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Present State of the Indian Economy

At a Glance

- India, the ***third-largest economy*** in the world in Purchasing Power Parity (PPP) terms and the ***fifth-largest*** in market exchange rates, has withstood the internal and external challenges alike.
- The advance GDP estimates for the year 2022-23 is ***around 7%*** and GDP growth of ***6.0-6.8 per cent*** is expected in 2023-24, depending on the trajectory of economic and political developments globally.
- According to the Economic Survey 2022-2023, the Capital Expenditure (Capex) of the central government ***increased by 63.4 per cent*** in the first eight months of FY23 and became major driver of the Indian economy in the current year.
- The issue of ***inflation*** (due to increased commodity prices due to European Strife), ***widening CAD*** and ***slowdown in global economy*** can be a challenge for Indian Economy in upcoming time.
- India's recovery from the pandemic was relatively quick, and growth in the upcoming year will be supported by ***solid domestic demand and a pickup in capital investment.***
- Union Budget visualized India to be a technology-driven and knowledge-based economy with strong public finances and a robust financial sector during ***Amrit Kaal.***

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Introduction

India, the ***third-largest economy in the world in Purchasing Power Parity (PPP) terms and the fifth-largest in market exchange*** rates, has reinforced the country's belief in its economic resilience as it has withstood the internal and external challenges alike such as of mitigating external imbalances caused by the Russian-Ukraine conflict without losing growth momentum in the process. The Indian economy appears to have moved on addressing the challenges posed by the pandemic, staging a full recovery, ahead of many nations and positioning itself to ascend to the pre-pandemic growth path in Financial Year (FY) 2023-24.

India's economic growth in Financial Year 2022-23 has been principally led by private consumption and capital formation and they have helped generate employment. However, private capex is required to create more jobs and to give boost to growth prospects.

Global Setting

The IMF expects one-third of the world to be in recession in 2023. In its latest Global Economic Prospects (GEP) released on January 10, 2023, the World Bank points to a prolonged slowdown in the global economy with growth pegged at 2.2% – the third lowest in three decades. The FAO Food Price Index declined for a ninth consecutive month in December 2022, led by declines in vegetable oil prices and cereals. Crude oil prices traded at an average of US$ 80.9 per barrel in December, down from US$ 91.1 in November. In the Euro area, inflation dipped to 9.2 per cent in December 2022 from 10.1 per cent in November 2022. The overall outlook of the global economy remains uncertain.

Growth and GDP

The advance GDP estimates for the year 2022-23 is ***around 7%*** and GDP growth of ***6.0-6.8 per cent*** is expected in 2023-24, depending on the trajectory of economic and political developments globally. The projection is broadly comparable to the estimates provided by multilateral agencies such as the World Bank, the IMF, and the ADB and by RBI, domestically. The optimistic growth forecasts stem from a number of positives like the ***rebound of private consumption, higher Capital Expenditure (Capex), near-universal vaccination coverage, return of migrant workers to work in construction sites, the strengthening of the balance sheets of the corporates and well-capitalized public sector banks for credit supply*** including others.

Further support to economic growth comes from the expansion of public digital platforms and path-breaking measures such as *PM GatiShakti*, the *National Logistics Policy*, and the *Production-Linked Incentive schemes* to boost manufacturing output. India remained an outlier among major economies, with an expansionary composite Purchasing Managers' Index (PMI) reading in December 2022. The services PMI recorded its highest expansion in six months, aided by increase in new business.

Despite the three shocks of COVID-19, Russian-Ukraine conflict and policy rate hikes by the Central Banks across economies led by Federal Reserve to curb inflation, leading to appreciation of US Dollar and the widening of the Current Account Deficits (CAD) in net importing economies, agencies worldwide continue to project India as the ***fastest-growing major economy at 6.5-7.0 per cent in*** Financial Year 2023-24.

