Economic Survey Series - III

State of the Economy – Steady as She Goes

- India's calibrated response to the pandemic on the economic front included components like
  - *Public spending on infrastructure*
  - Creating demand for jobs and industrial output, supported and balanced by Private sectors.
  - *Response for the adversities* of business enterprise and public administration – Digitalization of service delivery
  - *Targeted relief to different sectors* in terms of Atmanirbhar Bharat Abhiyan
  - *Structural reforms* and increased the medium-term growth potential
- **Improved fiscal balances** – The fiscal balances of the central and State Governments taken together have improved progressively.
- The real GDP in FY24 was 20% higher than its level in FY20.
- **Progressed social indicators** – Inclusive growth have *reduced unemployment and multi-dimensional poverty* and there is increase in labour force participation.
- **Forecast** – Indian economy looks forward to FY25 *optimistically, anticipating broad-based and inclusive growth*.

Monetary Management and Financial Intermediation- Stability is the Watchword

- **Healthy and stable banking** – There is *growth in bank credit*, *reduction in gross and net NPA* and improvement in asset quality.
- **Growth of Capital market** – There is expanding share in capital formation and investment in technology, innovation, and digitisation.

Indian stock market, fifth largest in world has a surge with the market capitalisation to GDP ratio.

- **Fastest-growing insurance and pension sector** – It is moving with the vision ***'Insurance for all by 2047'*** for next 5 years.
- **Economic boost** – The increased retail participation in financial markets and financial products will emerge India as the world's fifth-largest economy.

Prices and Inflation- Under Control

- **Challenges** – Global pandemic and increased commodity price by heightened global conflicts affects Indian market.
- **Inflation** – FY22 and FY23 witnessed price pressures in *core consumer goods and services*.

- **Food inflation** – Food prices were affected *by adverse weather conditions* in the last two year.
- **Recommendation** – Monetary policy, calibrated trade policy, administrative actions, including dynamic stock management, open market operations, and subsidized food items to mitigate food inflation.
- Strengthen the *price monitoring mechanisms* and *market intelligence* focused to increase the domestic production of essential food items like pulses and edible oils to reduce the import dependence.

External Sector - Stability amid Plenty

- **Strong external sector amid political inflation** – Service exports performing well, *cushioning the trade deficit* from USD 121.6 billion in FY23 to USD 78.1 billion in FY24.
- Among merchandise import *raising service export* and business service export have improved India's current account deficit (CAD).
- **Strengths** – India's export basket, trade infrastructure, quality consciousness, product safety in the private sector.
- *Stable policy environment* plays significant role in rise of global supplier of goods and services.
- The forex reserves, market-determined exchange rate, are in place to the global headwinds.
- India emerging as a *hub for Global Capability Centers* (GCCs).
- **Growing share in GVC** - Share of Global value chains (GVCs) related trade rising to 40.3% in 2022 from 35.1% in 2019.

Improvement in Global value chains (GVCs) shows India's rank in the World Bank's Logistics Performance Index improved from 44th in 2018 to 38th in 2023 out of 139 countries.

- **Positive net FPI** - The positive net foreign portfolio investment supports stable business environment, increased investor confidence.
- **Stable Rupee** – It emerged as the *least volatile currency* in global market.

Medium-Term Outlook – A Growth Strategy for New India

- Structural reforms since 2014 by Government of India to achieve the 3rd largest economy in the world.
- **Target** – The Indian economy can grow at a rate of 7% plus on a sustained basis of the structural reform.
- **Strategy** – It is to *focus on the supply side* of the economy, have to *give way to nextgen reforms* that are bottom-up in nature to yield strong, sustainable, balanced, and inclusive growth.

Climate Change and Energy Transition: Dealing with Trade-Offs

- India envisions a **'Viksit Bharat' by 2047**' - Developed India.

- **Vision** – To achieve Net Zero carbon emissions by 2070, intervene to robust economic growth, inclusive and environmentally sustainable.

India's annual per capita carbon emission is one-third of the global average.

- **Focus** – Balancing development with a low-carbon pathway with cleaner and greener energy resource.

Social Sector - Benefits that Empower

- **Strengths** – Health, education, sanitation, digital empowerment, or quality of life in rural areas, social infrastructure has made effective planning and delivery by various welfare schemes.
- **Women-led development –** It is being promoted with 360-degree enabling interventions for socioeconomic empowerment.
- **Efficient rural governance** – Programs for transparent and digitalized rural governance have accompanied with standard of living to attain developed country by 2047.

Employment and Skill Development: Towards Quality

- Indian labour market indicators have improved in the last six years.
- **Declining unemployment rate** – Recent data from Periodic Labour Force Survey shows that, the unemployment rate is declining to 3.2% in 2022-23.
- **Efficient human capital utilization** – Rising youth and female participation in the workforce present an opportunity to tap the demographic and gender dividend.
- **Growth in formal employment** – There is bounce-back of the organised manufacturing sector in FY22, with continued rise in employment and the upscaling of factories.
- The net payroll additions under EPFO have more than doubled in the past five years.
- **Challenges** – O*nly 4.4% of young workforce is formally skilled*.
- Many regulatory clean-ups pose as low-hanging fruits of employment generation including *multiple state-level laws* relating to use of land, sectors restricted for women workers, and apprenticeship promotion.
- **Recommendations** – *Artificial intelligence* should steer the technological choice and job market.
- *Agro-processing and care economy* are two promising candidates to generate and sustain quality employment.
- Care economy is a necessity for levelling the playing field for women in labour market.

