01

CHAPTER

STATE OF THE ECONOMY: STEADY AS SHE GOES

India's calibrated response to the pandemic on the economic front included three salient components. The first has been the focus on public spending on infrastructure, which kept the economy afloat by creating a strong demand for jobs and industrial output and triggered a lagged yet vigorous private investment response. Stronger balance sheets of the financial and non-financial private sector helped, aided by a decade of supporting initiatives by the Government and the Reserve Bank of India. The second has been partly a natural response of business enterprise and public administration amidst adversities, i.e., digitalisation of service delivery. The public policy focus and nurturing of processes and frameworks in digital technology greatly helped this irreversible and transformational change. The third has been embodied in the Atmanirbhar Bharat Abhiyan in terms of targeted relief to different sectors of the economy and sections of the population, and structural reforms that assisted a firm recovery and increased the medium-term growth potential.

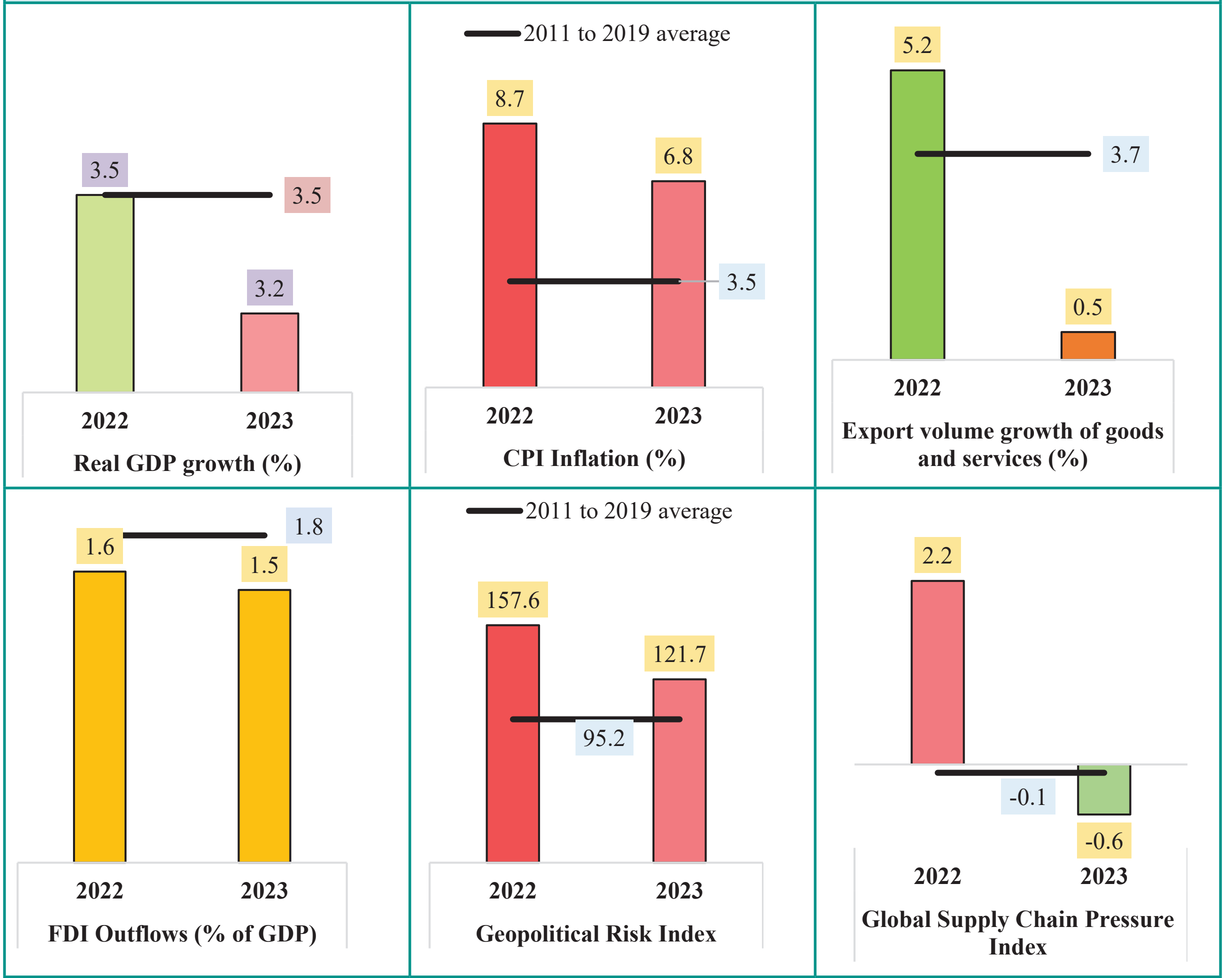
Global troubles, supply chain disruptions, and vagaries of monsoons intermittently stoked domestic inflationary pressures, which were, to a great extent, managed by administrative and monetary policy responses. The fiscal balances of the general government—central and State Governments taken together - have improved progressively despite expansionary public investment. Tax compliance gains driven by procedural reforms, expenditure restraint, and increasing digitisation helped India achieve this fine balance. The external balance has been pressured by subdued global demand for goods, but strong services exports largely counterbalanced this. Global output is now somewhat more resilient than in 2022, inflationary pressures are shrinking, and trade is set to recover, should there be no further geo-political shocks or flare-ups. However, the chances of geopolitical disturbances and conflicts have only gone up in recent times.

The net impact of these developments has been that the Indian economy recovered and expanded in an orderly fashion in the last three years. The real GDP in FY24 was 20 per cent higher than its level in FY20, a feat that only a very few major economies achieved, while also leaving a strong possibility for robust growth in FY25 and beyond. Growth has been inclusive with a reduction in unemployment and multi-dimensional poverty and an increase in labour force participation. Overall, the Indian economy looks forward to FY25 optimistically, anticipating broad-based and inclusive growth.

GLOBAL ECONOMIC SCENARIO

1.1 After a year marked by global uncertainties and volatilities, the global economy achieved greater stability in 2023. While uncertainty stemming from adverse geopolitical developments remained elevated, global economic growth was surprisingly robust. As per the World Economic Outlook (WEO), April 2024 of the International Monetary Fund (IMF)[1], the global economy registered a growth of 3.2 per cent in 2023, though marginally lower than in 2022[2] and average

Chart I.1: Growth: Context matters.
Macroeconomic and political situation of the global economy

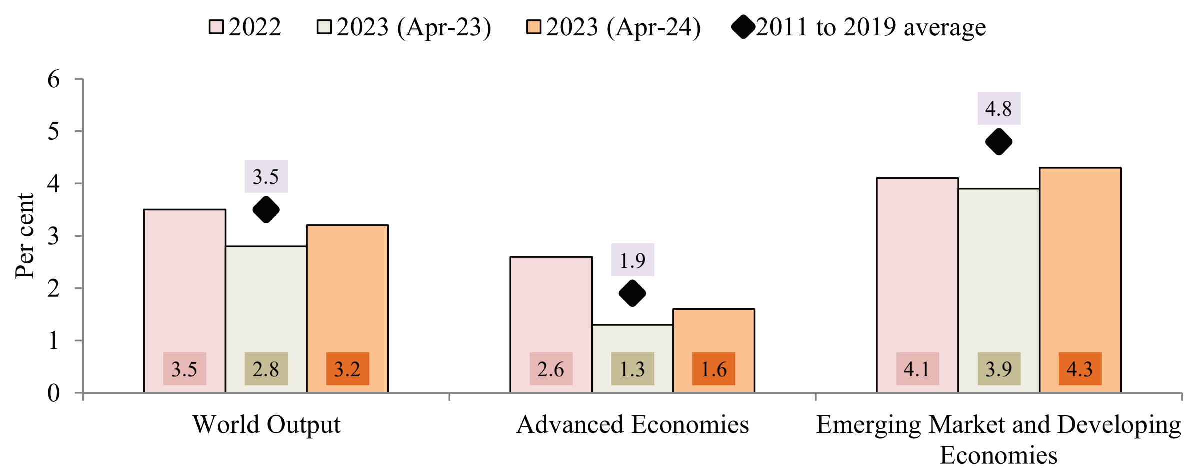


Source: World Economic Outlook Database, April 2024, IMF, UNCTADstat database, Federal Reserve Bank of New York, Economic Policy Uncertainty; Notes[3,4]

1 International Monetary Fund, World Economic Outlook, April 2024, page 10 (https://tinyurl.com/38cuxrbw)
2 International Monetary Fund, World Economic Outlook, October 2023, page 12 (https://tinyurl.com/y3xdpktk)
3 Geopolitical Risk Index is based on a tally of newspaper articles covering geopolitical tensions. Ten newspapers are considered. The index is calculated by counting the number of articles related to adverse geopolitical events in each newspaper for each month (as a share of the total number of news articles). A lower value indicates lower risk.
4 Global Supply Chain Pressure Index readings measure standard deviations from the index's historical average. A higher value indicates increased supply chain pressure.

for 2011-19 but higher compared to the projection of 2.8 per cent as per the April 2023 WEO[5]. The context in which the growth of 3.2 per cent in 2023 has been achieved is markedly different compared to the 2011-19 period. Inflationary pressures have been significantly higher on account of the persistence of core inflation. Global trade moderated due to rising geopolitical tensions, cross-border restrictions and slower growth in advanced economies (AEs). The muted trade growth occurred despite the easing of supply chain pressures. Further, geopolitical developments and monetary policy changes across countries resulted in increased caution among investors, culminating in moderation in foreign direct investment (FDI) flows.

Chart I.2: Global economy registers strong growth



Source: World Economic Outlook Database, April 2024 and April 2023, IMF

1.2 Both emerging market economies (EMEs) and AEs achieved higher growth in 2023 than projected a year ago. Almost all major economies have surpassed the pre Covid-19 pandemic (hereinafter as pandemic) real gross domestic product (GDP) levels in 2023. However, growth has been diverse across countries, raising prospects of increasing divergences. Some economies, including India and China, have attained GDP levels 20 per cent higher in 2023 compared to 2019 levels. Among AEs, the US witnessed continued growth momentum. However, economic activity remains subdued in the Euro area, although the magnitude of the downturn has eased.

1.3 The stark difference in the economic performance of countries has been on account of domestic structural issues, uneven exposure to geopolitical conflicts and the impact of monetary policy tightening. The economic shocks resulting from the Russia-Ukraine conflict had an outsized impact on Europe, leading to subdued growth in large countries like Germany and France. The US also faced high inflationary pressures and consequently raised the policy rates substantially. But, the pass-through to outstanding household mortgages was limited on account of the high share of fixed-rate mortgages and corporate debt being termed out at fixed

5 International Monetary Fund, World Economic Outlook, April 2023, page 9 (https://tinyurl.com/2empx2dn)

rates[6], limiting the impact of higher policy rates on economic activity[7]. India registered a steep decline in economic growth during the pandemic but recovered swiftly, aided by strong private consumption and government impetus to infrastructure investment. China, on the other hand, had only a slight moderation in growth during the pandemic on account of swift policy actions, including a high vaccination rate[8], but growth has slowed subsequently due to structural issues. Japan, post-pandemic, went through subdued growth but is expected to turn around in 2024, driven by a weak yen and improved consumer spending.

Chart I.3: All major economies have surpassed pre-pandemic GDP levels

	Year in which crossed pre pandemic GDP (constant prices, national currency)	Ratio of GDP (constant prices, national currency) in 2023 to corresponding level in 2019
Brazil	2021	107
China	2020	120
France	2022	102
Germany	2022	101
India	2021	120
Indonesia	2021	112
Italy	2022	103
Japan	2023	101
Mexico	2022	104
South Africa	2022	101
Thailand	2023	100
United Kingdom	2022	102
United States	2021	108

Source: World Economic Outlook Database, April 2024, IMF, National Accounts Statistics, Ministry of Statistics and Programme implementation; Note: In IMF data, for India 2021 represents 2021-22 (FY22)

1.4 Apart from GDP estimates, other indicators tracking the performance of the economy also point towards growth resilience. Leading indicators suggest an upturn in global economic activity. The JP Morgan global composite Purchasing Managers' Index (PMI)[9] registered an uptick since October 2023 with quicker expansion across both manufacturing and service sectors. The JP Morgan global manufacturing PMI has been improving and stood at a 23-month high in May 2024[10].

6 Termed out is a financial concept used to describe the transfer of short-term debt to long-term debt, allowing companies to improve their working capital and take advantage of lower interest rates.

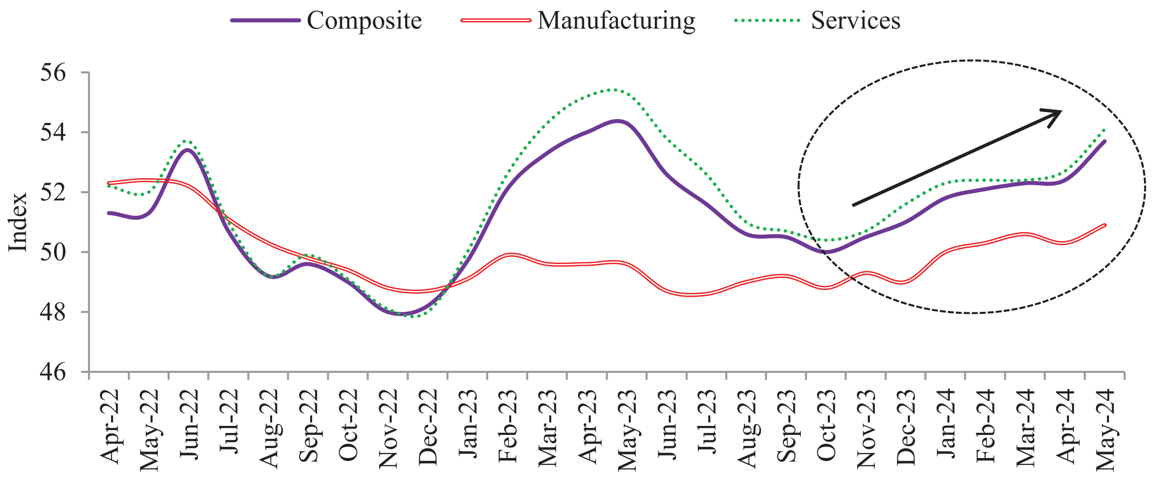
7 de Soyres, F., Herrero, J. G. C., Goernemann, N., Jeon, S., Lofstrom, G., & Moore, D. (2024). Why is the US GDP recovering faster than other advanced economies?.

8 People's Republic of China: 2021 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for the People's Republic of China, IMF (https://tinyurl.com/5456sf94)

9 J.P.Morgan Global Composite PMI (https://tinyurl.com/3ddjnymx)

10 J.P.Morgan Global Manufacturing PMI (https://tinyurl.com/2uabuyb7)

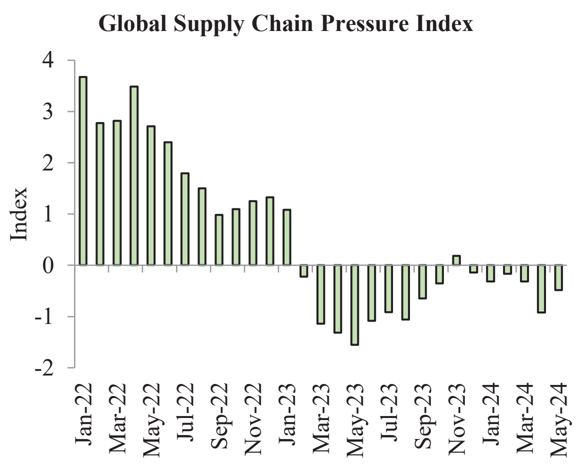
Chart I.4: Global PMI also corroborates strong growth momentum



Source: S&P Global, PMI Press Releases[11]

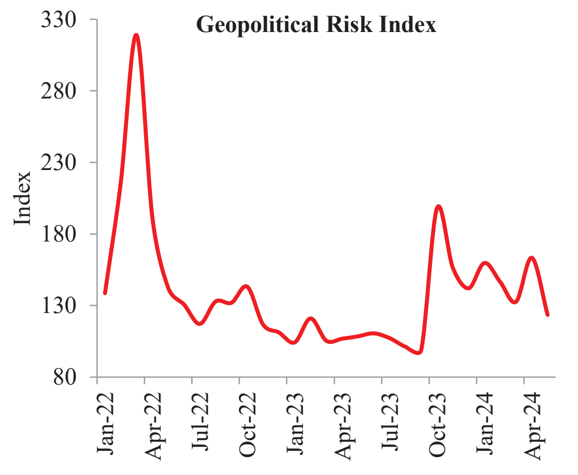
1.5 The escalation of the Red Sea crisis amid heightened geopolitical tensions in the Middle East in October 2023 led to supply chain disruptions, sending ripples to global trade and operations. The attacks on commercial shipping in the Red Sea led to increased global transportation costs, reflecting the rerouting of cargo. However, the increase in supply chain pressures was transient and modest. Similar sentiments were reflected in the softening of risk perceptions. The geopolitical risk index, which spiked after the escalation of the conflict, declined thereafter. However, geopolitical risks are still high and persistent and may worsen in the coming months.