Upside to India's Growth

- *limited health and economic fallout for the rest of the world from the current surge in Covid-19 infections in China and, therefore, continued normalisation of supply chains;*
- *inflationary impulses from the reopening of China's economy turning out to be neither significant nor persistent;*
- *recessionary tendencies in major Advanced Economies (AEs) triggering a cessation of monetary tightening and a return of capital flows to India amidst a stable domestic inflation rate below 6 per cent; and*
- *this leading to an improvement in confidence of investors and providing further impetus to private sector investment.*

Strengths of Indian Economy

According to the Economic Survey 2022-2023, the Capital Expenditure (Capex) of the central government ***increased by 63.4 per c***ent in the first eight months of FY23 and became major driver of the Indian economy in the current year. A sustained increase in private Capex is also imminent with the strengthening of the balance sheets of the Corporates.

The credit growth to the Micro, Small, and Medium Enterprises (MSME) sector ***has been remarkably high***, over 30.6 per cent, on average during January-November 2022, supported by the extended Emergency Credit Linked Guarantee Scheme (ECLGS). Apart from this, increase in the overall bank credit has also been influenced by the shift in borrower's funding choices from volatile bond markets and external commercial borrowings ***towards banks.*** If inflation declines and if real cost of credit does not rise, then credit growth is likely to be brisk in FY24.

Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) has been directly providing jobs in rural areas and indirectly creating opportunities for rural households to diversify their sources of income generation. Schemes like ***PM-Kisan*** and ***PM Garib Kalyan Yojana*** have helped in ***ensuring food security*** in the country, and their impact was also endorsed by the United Nations Development Programme (UNDP). The results of the National Family Health Survey (NFHS) also show improvement in rural welfare indicators from FY16 to FY20, covering aspects like gender, fertility rate, household amenities, and women empowerment.

Inflation, Current Account Deficit (CAD) and Global Slowdown

India's inflation rate moderated to 5.7 per cent in December 2022 from 5.9 per cent a month earlier. The easing was primarily driven by the sharp moderation in food inflation. Average Wholesale Price Index remained ***11.5%*** and Consumer Price Index was 6.8% for the period of April-December 2022. Measures taken by the government and RBI, along with the easing of global commodity prices, have finally managed to bring retail inflation below the RBI upper tolerance target in November 2022. India's external debt to GDP ratio declined to 19.2 per cent at end-September 2022 from 19.3 per cent at June 2022. The Indian rupee depreciated by 0.8 percent vis-à-vis the US dollar (month-on-month basis) in December 2022. The challenge of the ***depreciating rupee***, although better performing than most other currencies, persists with the likelihood of further increases in policy rates by the US Federal Reserve. RBI has projected headline inflation at 6.8 per cent in FY23, ***which is outside its target range*** and may be a cause of concern.

However, the issue of inflation (due to increased commodity prices due to European Strife), widening CAD and slowdown in global economy can be a challenge for Indian Economy in upcoming time.

The ***widening of the Current Account Deficit (4.4% of the GDP in the quarter ending September 2022)*** may also continue as global commodity prices remain elevated and the growth momentum of the Indian economy remains strong. The loss ***of export stimulus is further possible*** as the slowing world growth and trade shrinks the global market size in the second half of the current year. Therefore, the Global growth has ***been projected to decline in*** 2023 and is expected to remain generally subdued in the following years as well. The slowing demand will likely push down global commodity prices and may improve India's CAD in FY24.

However, ***CAD needs to be closely monitored*** as there is downside risk to the Current Account Balance from a swift recovery driven mainly by domestic demand, and to a lesser extent, by exports. The rate hike by the US Federal Reserve drove capital into the US markets causing the US Dollar to appreciate against most currencies. This led ***to the widening of the Current Account Deficits*** and ***increased inflationary pressures in net importing economies***. Slowing global growth apart from monetary tightening may also lead to a financial contagion emanating from the advanced economies where the debt of the non-financial sector has risen the most since the global financial crisis. With inflation persisting in the advanced economies and the central banks hinting at further rate hikes, ***downside risks to the global economic outlook*** appear elevated.

