resilience has its roots in a continued reform agenda that prioritises the liberalisation of financial markets, balancing it with regulatory policies that safeguard financial market stability.

2.57 India's equity markets have outperformed major global markets. The Indian benchmark equity indices – the BSE Sensex and the Nifty 50 - delivered a CAGR of about 13.5 per cent in the period January 2014 – December 2023. Volatility in 2023, as measured by the standard deviation of the weekly returns of the benchmark BSE Sensex, has also come down to levels last observed in 2019. These developments were aided by solid corporate fundamentals resulting from the balance sheet clean-up and deleveraging (debt reduction) undertaken in the last decade. Additionally, the ease of access to financial markets for retail investors rose as digital technology adoption increased. The growth in demat accounts over ten years has been remarkable. The number of demat accounts in India increased to 13.9 crore at the end of December 2023 marking a 536 per cent growth from the total number of accounts as at the end of March 2014. The number of retail investors participating in the cash market segment of the equity markets on the NSE rose by 3.8 times between FY18 and FY22.

2.58 Accelerating activity in the equity markets has led to companies significantly increasing the number of IPO issuances, particularly in the small and medium enterprises (SME) segment. Since FY15, 1,050 companies cumulatively have gone public and raised capital worth ₹3.9 lakh crore, as compared to 441 companies mobilising ₹1.5 lakh crore in the preceding nine-year period. As per SEBI, significant interest from domestic and global investors in the Indian stock market as an attractive investment destination and sustained IPO activity has placed the Indian market fifth in the world by market capitalisation. India's market capitalisation to GDP ratio has improved significantly over the last nine years, from 79 per cent at the end of 2014 to 104 per cent at the end of 2022, far higher than that of other emerging market economies like China and Brazil. The performance of Indian equity markets has enabled India to secure the second-largest weightage in the MSCI Emerging Markets index.

2.59 In the bonds segment, the spread between the US 10-year treasury yield and the India 10-year sovereign bond yield remained relatively stable between 2016 and 2022. The government's fiscal discipline and the RBI's effective inflation management contributed to it. In 2023, India's sovereign bond yields remained range-bound even as advanced economies experienced a tumultuous year for sovereign bond yields. The credit spread between the US and India sovereign bond yields narrowed to historic lows, reflecting India's robust macroeconomic fundamentals. The Indian corporate bond market has broadly followed a similar pattern as well. Companies are now raising funds from issuances of bonds instead of relying mainly on bank loans. Corporate bond issues in FY23 were 2.9 times those in FY 2014, while outstanding corporate bonds grew a CAGR of 12.8 per cent between FY 2014 and FY23. A report by CRISIL states that the corporate bond market is set to more than double from ₹43 lakh crore in FY24 to ₹100-120 lakh crore in FY30[46].

2.60 In addition to robust economic conditions aiding the development of the bond markets, several initiatives have helped to widen and deepen this ecosystem. For instance, the RBI's Retail Direct scheme allowed individual investors to subscribe to government securities such as sovereign bonds and sovereign gold bonds. Through the RBI, the government also introduced sovereign green bonds, the proceeds of which will be used to fund the construction and operation of green projects. SEBI introduced regulations for new instruments such as InvITs and Municipal Bonds to facilitate more efficient infrastructure financing through the capital markets. To provide further impetus to the corporate bond market, SEBI introduced a framework whereby listed large corporates will mandatorily meet 25 per cent of their financing needs through the issuance of debt securities. The regulator also slashed the minimum ticket size of corporate bond investment to encourage greater investor participation. These measures are expected to yield dividends in the coming decade. There is evidence of robust investor interest in India's bond markets following the decision by JP Morgan to include India's sovereign bonds on its widely tracked Emerging Markets Government Bond Index. Higher participation will lead to inflows, which will further help reduce the government's borrowing costs.

2.61 Going forward, India's financial markets are expected to play a key role in financing the country's large capital investment needs. On the other hand, access to these financial markets is expected to enable a larger pool of investors to diversify their investments and grow their savings more safely than otherwise. Of course, investment in financial literacy with a keen understanding of the history of financial markets has to proceed hand in hand with investment in financial assets.

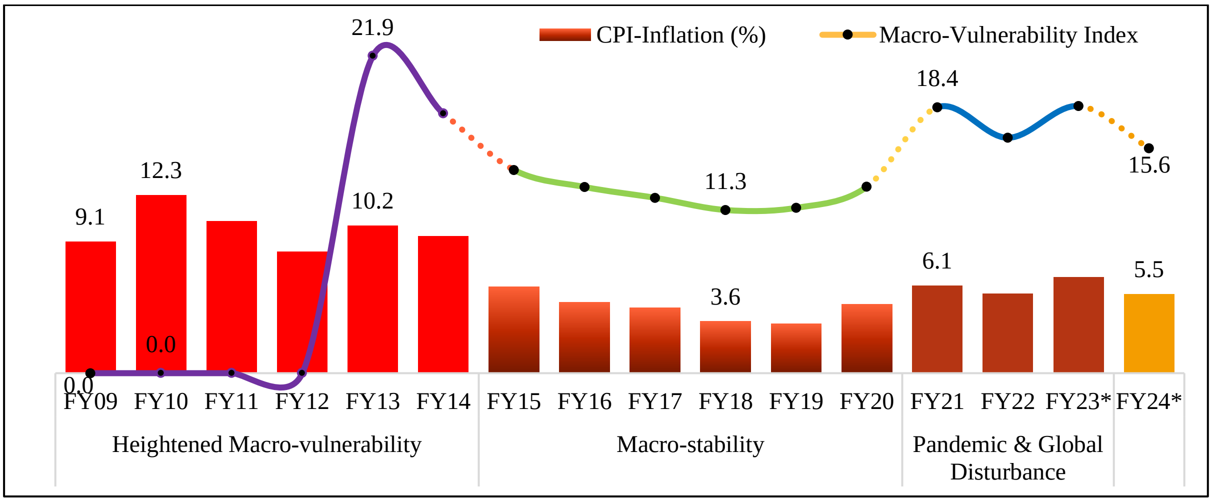
[46] https://www.crisilratings.com/en/home/newsroom/press-releases/2023/12/corporate-bond-market-to-more-than-double-by-fiscal-2030.html

Safeguarding Macroeconomic stability

2.62 Macroeconomic stability built on an economic environment with strong output growth, price stability, and robust external account are important goals of the government and the Reserve Bank of India. Considering the multiple challenges, the government of India has committed to an institutional architecture that fosters macro stability.

2.63 **Reigning in inflation with flexible targeting:** The period between FY09 and FY14 was marked by high average retail inflation[47] of 10 per cent and high levels of macro-vulnerability. Since the advent of flexible inflation-targeting within the band of 4 +/- 2 per cent under the Monetary Policy Framework Agreement in FY16, retail inflation averaged 4.2 per cent till FY20. The Price Stabilization Fund (PSF) set up in 2014-15 has been effective in tackling price volatility in important agri-horticultural commodities. Concurrently, the fiscal balance of the general government and the country's external balance improved, progressively reducing macro-vulnerabilities and generating buffers for turbulent times ahead (Chart 15).

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)

2.64 Keeping inflation within the 2 to 6 per cent range was a formidable task during the Covid-19 pandemic, its aftermath, and subsequent fragility in the global economy and polity. Repeated, uneven weather conditions complicated the task. Economic challenges imposed by massive dislocations in production, supply chain, and trade during the pandemic affected the

[47]Retail inflation measured by Consumer Price Index-Industrial Workers (CPI-IW) from FY09 to FY12 and Consumer Price Index-Combined (CPI-C) from FY13 & FY14
[48]Macro-vulnerability index is calculated by combining a country's fiscal deficit, current account deficit, and retail inflation. A lower number indicates a lower vulnerability.

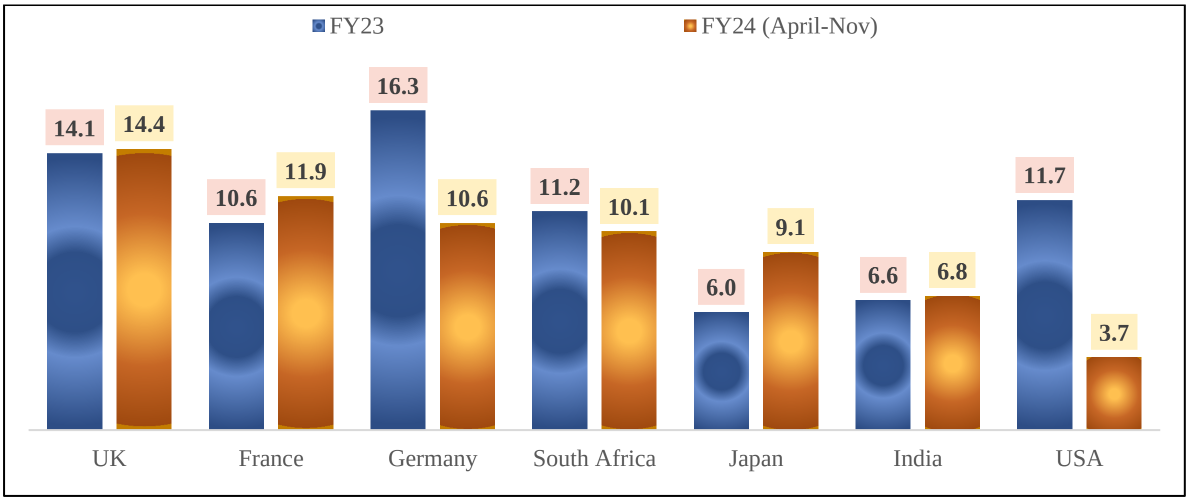
fiscal balance. Supply disruptions led to elevated food prices. Global financial markets experienced extreme volatility, and international crude oil prices tumbled in FY21.