Chart I.5: Easing of global supply chain pressure



Source: Federal Reserve Bank of New York

Chart I.6: Geopolitical risk perceptions have softened since October 2023



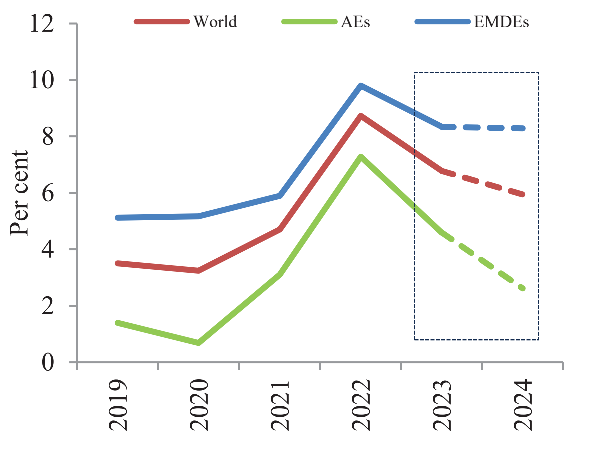
Source: Economic Policy Uncertainty

1.6 As the supply chain pressures eased and energy and food price shocks triggered by the Russia - Ukraine conflict faded out, headline inflation across countries declined. After peaking

11 PMI values range between 0 and 100. Value greater than 50 implies expansion. Values below 50 implies contraction.

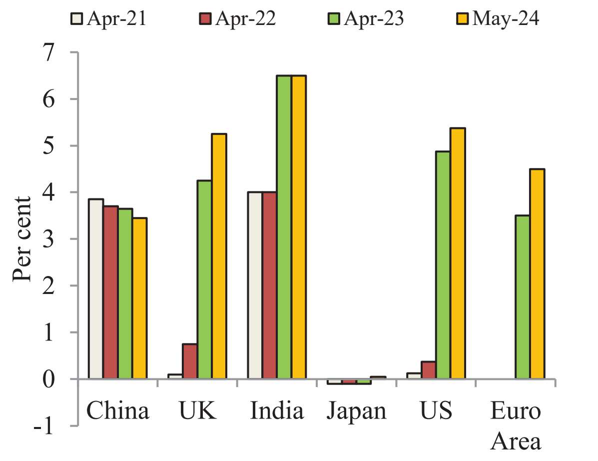
in 2022, inflationary pressures declined considerably in 2023. However, inflation is still above the target in many countries. The easing of supply-chain pressures in tradeable goods in 2023 led to sharp decline in goods inflation in various countries, reducing logistic challenges. Core inflation remained sticky on account of services inflation and a strong labour market, especially in most AEs.[12]

Chart I.7: Declining inflationary pressures across countries



Source: World Economic Outlook Database, April 2024, IMF; Note: Data for 2024 is forecast

Chart I.8: Policy rates remain high



Source: Central Bank Policy Rates, BIS Data Portal

Chart I.9: Moderation in global commodity price indices

	Energy	Oils & Meals	Grains	Fertilizers	Metals & Minerals
2021	95.4	127.1	123.8	152.3	116.4
2022	152.6	145.2	150.4	235.7	115
2023	106.9	118.9	133	153.5	104
2024 (Apr-May)	104	106.5	117.1	114.3	106.2

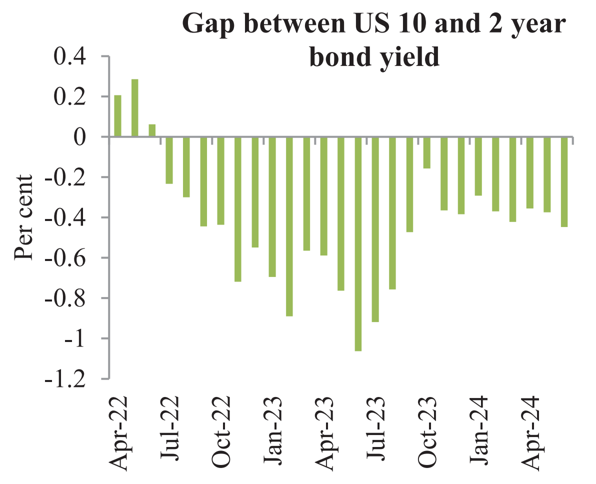
Source: Pink Sheet, World Bank; Note: Data as accessed on 1 July 2024.

1.7 The persistence of core inflation prompted many central banks to maintain policy rates at a high level or further increase them in 2023, except in China, where the government focussed on giving policy stimulus to revive the economy beset with troubles in the real estate sector. Many central banks have hinted at the peaking of the interest rate hike cycle in recent monetary

12 BIS Quarterly Review, March 2024 Sectoral price dynamics in the last mile of postCovid-19 disinflation (https://www.bis.org/publ/qtrpdf/r_qt2403.pdf)

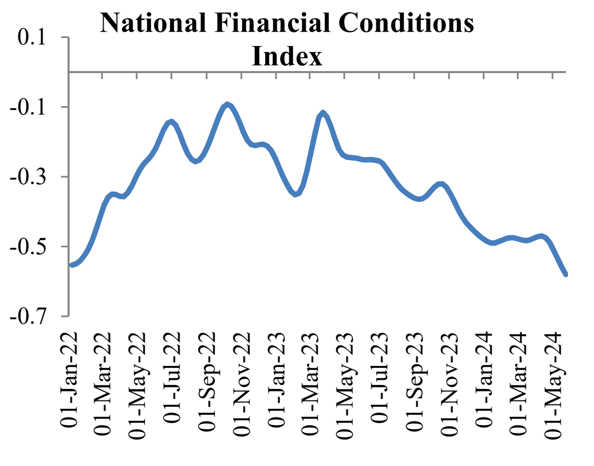
policy review meetings. European Central Bank (ECB) became the first major central bank to cut its policy rate, invoking the first rate cut in nearly five years. ECB lowered its benchmark deposit rate by a quarter percentage point in June 2024. The Federal Open Market Committee (FOMC) participants' assessments also indicated rate cuts in 2024, though the projected interest rate cut in the latest FOMC meeting (June 2024)[13] is lower than that projected in March 2023. Stronger-than-expected labour market data and persistent inflationary pressures have been a major factor behind the Federal Reserve's (the Fed) reluctance to lower rates. As indicated in the FOMC Meeting statements, from early January 2024 onwards, communication by the Fed increasingly pushed back to dispel excessive market optimism. However, market pricing of various financial instruments indicates greater investor conviction in earlier and deeper rate cuts. This is reflected in the inversion of the yield curve (short-term yields are higher than long-term yields), implying investor expectation of future policy rate cuts. Financial market participants have also eyed a much easier stance, as reflected in the significant easing of National Financial Conditions in the US in 2023 compared to March 2022, when the Fed began raising rates. Expansionary fiscal policy and the easing of financial conditions have, to a degree, neutralised the monetary policy tightening of the Fed, leaving unanswered questions on the future trajectory of inflation and the US dollar.

Chart I.10: Inversion of US yield curve reflecting enhanced expectation of rate cut



Source: Federal Reserve Bank of St. Louis

Chart I.11: Financial conditions have eased in the US



Source: Federal Reserve Bank of Chicago; Note[14]

1.8 On the fiscal front, global general government fiscal deficit (as a per cent of GDP) rose by 1.6 percentage points in 2023 compared to last year. This increase primarily stemmed from a year-on-year (YoY) decline in revenues as windfall revenues from inflation for oil-producing

13 FOMC Projections materials, June 12, 2024 (https://tinyurl.com/2574674a)

14 The NFCI is constructed to have an average value of zero and a standard deviation of one over a sample period extending back to 1971. Positive values of the NFCI have been historically associated with tighter-than-average financial conditions and vice versa.

and commodity-exporting countries waned while expenditures remained largely stable (IMF Fiscal Monitor, April 2024[15]). Consequently, global public debt also inched up in 2023.

Chart I.12: Fiscal deficit edged up across countries

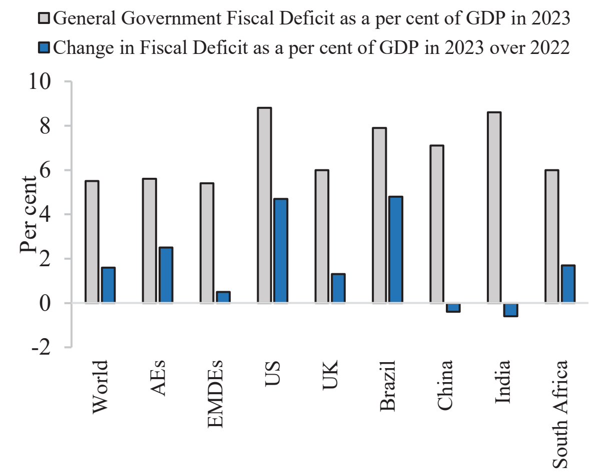
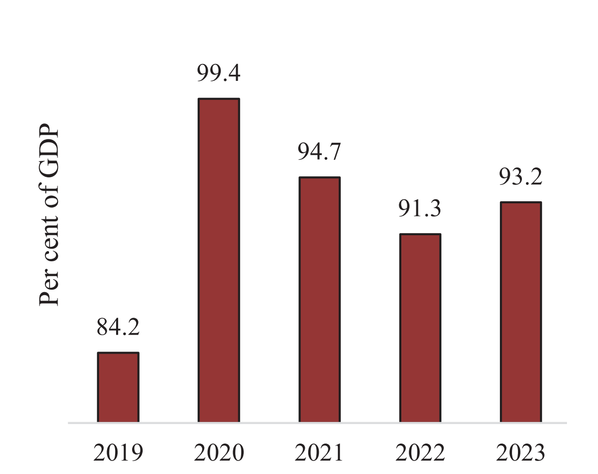


Chart I.13: Uptick in global debt in 2023



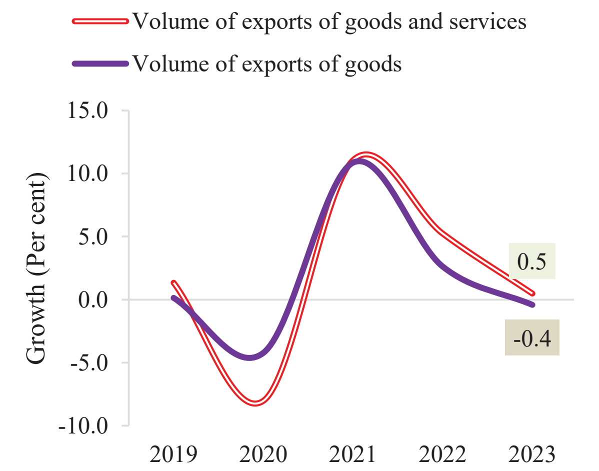
Source: Fiscal Policy in the Great Election Year, Fiscal Monitor, IMF, April 2024

1.9 Despite strong global economic growth, as per the WEO data, the global volume of exports of goods and services registered a modest growth of 0.5 per cent in 2023 compared to 2022. The slow growth was driven by lower demand in developed economies and weaker trade in East Asia and Latin America (UNCTAD March Update 2024)[16]. High energy prices and inflation weighed heavily on the demand for manufactured goods, resulting in a decline in world merchandise trade volume for 2023. On the other hand, developments in the services trade were more upbeat, partly offsetting the decline in goods trade (WEO, IMF Database, April 2024). Recurring disruptions, especially since the Russia-Ukraine crisis and increased concerns about supply-chain resilience also contributed to the slowdown. There is a reallocation of trade along geopolitical lines, with rising cross-border trade restrictions. About 3,000 new restrictions on trade were introduced in 2023, according to Global Trade Alert data (IMF, WEO, April 2024)[17].

1.10 Concerns regarding geopolitical conflicts, high borrowing costs and global economic fracturing were also reflected in weakening FDI flows. Global FDI flows declined in 2023 compared to 2022[18].

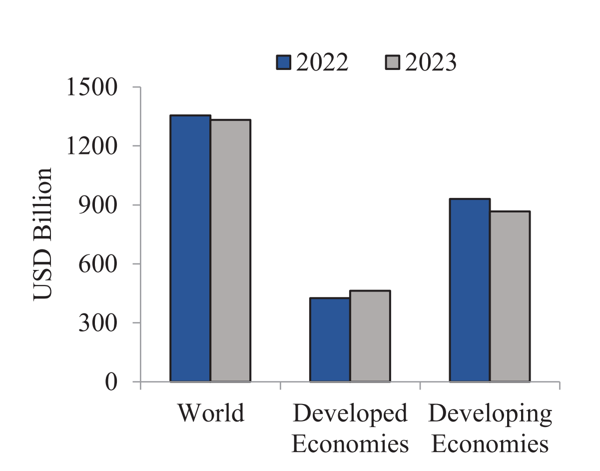
15 Fiscal Policy in the Great Election Year, Fiscal Monitor, IMF (https://tinyurl.com/bdfxk7c5)
16 Global Trade Update, March 2024, UNCTAD (https://tinyurl.com/pe87zewe)
17 World Economic Outlook, April 2024, International Monetary Fund, page 14 (https://tinyurl.com/38cuxrbw)
18 World Investment Report 2024, UNCTAD (https://tinyurl.com/2u48tsuc)

Chart I.14: Merchandise trade growth declines in 2023



Source: World Economic Outlook Database, April 2024, IMF

Chart I.15: Weakening FDI inflows

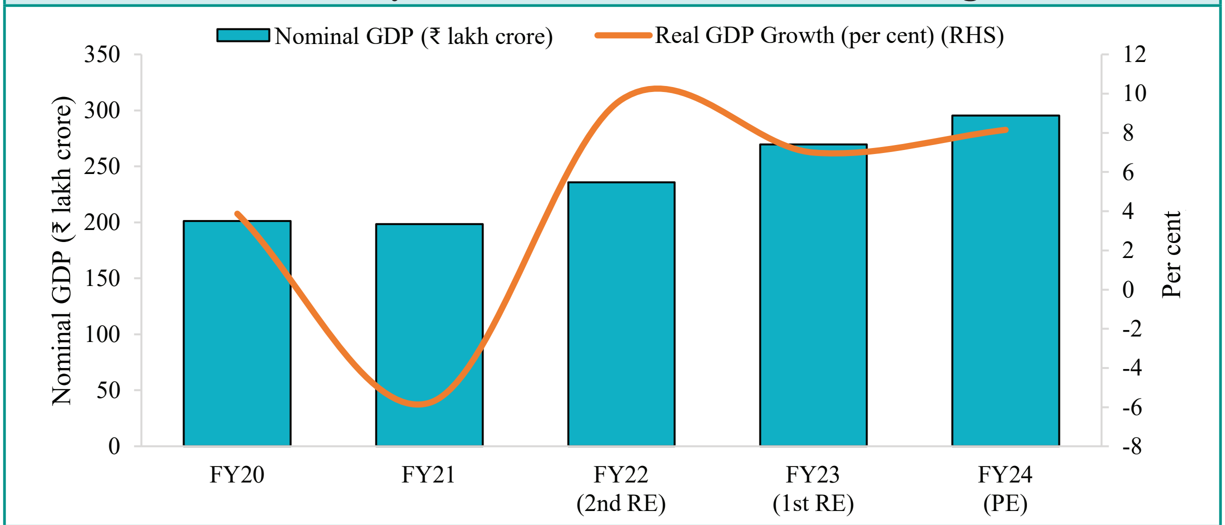


Source: World Investment Report 2024, UNCTAD

A RESILIENT DOMESTIC ECONOMY

1.11 India's economy carried forward the momentum it built in FY23 into FY24 despite a gamut of global and external challenges. The focus on maintaining macroeconomic stability ensured that these challenges had minimal impact on India's economy. As a result, India's real GDP grew by 8.2 per cent in FY24, posting growth of over 7 per cent for a third consecutive year, driven by stable consumption demand and steadily improving investment demand. On the supply side, gross value added (GVA) at 2011-12 prices grew by 7.2 per cent in FY24, with growth remaining broad-based. Net taxes at constant (2011-12) prices grew by 19.1 per cent in FY24, aided by reasonably strong tax growth, both at the centre and state levels and rationalisation of subsidy expenditure. This led to the difference between GDP and GVA growth in FY24.

