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ECONOMIC SURVEY 2023-24

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CHAPTER - 1

STATE OF THE ECONOMY : STEADY AS SHE GOES

Capex ← 7.5 L cr, 10 L cr, 11.1 L cr

1. Economic Response to the Pandemic:

- **Public Spending on Infrastructure:** India's focus on infrastructure spending supported economic activity by generating job demand and boosting industrial output, which eventually spurred private investment.
- **Digitalisation:** The shift towards digital service delivery,driven by both public policy and private sector adaptation, has led to significant transformations in service delivery.
- **Atmanirbhar Bharat Abhiyan:** This initiative provided targeted sectoral relief and structural reforms that supported economic recovery and enhanced long-term growth potential.

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Remained above 6% (C.P.I.) throughout 2022 → (Jan-Oct)

2. Managing Domestic Challenges:

F.D.

- **Inflation Management:** Domestic inflation, influenced by global factors and local monsoon variability, was managed through administrative and monetary policies.

9.2% → 2021
6.8% → 2022
6.4% → 2023
5.8% → 2024
(5.6%)

- **Fiscal Balance Improvement:** Despite increased public investment, tax compliance improvements and expenditure control led to better fiscal balance.
- **External Balance:** While global demand for goods was weak, strong services exports helped offset the negative impacts on the external balance.

2023. 2024.

Export → $776 bn $778 bn

3. Economic Recovery and Growth:

- **Recovery and Expansion:** The Indian economy grew steadily,with FY24 real GDP being 20% higher than FY20 levels. This growth trajectory is expected to continue into FY25 and beyond.

according to P.L.F.S data

- **Inclusive Growth:** The recovery has been inclusive, with reduced unemployment, decreased poverty, and higher labor force participation.

4. Outlook:

- **Optimistic Future:** The Indian economy is anticipated to experience broad based and inclusive growth in FY25,with a positive outlook despite ongoing geopolitical risks.

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GLOBAL ECONOMIC SCENARIO

compared to 2022.

1. Economic Stability in 2023:

- The global economy achieved relative stability in 2023 despite high geopolitical uncertainties. Growth was robust at 3.2%, surpassing earlier projections but slightly lower than 2022's 3.5%. This growth occurred in a context of higher inflation, moderated trade, and cautious investor sentiment.

2. Growth Trends:

- Both emerging market economies (EMEs) and advanced economies (AEs) experienced stronger-than-expected growth in 2023 . Major economies like India and China saw GDP levels significantly above pre-pandemic figures, while the US maintained growth momentum, and the Euro area saw improved but subdued activity.

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3. Divergent Economic Performance:

- Economic performance varied widely due to domestic issues, geopolitical exposure, and monetary policies. Europe, hit hard by the Russia-Ukraine conflict, saw slow growth. The US faced high inflation but managed it with fixed-rate mortgages and corporate debt. India recovered quickly, while China's growth slowed post-pandemic due to structural challenges.

4. Economic Indicators:

- Global economic activity showed resilience with positive leading indicators. The JP Morgan global composite PMI improved, indicating expansion in manufacturing and services.

5. Geopolitical and Supply Chain Disruptions:

hurting supply chain

hurts exports

- The Red Sea crisis and related geopolitical tensions caused temporary disruptions in global trade,though supply chain pressures eased afterward. The geopolitical risk index spiked but then softened.

6. Inflation Trends:

- Global inflation decreased from 2022's peak, driven by lower supply chain pressures. However, core inflation remains high in many countries, influenced by persistent services inflation and robust labor markets.

7. Monetary Policy: → Contractionary

- Central banks, except in China, kept or increased policy rates in response to core inflation. The ECB initiated a rate cut, while the Fed's stance indicated potential future rate cuts, despite high inflation and strong labor data.

8. Fiscal and Debt Dynamics:

- Global fiscal deficits increased in 2023, primarily due to reduced revenues from commodity exports, leading to a slight rise in global public debt.

9. Trade and Investment:

- Global export growth was modest at 0.5%, impacted by reduced demand in developed economies and lower trade in East Asia and Latin America. Trade restrictions increased, with numerous new barriers. Global FDI flows also declined due to geopolitical tensions and economic concerns.

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A RESILIENT DOMESTIC ECONOMY

- India's economy continued its strong performance from FY23 into FY24, achieving 8.2% real GDP growth. This sustained growth, with GVA increasing by 7.2%, was supported by stable consumption and investment demand. Net taxes grew by 19.1%, reflecting strong tax collection and reduced subsidies.
- In FY24, the shares of agriculture, industry, and services in GVA were 17.7%,27.6%, and 54.7% respectively. Agriculture grew slower due to erratic weather and reduced food grain output by 0.3%, as per the Ministry of Agriculture's estimates.
- Manufacturing GVA grew by 9.9% in FY24, rebounding from a poor FY23. Reduced input prices contributed to lower WPI inflation, which benefited consumers and manufacturers. Construction also grew by 9.9% due to infrastructure and real estate demand.

