The Indian Economy: A Review (Part - I)

Important Highlights of the Report

Ahead of the **Interim Budget for 2024-25** the Finance Minister presented a 10-year review of the Indian economy.

- **Growth Projection:** The review predicts that **India's GDP** will grow close to **7%** in **2024-25**, with the potential to go **"well above" 7% by 2030.**
    - The economy is expected to expand from about **$3.7 trillion** this year to **$5 trillion** in **three years**, making it the world's **third-largest**, and could even reach **$7 trillion by 2030**.
- **Two Growth Phases:** The review divides India's growth story into two phases:
    - **1950-2014** and a **"decade of transformative growth" since 2014.**
    - It highlights that the state of the economy was "**far from encouraging"** due to structural constraints, tardy **decision-making**, and **high inflation.**
    - However, **post-2014 reforms** have restored the economy's ability to grow healthily, making India the fastest-growing **G-20 nation.**
- **Qualitative Superiority:** The review asserts that India's **7% growth** (when the world grows at 2%) is **"qualitatively superior"** to the **8%-9%** achieved during the previous era when the global economy grew at **4%.**

Summary of the Report

Chapter-1

Indian Economy: Past, Present And Future

The Indian Growth Story (1950 to 2014)

- **Pre-Independence Economic Share:**
    - India's share of world income declined from 22.6% in 1700 to 3.8% in 1952.
- **Post-Independence Economic Strategy (1950s):**
    - The Indian government adopted a strategy in the 1950s.
    - Focused on achieving economic self-sufficiency.
        - Rapid industrialisation
        - Created large state-owned enterprises (SOEs)
    - The decadal average growth rate (1952-60): **3.9%.**
- **Challenges in the 1960s:**
    - Slowdown in economic growth during the 1960s.
        - Decadal growth rate of 4.1%.
    - The **1962 Sino-Indian war.**
    - 1965-66 India-Pakistan war.
    - Severe **drought** in 1965.
- **Barriers in 1970s:**
    - **Indian rupee devaluation** of 57% during the 1970s.
    - The 1970s were marked by severe political instability.
    - **Imposition of Emergency** in 1975.

    - Decline in decadal average growth rate during the 1970s, reaching 2.9%.
- **Reform Initiatives in the 1980s:**
    - Removal of Price Controls, Initiation of Fiscal Reforms, Revamp of the Public Sector, Reductions in Import Duties, De-licensing of the Domestic Industry, Promotion of Exports
    - The 1980s also witnessed greater integration with the global economy, with a focus on promoting exports.
    - Modest liberalization combined with significant government spending led to an improvement in **Gross Domestic Product (GDP)** growth, reaching 5.7% in the 1980s.
- **External Shocks in the Early 1990s:**
    - The breakup of the Soviet Bloc posed an external shock.
    - The Iraq-Kuwait war adversely affected trade and disrupted current account balances during 1990–1991.
    - The external crisis, unsustainable government spending, and internal socio-political factors led to a **Balance-of-Payments (BoP)** crisis in 1991.
- **Reforms in 1991:**
    - Eliminating the complex system of rules, permissions, and licenses.
    - Reversing the substantial inclination towards state ownership of production facilities.
    - Ending the inward-looking trade strategy.
    - Real GDP growth averaged 5.8% per annum in the 1990s.

Early 2000s Economic Momentum

- **India's Reforms Yield Growth and Capital Influx:**
    - The growth dividends from transformative reforms implemented during the period 1998-2002 played a key role in economic growth.
    - The early 2000s witnessed a global growth boom, and India attracted significant capital flows.
- **Key Measures Implemented:**
    - **Sarva Shiksha Abhiyan (SSA):** Focused on universal education.
    - **National Rural Health Mission (NRHM):** Implemented to address rural health needs.
    - **National Rural Employment Guarantee Scheme (NREGS)**: To provide rural employment.
    - **Decadal Average Growth Rate**: The growth rate in the 2000s was 6.3% per annum.
- **Impact of Global Financial Crisis (2008):** The global financial crisis exposed the fragile foundations of the growth spurt in India.
    - Bad debts in banks began to accumulate.
    - The bad debt ratio reached double-digit percentages, peaking at 11.2% in March 2018.
    - Much of the bad debt originated between 2006 and 2008.
- **High Fiscal Deficits and Loose Monetary Policy (2009-2014):**
    - In the period 2009-2014, the government attempted to sustain high economic growth by running high fiscal deficits and maintaining loose monetary policy for an extended duration.
    - Nominal GDP growth remained high during this period.
    - India experienced annual double-digit inflation rates for five consecutive years from 2009 to 2014.
- **Twin Deficits and Overvalued Rupee:**
    - India faced high **twin deficits**, including a fiscal deficit of 4.9% in FY13.
    - The current account deficit was also elevated, reaching 4.8% in FY13.
    - The Indian rupee was overvalued during this period.
- **Crash of Indian Rupee in 2013:**
    - The Indian rupee experienced a significant crash against the US dollar.
    - Between 2009 and 2014, the Indian rupee depreciated annually by 5.9% on average.
- **Outcome of Challenges:** The combination of high fiscal deficits, loose monetary policy, twin deficits, and the overvalued rupee led to economic growth stalling during this period.

Lessons From the Growth Experience Till 2014

- **Transition from Closed to Open Economy (1950-1980):**
    - Import substitution, export subsidies, stringent restraints on technology and investment cooperation.

- Controls on capacity expansion, licensing requirements for manufacturing industries.
- **Pro-Business Reforms Post-1980:**
  - Import liberalization, export incentives, exchange rate policies, and expansionary fiscal policy.
  - These reforms were seen to enhance productivity and boost demand through improved credit availability and high public expenditure.
  - Simultaneously, unsustainable investments, questionable loans, opaque allocation of resources, and high fiscal deficits led to a BoP crisis in 1990-91.
  - The BoP crisis triggered comprehensive economic policy overhauls, moving towards a market economy.
    - Trade policy reforms
    - Industrial policy revamping
    - **Foreign Direct Investment (FDI)** liberalization
  - Private sector became the major engine of growth and employment generation during the 1990s and 2000s.
  - Foreign technologies were denied due to a closed economy, lack of resources, and security reasons.
  - Since the 1980s, technology has been progressively used to transform the Indian economy.
- **Challenges in the Indian Economy (Pre-2014):**
  - GDP growth below 5%
  - High **Wholesale Price Index (WPI)** inflation in food articles
  - Accentuated structural constraints.
- **Structural Constraints:**
  - Difficulties in quick decision-making .
  - Subsidies limiting fiscal space for public investment.
  - Especially in capital goods, and low-value addition in manufacturing.
  - Presence of a large informal sector and insufficient labor absorption in the formal sector.
  - Low agricultural productivity due to intermediaries, storage shortages, and inter-state movement issues.

2014 - 2024: Decade of Transformative Growth

- **Structural Reforms and Macroeconomic Fundamentals (Since 2014):**
  - The Government of India initiated several structural reforms strengthening macroeconomic fundamentals.
  - India emerged as the fastest-growing economy among **G20 nations.**
  - Estimated growth of 7.3% in 2023-24 following 9.1% (FY22) and 7.2% (FY23).
- **Post-Pandemic Recovery and Job Generation:**
  - Urban unemployment rate dropped to 6.6%.
  - Net new **Employees' Provident Fund Organisation (EPFO)** subscribers in the age group 18-25 consistently exceeded 55% of the total net new EPF subscribers since May 2023.
- **Infrastructure Development:**
  - Record expansion of road, rail, and air networks.
  - 74 airports were built in the last nine years and the number of universities increased from 723 in 2014 to 1,113 in 2023.
  - **Gross Enrolment Ratio (GER)** for girls increased to 27.9% in 2020 from 12.7% in FY10.
  - Total enrolment in higher education rose from 3.4 crore in 2014 to 4.1 crore students in 2023.
- **Effective Crude Oil Management and Fiscal Support:**
  - Government provided a 50-year interest-free loan of ₹1 lakh crore to states in FY23 and announced another ₹1.3 lakh crore in FY24.
  - States utilized more than ₹97,000 crore out of the ₹1.3 lakh crore of interest-free loans for capital investment in the first eight months of FY24.
- **States' Capital Expenditure Increase:**
  - States capital expenditure increased by more than 47% in the first six months of April-September 2023 compared to the same period in 2022.

