ECONOMIC SURVEY SUMMARY 2022-23*

About the Economic Survey

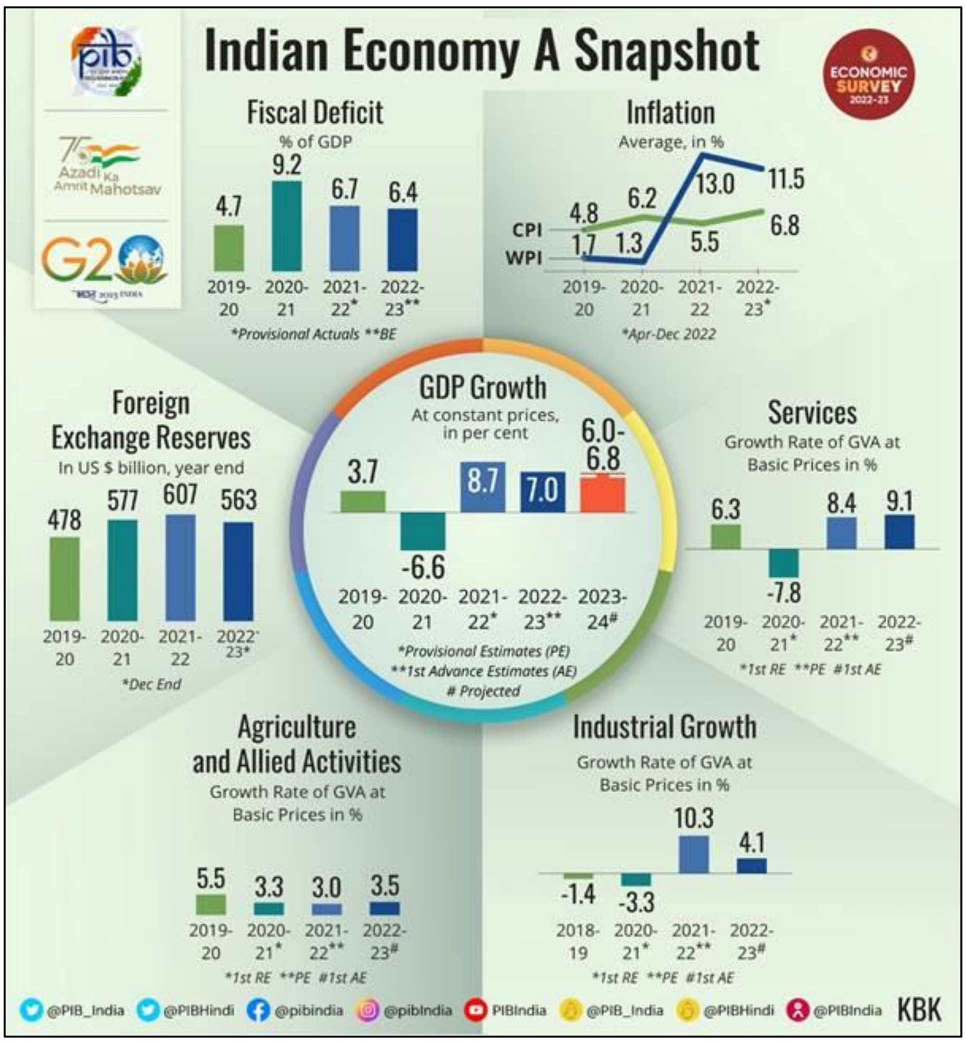
- It is an annual document released by **Ministry of Finance**. It is usually presented in Parliament a day before the Union Budget.
- It is prepared by the **Economics Division of the Department of Economic Affairs (DEA)** under the guidance of the **Chief Economic Advisor**.
- The 1st Economic Survey was presented in the year **1950-51.**
- Up to 1964, it was presented along with Union Budget, after which it was delinked.
- **Note:** Fiscal years are named using the **year when the period ends**. For instance, a fiscal year that runs from 1 April 2023 to 31 March 2024 is called FY24.