2.65 Post-pandemic, FY22 saw a revival of the economy, with growth gaining momentum and inflation coming down. However, by the end of FY22, the global economic environment worsened yet again with the escalation of geopolitical conflicts and accompanying sanctions. Global commodity prices shot up substantially across the board amidst heightened volatility, and crude oil prices jumped to a 10-year high in June 2022. This spurred inflation globally, which affected India's external account and price situation. Supply chain pressures, which were set to ease after the pandemic, were rising again. Elevated edible oil prices due to global supply chain disruptions and higher vegetable prices due to uneven weather conditions led to high food inflation. Thus, the beginning of FY23 presented fresh, multi-frontal challenges to keeping macro vulnerabilities in check. However, India managed to keep its retail inflation below the levels of several other countries. The war in Ukraine and US sanctions led to supply disruptions and price volatility. To insulate the domestic economy from the vulnerabilities in existing supplies of crude oil and natural gas and to reduce dependency on OPEC, the government diversified the supply sources over the last few years and ensured the availability of energy supply at reasonable prices. This, in no small measure, contributed to India's growth revival.

2.66 Inflationary pressures moderated in FY24 (April-December), with average retail inflation easing to 5.5 per cent. The decline was driven by benign trends in core (non-food, non-fuel) inflation, which gradually declined to a 49-month low of 3.8 per cent in December 2023. The overall retail inflation is now stable and within the notified tolerance band of 2 to 6 per cent.

2.67 Persistence food inflation is a global challenge, including in several developed economies. In India, the prices of specific food items were pressured by untimely rains, leading to crop losses and weather-driven supply chain disruptions. Timely focus on supply-side initiatives, based on meticulous price monitoring, is giving credibility to anti-inflationary policies. Measures like strengthening buffers of key food items and making periodic open market releases, trade policy measures aimed at improving domestic availability of food, preventing hoarding through imposition and revision of stock limits, and channelling supplies of select food items through designated retail outlets helped to keep inflationary pressures on the check, amidst adversities. Consequently, India has managed to keep its food inflation at moderate levels and lower than many large economies (Chart 16).

Chart 16: Global Food Price Inflation (per cent)



Source: MoSPI for India and OECD for other countries

2.68 Supportive monetary policy helped greatly. The RBI increased the policy repo rate under the liquidity adjustment facility progressively from 4 per cent in April 2022 to 6.5 per cent till February 2023 and kept it unchanged thereafter to ensure that inflation aligns with the target while supporting growth. RBI has projected that inflation would average 5.4 per cent in FY24, within the notified tolerance level. With likely improvements in the fiscal balance of the general government and the external current account balance, macro vulnerabilities are again slated to moderate.

Human Resources: Dovetailing Growth with Capacitating Welfare

A New Approach to Welfare

2.69 Over the last decade, the Indian concept of welfare has been significantly transformed into a more long-term-oriented, efficient, and empowering avatar. This has lent a capacitating edge to welfare and helped lay a solid foundation for human development in the country.

2.70 From the lens of spending, 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[49] has increased at a CAGR of 5.9 per cent between FY12 and FY23, while the capital expenditure on social services has grown by 8.1 per cent CAGR over the same period, indicating the creation of societal assets. At the same time, programmes for universal access to basic amenities (such as Ujjwala Yojana, PM-Jan Aarogya Yojana, PM-Jal Jeevan Mission, and PM-AWAS Yojana, among others) have gained prominence. In contrast with short-term measures requiring repeated disbursement of scarce resources, such an

[49] Expenditure on social services includes "education, sports, art and culture; medical and public health, family welfare; water supply and sanitation; housing; urban development; the welfare of SCs, STs and OBCs, labour and labour welfare; social security and welfare, nutrition, relief on account of natural calamities etc."

approach not only builds social infrastructure for the decades to come but also enables individuals to climb up the standard-of-living ladder and utilise the opportunities accompanying high growth. The approach thus empowers the hitherto underprivileged segments of the Indian public to realise their potential themselves.

2.71 The shift towards universalisation of basic amenities has occurred alongside a target-based, “bang for the buck” mechanism for budgetary allocation, with the Output-Outcome Monitoring Framework for major central sector and centrally sponsored schemes put in place since FY20. Further, the ubiquity of user-friendly dashboards and management information systems (MIS) across major schemes has instilled transparency and accountability through real-time monitoring. Concurrently, the DBT scheme and Jan Dhan Yojana-Aadhaar-Mobile (JAM) trinity have been boosters of fiscal efficiency and minimisation of leakages. More recently, the ‘One Nation One Ration Card’ programme, allowing seamless portability of ration cards across states for migrant workers, represents the institutionalisation of digital goods in welfare.

2.72 In a diverse and populous country, prioritising social enablers is as essential as spending and implementation. For instance, the investment in child immunisation (as of October 2023, 5.1 crore children and 1.3 crore pregnant women have been vaccinated since 2014 under Mission Indradhanush) and sanitation (as of January 2024, 90 per cent of villages are Open Defecation Free (ODF) plus[50], while 100 per cent of villages attained ODF status in 2019 under Swachh Bharat Mission) self-selects the least privileged and yields positive externalities of lesser disease incidence due to cleaner practices, lesser school absenteeism due to illness, and greater nutrient absorption over the long run.

2.73 Another thoughtful policy, given the country’s demography and occupation profile, is the accessibility of affordable social security schemes for the unorganised sector workers. The Atal Pension Yojana (APY), PM Jeevan Jyoti Yojana (PMJJY), and PM Suraksha Bima Yojana (PMSBY) (all three launched in 2015) are success stories of an expanding social safety net equipped with universal bank account penetration. The coverage of these schemes reflects remarkable progress over the years. While PM-JJY and PM-SBY were the first of their kind, the APY improved remarkably upon its predecessor, the Swavalamban Yojana[51]. The subscriber base of the Atal Pension Yojana in December 2023 stands at 6.1 crore, 30 times the base of 20.7 lakh in FY15.

2.74 The large-scale push to infrastructure is another pathway to translate growth enablers into development, with a sizeable multiplier impact on employment at the bottom of the

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[50] An ODF Plus village has sustained its Open Defecation Free (ODF) status and implemented solid or liquid waste management systems.

[51] Swavalamban scheme was launched in 2010-11 as a co-contributory scheme for old age pension for unorganised workers. However, coverage under the scheme remained inadequate mainly due to lack of clarity of pension benefits after the age of 60. The Government, therefore, announced APY in the Budget Speech for 2015-16. The existing Swavalamban beneficiaries were automatically migrated to APY.

pyramid. The impact of digital, energy, and transport infrastructure on development outcomes, strengthening the link between growth and development, has been well noted in the literature.[52]

2.75 The new approach to welfare was also manifest in India's response to the "once in a century" crisis of Covid-19 when the government opted for a phased response coupled with safety nets for vulnerable sections while responding iteratively to the emerging Covid-19 situation rather than emptying its coffers in panic. The calibrated response helped address the specific needs of the sections at risk, ensuring food security, credit for street vendors, employment for returnee migrants, etc., while sectors of the economy recovered at different paces.

How has the new approach to welfare paid off

2.76 The evolution of the new welfare approach has culminated in a large-scale improvement in the quality of life in India. With India becoming the 5th largest economy, the lives of the common person look remarkably better than a decade ago. According to a NITI Aayog report, 13.5 crore Indians escaped multidimensional poverty between 2015-16 and 2019-21[53]. This trend is driven by rural India and the most backward areas, demonstrating the ideal of "Antyodaya".

2.77 The National Family Health Survey data for 2019-21 shows a consistent rise in access to electricity, drinking water, sanitation, clean fuel, etc. National health accounts data shows a consistent decline in out-of-pocket health expenditure from 62.6 per cent of total health expenditure (THE) in FY15 to 47.1 per cent of THE in FY20. Other significant improvements include a decline in the maternal mortality ratio from 130 per lakh live births in 2014-16 to 97 per lakh live births in 2018-20 and the female GER in higher education overtaking the male GER since FY18, etc. The bouquet of fiscal transfers through welfare schemes also significantly lowers economic inequality, as discussed in a recent Collection of Essays by the Office of CEA[54]. Moreover, the big tent of "empowering welfare" has expanded over the last decade, as summarised in the table below (Table 2).

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[52] Foster, Vivien; Gorgulu, Nisan; Straub, Stéphane; Vagliasindi, Maria. 2023. The Impact of Infrastructure on Development Outcomes: A Qualitative Review of Four Decades of Literature. Policy Research Working Papers; 10343. © World Bank, Washington, DC.