Drivers of India’s Growth in the Last Decade

- **Financial Sector Reforms (Post-2020):**
  - Addressing the financial system crisis post-2020 with reforms such as recapitalization, **Public Sector Banks (PSB)** merger, and amendments to the **Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002.**
  - Implementation of **Insolvency and Bankruptcy Code (IBC)** facilitated the clean-up of balance sheets.
- **Simplification of Regulatory Frameworks and Reforms (Since 2014):**
  - Enactment of **Real Estate (Regulation and Development) Act, 2016** promoting transparent transactions and reducing black money circulation.
  - Introduction of **Goods and Services Tax (GST)**, reduction in corporate and income tax rates, exemption for sovereign wealth funds and pension funds, and removal of Dividend Distribution Tax to reduce the tax burden on individuals and businesses.
  - Enhanced tax base, reduced compliances, formalization of the economy, and consistently rising monthly gross collections.
- **Private Sector Engagement and Disinvestment Policy:**
  - Revival of the disinvestment policy, introducing New Public Sector Enterprise (PSE) Policy for **Aatmanirbhar Bharat** to minimize government presence in PSEs.
  - Introduction of initiatives to enhance manufacturing capabilities, promote exports, and provide **Production Linked Incentives (PLI).**
- **Ease of Doing Business and MSME Sector Reforms:**
  - Decriminalization of minor economic offenses under the **Companies Act, 2013**, resulting in ease of doing business.
  - Elimination of 25,000 unnecessary compliances and repeal of over 1,400 archaic laws.
  - Introduction of initiatives such as **Emergency Credit Line Guarantee Scheme (ECLGS)**, redefinition of MSMEs under Aatmanirbhar Bharat, TReDS for addressing delayed payments, and extension of non-tax benefits for MSMEs.
- **Public Spending on Infrastructure (Since 2014):**
  - Effective Capital Expenditure by the Union government rose from 2.8% of GDP in FY14 to 4.5% in 2023-24 (BE).
  - Programs like Bharatmala**,** Sagarmala, UDAN, and others addressing infrastructure and logistics bottlenecks.
- **Inclusive Growth Policies (Last Decade):**
  - Over 10.11 crore women are given free gas connections.
  - Construction of 11.72 crore toilets for the poor.
  - Opening of 51.6 crore Jan Dhan accounts.
  - Over 6.27 crore hospital admissions under the Ayushman Bharat Scheme.
  - Construction of 2.6 crore pucca houses for the poor.

Challenges Confronting the Indian Economy

- **Energy Security and Transition:**
  - Balancing energy security and economic growth against the need for energy transition poses multifaceted challenges.
  - Policy actions related to energy choices have geopolitical, technological, fiscal, economic, and social dimensions.
- **Artificial Intelligence (AI) and Employment:**
  - The advent of **AI** raises concerns about its impact on employment, particularly in service sectors.
  - An IMF paper estimates that 40% of global employment is exposed to AI, emphasizing the need for investment in infrastructure and a digitally skilled labor force in developing economies.

Track Record of Overcoming Challenges

- **Pradhan Mantri Kaushal Vikas Yojana (PMKVY):** Aims to provide relevant industry skill training to Indian youth for better livelihoods, with around 1.3 crore candidates trained and 24 lakh individuals placed as of December 2023.

- Renewable Energy **Promotion:** Focused efforts to promote manufacturing and use of renewable energy, resulting in a combined installed capacity of 179.57 GW from renewable sources, including large hydropower, as of November 2023.
- **Internet Penetration:** Internet penetration in India crossed 50% in 2022, growing three-fold since 2014.
- **Aadhar Implementation:** Aadhar facilitated the transfer of over ₹34 lakh crores to more than 1167 crore beneficiaries under Direct Benefit Transfer (DBT)**,** with over 200 crore Aadhaar-based authentications monthly.
- **Financial Inclusion:** Prime Minister's **Jan Dhan Yojana** reached 51.5 crore beneficiaries as of January 10, 2024, with a 3.5-fold growth since March 2015. Notably, 56% of account holders are women, and two-thirds are in rural and semi-urban areas.
- **Covid-19 Response:** Successful implementation of one of the world's largest vaccination programs using the CoWin app, administering 221 crore vaccine doses to the population aged 18 years and above.
- **Technological Leap in Space Exploration**: Launched 431 foreign satellites, with 396 launched since June 2014, showcasing advancements in **space technology.**
- **Proactive Approach:** India's 'Mission Mode' approach has been effective in addressing challenges, both existing and emerging.
- **Adaptability:** The country's ability to convert disadvantages into strengths and use technology for inclusive growth demonstrates adaptability and resilience.
- **Growth Outlook:** India's growth is estimated at 7.3% in FY24, with expectations of sustained strong growth.
- **Current Account Deficit:** Lowering current account deficit to 1% of GDP in FY24.
- **MSME Focus:** Reforms unleashing the productive potential of India's MSMEs with streamlined regulatory and compliance obligations.
- **Land Availability:** Ensuring land availability at reasonable prices.
- **Energy Needs:** Measures addressing the energy needs of the growing economy.
- **G20 Presidency:** Successful hosting of G20 Presidency, marking India's arrival as a key consensus builder on the global stage.
- **Chandrayaan-3:** Successful reach to the South Pole of the Moon.
- **5G Deployment:** Achieved the fastest deployment of 5G globally.

Global Significance and Trust

- **Global Presence:** Growing importance in the global economic landscape.
- **Global Achievements:** Major strides in various fields, including space exploration and technology deployment.
- **Citizen Resilience:** Path reflects the resilience and determination of Indian citizens founded on trust.

Chapter-2

Key Factors Responsible for the Resilience of the Indian Economy

- **Post-Pandemic Recovery:**
  - Above-7% Growth: Displayed resilience with two consecutive years of above-7% growth post the pandemic-induced contraction in FY21.
  - Potential Third Year: On track for a third year of above-7% growth in FY24.
- **Performance in FY24:**
  - Achieved 7.6% growth in real terms in the first half of FY24 compared to the first half of FY23.
  - First Advance Estimates by National Statistical Office Estimate indicate an estimated real GDP growth of 7.3% in FY24, exceeding forecasts by various agencies.
- **Positive Estimates:**
  - Estimates from the National Statistical Office exceeding forecasts made by various national and international agencies.
  - Possibility of growth surpassing the RBI's projection of 7%, indicating robust economic performance.

- **Resilience in Multiple Dimensions:**
  - **Economic Growth:**
    - Resilience evident in declining unemployment rates and rising economic activity.
    - Healthy performance in high-frequency indicators, including E-way bill generation, rail freight, and port cargo traffic.
    - Infrastructure focus and housing demand driving construction activity, reflected in increased steel consumption and cement production.
    - Mobility, particularly air travel, exceeded pre-Covid levels despite pandemic challenges.
  - **Banking Sector and Fiscal Discipline:**
    - Strong balance sheets of public sector banks rooted in RBI's Asset Quality Review, recapitalization, and enactment of the Insolvency and Bankruptcy Code (IBC).
  - **Continuity of Growth Drivers:**
    - Simultaneous pursuit of energy security and energy transition without derailing high growth, underway before the pandemic.
    - Resilience built on pre-pandemic domestic demand, a crucial pillar supporting the Indian economy.
  - **Government Measures Over Ten Years:**
    - Identified measures across four blocks - Domestic Economy, Macroeconomic Stability, Human Resources, and External Economy.
    - Building resilience to climate change, enabling the pursuit of energy security and transition without conflict.
- **Domestic Economy:**
  - **Consistent Post-Covid Recovery:**
    - Estimated to grow at an average of 7.9% between FY22 and FY24.
    - Few economies globally have maintained post-Covid recovery as consistently as India.
  - **Sectoral Contributions:**
    - Manufacturing Sector's share in **Gross Value Added (GVA)** increased from 17.2% (FY14) to 18.4% (FY18) due to the Make in India mission. Remained robust at 17.7% (FY24) with Production Linked Incentive (PLI) schemes.
    - Construction Sector's share in total GVA was 8.8% (FY14) and almost recovered to 8.7% (FY24) after countering real estate price increases and pandemic challenges.
    - Service Sector's share in total GVA increased from 51.1% (FY14) to 54.6% (FY24) due to the pandemic and subsequent unlocking, leading to a surge in non-contact services. Government's drive towards digitalization, represented by India Stack, plays a substantial role.
  - **Private Final Consumption Expenditure (PFCE):**
    - PFCE's share in GDP at current prices increased from an average of 58.4% in the eight years preceding the pandemic to 60.8% in the last three years ending FY24.

