

INDIAN ECONOMY A REVIEW

JANUARY 2024



Introduction



"In 10 years, India has moved from the 10th largest economy of the world to the 5th largest economy of the world. In 10 years, India is now seen as a country with immense potential which is backed by impressive performance."

-Shri. Narendra Modi, Prime Minister of India

The Indian economy has charted an impressive trajectory, poised to maintain a growth rate of 7% for both the fiscal years 2023-24 and 2024-25. Projections from the International Monetary Fund paint a robust picture, foreseeing a 6.5% growth rate for India in 2024 and 2025, positioning it as a standout among Emerging Market and Developing Economies ('EMDE'). These forecasts shine brightly against the backdrop of a somewhat subdued global growth rate, anticipated at 3.1% for 2024 and 3.2% for 2025.

This robust and resilient growth story is driven by perseverance, ingenuity and vision. The economy demonstrated a remarkable ability to bounce back and convert challenges into opportunities while striving to achieve strong, sustainable, balanced and inclusive growth.

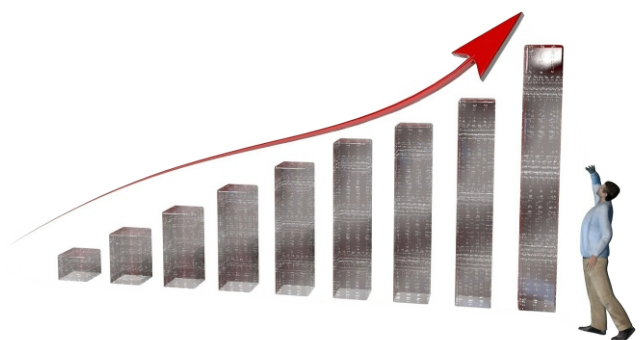
Despite of ongoing geopolitical differences India successfully brought together the member countries of the G20 nations on the key issues of global concerns. This, along with its strong growth reflects the growing significance of India in the global economic landscape.

Many financial reforms were brought in over last one and half decade like

- the opening up of the foreign direct investment ('FDI') sector,
- the substitution of the approval route with the automatic route,
- encouraging public private partnerships ('PPP's) and recently,
- the massive investment in capital expenditure for infrastructure projects.

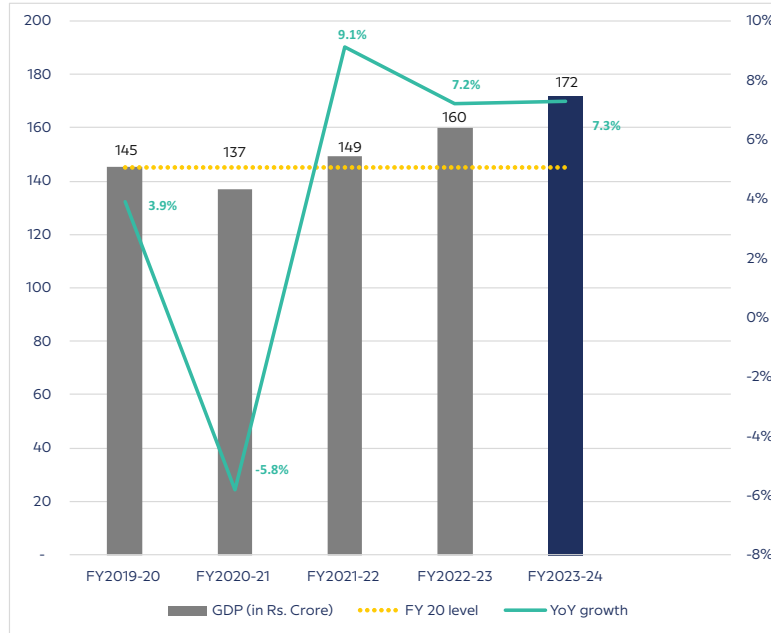
India recovered from the COVID impact by 2022-23 reinstating its growth level to the pre-pandemic levels quickly. The economic reforms are supported by creating a business-friendly environment, climate-conscious actions, improving ease of living, and strengthening the governance systems and processes.

With various government investment initiatives on the physical and digital front, deployment of artificial intelligence, enabling a favourable investment climate, coupled with the ease of living and ease of doing business, today we are the 5th largest economy with a GDP of US\$ 3.7 trillion.



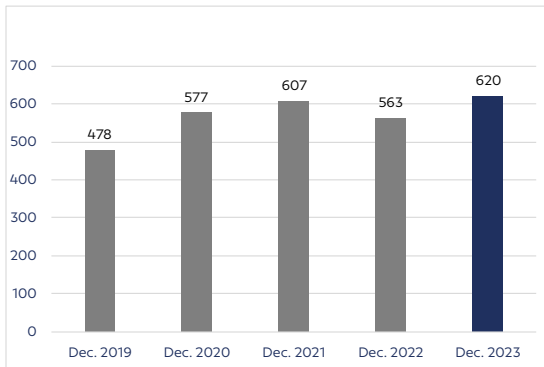


Annual GDP Estimates (in INR lakh Crore) and Growth Rates (%) at Constant Prices (Base year 2011-12)