[53] National Multidimensional Poverty Index: A Progress Review 2023, NITI Aayog

[54] Chapter 2, Re-examining Narratives: A Collection of Essays, November 2023, Office of Chief Economic Advisor, Government of India

Table 2: Expansion of the Big Tent under the New Welfare Approach

Affordable and Wholesome Health	• 30.3 crore Ayushman Bharat cards created and 6.2 crore hospital admissions (as of January 17, 2024) • More than 1.6 lakh primary healthcare facilities upgraded to **Ayushman Arogya Mandir** (erstwhile AB-HWCs) (as of December 13, 2023) • More than 17.4 crore patients availed e-**Sanjeevani OPD** services in Ayushman Arogya Mandir (as of November 3, 2023) • 10,000 **Janaushadhi Kendras** across the country, selling medicines at 50-90 per cent cheaper rates compared to market rates (as of November 30, 2023) • 16 per cent decline in **TB incidence** between 2015 and 2022, with 18 per cent reduction in mortality. • one crore beneficiaries of **Janani Suraksha Yojana** in FY22
Revamped Education	• **National Education Policy** introduced in 2020 – structural reform in education • National Curriculum Framework for Foundational Stage (NCF FS) launched on 20th October 2022. Based on this, Learning Teaching Material (JaduiPitara) and Textbooks have been launched in 2023 • PARAKH (Performance Assessment, Review, and Analysis of Knowledge for Holistic Development), launched in 2023 for setting norms and implementing activities related to student assessment. • Scheme for 14,500 PM-SHRI Schools to emerge as model schools for NEP • **NIPUN Bharat Mission** for universal acquisition of foundational literacy and numeracy by 2026-27 • **Expansion of digital learning** through Swayam Prabha and MOOCs – 200 channels with more than 13,000 contents produced for telecast in 31 languages. **Achievements of Samagra Shiksha from 2018-19 to 2023-24** • 3,062 schools upgraded at Elementary, Secondary and Higher Secondary level. • 235 new residential schools and hostels opened

	• 97,364 schools strengthened, including additional classrooms • 1.2 lakh Schools covered under ICT and digital initiatives • 8,619 Schools covered under Vocational Education • 28,447 Separate girls' toilets constructed
Largescale Skilling 	• 1.4 crore candidates trained under **PM Kaushal Vikas Yojana** since 2015 (as of December 13, 2023) • **Skill India Digital platform** launched in September 2023, bringing all skill initiatives together. • 26.9 lakh **apprentices** engaged under the National Apprenticeship Promotion Scheme (as of September 30, 2023). • **Craftsmen Training** Scheme for 1.1 crore persons at ITIs in 2014-22. • **Entrepreneurship Training** for 2 lakh beneficiaries between April 2018 and March 2023. • **PM Vishwakarma scheme** launched in September 2023 to provide end-to-end support to artisans and craftspeople, including skill upgradation, collateral-free concessional loans of up to ₹3 lakh
Entrepreneurship 	• 1,14,902 DPIIT-recognized **startups** across 763 districts of the country (as of October 31, 2023) • 44.5 crore loans worth ₹26.1 lakh crore were sanctioned under the **MUDRA Yojana**, with 68 per cent of accounts belonging to women entrepreneurs. • Under **PMSVANidhi**, 82.3 lakh loans were sanctioned to over 58 lakh street vendors, with a total value exceeding ₹ 10,922.4 crore (as of January 11, 2024) • Under **DAY-NRLM**, 9.5 crore women mobilised into 87.4 lakh Self-Help Groups under DAY-NRLM (as of December 2023) • Under **Stand-Up India**, 2.1 lakh loans have been sanctioned, of which 84 per cent have been sanctioned to women entrepreneurs (as of November 24, 2023)

Basic Amenities	• 11 crore toilets and 2.3 lakh community toilet complexes were constructed under **Swachh Bharat Mission-Grameen** (as of January 11, 2024). • 10.8 crore households provided tap water connection under **Jal Jeevan Mission** (as of January 11, 2024). • Under **PM-AWAS**-Urban and PM-AWAS-Gramin, 79 lakh and 2.5 crore houses were constructed for the poor in the last 9 years (as of January 8, 2024 and January 11, 2024). • 10 crore LPG connections provided under **PM Ujjwala Yojana** since 2016 (as of January 8, 2024) • 21.4 crore rural households electrified under **Saubhagya** since 2015 (as of March 31, 2019) • Digital India: 4.5 lakh **common service centres** set up in rural areas (as of November 30, 2023)
Social Security	• 51.4 crore accounts opened under **PM Jan Dhan Yojana** (as of January 3, 2024). • 18.5 crore and 41.0 crore enrolments under **PM Jeevan Jyoti Yojana** and **PM Suraksha Beema Yojana**, respectively (as of November 15, 2023). • **Atal Pension Yojana** (launched in 2015) total subscriber base has risen to 6.1 crore (as of December 31, 2023) • Assured pension for 49.7 lakh unorganised workers enrolled under **PM Shram Yogi Maandhan Yojana** (as of December 31, 2023).

Women-led development: Tapping the Gender Dividend for India@100

2.78 The passage of the women's reservation Bill (Nari Shakti Vandan Adhiniyam (NSVA)) in September 2023 coincided with the year of India's G20 Presidency, listing "women-led development" as one of its six priorities. Globally, rising attention towards women's workforce participation and outcomes followed the award of the Nobel Prize in Economics to Prof. Claudia Goldin for her work on key drivers of gender differences in the labour market.

2.79 The NSVA is a leap towards women's participation in the government, empirically associated with improved institutions and greater probity. In Indian history, the reservation of one-third of seats for women in Panchayats was constitutionalised in 1991, and three decades later, 46 per cent of elected representatives of Panchayats are women. According to research, reservations for women in panchayats have led to greater investment in public goods closely linked to women's concerns, such as drinking water and public roads.[55] Besides, female political representation is also associated with better child health[56] and primary education outcomes.[57] Along those lines, the NSVA opens new possibilities for inclusive growth besides being a beacon of gender equality.

2.80 For women-led development to be actualised in its true sense, the prerequisites of equal opportunity and basic needs must be fulfilled. This has inspired multifarious initiatives to improve the quality of life of women, enabling their economically productive participation in the workforce.

2.81 Access to financial services is known to improve women's control over household resources and is a gateway to accessing credit and insurance. The success of PM Jan Dhan Yojana has been documented elsewhere in this review, and it has increased the proportion of women having bank accounts that they themselves use from 53 per cent in 2015-16 to 78.6 per cent in 2019-21.[58]

2.82 Women-led SHGs have a positive, statistically significant effect on women's economic, social, and political empowerment, with positive effects on empowerment achieved through various pathways such as familiarity with handling money, financial decision-making, improved social networks[59], asset ownership[60] and livelihood diversification[61]. The Deendayal Antyodaya Yojana-National Rural Livelihood Mission (DAY-NRLM), which is the government's SHG programme covering nearly nine crore women through 83 lakh SHGs, has been empirically associated with women empowerment, self-esteem enhancement, reduced social evils; and additionally, medium impacts in terms of better education, higher participation in village institutions and better access to government schemes. Recently, the government has targeted the creation of 2 crore 'Lakhpati Didis'(women with annual earnings of ₹1 lakh and more) through skilling SHG members with marketable skills such as plumbing, LED bulb making, and operation of drones and repair, etc.

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[55] Chattopadhyay, R and Duflo, E (2004), "Women as Policy Makers: Evidence from a Randomized Policy Experiment in India", Econometrica, vol. 72, no. 5, 2004, pp. 1409–43

[56]Bhalotra, S. and I. Clots-Figueras. 2010. "Health and the Political Agency of Women," mimeo, Bristol University.

[57]Clots-Figueras, Irma, 2007. "Are female leaders good for education? : Evidence from India," UC3M Working papers. Economics we077342, Universidad Carlos III de Madrid. Departamento de EconomÃ-a.

[58]National Family Health Survey, MoHFW

[59] Brody, C, De Hoop, T, Vojtkova, M, Warnock, R, Dunbar, M, Murthy, P and Dworkin, SL (2016). "Economic Self-Help Group Programmes for Improving Women's Empowerment: A Systematic Review", 3ie Systematic Review. London: International Initiative for Impact Evaluation (3ie)

[60] Datta, U. (2015). "Socio-economic impacts of jeevika: A large-scale self-help group project in Bihar, India", World Development, 68:1-18.

[61] Pandey, V., Gupta, A., and Gupta, S. (2019). "Labour and welfare impacts of a large-scale livelihoods program: Quasi-experimental evidence from India", Policy Research Working Paper No. 8883, World Bank.

2.83 Female participation has been quite encouraging in the wave of human capital formation through Skill India Mission and Start-up and Stand-Up India. Under the PM Kaushal Vikas Yojana, over 59 lakh women have been certified, which constitutes more than 40 per cent of the total certified as of June 2022. Around 70 per cent of the loans have been sanctioned to women entrepreneurs under PM Mudra Yojana, and 80 per cent of the beneficiaries under Stand-Up India are women. Realising the vision of Digital India, more than 53 per cent of the beneficiaries of the Prime Minister's Rural Digital Literacy Campaign (PMGDISHA) are women as of July 2023.

2.84 Construction of over 11 crore toilets under 'Swachh Bharat Mission', clean cooking gas connections to nearly 10.1 crore women below the poverty line under 'Ujjwala Yojana' and connecting over 14.1 crore out of 19.3 crore rural households with tap drinking water connections under 'Jal Jeevan Mission' have transformed the lives of women by reducing the drudgery and care burden. These initiatives have a disproportionately positive impact on women, addressing concerns of safety and dignity, besides freeing up time and energy for productive work.