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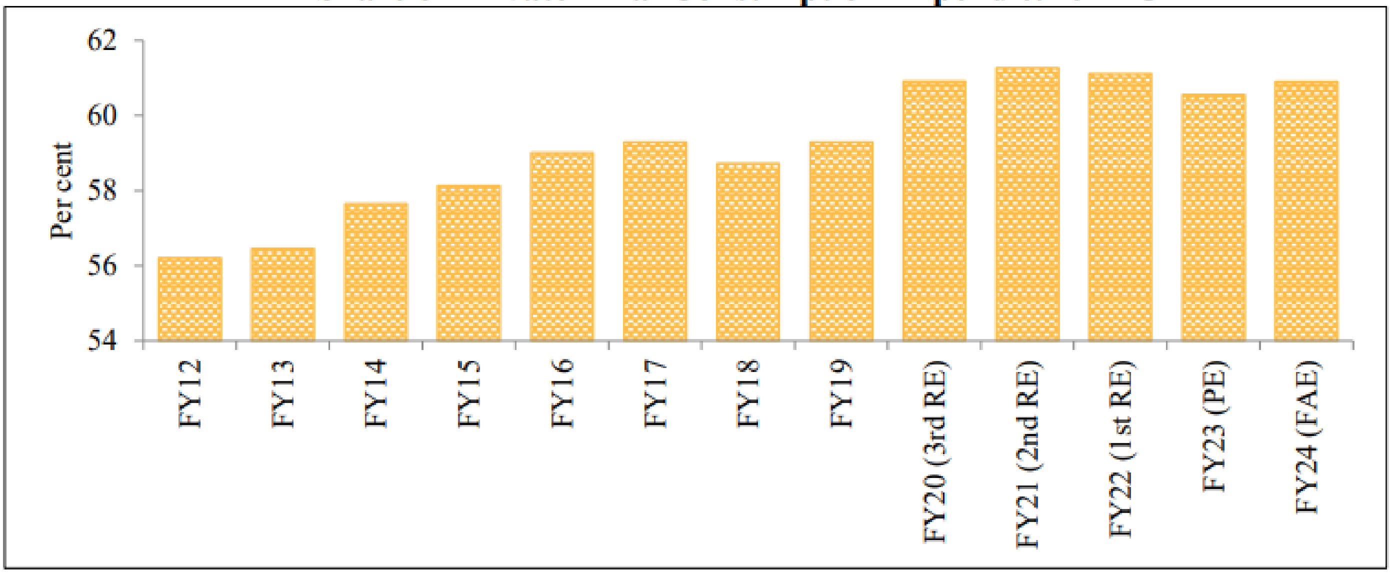
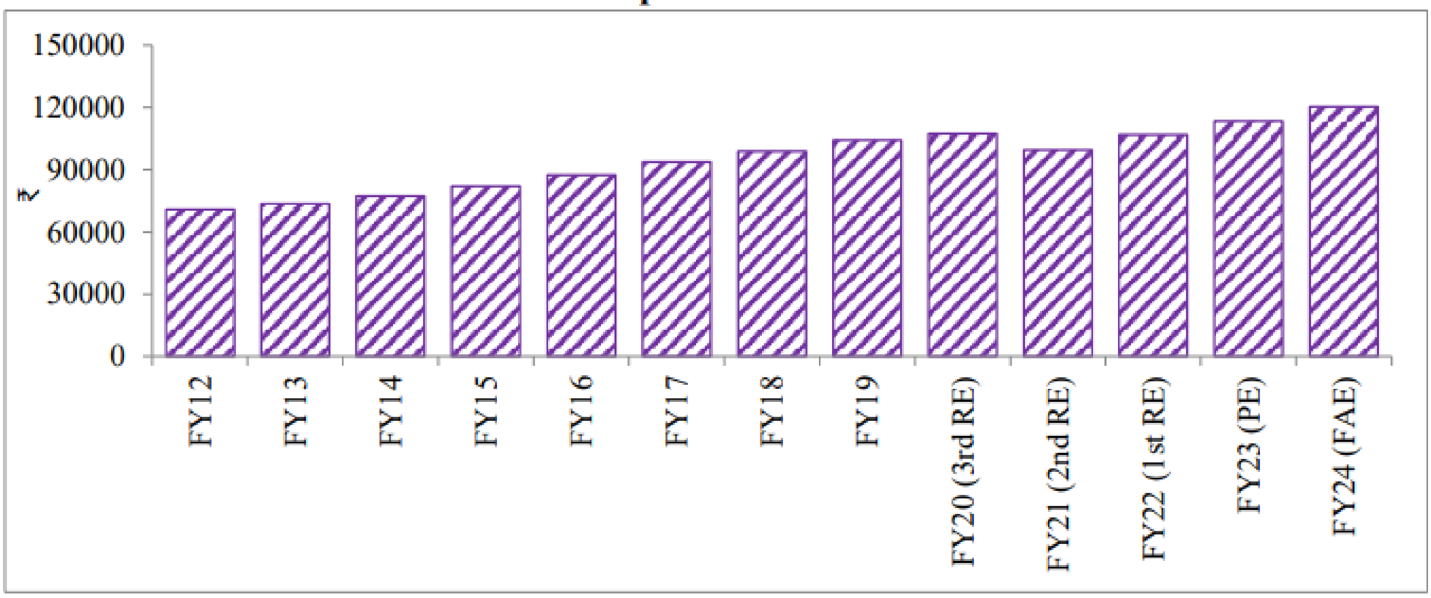
Share of Private Final Consumption Expenditure in GDP



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

- **Role of PFCE in Post-Covid Growth:**
    - Private Final Consumption Expenditure (PFCE) has emerged as a major growth driver post-Covid pandemic.
    - India has emerged as the fastest-growing major economy, supported by a resilient PFCE.
    - Robust increase in Per Capita Real Gross National Income (GNI) in the nine years before the pandemic.
    - Registered a Compound Annual Growth Rate (CAGR) of 5.3% from FY12 to FY20.
    - Strong government vision, market-friendly reforms, reduced compliance burden, simplified laws, opening up of sectors, and strategic disinvestment of public sector enterprises contributed to private sector growth.

Per Capita Real Gross National Income

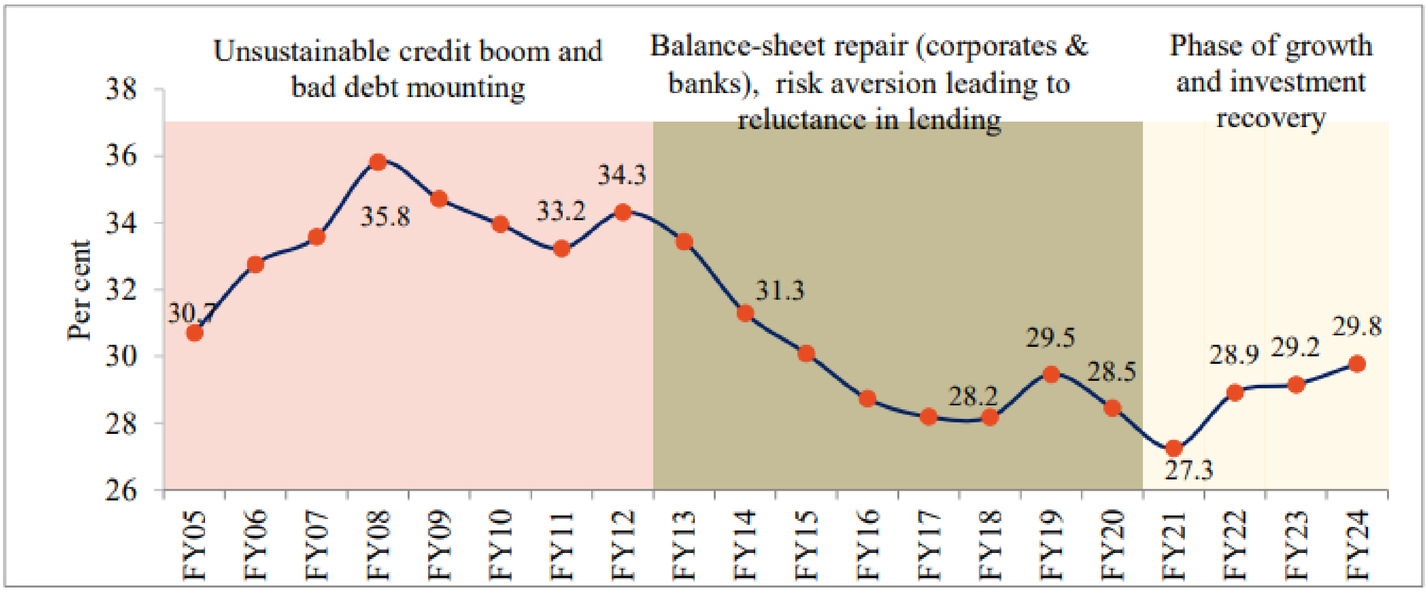


Note: RE stands for Revised Estimates, PE for Provisional Estimates and FAE for First Advance Estimates

- **Foreign Investment and Financial Sector:**
    - The government has implemented investor-friendly policies, allowing 100% FDI under the

automatic route in most sectors.
    - Policymakers contributed to nursing the financial sector back to health.
    - Pragmatic monetary policy and coordination of economic and monetary policies played a significant role.
- **Components of PFCE Growth:**
    - The increase in Private Final Consumption Expenditure (PFCE) is balanced across durables, semi-durables, and services.
    - After witnessing a decline in FY21, durables, semi-durables, and services registered double-digit growth in FY22.
    - SEBI's enhanced market transparency, increased retail participation in the stock market, and growth in demat accounts generated the wealth effect.
    - Government's boost to infrastructure investment created additional employment and incomes, strengthening PFCE.
- **Digital Infrastructure and Economic Potential:**
    - Digitalization enhanced financial inclusion, formalization of the economy, efficient service delivery, and transparent governance processes.
    - Digitalization directly helped increase private consumption, both pre and post-pandemic.
    - Aarogya Setu and CoWin apps were game-changers during the pandemic, facilitating tracking, containment, and vaccination efforts.
    - The pandemic led to shifts in behavior, including virtual healthcare visits, digital payments, and accelerated grocery shopping.
    - Digital payment systems like UPI aided the growth of e-commerce, with a projected CAGR of 16% between 2022 and 2026.
- **Rural Inclusiveness and Welfare Approach:**
    - Rural India showed increasing social and economic inclusiveness.
    - PMJDY provided low-cost bank accounts, and DBT eased the direct transfer of benefits to these accounts, narrowing the rural-urban divide.
    - The government's all-inclusive welfare approach is expected to contribute to expanding the middle class.
- **Transformation in Investment Climate:**
    - The seemingly impressive investment rate in the first decade relied on excessive borrowing and over-optimism, leading to an unsustainable situation.
    - Banks were reluctant to lend to corporates in the second decade, resulting in a decrease in the investment share of GDP.
    - Stresses on balance sheets accumulated in the first decade, contributing to macro fragility, high fiscal deficit, high current account deficit, and sustained double-digit inflation.
    - India was included in the infamous club of **'fragile-five'** emerging economies.
- **Government Initiatives:**
    - The government took measures to help banks strengthen their balance sheets by recapitalizing them and restructuring the industry.
    - Stronger balance sheets in the non-financial corporate sector and banking sectors have been achieved.
- **Outlook for Investments:**
    - Growth in investments and credit has shown positive trends in the last three years.
    - Data presented in Charts 3 and 4 support the assertion that investments and credit are poised to increase in the current decade.