India's Economic Resilience and Growth Drivers

The factors like monetary tightening by the RBI, the widening of the CAD, and the stagnant growth of exports have essentially been the outcome of geopolitical strife in Europe. These developments ***posed downside risks*** to the growth of the Indian economy in FY23 and advance estimates released by the National Statistical Office (NSO), forecasts growth broadly in the range of 6.5-7.0 per cent, which is higher than for almost all major economies and even slightly above the average growth of the Indian economy in the decade leading up to the pandemic.

Sr. No.	**Sector of the Economy**	**Growth rate of GVA at Basic Prices 2022-23**
1	Agriculture and Allied Activities	3.5%
2	Industrial Sector	4.1%
3	Services	9.1%

Table: Showing Growth across various sectors of Indian Economy

Despite strong global headwinds and tighter domestic monetary policy, if India is still expected to grow between 6.5 and 7.0 per cent, and that too without the advantage of a base effect, it is a reflection of ***India's underlying economic resilience***; of its ability to recoup, renew and re-energise the growth drivers of the economy. India's economic resilience can be seen in the ***domestic stimulus to growth seamlessly replacing the external stimuli.***

Manufacturing and investment activities consequently gained traction. By the time the growth of exports moderated, the ***rebound in domestic consumption supported by a rebound in contact-intensive services*** such as trade, hotel and transport had contributed to take forward the growth of India's economy. Construction activity has significantly risen in FY23 as the much-enlarged capital budget (Capex) of the central government and its public sector enterprises is rapidly being deployed. Direct tax revenue collections have been highly buoyant, and so have GST collections and there is pick-up in private sector investment since the January-March quarter of 2022. It is also expected that fiscal deficit target of 6.4 percent of GDP for this financial year will also be met.

While general increase in export demand (though presently appears subdued in face of heading global recession), rebound in consumption, and public capex have contributed to a recovery in the investment/manufacturing activities of the corporate. The banking sector in India has also responded in equal measure to the demand for credit as growth in credit has moved ***into double-digits*** and is rising across most sectors.

Employment and MSMEs

According to Economic Survey, employment levels have risen in the current financial year, as the Periodic Labour Force Survey (PLFS) shows that the urban unemployment rate for people aged 15 years and above declined from 9.8 per cent in the quarter ending September 2021 to 7.2 per cent in the same quarter in 2022. This is accompanied by an improvement in the Labour Force Participation Rate (LFPR) as well.

With regard to MSMEs, a recent Central Information Bureau (India) Limited (CIBIL) report (ECLGS Insights, August 2022) showed that the ECLGS scheme has supported MSMEs in facing the COVID shock, with 83 per cent of the borrowers that availed of the ECLGS being micro-enterprises. Moreover, the GST paid by MSMEs after declining in FY21 has been rising since and ***now has crossed the pre-pandemic*** level of FY20, reflecting the financial resilience of small businesses and the effectiveness of the pre-emptive government intervention targeted towards MSMEs. MGNREGA has been rapidly creating more assets in respect of “Works on individual’s land” than in any other category.

Outlook: Indian Economy for 2023-24

India’s recovery from the pandemic was relatively quick, and growth in the upcoming year will be supported by ***solid domestic demand and a pickup in capital investment.*** Incipient signs of a new private sector capital formation cycle are visible and more importantly, compensating for the private sector’s caution in capital expenditure, the government raised capital expenditure substantially. According to the Economic Survey 2022-2023, budgeted ***capital expenditure rose 2.7 times in the last seven years***, from FY16 to FY23, re-invigorating the Capex cycle. In Union Budget 2023-24, Capital investment outlay has being increased steeply for the third year in a row by 33 per cent to Rs. 10 lakh crore, which would be 3.3 per cent of GDP. This will be almost three times the outlay in 2019-20. Structural reforms such as the introduction of the Goods and Services Tax and the Insolvency and Bankruptcy Code enhanced the efficiency and transparency of the economy and ensured financial discipline and better compliance.