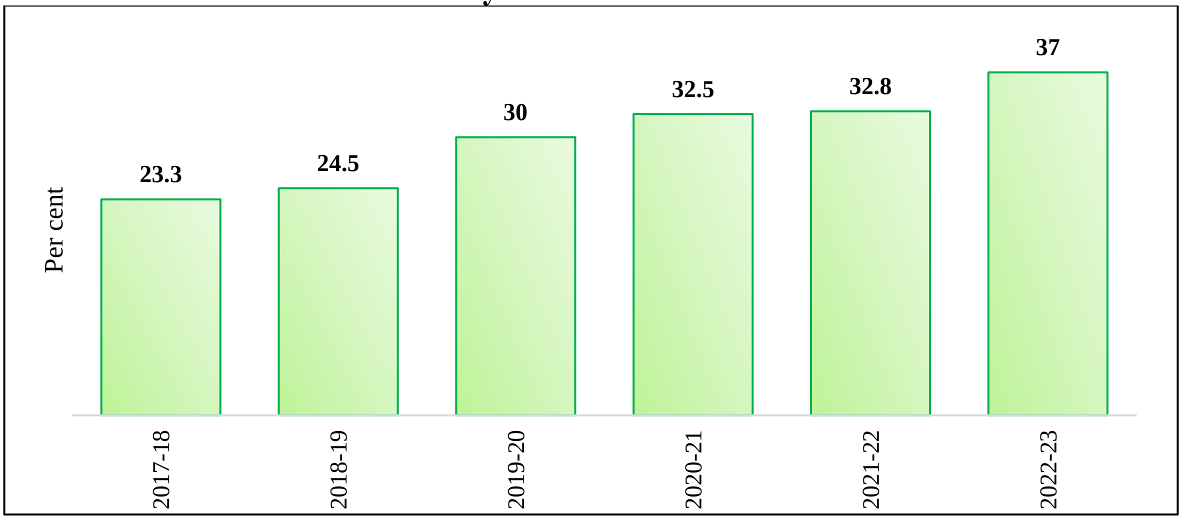
2.85 Under PM AWAS Yojana (Gramin), 26.6 per cent of the 2.4 crore completed houses are solely in the name of women, and 69 per cent are jointly in the name of wife and husband. As asset ownership is associated with greater participation of women in household decision-making, improved health outcomes for young children, and reduced incidence of domestic violence, PM-AWAS yojana has proved to be a doubly effective instrument for equitable prosperity.

2.86 Women-led development begins with ensuring the health and education of the girl child. The emphasis on "Beti Bachao, Beti Padhao" has sensitised collective consciousness towards saving, educating, and saving for the girl child (via Sukanya Samriddhi Yojana, a flagship small deposits scheme for financial planning for the girl child. The scheme has more than 3.1 crore accounts to its credit). Concurrently, the GER of girls in the schools at the secondary level has increased from 75.5 per cent in (FY15) to 79.4 per cent in FY22. The focus on reaping the gender dividend makes profound economic sense in terms of utilising the best talent and is crucial for India to become a developed country by 2047.

2.87 The abovementioned initiatives have already begun paying dividends, with the female labour force participation rate (LFPR) rising to 37 per cent in 2022-23 from 23.3 per cent in 2017-18[62] (Chart 17), improvement in the sex ratio at birth from 918 in 2014-15 to 933 in 2022-23, and reduction in maternal mortality rate from 130/lakh live births in 2014-16 to 97/lakh live births in 2018-20. These underline the tectonic shift towards women-led development in India.

[62] Periodic Labour Force Survey, NSO, MoSPI

Chart 17: Female Labour Force Participation Rate (rural+urban), usual status, 15 years and above



Source: Periodic Labour Force Survey (PLFS), NSSO

Eyes on the long-term

2.88 Alongside accelerated progress in human development under the new welfare approach, there remain entrenched issues whose mitigation requires sustained and strategic endeavour and a whole-of-society approach.

2.89 For instance, tackling the challenge of malnutrition to attain a Kuposhan Mukt Bharat is key to materialising the promise of a demographic dividend. In cognisance of that, the sphere of nutrition has been widened and now includes sanitation, clean drinking water, basic medicines, housing, and adopting a life cycle approach to malnutrition reduction. Instead of focusing on calorific sufficiency alone, Mission Saksham Anganwadi and Poshan 2.0 target improved health, wellness and immunity through micronutrient sufficiency. Under the POSHAN Abhiyaan, cost-effective strategies such as technology-based monitoring via POSHAN Tracker (registering more than ten crore beneficiaries), behavioural change and convergence across programmes are being implemented. The approach has begun to yield results as the nutrition indicators for children under five years from 2015-16 to 2019-21 show that stunting has reduced from 38.4 per cent to 35.5 per cent, wasting has reduced from 21 per cent to 19.3 per cent, and underweight prevalence has reduced from 35.8 per cent to 32.1 per cent, as per the National Family Health Survey data.

2.90 Secondly, after having attained universal access to elementary education, the pursuit of learning outcomes stands out as the desideratum to beget a human capital pool befitting a developed India@100. Besides undoing the impact of Covid-19 on learning, as seen in the National Achievement Survey 2021 results, the need to upgrade the quality of education imparted in the majority of schools has been well recognised. In that direction, the formulation of the National Education Policy, including the national credit framework, teacher training, community participation in schooling, and pronounced pedagogical changes, is the silent revolution to watch out for in the current decade.

Employment situation in the past decade

2.91 Over the past decade, India has witnessed a notable transformation in its employment landscape, marked by several positive trends contributing to economic growth and social development. This evolution results from various factors, including economic reforms, technological advancements, and an emphasis on skill development. The slew of structural reforms promoting ease of doing business remains crucial for productive employment generation in the current decade.

2.92 According to the annual Periodic Labour Force Surveys (PLFS) by the National Statistical Organisation, MoSPI, the unemployment rate has declined substantially from 6 per cent in 2017-18 (when the first round of the survey was conducted) to 3.2 per cent in 2022-23, a trend observed across male and female workers in rural and urban areas (Table 3). This has been accompanied by a rising LFPR from 49.8 per cent in 2017-18 to 57.9 per cent in 2022-23, driven by a surge in rural female LFPR, discussed in detail in the next section. The labour markets also recovered swiftly from the impact of the pandemic, with the rural areas witnessing a faster-paced resumption.

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)

2.93 The organised sector job market conditions measured by payroll data for Employees' Provident Fund Organisation (EPFO) indicate a consistent YoY increase in payroll addition since 2018-19 (the earliest since data is available). The yearly net payroll additions to the Employee Provident Fund Organisation more than tripled from 61 lakh in 2018-19 to 139 lakh in 2022-23, swiftly recovering from the pandemic aided by the Aatmanirbhar Bharat Rojgar

Yojana (ABRY). The EPFO membership numbers (for which older data is available) grew by an impressive 11.3 per cent CAGR between FY14 and FY22. These confirm the creation of regular jobs in India. Former Chief Statistician of India wrote in a recent column, "One common misconception that arises as a consequence is from the percentage of people with a regular salary having declined from 22.8 per cent in FY18 to 20.9 per cent in FY23. This seems like a drop, but when we combine this with population numbers, we see that the number of workers in this category increased by almost 15 million in the same period. Thus, a decline in the share of regular-wage jobs does not mean that the total number of jobs in this category has fallen. As the numbers cited show, it is the reverse."[63]

2.94 With the profusion of affordable access to the internet and smartphones in the last decade, the rise of the gig economy has emerged as a noteworthy job generator, employing 77 lakh workers in FY21, as per a NITI Aayog report[64]. The continuing high demand for such services and job flexibility is boosting entry-level job creation in tier-2 and tier-3 cities, including part-time work for students entering the job market or as a shock absorber in case of temporary unemployment, with a high probability of workers moving to better-paying jobs after the platform experience.[65]

2.95 To sum up, the employment situation in India has experienced a positive transformation over the last decade, with notable achievements in formalisation, skill development, entrepreneurship, industry diversification, and inclusive growth. These trends, coupled with the country's commitment to technological advancement and infrastructure development, have positioned India as a dynamic and resilient player in the global job market. Nevertheless, there remain long-existing challenges of formalising a burgeoning workforce, facilitating job creation in sectors that can absorb workers shifting from agriculture, and ensuring social security benefits for those in regular wage/salaried employment (as per PLFS 2022-23, 53 per cent of regular wage/salaried employees not eligible for any social security benefit).

2.96 As the nation continues to navigate the challenges and opportunities of the 21st century, the positive aspects of its evolving employment scenario bode well for sustained economic growth and social progress.

Rising Youth Employment

2.97 Over the years, youth employment has been rising in tandem with the youth population. According to the PLFS, youth (age 15-29 years) unemployment rate has declined from 17.8 per cent in 2017-18 to 10 per cent in 2022-23, while youth LFPR has expanded from

[63] https://www.livemint.com/opinion/online-views/indian-employment-data-generates-both-misconceptions-and-puzzles-11705499234793.html
[64] NITI Aayog, June 2022, India's Booming Gig and Platform Economy
[65] NCAER, August 2023, Socio-economic Impact Assessment of Food Delivery Platform Workers

38.2 per cent to 44.5 per cent over the same period. For the proportion of employed youth to rise from 31 per cent to 40.1 per cent in these six years is a feat for a populous country on the upside of a demographic transition. Again, to quote the former Chief Statistician TCA Anant, "The PLFS 2022-23 shows an unemployment rate of 10 per cent in the age group of 15-29 years, as compared to an unemployment rate of 3.2 per cent across all age groups. This, of course, is an important difference, but it should be noted that the unemployment rate in the age group of 15-29 has seen a very sharp decline from 17.8 per cent in 2017-18. Further, the WPR in this age group has increased from 31.4 per cent in 2017-18 to 40.1 per cent in 2022-23. This implies an additional 35 million people have found work, even though the population in that segment has increased only by 17 million. The implied narrative of dwindling job opportunities for the youth is not borne out by the data. Instead, this age group has seen the largest addition to the number of workers relative to its population."[66]

2.98 At the state level, the decline in the youth unemployment rate has been led by the states with a larger share of the young population, such as Uttar Pradesh (with 6.9 crore youth as per M/oHFW's population estimates for 2021), Bihar (with 3.5 crore youth), and Madhya Pradesh (with 2.3 crore youth). For instance, UP's youth unemployment rate has declined from 16.7 per cent in 2017-18 to 7 per cent in 2022-23, accompanied by a rise in youth LFPR from 33.7 per cent to 41.4 per cent in the corresponding period. Thus, the states driving the youth bulge are also leading the rise in youth employment.

