



# 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.

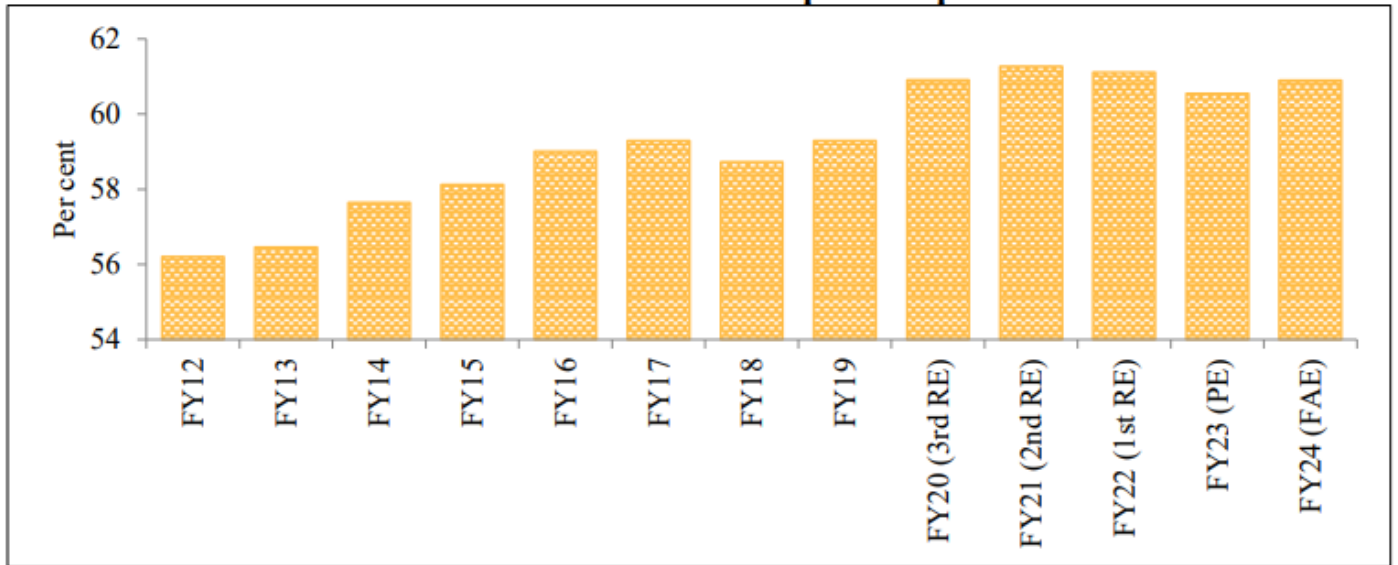
### ◦ Sectoral Contributions:

- 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.

## Share of Private Final Consumption Expenditure in GDP

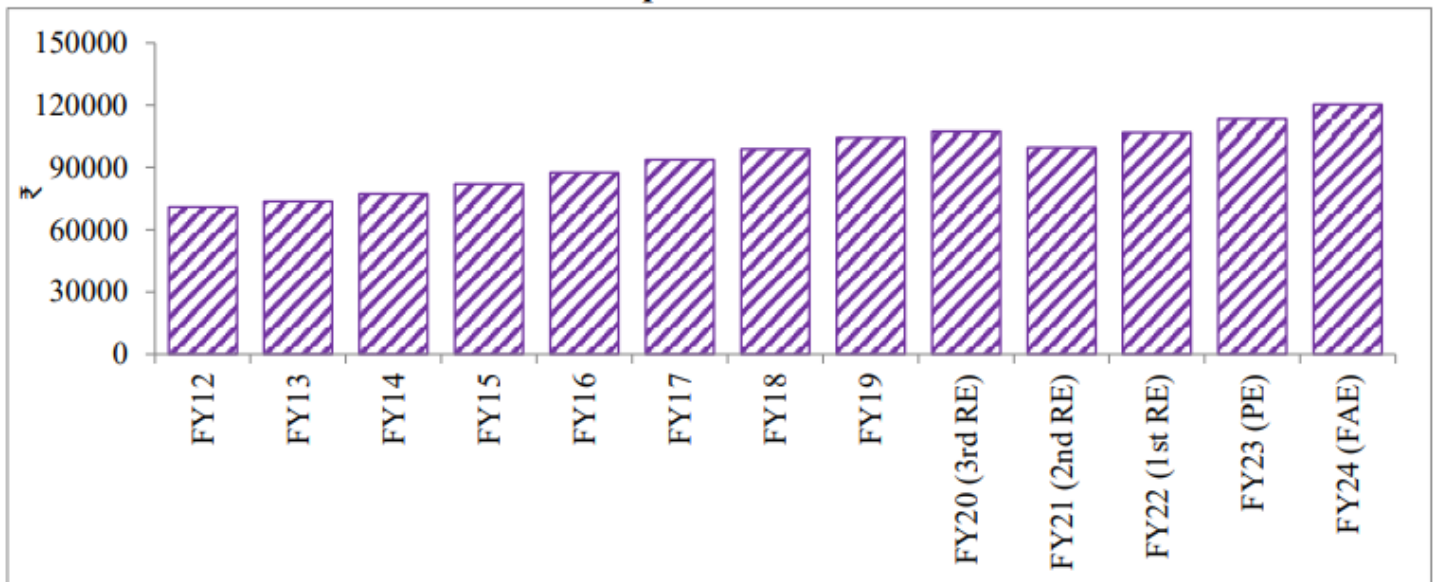


Note: RE stands for Revised Estimates, PE for Provisional Estimates and FAE for First Advance Estimates