Chart I.16: Carry-forward of momentum in economic growth



Source: Statement 13: Annual and Quarterly Estimates of GDP at Constant Prices, and Annual and Quarterly Estimates of GDP at Current Prices 2011-12 Series, National Accounts Data, MoSPI; Note: RE – Revised Estimates, PE – Provisional Estimates

1.12 The shares of the agriculture, industry and services sector in overall GVA at current prices were 17.7 per cent, 27.6 per cent and 54.7 per cent respectively in FY24. GVA in the agriculture sector continued to grow, albeit at a slower pace. Erratic weather patterns during the year and an uneven spatial distribution of the monsoon in 2023 impacted overall output. This is reflected in the marginal decline in total foodgrain output for FY24 of 0.3 per cent as per the third advanced estimate of foodgrain production released by the Ministry of Agriculture and Farmers' Welfare (MoAFW).[19]

Chart I.17: Broad-based growth

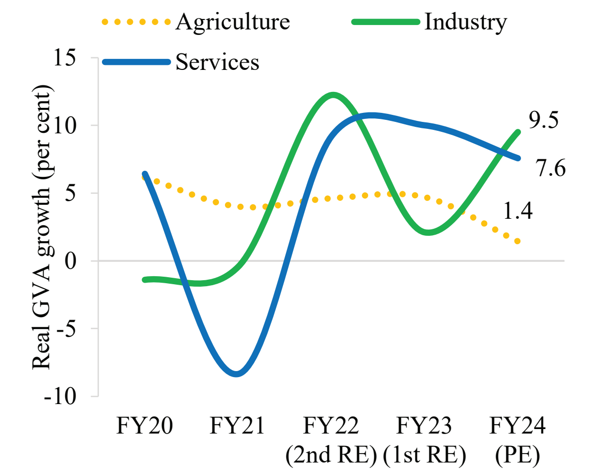
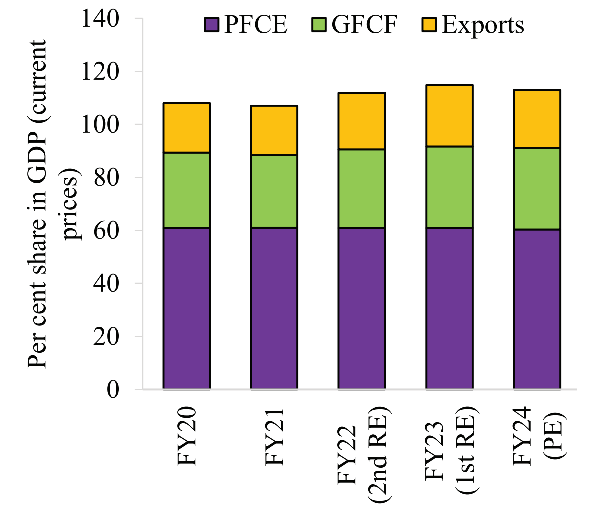


Chart I.18: Private consumption steady as investment drives growth



Source: Statement 12: Annual and Quarterly Estimates of GDP at Current Prices, 2011-12 Series, and Statement 13: Annual and Quarterly Estimates of GDP at Constant Prices, 2011-12 Series, National Accounts; Note: PFCE – Private Final Consumption Expenditure. GFCF – Gross Fixed Capital Formation

1.13 Within the industrial sector, manufacturing GVA shrugged off a disappointing FY23 and grew by 9.9 per cent in FY24. Manufacturing activities benefitted from reduced input prices while catering to stable domestic demand. The input price advantage was reflected in the subdued growth in the Wholesale Price Index (WPI) inflation, which led to a deflator of (-)1.7 per cent for the manufacturing sector during FY24. Manufacturers also passed on the reduction in input prices to consumers, reflected in the sustained decline in the core consumer price inflation. The strength of manufacturing is further corroborated by the strong performance of the HSBC India PMI for manufacturing, which consistently remained well above the threshold value of 50, indicating sustained expansion and stability in India's manufacturing sector. Construction activities displayed increased momentum and registered a growth of 9.9 per cent in FY24 due to the infrastructure buildout and buoyant commercial and residential real estate demand.

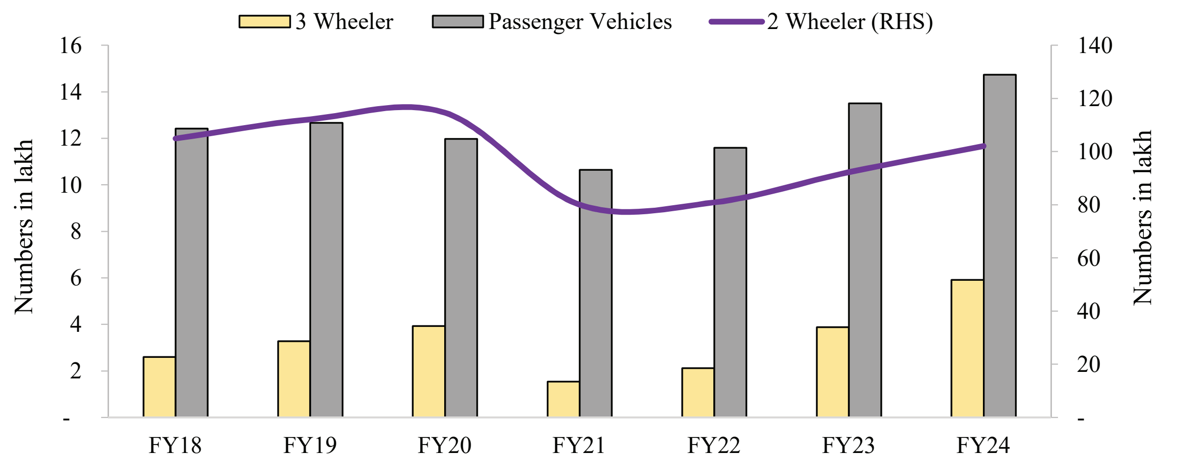
1.14 Various high-frequency indicators reflect the growth in the services sector. Both Goods and Services Tax (GST) collections and the issuance of e-way bills, reflecting wholesale and retail trade, demonstrated double-digit growth in FY24. Financial and professional services

19 https://tinyurl.com/2eekevhu

have been a major driver of growth post the pandemic. Contact-intensive services—prominently trade, transport, real estate and their ancillary services that were impacted the most during the pandemic have emerged much stronger in the post-pandemic period, embedding greater technology and digital content in them and transforming the nature of the service delivery in India. The proliferation of global capability centres (GCCs) has also imparted resilience to India's services exports, giving further thrust to the sector.

1.15 On the demand side, private consumption has been a crucial and steadfast cog in the GDP growth. Private final consumption expenditure (PFCE) grew by 4.0 per cent in real terms in FY24. Urban demand conditions remain strong, as reflected in various urban consumption indicators such as domestic passenger vehicle sales[20] and air passenger traffic[21]. It is also reported that rural consumption growth has gradually picked up pace during the quarter ending March 2024.[22] As per the Federation of Automobile Dealers Associations, two and three-wheeler and passenger vehicle sales also registered an uptick in FY24.

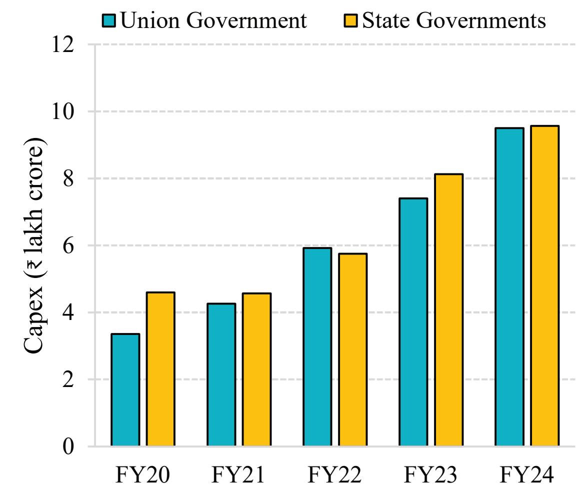
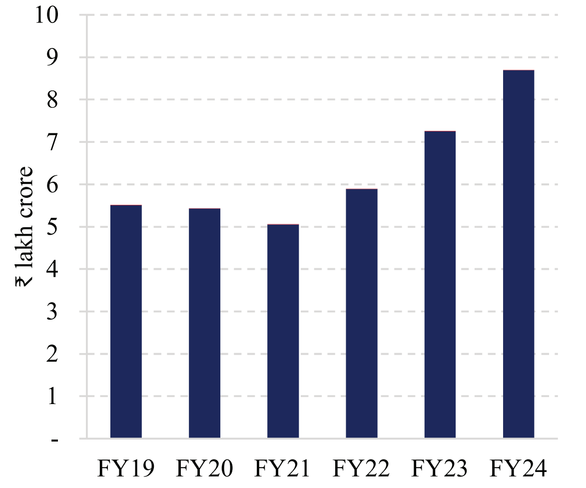
Chart I.19: Vehicle sales in rural areas have recovered smartly since the pandemic



Source: Federation of Automobile Dealers Associations

1.16 Gross Fixed Capital Formation (GFCF) continues to emerge as an important driver of growth, as indicated in its rising share of nominal GDP. India is in the midst of a private capex upcycle that has been aided by government capital expenditure. As per Statement 1.11 of the National Accounts Statistics 2024 released by the Ministry of Statistics and Programme Implementation (MoSPI), GFCF by private non-financial corporations increased by 19.8 per cent in FY23. There are early signs that the momentum in private capital formation has been sustained in FY24. As per data provided by Axis Bank Research, private investment across a consistent set of over 3,200 listed and unlisted non-financial firms has grown by 19.8 per cent in FY24.

20 https://tinyurl.com/y2xhx5bb
21 https://tinyurl.com/4x9udsdz
22 https://tinyurl.com/yjkpdsau

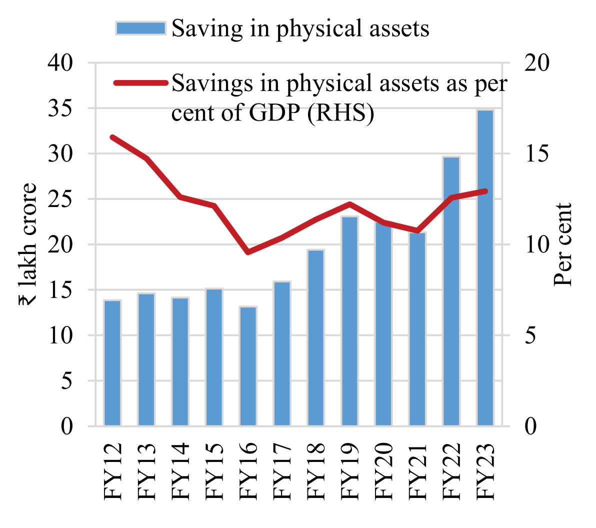
Chart I.20: Greater general government focus on building productive capacities	Chart I.21: Steadily rising private corporate capex
	
Source: Tables no. 95 and 102, Handbook of Statistics on the Indian Economy, RBI, CGA[23]	Source: Axis Bank Research

1.17 Apart from private corporations, households have also been at the forefront of the capital formation process. The growth in housing sales in cities has been particularly impressive, indicating that urban households are diversifying the deployment of their savings. In 2023, residential real estate sales in India were at their highest since 2013, witnessing a 33 per cent YoY growth, with a total sale of 4.1 lakh units in the top eight cities. As per real estate research firm Proptiger, new supply witnessed an all-time high, with 5.2 lakh units launched in 2023, as against 4.3 lakh units in 2022. The momentum continued in Q1 of 2024, witnessing record-breaking sales of 1.2 lakh units, clocking a robust 41 per cent YoY growth. New supply has consistently exceeded one lakh units since Q2 of 2022, underscoring persistent demand-supply dynamics in the housing market.

1.18 With cleaner balance sheets and adequate capital buffers, the banking and financial sector is well-positioned to cater to the growing financing needs of investment demand. Credit disbursal by scheduled commercial banks (SCBs) to industrial micro, small and medium enterprises (MSMEs) and services continues to grow in double digits despite a higher base. Similarly, personal loans for housing have surged, corresponding to the increase in housing demand. However, credit offtake by large industries seems to be growing at a lower albeit stable pace. These larger industries seem to be tapping the corporate bond market. Corporate bond issuances in FY24 were up by 70.5 per cent, with private placement remaining the preferred channel for corporates. Outstanding corporate bonds were up by 9.6 per cent (YoY) as of the end of March 2024.

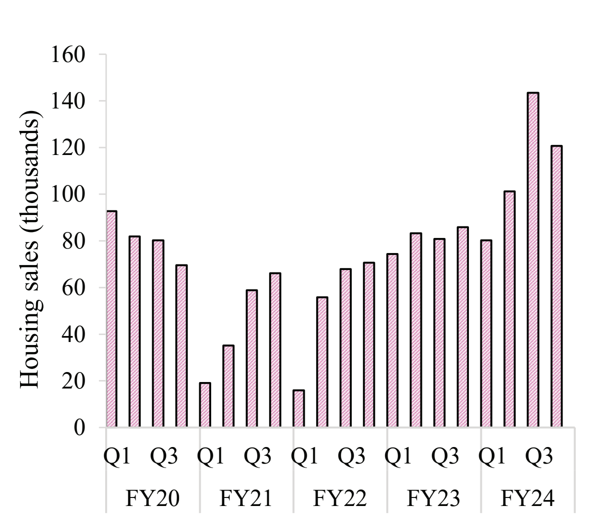
23 FY24 figures for the Union Government are Provisional Actuals released by CGA; FY24 figures for State Governments are Budget Estimates and FY23 values are Revised Estimates.

Chart I.22: Increased household savings in the form of physical assets



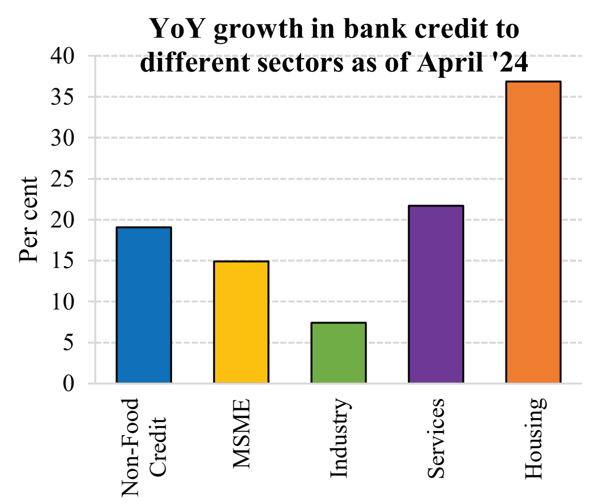
Source: Statement 1.9, National Accounts Statistics 2024, MoSPI

Chart I.23: Record housing sales in top 8 cities [24]



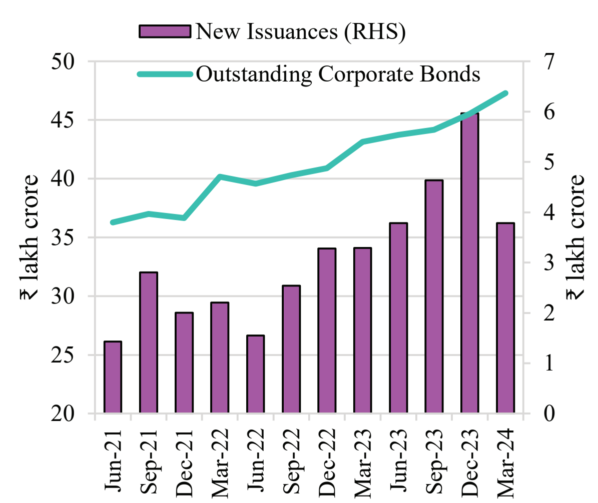
Source: Various Proptiger Reports[25]

Chart I.24: SCBs catering to investment demand



Source: Table 170, Sectoral Deployment of Bank Credit, Handbook of Statistics on Indian Economy, RBI

Chart I.25: Large corporates tapping corporate bond markets



Source: Outstanding Corporate bonds, SEBI

1.19 Global trade growth slowed in 2023, leading to a marginal decline in merchandise exports growth. As merchandise imports slowed more than exports and services trade recorded a larger surplus compared to the year before, the drag exerted by net exports on GDP reduced. The subdued contribution of exports was more than counterbalanced by the pick-up in fixed investment, thereby continuing the trend of domestic stimulus seamlessly replacing external stimuli.

