Report Summary

Economic Survey 2023-24

- The Finance Minister, Ms. Nirmala Sitharaman tabled the Economic Survey 2023-24 on July 22, 2024 in Parliament. Key highlights of the Survey include:

State of the economy

- **Gross Domestic Product (GDP):** The Economic Survey has estimated a real GDP growth of 6.5%-7% in 2024-25. In 2023-24, India's real GDP grew by 8.2%. Growth in 2024-25 is expected to be supported by strong domestic investment demand, improved agricultural performance, and an increase in merchandise and services exports. On the other hand, the survey recognised that geopolitical risks leading to supply-chain distortions, higher commodity prices, increased protectionism, and reviving inflationary pressures can adversely impact economic growth. In addition, any slowdown in private capital formation on fears of cheaper imports and the progress of the southwest monsoon will also impact economic growth.
- **Inflation:** Retail inflation in 2023-24 was 5.4%, the lowest level since the Covid-19 pandemic. Food inflation increased from 6.6% in 2022-23 to 7.5% in 2023-24. This was driven by higher food inflation caused by Russia-Ukraine war and domestic weather conditions. Core inflation (which excludes food and energy prices) moderated in 2023-24 driven by services such as housing rental inflation. According to the Reserve Bank of India, retail inflation is estimated at 4.5% in 2024-25. The Survey noted that India's short-term inflation outlook is benign. However, long-term price stability may need certain measures. These include: (i) expansion in cultivation of pulses, (ii) developing modern storage facilities for vegetables, and (iii) effective monitoring of build-up of prices from the farm gate to the final consumer.
- **Current account balance:** In 2023-24, India's current account deficit reduced to USD 23.2 billion (0.7% of GDP) from USD 67 billion (2% of GDP) in 2022-23. The improvement in the current account balance was because of a decrease in merchandise trade deficit, increasing net services exports, and increasing remittances. Increase in services exports was driven by software exports, travel, and business services. India's trade deficit is expected to decrease further in the coming years as production linked incentive schemes help in creating a competitive manufacturing base. However, risks to India's external sector include: (i) fall in demand from major trading partners, (ii) rising trade costs, (iii) volatility in commodity prices, and (iv) changes in trade policies by major trading partners.
- **Fiscal deficit:** The fiscal deficit of the central government has reduced from 6.4% of GDP in 2022-23 to 5.6% of GDP in 2023-24. The reduction in fiscal deficit is due to a strong growth in direct and indirect tax collections and higher-than-budgeted non-tax revenue. This was combined with restrained revenue expenditure with a larger share of the fiscal deficit being accounted for by capital outlay. The fiscal deficit of the central government is expected to further reduce to 4.5% of GDP or lower by 2025-26.
- **Debt:** The general government debt-to-GDP ratio increased slightly in 2023-24 due to increasing interest rates and lower-than-budgeted nominal GDP growth. However, it is expected to decline on the back of monetary policy easing, increase in WPI inflation, and continued fiscal consolidation. The Survey noted that the Centre's debt is characterised by low currency and interest rate risks. This is due to a low share of external debt and external borrowings being from official sources.

Agriculture and allied activities

- India's agriculture sector has recorded an annual average growth rate of 4.2% over the last five years. The sector grew at a rate of 1.4% in 2023-24, as against a growth rate of 4.7% in 2022-23. This was due to a decrease in foodgrain production driven by delayed and poor monsoons. The Survey noted that while India is a major agriculture producer, its crop yields are much lower compared to other major producers. Low yields are caused by: (i) fragmented land holdings, (ii) low farm investment, (iii) lack of farm mechanisation, and (iv) insufficient access to quality inputs.
- Allied activities such as livestock and fisheries have performed better than traditional crops. Between 2014-15 and 2022-23, the share of livestock in agriculture gross value added increased from 24.3% to 30.4% while the share of fisheries increased from 4.4% to 7.3% respectively.
- The Survey noted that the growth of allied sectors suggest that greater emphasis should be placed on them to boost farmers' income. Small farmers need to move to high-value agriculture such as fruits, vegetables, poultry, and dairy. Increasing private investment in the sector remains vital.