Rising Female Labour Force Participation Rate

2.99 In the new millennium, India's Female LFPR (FLFPR) declined measurably, accompanied by a steep rise in the enrollment of females in education. For example, the female GER in senior secondary education more than doubled from 24.5 per cent in 2004-05 to 58.2 per cent in 2021-22, and the female GER in higher education quadrupled from 6.7 per cent in FY2001 to 27.9 per cent in FY21. The young cohorts of females are increasingly taking to higher studies, which enables more rewarding workforce participation in the decades to come, thereby actualising Goldin's U-curve between FLFPR and education in the Indian context.[67] This naturally limits the FLFPR for a country one-fourth of whose population is below 15 years old and more than half of the population is below 30 years old while refining the quality of the future workforce.

2.100 FLFPR has been rising for at least six years now: it rose from 23.3 per cent in 2017-18 to 37 per cent in 2022-23. While urban FLFPR has also been rising, the rural FLFPR has seen a sharp growth. The rise in rural female LFPR has been accompanied by a rise in the share of

[66] See footnote 36

[67] According to Claudia Goldin's research on women's historical participation in the US labour force, female LFPR followed a U-shaped curve for the two-hundred-year period from the end of the eighteenth century. This is attributed to changing composition of economic output, technological progress, female education and change in fertility rate, etc.

self-employment and agriculture among working women, points which deserve greater scrutiny.

2.101 Firstly, the rise in rural female employment has been contributed by both own account worker/employer category (share rising from 19 per cent in 2017-18 to 27.9 per cent in 2022-23) and the unpaid helper category (share rising from 38.7 per cent to 43.1 per cent, which is a relatively smaller rise), indicating a rising contribution of females to rural production. This is plausibly a culmination of many factors, including continuous high growth in agriculture output and freeing up women's time due to substantial expansion of access to basic amenities such as piped drinking water, clean cooking fuel, sanitation, etc. This is also reflected in PLFS data showing a significant shift in females away from domestic duties.

2.102 Secondly, while the composition of the female workforce has been tilting towards agriculture, that of the male workforce is tilting away from agriculture. The rise in the share of agriculture in the rural female workforce from 73.2 per cent in 2017-18 to 76.2 per cent in 2022-23 coincides with a more significant decline in the share of agriculture in the rural male workforce from 55 per cent in 2017-18 to 49.1 per cent in 2022-23. This is plausibly due to men taking up rising opportunities in non-agriculture and women at home filling in for the men on the farm.

2.103 Thirdly, within the rural female workforce, there has been a structural shift marked by a rising proportion of skilled agriculture labour (up from 48 per cent in 2018-19 to 59.4 per cent in 2022-23) and a decline in the share of elementary agriculture labourers using considerable physical effort, from 23.4 per cent to 16.6 per cent over the same period. Among skilled agriculture female workers, market-oriented workers drive the expansion, possibly filling up for the men leaving agriculture and contributing to family income. Thus, the feminisation of agriculture also points to a much-needed structural shift within agriculture, where excess (male) labour moves out and remaining (female) labour is utilised efficiently. Thus, female participation in rural India is productive and remunerative. The monetary contribution of women to rural family incomes also matters from the lens of intra-household bargaining power and decision-making, propelling a tectonic shift in the societal gender dynamics.

2.104 Summing up, youth and female employment have risen steadily in the last six years and are the keystones to utilising India's demographic advantage.

Skill Development and Entrepreneurship

2.105 Recognising the importance of a skilled workforce in a rapidly changing global economy, the government has taken proactive measures to enhance the employability of its citizens. With the establishment of a Central Ministry in 2014, efforts to improve and streamline the skilling ecosystem were ramped up as the government launched the National Skill Development Mission as well as the National Policy on Skill Development and Entrepreneurship. Under the NEP 2020, there is also a special focus on vocational education and skill development. Integration of vocational education with general education and mainstreaming of vocational education have been identified as key reforms in the country's education system.

2.106 Central to the skill development landscape in India is the Skill India Mission, launched in 2015. The growth in youth employment has been coupled with the progress in skill development, with nearly 1.4 crore candidates trained under PM Kaushal Vikas Yojana since 2015. The recent launch of the Skill India Digital platform as the Digital Public Infrastructure for the skilling, education, employment, and entrepreneurship ecosystem marks another step towards the “ease of acquiring skill” in India (refer to the table on Expansion of Big Tent for progress of skilling and rise in entrepreneurship).

2.107 The push to mass skilling has begun to pay dividends. The across-the-board progress in skilling has manifested in India’s rising position in WorldSkills Competitions, from 39 in 2011 to 11 in 2022. Further, according to India Skills Report 2023[68], the employable percentage of final-year and pre-final-year students has increased from 33.9 per cent in 2014 to 51.3 per cent in 2024. Here, employability is measured based on an online Wheebox National Employability Test. Combined with the rising enrolment in higher education (from 3.2 crore in 2013-14 to 4.1 crore in 2020-21), rising employability implies that India’s young workforce is both expanding and becoming increasingly employable.

2.108 To conclude, the past decade has witnessed a transformative journey in skill development in India. Building on it, there remains ample scope to mainstream skilling into education curriculum (also listed under the NEP) and upskilling a large chunk of the existing workforce into future-relevant skills (for instance, according to PLFS 2022-23 report, 72.6 per cent of workers aged 15-59 years did not receive any formal/informal vocational/technical training). With 50.2 per cent of men and 41 per cent of women with ten or more years of schooling in the 15-49 age group, there is an opportunity to make the education-skill continuum the greatest weapon in the Indian Miracle by reaching out to each of these youth who only need to attend finishing schools for employability.[69]

[68]The Report is prepared by Wheebox (a private co.), in partnership with CII, Taggd, All India Council for Technical Education (AICTE), Association of Indian Universities, Sunstone, Pearson, AWS and ET
[69]Amarjeet Sinha (2023), The Last Mile (chapter 11), Routledge India

2.109 As the nation continues to invest in its human capital, the positive impact of these skill development initiatives is likely to be felt across sectors, driving economic prosperity and social development.

India's External Sector: Safely Navigating Through Uncertainties

Merchandise trade depicted resilience.

2.110 India's exports have been showing remarkable performance, logging record-high levels since FY22, with merchandise exports rising by more than 50 per cent and services exports by 120 per cent over the past decade (FY13 to FY23). The highest-ever merchandise export of USD 451.1 billion was achieved in FY23. However, the pace of growth moderated in FY23 due to persisting geopolitical tensions. Merchandise imports grew by 16.8 per cent in FY23. Moderation in merchandise exports continued during FY24 (till November 2023) mainly on account of weaker global demand. Despite global shocks, India's merchandise trade balance improved markedly from a deficit of USD 189.2 billion in April-November 2022 to USD 166.4 billion in April-November 2023 as a result of the decline in imports. Though the export mix, in terms of the principal commodity classification of the DGCI&S, has not changed much over the years, there has been progressive diversification in India's export basket, and there is scope for adding more quality and complexity to exports, given the existing capabilities.[70]

2.111 In the export of services, India has carved a niche for itself as a knowledge-based economy, as is evident from the fact that software services exports comprise almost half of the service exports consistently. Further, a gradual increase in the share of business services in total services exports has been noticed since FY20, while in terms of growth of exports, both business services and financial services have experienced double-digit growth in the aftermath of the pandemic year, i.e., since FY22 which are in line with more than 20 per cent increase in software and overall services export. An increased presence of Global Capability Centres in India during and following the pandemic years is a manifestation of this change. The Department of Telecommunications issued guidelines for Other Service Providers (OSPs), which promoted the Work-From-Home culture in India and extended it to allow Work-From-Anywhere in India. The guidelines included provision for the sharing of infrastructure, use of the distributed architecture of Electronic Private Automatic Branch Exchange (EPABX) and interconnection. The guidelines made it easier for BPOs and ITeS firms to cut down on the cost of location, rent for premises and other ancillary costs such as electricity and internet bills.

2.112 In terms of absolute numbers, the pick-up in total exports (merchandise plus services) has been evident since FY22, when it reached USD 683.7 billion, followed by USD 781.4 billion in FY23. A comparison of the national account estimates for the previous two decades since FY04 indicates that, on average, the share of net exports to GDP improved from (-)4.1 to

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[70] For more details, refer to essay number 3 in the publication "RE-EXAMINING NARRATIVES: A collection of essays", https://dea.gov.in/sites/default/files/Final-Collection%20of%20essays_OoCEA_compressed.pdf

(-)2.6 during FY04-FY13 to FY14-FY24. Continuous efforts in terms of deliberate policy and trade facilitation measures are being undertaken to enhance production capacity and export promotion to boost India's presence in the global markets, aiming for a target of exports of USD 2 trillion by 2030. Setting export targets and monitoring of these targets followed by course correction, provision of export credit insurance services for short-term as well as medium and long-term exports, encouraging banks to provide affordable and adequate export credit to MSME exporters, enabling them to explore new markets and diversify existing products competitively are some of the measures being taken towards this end.

