SHARP & TANNAN

ECONOMIC SURVEY

2023-24

Assurance | Consulting | GRC | Tax

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INTRODUCTION

As per the International Monetary Fund ('IMF'), the **Indian economy is projected to grow by 7% in 2024** against the global growth of 3.2% for the same period.

The focus on maintaining macroeconomic stability ensured that the global and external challenges (geopolitical tensions, elevated inflation and increased policy uncertainty) had minimal impact on India's economy. As a result, India's real GDP grew by 8.2% in FY24, posting growth of over 7% for a third consecutive year, driven by stable consumption demand and steadily improving investment demand.

Capital markets have shown impressive results, with India's stock market capitalisation to GDP ratio ranking fifth globally. The presence of a robust digital public infrastructure and the greater involvement of banks and microfinance institutions have contributed to improved financial inclusion.

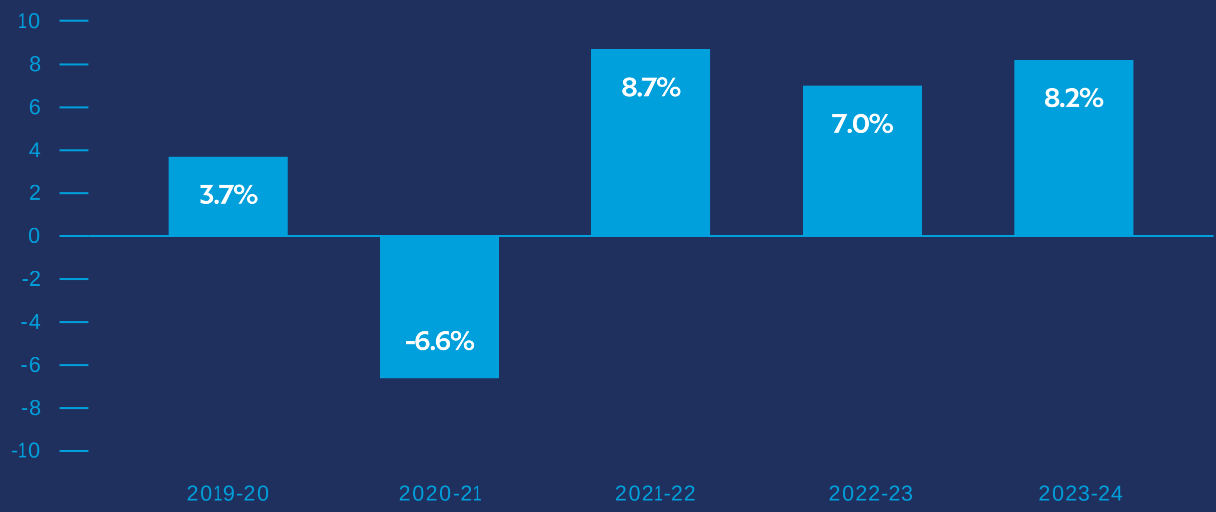
Economic growth has been inclusive with a reduction in unemployment and multidimensional poverty and an increase in labour force participation. Overall, the Indian economy looks forward to FY25 optimistically, anticipating broad-based and inclusive growth.

The sustained strengthening of macroeconomic fundamentals, robust financial and corporate sectors and a robust external sector have reinforced India's outlook as 'bright' for FY 2024-25.

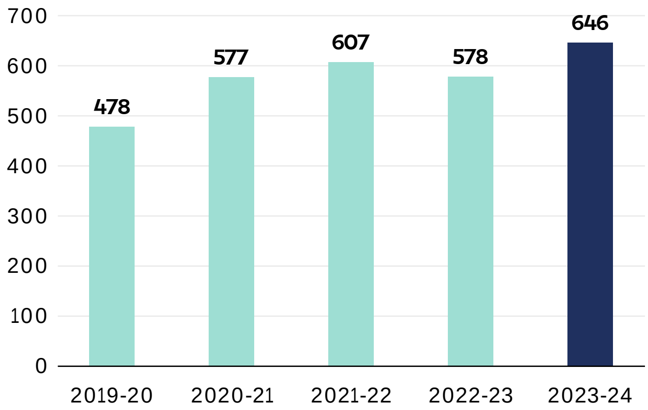
Sources: Economic Survey 2023-24, International Monetary Fund, Reserve Bank of India