Key highlights of ECONOMIC SURVEY SUMMARY 2022-23

The Union Minister for Finance and Corporate Affairs tabled the Economic Survey 2022-23 in Parliament.

Indian economy is staging a broad-based recovery across sectors, positioning to ascend to the pre-pandemic growth path in FY23. It projects a *baseline GDP growth* of **6.5% in real terms** in FY24. This projection is comparable to the estimates provided by multilateral agencies such as World Bank, IMF, ADB and by RBI, domestically.

India to witness **GDP growth** of **6.0% to 6.8% in 2023-24**, depending on the trajectory of economic and political developments globally.



In **real terms**, the economy is expected to grow at 7% for the year ending March 2023. This follows an 8.7% growth in FY22.

INDIA'S GROWTH OUTLOOK

From 2014-2022

- Indian economy underwent *wide-ranging structural and governance reforms* that strengthened the economy's fundamentals during 2014-2022.
- The period of **2014-2022** also witnessed **balance sheet stress** caused by the credit boom in previous years and one-off global shocks, that adversely impacted the key macroeconomic variables such as credit growth, capital formation, and hence economic growth during this period.
    - ✓ This situation is **analogous to the period 1998-2002** when **transformative reforms** undertaken by the government had **lagged growth returns** due to temporary shocks in the economy. Once these shocks faded, the structural reforms paid growth dividends from 2003.

From 2014 -2022

- With an underlying emphasis on improving the **ease of living and doing business**, the reforms after 2014 were based on the broad principles of *creating public goods, adopting trust-based governance, co-partnering with the private sector for development, and improving agricultural productivity.*

The Coming Decade

- The Indian economy is well placed to grow faster in **the coming decade** once the *global shocks of the pandemic and the spike in commodity prices in 2022 fade away*.
- With improved and healthier balance sheets of the **banking, non-banking and corporate sectors**, a fresh credit cycle has already begun, evident from the **double-digit growth** in bank credit over the past months.
- Indian economy has also started benefiting from the **efficiency gains** resulting from *greater formalisation, higher financial inclusion, and economic opportunities created by digital technology-based economic reforms.*

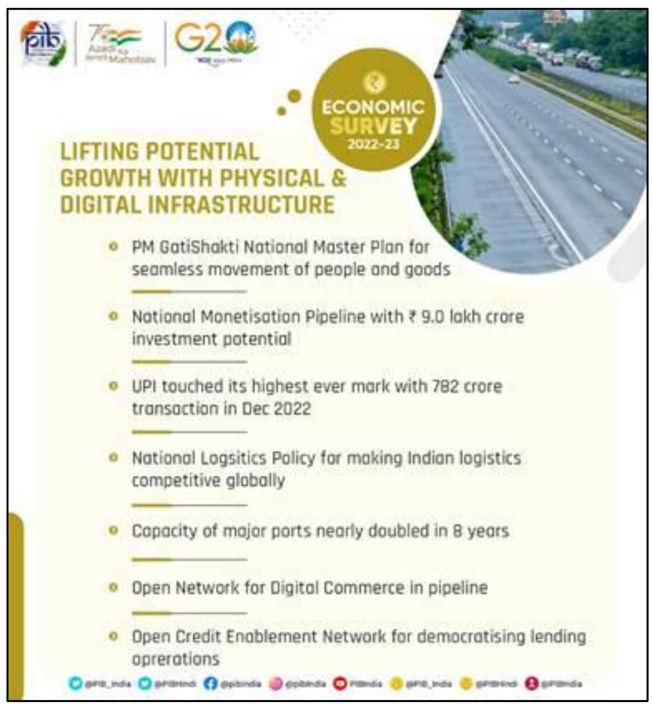
The optimistic **growth forecasts** stem from a number of positives like:

Rebound of private consumption	Private consumption across H1 (first half) is the **highest since 2015**. This has led to a **boost to production** activity resulting in enhanced capacity utilisation across sectors.
Higher Capital Expenditure (Capex)	Capex of the central government, increased by **63.4%** in the first eight months of FY23, crowding in the private Capex since the January-March quarter of 2022. • On current trend, it appears that the full year's capital expenditure budget will be met. • A sustained increase in private Capex is also imminent with the strengthening of the balance sheets of the Corporates and the consequent increase in credit financing.
Near-universal vaccination coverage	World's **second-largest** vaccination drive involving more than 2 billion doses also served to lift consumer sentiments that may prolong the rebound in consumption. • **Private Consumption as a percentage of GDP** stood at 58.4% in Q2 of FY23, the highest among the second quarters of all the years since 2013-14. • It was supported by a ***rebound in contact-intensive services*** such as trade, hotel and transport, which registered growth of 16% in real terms in Q2 of FY23 compared to the previous quarter.
Return of migrant workers to cities to work in construction sites	Vaccinations have facilitated the return of migrant workers to cities to work in construction sites as the **rebound in consumption** spilled over into the housing market. • This is evident in the housing market witnessing a significant **decline in inventory** overhang to 33 months in Q3 of FY23 from 42 months last year. • The "release of pent-up (held back) demand" was reflected in the housing market too as demand for housing loans picked up. • Consequently, housing inventories have declined, prices are firming up, and construction of new dwellings is picking up pace and this has stimulated innumerable backward and forward linkages in construction sector.
Rural front	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. • MGNREGA has been rapidly creating more assets in respect of "**Works on individual's land**" than in any other category. • 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.
Well-capitalised public sector banks ready to increase the credit supply and the credit growth to MSME	The credit growth to MSME sector has been remarkably high, over **30.6%,** on average during Jan-Nov 2022, supported by the **extended** Emergency Credit Linked Guarantee Scheme (**ECLGS**) which was launched in 2021. • The recovery of MSMEs is evident in the amounts of **GST they pay**, while the ECGLS is easing their debt servicing concerns. • 83% of the borrowers that availed of the ECLGS were micro-enterprises. Among these micro units, more than half had an overall exposure of less than Rs. 10 lakh. Increase in the overall bank credit has also been influenced by the **shift in borrower's funding choices** <u>from volatile bond markets</u>, where yields have increased, and external commercial borrowings, where interest and hedging costs have increased, <u>towards banks.</u> • If inflation declines in FY24 and if real cost of credit does not rise, then credit growth is likely to be quick in FY24.

Further support to economic growth will come from the expansion of **public digital platforms** and measures such as:

- PM Gati Shakti,
- National Logistics Policy,
- Production-Linked Incentive schemes to boost manufacturing output.



Unique set of challenges for global and Indian economy

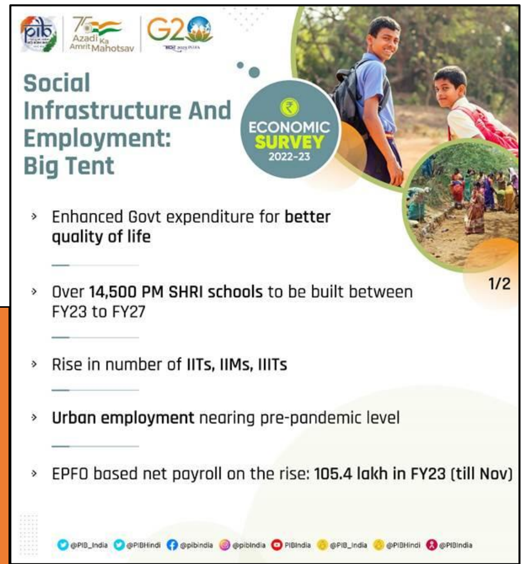
COVID-19	**Pandemic-induced contraction** of the global output
Russian-Ukraine conflict	It caused the prices of critical commodities such as crude oil, natural gas, fertilisers, and wheat to soar. • Disruption in supply chain (mainly of food, fuel and fertiliser) leading to a worldwide **surge in inflation**
Central Banks across economies led by Federal Reserve responding with synchronised policy rate hikes to curb inflation	Inflation and monetary tightening led to a **hardening of bond yields** across economies. • The rate hike by the US Fed drove capital into the US markets causing the **US Dollar to appreciate against most currencies**. • The capital flight subsequently led to the strengthening of the US Dollar against other currencies – the US Dollar index strengthened by 16.1% between January-September 2022. • This led to the widening of the Current Account Deficits (**CAD**) and increased inflationary pressures in net importing economies.
Prospects of global stagflation	Nations feeling compelled to protect their respective economic space, thus slowing cross-border trade affecting overall growth
Scarring from the pandemic	Brought in by the loss of education and income-earning opportunities