### ▪ 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:**

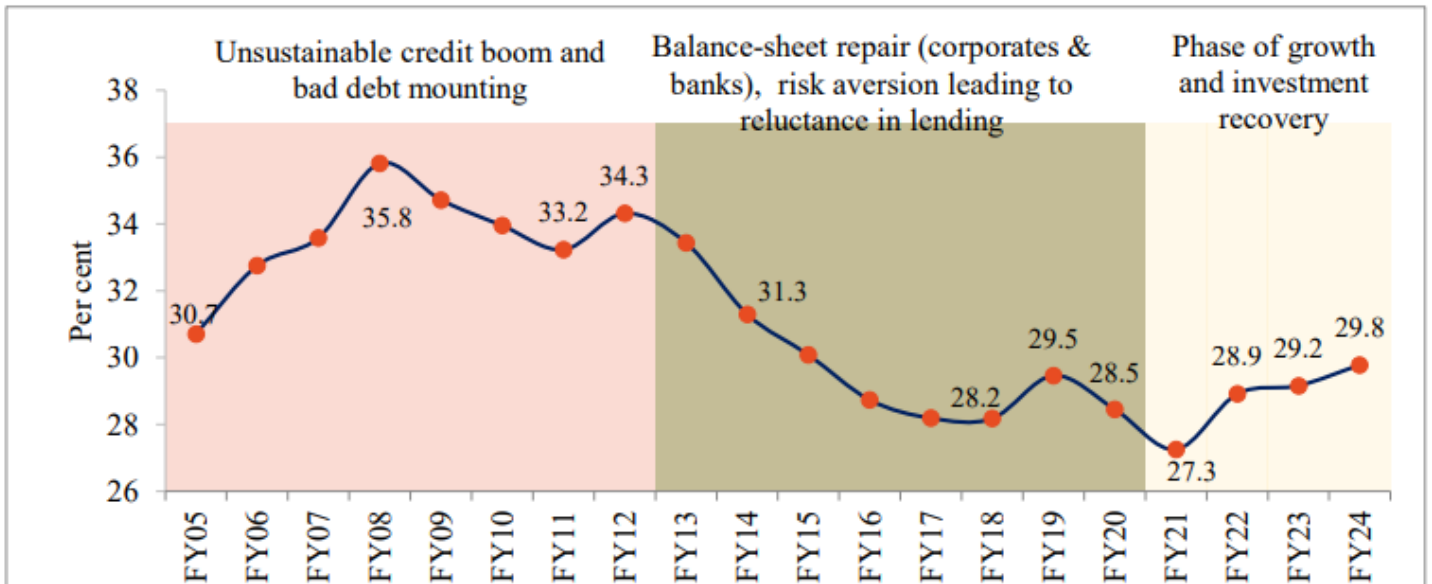
- The government took measures to help banks strengthen their balance sheets by recapitalizing them and restructuring the industry.
- Stronger balance sheets in the non-financial corporate sector and banking sectors have been achieved.

▪ **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

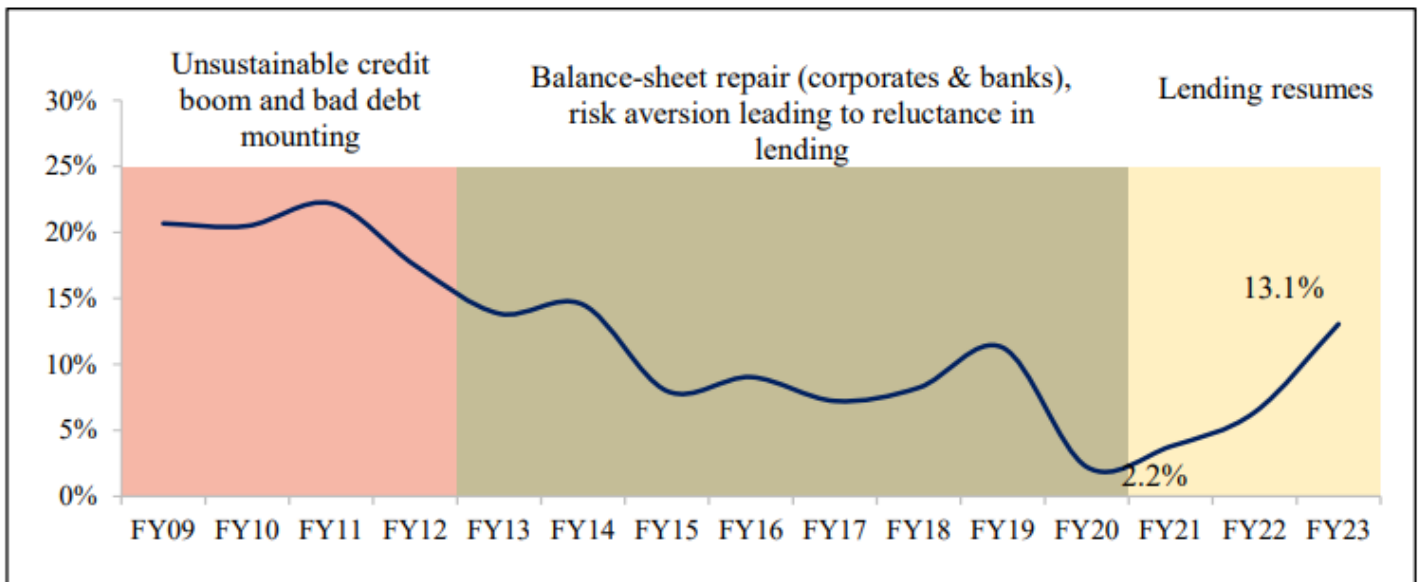
### Government Efforts and Positive Outcomes:

- 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.