NUMBERS THAT MATTER

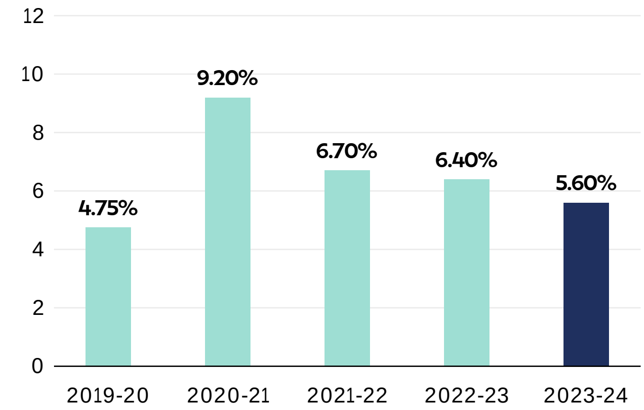
Gross domestic product (GDP) growth rate
At constant prices



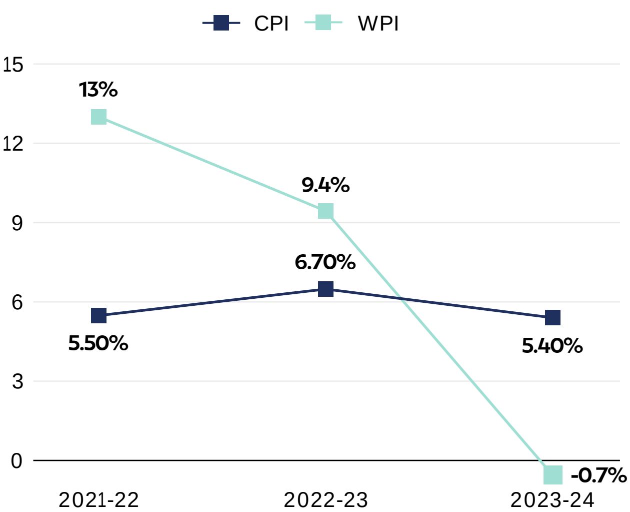
Foreign exchange reserves
In US$ billion at year end



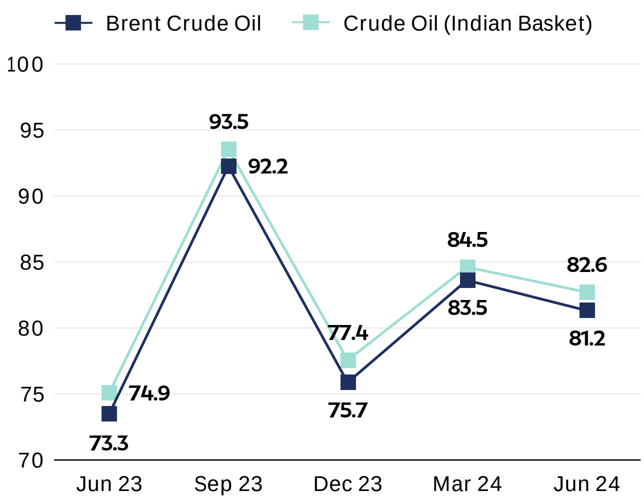
Fiscal deficit
% of GDP



Inflation
Average



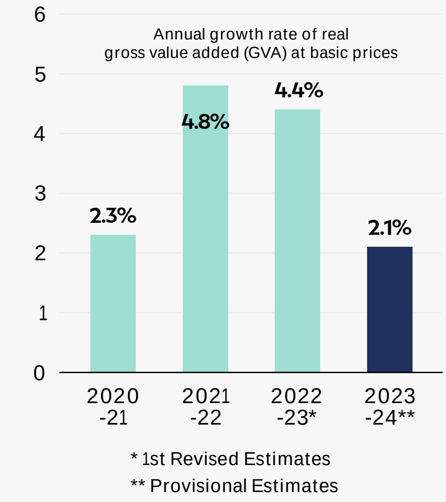
Crude oil prices
Price (US$/bbl)