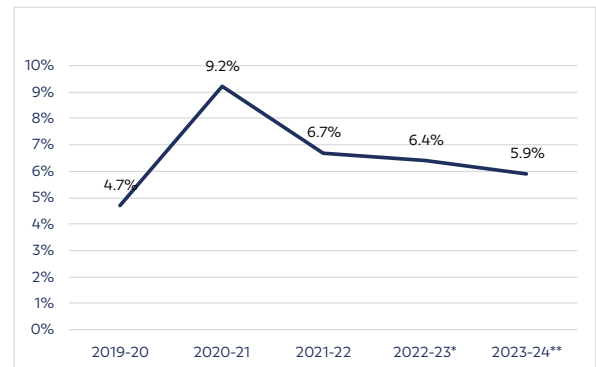
Source: <https://www.mospi.gov.in>

Foreign exchange reserves as at year end (US \$Bn)



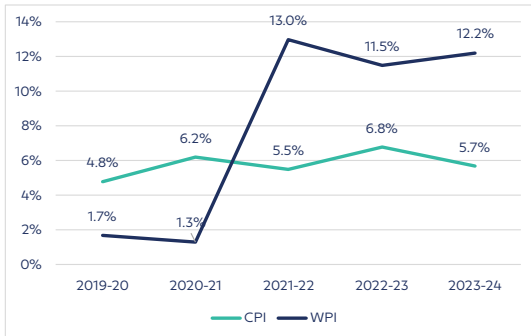
Source: <https://economictimes.indiatimes.com/>

Fiscal deficit % of GDP



Source: pib.gov.in

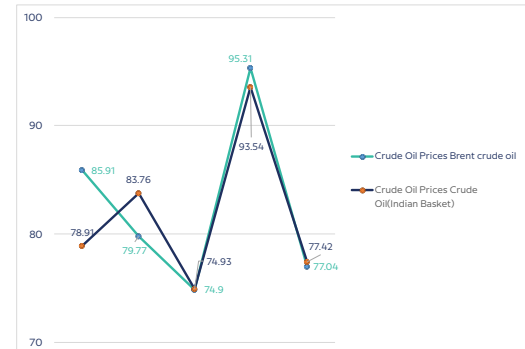
Inflation Average



CPI: Consumer Price Index
WPI: Wholesale Price Index

Source: <https://www.mospi.gov.in>

Crude oil prices Price (US\$/bbl)

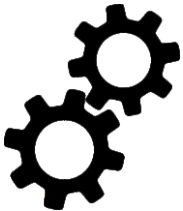


Source: <https://in.investing.com/>



Agriculture

- The agricultural sector is estimated to constitute 18% of India's GVA in FY 2024.
- The sector grew at a higher average annual rate of 3.7% from FY 2015 to FY 2023 compared to 3.4% from the earlier decade ending FY 2014. For the FY 2023, it grew at 4% as compared to FY 2022.
- India's global dominance extends across agricultural commodities, making it the largest producer of milk, pulses, and spices worldwide. India ranks 2nd largest producer of fruits, vegetables, tea, farmed fish, sugarcane, wheat, rice, cotton, and sugar.
- Agriculture exports touched INR 4.2 lakh crore in FY 2023.



Industry

- The Indian Industry is estimated to record a robust 8% growth per annum during the triennium ending March 2024, as indicated by the first advance estimates of National Accounts for FY 2024.
- Under the Performance Linked Incentives ('PLI') Scheme, involving an outlay of INR 1.97 lakh crore, 746 applications were approved till the end of December 2023, with 176 MSMEs being direct beneficiaries.
- The scheme has witnessed exports exceeding 3.4 lakh crore, with significant contributions from sectors such as large-scale electronics manufacturing, pharmaceuticals, food processing and telecom and networking products.
- 1.14 lakh startups (as of October 2023) recognised by the government under the Startup India initiative have reported the creation of more than 12 lakh jobs.



Services

Service sector plays a crucial role in the economic growth of the country.

- Software services exports comprise almost half of the service exports consistently.
- Both, business services and financial services have experienced a double-digit growth in the aftermath of the pandemic year, i.e., since FY 2022 which are in line with more than 20% increase in software and overall services export.



In the last decade, India has ascended from being the 10th largest global economy to currently holding the 5th position. A surge in its GDP, from US\$ 1.9 trillion at current market prices 10 years ago to an estimated US\$ 3.7 trillion in the fiscal year 2023-24, underscores its substantial economic growth during this period.

The IMF has projected a strong growth of India at 6.5% both for 2024 and 2025, which is the highest among all the major economies worldwide.

Major growth drivers for FY 2023-24 were:

1. Increase in the domestic demand, i.e. private consumption and investment
2. Increase in infrastructure (physical and digital) and measures to boost manufacturing investments

One of the most significant factors in making the Indian economy resilient was the massive expansion of the Government's capex budget and proactive inflation management by the Reserve Bank of India ('RBI').