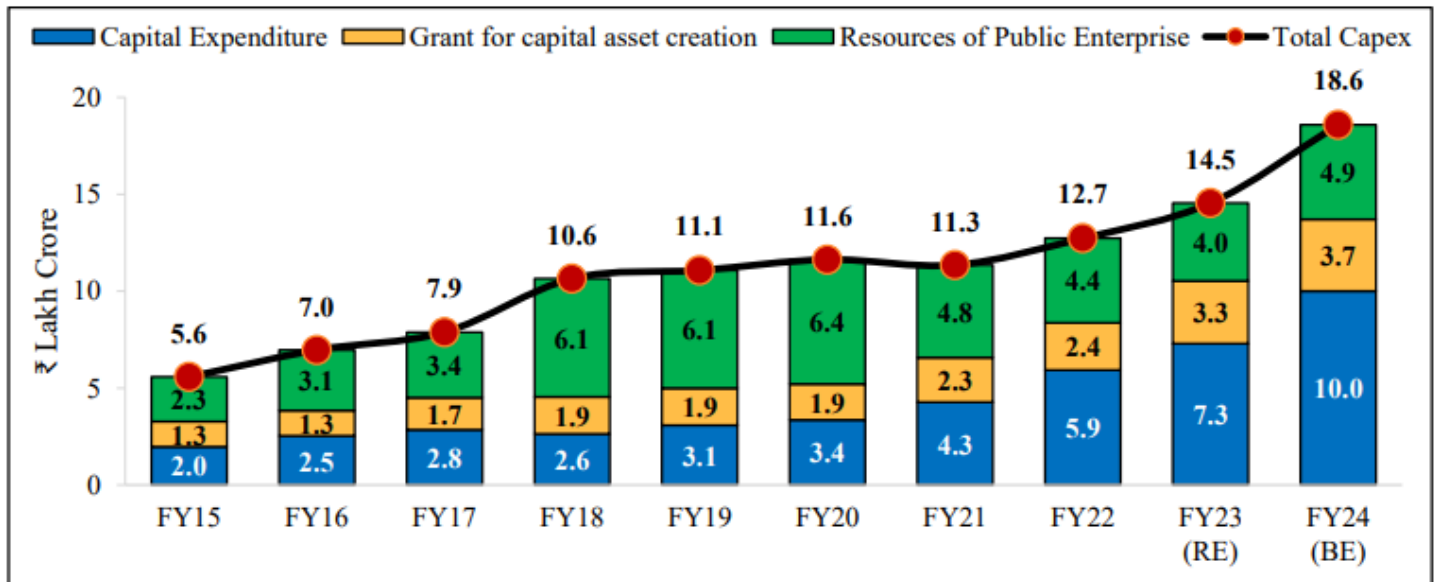
▪ **Rebalancing Fiscal Expenditure (FY18 to FY24):**

- 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)**



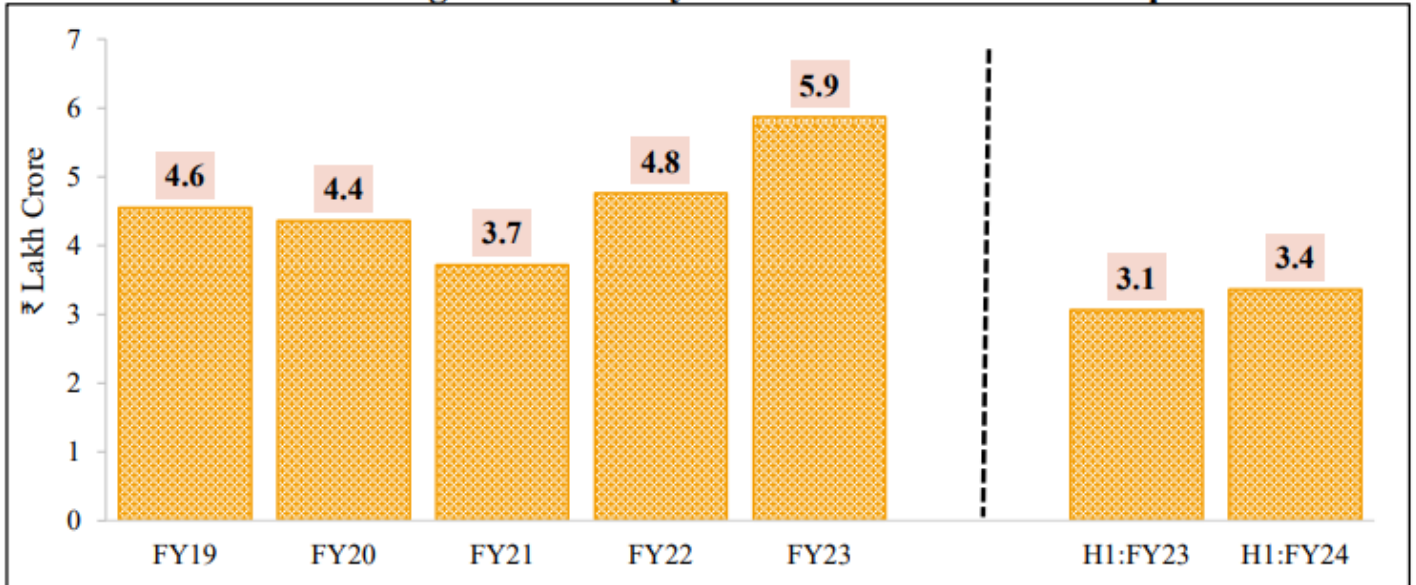
▪ **Government Measures to Boost Infrastructure:**