Strong domestic demand amidst high commodity prices may raise ***India's total import bill and contribute to widen CAD***. These may be exacerbated by subduing export growth on account of slackening global demand and the Indian currency may come under depreciation pressure due to widening CAD. Entrenched inflation may prolong the tightening cycle, and therefore, borrowing ***costs may stay 'higher for longer'***. In such a scenario, global economy may be characterized by low growth in FY24 and will also impact the Indian Economy. However, the oil prices may stay low and India's CAD may be better than currently projected.

Union Budget 2023-24

Union Budget visualized India to be a technology-driven and knowledge-based economy with strong public finances and a robust financial sector during *Amrit Kaal*. The economic agenda for achieving this vision focuses on ***three things*** and those are facilitating *ample opportunities for citizens, especially the youth, to fulfill their aspirations,* ***secondly****, providing strong impetus to growth and job creation* and ***finally*** *to strengthen macro-economic stability*. The Budget identified four focus areas required for transformation which are: *Economic Empowerment of Women, PM VIshwakarma KAushal Samman (PM VIKAS), Tourism* and *Green Growth*. The total expenditure in Budget Estimates (BE) 2023-24 is estimated at Rs. 45,03,097 crore of which total capital expenditure is Rs. 10,00,961 crore.

Budget 2023-24 reflects continuing strong commitment of the Union Government to boost economic growth by investing in infrastructure development leading to an increase in capital expenditure by 37.4 per cent over Revised Estimates (RE) 2022-23 (***See Annexure I for sector wise allocation and comparison***).

Global Economy and Challenges

Major challenges faced by the Global Economy which will also affect the growth and development of Indian Economy.

- *COVID-19 related disruptions in economies.*
- *Russian-Ukraine conflict and its adverse impact along with disruption in supply chain, mainly of food, fuel and fertilizer causing inflationary pressure.*
- *Central Banks across economies responding with synchronised policy rate hikes to curb inflation, leading to appreciation of US Dollar and the widening of the Current Account Deficits (CAD) in net importing economies.*
- *Prospects of global stagflation and nations trying to protect their respective economic space, thus slowing cross-border trade affecting overall growth.*
- *China experienced a considerable slowdown induced by its policies.*
- *Challenges to growth due to the loss of education and income-earning opportunities (during pandemic)*

Annexure I

BUDGET 2023-24 SECTOR WISE ALLOCATION & PREVIOUS YEAR COMPARISION

(In Rs.crore)

S. No.	Sectors	2021-22 Actuals	2022-23 Budget Estimates	2022-23 Revised Estimates	2023-24 Budget Estimates
1.	Pension	198946	207132	244780	234359
2.	Defence	366546	385370	409500	432720
3.	Subsidy				
4.	Fertilizer	153758	105222	225220	175100
5.	Food	288969	206831	287194	197350
6.	Petroleum	3423	5813	9171	2257
7.	Agriculture & Allied Activities (excluding PM-Kisan)	76492	83521	76279	84214
9.	PM Kisan	66825	68000	60000	60000
10.	Commerce & Industry	47068	53116	37540	48169
11.	Development of North East	2653	2800	2755	5892
12.	Education	80352	104278	99881	112899
13.	Energy	53696	49220	70936	94915
14.	External Affairs	14146	17250	16973	18050
15.	Finance	57364	21354	17908	13574
16.	Health	84091	86606	77351	88956
17.	Home Affairs	112301	127020	124872	134917
18.	Interest	805499	940651	940651	1079971
19.	IT & Telecom	25053	79887	74106	93478

20.	Others	108447	113301	108102	120524
21.	Planning & Statistics	3753	5720	6209	6268
22.	Rural & Development	228760	206293	243317	238204
23.	Scientific Department	27772	30571	25626	32225
24.	Social Welfare	40595	51780	46502	55080
25.	Tax Administration of which transfer to	17744	171677	177343	194749
26.	GST Compensation Fund	110795	120000	130000	145000
27.	Transfer to States	274580	334339	270936	324641
28.	Transport	332238	351851	390496	517034
29.	Union Territories	56490	58757	69040	61118
30.	Urban Development	106840	76549	74546	76432
	Grand Total	**3793801**	**3944909**	**4187232**	**4503097**

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