Exports

- The highest-ever merchandise export of US\$ 451.1 billion was accomplished in FY 2023.
- India has established itself as a knowledge-based economy in service exports, with software services consistently contributing nearly half of the total exports.
- Total exports, combining merchandise and services, surged from US\$ 683.7 billion in FY 2022 to US\$ 781.4 billion in FY 2023, showcasing an upward trend in absolute numbers.

Foreign investments

- India continues to chart its way forward and remain a preferred destination among investors.
- The investor-friendly FDI policy wherein most sectors, except certain strategically important sectors, are open for 100% FDI under the automatic route.
- In FY 2022-23, a provisional FDI inflow of US\$ 71 billion was reported, while in the current financial year 2023-24 (up to September 2023), reported FDI stands at US\$ 33 billion.

Foreign exchange reserves

- Foreign exchange reserves increased by US\$ 27 billion compared to the end of FY 2023.
- As of 29 December 2023, foreign exchange reserves amounted to US\$ 623.2 billion covering over ten months of imports. The Foreign Portfolio Investors ('FPI') have turned into net buyers in contrast to earlier 2 previous years.
- Remittances are forecasted to rise by 8%, reaching US\$ 135 billion in 2024.

Climate change and the environment

Various climate actions have been taken up in the last decade including

- Reducing emission intensity.
- Meeting the targets of building non-fossil fuel-installed electricity capacity.
- Strengthening the National Action Plan on Climate Change ('NAPCC') focusing on key 9 elements like solar energy, energy efficiency, water, sustainable agriculture, Himalayan ecosystem, sustainable habitat, green India, strategic knowledge for climate change, and the recent health mission.



- Policy initiatives in providing critical support to boost renewable energy.
- Fiscal incentives such as accelerated depreciation, GST at lower rates, concessional custom duty and other policy measures such as priority sector lending status for renewable energy have also played a vital role in phasing renewable energy sources.

Fiscal revenue

- A record of over 8.18 crore Income-tax returns (ITRs) filed for A.Y. 2023-2024 upto 31st December 2023 as against 7.51 crore ITRs filed upto 31st December 2022.
- From April to December 2023, gross GST collection rose by 12% year-on-year, reaching INR 14.97 lakh crore, compared to INR 13.4 lakh crore in the same period of the previous year (April-December 2022).

Digital public infrastructure

- Transactions value on the UPI platform surged from INR 0.07 lakh crore in FY 2017 to INR 143.4 lakh crore in FY 2024 (April-December 2023), showcasing a substantial multifold increase.
- The Data Layer revolutionized India's authentication ecosystem, slashing e-KYC costs from INR 1,000 to INR 5.
- The 'India E-Commerce Index 2023' by UNICOMMERCE reveals a robust 26.2% growth in overall order volume in FY 2023, accompanied by a 23.5% rise in annual GMV compared to FY 2022.
- Forecasts anticipate India's e-commerce market to reach US\$ 163 billion by 2026, with online sales surpassing 25% across major non-grocery retail categories.

Monetary management and financial intermediation

- India's BSE Sensex and Nifty 50 achieved a strong 13.5% CAGR from January 2014 to December 2023, outperforming global markets.
- In addition to the robust growth observed in bank credit, non-banking financial companies ('NBFCs') have experienced even stronger credit expansion.

The collective efforts of stakeholders, policymakers, the Reserve Bank of India, and various ministries of the Central Government have resulted in the achievement of a sound economic outlook for the country. As per the estimates of the National Statistical Organisation, the growth rate of 7% will still be achievable for 2024-25 making it 4th year in a row to have achieved 7% growth.

India has now reached a stage when every action has to be thought through even more carefully to ensure overall macroeconomic and financial stability; more so, because the conditions ahead could be fickle. We have to remain vigilant and ready to act, as per the evolving outlook. And finally... we believe that India is better placed to withstand the uncertainties compared to many other countries.

Closing thoughts



The collective efforts of all stakeholders have resulted in the achievement of a sound economic outlook for the country.

As per the estimates of the National Statistical Organisation, a growth rate of 7% is achievable in 2024-25, making our economy grow at 7%+ for the fourth year in a row.

India's journey in the last decade has brought her to the rank of 5th largest economy with a GDP of US\$ 3.7 trillion. The size of the economy has steadily grown and, along with long-term strategic initiatives, will continue to grow amidst challenges in the global economy.

The present review of the Indian economy also underscores three pivotal trends shaping its economic future: shifts in global manufacturing dynamics, challenges posed by Artificial Intelligence ('AI'), and the critical energy transition. India is well placed to take on these critical challenges with decisive and proactive policy making, allocation of resources and creating a conducive economic environment to support initiatives.

Accomplishments in space exploration and 5G deployment underscore India's prowess in economic growth and technological advancements. With a pragmatic outlook, India aspires to reach a US\$ 7 trillion economy by 2030.

The macroeconomic policies, demographic advantage and stability brought in by consistent policymaking have positioned India as a preferred investment destination. Going forward, we need to keep our ears on the ground for changes in geopolitical and global economic spheres to navigate the fallout and safeguard our economy for the long term.



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