Comfortable balance on current account

2.113 Service exports, with a CAGR of 7.1 per cent during FY12 to FY23, combined with the CAGR of remittances of 4.5 per cent during the same period, enabled India's current account balance to remain within a comfortable range, especially after FY14. The current account deficit (CAD) for H1 of FY24 dropped to USD 17.5 billion from USD 48.8 billion during the same period in the previous year, declining by 64.1 per cent. Broad-based improvements in both merchandise trade and invisibles led to this improvement.

2.114 India is the largest recipient of worker remittances in the world, receiving USD 125 billion in the year 2023.[71] These remittances have benefitted from a gradual structural shift in Indian migrants' key destinations from largely low-skilled, informal employment towards high-skilled jobs in high-income countries such as the United States, the United Kingdom, and East Asia, aided by a structural shift in qualifications. As per the World Migration Report 2022, almost 36 per cent of India's remittances are attributable to the high-skilled and largely high-tech Indian migrants in the top high-income destinations.[72] In FY23, the private transfer receipts, mainly representing remittances by Indians, soared to a record USD 112.5 billion level, growing at 26.2 per cent on the back of healthy growth of 11.2 per cent in FY22. During April-September 2023, the private transfer receipts amounted to USD 55.2 billion, an increase of 4.1 per cent from their level during the corresponding period a year ago.

Capital account

2.115 The negative balance on the current account during H1 of FY24 is compensated by the positive balance on the capital account, resulting in the accretion of foreign exchange reserves of USD 27 billion since the end of FY23.[73] The upsurge of 88.2 per cent (YoY) in capital account during H1 of FY24 is mainly on account of higher inflows of foreign investment into India- direct as well as portfolio.

[71] Migration and Development Brief 39, World Bank, (December 2023), available at https://www.knomad.org/sites/default/files/publication-doc/migration_development_brief_39.pdf
[72] https://blogs.worldbank.org/peoplemove/remittance-flows-reached-all-time-high-2022-south-asia
[73] Accretion amount excludes valuation effect

2.116 Stability in the rupee vis-à-vis other currencies during FY24, easing inflationary pressures across the globe and triggering expectations of rate cuts in future, led the foreign portfolio investors (FPIs) to increase their exposure to Indian markets by USD 28.8 billion in H1 of FY24 from an outflow of USD 7.8 billion in H1 of FY23. During the past decade, FY15 witnessed the highest inflow of USD 42.2 billion from portfolio investors, and if the momentum of FPIs is sustained during the current year, given the record-breaking inflows in the debt category, new milestones could be reached.

2.117 A host of measures like simplification and rationalisation of the FPI regulatory regime, permitting FPIs to participate in the currency derivatives segment of a recognised stock exchange, invest in units of the REITs, InvITs and Category III AIFs, easing exit process for these investors; making amendments in the FPI regulations to streamline the onboarding process of the FPIs; operationalisation of the online Common Application Form (CAF) for registration with SEBI, allotment of PAN and opening of bank and Demat accounts; and mandating additional disclosures regarding persons having any ownership, economic interest, or control in some objectively identified FPIs to mitigate the concerns associated with concentrated FPI investments in a single listed entity/corporate group have been undertaken in recent years.[74]

2.118 For FDI, subdued global trends have been dictating the course of FDI flows to India lately. Despite this, India continues to chart its way forward and remain a preferred destination among investors. India is a large pull factor for foreign investments due to its young workforce and large middle-class population. A whole host of progressively transparent and liberal measures have been put in place, like opening almost all sectors, except a few strategically important ones, for 100 per cent FDI under automatic route; policies such as the production-linked incentive scheme and Make in India are incentivising long-term investments in India.[75] Further, the availability of natural resources, stable macroeconomic environment, and relative global investment climate shadowed with uncertainties have helped India in attracting FDI over recent years. The CAGR for FDI in India during FY13-FY23 was 28.0 per cent.

2.119 In the ten years between FY05 and FY14, India's cumulative FDI inflows[76] were USD 305.3 billion. The cumulative nominal GDP in that period was USD 13.55 trillion. The FDI inflows were thus 2.2 per cent of GDP in that period. In the nine years between FY15 and FY23, India received a cumulative FDI of USD 596.5 billion and the cumulative dollar GDP in that period was USD 23.8 trillion. The FDI inflows were thus 2.5 per cent of GDP in this period. It is creditable that despite the shock of the pandemic and conflict in Europe, India's FDI inflows were higher in this period than in the earlier period, which was marked by a global economic and capital flow boom.

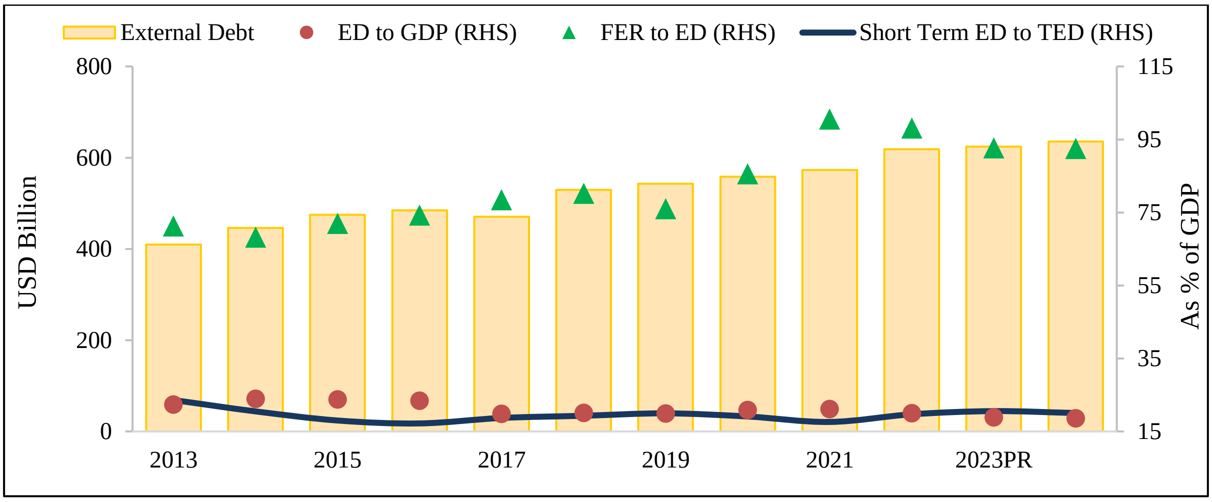
[74] https://pib.gov.in/PressReleasePage.aspx?PRID=1709788
[75] https://pib.gov.in/PressReleasePage.aspx?PRID=1846088
[76] Gross FDI Inflows

2.120 The Rupee-dollar exchange rate during the last decade (FY14 to FY23) fluctuated on an average basis in the range of ₹60/USD to ₹80/USD. The macroeconomic stability and improvements in India's external position, particularly significant moderation in the CAD and revival of capital flows on the back of a comfortable foreign exchange reserves buffer resulted in stability in the Indian rupee during FY24. The exchange rate trends of various currencies against the US dollar since March 2023 reveal that the Indian rupee has emerged as one of the strongest-performing currencies compared to others.

2.121 The foreign exchange reserves stood at USD 623.2 billion as of 29 December 2023, covering imports of more than ten months. These reserves provide a buffer to External Debt (ED) up to 98.1 per cent by the end of September 2023. In comparison, at the end of March 2013, the ratio of Foreign Exchange Reserves (FER) to external debt was 71.3 per cent.

2.122 India's external debt, placed at USD 635.3 billion by the end of September 2023, is considered comfortable and has been prudently managed over time. External debt as a ratio to GDP fell to 18.6 per cent at the end of September 2023 from 22.4 per cent at the end of March 2013. The short-term debt was 20.1 per cent of Total External Debt (TED) at end-September 2023 against 23.6 per cent at end-March 2023. A major part of short-term debt is in the form of short-term trade credits. Chart 18 provides a snapshot of India's external debt position during the past decade.

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

2.123 The international investment position (IIP) is the balance sheet of a country's external financial assets and liabilities. It is an indicator of the degree of financial openness of a country. The net IIP (NIIP) (that is, net claims of non-residents in India) to GDP ratio, which indicates the creditworthiness of a country witnessed a consistent decline over the past decade, i.e., from (-) 18.2 per cent of GDP at end-March 2014 to (-) 11.3 per cent at end-September 2023. A decline in this ratio signals constructive utilisation of financial liabilities in the GDP creation.

India's IIP position, on the whole, has remained stable during the past decade. As of end-September 2023, total liabilities, which largely comprise investments by non-residents, increased by 6.5 per cent (YoY), while total assets, which largely comprise reserve assets, increased by 10.2 per cent (YoY).

Way Forward for the External Sector

2.124 Various challenges, such as sticky inflation, sluggish growth, and mounting fiscal pressures, continue to persist in the global economy. Potential risks are expected to emanate from ongoing geopolitical tensions and the recent surge in shipping costs due to rerouting to avoid security risks in international waters, which contains the potential for triggering inflation, especially in terms of energy costs.