Trends in Investment rate over the years

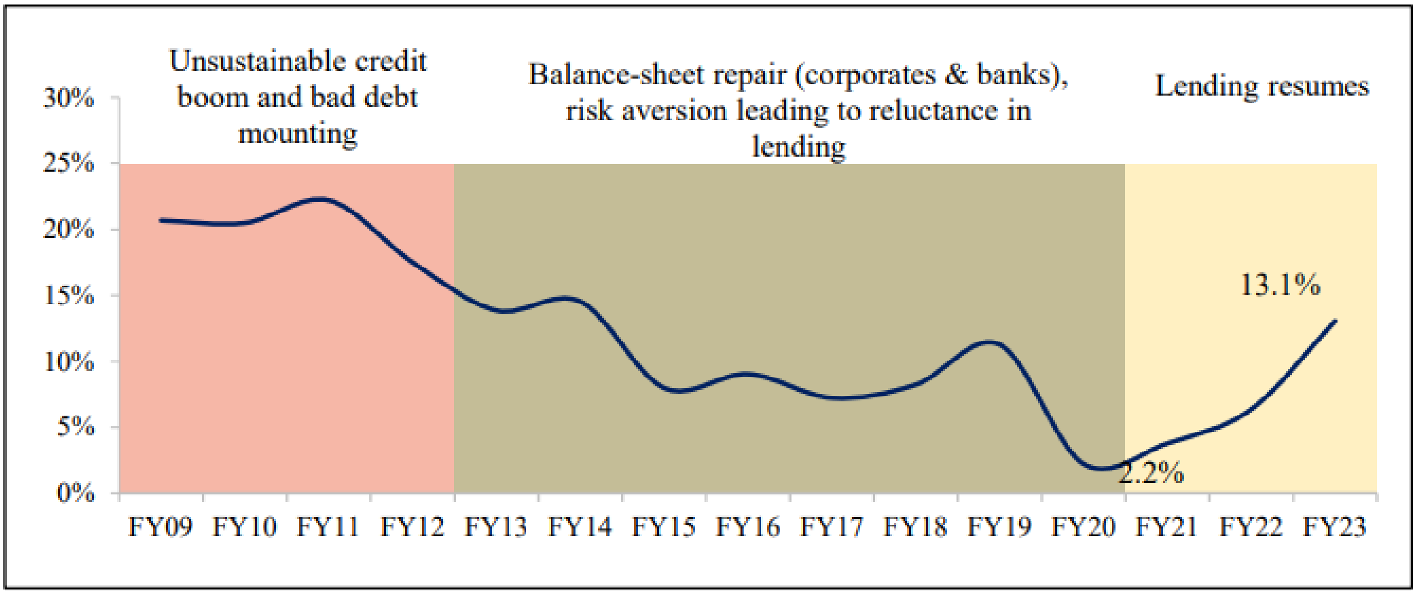


Note: Investment Rate is the ratio of Nominal GFCF over Nominal GDP

Data for FY24 is as per the First Advance Estimates

- **Government Efforts and Positive Outcomes:**
  - Efforts have resulted in healthier balance sheets, both in the private corporate sector and banking sector.
  - Positive outcomes include private corporate investment beginning to increase.
  - Banks are responding with increased credit disbursement.
- **Non-Food Bank Credit Growth:**
  - Non-food bank credit growth, net of personal loans, had experienced a decline from above 20% in 2008 to less than 10% in FY 2016.
  - There has been a rebound, reaching 13% in FY23 (Chart 4).

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

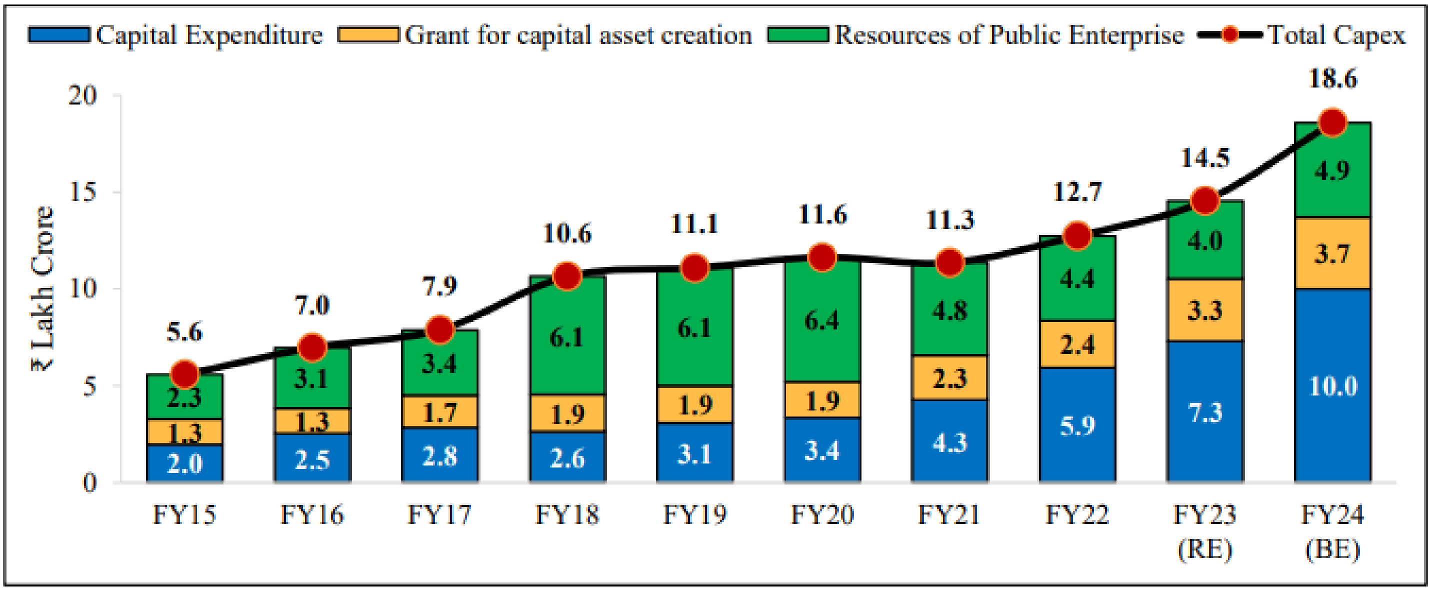


- **Public Sector Capital Expenditure (FY15 to FY24):**
  - Public sector capital expenditure, including Union government capex, grants to states for capital asset creation, and Central PSEs' investment resources, increased from ₹5.6 lakh crore in FY15 to ₹18.6 lakh crore in FY24.
  - Surge in capital expenditure was 5.1 times during this period.

- Grants to states for capital asset creation increased by 2.8 times, and resources of PSEs increased by 2.1 times.

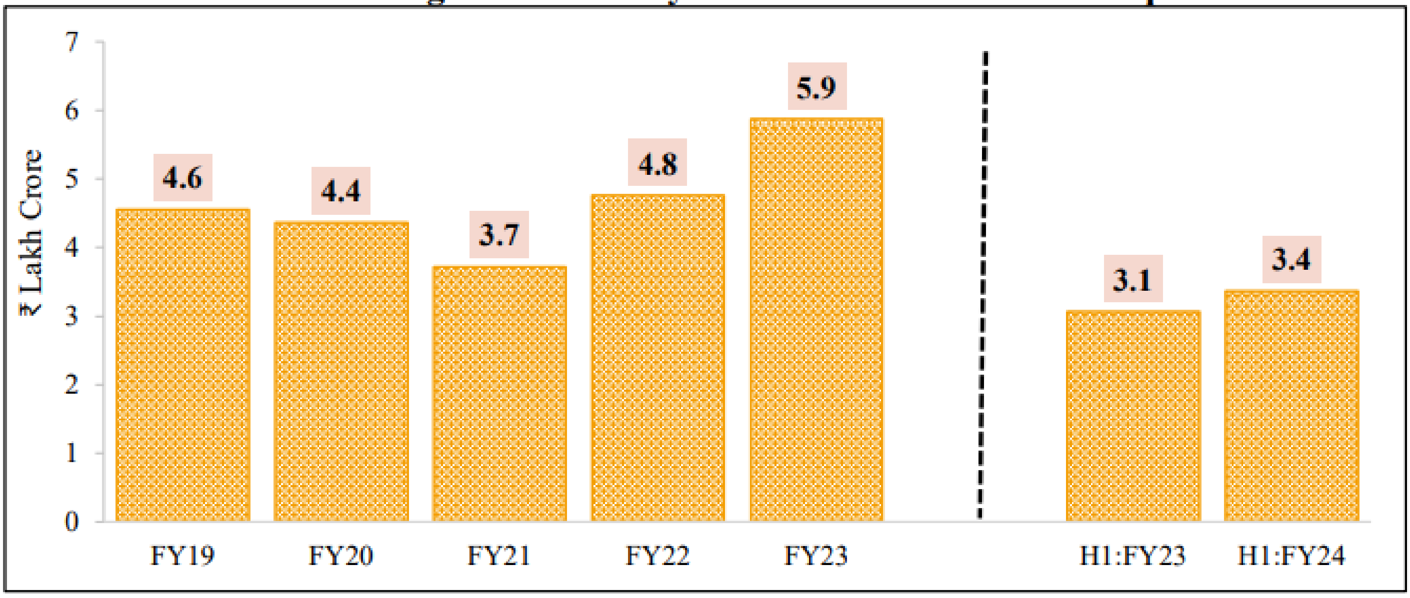
- **Rebalancing Fiscal Expenditure (FY18 to FY24):**
  - To facilitate the upscaling of capital expenditure, the Union government rebalanced its fiscal expenditure.
  - Capital spending rose from 12% of total expenditure in FY18 to 22% in FY24 (Budget Estimate).
- **Emphasis on Infrastructure Investments:**
  - The emphasis on infrastructure investments aims to address long-standing supply-side deficiencies in the Indian economy.