SECTORAL HIGHLIGHTS

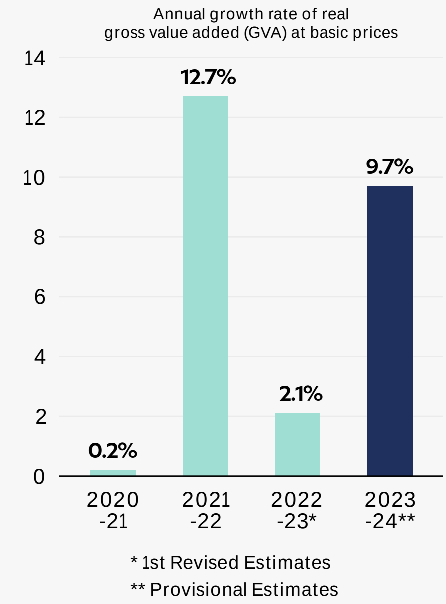
Agriculture & allied

- In the last five years, the agriculture sector (providing livelihood to 42.3% of the population) has grown at an average of 4.18% per year.
- It has a share of 18.2% in the country's GDP at current prices.
- The allied activities – livestock and fisheries have performed better than the traditional crops such as cereals, which is evident from an increase in their share in agriculture Gross Value Added ('GVA') at current prices.
- However, the provisional estimates for 2023-24 predicted a growth rate at 1.4%, attributable to delayed and poor monsoon.



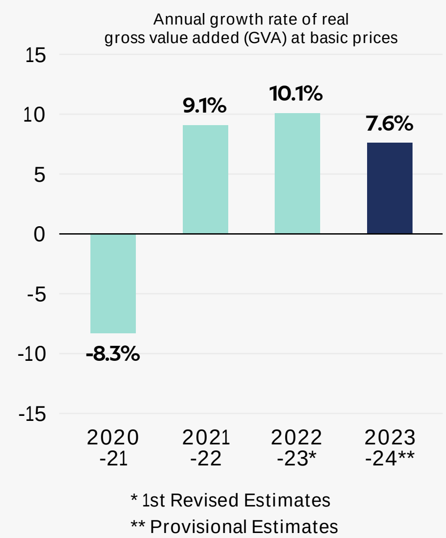
Industry

- Economic growth of 8.2% in FY24 was supported by a robust industrial growth of 9.5%. The main contributors were construction, manufacturing, mining & quarrying and electricity & water supply.
- Over the last decade, sectors like chemicals, wood products and furniture, pharmaceuticals, transport equipment, steel and machinery and equipment have gained in strength.
- **Start-ups:** From around 300 startups in 2016, the number of DPIIT-recognised start-ups increased to more than 1.25 lakh by end-March 2024. Moreover 45% of the recognised start-ups are emerging out of tier 2/3 cities.
- **MSME:** The majority of India's textile and apparel production capacity is on account of MSMEs, which account for over 80% of the sector. Data Dissemination Portal of Directorate General of Commercial Intelligence and Statistics (DGCIS) states that the share of export of MSME-specified products in all-India exports in 2023-24 was 45.7%.



Services

- As per the provisional estimates, the services sector is estimated to have grown 7.6% in FY24.
- The services sector continues to be a significant contributor to India's growth, accounting for about 55% of the total size of the economy in FY24.
- Due to the government's policy and procedural reforms the personal, financial and infrastructure-based services have emerged strongly post the pandemic. Also, there is a fast-paced shift towards digital services like online payments, e-commerce, and entertainment platforms, as well as an increase in the demand for high-tech services as inputs in other productive activities.
- The sector received inflows of US$ 14.9 billion in FY24, thereby registering a YoY growth of 58.3%, as opposed to a growth of 23.3% in FY23.



Despite the global uncertainties, the IMF and RBI predict the global economic activity to gradually strengthen across advanced economies ('AE's) and emerging market economies ('EME's). However, global trade in goods and services is gathering momentum in 2024. The Indian economy recovered swiftly from the pandemic, with its real GDP in FY24 being 20% higher than the pre-COVID, FY20 levels. Indian economy and its financial system have remained robust and resilient, anchored by macroeconomic and financial stability, with a projected growth rate of 7% in 2024 and 6.5 % in 2025.