Despite challenges mentioned above, agencies worldwide continue to project India as the fastest-growing major economy at **6.5-7.0%** in FY23.

India's economic growth in FY23 has been principally led by:

- **private consumption and**
- **capital formation**.

These have helped **generate employment** as seen in the declining urban unemployment rate and in the faster **net registration in Employee Provident Fund**. Still, private capex soon needs to take up the leadership role to put job creation on a fast track.



Social Infrastructure and Employment

- Central and State Government's budgeted expenditure on **health sector** touched **2.1% of GDP** in FY23 (BE) and 2.2% in FY22 (RE) against 1.6% in FY21.
- Social sector expenditure increased to Rs. **21.3 lakh crore** in FY23 (BE) from Rs. 9.1 lakh crore in FY16.
- 2022 report of the UNDP on **Multidimensional Poverty Index** says that 41.5 crore people exit poverty in India between 2005-06 and 2019-20.
- **Aspirational Districts Programme** has emerged as a template for good governance, especially in remote and difficult areas.
- **e-Shram portal** developed for creating a **National database of unorganised workers**. As on 31 December 2022, a total of over 28.5 crore unorganised workers have been registered on e-Shram portal.
- **JAM (Jan-Dhan, Aadhaar, and Mobile) trinity,** combined with the power of **DBT**, has brought the marginalised sections of society into the formal financial system.
- **Aadhaar** played a vital role in developing the Co-WIN platform and in administration of over 2 billion vaccine doses.
- Labour markets have recovered beyond pre-COVID levels, in both urban and rural areas, with unemployment rates falling from 5.8% in 2018-19 to **4.2% in 2020-21.**
- The year FY22 saw improvement in **Gross Enrolment Ratios (GER)** in schools and improvement in gender parity.
- **Out-of-pocket expenditure** as a percentage of total health expenditure declined from 64.2% in FY14 to **48.2% in FY19**.
- Infant Mortality Rate (IMR), Under-Five Mortality Rate (U5MR) and Neonatal Mortality Rate (NMR) have shown a steady decline.
- Nearly 22 crore beneficiaries have been verified under the **Ayushman Bharat Scheme** as on 4 January 2023. Over 1.54 lakh Health and Wellness Centres have been

operationalised across the country under Ayushman Bharat.

The upside to India's growth outlook arises from (i) ***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;

(ii) ***inflationary impulses*** *from the reopening of China's economy turning out to be* ***neither significant nor persistent***;

(iii) **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

(iv) this provides further impetus to private sector investment.

Yet in the current year, India has also faced the **challenge of reining in inflation**. 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.

CAD needs to be closely monitored…

It, however, cautions that 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 Fed*.