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- The services sector showed strong growth, with GST collections and e-way bills both increasing. Post-pandemic, contact-intensive services have recovered, with technology enhancing service delivery, supported by the growth of global capability centres.
- Private final consumption expenditure (PFCE) grew by 4.0% in FY24, with strong urban demand and a pickup in rural consumption. Vehicle sales in both urban and rural areas increased, reflecting improved consumption.

Investment (fixed assets)

- Gross Fixed Capital Formation (GFCF) remains a key growth driver, with private sector capital formation rising significantly. Government capital expenditure also supports this trend, showing increased investment by private non-financial corporations.
- Households contributed to capital formation, especially in housing. Residential real estate sales reached their highest since 2013, with a 33% YoY growth in 2023, and new housing supply at an all-time high.

- The banking sector is well-capitalized and can meet rising investment demand. Credit to MSMEs and housing has surged, while large industries are using corporate bonds for financing, with bond issuance up by 70.5%.

2023 2024
Exp: $451 bn $437 bn

- Global trade growth slowed, reducing merchandise export growth. However, a decline in imports and increased services trade surplus lessened the negative impact on GDP. Fixed investment growth offset the weaker external trade.

Import $914 bn $854 bn

- FY24 GDP levels aligned with pre-pandemic projections, indicating that output and demand have returned to expected trajectories.

J+S J+S

"MACROECONOMIC STABILITY SAFEGUARDS GROWTH"

India faced initial economic challenges in FY23, including domestic price pressures and a widening current account deficit due to rising oil prices. Central banks globally raised policy rates, creating uncertainty. However, India maintained macroeconomic stability, crucial for continued growth amid these vulnerabilities.

IMPROVING PUBLIC FINANCES

1. Consolidation of Union Government Finances

India has achieved fiscal consolidation despite global trends of rising fiscal deficits and debt. The fiscal deficit was reduced from 6.4% of GDP in FY23 to 5.6% in FY24, supported by strong tax revenues and restrained expenditure.

Improved fiscal deficit composition shows increased capital outlay, reflecting better use of borrowed resources.

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$$\frac{\%\ \text{change in tax revenue}}{\%\ \text{change in nominal G.D.P.}} > 1$$

2. Buoyancy in revenues continues in FY24

A. Revenue receipts for the Union government grew by 14.5% YoY in FY24, driven by robust tax and non-tax revenues. Direct taxes saw a 15.8% increase, with direct taxes forming a larger share of gross tax revenue, showing improved tax collection efficiency.

B. The gross tax revenue growth of 13.4% in FY24 was led by direct taxes, reflecting an enhanced focus on progressive taxation. Efficiency in tax collection improved, as seen in the reduced cost of collecting direct taxes.

C. The rise in indirect taxes, notably GST,was significant, reflecting improved compliance. The GST system has matured,and there are calls for further reforms to enhance efficiency and expand the tax base.

D. The National Monetisation Pipeline (NMP) is making progress, with significant proceeds from asset monetisation contributing to fiscal consolidation. Key ministries and public enterprises are involved, with 3.9 lakh crore raised against a target of 4.3 lakh crore.

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3. Trends in Central Government Expenditure

A. The government focused on fiscal consolidation while protecting vulnerable sections and investing in productive capacities. FY24 saw a decline in total expenditure to 15.0% of GDP, with increased capital expenditure improving economic growth prospects.

B. Capital expenditure in FY24 increased significantly, supporting economic growth and addressing infrastructure needs. The government's efforts are crowding in private investment, though the private sector's contribution to capital formation needs to grow further.

C. The government's capex strategy is broad-based,covering critical sectors like transport and defense. It also encourages states to boost their productive spending through grants-in-aid.

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Interest exp. is high → 20% of total expenditure

4. Revenue expenditure growth remains restrained

A. Total expenditure in FY24 was lower than budgeted but did not compromise essential spending areas. Expenditure on interest payments remains high, highlighting the need for ongoing fiscal consolidation and revenue growth to reduce this burden.

B. Major subsidies, particularly for fertilizers and food, decreased in FY24. Fertilizer prices normalized post-pandemic, leading to reduced subsidy outlays, while food subsidies are gradually consolidating.

5. Overview of State Government Finances

A. State finances improved,with the gross fiscal deficit of 23 states lower than budgeted. States focused more on capital expenditure, improving the quality of spending.

B. General government debt showed a slight increase in FY24 due to higher interest rates, but is expected to resume its declining trend with monetary policy easing and continued fiscal consolidation.

C. India's fiscal improvements positively impacted its credit ratings, with S&P Global Ratings upgrading its outlook to 'positive'. Continued fiscal consolidation and lower government deficits could further enhance credit ratings and reduce borrowing costs.