Capital Expenditure by Public Sector (Centre + CPSEs)



- **Government Measures to Boost Infrastructure:**
  - The government accelerated work on a large pipeline of stalled infrastructure projects by addressing issues like construction delays, administrative inefficiencies, financing challenges, legal complexities, and land issues.
  - The government digitized bureaucratic procedures, streamlined project approvals, eased legal constraints, reduced corporate tax rates, implemented a uniform GST regime, and opened new avenues for private investors.
  - The Pragati/Project Monitoring Group (PMG) mechanism has played a crucial role in expediting the execution of long-delayed projects.
- **Proxy Indicators for Private Capex Upsurge:**
  - Multiple proxy indicators and industry reports suggest the emergence of green shoots of a private capex upcycle in the post-pandemic years.
  - The Index of Industrial Production (IIP) data indicates robust growth in the capital goods index (12.9%) and infrastructure/construction goods index (8.4%) in FY23.
  - Listed/unlisted corporates indicate expanding private investment in the first half of FY24.

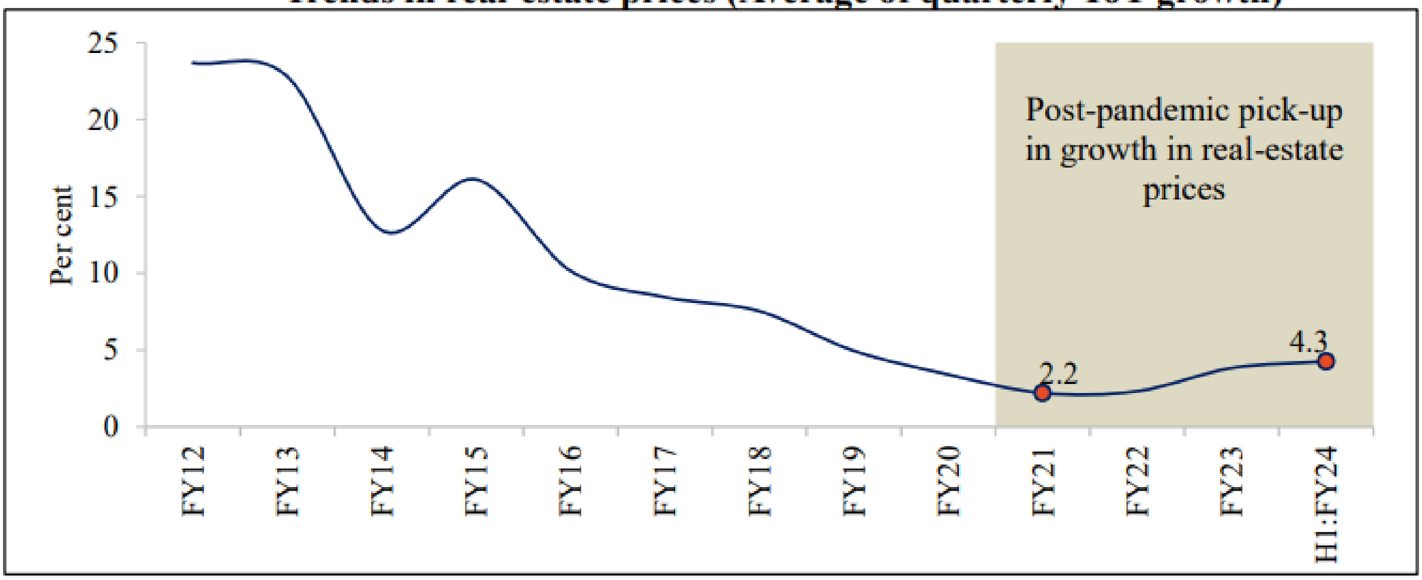
Rising Investment by Private Non-Financial Companies



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

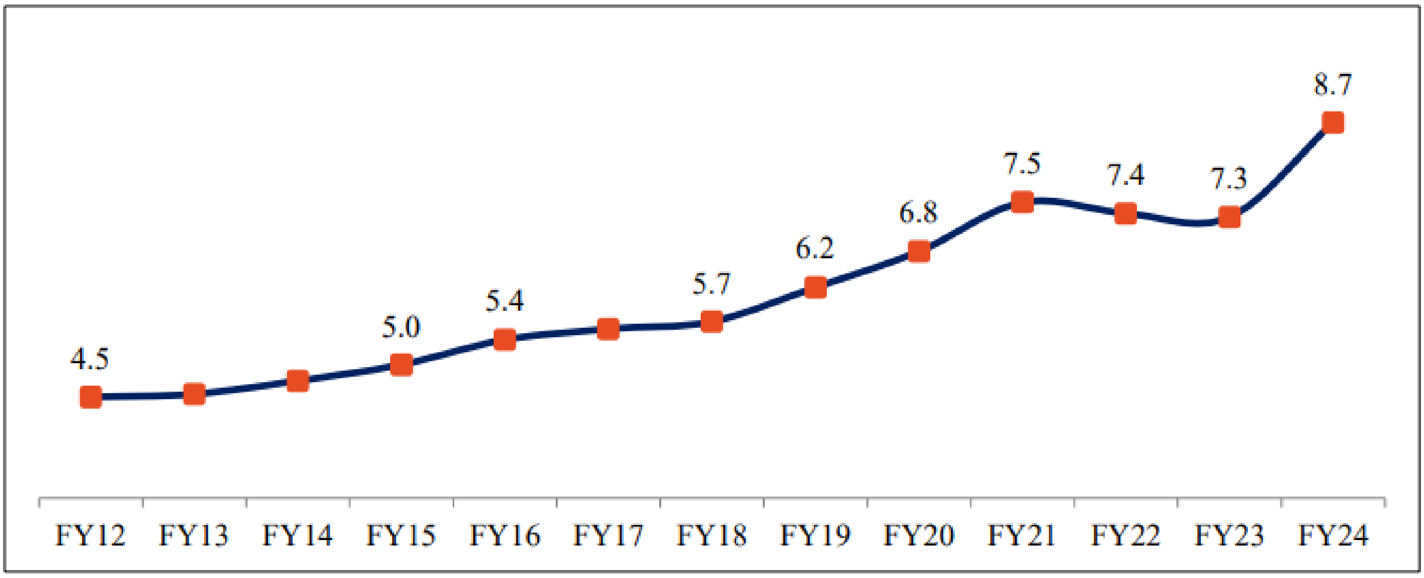
- **Rising Household Investments in Real Estate Strengthens the Investment Rate:**
  - **Household Sector Investment Contribution:**
    - Household sector investment constitutes the largest share in the total Gross Fixed Capital Formation.
    - Household sector investment was on a rising trajectory just before the pandemic.
    - The growth in real-estate prices showed a gradual decline, and there was a continued increase in bank credit for housing, contributing to the rise in household sector investment.
    - After the pandemic, there has been a recovery in housing prices, with the average annual growth increasing from 2.3% in FY22 to 4.3% in H1 of FY24.
    - The uptrend in housing sales and launches, despite factors like increased real-estate prices and higher interest rates, indicates the strength of the recovery of incomes and optimism about the future.

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



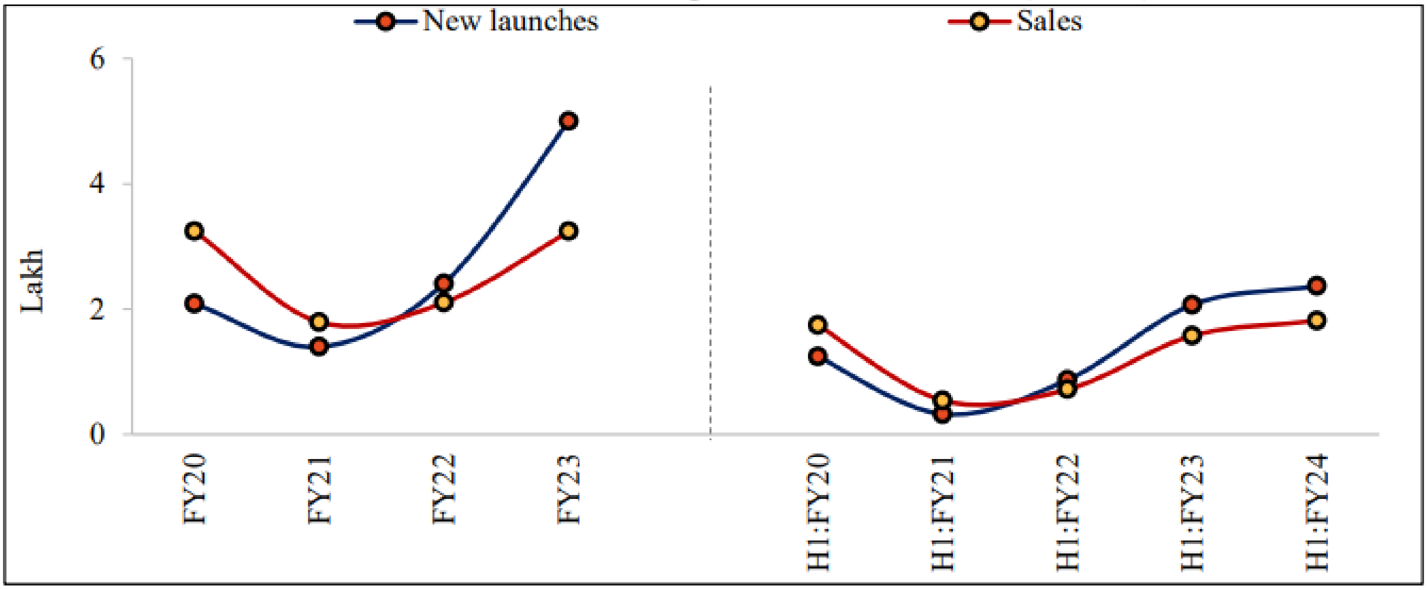
Note: The figure for H1 FY24 is an average of quarterly YoY growth for the first two quarters of FY24.