24 The eight major cities referred to in the Proptiger reports are Ahmedabad, Bengaluru, Chennai, Delhi NCR, Hyderabad, Kolkata, Pune, and Mumbai MMR.

25 https://www.proptiger.com/guide/news-views

1.20 FY24 also marked the year GDP reached levels projected by the pre-pandemic trajectory. A trend analysis in Box I.1 details how the overall economy and most supply and demand-side sectors have grown at a pace to erase any permanent losses in output and demand.

Box I.1: Growth in GDP, GVA, and their components ensure no permanent losses in demand and output

A permanent output loss refers to a downward level shift in the observed variable due to the loss in output capacity. This box item visualises the pre-pandemic and post-pandemic trends in India's aggregate macroeconomic variables such as GDP, GVA, private consumption and the subcomponents of GVA.

Chart I.26: A recovery to pre-pandemic trajectory in GDP

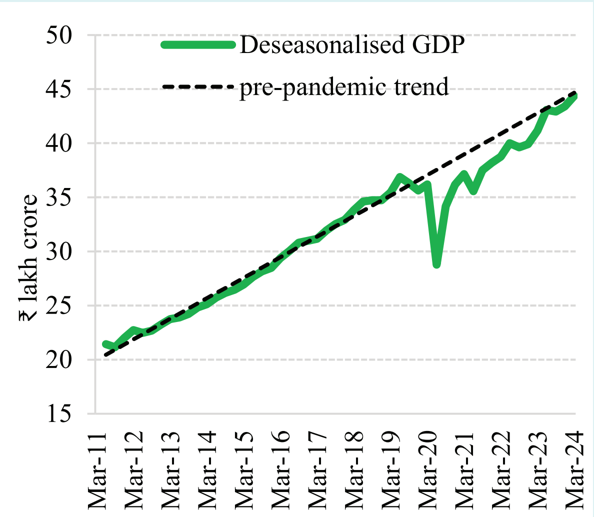


Chart I.27: Gap from trend reducing steadily

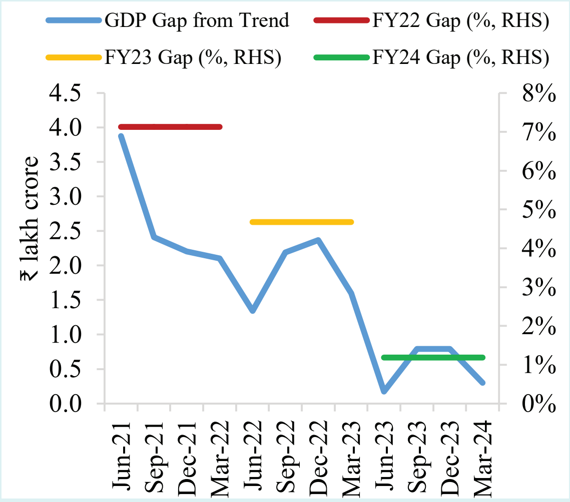


Chart I.28: No permanent losses in output capacity

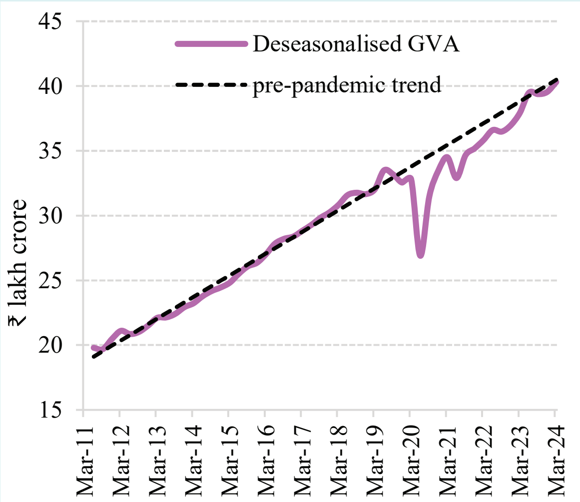


Chart I.29: No permanent consumption losses

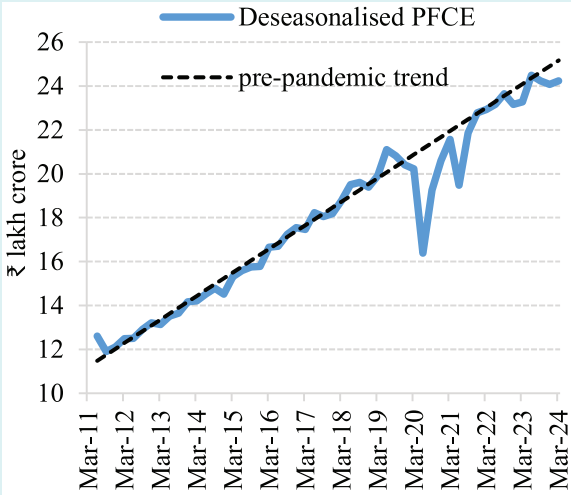


Chart I.30: Investment has taken off

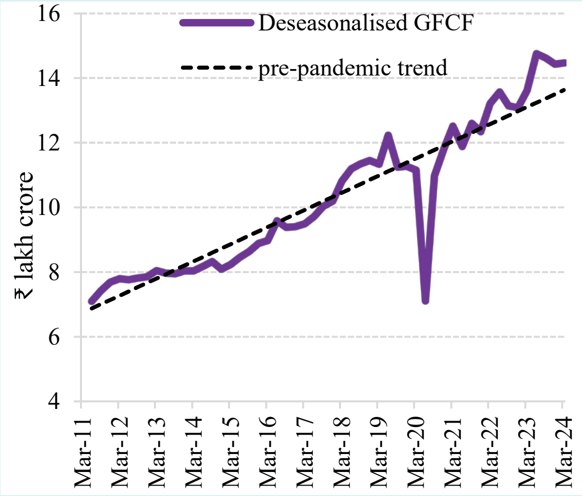


Chart I.31: Industrial GVA growing faster than pre-pandemic trajectory

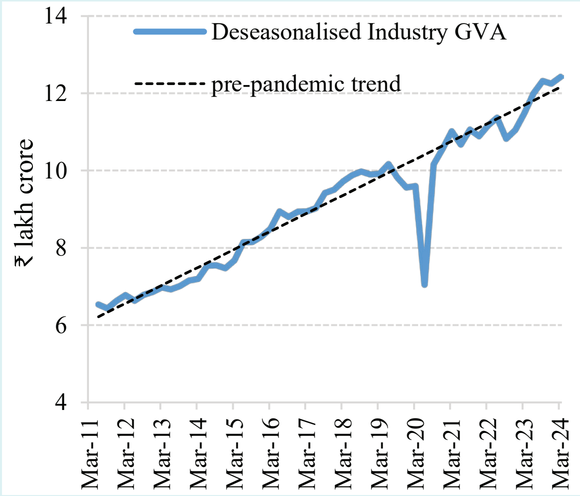
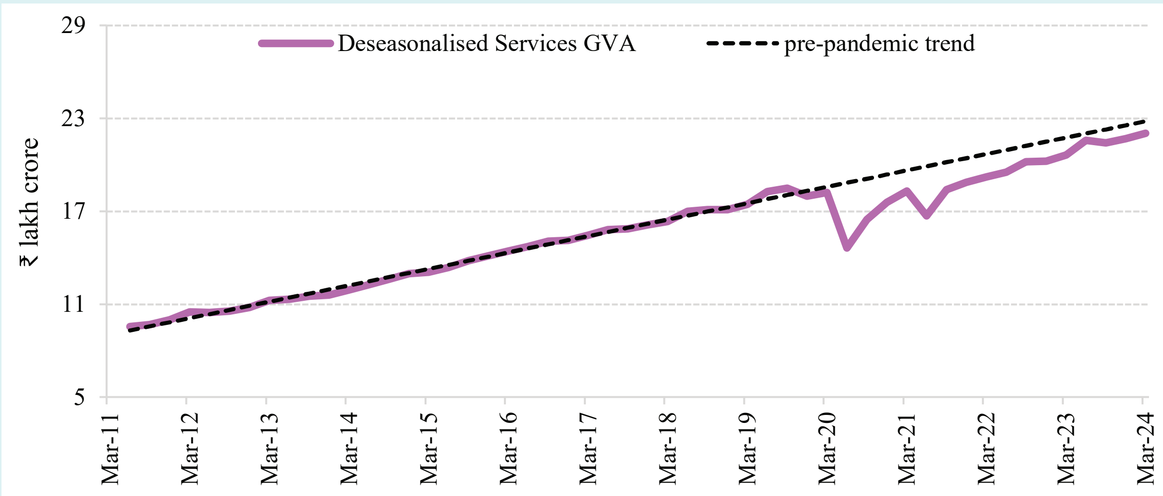


Chart I.32: Services GVA lagging



Source: Chart I:25 to Chart I.31 are using calculations based on Statement 13: Annual and Quarterly Estimates of GDP at Constant Prices, 2011-12 Series, National Accounts Data, MoSPI

In the analysis, six key macroeconomic variables at constant (2011-12) prices, i.e., GDP, GVA, PFCE, GFCF, industry GVA, and services GVA of quarterly frequency, have been deseasonalised using the X-12 ARIMA technique that decomposes variables into its trend, seasonal, cyclical, and idiosyncratic components. The deseasonalised variables have been visualised to understand where these variables stand vis-à-vis their pre-pandemic trend projections. A trend line based on de-seasonalised data between June 2011 and March 2020 has been plotted and extended until March 2024. This trend reflects the approximate projection of the variable in each quarter from June 2020 to March 2024 had the pandemic-induced contraction of economic activity not occurred.

The visualisation reveals that GDP, GVA, private consumption, GFCF, and industrial GVA have recovered quickly. We see that the compounded quarterly growth rate (CQGR) of these variables is greater in the period Q3 FY21 – Q4 FY24 than the CQGR in the pre-pandemic period of Q1 FY12 – Q4 FY20 (Table I.). This enabled a broad catch-up to the levels projected by the pre-pandemic trends, thereby averting any permanent losses in demand/output. The reasons for this are manifold. The pandemic-induced contraction presented an opportunity for the deployment of a counter-cyclical fiscal policy that focussed on capital expenditure, thereby positioning government-driven capital formation as a driver of growth. It also enabled the implementation of multiple process reforms and the deployment of public digital infrastructure that boosted the ease of doing business. The pandemic also accelerated the adoption of digital technologies amongst the population and enhanced financial inclusion. With the GST and the Insolvency and Bankruptcy Code (IBC) acting as tailwinds to the economy, growth took off.

Table I.1: Faster growth since the pandemic-induced contraction

Compounded growth in deseasonalised quarterly series (in %)	GDP	GVA	PFCE	Industrial GVA	Services GVA	GFCF
Between Q1FY12 - Q4FY20	1.5	1.5	1.4	1.1	1.9	1.3
Between Q3FY21 - Q4FY24	1.9	1.8	1.7	1.4	2.1	2.0

GVA of the services sector is yet to reach the level projected by the pre-pandemic trend. The granular data available until FY23 reveals that this is on account of the trade, hotel, road and air transport sectors. These sectors, taken together, contributed about 28.5 per cent to total real GVA in FY23 and were only one per cent above their levels in FY20.

Chart I.27 reveals that the gap between GDP and its pre-pandemic trend has been closing, and GDP was only around 1 per cent below this trend on an annual average basis in FY24. There is still some catching up left. The extant momentum in growth not only allows the economy to catch up with its pre-pandemic trend without stoking inflationary pressures but aids in surpassing it.

MACROECONOMIC STABILITY SAFEGUARDS GROWTH

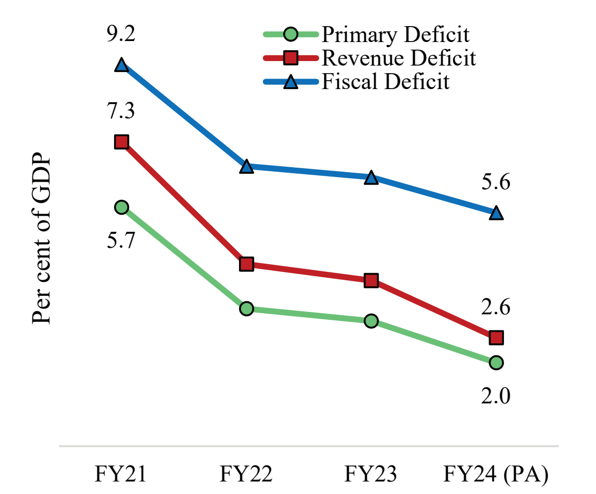
1.21 For India, FY23 began with multiple challenges. Spillovers from the conflict in Europe were stoking domestic price pressures and widening the current account deficit (CAD) through increased oil prices. Central banks in several countries began raising policy rates to battle inflationary pressures, leading to significant uncertainty in AEs and EMEs alike. However, throughout FY23 and FY24, the focus on macroeconomic stability was vital in securing economic growth amidst domestic and external vulnerabilities.

Improving Public Finances

Consolidation of Union Government Finances

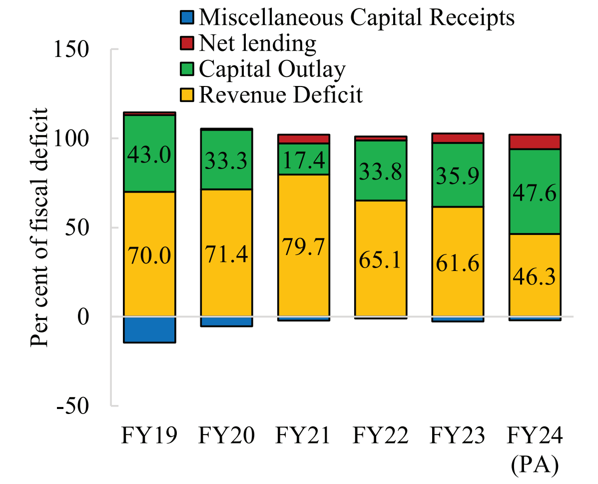
1.22 Against the global trend of widening fiscal deficit and increasing debt burden, India has remained on the course of fiscal consolidation. The favourable fiscal performance in 2023, emerged as the cornerstone of India's macroeconomic stability. The fiscal deficit of the Union Government has been brought down from 6.4 per cent of GDP in FY23 to 5.6 per cent of GDP in FY24, according to provisional actuals (PA) data released by the Office of Controller General of Accounts (CGA). Strong growth in direct and indirect taxes on account of resilient economic activity and increased compliance meant that the tax revenues generated exceeded the conservative budgetary estimates. Additionally, higher-than-budgeted non-tax revenue in the form of dividends from the RBI has buffeted revenue receipts. In combination with restrained revenue expenditure, these buoyant revenues ensured lower deficits. A decomposition of the fiscal deficit over the past few years reveals that with a narrowing revenue deficit, a larger share of the fiscal deficit is being accounted for by capital outlay. This suggests that the productivity of borrowed resources has improved.