2.125 As per the first advanced estimates of national income for FY24, the share of exports in GDP is estimated to moderate from FY23 to FY24, as a slowdown in global demand has led to a decline in the demand for India's exports.[77] On the investment front, with continuous reforms in the FDI policy along with a thrust on improving infrastructure and logistics and facilitating investments through schemes like production-linked incentives, it is expected that the momentum of inflows will be sustained during the coming months. FPIs turned net buyers in FY24 (till 9 January 2024) in contrast to the previous two financial years on the back of rising confidence in the prospects for the Indian economy and markets, supported by the stability in foreign exchange reserves and external debt position vis-à-vis other countries, among other factors. Repeating its stellar performance in 2023, growth in remittances is expected to be up to 8 per cent, taking remittance levels to USD 135 billion in 2024.[78]

Climate Action

India's Climate Action Towards Building Resilience

2.126 Achieving high resilient growth while ensuring sustainable and inclusive livelihood options for all remains a priority for the country. Access to energy, which powers industry and enables access to education, health and overall social and economic well-being, is vital in achieving our development goals that provide maximum social and economic returns. Considering the developmental challenges of the Global South, the multilateral climate agreements[79] mandated that the developed countries should provide the resources to developing countries for climate action. However, relative to the requirements, the flow of resources has been meagre so far.

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[77] MOSPI
[78] Migration and Development Brief 39, December 2023, available at https://knomad.org/publication/migration-and-development-brief-39.
[79] United Nations Framework Convention for Climate Change (UNFCCC) and the Paris Agreement

2.127 Recognising the clear priority to development but also accepting the need for contributing to the collective action to address climate change in the context of the United Nations Framework Convention for Climate Change (UNFCCC) and the Paris Agreement, India has adopted a comprehensive approach that addresses adaptation, resilience building and mitigation action as part of its contribution to the global response to climate change despite its low historical contribution to global carbon stock. It is worth noting that, per capita, India will remain a low emitter for quite some time to come.

2.128 India announced its first Nationally Determined Contributions (NDCs) at the UNFCCC in 2015. These NDCs, among other things, included an ambition to reduce the emission intensity of India's GDP by 33 to 35 per cent by 2030 from the 2005 level, achieve about 40 per cent cumulative electric power installed capacity from non-fossil fuel-based energy resources by 2030 and create an additional carbon sink of 2.5 to 3 billion tonnes of CO2eq[80] through additional forest and tree cover by 2030. Against these goals, India has already met the targets of building non-fossil fuel-installed electricity capacity, reaching 43.9 per cent in November 2023[81] (up from 32.3 per cent[82] in 2014 and 30.4 per cent in 2004)[83]. The reduction in the emission intensity of the economy was 33 per cent by 2019 from 2005 level[84]. Further, an additional carbon sink of 1.97 billion tonnes of CO2eq has been created by 2019, which is higher than the 2005 level. The high pace of implementation formed the basis for updating the NDC in 2022 - which set a revised target of achieving 50 per cent cumulative electric power installed capacity from non-fossil sources, reduction in the emissions intensity of GDP by 45 per cent from 2005 levels and promoting a healthy and sustainable way of living through a mass movement for LiFE – Lifestyle for Environment.

2.129 The strengthened National Action Plan on Climate Change (NAPCC) has been a prominent intervention for the implementation of India's climate action and comprises nine missions in specific areas of solar energy, energy efficiency, water, sustainable agriculture, Himalayan ecosystem, sustainable habitat, green India, strategic knowledge for climate change, and including the recent Health Mission. In addition, the National Adaptation Fund for Climate Change (NAFCC) was introduced in 2015-16 to support adaptation action in, among other things, agriculture, water, forestry, livestock, and restoring ecosystems and has been implemented in project mode with 30 projects sanctioned in 27 States and UTs.

2.130 The speedy implementation of the targets has been possible due to the ambitious expansion in the installed non-fossil fuel capacity in India, which has more than doubled in the

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[80]CO2eq is carbon dioxide equivalent emissions of all Greenhouse Gases.
[81]https://powermin.gov.in/sites/default/files/uploads/power_sector_at_glance_Nov_2023.pdf
[82] As per Table 1.2 in All India Electricity Statistics General Review 2023 by Central Electricity Authorityhttps://cea.nic.in/wp-content/uploads/general/2022/GR_Final.pdf reports that in the year ending 2014, installed capacity in hydro energy was 40531 MW, 4780 MW in nuclear energy and 34988 MW in RES, therefore, the non-fossil fuel installed capacity for 2014 can be estimated at 80299 MW or 80.3 GW approx.
[83]Refer to Footnote 9.
[84] India's Third National Communication submitted to UNFCCC in November 2023.

last nine years, increasing from 80.3 GW in March 2014[85] to 187.06 GW[86] in November 2023, an increase of around 106.76 GW as against an increase of only 46.2 GW between 2004-2014[87]. India's installed solar energy capacity has increased by more than 25 times, from 2.63 GW in March 2014 to 72.3 GW in Nov 2023[88].

2.131 Recognising that enhancement in energy efficiency of the economy is a vital measure to reduce carbon emissions, several demand-side management and supply-side actions have been taken. The Perform Achieve and Trade (PAT) scheme - an energy savings-based market mechanism - has resulted in savings of about 24.3 million tonnes of Oil Equivalent[89], translating into avoiding about 105.02 million tonnes of CO2 emissions by 2022. As a further step, the Energy Conservation Act was amended in 2022 to pave the way for establishing a domestic carbon market - the Carbon Credit Trading Scheme (CCTS), which will further deepen the efforts to incentivise energy saving, reduction and abatement of emissions.

2.132 Policy incentives have provided critical support in boosting renewable energy and improving energy efficiency. The schemes introduced in the post-2014 period such as the Development of Solar Parks and Ultra Mega Solar Power Projects, Rooftop Solar Scheme, Green Energy Corridor (GEC), Production-Linked-Incentive (PLI) scheme for manufacturing 'High-Efficiency Solar PV Modules' and PLI scheme 'National Programme on Advanced Chemistry Cell (ACC) Battery Storage', the Smart Meter National Program, Integrated Power Development Scheme, Street Lighting National Programme (SNLP) have helped in the energy saving and a shift to non-fossil fuel energy. The Pradhan Mantri Kisan Urja Suraksha Evam Utthan Mahabhiyan (PM-KUSUM), Unnat Jyoti by Affordable LEDs for All (UJALA), Pradhan Mantri Ujjwala Yojana (PMUY) are some of the recent major schemes introduced to promote energy efficiency. Cumulatively, more than ten crore LPG connections have been released under PMUY,[90] and over 36.86 crore LED bulbs**,** 72.18 lakh LED Tube lights, and 23.59 lakh Energy efficient fans distributed under UJALA[91], and over 1.30 crore LED Street Lights under SNLP[92] have been installed across India.

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[85] As per Table 1.2 in All India Electricity Statistics General Review 2023 by Central Electricity Authorityhttps://cea.nic.in/wp-content/uploads/general/2022/GR_Final.pdf
[86] https://powermin.gov.in/sites/default/files/uploads/power_sector_at_glance_Nov_2023.pdf
[87] M/o Power Annual Report of 2003-04 reports that 'The all India installed capacity of electric power generating stations under utilities was 107972.80 MW as on 31.03.2003 consisting of 76606.91 MW of thermal, 26910.23 MW of hydro, 2720.00 MW of nuclear and 1735.66 MW wind which has increased to 112058.42 MW as on 31.03.2004 consisting of 77968.53 MW of thermal, 29500.23 MW of hydro, 2720.00 MW of nuclear and 1869.66 of wind.' Therefore, non-fossil fuel installed capacity in the year ending 2004 can be estimated to be a sum of 29500.23 MW of hydro, 2720.00 MW of nuclear and 1869.66 of wind which would be 34089.9 MW or 34.09 GW approx (30.4 per cent of total installed capacity). Considering that, as per footnote 3, the installed capacity in non-fossil fuel in the year ending 2014 was 80.3 GW, the growth between FY 2004 and 2014 would be 46.21 GW.
[88] Ibid.
[89] Ibid.
[90]https://www.pmuy.gov.in/
[91]https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1992405
[92]https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1992405

2.133 Besides this, fiscal incentives such as accelerated depreciation, GST at lower rates, concessional custom duty and other policy measures such as priority sector lending status for renewable energy have also played a vital role in phasing renewable energy sources. Policy measures have also been taken to address emissions in the transport sector, like the National Policy on Biofuels and two phases of the Faster Adoption and Manufacturing of Electric Vehicles (FAME) scheme. As of December 2023, there were a total of ten thousand EV charging stations in India[93], supporting the rapid adoption of electric vehicles. With the Metro Rail Policy of 2017, the operational metro rail network in the country has expanded by more than 450 km since 2018-19. At present, more than 900 km of Metro Rail network is operational in the country[94]. The presence of metro rail has expanded from five cities in 2014 to twenty cities in 2023. Around 130 MW[95] of Solar power is used to run the metro system.

2.134 Hydrogen is a promising fuel that can be used for long-duration storage of renewable energy, replacement of fossil fuels in industry, and clean transportation. The National Green Hydrogen Mission was launched in 2023 with a dual objective to boost hydrogen production using renewable energy sources and reduce emissions. The mission is expected to lead to the development of 5 million metric tonnes (MMT) of green hydrogen production capacity per annum by 2030. Achieving the Mission's targets is expected to reduce a cumulative ₹ 1 lakh crore worth of fossil fuel imports by 2030 and CO_2 emission reduction of nearly 50 MMT annually.