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

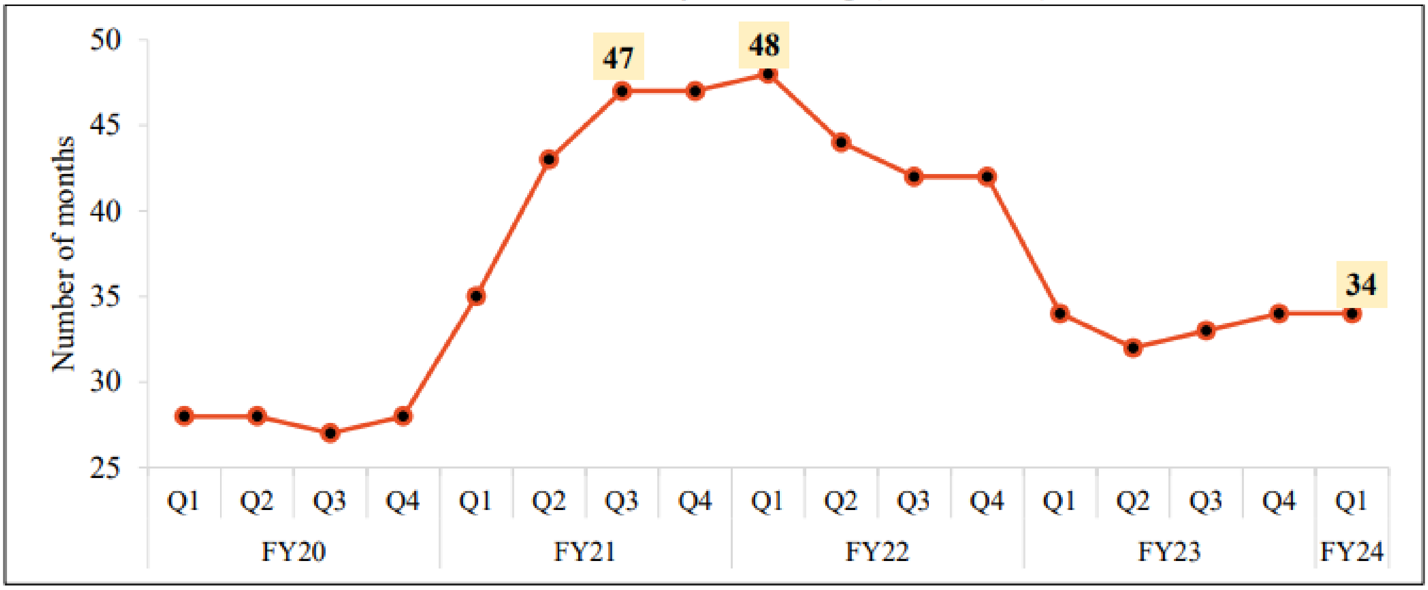


Note: The figure for Bank credit for FY24 is up to 17 November 2023, taken as a proportion of the GDP (First AE) for FY24.

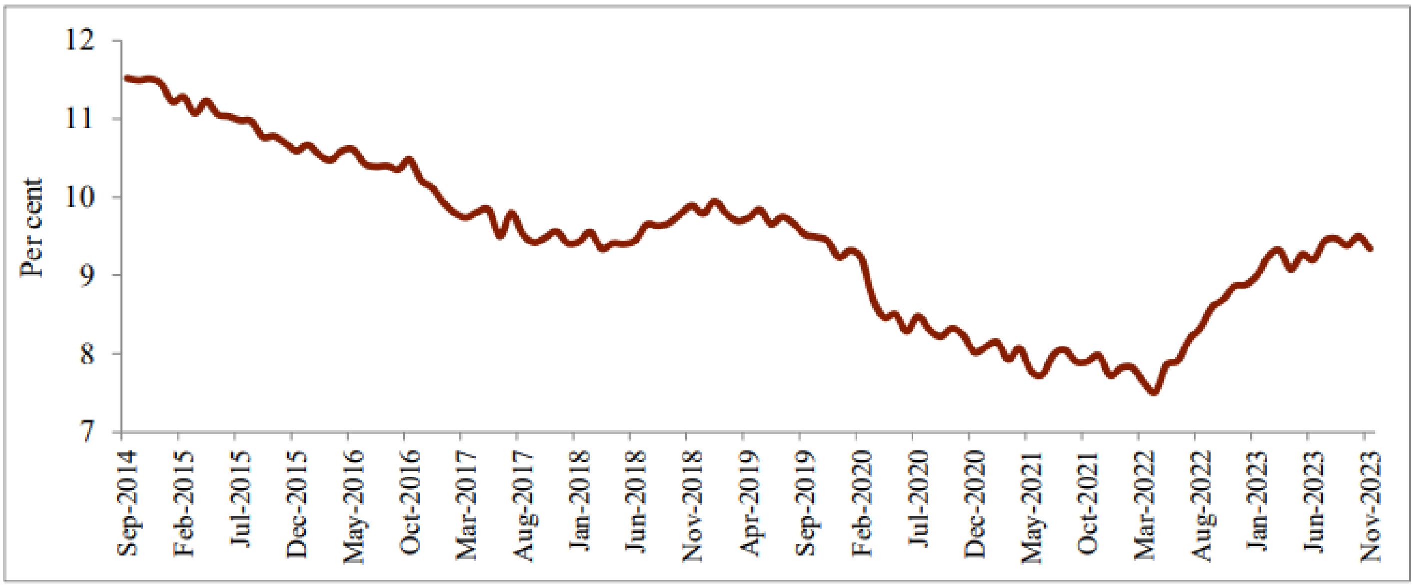
Trends in housing sales and launches (in lakh)



Inventory overhang (in months)



Monthly Fresh Rupee Loans WALR by Scheduled Commercial Banks



- **Sustained Increase in Investment Rate:**
  - 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.
  - This reflects confidence in the future economic prospects of the country.
  - The sustained increase in the investment rate is expected to lay the foundation for investment-led growth in the Indian economy over the next decade.

Agricultural Sector Policies Ensuring Food Security

- **Agricultural Sector Contribution:**
  - Agriculture constitutes 18% of India's Gross Value Added (GVA) in FY24.
  - Grew at an average annual rate of 3.7% from FY15 to FY23, compared to 3.4% from FY05 to FY14.
  - Total food grains production for FY23 was 329.7 million tonnes, marking a rise of 14.1 million tonnes.

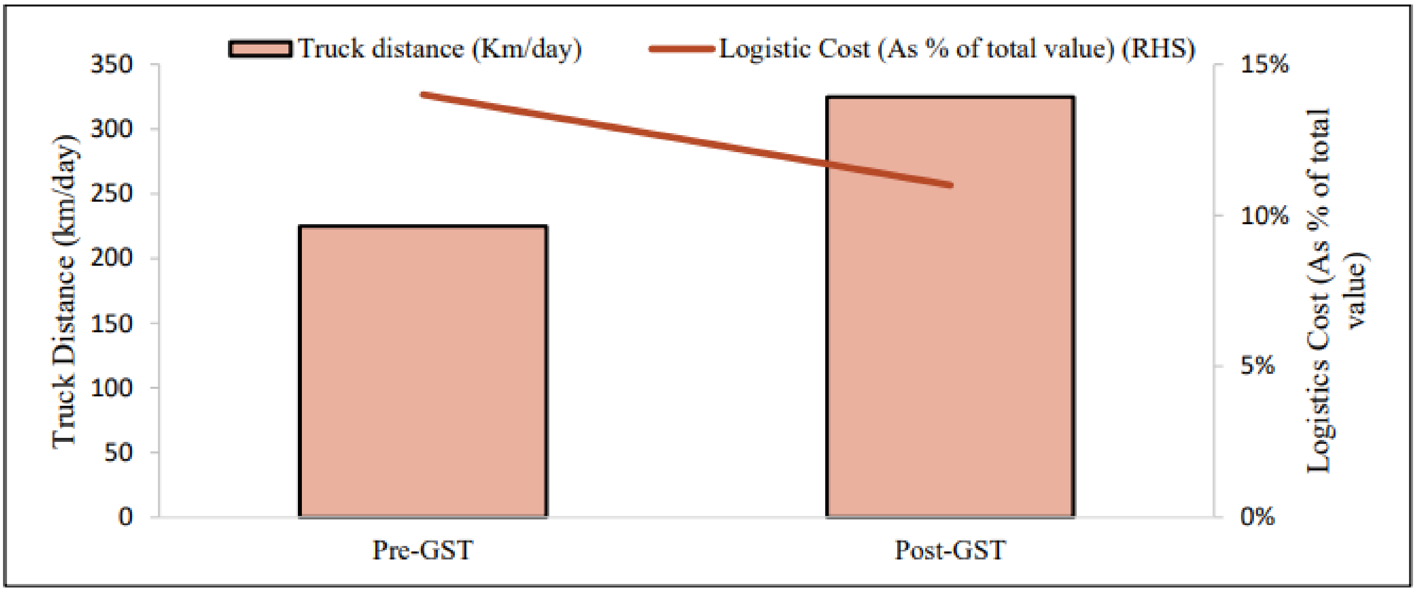
    - India's global dominance in agricultural commodities: largest producer of milk, pulses, and spices.
    - Second-largest producer of various commodities, including fruits, vegetables, tea, farmed fish, sugarcane, wheat, rice, cotton, and sugar.
    - Agricultural exports reached ₹4.2 lakh crore in FY23, surpassing previous records.
- **Government Initiatives:**
    - Consistent increase in **Minimum Support Prices (MSPs)** for 22 crops.
    - Policy initiatives such as PM-KMY, PM-KISAN, and PMFBY provide financial and income support to farmers.
    - Digital inclusion and mechanization promoted productivity.
    - Launch of **e-NAM (National Agriculture Market)** in 2016 facilitating online trading of agricultural commodities.
    - Affordable drone technology made available to farmers.
    - Efforts to strengthen cooperative movement and creation of Agristack for effective planning and implementation of schemes.
    - Focus on post-harvest infrastructure investment, sustainable agriculture practices, and promotion of natural farming.
- **Food Security Measures:**
    - Timely and efficient procurement and distribution of food grains.
    - Wheat procurement surpasses last year's total, reaching 262 LMT.
    - **Pradhan Mantri Annadata Aay Sanrakshan Abhiyan (PM-AASHA)** scheme introduced in 2018.
    - Extension of Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY) for five years starting from January 1, 2024.