Chart I.33: Steadily declining deficit ratios



Source: Budget At A Glance, Union Budget FY24 (Interim), Union Government Accounts at a Glance – O/o CGA

Chart I.34: Decomposition of fiscal deficit shows increasing investment orientation



Source: Various Union Budget Documents, Union Government Accounts at a Glance – O/o CGA

Buoyancy in revenues continues in FY24

1.23 Significant fiscal consolidation post-pandemic could be achieved largely due to buoyant revenues. Revenue receipts of the union government consisting of tax revenue (net to centre) and non-tax revenue (NTR) increased YoY by 14.5 per cent in FY24 (PA), with robust growth in both tax and non-tax revenues.

Chart I.35: Consistent increase in revenue receipts driven by both tax and non-tax revenue

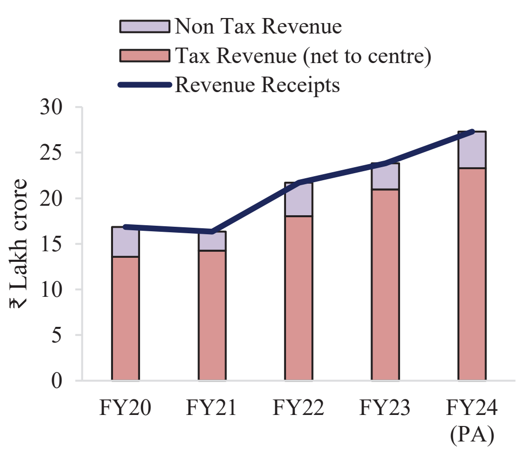
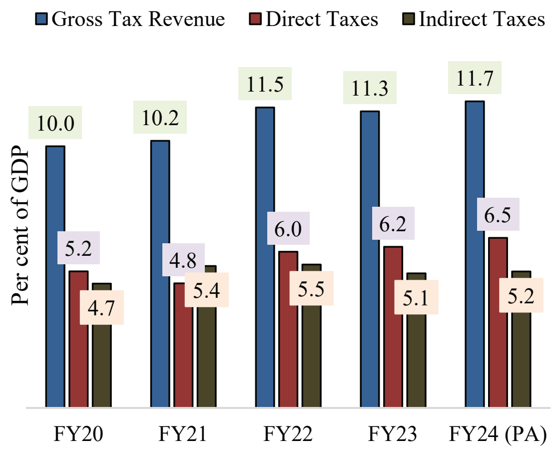


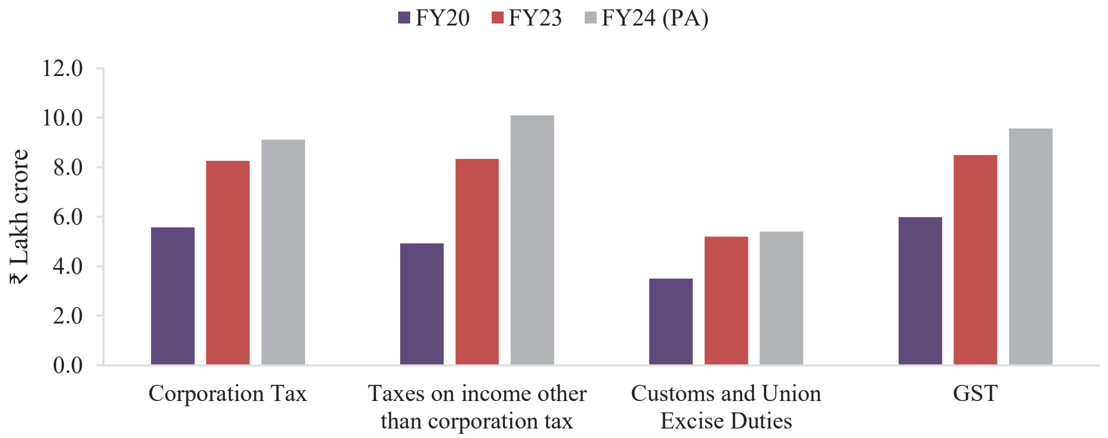
Chart I.36: Increase in gross tax revenue to GDP ratio driven by strong direct tax growth



Source: Budget at a Glance, Union Budget, FY22, FY23, FY24 Interim Budget, Union Government Accounts at a Glance – O/o CGA

1.24 The growth in gross tax revenue (GTR) was estimated to be 13.4 per cent in FY24, translating into tax revenue buoyancy of 1.4. The growth was led by a 15.8 per cent growth in direct taxes and a 10.6 per cent increase in indirect taxes over FY23. Broadly, 55 per cent of GTR accrued from direct taxes and the remaining 45 per cent from indirect taxes. The increased contribution of direct taxes to GTR over the years has been in line with the government's effort to enhance progressivity in taxation. The efficiency of tax collection has increased over time, reflected in the cost of collection of direct taxes declining from 0.66 per cent of gross collections in FY20 to 0.51 per cent in FY23[26].

Chart I.37: Tax revenues register steady increase

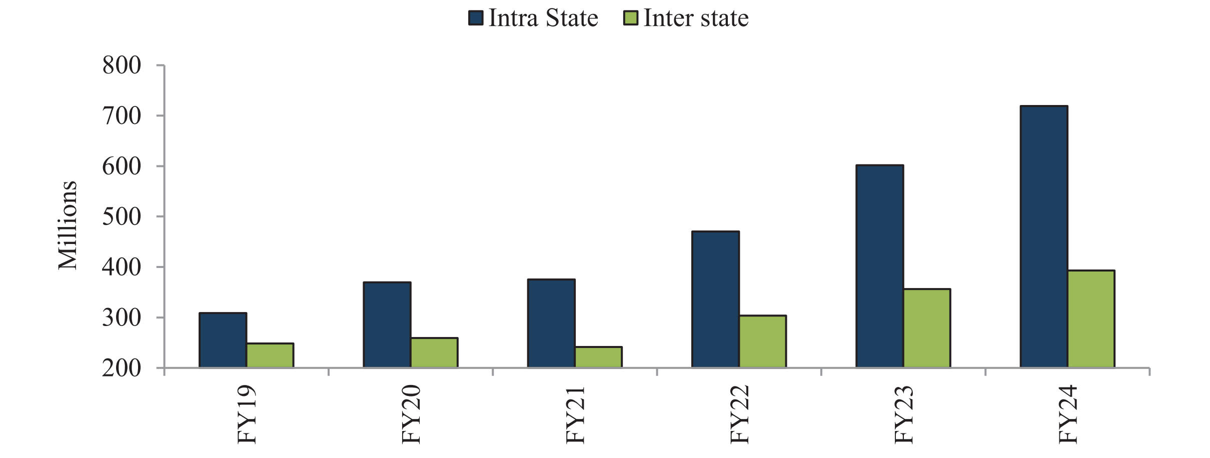


Source: Budget at a Glance, Union Budget, FY22, FY23, FY24 Interim Budget, Union Government Accounts at a Glance – O/o CGA

26 Income Tax Department, Consolidated Time Series Data, Financial Year 2000-01 to 2022-23, Central Board of Direct Taxes (https://tinyurl.com/3chx8v83)

1.25 The increase in indirect taxes in FY24 was mainly driven by a 12.7 per cent growth in GST collection. GST E-way bill generated has also registered an uptick post-pandemic. The increase has been equally pronounced for both intra-state trade and inter-state trade. The increase in GST collection and E-way bill generation reflects increased compliance over time.

Chart I.38: Robust E-way bill generation corroborates strong economic growth momentum



Source: GST Statistics (https://www.gst.gov.in/download/gststatistics)

1.26 Over the last seven years, GST has matured significantly through streamlining of procedures and, in the process, enhancing tax buoyancy for the Union and State governments. There have been calls for further rationalisation of rate structure to compress the number of rates, elimination of rate inversions, introduction of broad-band rates for similar products and expanding the tax base. Demands also relate to differentiating between serious and less serious offences, spreading awareness among taxpayers regarding common mistakes, encouraging voluntary compliance and expediting the resolution of disputes.[27]

1.27 Within non-debt capital receipts, the proceeds from the National Monetisation Pipeline (NMP), which was announced in the Union Budget FY22, are gaining traction. The NMP listed core assets of union government ministries and public sector enterprises with a potential of ₹6 lakh crore for monetisation over the four-year period of FY22 – FY25. During FY22 - FY24, receipts worth ₹3.9 lakh crore have been recorded as against a target of ₹4.3 lakh crore.[28] The Ministry of Road Transport and Highways and the Ministry of Coal contributed ₹97 thousand crore out of proceeds worth ₹1.6 lakh crore in FY24. The National Highways Authority of India has identified and published an indicative list of 33 assets to be monetised in FY25. This will help improve capital allocation by investors while aiding the government in its pursuit of fiscal consolidation.

Trends in Central Government Expenditure

1.28 The government has followed a path of fiscal consolidation while continuing to protect the vulnerable sections and investing in the productive capacity of the economy. Successive

27 https://tinyurl.com/2bam4ht8
28 https://tinyurl.com/d3cfceu3

budgets moderated the growth in revenue expenditure. While achieving the compression in revenue expenditure as a per cent of GDP, the government also ensured that free food grains are provided to 81.4 crore people in the country. At the same time, shares of total expenditure allotted to capital spending were progressively enhanced, thereby improving the quality of expenditure. Government expenditure in FY24 continued this trend whereby, as per the provisional actuals, total expenditure declined to 15.0 per cent of GDP from 17.7 per cent in FY21.

Chart I.39: Prudent management of expenditure

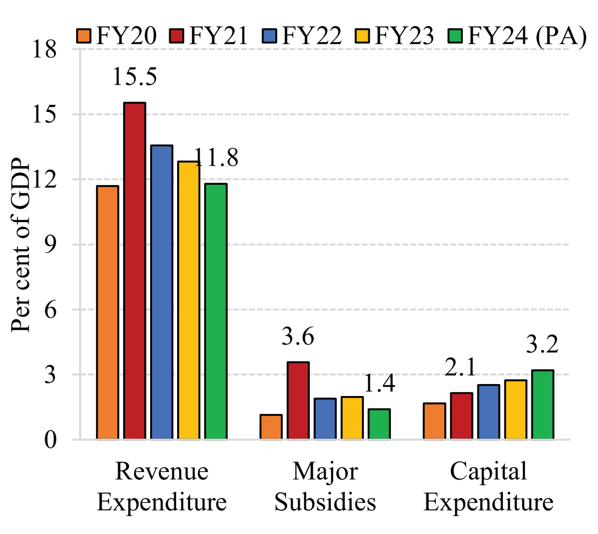
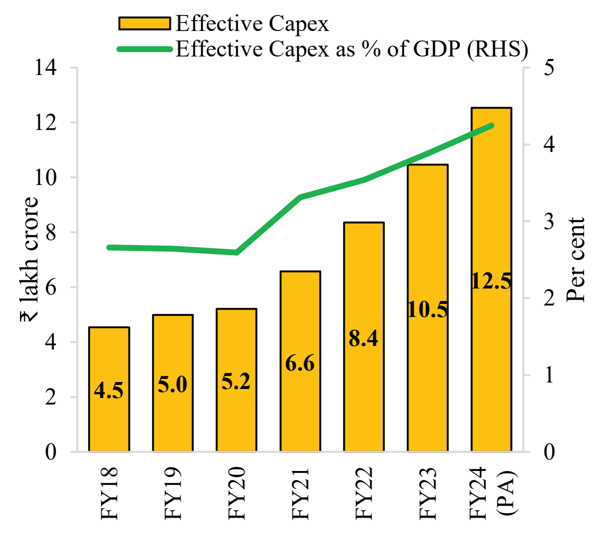


Chart I.40: Increasing union government effective capex[29] to GDP ratio



Source: Budget at a Glance, Various Union Budgets, Union Government Accounts at a Glance – O/o CGA

Chart I.41: Prioritising productive expenditure

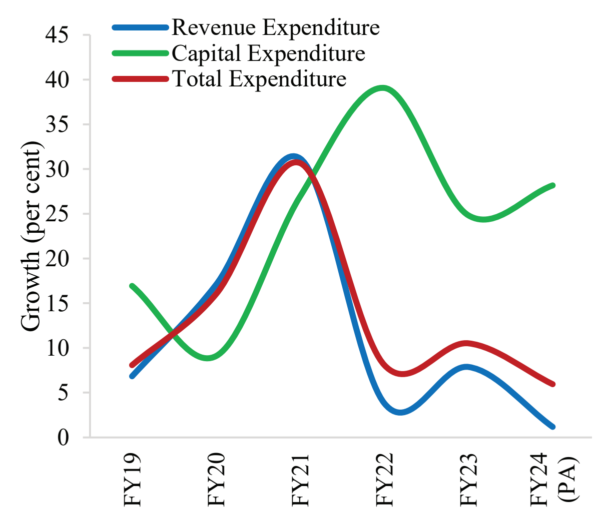
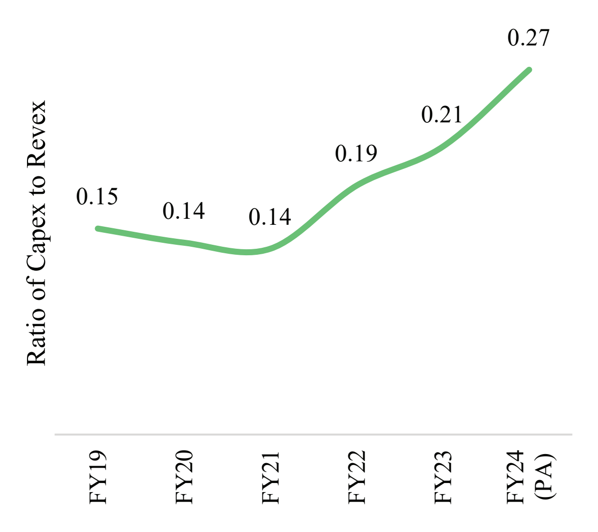


Chart I.42: Improving quality of expenditure



Source: Budget at a Glance, Various Union Budget Documents, Union Government Accounts at a Glance – O/o CGA. Notes: Revex - Revenue Expenditure

29 Effective Capex includes capex and Grants-in-Aid for creation of capital assets.

Capex has lifted the productive potential of the economy; time for the private sector to take the baton

1.29 The PA show that capital expenditure for FY24 stood at ₹9.5 lakh crore, an increase of 28.2 per cent on a YoY basis, and was 2.8 times the level of FY20. The Government's thrust on capex has been a critical driver of economic growth amidst an uncertain and challenging global environment.

1.30 The focus of capex has been broad-based. Spending in sectors such as road transport and highways, railways, defence services, and telecommunications delivers higher and longer impetuses to growth by addressing logistical bottlenecks and expanding productive capacities. Government capex has also begun to crowd in private investment, as discussed earlier in this chapter. Additionally, the Government continues to disburse grants-in-aid for the creation of capital assets to the states, thereby incentivising them to increase their productive spending.

1.31 At this juncture, it is important to note that while it remains the government's responsibility to facilitate the development of infrastructure and address logistical challenges, it is incumbent upon the private sector to take forward the momentum in capital formation on its own and in partnership with the Government. Between FY19 and FY23, the share of private non-financial corporations in overall GFCF increased only by 0.8 percentage points from 34.1 per cent to 34.9 per cent. This was mostly driven by their fast-increasing share in the additional stock of dwellings, other buildings and structures. Their share in addition to the capital stock in terms of machinery and equipment, started growing robustly only since FY22, a trend that needs to be sustained on the strength of their improving bottom-line and balance sheets in order to generate high-quality jobs.

Table I.2: Broad-based deployment of Union Government capex (Values in ₹ thousand crore)

Sector	FY23	FY24 (PA)	Growth
Road Transport and Highways	206.0	263.9	28.1%
Railways	159.3	242.6	52.3%
Defence Services (capital outlay)	142.9	154.3	7.9%
Transfer to States	92.7	122.9	32.5%
Telecommunications	54.7	59.4	8.5%
Housing and Urban Affairs	26.9	26.4	-1.6%
Atomic Energy	13.8	14.5	5.1%
Defence (Civil)	8.0	10.3	29.5%
Police	8.2	9.7	18.7%
Space	4.3	4.4	3.4%

Source: Statement 3 of Expenditure Profile, Union Budget 2024-25 (Interim), Union Government Accounts at a Glance – O/o CGA

Revenue expenditure growth remains restrained

1.32 The PA show that total expenditure for FY24 is lower by ₹60.6 thousand crore as compared to the budgeted estimates. However, these lower-than-budgeted estimates have not resulted in compromises on important areas of revenue spending, such as rural development and education, where allocation is significantly higher than budgeted estimates. Efficient expenditure management, aided by lower borrowing costs, has led to a marginal downward revision of budgeted expenditure on interest payments in FY24.