- 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



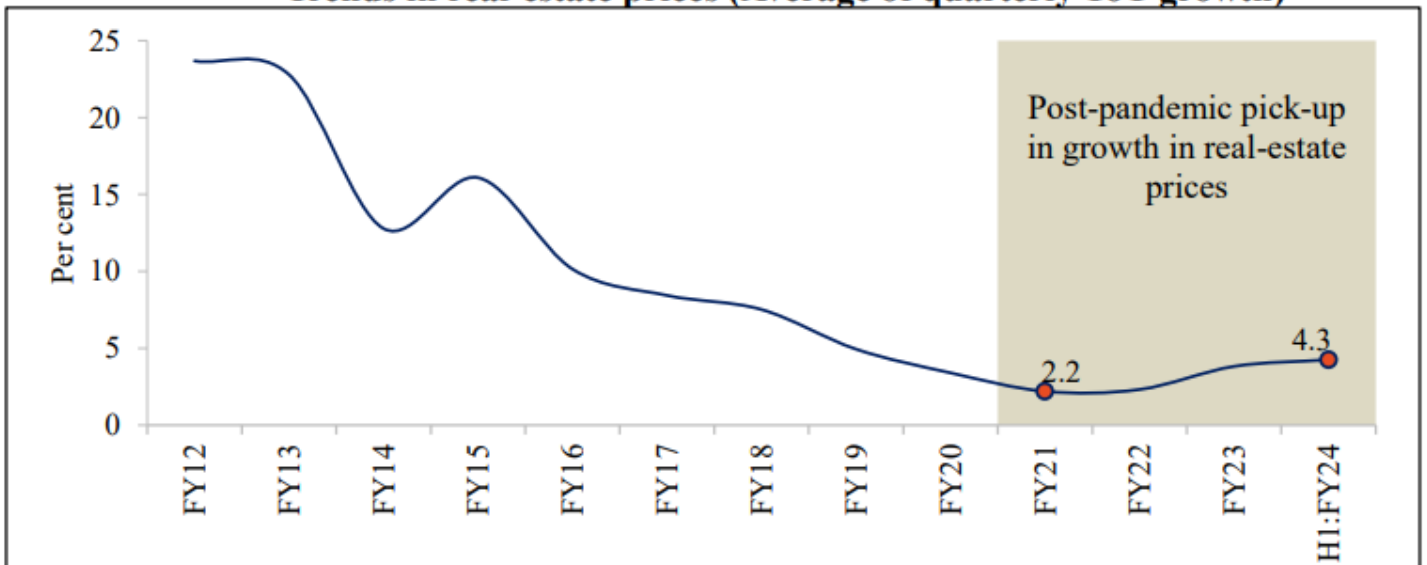
Note: Data is for a set of 3,336 companies