- The **widening of the CAD** may continue as:

global commodity prices remain elevated	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 (H2) of the current year.
  - **Global growth has been projected to decline in 2023** and is expected to remain generally subdued in the following years as well.
- This slowing demand will likely **push down global commodity prices** and **improve India's CAD in FY24**.
  - However, a downside risk to the Current Account Balance stems from a swift recovery driven **mainly** by domestic demand, and to a **lesser extent**, by exports. Thus, the CAD needs to be closely monitored as the growth momentum of the current year spills over into the next.

> For FY23, India has sufficient forex reserves to finance the CAD and intervene in the forex market to manage volatility in the Indian rupee.

- The survey brings to the fore an interesting fact that in general, global economic shocks in the past were **severe but spaced out in time**, but this changed in 3rd decade of this millennium, as at least three shocks have hit the global economy since 2020.
- The rate hike and persistent inflation also led to a **lowering of the global growth forecasts** for 2022 and 2023 by the **IMF** in its October 2022 update of the **World Economic Outlook**. The frailties of the Chinese economy further contributed to weakening the growth forecasts. 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

As monetary tightening by the RBI, the widening of CAD, and plateauing growth of exports posed downside risks to the growth of the Indian economy in FY23, many agencies worldwide have been revising their growth forecast of the Indian economy **downwards**. These forecasts, including the advance estimates released by the NSO, now broadly lie in the range of 6.5-7.0%.

Monetary Management and Financial Intermediation

- RBI initiated its monetary tightening cycle in April 2022 and has since raised the **repo rate by 225 bps**, leading to moderation of surplus liquidity conditions.
- **Non-food credit** offtake by Scheduled Commercial Banks (SCBs) has been growing in double digits since April 2022.
- Credit disbursed by Non-Banking Financial Companies (NBFCs) has also been on the rise.
- The Gross Non-Performing Assets (GNPA) ratio of SCBs has fallen to a **seven-year low of 5%**.
- The **Capital-to-Risk Weighted Assets Ratio** (CRAR) remains healthy at 16.0.
- The recovery rate for the SCBs through Insolvency and Bankruptcy (IBC) was highest in FY22 compared to other channels.

Despite the **downward revision**, the growth estimate for FY23 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.*

IMF estimates India to be one of the top two fast-growing significant economies in 2022.

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 **replacing** the **external stimuli**.
- The **growth of exports** may have moderated in the second half of FY23. However, their surge in FY22 and the first half of FY23 induced a **shift in the gears** of the production processes from mild acceleration to cruise mode.

Climate Change and Environment	Agriculture and Food Management
• India declared the Net Zero Pledge to achieve net zero emissions goal by 2070. • India achieved its target of 40 per cent installed electric capacity from non-fossil fuels ahead of 2030.	• Private investment in agriculture increases to 9.3% in 2020-21. • **MSP** for all mandated crops fixed at **1.5 times** of all India weighted average cost of production since 2018.

• The likely installed capacity from non-fossil fuels to be more than 500 GW by 2030 resulting in decline of average emission rate by around 29% by 2029-30, compared to 2014-15. • India to reduce emissions intensity of its GDP by 45% by 2030 from 2005 levels. • About 50% cumulative electric power installed capacity to come from non-fossil fuel-based energy resources by 2030. • A mass movement LIFE, Lifestyle for Environment, launched. • Sovereign Green Bond Framework (SGrBs) issued in November 2022. • RBI auctions two tranches of ₹4,000 crore Sovereign Green Bonds (SGrB). • National Green Hydrogen Mission to enable India to be energy independent by 2047.	• **Institutional Credit** to the Agricultural Sector continued to grow to 18.6 lakh crore in 2021-22. • Foodgrains production in India saw sustained increase and stood at **315.7 million tonnes** in 2021-22. • Free foodgrains to about **81.4 crore beneficiaries** under the **National Food Security Act** for one year from January 1, 2023. • Online, Competitive, Transparent Bidding System with 1.74 crore farmers and 2.39 lakh traders put in place under the **National Agriculture Market (e-NAM) Scheme.** • Organic Farming being promoted through Farmer Producer Organisations (FPO) under the **Paramparagat Krishi Vikas Yojana (PKVY).** • India stands at the forefront to promote millets through **International Year of Millets initiative**.