RBI's vigil over the banking and financial system and its prompt regulatory actions have ensured that the system can withstand any macroeconomic or systemic shock.

The global trade outlook for 2024 remains positive, with merchandise trade expected to pick up after registering a contraction in volumes in 2023. While merchandise exports are likely to increase with improving growth prospects in advanced economies, services exports are also likely to witness a further uptick.

Key growth drivers of the economy for FY 2023-24 were:

- Increase in the government's thrust on capital expenditure (CAPEX).
- Increase in digitalisation and adaptation of cloud technologies.
- Increase in financial and professional services.

Sources: Economic Survey 2023-24

Construction sector

India's construction sector, the world's third largest, saw strong growth in 2023-24. The cement industry has progressed significantly both in capacity and process technology, making India the second largest cement producer in the world after China. The steel sector achieved its highest levels of production and consumption during FY24.

Exports

- Merchandise exports moderated owing to lower demand from major trading partners, services exports continued to perform well, cushioning the overall trade deficit.
- India's merchandise trade deficit narrowed to US$ 238.3 billion during 2023-24 from US$ 264.9 billion a year ago.

Foreign investments

- Net FPI inflows stood at US$ 44.1 billion during FY24 against net outflows in the preceding two years. India received the highest equity inflows among emerging market peers during FY24.
- Financial services, automobile and auto components, healthcare, and capital goods were the significant sectors attracting equity inflows during FY24.

Forex reserves

- Reserve assets at US$ 646.4 billion, accounting for around 62.9% of India's international financial assets, increased by 11.8% over the same period.
- India's current account deficit ('CAD') narrowed to US$ 23.2 billion (0.7% of GDP) in FY24 from US$ 67 billion (2% of GDP) during the previous year. The improvement in CAD in FY24 is supported by the surplus in CAD recorded in Q4 of FY24 on the grounds of a decline in merchandise trade deficit, rising net services exports and increasing remittances.

Climate Change and Environment

The target to reduce the emissions intensity of India's GDP was enhanced to 45% (from the earlier 33-35%) by 2030 from the 2005 level, and the target on cumulative electric power installed capacity from non-fossil fuel-based energy resources increased to 50% (earlier 40%) by 2030.

Fiscal Revenue

- The growth in gross tax revenue was estimated to be 13.4% in FY24, translating into tax revenue buoyancy of 1.4. The growth was led by a 15.8% growth in direct taxes and a 10.6% increase in indirect taxes over FY23.

- The fiscal deficit of the Union Government has been brought down from 6.4% of GDP in FY23 to 5.6% of GDP in FY24, according to provisional actuals (PA) data released by the Office of Controller General of Accounts (CGA).

Digital Public Infrastructure

- The UPI platform surpassed 13,116.5 crore transactions amounting to INR 199.9 lakh crores.

- RBI has been collaborating bilaterally with various countries to link India's Fast Payments System (FPS), i.e., UPI, with their respective FPSs for cross-border Person to Person (P2P) and Person to Merchant (P2M) payments.

Monetary Management and Financial Intermediation

- With the commitment of RBI to the goal of price stability and policy actions by the Central Government, India successfully managed to keep retail inflation at 5.4% in FY24, the lowest level since the Covid-19 pandemic period.

- As of March 2024, the Money Multiplier (MM) was 5.4 against 5.2 a year ago. Adjusted for reverse repo amounts, analytically akin to banks' deposits with the Central Bank, the adjusted MM was marginally lower at 5.3 as of March 2024.

The Indian economy is on a strong wicket and stable footing, demonstrating resilience in the face of geopolitical challenges. The economy has solidified its post-Covid recovery, supported by stable fiscal and monetary policies.

"The tripartite compact that this country needs to become a developed nation amidst emerging unprecedented global challenges is for governments to trust and let go, for the private sector to reciprocate the trust with long-term thinking and fair conduct and for the public to take responsibility for their finances and their physical and mental health."

- V. Anantha Nageswaran
Chief Economic Advisor, Ministry of Finance, Government of India

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