### ▪ Rising Household Investments in Real Estate Strengthens the Investment Rate:

#### ◦ Household Sector Investment Contribution:

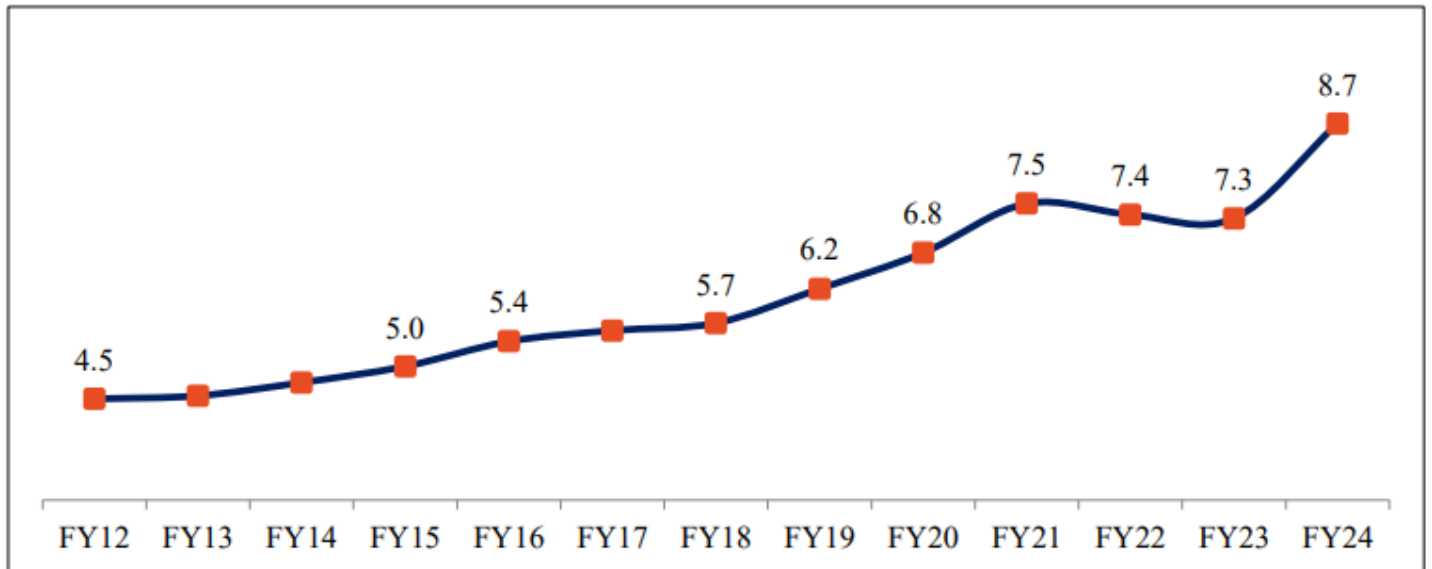
- Household sector investment constitutes the largest share in the total Gross Fixed Capital Formation.
- Household sector investment was on a rising trajectory just before the pandemic.
- The growth in real-estate prices showed a gradual decline, and there was a continued increase in bank credit for 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)



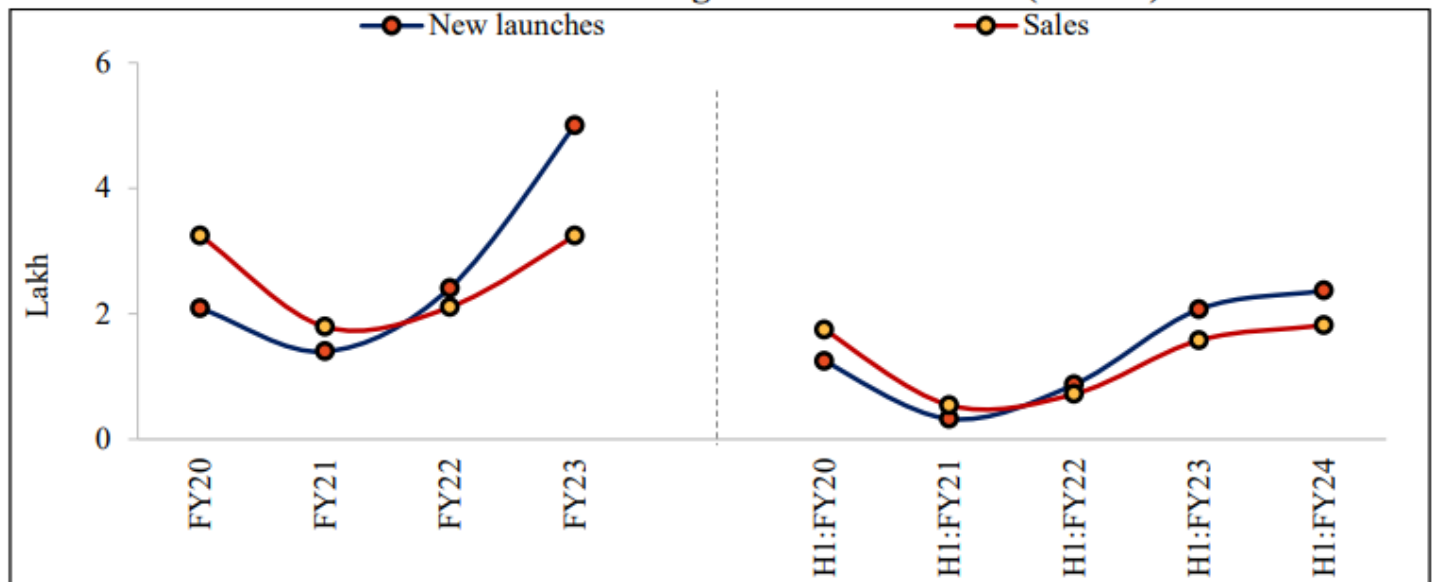
Note: The figure for H1 FY24 is an average of quarterly YoY growth for the first two quarters of FY24.