1.33 However, even though expenditure on interest payments is lower than budgeted, it constitutes 30.4 per cent of the revenue expenditure in FY24 (PA). A commitment to fiscal consolidation in the medium term, combined with revenues from asset monetisation and privatisation, will be essential in reducing the share of interest payments in revenue expenditure in order to generate more fiscal headroom.

1.34 Expenditure on major subsidies declined by 22.1 per cent on a YoY basis, led by a decrease in fertiliser[30] and food subsidies by 24.6 per cent and 22.4 per cent, respectively, in FY24. The prices of fertilisers had steeply increased in FY23 due to the Russia-Ukraine conflict, prompting a higher outlay for its subsidy. However, in FY24, the supply chains adapted, and as a result, the prices of fertilisers have broadly returned to pre-conflict levels. This facilitated a lower outlay on fertiliser subsidies. The additional food subsidy, instituted to protect vulnerable sections of the population, has been gradually consolidating as well.

Overview of State Government Finances

1.35 State governments continued to improve their finances in FY24. Preliminary unaudited estimates of finances for a set of 23 states[31], published by the Comptroller and Auditor General of India, suggest that the gross fiscal deficit of these 23 states was 8.6 per cent lower than the budgeted figure of ₹9.1 lakh crore.[32] This implies that fiscal deficit as a per cent of GDP for these states came in at 2.8 per cent as against a budgeted 3.1 per cent. The quality of spending by state governments improved, too, with state governments focusing on capex as well.

30 Fertiliser subsidy includes nutrient-based fertiliser subsidy and urea subsidy

31 The 23 major states are: Andhra Pradesh, Arunachal Pradesh, Assam, Bihar, Chhattisgarh, Gujarat, Haryana, Himachal Pradesh, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Meghalaya, Odisha, Punjab, Rajasthan, Tamil Nadu, Telangana, Tripura, Uttar Pradesh, Uttarakhand, and West Bengal.

32 Budgeted figures available from e-STATES Database published by RBI in their report on State Finances – A Study of State Budgets, December 2023 (https://tinyurl.com/ywv3wvdr)

Chart I.43: State Gross Fiscal Deficit under the 3 per cent of GDP mark

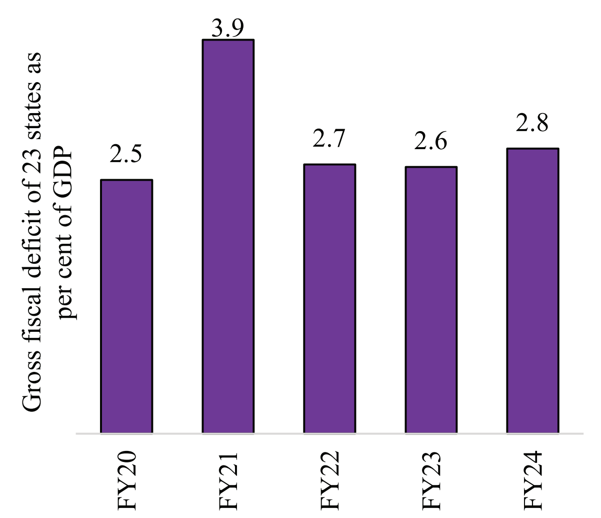
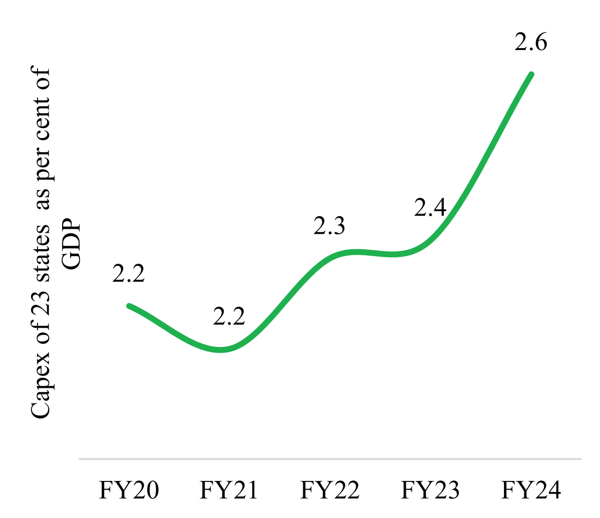
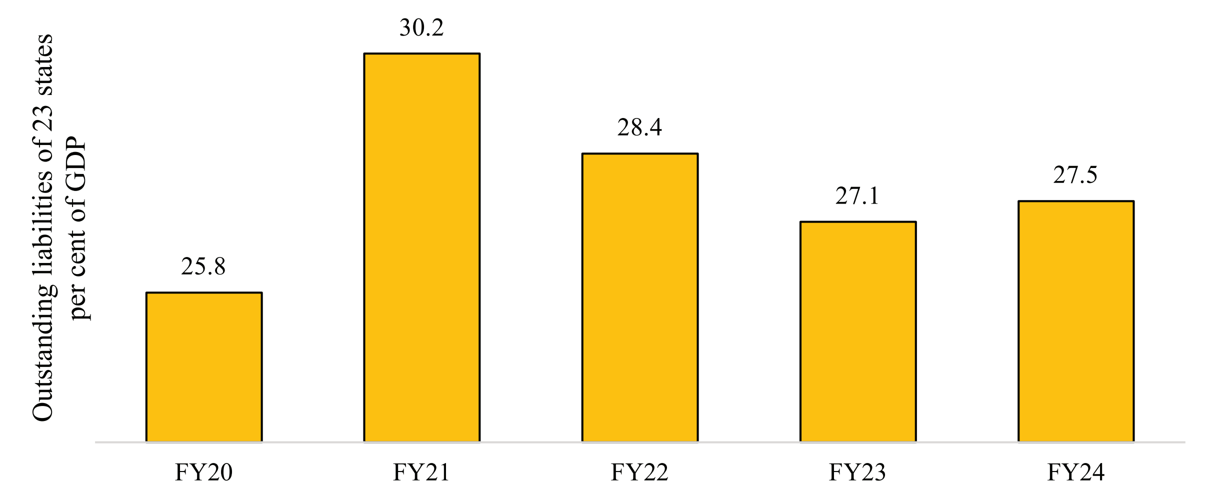


Chart I.44: Improving quality of states' expenditure



Source: State Accounts Report, CAG; Note – data for FY24 are preliminary actuals

Chart I.45: States' debt burden is gradually easing



Source: Statement 19: Total Outstanding Liabilities of State Governments, State Finances: A Study of Budgets, RBI

1.36 Charts I.46 through I.49 encapsulate states' finances[33]. The Union Government's transfers to the states are highly progressive, with states with lower Gross State Domestic Product (GSDP) per capita receiving higher transfers relative to their GSDP. On the revenue side, however, the richer states, with certain exceptions, are able to mobilise a greater proportion of their GSDP as taxes. The combined result of these dynamics on the receipts side is that poorer states are enabled to incur greater public spending relative to their GSDP with the system of fiscal

33 Charts I.46 to I.49 are based on the averages of the respective variables for FY22 and FY23. The graphs have been plotted for a total of 17 states, i.e., Andhra Pradesh, Bihar, Chhattisgarh, Gujarat, Haryana, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh, and West Bengal. GSDP and PC GSDP of Maharashtra for FY23 have been taken from the Economic Survey of Maharashtra 2024

devolution that India has. Given the importance of public expenditure in stimulating growth and development, this is sine qua non for addressing regional imbalances in the country.

Chart I.46: Progressive nature of transfers to states

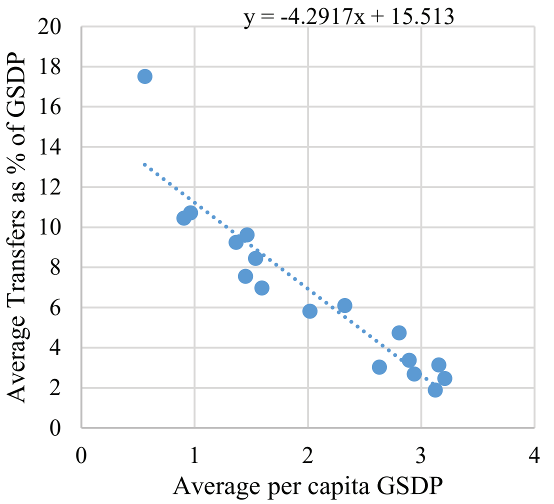


Chart I.47: States' tax efforts

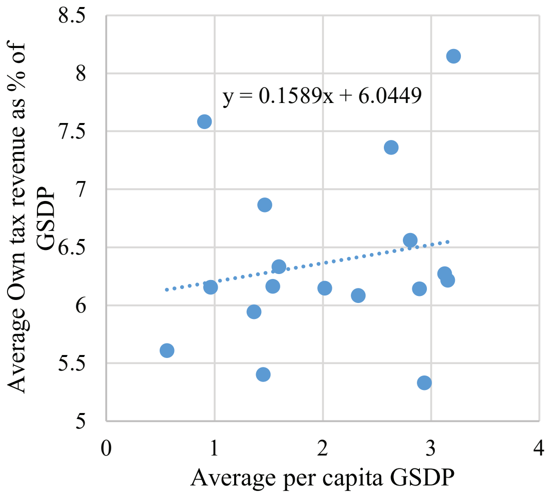


Chart I.48: Total Expenditure of States

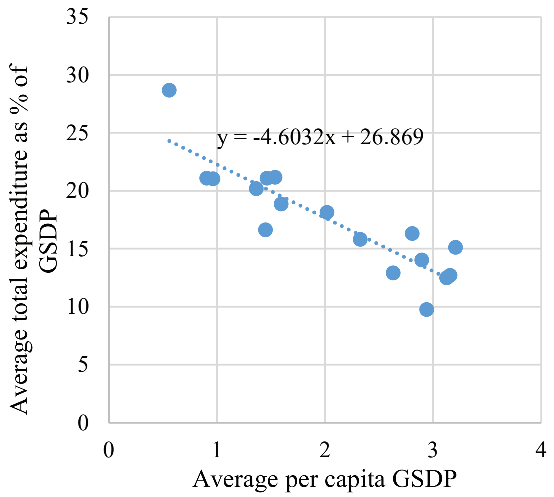
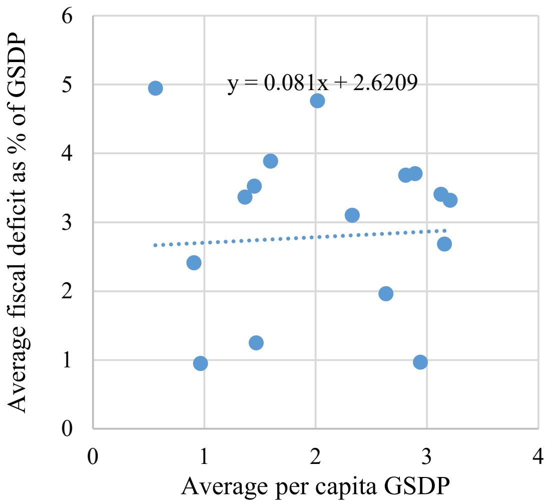


Chart I.49: Fiscal Deficit of States

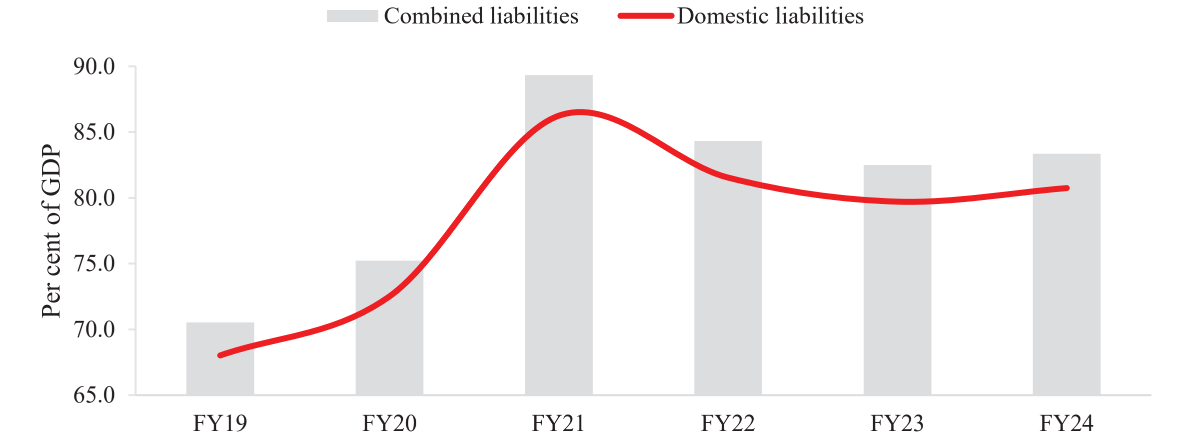


Source: State Accounts Report, CAG

General Government Debt

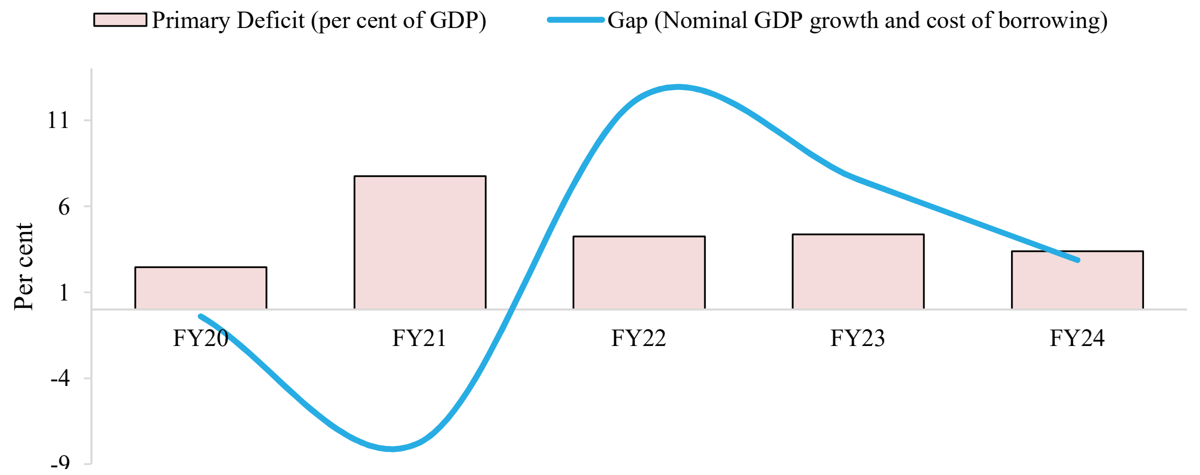
1.37 In the years since the pandemic, the Union Government and the State Governments in general have focussed on fiscal consolidation, which was reflected in the declining debt trajectory of the government till FY23. The general government debt to GDP ratio increased slightly in FY24 despite a declining primary deficit because monetary tightening led to a spike in interest rates, while the decline in inflationary pressures resulted in a lower-than-budgeted nominal GDP growth. However, with the increased prospects of monetary policy easing, along with an uptick in WPI inflation and the government's continued commitment to fiscal consolidation, the debt ratio is likely to resume its declining trend.

Chart I.50: General Government liabilities to GDP ratio come off their peak in FY21



Source: Table 112, Combined Liabilities of Central and State Governments, Handbook of Statistics on Indian Economy, RBI. Notes[34]

Chart I.51: Primary deficit declines, and, growth-interest rate differential remains positive



Source: Primary Deficit - Database on Indian Economy, RBI; Nominal GDP growth - Provisional Estimates for FY24, National Accounts Statistics, MoSPI; Cost of borrowing[35] - RBI Database on Indian Economy, Budget at a Glance.