Manufacturing and Service sector

Manufacturing and investment activities consequently gained traction. By the time the growth of exports moderated, the **rebound in domestic consumption** had sufficiently matured to take forward the growth of India's economy.

Although **domestic consumption** rebounded in many economies, the rebound in India was impressive for its scale. It contributed to a rise in **domestic capacity utilisation**. Domestic private consumption remains buoyant in November 2022. Moreover, RBI's most recent survey of **consumer confidence** released in December 2022 pointed to improving sentiment with respect to current and prospective employment and income conditions.

Capital Expenditure (Capex)

Going by the **Capex multiplier** estimated for the country, the **economic output** of the country is set to increase by <u>at least 4 times the amount of Capex.</u>

- **States**, in aggregate, are also performing well with their Capex plans.
- Like the central government, states also have a larger capital budget supported by the **centre's grant-in-aid** for capital works and an **interest-free loan repayable over 50 years**.

Also, a capex thrust in the **last two budgets** of the Government of India was **not an isolated initiative** *<u>meant only</u>* to address the infrastructure gaps in the country.

- It was part of a **strategic package** aimed at **crowding-in private investment** into an economic landscape broadened by:
  - **vacation** of <u>non-strategic PSEs (disinvestment</u>)
  - **idling** <u>public sector assets.</u>

Here, 3 developments support Capex:

- Significant **increase in the Capex budget in FY23**, as well as its **high rate of spending**.
- **Direct tax revenue collections** have been highly buoyant, and so have GST collections, which should ensure the full expending of the Capex budget within the <u>budgeted fiscal deficit.</u>
  - The growth in **revenue expenditure** has also been limited to pave the way for higher growth in Capex (Capital Expenditure).
- **Pick-up in private sector investment** since the January-March quarter of 2022.

Fiscal Developments

- The **Gross Tax Revenue** registered a YoY growth of **15.5%** from April to November 2022, driven by robust growth in the D**irect taxes** and **GST.**

- Growth in **direct taxes** during the first eight months of the year was much higher than their corresponding longer-term averages.
- **GST** collections increased at 24.8% on YoY basis from April to December 2022.
- Union Government's emphasis on Capex has continued despite higher revenue expenditure requirements during the year. The Centre's Capex has steadily increased from a long-term average of **1.7% of GDP** (FY09 to FY20) to **2.5%of GDP in FY22 PA.**

Demand of Credit

While an increase in export demand, rebound in consumption, and public capex have contributed to a **recovery in the investment/manufacturing activities** of the corporates, their **stronger balance sheets** have also played a big part equal measure to realising their spending plans.

As per the data on **non-financial debt** from the **Bank for International Settlements**, in the course of the last decade, Indian **non-financial private sector debt** and **non-financial corporate debt** as a share of GDP declined by nearly 30 percentage points.

The banking sector in India has also responded in equal measure to the **demand for credit** as the Year-on-Year growth in credit since the January-March quarter of 2022 has moved into **double-digits** and is rising across most sectors.

- The finances of the public sector banks have seen a significant turnaround, with *profits being booked at regular intervals* and their *Non-Performing Assets (NPAs)* being fast-tracked for quicker resolution/liquidation by the Insolvency and Bankruptcy Board of India (IBBI).
- At the same time, the government has been providing **adequate budgetary support** for keeping the PSBs **well-capitalized,** ensuring that their Capital Risk-Weighted Adjusted Ratio (**CRAR**) remains comfortably above the threshold levels of adequacy.

- Nonetheless, **financial strength has helped banks** make up for lower debt financing provided by *corporate bonds and External Commercial Borrowings (ECBs)* so far in FY23.
  - Rising yields on corporate bonds and higher interest/hedging costs on ECBs have made these instruments less attractive than the previous year.