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

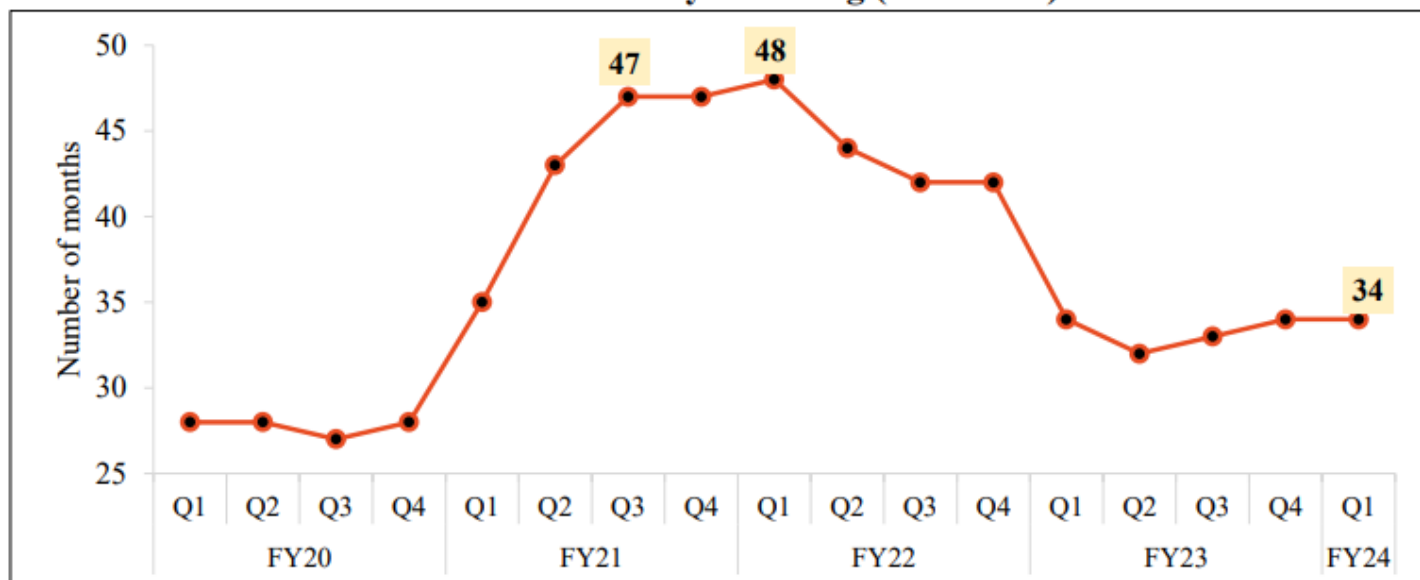


Note: The figure for Bank credit for FY24 is up to 17 November 2023, taken as a proportion of the GDP (First AE) for FY24.

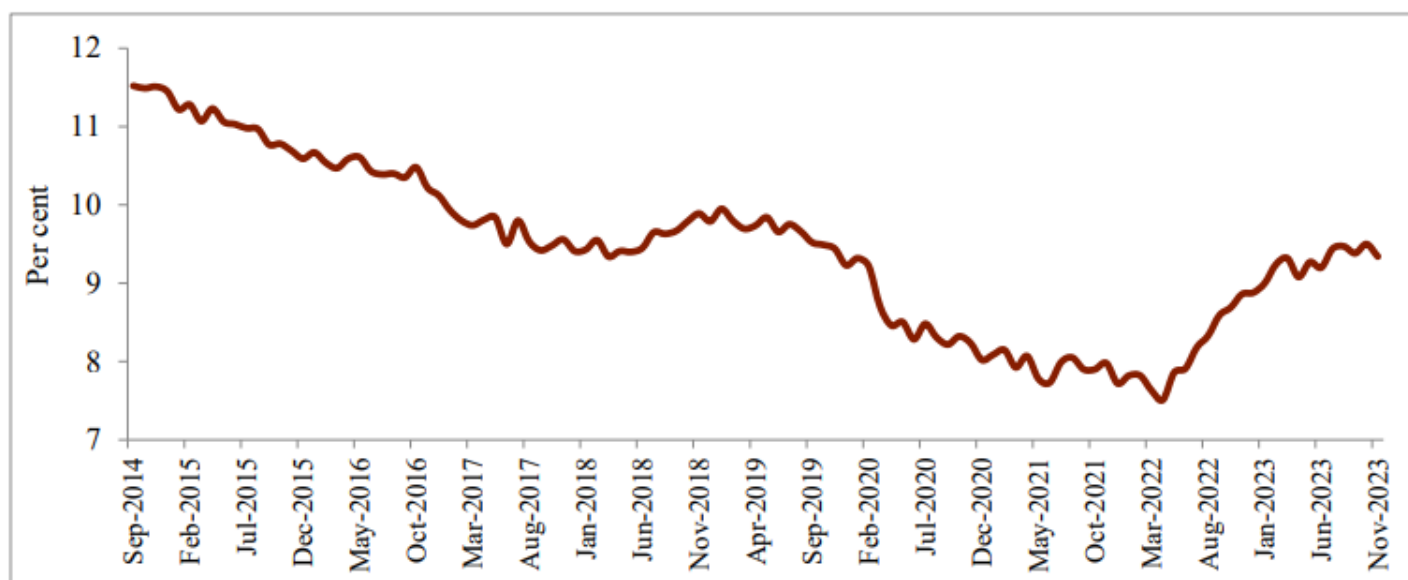
## Trends in housing sales and launches (in lakh)