1.38 Union Government debt is characterised by low currency and interest rate risks. This is owing to the low share of external debt in the debt portfolio and almost all external borrowings being from official sources. The gradual elongation of the maturity profile of the Union Government's debt is leading to reduced rollover risks. The proportion of dated securities

34 Data for combined liabilities for FY23 are Revised Estimates, and data for FY24 are Budget Estimates. Data for GDP is RE for FY21, FY22, FY23 and PE for FY24.

35 The cost of borrowing is calculated as the total interest payments as a per cent of the average debt of period (t) and (t-1).

maturing in less than five years has seen a consistent decline in recent years. The weighted average maturity of the outstanding stock of dated securities of the Government has increased from 9.6 years in end-March 2011 to 12.5 years in end-March 2024.[36]

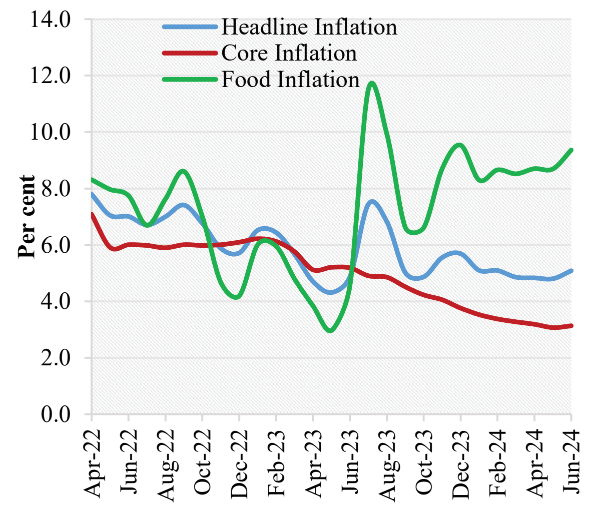
1.39 The sustained improvement in fiscal metrics is beginning to have an impact on India's credit ratings. For the first time in 13 years, S&P Global Ratings upgraded India's sovereign credit rating outlook from 'stable' to 'positive' in May 2024 on the back of robust economic growth, sound economic fundamentals and improved composition of government spending. S&P mentioned that cautious monetary and fiscal policy that diminishes general government debt and interest burden while improving economic resilience could lead to a higher rating over the next two years. The agency further indicated that such an update would require continued commitment to fiscal consolidation in a manner that reduces general government deficits to below 7 per cent on a structural basis. If that were to happen, India's 10-year benchmark bond yield will drop between 30 and 50 basis points. The drop in the benchmark borrowing cost will cause interest rates to decline in general, leading to overall lower cost of borrowing for households and businesses. That would be a fiscal stimulus in itself.

Moderation in inflation pressure

1.40 Despite global supply chain disruptions and adverse weather conditions, domestic inflationary pressures moderated in FY24. After averaging 6.7 per cent in FY23, retail inflation declined to 5.4 per cent in FY24. This has been due to the combination of measures undertaken by the Government and the RBI. The Union Government undertook prompt measures such as open market sales, retailing in specified outlets, timely imports, reduced the prices of Liquified Petroleum Gas (LPG) cylinders and implemented a cut in petrol and diesel prices. The RBI raised policy rates by a cumulative 250 bps between May 2022 and February 2023. It also managed liquidity levels efficiently and maintained consistent and coherent communication with market participants. Even as higher policy rates are transmitted through the system, the RBI continues to support growth with adequate liquidity, thereby ensuring that inflation is headed to the target of 4 per cent on a durable basis. The effects of these measures are reflected in the latest data on CPI inflation – headline CPI inflation of 5.1 per cent in June 2024, and core inflation declined to 3.1 per cent. Consequently, India was the only country amongst its peers to traverse a high-growth and low-inflation path in the period FY22 – FY24 (Chart I.53). This is despite the fact that there were pressures on the food inflation front, driven by adverse weather conditions.

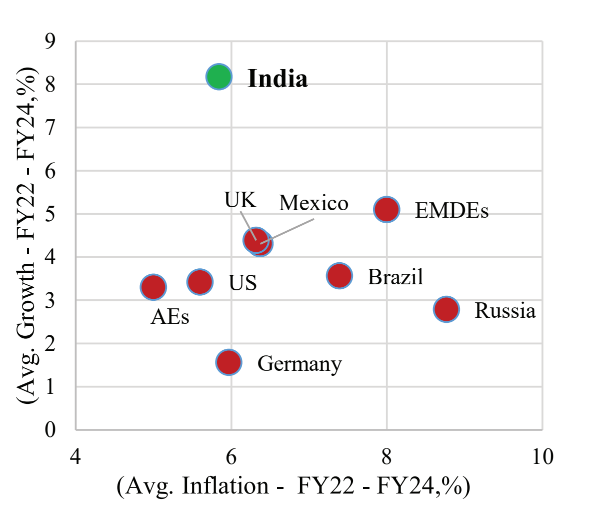
36 Table 4.2 of PDMC quarterly report (January – March 2024) (https://tinyurl.com/mrxaf4kw)

Chart I.52: Declining core inflation but volatile food inflation



Source: Consumer Price Indices released by CSO, MoSPI

Chart I.53: India a high-growth and low-inflation economy



Source: IMF WEO database (April 2024), MoSPI

The financial system remains resilient

1.41 The RBI's vigil over the banking and financial system and its prompt regulatory actions ensure that the system can withstand any macroeconomic or systemic shock. Data from the RBI's Financial Stability Report of June 2024 show that the asset quality of SCBs has improved, with the Gross Non-Performing Assets (GNPA) ratio declining to 2.8 per cent in March 2024, a 12-year low. The system-wide capital to risk-weighted assets ratio (CRAR) declined marginally by 37 basis points (bps) over FY24 due to an RBI-mandated revision of risk weights but remained well above the regulatory threshold. The profitability of SCBs remained steady, with the return on equity and return on assets ratios at 13.8 per cent and 1.3 per cent, respectively, as of March 2024. Macro stress tests also reveal that SCBs would be able to comply with minimum capital requirements even under severe stress scenarios.

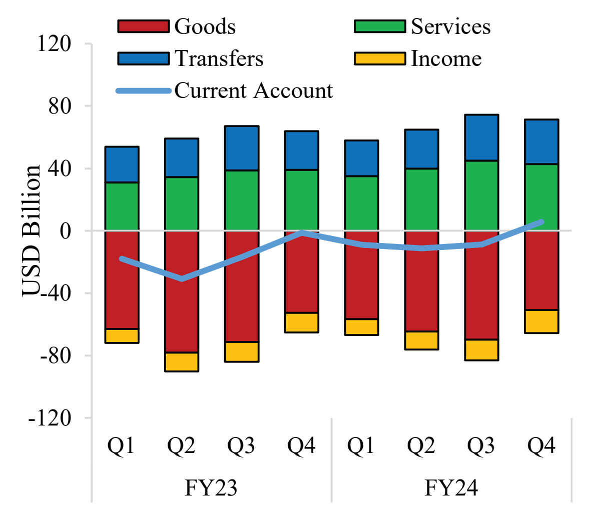
1.42 The RBI remains proactive in undertaking regulatory action. In a measure to regulate the exuberant growth in the unsecured lending category and preserve financial stability, the RBI tightened norms around this portfolio. Growth in unsecured loans was outpacing that in overall credit. To tackle this problem, the RBI directed that consumer credit exposure for banks and Non-Banking Financial Companies (NBFCs) will attract a risk weight of 125 per cent compared to 100 per cent earlier. The risk weight for credit card loans by banks and NBFCs was fixed at 150 per cent and 125 per cent, respectively, up from 125 per cent and 100 per cent earlier. Prompt regulatory actions shield the banking and financial system from adverse developments and instil confidence in market participants. The soundness of the banking system will facilitate the financing of productive opportunities and lengthen the financial cycle, both of which are necessary to sustain economic growth.

India's external sector is safely navigating through uncertainties

1.43 On the external front, moderation in merchandise exports continued during FY24, mainly on account of weaker global demand and persistent geopolitical tensions. However, a sharper decline in India's merchandise import growth, owing to declining commodity prices, resulted in a lower trade deficit in FY24. However, India's service exports have remained robust, reaching a new high of USD 341.1 billion in FY24. Exports (merchandise and services) in FY24 grew by 0.15 per cent, while the total imports declined by 4.9 per cent despite a strong domestic market demand.[37] Net private transfers, mostly comprising remittances from abroad, grew to USD 106.6 billion in FY24. As a result, the CAD stood at 0.7 per cent of the GDP during the year, an improvement from the deficit of 2.0 per cent of GDP in FY23.

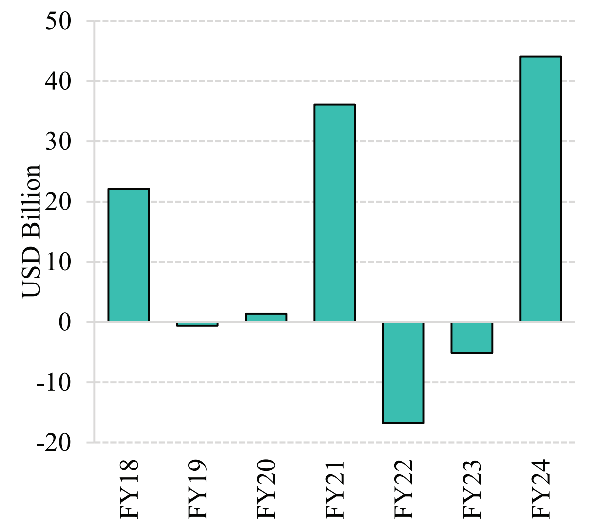
1.44 Supported by optimism surrounding India's growth story, progressive policy reform, economic stability, fiscal prudence and attractive investment avenues, India witnessed robust FPI inflows in FY24 that helped fund the CAD and aided the RBI in building adequate forex reserves. Net FPI inflows stood at USD 44.1 billion during FY24 against net outflows in the preceding two years. Net FDI inflows, however, witnessed moderation largely as a part of the global phenomenon of declining FDI flows on account of increased scepticism. Net FDI inflows to India declined from USD 42.0 billion during FY23 to USD 26.5 billion in FY24. However, gross FDI inflows moderated by only 0.6 per cent in FY24. The contraction in net inflows was primarily due to a surge in repatriation/disinvestment.

Chart I.54: CAD narrowed to 0.7 per cent of GDP in FY24



Source: Table 196, Handbook of Statistics on the Indian Economy, RBI

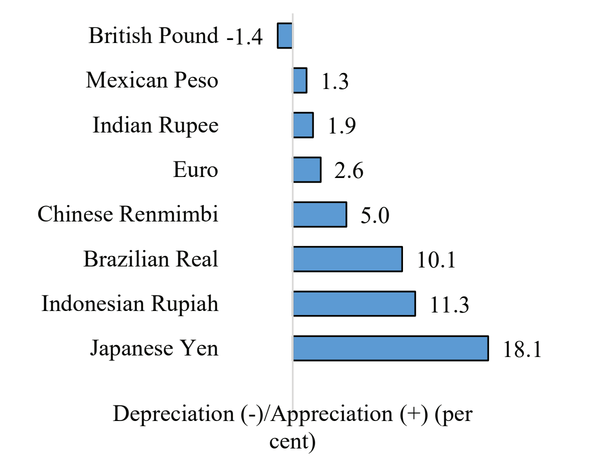
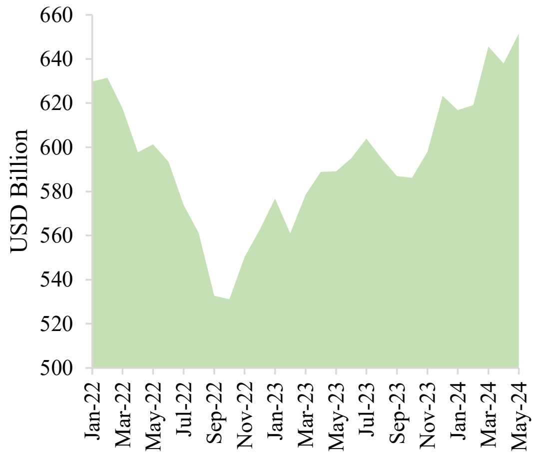
Chart I.55: FPI inflows aided in funding CAD and building forex reserves



Source: Table 130, Handbook of Statistics on the Indian Economy, RBI

1.45 Overall, India's external sector is being deftly managed with comfortable foreign exchange reserves and a stable exchange rate. Forex reserves as of the end of March 2024 were sufficient to cover 11 months of projected imports and more than 100 per cent of total external debt. The Indian Rupee has also been one of the least volatile currencies among its emerging market peers in FY24. India's external debt vulnerability indicators also continued to be benign. External debt as a ratio to GDP stood at a low level of 18.7 per cent as of end-March 2024. The ratio of foreign exchange reserves to total debt stood at 97.4 per cent as of March 2024.

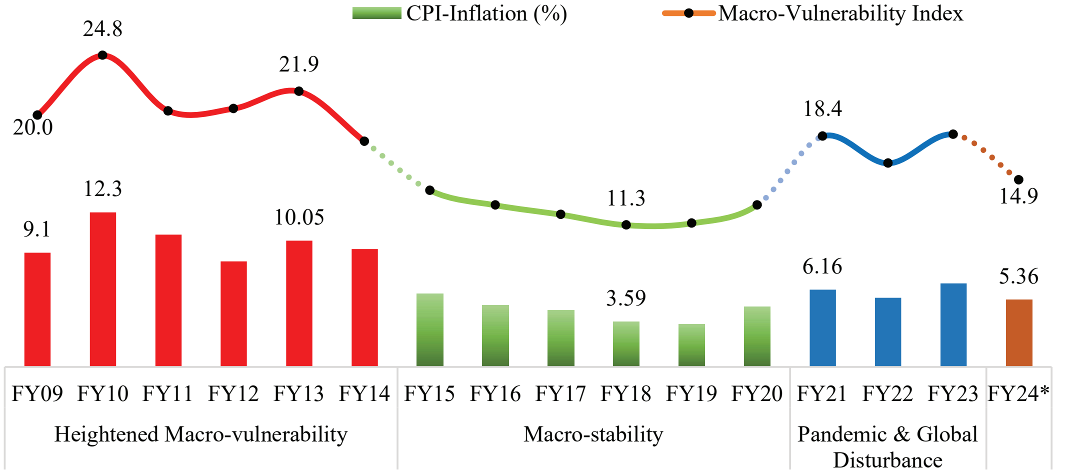
37 Table 132, Handbook of Statistics on the Indian Economy, RBI - https://tinyurl.com/yne8sbw7

Chart I.56: The ₹ was one of the most stable currencies over Apr’23 – Jun’24	Chart I.57: Forex reserves sufficient to cover around 11 months of imports
	
Source: Bilateral Exchange Rates, Bank for International Settlements	Source: Table 205, Handbook of Statistics on the Indian Economy, RBI

Reduction in macro vulnerability

1.46 In its pursuit of fiscal consolidation through efficient and prudent fiscal management, the Government continues to stick to the fiscal glide path. The fiscal deficit of the Government is expected to drop to 4.5 per cent of GDP or lower by FY26. This commitment has helped keep the sovereign debt sustainable, thereby keeping sovereign bond yields and spreads in check. All these factors have combined to keep the macroeconomic environment stable and provide a platform for sustainable growth. This is reflected in the downward trajectory of the macroeconomic vulnerability index – an index constructed by combining India’s fiscal deficit, CAD and inflation.

Chart I.58: A reduction in macro-vulnerability despite increased external uncertainty



Source: Calculated using data on CPI inflation published by MoSPI, current account deficit published by RBI, and fiscal deficit published in the Union Budget documents. Notes[38]

38 Retail Inflation from FY09 to FY12 is based on CPI-Industrial Workers released by the Labour Bureau, FY13 to FY24 is based on CPI-Combined released by MoSPI; Gross fiscal deficit data for FY24 for the Union Government is Provisional Actuals, and for the state governments, it is a Budget Estimate.

Box I.2: Strengthening the Statistical System

A sound and dynamic statistical system is the cornerstone for an informed citizenry, data-driven policies and decision-making. Official statistics play a pivotal role in addressing societal challenges and promoting inclusive growth. The government is taking many steps aimed at strengthening administrative and survey statistics, building capacities and improving data quality and timeliness.