Agriculture and Food Management – Plenty of Upside Left If We Get It Right

- **Rising growth** – The agriculture sector has average growth rate of 4.18% in the last 5 years.
- The growth in the agriculture and allied sectors has contributed positively to the growth of the Indian economy.
- **Strengths** – India has a comfortable stock of foodgrains, around 40% of which is

distributed to two-thirds of the population free of cost.
- India exports more than 7% its food grains.
- **Role of digital technology** – The digitalisation initiatives in Agriculture are expected to empower farmers through better decision-making tools.
- **Challenges**
    - Low productivity levels
    - The impact of variability in weather
    - Fragmented land holdings
    - Inadequate marketing infrastructure

Industry - Small and Medium Matters

- **Accelerated industrial growth** – It got accelerated in FY24, with manufacturing and construction leading the way.
- Industrial GVA at constant prices in FY24 was 25% higher than the pre-Covid FY20 levels affirming broad-based recovery and consolidation.
- **Changes in sectoral composition** – It is observed in India's manufacturing landscape in the last decade.
- *Increased shares* are observed in some consumer-oriented industries and in some production-oriented sectors.
    - **Consumer-oriented industries** - Automobiles, wood products, furniture pharmaceuticals, etc.,
    - **Production-oriented sectors** - Machinery, chemicals, non-metallic minerals
- In contrast, there is a *gradual decline in shares* in sectors like
    - Petroleum products, textiles, beverage and tobacco.
- **Challenges** – Headwinds persist in terms of uncertain global demand conditions and prices of key inputs for which India is import-dependent
- **Recommendations** – Impart greater efficiencies, skills, and dynamics to labour-intensive segments like textiles, food processing, and MSMEs would lend greater balance to industrial expansion.
- Other suggestions to foster industrialization are
    - Incentivising R&D
    - Formalisation of smaller manufacturers
    - Alleviating supply chain bottlenecks
    - Facilitating market access
    - Improving financial access
    - Reducing the MSME compliance
- **Forecast** – A survey of the Reserve Bank of India on business expectations and industrial outlook presents a positive outlook.

Services - Fuelling Growth Opportunities

- **Robust services sector** – It stood as the bulwark of India's economic growth.
- Its post-pandemic dynamics, particularly the trends and patterns seen in FY24, indicate an ongoing transformation in domestic service delivery systems and their demands.
- **Strengths** – Policy and procedural reforms, physical infrastructure and logistics, all

significant business, personal, financial and infrastructure-based services have emerged strongly from the pandemic.

- **Challenges** - The transformation lies in the fast-paced shift towards digital services as well as the increase in the demand for high-tech services as inputs in other productive activities.
- **Future prospects** - India's *young and tech-savvy population* offers an opportunity to enhance the country's vocational and educational ecosystem further.
- It will equip the labour force with the required digital and high-tech skills in a time-bound manner, *helping India reap the full dividends* of these opportunities.

Infrastructure – Lifting Potential Growth

- **Growth in infrastructure** – With *increased public investment* over the last five years, India has witnessed significant expansion in physical and digital connectivity and social infrastructure.
- **Increase in Capex** – It has seen an *almost three-fold increase in FY24*, relative to FY20 levels and is aimed particularly at the creation of high quality physical and social infrastructure facilities.
- The major beneficiaries are key foundational assets like roads and railways.
- **Strengths** – Burgeoning public investment and a host of institutional and procedural reforms that facilitated project execution and timely issue resolutions.
- Initiatives included are
    - Enhance *private sector participation* through PPPs
    - Facilitative measures like *National Infrastructure Pipeline*
    - Debottlenecking procedures like *PM-GatiShakti*
    - Novel instruments such as *REITS and InvITs* to ease the constraints on long-term finances
- **Recommendations** – Regular *collection of sector-wise, source-wise information* on infrastructure investment and periodic assessment of utilisation of assets created will help making mid-course corrections on the country’s developmental path.

Climate Change and India: Why We Must Look at the Problem Through Our Lens

- **Global criticism** – Though India has made major strides over the last decade, yet continues to be labelled as one of the largest polluters in the world and is frequently chastised for not doing enough.
- **Over-sightedness in criticism** – the criticisms of the Indian approach fail to recognise two critical points
    - India is faced with balancing economic development along with meaningful climate action akin to its developing peers
    - They ignore how sustainable living is built into the Indian lifestyle
- **India’s ethos** – It is rooted in the principles of sustenance and emphasises a harmonious relationship with nature.
- It is in sharp contrast to the overconsumption prevalent in other parts of the developed world.
- **Recommendations** - India needs to follow its own path and look at the problem through its own lens if the nation is to empower its citizens through economic

development while simultaneously addressing the issue of climate change.

Mission LiFE *seeks to bring individual responsibility to the forefront of the fight against climate change. Deriving its principles from ancient Indian philosophy, the tenets of this approach are based on making pro-planet choices without compromising on quality of life.*