2.135 Building resilience and adaptive capacity to climate change impacts require actions on multiple fronts. The government of India's policies and initiatives to achieve high economic growth, substantially improve the standard of living, ensure food and water security, manage disaster risks and create resilient infrastructure, improve health and social infrastructure, and take steps to conserve biodiversity and natural resources are some of the measures to enhance resilience. These include the National Clean Air Programme (NCAP), Namami Gange Programme, Atal Bhujal Yojana (ATAL JAL), Compensatory Afforestation Fund Act 2016, Pradhan Mantri Krishi Sinchayee Yojana (PMKSY), National Bamboo Mission (NBM), National Coastal Mission, National Health Mission, National Cyclone Risk Mitigation Project, National Disaster Management Plan 2019, Mangrove Initiative for Shoreline Habitats and Tangible Income (MISHTI). All these policy measures are designed with climate consciousness while contributing to the government's development objective.

2.136 The Lifestyle for Environment (LiFE) movement, announced in 2021, is an India-led global mass movement to nudge individual and community action to protect and preserve the environment. Mission LiFE, in its first phase, has identified 75 non-exhaustive, simple environment-friendly actions under seven categories, covering, among other things, energy

[93]Ministry of PNG
[94]Starred Lok Sabha question no. 270 dated 21 December 2023.
[95]Ministry of PNG

saving, waste and e-waste reduction, water conservation, and phasing out of single-use plastics, to be followed by individuals. The Green Credit Programme (GCP) and Ecomark scheme are initiatives under the LiFE Movement to create market-based incentives for different kinds of environment-positive actions, including by enabling accreditation and labelling for household and consumer products that meet specific environmental criteria.

2.137 In addition, building resilience in the financial sector has become important given its increasing exposure to climate change risk. To this end, regulatory measures have also been taken to mainstream climate into the financial economy. SEBI has been one of the early adopters of sustainability reporting for listed entities and has required mandatory ESG-related disclosures for the top 100 listed entities (by market capitalisation) since 2012. Steps like the introduction of the regulatory framework for issuing green debt securities, 'Framework for Sovereign Green Bonds', 'Framework for Acceptance of Green Deposits' by RBI, the inclusion of mitigation projects such as those in renewable energy in the Priority Sector Lending (PSL) rules, issue of Sovereign Green Bonds and rules for financial disclosures and reporting of non-financial data, including information on sustainability impacts by top companies, all to foster and develop a green finance ecosystem in the country.

2.138 The government of India recognises the importance of global efforts to deal with climate change and the need for national-level actions to support global efforts, in line with the principle of common but differentiated responsibilities of countries. In addition to ambitious domestic actions, several international initiatives since 2014, such as the International Solar Alliance (ISA), the Coalition for Disaster Resilient Infrastructure (CDRI), Infrastructure for Resilient Island States (IRIS), Green Grids Initiative-One Sun One World One Grid (GGI-OSOWOG) have been led by India. The country also co-leads the Leadership Group for Industry Transition (LeadIT) with Sweden. In COP28, the second phase, LeadIT 2.0, was launched, marking a joint commitment by member countries and companies to shape policy frameworks and international cooperation for an inclusive industry transition. The group will focus on global dialogue, technology collaboration, and fostering industry transition partnerships in this phase.

2.139 Ambitious climate policies that are not pragmatic to factor in the need for energy security have socio-economic costs in the short to medium term, even if they may benefit in the very long term. The benefits could be smaller than the costs, and the uncertainties associated with the benefits of climate policy are larger than the uncertainties around their costs. (Tol, 2023a)[96]. Further, limited access to the critical minerals, alternative green technologies and concessional finance needed for transition adds more uncertainties concerning the perceived benefits of such policies. The International Energy Agency, in its report, 'The Role of Critical

[96]Tol, R. S. (2023a). Costs and benefits of the Paris climate targets. Climate Change Economics, 14(04), 2340003

Minerals in Clean Energy Transition', published in March 2022, noted that "a typical electric car required six times the mineral inputs of a conventional car and that an onshore wind plant required nine times more mineral resources than a gas-fired plant. Since 2010, the average amount of minerals needed for a new unit of power generation capacity has increased by 50 per cent as the share of renewables in new investment has risen."[97] Enhanced requirement of minerals means enhanced need for energy.

2.140 Development is key in building resilience and enabling effective mitigation action as, in the medium to long run, development would generate resources and capacity for effective climate action. However, the current global approach to climate change is set on a course that runs the risk of making the low-income status of several nations permanent. For several of them, access to energy is a more important and immediate concern. Globally, there is a need to "strike the right balance between development and emissions mitigation", and that begins with the realisation that wishing away the trade-off is the wrong place to start. Fortunately, near-term pragmatism blended with a clear long-term goal of reducing dependence on fossil fuels is shaping India's policies towards energy transition.

2.141 On its part, the government of India holds the achievement of the developmental priorities as central to this effort. The goal of reaching net zero by 2070 and enhanced NDC for 2030 is being pursued with a wide array[98] of policy and regulatory measures, as well as incentives to weave production and consumption patterns in the country with mindful and deliberate utilisation instead of mindless and destructive consumption - under Mission LiFE. India's significant climate actions that have resulted in a path to achieving its NDC well before 2030 have established India as a climate leader and the only G20 nation in line with 2°C warming compared to its fair share contribution to climate action[99].

Outlook

2.142 Ten years ago, India was the 10th largest economy in the world, with a GDP of USD 1.9 trillion at current market prices. Today, it is the 5th largest with a GDP of USD 3.7 trillion (est. FY24), despite the pandemic and despite inheriting an economy with macro imbalances and a broken financial sector. This ten-year journey is marked by several reforms, both substantive and incremental, which have significantly contributed to the country's economic

[97] See https://www.iea.org/reports/the-role-of-critical-minerals-in-clean-energy-transitions/executive-summary
[98] A detailed account of the Government of India's strategy to pursue the climate goals through its own domestic budgetary resources and market-based finance mobilisation, including through Sovereign Green Bonds, has been given in Chapter 4, Financing Climate Action: Issues, Concerns and Possible Actions in RE-EXAMINING NARRATIVES: A Collection of Essays.
[99] International Finance Corporation. 2023. Blended Finance for Climate Investments in India. The World Bank Group, Washington, DC

progress. These reforms have also delivered an economic resilience that the country will need to deal with unanticipated global shocks in the future.

2.143 In the next three years, India is expected to become the third-largest economy in the world, with a GDP of USD 5 trillion. The government has, however, set a higher goal of becoming a ‘developed country’ by 2047. With the journey of reforms continuing, this goal is achievable. The reforms will be more purposeful and fruitful with the full participation of the state governments. The participation of the states will be fuller when reforms encompass changes in governance at the district, block, and village levels, making them citizen-friendly and small business-friendly and in areas such as health, education, land and labour in which states have a big role to play.

2.144 The strength of the domestic demand has driven the economy to a 7 per cent plus growth rate in the last three years. As discussed in the previous sections, the robustness seen in domestic demand, namely, private consumption and investment, traces its origin to the reforms and measures implemented by the government over the last ten years. The supply side has also been strengthened with investment in infrastructure – physical and digital – and measures that aim to boost manufacturing. These have combined to provide an impetus to economic activity in the country. Accordingly, in FY25, real GDP growth will likely be closer to 7 per cent.

2.145 There is, however, considerable scope for the growth rate to rise well above 7 per cent by 2030. The speed with which physical infrastructure is being built will allow the ICOR to decline, translating private investments into output quickly. The IBC has strengthened balance sheets and, in the process, has freed up economic capital that was otherwise rendered unproductive. The rapidly expanding digital infrastructure is continuously improving institutional efficiency. Technological progress is picking up pace with rising collaboration with foreign partners in the production of goods and services. Decisive steps have been taken to speed up human capital formation. Finally, the overall investment climate is increasingly becoming more favourable with sustained enhancement in the ease of doing business.

2.146 The unification of the domestic markets brought in by the adoption of the GST incentivises production on a larger scale while reducing logistics costs. The expansion of the tax base that the GST facilitates will strengthen the finances of the Union and state governments, enabling growth-enhancing public expenditures. The rising credibility of the RBI in restraining inflation will anchor inflationary expectations, providing a stable interest rate environment for businesses and the public to make long-term investment and spending decisions, respectively.

2.147 According to the IMF, between 2012 and 2019, after the global economic crisis and the waning of the impact of the immediate stimulus measures taken by the affected countries in its wake, global economic growth at constant prices averaged 3.4 per cent. The growth rate was similar in the five-year period between 2014 and 2019. Between 2023 and 2028, the Fund's projected growth for the world economy is around 3.1 per cent. Further, data from the World Trade Organisation (WTO) show that, in value terms, world trade barely grew in either period (2012-19 or 2014-19). In volume terms, the growth rate averaged 2.4 per cent. Despite this insipid backdrop for global economic growth and trade growth, between 2014 and 2019, the compounded annual growth rate of the Indian economy at constant price was 7.4%. In other words, these data demonstrate the internal strengths of the Indian economy, which bestow on it the ability to grow notwithstanding unfavourable global economic conditions. Therefore, it is eminently possible for the Indian economy to grow in the coming years at a rate above 7 per cent on the strength of the financial sector and other recent and future structural reforms. Only the elevated risk of geopolitical conflicts is an area of concern. Priority areas for future reforms include skilling, learning outcomes, health, energy security, reduction in compliance burden for MSMEs, and gender balancing in the labour force. Furthermore, under a reasonable set of assumptions with respect to the inflation differentials and the exchange rate, India can aspire to become a USD 7 trillion economy in the next six to seven years (by 2030). This will be a significant milestone in the journey to delivering a quality of life and standard of living that match and exceed the aspirations of the Indian people.

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