MoSPI, the cornerstone

MoSPI is the nodal ministry for the planned and integrated development of the Indian statistical system. MoSPI anchors the core statistics by publishing GDP, price and volume indices and countrywide surveys of macroeconomic and sectoral importance. The Ministry has initiated various new surveys, namely, the annual survey of unincorporated sector enterprises, a time-use survey and started a pilot for an annual survey of service sector enterprises. MoSPI is also working towards increasing the frequency of PLFS data and extending the generation of quarterly estimates for rural areas. Modern IT tools are being adopted for improved data capturing and processing. To encourage greater use of administrative data, a National Metadata Structure is also being developed. The Unified Data Portal project has been envisaged by MoSPI with the objective of creating a centralised database and storage system. Ministries are also taking initiatives to enhance the frequency of various surveys to make more informed policy decisions. Given India's 2047 goals, it is important for development policy that (a) MoSPI is capacitated fully to produce and integrate all required statistics with the desired quality, regularity and timeliness and (b) the quality and timeliness of administrative and transactional data of the line Ministries are brought to levels that fully facilitate timely course corrections.

Further steps to strengthen the statistical database

a) An extensive exercise for base revision of important economic statistics is being taken up at MoSPI. The exercise to change the base year of CPI from 2012 to 2024 has been initiated. An Advisory Committee on National Accounts Statistics has been set up to decide on the base year for GDP. It is important that the base year of critical data series like the GDP, different price indices and volume indices like Index of Industrial Production (IIP) are updated to the most recent feasible year at the earliest. The ongoing efforts to construct the producer price index for goods and services may be expedited to have a greater grasp of episodes of cost-push inflation. State-level variants of indices like IIP will help understand the emerging geographical patterns. Survey data to help understand private sector capital formation at regular intervals will also help policy formulation.

b) The high-frequency price monitoring data for essential food items collected by different departments may be linked in such a way that the build-up of prices at each stage from the farm gate to the final consumer is quantifiable and monitorable. This will help improve the effectiveness of administrative action by the Government to stabilise prices of essential food items.

c) More than 1.3 crore entities are registered under GST and file returns. The granular GST data, if made available, has great potential to analyse the health of businesses, screening of loan applications, provide support for cash flow-based lending, and understand the economies of different geographies deeply.

d) The XV Finance Commission observes, "The CAG, which is mandated to carry out the role of accounts compilation and finalisation for almost all the States, as well as being the auditor of both the Union and the States, is already in the process of establishing common fiscal data standards. This would eventually ensure the availability of standardised data through a public web portal for granular level fiscal statistics of the Union and the States, both for historic audited fiscal data and high-frequency fiscal data for the current year in downloadable database formats."[39] Granular time series, in database formats, of audited accounts of the Union and the States will make fiscal analysis and policy much easier.

e) Regular indicators of the dynamics of production and employment in MSMEs are essential, considering their potential for growth and job creation.

f) Information may be published on industry-wise gross disbursement of bank credit (as opposed to the data on outstanding credit currently available), industry-wise monthly gross financial flows through domestic and external equity and debt routes, and other financing sources.

g) There is also a need to have a regular mechanism to aggregate the financial flows to infrastructure and physical progress- sectorally and geographically differentiated- achieved in different infrastructure sectors, at least on an annual basis.

h) The large volume of data generated by schemes such as Pradhan Mantri Jan Arogya Yojana and Ayushman Bharat Digital Mission, which capture details such as hospital admissions, patients' medical history or demographic details. These can be used for disease surveillance, preventive medication, etc.

i) The Labour Bureau is also tasked with conducting five surveys relating to workers and employment. Ensuring rigour, timeliness and user-friendliness of data and making it available in database formats will help analysis and policy[40].

The thrust on evidence also necessitates that the process and impact evaluation capacities in the Union and State Governments and universities are nurtured and driven towards maturity in a time-bound manner.

INCLUSIVE GROWTH

Shift in the approach to welfare

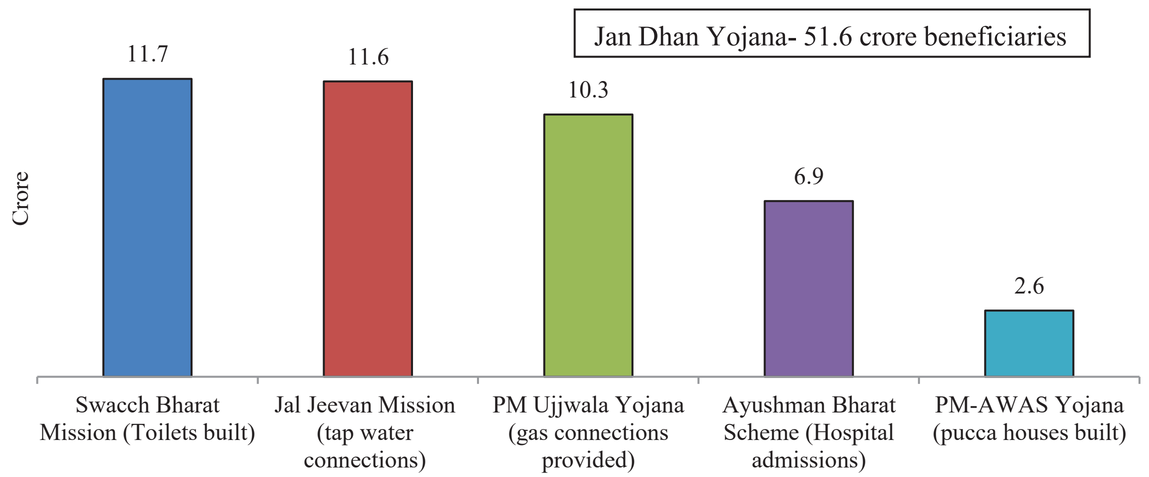
1.47 India's social welfare approach has undergone a shift from an input-based approach to outcome-based empowerment. Saturation of basic necessities has been recognised as imperative to achieve this, thus impelling an array of flagship initiatives. Government initiatives like providing free-of-cost gas connections under PM Ujjwala Yojana, building toilets under

39 https://tinyurl.com/2dbutsvt
40 https://tinyurl.com/5xrrja3c

the Swacch Bharat Mission, opening bank accounts under Jan Dhan Yojana, building pucca houses under PM-AWAS Yojana have improved capabilities and enhanced opportunities for the underprivileged sections.

1.48 The approach also involves the targeted implementation of reforms for last-mile service delivery to truly realise the maxim of "no person left behind". These include the Aspirational Districts Programme, launched in 2018, for focusing efforts on the most backward regions, the success of which inspired the Aspirational Blocks Programme launched in 2023; the Vibrant Villages Programme for border areas; and more recently, the Viksit Bharat Sankalp Yatra, which saw the participation of 15 crore people in two months starting 15 November 2023[41]. The digitisation of healthcare, education and governance helps improve the gains for every rupee spent. The Direct Benefit Transfer (DBT) scheme and Jan Dhan Yojana-Aadhaar-Mobile trinity have been boosters of fiscal efficiency and minimisation of leakages, with ₹36.9 lakh crore having been transferred via DBT since its inception in 2013 (DBT Portal.[42]).

Chart I.59: Beneficiaries under various government welfare schemes since their inception



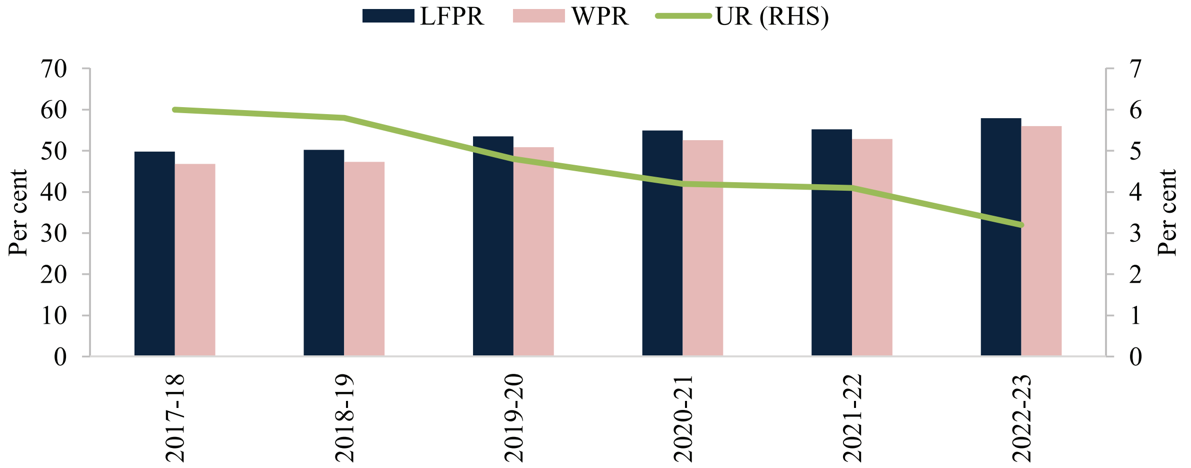
Source: Various PIB Press Releases

1.49 On the employment front, according to the annual PLFS, the all-India annual unemployment rate (persons aged 15 years and above, as per usual status) has been declining since the pandemic. This has been accompanied by a rise in the labour force participation rate and worker-to-population ratio. Even by the relatively strict standards of current weekly status, employment has recovered from the pandemic in urban and rural areas. From the gender perspective, the female labour force participation rate has been rising for six years, i.e., from 23.3 per cent in 2017-18 to 37 per cent in 2022-23, driven mainly by the rising participation of rural women.

41 15 Crore Participants in Two Months Viksit Bharat Sankalp Yatra draws huge crowds across many states, 17 Jan 2024 (https://tinyurl.com/55xae4b3)

42 https://dbtbharat.gov.in/

Chart I.60: Declining unemployment rate and improvement in labour force participation rate and worker population ratio

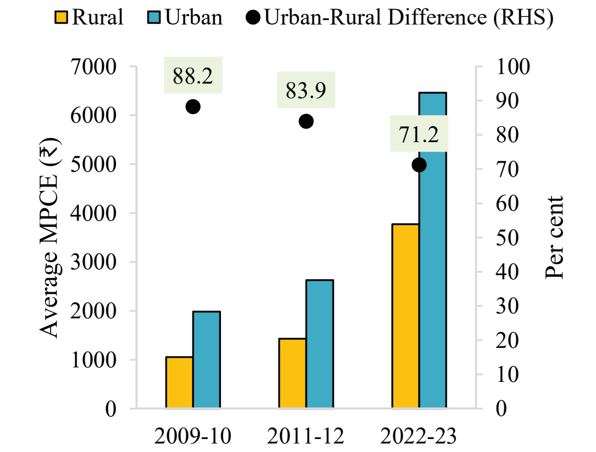


Source: Annual Report, PLFS, July 2022 - June 2023, MoSPI

1.50 As a result of the systematic focus on addressing individual deprivations, the incidence of poverty has reduced remarkably. This is reflected in the steep decline in the headcount ratio of multidimensionally poor between 2015-16 and 2022-23, as per NITI Aayog's discussion paper on multidimensional poverty in India[43].

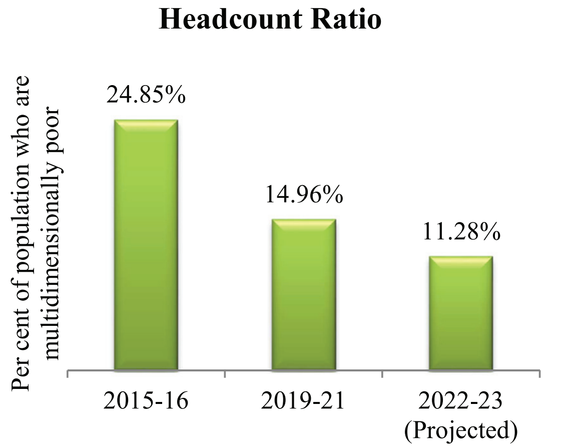
1.51 The initiatives in the social sector have also translated into rising consumption spending, as evident from the results of the latest Household Consumption Expenditure Survey (HCES) 2022-23. The HCES throws many reassuring findings on inclusive growth in the past decade. The monthly per capita consumption expenditure (MPCE) in 2022-23 increased in real terms in both rural and urban areas over 2011-12. The difference between rural and urban MPCE also declined in percentage terms.

Chart I.61: Reduced rural-urban inequality



Source: Survey on Household Consumption Expenditure: 2022-23, MoSPI; Note[44]

Chart I.62: Population that is multidimensionally poor has declined



Source: Multidimensional Poverty in India since 2005-06- A Discussion Paper, Niti Aayog

43 NITI Aayog's discussion paper, 'Multidimensional Poverty in India since 2005-06', 2023 (https://tinyurl.com/4yvmrcax)

44 Urban-rural difference is calculated as the difference a percentage of rural MPCE.

OUTLOOK

1.52 The Indian economy recovered swiftly from the pandemic, with its real GDP in FY24 being 20 per cent higher than the pre-COVID, FY20 levels. This meant a CAGR of 4.6 per cent from FY20, despite a 5.8 per cent decline in FY21 inflicted by the pandemic. Analysis in this chapter shows that the current GDP level is close to the pre-pandemic trajectory in Q4FY24. During the decade ending FY20, India grew at an average annual rate of 6.6 per cent, more or less reflecting the long-run growth prospects of the economy. This is the background against which we can see the prospects for FY25.

1.53 IMF projects the global economy to grow at 3.2 per cent in 2024, with risks being broadly balanced. The average annual global growth was 3.7 per cent during the decade ending FY20. Inflationary pressures have moderated in most economies with declining global commodity prices and easing of supply chain pressures. However, core inflation remains sticky and driven by high service inflation. Many central banks have hinted at the peaking of the interest rate hike cycle. The ECB has already cut the policy rate, while the Fed has hinted at reducing the rate in 2024. If the services inflation across economies moderates faster, that may allow central banks to bring forward the monetary policy easing cycle earlier than currently anticipated. A likely reduction in policy rates by central banks of AEs, especially the Fed, will open the space for central banks of EMEs to follow the lead, bringing down the cost of capital.

1.54 On the downside, any escalation of geopolitical conflicts in 2024 may lead to supply dislocations, higher commodity prices, reviving inflationary pressures and stalling monetary policy easing with potential repercussions for capital flows. This can also influence RBI's monetary policy stance. The global trade outlook for 2024 remains positive, with merchandise trade expected to pick up after registering a contraction in volumes in 2023. Conversely, increased fragmentation along geopolitical lines and renewed thrust on protectionism may distort merchandise trade growth, impacting India's external sector. Global financial markets have scaled new heights, with investors betting on global economic expansion. However, any corrections in the elevated financial market valuations may have ramifications for household finances and corporate valuation, negatively impacting growth prospects. Hiring in the information technology sector had slowed down considerably in FY24, and even if hiring does not decline further, it is unlikely to pick up significantly. However, leveraging the initiatives taken by the government and capturing the untapped potential in emerging markets, exports of business, consultancy and IT-enabled services can expand. Despite the core inflation rate being around 3 per cent, the RBI, with one eye on the withdrawal of accommodation and another on the US Fed, has kept interest rates unchanged for quite some time, and the anticipated easing has been delayed.

1.55 Domestic growth drivers have supported economic growth in FY24 despite uncertain global economic performance. Improved balance sheets will help the private sector cater to strong investment demand. A note of caution is warranted here. Private capital formation after good growth in the last three years may turn slightly more cautious because of fears of cheaper imports from countries that have excess capacity. While merchandise exports are likely to increase with improving growth prospects in AEs, services exports are also likely to witness a further uptick. A normal rainfall forecast by the India Meteorological Department and the satisfactory spread of the southwest monsoon thus far are likely to improve agriculture sector performance and support the revival of rural demand. However, the monsoon season still has some ways to go. Structural reforms such as the GST and the IBC have also matured and are delivering envisaged results. Considering these factors, the Survey conservatively projects a real GDP growth of 6.5–7 per cent, with risks evenly balanced, cognizant of the fact that the market expectations are on the higher side.

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