Industry

- The industrial sector grew by 9.5% in 2023-24. The GVA of the industrial sector (at constant prices) in 2023-24 is 25% higher than the pre-covid level in 2019-20. This was supported by greater credit offtake, focus on capital formation, and a supportive policy framework. The sectoral composition of India's manufacturing has changed, with automobiles, chemicals, and pharmaceuticals gaining importance.
- The Survey highlighted that electronics manufacturing has witnessed significant growth since 2014. In 2021-22, it contributed 4% to India's total GDP. The direct

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workforce in the production of mobile phones more than tripled between 2016-17 and 2021-22.

- The Survey observed that India continues to be import dependent in key sectors like coal, capital goods, and chemicals. Sectors like textiles and food products have lost their relative positions. Incentivising research and development and improving skill level of the work force is needed across industries. Meeting the skill shortage would require collaboration between industry and academia.

Services sector

- The services sector constituted 55% of India's economy in 2023-24. The demand for services such as education, healthcare, and finance is driven by a large and young population. The Survey noted that artificial intelligence is likely to restrain growth opportunities for business services and pose a challenge to long-term sustainability and job creation.
- India's e-commerce market has gained momentum over past few years due to technological advancements, new-age business models, and government initiatives. The sector's growth is constrained by inadequate skills required for online selling. Additionally, data privacy issues and increasing online fraud are also seen as hurdle to the sector's growth.
- Some of the challenges identified for the services sector include: (i) lack of workers with relevant digital skills, (ii) difficulties in accessing finance for small and medium enterprises, (iii) tentative global economic outlook, and (iv) commodity price uncertainties.

Infrastructure

- The central government's capital expenditure witnessed a three-fold increase in 2023-24 as compared to 2019-20 with focus on sectors such as roads and railways. The Survey noted that capital expenditure by the Union and states have a central role in funding large-scale infrastructure projects. However, given the fiscal consolidation plans of the Union and state governments, it is important for viable projects to be executed through public-private partnership.
- Private sector participation in creation of infrastructure is not forthcoming to the extent desired. This could be due to: (i) lumpy capital investment and long payback period, (ii) project structuring issues involving risk estimation, allocation, and mitigation, (iii) delay in land acquisition, and (iv) lack of an independent regulator for infrastructure sectors. Higher level of private sector financing and resource mobilisation from new sources will be crucial. This would need support from central, state, and local governments.

Employment

- The Survey noted that Indian labour market indicators have improved in the last six years with unemployment declining to 3.2% in 2022-23. However, India needs to generate an average of around 78.5 lakh jobs annually till 2030 in the non-farm sector. This would be needed to cater to a rising workforce. To generate and sustain quality employment, agro-processing and the care economy are seen as two promising sectors.
- The biggest disruption for the future of work is the growth in artificial intelligence. It has the potential to boost productivity and disrupt employment in certain sectors. State governments can support hiring by businesses by easing compliances and reforming land laws. As jobs are created in the private sector, businesses must bear in mind their responsibility for employment generation.

Climate change and energy transition

- India has performed well on the renewable energy front, achieving a cumulative 82.6 GW of installed solar power capacity at the end of April 2024. As of May 31, 2024, non-fossil fuel sources consist of 45% of the total installed electricity generation capacity in India. Additionally, the framework for Sovereign Green Bonds has enabled resource mobilisation for green projects. The government has raised Rs 36,000 crore via sovereign green bonds in 2023.
- The Survey noted that India faces a dual challenge of meeting its energy demands while reducing carbon emissions. Phasing in of non-fossil fuel sources has remained a challenge for India, amplifying the need for a diversified set of energy sources. This is expected to help India pursue its low-emission pathways and help minimise risks associated with energy systems. Availability and affordability of financial resources will drive the green transition.