### 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.

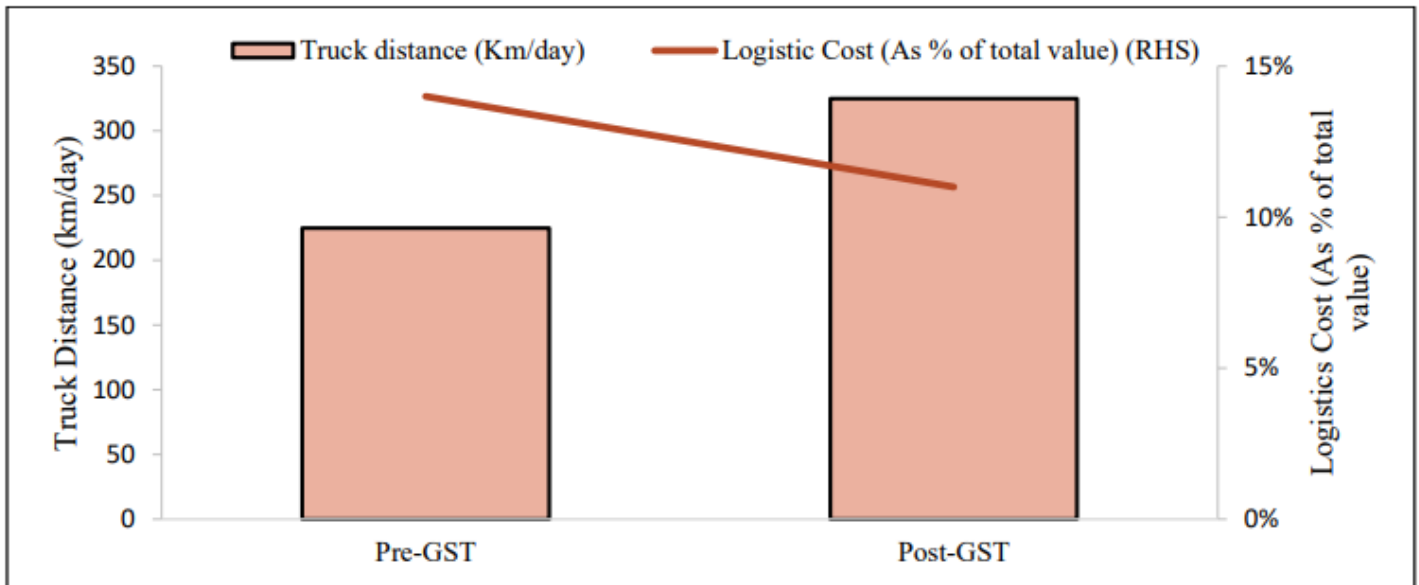
- India's global dominance in agricultural commodities: largest producer of milk, pulses, and spices.
- Second-largest producer of various commodities, including fruits, vegetables, tea, farmed fish, sugarcane, wheat, rice, cotton, and sugar.
- Agricultural exports reached ₹4.2 lakh crore in FY23, surpassing 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.

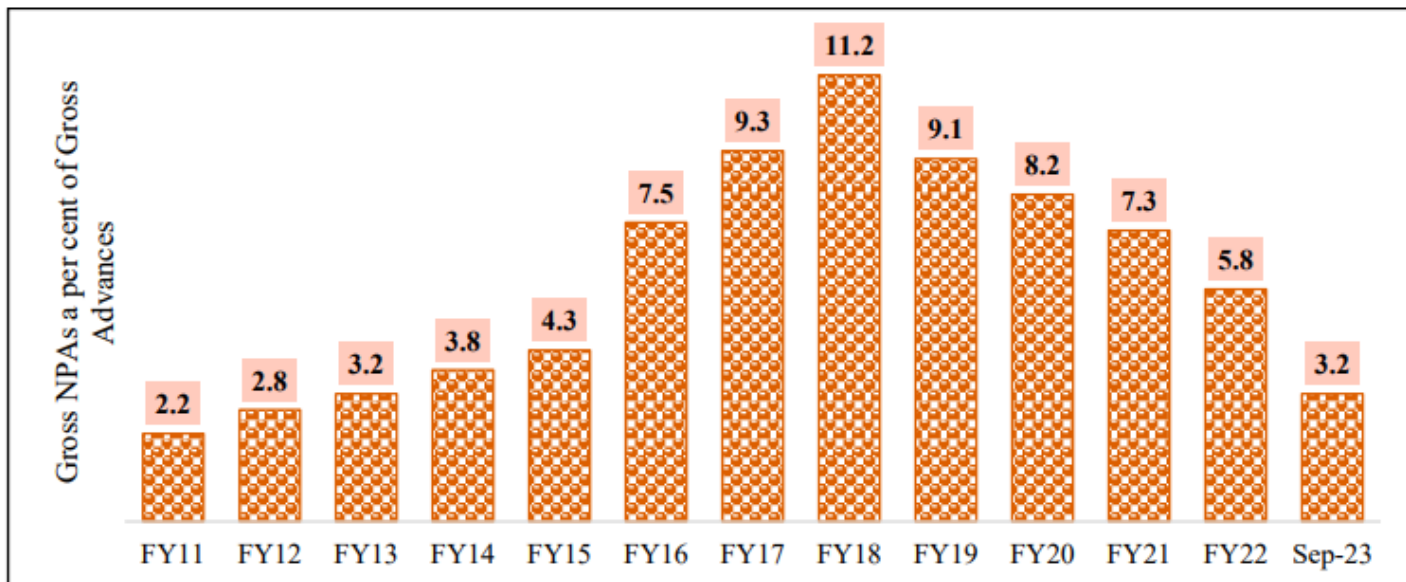
### ▪ **Global Capability Centres (GCCs):**

- 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 GNPA and Net NPAs relative to total advances. Signifies a positive shift in asset quality, reducing non-performing assets.