Reform Push to the Indian Industry

- **Industrial Growth:**
    - Industrial growth accelerated to 7.1% per annum from FY15 to FY19 compared to 5.5% in FY10 to FY14.
    - Despite a short-lived contraction due to the COVID-19 pandemic, Indian Industry is likely to record a robust 8% growth per annum during the triennium ending March 2024.
- **Government Initiatives:**
    - **Make in India:**
        - Targeted measures under **'Make in India'** initiative to bolster domestic manufacturing.
        - Production-Linked Incentive (PLI) scheme covering 14 sectors to incentivize manufacturers.
        - Over ₹1.07 lakh crore investment, ₹8.7 lakh crore production/sales, and employment generation of over 7 lakh under PLI scheme.
    - **Startup India:**
        - 1.14 lakh startups recognized, creating more than 12 lakh jobs.
        - Open Network for Digital Commerce recorded more than 6.3 million transactions in November 2023.
        - Regulatory reforms, including the decriminalization of 3,600 compliances, improved ease of doing business.
    - **MSME Support:**
        - Vibrant and dynamic MSMEs with supportive measures.
        - Union Budget for FY24 facilitating timely receipt of payments for MSMEs.
        - Udyam portal and Udyam Assist Platform (UAP) consolidating MSME information.
        - PM Vishwakarma, offering support to artisans, attracting 48.8 lakh enrolments.
    - **Credit Schemes:**
        - Pradhan Mantri Mudra Yojana disbursed ₹25.98 lakh crore to small and micro enterprises.
        - **Credit Guarantee Fund Trust for Micro & Small Enterprises (CGTMSE)** limit raised to ₹5 crore.
        - Emergency Credit Line Guarantee Scheme (ECLGS) provided guarantees of ₹2.4 lakh crore.
- **Logistics and Infrastructure:**

- Unified Logistics Interface Platform (ULIP) under the National Logistics Policy integrated with 35 systems of 8 ministries, with 699 industry players registered.
- Logistics cost in the economy reduced by 0.8 to 0.9 percentage points of GDP between FY14 and FY22.
- Average turnaround time at major ports decreased from 4.2 days (FY04-FY14) to 2.9 days (FY14-FY22).
- Government's capex push reduced logistics costs, bolstered the construction industry, and contributed to around 12% per annum growth in construction from FY22 to FY24.

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



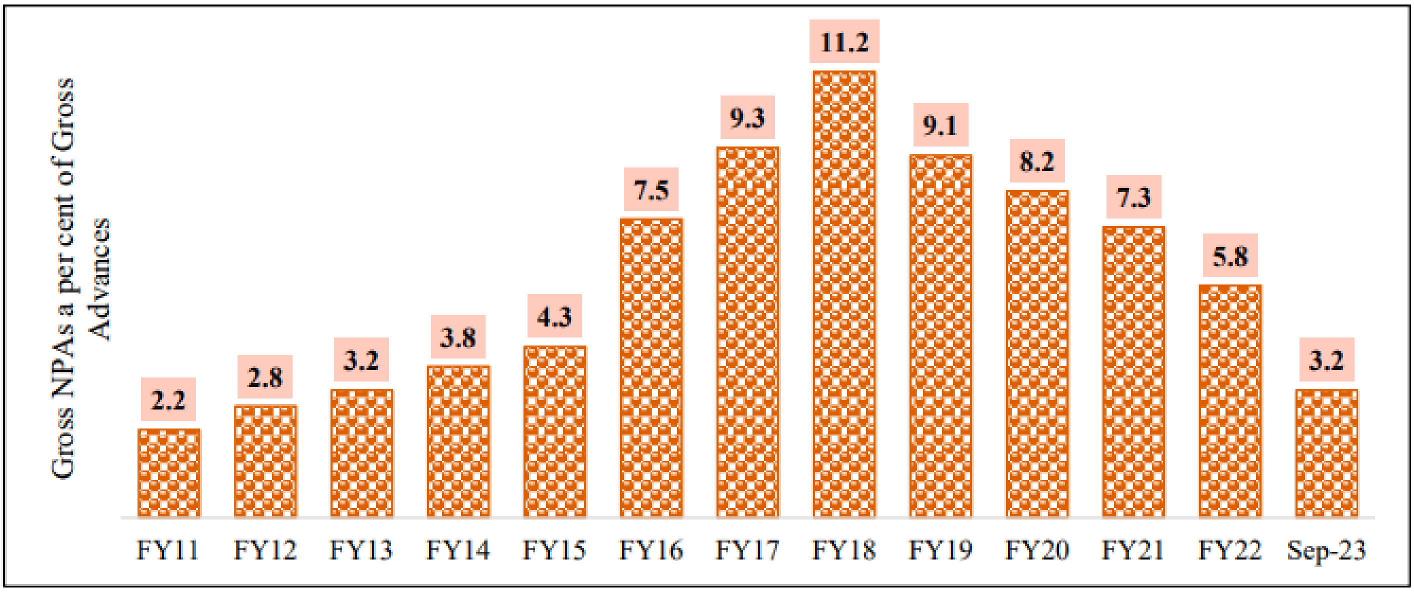
Digital Infrastructure and Delivery of Citizen-Centric Services

- **Digital Public Infrastructure (DPI) - India Stack:**
  - Three interconnected layers: Identity Layer (Aadhaar), Payments Layer (UPI, Aadhaar Payments Bridge, Aadhaar Enabled Payment Service), and Data Layer (Account Aggregator).
  - Identity Layer (Aadhaar) provided digital identity to every Indian.
  - Payments Layer witnessed a surge in cashless payments, especially during the pandemic.
  - Data Layer transformed the authentication ecosystem, reducing e-KYC costs from ₹1000 to ₹5.
- **PMJDY and Direct Benefit Transfers (DBT):**
  - PMJDY utilized India Stack for direct benefit transfers into beneficiaries' bank accounts.
  - PMJDY accounts grew threefold from 14.7 crore in March 2015 to 51.5 crore as of January 10, 2024.
  - DBT mode transferred more than ₹33.6 lakh crore (as of December 2023).
- **Financial Inclusion and Fintech Growth:**
  - 100% FDI in the telecom sector and prohibition of discriminatory data tariffs increased competition.
  - 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.
  - India among the fastest-growing fintech markets globally, third-largest after the USA and the UK.
- **Global Capability Centres (GCCs):**
  - Sharp increase in business services exports linked to the proliferation of Global Capability Centres (GCCs) in India.
  - GCCs account for more than 1% of India's GDP.