External Sector

- In 2022, CEPA with UAE and ECTA with Australia come into force.
- As of December 2022, **Forex Reserves** stood at US$ 563 bn covering 9.3 months of imports.
- As of end-November 2022, India is the 6th largest foreign exchange reserves holder in the world.
- India has relatively low levels of total debt as a percentage of Gross National Income and short-term debt as a percentage of total debt.

Inflation

RBI has projected **headline inflation at 6.8%** in FY23, which is outside its target range. At the same time, it is not high enough to deter private consumption and also not so low as to weaken the inducement to invest.

- The country's retail inflation had crept above the RBI's tolerance range in January 2022, and it remained above the target range for 10 months before returning to below the upper end of the **target range of 6%** in November 2022.
- While India's retail inflation rate peaked at **7.8% in April 2022**, the overshoot of inflation above the upper end of the target range in India was however one of the lowest in the world.
- The government adopted a multi-pronged approach to tame the increase in price levels.
  - Phase wise reduction in export duty of petrol and diesel
  - Import duty on major inputs were **brought to zero** while tax on export of iron ores and concentrates increased from 30 to 50%
  - Waived customs duty on cotton imports until 30 September 2022
  - Prohibition on the export of wheat products and imposition of export duty on rice
  - Reduction in basic duty on crude and refined palm oil, crude soyabean oil and crude sunflower oil

Outlook: 2023-24

India's Recovery	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**. • Aided by healthy financials, 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. • Budgeted capital expenditure rose **2.7 times** in the last seven years, from FY16 to FY23, energising the Capex cycle. • Structural reforms such as the **introduction of GST** and **Insolvency and Bankruptcy Code** enhanced the efficiency and transparency of the economy and ensured financial discipline and better compliance.
India's Inclusive Growth	The growth is **inclusive when it creates jobs**. Both official and unofficial sources confirm that 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 one year later (quarter ending September 2022)*. • This is accompanied by an improvement in the **Labour Force Participation Rate (LFPR)** as well, confirming the emergence of the economy out of the pandemic-induced slowdown early in FY23.
Global Growth	It is forecasted to slow from 3.2 per cent in 2022 to 2**.7 per cent in 2023** as per **IMF's World Economic Outlook,** October 2022. A slower growth in economic output coupled with increased uncertainty will dampen trade growth. • This is seen in the lower forecast for growth in global trade by WTO, from 3.5 per cent in 2022 to 1.0 per cent in 2023.
Current Account Balance	On the external front, risks to the **current account balance** stem from multiple sources. • While **commodity prices** have retreated from record highs, they are still above pre-conflict levels. • Strong **domestic demand** amidst **high commodity prices** will **raise India's total import bill** and contribute to unfavourable developments in the current account balance. • These may be exacerbated by **plateauing export growth** on account of slowing global demand. • Should the current account deficit widen further, the currency may come under depreciation pressure.
Inflation	Entrenched inflation may prolong the tightening cycle, and therefore, borrowing costs may stay 'higher for longer'. In such a scenario, global economy may be characterised by low growth in FY24. However, the scenario of subdued global growth presents **two silver linings**: • Oil prices will stay low. • India's CAD will be better than currently projected. The overall external situation will remain manageable.

So far, India has reinforced the country's belief in its **economic resilience** as it has withstood the challenge of mitigating external imbalances caused by the Russian-Ukraine conflict without losing growth momentum in the process. **India's stock markets** had a positive return in CY22, unfazed by *withdrawals by foreign portfolio investors.* India's inflation rate did not creep too far above its tolerance range compared to several advanced nations and regions.

India is the third-largest economy in the world in PPP terms and the fifth largest in market exchange rates. As expected of a nation of this size, the Indian economy in FY23 has nearly "**recouped**" what was lost, "**renewed**" what had paused, and "**re-energised**" what had slowed during the pandemic and since the conflict in Europe.

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