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<3% of total loan extended

6. Financial System Resilience

A. RBI's proactive regulation and oversight maintain the stability of the banking system. SCBs show improved asset quality with a 12-year low GNPA ratio and steady profitability. Despite a slight decline in CRAR, stress tests indicate SCBs can handle severe economic stress.

15%

B. RBI has tightened regulations on unsecured loans to address rapid growth and maintain stability. Increased risk weights for unsecured loans and credit cards are intended to stabilize the financial system and support economic growth.

7. Reduction in Macro Vulnerability

A. The government's fiscal management aims for a 4.5% GDP fiscal deficit by FY26. This approach helps keep sovereign debt and bond yields stable, contributing to macroeconomic stability. The macroeconomic vulnerabi lity index shows a decline, reflecting improved stability despite external uncertainties.

8. External Sector Performance

A. India's merchandise exports have slowed due to global demand and geopolitical tensions. However,service exports are strong, leading to a reduced trade deficit. Net private transfers and CAD improved, with CAD at 0.7% of GDP.

B. FPI inflows have increased,supporting CAD funding and forex reserves. Net FDI inflows decreased due to global trends,though gross FDI inflows only slightly moderated. Net FDI reduction was due to repatriation and disinvestment.

C. India's external sector is well-managed with adequate forex reserves and a stable exchange rate. Forex reserves cover about 11 months of imports, and the INR is less volatile compared to peers. External debt ratios remain low and manageable.

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INCLUSIVE GROWTH

Shift in Welfare Approach: Transition from input-based to outcome-based empowerment.

1. Key initiatives:

> 10cr beneficiaries

- **PM Ujjwala Yojana:** Free gas connections. > 12cr
- **Swachh Bharat Mission:** Toilets construction.
- **Jan Dhan Yojana:** Bank account openings. → 53cr+
- **PM-AWAS Yojana:** Pucca houses construction. > 3cr houses

saving 2 lakh cr

2. Targeted Reforms:

- **Aspirational Districts Programme (2018):** Focus on the most backward regions.
- **Aspirational Blocks Programme (2023):** Expansion of previous efforts.
- **Vibrant Villages Programme:** Border area development.
- **Viksit Bharat Sankalp Yatra (2023):** Engaged 15 crore people.
- **Digitalization:** Enhancements in healthcare,education, and governance.
- **Direct Benefit Transfer (DBT):** 36.9 lakh crore transferred since 2013.

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3. **Employment Trends:**
   - Decline in unemployment rate post-pandemic.
   - Increased labor force participation and worker-to-population ratio.
   - Female labor force participation rose from 23.3% (2017-18) to 37% (2022-23), primarily among rural women.
4. **Poverty Reduction:**
   - Significant decrease in multidimensional poverty headcount ratio between 2015-16 and 2022-23. 451 million people
5. **Rising Consumption Expenditure:**
   - **Household Consumption Expenditure Survey (HCES) 2022-23:**
   - Increase in monthly per capita consumption expenditure (MPCE) in both rural and urban areas since 2011-12.
   - Reduced disparity between rural and urban MPCE.

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OUTLOOK

1. **Economic Recovery:**
   - The Indian economy has rebounded strongly from the pandemic.
   - Real GDP in FY24 is 20% higher than FY20 levels, indicating a CAGR of 4.6% despite a 5.8% decline in FY21.
   - Current GDP levels are near pre-pandemic trajectories as of Q4 FY24.
   - Average annual growth during the decade ending FY20 was 6.6%, reflecting long-term growth prospects.

2. Global Economic Projections:

- IMF forecasts a global growth rate of 3.2% for 2024, with balanced risks.
- Previous decade's average global growth was 3.7%.
- Moderation in inflation due to declining global commodity prices and eased supply chain pressures.
- Persistent core inflation driven by high service costs; potential for earlier monetary policy easing if service inflation moderates.
- Central banks, including the ECB and potentially the Fed, may lower interest rates, influencing Emerging Market Economies (EMEs).

which can affect growth negatively

3. Downside Risks:

- Geopolitical conflicts could disrupt supply chains, raise commodity prices, and impact capital flows.
- Potential for renewed inflationary pressures and delays in monetary policy easing.
- Global trade outlook remains positive with expected recovery in merchandise trade, though protectionism and geopolitical tensions may affect India's external sector.
- High global financial market valuations could lead to corrections, affecting household and corporate finances.

Factors that can promote future domestic growth

4. **Domestic Growth Drivers:**

- Improved private sector balance sheets to support investment demand.
- Potential caution in private capital formation due to fears of cheaper imports.
- Anticipated increase in merchandise and services exports.
- Positive factors: favorable monsoon forecast, improved agriculture performance, and effective structural reforms (e.g., GST and IBC).

5. **Growth Projection:**

- Conservative real GDP growth forecast of 6.5-7% for FY25, with balanced risks.
- Market expectations are higher, but projections account for current economic conditions and uncertainties.

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Thank You

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