Return of Credit Creation

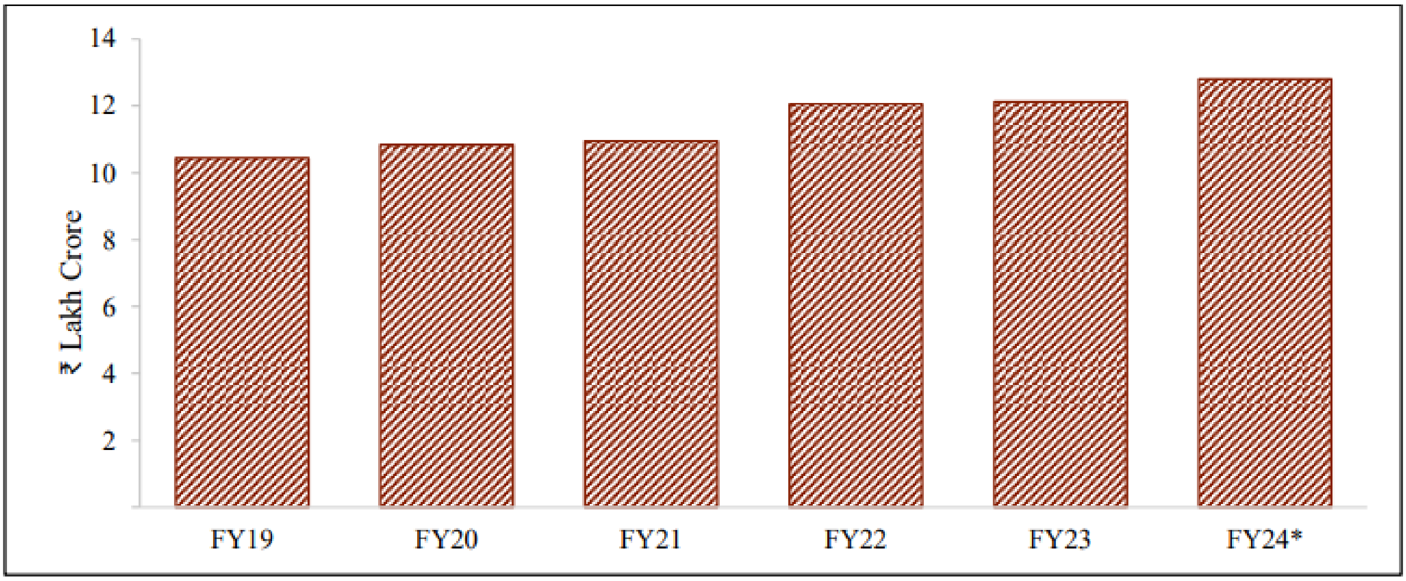
- **Bank Credit Growth:**
    - Outpaced the growth in deposits.
    - Non-food bank credit grew at 15% in FY23, the highest in the last decade.
- **Asset Quality Improvement:**
    - Improvement in asset quality across all Scheduled Commercial Bank (SCB) groups.
    - Downward trend in the ratio of GNPAs and Net NPAs relative to total advances. Signifies a positive shift in asset quality, reducing non-performing assets.

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



- **Global Ranking Improvement:**
    - India's global ranking in resolving insolvency parameters improved from 136 to 52 in the first three years of IBC implementation.
- **Recapitalization Measures:**
    - Government recapitalization measures helped improve profit margins of public sector banks (PSBs).
    - Corporate profit margins increased due to the resolution of stressed assets, saving costs on debt servicing.
- **Credit Disbursal to MSMEs and Infrastructure Sector:**
    - Bank credit to MSMEs registered a CAGR of 14.2% from FY19 to FY24.
    - Recent government emphasis on capital expenditure strengthened the credit cycle, with growing bank credit disbursal to the infrastructure sector.

Bank Credit to the Infrastructure Sector



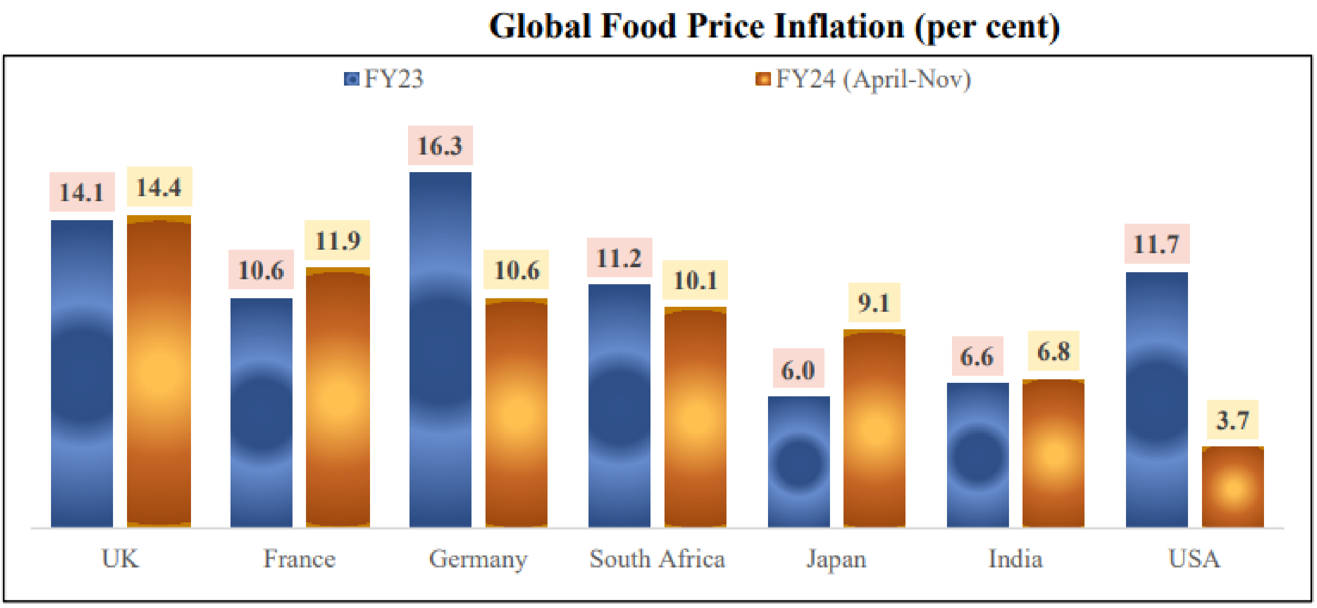
Note: *Data for FY24 is as of 17th November 2023

Evolving Financial Markets to Support the Investment Needs of a Growing Economy

- **India's Equity Market Surge and Digital Revolution**:
    - Indian equity markets have outshone global counterparts, delivering an impressive CAGR of approximately 13.5% between January 2014 and December 2023.
    - Volatility in 2023, measured by the standard deviation of the BSE Sensex, has decreased to levels last observed in 2019, reflecting increased stability.
    - Adoption of digital technology has significantly enhanced retail investors' access to financial markets, evidenced by a remarkable 536% growth in demat accounts, reaching 13.9 crore by December 2023 from March 2014.
- **IPO Activity: SME Segment Flourishing:**
    - Since FY15, a total of 1,050 companies have collectively raised ₹3.9 lakh crore through IPOs, showcasing the buoyancy in the market.
    - Sustained IPO activity has positioned the Indian market as the fifth-largest globally by market capitalization.
    - India's market capitalization to GDP ratio has witnessed a significant improvement, rising from 79% in 2014 to an impressive 104% by the end of 2022.
    - India's robust equity market performance has translated into the second-largest weightage in the MSCI Emerging Markets index.
    - The Indian corporate bond market has experienced substantial growth, doubling from ₹43 lakh crore in FY24 to a projected ₹100-120 lakh crore in FY30, according to CRISIL.
- **Initiatives Driving Bond Market Development:**
    - Introduction of sovereign green bonds and regulatory measures by SEBI for instruments like InvITs and Municipal Bonds have contributed to the deepening and widening of the bond market.
    - Large corporations listed on exchanges are mandated to fulfill 25% of their financing needs through the issuance of debt securities, promoting market growth.
    - India's financial markets are anticipated to play a pivotal role in financing the nation's capital investment requirements in the future.
    - Access to financial markets is expected to facilitate a broader pool of investors, allowing for diversified investments and safer savings growth.

Safeguarding Macroeconomic Stability

- **Macroeconomic Stability Goals:**
  - The government and the Reserve Bank of India aim for macroeconomic stability, which includes strong output growth, price stability, and a robust external account.
  - Institutional architecture has been committed to fostering macro stability in the face of multiple challenges.
- **Inflation Targeting:**
  - The period between FY09 and FY14 saw high average retail inflation, but since FY16, flexible inflation targeting has been adopted within the band of 4 +/- 2 per cent under the **Monetary Policy Framework Agreement.**
  - The **Price Stabilization Fund (PSF)** has been effective in managing price volatility in agri-horticultural commodities.
  - Despite challenges during the Covid-19 pandemic, inflation was kept within the 2 to 6 per cent range, aided by the PSF and improved fiscal and external balances.
- **Post-Pandemic Challenges and Response:**
  - FY22 witnessed an economic revival, but by the end of FY22, global economic conditions worsened due to geopolitical conflicts and sanctions.
  - Elevated global commodity prices, especially crude oil, and supply chain disruptions posed challenges.
  - The government diversified energy supply sources to insulate the economy from vulnerabilities, contributing to India's growth revival.
- **Inflation Trends:**
  - Inflationary pressures moderated in FY24, with average retail inflation easing to 5.5 per cent.
  - Core inflation reached a 49-month low of 3.8 per cent in December 2023.
  - Overall retail inflation is stable and within the notified tolerance band of 2 to 6 per cent.
- **Food Inflation Challenges and Mitigation:**
  - Global and domestic challenges, including untimely rains and weather-driven supply chain disruptions, impacted food prices.
  - Supply-side initiatives, periodic open market releases, trade policy measures, and anti-hoarding measures helped keep food inflation at moderate levels, lower than many large economies.



- **Monetary Policy Support:**
  - Supportive monetary policy by the Reserve Bank of India, including a progressive increase in the policy repo rate, aimed at aligning inflation with the target while supporting growth.
  - The RBI projected that inflation would average 5.4 per cent in FY24 within the notified tolerance level.
- **Future Outlook:**
  - With likely improvements in the fiscal balance and external current account balance, macro

vulnerabilities are expected to moderate.
- The government and the RBI have implemented a comprehensive approach, including inflation targeting, fiscal measures, and supply-side initiatives, to achieve and maintain macroeconomic stability in India despite various challenges.

Part-2