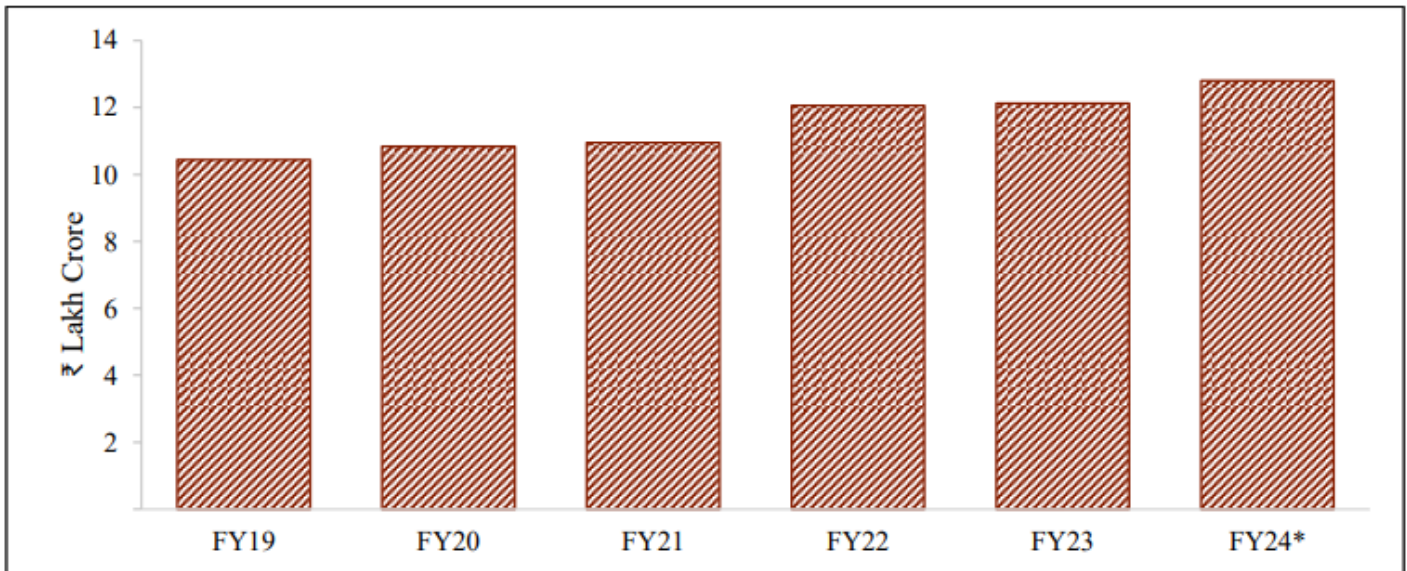
### Declining Gross Non-Performing Assets of SCBs (as % of Gross Advances)



- **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 17<sup>th</sup> 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 InvTs 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 agricultural 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.

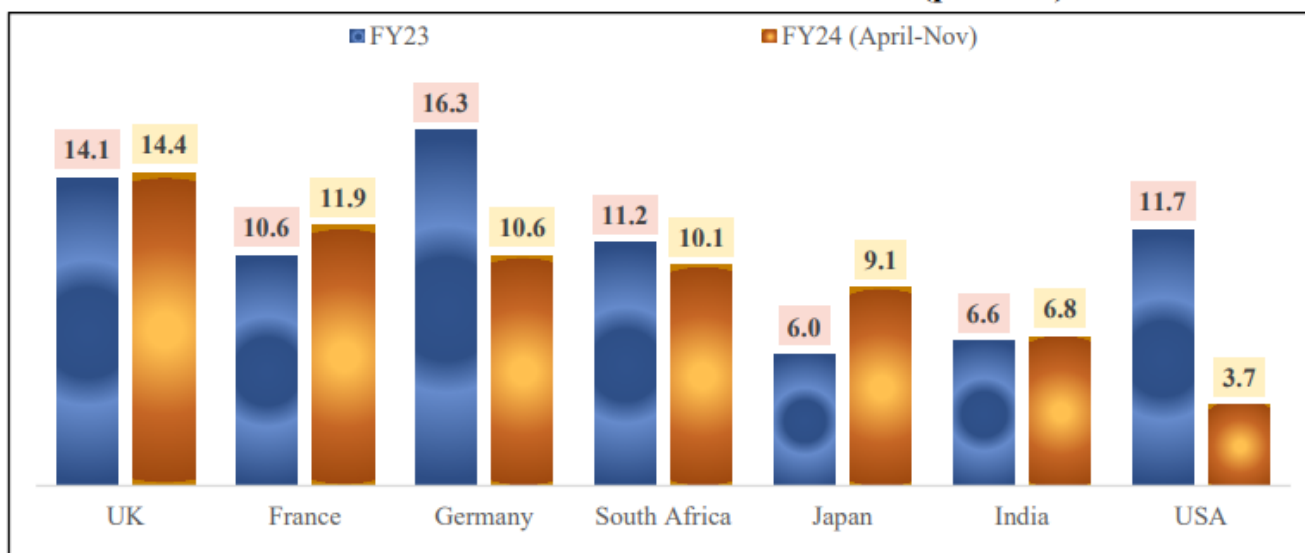
### ▪ **Inflation Trends:**

- 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.

**Global Food Price Inflation (per cent)**



### ▪ **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***

PDF Refernece URL: <https://www.drishtias.com/printpdf/the-indian-economy-a-review-part-i>

